Committee: European Council of Ministers

Topic: Economic Crisis in the EU

I. About the European Union Council of Ministers:

The European Union Council of Ministers (also known as the Council of the European Union or CONSILIUM) is a European Union institution comprising 28 ministers of all EU member states. The Council meets in ten different configurations, however the composition and frequency of Council meetings vary depending on the issues being discussed. The different ministers, such as foreign and finance ministers, meet once a month to discuss EU policies and issues on the agenda. The European Union Council of Ministers directly influences legislation as the Council forms the bicameral legislative branch of the EU.¹

The ten configurations of the Council are:

1. General Affairs (GAC)
2. Foreign Affairs (FAC)
3. Economic and Social Affairs (Ecofin)
4. Justice and Home Affairs (JHA)
5. Employment, Social Policy, Health, and Consumer Affairs (EPSCO)
6. Competitiveness (COCOM)
7. Transport, Telecommunication, and Energy (TTE)
8. Agriculture and Fisheries (Agrifish)
9. Environment (ENVI)

¹ [http://euromun.org/committees/eu/consilium/](http://euromun.org/committees/eu/consilium/)
10. Education, Youth, Culture, and Sport (EYC)

The Presidency of the European Union Council of Ministers is rotated every six months between the governments of the member states. The Presidency is responsible for the running of the Council, in particular, chairing the meetings, setting the agendas, and facilitating dialogue. As of July 2013, Lithuania has held the Presidency of the European Union Council of Ministers. Uwe Corsepius of Germany has been the Secretary-General of the Council since June 2011.

II. Brief Background Information on the Eurozone Crisis:

In 2008, Iceland faced a sovereign debt crisis when their international banking system collapsed as they couldn’t bailout local banks. Mainly this debt crisis was due to an apparent imbalance between income and government spending as well as due to the large capital flows. In 2009, the panic of sovereign debt crisis across EU countries such as Greece, Spain, Portugal, Ireland, etc. started to increase. In 2009, Greece was the spotlight of Europe’s sovereign debt crisis when its budget deficit was much higher than the government of Greece reported it to be. The Greek government reported its debt as 3.7% although it was actually 12.7%. This shows that Greece’s percent of deficit above GDP exceeded the permitted EU percentage of 3% by four times the amount. In addition, the debt crises led to the drop in exchange rate and a crash in the stock market. At this time it was evident that Greece was misreporting its government debt deficit. The financial statistics also emerged, noticing that Greece’s government expenditure exceeded over 87% for the past 6 years while the government revenue only grew by 31%. In December 2009, Standard & Poor, Moody’s, and Fitch-big credit rating agencies downgraded Greece’s country debt rating.

In April 2010, the credit default swap (CDS) on Greece’s government bonds and substantial increase of interest rates led Greece into a deeper hole of debt. By then, the fear that this debt crisis would hit other EU members, had increased. In no time, Spain and Italy’s bond markets were affected. The sovereign debt crisis then extended to other EU countries such as UK, Portugal, and Ireland. To solve this problem, the Greek parliament decided to reduce public sector wages that would save them around 4.8 million euros. However, this strategy did not prove as effective as the government had expected it to be and Greece asked the EU to support a bailout by the International Monetary Fund (IMF). The IMF gave out a bailout loan to Greece with a 5% interest rate.

III. Background Guide on the Conflict:

2 http://www.consilium.europa.eu/council
3 http://sophiamun.blogspot.com/p/ecosoc.html
Prior to the economic crisis, the Greek government had failed to impose financial reforms, failed to control spending, and combined with cheap loan rates meant that Greece was left without a buffer zone when the financial crisis hit in 2008. This caused an increase in the country’s national debt to €300 billion, a figure that surpasses Greece’s economy. It was estimated that the debt would reach 120 percent of the GDP by 2010. In addition, the country’s deficit levels rose to 12.7 percent. An example of a contributing factor that paved the way for the debt crisis was an increase in military spending which was motivated by the enmity of neighboring Turkey and financed by French and German banks with high interest rates. Greek debt problems began before the financial crisis; they were largely ignored during the boom years of the past decade, when the country’s growth inflows were strong. However, Greece’s debt issues are not entirely the country’s fault. Part of the blame can be accredited to the “European Central Bank (ECB) which announced in December 2009 the winding down of the “credit easing” scheme that provided unlimited liquidity to the banks, which in turn used it to buy higher-yielding European sovereign debt.”

As the extremely cheap liquidity was withdrawn, the bond prices had decreased causing the yields to go in the opposite direction. An important turn of events occurred during January 2009 when Greece issued €8 billion of bonds on the international market. The result was that the bond prices plundered in the next couple of days after their issuing.

Key Issues:

Austerity

Austerity is an economic fiscal policy measure a country may decide to take in a debt crisis. This type of debt management consists of decreases in spending, a reduction in benefits or even a rise in taxes. Austerity measures have been undertaken in the recent crisis by almost all members of the EU, Ireland, Greece, Portugal and Italy being in the force. There is a great debate in the public whether austerity measures are indeed effective in the debt crisis; on one hand the state budget is more carefully handled, but on the other, public welfare declines significantly in some cases resulting in protests and strikes such as the example with Portugal. Furthermore, recently the prime minister of Italy- Silvio Berlusconi was also forced to step down after the approval of the 2012 austerity budget, and Greece is struggling in finding a leader. Considering all of this, it is easy to conclude that austerity measures and packets are not widely popular; however, the true question to be answered is whether they are effective. Some argue that austerity measures are catastrophic, and that they do not provide a long term solution, rather, austerity measures only prolong the crisis putting the world through an ever long recession. In addition to that, the United Nations have stressed that not only is austerity

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5 http://www.bbc.co.uk/news/10162176
7 http://www.guardian.co.uk/business/blog/2011/nov/08/berlusconi-debt-greece
threatening the global economy, the measures take should actually be stimulation packages and stricter regulation of financial markets, rather than budget cuts, and spending impediments. It has been argued that the lack of demand for employment should not be tackled by sanctions; on the contrary, the government in that case needs to step in with a stimulation package.

Severe austerity measures can lead to abuse of human rights, which include cutting down on health and food subsidies. Thus, human rights violation will not lead to a long-term solution, rather a short-term with severe long time ramifications, leading one to conclude that any type of austerity measures must lead to a sustainable future for the citizens of the country and the citizens of the globe, as many of the economies today are interdependent due to globalization.

Europe is becoming increasingly aware of the repercussions that austerity measures can have including social unrest resulting from increased taxes. Moreover, the United States urges the European Union to halt their plans to raise their taxes so that the economic downturn does not worsen, and impact the globe leading to a global financial crisis. Thus, the European Union suggests beginning a new financial plan as soon as possible to lessen the negative impacts on their countries and cure this economic disaster quicker. As stated by an article published in The Guardian, "Current austerity policies may have major impacts on social spending and other expenditures that foster aggregate demand, and therefore recovery. It is therefore imperative that decision-makers carefully review the distributional impacts, as well as possible alternative policy options, for economic and social recovery." In addition, UNICEF has warned that an economic downturn in Europe can be detrimental to developing countries, given their reliance on aid from western countries. Austerity measures in Europe can thus have a welfare effect on non-Europeans as well.

**Ripple effects**

As the debt crisis continues, more and more countries are being affected by it due to their trade with Europe. From all around the globe countries are warning of the detrimental effect this crisis will have on their nation’s economy if this issue wasn’t solved soon. In the USA, President Obama said that Europe’s efforts to resolve its debt crisis would affect economic recovery in the USA. If Europe is weak and is not growing, as the USA largest trading partner it will further have an impact on the businesses in the USA and its efforts to create jobs.

Similarly, Nigeria and many African nations are wary of the EU crisis’ effect on their nations. Moreover, Group chief executive, Ecobank Transnational Incorporated, Mr. Arnold Ekpe warned that the squeeze on banks in Europe might lead them to cut their lines of credit, thereby affecting African banks. As a result, nations such as Nigeria and Kenya had to protect

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their currencies by issuing measures to address the pressures on their currencies. Nevertheless, as one of their leading strategic trading partners, Nigeria’s exports to the EU might decrease.\(^\text{11}\)

In addition, India’s finance minister Pranab Mukherjee also stated that the debt crisis in Europe along with the US slowdown is giving India’s economy a cold. From a growth of 8.5% in the 2010-2011 fiscal year the Indian economy is expected to slip down to a growth of 7.7% in the 2011-2012 fiscal year.\(^\text{12}\)

Likewise, as the EU is its largest trading partner, China is carefully assessing the possibility of involvement in alleviating the European debt crisis. With 60% of total US foreign exchange reserves, China is one of the key countries the EU can ask financial assistance from. In fact, China’s exports to Europe saw a lower growth from 2010’s 36.5% to 16.5% in 2011.\(^\text{13}\)

Therefore, given worldwide response to the debt crisis, unless a solution is found, the world might risk plunging into another recession.

### IV. Key Players:

- **Greece:**

Despite having been one of the fastest growing countries in Europe from 2000 to 2007, Greece is currently Europe’s most indebted country. Greece had been borrowing money to maintain its rapid economic growth but the government had been hiding that the nation was spending much more than it could afford and had borrowed money that it had no chance of paying back. Greece’s debt is over 150% of its Gross Domestic Product (GDP) and its deficit is more than 4 times the 3% limit allowed in the Eurozone. Youth unemployment in Greece has reached almost 60% and the government is continuing job cuts in the public sector. The government has agreed to stricter austerity measures as demanded by its international creditors – the European Commission, European Central Bank, and the International Monetary Fund. Following budget cuts and other austerity measures, the Greek government has assured that it is on track with its bailout plan.\(^\text{14}\)

- **Italy:**

Italy is the third largest economy of the Eurozone after Germany and France. It is also one of Europe’s most indebted nations, with a debt of more than 120% of its GDP. In terms of total amount, Italy holds the largest public debt in the Eurozone and its debt is growing at a rapid pace. Italy actually went bankrupt in summer 2011, when interest

\(^{11}\) [http://www.thisdaylive.com/articles/anxiety‐grows‐over‐spillover‐of‐eu‐debt‐crisis‐in‐nigeria/102671](http://www.thisdaylive.com/articles/anxiety‐grows‐over‐spillover‐of‐eu‐debt‐crisis‐in‐nigeria/102671)

\(^{12}\) [http://www.deccanherald.com/content/199776/eu‐debt‐crisis‐us‐slowdown.html](http://www.deccanherald.com/content/199776/eu‐debt‐crisis‐us‐slowdown.html)


\(^{14}\) [http://www.bbc.co.uk/news/world‐europe‐17373216](http://www.bbc.co.uk/news/world‐europe‐17373216)
rates on the national debt went out of control and Italy lost access to the financial markets. The current crisis has been one of the worst in Italy’s history. Investments have collapsed by 27.6% from 2007-2013, GDP has declined by 6.9%, and the country has lost almost 25% of its industrial production. Similar to many other European countries, Italy has managed to survive by imposing austerity measures such as increased taxes and budget cuts.\footnote{http://blogs.lse.ac.uk/eurocrisispress/2013/04/23/the-quiet-collapse-of-the-italian-economy/}

**Spain:**

Although Spain had the potential to become Europe’s most indebted country until a couple years ago, it has managed to recover and has pulled out of recession. Despite being better off than Greece and Italy, Spain has a debt of more than 80% of its GDP and a deficit of about 6%. During the past five years, Spain’s GDP has decline by 7% and its unemployment rate has jumped to a stagnant 26%. However, Spain has exited recession as its economy has started growing and is projected a 0.7% growth for the coming year. The IMF, however, predicts that the unemployment rate will be stuck at 25% until 2018.\footnote{http://www.economist.com/news/europe/21587811-mariano-rajoy-predicts-economic-joy-spain-still-has-long-way-go-worst-may-be-over}

**Portugal:**

Portugal is another European nation that has suffered immensely from the economic crisis. Along with a high fiscal deficit, it has a debt of almost 125% of its GDP. To help Portugal get on track, the European Union, Eurozone countries, and the International Monetary Fund lent Portugal 78 billion euros two years ago, as private investors were hesitant of lending money to a European government after the crisis started.\footnote{http://www.spiegel.de/international/europe/portugal-looks-to-more-than-austerity-to-solve-economic-crisis-a-911154.html} The Portuguese government hopes to exit the loan program by mid-2014. Austerity measures have had grave consequences for the Portuguese economy. The GDP is expected to shrink by 2.3% in 2013 and unemployment has reached almost 18%.\footnote{http://money.cnn.com/2013/07/03/news/economy/europe-portugal-crisis/} Unlike other European countries, the near future does not look bright for Portugal’s economy, as it enters a third consecutive year of recession.

**Cyprus:**

Up until 2012, Cyprus was one of the few European countries that managed to escape the economic crisis with very little damage. However, due to its close cultural, financial, and political ties with Greece, the island nation eventually suffered from the crisis in 2012. Cyprus is a relatively large holder of Greek government and corporate bonds. Cypriot banks were negatively affected when the value of those assets declined. Two of Cyprus’ main banks, the Cyprus Popular Bank and the Bank of Cyprus, asked for
assistance as they could not withstand the losses. In an attempt to solve the problem, the Cypriot government nationalized Cyprus Poplar Bank but the solution failed as the government could not actually afford the bailouts. The Cypriot government eventually reached out to the European Central Bank, the European Commission, and the International Monetary Fund for financial assistance.  

**Germany:**

Despite having suffered the least in the Eurozone crisis, Germany has been in the spotlight ever since the crisis started. Being the largest economy in the European Union, Germany has been the most influential nation as it has been a strong advocate for austerity measures so as to rebalance government expenditures. It is in Germany’s best economic interests for other European countries to impose austerity measures to recover from recession and eventually pay back their debts by closing the deficit gap. Germany has always been committed in uniting the Eurozone and has taken all necessary measures to maintain troubled economies in the Eurozone. At the same time, Germany wants stricter consequences for member states that fail to follow the budgetary rules set by the European Union.

**Questions to Consider:**

- Are austerity measures the correct way to address debt crises given the large repercussions on society?
- How important are humanitarian considerations in policy formulation, especially those regard third party countries?
- Should countries be bailed out at all? Specifically with the EU, how can imposition of penalties in case of breaches of EU’s deficit or the debt rule help?
- A proposed solution is the selling of Eurobonds in order to provide money for bailing out those countries in financial instability. How effective can this controversial suggestion be?
- What EU specific attributes are important to consider? The EU is currently being attacked from three fronts; demography (an aging population), technology (which has allowed companies to do much more with fewer people) and globalization (which has allowed manufacturing and services to locate across the world).
- Similarly, some other solutions introduced for the debt crisis is the breakup of the Eurozone. Some economists believed that Greece should pull out of the Eurozone and return to its former currency since it would be less harmful to Greece's economy than staying in the Euro zone. Is this a viable option for all stakeholders?
- What role should countries that are not severely affected by the crisis, like Germany, play?

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Works Cited:


State, Having Won Praise for Taking Tough Measures to Restore the Financial Health of the Eurozone.


