Explain how the financial difficulties faced by the irish and greek governments h...

Finance

Question: Explain how the financial difficulties faced by the Irish and Greek governments have impacted on Euro debt markets. The European economy includes 48 states and more than 731 million people. The wealth and economic growth of Europe’s different states vary one another and this difference can be clearly seen in a rough East-West divide. Majority of Western European states have higher GDPs and living standards whereas many of the Eastern Europeans economies are still struggling to attain an improved growth rate. The recent European sovereign debt crisis negatively affected the Europe’s economic status. This paper will analyze how the financial difficulties faced by the Irish and Greek governments have impacted on Euro debt markets. In the opinion of Stange (2010), the financial crisis of 2008 was the root cause of the 2008-2011 Irish financial crisis which led the country to recession for the first time since 1980s. In September 2008, the Irish government officially declared that the country was in recession and the nation experienced a steep fall in employment in the following months. In January 2009, 326, 000 Irish people claimed unemployment benefits; this figure was the highest since records began in 1967 (Labour and the totemic gesture, 2011). The Irish financial crisis became worse subsequent to a series of banking scandals in the country. This situation caused the ruling Fianna Fail party to lose its public support significantly. The nation’s Irish Stock Exchange (ISE) general index dropped from 10, 000 points in April 2007 to 1, 987 points in February 2009; and this decline indicated a 14 year low general index value (RTE News, 24 Feb 2009). The last time the index stood below the 2, 000 level was the mid 1995. The credit expansion as a result of rapid growth of Irish economy

during the Celtic Tiger years was the major reason that led to 2008-2011 Irish financial crisis. This credit expansion had included a property bubble that petered out in 2007. Since Irish banks were already in over-exposure to the Irish property market, they came under severe pressure as a result of the global financial crisis of 2007-2010. The 2008-2011 Irish financial crisis greatly hit Euro debt markets. This situation caused a sudden decline of the euro value and it produced negative effects across many European countries. As a result of Euro debt market crisis, European Central Bank was forced to raise its interest rates. Although, regulators designed ranges of policies to improve the situation, the euro debt market could not easily overcome the situation. Due to this debt market crisis, foreign investors hesitated to invest in Euro countries, which in turn worsened the situation.

As Romeo (2010) reports, in order to overcome the dreadful consequences of debt crisis, the Greek government requested the activation of EU/IMF bailout package. The Greek debt rating reached BB+ (a junk status) due to the strategic failures of the Greek government. In addition, the Greek two-year bond’s yield was decreased to 15. 3% in the secondary market. The ratings agency Standard and Poor’s anticipated that investors may lose 30-50% of their money if the government could not bring the situation under control rapidly (Ewing & Healy, April 27, 2010). Many economists opined that high government spending regardless of weak revenue, high salary despite of low productivity, low export growth rate, and tax reversion are the primary causes of Greek financial crisis. The government’s increased borrowing from abroad can also be attributed to Greek debt crisis that badly affected euro debt markets. Even though the Greece constitutes only 2. 5% of the euro

zone economy, the higher intensity of the Greek debt crisis adversely affected the euro's foreign exchange rate value. In addition, the Greek debt crisis raised deficit challenges to other European countries since they had invested in Greece. As Chibber (July 21, 2010) reports in the BBC News, the Greek debt crisis stunted the growth of euro countries across the globe. In order to mitigate the impacts associated with the debt crisis, the Greek policymakers framed some regulative financial strategies that also adversely impacted the advancement of euro debt market. Those framed regulative economic policies seriously affected the trade relations between the US and the European countries and this situation further amplified euro debt crisis. Economists argue that the Greek government has borrowed over 110 percent of the country's output. It caused the investors to lose their confidence in bonds and this situation ultimately affected the euro debt markets as a whole. In short, the Greek debt crisis became a barrier to euro debt markets in carrying out its operations smoothly and flawlessly. Evidently, the Irish and the Greek financial crisis raised a series of threats to euro debt markets. The decline in the foreign exchange rate of euro was a major issue that amplified the euro debt crisis. This crisis widely affected almost all euro countries since they have mutual investment relations.

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