

**Η ΕΛΛΑΔΑ
ΚΑΙ ΟΙ ΕΛΛΗΝΙΚΕΣ ΤΡΑΠΕΖΕΣ
ΜΕΤΑ ΤΗΝ ΚΡΙΣΗ**

GREECE & GREEK BANKS AFTER THE CRISIS

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GREECE & GREEK BANKS AFTER THE CRISIS

MAIN THEMES

- I. IS THE INTERNATIONAL FINANCIAL CRISIS OVER?**
- II. THE SPECIAL GREEK PROBLEMS**
- III. GREEK BANKS: CAN PAST SUCCESS PERSIST?**
- IV. CONCLUSION**

I.

IS THE INTERNATIONAL FINANCIAL CRISIS OVER?

❖ Yes, but risks remain

I.1 Output Forecasts for 2010

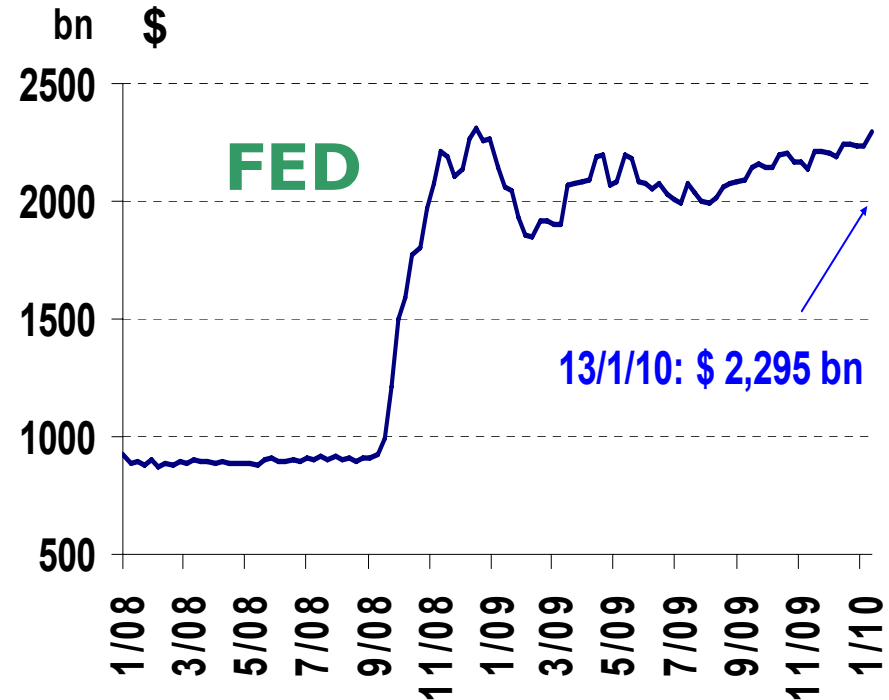
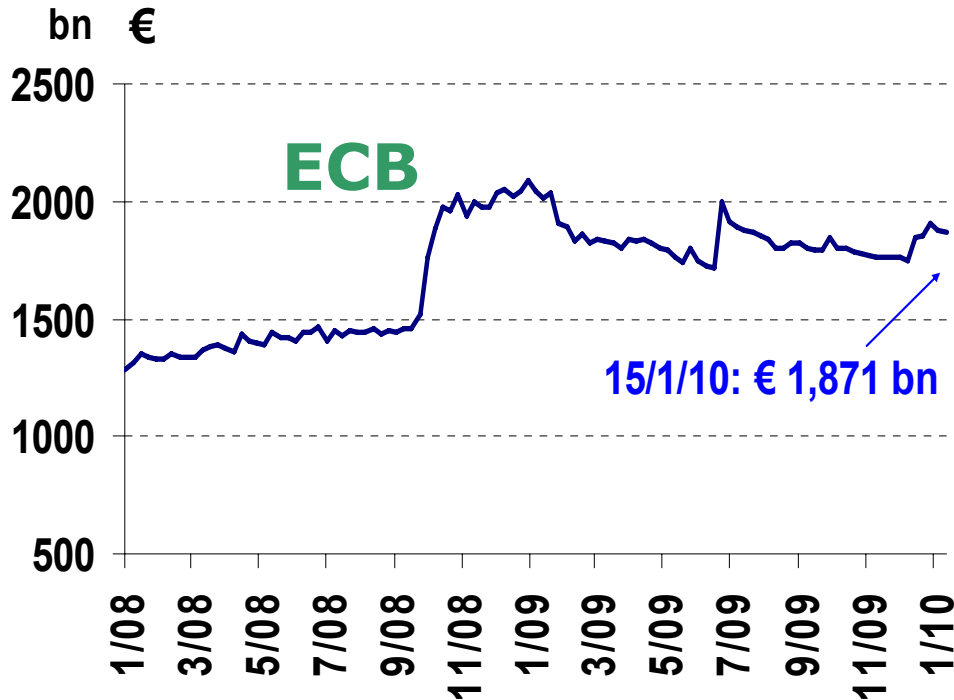
Real GDP

	2008	2009f	2010f
USA	0.4	-2.5	2.9
Euro area	0.6	-3.9	1.4
Japan	-1.2	-5.3	1.4
China	9.6	8.6	9.6
Brazil	5.1	0.0	5.0
Russia	5.6	-7.5	4.0
India	7.5	6.6	8.2
Greece	2.0	-1.3	- ?
Bulgaria	6.0	-5.9	-1.1
Poland	5.0	1.3	2.0
Romania	6.2	-7.5	0.5
Serbia	5.5	-3.5	1.5
Turkey	0.9	-5.5	3.0

- ✓ Recovery almost everywhere
- ✓ Stronger recovery in the US
- ✓ Sluggish recovery in our region, with Turkey showing the best prospects
- ✓ We avoided a repetition of the 1930's by transferring the associated costs in the future

I.1 Is the crisis over? The main risk of early liquidity withdrawal

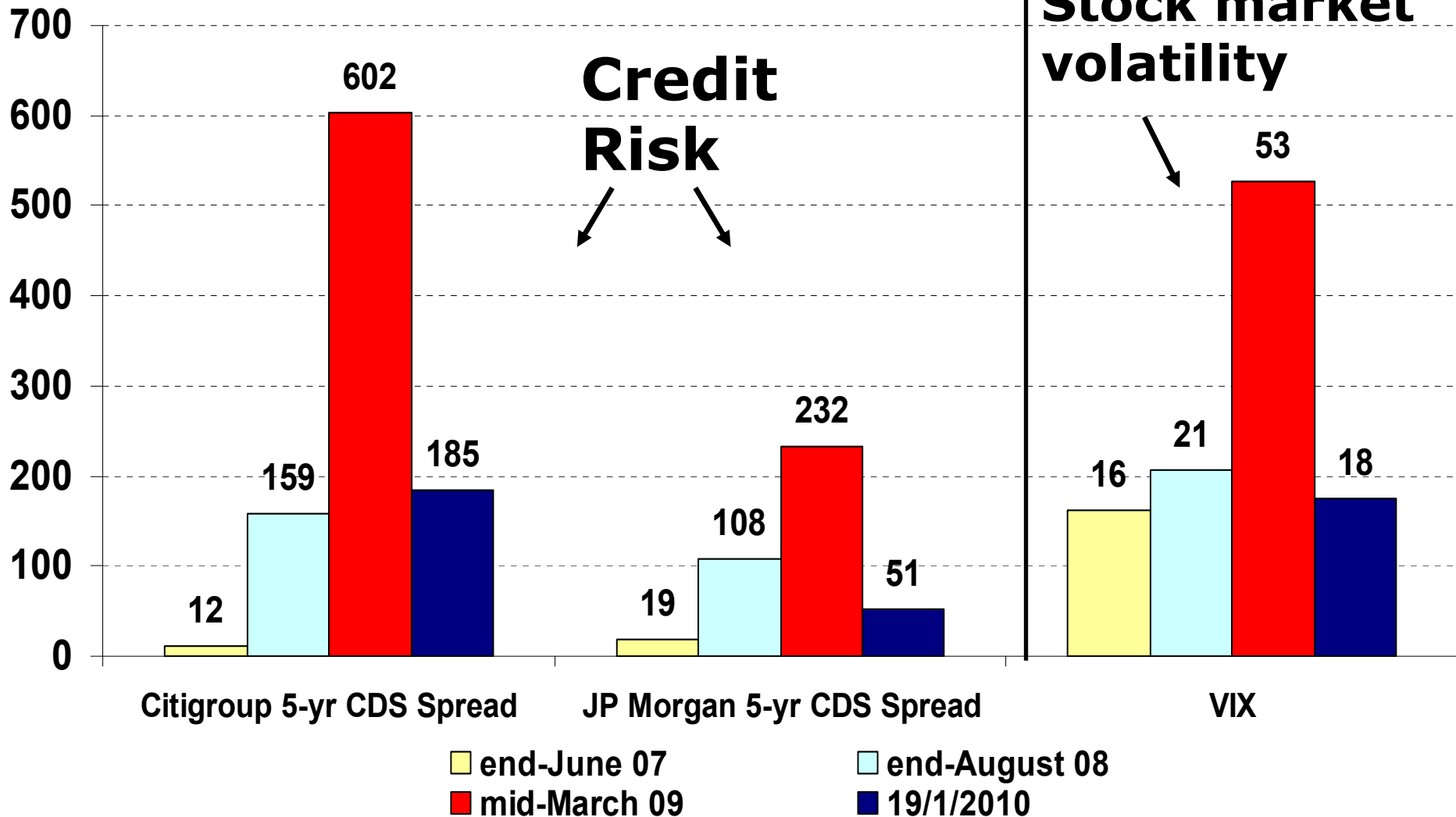
Central bank balance sheets



Source: ECB, Federal Reserve

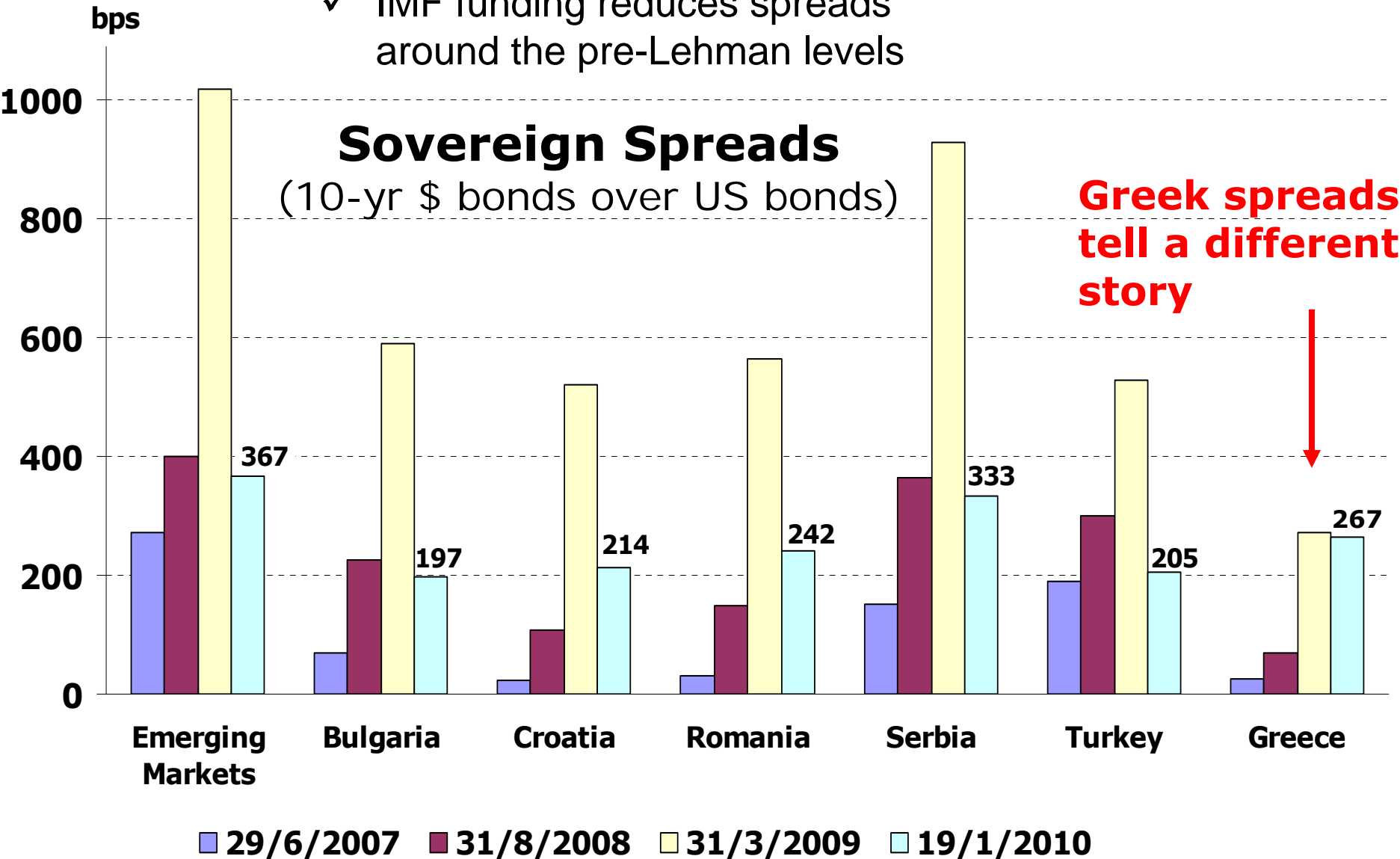
- ✓ Central banks decreased their intervention rates and pioneered new ways to provide liquidity, especially post-Lehman (quantitative & qualitative easing).
- ✓ Recovery depends on the continuing support by central banks and governments
- ✓ ECB is more conservative than the Fed, will likely withdraw liquidity sooner

I.2 Is the crisis over? Spreads down but not at pre-crisis levels

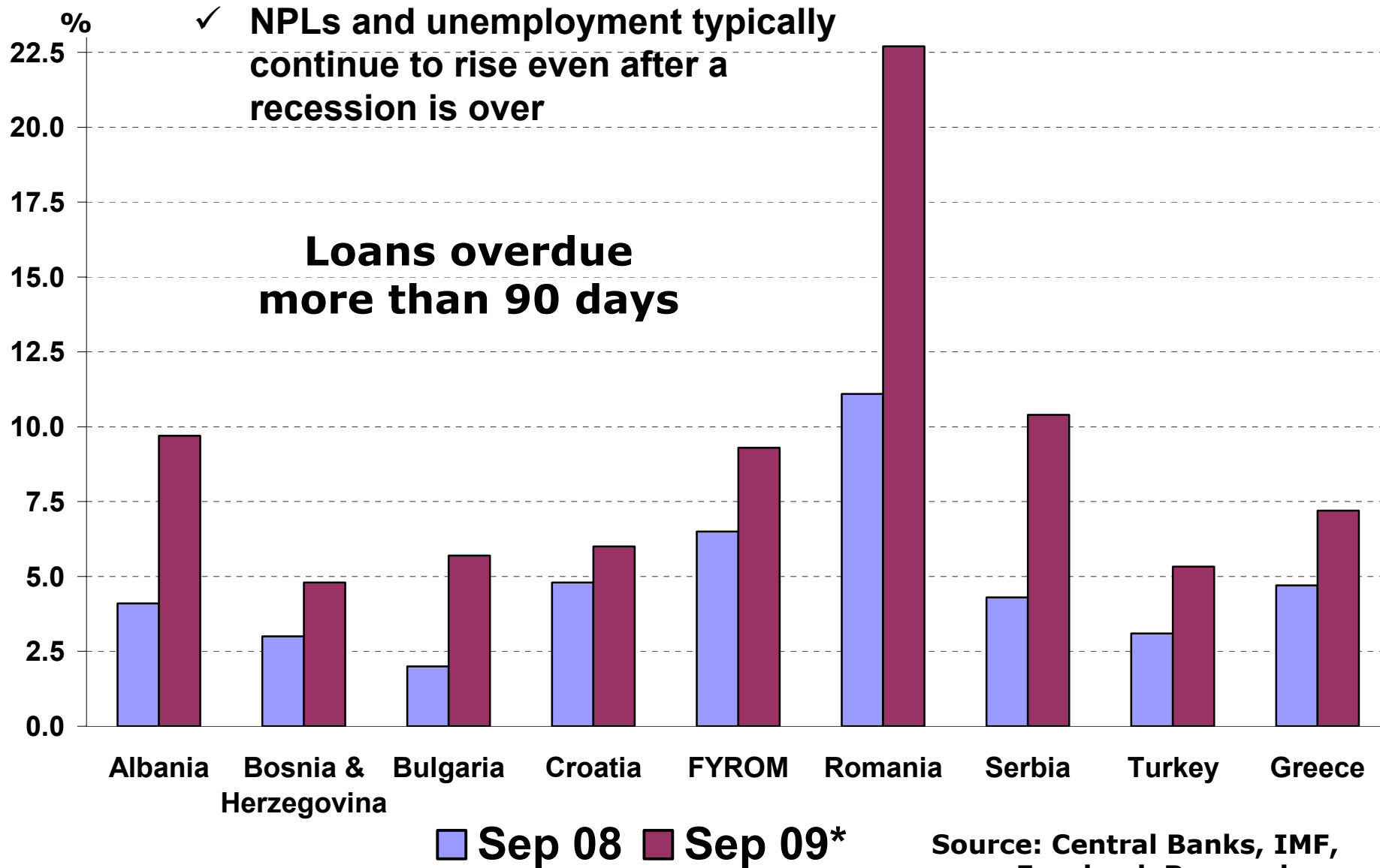


I.2 Is the crisis over in our region?

✓ IMF funding reduces spreads around the pre-Lehman levels



I.2 Is the crisis over? The rise in NPLs



Source: Central Banks, IMF, Eurobank Research

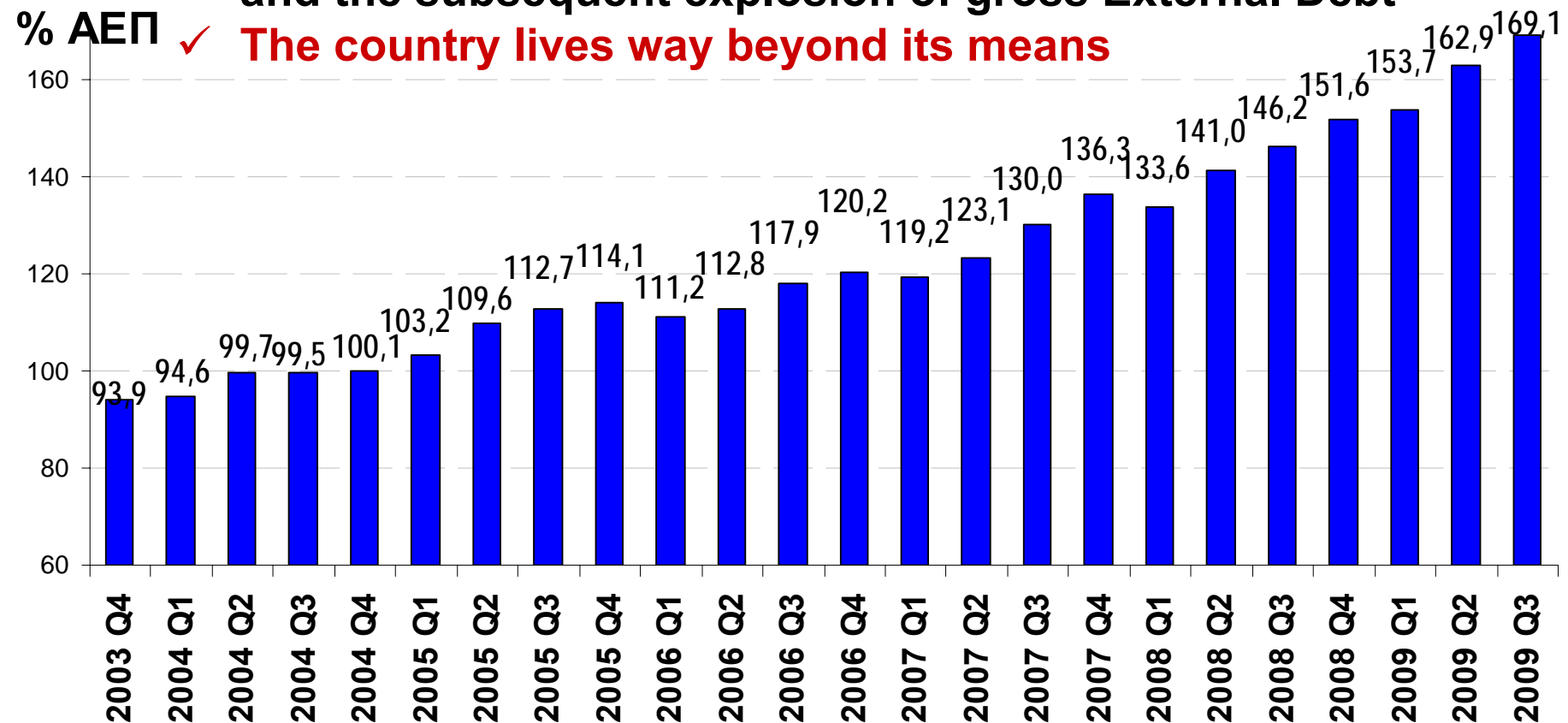
II.

THE SPECIAL GREEK PROBLEMS

- ❖ **The crisis put a stop to a long period of growth by uncovering the Greek imbalances, which now threaten the country with a long period of stagnation**
- ❖ **This does not come as a surprise, as it was predicted much earlier**

II. First imbalance: Competitiveness

- ✓ The competitiveness deterioration is the deeper problem
- ✓ It also shows up in the post-EMU current account deficits and the subsequent explosion of gross External Debt
- ✓ **The country lives way beyond its means**



Source: Bank of Greece

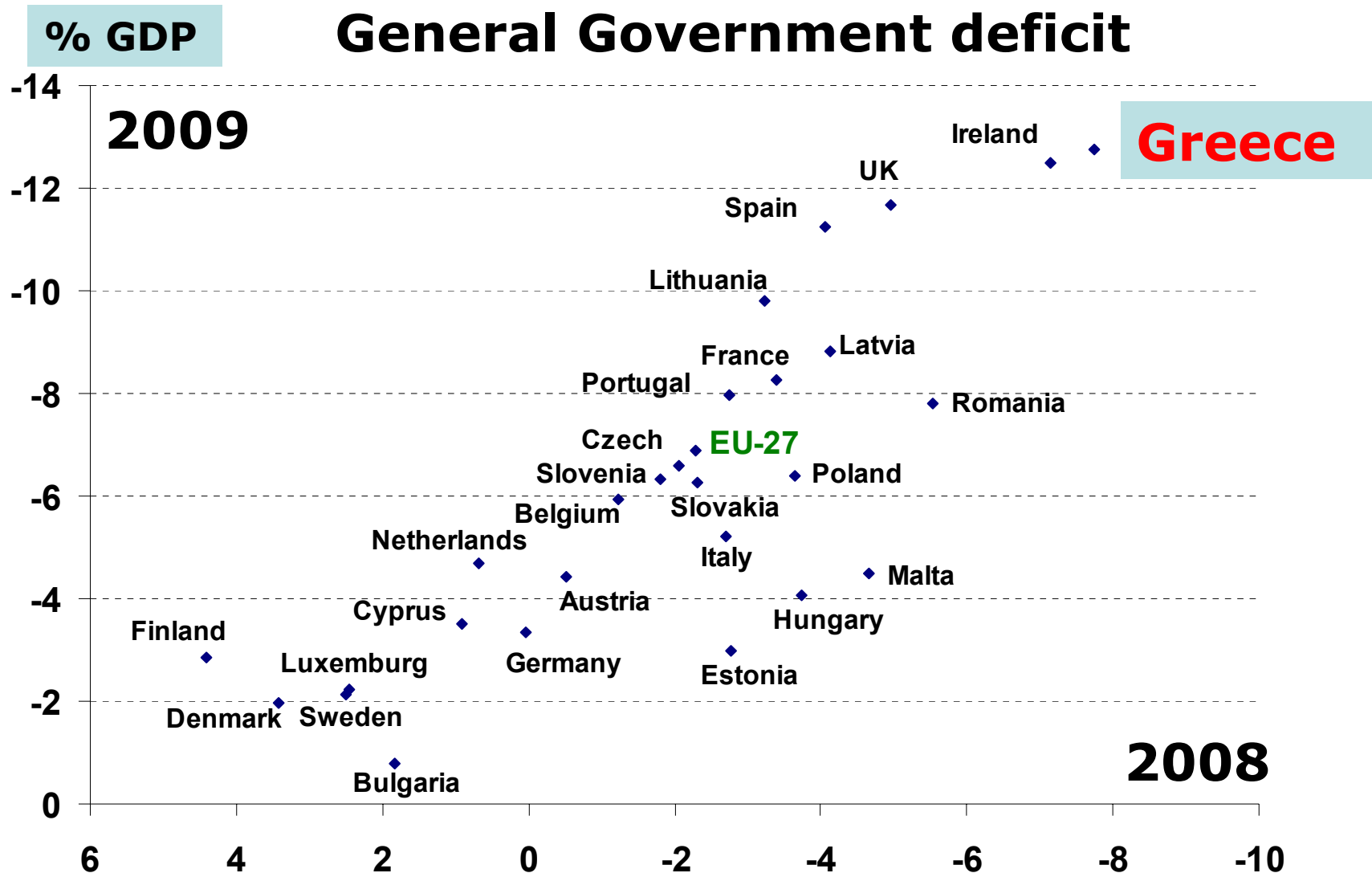
- ✓ In order to maintain our standards of living we “sold” the equivalent of a city the size of Thessalonica.

II. The fiscal imbalance became evident the moment growth stopped

✓ I believe the fiscal problem is a lot easier to solve, yet markets focus on this one



II. Greek government deficits are the worst in EU-27



II. Credit Rating Agencies, 21/1/2010

Greece's sovereign credit rating (foreign currency LT debt)

Moody's	S&P	Fitch
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2 (outlook: negative)	A	A
A3	A-	A-
Baa1	BBB+ (outlook: negative)	BBB+ (outlook: negative)
Baa2	BBB	BBB
Baa3	BBB-	BBB-
Ba1	BB+	BB+
Ba2	BB	BB
Ba3	BB-	
B1	B+	
B2	B	
B3	B-	
Caa1	CCC+	
Caa2	CCC	
Caa3	CCC-	
Ca	CC	
C	C	
WR	D	
	NR	

**ECB
line as
of Jan
2011**
↓

↑
**Current
temporary
ECB line**

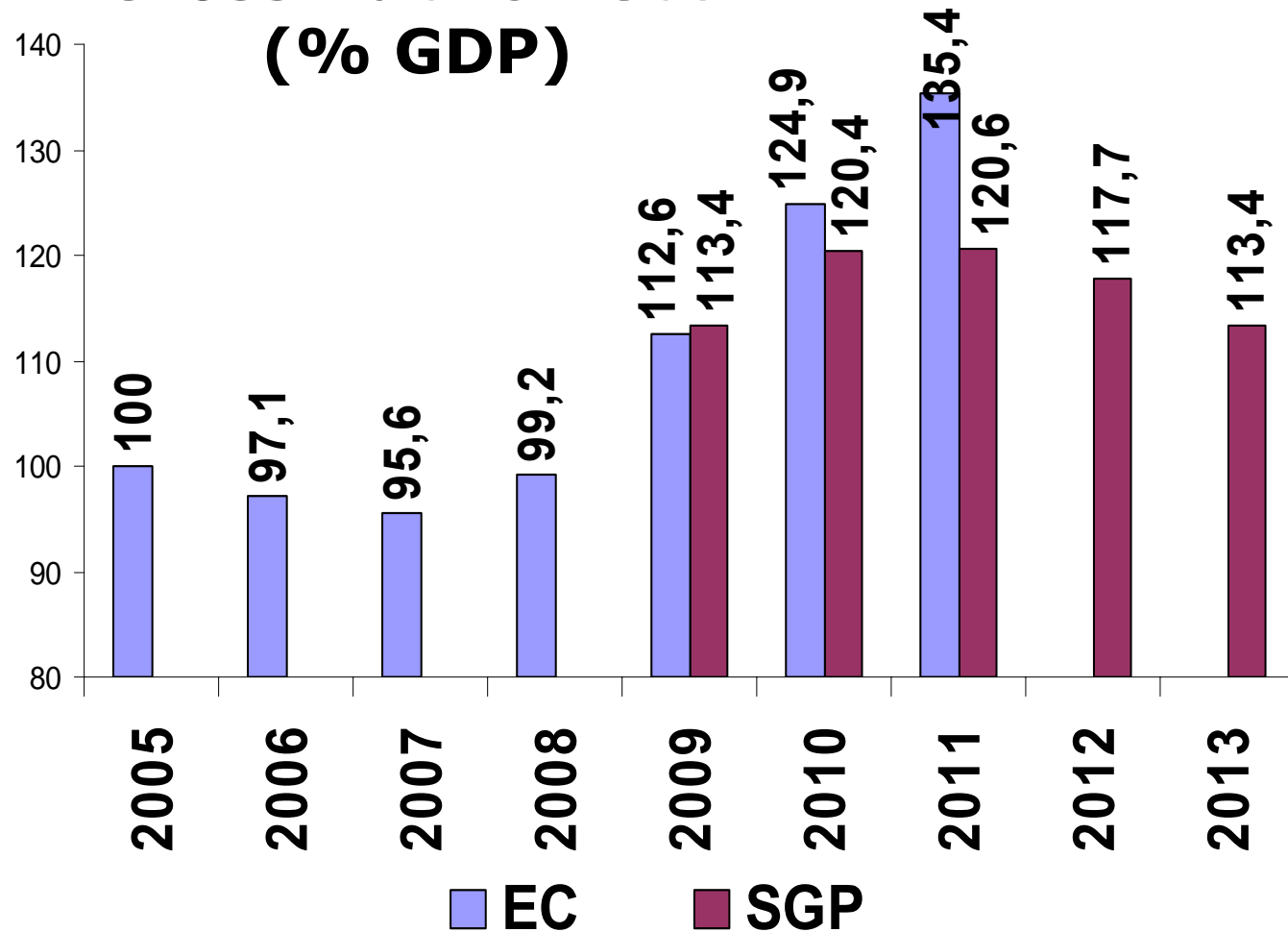
✓ Downgrades by all three rating agencies in 2009
✓ S&P and Fitch are very harsh, bringing Greece down by two notches, perhaps becoming conservative from earlier failure to foresee the subprime problem

Note: Investment grade above dotted line

Source: Bloomberg

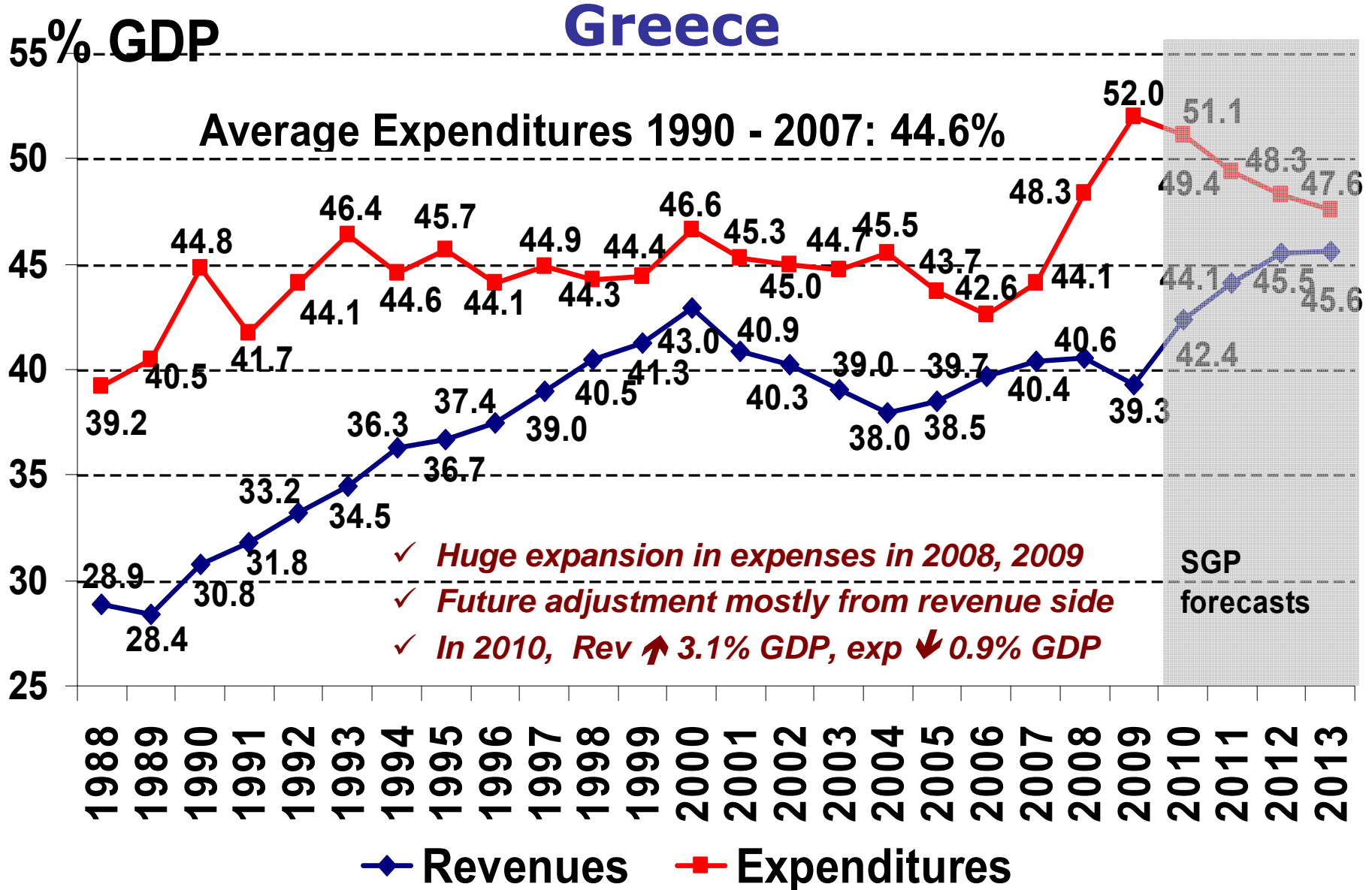
II. Greece's SGP tries to put a stop on run-away debt

Gross Public Debt (% GDP)

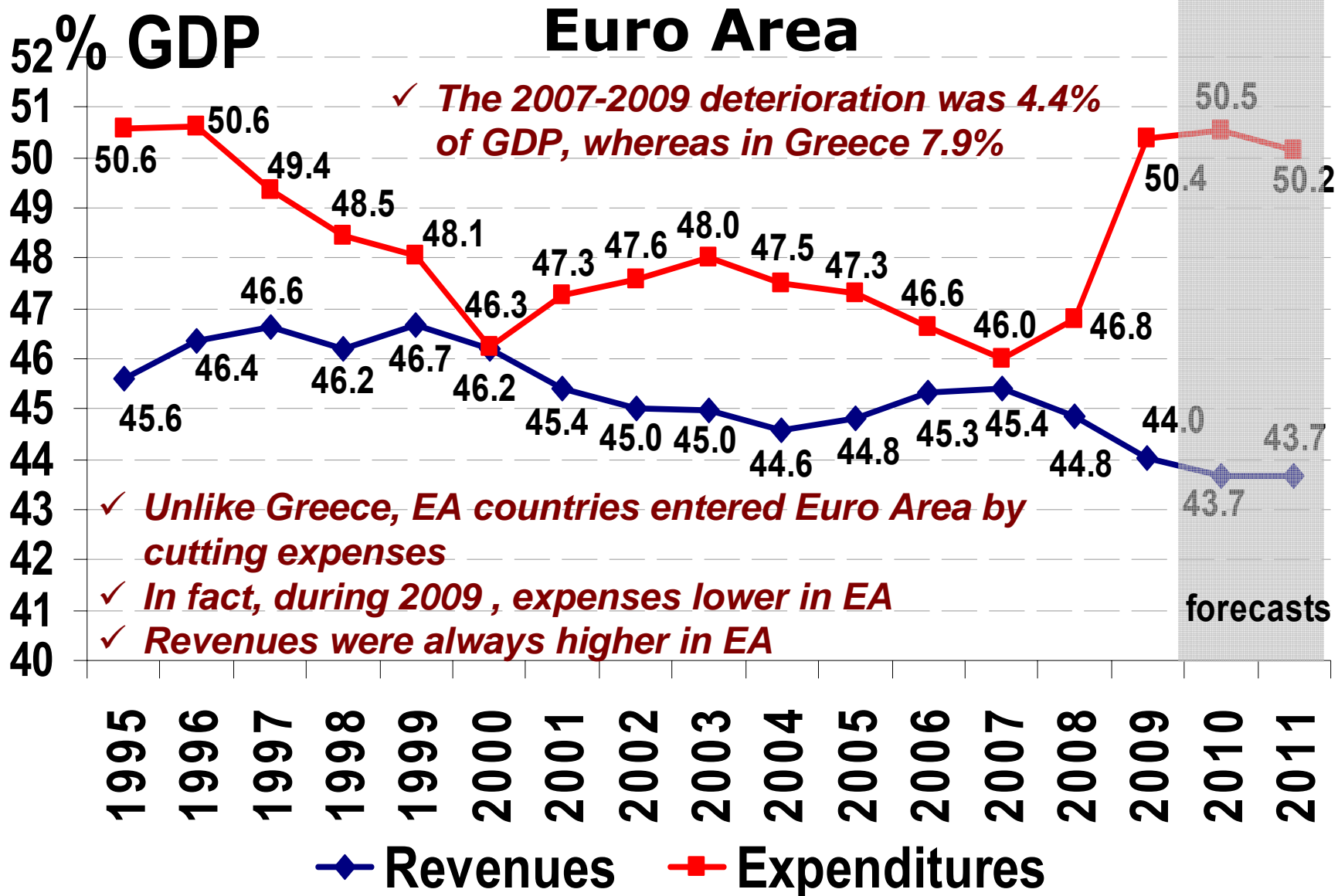


- ✓ EU Commission assumes no change in policy in its earlier forecasts
- ✓ SGP assumes effective new policies
- ✓ A successful SGP would make a big difference in the explosive dynamics of debt

II. General Government Revenues and Expenditures



II. Euro Area expenses also show deterioration in 2008, 2009



II. So, how come everyone points to Greece?

- ✓ *Greek deficits were the largest in 2008 and 2009*
- ✓ *Greek debt is second largest in EU-27 and was explosive*
- ✓ *Pension system future pressures bigger in Greece*
- ✓ *Lack of credibility of Greek fiscal statistics*

	Greece			
	2010	2020	2035	2060
Pension Expenditure (% GDP)	11.6	13.2	19.4	24.1
Pension system dependency ratio (%)*	56	59	78	102
	Euro Area			
	2010	2020	2035	2060
Pension Expenditure (% GDP)	11.2	11.6	13.2	13.9

* number of pensioners relative to the number of contributors in public pension schemes

Source: European Commission 2009

II. Greek Stability & Growth Programme

	2009	2010	2011	2012	2013
		Baseline Scenario			
Real GDP	-1.2	-0.3	1.5	1.9	2.5
Nominal GDP	0.4	1.7	3.5	3.8	4.4
Unemployment (%)	9.0	9.9	10.5	10.5	10.3
General govnt balance (% GDP)	-12.7	-8.7	-5.6	-2.8	-2.0
Current account (%GDP)	-11.0	-8.1	-7.7	-6.9	-6.0
Private consumption	-1.5	-1.0	0.3	0.8	1.0
Public consumption	11.0	-4.4	-5.9	-5.9	0.7
Investment	-18.8	-1.6	4.5	5.5	8.4
Exports	-16.0	2.5	4.0	6.5	7.2
Imports	-24.7	-3.0	2.0	2.8	3.4
		Alternative Scenario			
Real GDP	-1.2	-0.8	1.0	1.5	2.0
Nominal GDP	0.4	1.1	2.8	3.3	3.6
Unemployment (%)	9.0	10.2	11.2	11.5	11.5
General govnt balance (% GDP)	-12.7	-8.7	-5.6	-2.8	-2.0
Current account (%GDP)	-11.0	-8.1	-7.6	-7.1	-6.4

II. Greek Stability & Growth Programme: Strong points

- ✓ Re-designing the budget framework
 - ❖ Single Payments Authority will become operational
 - ❖ Establishment of "fiscal rules" to ensure budget execution
 - ❖ Creation of a 10 percent contingency reserve
 - ❖ Ministries required to submit three-year budgets by end-January
 - ❖ "zero-basis" for the re-evaluation of all applications for funding
 - ❖ Monthly reporting requirements for key ministries
 - ❖ Creation of a Parliamentary Budget Office
 - ❖ National Statistical Agency becomes independent
 - ❖ Use of external auditors in public sector entities
- ✓ Tax reform with tax base broadening and a fight against tax evasion
- ✓ A hiring freeze in 2010, and a 5:1 rule from 2011 in the public sector
- ✓ Pension system reform soon
- ✓ Expenditure switch: More investment and less gov. consumption
- ✓ Privatisation revenues of approximately 2.3 % of GDP per year
- ✓ Willingness to proceed with missed structural reforms and a new export-oriented growth model
- ✓ **Greeks do respond when calamity arrives.**

II. Greek Stability & Growth Programme: Risks are high - but strong will exists

- ✓ SGP assumes a relatively benign macroeconomic environment. The balance of **risks** to the growth outlook **skewed to the downside**
- ✓ Risks relate to consumer spending and investment, as consumer and business sentiment remains depressed, wage growth in 2010 will broadly stagnate (or even contract in real terms) and public spending is expected to contract after recording double-digit growth in 2009.

YET

- ✓ EU policy makers realize the attack on Greece is an attack on EMU and recently – following SGP's announcement, began providing strong verbal support
- ✓ The expected close EU inspection of Greek finances implies discipline, which increases the probability of the programme's success
- ✓ It is preposterous to think Greece will ever abandon EMU. The political and economic costs would be way too high, *e.g the post-EMU depreciation would not remain at 30%, probably be 80%, which implies the government debt will increase 5 times!*

III.

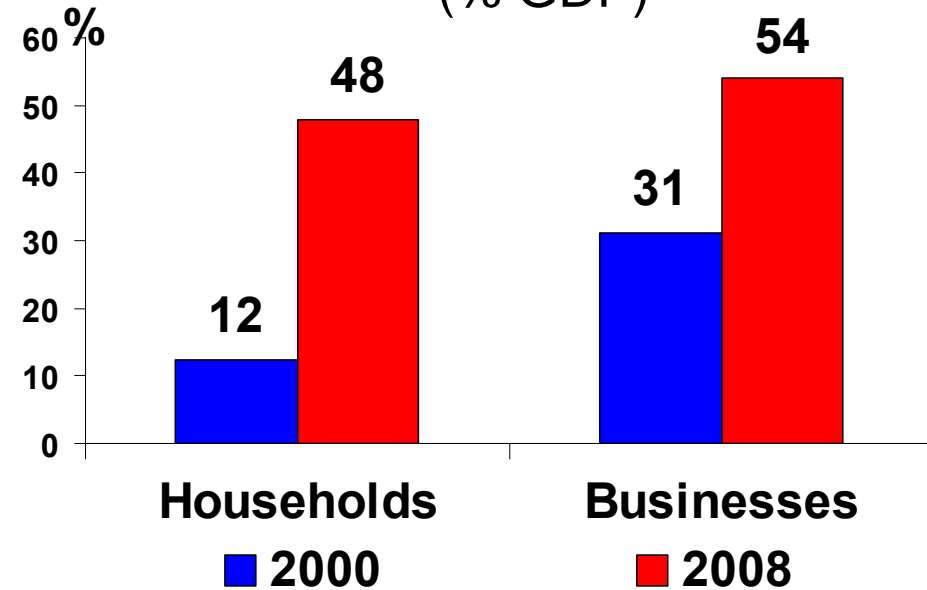
GREEK BANKS: CAN PAST SUCCESS PERSIST?

- ❖ **Unlike what happened abroad, Greek banks did not cause the recession**
- ❖ **Instead, the Greek and regional recession is affecting Greek banks**

III. Domestic credit expansion has matured

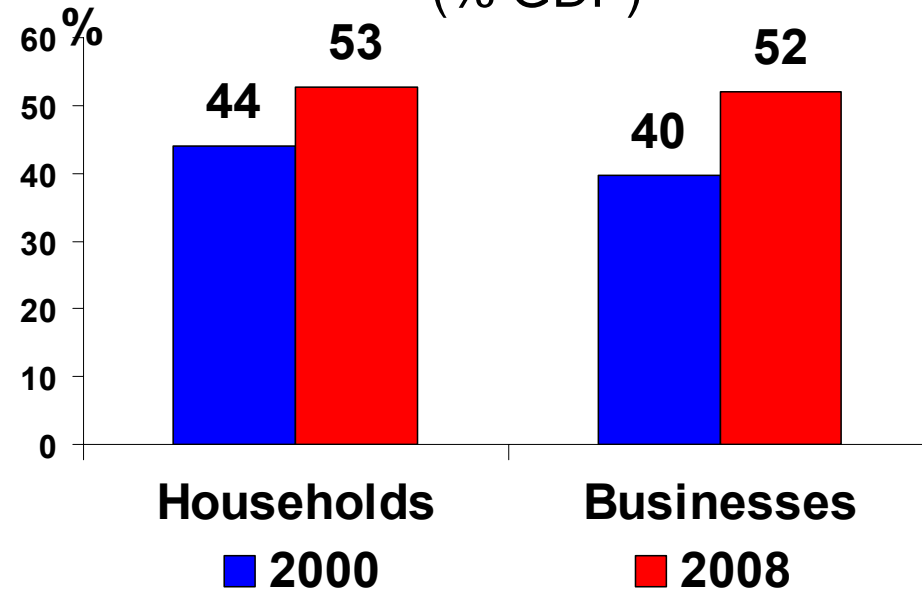
Greece

(% GDP)



Euro Area

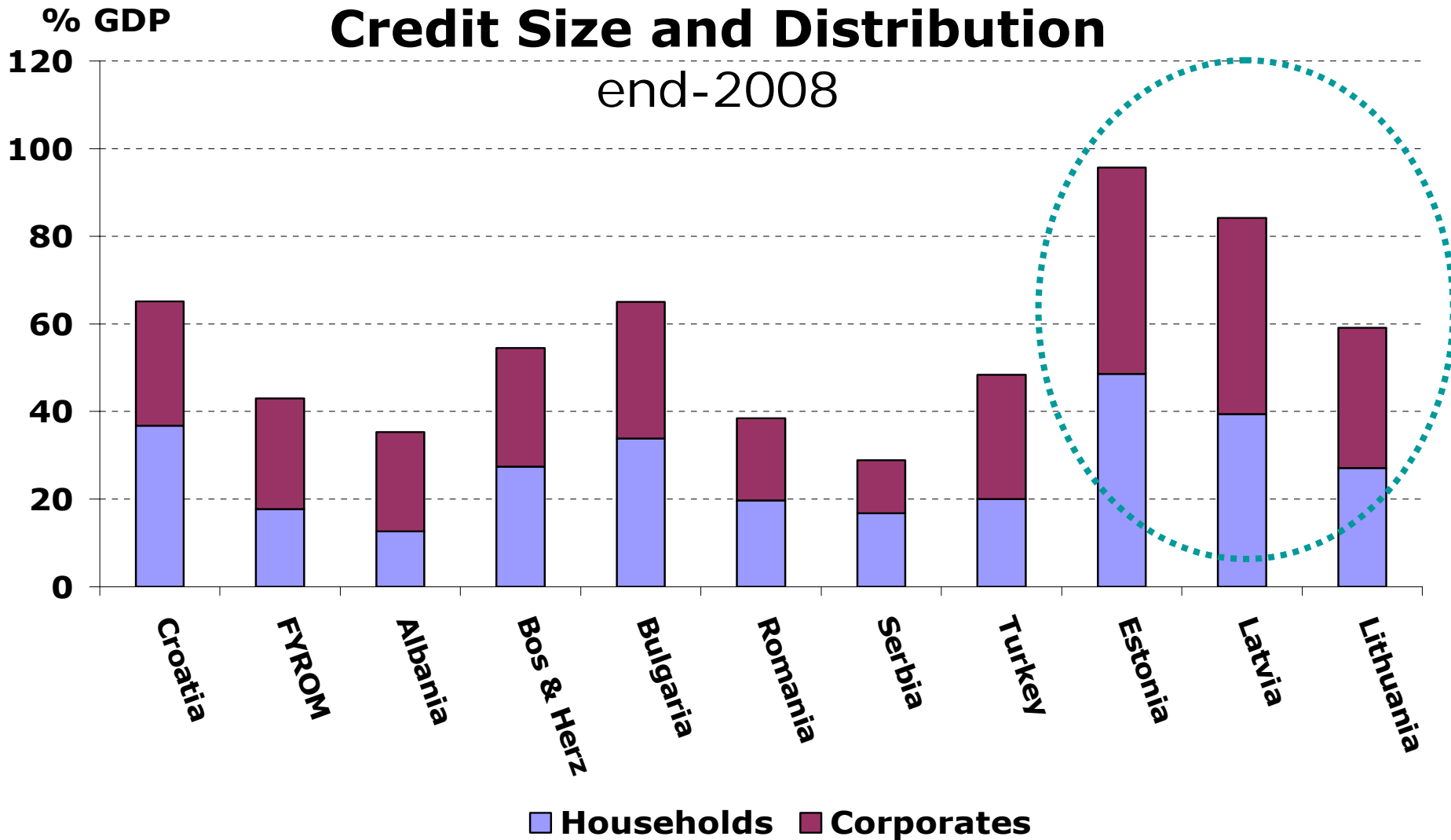
(% GDP)



Source: BoG, ECB

- ✓ **Private sector credit / GDP has almost converged to Euro Area levels**
- ✓ **Greek growth model seems to have reached its limits**

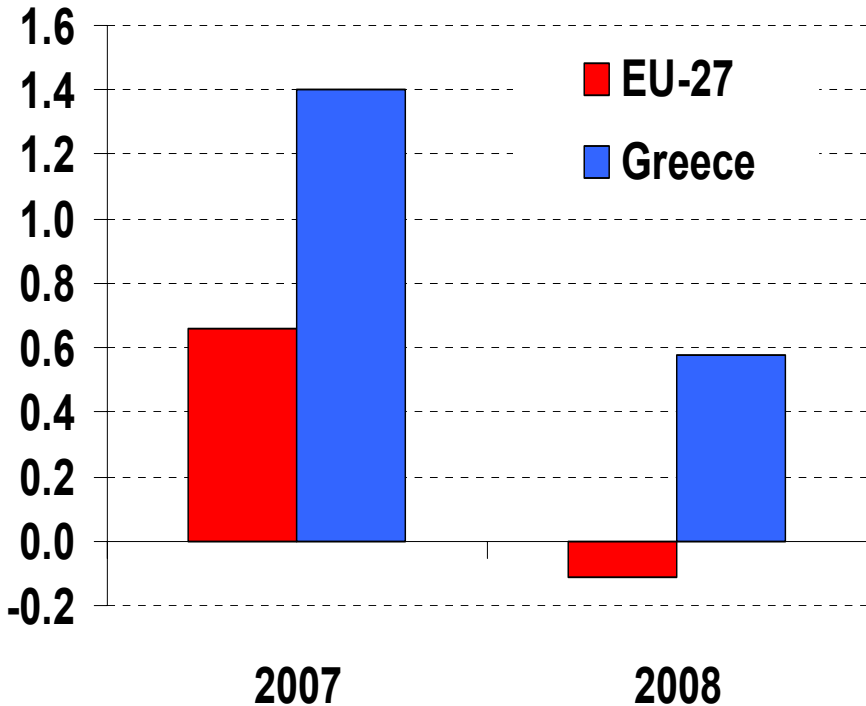
III. Still room for credit expansion in the region but for the long-term



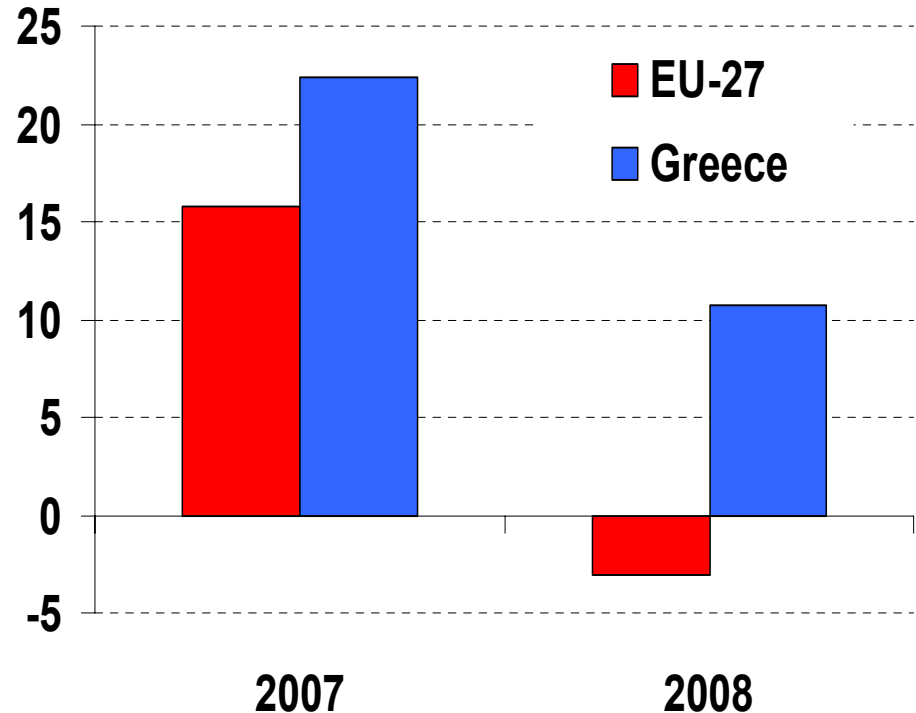
III. Better domestic profitability relative to EU banking sector

✓ Less of a problem in Greece relative to EU-27

Return On Assets



Return On Equity



Source: ECB

Bank Groups in Greece

	1H 2008	1H 2009
ROA	1.1	0.5
ROE	15.7	7.7

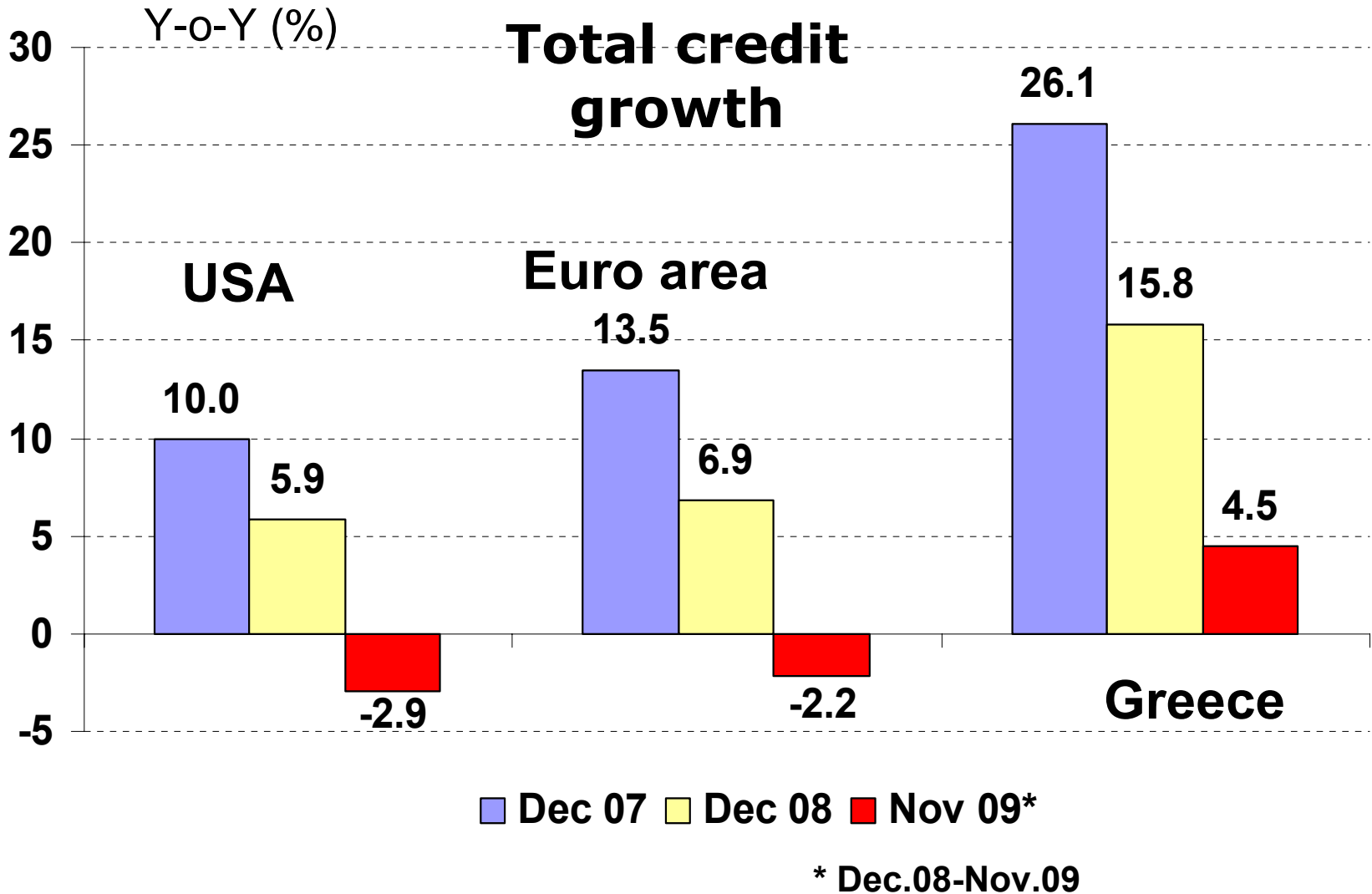
Source: Bank of Greece

III. Profitability declines in 1H2009

Financial Results of Greek Banking Groups

<i>(Amounts in million EUR)</i>	Q1 2008	Q1 2009	Change (%)
Operating income	7347	7686	4.6
- net interest income	5454	5394	-1.1
- net non-interest income	1893	2292	21.1
Operating costs	3893	3989	2.5
Net income	3457	3704	7.2
Provisions	910	2298	152.4
Pre-tax profits	2546	1406	-44.8
Taxes	476	413	-13.2
After tax profits	2071	994	-52.0

III. Credit growth has declined significantly everywhere

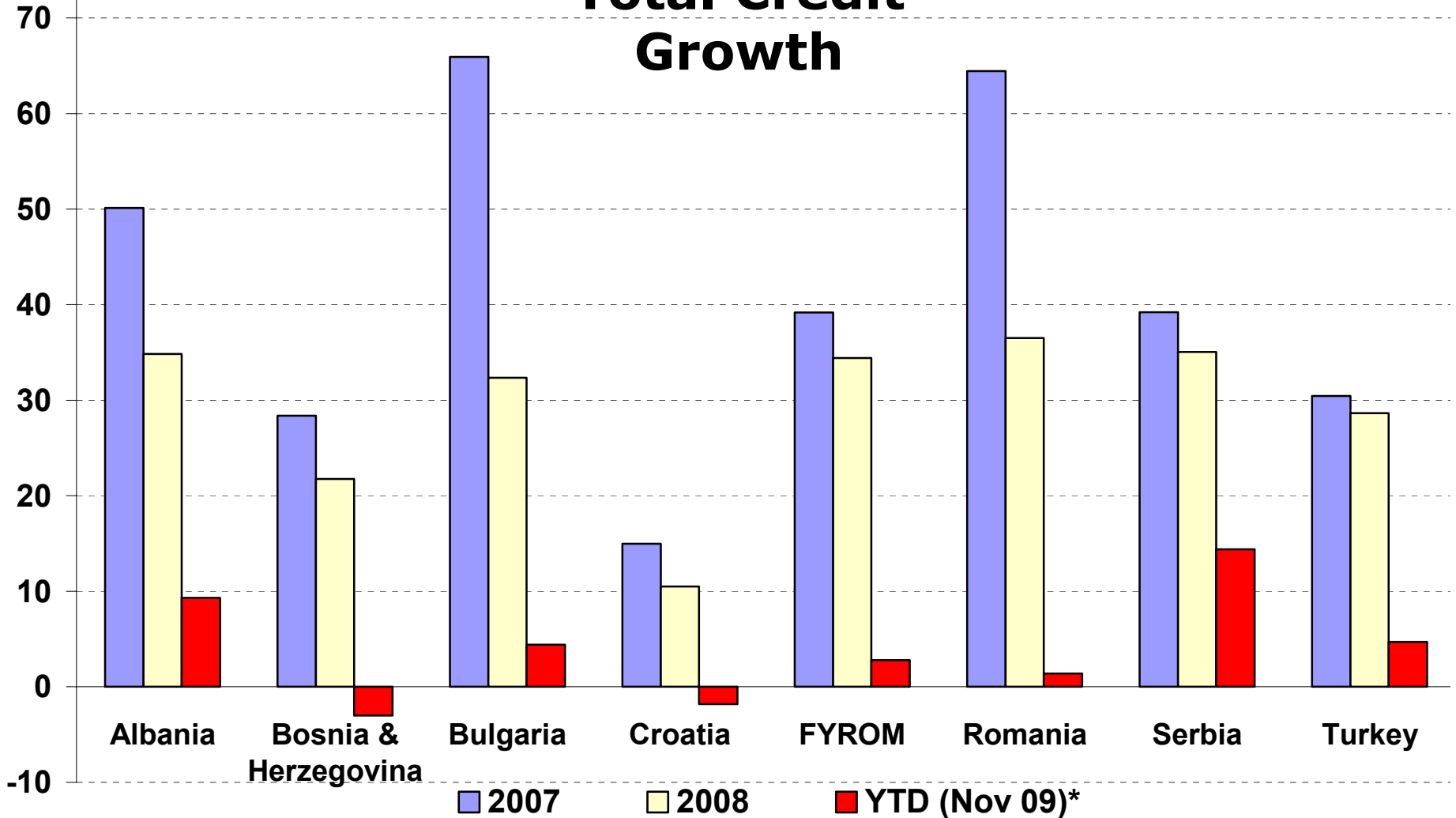


Source: ECB, Fed

III. SE Europe: Fall in the growth rates of credit expansion

annual change (%)

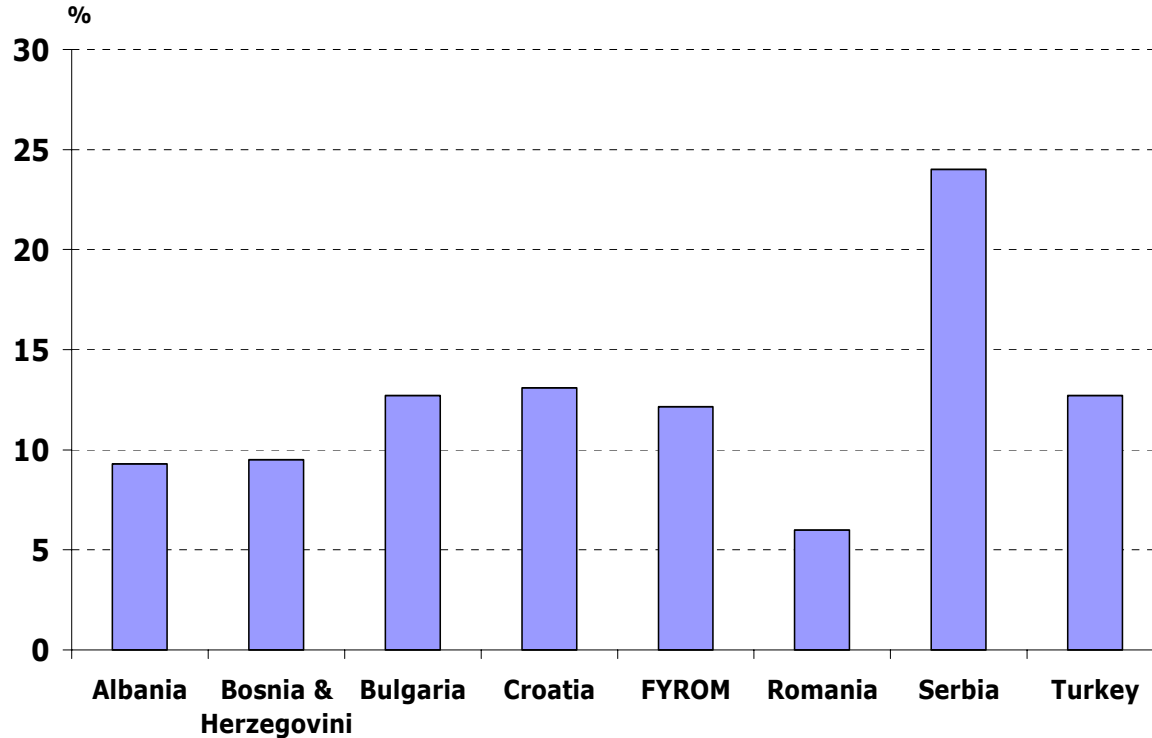
Total Credit Growth



*Albania: Oct 09 – Croatia: Sep 09

III. Yet adequate capitalization

Bank Capital to Assets ratio (Q2 2009)



*FYROM, Romania and Serbia as of Q1 2009

Source: Central Banks, Eurobank Research

Capital / Assets		
Austria	6.9	Q2 09
Belgium	3.1	Q3 09
Ireland	4.6	2008
Germany	2.5	Q3 09
Portugal	6.7	Q2 09
Norway	4.7	Q3 09
Sweden	4.2	Q3 09
UK	3.3	2008
Greece	7.2	Q2 09
Spain	6.2	Q3 09

Ratio of all traded banks and among the 4 largest in the country

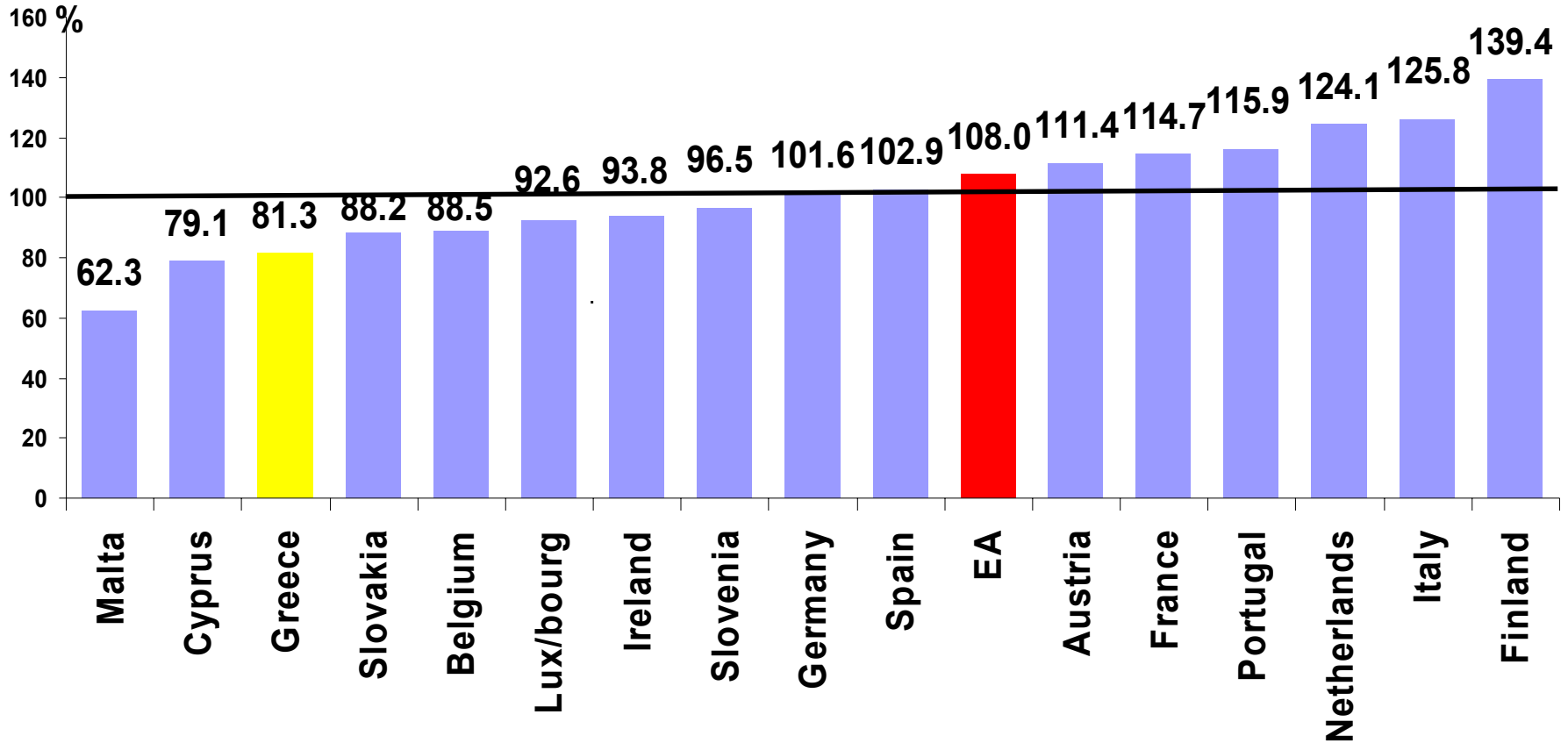
✓ **Capital to assets ratio relatively stronger in SEE**

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

Country Loans to Deposits Ratio

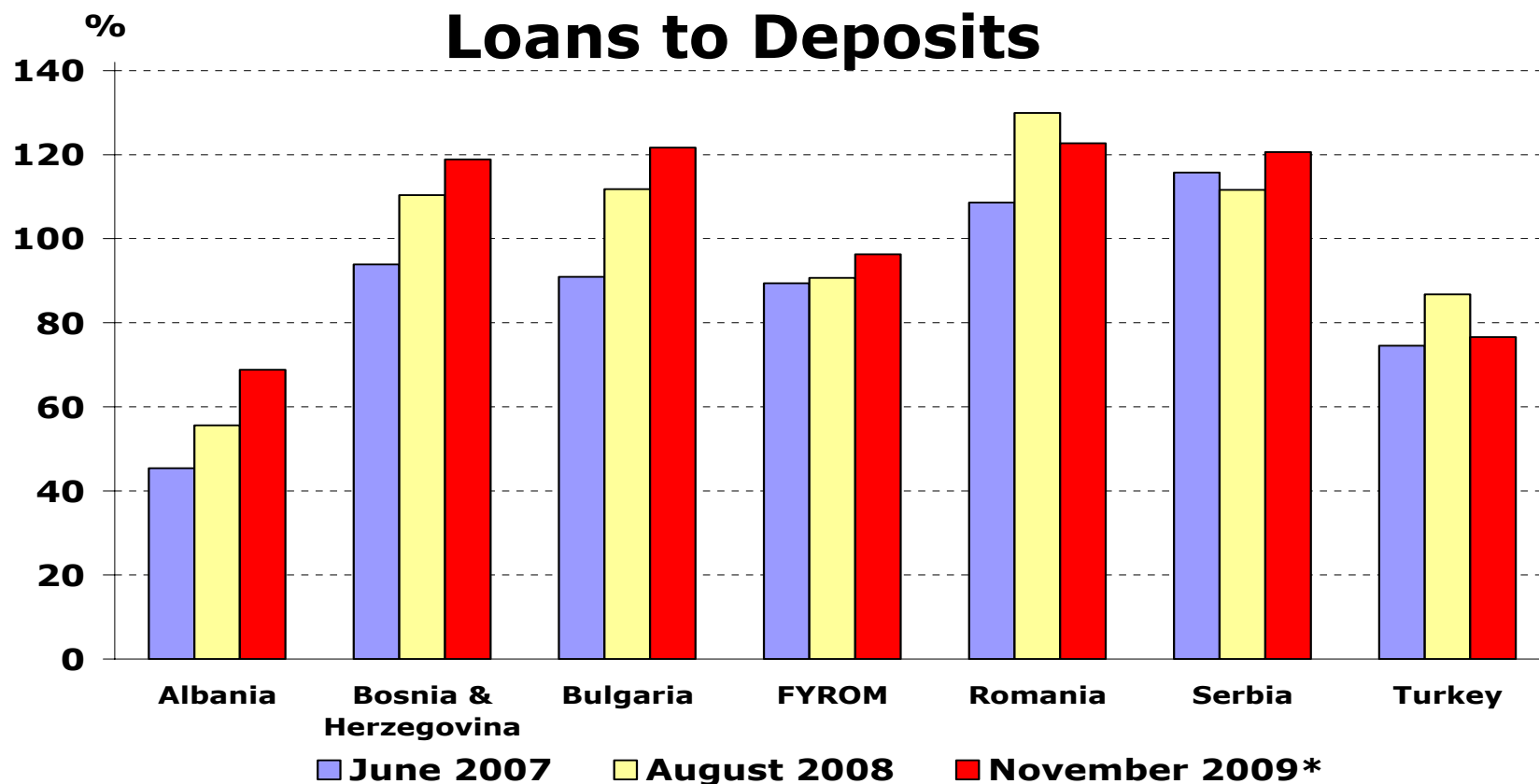
November 2009

(Total Loans to Total Deposits, MFIs excluding Eurosystem)



Greek banking group L/D ratio: 105

III. Liquidity is a major constraint in the SEE region



Baltic States at July 2009

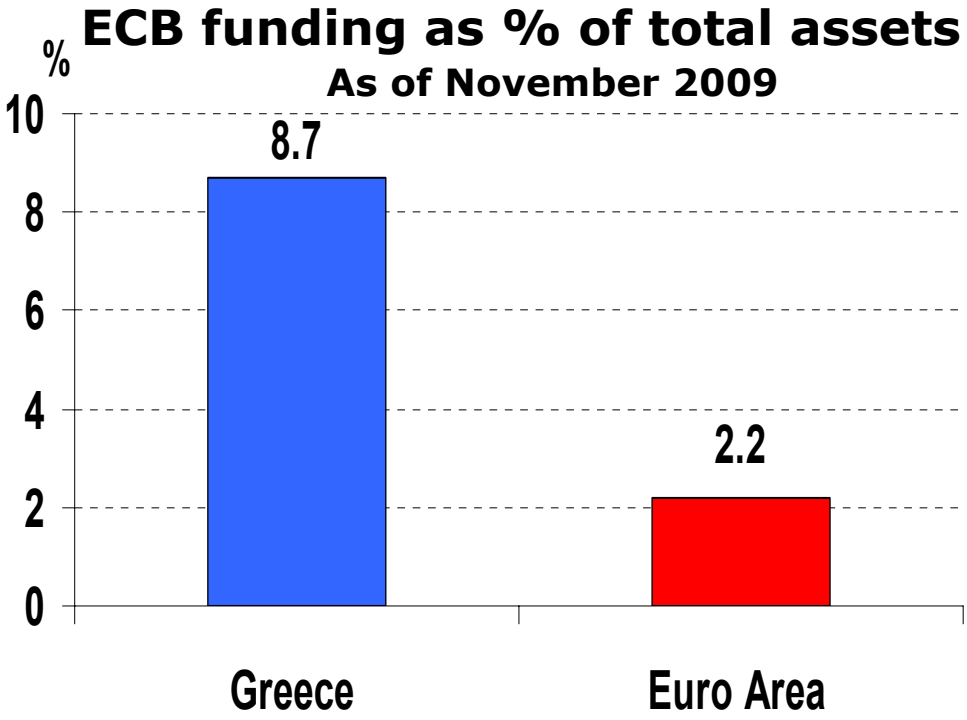
Latvia	105.0
Lithuania	183.3
Estonia	167.9

*Albania: Jun 09 ✓

Domestic deposits unable to support a large expansion in credit growth

✓ Difficult to bring liquidity from abroad

III. Greek banks' reliance on ECB liquidity facilities



	GR	EA
Total Funding	41.3	698.8
of which:		
Main refinancing operations	0.2	52.3
Longer-term refinancing operations	41.1	626.1
Other		20.4
Total Assets	485	31,331

* numbers in billion €

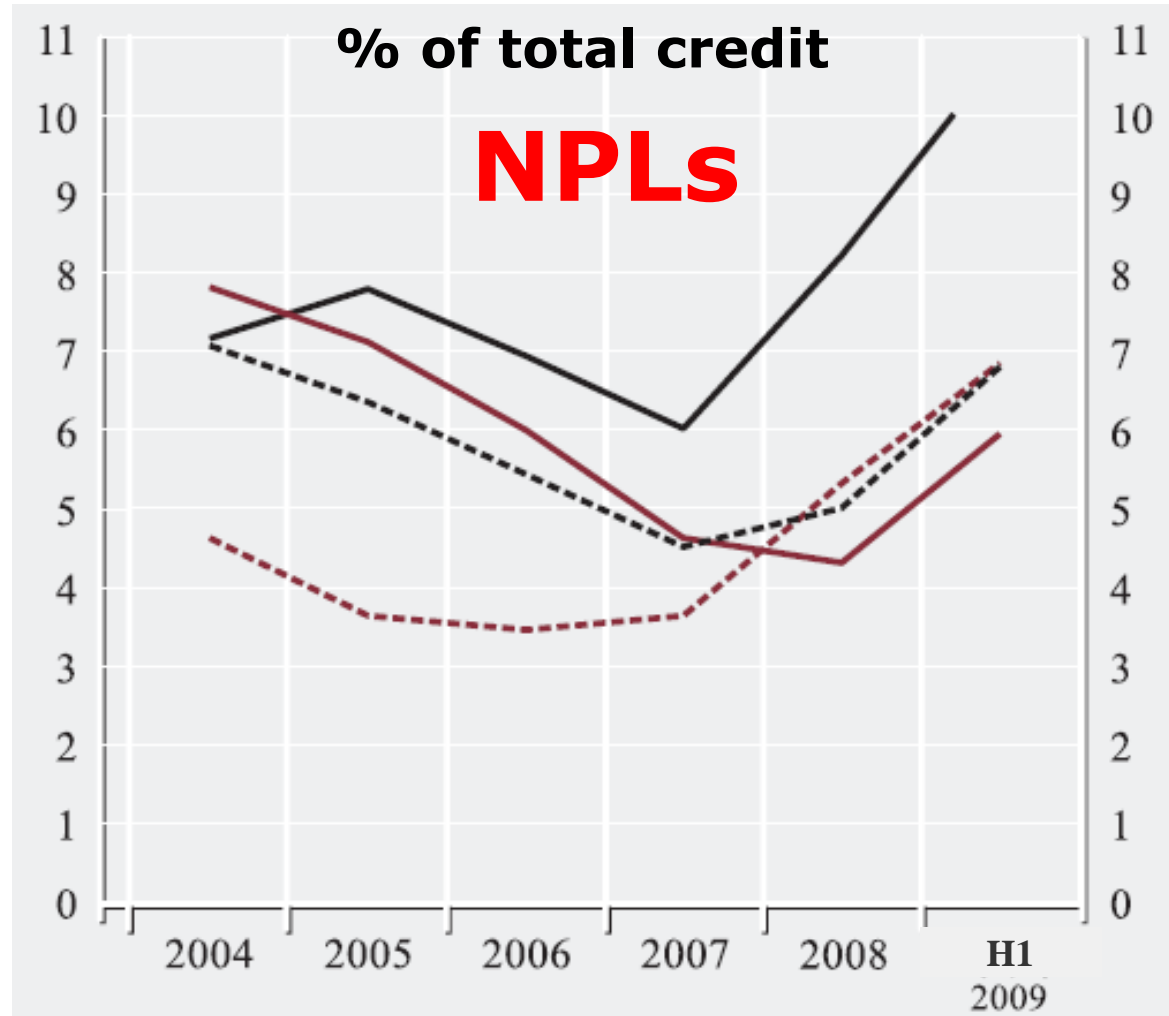
✓ When ECB withdraws the liquidity, the cost of funds will increase

Source: BoG, ECB

III. Non performing loans will keep rising in the immediate future

✓ This is the experience around the globe with previous recessions

- **Consumer loans**
- **Corporate loans**
- - **Total Credit**
- - **Mortgages**



Source: Bank of Greece

- ✓ Provision coverage has declined as well from 60% in 2005 to 40% nowadays, but not uniformly across banks
- ✓ Provisioning will increase in 2010

- ✓ **A weak global recovery in 2010 and lower world growth in the next 5-7 years with strong pressures on international banking**
- ✓ **Strength of recovery depends on central bank liquidity**
- ✓ **The crisis uncovered the two major imbalances of the Greek economy, the lack of competitiveness and the lack of fiscal discipline**
- ✓ **Greeks do respond to adversity and the expected long stagnation period ahead is likely to trigger the structural reforms the country never dared to undertake before.**
- ✓ **The possibility of leaving EMU is out of the question but appears in the media as the scenario heralds the breakdown of EMU**
- ✓ **The Greek SGP puts a credible anchor on economic policies and controls the run-away debt but risks are high**
- ✓ **Greek banks did not cause the global or local recession, yet they are affected by it**
- ✓ **Greek banks are strongly capitalized and their liquidity problems are not be as severe as in the rest of Europe**
- ✓ **Yet Greek banks do depend on the course the country takes, as their cost of funding, their depositor base and their lending opportunities are intimately affected by the future path of the Greek economy**
- ✓ **A consensus for mutual sacrifices is required among Greek citizens**

THANK YOU FOR YOUR ATTENTION!!

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

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