The Economic and Financial Crisis in the Context of the European Union

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Abstract

The objective of tits research is to analyze the failure of the Stability and Growth Pact following the economic and financial crisis of 2007. To that end, following a brief study in the first paragraph of the evolution of the SGP from its origin to its reform in 2005 is discussed, in paragraph two, the effects of the crisis in the EU, focusing on the impact on budgetary positions and on the public debt. In the third section is analyzed the cases of each Member State that has breached the SGP following the economic crisis. For tits we have chosen to follow uniform guidelines for study, based on a preliminary analysis of the economic context of the country during the last decade, with the most recent data available and prospects in the medium term, then continue with the study the measures implemented by the European Commission as a result of the excessive deficit registered in those countries, and conclude by referring to the consistency or inconsistency presenting the latest updates of the stability and convergence programs.

Introduction

The economic and financial crisis that explodes in the summer 2007, will be remembered like that of major impact on the global economy from the Second World War up to the actuality. The panic that comes untied in the Stock Exchanges in September, 2008, for the rescues of the mortgage giants Fannie. Mae and Freddie. Mac or the failure of Lehman Brothers, supposed the explosion of the real estate bubble in the United States and the collapse of the most important financial institutions in that country, as well as the contagion to those of the EU, at the time that the economic activity was initiating a footpath of strong contraction. Also, most of the Member states face the fact of which they will not be able to invoke a devaluation of its coins to re-establish the competitiveness and to improve the balance of its exterior commerce, that is to say, the countries that integrate the Euro area will not be able to use the exchange rate as a stabilizing instrument, therefore they will have to appeal to other routes to obtain it. Of the same way, the majority of the countries that are not part of the Euro area yet they face the problem of that in the past have got into debt excessively in euros, since the applicable interest rate was low that that of the loans in your own currency, therefore the crisis in these countries worsens when its foreign lenders begin to demand suddenly the reinstatement of the loans.

The role of the national authorities has been, and keeps on being, indispensably due to the capital injections in the banks in difficulties or the plans of fiscal stimulus adopted under the stela of the European Plan of Economic recovery, and that they have materialized in a series of measurements of fiscal character that promote the expansion of the demand in the short term and the economic growth in the long term. Nevertheless, tits raises new challenges for the governments that will have to prepare an exit coordinated to these helps in the next years and begin to plan its fiscal correction.

1. The antechamber of the crisis: from the bursting of tech bubble to the bursting of the housing bubble

The period from 1997 to 2000 is marked by the creation of a high number of companies based on Internet due to the fast development of the sector of the information technologies and the computer networks all over the world, what was allowing the same way a major connection of the financial markets. The term is born is New Economy with the one was designating a global economy based on the knowledge thanks to the development of the new technologies, the existence of a global market, the low barriers of entry or the existence of economies of network, and that was betting for a supported growth of the productivity.

The technological values reached yields without precedents what it took to that the index Nasdaq 100 was overcoming the Standard and Poor's towards the last trimester of 1998 approximately. Nevertheless, many technological companies were witnesses of how its evaluations were going off very far of its real value. In tits sense, the doubts about tits new economic paradigm and about the practicality of these supported increases of the productivity were not late in coming and, in the middle of 1999, Alan Greenspan who was the president of the Federal Reservation in that moment, decides to raise the interest rates to control the inflation that it had increasing in the last months.

Given these initial doubts, the capital began to flee causing huge crashes in the valuations of companies called **.com**, some assessments that had previously been inflated by certain financial institutions. Thus, on 4 April 2000, the Nasdaq opened in the early hours of the day with a brutal fall that amounted to 700.000 million dollars, and barely a week later when he made known to the U.S. inflation data for the month of March, which turned out to be 0.7% higher than expected, there was another great crash, which also affected the daily values representing Dow Jones.

After the technology bubble burst there is a flight of capital to the acquisition of real property. Tits occurred in a context in which the central bank opted for lower interest rates to boost consumption and production via credit, which brought with it an enormous availability of liquidity. It begins a period marked by the relaxation of credit conditions that led to much of the population buy homes, despite the acceleration in the growth of housing prices with a high degree of leverage, and the development of bubbles in the property sector.

However, from January 2004 the U.S. Federal Reserve decides to raise interest rates to fight inflation which caused a decrease in the rate of home sales with an increase in foreclosures and the beginning of a path slowdown in house price. The liquidity problems then begin to emerge.

When the crisis erupted in the summer of 2007, banks' uncertainty about the creditworthiness of their counterparts charged an important role, because they were making investments in a range of financial products were too complex subprime mortgages. Tits type of mortgages was granted to those who for various reasons have a higher probability of default and therefore have a higher interest rate than the market. They could be somewhat beneficial in a context of low interest rates, but as they were producing increases in the rates, defaults began to emerge. The main problem stems from the financial institutions that granted these types of mortgages, mortgage securities sold in financial markets, thus, what began as a liquidity problem finally became a global financial crisis.[1]

The rescue, in September 2008, of mortgage giants Fannie Mae and Freddie. Mac and the bankruptcy of Lehman Brothers, which were among the largest financial institutions in the USA, marked the bursting of the housing bubble in that country and the EU pollution accordingly. Tensions between global financial markets were to rise to an increased cost of interbank funding, a further restriction of credit and a significant downturn in global economic activity. The recessions that began to suffer from the construction sector and the housing market, drivers of economic expansion in recent years, produce a disproportionate effect on the dynamics of the rest of the economy. The long time horizon of investment in housing, very sensitive to changes in interest rates, make tits sector one of the most cyclical economic downturns transmitting its the rest of the economy affecting the wealth and the ability to indebtedness.

Specifically, the Services of the Commission have informed in its autumn 2009 forecasts that the EU in its set will endure a contraction of 4,1 % in its GDP in 2009, 0,1 percentage points over the fact provided in the spring forecasts, while facing 2010 and 2011 one hopes that it should grow to a rhythm of 0,7 % (0,8 percentage points over the value foreseen in the previous estimation) and of 1,6 % respectively. Nevertheless, the recovery rhythm will not be homogeneous in all the Member states and, while most of them will begin to recover already in 2010, Ireland, Greece, Spain, Bulgaria, Estonia, Latvia, Lithuania and Hungary will register a negative growth in 2010 and its recovery will not begin until 2011, when one hopes that positive growth rates should present the Member states totality in its GDP.

[1] A detailed analysis of the crisis of 2000 and 2008 is in the investigation of GIRIBETS MARTÍNEZ, M. (2009), ''Algunas consideraciones sobre la crisis actual del capitalismo'', en www.eumed.net /libros/2009c/599/

The collapse, at European level even at world scale, of the aggregate demand, led the central banks, national governments as well as supranational authorities of the EU to tackling measurements for the economic recovery like the European Plan of Economic recovery, approved in November, 2008, which includes bundles of fiscal stimulus, financial rescues or support measurements to the sectors most affected between other measurements. EERP recognized the need to apply measurements that promote the long-term growth, at the time that they encourage the aggregate demand and the income of the home economics in the short term. The central banks have tackled measurements to support the liquidity, while the Governments of the Member states have supported to the banks in financial difficulties with measurements as the governmental guarantees on the bank loans or the capital injections.

2. The impact of the crisis on budgetary positions

Before the explosion of the crisis one lived through an epoch marked by a good associate fiscal situation, between other factors, to the growth of the fiscal income on the subject of housing and construction. The fiscal income grew hard in answer to the heyday in the price of the housing, although its impact on the fiscal situation turned out to be reduced since the public expenditure also was supported in rise. When the price of the housing began to diminish, the financial institutions saw like the value of the mortgage guarantees of the credits it was falling down below the value of the granted credit, therefore they began to cut the credit offer away. The families, with most of its wealth invested in the proper housing, restricted the consumption and, additionally, the increases in the unemployment level forced even more the fall of the consumption and the increase of the slowness, which was producing additional pressures in the financial sector and, consequently, a restriction of the even major credit.

With the explosion of the crisis, there took place recessions that were led by the real estate sector and of the construction what it bore to an annulment of opportunities derived from these markets and drove to the fact that the fiscal income began to diminish at the time that the public expenditure was not reflecting any change of direction, what can explain part of the strong deterioration of the fiscal situation through that most of the Member states live.

Also, inside the frame of the European Economic Recovery Plan, the governments of the EU have decided to move away from the inspiring beginning of the fiscal orthodoxy of allowing acting freely to the automatic stabilizers, and have chosen for additional measurements of fiscal stimulus to face to the economic crisis inside a coordinated action. And the fact is that the need to stimulate the demand of the short-term consumers, to re-establish the health of the financial sector, at the time that one contributes to the perspectives of long-term growth and the transition is prepared towards the called sustainable economy, they add a global, coordinated and united answer, between the Member states and the European Union. EERP, therefore, was urging the Member states to the adoption of bundles of fiscal stimulus that had in consideration the positions of game of every State and that were of opportune, selective and temporary character.

EERP proposed a budgetary impulse for 200.000 million euros (1,5 % of the GDP of the EU) directed to increase the short-term demand, which splits into 170.000 millions proceeding from the budgetary enlargement on the part of the Member states, and 30.000 millions of financing of the EU for the support of immediate actions. Of equal way, it established that the fiscal stimuli should go accompanied by structural reforms that help to promote the long-term economic growth and to reinforce the capacity of adjustment of the economy before the future recovery period.

On the other hand, EERP recognized the importance of not leaving aside the postulates of the Strategy of Lisbon and the measurements that are indispensable to promote the competitiveness of the European economy in average and long term, such as the development of new technologies that favour the energy saving.

Of the same form, we cannot forget the effect of the automatic stabilizers that have taken shape of contractions of the public income and of increases of the public expenditure and that, although its effect should disappear or be corrected when the economic situation becomes stable again, the high levels of unemployment that have taken place immediately after the crisis or the slowing down for that one waits in the potential growth throughout next decade, they suggest that the part of the public deficit provoked by the automatic stabilizers might be late in disappearing.

Nevertheless, not all the countries were departing from the same situation in its public finance, therefore the margin of action of each of them is different, as it will be also its rhythm of medium-term recovery.

In the year 2008 the public deficit for the whole of the EU 27 promoted 2,3 % of the GDP, 1,5 percentage points over the value reached in 2007, and the estimations for the next years are not pleasing at all, since the autumn report of the Services of the Commission indicates that in 2009 and 2010 the ratio of public deficit on the GDP will increase up to reaching 6,9 % and 7,5 % of the GDP respectively, and that it will not be until 2011 when it registers a light progress with a deficit of 6,9 % of the GDP, that is to say, on average, the Member states will be breaking the criteria of the SGP, what supposes an unusual fact from the approval of the same one.

Finally, the crisis has caused high fiscal costs that have been translated in high levels of public deficit of that few Member states could have escaped, what it has provoked, and it will keep on provoking in the next years, a detriment in its public accounts, at the time that there appear doubts about the long-term fiscal sustainability.

In case of Greece, deficit levels registered during the whole analyzed period[2] and at levels, practically every year, superior to the threshold of reference of the SGP. The analysis of the statistical data of Greece must be realized by supreme thoroughness, since the Hellene country carried out information concealment on the deficit, which allowed him to "register" erroneous values below 3 % of the GDP from the year 2000. Tits way, Greece had a real public deficit in the year 2000 of 4,1 % of the GDP, instead of 2 % declared by the Hellene government, and in two following years it was 3,7 % (opposite to 1,4 % who had declared), while in 2003 it reached 4,6 % and not 1,7 %. In tits sense, Greece never expired with the requisites of the Treaty of the EU and the SGP to be part of the Monetary Union (to which he adhered in 2001), of having a public deficit lower than 3 % of the GDP and that of the communication of trustworthy macroeconomic information. In December, 2004, the European Commission communicated its decision to open an infraction procedure against Greece for falsifying the statistical data that it was providing to the EU. Nevertheless, in any case not even the continuity of Greece questioned in the Euro area, not if the rest of members would have to support or if they would go out harmed somehow by the bad economic situation of Greece.

The answer of the EU to the fraud of the Hellene country, possibly he attended on an attempt on the part of the institution to prevent the countries "more dweebs" from being revealed against the Commission by a flexible behaviour with the big potency and strictly with the least outstanding countries, and the fact is that at that time it had already remained clear that the EU had a behaviour more than unjust and arbitrary at the time of applying the SGP. As a consequence of the crisis, Greece has seen worsened the situation of its public finance and it is foreseen that facing 2010 and 2011 the situation could become even more worrying. The Hellene country is present at the formation of a dangerous vicious circle between the public deficit and the public debt, since the high levels of public debt with which it is provided (superior to 100 % GDP) proceeding, to a great extent, from the financing of the deficit, suggest that a part of the public expenditures of the next exercises will be compromised by the payment of the interests of the above mentioned debt, with what is of hoping that the level of public deficit should continue in increase. It will be possible only to safeguard of tits vicious circle if it carries out strict measurements and structural reforms that allow him to reduce its deficit levels below 3 % of the GDP.

In case of Portugal, only two months after the reform of the SGP agreed, the Commission announced its second opening of the Procedure of Excessive Deficit against the Portuguese country in June, 2005 (let's remember that it was the first country in being under enquiry for excessive deficit in 2001), on having been located over 3 % of the GDP in 2004 and before the forecasts of which it would keep on increasing in 2005 and 2006.

Portugal managed to correct its budgetary imbalance from 6,1 % of the GDP in 2005 up to 2,6 % in 2007 and 2008. The above mentioned correction was thanks to the structural measurements carried out by the national Government, like the reform of the system of pensions or the reduction of the doles, which allowed diminishing the public expenditures and increasing the income. Nevertheless, after supporting in 2007 and 2008 the deficit levels below the threshold of the SGP, one hopes that in 2009 it should reach 8 % of the GDP and that it should be supported in tits value in 2010, as there indicate the autumn forecasts of the Services of the Commission, due to the reduction of the economic activity and the increase of the expenses of social character.

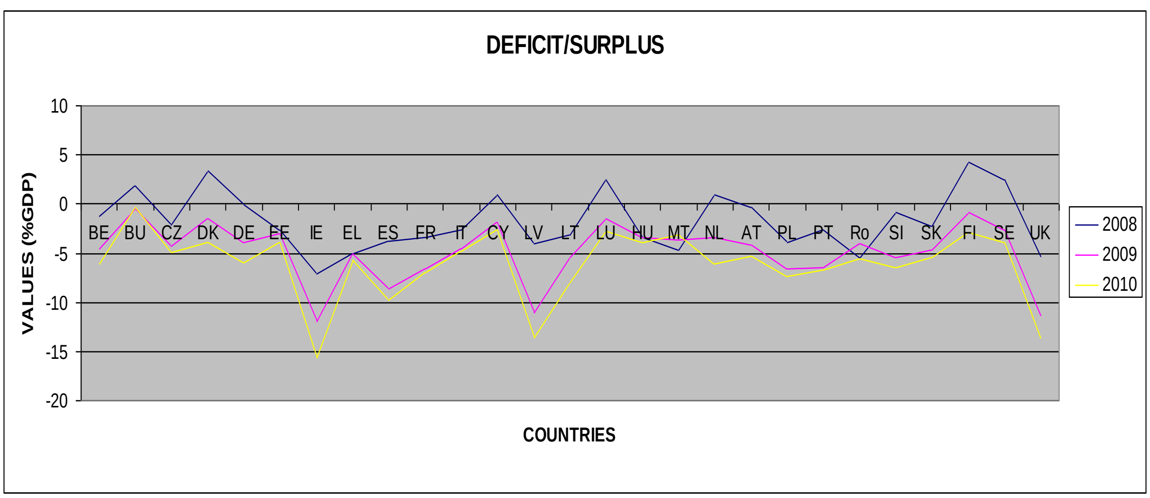
[2] The analyzed period understands from 1997 until 2008, to include the evolution of the fulfillment of the SGP from its approval up to the explosion of the crisis in 2007.

The Portuguese government presented in January, 2009 a reform of the budget to fight the recession that has been based on the fiscal incentives for the managerial investments and on the increase of the roof of the public deficit.

In case of France, after managing to support its levels of public deficit below the level of reference of the SGP along the triennium 2005-2007, in the year 2008 it registers a deficit of 3,4 % of the GDP. Before tits situation, the Gallic government promised to reduce the above mentioned deficit up to reaching the budgetary balance in 2012. Nevertheless, the autumn forecasts of the Services of the Commission reflect that France is far from fulfilling its commitments, since the public deficit in tits country might be located in 8,3 % and in 8,2 % of the GDP in 2009 and 2010 respectively, and that it is the result of the joint action of increases in the expenses tFDI to the European Plan of Economic recovery and to the Plan of French Relaunch, and to the decrease of the fiscal income because of the reduction of the economic activity.

From the Elysian one they prove to be opposite to choosing for the austerity in the public expenditure and for hardening the fiscal policy, test of it is the fact for that one waits that the expenses ratio on the GDP is supported in the upward tendency initiated in the last years, happening from 52,7 % in 2008 to 56,4 % of the GDP in 2010, and that will be led by a substantial increase in the games of remuneration of wage earners, intermediate consumption and social payments principally. The income ratio, on the other hand, one does not hope that it registers oscillations so important as those of the ratio of expenses, but it is supported in the downward tendency of last years, and it is estimated that it is in the current taxes on the revenue, the wealth and in the taxes on the production and the import where the most important contractions register. Therefore, the recovery of the Gallic economy will make be waited, and possibly it will not begin in 2011 as it has postulated the Sarkozy government, since the important increase of the public deficit, which will not show progress signs until 2011-2012, will reverberate undoubtedly in its public debt levels. In October, 2009, the ECOFIN was quoting in its conclusions of the last meeting carried out in Luxembourg that the fiscal consolidation should begin at the latest in 2011; nevertheless, France, together with other Member states, hardly will achieve the above mentioned target in these dates, since to obtain it he will have to choose for unpopular measurements of hardening of the fiscal policy, which turns out to be slightly probable when in 2012 general elections will be carried out in the Gallic country. In Graph 1 is showed the evolution of the level of deficit / surplus in the years 2008, 2009 and 2010 (with data from the estimates for the last two years). As observed, the largest increases in the deficit to GDP ratio was recorded in Latvia, United Kingdom, Ireland and Spain, countries that experienced in recent years a strong real estate sector growth accompanied by sharp rise in house prices.

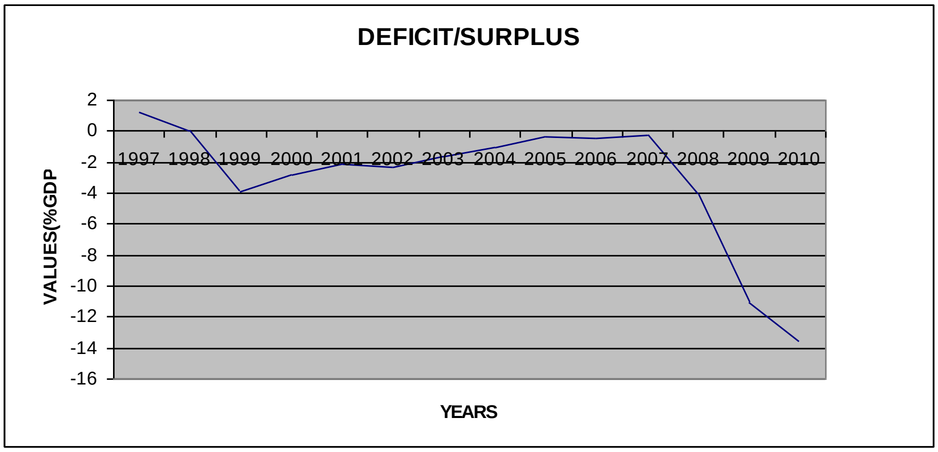
Graph 1. Deficit / Surplus (% GDP) EU-27 (2008, 2009 and 2010)



Source: own calculations from EUROSTAT data.

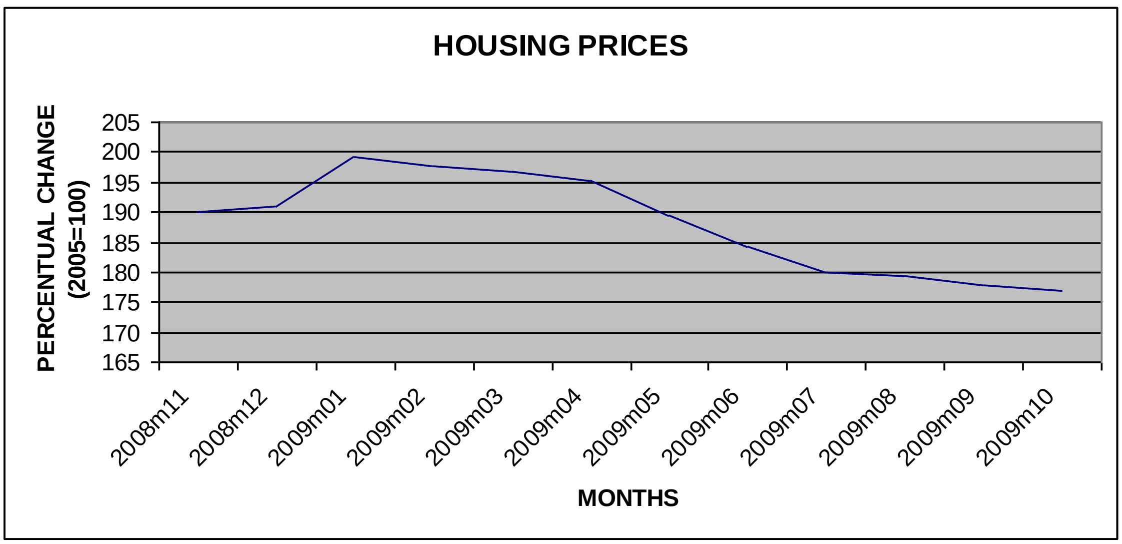
With the outbreak of the crisis, these four countries experienced a change in your situation: while the housing prices began to decline, become particularly significant in Ireland, its public deficit soared. Latvia's situation is alarming, after holding a position close to balance in the triennium 2005-2007 and achieve strong economic growth in the boom years, going to suffer in 2008, a deficit that exceeded the threshold reference SGP to achieve 4.1% of GDP and a recession declared in September that year after two consecutive quarters of falling GDP.

Graph 2: Evolution of Latvian public deficit / surplus (1997-2010)



Source: own calculations from EUROSTAT data.

Graph 3: Evolution of housing prices for the period November 2008 - October 2009

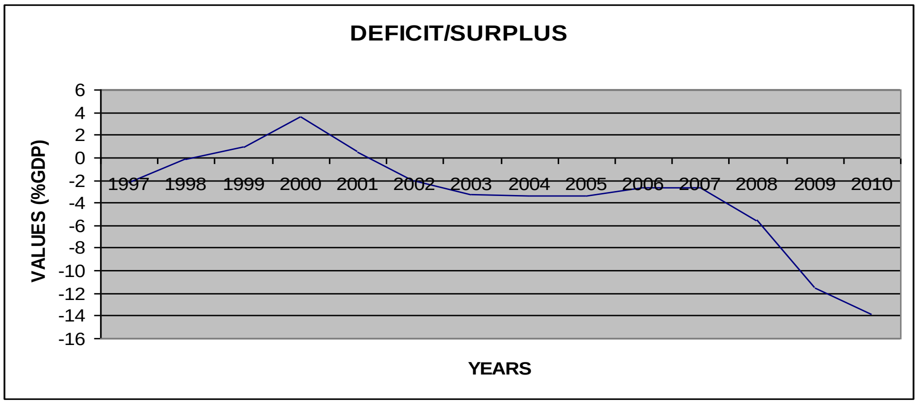


Source: own calculations from EUROSTAT data.

Due to tits situation in extremis, the Latvian government chose to carry out a series of measurements as the increase of the tax in the VAT of 18 % to 21 % (with an estimated impact of 1,92 % of the GDP), in force from the beginning of 2009, or the increase of the special taxes on the tobacco and the alcohol (with an estimated impact of 0,74 % of the GDP), but that have seen its effect silenced by the substantial increase of the public expenditure, especially in the games of social transferences that happened from 8,3 % in 2008 to 12,5 % of the GDP in 2009. In June, 2009, the government announced a series of new measurements as the reduction of 10 % of the retirement pensions, the decrease of 20 % of the salary of the officials and the elimination of some public enterprises between others, and that are directed to the fulfillment of its commitment to reduce the public expenditure, in order to which in 2011 it could register a deficit below the threshold of reference of the SGP (indispensable so that he could adopt the euro). Nevertheless, the forecasts are little optimists and the Services of the Commission have already hurried to announce that for 2009 the deficit can become of 9 % and continue in tits increase footpath in 2010 and 2011 up to 12,3 % and 12,2 % of the GDP respectively, by what the integration of Latvia in the UEM possibly will not be obtained in the half term.

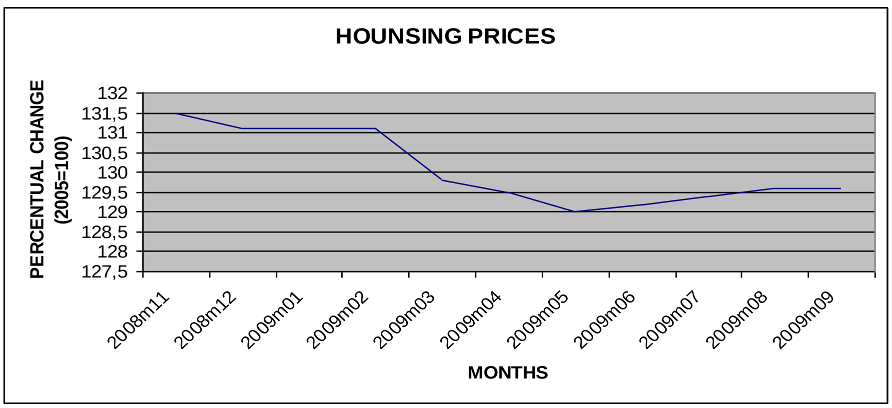
The United Kingdom for its part, has endured an important fall in the prices of the housing between 2008 and 2009 after the housing demand came down because of the hardening of the conditions of access to the mortgage loans.

Graph 4. Evolution of public deficit / surplus of the United Kingdom (1997-2010).



Source: own calculations from EUROSTAT data.

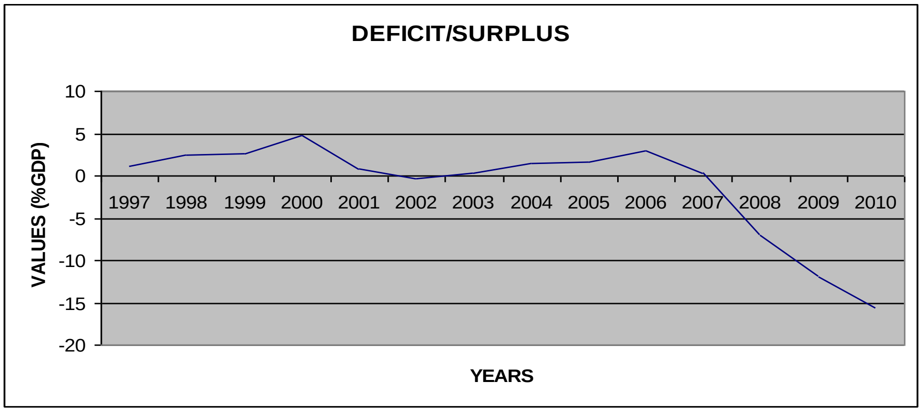
Graph 5: Evolution of housing prices for the period November 2008-October 2009.



Source: own calculations from EUROSTAT data.

Nevertheless, the hole of the British public finance owes, principally, to awful fiscal management of the Prime minister Gordon Brown, based on a high public expenditure, which provoked the loss of the good real budgetary situation from 1999 to 2002, and which transported excessive deficit in three following years. At that time, the government could not correct appropriately tits situation to enjoy a certain margin of action with which it could confront more unfavourable future periods and, for it, when the crisis explodes, its public finance suffered substantially. The weak situation of the public finance of the United Kingdom, he forced the Labour Government of Brown to tackle a plan of clipping of the public expenditure in December, 2009, I do not exempt of criticism, in that a saving is foreseen half-close to 12.000 million pounds sterling in the next four years by means of measurements like the limitation of the wages of the high public positions; a new tax of 50 % on the bonus superior to 25.000 pounds; an increase of 1 % in the quota of the Social security for the persons who receive more than 20.000 pounds and its employers, that it will come into force in 2011, or others like the increase of the VAT of 15 % to 17,5 %. Ireland, it is other of the countries that accuses a marked landslide of prices of the housing together with more than notable deterioration of its public finance. It went on from a situation next to the balance in the year 2.003 to a surplus of 3 % of the GDP in the year 2006, and to a deficit of 7,2 % of the GDP two years later together with a contraction of the economy of 3 % in 2008.

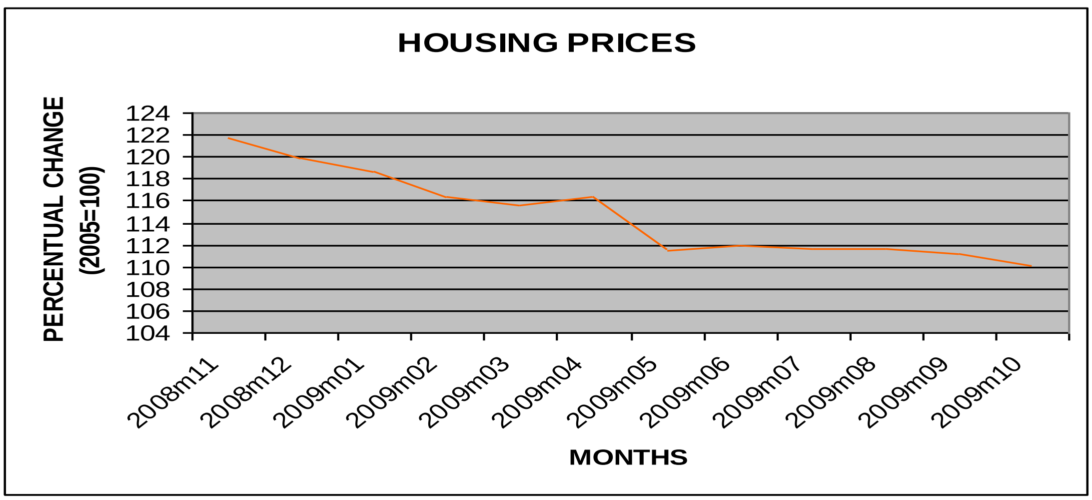
Graph 6. Evolution of public deficit / surplus of Ireland (1997-2010).



Source: own calculations from EUROSTAT data.

The ''Celtic Tiger'' has come to tits situation because of the real estate boom in recent years lived with a strong property investment accompanied by a sharp growth in house prices and nearly 60% of workforce employed in the construction sector. With the government heavily dependent on tax revenue from the construction sector, it is understandable the situation facing Ireland today.

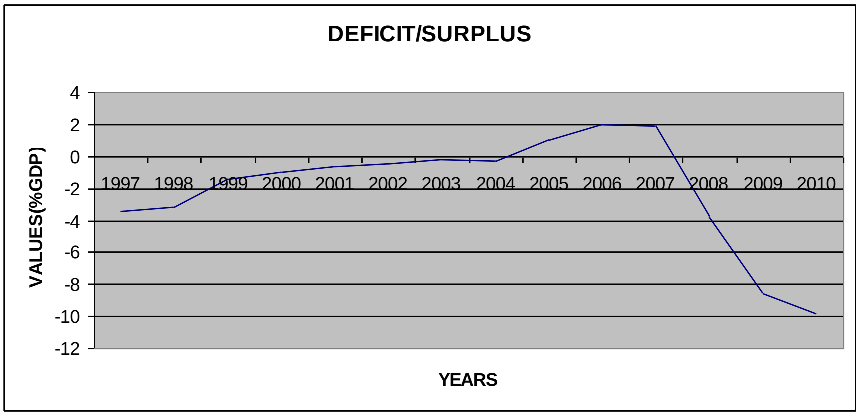
Graph 7. Evolution of housing prices for the period November 2008-October 2009.



Source: own calculations from EUROSTAT data.

Latest estimates show that by 2009 the level of deficit may reach 12% of GDP and the economy to shrink about 7%. For the sake of tits alarming situation, the Irish government took the decision to approve a special budget in April 2009, which envisaged a drastic cut in expenditure amounting to EUR 1,500 million and a tax increase, while announced a tightening of personal taxation would yield around 1,800 million euros. Spain, meanwhile, managed to control their deficits suffered during the nineties and place them at acceptable levels from the year 1999. For three consecutive years 2005, 2006 and 2007, recorded a surplus in public accounts (see Graph 8).

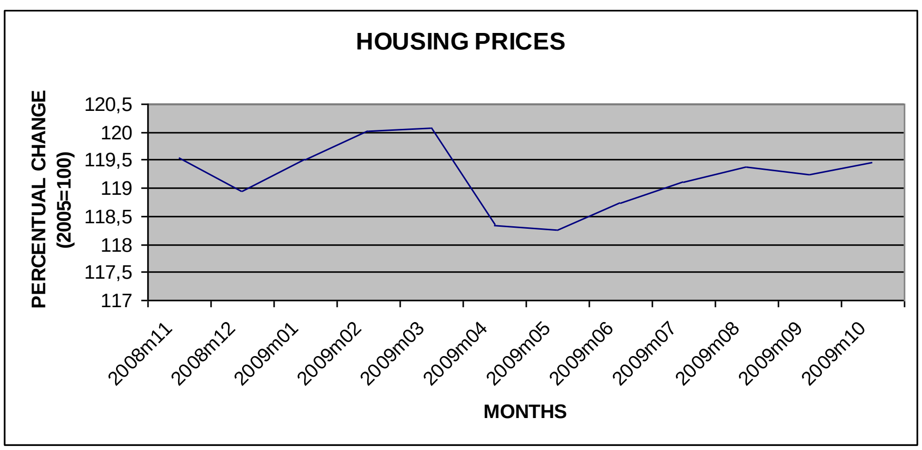
Graph 8. Evolution of the level of deficit / surplus of Spain (1997-2010)



Source: own calculations from EUROSTAT data.

Nevertheless, the financial turbulences, the prick of the real estate bubble, the fall of the fiscal income, the increase of the doles together with the tax collection arrangements on the part of the government to fight the economic crisis, returned the situation of the Spanish public finance up to registering a deficit of 4,1 % of the GDP in 2008 and to be provided with a few estimations on the part of the Services of the Commission that it place environment to 11,2 % in 2009 and in 10,1 % in 2010. Due to tits situation, the EU demanded to Spain the presentation of a plan before October, 2009 in which the necessary measurements should consist to correct the deficit levels. In June of the same year, the Spanish government presented its Plan of Fiscal Consolidation for the exercises 2010-2012, in which there was established the principal target to close the exercise of 2012 with a deficit of 3 % of the GDP and in which there were detailed measurements as the increase of the VAT foreseen in the budgets of 2010.

Graph 9. Evolution of housing prices for the period November 2008-October 2009.



Source: own calculations from EUROSTAT data.

3. Analysis of the impact on public debt

The public debt of the EU 27, as that of the Euro area, had not registered notable fluctuations until the year 2008, and was supporting from the year 1997 a stable tendency with values next to 60 % of the GDP (the highest value happened in the year 1997, when fifteen were the members of the EU, and it promoted 68,3 % of the GDP, while the lowest value was in 2007, with 58,7 % of the GDP). Nevertheless, in the year 2008, the public debt ratio on the GDP of the Euro area registered an increase of 3,3 percentage points with regard to 2007, reaching 69,3 % of the GDP. Also, for the triennium 2009-2011 waits that I experienced a considerable growth happening from 78,2 % in 2009 to 88,2 % of the GDP in 2011. If tits information is fulfilled, the euroarea will have registered in only a decade a growth of 20 percentage points in its public debt ratio on the GDP, an unusual fact in the history of the UEM.

In case of the EU as a whole, the debt ratio experienced a growth of 2,8 percentage points in 2008, reaching 61,5 % of the GDP and with slightly pleasing expectations in short and half term that they indicate that the ratio will be supported in tits upward tendency, registering values of 73 % and of 79,3 % of the GDP in 2009 and 2010 respectively, and even will overcome 80 % of the GDP in 2011.

Before the explosion of the crisis, the biggest public debt levels were corresponding to Belgium, Italy and Greece that were overcoming evidently the threshold of reference of 60 % of the GDP that the SGP marks. The high ratios that were enduring these countries one year before the explosion of the crisis owed, principally, to the financing of the high amounts of public deficit, which were the result of the joint action of expansive fiscal politics and the high tax evasion, across the emission of public debt. Tits way, the stability of the public finance, when the crisis explodes in the summer 2007, already was in doubt for tits group of countries.

After the summer 2007, the public debt levels have gone off in most of the Member states because the budget deficits are, generally, financed with debt and because the national authorities have carried out capital injections in the banks in difficulties as well as increases in its debits related to the financial "rescues". If in the year 2008 nine[3] were the countries that were exceeding the threshold of reference of the SGP, facing 2009 and 2010 one hopes that thirteen should become the countries that 60 % of the GDP overcomes in its public debt.

All this generates doubts about the aptitude of the governments to face to the quantities of public debt that accumulate most of the Member states. Recently, the European Commission has expressed an analysis in which he warns that the public debt of the EU might grow without limit in the next years, and even reach 100 % of the GDP in 2014, due to the galloping deterioration of the public finance of the EU and the measurements of rescue of the financial sector and of struggle against the recession at the cost of the public debt.

In tits sense, we can understand the predictions of the Commission attending on the budgetary restriction of the governments:

$$\delta b / \delta t = (G-T) + (r-x)\, b \quad \left\{ \begin{array}{l} \textbf{b: public debt (\%GDP)} \\ \textbf{t: time} \\ \textbf{G: public expenditure (\%GDP)} \\ \textbf{T: tax collection (\%GDP)} \\ \textbf{r: interest rate of the public debt} \\ \textbf{x: growth rate of the GDP} \end{array} \right.$$

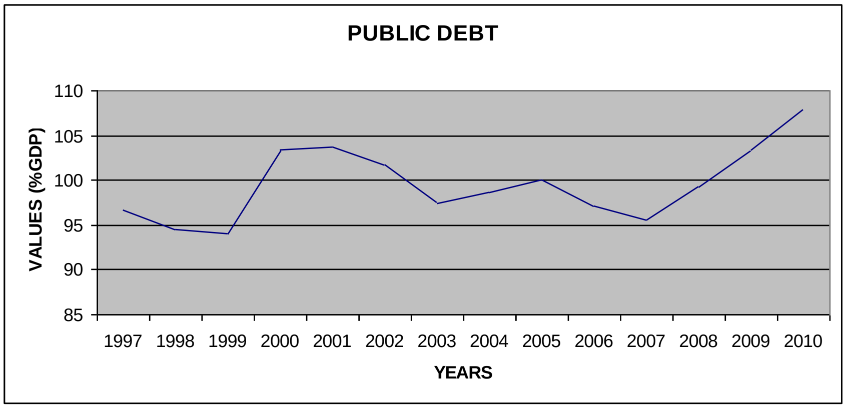
The equation implies that the financing of a primary deficit expressed in percentage of the GDP needs that the growth rate of the GDP is superior to the interest rate of the public debt, since in the opposite case, the public debt expressed in percentage of the GDP would grow without limit. Tits way, considering the current situation of the set of the EU, where for 2009 there is estimated a growth rate of the GDP of-4,1 % and a short-term interest rate of 1,6 %, in a context of primary deficit of 4,2 % of the GDP and of a volume of public debt of 73 % of the GDP, we can estimate a public debt ratio on the GDP I half-close 79 % for 2010.

Also, the last estimations of the European Commission, which were published in the autumn report of the Services of the Commission, augur a light growth of the GDP for 2010 and 2011 of 0,7 % and of 1,6 % respectively, what implies that if the above mentioned growth keeps on being lower than the interest rate of the public debt, it will turn out to be indispensable to reduce in a significant way the ratios of primary deficit, since otherwise, hardly there will take place a descent of the volume of public debt. Nevertheless, it seems more than probable that in 2011 there will take place a new growth of the volume of the debt ratio, since the high levels of public deficit that transport most of the Member states and the weak growth rates of the GDP, or even of decrease in some case, they imply that the indebtedness volume will increase, like minimum, until 2012. If we center on the particular cases, we can point out that the situation in Greece is especially worrying. In a context in which the short-term interest rates of the Euro area have suffered a notable contraction in 2009, when they were located in 1,3 %, the Hellene public finance registered a primary deficit of 7,7 % of the GDP and a volume of public debt of 112,6 % of the GDP, at the time that its GDP contracted a 1,1 %.

[3] Belgium; Germany; Greece; France; Italy; Malta; Austria; Portugal; Hungary.

These facts suggest that for 2010 the public debt ratio will increase environment more than 10 percentage points with regard to 2009, being located in something more about 124 % of the GDP. Tits estimation is according to the published one by the Services of the Commission in its autumn report, where there is foreseen a ratio of 124,9 %, a significantly top value to published in the spring report that was coding the public debt in 108 % of the GDP.

Graph 10. Evolution public debt (%GDP) Greece (1997-2010).



Source: own calculations from EUROSTAT data.

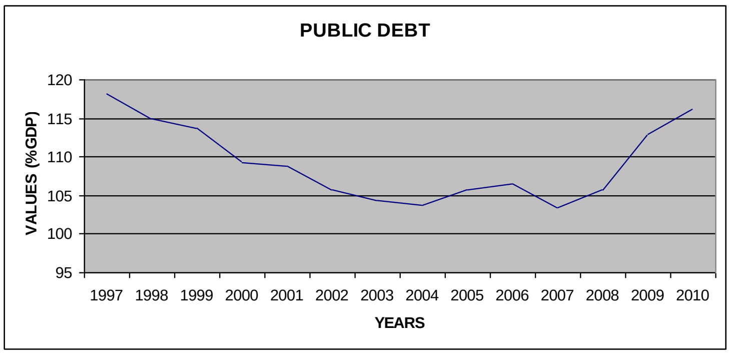
In the Greek case, the high levels of public debt and of public deficit which it faces, in a context in which a contraction of the GDP will take place again in 2010, which the Services of the Commission code in 0,3 %, while most of the Member states will grow already to positive valuations, they imply that hardly we will be present at a reduction of its volume of indebtedness. In particular, the Services of the Commission think that for 2011 the ratio will promote 135,4 % of the GDP, what implies that, of the above mentioned estimations are fulfilled, Greece will be the country of the whole EU 27 with the biggest ratio of public indebtedness and, also, very superior to that of the community average. Due to tits situation, the Hellene government has announced that there will be carried out measurements of drastic clipping of the public expenditure (although there are still to determine which will be specifically) and increases of taxes, which allow him to reduce its public deficit and the public debt. The more the government waits in implementing measurements to correct its big primary deficit, the more drastic will have to be the measurements in the future, which will generate additional pressures in a country that is already debilitated at present. Because of awful situation of its public finance, the agency of qualification Fitch decided to reduce the qualification of the long-term debt of Greece of "A -" to "BBB+ " in December, 2009 and, of equal way, Standard and Poor's carried out the same measurement on having reduced the qualification of "A" to "A -", due to the suspicion of which the country could carry out really a reduction in its levels of deficit and of public debt.

The situation also is alarming in Spain, the United Kingdom, Ireland, Italy, Belgium and Latvia.

In case of Spain, the public debt emission on the part of the Treasure has gone off and, the last information with which we are provided indicates that the Spanish public debt will promote in 2009 54,3 % of the GDP, and that tits percentage will rise up to 66,3 in 2010. The growth of the Spanish public debt is endorsed by a contraction of its GDP that is estimated of 3,7 % and of 0,8 % in 2009 and 2010 respectively and a primary deficit that is foreseen of 9,4 % and of 7,6 % of the GDP for the said years, all tits in a context in which the short-term interest rates fixed by the BCE promoted 1,3 %. The singularity of the Spanish case resides in the fact that it has been one of the countries of the euroarea that has registered the biggest growth of its debt ratio since the crisis exploded, after a previous stage in which the ratio had experienced progressive annual descents. Specifically, Spain was provided with a ratio of 66,1 % of the GDP in 1997 that managed to reduce up to 36,1 % in 2007, that is to say, 30 percentage points less in a decade. Of the same way, if there is fulfilled the information of the Services of the Commission, in only four years its efforts to support its public debt level below the threshold of reference of the SGP will have vanished, registering a growth superior to 35 percentage points in the ratio. In parallel to the case of Greece, the fact that the country is supported in recession in 2010 together with high levels of primary deficit, which are estimated of 9,4 % and of 7,6 % of the GDP for 2009 and 2010 respectively, it implies that with complete certainty the public debt will be supported in tits upward tendency until 2011 like minimum.

In January, 2009, the agency of qualification Standard and Poor's reduced the qualification of the Spanish public debt from "AAA" up to "AA +", before its forecasts of which the Spanish public debt could reach 67 % of the GDP in 2009, and which the growth rate of the country could support below 1 % during a long period of time due to the high indebtedness of the private sector. To aggravate even more the situation of the Spanish public debt, it joins the fact that Spain is a country at a high level of population aging, what generates major pressures before the growth of the expenses in pensions and health. Italy for its part, is one of the countries with major weight of the public debt in the EU, at levels superior to 100 % of the GDP for the period understood between 1997 and 2008, as 11 turns out to be detailed in the Graph, that is to say, everything what has taken place in each of these years should devote itself to the reinstatement of the interests and the principal one. As in the previous cases, the severe economic contraction through that the country lived in 2009, when its GDP registered a growth rate of-4,7 %, that is to say, 0,7 percentage points over the average of the Euro area, and a public deficit of 5,3 % and primarily of 0,5 % of the GDP, they exercised additional pressures on already of if excessive public debt that accumulates the country.

Graph 11. Evolution of the public debt (%GDP) Italy (1997-2010)

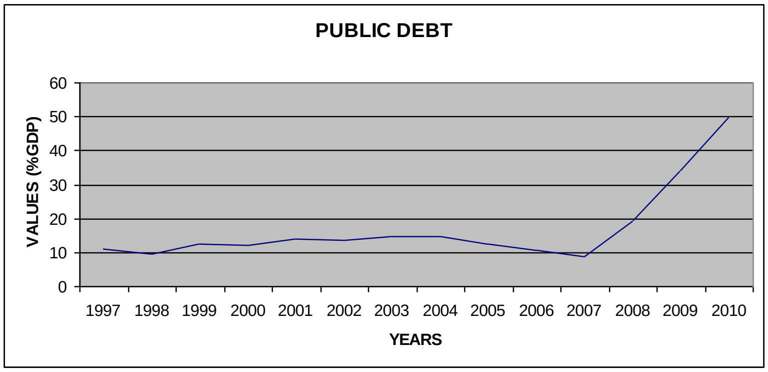


Source: own calculations from EUROSTAT data.

Its debt ratio experienced a growth of 8,8 percentage points in 2009, reaching with it the podium between all the countries of the EU in indebtedness volume, with a ratio of 114,6 %. Facing 2010 and 2011, Greece will manage to snatch the position to Italy; nevertheless, the transalpine country will be supported in tits increasing footpath and it is believed that I reached values of 116,7 % and 117,8 % of the GDP respectively.Of continuing tits way, Italy every time will have more problems to be financed and the possibility that it falls down in a vicious circle between the deficit and the public debt is every time major. The update of February, 2009 of its Program of stability, he repeated the commitment to reach a medium-term consolidated fiscal position. For such a motive, in December, 2009, the agency of qualification Standard and Poor's placed the Italian public debt in a rating of "A +" and with stable perspective, before the expectations of which the transalpine Government applies structural reforms accompanied by a drastic reduction of the public expenditure that allow him to reduce its public deficit throughout 2010.

The case of Latvia, member of the EU from the year 2004, is significantly alarming and its government hefts a possible devaluation of its currency (the lat), which might generate major pressures to a country that has most of its foreign debt nominated in euros (habitual practice in the years of the boom when most of the mortgage loans was nominated in euros). On the other hand, the interest rates experienced a notable growth in 2009, going on from 8 % to 13,2 % in the short-term types, and from 6,4 % to 12,3 % those of long term, at the time that the GDP was registering a strong contraction that is estimated in 18 % with regard to 2008, which was translated quickly in increasing and high levels of public deficit and of public debt. In the latter case, Latvia stands out for being, together with Lithuania, one of the countries of the EU where the public debt has experienced the most explosive growth, happening from 19,5 % in 2008 to 33,2 % in 2009 and to 48,6 % of the GDP in 2010 according to the last estimations of the Services of the Commission.Due to the hard economic crisis that suffers the Baltic country, the International Monetary Fund granted to Latvia a credit that was amounting to 7.500 million euros in December, 2008. Nevertheless, the inability to place its bonds places at the edge of the failure the State, since it is foreseen that the public deficit goes off over 9 % of the GDP in 2009, making the public financing untenable. Before the high public deficit, the agency of qualification Fitch placed in negative perspective Latvia and with a rating "B" to its bonds.

Graph 12. Evolution of the public debt (%GDP) Latvia (1997-2010).



Source: own calculations from EUROSTAT data.

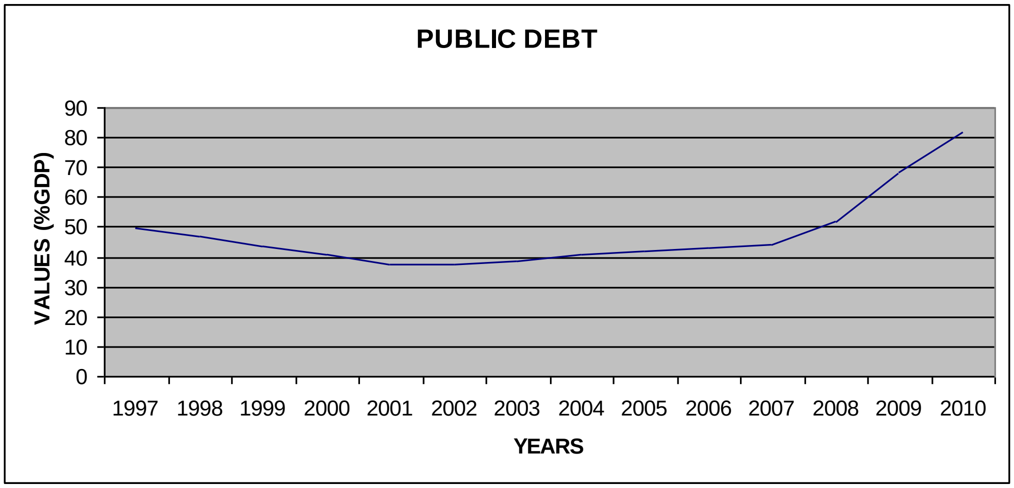
The real estate bubble through that Ireland lived in the last years has translated in a deep recession at present, with a contraction of the GDP in 2009 of 7,5 % of the GDP, that is to say, the double for itself that that of the Spanish case, and only overcome by the Baltic States and Romania. In a context in which the interest rates experienced a notable descent, the Irish public finance was not late in suffering, as there reflect the last estimations of the EU that they speak about a primary deficit of 10,2 % of the GDP and of a volume of public debt of 65,8 % of the GDP. Also, the forecasts in short and half term are slightly optimistic, and one hopes that the public debt ratio should continue in increase up to registering 96,2 % of the GDP in 2011, as the Services of the Commission have shown in its last report.

As in case of Latvia and Spain, there is especially significant the explosive growth that has showed the public debt ratio, spending of 25 % in 2006 to 65,8 % in 2009, that is to say, 40 percentage points in only three years, which has been translated in an increase of its CDS, which have gone so far as to overcome 285 points, due to the biggest risk of insolvency of its bonds. In February, 2009 the Irish Government presented the plan of bank rescue for which he would inject to two principal banks of the country that were in difficulties, Allied Irish Bank and Bank of Ireland, 7.000 million euros. The reactions were not late in appearing and, in March of the same year, the agency of qualification Standard and Poor's decided to cut the rating of the debt away up to "AA +" with negative perspective and, only two months later, he decided to reduce it again up to "AA" alleging that the fiscal costs of the governmental plan of rescue of the banks of the country would be major than for what previously one had waited. Also, in April, 2009, the agency of qualification Fitch decided to reduce the qualification of the Irish debt up to "AA +".

The United Kingdom for its part, assumes a record debt in 2009 (the information aims that environment can be located to 68,6 % of the GDP), with a growth with regard to 2008 I half-close to 16 percentage points and with estimations of which it will keep on increasing in 2011 up to reaching 88,2 % of the GDP. As we see in the Graph 13, tits is something unusual for tits country, which despite its high levels of public deficit throughout these years, always supported its public debt level below the threshold of reference of the SGP. Nevertheless, the size of its exact primary deficit cyclically, that it is believed that I experienced a growth of more than 5 percentage points in 2009 up to reaching 8,6 % of the GDP, that is to say, 5,9 percentage points over that of the community average, is the principal factor that is behind tits exuberant growth of the ratio of public debt. To support its debt, the government of Gordon Brown has announced a series of measurements like increases of taxes, sales of assets and clippings in the public expenditure (although still insufficient). Nevertheless, it seems difficult that with the measurements foreseen in the budgets for 2010 and 2011 the United Kingdom could correct its high deficit and its medium-term public debt. The efforts of fiscal consolidation are making wait, what possibly he will lead to the fact that the country does not enjoy a fiscal situation consolidated until 2015 approximately.

Although none of the agencies of qualification it has carried out a reduction in the risk ratings to the date of writing of tits study, in May, 2009 Standard and Poor's decided to check the casualty its consideration of the perspectives of the economy of tits country going on of "stable" to "denial" before the vertiginous increase of the weight of the public debt on the GDP.

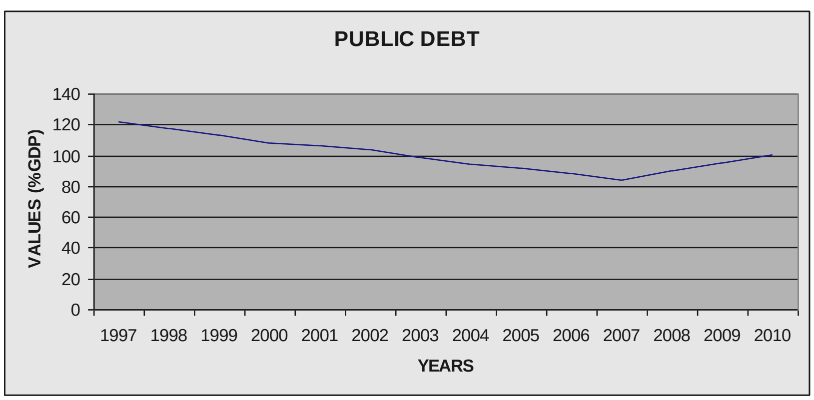
Graph 13. Evolution of the public debt (%GDP) the United Kingdom (1997-2010).



Source: own calculations from EUROSTAT data.

Other of the countries in which the situation is worrying is Belgium. And the fact is that Belgium has been an extremely indebted country, and as we can observe in the Graph 14, for every studied year and the forecasts with which we are provided of the Services of the Commission for 2009 and 2010, the public debt level has reached values next or superior to 100 % of the GDP, although it realized gradual annual, light descents, but, descents, reached the ratio lowest in 2007, 84,2 % of the GDP. Nevertheless, from the year 2007 the debt levels have increased again and it is hoped that in 2010 it could reach 101,2 % of the GDP. Undoubtedly, the bank rescues, like that of Fortis by means of the joint action of Belgium, Holland and Luxembourg in September, 2008, or that of Dexia on the part of France, Belgium and Luxembourg, are the prime movers that have hurried up tits increase of the public debt in Belgium. Also, the fact that Belgium has been in the last years the whole world modality in the motorcars assembly, it has propitiated that the loss of activity in tits sector and the consequent measurements to save it from the failure they have had a direct impact on the public debt.

Graph 14. Evolution of the public debt (%GDP) Belgium (1997-2010).



Source: own calculations from EUROSTAT data.

Despite the high amount of public debt that it accumulates, Belgium has managed to place the public deficit in levels considerable and even near to a situation of budgetary balance until the year 2009, when it is foreseen that it could reach 5,9 % of the GDP. Therefore, we might say that the origin of the Belgian indebtedness is in the economic transformation through that the country lived in the 70s, and that took shape of high debt levels in the 90 that begun to be corrected towards ends of the above mentioned decade.

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