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The Eurozone Crisis: Overview and Issues for Congress

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Summary

What started as a debt crisis in Greece in late 2009 has evolved into a broader economic crisis in the Eurozone that threatens economic stability in Europe and beyond. Some analysts view the Eurozone crisis as the biggest potential threat to the U.S. economic recovery. The Eurozone faces at least four major, and related, economic challenges. These challenges include: 1) high debt levels and public deficits in some Eurozone countries; 2) weaknesses in the European banking system; 3) economic recession and high unemployment in some Eurozone countries; and 4) persistent trade imbalances within the Eurozone.

European leaders have undertaken several rounds of unprecedented policy measures to resolve the crisis. Key policy measures focus on: austerity measures and structural and economic reforms in countries facing severe market pressure, including Greece, Ireland, Italy, Portugal, and Spain (often referred to as the Eurozone "periphery"); financial assistance from other Eurozone governments and the IMF to Greece, Ireland, and Portugal; plans for debt restructuring in Greece; European Central Bank (ECB) liquidity support to private banks and purchases of sovereign bonds on secondary markets; and a commitment by most countries in the European Union (EU) to balance national budgets, the so-called "fiscal compact."

Although the ECB's infusion of cash into the banking system in December 2011 and February 2012 through long-term refinancing operations appears to have calmed markets, significant risks and policy questions remain. Particular concerns center on how to restore growth in the Eurozone periphery amidst often unpopular austerity reforms; how to put Greece's debt on a sustainable path; and how to correct trade imbalances in the Eurozone. More broadly, there are questions about the impact of the crisis on the future of the Eurozone. Some economists are optimistic that ultimately the European leaders and institutions will do whatever is necessary to keep the Eurozone from collapsing, and that the Eurozone will emerge from the crisis stronger and more integrated. Others view a broader financial crisis triggered by a disorderly default or exit by one or more countries from the Eurozone as a real possibility.

Issues for Congress

Impact on the U.S. Economy: The United States and Europe share the largest bilateral economic relationship in the world, and there are concerns about the exposure of U.S. financial institutions to Europe and U.S. exports to Europe. Treasury officials have emphasized that U.S. exposure to the Eurozone countries under the most market pressure is small but that U.S. exposure to Europe as a whole is significant. To date, it is not clear that U.S.-EU trade flows have contracted, although risks may remain.

IMF Involvement: Some Members of Congress are concerned about IMF involvement in the Eurozone crisis. In 2010, Congress passed legislation to limit IMF support for advanced economies (P.L. 111-203). In the 112th Congress, legislation has been introduced in the House and the Senate to rescind some U.S. contributions to the IMF (for example, H.R. 2313; S.Amdt. 501), but at present has not become law. The Treasury Department has indicated that the United States will not contribute additional funds to the IMF.

U.S.-European Cooperation: The United States looks to Europe for partnership in addressing a wide range of global challenges. Some analysts and U.S. and European officials have expressed concern that the crisis could turn the EU's focus more inward and exacerbate a long-standing downward trend in European defense spending.

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Introduction

Over the past two years, the Eurozone has grappled with a sovereign debt crisis that threatens economic stability in Europe and beyond.[1] Analysts and investors are concerned that some Eurozone governments could default on their debt in a disorderly fashion;[2] vulnerabilities in the European banking sector could trigger broad financial turmoil; the Eurozone could enter a protracted economic recession; and one or more countries could leave the Eurozone.

The crisis has tested the solidarity of European Union (EU) member states and strained the capacity of EU leadership and institutional structures. Key European leaders have repeatedly vowed to take all necessary measures to protect the euro, which they view as the cornerstone of the European integration project.[3] They have held numerous summits and announced several rounds of policy measures to try to resolve the crisis. However, analysts have routinely criticized these measures as insufficient, and questions about economic, financial, and political stability in the Eurozone persist. The Obama Administration has repeatedly called for swift and robust European responses—specifically advocating more substantial financial assistance be made available to struggling economies. It has found, however, that it may have limited ability to affect European policy decisions.

Many analysts consider the Eurozone crisis to be the biggest threat to the global economy,[4] and some Members of Congress have expressed concern about the possible effects on the U.S. economy. Some Members have also raised questions about the appropriate role of the International Monetary Fund (IMF) in the crisis, particularly in light of the fact that the United States is the Fund's largest shareholder. Implications for future U.S.-EU cooperation on foreign policy issues more broadly is also a concern. Committees in both the House and the Senate have held hearings on the crisis and issues relating to possible U.S. exposure and U.S. policy responses.[5]

This report provides a brief analysis of the Eurozone crisis and issues of particular congressional interest. For broader analysis of the origins of the Eurozone and its future prospects, see CRS Report R41411, *The Future of the Eurozone and U.S. Interests*, coordinated by Raymond J. Ahearn. For discussion about sovereign debt in advanced economies more generally, including a

[1] A total of 17 states of the 27-member European Union (EU) use the euro as the single currency. The 17 countries are Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Spain, and Slovenia.

[2] An orderly default typically refers to a government working out a plan to restructure its debt with private creditors before missing or suspending payments, in contrast with a disorderly default, which typically refers to governments missing or suspending payments without previously working out a plan for repaying at least part of the remaining debt with creditors.

[3] German Chancellor Angela Merkel has reportedly stated, "if the Euro fails, Europe fails." Quoted in Howard Schneider and Michael Birnbaum, "Europe reaches bailout deal," *Washington Post*, October 27, 2011.

[4] For example, see "The World Should Heed the IMF's Call," *Financial Times*, January 19, 2012.

[5] Recent hearings include: 1) Senate Banking, Security and International Trade and Finance Subcommittee, September 22, 2011; 2) House Financial Services, International Monetary Policy and Trade Subcommittee, October 25, 2011; 3) Foreign Affairs, Europe and Eurasia Subcommittee, October 27, 2011; 4) Senate Foreign Relations, European Affairs Subcommittee, November 2, 2011; 5) House Oversight, Subcommittee on TARP, Financial Services, and Bailouts of Public and Private Programs, December 15, 2011 (Part 1) and December 16, 2011 (Part 2); 6) Senate Budget, February 1, 2012; and 7) Senate Banking, February 16, 2012.

comparison of the Eurozone and the United States, see CRS Report R41838, *Sovereign Debt in Advanced Economies: Overview and Issues for Congress*, by Rebecca M. Nelson.

Economic Problems in the Eurozone

The current Eurozone crisis has been unfolding since late 2009, when a new Greek government revealed that previous Greek governments had been underreporting the budget deficit. The crisis subsequently spread to Ireland and Portugal, while raising concerns about Italy, Spain, the European banking system, and more fundamental imbalances within the Eurozone.

Currently, the Eurozone is facing at least four major, and related, economic challenges:

First, concerns persist about high levels of public debt in some Eurozone countries, often referred to as the "periphery," and whether these countries will default on their debt.[6] Debt levels in some countries in the Eurozone periphery rose after they joined the Eurozone over a decade ago,[7] and the global financial crisis of 2008-2009 further strained public finances (see **Figure 1** and **Figure 2**). Three Eurozone governments—Greece, followed by Ireland and subsequently Portugal—have had to borrow money from other Eurozone governments and the IMF in order to avoid defaulting on their debt. Even with this assistance, the Greek government is currently negotiating "haircuts" (losses) on bonds held by private creditors, and there is speculation that Portugal will also have to restructure its debt.[8]

Investors have become increasingly nervous about high debt levels in Italy and rising debt levels in Spain, much larger economies, and they have started demanding higher interest rates for buying and holding Italian and Spanish bonds. As the Spanish and Italian governments have rolled over their debt at these higher interest rates, their debt levels have risen further, and questions have emerged about the sustainability of public debt in these countries. A disorderly default by a Eurozone country could trigger a broader financial crisis. Possible contagion of the crisis to Italy is a particular concern; Italian government debt is forecasted to be €2.1 trillion (about $2.8 billion)[9] in 2012, greater than that of Spain, Portugal, Greece, and Ireland combined,

[6] During the crisis, it has become convention among some policymakers and analysts on both sides of the Atlantic to refer to a group of mostly southern European countries—Greece, Ireland, Italy, Portugal, and Spain—as the Eurozone "periphery," in contrast to a group of mostly northern European countries, including Austria, Belgium, Germany, Finland, France, Luxembourg, and the Netherlands, as the Eurozone "core." In this context, periphery countries refer to the countries that have been under the most market pressure due to some combination of high public debt levels, large public deficits, and persistent trade imbalances, in contrast with the generally stronger economies in the core countries, which tend to have some combination of lower public debt levels, smaller fiscal deficits or surpluses, and trade surpluses. These terms have limitations and mask important differences among countries in the periphery and the core. Additionally, in EU parlance, the terms "periphery" and "core" can be controversial because they may also be used to distinguish between EU member states that support further EU integration and those that do not. Despite such difficulties, this report uses the terms "core" and "periphery" but only to distinguish between these Eurozone countries under considerable market pressures and those in stronger fiscal and economic positions.

[7] In some countries, such as Greece, borrowing was primarily undertaken by the government. In others, such as Spain and Ireland, private sector debt rose.

[8] "Portugal's Problems: The Next Special Case?," *Economist*, February 4, 2012.

[9] Throughout the report, values denominated in euros are converted to U.S. dollars using the exchange rate on February 8, 2012: €1 = $1.3274 (Source: ECB). However, the exchange rate has fluctuated over the course of the crisis, and dollar conversions should be used as approximations.

and four times larger than Europe's financial assistance funds (see "Major European Policy Responses").[10]

Second, weaknesses in the Eurozone's banking system are compounding concerns about public debt levels. Most urgently, ongoing concerns about the crisis have triggered capital flight from banks in some Eurozone countries, and some banks are reportedly finding it difficult to borrow in private capital markets.[11] More broadly, European banks are believed to be the largest holders of Eurozone government bonds, but many analysts argue that European banks do not have sufficient capital to absorb losses on their holdings of sovereign bonds should one or more Eurozone governments default. In December 2011, the European Banking Authority (EBA) estimated that European banks need €114.5 billion (about $152 billion) in additional capital in order to withstand a range of shocks and still maintain adequate capital.[12] The EBA is currently reviewing plans from European financial institutions to restore their capital positions by the end of June 2012,[13] and some analysts fear that banks will improve their capital positions by reducing lending, exacerbating the credit crunch in Europe and, in turn, contributing to an economic recession.

Third, there are concerns about the lack of growth and high unemployment in the Eurozone, particularly among the Eurozone periphery. In January 2012, the IMF downgraded its growth forecast for the Eurozone, from growing by 1.1% in 2012 to contracting by 0.5%.[14] The Organization for Economic Cooperation and Development (OECD) forecasts that the economies of Greece, Portugal, and Italy will contract in 2012. Unemployment is particularly high in the Eurozone periphery, forecasted to be 18.5% in Greece and 22.9% in Spain in 2012 (see Figure 4).[15] Youth unemployment is significantly higher, approaching 50% in Greece and Spain.[16] Slow growth or recession makes it hard for countries to grow out of their debt, and exacerbates debt-to-GDP ratios. The crisis is also adversely impacting growth in traditionally stronger Eurozone economies, with the IMF forecasting that growth in Germany will drop from 3.0% of GDP in 2011 to 0.3% in 2012, and drop from 1.6% in 2011 to 0.2% in France in 2012.

Fourth, persistent trade imbalances have developed within the Eurozone over the past decade, and some argue that these imbalances make the Eurozone more vulnerable to financial crises. Core countries in the Eurozone, including Germany, have actively pursued policies, such as wage restraint, aimed at increasing economic competitiveness by keeping production costs low and bolstering exports. Production costs in the Eurozone periphery tend to be higher, due to a number of structural issues such as rigid labor markets, generous pension programs, and barriers to economic competition. As a result, Eurozone core countries tend to run trade surpluses with the Eurozone periphery, and, by the same token, the periphery countries tend

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[10] International Monetary Fund, *World Economic Outlook*, September 2011.

[11] For example, see Tyler Cowen, "Euro vs. Invasion of the Zombie Banks," *New York Times*, April 16, 2011; Megan McArdle, "Is the Other Shoe Dropping in Europe?", *The Atlantic*, August 4, 2011.

[12] European Banking Authority, "The EBA Publishes Recommendation and Final Results of Bank Recapitalization Plan as Part of Co-ordinated Measures to Restore Confidence in the Banking Sector," December 8, 2011, http://eba.europa.eu/News--Communications/Year/2011/The-EBA-publishes-Recommendation-and-final-results.aspx.

[13] Huw Jones and Steve Slater, "EU Watchdog to Assess Bank Recapitalization Plans," *Reuters*, February 7, 2012.

[14] International Monetary Fund (IMF), "World Economic Outlook Update: Global Recovery Stalls, Downside Risks Intensify," January 24, 2012, http://www.imf.org/external/pubs/ft/weo/2012/update/01/index.htm#tbl1.

[15] Organization for Economic Cooperation and Development (OECD), *Economic Outlook*, No. 90, November 28, 2011, http://www.oecd.org/oecdEconomicOutlook.

[16] Eurostat data as reported in "Labour Reform in Spain: Spanish Practices," *Economist*, February 18, 2012.

to run trade deficits with the core countries. These trade imbalances have been associated with a corresponding trend of the Eurozone's stronger economies lending to weaker economies, with the governments or private sectors in the Eurozone periphery building up sizeable debts. Eurozone countries have found it difficult to correct these trade imbalances, because membership in the Eurozone takes away a key adjustment mechanism—the exchange rate—for correcting trade imbalances. Many economists believe that the buildup of high levels of debt and persistent trade imbalances can be unstable, and increase vulnerability to confidence shocks in financial markets.

More broadly, the crisis has exposed problems in the structure of the Eurozone, which many economists have long debated. The Eurozone has a common monetary policy and currency, without creating a fiscal union, but does not have a centralized budget authority or system of fiscal transfers across members. Possibly, under a tight fiscal union, a central budget authority could control spending in different Eurozone member states, and use fiscal transfers to smooth out asymmetric shocks within the Eurozone.

Major European Policy Responses

Over the past two years, the policy response in Europe has been consistently criticized as delivering too little, too late. Deep disagreements among Germany, France, and the European Central Bank (ECB) over the appropriate response, as well as what is widely viewed as a slow and complex EU policy-making process are seen as having exacerbated anxiety in markets throughout the crisis. Additionally, domestic political obstacles have hindered more significant policy responses. Austerity measures have provoked a number of sustained, large scale protests across Europe, and the crisis contributed to the fall of governments in Greece, Ireland, Italy, Portugal, Spain, and Slovenia. Leaders in some of the Eurozone core countries have had to overcome considerable political resistance to providing financial support to countries in trouble, with critics opposed to the idea of rescuing countries that, in their view, did not exercise adequate budget discipline.

European leaders and institutions have implemented a number of unprecedented policy measures to try to stop, or at least contain, the crisis over the past two years. Some of the key measures include:

Financial Assistance from other Eurozone governments and the IMF. The cornerstone of the EU response has been to create new crisis lending facilities that can provide financial support to governments and financial institutions in the Eurozone that are under market pressure. Details of these funds have evolved over time, but the main rescue fund currently in operation is the European Financial Stability Facility (EFSF). It has a lending capacity of €440 billion (about $584 billion) and its resources can currently be used to provide assistance to governments, finance bank recapitalization, or purchase government bonds on secondary markets. The EFSF is a temporary, three-year facility, expected to be replaced by a permanent rescue fund, the European Stabilization Mechanism (ESM) in 2013. The EFSF and ESM will overlap in 2012, during which time the total ceiling on EFSF/ESM lending will be raised to €500 billion (about $664 billion), although this ceiling will be reassessed in March 2012. Currently, the EFSF is providing financial assistance, in conjunction with the IMF, to Ireland and Portugal. Greece is also receiving financial assistance from the IMF and other Eurozone governments, but since its program was devised before the creation of the EFSF, Eurozone government support to Greece takes the form of separate bilateral loans from other governments. A second financial assistance package to Greece has been announced, and is to be funded by the EFSF. For more details about these packages, see **Table 1**.

Austerity Programs and Structural Reforms. European and IMF financial assistance comes with strings attached. European and IMF financial assistance to Greece, Ireland, and Portugal has been disbursed to the countries in phases, only after a committee with representatives from the IMF, the European Commission, and the ECB determined that sufficient progress on austerity and structural reforms had been made. In both Greece and Portugal, for example, far-reaching spending cuts and targeted tax increases have reduced government budget deficits significantly over the past two years. However, both economies continue to contract, making it increasingly difficult to meet agreed-upon debt-reduction targets. Both countries have also begun to reform their pension systems and bring more flexibility to what remain rigid labor markets, but observers note that progress has at times been slow and question how long political support for the measures will continue. Of the three countries receiving financial assistance, Ireland is considered to have made the most progress. Nonetheless, observers caution that public opposition to the EU's "fiscal compact" (see below on European economic governance reforms) could impede success.

Governments in Italy and Spain have also undertaken far-reaching austerity measures and reforms in an effort to re-gain market confidence and build competitiveness. The Spanish government, which passed a balanced budget amendment in 2011, has pledged to bring its budget deficit to 3% of GDP by 2013, and has proposed a series of labor-market reforms that would result in a decline in real wages. The Italian government has announced similar initiatives, pledging, among other things, to balance its budget by 2013. Such reforms have been politically difficult to implement, provoking public protests and may have contributed to changes in government in some Eurozone countries.

Losses on Greek Bonds. The Greek government is currently negotiating with private investors on the size of voluntary "haircuts" on Greek bonds. If the losses are not accepted voluntarily, but imposed on private bondholders, payment on credit default swap (CDS) contracts on Greek bonds are expected to be triggered, which some fear could cause instability in financial markets.[17] However, even if the "haircuts" are accepted by private bond holders, the stated goal is to reduce Greece's debt level to only 120% of GDP by 2020,[18] which some economists fear would still be too high to be sustainable. European leaders have publicly ruled out debt restructuring (often called "private sector involvement") for other Eurozone countries.

ECB Support. The ECB significantly increased its role in the crisis response in December 2011, when it introduced long-term refinancing operations (LTRO). The LTRO resulted in loans to more than 500 Eurozone banks, totaling €489 billion (about $649 billion), and is the biggest infusion of cash into the banking system since the euro was introduced. The ECB launched a second round of LTRO in February 2012, which was even bigger, totaling an additional €530 billion (about $ 704 billion) and had more than 800 banks participating. The LTRO aim to address

[17] Credit default swaps (CDS) are contracts that provide protection against default by third parties, similar to insurance. For more information, see CRS Report RS22932, *Credit Default Swaps: Frequently Asked Questions*, by Edward V. Murphy and Rena S. Miller; and CRS Report R41932, *Treasury Securities and the U.S. Sovereign Credit Default Swap Market*, by D. Andrew Austin and Rena S. Miller.

[18] "Euro Summit Statement," October 26, 2011, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/125644.pdf.

the liquidity crunch in the Eurozone banking system and to encourage banks to continue buying Spanish and Italian government bonds.[19]

Previously, in May 2010, the ECB began buying government bonds on secondary markets for the first time in an attempt to stabilize bond yields, and the ECB is now believed to be the biggest holder of Greek bonds.[20] The ECB has also provided unusual flexibility in its short-term refinancing operations throughout the crisis, in particular by agreeing to accept securities, including government bonds, with lower credit ratings on collateral in its refinancing operations than it would have under normal circumstances.

European Governance Reforms. In December 2011, EU leaders announced the creation of a new fiscal compact. The primary focus of the fiscal compact is an agreement that government budgets should be balanced or in surplus, and that constitutions should be amended to reflect this rule. The compact would also strengthen the enforcement of EU rules related to debt levels and budget deficits, including by allowing European authorities to launch infringement proceedings at the EU Court of Justice against governments in breach of the rules. In January 2012, leaders of 25 of the EU's 27 member states concluded a draft text on the agreement, but it will still need to be adopted at the national level, and may require referendums in some countries.

The UK has announced it would not participate after it was unable to secure safeguards regarding financial supervision and regulation, and the Czech Republic did likewise because it did not have the necessary mandate from its parliament. In late 2011, the EU also adopted legislation, dubbed the "European Semester," containing additional reforms to economic governance, including greater surveillance of national budgets by the European Commission, and an early warning mechanism that would prevent or correct macroeconomic imbalances within and between member states.

Proposals to Increase Funding for the IMF. In December 2011, EU leaders also pledged to extend €200 billion (about $265 billion) in bilateral lines of credit to the IMF, leaving open the possibility that other countries outside of Europe could also contribute to the IMF. News reports in January 2012 indicate that the IMF is considering raising as much as $500 billion in new money to lend, plus $100 billion as a cash buffer, including the €200 billion (about $265 billion) pledged by European countries.[21] U.S. Treasury Secretary Timothy Geithner has indicated that the United States will not contribute additional funds to the IMF as part of this effort.[22] In general, the status of increasing IMF resources is unclear, with the UK government reportedly indicating it would consider sending more money to the IMF only after Europeans demonstrated a stronger commitment to resolving the crisis. The Prime Minister of China has indicated he would consider increasing financial commitments to the IMF in order to support Europe, but analysts question what kind of trade or political concessions China may seek in exchange for this assistance.[23]

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[19] *Economist*, "The Euro Crisis: Checking In on Europe," January 20, 2012.

[20] For example, see Ralph Atkins, "The ECB and its Greek Bonds," *Financial Times*, January 23, 2012.

[21] Annie Lowrey, "I.M.F. Seeks $500 Billion More to Lend as It Plans to Cut Growth Forecast," *New York Times*, January 18, 2012.

[22] Forbes, "Geithner to EU: IMF Will Play a Role, But Without Fed Money," December 6, 2011, http://www.forbes.com/sites/heatherstruck/2011/12/06/geithner-to-eu-imf-will-play-a-role-but-without-u-s-aid/.

[23] Keith Bradsher and Liz Alderman, "China Considers Offering Aid in Europe's Debt Crisis," *New York Times*, February 2, 2012.

Political Dynamics of the Crisis Response: The Role of Germany and France

The leaders of the Eurozone's two largest economies — German Chancellor Angela Merkel and French President Nicolas Sarkozy — have been at the forefront of the EU's crisis response. Merkel and Sarkozy have consistently emphasized their solidarity and have worked closely together to address many aspects of the crisis. However, the crisis has also exposed fundamental disagreements between the two leaders that reflect broader divisions within the Eurozone. This includes divergent views on the role of key EU institutions and on the direction and scope of European integration.

EU leaders continue to disagree on the extent to which Europe's more prosperous member states, like Germany, should provide financial support to lesser performing economies. Merkel, in particular, has faced criticism for failing to demonstrate clearer German support for other Eurozone member states. German officials have emphasized that Germany is, in fact, the largest national contributor to the Eurozone rescue fund. They add, however, that the prospect of guaranteed "bailouts" would create dangerous moral hazard, removing leverage and leaving little incentive for governments of poorly performing economies to enact politically unpopular reforms.

On the institutional level, one key point of contention has been the role of the ECB. German policymakers and ECB executives consistently highlight the importance of upholding the bank's foundational principles: political independence; and a narrow mandate to maintain price stability. French leaders, on the other hand, have long envisioned a more activist ECB that would play the role of a "lender of last resort," akin to the U.S. Federal Reserve. As the crisis has unfolded, French and other officials have at times argued that the ECB should broaden its mandate and provide more financial support to the Eurozone's struggling economies. German and ECB officials, among others, have been reluctant to endorse such a policy shift, arguing, for example, that "central banks should not be called upon to finance states."[24]

Analysts point to the December 2011 fiscal compact as a significant indication that German policy preferences are driving the crisis response. Germany has emphasized the need for national governments to reduce budget deficits and debt levels, largely through far-reaching fiscal austerity measures. In the German view, economic growth and economic convergence will not come without significant fiscal consolidation and economic reform. Accordingly, Germany and EU institutions have ensured that financial assistance to the Eurozone's struggling economies is contingent on the implementation of rigorous economic reform programs. Berlin has also advocated the adoption of balanced budget amendments in all Eurozone countries.

Although France agreed to the fiscal compact, Paris has in the past strongly resisted similar measures on the grounds that they infringe on national sovereignty. In analyzing France's apparent policy shift, some commentators posit that Sarkozy only supported the compact in the hope that once it is in place, German policymakers would become more willing to support the increased financial assistance that he believes will be necessary to resolve the crisis. Others note that as the French economy has come under growing market pressure, officials in Paris have little choice but to follow Germany's lead.

Some economists have questioned what they consider Germany and others' narrow focus on austerity. They argue, for example, that severe budget cuts further impede economic growth and that policymakers should focus more on restoring economic competitiveness, particularly in the Eurozone periphery.[25] The European response, however, appears to remain firmly oriented toward austerity and the pursuit of balanced budgets. Critics allege that the fiscal compact announced in December 2011 will do little to address growth and competitiveness issues in the short-term.

Outlook for the Eurozone: What's Next?

In the short-term, the ECB's infusion of capital into the banking system in December 2011 appears to have stabilized markets and, according to some economists, prevented a banking crisis in Europe.[26] The ECB's long-term refinancing operations are also having the intended effect of

[24] German finance minister Wolfgang Schaeuble, as quoted in Marcus Walker and Charles Forelle, "Europe's Options: Few, and Shrinking," *Wall Street Journal*, October 22-23, 2011.

[25] See, for example, Martin Wolf, "First Aid is not a Cure," *Financial Times*, October 11, 2011.

[26] Simone Foxman, "6 Top Economists Answer: Is the Euro Crisis Over? And If Not, What's Next?," *Business Insider*, January 23, 2012.

lowering Italian and Spanish bond yields, reducing pressure on the debt levels of these governments, although they have been less successful at reversing a reduction in lending by Eurozone banks.[27] Some analysts worry that while the ECB's intervention has bought time, it has not addressed the fundamental challenges facing the Eurozone.

Despite these challenges, some economists are ultimately optimistic about the crisis.[28] They note that many crises have threatened the project of European integration over the past 50 years, but that European leaders have overcome these challenges, with Europe emerging stronger and more tightly integrated than before. They believe that in this crisis too, European leaders and institutions, particularly in Germany and the ECB, will ultimately do (or pay) whatever is necessary to keep the Eurozone from collapsing. But, in the meantime, they argue that it is important for these leaders to be tough in negotiations, in order to compel governments under market pressure to take difficult policy measures and to prevent moral hazard and a "bailout" precedent from taking root in Europe.

Other economists view the exit of one or more countries from the Eurozone as a real possibility. Exiting the Eurozone, and issuing new national currencies, could help countries in the Eurozone periphery regain competiveness against the Eurozone core countries, and promote export-led growth. Exiting the Eurozone could potentially involve huge costs, however. Debt is denominated in euros, and leaving the Eurozone in favor of a depreciated national currency could significantly raise the value of a country's debt in terms of national currency. The technical and legal obstacles to exiting the euro are significant, and would likely trigger capital flight.

Additional significant questions that may remain include:

- **What is the ECB's capacity to calm markets?** Markets responded favorably to the ECB's long-term refinancing operations, but some question whether the expansion of the ECB's holdings of periphery government bonds, both through the collateral posted by banks in refinancing operations and the sovereign bonds that the ECB has purchased on secondary markets, weakens the ECB's financial position.[29] How will the ECB weigh concerns about financial stability with its holdings of securities of possibly questionable quality? If the ECB tightens the liquidity support it provides to European banks, such as raising the requirements for the types of collateral it accepts in refinancing operations, how will European financial markets be affected?
- **How can growth be restored in the Eurozone?** Many economists believe that, at the end of the day, economic growth will be the key driver to resolving the crisis. They fear that the focus of the policy response on austerity will come at the expense of growth. To address growth concerns, austerity measures have been paired with structural reforms aimed at improving competitiveness and boosting exports, but the benefits of these structural reforms may pay off only in the long term. Until the benefits of structural reforms set in, how will governments "grow out" of their debts while imposing tough fiscal reforms? What are the risks if "austerity fatigue" sets in and worsens backlash and social turmoil in some countries?

[27] "The Euro Crisis: The ECB's Tricky Route to Stabilisation," *Economist,* February 2, 2012.

[28] C. Fred Bergsten and Jacob Funk Kirkegaard, "The Coming Resolution of the European Crisis," *Peterson Institute for International Economics*, Policy Brief Number PB12-1, January 2012, http://piie.com/publications/pb/pb12-1.pdf.

[29] For example, see Javier E. David, "Swelling ECB Balance Sheet Brings Relief, Poses Risk for Euro," *Dow Jones*, January 12, 2012.

If the EU fiscal compact is adopted, will countries have the flexibility they need to respond to economic downturns in the future?

- **Can Greece's debt be put on a sustainable path?** There are fears that if the Greek government is not able to gain sufficient concessions from its bondholders in continuing negotiations, Greece could default on its debt in a disorderly fashion and exit the Eurozone. Two economists at Citi have recently raised their estimate of the likelihood of a Greek exit from the Eurozone to 50% over the next 18 months, from earlier estimates of 25-30%.[30] If there is a disorderly Greek default or a Greek exit from the Eurozone, how can contagion to other Eurozone countries be prevented? Some analysts believe that building a more robust "firewall" or "bazooka," large enough to provide financial resources to adequately defend Italy and Spain from contagion effects, will be necessary.
- **How can trade imbalances within the Eurozone be corrected?** Some economists believe that the crisis, and the build-up of public debt in the periphery, is the result of fundamental, underlying trade imbalances within the Eurozone, but that the policy responses taken have failed to correct these imbalances. In particular, the focus has been on improving the competitiveness of the periphery countries, in order to lower their costs of production and bolster exports. Is there any role for the Eurozone core countries to reduce their trade surpluses, such as by letting wages rise or becoming less reliant on exports for growth?
- **Can European leaders maintain public support for the crisis response?** Although a majority of Eurozone voters appear to continue to view membership in the monetary union favorably, enthusiasm for the euro could be waning.[31] Several governments in the Eurozone have fallen as a direct or indirect result of crisis response, and public opposition to ongoing austerity measures has become more pronounced in some countries. Both Greece and France are slated to hold national elections in the first half of 2012, in which current economic conditions and the Eurozone crisis response is the primary electoral concern. Some commentators have questioned how committed a new Greek government would be to the austerity measures taken by its predecessor, particularly in the face of at times violent protests. The frontrunner in France's election, Socialist Party candidate François Hollande, has sharply criticized key aspects of the crisis response, including the fiscal compact. Italy, which is currently led by an unelected government of technocrats, must hold national elections by 2013. What effect will the elections in Greece, France, and Italy have on the implementation of previously agreed crisis response measures? How long can European leaders implement response measures that may be opposed by a majority of their publics?
- **What are the implications for European integration?** On one hand, the crisis has prompted EU member states to move ahead with new and unprecedented agreements that serve to tighten economic integration, including the creation of the EFSF and ESM, legislation for more central surveillance of economic governance, and the proposed fiscal compact for greater economic coordination. The ECB has also expanded its role in significant new ways, and some argue that the solution to the crisis lies in moving ahead with a fiscal union that issues bonds for the Eurozone overall ("Eurobonds"), and in which member states relinquish

[30] Willem Buiter and Ebrahim Rahbari, as reported in Kate Mackenzie and Joseph Cotterill, "Grexit," *FT Alphaville*, February 7, 2012.

[31] In a November 2011 public opinion survey, 63% of French respondents, 52% of Spanish respondents, 47% of Italian respondents, and 46% of German respondents said they did not think the euro had been good for their economy. See U.S. Department of State, Office of Opinion Research, *Opinion Analysis: West Europeans on the Euro: Too Big to Fail?*, February 10, 2012.

control over their national budgets. On the other hand, the crisis has also increased tensions among EU member states. The initial crisis debates centered on the legality and moral hazard of "bailouts," and many people in the Eurozone core remain opposed to using taxpayer money to rescue what they consider profligate governments. At the same time, while many people in the countries receiving assistance may recognize the necessity of reform, they could also resent the adoption of austerity programs they perceive as imposed on them by Brussels and Berlin. The tensions caused by the crisis have led some observers and officials into discussions on the desirability of expelling poor performers from the Eurozone; of withdrawing from the Eurozone in order to re-gain an independent monetary policy; or of creating a multi-speed EU in which a group of countries would proceed with deeper economic and fiscal integration.

Issues for Congress

Impact on the U.S. Economy

The Eurozone crisis poses risks to the U.S. economy. The United States and EU have the largest and most deeply integrated bilateral trade and investment relationship in the world. In 2010, the United States and the EU combined accounted for almost 50% of world GDP, and more than 40% of the world's trade in goods and services.[32]

Exposure of the U.S. Financial System

The Eurozone crisis could impact the U.S. economy through a number of different channels. One possible channel is through the financial system and, in particular, the exposure of U.S. financial institutions to the Eurozone. One U.S. financial institution, MF Global Inc., filed for bankruptcy in October 2011 as a result of its exposure to the Eurozone, and developments in the Eurozone impact the U.S. stock market.[33] Modeling and quantifying the impact of a banking crisis in Europe on the U.S. financial system is difficult. When asked about the exposure of U.S. financial institutions to Europe in a Senate Budget hearing, one witness responded, "I think the honest answer is I don't know, and I don't know anyone else who knows."[34]

One source of data on U.S bank exposure is the Bank for International Settlements (BIS), which reports that direct and other potential U.S. bank exposure in September 2011 to Greece, Ireland, Italy, Portugal, and Spain totaled $717 billion, or 7.6% of U.S. direct and other potential exposures overseas.[35] However, these data do not reflect hedges or collateral that U.S. banks may have in place to lower their exposures; do not capture the exposure of non-bank financial

[32] World Bank, *World Development Indicators*, 2010. For more on U.S.-EU economic relations, see CRS Report RL30608, *EU-U.S. Economic Ties: Framework, Scope, and Magnitude*, by William H. Cooper.

[33] For more on MF Global, Inc. see CRS Report R42091, *The MF Global Bankruptcy and Missing Customer Funds*, by Rena S. Miller.

[34] Simon Johnson, Senate Budget Hearing, February 1, 2012.

[35] Exposure to public and private sectors. "Other potential exposures" includes derivative contracts, guarantees extended, and credit commitments. Bank for International Settlements (BIS), *Consolidated Banking Statistics,* "Table 9E: Foreign Exposures on Selected Individual Countries, Ultimate Risk Basis," October 20, 2011 (Preliminary Report for June 2011), http://www.bis.org/statistics/consstats.htm.

institutions (such as money market, pension, or insurance funds); and do not include how the crisis could be transmitted through the financial system, such as to U.S. banks that are exposed to French banks, who are in turn exposed to Greek banks.

According to the *New York Times*, five large U.S. banks, including JPMorgan Chase and Goldman Sachs, have more than $80 billion of exposure to Italy, Spain, Portugal, Ireland, and Greece, but use credit default swaps (CDS) to offset any potential losses by $30 billion, putting their net exposure at $50 billion.[36] An analysis by the Investment Company Institute, the national association of U.S. investment companies, finds that U.S. money market funds cut their exposure to the Eurozone by almost two-thirds between November 2010 and December 2011, from $32.6 billion to $11.9 billion.[37] A recent analysis by Fitch, a major credit rating agency, argues that large U.S. banks have been reducing direct exposure to stressed markets over the past year and that net exposures are manageable, but warns that U.S. banks could be "greatly affected" if contagion continues to spread to other Eurozone countrise.[38]

During a congressional hearing in October 2011, Secretary Geithner emphasized that direct exposure of U.S. institutions to the Eurozone countries and institutions under the most market pressure is small, but that exposure to Europe, as a whole, could be "a big deal."[39] Secretary Geithner also stressed that the U.S. financial system is better capitalized than in 2009, putting it in a better position to weather potential shocks. At the end of November 2011, the U.S. Federal Reserve (the Fed) announced a new round of bank stress tests for large U.S. banks that would, among other things, gauge losses from a hypothetical shock related to the turmoil in Europe. Banks had until January 2012 to file their results, and news reports suggest that if previous stress tests are any guide, the results may not be publicly released until April 2012.[40] In January 2012, the Securities and Exchange Commission (SEC) requested that banks provide a fuller and more consistent presentation of their European positions.[41]

U.S.-EU Trade and Investment

Another channel through which the Eurozone could impact the United States is through trade and investment. There has been concern that austerity measures would slow growth in Europe, depressing demand for U.S. exports, and that the crisis would erode confidence in the euro, leading to a depreciation of the euro relative to the U.S. dollar. Depreciation of the euro against the U.S. dollar would make U.S. exports more expensive overseas and European imports cheaper. To date in the Eurozone crisis, however, there has not been a substantial sustained depreciation of the euro relative to the U.S. dollar (see **Figure 6**), and it is not clear that trade has contracted

[36] Peter Eavis, "U.S. Banks Tally Their Exposure to Europe's Debt Maelstrom," *New York Times*, January 29, 2012.

[37] Emily Galagher and Chris Plantier, "Data Update: Money Market Funds and the Eurozone Debt Crisis," *Investment Company Institute*, January 13, 2012.

[38] Joseph Scott, Christopher D. Wolfe, Thomas Abruzzo, "U.S. Banks – European Exposure," *Fitch*, November 16, 2011.

[39] Congressional Quarterly, "Senate Banking, Housing, and Urban Affairs Committee Holds Hearing on the Financial Stability Oversight Council Annual Report as well as Votes on a Few Pending Nominations," October 6, 2011, http://www.cq.com/doc/congressionaltranscripts-3957612.

[40] Anthony Currie, "Fed's Stress-test Revamp Brings Good and Bad News," *Reuters*, November 28, 2011.

[41] Andrew Ackerman and Liz Moyer, "SEC Asks for Debt Disclosure," *Wall Street Journal*, January 10, 2012.

(**Figure 5**), although risks may remain.[42] Longer-term, a break-up of the Eurozone could have substantial implications for U.S.-European cooperation on economic issues.

Likewise, slower growth rates in Europe could cause U.S. investors to look increasingly towards emerging markets for investment opportunities. On the other hand, a weaker euro could make European stocks and assets look cheaper and more attractive, attracting U.S. capital to the Eurozone. It is not clear to date how the crisis will shape long-term U.S.-EU investment flows.

U.S. Government Involvement

Since the early stages of the crisis, the Obama Administration has repeatedly called for a swift and robust response from Eurozone leaders. In October 2011, President Obama stated that the crisis was "a source of grave concern,"[43] and he has spoken with Chancellor Merkel and other European leaders frequently throughout the crisis.[44] In February 2012, following the announcement of the second rescue package for Greece, Obama welcomed the "positive steps" taken by the EU to ease its debt crisis, but stressed there was more work to do.[45] As the lead on international financial issues within the Administration, Treasury Secretary Geithner has also been in frequent contact with his European counterparts, even, unusually, attending a meeting of Eurozone finance ministers in September 2011, during which he urged stronger policy responses. In January 2012, Secretary Geithner reportedly reiterated the importance of creating a "firewall" around the Eurozone as a crucial next step in preventing the crisis from spreading.[46]

European reactions to the U.S. appeals have been mixed; some Europeans have pushed back against perceived U.S. criticism while pointing out the United States' own economic problems. In any case, while the United States wields an influential voice on the issue, it ultimately has limited ability to affect policy decisions made by and among the EU member countries and institutions.

The Federal Reserve

In May 2010, the U.S. Federal Reserve (Fed) announced the re-establishment of temporary reciprocal currency agreements, known as swap lines, with several central banks. These swap lines had been previously used during the global financial crisis and aim to increase dollar liquidity in the global economy. They are designed in a way which minimizes exchange rate and credit risk to the Fed. The swap lines re-established in May 2010 were set to expire in January 2011, but have been extended a number of times due to continuing concerns about the crisis. In November 2011, the Fed also reduced the borrowing rate for the swap lines, in order to further ease strains in financial markets. As of February 15, 2012, $109 billion was outstanding on these swap lines, compared to a high of $583 billion during the global financial crisis in December

[42] For more on the exchange rate, see CRS Report RL34582, *The Depreciating Dollar: Economic Effects and Policy Response*, by Craig K. Elwell. For more on U.S.-EU trade, see CRS Report R41652, *U.S.-EU Trade and Economic Relations: Key Policy Issues for the 112th Congress*, by Raymond J. Ahearn.

[43] Remarks by President Obama and President Lee of the Republic of Korea in a joint Press Conference, October 13, 2011. Available at http://www.whitehouse.gov.

[44] See Statements on White House home page, http://www.whitehouse.gov and "Obama, Merkel Discuss European Debt Problems," *Reuters*, October 14, 2011.

[45] "Obama Lauds 'Positive Steps' to Tackle Euro Crisis," *EUbusiness*, February 21, 2012.

[46] "Timothy Geithner: Eurozone Needs a 'Firewall' To Prevent Crisis From Spreading," *Huffington Post*, January 11, 2012.

2008 (see **Figure 7**).[47] Additionally, as mentioned above, the Fed is currently conducting stress tests related to U.S. bank exposure to turmoil in Europe.[48]

One source of concern about the swap lines is over the impact that dollar swap agreements could have on the rate of U.S. inflation. Through the Federal Reserve, the United States has provided the ECB and other central banks with dollars to maintain stability in short-term money markets that European banks have used to fund much of their ongoing operations. In a swap transaction, dollars are exchanged for a foreign currency, say the euro, at a certain price for a specified period of time. As these swap arrangements are implemented and the foreign currency is exchanged for dollars, the supply of dollars increases, which in theory may boost the rate of inflation. The Federal Reserve has indicated, however, that it has a number of options to sterilize, or to offset, any increase in the money supply in order to suppress any inflationary pressures.

Role of the International Monetary Fund (IMF)

Of the 187 members of the IMF, the United States is the largest financial contributor to the institution, and the United States has a leading role in shaping the IMF's lending programs.[49] IMF programs in Greece, Ireland, and Portugal have been supported by the Obama Administration, but some Members of Congress are concerned about whether these programs are an appropriate use of IMF resources. Concerns have generally focused on the unusual nature of the programs, particularly that the IMF has not generally lent to developed countries in recent decades, and that the programs provide a large amount of financing relative to the size of the economies. There are also concerns about whether the IMF will be repaid in full and on time. Proponents of the IMF programs in the Eurozone point out that the programs are consistent with the IMF’s mandate of maintaining international monetary stability, the IMF has lent to developed countries in the past, if not recently, and that as members of the IMF, Greece, Ireland, and Portugal are entitled to draw on IMF resources. They also argue that the IMF has several safeguards in place to protect IMF resources, including making the disbursement of funds conditional upon economic reforms, and that the IMF has a strong historical record of countries meeting their repayment obligations.

In addition to the support to Greece, Ireland, and Portugal, there are discussions about increasing the IMF resources. Some officials and analysts fear that the IMF’s current lending capacity, about $392 billion as of February 2, 2012,[50] would not be sufficient to respond to a crisis in a major European economy, such as Italy or Spain. The process of increasing IMF resources is in the early stages, but Secretary Geithner has indicated that the United States will not contribute funds to this effort. As the biggest shareholder in the institution, the United States may want to consider how to balance, on the one hand, ensuring that the IMF has the resources it needs to ensure stability in the international monetary system with, on the other hand, exercising oversight over the exposure of the IMF to Europe and the concessions that countries are looking for in exchange for providing financial assistance.

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[47] Federal Reserve, http://www.federalreserve.gov/releases/h41/hist/h41hist13.htm.

[48] For more on financial stability in the United States, see CRS Report R42083, *Financial Stability Oversight Council: A Framework to Mitigate Systemic Risk*, by Edward V. Murphy.

[49] For more on the IMF, see CRS Report R42019, *International Monetary Fund: Background and Issues for Congress*, by Martin A. Weiss.

[50] International Monetary Fund, “IMF Financial Activities – Update February 2, 2012,” http://www.imf.org/external/np/tre/activity/2012/020212.htm.

The Eurozone Crisis, the IMF, and Legislation in the 111th and 112th Congress

Member concerns about IMF resources being used to "bailout" Eurozone governments led to the passage of legislation in the 111th Congress as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law in July 2010 (P.L. 111-203). Section 1501 of the law requires U.S. representatives at the IMF to oppose loans to high- and middle-income countries with large public debt levels (greater than 100% of GDP) if it is "not likely" that they will repay the IMF. Prospective IMF loans to low-income countries are exempted from this requirement. If the IMF does approve a loan to a high- or middle-income country despite U.S. opposition, the law requires the Treasury Department to report regularly to Congress about various economic conditions in that country.

In the 112th Congress, continuing concerns about use of IMF resources in the Eurozone debt crisis likely contributed to the introduction of legislation in the House (H.R. 2313) and Senate (S.Amdt. 501; S. 1276). The legislation calls for rescinding the U.S. financial commitments to the IMF approved by Congress in 2009. The Senate voted against the amendment on June 29, 2011. This language was also included in a House draft of the FY2012 State and Foreign Operations Appropriations bill,[51] but the language was not included in the final FY2012 appropriations legislation.[52]

On December 15, 2010, the IMF Board of Governors agreed in principle to a package of reforms, including a doubling of IMF quotas, the IMF's core source of funds, to about $747 billion.[53] To be implemented, the reform package needs to be approved by member countries, including three-fifths of the members having 85% of the total voting power. IMF Managing Director Christine Lagarde has reportedly urged member countries to implement the reform package by October 2012.[54] However, the Obama Administration did not request any funds for meeting the U.S. commitment for the quota increase in the FY2013 budget request.

Implications for Broader U.S.-European Cooperation

The United States looks to Europe for partnership in addressing a wide range of global challenges, and some analysts and U.S. and European officials have expressed concern about the potential effects of the Eurozone crisis on U.S.-European political and security cooperation. Successive U.S. administrations have been proponents of a more united, outward-focused EU, capable of playing a larger role in addressing global challenges. Over the last two decades, some analysts and policymakers have viewed the EU's focus as largely introspective, with EU leaders preoccupied with EU treaty reforms, institutional arrangements, and EU enlargement. The Eurozone crisis appears to have again turned the main focus of the EU inward.

In addition, the crisis raises questions about future constraints on Europe's ability to use economic policies in pursuit of foreign policy objectives. The EU is the world's largest aid donor (counting common funds managed by the European Commission plus bilateral member state contributions), accounting for roughly half of official global humanitarian and development assistance.[55] Some observers question whether the crisis could in the long-term limit Europe's ability to continue providing such levels of foreign assistance or economic incentives aimed at boosting stability and prosperity in developing countries. Some commentators suggest, for example, that the Eurozone crisis has hindered the EU's ability to respond more robustly, both politically and economically, to the recent transformations in the Middle East and North Africa.

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[51] http://appropriations.house.gov/UploadedFiles/FY12-SFOPS-07-25_xml.pdf

[52] P.L. 112-74.

[53] "Factsheet: IMF Quotas," *International Monetary Fund*, September 13, 2011.

[54] Lesley Wroughton, "IMF Urges Members to Boost Funding Under 2010 Plan," *Reuters*, December 22, 2011, .

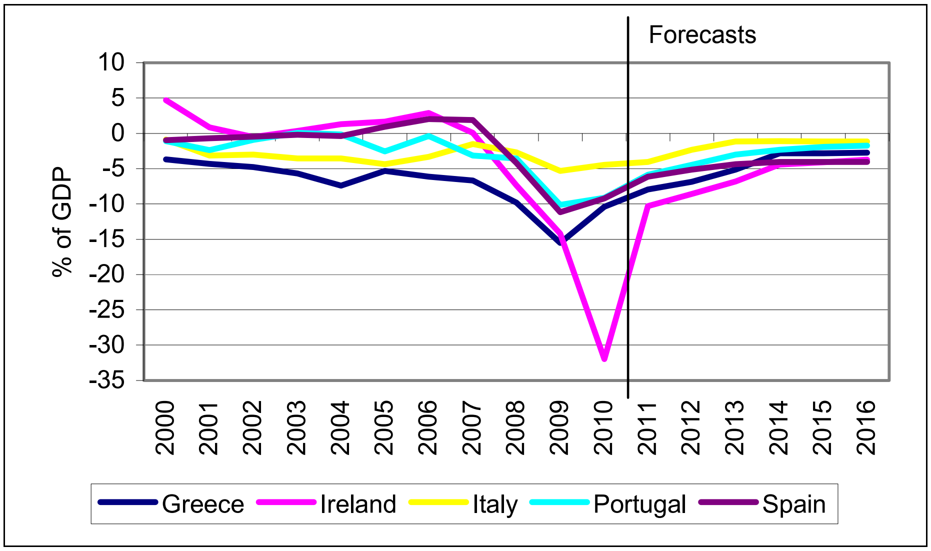
[55] European Commission DG ECHO, *Operational Strategy 2011*, November 16, 2010, p. 4, http://ec.europa.eu/echo/files/policies/strategy/strategy_2011_en.pdf, and European Commission, EuropeAid, *Annual Report 2010*, p. 5, http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2010_en.pdf.

The crisis could also exacerbate a long-standing downward trend in European defense spending and cast further doubt on Europe's willingness and capability to be an effective global security actor in the years ahead.

Despite Europe's own internal financial problems and preoccupations, others contend that the European countries and the EU have a proven track record of close cooperation with the United States on a multitude of common international concerns. Despite the ongoing Eurozone crisis, the United States and Europe are working closely together to manage Iran's nuclear ambitions, have significantly strengthened their law enforcement and counterterrorism cooperation over the last decade, have recently concluded a successful NATO mission in Libya, and together continue to promote peace and stability in the Balkans and Afghanistan. As such, those of this view remain more optimistic that the Eurozone crisis will not significantly alter the EU's willingness or commitment to transatlantic cooperation.

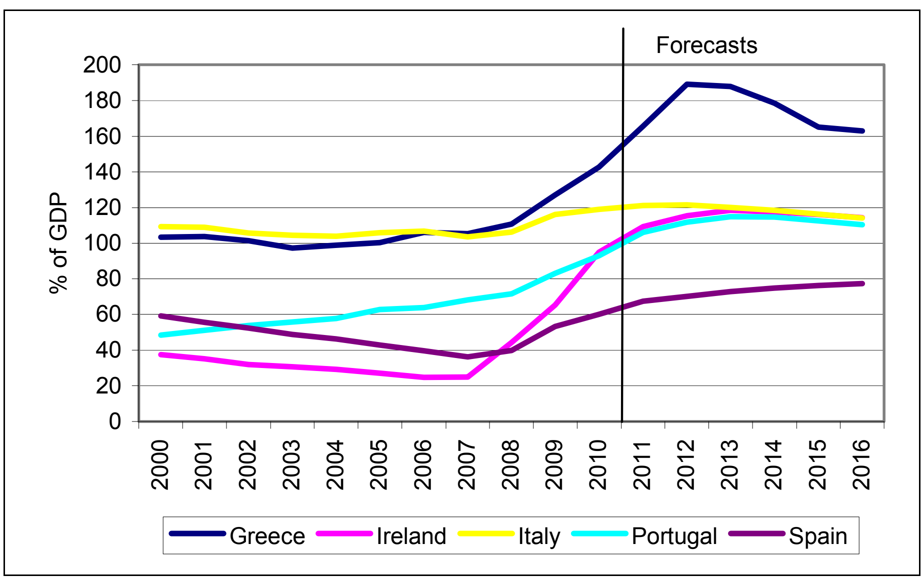
Supplemental Figures and Charts

Figure 1. Fiscal Balance



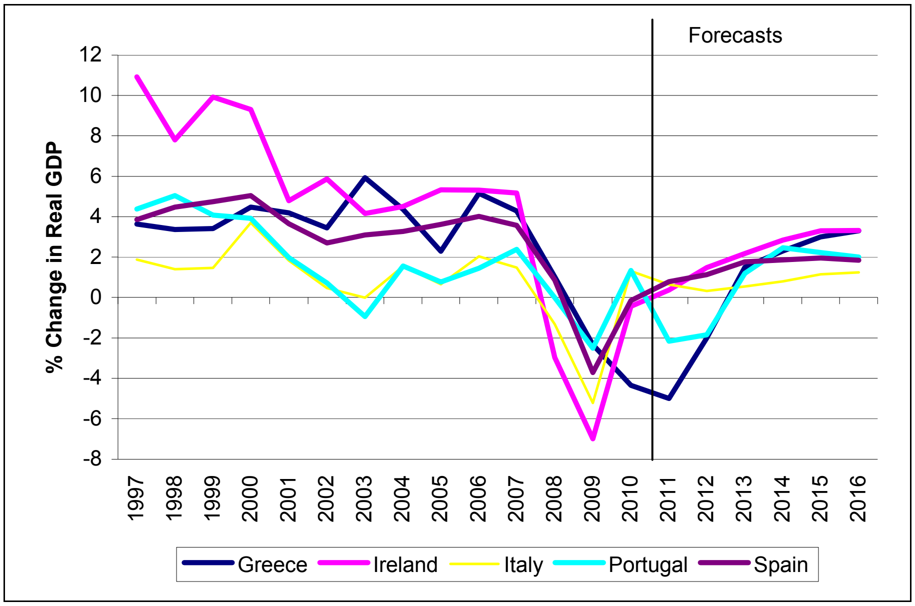
Source: International Monetary Fund, *World Economic Outlook*, September 2011.

Figure 2. Public Debt



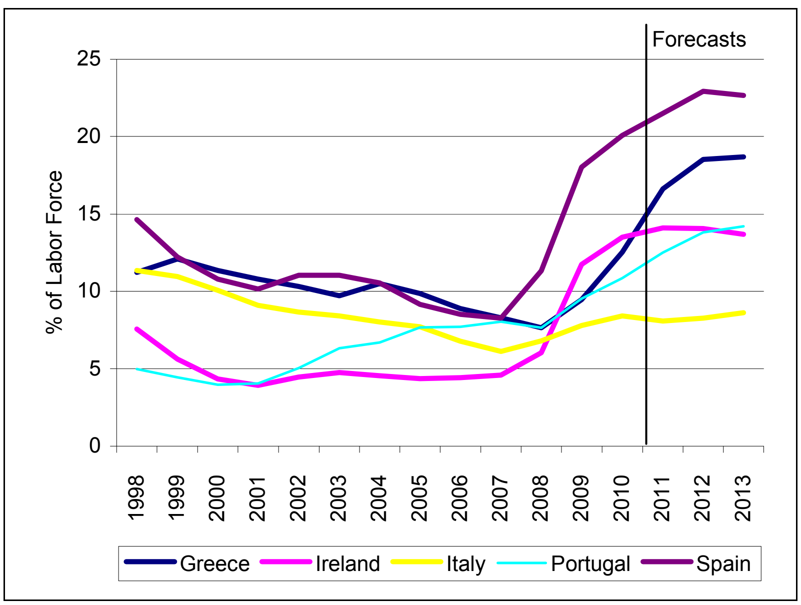
Source: International Monetary Fund, *World Economic Outlook*, September 2011.

Figure 3. Economic Growth



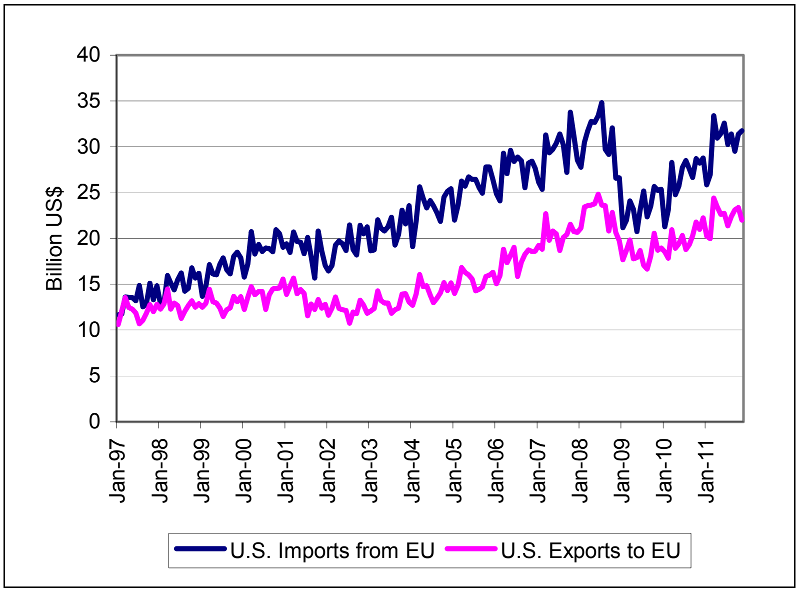
Source: International Monetary Fund, *World Economic Outlook*, September 2011.

Figure 4. Unemployment



Source: OECD, *Economic Outlook*, November 2011.

Figure 5. U.S.-EU Trade in Goods since 1997



Source: Census Bureau, "Trade in Goods with European Union," http://www.census.gov/foreign-trade/balance/c0003.html.

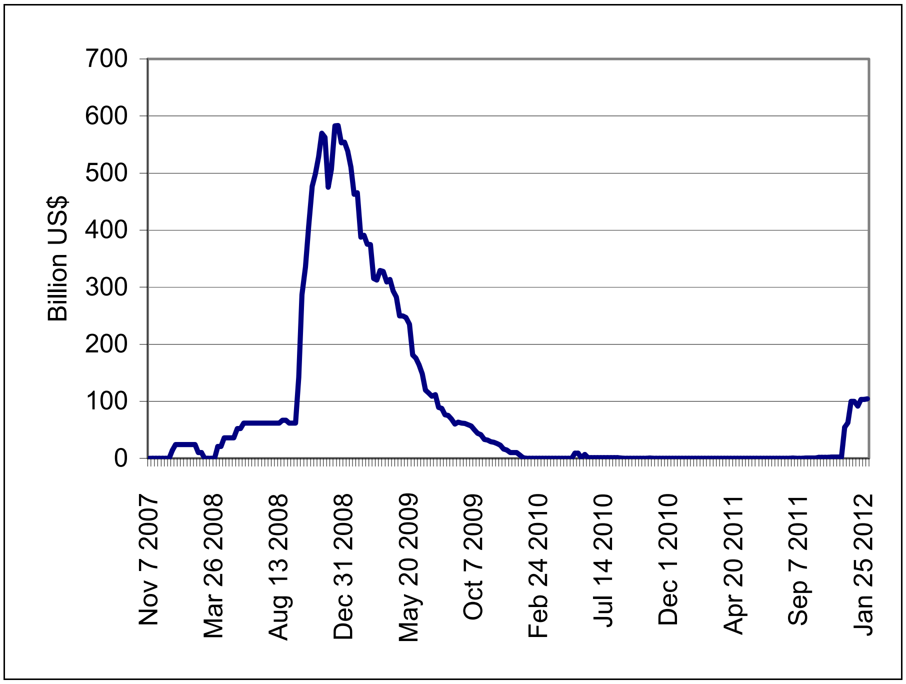
Notes: Does not include trade in services.

Figure 6. Euro/US$ Exchange Rate since 1999

Source: Federal Reserve.

Notes: An increase in the €/$ exchange rate represents a stronger dollar relative to the euro; a decrease in the €/$ exchange rate represents a weaker dollar relative to the euro.

Figure 7. Fed Swap Lines, Amount Outstanding



Source: Federal Reserve, http://www.federalreserve.gov/releases/h41/hist/h41hist13.htm.

Table 1. European-IMF Financial Assistance Packages for Eurozone Governments

	Date Agreed	European Financial Assistance	IMF Financial Assistance	Total Financial Assistance
Greece	May 2010	€80 billion (about $106 billion)	€30 billion (about $40 billion)	€110 billion (about $146 billion)
Ireland[a]	December 2010	€45 billion (about $60 billion)	€22.5 billion (about $30 billion)	€67.5 billion (about $90 billion)
Portugal	May 2011	€52 billion (about $69 billion)	€26 billion (about $35 billion)	€78 billion (about $104 billion)
Greece[b]	July 2011 / February 2012	€130 billion (about $173 billion)		€130 billion (about $173 billion)

Source: International Monetary Fund.

Notes: Figures denominated in euros converted to dollars using exchange rate on February 8, 2012: €1 = $1.3274 (Source: ECB). However, it should be noted that currency swings have been underway during the crisis and the dollar conversions have also fluctuated accordingly. Figures may not add due to rounding.

a. The headline number used by the IMF and in news reports for Ireland's total financial assistance package was €85 billion. This includes €17.5 billion from Ireland's cash reserves and other liquid assets. Resources used by national authorities in the crisis response are not included in the table above.

b. A second rescue package for Greece was originally announced in July 2011, and was to provide €109 billion in official sector financing to Greece. However, the package was pending negotiations, and a revised package of €130 billion was announced in February 2012.

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