

COMPARISON OF EXTERNAL INDEBTEDNESS AND DEBT SUSTAINABILITY DEVELOPMENT IN V4 COUNTRIES

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Abstract

Foreign indebtedness is an important indicator of macroeconomic and financial stability of given economy. Especially regarding the financial crisis of 2008 this indicator regained importance. This article offers a comparative analysis of Visegrad countries regarding the external indebtedness and debt sustainability. Poland, Hungary, Slovakia and the Czech Republic went through a similar transformation process and with the exception of Slovakia they still have their own national currencies. Foreign indebtedness is thus one of the crucial indicators for their monetary development, also regarding that in the past these countries were viewed as one region, which represented the possibility of spill-over effects. The aim of the article is to find out if a negative trend in the development is present in V4 countries as far as the external indebtedness is concerned.

Keywords: *foreign indebtedness, solvency, liquidity, debt sustainability, capital inflow*

INTRODUCTION

Foreign indebtedness is an important indicator reflective of macroeconomic and financial stability of a given economy. Foreign indebtedness has gained importance with the financial and debt crisis of 2008.

In the emerging market economies foreign capital was a welcomed source, both in the form of FDI or in the form of debt capital, as it helped to compensate for the lack of domestic capital. Evaluation of the impact of foreign capital on the domestic economy is a difficult task, though. It is however widely agreed that inflow of foreign capital in whatever form does have impact on all macroeconomic indicators, although it is difficult to quantify it precisely.

The increase in foreign indebtedness and its GDP ratio is not only problem of developing countries, it is spread in transition economies and developed economies as well. The reasons for this development can be found in strong integration and interconnectedness of economic activities among countries. Another reason is the gap between domestic saving and the need of domestic investment. This is a remaining problem of transition countries.

V4 countries, or the Visegrad countries belong to the group of transition countries. They experienced a similar path of transformation, show similar patterns of inclusion into the world labour division and recently have found similar political position on a number of important issues (immigration, e.g.). For these reasons these countries are often viewed by the investors as one region, which can also mean that problems in one country can have a spill-over effect on the rest¹.

The aim of this article is based on the method of a comparative analysis, which should reveal a potential negative trend that could have a negative impact on the whole region of V4, be it in the form of losing investors' confidence leading to outflow of foreign capital, or in speculative attacks on the respective currencies.

1. THEORETICAL BACKGROUND

Foreign indebtedness can be defined as overview of financial liabilities of domestic economy sectors towards non-residents in debt (e.g. liabilities with contractually given maturity, for which the creditor gets a yield in the form of interest). Foreign indebtedness does not include investment into equity, both belonging to FDI, or equity that does not fulfil the criteria of FDI. This is the gross foreign debt, which includes loans, bonds, promissory notes and also inter-company loans in the framework of FDI. As in the case of investment position, the position of each debt item corresponds to respective transaction with debt financial liability on the financial account of the balance of payments.

Besides evaluation the gross foreign debt, there is also the net foreign debt, which are practically foreign debt liabilities minus foreign debt assets.

Debt commitments are always connected with certain risks both for the creditor and for the debtor. Creditor runs the risk of default of the debt as a whole, or part of it, or the risk that the debt will be paid off later than agreed. The debtor runs the risk – in case of non-obliging to the contract – of having difficult access to obtain another loan. Debt commitments carry the risk of change in the value of repayments, because of increasing inflation in the given country, change in the interest rates, or unexpected change of the exchange rate. The risk of exchange rate changes is

¹ Investors usually use the term CEE countries, which include Poland, The Czech Republic, Slovakia and Hungary, sometimes Romania. V4 has been used rather in political issues, however for precision we use V4 countries to mark distinctly that we concentrate on these four countries in our analysis.

important in countries with flexible regimes of exchange rate, when the debtor is not hedged against these risks.

Too high foreign debt can press onto depreciation of domestic currency and weaken the trust of foreign investor in the given country. This makes foreign loans difficult to get for domestic subjects, what can lead to increase in new loans used to repay old debts, and in the spiral of increasing foreign indebtedness.

Analysing the foreign indebtedness, it is necessary to distinguish between solvency and liquidity. Solvency can be defined as the ability of the country to continuously discharge its external debt commitments. Countries are solvent as long as their present value of net interest payments does not exceed present value of other current account inflows (mostly export incomes) without imports (IMF, 2003). Practically, it is difficult to determine precisely when the country becomes insolvent, as the debtors usually stop repaying their commitments long before this situation occurs. Reasons can be both social and political. IMF therefore claims that solvency means to a large extent the willingness to repay [IMF 2003].

The liquidity problem is a situation, when the lack of liquid assets hinders repaying of foreign commitments. A liquidity problem can be connected with solvency, but it can also arise separately, even in the case when the country does not have problems with solvency. A typical case is a panic of investors, followed by a sharp decrease in trust and fast outflow of capital out of the country. This contributes to strong pressures on the foreign exchange reserves. Liquidity problems can arrive due to fall in export revenues, increases in interest rates (domestic, or foreign), on due to increase in import prices. Vulnerability towards liquidity crises is influenced by the structure of the debt and maturity and also availability of assets suitable for foreign debt repayment.

Foreign indebtedness belongs to major indicators showing an impending debt crisis. There are crucial indicators, such as 40% of gross debt to GDP, or 35% of investment position balance to GDP. There are many more indicators, such as ratios of time and sectoral gross debt structures, foreign debt to export of goods and services, debt service to exports, etc. [Durčáková, Mandel 2007].

These traditional indicators of foreign debt sustainability may have some methodological imperfections and the limiting values are rather speculative, however, they are to be respected as they have serious psychological impacts on the behaviour of foreign investors.

Their main value is based on the follow-up of the development, they offer identification of trends. This is important, as the value of the indicators cannot be taken absolutely and they cannot be compared in different countries on various degrees of development. Absolute values can be used for comparison of countries that show signs of similarity.

All sectors of economy that are in debtor position towards non-residents can be a part of the foreign debt. In the statistics we can find three sectors: the central bank, government institutions, institutions accepting deposits (beside central bank) and others. "Others" is a heterogenous sector, but as it is not insignificant, it is often described as corporations.

Sectoral division is not sufficient. The debt of individual sector is further divided into long-term and short-term, analysed on the basis of instruments (currency in circulation and deposits, debt securities, trade loans and other liabilities). Inter-company loans are usually analysed separately because of the specific character of the debt commitment.

2. METHODOLOGY AND DATA

This article is based on the method of a comparative analysis, which enables to reach the given aim of the article.

Comparative approach as such consists of “the systematic detection, identification, classification, measurement and interpretation of similarities and difference among phenomena” [Boddewyn 1965]. In our article we also focus on the future prediction, thus aiming at the objective of the article, which is to detect a potential negative trend in foreign debt development in one and/or other V4 countries, which could have a negative impact on the whole region.

The sample for comparison includes four countries (V4), the Czech Republic, Slovakia, Hungary and Poland. The time series includes a long series of data, from 2004-2017, therefore enabling a longer and deeper view in the topic of foreign indebtedness. The time series starts in 2004 when all four countries joined the EU and finished in 2017 as to offer the most current data, which can provide a future outlook and detect possible risks for the whole region.

The dataset was obtained partly from Eurostat which, however, does not offer all the relevant data in detail. Therefore, further data were obtained from the central banks of the respective countries.

Inter-company loans in Hungary and Poland are not divided in the categories of long-term and short-term, therefore inter-company loans in these countries are not included in the long-term and short-term foreign debt. This must be considered for comparison with the Czech Republic and Slovakia where this time structure is available.

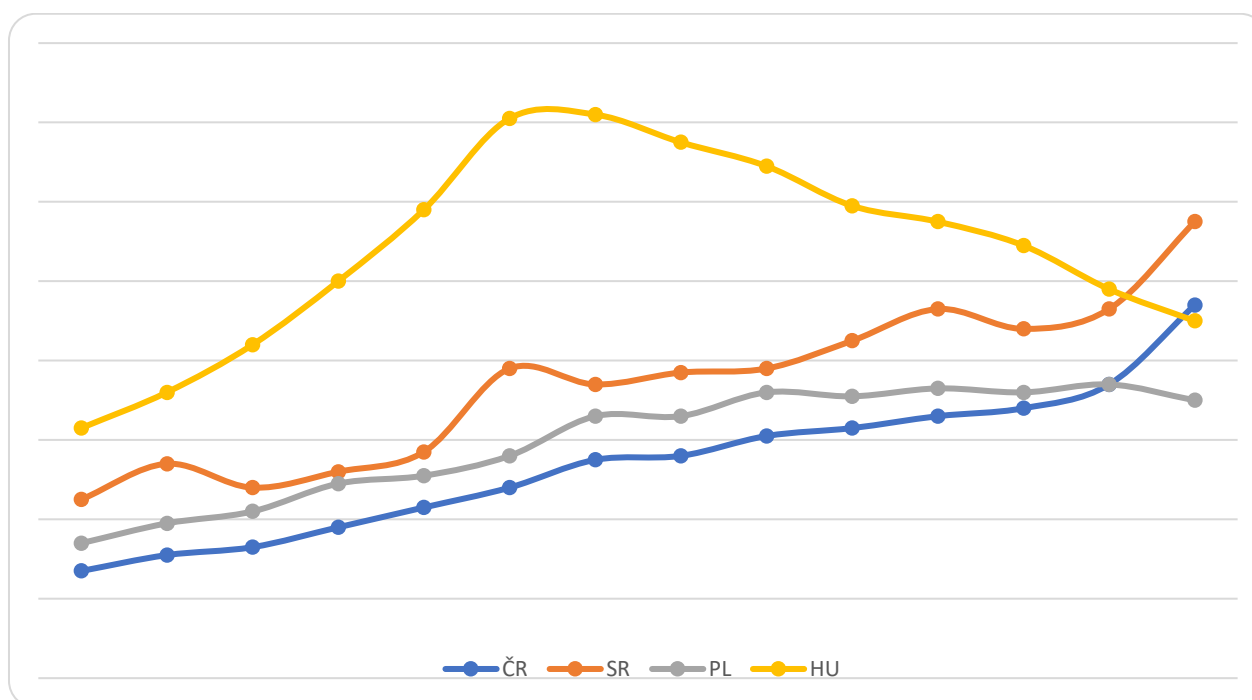
The chosen ratio indicators used in comparative analysis offer a complex, in-depth view of the foreign indebtedness. They include gross foreign debt to GDP, net foreign debt to GDP, gross foreign debt to export of goods and services, long-term debt to gross foreign debt, foreign government debt to gross foreign debt, foreign exchange reserves to short-term debt, net investment position to GDP.

3. EMPIRICAL ANALYSIS AND FINDINGS IN V4 COUNTRIES

The first ratio indicator is the gross foreign indebtedness, usually measured to GDP. Reference level is considered to be at 40%. The significance of this indicator lies in the fact that it measures the debt to the “source base”, thus signals need to shift production capacities to increase exports so that sources to repay the debt can be produced. IMF considers this indicator to be the indicator of solvency [Durčáková, Mandel 2007].

Graph 1 shows the trend in gross foreign debt to GDP in V4 countries. In the case of Poland, Slovakia and the Czech Republic we can see a long-term increasing trend. For Hungary the gross foreign debt to GDP peaks in 2010 and since then shows a decreasing tendency.

Higher indebtedness and significantly diverging trend of the Hungarian debt from the beginning of the time series, is a heritage of the past, of the high indebtedness of the previous governments. Economic growth based on debts led to the increase in inflation, which was dampened by higher interest rates. Much lower interest rates abroad were used for loans by all sectors, including households. Increasing indebtedness was manageable till the outbreak of financial crisis in 2007. Financial crisis worsened the already bad situation, IMF’s loan of 25 billion USD helped to avert bankruptcy for Hungary.

Graph 1: Gross foreign debt development to GDP in % in V4 countries

Source: author's own calculations according to CNB 2018; NBS 2018; NBP 2018; MNB 2018.

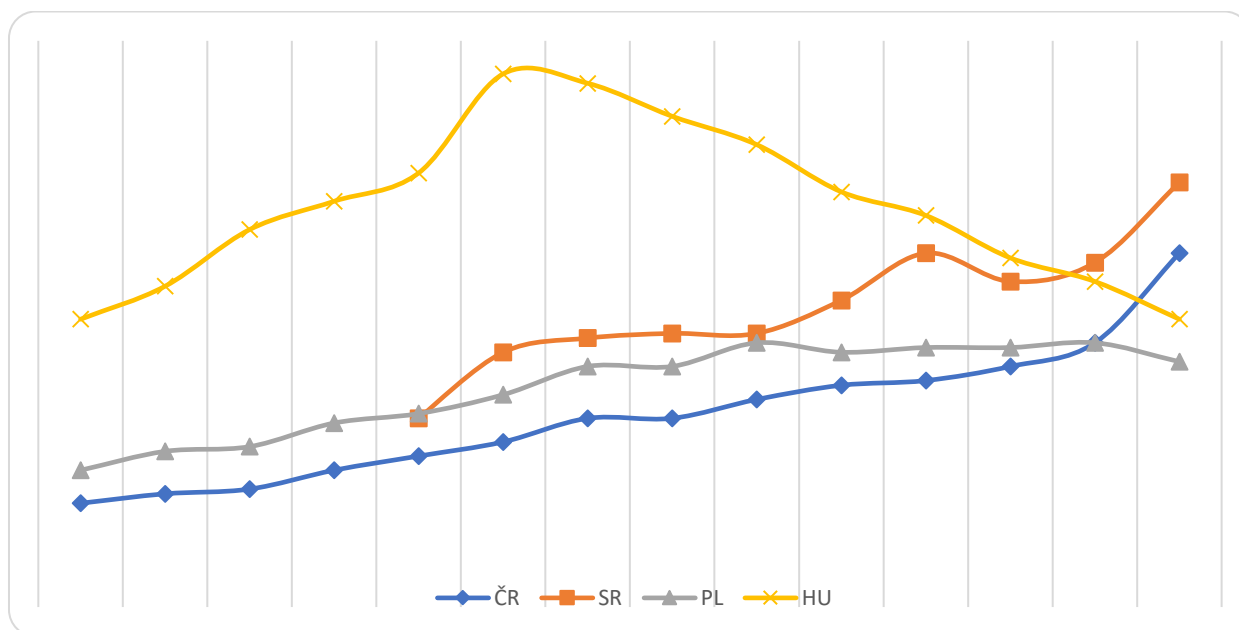
In the whole time series, the Hungarian debt exceeded the debt of other V4 countries and in 2008 the ration of gross foreign debt to GDP got nearly to 120%. The biggest part of the gross foreign debt is a governmental debt (about 40%). Also, the increase in inter-company loans was important as its share grew from 15% (2004) to 25% (2009), from 8.8 to 33.0 billion euro. Currently it is about 30% of gross debt, their inflow stabilized at around 30 billion euro a year (MNB, 2018). Since 2010 the ratio of gross debt to GDP has been decreasing, reaching 90% in 2017.

Other V4 countries recorded an increase, although rather slowly, till 2016. In 2017 the Czech Republic and Slovakia witnessed a jump in the ratio of about 20 p.p., in Poland the ratio mildly decreased.

In all V4 countries the ratio of gross foreign debt to GDP exceeds benchmark value of 40%. This could be the evidence that V4 countries may run the risk of debt crisis.

However, it must be considered that the inter-company loans are partly responsible for the increase in foreign debt. According to the new manual, BPM6, they are evidenced on gross basis. The share of inter-company loans in V4 countries oscillates at around 20-25%, in Hungary it is 30%. If we thus removed the inter-company loans from the gross debt, then the ratio to GDP would reach more favourable values.

Although the inter-company loans increase the foreign indebtedness of the host country, they are special in comparison to traditional banking loans, taken from abroad by domestic subjects. The inter-company loans are usually long-term, the maturity more than one year, very often more than four years. Some of these loans are even interest-free, they do not increase the debt servicing costs. In the case of short-term problems, they would not add to tensions caused by short-term capital outflow and they are not a debt of domestic subjects towards non-residents.

Graph 2: Development of gross foreign debt (without inter-company loans) to GDP in % in V4 countries

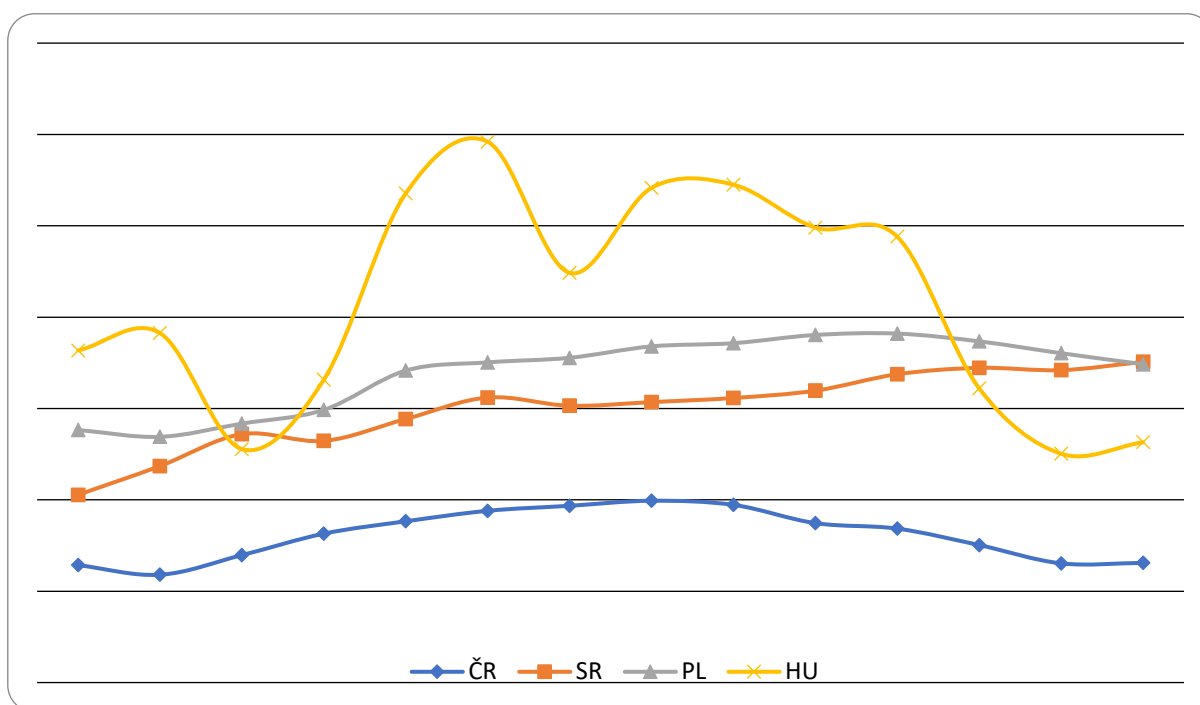
Data on inter-company loans in Slovakia are not available till 2008.

Source: author's own calculations according to CNB 2018; NBS 2018; NBP 2018; MNB 2018

Similar situation is by the commercial banks' liabilities, the shown debt is often not a real one, thus made by used resource abroad, but it is made of commitments towards foreign clients in the form of deposits on accounts and investments into debt securities. The same goes for commitments of central banks, which represent the value of foreign bank's deposits and repo operations realised with foreign banks by the management of foreign exchange reserves. Central banks are in all selected countries the least indebted sector, their share on the whole debt not exceeding 1%. The exception is Slovakia, which entered the euro zone, and the corresponding debt share increased up to 37% in 2009. After it started decreasing to 17% in 2016, but immediately afterwards went up again to the mark of 30%. It is mostly in the form of short-term debt made of deposits of foreign subjects.

If a V4 country is truly vulnerable, it is by large margin Hungary. The share of government debt on the short-term debt is about 20%, by other countries it is about 1%. This problem remains, although in last seven years Hungary succeeded in halving the short-term debt. Indebted are municipalities and companies as well. Problem could be also the notorious mortgages, usually denominated in Swiss francs.

The next indicator is net foreign indebtedness. This indicator offers a more real view of the foreign indebtedness. Net foreign indebtedness is defined as the difference between gross foreign debt and foreign claims. Graph 3 confirms that the development of this indicator by Hungary has a very different development from other V4 countries. It practically copies the development of gross foreign debt to GDP. Hungary saw a positive development as the net foreign debt decreased from 78% GDP in 2009 to 12% currently.

Graph 3: Development of net foreign debt to GDP in %, in V4 countries

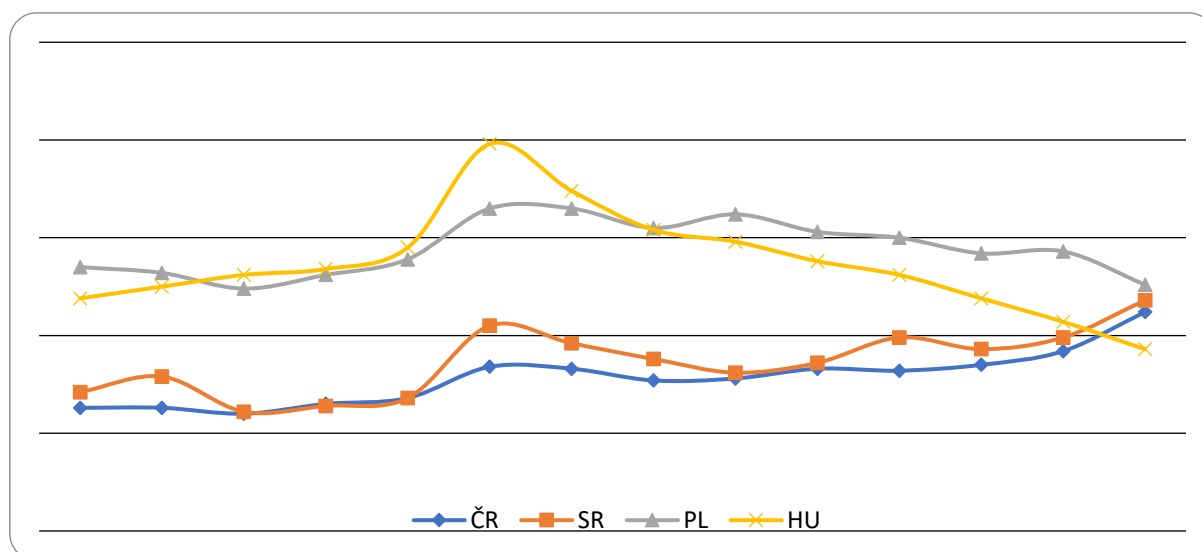
Source: (Eurostat, 2018a)

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tipsii20&plugin=1>

The best situation in this regard is in the Czech Republic, which even got to negative values, that means it has more financial claims than liabilities. The reason are the reserve assets of the central bank, which started increasing after the central bank abandoned the strategy of targeting inflation and in 2013 shifted to the exchange rate commitment. The Czech crown was depreciated to the level of 27 crown for euro. The exchange rate commitment was abandoned in April 2017 and led to a substantial increase in foreign exchange reserves. The short-term indebtedness of the Czech national bank (CNB) increased in 2017 to double values. That is connected with the foreign investors' expectations about the crown appreciation and with the positive interest rate differential.

The ratio of foreign debt to exports is a further indicator of solvency. It is a useful trend indicator, which shows the capacity of the country to pay off the foreign debt. Lower values show faster ability to repay foreign debt. Value of 600-800% reflects low ability to pay off foreign debt. These values can be found in indebted countries of the euro area like Greece or Ireland. Czech Republic is closely under the "ideal" value of 100%. However, in none of the countries the situation is critical. The worst situation is in Poland, but still under 150%. Hungary again shows a different trend, after peaking in 2009 the indicator was gradually decreasing to 93%.

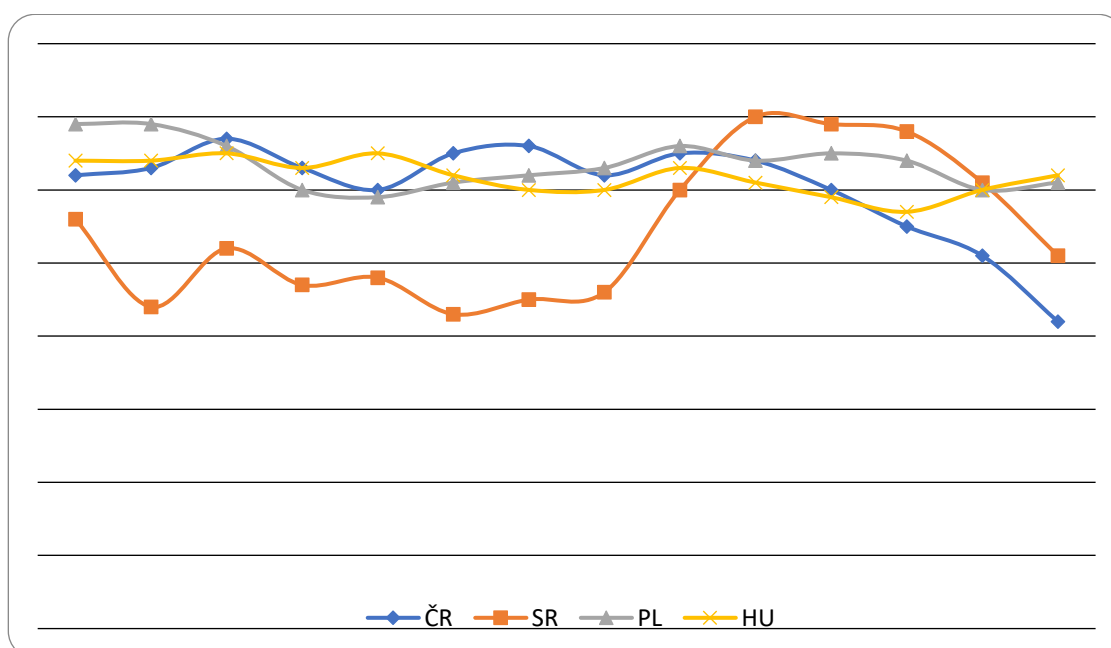
Graph 4: Development of gross foreign debt ratio to exports of goods and services in % in V4 countries



Source: author's own calculations according to CNB, 2018; NBS, 2018; NBP 2018; MNB 2018

Another indicator of solvency is the share of the long-term debt (with maturity longer than one year) on the total foreign debt. The lower the share of the long-term debt, the bigger the dependency on short-term financing. Detailed information on the maturity structure of individual debt instrument can define better the possible risk of repaying. The limit value is 40%, which means that at least 60% of the total foreign debt should be the long-term debt with maturity of at least one year. Exceeding this value can be viewed by foreign investors as critical, because with first sign of crisis usually comes to the outflow of short-term capital abroad.

Graph 5: Development of long-term debt on gross foreign debt in % in V4 countries



Source: author's own calculations according to CNB, 2018; NBS, 2018; NBP 2018; MNB 2018

V4 countries, as graph 5 shows a warning sign for the Czech Republic are the long-term debt values. The worsening of the ratio between the long-term and short-term debt appeared in 2013. The share of the short-debt started to rise. A detailed look reveals that the increase was in the banking sector. The increase is connected with the exchange rate commitment of the CNB, which caused interest for assets denominated in CZK from foreign investors in the whole banking sector, both by the central bank and commercial banks, where the deposits were accumulated as well. Short-term liabilities by CNB increased from 38 Mio EUR in 2012 to 5 776 Mio. EUR in 2017. By commercial banks the corresponding figures were from 11 307 Mio EUR to 59 107 Mio EUR. The share of short-term debt was therefore increasing, reaching 58% in 2017.

Slovakia witnessed a change in the time structure of foreign debt, when it entered the euro zone. The short-term debt of the central bank increased significantly from 116,2 Mio. EUR to 18 016,7 Mio. EUR in 2009. At the same time short-term debt by commercial banks decreased from 10 867,2 Mio EUR to 2 625,3 Mio. EUR. Mother companies of daughter banks in Slovakia were withdrawing liquidity on their accounts abroad. Short-term liabilities increased in the balance of the central bank, commitments toward commercial banks decreased because of minimal reserve requirements, but the commitments towards TARGET 2 increased (NBS, 2009). This was reflected in a substantial decrease in long-term debt by 5 p. p.

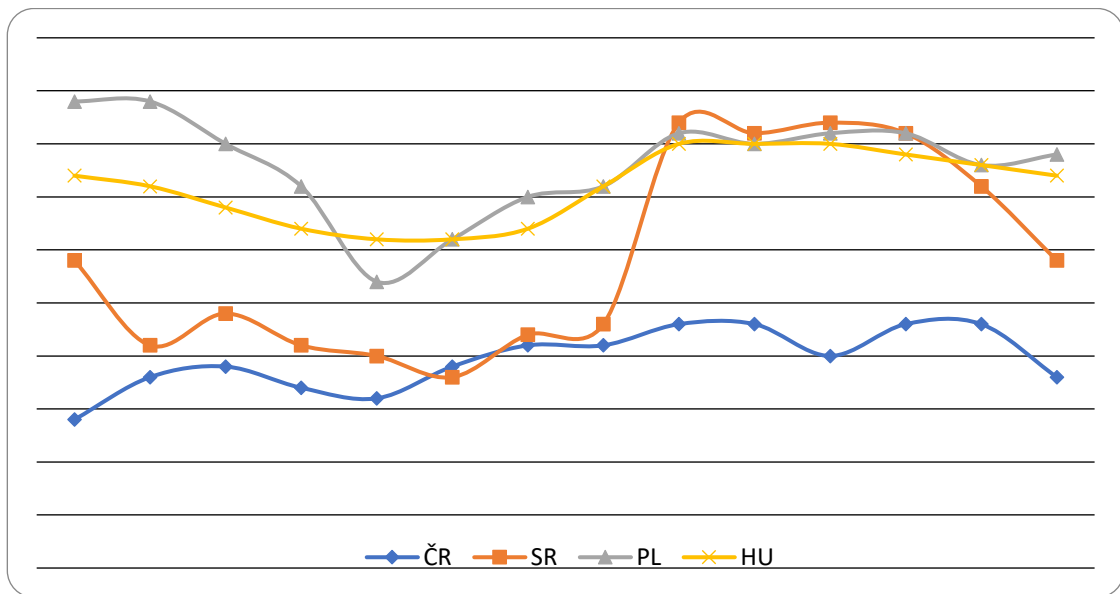
In 2011 Slovakia witnessed a more important reversal in the development between the short-term and long-term debt, this time in favour of the long-term debt, which grew by 24 p.p. in two years and its share started to move towards 70%. The main reason was the rise in long-term government debt, more than double till 2014. In absolute terms it meant an increase from 12 108 Mio. EUR in 2011 to 28 757 Mio. EUR in 2014. In 2016 the long-term debt however dropped to 51%.

The situation in Poland and Hungary, where the level of long-term debt to gross debt moves around acceptable level of 60%, is more positive, In the case of Poland and Hungary the data are without inter-company loans (see section Methodology and data), as the time structure of these loans is not available. If we included also long-term inter-company loans, then the values would be substantially higher, regarding the share of these loan on the total debt.

The indebtedness in the government sector shows a rather negative trend in absolute terms of long-term debt. The main reason are foreign investors' purchases of government bonds and credit from the European investment banks used for infrastructure investment. The lowest share of government sector on gross debt (see Graph 6) can be seen in the Czech Republic, other V4 countries have the value of 40%. Slovakia experienced steep decrease in this share, by 7 p.p.

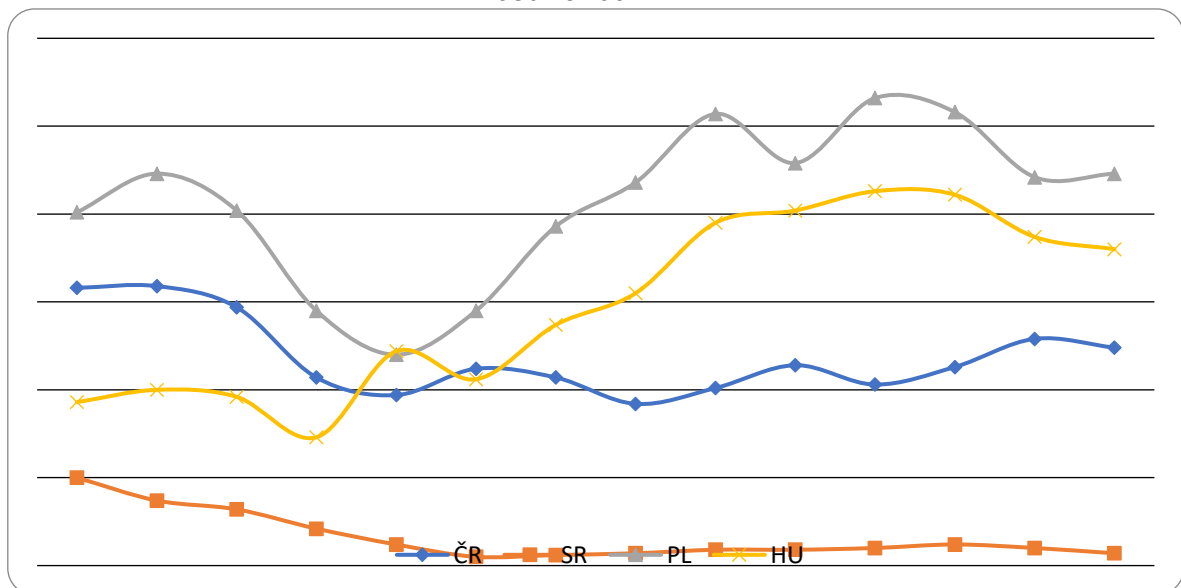
Government sector debt on foreign gross debt is an important category to watch, as it really represents (unlike the increase in domestic public debt) indebtedness of future generations of given country, namely the holders of the financial claims are foreign subjects, which means the yields from these liabilities will go abroad.

Ratio of foreign exchange reserves to short-term debt belongs to liquidity indicators. IMF considers it to be the most important indicator of foreign exchange reserves adequacy, especially for countries, which have unsure capital market access. This ratio can be used for further prediction of vulnerability towards liquidity crises.

Graph 6: Development government sector foreign debt on gross foreign debt in V4 countries in %

Source: author's own calculations according to CNB 2018; NBS 2018; NBP 2018; MNB 2018

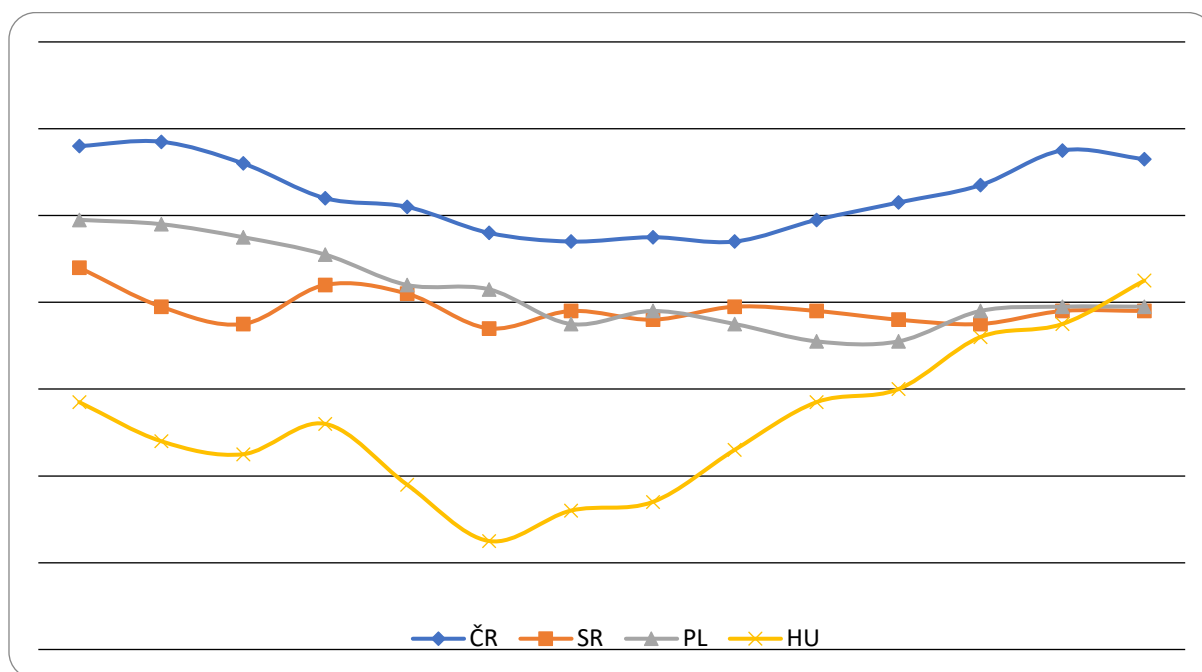
If this indicator shows values higher than 1 (thus higher than 100%) it means that the given country does not run the risk of a solvency crisis. Slovakia is the only country, which has this indicator below 100%. This special situation is given by the fact that Slovakia is a part of the euro zone. For Slovakia not only its central bank matters, but also its membership in the euro-system, including European Stability Mechanism etc. The exchange rate regime is very important for this indicator, e.g. floating enable to avoid the solvency crisis even by a less favourable ration of foreign exchange reserves to short-term debt. However, this indicator needs to be applied cautiously, as it presumes that foreign exchange reserves can be as such used to repay the external debts. It opens the issue of currency structure and liquidity of reserve assets.

Graph 7: Development of foreign exchange reserves ratio to short-term debt in V4 countries in %

Source: author's own calculations according to CNB 2018; NBS 2018; NBP 2018; MNB 2018

There are further indicators of external balance, e.g. the ratio of debt service to GDP, with the limit value of 5%, or the import coverage by foreign exchange reserves (3-5 months). Indicators of external balance can also include the ratio of net investment position to GDP, with the limit value 35%.

Graph 8: Development of net international investment position to GDP in V4 countries in %



Sources: (Eurostat, 2018b)

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=tipsii10&tableSelection=1>

Net investment position reflects the final balance of the state of foreign assets and liabilities to a certain date. Foreign assets can be defined as a portfolio of foreign direct investment, portfolio investment, financial derivatives and other investments of domestic subjects towards non-residents, including the foreign exchange reserves of the given country. Foreign liabilities include financial claims of non-residents towards domestic subjects in foreign direct investment, portfolio investment, financial derivatives and other investment. The data are given on gross principle, e.g. the financial liabilities and assets are separated by each item.

Regarding the dynamics of net investment position to GDP, the Czech Republic has the best position. Because of the exchange rate intervention, the foreign exchange reserves of the central bank grew, which positively contributed to the change in 2013. Other countries see their values oscillate at around 60%.

Transitional economies like the V4 countries have a typical feature in the form of inflow of FDI on the liabilities of the investment position. FDI are more significant than debt sources. Therefore, it is not the foreign indebtedness that would weigh on the liabilities of the given country and thus negatively influence the net investment position. Another characteristic feature is the high share of foreign exchange reserves on the side of assets in the investment positions, which is connected with central bank exchange rate interventions (with the exception of Slovakia).

Sustainability of the external balance regarding the net investment position can be found in Brůna (2013). The author claims that transition economies like V4 countries have difficulties in achieving long-term sustainability and in lowering the ratio of net investment position to GDP, because these countries are net receivers of FDI and thus carry high dividend costs and costs in the form of reinvested earnings.

4. DISCUSSION

Globalization of world economy is inevitably connected with capital flows in all various forms. These capital flows have different causes, which could be divided into two groups. Firstly, they are factors connected with the economic level of given countries, so-called pull factors, which “lure” foreign capital because of their attractiveness. These factors may include the gap between domestic savings and investments, high economic growth, high interest rate differential in favour of the domestic currency, appreciation tendencies of the domestic currency and others, which can bring foreign investors higher yields of their free capital. Also, the liberalization of financial account or the abolishing of barriers to free movement of capital can be important. Inflow of capital can be also the reflection of external influences, which pushes capital to given country (push factors). These are the factors that offer the foreign investors higher yields than the domestic market.

One of the most important topics concerning indebtedness is the relationship between indebtedness and economic growth, thus the issue of foreign capital usage. If the capital is not used efficiently (wrong investments, unproductive consumption etc.), the yield from its usage will not cover the debt service, a country will have to take out another loan to repay the debt and so it gets to the debt spiral, which can at the end lead to unsustainable level of indebtedness and to default.

From the point of view of the foreign debt sustainability it is crucial that the exports of the given country grow faster and that this growth exceeds the costs of servicing debt. This topic is reflected in debt overhand theories, which are devoted to analysis of high foreign indebtedness negative impacts on the host economy. These arguments can be found in Serieux and Samy (2001), or Patillo, Poirson, Ricci (2004). These authors analyse through which channels the high debt influence the host economies. High indebtedness can, according to these researchers, be a source of insecurity about future repayment of debt, as it can cause default of given country and lead to tax hike, public expenditure cuts or debt monetization. Insecurity and instability puts off the investors, the lack of productive investment leads to decrease in real economic growth and the corresponding decrease in revenues of all economic subjects.

Similar approach can be found by Krugman (1988) and Sachs (1989). They assume that if there is a certain probability that the country won't be able to repay its debt, it may discourage domestic and foreign investors, as they may fear that the more they produce, the more they will be taxed and thus they won't have the incentive to invest. This argument is explained by the so-called Laffer debt curve. This curve assumes that the higher the debt burden the lower the probability of its repayment. Till certain level of debt, the probability of its repayment grows, but afterwards it goes down. However, there are different views on what the breaking point is. Patillo, Poirson, Ricci (2004) believe it is 160-170% debt ratio to export, or 35-40% debt ratio to GDP. Similar arguments can be found in Cordella, Ricci, Arranzi (2006).

Although there is a number of studies with quantified indebtedness impacts on economic growth, the results are ambiguous. The studies were conducted on different

countries with different economic standards. Studies on developed countries conclude that foreign indebtedness has positive impact on economic growth. See Schclarek (2004), which shows that the foreign indebtedness impact of developing countries is negative, whereas by the developed countries it is positive.

Patillo, Poirson, Ricci (2004) show that high debt burden can influence the growth by two channels – capital accumulation or productivity.

Theories also indicate that debt can have a non-linear impact on growth. However, there are not enough studies that empirically research non-linear impact of debt on growth. Cohen (1997) states that probability of debt restructuring, which is positively dependent on external indebtedness, can reduce growth substantially. Debt is becoming excessive, when it reaches 50% GDP or 200% exports.

Reinhart, Rogoff, Savastano (2003) state that even a relatively low level of debt can trigger a debt crisis. Although the connection between debt and growth is not analysed directly, the results show that in some cases even the debt level of around 15% GNI can be a trigger, if it is a case of a country with default record and with higher inflation.

There are also diverging views, e.g. Easterly (2001), who see the opposite causality. In this case the world economic slow down after 1975 helped to trigger the debt crisis in the 80's. Lower growth leads to lower tax receipts, which can cause debt explosion.

CONCLUSION

The aim of this article was to identify risk factors in V4 countries regarding foreign indebtedness that could have the potential to destabilize the whole region. To reach this aim the method of comparative analysis was chosen, with the help of crucial indicators with so-called limit or critical levels it was possible to conduct the comparative analysis. These indicators are closely followed by investors and foreign financial institutions.

Gross foreign indebtedness showed possible risk in all V4 countries. However deeper analysis detected that the reason why the figures exceed the critical level of 40% GDP are inter-company loans. They reflect a common feature of V4 countries, the way they are engaged in the world division labour, where the mothers of transnational corporations play the key role.

Deposits of non-residents in domestic banks can reflect positive interest rate differentials (with the exception of Slovakia), but also attractiveness of these countries' securities. In both cases it is dubious, to what extent this represents "debt", which would be a threat to these countries. More controversial is the situation in Hungary, which has indeed experience with debt crises. Problems of Hungarian subjects regarding their debt holdings in foreign currency could negatively influence the whole image of the region for investors and rating agencies.

Net foreign indebtedness underlines the role of financial claims of V4 countries. The trend indicator of foreign debt to exports can also be viewed positively. Visegrad countries evidence low value, incomparable to countries, which experienced a debt crisis.

Regarding debt sustainability the division between short-term and long-term debt is crucial. In this regard the Czech Republic stands out as it has recently witnessed increase in short-term banking debt. This increase was due to the interest of non-resident who demanded crown assets. The policy of exchange rate commitment,

which brought about this situation, was already abandoned. Therefore, this situation should not carry any substantial risk for the Czech Republic.

The ratio of foreign exchange reserves to short-term debt does not indicate risk of solvency crisis in V4 countries. The special position of Slovakia, a eurozone member, must be considered, when analysing its foreign exchange reserves.

The most worrying is the increase in government debt. The interest of foreign investors in debt securities of these countries can be a sign of their trust in these economies, it is however also connected to serious risks (exchange rate risk) and is and will be connected with the outflow of financial flows abroad. Thus, the issue of in/sufficient absorption of domestic market arises.

The discussions about the connections between foreign debt, economic growth and debt crises continue on the academic level. New issues which concern various debt impacts on various categories of countries are coming up, and there are doubts about the “critical” level of debt indicators based on empirical evidence.

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