Financial Crisis In Greece & Ireland

A financial crisis is defined by Wright & Quadrini (2009) as a cease in functioning or function only irrationally and ineffectively by one or more financial markets or intermediaries. This crisis is said to be non-systemic when only one or few markets are involved and systemic when all or almost all financial system is involved (Wright & Quadrini, 2009).

Greece and Ireland are among the euro -member countries that faced the shocks of the negatives of macroeconomic and financial factors that hit their economy in 2007 and 2008. According to Beker (2014), it is noted that Greece joined the euro-zone in 2001 and its debt ratio was at already 103.7 percent and in the same and it kept increasing reaching about 144.9 in 2015. According to Lane (2012), Greece was one of the first countries to be shut out of the bond market in May 2010 and it was seconded by Ireland in November 2010. A country with a high level of sovereign debts is vulnerable to increases in the interest rate it pays on its debts (Lane, 2012). This resulted in the major challenges these two countries suffered due to sovereign debts.

By 2007 Ireland depended on construction and housing as a source of economic growth and tax revenue (Beker, 2014). The growing construction boom resulted from increasing reliance of Irish banks on cheap external borrowing at the time when the international financial market was flooded with cheap investable funds (Beker, 2014). When the global economic environment changed at the beginning of 2007, Ireland residential property prices started falling and kept falling during the entire 2007 and 2008. Beker (2014) found that the decline in property prices and the collapse in construction activity resulted in severe losses in the Irish banking system; this is a similar case for the US with the subprime crisis. Also, the global financial shock had asymmetric effects across the euro area in late 2008 when most investors repatriated funds to their home market, this process disproportionally affected countries with the greatest reliance on external funding, for example, those with short-term debt markets. The global financial crisis prompted a reassessment of asset prices and growth prospects most to countries that displayed macro-economic imbalances.

As for Greece, it was its increasing debt resulting from its growing budget deficits which were influenced by the appreciation of the euro. Greece economy was also faced with the loss of competitiveness as the result. This creates the difference between the Irish economies with that of Greece in terms of their areas of focus. For example, when it comes to Ireland government was not the net borrower from 2003 to 2007 instead households were the primary borrowers, that is why we see the property boom that later fuelled debt accumulation. The difference with Greece is that both government and corporations where significant borrowers, this was the difference too. In Ireland for example as part of the euro area, it was affected due to its high dependence on Ireland’s banking system on international short-term funding, it is the same that prompted the government at the end of September 2008 to provide an extensive two-year liability guarantee to its banks(Lane, 2014). Whilst in Greece after its general election in October 2009, they indicated that they have to revise its deficit and debt data for 2005 t0 2009 and this was completed in November 2010. It is noted that debt moved from 99.6 percent of GDP to 126.8 percent (IMF, n.d.). Studies show that their revision reflected a weak methodology and unsatisfactory technical procedures.

As earlier indicated that during 2005-2008, Ireland experienced a decline in constructions which resulted in the cessation of the credit boom, this made banks to lose as most of their loans were property-backed loans. It means there was some defaulting taking place, this was more different to Greece who seemed to only have violated the fiscal policy rules on is budget deficit which they later placed blame on the fiscal irresponsibility of peripheral nations (Lane, 2012).

Generally, the two countries in the euro-zone really had a mix-up by failure to tighten fiscal policy. This brought about poor performance. Lane (2012) found that they did not use the analytical frameworks mostly used to assess the sustainability of fiscal positions.