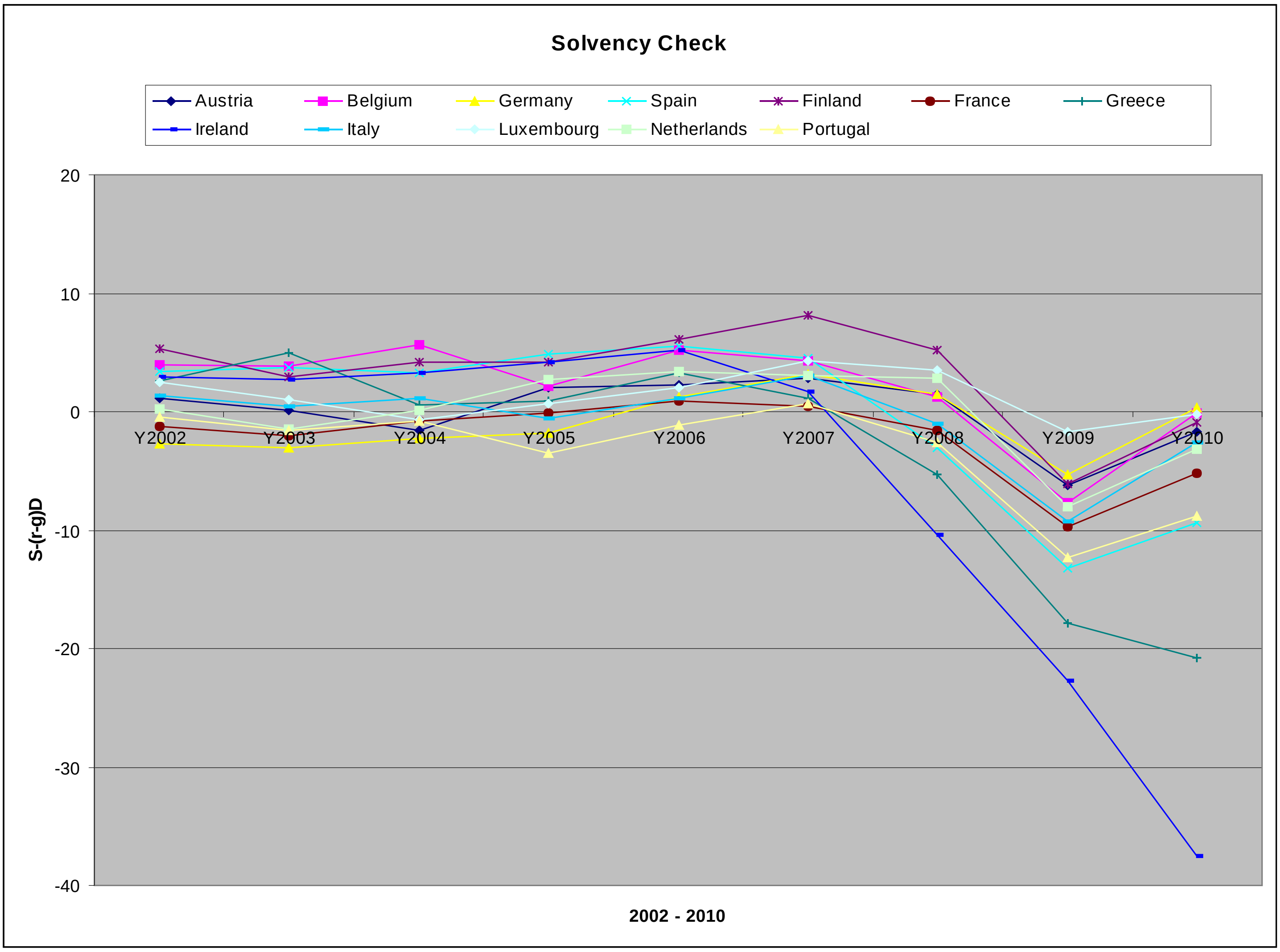
Analysis

Solvency Check for selected EURO Countries

The EURO is in trouble and therewith the EURO Member Countries. It seems that the financial crisis has led to a solvency crisis in the EURO zone. Solvency expects that the primary budget surplus (here: Primary Balance to GDP ratio “S”) and a growing economy (nominal growth of GDP “g”) could pay the bill for the nominal long-term interest rates (”r”) for government bonds (here reflected in the government debt to GDP ratio “D”)*):

$$S >= (r-g)D$$

Or: If S-(r-g)D <0 a necessary condition for solvency fails. Calculated for several EURO Members the following figure shows the results of this “Solvency Check” covering the years 2002-2010. Irony of fate: Most countries, even Greece, achieved solvency conditions up to 2008. Not so France, Germany and Portugal, all violating this condition in the years 2002-2005. But triggered by the financial meltdown in 2008/ 2010 the EURO system has been mixed up now. And there are no longer national central banks that could act as lender of last resort to avoid national insolvency. Now there is the ECB with destructive instruments like “no-bailing-out” clauses*).



Data: Economic Facts & Forecasts, StatistikNetz.DE, DSI Campus Solution
Sources: Eurostat, Luxembourg/ IMF, Washington
Calculated by DSI
*) e.g. Paul De Grauwe, The Governance of a Fragile Eurozone