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Greek Bailout Deal A Farce To Benefit Banks At The Expense Of Greece

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IMF head Christine Lagarde with Greek Prime Minister Lucas Papademos - AFP/Getty Images via @daylife

As it stands right now, the Greek bailout and debt deal agreed by European Finance Ministers is a farce, a program designed to pay Greece's international creditors and buy time to somehow engineer growth in a completely uncompetitive economic environment.

A leaked internal Troika memo proves that even under a relatively optimistic scenario, Greek debt-to-GDP levels would only fall to 129% by 2020 and could remain as high as 160%, while financing needs would still exceed Greece's capacity to pay, prompting German daily *Der Spiegel* to ask the EU to admit Greece is bankrupt and stop the bailout package.

On Tuesday, the EU, the ECB, and the IMF – collectively known as the Troika – agreed to a €130 billion bailout package for Greece; this is the second bailout the Hellenic Republic gets after a €110 billion package approved in May 2010 . Markets essentially yawned. The bailout comes with conditions of further austerity, expectations that a "voluntary" debt restructuring (PSI) goes through, and promises that debt-to-GDP levels will be brought down to the arbitrarily sustainable figure of 120%.

Only six days before, on February 15, the same authorities that agreed to give the bankrupt Hellenic Republic another bailout warned that their own conditions wouldn't be met, begging the question as to what the actual value of this "can-kicking" experiment is. In a "strictly confidential" memo titled *Greece: Preliminary Debt Sustainability Analysis*, Troika researchers note that debt-to-GDP levels will remain well above the 120% mark, that "additional debt relief from the official or private sectors" will probably be needed, and that "prolonged financial support [...] by the official sector may be necessary." (To see the memo, go to this article on *FT Alphaville*).

From the memo:

> There is a fundamental tension between the program objectives of reducing debt and improving competitiveness, in that the internal devaluation needed to restore Greece competitiveness will inevitably lead to a higher debt to GDP ratio in the near term. In this context, a scenario of particular concern involves internal devaluation through deeper recession (due to continued delays with structural reforms and with fiscal policy and privatization implementation). This would result in a much higher debt trajectory, leaving debt as high as 160 percent of GDP in 2020. Given the risks, the Greek program may thus remain accident-prone, with questions about sustainability hanging over it.

It is clear from the official study that the current deal is definitely broken, the question is how it's broken and why it's going through anyways. According to *Der Spiegel's* Christian Rickens, the second bailout package "isn't geared to the requirements of the people of Greece but to the needs of the international financial markets, meaning the banks."

Rickens makes a strong point. "How else," he asks, "can one explain the fact that around a quarter of the package won't even arrive in Athens but will flow directly to the country's international creditors?" He explains that about €30 billion will go to holders of Greek government bonds "as an incentive to convert old paper into new bonds."

The reasoning is simple: the financial sector is trying to keep alive the illusion that Greece isn't bankrupt, "cleverly manipulating the fear that a Greek bankruptcy would trigger a fatal chain reaction" in order to get paid.

Greece is indeed broke, and the reason why all the bailout money being thrown into the pot should isn't being used to foster competitiveness and help the country get back on its feet is because this bailout isn't actually going to fix Greece: rather, it's an attempt to buy time so that it doesn't become Germany, France, and the rest of the EU's problem.

Private investors can say they are "voluntarily" forgiving about 70% of the debt (according to net present value calculations by Barclays), but they are getting paid while Greece falls deeper into what already is a 5-year recession. Among the largest IIF creditors involved in the discussion are the National Bank of Greece, BNP Paribas, Commerzbank, Deutsche Bank, Intesa San Paolo, ING, Allianz, and AXA, according to *BusinessWeek*. Major US institutions like JPMorgan Chase, Citigroup, and Bank of America have a substantially smaller exposure to Greece. While there is nothing wrong in creditors protecting their capital, policymakers appear to have decided on their behalf at the expense of the Greek economy.

Troika estimates show that Eurozone bank recapitalization needs have increased to about €50 billion. It also suggests that given the PSI, Greece's capacity to access capital markets has fallen dramatically, forcing it to rely on official sector help to avoid a default to the magnitude of around €50 billion from 2015 to 2020 "before actions to reduce debt." Privatizations and asset sales will deliver substantially less funds than previously anticipated and it will probably take Greece a lot longer to take its primary surplus to sustainable levels from the -1% projected for 2012, according to the memo.

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Thus, any sort of real solution to the Greek problem is once again pushed off, while banks (which are the major holders of Greek debt) are getting some sort of payment. At the same time, the Greek population faces pension and healthcare cuts, wage freezes, and continued layoffs.

Maintaining the integrity of markets is a completely valid goal, but paying creditors by bailing a country out (which is already a way to break market dynamics) while forcing a population deeper into recession doesn't make sense.

TRENDING

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