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Dynamics of Gross External Debt in Slovenia

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### Summary

The expansion of international capital flows is reflected in Slovenia's net international investment position. Due to growing indebtedness, the analysis places special emphasis on the dynamics of gross external debt. The sectoral structure of external debt indicates that the debt of the government sector has been decreasing, particularly since 2001, while the debt of the private sector has been increasing. In the period 1995-2006 most external debt was long-term, while the proportion of short-term debt decreased.

An analysis of external debt using different criteria and static and dynamic indicators shows that Slovenia had no problems with short-term liquidity in 1995-2006 and that its level of external debt was sustainable. The evolution of external debt, based on the balance of payments equation, explains the contributions of individual factors (external current account balance excluding interest payments on external debt, net non-debt creating foreign direct investment, the nominal interest rate effect, real GDP growth, the price and exchange rate effect, and the residual) to the dynamics of external debt.

By entering the EMU, the Bank of Slovenia joined the Eurosystem, which brought about some methodological changes. The changes had the biggest impact on the flows of investment in securities and other investment, as well as on the increase in gross external debt.

Medium-term scenarios of external debt are based on two scenarios: (i) the baseline scenario, which assumes a favourable domestic and international environment; and (ii) an additional scenario, which analyses the sensitivity of external debt to individual shocks such as an increase in interest rates, a slowdown in economic growth, increased current account deficit and high value of residual. The latter constitutes the largest risk to further expansion of external debt.