# Greece
# Economic & Financial Outlook

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FAWG Meeting
Athens, 27 June 2017
Bank of Greece, Room N210

# AGENDA

- The adjustment progress of the Greek economy
- Recent economic and financial developments
- BoG proposal: A mild debt relief exercise
- Major pending issues: QE, debt relief, return to the markets, etc.

# I. The Adjustment Progress of the Greek Economy

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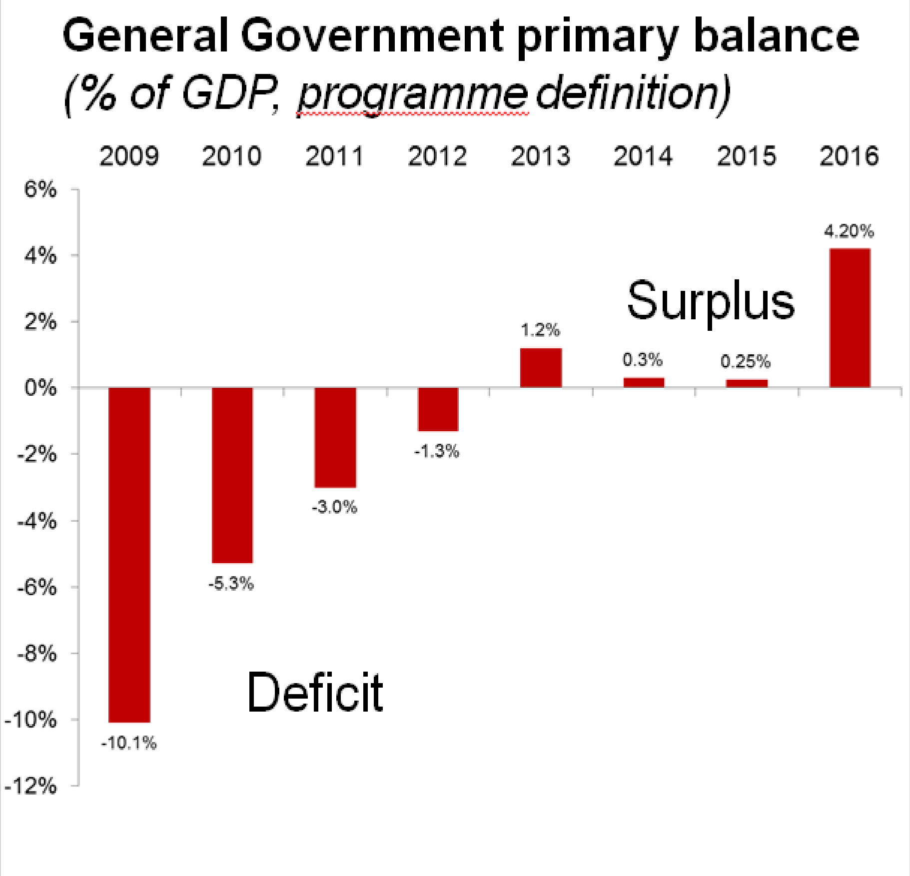
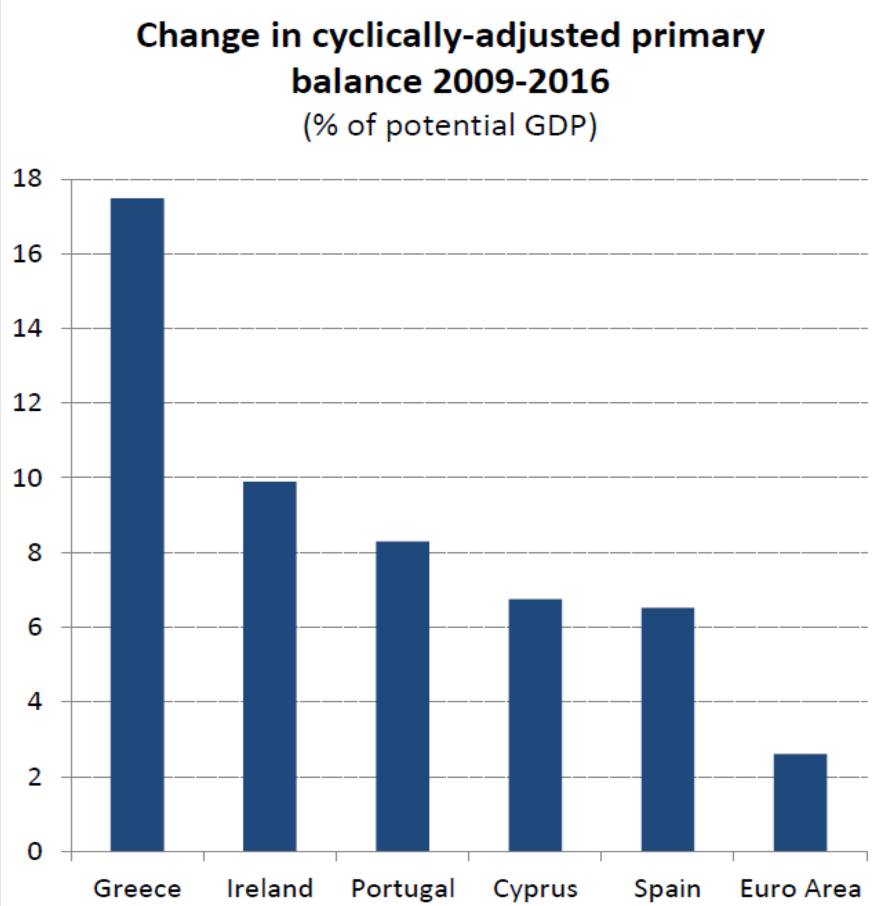
## Greece's fiscal consolidation is one of the largest ever achieved by any country at any time under an IMF programme




Source: Eurostat, BoG.



# I. The Adjustment Progress of the Greek Economy (cont'd.)

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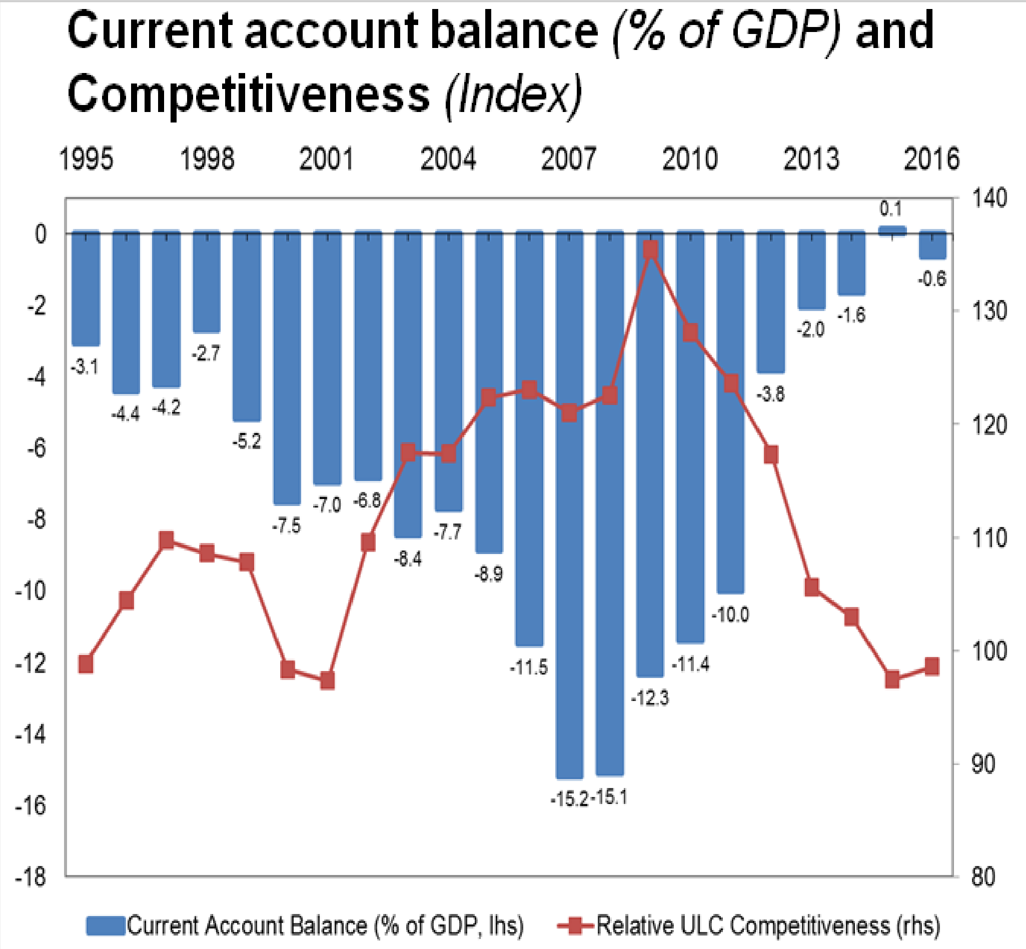
## Restoration of competitiveness and greater openness




*Source: Eurostat and BoG calculations.*

Between December 2009 and the end of Q1 2017, Greek exports of goods increased by 45% in real terms (EA 46%), while receipts from services declined by 11%. Excluding shipping, receipts from services showed an increase by 20% in real terms. Overall, Greek exports of goods and services, excluding shipping, increased by 34% in real terms (EA 47%).

Over the same period, total imports of goods and services declined by 27% in real terms (EA 34%), 34% since their historical peak in 2008.

The share of exports of goods and services in GDP increased from 18.9% in 2009 to 28.2% in 2016.

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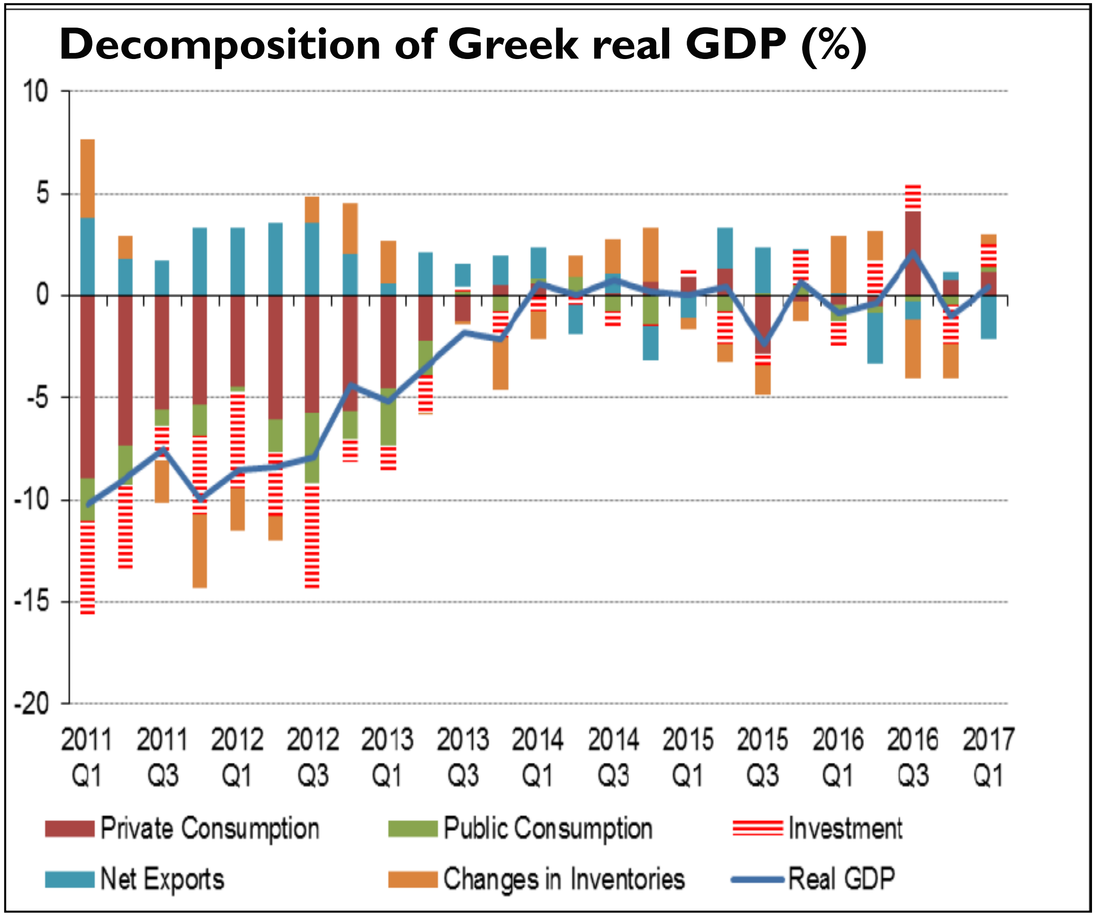
**Macroeconomic projections for Greece**

| | 2016 | 2017f | 2018f | 2019f |
|---|---|---|---|---|
| GDP (constant prices) | ***0.0*** | ***1.6*** | ***2.4*** | ***2.7*** |
| Private consumption | 1.4 | 1.1 | 1.4 | 1.3 |
| Government consumption | -2.1 | 1.4 | -0.2 | 1.8 |
| Gross fixed capital formation | 0.1 | 5.6 | 10.1 | 11.6 |
| Exports of goods and services | -2.0 | 5.5 | 4.7 | 4.3 |
| Imports of goods and services | -0.4 | 4.4 | 4.1 | 3.9 |
| Changes in inventories | -0.1 | -0.3 | 0.1 | -0.1 |
| | | | | |
| HICP | 0.0 | 1.2 | 1.1 | 1.2 |
| HICP excluding energy | 0.5 | 0.7 | 1.1 | 1.2 |
| | | | | |
| Total employment | 1.8 | 1.5 | 2.0 | 2.3 |
| Unemployment rate (% of labour force) | 23.5 | 22.4 | 20.9 | 19.1 |
| | | | | |
| Current account (% of GDP) | -0.6 | 0.4 | 0.3 | 0.5 |

*Source: ELSTAT, Bank of Greece.*

## Economic activity stagnated in 2016 but moved into expansionary territory in the 2017:Q1.




*Source: ELSTAT, National Accounts, 6 March 2017 (provisional, sa data).*

- The economy continued to stagnate in 2016, as heightened uncertainty about the conclusion of the second review dented GDP growth in the final quarter of the year.
- GDP growth moved into expansionary territory in the first quarter of 2017 shaping a positive outlook for the year as a whole. Real GDP (ELSTAT, provisional sa data) increased **by 0.4% y-o-y and 0.4% q-o-q**, an upward revision compared to the flash estimate (-0.5% y-o-y and -0.1% q-o-q) as a result of new data releases.
- The conclusion of 2nd review supports the positive momentum but recovery remains fragile**.**

# II. Recent Economic and Financial Developments (cont'd.)

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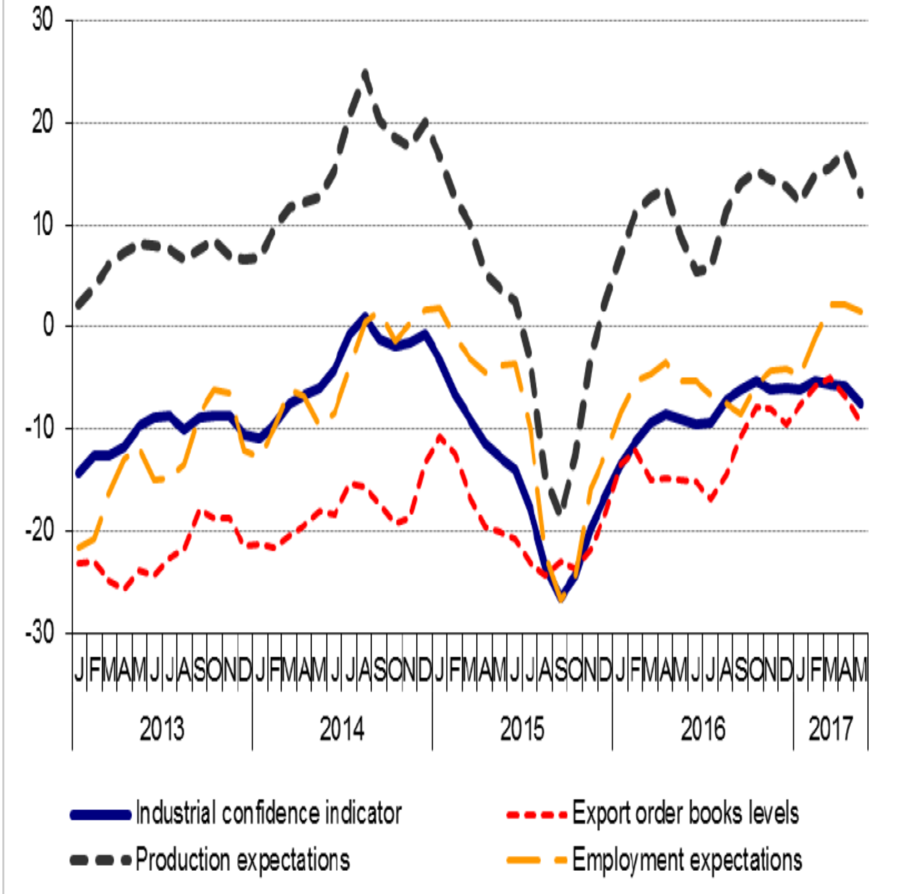
## Major strengths of the current recovery

- **Industrial Production** performed exceptionally well in the first four months of 2017 (7.2% y-o-y), mainly due to the performance of manufacturing (4.4% y-o-y) and electricity (18.4% y-o-y, partly attributed to base effects), while industrial confidence improved significantly since mid-2015.
- **Exports of goods increased** on average by 6% annually in real terms over the past seven years, while exports of services (ex shipping) increased by 4% annually in real terms over the same period.
- **Average employment growth** continues to rise by 1.7% and dependent employment by 3.1% in 2016. The unemployment rate fell further to 23.5% but remains very high.

**Industrial confidence, production, employment & export orders**




*Source: European Commission.*

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## Major risks of the current recovery

### Upside risks

- Further debt relief measures
- QE participation

### Downside risks

- Programme implementation (possible delays of the third review).
- Major stock imbalances will be a drag on growth: public debt, NPLs, private debt.
- External risks (global, regional, markets).

# II. Recent Economic and Financial Developments (cont'd.)

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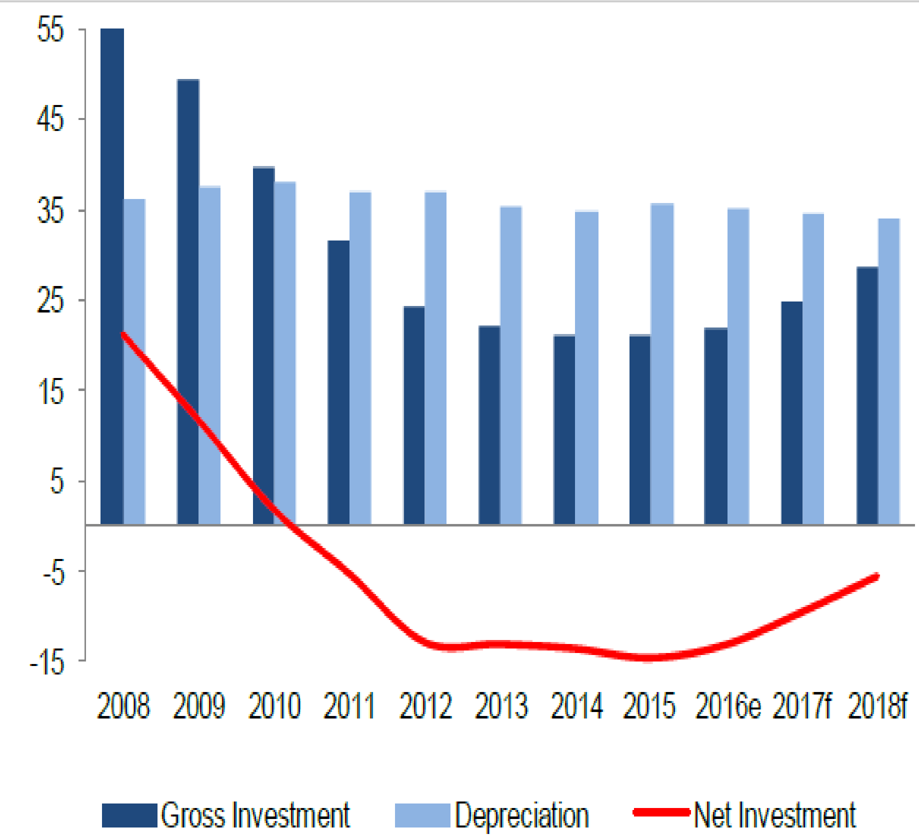
## Long-term risks

- In 2016, the gross fixed capital formation was 63% below its 2008 level amounting to 11.4% of GDP (2008: 22.9% of GDP).
- Huge brain drain which contributes to a loss / depreciation of human capital stock in Greece.

**Investment and Depreciation (in €bn)**




*Source: AMECO*

# II. Recent Economic and Financial Developments: The Banking Sector

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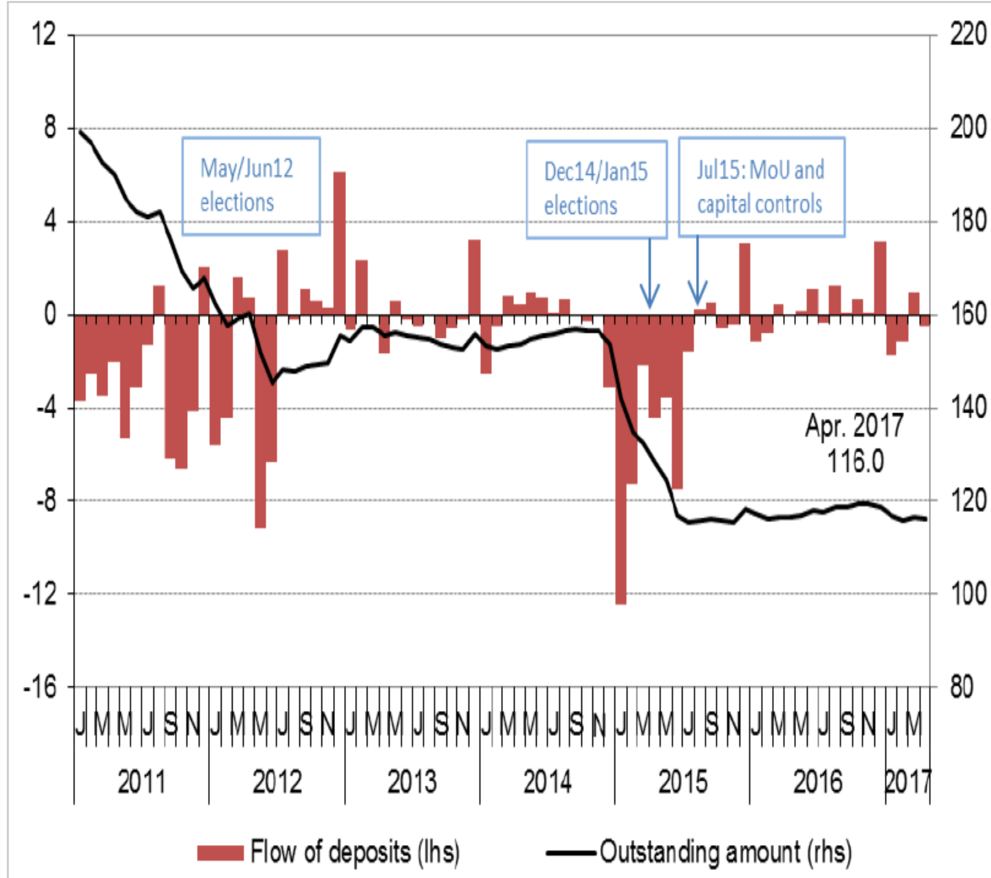
- Commercial bank funding conditions gradually improve, with less dependence on Eurosystem financing. On 8 June, the ELA ceiling for Greek banks declined by €1.1 bn to €44.2 bn, reflecting developments in the liquidity conditions of Greek banks. The ceiling has fallen by €45.8 bn from its peak in July 2015 of €90 bn, (Introduction of capital controls).
- Deposits of the domestic non-financial private sector with Greek banks have increased by €3.3 bn (or 2%) between end-June 2015 and April 2017.
  End of April 2017: €116 bn.
  End of January 2017: € 119.7 bn.

**Bank deposits of non-financial corporations and households (in € bn)**




*Source: Bank of Greece.*

# II. Recent Economic and Financial Developments: The Banking Sector (cont'd.)

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- ✓ The four Greek significant banks have announced financial results for the fiscal year 2016. The overall picture is deemed positive. Based on consolidated figures, **pre-provisioning income** amounted to €**4.1 bn**, recording a **31%** increase on a y-o-y basis, while pre-tax income was €**69.7 mn** compared to losses in 2015.
- ✓ The **CET1 ratio** requirement is preserved, around **16%**, comfortably above the EU average (13.6% as of December 2016 according to EBA).
- ✓ Asset quality showed signs of improvement as the formation of new NPLs slowed. **Non performing exposures** at the end of December 2016 remained relatively flat around **48%.** At end-March 2017, the stock of Non-Performing Exposures (NPEs) decreased by 1.1% compared to end-December 2016 and reached **€105.1** billion or **45.2%** of total exposures. Since March 2016, when the stock of NPEs reached the peak, the reduction is 3.3% or €3.5 billion.
- ✓ **In the EU** the average rate of non-performing loans is slowly decreasing, and amounts to **5.1%** in December 2016 (from 6.5% in December 2014 and 5.7% in December 2015). However this level remains higher than in other major developed countries. In comparison, the World Bank reported NPL ratios of about **1.5%** for the United States and Japan at the end of 2016. There is high variation across countries from 1**% to 47%,** whereas there are currently 10 countries with NPL ratio above **10%.**

# II. Recent Economic and Financial Developments: The Banking Sector (cont'd.)

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| A.-Result oriented operational targets | Q2 2016 | Q3 2016 | Q4 2016 | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|
| **Target 1: NPE Volume (Gross) €bn** | **106.9** | **106.9** | **105.8** | **105.2** | **103.4** | **102.0** | **98.2** | **83.3** | **66.7** |
| Monitoring: NPE Ratio | 50.5% | 50.9% | 50.5% | 50.6% | 50.0% | 49.6% | 48.0% | 41.8% | 33.9% |
| **Target 2: NPL Volume (Gross) €bn** | **78.3** | **78.1** | **76.3** | **74.7** | **72.4** | **70.5** | **65.9** | **53.0** | **40.2** |
| Monitoring: NPL Ratio | 37.0% | 37.2% | 36.4% | 36.0% | 35.0% | 34.3% | 32.2% | 26.6% | 20.4% |

*Source: Bank of Greece.*

**Recent reforms:**

- **Operational targets (KPIs)** agreed with banks, targeting reduction of NPEs by €40 bn until end-2019.
- **New households' insolvency law.**
- Setup of a **secondary market for NPLs.** Four servicing platforms have already received licenses.
- **BoG guidelines for enhanced governance framework**, incl. Code of Conduct for interaction of banks with borrowers in arrears.
- **Out-of-court settlement law:** focus on standardized procedures for SMEs.
- **Electronic auctions.**
- **Legal protection** of bank executives involved in write-offs of private debt.

# III. BoG Proposal: A Mild Debt Relief Exercise

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## BOG "Extend and Pretend" scenario assumptions (Option 1)

- Primary surplus of 3.5% in 2018-2020, 2% afterwards. (This is the "Baseline low surplus scenario". "Baseline high surplus": 3.5% in the medium term, lower in the long term. The above scenario are based on the Compliance Report of The Third Economic Adjustment Programme for Greece, June 2016, European Commission.).
- **Increase in WAM of interest payments for EFSF loans by 8.5 years** (smoothing of EUR 101 bn of projected interest payments to EFSF until 2060) + ANFA + SMP. The scenario defers interest for EFSF loans using the rule: interest due in year t is deferred to next 20 years in equal installments and capitalized.
- **GDP growth:** 1.5% after 2022.
- **Inflation:** 2% after 2019.
- **Interest rates:** GGBs: 5%, ESM: gradual increase to 3.0% until 2021, 3.5% after 2027. Weighted average maturity of EFSF interest payments increases by 8.5 years. Includes ANFA and SMP.

# III. BoG Proposal: A Mild Debt Relief Exercise (cont'd.)

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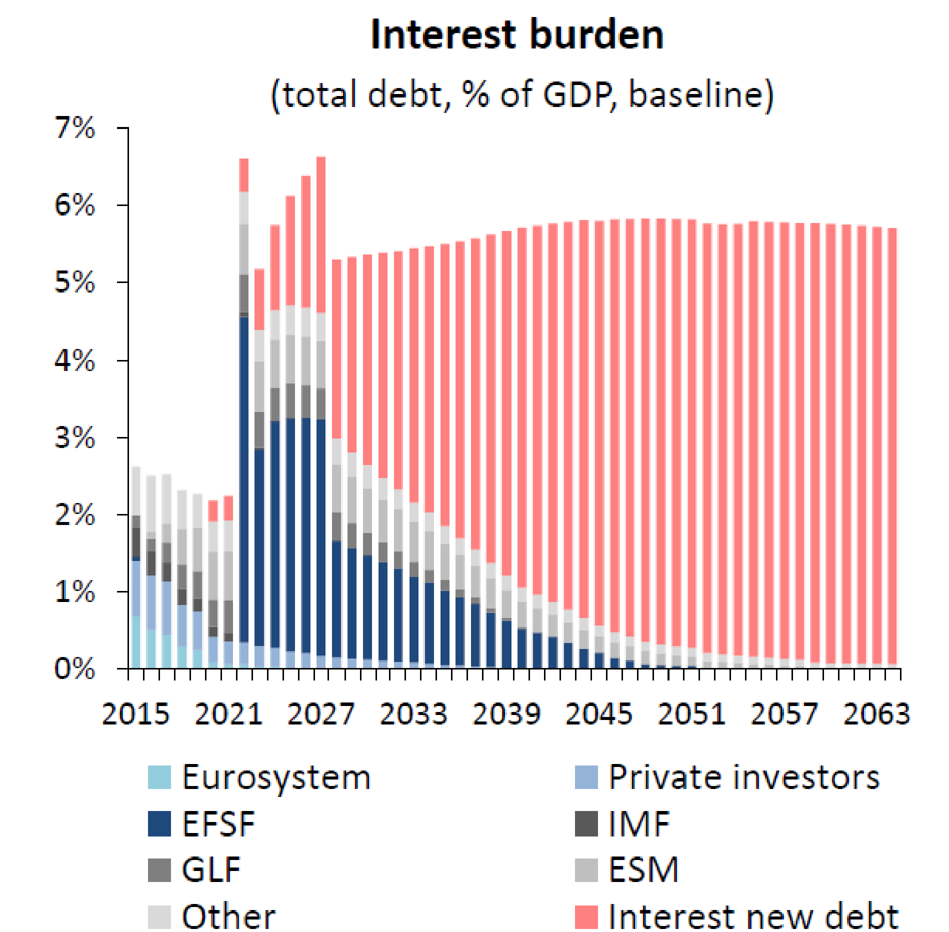
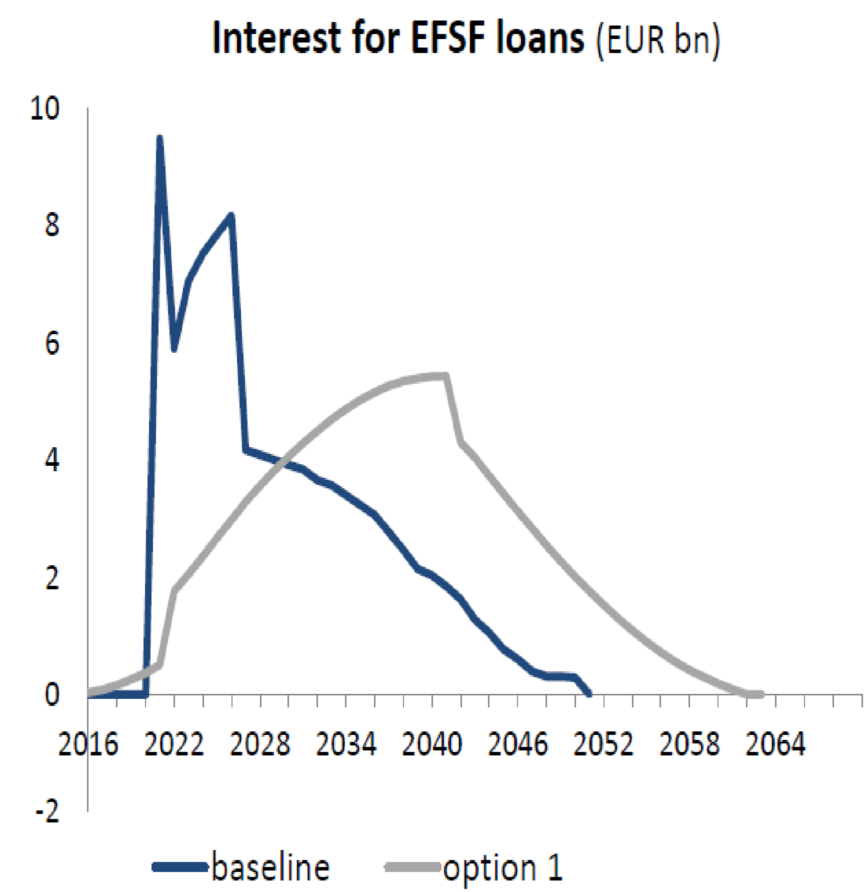
## Impact




*Source: Bank of Greece.*

# III. BoG Proposal: A Mild Debt Relief Exercise (cont'd.)

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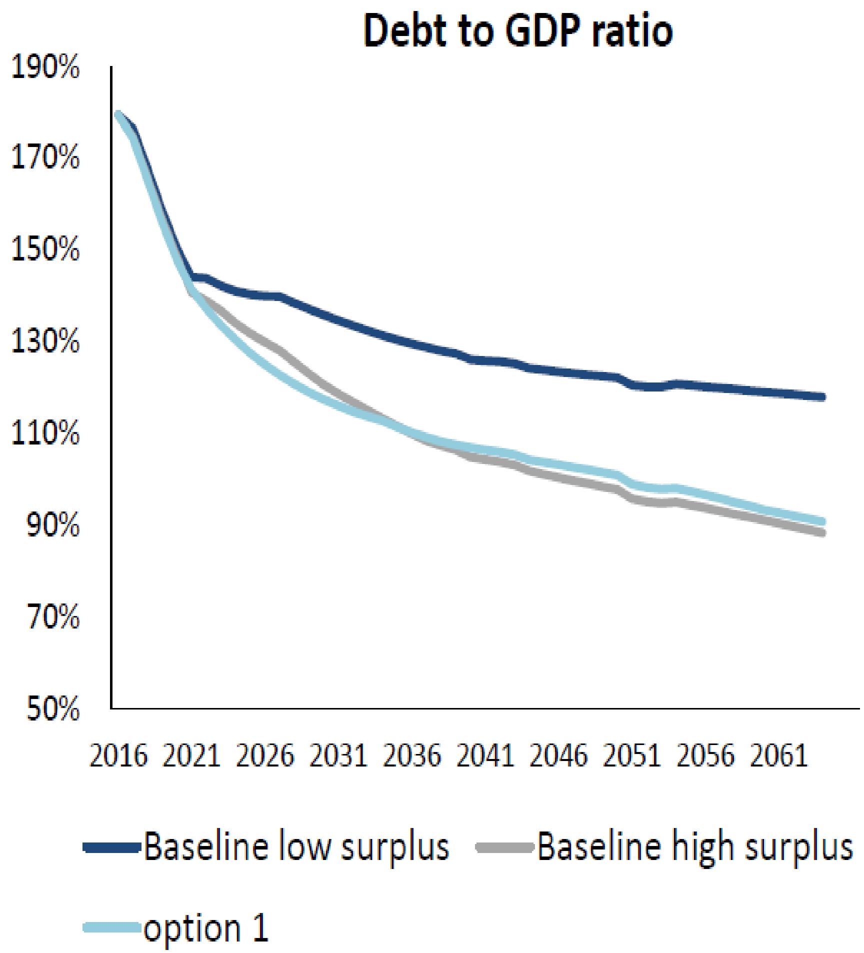
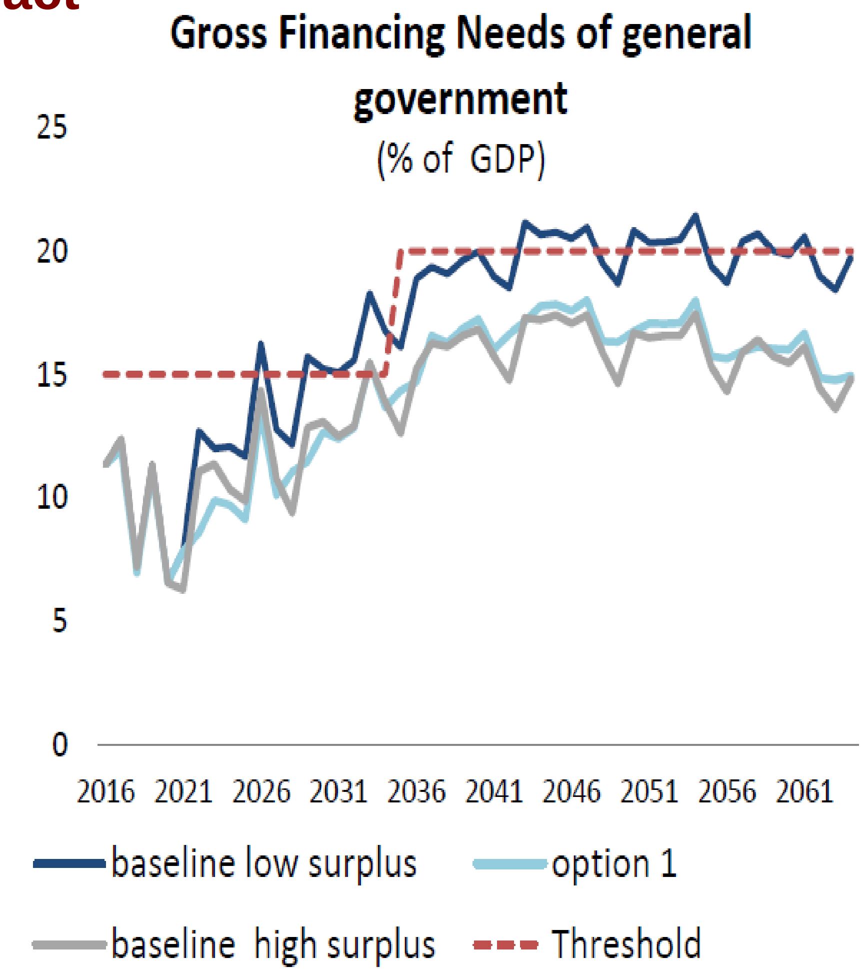
## Impact




*Source: Bank of Greece.*

# IV. Major Pending Issues: QE, Debt Relief, Return to the Markets, etc.

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**Latest Eurogroup Statement (15.06.2017):**

❖The Eurogroup stands ready to implement, without prejudice to the final DSA, extensions of the weighted average maturities (WAM) and a further deferral of EFSF interest and amortization by **between 0 and 15 years**. As agreed in May 2016, these measures shall not lead to additional costs for other beneficiary Member States.

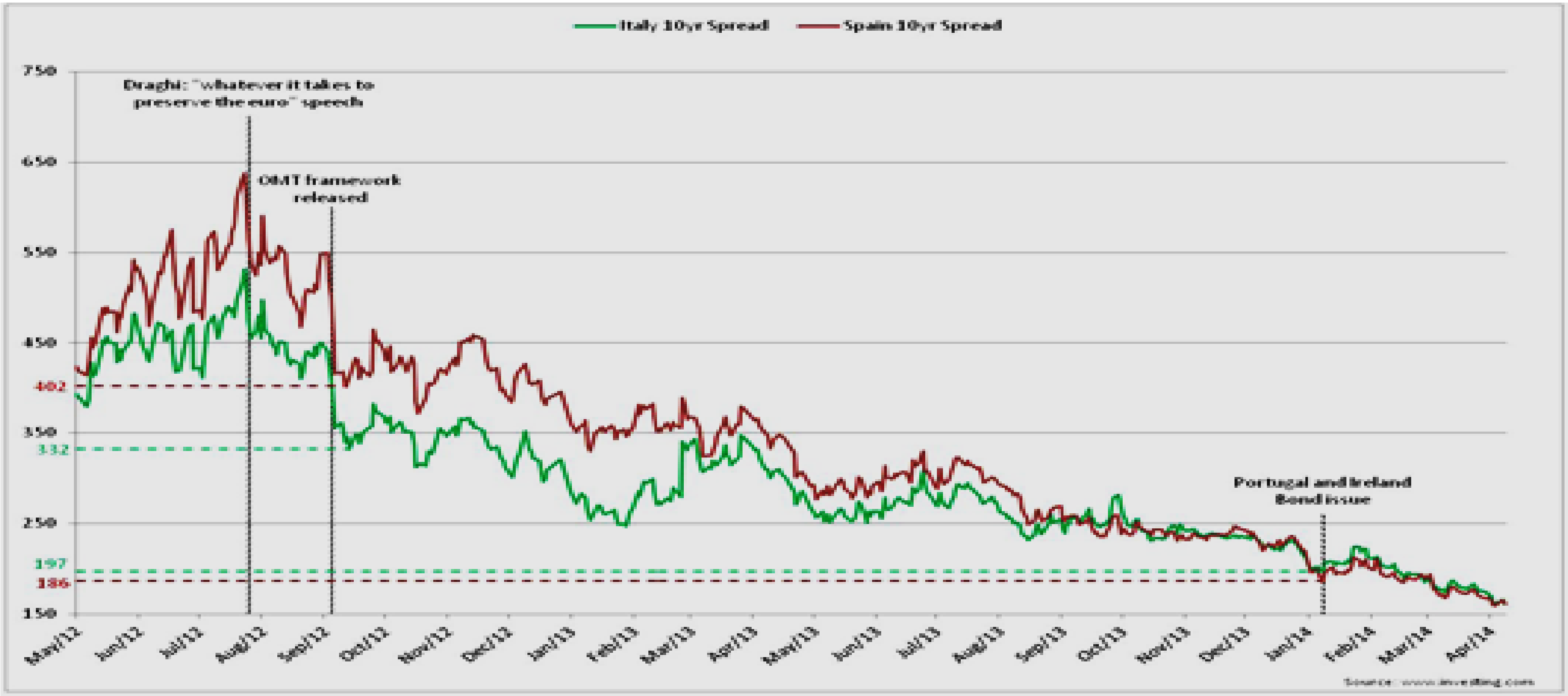
❖In view of the ending of the current programme in August 2018, the Eurogroup commits to provide support for Greece's return to the market: the Eurogroup agrees that future disbursements should cater not only for the need to clear arrears but also to further build up cash buffers to support investor's confidence and **facilitate market access**.

## Some Reflections on getting Greece into ECB's QE programme

❖President Draghi, when asked about the eventuality of Greece's participation in the ECB's QE programme, (29.05.2017) , gave two preconditions: 1. The full completion of the second review and stick with the implementation of the programme, and 2. A DSA report by the ECB itself.

❖**The crucial parameter** here is '**tapering**'. The ECBs' QE programme officially ends in December 2017 but, for a quite some period after, the ECB will keep buying government bonds, but at a diminishing rate, (from €60, to € 50, to € 40 bn, etc.). During that period, and provided that the above preconditions are met, Greek bonds could be included into the ECB's QE programme.

**Italian and Spanish 10-year government bond spreads with respect to equivalent (10-year) German government bonds before and after the announcement of OMTs**



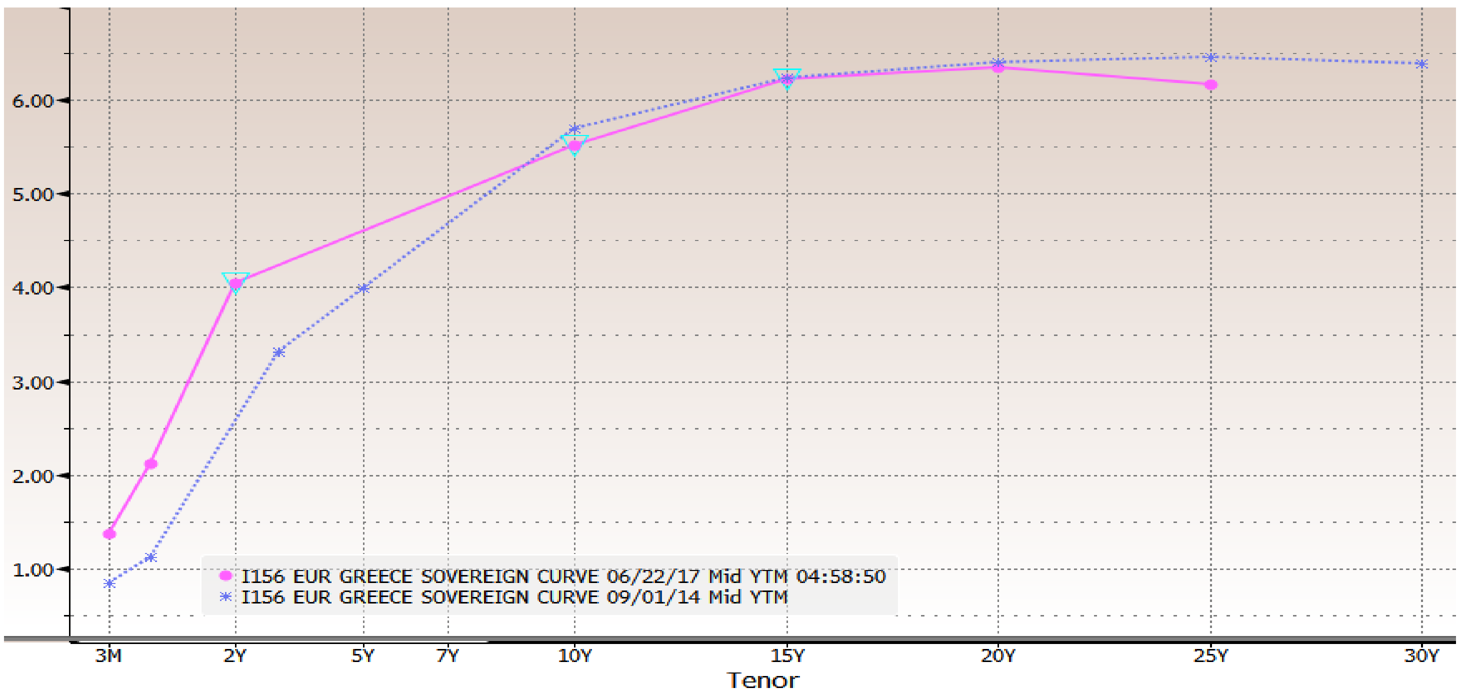

Πηγή: www.investing.com

## Return to international capital markets

**There are two different issues:**

**A.** One is a tentative return which may take place within this year or so, And the current financial outlook in our sovereign bond market is favourable.

**Current Greek yield curve vs. September 2014 Greek yield curve**





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## Return to international capital markets

**B.** A permanent return to the markets which would signal the end of an era for Greece, namely the end of adjustment programmes of this sort, but has various aspects and requires a number of small, steady positive steps, which might include a successful and timely completion of the third review, the full implementation of reforms and the privatisation agenda. Last but not least, as described in the last paragraph of the Eurogroup statement (15.06.2017), building up of cash buffers (with some sort of conditionality), or as it is also known as a precautionary credit line will support investors' confidence.