

The post-crisis future of the Greek economy

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Εκδήλωση

του Συλλόγου Αποφοίτων του Αμερικανικού Κολλεγίου Ανατόλια
και του American College of Thessaloniki,
με θέμα:

«Ανάκαμψη της ελληνικής οικονομίας: Πόσο κοντά πραγματικά βρισκόμαστε;»

Θεσσαλονίκη, Τετάρτη, 7/5/2014, 19:00, ξενοδοχείο “The Met”

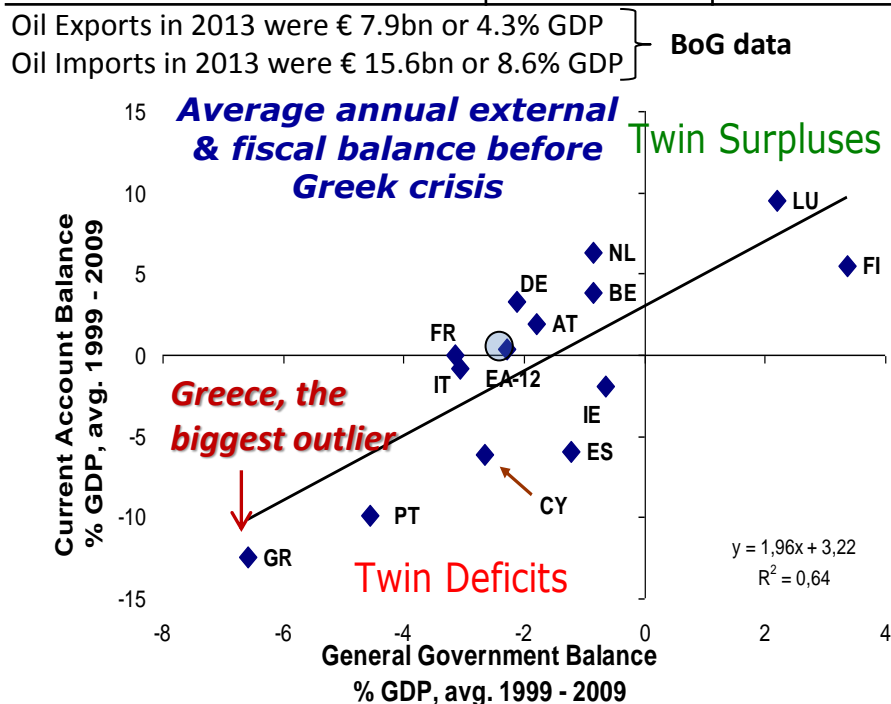
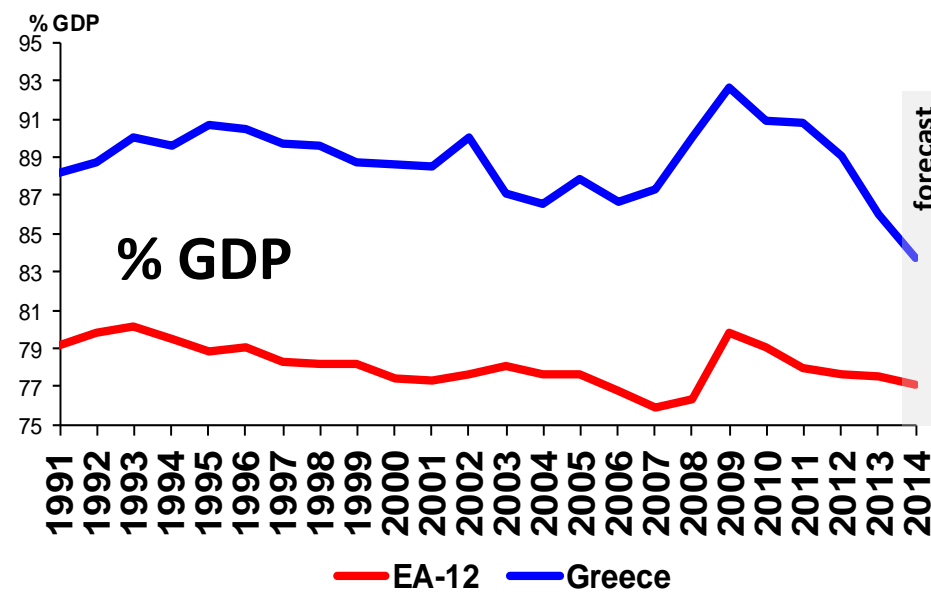
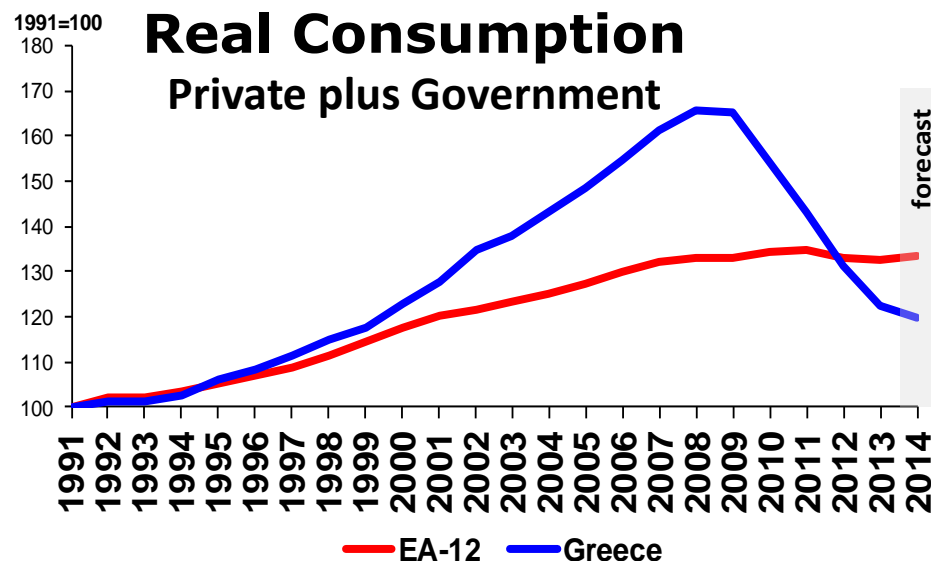
Eurobank Economic Research

Thessaloniki, Greece, May 7, 2014

FUTURE GROWTH MODEL, REQUIREMENT #1: NEED TO CORRECT THE DISEQUILIBRIA

2013 SHARE in nom. GDP	Greece	EA18
Private consumption	72.0%	57.2%
Public consumption	17.2%	21.6%
Total investment	12.7%	17.7%
Exports	29.2%	45.9%
Imports	31.4%	42.4%

Source: European Commission



FUTURE GROWTH MODEL, REQUIREMENT #2:

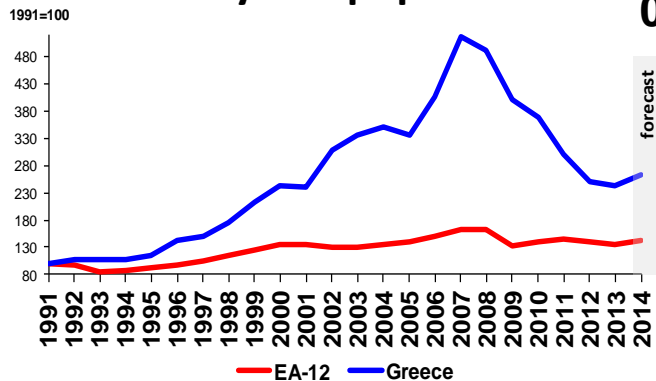
CONSUMPTION SHOULD GROW TOO, BUT AT A LOWER RATE

- ✓ THE GROWTH MODEL: In the future, consumption should grow at rates lower than investment & exports
- ✓ For recession to stop, consumption has to stabilize, investment has to reverse its trend & exports have to pick up momentum
- ✓ Private Consumption will stabilize if disposable income stabilizes, i.e. no more taxes, no drastic wage & pension cuts
- ✓ The short and long-term growth paths are inter-linked: If recession continues, capital & labor inputs get destroyed, hurting potential growth

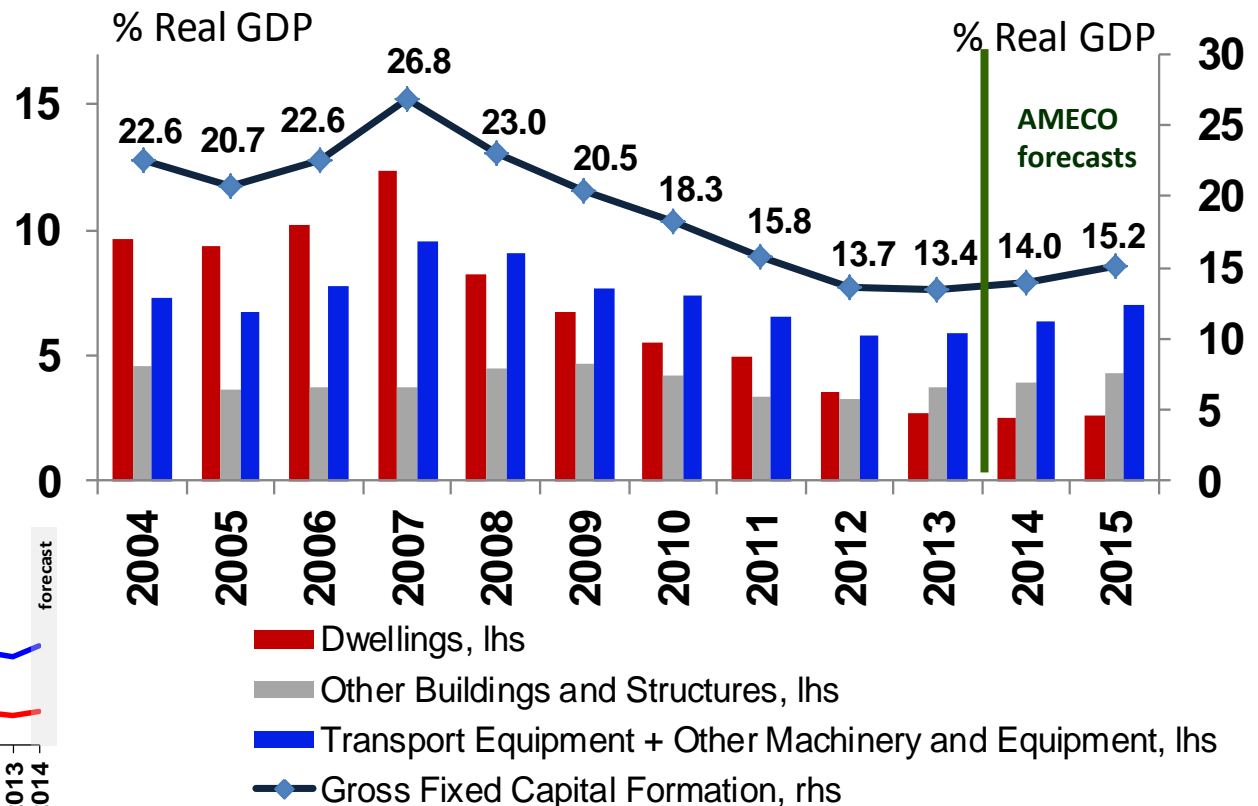
	2012 Share in Nom. GDP	2013 growth Real	2014 growth Real
Private Consumption	73.7%	-6.0%	0.5%
Government Consumption	17.8%	-4.1%	-3.1%
Tot. Consumption	91.4%	-5.6%	-0.2%
GFCF	13.7%	-12.8%	1.5%
Domestic Demand	105.0%	-5.8%	0.0%
Imports	32.0%	-5.3%	0.6%
Exports	27.0%	1.8%	2.1%
GDP (nominal, € bn)	193.748		
Real GDP		-3.9%	0.4%
GDP deflator		-2.1%	-0.5%
Unemployment (avg)		27.6%	28.0%

- ✓ The decline in investment since 2007 is due primarily to residential investment
- ✓ In 2013, investment in machinery & equipment plus investment in other buildings & structures improved
- ✓ Machinery & equipment embody technological change, preserve potential for productivity growth

Real Investment Machinery & Equipment

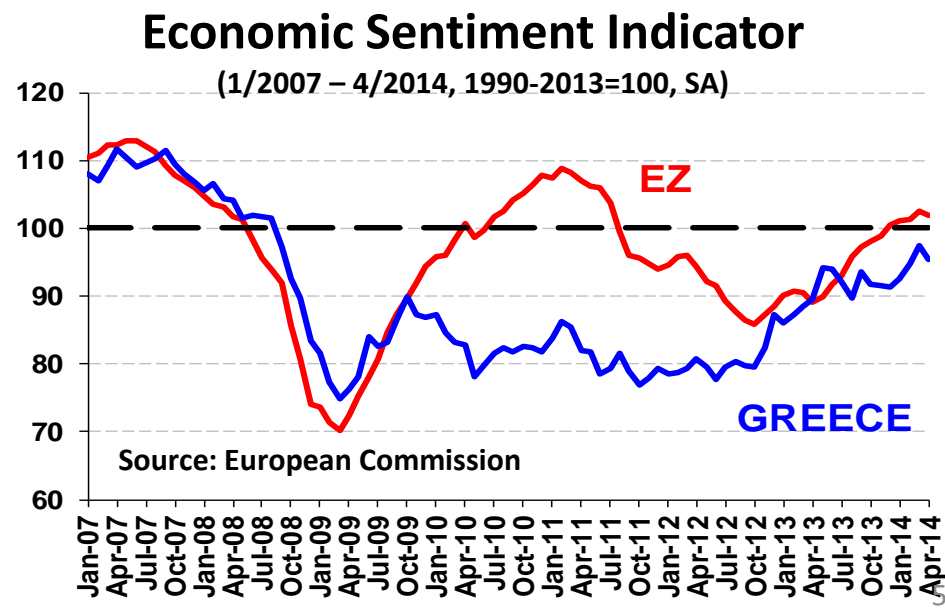
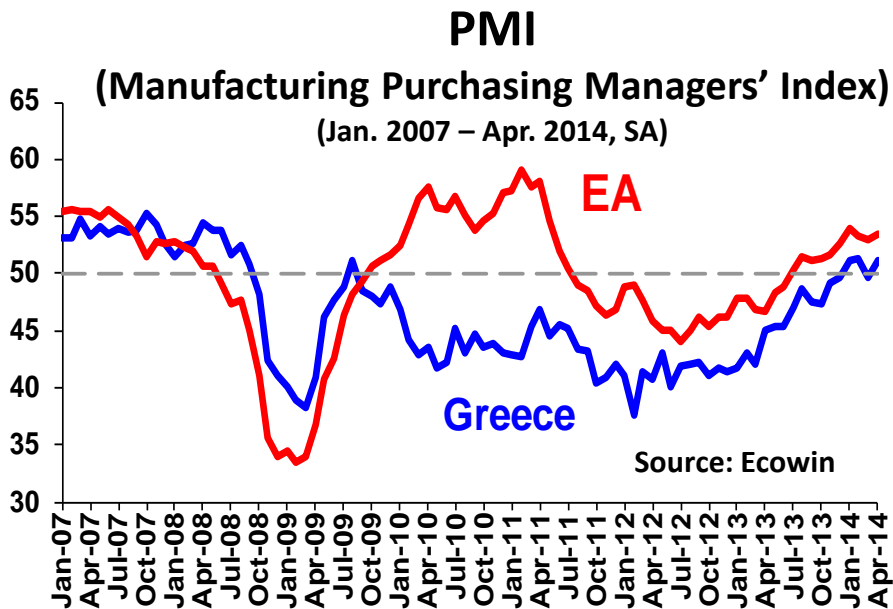
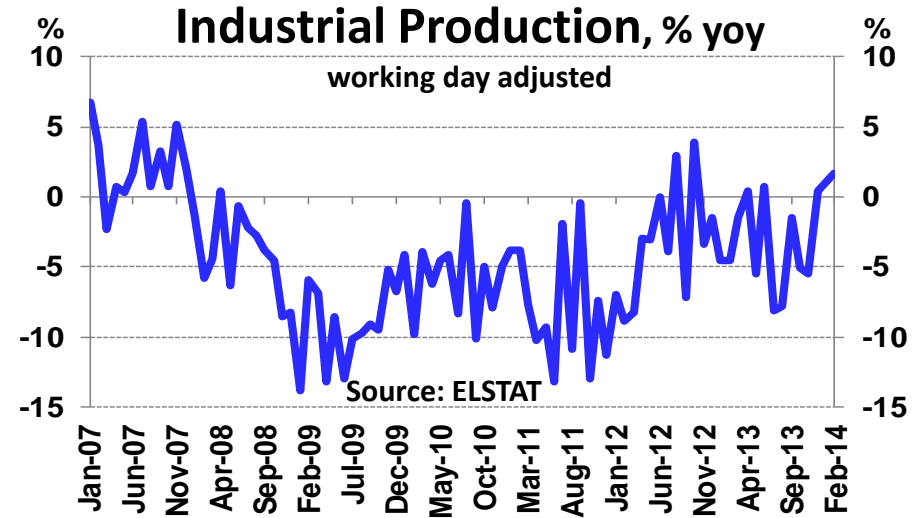


Source: European Commission



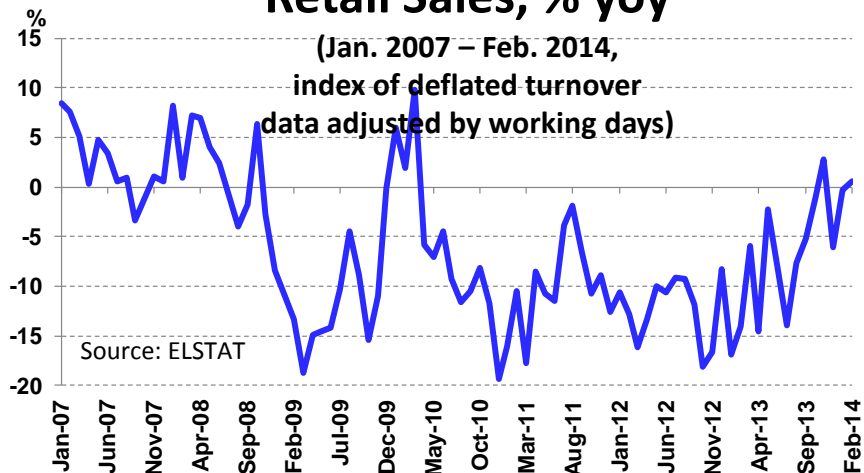
Source: Bank of Greece

GREEK ECONOMY – GOOD NEWS



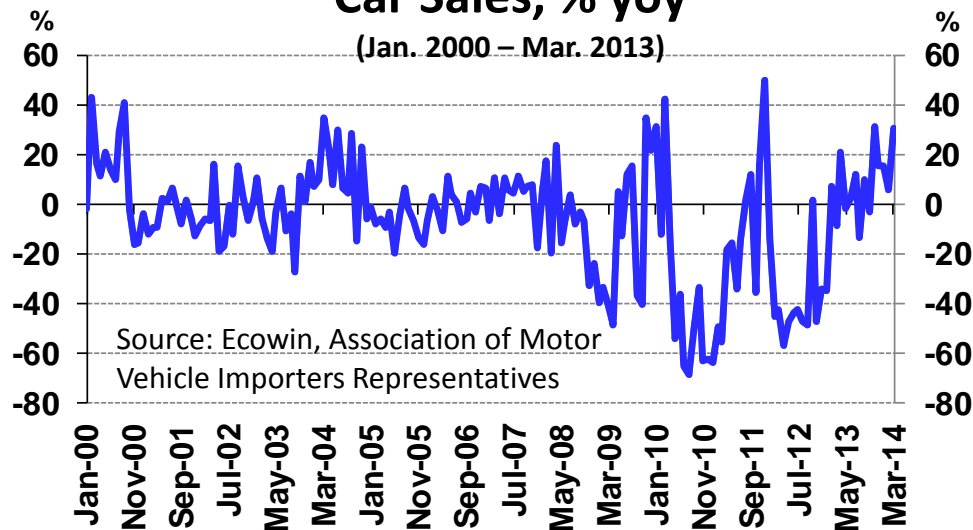
Retail Sales, % yoy

(Jan. 2007 – Feb. 2014,
index of deflated turnover
data adjusted by working days)

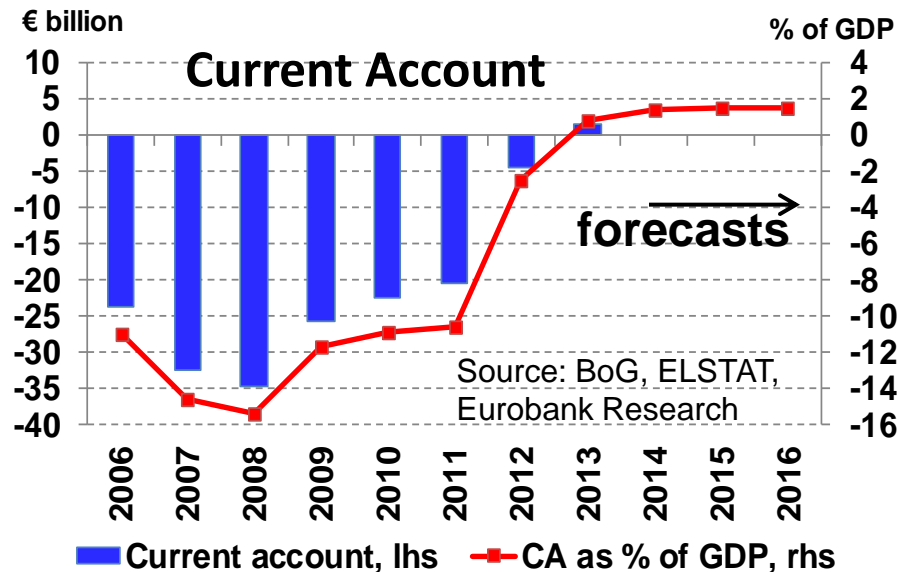


Car Sales, % yoy

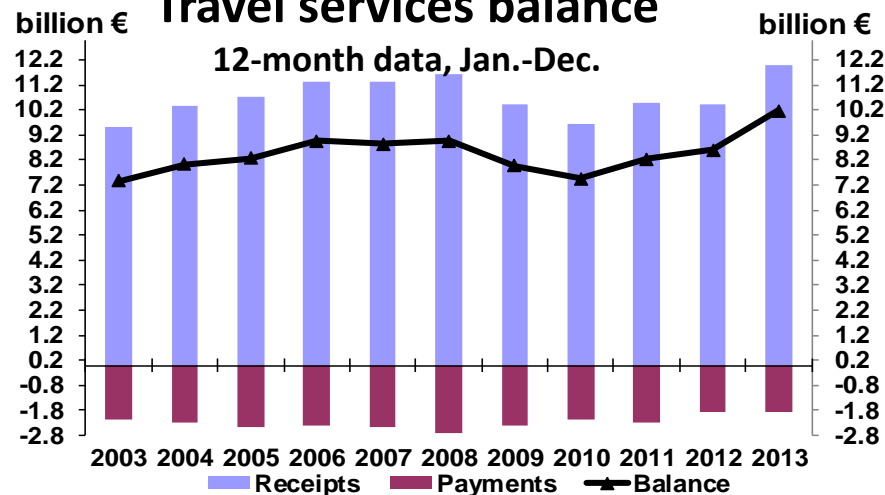
(Jan. 2000 – Mar. 2013)



Current Account



Travel services balance

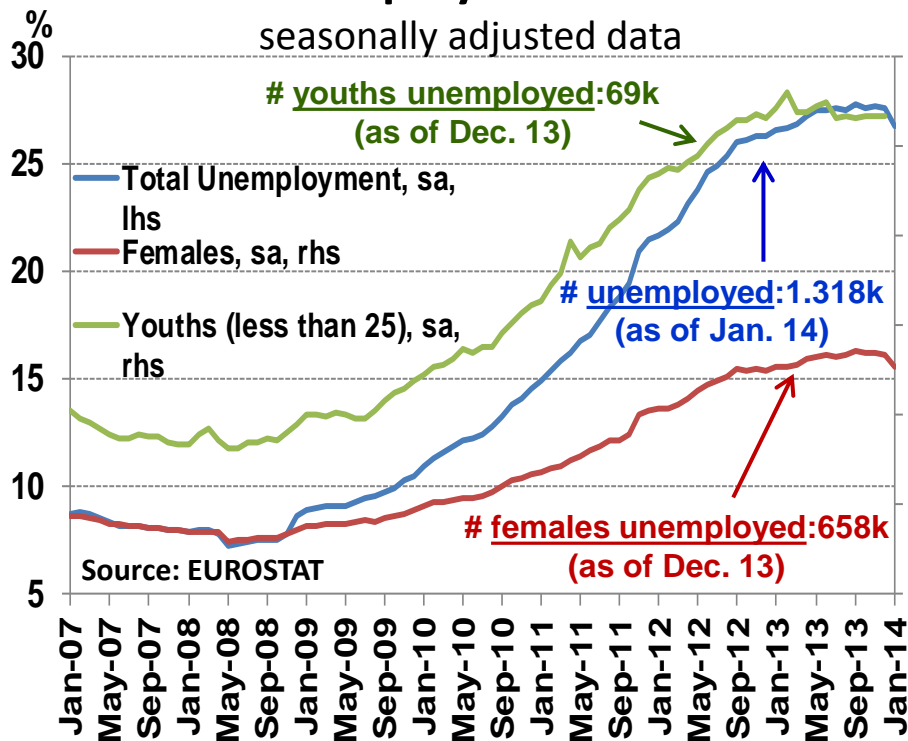


Source: Bank of Greece

- ✓ The unemployment rate in Greece seems peaked at 27.8% in September 2013
- ✓ E-registry of new hirings & layoffs shows a positive balance for the fourth consecutive month

Unemployment rate

seasonally adjusted data



Balance of new hirings-layoffs

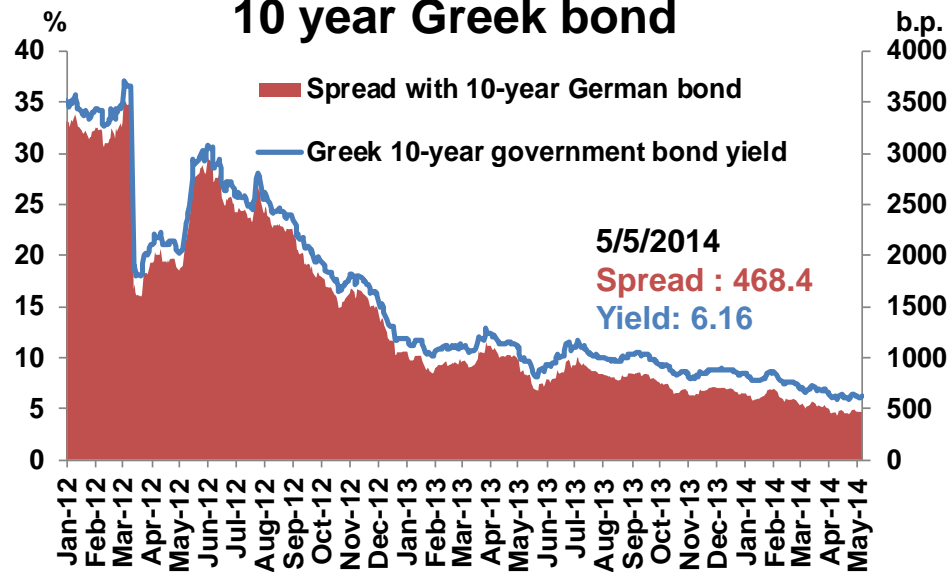
(ERGANI system)



Note: The e-registry of hirings & layoffs became compulsory for employers from November 2013 onwards. The e-registry does not cover the self-employed and the underground economy.

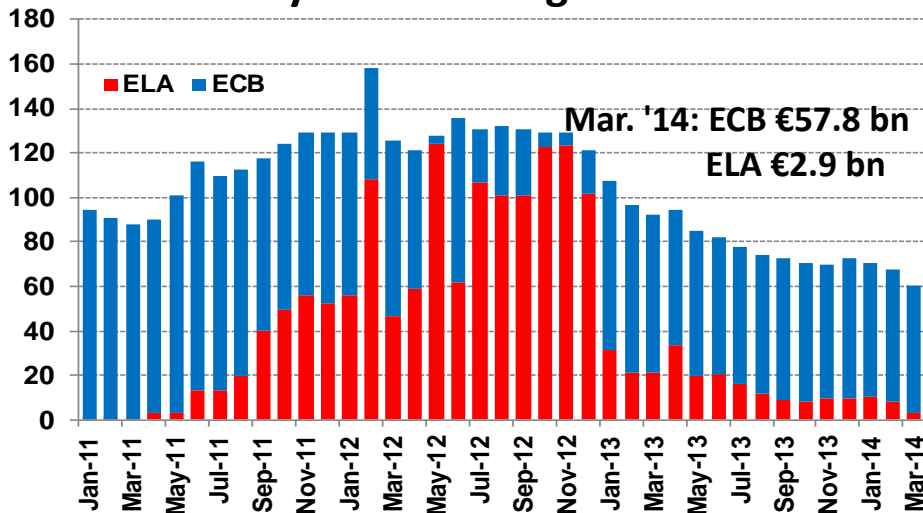
- ✓ Financial sector stabilizes, Government & Corporate bond yields decline
- ✓ Banks are fully capitalized in 2012-2013: €42bn of new capital injected via HFSF (€38.6) and private investors €3.1bn
- ✓ New private capital since March 2014: ALPHA €1.2bn, Piraeus, €1.75bn, Eurobank €2.9bn, NBG €2.5bn
- ✓ Pre-provision income improves
- ✓ HFSF has remaining cushion of €11.4bn

10 year Greek bond



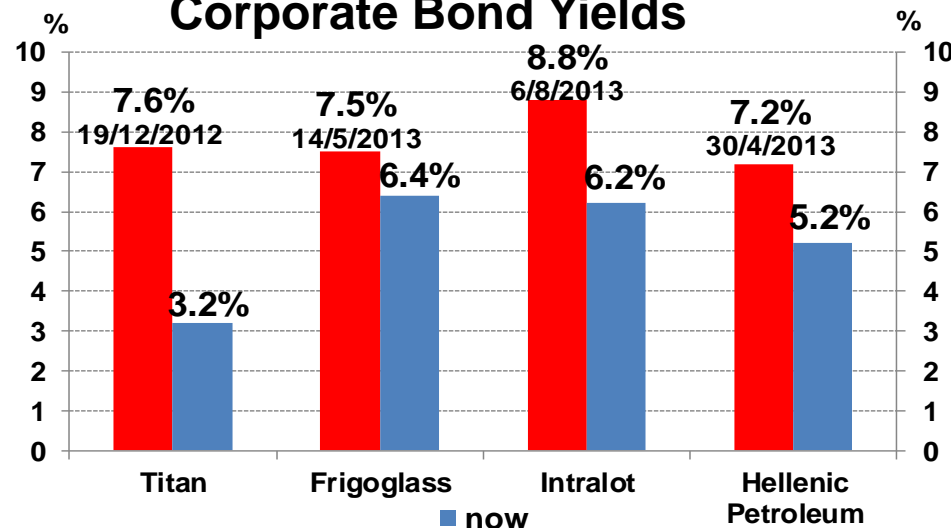
Source: Bloomberg

Eurosystem funding ECB & ELA



Eurobank Research Source: BoG, Bloomberg

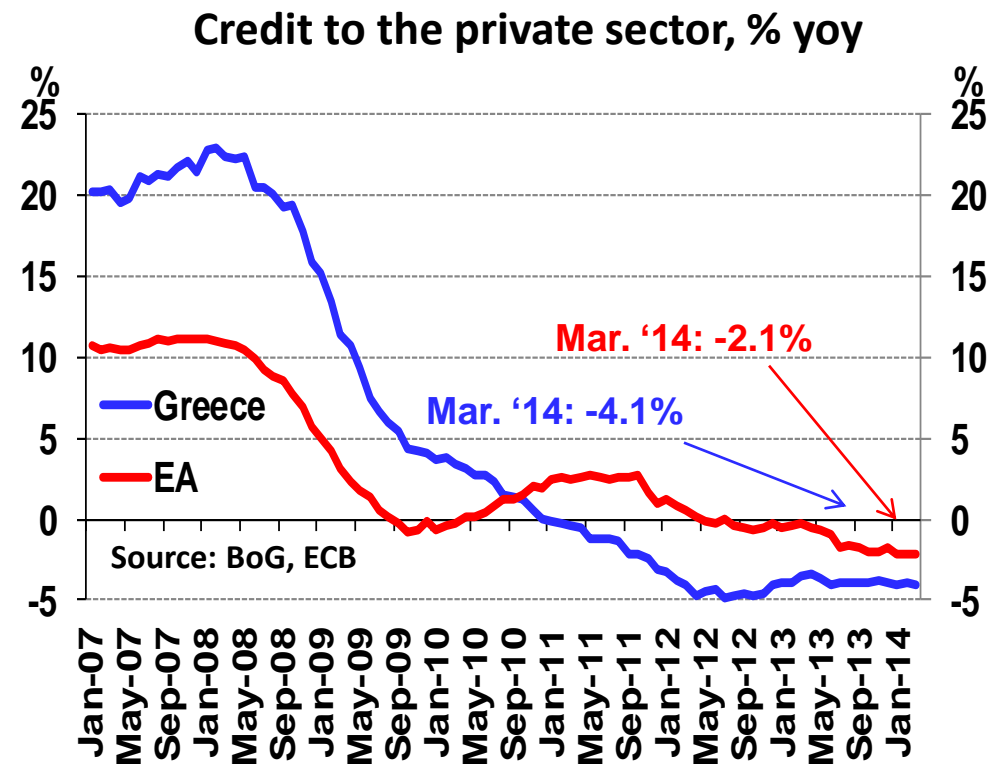
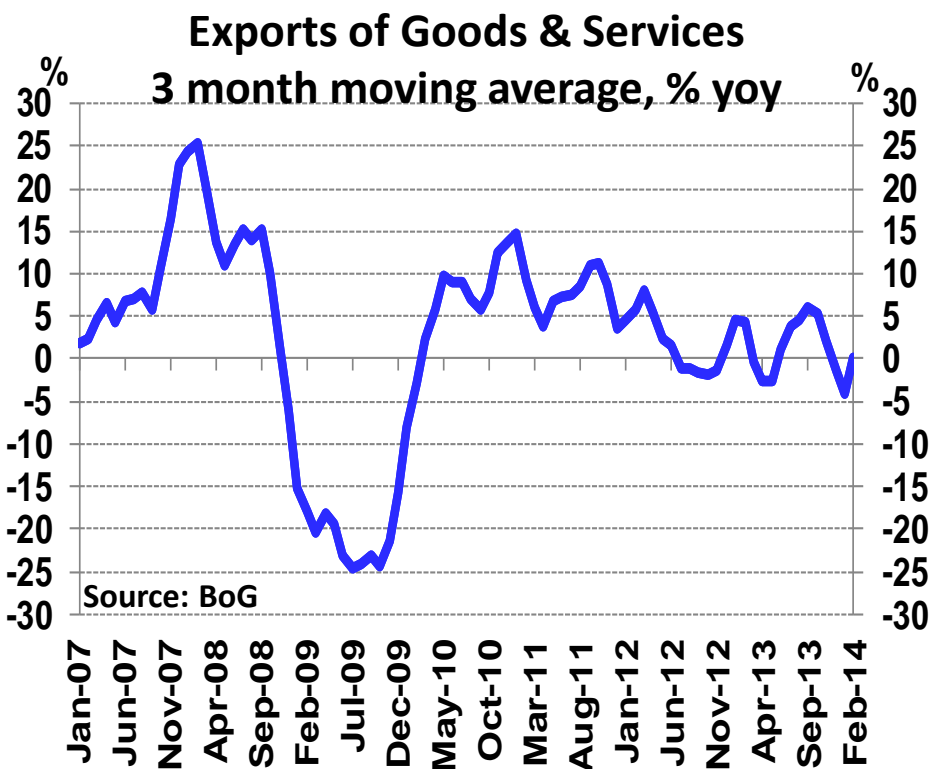
Corporate Bond Yields

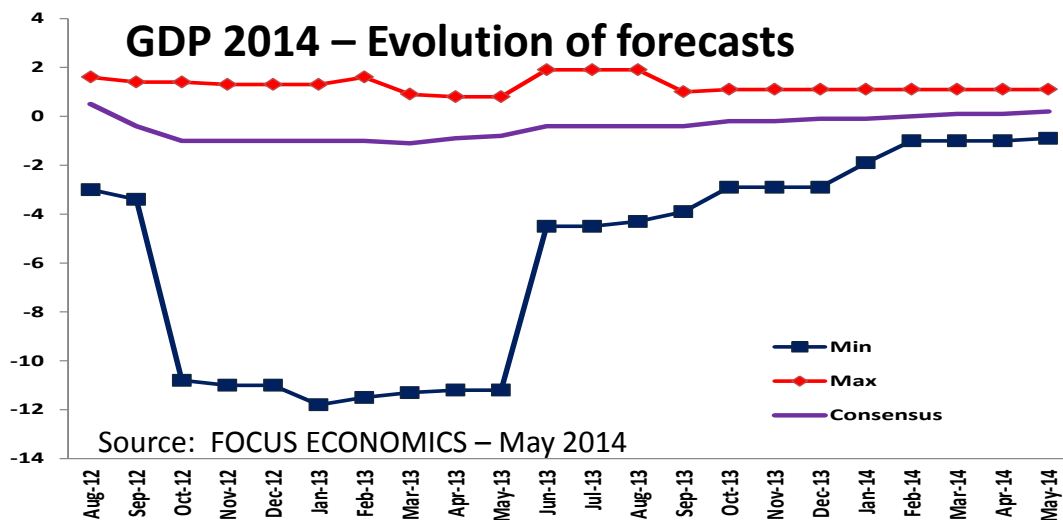


Source: Bloomberg

- ✓ **The recent Troika agreement –after almost 7.5 months of negotiations – led to:**
 1. **The disbursement of ca €8.3 bn from the EFSF loan in three tranches**
 - **The first tranche of €6.3 bn was disbursed already**
 - **The other two tranches of €1.0 bn each will be disbursed at the end of May and June 2014 conditional on the implementation of certain structural reforms.**
 - **An additional €2.9bn remains to be disbursed until year-end.**
 2. **New IMF funding of €10.5bn expected in three quarterly tranches for 2014 and an additional €9bn for 2015-16 (5X1.8)**
 3. **The submission to Parliament of the Medium Term Fiscal Strategy 2015-2018 with no new additional fiscal measures for the closure of the 2015-2016 financing gap (see April 2014 review of the 2nd Adjustment Programme: €10.3 bn)**
 4. **Recent Eurogroup permitted use of remaining HFSF €11.4bn for financing of the 2015-2016 gap, conditional on the results of the ECB's stress tests in October 2014**
 5. **Possible debt relief measures will be considered well after summer 2014 and only after 100% completion of agreed structural reforms**
- ✓ **Available €19.0 bn for the 2015-2022 period from EU Structural & Cohesion Funds, according with the draft Partnership Agreement with European Commission**
- ✓ **Eurogroup announcement encourages Greek Authorities to utilize the technical assistance provided by the Task Force, particularly in Public Administration beyond 2014**

- ✓ Exports of goods & services remain anemic, still affected by subdued demand
- ✓ Bank lending to the private sector still a major drag on the economy





Real GDP Growth		
(% annual, forecasts as of May 2014)		
Individual Forecasts	2014	2015
Alpha Bank	1.1	3.0
Citigroup Global Mkts	-0.9	0.8
Commerzbank	1.0	2.0
Credit Suisse	0.8	2.1
DekaBank	-0.1	1.3
Deutsche Bank	1.0	2.2
DZ Bank	0.1	1.4
EIU	0.0	1.5
Eurobank	0.4	-
Experian	-0.2	1.0
ING	0.2	1.0
Morgan Stanley	0.0	0.5
NBG	0.7	3.1
Nomura	0.1	1.5
Oxford Economics	-0.3	1.6
Piraeus Bank	0.0	-
Raiffeisen Research	0.0	2.0
Scotiabank	-0.2	1.3
UBS	0.2	2.2
Unicredit	-0.2	1.1
Summary		
Minimum	-0.9	0.5
Maximum	1.1	3.1
Median	0.0	1.5
Consensus	0.2	1.6
Additional Forecasts		
Gov. (April 2014)	0.6	2.9
IMF (April 2014)	0.6	2.9
EC (April 2014)	0.6	2.9

- ✓ Expect continuation of IMF financing , negotiations over debt relief plus no additional horizontal fiscal measures , hence no pressure on disposable income and consumption
- ✓ Moody's (04/04/2014) expects GDP growth at 1.5% in 2015

Risks for 2015

- ✓ Will the Programme 2.9%↑ in GDP be achieved?
 - Will exports gain momentum?
 - Will credit growth become positive?
 - Will Privatizations & FDI be accelerated?
 - Will continue the reforms?

CAN WE SAY MORE ABOUT THE GROWTH MODEL?

- ✓ Following the structural reforms, which create the level-playing field, there is a line of reasoning to **pick certain sectors of the economy** on arguments of comparative advantage, or large multipliers, or export importance of domestic value added, and then claim those sectors ought to provide the basis for growth, e.g.
 - **tourism, agri-business, information technology, large infrastructure projects, energy, etc.**
- ✓ Supporting policies ought to **shy away from subsidies** and, instead, **reward risk taking**
- ✓ Another feature is the small size of enterprises across all sectors in Greece ⇒
 - Need for policies that support consolidation and do not keep marginal enterprises artificially afloat
 - A large fraction of micro-enterprises in Greece survive because they cheat on taxes
- ✓ **Economists perform cross-country studies** over 5- or 10-year intervals and correlate the growth rates with underlying economic and structural factors such as **competitiveness, education, investment, size of government, transparency, inflation, etc.**
- ✓ Greece is addressing many of those factors, while in others it lags behind

Will reforms continue? Will the existing reforms take hold? How likely are the vested interest groups to dissolve whatever is already fixed?

Pending reforms include:

- Deepening and fine-tuning of health care reforms (EOPPY , ESY effectiveness, etc.)**
- Continuation of the product markets reform (improve competition in wholesale markets, telecommunications, e-commerce and regulatory constraints on competition)**
- Simplification of licensing and customs procedures, opening up additional closed professions, transformation of the energy sector (unlocking of the Greek gas market, sale of ADMIE, privatization of part of the capacity of the PPC)**
- Addressing the VAT compliance gap and adoption of a new Accounting and Tax Recording Code**
- Improving the quality and efficiency of the public administration (mobility scheme, reorganization of ministries, better financial management, etc)**
- Full implementation of the Supplementary pensions reform, review of the social security system and welfare spending**
- Continuation of the reforms on the education sector (evaluation of schools and educational staff, reform of the universities to continue)**
- Implementation of anticorruption plan (Legislation on Funding of political parties, etc.)**
- Continuation of the judicial sector reform (addressing the backlog of cases and adopt a revised Code of Civil Procedure)**

- ✓ **THE NEW GREEK GROWTH MODEL** requires a delicate balance between
 - I. a strong emphasis on exports & investment, and
 - II. the requirement that consumption increases more modestly, i.e. at a lower rate than GDP, so that its share declines gradually to more normal levels without being a drag on domestic aggregate demand

- ✓ **Key pillars of the NEW GREEK GROWTH MODEL:**
 - I. Tradable goods & services, tourism, energy, logistics, R&D, pharmaceuticals, shipping, primary sector
 - II. Reforms have now touched the **DEEP STATE**: OWNERSHIP OF REFORMS NEEDED as minimization of bureaucracy is a must
 - III. Financing channels need to be built via the private sector and the EU funds (including Cohesion Funds, EIB and the new Development Fund co-sponsored with KfW)

- ✓ **The sooner the recession/depression is over, the better the long-term prospects become, as**
 - Factors of production stop being destroyed, i.e. capital stops becoming obsolete, labor skills being destroyed, the youth immigrating, childbearing diminishing, etc.
 - Europeans ought to continue placing an emphasis on Greek reforms and avoid imposing further drastic fiscal consolidation

GREECE IS WORKING TO ADDRESS THE FACTORS THAT AFFECT LONG-TERM GROWTH

Thank you for your attention!

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