Greek Economic Outlook: The Current State of Affairs after the pending agreement

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Economic Research & Investment Strategy

May 2017

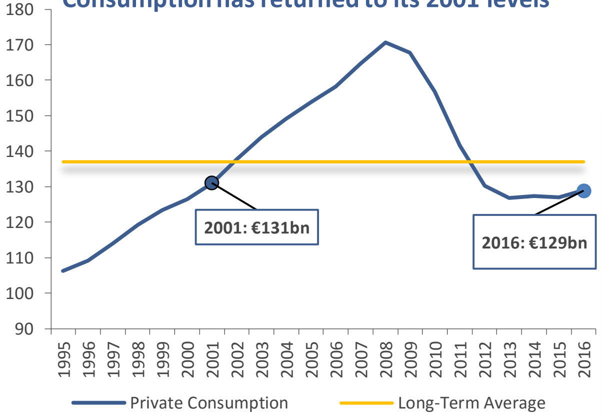
A Long-Term Perspective of the Greek Crisis

A 4th Wave of Fiscal Consolidation

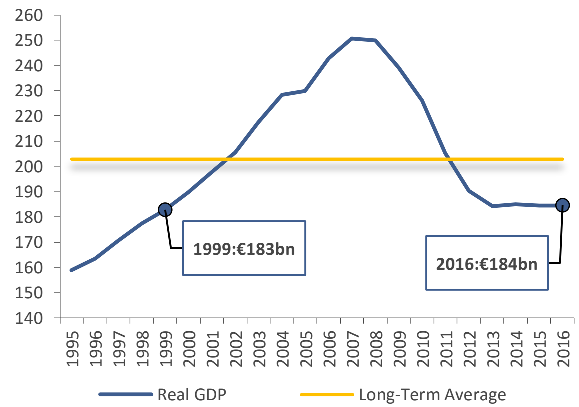
Emerging Trends and Opportunities in the New Greek Landscape

A Bird's eye view of the Greek Crisis

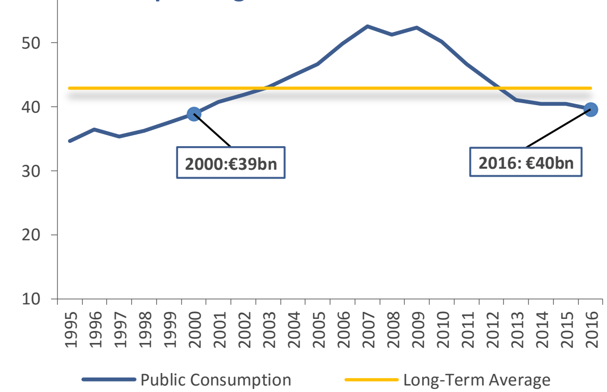
Consumption has returned to its 2001 levels



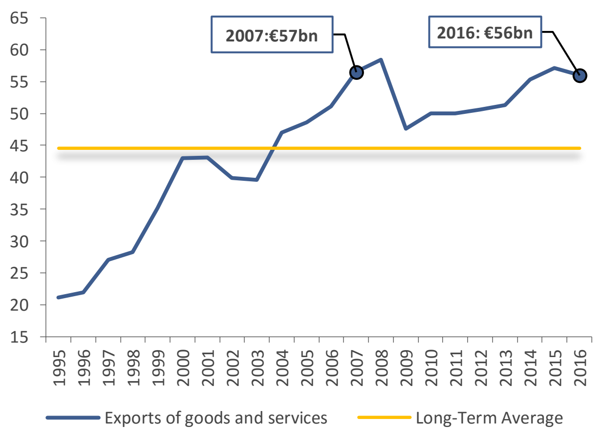
GDP is back to 1999



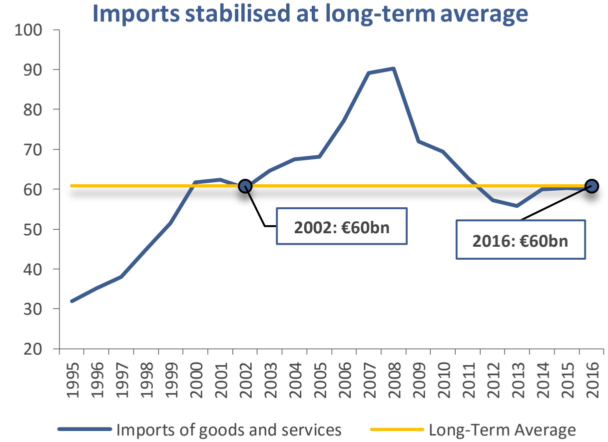
Public spending: Close to the 2000 levels



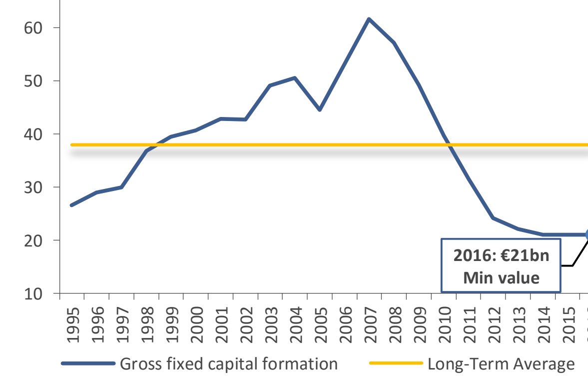
Exports are on the rebound due to Tourism



Imports stabilised at long-term average

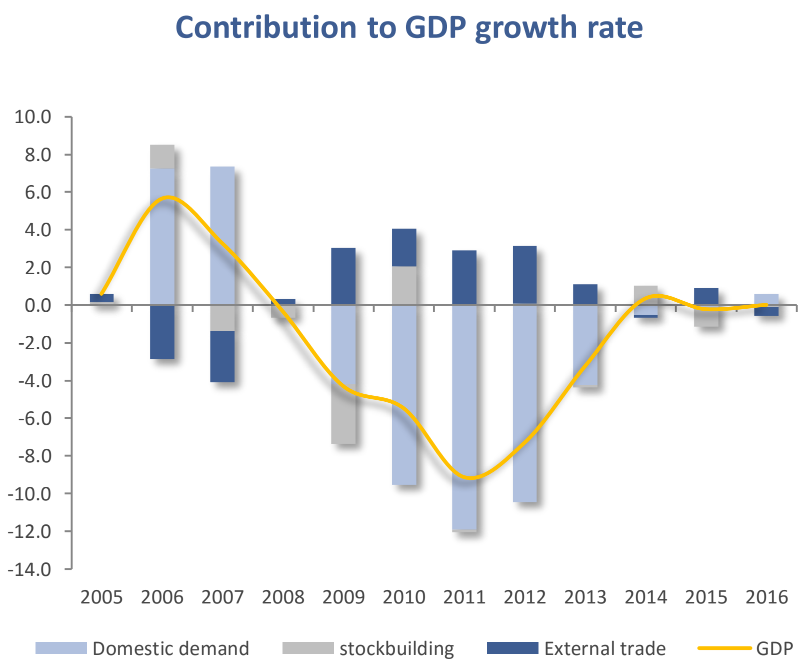


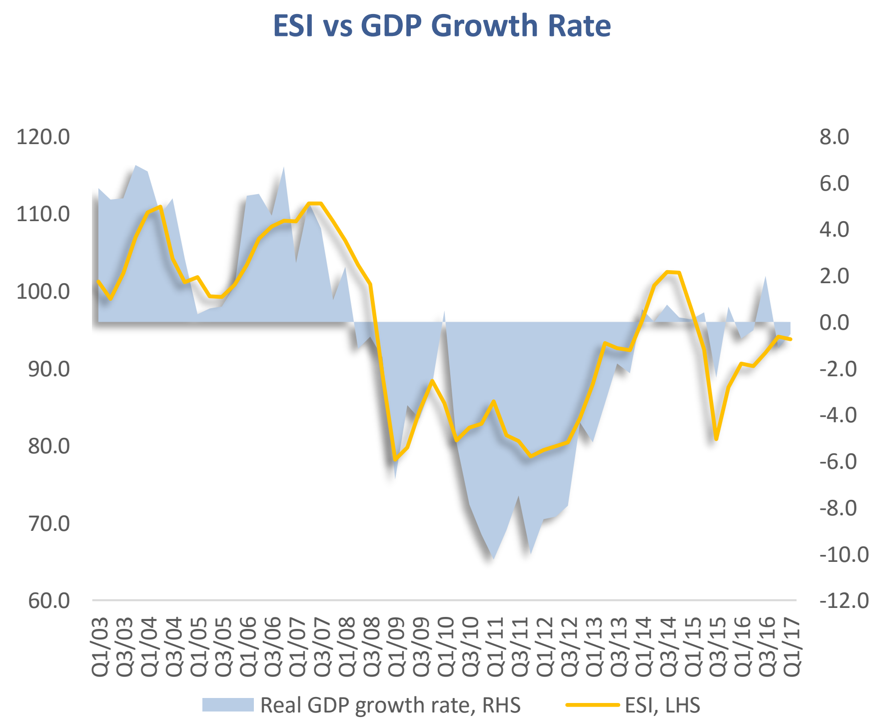
Investments at record low



Source: ELSTAT, Piraeus Bank Research

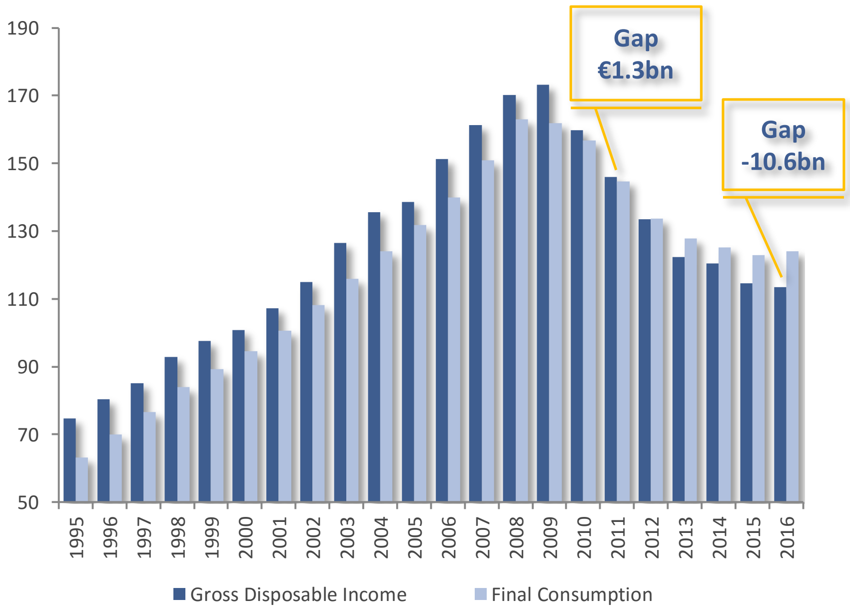
Almost ready for a switch to growth, but sentiment & uncertainty are holding the Greek Economy back



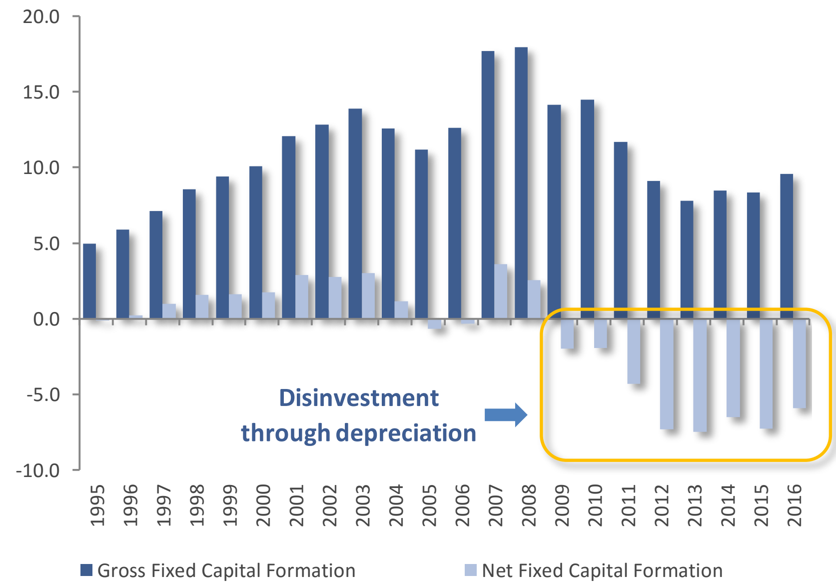


A negative households' saving rate can support the economy only for a while; making the transition to an investment led growth rate a necessity

Households
Disposable Income vs Private Consumption
(€ bn, current prices)



Non Financial Corporations
Net vs Gross Fixed Capital Formation
(€ bn, current prices)



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The Three Financial Assistance Programmes for Greece

2010 · 2011 · 2012

1º MoU

- **Initial programme amount:** €110 bn
- **Total amount disbursed:** €73 bn
- **Lenders:** Euro area countries (except Slovakia) under Greek Loan Facility (GLF) managed by European Commission: €52.9 bn / IMF: €20.1 bn
- **Grace period and maturity** on GLF loans extended to 10 and 30 years from three and five years, respectively.
- **Interest rate:** priced with 3-month Euribor with a margin lowered to 50 basis points from 300 for GLF/ IMF - around 3.96%
- **Key legislated reforms:** pension system, institution building, state budget, public sector benefits

2012 · 2013 · 2014 · 2015

2º MoU

- **Initial programme amount:** €165.4 bn
- **Total amount disbursed**: €153.8 bn
- **Lenders:** EFSF: €141.8 bn (including €48.2 bn for bank recapitalisation, €34.6 bn for private sector involvement and bond interest facilities) of which €10.9 bn for bank recapitalisation were not used by the HFSF and were returned to the EFSF / IMF: €12bn
- **Maximum weighted average maturity** on EFSF loans extended to a maximum 32.5 years from 17.5
- **Interest rate:** guarantee fee cancelled on EFSF loans and some interest payments deferred by 10 years/ IMF – between 2.85% and 3.78%
- **Key legislated reforms:** labour market, income tax, public administration, structural reforms

2015 · 2016 · 2017 · 2018

3º MoU

- **Total amount committed:** up to €86 bn
- **Lenders: ESM:** up to €86 bn (including up to €25 bn for bank recapitalisation)/ IMF: to be determined
- **Maximum weighted average maturity:** 32.5 years
- **Interest rate for cash disbursements:** 0.72% (end December 2015)
- **Key legislated reforms:** VAT, public financial management (fiscal council), corporate and household insolvency law, tax administration

Source: ESM, Eurogroup, European Commission, IMF, MinFin, Piraeus Bank Research

Debt relief measures for Greece - Timeline

The first European assistance instrument, known as the Greek Loan Facility (GLF), was amended in June 2011

This change was replaced by the second amendment in March 2012

In November 2012 the 2nd programme introduced additional debt alleviation measures on the GLF and EFSF loans

Debt relief measures agreed by the Eurogroup meeting on 25 May 2016

The governing bodies of the ESM & the EFSF formally completed the approval process of the short-term measures

May 2010 — 1st Programme

June 2011

- the maturity was extended by five years to a total of 10 years
- the grace period was lengthened to 4.5 from three years, and
- the margin was lowered by 100 basis points, to 2% in the first three years and 3% thereafter

March 2012 — PSI — 2nd Programme

- maturities were extended to 15 years
- the grace period raised to 10 years, and
- the margin reduced further to 150 basis points over the entire period

Nov. 2012

- reduction of the GLF interest rate margin by 100 basis points
- cancellation of the EFSF guarantee commitment fee
- referral of EFSF interest payments on loans under the Greek Master Financial Assistance Facility Agreement by 10 years (Not applied to Private Sector Involvement (PSI) and bond interest facilities)
- return of the Securities Markets Programme (SMP) profits (when the ECB bought Greek government bonds with a discount in the secondary market and made a profit at maturity)
- extension of the GLF to 30 years and EFSF weighted average maturities to 32.5 from 17.5 years

Dec 2012 — Debt buy-back

August 2015 — 3rd Programme

May 2016

Short-term measures

Medium-term measures (to be possibly adopted following the successful implementation of the ESM programme in 2018):

- utilising unused resources from the ESM programme for partial early repayment of official loans
- payment of SMP and ANFA profits to Greece
- more substantial debt re-profiling on EFSF loans
- abolishing altogether the step-up interest rate margin related to the debt buy-back as of 2018

Long-term measures

- Contingency mechanism on debt/ this mechanism would be activated, if needed, after the end of the ESM programme in August 2018

Jan. 2017

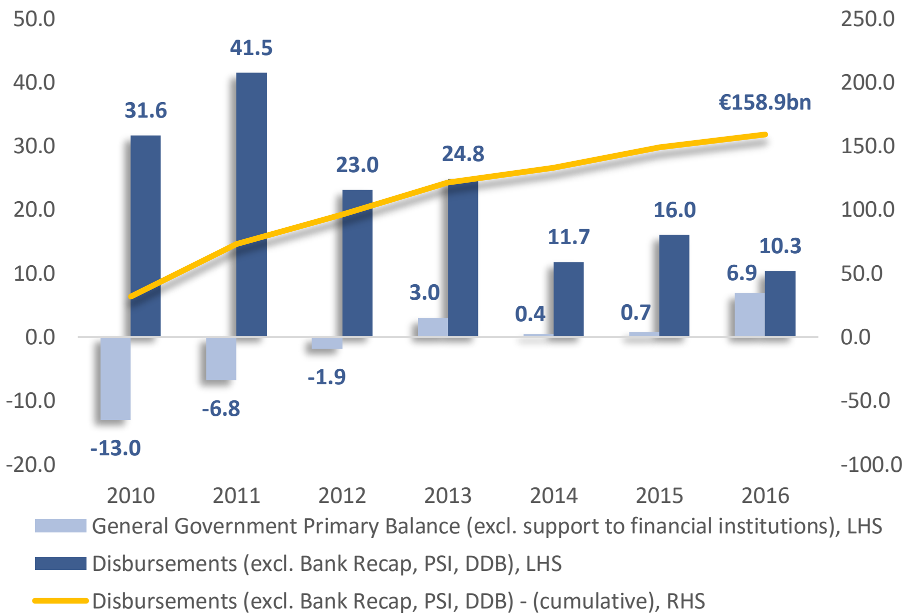
Short-term measures:

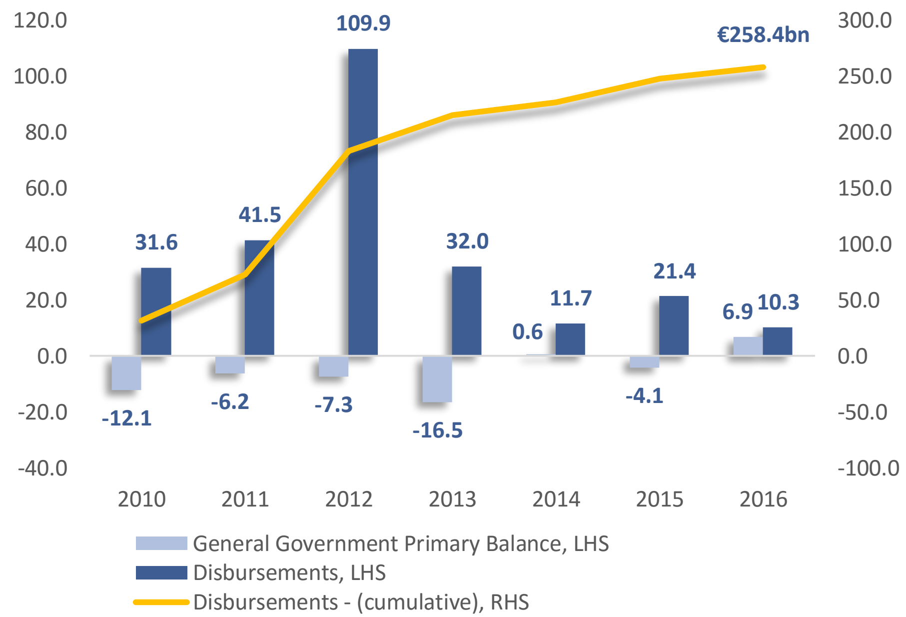
- smoothing Greece's repayment profile
- reducing interest rate risk
- waiver of the step-up interest rate margin related to the debt buy-back tranche of the second Greek programme for the year 2017

Sources: ESM, Eurogroup, European Commission, IMF, MinFin, Piraeus Bank Research

From a total of €158.9bn disbursed over the course of the past 8 years only €21.8bn have accrued to the real economy

Primary Balances Vs Programme Disbursements (€ bn)



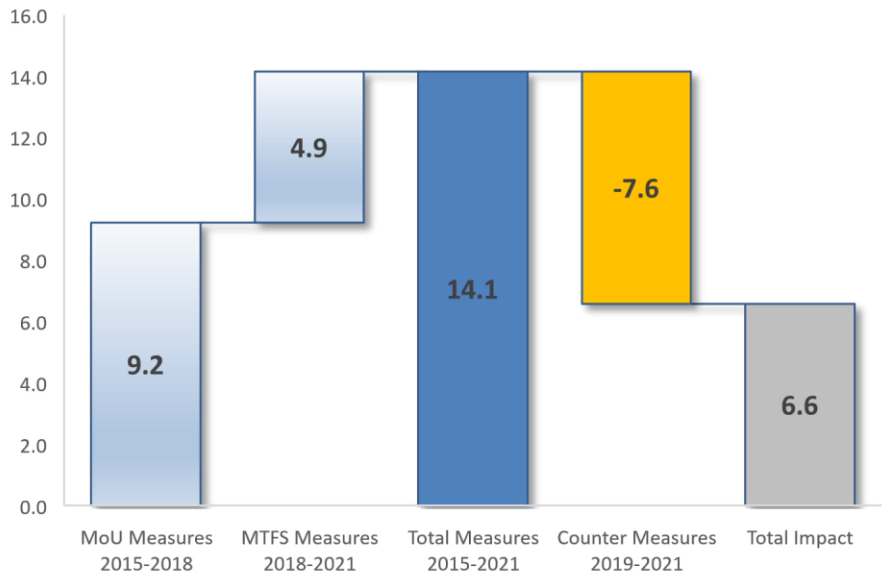


Expected over performance in fiscal targets has led to the introductions of the “countermeasures” in order to hedge the risks from excessive policy tightening

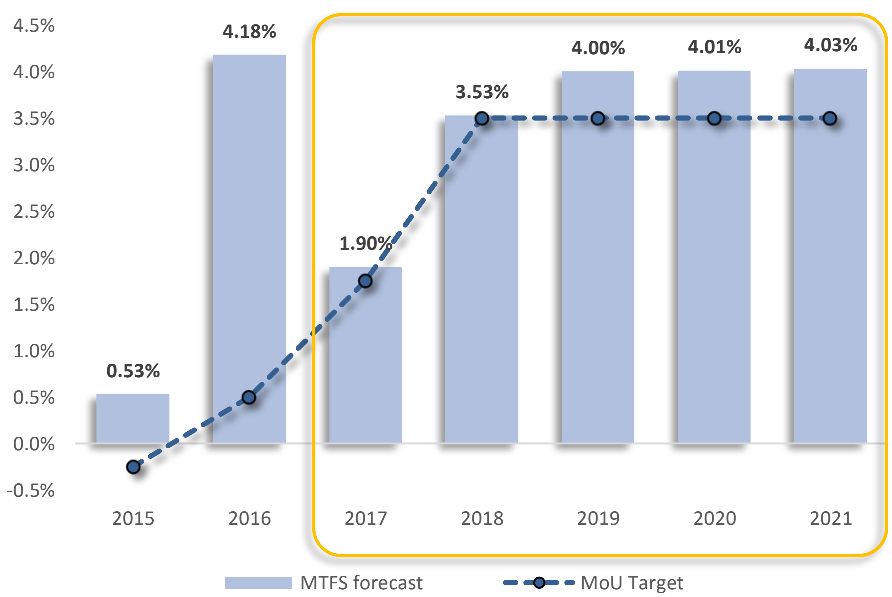
In the context of the MTFS 2018-2021, the new fiscal consolidation measures of €4.9 bn, bring the total cumulative amount of legislative measures to € 14.1 bn by 2021. However in an effort to manage potential over-performance and mitigation of the negative effects from excessive surpluses, the MTFS also introduces counter measures of up to € 7.6 bn.

A combination of higher revenues and lower spending has led to a spectacular over performance (vs fiscal targets) in 2016. From 2018, fiscal targets are becoming even more daring.

Fiscal Consolidation Measures legislated
(in € bn)



Primary Balance based on MoU definition
(% of GDP)



Second Review: The Good, the Bad & the Ugly

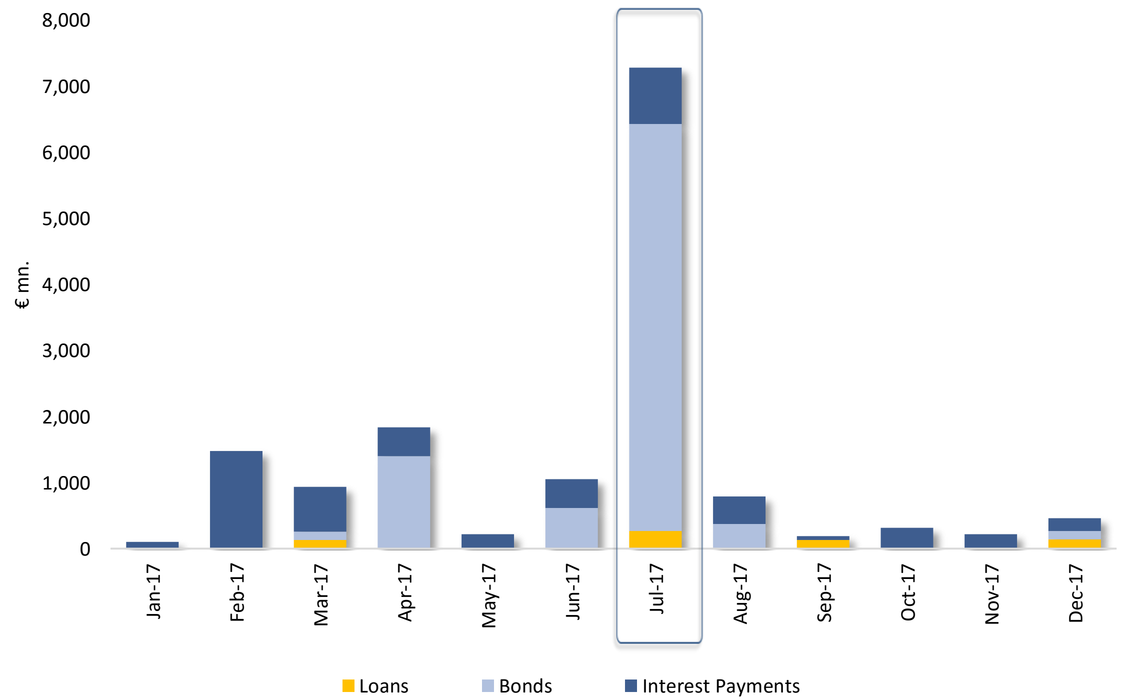
	Scenario	IMF	QE	Funding	Implication
An IMF-Type Solution	Concrete & Quantifiable Measures on Greek Debt	Full Participation	✓	✓	○ No-Grexit Speculation ○ Restoration of Confidence ○ Full Visibility
A German-Type Solution	Vague Statements on Future Actions on Greek Debt	Token Participation	?	✓	○ Limited Visibility ○ Temporary Reprieve
An EU-Only Solution	New Negotiations on a New Programme (MoU)	No-Participation	?	?	○ Renewed Speculation on Greece ○ No-Visibility ○ Possible reversal of recently legislated measures

Source: Piraeus Bank Research

July's maturities guarantee a solution in the coming weeks

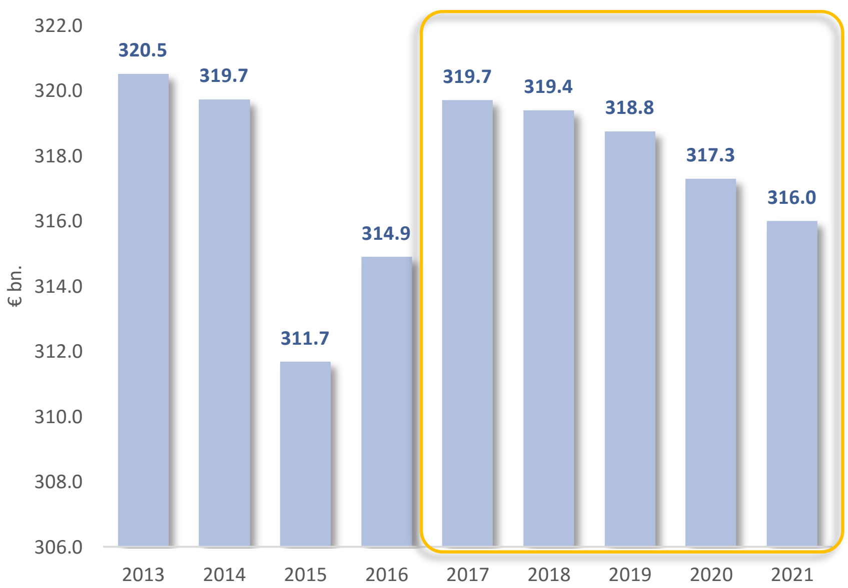
A spike in redemptions always acts as a natural time limit to the negotiations.

Bonds & Loans Maturities, 2017 (€ mn)

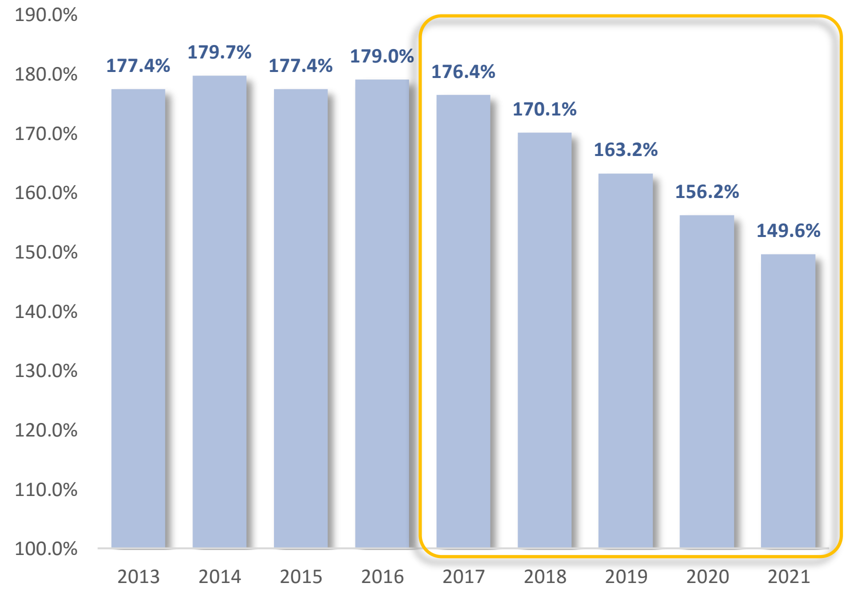


Greek Public Debt: Recent History & Medium-Term Projections

General Government consolidated Gross Debt (€ bn)



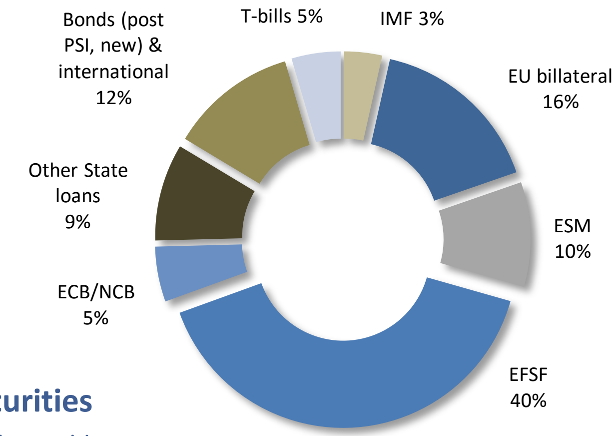
General Government consolidated Gross Debt (as % of GDP)



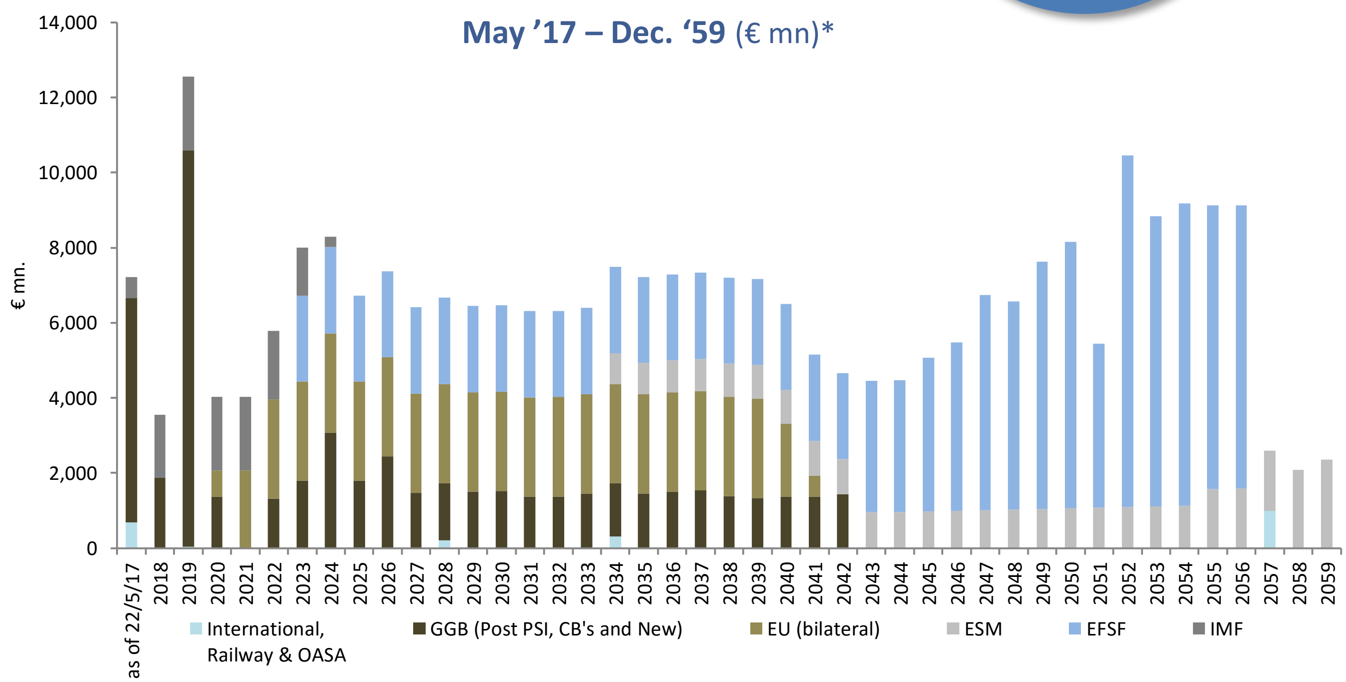
Source: ELSTAT, MinFin, Piraeus Bank Research

Debt maturities now stretch all the way to 2059

Debt distribution by holder 84%
held by the official sector



Bonds & Loans Maturities
May '17 – Dec. '59 (€ mn)*



*Figures do not include T-bills and approx. €29 bn related to Bank of Greece loans, special and bilateral loans, other internal and external loans, repos and external securitizations as well as notes amounting to €2.2 bn of the total €5.4bn that have been disbursed for funding bank recapitalization are not included. This later amount was disbursed pro rata in ESM floating rate notes and the final maturity will be in line with the maximum weighted average loan maturity of 32.5 years.

On 28/02/2017, €1.6 billion from the amount disbursed on 01/12/2015, and €1.6 billion from amount disbursed on 08/12/2015 were merged into a new cash loan (Amortisation from 2055 to 2059)

Source: MinFin, Piraeus Bank Research

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Trends & Opportunities

Greece needs to reorient itself from a consumption-based to an **export-based** economy

Greece has a number of competitive advantages but **needs to move up** the Value Added Chain

In several sectors and for a variety of reasons, a **massive consolidation process** has started

More funding, either in the form of equity or loans, will be required

Greece is facing regulatory pressures to **liberalize and privatize** a number of sectors

Greek banks have committed to **reduce NPLs** and **restructure** their balance sheets

Emerging Trends & Opportunities

Emphasis on **export-oriented** sectors: Tourism, farming, food processing, oil refining, basic metals & minerals, chemicals, pharmaceuticals

Even in sectors with a competitive advantage Greece needs **infrastructure upgrades**, i.e. 5-star resorts, yachting, conversion centers, marketing & branding

In sectors with less stellar prospects such as retail and wholesale trade, fish-farming, passenger shipping, telecoms, **consolidation** will **create sectoral champions** with improved margins

Privatized assets & natural resources development will require substantial investment (equity or loans)

Clusters can be created around **privatized assets**, i.e. ship-repair zone, logistics, cargo management, cruise tourism

Regulatory pressures to **liberalize industries** such as electricity, natural gas, waste processing & management, renewable energy

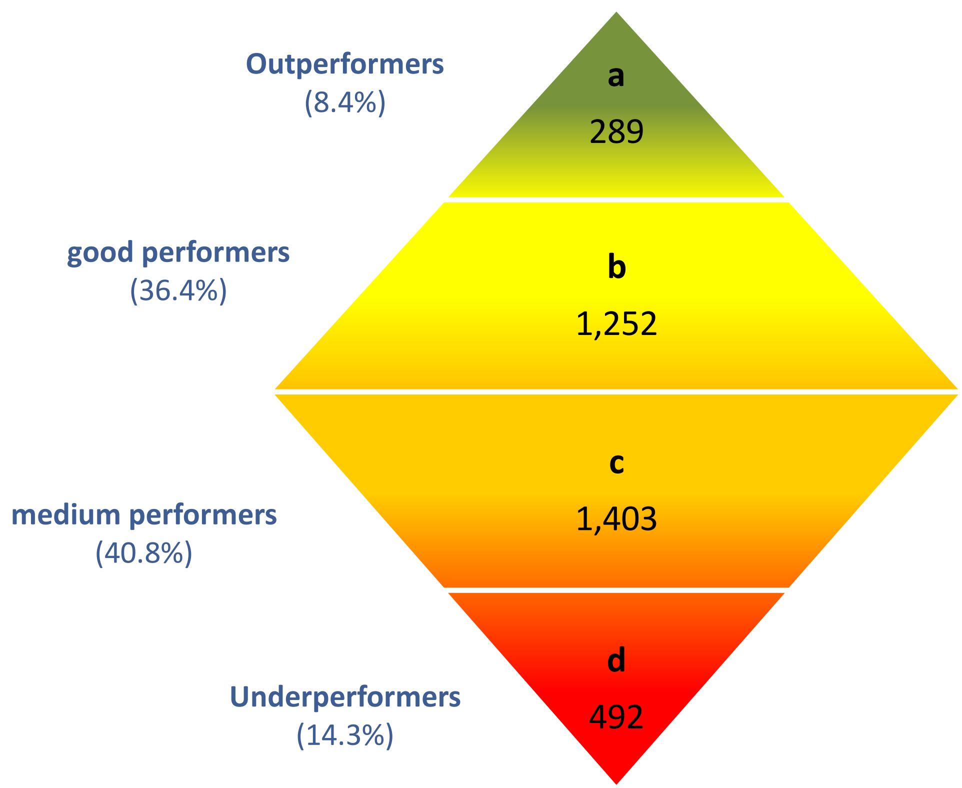
Banks commitment to **reduce NPLs** & Non Core Assets will create opportunities in real estate, insurance and leasing, hotels and in over-indebted but viable companies

Source: Piraeus Bank Research

Key findings (i)

The implementation of the rating system for enterprises ERS to a sample of 3,436 enterprises revealed that in 2015 **the structure of the Greek entrepreneurship resembles the shape of a rhomboid**. The majority of the enterprises are good ("b") and medium ("c") performers with percentages of 36.4% and 40.8% respectively. Outperforming enterprises ("a") account for only 8.4% whereas underperforming ones ("d") for 14.3% of our sample.

Enterprises per final ERS rating, 2015



Enterprises unrated based on the initial sample, 2015

with non-calculable ratios:
3,496

Outside the acceptable ratio limits:
2,352

Key findings (ii)

Profile of the average enterprise per final ERS rating, 2015

Outperformer "a"

- Outperformance in terms of profitability relative to sales
- High levels of efficiency with the EBITDA margin amounting to 24.8% and the return on equity to 20.6% on average
- Low levels of leverage, since its debt only amounts to half of equity
- High liquidity, with current assets covering around 3.8 times current liabilities

Good performer "b"

- Lower, but satisfactory level of liquidity, since the current assets amount to 2.5 times the current liabilities
- More conservative, but satisfactory level of operating profitability, with EBITDA margin at 15.2%
- Profitable efficiency of equity, with the return on equity at 13.8%
- Adequate debt service ability, since EBITDA covers financial expenses by 11.4 times
- Higher debt levels, as liabilities exceed equity by 1.3 times

Medium performer "c"

- Low levels of efficiency and profitability, since the return on equity is limited to 4.1% and the EBITDA margin to 6.8%
- High net debt level, which exceeds EBITDA by 13.2 times
- Low level of debt servicing, since EBITDA covers financial expenses by 3.3 times
- Satisfactory, but limited liquidity, with current assets covering current liabilities by 1.5 times

Underperformer "d"

- Obvious financial problems
- Loss making, with EBITDA margin at -7.6%.
- Inefficient management of equity, with a negative return on equity at -16.1%
- Liquidity difficulties, since the current liabilities exceed the current assets (current ratio: 0.8 times)
- Overleveraged, with debt 3.8 times higher than equity and net debt 24.5 times higher than EBITDA

Source: ICAP DATA, Piraeus Bank Research

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