

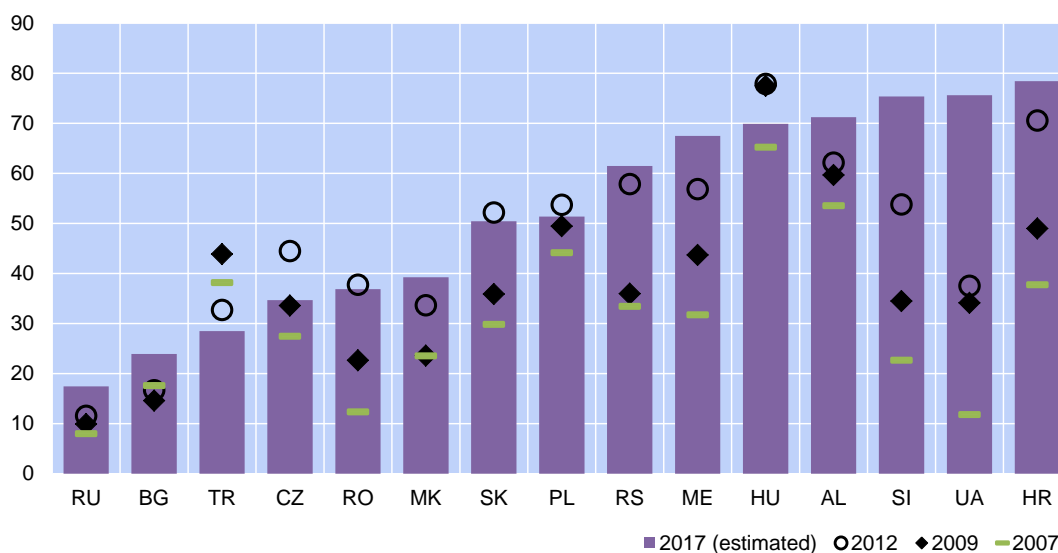
# Die Struktur der öffentlichen Verschuldung in CESEE: Eine Risikoevaluierung<sup>34</sup>

Die in voller Länge in FEEI Q2/18 veröffentlichte Studie<sup>35</sup> beschreibt die Entwicklung der öffentlichen Verschuldung der Länder Mittel-, Ost- und Südosteuropas (CESEE) seit der globalen Finanzkrise 2008/2009. Dabei wird ein spezieller Fokus auf die Bedeutung der Schuldstuktur und ihre Entwicklung für die Stabilität der öffentlichen Finanzen gelegt. Die Studie verdeutlicht, dass die steigende Abhängigkeit von im Regelfall kurzfristig orientierten ausländischen Portfolioinvestoren neben dem deutlichen Anstieg der Verschuldungsniveaus das Refinanzierungsrisiko der Länder deutlich erhöhte. Gleichzeitig wirkte die verstärkte Emission von Schuldtiteln mit langer Laufzeit, die aufgrund der verbesserten Rahmenbedingungen emittiert werden konnten, dieser Entwicklung entgegen. Aufgrund eines hohen Anteils an in Fremdwährung denominierter öffentlicher Verschuldung sind die Länder der Region einem hohen Fremdwährungsrisiko ausgesetzt. Erfahrungen mit historischen Schuldenkrisen unterstreichen, dass der hohe Anteil an in Fremdwährung gehaltener Verschuldung in Kombination mit dem deutlichen Anstieg des Verschuldungsniveaus und den teilweise schwach entwickelten lokalen Kapitalmärkten ein bedeutendes Risiko für die Stabilität der öffentlichen Finanzen darstellt. Der Stärkung der lokalen Kapitalmärkte, die mittelfristig zu einem steigenden Anteil an in lokaler Währung von Inländern gehaltener Verschuldung beitragen sollte, sowie die verstärkte Entwicklung und Nutzung von derivativen Produkten zur Absicherung des Fremdwährungsrisikos, erscheinen daher prioritär.

Chart 1

## General government gross debt

% of GDP



Source: IMF World Economic Outlook (April 2018).

Several countries in Central, Eastern and Southeastern Europe (CESEE) had limited scope for expansionary fiscal policy measures to mitigate the economic downturn during the 2008/2009

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<sup>35</sup> Eller, M. and J. Holler. 2018. Digging into the composition of government debt in CESEE: a risk evaluation. In: Focus on European Economic Integration Q2/18. Vienna: OeNB. 56–80.

recession. Despite the comparatively low levels of government debt reported before the 2008 global financial crisis, CESEE countries were struggling to finance their deficits as they soared due to tight market conditions following a sharp rise in global risk aversion and liquidity shortages in government debt markets. Sovereign liquidity constraints were moreover aggravated by unfavorable compositions of government debt.

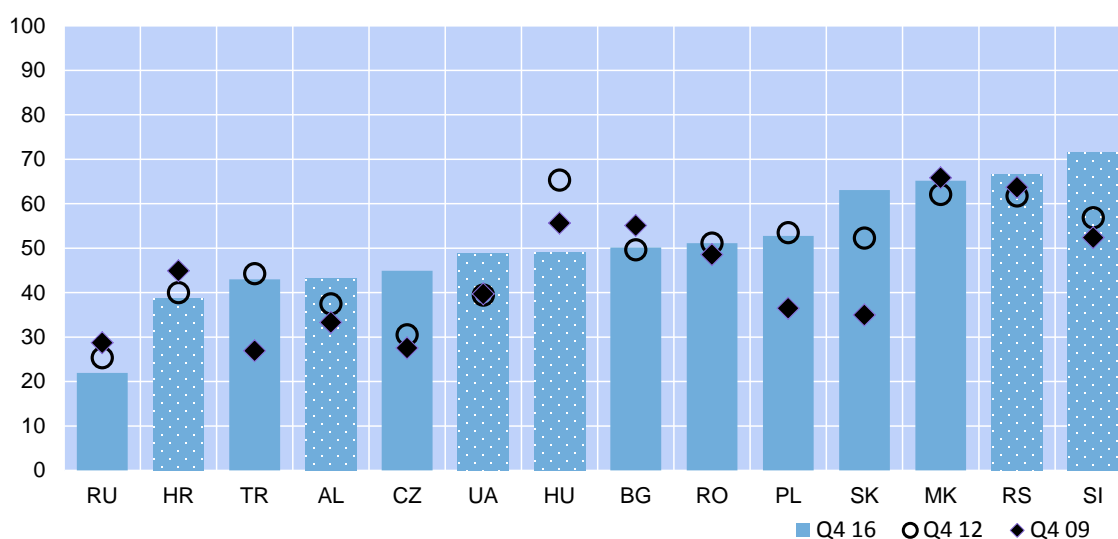
Against this backdrop, research interest has increased in sovereign balance sheet structures and in the impact of sudden changes in financial market conditions on sovereign liquidity and solvency. Our work further elaborates on the importance of debt composition by identifying and analyzing key elements that determine the implied risk potential. With respect to risks that may emerge from surging interest payments given high government bond yields (market risk) and from the inability to raise enough money to roll over maturing debt and finance running deficits (roll-over/liquidity risk), we consider currency composition, credit and maturity structures as well as interest variability to be the key drivers of debt portfolio risk.

On the aggregate level, despite the **strong increase in debt ratios** (chart 1) following the global financial crisis (GFC), the shift to longer-term debt issuance has reduced refinancing and rollover risk in CESEE. Nevertheless, our analysis shows that key risk characteristics are distributed heterogeneously across countries. An **increased share of government debt owed to nonresidents** (chart 2), consisting in several countries to a considerable extent of foreign portfolio investors, points to potential vulnerabilities in case of sudden jumps in global risk aversion.

Chart 2

### General government gross debt held by nonresidents

% of total debt



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

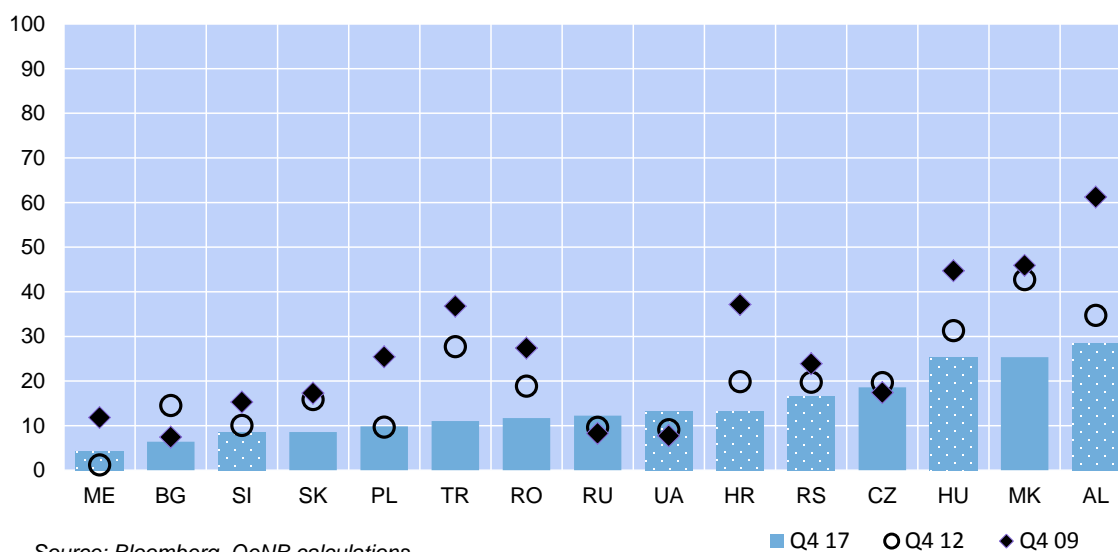
Note: Shaded bars indicate high-debt countries (with government debt ratios of more than 60%).

At the same time, the average time to **maturity** observed in CESEE governments' debt portfolios has broadly lengthened, and only a few countries record a considerable share of debt falling due in 2018 (Albania, Hungary and FYR Macedonia; chart 3) and/or meaningful short-term repayments in foreign currency (the Czech Republic, Hungary, Russia, Serbia and Ukraine). Despite the lengthening of maturities on the aggregate level, it must be emphasized that the debt redemption profiles of several countries under review show pronounced repayment spikes.

Chart 3

### Short-term debt as percentage of total government debt

Outstanding general government debt maturing within one year, % of total debt



Source: Bloomberg, OeNB calculations.

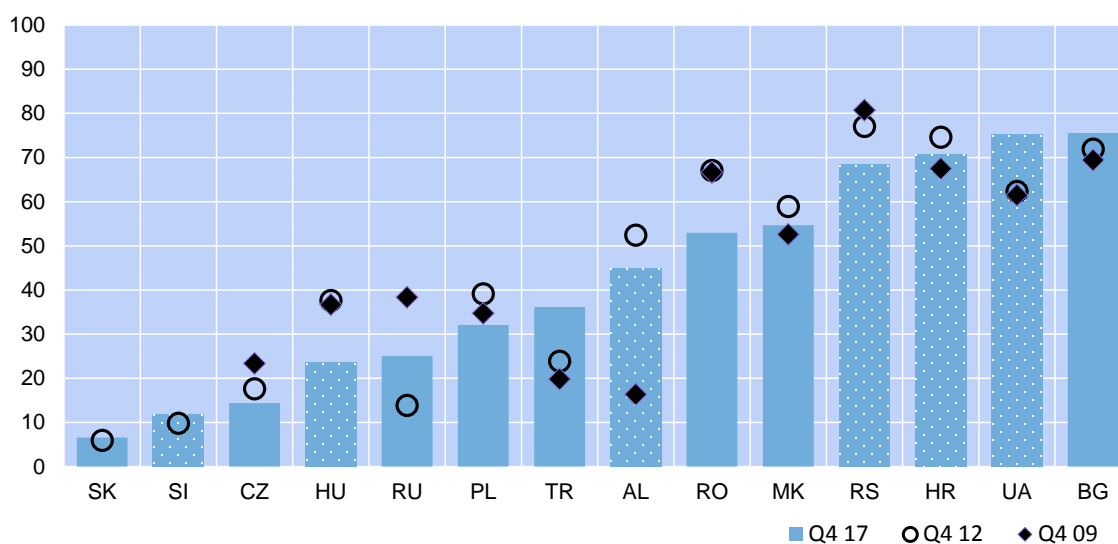
Note: Shaded bars indicate high-debt countries (with government debt ratios of more than 60%).

As regards **exchange rate risk**, several CESEE countries have been able to maintain or reduce the share of foreign currency-denominated government debt since the GFC – even though debt levels have widened and nonresident creditors have assumed a more prominent role. However, a large share of foreign currency-denominated government debt – in combination with an already large debt stock – reveals vulnerabilities in Croatia, Serbia and Ukraine (chart 4).

Chart 4

### Government debt denominated in foreign currency

% of total debt



Source: Bloomberg, OeNB calculations.

Note: Shaded bars indicate high-debt countries (with government debt ratios of more than 60%).

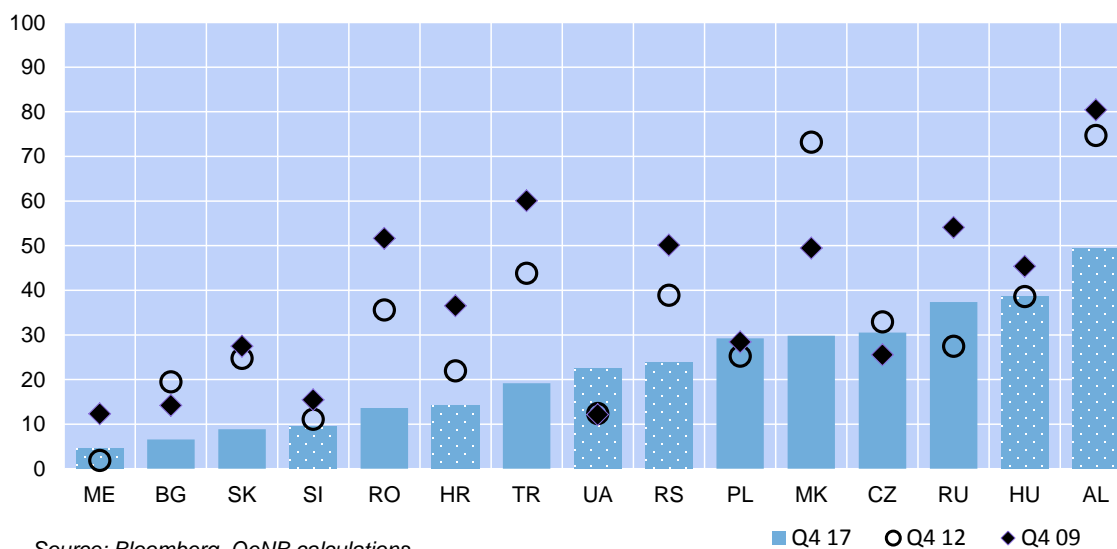
**Interest rate risks** have been alleviated somewhat due to lengthening maturities and the resulting lower need to refix interest rates in the short run. But again, risks are not equally distributed in CESEE. There are still a few countries that will have to realign interest rates for

sizeable portions of government bonds in 2018 (Albania, the Czech Republic, Hungary, FYR Macedonia, Poland and Russia) (chart 5).

Chart 5

### Government bonds with interest rates to be refixed within one year

% of total government bonds



Source: Bloomberg, OeNB calculations.

Note: Shaded bars indicate high-debt countries (with government debt ratios of more than 60%).

On a more general policy-oriented note, the comparatively **underdeveloped domestic capital markets** in CESEE imply a strong need to attract foreign creditors, leading to a large proportion of government debt being owed to foreign investors. Besides the fact that short term-oriented foreign investors appear to be strongly sensitive to global economic sentiments, which implies elevated refinancing risk in case of global shocks, CESEE government debt managers' dependency on foreign creditors often creates the need to issue debt in foreign currency – this implies the most severe market risk. Coupon and principle payments linked to foreign exchange rates imply higher interest payments and debt stocks in case of depreciation, which is usually positively correlated with economic crises and countercyclical monetary policy reactions. Various historic sovereign default episodes observed over the last decades, e.g. in Mexico and Argentina, prompted the drafting of international best practice standards to avoid excessive unhedged positions of foreign currency-denominated debt. Unfortunately, underdeveloped domestic capital markets that force the country in question to attract foreign creditors in the first place also imply obstacles to using derivative products to hedge against exchange rate risk. Markets might be shallow due to missing counterparties. The further **strengthening of domestic capital markets in CESEE and the use of exchange rate swaps to hedge against exchange rate risk** appear to be key elements required to reduce the potential default risks implied by the structure of government debt portfolios.