ABSTRACT

It is often argued that, economic fundamentals and financial markets are always in equilibrium and if otherwise, there would be opportunity for arbitrage. The Greece default crisis which emerged as an important topic of discussion in the recent years, owes it to mismanagement of political, social and economic systems over a long period of time. The financial and banking crisis of 2008, helped reveal the true facts with respect to mismanagement such as larger fiscal deficits, current account deficits, ballooning debt levels, unemployments, negative GDP, manageable inflation with above normal interest rates. The credit rating agencies have been argued by many to also have significantly played an important role in unearthing the problems with respect to Greece and other neighboring countries such as Portugal and Spain. The downgrades of sovereign credit ratings by three major credit rating agencies was thought to have significant impact on debt markets but less studies have been conducted on the financial markets. Thus, the study looks into the impact of these downgrades on not only Athens composite index but also on major indices (Seventeen indices) of the world. The event studies conducted find significant impact of these rating downgrades on the Athens composite index and other neighboring financial markets, but does not seem to have major impact of asia-pacific markets.

Key Words: Greece crisis, Financial Markets, Event studies, Sovereign credit ratings, credit rating agencies