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PRESS RELEASE

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Subject: Research Fellow at KEPE, Dr. Yannis A Monogios participated in the 8^o International Conference on: 'Developments in Economic Theory and Policy' in Bilbao Spain, on June 29 to July 1, 2011.

Dr. Yannis Monogios, Research Fellow at KEPE, participated as an invited speaker in the 8th International Conference on 'Developments in Economic Theory and Policy' co-organized by the Department of Applied Economics V, University of the Basque Country (Spain), and the Cambridge Centre for Economic and Public Policy, Department of Land Economy, University of Cambridge (United Kingdom). The Conference was held in Bilbao (Spain), from 29th June to 1st of July 2011, at the Faculty of Economics and Business of the University of the Basque Country.

In a special session entitled the 'Greek and the Euro Area Crises', Dr. Y. Monogios presented his joint work with KEPE's Scientific Director, Professor Panagiotis Korliras, entitled: 'Debt Sustainability Revisited'. The aim of the work was to evaluate the sustainability of the dynamics of public debt and that of fiscal policy, in selected groups of Eurozone member states, which share some common characteristics.

After a decade's experience into the EMU and based on the announced fiscal consolidation plans for the next years, a comparative evaluation exercise was conducted for the sustainability of public debt dynamics and that of fiscal policies pursued in Germany, the Netherlands and Finland (group A: 'fiscally prudent economies'), against those in Greece, Ireland and Portugal (group B: 'economies in fiscal distress'). *Standard debt sustainability analysis* (to assess the validity of the government's inter-temporal solvency condition), was complemented with a range of *short and medium term sustainability indicators*.

The analysis based on macro-fiscal indicators revealed pronounced asymmetries in performance between the two groups and also in achieving economic convergence to the targets set in the Treaty of Maastricht. Based on short and medium term debt sustainability indicators, the debt/gdp burden was disproportionately higher in the second group of economies, exhibiting also a rising trend. These findings suggest that *current fiscal policy is on an unsustainable trajectory for the economies belonging to the second group of EMU economies*.

Moreover, the *IFS, synthetic-recursive fiscal sustainability Indicator*, utilized in this work to assess the sustainability of past fiscal policies, confirmed that the policies pursued so far, generated unsustainable and divergent fiscal outcomes for the economies in the second group, in contrast to the economies in the first group.

Based on the above findings, all economies under consideration will sooner or later need to make fiscal adjustments to some extent. Nonetheless, the effort required for fiscal sustainability in the first group of EMU economies is far less intensive and shorter in length, rendering thus fiscal adjustment an attainable and manageable process. For the economies however, that belong to the second group the effort required to bridge the existing *fiscal gap*, in order to achieve sustainable levels of public debt, *is extremely high, making adjustment an -almost- impossible fiscal exercise.*

Finally, in terms of convergence, the analysis indicated that progress in achieving the Maastricht objectives has been slow, partial and fragmented and observed only in a small number of EMU economies, which unlike the rest of the economies examined in the study, were not characterized by asymmetric macroeconomic disequilibria.

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