

Kryzys fiskalny w Europie – Strategie wyjścia

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110 seminarium BRE-CASE
Warszawa, 30 września 2010



Outline

- **Pre-crisis**
 - Loose fiscal policy in some European countries
 - No reaction to violation of Stability and Growth Pact
 - Falling competitiveness of some EU economies
- **Crisis**
 - Additional generous anti-crisis fiscal stimulus
 - Delayed market signals
 - Blind rating agencies



Agenda

1. Governments
2. Supervisory institutions: European Commission
3. Financial markets, rating agencies



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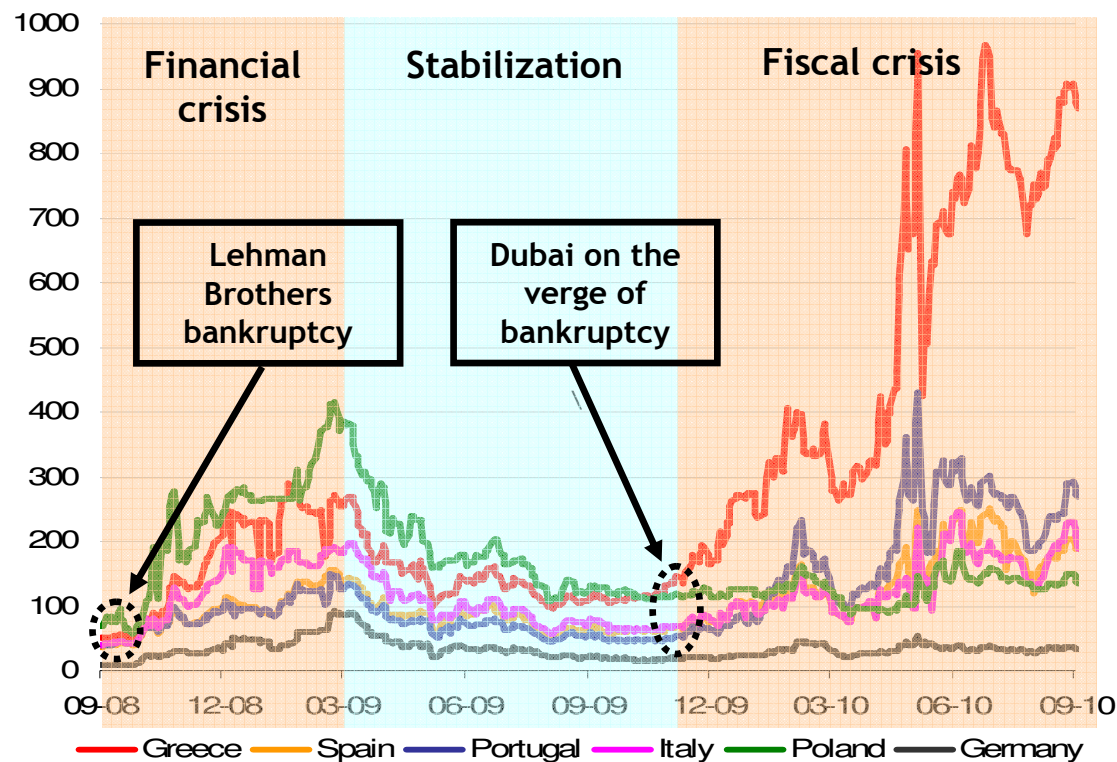
1. Governments

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Fiscal crisis emerged from financial crisis

5-Y EUR CDS rates (bps)



Source: Bloomberg.

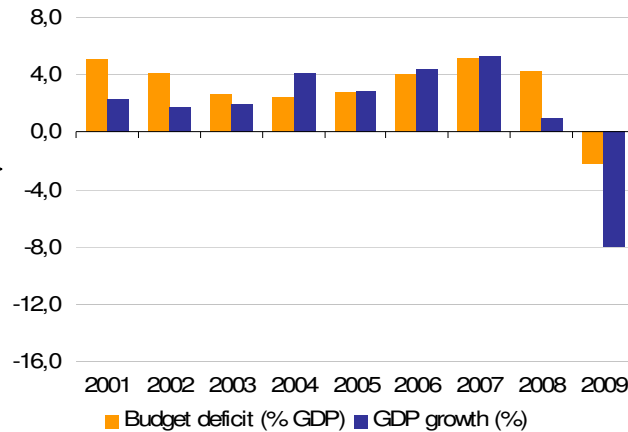
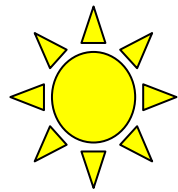


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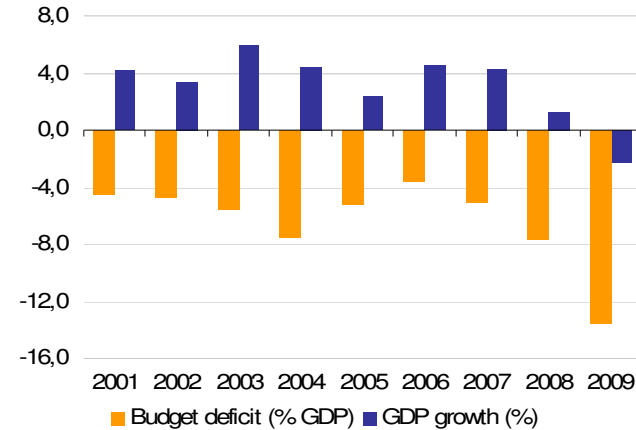
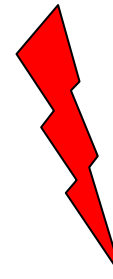
Large divergence of fiscal policies within the EU

Budget deficit (% GDP) and GDP growth (%)

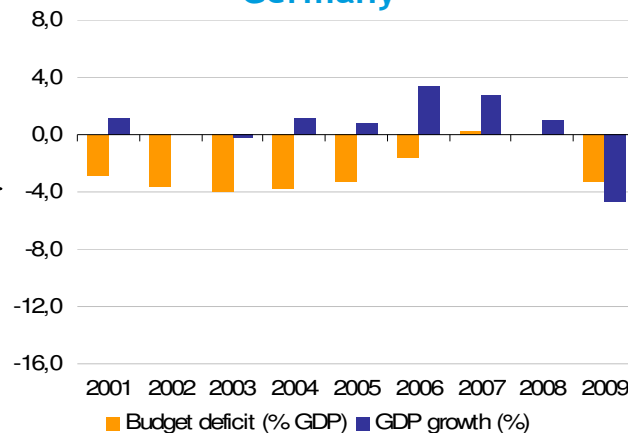
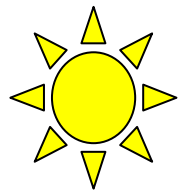
Finland



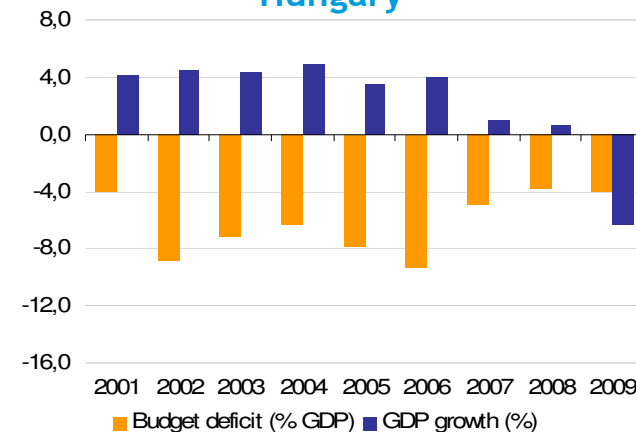
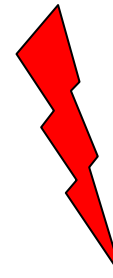
Greece



Germany



Hungary



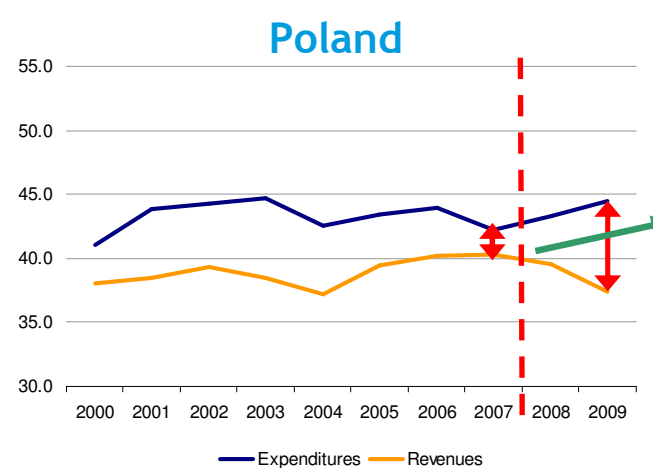
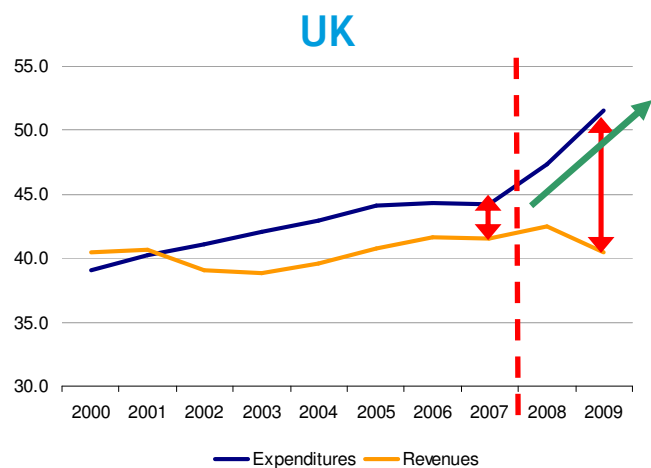
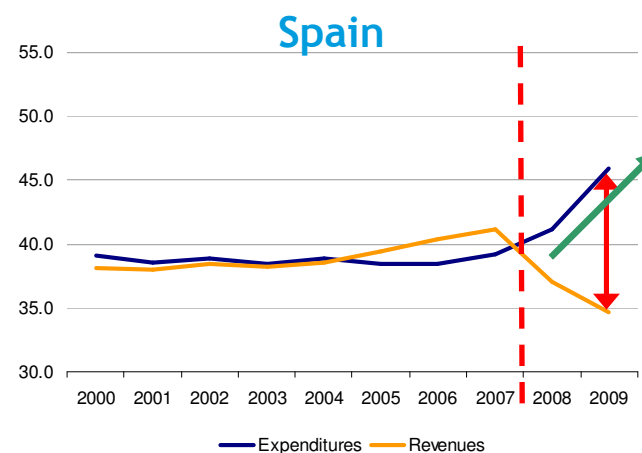
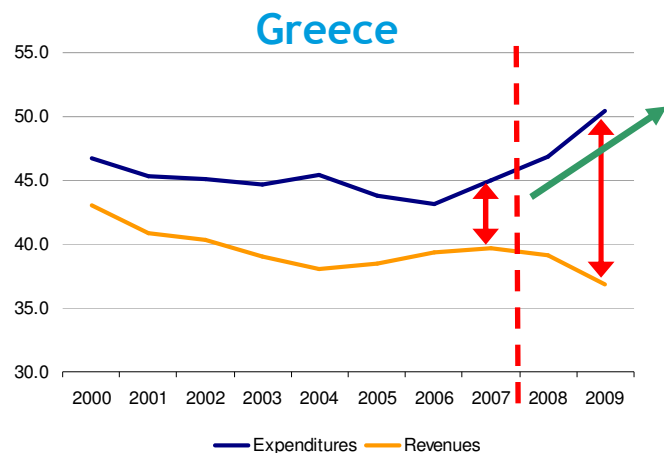
Source: Eurostat.



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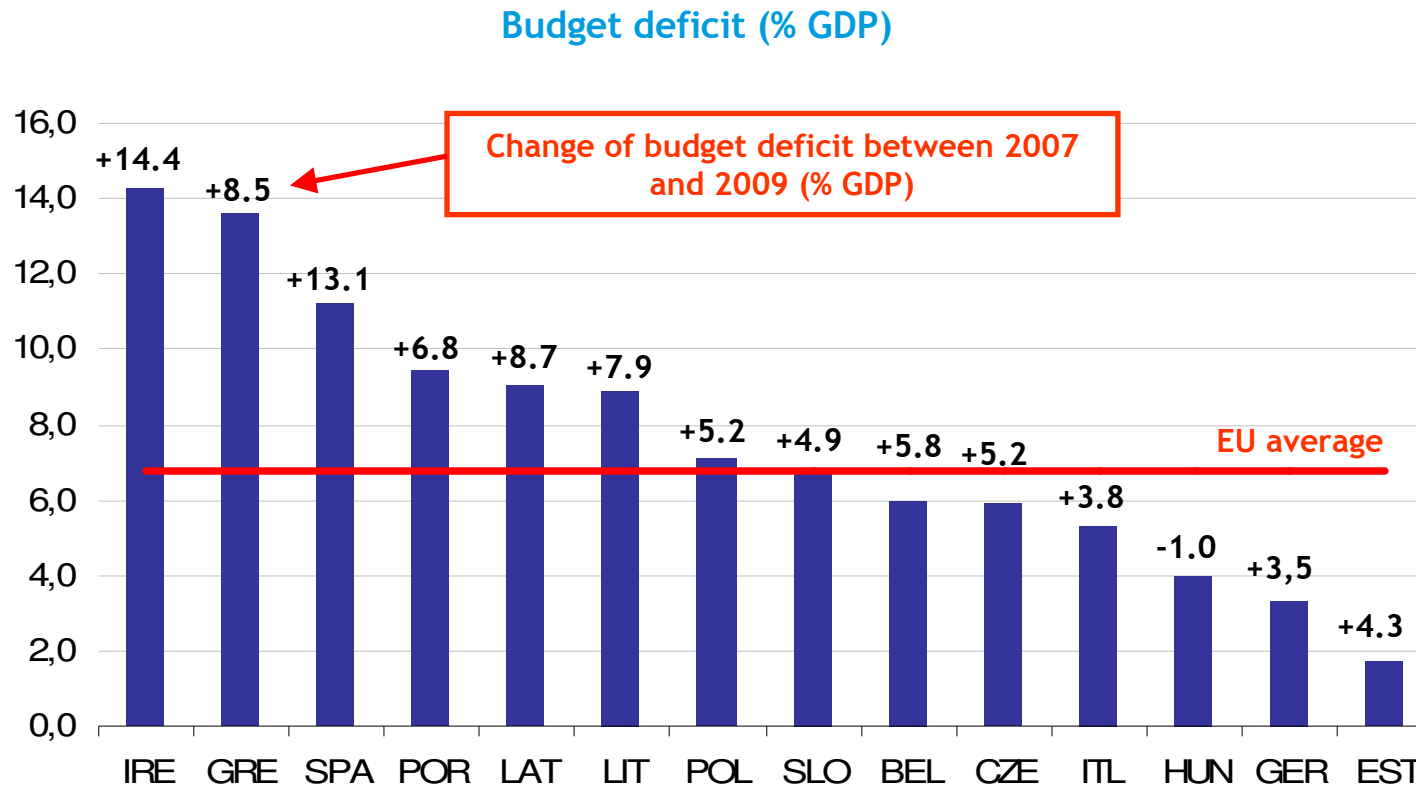
GDP fall and loose fiscal policy led to sudden fiscal deterioration...

Revenues and expenditures of general government (% GDP)



Source: Eurostat.

...resulting in excessive budget deficits...

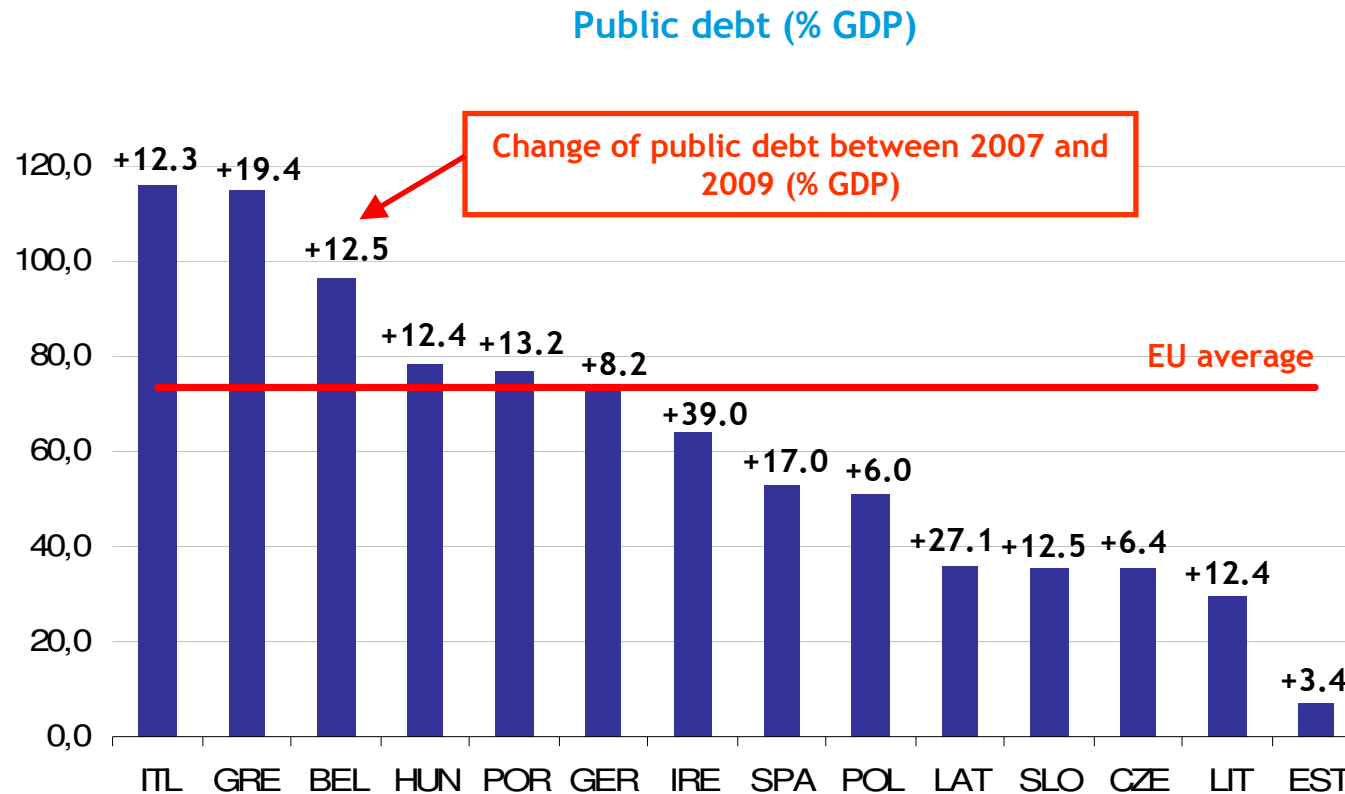


Source: Eurostat.



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...and sharp rise of public debt



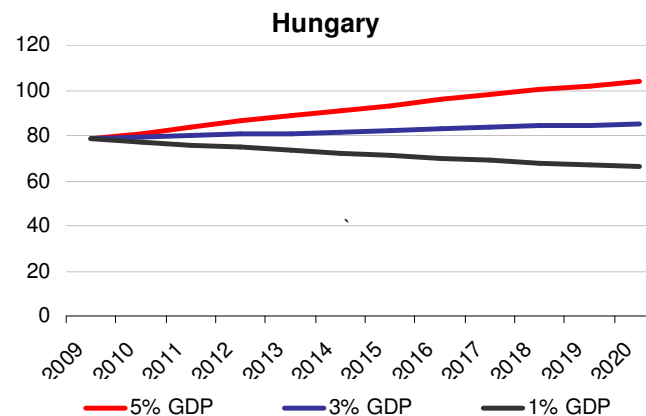
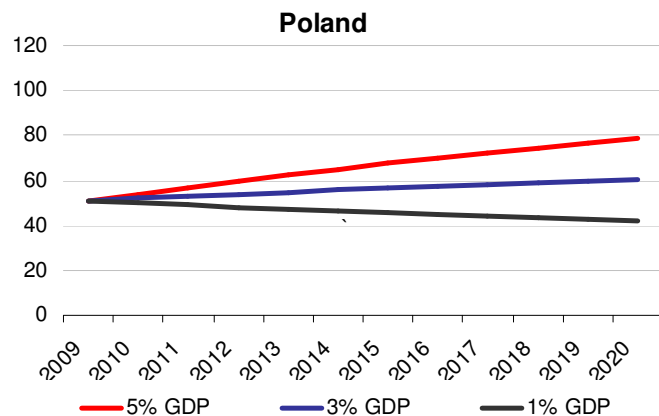
Source: Eurostat.



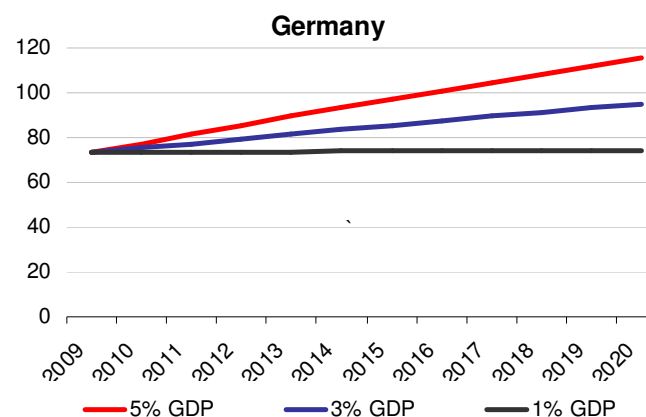
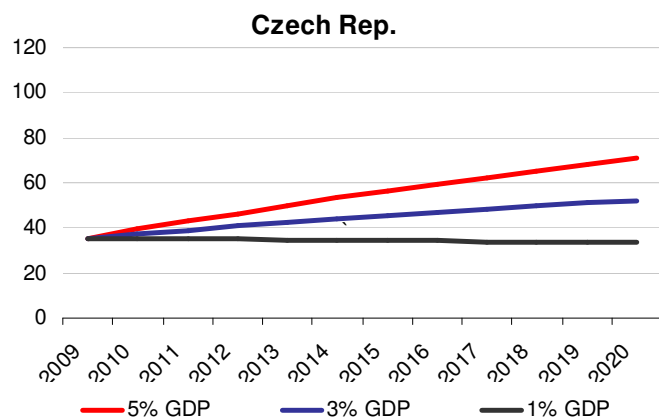
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Without fiscal consolidation debt will continue rising

Forecast of public debt to GDP ratio under various budget deficit levels*



Hungary has been tightening fiscal policy within its agreement with the IMF.



Germany is threatened with faster public debt growth than CEE countries due to its lower potential GDP growth – it has already taken steps to reduce budget deficit (national debt brake rule).

* Under the assumption of GDP growth rate at its long-term level (IMF estimates).

Source: IMF WEO April 2010, Eurostat, BRE estimates.

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2. Supervisory institutions: European Commission

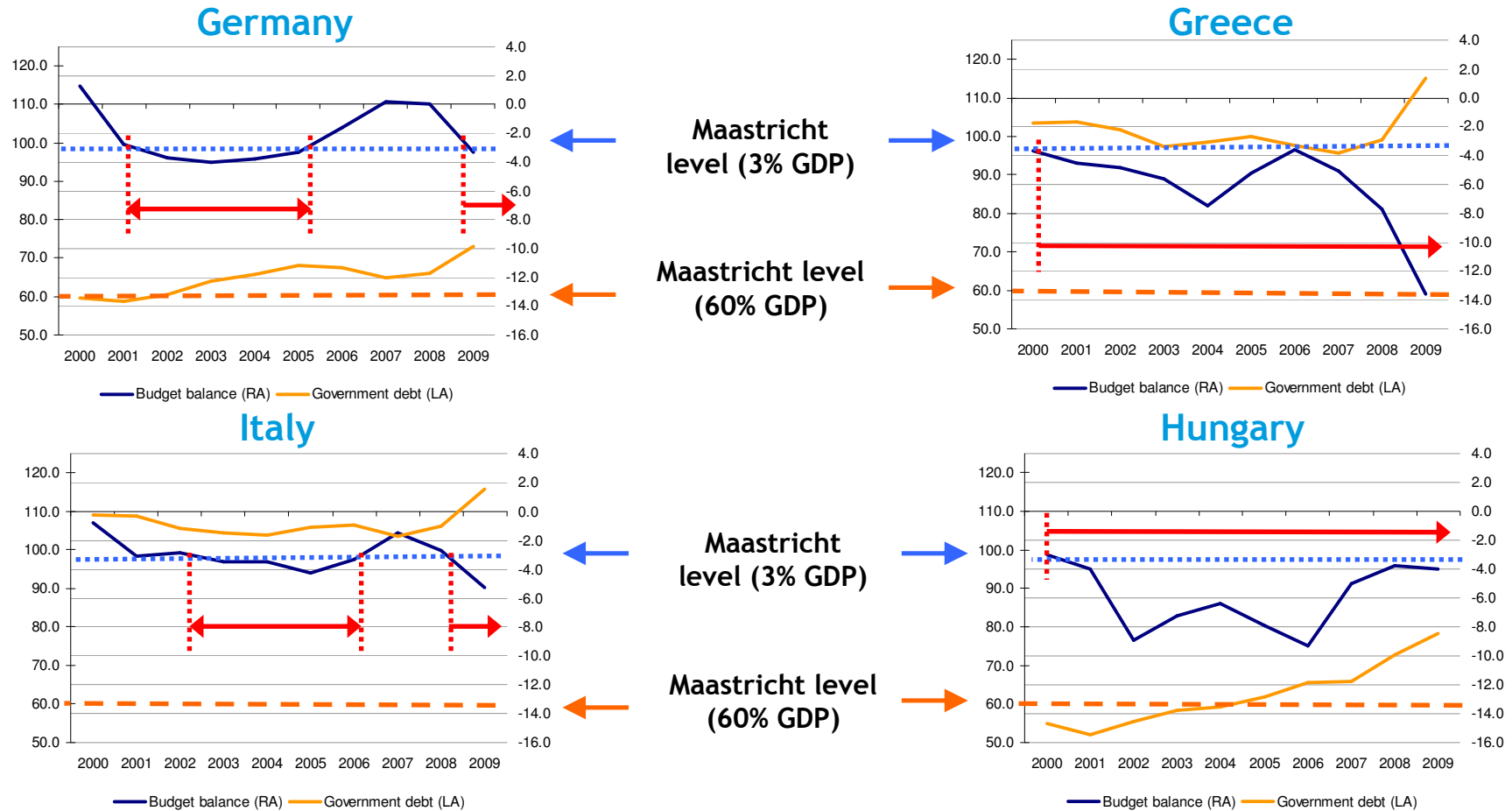
3. Financial markets, rating agencies



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Persistent violation of S&GP and no reaction from the EU

Budget balance and government debt (% GDP)



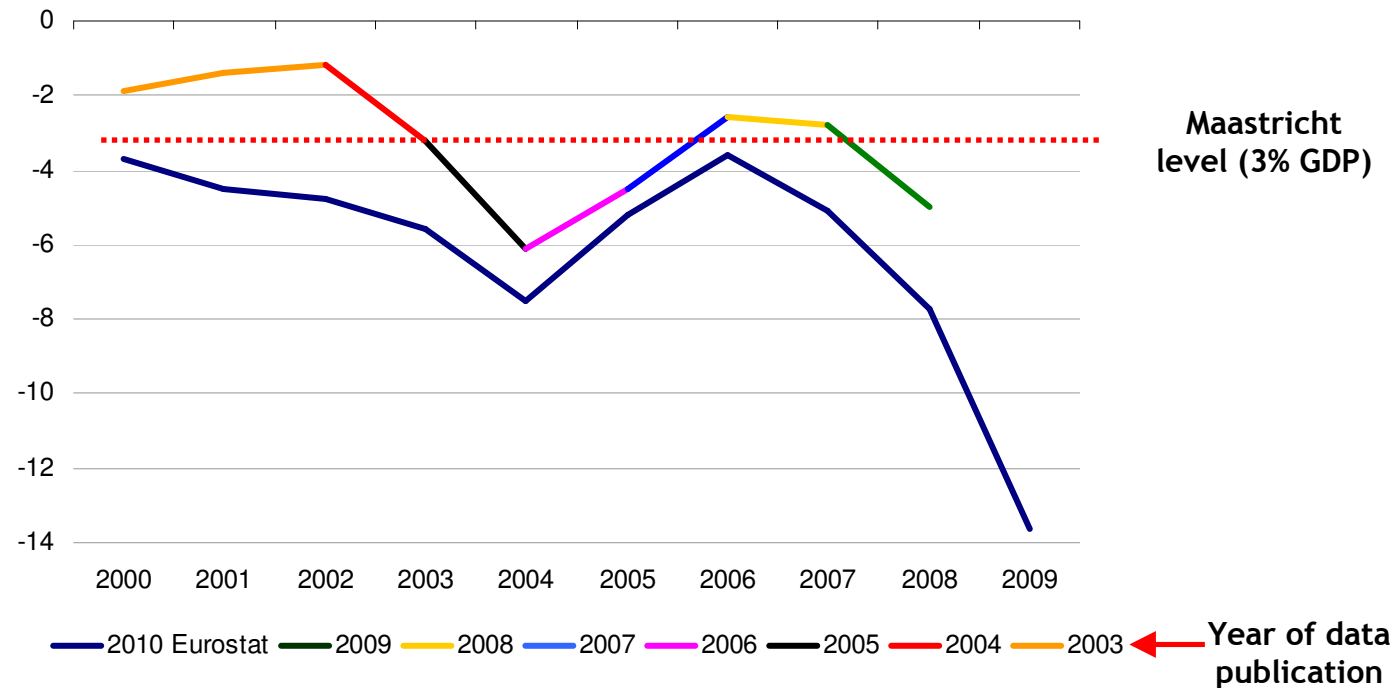
Source: Eurostat.



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Greece submitting data of questionable quality

Budget balance reported by Greece vs. Eurostat estimates from 2010 (% GDP)



Greece is a classical example of a country with excessive deficit. Additionally the quality of its deficit statistics was problematic.

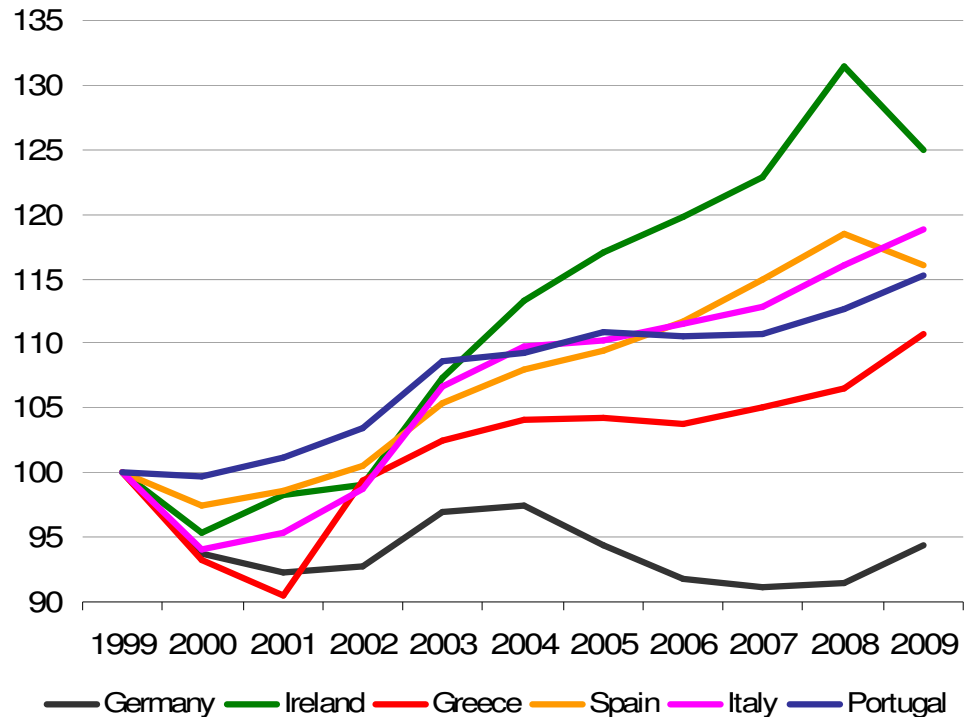
Source: Eurostat, European Commission.



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'Loss of competitiveness' warning signal indicating future fiscal risks

REER (ULC defl. 1999=100)



Unsustainable growth pattern and inflated GDP signalled future budget risks not captured by standard budget surveillance indicators.

High revenue growth due to inflated growth was generally channelled into high expenditure spending.

Warning signals were ignored as the financial turmoil started in 2007 and there were no significant budget measures after the outbreak of financial crisis in 4Q2008 to adjust to the falling level of revenues.

Source: Eurostat.



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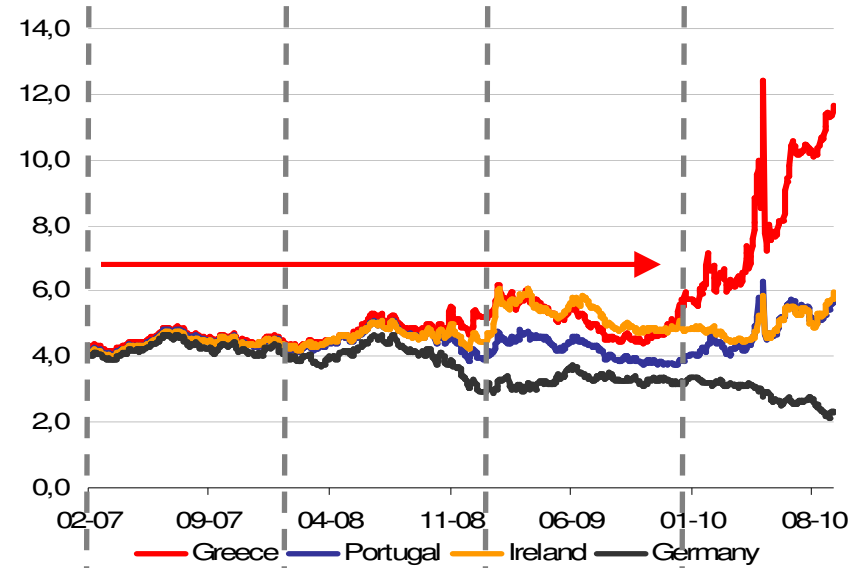


3. Financial markets, rating agencies
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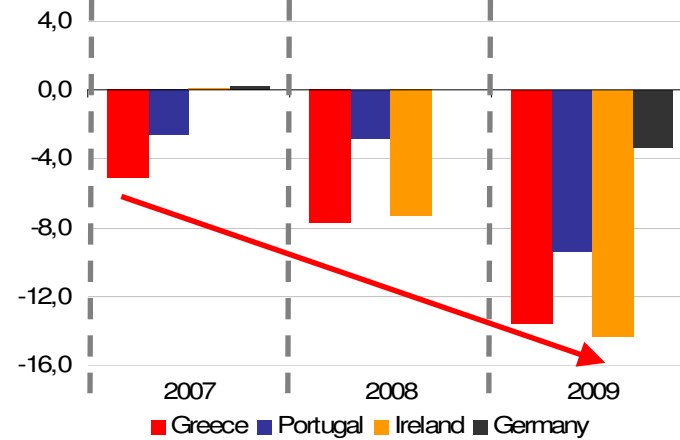


Financial markets reacted too late

10Y bond yield (%)



Budget deficit (% GDP)



Source: Bloomberg, Eurostat.

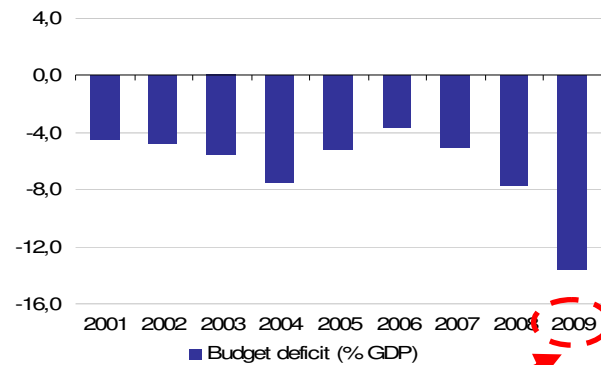


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Rating agencies missed fiscal risks as well

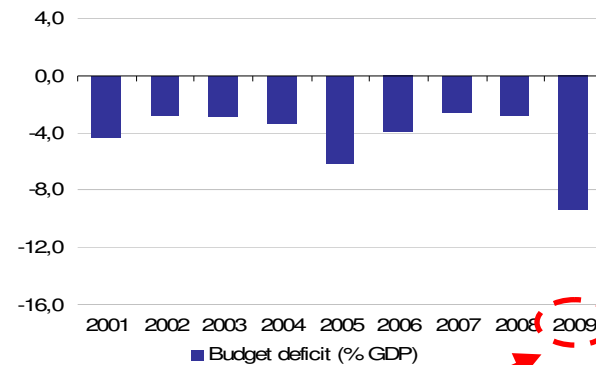
Budget deficit vs. sovereign debt rating*

Greece



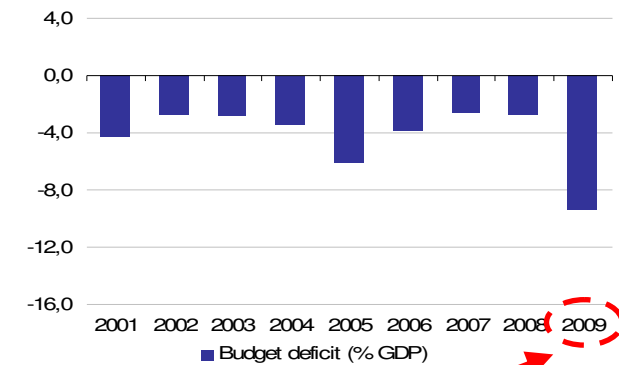
- Jan 2009: **downgrade to A-** (from A),
- Dec 2009: **downgrade to BBB+**,
- Apr 2010: **downgrade to BB+**.

Portugal



- Jan 2009: **downgrade to A+** (from AA-),
- Apr 2010: **downgrade to A-**.

Spain



- Jan 2009: **downgrade to AA+** (from AAA),
- Apr 2010: **downgrade to AA**.

* Long-term local currency debt rating according to S&P.

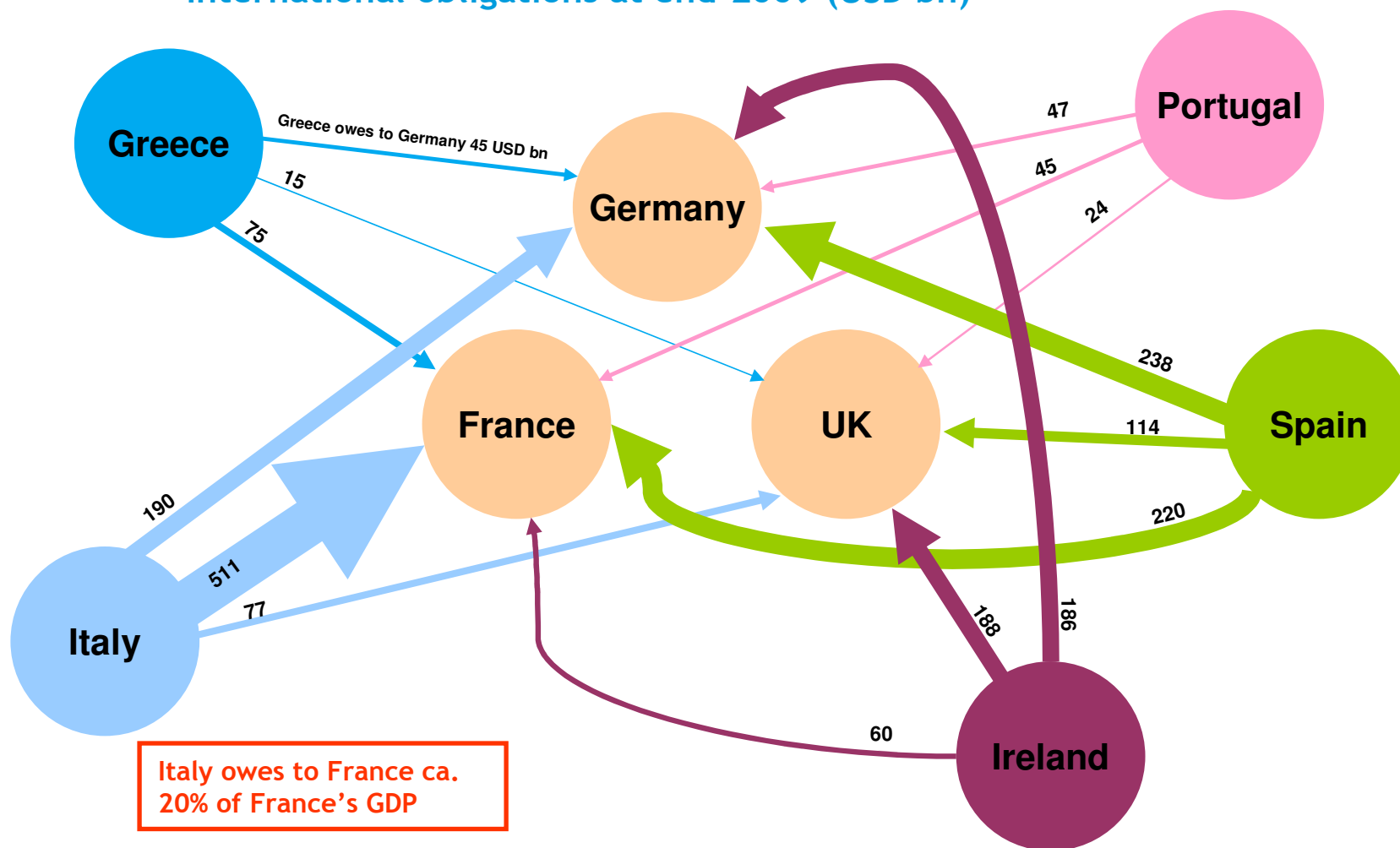
Source: Eurostat, S&P.



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International capital ties increase 'contagion' risk

International obligations at end-2009 (USD bn)



Source: Based on NYTimes, BIS.



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Conclusions

- Unsustainable and inflated growth and excessively loose fiscal policy led to sudden deterioration of fiscal position as an aftermath of financial turmoil
- Failure of Stability and Growth Pact was one of the causes of fiscal turmoil
- Financial market turned out to be short-sighted, ignoring long term risks

