

"The International Financial Crisis and Greece"

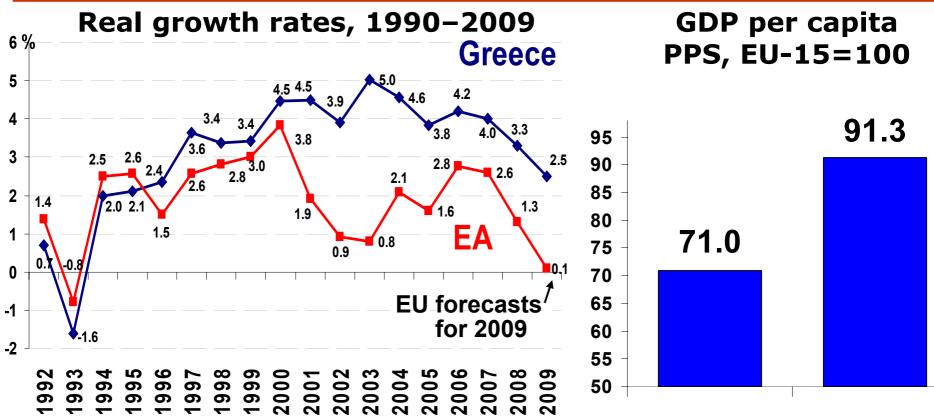
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ECONOMIA CONFERENCE Athens, Karantzas Megaron

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I. Will Greece keep converging to the EU-15 average despite the crisis?



Source: European Commission

 1995
 2009

- Investment: the main driver of growth, with growth rates higher than those of consumption
- ✓ Until 2005, investment in equipment higher than investment in residential construction
- ✓ Is the party over now?



I. Greece at a crossroads

- Greece's problems are long-term, with competitiveness carrying a large blame
- Surprisingly, Greece can withstand the crisis better than its European counterparts, thanks to its relatively strong banking system, with a projected 2009 rate of growth slightly above 2%
- Yet, if officials remain sluggish to the elevated demands for active policy, the crisis may also bring a nightmare scenario of negative growth
- If the recession scenario prevails, then subsequently the lack of policy tools and the long-run problems are bound to depress the economy for a long time



II. Competitiveness: The Greek Economy's Deepest Problem

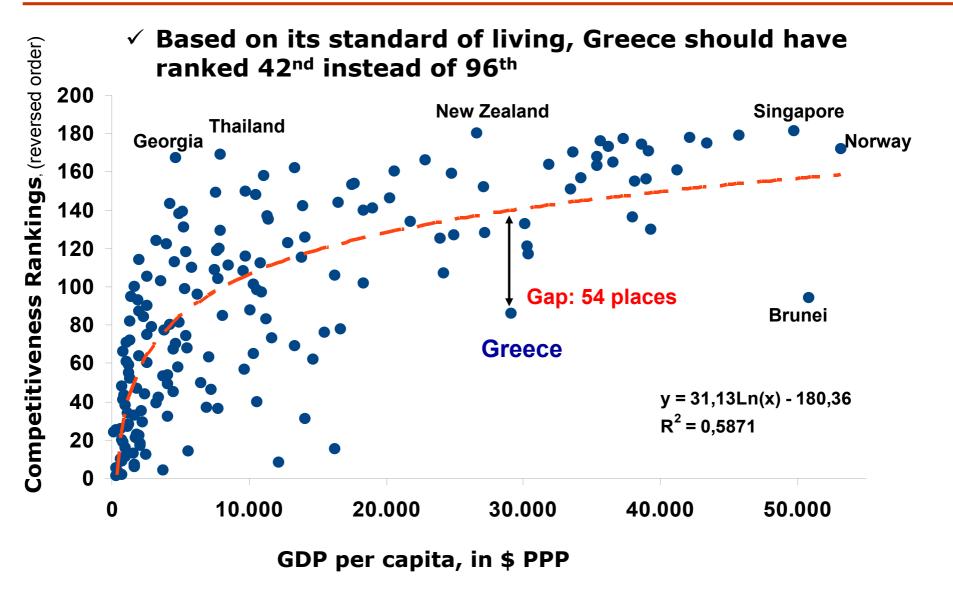
II. Competitiveness and Ease of Doing Business



World Bank - Doing Business 2009 report: Greece ranks 96th in 2008 among 181 economies in the ease of doing business, rising 10 places from the 106th in 2007.

		reece r ise of Do	ing	Bus	sines	s Ra		igs 2				tries Ease of	Doing Business 2008 rank	Change in rank from 2007
	200	7										Doing Business	96	+10
	180		ا معر ا			L						Starting a Business	133	+17
	160 140		Imp	orove	emen •	IT				Î		Dealing with Construction Permits	45	+1
_	400			Gree	ece (+10)	میر . میر :	- The second	No	1:		Employing Workers	133	+10
00					•	**				gapor	'e	Registering Property	101	-5
200	80	No 101	•	•	• • • • • •							Getting Credit	109	-7
	60	Congo		and the second se			1	Dete	eriora	ation	•	Protecting Investors	150	+11
	40										•	Paying Taxes	62	+32
	20											Trading Across Borders	70	-4
	0	0 20	40	60	80	100	120	140	160	180	20	0 Enforcing Contracts	85	-1
					20							Closing a Business	41	0
G. Ha	ardou	velis, 18/11/2008	3		20	V I	So	urce:	WEF		I			5

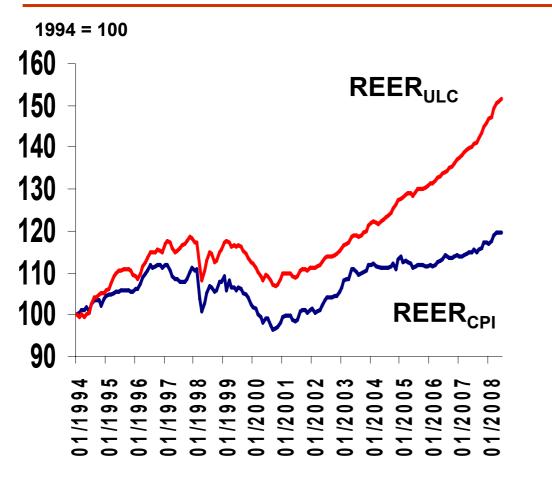
II. Competitiveness is way below Greece's level of development







II. Greece is expensive relative to its trading partners ...



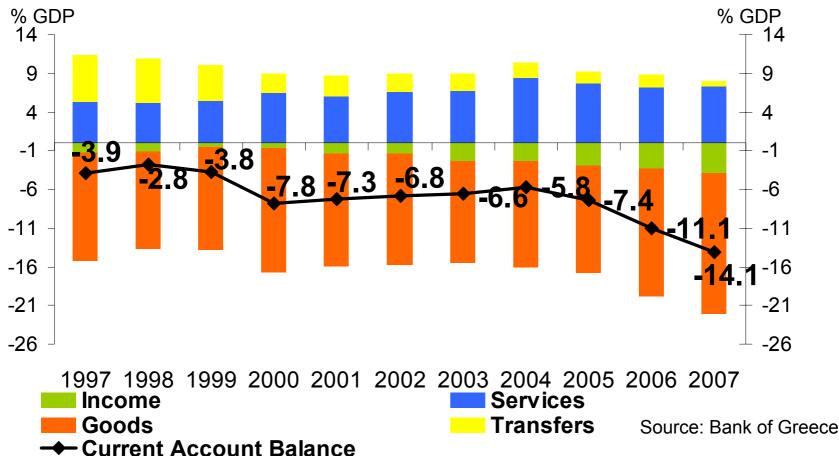
✓ Real Effective
 Exchange Rates have
 worsened since 2000

- ✓ The higher CPI inflation in Greece points to lack of competition in product & service markets.
- ✓ Unit labor costs are increasing faster in Greece

Source: IMF

II. ... hence, Greece's current account is getting worse

- ✓ CA deficit has tripled relative to the pre-EMU period, while the growth in aggregate demand is the same as before
- ✓ CA deficit can lead to an abrupt future recession





III.

The global financial crisis and the relative position of the Greek financial system



III. How large is the short-run correction? The two problems of the global crisis

- ✓ The next 15 months will provide a stress test of the Greek economy
- \checkmark Two problems underpin the global financial crisis:
 - 1) Insolvency
 - 2) Lack of liquidity

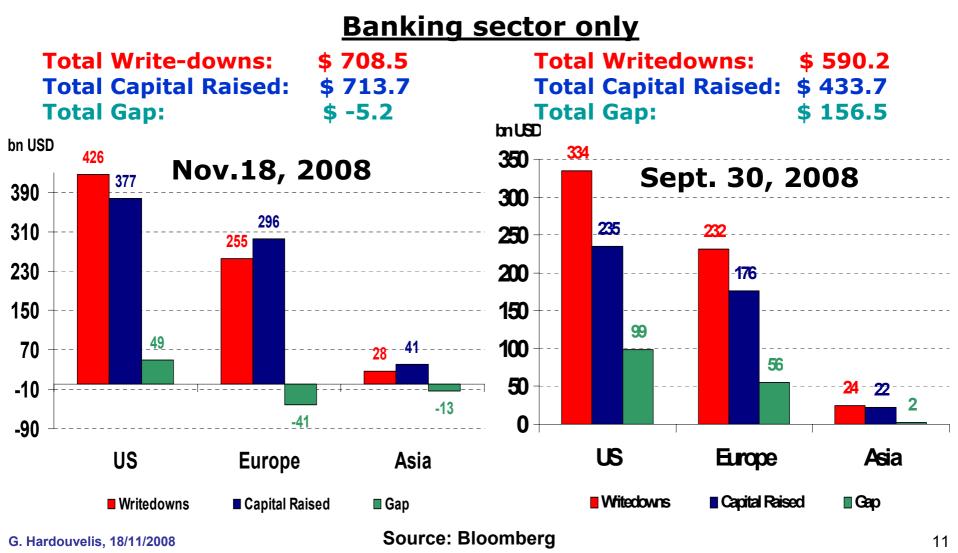
Which may lead to **de-leveraging**, i.e. the transmission of the crisis to the real economy

- ✓ Fortunately, structural reforms did occur in the Greek banking sector and Greek banks are very strong and healthy relative to their European peers, i.e., are well-capitalized
- ✓ Yet, Greek banks are affected by the second factor, lack of liquidity



III. Insolvency: Getting better

The gap between total write-downs and capital increases has declined sharply in recent weeks due to governments' recapitalizations *IMF: Estimates write-downs for all FIs to reach \$1.4 trillion*



Eurobank EFG **III. Insolvency: Greek banks better** capitalized than most European banks % 9 **Capital / Asset Ratio** 8 **Ranking of** 7 individual 6 banks 5 **Best:** 4 EFG Intern/al 3 13.52% in

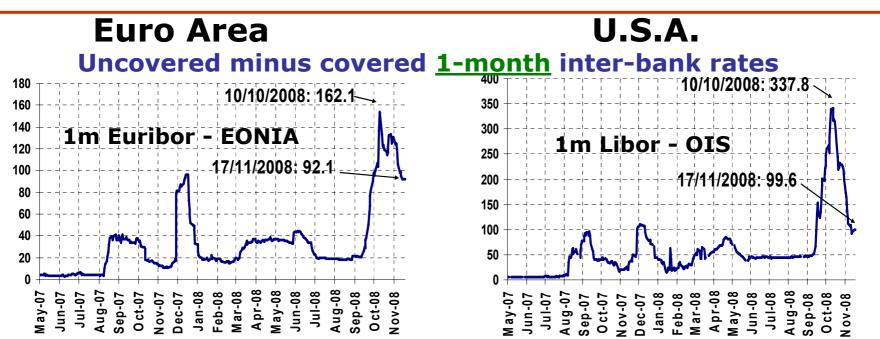
Switzerland

Worst: DEXIA 1.67% in Belgium

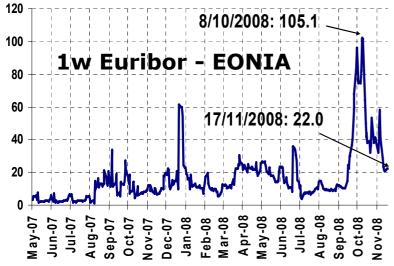
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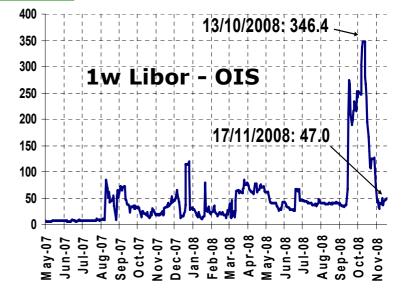
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III. Liquidity: Worsening not yet solved in Europe



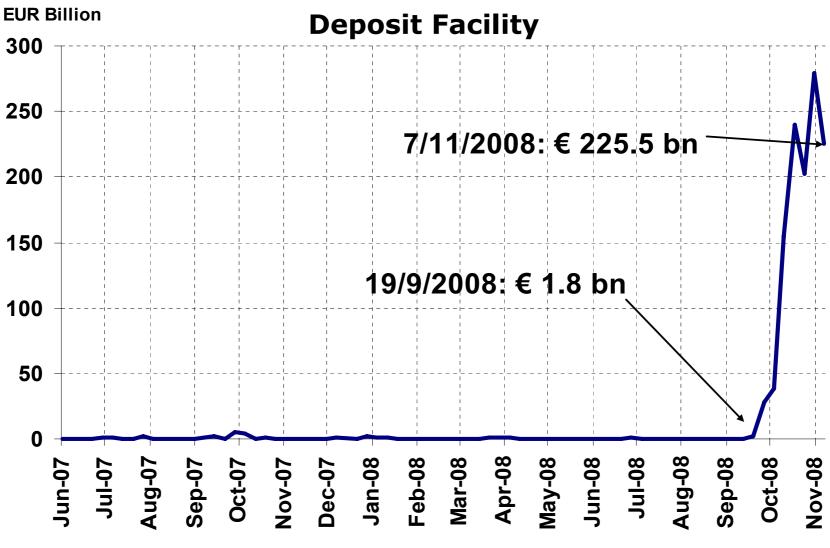
Uncovered minus covered **<u>1-week</u>** inter-bank rates







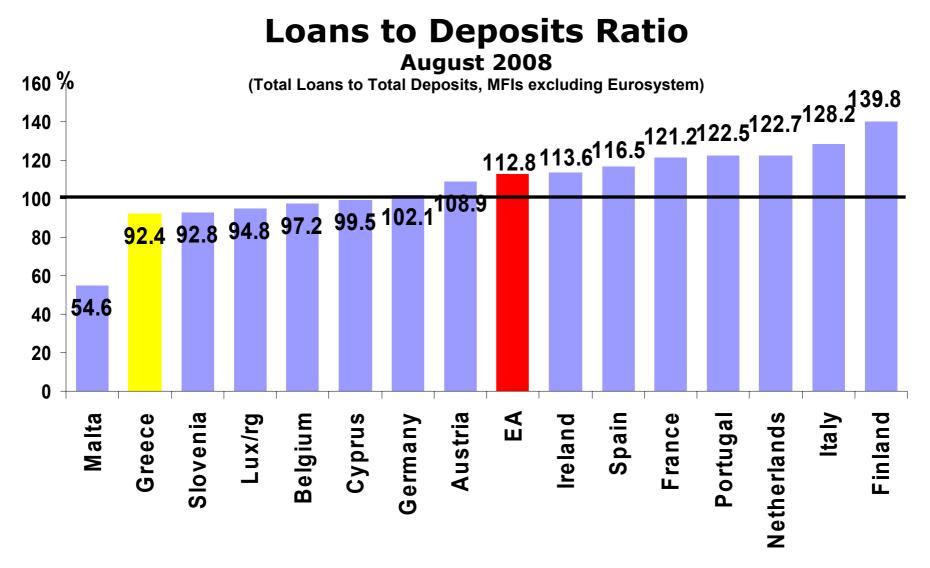
III. Liquidity: European banks are hoarding cash



Source: ECB



III. Liquidity: Less of a problem in Greece relative to Euro Area



III. Rescue measures ...

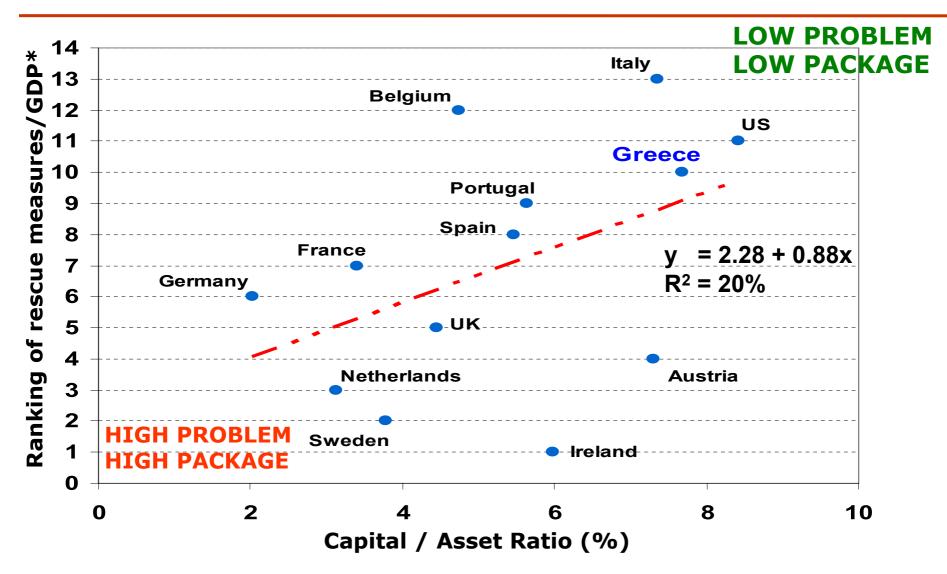
		Package Amount	% of 2009 GDP	Partial Adoption
Italy	€	40 bn	2.5%	\checkmark
Belgium	€	9.7 bn	2.7%	\checkmark
US	\$	700 bn	4.8%	\checkmark
Greece	€	28 bn	10.8%	NO
Portugal	€	20 bn	11.6%	\checkmark
Spain	€	150 bn	13.4%	\checkmark
France	€	360 bn	18.0%	\checkmark
Germany	€	500 bn	19.5%	\checkmark
UK	£	500 bn	33.8%	\checkmark
Austria	€	100 bn	34.2%	NO
Netherlands	€	220 bn	36.3%	\checkmark
Sweden	SE	< 1,500 bn	47.7%	\checkmark
Ireland	€	400 bn	214.8%	\checkmark
Total EU-27	€	2,580 bn	20.0%	

 ✓ Greece has offered half the

- EU-27 package
- Measures have to be voted into
 Laws to be operational.
 Laggards as of 17/11/2008:
 Greece & Austria
- Then, we hope to see renewed
 liquidity in the inter-bank market



III. ... related to the size of the problem



* Sorted from largest (=1) to smallest (=13)



IV.

How much will Greece be affected by the crisis in 2009?

✓ Growth slowdown

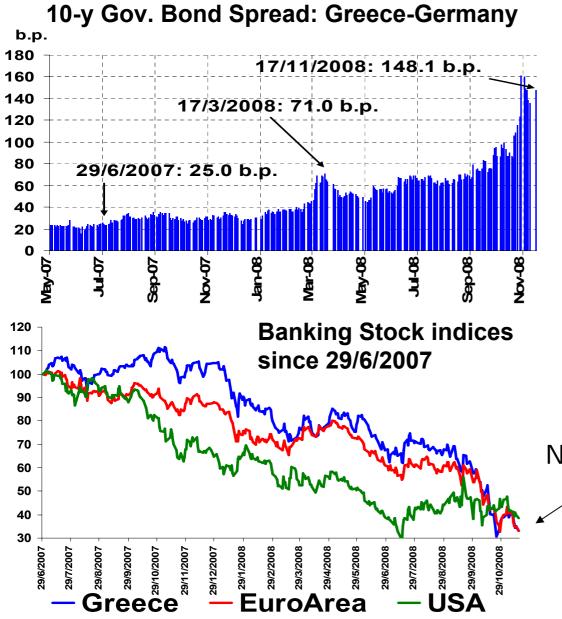
 A nightmare scenario can be avoided only through active policy intervention

IV. Greece: Channels of negative influence

- Lower economic activity abroad → less exports, lower tourist receipts, less foreign buying of property, lower shipping rates
- Higher interest rates due to liquidity considerations
 → less credit expansion, lower consumption & investment
- Greece will avoid:
- Large bank failures and abrupt restriction of credit due to solvency reasons to the same degree observed abroad



IV. Bearish markets are harsh on Greece



 Recent increase in gov. bond spread is consistent with historical behavior (thus not due to the package): It is explained by similar increases in other EA spreads plus EMBI+

Eurobank EFG

 Markets do not see the better position of Greek banks: Banking stocks hard hit

Nov 17: GR 33.04 EA 32.97 USA 38.44

IV. Greece: Will the good scenario prevail? ^(A) Eurobank EFG

YES, if: 1. Loan expansion resumes by year-end

- **2. Investment growth fills in the slack**
- **3. Consumption growth declines and imports decline** for a longer period than the current global recession

THE GOOD SCENARIO: yoy growth in constant prices	Weights (2007)	EU 2008	EU 2009	GH 2009
GDP	100.0%	3.1	2.5	2.1
Pr. Consumption	71.2%	2.6	2.2	2.0
Pub. Consumption	16.7%	2.9	2.7	2.4
Investment	22.5%	3.2	2.8	2.1
Exports	23.0%	4.2	3.1	2.6
Imports	33.5%	2.6	2.5	2.1
НСРІ		4.4	3.5	3.3
Budget deficit (% GDP)		-2.5	-2.2	-2.9
Public debt (% GDP)		93.4	92.2	93.0
Unemployment rate		9.0	9.2	8.7
Current account (% GDP)		-14.3	-15.0	-14.0



V. Conclusions

- ✓ The current crisis has delayed affecting Greece because of the health of its financial sector. Is the worst in front of us?
- \checkmark Two possibilities for 2009:
 - I. Good scenario of growth slightly > 2%,
 - II. Nightmare scenario of growth < 0, as past experience shows that Greek recessions are the worst ones in the OECD, with a total mean output loss of -6.45% of GDP (2 times bigger the mean OECD country loss and 3 times the median loss)
- ✓ Two main risk drivers will determine which scenario will unfold:
 - I. The liquidity issue, as Greece & Austria remain the two countries with no government measures that have become Law
 - II. The need for aggressive fiscal expansion, mainly though investment projects co-financed with the EU
- ✓ In a future environment of low growth, it may be more difficult to carry on with those structural reforms needed to improve competitiveness.
- ✓ In a possible nightmare scenario, our limited macro-economic tools and the long-run imbalances imply that once in a recession → A long period of stagnation may follow



THANK YOU FOR YOUR ATTENTION!!

My thanks to the Research department of Eurobank EFG for able research assistance and support

For more info, please consult the Eurobank website:

http://www.eurobank.gr/research

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ECONOMY & MARKETS GLOBAL ECONOMIC MARKET OUTLOOK **Greek Hotel Employees' Education Level and Company** Main Views and Market Strategy Performance Duction of Research and Parecasting Director Class Rankoveria Fourt of a hard landing of the US economy have gradually dissipate them market valuations, making near the the scenario of a "happy Costas E. Vorlow According to Eurobank ERI's summer 2006 hotel servey, 40% of the workers in the hotel industry hold a higher education (HE) degree. clearlines as the markets' bearing forecast. We disagree with the view that markets gradually converged to the Fed new opticatio power extrant, instead, we one the opeand more at reported field faults rates and Treasury yelds since October as the most of instructing inflator earlies, as besidever inflator has Workers in 4 and 5 star hotel units account for half the sector's labor force and of those, more than 50% are HE graduates. workd strengy He sha disame will be one hid for II suspends a to be arrange In the singlet will be the two to be the second of the power failed that over the generity put prediction data suggest Austycing pail minister of ZIP data, we find that the CGP text and predi-tate text spectra data and the second stress form. The SH M strength of the ICI surveys to it as see temperary, owing Berryth Advice New hotels (post 2000) employ more HE degree holders than older establishments. Hotels that employ more HE degree holders exhibit to lower all prices and the mild weather higher turnovers and lower operational costs (as a percentage of turnover). · Our fiel unless must be further somethin that cannot field heads on We are price with estimates of the pairs yound i and, the regard fait forch to remain fait the result of the pairs and dealine by 255pc in HZ. Even area powerh seems excitent in the US standard an adverging. Econometric estimations suggest that workforce education is a statistically significant factor in demand and employment conditions are impressing, SCR to like cates to explaining variations in turnover and operational profits, and has a positive contribution. 2.75% in March and to 4.0% in June Outwin for Japanese economy remains problem, despite self G2 data Fact infation will lively keep fact on head until early HC. arch@eurobank.gr Dritter of Research & Pareneting

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New Europe:

Οικονομία & Αγορές:

Global Economic & Market Outlook:

G. Hardouvelis, 18/11/2008

Μηνιαία έκδοση με θέματα για την ελληνική και παγκόσμια οικονομία

A quarterly analysis of the countries of New Europe

A quarterly in-depth analysis of major market and economic trends across the globe with our detailed forecasts