RESEARCH REPORT

Resolving the Greek Crisis

Issue:	Resolving the Greek Crisis
Forum:	European Council
Position:	Chair
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Introduction

For over the past years, the European Union has endured several political, economic and humanitarian issues. These include the migration crisis, caused by the ongoing war in the Middle-East, as well as the Greek economic crisis, the instable economies of Mediterranean member states and acts of terrorism.

The issue at hand, the Greek crisis, has been an issue effecting the entire European Union and many other countries with close ties to Greece. After Wall Street imploded in 2008, Greece announced in October 2009 they had been severely understating its deficit figures for years, raising alarms about the soundness of Greek finances. Being shut out from borrowing in the financial markets, by the beginning of 2010 Greece was looking towards bankruptcy.
To avoid further calamity, the so-called troika (IMF, ECB and European Commission) issued two international bailouts for Greece which would eventually total more than 240 billion euros.
These bailouts came, of course, with certain conditions in the forms of severe austerity measures to deeply cut in budgets and increase tax steeply. These bailouts also required Greece to overhaul its economy by consolidating the government, stopping tax evasion and making Greece an easier place to do business for local and, national and international companies.

Definition of Key Terms

Austerity

Austerity is a set of economic policies implemented with the aim of reducing government budget deficits. Policies grouped under the term 'austerity measures' may include spending cuts, tax increases, or a mixture of both, and may be undertaken to demonstrate the government's fiscal discipline to creditors and credit rating agencies by bringing revenues closer to expenditures.

Bailout

An economic term for giving a loan to a company or country in grave financial circumstances possibly facing bankruptcy if not offered any help.

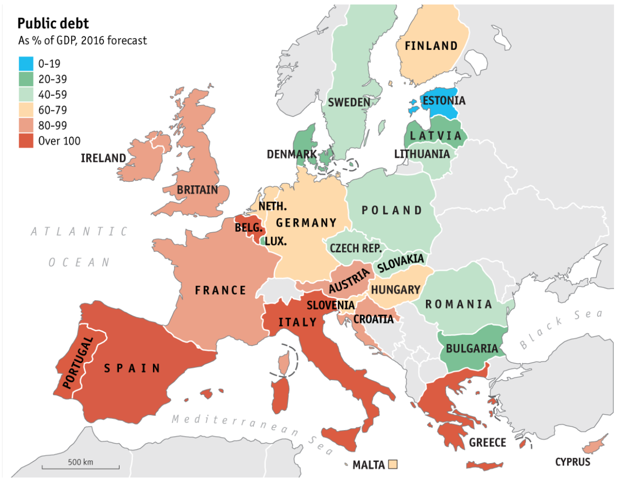
European Council

The European Council, charged with defining the European Union's overall political direction and priorities, is the institution of the EU that comprises the head of state or government of the member states, along with the President of the European Council and the President of the European Commission, presently performed by Donald Tusk and Jean-Claude Juncker respectively.

General Overview

What effects does the Greek Crisis have on the EU member states and global financial system?

Most decision-making power within the European Union, particularly on matters involving politically delicate things like money and migrants, rests with 28 national governments, each one beholden to its voters and taxpayers. Since January 1999 and the introduction of the euro, binding 19 nations into a single currency zone watched over by the ECB, this tension has grown more but leaves budget and tax policies in control of each country, an arrangement of which some economists believe it was doomed from the start.



Public debt of he 27 member states of the EU as since 2016 – The economist

Since the start of Greece's debt crisis in 2010, most international banks and foreign investors sold most of their Greek bonds and other holdings, to avoid any further vulnerability to the situation in Greece. In the meantime, crisis in other countries in the Eurozone such as Portugal, Spain and Ireland have taken big steps to overhaul their economies making them much less vulnerable to market contagion than they were a few years ago.

What would happen if Greece left the Eurozone?

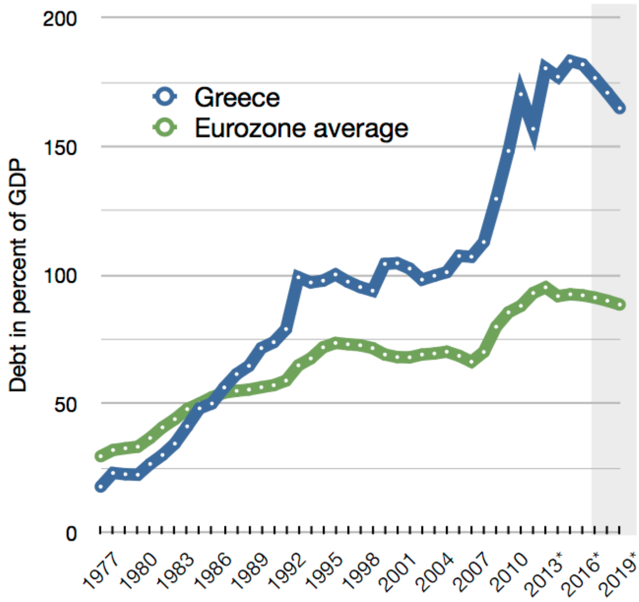
At the peak of the Greek crisis a few years ago, many experts and European leaders worried that Greece's problems would contaminate the entire world. If Greece would fail to meet financial legal obligations on its debt and exited the Eurozone, they argued, it might have created global financial shocks bigger than the collapse of Lehman Brothers holdings did.

Some people believe now, that if Greece were to leave the European Union, being known as a ''Grexit'', it wouldn't be such a catastrophe anymore. By putting up safeguards to limit so-called financial contagion, Europe has done a great effort to keep the problems from spreading to other countries. These people also say because Greece is a relatively small part of the Eurozone economy, they could regain financial autonomy by leaving and possible be better off without a country who seems to constantly look for its' neighbors support.

However after the Brexit, most European leaders are keen to avoid a new Greek crisis at the possibility of Greece leaving the European Union. The European Union also needs Greece's help in tackling the continuing migration crisis because of its very high concentration in the Aegean and Mediterranean sea.

Why is Greek still in a crisis even after hundreds of billions of bailout?

All the money from the bailouts was supposed to buy Greece time to stabilize its finances and conquer market fears that the Euro Union itself could break up. While that helped, Greece's economic problems haven't faded away. The Greek economy even shrunk by a quarter in the last five years and unemployment is at 25,6% percent. The bailout money mainly went towards paying off international loans instead of bringing it into the economy. The government also still holds a staggering debt load it cannot start to pay unless a recovery of the economy takes place.



Source: Eurostat
* Source: Ernst & Young using data from Oxford Economics

To begin with, the government must continue the deep economic overhauls and austerity measure required by the bailout deal Prime Minister Alexis Tsipras brokered in August 2015. They should also unwind capital controls which were put in place after political disruption caused a run on Greek banks.

Eventhough Greece's relations with Europe and especially the European Union are in a fragile state and several of its leaders show impatientness, they must continue with deep-reaching overhauls of the Greek financial and political system, of which many were supposed to have happened years ago already. It might seem unlikely EU member states will tolerate the obstacle of past administrations but it is also in their own interest they cooperate strongly with the European Union, Greece and other EU member states to solve the Greek Crisis and with that a large part of the European Debt Crisis.

Major Parties involved

European Union

The European Union is one of the key parties in resolving the Greek Crisis. Deeply involved in finding a solution for the Greek Crisis, the stability of the Euro is a main concern of the European Union. Resolving the Greek Crisis is an important issue for all EU member states due to its influence on the Euro rate and economic prosperity throughout Europe.

IMF

The IMF, International Monetary Fund, is an international fund that monitors economic and financial development and lends to countries with balance and payments difficulties when necessary. They also provide countries with technical assistance in areas of its expertise. The IMF has provided Greece with three bailouts since the start of the Greek Crisis with a total value of tens of billions of euros.

ECB

The European Central Bank (ECB) is the central bank of the 19 European Union countries which have adopted the euro. Their main task is to maintain price stability in the euro area and so preserve the purchasing power of the single currency. The European Central Bank is one of the main European parties to provide Greece with financial support since the beginning of the Greek Crisis

Greece

With many different leaders since the beginning of the Greek Crisis, Greece has been through an incredibly politically instable decade. The crisis which started in 2009 led to a series of events that changed the political and financial face of Greece. The crisis has had far-reaching consequences for the EU as an entirety on their financial situation and also political co-operation in the EU region.

Timeline of Key Events

23 October 2009 – Greece's budget deficit is expected to reach ~12.5% of GDP

23 April 2010 – Prime Minister George Papandreou formally requests an international bailout for Greece. EU, IMF and ECB agree to participate.

2 May 2010 – The IMF, Greek Prime Minister Papandreou, and other eurozone leaders agree to the First bailout package for €110 billion ($143 billion) over 3 years.

21 February 2012 – The Second bailout package is finalized. It brings the total amount of eurozone and IMF bailouts to €246 billion by 2016, which is 135% of Greece's GDP in 2013.

4 April 2012 – A retired pharmacist commits suicide a short distance from Greece's parliament as an act of protest against austerity and becomes a symbol for groups opposing the austerity measures.

13 July 2015 – Greece and European creditors strike deal for 86 billion euros bailout over three years, though it must be approved by the parliaments of all of the Eurozone member states.

14 August 2015 – Greek parliament approves the package of measures for the third bailout package.

Possible Solutions

To begin with, the European Council has to find ways to stabilize the financial situation in Europe as a whole. Part of this process is helping the Greek government to climb out of their financial crisis. Secondly, the European Council should look towards further cooperation between European nations and monetary organisations to prevent any other crisis such as the one at hand. Not only resolving the issue at hand but also looking further down the road should be of great importance to the European Council. To sail in prosperity like the EU did for the last decades, they will have to ensure an economically and financially healthy future for all EU member states.

Points or questions to consider while making a resolution:

- Even though it is not a question of guilt, should any country or organization be held responsible for the Greek Crisis and if yes, who? What should happen in the future to prevent this from happening again?
- What responsibility does the UN have in solving the Greek crisis?
- To what level do we expect Greece to redeem their financial debt?

In your research try to at least look into the following questions:

- To what extent is your country involved in the Greek Crisis and how much does it want it to be resolved?
- How much has your country already contributed to resolve the Greek crisis?
- What is your country's current stance towards the Greek government and the issue at hand?

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[1] Sincerely recommended to read this articles for your research.