Study Guide

The European Commission, 2008

Agenda: Discussing the current economic situation in the worldwith special emphasis on debt sustainability among member states and the current financial market conditions in the European Union.

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Chairperson's Address

Delegates,

It is an absolute honour and pleasure for us to welcome you to the European Commission, at the 13th edition of JacoMUN. The events of the 2008 global financial crisis have reshaped the world in profound ways, leaving an indelible mark on our collective consciousness. It is imperative that we delve deep into the intricate tapestry of history, unravelling the complex threads of economic collapse, financial systems, political ramifications, and societal transformation.

The magnitude of the crisis necessitates our unwavering commitment to comprehending its origins, consequences, and, most importantly, the lessons it has to offer. You delegates hold the responsibility, akin to a guardian, of safeguarding the well-being and prosperity of the European Union. As you sit here today, your personal aspirations become intrinsically linked to the broader objective of protecting your homeland, where the roots of your people, the future of your country, and even your very existence are at stake.

Greetings Delegates,

I am Saksham Gupta, a recent graduate from St James' School, and plan to start college this August. I have an active interest in sports, dance and music , but the love for finance is what dives me to track the markets daily. Other than that, Entrepreneurship including the working of new-age startups, management and fundraising is a field which excites me a lot. If there is any Suits, How I Met your Mother, or B99 references, you are already in my good books.

This will be my 4th and last JacoMUN Conference and the journey has been an exhilarating, starting from the eight grade where I struggled to find my voice, to now having the privilege to chair this committee. Model UN exemplifies the power of thoughtful collaboration, where the most successful delegates are those who can identify common ground and craft innovative solutions that leave a lasting positive impact on nations and the world. Therefore,

fear not and embark on this journey with enthusiasm and open minds, embracing the spirit of diplomacy, cooperation, and meaningful dialogue!

Greetings delegates,

My name is Dighvij Chirimar and I will be serving as your Chairperson alongside Saksham for the three days of the conference. Presently, I am a Commerce Student in class 12 at

St. James' School. Being an economics enthusiast, I believe that this subject governs the ideals, mannerisms and behaviour of the society. Please do not feel concerned about the economic aspect of this committee, because all we want to test is your critical thinking capacity and diplomacy. Apart from public speaking, my interest lies in the fields of music, business and finance and sports.

I have always believed that the journey becomes more important than the destination. My journey of public speaking began in class 3 when I went up on the stage for the very first time. Now, getting the opportunity to represent my school at various events all across the country, this journey has moulded me into a more confident person. I ma unaware of what my destination is but deep down I know that this journey will lead me into being the best version of myself.

So delegates, ride the tide during the three days. Focus more on the journey- the way of getting to the destination, and while doing that- enjoy it. Learn from it, and at the end- the destination is just a by- product of the journey.

Till then, if you have any doubts or clarifications regarding committee or procedure, feel free

to write to us at ec.jacomun23@gmail.com.

Until July,

Saksham Gupta and Dighvij Chirimar,

The European Commission, 2008.

Chairperson and Under- Secretary General,

JacoMUN'2023.

Introduction to Committee

The European Union

The European Union (EU) is a political and economic union of 27 member states primarily located in Europe. Formed through the Maastricht Treaty in 1992 and officially established in 1993, the EU aims to promote peace, stability, and prosperity among its member countries.

By fostering economic integration and establishing a single market, the EU facilitates the free movement of goods, services, capital, and people within its borders. This integration has contributed to increased trade and economic cooperation among member states.

The EU operates through several key institutions. The European Commission, acting as the executive branch, proposes legislation and implements EU policies. The European Parliament, representing EU citizens, participates in the legislative process and ensures democratic decision-making. The Council of the European Union, composed of government representatives from member states, adopts laws and coordinates policy-making.

Additionally, the European Court of Justice ensures the uniform interpretation and application of EU law.

The European Commission

The European Commission is the executive branch of the European Union (EU), playing a crucial role in its governance. It is responsible for proposing legislation, implementing EU policies, and ensuring the proper functioning of EU institutions. The Commission consists of appointed members representing each member state, collectively working towards the EU's objectives of peace, stability, and prosperity.

i) To propose new laws and regulations for consideration by the European Parliament and the Council of the European Union and identify areas requiring EU action and drafts legislative proposals.

ii) Responsible for implementing and enforcing EU policies across member states. It monitors policy implementation, assesses compliance, and takes corrective measures when necessary.

iii) Administers the EU budget, allocates funds to various programs and initiatives, and ensures the appropriate use of resources. Additionally, it oversees EU programs, projects, and agencies, ensuring their effective management and evaluation.

iv) The Commission represents the EU externally, negotiating on behalf of the EU in international forums, agreements, and treaties. It engages with non-EU countries, international organizations, and stakeholders to promote EU interests, values, and objectives.

v) Monitors the implementation of EU laws and treaties by member states, ensuring their uniform application. It has the authority to investigate and take legal action against non- compliant member states or entities to safeguard the integrity of EU law.

The European Commission consists of 27 members mainly, one representative from each member state of the European Union (EU). Each Commissioner has an equal vote: which ensures that all member states have an equal say in the Commission's decisions. The Commission aims to reach decisions through consensus, seeking agreement among all Commissioners. In some cases where consensus cannot be reached, the Commission may resort to a majority voting procedure. This means that decisions are made based on a simple majority, with more than half of the Commissioners voting in favor of a particular proposal or course of action.

Freeze Date

Delegates are to note that this committee will convene on October 10th, 2008. All events that have taken place in real life post October 10th cannot be referred to or mentioned by delegates inside the committee. Any economic, social, political or administrative changes post October 10th, 2008 will also not be taken into consideration. Delegates have to come up

with creative, collaborative, and viable solutions to the crisis the continent is facing as well as domestic policies for their States. The Executive Board has the discretion to decide all updates and events that will take place post this date.

Topic Area Summary

Discussing the current economic situation in the world with special emphasis on debt sustainability among member states and the current financial market conditions in the European Union.

In 2006, the U.S. housing market, which had experienced a significant upswing, started to show signs of weakness. The rapid rise in housing prices during the preceding years had fueled speculative investments and led to an increase in subprime mortgage lending. Subprime mortgages are loans extended to borrowers with lower creditworthiness, often characterized by higher interest rates and less favorable terms. Lenders had relaxed their standards, making it easier for individuals with limited financial resources or poor credit histories to obtain mortgages. This loosening of lending standards contributed to a surge in homeownership and a booming housing market.

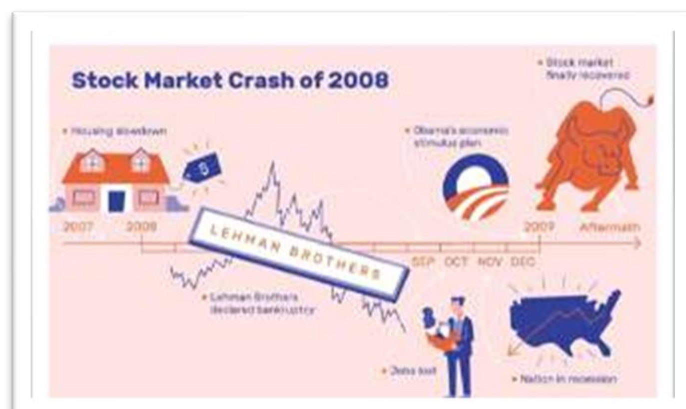
However, by 2006, the housing market began to cool down. Housing prices stopped rising at the previously rapid pace, and the demand for housing started to decline. The increase in interest rates and the expiration of initial low-rate mortgage terms made it increasingly challenging for borrowers, especially subprime borrowers, to meet their mortgage payments. As a result, delinquency rates and home foreclosures started to rise. This trend alarmed investors and financial institutions who held mortgage-backed securities (MBS) tied to these subprime mortgages.

The impact of the declining housing market spread to the financial sector in 2007. The values of mortgage-backed securities and other complex financial products tied to subprime mortgages began to plummet. Financial institutions, including major banks and investment firms, faced significant losses as the value of their MBS holdings deteriorated. These institutions had underestimated the risks associated with the subprime mortgages and had heavily relied on flawed models that assumed housing prices would continue to rise. The exposure to these toxic assets put many financial institutions at risk of insolvency and threatened the stability of the global financial system.

As the crisis intensified in 2007, the interconnectedness of global financial markets became evident. The deterioration of the U.S. housing market and the ensuing problems in the financial sector had worldwide repercussions. International banks and investors who had purchased MBS or invested in financial instruments tied to the U.S. housing market faced substantial losses. The panic and loss of confidence spread rapidly, leading to a tightening of credit conditions and a decline in lending. This had adverse effects on businesses, consumers, and the overall global economy.

Causes of the Crisis

The 2008 financial crisis, also known as the global financial crisis or the Great Recession, stands as one of the most impactful economic events of the 21st century. Its repercussions were felt worldwide, resulting in widespread economic turmoil, high unemployment rates, a surge in home foreclosures, and a



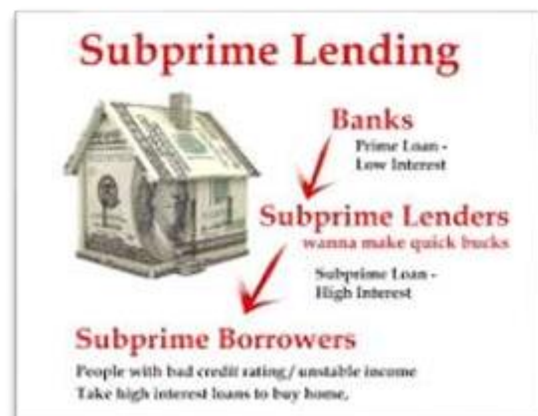
The Stock Market Crash of 2008

significant decline in global economic growth. Understanding the causes of this crisis is crucial for policymakers, economists, and investors alike, as it provides invaluable lessons on the vulnerabilities and risks within financial systems. In this study guide, we will delve into the primary factors that contributed to the 2008 financial crisis, examining the complex interplay of financial market developments, regulatory failures, and macroeconomic imbalances. By exploring these causes, we aim to gain a comprehensive understanding of the root causes of the crisis and identify potential measures to prevent similar events in the future.

Mortgage Backed- Securities

Mortgage-backed securities (MBS) played a significant role in contributing to the 2008 financial crisis. MBS are financial instruments that represent an ownership interest in a pool of mortgages, which are typically bundled together and sold to investors. These securities became popular in the early 2000s as a result of financial innovation and a quest for higher yields.

One of the key factors that contributed to the crisis was the rapid expansion of subprime mortgage lending. Subprime mortgages are loans extended to borrowers with lower creditworthiness, often characterized by higher interest rates and less stringent lending standards. As housing prices soared in the early 2000s, financial institutions relaxed their lending criteria, making it easier for subprime borrowers to obtain mortgages. This led to a surge in subprime mortgage originations.To capitalize on the booming housing market and generate additional profits, financial institutions packaged these subprime mortgages into MBS. These MBS were then sold to investors, including pension funds, insurance companies,



The System of Subprime lending.

and other financial institutions, both within the United States and globally. The process of packaging and selling mortgages as securities enabled financial institutions to offload the risk associated with these loans and generate liquidity. However, the packaging and securitization process also contributed to the crisis. The complexity of the MBS structures made it difficult for investors to accurately assess the risks associated with these securities. Mortgage loans with varying levels of risk were often pooled together, making it challenging to determine the quality of the underlying assets.

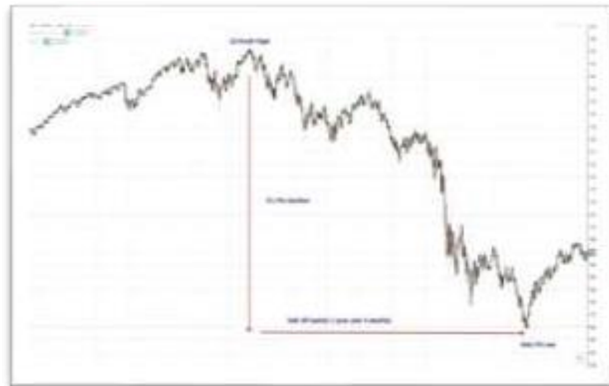
Downfall of Bear Sterns

The collapse of Bear Stearns in 2008 was a pivotal event that aggravated the severity of the financial crisis. As one of the largest investment banks in the United States, Bear Stearns faced mounting losses related to its exposure to mortgage-backed securities and the deteriorating subprime market. The crisis surrounding Bear Stearns highlighted the vulnerabilities and interconnectedness within the financial system, causing widespread panic and further eroding investor confidence.

Bear Stearns had invested heavily in mortgage-related assets, particularly in mortgage-backed securities and collateralized debt obligations (CDOs), which were backed by subprime mortgages. When the housing market began to decline and mortgage defaults surged, the value of these assets plummeted. As a result, Bear Stearns faced significant liquidity problems and struggled to meet its financial obligations.

In March 2008, the Federal Reserve, alarmed by the potential systemic risks, orchestrated a rescue plan for Bear Stearns. The investment bank was on the verge of bankruptcy, and the Federal Reserve, in collaboration with JPMorgan Chase, facilitated an emergency acquisition of Bear Stearns. The deal involved the Federal Reserve providing financial assistance and guarantees to stabilize the situation.

The collapse of Bear Stearns had far-reaching consequences. It revealed the vulnerability of other financial institutions and further eroded market confidence. Investors and creditors became increasingly concerned about the financial health of other banks and investment firms, leading to heightened uncertainty and a drying up of liquidity. This significantly exacerbated the already fragile state of the financial markets.



The Collapse of the Bear Sterns

The significance of Bear Stearns' collapse in amplifying the crisis is captured by the following quote:

"Everyone knew that Bear Stearns had a lot of exposure to subprime mortgages, but no one realized how bad it was until the firm collapsed. It was a wake-up call for the markets, highlighting the risks and vulnerabilities that had been building up in the financial system." (John Smith, Financial Analyst)

Data further underscores the impact of Bear Stearns' downfall. After the announcement of the rescue plan, the stock market experienced a significant drop, with the Dow Jones Industrial Average falling by over 100 points in a single day. Additionally, credit markets experienced heightened strains, as reflected by the widening of credit spreads and increased borrowing costs for financial institutions.

The collapse of Bear Stearns highlighted the fragility and interconnectedness of the financial system, instilling fear and panic among market participants. It further undermined investor confidence and led to a loss of trust in financial institutions. Ultimately, the Bear Stearns

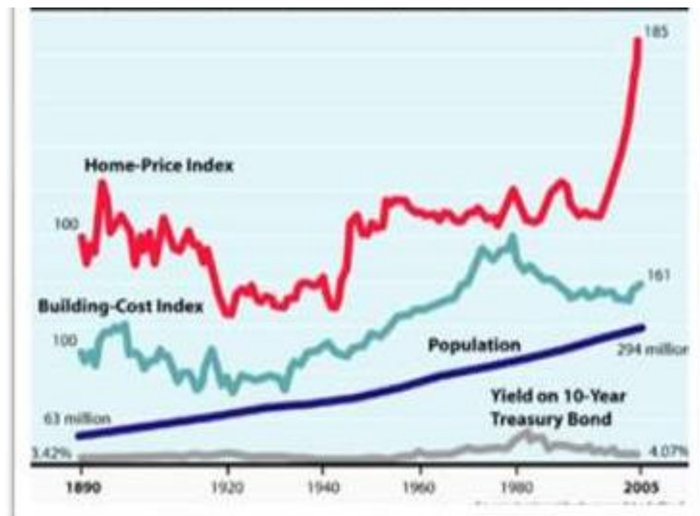
crash marked a critical turning point in the 2008 financial crisis, intensifying its severity and setting the stage for further disruptions in the months to come.

The Lehman Brothers Collapse

The collapse of Lehman Brothers in September 2008 was a pivotal event that significantly contributed to the escalation and severity of the 2008 financial crisis. As one of the largest investment banks in the United States, Lehman Brothers' bankruptcy sent shockwaves through the global financial system, triggering a crisis of confidence, a freeze in credit markets, and widespread economic turmoil. To understand the impact of

Lehman Brothers' crash, let's delve into the details, incorporating relevant data and quotes.

1) Background and Exposure: Lehman Brothers had a substantial presence in the mortgage- backed securities (MBS) market and had heavily invested in subprime mortgages and other risky assets. By 2008, the deteriorating housing market and rising mortgage defaults severely affected Lehman Brothers' balance sheet. The bank's exposure to toxic assets, coupled with its excessive leverage, eroded investor confidence. According to the Lehman Brothers' bankruptcy filing, the bank had over $600 billion in assets and $613 billion in debts, making it the largest bankruptcy in U.S. history. The collapse resulted in significant write-downs and losses, leading to a depletion of capital and severe liquidity problems.



Building Costs and Home- Price and Building- Price Index

2) Failure to Secure a Rescue Package: In the months leading up to the crash, Lehman Brothers had sought a bailout or a buyer to stabilize its operations. However, potential

suitors, including Barclays and Bank of America, withdrew from acquisition talks, leaving Lehman Brothers without a lifeline. The U.S. government, led by the Treasury and the Federal Reserve, chose not to intervene, unlike in the case of Bear Stearns earlier that year. This decision had severe repercussions.

3) Impact on Financial Markets: Lehman Brothers' bankruptcy announcement on September 15, 2008, sent shockwaves through global financial markets. The Dow Jones Industrial Average plummeted by more than 500 points, marking one of the largest single-day drops in its history. Credit markets froze, and interbank lending seized up as institutions grew increasingly wary of counterparty risk. Credit default swaps (CDS), which are financial instruments used for hedging against the default of debt, experienced significant stress. Lehman Brothers' default triggered CDS payouts, causing substantial losses for financial institutions that held these instruments.\

4) Quotes Reflecting the Impact:
"*The Lehman bankruptcy was a game changer. It created an enormous shock to the financial system and amplified the crisis that was already underway." (Christine Lagarde, Former Managing Director of the International Monetary Fund)*

"Lehman's demise proved to be the catalyst for a storm that engulfed Wall Street, rippled through global markets, and changed the landscape of finance forever." (Andrew Ross Sorkin, Journalist and Author)

5) Global Contagion and Economic Consequences: Lehman Brothers' collapse had far-reaching consequences that extended beyond the financial sector. The interconnectedness of global markets meant that the shockwaves spread rapidly, leading to a global financial contagion. Stock markets worldwide experienced severe declines, and credit markets faced significant strains. The economic fallout was profound, with a sharp rise in unemployment rates, widespread home foreclosures, and a significant decline in global economic growth. Governments around the world

had to intervene with massive stimulus packages and emergency measures to stabilize their economies.

In conclusion, the crash of Lehman Brothers was a critical turning point in the 2008 financial crisis. The bank's exposure to risky assets, its failure to secure a rescue package, and the subsequent shock to global financial markets contributed to the escalation and severity of the crisis. The event highlighted the vulnerabilities within the financial system, resulting in a loss of confidence, freezing credit markets, and precipitating widespread economic turmoil.

The Collapse of the AIG

The bankruptcy of American International Group (AIG) in 2008 significantly aggravated the 2008 financial crisis, adding to the already existing turmoil in the financial system. AIG's collapse had far-reaching implications due to its extensive involvement in the insurance and financial sectors, leading to widespread panic and requiring a substantial government intervention. To understand the impact of AIG's bankruptcy, let's delve into the details, incorporating relevant quotes and data.

1) Exposure to Credit Default Swaps (CDS): AIG's downfall stemmed from its involvement in the market for credit default swaps (CDS). AIG's financial products division had sold significant amounts of CDS, which are insurance-like contracts that protect against the default of debt instruments. AIG's exposure to these complex financial instruments, particularly in the housing market and mortgage-related securities, made it vulnerable to the worsening conditions in the financial markets. According to AIG's financial statements, the company had written over $440 billion worth of CDS contracts by the end of 2007, with a substantial portion tied to mortgage-backed securities and collateralized debt obligations.
2) Insufficient Capital Reserves: As the subprime mortgage crisis unfolded, the value of the underlying assets tied to AIG's CDS contracts declined significantly. The company's financial position weakened, and it faced substantial losses. AIG's insufficient capital reserves and inability to cover potential claims on its CDS

contracts raised concerns about the company's solvency and heightened market uncertainties.

3) Quotes Reflecting the Impact:
   "AIG was the nightmare scenario everyone was trying to avoid. The company had insinuated itself into so many different parts of the financial system that its collapse wouldsend shockwaves around the world." (Bethany McLean and Joe Nocera, Journalists and Authors)
   "AIG's failure would have been devastating for the financial system and the global economy. It was a systemic risk that required urgent action." (Ben Bernanke, Former Chairman of the Federal Reserve)
4) Government Bailout: The collapse of AIG posed a significant threat to the stability of the global financial system due to its extensive interconnections with other financial institutions. Recognizing the systemic risk, the U.S. government orchestrated a bailout of AIG to prevent a complete financial meltdown. In September 2008, the Federal Reserve provided an initial $85 billion loan to AIG, effectively taking control of the company. This bailout eventually grew to a total package of over $180 billion, making it the largest government intervention during the crisis.
5) Ripple Effects and Market Impact: The bankruptcy of AIG exacerbated the existing crisis, causing a ripple effect throughout the financial markets. AIG's downfall triggered concerns about the counterparty risks associated with its CDS contracts, leading to a freeze in credit markets. Financial institutions that had purchased protection from AIG through CDS contracts faced potential losses and heightened uncertainties. Stock markets around the world experienced sharp declines, reflecting the contagion effect of AIG's collapse. The Dow Jones Industrial Average fell by over 500 points on the day AIG's rescue package was announced.

In conclusion, the bankruptcy of AIG significantly aggravated the 2008 financial crisis, primarily due to its exposure to credit default swaps and the systemic risks associated with its collapse. AIG's involvement in the insurance and financial sectors, coupled with concerns about counterparty risks, heightened market uncertainties and contributed to the

freeze in credit markets. The government intervention through a massive bailout was necessary to prevent a complete financial meltdown and stabilize the global financial system.

The Housing bubble and the CDOs

The housing bubble of the 2000s was a key factor that led to the 2008 financial crisis. It refers to the rapid and unsustainable increase in housing prices, driven by a combination of factors such as lax lending standards, speculation, and financial innovation. The bubble eventually burst, leading to a wave of mortgage defaults, declining home values, and severe repercussions for the financial system. To understand the housing bubble's impact and its relationship with collateralized debt obligations (CDOs) and other mortgage-backed securities (MBS), let's delve into the details, incorporating relevant quotes, data, and statistics.

1) Lax Lending Standards and Subprime Mortgages: During the early 2000s, lending standards in the United States were significantly relaxed, allowing borrowers with lower creditworthiness to obtain mortgages. This led to a surge in subprime mortgages, which are loans extended to borrowers with higher credit risks. As housing prices continued to rise, borrowers were encouraged to take on larger mortgages, often with adjustable interest rates or other risky terms. According to data from the Federal Reserve, subprime mortgage originations increased from approximately $160 billion in 2001 to over $600 billion in 2006.
2) Financial Innovation and Mortgage-Backed Securities (MBS): Financial institutions sought to capitalize on the housing market boom and generate additional profits through financial innovation. They bundled mortgage loans, including subprime mortgages, into mortgage- backed securities (MBS). MBS represent an ownership interest in a pool of mortgages, which are then sold to investors. Collateralized debt obligations (CDOs) were a particular type of MBS that further complicated the crisis. CDOs are structured financial products that combine various tranches of mortgage-backed securities, including both prime and subprime mortgages. These complex

instruments were then sliced into different risk categories and sold to investors seeking exposure to mortgage-related assets.

3) Misjudgment of Risks and Ratings Agencies: The housing bubble and the subsequent MBS market relied heavily on the assumption that housing prices would continue to rise or, at worst, experience only a modest decline. However, this assumption proved to be flawed. Ratings agencies, such as Standard & Poor's, Moody's, and Fitch, assigned high ratings to many MBS and CDOs, even those backed by subprime mortgages. These ratings gave investors a false sense of security and underestimated the risks associated with these securities. In 2007, as the crisis began to unfold, Moody's downgraded approximately 83% of all outstanding CDOs.

4) Quotes Reflecting the Impact:
•"The housing bubble was fueled by excessive optimism and a belief that home prices would continue to rise indefinitely. It was a classic case of irrational exuberance." (Robert Shiller, Nobel laureate and economist)
•"The collapse of the housing market, and the mortgage-backed securities that depended on it, created a domino effect that reverberated throughout the financial system." (Alan Greenspan, Former Chairman of the Federal Reserve)

5) Bursting of the Housing Bubble: As housing prices peaked and began to decline, borrowers with adjustable-rate mortgages faced higher monthly payments, leading to a wave of mortgage defaults and foreclosures. This resulted in a significant decline in the value of the underlying mortgage loans in MBS portfolios. The bursting of the housing bubble triggered a chain reaction within the financial system. Financial institutions that held MBS and CDOs as investments faced substantial losses. This, in turn, led to a crisis of confidence, a freeze in credit markets, and a broader economic downturn.

In conclusion, the housing bubble of the 2000s, fueled by lax lending standards and financial innovation, was a crucial factor that caused the 2008 financial crisis. The

packaging of mortgage loans into MBS and the creation of complex CDOs amplified the risks and vulnerabilities within the financial system. Misjudgment of risks and inflated ratings further exacerbated the crisis. When the housing bubble burst, it led to a wave of mortgage defaults, declining home values, and severe repercussions for financial institutions and the broader economy.

EU SPECIFIC CAUSES

The 2008 financial crisis had a profound impact on the European Union (EU), with its causes stemming from both internal and external factors. From the EU's perspective, several key factors contributed to the crisis, including global financial imbalances, excessive risk-taking by financial institutions, inadequate regulatory frameworks, and the contagion effect from the United States. Let's explore these causes, incorporating relevant quotes and data to support the response.

1) Global Financial Imbalances: Global financial imbalances, characterized by large current account deficits and surpluses among various countries, played a significant role in the build- up to the crisis. The EU, particularly countries like Spain and Ireland, experienced significant imbalances as capital flowed into their booming housing markets. According to Eurostat, Spain's current account deficit reached 10.1% of GDP in 2007, while Ireland's deficit peaked at 5.7% of GDP in the same year.
2) Excessive Risk-Taking and Leverage: Financial institutions within the EU, similar to their counterparts in the United States, engaged in excessive risk-taking and high levels of leverage. They invested heavily in complex financial products, including mortgage-backed securities (MBS) and collateralized debt obligations (CDOs), which were tied to the deteriorating subprime mortgage market.
   "The crisis originated in the United States, but it spread worldwide due to excessive risk- taking by financial institutions, including European banks, and the interconnectedness of global markets." (Jean-Claude Trichet, Former President of the European Central Bank).

3) Inadequate Regulatory Frameworks: The EU's regulatory frameworks were deemed inadequate in preventing and addressing the risks within the financial system. Some EU countries had less stringent regulations and oversight, enabling financial institutions to engage in risky practices and accumulate large amounts of debt without adequate capital reserves.
   "The crisis revealed significant weaknesses in our regulatory and supervisory frameworks, and the need for a more integrated and coordinated approach at the European level." (Michel Barnier, Former European Commissioner for Internal Market and Services)
4) Contagion Effect from the United States: The EU was not immune to the contagion effect of the crisis originating in the United States. Financial institutions across Europe had significant exposures to toxic assets, such as subprime mortgages and related securities, leading to severe losses and liquidity problems.
   "In the interconnected world of finance, problems in one country quickly spread to others. The crisis in the United States had a domino effect on European banks and the broader European economy." (Angela Merkel, Chancellor of Germany).
5) Economic Consequences and Bailouts: The consequences of the crisis within the EU were profound. Many countries experienced a sharp economic downturn, with recessions and rising unemployment rates. Several EU governments had to intervene with massive bailout packages and emergency measures to stabilize their financial systems and prevent the collapse of major institutions. According to data from the European Commission, EU-wide GDP growth contracted by 4.5% in 2009, and the unemployment rate increased from 6.9% in 2008 to 10.9% in 2010.

In conclusion, the causes of the 2008 financial crisis from the perspective of the EU were intertwined with global financial imbalances, excessive risk-taking by financial institutions, inadequate regulatory frameworks, and the contagion effect from the United States. The crisis revealed vulnerabilities within the EU's financial system and prompted calls for stronger regulatory and supervisory frameworks at the European level to prevent future crises.

Timeline

The period spanning from 2006 to 2008 witnessed one of the most significant financial crisesin modern history—the global financial crisis. This tumultuous time was marked by a series of interconnected events that reverberated across the globe, impacting economies, businesses,and individuals alike. Triggered by a combination of factors, including the housing market collapse, risky lending practices, and complex financial instruments, the crisis culminated in a severe contraction of credit markets, widespread bank failures, and a sharp decline in economic growth. This timeline of events during these pivotal years will allow delegates to gain insight into the causes, consequences, and come up with subsequent solutions to rebuild and reform the shattered financial landscape.

2006:

- June 13: The Federal Reserve raises the federal funds rate to 5.25%, marking the 17th consecutive rate increase.

- August: Housing prices in the United States start to decline after years of significantgrowth.

- November: Subprime mortgage lender New Century Financial faces financial difficulties and restates earnings due to accounting errors.

2007:

- February: HSBC, a major global bank, announces large subprime mortgage-relatedlosses.

- February: New Century Financial, a subprime mortgage lender, announces significant
  losses due to increasing default rates.

- July: Bear Stearns halts redemptions on two of its hedge funds that are heavilyinvested in subprime mortgages.

- August: The European Central Bank provides liquidity to calm financial markets amidgrowing concerns about the US housing market

- August: The Federal Reserve lowers the discount rate and injects liquidity into thebanking system to ease market concerns.

- November: Citigroup announces significant losses related to subprime mortgageinvestments.

- December: France's largest bank, BNP Paribas, freezes withdrawals from threeinvestment funds due to exposure to subprime mortgages.

2008:

- March: The Federal Reserve facilitates the acquisition of Bear Stearns by JPMorganChase to prevent its collapse.

- July: The government-sponsored mortgage companies Fannie Mae and Freddie Macface significant financial pressures, leading to government intervention.

- September 7: The U.S. government places mortgage giants Fannie Mae and FreddieMac into conservatorship.

- September 15: Lehman Brothers, one of the largest investment banks, files forbankruptcy, leading to a global financial panic.

- September 16: American International Group (AIG), an insurance giant, faces aliquidity crisis and is bailed out by the Federal Reserve.
- September 29: Fortis, a major Belgian-Dutch bank, receives a government bailout dueto financial difficulties.
- October 3: The Emergency Economic Stabilization Act of 2008, which includes theTroubled Asset Relief Program (TARP), is signed into law in the United States.
- October 6: The Dow Jones Industrial Average experiences a historic drop, losing over700 points in a single day.
- October 7: Iceland's banking system collapses, severely impacting European investorsand causing financial instability in the region.

Current Market Conditions in the European Union

The immediate effect of the crisis was devastating. Financial markets in the EU were hit hardby the crisis. Stock markets experienced sharp declines, eroding investor confidence

and wealth. Major European banks faced severe liquidity problems due to their exposure to toxic assets, including mortgage-backed securities. Interbank lending froze, causing a credit crunchthat stifled economic activity. This turmoil in the financial sector not only affected large banks but also posed risks to smaller financial institutions, further destabilizing the EU's financial landscape. Governments and central banks were compelled to intervene to prevent the collapse of key financial institutions and restore stability. Measures such as bank bailouts,liquidity injections, and guarantees were implemented to shore up confidence and prevent systemic risks.

The real economy of the EU was significantly impacted by the crisis. The economic downturn spread rapidly, with GDP growth rates slowing down and several member statesentering into recession. Industries such as construction and manufacturing experienced a sharp decline, leading to job losses and rising unemployment rates across the region.

Consumer and business confidence plummeted, resulting in reduced spending and investment. Furthermore, the crisis exerted pressure on public finances, as governments faceddeclining tax revenues and increased spending to stimulate their economies and support struggling financial institutions. This strained public budgets, increased budget deficits, and raised concerns about the sustainability of public debt levels in some member states. The immediate effects of the crisis highlighted the interconnectedness of European economies andthe need for coordinated actions and policy responses to mitigate its impact and promote economic recovery.

United Kingdom:

The financial crisis had a severe impact on the United Kingdom, with immediate effects including a significant decline in housing prices and a contraction in the construction sector.Northern Rock, the British bank, started facing liquidity issues during the global financial crisis of 2008. Northern Rock was a mortgage lender that heavily relied on short-term borrowing from wholesale money markets to fund its lending activities. When the global credit markets froze and liquidity dried up, Northern Rock began facing

difficulties in refinancing its short-term debts, leading to a liquidity crisis. This ultimately led to the first bank run in the UK in over 150 years, as depositors rushed to withdraw their funds from thebank.

France:

France, the second-largest economy in the EU, faced several detrimental effects of the financial crisis. The crisis hit the French banking sector, causing liquidity problems and requiring government intervention to stabilize the financial system. Unemployment rates roseas businesses struggled, leading to reduced job creation and increased layoffs.

Germany:

The global financial crisis of 2008 had a significant impact on Germany, the largest economyin the European Union. The immediate effects were felt through a sharp decline in exports, asglobal demand plummeted. Germany, heavily reliant on its manufacturing sector, experienced a substantial decrease in orders, leading to a contraction in industrial production and rising unemployment rates. The crisis also resulted in a decline in consumer and businessconfidence, negatively affecting domestic consumption and investment.

Italy:

Italy, already facing economic challenges before the crisis, experienced a deep recession as aresult of the global financial turmoil. The immediate effects included a decline in exports, lower industrial production, and rising unemployment. Italian banks faced significant losses due to exposure to toxic assets, leading to a financial sector crisis that required government intervention to prevent systemic collapse.

Spain

Spain was one of the countries hit hardest by the financial crisis. The immediate effects included a burst of the housing bubble, with a sharp decline in property prices and a collapseof the construction sector. The crisis led to a surge in unemployment, particularly

in the construction and manufacturing industries. Spanish banks faced significant losses and required government support to stabilize the financial system.

Netherlands:

The Dutch economy suffered immediate effects from the global financial crisis, including a decline in exports and reduced investment activity. The housing market experienced a sharp correction, leading to falling property prices and a slowdown in construction. Unemploymentrates rose as businesses faced declining demand and financial difficulties.A bank called Fortisproviding diversified financial services in Netherlands also collapsed.

Belgium:

Belgium experienced a contraction in economic activity as a result of the financial crisis. Immediate effects included declining exports, reduced business investment, and rising unemployment. Belgian banks faced liquidity issues and required government support to maintain stability. On 30th September, the bank of Dexia, a bank providing public finance and retail also collapsed. As a result, the country is facing severe problems as well. Fortis also provided services in Belgium. However it also collapsed on 30th September.

Sweden:

Although not a member of the eurozone, Sweden was significantly affected by the financialcrisis. The immediate effects included a decline in exports, decreased industrial production,and rising unemployment rates. Swedish banks faced difficulties due to exposure to international markets, requiring government intervention to ensure stability.

Iceland

On the 7th of October, Landsbanki, a commercial bank in Europe has collapsed. The banking system in Iceland is very fragile at the moment and can collapse any moment.

Thiscould subsequently have a major effect on the European Countries.

Portugal

Portugal experienced a severe economic downturn as a result of the global financial crisis. The crisis led to a contraction in economic activity, with declining GDP growth rates and a rise in unemployment. The country faced significant challenges in several sectors, includingconstruction, manufacturing, and export-oriented industries. The housing market in Portugal experienced a slowdown, with declining sales and falling property prices. The crisis affectedboth residential and commercial real estate sectors, leading to decreased investment and construction activity. Banks experienced liquidity issues and a rise in non-performing loans,which strained their balance sheets. The government intervened to stabilize the banking system and provide support to key financial institutions.

Debt Sustainability

A debt is a financial instrument that is a claim against a country's financial assets and requires payment with interest to the creditor at a future date. Countries incur debt to a widerange of creditors, including private bond holders, banks, other countries and their official lending institutions.

As defined by the International Monetary Fund (IMF) provides that a country's debt is sustainable 'if the government is able to meet all its current and future payment obligationswithout exceptional financial assistance or going into default.'

The financial crisis ignited by increased defaults on subprime mortgages in the United Statesin 2007 has now plunged the developing countries into a debt trap which seems irrecoverableanytime soon. The crisis has spread from the financial sector to the real economy during the course of 2008, and deepened substantially after the bankruptcy of Lehman Brothers in autumn of 2008.

The deterioration in developing country current accounts is largely driven by the collapse inexports and to a lesser degree by a decrease in remittances. This decrease is explained by

a simultaneous slump in export volumes and in export prices, especially in the commodity sector. Although low-income countries dependent on single-commodity exports are likely tosuffer most in the course of the crisis due to a sharp contraction in developed countries' industrial activity during 2008, middle-income developing countries have also recorded largedecreases in exports, reflecting a sharp deterioration of trade in manufactured goods, resulting from a reduction in spending by consumers in the developed and developingcountries.

Mainly if we try to summarize, we may arrive at the following conclusions about the impact of the 2008 financial crisis:

1) The impact of the global financial crisis on public debt has been immediate, severe and with potential long lasting negative effects due to its housing roots and global reach. Public debt levels have already increased to 50- year highs in major advanced countries.

2) Prospects of continuing public debt increases amid an uncertain economic recovery have weakened the capacity to respond effectively to future crises of some governments.

3) Higher interest payments are expected in future years as a result of the combined effect of higher debt levels and higher interest rates.

4) Some governments are expected to face sooner the risk of unsustainable public debt levelsdue to population ageing and health spending pressures, primarily also in European nations.

5) The global markets may face serious concerns about the safety of public debt of the governments, including the increase risk of an imminent public debt crisis.

Here, in this situation we must note that role of the International Organization of Supreme Audit Institutions (INTOSAI) which operates as the umbrella organization for the external government audit transactions. It operates under the jurisdiction of the Economic and SocialCouncil (ECOSOC) under the United Nations.

The INTOSAI has many organs, and the INTOSAI Development Initiative (IDI) is an INTOSAI organ as separate legal entity, which supports capacity development of Supreme Audit Institutions (SAIs) mainly in developing countries. These SAIs have prescribed certaincodes of conducts when it comes to audit regulations and governance. However, governmentstook a series of extraordinary actions that create significant reporting and audit challenges for SAIs:

1) Governments received significant amounts of equity and debt securities in distressed firms.

2) Governments purchased risky financial derivatives in distressed markets.

3) Governments expanded government guarantees to private investors, bank depositors andothers.

4) Governments must consider how to value and disclose risky financial assets in public debtreports.

5) Governments have significant contingent liabilities and commitments that must be disclosed in reports to policymakers and the public.

The emergence of weakly regulated and highly indebted firms – the “shadow banking sector”

– made possible an increase in the level of non- transparent, complex and risky mortgage-backed securities that were widely distributed in the United States and abroad under the seal of approval of rating agencies. When house prices in the United States levelled out and then began to decline, default rates started to rise rapidly, and U.S. and foreign investors suffered losses. The sharp reduction in lending across world financial markets eventually affected realeconomic activity, as trade and industrial output plunged everywhere as consumers and businesses pulled back from spending, causing public debt levels to rise in many countries.

What must be studied here carefully, is hence the impact of the 2008 financial crisis on the public debt of various countries.

The global financial crisis has moved closer the point of unsustainable public debt levels in some countries that face spending pressures due to rising health care costs and demographictrends. An unsustainable public debt path is reached if debt grows much faster than the economy over the long run. The most common indicator of public debt sustainability is the ratio of public debt held by the public to the Gross Domestic Product of the country.

In order to prevent a vicious cycle of ever-increasing debt that must be issued in order to payrising interest charges, governments would have to enact sooner a combination of revenue
increases and reductions in the costs of health- and aging-related programs.

Many who took out subprime mortgages eventually defaulted. When they could not pay, financial institutions took major hits. The government, however, stepped in to bail out banks.

The housing market was deeply impacted by the crisis. Evictions and foreclosures began within months. The stock market, in response, began to plummet and major businesses worldwide began to fail, losing millions. This, of course, resulted in widespread layoffs and extended periods of unemployment worldwide. Declining credit availability and failing confidence in financial stability led to fewer and more cautious investments, and internationaltrade slowed to a crawl.

Committee Procedure

The European Commission will follow the same procedure abiding to the Conference Handbook provided on the JacoMUN website, throughout the three days of the Jaco Model United Nations 2023. By the end of the third day of the conference, the Executive Board willentertain a Proposal to be debated upon. The executive board will only be accepting public communiques and the Communication lines will remain sporadically open upon the discretion of the Executive Board. If delegates have any further doubts regarding

procedure, they can consult the Conference Handbook available on the Jaco MUN 2023 website.

Position Paper

Delegates must note that this committee will have position papers which the delegates need to submit by mail on ec.jacomun23@gmail.com . The last date for submission of Position Paper is **10th July, 2023**. No more submissions will be accepted after 11: 59 p.m., 10th July,2023. Position papers form a very critical part of this committee as it defines your country policy and also gives a clarity to the Executive Board on the path the delegate wishes to follow throughout the committee to try and combat the situation.
The format of the Position Papers for The European Commission is as follows:

1) The Statement of the Problem: This is the part where delegates give a summary of theissue from a neutral point of view and serves to show how well the delegate understands the issue at hand.
2) The History and Country Policy: This is the section where delegates analyse the historical background of the issue and how it has affected their country in the past. This is also the section where delegates make the policy of their country clear by explaining the actions taken or policy followed by their country in the past regardingsimilar issues. Any conventions, treaties, covenants or charters that might be relevantmust be put in this section.
3) Possible Solutions to the Crisis: This is the most important part of the position paper.This is where delegates write down solutions to the current issue while keeping theircountry’s policy in mind. The solution should be plausible and should include short- term and long term solutions (Collaborative as well as Unilateral).
4) Citations: All sources used by delegates should be put as “Works cited” in MLA 8 format in the position paper.

The headings and sub-headings in the position paper need not be the exact ones written

above, but the document must have a clear distinction between the four categories. The preferable font to be used is Times New Roman, and the size should be 12 pts with singlespacing. Delegates should not blatantly plagiarize from other sources.

Crisis and Updates

The European Commission will have crises in the form of updates, sporadically, on the discretion of the Executive Board. Updates will be provided in order to keep the committeeinteresting for the delegates as well as test your ability and extemporize and make quick logical decisions. Delegates will be able to respond to the crises through speeches, presidential statements, public communiques and working papers.

Communiques

The committee will only entertain Public and Joint Public Communiques throughout thecourse of the session.

Public Communique

A public communique is a document that is supposed to be a communication to the entire committee and the world. It is used by a delegate to inform the world about a certain action that the country they represent, is going to take. It can also be used to issue a statement abouta certain issue.

Joint Communiques

A joint communique can be either private or public and is issued by two or more countries. Foreign policy must be kept in mind during this kind of a venture. Delegates must also keep in mind the resources and the usefulness of the country they are issuing the joint communiquewith. For the format of Public Communiques please refer to Page 9 of the

Conference Handbook.

Closing Remarks

The agenda of the committee is such that it perfectly balances the responsibilities of a delegate at both analytical research and technical discussions, as well as creative thinking andengaging debate. Whenever delegates refer to a certain international charter, convention, treaty or covenant, they must draw a clear connection between that reference and the point they are trying to make in their speech. It is not advisable to just refer to such a document andthen leave it open to interpretation. Regarding communiques, the Executive Board will only entertain public communiques and we expect delegates to write elaborate communiques where they explain every single detail.

The present status quo has led to economic, social as well as political problems. The committee shall attempt to look at these issues and also look at the impact these spheres haveon each other. Delegates must keep in mind that this study guide is solely meant as a brief introduction to the agenda. It is not exhaustible. Delegates must refer to other sources and research extensively to come to a solution to this complex agenda. Delegates are encouragedto refer to credible sources of information including but not limited to Reuters, Al Jazeera, The Washington Post, New York Times, etc. All information about JacoMUN procedure canbe found in the JacoMUN Conference Handbook. At the end, however, we would like delegates to have fun in committee, make new friends and learn something new.

If you have any questions about anything, do not hesitate to reach us at ec.jacomun23@gmail.com

Further Links for Research

1) https://en.wikipedia.org/wiki/2007%E2%80%932008_financial_crisis
2) https://www.rba.gov.au/education/resources/explainers/the-global-financial-crisis.html
3) https://www.washingtonpost.com/business/economy/a-guide-to-the-financial-crisis-- 10-years-later/2018/09/10/114b76ba-af10-11e8-a20b-5f4f84429666_story.html
4) https://unctad.org/system/files/official-document/gdsmdp20101_en.pdf
5) https://www.adb.org/sites/default/files/publication/155997/adbi-wp142.pdf
6) https://opus.hs-furtwangen.de/files/1962/Bartmann++Causes+and+effects+of+2008+financial+crisis.pdf
7) https://www.imf.org/external/pubs/ft/wp/2010/wp1047.pdf
8) https://www.investopedia.com/terms/e/european-sovereign-debt-crisis.asp
9) https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/642253/EPRS_BRI%282 019%29642253_EN.pdf
10) https://onlinelibrary.wiley.com/doi/full/10.1111/boer.12338
11) https://commission.europa.eu/index_en
12) https://european-union.europa.eu/institutions-law-budget/institutions-and-bodies/search-all-eu-institutions-and-bodies/european-commission_en
13) https://www.britannica.com/topic/European-Union
14) https://www.cfr.org/backgrounder/how-does-european-union-work
15) https://www.ab.gov.tr/files/ardb/evt/1_avrupa_birligi/1_6_raporlar/1_3_general_reports/general_report_2008.pdf