ΓΙΑΝΝΟΣ ΠΑΠΑΝΤΩΝΙΟΥ

Από: Granitsas, Alkman [ ]

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Προς:

Θέμα: WSJ Greek Swaps

Dear Mr. Papantoniou,

Thank you very much for your help yesterday. Please find attached today's article from the Wall Street Journal.

Best,

Alkman Granitsas

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THE WALL STREET JOURNAL.

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Greece's Currency Swap Draws New Scrutiny

Athens Describes 2001 Transaction With Goldman Sachs as 'Ordinary;' European Statistics Agency Seeks Information

By ALKMAN GRANITSAS

Bloomberg News

A demonstrator protests on Wednesday outside the Greek parliament building in Athens. The government's austerity plans, including freezing hiring as well as benefits for some civil servants, have sparked several strikes.

ATHENS—A controversial currency swap undertaken by the Greek government in 2001 had no bearing on the country's eligibility for entry into Europe's single currency because Greece was already a member at the time, Greek officials said on Wednesday.

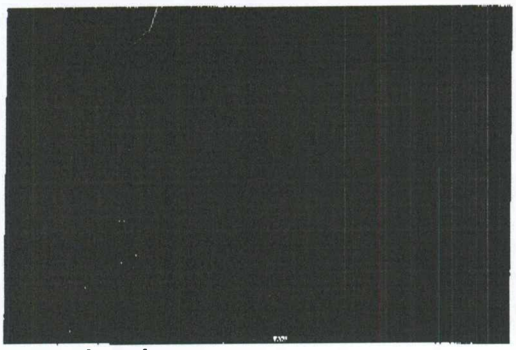
"This was just an ordinary swap," said Yannos Papantoniou, who was Greek minister of national economy and finance between 1994 and 2003. "It was simply to even out the servicing of our debt so as to avoid any jump in our debt burden as a result of currency movements."

Earlier in the day, Greek Finance Minister George Papaconstantinou defended the deal before parliament, saying that the "transaction was completely legal and compliant with Eurostat"—the statistics agency for the 16-nation currency bloc.

Europe's Debt Crisis

Take a look at events that have rattled European governments and global markets.

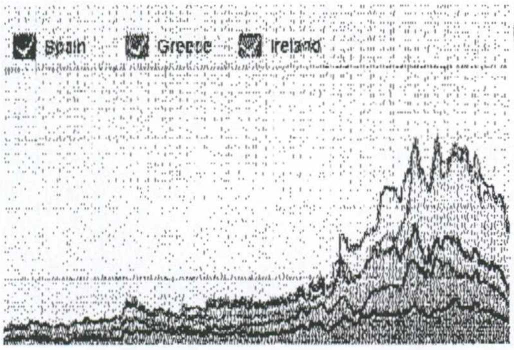
View Interactive



Growing Apart

Take a look at the premium in percentage points that selected euro-zone governments must past on their 10-year bonds.

View Interactive



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Earlier this week, Eurostat said it wasn't aware of the 2001 transaction, and asked Greece for more information about it by Friday. The concerns have been aggravated by financial-market worries over Greece's ability to finance a budget deficit estimated at 12.7% of gross domestic product in 2009.

In the past few days, the Greek government has come under pressure to explain the deal it struck in 2001 with investment bank Goldman Sachs. Shortly after the transaction was finalized, it was disclosed to the Greek parliament and noted in the 2001 Greek government budget. In 2003, Risk Magazine published a lengthy story outlining the transaction's details.

A report of the transaction was published this month in German magazine Der Spiegel, renewing concerns over Greece's fiscal bookkeeping. The news also prompted speculation that Athens may have used complex financial instruments to underreport its deficit and debt position, to ensure its entry into the currency bloc in January 2001.

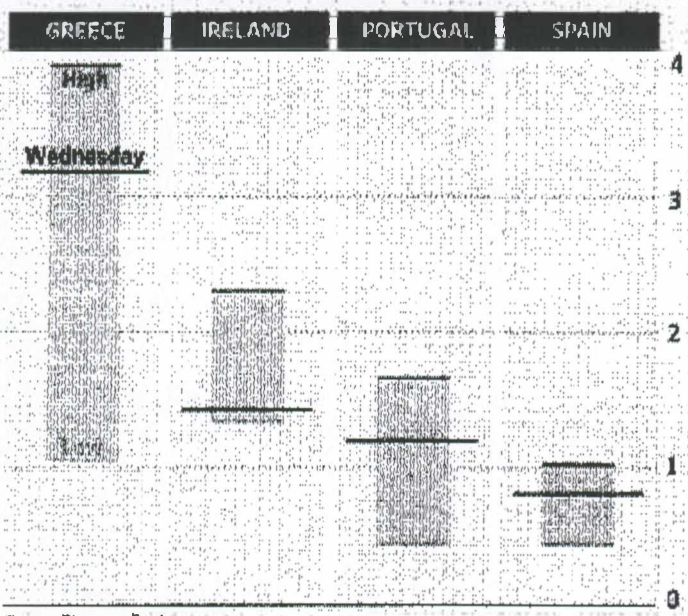
The transaction has prompted criticism of Goldman Sachs by European politicians who accuse it of using Greece's debt troubles to its own advantage. Goldman, which originally hedged its exposure to the deal with a letter of credit, transferred the transaction to the National Bank of Greece in 2005, according to people familiar with the matter. NBG, in turn, transferred the swap to a special purpose vehicle in 2008 in a deal arranged by the bank, the people said. Goldman Sachs had no comment.

Current and former Greek government officials say the concerns are exaggerated. They point out that Greece was already in the euro zone when the transaction was conducted, and note that the country's application to join the currency bloc was based on 1999 statistics. Officials add that Greece hasn't engaged in similar transactions since 2001, and note that the deal wasn't big enough to have a significant impact on Greece's deficit.

Risks and Rewards

The rising risk premium on Greek debt—reflected in the widening spread between its bond yields and those of Germany—has heightened the perception of risk in countries such as Portugal and Spain. In Ireland, however, recent austerity measures have reassured investors.

High, low and Wednesday spreads over German 10-year bonds since June 30; in percentage points:



Source: Thomson Reuters

According to people involved in the 2001 transaction, the deal between Greece and Goldman Sachs involved exchanging more than €10 billion ($13.69 billion) in dollar- and yen-denominated Greek government bonds into euros, with a stream of interest payments extending to 2019. A subsequent Greek government extended payments to 2037, these people said.

The controversy around the deal stems from the exchange rate used for the transactions. By using an historical exchange rate that didn't accurately denote the market value of the euro, Goldman effectively advanced Greece a €2.8 billion loan. Under EU accounting rules—which were tightened in 2008—Greece wasn't obliged to include the loan in overall public debt on its books.

On Feb. 1, a special Greek government panel set up to examine the country's recurrent problems with its public data warned that such swap transactions could inflate the country's future debt burden and warned against their further use. According to the Greek government, Greece's public debt as of Oct. 21, 2009, was €272.3 billion, equal to about 113.4% of GDP.

"As far as the debt is concerned, the numbers are accurate. The only swap that might have an impact on the debt is this forex swap, which might have been done behind the scenes at an artificial exchange rate," said Gikas Hardouvelis, an economist who participated in the drafting of the report. "That is the only transaction where there is some doubt."

However, government officials familiar with the deal said the exchange rate selected for the transaction was determined by the very low level of the euro at the time—the currency was then trading at around 85 U.S. cents—and with the market expecting that value to rise.

"These were not fabricated exchange rates, these were historical exchange rates which we chose for the deal and which were permitted under EU rules at the time," said Christoforos Sardelis, the head of Greece's debt management agency from 1999 to 2004.

—Susanne Craig contributed to this article.

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