1 Foreign public debt in Euro area countries

Introduction

Public debt is one of the main categories used to analyze a state's debt. Growing public debt, and in particular an increase in foreign liability, increases the risk of insolvency of the country. In the past it was thought that the problem of potential insolvency concerned only those developing countries. That situation has changed, as we are observing solvency problems in several of the developed countries of the Eurozone.

The risk of a debt crisis depends not only on the level of public debt, but also on its structure. The growing share of foreign investors in the structure of creditors increases the risk associated with a sudden and massive outflow of non-residents from the domestic financial market. Since early 2000s we have seen an increased share of foreign debt in the public debt of Eurozone countries. One of the main reasons was the creation of a common currency. The financial crisis of 2008–2009 slowed down this trend in most of the Eurozone countries.

The aim of this article is to present the role of foreign liability in the public debt of Eurozone countries. The first part discusses the causes and effects of the acquisition of foreign capital by public authorities. The second part deals with the main trends in foreign public debt of the Eurozone countries, with particular emphasis on the participation of foreign lenders. This study uses data from the European Central Bank and Eurostat. The research covers the size of public debt in relation to GDP and its structure, as well the size of foreign debt, both nominal and relative to GDP.

1. Attracting foreign capital by public authorities

Similarly to other sectors in the economy, the government sector is one of the actors in the financial markets, seeking funds to balance the excess of government expenditure over income. The so incurred debt has certain implications for the economy, as it is necessary to minimize the various risks that accompany borrowing.

The creation of a stable debt structure requires, amongst others, decisions on the structure of the debt, i.e. which investors should purchase securities issued by the government or lend money to public authorities. This means adopting an appropriate balance between domestic and foreign debt. The division between domestic and foreign debt is not clear. In the literature this distinction is used both for the type of investor (resident/non-resident) and transaction currency (national currency/foreign currency) or place of transaction (domestic/foreign market). For the purposes of this article, the criterion is the type of investor, in accordance with the definition used by international organizations.[1] According to this criterion, foreign debt is that debt which is held by foreign investors. In this case, it can be the result of both public authorities raising funds from the international markets, as well as non-resident investment in domestic treasury securities (TS), regardless of the currency of the transaction. It is worth noting that the scale of the search for capital by the public sector in foreign markets is indicated, above all, by the structure of the debt according to the criterion of the market from which the capital is obtained, with the debt structure, accordingly the origin of the investor (resident/non-resident), reflects the tendency of foreign investors to acquire treasury securities.[2] It is largely dependent on the situation in the international market (e.g. on the monetary policy in the US). Other factors encouraging foreign investors to purchase treasury securities are

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[1] *External Debt: Definition, Statistical Coverage and Methodology*, BIS, IMF, OECD, World Bank, Paris 1988.

[2] T. Uryszek, *Inwestorzy zagraniczni na rynku polskich skarbowych instrumentów dłużnych*, "Przegląd Zachodniopomorski" 2013, T. XXVIII, Vol. 2, No. 3, p. 4.

primarily rate differential and the level of investment risk in the country, the size and liquidity of the financial market, as well as its infrastructure.[3]

In making the choice between domestic and foreign sources for financing borrowing needs, the government must take into account not only the direct costs and risks associated with the specific mode of financing, but also the consequences posed by the selection of any of the aforementioned options for the entire economy, and in particular the impact on the level of inflation and interest rates, exchange rate stability, the size of foreign exchange reserves, and the development of the domestic financial market.[4]

The growing share of foreign debt in public debt, primarily allows a reduction in debt servicing costs. This is due to the possibility of issuing bonds on the foreign market with lower profitability than in the domestic market, and borrowing low-interest loans from international financial institutions. Also, investment by non-residents in treasury securities issued on the domestic market decreases their interest rates.[5] In addition to the interest rate, the cost of servicing liabilities issued abroad in foreign currencies depends on the exchange rate. An important factor in the choice between domestic and foreign debt is not only the level of interest rates in the home country and abroad, but also the possibility of raising capital on the domestic financial market. On underdeveloped domestic financial markets, governments sometimes have difficulty with issuing bonds with adequate profitability, especially long-term bonds. External financing of public debt also avoids the crowding out effect, which consists in reducing domestic investment as a result of the absorption of available funds by the public sector. However, the growing share of foreign investors in

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[3] A. Sinaert, *Foreign Investment in Local Currency Bonds. Considerations for Emerging Market Public Debt Managers*, The World Bank, Policy Research Working Paper 2012, No. 6284, p. 6.

[4] More on this subject in S. Gray, D. Woo, *Reconsidering External Financing of Domestic Budget Deficits: Debunking Some Received Wisdom*, IMF Discussion Paper 2000, No. 8.

[5] S. Arslanalp, T. Tsuda, *Tracking Global Demand for Emerging Market Sovereign Debt*, IMF Working Paper 2014, No. 39, p. 4.

the debt structure can be dangerous for the economy, because first of all it increases the risk associated with a sudden and massive outflow of non-residents from the domestic financial market. This can lead to payment difficulties, and even a debt crisis. This is because foreign investors are considered a less stable source of funding than the domestic ones. Due to the asymmetry of information in relation to domestic investors, they are more likely to depend on the information from credit rating agencies and are susceptible to panic.[6] In crisis situations they are more eager to transfer capital to foreign markets. With a high share of foreign investors in the structure of public debt, the sudden sale of assets by foreign investors can cause problems with debt refinancing, especially in the case of information regarding the growing risk of default. It is worth noting that the entities responsible for public debt management have a limited ability to shape the structure of public debt in the context of this risk when the government securities can be traded freely between residents and non-residents on secondary markets.

Hence it is important to diversify the sources of financing public debt (institutional investors, central banks, public institutions, pension funds, insurance companies). The more diversified the structure of the investors, the less risk of their herd behavior.

If an increase in foreign debt is a consequence of the issuance of debt instruments denominated in foreign currencies outside the country, it also contributes to the formation of exchange rate risk. In this situation, the weakening of the national currency increases the value of debt in terms of national currency. In a situation of dependence on only one currency, any fluctuations in that exchange rate, and especially speculation in the market, may adversely affect the finances of the state.

The distinction between domestic and foreign debt is also important due to the redistribution of income resulting from the cost of debt

[6] D. Lojsch, M. Rodrigue-Vives, M. Slavik, *The Size and Composition of Government Debt in Euro Area*, Occasional Paper Series ECB 2011, No. 132, p. 33.

servicing. Covered by taxpayers, these costs become the income of foreign entities.[7]

2. The importance of foreign investors in financing the public debt of euro area countries

From 2000–2015 the average ratio of public debt to GDP in the euro area increased from about 68 to 91%. Deterioration of public finances in these countries coincided with the financial crisis. In order to mitigate those effects, actions were taken in fiscal policies consisting in adopting fiscal packages of considerable value, mainly to recapitalize the banking sector. In 2008–2009, the largest increases in debt ratio to GDP were recorded in Ireland, Greece, and Latvia (in the latter it remained below the threshold). In 2009 the highest levels of debt were recorded in Greece and Italy. After reaching a peak in 2014, the ratio of debt to GDP in the euro area declined in 2015 for the first time since the outbreak of the financial crisis, although it remained at a high level. That decline in debt was supported by favorable changes in the difference between interest rates and economic growth rates, as well as the appearance of small primary surpluses in national budgets (i.e. excluding debt servicing costs). That improvement was also due to a reduction in the public deficit to the debt, reflecting among other things, the proceeds from privatization.[8] However, in 7 countries the debt-to-GDP ratio increased. Today, in all countries (apart from Estonia, Latvia, Lithuania, Luxembourg, and Slovakia) it exceeds the threshold value of 60% GDP, as set out in the Maastricht Treaty.

In 2000–2015, more and more of the funds borrowed by public authorities came from abroad, mainly from investors interested in securities issued by governments.[9] In a number of euro area countries, this increased the value of the public foreign debt, both nominally and in

[7] M. Labonte, J. Nagel, *Foreign Holdings of Federal Debt, Congressional Research Service*, RS22331, 2016, p. 6.

[8] European Central Bank, *Annual Report 2015*.

[9] The structure of public debt is dominated by debt securities. In 2015 their share in the euro area was about 79%. Cf. *Structure of government debt*, Eurostat

Table 1
Public debt in euro area countries (% of GDP)

	2000	2005	2007	2008	2009	2010	2013	2014	2015
Euro area*	**67.9**	**69.2**	**64.9**	**68.5**	**78.3**	**83.8**	**93.4**	**92.1**	**90.7**
Belgium	108.8	94.6	87.0	92.5	99.6	99.7	105.1	106.7	106.0
Germany	58.9	66.9	63.5	64.9	72.4	81.0	77.4	74.9	71.2
Estonia	5.1	4.5	3.7	4.5	7.0	6.6	9.9	10.4	9.7
Ireland	36.1	26.1	23.9	42.4	61.8	86.8	120.0	107.5	93.8
Greece	99.8	107.4	103.1	109.4	126.7	146.2	176.9	178.6	176.9
Spain	57.9	42.3	35.5	39.4	52.7	60.1	93.7	99.3	99.2
France	58.4	67.2	64.4	68.1	79.0	81.7	92.3	95.6	95.8
Italy	105.1	101.9	99.8	102.4	112.5	115.4	128.9	132.3	132.7
Cyprus	56.3	63.2	53.9	45.1	53.9	56.3	102.5	108.2	108.9
Latvia	12.1	11.8	8.4	18.7	36.6	47.5	35.9	40.6	36.4
Lithuania	23.5	17.6	15.9	14.6	29.0	36.2	38.8	40.7	42.7
Luxembourg	6.1	7.5	7.8	15.1	16.0	20.1	23.3	23.0	21.4
Malta	64.2	70.1	62.4	62.7	67.8	67.6	68.6	68.3	63.9
The Netherlands	51.4	48.9	42.4	54.5	56.5	59.0	67.9	68.2	65.1
Austria	65.9	68.3	64.8	68.5	79.7	82.4	80.8	84.2	86.2
Portugal	47.9	67.4	68.4	71.7	83.6	96.2	129.0	130.0	129.0
Slovenia	29.0	26.3	22.8	21.8	34.6	38.4	54.6	80.8	83.2
Slovakia	49.0	33.9	29.9	28.2	36.0	40.8	70.5	53.5	52.9
Finland	42.5	40.0	34.0	32.7	41.7	47.1	55.4	59.3	63.1

* Data for 19 member states.

Source: http://ec.europa.eu/eurostat (accessed July 2016).

relation to GDP.[10] The nominal value of foreign debt of the euro area countries increased 2.5 times in 15 years (from 1.8 trillion euros at the end of 2000, to 4.7 trillion euros at the end of 2015.) (Table 2). The increase took place in all euro area countries. Particularly high rises in these liabilities took place in Slovenia, Ireland, and Cyprus. In these three countries the level of public foreign liabilities over the past 15 years increased more than seven times. A similarly high rate of growth in foreign liabilities of

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News-release, 125/2016, http://ec.europa.eu/eurostat/web/products-press-releases (accessed July 2016).

[10] The analysis excluded Greece and Luxembourg, and also Latvia in the years 2000–2007 due to the lack of data.

the public sector were seen in Estonia and Portugal (respectively 6.5 and 4.5 times), while the least growth in absolute terms in Malta.

Table 2

Foreign public debt in euro area countries (EUR billion)

	2000	2005	2007	2008	2009	2010	2013	2015
Euro area	**1,881.8**	**2,937.8**	**3,091.3**	**3,448.8**	**3,874.4**	**4,115.8**	**4,478.6**	**4,680.7**
Belgium	107.6	150.8	171.7	191.1	193.3	196.8	203.8	233.6
Germany	440.5	653.5	761.5	809.9	897.5	1,052.5	1,212.5	1,136.5
Estonia	0.2	0.2	0.2	0.3	0.5	0.4	1.2	1.3
Ireland	17.8	25.7	28.8	63.0	75.2	80.6	123.3	129.0
Greece	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Spain	144.1	185.8	183.5	207.1	245.8	277.6	376.2	473.2
France	395.0	736.3	645.2	732.9	869.2	918.7	984.3	1,165.9
Italy	459.2	606.6	652.5	664.3	738.6	723.7	658.7	741.0
Cyprus	1.4	2.3	2.1	2.4	4	5.3	11.2	11.1
Latvia	n.d.	n.d.	n.d.	2.3	5.2	6.7	7.1	6.4
Lithuania	2.1	2.3	3.3	3.2	5.5	7.7	9.5	11.4
Luxembourg	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Malta	0.4	0.4	0.3	0.5	0.4	0.4	0.4	0.5
The Netherlands	92.4	164.9	159.5	241.8	239.0	230.8	228.9	209.2
Austria	73.3	124.1	144.3	158.7	175.2	184.7	199.4	216.5
Portugal	33.9	78.4	90.4	98.0	108.9	109.7	147.2	154.1
Slovenia	2.4	2.0	3.0	3.7	6.4	7.9	15.7	21.1
Slovakia	6.3	6.6	7.2	7.4	8.0	10.2	24.6	22.0
Finland	40.9	54.1	52.0	51.5	62.9	72.2	91.1	99.5

n.d. – no data.

Source: https://sdw.ecb.europa.eu/browse.do (accessed July 2016).

The analyzed period was characterized by high dynamics and also the relation of foreign debt to GDP. At the end of 2015 the public debt of the euro zone owned by non-residents accounted for 45% of GDP. In 2000, the ratio had been more than 18 percentage points less. The upward trend was halted in 2006–2007, immediately before the financial crisis. This was connected with the decrease of total public debt in relation to GDP (see Table 1). The ratio of public debt held by foreign investors to GDP has developed differently in individual euro area Member

States (Table 3). In 2015. The countries with the highest relation of foreign debt to GDP were Portugal (86%), Austria (64%), Cyprus (64%), and Ireland (60%). At the same time in these countries since the beginning of this century, the relationship has been the fastest growing. Countries with the lowest share of foreign debt in GDP in 2015 were Malta and Estonia (5.4% and 6.5%).

Table 3

Foreign public debt in countries of the euro area (% of GDP)

	2000	2005	2007	2008	2009	2010	2013	2015
Euro area	**26.7**	**34.7**	**32.9**	**35.8**	**41.7**	**43.1**	**45.1**	**45.0**
Belgium	41.7	48.4	49.8	54.0	55.4	53.9	51.9	57.0
Germany	20.8	28.4	30.3	31.6	36.5	40.8	43.0	37.6
Estonia	3.4	2.2	1.3	1.6	3.2	2.5	6.6	6.5
Ireland	16.5	15.2	14.6	33.7	44.4	48.5	68.7	60.1
Greece	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Spain	22.3	20.0	17.0	18.6	22.8	25.7	36.5	43.8
France	26.6	41.6	33.2	36.7	44.8	46.0	52.5	53.2
Italy	37.1	40.7	40.5	40.7	47.0	45.1	41.1	45.3
Cyprus	13.3	15.5	12.3	12.5	21.6	27.6	62.0	63.8
Latvia	n.d.	n.d.	n.d.	9.4	27.7	37.3	31.3	26.1
Lithuania	15.9	11.0	11.2	9.9	20.4	27.3	27.3	30.7
Luxembourg	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Malta	10.5	8.6	5.3	7.4	6.5	5.6	4.8	5.4
The Netherlands	20.6	30.2	26.0	37.8	38.7	36.6	35.2	30.8
Austria	34.4	49.1	51.1	54.4	61.2	62.7	61.8	64.2
Portugal	26.4	49.4	51.5	54.8	62.0	60.9	86.5	85.9
Slovenia	12.8	6.8	8.6	9.7	17.8	21.9	43.8	54.7
Slovakia	20.0	13.2	11.4	10.8	12.6	15.1	33.4	28.2
Finland	30.0	32.9	27.9	26.6	34.8	38.9	44.8	48.0

n.d. – no data.

Source: as in Table 2.

An important factor which caused the rapid increase in the foreign debt of governments (both in nominal terms and in relation to GDP) was

Table 4
Current account balances of euro area countries (% of GDP)

	2005	2007	2008	2009	2010	2013	2015
Belgium	2.0	1.5	–1.0	–1.1	1.8	–0.2	0.5
Germany	4.6	6.8	5.6	5.7	5.6	6.8	8.5
Estonia	–8.7	–15.0	–8.7	2.5	1.8	–0.1	1.9
Ireland	–3.4	–5.4	–5.7	–3.0	0.6	3.1	4.5
Greece	–7.4	–14.0	–14.4	–12.4	–11.4	–2.0	0.0
Spain	–7.5	–9.6	–9.3	–4.3	–3.9	1.5	1.4
France	0.5	0.1	–0.9	–0.8	–0.8	–0.8	–0.1
Italy	–0.9	–1.5	–2.9	–1.9	–3.5	0.9	2.1
Cyprus	–5.3	–10.7	–15.6	–7.7	–10.7	–4.5	–5.1
Latvia	–11.9	–20.8	–12.4	8.1	2.3	–2.4	–1.6
Lithuania	–7.2	–15.1	–13.3	2.1	–0.3	1.5	–2.3
Luxembourg	11.1	9.8	7.7	7.4	6.8	5.7	5.2
Malta	–8.2	–3.9	–1.1	–6.6	–4.7	3.6	9.9
The Netherlands	6.1	6.0	4.1	5.8	7.4	11.0	11.0
Austria	2.0	3.8	4.5	2.6	2.9	2.0	3.6
Portugal	–9.9	–9.7	–12.1	–10.4	–10.2	1.5	0.5
Slovenia	–1.8	–4.1	–5.3	–0.6	–0.1	5.6	7.3
Slovakia	–7.3	–4.8	–6.4	–3.5	–4.7	2.0	–1.1
Finland	3.2	3.8	2.2	1.9	1.2	–1.7	0.1

Source: as in Table 1.

the introduction of the common euro currency.[11] The lack of exchange rate-related risk reduced the level of expected risk premium and allowed investing like in the domestic market. This resulted in a decrease in the profitability of the securities issued by countries participating in monetary integration, especially the so-called PIIGS countries.[12] In this way, governments were given the option of obtaining low-cost funds to cover the budget deficit and refinance their debt. Although their public debt exceeded acceptable limits, the issued securities were nonetheless characterized by a good evaluation of credibility. The rapid growth of foreign

[11] Financing Governments Debt: *A Vehicle for the (dis) Integration of Eurozone?*, “Econote Societe Generale” 2013, No. 13.

[12] This group includes Greece, Spain, Ireland, Portugal and Italy.

debt in the analyzed group of countries was also a consequence of very low domestic savings relative to investment, which was reflected in current account deficits. Before the outbreak of the financial crisis, current account deficits were particularly high in Greece, Portugal and Spain, as well as in Cyprus, Latvia, and Lithuania, with the latter three countries not in the eurozone. On the other hand, Germany, Austria, Belgium, the Netherlands and Finland, highly competitive economies, formed a group of countries characterized by a surplus on the current account. After the crisis, the situation improved. In 2015, as many as 14 countries of the 19 studied member states, including those with previously high current account deficits, showed a balanced situation or a surplus.

The growing scale of foreign debt in nominal terms and in relation to GDP resulted in a number of euro area countries changing their structure of public debt, i.e. increasing the share of foreign investors in the financing of public debt (Table 5). A rapid increase in the average ratio for the euro area took place especially from 2000–2009, that is, before the outbreak of the debt crisis. Over that period the share of foreign investment in public debt in the euro area increased by more than 14 percentage points (from about 39.3 to 53.3%). The share of foreign investment in the structure of public debt before the crisis had risen in the 14 euro zone countries; in some countries the changes were very large, while small in others. The most radical changes in debt structures took place in Austria, Ireland and the Netherlands, where the share of foreign investment in public debt rose by more than 30%. High public debt, largely financed by foreign investors, eroded the credit worthiness of some euro area countries (mainly the PIIGS countries) and contributed to the outbreak of the debt crisis in 2010. As a symptom, there was an increase in the yields of bonds issued by those countries. As a result, those countries began to have problems refinancing debt on market terms.[13] Rising interest rates on government bonds led to a further deterioration of the fiscal situation in those countries and the need for assistance from other Member States.

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[13] P. Panfil, *Integracja rynku dłużnych papierów wartościowych państw strefy euro w dobie kryzysu*, "Ekonomia i Prawo" 2012, Vol. IX, No. 2, p. 20.

Table 5

The share of foreign debt in total public debt in the euro area (%)

	2000	2005	2007	2008	2009	2010	2013	2015
Euro area	39.3	50.2	50.6	52.3	53.3	51.4	49.5	49.6
Belgium	38.3	51.1	57.2	58.3	55.7	54.0	49.3	53.8
Germany	35.4	42.5	47.7	48.7	50.4	50.4	55.7	52.8
Estonia	65.8	48.4	36.5	36.7	46.1	37.8	66.0	66.5
Irland	45.1	57.4	61.1	79.1	71.9	55.9	57.3	64.1
Greece	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Spain	38.5	47.1	47.8	47.1	43.2	42.8	39.0	44.1
France	45.3	61.8	51.5	54.0	56.7	56.3	56.8	55.6
Italy	35.3	39.9	40.6	39.8	41.7	39.1	31.8	34.1
Cyprus	24.1	24.6	22.8	27.7	40.0	49.0	60.5	58.6
Latvia	n.d.	n.d.	n.d.	50.4	75.6	78.7	80.0.	71.8
Lithuania	67.9	62.7	70.5	67.9	70.1	75.5	75.7	72.0
Luxembourg	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Malta	17.2	12.2	8.5	11.9	9.6	8.3	7.1	8.5
The Netherlands	40.2	61.7	61.4	69.4	68.5	62.0	51.8	47.4
Austria	52.2	71.8	78.8	79.3	76.8	76.1	76.4	74.5
Portugal	52.5	73.3	75.3	76.5	74.2	63.4	67.0	66.6
Slovenia	49.6	25.9	38.0	44.9	51.5	57.1	61.6	65.8
Slovakia	40.4	38.8	37.9	38.0	34.5	36.5	60.7	53.2
Finland	70.6	82.3	82.1	81.5	83.4	81.9	80.7	76.1

Source: as in Table 2.

It should be noted, however, that the source of the crisis was not only the lack of fiscal balance, but also high levels of foreign liability. Comparing the states in the PIIGS group, it can be seen that over 70% of the creditors of public debt of Ireland and Portugal were foreign entities. In Spain and Italy, the share of foreign investment was smaller than the domestic, although only slightly in the case of Greece. Those with a higher share of domestic debt were characterized by a lower growth in bond yield in the period of the crisis.[14] Investor concerns also increased the

[14] *Przegląd strefy euro IV*, NBP, https://www.nbp.pl/publikacje/o_euro/euroiv.pdf (accessed July 2016), p. 35.

foreign debt of the private sector and its ability to service the debt.[15] During the height of the debt crisis, the importance of the foreign investment in financing the public debts of the euro area countries began to decline (despite the rapid growth of public debt in relation to GDP). In 2013, that share in the public debt was on average lower by almost 4 percentage points than in 2009. This resulted from a reduction in the so-called "home bias", i.e. preference for the national economy as a place for raising and investing capital. This contributed to reducing the involvement of foreign investors in risky assets, following the growing aversion to risk. That trend was evident mainly in the PIIGS countries, because in a period of slowdown and a strong aversion to risk, the investors showed a lower demand for high-risk bonds. In turn, countries with the highest credit rating (primarily Germany) did not record any reduction in funding of foreign debt in that period, as the conditions of uncertainty in the financial markets triggered the so-called "flight-to-quality", i.e. the increased investor interest in investments in assets considered safe and liquid. In 2015, the downward trend in the share of non-residents in total public debt in the euro area halted. The share of foreign debt in the public debt increased in 7 countries, while in the others it decreased. Currently, the countries with the largest share of public foreign debt in relation to total debt (over 70%) include Finland, Austria, Lithuania, and Latvia. The country with the lowest share of foreign liabilities in public debt is Malta (8.5%) (see Table 5).

Conclusions

Since the early 2000s, the public debt to GDP ratio has increased in the euro area. Free access to capital in foreign markets and the high propensity of foreign investors to purchase treasury securities, has meant that more and more countries have financed their long-term fiscal imbalance

[15] In many countries of the euro area the total foreign debt in relation to GDP significantly exceeded the foreign public debt. Among PIIGS countries, the highest level was reached by Ireland, with more than 1000% GDP in 2009, http://ec.europa.eu/eurostat (accessed July 2016).

by incurring liabilities abroad. This has resulted in an increase in the value of public external debt in the Eurozone countries, both in nominal terms and relative to GDP. An important factor affecting the growth in foreign liabilities was the introduction of the common currency, the Euro, which contributed to the situation where investors from the euro area largely invested across that same region (e.g. due to the elimination of exchange rate risk). The increase in foreign liabilities by the public authorities changed the structure of public debt in most euro area countries, i.e. it brought about an increase in the share of foreign investors in total public debt and a decline in domestic investment in treasury securities. In a number of Eurozone member states, the increasing aversion to risk and the financial crisis resulted in a slowdown or decline in the share of foreign debt in the structure of public debt, although now the downward trend has mostly halted in the euro area (although not in all countries). The growing demand by foreign investors for treasury securities stems from the gradual recovery in the euro area countries. This gives governments a better opportunity to borrow, but again to increase the risk of excessive dependence by some countries (mainly those with low savings) on foreign capital.

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