Navigating the New Financial Landscape

"Sovereign Debt: A Cause for Concern"

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Our assignment

- The financial crisis has been followed by sovereign debt problems if not a sovereign debt crisis.
- The fiscal problems include hangover from the financial crisis, the recession, and stimulus packages as well as long-term unsustainable spending and tax policies.
- How will the euro area deal with the problems manifested already?
- Are other problems likely to surface?
- Is this crisis a wave that will wash ashore in the United States?
- How will some states' severe budget problems be resolved?
Fiscal arithmetic around the world has troubling dynamics

Source: International Monetary Fund, Fiscal Monitor (5/2010)
...and may impair growth if not addressed

Debt and real GDP growth
in G-7 countries, 1980 to 2010

Five-year averages of debt-to-income and real GDP growth in G-7

Averages of quartiles

Gross debt relative to income
Greece: Government debt relative to GDP, percent

Banking crisis (black line) defaults (shaded)

1941-1944 Hyperinflation

2010, Near-default
Ireland: Government debt relative to GDP, percent

Household debt/GDP

First year of banking crisis (black line)
Wartime
Spain: Government debt relative to GDP, percent

1877, the last of 13 defaults (shaded) since 1557

First year of banking crises (black lines) 1920, 1931, 1977, and 2008

United Kingdom: Government debt relative to GDP, percent
United States: Government debt relative to GDP, percent

- 1873-1884, 10 states in default (shaded)
- 1933, suspension of the Gold Clause
- First year of banking crises (black lines)

Carmen M. Reinhart
Working Paper 15815
http://www.nber.org/papers/w15815
Will this threaten the fiscal domination of the Fed?
Panelists

- Peter Hooper, Managing Director and Chief Economist, Deutsche Bank Securities
- Angel Ubide, Director of Global Economics, Tudor Investment Corporation
- Bob Eisenbeis, Managing Director and Chief Monetary Economist, Cumberland Advisors
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