

The post-crisis future of the Greek economy

news

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AT LAST, THE RECESSION IS OVER

- ✓ We are getting out of the recession
- ✓ In 2015, investment and exports are picking up, which is consistent with Greece's required growth model

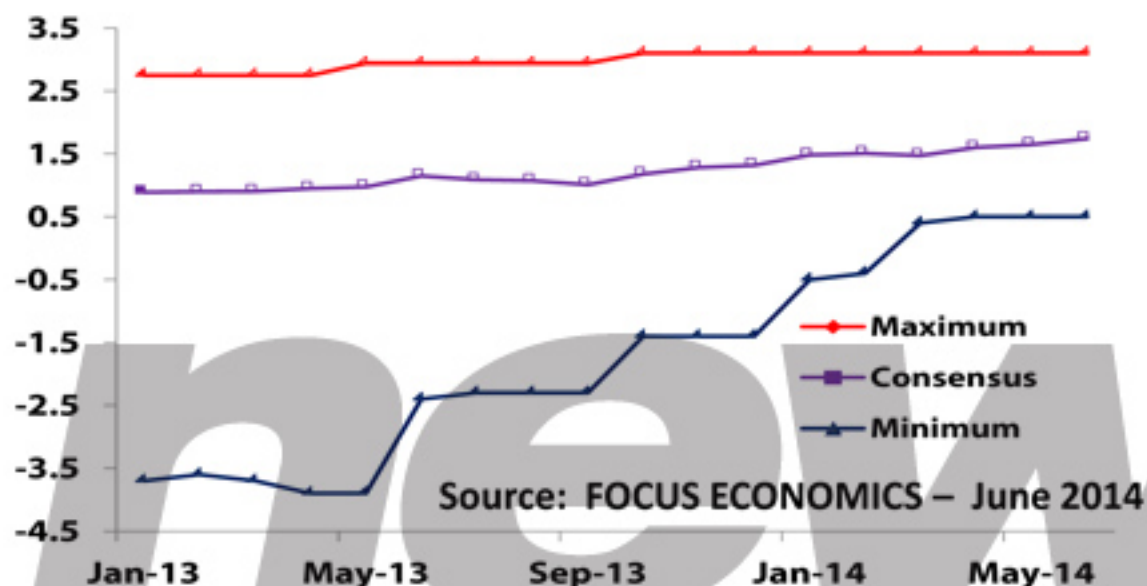
Risks for 2015

- Will reforms be continued? The case of political risk
- Will society remain cool?
- Will exports gain sufficient momentum?
The case of private sector restructuring
- Will credit growth become positive?

	2013 Share in Nominal GDP	2014 growth Real	2015 Official growth Real
Private Consumption	72.4%	-0.8%	1.6%
Government Consumption	17.2%	-1.4%	-2.0%
Tot. Consumption	89.6%	-0.9%	1.0%
GFCF	13.0%	5.0%	11.7%
Domestic Demand	102.6%	-0.2%	2.6%
Imports	31.8%	0.8%	2.2%
Exports	29.1%	4.3%	5.2%
GDP (nominal, € bn)	182.054		
Real GDP		0.8%	2.9%
GDP deflator	-2.1%	-1.3%	0.4%
Unemployment (avg)	27.3%	26.6%	25.0%

GREECE: ECONOMIC OUTLOOK FOR 2014-15

GDP 2015 – Evolution of forecasts



- ✓ Fitch (28/05/2014) expects GDP growth at 2.5% in 2015
- ✓ The super-negative forecasters are gone

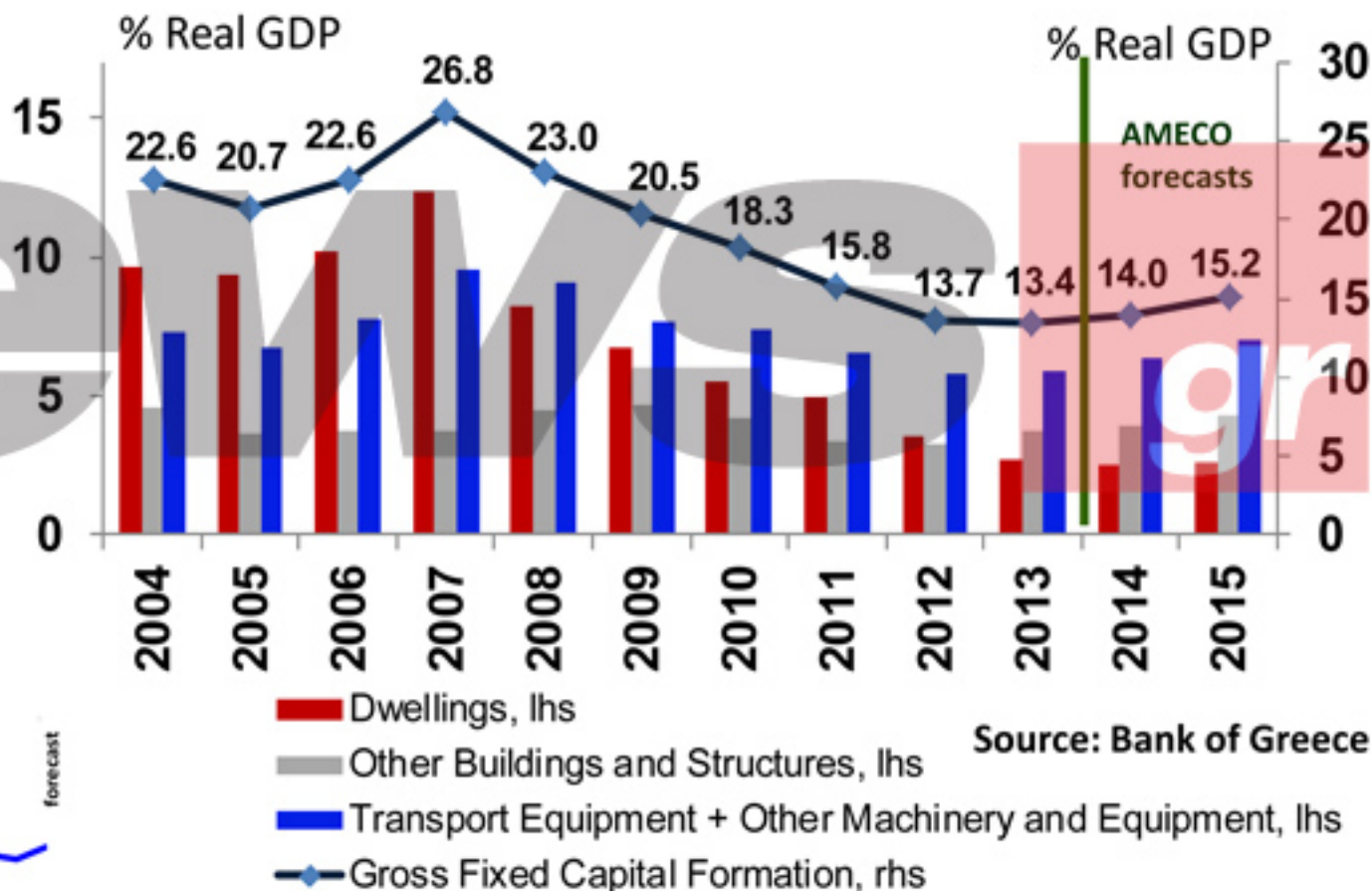
Real GDP Growth

(% annual, forecasts as of June 2014)

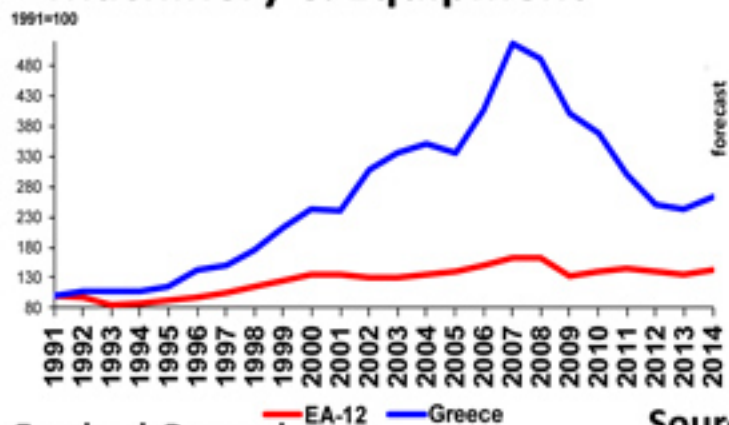
Individual Forecasts	2014	2015
Alpha Bank	1.1	2.9
Citigroup Global Mkts	-0.8	1.2
Commerzbank	1.0	2.0
Credit Suisse	0.8	2.1
DekaBank	-0.2	1.3
Deutsche Bank	1.0	2.2
DZ Bank	0.1	1.4
EIU	0.0	2.8
Eurobank	0.4	-
Experian	-0.2	1.0
ING	0.2	1.0
Morgan Stanley	0.0	0.5
NBG	0.7	3.1
Nomura	-0.1	1.5
Oxford Economics	-0.3	1.6
Piraeus Bank	0.0	-
Raiffeisen Research	0.0	2.0
Scotiabank	0.0	1.3
UBS	0.2	2.2
Unicredit	-0.2	1.1
Summary		
Minimum	-0.8	0.5
Maximum	1.0	3.1
Median	0.0	1.6
Consensus	0.2	1.7
Additional Forecasts		
Gov. (April 2014)	0.6	2.9
IMF (April 2014)	0.6	2.9
EC (April 2014)	0.6	2.9

INVESTMENT NEEDS TO PICK UP

- ✓ The decline in investment since 2007 is due primarily to residential investment
- ✓ In 2013, investment in machinery & equipment plus investment in other buildings & structures improved
- ✓ €19.0 bn available in 2015-2022 period from EU Structural & Cohesion Funds, according to Draft Partnership Agreement with Europ. Commission.
- ✓ FDI will follow privatizations

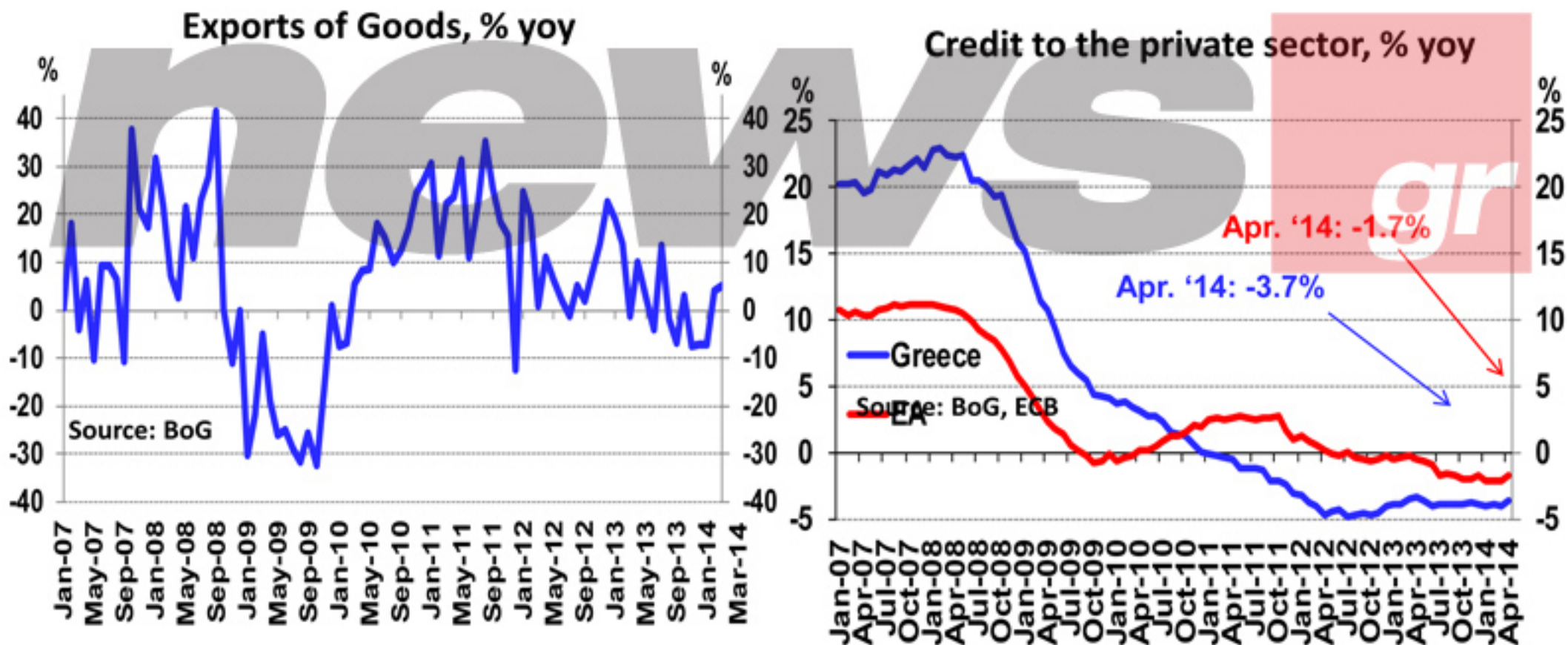


Real Investment Machinery & Equipment



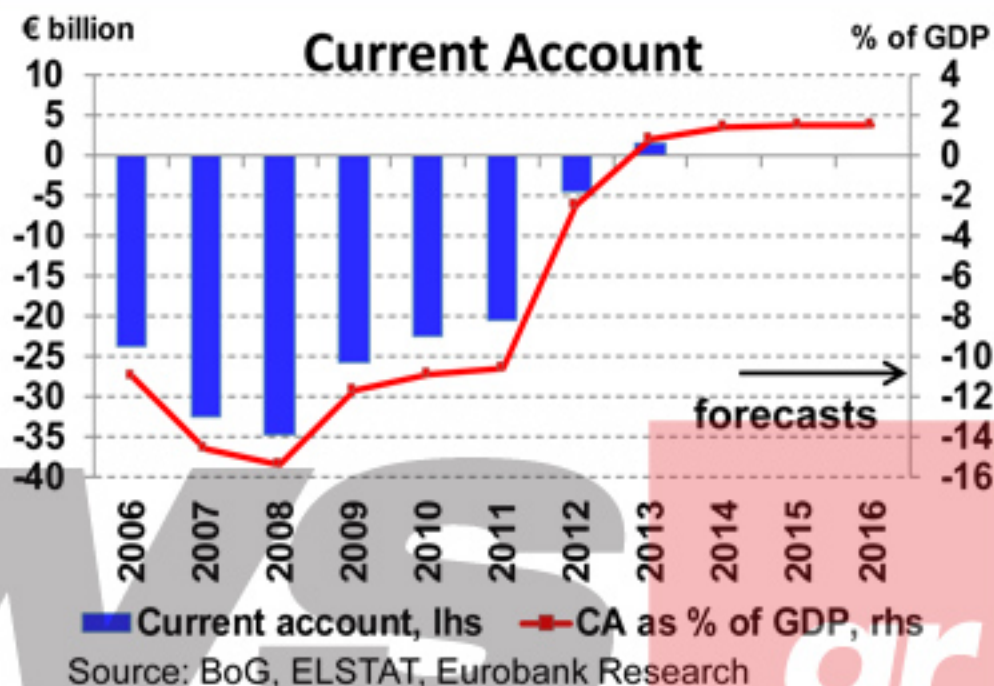
EXPORTS OF GOODS AND CREDIT EXTENSION NEED ATTENTION

- ✓ Exports of goods remain anemic, still affected by subdued demand
- ✓ Bank lending to the private sector still a major drag on the economy
- ✓ Both negative factors likely to change soon

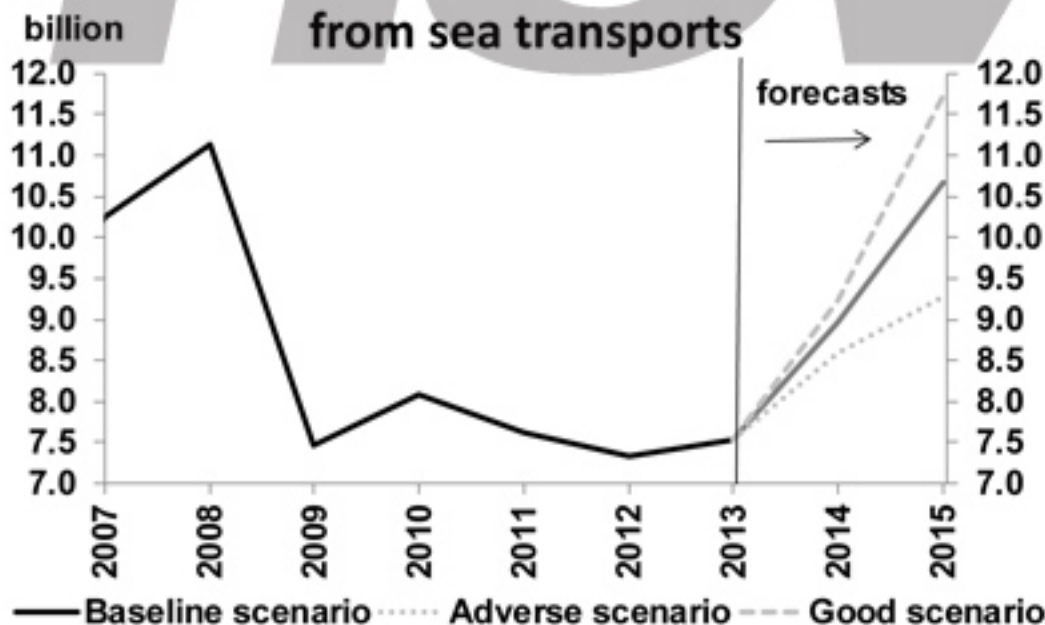


EXPORTS OF SERVICES ARE IMPROVING

- ✓ The expected rise in service exports will further improve the current account
- ✓ Shipping is volatile but forecasts of receipts are optimistic



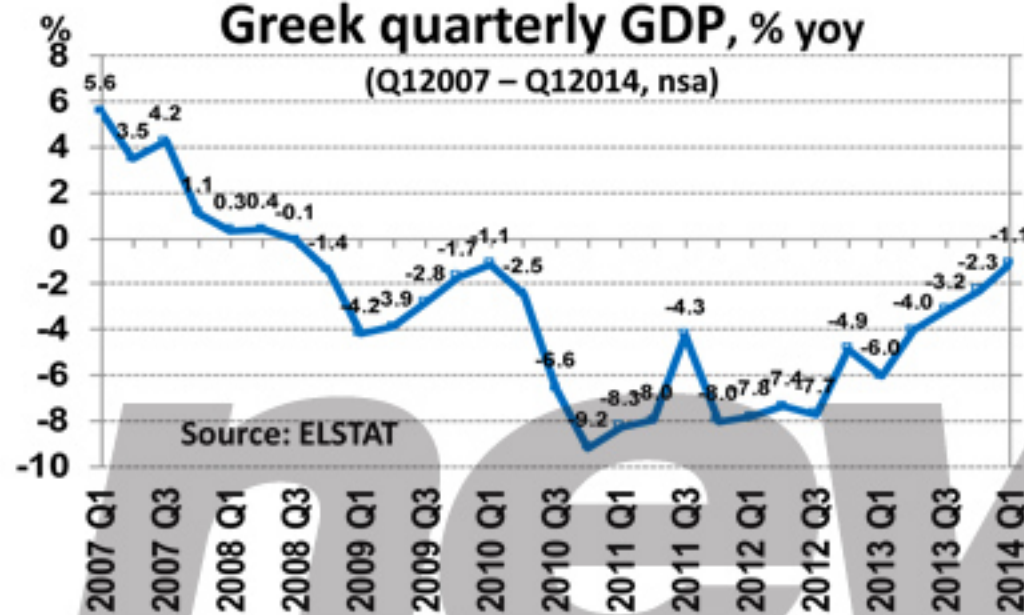
Evolution of net receipts to Greece from sea transports



REAL ECONOMY STABILIZES, SENTIMENT IMPROVES

Greek quarterly GDP, % yoy

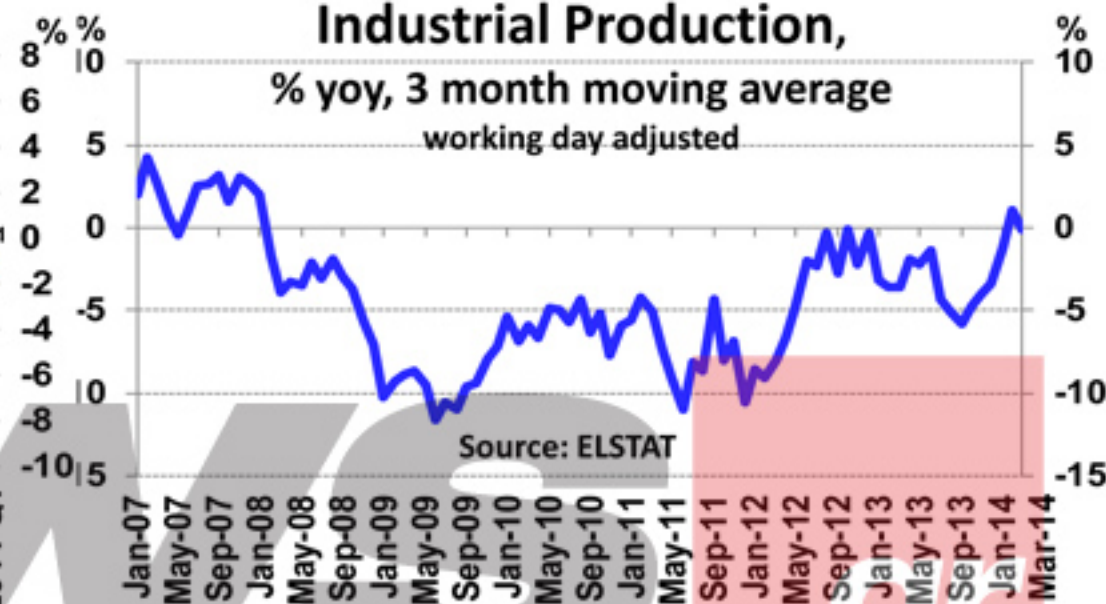
(Q12007 – Q12014, nsa)



Industrial Production,

% yoy, 3 month moving average

working day adjusted



PMI

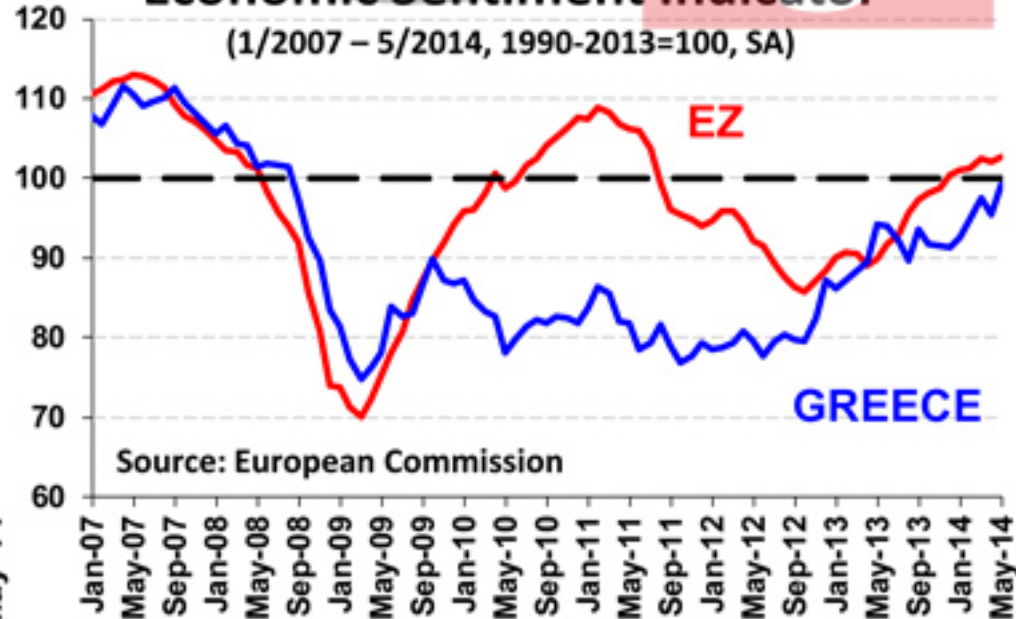
(Manufacturing Purchasing Managers' Index)

(Jan. 2007 – May. 2014, SA)



Economic Sentiment Indicator

(1/2007 – 5/2014, 1990-2013=100, SA)



- ✓ **Implementation of prerequisite reforms under way especially those scheduled for mid-June 2014. Deviations from the full implementation of reforms due to political cost considerations.**

Until mid-June 2014

1. Adoption of outdoor trade law
2. Adoption of investment licensing law and spatial planning law.
3. Update the list of nuisance taxes
4. **Adoption of a ministerial MoF-MoL action plan for integration of debts to social security funds to tax administration**
5. Adoption of legislation to ensure access to health services for the uninsured and reduction of the mark-up and profit margins of pharmacies into a regressive mar-up system and reducing the overall profit margin of that sector

Until mid-July 2014

1. **Adoption of the necessary legislation to merge into ETEA all the public sector's supplementary pension funds and to examine the sustainability of these funds**
2. Adoption of forestry law.
3. Adoption of administrative burden legislation.
4. Abolishment from Jan 1 2015 of all charges that finance auxiliary pensions under the MoL.
5. Adoption of law for the "small" PPC and clearance of all general government arrears with PPC.
6. Adoption of legislation for funding of political parties and legislation on declaration and monitoring of assets.

Will reforms continue? Will the existing reforms take hold? How likely are the vested interest groups to dissolve whatever is already fixed?

Pending reforms include:

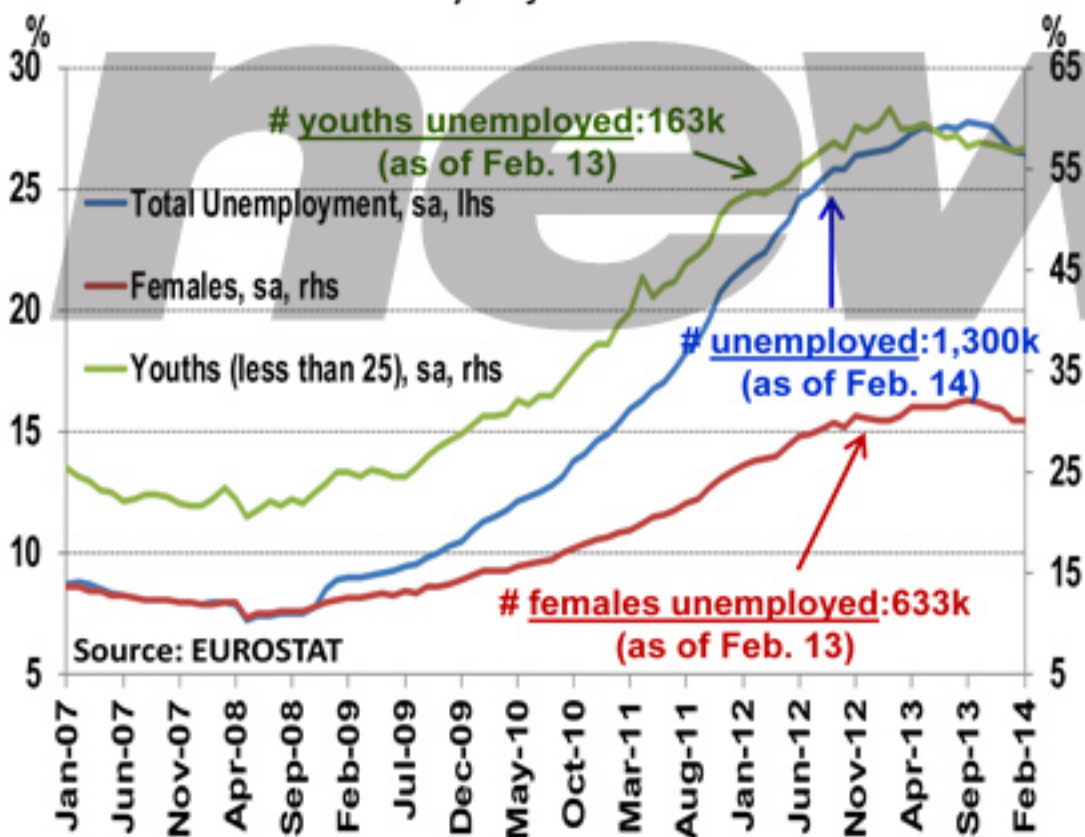
- ☐ Deepening and fine-tuning of health care reforms (EOPPY , ESY effectiveness, etc.)
- ☐ Continuation of the product markets reform (improve competition in wholesale markets, telecommunications, e-commerce and regulatory constraints on competition)
- ☐ Simplification of licensing and customs procedures, opening up additional closed professions, transformation of the energy sector (unlocking of the Greek gas market, sale of ADMIE, privatization of part of the capacity of the PPC)
- ☐ Addressing the VAT compliance gap and adoption of a new Accounting and Tax Recording Code
- ☐ Improving the quality and efficiency of the public administration (mobility scheme, reorganization of ministries, better financial management, etc.)
- ☐ Continuation of reforms on the education sector (evaluation of schools and educational staff, reform of the universities to continue)
- ☐ Continuation of the judicial sector reform (addressing the backlog of cases and adopt a revised Code of Civil Procedure)

THE EVOLUTION OF UNEMPLOYMENT

- ✓ The unemployment rate in Greece seems peaked at 27.7% in September 2013
- ✓ E-registry of new hirings & layoffs shows a positive balance for the fifth consecutive month

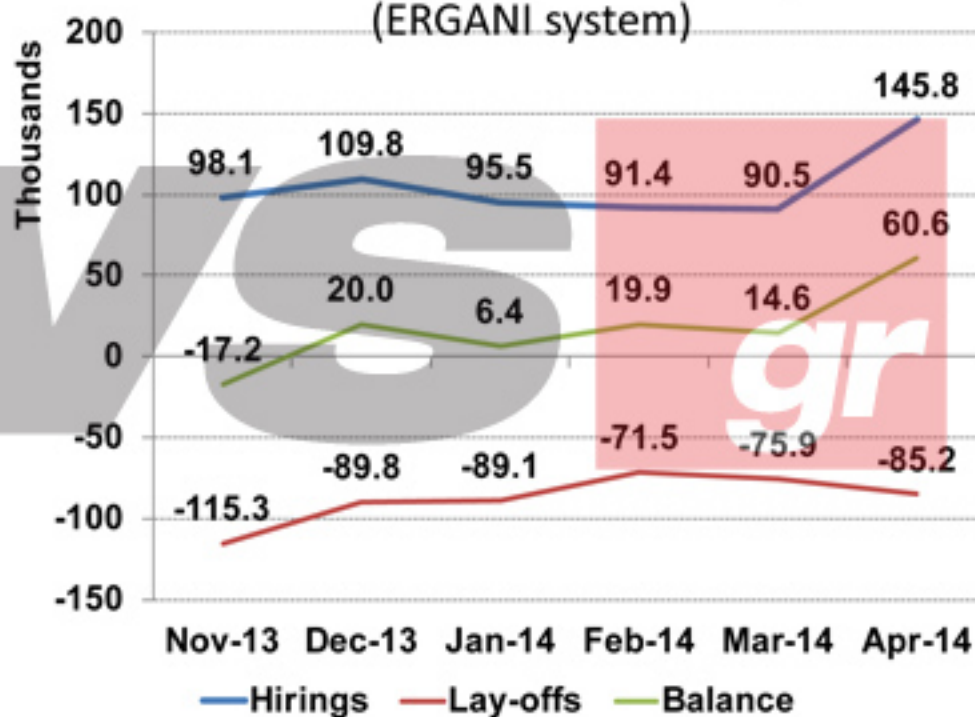
Unemployment rate

seasonally adjusted data



Balance of new hirings-layoffs

(ERGANI system)



Source: Ministry of Labor (Ergani system)

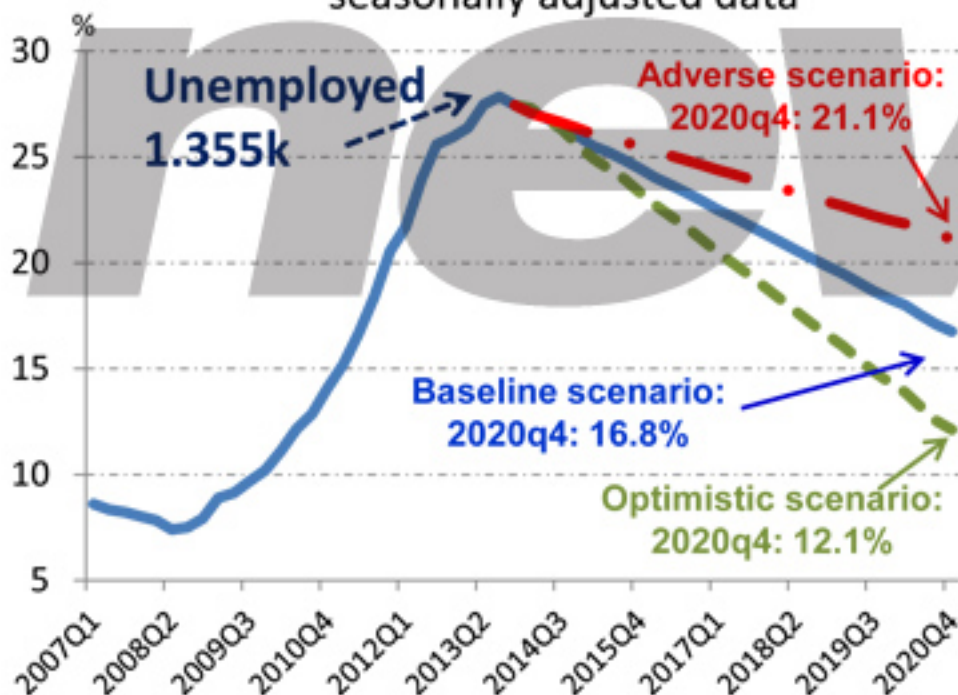
Note: The e-registry of hirings & layoffs became compulsory for employers from November 2013 onwards. The e-registry does not cover the self-employed and the underground economy.

FORECASTS OF FUTURE UNEMPLOYMENT

- ✓ Our estimates suggest a cumulative decline of 10.6p.p. in the unemployment rate by 2020 (from 27.4% in 2013q4 to 16.8% in 2020q4). This forecast (baseline) is consistent with an annual average GDP growth of 3.5%, credit growth of 4.5% and an average real interest rate of 3.0% (we also take into account an improvement in consumer expectations).

Unemployment rate

seasonally adjusted data

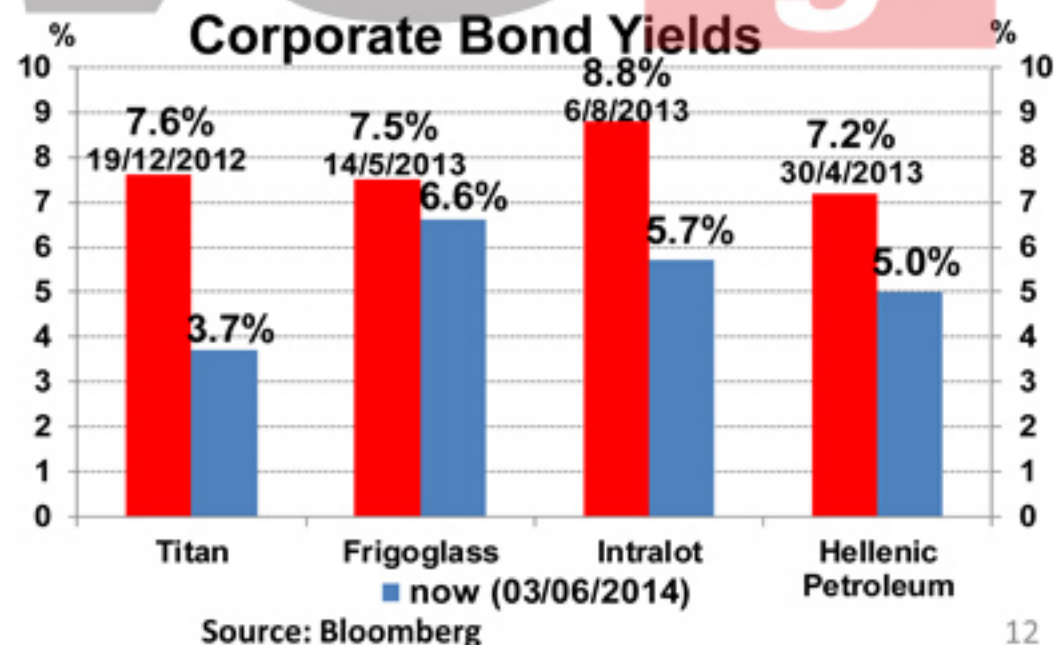
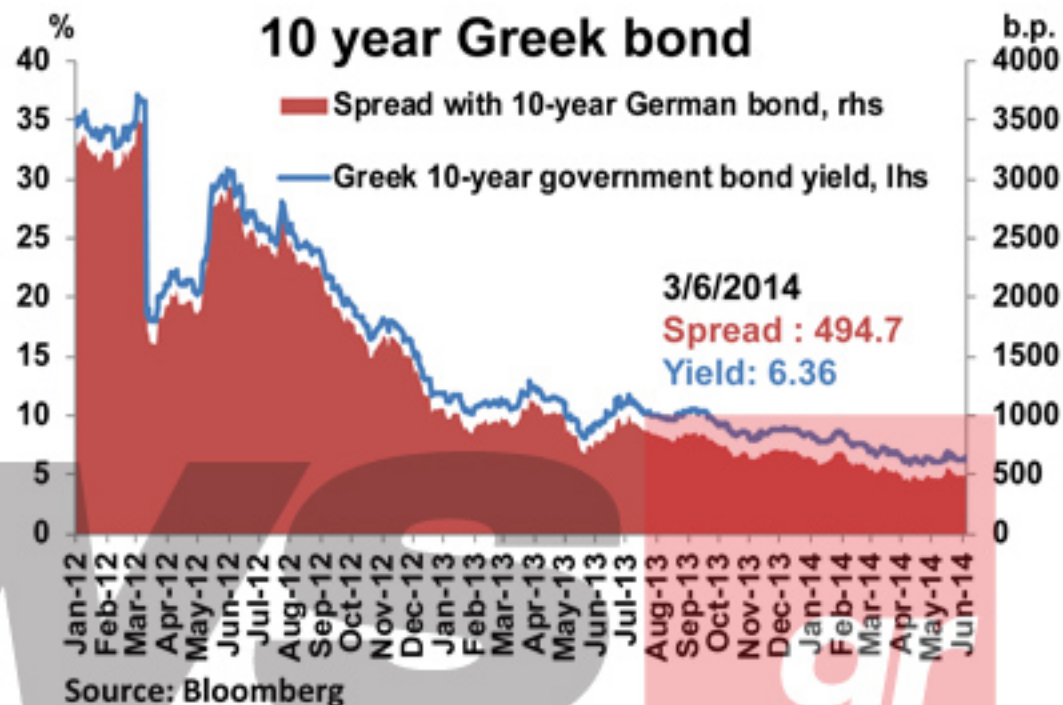
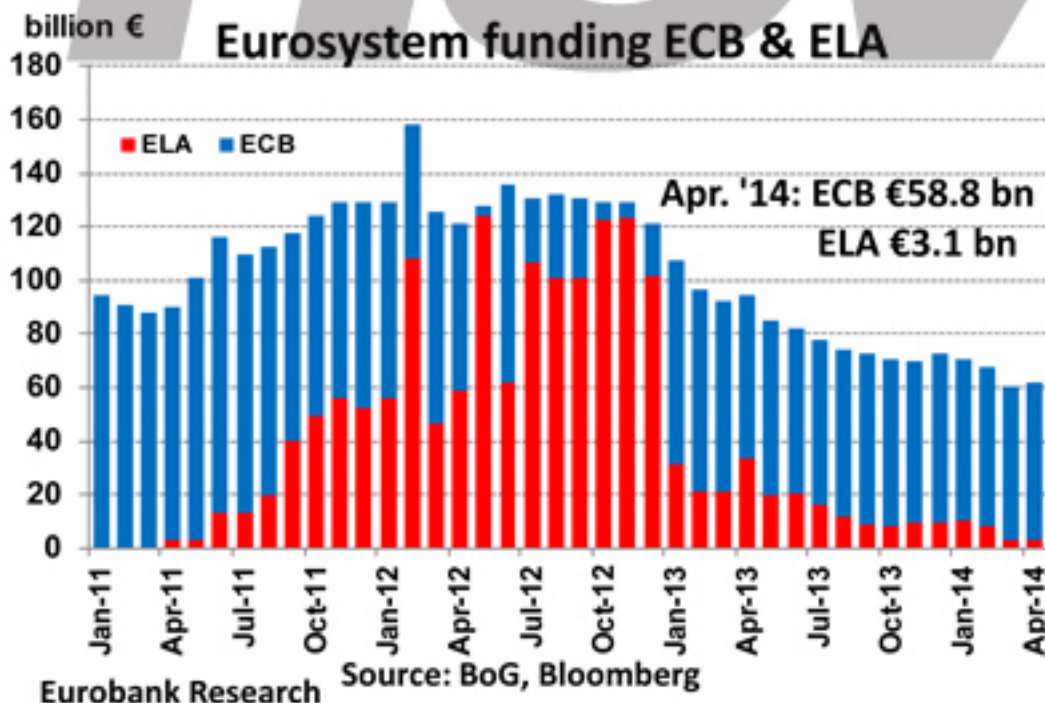


Source: Eurobank Research estimates

		Scenarios		
Average 2015-2020 (%)		A	B	O
GDP yoy		2.5%	3.5%	4.5%
Credit yoy		3.5%	4.5%	5.5%
Real Interest Rate		4.0%	3.0%	2.0%
Unemployment Rate (2020q4)		21.1%	16.8% (872k)	12.1%
Employment Rate	2020 q4	48.5% (4,100k)	51.3% (4,335k)	54.2% (4,580k)
	2013 q4	43.2% (3,584k)		
A: Adverse, B: Baseline, O: Optimistic				

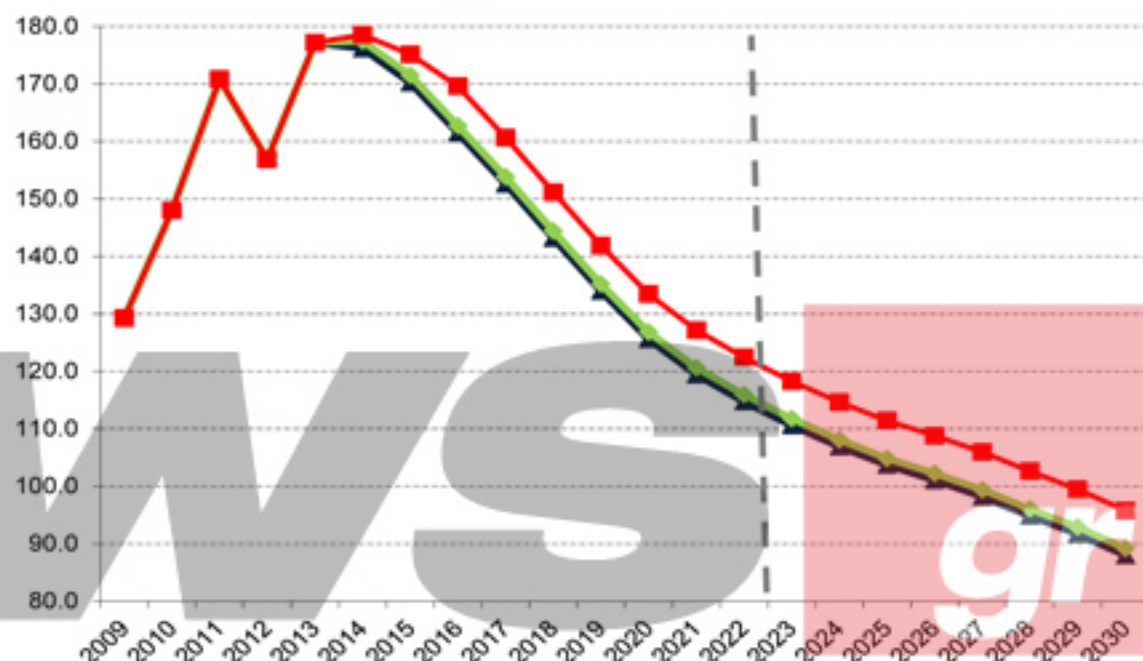
THE FINANCIAL SECTOR IS BOUND TO IMPROVE

- ✓ Financial sector stabilizes, Government & Corporate bond yields decline
- ✓ Banks are fully capitalized in 2012-2013: €42bn of new capital injected via HFSF (€38.6) and private investors €3.1bn
- ✓ New capital since March of € 8.4bn
- ✓ Pre-provision income improves
- ✓ HFSF has remaining cushion of €11.4bn



1. Final decisions on debt relief measures expected well after summer 2014 and only after 100% completion of agreed structural reforms
2. Direct haircut is a non viable option. Indirect haircut via lowering of interest rates and extension of maturities a plausible solution.

Sensitivity to Deflation



Source: Eurobank Research

- ☐ Baseline Scenario: Deflation at -2.1 and -0.7 for 2013/14
- ☐ Adverse 1: Deflation at -2.1 and -1.4 for 2013/14
- ☐ Adverse 2: Deflation at -2.1, -2.0, -1.0 and -0.8 for 2013/14/15/16 (Competitiveness Adjustment).

- ✓ **THE NEW GREEK GROWTH MODEL** requires a delicate balance between
 - I. a strong emphasis on exports & investment, and
 - II. the requirement that consumption increases more modestly, i.e. at a lower rate than GDP, so that its share declines gradually to more normal levels without being a drag on domestic aggregate demand
- ✓ **Key pillars of the NEW GREEK GROWTH MODEL:**
 - I. Tradable goods & services, tourism, energy, logistics, R&D, pharmaceuticals, shipping, primary sector
 - II. Reforms have now touched the **DEEP STATE**: OWNERSHIP OF REFORMS NEEDED as minimization of bureaucracy is a must
 - III. Unemployment is likely to decline fast
 - IV. Financing channels need to be built via the private sector and the EU funds (including Cohesion Funds, EIB and the new Development Fund co-sponsored with KfW)

GREECE IS WORKING TO ADDRESS THE FACTORS THAT AFFECT LONG-TERM GROWTH

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