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SOVEREIGN DEBT CONTAGION ACROSS THE EU: SEARCHING FOR CAUSES AND MECHANICS

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Abstract: *The paper explores the main causes behind- and spreading mechanics in- the wave of sovereign debt overhangs that has been mounting recently across Europe. We offer two concurrent explanations: international contagion of a macroeconomic shock, and structural flaws in the design of E(M)U and its development paradigm. Moreover, we found the immediate policy response to have repeatedly gone awry and turned sour, since EMU's tactics of bailing out their banks rather than their sovereigns, can be summarized as the policy of too little, too late and to the wrong beneficiary. In compliance with the identified causes, we suggest urgent recourse to the healthier banking, growth oriented yet thriftier public finance, jointly with other measures meant to boost European economies' competitiveness.*

Keywords*: sovereign debt, fiscal policy, financial crisis, fiscal rules.*

1. Introduction

Today, world economy is faced with the recourse to monetary financing of the government budget deficit, increasing levels of government indebtedness and the resurgence of the snow-ball nightmare in government debt management, mounting in a number of countries. Incoming wave of sovereign default on its debt threatens to be the sixth in the row of major turmoil's in the last two centuries (Reinhart and Rogoff, 2008). It comes after Napoleonic War (1800s), 1820–1840, 1870–1890, Great depression and World War II (1930–1950), and Emerging market debt crisis (1980–1990). Unlike the directly preceding episode, nowadays, even the most advanced economies on the planet undermined its stability and growth prospects with prodigal governmental spending.

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What were the drivers of such fiscal profligacy? Government budget plays an important role in addressing wider set of both economic and social goals. This is a mighty societal account, but also politically often misused instrument. Since Keynesian revolution, governments all over the globe, through public spending, have been flattening the business cycle or at least attempting to do so. This role of government hasn't been challenged almost entire century. The idea to use governmental spending as a substitute for weak private demand originated in times when a role of government in the economy was much smaller than today. However, can we have and is it all the same in case of too much government? The responsibility of a contemporary government for social well-being is far more stretched out today than ever before. Some public expenditures have secular tendency to grow (health care, education, security, etc.) and do not depend on governmental readiness to accept additional responsibility. Moreover, many states promote themselves into a real "welfare state", which drives the public spending to the unprecedented levels. Last but not least, tremendous increase in public debt occurred to the US, the EU and some other economies, after they stood up for distressed private financial industry. It means that "contingent liabilities", which depend on instantaneous political considerations, may play a crucially important role in the contemporary design of demand for public goods. In the remainder of the paper we are dealing exactly with the latest reason without binding ourselves not to look at more distant economic rationale for such a behaviour.

The rest of the paper proceeds as follows. Section two reviews developments in the EU financial sector that came immediately after the outbreak of the global financial crisis. Section three focuses on the manner in which the key agents have responded to the problem at hand, while section four discusses some policy dilemmas. In the final section we go on to conclude.

2. Financial Ambience After the Global Financial Crisis

The first reaction on the incoming disturbance that came from policy circles was that as the main threat was coming from disappearing market liquidity. It should come as no surprise that policymakers and regulators look at that way, since the opposite to solvency issue, the liquidity issue need not to be traced directly to the policy mistakes, and allows easy-to-implement policy package. Borio (2010, p.70), *inter alia*, claims that evaporation of liquidity invariably plays a key role in the dynamics of financial distress. However, in this section, we shall try to exhibit the genesis of global financial disturbance, which tends to point out that often times exactly the opposite is (also) true. In spite of abundance of imprudently committed international liquidity yet again provided for perfect storm at the outskirts of the Eurozone, as soon as liquidity reached its prime, arguably the underlying sanity of decision making was seriously jeopardized already. Interestingly, once a hurricane of insolvency is on the move, global meltdown appears to be self-fulfilling by design, since bursting of individual financial asset bubbles drives investors and their capital away and into the following asset class, thereby inflating the next bubble until exploding and so on and so forth, resulting in cascading extinction of safe assets altogether.[1]

[1] On the global financial plane, number of sovereign issuers whose 10-year government bonds may be considered riskless has shrank so much after leading international credit rating agencies slashed financial reputation of 9 Eurozone members back in September 2011, that IMF estimates point at €9 billion decrease in global supply of safe financial assets through 2011-2016 period (IMF, 2012).

2.1 International Pretext

Ever since September 2008, following the bankruptcy of Lehman Brothers, international interbank markets went paralysed and interbank lending beyond fairly brief maturities literally disappeared into a thin air. It has all started with real estate (so-called subprime) market bubble burst in late 2007 erupting into the global financial meltdown by mid-2008. What are the main lessons that we learned the harder way from the initial wave of the international financial crisis? Depending on their own national specificities, financial systems can serve as safety nets or, if bad policy choices were made, may innovate themselves into metastatic amplifiers of crisis. For better part of the global investment banking industry, regrettably, acquiring competitive advantage came down to making markets less efficient. "One catastrophically diligent way of doing that is to start off myopically focused on circumventing capital requirements at the expense of the long-run value creation, only to keep surfing on a deliberately raised asset-price tide whose ephemeral nature proverbially tends to be secluded by hidden or obscured information" (Malovic, 2009, p.120). As is well-known by now, the crisis has been boosted by sky-hiking agricultural and petrol prices, weak supervision of credit derivatives and expansionary monetary policy worldwide, but in our opinion, essential culprit of this –still consequential- global distress is choking overregulation of plain-vanilla banking in parallel with astonishing excuse of any regulation whatsoever of non-banking intermediaries and global OTC markets![2] By expanding aggressively or simply by joining the frenzy band wagon, international financial intermediaries gave birth to multiples of fancy asset-backed securitized structured products, which inevitably got out of control. In turn, derivative mutation provoked shivers of illiquidity across the financial industry and following the bankruptcy of Lehman Brothers, unleashed a systemic run in the inter-bank credit market, a massive spike in corporate bond rates and a tremendous loss of consumer and business confidence (Malovic, 2008, 2009).

Due to its conservative morphology and less exposure to collateralized debt obligations, credit default swaps and other credit derivatives that subsequently turned soar, European banking system initially fared better through the global financial crisis, showing resilience and lending orientation towards down-to-the-earth industries and traditionally safe(r) sovereigns. However, owing to constructional flaws in a design of the Euro(zone), fiscal profligacy of its periphery and moral hazard of Western (European) banks, soon enough tables have turned dramatically.

2.2 Bank Distress, Liquidity Squeeze and Sovereign Debt Crisis in Europe

Gradual dissipation of non-sovereign safe assets as well as fears of after-explosions of toxic assets in either banks' balance sheets or balance sheets of their clients and finally general uncertainty in distinguishing between sound and unsound financial intermediaries, all of the above jointly prompted European banks to increasingly lend to sovereigns. Rise in credit rating of E(M)U periphery after waves of enlargement enabled them to indebt themselves more cheaply and consequently brought about real estate bubbles, stock exchange rallies and swelling imports. In tables (1 and 2) below the data on

[2] See Malović (2008) for more detailed analysis on why subprime mess on its' own couldn't have caused a serious financial crisis in the US, let alone a global meltdown!

government balance and debt are presented. It looks obvious that either the joining EU or the accepting common currency does not guarantee fiscal convergence. Quite contrary, it make less costly irresponsible fiscal policy, but not indefinitely.

Table 1. Government deficit/surplus: Selected EU countries (% GDP)

	2006	2007	2008	2009	2010	2011
Euro area	–1.3	–0.7	–2.1	–6.4	–6.2	–4.1
EU (27)	–1.5	–0.9	–2.4	–6.9	–6.5	–4.5
Advanced						
Germany	–1.6	0.2	–0.1	–3.2	–4.3	–1.0
France	–2.3	–2.7	–3.3	–7.5	–7.1	–5.2
PIIGS						
Ireland	2.9	0.1	–7.3	–14.0	–31.2	–13.1
Italy	–3.4	–1.6	–2.7	–5.4	–4.6	–3.9
Greece	–5.7	–6.5	–9.8	–15.6	–10.3	–9.1
Portugal	–4.6	–3.1	–3.6	–10.2	–9.8	–4.2
Spain	2.4	1.9	–4.5	–11.2	–9.3	–8.5
New members						
Bulgaria	1.9	1.2	1.7	–4.3	–3.1	–2.1
Hungary	–9.4	–5.1	–3.7	–4.6	–4.2	4.3
Romania	–2.2	–2.9	–5.7	–9.0	–6.8	–5.2

Source: Eurostat: Principal European Economic Indicators Database.

Although it has been started as the fourth generation crisis stemming from financial leverage and contagion effects in credit derivatives market, deepening of the European sovereign debt crisis came about in the third generation, so-called twin crisis fashion. Namely, it may also be rooted in EU export competitiveness. Too strong and way too early introduced common European currency caused export price competitiveness of EMU periphery to plummet, while it simultaneously redirected technologically staggering German exports to the outskirts of monetary union and its satellites (Lapavitsas *et alia*, 2010; Young, Semmler, 2011). Ensuing balance of payments deficits of EMU periphery soon enough spilled over to fiscal deficits and mounting public indebtedness. To make matters worse, Merler and Pisany-Ferry (2012) document that such a benign current account view (‘there can be no BoP crisis in a currency union’) hasn’t been merely challenged by reality -bearing on causality and optimal policy response which thus far remains stubbornly focused on harsh budgetary discipline alone, but has also been additionally amplified by massive capital flow reversals in EMU’s periphery on at least three occasions since the outbreak of the international financial crisis.

Initial interest spread spikes followed by the wave of downgrading of European sovereigns both owe to the existence of common currency under which individual central banks no longer have control over domestic money creation, effectively stripping them to emerging markets’ original sin status (De Grauwe, 2011). By the time western European banks triggered the sudden stop in further lending to sovereigns and forced the ESCB to partly roll those loans over via TARGET2, they were already overly exposed to highly indebted PIIGS (Portugal, Ireland, Italy, Greece and Spain). European sovereign debt crisis that openly erupted on its own specific accord in early 2010, however, still contains some

globally common ingredients: namely, rising government expenditures and overall recession, both of which contributed to dramatic deterioration of debt-to-GDP ratios.

Table 2. General government gross debt: Selected EU countries (% GDP)

	2006	2007	2008	2009	2010	2011
Euro area	68.6	66.3	70.1	79.9	85.3	87.2
EU (27)	61.6	59.0	62.5	74.8	80.0	82.5
Advanced						
Germany	68.1	65.2	66.7	74.4	83.0	81.2
France	63.7	64.2	68.2	79.2	82.3	85.8
PIIGS						
Ireland	24.5	24.8	44.2	65.1	92.5	108.2
Italy	106.1	103.1	105.7	116.0	118.6	120.1
Greece	106.1	107.4	113.0	129.4	145.0	165.3
Portugal	69.3	68.3	71.6	83.1	93.3	107.8
Spain	39.7	36.3	40.2	53.9	61.2	68.5
New members						
Bulgaria	21.6	17.2	13.7	14.6	16.3	16.3
Hungary	65.9	67.1	73.0	79.8	81.4	80.6
Romania	12.4	12.8	13.4	23.6	30.5	33.3

Source: Eurostat: Principal European Economic Indicators Database.

Table 3. Long term government bond yield: Selected EU countries

	Year 2011		Year 2012			
	Jun	Dec	Jan	Feb	Mar	Apr
Euro area	4.50	4.63	4.65	4.45	4.06	4.24
EU (27)	4.40	4.29	4.32	4.16	3.89	3.99
Advanced						
Germany	2.89	1.93	1.82	1.85	1.83	1.62
France	3.43	3.16	3.18	3.02	2.95	2.99
PIIGS						
Ireland	11.43	8.70	7.71	7.02	6.90	6.88
Italy	4.82	6.81	6.54	5.55	5.05	5.68
Greece	16.69	21.14	25.91	29.24	19.07	21.48
Portugal	10.87	13.08	13.85	12.81	13.01	12.01
Spain	5.48	5.53	5.41	5.11	5.17	5.79
New members						
Bulgaria	5.39	5.23	5.30	5.31	5.07	5.11
Hungary	7.22	8.97	9.51	8.60	8.73	8.77
Romania	7.42	7.39	7.02	6.99	6.48	6.25

Source: Eurostat: Principal European Economic Indicators Database.

Liquidity squeeze that followed was supplemented by further restricting regulations of Basel 3 (e.g. capital adequacy ratio hike from 8 to 9%)[3], which will require Europe's banks to immediately bolster their capital positions by rather optimistically estimated €106 billion.[4] Banks in France, the UK, Ireland, Germany, and Spain have already announced plans to write off some €775 billion of assets until the end of this year, according to data collected by Bloomberg (Chassany *et alia*, 2011). It is a well-established fact that solvency-protective measures can precipitate credit crunch. Berger and Udell (1994) found the risk-based capital regulation, imposed to creditors during the banking and saving and loans crisis in 1990s, may be held responsible for the credit crunch. Similarly, Bernauer and Koubi (2004) found the same pattern in US and Japanese policy response to endangered bank solvency in the 2000s. However, The EBA tests imply that roughly one third of the banks sampled desperately requires stronger capital buffers in order for them to honour the June 2012 deadline (Kinsella and O'Sullivan, 2011). However, a recent IMF (2012) analysis found that only a small fraction of banks are in the high-risk zone, representing 1 per cent of total bank assets, while a greater proportion (22 per cent of banks representing 12 per cent of assets) fall into the second-highest risk zone. Be that as it may, European banks would probably have to reduce their balance sheets by the aggregate of 1.5-2.5 trillion € over the course of the next 18 months to meet more stringent capital requirements, quite apart from the further crippling losses which could originate from CDS-related insurance sold against bunk runs and alike default events. It is not entirely clear where all that money might come from, yet it is beyond doubt that banks will sharply reduce their cross-border, foreign denominated and riskier exposures. Examples of lending contraction are already plain to see, including Germany's Commerzbank's halting new property lending in its Euro-Hypo unit and a 20% fall in the number of "active" lenders in the UK from 2010 to 2011 (HSBC, 2011, M3 Capital Partners, 2011).

Nevertheless, thus far recorded deleveraging process in European banks in our opinion amounts to no more than a game theoretical foreplay if we are to avoid moral hazard and reaching into the European taxpayers' pockets, because couple of relatively abundant liquidity injections by the ECB and/or EFSF were –rightly or wrongly- interpreted by banks as maneuvering space advising against too much restructuring too soon.

3. Monetary Resolution Attempts and Latest Regulatory Initiatives

With the credit crunch kicking in and sovereign debt hitting unsustainable levels, EU officials responded with good old throwing money at the problem. It started with €130 billion of central bank funding via TARGET to the Bank of Greece (largely passed on to Greek banks). Moreover, to calm the markets after the 2010 bailout, additional €40 billion of Greek bonds were bought by the ECB, followed by the second Greek bail-out (ironically also known as Private Sector Involvement Swap) and two gigantic LTRO (Long Term Refinancing Operations) liquidity injections in between.

[3] Basel 3 measures especially aim at tightening liquidity aspect of banking business, as captured by new weighted average liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) (BIS, 2012).

[4] In a similar fashion, Solvency 2 is expected to render uneconomical many a policy, cut down liquidity and increase the number of too-big-to-fail insurance companies in the EU.

Initial unsatisfactory consequence of EMU's decision to bail out their banks rather than their sovereigns, can be summarized as too little, too late and to the wrong beneficiary. First of all, due to the fact that international financial institutions prior to the second Greek bailout provided liquidity directly to banks at ridiculous one per cent interest rate whereas the banks themselves only partially committed themselves to refinancing of their claims against sovereigns often at above six per cent interest, European banks' exposure to the sovereign bonds of vulnerable Eurozone members generally decreased during the period December 2010 to September 2011 (Angeloni and Wolff, 2012). Moreover, the second Greek bailout, in fact the biggest orderly default in the history of sovereign debt management, actually represented a Public Sector Involvement in spite of the semantics in which it was camouflaged in media: banks were almost simultaneously compensated for most of the nominal concessions they provisionally agreed to, while the official creditors not only engaged taxpayers' money substantially letting the banks off the hook, but also crowded potential new private ones out down the pecking order of their more senior claims. The outcome invoked moral hazard issues, steep cost and ineffectiveness of such a rescue as well as natural reluctance of European banks to commit themselves to more serious write-offs, deleveraging and restructuring efforts.

Similarly, more than €1 trillion borrowed by banks through ECB's two LTROs in December 2011 and February 2012 temporarily conserved their stock market value and lowered sovereigns' interest rate premia, at the expense of more pronounced moral hazard problems[5] (than the ones resulting from direct ECB intervention into sovereign debt markets) as well as potentially reflationary excessive monetary expansion[6]. Oakley (2012) warns how particularly volatile LTROs might have been in the case of Spanish public debt and solvency of its banking sector.

The more recent unsatisfactory effect of European version of quantitative easing finally bears resemblance with the US counterpart in as much as the banks that are stronger appear to have been hoarding cash, which has led to another wave of a liquidity squeeze in the interbank market. For example, most of the €56 billion supplemental long-term refinancing operations (SLTRO) provided on 26 October 2011 were placed back into the deposit facility, which implies that banks with surpluses are holding cash rather than lending it further to the real economy or even other banks in liquidity distress (Davies and Yogarajah, 2011). Unlike many other analysts, we see this development as a good sign of banks' fading certainty about ESCB's readiness to continuously bail them out in the future. We argue that the optimal policy should indeed be direct LOLR intervention via some sort of Eurobonds after national deposit insurance schemes have been sufficiently strengthened. That would bail in the banking sector instead of obliging taxpayers from the Eurozone's core. Instead, persuaded either by the bank-centric monetary policy view as explained in Kashyap and Stein (1994) or by lobbying pressure of European banking industry, EMU officials and Germany in particular seem to have decided to keep using undercapitalized EFSF and ESM as banking sector bail-out fund. Notwithstanding the uncomfortable fact that European banks are largely governed by national regulations and yet they expanded

[5] Compared to their likely future losses, European banks have raised relatively little capital since the onset of LTRO – and much of this has been creative accounting, rather than truly loss-absorbing shareholder equity (Acemoglu, Johnson, 2012).

[6] Because banks channeled only a fraction of the liquidity obtained into sovereign bond markets, the ECB had to pour more money into the system than if it had to intervene itself (De Grauwe, 2012).

their balance sheets (as well as their risk taking) all over EMU, which welcomes the creation of some sort of pan-European deposit insurance scheme or even a banking union (Malovic, 2012), the very latest European Commission's support for the strategy of further bail-outs in European banking sector rather than helping out their indebted governments (BBC, 2012), in all likelihood does not represent a step in the right direction. And time is no doubt getting shorter.

Speaking of time, Reinhart *et alia* (2012) found that out of 26 prominent episodes of debt overhang, 20 lasted for more than a decade even for sovereign with continuous access to international capital markets at fairly low interest rates. Apparently, growth-reducing effects of sovereign debt crisis in EMU are not transmitted exclusively through credit and interest rate channel of monetary policy, but also through moral hazard, unemployment and the all-encompassing crisis of trust. EBA's (European Bank Authority) stress testing may well be estimating the inevitable losses, but Eurocrats' stalling in their political and macroeconomic gridlock could easily unleash the bank runs taking the fatal decision instead and ahead of the politicians.

4. Rule Based Fiscal Policy or Discretion: the Way Out

Either way stimulated prodigal public spending brings the austerity package to the forefront of academic and policy discussions, making urgent recourse to the healthy finance. The ardent policy debate come to the cross-road, when policy-makers must decide which way to take: austerity measures vs. further stimulus of aggregate demand. Probably thanks to EU accession window, IMF closer monitoring, and uncomfortable fiscal history, the Republic of Serbia as well as its neighbouring countries are better performers in terms of public debt than old EU members (Table 4). The worst performers are obviously EU peripheral countries.

Table 4. Selected debt sustainability indicators (2010)

Region/Country	Debt to GDP ratio	Government balance/GDP	External debt/GDP
South-eastern Europe			
Albania	58.2	–4.2	36.6
Bosnia and Herzegovina	39.7	–4.5	56.6
FYR Macedonia	24.6	–2.5	59.0
Montenegro	44.1	–3.8	100.2
Serbia	44.9	–4.6	83.1
Central Europe			
Croatia	40.6	–5.0	102.1
Slovenia	37.3	–5.6	115.2

Source: EBRD, Transition Report 2011.

With worldwide scope of debt issue, possibility for external monitors to bring discipline to the fiscal policy is seriously undermined. Sustainable and responsible fiscal and monetary policy is the only way out of fragility, and responsibility for this task today rests predominantly to internal policy actors.

More than ever before, the rules are seen as better response than the discretion. There are different ways for implementing rules in budget policy. Examples are public debt ceiling (US), Maastricht convergence criteria (two out of five) tackle fiscal policy (budget deficit and consolidated public debt), and more recently public debt (to GDP) ceiling in Serbia. Debt ceiling itself may be put relative to GDP or in absolute nominal terms. In the latter case it is more susceptible to window dressing. Stick to the simple rules is a proposal already seen and widely debated in area of monetary policy. The voices for currency board proposal in case of Serbia were especially strong in late 1990s (Dinkić, 1999; Fabris, 1999; Savić, 1999; Galić, 1999). Motivation for switching to the rules in both monetary and fiscal policy defers no much. The arguments for the fiscal rules are the same as the case with monetary rules: policy incompetence, inability to resist public pressure, etc. Equally, the flaws are very similar. The rules rule out flexibility. Thus, the rules are often proposed in harsh times with an idea to stay in place a limited period of time. Interestingly, implementation of debt ceiling in Serbia coincides with voices that advocates rule-based monetary policy (see Vuković (2011) for renewal of currency board proposal).

The fiscal rules are easy to monitor and transparent. That is recognized as basic strength of the proposal. However, the rules are not implemented by themselves. There is a number of ways to circumvent the rules: creative accounting, consolidation issues, public guarantees, etc. (Kitanović et alia, 2011, 125). The ultimate effect of the rule-based policy depends on how effective are mechanisms available for enforcement. Since nothing but political costs constrains those who infringe the rules, political mechanism stays the only effective brake. At the end, it is now all understood that political economy of fiscal adjustments is more politics than economy, firstly because the very nature of political system shapes the way society is going to respond to the issue (Kahler, 1985; Kaufman, 1985), and further on, because the threats are all political. As stated remarkably in Alesina et alia, (1998, 198) "[d]eficit reduction policies are almost always associated with politically charged issues, such as the retrenchment of overextended welfare states, the reform of insolvent public pension systems, and the trimming of large and inefficient bureaucracies." Despite of legal mandate to prevent excessive public debt, parliamentary control proved not to be effective in the case of Serbia. In this case, specific electoral legislative weakens the possibility of Parliament to act as effective government monitor.

Conclusions

Weakening growth prospects of the so called Old Europe, which is merely a consequence of loosing technological and subsequently competitiveness' battle against the fast growing global competitors, forced its banks to look for easy catch in real estate finance, capture the local market businesses and sovereign lending to support such investment. It was easy to incite the real estate boom by diverging massive funds from strictly appraised commercial lending into the real estate bubble, trade finance of politically muscled deals and seemingly risk-free lending to the Eurozone's sovereigns. In the next stage, governments generously accepted to step in and moreover bail out equally profligate private banking industry with massive liquidity injections, which shifted the financial as well as ethical burden from private to public sector yet again.

From the European perspective, the trigger of the debt crisis is unquestionably imported macroeconomic shock. However, the wrong policy reaction oriented to safeguard big (banks) and high profile corporate interest have spilled the oil on the open flame of

financial distress. Europe failed to adjust overextended welfare state to sluggish economic growth. Though the explanations of causes and mechanics are by now more or less concurrent, they point to different economic paths out of it. It is now obvious that the massive public interventions failed to initiate the economic growth and badly needed technological advancement. If the loosing competitive advantage of Old Europe over the global competitors turned out to be a more protracted phenomenon, recourse to the healthier public finance should momentarily become ever more urgent.

For a small and open country, which linked its future to the EU, it is even more important to learn from the big neighbor's experiences. It is of unprecedented importance to jam the public money-wasting machine before it's too late. If EMU is to survive, both real and nominal expansion are *sine qua non*, but their targets must be growth and employment inducing. Rent-seeking and moral hazard are not welcome!

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EPIDEMIJA JAVNOG ZADUŽIVANJA ŠIROM EVROPE: U POTRAZI ZA UZROCIMA I MEHANIKOM

Rezime: U radu istražujemo glavne uzroke koji su doveli do širenja talasa otkaza u servisiranju javnog duga širom Evrope. Nudimo dva međusobno saglasna objašnjenja: spoljni makroekonomski šok i strukturne greške u dominantnoj razvojnoj paradigmi. Utvrdili smo da je neposredna reakcija ekonomske politike imala nepovoljne efekte, jer se odluka EMU da spašava svoje banke izlažući javni sektor, može oceniti kao neadekvatna, neblagovremena i loše usmerena. Saglasno identifikovanim uzrocima, predlažemo neodložnu primenu mera za uspostavljanje zdravijeg bankarstva, razvojno orijentisane ali štedljivije fiskalne politike, uporedo sa merama za podsticaj konkurentnosti na globalnom nivou.

Ključne reči: javni dug, fiskalna politika, finansijska kriza, pravila fiskalne politike.