

1. Background to the hearing

From the 1990s onwards, debt-relief initiatives and economic growth meant that public debt levels in many – though not all – states fell below the critical threshold. The financial crisis partly undid this progress: economic growth declined, as did export and government revenues. Many states responded by introducing economic stimulus packages, which boosted the economy but put pressure on state finances.

Under these circumstances, a new sovereign debt crisis cannot be ruled out. In the eurozone – not previously the focus of the international debate on debt – the debt crisis is already a reality. It is becoming increasingly clear that an orderly mechanism is needed to deal with these situations and prevent the debt spiral from worsening. The international community should review and further develop the existing instruments to prevent and deal with sovereign debt crises.

For years, there have been calls in development-policy circles for a sovereign debt workout mechanism. The coalition agreement between the CDU, CSU and FDP also supported an international insolvency code: “We also advocate the implementation of an international insolvency code” (p. 183 of the English translation of the coalition agreement).

The debt crisis in Greece has caused the debate on the creation of a debt workout mechanism for over-indebted eurozone countries to gather momentum. This momentum should not result in a mechanism which is limited to the eurozone, however. Instead, this window of opportunity should be used to make progress towards a sovereign debt workout mechanism at international level, particularly within the framework of the G20.

The aim of the hearing is, firstly, to examine how public debt levels are currently evolving and to determine to what extent existing instruments are sufficient to counter new debt problems as they emerge. Secondly, the hearing will discuss the extent to which a sovereign debt workout mechanism would be an adequate instrument for dealing with debt crises in developing and industrialised countries, and whether the debate at European level can be linked with the calls in development-policy circles for a sovereign debt workout mechanism.

2. Structure of the hearing

The hearing will be divided into two thematic sections, with the first section taking up one third of the time available and the second section two thirds. Two experts will be heard during the first section, on “Public debt levels and the current state of debt-relief initiatives”, and three experts during the second section, entitled “The possibility of a sovereign debt workout mechanism”.

The Federal Ministry for Economic Cooperation and Development will be asked to submit a written statement. Parliamentary State Secretary Gudrun Kopp will be asked to answer any questions intended for the Ministry.

3. Main topics of the hearing

a. Public debt levels and the current state of debt-relief initiatives

Questions: How have the public debt levels of developing and emerging countries evolved in the course of the financial crisis, particularly in countries which had already received debt relief?

Where is there a risk of new debt crises?

Are the existing debt-relief initiatives (HIPC Initiative and MDRI) still effective instruments?

What are the implications of the emergence of new donors for the debt problem?

b. The possibility of a sovereign debt workout mechanism

Questions: What progress has the Federal Government made in advancing the implementation of a sovereign debt workout mechanism, as pledged in the coalition agreement?

Does the debate at European level offer an opportunity to achieve the implementation of a sovereign debt workout mechanism?

What is the role, in this context, of the outcomes of the European Council in March?

4. Experts

a. Public debt levels and the current state of debt-relief initiatives

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b. The possibility of a sovereign debt workout mechanism

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