

CASCADING AND SYSTEMIC NATURE OF THE FINANCIAL CRISIS

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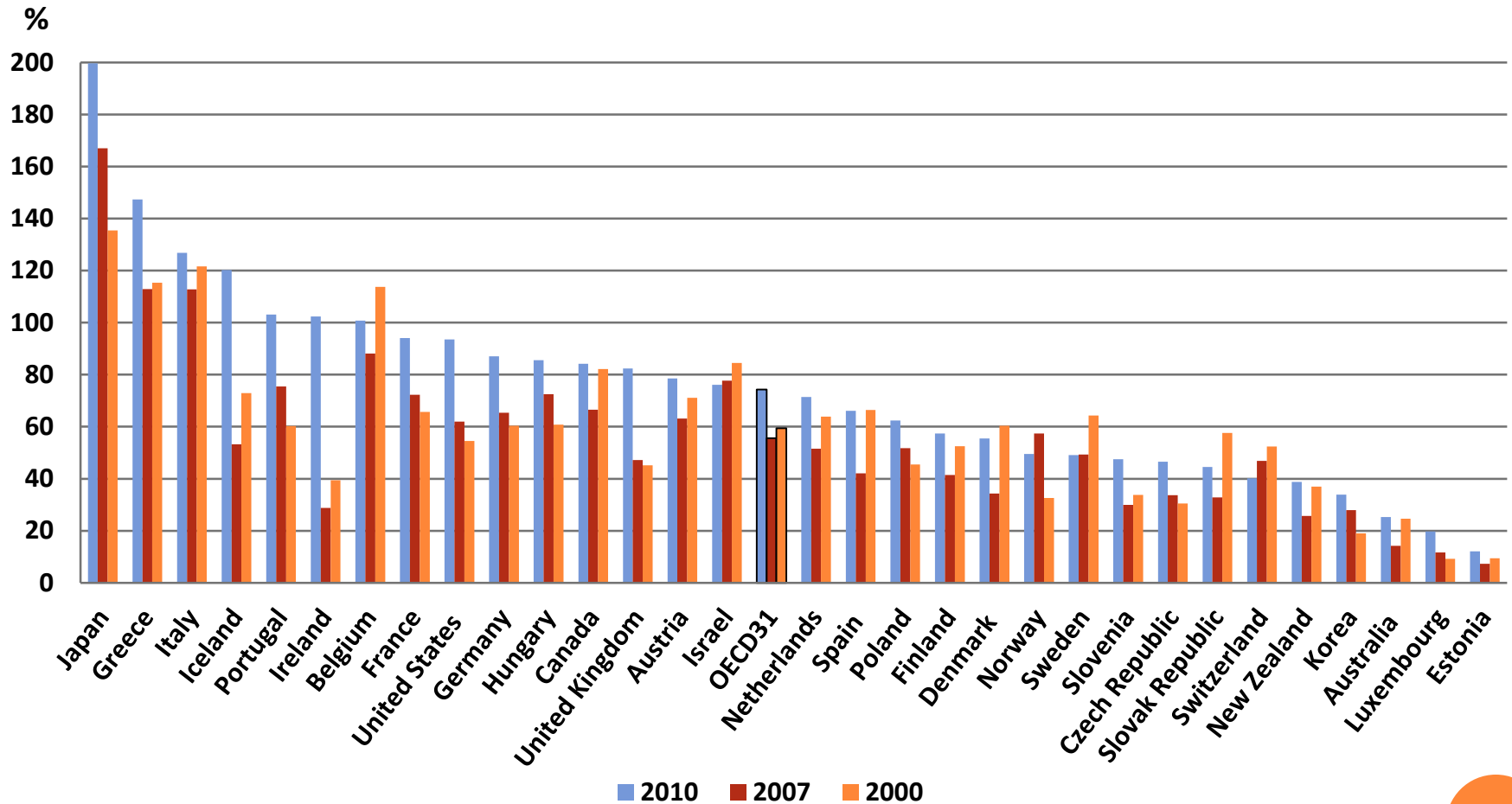
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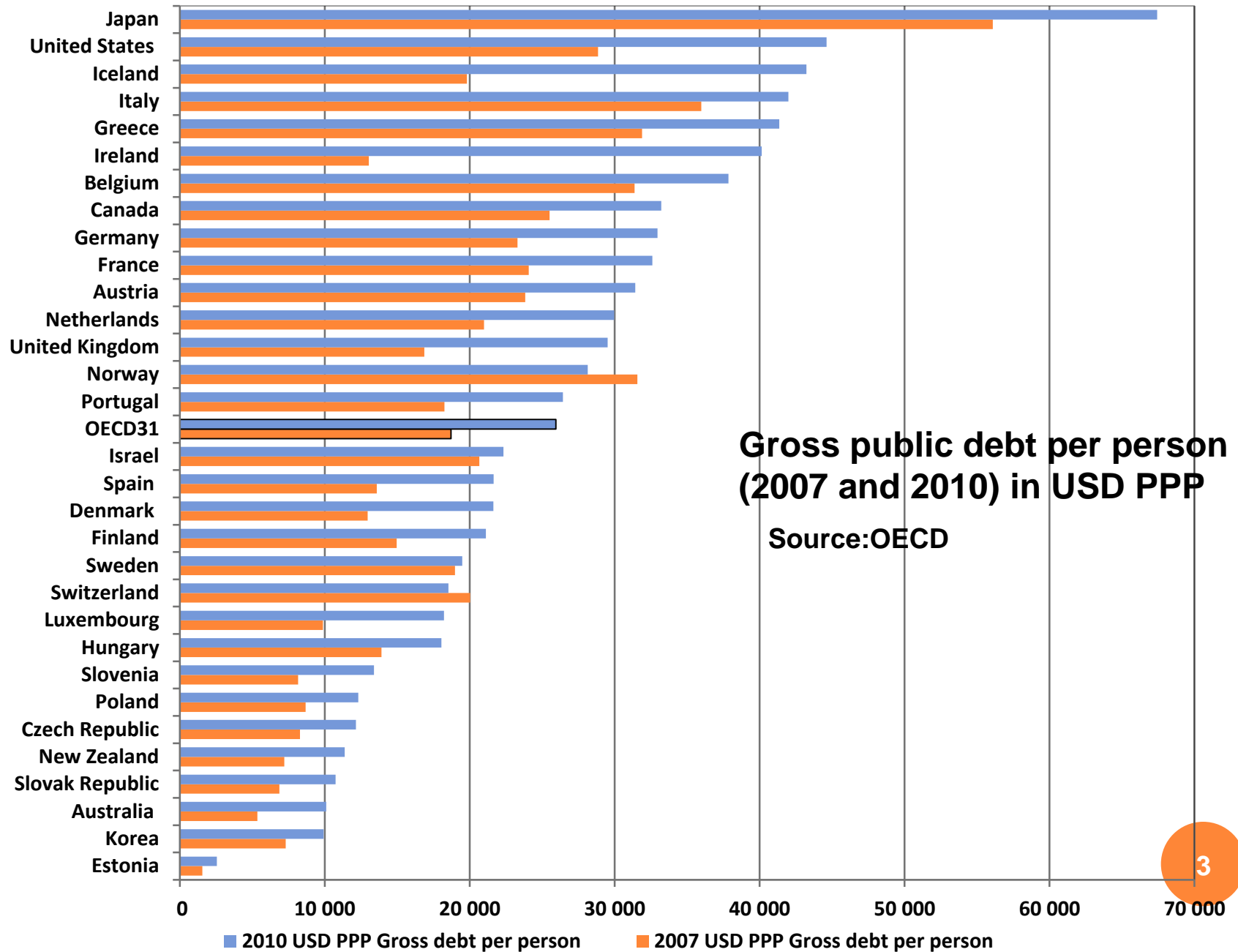
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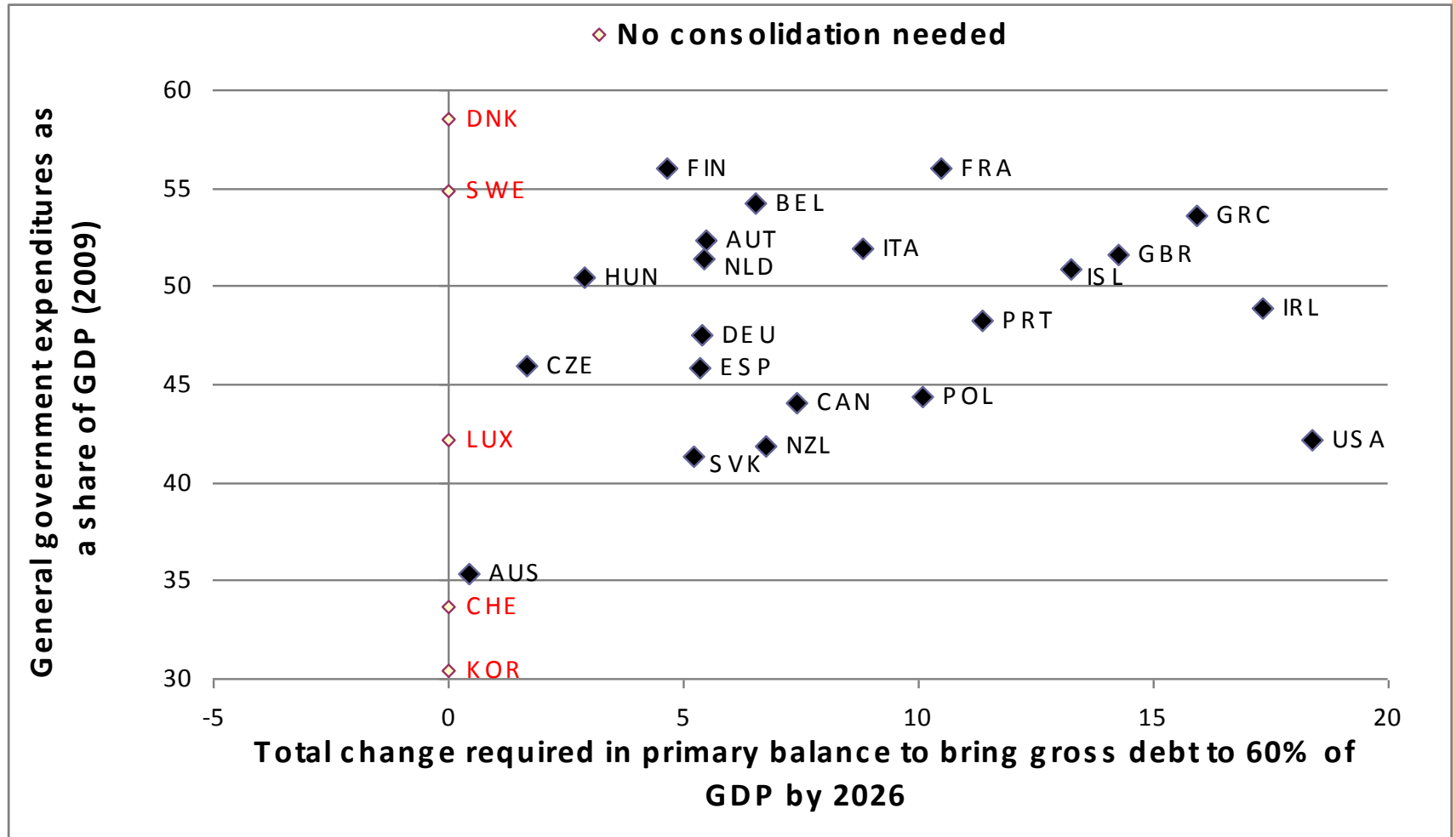
General government gross debt as a percentage of nominal GDP (2000, 2007 and 2010)



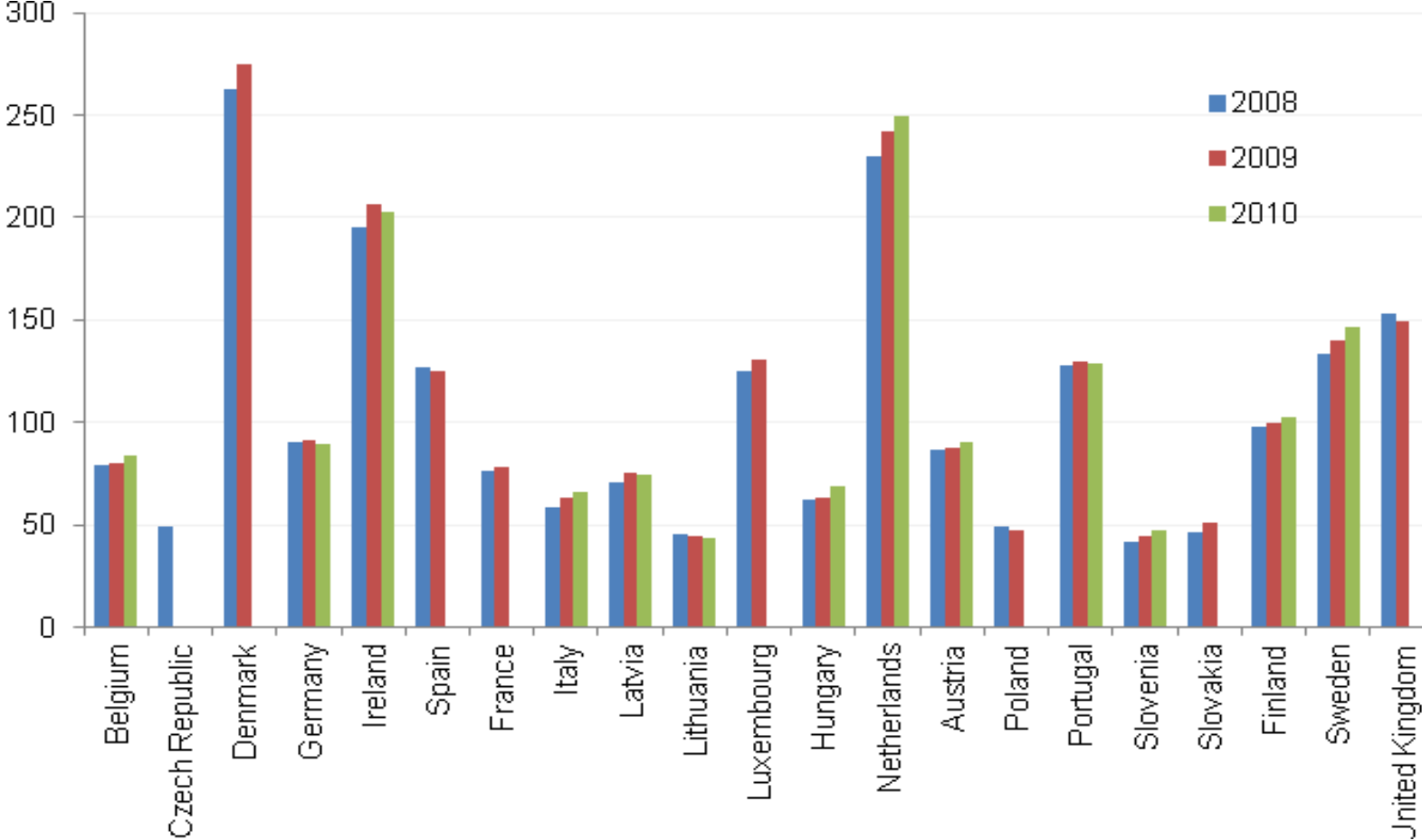
Source: OECD



Fiscal consolidation requirements



Gross debt-to-income ratio of households [%]

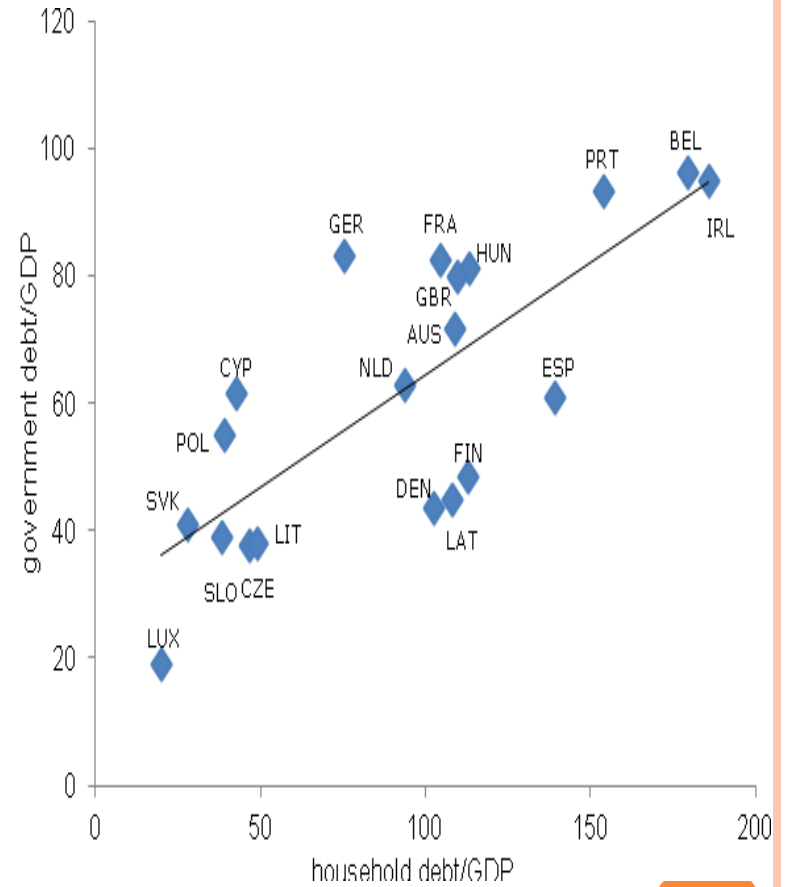
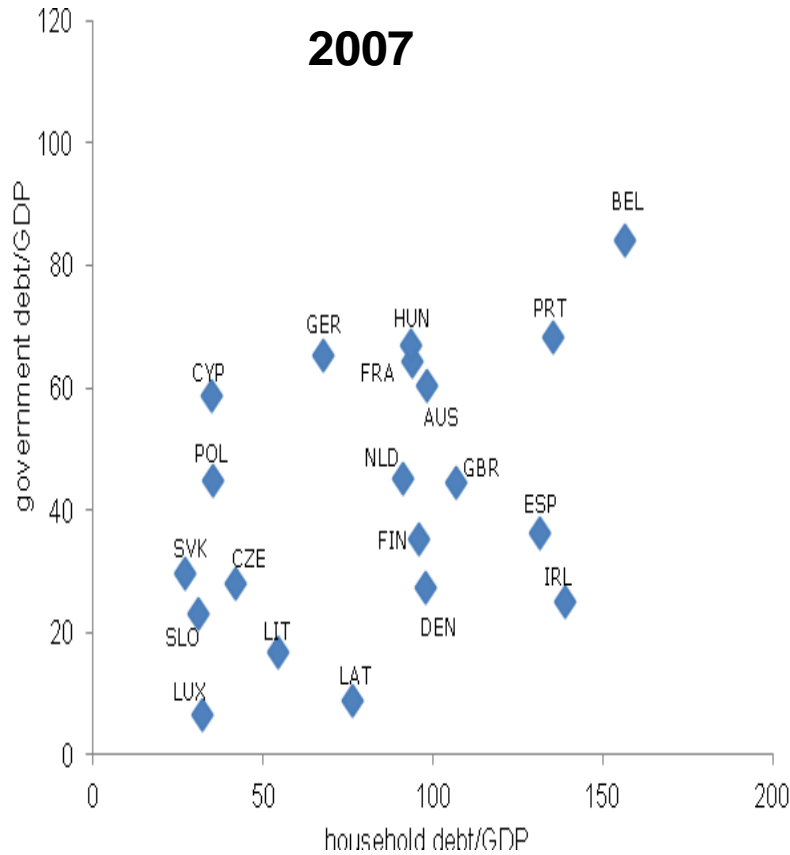


Source: EUROSTAT

Relation between government debt and household debt (%GDP) in chosen EU countries

Regress analyses

2010



Source: ECB, own calculation

$$\text{Government debt} = 29.127 + 0.352 * \text{household debt},$$

(7.26) (0.07)

Strength of dependancy $R^2 = 59$ % shows moderate dependency

F-test (F = 25,55) and Durbin-Watson statistic (DW = 1,74)

Confirm that the model is adequate

This relationship means that in 2010 an increase of HD by 1% caused an increase of GD by 0.352 %.

Budget deficit (75 percent) and household debt pro rata available income of households

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Available income (billion CZK)	1293	1348	1409	1474	1551	1675	1833	1987	1976	2000
State budget deficit (0.75) (billion CZK)	51	34	82	71	42	74	50	14	144	117
Family debt balance* (billion CZK)	17	41	57	76	101	133	222	157	74	28
Deficit + debt balance (billion CZK)	68	75	139	147	143	207	272	171	218	145
Share Σ debts in available income (%)	5.3	5.6	9.9	10.0	9.2	12.4	14.8	8.6	11.0	7.3

*increase against previous year

Sources: Czech National Bank and Czech Statistical Office

Conclusion

This conclusion could be applied to a number of other countries, especially the countries that witnessed a dramatic increase in government or household debt.

What further conclusions can be drawn from the statement that about **ten percent of the standard of living of Czech families** has been made possible by increasing government or family debt in the past decade?

In this moment in January 2012 **we must foresee an economic stagnation** and the **governments requiring its citizens to pay higher taxes to settle their liabilities**. This means that neither government nor household debt can be settled in the upcoming years otherwise than through a reversal of the trend witnessed in the past decade, i.e. **by debt repayment at the expense of the citizens' true living standard**.