A country's debt crisis affects the world through a loss of investor confidence and systemic financial instability. A country's debt crisis occurs when investors lose faith in the country's ability to make payments due to either economic or political troubles. It leads to high interest ratesand inflation. It creates losses for investors in the debt and slows the global economy.

The effect on the world differs based on the size of the country. For large, currency-issuing countries like japan, a debt crisis could throw the entire global economy into a recession. These countries are much less likely to have a debt crisis as they always have the ability to issue currency in order to pay back their own debt. The only way a debt crisis could happen is due to political issues.

Smaller countries have debt crises due to political instability. Smaller countries have debt crises due to a poor. The rest of the world is affected as foreign investors of the debt lose money. Other countries in the same geographic area can see interest rates on their debt increase as investor confidence plunges and redemptions mount in funds that invest in foreign debt. Some funds with excessive leverage can even be wiped out.

Normally, the world's economy has the liquidity and means to absorb these shocks without massive effects. If the global economy is in a precarious state, this type of risk aversion has the potential to spark instability in financial markets.

A slowing economy and weakening currency made it impossible for Thailand to make payments. Investors in debt of foreign countries aggressively pared back bets, leading to weakening currencies and spiking interest rates in periphery countries, such as South Korea and Indonesia.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

A country's debt crisis affects the world through a loss of investor confidence and systemic financial instability. A country's debt crisis occurs when investors lose faith in the country's ability to make payments due to either economic or political troubles. It leads to high interest ratesand inflation. It creates losses for investors in the debt and slows the global economy.

The effect on the world differs based on the size of the country. For large, currency-issuing countries, such as Japan, the European Union or the United States, a debt crisis could throw the entire global economy into a recession or [depression](https://www.investopedia.com/terms/d/depression.asp). However, these countries are much less likely to have a debt crisis as they always have the ability to issue currency in order to pay back their own debt. The only way a debt crisis could happen is due to political issues.

Smaller countries have debt crises due to profligate governments, political instability, a poor economy or some combination of these factors. The rest of the world is affected as foreign investors of the debt lose money. Other countries in the same geographic area can see interest rates on their debt increase as investor confidence plunges and redemptions mount in funds that invest in foreign debt. Some funds with excessive leverage can even be wiped out.

Normally, the world's economy has the liquidity and means to absorb these shocks without massive effects. However, if the global economy is in a precarious state, this type of risk aversion has the potential to spark instability in financial markets. An example is the [Asian financial crisis](https://www.investopedia.com/terms/a/asian-financial-crisis.asp) in 1997, which started in Thailand as the country had extensively borrowed in U.S. dollars.

A slowing economy and weakening currency made it impossible for Thailand to make payments. Investors in debt of foreign countries aggressively pared back bets, leading to weakening currencies and spiking interest rates in periphery countries, such as South Korea and Indonesia.