



“Excessive debt accumulation, payment shocks and contagion: Eu periphery experience and policy responses”

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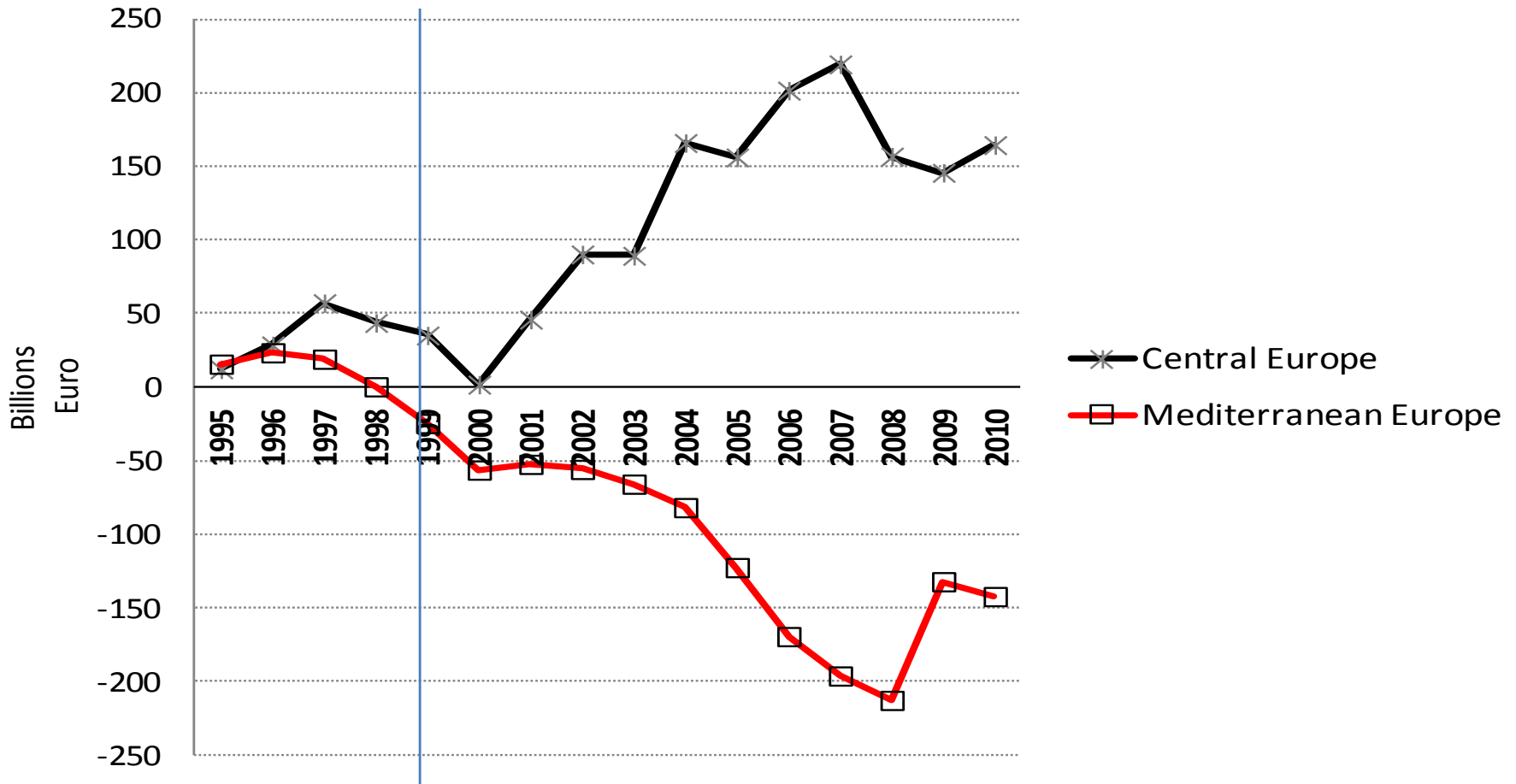
Università di Macerata

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Eurozone crisis, contagion and foreign debt accumulation

- ❖ Contagion has many causes
- ❖ We concentrate on debt accumulation and its foreign component
- ❖ Why is this important for the comparison centre–periphery in Europe ?

Current account imbalances



Source: Eurostat

Europa continentale: Austria, Belgio, Francia, Germania, Lussemburgo e Paesi Bassi

Europa Mediterranea: Italia, Grecia, Portogallo, Spagna, Slovenia, Cipro,

Sovereign debt and the cycle

- ❖ Pro cyclical or anti cyclical ?
- ❖ What's the threshold level of market perception of default risk ?
- ❖ That threshold level tends to change with cycle

Expenditure-debt illusion and sovereign debt accumulation

- ❖ in absence of a binding regulation the threshold tends to be moved upwards in the expansion phase
- ❖ The effects of a fiscal stimulus (rising expenditure) is easily overvalued
- ❖ Consensus is amplified
- ❖ Sovereign debt accumulation is considered a problem solvable by the expansion itself

Recession and crisis

- ❖ In recession the public expenditure support becomes needful
- ❖ The control of the debt becomes progressively more difficult
- ❖ the debt accumulated appears as one of the main obstacles to the recovery

Private expenditure-debt illusion and banks

- ❖ The expenditure-debt illusion mechanism involves the private sector too
- ❖ The debt support consume and purchase of durable good and houses
- ❖ Price rises involve the financial market too
- ❖ Banks play a central role. Their value and consistency of capital are overvalued



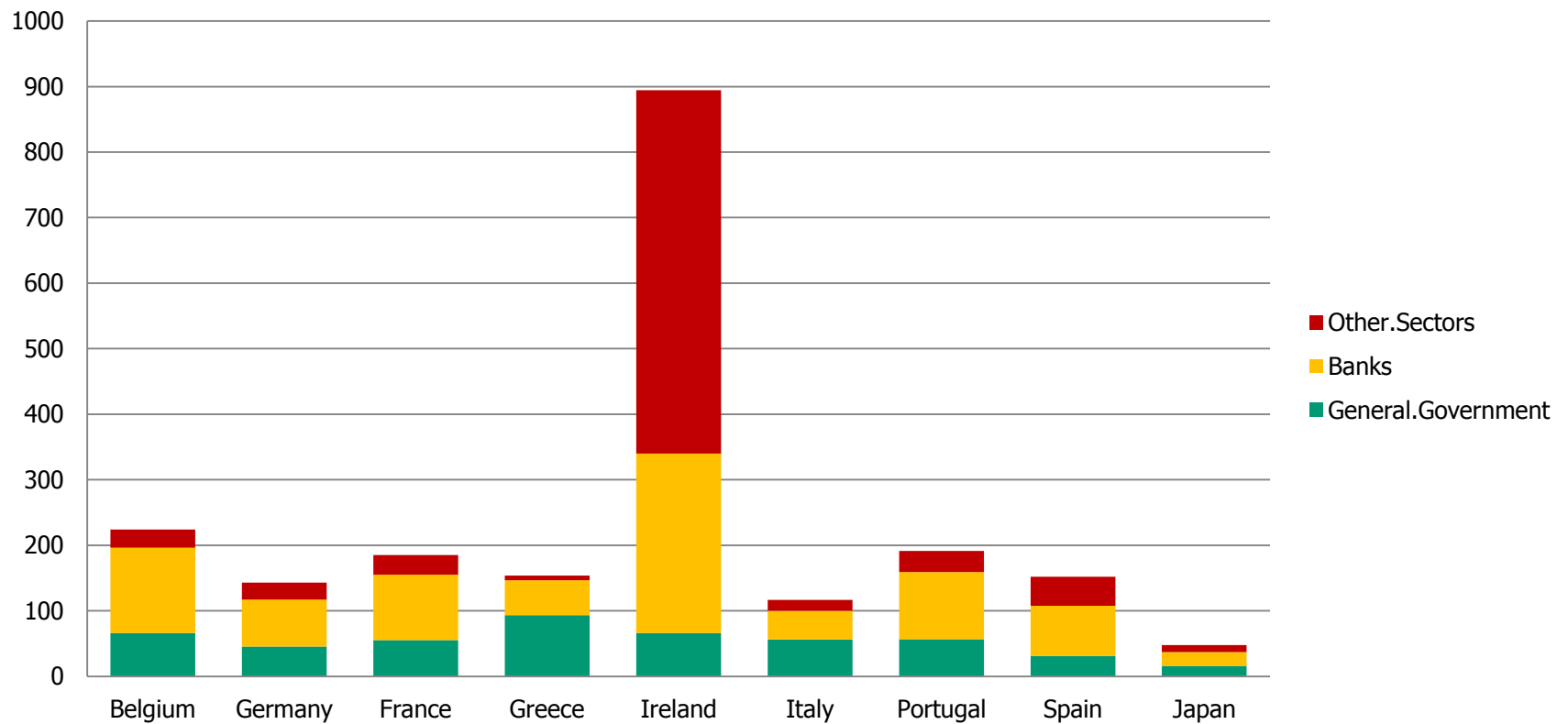
crisis of confidence and contagion

- ❖ Any negative payment shock → confidence crisis
- ❖ Consequences for the single country
- ❖ Consequences for partner countries
- ❖ The crucial role of foreign debt
- ❖ Sovereign and private debt are the same in markets expectations

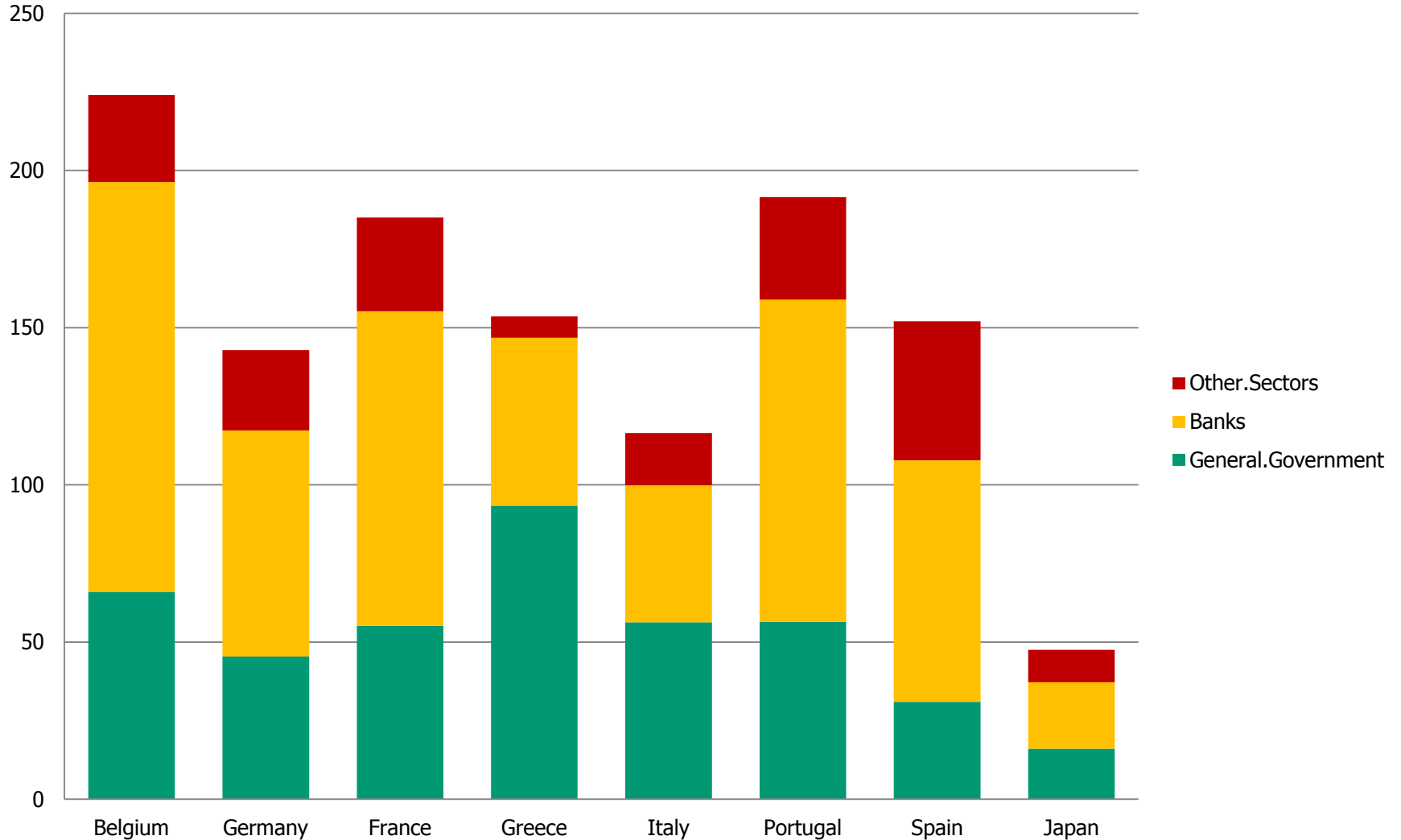
Role of foreign debt for contagion

- ❖ The worse for contagion: residents hold foreign assets and the domestic debt is hold by foreigners (institutions in particular)
- ❖ The sovereign default can be covered with domestic savings
- ❖ The situation in Europe is mixed

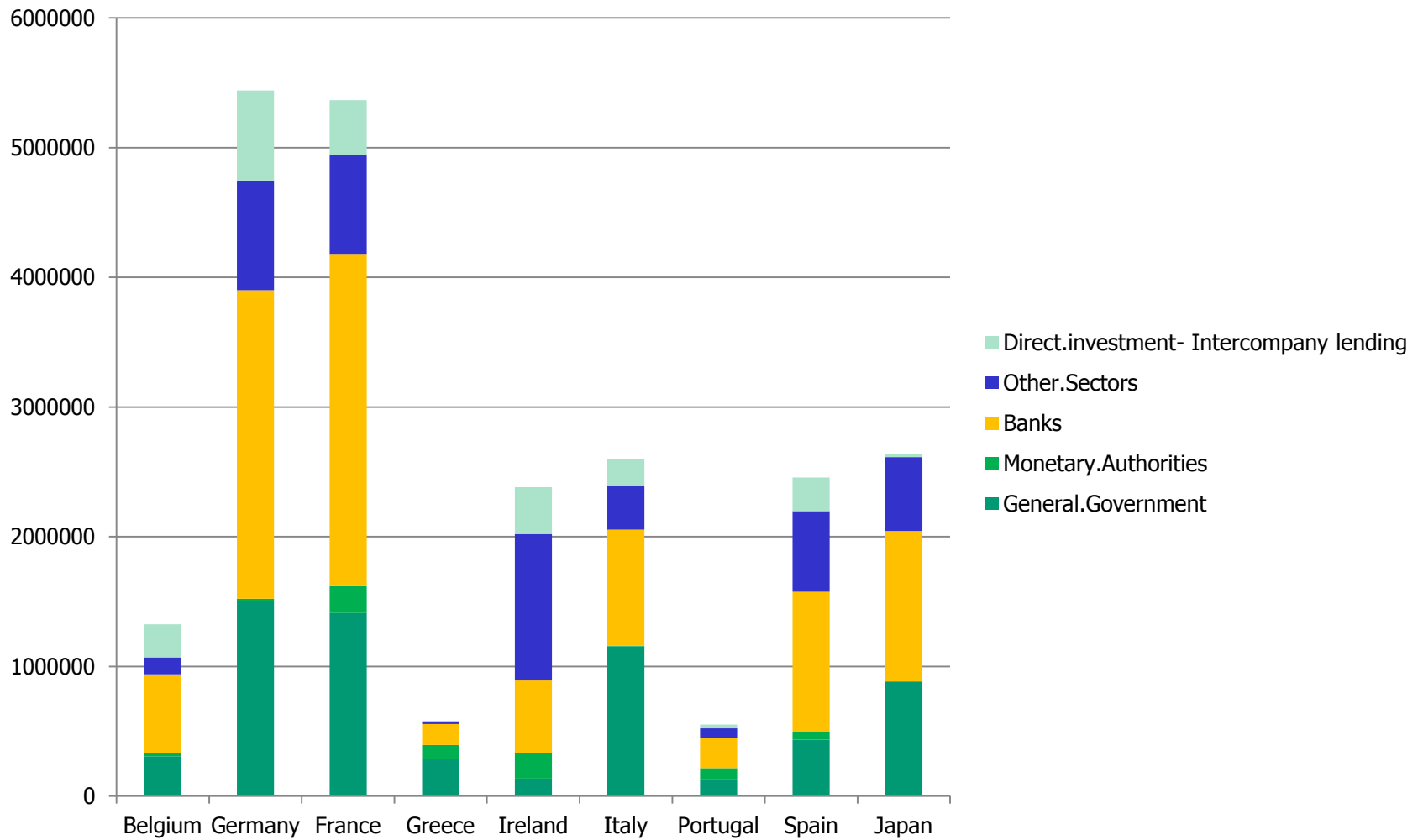
Gross External Debt composition (% of GDP), 2011



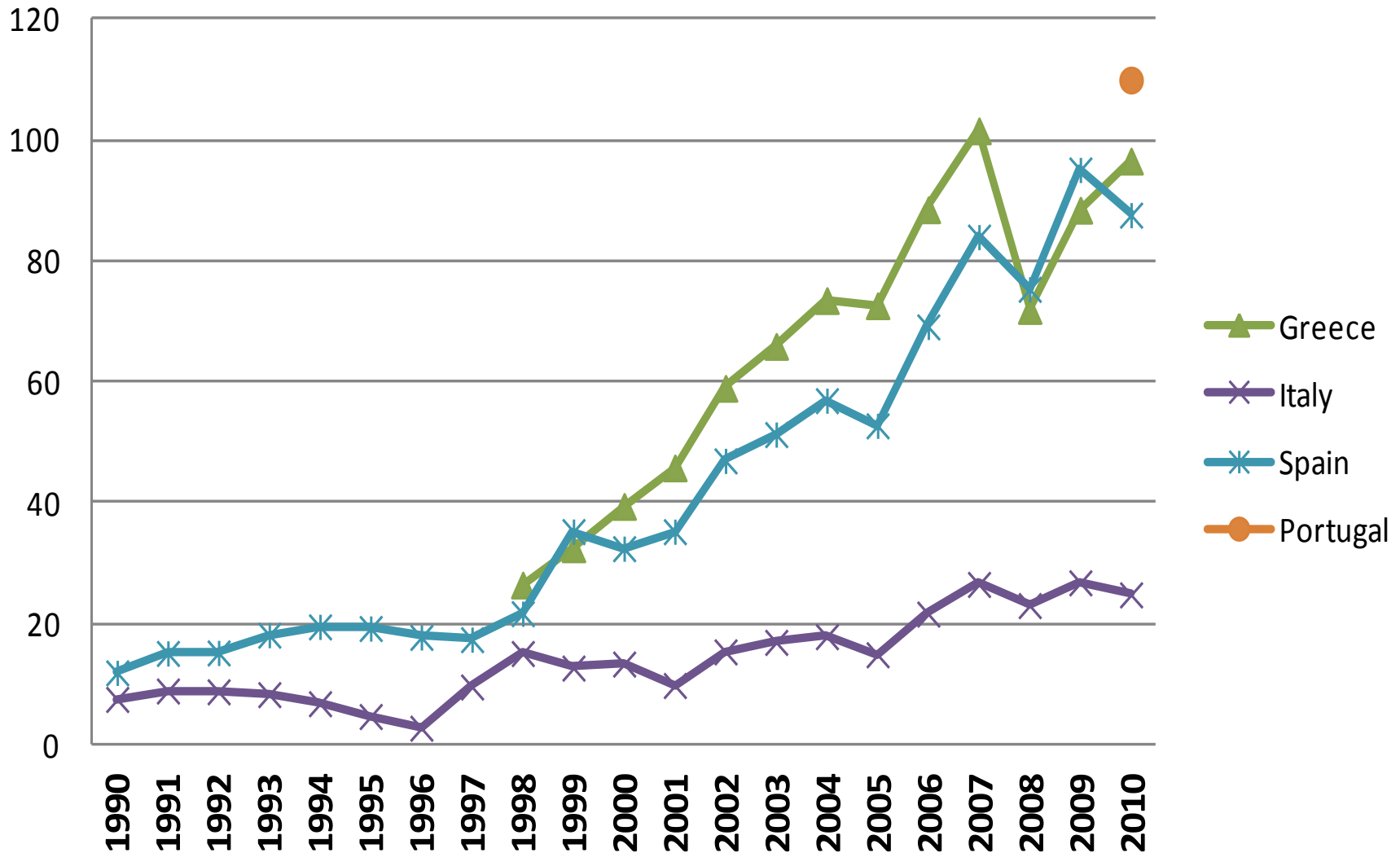
Gross External Debt composition (% of GDP), 2011



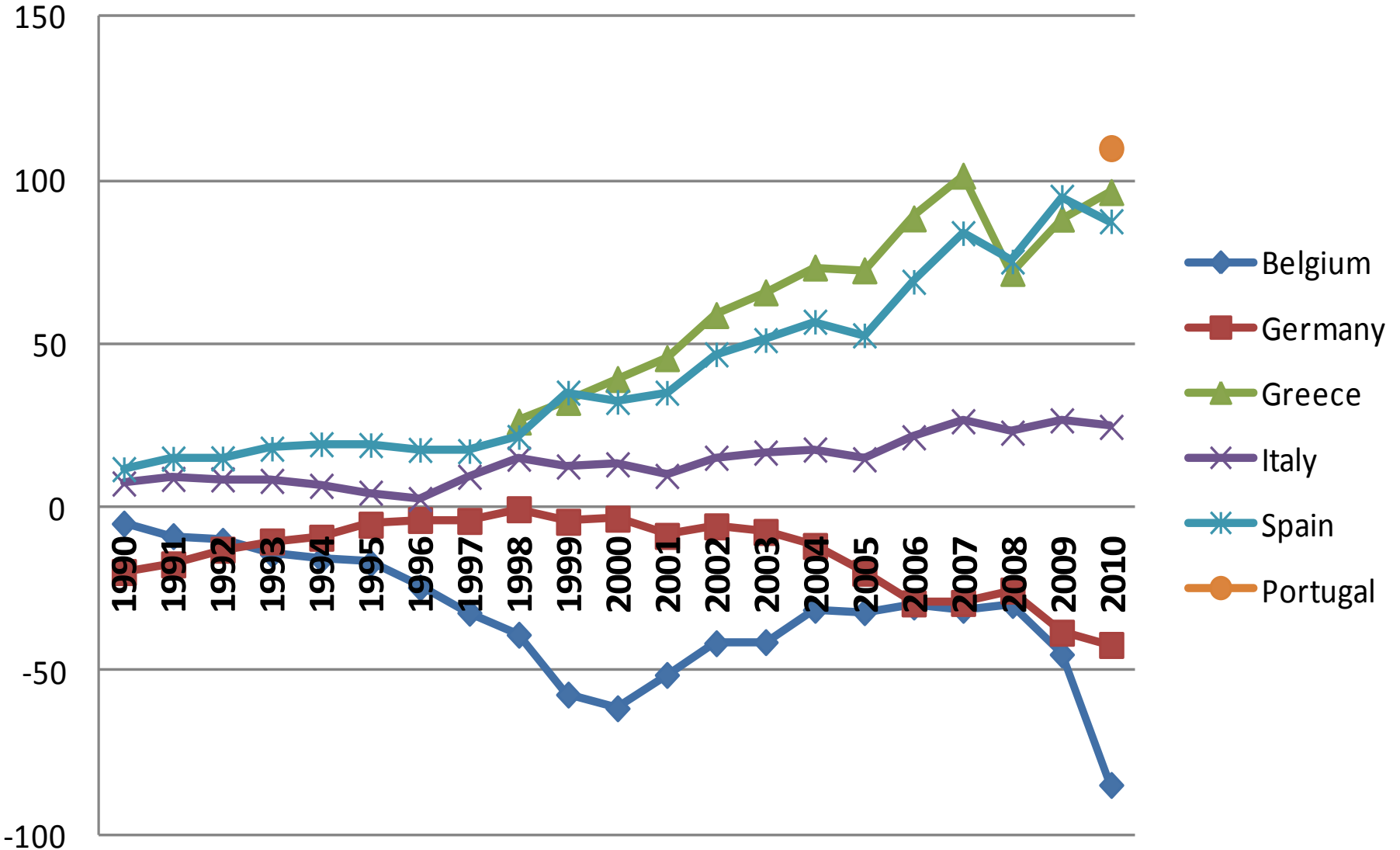
Gross External Debt Position (bill. US\$), 2011



Total economy net external liabilities (% of GDP)

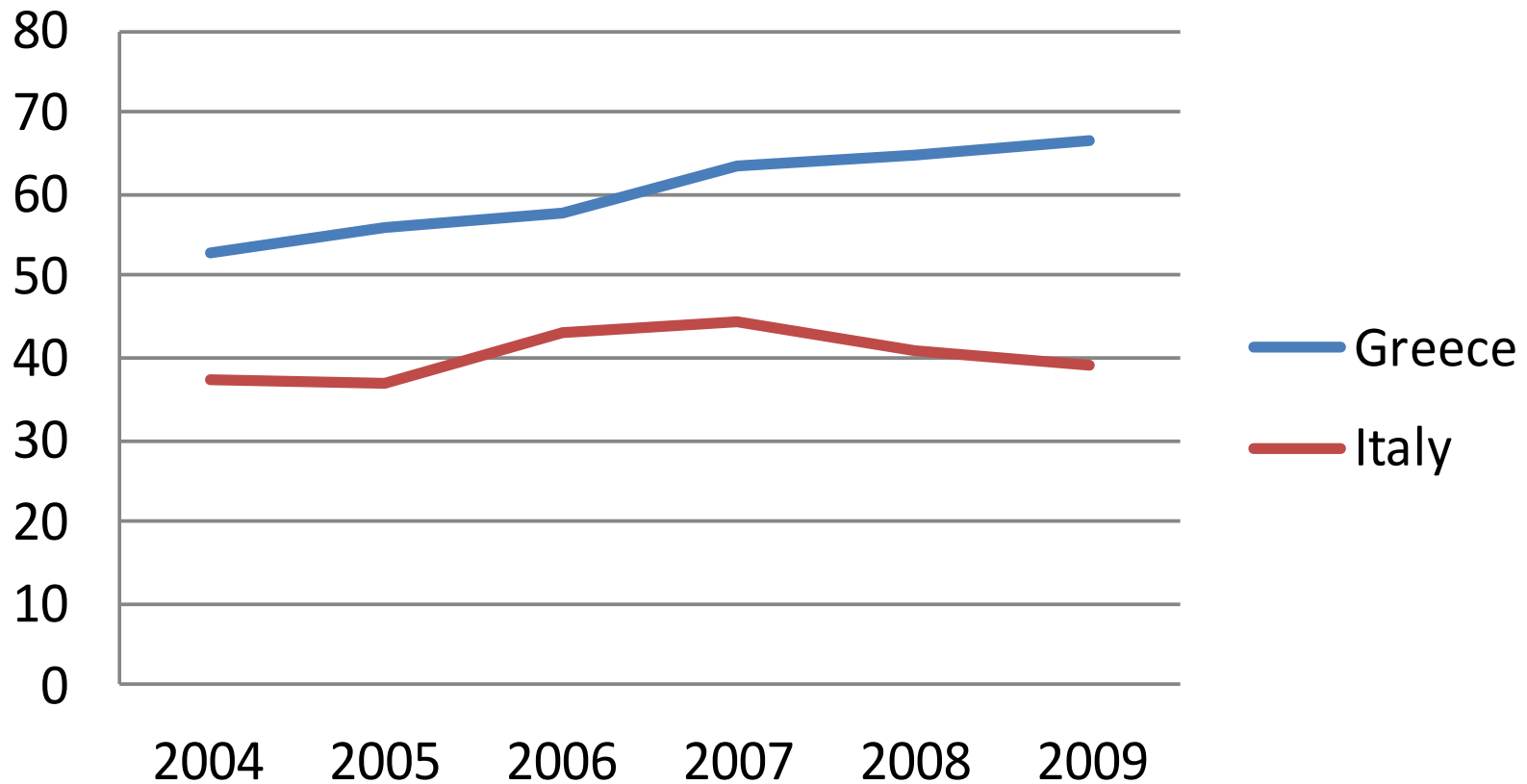


Total economy net external liabilities (% of GDP)



Italy

Central Government: external debt (% of total debt)





Households financial assets (%), Italy

Source: Annual Report for 2010, Bank of Italy, May 2011

	Composition (%)	
	dec. 2009	dec. 2010
National assets	91.1	90.4
Cash and deposits	39.6	39.7
Sovereign debts	5.8	5.1
Corporate bonds and shares	21.1	19.8
Mutual funds shares	4.3	4.2
Insurance, pension funds and other assets	20.3	21.6
Foreign assets	8.8	9.6
Mutual funds shares	1.8	2.5
Corporate bonds and shares	0.7	0.8
Other foreign assets	6.3	6.3
	100	100



Firms' financial assets (%), Italy

Source: Annual Report for 2010, Bank of Italy, May 2011

	Composition (%)	
	dec. 2009	dec. 2010
National assets	77.5	75.8
Cash and deposits	16.1	16.6
Sovereign debts	2.3	2.1
Corporate bonds and shares	23.6	20.7
Mutual funds shares	0.2	0.2
Commercial assets	35.6	36.2
Foreign assets	22.5	24.2
Short-term financial assets	1.3	1.3
Corporate bonds and shares	15.1	16.6
Other foreign assets	6.1	6.3
	100	100

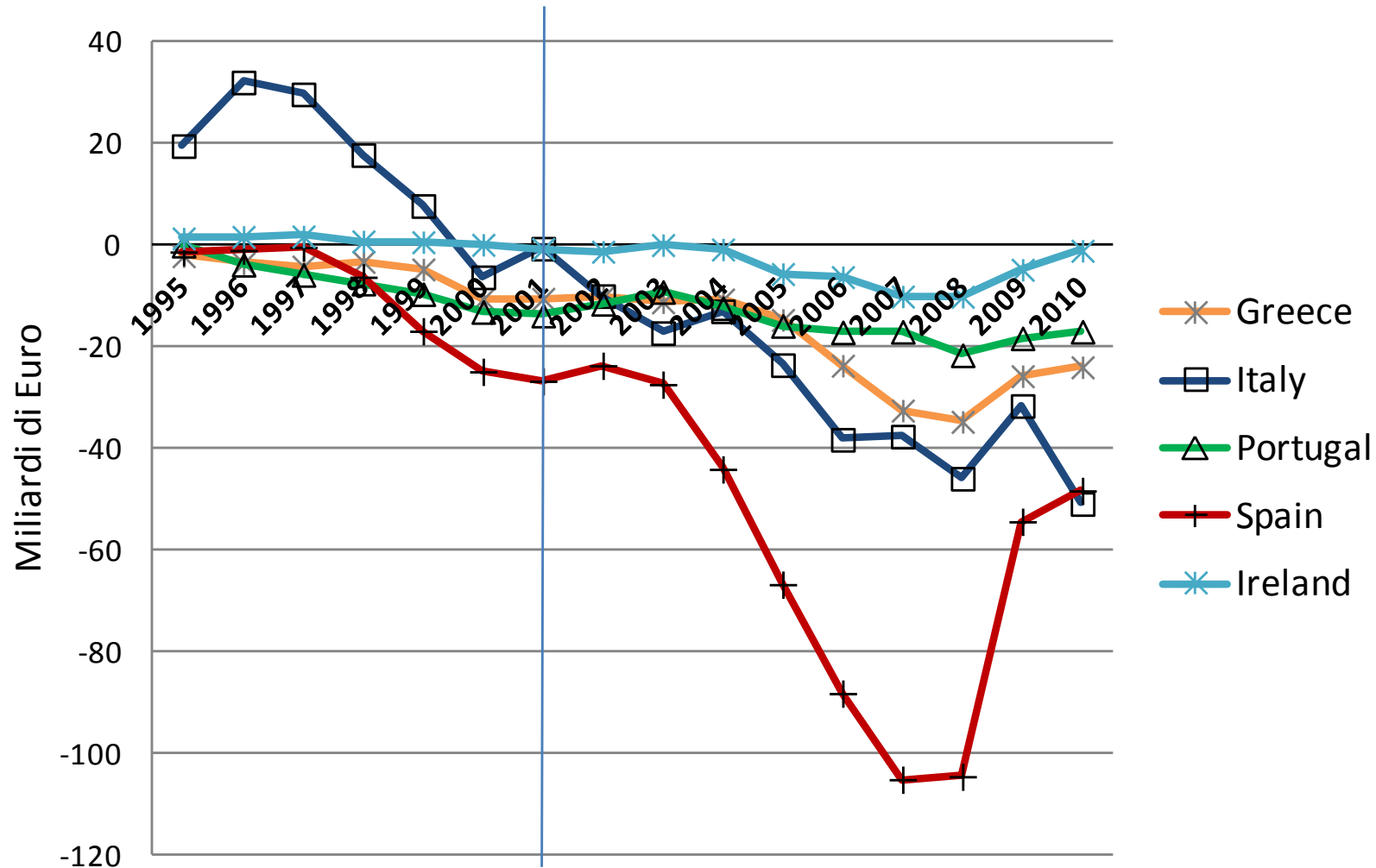
Policy response and conclusion

- ❖ The prevailing policy response to the crisis in Mediterranean countries (Italy in the first place) is a fiscal restriction (more taxing in particular)
- ❖ That will accentuate the tendency prevailing since the nineties of a declining saving rate
- ❖ Current account imbalances problem will not be resolved and with it the foreign debt one
- ❖ Rationalize the use public resources, incentive private saving and domestic purchase of internal debt

Dinamica del saldo delle partite correnti



Saldo delle partite correnti

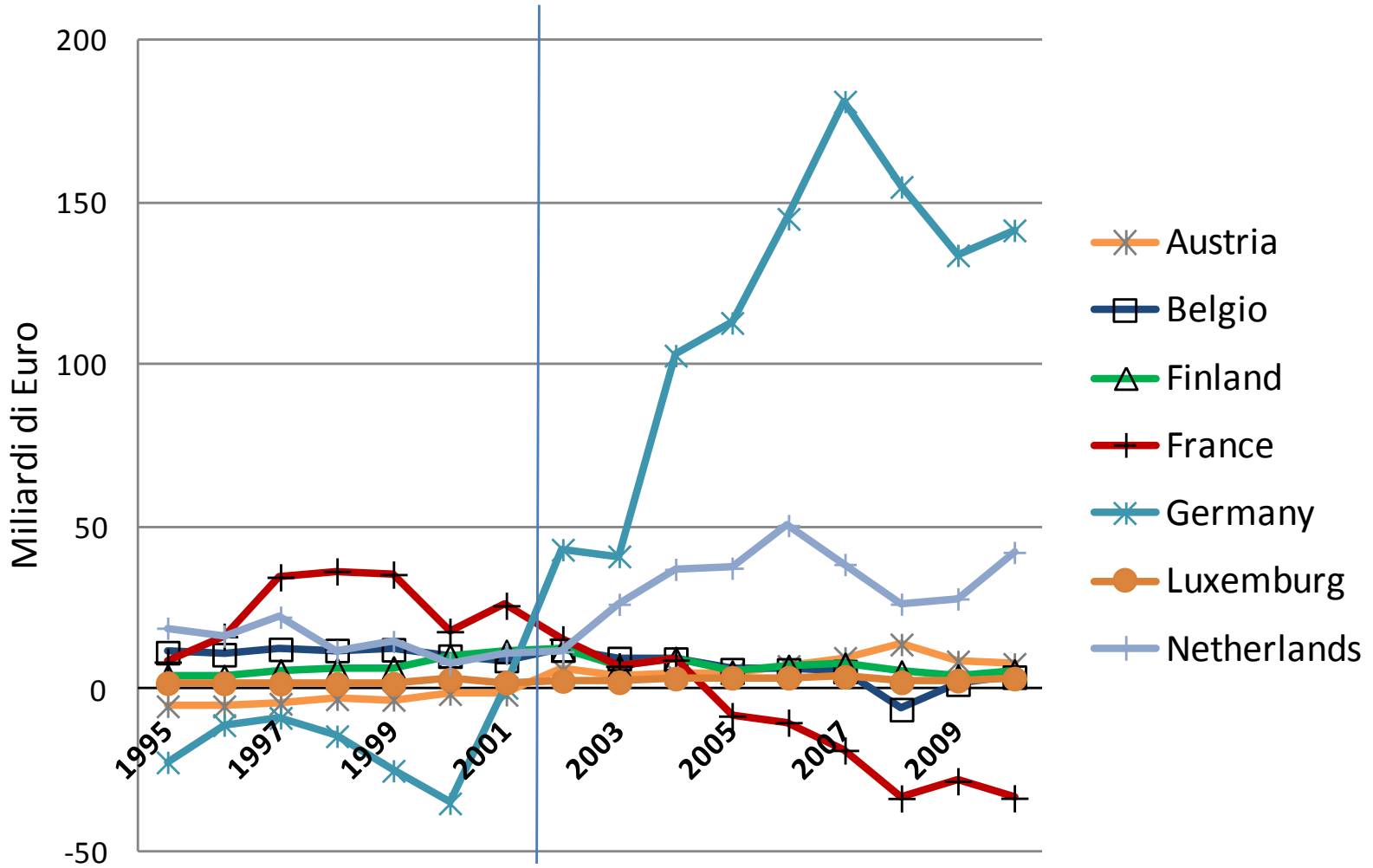


Fonte: Eurostat

Dinamica del saldo delle partite correnti



Saldo delle partite correnti

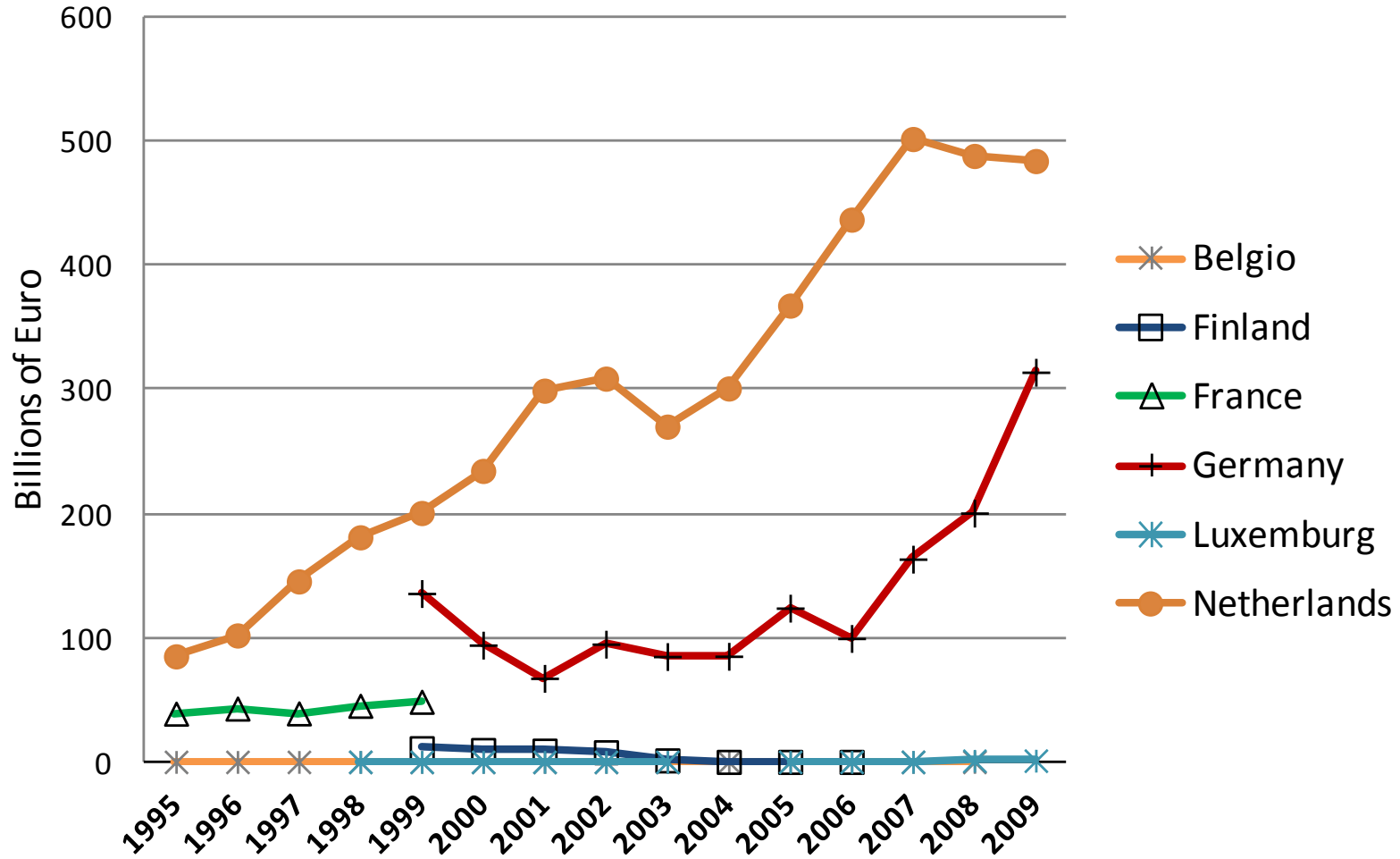


Fonte: Eurostat

Debito estero



External debt

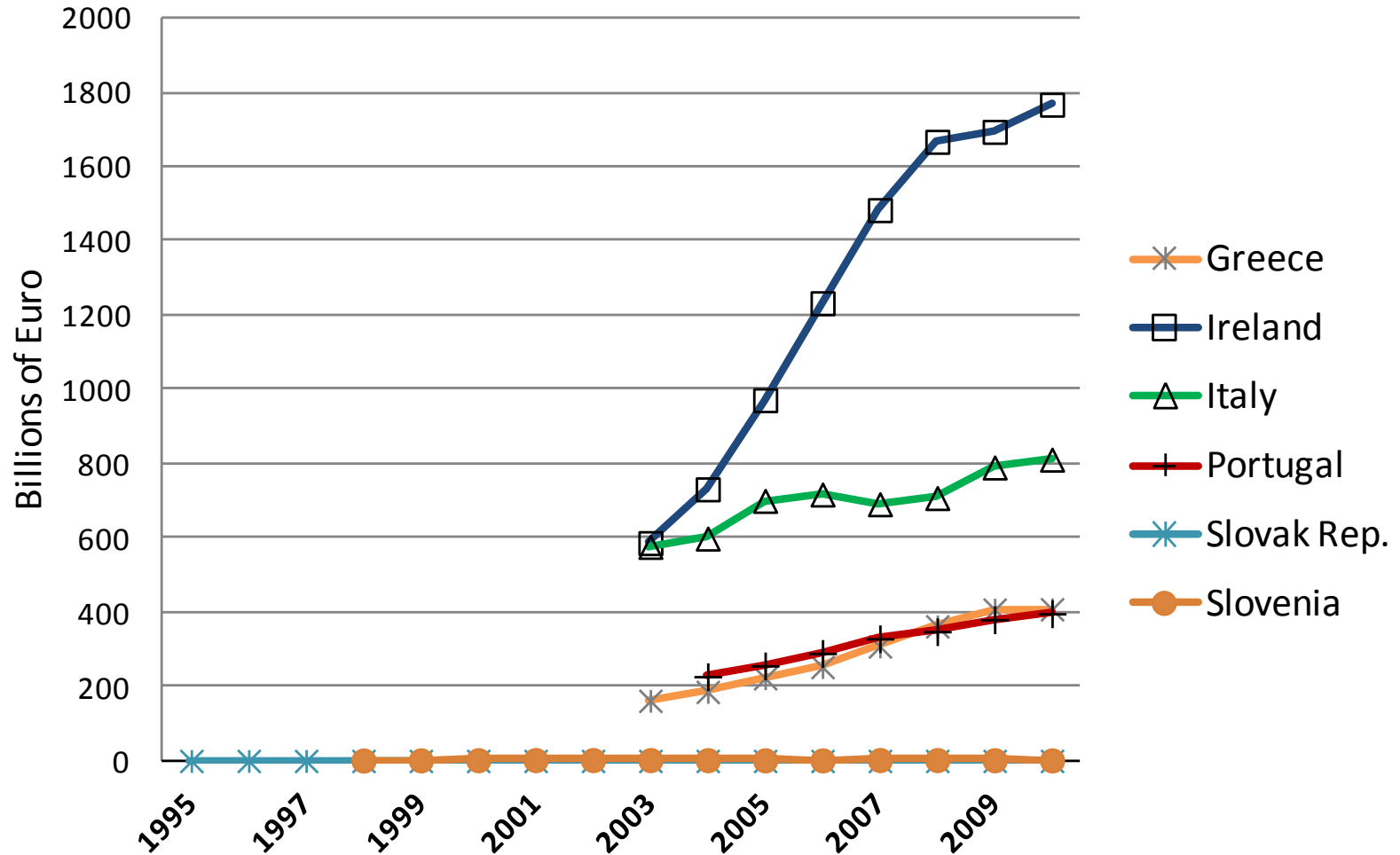


Fonte:

Debito estero



External debt

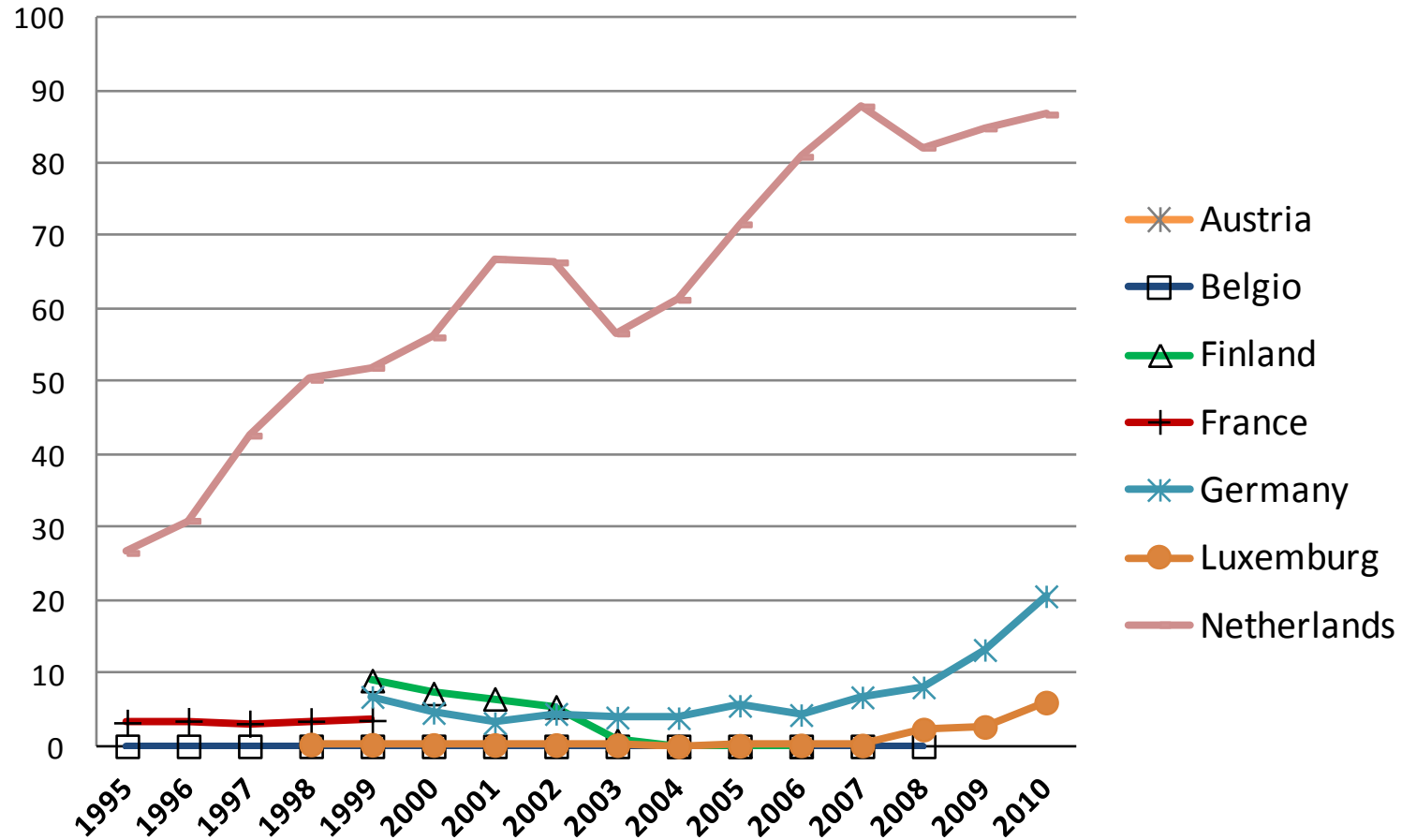


Fonte:

Debito estero/PIL



Rapporto debito estero su Pil

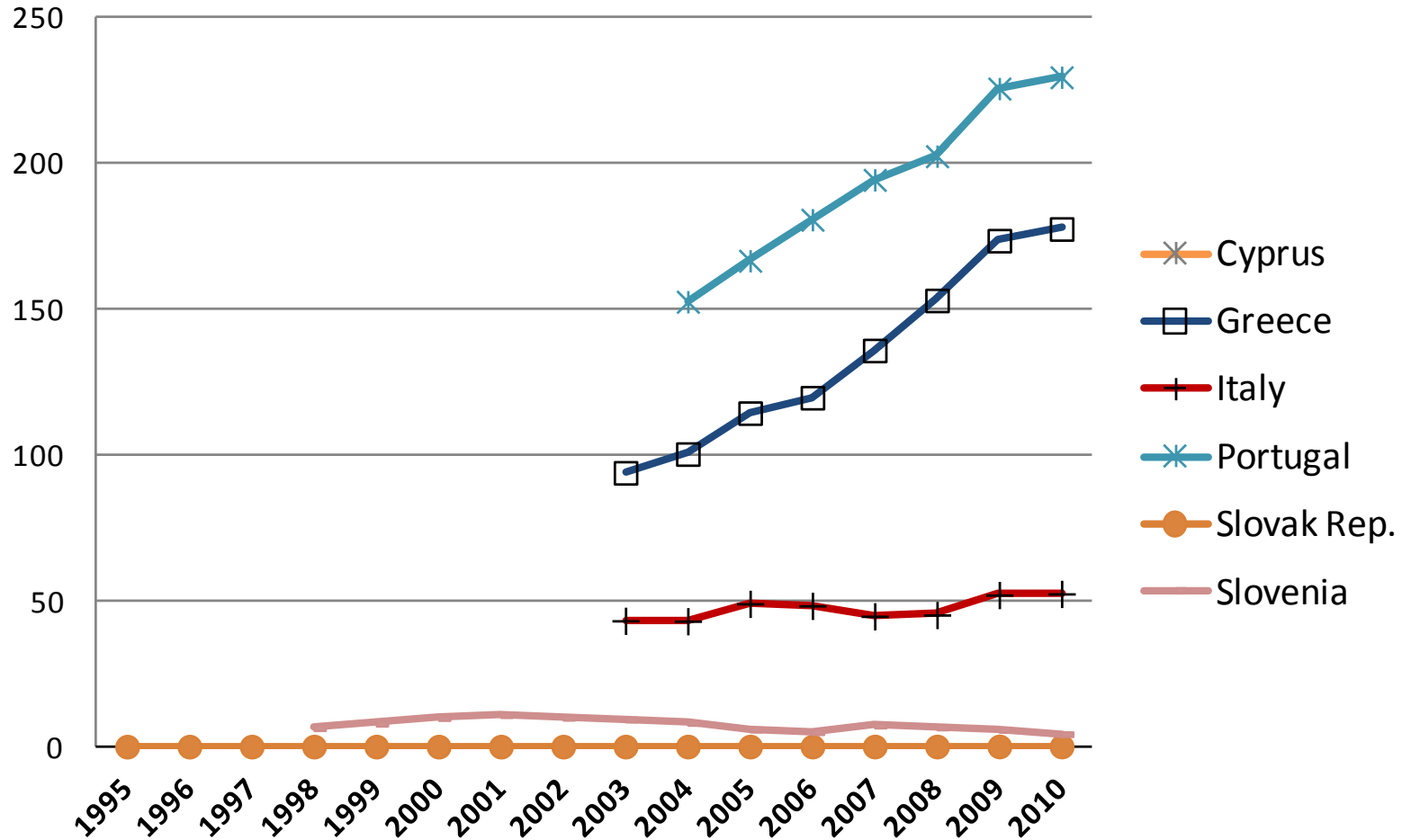


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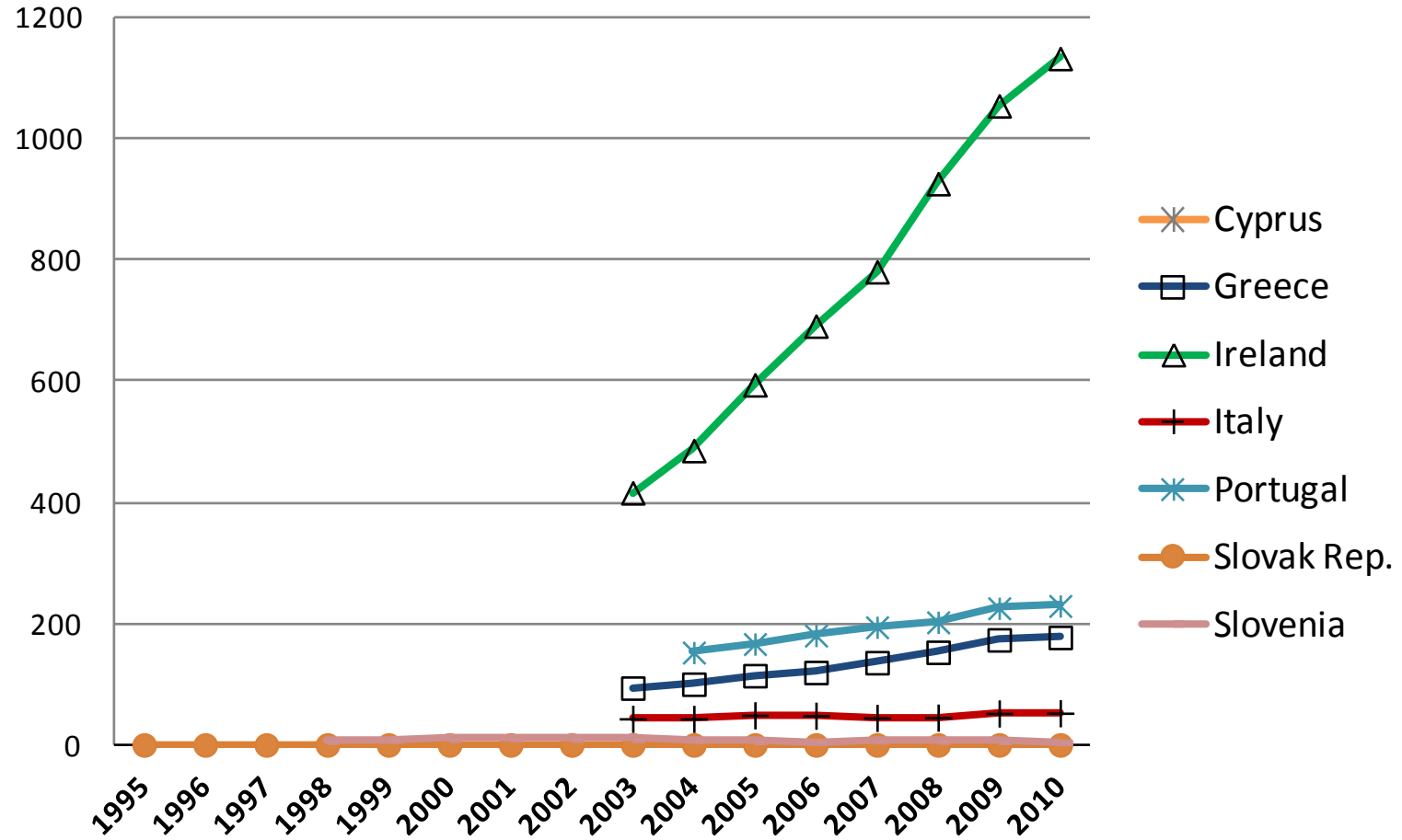


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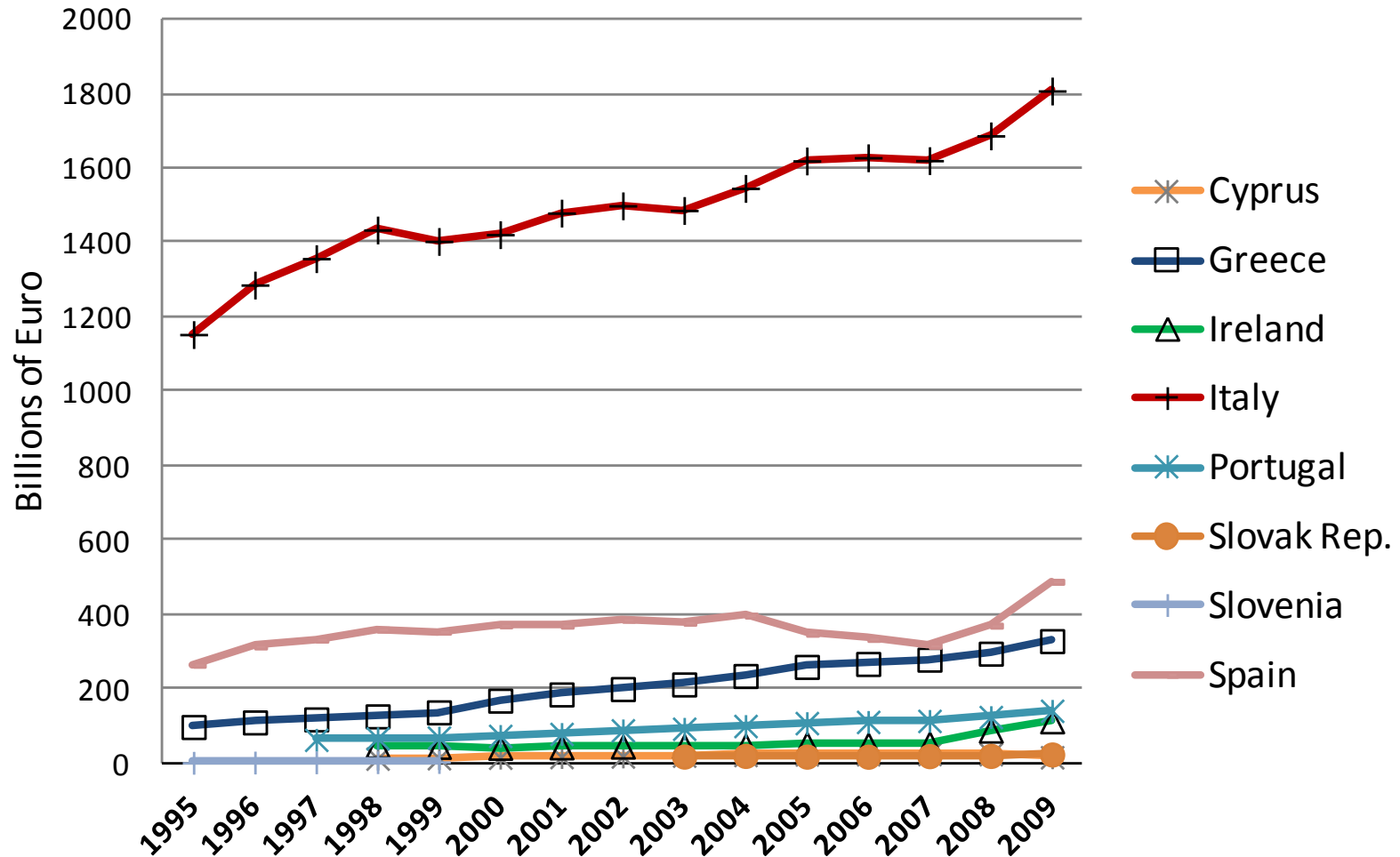


Fonte:

Debito pubblico



Central government debt

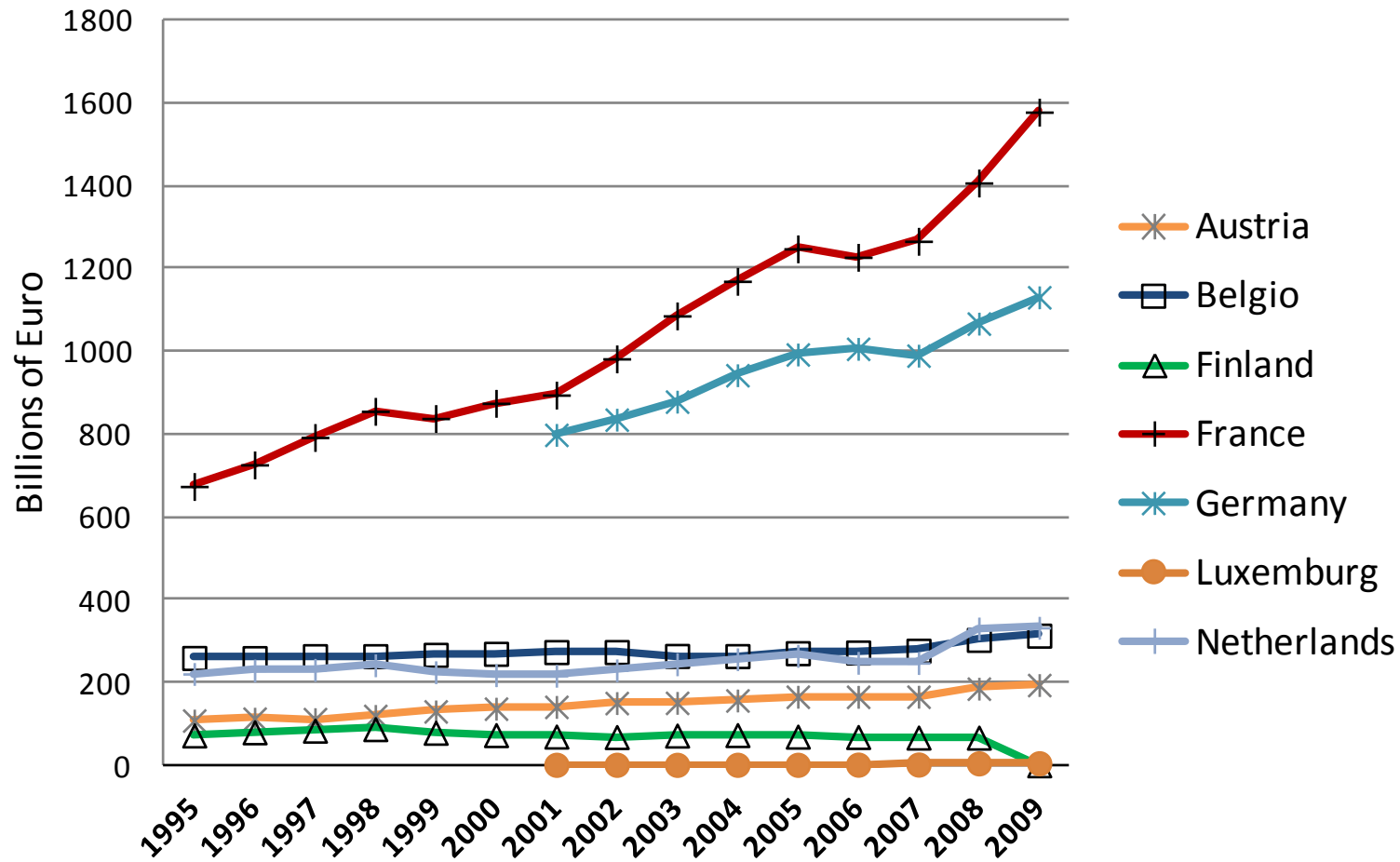


Fonte: World Bank

Debito pubblico



Central Government debt

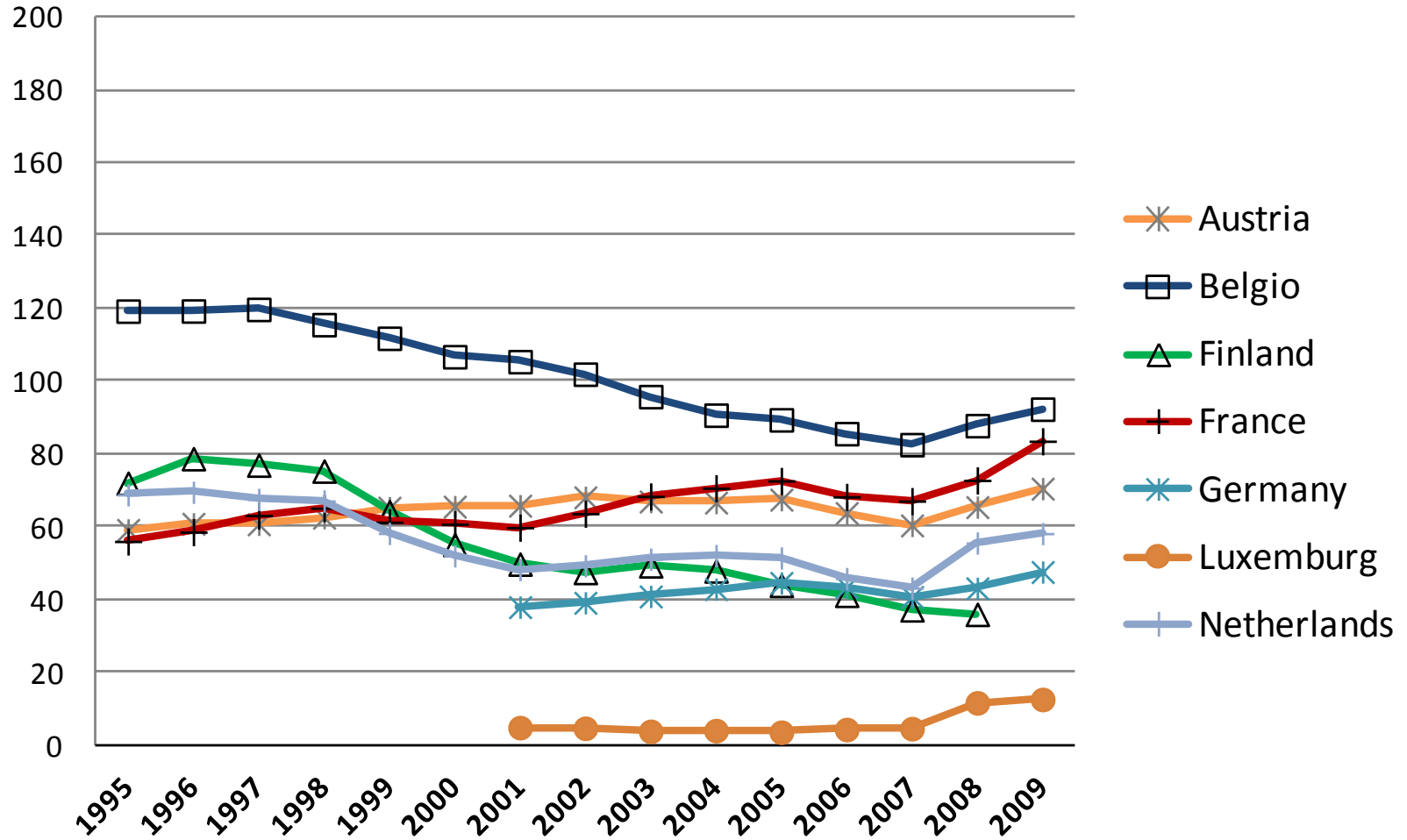


Fonte: World Bank

Debito pubblico/PIL



Rapporto debito pubblico su Pil

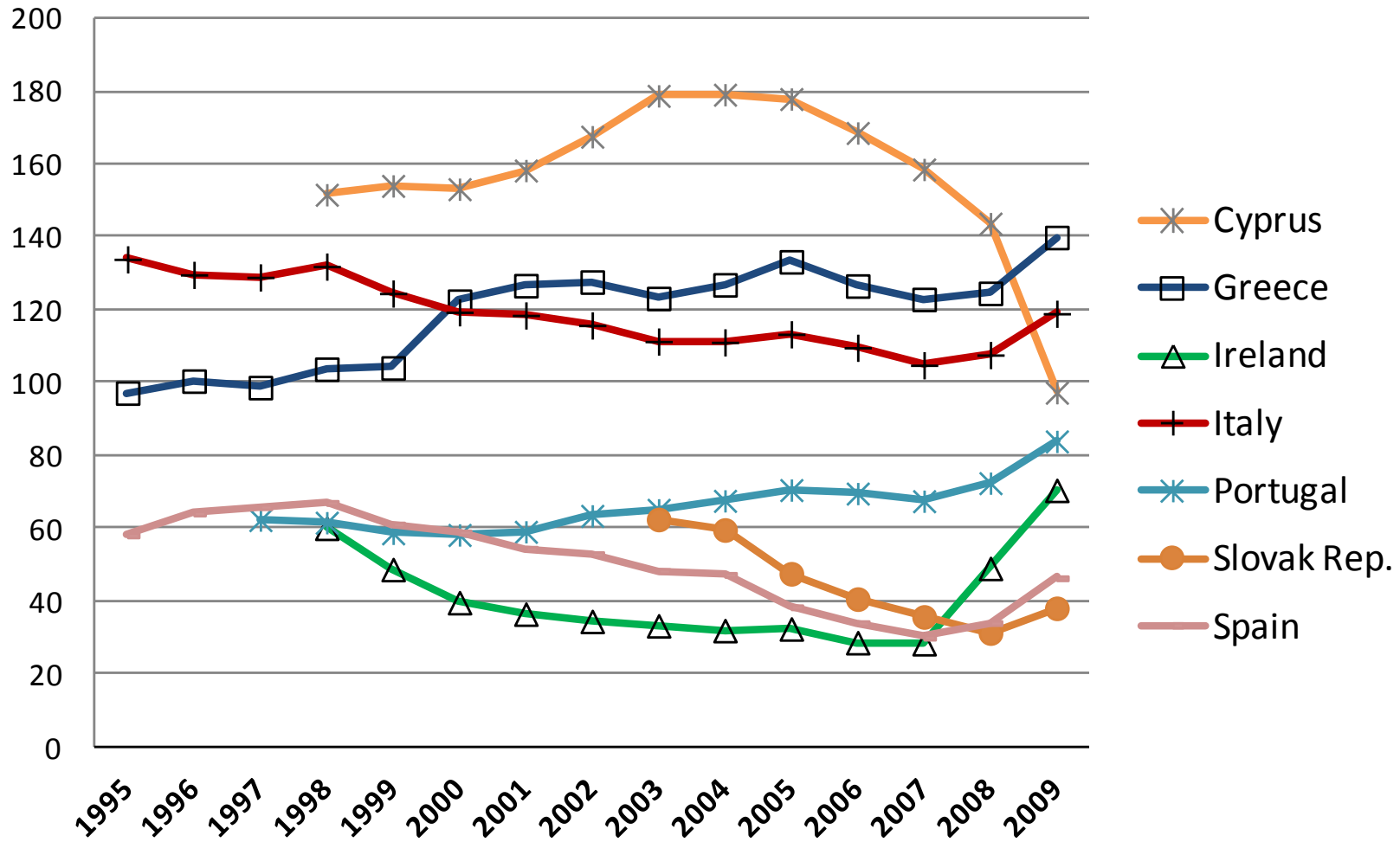


Fonte:

Debito pubblico/PIL



Rapporto debito pubblico su Pil



Fonte: