Goldman Sachs

Goldman Sachs faces Fed inquiry over Greek crisis

The investment bank's work with the Greek government in the early part of the decade is now under scrutiny as Athens struggles with huge debts

Greece may take further austerity measures despite widespread protests from its people Photograph: Simela

Pantzartzi/EPA

Andrew Clark in New York, **Heather Stewart** and **Elena Moya**

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The contentious role played by Goldman Sachs in Greece's debt-saddled financial crisis is under scrutiny by financial regulators in the US, the chairman of the Federal Reserve, Ben Bernanke, revealed yesterday.

Goldman has come under fire for helping the Greek government to structure complex derivatives deals early in the decade and "borrow" billions of dollars in exchange rate swaps, which did not officially count as debt under eurozone rules. Critics say such conduct contributed to unsustainable public finances which have destabilised the euro.

Giving evidence in Washington to the Senate banking committee, Bernanke said the Fed was examining the conduct of Goldman and other Wall Street banks in the troubled southern European country.

"We are looking into a number of questions related to Goldman Sachs and other companies and their derivatives arrangements with Greece," he disclosed, adding that the Securities and Exchange Commission was also interested in the matter.

Goldman was reportedly the most heavily involved of a dozen or so Wall Street banks that worked with the Greek government. Such is its interest in the area that its chief operating officer, Gary Cohn, has visited Athens twice since November to pitch debt products, and has met the prime minister, George Papandreou.

Goldman declined to comment, saying that as a matter of policy, it does not discuss "legal or regulatory matters".

Athens could announce further austerity measures to tackle its debt crisis next week, under intense pressure from financial markets, despite widespread protests against existing spending cuts.

A general strike caused chaos on Wednesday, but the EU's economic affairs commissioner, Olli Rehn, will visit Athens next week. With an EU team on the ground apparently unconvinced that the measures Greece has so far promised will suffice, there are widespread rumours that more spending cuts are being drawn up.

The euro took a battering on foreign exchange markets for a second successive day yesterday, after a warning from the ratings agency Standard and Poor's on Wednesday that it is preparing to downgrade Greece's debts for a second time. The single currency slipped to its weakest in a year against the Japanese yen, and a nine-month low against the dollar.

Athens is expected to test the markets with a bond issue, perhaps as soon as next week. It must raise more than €20bn (£17.7bn) to cover its debt repayments in April and May, and investors appear unconvinced that the actions it has taken so far will be sufficient.

Ben May, European economist at Capital Economics, said the success of this fundraising attempt would be critical. "If that were to go disastrously, it might force the [European] commission and the eurozone governments' to come up with more cast-iron measures for the markets, in terms of how they would support Greece."

Investors sold off Greek bonds yesterday and pushed up the price of insuring against a potential default. Despite the proclaimed support of the EU, the markets want more detail about a potential bailout.

Germany has so far taken a hard-nosed stance, refusing to countenance a bailout – a stance likely to have hardened after remarks from Greece's deputy prime minister, Theodoros Pangalos, seeking to connect the Germans' role in the current crisis with the second world war.

But most analysts expect Germany and other EU states to step in if Greece looks likely to default, fearing even worse repercussions if other states at risk of fiscal meltdown, including Ireland, Spain and Portugal, are forced to follow suit.

Another factor in favour of a bailout is that German banks have hefty exposure to Greek government bonds. Germany's economy minister, Rainer Bruederle, yesterday warned: "Banks are facing a number of risk factors, with many still sitting on toxic assets."

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