2019 H2: A new beginning for the Greek economy

Gikas A. Hardouvelis

University of Piraeus

www.hardouvelis.gr

19/6/2019

Νέο ξεκίνημα για την ελληνική οικονομία

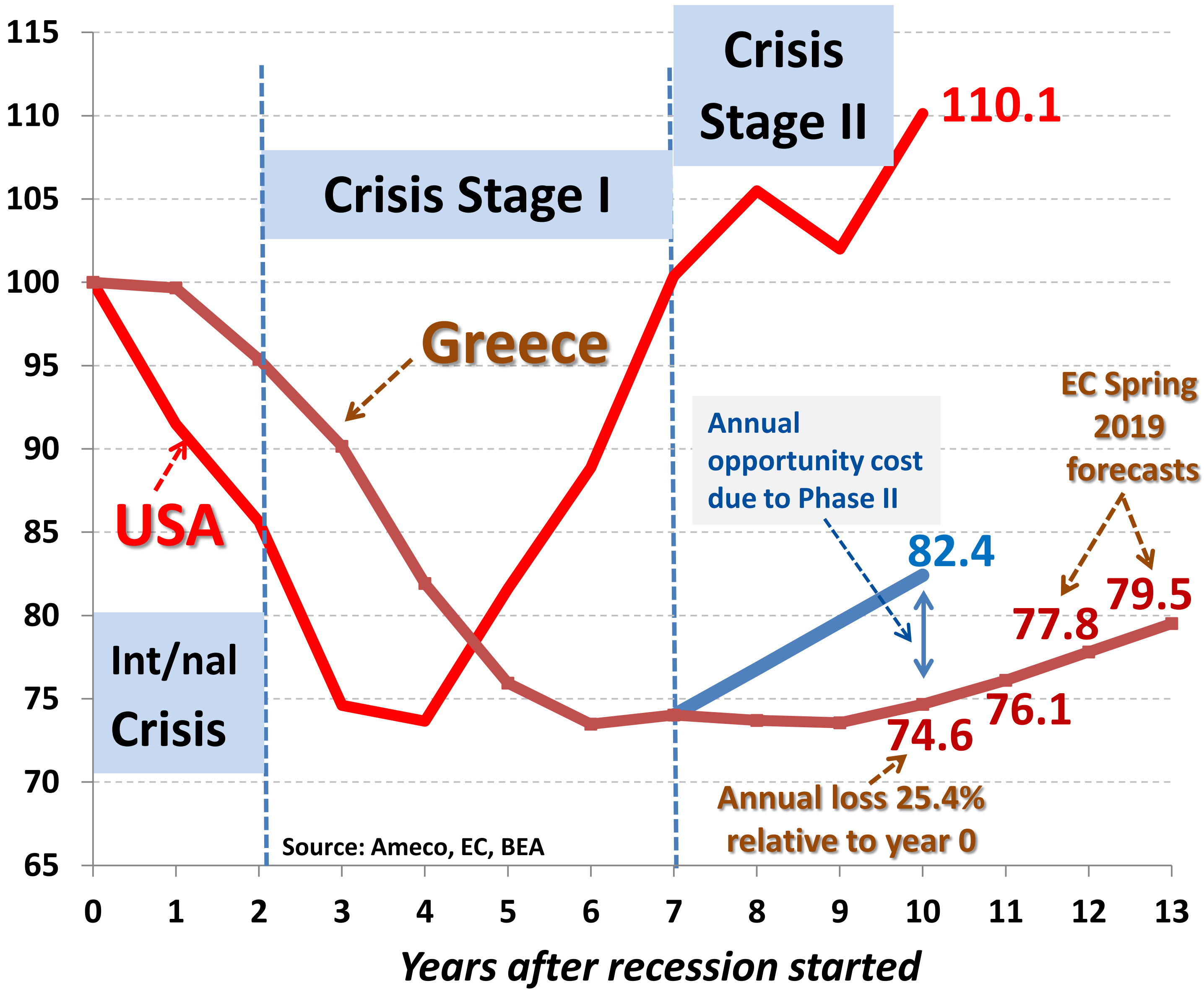
e κύκλος
ΙΔΕΕΣ ΓΙΑ ΤΗΝ ΕΘΝΙΚΗ ΑΝΑΣΥΓΚΡΟΤΗΣΗ
ΜΕ ΤΗ ΣΥΝΕΡΓΑΣΙΑ SGT
Η ΕΛΛΑΔΑ ΜΕΤΑ III
Η ανασύσταση της μεσαίας τάξης
19-20 Ιουνίου 2019
Divani Caravel hotel

A new beginning for the Greek economy

- **The Greek crisis had two phases, the necessary Phase- I and the unnecessary Phase – II**
  - Many imbalances were cured in Phase I (Fiscal deficits eliminated, current account deficits shrank, ULC competitiveness restored)
  - Yet Phase II prolonged the stagnation, with democratic institutions and the financial sector under threat and the population over-levered and in despair for the future
- **A jump–start is now required: What are the major challenges ahead?**
  - Reverse the current disinvestment, which destroys potential growth
  - Correct the fiscal mix with incentives for work and creativity
  - Restore quality competitiveness with privatizations, public sector reforms, investment in IT & innovation, educational reform
  - Help cure the financial sector with a drastic NPE reduction
  - Address the population growth & improve social cohesiveness

Two stages prolong the Greek crisis:
Economic imbalances drive the first – Politics the second

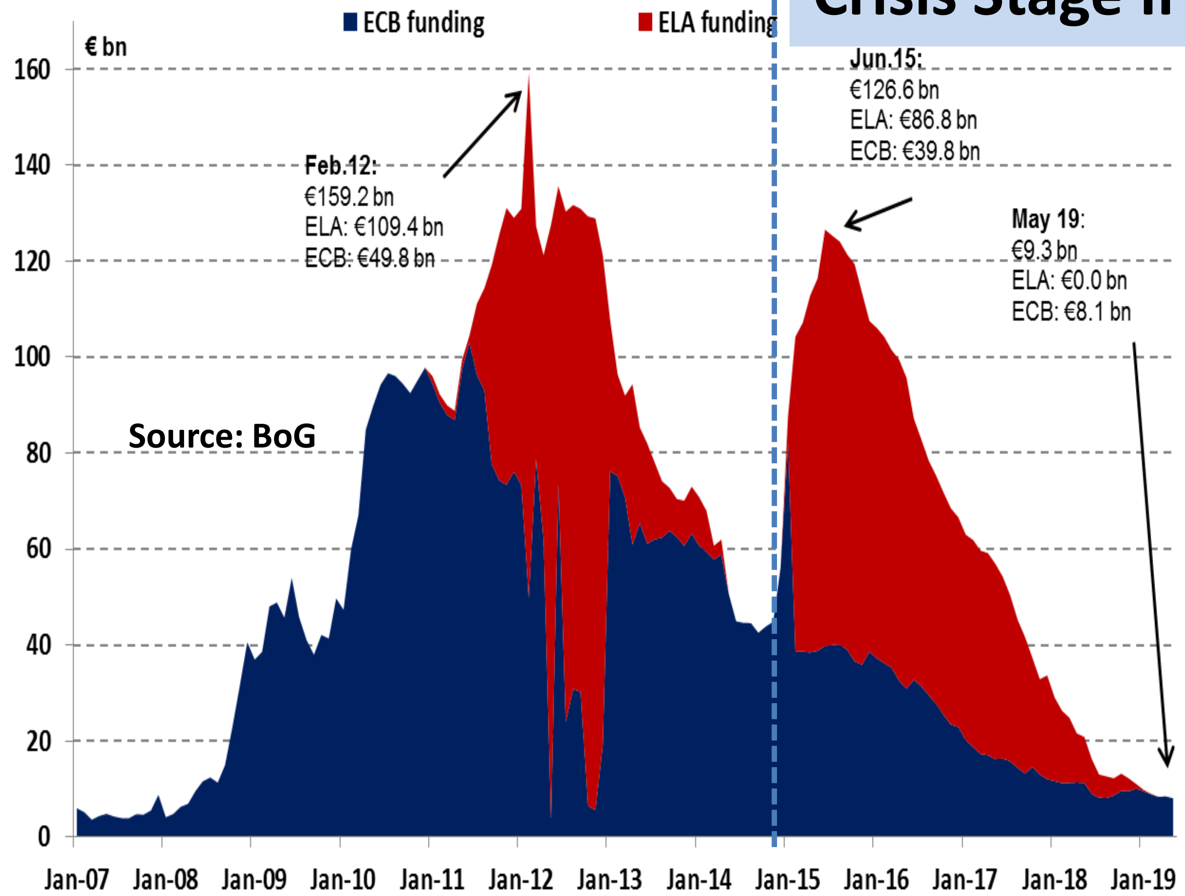
- Phase II costs annually 7.8 ppts or €18bn
- Was unnecessary
- Real GDP at 100 in 1929 for USA 2007 for Greece
- After 10 years, USA at 110.1 in 1939, but Greece at 74.6 in 2017
- Forecast as of Fall 2014: Greece at 82.4 in 2017



The two stages of the Greek crisis are revealed in the Eurosystem dependence of the domestic banks

- Prior to the Int/nal crisis little use of ECB borrowing
- Lehman episode froze the interbank market, raising borrowing to €55bn.
- Greek crisis raised dependence to above €100bn.
- Since July 2011 Emergency Liquidity Assistance (ELA)
  - Max value in 11/2012
  - Down to ZERO in 11/2014
  - Back up to €86.8bn in 6/2015
  - May 2019: ELA zero (5th consecutive month) plus €8.1bn in ECB funding

Crisis Stage II



- ELA borrowing costs 1.5% more due to low quality collateral
- April 2019: interbank market funding at €25.0bn (Aug.-15: €6.3 bn)

Target drivers of growth: Exports & Investment

- Consumption ought to increase at a lower rate than GDP
- Exports defied the trend and increased (by 60% since 2009) and now hold a 36% share in GDP from 19% in 2007
- Investments is the key as they boost potential growth

	2018 bn (nominal)	2018 Real (YoY%)	2019 Real (YoY%)	2020 Real (YoY%)
GDP	184.7	1.9	2.3	2.3
Consumption	125.6 (68%)	1.1	1.0	1.2
Gov. Cons.	35.4 (19%)	-2,5	1.6	0.6
Investment	22.8 (12%)	-12,2	3.9	12.9
Exports	66.7 (36%)	8,7	5.9	5.4
Imports	67.2 (36%)	4,2	3.5	5.7
GDP Deflator		0.5	1.1	1.4
HICP (YoY%)		0.8	0.9	1.3

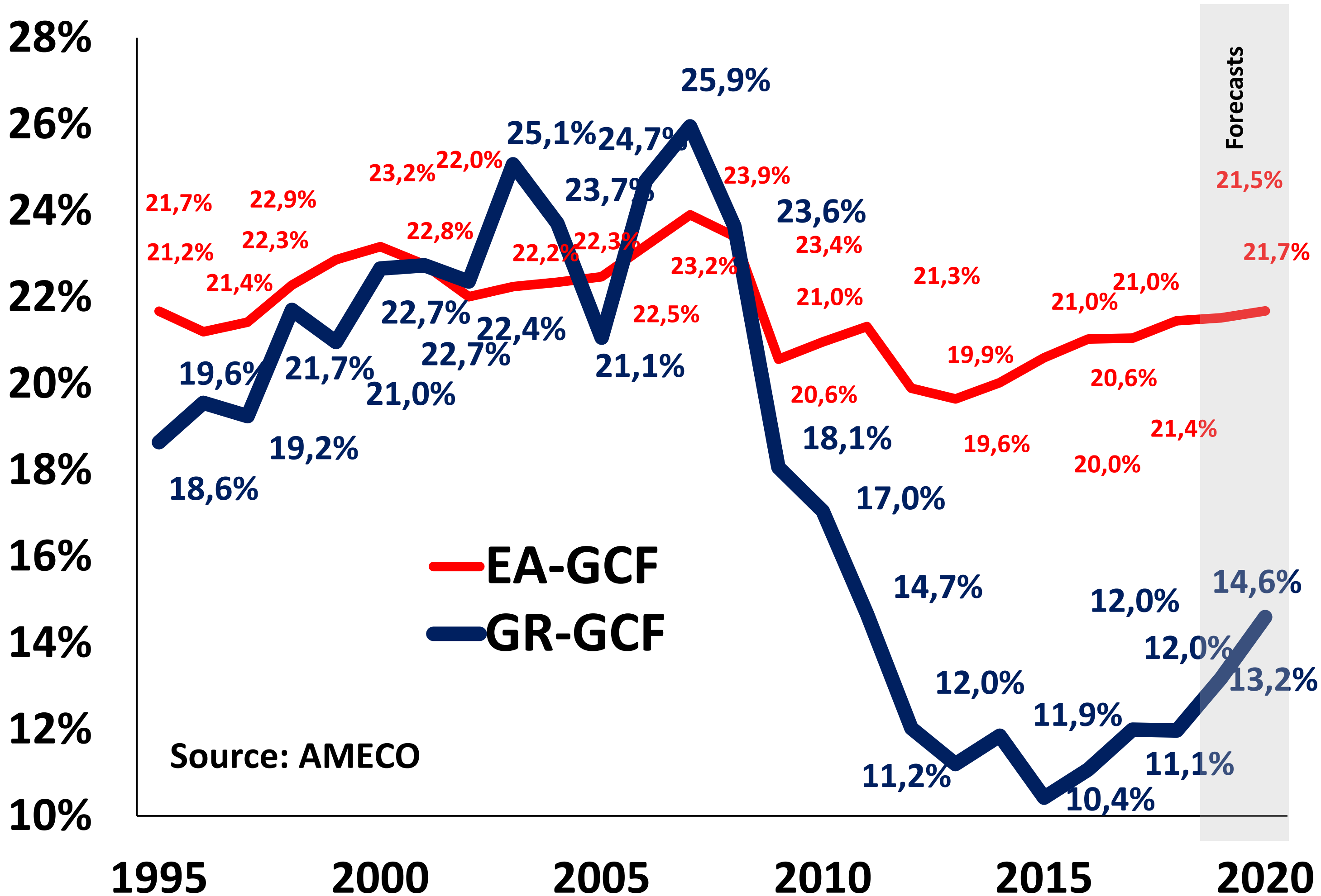
Notes

1.EC's Spring 2019 forecast: real GDP growth at 2.2% and 2.2% for 2019 and 2020 respectively

2.Real GDP growth rate consensus forecast for 2019 and 2020 at 1.8% and 1.9% respectively (source: Focus Economics, Reuters & Bloomberg average)

Investment needs a major boost

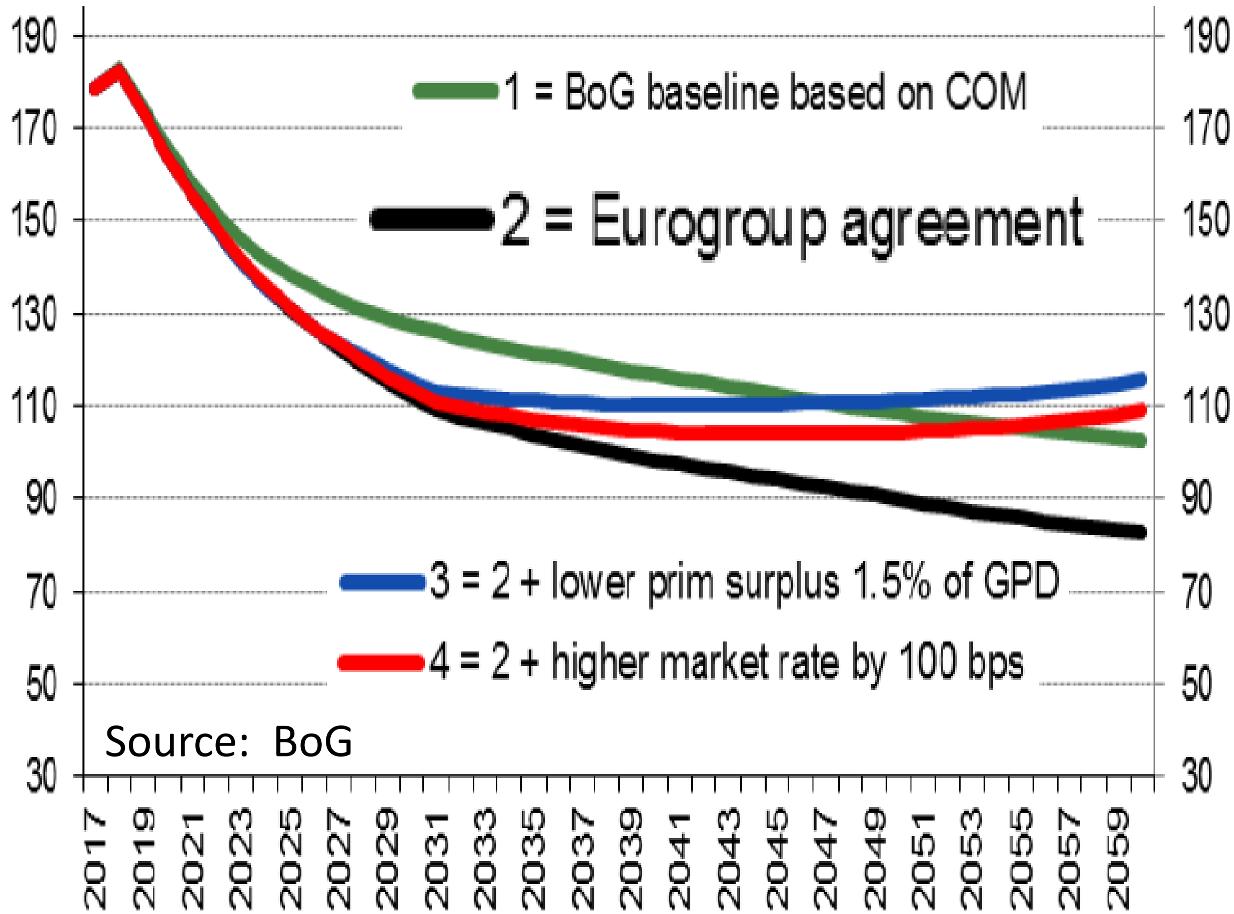
- From €65bn in 2007 (25.9% of GDP) to €22.8bn in 2018 (12.0%)
- Expected increase in 2019 at 13.2% of GDP
- Yet 10 of the 14 ppts reduction due to real estate
- Public investment at 3.0% GDP in 2018 relative to 4.9% in 2007



- Future seems brighter: OECD claims 80 projects are in the pipeline until 2023 with a budget of €20bn

Debt sustainability & the fiscal mix

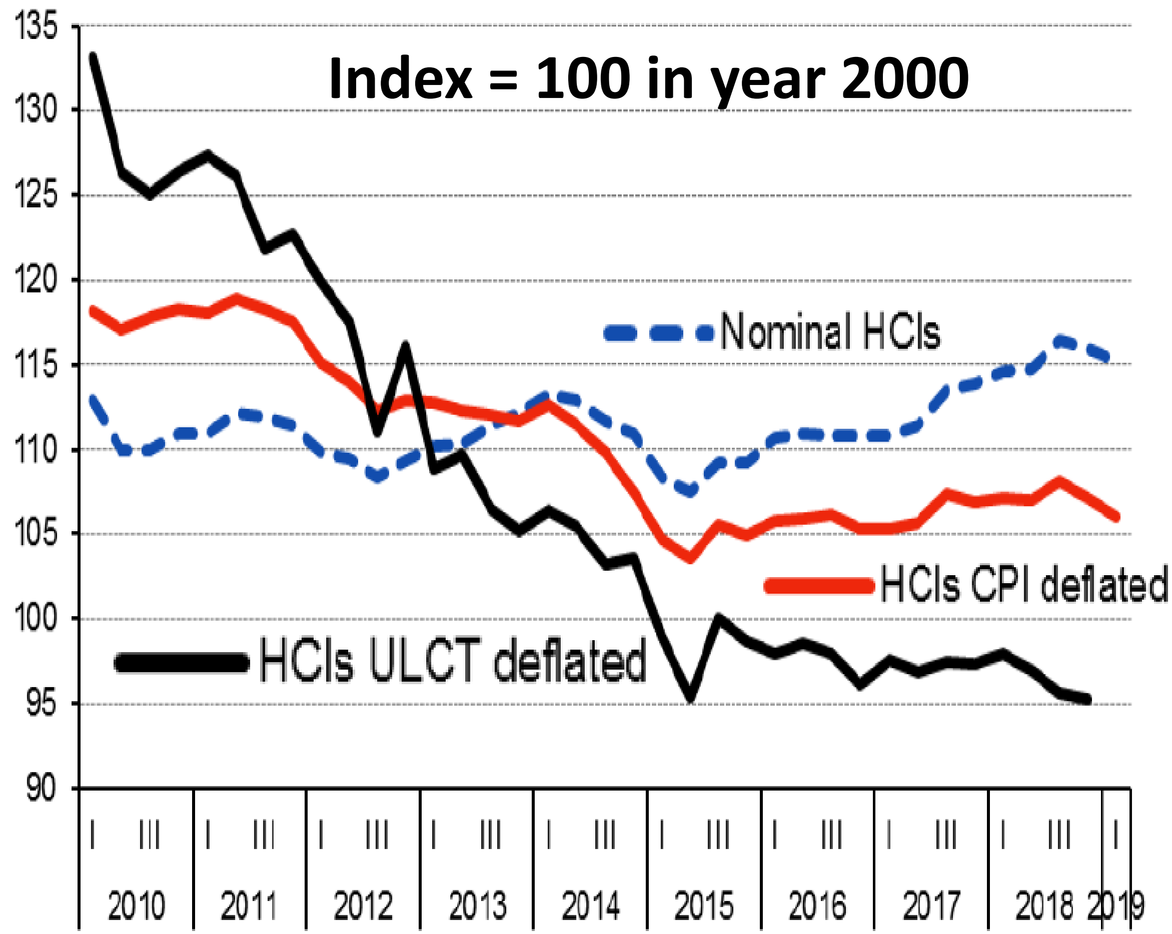
- It is widely agreed by all political parties that a reduction in tax rates is needed. But expenditure cannot decline equally easily
- Would a reduction in the target primary surpluses of 3.5% GDP for 2019, 2020, 2021 & 2022 create a debt-sustainability problem?
- Most likely, no. Debt/GDP would likely decline if multiplier is 1, because 1 ppt reduction in surplus is counter-balanced by 1.8% increase in GDP



- Is it politically feasible to reduce those targets to the average 2023-20260 target of 2.2% without sacrificing credibility?

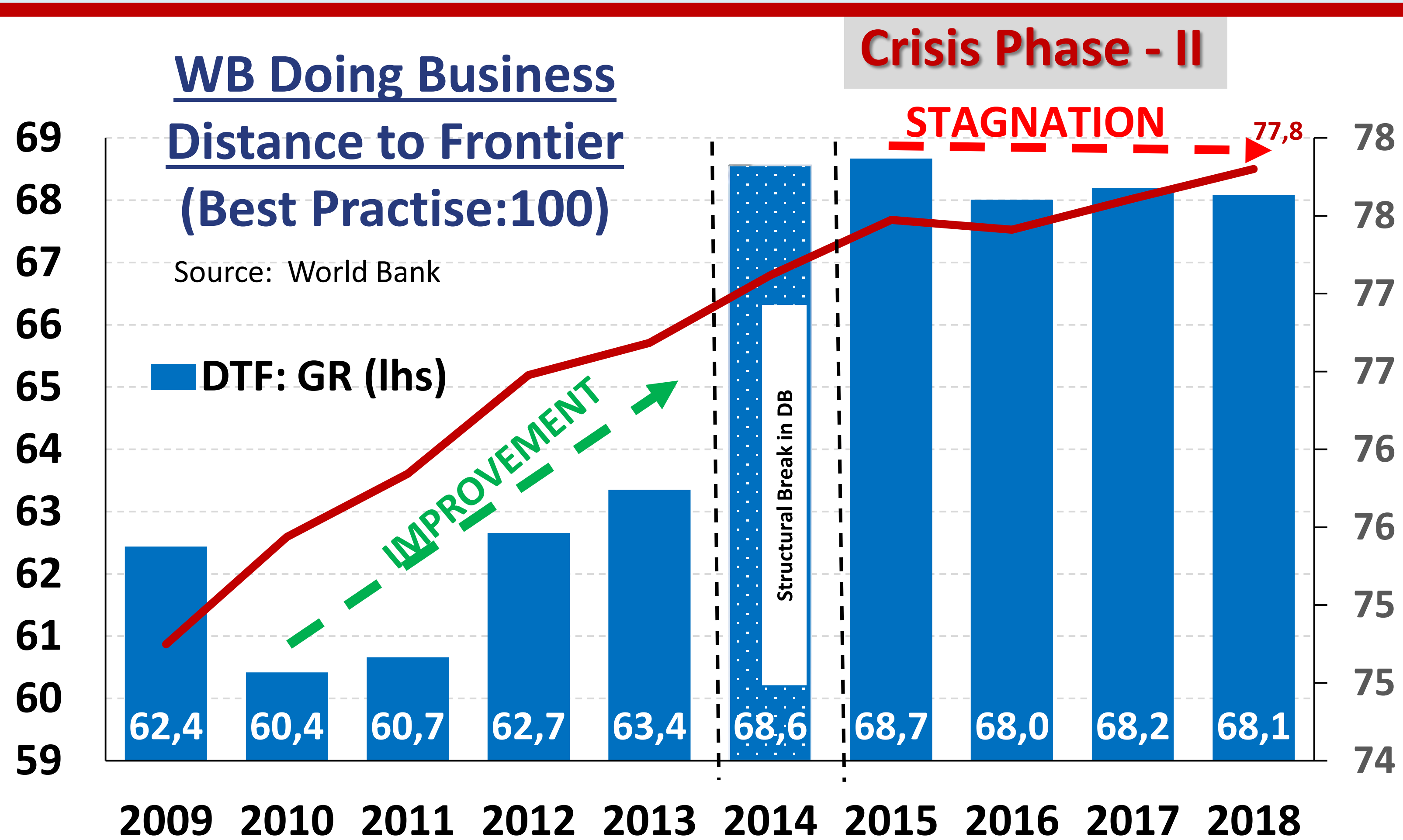
Cost competitiveness improves in the early crisis years (during Phase-I)

- ❑ Deterioration by 33% in cost competitiveness (ULCT) up to 2009
- ❑ Then from 2010 to 2014 improvement in ULCT by 38%
- ❑ Stagnation in ULCT from 2015 to the present (during Crisis Phase II)
- ❑ Need for Quality Improvement by reforming the public sector, the justice & educational systems, etc.



Source: BoG

Quality competitiveness: Improvement in Phase I, deterioration/stagnation in Phase II

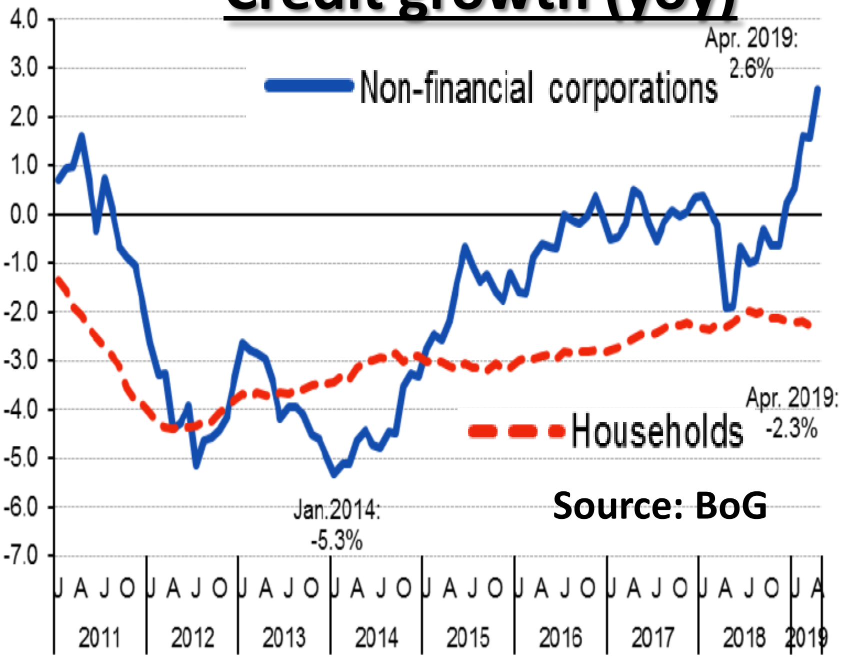


- DB ranking: Greece ranked 72nd among 190 countries in 2018, down from 67th in 2017, 60th in 2015
- Earlier, there was an improvement to 60 from 109 in 2009

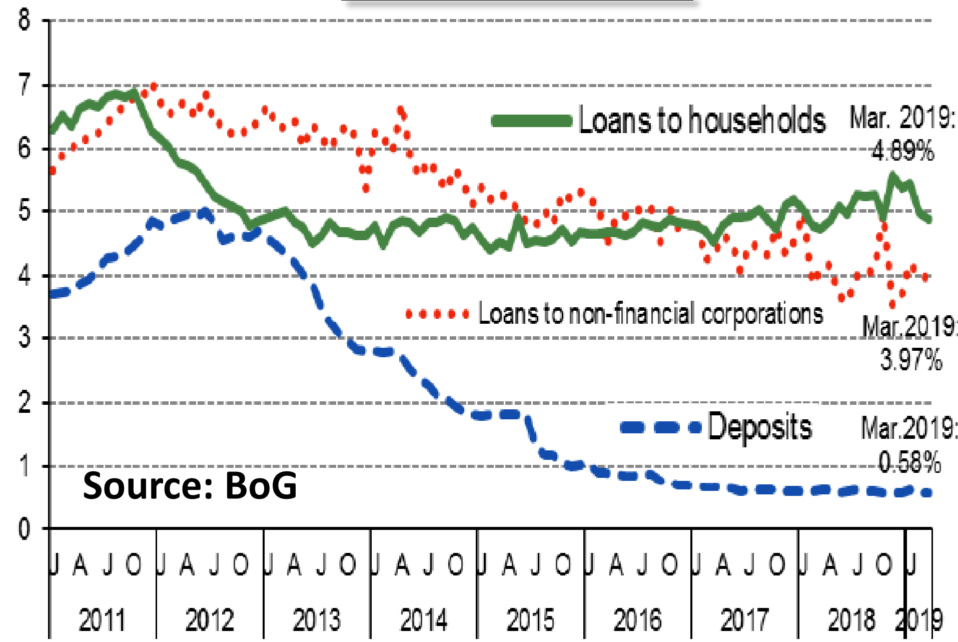
Signs of improvement in corporate credit conditions

- Credit growth for non-financial corporations turns positive in 2019, following 8 years of continuous decline
- Loan rates to non-financial corporations on a downward trend since 2012
- Yet household credit continues to shrink and loan rates remain steady
- Bank profitability is squeezed due to NPLs, regulation, IT competition in retail services

Credit growth (yoy)



Interest rates



The great challenge of non-performing loans & exposures

Group level, Dec-2018	Eurobank	NBG	Alpha	Piraeus	Total
1. Total Loans - gross (€bn)	45.0	39.6	52.5	53.1	190.2
2. Non-Performing Exposures (€bn)	16.7	16.2	25.7	27.3	85.9
3. NPE ratio (%)	37.0%	40.9%	49.0%	51.5%	45.2%
4. Non-Performing Loans (€bn)	13.2	11.8	17.6	17.4	60.0
5. NPL ratio (%)	29.3%	29.9%	33.5%	32.8%	31.6%
6. Provisions (€bn)	8.8	9.5	12.3	13.3	44.0
7. Regulatory Capital CET1 (€bn)	6.5	5.6	8.3	6.5	26.8
8. Texas Ratio 1 = 4/(6+7)	86.5%	78.3%	85.5%	87.7%	84.8%
9. Texas Ratio 2 = 2/(6+7)	109%	101%	125%	138%	121%
10. CET1/RWAs	16.2%	16.0%	17.4%	13.7%	15.8%

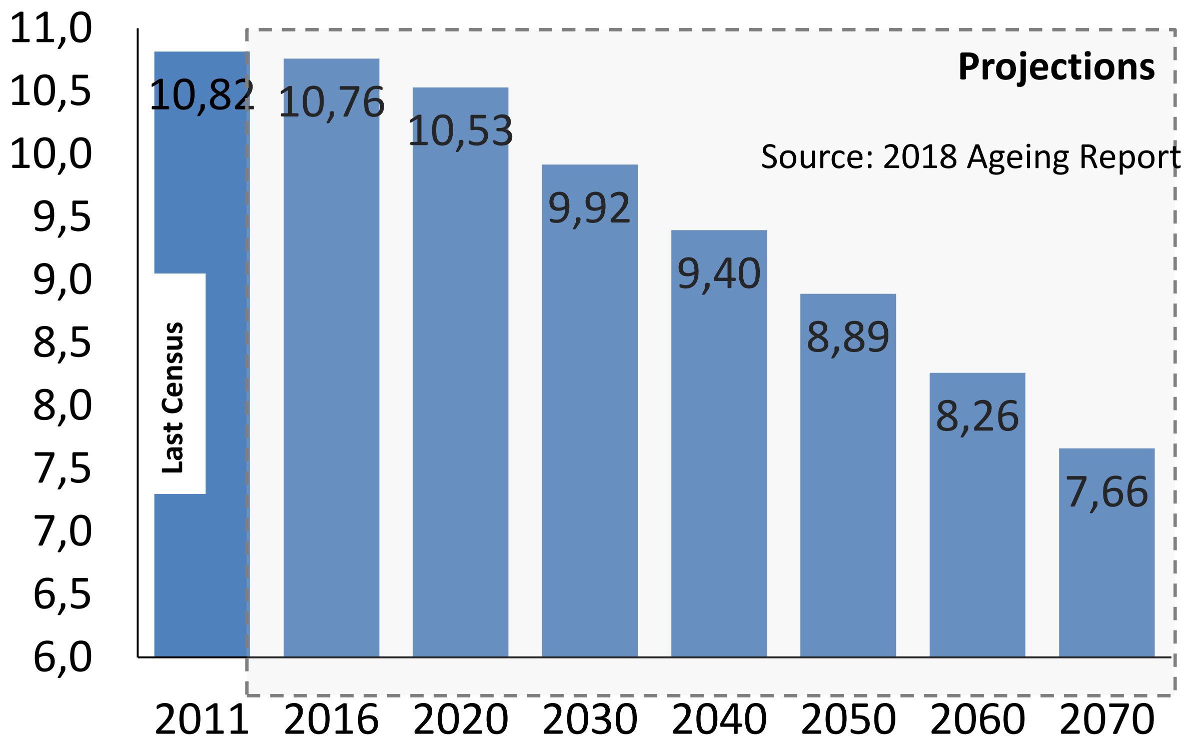
Notes:

1. In the theoretical stress situation in which all NPL value is lost, all of four systemic banks survive because they all have a **Texas Ratio less than unity**. For NPEs, those ratios are larger than unity.
2. About **70% of regulatory capital is DTC** and without it, no bank survives.
3. In January 2018, new IFRS-9 rules impose additional capital needs over the following five years, to the tune of €5.9bn. However this is gradually phased in over 5 years
4. 2018 stress tests did not result in recapitalization of the Greek banks

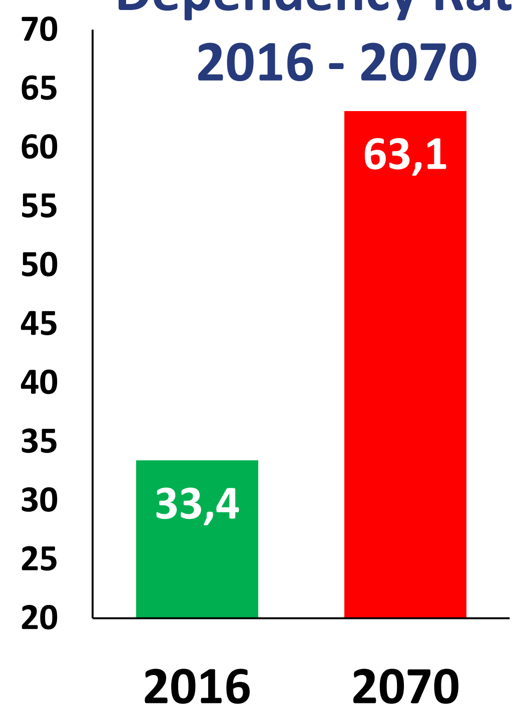
Source: *Calculations based on banks' published data*

Adverse Demographics: Population and Pensions

GR Population 2011-2070



GR Old Age Dependency Ratio 2016 - 2070



- **According to the EC's 2018 Ageing Report the Greek population is expected to decrease at 7.66 mn in 2070 from 10.82 in the 2011 population census**
- **The Greek old age dependency ratio (the ratio between inactive population above 64 y.o. and the employed aged 22-64) is expected to increase to 63.1% in 2070 from 33.1% in 2016 (**Eurostat forecasts**).**

Summary: Can we jump-start the economy?

Although 5 years were lost due to the unnecessary Stage II of the crisis, which brought an annual loss of at least €20bn in GDP and disillusionment among citizens, a switch in the economic paradigm can quickly materialize iff:

- **Credibility in policy comes back**
- **A multi-year plan of tax reforms is announced and gets legislated right away**
- **A multi–year plan of reforms in education, IT development, public administration is announced**
- **Public & Private Investment, Privatizations & FDI get boosted**
- **Guaranteed minimum income is promoted together with a social service component**

The long term headache of population depletion can be reversed if economy picks up momentum and Greece becomes a hub for creativity & innovation, not just a tourist destination

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Thank you for your attention!

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