DEBT THAT COSTS LESS THAN NOTHING: GREECE´S UNIQUE OPPORTUNITY

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Abstract

A river of ink and controversy has been spent for the past seven years trying to ascertain and comprehend how the money loaned to Greece through the infamous Eurozone-IMF bailout programs has been used. Research pieces, live debates, and opinion articles aplenty have attempted to clarify things, not always reaching identical conclusions. A particular point of contention is exactly how much of the funds directly reached the pockets of ordinary Greeks (to put it in familiar terminology, how much "austerity" was enhanced or reduced because of the bailouts). Here I endorse a very simple way of appreciating what the bailouts delivered and shall continue to deliver: repayment for a very prolonged number of years of all outstanding debt obligations of the Greek government (at no medium-term cost to the sovereign, and without implying an increase in overall borrowing levels), plus a huge pile of money (to be used, for instance, to make a national investment that happens to save the domestic banking industry, and to pay many a government employee salary, state pension, and social benefit). Clearly, having someone else give you for a long time all the cash you need to avoid default plus a lot of extra cash to spend on nice things sounds like a definitely positive proposition, especially when the terms attached to the loans are incredibly generous and accommodative towards the bailed-out party. In essence, Greece´s liabilities would have been transformed into debt that costs less than nothing (don´t make any debt payment, get a ton of cash). The amounts of the rescue loans, €255 billion so far with €55 billion more in waiting, would be enough to meet all existing debt repayments during 2010-16 and, if all proceeds along, 2010-18 and still have many billions left for non-debt-related austerity-fighting government spending. A key concept here is the idea of "bailouts-enabled money", which encompasses the very substantial sums of money accruing to Greece on top of the bailout loans that took place because, and only because, the bailouts took place first. That is, the real aid that reached and shall reach Greece since 2010 is larger than the already vast headline bailout figures. This is a side-effect that seems often ignored, and that adds extra fuel to the conclusion that the rescue programs, far from being a drag on Greece, have been a Godsend. A unique multiyear opportunity to get back on its feet and regain financial independence.

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How helpful were the bailout loans that Greece has been receiving from the Eurozone and the IMF since 2010? There are surely hundreds of opinions surrounding this critical issue, given the myriad financial and political implications as well as the heated passions that the case has aroused. But there exists (at least) one very illustrative way to emphasize how incredibly useful the money disbursements have been. So undeniably powerful such utility would be that no person unwilling to censor their most basic common sense would be able to restrain themselves from marveling at the dimension of the assistance received by Greece.

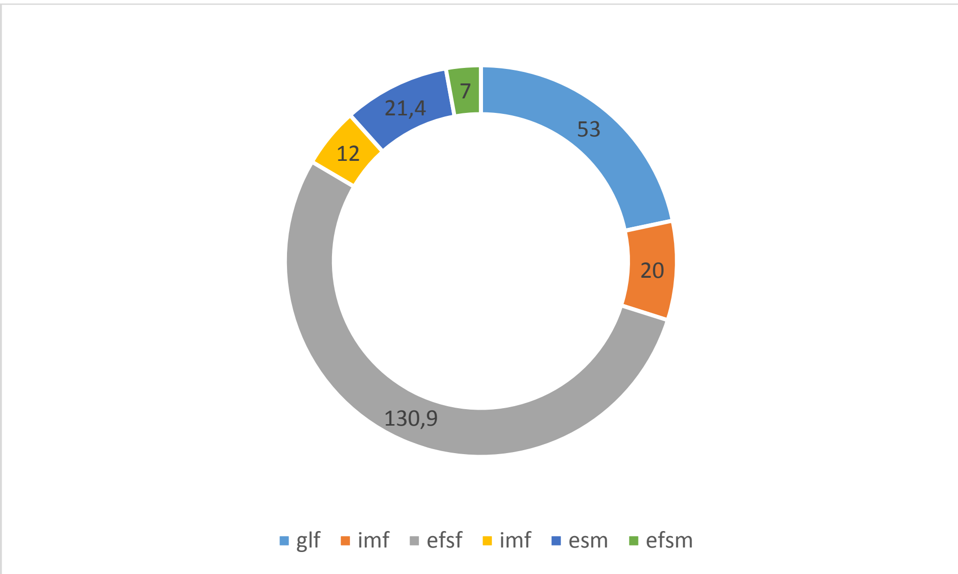
Imagine you owe a lot of money coming due and that living beyond one´s means is what you adore the most in life. Someone then shows up and offers to repay all your outstanding debt obligations (not just principal amortizations, but also interest), and also hands you a big pile of money to spend on yourself. Granted, that someone is technically lending you all that money to pay back old debts and live large, but the way this new liability is termed brings it closer to the idea of a friendly grant or even transfer: this Good Samaritan´s loan includes additional funds to repay itself too for at least several years, and the new future debt burden that is created is made very unmenacing not only by generously low interest rates and lengthy maturities but also by the very accommodative nature of the lender. Very little not to profoundly love here, certainly. You can essentially live debt-free for a long long time while upping your personal spending, and safe in the knowledge that the obligations down the road should be easily meetable.

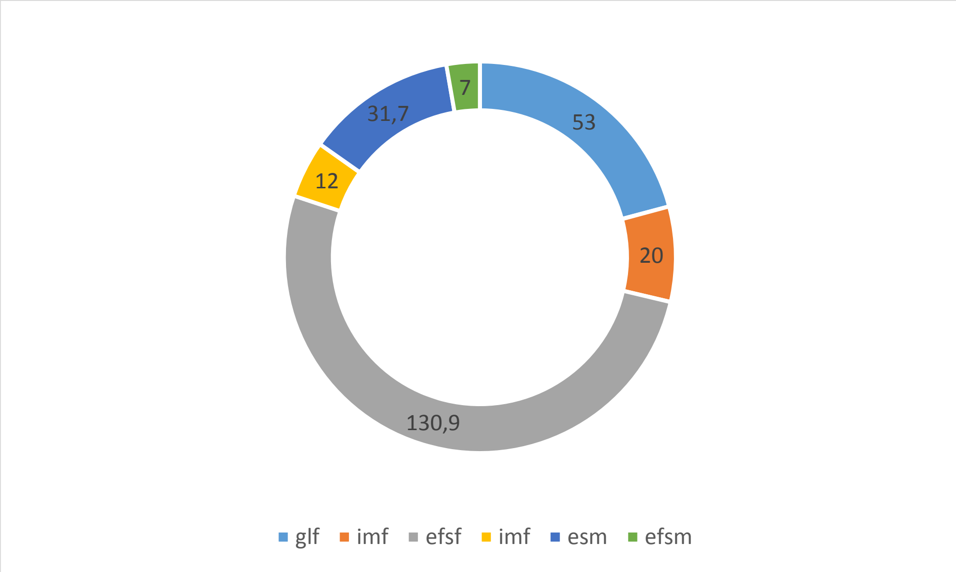
Something like that is exactly what has happened to Greece through the bailouts. A straightforward way to disentangle the vast sums showered on the country for the past seven years ("where did the money go?" has been asked no end) would thus be as a combination of enough money to honour all outstanding and new government debt repayments plus money to indulge in extra non-debt-related public expenditures. That is an easy way to understand what the bailouts provided Greece with and promise to continue to provide. If the current program progresses as planned, when all is said and done an otherwise bankrupt country that had lost access to financial markets would have been allowed to trot along as if debt-free and as if far-wealthier for close to a decade, and all with a very limited future cost.

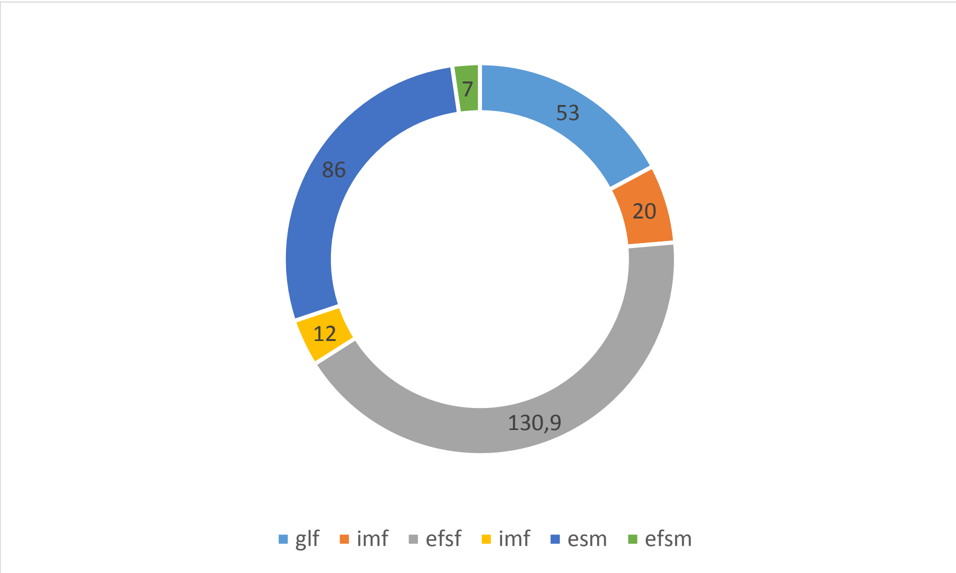
In financial argot, we would say that the bailouts have gifted Greece with the equivalent of a negative-interest loan. That is, debt that is cheaper than zero: not only you (effectively) don´t have to pay back the money, but you actually de facto get paid money regularly. And such glorious state of bliss is to last for almost ten years. These days, with so many sovereign borrowers enjoying negative yield debt issuances, the idea of being paid by creditors for the privilege of letting them lend you cash may sound much less shocking than at any other time in history. But the crucial distinction is that only very high-quality sovereigns have been able to enjoy such benefits. Greece has not been considered a quality debtor for a while, indeed having been relentlessly downgraded throughout the bailout period to the status of junk debt. A country like Greece was not supposed to be able to borrow at effectively below-zero costs, and certainly not for long-term debt, yet that is exactly what the bailouts accomplished.

What I want to do here is to simply present the numbers so as to empirically prove what has just been posited above. I just want to confirm that all debt repayments could have been met with bailout funds and estimate how much spare money would have been left over for non-debt spending. There can be an indelibly political side to this exercise, given how many times and how vocally the bailout programs have been accused of disbursing very little, in any, funds for straight fiscal largesse. The conventional accusation proclaims that bailout money didn´t touch the ordinary Greek citizen, rather fully departing towards the pockets of greedy foreign bankers. Well, let´s see what the numbers argue.

Greece has so far received €255 billion from Europe and the IMF, with another €55 billion waiting to be disbursed up to August 2018. When it comes to a lot of relevant variables I could only find data up to 2015 so I will refer to the 2010-2015 period disproportionately. Below we can see how the money (billions €) was disbursed up to year-end 2015 and year-end 2016 and what is expected by August 2018. We clearly detect that the European side of the official sector creditors (represented by the many different and differently-named Euro rescue facilities put in place since 2010) was far larger than the IMF´s (while the European institutions have participated in all three bailouts so far, the IMF only involved itself in the first two programs):



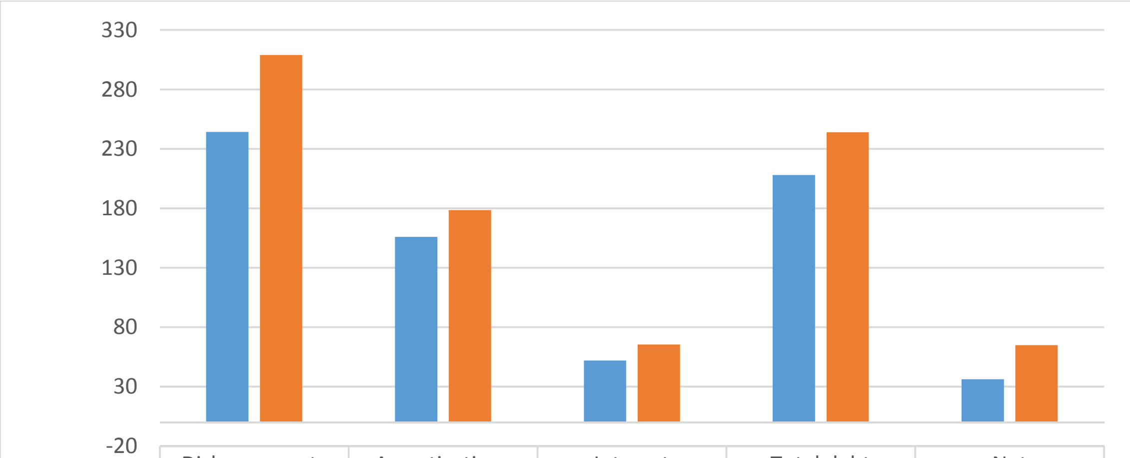




The first thing we want to get out of the way is whether bailout funds would have been enough to repay all Greek government debt obligations during the period. Below we can see funds disbursed and debt obligations (as per official Eurozone and IMF records and data sources[2]) for the May2010-December2015 and May2010-August2018 periods. It´s

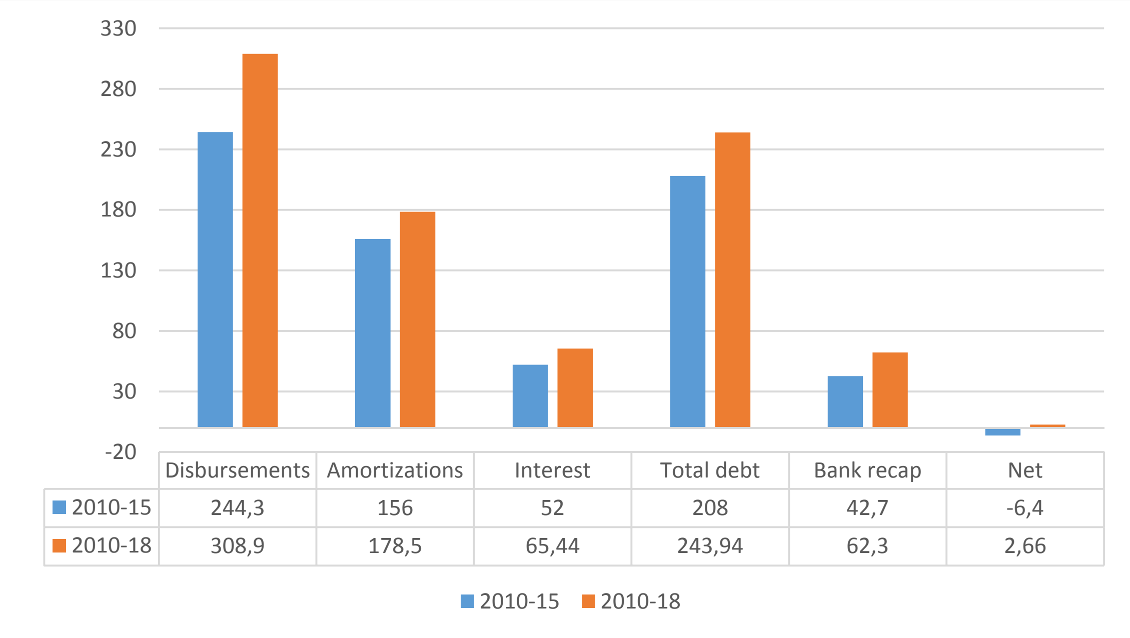
[2] When estimating how much of 2010 bailout money went into interest rate repayments I divide the data for the entire 2010 by half given that the bailout disbursements began in May of that year. A few of the other numbers may also involve some sort of informed estimation.

clear that the rescue loans have been and would be more than capable of dealing with outstanding debt liabilities (including those created by the rescue loans themselves), and there was and would be plenty of cash leftovers:



	Disbursements	Amortizations	Interest	Total debt	Net
2010-15	244,3	156	52	208	36,3
2010-18	308,9	178,5	65,44	243,94	64,96

The really interesting, and really polemic, question is how exactly were the bailout leftovers used? We can see that over €36 billion in actually disbursed loans would have been available for non-debt-related government spending during 2010-15. Where did that money go? Well, one thing we know definitely for sure: funds were allocated to the nationalizations of local banks through capital infusions (whereby the state becomes majority shareholder). And we know the amounts, because the Eurozone-IMF lenders have told us: €37,3 billion in 2013 and €5,4 billion in 2015, with another €20 slated up to August 2018. Were those leftovers and would those leftovers be sufficient to pay for the ever so critical bank recapitalization investments? As we can see below, the answer is essentially affirmative (the small net gaps, positive and negative, could be explained by some data discrepancies or estimation errors on my part; I´ve done my best to draw on official databases and records and to estimate reasonably but my results will not be precisely exact):



	Disbursements	Amortizations	Interest	Total debt	Bank recap	Net
2010-15	244,3	156	52	208	42,7	-6,4
2010-18	308,9	178,5	65,44	243,94	62,3	2,66

Are we to conclude then that after dealing with debt repayments and with bank nationalizations the bailout loans would have had not much space if at all for other types of non-debt-related spending? I mean, giving an insolvent country many tens of billions to make an strategic national investment that prevents the collapse of the domestic banking sector would be in itself extraordinarily valuable from a social point of view (few things could help the populace more than to keep the banks open and their savings protected). But couldn´t the bailouts have contributed too to a government employee salary here or a state pension there, perhaps a subsidy or two?

Well they did, actually. Whether directly through bailout disbursements or indirectly through alternative bailouts-enabled sources, there were billions available to pay for quite a lot of salaries and pensions and social benefits (we know for certain that bailout funds were directly allocated to such types of expenditures, if only because the Eurozone-IMF reports very clearly say so and because Greece run large primary fiscal deficits even in the absence of most of those alternative sources of cash, most notably in 2010 and 2011). The key idea here are those alternative funds were possible only because the bailouts had happened first. Without the bailouts, such extra sources of money would not have materialized themselves. In that sense, this additional cash should be very much counted as bona fide component of the bailouts.

There are several obvious types of bailouts-enabled alternative state funding mechanisms: the transfers from the ECB and Eurozone national central banks of all income generated by their portfolios of Greek government bonds (the so-called “ANFA-SMP profits”, €4 billion up to end-2015 and €7 billion more that could be disbursed up to August 2018); the proceeds from a couple of 2014 bond issues (€5 billion; obviously capital markets would not have gone back to lending to Greece absent the protective bailout mantle); the returns generated by the investment in domestic banks (apparently €10 billion as of year-end 2015; at least €2 billion more would have materialized afterwards); the proceeds from privatizations (€3 billion by year-end 2015, €6 billion more planned; Greece may have privatized anyway but the bailouts made it mandatory); and the issuance of short-term debt (for instance, a jump from €10.9 billion outstanding by end-2009 to €18.2 billion by end-2012, with €14.7 billion outstanding as of end-2015; the ECB agreed to accept this junk-rated paper as collateral for bank funding operations, and thus making it feasible for investors to buy it, as long as Greece was complying with a rescue program). There may have been yet other sources of bailout-enabled funds, but this is what I found[3].

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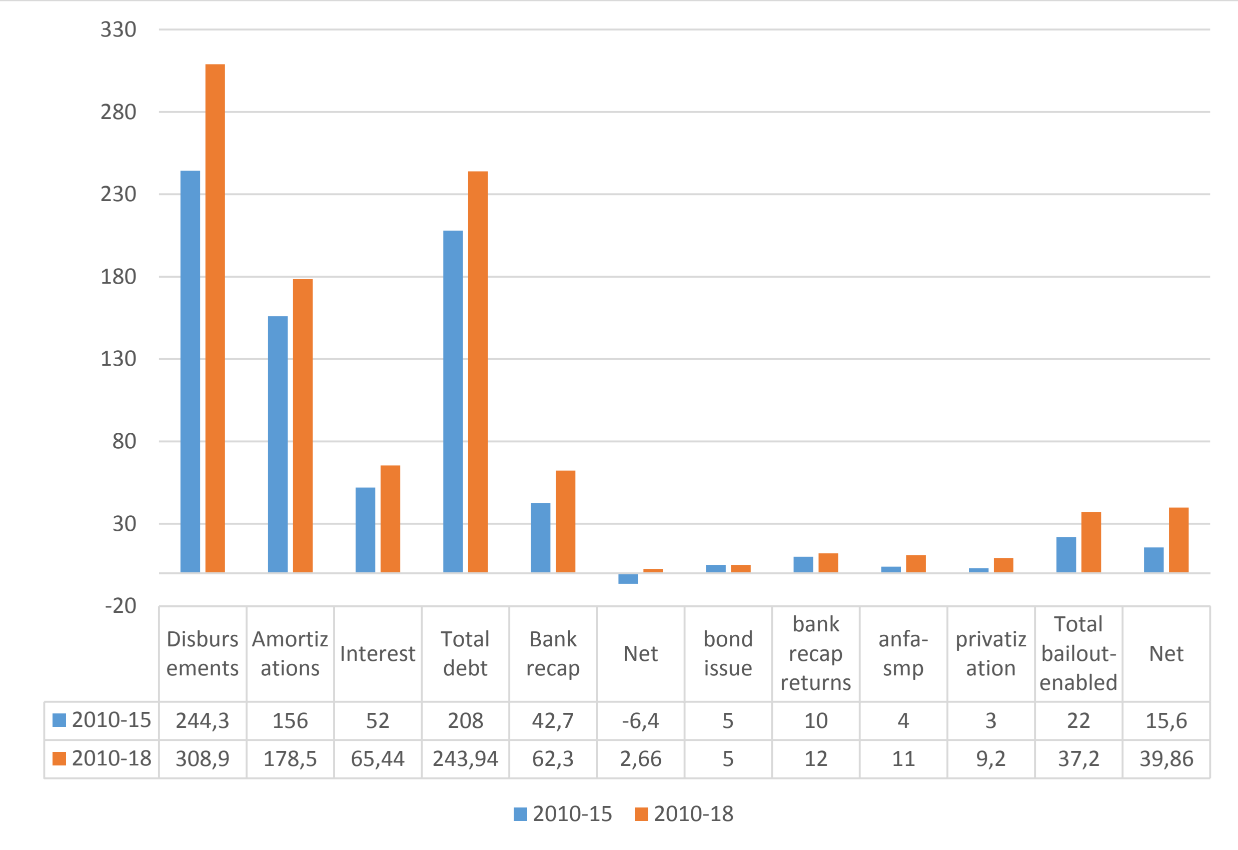
[3] While all would obviously add to total government spending, some of these variables would count as “revenue” in government accounts. Thus, the recorded cumulative €48 billion primary deficit during 2010-15 would not tell us the whole thing about bailout-enabled extra spending, since some of that would also add to the revenue column (thus having a neutral impact on the deficit number). Variables that would have contributed directly to the deficit would be bank nationalizations (net of returns on investment), bond issue, and short-term debt. ECB-central banks transfers and privatization proceeds would have been recorded as revenue.

Once we add these alternative monies to the above results we get an estimate of the funds available for "social" government spending after the debt obligations have been honoured and once the bank investment has been made. See graph below. The true amounts may be larger if I have neglected some additional indirect source of money or missed a portion of the funds originating from the sources identified (for instance, bank recapitalization returns may be trickier to track). I have not included short-term debt (Treasury Bills) because I don´t know what the number will be going forward, but notice that we could for instance assume a €7 billion or so extra net increase in public spending financed via enlarged short-term debt issuance throughout 2010-2012.



	Disbursements	Amortizations	Interest	Total debt	Bank recap	Net	bond issue	bank recap returns	anfa-smp	privatization	Total bailout-enabled	Net
2010-15	244,3	156	52	208	42,7	-6,4	5	10	4	3	22	15,6
2010-18	308,9	178,5	65,44	243,94	62,3	2,66	5	12	11	9,2	37,2	39,86

While these calculations may suffer from some missing data or even missing variables, the indelible empirical bottom line is that thanks to the bailouts Greece has had all her debt service needs covered (meaning medium-and-long-term debt; short-term debt is assumed to have been generally rolled over and refinanced in the market), plus received the gift of a big chunk of shares in the local banks, plus been able to pay for quite a lot of state social benefits. And this should only get much better provided that the country continues to abide by the current rescue program. Not bad considering that the alternative to the bailouts was Greece servicing its massive debt entirely by herself, rescuing the domestic banks all by herself, and paying for a huge fiscal deficit all by herself, and all that in the midst of a severe economic collapse (with almost all probability, the end result would have been a massive sovereign default, the total bankruptcy of the banks, an instant collapse in social spending, and exit from the Eurozone).

It would not be exact to say that Greece had no other funding sources during the bailout years. For instance, the government reportedly has since 2014 had to revert to the desperate measure of borrowing (through very short-term repos) from a myriad of state entities. By mid-2015 the stock of repo operations stood at close to €10 billion (a limited amount of bailout money was to be used to unwind a portion of these inter-governmental liabilities). The large primary fiscal deficit experienced in 2015 would purportedly have been financed largely through such short-term debt (while the even larger overspending of the 2010-2013 years would have been paid through direct bailout disbursements and issuance of regular short-term debt securities). But even if Greece found some bailout-independent cash, the main point remains: the bailouts paid for all the debt plus nationalized the banks plus paid a lot of social stuff.

In all, during 2010-15 the total amount of bailout-and-bailout-enabled money that reached Greece would be around €266 billion, with some €208 billion allocated to debt-repayment and some €58 billion devoted to non-debt spending (this amounts would be underestimated by not taking short-term debt securities into account; the €48 billion accumulated primary deficit during the period was most probably financed in part with enlarged issuances of such debt, as explained earlier). If all goes well, by August 2018 the total numbers will be around €346 billion and €102 billion respectively. While these last figures may fall victim to the vicissitudes of forward projections (what if privatization proceeds fall short, for instance), it is nonetheless quite remarkable that under very reasonable, and possibly subdued, estimates the amount of non-debt-related public spending allowed by the bailouts would have reached the €100 billion mark. This would naturally fly in the face of all those complaints as to the money having been exclusively allocated to foreign financiers (in fact, given that a very significant and increasing proportion of Greece´s creditors were and are Greek themselves, a lot of the debt-related spending has also been going straight into Greek pockets).

The Eurozone and the IMF have gifted Greece with an incredibly unique opportunity since it lost capital markets access and the economy collapsed: the chance to spend almost a whole decade living as if debt-free and thus able to devote all government revenues and resources to non-debt-related "social" activities, while in tandem being handed ownership of the local banks and a big pile of extra unencumbered cash. It is hard to think of more favourable circumstances under which to heal thyself and get ready to live like a normal country (and not a ward of other countries) once more. It seems very difficult to conceive of a better springboard for Greece to put the house in order, leaving behind the deleterious practices of the past. Greece needed to learn a hard lesson, and thanks to the bailouts it hasn´t had to do it in a harsh way. Greece has been amply and improbably cushioned by the friendly bailouts. Will Greece fully seize the opportunity? The first step in that direction would be to admit, loud and clear, how incredibly supportive the bailouts have been and promise to continue to be.