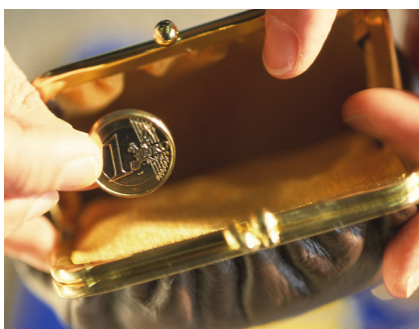




High government deficits and debt



But what is...?

Fiscal Policy refers to the use of government spending and taxes to achieve economic objectives.

Economic Governance DEFINITION

Interest Rates are the price a borrower has to pay in order to borrow. Less reliable borrowers usually pay more.

The Stability and Growth Pact (SGP) is a set of EU rules limiting national deficit and debt levels.

The European Stability Mechanism (ESM) is the permanent crisis resolution mechanism of the EU which will be operational from July 1st 2013. It will be the vehicle through which financial assistance will be provided to euro area countries in need.

Questions? Use the Euro Challenge Forum!

How well a government manages its finances can have important implications for the economy. Deficit and debt levels in euro area countries rose sharply as a result of the financial crisis, but in some countries were already too high before the crisis. Several euro area countries are now facing much higher borrowing costs; Greece, Portugal and Ireland have been forced to seek assistance from other euro area countries to help them cope.

- ① Who is responsible for conducting fiscal policy in the euro area?
- ② What is economic governance? How is the EU strengthening its economic governance?
- ③ What is the difference between **government deficit** and **debt**? How has your chosen country performed in terms of **deficit-to-GDP** and **debt-to-GDP** ratios?
- ④ What impact did the **financial crisis** have on government finances in your chosen country? Did your country implement a fiscal stimulus?
- ⑤ What role does the **Stability and Growth Pact** play in the euro area? How has the area attempted to control government deficits and debt in the past? How is it working to **reform the SGP**?
- ⑥ What could be the impact of **increased government borrowing** on interest rates and inflation?
- ⑦ When does **fiscal stimulus** (e.g., deficit spending or tax cuts to stimulate domestic growth) make sense, and when does it not make sense? What is the **European Stability Mechanism**?
- ⑧ To what extent will population aging affect the "**long-term sustainability**" of public finances?
- ⑨ Have you thought about how different **generations** might value government spending differently (e.g. things with short-term versus long-term value, such as food stamps versus bridges)?
- ⑩ What is the **euro area debt crisis**? Which countries have been involved and how has yours been affected? What is meant by contagion?

