

European debt crisis research paper example

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Eurozone debt crisis is a financial crisis that almost all countries of the European Union have been experiencing for sometime now. The crisis has virtually made it impossible for some of the countries of the Union to repay their debt without the appropriate assistance from third parties including other members of the union or bodies like World Bank and IMF.

The crisis has affected many countries in the European Union in a number of ways. Greece and Italy have been affected the most and their economies have almost shattered and are in shambles now.

Greece: It is believed that Greece's economic turmoil lies at the heart of European Union economic crisis and it was one of the first few European union countries that gathered highest debt relative to the country's Gross Domestic Product (GDP). Greece's economic woes coupled with the European Union Debt Crisis have caused number of problems for Greece. While its debt is at the all time highest, its GDP growth have plummeted and decreased over the years. The problem started when Greece borrowed and spent uncontrollably during global recession and in the process losing the track of its finances. It had to borrow a multi-billion bailout package from the other European countries but that hardly solved country's problems. Greece still finds itself in economic mess and needs more money and better economic planning to not only fight the ongoing European union crisis but to put its finances in place too. The bailout package came to Greece at some conditions some of which included massive spending cuts. This led to massive unrest among Greek people who were principally against rise in taxes and job losses. There were many angry protests and riots, which brought massive civil unrest to the already struggling economy.

The situation seems to be getting worse. While the inflation has increased, Unemployment has risen to a staggering percentage with no new job creations at all. The GDP growth has been in red for few years now and in 2012 Greece's debt-to-GDP ratio, an important economic parameter to gauge the health of any economy rose to a mind boggling and worrisome 175% and this was the moment when some experts predicted that Greece's economy had already defaulted. The ratio was much more than the EU's limit of 60% and the crisis was the Union almost got up in hands against the poor financial managements of Greece government. Global recession and EU crisis has indeed affected Greece's economy in a number of adverse ways but it would be apt to say that Greece kick started the European Crisis.

Italy: Italy is one of the "PIIGS" nations known infamously for the financial trouble these countries find themselves in. PIIGS stands for Portugal, Ireland, Italy, Greece and Spain. Though the Italian economy doesn't seem to be doing as bad as the Greece economy, it surely has been hit hard by the ongoing European Debt Crisis. The scenario, though not surely as gloomy as the Greek economy, it isn't any better either.

It was in the early 2011 that investors and planners started showing increasing concerns about the economic health of Italy. Italy is the second worst performing European economy next to Greece, thanks to the reckless spending and poor economic planning by the governments. While most European countries have their debt-to-GDP ratio under 100%, it is 120% for Italy, much more than the safe limit. Economic growth for Italy has more or less been non-existent, with growth surpassing 2% only once since 2001 (Schuman 2011). Its tarred and bruised economic outlook forced it into the

debt crisis. Poor fiscal responsibility of the governments seems to be at the heart of the problem. The yield on the Italy's sovereign bond, a parameter and indication of how risky/safe investors believe that the bonds of the country are safe to hold- touched a shameful 6%. The investor confidence in the economy has declined considerably due to the debt crisis and the foreign investments have only dried up in the recent past thus casting a dark shadow on country's Fiscal and Current Account Deficit.

Experts believe that Italy is going through a tough phase and faces a “ full credit emergency” as companies have been pushed to the wall and find their survivals increasing impossible due to paucity of critical funding. The suffocation of the Italian economy is quite evident in the fact that almost 29% of Italian firms find it hard to meet their “ operational expenses” and are starved of liquidity (Pritchard 2013). According to a latest survey, over 1, 000 companies are going bankrupt in Italy every day, a dismal scenario which some believe would result in ultimate bankruptcy of the economy. All this has been the result of high inflation, poor investors confidence and low liquidity; all direct effects of the European Debt crisis.

The overall GDP growth has been in negative for past few years with significant job losses contributing to an already high unemployment rate. The inflation increased and the purchasing capacity of the population decreased, a by-product of decreased liquidity. The crisis led to a draconian decrease in the overall worth of the Italian economy. The per capita income also decreased for years in succession during the crisis. Industrial production growth remained stagnant thus worsening the economic crisis.

The overall outlook of Italian economy looks too bad, but the country has

shown some recovery off late. It has restored some of the economic parameters including inflation to much more comfortable levels. Both the countries need some impeccable economic planning, strong spending cuts and most importantly, the political will to solve the crisis and come out of the economic mess they find themselves in.

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