European Debt Crisis

Greece as a 'model' of indeptedness
and debt management
by the European Commission

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Initial Questions

Is debt good or bad (why and when)?

What is the Stability Pact deficit limit?

What is the Stability Pact debt limit?

Why do you think these were the criteria chosen?

Exercise

Work with a partner from the same country as you

See Greek macroeconomic criteria with history* from 2006-2013 (trading economics) http://www.tradingeconomics.com/indicators)

And compare the data with your country

- ***Government budget (deficit)***
- ***Government debt***
- ***Credit rating***
- ***GDP annual growth rate***
- ***Unemployment rate***
- ***Inflation***
- ***Interest rate (government 10 year bonds)***

****click on the 'trend' graphic and choose the history***

Credit rating Agency

B-

Greek debt (170%GDP) – borrow money
10-year government bonds

10 year bonds
€200bn

€200bn

30% IR

€20bn pa
+3bn Interest

Can't service debt

0.5 %
IR

ECB / IMF
'Rescue Package'
(restructuring)
€325bn

Greece trapped in a debt / credit negative spiral

- ***Can't service its debt because of high Interest rate***
- ***Credit rating gets worse***
- ***Interest Rate increases***
- ***Debt / Deficit gets worse***
- ***Has to be rescued***
- ***Rescue plan includes a 'Restructuring Plan'***

Classic IMF Restructuring Plan:

- ***Reduce expenditure (public services)***
- ***Education / Public transport / Health***
- ***Public sector salaries and pensions***
- ***Sell public goods, companies and services (€50bn already)***
- ***(deregulate the banking sector)***
- ***(allow the trade in the national currency)***
- ***(remove trade restrictions)***
- ***(remove industrial and territorial sovereignty)***

The PIIGS
Debt/GDP

Ireland
2007: 25%
2013: 117%

Greece
2007: 106%
2013: 157%

Portugal
2007: 68%
2013: 124%

Spain
2007: 40%
2013: 86%

Italy
2007: 107%
2013: 127%

The European Commission as part of the 'Troika'

- ***European Commission***
- ***International Monetary Fund***
- ***European Central Bank***

instigated an austerity plan linked to a rescue package for the PIIGS

What are the consequences?
(growth, taxes, public services, debt servicing, political future...)

What are the alternatives?