

# **Eurozone Debt Crisis**

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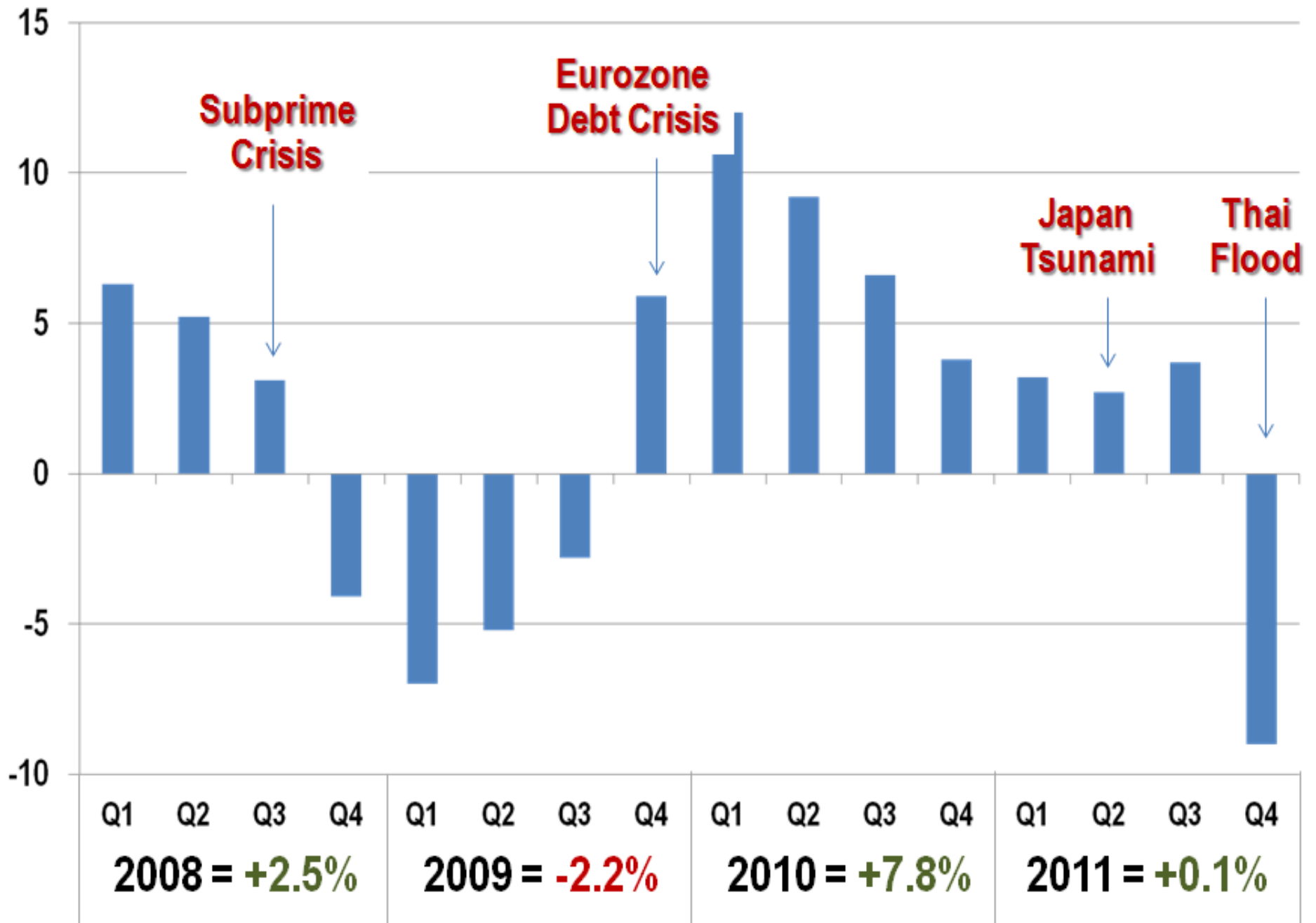
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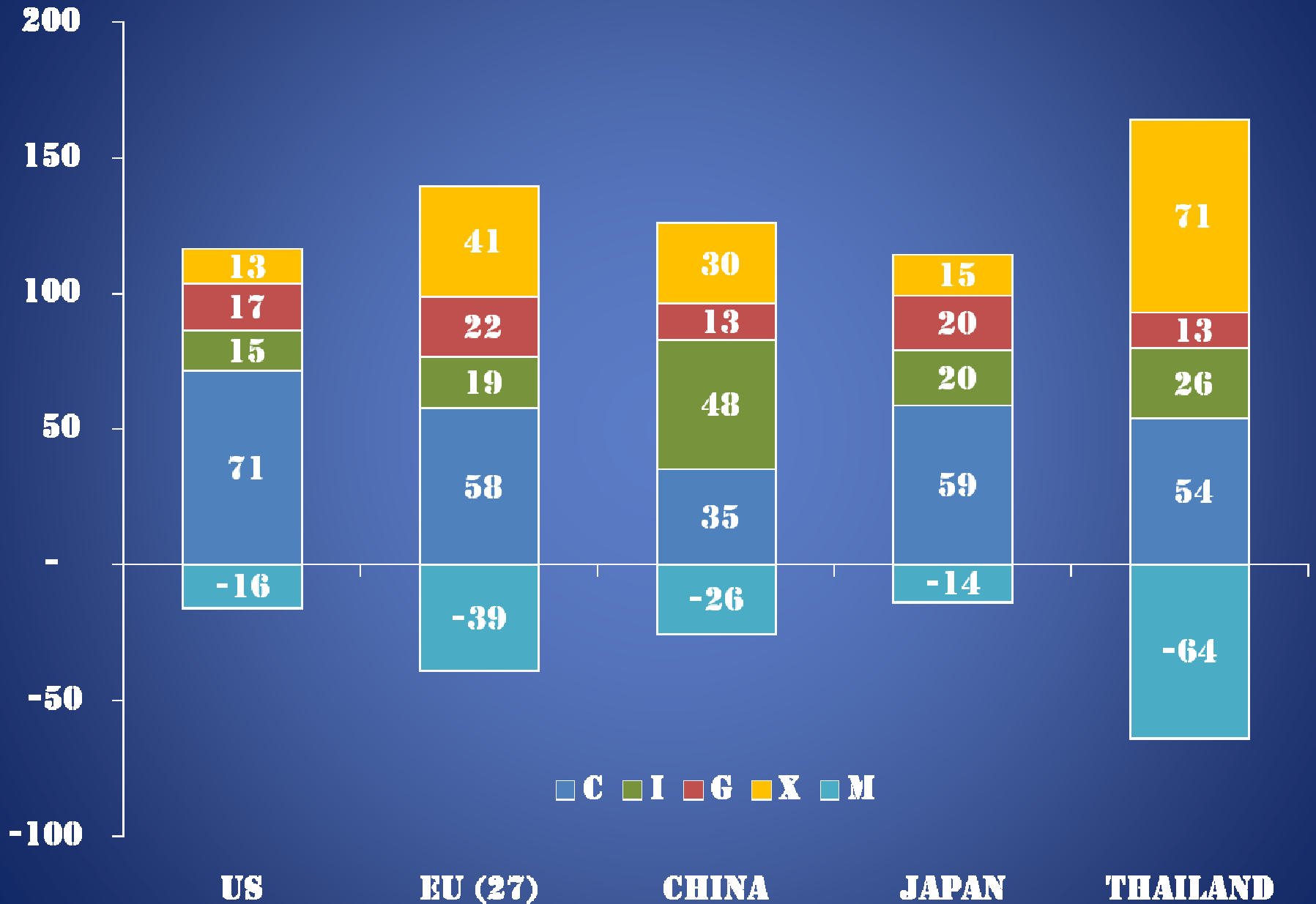
Q:

*Why should we care about  
the global economy?*

# Thai Economic Growth



# Thai Economic Structure



Q:

*Which countries should we  
pay close attention?*

# Thailand's Exposures to the Global Economy

Top 5 Export Destinations		Top 5 Exports		Top 5 Tourists	
1	ASEAN-5 + VN (19.3%)	1	Computer parts	1	ASEAN (28.5%)
2	China + HK + TW (18.4%)	2	Automobile	2	Europe (27.9%)
3	Japan (10.5%)	3	Jewelry	3	China + HK + TW (11.4%)
4	US (10.3%)	4	Electronics	4	Japan (6.2%)
5	EU (9.8%)	5	Rubber	5	US (3.8%)

Source: MOC, 2010 data

Source: MOC, 2010 data

Source: MOT

Top 5 Import Sources		Top 5 Imports		Top 5 Investors	
1	Japan (19.3%)	1	Crude oil	1	Japan (44.2%)
2	China + TW (16.3%)	2	Machine part	2	EU (16.3%)
3	SG + Indonesia (7.7%)	3	Chemical product	3	China + HK + TW (7.9%)
4	US (6.1%)	4	Electronics	4	ASEAN (6.5%)
5	UAE (5.2%)	5	Steel	5	US (3.1%)

Source: MOC, 2010 data

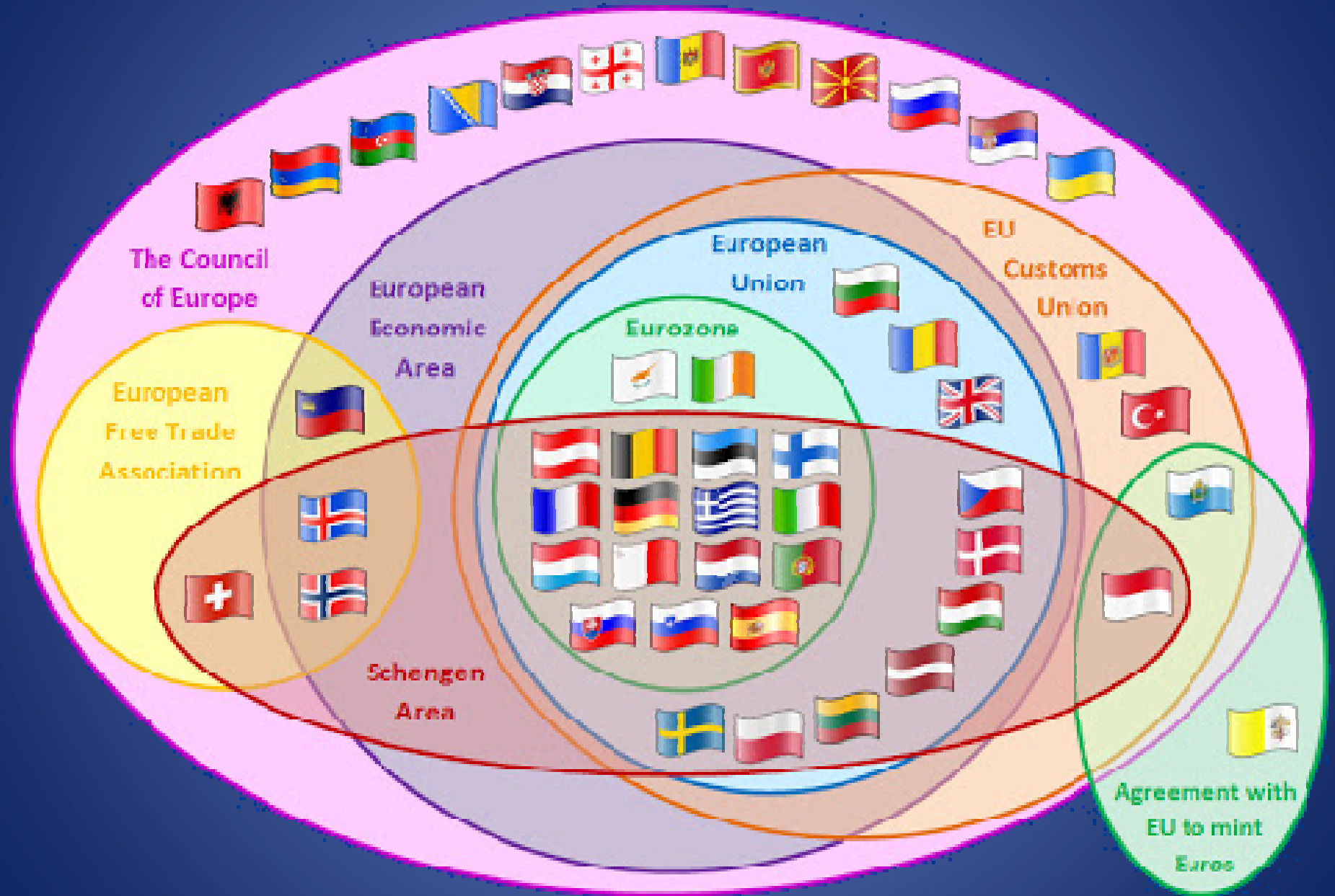
Source: MOC, 2010 data

Source: BOI, investment value of net applications for BOI privileges in 2010

Q:

*What is the difference between EU, Eurozone, and Schengen?*

# EU, Eurozone, and Schengen



Q:

*Is Eurozone Debt Crisis  
foreseeable?*

# Impossible Trinity

**Fixed  
Exchange  
Rate**

**Free  
Capital  
Flow**

**Monetary  
Autonomy**



Q:

*So what went wrong?*

# Indebted Europe

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- Stability and Growth Pact has been difficult to implement as all members have breached it.

## General Government Balance (% of GDP)

	2006	2007	2008	2009	2010	2011	2012*
Germany	-1.6	0.2	-0.1	<b>-3.2</b>	<b>-4.3</b>	-1.0	-0.8
France	-2.4	-2.7	<b>-3.3</b>	<b>-7.6</b>	<b>-7.1</b>	<b>-5.3</b>	<b>-4.6</b>
Italy	<b>-3.3</b>	-1.5	-2.7	<b>-5.4</b>	<b>-4.5</b>	<b>-3.9</b>	-2.4
Spain	2.0	1.9	<b>-4.2</b>	<b>-11.2</b>	<b>-9.3</b>	<b>-8.5</b>	<b>-6.0</b>
Ireland	2.9	0.1	<b>-7.3</b>	<b>-14.2</b>	<b>-31.3</b>	<b>-9.9</b>	<b>-8.5</b>
Greece	<b>-6.0</b>	<b>-6.7</b>	<b>-9.7</b>	<b>-15.6</b>	<b>-10.6</b>	<b>-9.2</b>	<b>-7.2</b>

Source: IMF Fiscal Monitor (April 2012)

Note: \* IMF forecast, **boldface** = breach Stability and Growth Pact

# Indebted Europe

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- Prolonged budget deficit have led to higher public debt levels.

## General Government Gross Debt (% of GDP)

	2006	2007	2008	2009	2010	2011	2012*
Germany	<b>67.9</b>	<b>65.2</b>	<b>66.7</b>	<b>74.4</b>	<b>83.2</b>	<b>81.5</b>	<b>78.9</b>
France	<b>63.9</b>	<b>64.2</b>	<b>68.3</b>	<b>79.0</b>	<b>82.4</b>	<b>86.3</b>	<b>89.0</b>
Italy	<b>106.1</b>	<b>103.1</b>	<b>105.8</b>	<b>116.1</b>	<b>118.7</b>	<b>120.1</b>	<b>123.4</b>
Spain	39.7	36.3	40.2	53.9	<b>61.2</b>	<b>68.5</b>	<b>79.0</b>
Ireland	24.7	24.8	44.2	<b>65.2</b>	<b>92.5</b>	<b>105.0</b>	<b>113.1</b>
Greece	<b>106.1</b>	<b>105.4</b>	<b>110.7</b>	<b>127.1</b>	<b>142.8</b>	<b>160.8</b>	<b>153.2</b>

Source: IMF Fiscal Monitor (April 2012)

Note: \* IMF forecast, **boldface** = breach Stability and Growth Pact

# Indebted Europe

- Public debt situations are different across countries.
  - Countries with high proportion of foreign debt = Ireland, Greece, Spain, and Germany
  - Countries with high proportion of bank debt = Ireland and Spain
  - Countries with higher proportion of short-term debt = Ireland and Germany

	<i>Total Debt (Billion USD)</i>	<i>% Domestic Debt</i>	<i>% Foreign Debt</i>	<i>% Gov't Debt</i>	<i>% Bank Debt</i>	<i>% Corp Debt</i>	<i>% Short Term</i>	<i>% Long Term</i>
<b>Germany</b>	5,405	47%	<b>53%</b>	38%	<b>53%</b>	9%	<b>25%</b>	<b>75%</b>
<b>France</b>	5,552	<b>60%</b>	40%	33%	<b>54%</b>	14%	22%	<b>78%</b>
<b>Italy</b>	4,427	<b>70%</b>	30%	<b>50%</b>	40%	10%	13%	<b>87%</b>
<b>Spain</b>	3,414	42%	<b>58%</b>	26%	<b>73%</b>	1%	12%	<b>88%</b>
<b>Portugal</b>	528	<b>53%</b>	47%	33%	<b>56%</b>	11%	15%	<b>85%</b>
<b>Ireland</b>	784	37%	<b>63%</b>	14%	<b>84%</b>	2%	<b>28%</b>	<b>72%</b>
<b>Greece</b>	653	39%	<b>61%</b>	<b>53%</b>	46%	2%	12%	<b>88%</b>

Source: BIS (June 2012), compiled by FPO

# Indebted Europe

- Yet some countries, notable Germany and France are able to finance budget deficit given high GDP growth.

Real GDP Growth  
(%)

	2006	2007	2008	2009	2010	2011	2012*
World	5.2	5.4	2.8	-0.6	5.3	3.9	3.5
Euro Area	3.3	3.0	0.4	-4.3	1.9	1.4	-0.3
Germany	3.9	3.4	0.8	-5.1	3.6	3.1	0.6
France	2.7	2.2	-0.2	-2.6	1.4	1.7	0.5
Italy	2.2	1.7	-1.2	-5.5	1.8	0.4	-1.9
Spain	4.1	3.5	0.9	-3.7	-0.1	0.7	-1.8
Ireland	5.3	5.2	-3.0	-7.0	-0.4	0.7	0.5
Greece	4.6	3.0	-0.1	-3.3	-3.5	-6.9	-4.7

Source: IMF WEO (April 2012)

Note: \* IMF forecast

# Indebted Europe

- Some countries, notably Germany, also able to finance budget deficit given current account surplus.

## Current Account Balance (% of GDP)

	2006	2007	2008	2009	2010	2011	2012*
Advanced Econ.	-1.2	-0.8	-1.2	-0.2	-0.2	-0.2	-0.4
Euro Area	0.5	0.4	-0.7	0.0	0.3	0.3	0.7
Germany	6.3	7.4	6.2	5.9	6.1	5.7	5.2
France	-0.6	-1.0	-1.7	-1.5	-1.7	-2.2	-1.9
Italy	-1.5	-1.2	-2.9	-2.1	-3.5	-3.2	-2.2
Spain	-9.0	-10.0	-9.6	-5.2	-4.6	-3.7	-2.1
Ireland	-3.5	-5.3	-5.6	-2.9	0.5	0.1	1.0
Greece	-11.2	-14.4	-14.7	-11.0	-10.0	-9.7	-7.4

Source: IMF WEO (April 2012)

Note: \* IMF forecast

# Indebted Europe

- Some others, notably Italy and Germany, showed promising positive primary balance.

## General Government Primary Balance (% of GDP)

	2006	2007	2008	2009	2010	2011	2012*
Germany	0.8	2.7	2.3	-0.9	-2.1	0.7	1.0
France	0.0	-0.3	-0.6	-5.3	-4.9	-2.9	-2.2
Italy	1.1	3.2	2.2	-1.0	-0.3	0.8	3.0
Spain	3.3	3.0	-3.1	-9.9	-7.9	-6.6	-3.6
Ireland	3.9	1.0	-6.2	-12.3	-28.2	-6.7	-4.4
Greece	-1.3	-2.0	-4.7	-10.5	-4.9	-2.3	-1.0

Source: IMF Fiscal Monitor (April 2012)

Note: \* IMF forecast

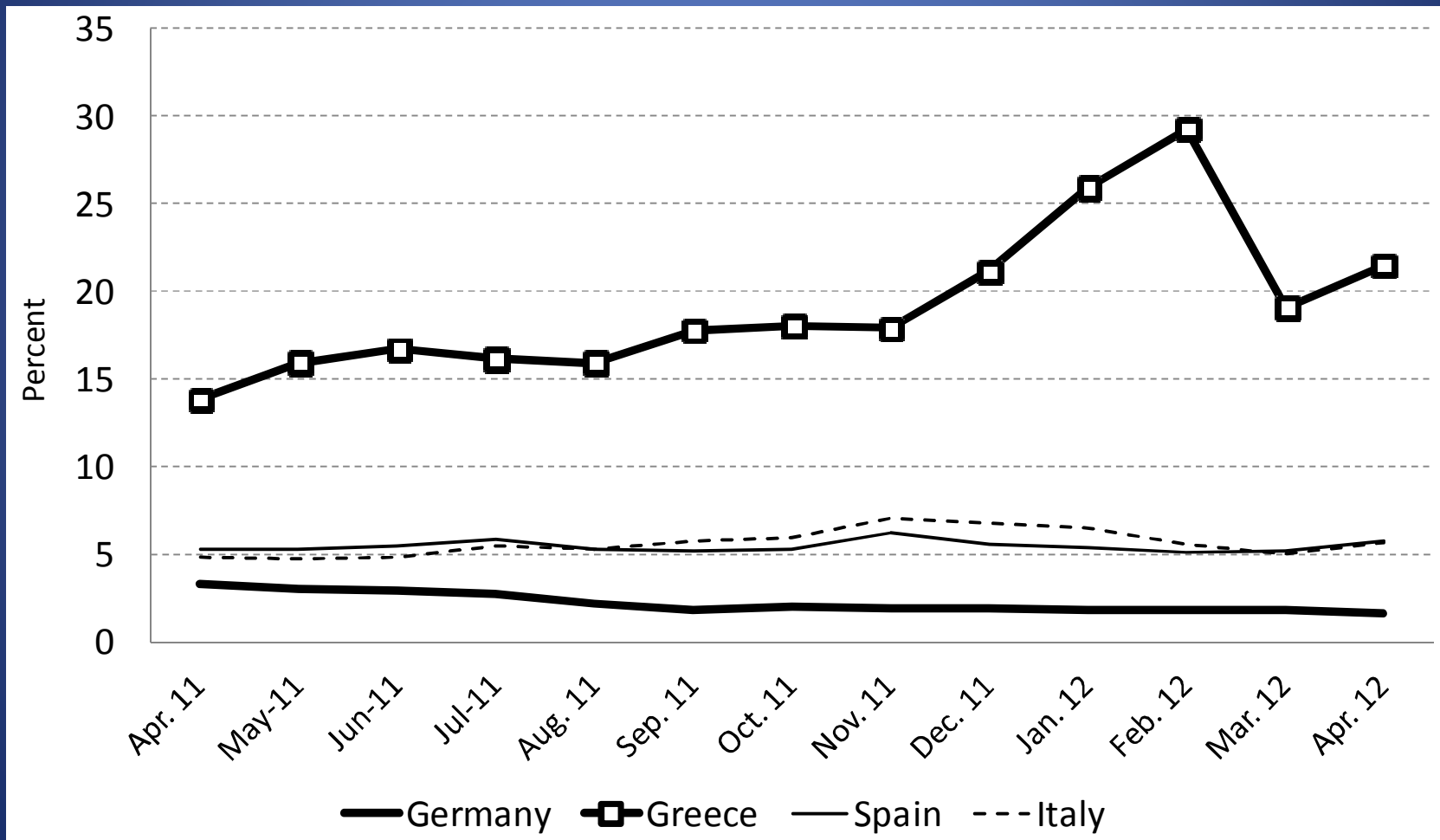
# Indebted Europe

- High level of public debt have led to rating downgrades.

Country	Year of First Rating	1970	1975	1980	1985	1990	1995	2000	2005	2010	2011	2012 (End-January)
Austria	1975	NR	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AA+
Belgium	1988	NR	NR	NR	NR	AA+	AA+	AA+	AA+	AA+	AA	AA
Canada	1949	AAA	AAA	AAA	AAA	AAA	AA+	AA+	AAA	AAA	AAA	AAA
Denmark	1981	NR	NR	NR	AA+	AA	AA+	AA+	AAA	AAA	AAA	AAA
Finland	1972	NR	AAA	AAA	AAA	AAA	AA-	AA+	AAA	AAA	AAA	AAA
France	1975	NR	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AA+
Germany	1983	NR	NR	NR	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Greece	1988	NR	NR	NR	NR	BBB-	BBB-	A-	A	BB+	CC	CC
Iceland	1989	NR	NR	NR	NR	A	A	A+	AA-	BBB-	BBB-	BBB-
Ireland	1988	NR	NR	NR	NR	AA-	AA	AA+	AAA	A	BBB+	BBB+
Italy	1988	NR	NR	NR	NR	AA+	AA	AA	AA-	A+	A	BBB+
Japan	1959	NR <sup>1</sup>	AAA	AAA	AAA	AAA	AAA	AAA	AA-	AA	AA-	AA-
Luxembourg	1994	NR	NR	NR	NR	NR	AAA	AAA	AAA	AAA	AAA	AAA
Netherlands	1988	NR	NR	NR	NR	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Norway	1958	NR <sup>1</sup>	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Portugal	1988	NR	NR	NR	NR	A	AA-	AA	AA-	A-	BBB-	BB
Spain	1988	NR	NR	NR	NR	AA	AA	AA+	AAA	AA	AA-	A
Sweden	1977	NR	NR	AAA	AAA	AAA	AA+	AA+	AAA	AAA	AAA	AAA
Switzerland	1988	NR	NR	NR	NR	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Turkey	1992	NR	NR	NR	NR	NR	B+	B+	BB-	BB	BB	BB
United Kingdom	1978	NR	NR	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
United States	1941	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AA+	AA+

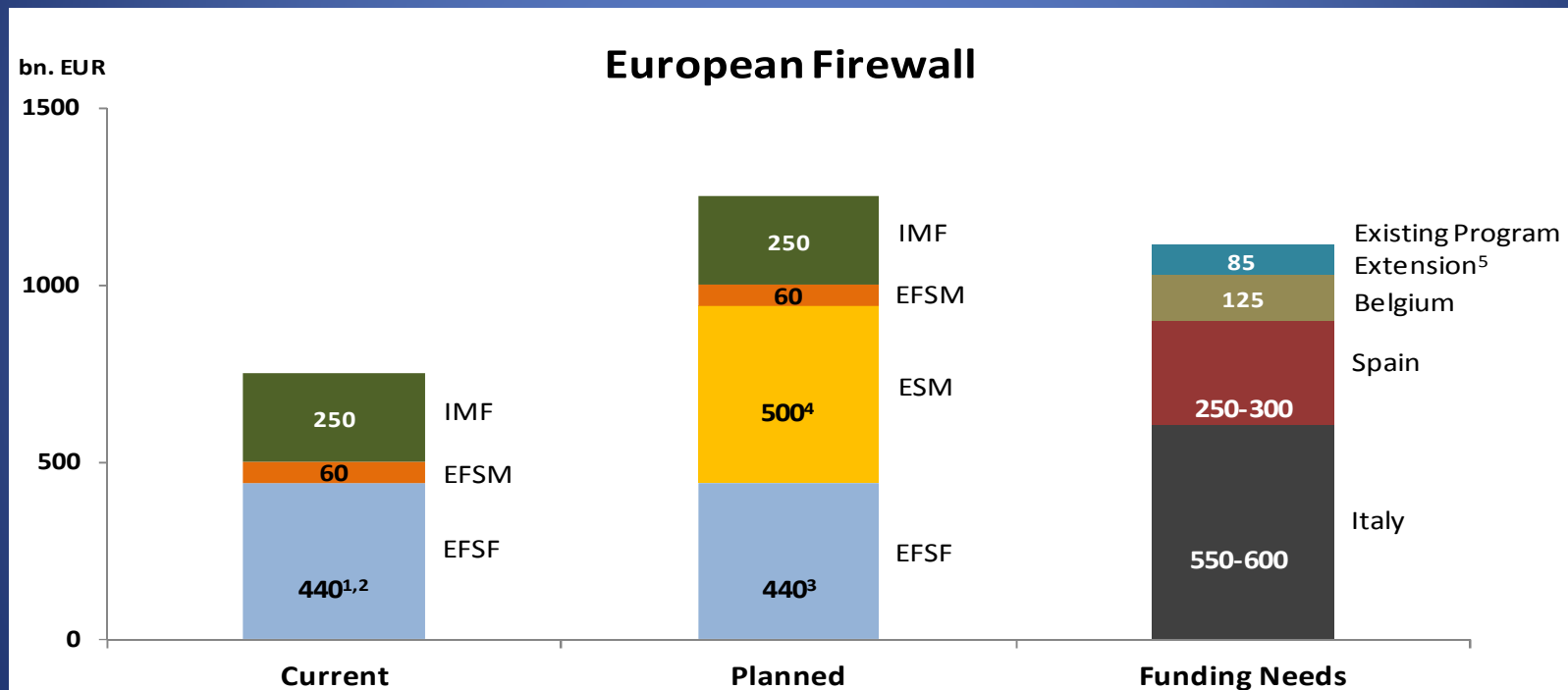
# Indebted Europe

- and higher borrowing rates.



# EU/IMF Perscription

- Faced with liquidity shortage, Greece, Ireland, Portugal, and recently Spain turned to EU/IMF for funding with austerity conditions.



1/ AA+ lending (S&P), Aaa (Moody's), AAA (FITCH Ratings)

2/ EFSF is overcollateralized with 780 bn. euro pledged from EU country members

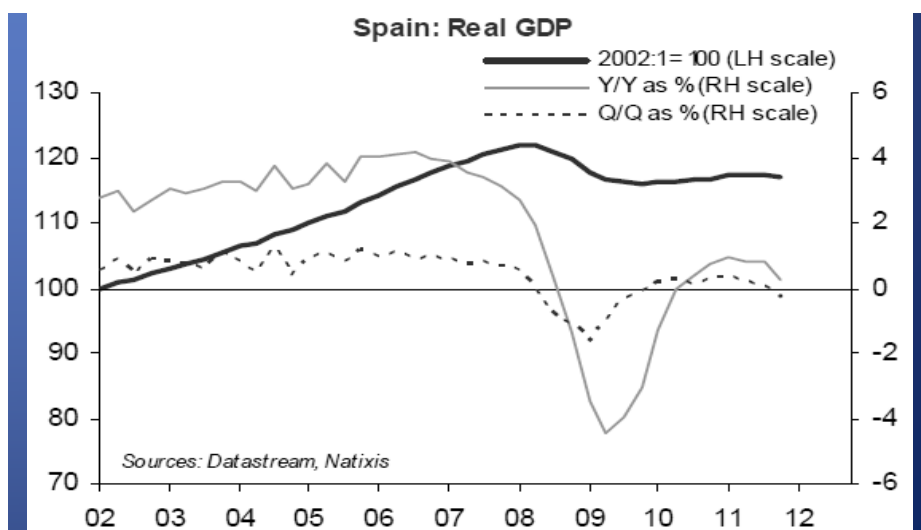
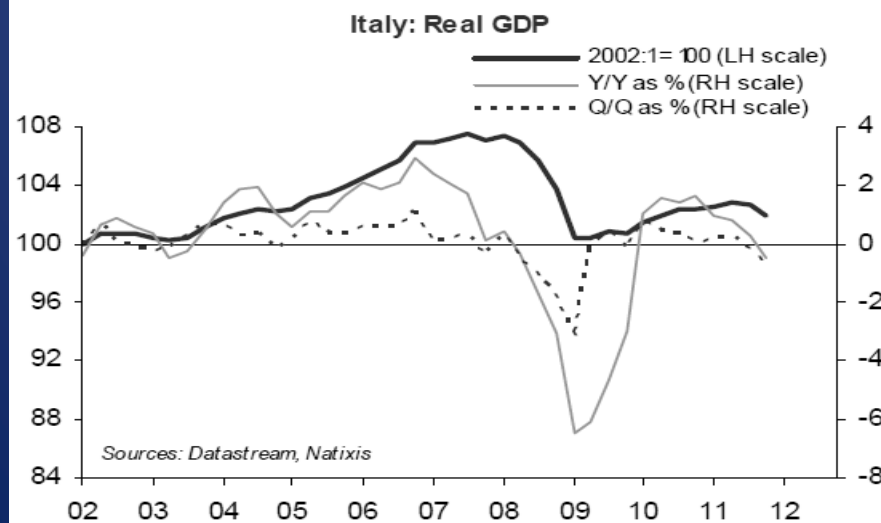
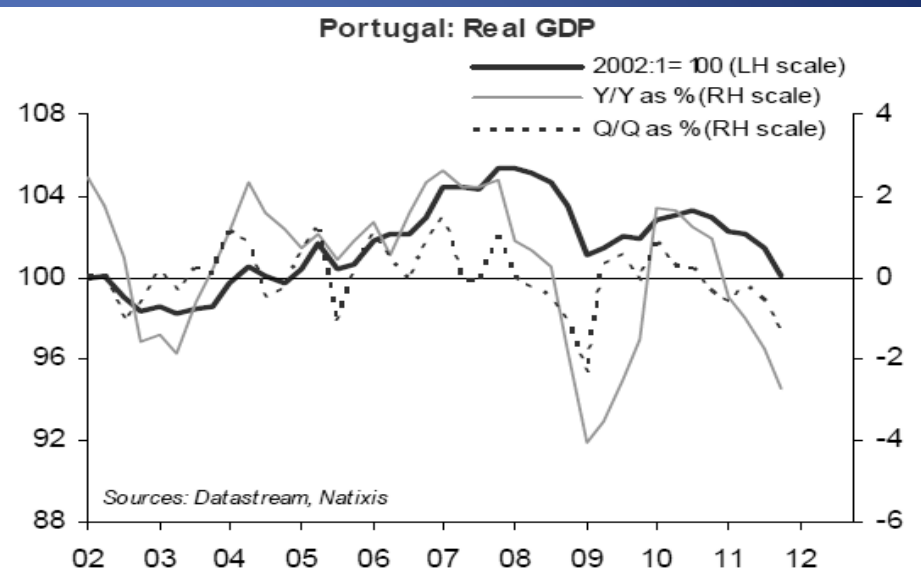
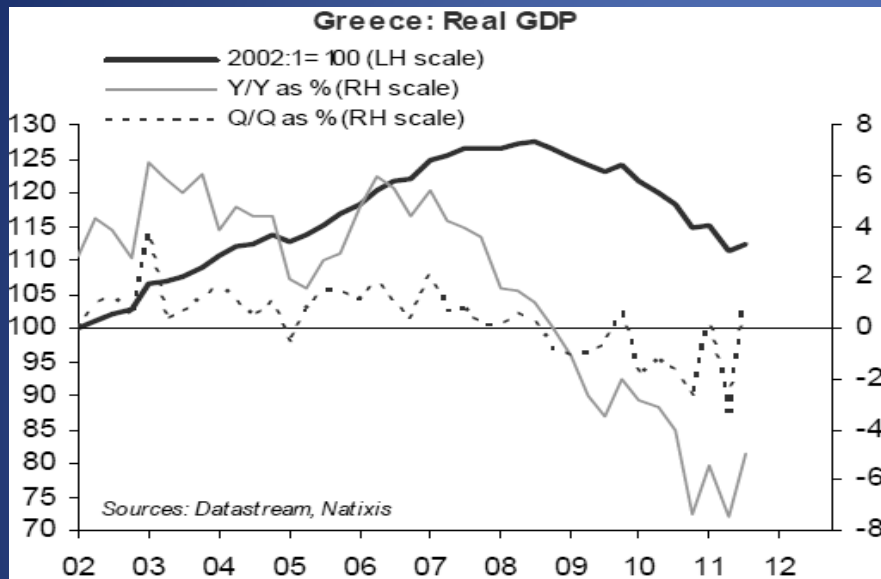
3/ Increase pledged amount to 1.0 tn. euro (EFSF will stop making new loans starting mid 2013)

4/ ESM is overcollateralized with 700 bn. euro pledged from EU country members

5/ Ireland and Portugal through 2015

# The Side Effect

- Austerity measures led to decline domestic demand.

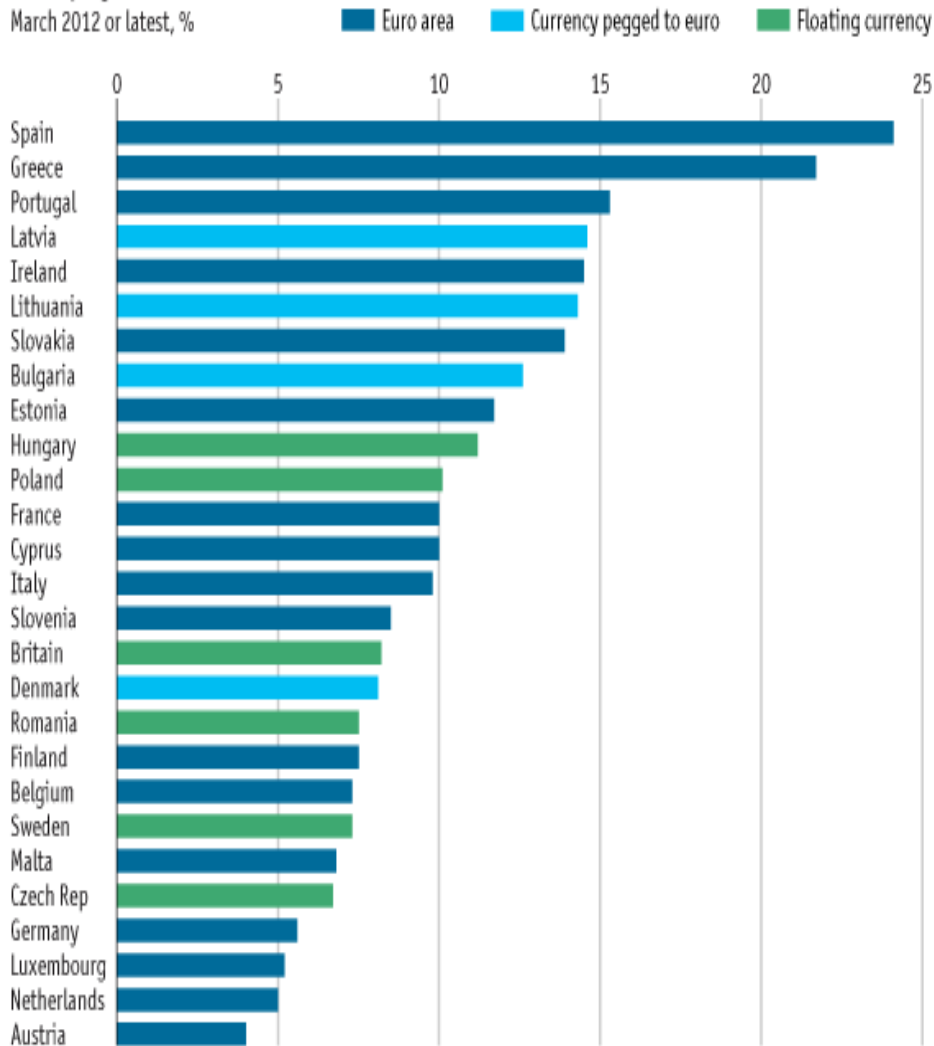


# The Side Effect

- and high unemployment.

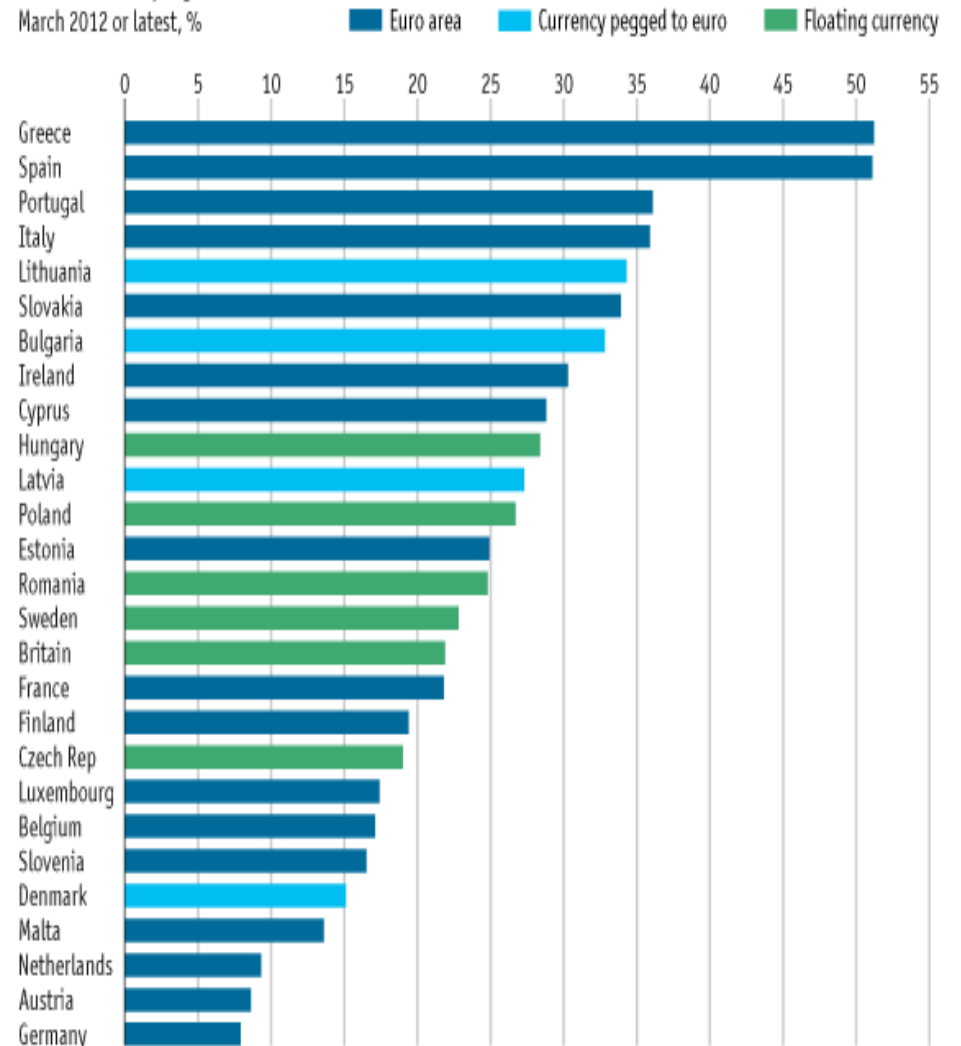
## Unemployment rate

March 2012 or latest, %



## Youth\* unemployment rate

March 2012 or latest, %



# The Side Effect

- and political instability.

## Shifting Sentiment

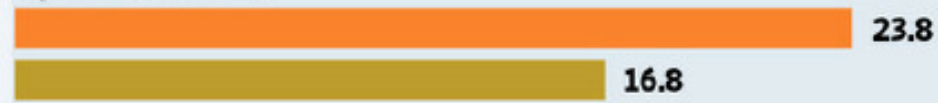
Greece's pro-bailout parties—New Democracy and Pasok—are catching up with the antiausterity Syriza party.

Recent poll    May 6 election results

### New Democracy (conservative)



### Syriza (radical left)



### Pasok (Socialist)



Sources: MRB poll of 1,003 people conducted May 16–17; margin of error: +/-2.5 pct. pts.  
Greek Interior Ministry

The Wall Street Journal

Q:

*Does Eurozone Debt Crisis  
matter to us?*

# Thai Exposure to Eurozone

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	PIGS	Eurozone
<u>Trade</u> Share of Thai exports (in 2011)	1.6%	9.4%
<u>Investment</u> Share of inward FDI (in 2007)	1.7%	7.2%
<u>Tourism</u> Share of inbound tourists (in 2011)	2.8%	10.2%

Q:

*What should we do next?*