ORIGINAL PAPER

DOI: 10.26794/2220-6469-2021-15-2-47-61
UDC 339.727(945)
JEL F34, G15, H63

External Debt Problem in the European Union

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ABSTRACT

The paper's relevance is substantiated by the fact that today a rapid growth of external debt of the most developed countries of the world (including European Union (EU) countries) is one of the most acute problems of the modern world economy and global finance. The paper aims to assess the degree of the external debt burden of various EU countries and evaluate the prospects of solving external debt problems in the EU. The article focuses on dynamics, composition, and specifics shaping the EU countries' external debt based on comparative, economic, statistical, and graphical analysis. Special attention we paid to the analysis of specifics of the EU countries' sovereign external debt composition connected with the acute problem of the rapid growth of public debt in general. The paper examines the ratio of public external and internal debt in various EU countries. It determines the EU particular countries where public external debt is shaping based on either cross-border or domestic model. The research results reveal a high degree of dependence of the EU economy on international debt finance. Gross external debt and sovereign external debt of the EU countries are still growing, and its distribution among various member states is very uneven. The structural imbalance of the EU countries' net external debt has also been revealed: the number of net borrowers is double that of net lenders. According to the basic external debt sustainability indicators, some EU countries are in a pretty tricky situation and entirely depend on the possibility of external debt refinancing.

Keywords: external debt; internal debt; public debt; European Union; euro area

For citation: **Balyuk I.A., Balyuk M.A. External debt problem in the European Union. *Mir novoi ekonomiki = The World of New Economy*. 2021;15(2):47-61. DOI: 10.26794/2220-6469-2021-15-2-47-61**

INTRODUCTION

In the context of financial and economic globalization, debt operations in the international financial market are growing rapidly, and external debt has been the focus of attention of major international organizations for many years, and a wide range of scientist and practitioners from around the world. Debt can be said to have become a major international policy issue [1].

While in the 1980s and 1990s 20st century the problem of rapid growth in external debt was primarily related to developing countries, since the 2008–2009 crisis, external debt has become a pressing issue for many developed economies (including those of the European Union) [2]. According to our calculations, at the end of 2019, world external debt reached 86.8 trillion USD (about 99% of world GDP).[1] Of this amount, almost half went to the EU countries and, according to data for the Q3 of 2020, the situation has not changed fundamentally.

In response to the growing external debt problem, the authors analysed the dynamics, trends and features of the current external debt structure of the European Union. Statistics from such international organizations were used as the main sources of information such as World Bank, International Monetary Fund, Bank for International Settlements, Statistical Service of the European Union — Eurostat.

DYNAMICS OF EXTERNAL DEBT IN EU COUNTRIES

The increase in the external debt of the 10 countries that are the world leaders on this indicator is reflected in *table 1*.

As can be seen from the *table 1*, the gross external debt of the leading countries increased almost 2.2 times in 2004–2020, and the number of States with the largest external debt, represents the seven EU countries (until February 2020 — eight, including the United Kingdom, which is the second largest debtor). Global external debt is highly concentrated. In the Q3 of 2020, more than 71% of world external debt was generated by just 10 countries, with the first five countries accounting for more than 53%.[2]

Although the world's biggest debtor is the US (in the Q3 of 2020, the external debt of the USA amounted to 23.2% of total world external debt), the leading European countries, as shown in *table 1*, have a relatively high level of external debt, which is rising steadily. At the end of the Q3 of 2020, the USA and the EU accounted for nearly 64% of world external debt, with the UK and Japan accounting — for about 79%.

According to the World Bank, gross external debt of 28 countries, EU Member States before 1 February 2020, in the period from the Q4 of 2008 (not all EU countries have data available at an earlier date) for the Q4 of 2019 increased by 12.1%, and the gross external debt of the euro area has increased by 17.7% since then. Dynamics of gross external debt of EU and euro area countries in 2008–2020 is shown in *figure 1*.

Between 2008 and 2020, the share of the euro area in gross external debt of EU countries (taking into account British external debt) declined by 0.5 p.p. (up to 70.3%), and excluding the British external debt, the decline in the share of the euro area was 5.5 p.p. to 86.5%. This reflects the higher growth in gross external debt of non-euro-zone countries over the past 10 years. In addition, the growth rate of gross external debt of EU countries (the external debt of the United Kingdom) over the period was 2.3 times lower than that of gross global external debt, which increased by 46.1%. As a result, according to our calculations, the share of the gross external debt of the EU countries in the composition of world external debt declined by 11 p.p. over that period.

[1] World Bank website. URL: https://databank.worldbank.org/source/.

[2] See ibid.

Table 1

Growth of gross external debt of ten countries leading on this indicator on a global scale, USD mln

Country	Q4 2004	Q4 2009	Q4 2014	Q4 2018	Q4 2019	Q3 2020
USA	8 361 088	13 661 791	17 258 054	19 669 422	20 600 666	21 314 655
UK	6 638 694	9 409 468	9 219 399	8 406 315	8 840 646	9 262 192
France	2 853 237	5 164 310	5 496 291	5 829 082	6 268 363	7 121 549
Germany	2 932 992	5 114 139	5 597 022	5 540 551	5 588 103	6 479 588
Japan	1 557 059	2 551 151	2 726 442	4 012 590	4 239 168	4 740 679
Netherlands	2 788 548	2 202 080	4 153 963	4 290 474	4 310 967	4 546 788
Luxembourg	1 070 455	2 086 400	3 330 628	4 131 051	4 090 583	3 881 317
Ireland	1 052 284	2 531 162	1 959 963	2 726 250	2 852 044	2 877 587[1]
Italy	1 649 008	2 424 141	2 459 288	2 420 050	2 503 016	2 688 071
Spain	1 235 785	2 531 670	2 064 068	2 307 368	2 371 779	2 585 510
TOTAL:	30 139 150	47 676 312	54 265 118	59 333 153	61 665 335	65 497 946

Source: Compiled by the authors based on the database of the World Bank*.

* World Bank website. URL: https://databank.worldbank.org/source/. ** Data for Q2 of 2020

Figure 2 shows dynamics in the public external debt of EU and euro-zone countries, 2008–2020.

Between 2008 and 2020 EU public external debt (excluding Great Britain) increased by 42.4%, which was almost in line with the growth of the external public debt of the euro area (42.3%). With the United Kingdom, the increase in EU public external debt was higher at 51.1%, as the United Kingdom public external debt increased by a factor of 2.83 times during the period under review (this compared to: in Germany, public external debt increased by a factor of 1.25 times during the same period, and in France — of 1.64 times).

Figure 3 shows the gross external debt of individual EU countries.

In the Q4 of 2008, eight EU countries (UK, Germany, France, Netherlands, Ireland, Spain, Italy and Luxembourg) accounted for almost 85% of the gross external debt of EU countries, while the remaining twenty countries accounted for about — 15%. In the Q4 of 2019, the shares of the same eight countries remained the same (85.1%), and France (from 12.6 to 14.5%) and Luxembourg (from 5.6 to 9.5%) increased markedly, and had also increased slightly in Ireland's share (from 6.1 to 6.6%), on the background of corresponding decrease of the share in the other five (The decline in UK's share was particularly pronounced — from 23.3 to 20.4%).

Among the rest of the non-EU countries in terms of gross external debt, has declined Austria's share (from 2.1 to 1.6%), Hungary's share (from 0.5 to 0.3%), Greece's share (from 1.3 to 1.2%) and Denmark's share (from 1.5 to 1.2%). At the same time increased Finland's share (from 0.9 to 1.4%), Poland's share (from 0.6 to 0.8%), Cyprus share (from 0.3 to 0.5%), Czech's share (from 0.2 to 0.45%), Romania's share (from 0.2 to 0.3%) и Slovakia's share (from 0.1 to 0.3%).

During the period under review, gross external debt increased in the Czech Republic, Finland, Lithuania, Slovakia, Romania and Poland, Sweden, Belgium, Spain, Italy, Ireland, Luxembourg, Netherlands, Germany,

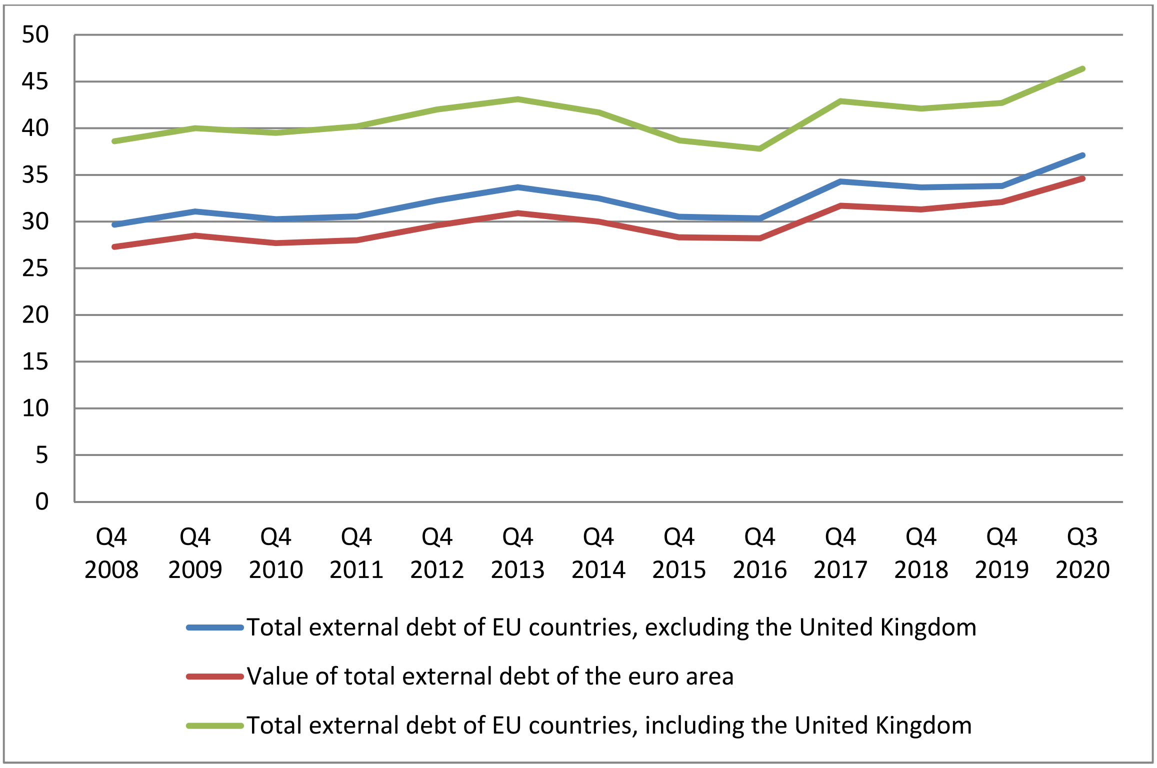

Fig. 1. **Changes of gross external debt of the EU and euro area, USD trn**

Note: Data for the Q3 of 2020 include total Irish external debt for the Q2 of 2020.

Source: xCompiled by the authors based on the database of the World Bank*.

* World Bank website. URL: https://databank.worldbank.org/source/.

France, Malta and Cyprus, while in Estonia, Bulgaria, Latvia, Croatia, Slovenia, Hungary, Portugal, Greece, Denmark, Austria and the United Kingdom external debt are reduced. The largest increases in gross external debt occurred in the Czech Republic (133.2%), Slovakia (125.8%), Luxembourg (88%), Finland (77.4%), Malta (59.5%) and Cyprus (51.5%), as well as in Poland (44.2%), France (28.4%) and Ireland (21.1%). Maximum debt relief were indicated in Hungary (–34.1%), Croatia (–24.8%), Bulgaria (–22.3%), Austria (–17.6%), Slovenia (–12.5%) and Estonia (–11.7%).

FEATURES OF THE EXTERNAL DEBT STRUCTURE OF EU COUNTRIES

It should be noted that, as defined by IMF, a country's gross external debt includes debt owed by different types of resident to different categories of non-resident. Given the fact that corporate borrowers from different countries (including Russia) often create subsidiaries in some EU countries to organize external borrowing, taking advantage of tax and business incentives, the high level of gross external debt of an EU country and its rapid growth can be attributed to the dominance of corporate borrowers in the composition of gross external debt.

Therefore, formal domestic corporate external debt is essentially a foreign corporate external debt that is not guaranteed by the Government of a given country. For example, in the Q3 of 2020, in the United Kingdom, Ireland, the Netherlands, Luxembourg and Cyprus, between 89 and 96% of gross external

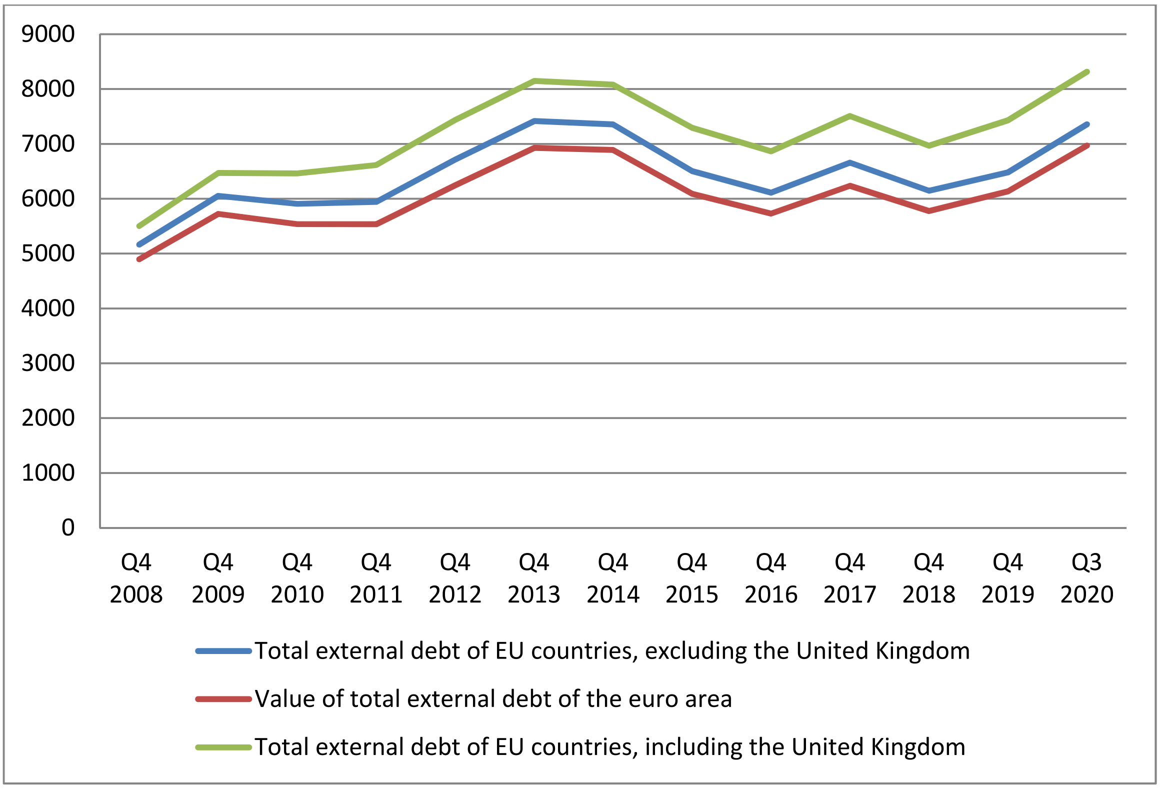

Fig. 2. **Changes of public external debt of the EU and euro area, USD billion**

Note: Data for Q3 2020 include Ireland's public external debt for Q2 2020

Source: Compiled by the authors based on the database of the World Bank*.

* World Bank website. URL: https://databank.worldbank.org/source/.

debt was corporate debt, a large proportion of which were companies registered in those countries by non-residents. In 2008–2020 in the above countries has been a redistribution a given amount of gross external debt: the UK and the Netherlands decreased in proportion to the combined shares of Luxembourg, Ireland and Cyprus. This means that foreign banks and companies are gradually giving preference to smaller European countries for external borrowing.

It is possible to try to determine the approximate share of non-resident companies in the gross external debt of the above countries using Bank for International Settlements (BIS) statistics on international debt securities, which are the main debt instrument in the international financial market. Based on the breakdown of issuers from the five EU countries by place of registration and by nationality[3] and related statistical differences as of Q4 2020 (in the UK value of international debt securities, issued by domestically registered banks and companies, are 1.2 times larger than national securities, 1.7 times — in the Netherlands, 2.6 times — in Ireland and 3.2 times — in Luxembourg), it can be assumed that non-residents' share of gross external debt is about 47–49% for the UK, 57–59% for the Netherlands, 66–68% for Cyprus, 68–70% for Ireland and 72–74% for Luxembourg.

The rapid growth of corporate external debt in EU countries was also linked to the fact that European banks and companies were actively attracting low-cost financial resources from developing and emerging economies. The

[3] BIS website. URL: http://stats.bis.org/statx.

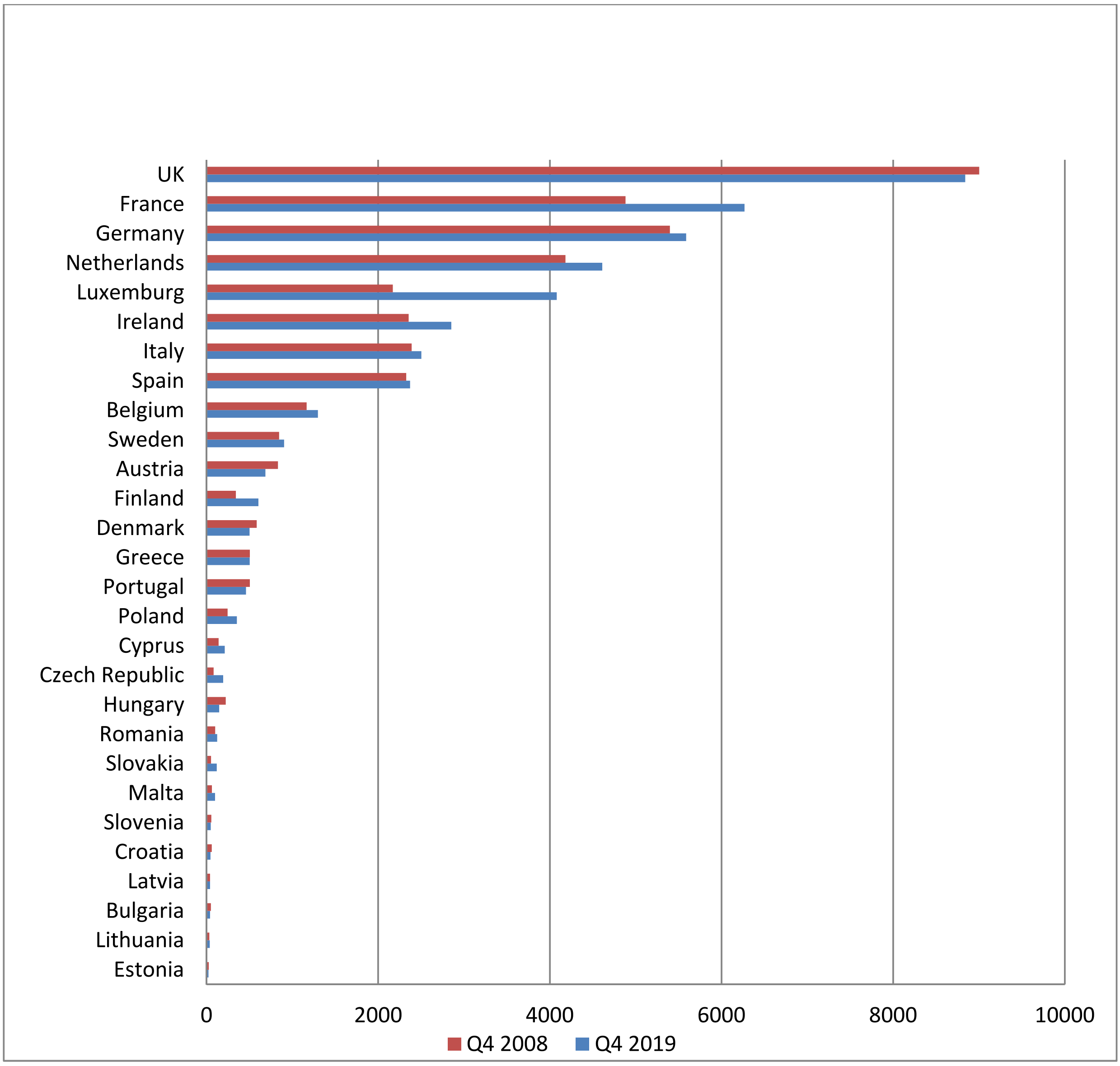

Fig. 3. **Gross external debt of the EU countries in IV quarter of 2008 and IV quarter of 2019, USD billion**

Source: Compiled by the authors based on the database of the World Bank*.

* World Bank website. URL: https://databank.worldbank.org/source/quarterly-external-debt.

money was then invested by the EU corporate sector outside the eurozone, returning in part to developing and emerging markets [3].

The category "gross external debt" excludes counterclaims of a given country to its debtors. With this in mind, the situation has changed significantly (*table 2*).

An analysis of table 2 shows that some countries are classified as net creditors. Among these countries are the Netherlands, Germany, Ireland, Denmark, Luxembourg and others. Other countries, by contrast, are net borrowers. Among them: Italy, France, Austria, Spain, Finland, Sweden, Poland, Cyprus, Greece and others. The number of net creditors is two time less that of net borrowers. The formal Luxembourg is the EU's main net creditor (relative to net external debt to GDP), and the main net borrower is Cyprus, but in value terms, the EU's main net creditor is Germany, and France is a main net borrower. Overall, it should be noted that the introduction of the euro has led to a significant deterioration of the periphery (Greece, Italy), which has left the EU chronically dependent on external financing [4].

This division of countries into two categories is not unique to EU countries but also to the rest of the world. Thus, one group of countries earns on debt, and the other has to bear the cost [5]. As a result, a serious imbalance has emerged within the existing global financial architecture, known as the "external financing imbalance" [6]. This imbalance, together with the imbalance between savings and consumption, as well as the imbalance in national regulation of the international financial market, is a major factor destabilizing the world economy and global finance.

In order to define the external debt of countries various rates can be applied. Of these, the rate "Gross External Debt/GDP" is the most universal. According to the IMF methodology, if the rate is within 30%, the country's external debt is relatively moderate. If the rate is in the range of 30–50%, the country has average external debt. High external debt risk arises if the value of the rate exceeds 50%. "Gross external debt/GDP" rates in EU countries in the Q4 of 2019 are reflected in the *table 3*.

Analysis of *table 3* shows that in almost all EU countries the values of the "Gross external debt/GDP" rate exceed 50%. The exception is Romania, which, although still characterised by an average external debt risk, is already reached close to a critical level of 50%. Excluding the EU countries, where the share of non-resident banks and companies is high, the rest of the EU exceeds the IMF threshold by a factor of 1.5–4.5 times. The situation is particularly alarming in Belgium, Finland, France, Greece and Portugal, where gross external debt is twice or more than GDP. Even at the level of public external debt, IMF thresholds have been exceeded in selected countries (*table 4*).

Table 2

Net external debt to GDP in the EU countries in the III quarter of 2020, %

Country	Net external debt/GDP
Luxemburg	*–2 568.8**
Ireland	*–377.6*
Malta	*–168.6*
Estonia	*–26.1*
Bulgaria	*–26.0*
Netherlands	*–21.0*
Czech Republic	*–19.1*
Hungary	*–17.0*
Germany	*–13.3*
Denmark	*–12.2*
Slovenia	0.4
Lithuania	3.0
Croatia	16.0
Belgium	16.1
Latvia	16.4
Poland	18.0
Austria	18.4
Romania	20.4
Sweden	30.5
Slovakia	31.4
France	49.4
Italy	57.2
Finland	57.8 (Q2 of 2020)
Spain	83.5
Portugal	88.1
Greece	156.8
Cyprus	347.0

* – Countries in italics are net creditor.

Source: Compiled by the authors based on the database of the Eurostat**.

** Eurostat website. URL: https://ec.europa.eu/eurostat/databrowser/.

In the Q4 of 2019 the rate of "sovereign external debt/GDP" in the EU averaged 38.1% (and excluding Greece — 33.6%), and euro-zone countries — 47.6% (excluding Greece — 41.3%). If one focuses at the average level, it is only by the size of the public external debt (excluding corporate external debt) that EU countries already have an average external debt burden.

To measure the external debt of countries the rate of "gross external debt / volume international reserves" is also used quite frequently. *Figure 4* shows the extent to which gross and public external debt in EU countries was met by international reserves in the Q4 of 2019.

Analysis of *figure 4* shows that the coverage of sovereign external debt in EU countries by international reserves differs significantly (from 0.025% in Luxembourg and 77.3% in the Czech Republic on gross external debt and 2.5% in Greece to 457.7% in Bulgaria on public external debt). On average, in EU countries in the Q4 of 2019, official international reserves covered only 3.6% of total external debt and 20.5% — of public external debt. In comparison, the same indicators were 2.6% and 13.6% in the eurozone.

For gross external debt, the Czech Republic and Bulgaria had the highest coverage, while Ireland and Luxembourg — had the lowest coverage. Coverage in the most economically advanced EU countries was 7.0% in Italy, 4.0% in Germany, 3.2% in Spain, 3.0% in France, 2.0% in UK.

For public external debt, the highest level of coverage was observed in the Czech Republic (4.9 times higher), Bulgaria (4.5 times higher), minimum level — in Greece (2.5%) and Ireland (3.4%). In the EU's most advanced economies, public external debt coverage was 18.6% in the UK, 18.4% — in Italy and Germany, 12.2% — in France, 10.1% — in Spain. It should be noted that public external debt in EU countries accounted for on averaged 17.4% in the Q4 of 2019, and 19.1% of total external debt in the eurozone, however,

Таблица 3 / Table 3

Соотношение совокупного внешнего долга и ВВП в странах ЕС в IV квартале 2019 г., % / Gross external debt to GDP in the EU countries in the IV quarter of 2019, %

Country	Gross external debt/GDP
Luxemburg	5653.0
Cyprus	938.9
Ireland	733.7
Malta	703.2
Netherlands	460.4
UK	310.4
Belgium	249.0
Greece	237.3
Finland	237.0
France	230.3
Portugal	193.7
Spain	169.8
Sweden	167.5
Austria	153.3
Germany	145.3
Denmark	142.2
Italy	125.1
Latvia	116.5
Slovakia	112.3
Slovenia	92.1
Hungary	88.9
Czech Republic	78.6
Croatia	76.0
Estonia	73.9
Lithuania	68.2
Poland	59.1
Bulgaria	57.6
Romania	47.5

Source: Compiled by the authors based on the database of the World Bank*.

* World Bank website. URL: https://databank.worldbank.org .

the difference in the share of external public debt in gross external debt of EU countries was very large — from 0.18% in Luxembourg to 66.6% — in Greece.

THE PUBLIC DEBT PROBLEM IN EU COUNTRIES

Taking into account domestic public debt in the Q4 of 2019, the average public debt in the EU (including Great Britain) was 79.2% of GDP (excluding Great Britain — 77.6%) and the eurozone — 84.0%.[4] As of the Q3 of 2020, the average level of public debt in the EU increased to 89.8% and in the euro area — to 97.3%. Although in practice there is not yet a single indicator for determining the optimal level of sovereign debt [7], these values are markedly higher than the maximum allowable level of public debt at 60% of GDP as stipulated in the Maastricht Treaty.

The rapid growth of the sovereign debt of many developed countries (including EU countries) highlights the issue of an acceptable level of public debt [8]. According to N. Roubini, the restrictive and practical criterion of a country's capacity to pay is that the debt-to-GDP ratio (or the ratio of debt to other repayment sources, such as export earnings or government revenues) should not increase continuously [9].

Table 5 shows the evolution of the ratio of total public debt to GDP in selected EU countries between Q4 of 2019 and Q3 of 2020.

Analysis of *table 5* shows that during 2020 the share of public debt in relation to GDP increased in all EU countries without exception. The main reason for the rapid increase in public debt in EU countries appears to have been the coronavirus economic crisis. Borrowing increased while GDP declined, which led to this result.

As of the Q3 of 2020, the maximum allowable level of public debt is exceeded in

Table 4

Public external debt to GDP in the EU countries in the IV quarter of 2019, %

Country	Public external debt/GDP
Greece	160.0
Cyprus	78.8
Portugal	68.0
Belgium	65.0
France	56.9
Finland	56.3
Austria	55.7
Spain	53.1
Italy	47.3
Slovenia	45.2
Ireland	42.5
UK	33.6
Lithuania	33.5
Germany	31.5
Latvia	31.4
Slovakia	30.9
Hungary	25.3
Croatia	24.0
Netherlands	22.8
Poland	19.4
Romania	17.8
Czech Republic	12.3
Sweden	11.0
Luxemburg	10.7
Denmark	10.0
Bulgaria	9.0
Estonia	7.5
Malta	7.3

Source: Compiled by the authors based on the database of the World Bank*.

[4] Eurostat website. URL: https://ec.europa.eu/eurostat/databrowser.

* World Bank website. URL: https://databank.worldbank.org.

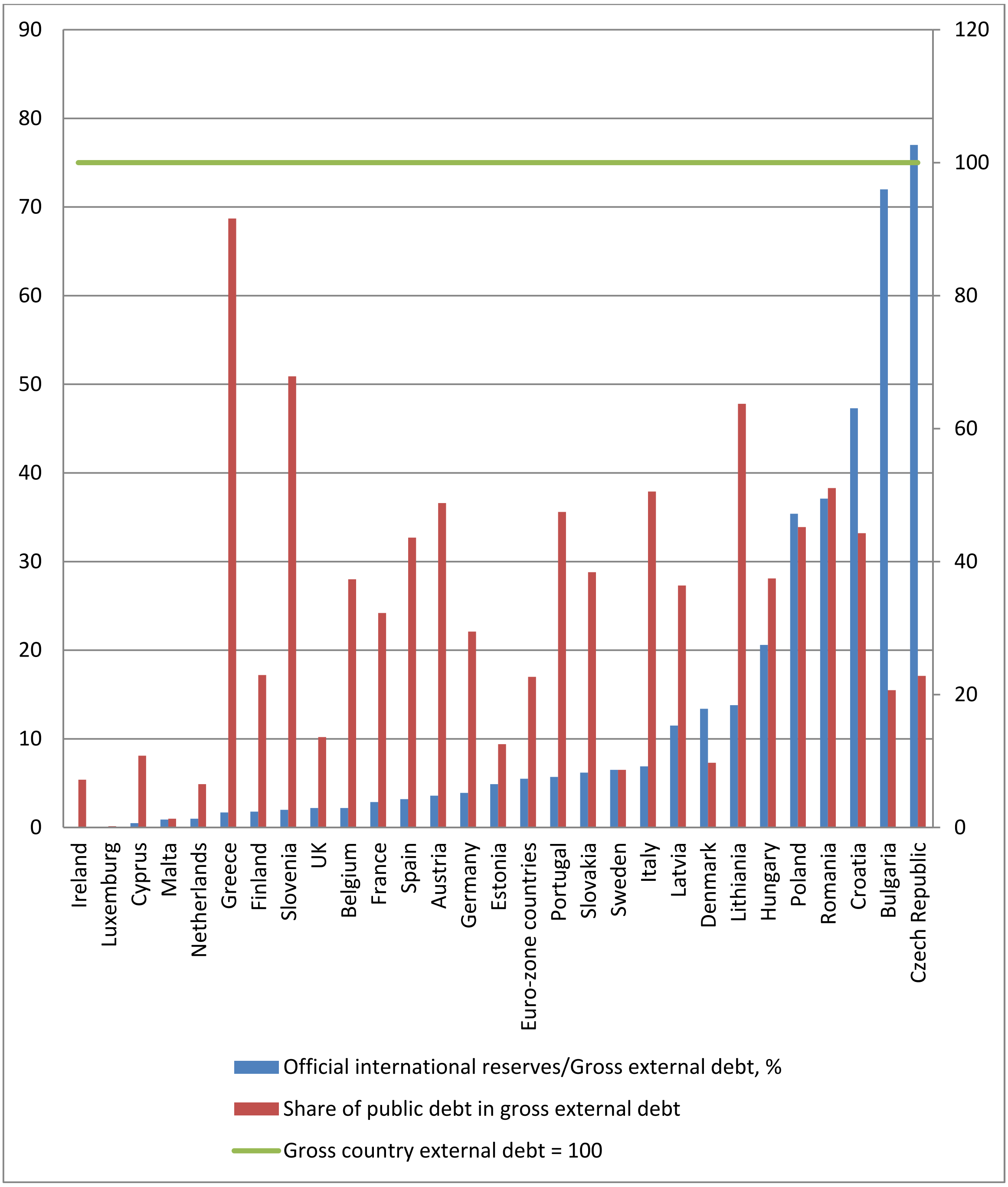

Fig. 4. **International reserves coverage of gross and public external debt in the EU countries in the IV quarter of 2019**

Source: compiled by the authors based on the databases of the World Bank and IMF*.

* World Bank website. URL: https://databank.worldbank.org/embed-int/; IMF website. URL: http://data.imf.org/regular.aspx.

EU 15 out of 27. The situation is worst in seven countries (Greece, Italy, Portugal, Cyprus, France, Spain and Belgium), where total public debt exceeds the 1.9–3.3 –fold limit. According to author's calculations, the share of Cyprus, France, Greece, Italy, Portugal, Spain and Belgium in total public debt in the Q4 of 2019 was 54.0% — including the UK and 65.0% —

excluding the UK.[5] During 2020, this share remained almost unchanged (64.1% in the Q3 of 2020).

However, if the shares of Belgium, Greece, Portugal and Cyprus combined are only 9.3%, the share of Italy (21.1%), France (21.8%) and Spain (10.7%) in total public debt of EU countries is a serious threat to financial and economic stability in the eurozone and in the EU as a whole.

The weight of external and domestic borrowing is important for analysing the composition of public debt in EU countries. *Figure 5* shows the share of domestic and external debt in total public debt in selected EU countries.

As *figure 5* shows, the overall picture is rather mixed, and it is very difficult to discern certain patterns in the composition of the public debt of individual EU countries. In 14 EU countries, the structure of public debt is dominated by external debt, which accounts for more than 50%. The unconditional leader is Greece — 80.5%. External debt structure of Lithuania, Cyprus and Austria is very high (it accounts for over 70% of total public debt). External debt accounts from 61 to 69% of public debt in Finland, Ireland, Belgium, Estonia, Latvia and Slovenia. In Germany, external debt accounts for almost 55% of public debt, in Portugal — 53.2%, in Slovakia — 52.8%, in France — 51.8%. In Spain and Luxembourg, the ratio of external to internal public debt is approximately equal.

Malta dominates internal debt structure by 87.3%, followed by Sweden (82.2%). In Croatia and Poland, internal borrowing accounts for almost ¾ public debts. In the Czech Republic, Denmark and Italy, internal public debt fluctuates between 67–68%, while in the Netherlands, Bulgaria, Hungary and Italy internal debt is between 58.2–63.4%, in Romania, internal debt accounts for about — 55%.

[5] See ibid.

Table 5

Gross public debt to GDP in the EU countries in the IV quarter of 2019 and in the III quarter of 2020, %

Country	Gross public debt/GDP, Q4 of 2019	Gross public debt/GDP, Q3 of 2020
Greece	180.5	199.9
Italy	134.7	154.2
Portugal	117.2	130.8
Cyprus	94.0	119.5
France	98.1	116.5
Spain	95.5	114.1
Belgium	98.1	113.2
UK	85.3	-
Croatia	72.7	86.4
Austria	70.5	79.1
Slovenia	65.6	78.5
Hungary	65.5	74.3
German	59.6	70.0
Finland	59.3	66.9
Ireland	57.4	62.0
Slovakia	48.5	60.8
Poland	45.7	56.7
Netherland	48.7	55.2
Malta	42.4	53.7
Lithuania	35.9	45.9
Latvia	36.9	44.6
Romania	35.3	43.1
Denmark	33.3	42.4
Sweden	35.1	38.4
Czech Republic	30.2	38.4
Luxemburg	22.0	26.1
Bulgaria	20.2	25.3
Estonia	8.4	18.5

Source: compiled by the authors based on the database of Eurostat*.

* Eurostat website. URL: https://ec.europa.eu/eurostat/databrowser.

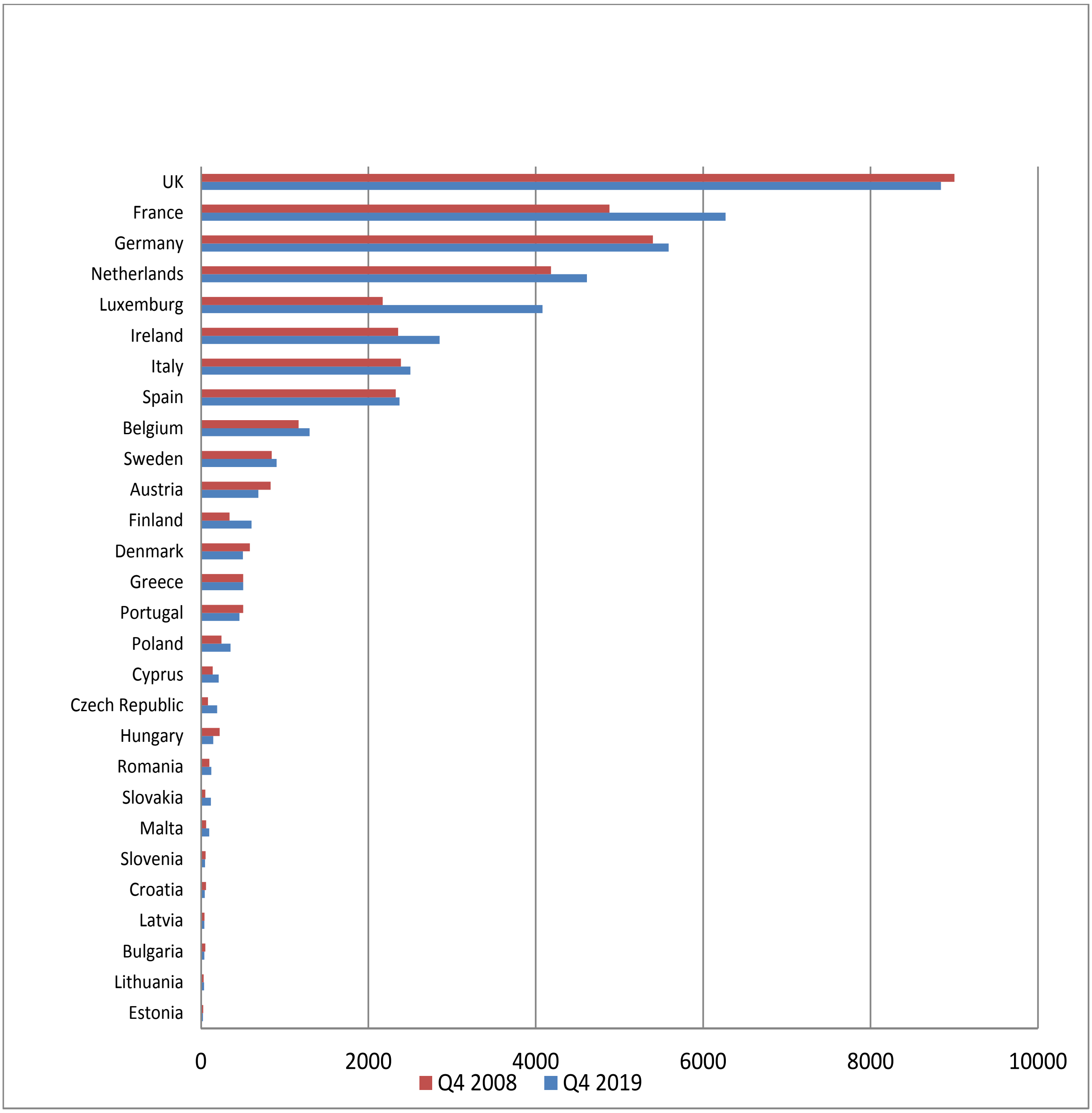

Fig. 5. **The ratio of external and internal debt in the total amount of public debt in individual EU countries in the III quarter of 2020, %**

Source: Calculated and compiled by the authors based on the database of the World Bank*.

* World Bank website. URL: https://databank.worldbank.org/embed-int/

In general, according to author's calculations, the ratio of internal and external debt to total EU public debt in the fourth quarter of 2019 was 53.2/46.8 on average (including Great Britain) and 51.3/48.7 (excluding Great Britain).[6] In the Q3 of 2020, the ratio changed slightly in favour of internal debt — 51.8/48.2 (excluding the United Kingdom).

These data indicate a fairly high degree of dependence of the EU economy on international debt financing, which on average

[6] See ibid.

accounts for just under half of all government borrowing. In addition, it should be noted that a large proportion of EU international creditors are from EU member countries. For example, according to the World Bank, intra-eurozone borrowing accounted for 52.2% of eurozone external debt in the Q3 of 2020. Based on this, it can be concluded that EU external debt financing is based on the redistribution of funds among EU member countries.

FEATURES OF THE STRUCTURE OF SOVEREIGN EXTERNAL DEBT OF EU COUNTRIES

The authors' analysis of World Bank statistics showed that the composition of public external debt of EU countries is dominated by long-term debt. In the Q3 of 2020, such countries accounted on average about 94%. For countries such as Bulgaria, Croatia, Luxembourg, Poland and Cyprus, government long-term debt was 99.9–100.0%. The exception is Malta, where government long-term debt was 72.2%. The existence of large public short-term external debt implies the establishment of appropriate international reserves to pay off and debt servicing for the coming months. At the same time, the debtor country depends on the current international financial market conditions for the refinancing of external debt, which in the event of a crisis may be extremely negative.

The EU's long-term debt is largely composed of debt securities. In 12 countries the proportion ranges from 90 to 100%, in 8 countries — from 80 to 90% and in 3 countries — from 65 to 75%. In Portugal, Bulgaria and Cyprus they account for about 60%, with the exception of Estonia (33.5%) and especially Greece (7.5%), where the majority of loans are of various types in the structure of sovereign external debt.

The increase in external debt cannot come only from transactions in the international financial market. The access of non-residents to local financial markets as a result of the liberalization of the regulation of internal financial transactions has enabled various national financial institutions and non-financial institutions to increase their external debt by selling internal debt securities without using international debt market instruments.

Within the EU, the ratio of the two determinants of external debt differs significantly. As a country's gross external debt is formed with corporate residents who can represent the interests of foreign banks and companies, it is difficult to properly assess the impact of two factors on the level of real internal external debt. In view of this, an analysis was made by the authors in the sovereign external debt segment.

Analysis of the share of government international debt securities (regularly prepared by the Bank for International Settlements)[7] in the structure of total volume of government debt securities purchased by non-residents identified those EU countries, where in the Q3 of 2020, sovereign external debt was almost entirely formed by a cross-border factor. These include Bulgaria, Latvia, Lithuania, Croatia, Romania and Cyprus, i.e. primarily developing countries in Eastern Europe and one developed country in the EU category of small countries.

The largest and most developed EU countries are more likely to generate sovereign external debt through an intra-border factor, when debt securities are purchased by non-residents in national domestic financial markets. In this group of countries, the share of public international debt securities in total government debt securities purchased by non-residents ranged from 0.8% in France to 11.8% in Italy in the Q3 of 2020. The exception is Sweden, where the corresponding figure is 86%.

[7] BIS website. URL: https://stats.bis.org/statx.

CONCLUSION

1. In the post-crisis period, the external debt problem of EU countries has not been resolved. Moreover, according to Estonian Finance Minister M. Helme, even before the coronavirus, European countries were in a much more difficult situation than during the 2008 crisis. Both the global and European economies are facing higher debt burdens than they were 10 years ago.[8] Despite the decline in the post-crisis share of total external debt of EU countries in the composition of world external debt, they still have high levels of external debt, which continue to grow steadily. Seven EU countries are among the leading countries in total external debt, in terms of volume of sovereign external debt, six EU countries are among the top 10 world leaders (France, Germany, Italy, Spain, Belgium and Greece). According to some experts, the lack of a single European fiscal authority of financing of European Union countries remains a main problem, capable of providing EU economic entities with the necessary financial resources [10].

2. The 2020 economic crisis related to the coronavirus pandemic has exacerbated the external debt problem of EU countries: according to the World Bank, between the Q4 of 2019 and the Q3 of 2020, global external debt increased by 5.7%, while the external debt of the EU countries increased by 16.3% (the eurozone by 7.9%). A similar situation exists with external public debt: while the global rate increased by 6.16%, the external public debt of EU countries increased by 13.53% (euro area — by 13.59%).

3. Gross and sovereign external debt of EU countries is highly concentrated. Eight countries account for almost 84% of gross external debt of EU countries, and only seven EU countries account for almost 83% of public external debt.

4. The composition of EU countries' net external debt is also differentiated by a marked imbalance. Including counter debts, one group of countries acts as net lenders and the other as net borrowers. The number of net lenders is two times less that of net borrowers.

5. Almost all EU countries are classified as having a very high external debt burden in terms of "external debt / GDP". The situation is particularly difficult in Belgium, Greece, France, Finland and Portugal, where total external debt is twice or more than GDP. If focus only on average level of sovereign external debt, EU countries are already in the category of average external debt burden. The heavy external debt burden compels debtor states to permanently refinance their debt obligations, significantly increasing risk, connected with unfavourable external financing conditions to service the country's external debt. In countries where external debt amounts to more than 100% of annual GDP, there is a very high risk of irregular repayment and servicing of external debt if external refinancing is stopped (for example, by the European Central Bank).

6. Due to the size of internal public debt, 15 EU countries out of 27 exceeded the maximum allowable level of total public debt. The situation is worst in seven countries (Greece, Italy, Portugal, France, Spain and Belgium), where total public debt exceeds the 1.9–3.3 — fold limit. In author's view, the rapid growth of public debt in many European countries poses a serious threat to financial and economic stability in the euro area and in the EU as a whole.

7. An analysis of the dual composition of external debt in total public debt of EU countries shows a fairly high degree of dependence of the EU economy on international debt financing. In some EU countries, sovereign external debt was almost entirely formed by a cross-border factor.

[8] Interfax website. URL: https://www.interfax.ru/business/.

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The article was received on 27.02.2021; revised on 09.03.2021 and accepted for publication on 15.03.2021.
The authors read and approved the final version of the manuscript.