



**Ekonomická
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Sources of Sovereign Debt Crises

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INTRODUCTION

Sovereignty

- "Sovereignty conveys supreme legal authority within the geographical boundaries of the nation, giving national authorities autonomy over the regulation of economic activity inside the country through legislation, administration, and judicial enforcement". (Kletzer, 2008: p. 1)

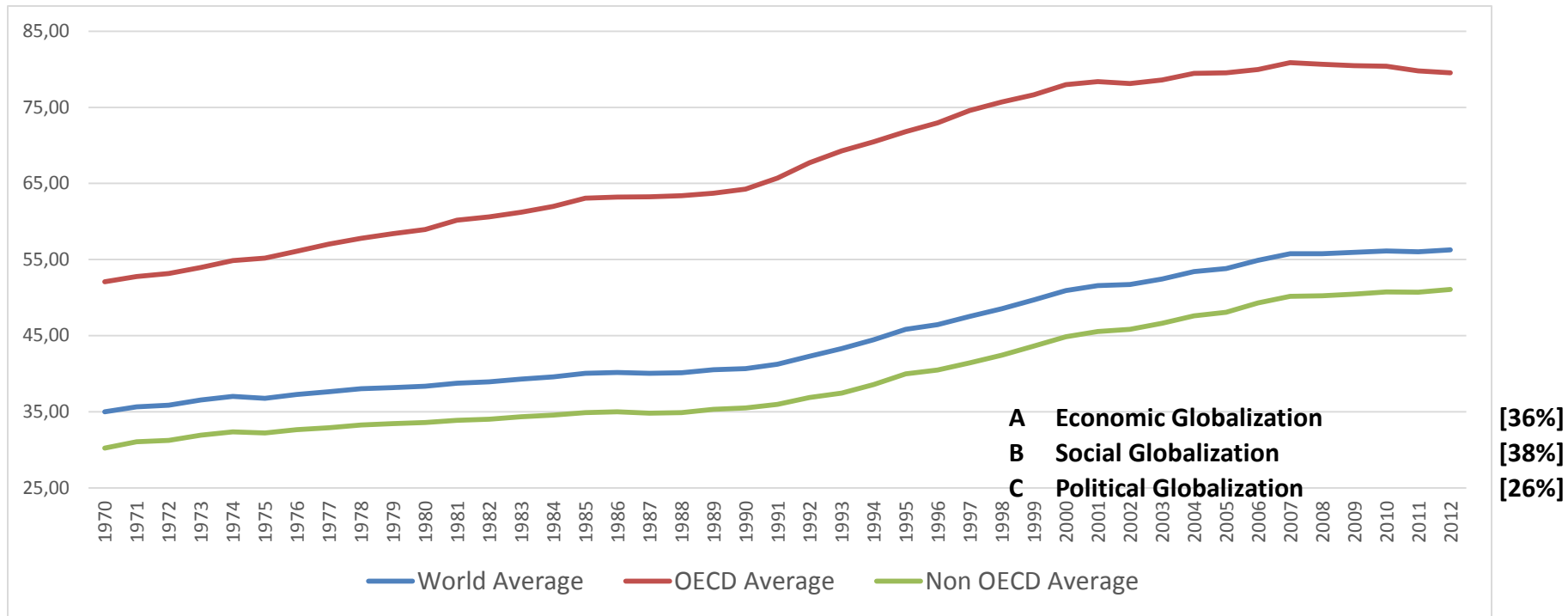
The economics of debt

- Information Assymetries
- Enforceability of Contracts
- The Reputation Mechanism

The Politics of Debt

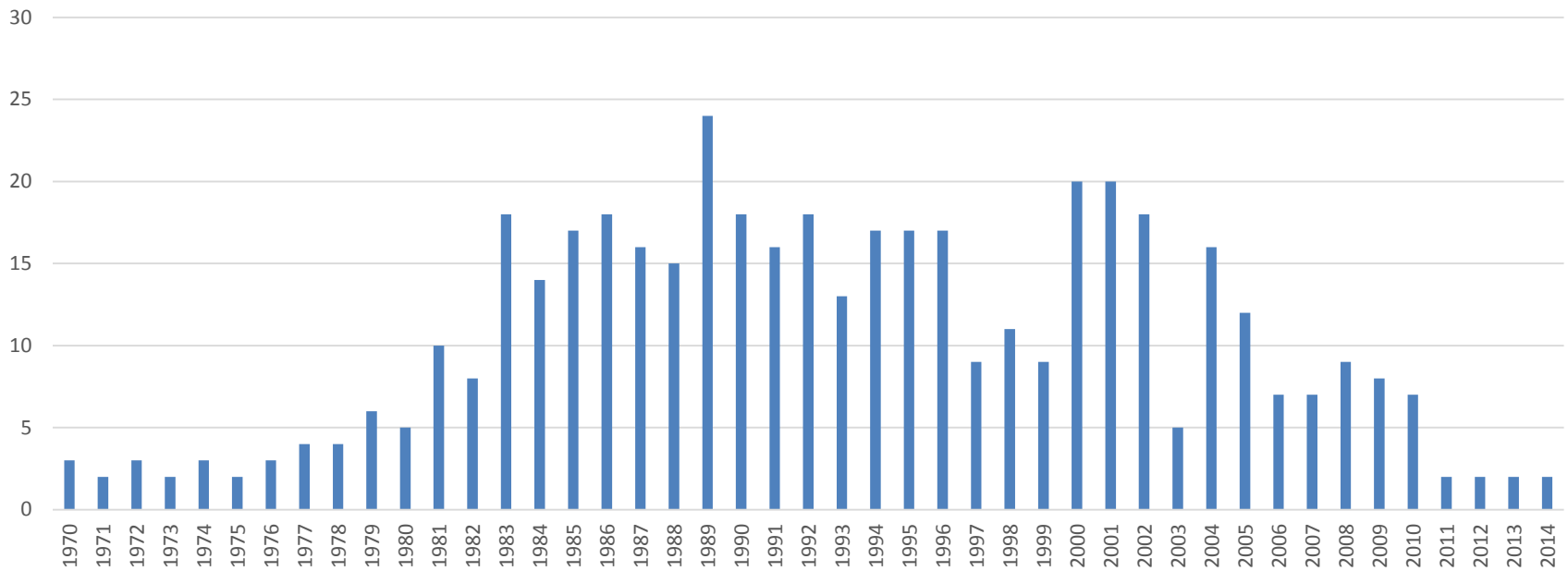
- Fear of exclusion from the international community
- Expectation of retaliations (soft/hard)
- Domestic political pressure

KOF Globalization Index



Restructuring Events

Number of Paris Club restructurings



STYLIZED OBSERVATIONS

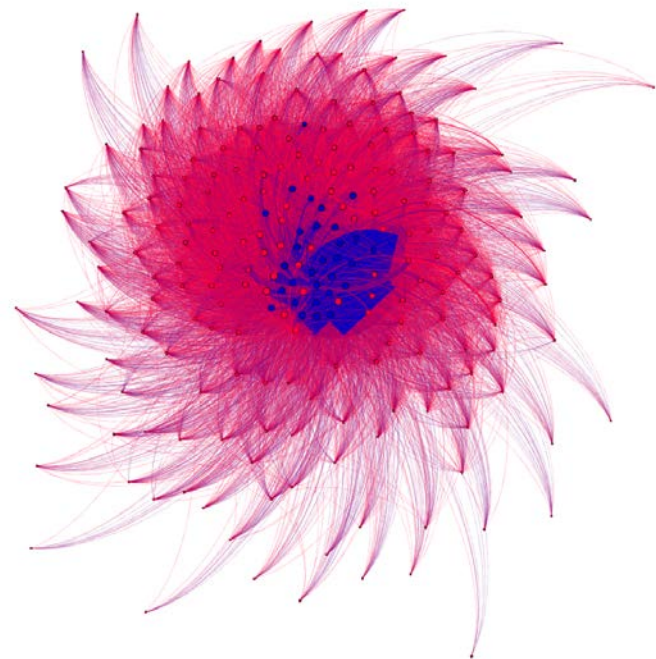
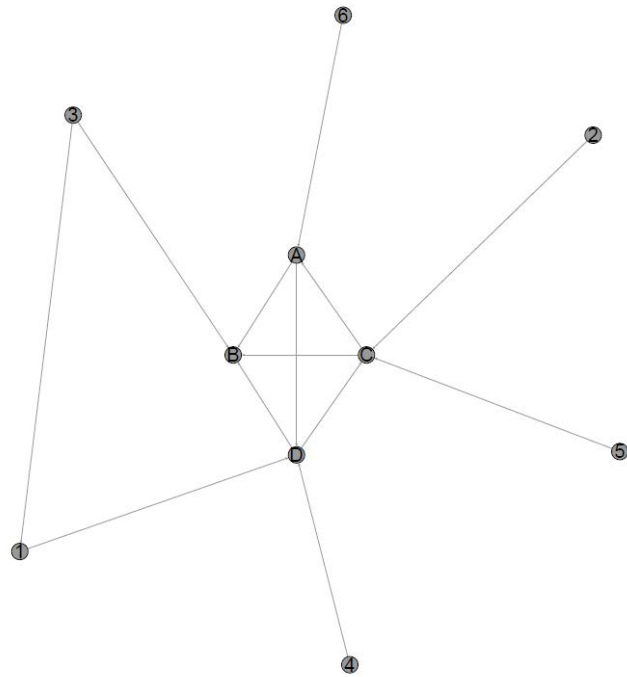
Myopic Behavior

- "Myopic in our context means that government policies are irresponsible as they increase public debt and the risk of eventual default."
 - Political Cycles
 - Expected Cash flows

International Demonstration Effect

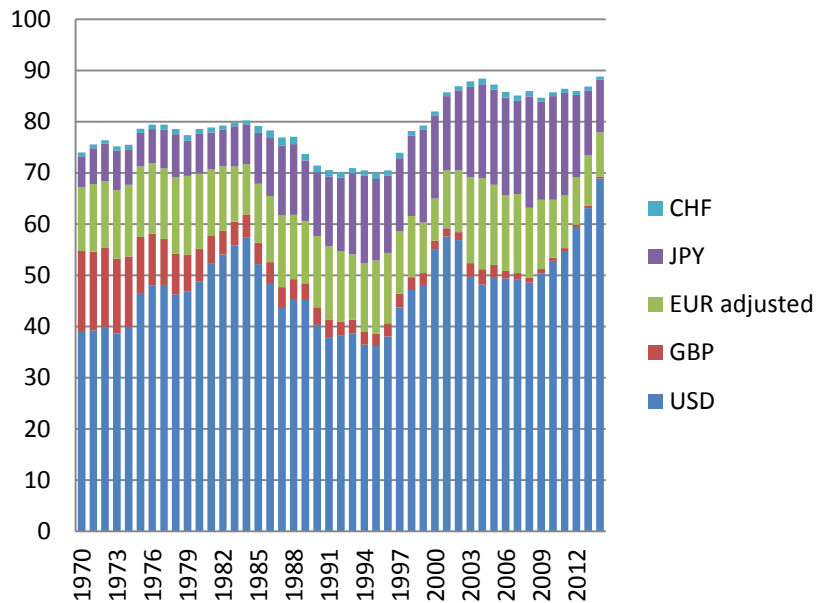
- "Core country consumption patterns are imitated by the masses of emerging, transition and developing countries. The desire for these products is a significant economic and certainly political force"

Core and Periphery

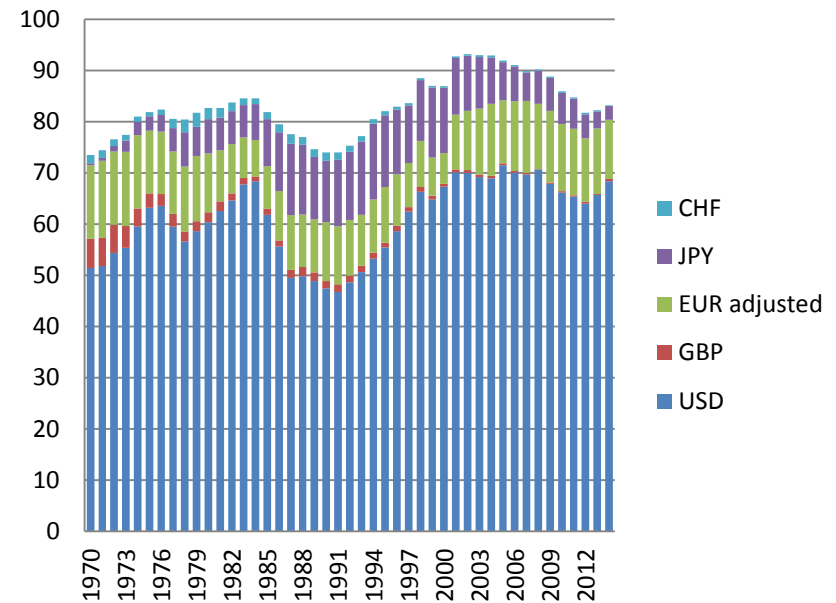


Currency Composition of Debt

PPG Currency Composition LMC



PPG Currency Composition UMC



The Temptation to Over consume

- "Even if debtor countries were to realize their myopic behavior and exercise self-restraint, they would also need to face the temptation from creditor countries seeking to place their goods in debtor countries through credit arrangements."

Unexpected Consequences

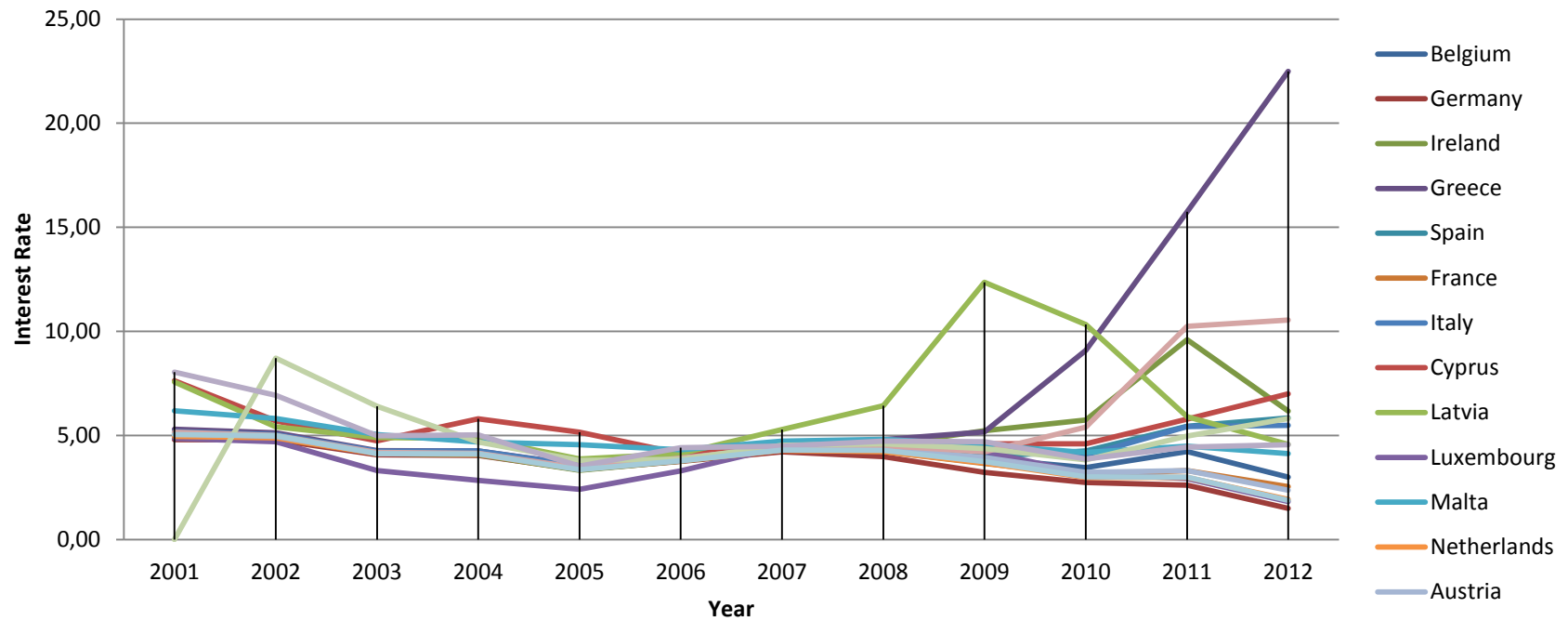
- "As the financial industry becomes more susceptible to reversals, the rest of the economy becomes more unstable, creating positive feedbacks that are quite difficult to bring to a halt once set in motion"

THE EUROPEAN SOVEREIGN DEBT CRISIS

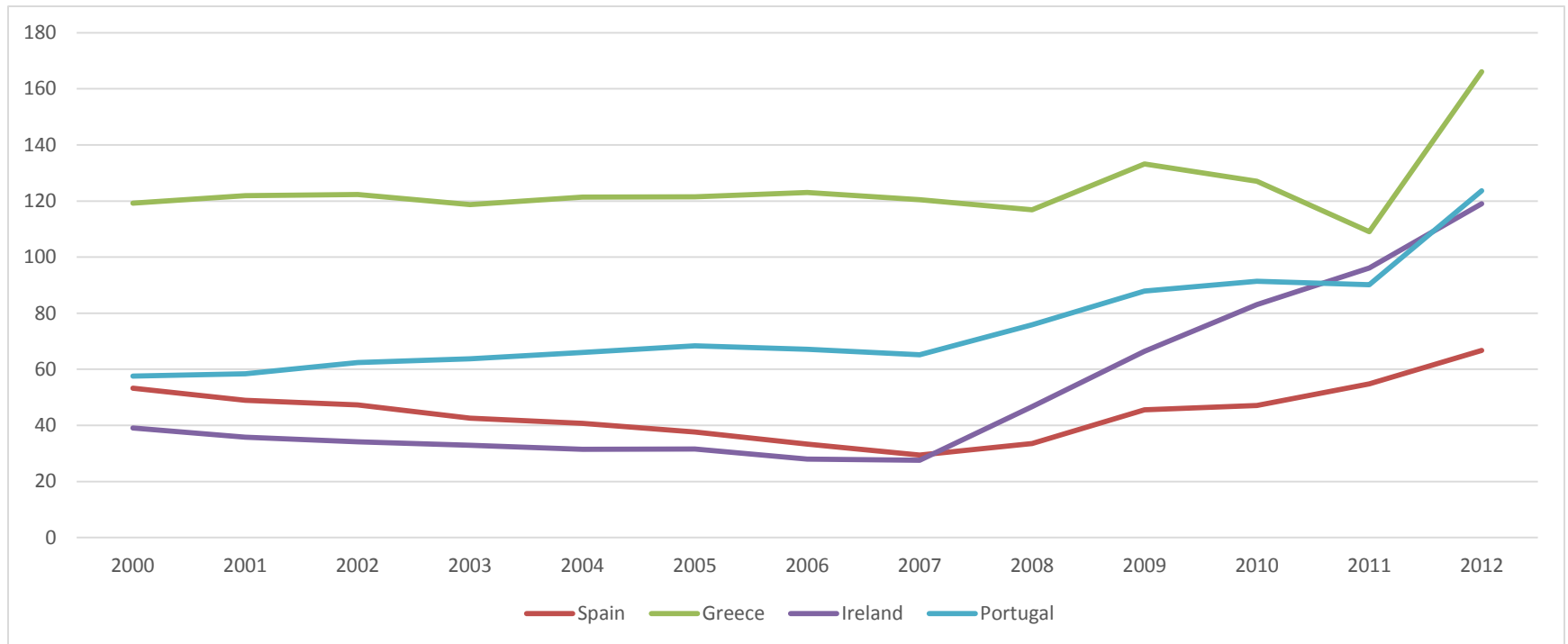
The "Consensus" Narrative

- “the EZ Crisis should not be thought of as a government debt crisis in its origin – even though it evolved into one.
- Apart from Greece, the nations that ended up with bailouts were not those with the highest debt-to-GDP ratios. [...]
- The real culprits were the large intra-EZ capital flows that emerged in the decade before the Crisis.
- [...] All the nations stricken by the Crisis were running current account deficits. None of those running current account surpluses were hit.” (Baldwin, Beck, et. al., 2015)

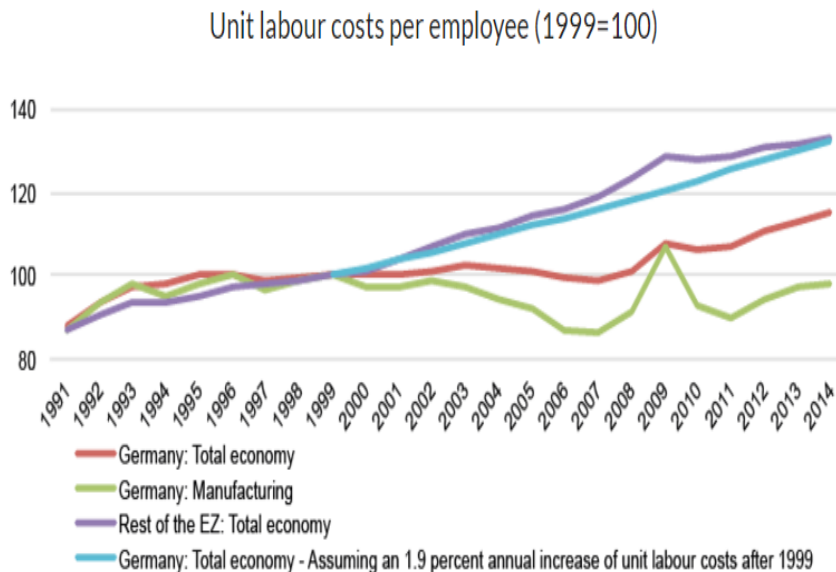
Interest Rate Convergence



Public Debt in Select Countries



The German Wage Moderation



- “For the ideal functioning of the EZ, unit labour costs of each member state should increase in line with the inflation target of the ECB. This would lead to national inflation rates close to the ECB target rate. Compared to this benchmark rate, which for the EZ is assumed to be 1.9%, wages in the German economy were almost 20% too low in 2008.” (Bofinger, 2015)

THE QUESTION OF RESPONSIBILITY

The Southern Perspective

- “The Southern view fears the panic that can surface suddenly and lead not only to increasing costs of borrowing but also to insolvency in some countries.”
- “while an individual Eurozone government issues debt in Euros it cannot provide a bondholder with a guarantee that the government will necessarily have the cash at maturity”
- “pooling all European debt would strengthen the situation of the South”

The Northern View

- “The Northern view recognizes [the South’s] fears but insists on the importance of structural reforms, and in some particular cases of austerity measures before any further steps could be taken.”
- “having a unified all-European debt creates moral hazard
- “for the core countries such debt would mean that these countries would borrow at a higher interest rate as compared to their national rates”

References

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