Chapter 20

The Analysis of 2008 Global Crisis in Terms of the Sustainability of Public Debt Stock and Budget Deficits of PIIGS Countries

Panel Data Analysis

ABSTRACT

In this chapter, we have focused the impacts of 2008 global crisis on the debt policies and the sustainability of debts in the PIIGS Countries. For that, the circumstances of the global crisis are examined, and the economic condition before the crisis is handled. As a main objective, the public debt indicators of PIIGS Countries are pointed out. The ratios and budget units are evaluated in terms of sustainability of debts. While making these evaluations and examinations our method was panel data analysis which can be found at the end of this chapter. In this method, public debt ratios and the sustainability conditions of the public debts in the PIIGS Countries are used as the determinants of public debts sustainability.

BACKGROUND

The house prices got moved downwardly after the explosion of the bubbles at the house prices in U.S.A. According to S&P/Case-Shiller House Prices Index, the rapid increase at the house prices since 2002 reversed with the rapid decrease after the year of 2006. The index indicates the house prices at the February of 2008, %13 decreased in contrast with the same time of past year, after
The global financial crisis erupted in September 2008 with the collapse of Lehman Brothers, largely as a result of accumulating defaults on mortgages and derivative products. The ensuing financial sector crisis quickly led to a significant decline in credit to the private sector as well as to a sharp rise in interest rates. The resulting collapse in U.S. financial institutions led to a collapse of equity markets and of international trade and industrial production and spread to other advanced economies as well as to emerging markets and developing countries. Real growth around the world declined sharply below projections and advanced economies, including the U.S., entered into a recession. Only China and developing Asia maintained strong growth (Matheson, 2013, p.3).

IMF forecast that the world economy would achieve the lowest growth since 2009 with 3.3 per cent. The Fund, which lowered the growth forecast from 3.5 per cent to 3.3 per cent, stated that the risk of global deceleration is high (IMF, 2012, p. 190). According to IMF World Economic Outlook Update January 2013, the growth rate of developed countries was 1.6 per cent, whereas it was 6.3 percent for developing countries and emerging markets in 2011. In 2012 the rate of developed countries was 1.3 per cent while it was 5.1 per cent for developing countries and emerging markets. IMF forecast the 2013 growth rate of developed countries as 1.4 per cent and for developing countries and emerging economies this rate would be 5.5 per cent. IMF's forecast of EU for 2013 has been revised downward since October 2012 and the forecast is 0.2 per cent (Yılmaz; 2013, p. 231).

Liberalising capital movements created pressure both on American and European banking systems and European banks dominating the international markets were affected negatively and the crisis globalised (Akçay, 2012, p. 266). Rapid falls in the prices of assets affected all national and international investors. Hence, when problems emerging in loan market spread capital markets, an atmosphere of uncertainty and loss of credibility affected loan markets, interbank markets and capital markets, obstructed corporations which operate in international markets from finding new funds. This situation put extra pressure on banks' capital competence ratios, caused financial decay, bankrupts and bank mergers. The financial destabilisations that occurred in the financial markets of U.S.A. firstly spread to the developed economies of the Western Europe. Almost all the fiscal systems of countries impacted by the domino effects of the crisis. The European banking system that was in a dominant position at the international markets, seriously affected by the crisis by the October 2008.

The countries that their competition power weakened and their public finance indicator deformed against the developed economies in the European Union, today they are in a concern in terms of sustainability of their public debts.

The use of shared currency and the monopoly execution of monetary policy by the European Central Bank for the Eurozone countries cause the tight connections between those countries and make a Eurozone country easily affected from the other Eurozone country’s negative situation. The negative situations rapidly spreads in Eurozen by that way.

Besides that, the high integration level of financial sectors and real sectors increases the level and quickness of affection between the members of European Union. On the other hand, the countries that adopted the public debts as a usual public income after passing Euro currency and decreased costs of debts today became the lead actors of European debt crisis.
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