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Athens makes peace with bankers in public debt talks

Greece's governing Socialists denounced local bankers as "traitors" three years ago for allegedly speculating against the drachma during a currency crisis. Now Mr Nikos Christodoulakis, deputy finance minister, lunches regularly with the government's former enemies to discuss reducing the cost of financing Greece's swollen public debt.

The outlook for tighter debt management has improved as inflation retreats, cutting the cost of the government's monthly borrowing on Greece's unpredictable capital markets. The annual inflation rate has fallen from 7.3 per cent in December to a projected 5.5 per cent in May, the lowest rate since the 1960s.

Greece's public debt stabilised in 1996 at 110 per cent of gross domestic product – almost double the 60 per cent target set in the Maastricht treaty as one of the criteria for joining the planned single European currency – and is forecast to start declining this year. The finance ministry is expected to roll over at least Dr9.000bn ($33.3bn) of existing debt by December, equivalent to almost 30 per cent of GDP.

The sharp decline in inflation prompted the finance ministry to cut interest rates by 60 basis point to 9.7 per cent on next month's issue of 12-month treasury bills, the main debt-financing instrument.

Debt is forecast to decline this year, writes **Kerin Hope**

"The days of unreasonably high interest rates and a desperate scramble to raise enough funds at the end of every month are over. We've enriched the bond portfolio with new issues and started to spread them over a longer period to avoid seasonal humps in rolling over debt," says Mr Christodoulakis. "But improving debt-management is a gradual process."

Greece yesterday launched its first index-linked bond, carrying an interest rate pegged to the inflation rate. In mid-June Greece will issue its first 10-year fixed-rate bond. It is expected to give a boost to the small secondary bond market because traders for the first time will be able to calculate a yield curve for Greek bonds.

Small issues of fixed-rate bonds with maturities ranging from three to seven years have appeared since last November, when the finance ministry decided to trim borrowing costs by phasing out issues of floating rate notes. These had maturities of up to seven years but carried floating interest rates of 100-150 basis points above the 12-month treasury bill rate.

Mr Christodoulakis says one of his next tasks will be to reverse the finance ministry's reputation for lack of transparency in debt management.

There is no regular schedule of government bond issues, auctions of treasury bills may be announced or cancelled at short notice, and no official figures are available on yearly debt-financing requirements.

Bankers complain that at times when the finance ministry faced a critical hump in repayments, a group of big Greek banks would quietly be offered substantially increased commissions for selling extra amounts of treasury bills.

Mr Christodoulakis insists infrastructure for a modern debt market will be introduced over the next 12 months, including legislation to appoint a limited number of Greek banks as primary dealers allowed to buy new government bond directly from the finance ministry. Measures will follow to make the secondary bond market more transparent and attract more foreign investors by introducing a centralised electronic trading system.

Greek traders say that falling interest rates on bank deposits and the introduction of new types of bond have made the bond market much livelier.

Mr Abis Levis of Telesis Securities estimates that retail investors have switched about Dr1,500bn since January from savings accounts and treasury bill to mutual funds, which invest in the longer-term instruments that the finance ministry wants to promote.