SPIEGEL ONLINE
02/07/2012 08:42 AM

Debt Crisis Myth

Why Germany Isn't Benefiting from Euro's Woes

By Sven Böll

There is a widespread belief that Germany is the big winner of the euro crisis, as investors stash their money in the euro zone's last safe haven, driving interest rates on German bonds down to record lows. But the idea is just a myth. Indeed, the crisis could end up costing Berlin dearly.

Italian Prime Minister Mario Monti is a thoroughly levelheaded man who feels a close affinity to Germany's famous stability culture when it comes to economic policies. Nevertheless, he has had nothing good to say about Berlin in the last few weeks. That's partly because he sees German Finance Minister Wolfgang Schäuble as a secret beneficiary of the euro crisis. Germany, says Monti, benefits more from the euro than others.

Even German experts are convinced that Germany is profiting as a result of the currency crisis, while others are the losers. Because the country is seen as a safe haven on the crisis-plagued continent, investors are currently pouring billions into Germany. This is pushing down interest rates on government bonds to historic lows. "Germany is currently living at the expense of the other euro-zone countries," says Theodor Weimer, head of the board of the HypoVereinsbank bank. According to calculations performed by the Cologne Institute for Economic Research (IW), which is closely aligned with employers, the low bond rates will translate into savings of €45 billion ($59 billion) in the medium term for the German Finance Ministry.

As a result, the German government is under growing pressure to contribute even more money to efforts to rescue the euro. Germany, critics argue, cannot benefit from the crisis and be miserly at the same time.

'Germany Is a Clear Loser'

This supposedly logical argument is currently widespread throughout Europe. But there is just one problem: It's a myth. Any examination of how the euro crisis affects German government finances quickly reveals that the costs far outweigh the benefits. "Others might be more hard-hit, but Germany is a clear loser in the debt crisis," says Clemens Fuest, an Oxford University-based economist who will be the future head of the Center for European Economic Research (ZEW).

There are two main reasons for this. First, no other country has taken on such substantial obligations as Germany to stabilize the common currency. Second, the financial benefits resulting from the crisis are smaller than some believe.

The German Finance Ministry feels that the IW's figures are questionable. The IW projections, say officials in Berlin, are based on an analysis of the current situation. But reliable estimates about the long-term effects of interest rates cannot be derived from such figures, they point out, adding that it is only possible to calculate credible data about the benefits enjoyed to date. On that basis, the cumulative financial benefit since 2009 amounts to only a few billion euros.

This profit is offset by foreseeable losses and potential risks. The countries in the monetary union have already lent insolvent Greece more than €50 billion, with the largest share -- €15 billion -- of these bilateral loans coming from Germany. Only the most inveterate optimists still believe that Germany will ever be paid back in full.

Risk of Billions in Losses

Greece is so hopelessly indebted that the haircut by private-sector investors will not save the country. There is a growing realization that donor countries will also have to participate in the debt relief sooner or later. In the event of a 50-percent haircut, the German Finance Ministry would chalk up close to €8 billion in losses, which would more than eat up the interest-related gains of recent years.

And this would not even be the full extent of losses. The European Central Bank (ECB) is also under substantial pressure to write off a portion of Athens' debts. If this happens, Germany, as one of the principal owners of the ECB, would end up having to offset the resulting deficits. In the worst case, those costs could also run into the billions.

Greece represents the most obvious risk to the German federal budget, but not the only one. There is also the temporary euro backstop fund, the European Financial Stability Facility (EFSF). Germany also guarantees €211 billion of the more than €700 billion in the EFSF.

Portugal alone is receiving close to €30 billion directly from the bailout fund. And in recent days, the country has found itself in the markets' crosshairs more than ever. Many economists feel that a restructuring of Portugal's debt is inevitable. That, too, could lead to further losses for Schäuble.

Expected to Pony Up

The permanent bailout fund, the European Stability Mechanism (ESM), is expected to begin its work in July. In addition to being equipped with guarantees, the ESM also holds €80 billion in cash contributions. In other words, real money is changing hands, with about €22 billion of it coming from Germany alone.

Originally, the ESM contributions were to be paid in five installments. But given that the debt crisis is still unresolved, it is becoming clear that euro-zone members will have to pony up more money earlier. In the worst case, it is even conceivable that Germany might be required to contribute its full share of the fund's capital as early as 2012.

But the German finance minister cannot simply draw on his current budget to pay the multi-billion euro sum. Instead, he will have to petition for a supplementary budget and take on additional debt to rescue Europe. Even at today's very low interest rates, the ESM cash contribution could cost him as much as a few hundred million euros a year -- and that would be for the long term.

Given all of these burdens, the German finance minister is already far from being one of the winners of the crisis. And soon he could become a major loser of the debt disaster. "If Germany ultimately emerges from the crisis in the black," says euro expert Clemens Fuest, "it would be a great miracle."

Translated from the German by Christopher Sultan

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