The Tourniquet of Central Bank Liquidity

Not just Greek banks but all banks are reliant on central bank liquidity, because they are all technically insolvent. They all lend money they don't have. They rely on being able to borrow from other banks, the money market, or the central bank as needed to balance their books. The central bank (which has the power to print money) is the ultimate backstop in this sleight of hand. If that source of liquidity dries up, the banks go down.

In the Eurozone, the national central banks of member countries have relinquished this critical credit power to the European Central Bank. And the ECB, like the US Federal Reserve, marches to the drums of large international banks rather than to the democratic will of the people.

Lest there be any doubt, let's review Goldman's December memo to the Greek Parliament, reprinted on Zerohedge. Titled "From GRecovery to GRelapse," it warned:

> [H]erein lies the main risk for Greece. The economy needs the only lender of last resort to the banking system to maintain ample provision of liquidity. And this is not just because banks may require resources to help reduce future refinancing risks for the sovereign. But also because banks are already reliant on government issued or government guaranteed securities to maintain the current levels of liquidity constant.
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> In the event of a severe Greek government clash with international lenders, interruption of liquidity provision to Greek banks by the ECB could potentially even lead to a Cyprus-style prolonged "bank holiday". And market fears for potential Euro-exit risks could rise at that point. [Emphasis added.]

Why would the ECB have to "interrupt liquidity provision" just because of a "clash with international lenders"? As Mark Weisbrot observed, the move was completely unnecessary. The central bank can flick the credit switch on or off at its whim. Any country that resists going along with the troika's austerity program may find that its banks have been cut off from this critical liquidity, because the government and the banks are no longer considered "good credit risks." And that damning judgment becomes a self-fulfilling prophecy, as is happening in Greece.

"The Icing on the Cake"

Adding insult to injury, the ballooning Greek debt was incurred to save the very international banks to which it is now largely owed. Worse, those banks bought the debt with cheap loans from the ECB! Pepe Escobar writes:

> The troika sold Greece an economic racket . . . . Essentially, Greece's public debt went from private to public hands when the ECB and the IMF 'rescued' private (German, French, Spanish) banks. The debt, of course, ballooned. The troika intervened, not to save Greece, but to save private banking.

The ECB bought public debt from private banks for a fortune, because the ECB could not buy public debt directly from the Greek state. The icing on this layer cake is that private banks had found the cash to buy Greece's public debt exactly from...the ECB, profiting from ultra-friendly interest rates. This is outright theft. And it's the thieves that have been setting the rules of the game all along.

That brings us back to the role of Goldman Sachs (dubbed by Matt Taibbi the "Vampire Squid"), which "helped" Greece get into the Eurozone through a highly questionable derivative scheme involving a currency swap that used artificially high exchange rates to conceal Greek debt.

Goldman then turned around and hedged its bets by shorting Greek debt.

Predictably, these derivative bets went very wrong for the less sophisticated of the two players. A €2.8 billion loan to Greece in 2001 became a €5.1 billion debt by 2005.

Despite this debt burden, in 2006 Greece remained within the ECB's 3% budget deficit guidelines. It got into serious trouble only after the 2008 banking crisis. In late 2009, Goldman joined in bearish bets on Greek debt launched by heavyweight hedge funds to put selling pressure on the euro, forcing Greece into the bailout and austerity measures that have since destroyed its economy.