Greek Swaps Added 5.3 Billion Euros to Debt, Eurostat Reports

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By Elisa Martinuzzi

Nov. 15 (Bloomberg) -- Greece hid 5.3 billion euros ($7.2 billion) of debt by using off-market swaps, the biggest of which were with Goldman Sachs Group Inc., according to Eurostat, the European Union's statistics office.

Greece entered into a "large" number of off-market swaps from 2001 through 2007, the Luxembourg-based agency said in a statement today. The swap agreements, which led to higher debt, were analyzed "in detail," Eurostat said. A spokesman said a follow-up report on Greek data including swaps is due in "weeks to come," declining to elaborate on how the derivative data were compiled.

Repeated revisions of Greece's figures, beginning last year, spurred a surge in borrowing costs that pushed the country to the brink of default and triggered a region-wide debt crisis. The use of off-market derivatives, which Greece hadn't previously reported as debt, helped push borrowings to 126.8 percent of gross domestic product in 2009, the highest in the region, Eurostat said.

"I'm sure we haven't seen the end of Greece's issues," said Bill Blain, a strategist at Matrix Corporate Capital LLP, an investment bank in London. "The numbers are bad and there's still a lack of transparency. This isn't something that's solved overnight."

Eurostat, which first requested to see the swap contracts in February, said today's revisions give "an essentially reliable picture" in line with its accounting rules. "Methodological visits found no evidence of other significant omissions," according to the statement.

Upfront Payments

Off-market swaps allowed Greece to receive payments upfront, a practice that Eurostat has said other countries including Italy, Germany, Poland and Belgium also used in the past. The difference was that when Eurostat asked the other countries about the contracts in 2008, they provided the data and adjusted their debt figures, the agency has said.

The Goldman Sachs swaps reduced the country's foreign- denominated debt in euro terms by 2.37 billion euros in 2001 and lowered debt as a proportion of GDP to 103.7 percent from 105.3 percent, according to a Feb. 21 statement by the New York-based firm.

"The point remains that if a sample was used in the case of Greece's swaps, this might not be the final figure," said Gustavo Piga, author of "Derivatives and Public Debt Management," and a professor at Tor Vergata University in Rome. "They need to bring out everything now. What is important is full transparency."

Premium Little Changed

The yield premium investors demand to hold 10-year Greek bonds over similar-maturity German bunds was little changed today at 887 basis points, down from a high of 973.1 in May, when the country received a 110 billion-euro EU-led rescue.

Last month, the European Central Bank refused to disclose internal documents showing how Greece used derivatives to hide its government debt because of the "acute" risk of roiling markets, President Jean-Claude Trichet said.

The ECB turned down a request and an appeal by Bloomberg News to release two documents officials drafted for the bank's executive board in Frankfurt this year. The notes outline how Greece used the swaps to hide its borrowings.

Officials for the ECB didn't have an immediate comment.

Greece's proper recording of government swaps contributed to the revisions released today, said Andreas Georgiou, president of the Hellenic Statistical Authority, said today in an interview in Athens.

Between mid-October and mid-November Eurostat and Greece verified the quality of the primary data sources, a process that was "instrumental in assuring us and Eurostat that we have fundamentally gotten the numbers right," Georgiou said.

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