

Sujet: La dette des pays en Europe / Euro-
pe sovereign debt levels

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Europe Sovereign Debt Limits

The starting point of government debt in most European countries is not excessive, but bears keeping a mindful eye.

While it is difficult to quantify the debt ceiling among nations, for argument sake our **Global Fixed Income Strategy** service assumes that the threshold of net government debt is around 100% of GDP. At present, only Italy has breached this limit, although Greece will be there within a few months. This is the reason why investors are demanding immediate

fiscal restructuring. In contrast, net debt in Portugal and Spain is currently only 63% and 42% of GDP, respectively. Government debt levels are even lower in Ireland. Granted these countries have sizable deficits and will need to provide credible and more aggressive fiscal consolidation plans in order to alleviate investor anxiety. Still, all three should have 5-7 years before debt levels reach their thresholds, giving authorities plenty of time to allow their economies to enter a self-reinforcing recovery phase before beginning fiscal consolidation. At current deficits, the U.S. and U.K. only have 3-4 years before reaching this point, albeit authorities in these nations have additional tools (i.e. their own monetary policy and currency). Bottom line: The economies involved in the European debt crisis are a relatively small part of the global economy and aggregate debt levels are not excessive in many parts of the region. Nonetheless, banking systems are still fragile and history suggests that it pays to be cautious and avoid making large bets at times when policymakers are behind the curve.

	Net Debt/GDP (%)	Deficit/GDP (%):		Net Debt Interest Pymts/ Revenue	Years before Debt/GDP reaches 100% assuming:	
		Current	Cyclically Adjusted		Current Deficit	Cyclically Adjusted Deficit
Italy	100.8	-5.4	-2.5	10.8	-	-
Greece	94.6	-9.8	-6.4	11.8	0.6	0.9
U.S.	65.2	-10.7	-8.8	6.2	3.3	3.9
Portugal	62.6	-7.6	-6.0	6.8	4.9	6.3
U.K.	59.0	-13.3	-9.8	7.0	3.1	4.2
Spain	41.6	-8.5	-4.9	2.8	6.9	11.9
Ireland	38.0	-12.2	-8.3	3.8	5.1	7.5

Source: OECD

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CANADA $\hat{\sim}$ 35%