



Center for Social and Economic Research

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**A few remarks to the
discussion on sovereign debt
crisis**

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The key questions

- Definition of the crisis and its geographic range
- Causes of the crisis
- Remedies
- Lessons for future



Euro crisis or global sovereign debt crisis?

- Currency crisis - a sudden decline in confidence in a given currency, leading to a speculative attack against it and resulting in its substantial depreciation
- Nothing like this has happened with the Euro so far
- Instead we observe a sovereign debt crisis in number of Eurozone countries and beyond (most of developed countries)
- In addition, confusion and uncertainty in respect to the degree of fiscal solidarity inside EU/EMU and its concrete mechanism



G7: Gross public debt to GDP, in % (2007-2016)

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Canada	66.5	71.1	83.3	84.0	84.1	84.2	82.3	79.7	76.4	73.0
France	64.2	68.2	79.0	82.3	86.8	89.4	90.7	90.8	89.7	87.7
Germany	65.0	66.4	74.1	84.0	82.6	81.9	81.0	79.1	77.1	75.0
Italy	103.6	106.3	116.1	119.0	121.1	121.4	120.1	118.4	116.3	114.1
Japan	187.7	195.0	216.3	220.0	233.1	238.4	242.9	245.9	249.9	253.4
UK	43.9	52.0	68.3	75.5	80.8	84.8	85.9	85.1	83.1	80.4
US	62.3	71.6	85.2	94.4	100.0	105.0	108.9	111.4	113.2	115.4
World	62.1	65.2	75.6	79.3	79.6	80.0	79.3	78.2	76.9	75.6

Source: IMF WEO Database, September 2011



Causes of sovereign debt crisis

- Lax fiscal policy in good times based on overoptimistic estimation of growth potential
- Unexpected and unnoticed very high revenue elasticity of 2000s boom
- Unaddressed consequences of population aging
- Countercyclical fiscal policy during the crisis
- Costs of rescuing financial sector
- Global deleveraging, competition for resources, lower debt tolerance



Potential remedies

- Growing out from debt???
- Fiscal adjustment (short-term costs, long-term benefits; the smallest beggar-thy-neighbor effect)
- Default/ restructuring
 - Is domestic debt easier to manage/ restructure?
- Monetizing/ inflating
 - Central bank as the lender of last resort???
 - Illiquidity vs. insolvency (unclear border line)
- More fiscal federalism on the EU/EMU level
 - Stronger fiscal surveillance rules
 - More bailing out/ sharing fiscal responsibility???



Some lessons for future

- Limits of countercyclical fiscal policy/
macroeconomic fine-tuning (political asymmetry)
- Limited practical value of the concept of potential
growth and cyclically adjusted fiscal balance
- Huge financial sector related contingent fiscal
liabilities and windfall revenues – more analyses
needed
- Potential rapid deterioration of debt/GDP ratio

