Press Release

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ESMT Berlin study: How Greek bailout money has been spent and the political implications

New research by Prof. Jörg Rocholl, President of ESMT Berlin, and Axel Stahmer, ESMT Berlin, analyses the actual amounts provided to the Greek government in the three bailout programs since 2010. Using solid data, the researchers decipher where the money came from and where it went. They find that most of the billions provided by the various EU stability programs and the IMF were used to repay existing debt, and they derive five political implications for future Greek financing decisions. Contrary to widely held beliefs, after interest, debt repayments, costs for bank recapitalization and debt restructuring less than €10 billion or a fraction of less than 5% of the first two programs went to the Greek fiscal budget.

Five political implications

1. **Constitutional, organizational, and political measures in Greece have to be in force so that a grand mismanagement of public funds cannot and will not happen again.** The root cause of the crisis is the inability of the Greek state to properly manage its public budget. Strong inefficiencies in the public sector including overemployment, tax evasion, lack of registries for real estate, and resulting uncertainty for investors have led to Greece being correctly viewed as a failed state according to many dimensions.
2. **Real structural reforms are needed.** Greek primary budget deficits were reduced significantly between 2009 and 2012. Structural, and thus non-fiscal, reforms significantly lag behind. Some prominent examples comprise a) the still unresolved lack of public registries for land and real estate, b) the only slowly developing process of privatizations, and c) an inefficient bankruptcy law that prevents banks from cleaning their balance sheets from non-performing loans and moving on.
3. **Removing regulatory privileges for government debt is important to loosen the widely cited nexus between banks and states and make the financial system more resilient.** The willingness of investors to finance absurdly high primary budget deficits over many years and to help accumulate a public debt level of €330 billion or 146% of GDP in Greece by 2010 has grave implications for banking regulation. Regulators must quickly and comprehensively adjust the standards for lending to governments to those for lending to other institutions, in particular private companies.
4. **The lack of a haircut and the subsequent bailout packages led to the transfer of risk from private to public creditors. In general, early creditor losses are important to achieve a significant reduction of government debt, before any fresh funds should be put at risk.** There were reasonable and unreasonable arguments not to conduct a haircut in Greek government debt in April 2010. The unreasonable arguments deal with the fear of major losses in particular in German and French banks as major investors in Greek government debt, and the resulting necessity of a recapitalization in these banks.
5. **A debt haircut is not an option at this point in time.** The question of debt sustainability is currently subject to major debates between the Greek government, the IMF, and the European partner countries. The Greek government points out that the current sovereign debt level is unsustainable and concludes that another debt restructuring would be already be necessary now, while the other side argues that a significant restructuring of existing debt has already taken place in the form of a lengthening of debt maturities and a reduction of interest rates. New trust has to be built.

Link to study: https://www.esmt.org/where-did-greek-bailout-money-go

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