

FROM DÉTENTE TO DEBT

Creditors in the Eastern European Sovereign Debt Crisis

Catherine Lefèvre
European University Institute

Project goals

This project aims to analyze the responsibility of creditor countries and the link between politics and finance in the development of a debt crisis.

Project background and runtime

This project started during my PhD in 2016 when I began examining the role of the UK government, Bank of England and UK banks in the development of the Eastern European sovereign debt crisis particularly in Romania and Hungary, through the use of archival sources. Currently, I am looking at the role of the UK as a creditor in the case of Poland. Overall, the project has been running for the past 6 years.



Fig. 1 The four UK prime ministers from 1970–1982, from left to right: Callaghan, Wilson, Thatcher & Heath. Credit: BBC

Spanning the years 1970–1982, my research on the UK's involvement in the Eastern European sovereign debt crisis extends across the premierships of four UK prime ministers whose differing approaches to UK foreign and domestic policy had significant impacts on the UK's involvement in the development of the crisis.

Social Relevance and anticipated impact

My research shifts the focus from analyzing the responsibility of debtor countries for the development of a crisis to examining the role of creditor countries and the responsibility of their political and financial institutions in the development of a financial crisis.

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...there was clearly an interrelation between politics and trade...we believed that political relations had to be markedly good or markedly bad to influence trade.”

— TNA, FC028/1064. Conference of HM Representatives from the Soviet Union and Eastern Europe 25-28 April 1972. Third Meeting, Wednesday 26 April. Record of meetings.

It fills an important gap in the literature on financial crises as it changes the way in which we view them. It also makes us rethink how and why debtor countries fall into a debt trap and what creditors can, or should not do, when lending to these countries.

The project is aimed at researchers interested in, or working on financial crises, UK politics and foreign policy of the twentieth century, Cold War history, Eastern European studies and social and economic history.

It also benefits economists, bankers and policy makers for whom the history of the Eastern European sovereign debt crisis holds many relevant lessons for understanding and dealing with contemporary financial crises as it can help in the development of prevention policies and solutions to debt crises. For example, the 1982 sovereign debt crisis in Hungary set a precedent which helped resolve the debt crisis in Latin America as for the first time, coordinated international action was taken by Western governments and international financial organizations to address an international debt crisis.

Outcomes/results to date

→ Creditor countries prioritized their own political interests which created an unsustainable debt cycle that ultimately led to the outbreak of the debt crisis.

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...on political grounds, and because of the close interaction between Poland's political and economic prospects, it was strongly argued that some additional British credit should be provided as a contribution to the overall Western effort.”

— TNA, FC028/1064. Conference of HM Representatives from the Soviet Union and Eastern Europe 25-28 April 1972. Third Meeting, Wednesday 26 April. Record of meetings.

→ Some creditors, like the UK and France, made use of Export Credit Guarantees which covered a large percentage of any losses by a domestic business in Eastern Europe.



Fig. 2

The UK government's Export Credits Guarantee Department (ECGD) played an important role in supporting UK firms in Eastern Europe by covering up to 90–95% of any losses incurred by any UK business in the region.

→ Export credit guarantees gave banks a source of low-risk lending and directed the flow of credit towards the region.

Country	Total Debt per Country	Guaranteed Debt	Percentage of Debt Guaranteed
Top 4 Creditors			
USA	3.091	1.311	42.4%
France	2.633	1.354	51.4%
United Kingdom	2.000	1.301	68.1%
FRG	4.456	1.421	31.9%
Other Creditors			
Italy	1.033	0.738	71.4%
Sweden	0.493	0.397	80.5%
Austria	1.736	1.297	74.7%
Japan	0.870	0.370	42.5%
Canada	0.769	0.671	87.3%
Switzerland	0.603	0.305	50.6%
Others	5.256	1.125	21.4%
Total	22.940	10.350	45.1%

Fig. 3

Polish foreign guaranteed debt with market economy countries in \$bn as of 31.12.1980. TNA, CAB148/197. Economic Assistance to Poland: Longer-Term Approach. Report by Officials. Annex 2. Cabinet Defence and Overseas Policy Committee, 9 February 1981.

This table illustrates that offering government-backed guarantees to businesses trading in Eastern Europe was not unique to the UK.

→ There is evidence in UK and French government archives that they were aware of their responsibility in the development of the debt crisis in the case of Poland.

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The major economic risk for the West would be a continued failure of the Polish economy, accompanied by a growing western political commitment to Poland's new order which would make a withdrawal from massive, ever-compounding economic assistance politically unacceptable in the face of Western opinion, so that the Polish economy became recognized as the West's baby and turned out to be a cuckoo.”

— TNA, FC028/4040. What attitude should we take to Soviet intervention in Poland? Letter from Manning (EESD) to Fall (EESD), 26 November 1980



→ Despite debt awareness, creditor countries continued encouraging their banks and businesses to invest in Eastern Europe.



Fig. 4

Logos of the four leading UK banks involved in lending to Eastern European countries.

→ There was a competition between Western countries for trade and influence in Eastern European countries.

“

UK credit conditions are extremely competitive and in general we remain ready to match credit offers from any other country.”

— TNA, FC028/1938. Note for meeting with Minister of Foreign Trade, June 1972

This helped to create an environment in which the debt crisis was able to flourish, as this competition between Western creditors, particularly in the provision of credits, led to credit terms becoming more generous and easily available for Eastern European countries.

Project diagram

