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Clean-up operation

Greece’s bumpy road to financial respectability

What a recent rights issue by its biggest lender tells you

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These are anxious days for Kyriakos Mitsotakis, the Greek prime minister. The country is due to welcome tourists from around 35 countries from May 15th, but hotel bookings are looking thin and covid-19 lingers. Unless tourism recovers, the economy will shrink for a second year.

There is some good news, though. On April 23rd s&p, a rating agency, upgraded the country’s sovereign rating to bb. (That is still below investment grade, which officials expect to reach next year.) The agency also upgraded the country’s four big banks, though all remain in junk territory because of high levels of non-performing loans. These came to about 33% of the banking sector’s loan book, before provisions—the legacy of the debt crisis of 2010-18.

Piraeus, the largest and most fragile lender, won a breathing space thanks to an unexpectedly successful capital raising on the same day. Foreign investors covered 75% of a €1.4bn ($1.7bn) offering that was more than three times subscribed. It was the largest rights issue by a European bank since 2017, says Piraeus, and will more than cover expected new bad debt this year.

Not everyone agrees that Greece is on the path to financial respectability. Some observers are worried that the government helped broker an alliance of so-called “cornerstone” investors in Piraeus: the family office of John Paulson, an American former hedge-fund manager; Telis Mistakidis, a former head of copper trading at Glencore, an Anglo-Swiss metals trader; and Helikon Investments, a small fund based in Italy.

Mr Paulson’s office increased its stake in the bank from just under 5% to 19.2% and hopes to recoup losses on its earlier investments. Together with Helikon and Mr Mistakidis, it will be able to outvote the Hellenic Financial Stability Fund (hfsf), a nominally independent repository for the state’s shareholdings in the big banks. The three investors will, in effect, control the bank,says a veteran Greek banker. (Alexander Blades, a partner in Mr Paulson’s firm who sits on the board of Piraeus, says that they intend to provide private-sector oversight to help the bank succeed.)

The hfsf cut its stake from 61% to 25.6% by agreeing to limit its participation in the rights issue, realising losses of €2.6bn. Its boss, Martin Czurda, an Austrian banker who tried to protect the hfsf from political interference, was ousted in February. Curiously, the finance ministry then pushed through a law absolving hfsf staff of any criminal charges that might arise from the capital-raising.

Greek bankers already have reason to be grateful to the government. A tweak last year to the penal code banned the public prosecutor from pursuing criminal investigations of fraud and breach of trust at banks, without a specific request from the lender that allegedly suffered damages. Probes involving more than 300 bankers were closed; investigators say that none of the banks asked for any to be pursued.

Investors' enthusiasm for Piraeus's share offering could at least signal interest in officials' efforts to clean up bad loans using securitisations. Around €31bn of securitised dud loans, some backed by state guarantees, have been sold to asset managers at home and abroad. Another round of sales of similar size is expected soon.

But it could all have been so much easier, says Miranda Xafa of the Centre for International Governance Innovation, a think-tank. In 2015 the eu allocated €25bn to fully recapitalise the banks, as part of Greece's third bail-out programme. Only a fifth was disbursed. "With hindsight, early recapitalisation would have helped clean up balance-sheets sooner, making room for new lending to support the recovery." .

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