



Dear Delegates,

Welcome to MITMUNC's International Monetary Fund Committee! We cannot wait to meet you all during our conference, and watch as you tackle some of the largest current economic issues. As co-chairs for IMF, we hope to foster some progressive debate and discussion on two exciting topics, and most importantly hope that you all will be able to take away an enriching model UN experience. Please find a little background info on each of us below.

Griffin Ansel: Here at MIT, I study computer science, play football, am in the Kappa Sigma fraternity, and am on the Mock Trial, Model UN, and Debate teams. I currently work for the Oakland Athletics baseball team in Data Analytics in Player Scouting and Development. My debate/MUN experience: I was all-American in Model UN, and particularly enjoyed the Harvard and Cal Invitationals. In debate, I primarily did Public Forum, and placed in the top 15 at the National Championships, as well as top 8 in California. I now coach both debate and model UN for various high schools.

Anagh Tiwary: Here on campus I study civil engineering and finance, am involved with the Sloan Business Club, play saxophone with the MIT wind ensemble, and have done research with the MIT International Center for Aviation as well as the Sloan School of Management. I work on Wall St. for Morgan Stanley, in their Global Infrastructure Investment Fund (a \$13 billion dollar private equity fund that makes buy side equity investments). I'm really passionate about finance and investing, have done internships in the field not only in the US but in Europe and Singapore, and have gained exposure in international finance.

Please keep in mind that you are expected to prepare opening speeches of one minute each, as well as position papers on each topic of about one page in length. Hopefully, the following guide will aid you in starting your research. Please continue on to learn more about the topics you will be handling at MITMUNC X! We wish you luck as you begin researching your positions!

Best,

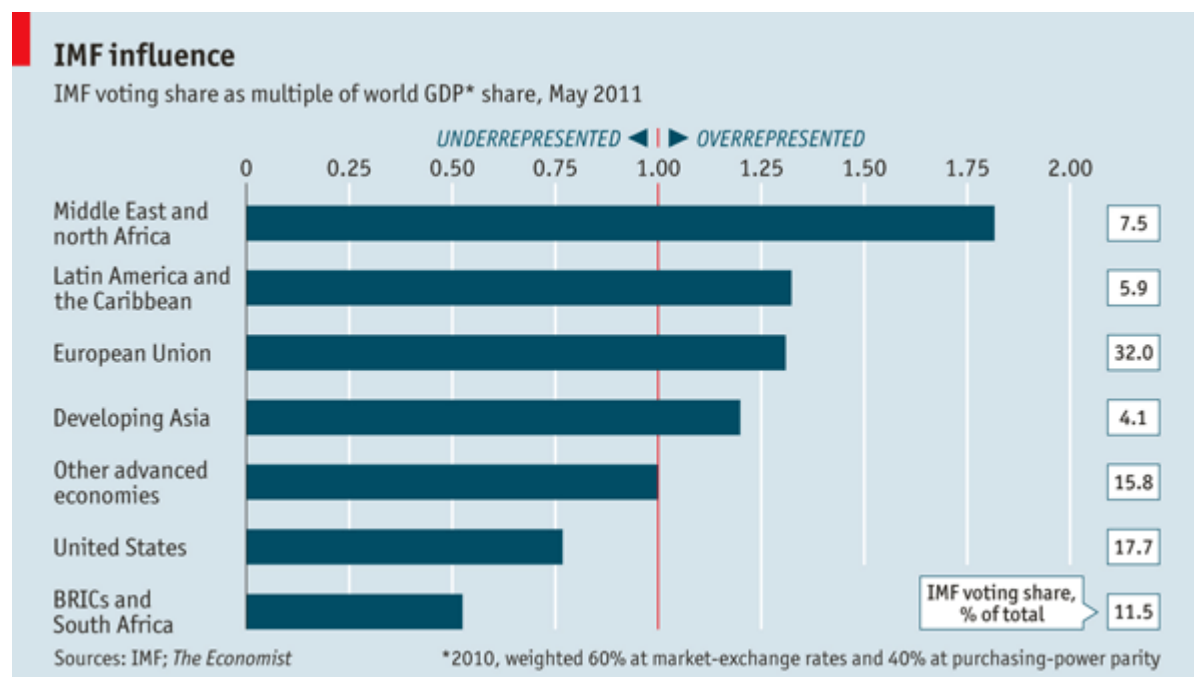
Griffin Ansel and Anagh Tiwary

## Topic 1: The Membership of Cuba

### Statement of the Problem

Over the last several decades, debate has arisen over whether or not Cuba should be allowed to rejoin the International Monetary Fund (IMF). Though Cuba has requested to meet with the IMF, and expressed interest in rejoining the group, it has not formally requested it. A few countries, notably the United States, have opposed Cuban membership for over four decades. Now, with both Cuban and American interests shifting, it appears to be time to address the Cuban membership debate once again.

### History of the Problem



The IMF was founded in 1944 at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire. Its expressed purpose is to ensure stability and regulation of international financial matters in the post-World War Two world. After debate, the IMF was

ratified by 44 nations, including both Cuba and the United States<sup>1</sup>. The Cuban government under President Fulgencio Batista was an early supporter of the IMF, and was instrumental in ensuring greater voting rights for small states, as well as gaining more influence for Latin American states on the IMF Executive Board (see above)<sup>2</sup>.

Cuba was one of the IMF's 40 original members, and joined in 1946. Like many other countries, Cuba consistently borrowed money from the IMF over the next decade and a half, and generally paid it back in the following year. However, this all changed in the late 1950s. In 1958, as his government began facing increased opposition, President Batista borrowed \$12.5 million from the IMF<sup>3</sup>. This amount was roughly  $\frac{1}{4}$  of Cuba's allotted borrowing amount, and Cuba agreed to repay it within six months. At the six month mark, the Cuban government was under threat to collapse, and Fidel Castro and his forces overthrew Batista in January of 1959 and established a new government. By 1963, the original loan (and interest) had not been repaid. At that point, the IMF prohibited Cuba from using IMF funds until the loan was repaid, and Cuba responded by withdrawing from the IMF a few months later. Over the next five years, Cuba did repay the original loan, with interest, and settled its debt to the IMF.

Though the Cuban economy has consistently grown over the 40 years preceding the Cold War, the Cuban Missile Crisis and subsequent trade embargo in 1960 made Cuba reliant on the Soviet Union for financial support. Upon the Soviet collapse in 1991, Cuba was thrown into a severe economic depression. In order to try to mitigate the effects of the collapse, the Cuban government reached out to the IMF about regaining membership. The IMF was receptive to

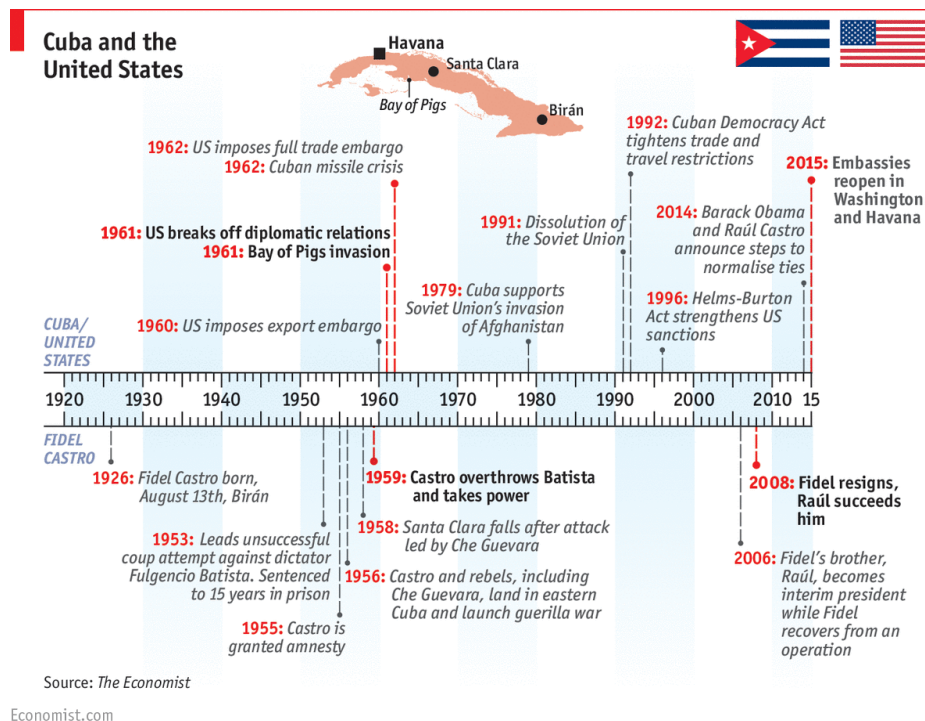
<sup>1</sup> "History Of The International Monetary Fund." 50 Years, 14 Aug. 2014, [www.50years.org/history-of-imf/](http://www.50years.org/history-of-imf/).

<sup>2</sup> "The IMF's Final Few: What Will It Take for Cuba to Rejoin?" Centre for International Governance Innovation, [www.cigionline.org/articles/imfs-final-few-what-will-it-take-cuba-rejoin](http://www.cigionline.org/articles/imfs-final-few-what-will-it-take-cuba-rejoin).

<sup>3</sup> "Will Cuba Rejoin IMF?" Koreatimes, 13 Jan. 2015, [http://koreatimes.co.kr/www/news/opinion/2017/10/197\\_171632.html](http://koreatimes.co.kr/www/news/opinion/2017/10/197_171632.html)

Castro's requests, and met with Cuban officials in Havana in 1993<sup>4</sup>. However, the United States vehemently opposed Cuba's request, and the IMF heeded the United States' wishes, and did not allow Cuba to rejoin.

## Current Situation



Upon the election of Democrat Barack Obama in 2008, interactions between the United States and Cuba have significantly increased. That same year, Cuban revolutionary Fidel Castro stepped down as Cuba's president, and was succeeded by his brother, Raul. Normalization of US-Cuba relations continued throughout Obama's tenure as president, culminating in President Obama removing the tariff on coffee, rum, and cigars, and taking steps to allow American tourists to visit Cuba. America and Cuba both opened embassies in the other country, and

<sup>4</sup> Written by James M. Boughton, Senior Fellow, CIGI. "Will Cuba Rejoin the IMF?" World Economic Forum, [www.weforum.org/agenda/2015/01/will-cuba-rejoin-the-imf/](http://www.weforum.org/agenda/2015/01/will-cuba-rejoin-the-imf/).

resumed diplomatic ties, including a visit from Obama in March 2016 to Cuba, making him the first U.S. President to visit Havana since Calvin Coolidge in 1922<sup>5</sup>. This makes now the ideal time for Cuba to seek admittance to the IMF, as the United States has historically been the strongest objector to its membership. However, President Trump may reverse this progress. Trump has repeatedly said that he will reverse the last administration's "one-sided deal with Cuba." Despite these strong words, Trump's policy to date has been similar to his predecessor's, with tourism having slightly more restrictions.

When Cuba joined the IMF in March of 1946, their borrowing quota, or the amount they could borrow, was \$50 million (about \$677 million, adjusted for inflation<sup>6</sup>), similar to Norway, New Zealand, and Chile<sup>7</sup>. However, the GDPs of those countries have increased significantly relative to Cuba's, and would no longer be valid comparisons when determining a modern-day Cuba's quota. Instead, the Cuban economy is much more comparable to Costa Rica, the Dominican Republic, Nicaragua, and Panama, with an average quota of about \$180 million. The current IMF quota formula is a weighted average of GDP (50%), openness (30%), economic variability (15%), and international reserves (5%)<sup>8</sup>. However, as a non-member of the IMF, or any other International Financial Institutions, Cuba is not required to release any economic data, so it is difficult to calculate its quota correctly.

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<sup>5</sup> Young, Lloyd. "President Obama's Visit to Cuba - The Boston Globe." BostonGlobe.com, Boston Globe, [www.bostonglobe.com/news/bigpicture/2016/03/24/president-obama-visit-cuba/DsPp60xmrgAPIVHjpiV6lM/story.html](http://www.bostonglobe.com/news/bigpicture/2016/03/24/president-obama-visit-cuba/DsPp60xmrgAPIVHjpiV6lM/story.html).

<sup>6</sup> "CPI Inflation Calculator." U.S. Bureau of Labor Statistics, U.S. Bureau of Labor Statistics, <https://data.bls.gov/cgi-bin/cpicalc.pl?cost1=10000000&year1=194601&year2=201710>

<sup>7</sup> "Cuba's Membership in the IMF and Other International Financial Institutions and Their Possible Role in Promoting Sustainable Economic Growth in Cuba." ASCE, 30 Nov. 2012, [www.ascecuba.org/asce\\_proceedings/cubas-membership-in-the-imf-and-other-international-financial-institutions-and-their-possible-role-in-promoting-sustainable-economic-growth-in-cuba/](http://www.ascecuba.org/asce_proceedings/cubas-membership-in-the-imf-and-other-international-financial-institutions-and-their-possible-role-in-promoting-sustainable-economic-growth-in-cuba/).

<sup>8</sup> "IMF Quotas." IMF, [www.imf.org/en/About/Factsheets/Sheets/2016/07/14/12/21/IMF-Quotas](http://www.imf.org/en/About/Factsheets/Sheets/2016/07/14/12/21/IMF-Quotas).

### Proposed Solutions

- Cuba is permitted to join the IMF
  - This may require concessions states that oppose membership. Think about how a resolution could use IMF funds or features to appease those that disagree.
- Cuba is permitted to join the IMF with restrictions
  - Rather than using IMF resources to appease dissenters, think about what restrictions could make them willing to allow Cuba to join.
- Cuba is not permitted to join the IMF until certain actions are taken.
  - This is a similar idea to the preceding one, but could be more appealing to some members by providing protections in case of Cuban failure.
- Cuba is not permitted to join the IMF

Any resolution allowing Cuba to rejoin the IMF at any point must include a borrowing quota for Cuba. See the current situation section for more information.

## Topic 2: The Greek Bailout

### Statement of the Problem

The Greek Bailout relates to the potential bailout of the government of Greece by the IMF, due to the Greek debt crisis. The Greek debt crisis is the fact that the Greek government owes a very dangerous amount of sovereign debt, especially in relation to the payback power that the country of Greece holds. It is now up to the IMF to determine how to fix the Greek economy. This means determining if Greece needs to be bailed out, and if so, what the proposed terms and structure of this bailout would look like, or if there are other measures that can be taken to put Greece back on track.

### History of the Problem

Greece has had financial trouble since 2009, where it announced that it would have a budget deficit equivalent to 12.9 percent of its gross domestic product. EU regulations on the other hand limit budget deficits to 3 percent of GDP, and because of those regulations, many rating agencies, including Standard & Poor's, lowered Greece's credit ratings. The lowering of ratings scared off investors, and drove up the cost of future loans, as rising interest rates due to the poorer ratings meant pricier loans. All of this did not help the already poor financial situation that Greece found itself in due to the budget deficit.

In 2010 Greece proposed a plan to lower its budget deficit to EU regulations of 3 percent of GDP by 2012, in a last attempt to display fiscal responsibility. However, four months later Greece defaulted again, and the EU in partnership had to provide 240 billion euros in emergency



bailout funding. The EU chose to do this because it viewed the consequences of Greece defaulting or leaving the EU as quite significant.

In exchange for the bailout, Greece increased the VAT tax as well as the corporate tax rate, and attempted to close tax loopholes and tax evasion. Additionally, many EU countries backed the privatization of many Greek businesses especially in the public sector, to reduce the power and outreach of an already fiscally inept government. Many EU countries, especially Germany, Poland, Czech Republic, Portugal, Ireland and Spain were quite skeptical about the bailout and wanted to make sure Greece wouldn't use the funds to pay off its outstanding debt, but instead to properly kickstart the economy. Several EU countries such as Slovakia and Lithuania refused to let their taxpayers pay for the bailout.

The 2010 bailout was not that successful. It allowed Greece to pay back interest on existing debt, but the new tax reform measures slowed the Greek economy severely. Unemployment went up to 25 percent, and the whole country was in a state of chaos.

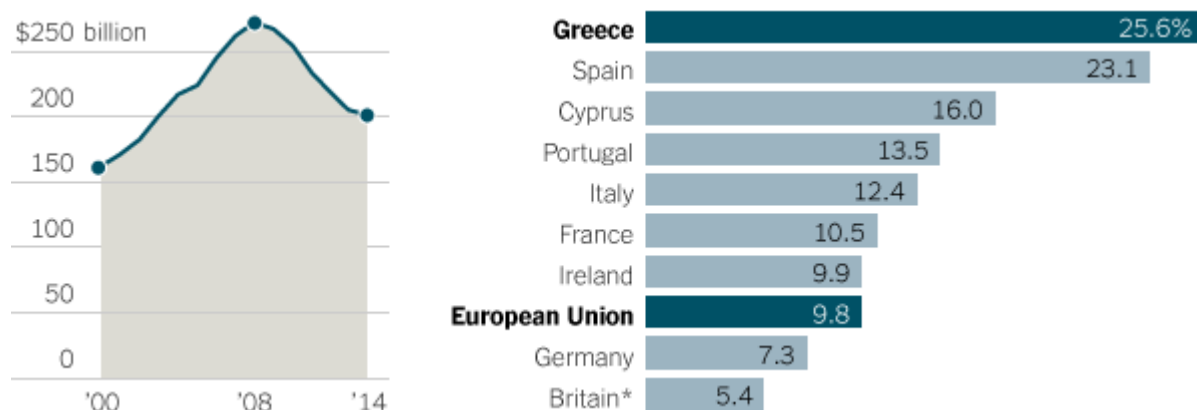


Figure 1 Greece's G.D.P. and Unemployment Rates in Europe

In 2011 the EU through the European Financial Stability Facility added 190 billion euros to the bailout, in hopes of bringing some change to the country, however by 2012, Greece's debt-to-GDP ratio had risen to 175 percent, almost three times the EU's limit of 60 percent.

Fast forward to 2015 and Greece missed its scheduled 1.55 billion euros loan payment to the EU. Two days later, the IMF warned investors that Greece would need 60 billion euros in new aid, and advised creditors to take further write-downs on the more than 300 billion euros they were already owed.

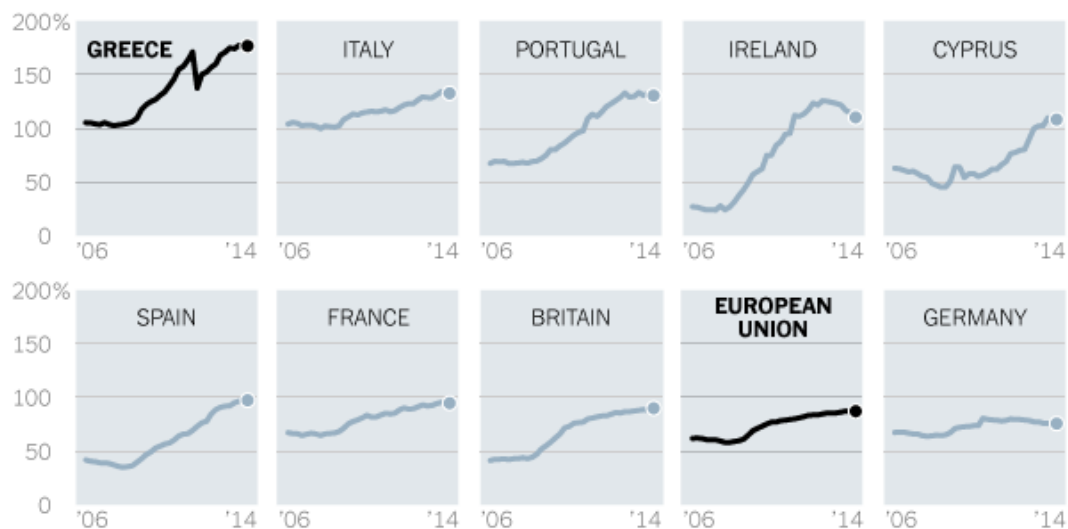


Figure 2. Gross government debt as a percentage of gross domestic product plotted through the fourth quarter of 2014.

In July of 2015 Greek banks shut down and restricted ATM withdrawals to 60 euros per day. The European Central Bank agreed to recapitalize Greek banks with 10 euros to 25 billion euros, allowing them to reopen, as this was peak tourist season (Greece's economy was heavily dependent on tourism).

Later in July of 2015 the European Central Bank agreed with the IMF that they must reduce Greece's debt. They decided to do so by lengthening the terms of the debt, reducing its net present value. Greece would still owe the same amount of money to the ECB, it could just pay it over a longer time period.

On July 20th 2015, Greece finally made its payment to the ECB, but only because of a 7 billion euros loan from the EU emergency fund.

In March of 2016, the Bank of Greece predicted the economy would grow by the summer of 2016. Greek banks were still losing money, even though in 2015 the Greek economy had somewhat stabilized (it only shrunk by .2 percent).

In May 2017, Prime Minister Alexis Tsipras agreed to cut pensions and broaden the tax base. In return, the EU would lend him another 86 billion euros.

In July 2017, Greece was able to issue bonds again. It plans to swap notes issued in the restructuring with the new notes as a move to regain investors' trust.

### Current Situation

In 2017 Greece has finally announced that it will issue government bonds again. It is just the first of several steps that Greece has to take to figure out whether it can raise money in international markets to support its economy and government operations.

The latest IMF bailout, worth €86 billion, expires in August 2018. Greece continues to stagger under a mountain of debt, which is now worth €314 billion. That problem has provoked clashes between the country's two main creditors, the International Monetary Fund and the European Commission.

The Greek economy is still reeling from years of severe budget tightening, pension cuts, tax increases and other austerity actions required under the bailout programs. To rebuild its finances, the Greek government will need to maintain those measures even after the current rescue expires next year.

### Proposed Solutions

I do not want to impede your ability to creatively solve this issue, so will not provide proposed solutions past the obvious. Here are a few:

- The IMF decides that Greece requires further bailout funds
  - This may require further funds from the EU, as well as discussing what austerity would look like from Greece. Think about what the term structure for such a bailout would look like.
- The IMF decides that Greece does not require further bailout funds
  - Rather than using IMF resources to fix Greece's problems, the IMF will let the country figure out its own plan of action to repay its copious amounts of debt.
- The IMF decides that Greece is in need of economic assistance, but in a form other than a bailout
  - This is a similar idea to the preceding one, but could be more appealing to some members by providing different types of aid and rationale that doesn't lead to increased taxation in member states.