Europe's Sovereign Debt Crisis: EU Countries Subjected to "IMF Economic Medicine"

Bondholders vs the public: Outcry over IMF-EU eurozone loans

By Bretton Woods Project
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The sovereign debt crisis in the eurozone, where Greece now needs a second round of loans, threatens major economies like Spain and Italy, but IMF-backed lending packages that demand deep austerity with insufficient attention to lenders' responsibilities anger the public.

The loss of market confidence in eurozone governments started to hit major players at end July, with Spain and Italy facing significantly increased borrowing costs. In absolute terms, Italy is the third most indebted country in the world after the United States and Japan, and presents a problem for both Europe and the IMF, as current lending facilities are simply not big enough to handle potential Italian borrowing needs. According to the Financial Times, the IMF is more likely to be involved in lending to Spain, possibly through a non-conditioned Flexible Credit Line arrangement (see Update 65), because "IMF staff are well disposed to Spain, where the government of José Luis Rodríguez Zapatero has put through difficult reforms which seem likely to continue after November's general election." Zapatero's popularity plummeted as a result of an austerity package and a constitutional amendment for balanced budgets, forcing him to announce in April that he will not seek re-election.

A big debate has also erupted about the IMF's role in Greece, where. Massive street protests against austerity policies restarted in early September after a summer break. As predicted by many analysts, Greece was unable to begin issuing bonds again this year, which had been the plan under the original IMF-EU package (see Update 76, 75, 73, 71, 71). In late July, Eurozone leaders agreed in principle on a second loan package of €109 billion ($154 billion) to plug Greece's financing gap, again with new conditionality and austerity demands. The IMF and its new leader Christine Lagarde were silent on whether the Fund would also lend more; it had provided one-third of the funding for past programmes.

One of the main sticking points in getting European agreement was how much of a hit bondholders would take, as the IMF had insisted on some debt reduction. This is being achieved through a 'voluntary' bond swap, in which Greek bondholders are exchanging existing bonds for new ones of equal face value but which will be paid back over a longer period. After taking inflation into account this would reduce the value of the bonds by about 20 per cent, much less than the 50 per cent discount already seen in bond market trading.

This demand for up-front debt reduction is unusual for the IMF and may suggest that the institution is finally learning lessons. However activists were dissatisfied, saying the deal would not reduce Greek debt to sustainable levels. In September, Greece announced GDP figures for the spring showing a 7.3 per cent annual contraction. This deep recession is not reflected in the government's July medium term programme which had assumed a contraction of just 3 per cent in 2011 and still projected the debt to GDP ratio to reach 172 per cent in 2012. On top of this, negotiations on the European deal were still going on in early September, with division over the kind of collateral that Greece will offer to other European countries in exchange for the loans.

Costas Lapavitsas of the University of London explained: "The new agreement does not solve the country's problems. Private banks have been forced to accept that there will be partial default, but were given very favourable terms to swap old for new Greek debt. Meanwhile, the austerity and privatisation programme will continue unabated, deepening the recession and worsening the burden of debt. … In practice Greece is closer to default and exit from the Eurozone than at any time since the crisis began. The difference is that these events will now find it with a much weaker economy, the result of two years of IMF/EU/ECB policies."

Yorgos Mitralias, a founding member of the Greek Debt Audit Campaign, agreed "the situation of both the Greek government and the Greek debt is worsening and certainly is not sustainable. The conclusion is not difficult: almost everybody now, including the inernational media and even the Greek and international 'establishment', acknowledges that the reduction of the Greek debt is absolutely insufficient. The most probable scenario is the one expecting a general explosion of the Greek society in the next weeks, or maybe, the coming days."

Cephas Lumina, a UN independent expert on foreign debt and human rights who reports to the UN Human Rights Council in Geneva, said: "The implementation of the second package of austerity measures and structural reforms, which includes a wholesale privatization of state-owned enterprises and assets, is likely to have a serious impact on basic social services and therefore the enjoyment of human rights by the Greek people, particularly the most vulnerable sectors of the population such as the poor, elderly, unemployed and persons with disabilities. The rights to food, water, adequate housing and work under fair and equitable conditions should not be compromised by the implementation of austerity measures." He urged the government to "strike a careful balance between austerity and the realisation of human rights, taking into account the primacy of states' human rights obligations."

Lumina's warning may come too late for some. In an early July issue of the medical journal the Lancet, researchers from US and UK universities reported that a preliminary analysis of unemployment and suicide rates showed that "the countries facing the most severe financial reversals of fortune, such as Greece and Ireland, had greater rises in suicides than did the other countries."

Portuguese trouble, Irish resistance

Portugal, which took a loan from the IMF and EU in the spring (see Update 76, 75), is facing severe conditionality. The media is reporting that 430,000 households could face homelessness in Portugal because of an EU condition to remove restrictions on the housing rental market. The country's privatisation programme includes selling nearly 20 state-owned enterprises including the national airline, energy and water utilities, the postal service and the public broadcaster. The cost of living is also rising dramatically with an average 15 per cent increase in public transportation prices and a VAT bump from 5 per cent to 23 per cent on basic utilities such as electricity and gas.

The main bone of contention for Portuguese unions is the cut in employers' tax contributions to social security, which is likely to be financed by further increases in consumption taxes in order to keep the deficit from increasing. According to Nuno Teles, an economist and editor of the Bicycle Thieves website which tracks the Portuguese response to the financial crisis, "even though official analysis showed that this measure was likely to deepen the recession, the government was forced to go ahead with it by its EU-IMF creditors."

Having held a parliamentary election just three months ago, protest in Portugal has been relatively quiet, but unions are promising strikes in the autumn as the public spending cuts demanded as part of the EU-IMF loans start to bite. A strike "against impoverishment and injustice" is scheduled for the beginning of October, and a youth movement modelled on the protests in Spain and Greece have called a rally in mid October to take "democracy to the streets".

Civil society actors in Ireland have upped the pressure on their government over EU-IMF loans. In early July the Irish finance minister complained that the EU and IMF would make €9 billion ($13 billion) profit from Irish loans if the country were to borrow the full €68.5 billion available. In mid July protests against the austerity packages erupted in Dublin during a programme review by IMF and European officials. Ireland has been rigorously implementing the EU-IMF required austerity policy but has declining growth rates, and at end August unemployment hit a new high of 14.4 per cent.

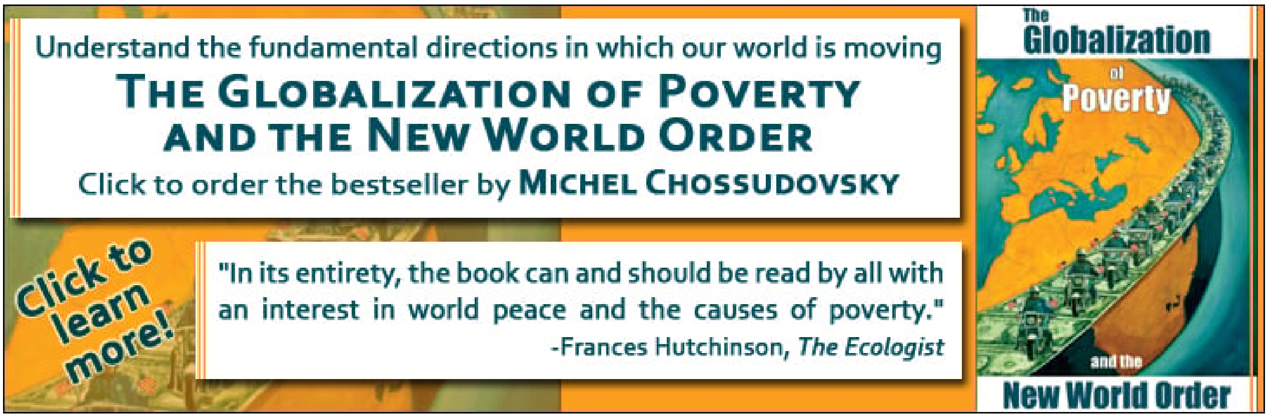
Campaigners in Ireland launched a citizen's debt audit in May. "Focusing particularly on the private bank debt subsumed into public responsibility", the independent audit will seek to support people in Ireland in a real understanding of the levels of Ireland's debt and its implications," according to a statement issued jointly by UNITE trade union, and NGOs Afri and Debt and Development Coalition Ireland. Led by Sheila Killian from the accounting and finance and department at the University of Limerick, it is expected to publish its findings in September.

Should I stay or should I go?

With the first round of debt reduction in Greece now in negotiation, one psychological hurdle has been overcome for the eurozone, however there is still a question whether these countries would be better off leaving the eurozone rather than experience years of grinding recession and wage reductions for workers.

Jacques Sapir of L'École des Hautes Études en Sciences Sociales in France suggests that "The fiscal adjustment needed to stabilize the sovereign debt is too great to be swallowed by different countries. … The cumulative effect of these different fiscal adjustment plans is likely to plunge the eurozone into a previously unknown depression. The only possible solution would be a default on the sovereign debt for some countries (Greece and Portugal and maybe Ireland). But the economic competitiveness of these countries cannot be rebuilt without a strong devaluation. … However, such devaluation could not be obtained within the eurozone: these countries are then bound to leave it."

The IMF, taking its message from European countries, has steadfastly refused to publicly consider this. However, if the eurozone crisis deepens it may not be able to remain on the side-lines of that debate for long.



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