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Greek debt woe has lesson for Australian households

There's something ironic about the fact that as London prepares for its 2012 Olympic games, the home of the Olympics – Greece, is suffering serious financial woes.

In case you haven't been following the story, Greece is in the unhappy position of being unable to repay its sovereign debt – that's the debt owed by a nation, rather than say companies or individuals.

To illustrate just how far Greece has let its finances run out of control, let's compare a few key statistics from Athens with those of Australia.

Last year Greece racked up a budget deficit to the tune of over 13% of the value of the nation's output (or 'gross domestic product' – GDP). Australia's deficit in 2009 was 4% of our GDP.

Greece's public debt, in other words the debt owed by the Greek government, amounted to 115% of GDP. Here in Australia our public debt is 15% of GDP.

The European Union (EU) of which Greece is a member nation, is offering to lend a hand with a bailout package. But at the time of writing, Germany (another EU

member) is suggesting that Greece should be able to demonstrate that it can get the nation's financial affairs back in order to qualify for the package.

It's fair to say that many countries are facing budget deficits as a result of stimulus packages introduced to ward off the worst of the global economic downturn. The trouble is, Greece was spending up big, and borrowing heavily long before the global financial crisis hit. As with any debt, there is always a payback day – and for Greece, that time is rapidly approaching.

I'm no economist, or soothsayer, so I'm not about to make predictions on how Greece's debt problems could affect currencies, global interest rates or sharemarkets. But the problems facing Greece are a large scale example of how overspending and taking on too much debt can create problems that aren't easily solved.

It's not much different from what happens to people who don't keep a firm rein on their finances. As personal debt grows, more of each repayment goes towards meeting the interest charge rather than paying off the principal. This

makes it harder to get ahead, and ultimately many people reach the point where they feel 'I can't keep this up'.

In a sense Greece is lucky to have the prospect of an EU rescue plan. Few individuals enjoy that sort of back up. Nonetheless, it's understandable that the German Chancellor is suggesting Greece should be able to show it can better manage the nation's finances before being bailed out of its debt woes. Any lender being approached for relief from unmanageable debt, be it from a nation, business or individual, is likely to request the same thing.

If you're struggling with debt, don't wait for a Greek tragedy of your own. Get in touch with your lenders to negotiate a possible solution before you miss a repayment, or contact a financial counselor. You can find one by logging onto the website of the Australian Financial Counselling and Credit Reform Association website at www.afccra.org. Many counselors offer a free service.

Paul Clitheroe's 'Making Money' for the week beginning 3 May 2010



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