

Lecture 6: The Eurozone crisis and the acceleration of decline (I)

The Acceleration of

Decline (I)





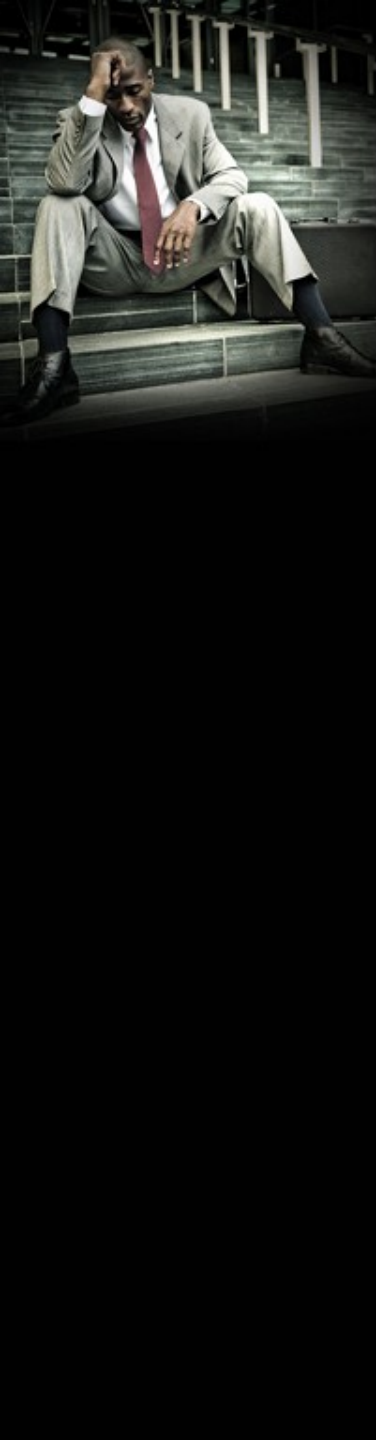
The 2008 Financial Crisis: Global Context

- Origins in the US subprime mortgage crisis
- Collapse of Lehman Brothers (September 2008)
- Rapid spread to European financial markets



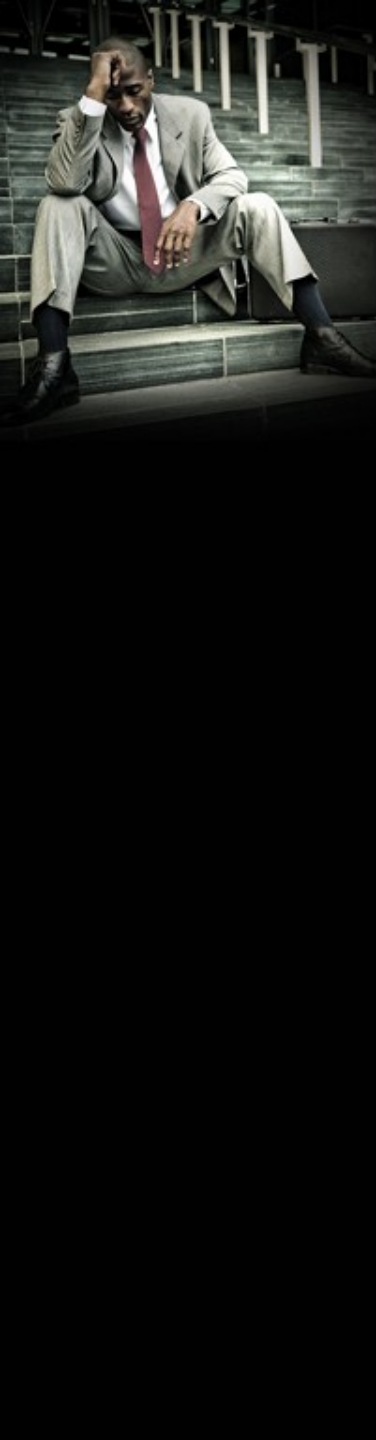
Initial Impact on Italy

- Contraction of GDP (-1.1% in 2008, -5.5% in 2009)
- Rise in unemployment (from 6.7% in 2008 to 7.7% in 2009)
- Decline in industrial production and exports



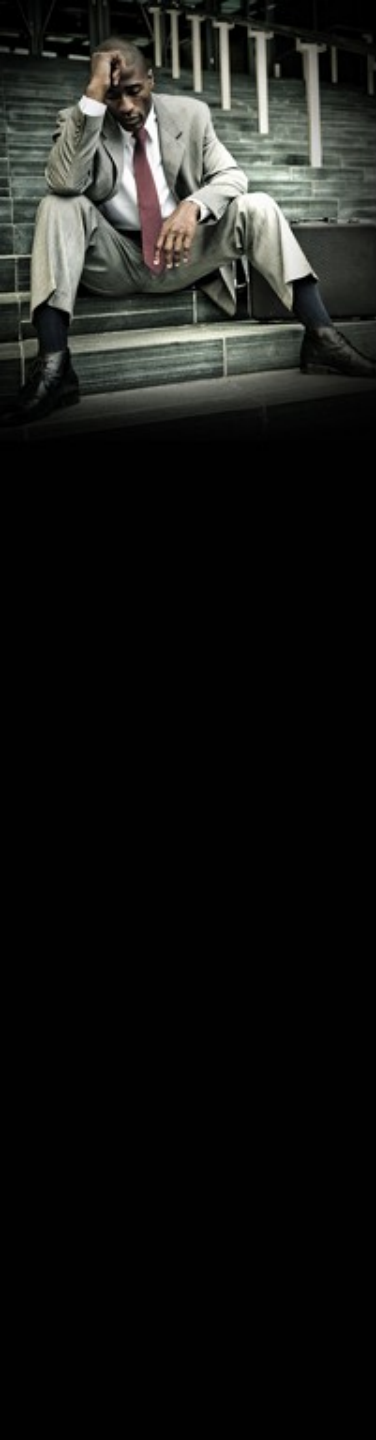
Italy's Vulnerabilities

- High public debt (over 100% of GDP)
- Low productivity growth
- Fragile banking sector
- North-South economic divide



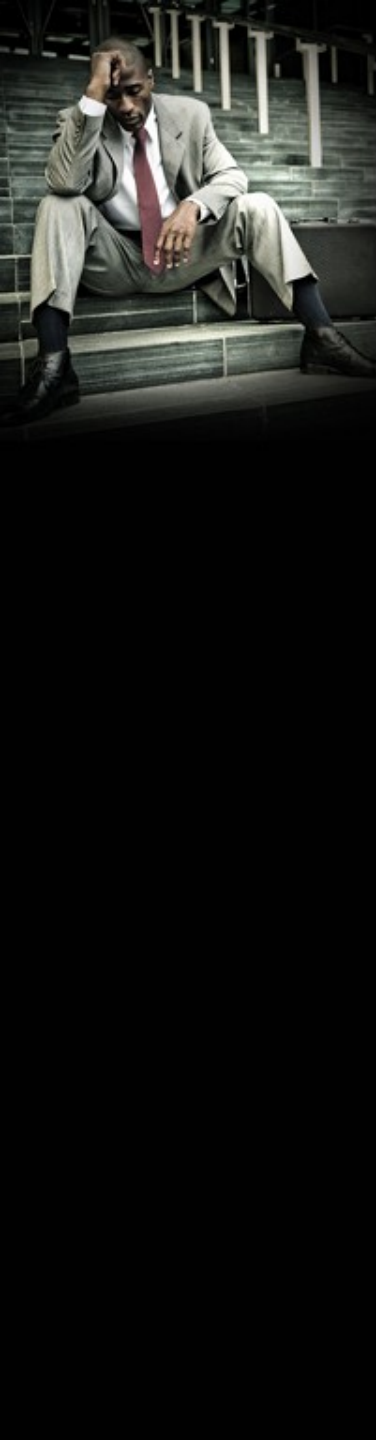
The Sovereign Debt Crisis

- Greek crisis (2009-2010)
- Contagion to other Southern European countries
- Rise in Italian government bond yields
- Risk of default and speculative attacks



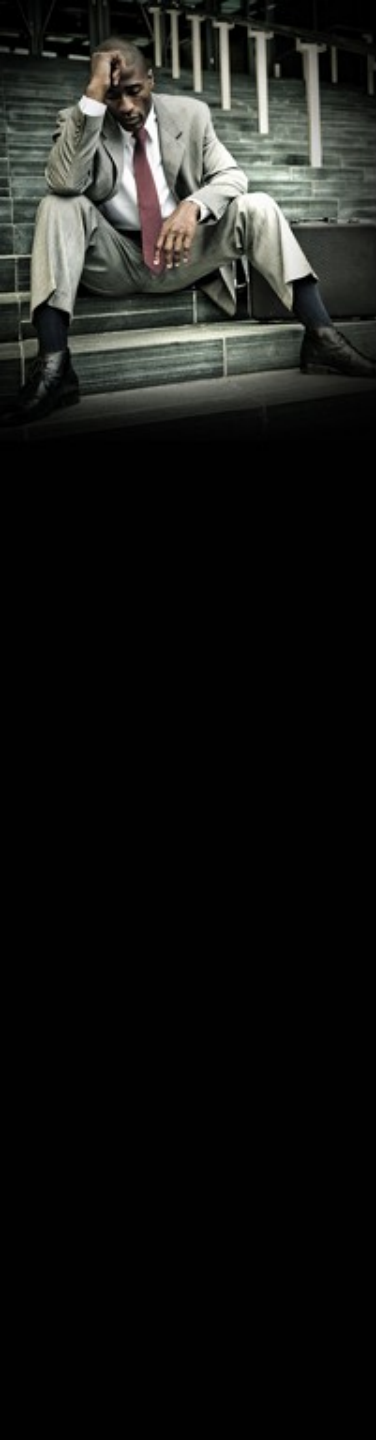
EU and ECB Responses

- European Financial Stability Facility (EFSF)
- European Stability Mechanism (ESM)
- ECB's Long Term Refinancing Operations (LTROs)
- Mario Draghi's "whatever it takes" speech (2012)



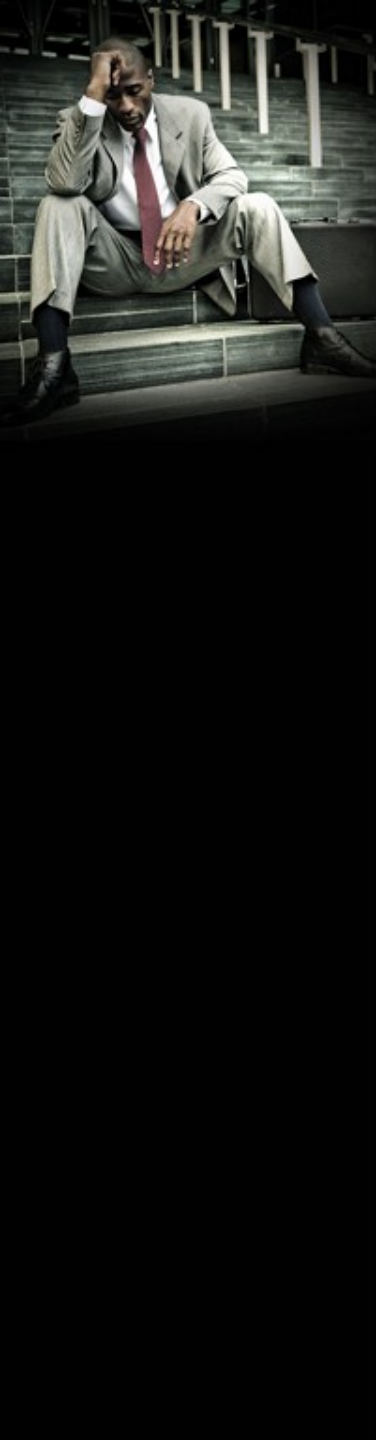
Austerity Measures in Italy

- Berlusconi government's initial response (2008-2011)
- Monti's technocratic government (2011-2013)
- Fiscal consolidation and spending cuts
- Labor market and pension reforms



Economic Consequences of Austerity

- Prolonged recession (2012-2013)
- Further increase in unemployment (12.1% in 2013)
- Decline in domestic demand
- Widening social inequalities



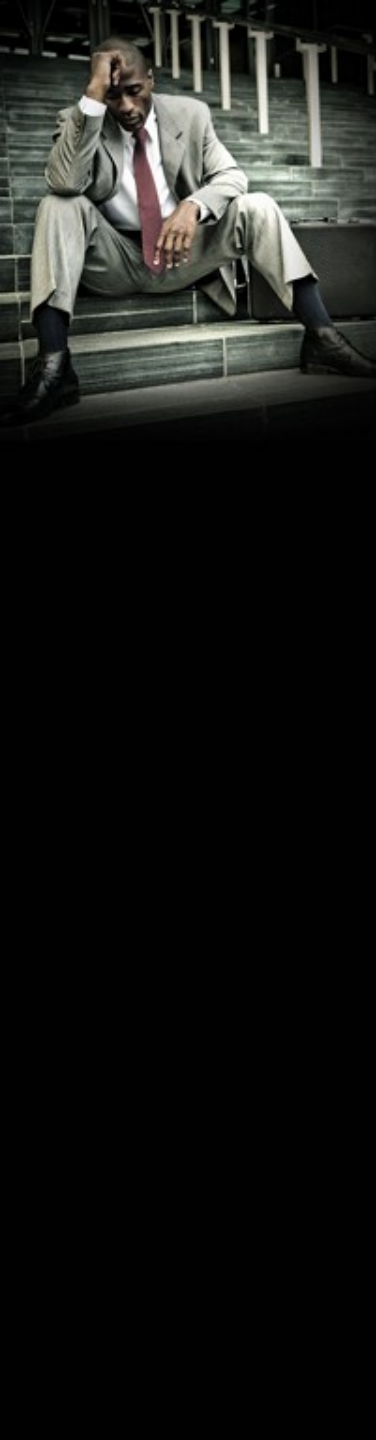
Impact on Italian Industries

- Closure of many small and medium enterprises
- Decline in traditional manufacturing sectors
- Reduced competitiveness in global markets
- Brain drain and loss of human capital



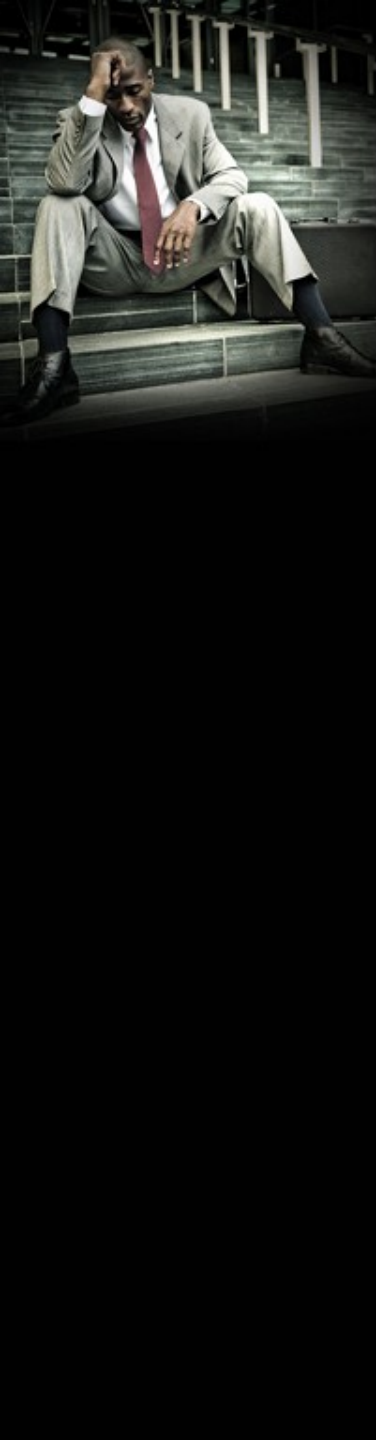
Political Consequences

- Fall of Berlusconi government (2011)
- Rise of anti-establishment sentiments
- Growing Euroscepticism
- Erosion of trust in traditional political parties



Long-term Economic Effects

- Stagnant GDP growth
- Persistent high unemployment, especially youth unemployment
- Increased poverty rates
- Widening gap with Northern European economies



Debate on Austerity vs. Growth

- Criticism of austerity-focused policies
- Calls for more growth-oriented measures
- Tensions between Italy and EU over budget flexibility
- Discussions on structural reforms vs. fiscal stimulus