

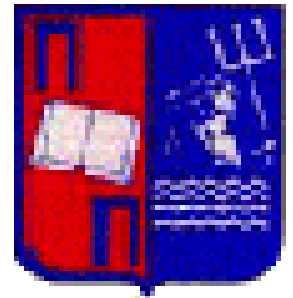
Greek Crisis Phase II: Can Growth Return ?

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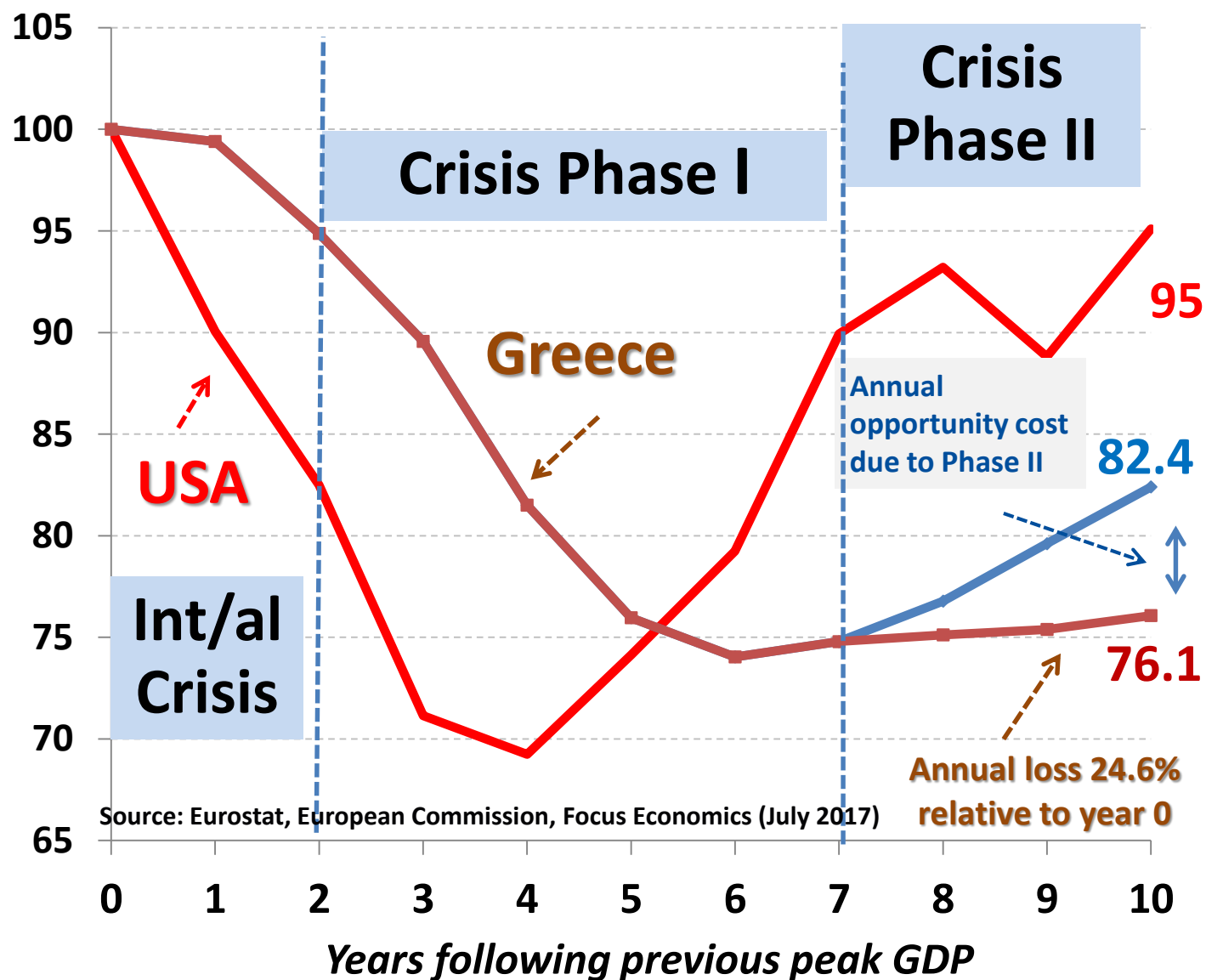
EFMA

June 30, 2017



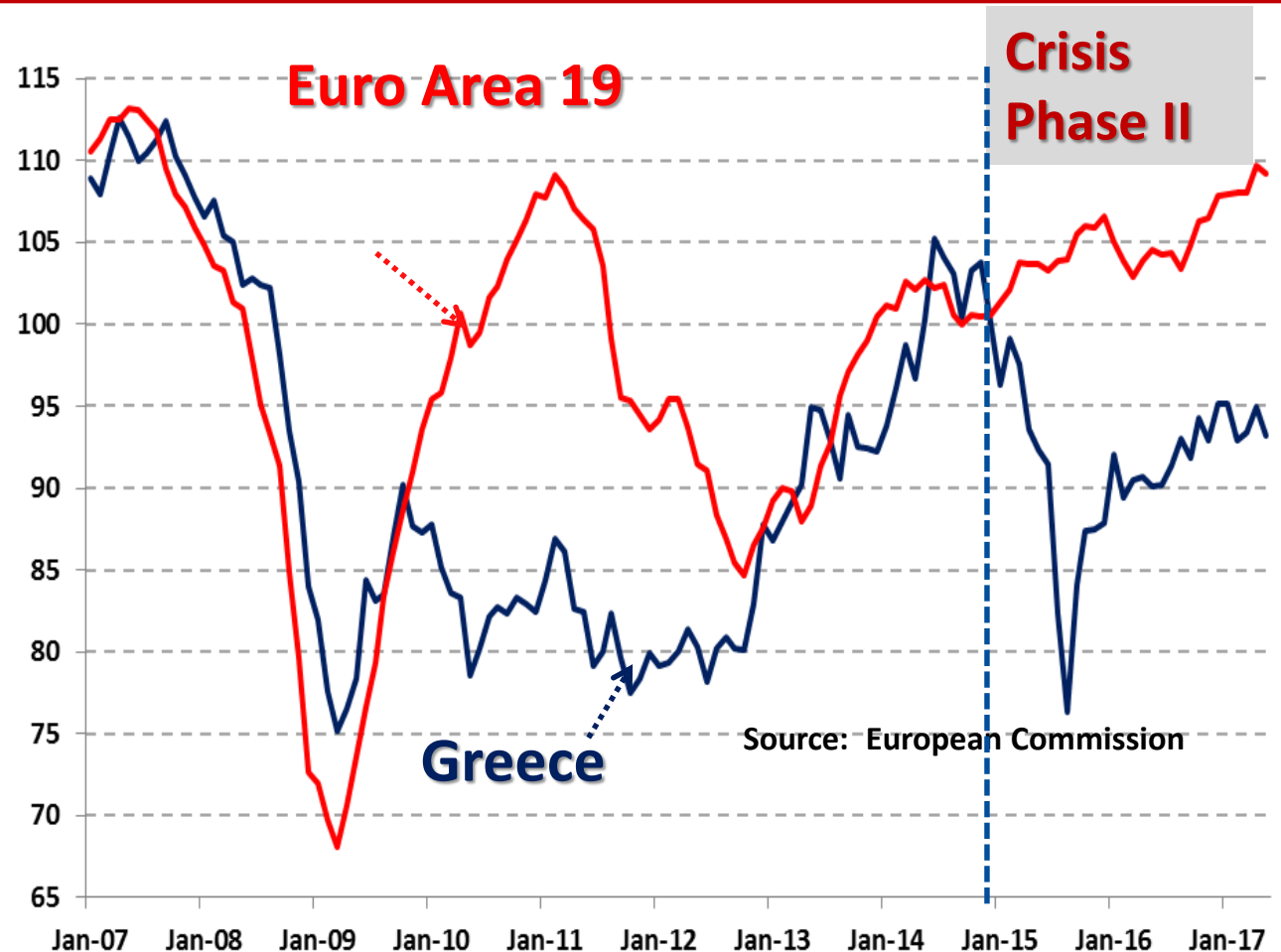
Unusual length of Greek crisis due to its Phase II plus the earlier international crisis

- ❑ 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 76.1** in 2017
- ❑ **Fall 2014: Greece was forecasted to be around 82.4**
- ❑ **At minimum, Phase II costs annually 6.3 ppts or ca. €13bn**



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

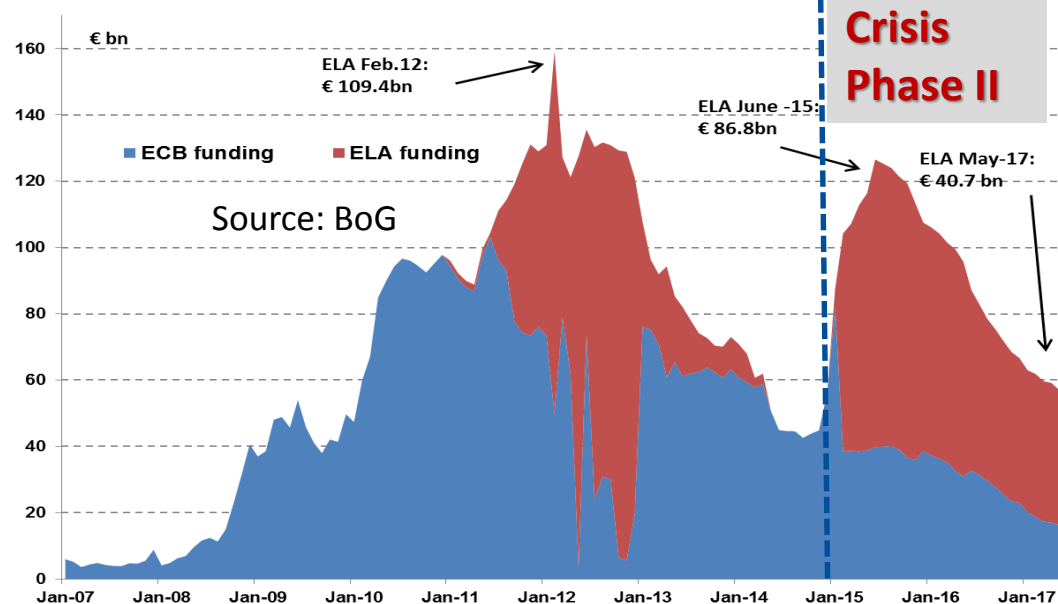
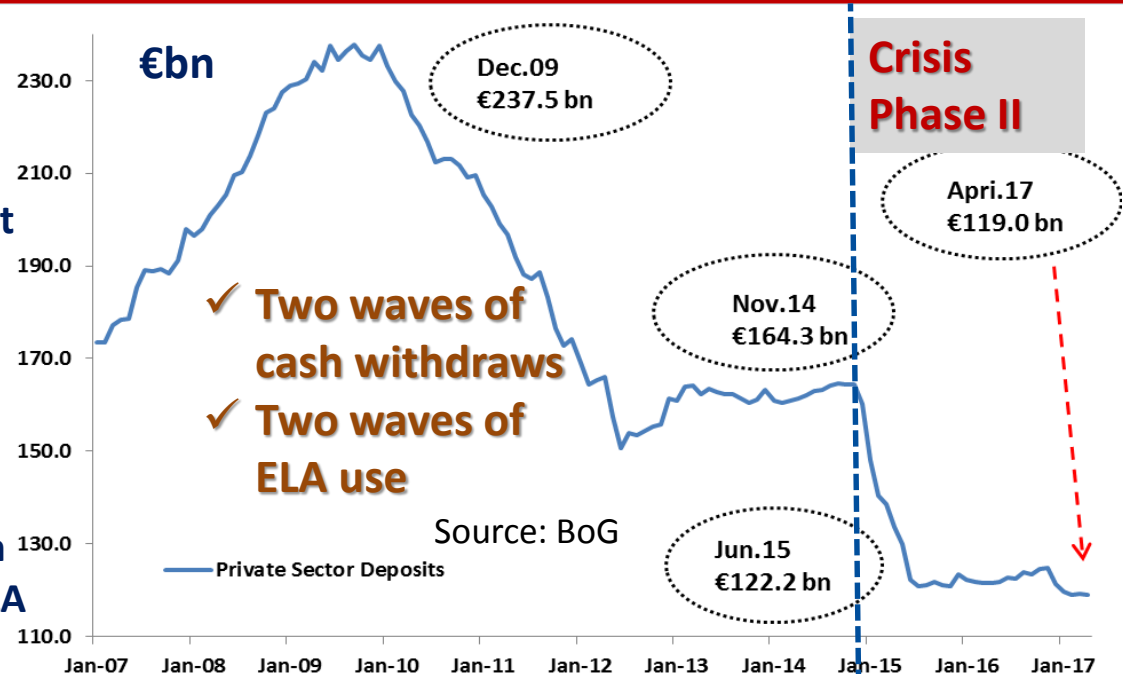
□ A second wave of cash withdrawals in 2015 plus a disappearing inter-bank market leads banks to ELA:

- ELA was zero at the end of 2014, yet it peaked again in 2015
- It remains at €41bn 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

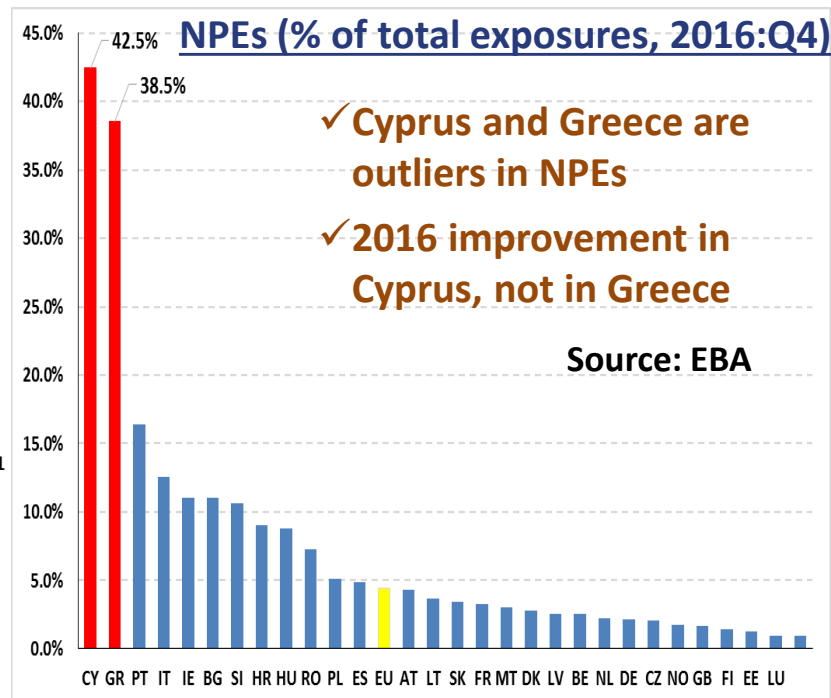
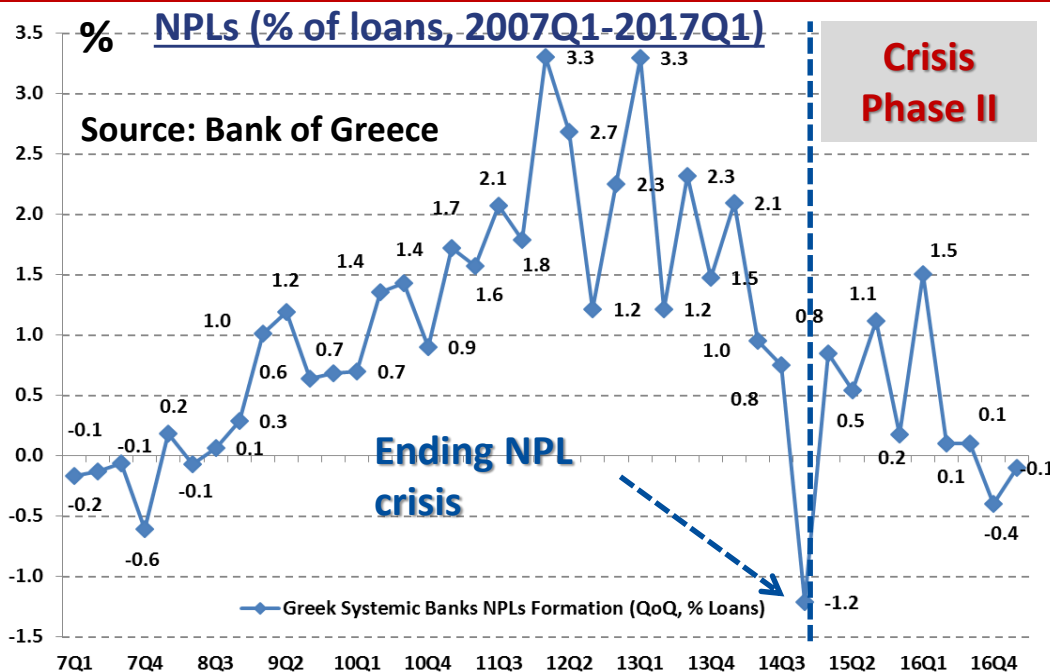
□ Bank stock prices collapsed in 2015H1, State lost over €25bn in value, and a necessary 3rd recapitalization in Nov 2015

□ 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



- ❑ Greek banking sector NPEs second only to Cyprus in 2016:Q4. Target reduction of 38% by end of 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
- ❑ The Athens Stock Exchange FTSE Banks Index increased by ca 21% YTD (62.1% since end of Sept.2016) on expectations regarding the conclusion of the 2nd review (realized in mid-June 2017). The FTSE is still below its end of 2015 level (last recap. took place in Nov.-Dec. 2015) by ca 13.5%

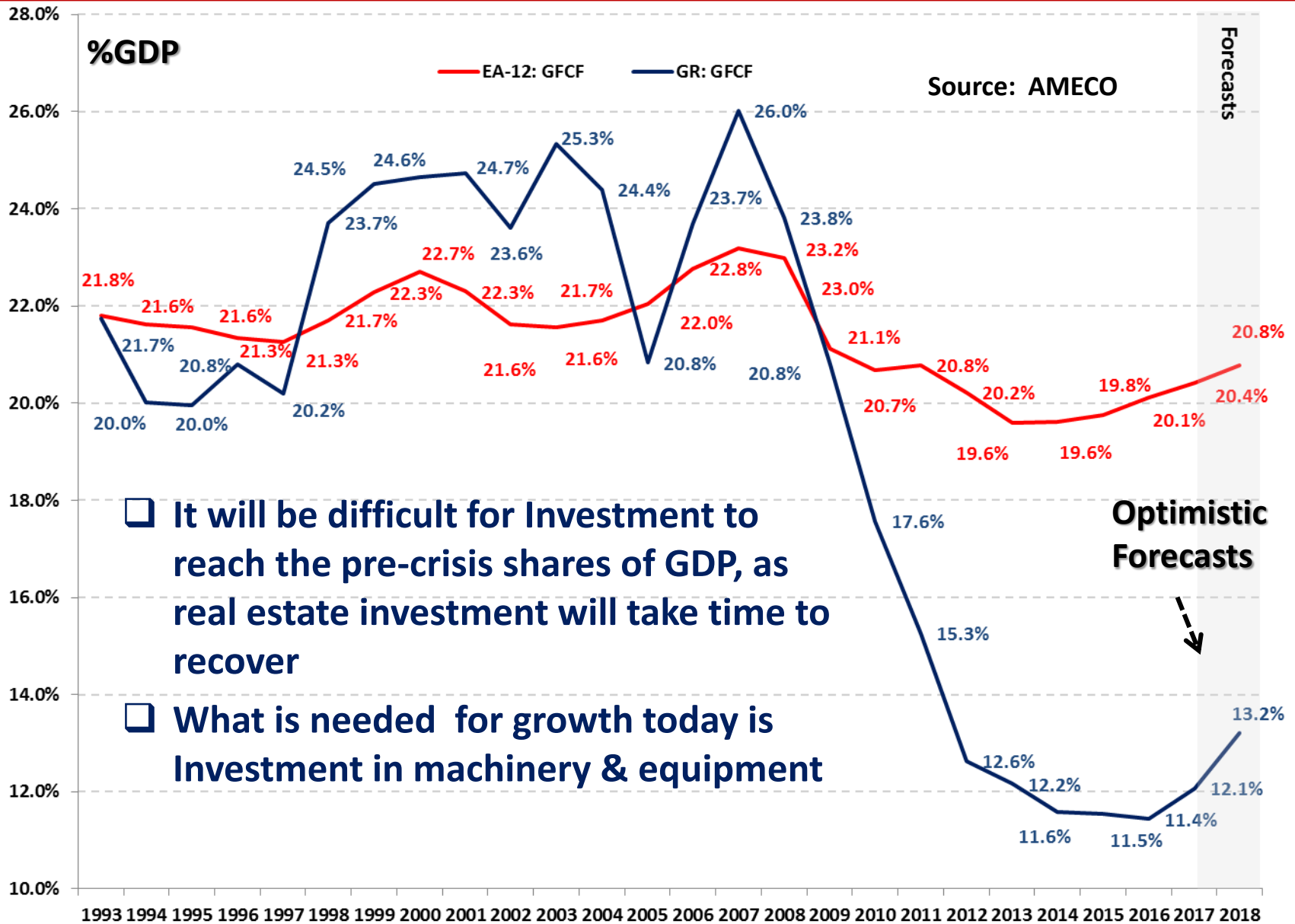
Major challenges today

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:

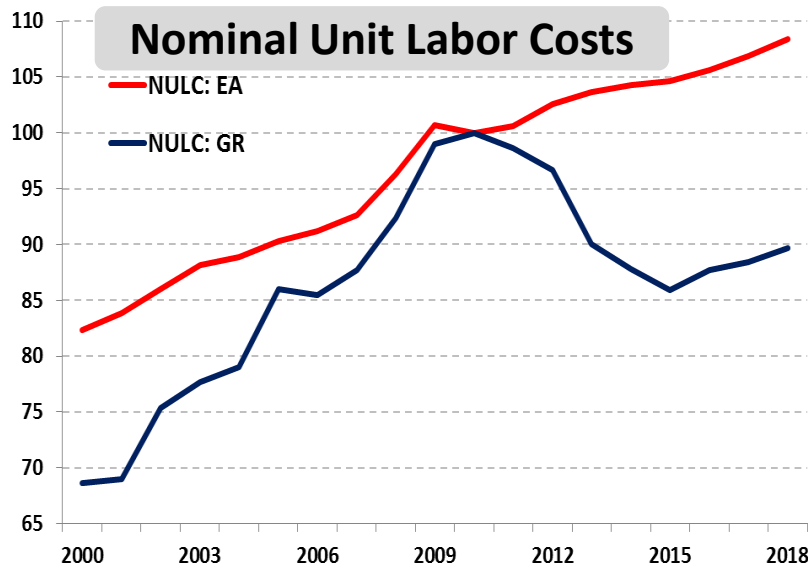
- Reversing the decline in investment and raising exports, both needed in order to rebalance aggregate demand away from consumption. This means:**
 - **Improving credibility**
 - **Providing incentives for work and doing business, e.g. reversing the over-taxation policy, minimizing obstacles to investment, 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



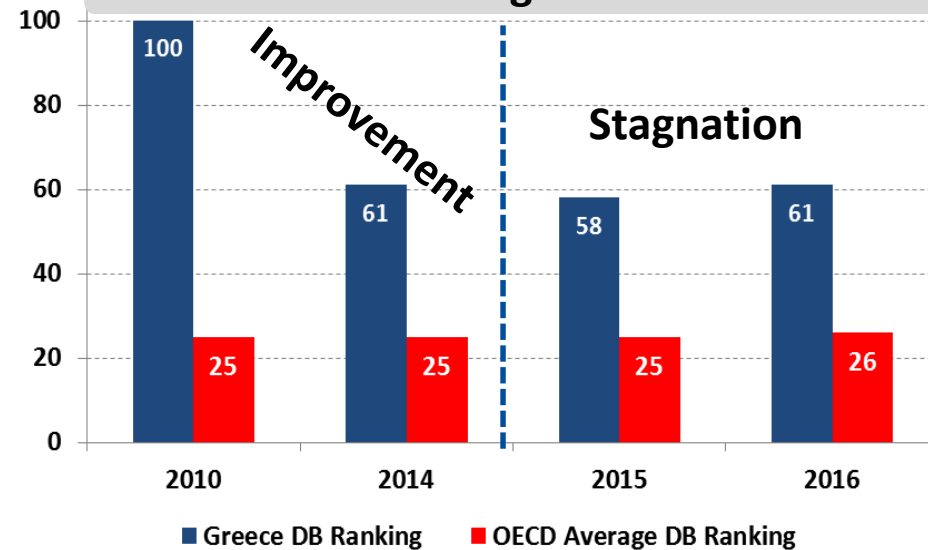
Cost competitiveness improvement, yet exports do less well

Near-Elimination of Post Euro-entry Wage Competitiveness Losses



Regulatory Environment

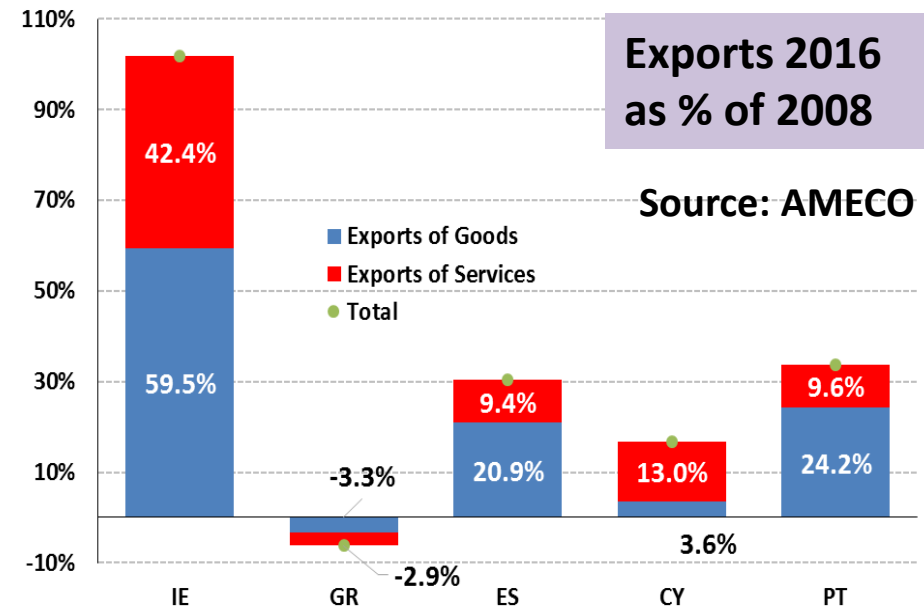
World Bank's Doing Business Indicator



❑ Non wage competitiveness improvement stops in 2014.

❑ Greece is the only Program country showing lower value of exports in 2016 relative to 2008. Underperformance may be due to:

1. The poor institutional quality (EC, 2014, The Puzzle of the Missing Greek Exports).
2. The price of oil, which represents about 30% of Greek exports. Ships are also affecting the value of services, which were affected by capital controls. Both constitute signs of low diversification of 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)
- Continuation of the energy market's liberalization**
- 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 & continuation of fiscal Structural reforms aiming to fight tax evasion and broaden the tax base**
- Continuation of labor reform** (legislation to increase the quorum for first-degree unions to vote on a strike to 50 percent, etc.)
- Implementation of the privatization agenda** (total revenues of €17.0bn between 2017 and 2060 of which €13.0bn from non-bank assets).
- 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)**
- Vigilance on preventing the back tracking of reforms, e.g. labor, which essentially requires ownership of the reform agenda by the Greek authorities.**

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HOPEFULLY YES

Thank you for your attention!

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