STUDIA UBB NEGOTIA, LVI, 2, 2011

PUBLIC FINANCES CRISES WITHIN THE COUNTRIES OF PIIGS GROUP

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ABSTRACT. The world financial crisis, started by the collapse of the mortgage market in USA, gave rise to the deterioration of public finances in many European countries. The countries on which the impact was strong are Portugal, Ireland, Italy, Greece and Spain (or PIIGS). Already during 2010, Greece and Ireland would have both had to declare their bankruptcy but for the external financial aid. The purpose of the present paper is to highlight the causes that gave rise to the critical situation of the countries referred to as PIIGS, the scale of the phenomenon and the measures taken to improve the given situation.

Key words: financial crisis, public finance, public debt.

JEL classification: G01, E61, H63

Introduction

Recently and with respect to the world financial crisis, the conventional term PIGS was coined. The term is referring to those countries with difficult budget situations and high public debt levels. The term is an acronym whose successive letters are the initial letters of the names of the countries most burdened with the afore-mentioned problems (that means: P standing for Portugal, I for Ireland, G for Greece and S for Spain). Later on, Italy was added to the group and the acronym itself was extended into PIIGS. Sometimes, one can encounter the term PIIGGS, the second G referring to Great Britain. However, the present study does not include any data regarding Great Britain.

All references are written in Polish and English respectively.

The crisis in Greece

During the winter of 2009-2010, there was a sudden increase of Greece financial problems. The revelation of hoaxes and statistical manipulations - often euphemistically referred to as "creative accounting"[2] - delivered the final blow to

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[2] The term first appeared after discovering the huge financial scandals in USA in 2002. It referred to the cases of concealing the losses idealizing the profits for the sake of attracting potential investors and maintaining the good reputation/image. As time went on, "creative accounting" started to denote any cases of booking any financial records being not in accordance with the law or with *de facto* financial situation of a company.

this heavily indebted and seen as a highly corrupted country. Goldman Sachs helped Greek officials with their operations - or actually frauds. The above mentioned investment bank was accused by the American Securities and Exchange Commission (SEC) of frauds and unethical practices (Wray and Auerback, 2010). The Greek government tried to improve the situation by initiating spending cuts. Despite the fact that these were inadequate, they generated discontent and unrest among Greek citizens, who have been accustomed to high social welfare services. The riots made people understand and appreciate the real essence of debt crisis. Authorities became aware of the fact that the threat to the stability of Euro zone is not only the situation of Greece, but also the other ineptly governed and highly indebted countries such as Spain, Ireland, Portugal and Italy. The revelation of the scale of the problem forced the European politicians to design a saving plan not only Greece but also the whole Euro zone (Kwiecień, 2010).

Greek debt in the first quarter of 2010 included: credit instruments belonging to French banks (75 billion USD)[3], Swiss banks (54 billion USD)[4], German banks (43 billion USD)[5] and Dutch banks (12 billion USD)[6]. The banks' lobby at Europe level, after a few months of debating, forced their countries and international institutions to provide the financial aid to formally insolvent Greece; yet, *de facto* it was the aid to the creditors of Greece. It seems obvious that the problem of insolvency would generate some major losses for the respective banks. It became clear the necessity for governments to come up with the indispensable aids because of the potential threat of a bank systems collapse and the spread of a more acute financial crisis at European level (Chojna-Duch, 2010).

At the beginning of May, 2010, Euro zone heads of state gathered at Brussels for International Monetary Fund Summit and eventually ratified the assistance package for Greece amounting to 110 billion EUR until 2012. The price Greece had to pay for the support offered by the International Monetary Fund (IMF) came as drastic budget reforms. The plan agreed upon with IMF assumed decreasing the budget deficit from 13.6% of the national gross product in 2009 to 2.6% for 2014[7]

The reduction of budget spending included:

- ✓ the reduction by 30% of Christmas bonuses,
- ✓ the 12% reduction of the severance pay for the former employees of the public sector,

[3] Aproximatively 57 billion EUR at the exchange rate of 1 EUR = 1.3257 USD, as available on EUROSTAT for 2010.

[4] Aproximatively 41 billion EUR at the exchange rate of 1 EUR = 1.3257 USD, as available on EUROSTAT for 2010.

[5] Aproximatively 32 billion EUR at the exchange rate of 1 EUR = 1.3257 USD, as available on EUROSTAT for 2010.

[6] Aproximatively 9 billion EUR at the exchange rate of 1 EUR = 1.3257 USD, as available on EUROSTAT for 2010

[7] http://news.money.pl/artykul/prasa;grecja;uratowana;ale;nie;europa,146,0,616338.html

- ✓ the reduction of incentives,
- ✓ freezing the pensions in public sector and all government-controlled pensions,
- ✓ 5% reduction of public investments,
- ✓ some cuts in educational agenda.

On the other hand, budget revenues should increase through VAT raise from 19% to 21% and excise tax for fuels, cigarettes, and alcohol; also, luxury duty increased (relating to such commodities as cars worth more than 17,000 EUR, boats, helicopters, gemstones and precious metals (Zombirt, 2010 p.51).

The ratified structural reforms seem difficult to implement in Greece due to the following occurring conditions:

- social conditions: the necessity of changing the multi-generation habits of the beneficiaries taking advantage of public means, as well as pacifying the protests induced by cutting the spending with such destinations;
- economic conditions: the minus dynamics of national gross product combined with the small scale of diminishing the budget deficit;
- organizational conditions: diminishing the negative effects of an inept and too extended public administration, the difficulties concerning the modernization of the economy and reducing the grey market role.

The doubtful implementation of necessary reforms will probably mean not only postponing the term of repaying the debt generated by the assistance package, but also burdening with Greek debt other European Union entities for a long time, and the constant recurrence of the process until an inevitable final decisions should be taken (Chojna-Duch, 2010).

The afore-mentioned inevitable decisions can be the exclusion of Greece from the Euro zone. There are opinions considering that such a decision could generate the improvement of Greek economy. Recovering the national currency would cause its quick devaluation with respect to dollar and euro. That, in turn, would allow Greece to regain competitiveness on international markets and thus boost its export and tourism profits (Kozieł, 2010c). However, the more probable option seems to be the restructuring of the Greece debt[8] (Górniewicz, 1999).

At the end of 2010, the situation in Greece was slightly alleviated by the win of the already governing party Pasok (Panhellenic Socialistic Movement) at the level of local government elections. Probably, this situation will enable the Greek government to introduce and make effective new cost saving reforms (Walewska , 2010b).

[8] Restructuring means changing the conditions of repaying the debt. It can assume either the form of rescheduling or refinancing. The former involves the formal payment postponement relating to debt service and determining another deadline for repaying the given amounts. The latter denotes prolonging the credit period relating to realized payments or substituting a new medium-term loan for the current and future payments relating to debt service. Restructuring may also be equal to both of these forms concerning the long-standing and future payments relating to debt service (Górniewicz, 1999, p.55).

The Irish Problem

Starting with the end of the 1980s, Ireland registered one of the highest levels of development among the countries belonging to the European Union. At the beginning of 21st century, the Irish economic growth was mostly based on civil engineering sector. For the Irish population it was a genuine period of prosperity. From then onwards, they did not have to agree on a slow increase of salaries to maintain the international competitiveness and thanks to the work skills needed the civil engineering sector were not demanding expensive professional qualifications - the unemployment rate oscillated around 4%. At the beginning of the financial crisis, it seemed that Ireland should survive it unharmed. Virtually, Ireland did not suffer from any budget deficit and the public debt was amounting only to 25% of the national gross product (Walewska , 2010c).

However, when the demand for real estate collapsed (prices decreased by about 50%) the Irish government had to intervene in order to save the banking sector from bankruptcy, due to the burdens generated by the misfired loans for the real estate investors. The government then devoted the equivalent of 4% of the national gross product for capital injections in to the financial institutions, a decision which had negative repercussions over the condition of public finances. It coincided with the sharp decrease of the income flows to the Irish budget which was too strongly based on taxes generated by the new houses and capital profits[9].

The fiscal catastrophe was additionally aggravated by the surge of unemployment rate to 12.5% (as of December 2009), which further decreased the taxes based on capital profits, correlates with the spending increase on social services.

After several years of surpluses, Ireland experienced a budget deficit amounting to more than 7% of its gross domestic product. A year later, the deficit increased to 12.5%. Opposite to many European governments, Dublin could not afford to stimulate economy through financial means. On the contrary, frequently it made budget cuts. By the end of 2009, Irish government expenses were reduced by the equivalent of about 4% to 5% of the national gross product. Combined with the collapse of the industrial production, constantly increasing unemployment rate and the decrease in the private sector spending, the budget cuts contributed to the downturn of Irish national gross product by 3% in 2008 and by about 7% in 2009. Therefore, from the beginning of the economic crisis, the economy of the former Celtic tiger suffered a decrease of almost 10%[10].

The Irish government made an attempt to diminish the budget deficit from 14% in 2009 to less than 3% in 2014. In spite of initiating 7% tax for salaries within the public sector, until July 2010, the receipts from those taxes were less than expected.

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[9] http://www.parkiet.com/artykul/31,890574_Irlandia___wzor__do_nasladowania__.html
[10] http://www.parkiet.com/artykul/31,890574_Irlandia___wzor__do_nasladowania__.html

It is worth mentioning that the Irish government is implementing its plan through important spending cuts, decreasing unemployment benefits and other social welfare benefits. According to the International Collective Investment Scheme, the government did not appreciate the scale of the necessary corrections. The spending cuts and the increase of employment rates should reach the level of 6.5% of the national gross product and not the level of 4.5 % as was assumed by the government. However, those are not problems that cannot be solved. After 2 years' time of a shrinking Irish economy, during the first quarter of 2010, there occurred an improvement and the government has already sold the stake of securities planned for that year, the total value amounting to 20 billion EUR.

The critical situation of Ireland during the second half of 2010 has been assessed by Standard & Pooor's. The decrease of the Irish sovereign credit rating from AA to AA- was caused by the constantly increasing expenses dedicated to rescue the domestic bank sector. It was estimated that Ireland will be forced to pay higher interest rates for obtaining new loans on the international market. The government in Dublin was expecting the budget deficit to increase at 14% of national gross product. In spite of implementing the afore-mentioned serious fiscal consolidation, Irish deficit will probably be the highest within the whole European Union. A large number of analysts considered that the budget deficit may reach the level of 25% of national gross product. The prediction can materialize if the government is forced to increase the additional aid to the domestic banks (especially Anglo Irish bank). According to analysts, Ireland will not recover shortly its former economic dynamics and the public debt within the next few years is estimated to remain at 100% of national gross product (Woś, 2010b).

The financial situation of Ireland remained unfavorable. At the beginning of September 2010, the Irish government admitted, for the first time, that the attempt to rescue the Anglo Irish Bank failed and it considers closing down that institution within 10 years' time. The primary idea was to divide the Anglo Irish bank into "good" and "bad" segments, the latter of which is supposed to be sold. The rescue attempt generated a cost of 23 billion EUR until September 2010. It is estimated that the cost can reach even 35 billion EUR.

The investors feared that the horrific situation of banking sector may additionally decrease the credibility of Ireland, which may, in turn, induce some other troubles for the Euro zone. The dimension of Irish related problems may be as serious as the scale of the troubles Greece was struggling with (Reda, 2010). All this was promptly reflected in the valuation of country related Credit Default Swaps - securities or bonds in case of a country's insolvency. The profitability of 10-year treasury bonds of Ireland reached, by September 8th 2010, the so-far highest level of 5.9 % (Siemionczyk and Krasuski, 2010).

During the next few weeks in September, the situation of Ireland continued to deteriorate. At the auction held on September 26th, 2010, the 8-year bond issue of 4.767% return on investment were suggested (the return on investment being higher by as many as 114 basis points than the similar issue made on August 17th, 2010). Undoubtedly, it was an important upsurge of the costs aimed to gain further financial support for the domestic bank sector rescue plan. The difference in profitability between 10-year Irish bonds and reputedly the safest German bonds equaled 4.29%, which is considered to be the highest rate in history (Wierciszewski).

It is worth noticing that, during the second half of 2010, the risk related to Irish debt increased even further despite the drastic budget cuts initiated by the cabinet of Prime Minister Brain Cowen. The economy of the Emerald Island remained in crisis. The second quarter of the year 2010, brought a national gross product decrease by 12 %.

On the turn of September 2010, the Irish government announced that the rescue attempt of the national bank sector shall cost 50 billion EUR; according to previous estimations the cost was at a level of 33 billion EUR). Therefore, this increased cost incurred the budget deficit planned for the above-mentioned year rise to 32% of national gross product; for 2009, the budget deficit was as high as 14.4% of national gross product, which was the worst result among PIIGS countries at that moment in time anyway. If the expenses related with the financial support for the Irish banks were to be excluded, the ratio of the deficit to national gross product would be only of 12% (Kozieł and Reda, 2010).

Many investors and analysts doubt whether the measures taken by the Irish government will enable it to diminish the budget deficit to 3% of national gross product by 2014. These misgivings were the reason for the increase in profitability of Irish bonds to the level of 8% (Kozieł, 2010a).

In November, 2010, 51% of investors from all over the world, who took part in Bloomberg’s agency poll, expected Ireland to go bankrupt within the next 18 months. The percentage of investors considering the high probability of Ireland bankruptcy was 3 times higher compared with the opinions expressed six months previously (Kozieł, 2010d).

During the 2-day meeting (November 16th to 17th) of the Finance Ministers from the Euro zone, it was decided that Ireland can receive a financial aid amounting to 148 billion EUR, 20% of which shall be advanced by Germany. In return, Ireland has the obligation to increase the corporate tax, which has been relatively low so far (12.5%). Due to this, one can hope that Dublin will fight with its over 30% budget deficit, but the Irish companies will lose their competitiveness in comparison with other European companies - especially the German ones. It was Great Britain position in particular that did not approve of Berlin plans, criticizing the attempts as an intervention in the tax systems of other countries (Woś, 2010a).

It is worth mentioning that, during the meeting of Finance Ministers, the situation appeared to became a paradox: the countries offering financial support to Ireland were keener on the idea of initiating the bail-out actions to save Irish economy than Ireland itself; this situation occurred because Ireland was dreading the thought of losing control over its economy (Niedziński, 2010a).

One day later, the investigative mission was initiated by European Union, European Central Bank (ECB), and International Monetary Fund (IMF). They were inspecting the fiscal condition of Ireland and what measures are to be taken if Dublin decided to take advantage of the aid offered (Niedziński, 2010b). Eventually, Ireland shall get 86 billion EUR from the European Union and IMF.

November 24th 2010, the Irish Prime Minister Brian Cowen announced a 4-year saving plan which assumed the reduction of the state's spending by 10 billion EUR and the increase of tax income by 5 billion EUR. Thanks to these measures, Irish budget deficit should decrease by 11%. The plan further assumed:

- the decrease of the payment rate from 8.65 to 7.65 EUR per hour;
- the reduction of social welfare benefits for the citizens remaining unemployed for a long time;
- initiating property tax (that sort of tax has not applied in Ireland before);
- income tax shall apply to people earning at least 15,300 EUR a year (so far it has applied to people earning at least 18,300 EUR annually)
- VAT shall increase from 21% to 22% in 2013 and to 23% by 2014.

Brain Cowen also announced the intention of maintaining very low income tax, which would be - in his opinion - a key factor to the rapid development of the country's economy. The relatively radical saving plan did not manage to "calm" the financial markets. Shortly after its announcement, the interest rate of Irish bonds was further increased by another 30 basis points to 8.95% (Bielecki, 2010).

Spain crisis

Until recently, Spain was considered a country with a dynamic pace of development. Its favorable conjuncture was mainly attributed to the boom on the real estate market; a boom which had a positive influence not only on real estate investors but also on building companies and the banks financing these investments (Sadecki, 2010)[11]. Yet, the collapse happened in October 2008. Mortgage loan selling went down by 44%. Additionally, high unemployment rate[12] (mainly in the sector of civil engineering), limited tax incomes and simultaneously increased in the government spending regarding unemployment benefits, gave rise to serious budget problems.

According to Eurostat forecast, Spanish civil engineering sector will shrink until 2012. Louis Zapatero's government implemented radical budget cuts amounting to about 15 billion EUR, which represents 1.1% of national gross product. Such measures made Spain more credible in the eyes of financial investors.

[11] The Spaniards built even a few houses and the investments in the domain of real estate were tantamount to 1/3 of national gross product (Sadecki, 2010, PIGS i rozhulane budżety, „Bank" 2010, nr 5, s. 57 – 58)

[12] According to the date of European Commission, the unemployment rate in Spain equaled 20% for the period 2009-2010.

On the other hand, direct investors left Spain, a behavior similar for the all countries from PIIGS group. The loss of foreign direct investments additionally deepened the economic recession (Gruszecki, 2010; Kowalik, 2010).

Another issue of Spanish economy was the private sector debt (households and companies). The mortgage loans given for 50 years' time and the possibility of claiming a tax refund amount to 15% of the installments being paid off. This gave rise to the situation in which the sum of debt in the whole economy equaled, at the beginning of 2010, over 340% of national gross product. Among the well developed countries in the world, only Japan and Great Britain were more indebted (Wróbel, 2010).

The decrease of trust towards Spanish credibility enforced the profitability of Spanish bonds. 90% of the bonds issued during 2009 were characterized by a maturity shorter than a year. These short-term liabilities were to be renewed the following year but on less favorable conditions. In 2011, the repayment will coincide with the necessity of rolling long-term bonds, which may additional deepen the economic crisis in the country. According to experts, Spain may not be able to overcome this burden (Sadecki, 2010).

The actions taken for diminishing budget deficits in Portugal and Italy

In Portugal, the government of the Prime Minister Jose Socrates started the savings by reducing salaries of clerks and members of the parliament by 5% and froze them for the next 3 years. Salaries of employees from the public sector earning more than 1,500 EUR per month were also decreased by the same percentage. Furthermore, the spending on social purposes was drastically cut.

Apart from the reduction of expenses, the Portuguese government initiated additional income tax amounting to 1.5%: from 2011, VAT will increase by 1% (at the level of 21%) and big enterprises will pay a new tax amounting to 2% of their income. These measures can potentially bring the amount of savings and new generated income to 5.7 billion EUR annually. Moreover, 17 national companies are about to be privatized for about 8 billion euros (Walewska, 2010a).

For 2010, the Portugal’s budget deficit equaled 7.3% of its national gross product. Due to the actions taken by the government, it is planned to be reduced to 3% by the end of 2012.

Members of Chinese Parliament expressed the willingness to purchase a great number of Portuguese bonds. The Chinese, who have important savings, try to invest them in the bonds of other countries, Greece and Ireland inclusive (Koziel, 2010b).

At the end of 2010, it the opinion that Portugal, similar to Greece and Ireland, can apply for international financial aid was often expressed. The cause of this wide spread opinion was the fact that the saving plan was not meticulously implemented by Lisbon government (Walewska, 2010a).

The Italian economy, while being ranked third best in Euro zone with respect to the value of national gross product, developed more slowly than expected. At the end of the first decade of 21^{st} century, the Italian industrial production decreased, whereas unemployment rate rose. In 2010, Italian public debt surpassed 1.7 billion EUR, which amounted to 115% of the national gross product. According to the president of the Italian Central Bank, Mario Draghi, Italy was not very competitive because of the wrong labor law, having its economy based on small enterprises which were unable to compete on the global market, and eventually the inefficiency of its financial sector (Walewska, 2010a).

Silvio Berlusconi's government announced the introducing of savings amounting to 25 billion EUR. Among the measures taken:

- only every fifth clerk quitting a job shall be replaced by another employee;
- salaries of all administration employees shall be frozen for the next 3 years;
- annual incomes surpassing 90,000 EUR will be additionally taxed, which shall amount to 5% of the income for the Italian budget
- transfers of money from the state's budget to local governments shall be limited to 2 billion EUR in 2011 and 3.8 billion EUR for 2012;
- spending on the health service shall be diminished in 2011 by 400 million EUR and by 1.1 billion EUR in the forthcoming year;
- the budgets of successive state departments shall be diminished by 8-10%;
- all the employees who, in 2011, reach the pension age will have to work another half a year.

The Italian government did not predict the necessity of raising taxes but it was making attempts to improve the process of executing taxes (Walewska, 2010a).

The results of all these measures would be assessed during the years to come.

Comparing financial situations in the countries of PIIGS group

The largest public debt among the analyzed country is definitely attributed to Italy. At the end of 2009, The Italian public debt amount surpassed 2.3 billion USD[13] (see table 1). It is noteworthy, that within 9 years, the amount of Italian public debt doubled.

Close, on the second place, is Spain, with its public debt amounting to almost 700 million USD[14]. Similar to the Italian public debt, the Spanish public debt level also underwent doubling in amount.

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[13] Aproximatively 1.6 billion EUR at the exchange rate of 1 EUR = 1.3948 USD, as available on EUROSTAT for 2009.

[14] Aproximatively 501.9 million EUR at the exchange rate of 1 EUR = 1.3948 USD, as available on EUROSTAT for 2009.

On the third place comes Greece with over 430 million USD[15], fourth Portugal (191 million USD[16]); while on the fifth place comes Ireland (with about 108 million USD).

Within the period 2000-2009, for 3 of the afore-mentioned countries the public debt was thrice as much in 2009 compared with 2000.

Table 1.

Public debt within PIIGS countries (in million USD)[17]

Countries	2000	2005	2008	2009
Greece	138.34	254.13	364.74	430.05
Ireland	33.97	45.04	70.14	108.26
Italy	1147.91	1644.99	2132.67	2334.52
Portugal	61.58	120.04	164.86	191.23
Spain	292.48	389.81	510.17	698.63

Source: author's own calculation based on of the data provided by OECD

The debt of a given country is not merely confirmed by its amount, but more important - by its relation to the worth of the country's national gross product. Having considered the latter, the worst positions were occupied by Greece and Italy and the most favorable by Spain (see table 2). It is worth mentioning that all of the enumerated countries surpassed, for 2010, the criterion written in Maastricht Treaty, regarding the maximum amount for the public debt being 60% of GDP.

For Greece and Italy within the whole analyzed period (2000-2009) the relation equaled more than 100%.

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[15] Aproximatively 308.3 million EUR at the exchange rate of 1 EUR = 1.3948 USD, as available on EUROSTAT for 2009.

[16] Aproximatively 136.9 million EUR at the exchange rate of 1 EUR = 1.3948 USD, as available on EUROSTAT for 2009.

[17] In order to ensure a data consistency, table 1 above is converted in million EUR; the exchange rates used are the following:
for 2000: 1 EUR = 1.0850 USD (as provided by www.oanda.com)
for 2005: 1 EUR = 1.2441 USD as available on EUROSTAT
for 2008: 1 EUR = 1.4708 USD as available on EUROSTAT
for 2009: 1 EUR = 1.3948 USD as available on EUROSTAT

Countries	2000	2005	2008	2009
Greece	127.50	204.26	247.98	308.32
Ireland	31.30	36.20	47.68	77.61
Italy	1057.98	1322.23	1450.00	1673.73
Portugal	56.75	96.48	112.08	137.10
Spain	269.56	313.32	346.86	500.88

Table 2.

Public debt of PIIGS countries as percentage of GDP (%)

Year	Greece	Ireland	Italy	Portugal	Spain
2000	106.2	38.4	111.2	53.3	61.2
2001	106.9	36.1	110.6	55.6	57.5
2002	104.7	32.3	108.0	58.1	54.6
2003	103.0	32.0	106.2	59.4	50.8
2004	101.8	31.3	103.8	60.8	63.0
2005	107.4	27.6	106.4	63.9	43.2
2006	107.6	27.0	106.5	64.5	43.1
2007	105.8	23.9	103.5	67.0	40.2
2008	97.6	43.2	105.8	66.4	39.5
2009	126.8	64.0	115.8	76.8	53.0
2010*	123.0	81.0	118.4	91.0	68.0
2011*	130.0	93.0	130.0	97.0	74.0

Source: European Central Bank data
Note: * forecast

Analyzing the public debt levels for the countries belonging to PIIGS group, it is impossible not to notice the phenomenon of "crossing" of the debts. It involves the mutual indebting of the particular countries. The phenomenon is illustrated by the following diagram (figure 1).

The primary reason for getting into debt is the occurrence of budget deficit. It is to be emphasized that budget deficits have recently been the constant phenomena in the countries in European Union. According to the forecast of European Commission, by the end 2010, it is expected that Ireland will be burdened with the largest budget deficit, estimated to amount at 32% of GDP (figure 1). The budget deficits of Greece, Spain and Portugal will probably be as high as 8% to 10% of GDP and for Italy it will probably slightly surpass 5% GDP.

It is worthy emphasizing that in 2010; only 3 countries in European Union will be able to satisfy the criterion included in Maastricht Treaty according to which the relation of budget deficit to the worth of national gross product cannot surpass 3%. These 3 countries are: Bulgaria, Estonia and Sweden.

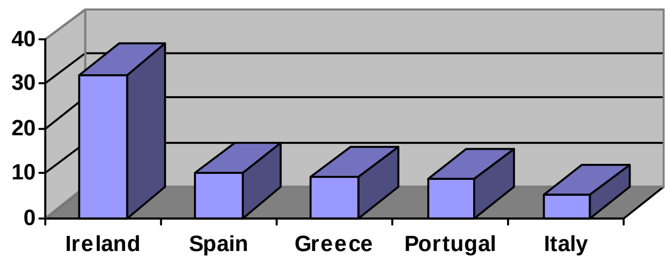

Figure 1. Budget deficits PIIGS countries (as % of GDP)

Source: author’s work based on the data provided by the European Commission.

On the basis of the worth of CDS bonds, it is possible to present the accumulated probability of the declaration of bankruptcy. According to the data from September 23rd 2010, for the countries of PIIGS group, Greece is the most likely to go bankrupt (50.6%). The next positions were occupied by Ireland (34.2%), Portugal (30%), Spain (18.2%) and Italy (16%). It is worth adding that the likelihood of Greece going bankrupt is similar only with the case of Venezuela (56.4%)[18].

Summary

Despite a number of similarities, the PIIGS' group countries differ from one another considerably.

At the end of 2010, Italy was in a relatively best position - paradoxically enough, Italy also was burdened with the highest public debt (in an absolute sense) as well as in relation to the worth of its national product. However, this country has the lowest budget deficit and the least probability of insolvency.

Also at the end of 2010, Ireland was in the worst position - it reached the unprecedented budget deficit in relation to the worth of national gross product because of the necessity of saving the national banking system.

Greece was caught in the analogous predicament - in Greece the problems regarding repaying the debts appeared for the first time.

It is worth mentioning that so far only these two countries (Greece and Ireland) have taken advantage of the financial aid of offered by the European Union and International Monetary Fund.

Yet, in the nearest future, one has to reckon with the possibility of Portugal and even Spain applying for the financial support provided by the above mentioned institutions.

The attempts made during 2010 by the PIIGS countries aimed to improve their public finance standings involved mainly spending cuts as well as searching for additional budget income resources are to be considered as understandable and yet a bit too weak. European Union got deeply implicated in rescuing those countries being on the verge of bankruptcy in the light of the possibility that the banks in the countries better-developed than PIIGS countries will incur important losses and in order to avoid a potential collapse of Euro currency.

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