**Forum:** International Monetary Fund

**Issue:** Resolving Greece's Debt Crisis

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## Introduction

In the wake of the 2008 global financial crisis, Greece found itself at the epicenter of a profound economic turmoil that would reverberate across Europe and beyond. The nation's debt crisis, which erupted dramatically in 2010, serves not only as a cautionary tale but also as a pivotal moment in the history of the European Union (EU). At its peak, Greece's national debt soared to an alarming €329 billion, constituting approximately 177% of its Gross Domestic Product (GDP) (International Monetary Fund, 2019). These staggering statistics highlight the intricate interactions between domestic mismanagement, global economic shifts, and the strict fiscal policies imposed by foreign creditors. Thus, this issue is urgent and brings out great impacts on to both Greece and the EU on a global scale.

The importance of understanding Greece's debt crisis extends beyond its borders, as it raises critical questions about fiscal responsibility, sovereignty, and the implications of globalization. The crisis led to the implementation of three major financial assistance programs from the EU and the International Monetary Fund (IMF), which collectively amounted to over €260 billion (European Commission, 2018). These bailouts were accompanied by severe austerity measures aimed at restoring fiscal stability, which, while necessary in the eyes of lenders, resulted in widespread social unrest and economic hardship for the Greek populace. Unemployment rates surged to over 27% during the peak of the crisis, with youth unemployment exceeding 60% at times (Hellenic Statistical Authority, 2014). Such statistics highlight the human cost of economic policies that prioritize debt repayment over social welfare. Furthermore, Greece's debt crisis illuminated the vulnerabilities within the Eurozone and sparked debates about the viability of a shared currency among economically diverse nations. Critics argued that the rigidity of the euro, coupled with the lack of a fiscal union, exacerbated the crisis and limited Greece's ability to recover. The ripple effects of Greece's struggles prompted discussions about systemic reforms within the EU, including the need for a more integrated economic governance framework (Bofinger & Wolf, 2013). Thus, the crisis not only reshaped Greece's economic landscape but also challenged the foundations of European economic integration.

## Definition of Key Terms

**Debt**

A state of being under obligation to pay or repay someone or something in return for something received -- a state of owing

**Bailout**

an act of giving financial assistance to a failing business or economy to save it from collapse.

**Fiscal Policy**

the financial policy of a government particularly as regards the budget and the method and timing of borrowings and especially in relation to central-bank credit policy

**Austerity**

difficult economic conditions created by government measures to reduce a budget deficit, especially by reducing public expenditure

## History & Developments

### Root causes of the debt crisis

The roots of Greece's debt crisis can be found in its entry into the Eurozone in 2001. By adopting the euro, Greece gained access to lower interest rates, which facilitated increased borrowing. However, this newfound financial capacity was not accompanied by prudent fiscal policies. Instead, the government engaged in excessive public spending, primarily driven by a bloated public sector and extensive social welfare programs. By 2009, the situation had deteriorated significantly, with Greece reporting a budget deficit of 12.7% of GDP, far exceeding the Eurozone limit of 3% (European Commission, 2021).

The global financial crisis of 2008 exacerbated Greece's vulnerabilities. As the credit markets tightened, investors began to scrutinize Greece's fiscal health more closely. In late 2009, newly elected Prime Minister George Papandreou revealed that the country's budget deficit was not 12.7% but rather a staggering 15.4%. This revelation triggered a loss of confidence among investors, leading to a rapid increase in borrowing costs. By early 2010, Greece's credit ratings were downgraded to junk status, making it nearly impossible for the country to finance its debts through ordinary means.

### Bailout and Austerity Measures

In response to the escalating crisis, Greece sought assistance from the European Union (EU) and the International Monetary Fund (IMF) in May 2010. A three-year bailout package of €110 billion was agreed upon, contingent upon strict austerity measures and structural reforms. These measures included significant cuts to public sector wages, pension reforms, and tax increases, which aimed to reduce the budget deficit and restore fiscal stability (International Monetary Fund, 2010). The austerity measures, however, had significant societal implications. By 2013, unemployment had increased dramatically to over 27%, with youth unemployment surpassing 60% (Hellenic Statistical Authority, 2014). People's responses to the difficult economic circumstances led to a rise in public demonstrations and strikes. Greece's political landscape started to change as anti-austerity parties gained prominence. The left-wing Syriza party acquired a lot of support by pledging to abolish austerity.

In 2012, a second bailout package worth €130 billion was negotiated, along with a significant restructuring of Greece's debt, which included a write-down of approximately €100 billion held by private creditors. Despite these measures, the economic recovery remained sluggish. GDP contracted by more than a quarter between 2008 and 2013, marking one of the most severe recessions in modern history (European Commission, 2020).

### A rise or another downfall?

Greece's economic trajectory underwent a sea change in 2014 when the nation started to exhibit indications of recovery. Even if they were painful, structural reforms began to show results. Greece's economy expanded in 2014 for the first time since the start of the crisis, following its achievement of a primary budget surplus in 2013. After a four-year break, the government was able to effectively issue bonds and reestablish access to global capital markets. However, the political landscape remained volatile. In January 2015, Syriza won the elections and formed a government, pledging to end austerity measures. This led to a standoff with creditors, culminating in a referendum in July 2015 where the Greek public overwhelmingly rejected the terms of a proposed bailout. Despite this mandate, the government was ultimately forced to accept a third bailout of €86 billion in August 2015, emphasizing the precariousness of Greece's position within the Eurozone (European Stability Mechanism, 2016).

Thus, the third bailout came with additional conditions, including further pension cuts, tax increases, and reforms aimed at improving the business environment. These measures, while contentious, were necessary to secure financial stability and restore credibility with international lenders.

## Major Parties Involved

### International Monetary Fund

The International Monetary Fund has played a crucial role in the Greek debt crisis by offering both technical and financial help at different points in time. The IMF first became involved in bailouts in 2010, co-financing major projects with the European Union. The International Monetary Fund (2020) highlighted the necessity of a comprehensive reform package aimed at restoring macroeconomic stability and fostering sustainable growth in Greece. However, the IMF has also come under criticism for its part in the crisis, especially for the austerity policies that were put in place, which some claim made social conditions worse and hampered economic recovery (Zettelmeyer, 2021).

### European Union

Since the beginning of this crisis, the European Union has taken the lead in resolving Greece's debt crisis. The EU, which is Greece's main source of funding, has enabled many bailout plans designed to stabilize the country's economy. The EU's involvement has highlighted the value of unity among its members, but it has also brought attention to how difficult it is to manage in a multi-national setting. There has been much discussion over how to strike a balance between budgetary restraint and social welfare as a result of the bailout conditions, which included severe austerity measures and structural reforms (European Commission, 2021).

### Germany

Germany's position as the largest economy in Europe and its significant influence inside the EU have made it a key participant in the Greek debt issue. Germany has been actively involved in the negotiations of Greece's bailout packages as a crucial member of the Eurozone. During the worst of the crisis, the German government, under the leadership of Chancellor Angela Merkel, took a strong stand on conditionality, demanding severe austerity measures in return for financial support. The German electorate, which was worried about the effects of a possible Greek default on their own economic stability, connected with this strategy because it was based on a larger philosophy that emphasized fiscal responsibility and discipline (Bofinger & Wolf, 2020).

### United States of America

Since the US sees Greece's financial problem as a possible threat to the stability of the global economy, the it has maintained a stake in the Eurozone's stability. As the crisis developed, the IMF and the US government pushed European leaders to provide Greece significant assistance in order to stop a more widespread spread that would have upset the entire financial system. The U.S. Treasury Department highlighted concerns over the ramifications of a Greek exit from the Eurozone, usually referred to as "Grexit," which could have far-reaching consequences for European banks and the global economy (U.S. Department of the Treasury, 2017).

## Previous Attempts to Solve the Issue

Greece's debt crisis has generated a number of measures and reforms aimed at stabilizing the economy and tackling fundamental difficulties, beyond the bailout measures. Important initiatives consist of economic reforms, debt restructuring, European stability mechanism (ESM) and so on. Empasizing on ESM, established in 2012, the ESM provided a framework for financial assistance, ensuring liquidity support for Greece through conditions that encouraged necessary reforms without direct bailouts.

### Relevant UN Treaties and Events

- Treaty on the Functioning of the European Union (TFEU)
- European Stability Mechanism (ESM) Treaty (2012)
- Fiscal Compact (Treaty on Stability, Coordination and Governance in the Economic and Monetary Union)

## Possible Solutions

**Implementing extensive economic reforms with an emphasis on raising productivity and competitiveness is one practical way to handle Greece's debt issue.** The labor markets, public administration, and taxation are important areas where these reforms should focus. Government revenues might be greatly increased by a simplified tax code that widens the tax base and lowers evasion. Additionally, streamlining government operations and cutting bureaucratic red tape would make the public sector more efficient and encourage private investment. Prioritizing entrepreneurship and innovation can help Greece increase its economic production, which is necessary for long-term debt reduction.

To guarantee that the economic recovery helps various aspects of society, **encouraging social investment and inclusive growth is another essential answer**. This approach should include targeted expenditures in education, healthcare, and social services, which are crucial for growing human capital and enhancing overall economic resilience. Greece may enhance the capacity of its labor force to fulfill the requirements of a dynamic economy by allocating resources towards vocational education and job training programs. Policies that assist small and medium-sized businesses (SMEs) can also promote local entrepreneurship and employment growth. In addition to reducing social discontent, ensuring equitable growth would establish a stable atmosphere that is favorable to long-term economic recovery.

Here the chair wishes good luck to all delegates participating in the SHASMUN XII! This topic is urgent and crucial not only for Greece but could also rise onto a global scale. The chair hopes that this document has given great help as well!

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