# Comparing of the Financial Ratios: A case study on United States, Great Britain, Greece Due Financial Crisis

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**ABSTRACT**

*The aim of this paper is to present a comparative study of the countries through the financial ratios that were analysed. This study was carried out in order to find the characteristics of each economy in comparison to the others. It would be worthy to mention that the three economies that were put under comparative study, are not of the same dynamic. The United States of America and Great Britain show some common characteristics due to the positions of power that they possess in the allocation of the global economy. However, in the case of Greece the same dynamic with the other two countries doesn't exist, a fact that is greatly imprinted in their in-between comparison.*

**Keywords:** Deficiency, expenditure, lending rates, enterprises
**Jel codes:** F62, F65, G01,G00

## 1. Introduction - Financial Analysis

The financial analysis that will be presented further down refers to the following financial ratios:
- Gross Domestic Product (G.D.P.)
- Debt of the General Government (% G.D.P.)
- Deficiency / Surplus (% G.D.P.)
- Balance of payments (% G.D.P.)
- Balance of payments (in billion dollars)
- Lending Rate of decennial Bonds
- Inflation

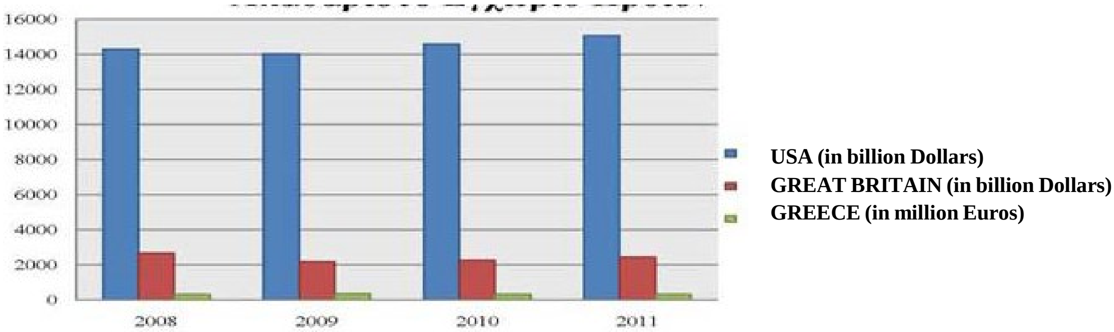
The above ratios will help us to understand the course of the public debt of the countries in question.

## 2. Financial Ratio of the Gross Domestic Product

**Table 1**

| **Gross Domestic Product** | | | | |
|---|---|---|---|---|
| **Years** | **2008** | **2009** | **2010** | **2011** |
| USA (billion Dollars) | 14296.9 | 14043.9 | 14582.4 | 15094 |
| Great Britain (billion Dollars) | 2657.482 | 2173.154 | 2246.079 | 2431.589 |
| Greece (billion Euro) | 310.788 | 347.042 | 326.483 | 304.865 |

**Diagram 1**
**Gross Domestic Product**




In the above diagram we notice the course that the economies of the three countries in question (United States of America, Great Britain and Greece) followed during the years 2008 – 2011. However, we can notice that the Gross Domestic Product of the U.S.A. is in much higher levels, in comparison with the other two countries, as it is the economic superpower of the planet. In 2009, a decrease of the G.D.P. is noted, because of the economical crisis in the economies of the United States and Great Britain. The G.D.P. of Greece followed a different course from the other two countries, as it increased. The reason for this paradox course lies in the fact that Greece is a closed type economy and therefore the crisis affected it later on. It is worth to note that Greece faced problems before the crisis, but they started to show a year later. In 2010, while the gradual recovery of the economies of the U.S.A. and Great Britain begins, Greece shows a significant decrease in its G.D.P. This is due to the creation of an uncertainty ambiance that prevailed upon Greece as regards its stay in the euro zone in combination with the harsh fiscal purge that was imposed on it. In 2010, while the U.S.A. and Great Britain continue on the rising course of their G.D.P., Greece is sinking deeper and deeper in the recession.

### 3. Financial Ratio of the Debt of the General Government (% G.D.P.)

**Table 2**

| **Dept (% G.D.P.)** | | | | |
|---|---|---|---|---|
| **Years** | **2008** | **2009** | **2010** | **2011** |
| USA | 69,4 | 89,9 | 98,5 | 103 |
| Great Britain | 42,1 | 52 | 61,2 | 68,9 |
| Greece | 113 | 129,4 | 142,8 | 160,8 |

**Diagram 2:     Dept (% G.D.P.)**

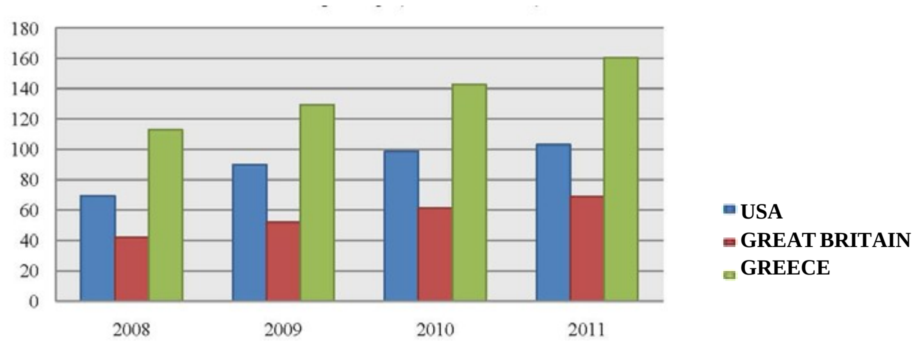
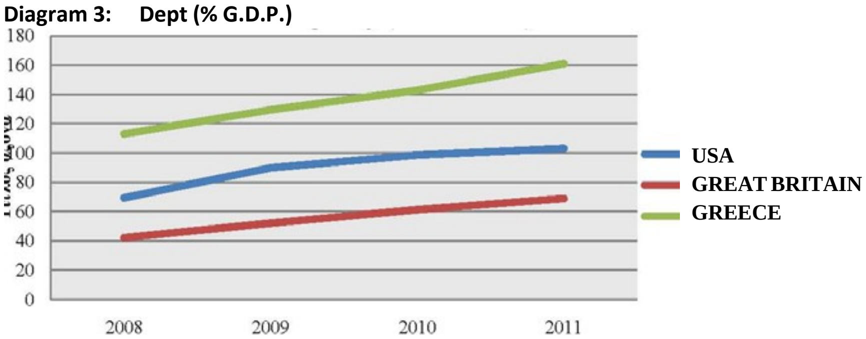


**Diagram 3: Dept (% G.D.P.)**




Seeing the diagrams that describe the course of the public debt of the three countries, it is deduced that the United States of America, as well as Great Britain had a debt that fluctuated within controllable limits before the crisis. The public debt of Greece, even before the crisis, followed rising tendencies in prohibitive levels in management and viability in comparison with its economic size. As explained in the previous chapters, Greece due to the long-term wrong policies that followed, ballooned its public debt for several years before the outbreak of the crisis. In 2009 – 2010 the public debt of the three countries increase dramatically. The United States of America during this period, increased greatly the debt because of the policy followed in order to save the financial system, as well as the social reforms and the package for toning the economy. In the other side of the Atlantic, the level of the public debt in this certain time showed a dramatic increase. The reason for this increase is the cost of living of the banking system of the country in combination with the inertia of the government to lower the expenditures of the state until the middle of 2010. In Greece, during the period 2009 – 2010, the debt continues its rising course. The reason for this ongoing rise of the public debt are as follows; The 78 billion that were given to the greek banking system, the outrageous cost of wages of the civil and state servants despite the curtailments, the long-term tax evasion, the unprofitable public corporations. In addition, in the rise of the debt added the fact that the country continued to borrow firstly form the markets and afterwards from the stability mechanism. For the year 2011, there is a small rise of the public debt of the U.S.A. and of Great Britain that could be considered as holding the expenditures. This holding is the result of the cuts in expenditures as regards the U.S.A. and the result of austerity measures and curtailments as regards Great Britain. Greece in 2001 continues to document rises in the levels of its public debt, because of the austerity policies that the government implements in order to lower the deficiencies that don't affect the rising course of the debt. This happens because Greece in order to cover its debt obligations continues to borrow outrageous sums of money that contrast with its economic size.

### 4. Financial Ratio of Deficiency

**Table 3**

| **Deficiency (% G.D.P)** | | | | |
|---|---|---|---|---|
| **Years** | **2008** | **2009** | **2010** | **2011** |
| USA | 2,23 | 5,26 | 10,28 | 9,99 |
| Great Britain | 5 | 11,5 | 10,2 | 8,3 |
| Greece | 9,93 | 15,5 | 10,4 | 9,15 |

**Diagram 4: Deficiency (% G.D.P.)**

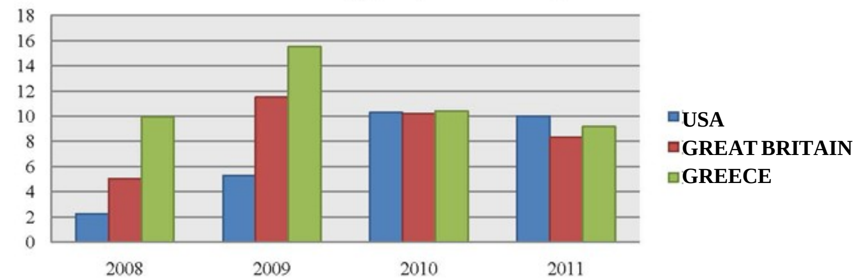
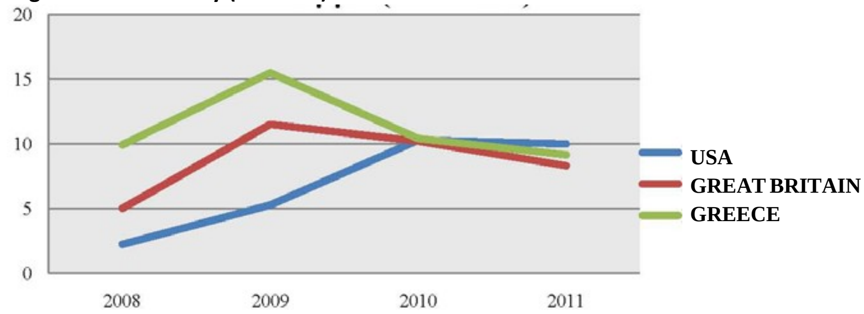


**Diagram 5: Deficiency (% G.D.P.)**




The diagrams show the course of the public deficits of the three economies in question. During the year 2008 the economies of the United States of America and of Great Britain show low levels of deficiencies, a fact that makes us understand the good management of their public economics for the year 2008. Greece, as in the financial ratio of the public debt, shows a much bigger public deficit in comparison with the other two countries. The causes that explain its deficiency are the same long-term causes with the ones responsible for the rising course of the public debt. In 2009 (the year that the consequences of the economic crisis start to become visible) the deficiency of the three countries increase dramatically. In 2010 the deficiency of the United States of America doubles, because of the policies that were implemented. In Great Britain there is a small decrease in its public debt, while in Greece there is an impressive decrease of the deficiency by five percentage points. The decrease of the public deficit of the economies is attributed to the austerity policies and curtailments that were implemented by their governments. For the year 2011 we notice a decrease of the deficiency in all three economies. In particular the United States of America for this certain year made a slight decrease in the deficiency due to the holding of the expenditures. On the other hand, Great Britain continues on the decrease of the deficiency, this time with higher frequency by two percentage points. Greece shows a slowdown in the decrease of the deficiency, as it was lower by only one percentage point.

**5. Financial Ratio of the Balance of Payments**

**Table 4**

| **Balance of payments (% G.D.P.)** | | | | |
|---|---|---|---|---|
| **Years** | **2008** | **2009** | **2010** | **2011** |
| USA | -4,7 | -2,7 | -3,2 | -3,1 |
| Great Britain | -1,4 | -1,5 | -3,3 | -1,9 |
| Greece | -14,9 | -11,1 | -10,1 | -9,8 |

**Diagram 6**

**Balance of payments (% G.D.P.)**

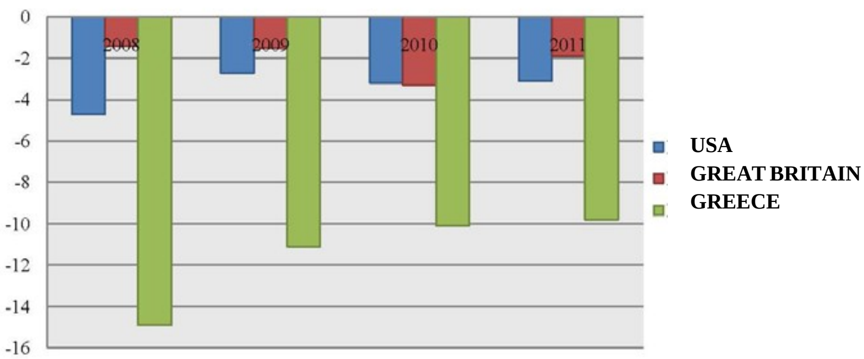
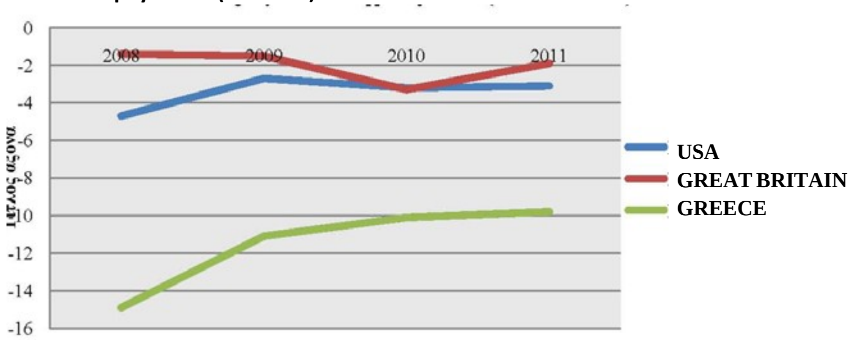


**Diagram 7**
**Balance of payments (% G.D.P.)**

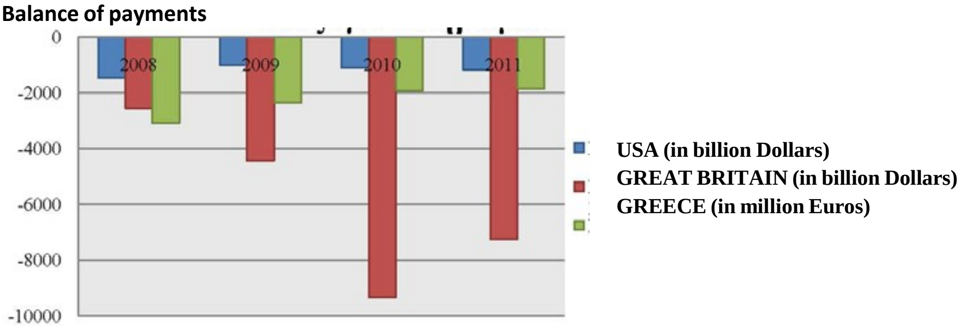



In the balance of payments, as a percentage of the G.D.P., we can see the state of the public economy of the three countries in question, based on their productivity. The balance of payments of the United States of America during the period of the four years shows a negative but at the same time a rather stable course. On the other hand, Great Britain, until the middle of this period, shows a stable course as it has a negative operator. The year 2010 there is a negative double of its balance of payments, as, until the second semester of the year, no effort is been made in order to decrease the expenditures. In 2011 there is a positive course of the balance of payments and the deficiencies decrease. Greece, for the whole four – year's period, has the highest negative balance of payments in comparison with the other two countries. From 2009 until 2010 there is a successful attempt to tidy up its public economy, so as its revenue outclass its expenses. The next two years the expenditures are being held, remaining however in high levels.

**Table 5**

| **Balance of payments** | | | | |
|---|---|---|---|---|
| **Years** | **2008** | **2009** | **2010** | **2011** |
| USA (in billion Dollars) | -1476,4 | -1009,1 | -1121,8 | -1186,6 |
| Great Britain (in billion Dollars) | -2543,72 | -4434,25 | -9321 | -7261,5 |
| Greece (in million Euros) | -3085,3 | -2353,78 | -1920,3 | -1856,3 |

**Diagram 8**
**Balance of payments**




The balance of payments in economic sizes shows us a distorted image when comparing the countries. That is because of the three different currency units that each country has (Dollars, Pound and Euro). So because Great Britain has the strongest current unit and the highest expenditures in economic sizes appears as the worst in the maintenance of its public economy. The U.S.A. with the dollar has the smallest parity of currencies and in economic units the least expenditures. Greece shows a negative balance of payments but the expenditures are in million euro and not in billion. For this reason, it has the smallest expenditures if we use as a measuring unit the economic sizes.

### 6. Financial Ratio of the Lending Rate of Decennial Bonds

**Table 6**

| Lending Rate of decennial bonds | | | | |
|---|---|---|---|---|
| **Years** | **2008** | **2009** | **2010** | **2011** |
| USA | 3,71 | 3,1 | 3,21 | 2,82 |
| Great Britain | 4,54 | 3,56 | 3,52 | 3,05 |
| Greece | 4,75 | 5,14 | 8,44 | 14,94 |

**Diagram 9**
**Lending Rate of decennial bonds**

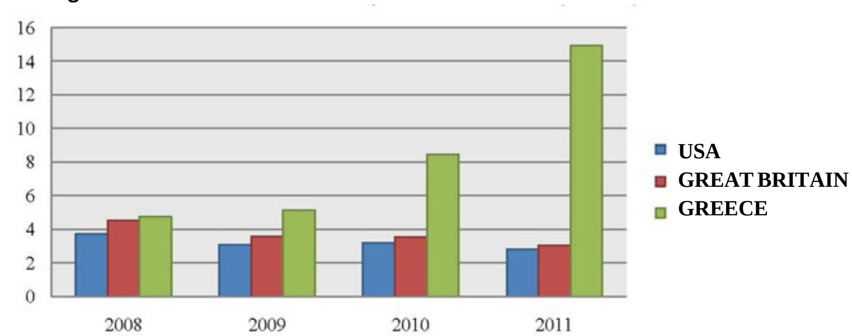
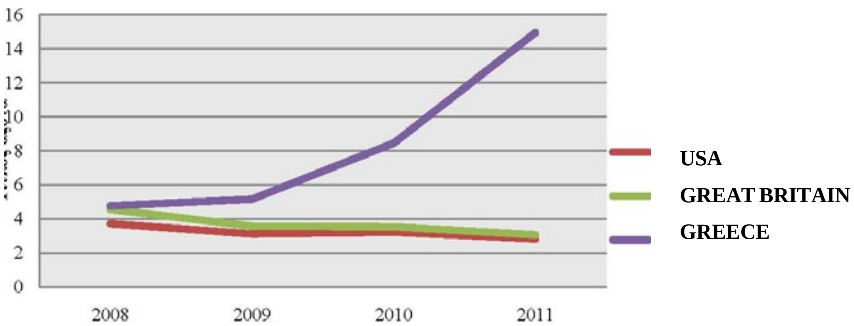



**Diagram 10**
**Lending Rate of decennial bonds**




Observing the diagrams that describe the lending rates of the decennial bonds, we can deduce the confidence that the financial markets show towards the economies of the U.S.A. and of Great Britain and the utter lack of credibility towards Greece. The fact that the U.S.A. and Great Britain have low lending rates, has a common denominator: the debt crisis in the euro zone. Because of the debt crisis in the euro zone, the markets have lost part of their confidence towards the economies that are members of the euro zone (with slight exceptions such as Germany, Holland, Austria), as the danger of dissolution is great. With Greece being a constant threat (its public debt is constantly increasing) for the homogeneity and maintenance of the monetary union, the markets show their intention not to help Greece, as they consider it an investment that involves great risk. For this reason, the lending rate for this country is in prohibitive levels and this implicitly gives the impression that this country is considered as bankrupted. On the other side, the U.S.A., even though they have high levels of debt and deficiency are considered as a stable and reliable solution in comparison with the countries belonging to the euro zone. The same applies for the lending rates of Great Britain. Great Britain, despite the debt crisis in the euro zone, is considered reliable because of the measures that were taken for the decrease of the public debt and the public deficit.

**7. Financial Ratio of Inflation**

**Table 7**

| **Inflation (%)** | | | | |
|---|---|---|---|---|
| **Years** | **2008** | **2009** | **2010** | **2011** |
| USA | 3,85 | -0,35 | 1,62 | 3,15 |
| Great Britain | 3,6 | 2,18 | 3,3 | 4,47 |
| Greece | 8,5 | 1,3 | 4,7 | 3,1 |

**Diagram 11: Inflation (%)**

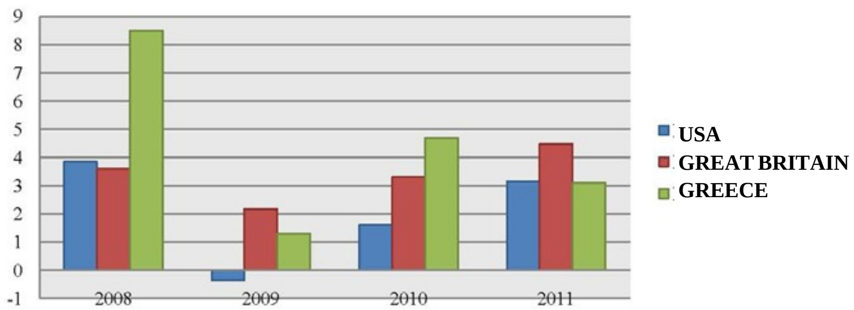
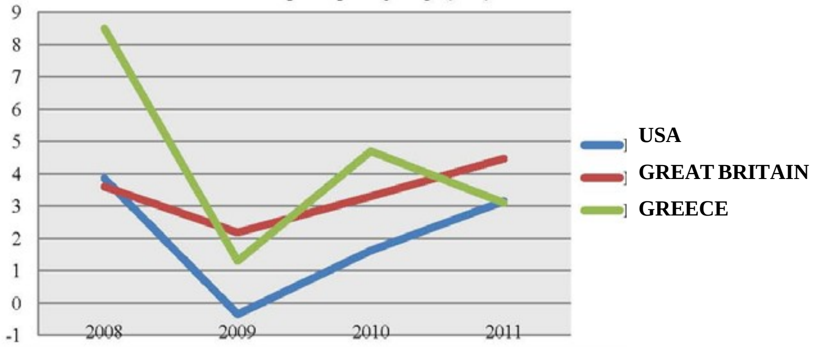



**Diagram 12: Inflation (%)**




The diagrams show the inflation tendencies for the period 2008 – 2011. What is observed for the United States and Great Britain is the low levels of inflation due to the long- term policy of the monetary approach. On the other side, Greece showed fluctuations among the years in the levels of inflation. The year that the crisis broke out all the three countries showed higher percentages of inflation (based on the inflation tendencies of those countries). The U.S.A. for the current year showed the highest percentages of inflation within the last decade because of the increased money making and the constant decrease of the lending rates form the part of Fed. The same applies for Great Britain. The combination of low lending rates and the increased money making had as a result high percentages of inflation. Greece had always had high percentages of inflation. Consisting of small and medium sized enterprises, which were highly taxed, the prices in products and services were always high. It worth to be noted that the inflation tendencies for the year 2008 were in high levels all over the world, because of the oil boom per barrel in combination with the vertical increase of the price of the basic products. In 2009, the inflation is decreased in all three of the countries. In the U.S.A. the phenomenon of the disinflation is observed due to the policies of the government and Fed (low lending rates, recession course). For the same year, Great Britain shows a decrease as well in the levels of inflation. The reason is the vertical increase of unemployment as well as the slowdown of investment in the private sector. Inflation in Greece follows the same decreasing course. The next two years in the U.S.A. and in Great Britain inflation follows an increasing course. These two countries followed similar policies, such as the decrease of the lending rates for the central banks of the countries. In 2010, Greece witnesses an increase of the inflation, a fact that is mainly attributed to the increase of the prices of the products (increase of the tax rates). The next year the inflation subsides noticeably, since the unemployment reached 24,1%.

**8. Conclusion**

The main conclusions that are drawn from the comparison of the three countries are the bad financial condition of the three, but each based on its productivity and the course of its finance before the crisis. The United States of America and Great Britain are two distinctive cases of countries that their financial course was affected by the crisis of 2008. However form the next years some differences in the financial policy and management were noted. On the one hand, U.S.A. followed a programme of expansionary financial policy with public investment, social reforms, along with the continuation of the long-term income tax allowances, thus burdening the public finance. On the other hand, Great Britain until the first half of 2010, with the deferment of the government of that time, was financially derailed. From the second half of the same year, with the change in government measures of financial purge are implemented, having as aim to decrease the deficiency and to stabilize the public debt. Greece is a self contained case of study and conclusions. First of all, its public finance was in a very bad condition several years before the crisis. The reasons are many and they vary. One of the main reasons is the lack of courage shown by the politicians, serving guilds that they themselves have nurtured. Another long-term policy that was followed until 2009 was the distortion of the balance sheet components that showed a completely different image about finance. The, ongoing for years, mild financial purges have brought the exact opposite results. From the year 2010 and hence, the condition starts to change as regards deficiencies and the balance of payments, which were decreased. On the contrary, the debt continues to increase. The causes are the non adherence of the whole of the obligations of the state towards its borrowers due to idleness and guilds, as well as due to the structure of the economy during the last decades. Moreover, it is also due to the systematic inability of the state to tax with an effective and rudimentary just way. The basic difference of Greece with the other two countries that were put in question is the structure of the economy compared with the other two (as showed in the ratio of G.D.P.) and the organisational structure of the state authorities that outweigh Greece.

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