The options of solving the sovereign debt crisis in the case of Greece, Portugal and Ireland and their possible relevance implication for Hungary.

The paper outlines the possible theoretical modes and tools of solving the crises (to speed up the economic growth, applying restrictive austerity policy, privatization and restructuring of the debt) and their application in the case of the three countries. They have already got some kind bailout package founded by the EU and the EU leaders also agreed on a permanent rescue mechanism to be introduced in 2013. But all of them have not solved the crisis. Regarding to the management of the crises four options (occasionally providing bail out if it becomes necessary, debt restructuring, their withdrawal from the currency union - and even from the EU as well taking step forward to political, fiscal union, fiscal transfer will be introduced and applied ) can be outlined what can be considered as the most realistic ones. Evaluating each of them it is evidence that there is no easy option. However one thing seems to be absolutely sure: Greece, Ireland and Portugal should restructure their debt; they need their debt burdens cut sooner rather than later. The main and the most important implication of that for Hungary is: an unique historical chance has been occurred for the country - what has been and what has muddled through in the debt trap for decades – to escape from that trap and as the result of that to step on the road of sustainable economic growth provided that Hungary follows the suit of these three countries, that is, - taking their cases as precedents in the practice of EU governance- it can restructure its debt.

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The due to the bankruptcy and the default the need of stabilization and consolidation of a country economy was very frequent phenomena of the modern era of the world economy, and it is the most probable that it will be the case in the future as well. In our days it is a new development that contradicting the almost generally accepted theoretical conception and previous practical experiences some member states, - first of all Greek, Portugal, Ireland and Hungary as well - of EU, what can be considered a relatively developed and strong economically integrated community, have fallen in this category.

The means and ways of establishing the stabilization and the consolidation

Theoretically the stabilization and consolidation of an economy means that a given country what has defaulted, bankrupted creates a lasting balance between its production (first of all its GDP) and consumption and by this its economy brings itself to run on a sustainable economic growth paths. Good example of this is the Greece and the Irish economic situation. In both countries there is a very dangers combination of a serious indebtedness accompanied by huge debt service and very slow economic growth. (In Greece the growth rate of GDP was -4,2% in 2010, in 2001 -3,4 and the debt/GDP ratio in the same years was 140 and 160%; in Ireland the same numbers were -0,1%, 1.0 and permanently above 100%).

Therefore, the one of the most important and decisive task is to accelerate the growth rate of GDP and to keep it on a relatively dynamic level. This can be achieved by making and preserving the economy competitive. Only this competitive economy is able to create such an amount resources by which the required developments of the economic modernization, the necessary expenditures of the central and local budget and a rational level of foreign debt service can be financed.

In the short run in a seriously indebted country the surplus source need by stabilization and consolidation cannot be generated by only accelerating the economic growth rate, it is necessary to take additional measures as well. These are:

- restriction - redaction of the absolute volume or the growth - of home consumption by introduction of austerity policies,
- privatization and

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2 According to the research of C. M. Reinhart and K. Rogoff 250 defaults can be identified since 1800 to recent years. See Carmen M. Reinhart and Kenneth Rogoff: This Time is Different, 2009.

3 BusinessWeek, April 25-May 1, 2001, p.17)
• to ease the debt burden of the debt service of the given country by some kind of debt restructuring.

If it is possible the austerity policies should avoid the restriction of the enterprises - what are the main engine of the economic growth - and the cutting back of such infrastructural developments, - like education, health and R and D -, what are preconditions for long term economic competitiveness of the country. It means that the rational austerity policies cannot sacrifice the long term economic interests of the country for achieving short term economic (fiscal, budget) equilibrium. Therefore, the rational austerity policies –unfortunately – should focus on the personal consumption and on the government expenditure financed by the budget resulting in deterioration of the living standard.

The privatization can in a relatively great scale contribute to the stabilization and consolidation if salable state wealth is available and its privatization improves economic efficiency. Addition to the extra revenues - provided by the selling of state asset - what can be used for repaying the debt provided, the privatization can improve the position of the budget by reducing the need of budget subsidies if the privatized state owned company was in red and at the same time it can increase the tax revenue of the budget if this company due to the privatization becomes profitable. However there is some danger as well: it is hard to avoid the corruption and sometimes the hasty privatization due to urgent need of the extra revenue for managing the debt service, if that is the case the government is forced to sell the national wealth far under the level of market prices.

The some kind of debt restructuring takes place when it has become evidence that the given country are unable to meet its debt service and it cannot get credit, borrow money in the market for financing its obligations toward its creditors: that is in fact, it has defaulted. A sovereign default has occurred, when failure by the government of a sovereign state to pay back its debt in full. In such cases, the defaulting country and the creditor are more likely to renegotiate the interest rate, length of the loan, or the principal payments. If potential lenders or bond purchasers begin to suspect that a government may fail to pay back its debt, they may demand a high interest rate in compensation for the risk of default. A dramatic rise in the interest rate faced by a government due to fear that it will fail to honor its debt and it creates a sovereign debt crisis, like what is the case in EU. Declaring the default has serious negative consequences. A government which defaults may be excluded from further credit; some of its overseas assets may be seized; and it may face political pressure from its own domestic bondholders to pay back its debt. Therefore governments rarely default on the entire value of their debt. Instead, they often enter into negotiations with their bondholders to agree on a delay or partial reduction of their debt payments which are called a debt restructuring or ‘haircut’. There are strong arguments that, in the case of acute insolvency crises, it can be advisable for regulators and multilateral lenders to preemptively engineer the orderly restructuring of a nation’s public debt- what is called “orderly default” or “controlled default”. For example in the case of Greece, Portugal, Ireland there is a firm believe that that a delay in organizing an orderly default would wind up hurting the rest of EU even more.
In order to get durable consolidation and stabilization the all above mention means and ways are needed to apply and their combination is the most rational approach. However there is a basic requirement, what should be emphasized: if the given county is suffering in the debt trap the consolidation and stabilization applying these means and ways should take it out from this trap. This trap means that to meet the debt obligations, to manage the debt service mops up all resources needed for making the economy competitive and to putting it on the sustainable growth path. For example, it is possible such a case in which the austerity policies and/se or privatization, even debt restructuring create additional resources for to meet the debt service and for making the country solvent and creditworthy, but this situation cannot be lost long because the competitiveness of the country has not improved and the growth rate of its GDP has not accelerated. Therefore, when these temporary extra resources are run down, the insolvency will inevitably once again due to happen.

Needless to say that the given concrete situation can decide when and what combination of these above mentioned means and ways are applicable. Greek, Portugal, Ireland can be good examples of that and they can at the same time show a very respectable trajectory for the Hungarian economic policy what has to face the very similar serious debt problem as these three member countries of the EU have to.

As the data of the Table 1\(^4\) shows the economies of Greek, Portugal, Ireland and Hungary have many similarities expressing that their problems and their possible solutions should be similar as well.

\(^4\) The data due to rapid changes of market position can be considered as signaling the orientation, nevertheless they provide a valid basis for drawing relevance economic policy conclusions.
Table 1

<table>
<thead>
<tr>
<th></th>
<th>Year</th>
<th>Hungary</th>
<th>Portugal</th>
<th>Greece</th>
<th>Ireland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth of GDP in %</td>
<td>2010</td>
<td>-0,6</td>
<td>1,5</td>
<td>-4,5</td>
<td>-7,6</td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>1,2</td>
<td>-1,5</td>
<td>-4,4</td>
<td>1,6</td>
</tr>
<tr>
<td>Budget balance as % of GDP</td>
<td>2010</td>
<td>-4,0</td>
<td>-8,6</td>
<td>-10,5</td>
<td>-3,2</td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>-3,8</td>
<td>-5,2</td>
<td>-7,0</td>
<td>-12,2</td>
</tr>
<tr>
<td>Current account balance as % of GDP</td>
<td>2010</td>
<td>-0,4</td>
<td>-10,0</td>
<td>-2,7</td>
<td>-2,7</td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>-2,0</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Deb as % of GDP</td>
<td>2010</td>
<td>78</td>
<td>83</td>
<td>130</td>
<td>93</td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>79</td>
<td>87</td>
<td>160</td>
<td>101</td>
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<tr>
<td>10 year bond yield in %</td>
<td>2010</td>
<td>7,5</td>
<td>7,5</td>
<td>11</td>
<td>8,5</td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>8</td>
<td>8</td>
<td>12,5</td>
<td>10</td>
</tr>
<tr>
<td>CDS rate</td>
<td>2010</td>
<td>370</td>
<td>90</td>
<td>280</td>
<td>160</td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>240</td>
<td>430</td>
<td>990</td>
<td>520</td>
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</tbody>
</table>

Sources: Publications of IMF, World Bank, OECD.

All countries has a slow economic growth, their economic balance is very fragile, in each of them there is a high dept/GDP ratio, the borrowing can be done at very large interest rate and the credit default swap (SDS) is very high as well. Therefore it is not accidental that in the EU a serious sovereign debt crisis has emerged and all four countries in order to avoid the open default - or the open declaration of it - were needed IMF and EU bail-out. In 2008 Hungary became the first member country of EU which was needed a 20 billion euro bail – out package from IMF and EU. Greece, Portugal and Ireland due to their high indebtedness also have become unable to meet their debt services, therefore in order to save their solvency the EU were forced to give up its basic principle laid down when the EU was created: there is no bail –out for those member country which defaulted. The EU created European Financial Stabilisation Mechanism (EFSM) and the European Financial Stability Facility (EFSF). The EFSM mechanism provides financial assistance to EU Member States in financial difficulties. The EFSM is a part of the wider safety net. (safety-net of up to EUR 750 billion) Alongside the EFSM, the European Financial Stability Facility (EFSF), i.e. funds guaranteed by the euro area Member States, and funding from the International Monetary Fund are available for euro area Member States. Non-euro area Member States are also eligible for assistance under the Balance of Payments Regulation. The EFSM and the EFSF can
only be activated after a request for financial assistance has been made by the concerned Member State and a macroeconomic adjustment programme, incorporating strict conditionality, has been agreed with the Commission, in liaison with the European Central Bank (ECB).

A new permanent crisis mechanism, the European Stability Mechanism (ESM), will be set up in the euro area as of mid-2013. Its main features will build on the existing European Financial Stability Facility (EFSF). The ESM will complement the new framework for reinforced economic surveillance in the EU. This new framework, which includes in particular a stronger focus on debt sustainability and more effective enforcement measures, focuses on prevention and will substantially reduce the probability of a crisis emerging in the future. An overall evaluation of the new mechanism will be performed by the Commission, in liaison with the ECB, in 2016.

In the framework of the existing the EFSM and the EFSF Portugal bail-out package provided 78 billion euro credit, Ireland one 85 billion euro credit and in 2010 Greece one110 billion euro credit. Because in the case of Greece this bail-out did not calm the international credit market dawn the EU was forced to give a second bail-out package.

The latest Greek bail-out consists of two main elements. The first is the promise of an extra €109 billion ($158 billion) in official lending to Greece from other members of the euro zone (apart from Ireland and Portugal) and the IMF. Greece will get more time to repay its loans; Europe is also cutting the interest rate it charges Greece, to about 3.5% from 5.5%. In effect, the euro zone is allowing Greece, its flakiest member, to borrow at rates similar to those paid by Germany, its most creditworthy one.

The second element of the plan involves asking Greece’s private creditors to shoulder some of the rescue burden. Bondholders are being asked to choose from a bewildering menu of options under which they can sell bonds at a discount or swap them for 15- or 30-year bonds, either now or when they mature.

The second bail-out will improve Greece’s debt burden, although improvement is an elastic concept. The new package will stabilise Greek debt at about 150% of GDP over the next ten years (see chart 1).

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5 The Economist July 30th 2001, p.59.
In cutting the interest rates paid by Ireland and Portugal on their bail-outs, the new rescue package also reduces the risk that these two economies will need more help. Ireland reckons it will save €900m a year on interest payments, for instance. Irish and Portuguese bond spreads came down after the second bail-out.

The second bail-out plan allows the European Financial Stability Facility (EFSF), the euro zone’s bail-out fund, to offer precautionary lines of credit to countries that are not yet on life support, and to recapitalise their banks. Given that most investors worry about Spanish banks more than about the Spanish government that may help the country insulate itself. But the EFSF’s new powers still need to be ratified, and its lending capacity, currently €250 billion and soon to be €440 billion, was not expanded. It would be stretched if Spain really lost the confidence of markets, overwhelmed if Italy did (see chart 2).\(^6\)

\(^6\) The Economist July 30th 2011, p.59.
How can the possibilities of the stabilization and consolidation of Greece, Portugal and Ireland be judged?

According to their special circumstances each country applies somewhat different approach in the process of consolidation and stabilization. However the bail-out plans have made a strong framework in which they have to make concrete measures. Of course they apply all four means and ways we discussed earlier, but of them three: restructuring, austerity policies and privatization are the dominants.

We have already summarized the main contain and parts of the bail-out planes. These plans does not only prove that the given countries are not able to avoid the default without restructuring their debt, but they made the financial aid conditional fixing some strong requirements as well for the austerity policies and privatization and they expect substantial improvement in the competitiveness and the economic growth too.

The main elements of the austerity policies are: value added tax increase, freeze and/decrease the salaries, abundant of the public investments and deep cut in the expenditure of social securities. For example, in Portugal the public sector celeries will be free zed until 2013, the health care expenditure will be cut by 20%, In Greece public sector celeries have been decrease by 15% and the goal of the drastic consolidation measure to bring down its budget deficit below 3% of gross domestic product by 2014.

As far as the privatization goes Greece has a fantastic plan to privatize 50 billion euro of state assets by 2015 and by this it can reduce the debt by an amount which is equal to the 18% of its GDP. The privatization target of Portugal is 5.3 billion euro revenue.

Regarding to the increasing growth and competiveness they outlined relatively few concrete measures, like more flexible labour policy, decrease the state subsidies, deregulation and
liberalization and the emphasis was placed on the structural reforms. The basic assumption is that by the bail-out packages – expecting that they will calm down the nerves of the market creditors, will rebuild the confidence in the euro zone and solved the sovereign debt crisis - these countries are able to go back to the credit market of the world, they will be able to finance their economy by borrowing money from the financial markets and sooner or later they can take the sustainable growth path. That is, the basic assumption is, that on this basis, they will able to overcome their debt problems and return to growth.

However, so far this assumption has not come true. Although the adopting of the EFSF and ESM and latest bail-out plan have made a substantial step into this direction and have eased the intensity of sovereign dent crises(for example, the bond yield and CDS rates had fallen), we cannot say the this crises is over. It is not accidental, because the due to the sovereign debt crisis, what could deadly damage the euro zone as a whole, and the euro as a consequence, the EU had to face very serious policy options.

The following four options deserve distinctive attention.

1./ Occasionally providing bail out if it becomes necessary. So far his has happened in the case of Ireland, Portugal and two time in case of Greece in the framework of There is a high probability that this approach will go into dead end due to partly political and partly economic reasons. The citizens, the voters of the lender countries as taxpayers who have to pay the bill of sooner or later will “revote” against it (just see the behavior of German and Finnish citizens). The serious negative impact of moral hazard also cannot be neglected. If one country can escape from the negative consequences of the profligate budget practice, other countries also will follow that suit.

2./ The given governments openly default on the entire value of their debt and they carry out “hard” debt restructuring. According to some calculation at least 50% of the nominal value of their debt has to be written down, and even this would not guaranty that these country can escape for the debt trap. There are other dangers of this option as well: the domestic political tensions due to the high unemployment and fall of the living standard can be create a hardly manageable violent social conflicts, the fact that EU leaves its member county or countries to default can give the precedent for the market, that it can happen such a countries as Spain, even Italy what are in such a situation, open bankruptcy of Greece can trigger such a catastrophic affects as the bankrupt of Leman Brother did. Therefore, following this option can jeopardize the very existence of whole EU project and would be serious negative implications for the prosperity of the whole world economy. That reason it is not accidental, that following two other option should be taken into consideration.

3./ The withdrawal of the given countries from the currency (euro zone) union - and even from the EU as well. However this option is also very costly and risky. It is evidence if that will happen the banks of the given countries should get some capital support, recapitalization, the free capital movement has temporarily to be restricted, and the reintroduced national currencies have to substantially depreciated and their debt also has to be revalued into the
national currencies (that is their debts would have to be redenominated into their newly introduced and massively devalued currencies, inflicting further pain on foreign holders of these countries’ debts), what required to take further economic losses. What is also very important: following this option can start a process what will end up the cease of euro and finally of the EU itself. Facing up such possibly negative consequences to move toward of some kind of fiscal union cannot be excluded from the options.

4. Fiscal union, fiscal transfers will be introduced and applied.

EFSM and the EFSF together with ESM can be considered an important step toward the solution of the sovereign credit crisis, but they can not calm the market down. A lot of worry has manifested it. Let us take two of them.

The big concerns of investors and analysts are that the bailout fund is not financed well enough to handle a widespread attack on the bonds of several countries; that bondholders who had to sustain losses in the latest Greek bailout will suffer the same fate in Ireland and Portugal; and that the Greek crisis is far from over. Finally there’s the worry that Europe cannot act decisively enough to put this calamity behind it. As Graham Bishop, a London-based analyst, puts it, “The euro zone’s governance mechanisms seem only capable of achieving the barest minimum necessary to prevent an immediate meltdown.” The key rescue fund for the euro zone (EFSF) has €323 billion to work with. It may need as much as €2 trillion. (For example, take away what’s been doled out or committed to Greece, Portugal, and Ireland, and the fund has only €323 billion to protect Spain and Italy.)

The Financial Times wrote in 2nd of August 2011 “Spanish and Italian borrowing costs soar. Spanish and Italian borrowing costs hit fresh peaks on Tuesday for the euro-era as the European debt crisis shot back to the centre of investors’ attention. Benchmark 10-year bond yields reached 6.46 per cent for Spain and 6.26 per cent for Italy, heading closer to the 7 per cent level that propelled Greece, Ireland and Portugal to seek bail-outs as investors consider it unsustainable. Investors are worried that the European bail-out vehicle, the European Financial Stability Facility, does not have sufficient funds to deal with Italy or Spain, the eurozone’s third- and fourth-largest economies. They are also unnerved at the delay in implementing Greece’s latest bail-out with politicians across Europe on holiday in August and parliamentary approval needed for many of the most important measures.”

Therefore, fiscal union, fiscal transfers as the fourth option offer itself as a viable solution. Without some sort of fiscal union in which tax revenue can flow across borders, the common currency puts too much of a burden on economies that fall out of sync. The massive public and private debts of Greece and Portugal arose in part as a result of large trade deficits—deficits that exchange-rate adjustments could have alleviated if the two countries had their

own currencies. Now they must undertake the difficult task of restoring competitiveness by lowering wages, even as they cut government spending and struggle with stagnating or shrinking economies.

In what could be viewed as the world's largest currency union, the U.S., automatic federal transfers such as unemployment insurance and tax credits for low-wage earners help the states get through hard times. A supra-national finance ministry could make similar fiscal transfers in Europe, helping to ease the cyclical pain as countries undertake structural reforms.

Europe still has a long way to go before it is as fiscally united as America. But we can say that in making their latest deal to save the euro on July 21st 2011, the 17 members of the single currency took another small step towards a fiscal union. America made that leap 220 years ago, when the new federal government took on the debts incurred by individual states in their revolutionary war against Britain. That debt, wrote Alexander Hamilton, America’s greatest treasury secretary, was “the price of liberty”. It is more than probable that without this fiscal union America cannot be such powerful country as it is now. Therefore the example of America can be very relevant for EU.

However EU could not contemplate anything like the transfers that America’s federal system allows. Take Virginia, for example. In 2009, according to the Census Bureau, the federal government spent $155.6 billion in this state over the 20 years from 1990 to 2009, according to calculations by The Economist it ran a cumulative deficit of over $590 billion. That amounts to about 145% of Virginia’s 2009 economic output, similar to the debt-to-GDP ratio of Greece. If America were like the euro area, Virginia would have to bear the burden itself. But as part of a fiscal union, it can rely on others to help.

Chart 3.
Virginia is not however the most “indebted” of America’s states, according to these calculations. That honour falls to New Mexico, which has a 20-year deficit worth over 260% of its GDP. Puerto Rico, which is a territory, rather than a full state, has an even bigger debt ratio. (See chart 3)\(^8\)

Fiscal transfers in Europe might not need to be all that large. In the U.S., money from Washington generally covers about 30 percent of states’ income shortfalls. Using that rule of thumb, a similar fiscal cushion for Greece would cost about €7.5 billion, or about $11 billion, in 2011. That’s 0.3 percent of Germany’s projected economic output and less than 0.1 percent of the entire euro zone’s.

Therefore the main obstacle is not the shortage of the many, but the political concern. Solving the problem of Greece in the framework of fiscal union would require the euro area, led by Germany and France, to assume much of Greece’s €345 billion ($495 billion) in debt indefinitely and be prepared to take on the debts of Portugal and Ireland as well. The Greeks, for their part, would have to suffer deep wage and benefit cuts to restore their country’s competitiveness. To help make such adjustments bearable, euro area nations would have to provide money to support social safety nets, most likely through a unified finance ministry that many voters would consider a loss of sovereignty. Therefore there would be a great

\(^8\) The Economist July 30th 2011, p. 62
danger for the politicians having aspiration for power to lose votes due to the strong nationalist felling of the voters

Tellingly, Trichet, one of the few officials involved who doesn’t have to worry about reelection, suggested on June 2 that the euro area consider creating a unified finance ministry, a precursor to a fiscal union. Without a fiscal union, the euro area will see more crises and could ultimately fail as a currency union. That would be a loss for all its members, Germany included. As President Barack Obama jawbones Merkel to be more assertive on the debt crisis, he might want to pose a question: How do you want to be remembered, as the politician who saved your party’s chances in the 2013 elections or as the one who saved the euro? 

To take account all of these we can fully agree with Wolfgang Münchau, one of he leading commentator of the Financial Times:

“The core issue in the eurozone crisis is not the overall size of the peripheral countries’ sovereign debt. This is tiny relative to the monetary union’s gross domestic product. The area’s total debt-to-GDP ratio is lower than that of the UK, US or Japan. From a macroeconomic point of view, this is a storm in a teacup. The problem is that the euro zone is politically incapable of handling a crisis that is now contagious and has the potential to cause huge collateral damage.

Europe’s political elites are afraid to tell a truth that economic historians have known forever: that a monetary union without a political union is simply not viable. This is not a debt crisis. This is a political crisis. The euro zone will soon face the choice between an unimaginable step forward to political union or an equally unimaginable step back.”

So the stake is high, therefore there is no wonder that the leading European politicians are making strong declaration in defending the euro and EU integration, even taking some important steps toward the fiscal union. The EFSF and ESM can be considered these ones and such declaration what the finance ministers of France and Germany made can strengthen optimist expectations. It is worthwhile to quote one of them:

“We have embarked on a way to ever closer co-ordination and co-operation of our national fiscal policies. Only by evolving the European monetary union’s institutional structures in such a way that euro members are obliged to adopt a fiscal and economic policy that reflects their joint responsibility for the common currency will we master the challenges that lie ahead.

10 Financial Times May 9 2011, p.9
11 Financial Times July 29 201, p. 7.
Our path is demanding, but the risks associated with conceivable alternatives were much worse. We will defend the euro. We will not jeopardise the economic and political integration of Europe, which is the basis of our own prosperity. The euro is worth every effort because a stable euro improves the economic as well as the political prospects of Europe as a whole. We will persevere and overcome any obstacle that may appear along our chosen path.”

However we have also to be realist not forgetting that one of the main characteristics of the politics is the shortsightedness and end of the day the politicians make decision according to this by sacrificing the long term advantages of the fiscal union in the short sided interest of the national sovereignty. That is in the elections the voters would refuse the required surrender of national sovereignty.

Over viewing these options it is evidence that there is no easy choice for the decision makers of the EU. Even making probability ranking among the options is impossible, only the following most probable outcome can be forecasted:

- Some combination (at least “hidden” combination) of these options will come true. They avoid, - or at least they will do what they can to do to avoid - the exclusion of the member states from the euro zone and especially from the EU itself. They will provide bailing-out package, but they do only it in a very exceptional circumstances and at the very strong conditionality. It will unavoidable to make some debt restructuring, but they will do in “soft”, “hidden” form and not in open, “hard” way. And what is most important: there will be gradual, but substantive move toward the transfer union, even the fiscal union. If we want to be optimist we can translate Winston Churchill’s remark made on America, that Americans (in our case EU) can always be counted on to do the right thing, after all other possibilities have been exhausted. Interpretation all of these for Greece Portugal and Ireland means:

their debt burden, their debt service requirements will be substantially decreased freeing resources for consolidation of the economy and enhancement of competitiveness. (The approximate size of this debt burden reduction can be guesstimated by the Chart 2). It will be done by debt restructuring, although it will not called state bankruptcy procedures, they will not openly declaring the default, it will take place – as we have experienced it until now –in form of “orderly default” or of “controlled default”. This debt restructuring will be carried out in making strict conditionals (most of all implementing austerity policies, structural reforms and fully complying with the rules of EU governance, giving up substantial parts of national sovereignty). By this debt restructuring provided to meet the requirements conditioned by the EU these counties can be consolidated, stabilized and their economies can be put with relatively endurable social sacrifices on the path of the sustainable economic growth and last but not least these countries can be members of a prospering and one of the
politically and economically dominant and influential communities of the world. At the same time the EU, especially the leading powers of the euro zone, will not leave any doubt about those possibility that if the given beneficiary country cannot meet the requirement conditions they can be forced to expel them from the community, from the euro zone and even from the EU. Of course, if that will happen the given country should take all very serious negative consequences of that.

Of course other scenarios as what we outlined above can be envisaged as well, from the most optimistic one (in the nearest future the fiscal union will come to exist) to the most pessimistic one (the euro, even the EU will cease to exist due to the such world economic crisis like what was after the bankruptcy of Lehman Brother). The realization of the pessimistic scenario would make catastrophic impact on discussed three countries as well, and effective measures for managing this impact cannot be worked out beforehand, adjustment to this situation can be done just in the given time.

The possible relevance implication of handling of the sovereign debt crisis of Greece, Portugal and Ireland for Hungary.

Hungary as the Table 1 shows is in a very similar economic position as Greece, Portugal and Ireland, addition to this it has a very special characteristic: the country has been in the debt trap since many decades. Due to that it has been unable to take permanently its economy on the path of sustainable economic growth, from time to time it turned off from this and serious insolvency crisis occurred. By now it has become evidence that country without some forms of debt restructuring and using its own resources can escape from this trap if it can implement very restrictive austerity policies and start its economic growth from in a very low economic level diving to this level due to the austerity policies. The governments of Hungary any time they were in power position have not selected such policies and they have not even been forced to follow such policies. In the critical times some safety net and special resources have always were available for avoiding the open default. For example in 2008 the bailout package of EU and IMF, earlier the revenues of the mass privatization and recently the nationalization of the private pension funds were the savers of the country bankruptcy.

However, we have to emphasize that so far debt restructuring has not happened, austerity policies needed for durable consolidation of economy has not been implemented and due to these the country has not escaped from the debt trap.
The revenues of privatization\textsuperscript{12} and the money accumulated in the private pension funds\textsuperscript{13} can be used for consolidation only ones (for decreasing the deficit of budget, to meet the debt service obligations), when these ad interim resources are exhausted new “holes” as a symptom of renewal of the danger of default appear in the budget. Now the Hungarian economy is approaching this situation. The money resources left from the nationalized (in fact confiscated) private pension funds will be available only until 2013, the recent government’s tax policy (especially the decrease the personal income tax of the high income earners) has made a big hole in the budget, the still turbulent world and European economy (by the high CDS and interest rates) keep and even increases already great debt burden of the Hungary.

Regarding to the handling of this situation what has been evolving during the last decades in Hungary three scenarios can be outlined. These scenarios can also be considered as policy options for the Hungarian governments, and even for the leaders of EU if they care seriously about Hungary, as a member country of EU.

a. Asking the EU to treat Hungary like it does Greece, Portugal and Ireland giving to the country the similar bail-out package what they have got. The EU- if accept that request-will dictate very strict conditions, like it did in the case of mentioned tree countries. To meet these conditions would mean that Hungary would have to make serious economic and social sacrifices and would have to give up a great deal of it national suzerainty as well. However, the example of Greece, Portugal and Ireland can give to Hungary a historically unique opportunity: to escape from the debt trap. Therefore to miss to use this opportunity – at least submitting such a request to EU to get it - by Hungarian

\textsuperscript{12} Between 1991 and 1998 Hungary got such amount of revenues from the privatization what is equal the 32% of its GDP, by this the country takes the first place in the world in the rank of privatization, Estonia is the second with its 20,3%. This privatization revenues have been spent and there is no more opportunity to get additional ones due to the fact that all state owned assets (major manufacturing companies, banks, insurance companies, key companies in the field of infrastructure, only the land left for privatization) has been sold. We can say the Hungary has already sold its „family treasures”. The deepness of the Hungarian debt trap shows that instead of this unparalleled great scale of privatization the country has not been able to escape for this trap.

\textsuperscript{13} Without these resources the budget deficit would reach more than 7% of GDP instead of the 3% required by the IMF and EU bail-out package what has calmed the market down making possible for Hungary to borrow money in the free markets at reasonable interest rates. In the case of 7% budget deficit, because the leaders of EU firmly refused, rejected the request of Hungarian government to agree such high deficit, it would be impossible, that is the market could not finance that large deficit and by this a new danger of default would occur or the government would be forced to take drastic politically very risky additional austerity measures. Confiscation of the private pension funds has made avoiding these.
government would be not only political and economic mistake, but serious sin as well made against Hungary and its citizens what the history will never forgive.

It would be very rational and advantageous if Hungary, as the member country of the EU will apply and implement the example of the Greece, Portugal and Ireland as a basic policy strategy in Hungary, of course to take into the consideration the special Hungarian circumstances and conditions as well.

Regarding to the special conditions of Hungary this bail-out package should focus more the intensively on improving the competitiveness of the country that the package did in case of the tree countries due to the fact that Hungary is a less developed country and due to its long captivity in the debt tap it was forced to neglect great deal of developments (especially infrastructural ones, - like railways, education and health care - needed for improving the competitiveness. Therefore it would be rational if the bail-out package contains some kind of special “Marshal Plan”, what applied after the World War II to ease the social hardship in the West European countries, and what made a great contribution to improvement of their economic competitiveness as well.  

From the advantages especially the following should be emphasized

- the country gets free from the debt trap,
- the debt burden, debt service substantially decrease making possible to transfer resources for easing the social tensions and for improving the competitiveness,
- earlier and with less social sacrifices the count can put its economy on the sustainable economic growth path, especially if some kind of “EU Marshal Plan” could support that,
- the country can be stable and consolidate member of EU, what would be advantageous for the EU as well.

14 There is no wonder that this idea appeared in the case of Grease, Portugal and Ireland too. A plan unveiled in August 1 2011 can be considered as a step toward this direction, even toward the transfer union. It would involve extra aid but would not ease co-financing rules for Greece, Ireland, Hungary, Latvia and Romania, so they would not have to put as much of their own cash in order to collect EU funds. According to internal calculations, the six countries could their co-financing costs reduced by about 3 billion euro over the next two years. But official hope the plan will have a much bigger impact by unlocking tens of billions of euro in EU funds, which many of those governments are entitled to but have struggled to claim. That cash could help pay for new roads, airports and other development projects, providing boost to moribund economies. The new rules would also apply to payment for agricultural subsidies, fisheries and other pots of EU money.
For all of these it is very worthwhile to give up a great deal of national sovereignty, especially if we take into consideration the country has already done it when it joined to the EU and in the today globalized world as Dani Rodic\textsuperscript{15} has prove it, by introducing the notion of political trilemma of the global economy, that is, national sovereignty, democracy and full economic integration cannot exist at the same time.

b./ The other scenario is that Hungarian government does not request such a bail-out package what we outlined in the first scenario, it want to preserve in maximal measure the national sovereignty it carries out its economic policy according to this. That is it intends to make consolidation and stabilization and to put its economy on the sustainable growth path based only on national resources. Of course this scenario necessitates to take very serious scarifies in the fields of the social security, well-being of the citizens and the infrastructure. One can image the consequences of such a policy if he or she remembers the policy of Romanian communist president, Ceausescu who took this option and outcome of it was that his country impoverished and his regime ended up in a bloody uprising. It does not mean that Hungary going to have the same future, but it does warn the serious negative consequences and big risks of taking such scenario. Even we do not say the realization of the scenario is totally impossible. For example, Latvia could do this by drastic decreasing the wage costs (by 17% for two years) and the living standard results in reorientation of 20% of home consumption for export and basis for the export led growth. In the domestic politics the present FIDESZ government have two-third majority what makes possible to introduce even draconian political and economic measures as well in order to achieve that goal.\textsuperscript{16} But taking into account all of internal and foreign political risks of such a policy it is most probable that it would much too small chance to succeed. That leads us to the third scenario.

c./ The third scenario in essence is the economic policy having been practiced in the last decades: recurrent crisis situations what managed by recurrent austerity policies, what result only in temporary solution – and all of these start again, start afresh. Of course that cannot free the country the debt trap and all negative consequences of having been in this trap. It is evident, that this policy cannot be practiced for over. However for those crucial questions when it will be replaced and who will make the change now cannot be answered.


\textsuperscript{16} Unfortunately the FIDESZ government has used to carry out such a policy what, as the Financial Times wrote, “is tinged with nationalism” (Financial Time August 5, 2011, p.8) as such excludes the possibility of choosing the first (a) option for the time being and there are also no convincing indications that this policy would have been following the second (b) options.
Regarding to these scenarios it is decisive that the future of EU according to what scenarios will evolve. If it changes according to favorable scenario, this will create a positive situation for Hungary to follow its best scenarios. In opposite case both EU and Hungary can expect a very rough road with full of political and economic hurdles what they have to follow.

The scenarios and options can be very clearly outlined. But after all is said and done the outcomes will depend on the leading politicians of EU and Hungary. The greatest responsibility is theirs. Clear options are available for choice. Therefore if they can choose the best option they will be politically and morally nobly rewarded by the citizens of the European community and Hungary as well, but if they choose the worst option they will be harshly blamed and punished by the same citizens.

References

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