European union debt

Business

Task European Union Debt The European Union debt refers to the financial crisis within the European block that has made it impractical for the membership countries to repay their debts without the intervention of third parties (Sanghera 12). Since 2009, fears of an economic crisis emerged among investors after realizing the indebtedness of the governments in some European nations. The cause of these debts varied between countries. Notably, the composition of the European zone as a monetary block governed by one currency that lacks a fiscal arrangement to harmonize the taxes and public pension requirements accelerated the debt crisis (Eusepi and Friedrich 34)

The European Union debt crisis was a fusion of complex elements in the world market. The globalization of finance and facilitation of easier access to credit in 2002-2008 period enhanced risky lending and borrowing among the member states. Moreover, the fiscal policies, trade imbalances and property bubbles accelerated the dept status (Dikson, Julie, and Pavlos 30). The governments were losing money following the banking system bailouts to defaulters of the property bubble. Furthermore, the pension commitments and the unsustainable public wages increased the debt level (Lynn 11).

The increased capital and savings in the global pool of the European Union and other investors set the policy and regulatory structures in the member countries. This is because lenders and borrowers were quick to transact thus generating economic bubbles in each continent (El-Agraa 39). A decline in the monetary value resulted in significant losses and declines in property values. However, the liabilities owed to the global investors remained at constant prices resulting in major losses to the borrowers and insolvency of banks and government (Crifò 30).

According to Sanghera (21), the Northern countries, such as Norway and Sweden, were able to cope with the crisis because their governments lent capital to property developers. This generated huge property bubbles. When the bubbles collapsed, their governments and citizens assumed private debts. These reduced excessive burden to the government to bail the nation out. After some time, these nations were able to retain a fair economic position with better employment percentage. In Greece, however, the government enhanced its commitment to the public employees by facilitating higher wages and pension settlements. Notably, the employment wage bill doubled exponentially in real terms. Moreover, the banking systems grew quickly creating enormous external debts to the global investors (Manolopoulos 22).

The interconnectedness of the European blocs' financial structure meant that a default by one nation's debt or recession that risks private debts is capable of resulting in chain losses to all members (Jahjah 14). Greece, through its banks conspired to hide its debt status therefore deceiving the European Union. Through the Maastritch Treaty, the EU member states had agreed to regulate their deficit expenditure and dept margins. However, Greece and Italy circumvented these requirements (Favero, Alessandro, and Gustavo 37). These compelled some bank investors from U. S to apply a blend of techniques to correct the deficits and in turn get a higher bargain for their services. They applied intricate credit-derivative systems, off-balance sheet transactions and inconsistent accounting systems to claim their debts (Peter 189). These have resulted in a sloppy economy with high unemployment rates and inflation. The sovereign debt crisis has put enormous pressure on the essential assertions of power between the union and the partner nations

(Favero, Alessandro, and Gustavo 39).

In 2010, concerns began to emerge over the solvency of the European nations. Greece was of particular concern because of the danger it posed to other economies through debt defaults. Greece succumbed to financial pressure due to excessive spending and insufficient revenues (Dikson, Julie, and Pavlos 63). This has resulted in high alertness among all partner countries. The situation is not likely to improve sooner unless there are practical measures to enhance employment, useful innovation and to regulate borrowing rates among the sister nations.

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