Global sovereign debt concerns

Investors globally are concerned, and not just about the Eurozone, but about sovereign debt in the UK, the US and Japan. The nearby table (Source: Economist, Feb 11, 2010) shows a multi-factor ranking of "sustainability of debt position" for most European countries plus US, Canada, Japan and Australia.

Eventually the US, UK and Japan will become much more problematic unless some dramatic fiscal and monetary policy changes are made.

Although the British pound has flirted with a 30% decline from the 2008 peak, the UK's longer term structure of its debt issuance has given the British government the longest average time to maturity - 13.7 years average. This is much longer than the US with a 4.8 year average.

On a positive note, areas of stability in Europe do exist. Switzerland and the Nordic countries have been relative safe havens, both fiscally and in equity markets. Sweden and Denmark are EU countries not using the euro, while Switzerland is outside the EU. Estonia is actually eager to join the euro, having just been approved for membership in 2011. Australia and Canada are also in better shape, as they are major commodity exporters.

The table shows the main sources of vulnerability for a range of OECD countries. The first column shows each country's primary deficit or surplus adjusted for the economic cycle. The second column shows the OECD's forecast for each country's net debt-to-GDP ratio in 2010. The third column measures the gap between bond yields on debt of average maturity for each country and the OECD's forecasts for growth in 2010 and 2011. The bigger the negative number, the bigger the problem (although longer-dated debt tends to pay higher yields, so this measure may disadvantage countries which have less refinancing risk). The countries are ranked by adding together their relative league-table positions on these three measures, a rough gauge of the scale of their debt problems.

The fourth column adds another source of risk—the average time to maturity of outstanding government debt. Countries with shorter maturities are more likely to face refinancing problems than those with longer ones. Two big borrowers stand out on this measure: America, for its short debt maturities, and Britain, which can draw some comfort from the lengthy duration of its debt. (Sources: http://www.economist.com/node/15498265?story_id=15498265 & http://www.forexblog.org/category/politics-policy)

From shakiest to safest

Countries ranked* by sustainability of debt position

	% of GDP, 2010, forecast			
	Primary budget balance, cyclically adjusted†	Net debt†	GDP growth less cost of finance‡, %	Sovereign debt, years to maturity§
Greece	-4.6	94.6	-3.2	7.7
Ireland	-7.0	38.0	-5.1	6.8
Britain	-6.7	59.0	-1.5	13.7
Japan	-5.9	104.6	0.1	5.4
Portugal	-2.7	62.6	-2.3	6.5
Spain	-4.3	41.6	-3.0	6.7
France	-3.8	60.7	-0.7	6.9
United States	-7.0	65.2	1.4	4.8
Poland	-5.3	32.4	-0.7	5.2
Italy	2.2	100.8	-1.0	7.2
Hungary	4.2	62.1	-3.5	3.3
Belgium	1.3	85.4	-0.6	5.6
Netherlands	-1.4	36.5	-0.6	5.4
Austria	-0.9	42.9	-0.6	7.0
Germany	-1.2	54.7	-0.5	5.8
Czech Republic	-1.9	5.3	0.0	6.4
Norway	-7.8	-143.6	2.4	4.9
Canada	-2.7	32.6	2.0	5.2
Denmark	-1.4	1.6	0.1	7.9
Australia	-0.7	-1.3	0.2	5.0
Switzerland	0.4	11.0	0.5	6.7
Finland	-0.9	-46.4	0.9	4.3
Sweden	-0.3	-13.1	1.5	6.4

*Based on the sum of the countries' rank for the first three debt measures †General government ‡Forecast average nominal GDP growth for 2010-11 less latest yield on government bonds of average maturity §Weighted average

Sources: Bloomberg; EIU; OECD; *The Economist*