

IS THE GREEK ECONOMY REACTING TO MEDICINE?



NEW INVESTMENT INITIATIVES
REQUIRE A MORE FRIENDLY ENVIRONMENT

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STRUCTURAL PROBLEMS PERSIST

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- ✓ Markets have not yet been fully liberalized especially in energy transport and the professions.
- ✓ Labor market reform will take some time to work its way down and have an impact on flexibility in wage setting at firm level.
- ✓ Low innovation throughout the economy persists.
- ✓ Overall competitiveness remains low.

A PATH TO STABILITY AND RECOVERY

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Greece can recover under certain conditions:

- Strong and credible government following the elections.
- Recapitalization of banks increasing the stability and liquidity of the credit system.
- Implementation of reforms especially product market liberalization and privatization.
- Improved tax collection and reduction in tax fraud and avoidance stable tax environment with reductions in tax rates for businesses in the next 3 years.
- Streamlining and transforming the public sector.

WE NEED A GROWTH SURPRISE

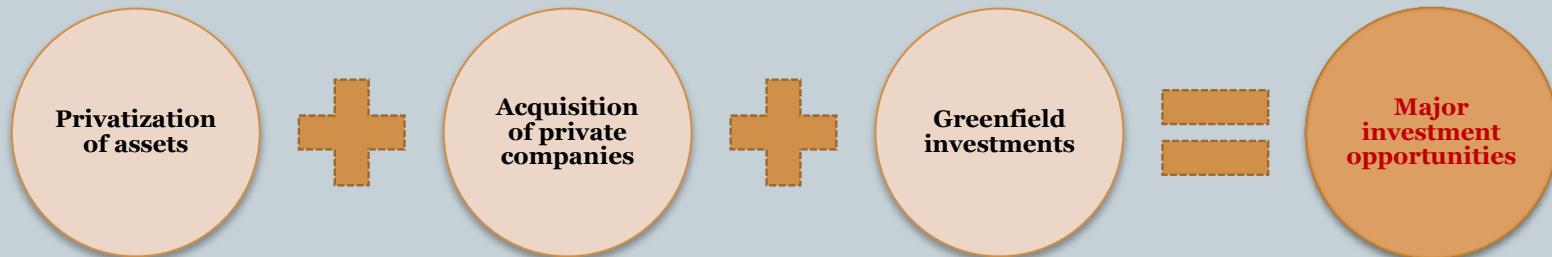
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- A growth surprise may radically alter the outlook.
- It can happen through a combination of forces:
 - Inflows of capital for privatisations.
 - New investment in infrastructure from European Structural Funds with European Investment Bank assistance.
 - Improved liquidity in the financial system.
 - A resurgence in private investment in the dynamic sectors of the economy especially:
 - Tourism: Enhanced competitiveness will generate more demand for Greek tourism.
 - Renewable Energy: Wind and photovoltaic investment will increase by 6 to 7 times in the next 8 years.
 - Infrastructure provision: Infrastructure upgrades are urgently required as the economy is trying to shift towards exports
 - Natural resources exploitation: minerals, gold, oil and gas have a potential for investment.

INVESTMENT POTENTIAL

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- Despite the debt crisis and the recession Greece offers many unique investment opportunities.
- Asset values have been deflated and valuations are attractive for major assets.
- Greece is looking for investors which have liquidity and managerial expertise.



PRIVATIZATION TARGETS

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- **Privatizations in selective infrastructure projects through long term concessions, in energy, raw materials and real estate attracting most interest and are safer:**

- Privatizations in **ports and airports** will take the form of long term concessions. For the infrastructure hubs connecting Greece with Europe demand will stabilize at a reasonable level as tourist flows will continue and even increase as the country becomes more competitive. As a consequence income will be mainly generated from abroad and not from domestic activities affected by the crisis.
- In **energy** considerable investment is required in order to modernize power generation while the Public Power Corporation will be forced to sell lignite power stations for competition reasons before full privatization takes place. The Gas Corporation and the Gas Transmission System Operator are up for sale to a strategic investor and 35% of Hellenic Petroleum will also be sold.
- In **raw materials** the privatization of nickel producer LARCO and gold extraction concessions will generate extensive international interest.
- Prime **land** for development is also privatized with at least three areas regarded as opportunities.

SEVEN STEPS TO GROWTH



CREATE THE RIGHT ENVIRONMENT OR
THERE IS NO HOPE

1. REMOVING UNCERTAINTY



- The continuing periodic uncertainty directly related to the quarterly review of the program and the disbursement of funding, destabilises the real economy.
- The increasingly hostile rhetoric from certain political circles within the EU indicating that the EU is not fully united behind the rescue package is also responsible for increasing uncertainty and thus postponing any investment decisions for the future.
- Strong and reformist government following the elections should be given time to properly implement the reforms.

2. INCREASING LIQUIDITY



- The imminent recapitalization of banks should be based on a strategic plan that would not only guarantee the solvency of the banking system but also the restarting of the real economy through the gradual deleveraging of the business sector.
- The urgency of the first task should not undermine the design and implementation of the second. A strategic study should be undertaken in order to assess the situation and elaborate guidelines for deleveraging across sectors in the economy.
- The restructuring of private debt is of paramount importance for the development of the economy. That was deemed necessary in Iceland and the USA.

3. EIB AND OTHER FINANCING



- Current liquidity constraints should be addressed through increased EIB financing of the private sector in Greece.
- More capital should be made available to finance productive activities and accept co financing with Greek banks despite the current credit rating of domestic institutions.
- Market imperfections are exacerbated by the current credit and liquidity crisis and as a consequence risk funding is not readily available for a number of projects despite the fact that they are viable and have a commercial rationale. Private investors are reluctant to participate without official encouragement. We should look into new instruments of capital participation along the lines of EBRD financing in eastern Europe or EIB financing in JEREMIE/JESSICA.

4. IMPROVE IMPLEMENTATION



- The first loan agreement was more designed to achieve fiscal consolidation and less reforming the economy. Later serious efforts have been made to address this deficiency. However, the pressure on implementation which derives from the fact that the authorities do not follow required time schedules leads to poorly designed policy instruments without any time or effort given to impact assessment. By improving the quality of policy making we create a better investment environment.

5. STABLE TAX ENVIRONMENT



- Stop tax surprises improve transparency of the system and create a simplified tax code.
- Design tax policies with a 3 year horizon giving assurances about business tax rates.
- Rely more on spending cuts and less on tax rises.

6. CONCENTRATE ON PRIVATIZATIONS



- The required inflow of private capital will come mainly through privatizations.
- Critical time has been lost with slow preparation of privatizations and wrong priorities.
- More technical support is required to speed up the design of markets that will be fully functioning following privatization of network companies.
- The preparation of prime land for development must be made on a selective basis so that scarce human resources are concentrated in promoting projects with high value added for the local economy.

7. RINGFENCE INNOVATION



- “Greece’s innovation system displays serious weaknesses. In Greece, high- and medium-high-tech industrial sectors and knowledge-intensive service sectors carry very little weight in the overall economy. There is little potential to leverage the development of fast-growing industries with high productivity levels” (Deutsche Bank Report 2012).
- The current fiscal adjustment further undermines the capacity to innovate in the economy.
- It is an area that should be protected from current cuts and give more incentives to connect with the market.
- Existing technological parks should be evaluated and supported through extraordinary measures in order to sustain innovative activity throughout the crisis and attract new investment from abroad.