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Greece to Re-Access the Markets?

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Greece is predictably keen to finance itself on international bond markets, capitalising on renewed and growing investors' interest in the country's prospects and their search for yield given current levels of excess liquidity. Interest rates on Greek bonds have fallen sharply, following the adoption of a new round of reforms and austerity measures which paved the way for the completion of the third bailout programme's second review. In fact, trading at 5.3 percent (5.7.2017), Greek 10-year bond yields have hit their lowest level since September 2009. Even six-month T-bills were sold at a yield of 2.78 percent (5.7.2017), down from 2.97 percent in a previous sale last month.

Re-accessing the markets would obviously be a win-win both for Greece and for the Institutions, including the IMF. Greece, for one, would be able to signal a return to 'normalcy'. Since it lost access in 2010, the country has only tapped the markets once, with five-year and three-year bond issues in April and July 2014. A new bond issuance in 2017 would profit from and solidify current favourable conditions, including the economy's growth prospects (revised downwards but still on a positive trend) and greater public commitment from euro area partners to help Greece.
It would also help brush over a hurdle or two. Greece remains locked out of the European Central Bank's bond buying programme primarily due to serious scepticism regarding its debt sustainability. While inclusion has been previously interpreted as a 'precondition' for investing in Greek assets, current investor sentiment can work around it, provided that the country carefully maps out a credible plan for its foray into the markets. More importantly, Greece's bailout programme ends in August 2018, and a new bailout is not a palatable policy option either for Greece or for the Institutions. The country thus simply needs to demonstrate that it *can* fund itself from the capital markets. Proof of solvency will also finally enable the Institutions to hail Greece as a 'success story'.

Obviously, a lot of conditions remain, if Greece is not just to gain but to maintain the confidence of markets. Foremost among them is programme 'ownership' and the ability to deliver on programme goals. Greece's growth dynamics for 2017 are now weaker than previously forecast due to the long delay in completing the second review and the consequent surge in uncertainty which disrupted investment spending. Greece really needs to dispense with its poor record of procrastinating and grandstanding, particularly when the fiscal measures that it is then forced to adopt depress the economy and demoralise households and corporations alike. Forging a clear exit plan from the third bailout programme will go a long way to creating a virtuous circle, of reducing uncertainty for investors and markets alike, solidifying gains in fiscal consolidation and structural adjustment, and embarking on a sustainable growth path. For this to work, the Institutions will have to do their part-specifying their commitment to medium-term debt relief in a manner that ensures Greece's debt sustainability over the medium to long term.