DROP IT!

Summer 2016

GREECE: ONE YEAR ON

JUBILEE DEBT CAMPAIGN

GREECE'S DEBT

Jan Wellmann/Flickr

Since the turn of the year, Greece has been facing a double crisis, as further austerity measures demanded by the Troika of lenders have been brought in alongside the arrival of large numbers of refugees – more than 120,000 in January and February alone. Tens of thousands of refugees have been stranded in Greece following the closure of the onward borders by neighbouring countries, often in appalling conditions. Yet despite the existing humanitarian crisis in Greece, the Greek people have responded with extraordinary generosity.

Meanwhile, a phoney war has been taking place between the International Monetary Fund and the European Union over austerity and debt relief. The EU – at German insistence – has refused to consider the possibility of a reduction in Greece's debt, insisting that the debt can be paid if the austerity programme is implemented in full. The IMF, meanwhile, whose reputation took a hit following the flawed Greek bailouts of 2010 and 2012, insists that Greece's debt is unsustainable and some debt relief must be provided, but is demanding further punitive austerity measures alongside this. Both are wrong: Greece not only needs debt cancellation, but an end to austerity.

"The number of people facing material deprivation in Greece has nearly doubled between 2009 and 2014, rising to 21.5% of the population. It is therefore justified to speak about a humanitarian and human rights crisis."

Juan Pablo Bohoslavsky, UN Independent Expert on Debt and Human Rights, December 2015

€300 MILLION
EU 'aid' to Greece for refugee crisis in 2016

€4 BILLION
Estimated 2016 cost of adequate refugee support in Greece, if Balkan route stays closed

€8.5 BILLION
Greek debt and interest payments due in 2016

SOURCES: EU, HSBC, IMF/WORLD BANK/ECB

As *Business Insider* put it "the existing austerity programme has failed about as completely as it is possible for a set of economic measures to fail".

The root cause of the disagreement remains that Greece's debt, now at nearly 200% of GDP, cannot be paid. In early May, the EU finally acknowledged the need to discuss the sustainability of the debt, after the IMF threatened to pull out of the bailout programme altogether. But the menu of possible short, medium and long term 'debt relief' measures now being discussed do not envisage any debt actually being cancelled, just rescheduled. And it defers the major decisions that could cause further conflict not only until after the UK's referendum on EU membership on 23 June, but until after German elections in 2017.

The political impasse goes back to the origins of Greece's debt crisis, and the failure of European leaders to acknowledge the role of irresponsible lending by European banks. As Jubilee Debt Campaign research has shown, 90% of the previous bailouts – new loans from the EU and IMF – have gone towards paying off these reckless private lenders, with the resulting debts now owed to European governments. The third 'bailout'

THE INSIDE STORY OF GREECE'S DEBT REVOLT

In 2015 Greece made a brave attempt to throw off the shackles of unjust debt. Filmmaker Theopi Skarlatos and her team were in Greece throughout the year, interviewing activists, politicians, as well as people on the street, as Greece's confrontation with its creditors unfolded. Now their documentary series, #ThisIsACoup, has been released. Produced and narrated by ex-Channel 4 News economics editor Paul Mason, it tells the inside story of Greece's attempts to negotiate a way out of its debt and austerity trap. From the ecstasy of the anti-austerity election and referendum victories, to the agony of the third 'memorandum' imposed in July, it is compelling – and devastating – viewing.

↓ Watch #ThisIsACoup online, or order a copy for use in local screenings, at www.jubileedebt.org.uk/thisisacoup. Or phone us on 020 7324 4722.

is no different. So instead of European banks being made to pay the price for their reckless lending, the burden of debt cancellation will now fall on European governments – unless they have the courage to demand the banks contribute.

With another €2 billion in debt payments due in July, the Greek debt crisis may once again come to a head, or a further way to temporarily defuse it may be found. But until the Troika abandons its counter-productive austerity policies, and commits to genuine cancellation of a significant portion of the debt, it will ensure that Greece's debt trap continues indefinitely.

TAKE ACTION: Sign the Cancel Greek Debt petition: **www.jubileedebt.org.uk/greecepetition**

"I visited Athens with the Greece Solidarity Campaign in March. From councillors to activists to the ministers we met, it was clear that the refugee crisis had added an extra dimension to an already severe social situation. Yet the response of ordinary Greeks has been inspiring. Thousands brought supplies to Syntagma Square, next to the Greek parliament, while we were there, even as further austerity measures were being discussed. We visited the 'Refugees Welcome' centre at Piraeus dock, where dozens of volunteers offered support as refugees arrived from the islands. And we saw the social solidarity centres in Athens which have been trying, through collective organising, to plug the increasing gap between what the government is able to provide and the deepening social need."

Jonathan Stevenson, Campaigns Officer

NEW DEBT TRAP

The price of maize in Mozambique, the staple food, has more than doubled in the last six months. Drought across southern Africa has cut food production, but paradoxically, this surge in food prices is linked to the same reasons why prices in other parts of the world are falling.

Prices of many commodities – such as fossil fuels, metals and cash crops – have fallen significantly due to a slowdown in China's demand for such raw materials. However, many impoverished countries remain dependent on these commodities for their income from the rest of the world. This dependence dates back to colonialism, when countries across the global South were used as a source of raw materials by the colonial powers.

Johann Jaritz

Over the last decade, Mozambique's economy has grown rapidly with high prices for its commodity exports, and lots of speculative loans to the government and private companies based on expectations of coal and gas being exploited at high prices. The economy of Mozambique more than doubled per person during this time. However, income from commodities is easily taken by multinational companies and elites, and the number of people living in extreme poverty actually increased by 3 million over the same time.

Now, this 'boom' is over. As well as the falls in commodity prices, the US dollar has increased in value on expectations of US interest rates increasing. Mozambique's currency, the Metical, has fallen in value by 40% against the US dollar over the last 18 months, as speculative money has fled the country. This increases the cost of imports. With the current drought, imported food has become more expensive at the same time as domestically produced food is in short supply.

A further impact is that Mozambique's debt is mainly owed in dollars, so the fall in the value of its currency increases the relative size of debt payments. Three years ago, the IMF and World Bank predicted that in 2016 external debt payments would cost the equivalent of 7% of Mozambique's government revenue. Their most recent review said it will be 13%.

Just before Christmas, the IMF agreed to lend more money to Mozambique which will be used to pay off private lenders, bailing them out. This includes loans arranged under English law which are paying the speculators a healthy profit of 8.5% interest a year. In April, however, it was discovered that Swiss bank Credit Suisse and Russian bank VTB had secretly lent Mozambique $1.35 billion, meaning its total debt is now $12.5 billion. As a result, the IMF has suspended these bailout loans, making it even harder for Mozambique to continue paying.

Mozambique is not the only country being affected. Research by the Jubilee Debt Campaign, covered by *The Guardian* shows that 51 impoverished countries are collectively $61 billion worse off than predicted by the IMF and World Bank three years ago. This is $13 billion more than the $48 billion of aid which is said to be spent in the 51 countries.

Some of the countries, including Mozambique, benefitted from debt cancellation a decade or so ago as a result of the global jubilee campaign. In Mozambique following debt cancellation, the proportion of children completing primary school

SOURCE: WORLD BANK AND IMF DEBT SUSTAINABILITY ANALYSIS; OECD

Illustration: Lonely___/iStockphoto.com

increased from 2 out of 10 to 5 out of 10, as money saved was invested in education.

But in the absence of measures to prevent new debt crises being created, debt cancellation has been followed by a boom in lending and borrowing, particularly since the global credit crunch in 2008. Annual loans to low income country governments grew from $6.1 billion in 2007 to $20.5 billion by 2014.

Governments such as China, Japan, France and Germany have been lending significantly more, as have multilateral institutions including the World Bank, of which the UK is the largest funder, and African Development Bank. On top of this, low interest rates in the western world have encouraged private speculators to lend to impoverished countries. The last time commodity prices crashed at the same time as US dollar interest rates went up a debt crisis began across much of the global South, leading to large increases in poverty through the 1980s and 1990s. As things stand, history is on track to be repeated.

> "To ensure history is not repeated, we are calling for urgent global action to cancel debts owed to reckless lenders, tackle tax avoidance and evasion, and change global trade rules to enable countries to diversify out of basic commodities."
>
> *Tim Jones, Policy Officer, quoted in* The Guardian, *10 April 2016*

TAKE ACTION

Please sign the enclosed postcard calling on the IMF and World Bank to include debts from public-private partnerships when judging if countries have a debt crisis.
Or email them at www.jubileedebt.org.uk/PPPaction

To order more copies of this magazine, or other campaigning materials, go to jubileedebt.org.uk/order or phone us on 020 7324 4722.

Dear Steve Field,

This year the International Monetary Fund and World Bank are reviewing the Debt Sustainability Framework which they use to judge whether a country is at risk of a debt crisis.

I am very concerned that the costs to governments of public-private partnerships (PPPs) are not currently considered by the framework. An estimated 15-20% of infrastructure investment in developing countries is now in the form of PPPs, with the annual amount invested in PPPs having risen from $23 billion in 2004 to over $130 billion in 2012.

As the UK's representative on the IMF's Board, I am writing to ask you to argue for and support changes to the Debt Sustainability Framework that allow this iceberg of hidden costs to the public to become visible.

Yours sincerely,

Title _____ First name _____

Last name _____

Address _____

_____

Postcode _____

Email address _____

☐ Tick here if you do NOT want to receive further information about Jubilee Debt Campaign's work

Affix stamp here

STEVE FIELD

UK EXECUTIVE DIRECTOR, INTERNATIONAL MONETARY FUND

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STOP VULTURE FUNDS

Tina Leggio/Flickr

VULTURES MAKE 1,200% PROFIT AS ARGENTINA CAVES IN

After a more than 15-year battle, vulture funds have won a generous settlement from Argentina following the election in November of new business-friendly President Mauricio Macri, who made settling the dispute his top international priority. Vulture funds including NML Capital and Aurelius Capital Management bought large quantities of Argentina's debt at a huge discount following the country's 2001 default, and have since pursued the full amount plus interest through US courts. They now stand to make an estimated 1,200% profit on their 'investment', following the repayment deal which was authorised by the Argentinian parliament in March amid mass protests. Argentina has had to take on a further $16.5 billion of debt at 7.5% interest to pay the vulture funds.

The case is likely to embolden such 'holdout' creditors in future debt crises, as they know there are huge profits to be made by refusing to join in with restructuring a country's unpayable debts. Despite the passage of principles for fair debt restructuring by the United Nations last year, this kind of vulture fund activity remains legal, following the failure of countries housing major financial centres, like the US, UK and Germany, to support the measures. The UK's vulture fund law, passed in 2010, only applies to the pre-2004 debts of the 40 countries which qualified for the World Bank and IMF debt cancellation scheme of the 2000s.

VULTURES SWOOP AS PUERTO RICO DEFAULTS

The Caribbean island of Puerto Rico, a US territory, has become the latest target for vulture fund investors, following a prolonged financial crisis. The island's

LEFT: A MURAL IN NEW YORK OF THE PUERTO RICAN FLAG.

Governor, Alejandro García Padilla, has said the economy faces a 'death spiral' unless its debt obligations are reduced. Vulture funds including Aurelius Capital, one of the lead vulture funds which spent a decade targeting Argentina, are estimated to hold as much as 15% of Puerto Rico's $72 billion debt. Unlike other US cities and states, Puerto Rico is not eligible for Chapter 9 bankruptcy, meaning there is no legal mechanism to restructure its debts. The island's poverty rate is over 40%, with 80% of Puerto Rico's children living in high-poverty areas.

On 1 May, Governor García Padilla announced Puerto Rico would default on $400 million of debts, saying in a televised address: "I've decided that your basic needs come before anything else." Last year a group of 34 hedge funds produced a report calling for Puerto Rico to choose a 'better way' by sacking teachers and closing schools in order to pay its debts.

BELGIUM PASSES STRONG ANTI-VULTURES LAW

The Belgian parliament has passed a law to prevent vulture funds suing for more than they paid for a debt. The law states that if a judge rules a debt claimant is a vulture fund, based on a set of criteria, they can be limited to receiving just what they paid for a debt. Given that debts can be traded at significantly less than their face value during a crisis, this is a major step forward in the battle against vulture funds. Ahmed Laaouej, the MP who first put forward the law, hailed its passing as "a victory over the vultures of finance" that came about "despite strong pressure from several national and international lobby groups". However, vulture funds are considering challenging the law in the Belgian constitutional court.

UK DEBT

Debt justice struggles are also ramping up here in the UK. From nursing students resisting cuts to their bursaries, to activists exposing dodgy bank loans to local councils, the UK debt justice movement is growing. Here we give a flavour of some of the current campaigns on UK debt issues.

'BURSARY OR BUST' FOR NHS STUDENTS

More than 150,000 people have signed a petition on the Parliament website calling on the government to rethink its plans to scrap the NHS student bursary. The bursary has been described as 'a lifeline' for NHS students. Student nurses, midwives and allied health professionals do not currently pay tuition fees and receive a bursary for support with living costs during their training, but the government is proposing to scrap the bursary and charge standard tuition fees, meaning that nurses and other health professionals will now graduate

with at least £51,600 of debt. Unlike other courses, nursing students are required to complete a minimum of 2,300 hours in clinical practice over the course of their studies, meaning that the changes would effectively charge students for working in the NHS. Meanwhile, there is a shortage of nearly 50,000 nurses in the NHS.

Find out more at:
nhsbursarycutsforum.wordpress.com

MAINTENANCE GRANTS FOR POOREST STUDENTS SCRAPPED

The UK government scrapped all forms of maintenance grants for students from lower income backgrounds in January, and replaced them with further loans, which are now added to the tuition fee debts which must be paid after graduation. This means that students from the poorest backgrounds will be graduating with the largest debts. The grassroots student network the National Campaign Against Fees and Cuts protested outside Parliament as the changes were voted through, blocking Westminster Bridge to symbolically represent the end of the 'bridge' into education that grants provided for poorer students.

'LOBO' LOAN THREAT TO UK COUNCILS EXPOSED

UK local authorities have been ripped off by controversial LOBO loans uncovered by campaign group Debt Resistance UK. A LOBO ('Lender Option, Borrower Option') loan is a risky and expensive loan that can last between 40 and 70 years. Following an initial low interest 'teaser rate', the lender had the 'option' to increase the interest rate on the loans, for instance after 5 years. The borrower then had the 'option' either to agree to the new interest rate, or pay off the whole loan by taking out a new loan at the prevailing rate (sometimes with a very high penalty fee to exit the loan). So LOBO loans were effectively a bet that interest rates would rise. From the early 2000s local authorities were encouraged to borrow from private banks using LOBO loans rather than borrow from the Treasury, as they have done for decades. Yet with interest rates at historic lows, councils have been paying massively over the odds.

The research by Debt Resistance UK used Freedom of Information requests to show that 250 local authorities have taken out LOBO loans worth more than £15 billion from private banks. Newham Council in London has taken out the most at £563.5 million of loans, paying up to 7.6% of interest and spending nearly 80% of council tax revenues on debt payments. Meanwhile, it has made £50 million of cuts to local services including to social housing and children's centres.

Find out if your local authority has taken out LOBO loans at:
www.lada.debtresistance.uk

LEFT: STUDENT NURSES PROTESTED AGAINST BURSARY CUTS OUTSIDE PARLIAMENT IN JANUARY.

Garry Knight/Flickr

ABOUT US

Jubilee Debt Campaign is part of a global movement demanding freedom from the slavery of unjust debts and a new financial system which puts people first.

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dropthedebt

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Registered charity no. 1055675
Company limited by guarantee no. 3201959

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