Euro zone debt burden continues to rise

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The latest figures from the Eurostat statistics agency show that the debt burden across the euro zone is continuing to rise, following three years of intensive austerity.

Figures released on Monday report that the debt burden of the 17 euro zone countries hit an all-time high at the end of the first quarter of this year.

According to the European Union's (EU's) statistics office, government debt as a proportion of the euro zone's annual gross domestic product (GDP) rose to a record 92.2 percent in the first quarter of 2013. This compares to 90.6 percent in the previous quarter and 88.2 percent in the same period a year ago.

Greece, the first euro zone country to be subjected to deep austerity treatment after the 2008 crisis—Athens recently passed its seventh austerity budget—has the highest debt burden in the euro zone, at 160.5 percent of GDP. This is an increase from the previous quarter's 156.9 percent and from the previous year's level of 136.5 percent.

The second-highest debt-to-GDP ratio in the euro zone is Italy, at 130.3 percent.

Total debt has also risen across the European Union, with 21 EU states registering an increase in their debt-to-GDP ratio at the end of the first quarter of 2013 compared with the fourth quarter of 2012. Only 6 registered a decrease.

The highest increases in debt ratio over the quarter were recorded in two states subject to EU bailouts and austerity measures—Ireland (plus 7.7 percent) and Spain (plus 4.0 percent), with Belgium in third place (plus 4.7 percent)

These data confirm that the austerity measures dictated by the troika—the International Monetary Fund, European Commission, European Central Bank (ECB)—since 2009 have nothing to do with its proclaimed aim of cleaning up the finances and budgets of European economies. Instead, the slashing of jobs and social services, resulting in unemployment and poverty for tens of millions across Europe, is a deliberate policy to fundamentally reorganise class relations. One major consequence is to increase the wealth and power of the banks.

Bank profits are once again soaring, and leading stock exchanges across Europe are again approaching their record highs of 2007-2008. The main source of the new fortunes reaped by the banks is virtually free credit made available to them by the main central banks, including the ECB.

A further indication of deepening recession in Europe comes from recent statistics showing that banks are lending less and less to businesses. Bank lending to the private sector in the euro zone dropped by 1.1 percent in the three months to May, an average fall of more than 3 percent. As national budgets in Europe shrink due to falling tax revenues, companies are being deprived of the credit needed to invest in expansion and future production.

Instead, banks find it more lucrative to borrow cheap money from the ECB. They then use these funds to buy up and sell government bonds, which trade in some cases at interest rates of 6 to 7 percent.

For its part in this operation, the ECB can also expect to make a healthy profit. A *Financial Times* article Tuesday titled "Bailouts can turn a profit for central banks" reveals that the ECB can anticipate net gains of €70-€80 billion for its investments so far in southern Europe. Some €9 billion profit alone is accruing from its investments in Greek debt.

The increasing recessionary tendencies in Europe have been largely ignored by the media in Europe's biggest economy, Germany. With a general election pending in September, none of the major parties are prepared to raise the explosive economic and political consequences for the German population of a new outbreak of the euro crisis.

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Other media sources are not so reticent. A recent CNBC article entitled “Is a perfect storm brewing in euro zone?” notes that the economic crisis in Europe is exacerbated by political crises in several key countries, which “could lead to a renewed bout of instability on the continent, right after Germany’s elections in September.”

The article then lists European countries that are wracked by political turmoil and facing increasing opposition from the broad masses of their populations.

The fate of the Spanish government hangs in the balance, as revelations emerge that conservative prime minister Mariano Rajoy and his Popular Party dipped deeply into an illegal slush fund while imposing brutal austerity measures on the rest of the country.

In Portugal, the government hangs by a thread after the failure of negotiations between the ruling coalition and the Socialist Party to seal a “contract to save the nation”—i.e., implement more austerity.

The Greek government also has a razor-slim majority and confronts increasing opposition to its plans to sack thousands of public service workers. The country’s worsening debt burden means it is likely to apply for additional funding from the EU before the end of the year. Cyprus also faces increasing problems paying back its existing loans from the troika.

One senior European economist, Marchel Alexandrovich, told CNBC that the situation in Europe is “artificially calm.” He said he was “most concerned about the risks of governments collapsing in Italy and Spain.” The recently formed Italian ruling coalition, consisting of the Democratic Party led by Enrico Letta and Silvio Berlusconi’s People of Freedom party, is also riven by conflicts and under heavy pressure from the banks to implement more austerity.

The countries listed above collectively produce more than 50 percent of euro zone GDP. An intensification of the economic and/or political crisis in any one of these countries would lead to a renewed hike in bond interest rates, which in turn threatens to have a negative domino effect on all the southern European countries.

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