Forum: General Assembly 2 (Economic and Financial)

Issue: The question of addressing the Eurozone Crisis

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Introduction

The Eurozone Crisis, or the European debt crisis, is a financial debt crisis that has been taking place involving several nations of the European Union (EU) since 2009. It stems from the lack of fiscal policy control of governments. Currently, the European Central Bank (ECB) is in charge of all monetary policies, but no fiscal policies. Countries of the Eurozone are suffering hugely and depending on bailouts from organizations and countries with stronger economies such as the Federal Republic of Germany. The crisis concerns those nations that have adopted the Euro as their official currency, but it has had an effect not only within Europe, but globally.

The Eurozone Crisis, although started in 2009, is still very much ongoing and affecting the nations of the European Union. The most severely affected country today remains the Hellenic Republic, or Greece, who can also be said to be one of the causes of the Eurozone Crisis. Countries such as Greece, Portugal, Ireland, Spain, Italy and more were unable to repay their sovereign debt after the collapse of the American dollar in 2008.

Especially in the case of Greece, its deficit spending went from an estimated 6% to 12.7%, more than double the estimated percentage. As a result, Greece owes a total of 325 billion Euros, which is approximately 180% of its total GDP. As Greece was unable to pay back debt, it just kept borrowing without cutting spending. It owes debts to various EU nations and organizations such as the International Monetary Fund (IMF). It has been offered several bailouts of billions of Euros by banks and organizations, yet still unable to significantly pay back its debt. And because the Eurozone nations were tied to a single currency and were all interconnected in some way, the downfall of the Greek economy affected the whole Eurozone.

In January 2015, the political left-wing party Syriza took over the Greek parliament. This is because the Syriza party opposes bailout from other EU nations such as Germany due to the austerity measures it must take in order to prevent such a crisis happening. Austerity measures are not good for Greece. Although Greece is the most severe, nations such as Ireland, Spain and Italy have also received massive bailouts and are in adverse situations.

Definition of Key Terms

EU

Abbreviation for: European Union. It is a politico-economic union of nations in Europe, with 28 member states as of today. Its population is roughly 508 million, and major economies of EU include the Federal Republic of Germany and the French Republic. Several of the nations within the EU are tied to a single currency, the Euro, forming the Eurozone. The EU is a global superpower, surpassing the United States in GDP. It presents itself as a single entity, rather than individual European nations.

Eurozone

Eurozone refers to the nations of the EU that have adopted a single currency which is the Euro. It consists of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Portugal, Spain, Netherlands, Slovenia and Slovakia.

ECB

Abbreviation for: European Central Bank. It is one of the largest currency areas of the world and administers the monetary policies of the Eurozone. Its headquarters are in Frankfurt, Germany. Its purpose is to maintain stability within the Eurozone, and keep the Euro sustainable. It must be noted that the ECB however, does *not* administer the fiscal policies of the Eurozone.

Fiscal policies

Fiscal policies refer to the way how a nation manages its spending levels and managing tax income levels. It is the sister policy to monetary policies. In the Eurozone, fiscal policies are not touched by the ECB.

Monetary policies

Monetary policies refer to the way how a country controls its supply of money, in order to maintain stability and keep inflation levels under control. In the Eurozone, monetary policies of nations are controlled by the ECB, in order to prevent inflation and to keep the Euro relevant.

Inflation

Inflation generally defined as the increase of the price of goods and services as to the currency. As inflation rises, the value of the currency drops and is able to purchase a smaller percentage of goods and services. An example of severe inflation is post World War I Germany.

Background Information

To fully understand the Eurozone Crisis, one must understand the roots of the official currency of the Eurozone, the Euro. Introduced to world markets virtually on January 1, 1999, the currency was first adopted by Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain. In order to join the Eurozone, countries must fulfil specific criteria. Some of the several criteria set by the European Central Bank (ECB), which keeps the inflation under control and sets monetary regulations of the Eurozone, are that each country wishing to join the Eurozone must have a budget deficit of less than 3% of their Gross Domestic Product (GDP), low inflation and interest rates that are fairly close to the average EU nation, and their debt ration must be under 60% of their GDP. As of today, 19 EU nations participate in the currency and make up the Eurozone: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain. Denmark is currently showing interest in joining the Eurozone, its National Central Bank participating in the European Exchange Rate Mechanism (ERM II).

The Eurozone Crisis can be blamed for multiple negative effects on not only the Eurozone, but the whole of EU. Greece and Spain, reaching unemployment rates of 27%, are among those countries that were hardest hit. Greece, Ireland, Portugal, Spain, Italy were the nations that were most severely affected, threatening to collapse the entire European economy. What is important to note is that as previously mentioned, although the ECB was in charge of monetary policies, they were not in charge of fiscal policies, which are different for each country. This allowed countries such as Greece to increase their levels of borrowing to such a scale that would have been impossible before joining the Euro. A government is only permitted to spend what they receive as tax, and any more than that is called deficit spending. With these new levels of borrowing, countries such as Greece's deficit spending was reaching levels unheard of previously.

Due to the excessive borrowing and paying back with even more loaning, when the 2008 financial crisis, which caused all currencies tied to the U.S dollar to collapse, happened, the Eurozone was not an exception. Eurozone nations with excessive borrowing, loaning and spending suffered huge losses and were unable to pay back their debts, and so the Eurozone crisis began in 2009.

Key Issues

Austerity Measures and Shrinking Economies

Austerity measures refer to the measures governments must take in order to prevent a crisis from happening in order to receive a bailout. This usually negatively impacts nations, as it will reduce salaries and incomes of the people as there is less money in the economy. Several nations have been forced to take austerity measures, resulting in social discontentment. Germany is among the leading nations providing bailout money on the condition that governments take austerity measures.

Germany

As the strongest economy of the EU, Germany has been requested bailout funds by nations such as Greece. Germany's stance is that such nations must take austerity funds in order to receive bailout funds. Several nations are unhappy with this, such as Greece as austerity measures will worsen their situation.

Greece

By far the biggest concern of the EU, Greece has suffered due austerity measures. There has been an exceptional amount of strikes and protest countrywide due to extreme unemployment rates, decreasing minimum wage, suspension of pay of civil workers, and more. Receiving a bailout of 105 billion Euros in 2012, the austerity measures imposed upon Greece was crippling.

Irish Republic

Receiving a bailout fund from the IMF in 2011, the Irish Republic was not an exception. The Irish banks lowered their interest rates and government spending was harshly cut with social effects such as reducing salaries and decreasing social welfare payments.

Portugal

The Portuguese government received a massive bailout in 2011 from the IMF and EU of 78 billion Euros. They adopted the proposed austerity measures to cut military spending, halting social projects, and more. This resulted in widespread privatisation of businesses and soaring unemployment rates of 14.8% in January 2012.

Spain

Spain had the highest unemployment of all the EU nations, with 25% nationwide. There have been numerous protests and strikes nationwide against the austerity measures taking place. It has been one of the Eurozone nations most adversely affected.

United Kingdom

With deficit spending records of 10%, the UK has taken to measures such as raising maximum tax rates and taxes on products, and lowering tax allowance that pensioners receive, and child benefits. This has been met with public discontentment and approximately 250,000 people protested in the streets in March 2011.

Major Parties Involved and Their Views

IMF (International Monetary Fund)

The IMF is indeed a major party involved in the Eurozone Crisis. It has provided bailout funds multiple times to not only the Eurozone nations, but a number of the EU nations. It has most actively been providing bailout funds to Greece, Spain, Portugal and Ireland. The IMF however, does not blindly give out loans. They demand clear plans to prevent issues arising, and do not loan if a country cannot possibly be able to pay. Headquartered in Washington D.C, IMF is dominated by the United States of America.

Federal Republic of Germany

Germany is one of the most powerful EU nations, with the strongest and largest economy. Many nations have requested bailout funds from Germany. Germany however, does not provide bailout funds unless the receiving government takes austerity measures to reduce spending and manage their funds properly. While fellow EU nations have been affected by the Eurozone crisis, Germany has bounced back with an economy stronger than ever. Germany, under the chancellorship of Angela Merkel believes that the strict economic management and structural reforms should be adopted by other EU nations in the form of austerity measures. It is the only EU nation to have smaller debt since 2010; every EU nation's debt has significantly increased due to the crisis.

French Republic

France is another powerful EU nation. France however, takes a different stance to Germany on the austerity measures. France believes that a more sustainable method must be implemented, one that allows nations to develop normally and not cripple its economy further. The French Republic desperately would like Greece to remain in the Eurozone despite many opinions that Greece should be expelled. Though willing to aid Greece, France has been warned against writing off Greece's debt unconditionally by nations such as Germany.

EU (European Union)

The EU has also been providing bailout funds to Eurozone nations in order to ameliorate the situation. The EU wishes the situation would be alleviated as soon as possible, as the economy and stability of the Eurozone affects all of Europe as a chain effect. In order to ameliorate that problem, the EU has set up European Supervisory Bodies such as the European Banking Authority (EBA), European Securities and Markets Authority (ESMA), and the European Insurance and Occupational Pensions Authority (EIOPA). They are assisting banks of EU nations in multiple ways, working to economically reform Europe.

ECB (European Central Bank)

Founded in June 1, 1998 and headquartered in Frankfurt, Germany, it is the central bank of the Eurozone. It aims to achieve stability of the Eurozone. Therefore, it has played large roles in dealing with the issue. It follows European laws, but it has shareholders and issues stocks, similar to a corporation. It possesses 5 billion Euros in capital. In charge of monetary policies of European banks, the ECB has been striving to improve the Eurozone situation. The institution lends cash to governments and banks, calming the markets while ensuring that short term needs are covered. The ECB has provided and proposed policies in order to assist EU nations with being able to borrow money at reasonable rates.

Timeline of Relevant Resolutions, Treaties and Events

Date	**Description of event**
November 1, 1993	The European Union was formed, headquartered in Brussels, Belgium.
January 1, 1999	Creation of the Euro.
January 1, 2001	Hellenic Republic joins the Euro.

January 1, 2002	Bank notes and coins of the Euro begin circulation.
2008	Global financial crisis collapses the economies several world powers.
2009	The Eurozone nations begin facing problems, thus starting the Eurozone Crisis.

Evaluation of Previous Attempts to Resolve the Issue

There have been previous attempts to resolve the issue. None of them were particularly effective, or tackled the issues at hand successfully.

Bailout Funding

Billions and billions of Euros have been delivered by the IMF, EU, and other nations in order to aid in the crippling crisis. The IMF and EU have been each providing nations such as Greece, Italy, Spain, Ireland and more with massive amounts of bailout funds in order to alleviate their sovereign debt. Germany has also been providing aid. These parties have demanded austerity measures in exchange for providing aid, which has further crippled economic growth and sparked riots and protests.

European Financial Stability Facility (EFSF)

The EFSF was created by 27 EU member states in 2010, hoping to preserve stability and provide financial assistance to Eurozone states in dire situations. It was a political reaction and short term solution created by the EU. It's 440 billion Euros lending capacity was made possible by the governments of several EU nations.

Possible Solutions

There are several possible solutions to this complex and fragile financial crisis. Firstly, the austerity measures imposed upon nations seeking aid is crippling and stunting future economic growth and stability. An alternative must be found to prevent crises again, while being able to develop at normal rate and to bounce back with a strong economy. The French Republic has proposed to renegotiate austerity measures to allow nations to suffer fewer restrictions and guarantee a smooth recovery. Instead of stricter austerity measures, more investment may lead the way to a solution.

Generosity and debt write-offs based on international agreement can play a part in relieving pressure from severely affected Eurozone nations such as Greece. Greece has failed to meet debt deadlines on a few occasions and would benefit from such debt write-offs.

Furthermore, possibly a revision of the current conditions and regulations of the Eurozone in order to strengthen and stabilise the region may be necessary. Fiscal policies should be carefully managed and false reports on deficit spending should not occur. Another organization which provides bailout funds could be created by the EU in order to substitute the IMF. The IMF aims to gain profit by loaning countries; an organization created by the EU must have alleviating the issue a higher priority than primarily to profit.

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