

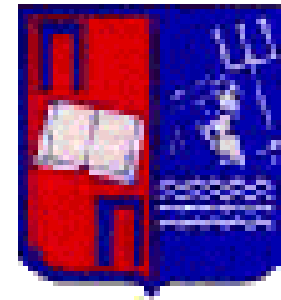
The Post Pandemic Economic & Financial Landscape in Greece

Gikas A. Hardouvelis

University of Piraeus
National Bank of Greece

www.hardouvelis.gr

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OF GREECE



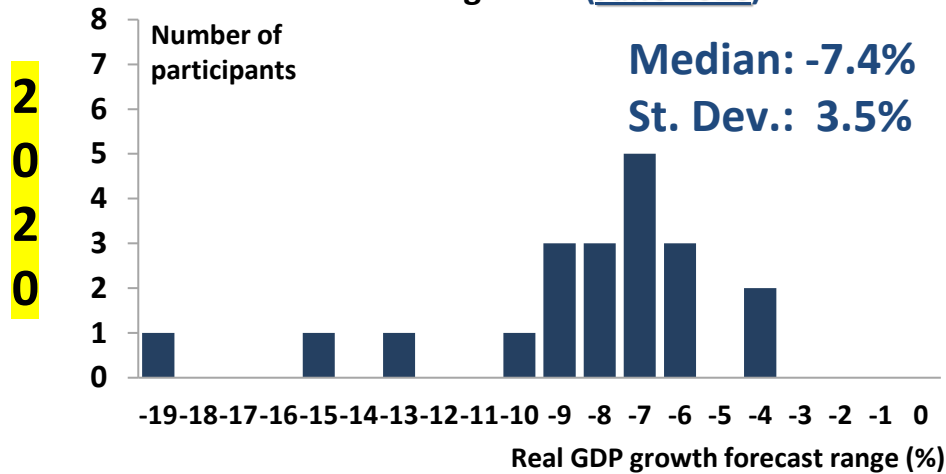
The Post Pandemic Economic & Financial Landscape in Greece

- I. **Real economy under stress and huge uncertainty, yet policy reaction is large and swift**
- II. **The financial sector in an even more vulnerable position, yet there is a way out**

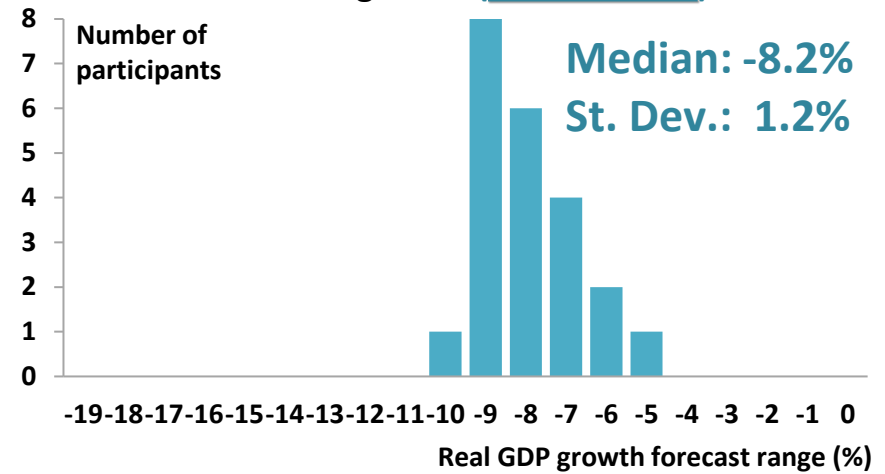
I. Greece: Distribution of annual growth forecasts just before the second pandemic wave

Source: **Focus Economics**

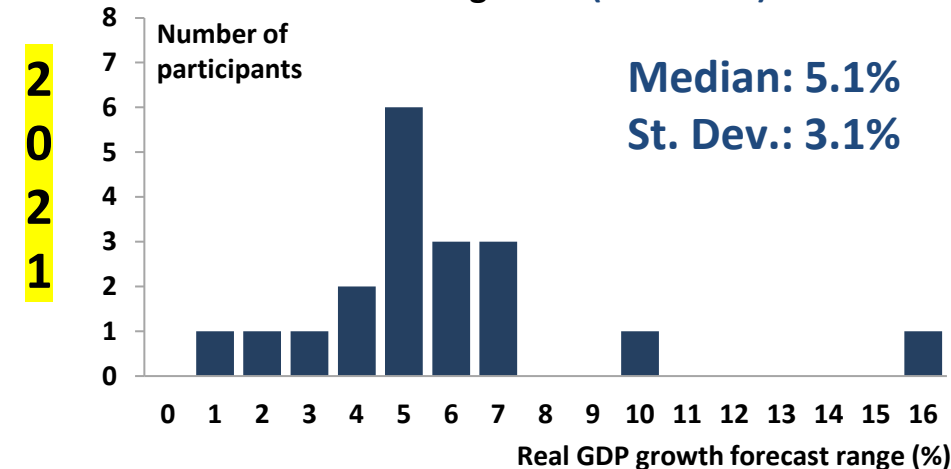
Distribution of Focus Economics Forecasts for 2020 GDP growth (June 2020)



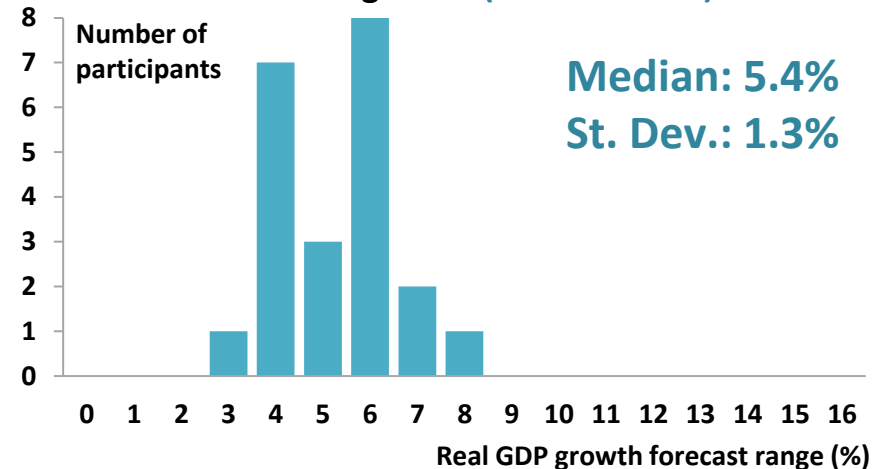
Distribution of Focus Economics Forecasts for 2020 GDP growth (October 2020)



Distribution of Focus Economics Forecasts for 2021 GDP growth (June 2020)



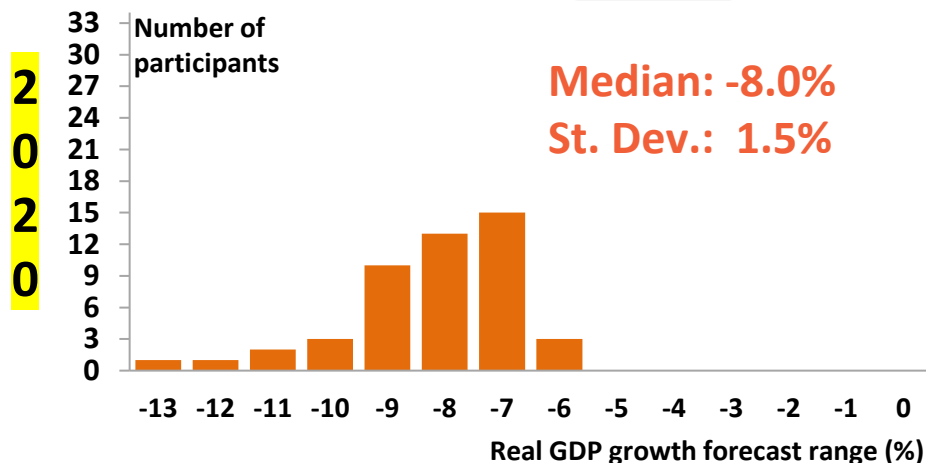
Distribution of Focus Economics Forecasts for 2021 GDP growth (October 2020)



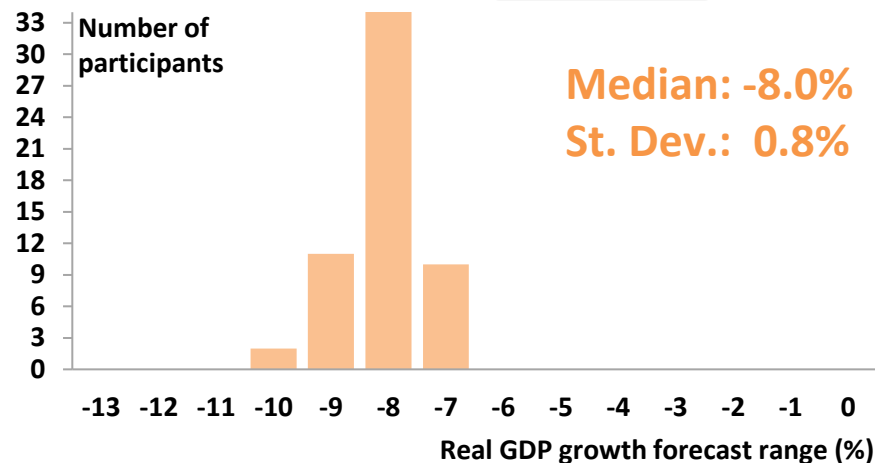
I. Euro area: Distribution of annual growth forecasts

Source: Focus Economics

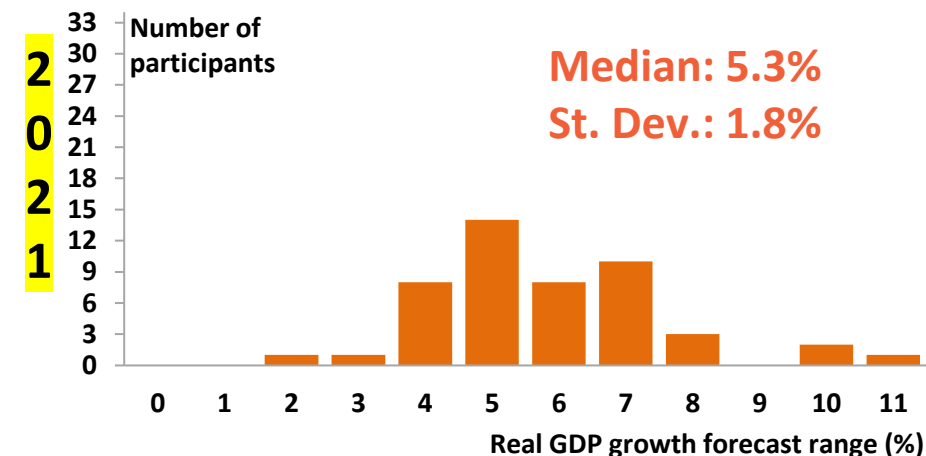
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for 2020 GDP growth (June 2020)



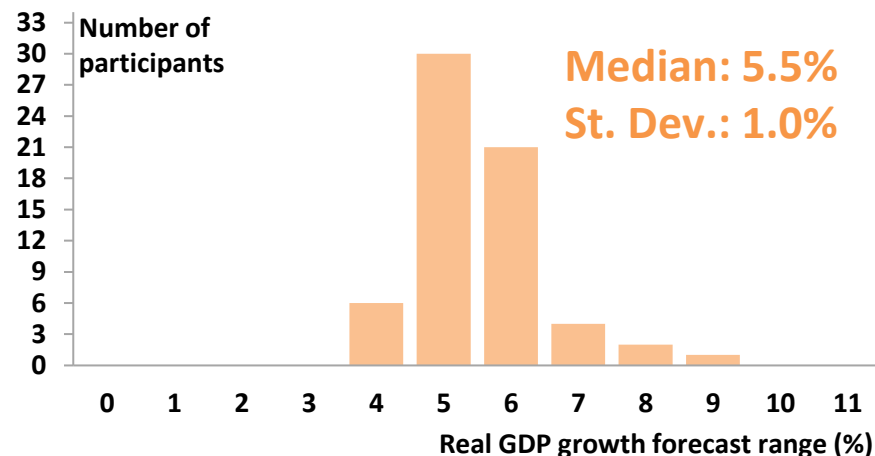
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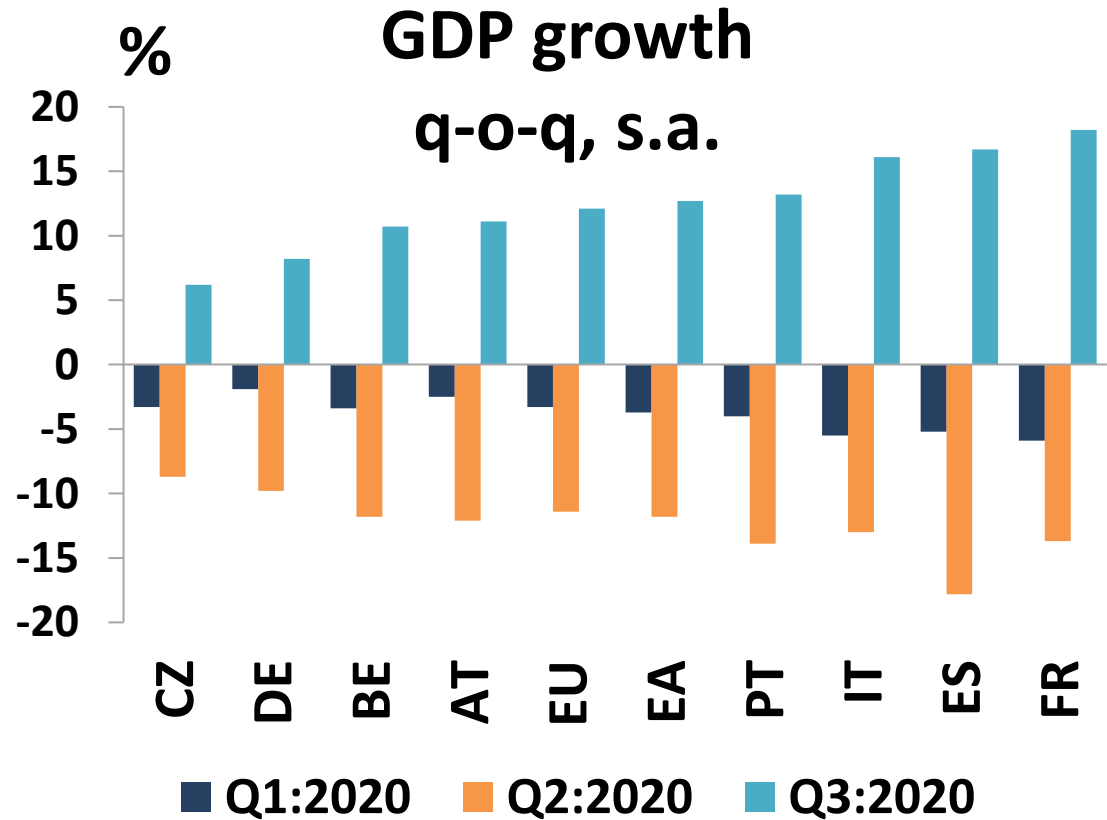


Distribution of Focus Economics Forecasts
for 2021 GDP growth (October 2020)



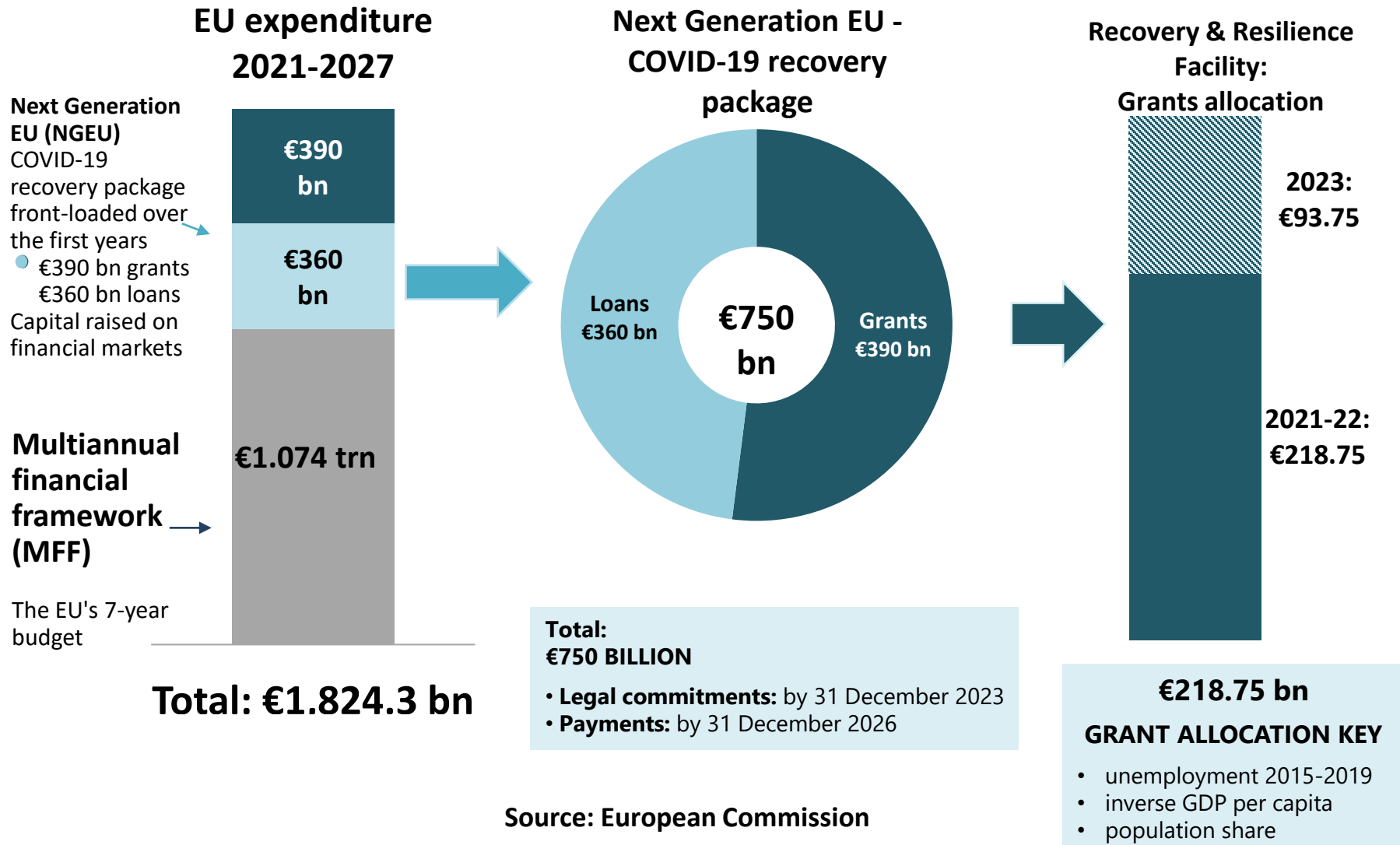
I. Euro Area GDP rebounds in 2020-Q3 but downside risks for Q4

- Euro Area Q3 rebound stronger than expected
- Yet, the recent second wave of the pandemic is bound to deteriorate all growth rates
- Uncertainty is high



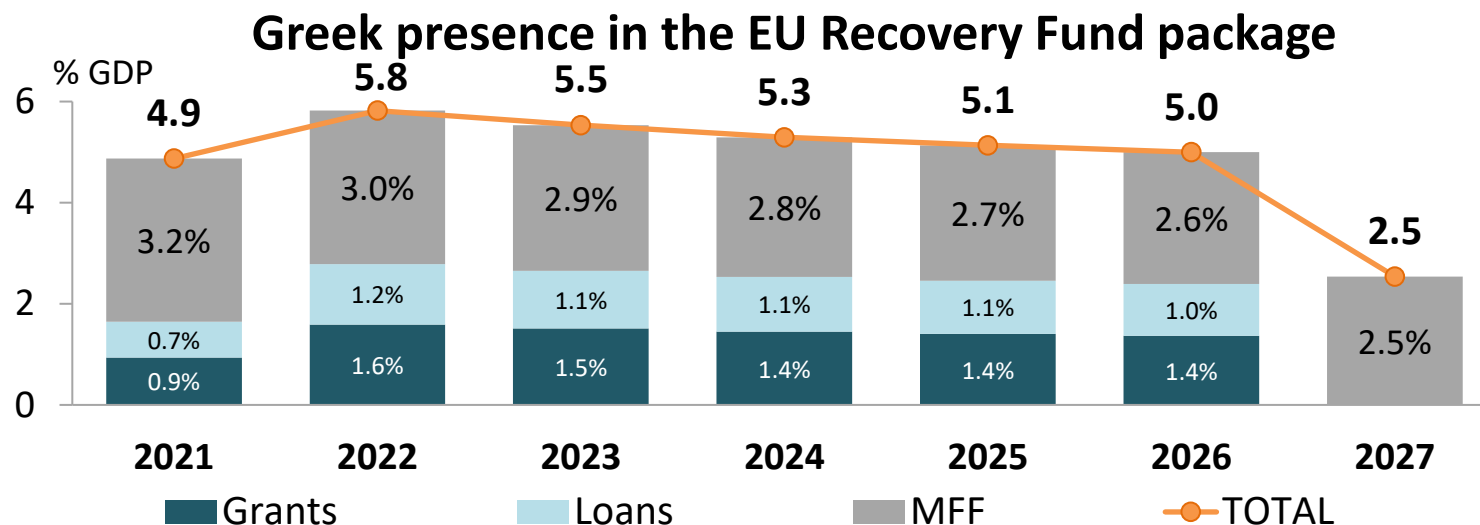
Source: Eurostat

I. The EU Recovery Fund



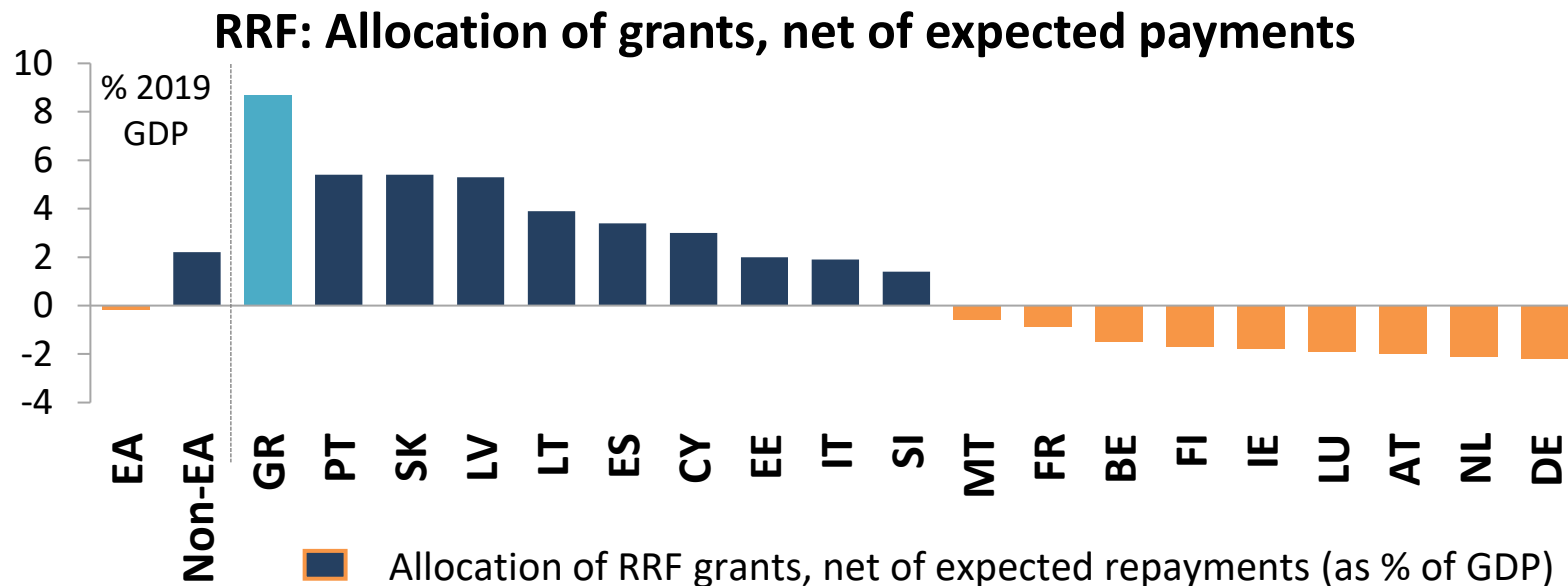
Source: European Commission

I. A big opportunity & challenge for Greece

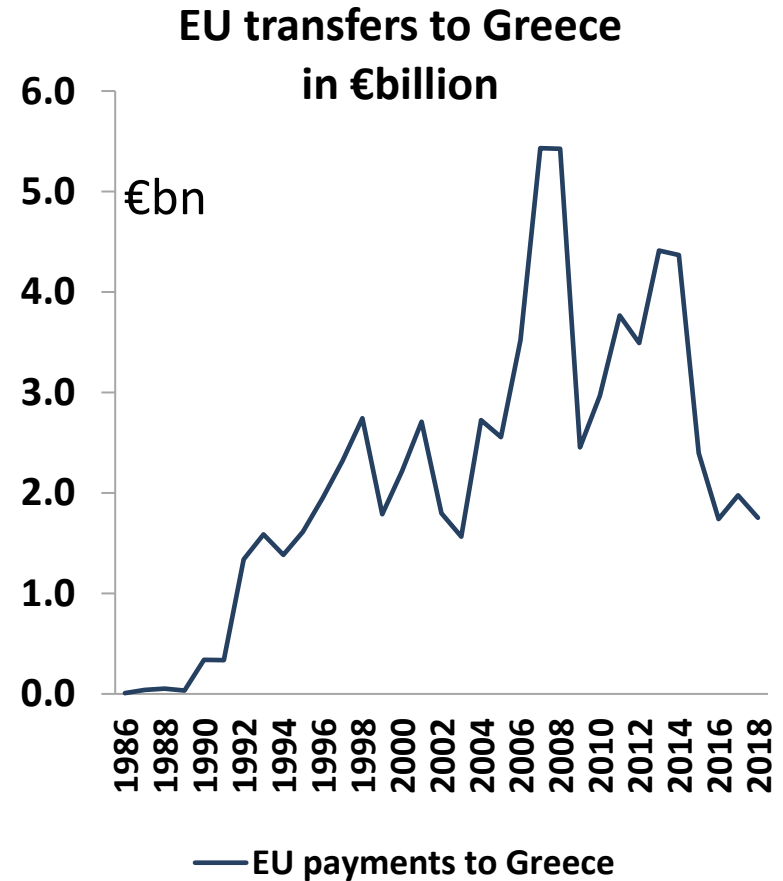
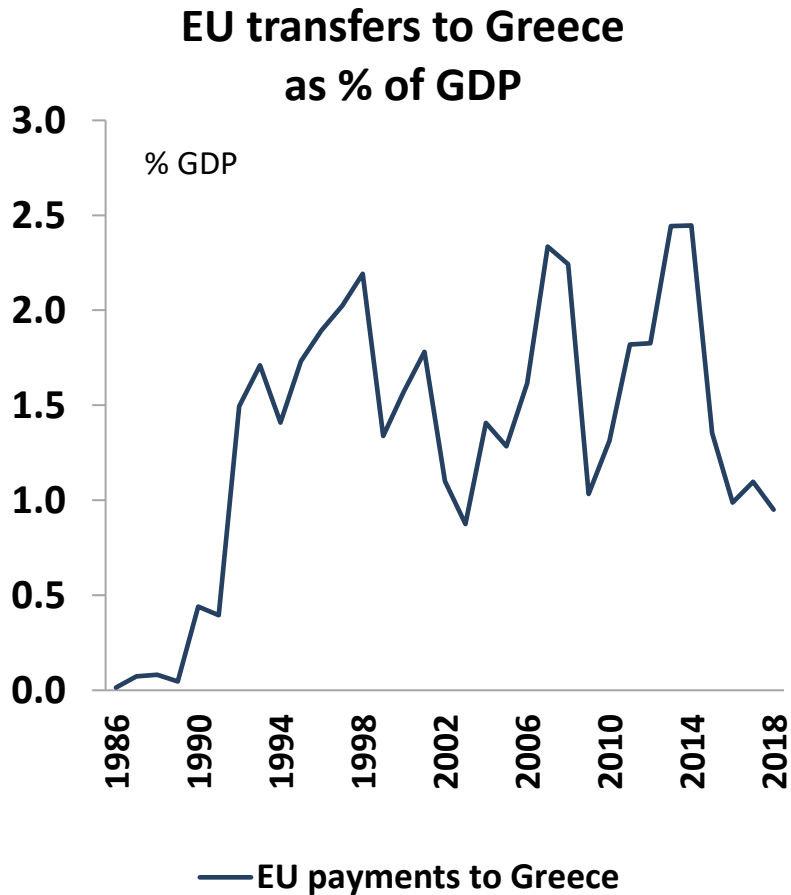


*Grants and loans for 2021 are calculated as a 10% advance of total funds for 2021-2027 according to statements of government officials

**All remaining calculations are based on the assumption of a stable rate of disbursements each year



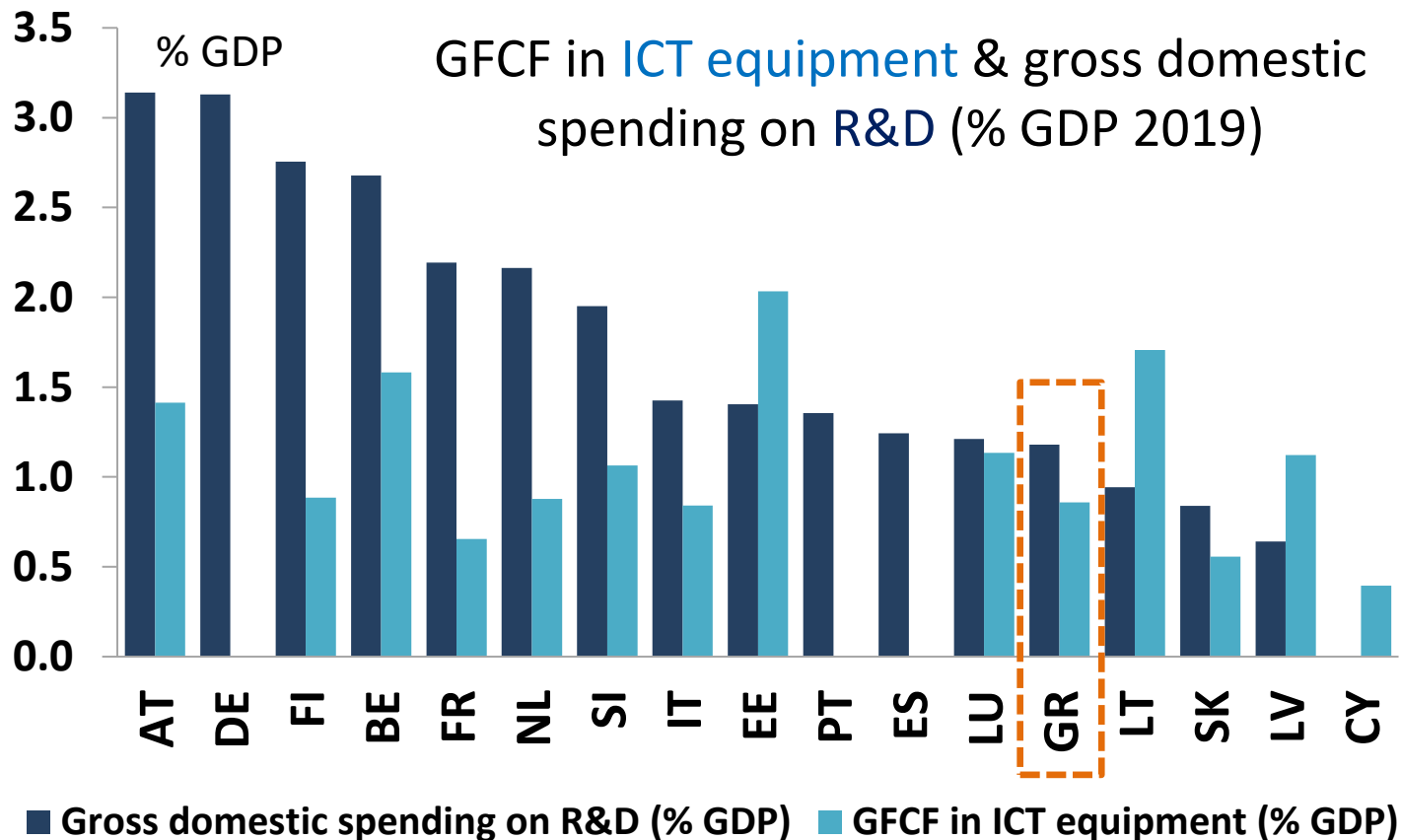
I. Can Greece utilize the European funds? A poor track record on the use of EU structural funds



Source: European Commission

I. What is the smart allocation of the funds? Closing the efficiency gap with the EU

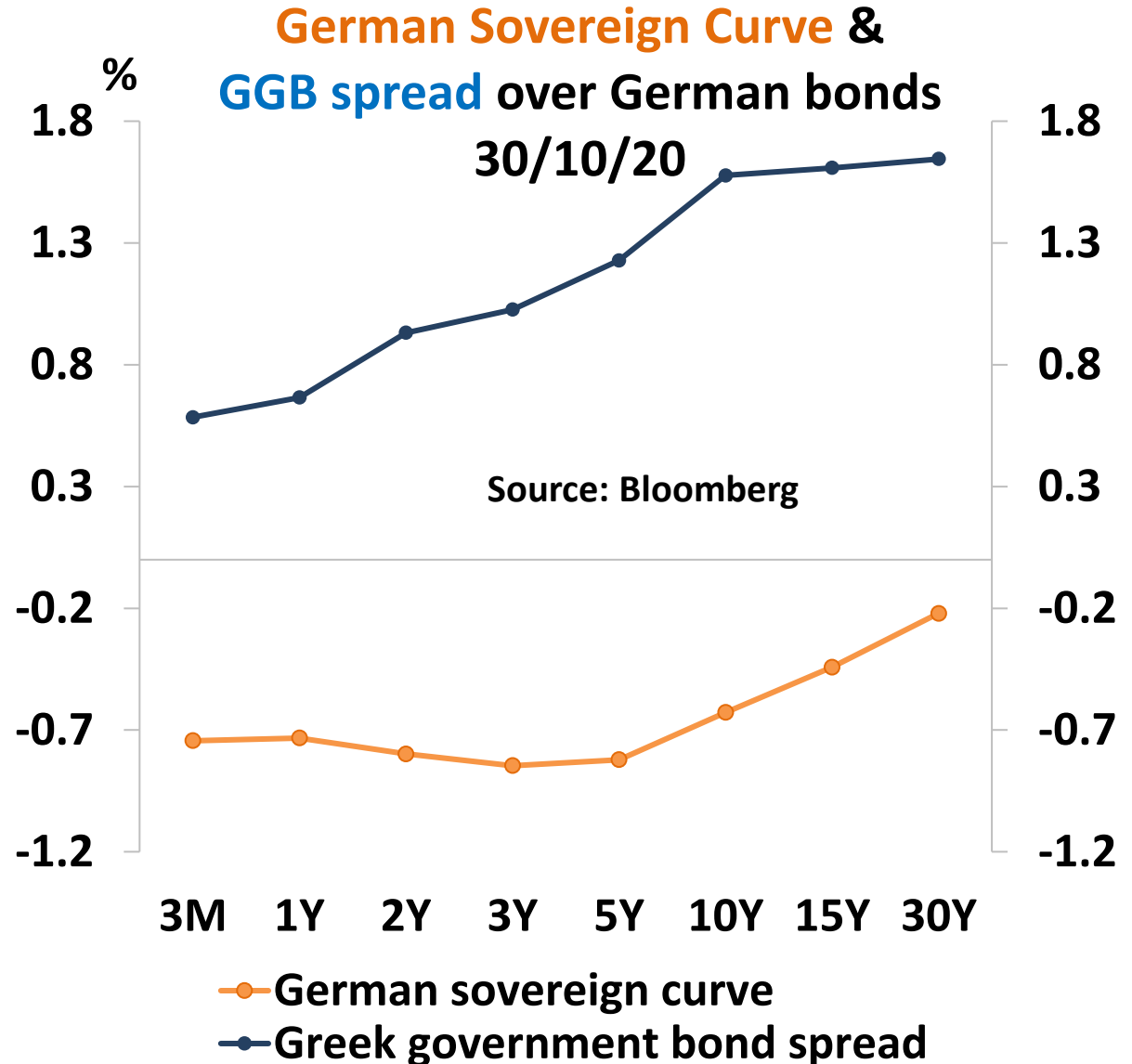
- How can productivity increase permanently?
- One answer: Investment in R&D, ICT, education



Source: Eurostat, OECD

II. The financial sector, expansionary monetary policy & negative risk-free rates in Europe

- ❑ Expansionary monetary policy (PEPP) since March 2020
- ❑ Negative risk-free rates
- ❑ Spreads vs. Germany declined
- ❑ QE in Greece too
- ❑ Relaxed regulatory policy toward banks
 - Required min CET1 ↓
 - Easier NPE classification



II. Pressures on European & Greek bank profitability

Common global pressures:

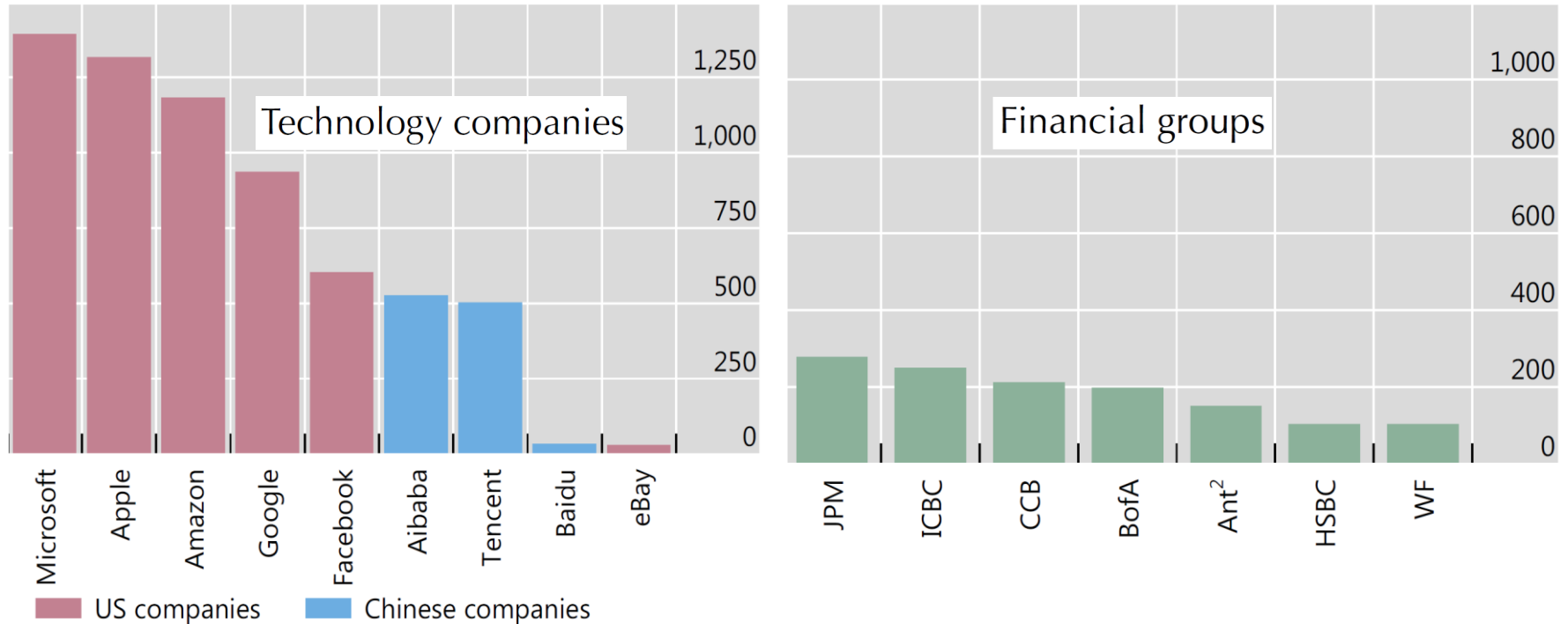
- The low interest rate environment
- Competition from Big Tech & Tech Fin
- Stricter regulation

Greek-specific extra pressures:

- Reduction in NPEs reduces interest income
- Digitalization of Greek economy → higher short-run costs
- Large customers seek alternative sources of funding
- Interest spreads on SME loans, reflecting higher Greek risk premia, can decline from competition by new entrants
- Retreat from abroad
- Personnel costs

II. COVID-19, Big Tech and Big Banks

Market capitalisation of BigTech, major financial groups (US\$ billions)



Notes: Ant = Ant Financial; BofA = Bank of America; CCB = China Construction Bank; ICBC = Industrial and Commercial Bank of China; JPM = JPMorgan Chase; WF = Wells Fargo. 1) Stock market capitalization, 7 May 2020. 2) The estimated value of Ant Financial was derived from the amount raised in the company's 2018 funding rounds times the stakes sold.

Sources: Refinitiv Eikon; company reports.

Source: Elena Carletti, Stijn Claessens, Antonio Fatas and Xavier Vives, CEPR and IESE Banking Initiative, 2020, "The Bank Business Model in the Post Covid-19 World"

II. A fourth recapitalization ahead?

ΚΡΙΣΗ ΚΑΙ ΧΡΗΜΑΤΟΠΙΣΤΩΤΙΚΑ ΑΝΟΙΓΜΑΤΑ ΣΤΗΝ ΕΛΛΑΔΑ

A recent analysis in :

Γίκικας Α. Χαρδούβελης¹

14 Οκτωβρίου 2020

- ❑ A sensitivity analysis with the most recent Greek systemic bank data shows banks are in a precarious position regarding their future capital needs
- ❑ This is due to their huge amounts of NPEs, the highest in Europe and in post-war history
- ❑ Some differences between banks do exist

Περίληψη-Πρόλογος

Η πρωτοφανής ελληνική τραπεζική κρίση της δεκαετίας του 2010 αποτυπώνεται στις διακυμάνσεις των αποτιμήσεων των τραπεζικών μετοχών, οι οποίες μηδενίστηκαν δύο φορές, πρώτα τον Φεβρουάριο 2012 και στη συνέχεια τον Νοέμβριο 2015. Αποτέλεσμα της διαρκούς κρίσης είναι και το εξαιρετικά υψηλό μέγεθος των Μη-Εξυπηρετούμενων Ανοιγμάτων ως ποσοστό των συνολικών δανείων (ΜΕΑ),² το οποίο έφτασε στο υψηλότερο σημείο τον Μάρτιο του 2016 και σήμερα εξακολουθεί να είναι με μεγάλη διαφορά το μεγαλύτερο στην Ευρώπη.

Η γρήγορη μείωση των ΜΕΑ σε επιθυμητά ποσοστά κάτω του 3% παρεμποδίζεται από τον σκόπελο της απομείωσης του ιδίων κεφαλαίων των τραπεζών σε μη επιτρεπτά επίπεδα από τους εποπτικούς κανονισμούς της Βασιλείας III, καθώς και από τον σκόπελο της μη-επιθυμητής αρνητικής επίσης κερδοφορίας, που υπό-προϋποθέσεις επιφέρει απίσχναση του ποσοστού ιδιοκτησίας (dilution) των ιδιωτών μετόχων λόγω της νομοθεσίας

¹ Καθηγητής, Τμήμα Χρηματοοικονομικής και Τραπεζικής Διοικητικής Πανεπιστημίου Πειραιώς και Senior Independent Director, Εθνική Τράπεζα της Ελλάδος.

Άρθρο του τόμου Πρακτικών του 29^{ου} Συνεδρίου Εμπορικού Δικαίου με θέμα: «Υποχρεώσεις χρηματοπιστωτικών φορέων», Νομική Βιβλιοθήκη. Το άρθρο βασίζεται στην αρχική παρουσίαση που πραγματοποιήθηκε σε στρογγυλό τραπέζι, με τίτλο «Η αντιμετώπιση των χρηματοπιστωτικών ανοιγμάτων (εποπτικά, ποινικά, αστικά)», το Σάββατο, 5 Οκτωβρίου 2019, 18:30, στο ξενοδοχείο ELPIDA RESORT, στις Σέρρες.

Επιθυμώ να ευχαριστήσω τους Χρήστο Αδάμ, Κώστα Αδαμόπουλο, Άγγελο Αντζουλάτο, Δημήτρη Βαγιανό, Ευάγγελο Βενιζέλο, Ανδρέα Βερούκιο, Ιωάννη Γκιώνη, Χρήστο Δάλλη, Παναγιώτη Δασμάνογλου, Περικλή Δρούγκα, Γιώργο Ζανιά, Γιώργο Καλορίτη, Φωκίωνα Καραβία, Νίκο Καραμούζη, Στέφανο Καψάσκη, Όλγα Κοσμά, Χριστόφορο Κουφαλιά, Γιάννη Κυριαζή, Ιωάννη Κυριακόπουλο, Παναγιώτη Κυριακόπουλο, Ελένη Λουρή-Δενδρινού, Κώστα Μητρόπουλο, Δημήτρη Μόσχο, Αικατερίνη Μπερίτση, Σπύρο Παντελιά, Γρηγόρη Παπαγρηγόρη, Στέλιο Παπαδόπουλο, Γιώργο Παπαναστασάοπουλο, Ευάγγελο Πιλάλη, Νικήτα Πιττή, Βασίλη Ράπανο, Ανδρέα Ριρή, Χριστόφορο Σαρδελή, Γιώργο Σκιαδόπουλο, Θεόδωρο Σταματίου, Χριστόφορο Στεφανάνδη, Κώστα Τσατασάρνη, Αντώνη Φακλή, Μιχάλη Χαραλαμπίδη, Χρήστο Χριστοδούλου, και τον Διοικητή της ΤτΕ Γιάννη Στουρνάρα για εποικοδομητικά σχόλια ή/και βοήθεια, τον Πρόεδρο και Αντιπρόεδρο του Συνδέσμου Εμπορικόλογων που με προσκάλεσαν στην εκδήλωση, κκ. Ευάγγελο Περάκη και Γιώργο Τριανταφυλλάκη, καθώς και τους συμμετέχοντες στο πάνελ, Αιμίλιο Αυγουλέα, Κωνσταντίνο Μποτόπουλο, και Δημήτρη Σπυράκο. Ιδιαίτερες ευχαριστίες στον Κώστα Αδαμόπουλο για τον εξονυχιστικό έλεγχο και τα σχόλια που έκανε.

² Ο ακριβής ορισμός των ΜΕΑ παρατίθεται στην Ενότητα 2.1.

II. Greek Systemic Banks, December 2019

Group data - December 2019 (€mn)	Eurobank	NBG	Alpha	Piraeus	Total	Eurobank post Cairo
1. Assets	64.761	64.248	63.458	61.231	253.699	63.427
2. Risk-Weighted Assets (RWAs)	41.407	36.900	47.483	45.410	171.200	39.385
3. Gross Loans	44.406	34.938	48.731	50.148	178.223	39.306
4. Non-Performing Exposures (NPEs)	13.000	10.939	21.827	24.470	70.236	6.184
NPEs over Gross Loans (%)	29,3%	31,3%	44,8%	48,8%	39,4%	15,7%
5. Provisions	7.099	5.757	9.558	10.986	33.400	3.663
Provision-Coverage (Provisions/NPEs)	54,6%	52,6%	43,8%	44,9%	47,6%	59,2%
Provisions for IFRS-9 stage 3 loans	6.556	5.282	8.877	10.631	31.346	3.120
6. Pre-Provision Income (PPI)	943	829	1.136	1.161	4.069	μ.δ
Net Interest Income	1.377	1.190	1.547	1.435	5.549	μ.δ
Net Fee & Commission Income	354	256	340	318	1.268	μ.δ
7. Tangible Equity	6.287	5.057	7.939	5.332	24.615	4.953
8. Core Equity Tier I (CET1)	6.917	5.966	8.495	6.732	28.110	5.178
CET1/RWAs (%)	16,7%	16,0%	17,9%	14,8%	16,4%	13,1%
Fully loaded (for IFRS-9) CET1/RWAs (%)	14,6%	12,9%	14,9%	13,0%	13,9%	10,9%
9. Deferred Tax Credit (DTC)	3.821	4.500	3.167	3.900	15.388	3.821
DTC/CET1 (%)	55,2%	75,4%	37,3%	57,9%	54,7%	73,8%
Capital Cushion = Lines {8} + {5} - {4}	1.016	784	-3.774	-6.752	-8.726	2.657
Texas Ratio = Lines {4} / [{8} + {5}] (%)	92,8%	93,3%	120,9%	138,1%	114,2%	69,9%

II. What does it take to eliminate the full amount of NPEs?

Sensitivity analysis of capital needs – 4 systemic banks today

Capital deficit (-) or surplus (+) in €billion

Regulator's Target CET1 ratio

Transfer Price of NPEs (% of Book Value)		Regulator's Target CET1 ratio						
		0%	6%	8%	10%	12%	14%	16%
60%	20.9	18.2	15.5	12.9	10.2	7.5	4.9	
50%	14.6	11.9	9.2	6.5	3.9	1.2	-1.5	
40%	8.2	5.5	2.9	0.2	-2.5	-5.2	-7.8	
30%	2.0	-0.8	-3.5	-6.2	-8.8	-11.5	-14.2	
20%	-4.5	-7.1	-9.8	-12.5	-15.2	-17.8	-20.5	
10%	-10.8	-13.5	-16.2	-18.8	-21.5	-24.2	-26.9	
0%	-17.2	-19.8	-22.5	-25.2	-27.9	-30.5	-33.2	

Based on Post-Cairo data of Dec 2019, source: Hardouvelis (2020) *“Greek Bank NPEs and the decade long crisis”*

Table assumes NPE elimination in 2020-Q1

For realistic NPE elimination in 2022-Q1, we would have to also include:

- **Positive effect** of Pre-Provision Income for 2 more years (€+6-8bn)
- **Negative effect** of Covid on extra provisions due to NPEs (- €3bn)
- **Negative effect** of IFRS-9 extra provisions (- €3.2 bn until 2023)

II. Calculations of Table 2 – An example

Negative numbers in earlier Table 2 imply a capital need in €bn.

All post-Cairo NPEs of €63.420 are transferred in early 2020 using existing provisions of €27.910 for IFRS-9 stage-3 loans. Hence, the remaining clean balance sheets have provisions of €2.054 for the stage-1 and stage-2 loans.

Let us follow the example of

price = 30% and CET1/RWAs = 12%

- ✓ Transferring the NPEs implies a receipt of $€19.026 = 30\% \times €63.420$
- ✓ Capital loss = receipt $€19.026 +$ provisions $€27.910 -$ NPEs $€63.420 = - €16.484$
- ✓ New CET1 = old CET1 $€26.371 -$ loss of $€16.484 = €9.887$
- ✓ New RWAs = old RWAs $€169.178 -$ net loans $[€63.429 - €27.910] = €133.668$
- ✓ Minimum regulatory requirement for CET1 = $12\% \times €133.668 = €16.040$
- **Capital need = Existing post-transfer Capital – Required post-transfer Capital = $€9.887 - €16.040 = - €6.153$ or need of €6.2 bn, which is 4.6% of new RWAs**

II. What should be done to improve the functioning of the financial sector?

- 1) Improve the provision of bank credit to SMEs
 - 2) Reduce the risk premium in interest rates charged to SMEs
 - 3) Improve the functioning of the stock market
 - 4) Improve oversight & transparency of large and small companies
- ✓ July 2020 proposals to the Greek Prime Minister by the Pissarides Committee:
- **Quick clearance of NPEs**
 - **Establish specialized bankruptcy courts**
 - **Supervisory authorities to be separated into two groups:
(a) Financial supervision, (b) Consumer protection**
 - **Tax incentives for public listings**
 - **Introduce partly-accumulative (or partly fully funded) pension system**

II. What should be done to improve the functioning of the financial sector?

✓ Forthcoming 2021 Dianeosis essay additional proposals:

A) Provide incentives to promote financial deepening & “inclusion” of non-bankable entities

- Enhance audit & internal control, increase the standards of financial reporting
- Improve corporate governance for SMEs
- Provide tax incentives and lower administrative cost to encourage “formalization” of business activity and offset transformation/compliance costs
- Promote digitalization and substitution of inefficient B2B financing schemes
- Enhance & crystalize the electronic solvency register and combine with information from tax authorities, social security funds, banks and NPE management companies to establish a comprehensive credit scoring framework

II. What should be done to improve the functioning of the financial sector?

✓ Forthcoming 2021 Dianeosis essay additional proposals:

B) Addressing the deeper causes of Greece's financial system deficiencies :

- Incentivize business transformation, upscaling and M&A activity resolving bottlenecks
- Improve collateral recovery (digitalization, standardization, legal procedures)
- Align the supervisory quality and efficiency across financial market segments (reducing the asymmetry between the sophisticated bank supervisory and regulatory framework vs the fragmented standards applying to the rest of the financial system)
- Enable (upon agreement with Supervisory authorities) a genuine forward-looking assessment of borrowers (changes in financial, prudential and credit risk management frameworks important to resolve legacy issues following the Greek & the Covid crisis)

Thank you for your attention!

www.hardouvelis.gr

gikas.hardouvelis@gmail.com



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