2013-06-07

PRESS RELEASE

Size and dynamics of debt positions in Belgium and in the euro area
(Article for the June 2013 Economic Review)

The current financial crisis has once again shown that the inherent procyclicality of lending can trigger financial cycles with a potentially substantial impact on the real economy. During a financial boom – a self-reinforcing process of rising asset prices, easy credit and growing leverage – such large imbalances build up that a financial bust ensues in the form of a vicious circle of falling asset prices, tighter lending policy and deleveraging. Although credit expansion does not always automatically lead to a financial bust, excessive debt levels or debt accumulation will frequently play a crucial role in such a reversal. This turnaround is often accompanied by a financial crisis that not only jeopardises financial stability but also leads to a deep and protracted recession.

Against that background, this article analyses the size and dynamics of the debt positions of the various non-financial sectors in Belgium and in the euro area. As a result of the significant debt accumulation by both the private and the public sector in the past decade, the total consolidated gross debt ratio of the non-financial sector in both Belgium and the euro area has reached an historically high level. In Belgium, that debt ratio grew from 224% of GDP at the beginning of 1999 to 249% of GDP at the end of 2012, while in the euro area it increased from 173% of GDP to 233% of GDP. However, the debt level and the debt build-up – which was driven largely by easy access to cheap finance, rising house prices and booming investment in fixed capital – vary widely between countries and between sectors. At the end of 2012 households in Belgium still had a lower debt ratio than those in the euro area, though the difference has diminished in recent years. The consolidated debt ratio of Belgian non-financial corporations has also risen faster than the euro area average, but most of that increase is due to lending by associated foreign non-financial corporations, a phenomenon that is linked to the strong presence of non-financial holding companies and finance companies of multinationals. Belgium's performance in terms of public debt is worse: though the debt ratio has not risen substantially, it still exceeds the euro area average.

This article proceeds to examine whether the current debt positions entail macroeconomic risks. A sustainability analysis of the debt positions of the non-financial sectors identifies those countries and sectors where balance sheet repair is most needed. The analysis considers not only the level of the debt ratio and the speed of the debt accumulation, but also several other factors such as the proportion of short-term debt, the interest rate burden and the value of the financial assets held by the sectors in question. Such a multidimensional analysis ranks Belgium among the stronger euro area countries, especially as a result of the financial position of the non-financial private sector, and identifies Portugal, Ireland, Greece and Cyprus as the most vulnerable countries.

In some of those countries and in Spain, there has been some deleveraging by households, and to a lesser extent by non-financial corporations, since mid-2010. However, there is little doubt that a number of euro area countries will need to lower their debt ratio (further) in the coming years. It is advisable for this deleveraging process to take place gradually, in order to dampen the financial accelerator and limit the negative impact on GDP growth. In the current context, that is an important point of interest because there is little if any scope for offsetting the negative impact by a more expansionary monetary policy, a strongly counter-cyclical fiscal policy or a more dynamic foreign demand. Safeguarding and/or boosting the structural growth potential of the economy remains the principal option, as the driving force behind a trend towards controlled passive deleveraging propelled by higher GDP growth. It is therefore vital for the euro area to endeavour to improve competitiveness, eliminate financial fragmentation (e.g. via the banking union) and restore confidence.

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