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Are we still untrustworthy for the global markets?

Kind Regards

Vasilis Papadopoulos

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Greek Deals Hidden From EU Probed as Bonds Show Doubt (Update1)
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(Adds finance minister's comments starting in sixth paragraph, National Bank of Greece CEO's comments in 11th.)

By Alan Katz and Elisa Martinuzzi

Sept. 8 (Bloomberg) -- Four months after the 110 billion- euro ($140 billion) bailout for Greece, the nation still hasn't disclosed the full details of secret financial transactions it used to conceal debt.

"We have not seen the real documents," Walter Radermacher, head of the European Union's statistics agency Eurostat, said in a Sept. 2 interview in his Luxembourg office.
Eurostat first requested the contracts in February.

Radermacher vows new toughness when officials from his staff head to Greece this month to come up with a "solid estimate" of the total value of debt hidden by the opaque contracts. "This is a new era," he said.

Greece is the only euro country that lied about using these complex swap contracts after Eurostat told countries to report them in 2008, Radermacher, 58, said. It also likely signed a greater number of individual agreements than any other euro member, based on information it has provided to Eurostat, he said. Greece's debt was 115.1 percent of its total economic output last year, second among the 16 counties that share the euro, behind Italy's 115.8 percent.

"What the Greeks did was an absolute cardinal sin," said Ruairi Quinn, former finance minister of Ireland who presided over the 1996 meeting where debt and deficit limits for countries joining the euro were set. "They deserve to be punished for it. I think they have been severely punished for it."

Doubling Deficit Estimate

Greece has requested technical help from Eurostat for its statistics service, and data from the country now reflects guarantees and swaps that weren't previously included, Finance Minister George Papaconstantinou said in an interview today.
The statistics agency became independent from the finance ministry this year.

There is "a clear political will for full transparency in everything," he said. "There is a clear and complete break with past practices."

Confidence in Greece's statistics and its ability to repay debt was shattered in October, when the country more than doubled its 2009 deficit estimate. The euro plunged, sparking questions whether the single European currency could survive.
It has lost 15 percent of its value against the dollar since Oct. 20.

Restructuring Debt

Investors still don't trust Greece. They demand yields more than five times that of Germany to hold 10-year Greek debt - a sign that buyers fear the country will have to reorganize its borrowing.

"I think restructuring will be a necessary part of them pulling out of the predicament they are in," Andrew Bosomworth, Munich-based head of portfolio management at Pacific Investment Management Co., which oversees the world's largest bond fund. He cited the projection of the International Monetary Fund, which foresees Greece's debt topping out 149 percent of gross domestic product in 2012. Italy in May estimated that its debt would be 117.2 percent of economic output in 2012.

National Bank of Greece SA Chief Executive Officer Apostolos Tamvakakis said today that the bank "strongly believes" the country will not default on its debt and that Greece is moving in the right direction. The bank yesterday set out plans to raise 2.8 billion euros to bolster capital and help with its expansion in Greece and the region. The shares dropped 7.8 percent to 9.59 euros at 12:24 p.m. in Athens trading today.

Increased Exposure

Banks worldwide increased their total exposure to Greek debt in the first quarter of the year by 7.1 percent, or $20.7 billion, to $297.2 billion, according to a Sept. 6 report by the Basel, Switzerland-based Bank for International Settlements. Norway's sovereign wealth fund, the world's second largest, said in August that it had bought Greek bonds, along with those from Spain and Portugal, because of higher yields and as those governments push to reduce their deficits.

Greece received the three-year, 110 billion-euro bailout from the European Union and International Monetary Fund in May after investor concern about the government's ability to curb the budget deficit led to soaring borrowing costs that pushed the country to the brink of default. Greece pledged to implement austerity measures equivalent to almost 14 percent of GDP in exchange for the rescue funds.

The fiscal crisis turned attention to currency swaps arranged by Goldman Sachs Group Inc. that helped Greece hide the extent of its debt.

More Swaps

"There are more, or even many, of this kind of swap operation, which we have to clarify," said Radermacher, the former president of the German Federal Statistics Office who was appointed as the EU's chief statistician in April 2008. "The Goldman Sachs case was the beginning."

Greece has told the agency that the other contracts were each significantly smaller than the ones signed with Goldman Sachs, Radermacher said. Signed in 2000 and 2001, the Goldman swaps reduced the country's foreign denominated debt in euro terms by 2.367 billion euros and lowered debt as a proportion of GDP to 103.7 percent from 105.3 percent, according to a Feb. 21 statement by Goldman.

Goldman Sachs spokewoman Fiona Laffan declined to comment for this article.

In April, Eurostat said it might have to revise Greece's 2009 debt figure higher by as much as 7 percentage points of GDP, in part because of the use of swap contracts that allowed it to reduce current reported debt in return for greater liabilities in future years.

Prime Minister

About a third of Greece's borrowings have swaps attached to them, according to a person with direct knowledge of the operations. Only a portion of those contracts were set up in a way to reduce current reported debt, the person said. Radermacher said he believed Greece stopped using swaps that included up-front payments in 2008, about the same time that Eurostat questioned the country that year.

Greek Prime Minister George Papandreou, elected in October, has pledged to change his country, asking Greeks to pay taxes and accept sacrifices to pull the country through its financial crisis. His slogan is "either we change or we sink."

"Our largest deficit was our credibility deficit," Papandreou said in a Sept. 3 speech to his ruling Pasok party. He wasn't available to comment for this article.

Investigating Statistics

The new government has initiated a series of measures to end opaque financing in Greece. The statistics agency now reports directly to Greece's parliament, rather than the finance ministry. A parliamentary committee this month will begin investigating the false statistics.

Under the rules to join the euro, countries' debts must not exceed 60 percent of GDP. Interest payments linked to swaps are included in the calculation. That means that until accounting guidance was changed in 2008, upfront payments or lower initial interest payments could initially lower the debt or cause it to rise by a smaller amount than would otherwise be the case, while liabilities could increase down the road.

The problem is that such contracts rely on an estimate that the future debt will be lower or economic activity much greater, allowing a country to meet higher payments, said Yannis Stournaras, director general of the Foundation for Economic and Industrial Research in Athens. He was chairman of Greece's Council of Economic Advisors from 1994 through 2000.

'Hope Over Experience'

"You might say this is triumph of hope over experience," he said, adding that the blame should be shared with the European Commission, which didn't intervene despite years of warnings by Eurostat of problems with Greek data.

"We addressed the issue several times in meetings of finance ministers and we asked for enhanced powers for Eurostat in 2005, which we didn't receive at the time," said Amadeu Altafaj, a spokesman for the Commission.

In April 2009, the European Central Bank identified a Greek swap operation of unusual terms, according to a confidential ECB document dated March 3, 2010, obtained by Bloomberg News. The ECB said its executive board prepared internal reports on the swaps. ECB spokesman Niels Buenemann declined to comment on it.

Greece began using this type of contract for the 2001 budget year to avoid recording a spike in debt the first year after it adopted the euro, Stournaras said. It continued to use them after 2001 and increased their use after 2004, he said.

Under guidance set out in 2008 by Eurostat, any upfront payments linked to a swap must be counted as a loan.

Upfront Payments

Germany, Italy, Poland and Belgium, like Greece, received upfront payments from derivatives, Radermacher said at a hearing at the European Parliament in April. The difference, he said in the September interview, was that when Eurostat asked the other countries about the contracts in 2008, they provided the data and adjusted their debt figures.

A spokeswoman for Italy's Finance Ministry in Rome said the country had received upfront payments and revised its debt figures accordingly when the accounting guidelines were revised.

Officials from the other three countries' debt agencies did not return calls for comment.

Eurostat gained new powers effective last month that allow it to audit a country's financial data if it can show there are clear risks that the statistics aren't accurate. The visit to Greece this month will include officials from Eurostat, the European Central Bank and the European Commission's Economic and Financial Affairs directorate, Radermacher said.

'More Muscles'

"Because we have more muscles, so to say, we are free to ask for an inside look to whatever we find important or relevant," Radermacher said.

He said he expects to have sufficient details to present an estimate of the off-market swaps' impact for its semi-annual report on member states' debts and deficits on October 22.

The transition to providing full and accurate data has been slow, according to Radermacher.

The EU's statistics agency for months got partial responses to requests for complete records on the country's use of swaps.

Eurostat still doesn't know the full number of contracts Greece signed that used historical or other non-market interest or currency rates. Nor does it know the total amount of debt covered by those transactions or the effect on the country's debt-to-GDP ratio.

Greece's statistics office blamed the delay in answers on a lack of staff and expertise in the field, said Eurostat officials.

In August, Greece made a proposal for how to estimate the total effect of the off-market swaps without including any of the contracts themselves, Radermacher said.

Some Surprises

He likened the task of unraveling Greece's financial picture to the recent renovation of his house.

"You start to renovate and you open up the walls, then you are confronted with some surprises, and this is more or less the case here," he said.

In the past few months, Greece has told Eurostat of a "big number" of off-market swaps, Radermacher said.

Eurostat's ability to untangle the web of transactions and demand accurate records from all euro members is critical to restoring investor confidence in the currency and in Greece, says Edward Scicluna, a member of the European Parliament, which held a hearing in April on swaps.

Greek government bonds have lost about 24 percent since October, according to Bloomberg/EFFAS indexes.

'Smoke and Mirrors'

"The swaps were part of the smoke and mirrors that were part of the mystique of the euro," said Bill Blain, joint head of fixed income at Matrix Corporate Capital LLP in London.
"There's potential for Europe to trip-up again. It needs to provide full information and demonstrate that it's in control of the situation."

Changing Greece from a country that operates on hope to one that relies on hard numbers is Papandreou's biggest challenge, said Ireland's Quinn, who lived in Greece for a year in the early 1970s.

"Part of becoming modern Europe is shedding that tradition of being economical with the truth and not telling the full story," he said.

The stakes for Greece are significant, Andreas Georgiou, head of the Hellenic Statistics Authority, said in a speech to employees on July 22, the day he took up his position. Providing real, credible figures will mean "to a great degree the success of the country's economic policy in these difficult times as well as possibly our national interests on a long-term basis."
He didn't comment for this article.

"If there's a feeling that there's proper due diligence, I'd feel more confident about investing," said Robin Marshall, a director of fixed income at Smith & Williamson Investment Management in London, which manages $20 billion in assets including Greek debt. "For investors, the credibility hinges as much on perception as on the numbers themselves."

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