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Nine EU countries call for change in public debt calculation in the EU

At the beginning of August on the initiative of Poland, nine EU countries proposed a change in the EU methodology of public debt calculation. The new method is intended to make a distinction between a public debt and pension system liabilities. The application of the new method would increase the chances of fulfilling the criteria for entrance to the eurozone for these countries but on the other hand may weaken their determination in making public finance reforms.

The proposals for modifications were expressed in a letter signed by the finance ministers of Poland, the Czech Republic, Hungary, Romania, Bulgaria, Lithuania, Latvia and Sweden and sent to the European Commission and the Council of the EU. Excerpts of the letter were revealed on 13 August. The signatories of the document point to the unfairness of the current method of debt calculation. According to the current system, the pension debt incurred due to co-financing private pension funds by the state is included in public debt whereas the majority of Old Member States do not have to run such operations as they have different pension systems and their pension debt is not revealed. The new method is set to dispense with the obligation to count in the public debt costs linked to the introduction of public-private pension systems.

The adoption of the new method requires agreement from all EU countries. If it is accepted, the level of the revealed public debt will decrease in the countries that have introduced reforms in their pension systems. This is of particular importance for the countries that have exceeded or are approaching the limits of the threshold of 60% of GDP of public debt accepted in the EU.

According to the data from 2009 provided by Eurostat, Hungary is the most indebted country (78.3% of GDP), followed by Poland (51.0% of GDP) and Latvia (36.1% of GDP). Although the new method would make it easier to compare debt levels in EU member states, it may also weaken efforts made by a section of EU countries to introduce public finance reforms. <dab>