REVEALING EUROPE'S RISKS

Risk ratings

A new way of quantifying the effective management of sovereign debt shows eurozone economies in a new light. WRITER *Silvia Pavoni*

Among the factors that influence the appeal of international financial centres (IFCs), macroeconomic data and the ability of a ruling government to manage its finances are two of the most significant. As emerging markets achieve greater economic stability and sustain higher gross domestic products, their financial hubs grow in size and relevance, attracting local as well as international business. On the other hand, IFCs in crisis-struck developed countries are impaired by macroeconomic imbalances and high levels of sovereign debt.

The Basel Institute of Commons and Economics has set out to measure just how effective governments in Europe have been in managing sovereign debt, moving the focus away from the traditional public-debt-to-gross domestic product ratio and onto a measure of public debt as a proportion of governmental revenues. This indicator, says the Basel Institute, shows how sustainable a country's fiscal policy is.

A desirable 'Basel ratio' should keep its balance between debt and revenues or, even better, decrease over time. With this in mind, it is interesting to consider the Basel ratios of European countries over the past decade. While it has one of the highest in Europe, Italy's Basel ratio has remained relatively stable, while the UK's has doubled in the same period. This points to good fiscal policies in the Mediterranean country and to tax-avoiding practises in the UK, says Alexander Dill, president of the Basel Institute. Mr Dill believes that these factors should be taken into consideration by rating agencies, which have downgraded Italy several times since the eruption of the eurozone crisis.

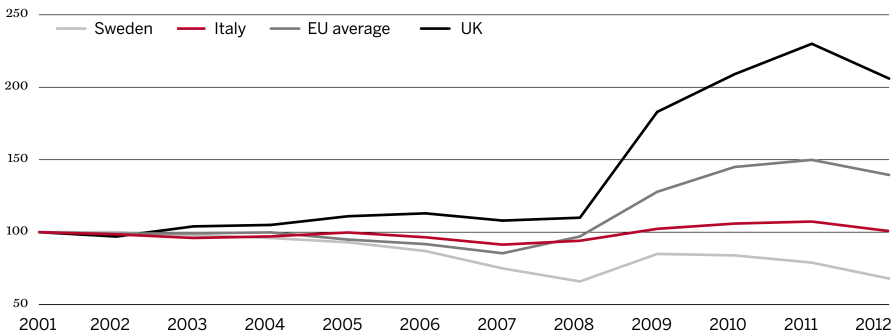
Mr Dill also suggests that looking at the Basel ratio would have helped in identifying risks within the eurozone. In 2009, Spain's Basel ratio reached 172%, up from 120% in 2008, similarly, Portugal's went from 201% to 245% and Greece's from 333% to 398% over the same period. Despite this, sovereign debt in these countries continued to attract the same interest rates as that of Germany, which had seen its Basel ratio increase only slightly, from 168% to 184%. TB

PUBLIC DEBT/GOVERNMENTAL REVENUES (BASEL CRITERIA)

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Austria	145%	147%	146%	146%	148%	146%	140%	145%	158%	166%	167%	151%
Belgium	229%	222%	213%	203%	199%	192%	185%	195%	212%	210%	213%	196%
Bulgaria	215%	183%	143%	113%	88%	70%	52%	43%	51%	60%	60%	53%
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cyprus	200%	212%	215%	217%	201%	181%	147%	127%	167%	173%	203%	215%
Czech Republic	75%	76%	79%	85%	83%	83%	82%	78%	104%	116%	115%	115%
Denmark	101%	102%	97%	91%	73%	64%	55%	69%	84%	89%	96%	82%
Estonia	16%	18%	18%	17%	15%	14%	12%	14%	20%	20%	19%	25%
Finland	95%	93%	101%	102%	95%	91%	82%	79%	102%	115%	113%	99%
France	126%	132%	142%	145%	147%	140%	143%	152%	180%	186%	189%	174%
Germany	146%	152%	160%	168%	174%	172%	164%	168%	184%	211%	202%	181%
Greece	299%	288%	288%	298%	297%	324%	315%	333%	398%	440%	490%	351%
Hungary	142%	151%	149%	162%	162%	186%	165%	172%	207%	215%	196%	168%
Ireland	114%	108%	104%	94%	86%	74%	77%	143%	218%	311%	353%	340%
Italy	264%	260%	254%	257%	264%	255%	242%	249%	271%	280%	284%	266%
Latvia	49%	45%	48%	50%	43%	35%	30%	67%	137%	163%	154%	115%
Lithuania	79%	76%	73%	67%	63%	60%	56%	51%	96%	132%	140%	124%
Luxembourg	16%	16%	16%	17%	16%	18%	18%	38%	38%	50%	48%	50%
Malta	196%	180%	205%	212%	201%	183%	174%	180%	193%	201%	204%	178%
Netherlands	131%	132%	137%	138%	136%	121%	116%	149%	158%	161%	170%	153%
Poland	123%	124%	137%	162%	151%	145%	137%	117%	170%	175%	162%	149%
Portugal	163%	168%	173%	185%	195%	197%	192%	201%	245%	273%	302%	302%
Romania	83%	78%	70%	69%	55%	44%	40%	43%	86%	110%	120%	114%
Slovakia	149%	135%	129%	136%	112%	113%	102%	99%	124%	146%	152%	157%
Slovenia	70%	72%	70%	71%	69%	69%	62%	59%	94%	102%	127%	120%
Spain	163%	152%	142%	131%	119%	107%	96%	120%	172%	187%	216%	232%
Sweden	110%	110%	108%	106%	102%	96%	83%	73%	94%	92%	87%	75%
UK	103%	100%	107%	108%	114%	116%	111%	113%	188%	215%	237%	212%

Source: Basel Institute of Commons and Economics; Eurostat

Progression of public debt/governmental revenues ratio since 2001



Source: Basel Institute of Commons and Economics; Eurostat