Trapped in Greek Crisis Phase II ?

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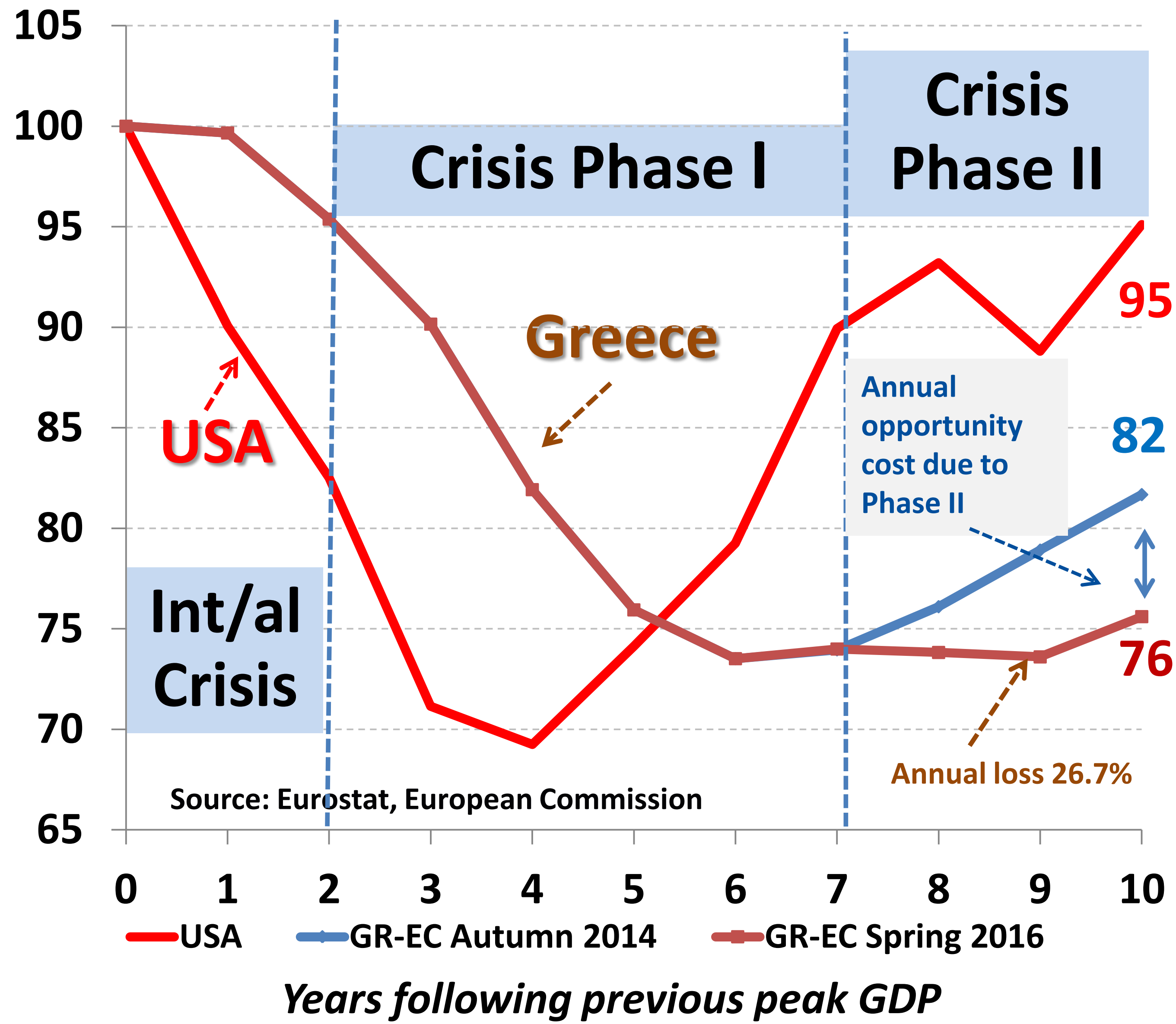
Delphi Economic Forum
March 3, 2017

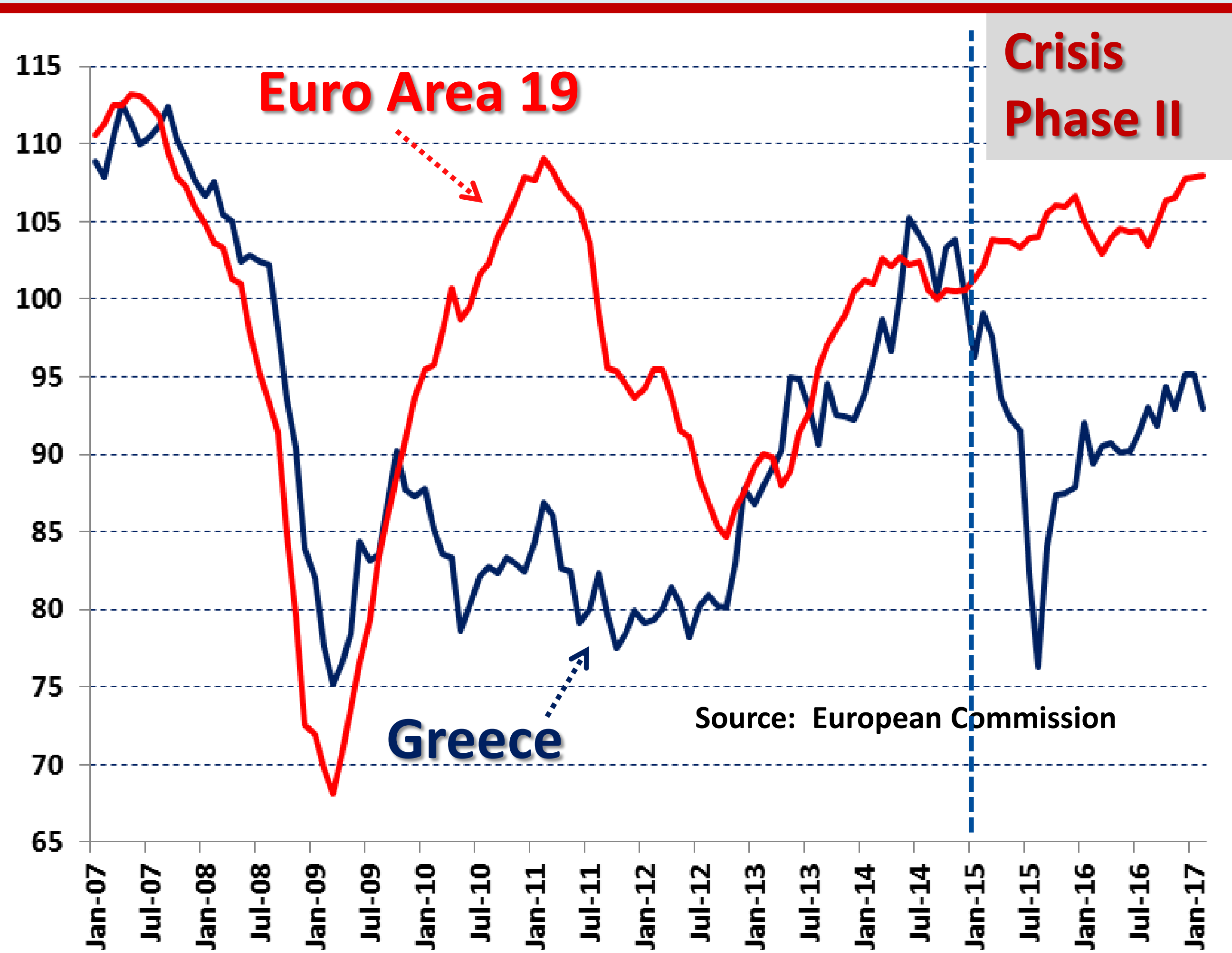
Unusual length of Greek crisis due to its Phase II plus the earlier international crisis

- Date 0 is 1929 for the US and 2007 for Greece: Real GDP is set at 100
- The Greek recovery of year 10, 2017, is a forecast
- After 10 years, the US was at 95 in 1939 but Greece (at best) at 76 in 2017
- Fall 2014: Greece was forecasted to be above 82
- At minimum, Phase II costs annually 6.1 ppts or €14bn



Crisis Phase II shows up clearly in Economic Sentiment

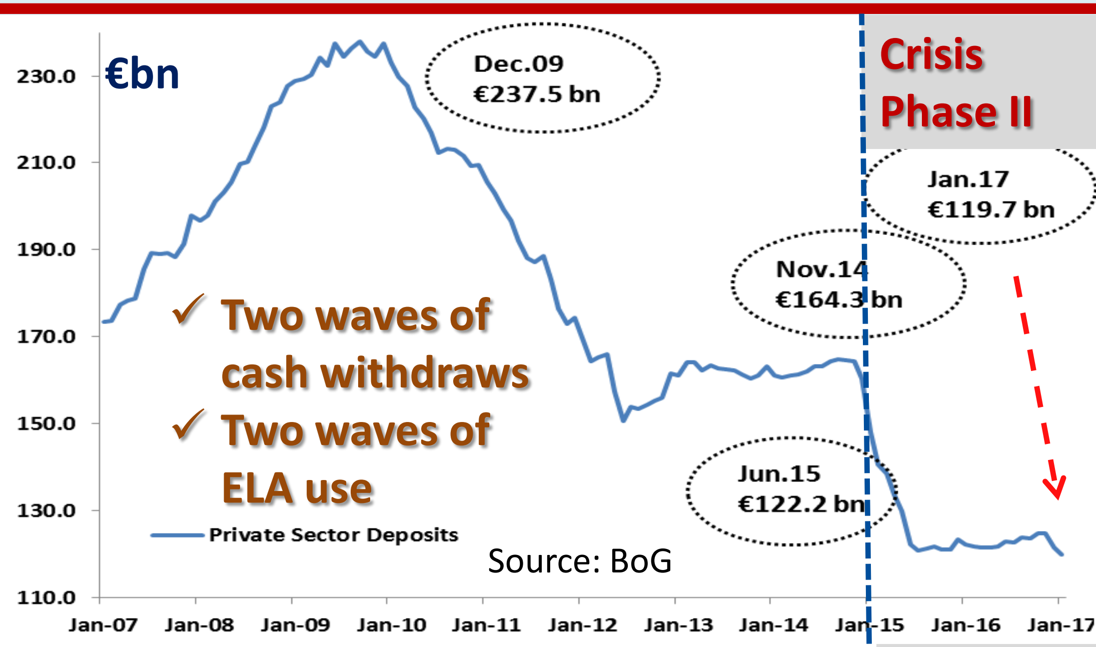
- The sentiment index in Greece was moving together with sentiment in EA until late 2009, both declining
- **Decoupling during the Greek crisis until November 2012**
- From late 2012 until late 2014, **re-coupling**: Greek sentiment moved upward and in line with EA sentiment

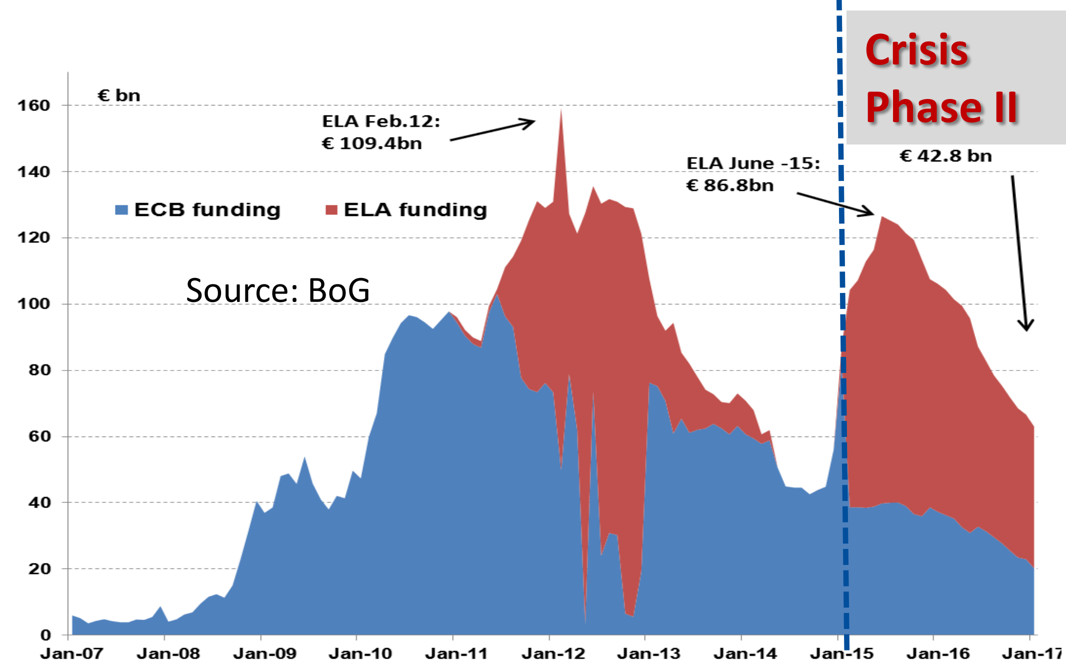


- Greek sentiment peaked in the period June 2014 - November 2014, but subsequently began a fast downward slide as the political landscape deteriorated and generated new uncertainty, thus decoupling a second time **from the rest of EA. Phase II of the crisis was creating anxiety in sentiment.**

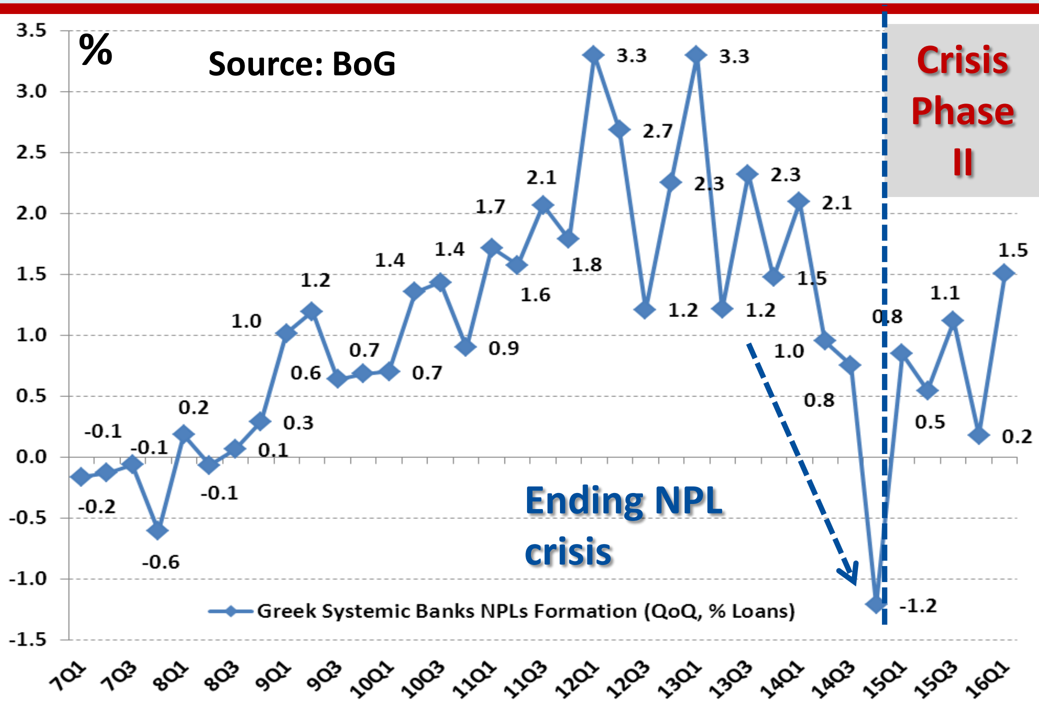
Crisis-Phase II shows up in the Financial sector

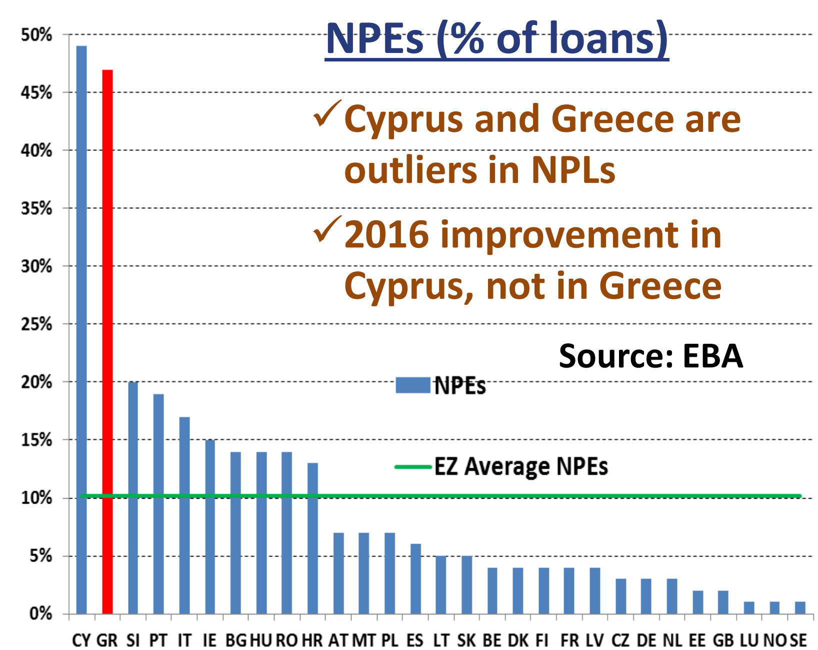
- A second wave of cash withdrawals in 2015 plus a disappearing inter-bank market leads banks to ELA:
  - ELA was zero at the end of 2014, yet it peaked again in 2015
  - It remains at €43bn today
  - Capital controls still imposed
  - Unless credibility returns, cash will stay outside the banks
  - After re-introduction of ECB waiver in July 2016, gradual improvement in ELA dependence
- Bank stock prices collapsed in 2015H1, State lost over €25bn in value, and a necessary 3rd recapitalization in Nov 2015
- State owner-ship of systemic banks shrank: NBG (40.4%), Piraeus (26.4%), Alpha (11.0%), Eurobank (2.4%)
- **Capital (**excl. CoCos & Prefs**) strong,** yet **depends on DTA,** 49% of €8.92bn in Alpha, 64% of €7.89bn in Piraeus 66% of €7.74bn in NBG, 78% of €6.25bn in Eurobank





Banks remain vulnerable on the Asset side of their balance sheet as well





- A second major problem is NPLs, which keep rising. Target reduction of 40% until 2019
- The NPL improvement of late 2014 was reversed due to Phase-II of the crisis
- Unless economy picks up and NPL problem is gradually resolved, banks
  - Would stay zombies, unable to provide new credit to healthy companies
  - May need additional capital infusion, with no foreigners willing to come in this time
- Since Jan 2016, bearish world market has taken a toll on Greek bank stocks, which are down 42% on average, relative to the recent recapitalization of November 2015.

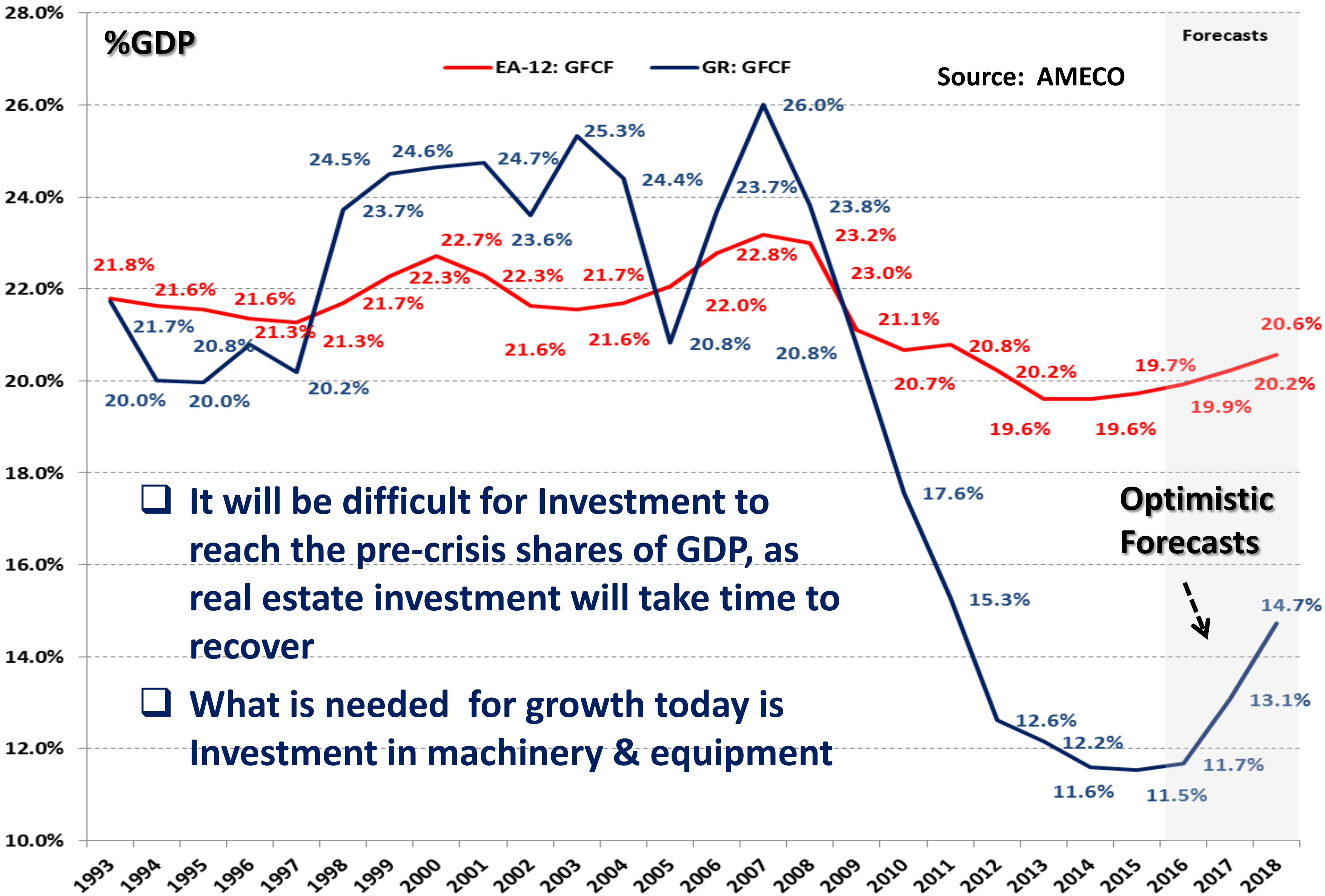
Major challenges today

During the Greek-crisis Phase-I years of 2010-2013, Greece brought its fiscal and current account deficits back in balance plus improved its cost competitiveness

Yet major challenges remain:

- ❑ **Reversing the decline in investment and raising exports**
  - **Improving credibility**
  - **Providing incentives for work and doing business, e.g. reversing the over-taxation policy, minimizing obstacles to investment, improving the efficiency of the State sector, etc.**
- ❑ **Repairing the financial sector**
- ❑ **Balancing the pension system for sustainable long-run fiscal policy**

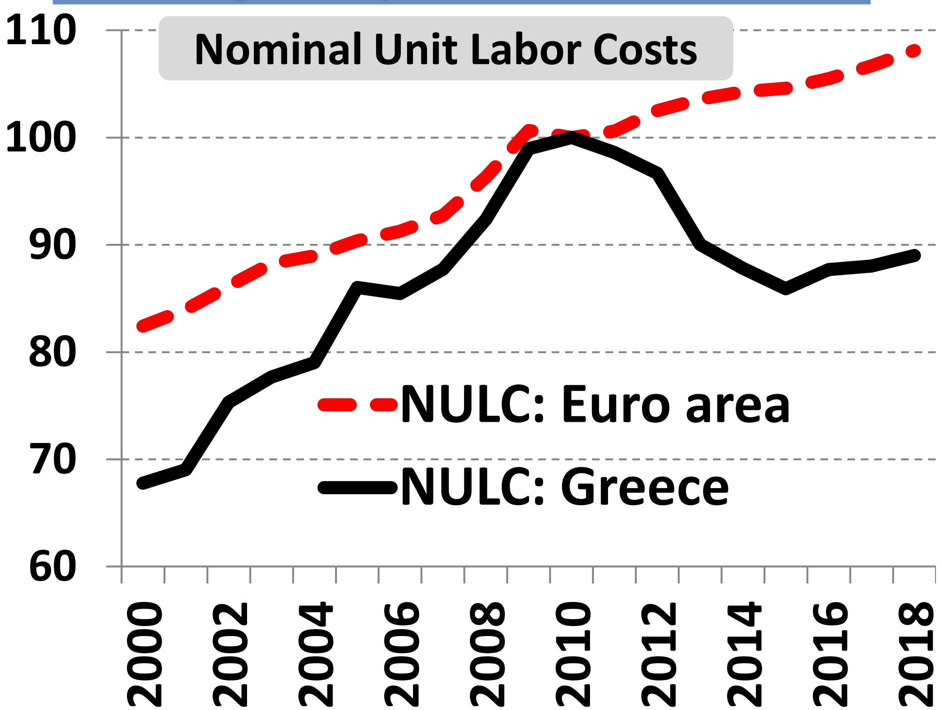
Investment: A binding constraint on growth



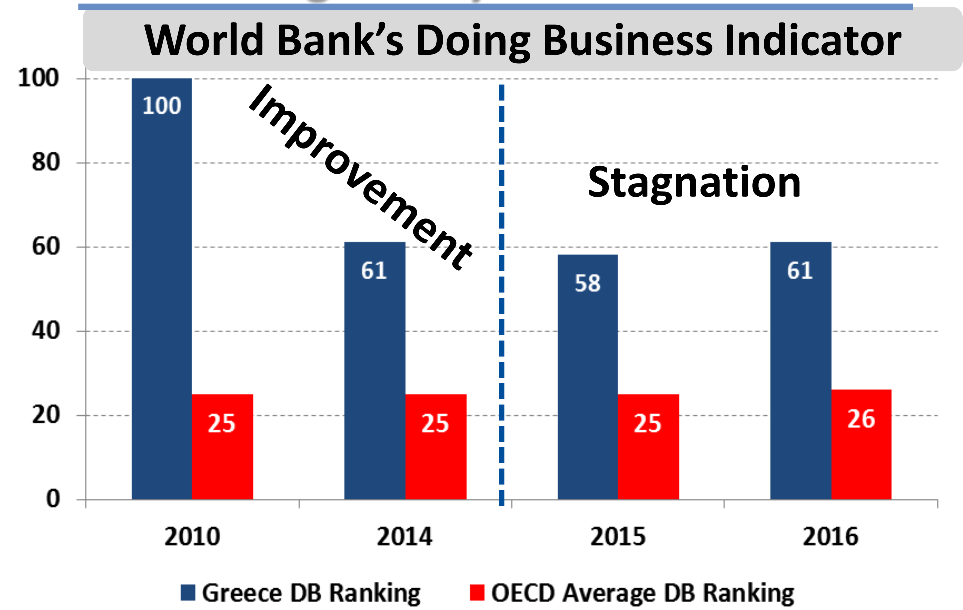
- It will be difficult for Investment to reach the pre-crisis shares of GDP, as real estate investment will take time to recover
- What is needed for growth today is Investment in machinery & equipment

Cost competitiveness improvement, yet exports stagnate

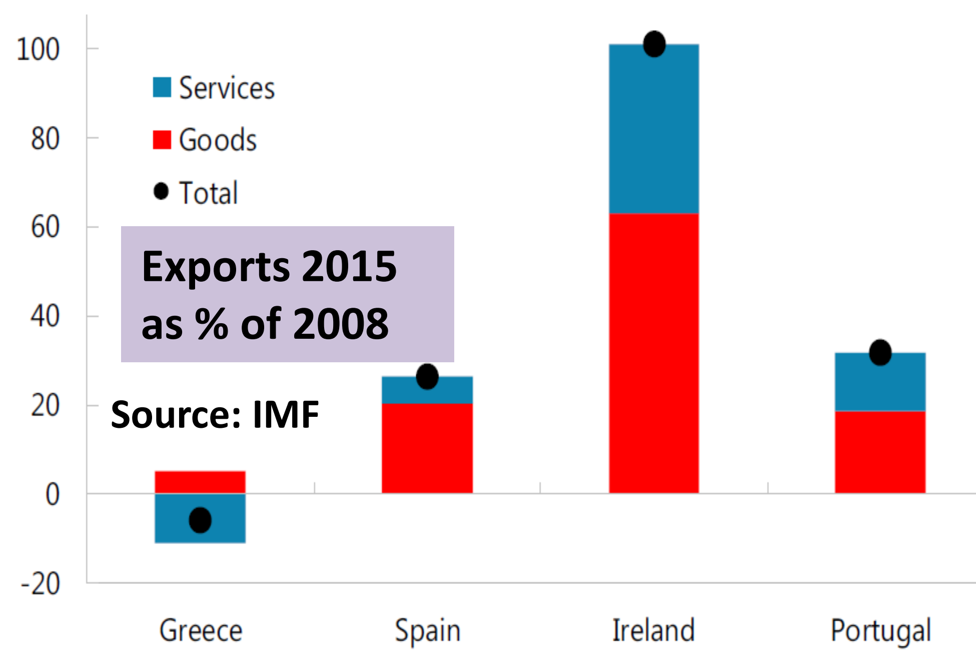
Near-Elimination of Post Euro-entry Wage Competitiveness Losses



Regulatory Environment



- Earlier improvement in competitiveness stopped in 2015
- Greece is the only Program country showing lower value of exports in 2015 relative to 2008 (see EC "*The Puzzle of Missing Greek Exports*")



Long list of reforms remaining

- Continuation of **liberalization of product markets** - implementation of **OECD toolkits** aiming to increase competition in internal markets (opening-up of remaining closed professions, removal of barriers to competition & investment, shift of focus from the non-tradables to the tradables sector)
- Completion of remaining banking sector / **NPLs reforms**
- Liberalization of the **energy** market
- Implementation of reforms to address red tape on **businesses licensing / operation** (improve Doing Business rankings)
- Legislation on the **use of land / forests** etc., progress on the creation of the Cadastre
- Reform of the **justice system**
- Effective independence of the **Public Revenue Authority**
- Fiscal Structural reforms aiming to fight tax evasion and **broaden the tax base**
- Improvement of the effectiveness of the **public sector**
- Implementation of reforms on the **education sector**
- Formation of framework for a new **extrovert growth model** of the country (choice of promising sectors, focus on further reforms on these sectors, etc)
- **Pension reform** in order to improve fiscal sustainability in the medium and long run
- Vigilance on **preventing the back tracking of reforms**, e.g. labor, which essentially requires **ownership of the reform agenda** by the population

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HOPEFULLY NOT

Thank you for your attention!

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