

Its leading political parties survive thanks to expensive bank loans – but can no longer afford them

Greece's other debt problem

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LOAN FIGURE: Antonis Samaras, the Greek prime minister, leads New Democracy, a party that is deep in debt. **REUTERS/**
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The two main political parties in Greece are facing their own financial crisis. New Democracy and Pasok, the key members of the country's coalition government, are close to being overwhelmed by debts of more than 200 million euros, say rivals, as the big parties head for a slump in state funding because of falling public support.

In Greece's state-financed political system, parties that receive more votes get more funding. Relying on

past good results, the big political parties have pledged future state funding as collateral for bank loans. But in the most recent poll their support collapsed, leaving them with big loans and facing much smaller incomes.

Banking sources familiar with the issue say that conservative New Democracy and socialist Pasok now owe a combined 232 million euros to Greek banks. Some of the loans are going unpaid, those sources say. The debts far exceed the combined 37 million euros the parties received in state funding last year - a figure set to decline.

The parties' debts raise questions about potential conflicts of interest because the government is in hock to a financial system that it also needs to reform. Athens is already struggling to implement spending cuts and reforms demanded by the European Union, International Monetary Fund (IMF) and European Central Bank (ECB) in return for the 130 billion euro bailout keeping Greece afloat. On Wednesday unions called a nationwide strike protesting against austerity.

Leandros Rakitzis, Greece's independent inspector-general of public administration, believes the financial crunch the two big parties face is proof that Greece's political funding system is flawed. "This is all about the exchange of favours," he said. "These parties cannot pay the debt so it's a vicious circle in which they come to depend on the banks. It creates an interdependence of politicians and banks."

The loan pressures will intensify early next year when state funding is recalculated to reflect declines in the parties' support. At present, funding is still based on the proportion of votes each party won in the June 2009 election. But in January funding will change to reflect votes cast in June 2012.

At that election Pasok saw its share of the vote plunge from 43 percent to 12 percent, while New Democracy's share fell from 33 percent to 29 percent. The big winner was leftist Syriza, which opposed the bailout terms. Its share of the vote shot up to 27 percent from 4.6 percent in 2009, and it now stands to receive significantly more funding.

Costas Tsimaras, the general manager of New Democracy, the biggest party in the Greek parliament, told Reuters the bulk of its bank loans were currently being paid on time, but "a small proportion of the loans may have become late, non-performing."

For the parties to keep on top of the loans, he said, they should be restructured.

"It will be very difficult for the parties to pay back the debt if there is no arrangement. Down the road, a political decision



AUSTERITY BACKLASH: As voters rebel against spending cuts, the main political parties face lower state funding in future. **REUTERS/YIORGOS KARAHALIS**

65m

Amount in euros the Greek state spent in 2010 on political parties for its 11m population

Source: Forologoumenos

needs to be made to give parties the capacity to service their liabilities, some type of settlement on these loans."

Pasok did not respond to requests for comment.

STATE HANDOUTS

Like many European countries, Greece provides some public funding for political parties and their election campaigns: last year the state handed out a total of 54 million euros.

Each year parties receive tax-free funding equal to 0.102 percent of annual state

revenue, plus another 0.01 percent for "research and education" purposes. When national or European parliamentary elections take place an extra 0.022 percent of annual state revenue is handed out.

Private companies, owners of media and foreign nationals are banned from funding parties. Individuals giving more than 600 euros have to be identified and are allowed to give only up to 15,000 euros a year, though it is unclear how well these rules are enforced.

The lion's share of the state funding pie, 80 percent, is divided between parties that win seats in parliament, each one receiving amounts proportional to the votes they score. That funding does not include the cost of MPs salaries and other parliamentary expenses, which are paid separately.

Greece is among the most generous of EU countries to political parties. It provided an average of 6.5 euros per registered voter per year between 2007 and 2011 - the fourth highest funding in the EU after Luxembourg, Cyprus and Finland, according to

Forologoumenos, a Greek taxpayer association that tracks state spending on politics.

By another measure, Greece hands out three times the amount spent by Germany on political parties. Per valid vote cast, Athens spends an average 9.4 euros versus Germany's 3.1 euros, says Forologoumenos.

In 2011 New Democracy, led by Antonis Samaras, received 16.9 million euros and Pasok, now led by Evangelos Venizelos, 21.7 million. That state funding accounted for about 75 percent of New Democracy's income, the party said, though the proportion fluctuates from year to year. Pasok did not comment on how much it depends on public funds.

In 2010, when Greece's debt crisis exploded and forced Athens to seek a bailout, the country spent a total of 65 million euros on funding parties in a country of 11 million people. Germany, with a population more than seven times larger, limits state funding of political parties to 150 million euros.

For German lawmaker Klaus-Peter Willsch, the generous state funding in Greece is emblematic of the country's financial malaise. "This self-serving mentality will not come to an end as long as Greece is funded by the solvent states in the euro zone," he said. "The fact that Greek parties get three times as much funding per vote as in Germany is part of the problem."

Willsch, a member of Angela Merkel's Christian Democrats who sits on the Bundestag's powerful budget committee, voted against the Greek bailouts.

MIND THE GAP

Even with state funding, Greek parties have had to borrow to fill the shortfall between their revenue and expenditure.

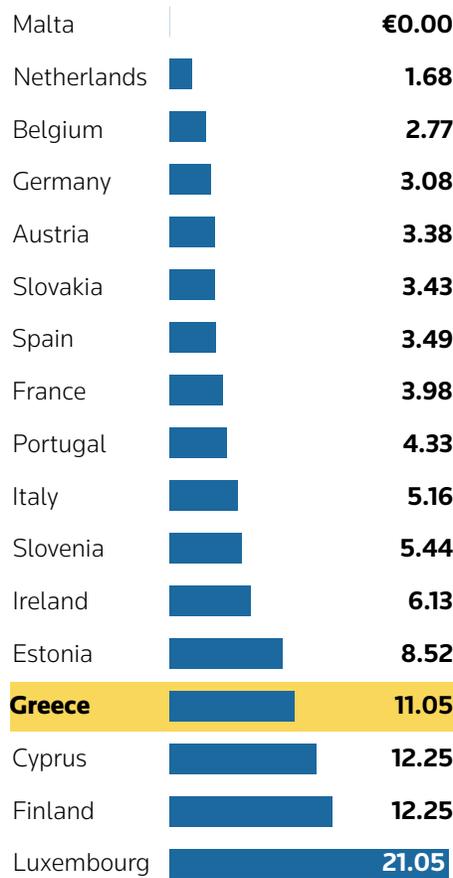
The main lender has been state-owned ATE Bank. By this year New Democracy owed ATE 105 million euros and Pasok owed ATE 96 million, according to banking sources. A senior source in the Greek parliament confirmed these amounts to Reuters.

Separately, Piraeus Bank, the country's

Paying for the politicians

Average annual state funding of political parties in the eurozone

Euros per valid vote cast



Source: Forologoumenos

fourth largest, lent New Democracy 15 million euros and Pasok 6.5 million euros. Three other banks made small loans to the parties. A banker familiar with the matter told Reuters that some of the loans "are non-performing, they are past due more than 90 days".

Piraeus denies any problem. "Piraeus Bank's loans to political parties are a small percentage of the total [bank lending to political parties]. They were given against

guarantees of state funding. The loans are performing," said a Piraeus spokesman.

In late July, ATE had to be rescued from collapse, with parts of the bank, including the political loans, being taken over by rival Piraeus Bank. At the time the political loans were performing, said a source at ATE and a senior government official.

Piraeus has filed a lawsuit against Reuters, claiming 50 million euros in damages after Reuters published a report about a series of property deals between the bank and companies run by the family of its executive chairman. Reuters stands by the accuracy of its reports.

A banker with knowledge of the political loans said limits should be set "on the percentage of state funding that can be accepted as collateral and for how many years in the future. Otherwise, one would have to be a Houdini to know for sure what amount of state funds a party will be entitled to far out in the future, 10 years down the road."

For the parties, some pressures are already evident. One former staff member of Pasok, who asked not to be named, said that payments to party workers had been irregular since September last year.

New Democracy said its staff were paid on time. "We do not owe a single euro to anyone on the payroll," said general manager Tsimaras. However, he added: "Our bills to suppliers do face some delays."

A Pasok staff member said party funding had sometimes been spent poorly. In 2009, for instance, the party built a fully-equipped gym at its new headquarters and employed a personal trainer. "It is now a smaller party and costs have to be reined in," said the party staffer.

Pasok did not respond to requests for comment.

RISING ANGER

Greece is now in its fifth year of recession and is struggling to meet fiscal targets set by its euro zone partners and the IMF. The gap between government spending and revenues is projected at 7.3 percent this



POLL PLUNGE: Evangelos Venizelos, leader of Pasok, saw his party slump to 12 percent support at the last election. It will mean much lower state income to pay for the party's hefty bank loans. **REUTERS/YIORGOS KARAHALIS**

year, based on IMF estimates. The country's accumulated debt stands at 332 billion euros, equal to 163 percent of GDP.

Greek Prime Minister Antonis Samaras asked in August to be given a "breathing space" by the EU and IMF, which are pressing for more public spending cuts. At the same time, critics say the political system itself should tighten its belt.

"State funding to political parties must be adjusted to what the Greek economy can afford and not be far off from the corresponding average in the European Union," said Yannis Sarris, the general manager of small party Dimiourgia Xana, which calls itself the 'common sense' party.

Others say it is politically unacceptable for parties to be propped up with bank loans when many businesses are unable to obtain credit even against sound collateral. The small Democratic Alliance party (which folded into New Democracy at the June election) has previously called for a 50 percent cut in state funding to parties.

"On the one hand we have a country on the brink of bankruptcy, a suffering society, victim of an unprecedented tax onslaught,"

Democratic Alliance deputy Christos Markoyannakis told parliament in December last year. "On the other, we face the absolute provocation by those bearing the biggest share of responsibility for the country's crisis. As long as the cash flows into party coffers, all is fine and dandy."

The Group of States against Corruption (GRECO), a body set up by the Council of Europe, has also levelled serious criticisms at the way Greece funds its politics.

It has urged Athens to improve transparency of party funding, to strengthen controls over small donations for fear that rich donors could abuse the system, and to ensure that loans are repaid under their original terms – otherwise they risk becoming de facto donations.

The group concluded: "There is in Greece a general public mistrust of the system of political financing and supervision, which may be attributed to an overall inefficient and opaque system of supervision, in which political parties are both judge and jury.

"This system has failed, under current law, to uncover and sanction any – even minor – infringement of the rules on political financing."

So far, none of GRECO's 16 recommendations have been implemented, the organisation says.

The omens for reform are not encouraging. Last year Nikos Alivizatos, a constitutional lawyer, helped draft a new law to correct shortcomings of the current system, including barring banks from lending to political parties. The legislation was shelved because the two main parties were keen to maintain the status quo, say political observers.

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