

22 February 2010

How much will a Greek bailout cost EU-taxpayers?

By Jesper Katz¹

This weekend Der Spiegel Online and several other papers reported that the EU is preparing a concrete plan for bailing out Greece.² The reports³ state that a package of between €20 and €25 billion will be put up by members of the eurozone in the form of loans and guarantees. The exact amount to be made available to Greece will be in proportion to each country's share in the European Central Bank.

If these reports are correct – the German Finance Ministry has issued an unconvincing denial⁴ – there are details suggesting that also non-eurozone member states could take part in a bailout.

Germany's share of the ECB is 18.93 percent (when counting both eurozone and non-eurozone members) but if the loans and guarantees were to come only from the eurozone states, Germany would be required to contribute between €5.5 and €6.9 billion. However, according to the reports, Germany's share of the bailout will only be between €4 billion and €5 billion. What is the reason for this discrepancy?

One explanation could be that non-eurozone countries will also be required to come to Greece's aid. These countries hold a 30-percent share in the ECB which would make up for the discrepancy.

If assuming that non-eurozone states will also contribute to a bailout of Greece, the German share would indeed be between €4 and €5 billion. Consequently, since Britain owns 14.51 percent of ECB stocks, its proportion of the loans and guarantees extended to Greece would be between €2.9 and €3.7 billion.

Below we look at three scenarios of how the cost of a Greek bailout of €20-25 billion could be divided between EU member states. In the first scenario all countries contribute according to their share of the ECB. In the second scenario we look at how much the cost increases for the eurozone countries if a rescue operation involved only them. Finally, we consider a scenario in which the bailout cost is divided between the states in proportion to what they pay in capital to the ECB.

¹ Jesper Katz is a Swedish political consultant who works for political parties, interest groups and firms across Europe. Open Europe has cooperated with him on a number of different projects.

² <http://www.spiegel.de/wirtschaft/unternehmen/0,1518,679222,00.html>

³ <http://www.reuters.com/article/idUSLDE61J05O20100220?type=marketsNews>,
<http://news.bbc.co.uk/2/low/europe/8526736.stm>

⁴ <http://www.bloomberg.com/apps/news?pid=20601085&sid=a6gNDQN72GD4>

Before we go on to the scenarios, we'll first look at how the ECB is 'owned' by the EU's member states.

National share of the ECB

The ECB is owned by the national central banks of all EU member states, and the capital of the ECB therefore comes from the central banks of the member states. If all countries choose to become part of the euro area the capital will amount to about €5,760,000,000. Each national central banks' share in this capital is calculated using a key, which reflects the country's respective share in the total population and gross domestic product of the EU – in equal weightings.⁵ This is called the "capital key" and gives a percentage weight to each member state (see column 2 in table 1 below).

The countries that are members of the eurozone pay the full amount of capital, based on this capital key. The sum paid in by national central banks in the eurozone area amounts to about €4 billion (see column 3 of table 1 below for the break down of the percentage of each country).

However, the EU's 11 non-eurozone national central banks are also required to pay part of the capital of the ECB. This capital is used to pay part of the costs of operating the ECB. The reason is that non-eurozone countries also participate in the European Central Bank System (ECBS), although naturally these countries pay a 'discounted' rate, reflecting that they're only part of the ECBS and not the eurozone proper. In total the non-eurozone countries have capital amounting to a total of approximately €121 million (see column 3 of table 1 below for the break down for each country).

National central banks			
<i>Eurozone</i>	<i>Capital Key %</i>	<i>Paid-up capital (€)</i>	<i>Paid-up capital %</i>
Banque Nationale de Belgique	2.4256	139,730,384.68	3.3733
Deutsche Bundesbank	18.9373	1,090,912,027.43	26.3362
Central Bank of Ireland	1.1107	63,983,566.24	1.5447
Bank of Greece	1.9649	113,191,059.06	2.7326
Banco de España	8.304	478,364,575.51	11.5484
Banque de France	14.2212	819,233,899.48	19.7775
Banca d'Italia	12.4966	719,885,688.14	17.3791
Central Bank of Cyprus	0.1369	7,886,333.14	0.1904
Banque centrale du Luxembourg	0.1747	10,063,859.75	0.2430
Central Bank of Malta	0.0632	3,640,732.32	0.0879
De Nederlandsche Bank	3.9882	229,746,339.12	5.5464
Oesterreichische Nationalbank	1.9417	111,854,587.70	2.7003
Banco de Portugal	1.7504	100,834,459.65	2.4343
Banka Slovenije	0.3288	18,941,025.10	0.4573
Národná banka Slovenska	0.6934	39,944,363.76	0.9643
Suomen Pankki - Finlands Bank	1.2539	72,232,820.48	1.7438
Subtotal	69.7915	4,020,445,721.56	97.0592
<i>Non-Eurozone</i>			
Bulgarian National Bank	0.8686	3,502,591.87	0.0846
Česká národní banka	1.4472	5,835,771.31	0.1409
Danmarks Nationalbank	1.4835	5,982,149.49	0.1444
Eesti Pank	0.179	721,809.75	0.0174
Latvijas Banka	0.2837	1,144,007.96	0.0276
Lietuvos bankas	0.4256	1,716,213.56	0.0414
Magyar Nemzeti Bank	1.3856	5,587,371.98	0.1349
Narodowy Bank Polski	4.8954	19,740,488.44	0.4766
Banca Națională a României	2.4645	9,937,989.49	0.2399
Sveriges Riksbank	2.2582	9,106,093.68	0.2198
Bank of England	14.5172	58,539,980.14	1.4132
Subtotal	30.2085	121,814,467.67	2.9408
Total	100	4,142,260,189.23	100

Table 1: National central banks share in ECB and proportion of paid-up capital.

⁵ See <http://www.ecb.int/ecb/orga/capital/html/index.en.html>

Three scenarios

There are at least three ways to divide the cost of a Greek bailout between the EU's member states, if using the ownership and capital of the ECB as indicator. In scenario A each country's share is calculated according to their share of the ECB, i.e. we use the *capital key*. In scenario B we use the same capital key, but only the eurozone countries are counted. The responsibility of each country is raised by dividing it with the total share of eurozone countries (69.79 percent). Calculating it this way would increase the cost of a rescue operation by about 43 percent for eurozone countries, relative to A. Finally, in scenario C the cost of a bailout is divided between the states, based on the amount of capital each member state has paid into the ECB. We use the percentage of paid-up capital from table 1. The results are presented below.

Country	Senario A ³		Senario B ⁴		Senario C ⁵	
	Min ¹	Max ²	Min ¹	Max ²	Min ¹	Max ²
Eurozone						
Belgium	495	618	709	886	693	866
Germany	3862	4827	5533	6917	5411	6764
Ireland	227	283	325	406	317	397
Greece	-	-	-	-	-	-
Spain	1693	2117	2426	3033	2373	2966
France	2900	3625	4155	5194	4064	5079
Italy	2548	3186	3651	4564	3571	4463
Cyprus	28	35	40	50	39	49
Luxembourg	36	45	51	64	50	62
Malta	13	16	18	23	18	23
Holland	813	1017	1165	1457	1140	1424
Austria	396	495	567	709	555	694
Portugal	357	446	511	639	500	625
Slovinia	67	84	96	120	94	117
Slovakia	141	177	203	253	198	248
Finland	256	320	366	458	358	448
Non-Eurozone						
Bulgaria	177	221	-	-	17	22
Czech Republic	295	369	-	-	29	36
Denmark	303	378	-	-	30	37
Estonia	37	46	-	-	4	4
Latvia	58	72	-	-	6	7
Lituania	87	108	-	-	9	11
Hungary	283	353	-	-	28	35
Pland	998	1248	-	-	98	122
Romania	503	628	-	-	49	62
Sweden	461	576	-	-	45	56
Britain	2960	3701	-	-	290	363

All amounts are in millions of Euro.

Table 2: Cost under different scenarios

¹ Under an assumption of a € 20.000 milion bail-out.

² Under an assumption of a € 25.000 milion bail-out.

³ Assumption of burdensharing between all EU countries in proportion to ECB capital key.

⁴ Assumption of burdensharing between all Eurozone contries in proportion to ECB capital key.

⁵ Assumption of burdon sharing between all EU countries in proportion of paid in capital to the ECB.