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Growing signs of renewed debt crisis in Europe

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There are growing signs of a renewed debt crisis in a number of European nations, as bond yields soar to record highs and the continent's economic growth stagnates.

The heads of leading European countries took the exceptional step of using the Group of 20 meeting in Seoul to announce that the European Union had confidence in the measures undertaken by Irish leaders to address the nation's budget deficit. At the same time, the leaders of Germany, France, Italy and the United Kingdom issued a statement declaring that the EU had no plans for an additional bailout of European nations until at least 2013.

Bond yields have been driven up in part in response to calls from Germany for revamping bailout mechanisms to place a greater burden on private investors, as opposed to European governments. To calm markets, European leaders stressed on Friday that the proposed new bailout mechanism "does not apply to any outstanding debt."

The communiqué in Seoul came one day after statements from Irish government sources and the chairman of the Eurozone group of countries, Jean-Claude Juncker, denying that Ireland was preparing to apply for emergency aid from the EU.

Speculation has been rife in the financial press this week that a bailout of Ireland and other stricken European countries was the only solution to their insurmountable economic problems.

The yield on Irish debt has climbed to its highest level since the launch of the euro in 1999. This is despite reports that the European Central Bank has sought to intervene on Ireland's behalf with large-scale purchases of government bonds.

Major bond investors are pricing Irish debt at risk levels as high as Greek debt earlier this year, prior to the creation of a massive €440 billion emergency rescue fund by EU states. The European Financial Stability Fund (EFSF) was backed up by a further €60 billion from the European Commission and €250 billion from the IMF. The EFSF fund was agreed following a separate €110 billion bailout package for Greece in May.

Market nervousness regarding Ireland's financial status increased last week following comments by the country's central bank governor, Patrick Honohan, who indicated that the government was preparing to turn to the IMF.

The Irish government has responded to pressure from global markets with sharp attacks on the working class. It recently announced a €15 billion austerity package spread over four-years. However, there are increasing worries in financial circles that the deeply unpopular Fianna Fail-Green coalition will prove unable to implement its planned budget cuts in the face of mounting popular opposition.

Commenting on Ireland's growing financial problems, Morgan Kelly, from the University College Dublin, told the *Irish Times* this week: "The next act of the crisis will rehearse the same themes of bad loans and foreign debt, only this time as tragedy rather than farce."

The problems encountered by Ireland on international finance markets last week were mirrored by a number of other countries. In what a number of media reports described as "a spreading contagion," the premium on the debt of three other countries—Spain, Portugal and Italy—all climbed to record levels this week. Greece's interest rate spreads have already returned to their pre-May 2010 high, and interest premiums for Belgian bonds have also hit record levels.

Economic data issued last week also showed a slowdown in economic activity. Gross domestic product for the 16 Eurozone countries rose by just 0.4 percent in the three months to September, according to the EU statistics office Eurostat. This represents a clear cooling down in economic activity compared with the 1.0 percent expansion recorded in the second quarter of this year. Overall Eurozone growth figures were inflated by above average economic growth in Germany (0.7 percent this quarter), with a number of other countries reporting either stagnation or even economic decline.

On Thursday, the Spanish statistics office reported that the economy had seen no growth in the third quarter. A number of the austerity measures introduced by the Socialist Party government earlier this year still have to take affect, meaning that continuing stagnation of the economy, or even a fall in economic output, is likely in the near future.

Spain is one of the important markets for neighbouring Portugal, and the ongoing crisis across the border has worsened Portugal's own chances of overcoming its budget deficit. Portugal's deficit is the fourth largest in the EU, behind Ireland, Greece and Spain.

The Socialist Party led government in Portugal recently passed a budget involving a 5 percent cut in the wage bill for public-sector workers earning more than €1,500 a month, a freeze on all new jobs and a 2 percentage point increase in value-added tax (to a total of 23 percent).

Despite theses measures, the broadest program of spending cuts introduced in the country since 1978, the Portuguese Finance Ministry announced this week that it expects the country's public debt as a percentage of GDP to actually increase next year.

As for Greece, Prime Minister George Papandreou acknowledged at the start of this week that his government is unlikely to meet its public deficit targets for this year despite the draconian austerity measures introduced by his government.

These developments confirm the systemic nature of the current crisis confronting the continent. A recent report issued by the Royal Bank of Scotland refers to the dangers facing Europe as a whole as a result of the plight of Ireland, Greece and Portugal: "With three countries in the euro area now having virtually lost access to capital markets, the implications for the region as a whole could easily become systemic again."

Attention now turns to the regular monthly meeting of Eurozone finance ministers next Tuesday in Brussels, where once again the situation of peripheral European countries will top the agenda.

The rapidly developing European economic crisis is the consequence of a deliberate policy on the part of the European political elite to ensure that the broad masses of the population pay the price for the massive bail-out of the banks following the crash of 2008. Having poured hundreds of billions of euros into the vaults of the banks, European governments are now in the process of imposing vicious austerity policies across the continent, plunging millions into unemployment and poverty.

These austerity measures have intensified the existing economic imbalances within Europe and now threaten to plunge entire countries into bankruptcy. Despite the catastrophic results of these policies, European Union leaders have stressed their determination to press ahead in the face of popular opposition.

Speaking in Berlin on November 9, EU Council President Herman Van Rompuy praised the "courage" of EU leaders: "I, for one, have really been impressed over the last year by the political courage of our governments. All are taking deeply unpopular measures to reform the economy and their budgets, moreover, at a time of rising populism.

"Some heads of government do this while being confronted with opposition in parliament, with protest in the streets, with strikes on the workplace—or all of this together—and fully knowing they run a big risk of electoral defeat," he concluded. "And yet they push ahead. If this is not political courage, what is?"