



Topic Synopsis

2nd ECOFIN, Financial Crisis in Greece

I. Background of Topic

The Eurozone is facing a serious debt crisis with several member countries that have potentially unsustainable public debt. These countries-Ireland, Portugal, and Greece- have borrowed large sums of money from the International Monetary Fund and other European countries in order to avoid default. Greece remains at the center of this crisis with one of the largest budget deficits in the Eurozone and the greatest public debt. It was exposed that successive Greek governments had deliberately misrepresented the economic statistics of Greece to stay within the monetary union guidelines. The Greek government was able to spend more than they should have while keeping the actual deficit a secret. Later, the Greek deficit was revised to be one of the highest in the world relative to its economy. As a result, there has been a loss of credibility in Greece's ability to repay its sovereign debt. Rescue packages have been created to bail-out Greece, but Greece was required to accept difficult austerity measures to control its deficit. Greece's economy has an impact on the whole European Union and the value of the Euro. If Greece's economy does not improve, there may be devastating effects on the banks that have lent money to Greece, especially if they are not able to pay back the loans. The crisis in Greece can correspondingly affect trading worldwide and cause a recession in Europe if a solution is not found.

II. UN Involvement

The International Monetary Fund along with the European Union is involved with the funding for Greece. The Greek government agreed on the start of a support mechanism that included one hundred and ten billion dollars in loans from the IMF and EU. Several austerity



measures were made to try to reduce the debt. Furthermore, a law was passed to initiate the support mechanism that has to do with the agreement and approval of the European Central Bank, the EU, and the IMF. The International Monetary will not release additional funding for Greece unless there is broad political support for the loan package. When the Greek government shows its commitment to the loan package, the money will be released. The Greek government is hoping to receive money from the rescue plan by the middle of December. The IMF is seeking assurances of political support from Greece before releasing the money. The austerity measures caused demonstrations and strikes by the Greek political parties and trade unions. Regardless of the hostility of Greek public opinion towards the IMF, it was understood that the Greek government had already become involved in this economic policy before the IMF had become involved in this issue. The space for the IMF's consolidation package is quite restricted but the IMF is still trying to improve its negative reputation as it was revealed that many people came to a meeting to try to improve the Fund's image.

III. Possible Solutions

There are many possible solutions that could be enacted to benefit the Greek financial crisis. One of these possible solutions is for the European Union and International Monetary Fund to continue funding. With this continued funding, Greece would be able to keep paying off their large sums of debt. Another possible solution is to convince the European Central Bank to buy up Greek debt. This would be a long term goal which would involve much time and effort to achieve but would be very beneficial if they were to buy it because Greece would no longer have to worry about its debt. Furthermore, another possible long term solution would be for China to make direct investments in Greece or purchase Greek debt. With China in a



stable economic standing, it would be helpful if they would spend some of their money on investments or purchasing the debt because the large sums of money that the Greek government owes is too much for them to pay back on their own. The Greek government needs help from others to improve its economy and get out of this financial crisis. An additional solution would be for the United States to provide financial support. All the assistance that Greece can get is much needed to improve their current financial status. A final possible solution is to raise the credibility of the International Monetary Fund because many civilians have had a negative view towards the IMF, and if this were to change than the IMF may possibly donate more money to Greece. With the enactment of these solutions, the Greek financial crisis is certain to improve.

IV. Bloc Positions

Europe will try to save Greece because it is in its economic interest to save a fellow nation. Europe would have the most to lose if Greece were to default on its debt. It would affect the financial institutions in Europe the most and possibly cause the Euro to fail. It also would most likely cause Europe to fall into a recession. Therefore, Europe would be actively involved in resolving the Greek debt crisis.

Latin America, Africa, and the Middle East would be affected by the global ramifications of a Greek default but they lack the political will and funding to be able to resolve the Greek debt crisis. Asia trading with Europe would be affected because of the recession that would be caused by a Greek default but it appears that they lack the political will to provide funding even though some Asian countries have large monetary reserves.

V. Guiding Questions

What's the problem in Greece?



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Explain the nature of the crisis Greece is facing.

How big are these debts?

What is Greece doing to solve this problem?

How will this crisis affect the rest of Europe?

What are some of the most important measures the IMF is taking?

How are Greece's European neighbors helping to solve this problem?