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PRESS RELEASE

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NEW: THE DEBT STRESS TEST

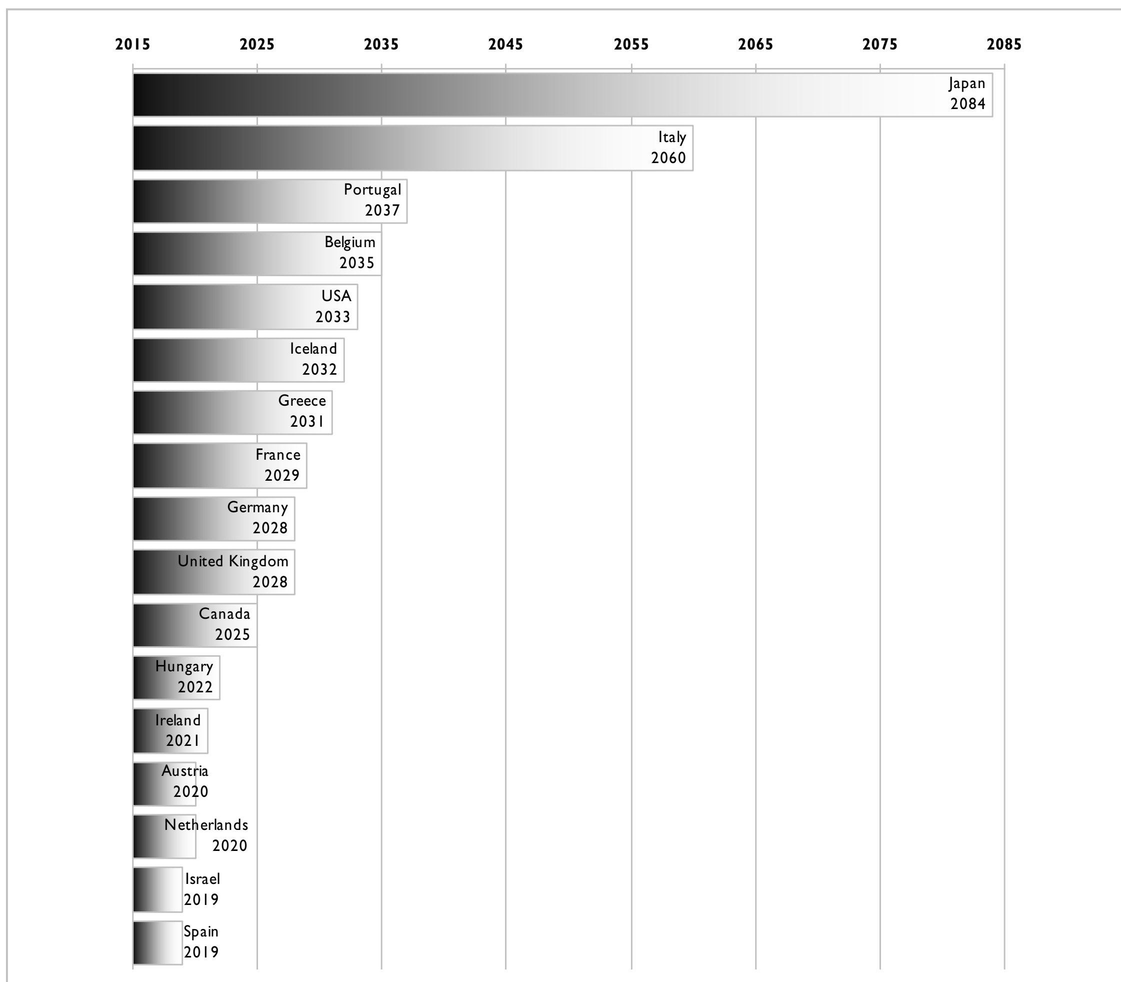
(When will Nations revert to a "bearable" public debt level of 60% of their respective GDP)

The sinners and the others…

The largest "old" industrialized nations – from Japan to the UK – **will all suffer a debt curse, in the worst case lasting until 2084.** Nowadays, budget deficits are soaring and it is estimated that the average debt of the G20 nations, for example, will climb from 76% of their combined GDP in 2007 to 106% in 2010. Although the "great recession" is over, the consequences of the crisis will continue to be felt for quite some time.

The *Debt Stress Test* estimates a time horizon in which nations will revert to a "bearable" public-debt level of 60% of its respective GDP. (See methodology on following page). However when it comes to debt, numbers do not always give the whole picture.

The Sinners



The Others (debt as % GDP)

The Others 40-60%	2009
Jordan	59.37
Philippines	57.33
Malaysia	53.73
Poland	51.00
Singapore	48.01
Turkey	46.28
Finland	43.99
Sweden	42.32
Denmark	41.52

Down to 60% by 2015[1]	2009
Argentina	69.02
Norway	65.98
Brazil	62.79
India	60.35

The Others 20-40%	2009
Switzerland	39.00
Taiwan	38.58
Slovenia	35.88
Slovak Republic	35.66
Czech Republic	35.32
Croatia	35.21
Colombia	34.82
Korea	33.78
Ukraine	32.96
Lithuania	29.35
Thailand	29.06
Indonesia	28.34
South Africa	26.30
Mexico	26.01
Peru	25.50
Romania	23.72
New Zealand	23.56
Venezuela	23.41

The Others <20%	2009
Qatar	18.76
Bulgaria	14.78
Luxembourg	14.56
Kazakhstan	13.18
Russia	7.67
Estonia	7.22
Chile	6.14
China Mainland	2.72
Hong Kong	0.74

Japan (2084)[2], Italy (2060) and Belgium (2035) are heavily indebted, but their creditors are mainly **domestic institutions** (as some economists say "this is money we owe to ourselves…"). On the contrary, the Greek (2031) and the Portuguese (2037) governments face the demand of **foreign institutions** (foreign banks own €106 billion of Greece's debt and €44 billion of Portugal's).

The **currency risk** is an additional factor of uncertainty for countries such as the UK (2028) with $1,482 billion of total government debt and Iceland (2032) with $14.9 billion of debt. On the contrary, Greece and Portugal enjoy about 75% of their debt in Euros – this is good news for them and bad news for the Euro zone. Most of the US (2033) debt is in dollars.

The **repayment capacity** depends on the size of the economy. When the US economy recovers it will generate significant fiscal revenues on the potential **GDP growth rate.** Ireland (2021) had a "historical" growth rate of 3.8% over the past decade. On the **current account surplus** side there is The Netherlands (2020) +5.4%, Germany (2028) +4.9%, and Austria (2020) +2.3%. Unfortunately, Greece, Portugal, Spain (2019)[3], Italy (2060) and Ireland (2021) have significant current account deficits.

Finally, the **net balance between foreign liabilities and foreign assets** should be taken into consideration, as a kind of collateral. For example, Germany is heavily indebted ($2,448 billion) but its net balance between foreign debt and assets is positive (approximately $800 billion). In addition, the US, Germany, the UK, Japan, France (2029), the Netherlands, Canada (2025) and Italy **own significantly more industrial assets abroad** (net position in direct investments stocks) **than foreigners do in their country.**

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[1] For these countries, a budget equilibrium reached by 2015 also implies attaining a debt/GDP level under 60%.
[2] The target years for a 60% debt level are shown in parentheses.
[3] Spain's debt is currently less than 60% of its GDP.

The **quality** of debt depends both on the **collateral** and the **capacity to repay**. In short, countries such as Greece, Portugal and Spain have a **credibility problem** today not only because they have a debt crisis, but also because they lack the means to adequately repay (growth rate, current account balance, investments abroad, etc). **Other "sinners" (mostly the large industrial nations)** have less of a credibility problem: in their case debt is a cost that will **limit their competitiveness** and the **purchasing power** of their people.

Finally, 40 out of the 58 countries in the World Competitiveness Yearbook 2010 do not have a debt problem (i.e. less than 60% of their GDP). **Some could not go into debt** because they had no collateral or credibility (Estonia, Latvia) and **some are simply virtuous** (Singapore, Switzerland). **However many are emerging economies** that are fast piling up foreign currency reserves (such as China with $2,400 billion) and increasing their **competitiveness**. In summary, **the debt trail leads to the money trail**, which in turn emphasizes the changing **balance of power** in a brand new world!

"The *Debt Stress Test* provides an early simplified indicator of the magnitude of the public debt issue for each nation," states IMD Professor Stéphane Garelli, Director of the World Competitiveness Center. "What matters is not only the absolute size of public debt but also the length of time required to absorb it. In the end, debt-stricken nations may suffer severe losses in competitiveness and standards of living."

Methodology for the Debt Stress Test.

The IMD World Competitiveness Center has used the following "simplified" assumptions to avoid complicating its hypothesis:

1. Assumptions

- Each nation gradually reduces its budget deficit to reach equilibrium by 2015.
- As of 2015, each nation devotes 1% of its GDP to the repayment of its debt, if in excess of 60% of the GDP.
- As of 2015, each nation resumes a GDP growth rate equivalent to its average rate from 2000 – 2009.

2. Limitations of the approach

- 60% of the GDP is considered as an "acceptable" public-debt burden both by the IMF and the European Union. However some scholars argue that even higher levels (e.g. 90%) have little impact on growth.
- Many nations will not be able to balance their budget deficits by 2015.
- The average "historical" GDP growth of the 2000s is not guaranteed for the 2010s.
- Complex simulations on the evolution of interest rates, payment delays or defaults have been avoided.
- Other "social factors", including the evolution of the pension system, social welfare, health costs and ageing populations have been omitted.

**Note: All content in the release can be attributed to IMD Professor Stéphane Garelli, Director of the World Competitiveness Center.*