**Conference:** TISMUN I

**Forum**: General Assembly

**Issue**: The Question of the Eurozone Crisis

**Student Officer**: Cindy Leow

**Position**: Co-Chair of the General Assembly

**Student Officer Profile**

Hello! I’m Cindy and I’m 16 going on 17 this year. I was a student at Sri Garden International (now called Taylor’s International School, as you know) and having completed my IGCSEs, I graduated last year. I’m currently taking a gap year until I begin schooling again in August for the IB Diploma at IGB International School. I’m now dabbling into different things such as interning at multiple companies, social media marketing, participating in MUN conferences, fitness, creative & article writing, doing charity for disabled children, and blogging. This will be my first time chairing a committee, though I’ve attended about 10 conferences before this. I hope this will be a wonderful experience and I’m excited to meet all of you and to listen to what you have to say.

**Statement of the Problem**

The ‘Eurozone’ is an area in Europe consisting of the eighteen countries who have adopted the Euro as their universal currency: Austria, Belgium, Cyprus, Estonia, Finland, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain. The European Union, on the other hand, consists of 28 countries, 10 of which have their own separate currencies. The Eurozone is arguably one of the most unified areas in the world, bound together by its common currency & similar economic goals and approaches. The European Union had came into fruition in 1951 after the Second World War, with the effects of a disintegrated continent marked and made prominent by the bloody lacerations of the war. It was believed by politicians back then that economic unity would lead to a harmonious continent and prevent the outbreak of future wars, which has worked thus so far. The signing and the ratifying of the Maastricht Treaty in 1992, which founded the backbone and rudimental architecture to the economic amalgamation of the Eurozone, served as the epoch whereafter, in 1999, when the Euro began to be implemented as the Eurozone’s unified currency. Of course, at the time, each country who wanted to join the Eurozone had to meet economic prerequisites in terms of inflation, budget deficits, interest rates, etc. However, there were many problems that have been stark since the establishment of the shared ‘Euro’, most of which were ignored and have led so far to the ongoing crisis today. Such as, the fact that despite sharing the same currency, things like taxes and wages, etc are not taken into account.

Firstly, the Maastricht Treaty architecture only coordinated monetary policy between the countries which is already a problem, because it left little flexibility, forming a ‘one-size-fits-all’ monetary policy that simply did not work for all the Eurozone countries. Besides, the Maastricht treaty had also left most economic and fiscal policy decisions under the discretion of each nation’s sovereignty, which allowed for large, unchecked plethoras in spending - coupled with easy borrowing from the European Bank, leading to complacency - that spiralled into the debt crisis today. Greece, Spain, and Ireland have declared bankruptcy and there is as likely a chance of the other EU countries doing the same, with current economic situations, requesting bailouts from the EU and the IMF, which will be increasingly pressing on resources. This rapid proliferation in international loans have led to crippling rocket-high interest rates in the countries borrowing the money to aid their insufferably high debt levels. The crisis has also led to a loss in confidence in European businesses and banks.

Economic growth is sluggish, and is predicted to be below 1.5% yearly until 2015 for the European countries in bankruptcy; unemployment is high, leading to even lower national revenues and ever-increasing expenses for the unemployed; austerity measures are crippling for the increasingly angry public citizens as minimum wages are reduced and pensions are also diminished, spiralling into many political issues and leading straight down a suicidal plummet into an 18-month recession, which had just ended recently. Worst of all, this crisis has definitely affected global economics adversely and will continue to do so if it worsens, as evinced in a report by the UN: "An escalation of the crisis would likely be associated with severe turmoil on financial markets and a sharp rise in global risk aversion, leading to a contraction of economic activity in developed countries, which would spill over to developing countries and economies in transition," the report said.

With the end of the aforementioned recessions, it is said that the worst of this crisis is over. However, the European market has remained stagnant since the end of the recession, and unemployment still remains high - and is predicted to stay there for a few more years. The Eurozone still remains vulnerable to foreign changes in the market & needs to rebuild its foundations in order to remain standing strong.

**Definitions of Key Terms**

1. **Sovereign debt:** The money owed nationally by the central bank of a government to all its foreign creditors.
2. **Austerity:** An economic term that literally means an “enforced or extreme economy”. This is when governments, in a time of high debts, attempt to close up budget deficits by extreme cutting on spendings, especially on welfare, social and essential programs, and increasing taxes. Austerity plans are mostly implemented “when a country's debts far exceed its potential revenue through taxation and the sale of exported goods” (Pollik), and have thus been seen in Greece, Portugal, Spain, etc, to alleviate their debt crisis.
3. **Permanent bailout fund:** This is a permanent mechanism that covers any future bailout packages for countries in the EU, in the form of an organisation called the European Stability Mechanism (ESM), which was formed to replace the former temporary organisation for bailout funds: the European Financial Stability Facility (EFSF) and also to aid banks for the same purpose.

**Timeline**

2009

* 2009, October - A general consensus of anger and indignance from the Greek public towards the Greek government’s alleged extreme corruption and overspending led to the victory of George Papandreou’s Socialists in a snap general election.
* 2009, December - Many argue that this is where the crisis started, with Greece announcing that its debts had reached 300 billion euros ($440 billion), which is approximately 113% of its annual GDP. This is remarkably the highest debts in modern history, almost twice the EU-limited debt level of 60% GDP.

2010

* 2010, February - Greece introduces severe austerity measures to combat their growing budget deficit of 12.7%, increasingly. The EU encourages this, promising to support Greece, and the increased austerity measures spark an aggrandisement in both the anger of the Greek public, leading to riots and demonstrations, and the watchful concern of neighboring heavily-indebted countries such as Spain, Ireland, and Portugal.
* 2010, March - The EU and the IMF decide on a safety net of 22bn euros to help Greece, but no loans. The Euro continues to fall against the pound and the dollar. Greek borrowing records continue to rise.
* 2010, 2 May - The EU members and the IMF decide on a 110bn bailout to save Greece.
* 2010, September - Ireland faces a double-dip recession as its national output drops 1.2%

2011

* 2011, February - The EU sets up a permanent bailout fund, called the European Stability Mechanism (ESM), worth 750bn euro (then, almost a trillion dollars), to replace the previous European Financial Stability Facility (EFSF), worth 440bn euro.
* 2011, Feb. 4 -- Germany and France call for "pact for competitiveness," with specific economic reforms to improve growth in euro zone. However, proposal gets frosty reception at EU summit. (WSJ)
* 2011, March - Portugal’s government falls due to disputes about the austerity measures; Prime Minister Jose Socrates resigns.
* 2011, April - Portugal admits it cannot deal with its finances and requests a bailout. In May, the EU approves a bailout fund of 78bn euro for Portugal.
* 2011, May - Ireland is forced to accept a rescue of 21bn euros, despite street protests by hundreds of thousands of workers against bailout payments earlier in the year.
* 2011, June - Greece accepts a 120bn bailout from the EU in exchange for increased austerity measures; this is its second bailout.
* 2011, July - The Council of the European Union agrees on a solution to tackle the Greece sovereign debt crisis.
* 2011, August 31st - The IMF claims that losses due to exposures to sovereign bonds could potentially reach €200bn for European banks.
* 2011, September - Italy’s largest trade union starts a one-day general strike which virtually shuts down the country. In response, Italy’s legislature ultimately approves a €54 billion ($74 billion) amended austerity package aiming to wipe out Italy’s budget deficit by 2013.
* 2011, November - Greek Prime Minister Papandreou resigns in light of the crisis’ futility, and is replaced by Mario Monti.
* 2011, November - Spanish voters sweep the ruling Spanish Socialist Workers’ Party (PSOE) from power, handing the Popular Party (PP) an overall majority in parliament. Zapatero remains caretaker prime minister while PP leader Mariano Rajoy begins the task of forming a new government.
* 2011 December – French President Nicolas Sarkozy announces that the EU countries will establish an intergovernmental treaty that will lay down new budgetary rules to tackle the crisis. However, the treaty changes fail due to the objections of the UK and Hungary.

2012

* 2012, February - A violent protest sparks in Athens as the Greek government call for increased spending cuts, which opens the door to new bailout payments from the EU worth 130 bn euro.
* 2012, March - After a general strike drew hundreds of thousands of protesters to the streets in Barcelona and Madrid, the government of Spanish Prime Minister Mariano Rajoy unveils a budget that cuts some €27 billion (about $35 billion) in spending, a reduction of almost 10 percent from 2011 levels. (Britannica)
* 2012 March - Euro-zone finance ministers announce an expansion of the EFSF and European Stability Mechanism. The two primary elements of the euro zone’s financial firewall will now have access to a combined €800 billion (about $1 trillion) in funding.
* 2012, March 28 - In a reversal from October/November 2011, China announces its intention to contribute to European bailout funds.
* 2012, April 9 - Spain states that it will cut €10 billion in spending on education and on health.
* 2012, May – The presidential election in France brings to power the first socialist in over a decade, François Hollande, and he immediately changes the focus of the debt crisis debate from austerity to growth. (Voss)
* 2012, May 2 - Eurostat announces that unemployment has risen to a 15-year high of 10.9%.
* 2012, May 17 - The European Central Bank says that it will stop lending to some banks in Greece to limit its risk exposure to the troubled country.
* 2012, June - The Spanish government requests €100 billion (about $125 billion) in financial assistance from the EU to recapitalize its banks.
* 2012, June 20 - Greece forms a three-party coalition government composed of the New Democracy, Socialist, and Democratic Left parties. New Democracy leader, Antonis Samaras, is sworn in as Greek prime minister.
* 2012, June 26 - Cyprus announces that it needs a bailout payment from the EU. It is speculated that the bailout payments will amount to 4 bn euro.
* 2012, September 12 - European Commission President José Manuel Barroso unveils plans for a unified supervisory system for the eurozone to be headed by the European Central Bank.
* 2012, October 31 - Eurozone unemployment situation achieves another record in September, hitting 18.49 million people, and putting the rate at 11.6%, up from 11.5%.
* 2012, November 28 - Greece announces that it will borrow €10–14 billion to finance the repurchase of debt demanded under the new terms of its bailout agreement.
* 2012, December 13 - Unemployment in Greece hits 24.8% in the third quarter, a rise from the second quarter’s 23.6% rate. “Long-term unemployed” — those who have looked for work for more than one year — hits 62.6%.

2013

* First half: Portugal’s economy recovers, coming out of recession, Spain in the second quarter
* Second quarter: Ireland’s economy grows by 1.5%
* Second half: The European countries’ GDPs have increased by 0.5%
* Greece, Spain and Portugal eliminates vast current-account deficits and reduces their dependence on foreign aid
* However, the debt levels of the governments in the EU still remain precariously high, leaving them vulnerable to external shocks.

**Possible Solutions**

1. The Eurozone, in order to continue standing strong, will need to undergo many cardinal economic reforms to ensure long-term solutions to the debt crisis. Many observers of the Eurozone have suggested that a limited fiscal union between the participating countries in the Eurozone would strengthen the European & Monetary Union (EMU) which only coordinates the Eurozone countries’ monetary policies, which alone is both inadequate and ineffective. A fiscal union, if properly developed with democratic divisions in power, alongside the banking union, will have a better oversight of each countries’ national policies, and will enforce rules especially in reinstating fiscal discipline and market discipline. Control, including requirements that taxes be raised or budgets cut, would be exercised only when fiscal imbalances developed so as to maintain each nation’s sovereignty and to reduce the strength of political censure against the formation of a fiscal union.
2. Expansionary growth policies, to reduce unemployment and to stop austerity plans. As can be seen in the past such as in Greece, severe austerity measures like heavy cuts in spending on social/welfare programs have not been beneficial to improving unemployment or narrowing the deficit and increasing tax rates to be higher than the average Greek citizen; many say austerity is merely a short-term solution that hampers future growth. The economy will simply not grow if austerity measures sustain, and this will lead to Greece sempiternally relying on their financial aids to pay off debts, which is disastrous to living standards in Greece and any future economic development. In order to solve their crisis, they need to remain competitive with the rest of the world. Expansionary growth policies and an increase in consumer confidence will incur economic growth and to reduce unemployment which will thus increase GDP. What we need is for the Greek economy to grow and to do that, debts need to be reprieved to a later date. Of course, Greece must be given a specific period of time in order to adhere to this, and this can be overseen by the aforementioned fiscal union, which will make sure that the Greek government does not imprudently overspend again. However, seeing as the bridling condition for Greece to accept bailout funds from the EU is to increase the stringence of austerity measures, this is not possible, so this condition needs to be altered seeing as this crisis will not mitigate if the situation does not change.
3. If the above does not work and the EU economy still fails to improve, the permittance of countries, specifically Greece, to voluntarily leave the EU should be reinstated and enunciated. In the original Maastricht Treaty, there is no clause pertaining to how a country leaves the EU, but this can be rectified and rewritten easily. Greece’s multiple, not just one, bailout requests in the past few years have caused a terrible strain in the euro, and have proved that “the debt dynamics of Greece are unsustainable” (MacKinnon). Economists have enunciated that constant bailouts would be highly pernicious to the stability of the Euro, and that spending such exorbitant amounts of money to aid Greece in the short-term will lead to the downfall of the Euro. Even Germany, one of the powerhouses in the EU, has supported the stance for Greece to leave the Euro. Yes, it is widely speculated that if Greece leaves the EU, global markets and Greece’s neighbouring countries’ banking finances would be left in a chaotic uproar. However, it is important to remember that we are working in the long-term, and this would be more pragmatic in the future.
4. Seeing as there were many flaws in the original Maastricht Treaty, there needs to be major changes to the structure of this treaty. Although it is stated in this treaty that countries are not allowed to borrow more than 3% of their GDP, France, Germany, Greece and several other countries easily did that with no consequence. It is true that economic sanctions against the guilty country should be placed against them, in official EU rules, but in current economic context, sanctions would be both unnecessary and very deleterious towards the EU and the countries sanctioned. Therefore, these flaws need to be altered to match situations in the current in order to serve a better purpose.

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