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The Odyssey of a Greek Sovereign Debt Restructuring and the Role of Privatizations



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The debt amassed by Greece has surged to insurmountable heights. Academics, professionals and financial media alike, have been warning for some time now that Greece will not be able to fully honor its obligations, at least at the current interest rate and maturity date profile. Despite the optimism that Greece may still manage to weather the financial crisis, disseminated for obvious tactful reasons, the reality is that measures should be immediately implemented to foster the sustainability of Greek debt. Otherwise, the country's inevitable default will be even more traumatic for all actors involved and affected by the Greek financial collapse, further negating the purpose of the largest privatization project Greece has ever seen to dateⁱ.

Fortunately, Greece and its European counterparts are finally outgrowing the stage of denial regarding the necessity to restructure Greek sovereign debt. The countdown for some form of restructuring has already commenced, particularly given that the Franco-German alliance has now seemingly departed from the idea that a restructuring, under qualifications, is an anathema. After all, this would not be the first sovereign default or debt rescheduling. On this footing, Greece is not a pioneer in the total number of defaults and rescheduling charts, counting five (5) defaults in its history, compared to France and Germany, each with eight (8), or Spain with thirteen (13) default or rescheduling proceedingsⁱⁱ. In fact, Greece may capitalize on the enormous investment that the

international community has made in thinking through the challenges presented in sovereign debt restructuringsⁱⁱⁱ.

The economic theoretical and empirical literature on the cost of default places emphasis on the reputational and trade costs^{iv}. This model suggests a limited access or even exclusion from the international financial markets together with a reduction in international trade. Nevertheless, Greece will not be able to return to the markets in 2013 as anticipated, anyway. It is further suggested that reputational costs will be short

lived on the presumption that, should the Greek state declare a cessation of payments and balance its budget, it will not be long before existing lenders accept a new repayment plan for a percentage of the debt and the overall exposure will be reduced to the extent that lending to Greece will actually be an exceptional investment^v. At the same time, trade is affected, but there is no evidence of formal trade sanctions^{vi}. Surely, the fundamentals of EU integration and solidarity would protect against the possibility of such sanctions.

The legal literature focuses on the possible attachment of assets falling outside the protection of sovereign immunity, through the triggering of cross default clauses, hampering the prospect for orderly negotiations^{vii}. However, recent research has revealed that a substantial part of Greek

ⁱ "Sovereign with unsustainable debts often wait too long before they seek a restructuring, leaving both their citizens and their creditors worst off. And when sovereigns finally opt for restructuring, the process is more protracted than it needs to be and less predictable than creditors would like", see A. O. Krueger, "A New Approach to Sovereign Debt Restructuring", IMF, 2002, p. 39.

ⁱⁱ See C. M. Reinhart & K.S. Rogoff, "This time is Different: Eight Centuries of Financial Folly", Princeton University Press, 2009, table 6.6., p. 99.

ⁱⁱⁱ N. Roubini & B. Setser, "Improving the Sovereign Debt Restructuring Process: Problems in Restructuring, Proposed Solutions and a Roadmap for Reform", (Paper prepared for the conference on "Improving the Sovereign Debt Restructuring Process" co-hosted by the Institute for International Economics and Institut Français des Relations Internationales, Paris, March 9, 2003., p. 2).

^{iv} C.A. Primo Braga & G. A. Vincelette (editors), "Sovereign Debt and the Financial Crisis: Will this Time be Different", World Bank, 2011, p. 244.

^v Professor Y. Varoufakis, "The Optimistic Side of an Insolvency", 20/04/2010, available at <http://www.protagon.gr/?i=protagon.el.article&id=2075>

^{vi} See supra note 3.

^{vii} K. Rogoff & J. Zettelmeyer, "Bankruptcy Procedures for Sovereigns: A History of Ideas, 1976-2001", IMF Working Paper, WP/02/133, 2002, p. 11.



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