



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?

Debt to buy a house
Debt to start a business
Debt to pay for a war (US Lend-Lease to the UK, Australia, Russia etc WW2)

How long (capital and interest repayment – debt servicing)
At what interest rate (how big is the risk / rating agencies...)
Floating or fixed interest rate
Likelihood of getting paid back
Downpayment or capital to 'guarantee' repayment (NB US rules)

Debt default – when you stop paying
National or Sovereign default – when a country stops paying
Debt restructuring (haircut)

Debt does not make a society poorer –
one person's debt is another person's asset, therefore total wealth is unaffected

List of sovereign debt defaults or debt restructuring (Wikipedia)

The following list includes actual sovereign defaults and debt restructuring of independent countries from 1900 till 2012. **AFRICA**

Algeria (1991)
Angola (1976, 1985, 1992-2002)
Cameroon (2004)
Central African Republic (1981, 1983)
Congo (Kinshasa) (1979)
Côte d'Ivoire (1983, 2000, 2011)
Gabon (1999–2005)
Ghana (1979, 1982)
Liberia (1989–2006)
Madagascar (2002)
Mozambique (1980)
Rwanda (1995)
Sierra Leone (1997–1998)
Sudan (1991)
Tunisia (1867)
Egypt (1984)
Kenya (1994, 2000)
Morocco (1983, 1994, 2000)
Nigeria (1982, 1986, 1992, 2001, 2004)
South Africa (1985, 1989, 1993)
Zambia (1983)
Zimbabwe (1965, 2000, 2006)

Americas

Antigua and Barbuda (1998–2005)

Argentina (1827, 1890, 1951, 1956, 1982, 1989, 2002-2005)

Bolivia (1875, 1927,[17] 1931, 1980, 1986, 1989)

Brazil (1898, 1902, 1914, 1931, 1937, 1961, 1964, 1983, 1986–1987,1990)

Canada (Alberta) (1935)

Chile (1931, 1961, 1963, 1966, 1972, 1974, 1983)

Colombia (1900, 1932, 1935)

Costa Rica (1901, 1932, 1962, 1981, 1983, 1984)

Dominica (2003–2005)

Dominican Republic (1931, 1975-2001, 2005)

Ecuador (1906, 1909, 1914, 1929, 1982, 1984, 2000, 2008)

El Salvador (1921, 1932, 1938, 1981-1996)

Grenada (2004–2005)

Guatemala (1933, 1986, 1989)

Guyana (1982)

Americas

Honduras (1981)

Jamaica (1978)

Mexico (1914, 1928-1930s, 1982)

Nicaragua (1911, 1915, 1932, 1979)

Panama (1932, 1983, 1983, 1987, 1988-1989)

Paraguay (1920, 1932, 1986, 2003)

Peru (1931, 1969, 1976, 1978, 1980, 1984)

Surinam (2001–2002)

Trinidad and Tobago (1989)

United States (1933, 1971 (Nixon Shock)

Orange County, California (1994)

Detroit, Michigan (2013)

Uruguay (1915, 1933, 1937, 1983, 1987, 1990)

Venezuela (1982, 1990, 1995–1997, 1998, 2004)

Asia

China (1921, 1932,[17] 1939)

Japan (1942, 1946-1952)

India (1958, 1969, 1972)

Indonesia (1966)

Iran (1992)

Iraq (1990)

Jordan (1989)

Kuwait (1990–1991)

Myanmar (1984,1987,2002)

Mongolia (1997–2000)

The Philippines (1983)

Solomon Islands (1995–2004)

Sri Lanka (1980, 1982, 1996)

Vietnam (1985)

Europe

Albania (1990)

Austria-Hungary (1796, 1802, 1805, 1811, 1816, 1868)

Austria (1938, 1940, 1945[17])

Bulgaria (1932[citation needed], 1990)

Croatia (1993–1996)[17]

Denmark (1813)[17] (see Danish state bankruptcy of 1813)

Germany (1932, 1939, 1948)

Greece (external debt: 1932-1964, 2010-present; domestic debt: 1932-1951)

Hungary (1932, 1941)

Poland (1936, 1940, 1981)

Romania (1933)

Russia (1918, 1947, 1957, 1991, 1998)

Spain (1936-1939)

Turkey (1915, 1931, 1940, 1978, 1982)

Ukraine (1998–2000)

United Kingdom (1932)

Yugoslavia (1983)

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**

**0.5 %
IR**



Can't service debt

**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?