Ressort: Wirtschaft und Finanzen

Italy's public debt dropped to 2.3167 trillion euros

Rome, 15.02.2019 [ENA]

The Bank of Italy, according to the Italian News Agency ANSA, communicated today that Italy's public debt dropped to 2.3167 trillion euros in December, down from the record high of 2.3454 reached the previous month. Italy is one of the most indebted countries in the world. The highest ratios of government debt to GDP at the end of the second quarter of 2018 (Eurostat data), were recorded in Greece (179.7%),

Italy (133.1%) and Portugal (124.9%), and the lowest in Estonia (8.3%), Luxembourg (22.0%) and Bulgaria (23.8).
In this case, it is interesting to recall the so called Debt Sustainability Analysis (DSA), the analytical framework that helps assessing a country's capacity to service its public debt over time, while financing its policy objectives without compromising its financial stability.
The International Monetary Funds and the European Commission have designed their own methodological frameworks, utilized both in their economic surveillance activities and in provision of financial support.

In the EU legislation, Article 6 of EU Regulation (EU) No 472/2013 on "surveillance of Member States with serious difficulties with respect to financial stability" demands the European Commission to evaluate whether the public debt of a Member State requesting financial assistance is sustainable. Also Article 13.1 of the Treaty of the European Stability Mechanism (ESM) requires "to assess whether public debt is sustainable. Where suitable and possible, such an assessment is estimated to be conducted together with the IMF". Though they are based on models and assumptions that vary across institutions and time, for the assessment of the debt sustainability, two indicators are commonly used:

The general government Debt-to-GDP ratio and the general government Gross Financing Needs-to-GDP (GFN-to-GDP), which quantifies the country's debt payment obligations (principal plus interests, plus new primary deficit), in relation to its economy.
This indicator takes into account the debt structure (maturity, interest rates and interest deferrals).
The two indicators are interconnected, though the GFN-to-GDP ratio better summarizes the country's short- and medium-term financial stability risks. However, it is difficult to establish numerical thresholds for debt sustainability.

The debt-to-GDP ratio, thresholds differ across countries, depending on economic fundamentals and debt management capabilities (e.g. Argentina defaulted when its debt was around 60% of GDP, while Japan

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persists to sustain debt of more than 200% of GDP).
The IMF benchmark is set at 85%. Regarding the GFN-to-GDP indicator, the IMF guidelines indicate that the ratio would need to remain below 15%-20% to ensure debt sustainability. In its statement of May 2016, the Eurogroup had agreed to assess debt sustainability for Greece in terms of the GFN-to-GDP ratio, which "should remain below 15% for the medium term, and below 20% of GDP thereafter." differentiate DSA as a standard instrument of fiscal surveillance in normal times

("economic surveillance DSAs") and as a tool for taking decisions about the provision of financial support ("hard DSAs"). Given the fundamental relationships between debt, deficits, interest rates
and growth, the result of a DSA depends eventually on the assumptions about the parameters. One caveat of this approach is that it applies empirical regularities from the world-wide economies and in the pre-euro period to estimate such parameters but this may be misleading for euro area countries.

Bericht online lesen:
https://sportaktuell.en-a.de/wirtschaft_und_finanzen/italys_public_debt_dropped_to_23167_trillion_euros_-73586/

Redaktion und Verantwortlichkeit:
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