



## High government deficits and debt



### But what is...?

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

**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 Economic Recovery Plan** was a response to the financial crisis. Countries which could afford to do so, used fiscal policy to support their economies. But they agreed to unwind this support when appropriate, and reduce their deficit and debt limits.

**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, and Greece 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 the difference between **government deficit** and **debt**? How has your chosen country performed in terms of **deficit-to-GDP** and **debt-to-GDP** ratios?
- ③ What impact did the **financial crisis** have on government finances in your chosen country? Did your country implement a fiscal stimulus?
- ④ What role does the **Stability and Growth Pact** play in the euro area in terms of keeping national governments from pursuing irresponsible fiscal policies?
- ⑤ How has your chosen country **performed** with respect to the SGP limits?
- 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 Economic Recovery Plan**?
- 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 How has the euro area attempted to control government deficits and debt in the past? How is it working to **reform the SGP** to make it more effective in the future?

