Committee: Economic and Financial Committee (GA2)

Issue: Tackling the ongoing European debt crisis

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Position: Co-Chair

PERSONAL INTRODUCTION

Hello, my name is Marios Katzigkas and I am a Grade 10 student at Pinewood International American School of Thessaloniki. I have taken part in 5 MUN conferences before this one. I am very excited to co-chair my 3rd conference with you on the 6th ACGMUN.

During the GA1 session we will be discussing two very important topics, namely "Implementing measures to address the inflation of currencies in the More Economically Developed Countries (MEDCs)", and "Tackling the ongoing European debt crisis". You may use this document as a guide to your research and as a general overview on the second topic. It should not be your only source of information and each delegate should perform their own research in order to get a better understanding of the topic and their country's policy on it. Feel free to use the links provided at the end of the document to further your research. If you have any questions on the topic don't hesitate to email me at mkatzigkas@pinewood-school.gr.

I look forward to meeting and working with all of you and having a fruitful debate.

Regards,

Marios Katzigkas

TOPIC INTRODUCTION

The European Debt crisis has been an ongoing issue since 2009 following the recession of the global economy. It is a balance of payments crisis, meaning that the debts accumulated by European countries could no longer be paid off due to the global recession. The inability of European countries to pay off their debt occurred because foreign debts need to be paid off in foreign currency, which EU countries had small reserves of. Additionally, due to the recession the value of the debts in relation to the value of the country's own economy rose drastically. Normally, in a situation like this a country devalues its own currency in order to be able to borrow more money to pay off its debts. This, however, was not possible in Eurozone countries, since the value of their currency was controlled by the European central bank and not the country's own government. Countries such as Greece, Italy, Portugal, Spain, and Cyprus were affected the most by this crisis because the main income of most of these countries is either tourism or shipping, industries that were hit the hardest during the global financial crisis.

Over the following years and with the help of multiple organizations and bailout packages most European countries had either recovered from the initial crisis or were on their way to recovery. The recovery process was stopped, however, by the Covid-19 pandemic, which crippled the global economy once more. Countries that had struggled to recover from the initial debt crisis were placed straight back in due to the economic damages caused by the pandemic. Industries like trade and tourism were affected the most again, meaning that the aforementioned countries were hit the hardest once more. The unemployment rates and the reduction of exports forced eurozone countries to once again take large loans that will have long lasting effects on the economy.

Another factor that contributed to the current debt crisis in Europe is the nearby war between Russia and Ukraine. This war has mainly affected the European economy through the energy crisis it has caused. Most of Europe is dependent on Russian energy, which was cut off due to the war. This drove up energy prices and put a strain on businesses and governments. In order to keep the economy stable additional loans were taken out and inflation rose significantly. In addition to the energy crisis, Ukraine and Russia are some of the biggest distributors of wheat and barley, as well as certain metals. The war has placed a strain on these supply chains, which drove up prices for these very important resources. All of these factors have contributed to the current debt crisis in Europe and have made it more difficult for governments and businesses to recover from the economic downturn caused by the COVID-19 pandemic.

DEFINITION OF KEY TERMS

Debt Crisis

A debt crisis is a situation in which a country is unable to pay its debts. This can occur when the taxes collected by the government are not sufficient to pay off debts. A country with a good track record of paying debts will have no issue in lending more money in order to avoid entering a debt crisis. If a country does not pay off its debts for a while, new investors will stop lending money or demand an increase in interest rates for loans.

Balance of Payments Crisis

A balance of payments crisis occurs when a country is spending more on its imports that it is making through exports. If a country's foreign currency reserves are running low, and its balance of payments is in deficit, meaning that it is spending more that it is making, it becomes unable to pay for its imports or debt and enters a balance of payments crisis.

Interest Rate

An interest rate is how much it costs to borrow money. It is measured as a percentage of the amount borrowed. Banks give higher interest rates to higher risk loans.

Central Bank

"A central bank is an independent national authority that conducts monetary policy, regulates banks, and provides financial services, including economic research. Its goals are to stabilize the nation's currency, keep unemployment low, and prevent inflation."[1] Examples of Central Banks include: The European Central Bank, The Deutsches Bundesbank, The Bank of Greece, and more.

Global Recession

"A decline in real per-capita world GDP, backed up by a look at other global macroeconomic indicators. Those indicators include industrial production, trade, capital flows, oil consumption and unemployment."[2]

Bailout Package:

"Bailout is a general term for extending financial support to a company or a country facing a potential bankruptcy threat. It can take the form of loans, cash, bonds, or

[1] https://www.thebalancemoney.com/what-is-a-central-bank-definition-function-and-role-3305827

[2] https://www.wsj.com/articles/BL-REB-4504

stock purchases. A bailout may or may not require reimbursement and is often accompanied by greater government oversight and regulations.

The reason for the bailout is to support an industry that may be affecting millions of people internationally and could be on the verge of bankruptcy due to prolonged financial crises.“[3]

Fiscal Union

“Fiscal union involves individual countries sharing the same common budget. It means spending and tax levels would be taken by a central fiscal authority. Fiscal union also means debt would be financed by a common bond rather than individual countries.”[4]

Eurozone

“The eurozone, officially known as the euro area, is a geographic and economic region that consists of all the European Union countries that have fully incorporated the euro as their national currency.”[5]

BACKGROUND INFORMATION

The 2007-2008 Global Economic Crisis

The 2007-2008 Global Economic Crisis was a major financial crisis that spread beyond the US and affected the global economy. The cause of the crisis was the housing market bubble crash of 2008. A booming market before 2008 meant that demand was incredibly high. However, this led to a situation where many people were able to get mortgages, even if they had questionable income and low credit scores. This was allowed by banks because it allowed them to invest in housing market related derivatives that had high profit margins but were incredibly high risk. The profitability of these derivatives depended on the assumption that the housing market would continue on its upward trend. As the housing market began to cool down, however, and the value of these assets began to decrease, the derivatives lost their value, causing banks and financial institutions to lose their investments.

As banks started sustaining heavy losses through their high-risk housing assets, they stopped lending money to other banks. This of course created a domino effect in US banks, where because of the lack of loans banks were unable to fund their operations,

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[3] “What Is Bailout? Definition of Bailout, Bailout Meaning.” The Economic Times, https://www.economictimes.indiatimes.com/definition/bailout

[4] Pettinger, Tejvan. “Fiscal Union Explained.” Economics Help, https://www.economicshelp.org/blog/3115/economics/fiscal-union-2/.

[5] kenton. “Eurozone.” Investopedia, 2019, https://www.investopedia.com/terms/e/eurozone.asp.

which led to more and more banks stopping their loan programmes. These massive losses did not go unnoticed by investors, who, fearing a collapse, started selling their shares in banks en masse, leading to the Stock Market Crash of 2008.

In order to prevent a total collapse, the US government offered a bailout package totalling $700 Billion to banks. The government also implemented a series of measures to stabilize the markets and the economy, such as cutting interest rates and providing loans to banks. However, as the crisis was caused by the US, the near collapse of many US banks meant that external countries could no longer borrow from the US, further propagating the problem and creating a global recession.

The 2009 European Debt Crisis

Between 2009 and the mid- to late-2010s, the European Union experienced a debt crisis. Several nations in the eurozone, including Greece, Italy, Portugal, Ireland, Spain, and Cyprus, experienced financial turbulence during this time. These nations required financial support from other members of the eurozone, the European Central Bank (ECB), or the International Monetary Fund (IMF) in order to pay off or restructure their national debt or to rescue bank overdrafts.

Due to the shared usage of the Euro, countries were unable to devalue their currencies, which contributed to the balance of payments crisis. The majority of European nations relied on lending from abroad to pay off their debts. However, after the global financial crisis of 2008, other nations ceased funding to Europe, making it impossible for them to pay their loans. Many European nations experienced a balance of payments crisis as a result of this. Additionally, macroeconomic disparities among nations and the European Central Bank's low interest rates, which promoted borrowing, were to blame for the debt accumulation in some eurozone countries. The severity of the crisis was heightened by the lack of coordination among Eurozone nations as well as the lack of bank bailout packages.

High unemployment rates, weak economic growth, and political unrest in the afflicted nations were only a few of the key economic and political impacts of the crisis. Additionally, the crisis encouraged immigration from afflicted nations, particularly Greece, where emigration rates climbed from 43,685 in 2009 to 124,694 in 2012.[6] Through financial assistance programs like the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM), as well as ECB operations like decreasing interest rates and offering affordable loans, the crisis was mitigated. While others continue to have economic difficulties, several nations were able to exit their bailout programs and restore market access.

[6] Europa.eu, 2023, https://ec.europa.eu/eurostat/databrowser/view/tps00177/default/line?lang=en. Accessed 21 Jan. 2023.

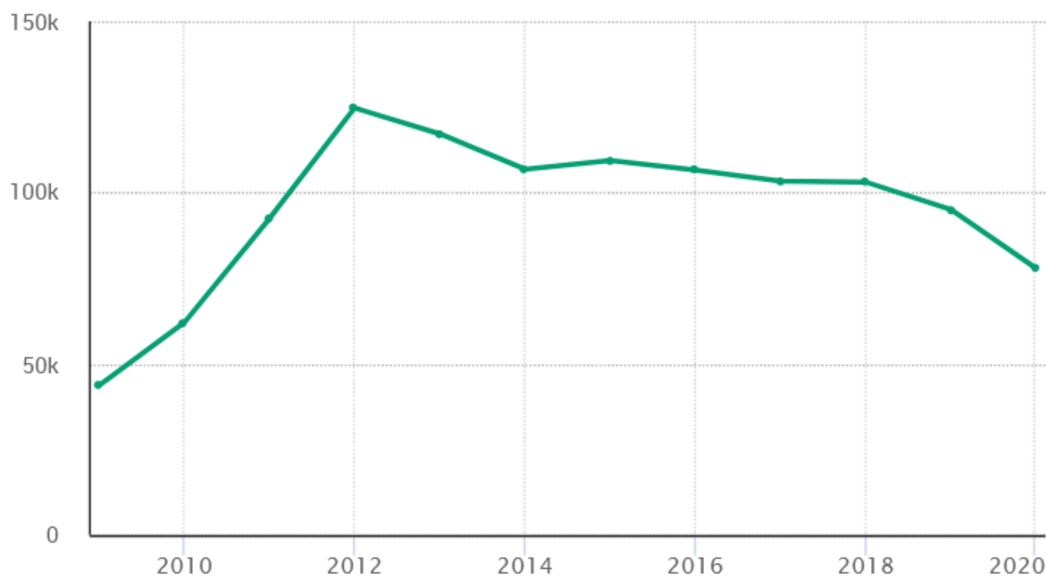

Figure 1: The Emigration rate of Greece from 2010 to 2020. Eurostat.[7]

The Recovery Process

The EU started offering bailout packages to the most impacted nations in order to recover from the European debt crisis. The newly established European Stability Mechanism (ESM) and the International Monetary Fund (IMF) issued these bailout packages.The European Stabilization Mechanism (ESM), which replaced the European Financial Stability Facility (EFSF) and the European Financial Stabilization Mechanism (EFSM), was created with the primary objective of offering bailout packages to EU nations in order to aid them in overcoming their financial challenges.

The European Central Bank implemented numerous measures to limit lending in order to further aid the recovery. These regulations were put in place to limit the amount of debt that nations might take on and to increase the accountability and transparency of financial institutions in order to prevent the same mistakes that caused the crisis from happening again.

The ECB implemented laws and bailout packages with the intention of assisting in the economic recovery of the affected nations and averting a recurrence of the crisis. In order to help the struggling nations restore market access, the EU and IMF collaborated to give them financial aid in the form of loans. In order to prevent future crises, the EU and the eurozone have since improved their

[7] Europa.eu, 2023, https://ec.europa.eu/eurostat/databrowser/view/tps00177/default/line?lang=en. Accessed 21 Jan. 2023.

economic governance and crisis management procedures. The actions adopted helped several nations recover.

The Economic Effects of the Covid-19 Pandemic

The biggest recession in the history of the EU resulted from the first wave of the coronavirus pandemic. The EU economy shrank by 11.4% between April and June, while the eurozone economy shrank by 11.8%. While the US reported a 9.5% reduction, the pandemic's effects were worse in Europe. However, there was record growth of 12.1% for the EU and 12.7% for the eurozone between July and September.[8] Sadly, the rebound was abruptly ended by the second round of containment measures, and the European Commission downgraded its projection for economic growth in 2021. The European economy won't reach its pre-pandemic level for at least two years, according to predictions.

The EU has approved a 750 billion euro recovery plan called "Next Generation EU," which consists of 360 billion in loans and 312.5 billion in grants, to alleviate some of the problems. The pandemic's strict lockdown measures severely reduced production in the EU's key businesses, including transportation, agriculture, food, and tourism. This resulted in a large decline in the GDP of the majority of European nations. In order to make up for their lower GDP, European nations had to take out more loans. Some of the issues have been resolved thanks to the ECB and the recovery plan.

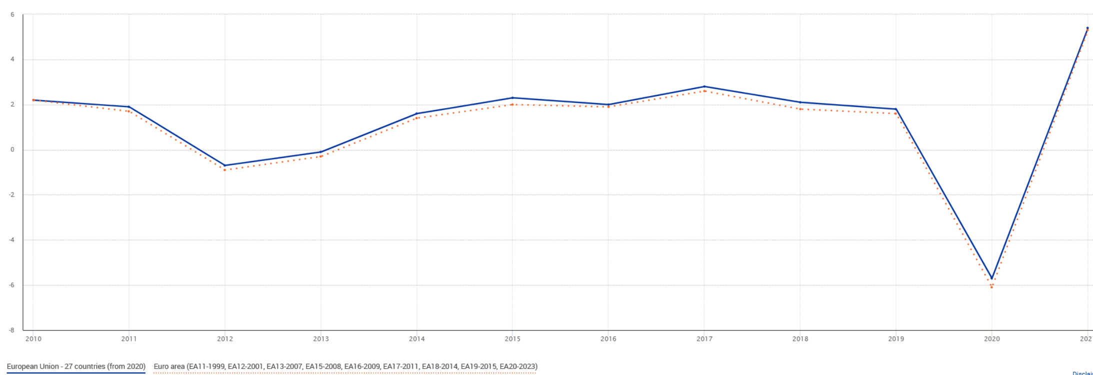

Figure 2: The GDP growth rate of the EU from 2010 to 2021. Eurostat.[9]

[8] "How Has Europe's Economy Been Affected by Russia's War in Ukraine?" Euronews, 8 June 2022, www.euronews.com/next/2022/06/08/how-has-europe-s-economy-been-affected-by-russia-s-war-in-ukraine.
[9] https://ec.europa.eu/eurostat/databrowser/view/tec00115/default/line?lang=en

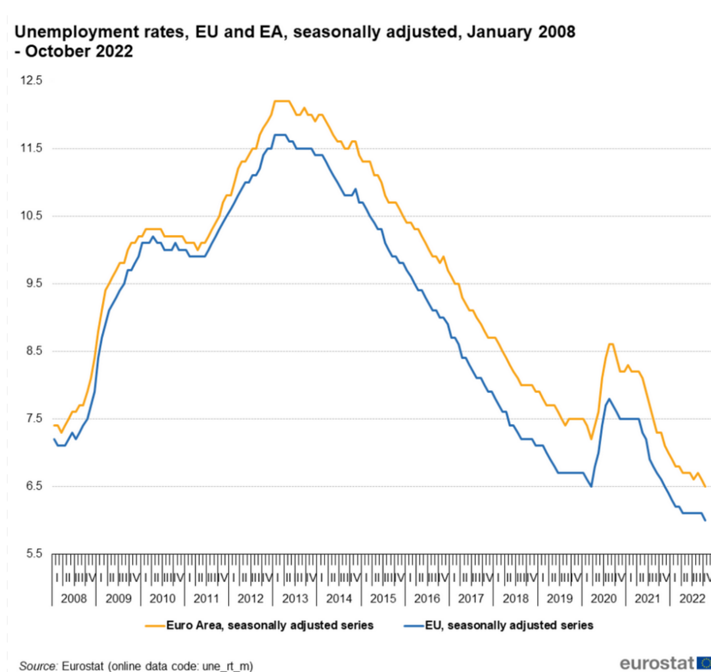

Figure 3. Unemployment rate of the EU and Euro Area from 2008 to 2022.[10]

The Economic Effects of the Russia-Ukraine War

The European economy is under tremendous pressure as a result of the energy crisis brought on by the loss of Russian natural gas. Governments are paying more money to offset the rising cost of energy as a result of the skyrocketing price of energy. The result is that further loans must be taken by European nations, which will slow the pandemic's recovery. As more currency was issued to cover rising energy costs and help failing businesses, inflation grew. The fact that Russia and Ukraine are important producers of metals and produce ¼ of the world's wheat further complicated the issue; as a result, prices for these raw commodities increased due to a lack of supply.[11] Significant supply chain problems brought on by the conflict also slowed down production of a variety of items, significantly lowering GDP. Even though the EU is struggling as a result of the conflict, it has taken some action against Russia, including sanctions like banning the sale of energy, aircraft, and oil refinery equipment as well as limiting access to visas and banking services.[12]

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[10]https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Unemployment_rates,_EU_and_EA,_seasonally_adjusted,_January_2008_-_October_2022_update.png

[11] Knorr-Evans, Maite. “Global Wheat Production: How Will the Russia-Ukraine War Impact Food Exports?” Diario AS, 25 Apr. 2022, https://en.as.com/latest_news/global-wheat-production-how-will-the-russia-ukraine-war-impact-food-exports-n/.

[12] Kneppelhout.com. “EU Sanctions Measures against Russia.” Kneppelhout, 28 Dec. 2022, https://www.kneppelhout.com/news/eu-sanctions-measures-against-russia/. Accessed 22 Jan. 2023.

MAJOR COUNTRIES AND ORGANIZATIONS INVOLVED

Russia

Russia's attack on Ukraine had caused one of the largest economic struggles for Europe to date. The war has created multiple supply chain failures in critical industries such as wheat and metal production. Additionally, as a response to the sanctions placed on Russia by the EU, Russian gas supply has been cut off entirely, plunging Europe in an Energy Crisis.

Germany

Germany is the largest Eurozone country and its economy has a big influence on the entirety of the EU's economic situation. During the initial 2009 European Debt Crisis Germany provided multiple bailout loans to struggling European countries. It also, however, has used its power over the EU in order to ensure that its export based GDP is sustained by exports to other EU member states.[13]

More recently, Germany's almost complete dependence on Russian gas for its energy supply has resulted in the country suffering the most from the Energy Crisis. The cutoff of the NordStream pipelines, which pipe gas directly from Russia to Germany has left Germany with no supply of energy. As a result, they have had to purchase large amounts of Liquid Natural Gas (LNG) from abroad, at a much greater cost. This had resulted in a lot of damage to their economy.

Ukraine

Due to the war Ukraine has not been struggling to maintain their exports, damaging both their own economy but also having an international effect. Being a key exporter of wheat, a key resource for all nations, Ukraine has caused a supply deficit across Europe and the world.

Greece

Greece was the country most affected by the 2009-2010 debt crisis. Greece's excessive loan based economy meant that as soon as the 2008 crash occurred they could no longer take out loans to balance their excessive debts. This, combined with the fact that the Greek government had been publishing false statistics in order to remain within the EU's guidelines meant that Greece was plunged into a severe crisis. In order to support the failing economy the government raised taxes and cut wages.

In order to avoid bankruptcy Greece took a total of 3 bailout packages from the EU and the IMF. These packages were extended loans with expiration dates set long in

[13] "Germany's Role in Europe and the European Debt Crisis." Stratfor, https://worldview.stratfor.com/article/germanys-role-europe-and-european-debt-crisis.

the future. Strict restrictions were set upon Greece with the taking of these bailout packages, restricting its tax, credit and banking systems in order to rescue the economy. This came at a great cost to the Greek population and Greek businesses. During the peak of the crisis Greece's credit worthiness score was lowered to CC, or selective default. This meant that Greece was selecting which loans to pay out and which to ignore.

While in the years before the pandemic Greece's economy was recovering, the lockdown measures hit its 2 major industries again. Shipping and Tourism was heavily restricted during the pandemic causing Greece's GDP to plummet. While Greece is on the way to recovery its debt to GDP ratio is still 193%.[14]

Greece's dependency on Russian gas is significantly less than other European countries and has therefore been minimally affected by the energy crisis. Greece's large supply of renewable energy, as well as their LNG terminal in Rebythousa [15]has allowed Greece to support its own energy needs and supply energy to other European countries.

France

France is one of the biggest Eurozone member countries and was therefore significantly affected by the 2009-2010 debt crisis. France saw its biggest post-war recession during 2009, with its activity voluming dropping by 2.6% during the recession.[16]

While France is normally not entirely dependent on Russian energy due to its nuclear power plants, the timing of the war was terrible for the French energy sector. When Russia cut off their gas pipelines into Europe, over half of France's nuclear power plants were inoperational due to maintenance. Maintenance on nuclear power plants can take well over a year and during this period France would rely on natural gas for energy. Now that Russian gas is no longer an option they have to turn elsewhere.[17]

[14] "Greece Government Debt to GDP." Tradingeconomics.com, TRADING ECONOMICS, 11 Dec. 2019, www.tradingeconomics.com/greece/government-debt-to-gdp.

[15] "The Greek Island Helping Europe Dodge an Energy Crisis." Www.youtube.com, www.youtube.com/watch?v=vOZS--1gMnI. Accessed 15 Jan. 2023.

[16] "The French Economy in 2009: A Recession of Unprecedented Scale since the Second World War – L'économie Française - Comptes et Dossiers - Insee Références - Édition 2010 | Insee." Www.insee.fr, www.insee.fr/en/statistiques/1372479?sommaire=1372493.

[17] "Energy Crisis - Why France Is Struggling to Power through the Energy Crisis." Energy Central, 20 Sept. 2022, www.energycentral.com/news/energy-crisis-why-france-struggling-power-through-energy-crisis. Accessed 22 Jan. 2023.

The European Central Bank

The European Central Bank (ECB) is the central bank of the European Union and is responsible for maintaining price stability and ensuring the smooth operation of the EU's monetary system. Its primary task is to preserve the purchasing power of the euro and to support the general economic policies of the EU in order to promote sustainable growth and employment. The ECB also acts as a lender of last resort and oversees the operations of the EU's banking system. Its decisions are made by the Governing Council, which is composed of the President and Vice-President of the ECB and the governors of the national central banks of the EU member states.

During the 2009-2010 debt crisis the ECB provided bailout packages to struggling nations, as well as changing the value of the Euro in order to maintain relative stability. The ECB monitors the financial systems of all EU member states and ensures that they remain within the criteria set out by the Maastricht Treaty.

The International Monetary Fund

The International Monetary Fund (IMF) is an international organization that aims to promote international monetary cooperation, exchange rate stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide resources to member countries in need. The IMF's primary function is to ensure the stability of the international monetary system—the system of exchange rates and international payments that enables countries to transact with each other. The organization provides policy advice, financial assistance, and technical assistance to its member countries, and also works with other international organizations to promote global economic cooperation. The IMF is governed by its member countries, which are represented by a Board of Governors, and is headed by a Managing Director.

The IMF was one of the key organizations that assisted European countries during the debt crisis. They provided multiple bailout packages to countries in need including Greece, Ireland and Cyprus.

TIMELINE OF EVENTS

Date	Description of event
Early 2008	Housing Prices in the US plummet
15 September 2008	Lehman Brothers, one of the biggest US financial institutions, goes bankrupt with over 600 Billion USD in assets.
October 2008	US Congress approves a 700 Billion USD bailout package for banks.
8 October 2008	Stock Markets across the world crash.

October 2009	Greece announces that its budget deficit is much higher than was previously thought.
3 March 2010	The European Commission creates the Europe 2020 plan, which sets goals for the development of the EU.
23 April 2010	Greece requests a 45 Billion EUR loan from the EU and the IMF.
9 May 2010	The EU creates the European Financial Stability Facility.
29 November 2010	Ireland receives a €67.5 billion bailout package from the EU and the IMF
2011	Spain and Portugal both receive bailout packages.
September 2012	The ECB announces that it will buy bonds of struggling countries.
25 March 2013	Cyprus receives a €10 billion bailout.
12 July 2015	Greece receives a third bailout.
24 January 2020	The first confirmed coronavirus case in Bordeaux, France.
April 2020	The UN publishes the “UN framework for the immediate socio-economic response to COVID-19.
2020	The GDP growth rate of the EU drops to -5.7, the biggest decline since the 2008-2009 crash.
27 May 2020	The European Commission creates a €750 billion fund called “Next Generation EU” in order to help recovery from the pandemic.
24 February 2022	Russian forces mount a full scale attack into the country.
5 September 2022	Gas flow into the NordStream pipeline, Europe’s largest single energy source, is cut off by Russia, placing Europe into an energy crisis.

RELEVANT UN RESOLUTIONS, TREATIES AND EVENTS

Basic Principles on Sovereign Debt Restructuring Processes A/RES/69/319 Adopted by the UN general assembly on the 10th of September 2015

The UN sovereign debt restructuring resolution presents a set of guidelines that aim to manage sovereign debt in a way that is transparent, fair and efficient. It sets out

principles for how sovereign states and creditors should interact when dealing with debt issues, to ensure that all parties are treated in a fair and equitable manner. The resolution specifically states how a country should go about restructuring its sovereign debt if it is having difficulty paying it, and sets out the rights of both the sovereign state and its creditors in this process. The resolution encourages transparency in all aspects of dealing with sovereign debt and sets a framework for the management of this critical issue.

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

The European Stability Mechanism

The European Financial Stability Facility (EFSF), which served as the precursor of the European Stability Mechanism (ESM), was created with the objective of regulating and enhancing the stability of the European financial system. The ESM, which was established in the wake of the debt crisis, has subsequently emerged as a crucial tool for maintaining the EU economy. As a part of bailout agreements, the ESM gave Greece long-term loans in order to support the EU economy during the initial crisis. To date, the ESM has loaned €295 billion to EU nations that required financial support. The European Stability Mechanism (ESM) is a key organization for ensuring EU stability and continues to be crucial in aiding member states through difficult economic times.

REGULATION (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

In order to prevent risky investments and dangerous strategies, like the ones that first caused the debt crisis, the EU regulation on banking systems lays out a comprehensive and precise regulatory framework for credit institutions and investment organizations. The quantity of capital that these institutions must have on hand is one of the primary restrictions imposed on them. By taking this action, banks will no longer face the problem of not having adequate capital to cover withdrawals and payments. The rules also include safeguards to protect depositors, such as a payout guarantee of up to €100,000 in the event that a bank fails. By doing this, the banking system's reputation will be improved, and the stability of the EU financial system will be guaranteed.

Proposal for a COUNCIL REGULATION Establishing a market correction mechanism to protect citizens and the economy against excessively high prices. COM/2022/668.

This is a regulation that aims to reduce the economic strain of the energy crisis on EU citizens by implementing measures to ensure that the EU is able to sustain itself without Russian gas. These measures are based on switching to alternative fuel sources, reducing demand and reducing heating and cooling across the EU. One of the main clauses of the regulation is that the gas storage must be filled 90% before the winter. The regulation also ensures that energy producers that use low-cost sources like coal or solar do not take advantage of the increased energy prices by placing a revenue cap on those sources. This will reduce energy prices and provide states the capital to offer compensation for reduced consumption.

POSSIBLE SOLUTIONS

One possible solution to the European debt crisis is for the European Union to implement a fiscal union. This would involve the EU establishing a unified fiscal policy, which would be implemented by the European Central Bank. This would allow the EU to coordinate fiscal policy across the Eurozone and ensure that countries are not over-borrowing and running up unsustainable levels of debt. A fiscal union would mean that all EU member states would follow the exact same banking rules across their banking system. This would interest rates, tax collection and expenditure control all being managed by a central entity, most likely the European Central Bank. At the moment each EU state has independent tax collection and expenditure and all banks have interest rates controlled by their states central banks. A fiscal union would ensure better oversight and control by a single governing body that would decrease the likelihood of another debt crisis.

Another possible solution is for the European Union to provide more financial assistance to countries in need. This could involve the European Union providing direct financial assistance to countries in order to help them address their debt issues. This could also involve the European Union providing grants to countries in order to stimulate economic growth and reduce debt levels.

Finally, the European Union could impose stricter regulations on banks and financial institutions in order to prevent them from taking excessive risks. This could involve imposing higher capital requirements on banks and limiting their access to certain types of investments. This would help to reduce the risk of another financial crisis occurring in the future.

The EU could also implement stricter criteria for joining the EU and remaining in it. In order to ensure that countries do not risk creating another debt crisis the EU could

look more closely at their economy to ensure that they meet the criteria for joining the EU. More, importantly, if a country reaches a point where their debt is unsustainable and they are causing a crash in european economy, the EU should consider implementing intensive measures such as removing them from the union, the eurozone (if they are in it), or placing the country on a type of probation.

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