



RESEARCH NOTE

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International Comparisons of Foreign Debt

Australia's gross foreign debt at September 1994 was \$203.3 billion. (Gross foreign debt comprises all borrowings by residents from non-residents.) Net foreign debt at the same time was \$160.3 billion, down (mainly in response to the rise in the \$A) from \$172.9 billion a year earlier. (Net foreign debt equals gross debt minus official reserve assets - official holdings of foreign currencies, gold and reserves deposited with the IMF - and Australian lending overseas.)

Australia's net foreign debt is often expressed as a proportion of GDP in order to show its relative significance. Such a measure allows more appropriate comparisons to be made over time, as GDP grows with inflation, population and the economy's capacity to repay. At September 1994, Australia's net foreign debt was 36.9 per cent of GDP, down from the peak level of 42.3 per cent at September 1993, but still considerably higher than the figure of 15.9 per cent at June 1984.

A paper recently released by the Reserve Bank of Australia entitled *External Debt and Liabilities of Industrial Countries* provides a comprehensive comparison of Western debt. The paper shows that Australia's **gross** debt to GDP ratio (at just over 50 per cent in 1993) is ranked 16th highest in the industrial world; five countries have a ratio of over 100 per cent, the highest ratio being 255 per cent in Belgium-Luxembourg. Several countries with high levels of gross foreign debt, however, also have considerable holdings of external non-equity assets. Australia by comparison has a

Table 1. Net Foreign Debt* (per cent of GDP)

Rank	1984	1993**
1	Ireland 63.0	New Zealand 61.6
2	Iceland 60.5	Iceland 60.6
3	Greece 45.1	Finland 59.4
4	Denmark 37.8	Sweden 58.9
5	Portugal 29.1	Canada 44.4
6	Canada 24.8	Ireland 44.1
7	Sweden 23.1	Australia 41.5
8	Finland 20.5	Greece 40.1
9	Norway 16.7	Denmark 34.5
10	Australia 15.9	United States 16.3
11	Spain 8.1	Italy 9.1
12	United States 2.8	Norway 7.1
13	Germany -6.8	Spain 5.3
14	France -7.5	Austria 3.2
15	Belgium-Luxembourg -16.3	France -0.1
16	Netherlands -24.4	Germany -7.4
17	Switzerland -137.4	Portugal -7.9
18	Italy -	Netherlands -13.3
19	New Zealand -	Belgium-Luxembourg -75.4
20	Austria -	Switzerland -107.4

* No data are available for Japan and the UK on net external debt.

** For Austria, Belgium-Luxembourg, Greece, Italy, the Netherlands, Portugal, Spain and Switzerland the latest data available are for end 1992. For Australia and New Zealand the data refer to the financial year ending in June and March respectively.

Net Foreign Debt as % of GDP, 1993

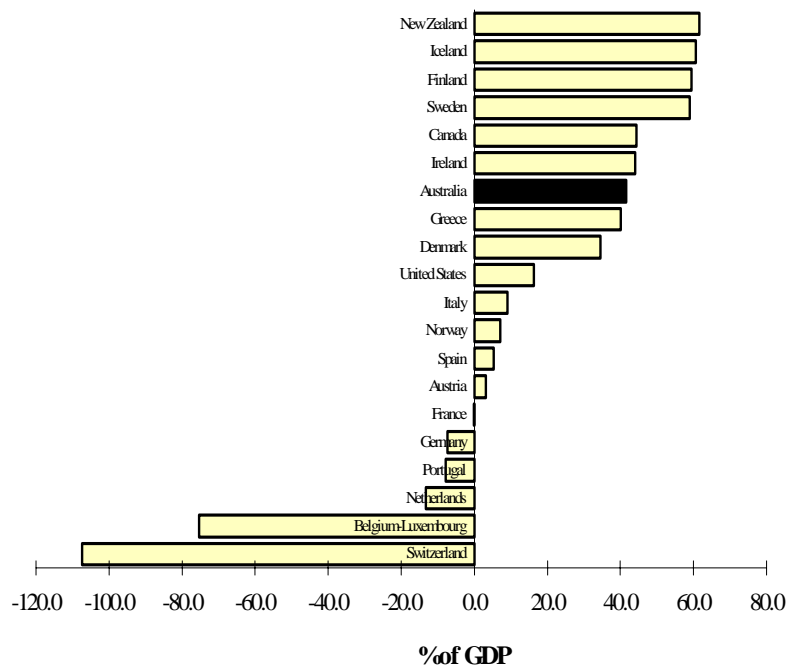


Table 2. Composition of Net Foreign Debt (per cent of GDP), 1993**

Rank	Non-Official		Official	
1	Iceland	40.3	Denmark	43.6
2	New Zealand	39.1	Ireland	38.8
3	Sweden	36.3	Finland	29.2
4	Australia	33.1	Canada	23.4
5	Finland	30.2	Sweden	22.7
6	Greece	25.8	New Zealand	22.5
7	Canada	21.0	Iceland	20.3
8	Norway	17.2	Greece	14.3
9	Italy	12.1	Germany	10.3
10	Spain	12.0	Australia	8.4
11	United States	9.7	United States	6.6
12	Ireland	5.4	France	3.7
13	Austria	3.2	Austria	0.0
14	Portugal	2.1	Netherlands	-0.6
15	France	-3.9	Belgium-Luxembourg	-1.5
16	Denmark	-9.0	Italy	-3.1
17	Netherlands	-12.7	Spain	-6.6
18	Germany	-17.7	Portugal	-10.0
19	Belgium-Luxembourg	-73.8	Norway	-10.1
20	Switzerland	-89.5	Switzerland	-17.8

** See footnote previous table.

very low level of external non-equity assets. The result is that while Australia's gross foreign debt is relatively low by international standards, its **net** foreign debt is relatively high. Table 1 shows that in 1993 Australia had the 7th highest ratio of net foreign debt to GDP, while in 1984 it was ranked 10th.

A characteristic of Australia's foreign debt is that much of it is owed by the non-official sector (see Table 2). Some commentators have argued that since only official debt is a direct burden on taxpayers, Australia's debt position is not as bad as the

total debt figures would indicate. Others question this however, arguing that the whole of the economy is responsible for generating resources to service the debt, regardless of who the borrowers are. Over the past decade Australia has consistently been ranked in the middle of industrial countries in terms of net **official** foreign debt. In 1993, Australia's net official debt was 8.4 per cent of GDP, up from a net asset position of 2.6 per cent of GDP in 1984. The net foreign debt of the Australian non-official sector has risen from 18.5 per cent to 33.1 per cent of GDP between 1984 and 1993. In

Table 3. Net Foreign Liabilities (per cent of GDP)

Rank	1984		1993**	
1	Denmark	41.4	New Zealand	70.4
2	Canada	34.0	Finland	58.7
3	Australia	28.3	Australia	54.5
4	Sweden	21.4	Sweden	46.3
5	Finland	20.2	Canada	44.0
6	Norway	16.7	Denmark	31.1
7	Spain	12.5	Spain	22.1
8	Austria	6.3	Italy	9.6
9	Italy	-1.3	United States	8.0
10	United States	-4.5	Norway	7.9
11	Japan	-6.2	Austria	4.1
12	Germany	-7.6	France	0.7
13	France	-7.7	UK	-3.3
14	Belgium-Luxembourg	-9.5	Germany	-14.0
15	UK	-24.0	Japan	-14.6
16	Netherlands	-34.0	Belgium-Luxembourg	-15.3
17	Switzerland	-123.0	Netherlands	-19.8
18	New Zealand	-	Switzerland	-100.3

** See footnote previous table.

developing countries, net foreign debt tends to be concentrated in the official sector, though recently there have been shifts towards the non-official sector.

Net foreign debt represents only one part of Australia's net obligations overseas. The other part is net equity or the difference between foreign ownership of Australian assets and Australian ownership of foreign assets. The Reserve Bank study shows that Australians own fewer assets abroad, relative to GDP, than any other industrial country. In 1993, Australia's net liabilities to the rest of the world, at 54.5 per cent of GDP, were the third highest of the 18 industrial countries for which data was available. Only New Zealand (70.4 per cent) and Finland (58.7 per cent) had figures higher than Australia (see Table 3).

An interesting finding of the Reserve Bank study is that over the past decade there has been a substantial increase in the net foreign liabilities of industrial countries. Moreover, of the 18 countries listed, only 6 were net creditors in 1993 (compared with 9 in 1984), and of the remainder 5 had net liabilities exceeding 40 per cent of GDP.

Tony Kryger
Statistics Group
Parliamentary Research
Service

Phone: 06 277 2486
 Fax: 06 277 2454

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