SOVEREIGN DEBT CRISIS MANAGEMENT BY THE EUROPEAN CENTRAL BANK

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Abstract

Following the bursting of the real estate crisis of 2007 and the financial crisis of 2008, the European Union faced another difficult situation, namely the sovereign debt crisis, when the euro was put to the test. The sovereign debt crisis is a widely debated and analyzed topic both in Romania and in Europe. Given the effects it generates, amid rising government debt and the instability of the banking system, it is important to know its causes, in order to subsequently identify the most effective measures to improve the economic situation in each affected state.

This paper seeks to discuss the concept of sovereign debt crisis by conducting an analysis of government debt sustainability and the budget deficit in the European Union, as well as a forecast of government debt sustainability in Romania, reflecting the measures implemented by the Central Bank EU. According to the Maastricht criteria, the nominal convergence indicators, including the budget deficit and government debt, must be below the alert level, so that they are in line with European Union requirements. The level of the consolidated budget deficit must be less than 3%, and in terms of government debt, it must be below 60% of GDP.

The rationale for choosing this theme is that the existence of such a crisis at European level can significantly affect the economic context of each Member State of the European Union (EU), in terms of the interconnection of the global financial system. This interconnection refers to the idea that, when a state becomes involved in the claim of sovereign debt, it indisputably endangers part of the external private debt. This concept is also called in the literature and contagion effect. The relevance of this theme lies in the analysis of the evolution of the main indicators that led to the onset of the sovereign debt crisis, as well as in the identification of its causes, in order to prevent enlargement.

Keywords: sovereign debt crisis, euro, financial shocks, macroeconomic shocks

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