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EUROPEAN DEBT CRISIS : ANALYSIS AND PROBLEMS OF THE EXTERNAL DEBT OF THE EU COUNTRIES

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The article examines the importance of studying the situation, which is the result of the EU debt crisis, considers the debt structure of the countries which faced the worst crisis consequences, determines certain causes of rapid deterioration of the debt obligations in the EU countries.

Keywords: European debt crisis, external debt , PIIGS countries, EU.

Significance of the study. External public debt is a set of debt liabilities, that are the result of number of state loans borrowed from the international market. The most acute problem of external debt is among developing countries, and now has developed into a debt crisis problem. Thus, the problem of external debt is of current interest in the present financial crisis conditions.

The purpose of the study is to examine the situation, which EU countries and the Eurozone have faced in the result of the debt crisis, and the causes of rapid deterioration of their external debt.

For more than seventy years integration processes are taking place in Europe. One of the largest international entities in Europe is the European Union that counts twenty-eight member states today. Under the influence of the global financial crisis, substantial debt crisis occurred in most EU countries. The reason for this was that countries failed to service debt without new borrowings. The critical situation that has developed is the result of accumulation and subsequent growth of the public debt of countries which tried to create the illusion of a high level of well-being of their societies. As a result, governments resort to borrowing on international capital markets.

At the current stage of the world's economic development, the external debt problem has become global. In general, more than 140 countries are considered to be debtors today. All countries in the world, as well as European, pursue economic reforms resort to external sources of financing. The lack of a coherent government policy to attract and use foreign financial resources leads to the formation of the external debt, which is a serious reason for carrying through economic reforms [1].

The problem of servicing of the public debt is one of the key factors of macroeconomic stability in the country. The way of how the debt problem is to be resolved, depends on fiscal capacity of the countries, on the status of their foreign exchange reserves, and thus the stability of the currency, interest rates, investment climate, the behavior of financial market segments.

Among those countries that flagged debt crisis problems during financial economic recession are mostly Western European countries, the so-called "pig-countries" (PIGS - Portugal, Italy, Greece and Spain). Some economists also add Ireland and the abbreviation becomes PIIGS.

The problems of European PIIGS countries attracted the attention of many specialists recently. According to some experts' opinions, these problems threaten the existence of the single

European currency, lead to a risk of collapse of the EU and destabilize the entire global economy [3].

In European debt countries, a decline through all macroeconomic indicators is taking place, that pays heed to unresolved problems of external debt. European Union faces the most acute crisis lately, including Portugal, Ireland , Italy, Greece and Spain (the «PIIGS countries»-Portugal, Ireland, Italy, Greece, Spain) (Table 1).

Table 1

Dynamics of external public debt growth in PIIGS countries

Country	GDP growth, %	Unemployment rate, %	Budget deficit as a % of GDP
2011			
Ireland	1,4	14,7	-13,4
Spain	0,4	21,7	-9,4
Greece	-7,1	17,7	-9,4
Portugal	-1,6	12,9	-4,4
Italy	0,4	8,4	-3,9
2012			
Ireland	0,7	14,8	-7,7
Spain	1,4	25,0	-10,2
Greece	-6,4	24,7	-6,6
Portugal	-3,2	15,7	-5,0
Italy	-2,2	10,6	-2,9
2013			
Ireland	1,1	14,6	-7,3
Spain	1,4	26,9	-6,7
Greece	-4,4	27,0	-4,6
Portugal	-1,9	17,3	-4,9
Italy	-1,0	11,6	-2,1
2014 (forecast)			
Ireland	2,2	14,1	-4,2
Spain	0,8	26,6	-7,2
Greece	0,6	25,7	-3,5
Portugal	0,8	16,8	-2,9
Italy	0,8	12,0	-2,1

Reference [1]

From the table above we see that since 2011 the problem got worse, but some positive trends also take place. It is obvious that countries were able to overcome the deficit in general, and obviously, not without help of EU member states and the IMF, as in 2011, in Ireland it was 13.4 % of GDP , and in 2013 was at -7, 3 % of GDP, only in Italy, it remained at the lowest level and decreased from -3.9 % of GDP in 2011 to -2.1 % of GDP in 2013.

Regarding unemployment, the situation is more complicated and mostly felt in Greece and Spain, where it was at the rate of 26,9% and 27 % respectively in 2013. GDP growth is insignificant, but positive dynamics is expected in 2014 in all PIIGS countries.

The order of events that have resulted in long-term loss of competitiveness in all PIIGS countries, was implemented via the following scenario [5]:

1. The introduction of euro was accompanied by a decrease of interest rates and rising of public confidence that institutions and average income per capita in PIIGS countries would be on the same level with those of major economic powers of the EU.

2. Domestic demand skyrocketed. This has led to accelerated growth of prices for goods that are not subject to international trade, and growth of salaries in relation to productivity.

3. The acceleration of economic growth was dictated by the internal dynamics of the service sector, implementation and enlargement of the role of the government. At the same time, the share of exports in GDP volume remained the same, while imports and current account deficits, by contrast, have increased dramatically, taking to account the availability of foreign investment.

4. The result was the growth of state debt, as well as debt liabilities of private entities [4].

The euro area currently faces a steady deterioration in key economic indicators. In particular, the unemployment, which grows steadily and is currently at its historic high of 12.2 %.

The reason for the rapid deterioration of public debt in the EU is additional costs for European governments to support their economies. Due to high public expenses, EU states violate the Stability and Growth Pact, whereby the level of the budget deficit can not exceed 3% of GDP.

The current slowdown of the global economy has forced major central banks to balance between the need to combat inflation and keeping the economy afloat.

Global financial markets faced increased pressure caused by worried investors about possible default of peripheral Eurozone countries' crisis and threats of debt.

The development of the European debt crisis happened because of simultaneous effects of number of factors, which include:

- globalization of financial markets ;
- ease of access to credits in 2002 - 2008, which led to great number of loans with high risks;
- the global financial crisis of 2007 - 2012;
- deficit of the balance of trade in some countries, stagnant real estate markets;
- low economic growth rate from 2008 to the present;
- the measures of fiscal policies failed to control the government revenues and expenditures;
- widely - spread practice of urgent financial help provided by the government to the banking industry and private bondholders, debt redemption or transfer of private sector losses on taxpayers [5].

Table 2

The dynamics of external debt in PIIGS countries (2013)

Country	External debt, EUR BN	External debt in % to GDP	Debt per capita, EUR
Greece	0,4	170	38,073
Italy	2	120,1	32,875
Spain	1,9	126,1	41,366
Portugal	0,4	117,5	38,081
Ireland	1,7	111,5	390,969

Reference [2]

European governments affected by the crisis, attracted and used borrowed funds in different ways and with different creditors. Typically, donor countries are those, that have established themselves in the EU first. In Ireland, for example, a large number of bank loans received by real estate developers, increased bankruptcies in the market. When it collapsed, the Irish government (taxpayers in fact) assumed benefit obligations. In Greece, the government used the borrowed funds to pay public sector workers extremely high wages and high pensions. In Iceland, the influx of international investment has led to erratic growth of the banking sector, whose indebtedness to foreign investors exceeded the country's GDP several times [6].

Unsolved problems of European countries have their negative impact on the condition and prospects of the world economy. Along with the bankruptcy of brokerage MF Global (which holds government securities of troubled Eurozone economies amounting to 6.3 billion dollars), the downgrade of S&P reliability rating of the largest banks in the Eurozone, and a negative forecast for situation development in trouble countries by Fitch [6], which generally contributes to panic on commodity and financial markets, and causes investment reduction from large companies in the Eurozone countries, capital outflows from commercial banks of these countries by international banks in order to reduce financial risks.

Close interplay of countries in the global financial system leads to the fact that if one country does not fulfill obligations on payments, or if economic recession begins and private sector of the country is unable to service the external debt, it results in losses of the banking system of the debtee country [3].

Also, we think it is necessary to consider possible risks for euro area against considering recent developments and possible ways to overcome the crisis.

Possible risks for the Euro area [2]:

1. One or more countries can leave the Eurozone ;
2. Eurozone collapse, refuse of the euro;
3. Decrease of Germany and France ratings;
4. Increase of political tensions;
5. Difficulties with the recapitalization of banks.

The implementation of anti-crisis measures aimed at reducing the budget deficit and structural reforms (particularly in the labor market and in social obligations of the state), requires total review of fundamentals of economic policy by the Eurozone countries.

We also would like to consider a set of recommendations of leading experts and economists to overcome the crisis in the euro area:

1. To conduct monetary policy with an emphasis towards growth stimulation;
2. To focus on low euro exchange rate;
3. To claim member countries to cede some sovereign rights in the area of fiscal policy. Provide countries belonging to the euro area, the powers to analyze each others' annual budgets and key economic indicators, such as GDP growth, productivity increase and balance of payments condition.
4. To allow Governments of EU countries (not just the European Commission and the IMF) to discuss and monitor the actions of PIIGS countries, contribute appropriate recommendations, and, if necessary, coordinate sanctions.
5. Strengthen criteria for countries wishing to join the Eurozone. Require candidates to provide significant budget surplus to offset the increase in demand that they will face joining the euro area. However, stereotypical approach should be avoided: we must consider both structural and cyclical indicators.

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ДОСЛІДЖЕННЯ ПРИЧИН ВИНИКНЕННЯ ТА СПОСОБІВ ПОДОЛАННЯ КРИЗИ ЗОВНІШНЬОЇ ЗАБОРГОВАНОСТІ В КРАЇНАХ ЄВРОЗОНИ, ЗОКРЕМА У КРАЇНАХ PIIGS

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У статті досліджені основні причини виникнення кризи зовнішньої заборгованості та шляхи її подолання у країнах PIIGS.

Ключові слова: зовнішній борг, країни Єврозони, країни PIIGS.

ИССЛЕДОВАНИЕ ПРИЧИН ВОЗНИКНОВЕНИЯ И СПОСОБОВ ПРЕОДОЛЕНИЯ КРИЗИСА ВНЕШНЕЙ ЗАДОЛЖЕННОСТИ В СТРАНАХ ЭВРОЗОНЫ, В ЧАСТНОСТИ В СТРАНАХ PIIGS

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В статье рассмотрены основные причины возникновения кризиса внешней задолженности и пути ее преодоления в странах PIIGS.

Ключевые слова: внешний долг, страны Еврозоны страны PIIGS.

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