Oasis International School Model United Nations

Economic and Social Council

President Nour El Din El Hayatmy
Vice-president: Mostafa Tarek

Guiding Package

Topic 2: Measures to counteract Bankruptcy and financial crisis in world economies

8th Annual OISMUN Conference
November 2015

Table of Contents PAGE

Abstract

With many governments and states declaring bankruptcy during these past few years, bankruptcy become a fast-spreading phenomenon. Threatening many countries, countries are trying to do their best to ensure their economic health and maintain their economic allies' wealth and prosperity. With the ongoing Eurozone economic crisis, and the addition of Greece, Portugal, and other countries to the bankruptcy list, the economic crisis is threatening continental alliances, popular currencies, therefore threatening the whole world's economic stability. Therefore, the role of Economic and Social council (ECOSOC) members is to find mutually agreed resolutions offering valid solutions to end the economic crisis and save many economies, if not all of them, as they are all directly or indirectly related to the debt problems.

Introduction:

Over the past decade, several countries have gotten involved in economic crises, and as a consequence declared bankruptcy. A country's economy is built upon both, expenses and income. Gathering its income from the taxes the citizens pay, a country's expenses are mainly for investment, infrastructure, social welfare, and wages. For an economy to function correctly, the budget must be free of deficiency. Any country must deduct from its expenses the sum of the repayments of its debts, in order to have enough resources to pay it back from the income. However, if a country's budget suffers from a deficit , they must borrow credit from other countries, or banks to pay off debts. Nevertheless, if a country's economic situation, political stability, or monetary policy are downgraded or being negatively affected, investors will not invest any money in the finance market, as they will not be sure if the country will be able to repay the loan or not or that the businesses will operate due to the instability. Consequently, this will make debts grow, and raise the country's economic struggle. Therefore, to end this struggle and pay the debt, the country will find itself forced to borrow more. Which will start a domino effect where debts increase, and loan interests increase, until it becomes nearly impossible for a country to pay back the debt single-handedly. Taking the example of Europe, other countries (i.e. Germany), will then be responsible to pay these debts as a commitment to the euro zone. When the wealthier countries become responsible for those in debt, they then ask for the establishment of severe policies, to cut in-debt countries' expenses, in order to ensure that such situation will repeat itself. The latter policy is called austerity measures. As these policies that are very severe, in-debt countries refuse to implement it, which create an economic conflict between countries in order to pay their debts.

Definition of Key Terms:

Financial Market: A financial market is a market in which people trade financial securities, commodities, and other intangible items of value at low transaction costs and at prices that reflect supply and demand. Securities include stocks and bonds, and commodities include precious metals or agricultural goods.

Bank: A financial institution licensed as a receiver of deposits.

Government: The group of people with the authority to govern a country or state; a particular ministry in office.

Economic Crisis: A situation in which the economy of a country experiences a sudden downturn brought on by a financial crisis. An economy facing an economic crisis will most likely experience a falling GDP, a drying up of liquidity and rising/falling prices due to inflation/deflation.

Bankruptcy: Bankruptcy is a legal status of a person or other entity that cannot repay the debts it owes to creditors.

Central Bank: The bank that provides financial and banking services for its country's government and commercial banking system, as well as implementing the government's monetary policy and issuing currency.

Deficit: A deficit is the amount by which a sum falls short of some reference amount.

Gross Domestic Product (GDP): One of the primary indicators used to gauge the health of a country's economy. It represents the total dollar value of all goods and services produced over a specific time period; you can think of it as the size of the economy.

Background Information:

To really understand the crisis at hand and to find solutions to the problem, the timeline and the history of the majority of the financial crises that happened in 20th century is one of the most important things to take into consideration. Here is the timeline of the most important financial and economic crises that took place:

- Knickerbocker crisis (1907): Trust companies, which acted like banks but were lightly regulated, became stuck when speculators tried to prop up falling share prices with borrowed funds.
- Wall Street Crash (1929): The speculative boom of the roaring 20s came to an end when the government raised the interest rates to cool markets, and a fraud in london triggered a crash.
- Oil Crisis: (1973-4): The collapse of the Bretton Woods system, combined with an embargo imposed by Arab oil exporters, caused a slump across the western world.
- Black Monday (1987): A fall in share prices was amplified by automated trading systems and portfolio-insurance schemes, causing markets around the world to plummet.
- Asian Crisis (1997): Investors poured money into several emerging Asian economies, driving up asset prices to unsustainable level and eventually causing a crash.
- Dotcom crash (2001): Shares in telecoms and internet firms boomed amid euphoria over wonders of the web. Eventually investors spotted the lack of profits.
- Subprime Crisis (2008): Elaborate mortgage-related securities designed to reduce risk encouraged investors to pile into the American housing market, which then crashed.

Although these financial crises seem to be related to a specific sector or market of the economy, they have all had crucial repercussions on multiple countries throughout history.

Nowadays, the world is going through a menacing economic/financial crisis regarding the European union, or specifically, the euro zone, also called: The European Debt Crisis. The *European debt crisis* refers to Europe’s inability to pay the debts it built up in recent decades.

The European debt crisis grew out of the U.S. financial crisis of 2008-2009. A slowing global economy exposed the unsustainable financial policies of certain Eurozone countries.

The Eurozone is made up of 17 European countries that use the euro, including France, Germany, Spain, and Ireland. Several countries in the Eurozone have borrowed and spent too much since the global recession began, causing them to lose control of their finances.

The *European debt crisis* can be traced back to October 2009, when Greece's new government admitted the budget deficit would be double the previous government's estimate, hitting 12% GDP. After years of uncontrolled spending and nonexistent fiscal reforms, Greece was one of the first countries to buckle under the economic strain.

It was also the first Eurozone country to take a multi-billion pound bailout from other European countries (followed by Portugal and Ireland).

Fast-forward and Greece is still in a recession, more than a quarter of adults are unemployed, and the future looks bleak. Things don't look any better in Spain, where the jobless rate is at 26%. The jobless rate in the Eurozone as a whole is at 12%; the highest level since the euro was created in 1999.

If Greece fails to pay what it owes, the country will go bankrupt and most likely become the first country to leave the euro currency. Greece's departure could open a floodgate with other countries following suit; thereby weakening Europe's economic clout.

Accordingly, the European crisis, which is still not resolved, may be on the brink of affecting the whole world's economy. Such a continent, with active economic governments and markets threaten to destabilize many economies, and create multiple crises around the world, therefore, solving the crisis is a must, in order to prevent other repercussions.

Major Countries and organisations involved:

Basically, all countries and organizations involved are either organizations helping solve a financial crisis, or a country having one itself. Thereby, here is a list of the countries/organizations involved divided into both categories:

Helping solve FC	Going through FC
Asia Pacific Economic Cooperation	Belarus
United Nations Industrial Development Organization	Argentina
World Bank Group	Jamaica
Global Development Finance Bank	Belize
International Bank for Reconstruction and Development	Greece
Federal Financial Institutions Examination Council	Venezuela
National Credit Union Administration	Ukraine
National Savings and Loan Association	Ecuador
Industrial and Commercial Bank of China	Egypt
United Nations Development Business	Pakistan
International Development Association	Cyprus
BNP Paribas	Cuba

UN Involvement:

The United Nations have held many meetings in a bid to try and solve financial crisis in different world economies, the last one was on the 23rd of April 2015. Surprisingly, the goal of those meetings is not to solve financial crisis in different countries all over the world, but to debate about what is the reason and which organizations could handle it best. And till this very moment, no organization or committee has been ordered to take care of the matter, so the ball is still in the court, but neither of the teams is getting it. Therefore, the United Nations is involved in the case, sending some committees such as the Economic and Social Council to the rescue, but we never saw any heavy involvement till this moment, and when will this stop? When will the United Nations really step up the play and solve this never-ending problem? “The world’s countries are going closer and closer on the verge of bankruptcy each and every second, financial crisis is hitting a big number of countries in our planet” said Ban Ki-Moon, the secretary general of the United Nations, but actions speak louder than words. No denying that the United Nations did send UN Development Business and UN Industrial Development Organizations to research about the matter, however the solution should start taking place.

Possible Solutions:

In a macroeconomic case, which is exactly the problem happening in Europe right now and that took place since the Great Depression in all the crises till this moment, the solution may be one of the four following, knowing that it is not easy at all to perform any one of those solutions, because if it was that ease, no crisis would have ever took place. Here are the following possible solutions to financial crisis generally:

- Devalue: This means to reduce the value of your exchange rate. For example, in 1992, the UK was in the European exchange mechanism. The value of the Pound was semi-fixed against the D-Mark[1] (£1=3DM). But, in September 1992, the government left the ERM and allowed the value of the pound to fall. Devaluing exchange rate makes exports cheaper which helps boost growth.

- Inflate: Inflate means to try and boost aggregate demand in the economy to create higher economic growth. For example, in a recession, the Central Bank could cut interest rates, print money or pursue quantitative easing. This leads to an increase in the money supply and can help to stimulate economic activity; it is also likely to cause inflation. For instance, in the 1920's, Weimar Germany printed money to pay war reparations leading to hyperinflation.
- Deflation : Deflation refers to policies to reduce inflation. It involves:
  - 'Tight' monetary policy – higher interest rates to reduce spending
  - 'Tight' fiscal policy – spending cuts, higher taxes. Tight fiscal policy also reduces the level of government borrowing.

  Example: Greece have been trying to solve their fiscal crisis by reducing their government spending

- Default: Default refers to the decision by government to stop repaying part or all of its debt. This will make it difficult for government to borrow in the future, but it means they don't have to aggressively cut spending to reduce borrowing.

Guiding questions:

- How can a financial crisis be resolved?
- What is your country's economic status?
- Is your country helping solve financial crisis?
- What is the role of the world's banks in solving the matter?
- How is your country affected by the financial crisis?
- Is your country on the verge bankruptcy?

[1] German currency at the time

- Is your country part of an international economic alliance? What are the obligations and responsibilities it has?
- Did your country participate in a conference concerning the case?
- What's your country's say on the case?
- What's your country's financial history?
- Did your country create organizations to solve the case?
- What is your country's percentage of bankruptcy?
- What percentage of your country's populations is below the poverty line?

Useful Links:

- www.un.org/esa/ffd/documents/ecosoc.htm
- www.theguardian.com/business/financial-crisis
- www.telegraph.co.uk-Finance
- www.imf.org/external/np/exr/key/finstab.htm
- www.ifre.com/a-history-of-the...financial-crises/21102949.fullarticle

Bibliography:

- https://en.wikipedia.org/wiki/Financial_crisis
- http://www.zerohedge.com/news/2015-09-15/bankers-will-be-jailed-next-financial-crisis
- https://www.stlouisfed.org/Financial-Crisis
- https://en.wikipedia.org/wiki/Financial_crisis_of_2007%E2%80%9308
- https://en.wikipedia.org/wiki/Great_Depression
- https://en.wikipedia.org/wiki/World_Bank