

# Europe flirts with deflation essay sample

[Parts of the World](#), [European Union](#)



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## **Summary**

There is an optimistic view that European countries have fully recovered from inflation. Recent statistics indicate that the economies of different European countries are extremely weak, and the euro zone could soon experience deflation. In the previous month, 18 countries within the European zone was approximately 0.7 percent, which was a drop from the 0.8 percent in December. This was extremely lower than the European Central Bank's inflation target of below 2 percent. Deflation is an extremely critical economic element that aims at ensuring that an economy stands after a long struggle. When there are extreme fall in prices, consumers do not purchase anymore while businesses find little value in making future investments thus developing a downward spiral. Deflation makes it hard for governments and other borrowers to repay their debts. However, the fear of deflation was dismissed by Mario Draghi, whose words were not surely reassuring. He argued that there was going to be subdued inflation, low inflation for an approximately small period of time but deflation will not be experienced. For the belief of banks that there will be slow increase in prices, the right thing

would be to lower interest rates and ensure there is adequate money in the economy through purchases of bonds. However, the bank did not announce new policies in its meeting on February. The central bank's inability to take action was not appealing since it is the only institution that could boost the weak European economy. Germany, exerted pressure on the rest of the governments across the euro zone on the need to cut spending, as well as raising taxes as the most outstanding efforts to minimize fiscal deficits. There has been delays from European officials in creation of a euro-zone banking union, which is paramount in recapitalization or shutting down of financial institutions that have become estranging for economies like Ireland, Spain, Greece, and Portugal. On the other hand, the issue of buying bonds as it was passed by European governments has been challenged by Germans as they claim that it has never been used. The move of the central bank to buy government bonds has been blocked through a ruling by the Federal Constitutional Court. However, the central bank and European governments would work with each other in a bid to revive the euro zone economy.

### **Critical analysis**

Being optimistic on economic recovery of the European zone is expected following the extensive economic challenges that the region had faced. The community faced excessive inflation levels, which needed to be dealt with excessive efforts and pleasure. Following long exposure to inflation, which is characterized with increase in prices for goods and services in an economy, the zone was yearning for deflation. This is the main reason why any form of improvement in the economy would cause excessive excitement. Deflation comes with the fall of prices for goods and services in an economy. It is true

that deflation is not always exciting in an economy. It brings in exclusive issues such as inability to pay debts for individuals who are in debt. This means that the economy will to be engineered in a manner that it will solve the inflation problem. It would be advisable at this moment to reduce money supply in the market. This may be done through the central bank selling government bonds to the public. However, this would not be supported by all countries since some of them would be suffering inflation while others are at deflation. Different countries in Europe have different economic strengths and this means they would have different experiences in case of economic changes.

### **Critical question**

With the different countries forming the European zone having different economic pressures, would it be advisable to conclude that deflation would be experienced in equal measure among all European zone countries?

### **Work Cited**

The Editorial Board. (2014, February 17). Europe Flirts With Deflation. The New York Times. Retrieved April 3, 2014, from [http://www.nytimes.com/2014/02/18/opinion/europe-flirts-with-deflation.html?\\_r=0](http://www.nytimes.com/2014/02/18/opinion/europe-flirts-with-deflation.html?_r=0)