

GREECE: WHAT NEXT? GROWTH PROSPECTS TO 2020

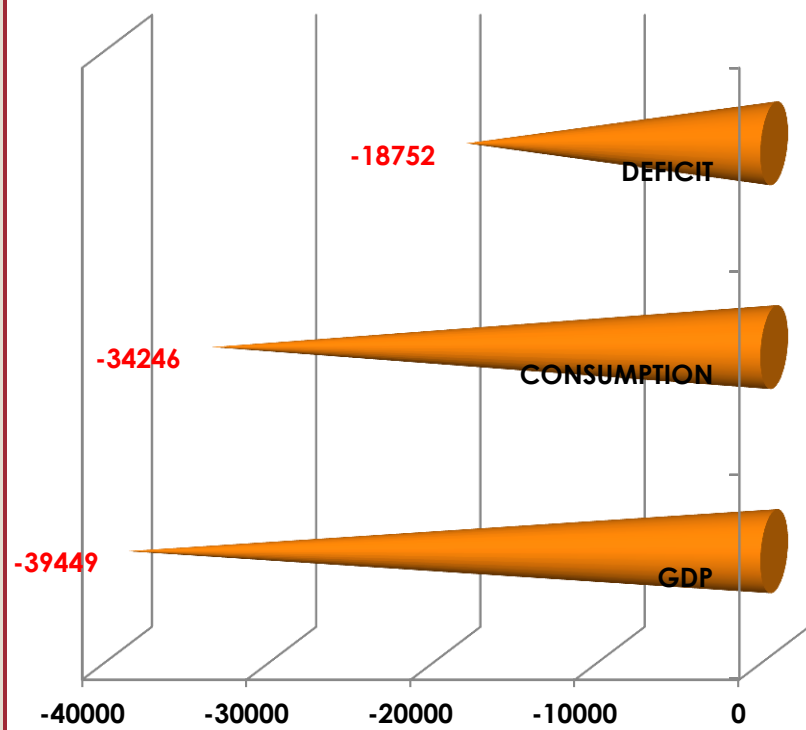
S. TRAVLOS

MACROECONOMIC FRAMEWORK

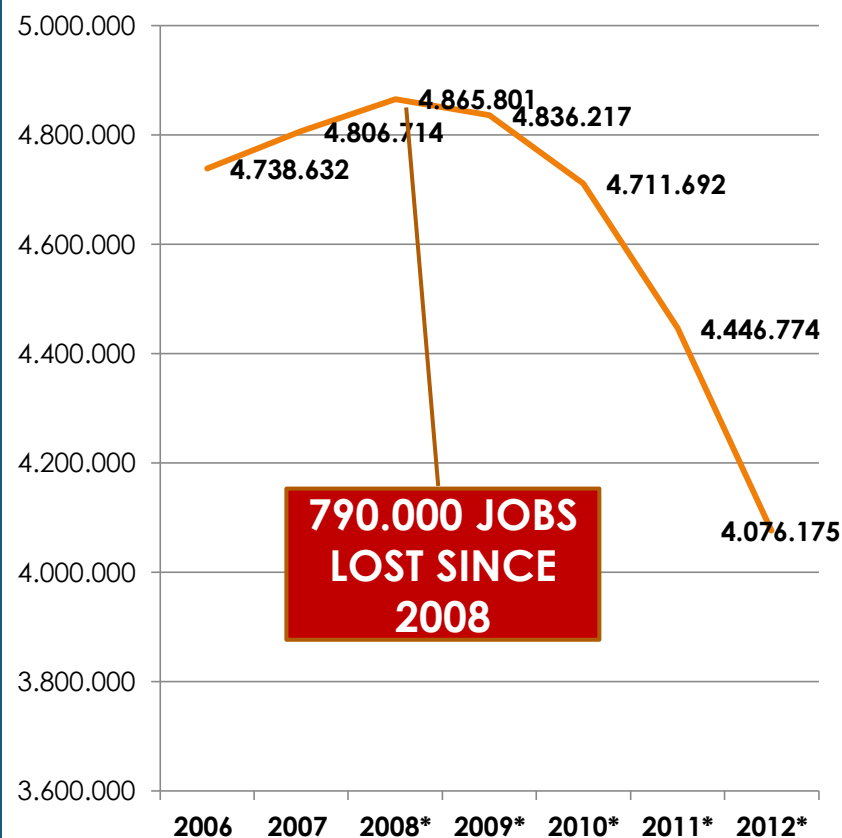
SECURE FISCAL
CONSOLIDATION
AND RETURN TO
GROWTH

GREECE HAS PAID A HEAVY PRICE FOR THE CRISIS

LOSSES FROM THE PEAK (2012 compared to 2008 or 2009)
MIL EURO

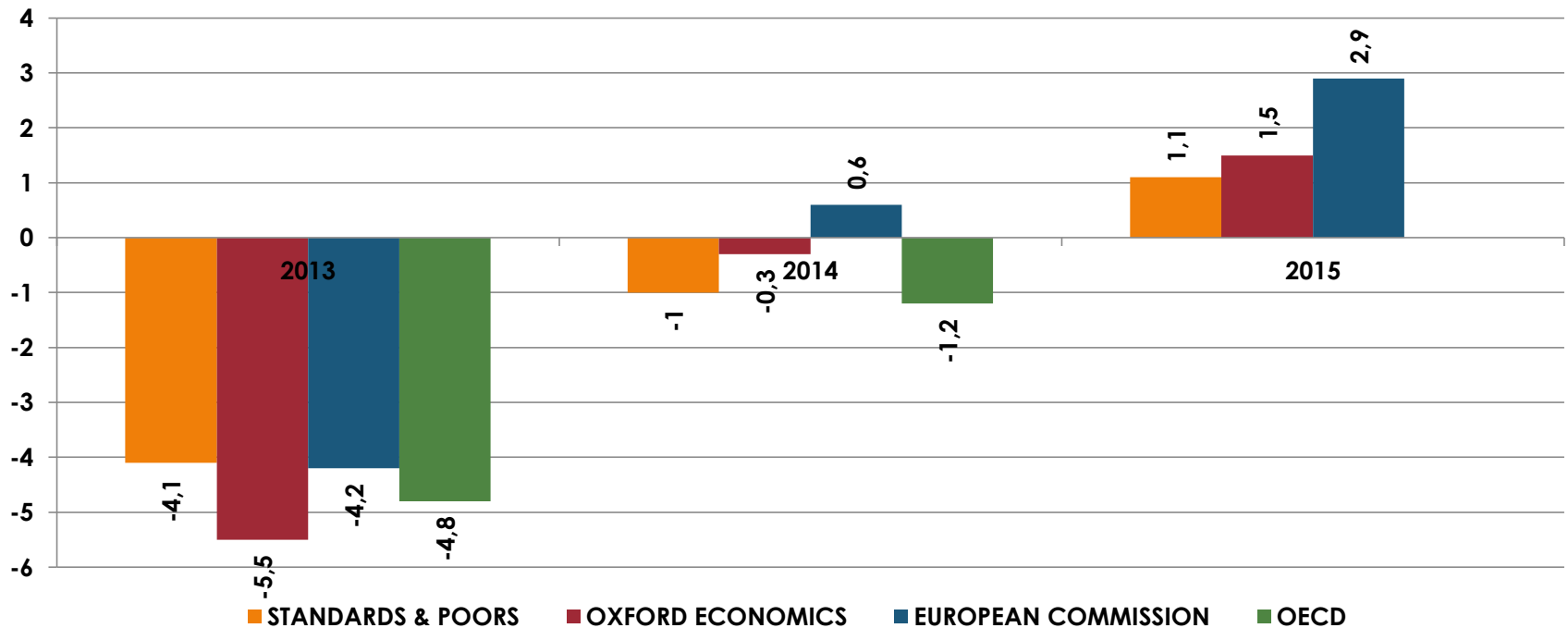


HUGE DECLINE IN EMPLOYMENT



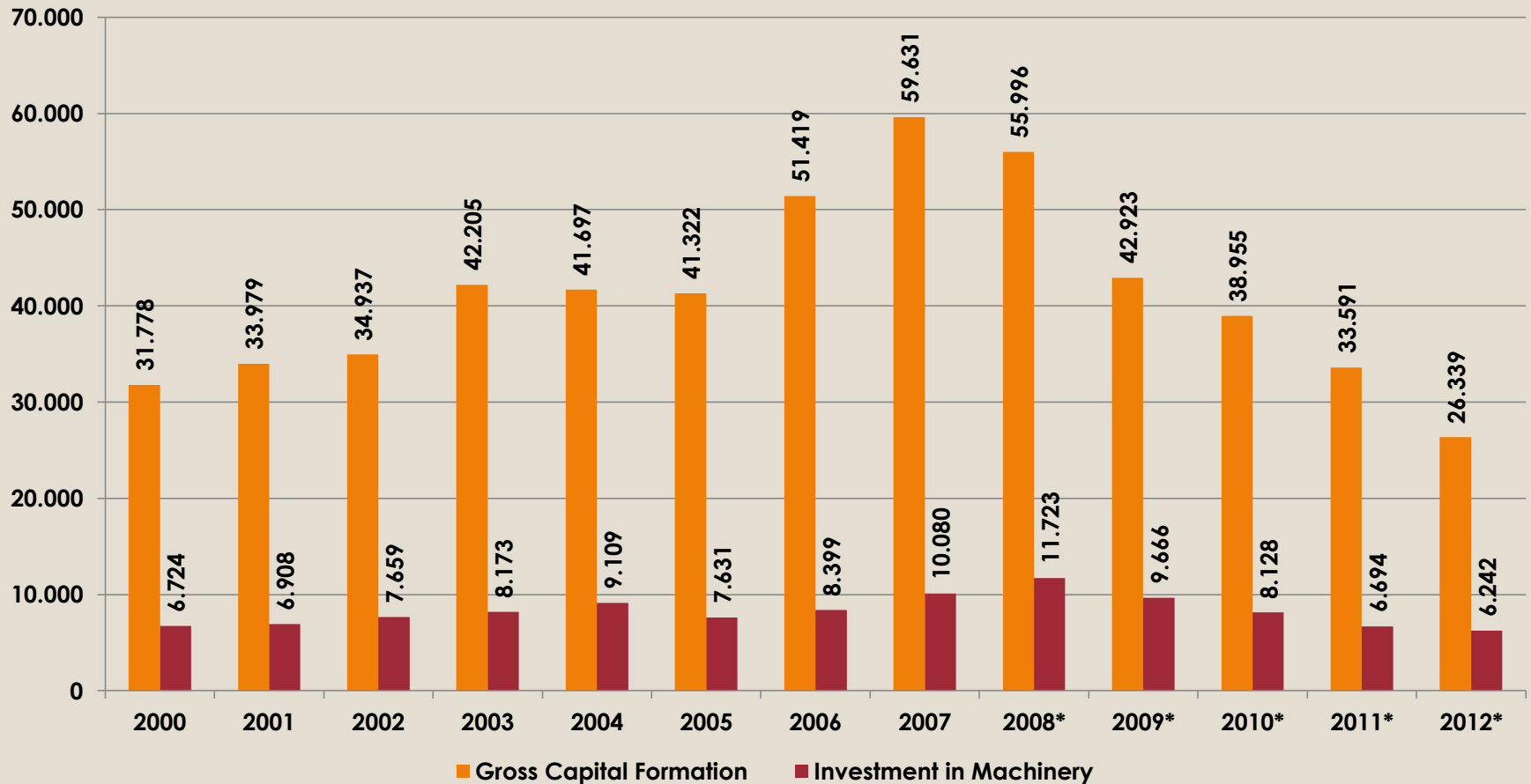
SOURCE: HELSTAT, National Accounts, 2013

PROSPECTS FOR 2014 UNCERTAIN



The tourist sector has provided in 2013 a much needed brake on recession but otherwise the real economy is still not reacting. Investment remains low and the recovery will be slow and subdued. Most analysts see a return to growth after the 3rd quarter of 2014.

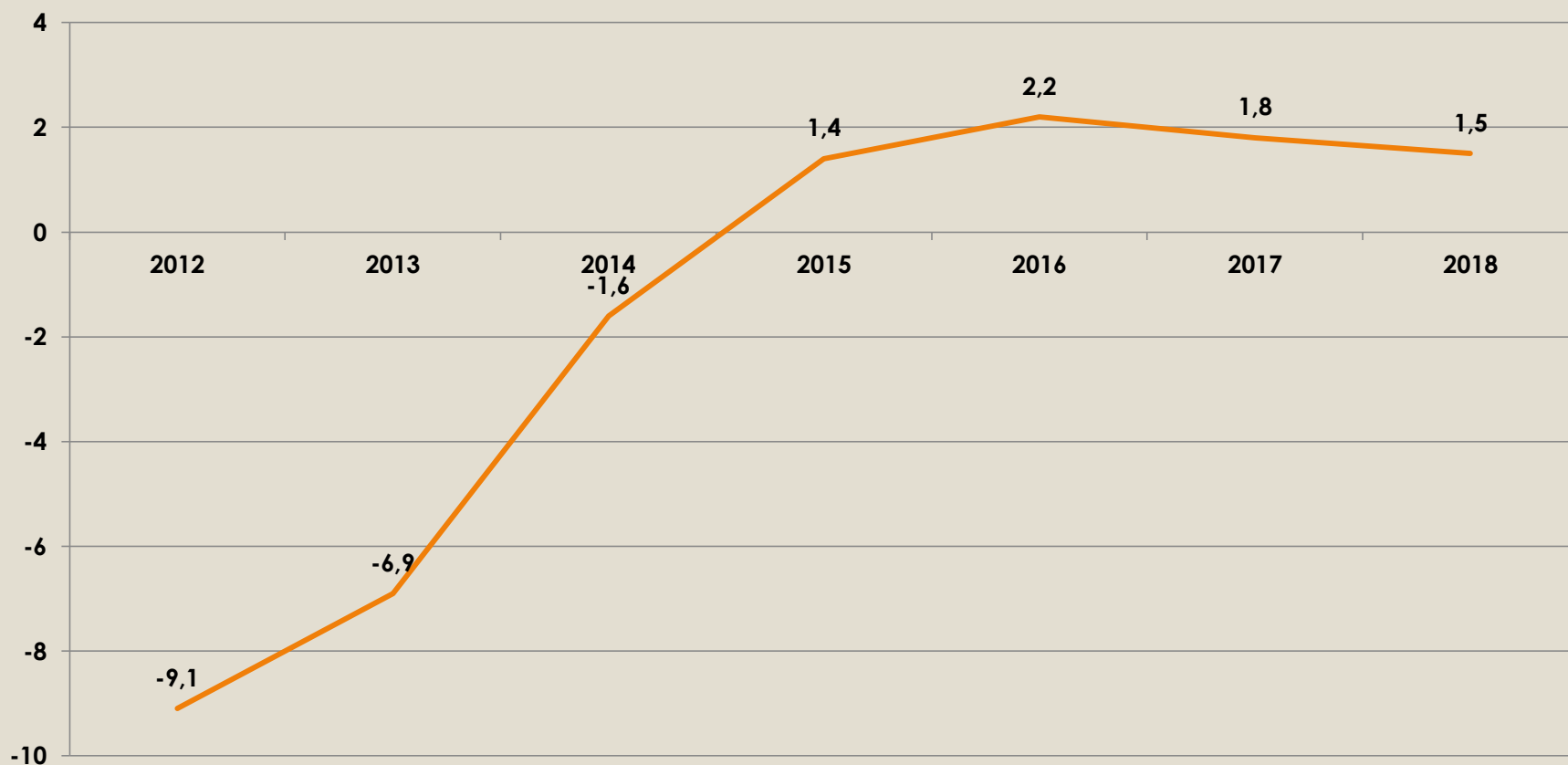
NO RECOVERY IN INVESTMENT IS YET INSIGHT



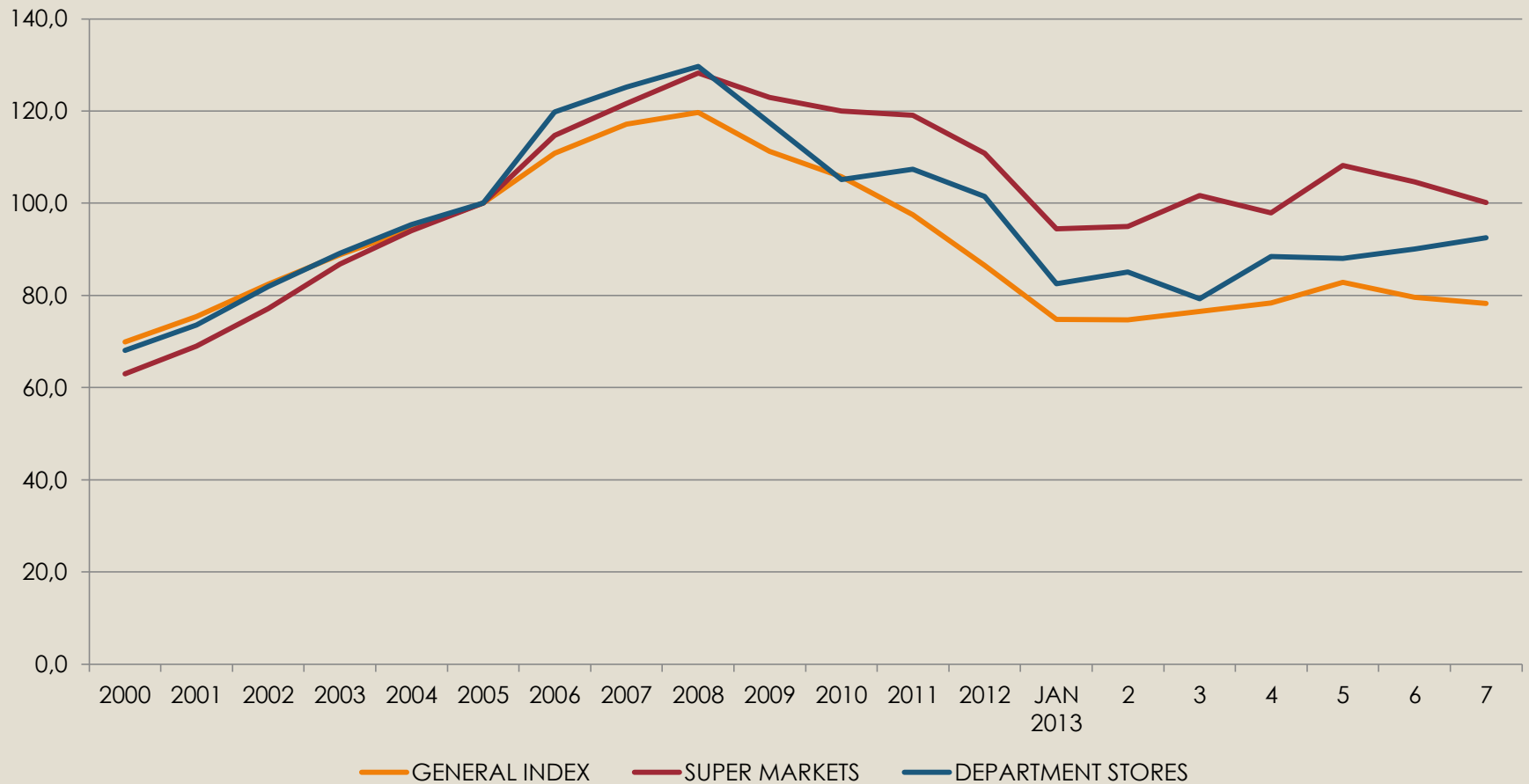
SOURCE: HELSTAT, National Accounts, 2013

PRIVATE CONSUMPTION WILL NOT BE A SOURCE FOR GROWTH UNTIL 2015

PRIVATE CONSUMPTION



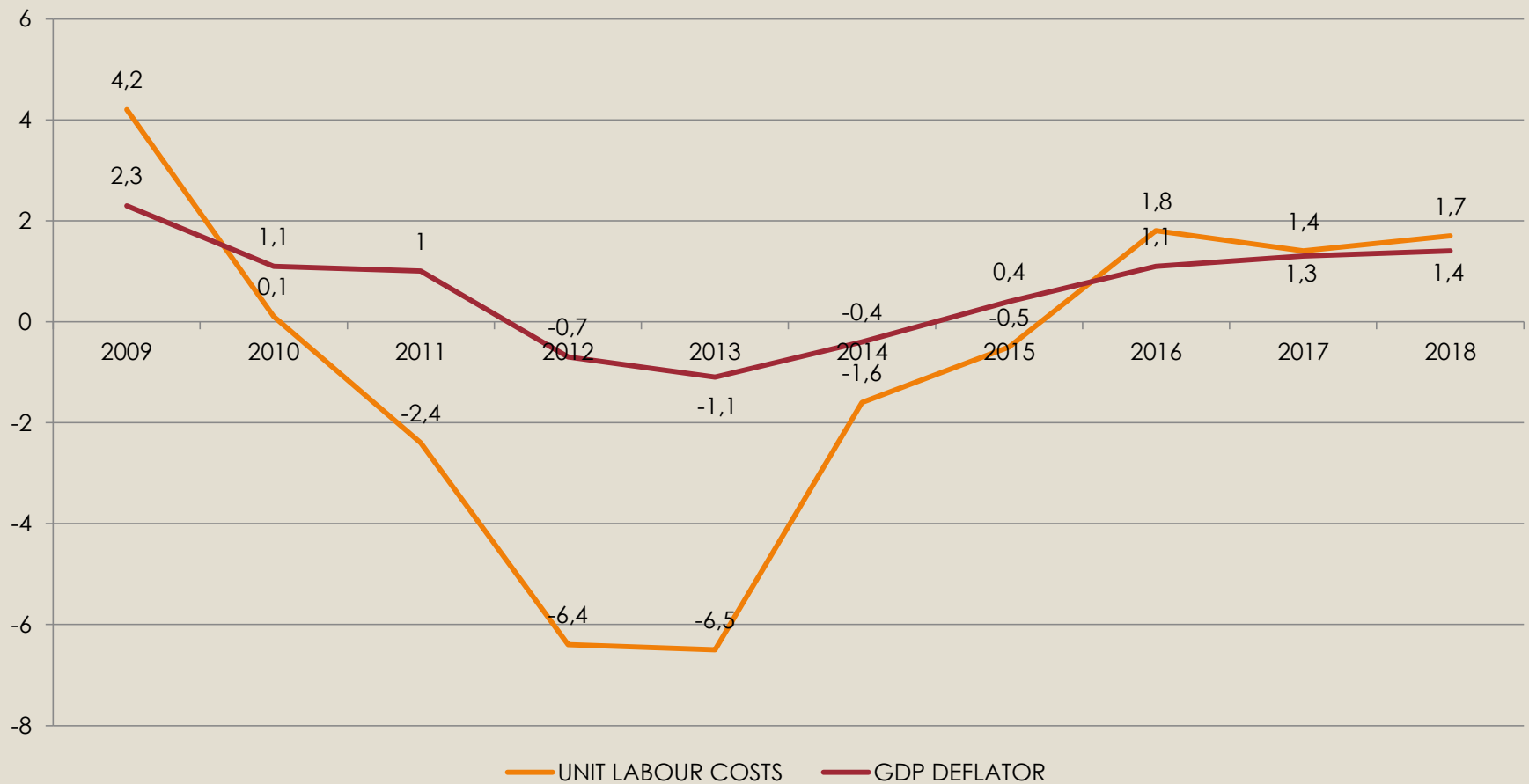
RETAIL TRADE IS SUFFERING BUT LARGE SUPER MARKETS AND DEPARTMENT STORES PERFORM BETTER THAN THE REST



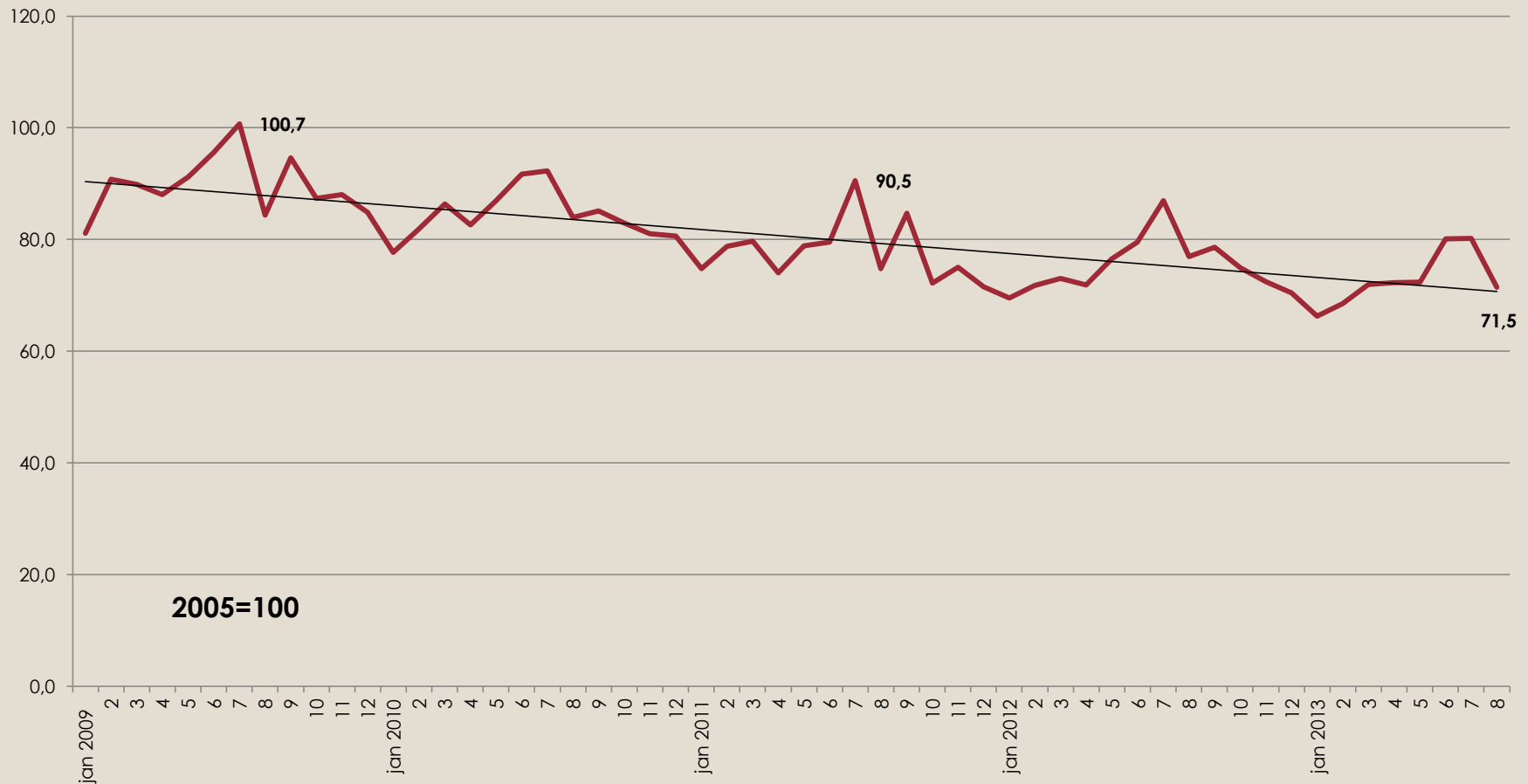
SOURCE: HELSTAT, Retail Trade Indices, 2013

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LABOUR COSTS HAVE DECLINED AND COST COMPETITIVENESS IS RECOVERING



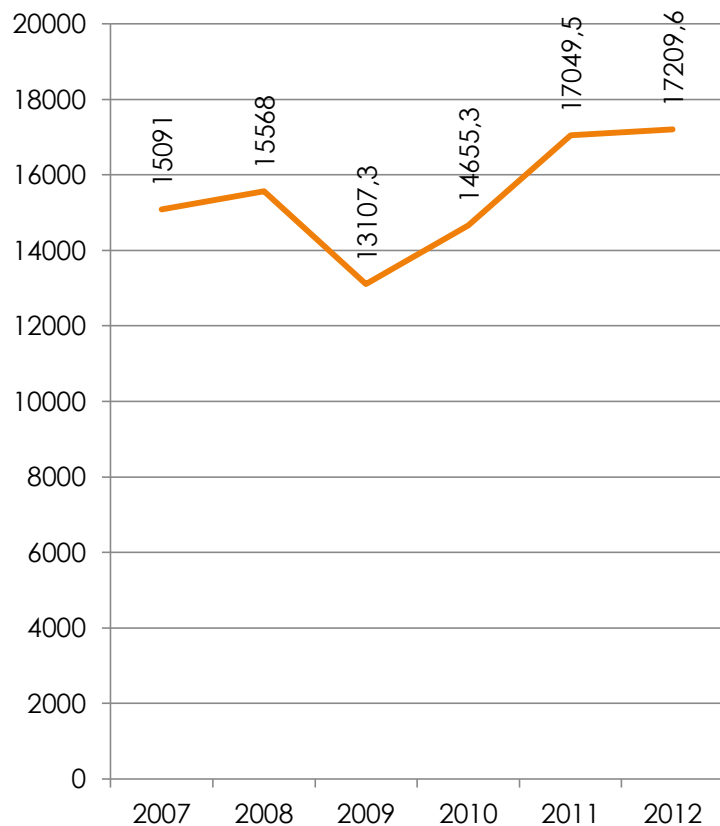
INDUSTRIAL PRODUCTION IN DECLINE



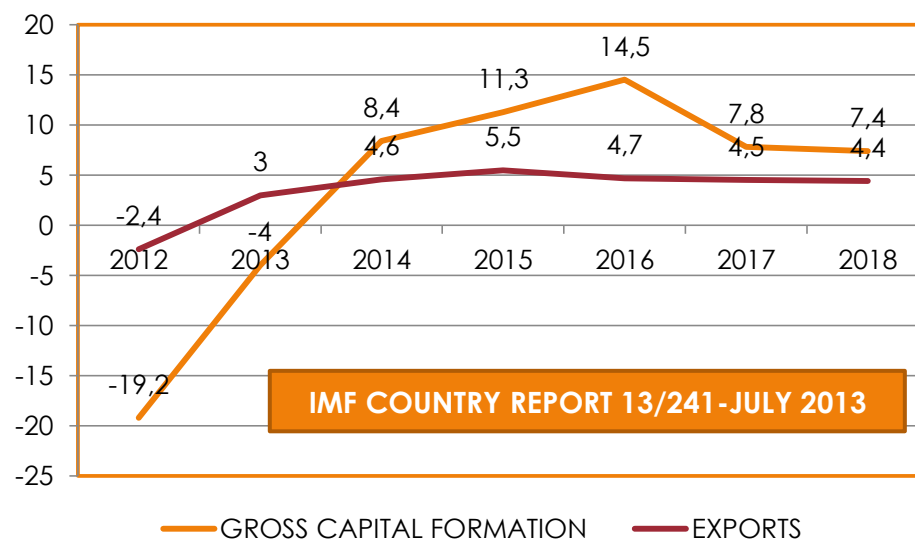
SOURCE: HELSTAT, Industrial Indices, 2013

RECOVERY IN EXPORTS STEADY BUT BELOW EXPECTATIONS

EXPORTS PERFORMANCE

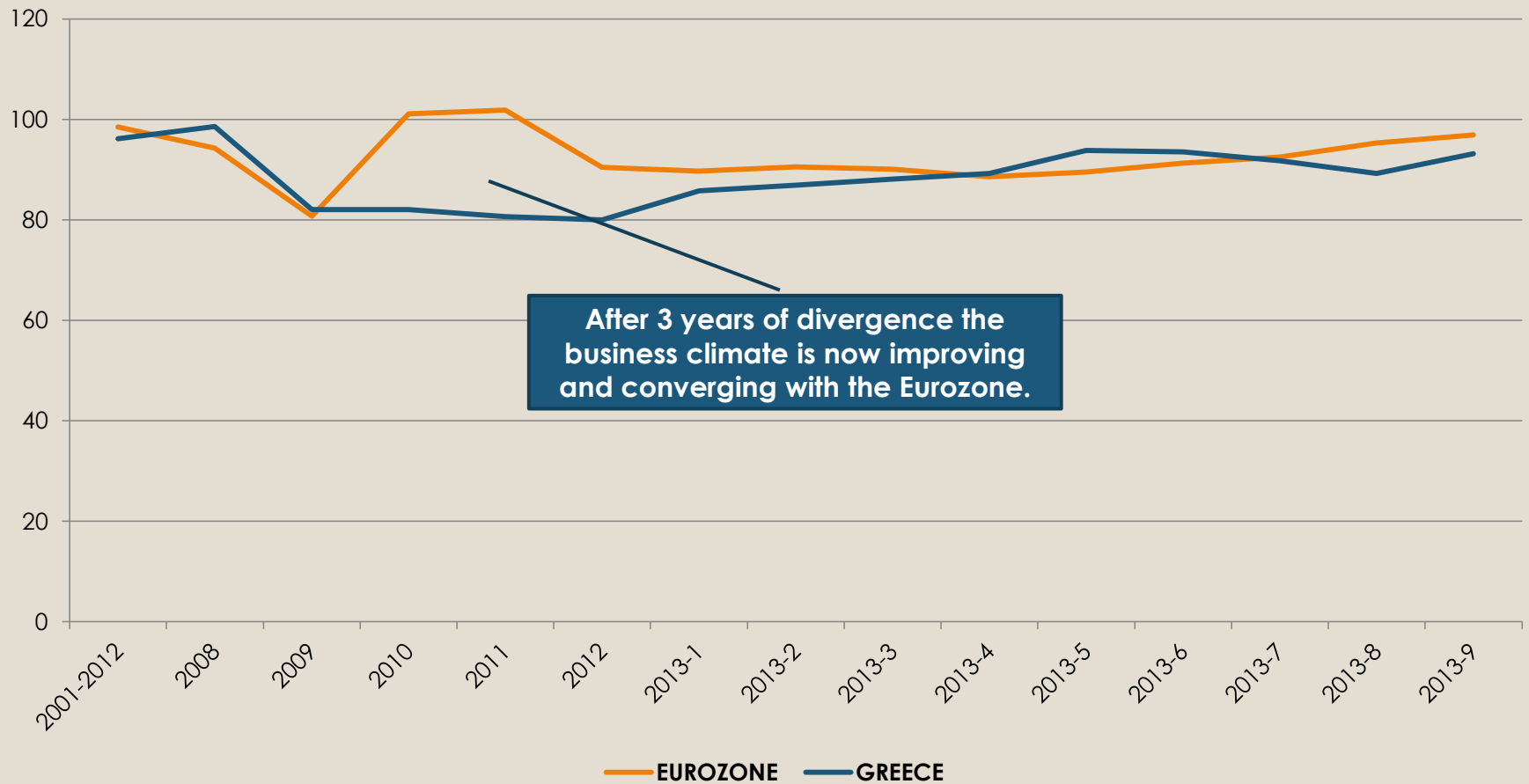


EXPORTS AND INVESTMENT GROWTH FORECASTS

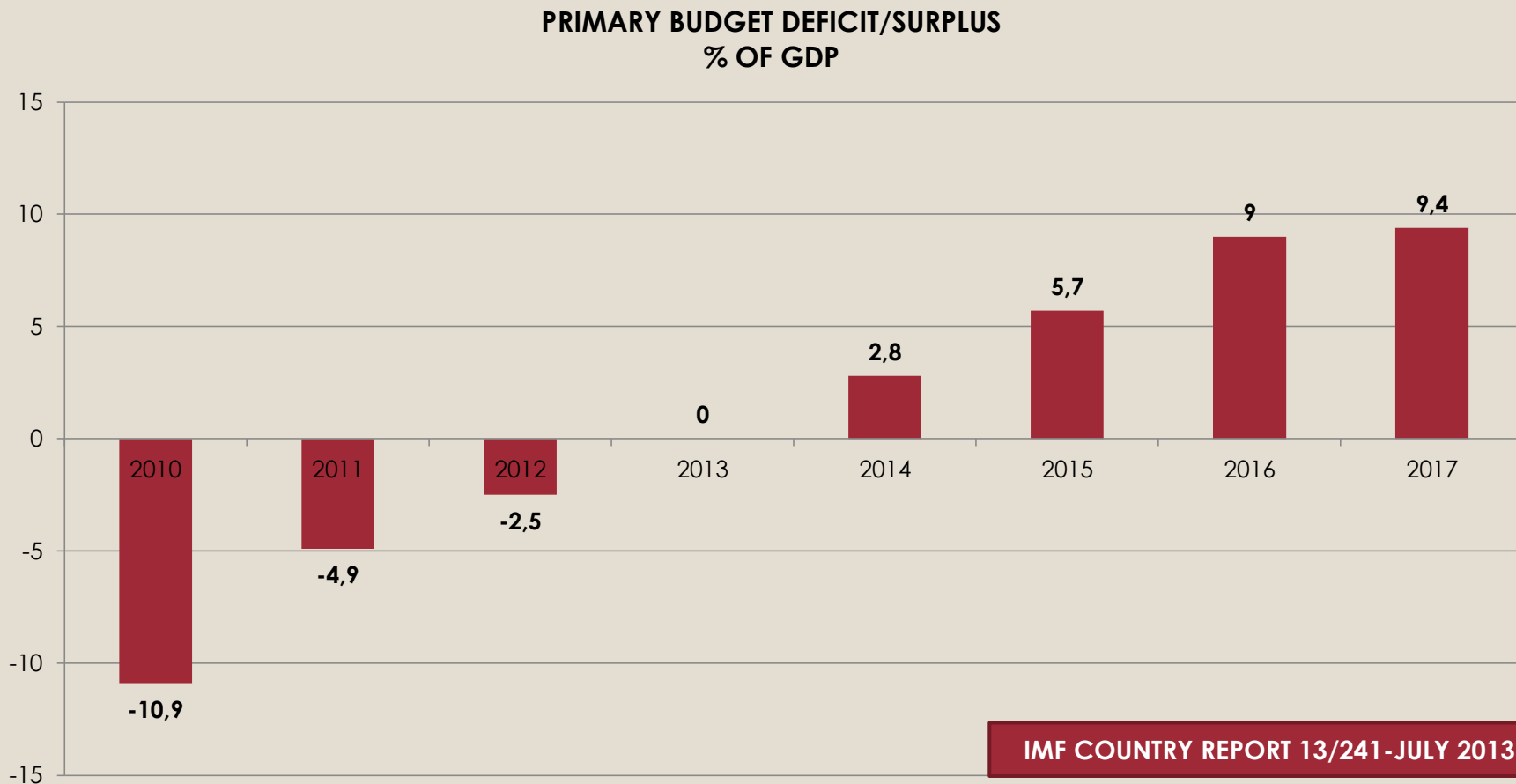


The investment recovery underpinning IMF forecasts is doubtful as corporations in Greece have been weakened and liquidity conditions remain difficult.

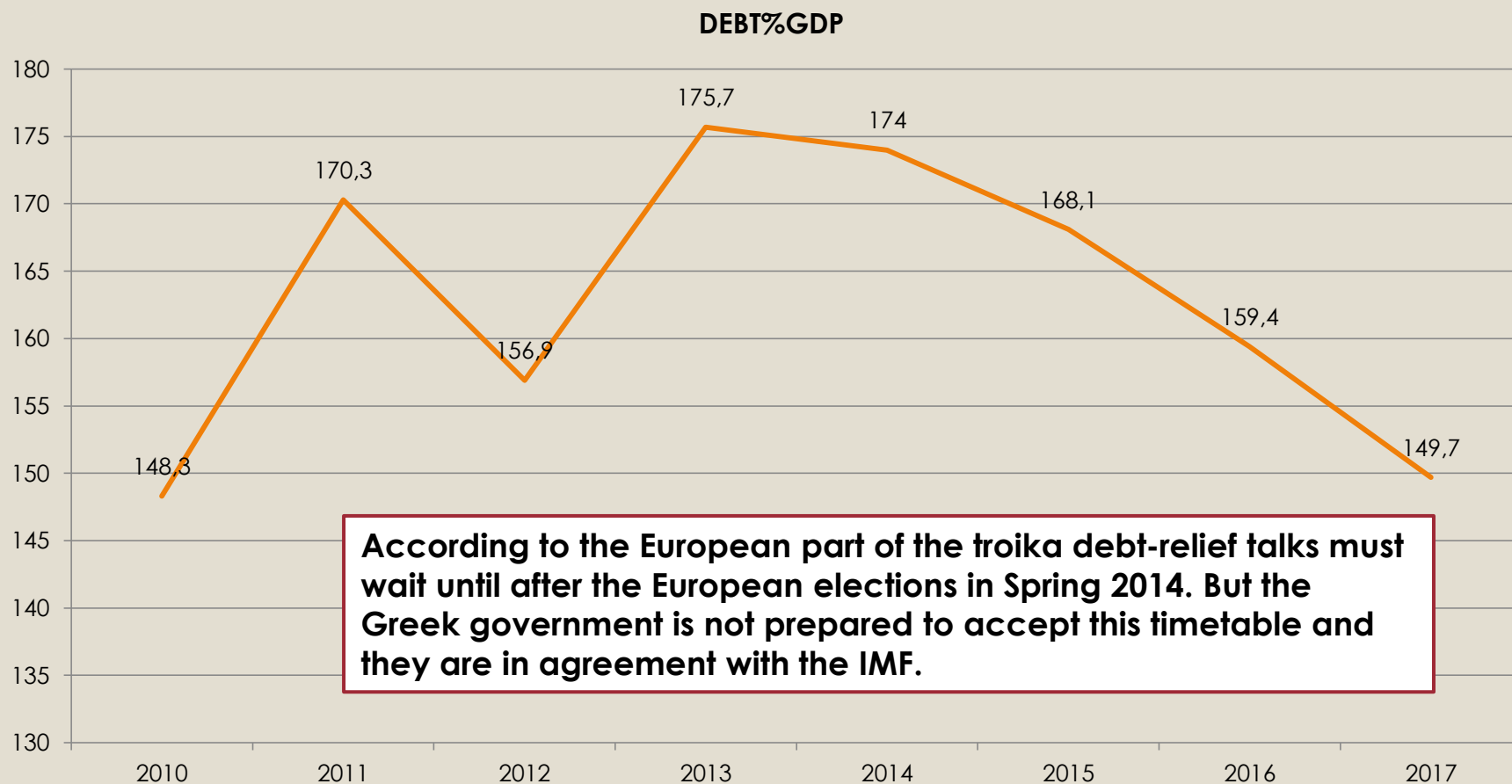
BUSINESS EXPECTATIONS ARE IMPROVING AND CONVERGING WITH EUROZONE



A SMALL BUDGET SURPLUS WILL BE ACHIEVED IN 2013 BUT IT WILL NOT BE SUSTAINABLE WITHOUT A STRONG RECOVERY



TROIKA ESTIMATES FOR DEBT EVOLUTION: MORE WISHFUL THINKING



THE SLOW PACE OF REFORMS REFLECTS BOTH LACK OF POLITICAL WILL AND TECHNOCRATIC MISMANAGEMENT

- **Modest progress in privatizations:**
 - The conclusion of the privatizations of the National Lottery and OPAP has given some breathing space to the Hellenic Republic Asset Management Fund.
 - But all the difficult transactions follow and the government will be tested both in utilities and energy.
- **Slow progress in closing down loss making public corporations:**
 - The government is reluctant to close down the two defense companies ELVO and HDS despite heavy losses and the absence of any real productive capabilities.
 - LARCO is likely to be privatized with the blessing of the troika.
- **Public sector restructuring is reluctantly implemented with delays and uncertain results.**

THE FINANCIAL SECTOR IS STILL FRAGILE DESPITE THE MASSIVE PUBLIC SUPPORT

THE FIRST PHASE OF BANK RESTRUCTURING HAS BEEN COMPLETED

BANKS (mil euro)	STATUS	HFSF INJECTION	PRIVATE INJECTION
NBG	RECAPITALIZED	8677	1079
EUROBANK	RECAPITALIZED	5839	0
ALPHA	RECAPITALIZED	4021	550
PIRAEUS	RECAPITALIZED	6415	1444
AGB	RESOLVED	8041	0
FBB	RESOLVED	619	0
T-BANK	RESOLVED	677	0
3 CO-OPS	RESOLVED	320	0
PROTON	RESOLVED	2032	0
HELLENIC POSTBANK	RESOLVED	4233	0
ATTICA	PRIVATE SECTOR	0	199
GENIKI	ACQUIRED	0	290
EMPORIKI	ACQUIRED	0	3000
MILLENNIUM	ACQUIRED	0	413
TOTAL		40874	6975

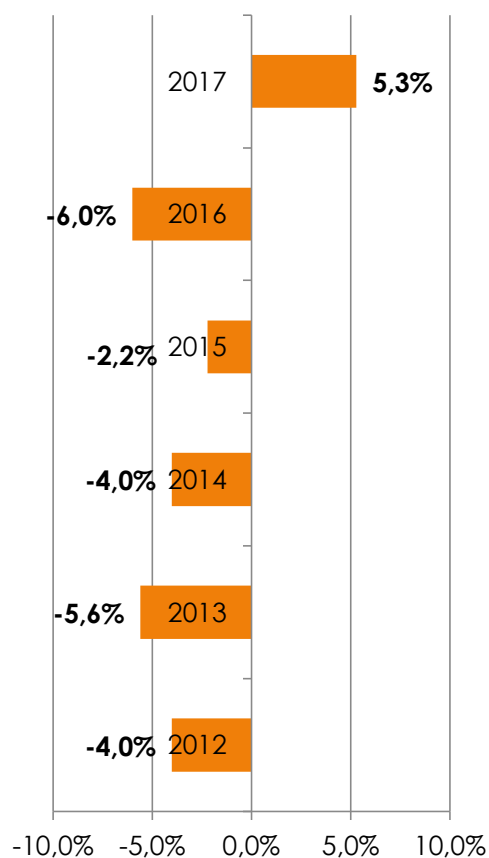
SOURCE: IMF COUNTRY REPORT 13/241 JULY 2013.

THE SECOND PHASE OF BANK RESTRUCTURING WILL BE COMPLETED IN 2014

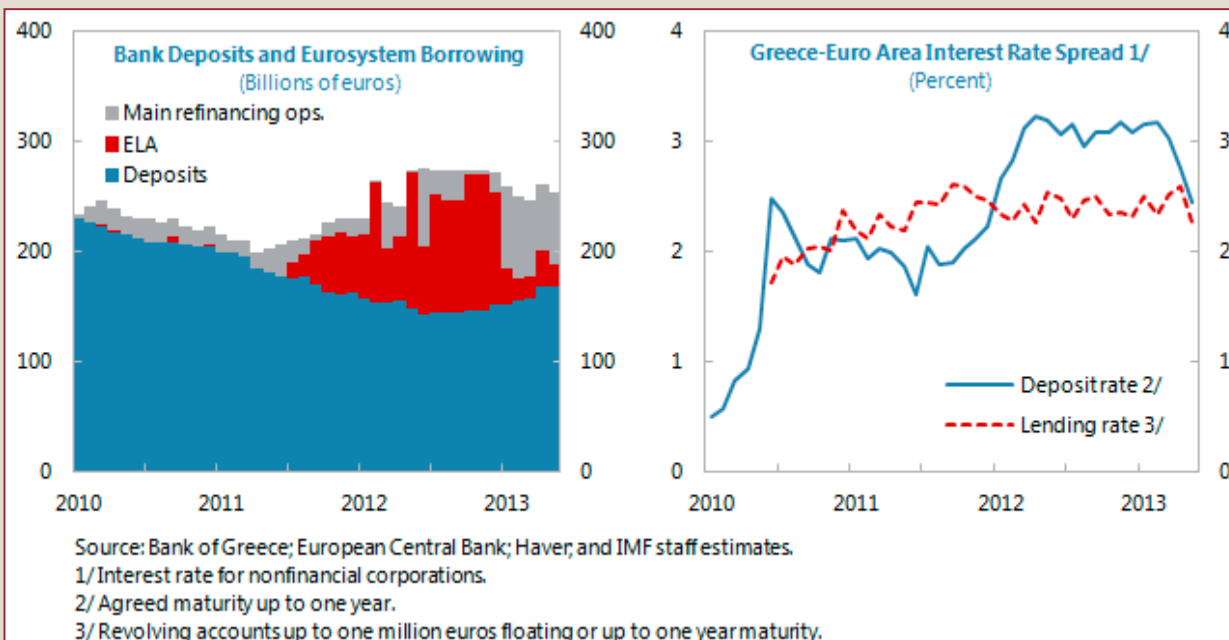
- ECB is taking over the supervision of the banks at European level.
- In February 2014 an ECB team will be positioned in the Bank of Greece and Oliver Wyman will make another assessment of the banks portfolios.
- Greek banks will be required to sell subsidiaries in the Balkans and at home in order to strengthen their capital base.

LIQUIDITY CONDITIONS ARE DIFFICULT AND THE COST OF FINANCING TOO HIGH

PRIVATE CREDIT GROWTH



Banks relied heavily on ECB financing as deposits dwindled during the crisis with Eurosystem funding standing now at 85 bn euro. Spreads between Greece and Euro area are gradually closing. Private sector credit is expected to contract until 2016.



MACROECONOMIC OUTLOOK

- A possible recovery in 2014 will still be fragile and unless a further debt relief is implemented by the Europeans, Greece is unlikely to be able to sustain the current effort.
- There is an improvement in the investment climate however there is no investment recovery in sight yet and liquidity conditions have not been fully restored.
- Business confidence has returned and the private sector is looking into new projects and activities but the process of switching towards an extrovert growth model is slow.
- Fiscal conditions have markedly improved and a modest primary surplus will be achieved in 2013.

DEVELOPMENT POTENTIAL

IMPROVE
COMPETITIVENESS
AND PROMOTE
EXPORTS

KEY WEAKNESSES UNDERMINE RECOVERY AND RETURN TO GROWTH

- **Competitiveness is very low** and the economy is heavily based on micro-enterprises.
- The **lack of an efficient public administration** and a modern, flexible and competitive business-friendly environment hinder growth and job creation.
- **Public R&D investment is low** with expenditure in 2007 representing 0.6% of Greece's GDP while the efficiency and effectiveness of spending is weak, due in particular to the slow implementation of reforms. Greece is also lagging behind in finance, firm investments and intellectual assets. Greece has fallen to 20th position in the Innovation Union Scoreboard 2011 and its innovation performance is below the EU-27 average.
- The country continues to **hold low rankings in the EU ICT indicators**. A high standard and penetration of ICT services need to be achieved for the population and business through broadband infrastructure including in rural areas. Whilst fixed broadband coverage stood at 91.2% of the entire population in Greece in 2010, according to the EU Digital Agenda Scoreboard, this was only 60.0% in the rural areas.

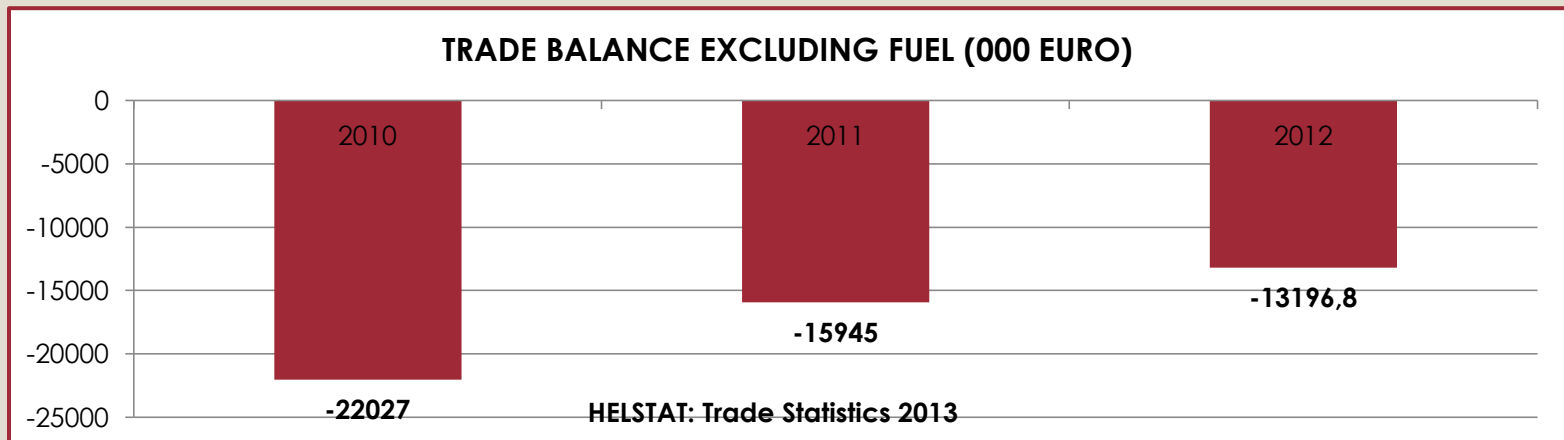
A NEW GROWTH MODEL IN THE MAKING

THE OLD MODEL HAS TO DIE AS SOON AS POSSIBLE

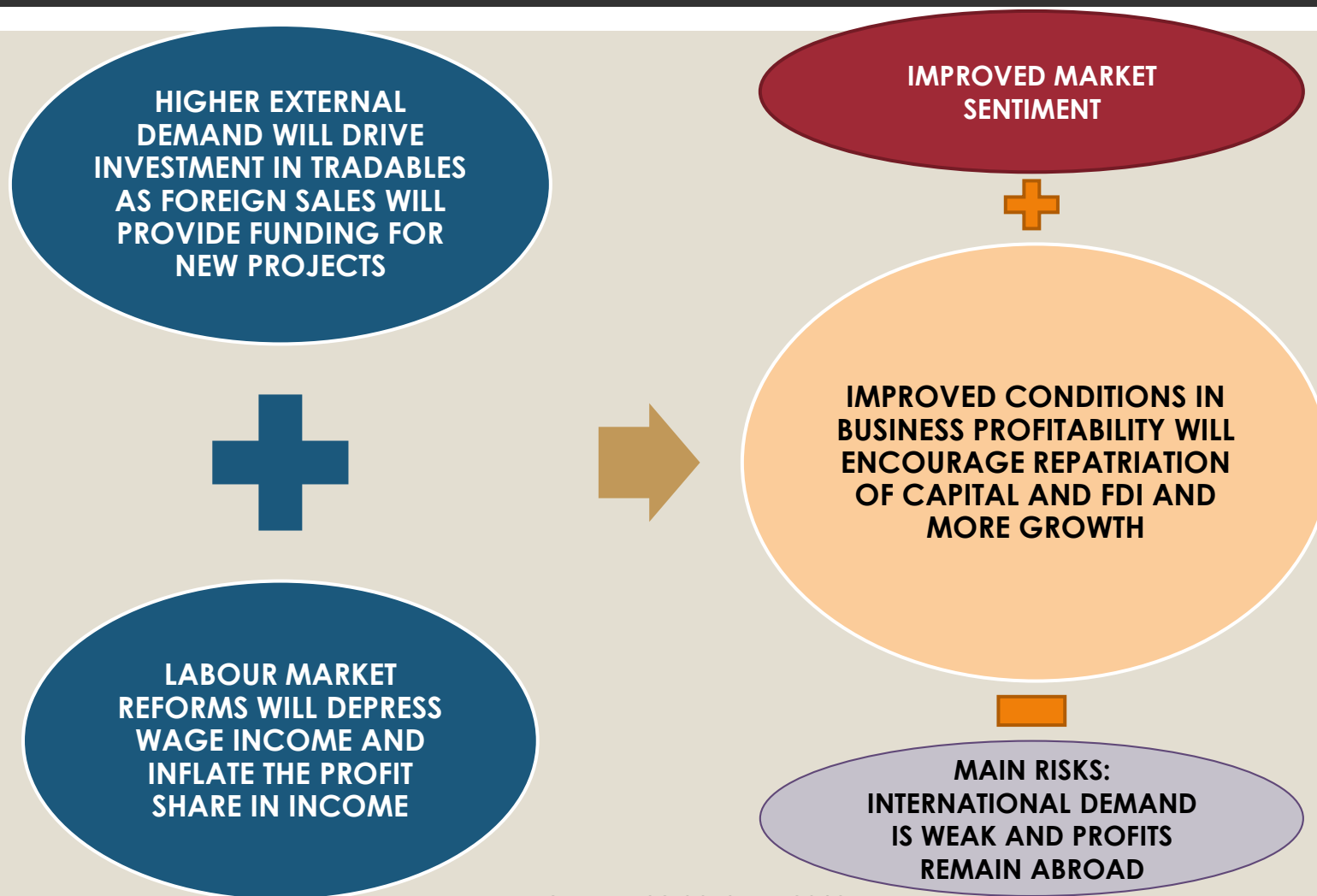
- Greece's recession is considered as mainly structural.
- The pattern of production that emerged during Greece's decade in the euro—built on unsustainably high domestic demand—cannot be maintained.
- Consumption will pay the price for as long as it takes.

BUT THE NEW MODEL HAS A DIFFICULT BIRTH

- Improved competitiveness is expected to promote exports and investment in the tradable-sector capacity.
- Investment and export led growth will underpin the new model but sluggish international demand in 2012 and the lack of appropriate productive capacity will delay the shift.



THE IMF PATH TO EXPORT LED GROWTH



MAIN DEVELOPMENT PRIORITIES TO 2020

The development framework for the 2014 -20 period is currently formulated through negotiations with EU.

There is a need to concentrate **investments on sustainable economic activities with better growth prospects** and the most dynamic exporting profiles. Greece has a competitive comparable advantage in agro-food and aquaculture, energy production and distribution, tourism, ICT manufacturing and computer services, pharmaceuticals.

Greece needs to restructure and promote its innovation policy and **strengthen the links between universities/research institutions** and the private sector (SMEs, large firms, agricultural and agro-industrial sectors).

In the context of the administrative reform, a clear strategy for integrating ICT tools in the business environment to address the needs of the business community is a priority. This should fall as a part of the broadband roll-out, e-government, development of ICT products, and services and large scale uptake of ICT-based innovations.

Greece should develop a **comprehensive multi-modal transport strategy based on:** the completion of a modern railway network, port interconnectivity with the rail network, the road and rail connections with third countries and the TEN-T networks completion, modernisation of cross-border and customs border crossing points and **support maritime connectivity and multimodality** .

Modernise energy networks to face the challenges of their growth potential especially in electricity and natural gas. The development of smart grid and distributed generation technologies constitute another source of opportunity

MAIN DEVELOPMENT PRIORITIES TO 2020

The next EU funded Program – Partnership Agreement will support these priorities.

Enhancing the potential of the blue economy and generating sustainable growth and new jobs in maritime sectors, such as the development of maritime and coastal tourism.

In accordance with the waste hierarchy, waste prevention and recycling should be promoted in particular re-use, recycling and for non-recyclable materials, recovery. Modern facilities (compost, mechanical and biological treatment plants) should be constructed, mainly in areas with acute needs like Attica and Peloponnese.

An overall strategy should be developed, both nationally and with linkages and exchanges of good practice abroad, to **promote the production and distribution of financially sustainable energy from renewable sources** and optimise the energy mix by increasing the RES.

A number of initiatives should be pursued, especially the implementation of the 'energy efficiency of households' programme, the 'special programme for the development of photovoltaic systems in buildings' and green tourism actions.

The introduction of electronic signature and e-consultation for a rapid decision-taking are examples of initiatives that would enhance the efficiency and effectiveness of central government and regional and local administrations.

DYNAMIC SECTORS TO 2020 ARE ATTRACTING INVESTMENT AND SUPPORTING EXPORT LED GROWTH

Established sectors

- Tourism
- Energy
- Food processing
- Crops agriculture
- Retail and wholesale trade

Primary Rising stars

- Long term elderly care.
- Regional cargo and logistics hub.
- Waste management.
- Generic pharmaceuticals.
- Aquaculture.
- Medical tourism.

Secondary Rising stars

- Classical hub.
- Specialty foods.

SOURCE: McKinsey Study, Greece ten years ahead, FGI 2010.

BUSINESS OPPORTUNITIES OUTLOOK

PRIVATIZATIONS

- Public Power Transmission Administrator (DESMIE) privatization in 2014.
- LARCO (nickel producer) break up and privatization in 2014.
- Hellenic Petroleum privatization in 2014.
- Public Gas Corporation (DEPA) re-launch privatization in 2014.
- Public Power Corporation break up and privatization in late 2015.

CONCESSIONS

- Extensions of the Athens toll motorway – Attiki Odos.
- Egnatia Odos in Northern Greece.
- New Heraklion International Airport.
- Mining concessions.

DYNAMIC SECTORS

- New large integrated resort developments.
- Energy efficiency technologies and services.
- Participation in the new hydrocarbons explorations.
- Large processing and packaging units for priority agricultural products.
- International distribution channels for agri-food.
- Consolidation and restructuring of aquaculture sector.
- Participation in waste management contractors provision of technology and finance.