UDC 336(497.7):339.72.053.1(4-672EU)

THE EUROPEAN DEBT CRISIS AND ITS IMPLICATIONS ON THE MACEDONIAN ECONOMY

Taki Fiti, PhD
Ss. Cyril and Methodius University in Skopje , Faculty of Economics – Skopje
takifiti@eccf.ukim.edu.mk

Biljana Tashevska, MSc
Ss. Cyril and Methodius University in Skopje , Faculty of Economics – Skopje
biljana@ecc.ukim.edu.mk

Abstract

This article provides an overview of the roots of the European debt crisis, which cannot be attributed only to the large fiscal stimulus undertaken by the governments as a response to the global financial crisis of 2007. It results also from the specific design of the Eurozone and the disparities among countires, as well as to fiscal and financial imbalances, especially the previous credit boom and real estate bubble in some peripheral countries. European leaders now face numerous dilemmas concerning the implemented fiscal austerity measures and the appropriate exit strategies (proposals range from enhanced decentralized coordination of fiscal policies, to structural reforms and to a banking and fiscal union). In the end, some of the implications of the European crisis on the financial, real and fiscal sector of the Macedonian economy are examined. Based on the analysis, the article offers lessons about the fiscal policy and public debt of the Republic of Macedonia.

Keywords: *European debt crisis, fiscal and financial imbalances, government bond yield, fiscal consolidation, Republic of Macedonia.*

1. Introduction

The global financial crisis that emerged in the USA in 2007 destabilized the banking sector of the country after the burst of the housing bubble, leading to lower credit activity, lower private sector demand, and lower real estate prices and soon extended to the real sector, adversely affecting employment and economic growth. The crisis promptly spilled over to the rest of the world, especially affecting the European Union, through foreign trade and international movement of capital and hence, it was transformed into a synchronized, global crisis, expanding, by the end of 2008, to 15 out of 21 advanced countries. (IMF, April 2009)

With low global interest rates, countries could not rely on expansionary monetary policy and reached for fiscal measures as a response to the falling demand. This led to the creation of extremely high budget deficits and accumulation of huge public debts (the public debt of advanced countries in 2008 exceeded the historical average of the post World War II period) and the EU, especially EMU countries, soon faced a debt crisis. However, the causes of the European debt crisis are extremely complex and can not be attributed simply to the large fiscal stimulus that governments implemented. The crisis resulted from other factors as well: the lack of common fiscal policy in EMU; large disparities in the level of economic development between core and peripheral countries; large financial imbalances in some countries; disagreements among the member states about the fiscal policy direction etc.

The crisis just pronounced the structural vulnerabilities of certain countries and the imbalances within the EU and for the first time since its adoption, the common currency faced serious threats to its existence. For several years now, Europe has been fighting financial, fiscal and real sector problems, and the crisis today, five years since its beginning, seems nothing less serious. The present situation is a test for the Eurozone, its cohesion, its will and ability to find a common solution. The severity and the scope of the eurozone crisis are very well illustrated in the following quote: "The Eurozone crisis is much more than a sovereign debt crisis. It calls into question the whole architecture of economic policy, from monetary policy to macroeconomic surveillance and sanctions. Beyond the short-run urgencies, EU members need to come out with a clear view of what kind of coordination device they want to invent. There are several routes forward, but failing to select one could contribute to marginalizing the Eurozone in the global economy." (Bénassy-Quéré & Boone, 2010, p.1)

This article analyses the roots of the European debt crisis, its implications and the undertaken measures, the dilemmas and risks of fiscal consolidation in the Eurozone. It also addresses the issue of the implications of the European debt crisis on the Macedonian economy, as a highly dependent country on the situation in the EU, due to the trade relations with certain member countries. The Republic of Macedonia is a small open country and hence, having a small absorption power of the domestic economy, is very much vulnerable to external shocks.

The root causes of the European debt crisis

The causes of the European debt crisis and the threat to the existence of the euro are very complex. The global financial crisis and the responding fiscal stimuli undoubtedly had an impact, but foremost in revealing and sharpening the already fragile financial systems in certain European countries. More over, the crisis can not be considered exogenous and spilled over from the USA. According to Wyplosz, it actually began simultaneously in Europe and in the USA in 2007, with the lack of liquidity on the market and central bank's interventions. (Wyplosz 2010) Anzoulatos (2012) argues that the root causes lay in the failure of many "safety valves" of market economies, in many levels of the society, in the afflicted, as well in the more prudent EMU countries, in an economic environment abundant finance can overwhelm even the biggest and best managed economies.

The fiscal stimulus and the accumulation of public debt as a response to the global financial crisis of 2007

There was a near consensus before the crisis that monetary policy was efficient in stabilizeing economic fluctuations and that the fiscal policy was not necessary. (Delong and Tyson 2013) There was an initial monetary response to the crisis in advanced countries through lowering interest rates and injecting additional liquidity in the system. The ECB cut the interest rate of the main refinancing operations to 2% at the beginning of 2009 and later slashed it down to 1%. However, in a the global financial crisis the monetary policy had limited effects, because: an export-led recovery is not an option, due to the global nature of the crisis; its financial nature weakens the monetary transmission mechanism, especially due to the extremely low interest rates and the liquidity trap problem. (Spilimbergo et al. 2008, Bartha and Gubik 2012) Hence, European countries turned to classical Keynesian type fiscal expansion in search for an exit from the crisis. The Keynesianism became attractive again. The discretionary stimulus in the Eurozone accounted for about 1% of GDP annually in 2009 and 2010. The governments of the USA, Great Britain, Germany, France and other European countries, by the end of 2008, approved a financial package in the amount of 4.253 bn dollars (14% of their GDP) only for consolidation of their financial sectors. (IMF 2011) The large fiscal stimuli resulted in higer budget deficits and mounting public debt. Overall, economic growth, on the other hand, failed to come in EMU. (Bartha and Gubik 2012) The Eurozone barely achieved growth in 2008 and went into a recession in 2009 with a fall in output of 4,4%.

The fiscal stimulus has international spillover effects, through trade and interest rates, especially visible in EMU. Therefore, there is a necessity for coordination of fiscal actions in order to internalize these effects for a better global response. (OECD 2009; Blanchard, Dell'Áriccia and Mauro 2010) A variety of fiscal actions were implemented in the Eurozone, in terms of size of interventions in the financial sector (for example, Great Britain and Ireland intervened more than France and Italy), the fiscal space, the severity of the crisis and the size of the automatic stabilizers. Generally, the less indebted countries before the crisis, hence countries with larger fiscal space, had a larger increase in fiscal deficits. (IMF 2009) Spilimbergo et al. (2008) warn that even though necessary, some countries do not have enough fiscal space to implement stimulus, since it would jeopardize the fiscal sustainability.

EMU – common monetary vis a vis national fiscal policies

The European Monetary Union is a unique case in the world of a currency area with common monetary policy and an absence of common fiscal policy, a banking union and a political union. (Hrebenciuc 2010, Bartsch 2012, Balassone, Franco and Rizza 2009, Lane 2012; Cameron 2012) It does not represent an “optimal currency area” that meets the four crucial criteria of a currency area laid by Mundell: labor mobility, capital mobility and price and wage flexibility, similar business cycles in the countries and a risk sharing system.

This imposes several problems in the functioning of the EMU: the existence of a monetary union means loosing the option for national currency devaluation, as a traditional adjustment mechanism (Lane 2012); the lack of a fiscal union i.e. a central fiscal body, creates moral hazard and chronic budget deficits in some countries (Hrebenciuc 2010); the ability of national governments to borrow in the common currency imposes a free rider problem, as long as there are strong incentives to bail out an over-borrowing country (Lane 2012); “excessive deficits can have large adverse spillover effects when countries form a monetary union without a centralized budget” (Castro 2007). The elimination of national currencies left a more important role for national fiscal policies as a tool of countercyclical macroeconomic policy. (Lane 2012) Additionally, bank regulation remained a national concern, thus leaving the countries to bear the risk of a banking crisis, and both the direct, and indirect fiscal costs.

It is well known in monetary economics that no currency can remain stable without coordination between the two key macroeconomic policies – fiscal and monetary policy. The countries of EMU attempted to substitute this deficiency with the Maastricht criteria of 1992, later better specified in the Stability and Growth Pact, according to which potential members of the EMU are required to maintain budget deficits below 3% of GDP, and public debt below 60% of GDP. They also adopted an Excessive deficit procedure for the countries that don’t respect the rules. These rules, however, *were not used in “extreme circumstances” caused by natural disasters or deep recessions*, when economic activity of a country falls by more than 2% annually. The budget discipline in a monetary union is important, since fiscal expansion of any undisciplined country would have negative externalities on the other eurozone countries. An important issue here is whether the fiscal rule “preserves" the stabilization function of fiscal policy, especially its power to act against recessionary trends.

After signing the Maastricht Treaty, all countries tried to consolidate their public finances in order to fulfill the membership criteria. Data reveals a decreasing trend of budget deficits and public debt in this period, part of which is due to the rather favorable economic growth in the late 1990s. However, the practice showed that the SGP was not a powerful and efficient control mechanism. (Hrebenciuc 2010) In absence of efficient control over budget consumption, the rules were not obeyed – not only by peripheral countries, but in some years, also by core countries. Kajaste suggests that it's a big paradox that there was no explicit and operational link between public finance sustainability and the SGP. The SGP was silent on the public debt criterion, which in practice remained rather inoperable. The SGP and the fiscal framework failed to strengthen the long-term sustainability of public finance. (Kajaste 2004, p.596) The crisis has brutally proven the existence of a monetary union in the absence of a common fiscal policy as being unsustainable. The history of monetary unions here is insightful: no monetary union has survived without evolving into an appropriate political and economic union. (Bosomworth 2012)

An important root cause of the European debt crisis and the crisis of the euro are the distinct disparities in the level of economic development between the core and the periphery of the EMU. Peripheral countries, like Greece, Spain and Portugal, registered higher inflation and hence lower real interest rates before entering the Eurozone and once they adopted the euro, they benefited from significantly lower interest rates. A group of prominent economists indicated in the Delors report that the euro was "self-destroying" and expressed concerns about the existing imbalances in the EU member countries, being aware of the fact that weaker countries could have serious problems in the government bonds market, but in 1989 nobody gave a serious thought to this warning. Today many economists acknowledge this argument. Lane (2012) suggests that the origin and propagation of the European debt crisis can be attributed to the failures of the design of the euro and the fragility of the monetary union in crisis times, especially the absence of a banking union and other smoothing mechanisms on a European level. On the other hand, Antzoulatos (2012) claims that the crisis could have emerged even without the common currency, as a result of the *globally low interest rates*, narrowed spreads of crisis countries due to the behavior of international investors and banks "chasing profits" etc. According to him, the institutional framework, especially financial regulation, is of extreme importance. The previus trend of financial deregulation is often mentioned as a contributing factor to the financial crisis. The regulatory system coudn't keep up with financial innovation and the regulations were not sufficiently enforced. (Vinals 2012)

Pre-crisis imbalances in the Euro zone – warning signals

Even though the crisis is specific in each country, a common cause, not unique to the crisis countries, is the excess in the financial system in the pre-crisis period. (Antzoulatos 2012) The abundant liquidity due to extremely low interest rates and high saving rates in emerging countries encouraged bank lending and caused an unreasonable underestimation of risk. (Wyplosz 2010, Antzoulatos 2012) However, the favorable growth and benign financial environment simply masked the accumulation of macroeconomic, financial and fiscal vulnerabilities. (Lane 2012; Antzoulatos 2012)

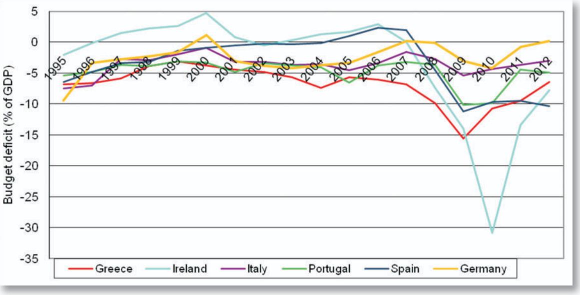
Typical macroeconomic and fiscal indicators did not provide ex ante warning signals before the crisis. Economic growth was positive in the periphery countries before the onset of the crisis (e.g. GDP growth in 2007 was above 4% in Greece, Ireland, Portugal and Spain). There was a period of a narrowed standard deviation of fiscal variables and unemployment[2] in Europe, thus implying the convergence of their economic performances. (Fernandes and Mota, 2011) Budget deficit figures sent warning signals only for Greece and Portugal, and public debt for Greece and Italy (table 1) Before the euro entered into force, there was a decreasing trend of public debt to GDP ratios in order to fulfill the Maastricht criteria. Yet, the average pub-

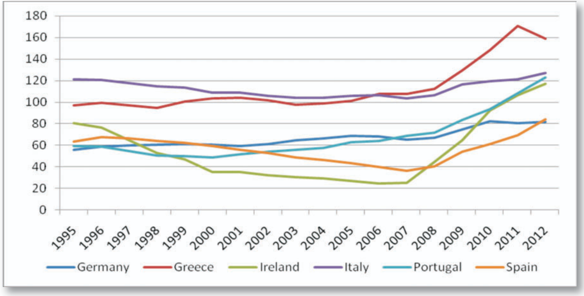
2) The standard deviation of unemployment in the EU fell from 4,6% in 2000 to 2,8% in 2006.

lic debt did not fall below the 60% threshold. At first glance, however, public debt, on aggregate EU level did not seem problematic by the mid 2000s (the lowest average level was 59% in 2007). There were, however, large disparities on an individual level. Italy, for example, has not been able to reduce its public debt below 100% of GDP. Greece experienced large budget deficits after 1980, financed by extensive borrowing from the markets, and completely streamlined to higher consumption levels in an effort to raise the standard of living. The persistent budget deficits resulted in a sharp rise of public debt, exceeding 100% of GDP in 1993, and reaching a level of 107,4% in 2006 and 165,4% in 2011. Portugal as well joined the EMU with a budget deficit (7,4% of GDP) and has been consistently running deficits. Joining the Eurozone allowed these countries to finance their budget deficits under favorable terms due to the low interest rates in the Eurozone. The fact that they spent a significant share of the borrowed money on unproductive investments (growth of salaries and other current expenditures) explains the low growth rates, accompanied by a permanently declining competitiveness.

Chart 1:

Dynamics of the public debt and budget deficits in the PIIGS[3] and Germany





Source: WEO Database, April 2013

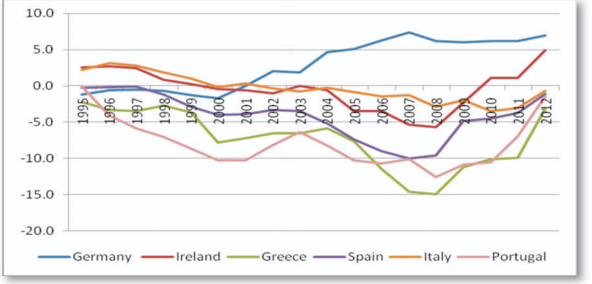
After 2003, in a period of abundant liquidity causing weaker discipline, financial indicators reveal that afflicted countries were on an unsustainable path long before the crisis erupted, due to increased competition, extremely low interest rates, loose conditions for external debt financing, financial innovations, and smaller exchange rate risk premia. This triggered credit growth in peripheral countries, fast growth of financial and construction activities, private debt accumulation, increased imports and current account deficits and in some countries (Spain, Ireland and Greece) a real estate bubble. The key predictor of a banking crisis is a high domestic credit boom. (Lane 2012) The current account deficits mainly reflected private borrowing, but its adjustment can also have negative implications on the government budget. (Anand, Gupta and Dash, 2012). The examples of Ireland and Spain prove that there should be surveillance and control not only over public finances, but on private debt as well. (Bénassy-Quéré & Boone, 2010) Before the crisis, Ireland and Spain seemed fiscally prudent, with low public debt (25% and 36% in 2007, respectively). Ireland's private debt of 241% of GDP, however, was among the highest in the EU. It was accompanied by high economic growth rates, mainly based on aggregate demand increase (mostly of the household sector consumption), expan-

3) The acronym PIIGS refers to the five euro zone nations, which were considered weaker economically following the financial crisis: Portugal, Italy, Ireland, Greece and Spain.

sion of the construction sector and an easy access of households to housing loans at low real interest rates. This created a real estate price bubble, which burst and threw the banks in a quite difficult situation, forcing the government to save the banks by allocation of large budget funds – practically by nationalization. Hence, the budget surpluses turned into large budget deficits after 2007 (in 2010 Ireland registered a record budget deficit of 31,2% of GDP), and the public debt grew to over 100% of GDP in 2011. The fall of prices in 2007 in Spain, the private debt growth, the fall of public revenues, caused rising budget deficits (above 11% in 2009), growth of interest rates and decreased financing. The crisis proved that in case of serious problems in the banking sector, the total private debt can potentially become public debt. (Anand, Gupta and Dash, 2012)

Chart 2.

Current account deficits in the PIIGS and Germany



Source: WEO Database, April 2013

The rising current account deficits in these countries were accompanied, on the other hand, by rising current account surpluses in some core European countries, like Germany. The core countries, like Germany, maintained their competitiveness through wage restrictions (indicating real depreciation), thus increasing their exports to the peripheral countries, and their banks benefited from lending to those countries. In fact, it is assumed that the economic performances of Germany would not have been so good without the unsustainable, debt financed, booms in the peripheral countries – especially Greece, Ireland and Spain. Since 2009, Germany and some other core countries, like Holland, benefited significantly from lower borrowing costs, since investors turned from the more risky peripheral countries' assets to the debt of the most conservative European countries.

Table 1. Warning indicators for the crisis of 2007

	Greece	Ireland	Italy	Portugal	Spain
Macroeconomic imbalances indicators					
Budget deficit	X			X	
Government debt	X		X		
Current account deficit	X	X			X
Loss of competitiveness		X			X
Financial imbalances indicators					
Growth of bank assets	X	X			X
Growth of bank loans	X	X			X
Private debt / GDP		X		X	X
Private debt / deposits		X	X	X	X
Real estate bubble	X	X		*	X
Exposure to foreign banks		X	X		X
Note: * no data available					

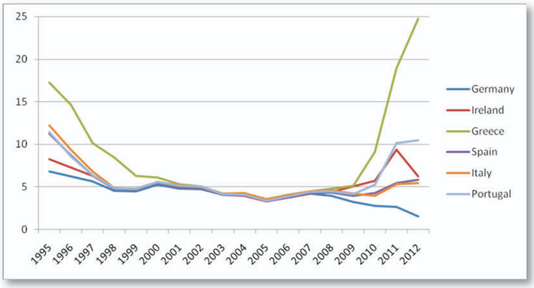
Source: Antzoulatos 2012, p.542

Until the middle of 2009, pubic debt was not in the focus of interest concerning the crisis, the main concern being the financial and banking systems. The revealing of the real amount of budget deficit in Greece in 2009 (12,7% of GDP, instead of the previously forecasted 6%) and the non-compliance to the Maastricht criteria transferred the main guilt for the crisis to fiscal profligacy. (Lane 2012) At the end of 2009, the crisis entered a new phase, with several countries recording higher than expected deficits. For example, public revenues fell much faster than GDP in Ireland and Spain, due to high sensitivity of tax revenues to the fall in construction activity and asset prices. For the periphery, the global financial crisis of 2008 triggered a large reassessment among investors of the sustainability of fast credit growth and large current account deficits, leading to significant private capital outflows, tighter credit terms, decreased construction activity, thus leaving banking systems with losses from credit activity and with a decreased liquidity in the finance markets. (Lane 2012) The enormous public debt growth in Greece, Ireland and Portugal resulted in losing their credibility on international financial markets and tough borrowing terms.

The impact on government bond yield spreads

A process of convergence of government bond yields in the Eurozone countries began before the adoption of the euro and lasted until 2006. (Figure 3) The peripheral countries benefited from lower interest rates in the Eurozone and from the absence of an exchange rate risk. The high credit ratings and narrow government bond yield spreads to the German bond also imply that the financial markets did not foresee high risk of default, and certainly not a fiscal crisis.

Chart 3.
Long-term government bond yields in PIIGS and Germany



Source: Oesterreichische Nationalbank (OeNB)

http://www.oenb.at/isaweb/report.do;jsessionid=E4C6EA2B64D8FB68A1603E606A58DBBB?report=10.6

The crisis was marked by increased volatility in the markets for government securities and brought about large differences in interest rates on government bonds. (Barrios et al. 2009; Anand, Gupta and Dash, 2012) As a result of the changed perception of investors, several peripheral countries of the Eurozone lost their status of safe assets and their bonds were considered credit risky. Since 2009, the two groups of Eurozone countries – peripheral and core countries - decoupled, with the risk of peripheral countries relative to core ones increasing rapidly. The differences in the perceived risk were reflected in the higher bond yields, considering the fact that the bonds are nominated in the same currency. (Afonso et al. 2012) Greek government bond yield increased from 4,06% in 2006 to nearly 25% in 2012.

The empirical literature analyses government bond yield spreads as a result of the following factors: (Barrios et al. 2009, Afonso et al. 2012; De Santis 2012)

- Credit risk
- Liquidity risk
- General risk aversion, reflecting the global factors and the international financial risk

- Sovereign credit ratings
- Contagion

The credit risk and liquidity risk are connected. An increased issuance of government bonds, such as was in 2009, should decrease the pressure on the liquidity premium. On the other hand, larger emission means higher deficit and debt, hence more pressure on the credit risk premium. Barrios et al. (2009) find that the credit risk has the highest importance in Portugal, Greece and Spain, where there are large current account deficits in the pre-crisis period and a large increase in debt during the crisis. Charts 4 and 5 illustrate ths argument. The 10-year government bond yields in Eurozone countries is found to be positively related to the amount of public debt (the coefficient suggests that the link is important, but other factor also influence the yield) and inversely to the current account deficit, implying that the countries with weak fiscal and financial balances face higher borrowing costs. Afonso et al. (2012) conclude that the widening in EMU spreads is largely caused by the increased international risk. In periods of financial uncertainty the risk aversion grows and investors orient themselves toward less risky assets, causing spreads to grow. Numerous studies find a high correlation between the movements of spreads in different countries, which points to the significance of the global factors on interest rates of government bonds. (e.g. Barrios et al. 2009) The literature has also detected certain spillover effects among euro countries. Downgrades in sovereign bonds and a deterioration of the fundamentals of one country are found to have a significant influence on government bond yields not only in the event country, but also in other countries. (Afonso et al. 2012; De Santis 2012; Lane 2012; Bartsch 2012)

Chart 4.
Relation between public debt and 10-year government bond yields

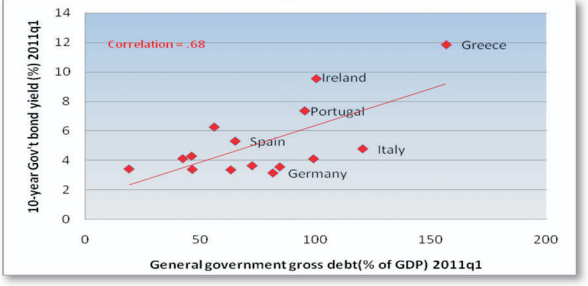
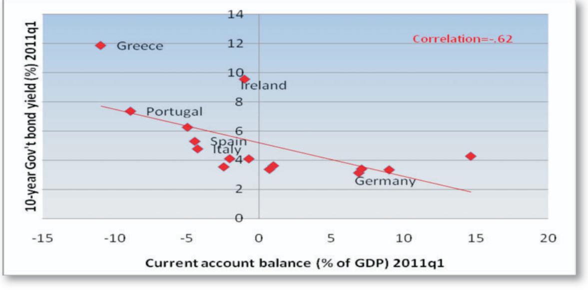


Chart 5.
Relation between current account balance and 10-year government bond yield

Source: Eurostat and OECD database



The problems in some Eurozone countries caused a crisis of confidence in the public debt. The dramatic growth of bond yields does not only express higher borrowing costs, but also signals investors reluctance to lend to governments, thus endangering the market access for those countries. Greece was the first country to be pushed out of the bond market in 2010, followed by Ireland in 2010 and Portugal in 2011. (Lane 2012) The government bond spreads also show that the membership in the Eurozone does not protect countries against individual financial pressure. This aspect had been long disregarded during the period of yield convergence with a spread rarely over 25 b.p. The history of debt crises shows that the markets highly overestimate the default risk and tend to discriminate when they sense that some countries may have difficulties in servicing their public debt. (Bartsch 2012; Wyplosz 2010) The yields began to move counter cyclically. Higher yields weaken public debt sustainability, thus increasing interest rates even further.

Impact of the crisis on the real sector

The financial crisis caused a decline in private consumption, both personal and corporate. Higher margins and restrictions on loan size and duration, the reduced investments in real estate, and the movement of investors toward less risky assets, were the main obstacles to investment activity in the Eurozone. Private investments experienced a tremendeously large decline in 2009 – 12,8%. (table 3) The ultimate result is a limitation of economic growth rates. Personal consumption faced declining trnds because of tighter credit terms and credit rationing, and a fall in real disposable income, which reflects the deteriorating situation on the labour market. (NIER 2009) The private final consumption declined more in the euro area compared to the rest of the European Union.

As e result of the crisis, of the lower profitability and investments of companies, unemployment jumped up to record levels in certain eurozone countries (e.g. 25% in Spain). The unemployment rate reached 11% on aggregate Eurozone level in 2012. Robert Zoellik, former President of the World Bank, said in an interview that "what began as a great financial crisis and converted to a profound economic crisis, is now becoming a great crisis of unemployment and, if we do not act, there is a risk that it becomes a serious human and social crisis with very important political implications." (http://elpais.com/diario/2009/05/24/economia/1243116001_850215.html) The euro area rate of unemployment rose from 7,6% in 2007 (7,2% in EU) to 11,4% in 2012 (10,5% in EU). there are countries, however, where the unemployment rate fell during the crisis, like Germany (8,7% in 2007 and 5,5% in 2012). Eurostat (2013) estimates that 19.375 people were unemployed in April 2013, and unemployment reached 12,2% in the euro area (27% in Greece). Most troubling is th extremely high youth unemployment rate.

Table 2. Selected macroeconomic variables for the Eurozone

	2005	2006	2007	2008	2009	2010	2011	2012	Average 2007-2012
GDP	1,7	3,2	3,0	0,4	-4,4	2,1	1,6	-0,3	0,9
Consumption	1,8	2,1	1,7	0,4	-1,0	1,0	0,2	-1,3	0,6
Private investment	3,2	5,6	5,2	-1,4	-12,8	-0,1	1,4	..	0,16
Unemployment, %	9,2	8,5	7,6	7,6	9,6	10,1	10,2	11,4	9,3

Source: OECD.StatExtracts; Eurostat

Addressing the problems of the fiscal crisis

In November 2008, the European commission adopted a recovery programme in the amount of 200 bn euros. The amount was considered by some to be far from the needs, which might be due to the fact that the Commission underestimated the depth of the contraction. In January, they estimated a fall in GDP of 1,8%, while in May it was corrected to 4% and unemployment to 10%. A further problem is the very small fiscal capacity of the EU. The EU budget presents only 1% of the EU GDP. (Cameron 2012) The severity of the crisis caused disregard of the no-bailout clause. Greece was the first country to receive a bail-out package from the EU and the IMF in May 2010, followed by Ireland, Portugal, Spain, and Cyprus.

The unprecedented conditions led the ECB to reach for rather unconventional measures for support of the Euro system, such as buying public debt of the problematic countries. On May 10 2010, the ECB bought Greek, Irish and Portuguese government bonds on the secondary market (almost 40 bn Euros bonds in the first four weeks), thus acting as a "buyer of last resort". This imposed moral hazard and triggered a debate about whether this actually presents an indirect monetization of budget deficits. (Fernandes and Mota, 2011; Lane 2012) The reserve capacity for monetizing debt, however, is often cited as a reason for the ability of some highly indebted countries, like Japan (Japan has the highest public debt – around 203% of GDP in 2011), USA and Great Britain, to borrow at low costs. (Bartsch 2012)

In order to help affected countries, the EU and the IMF established a European Financial Stability Facility, a special purpose vehicle, aimed at providing conditional finance of problematic countries. Later they established the European Stability Mechanism, as a permanent mechanism for assistance, which entered into force in October 2012.

In March 2011, EU leaders agreed upon a "Euro pact", which implied stronger economic policy coordination for competitiveness and convergence, and represents a strong political commitment by European leaders. (https://www.ecb.int/ecb/html/crisis.en.html). The two Summits in Brussels for the rescue of the euro made a certain improvement in the resolution of the fiscal crisis. The countries signed a "new fiscal compact", within the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union – which includes higher coordination in conducting economic policy and convergence, as well as measures regarding the governance in the Eurozone. (ECB 2012) The new system includes two components: balanced budget rule (structural budget deficit[4] lower than 0,5% of GDP) and enhanced excessive deficit procedure. There is also a certain time frame for reducing public debt (countries with public debt above 60% of GDP are required to reduce the debt by 1/20 annually until it reaches satisfactory level. (see ECB 2012 for a more detailed analysis of the fiscal compact) The budgets of the member countries will be subject to approval by the European commission. Furthermore, the Fund for the rescue of the euro can directly inject money in problematic banks, since the access of governments of the most affected countries to financial markets is utterly limited.

Some economists argue that the status quo of the EMU is no longer an option. The following measures and directions are discussed, in order to save the euro area: (Bénassy-Quéré & Boone, 2010; Anand, Gupta and Dash, 2012; Bosomworth 2012; Spilimbergo et al. 2008)

- *Deeper integration* – fiscal union, with a larger EU budget, a common, more flexible form of unemployment protection, banking union; political union. The economic logic requires the Eurozone to become "more federalized", to share the banking risk within the banking sector of the Union and to issue a common area Eurobonds for financing of government deficits. However, the political logic opposes these requirements (The Economist, 2012)
- *Decentralized coordination* – forming national independent fiscal committees, which will check short term budget adequacy, the long term sustainability of public finance, growth and employment trends and the successive policy recommendations. These committees would report to the national parliament and to the European Fiscal Committee, which would evaluate and review the aggregate result, with technical assistance of the Commission. The independent Fiscal Council (as is proposed by some

4) Previously, the SGP was based on current budget deficit, not taking into account the phase within the cycle and didn't provide discipline. The larger public revenues, instead of being used for fiscal consolidation, were spent, the violations of the fiscal limit were just slightly rectified, the public debt criterion was mainly ignored, and there wasn't automatism of the procedures for countries that violated the rule. (ECB May 2012)

authors) would monitor the fiscal movements and increase transparency and would advise on short term budget policies and medium term frameworks.

- *Fiscal austerity, fiscal consolidation, including privatization*, aimed at converging pubic finances to sustainable levels. This, however, bears social consequences, and yet it doesn't solve the structural problems of the peripheral countries.
- Introduction of common area *Eurobonds*, which should have certain restrictions, in order to prevent their abuse. These bonds should lower credit risk. However, they impose a danger of creating moral hazard.
- *Structural reforms* aimed at stimulating development, pension and health care systems reforms.

The fiscal consolidation as a solution

Europe's debt crisis has raised awareness and concerns over fiscal sustainability. The dramatic rise of budget deficits and public debt, resulting from the global financial and economic crisis, has already entered a critical zone and threatens to limit the long run economic growth of certain economies and of the total world economy. The standard macroeconomic literature locates the negative economic effects of the accumulation of budget deficits and the growth of public debt in several areas – decrease in national savings, consequences on future generations (regarding the burden of servicing the public debt), crowding out of private investments (crowding out effect through higher long-term interest rates), displacement of capital towards less productive uses, and ultimately, a limitation of economic growth rates. (Fiti and Tashevska, 2008; Mankiw 2010; Horton 2010; Delong and Tyson 2013) The Director of the IMF's Fiscal Affairs Department, Carlo Cottarelli (2012), points to the fact that with a high initial public debt, even a small increase in interest rates can throw the public finances off track.[5] High public debt can cause turbulences in financial markets of developed countries, which ultimately increases the risks to recovery of the real sector in these economies. This might cause serious problems and implications for emerging and developing countries – contraction of trade and financial flows and limitation of their economic growth possibilities.

The often cited long-term benefits of fiscal consolidation are: reduced pressures on real short and long term interest rates, depreciation of the real exchange rate, reduced risk premiums, crowding in of private investment and hence induced economic growth. IMF, October 2010) Yet, the process of implementation places governments in front of serious dilemmas about:

- *The speed of adjustment* - "In the short run, policymakers face a crucial dilemma. If they consolidate too soon – that is, they take actions to reduce budget deficits in the near term – they could kill the recovery. But inaction or policy mistakes could lead to concerns about further debt accumulation and ultimately reignite a crisis." (Horton 2010, p.26) Economists argue that in general, gradual consolidations are a preferred option and tend to be more successful than a cold shower. Cottarelli (2012) argues that a too rapid fiscal tightening can have contractionary effects and suggests a steady pace of adjustment within a clear medium term framework.
- *The appropriate adjustment measures* - Many studies find that spending based consolidations are more effective and less contractionary, and are especially benign if they are based on cuts on transfers and other current spending and accompanied by structural reforms aimed at improving labour market functioning. (Alesina, Favero and Giavazzi's 2011; IMF, October 2010; OECD 2012b; Cafiso and Cellini 2012)

5) Empirical estimates suggest that around debt levels of 70-80% of GDP, Interest rate effects of debt seem to become more pronounced, discretionary fiscal policy becomes less effective (because of a stronger offsetting private saving responses) and trend growth falls. Thus, OECD experts propose a target for gross debt of around 50% of GDP or even lower long-term target during normal times. (OECD 2012)

- *Whether fiscal austerity is 'self-defeating'* - It is often stated that the fiscal multipliers are especially high in deep recession situations where the monetary policy is near a liquidity trap and there are financially restricted agents. (Cottarelli 2012; Delong and Tyson 2013; Boussard, de Castro and Salto 2012) A high multiplier would imply quantitatively significant negative effects of fiscal austerity on GDP, which could make fiscal austerity 'self-defeating'. (Boussard, de Castro and Salto 201; Cafiso and Cellini 2012; Delong and Summers 2012) Hence, some economists even argue that, in order to reduce the deficit, public spending should be increased. (Andres and Domenech 2013; Delong and Summers 2012; IMF 2010 December 17; Antzoulatos 2012)

The fiscal consolidation process in the EU, especially the EMU, is not going to be simple, and the following risks regarding its implementation should be considered:

- The initial shock that triggered the 2007/2008 crisis, this time, came from the financial system. The literature argues that *recessions accompanied by financial crises, as well as synchronized, i.e. global recessions* are long-lasting i.e. manifest a slow recovery. (IMF (2009; Fiti 2009). The recent recession has both characteristics. In such conditions, due to the slow recovery and the danger from the cycle reversing to the declining phase, there is always a risk that governments would reach for expansive fiscal policy.
- European countries' leaders, in the summits for "rescue of the euro" achieved a certain progress in establishing foundations for a common fiscal policy. But, the implementation of the offered solutions remains uncertain Obviously, despite the economic logic which requires the Euro zone to become "more federalized", the political logic opposes these requirements – fiscal policies remain national, and some EU countries that are more disciplined in implementing fiscal policy (Germany, Finland and others) show a resignation and unwillingness to support Eurozone's problematic countries.
- Long run challenges for reaching a prudent and sustainable public debt in Europe come primarily from population ageing and growing social expenditures (health care and pension expenditures) OECD (2012) forecast a rise in pension costs of 4,5% of GDP in the period 2005-2050, and contingent liabilities in the Eurozone to grow by 8,9% of GDP. Therefore, it is essential that when formulating fiscal adjustment strategies, demographic factors and the related costs have to be accounted for.
- Rising interest costs for servicing high debts of EMU countries put additional pressures on public finance sustainability. (Horton 2010; OECD 2012)

The implications of the crisis on the Macedonian economy

One of the key elements of modification of postwar business cycles (especially in the period after the 1960s) is the much faster spillover of recession effects from one country to another, primarily as a result of the intensive processes of globalization of the economic activity. (Fiti 2009) The Republic of Macedonia, as a small and open economy, is extremely vulnerable to external shocks, which are due to changes in the economic activity of the surroundings – especially to changes in EU member countries. The high synchronization of business cycles in the EU and the changes in the total economic activity of the Macedonian economy can be quantified using appropriate statistical and structural models. For an example, based on an analysis of the output gap in recent recession episodes in the eurozone countries and in the Republic of Macedonia, using the Markow-Switching, TAR (Threshold Autoregressive Method) and VAR (Vector Autoregressive Method) methods, Fiti et al. (2013) confirm that: (1) the changes in economic activity in the Eurozone are quickly transferred to the Macedonian economy; (2) their effects are felt during a longer time period (approximately two years); (3) the transmission intensity is complete and (4) there is a strong determination and synchronization of economic activity in the country with the movements in the Eurozone.

Effects of the crisis on the financial sector of the Republic of Macedonia

The Republic of Macedonia is characterized by a shallow, insufficiently diversified and integrated (in the international financial flows) financial system. In fact, banks, organized in a traditional manner (deposits account for almost 80% of the total bank resources), present a dominant segment of the Macedonian financial system and comprise about 90% of total assets of the financial system of the Republic of Macedonia. (NBRM, 2011)

The Macedonian banking system experienced the first negative effects of the global financial and economic crisis of 2007/2008 at the end of 2008. They can be summarized as follows:

- *Stagnation and incident reduction of deposits* (the citizens started to withdraw their foreign exchange deposits from the banks), accompanied by simultaneous deposit currency transformation – this tendency stopped very soon, due to the good bank liquidity;
- *End of the "credit boom"* of 2006 that lasted until the end of 2008;
- *Deterioration of the credit portfolio of banks* – this tendency appeared in 2009, after the crisis had been transferred to the real sector and rendered servicing of previously mobilized loans by firms more difficult. The share of dysfunctional loans in total bank loans before the crisis was around 7% and increased to 9,3% in 2010 and to 10-11% at present;
- *Lower profitability of banks;*
- *Reduced credit activity,* i.e. increased precaution by banks.

However, the banking system of the country remained stable, due to the simultaneous influence of several factors: (1) as previously mentioned, the Macedonian banking system is traditional, primarily based on deposits as a primary source of finance, insufficiently integrated in the world financial flows, which explains why Macedonian banks are not exposed to "toxic" bank products and to government bonds of the European countries that were most seriously affected by the global financial and economic crisis. Thus, the Macedonian banking system benefited from what is known as blessing of underdevelopment; (2) the Macedonian banks are well capitalized – the capital adequacy rate of the banking system is a little above 16% and is twice the legally established minimum; (3) the banking sector is in dominant foreign ownership, which provided an evident progress in the field of corporate governance and contributed to a better response to banking risks; (4) the Macedonian central bank established a good supervision of the Macedonian banking sector.

Effects on the real sector – the sector of enterprises

The negative economic effects from the global crisis on the real sector arrived with a certain time lag. According to the data from NBRM, Macedonia achieved a GDP growth rate of 6,1% in 2007 and 5,8% in 2008. In 2009 the growth rate turned to negative values (-0,9%) (http>/www.nbrm.mk). Foreign trade i.e. decreased foreign demand for Macedonian products, was the main transmission mechanism of adverse effects of the global crisis on the Macedonian economy. Almost 50% of the Macedonian exports of goods and services go to five countries: Germany, Greece, Serbia, Bulgaria and Italy. The global effect of the reduced Macedonian exports in 2009 (when Macedonia registered a negative GDP growth rate) compared to 2008, was 1,2 bn dollars, i.e. a fall of 30%. The biggest decline appeared in the trade with Greece, the country most seriously affected by the crisis.

Table 3: Exports of the Republic of Macedonia to Greece, Germany and Italy

Total exports 2008	3,9 billion $	
		decrease of 1,2 billion $
Total exports 2009	2,7 billion $	
Exports 2008 - Greece	536 million $	
		decrease of 146 million $
Exports 2009 - Greece	290 million $	
Exports 2008 - Germany	565 million $	
		decrease of 115 million $
Exports 2009 - Germany	450 million $	
Exports 2008 - Italy	321 million $	
		decrease of 103 million $
Exports 2009 - Italy	218 million $	

Source: State Statistical Office: Statistical Yearbooks 2010 and 2011

The limiting factors of the Macedonian GDP growth in the peak of the crisis and in the aftermath are classified by the State statistical office in the following way: (SSO, Short-term statistical data 1.3.12.10, p.13)

- Insufficient foreign demand 25%
- Insufficient domestic demand 20%
- Uncertain economic environment 6%

The decreased foreign demand, the withdrawal of orders by foreign partners of Macedonian firms, together with the reduced domestic demand, had impact on decreasing firms' production (especially export oriented firms) and on their ability to service the previously mobilized bank loans. The dysfunctional credit of companies in Macedonia grew by 6,7% in 2008, and in 2009 by extraordinary 34,8%. (NBRM, 2011) The uncertain economic environment and the unfavorable perception of the region on the side of foreign creditors and investors additionally complicated the situation in the enterprise sector. In the period after 2007, according to NBRM data, FDI manifested an evident declining tendency – they were nearly 700 million dollars in 2007; fell to 197 million dollars in 2009, then increased again, just to fall again in 2012 to 132 million dollars. (http>/www.nbrm.mk).

Fiscal sector – budget deficits and public debt of the Republic of Macedonia

Macedonia, practically in the entire transition period (1995-2008) recorded extremely low budget deficits, smaller than 1% of GDP (with the exception of the period of conflict), accompanied by, in certain years, mild budget surpluses. The Government of the Republic of Macedonia abandoned the fiscal austerity policy after 2008 (IMF 2009) and started to achieve somewhat higher budget deficits, ranging from -2,5% to -2,8%, and -3,5% in the current year. At first glance, these budget deficits are small and appear as a normal counter-cyclical measure in recession periods. The data for central government debt (internal and external) are also non-alarming. Namely, the total central government public debt today presents bout 33% of GDP (this figure does not include the debt of public enterprises and local governments).

However, a deeper analysis of the public debt in the Republic of Macedonia suggests that a need for a big precaution in future creation of public debt and especially in the way the money collected money from Government borrowing on the domestic market and international financial markets are being spent. In this context, the following theoretical and practical aspects of the problem should be taken into account:

First, Macedonia has a limited capacity for servicing of public debt, mainly because of the weak export performance;

Second, some recent researches show that if the share of public debt in GDP in middle income countries with market economy (such as the Republic of Macedonia) exceeds 30-35%, the risk of default begins to grow rapidly. (Reinhart and Rogoff, 2009);

Third, viewing things more pragmatically, the arguments for caution in the creation of budget deficits and public debt in the case of the Republic of Macedonia are even more convincing. In this context, we would emphasize that the share of gross external debt in the country's GDP, has now exceeded 68% of GDP (it incorporates also the private sector debt, but these are also debts that need to be repaid in foreign currency), which again is a problem considering our weak export performance and the big import dependence of the economy;

Fourth, when a budget deficit is nevertheless created, even in bearable amounts, the spending priorities must be clearly defined. Macedonia has a poor public expenditures structure – an enormous share of budget revenues are spent on salaries and contributions for the hypertrophied and inefficient public administration and for social transfers. Both these budget items are negatively correlated with economic growth. This structure of public spending requires a share of the funds from government borrowing, among other things, to be used for financing current expenditures - salaries, pensions etc. Although the government managed to increase the share of capital investments in the total structure of budget costs in the last few years, the priorities are poorly set - the position capital costs incorporates items such as cars, furniture, administrative buildings, monuments and other unproductive costs, i.e. transfers that "swallow" significant amounts of money that end up abroad and hence, do not have a multiplier effect on the domestic economy. Large amounts of money have been spent for these purposes, which poses danger of "gambling away" the advantage of low public debt of the country. Thus, it is necessary for public investments to be directed primarily to roads, modernizing the railway, gasification and at the energy sector in general This is even more the case since recent studies of the multipliers find results that do not provide much comfort for the country – primarily, the fact that Macedonia is a middle income developing country, small and open economy and definitely an import-dependent economy – the tree factors determine low, even negative multiplier effects. (Ilzetzki, Mendoza and Végh, 2010).

Conclusion

The world financial crisis that emerged in 2007, revealed hidden weaknesses and discrepancies in the level of development in the Eurozone, previously masked behind the veil of economic growth and benign global financial environment. The recent episode taught us the dangers of ignoring the warning signals of financial and economic crises: extremely large credit booms, real estate bubbles, growing fiscal and financial imbalances, all present in the peripheral Eurozone countries. These factors lead to higher credit risk which significantly increased the borrowing costs. It should be noted that the situation in the global financial environment is the main driver of the rising government bond yields, strengthened with the credit and liquidity risk, and the contagion spreading within the Eurozone. The rising borrowing costs, along with the weak performances and low competitiveness of the peripheral countries, threw them in a situation where they were forced to seek international help to restore their public finances.

The crisis proved that the government is heavily involved in the economic life. Keynesianism regained its glory as Keynesian type measures were widely used in the effort to boost aggregate demand as a response to the financial crisis. The governments could not stand aside knowing the wide reach and mounting human costs of the crisis. Governments directly saved banks in certain countries. The ECB injected large amounts of liquidity in the financial systems through direct purchase of government bonds, thus acting as a 'lender of last resort'. This, of course, is normal in times of severe and long-lasting recessions. In time, however, the balance between government and market needs to be reestablished.

Having in mind the negative long-term effects of unsustainably high levels of budget deficits and public debt, EMU leaders later adopted fiscal austerity measures aimed at returning public finances on a sustainable track. But the process of fiscal adjustment is neither easy nor fast. In the words of Vinals (2013), "fiscal consolidation is a marathon and not a sprint" and the right pace is essential. There are other numerous disagreements and dilemmas among economists regarding the the size of the adjustment and the appropriate measures. It is usually argued that the adjustment is more efficient and less contractionary if it is based on expenditure cuts. There are additional risks to the success of the fiscal consolidation in the Eurozone, which come from:

- the diversity of views and attitudes towards consolidation in the EMU;
- the fact that the crisis started as a financial crisis, which usually has long-lasting adverse effects on the economy;
- the large burden from interest payments of the mounted public debt;
- demographic changes, i.e. population ageing, which indicates large amounts of money will be channeled to the pension and health care systems.

European leaders have found themselves at a crossroad, where the status quo is not an option any longer. They have to choose a direction to follow in the future. The measures put forward in discussions so far are:

- Deeper integration;
- Decentralized coordination;
- Fiscal austerity, fiscal consolidation, including privatization;
- Introduction of common area Eurobonds;
- Structural reforms.

In the end the paper indicates some of the implications of the European debt crisis on the Macedonian economy: (1) The shallow financial sector, insufficiently integrated in the international financial system, allowed Macedonian banks to stay liquid; (2) The European debt crisis has a significant adverse effect on the Macedonian economy – on exports, borrowing terms, and more widely, on economic growth rates; (3) The main transmission mechanism of adverse effects was the decreased foreign demand for Macedonian products, disabling export oriented companies to service their loans; (4) The public debt figure does not seem alarming compared to the Eurozone countries, for example, but there is a widespread knowledge that middle income countries have lower debt tolerance. Therefore, despite the relatively low debt level, Macedonia should bear in mind the lesson from peripheral Eurozone countries, like Ireland and Spain, that private debt should also be taken into account. This is especially troubling since the capacity of the Macedonian economy to finance its external debt is limited, primarily because of the weak export performances and the large import dependence of the economy. There is also a need for precaution in further borrowing by the Government and in the decision for the spending purposes, putting higher importance to capital investments that are positively related to growth, such as public investments in large infrastructure projects, in roads, modernizing the railway, gasification, the energy sector in general, which improve the business climate and significantly decrease the costs of running a business; (5) Macedonia faces demographic ageing and rising fiscal costs related to social funds deficits, and this should be accounted for when future forecasts and policies are prepared.

References

1. Alesina, A., Favero C. and Giavazzi, F. (2012), "The output effect of fiscal consolidations", (the paper is part of Growth and Sustainability Policies for Europe (Grasp project (#244725) funded by the European Commission's 7th Framework Programme)
2. Afonso, A., Arghyrou, M. and Kontonikas, A. (2012), “The determinants of sovereign bond yield spreads in the EMU”, Instituto Superior de Economia e Gestão - ISEG-DE working papers nº36 - 2012
3. Anand, M. R., Gupta, G. L., & Dash, R. (2012). The euro zone crisis Its dimensions and implications (No. id: 4764).
4. Andres, J. and Domenech, R. (2013), ”Fiscal adjustment and economic growth in Europe”, BBVA Economic Watch Europe, Madrid, February 19, 2013
5. Barrios, S., Iversen, P., Lewandowska, M. and Setzer, R. (2009) “Determinants of intra-euro area government bond spreads during the financial crisis”, European Economy - Economic Papers 388, November 2009, Directorate General Economic and Monetary Affairs (DG ECFIN), European Commission
6. Bartha, Z. and Gubik A.S. (2012) “The Significance of Fiscal Space in Europe’s Response to the Crisis”, MPRA Paper No. 40346, posted on 6. August 2012
7. Bartsch, E. (2012) “What is Special About the Debt Crisis in the Euro Area?”, in The Interaction of Political, Fiscal and Financial Stability: Lessons from the Crisis, (Gnan, E.), Vienna, 2013, pp.63-75
8. Bénassy-Quéré & Boone (2010) “Eurozone crisis: debts, institutions and growth”, La lettre du CEPII, No 300 - 28 June 2010
9. Blanchard, O., Dell’Ariccia, G. and Mauro, P. (2010), “Rethinking Macroeconomic Policy”, IMF Staff Position Note SPN/10/03, February 12, 2010
10. Bosomworth, A. (2012), “The Eurozone Sovereign Debt Crisis – Status Quo, Challenges and Prerequisites for a Solution from an Asset Manager’s Perspective”, in The Interaction of Political, Fiscal and Financial Stability: Lessons from the Crisis, (Gnan, E.), Vienna, 2013, pp.43-51
11. Boussard, J., de Castro, F. and Salto, M. (2012), “Fiscal multipliers and Public Debt Dynamics in Consolidations”, European Economy. Economic Papers. 460. July 2012. Brussels
12. Cafiso, G. and Cellini, R. (2012) “Evidence on Fiscal Consolidations and the Evolution of Public Debt in Europe”, CESifo Working Paper No.4027, December 2012
13. Cameron, D. R. (2012), “Fiscal responses to the economic contraction of 2008-09”, in Coping with Crisis: Government Reactions to the Great Recession ed. Bermeo, N. and J. Pontusson. New York: Russell Sage
14. Cottarelli, C. (2012). "Age of Austerity", Finance and development, June 2012, pp.52-53
15. De Santis (2012), ”The Euro Area Sovereign Debt Crisis: Safe Haven, Credit Rating Agencies and the Spread of the Fever from Greece, Ireland and Portugal”, ECB Working Paper Series No 1419, February 2012
16. Delong, B. and Summers, L. (2012), “Fiscal Policy in a Depressed Economy”, Draft Paper, March 20, 2012
17. Delong, B. and Tyson, L. (2013), “Discretionary Fiscal Policy as a Stabilization Policy Tool: What Do We Think Now That We Did Not Think in 2007?”, April 5, 2013
18. ECB (2012) “A Fiscal Compact for a Stronger Economic and Monetary Union”, ECB Monthly Bulletin, May 2012, pp.79-94
19. Eurostat (2013) Euro indicators news release, 82/2013 – 31 May 2013
20. Fernandes, A.LC. and Mota, P.R. (2011), “The Roots of the Eurozone Sovereign Debt Crisis: PIGS vs Non-PIGS” Panoeconomicus, 2011, 5, Special Issue, pp. 631-649
21. Fiti, T., Filipovski, V., Bogoev, J. and Trpeski, P. (2013) The potential gross domestic product and the natural rate of unemployment in the Republic of Macedonia, MANU – Centre for strategic research, Skopje, 2013

22. Fiti, T. (2009), Phenomenology of economic crises – the modern business cycles and countercyclical policies, Ss. Cyril and Methodius University, Faculty of Economics – Skopje, 2009 (Macedonian version)

23. Fiti, T. and Tashevska, B. (2008), “The phenomenon of crowding-out the private sector investments”, Annual of the Faculty of Economics – Skopje, Vol.43, Ss. Cyril and Methodius University, Faculty of Economics – Skopje, 2008

24. Horton Mark (2010), "Now Grim a Fiscal Future", Finance and Development, IMF, September 2010

25. Ilzetzki, E, Mendoza, E, and Végh, C: "How Big (Small?) Are Fiscal Multipliers?", NBER, Working Paper, N0 16479. October 2010

26. IMF (2010), “From Stimulus to Consolidation: Revenue and Expenditure Policies in Advanced and Emerging Economies”¸ IMF, Fiscal Affairs Department, April 30, 2010

27. IMF (2009), World Economic Outlook (WEO): Crises and Recovery, April 2009

28. IMF (2011), Fiscal Monitoring - Shifting Gears, Tackling Challenges on the Roads to Fiscal Adjustment, April 2011

29. Kajaste, I. (2004), ”Public Debt, Sustainability and the Fiscal Policy Framework of the EMU”, in Public debt: papers presented at the Banca d'Italia Workshop held in Perugia, 1 - 3 April, 2004. - Roma: Banca d'Italia. - 2004, p. 595-606

30. Mankiw, G. (2010), “Questions about Fiscal Policy: Implications from the Financial Crisis of 2008-2009”, Federal Reserve Bank of St. Louis Review, May/June 2010, 92(3), pp.177-183

31. Lane, P. (2012), “The European Sovereign Debt Crisis”, Journal of Economic Perspectives, Vol.26, No.3, Summer 2012, pp.49-68

32. NBRM (2012), Annual Report for 2011, National Bank of the Republic of Macedonia, Skopje, April, 2012.

33. NIER (2009), “Coordinated fiscal stimulus in the Euro Area”, National Institute Economic Review No. 207, January 2009

34. Spilimbergo, A., Symansky, S., Blanchard, O. and Cottarelli, C. (2008) “Fiscal policy for the Crisis”, IMF Staff Position Note 08/01, December 29, 2008

35. OECD (2012) “Fiscal Consolidation: How Much is Needed to Reduce Debt to a Prudent Level?”, OECD Economics Department Policy Notes, No. 11, April 2012

36. The Economist (2012) "The Bond market - To strive, to seek, to find, and not to yield", June 30th 2012

37. Wyplosz, C. (2010) “The Eurozone in the Current Crisis”, ADBI Working Paper Series No. 207, March 2010

38. Wyplosz, C. (2013) “Eurozone Crisis: It’s About Demand, not Competitiveness”, Draft paper

39. Zoellick, R. (2009, May 24), Interview in El Pais (in Spanish) http://elpais.com/diario/2009/05/24/economia/1243116001_850215.html