

## **Debt-to-GDP Changes and the Great Recession: European Periphery versus European Core**

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May 30, 2018

**Abstract:** In this paper, we use simple accounting schemes and counterfactual experiments, to compare the sources of the changes in the public debt to GDP across countries of the European Periphery (Greece, Italy, Spain, Portugal and Ireland), the European Core (Germany, and France) and the other G7 countries (Japan, UK, Canada and the USA), in two periods- 2000 to 2007 and 2008 to 2015. In general, debt- to-GDP rose in all countries in the latter period. But, the effects of total or primary fiscal deficits, inflation and real growth on the respective Debt-to-GDP changes were different across countries in both of these periods. Most importantly, relatively low inflation and real growth caused Debt-to-GDP to increase substantially in the European Periphery countries except Ireland, and Japan, where countercyclical fiscal policies during and for a few years after the Great Recession were unsuccessful and led to moderate Debt-to-GDP increases in the European Core, Ireland, and the Anglo Saxon countries, where countercyclical fiscal policies, although different, worked out fine, during the same period. This is puzzling for the Euro Area, where monetary policy is common and fiscal policies were restricted by austerity or sovereign debt restructuring programs.

**Keywords:** Public debt, Inflation, Real Growth, Euro Area

**JEL Classifications:** H63, E31, E58, F45