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Eastern EU's Strength Is Shown in Greece's Hidden Debt, Cheuvreux Says

By Krystof Chamonikolas - Nov 16, 2010

Greece's hidden debt shows that eastern members of the European Union have sounder public finances than western countries of the bloc, Credit Agricole Cheuvreux SA said.

Greece concealed 5.3 billion euros (\$7.2 billion) of debt between 2001 and 2007 by using off-market swaps, the biggest of which were with Goldman Sachs Group Inc., Eurostat, the EU's statistics office in Luxembourg, said yesterday.

Repeated revisions of Greece's figures started last year, spurring a surge in borrowing costs that pushed the country to the brink of default and triggered a region-wide debt crisis. The use of off-market derivatives helped push borrowings to 126.8 percent of gross domestic product in 2009, the highest in the region, Eurostat said.

"No question, the Eurostat revision of Greek debt data is scary," Simon Quijano-Evans, head of emerging-market strategy at Cheuvreux in Vienna, wrote in a report today. "Is this bad for central and east Europe? In our view not. On the contrary, it should highlight yet again the better fiscal position of most of eastern Europe versus western peers."

Public debt will reach 85 percent of GDP in the euro area this year and could be 118 percent in Italy, compared with 79 percent in Hungary, 54 percent in Poland and 40 percent in the Czech Republic, European Commission estimates show.

The Eurostat report also underlines "that Hungary looks way better than Greece, and that the reining in of the budget deficit will help," Quijano-Evans wrote. It also shows that "other needy EU members just don't have the luxury to negate EU and International Monetary Fund support" while "countries like Poland are heading into a risk zone if they continue to move along the expansive fiscal path," he said in the report.

Poland last month revised its estimates for this year's general government deficit to 7.8 percent of GDP from a previous forecast of 6.9 percent of GDP.

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