

We are following the situation in Greece, and other eurozone countries where the ability to service sovereign debt has been called into question, with interest.

Although many developed economies saw their budget deficits expand significantly in response to measures taken to combat the worst consequences of the global financial crisis, the spotlight has fallen upon Greece because it does not appear to have a credible plan to get its finances under control. The fact that initial data seems to have been misleading was also unhelpful. Simply put, the cuts in expenditure that will be required look unlikely to be accepted by the public sector workforce upon whom they will fall most severely.

The current crisis in the eurozone does however serve to highlight the high levels of debt that currently burden many developed economies. Budget deficits were commonly in excess of 10% of GDP in 2009, with total debt levels rising to many multiples of GDP, as the table below illustrates. The five main emerging economies of Europe, which make up the regional benchmark (Russia, Turkey, Czech Republic, Hungary and Poland) do not have such a structural debt problem, as the table below again shows. Their financial positions were much stronger than their developed counterparts going into the financial crisis, a comparative advantage that has now widened further in their favour.

In Russia, for example, government debt stands at less than 10% of GDP. Total debt levels are less than 100% of GDP in all emerging European economies with the exception of Hungary, the smallest of the five economies, where a credible IMF-sponsored plan is in place to reduce debt. These emerging economies are therefore much less likely to suffer the fate of Greece.

Of course, markets in general have reacted adversely to the situation in Greece, with risk aversion again tending to rise, and stockmarkets have fallen everywhere, including emerging Europe. However we would expect the comparative financial strength of the emerging economies of Europe to provide support and would not be surprised were these markets to outperform, both on the way down and, assuming that the situation in Greece finds a solution, on the way up.

	Current Account Balance	Government Budget Balance	Government Debt	Private Sector Credit	Government + Private Debt
Greece	-12%	-13%	107%	78%	185%
Spain	-5%	-12%	58%	172%	230%
Ireland	-2%	-12%	64%	194%	258%
Portugal	-9%	-8%	84%	151%	235%
Russia	4%	-7%	7%	37%	44%
Turkey	-2%	-6%	46%	29%	75%
Czech Republic	-2%	-6%	36%	44%	80%
Hungary	-2%	-4%	83%	61%	144%
Poland	-2%	-2%	48%	48%	96%

All data is given as a percentage of GDP and refers to 2009

Source: Credit Suisse, February 2010

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