EUROZONE DEBT CRISIS

What is the Eurozone Debt Crisis?

- This is also known as Eurozone sovereign debt crisis
- The term indicates the financial woes caused due to overspending by come European countries
- When a nation lives beyond its means by borrowing heavily and spending freely, there comes a point when it cannot manage its financial situation.
- When that country faces insolvency. (Insolvency: when it is unable to repay its debts and lenders start demanding higher interest rates, the cornered nation begins to get swallowed up by what is known as the Sovereign Debt Crisis

What are the causes of a debt crisis?

- What causes a debt crisis to occur are a stopped or slowed economic growth, declined tax revenues, increased government spending, or a combination of the factors.

Brief History

- The Eurozone debt crisis seems to surround Greece the most.
- The actual beginning is how the European Union (EU) began in 1993 where 27 European nations "agreed to form an alliance that could compete economically with larger nations such as the US". This is what created the currency of the euro.
- The euro's value has decreased over the past few years due to the European Debt Crisis.

Brief History

- The EDC began in 2008 with the crash of Iceland's banking system, which spread to Greece.
- Greece had experienced corruption and spending as its government continued borrowing money despite not being able to produce sufficient income through work and goods.
- It was admitted that Greece's debts had reached 300bn euros, the highest in modern history
- Spain, Portugal, and the other nations later followed Greece.

Data Collection

The main European countries affected in the European Debt Crisis are as follows:

COUNTRIES	STATISTICS
France	Debt/G.D.P: 81.7% Unemployment. Oct 2011: 9.8% S&P Rating: AAA
Germany	Debt/G.D.P: 83.2% Unemployment. Oct 2011: 5.5% S&P Rating: AAA
Greece	Debt/G.D.P: 142.8% Unemployment. July 2011: 18.3% S&P Rating: CC
Italy	Debt/G.D.P: 119% Unemployment. Oct 2011: 8.5% S&P Rating: A
Portugal	Debt/G.D.P: 93% Unemployment. Oct 2011: 12.9% S&P Rating: BBB-
Spain	Debt/G.D.P: 60.1% Unemployment. Oct 2011: 22.8% S&P Rating: AA

Latest Developments

- **<u>PORTUGAL</u>**
  - In the first quarter of 2010 Portugal had one of the best rates of economic recovery in the EU. The country matched or even surpassed its neighbors in Western Europe.
  - A report was released that the Portuguese government public debt has increased due to mismanaged **structural and cohesion funds** which then resulted to the verge of bankruptcy of the country.
  - Bonuses and wages of head officers also resulted to their economic situation

Latest Developments

- May 16 2011- Eurozone leaders officially approved a €78 billion bailout package for Portugal, which became the third Eurozone country, after Ireland and Greece, to receive emergency funds.
- According to the Portuguese finance minister, the average interest rate on the bailout loan is expected to be 5.1 percent
- As part of the deal, the country agreed to cut its budget deficit from 9.8 percent of GDP in 2010 to 5.9 percent in 2011, 4.5 percent in 2012 and 3 percent in 2013.

Latest Developments

- The Portuguese government also agreed to eliminate its golden share in Portugal Telecom to pave the way for privatization
- July 6 2011- Rating's agency Moody had cut Portugal's credit rating to junk status
- December 2011- it was reported that Portugal's estimated budget deficit of 4.5 percent in 2011 will be substantially lower than expected, due to a one-off transfer of pension funds. This way the country will meet its 2012 target already a year earlier.

Latest Developments

- **SPAIN**
  - The country's public debt relative to GDP in 2010 was only 60%
  - Spain's public debt was approximately U.S. $820 billion in 2010
  - As one of the largest euro zone economies the condition of Spain's economy is of particular concern to international observers, and faced pressure from the United States, the IMF, other European countries and the European Commission to cut its deficit more aggressively

Latest Developments

- May 2010- Spain announces the new austerity measures designed to further reduce the country's budget deficit, in order to signal financial markets that it was safe to invest in the country

- Spain succeeded in minimizing its deficit from 11.2% of GDP in 2009 to 9.2% in 2010 and around 6% in 2011

- To build up additional trust in the financial markets, the government amended the Spanish ConstitutionTo build up additional trust in the financial markets, the government amended the Spanish Constitution in 2011 to require a balanced budget at both the national and regional level by 2020.

- The amendment states that public debt cannot exceed 60% of GDP, though exceptions would be made in case of a natural catastrophe, economic recession or other emergencies.

Latest Developments

- **<u>GREECE</u>**
  - October 4 2009-With the new president, Papandreou
  - November 5 2009-Greece reveals that their budget deficit is 1207 percent of GDP
  - December 8 2009- Greece's long-term debt to BBB+, from A-.
  - March 3 2010- Greece tries to persuade the financial market that they can repay their debts
  - April 23 2010- Papandreou asks help from International Monetary Fund after Greece is priced out of the international bond markets.
  - May 2 2010- European finance ministers lend €110bn which covers until 2013. Greece pledges to bring its budget deficit into line, through unprecedented budget cuts.

Latest Developments

- April 17 2011- Greek borrowing costs start rising sharply again, on fears that its austerity measures are failing to work. Greece is now deep in recession.
- June 19 2011- Admits that they need to borrow money again
- June 29, 2011- EU leaders agree on €109bn bailout – which will see private sector lenders take haircuts of 20% – and extension to the European Financial Stability Facility (EFSF).
- October 27 2011- Europe leaders agree new deals that slash Greek debt and increase the firepower of the main bailout fund to around €1 trillion.
- November 6 2011- Prime Minister resigns

Impact on the local economy

- The Eurozone debt crisis impacted market sentiment.
- The country's economic condition will remain sound—able to withstand the effects of the lingering debt crisis in Europe and uncertainties in the United States
- "2012 will be a tough one, with reduced global growth outlook due to global uncertainties."
- Trouble abroad curbed the country's economic growth last year and dampened the market. The debt crisis in the euro zone rattled investors and heightened demand for safe haven and assets such as US dollars and bonds.

Remedial Measures

- Emergency loans have been extended as bailouts mainly by stronger economies like France and Germany, as also by the IMF.
- The EU member states have also created the European Financial Stability Facility (EFSF) to provide emergency loans.
- Restructuring of the debt
- Austerity measures have been enforced.

PERSONAL ANALYSIS

Reason

1

- One of the reasons for the debt crisis is because of the corrupt government.
- Another reason is the trade imbalance.
- Proposed solutions:
  - First, citizens must elect uncorrupt government officials who care for the economic and political growth of the country.
  - The government must give lower wages given the economic situation the country is faced with.
  - They should reduce the trade imbalances.

Reason 2

- I find it inevitable to partnerships to happen, most especially among powerful allies. However, when there's even a bit of dependence on one on the other, it's inevitable that if the other falls, the one would fall as well, most especially if there's a great dependence. The US debt crisis may have affected Europe, but the mismanagement of allocation of funds, from the spending to the borrowing, is what I believe what brought the EDC to come about. A building requires support. If one of the supports fall, the building will be affected and other supports will inevitably lose their strength. If Greece hadn't lost itself to corruption, the EDC wouldn't have been *this* bad, not affecting the other 26 nations as much as it had in the present.

Reason 3

- It was not a wise economic move to borrow money while already in debt
- I agree on the restructuring of the debt and the implementation of austerity measures
- I believe they should decrease tax rates