

## Greece

# Dealing with public & private sector debt in the post crisis era



Greek  
Investment  
Forum  
in NY



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June 2016

## Part 1

# Greece: macroeconomic trajectory & outlook

# Short-term macroeconomic outlook improves

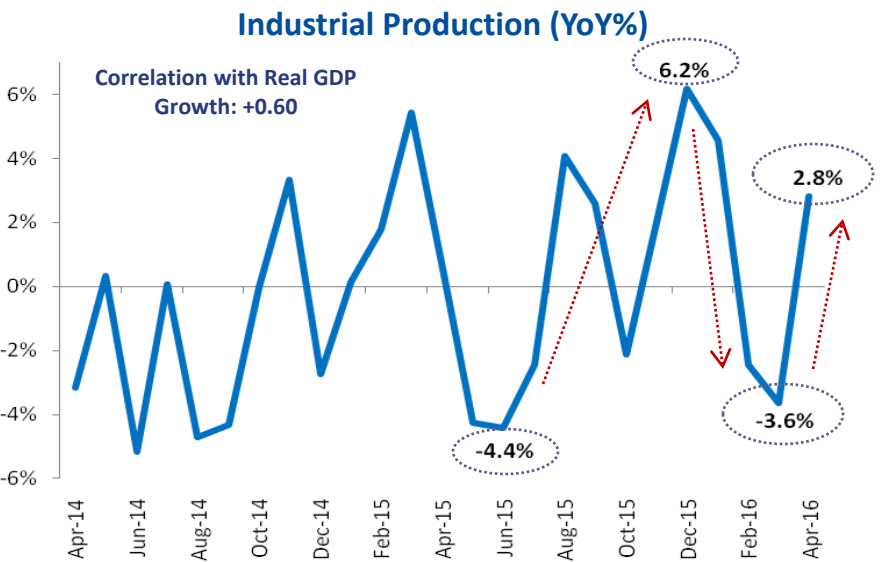
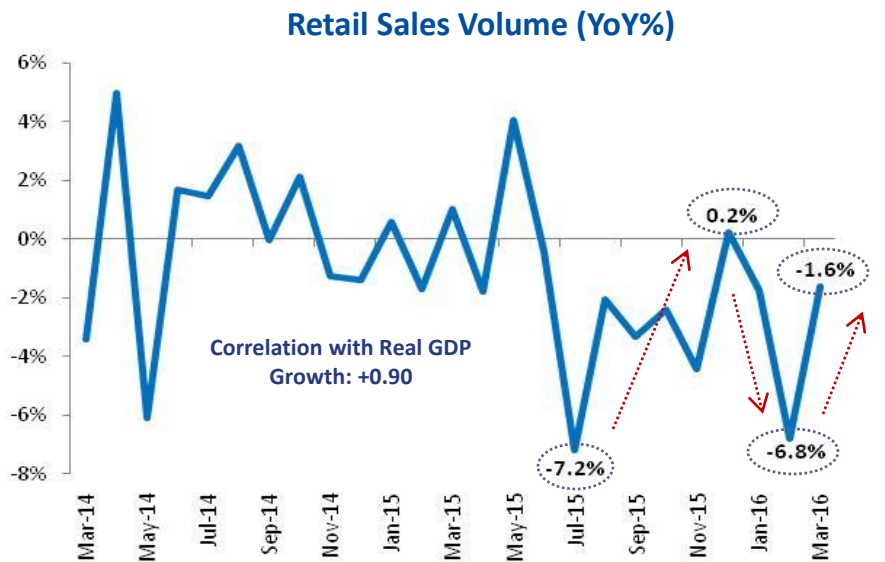
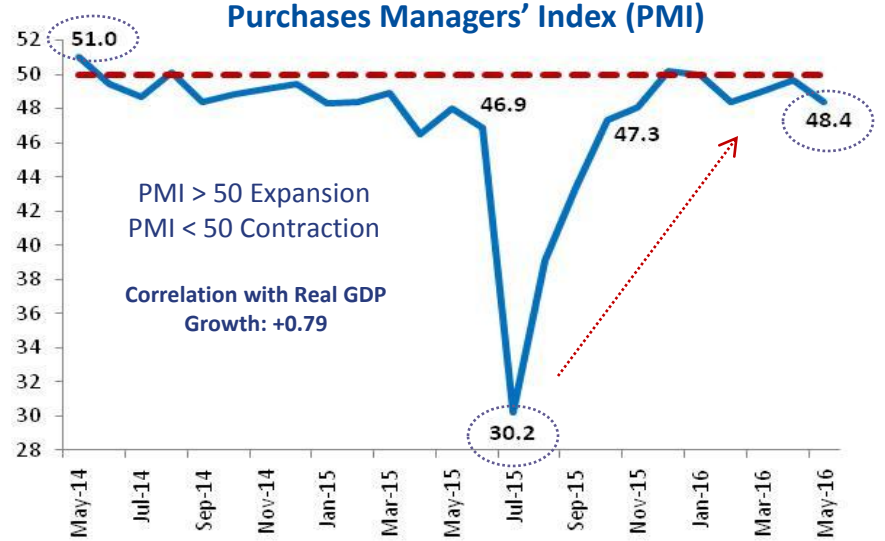
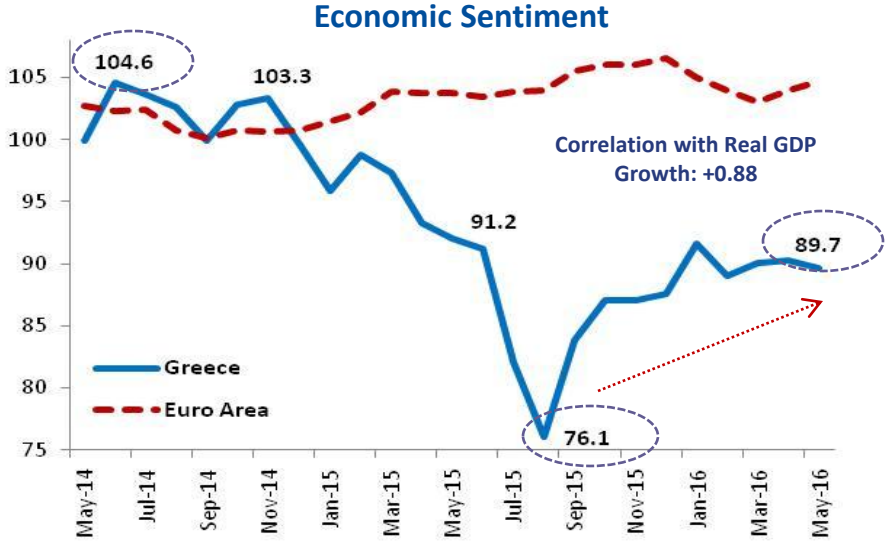
## Following successful completion of 1st program review

- ☑ Successful completion of 1<sup>st</sup> program review opens the door for:
  - ☐ Release of next ESM loan tranche (€10.3bn) to service external debt & clear state arrears
  - ☐ Re-introduction of Greek collateral waiver (cheaper funding for Greek banks)
  - ☐ Inclusion in ECB's QE program (compression of risk premia)
  - ☐ Gradual relaxation of capital controls (improvement in depositor sentiment and return of deposits)
  - ☐ Acceleration of privatization program and strengthened framework for NPLs management
  - ☐ Tighter budgetary surveillance (contingency mechanism to automatically correct deviations from fiscal targets)
  
- ☑ Adequate program financing to cover government borrowing need until August 2018
  
- ☑ Debt relief to smooth out borrowing profile after 2020
  
- ☑ Sizeable funding committed to re-engineer medium-term growth from EU structural and investment funds as well as agricultural policies (> €35bn until 2020)

Risks: backpedaling on structural reforms agenda; regional geopolitical tensions; refugee crisis; major external shock (China, EM & commodity markets)

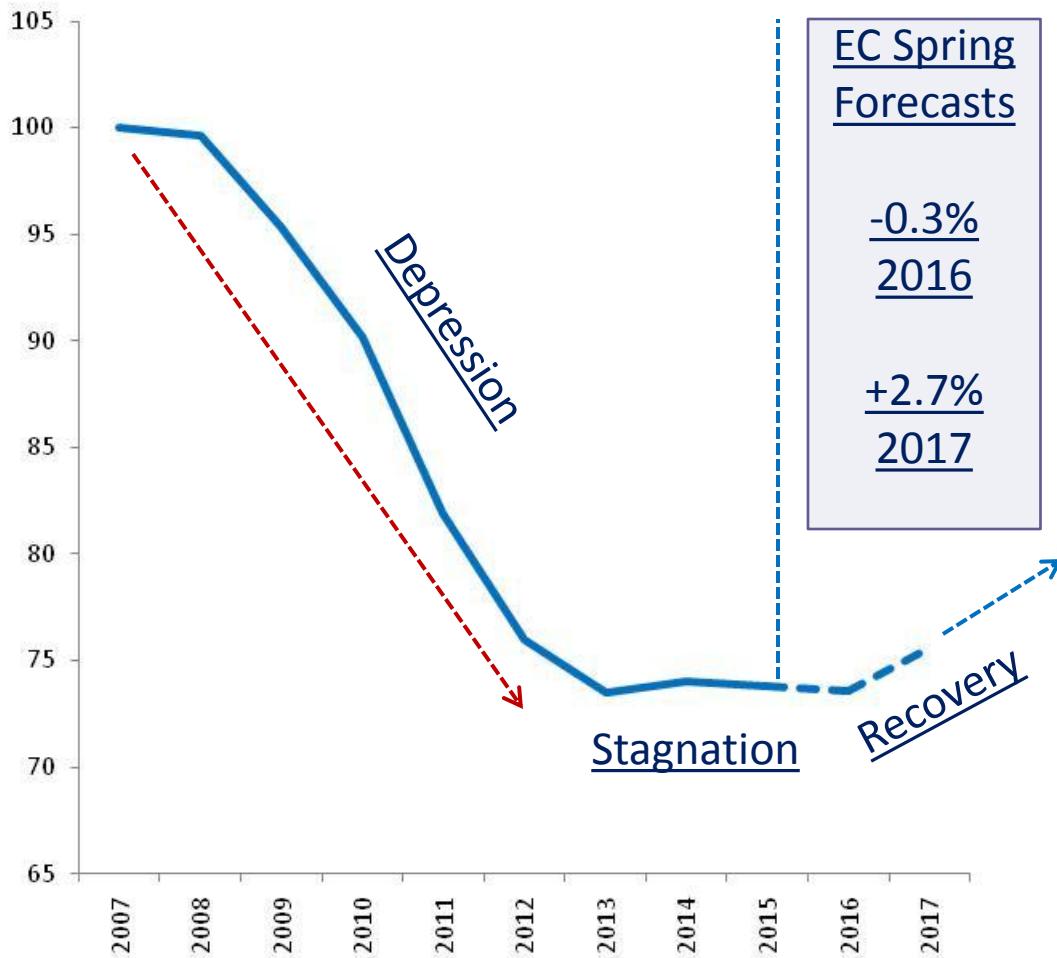
# Domestic economic activity

## Gradual stabilization after last summer's turbulence



# Medium-term growth drivers

Real GDP (Index 2007 = 100)



- **Tourism**  
(focus on promising sub-sectors: home-  
porting for cruises, health tourism, city  
breaks, other)
- **Transportation and  
Logistics**  
(positive externalities to other important  
sectors of the economy e.g.  
manufacturing)
- **Agriculture**  
(branded products)
- **Energy**  
(renewables)
- **Public Infrastructure**  
(positive externalities to tourism, logistics,  
other)
- **Shipping**  
(development of long-delayed shipping-  
services hub)

## Part 2

### **Addressing the challenge of public sector over indebtedness**

*Restructuring strategies for restoring sustainability of Greece's fiscal accounts*

### Assumptions common to all scenarios

- **ESM disbursements:** €10.3bn in 2016; €20.6bn in 2017; and c. €12.5bn in 2018
- **Gross funding need (GFN)** = debt amortization & interest payments + cash primary balance + official funding for clearing arrears, rebuilding cash buffer & reducing inter governmental borrowing
  - **Arrears clearance:** €3.5bn in 2016; €2.5 in 2017; and €1.5bn in 2018
  - **Cash buffer** (annual amounts): €2.5 in 2016; €2.5 in 2017; and €2.5bn in 2018
  - **Reduction of inter-governmental borrowing:** €2bn in 2017; and €2bn in 2018
  - **Outstanding T-bills:** c. €15bn throughout the entire projection horizon

### Scenario “Baseline May 2016”

- **Macroeconomic assumptions broadly in line with the IMF’s May 2016 DSA**
  - Long term **real GDP growth:** 1.2%
  - Long term **GDP deflator** inflation: 1.9%
  - General government **primary balance** (2018 onwards): 1.5% of GDP
  - **€10bn set aside** to cover any new bank recap needs
  - **Privatization revenue** in line with the IMF’s DSA
  - 3m & 6m Euribor, EFSF/ESM funding rates in line with the IMF’s DSA
  - **Market rate** for refinancing Greek debt assumed c. 6.0% in 2019 and increasing/decreasing afterwards by 4bps per 1ppt increase/decline in debt ratio  
For simplicity, **market refinancing** is assumed to take place through issuance of 5 years fixed coupon bonds

### Scenario “Baseline June 2015”

- **Macro assumptions broadly in line with the IMF’s June 2015 DSA**
  - Long-term **real GDP growth:** 1.5%
  - Long-term **GDP deflator** inflation: 2.0%
  - General government **primary balance** (2018 onwards): 3.5% of GDP
  - **Privatization revenue** in line with the IMF’s DSA

### Scenario “Baseline May 2016 with debt restructuring” (\*)

- **Macroeconomic assumptions broadly in line with the IMF’s May 2016 DSA**
  - Long term **real GDP growth:** 1.2%
  - Long term **GDP deflator** inflation: 1.9%
  - General government **primary balance** (2018 onwards): 1.5% of GDP
  - **Privatization revenue** in line with the IMF’s DSA
  - **Market rate** for refinancing Greek debt assumed c. 6.0% in 2019 and increasing/decreasing afterwards by 4bps per 1ppt increase/decline in debt ratio
- **Debt restructuring** after completion of current programme (mid 2018)
- For simplicity, **market refinancing** is assumed to take place through issuance of 5 years fixed coupon bonds

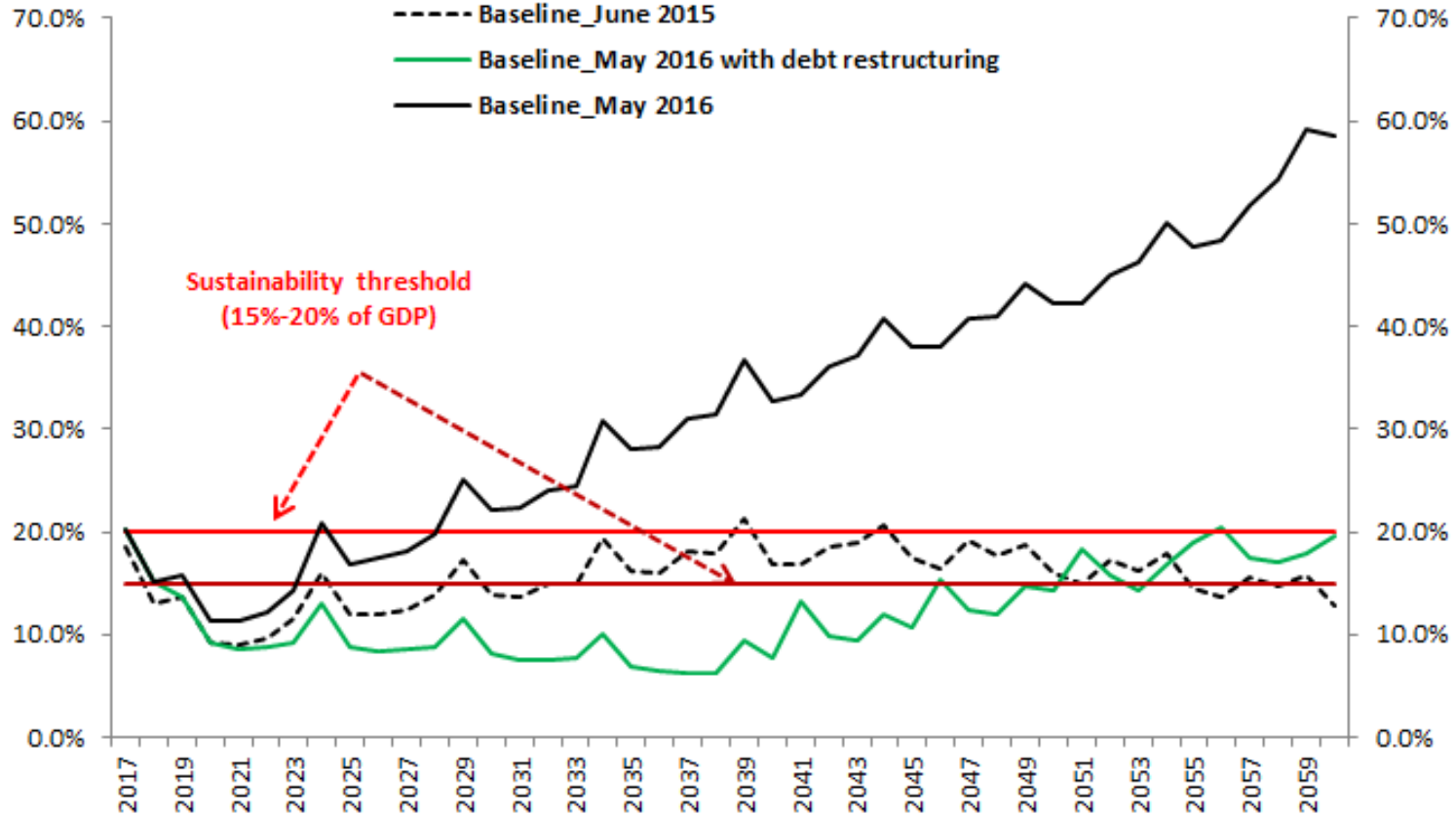
### (\*) Debt restructuring (OSI) modalities

- **Debt relief** implemented after expiration of current programme (mid-2018)
- **GLF** - loan maturity extension (30 years) along with longer deferrals on interest and principal payments (by 21 and 20 years, respectively)
- **EFSF** - loan maturity extension (14 years) along with longer deferrals on interest and principal payments (by 20 and 17 years, respectively)
- **ESM** - loan maturity extension (10 years) along with longer deferrals on interest and principal (by 19 and 6 years, respectively)
- **Interest on deferred interest** assumed to accrue at a fixed rate of 1½ % per year until 2040 and a long-run official rate of 3.8% afterwards
- **Return of ANFA and SMP profits:** €1.8bn pending from 2014 plus profits accrued from 2019 onwards

# Greece: evolution of general government gross funding needs

Scenarios broadly in line with IMF DSAs (June 2015 & May 2016)

General government gross funding needs (GFN) as % of

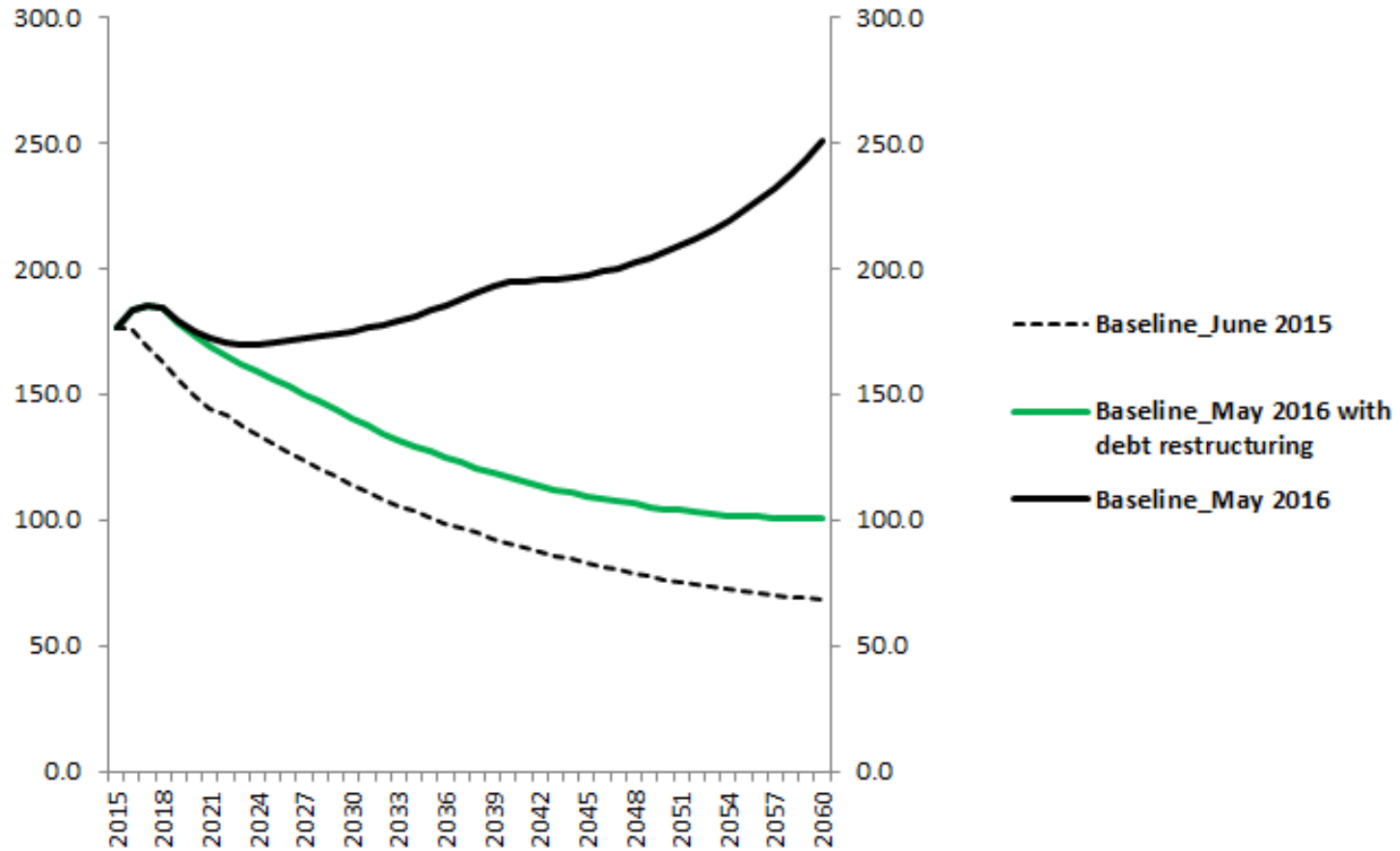




# Greece: evolution of general government debt to GDP ratio

Scenarios broadly in line with IMF DSAs (June 2015 & May 2016)

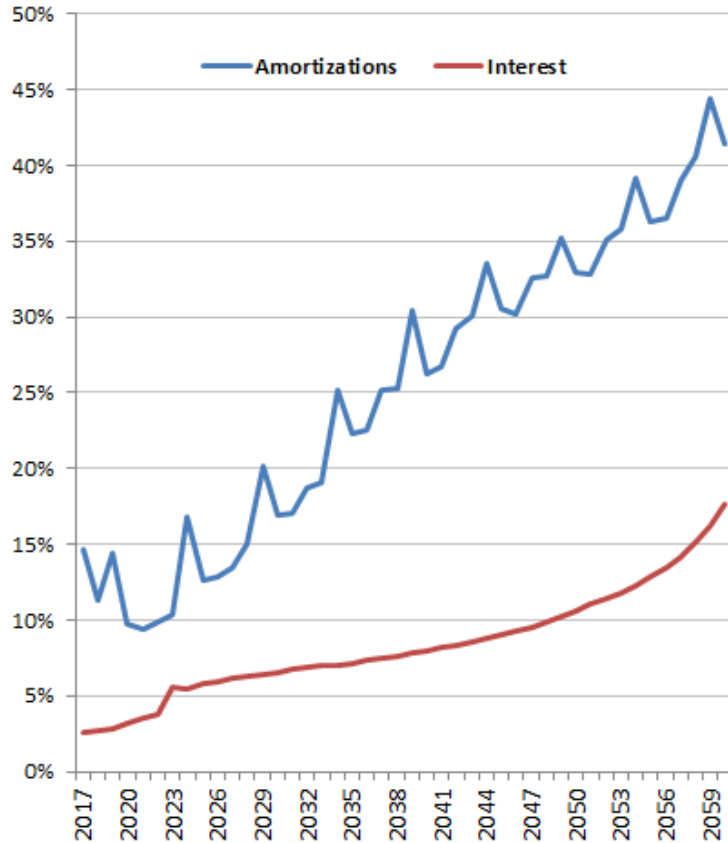
### General government gross public debt (% GDP)



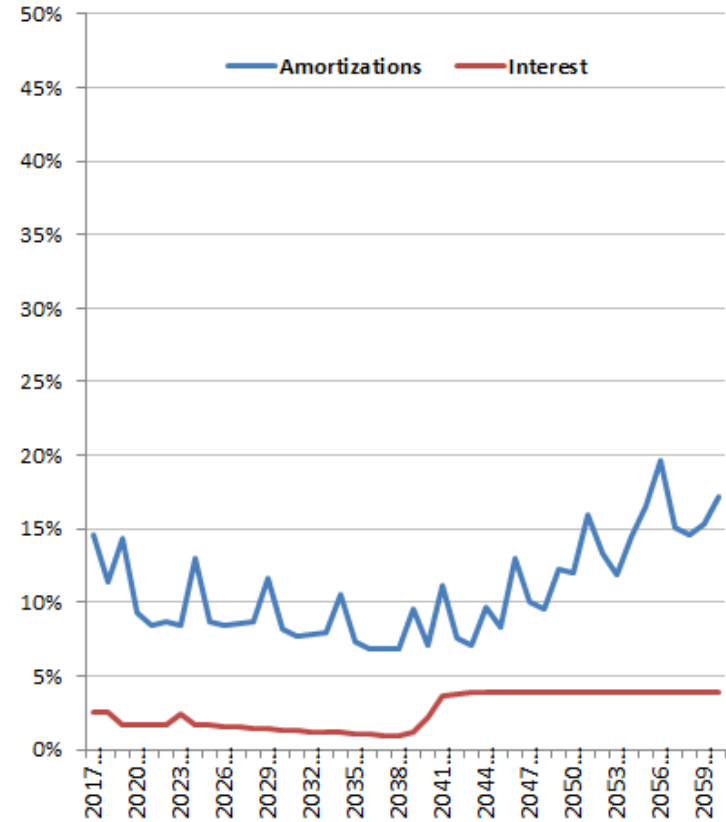
# Greece: amortization & interest payments (% GDP)

Assuming market access is re-established post-2018 to cover projected funding gaps

Scenario "Baseline\_May 2016"



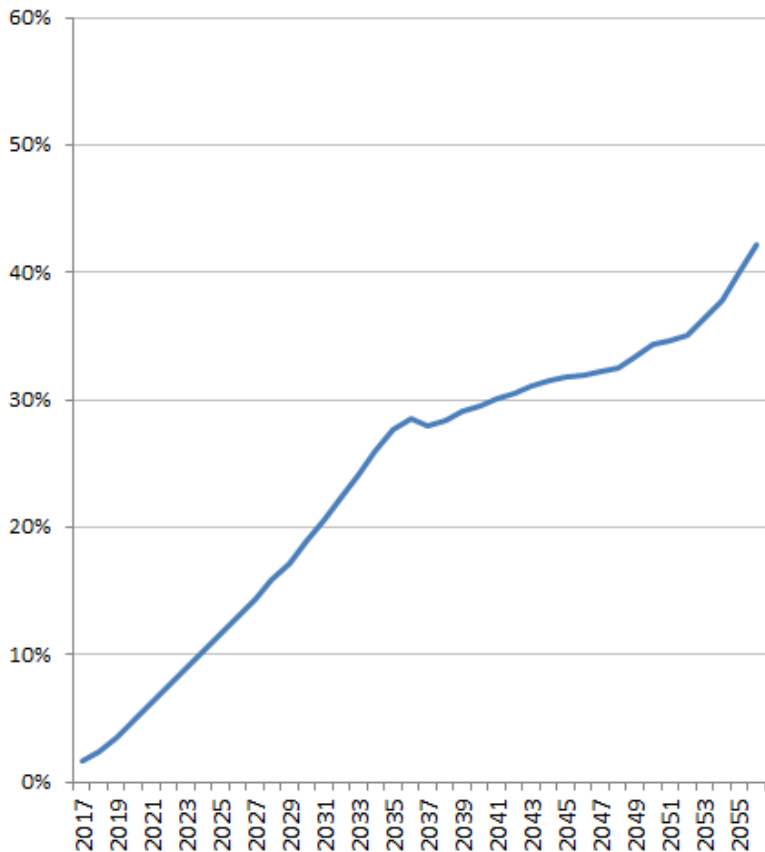
Scenario "Baseline\_May 2016 with debt restructuring"



# Greece: cash flow & stock relief due to debt re-profiling (% of GDP)

## Cash flow relief

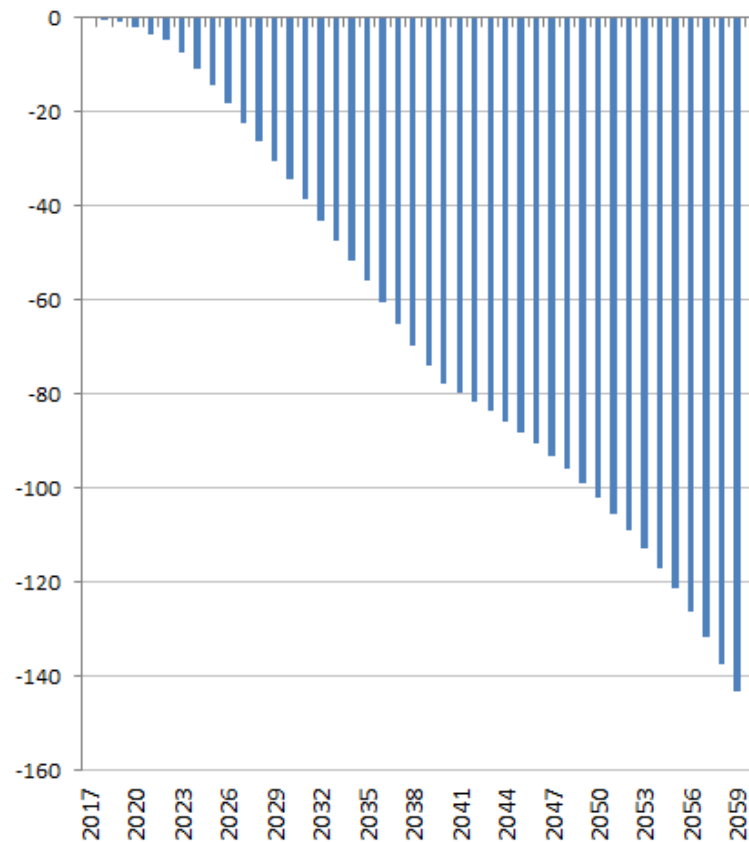
Time evolution of NPV savings as % of GDP (\*)  
 from  $t_0 = 2017$  to  $T = 2060$   
 "Baseline\_May 2016" Vs. "Baseline\_May 2016 with debt restructuring"



(\*) Discount rate for NPV calculation assumed at 3%

## Stock relief

Decline of debt to GDP ratio due to debt re-profiling  
 "Baseline\_May 2016" Vs. "Baseline\_May 2016 with debt restructuring"



## **Part 3**

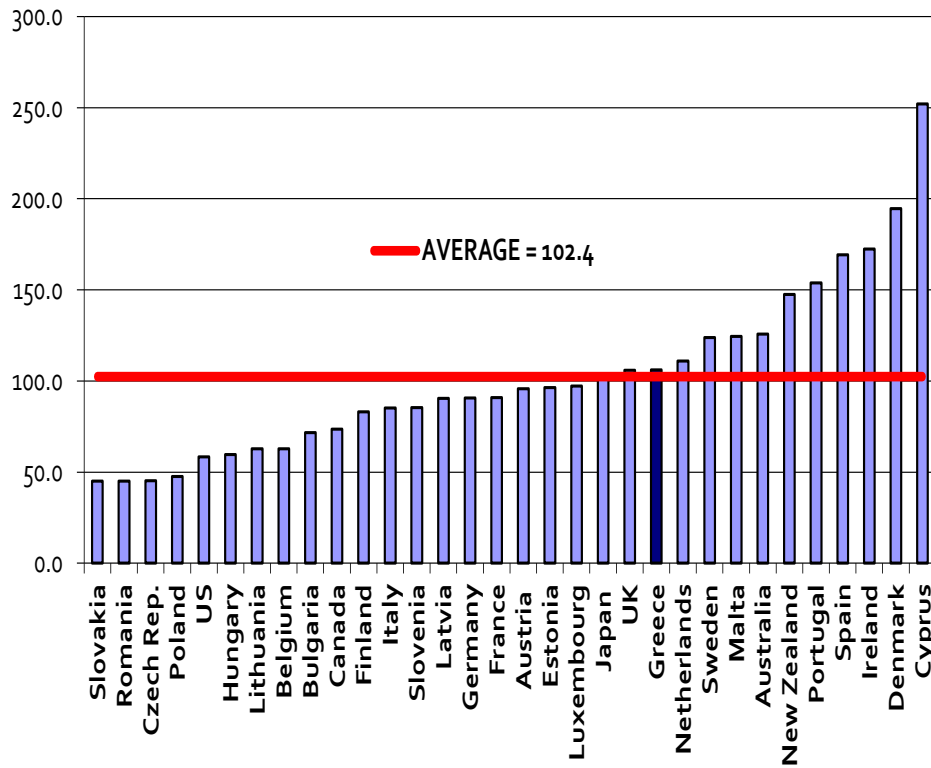
### **Private sector bad loans**

*Determinants, recent trends & policy framework to deal with NPLs*

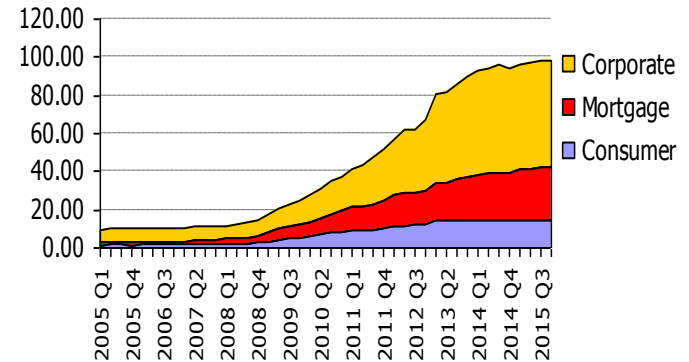
# Crisis found Greece not particularly over-leveraged relative to other EU economies

But, sharp rise in NPLs due to unprecedented recession

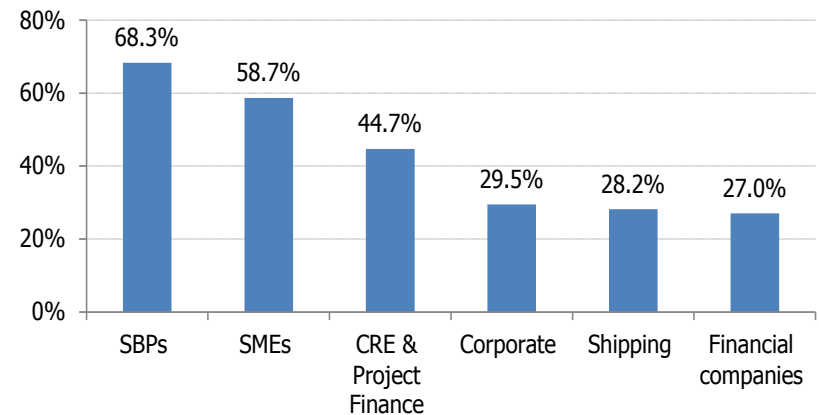
Private-sector credit (% GDP)



Greece: evolution of non-performing loans including restructured loans by major sectors (EUR bn)



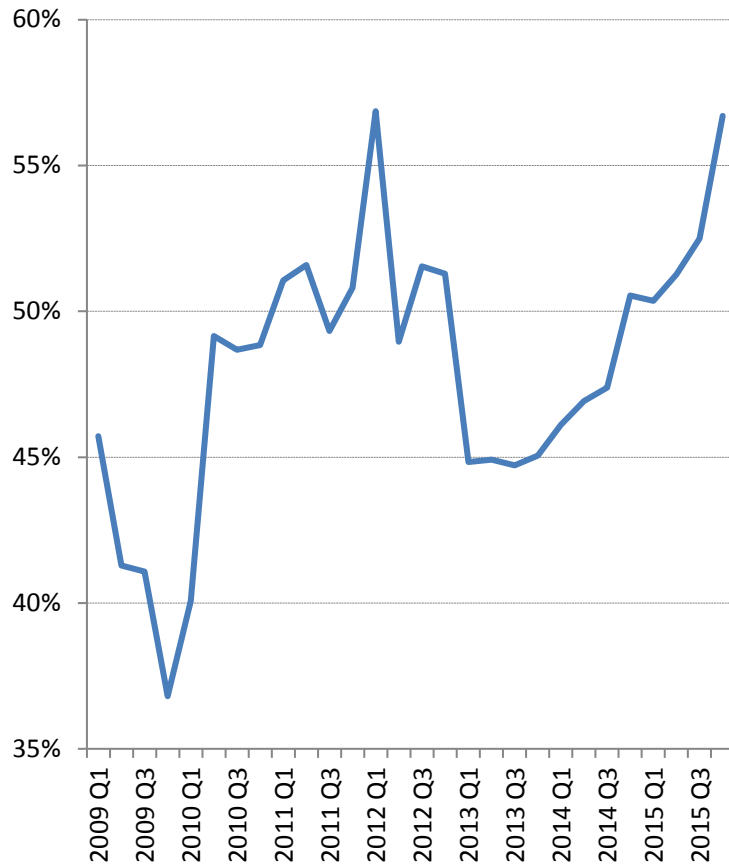
Greece: non-performing corporate exposures to total corporate loans ratio (end-2015)



# Greek systemic banks well capitalized (and well provisioned) to deal with NPLs

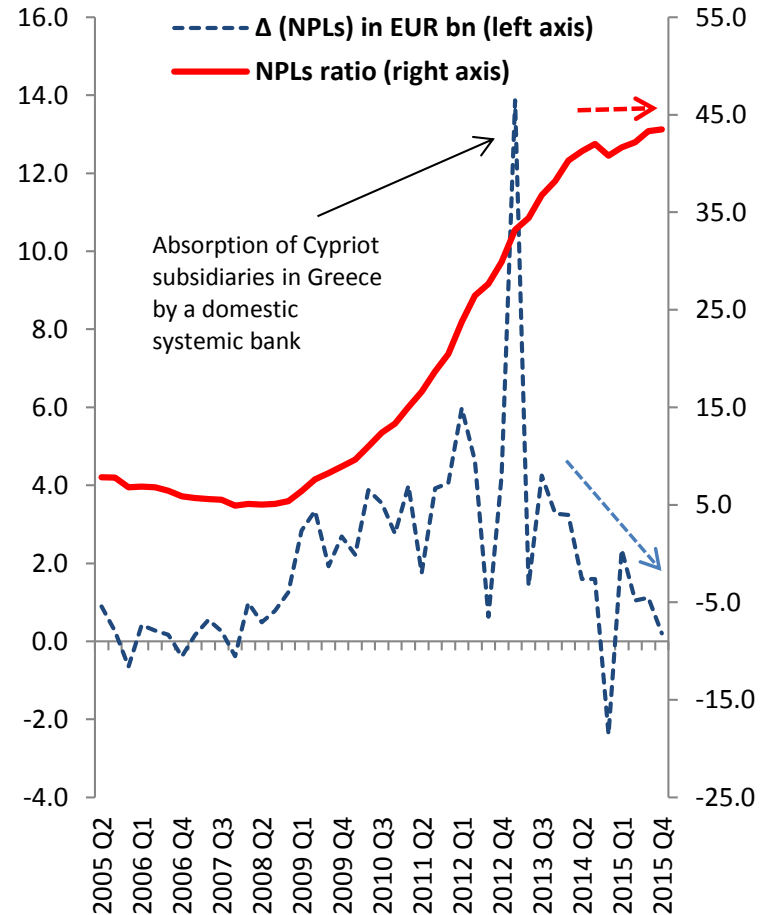
Our empirical analysis suggests peak in NPLs ratio is nearing (\*)

Coverage of NPLs by Loan Loss Reserves (ppts)



Non performing loans (including restructured loans)

Quarterly change (in levels) & ratio to total loans



(\*) Eurobank Research "High NPLs Ratio in Greece: Outcome of an unprecedented recession or the lending practices of domestic credit institutions in the pre-crisis era?" April 25, 2016 / [https://www.eurobank.gr/Uploads/Reports/GreeceMacroMonitorFocusNotes\\_04052016.pdf](https://www.eurobank.gr/Uploads/Reports/GreeceMacroMonitorFocusNotes_04052016.pdf)

# Improved regulatory framework for managing NPLs

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- ☑ **“NPL Law” (4354/2015)** opening the way for developing a secondary market to be supervised & regulated by BoG
  - ✓ **Partial liberalization** of market for servicing and/or transfer of NPLs to specialized non-bank financial companies (“NPL AMCs”)
  - ✓ Identification of relevant **regulatory and legal framework** for NPL AMCs
  - ✓ **NPLs to be sold as units or in groups** together with other assets, including receivables under performing loans
  - ✓ Identification of **minimum requirements** for the establishment and operation of NPL AMCs
  
- ☑ **Improvements of NPLs resolution framework** in the context of the 1<sup>st</sup> programme review
  - ✓ **Full liberalization of the sale of all performing and non-performing loans**  
(temporary exception till Jan. 1, 2018 for the sale of NPLs collateralized by primary residence with objective value up to €140k)
  - ✓ Removal of tax and other impediments to the efficient management of NPLs
  
- ☑ **Some open issues affecting NPLs management to be addressed in subsequent reviews**
  - ✓ amendment of legislation on out-of-court workout framework,
  - ✓ strengthening the capacity of courts in dealing with household insolvency (Sept. 2016),
  - ✓ reform of the corporate insolvency law (October 2016),
  - ✓ full operationalization of the profession of insolvency administrators (end-2016)

## Appendix



# Greece outlook 2016

## Macro indicators: realizations & forecasts

	2015, €bn (nominal)	2015 Real YoY%	2016 Real YoY%	2017 Real YoY%
<b>GDP</b>	<b>176.0</b>	<b>-0.2</b>	<b>-0.3</b>	<b>2.7</b>
<b>Private Consumption</b>	<b>123.8</b>	<b>0.3</b>	<b>-0.4</b>	<b>1.8</b>
<b>Government Consumption</b>	<b>35.2</b>	<b>0.0</b>	<b>-0.5</b>	<b>-0.1</b>
<b>Gross Capital Formation</b>	<b>17.3</b>	<b>-13.1</b>	<b>-1.0</b>	<b>12.7</b>
<b>Gross Fixed Capital Formation</b>	<b>20.5</b>	<b>0.7</b>	<b>-0.9</b>	<b>11.6</b>
<b>Exports</b>	<b>53.0</b>	<b>-3.8</b>	<b>0.5</b>	<b>4.2</b>
<b>Imports</b>	<b>53.3</b>	<b>-6.9</b>	<b>-0.1</b>	<b>3.8</b>
<b>GDP Deflator (yoy%)</b>		<b>-0.6</b>	<b>-0.2</b>	<b>0.8</b>
<b>Unemployment Rate (%)</b>		<b>25.0</b>	<b>24.7</b>	<b>23.6</b>
<b>Private Sector Deposits (yoy%)</b>		<b>-23.0</b>	<b>6.3</b>	<b>7.5</b>
<b>Private Sector Credit (yoy%)</b>		<b>-3.6</b>	<b>-1.0</b>	<b>2.7</b>