The Impact of the Public Debt Structure in the European Union Member Countries on the Possibility of Debt Overhang

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- In a country with a public debt overhang, the problem of the structure of this debt should be treated with particular seriousness.
- The higher the level of the debt, the more important the characteristics of the debt components are for the likeliness of the given country to repay it.
- It is assumed that debt overhang manifests itself when the relation of public debt to GDP amounts to over 90%, though

  the phenomenon of debt overhang seems to be more qualitative than quantitative in nature and any parameterization can be debatable.

DEBT OVERHANG
PUBLIC DEBT TO GDP IN 2016 AND GDP GROWTH

HIGH debt to GDP	**2016 DEBT to GDP**	**10 year avg GDP growth**
Greece	179,0	-1,7
Italy	132,6	-0,2
Portugal	130,4	0,1
Cyprus	107,8	0,9
Belgium	105,9	1,2
Spain	99,4	1,0
France	96,0	1,0
United Kingdom	89,3	1,4
Austria	84,6	1,3
Croatia	84,2	0,7
Slovenia	79,7	1,5
Ireland	75,4	4,5
Hungary	74,1	1,3
Germany	68,3	1,5
Average	**100,5**	**1,0**

LOW debt to GDP	**2016 DEBT to GDP**	**10 year avg GDP growth**
Finland	63,6	0,8
Netherlands	62,3	1,3
Malta	58,3	3,6
Poland	54,4	3,8
Slovakia	51,9	3,9
Sweden	41,6	2,1
Lithuania	40,2	3,0
Latvia	40,1	2,6
Denmark	37,8	0,9
Romania	37,6	3,1
Czech Republic	37,2	2,5
Bulgaria	29,5	3,0
Luxembourg	20,0	3,0
Estonia	9,5	2,5
Average	**41,7**	**2,6**

LARGE DEVELOPED COUNTRIES

POST-COMMUNIST COUNTRIES

DEBT OVERHANG

2007-2016 AVERAGE PUBLIC DEBT TO GDP AND GDP GROWTH

HIGH debt to GDP	**10 year avg DEBT to GDP**	**10 year avg GDP growth**
Greece	153,1	-1,7
Italy	119,6	-0,2
Portugal	107,7	0,1
Belgium	101,0	1,2
France	84,6	1,0
Ireland	82,2	4,5
Austria	79,7	1,3
Cyprus	77,7	0,9
Hungary	75,6	1,3
United Kingdom	75,2	1,4
Spain	73,8	1,0
Germany	73,3	1,5
Croatia	66,0	0,7
Malta	65,1	3,6
Average	**88,2**	**1,2**

LOW debt to GDP	**10 year avg DEBT to GDP**	**10 year avg GDP growth**
Netherlands	60,5	1,3
Slovenia	53,3	1,5
Poland	51,2	3,8
Finland	50,2	0,8
Slovakia	44,5	3,9
Sweden	40,2	2,1
Denmark	40,0	0,9
Czech Republic	37,8	2,5
Latvia	35,2	2,6
Lithuania	33,4	3,0
Romania	30,3	3,1
Bulgaria	19,0	3,0
Luxembourg	18,7	3,0
Estonia	7,8	2,5
Average	**37,3**	**2,4**

LARGE DEVELOPED COUNTRIES

POST-COMMUNIST COUNTRIES

The features of a correct structure of public debt most often include the following:

- as small a share of foreign investors as creditors as possible, as well as a small portion of debt issued abroad,
- a small share of debt in foreign currency,
- as long maturity period as possible,
- a big share of fixed-interest debt,
- a big share of productive debt in relation to deadweight debt.

Differences in the public debt structures among the EU countries

Total general government gross debt (% of GDP)

LOWEST

Estonia	9,5
Luxembourg	20,0
Bulgaria	29,5

HIGHEST

Greece	179,0
Italy	132,6
Portugal	130,4

Share of short-term (<1 year)

LOWEST

Bulgaria	0,3%
Poland	0,8%
Czech Republic	0,9%

HIGHEST

Sweden	21,6%
Hungary	18,5%
Portugal	16,7%

General government gross debt **by sector of debt holder**

Non residents

LOWEST

Malta	**10,5%**
United Kingdom	25.5%
Sweden	29,4%
Denmark	29.6%

HIGHEST

Cyprus	**79,4%**
Latvia	72,4%
Austria	71,3%

Resident financial

LOWEST

Cyprus	**17,3%**
Latvia	24,0%
Lithuania	27,1%

HIGHEST

Denmark	**67.4%**
Sweden	64,4%
Luxembourg	63,4%
Croatia	62,4%

Resident non-financial

LOWEST

Croatia	**0,0%**
Slovakia	0,4%
Austria	0,5%

HIGHEST

Malta	**27,7%**
Hungary	18,1%
Portugal	10,8%

General government gross debt **by instrument** (share)

Currency and deposits

LOWEST

Croatia	**0,0%**
Cyprus	0,0%
Hungary	0,2%

HIGHEST

Ireland	**10,6%**
United Kingdom	10,0%
Portugal	9,3%

Debt Securities

LOWEST

Estonia	**11,1%**
Greece	18,2%
Cyprus	32,7%

HIGHEST

Malta	**93,3%**
Czech Republic	90,8%
United Kingdom	88,1%
Hungary	87,6%

Loans

LOWEST

United Kingdom	**2,0%**
Malta	5,5%
Italy	7,8%
Czech Republic	8,8%

HIGHEST

Estonia	**86,6%**
Greece	80,0%
Cyprus	67,3%

- Detailed research on the condition of public debt structure and providing the data on this to external entities do not constitute priorities for Eurostat.
- Simultaneously, it is a threat for the quality of monitoring the risk of debt overhang like a snowball effect.
- For the below institutional solutions which support building safe structures of public debt in the EU countries to function properly, it would be essential to collect and make available more complex data on multithreaded structure of this debt by Eurostat.

- Taking into account the political character of the problem of public debt structure, it seems advisable to entrust fiscal institutions independent from the government with the role of monitoring in all the EU countries.
- Surely, a detailed scope of powers and obligations of such an institution is debatable, however, it is obvious that it cannot have extensive authority that would deprive the government of its powers.
- Independent fiscal institutions should first of all play the role of elements of an early warning system for phenomena increasing the risk of financial crisis in individual countries.

- The European Commission maintains a database on its website and it publishes Scope Index of Fiscal Institutions (SIFI).
- Variations in the SIFI index for institutions between 21 and 90 points out of 100 indicate the lack of uniform standards of controlling the fiscal activities of particular governments in the EU countries.
- Establishing a certain chamber of independent fiscal institutions under the supervision of both the European Commission and the European Parliament would have certain image advantages and practical advantages.

- Regardless of its institutional setting, an agency that would coordinate the functioning of independent national fiscal institutions

  and would be able to receive detailed, complete and comparable data on the countries' fiscal situation including the public debt structure from them,

  could attempt to develop new models of assessing the risk of budget bankruptcy similar to the models used for enterprises.

CONCLUSION:

- In the author's opinion, appropriate monitoring of the public debt structure by relevant institutions in the European Union member countries together with a good coordination of those activities at European Union level would contribute to faster and fuller recognition of threats to the financial stability of those countries.
- Creating such effective mechanisms is not however possible without a **deeper political** and not only economic **integration**.

THANK YOU

FOR

YOUR ATTENTION