



EURODAD DEBT WEDNESDAYS

Lessons from the Eurozone crisis?

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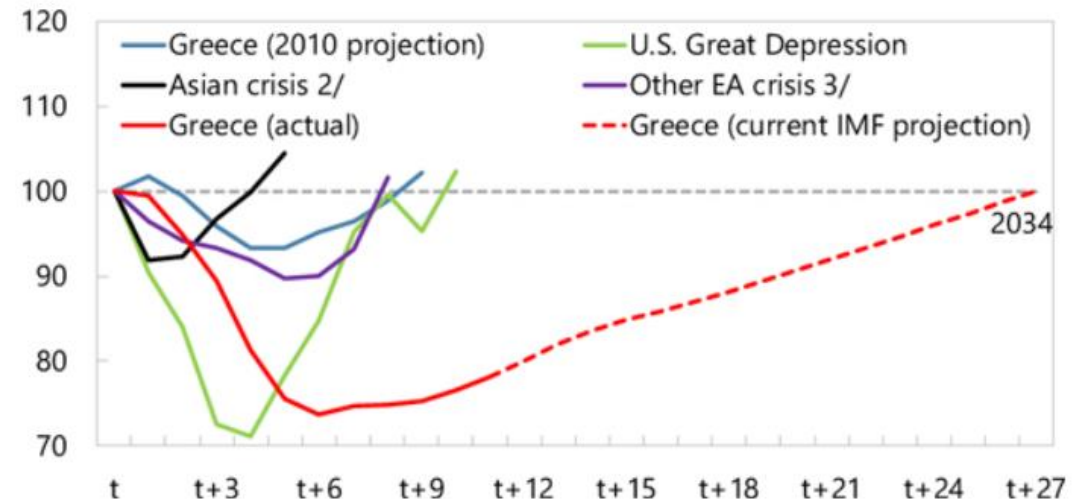


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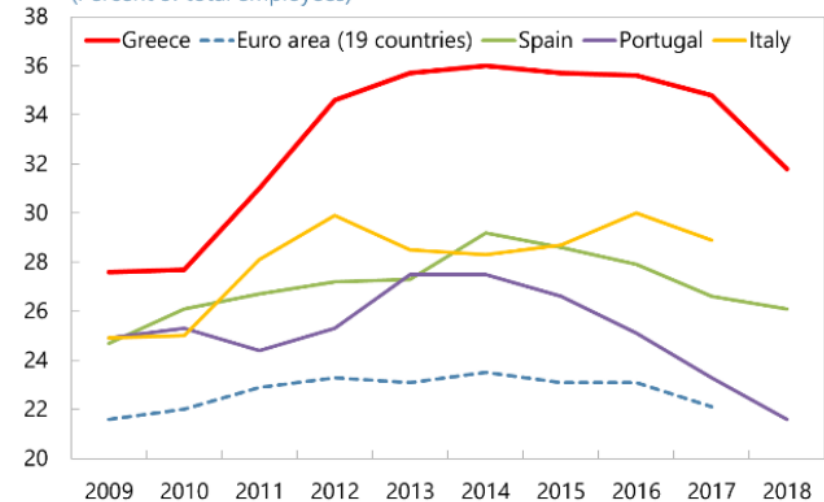
Why does it matter for debts to be sustainable?

- People suffer when debts are not sustainable: cost of debt crisis in economic, social and political terms is huge.
- Default policy response to debt problems is austerity: negative effects on poverty & inequality & with impact greatest on vulnerable
- It also matters for debts not to be labelled sustainable unduly, when in fact they are not



People at Risk of Poverty and Social Exclusion

(Percent of total employees)



Sources: OECD; and IMF staff calculations.

What shortcomings in the international debt architecture became apparent during the eurozone crisis?

1. Financial issues prioritized over all else

a. Aim to prevent **financial instability to core-country banks**

b. **Delays in restructuring**, deteriorating debt and only possible via very social high cost of austerity

2. Creditor dominated

a. Troika: **unaccountable and illegitimate**

b. **Political influence** exerted over lending decisions

c. **Creditor conflicts** caused delay and social pain for debtor countries

d. When privately held bonds were restructured (PSI,2012), was only possible through creditor sweeteners {upfront cash}, needing further loans to recapitalise the banks, ruthless and counterproductive austerity: **too little too late**

What shortcomings in the international debt architecture became apparent during the eurozone crisis? (cont.)

3. Not comprehensive:

- a. PSI, OSI: Foreign private creditors got repaid via official bailout loans.
- b. Minority bondholder's **holdout success** (2012)

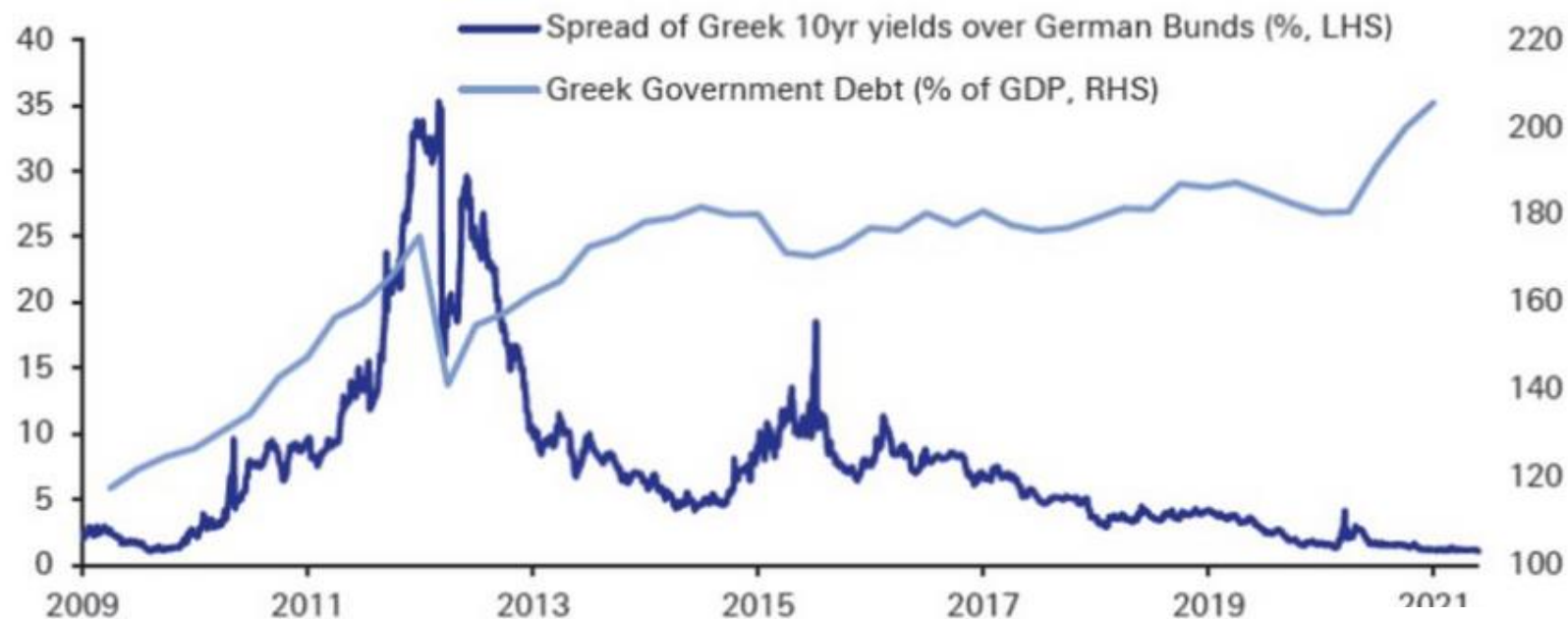
4. Lack of transparency and accountability:

- a. Agreements behind closed-doors, national parliaments pushed aside, technocratic governments, permanent state of 'emergency'
- b. Programme design did not make economic sense, total lack of credibility in DSAs

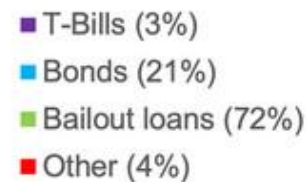
Overarching:

- a. Enhance North-South divide, unequal ability to respond for next crisis, after a decade of weakened and underfunded socio-economic infrastructures
- b. Euro crisis exposed the fragility of IMF's advice, cast doubt on confidence in EC, ECB and IMF's ability to crisis manage, serious failures and no one was held to account
- c. Overwhelming emphasis on domestic source of debt problem, rather than external, systemic and out of debtor countries' immediate control
- d. When own roof is not on fire, creditors can kicking can down the road

Figure 1: Greek 10-year spreads over bunds and government debt



- Recall pre crisis: over 90% of public debt held by private investors, now $\frac{3}{4}$ in official hands
- Private sector bondholders: ECB is a buyer and that they are a minority in case of future problems
- Creditors are the one's writing the DSAs, so will accept them



Source: Finance Ministry, own calculations.
Figures are for the end of February and are approximate.

De ja vu? Covid-19 debt crisis features:

- a. Insufficient access to condition free and debt-free liquidity
- b. Creditor run: G7, G20, Paris Club and creditor run IFIs
- c. Too little too late: DSSI and CF. Official sector financing subsidizing private sector repayments
- d. Austerity ad infinitum
- e. Relies on undue labels of sustainability to waive through programmes, leaving problems to fester
- f. No mandatory stay of litigation in national governments (UK | NY)
- g. Structurally: exacerbates global inequality between countries, again with the onus of resolving debt problems on the debtor country rather than on structural and systemic issues
- h. Lack of institutional change, perpetuates long-known problems of how debt repayment problems are prevented and addressed

What other options are there?

- Pandemic highlighted once again known weaknesses in international debt architecture.
- Critical element of the dysfunctional architecture **that deserves more attention** are debt sustainability analyses: DSAs as constructed prioritise financial considerations over social issues, symptomatic of their fraught origin, DSAs are not fit for purpose
- Analyses of when debts are and are not payable do not need to rely on the problematic creditor and financial orientated DSAs that exist today
- Integration of DSAs with soft law principles, with sustainable development goals and within a human rights framework.

Further reading / Resources

- Hellenic Parliament 2015 [Preliminary Report of the Truth Committee on Public debt](#)
- Bandekas and Lumina 2019 [Sovereign Debt and Human Rights](#), OUP
- Laskaridis 2014 [Critical guide to Eurozone debt crisis](#), Corporate Watch
- Laskaridis 2021 [More of an art than a science](#), *Oeconomia*
- Valentin and Lang 2018, [Room for discretion](#), *Journal of Development Economics*
- Stubbs et al 2021 [Whatever it takes?](#) *World Development*
- Laskaridis 2021 [When push came to shove](#), *Canadian Journal of Development Studies*
- Laskaridis 2021 Perpetuating divides, *Global Dialogue*
- <https://www.grecology.org/>
- <https://thegeneraltheorist.com/>

Thank you for your attention!

Hope you found it helpful!

