Greek Debt Crisis: How Goldman Sachs Helped Greece to Mask its True Debt

By Beat Balzli

Goldman Sachs helped the Greek government to mask the true extent of its deficit with the help of a derivatives deal that legally circumvented the EU Maastricht deficit rules. At some point the so-called cross currency swaps will mature, and swell the country's already bloated deficit.

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Greek Finance Minister George Papaconstantinou speaking at a conference in January.

Greeks aren't very welcome in the Rue Alphones Weicker in Luxembourg. It's home to Eurostat, the European Union's statistical office. The number crunchers there are deeply annoyed with Athens. Investigative reports state that important data "cannot be confirmed" or has been requested but "not received."

Creative accounting took priority when it came to totting up government debt. Since 1999, the Maastricht rules threaten to slap hefty fines on euro member countries that exceed the budget deficit limit of three percent of gross domestic product. Total government debt mustn't exceed 60 percent.

The Greeks have never managed to stick to the 60 percent debt limit, and they only adhered to the three percent deficit ceiling with the help of blatant balance sheet cosmetics. One time, gigantic military expenditures were left out, and another time billions in hospital debt. After recalculating the figures, the experts at Eurostat consistently came up with the same results: In truth, the deficit each year has been far greater than the three percent limit. In 2009, it exploded to over 12 percent.

Now, though, it looks like the Greek figure jugglers have been even more brazen than was previously thought. "Around 2002 in particular, various investment banks offered complex financial products with which governments could push part of their liabilities into the future," one insider recalled, adding that Mediterranean countries had snapped up such products.

Greece's debt managers agreed a huge deal with the savvy bankers of US investment bank Goldman Sachs at the start of 2002. The deal involved so-called cross-currency swaps in which government debt issued in dollars and yen was swapped for euro debt for a certain period -- to be exchanged back into the original currencies at a later date.

Fictional Exchange Rates

Such transactions are part of normal government refinancing. Europe's governments obtain funds from investors around the world by issuing bonds in yen, dollar or Swiss francs. But they need euros to pay their daily bills. Years later the bonds are repaid in the original foreign

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But in the Greek case the US bankers devised a special kind of swap with fictional exchange rates. That enabled Greece to receive a far higher sum than the actual euro market value of 10 billion dollars or yen. In that way Goldman Sachs secretly arranged additional credit of up to $1 billion for the Greeks.

This credit disguised as a swap didn't show up in the Greek debt statistics. Eurostat's reporting rules don't comprehensively record transactions involving financial derivatives. "The Maastricht rules can be circumvented quite legally through swaps," says a German derivatives dealer.

In previous years, Italy used a similar trick to mask its true debt with the help of a different US bank. In 2002 the Greek deficit amounted to 1.2 percent of GDP. After Eurostat reviewed the data in September 2004, the ratio had to be revised up to 3.7 percent. According to today's records, it stands at 5.2 percent.

At some point Greece will have to pay up for its swap transactions, and that will impact its deficit. The bond maturities range between 10 and 15 years. Goldman Sachs charged a hefty commission for the deal and sold the swaps on to a Greek bank in 2005.

The bank declined to comment on the controversial deal. The Greek Finance Ministry did not respond to a written request for comment.

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