Beyond Ratings
Sovereign Risk Matters

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ANALYST INSIGHT

Greek's Debt Due: A Modern Sisyphus

As the third *Memorandum of understanding* will be achieved next month and creditors of Greece push for a return of the country on the financial markets, it's time to re-examine the situation of the country hence one of the most important crises in the history of Europe. Pierre Moscovici, European Commissioner for Economic and Monetary Affairs, wrote the following recently in his **blog**:

> "Like Ulysses back to Ithaca, Greece is finally reaching its destination today, ten years after the beginning of a long recession. It can finally breathe, look at how far it has come and contemplate the future with confidence."

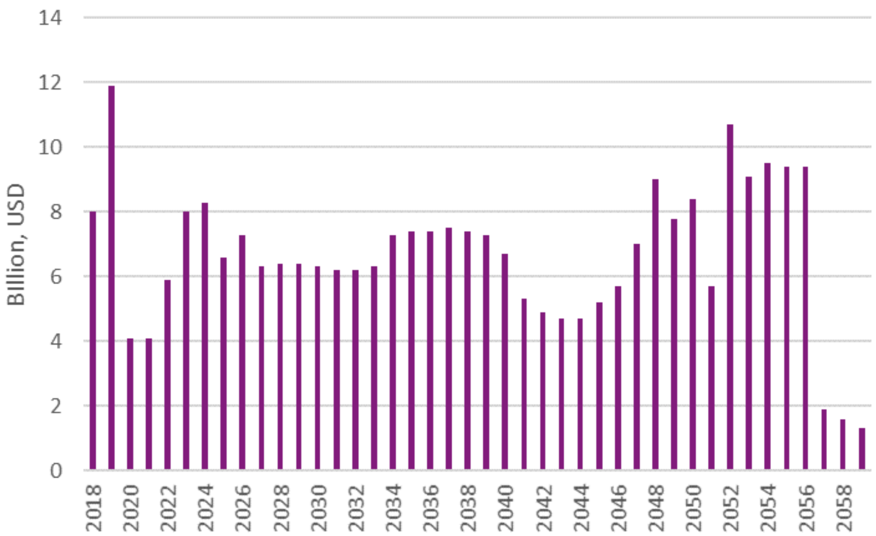

Figure 1 Greece's Debt Due

If Moscovici is really appealing to Greek mythology, the myth of Sisyphus would have been more appropriate concerning the case of Greece. Indeed, if the European Commission's **Compliance Report** seems to be satisfied with Greek perspectives, underlining for example that "*authorities have fulfilled their commitment to continue streamlining overall health spending*", effects of austerity measures have been and will continue to be disastrous for Greek society and its long-term growth. According to this report, the Greek primary surplus is expected to increase gradually from 3.5% of GDP in 2018 to 4.3% in 2022, while growth will gradually increase to 2.6% in 2020 before slowing to 1.9% in 2022.

This scenario is far-fetched to say the least, as "*a primary surplus of 3.5% of GDP is hard to reach and sustain over the long term, especially after long periods of recession and high structural unemployment*" (**IMF**, 2016), and growth perspectives are weak in the absence of public investment, with decreasing productivity. Since this growth will not be strong enough to equilibrate the Greek economy, new budget cuts will inevitably prolong the "sacrifices" demanded of the Greek people in the foreseeable future. So why does the European Commission and Pierre Moscovici still believe that "*Greece can contemplate the future with confidence*"?

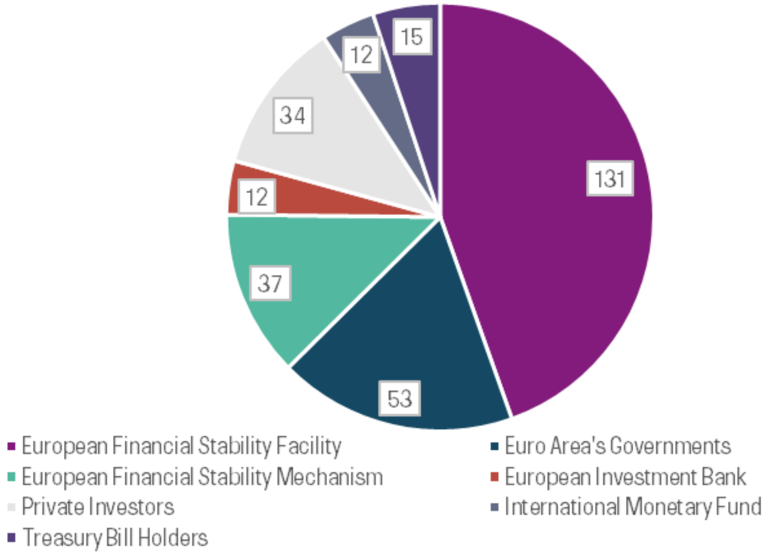

Figure 2 Debt Due by Holder (in USD bn)

Some insights can be found when analysing Greece's Debt Due (Fig.1) and the breakdown by holder (Fig.2): this astonishing profile (a wall of 12 billion in 2019, then a decrease to 4 billion in 2020 and 2020, before a new jump, *etc.*) is explained by the differential treatment of debts with different creditors. European institutions and States hold around 80% of the Greek's debt. We therefore understand better the focus of the European Commission and the Eurogroup on achieving high primary surpluses through the application of "*structural reforms*", refusal of new debt cancellation and the optimism about Greek public debt sustainability.

Indeed, according to **Klaus Regling**, the General Director of the European stability mechanism, the "sacrifices" demanded of the Greeks could last until the final expiration date (*i.e.* 2060): "*The Commission stops when 75% has been repaid, but we don't do that. We are monitoring until the very end.*"

"*Aye, and I saw Sisyphus in violent torment, seeking to raise a monstrous stone with both his hands. Verily he would brace himself with hands and feet and thrust the stone toward the crest of a hill, but as often as he was about to heave it over the top, the weight would turn it back, and then down again to the plain would come rolling the ruthless stone. But he would strain again and thrust it back, and the sweat flowed down from his limbs, and dust rose up from his head*." Homer, Odyssey, Book 11.

Thomas Lorans, Economist

*Sources: Beyond Ratings, **Wall Street Journal***

WEEKLY FOOD FOR THOUGHT

Sovereign Risk

World Indebtedness: A Red Flag for the World Bank

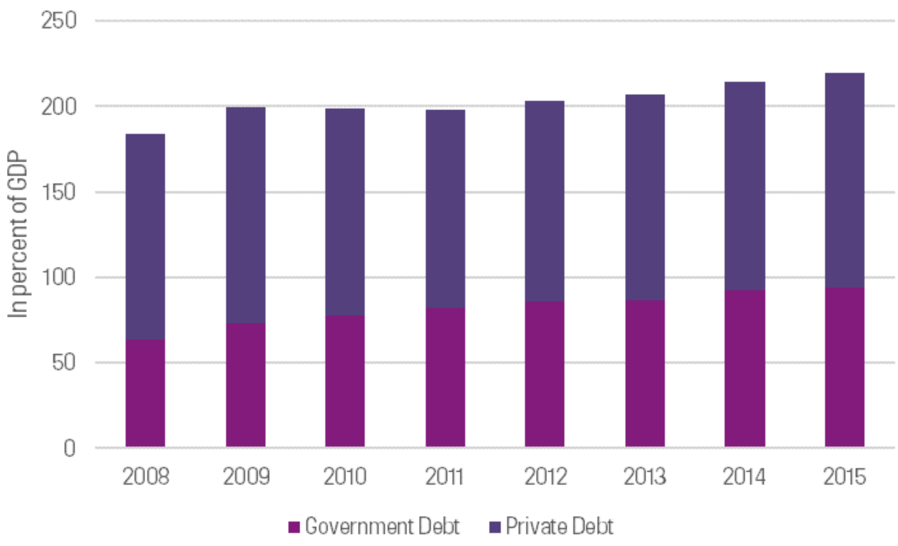

Figure 3 World Indebtedness

As the United States Federal Reserve is raising interest rates faster than initially anticipated, global debt is becoming a bigger concern according to the World Bank. These rising interest rates are putting stress particularly on emerging markets and developing economies. World indebtedness stood at 94% of world GDP (2015 data), while private debt surged to an all-time high at 129% of world GDP (2016 data) according to the World Bank. If this increasing indebtedness seemed sustainable in a context of low borrowing costs, rising interest rates will increase debt burden at short-term. Indeed, as Kristalina Georgieva, the chief executive officer of the World Bank, warned lastly: "*after a decade of low interest rates, the corporate and public debt in many places has ballooned to a staggering $164 trillion*". Then, "*with interest rates going up, the attention on debt sustainability has to be stronger*". She added: "*we don't see many countries taking advantage of this period of strong economic growth to carry forward structural reforms," she said. "Our advice to countries is, do not wait. Good times may not last — they usually do not last forever*".

Thomas Lorans, Economist

*Sources: Beyond Ratings, **World Bank***

ESG

Is Organic Honey the New Cuban Cigar?

Even if Albert Einstein has probably never said that "if the bee disappeared off the face of the earth, man would only have four years left to live", the worldwide bee colony collapse is serious enough to create a world bee day (May 20) and for José Graziano da Silva (FAO Director-General) to mention "the role of […] bees, […] in increasing food security, improving nutrition and fighting hunger as well as in providing key ecosystem services for agriculture". Cuban Bees and Honey Production

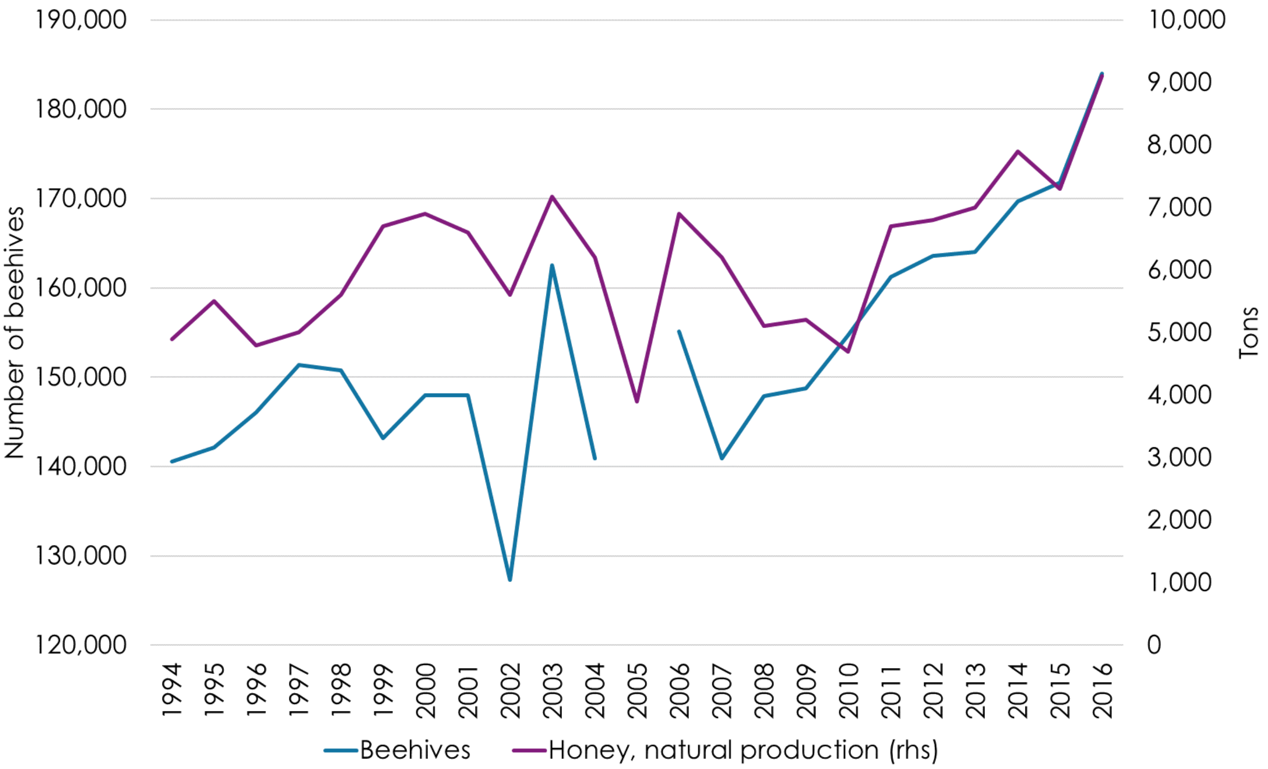

Figure 4 Bee Population and Honey Production in Cuba

Insecticides are usually considered as one of the causes of this huge bee population reduction but there still are scientific discussions and arguments surrounding the topic. Fortunately, due to an embargo, one country uses a very limited quantity of insecticides and pesticides: Cuba. Between 1994 and 2016, the number of beehives (resp. natural honey production) increased by 30% (resp. by 85%) making organic honey the fourth most valuable agricultural export behind fish products, tobacco and drinks. For example, in 2016, Germany imported 3000 metric tons of organic honey. The fact that the number of beehives decreased by 41% between 1995 and 2016 in Germany coud be an explanation…

Emeric Nicolas, Head of Statistics

Sources: Beyond Ratings, FAO

Carbon

How To Put a Price on Carbon

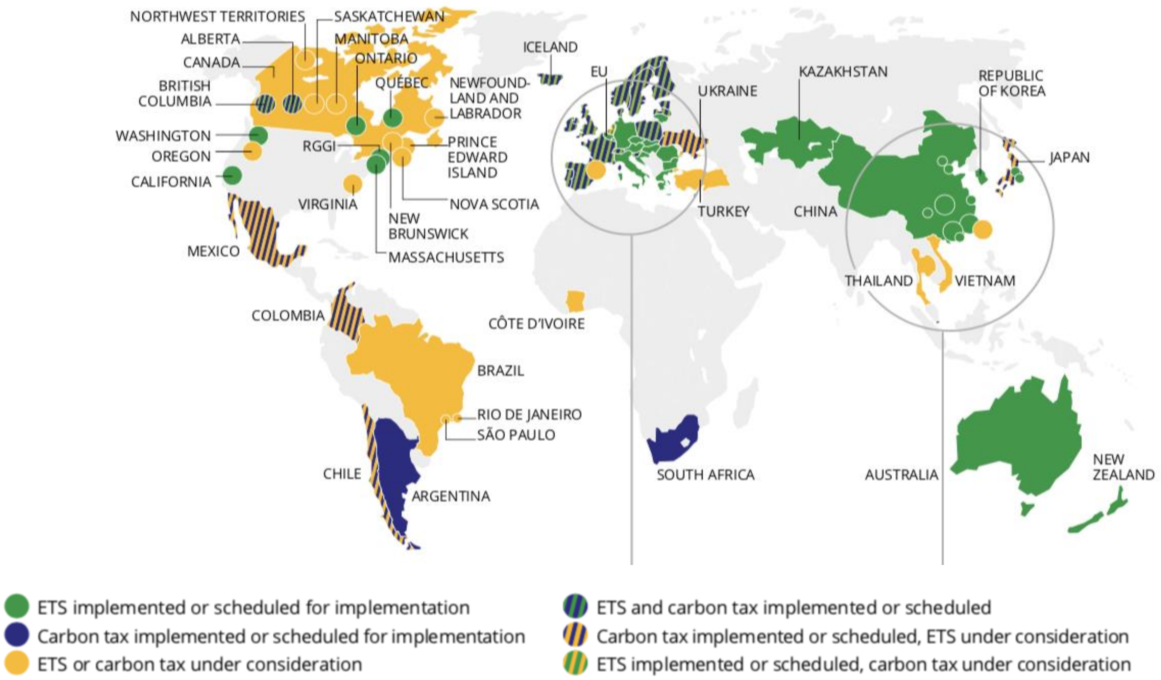

Figure 5 Summary map of regional, national and subnational carbon pricing initiatives implemented, scheduled for implementation and under consideration (ETS and carbon tax)

In a recent document, the World Bank has counted 47 carbon pricing initiatives that are already in place and four more to come by 2020. Regarding the current situation, two observations can be made. South-American countries are being relatively active on the carbon pricing front with new carbon taxes in Chile (2017), Colombia (2017) and soon Argentina (2019), while Singapore and South Africa are also scheduled to have a carbon tax in 2019. But the real game changer is the planned implementation of a Chinese ETS in 2020 even though Chinese authorities are yet to disclose the specifics of this project. It appears that momentum is gaining towards putting a price on carbon, even if these initiatives are generally taken locally and may lack consistency. This is true not only because carbon prices greatly differ from one country to the other (1USD/tCO2 in Ukraine vs 139 USD/tCO2 in Sweden) but also because countries, supranational and sub-national authorities have chosen different mechanisms to put a price on carbon (be it an ETS or some form of carbon tax). Some companies might seize these market distortions to adapt their strategy, relocate their activities and minimize their losses on carbon emissions.

Overall, this situation gives credit to the argument advocating a single global carbon price as the only effective way to tackle climate change globally and get rid of free-riders who benefit from the resources without paying their fair share. This graph is striking in that it displays not only the extent of the emission coverage but also how fragmented and uncertain the current momentum is. It will be interesting to follow the roll-out of the Chinese ETS and to see if the concept of a global (or at least regional) carbon price is increasingly debated as a result of these initiatives.

Nathan Breen, Climate Analysis Team *Sources: Beyond Ratings*, ***World Bank Group, TSE/IAST***

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