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World Bank Global Economic Prospects report – Comment on (government) debt issues / CESEE

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*Opinions expressed do not necessarily reflect the official viewpoint
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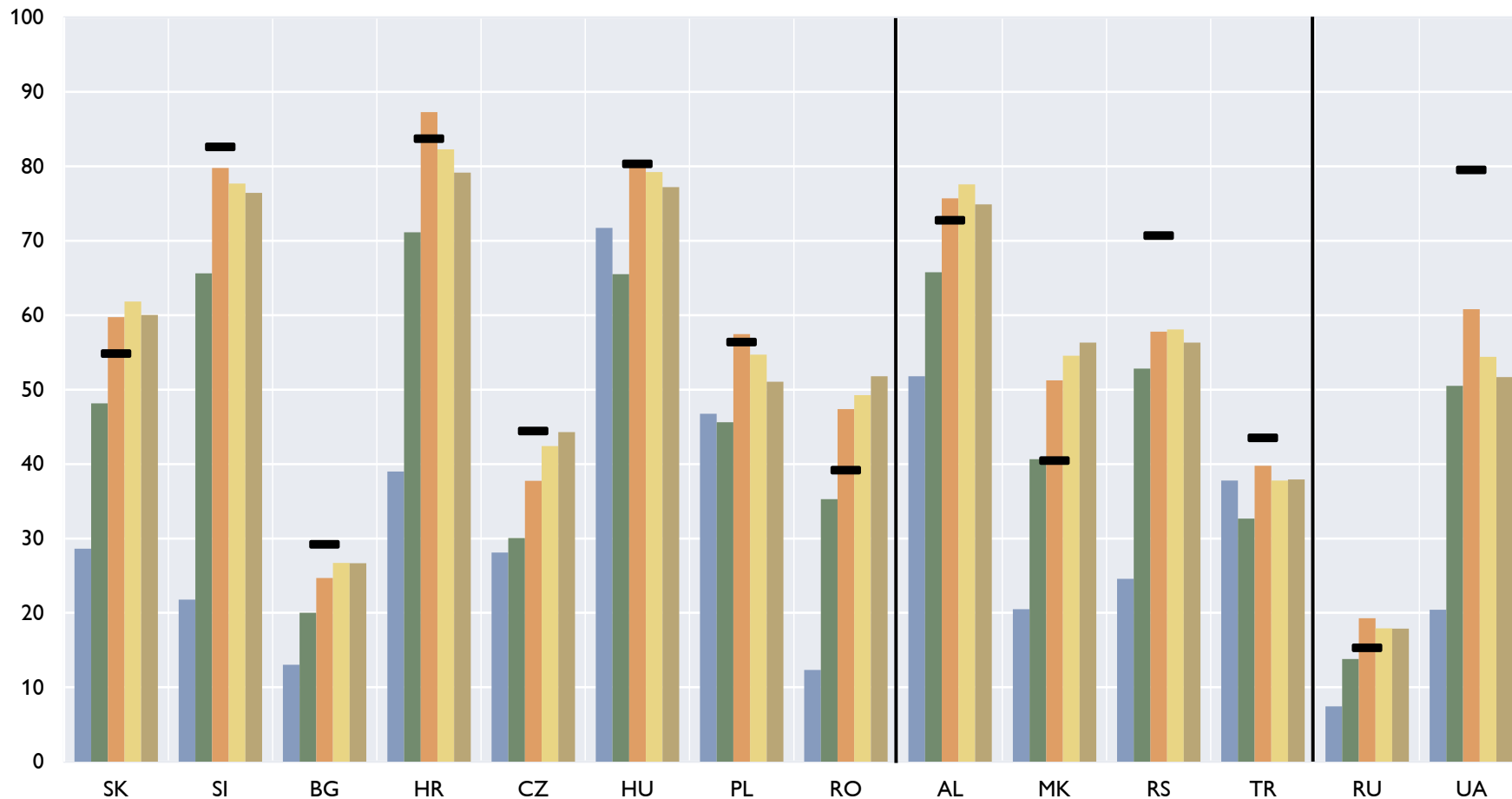


Government debt ratios in CESEE reached again their post-GFC maxima and are projected to remain elevated in the medium term

- **COVID-19 pandemic has so far added about 10 ppts** in the region.
- **Return to 2019 levels in most countries not before 2027** (according to most recent IMF forecasts).

General government gross debt

% of GDP



Source: European Commission AMECO database as of October 2021.

For TR, RU and UA: IMF WEO October 2021.

■ 2008 ■ 2019 ■ 2020 ■ 2021 f ■ 2022 f — max 2009-2018

High debt after the pandemic – issues for discussion

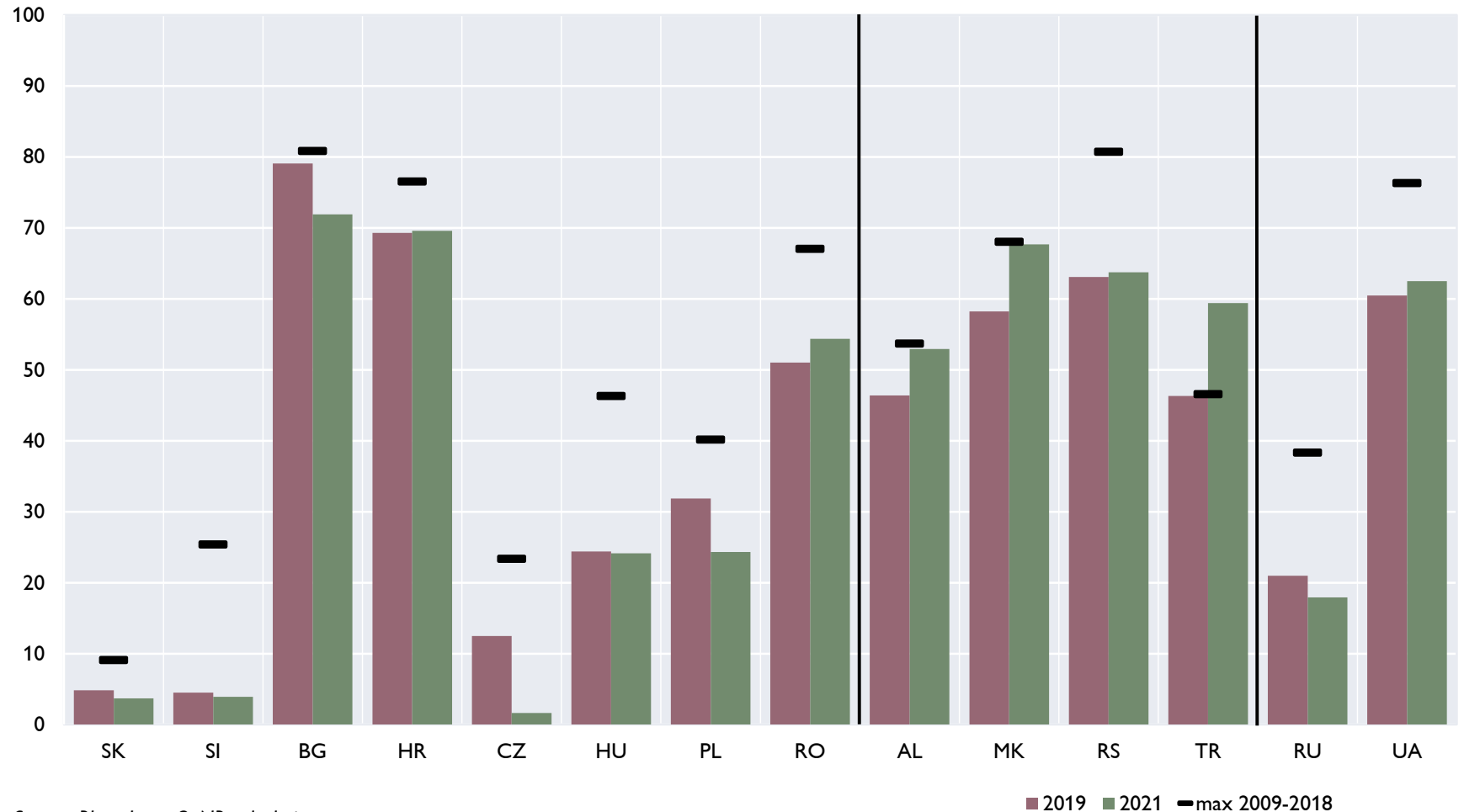
- Risks derived from **debt composition** → included also in the valuable World Bank's cross-country database of fiscal space ([Kose et al., 2017](#)).

Though on a declining path until 2019, the share of foreign currency-denominated debt is still on average about 40% across the region

- From **regional** highs of over 50% in the 2010s, **the share of FX government debt** fell to 40% by 2019 and **remained roughly constant in 2020-21**.
- Countries with a high debt ratio, a high FX share and flexible exchange rates appear relatively more vulnerable, e.g. AL, RS, UA.

Government debt denominated in foreign currency

% of total debt



Source: Bloomberg, OeNB calculations

Refinancing risks were reduced considerably in the years before the COVID-19 crisis due to a lengthening of debt maturities

- A reduction in short-term maturities continued in most countries in 2020-21.
- Still, a few countries are confronted with sizable debt redemption spikes in the next few years.

Outstanding government debt maturing within 1 year

% of total debt



Source: Bloomberg, OeNB calculations.

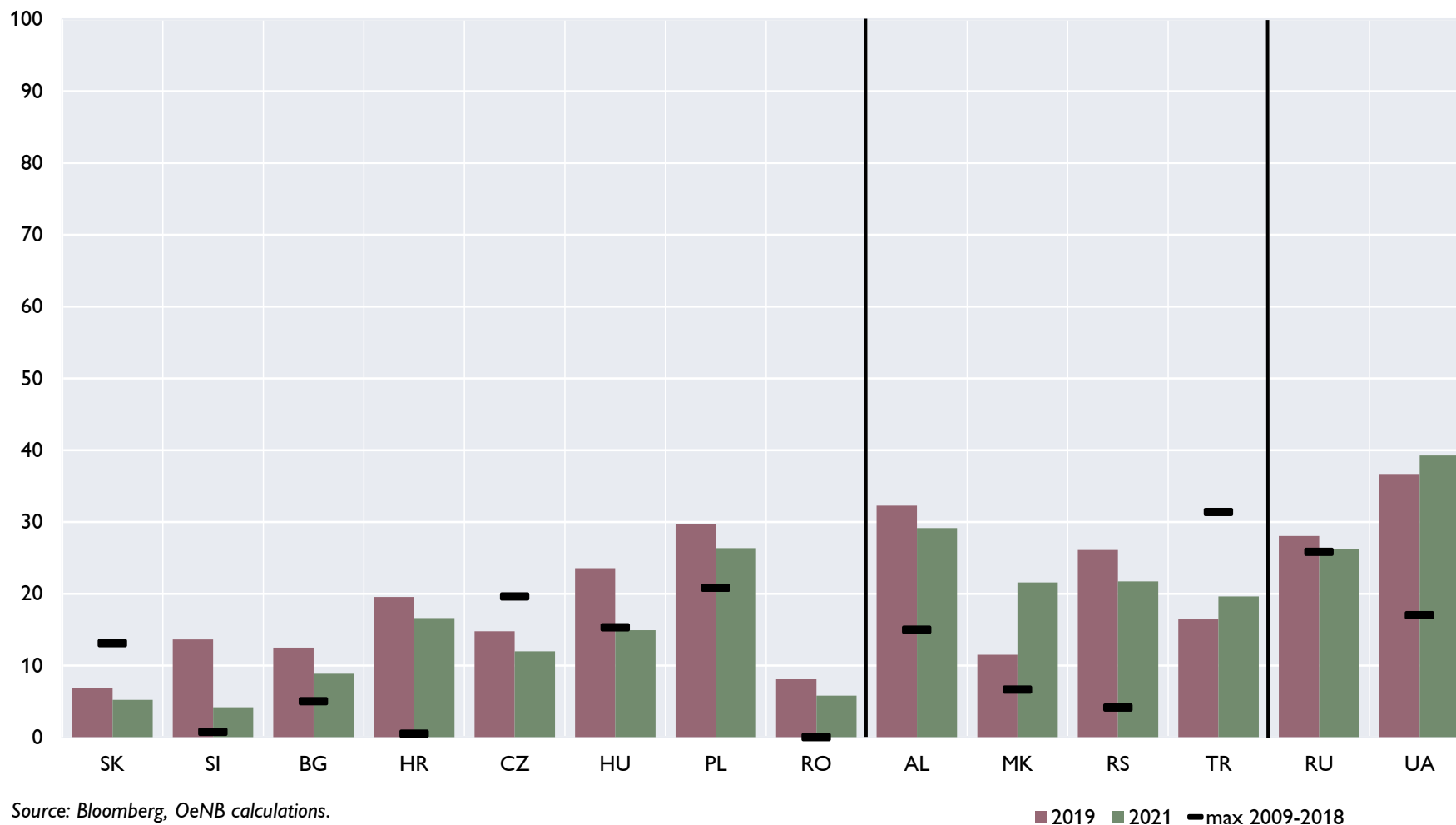
■ 2019 ■ 2021 — max 2009-2018

But variable rate debt has increased in several countries, implying short-term vulnerabilities to interest rate hikes

- The average regional **share of variable rate bond debt increased to nearly 20% in 2019** and remained largely constant since then.
- Currently largest shares of variable rate debt in UA (40%), AL (30%), RU and PL (26%).

Government bonds with variable interest rates

% of total government bonds



Source: Bloomberg, OeNB calculations.

High debt after the pandemic – issues for discussion

- Risks derived from **debt composition** → included also in the valuable World Bank's cross-country database of fiscal space (Kose et al., 2017).
- **Policy mix** questions: monetary-fiscal interactions, sequencing of normalization. Could debt be sustainable at higher levels due to neutral interest rates still being low?
- Revisiting **debt thresholds** above which the impact of further debt accumulation on economic activity turns negative.
- Golden rule debate: consideration of the **type of investment** that has been financed by increased debt, further investments required for the green transition to climate neutrality.
- Not only a focus on gross but also on **net debt** (e.g. given increased savings during the pandemic).
- **Sectoral interdependences** (private-public) and **spillovers** across regions (AEs, EMs).

Thank you for your attention!

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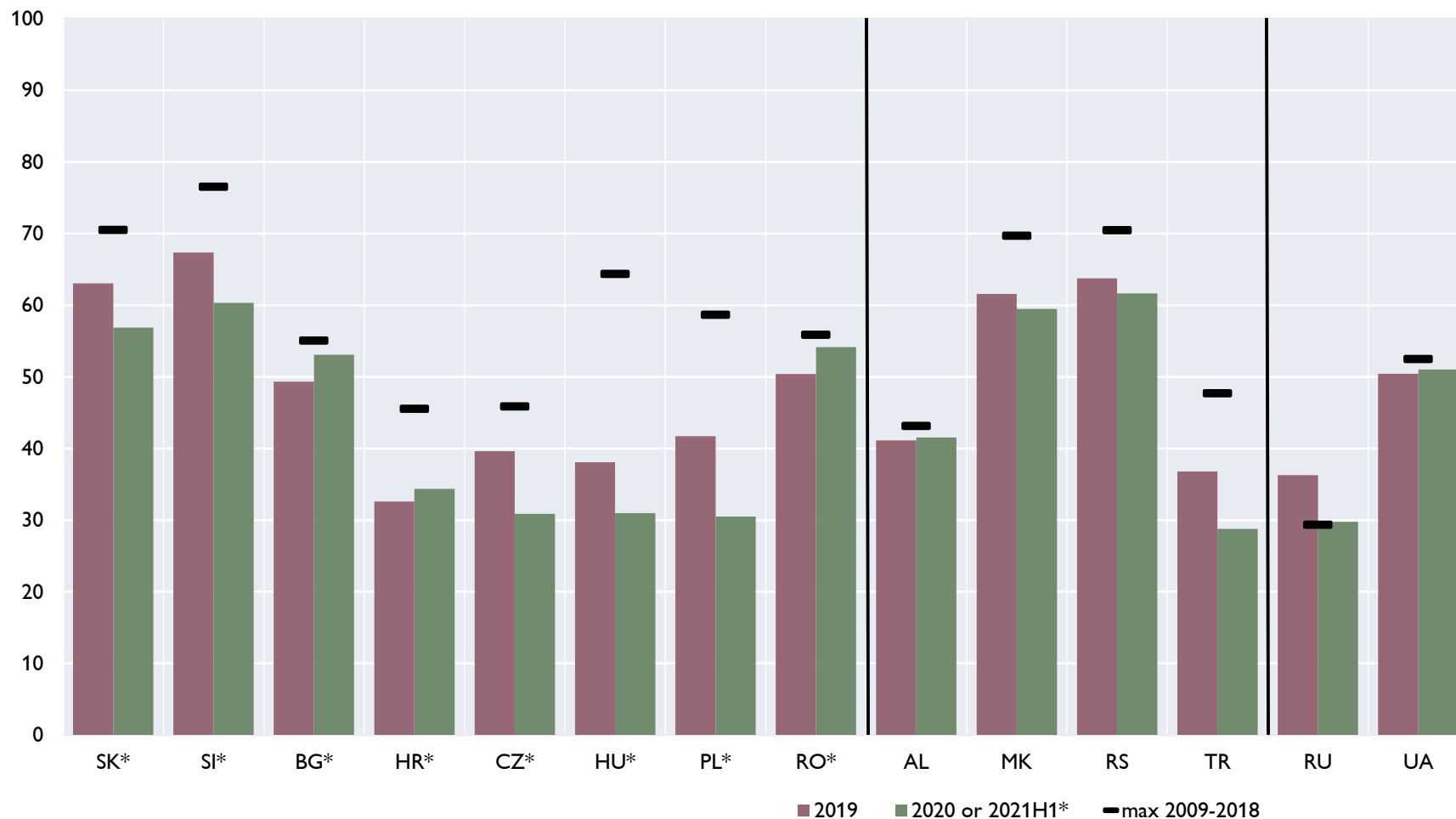


Foreign creditors are still holding considerable shares of CESEE countries' government debt

- Compared to **regional highs in the 2010s of almost 60%** of total debt, the share of debt to foreign creditors has been reduced somewhat.
- **During Covid, there was a further decrease to an average of 45%.** This is in contrast to the development in the wake of the GFC, when the proportion of foreign creditors has increased significantly.

General government debt owed to nonresidents

% of total debt

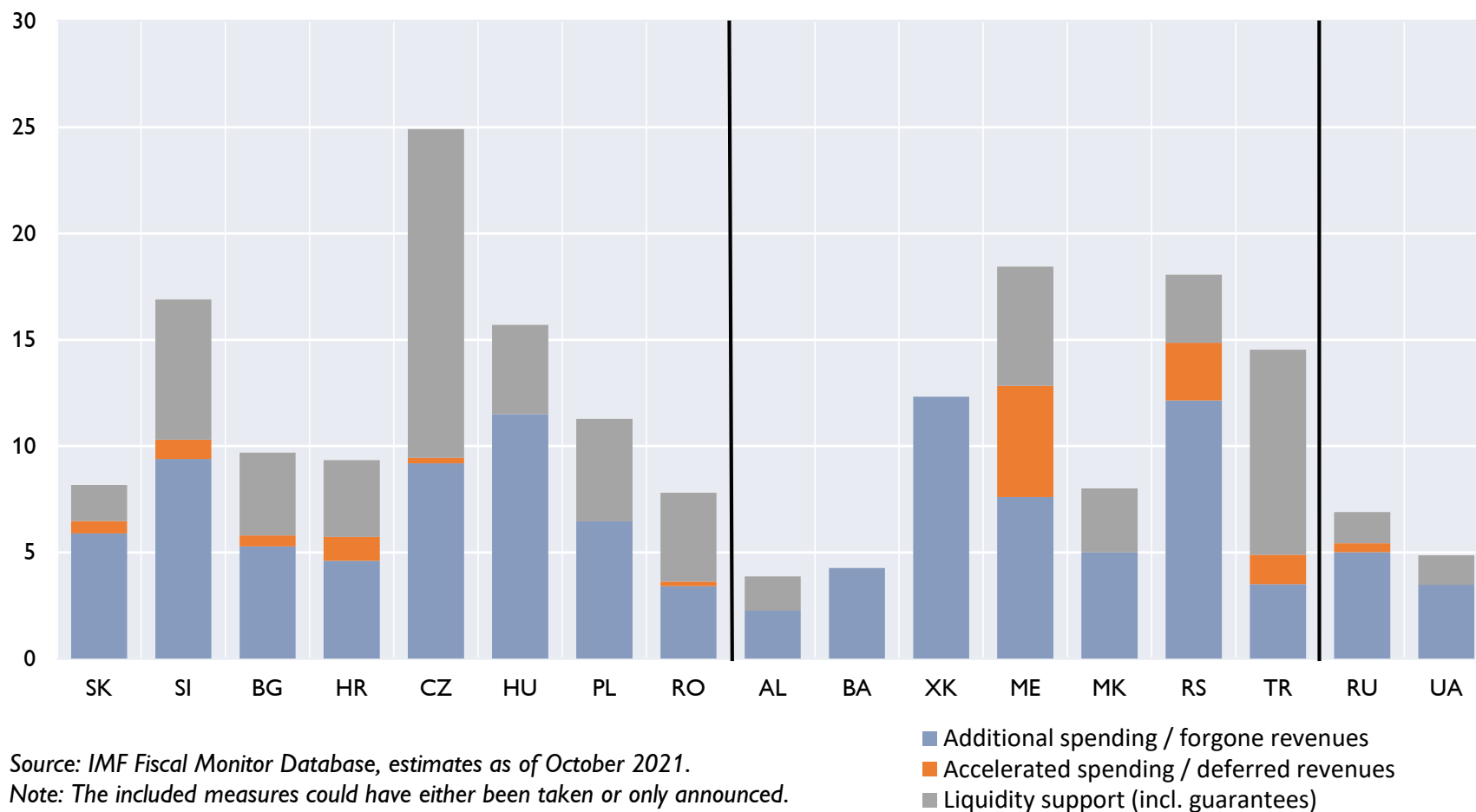


Source: Eurostat, IMF, national central banks, OeNB.

Size of COVID-19 fiscal policy support in CESEE countries

Fiscal support measures in response to the COVID-19 pandemic

% of GDP



Source: IMF Fiscal Monitor Database, estimates as of October 2021.

Note: The included measures could have either been taken or only announced.