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REASONS OF DEBT CRISIS IN EU: LESSONS FOR UKRAINE

Peculiarities of flow of debt crisis in European Union are taken up in this article and experience of European crisis for Ukraine is defined. The EU countries classification regarding funding type and levels of financial stability is implemented; classification criteria are revealed; macroeconomic dynamics in EU countries during crisis period is analyzed. Characteristics of complexity of current debt crisis is given; probable solutions are disclosed.

Kew words: debt crisis, European Union, Ponzi-financing, Euro convergence criteria, stability of financial system, macroeconomic regulation.

The problem of the debt crisis repeatedly slows economic growth in many countries. It has escalated significantly in recent years. The difficulties associated with excessive public and external debt influence countries of different regions, including members of the European Union are affected at the present stage of development. However, it is completely wrong to generalize complications faced by the EU countries, due to the obvious differences in the premises of the crisis; the nature of their course and prospects of exit of them differs.

Scientists and experts from different countries research the current debt crisis in Europe. The most relevant among recent studies are: K. Perez and T. Hirano revealed the relationship between the economic situation and the degree of use and popularity of financial innovation [1]. Economist J. Titarenko in the analysis of the current situation in the EU gives one's attention to the relation of bank assets to GDP as a factor of stability of the national economy. [2] Analysts Grigoriev and F. Chapkovsky [3] believe that destabilization of the EU economy is a total violation of the Stability and Growth Pact, which was intended to keep the situation under tight financial control, but actually has no real power. There are unresolved problems of true causes of the European debt crisis, but also the ways out of this situation, debt problems through further and deeper unity of the EU, or revision of the union functioning principles.

The main objective of this article is a detailed analysis of the dynamics of the macroeconomic situation in each of the 28 countries of the European Union to identify the true roots of debt difficulties experienced by countries; grouping of countries due to the fact that not all of the 28 countries facing problems similar forces; description of the main characteristics of each group, the forecast development scenarios, as well as the designation of the lessons that carries the current European crisis in the Ukrainian economy in particular.

According to the conclusions of H. Minsky, a market economy have developed financial institutions that can generate different behaviors of investors. The dominance of one of them is explained by institutional relations, the structure of financial relations and historical features of the economy. H. Minsky identified three forms of investment behavior: Hedge (provided), speculative and Ponzi – financing. Classification was based on the ratio of cash flow from normal operations and payment obligations due to the existence of the debt. Hedge investment implies the expected gross income of the investor exceed cash receipts from the repayment of debt at any given time in the future. Speculative financing occurs when for some time debt obligations exceed the expected value of the gross revenue. Ponzi – financing differs in that kind that for most short-term periods, the cash interest payment obligations are not covered by income gain which received as a result of the excess of income over the expected operating costs to pay for labor and materials.

Keep in mind that rising of interest rates will inevitably transform speculative "Ponzi-financing". All this increases economic insecurity and creates an almost imminent threat of mass bankruptcies which are caused by the inability to repay debts, and economic crisis. The fact is that sooner or later the company applying Ponzi financing, will be unable to get new loans to repay old debt or because of falling confidence level to bankers, either because of a general lack of financial resources (money and their substitutes) in the economy.

The essence of the H. Minsky's concept, is that «market economy generates a financial structure that is prone to financial crises.» Credit system in the process of its development became a powerful destabilizing factor of the economy. It developed as a pyramid scheme to an institution that can pay old loans, only by constantly attracting new lenders. Such institution can operate for a long time, but its debt must also grow exponentially. This type of borrowers naturally begins to dominate in the process of sustainable economic development, but in the end turns out to be insolvent, and then there is a «Minsky moment «. Result is the collapse of the Global economic system. [4]

By extrapolation of the Minsky's theory, on the EU countries, it is possible to distinguish three groups of EU countries by type of financing. The countries with a hedge (secured) Financing costs are Austria, Germany, Netherlands, Finland, Estonia, Denmark, the Czech Republic and Bulgaria. The group of countries with speculative financing includes Belgium, Luxembourg, Slovakia, Slovenia, France, Great Britain, Poland, Sweden, Hungary and Croatia. Ponzi-financing at this stage is observed in Greece, Cyprus, Ireland, Italy, Malta and Portugal.

For this classification were used macroeconomic indicators of EU countries: the ratio of public debt and external debt to GDP, ratio of budget deficit to GDP, ratio of the current account to GDP, government bond yields, as well as the convergence criteria.

The group of countries living under precarious principle of Ponzi-finance is purely country representatives Eurozone. Ten countries outside the euro zone, despite its rather serious macroeconomic difficulties caused largely the severity of the debt crisis, have been identified or to countries with speculative financing, or to countries with secured financing.

In the last group, whose debts are the most reliable and groundless entered Denmark, Czech Republic, Bulgaria. From the group of speculative financing into the group of countries representing hedge financing, «jumped in» Austria, which in 2012 year has significantly changed the situation in its economy, the necessary amount of debt repaid, developed export-oriented industries, revealing yield government bonds, budget deficits, and the ratio of current account to GDP.

Some changes undergo the macroeconomic situation in Germany and France. Vital signs of the German economy deteriorated, French – improved, however, it can not cause the transition of the countries in other groups by type of financing state that the nature of these changes are not so significant, although noticeable. Still Ponzi – financing is observed in Malta, but the Maltese economy over the past year was more successful than other «colleagues» in the group struggled with economic decline and a few succeeded in this. Further progress in this direction will help Malta to move to safer group of countries by type of financing. Luxembourg, worsened their position in 2012, was moved to a group of countries where there is a speculative financing. This is confirmed by the fact that banks' assets that exceed the Luxembourg economy 22 times, while macroeconomic indicators for the period 2010-2011had shown stability and could be a guarantee for inclusion in the group of countries where there is a hedge financing.

One of possible explanation for this situation, consisting of non-compliance by many Eurozone countries Maastricht criteria, is that in relation to the offending countries penalties are not applied. The lack of effective enforcement mechanisms conditions Stability and Growth Pact led to the aggravation of the crisis of the European Monetary Union. However, the importance of compliance with the criteria merging is high and explains the fact that the Eurozone was originally not an optimal currency area.

In the Eurozone, there is a discrepancy in the dynamics for a number of macroeconomic indicators between the more developed part of it (Germany, France, Austria) and the so-called «periphery» (Greece, Portugal, Spain, Ireland). In the last group wages grew at a high rate, and especially the labor market did not create such salary increases like in Germany, where appetites of unions were not so great as in the periphery. Wherein in some peripheral countries increased budget deficits, public debt grew rapidly (Greece, Portugal), which was an additional cause of inflationary pressures. As a result it has been observed difference in inflation rates between the «core» and «periphery». Since the average annual inflation rate for the years 1999-2007 was 1.8 % in Germany, 3.3 % in Spain, 3.5% in Greece. And here the unity and Currency, including the absence of currency risks played a « cruel joke « with the euro zone, forming two different types of behavior of economic agents in the «core» and «periphery». Nominal interest rates (including sovereign bonds) are very close in these groups of countries. When averaged over the years 1999-2007 nominal yield of five-year bonds in Germany 3.8%, Spain 3.9 % and Greece 4.4 %, but different rates of inflation, the real return receives various euro. As a result, differences in real rates in the single currency savings stimulated resident in Germany (the real rate of 2% in euros) and the accumulation of debt by residents of the peripheral countries (the real rate of 0.6 % in Spain and 0.9 % in Greece). Capital inflows into the periphery even more dispersed aggregate demand and inflation. The result was a vicious circle «investment (consumption) boom – inflation – capital inflows – investment (consumption) boom» [7].

Solving the problem of debt crises requires both surgery and more complex structural changes. According to the expert Poloskin, creating a new stabilization fund, the so-called European Stability Mechanism, will allow for short-term support to troubled countries. However, in the absence of reforms at the national and supranational level, this measure may not yield the expected results in the long term. Fiscal agreement is only the first step in solving the problems of the European debt crises. Tightening fiscal discipline itself does not remove from the agenda the issue of « non-optimality « of the Eurozone, rather it returns to Europe to ensure stability in the absence of the optimality. There are two possible scenarios. In the first scenario, the EU Member States be limited fiscal agreement that will lead to the stabilization of the economic situation, but without confidence in its long-term preservation. The second scenario for tighter budgetary discipline to follow fiscal integration that will bring Eurozone to optimality.

Solving European problems will contribute to the centralization of fiscal policy in the EU. It`s necessary to establish a single European finance ministry, which will determine the cost of options. Greater integration of countries – members of the union is not the way out of the debt crisis and the cause of the current financial problems of the EU. Carried out in the countries affected by the debt crisis, reform – it is only necessary but not sufficient component of successful overcoming it. Source of the full recovery of troubled countries is in the hands of supranational European governments, which must find a solution that has already become truly systemic crisis [8].

According to I. Potapova [9], the ability of the peripheral members of the union to overcome the debt crisis depends on Germany to a greater extent than any others of the EU economy. In the same way as German prosperity is inextricably linked with the EU: more than 38% of German exports go to the euro zone partners and almost 58% – 27 countries – participants of the European Union. In the last 1.5 years of economic growth in Germany created an additional incentive for the development of its partners, but in recent months, this growth has slowed considerably.

Lessons from the first wave of the crisis – the need to «live within our means» and structural reforms in the EU – were already learned. In the future, the EU needs to revise the results of the achieved level of development of integration processes, making further steps towards a common fiscal policy.

The economic crisis of the EU will continue long enough period and lead to serious consequences for the world economy. In all likelihood, in 2012, Europe went through the lowest point in its development. In the future, the «old» EU member states may be in a recession, and his «new members» will lose their high growth rates, which in future may cause regional problems (in particular, the problem of equalization of socio-economic development) [9].

As can be seen from the distribution of countries by type of financing, financial systems of countries in each group have similar characteristics. Financial systems of the group of countries with secured financing were characterized by a high level of resilience to external shocks. High stability of financial systems includes such features that allow them to demonstrate similar macroeconomic indicators in the period of economic growth, and during the crisis. Fluctuations on indicators such as the ratio of debt to GDP, external debt to GDP, the budget deficit to GDP did not exceed 20%.

Financial systems of the countries in which there is a speculative financing, appropriate to classify as moderately resistant. During the crisis, the economy of these countries experienced tangible problems, the main macroeconomic change significantly (and the ratio of public debt to GDP is exacerbated by relatively pre-crisis years – up to 50%, the ratio of budget deficit to GDP – up to three-fold increase), but it does not require thorough structural changes in the economy and reorientation.

Least stable financial system of the countries in which there is a Ponzi-financing: where financial system is determined by low resistance to external shocks. External shocks by themselves often provoke worsening economic imbalances and situations of instability within the national economic system, which leads to the need for a life of austerity policies, budget constraints, and sometimes more drastic steps, such as the output of the integration association, use of active foreign exchange intervention, the devaluation national currency. Fluctuations in the basic macroeconomic indicators exceed 50% per year. For these countries are characterized by more than two-fold excess of the real ratio of public debt to GDP or debt to GDP over the recommended rates, marked the convergence criteria. Low resistant financial systems are critical point of the economic development of the country, and to get out from it, as practice shows, strict government intervention is needed.

The most drastic and painful step – should the country exit the monetary union, which would entail a chain of negative consequences as for the both country which has left the Eurozone and for most associations. The leaders of the euro zone will take all possible measures to protect the currency union from collapsing and hopeless label association. Countries who has left the euro zone, can expect monetary difficulties, including a sharp devaluation of the currency.

According to I. Grigoriev and F. Chapkovskogo [3], the optimal currency area do the two things: freedom of movement of workers and the general budget or at least strictly adhered to by all common budgetary rules. Both of these factors have had problems in Europe. Lack of labor mobility pulls down even healthy economy like the Spanish. Fiscal discipline in Europe complies not very good. The creators of the euro were aware of the potential threat of non-compliance with the prescribed standards. Therefore, in 1997, was created the Stability and Growth Pact – a set of strict rules of budgetary discipline, which not allows governments to surrender to the temptation of «cheap money.» But in the early functioning of the monetary union in Germany, insisted on the adoption of the Covenant, was the first country who broke Pact in 2002. Later a similar thing was seen in Portugal, and a year later they were joined by France and Italy. No country has been subjected to fines. Thereafter no incentive to comply the pact was at other governments, and, as experts say on EU problems it was a dog that did not bark.

Accordingly, at this stage of development in the EU there is a situation characterized by conflict between crisis management and measures to stimulate the economy. Introduction sharp saving mode based on «domino effect «, which is the probability of a collapse of the financial markets of some countries group under the influence of the crisis on the financial and other markets of other countries. Amid growing amounts of liquidity in the economy remains positive dynamics in the stock markets, however, can hardly be called a stable situation, as there is a direct relationship of financial systems from regulators which are trying to support the real sector of the economy.

All the above mentioned indicates that the fixed exchange rate is one of the main sources of deterioration of European economies. Governments would be advantageous to carry out currency devaluation, however, to devalue the Euro they can not afford. That's why, most governments are forced to accumulate a large amount of debt, growing exponentially. This situation exacerbates prevailing in the country functioning on the principles Ponzi-financing. In an analogous situation is Ukraine.

Taking into account only the ratio of government debt to GDP, it should be noted that Ukraine remains on par with the countries of the Eurozone, which have been attributed to countries where there is a hedge (provided) Funding: Austria, Slovenia, Finland, as well as on a par with countries that pose no Eurozone Denmark, Czech Republic, Bulgaria. However, you must take into account the foreign debt, which in Ukraine in 2012 amounted to 165.2% of GDP. In Ukraine, the attraction of cheap foreign credit resources, due to the high cost of resources in the national currency, has become one of the main reasons for the significant deterioration in international competitiveness of national producers and significant growth in external debt. The influx of cheap foreign resources, on the one hand, to stimulate domestic demand and, consequently, economic growth and purchasing power of the population, on the other – the further deterioration of the structure of the current account and external debt increase [10]. The ratio of external debt to GDP with tight monetary policy in Ukraine allows assigning a group of financial systems with the lowest resistance – the group of countries with Ponzi – financing.

EU experience shows that the rejection of a fixed exchange rate, now used in the Ukraine, have a positive impact on the economy as a whole. Lower of inflation expectations, tangible slowing of inflation, setting the floating exchange rate mechanism will free Ukrainian regulator from the need of constant flooding the economy with the national currency, and therefore have a positive impact on the reorientation of monetary policy of the country, reducing the dollarization of the economy. That, in turn, positively affect both the competitive position of the country on the world stage, and the level of income of citizens and their real purchasing power.

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