DEBT FOR CLIMATE
SWITZERLAND

Debt for Climate at the Peoples' Forum for Climate Justice and Financial Regulations

Debt for Climate is participating in the Peoples' Forum for Climate Justice and Financial Regulations, which will take place in Basel, Switzerland, on June 21-25. We are joining a broad coalition of grassroots movements, various NGO's and the "Global Coalition of Peoples Facing Extractivism" who initiated the Forum.

The Peoples' Forum for Climate Justice and Financial Regulations focuses on regulating financial actors whose actions harm people, nature and the climate. Through financial regulation, e.g. the regulation of fossil investment flows through the One-for-One Rule, conditions should be created that keep our economy stable and guarantee a sustainable future for our planet. The Forum is taking place at the same time as the annual meeting of the Bank for International Settlements (BIS)[1], a body which decides on international financial regulations.

The BIS and its role in the global debt architecture

The annual meetings of the BIS bring together the directors of the major central banks, the actors that shape the national strategies of countries with high voting shares in the decision-making bodies of the IMF and the World Bank. As will be shown below, the arrangements that the BIS organizes between major central banks have not only played a crucial role in past debt crises and subsequent debt negotiations, but have also contributed to the current inflation driven increase in debt burdens for the Global South.

Facilitators behind the London Agreement

The Bank for International Settlements is the world's oldest international financial institution. The BIS had a formative influence on the later dominant interference of the IMF and World Bank in domestic politics. European and American civil servants, bankers, and colonial authorities were granted exceptional power through the BIS and other international institutions that emerged in the aftermath of World War I, allowing them to enforce austerity measures, supervise development programs, and regulate commodity prices.

Today it acts as a "central banks' bank" in the sense that it manages deposits from a large number of central banks, through which it tries to maintain financial stability. In this capacity, BIS circumvented IMF policy in several cases by providing bridge loans to member countries that

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[1] In Basel, the so called "Basel Committee on Banking Supervision" (BCBS) of the BIS. The BCBS is the primary global standard-setter for the regulation and supervision of private banks. With the BCBS the BIS is part of a working group, which is operationalizing principles for banks to disclose details of loans to 68 low and middle-income countries on a public register in order to gain more transparency about debt owed to private lenders. There is a lack of a binding legal framework at the global level that forces private creditors to participate in debt relief negotiations. Through regulatory recommendations, the BCBS would have the influence to enforce such a framework on a global scale.

refused to implement the structural adjustment measures necessary to receive IMF loans. In the Mexican default crisis of 1982, the BIS arranged a temporary bridging loan of USD 1.85 billion. In the late 1980's, when Brazil defaulted on its loan payments, BIS loaned money, guaranteed by the central bank members. In this case, the bank quietly decided to extend the deadline instead of collecting the money from guarantors.

Furthermore, the BIS has a long history as a main agent in the execution of international (debt) agreements. For example, the BIS was a driving force in the London Agreement: Under the Young Plan, which for the first time fixed Germany's debt at a fixed, unconditional amount and laid the foundation for the full cancellation of Germany's reparations obligations under the Lausanne Conference, the BIS acted as an agent handling the receipt and disbursement of the debt payment. Within its own receivables, BIS granted Germany a cut in outstanding interest debt by half.

The Bank for International Settlements, through its central role in debt relief for Nazi Germany, has a historic responsibility to initiate debt relief for the countries of the Global South today. More than almost any other financial institution, it would also have the political power to actually enforce it.

Central Bank Arrangements preventing a Just Transition

The countries whose central banks are members of the BIS account for 82.48% of the voting rights in the decision-making bodies of the IMF/WB. Large parts of the Global South (especially African countries) are not members of the BIS. The arrangements that the BIS coordinates among central banks have far-reaching implications for global financial stability without ever being democratically legitimized.[2] With their recent coordinated interest rate hikes, the two most influential central banks, the U.S. Federal Reserve (Fed) and the European Central Bank (ECB), are not only perpetuating fossil fuel dependencies in the Global North, they are also fueling the debt crisis in the Global South and therefore preventing a just transition.

Fossil inflation

Current inflation is rooted in fossil dependencies. As can be empirically observed for the past months, there is a strong correlation between the increase of the general price level and that of energy prices. Major fossil commodity companies act as widely unregulated market makers in the global economy, exploiting their power position through the general dependence on quickly available and cheap energy for their own profits. To a great extent, it is the speculation in commodity markets driven by the fossil corporations that causes inflation. At the same time, structural price mechanisms such as the merit order principle, which aligns the general energy price with the high production prices for oil and gas, allow them to reap massive profits while more and more people can no longer afford their electricity bills.

The increase in key interest rates that leading central banks represented in Basel this week are relying on to fight inflation is making investment in renewable energy in the Global North more expensive, maintaining long term fossil fuel dependence in those countries, and leading to an inflation-energy downward spiral in the wake of ongoing vulnerability to fossil fuel price shocks.

[2] Democratic accountability for central banks does not exist to a large extent today. Its adoption would be an important step toward aligning central banks' monetary policies with social and ecological objectives.

Worsening debt crisis

But the restrictive monetary policy in the Global North not only maintains fossil dependencies here, the interest rate ping-pong between the ECB and the FED is also driving large parts of the Global South into an intensified debt crisis. The debt burden robs the countries of the Global South, which will account for over 60% of global energy demand by 2040, of the financial space to initiate a just transition. Much of the capital flowing into these countries today is not for productive investment, but to pay off debt or goes back to speculations by foreign investors in local financial markets. Foreign direct investment has fallen by around 40% between 2011 and 2020 in the wake of rising debt burdens. With colonial-influenced import dependencies still in place in many countries of the Global South for necessities, exclusion from global capital markets is driving many governments into the arms of the International Monetary Fund. The money from the IMF/World Bank is tied to a number of conditions - including the obligation to open up their own oil and gas fields for exploitation by foreign commodity companies.

In short term, one demand to slow down the current deepening of the debt crisis in the Global South and to prevent an expansion of fossil fuel dependencies in the Global North is to lower the key interest rates. This demand is addressed directly to the directors of the central banks meeting in Basel, first and foremost to Jerome Powell (Fed) and Christine Lagarde (ECB).

In order to finally overcome the fossil dependencies of the Global North and to initiate a just transition for the Global South, fossil investments have to be regulated and the debts of the Global South have to be cancelled. The fight for these demands is essential to preserve a livable planet as a united 99%.