Articles / Aufsätze

Greece returns to the bond market: Back on track – a successful comeback?

Marcus Pahl

Technical University of Applied Sciences, Wildau, Germany

Abstract. *For four long years and reasons well known, Greece was absent from the international bond market. Its reputation as a debtor destroyed, the little Eurozone member country was unable to finance itself like all modern states do: by selling bonds to international investors. Greece had to live off hand-outs from foreign governments and behind the shield of the European Central Bank. In the spring of 2014, however, Greece regained access to the bond markets – surprising in itself, but particularly because investor demand soared and Greece could have placed many more bonds than it did. This article analyses the causes and dynamics of this odd Odyssey. Based on document, media, and financial data reviews and expert interviewing, it evaluates the comeback of Greece and provides a brief outlook concerning the future of the country's strategic position on the financial market. The author concludes that while Greece staged a successful comeback which was partly symbolic and theatrical, it is not yet back on track as a normal nation with mainstream public debt financing.*

Keywords: austerity, bond markets, European elections, European periphery, Eurozone crisis, fiscal policy, GIIPS, Greece, haircut, public debt, sovereign debt crisis

Author: Marcus Pahl is a student in the M.A. European Management program at Technical University of Applied Sciences, Wildau. Currently he is an Erasmus scholar at Université des Sciences et Technologies de Lille (Lille I), France.

Introduction

“If you would know the value of money, go try to borrow some; for he that goes a-borrowing goes a-sorrowing.”

—Benjamin Franklin in Poor Richard's Almanac (1732)

It is becoming increasingly difficult to ignore the continuously rising sovereign debt of the Member States of the European Union (EU) – particularly those situated at the Eurozone's periphery, the “GIIPS” group of countries (Greece, Italy, Ireland, Portugal, and Spain). Since 2009, a key discussion in the field of European economic policy concerns the sovereign debt crisis, as a part of the Eurozone crisis. Greece's severe sovereign debt crisis has been front and center of such

conversation. The country faced the collapse of financial institutions, high government debt and rapidly rising bond yield spreads in government securities (Investopedia.com, 2014).

Although Greece is a relatively modest economy, the land of ancient myths and legends became a central issue for the Eurozone. The situation worsened after its international bailout in 2010 and became a tragedy. Greece was eventually forced to leave the bond markets due to practically non-existent demand and a change of course from expansive economics to strict austerity policies (Alonso, 2014, p. 1). Rapid, even brutal changes had enormous effects on the Eurozone, Greece and its citizens. Policy debates polarized not only experts but sparked highly emotional controversies. For four years, good news was scarce and prospects of hope that Greece might return to conventional public debt financing were dim.

But then, the Greeks surprised the world. On the 14 April 2014, Greece managed to regain access to the bond markets by issuing its first long-term bond since its first international bailout in 2010. The five-year bond, equipped with a coupon of 4.75 percent and a yield of 4.95 percent was issued to an issue volume of 3 billion euros. Bids of approximately 550 investors returned to Athens a magnificent amount of more than 20 billion euros (Stamouli, 2014). The striking news of an eight-times oversubscribed comeback at the bond markets dominated the media that day.

This article analyses this quite spectacular re-entry of Greece at the bond markets. In order to get a clear view over the issues, this article has been organized in the following way. The first section aims to provide a brief flashback, considering crucial factors that ultimately led to Greece's absence at the bond markets since 2010. Section two begins by laying out the retrospective and prospective reasons for the comeback in order to answer the question how Greece succeeded regaining access to the bond markets after four years of absence and why the comeback was completed in 2014. Furthermore, it will be investigated why the bond generated such a great demand. The third section deals with the evaluation of the comeback. It renders a judgment whether the emission can be considered as successful and whether it is sustainable and repeatable. The last section assesses the facts for a speculative outlook. It aims to answer the question what will happen after the comeback and whether Greece is really “back on track” to conventional financing after its comeback. In practical terms, the answer will indicate whether Greece will require the planned third EU bailout package. The conclusion offers a justified opinion that Greece is not yet “back on track.”

Flashback: Losing Bond Market Access

Accession to the Eurozone in January 2001 changed the rules of finance for the Hellenic Republic. Implementation of the euro currency led to a comparatively high exchange rate, which harboured the danger of weakening Greece's main exports such as agricultural and pharmaceutical products, textiles and clothing (BBC News Europe, 2013). In fact, only one year after the introduction of the euro, export volume shrank by 8.28 percent from \$11.35 to \$10.41 billion (de.statista.com, 2014). The details of these development cannot be discussed here. It may suffice here to summarize that Greece faced a serious loss of international competitiveness.

The conventional national monetary policy option of compensating the loss of competitiveness by currency value adjustments was now out of bounds as the European Central Bank steered from a supranational position. Consequently, the Greek government tried to counter the negative forces by an expansionary budgetary and economic policy. This inevitably led to successively increasing government expenditures (Focus Money Online, 2011).

This was predominantly seen in the years before the sovereign debt crisis arose. Expenditures rose by 48 percent from 84.33 billion euro in 2004 to 124.65 billion euro in 2009. (statista.com, 2014). Furthermore, the price level in Greece increased by 3.6 percent between June 2001 and June 2002, whereas the prices within the benchmark, the Eurozone, increased only by 1.8 percent. The result was a disproportionate boost of wages by 12-15 percent (Martens, 2011), which forced an above average consumption that was faced by investments below average. Moreover, the lack of transparency in government spending was accompanied by an oversized and inefficient apparatus of state, phantom pensioners, high military spending, a shadow economy of an estimated 40 percent of GDP and tax revenue losses every year between 12 and 30 billion euros (Landeszentrale für politische Bildung Baden Württemberg, 2014).

As the country's budget deficit grew, the national debt of Greece continued to rise. It increased by 79 percent from 183.16 billion euros in 2004 to 328.59 billion euros in 2010 (de.statista.com, 2014). It was a clear breach of the Maastricht Treaty and the Stability and Growth Pact, the framework of warnings and punitive action which was supposed to prevent or correct violations of budget deficit and public debt ceilings. Fiscal policy coordination failures added to the weak enforcement provisions and a Commission tendency to "water down" proceedings against countries, a combination which has been described as the Pact's "Achilles heel" (Schuknecht et al., 2011, p. 9).

The EU failed to counter the misery. Neither prevention nor corrective action went anywhere. Sanctions were insufficient. Automatic sanctions against budget offenders had been discussed in the 1990s but were not adopted as part of the treaties. This can be regarded as one major weak spot that led to the sovereign debt crisis within the EU. Accordingly, in the short term, it was possible for the Member States to expand their budget balance and debt excessively without fearing supranational sanctions. This phenomenon even occurred in Germany and France in 2003, when the two economically most powerful Member States justified the infringement by pointing out that they would quickly return to the thresholds. Politically it has to be considered that the big countries were able to prevent corrective sanctions by using their voting power. This was not possible for countries such as Greece. Punitive proceedings were begun in the Eurozone's first decade but never completed for Greece (and a few other countries). In fact, an excessive deficit procedure against Greece was canceled in 2007 against the European Central Bank's warnings about reporting data reliability and policy commitments, the Commission

over-optimistically pushed for a lenient handling (Schuknecht et al., 2011, p. 10).

A short time later, Europe learned of Greece's statistical misreporting and trickery, and the row of domino pieces began to fall. In a dramatic turn of events, Greece received its first bailout package in 2010. Eurozone Member States began to pay for the country's debt. The Maastricht Treaty's "no bailout" clause banning the assumption of liability for debt was hollowed (Dams & Wisdorff, 2011).

Financial markets and financial crisis

Being a Eurozone member gave Greece easy access to cheap credit. Despite its soaring sovereign debt, Greece throughout the 2000s received loans under almost the same conditions as Eurozone countries with much lower sovereign debt. The financial markets did not force Athens to change course. "Markets' scrutiny of – and differentiation between – the sovereign debt of euro area countries was minimal, such that the worst-performing countries paid only a few basis points more than the best," according to European Central Bank economists Schuknecht et al. (2011, p. 11).

Rather than finding credit dry up because of unsound fiscal policy, the government discovered that there were no negative consequences. Lenders were willing to provide fresh money for Greek bonds, and the government took it. The implicit expectation obviously was that, contrary to the EU treaties, other countries would stand up for Eurozone member Greece. This must have seemed realistic. With the outbreak of the financial crisis from 2007, however, such expectations appeared more unlikely. Consequently, risk premiums on bonds of highly indebted countries such as Greece began to increase (Aldermann & Craig, 2011).

The crisis led to many state measures to rescue banks. After Ireland, Greece was most affected by an ailing banking sector. In order to save banks from possible bankruptcy, Greece transformed the credit risk of financial institutions into its own sovereign risk. This further increased the default risk of Greece. It became increasingly expensive to borrow money on the financial markets due to higher risk premiums (Häring, 2010).

All the while regular budget deficits continued to increase the national debt. As the economy slumped, Athens tried to compensate with even more government spending. This led to increasingly unfavourable credit conditions. Both the increasing national debt and rising interest rates weighed on the Greek state budget. As the performance of the Greek economy and the national debt were judged worse and worse by the rating agencies, the development accelerated towards ever higher cost of capital.

The sovereign debt crisis

The European sovereign debt crisis started in 2008 with the collapse of Iceland's banking system. In 2009, it also spread to Greece, Ireland and Portugal. By end of 2009, when the sovereign debt crisis was publicly perceived worldwide, Greece came into the focus of rating agencies. This could be seen on 8 December 2009, when the rating agency Fitch downgraded Greece's credit rating for long-term debt from A- to BBB+ (Wearden, 2010). Trust of investors shrank immediately in the same scope as the demand for the Greek bonds. The bond markets were closing for the Hellenes. By late April 2010, rating agencies such as Standard & Poor's downgraded Greece again, from BBB+ to BB+, the highest junk-level rating (Kell, 2010).

As a result, Athens lost the possibility of using Keynesian instruments such as deficit spending to keep the economy running. Public debt rose even more disproportionately in comparison to the income derived, compared to earlier years (statista.com, 2014). This stoked the fear of an inevitable Greek default risk. Creditors panicked. An extremely strong

herd behaviour among creditors emerged. Many pushed off their bonds. This led to an oversupply at the markets. There was no corresponding demand. Bond prices fell to the bottom, whereas yields rose to record heights. Figure 1 displays how yields on ten-year government bonds developed since 1990.

Figure 1. Greek ten-year government bond yield in percent (author's elaboration, base data from Finanzen.net (2014)).

The line graph in Figure 1 shows a tremendous upward trend since the international bailout of Greece in 2010. Thus, it was henceforward only possible to issue bonds with an exceedingly high yield level. This went hand in hand with an extension of the maturities of the bonds that comes close to an implied haircut. Since both did not represent favourable options, Greece was forced to consider alternatives. The dominant alternative at that point was the Eurozone bailout, which required Greece to adopt a strict program of austerity measures. Greece was pleased to leave the bond markets.

As Figure 2 demonstrates, the year 2012 was the high watermark for bond yields for Greece and for the group of other sovereign debt crisis countries. The spread between GIIPS countries is impressive, but of the stark contrast to Germany is spectacular – even more so if compared to the 2000-2010 almost flat trend line which basically rolled all Eurozone countries' bonds (including those not pictured here) into one.

Since 2012, GIIPS bond yields followed a downward trend. For Greece, the key event was a direct debt writedown, known as a "haircut," in March 2012. Using a bond swap, Athens asked – or more correctly, forced – private investors to exchange old for new bonds with lower interest rates and longer maturities. Greece cut off 53.5 percent from the nominal value of all government debt held by private bond owners. The real loss was even higher at about 73 percent. It was called a "voluntary" exchange. Of course, no investor in his right mind

would accept this voluntarily unless the alternative would be a total loss, also triggering consequences on the market for Credit Default Swaps. The point was to avoid a formal default. The negotiated deal was arranged by Eurozone leaders and the IMF as a precondition for the second rescue package of 130 billion euro (DW, 2012).

Comeback: Conditions for Market Re-entry

This section seeks to answer the question how Greece eventually succeeded in regaining access to the bond markets after four years of absence. Decisive reasons and triggers for the comeback will be investigated. Findings will be divided into two sections. First, a retrospective point of view provides a brief analysis of Greece's performance and particular market changes during the years before the comeback, which inevitably led to high demand. Second, a prospective point of view will consider reasons and triggers for the comeback beyond an existing demand.

As mentioned, successful participation in capital markets, notably the bond markets, implies an adequate demand for state securities. Thus, the critical question arises how Greece managed to re-create a high demand for its comeback at the bond markets. Furthermore, since the willingness of investors to purchase an underlying has a direct correlation to the attractiveness of such an asset in terms of secureness, the yield of return and liquidity, Greece must have managed to change perception and create new trust.

A retrospective point of view

The retrospective point of view involves the period between the international bailout in 2010 and the comeback in 2014. Remarkable for this period was the implementation of various austerity measures concerning taxation, public sector cuts, spending cuts, cutting benefits, privatisation and labour market reforms (BBC News Business, 2011). These were compulsory measures demanded by the troika of international creditors – the European Commission (COM), European Central Bank (ECB) and the International Monetary Fund (IMF) – and a main condition associated with the bailout packages Greece has received during that period (BBC News Europe, 2013).

As a result of all the efforts and financial support, Greece was finally rewarded. According to the Greek government, its financial situation in 2013 was much better than expected. A primary surplus of more than 1.5 billion euros in the budget was generated (Hahn, 2014). This positive assessment was also stimulated by several politicians. The Commission highlighted the substantial progress in fiscal consolidation since 2010 and confirmed that Greece was far above the target which Athens had agreed on with its international creditors (The Wall Street Journal, 2013).

It seemed that Greece had developed in the right direction. However, implementing austerity policy and reforms during the crisis came at a high price for the citizens of Greece who suffered

Figure 2. Ten-year government bond yields in percent for GIIPS Eurozone countries and Germany, 1995-2014 as of September 2014 (Adapted from chart, Markt-Daten.de, 2014).

seriously. Cutting the public sector cost led to high nationwide unemployment, increased poverty, and reduction of public services, welfare benefits and health care provision. Greece effectively lowered the standards of living. Mass layoffs in both the public and private sectors culminated at an unemployment rate of 28 percent in February 2014 (BBC News Europe, 2013).

Citizen unrest and protests became more and more frequent. Public trust in the government fell to record lows. The crisis shook up the Greek party system and led to radicalism and extremely polarized elections. Despite extremely difficult domestic politics, the government stuck to discipline.

Market perception clearly changed. Rating agencies upgraded their outlooks and thus supplemented a more upbeat market mood that encouraged further investments into GIIPS bonds (Braeu & Renault, 2014). Since 2012, large numbers of market participants “developed a remarkable enthusiasm for the European debt they once shunned” (The Economist, 2014). The reasons may lie in the collective short-term memory of the markets, in line with the ECB's efforts to adapt the interest rate environment to the needs of the European periphery. Government bonds of peripheral countries, surrounded by historically low interest rates, gained attractiveness due to a comparatively exalted profitability.

The default risk of the European periphery is at least to some extent covered by stronger Eurozone countries. Consequently, a hunger for returns and a perception of being safe drives investors into extensively long positions, which moreover leads to increasing bond prices. Once the price of a bond increases, the yield on the respective bond declines. Therefore, a declining yield can be considered as an indicator for a higher demand. Considering the development of the yields on ten-year GIIPS government bonds from the European periphery shows further evidence for an increasing demand. Greece's comeback must be understood in this larger context.

One case is Italy, a much larger economy and key to the Eurozone's fate. Italy has not been well performing in terms of convincing structural reforms. But the yields on ten-year Italian government bonds fell from 7 percent in 2012 to 3.11 percent in 2014, which represents their lowest level since 1945 (Braeu & Renault, 2014).

By contrast, Portugal, Spain and Ireland have undergone structural reforms, which eventually started to bear fruit. Portugal posted its first current account surplus for a full year at the end of 2013 (Braeu & Renault, 2014). In line with that, its bonds became more in demand than ever. This pushed the nominal yields down to levels not seen since Portugal joined the Eurozone.

In the spring of 2013, Spain's ten-year bonds yield came to 4.7 percent while its inflation rate was 1.5 percent. A year later in 2014, as of this writing, the ten-year bonds yield amounts to 3.1 percent. This seems to be modest in size, but considering that inflation has fallen below zero in 2014, the improvement is visible (The Economist, 2014). The catch is, of course, that what may look good for bond holders is effectively increasing the real debt burden for the governments.

A prospective point of view

Analysis would be incomplete without a look at the politics of the bond market comeback. Regaining creditor trust is not simply a matter of improved fiscal and economic facts. At play are also symbolic, psychological and political influence factors which frame confidence in a stable climate supporting Greece's future in the Eurozone. This is the rationale for a prospective point of view.

The bond market comeback, though relatively modest in size, aids a symbolic boost for Greece. It reinforces the hope that the seemingly never-ending debt crisis is nearing an end. This became increasingly important due to the upcoming local

and European Parliament elections in late May 2014. Therefore, the comeback can be considered as a trial in the face of political interests. This has a domestic aspect: The government was in need to showcase its own success and legitimacy of its policies. The coalition wanted to shore up party support at the polls, defending against the upsurge of radicals such as the left-wing Syriza party or the far-right Golden Dawn party. They threatened to destabilize the government by turning the elections into a plebiscite on the austerity and reform policies.

But there is also a power politics aspect with a European dimension. Greek political science professor Takis Pappas stated in an election preview: “Because of the enormity of its (economic and political) crisis, Greece has become both exemplary and highly symbolic grounds for the big battle to be waged in May throughout Europe between pro-EU and anti-EU forces” (Pappas, 2014).

Moreover, the election can be seen as a marker for North-South conflict in the EU. The North, led by Germany, has forcefully established its dominance demanding fiscal discipline and a mandate for sanctions against Member States which do not comply with toughened Eurozone rules. The South is pressing for a European economics which build on stimulus policies, money transfers, redistribution of wealth, and Eurobonds. In this power struggle, Greece's market return can be seen as a key political event.

According to an editor of a well-known financial journal, who asked not to be named, one of the main triggers which were decisive for the comeback was the positioning of Germany: In his interpretation, German chancellor Angela Merkel and finance minister Wolfgang Schäuble heavily pressured Greece to go forward with a new bond and offered indirect support. For the German government, Greece had the duty to show that adoption of austerity measures was working and fulfilling reform obligations would be rewarded by the markets. Therefore, it was indispensable to put a sign in this direction.

If this interpretation is correct, then the comeback was internationally staged as a political demonstration to prove that Germany's Eurozone leadership was right, prudent and functional all along. The political point of Greece's bond in 2014 was not to collect private money in order to avoid future Eurozone bailouts, but to support Germany's – and the North's – claim to power over economic and monetary policy in the EU.

Did bond market professionals and investors recognize this political dimension? Was it relevant to them? This is hard to prove, but the Greek bond issue was clearly a non-routine operation. It appears logical that any investor would first look for reassuring signals that Athens was moving with the benign support of its major political stakeholders in the Eurozone.

One may also plausibly speculate that Germany's behind-the-scenes support for the Greek bond helped to increase demand. After all, it signalled that the bond was a safe investment.

Another highly political interpretation is that the Greek bond was not just a Greek bond but a *de facto* Eurobond. The debate on the pros and cons of *formal* Eurobonds issued jointly by the Eurozone bloc has been extremely controversial. Greece has been for the idea; Germany against it. So far, formal Eurobonds appear politically impossible. As a practical matter, however, the recently issued Greek bonds may have been interpreted by investors informally as Eurobonds since not only Greece is liable for a proper repayment but the entire Eurozone (Smeets, 2014).

This is strongly supported by the announcement of European Central Bank president Mario Draghi who has stated that the central bank would be willing to launch a new program of buying government bonds if inflation continues to fall or the Eurozone reverses into deflation. In continuation of Draghi's whatever-it-takes attitude, such a program would lead to an almost safe purchase guarantee with an aggregate value of up to one trillion euros (Smeets, 2014).

Reasons for high demand

In this overall context, the financial mathematics of bond security appeared attractive. Formally speaking, investors who bid for the Greek bond relied on a lasting balanced beta coefficient of the bond. The beta coefficient in terms of the capital asset pricing model (CAPM) is defined as a measure of the volatility, or systematic risk, of a single security or a portfolio in correlation to the expected market risk as a whole (Investopedia.com, Definition of 'Beta', 2014). Therefore, the assumption of a stable beta coefficient indicates the security of an asset.

Investors had, of course, good reason to fear the risk of another Greek “haircut,” i.e. a forced debt writedown which devalues the bonds. The memory of March 2012 lingered. Haircuts have become a central issue for investors. But recent discussions have reduced the sour mood. European leaders emphasize that the risk of a haircut does not exist. German finance minister Wolfgang Schäuble claimed that the March 2012 haircut was a one-time event, and further haircuts would not happen (Smeets, 2014).

The claim is strongly supported by the fact that the 2014 Greek bond was issued based on British law. This has a historical significance since the 2012 haircut mainly affected those bonds issued under the Greek law. The new legal basis became a major condition associated with the comeback. Possible litigation would be held in British courts, which may consider the interests of creditors more than Greek courts would (Smeets, 2014). A possible haircut can further only be decided by a majority of creditors. The bond issue based on British law can be recognized as a safeguard or insurance for investors. This has made the bond more attractive, but not necessarily absolutely safe. If Greece went bankrupt tomorrow, even British law would not help. Nevertheless, it is a hedge that is intended to give investors courage to buy.

Additionally, a possible implied haircut in the form of further reduced interest rates and extended maturities of Greek bonds would primarily affect public, not private, creditors (Smeets, 2014).

Last but not least it has to be stated that the “remarkable enthusiasm” for the European periphery (The Economist, 2014) was one of the main reasons for the high demand.

Comeback Evaluation

A successful comeback?

Considering Greece’s fundraising alternatives, the comeback looks somewhat questionable. The Greek government placed a bond which appears more expensive for the public treasury than going for credit aid from European institutions.

Since the establishment of the European Financial Stability Facility (EFSF), the European Financial Stability Mechanism (EFSM) and the European Stability Mechanism (ESM), Greece is able to incur debt for interest rates up to 2.125 percent (Finanzen.net, Anleihen Info: Europäischer Stabilitätsmechanismus ESM Anleihen, 2014). That is why the comeback at the bond markets by issuing a bond equipped with a coupon of 4.75 percent can be regarded as rather dubious from the perspective of the Greeks, especially after a required straight austerity marathon.

Nevertheless, the evaluation of the comeback requires the contemplation of both, today’s alternatives and the history, considered as two substantial benchmarks. The 4.75 percent coupon cannot be interpreted unambiguously. On the one hand, the bond’s 4.75 percent coupon value is high compared to the ESM coupons of 2.125 percent.

On the other hand, the European funding option may not be the right measuring stick. As the editor of a financial journal

interviewed for this article emphasized, the bond coupon can be regarded as comparatively low if Greece’s bond history is a measure: In February 2012, markets demanded 30 percent for Greek bonds.

A second indicator of success can be seen in the broad demand for the Hellas bond. The bond was issued to a volume of 3 billion euros, but the bids of approximately 550 investors brought a magnificent amount of more than 20 billion euros (Stamouli, 2014).

In sum, the comeback can be considered successful due to a comparatively low coupon and broad demand. It was a market vote of confidence – exactly what Athens wanted (and perhaps what the German doctor ordered).

A repeatable comeback?

The demand for Greek bonds was impressive. But was it a one-hit wonder? The question whether future emissions will happen is gaining increasingly in importance. Current market perception seems to favor the European periphery. This could make further emissions possible. However, markets do what they want and can swiftly change their directions and trends. Nevertheless, there are stable factors that can ensure Greece’s remaining at the capital markets. These can be distilled from the previous analysis:

- Market participants proceed with a collective short-term memory.
- Investors face a persistent low interest rate environment, facilitated by the European Central Bank.
- Greece continues to implement reforms successfully.
- Bonds offer a predictable lasting balanced beta coefficient.
- The Eurozone continues to commit as a creditor and compensator of Greece’s default risk.
- Investors remain hungry for returns despite the risk.
- Yields stay low or decline further.
- Rating agencies further upgrade their outlooks or at least do not downgrade Greece.
- The European Central Banks steers a course which includes the option of government bond purchases.
- New haircuts are improbable.
- New bond issues are anchored in British law.

Obviously there are more factors than mentioned here, but the author stipulates that as long as these factors are retained, future successful emissions appear quite possible and likely. Thus, the comeback can be considered as repeatable. This conclusion can be supported by a recent Bloomberg report quoting a Greek government official: “To avoid another bailout, Greece aims to jump-start its newly regained financial-market access. The government plans to sell up to 3 billion euros in three-year bonds” (Chrysoloras & Christie, 2014). It has to be considered that a maturity of three years harbours more risks than the previous 2014 five-year bond. Investors will start to ask themselves whether Greece is able to repay its debt in only three years’ time.

A sustainable comeback?

This section looks for evidence for the sustainability of the comeback. The question whether the new bond can be seen as a safe or a gambler’s investment has to be answered. In line with that, the development of the yield directly after the purchasing at the primary market and the types of investors who bid for the bond have to be examined.

The initial yield of 4.95 percent climbed quickly to over 5.13 percent within 48 hours after the emission (Zschäpitz, 2014). That shed light on what really happened. The investors bought the bond at the primary market and directly sold it on

the secondary market. Indeed, that is not the behaviour of market participants such, for example, as American investor legend Warren Buffett who trust their assets. The bond value appears overrated. Furthermore, it looks highly speculative and therefore rather suited to the yield schematic of venturesome investors such as hedge funds. In fact, hedge funds made for about 33 percent of the investors which bid for the bond, as displayed in Figure 3.

Figure 3. Allocation of investors who bid for the 2014 Greek bond (author's elaboration, data from Zschäpitz (2014)).

The make-up of the investor community is unusual for a bond issue. It seems that Greece attracted a special kind of investors. Only four percent of the issue went to insurance companies or pension funds, which normally represent the largest group of investors in government bonds. Banks bought 14 percent of the bonds whereas 49 percent went to other fund companies, whose affiliation is not entirely possible. They might include a large share of speculators (Zschäpitz, 2014).

Although Greece proved that it can find funding through its own resources and devices, the allocation of investors sheds light on problematic circumstances in terms of sustainability. Sustainable presence on the bond market would suggest that a country finds reliable, risk-averse long-term financiers. A preponderance of speculators throws a big shadow over the small proportion of institutional and typically risk-averse investors. One may conclude that the bond can be conveniently considered a gambler's investment. This definitely does not represent an indicator for security.

A critical appreciation of who buys Greek debt for what purpose leads to the conclusion that the country's market opportunities seem volatile and are in the hands of firms which are known to make money on volatility. This is not good news. It is not only the bond itself which carries risk, but the potential behavior of the bondholders. Given that Greece is otherwise still highly dependent on EU backup, particularly Eurozone countries as its main creditors, the market comeback overall cannot be considered as a sustainable re-entry.

Outlook: Back on Track?

This last section aims to answer the question whether Greece is really back on track after its comeback or not. It examines whether Greece will require the planned third bailout package from the EU or not. The section concludes with a brief interpretation of European Parliament election results in Greece for political context.

The bond issue did not change the overall situation. For the foreseeable future, Greece will have to be funded by its richer European neighbors. Austerity by itself does nothing to stimulate the economy and provide much-needed revenue income. Recovery and complex "adjustment programmes" under EU-IMF surveillance notwithstanding, the key macroeconomic indicator of total gross public debt is a depressive sight. As of this writing, Greece's national debt totals about 177 percent of GDP (see Table 1). Maastricht rules set a limit of 60 percent. Even though many European nations honor this rule by the

breach, Greece's distance from the target is far too great by any comparison, as an editor for a leading financial journal interviewed for this article stressed: It is simply inconceivable that Greece can meet the target by piecemeal financial and fiscal operations. The country, he opines, still needs large-scale debt forgiveness. Quittance can come about only by a haircut or debt conversion to a degree which implies that investors would not get back anything but lose everything. Any new bonds carry this risk.

Forecasts	2012	2013	2014	2015
GDP growth (% yoy)	-7,0	-3,9	0,6	2,9
Inflation (% yoy)	1,0	-0,9	-0,8	0,3
Unemployment (%)	24,3	27,3	26,0	24,0
Public budget balance (% of GDP)	-8,9	-12,7	-1,6	-1,0
Gross public debt (% of GDP)	157,2	175,1	177,2	172,4
Current account balance (% of GDP)	-4,6	-2,4	-2,3	-2,2

Table 1. May 2014 economic forecast for Greece by the European Commission's Directorate-General Economic and Financial Affairs (European Commission, 2014).

The comeback was strong in terms of demand. But does that mean the third bailout package is off the table? No. Three billion euros are like a drop in the ocean. A successful placement of the bond is only a small step away from extensive financial support of international creditors. While EU financial support expires at the end of the year, Greece will still be supported by the IMF in smaller yet substantial capacities.

Politically, the government's position has not improved. Market success did not translate into any political gain; at best, it helped to solidify fleeting support. Final results from the European Parliament elections 2014 in Greece are illustrated in Figure 3. Government policies have led to a serious political fallout in the polling booths. The anti-austerity radical leftist Syriza coalition won the elections with 26.6 percent of the vote (BBC News Europe, 2013). At the other end of the spectrum, the right-wing extremist Golden Dawn also benefitted from a rising EU-sceptic mood and received 9.4 percent.

Figure 4. Greek European Parliament election results (Metapolls.net, 2014).

Government coalition parties – the conservative New Democracy (ND) and the Socialist PASOK, core of the Olive Tree alliance – barely held on to a plurality together. A few years ago, Greece had essentially a two-party system where only ND and PASOK competed. In the European Parliament elections of May 2014, their vote share shrank to less than one-third. While the election cannot be interpreted as a total destruction of the government's legitimacy, it certainly is a

political shock. The EP elections had a direct correlation to the local elections in Greece, which produced similar results. The government coalition's local support base is eroding. Greece's political system is in the middle of a far-reaching realignment and dealignment of voters. What this will mean for the next several years is up to speculation.

Greece is currently a country where left-wing radicals represent the strongest and right-wing extremists the third strongest political force. The political future of Greece is likely to be one of polarized confrontations and great obstacles to effective governance. The outlook is not good for calm, consensus-driven policy-making or a generally stable government. Investors will understand that the political risk of this country is substantial.

Taken together, these facts and prospects mandate the finding that Greece is not yet "back on track."

Conclusion

This paper has given an account of and the reasons for Greece's re-entry at the bond markets after four years of absence. Primarily, research findings have shown that Greece lost its access to the bond markets in 2010 due to several mutually reinforcing causes. Those especially concern the accession to the Eurozone that finally led to significant economic consequences. Greece failed continually to meet Maastricht criteria, while the EU's insufficient sanctions failed to counteract the misery. It seems that Greece's large sovereign debt was totally ignored by the financial markets. Greece received for a long time loans at almost the same conditions as EU countries with much lower sovereign debt. The debt piled up.

The outbreak of the financial crisis from 2007 had a great impact on the country. Greece was highly affected by an ailing banking sector. In order to save its financial institutions, the sovereign took over bank risks. In 2009, when the European sovereign debt crisis began, rating agencies downgraded the Greek debt considerably. After that, the trust of investors shrank immediately, as did the demand for Greek bonds. Many bondholders sold off their Greek securities, effecting a market oversupply. From then on, it was only possible to issue bonds with high yield levels. Greek bonds held junk status. Greece was forced into the 2010 Eurozone bailout, followed

by the adoption of austerity measures and avoidance of further unsound fiscal policy.

The article then answered the questions how Greece succeeded regaining access to the bond markets after four years of absence, and what the decisive reasons for the comeback were. The retrospective analysis showed that Greece worked toward economic stability and generated a primary surplus. This re-created investor confidence. One of the more significant findings to emerge from this study is that market perceptions changed in recent years. Greece benefited from an improved view of European periphery country bonds.

The 2014 Greek bond issue also was helped by a view that it was not only the Greek government which guaranteed repayment but the entire Eurozone. Evidence from a prospective analysis suggests that this comeback, though relatively modest in size, aids a symbolic boost for Greece. It can be considered a trial in the face of political interests, triggered particularly by Germany. Greece's return to the market was a political event, a demonstration that austerity works.

The third section evaluated the comeback and to figure out whether the re-entry can be considered as successful, repeatable and sustainable. Results indicate that the comeback can be deemed successful due to a comparatively low coupon and great demand. The bond issue is also likely to be repeatable. But it is less certain that the comeback is sustainable. The 2014 bond attracted few institutional and risk-averse investors but a high share of investors with speculative behaviour.

The results from the last section are the following. Greece may have taken steps in the right direction but is not back on the right track yet. The reasons are mainly macroeconomic. Despite the recovery, a third bailout for Greece might still be in the cards. In addition, Greece's future is burdened by substantial risk and volatility in the country's political system.

In the art of public borrowing, Greece's return to the bond markets after four years of absence was an impressive piece of work. A fiscal and economic masterpiece it was not. It stays as a successful interim measure with a good deal of political value. But Greece has yet to prove it can sustain its momentum on the capital market.

Not only has the country a great need to cut its debt to a level which it can realistically pay back; it also has to find better creditors that are willing to invest in Greece without dominant motives of speculation. Until then, Greece will not seriously be "back on track" as a normal member of the Eurozone.

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