

“The International Financial Crisis and Greece”

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IOBE Presentation

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“The International Financial Crisis and Greece”

- I. Introduction: The global financial crisis as a stress test on Greece**
- II. The world**
- III. New Europe**
- IV. Greece’s three imbalances:**
 - 1) Competitiveness**
 - 2) Future fiscal pressures**
 - 3) Inequalities**

I. Introduction: How will Greece be affected by the crisis?

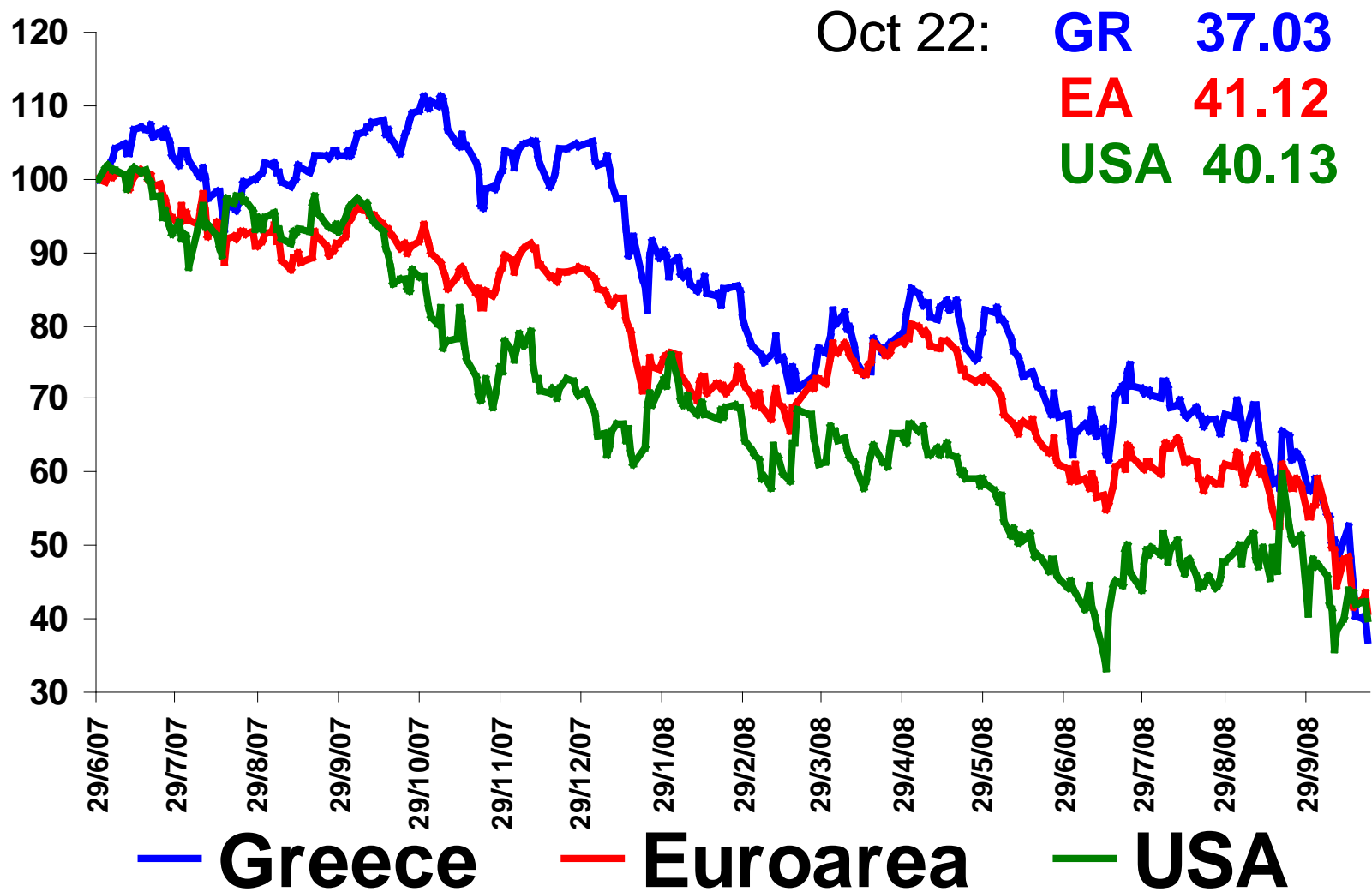
Channels of negative influence:

- 1) Lower economic activity abroad → less exports, lower tourist receipts, less foreign buying of property, lower shipping rates
- 2) Higher interest rates due to liquidity considerations → less credit expansion, lower consumption & investment

Greece will avoid:

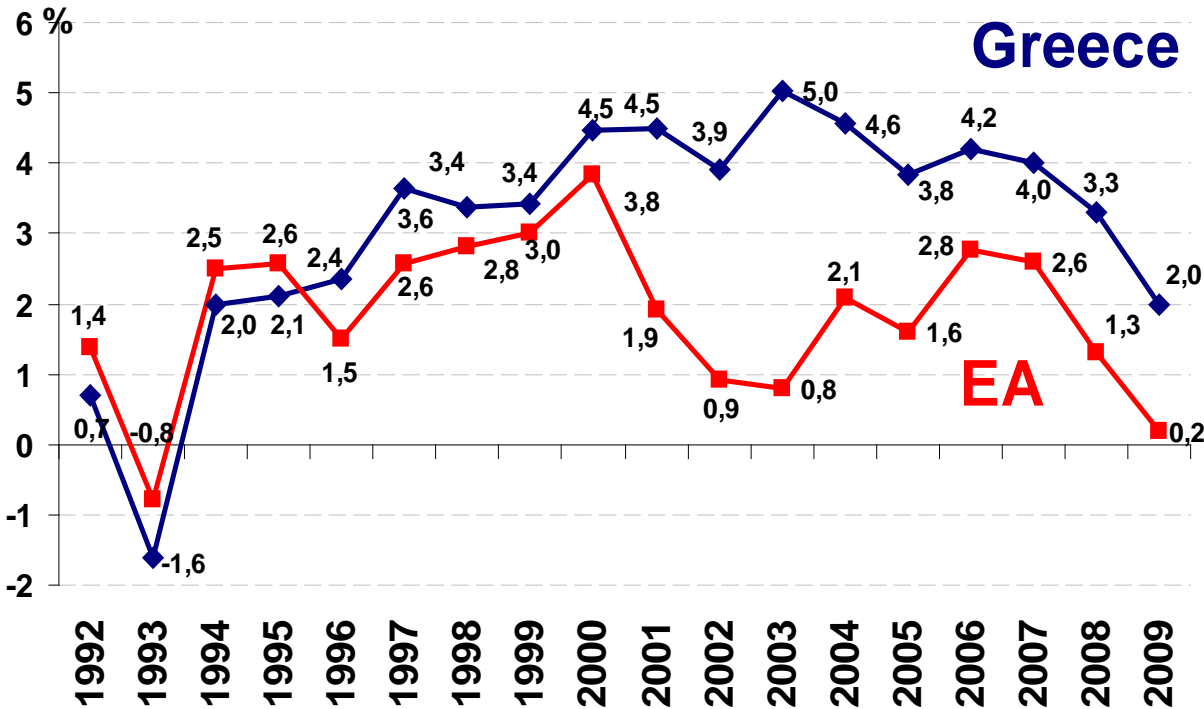
- ✓ Large bank failures and abrupt restriction of credit due to solvency reasons to the same degree observed abroad

I. Crisis revealed: Banking stocks hard hit

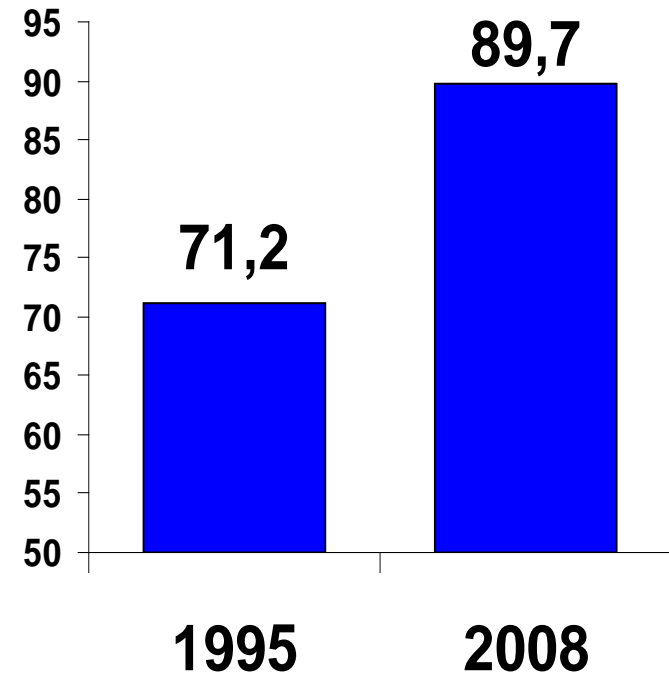


Will Greece keep converging to the EU-15 average?

Real growth rates, 1990–2009



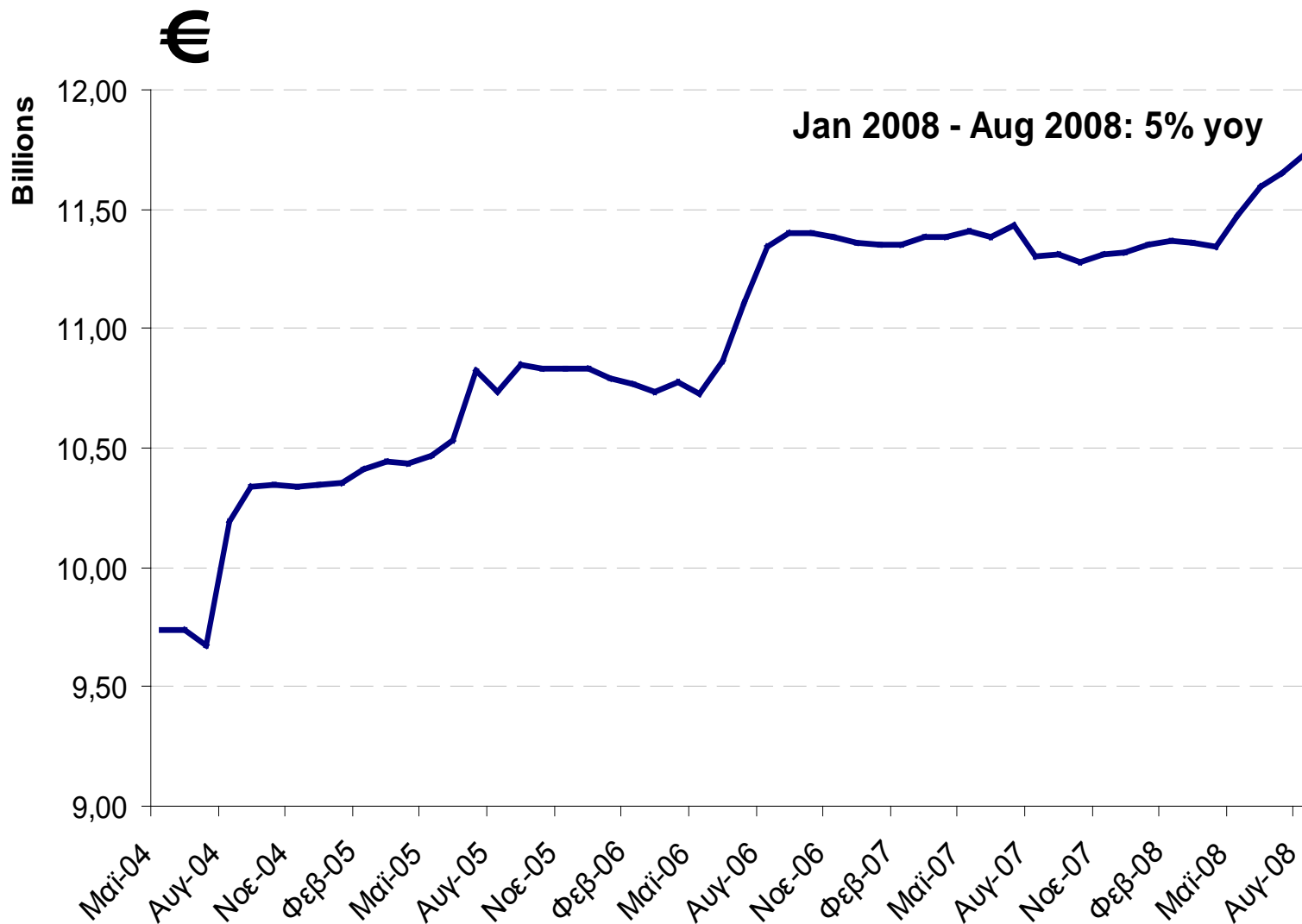
GDP per capita PPS, EU-15=100



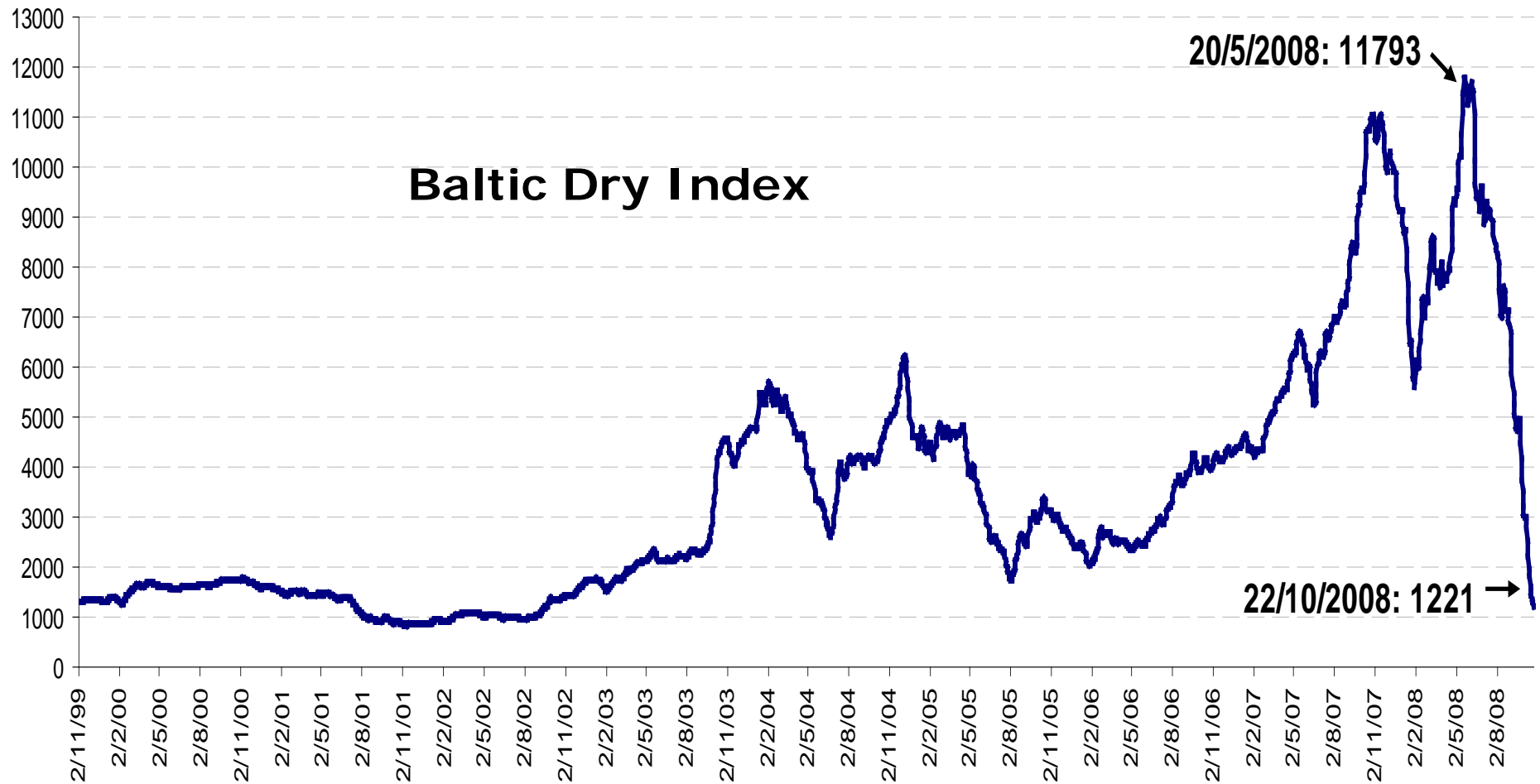
Source: European Commission, Ministry of Economy, Eurobank Research, IMF

- ✓ Investment: the main driver of growth, with growth rates higher than those of consumption
- ✓ Until 2005, investment in equipment higher than investment in residential construction
- ✓ Is the party over now?

Greece: Travel receipts



Greece: Shipping through tough times

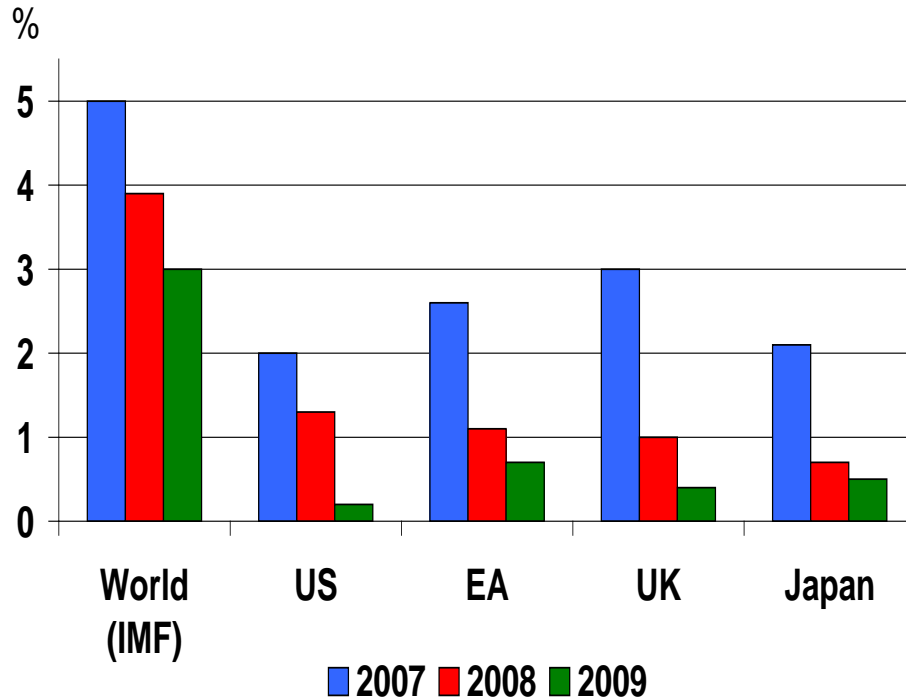


II.

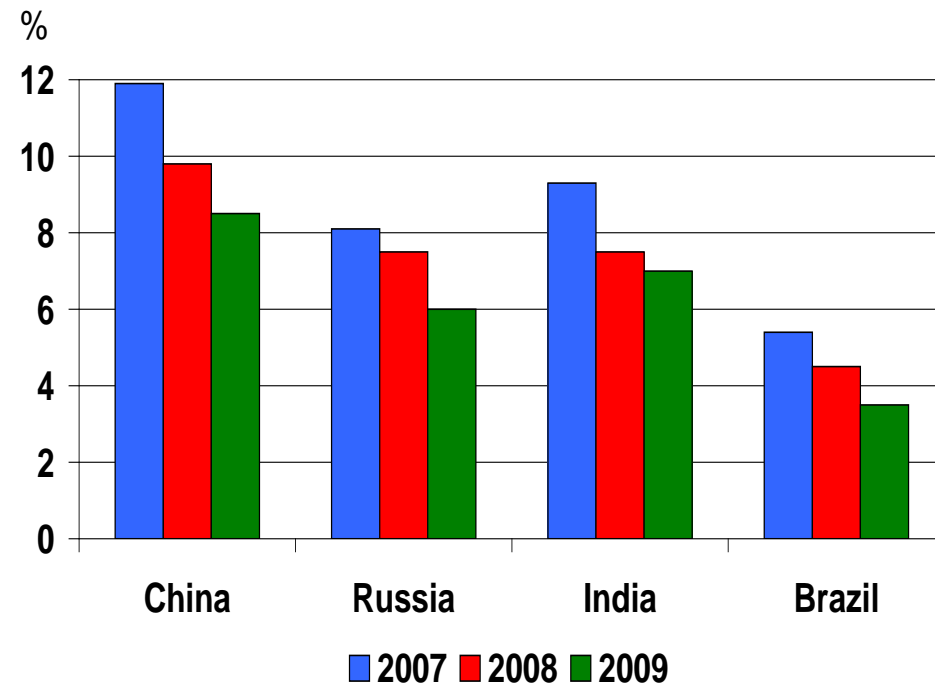
The world

II. A decrease of global output growth in 2009

World & Developed Economies



Emerging Economies



Greece: 2007 → 4.0%

2008 → 3.3%

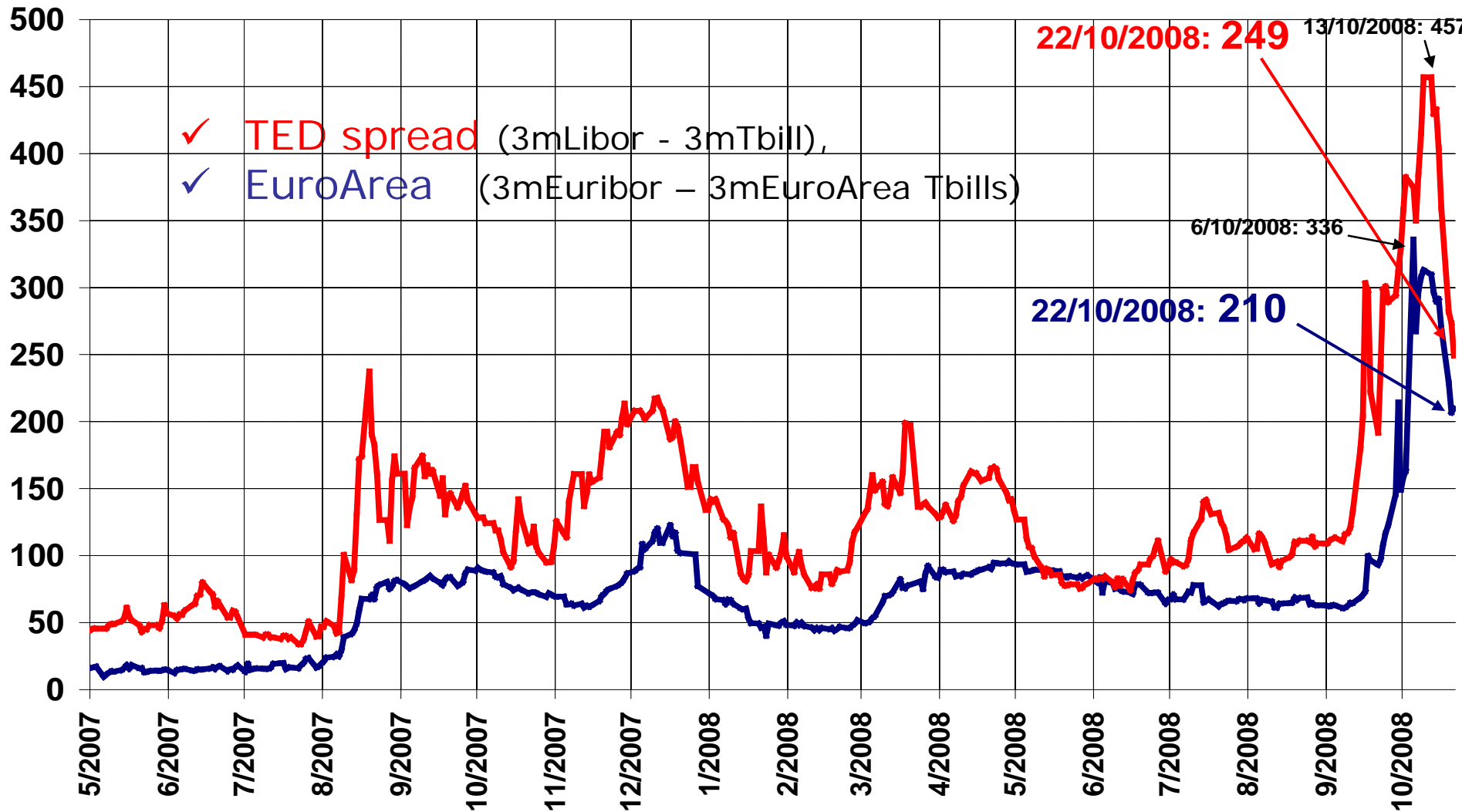
2009 → 2.0% (IMF), 3.0% (Government)

II. How large is the correction? The three problems of the global crisis

- ✓ The next 15 months will provide a stress test of the Greek economy
- ✓ Three problems underpin the global crisis:
 - 1) **Lack of liquidity**
 - 2) **Insolvency**
 - 3) **De-leveraging**
- ✓ The issue today is to avoid de-leveraging, which is caused by the previous two factors
- ✓ Greek banks are affected only by the first factor
- ✓ Fortunately, structural reforms did occur in the Greek banking sector and Greek banks are very strong relative to their European peers

Liquidity: US in worse shape than Euro Area

✓ On Sept. 17, 3-month US T-bills reached 3 basis points!

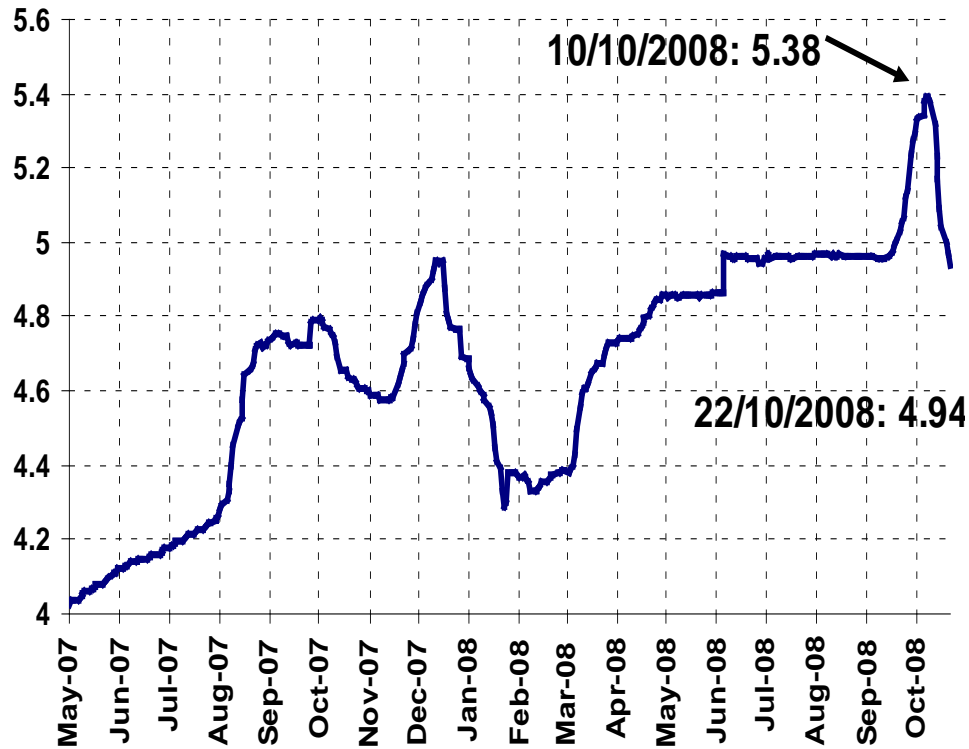


— EuroArea

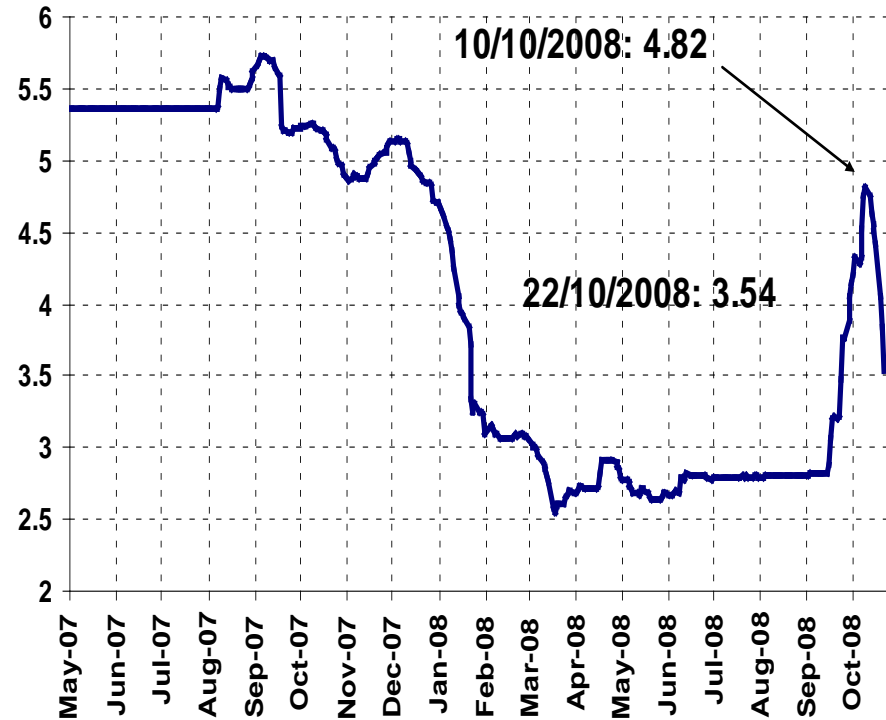
— USA

3-month inter bank rates

EURO AREA: 3m Euribor



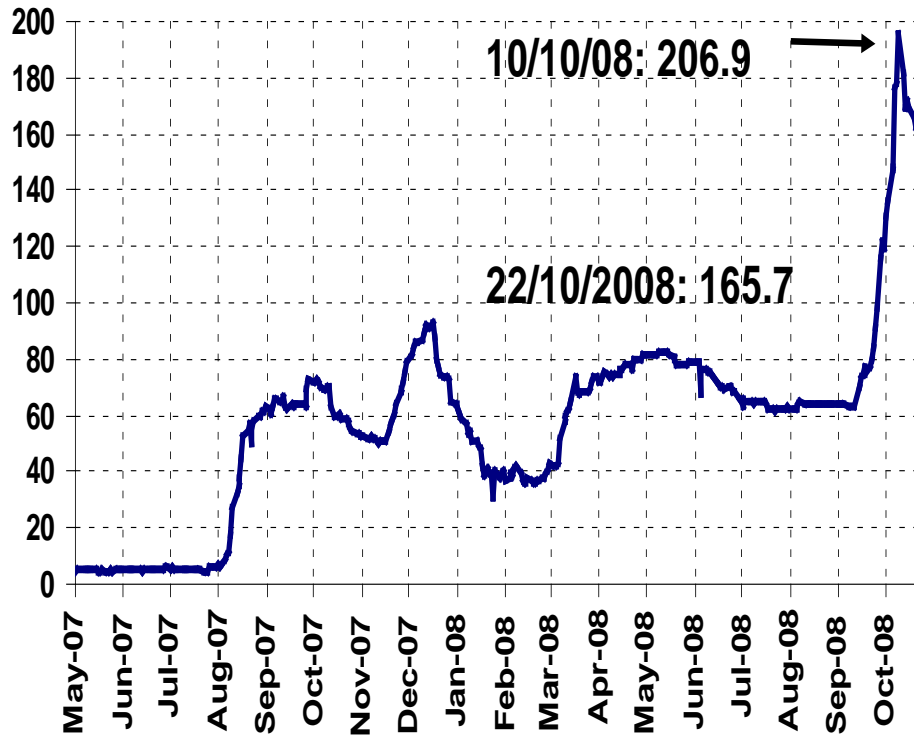
USA: 3m Libor



Uncovered minus covered 3-month inter-bank rates

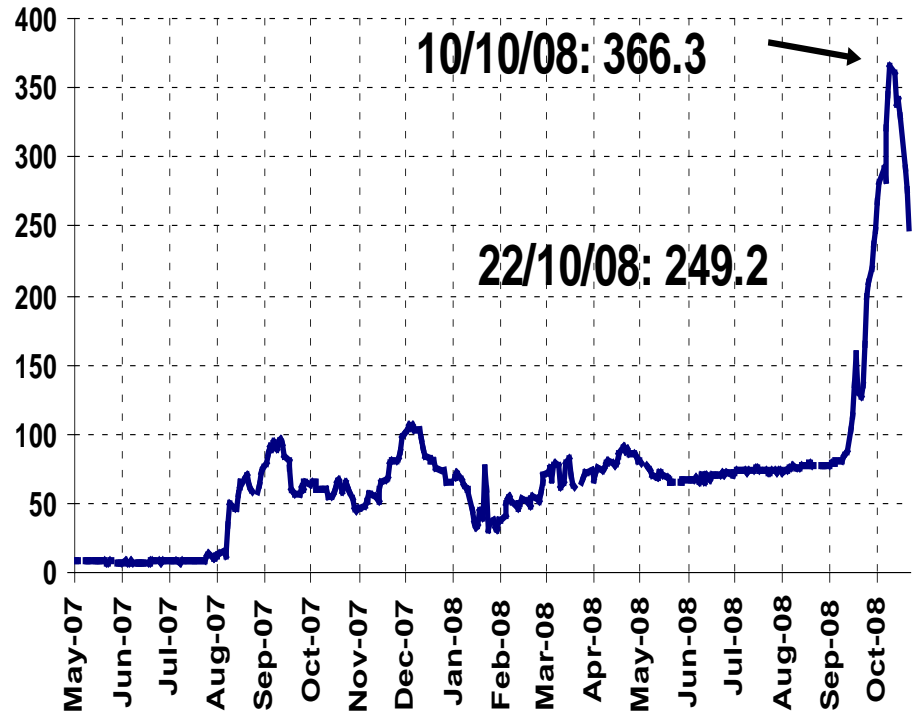
Euro Area

3m Euribor - EONIA



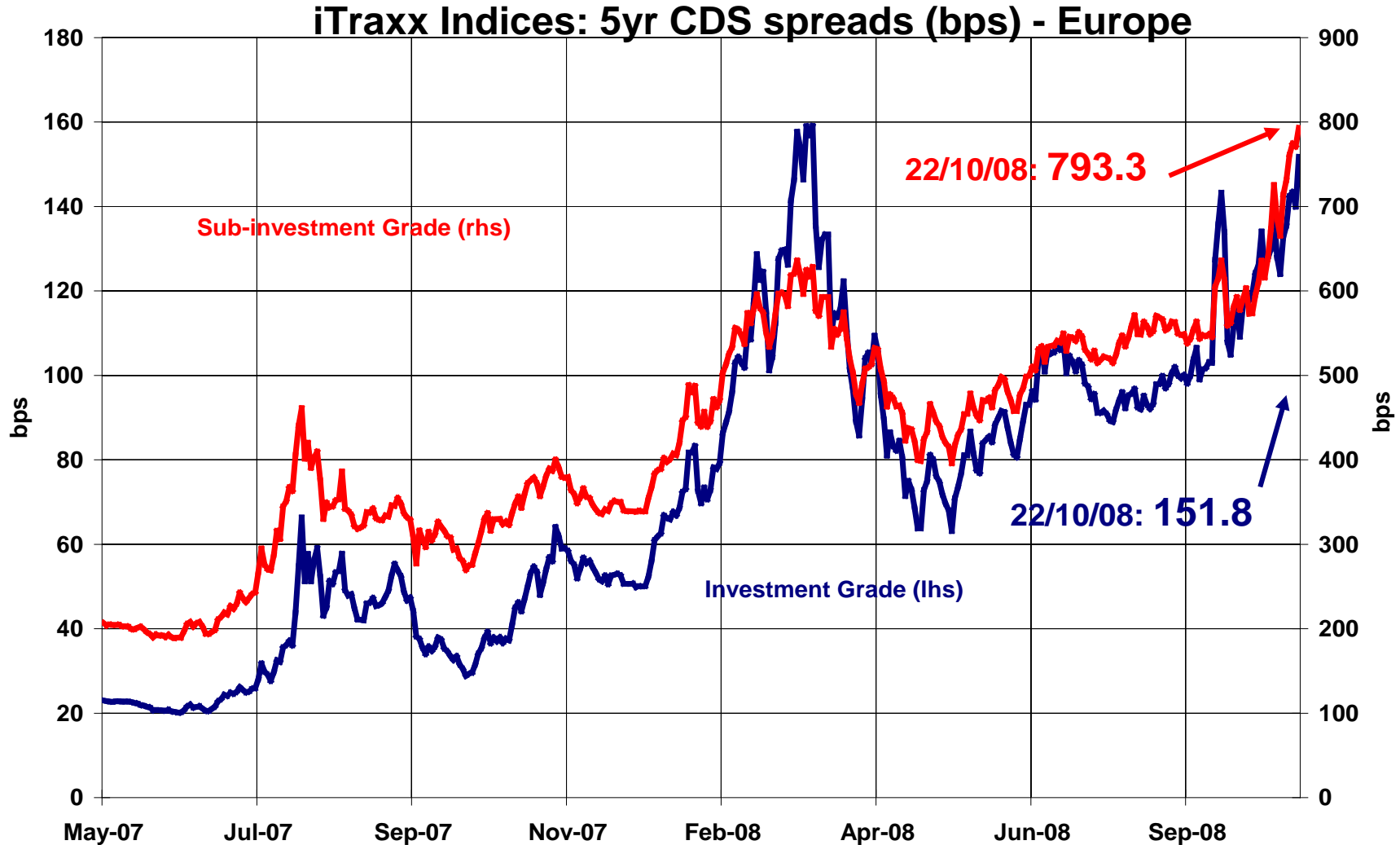
U.S.A.

3m Libor - OIS



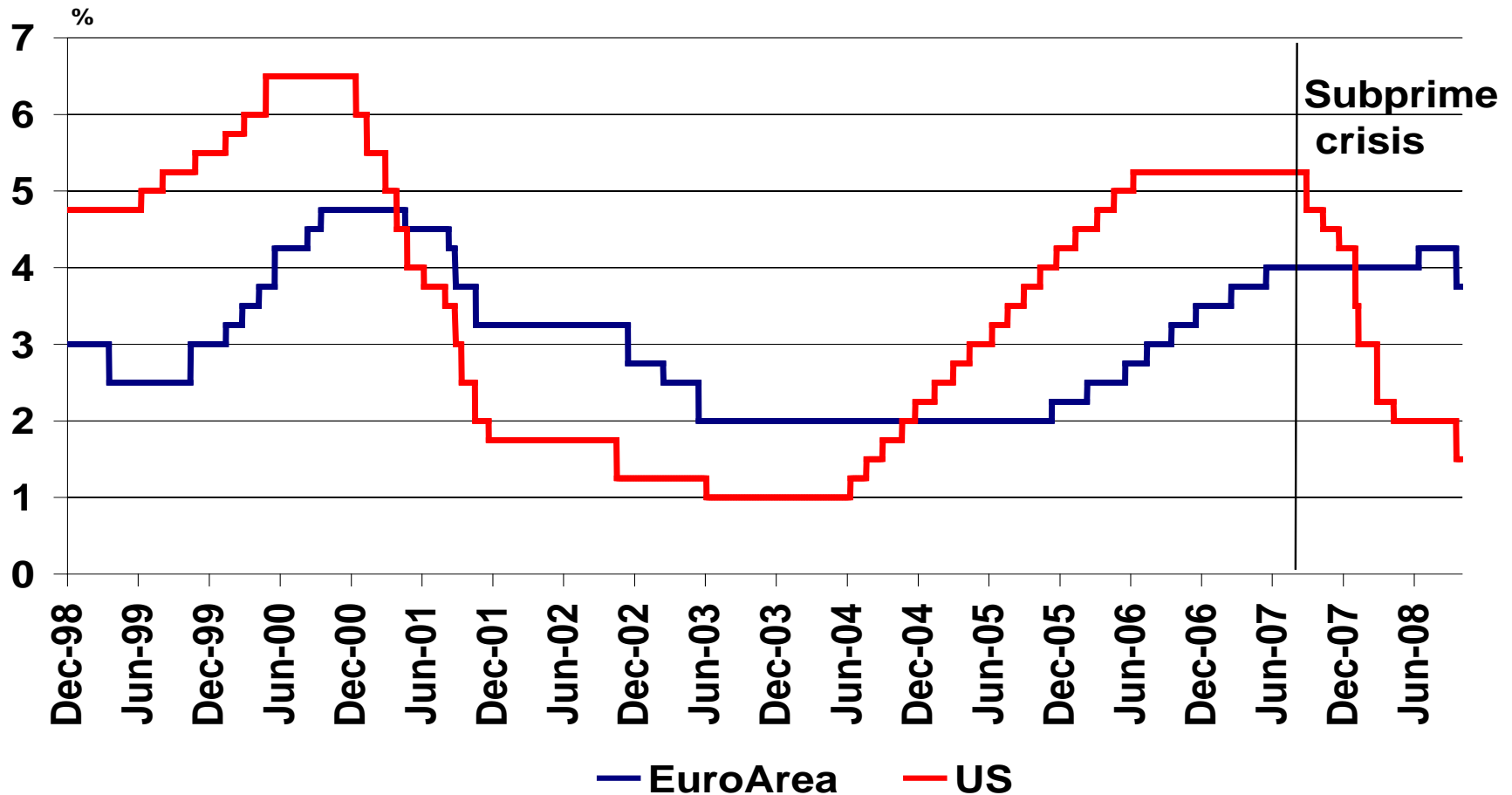
CDSs: European worries get bigger

- CDS spreads in **mid-March** multi-year **highs**
- Rebound post Bear Stearns rescue & coordinated central bank activity
- Subsequent widening shows **systemic risk worries** continued



Monetary policy response

- ✓ Fed more aggressive than the ECB
- ✓ Lots of innovations in providing liquidity, yet the problem remains

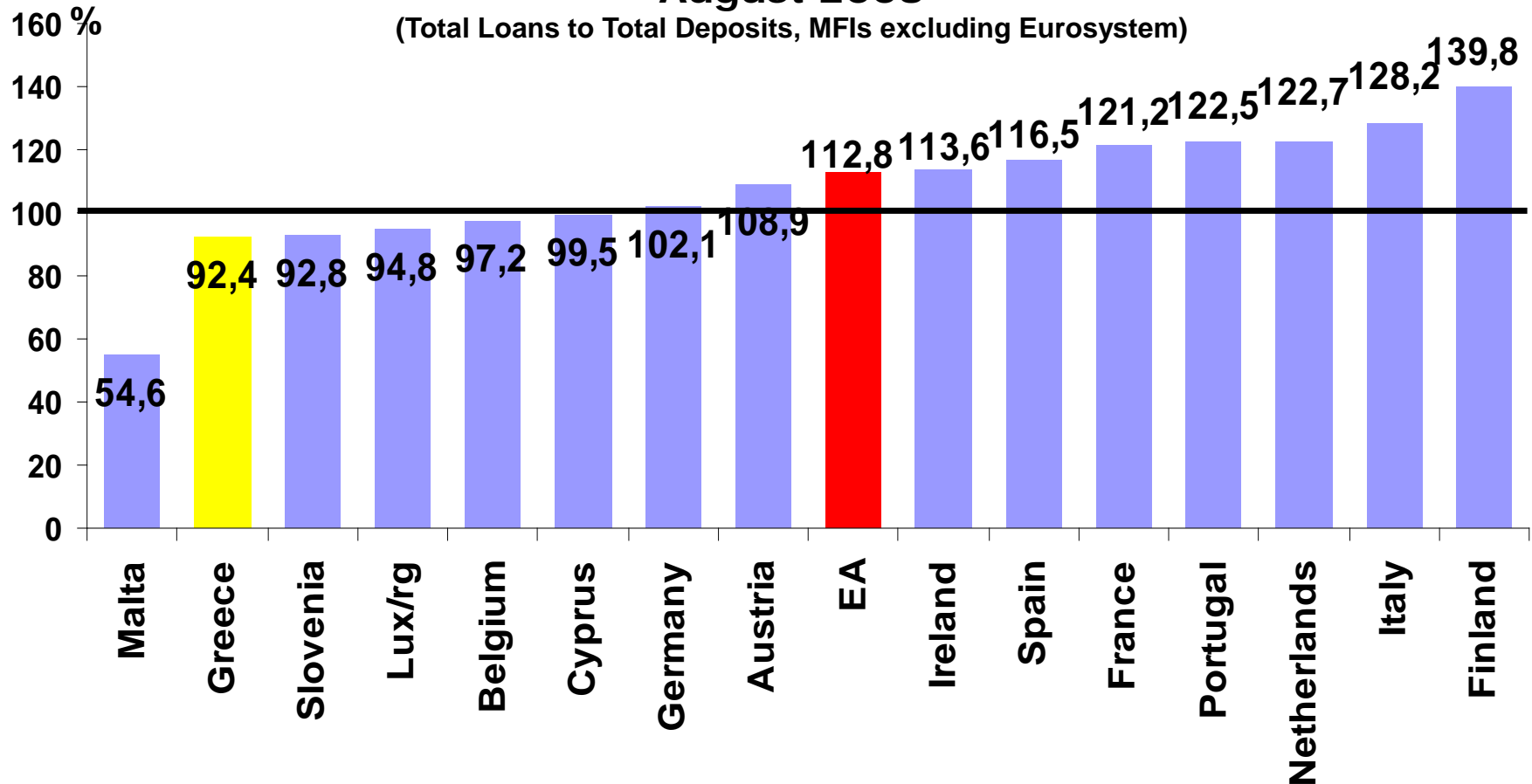


II Liquidity: Less of a problem in Greece relative to Euro Area

Loans to Deposits Ratio

August 2008

(Total Loans to Total Deposits, MFIs excluding Eurosystem)



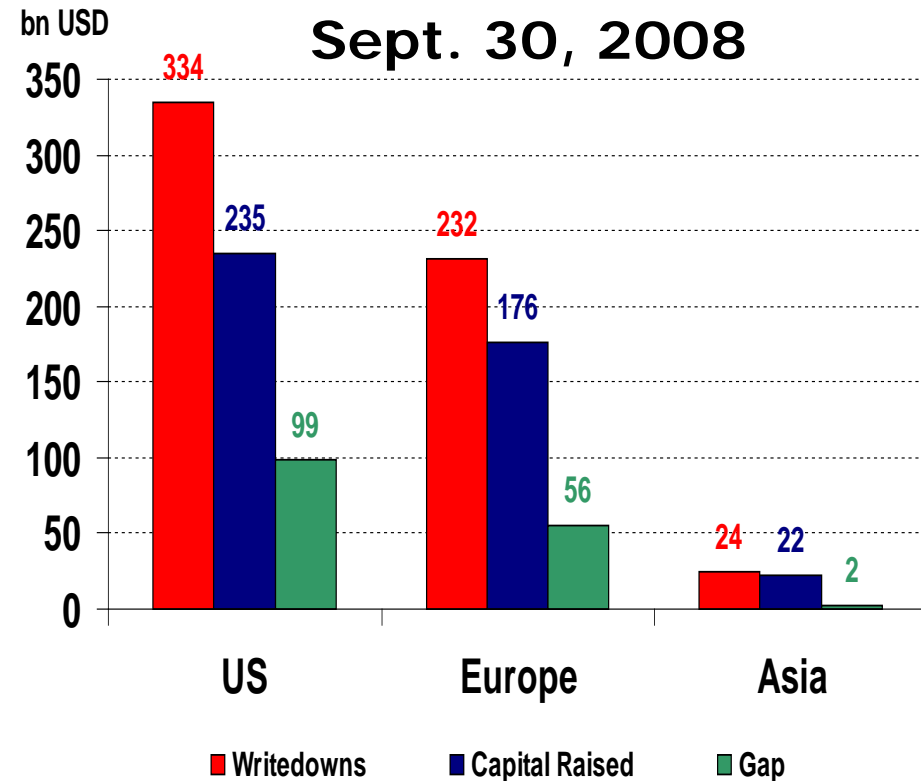
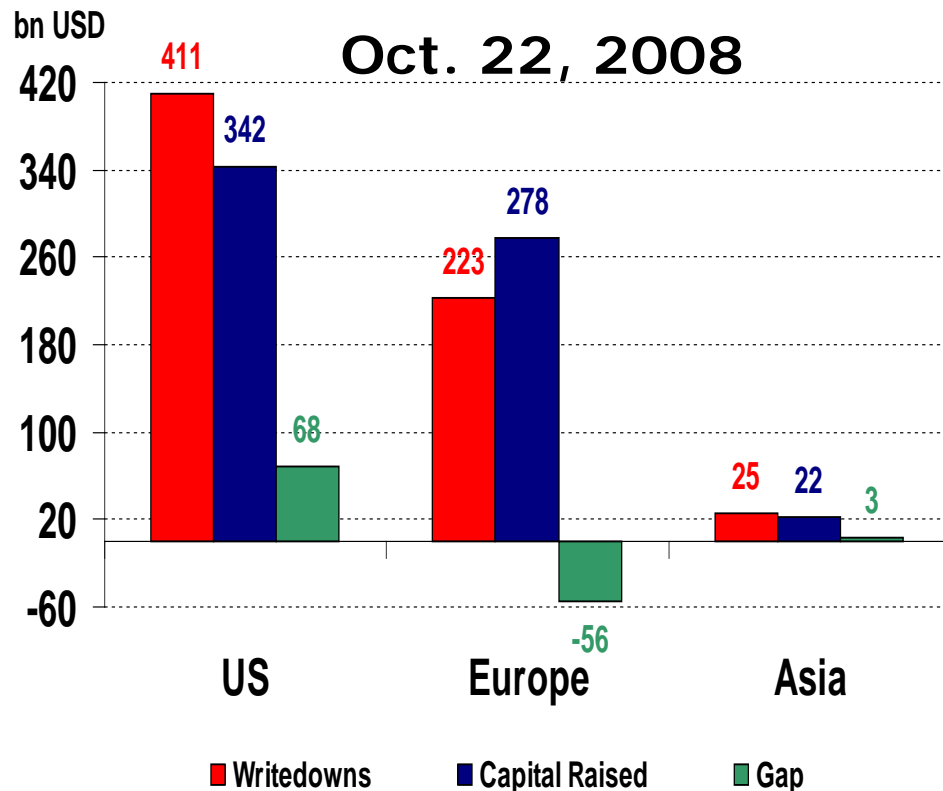
Insolvency

The gap between total write-downs and capital increases has declined sharply in recent weeks due to governments' recapitalizations

IMF: Estimates write-downs to reach \$1.4 trillion

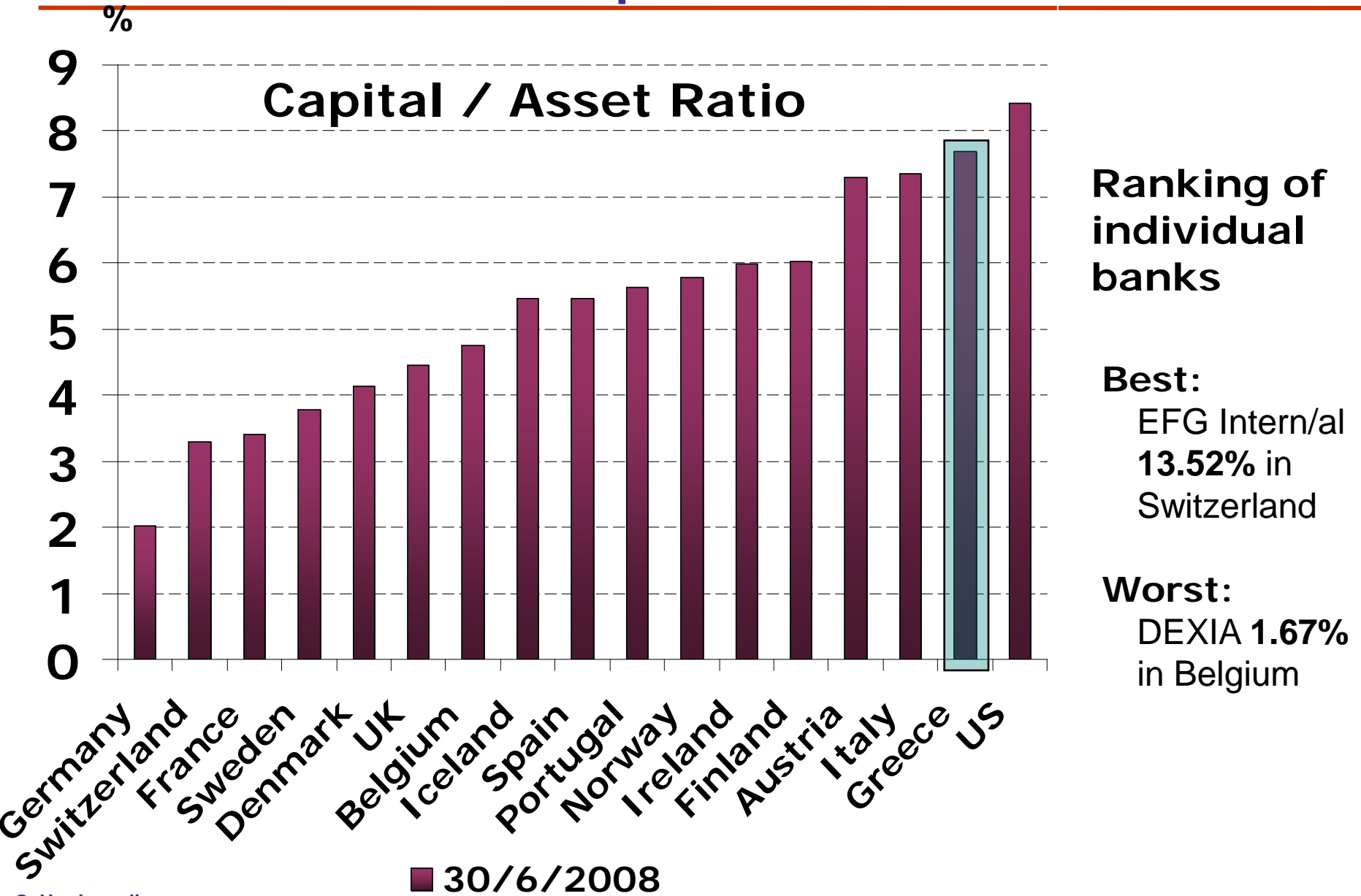
Total Write-downs: \$ 658.5
Total Capital Raised: \$ 642.6
Total Gap: \$ 15.9

Total Writedowns: \$ 590.2
Total Capital Raised: \$ 433.7
Total Gap: \$ 156.5



Source: Bloomberg

II. Greek banks better capitalized than most European banks



II. De-leveraging brings contraction

- ✓ Inability to raise capital to cover losses implies a multiple reduction in bank size (assets)
 - *GAP X Approximate factor of 12.5 in the US*
 - *GAP X Approximate factor of 20 in Europe*
- ✓ De-leveraging prolongs the crisis

Hence,

- ✓ **Further contraction in lending growth**
 - *1 year's worth of stagnation in lending in Europe*
 - *2 years' worth of stagnation in lending in USA*
- ✓ **Significant further downward pressure on asset prices**

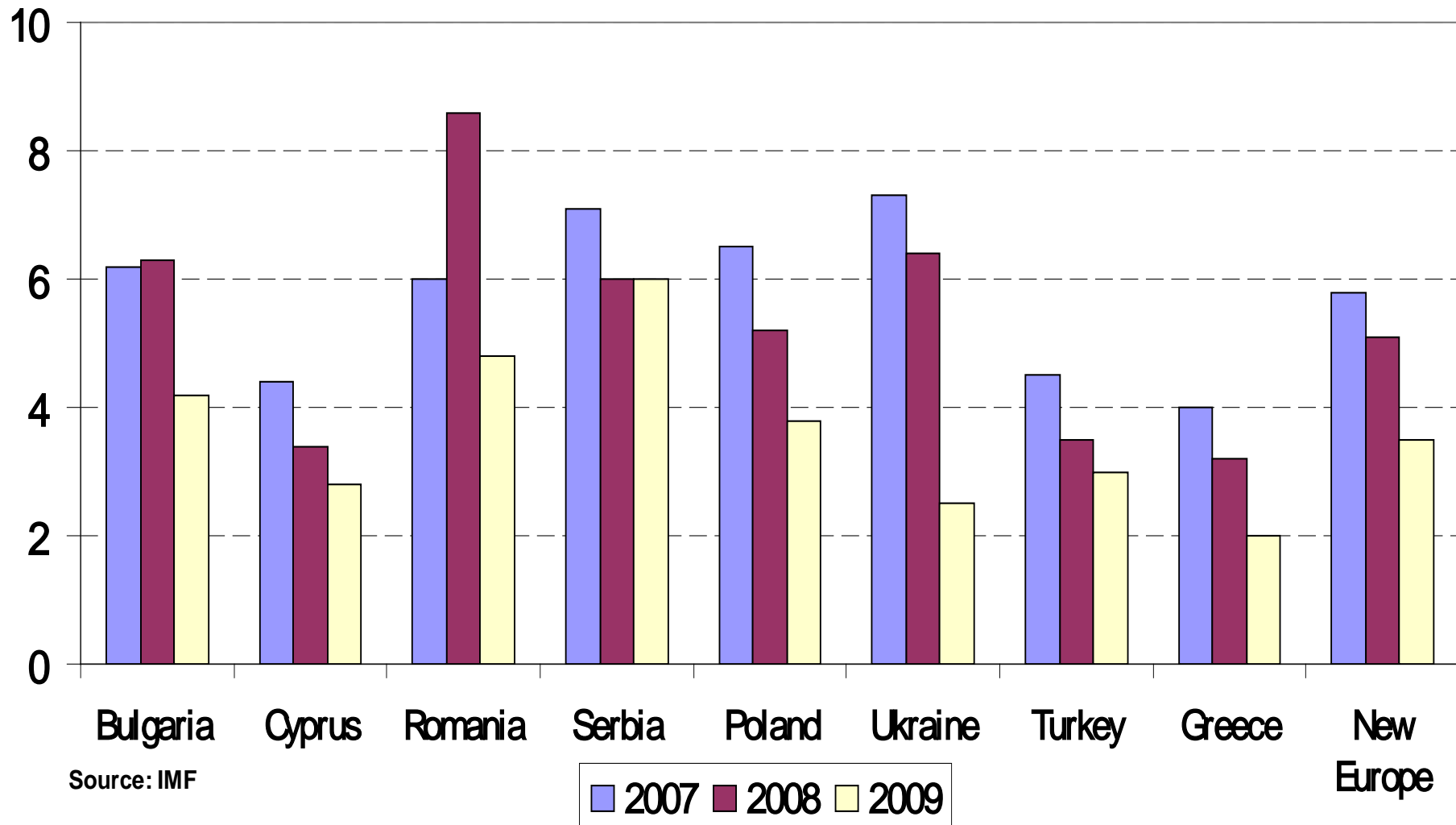
III. New Europe

- A slowdown in growth with inflation cooling off
- Market pressure on FX and borrowing rates
- Strong capital base but liquidity problems in some countries

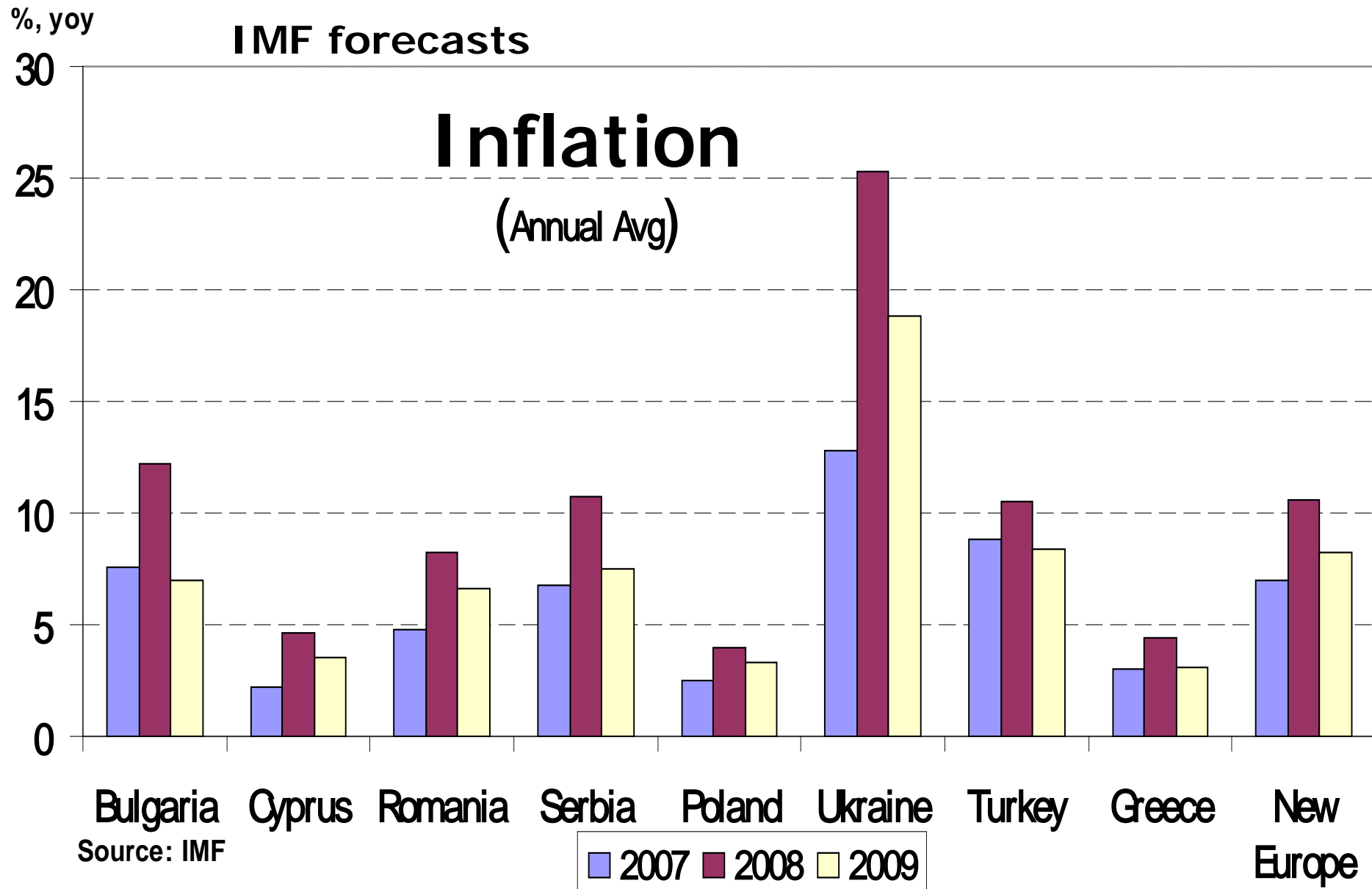
Growth slow-down

IMF forecasts

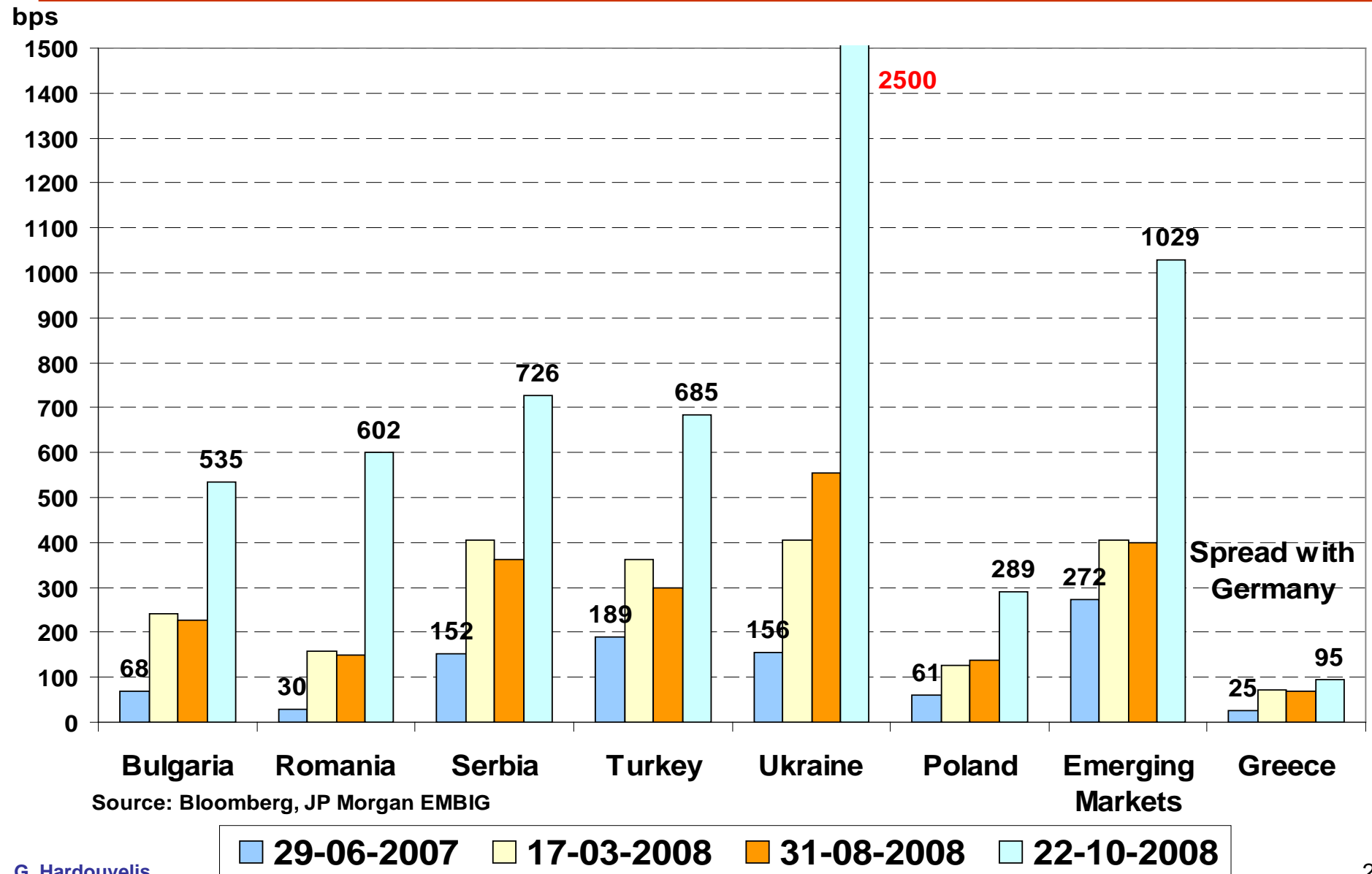
Real GDP Growth



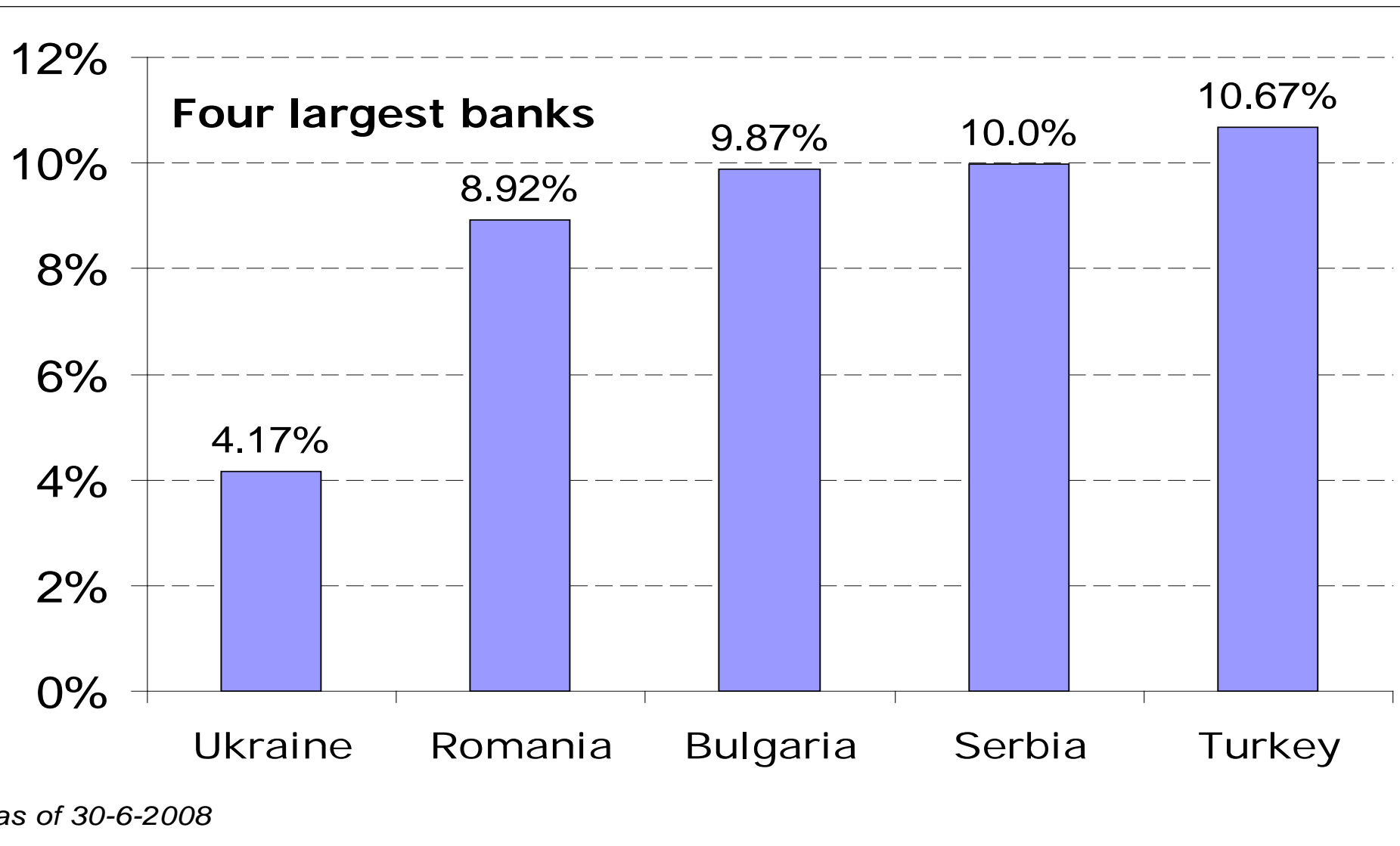
Inflation cooling off



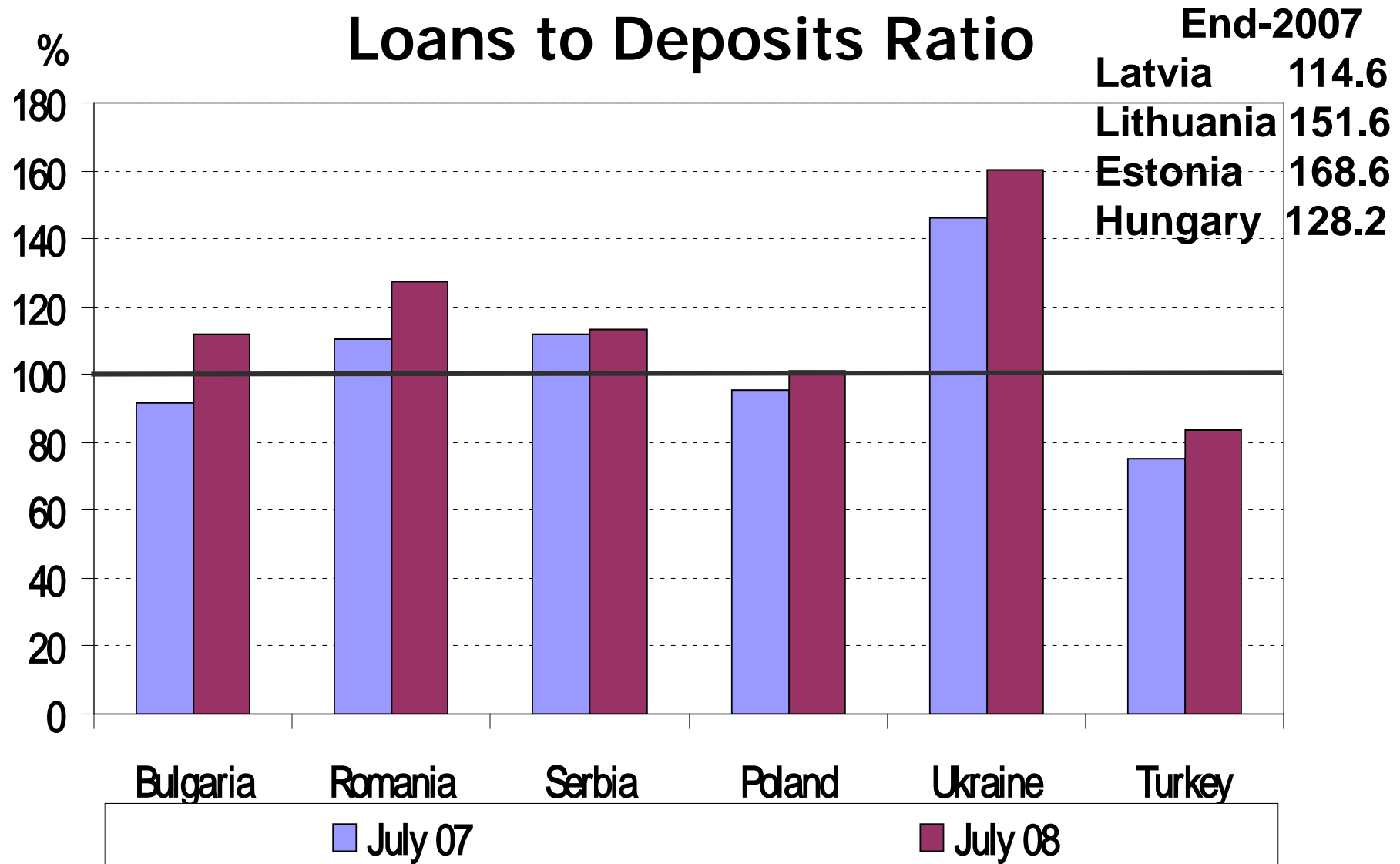
The crisis at the doorstep: Sovereign 10yr yield spreads



NE: Capital / Assets better than in Western Europe



Liquidity is a concern in some NE countries



IV. Greek imbalances

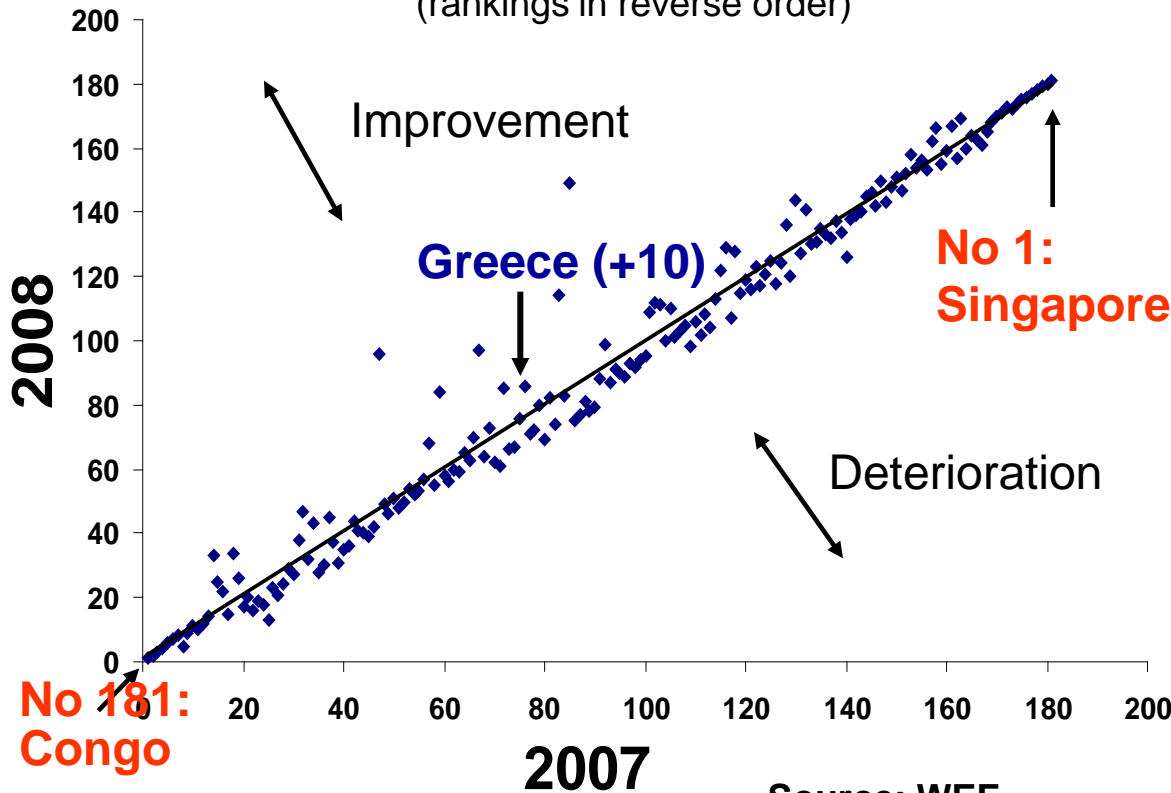
Long term imbalances:

- ✓ Competitiveness at the micro and macro level
- ✓ Future budget pressures from aging population
- ✓ Income inequality

IV. Competitiveness and Ease of Doing Business

- Competitiveness is the deepest thorn in the Greek economy
- World Bank - Doing Business 2009 report: Greece ranks 96th in 2008 among 181 economies in the ease of doing business, rising 10 places from the 106th in 2007.
- Greece remains last among EU-27 countries

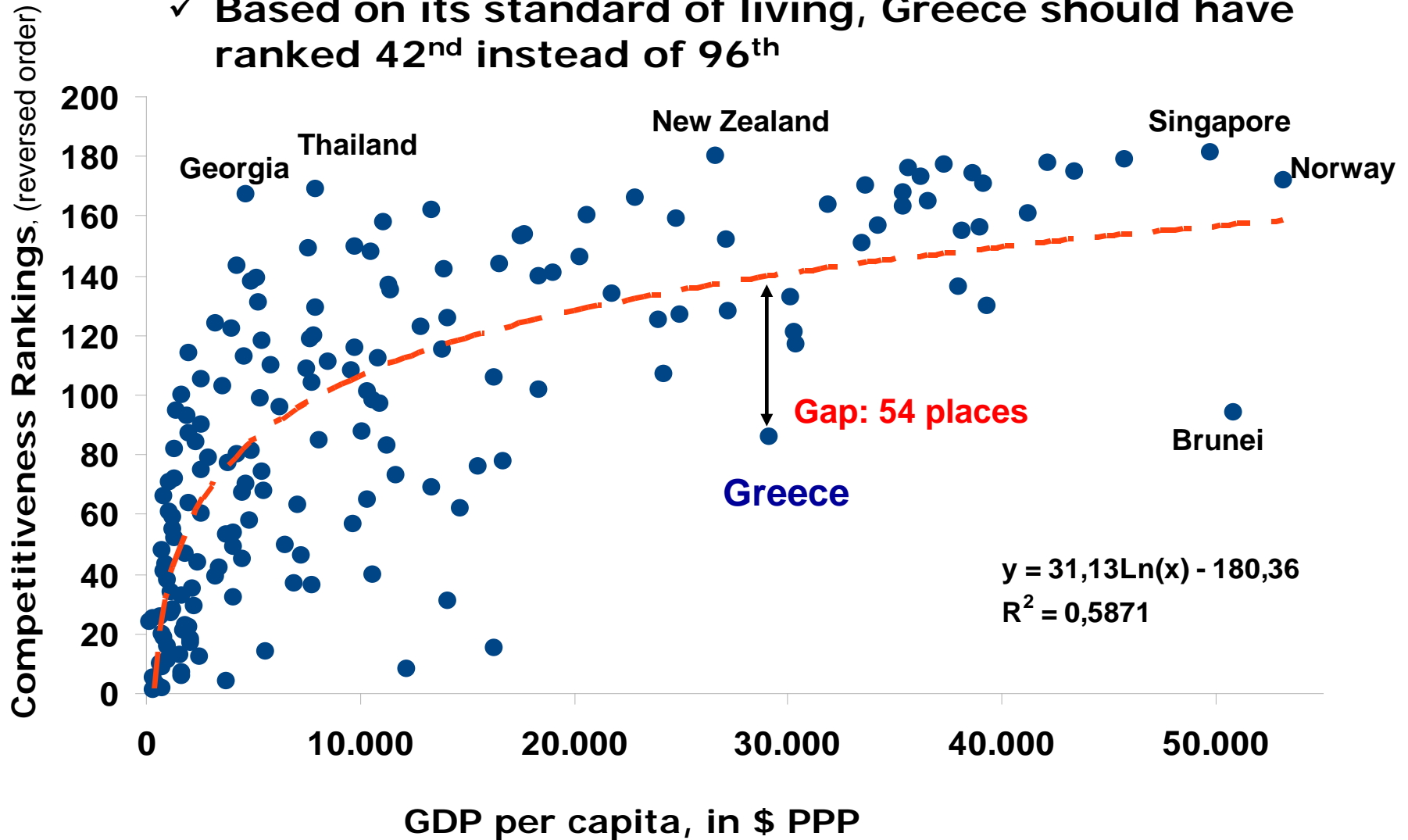
Ease of Doing Business Rankings 2007 – 2008
(rankings in reverse order)



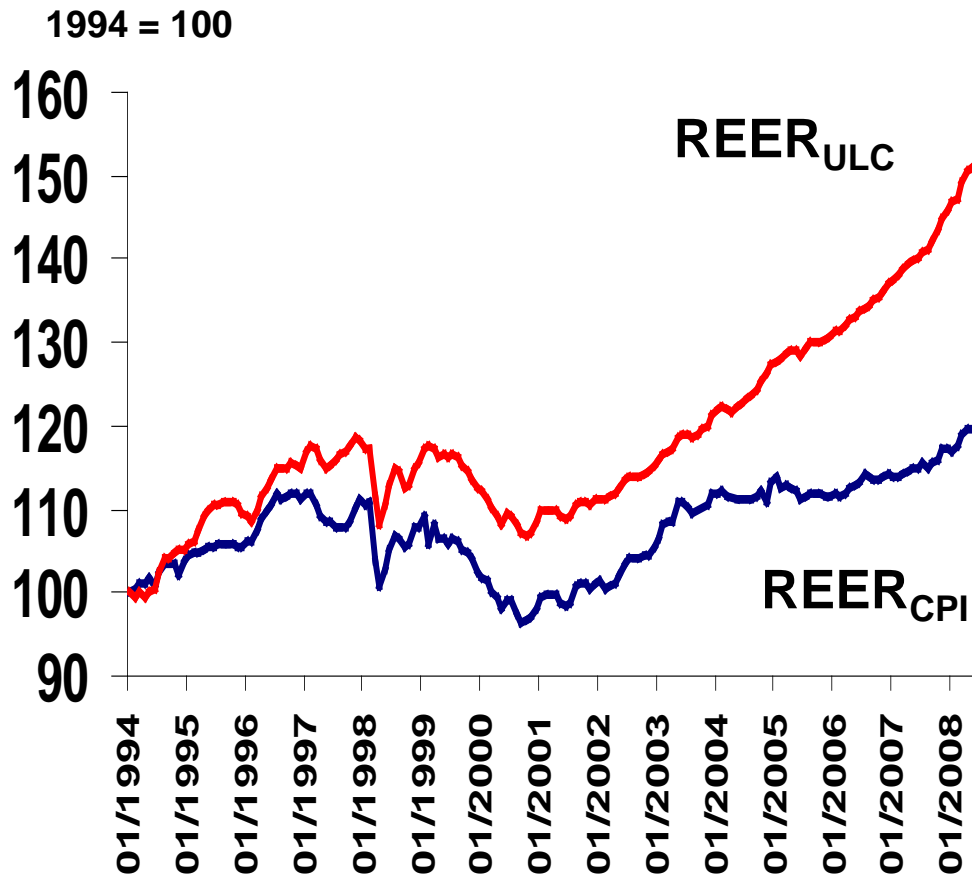
Ease of...	Doing Business 2008 rank	Change in rank from 2007
Doing Business	96	+10
Starting a Business	133	+17
Dealing with Construction Permits	45	+1
Employing Workers	133	+10
Registering Property	101	-5
Getting Credit	109	-7
Protecting Investors	150	+11
Paying Taxes	62	+32
Trading Across Borders	70	-4
Enforcing Contracts	85	-1
Closing a Business	41	0

IV. Competitiveness way below Greece's level of development

✓ Based on its standard of living, Greece should have ranked 42nd instead of 96th



IV. Greece is expensive relative to its trading partners ...

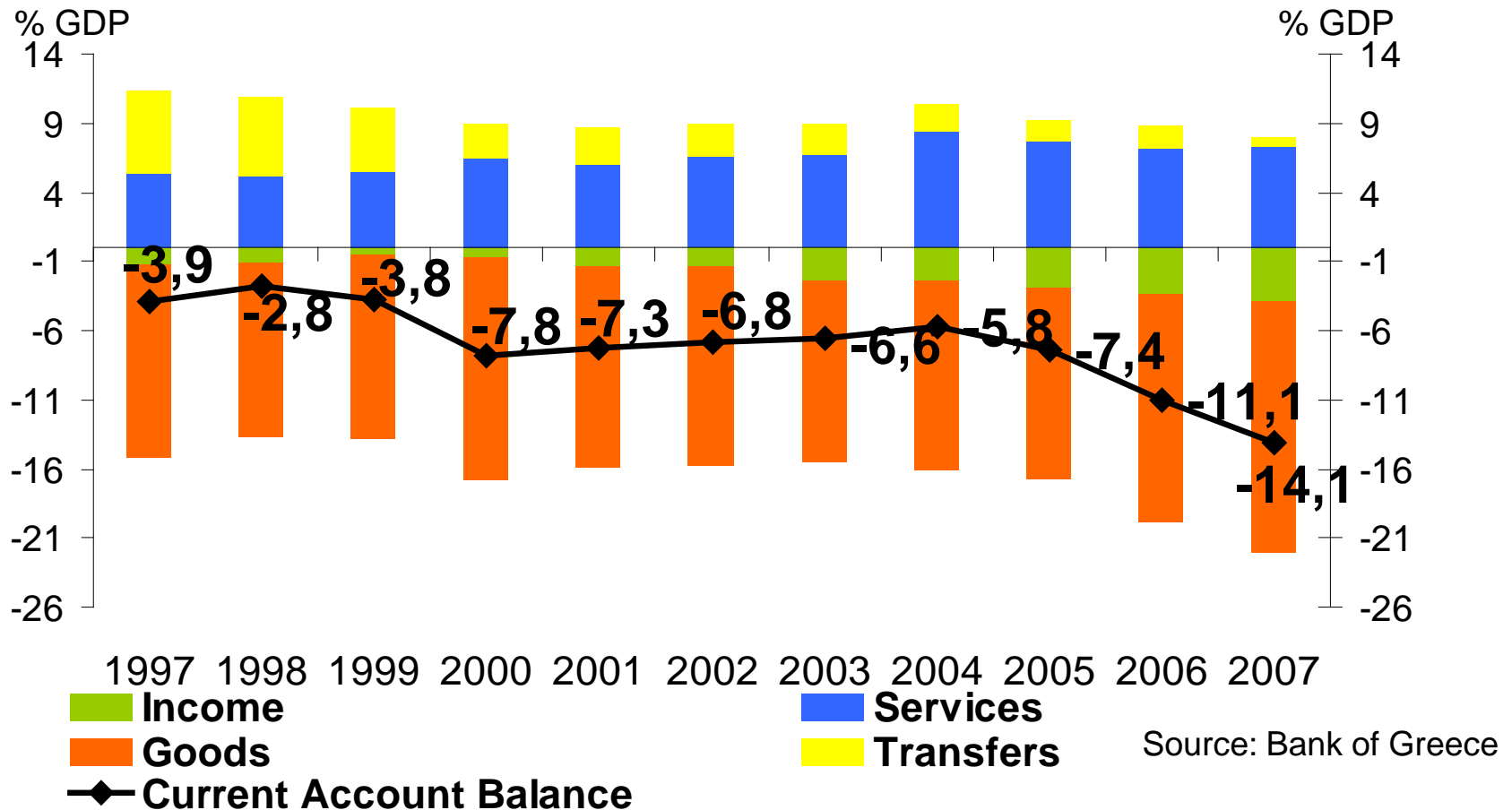


Source: IMF

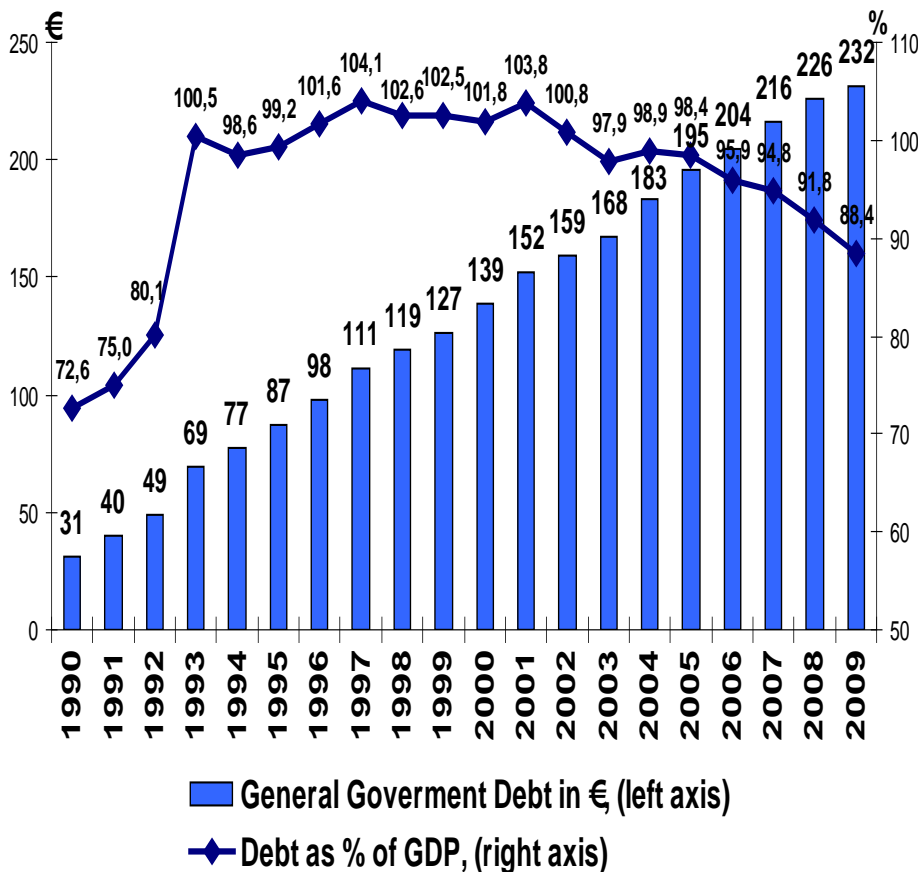
- ✓ Real Effective Exchange Rates have worsened since 2000
- ✓ The higher CPI inflation in Greece points to lack of competition in product & service markets.
- ✓ Unit labor costs are increasing faster in Greece

IV. ... hence, Greece's current account is getting worse

- ✓ CA deficit has tripled relative to the pre-EMU period
- ✓ CA deficit can lead to an abrupt future recession



IV. Fiscal pressures from aging population



	2005	2010	2050
Health Expenditures (% GDP)	5.1	5.4	6.8
Education Expenditures (% ΑΕΠ)	3.4	3.1	3.1
% of older employees (55 – 64)	10.9	12.0	17.4
Old-age Dependency Ratio	26.8	28.0	60.4
Number of pupils&students (thousands)	1888	1768	1444

Source: European Commission, Ministry of Economy

IV. Inequalities

	Unemployment (2007)		Employment (2007)	
	Greece	EU-15	Greece	EU-15
Total	8.3%	7.0%	61.4%	66.9%
Male	5.2%	6.4%	74.9%	74.2%
Female	12.8%	7.8%	47.9%	59.7%
Young	22.9%	14.7%	24.0%	40.8%

At risk of poverty rate

% of working population (2006)

	Greece	EU-15
Total	14.0%	7.0%
Male	15.0%	8.0%
Female	12.0%	7.0%

At risk of poverty rate

% of population (2006)

	Greece	EU-15
After Social Transfers	21.0%	16.0%
Before Social Transfers	40.0%	43.0%

Source: Eurostat

V. Conclusions

- ✓ Greece will be affected by the crisis. The question is how much.
- ✓ A domino effect all over emerging markets
- ✓ It is not clear to citizens that the rescue packages by governments are not for bankers but for the real economy
- ✓ The current crisis has delayed affecting Greece, exactly because it started in the financial sector, an area where reforms took place long time ago
- ✓ Yet the crisis may hit Greece the moment it spreads away from the financial sector into the real economy, as it may bring forward in time an anticipated correction stemming from one of the country's sharp imbalances: The huge current account deficit
- ✓ In a future environment of low growth, it may be more difficult to carry on with those reforms needed to improve competitiveness, make the pension system financially stable and reduce inequalities.
- ✓ Apart from the EU funds and PPP, there are no tools available to the government to take us out of a recession

THANK YOU FOR YOUR ATTENTION!!

My thanks to the Research department of Eurobank EFG for able research assistance and support

For more info, please consult the Eurobank website:

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