PIIGS (Portugal, Ireland, Italy, Greece, Spain) – External debt to exports

The relationship between growth and external debt is widely acknowledged. The World Bank has set two external debt thresholds : a debt to GDP ratio of 80%, and a debt to exports ratio of 220%. Above these critical values, the risk of a debt crisis will have the heaviest negative impact on growth.

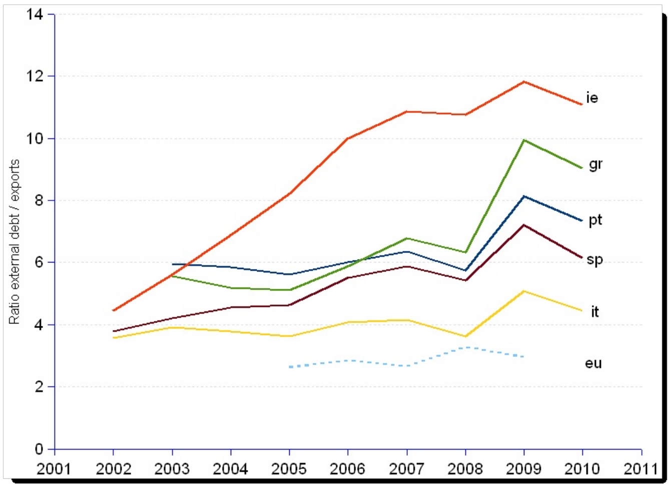

Chart 1 : PIIGS External debt to exports.

All PIIGS, and the whole of the Euro zone for that matter, exhibit debt to GDP ratios above , in some instances far above, the World Bank benchmark. As regards exports, their situation is even worse : debt to exports ratios vary between 4.5 (or twice the World Bank benchmark) for Italy, and 11.1 (or 5 times) for Ireland. Should World Bank research be true, all PIIGS — and the Euro zone to a less extent — are right in the middle of the storm.

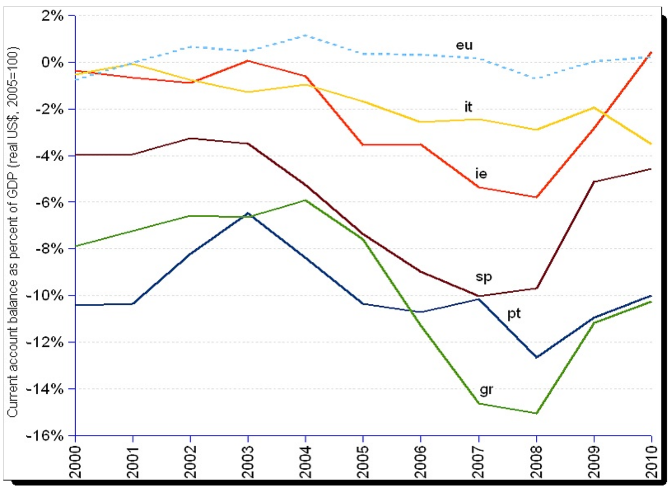

Chart 2 : PIIGS current account balance as percent of GDP.

The chart (Chart 1) shows an increasing debt to exports ratio over time, growing at annual average rates of 3% in Italy, 4% in Portugal, 6% in Spain, 7% in Greece, and 12% in Ireland. Although the global financial crisis — with the ensuing credit and liquidity crunches, and the economic slump — slowed the indebtedness process down, the situation did not improve, since ratios remain extremely high on one hand, and on the other hand exports have significantly shrank, at annual rates of -8% in Portugal, -3% in Ireland, -10% in Italy, -14% in Greece and -7% in Spain, since 2008. The last 5-year current account balance performance of PIIGS (Chart 2), revealing deficits that vary from 4% to 10% of GDP, does not suggest that they are ready to become big net exporters. Considering the prevailing economic stagnation in Europe and in the world, it is doubtful that PIIGS countries will be able to revert the trend and push up exports to the proportion of their needs.

Furthermore, for open economies such as PIIGS that use external borrowing for productive investment, interest rates have great impact on the outlook of their indebtedness. Currently, the interest rates and the spreads imposed on them by the market are invariably high with a tendency to rise, thus increasing the debt service burden, and deteriorating the exports to debt ratio. Prevailing high debt to export ratios, slumbering exports and high long-term interests, all three factors combine to make total debt to grow faster than the economy's basic source of external income, thus sending a clear signal that the country will face problems meeting its debt obligations in the future. Such an anticipation cannot fail to stimulate defensive reactions on the creditors side, namely credit freezing and interest raising, which in turn reinforce further economic slowdown and increasing debt in the concerned countries.

Ratio Gross External Debt to Exports
PIIGS (Portugal, Ireland, Italy, Greece, Spain)

Year[1]	Portugal			Ireland			Italy			Greece			Spain			Euro zone		
	Gross external debt [2]	Exports [2]	External debt/Exports	Gross external debt [2]	Exports [2]	External debt/Exports	Gross external debt [2]	Exports [2]	External debt/Exports	Gross external debt [2]	Exports [2]	External debt/Exports	Gross external debt [2]	Exports [2]	External debt/Exports	Gross external debt [2]	Exports [2]	External debt/Exports
2002		40		552	124	4	1213	340	4		33		769	203	4		2728	
2003	287	48	6	780	139	6	1543	393	4	217	39	6	1041	247	4		3198	
2004	321	55	6	1087	158	7	1703	451	4	262	50	5	1277	280	5		3703	
2005	302	54	6	1336	163	8	1676	462	4	263	52	5	1350	291	5		3861	
2006	369	61	6	1708	171	10	2042	501	4	319	54	6	1748	317	6	11081	4210	3
2007	455	72	6	2133	196	11	2398	577	4	427	63	7	2166	369	6	13837	4848	3
2008	446	77	6	2169	202	11	2205	609	4	465	73	6	2142	395	5	13984	5261	3
2009	501	62	8	2176	184	12	2327	458	5	536	54	10	2309	321	7	13657	4153	3
2010	478	65	7	2082	188	11	2201	494	4	491	54	9	2087	340	6	13303	4487	3
2011	461			2031			2244			492			2153			14003		
Avge annual growth rate	6%	6%	3%	16%	5%	12%	7%	5%	3%	11%	7%	7%	12%	7%	6%	5%	6%	3%
Exports change rate 2008-2010		-8%			-3%			-10%			-14%			-7%			-8%	

[1] All years show 4th Quarter values, except 2011 that is 3rd Quarter.
[2] Billion real US$, 2005=100.
Sources: JEDH for external debt, and World DataBank for Export estimates.