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## Financial Vergangenheitsbewaeltigung: The 1953 London Debt Agreement

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Yale University - Department of Economics; CESifo (Center for Economic Studies and Ifo Institute)

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### Abstract

The 1953 London Debt Agreement settled Germany's debts from the period between the two world wars and allowed the country to re-establish its role in international capital markets. The Agreement wrote down the overall debt by about 50 percent, gave the debtors a much longer period to repay, and tied payments to export surpluses and Germany's ability to repay. The Agreement also allowed Germany to postpone some payments until reunification. The Agreement reflected a subtle and responsible understanding of the problems associated with the reparations and debt crises of the 1920s and 1930s, as well as fears about the moral hazard problems that would arise with making any part of the Agreement contingent on events Germany could influence. Discussions of the European debt crisis today often refer to the London Debt Agreement as a precedent for debt forgiveness; such parallels are at best inexact.

**Keywords:** Germany, London Debt Agreement, sovereign debt, debt overhang, HIPC initiative

**JEL Classification:** N24, F34

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