From recession to anemic recovery

June 2017

PwC

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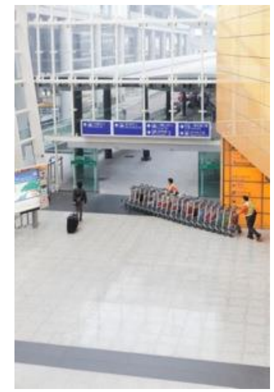


During the period of economic recession in Greece (2008-2016) total investments shrunk by **12.1 pps**

Executive Summary

It is extremely likely that the anticipated economic recovery will suffer from lack of funding.

Investments in Greece are historically connected to GDP increase, and from 2009 onwards they collapsed creating an environment of technological and competitiveness hysteresis.

Funding from the Public Investment Plan (PIP) has been weak due to fiscal limitations, while Foreign Direct Investment (FDI) contributes less than 10% of total investments.

Greece is characterised by a significant competitiveness deficit stemming from limited investments.

Investment needs for 2017-2022, compatible with rapid economic growth trends, are estimated at around € 270bn, but foreseeable funding flows are not enough to cover them.

The structural difficulties in mobilising capital for investments are:

- **companies offer low yields**
- **economy is under a credit squeeze**
- **savings continue to decline**
- **non-performing loans are expanding**
- **"soft" financing has dwindled**

The trust gap towards Greece increases investors' requirements leading to an investment gap.

Greece has entered a vicious cycle of recession and credit stagnation which has completely undermined competitiveness

It is necessary to develop a new set of policies that will facilitate growth taking into consideration that:

- foreign funds are unlikely to cover a large part of the investment gap, as they have not until today
- the current fiscal situation does not allow for significant state funding of investments
- any increase in the investment rate goes through substantial reforms and mobilisation of Greek capital

Investors' trust towards the country can be enhanced through coordinated policies based on 8 dimensions:

i. strengthening confidence in political processes and institutions
ii. active management of non-performing loans
iii. acceleration of infrastructure investments
iv. restructuring of the housing market
v. changing the financial sector architecture
vi. mobilisation of institutional equity for Small-Medium Enterprises (SMEs)
vii. increase of "soft" financing
viii. adoption of a stable tax system

"Let me remind you that credit is the lifeblood of business, the lifeblood of prices and jobs"

Herbert Hoover (31st President of the USA)

These policies are considered viable under current economic and financial circumstances, however in order to be effective they must be carefully planned and implemented with consistency and integrity

Anemic recovery due to investment penury

Creditless Recovery

- Bank credit is of utmost importance in the modern economy, since it strengthens the economic activity of a country. Its shortage causes a reduction in spending at a company level, while it affects economic growth at a macro level
- Following a recessionary cycle, there are cases of economic recovery without the actual use of credit
- According to an IMF study ("Creditless Recoveries", 2011), **a recovery is called creditless when, during its first three years, the change in bank credit is zero or negative**. Although these kind of incidents are more frequent in developing countries and emerging markets, they can also be present in developed economies
- In order to limit the phenomenon of insufficient credit flows, policies are needed to:
    - restore the supply of credit
    - cushion the effects of deleveraging in the economy and
    - address the undercapitalisation of financial institutions

The path towards a creditless recovery

- In their studies, the IMF ("Creditless Recoveries", IMF 2011) and the ECB ("Determinants of Creditless Recoveries", ECB 2011) argue that a recovery following a recession can occur either with or without access to credit
- The **frequency** of a creditless recovery is about 1 out of 5, with higher probability of occuring in emerging economies

Correlation of a creditless recovery with macroeconomic variables

Variables	Consequences
Investment - Consumption	During a creditless recovery, investment plays a much lesser role in growth than private and public consumption
Credit growth	The change in the rate of credit is more important than the credit itself: an economy can recover when the rate of credit growth stops dropping, even if it remains negative
Employment	Employment dynamics do not differ, on average, from those in recoveries with credit

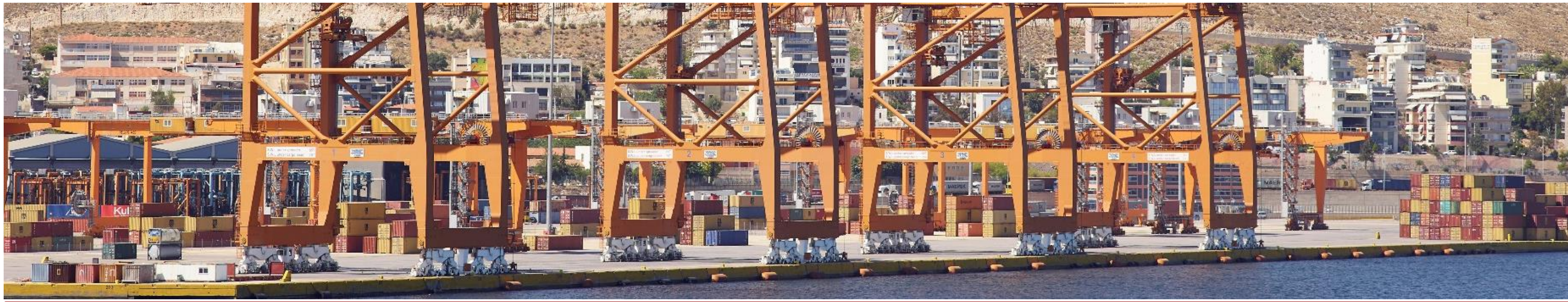
Source: ECB, "Determinants of Creditless Recoveries", 2011

Average annual GDP growth during the first three years of a recovery

Type of recovery	Observations	Mean	St. Deviation
Recovery with credit	295	6.3%	3.8%
Creditless recovery	67	4.5%	3.4%

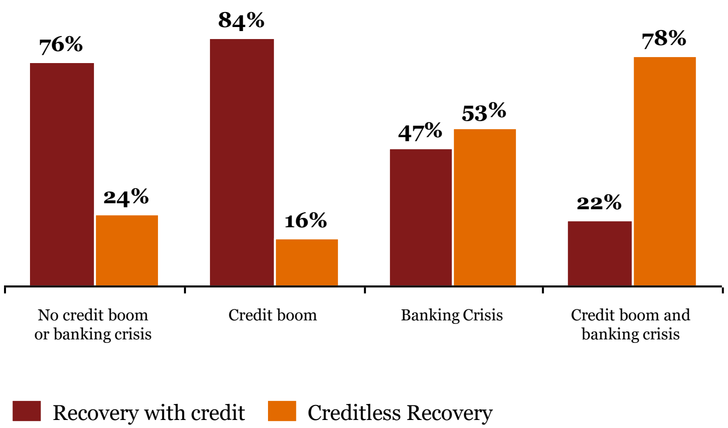
Source: IMF, "Creditless Recoveries", 2011

The annual GDP growth in a credit-funded recovery is on average 40% higher than the one of a creditless recovery over its first three years



In the aftermath of a financial crisis, economies can quickly recover using investment or remain on a sluggish path due to inadequate funding

Relative frequency (%) of a creditless recovery based on the financial environment



Source: IMF, "Creditless Recoveries", 2011

Economic factors leading to a creditless recovery

1. **Drop in the available credit growth rate**
2. **Squeeze of the construction sector, coming mainly from the housing market**
3. **Extensive credit expansion before the recession accompanied by a banking crisis**
4. **Increased economic pressure** leading to cumulative household and business expectations, who with the first exit from the recession cycle signs are likely to abruptly increase their spending, therefore creating a virtuous growth circle (rebound effect)

Greece is likely to experience a creditless recovery…

1

Drop of the change in credit growth

Banking credit is moving at a negative pace of 3.5%, on average, over the past three years

The change in banking credit is not expected to increase substantially in the future, as banks are in the process of deleveraging their balance sheets

2

Squeeze of the construction sector stemming mainly from the housing market

Collapse of investment in dwellings from € 25bn to around € 1bn per year and shrinkage of the housing market

3

Extensive credit expansion post recession coupled with banking crisis

Before the recession, there was a significant credit boom followed by a major banking crisis that reduced the number of Greek banks from 35 in 2007 to 17 in 2017, compressing their assets and requiring capital controls in order to contain the leakage in deposits that reached € 120bn

4

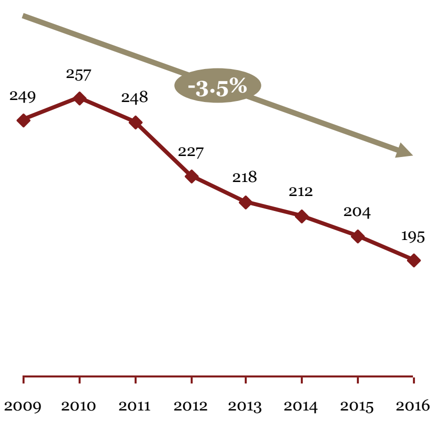
Financial and social squeeze

There is an increased pressure in the economy with GDP plummeting by 22% (2010-2016) and unemployment reaching 24% of the total work force

** Source: Hellenic Bank Association, "Documentation on the operation of the Greek banking system» (2017)*

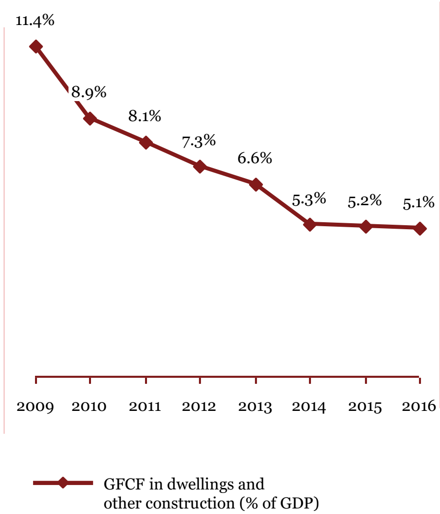
…as confirmed by official data

Available Credit
Loans to the private sector



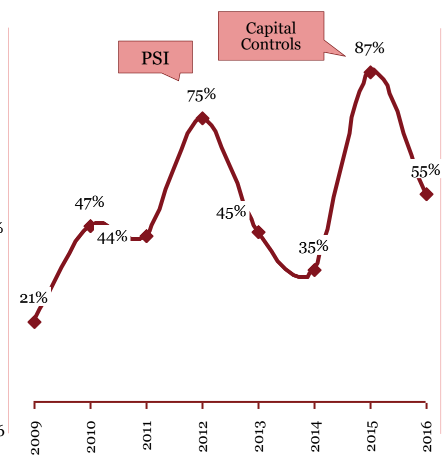
Source: Bank of Greece

Construction Sector
Investments in dwellings and construction (% of GDP)



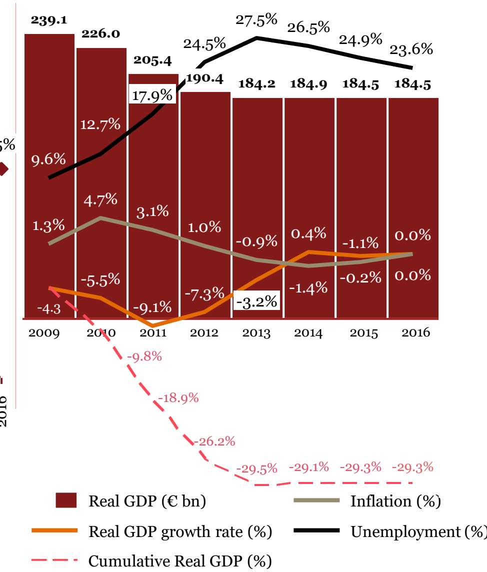
Source: European Commission (AMECO), Hellenic Statistical Authority

Banking Crisis
Eurosystem Liquidity (ECB/ELA) to deposits



Source: Bank of Greece

Economic and social squeeze
Real GDP, inflation & unemployment



Source: European Commission (AMECO), OECD Economic Outlook Apr 2017

Summary

- Bank credit is of utmost importance for the economic activity of a country
- A recovery is called creditless when, during its first three years, the change in bank credit is zero or negative
- In the aftermath of a financial crisis, economies can quickly recover using investment or remain on a sluggish path due to inadequate funding
- A recovery following a recession can occur either with or without access to credit. However, annual growth in a credit funded recovery is on average 40% higher than the one of a creditless recovery over its first three years
- Taking into consideration the characteristics of Greece’s economic environment it is possible that Greece could experience a creditless recovery

Investment gap in Greece

Investment, as a percentage of GDP, in Greece is related to economic growth

1st Period: 1961-1979

Greece experienced growth in Investment as a percentage of GDP (excluding 1974-1975) of 13.3 pps, while GDP growth rate over the same period rose by 1.2 pps

2nd Period: 1979-1995

Investment in total economy squeezed to 15.5 pps, while the annual change in GDP declined by 7.86pps over the same period

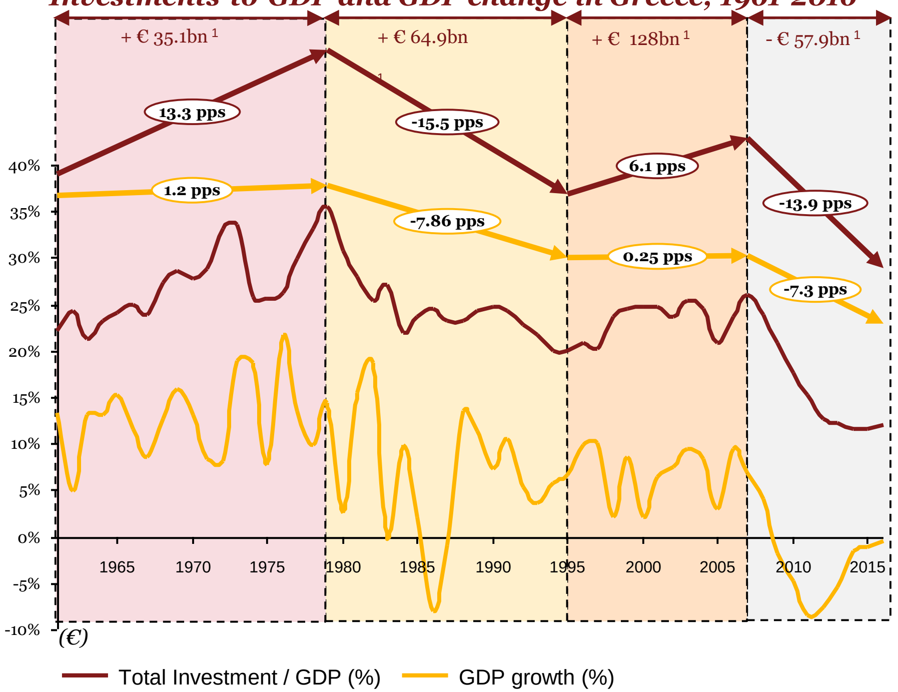
3rd Period: 1995-2007

Investment as a percentage of GDP rose by 6.1 pps, while GDP growth rate settled at 0.25 pps

4th Period: 2007-2016

During the recent recession period, total investment substantially decreased by 13.9 pps with GDP following this negative trend (drop by 7.3 pps)

Investments-to-GDP and GDP change in Greece, 1961-2016

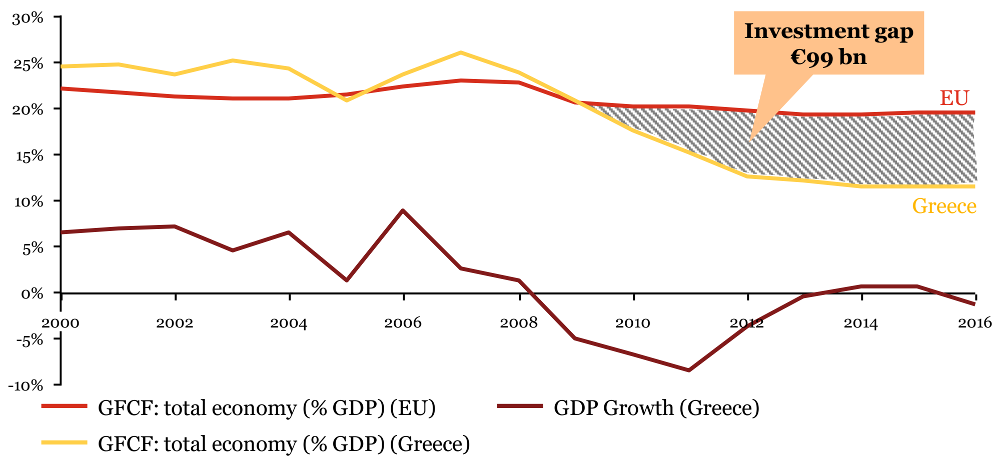


Source: European Commission (AMECO)

[1] GDP change in absolute value

Since 2009, there is an investment gap which has a negative impact on competitiveness and growth

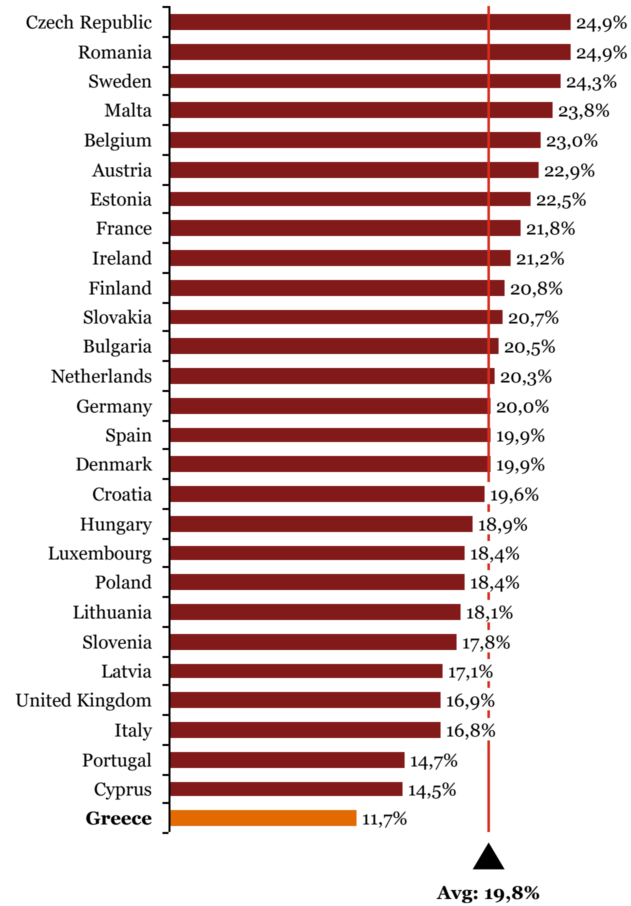
Total Investment (GFCF) as a percentage of GDP



Source: European Commission (AMECO)

- Spanning from 2009 to 2016, investments as a percentage of GDP in Greece have moved away from the European average, creating a widening investment gap of €99 bn
- In 2016, Greece depicts the lowest share of investment to GDP, followed by Cyprus, Portugal, Italy and the UK
- The low level of investment in Greece reflects the country's productivity and competitiveness deficit vis-à-vis most European economies

Gross Fixed Capital formation (% of GDP) 2016



Source: European Commission (AMECO)

In 2016, total investment in Greece returned to levels of

1996

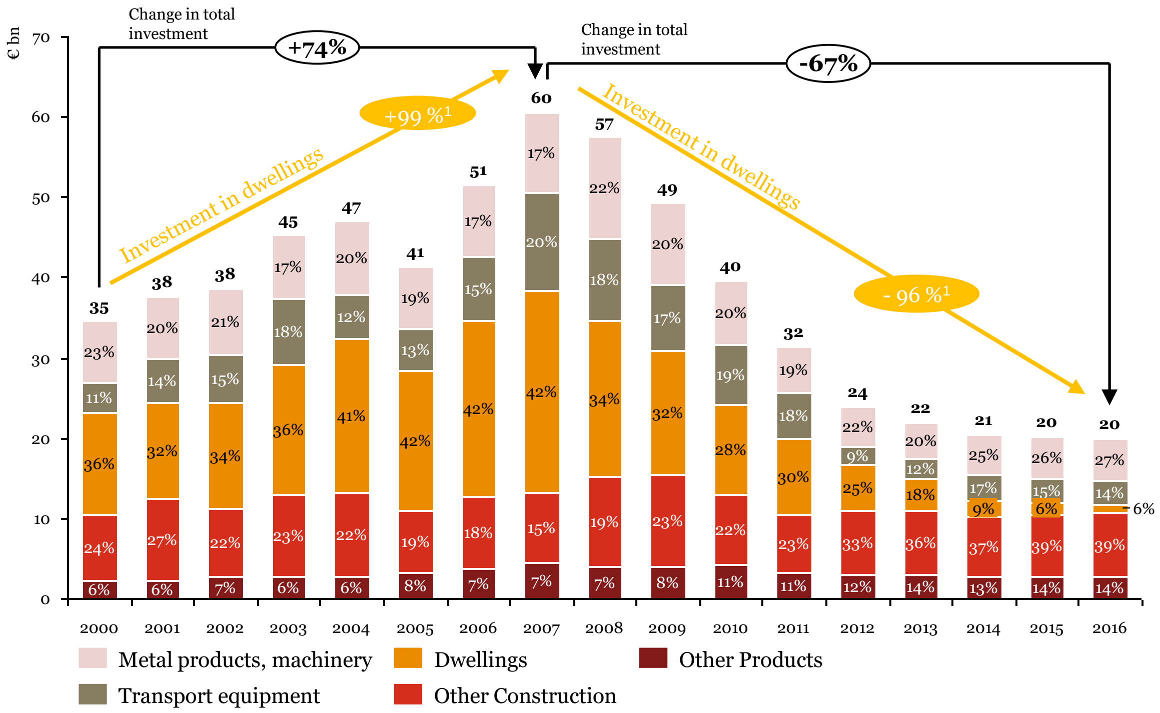
From 2007 to 2016 investment in dwellings dropped by

96%

Residential investments accounted for 42% of the total (~ € 25bn) in 2007, while in 2016 they accounted for only 6% of the total (~ € 1bn)

Between 2007 and 2016, the housing market suffered a collapse, decisively contributing to an investment drop of 67%

Investment (Gross Fixed Capital Formation) - Greece



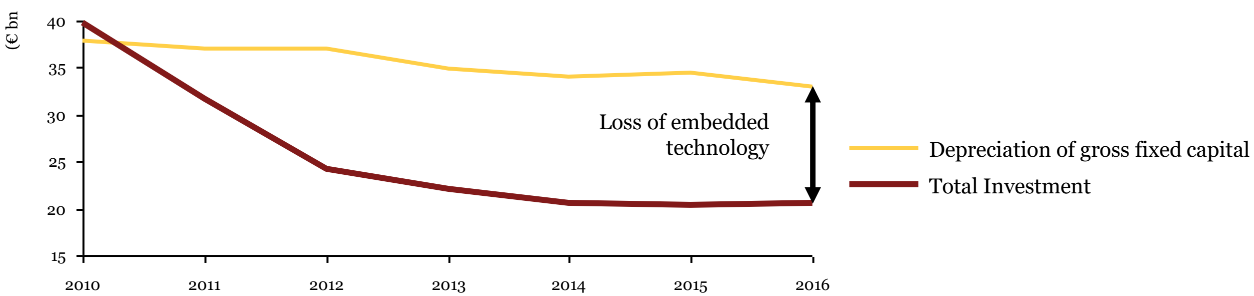
Source: Hellenic Statistical Authority

[1]Percentage change in dwellings investment

Investments cannot cover the depreciation of capital equipment, thus leading to a slow technological growth

Investment should be increased by **€ 12.3bn** per annum solely for the renewal of the existing capital equipment

Total investment and fixed capital depreciation

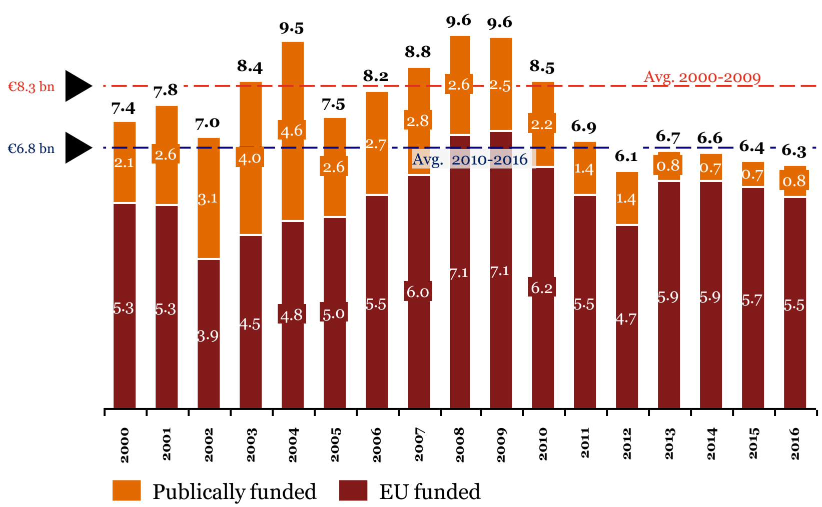


Source: European Commission (AMECO)

- Depreciation of fixed capital for 2010-2016 averaged at around € 35.4bn per annum. Investments of the equal volume should be realised annually in order to keep the economy stable, while a larger amount will be needed in order to put the economy on a growth path
- Since 2011, investment in Greece is systematically lower compared to the depreciation of gross fixed capital formation
- The investment gap has a negative impact on the competitiveness of the economy through the technology channel as investment naturally embeds new and innovative procedures

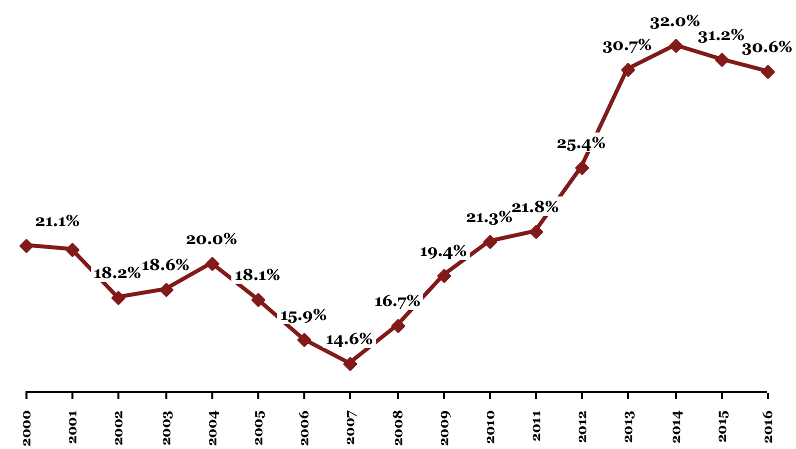
The Public Investment Program comes short by around 19% when compared to a period of relative growth and stands at around € 6.5bn a year

Public Investment Plan Structure (€ bn)



Source: Greek National Budget

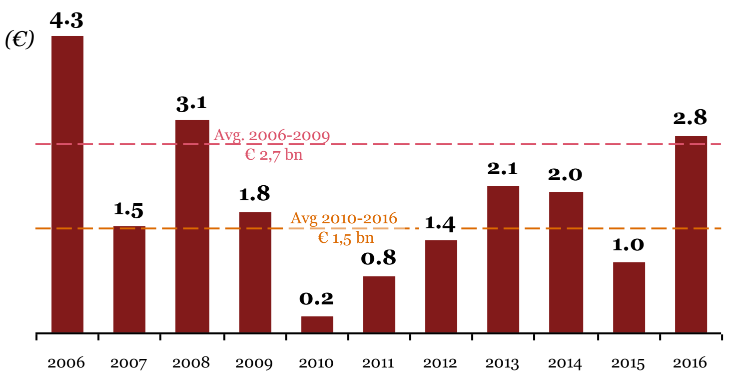
Public Investments as a percentage of GFCF (%)



Source: National Greek Budget, European Commission (AMECO)

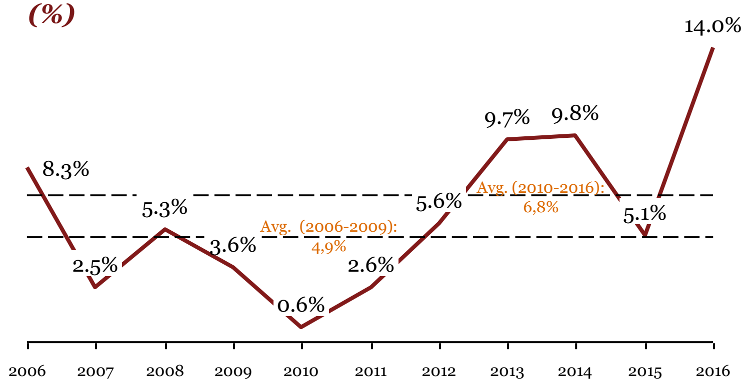
- **The Public Investment Program** recorded an annual decline of approximately € 1.5bn on average in the period 2010-2016 compared to 2000-2008
- **Public investment as a percentage of total investment** in Greece is on the rise from 2007 to 2014. Especially from 2010 to 2016, the ratio grew by 9.3 pps, reflecting the significant lack of private investment

Net Foreign Direct Investment (FDI) in Greece (€ bn)



Source: Bank of Greece

Foreign Direct Investment as percentage of GFCF (%)



Source: Bank of Greece, Hellenic Statistical Authority

The drop of Foreign Direct Investment in Greece between 2006-2016 reached

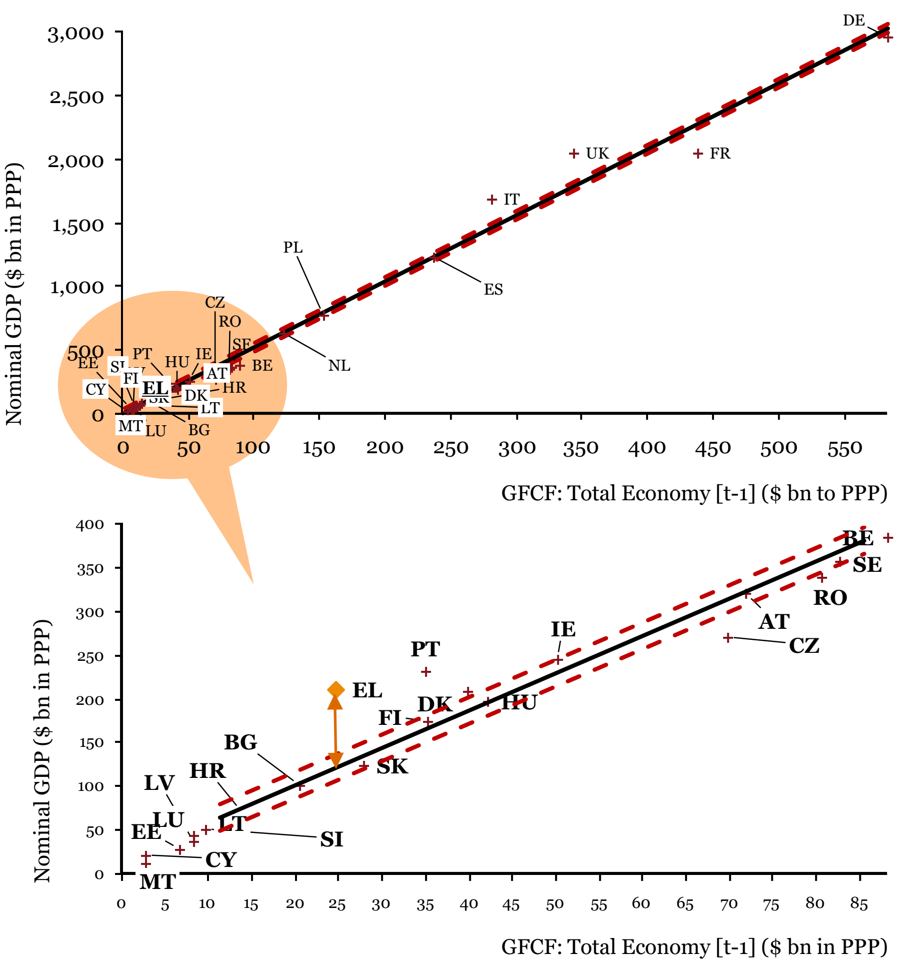
34%

The Greek economy, historically, does not attract significant foreign funds and is mainly dependent on domestic funding sources

- **FDI accounts constantly at around 6% of total investment**, but fluctuates a lot on a year-on-year basis
- Since 2008, a sharp fall in foreign capital inflows took place reflecting the lack of investment interest in the Greek market and further limiting liquidity. The average FDI for the period 2006-2009 is almost double than that of 2010-2016
- While Foreign Direct Investment, as a percentage of total investment, grew steadily from 2010 to 2014 due to GDP shrinkage, in 2015 it dropped significantly as a result to the country's economic and institutional instability, and rose again in 2016
- **The inability to systematically attract significant foreign capital is crucial, since the investment gap should be bridged by Greek funds**

Investment supports a country's economic growth

Nominal GDP and Total Investment, 2016



Πηγή: Ευρωπαϊκή Επιτροπή (AMECO)

- GDP in Europe shows a strong positive correlation with **last year's investments** and available **credit to the private sector**
- Greece has a higher GDP for its investments compared to other European countries, demonstrating a completely different **economic model based on consumption**

GDP = β1 (GFCF-total economy$_{t-1}$) +β2 (Available credit to private sector)		
	Adj. R^2:0.97	
	Coefficients	t-Stat
GFCF-total economy$_{t-1}$	3.27	45.04
Available credit to private sector	0.31	22.31
α= 0.05		

Sample: 28 EU countries (1975-2015)
Source: European Commission (AMECO) & World Bank, PwC Analysis

Greece lacks in investment opportunities entering into a vicious cycle of recession and credit shortage

Investment in Europe is positively related to systematic growth and credit expansion, and negatively related to borrowing costs

The combination of prolonged recession and credit shortage has blown away **64%** of the "natural" investment in the Greek economy (2008-2016)

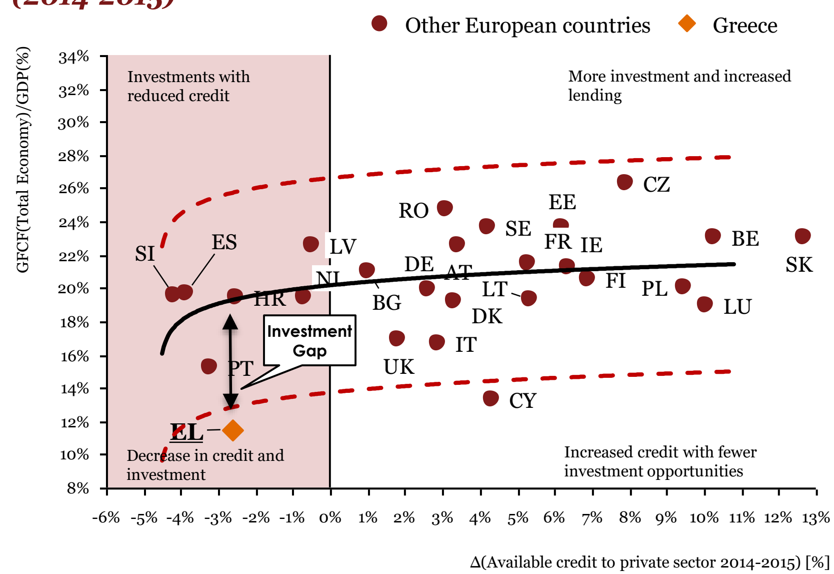
$\ln(GFCF_{\text{total economy}}/GDP) = \alpha + \beta 1 \ln(\Delta(GDP)) + \beta 2 \ln(\Delta(\text{credit to private sector})) + \beta 3 \ln(\text{Long-term interest rate}) + \beta 4 \ln((GFCF_{\text{total economy}}/GDP_{t-1}))$

	Adj. R^2:0.86	
	Coefficients	t-Stat
Constant	-0.09	-3.63
$\ln(\Delta(GDP))$	0.02	4.86
ln(Credit to the private sector))	0.01	5.97
ln(Long-term interest rate)	-0.02	-4.72
$\ln(GFCF_{\text{total economy}}/GDP_{t-1})$	0.91	54.73

α=0.05

Sample: 28 EU countries (1975-2015)
Source: European Commission (AMECO) & World Bank, PwC Analysis

Total investment and change in available credit (2014-2015)

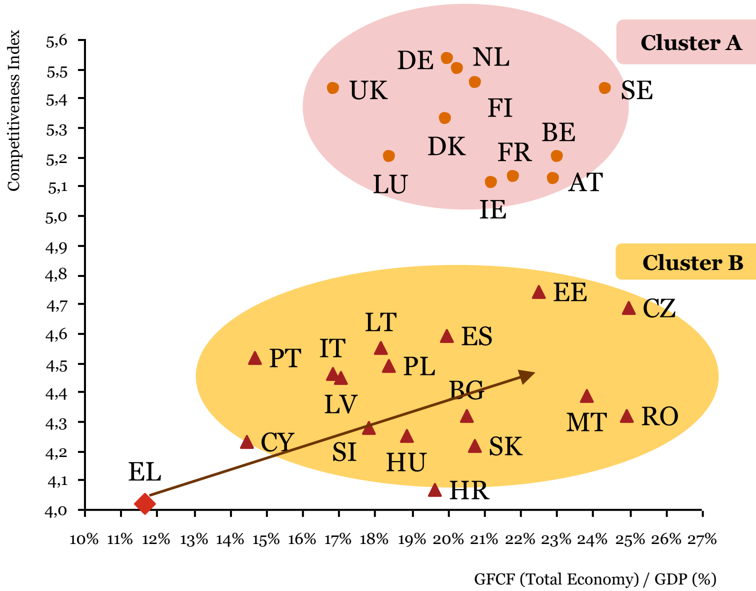


Source: European Commission, PwC analysis

Greece has a substantial competitiveness gap stemming from limited investments

- Countries sharing approximately the same level of investment-to-GDP are characterised by different competitiveness indicators, creating **two distinct country groups**
- **Western Europe countries** report higher competitiveness indicators comparing to countries with the same level of investment-to-GDP ratio, since they **have established significant infrastructure framework, fully developed financial markets and a stable economic and institutional environment**
- **Greece** is outside the cluster of low competitiveness countries, being **an "outlier"** having the lowest competitiveness index of the 28 European countries in the sample, while at the same time **characterised by the lowest investment-to-GDP ratio**
- **In order to move towards the cluster of the relatively low-competitiveness countries, Greece needs systematic and considerable investment initiatives**

Competitiveness Index and Investment-to-GDP ratio, 2016



Source: European Commission (AMECO), World Economic Forum

Summary

- Investment, as a percentage of GDP, in Greece is related to economic growth
- Since 2009, there is an investment gap which has a negative impact on competitiveness and growth
- The increase in total investment in Greece between 2000-2007 by 74% was mainly driven by high growth of the housing market. Between 2007 and 2016, the housing market collapsed, contributing to an investment drop of 67%
- In Greece, investments cannot cover the depreciation of capital equipment, leading to a slow technological growth
- The Public Investment Program comes short by around 19% when compared to a period of relative growth and stands at around € 6.5bn a year
- Historically, the Greek economy does not attract significant foreign funds and is mainly dependent on domestic funding
- The inability to systematically attract significant foreign capital is crucial, since Greece will have to bridge the investment gap with Greek funds
- Greece lacks in investment opportunities entering into a vicious cycle of recession and credit shortage
- Greece has a substantial competitiveness gap stemming from limited investments

Structural difficulties in realising investments

Investment needs for 2017-2022, compatible with rapid economic growth trends, are estimated at around € 270bn, but foreseeable funding flows are not enough to cover them

INVESTMENT (2017–2022)		SOURCE OF FUNDING (2017–2022)	
Type of investment	**Funds**	**Type of investment**	**Funds**
Firms		**Investment**	
1. Investment (at the current rate)	€ 66bn	Foreign Direct Investment (average rate of 2015-2016)	€ 12bn
2. Additional investment for growth	€ 43bn	Public Investment Program (at the current rate)	€ 37bn
3. Equipment maintenance investments	€ 74bn	Equity & credit funds (at the current rate)	€ 46bn
Total	**€ 183bn**	European Commission flows (e.g. NSRF Funds)	€ 20bn
Infrastructure		**Total**	**€ 115bn**
1. Small infrastructure projects	€ 48bn		
2. Large infrastructure projects	€ 21bn		
Total	**€ 69bn**		
Real Estate			
1. Investment (at the current rate)	€ 7bn		
2. Additional investment	€ 12bn		
Total	**€ 19bn**		
Recurring investment	**€ 216bn**		
Additional investment	**€ 54bn**		
Total investment	**€ 270bn**	**Total funding**	**€ 115bn**
Average annual investment	**€ 45bn**	**Average annual funding**	**€ 19bn**

The **funding gap for 2017-2022 stands at about € 155bn (€ 26bn per annum)**. Investment funds to cover the funding gap could come from:

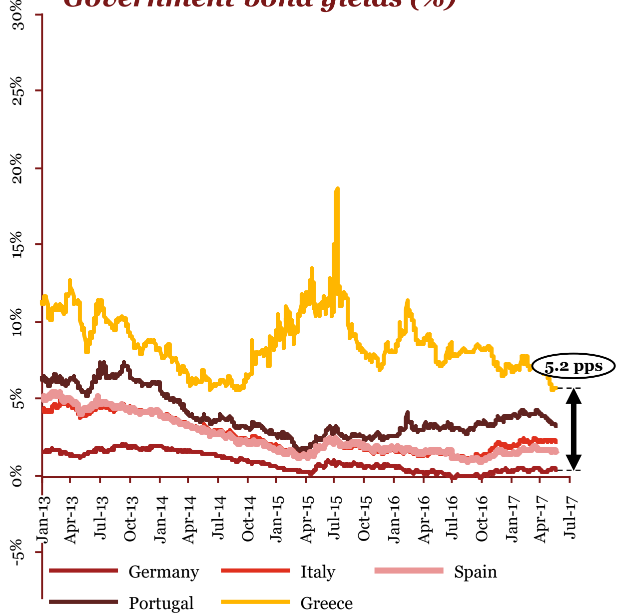
- additional equity
- credit extension
- “soft” financing

The trust gap, combined with the intrinsic risk of each investment, generally exceeds the expected return on investment after tax

Political uncertainty and the imposition of capital controls expanded country's trust gap to 5.2 pps as well as Greek companies gap to 3.1 pps

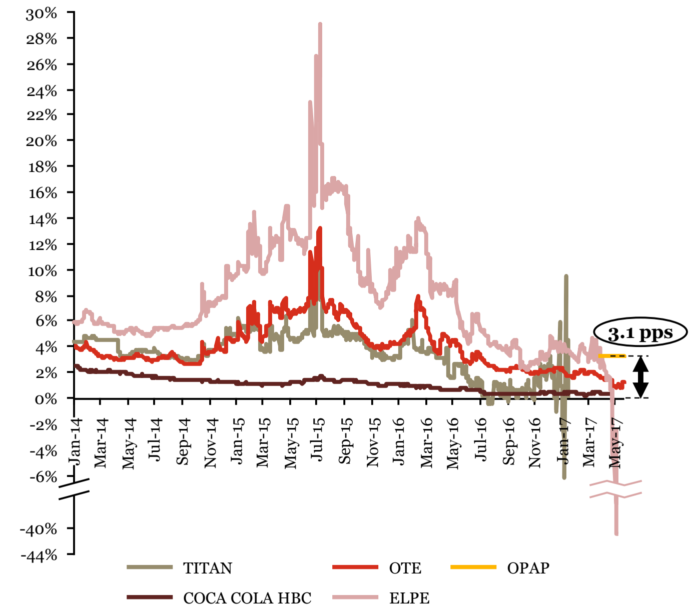
The Investment Inequality

Government bond yields (%)



Source: Bloomberg

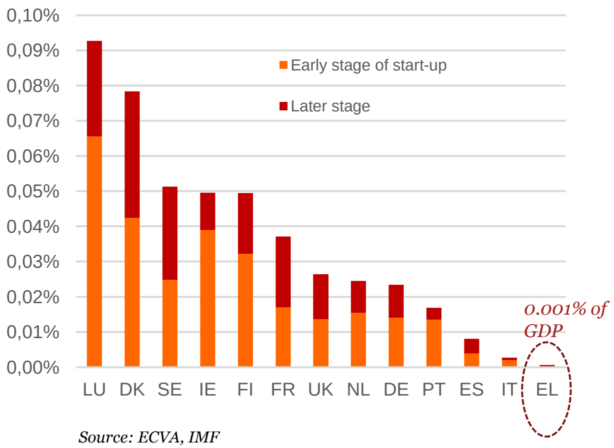
Corporate bond yields (%)



Source: Bloomberg

Greek companies have difficulty in accessing funds that could increase their productivity and competitiveness, due to low returns

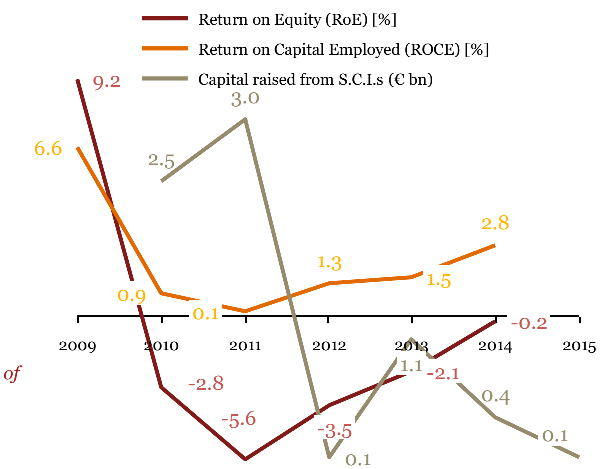
Venture Capital Investment % GDP (2013)



Source: ECVA, IMF

- Venture capital investment as a percentage of GDP in Greece in 2013 was minimal compared to other European countries

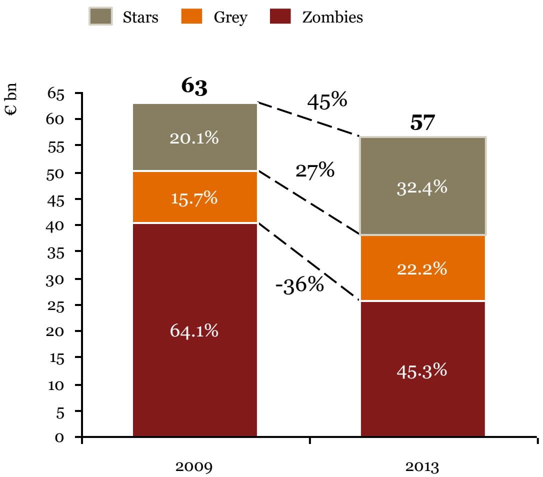
Share capital increase and return on equity or through the Athens Stock Exchange (2010-2015)



Source: ICAP, PwC Analysis, Stars & Zombies (Businesses with a turnover of more than € 10 million)

- From 2009 to 2011, companies' return on capital employed (ROCE) fell by 6.5 pps, while in 2012 to 2014 there was a steady increase up to 2.8%
- The annual capital raised from the SCIs that took place in the Athens Stock Exchange Market shrunk by 96% from 2010 (€ 2.5bn) to 2015 (€ 110mn)

Change in equity (2009 – 2013)

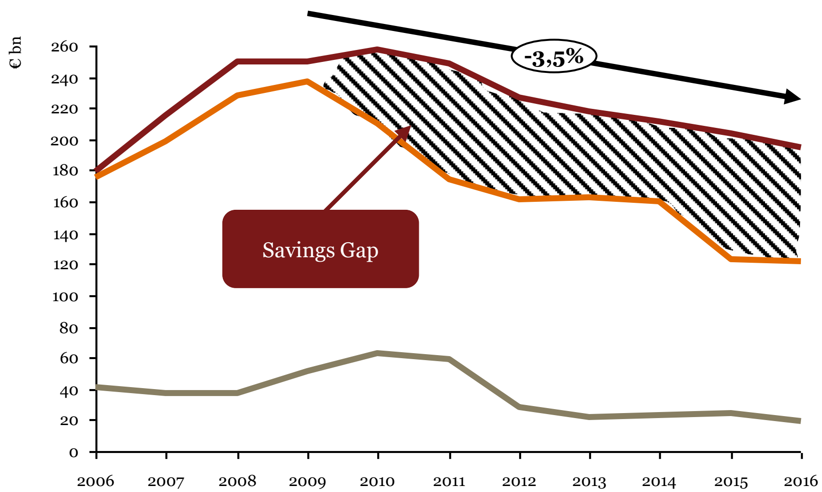


Source: PwC, Stars & Zombies (Businesses with a turnover of more than € 10 million)

- During 2009-2013, total equity dropped by 9% due to significant fall in equity of "Zombie" firms (-36%)

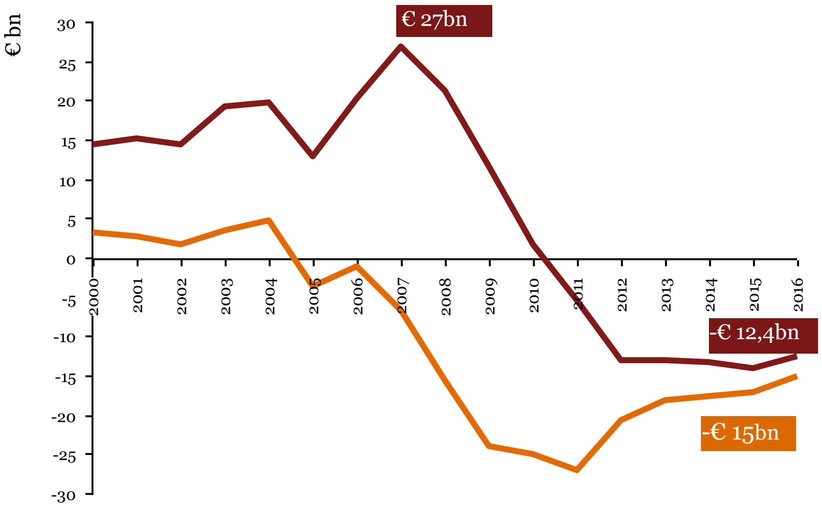
Private sector's credit expansion declined, on average, by 3.5% annually from 2009 onwards

Public and private lending, private sector deposits (period balances)



Source: Bank of Greece

Net investment and net saving, 2000-2016

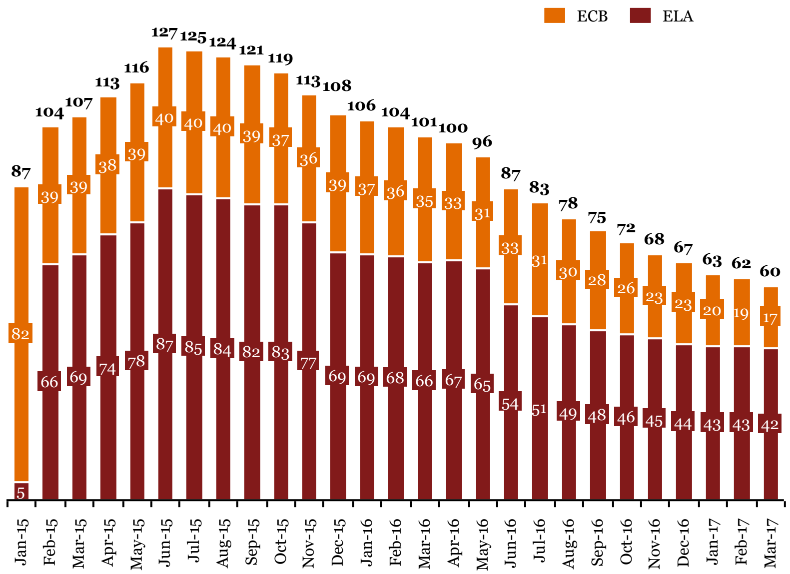


Source: European Commission (AMECO)

- Private sector deposits in Greece were traditionally lower than credit to private sector, unable to fully fund investments following the containment of external lending
- The gap between credit sector and savings to private at the end of 2016 reached € 74.4bn.

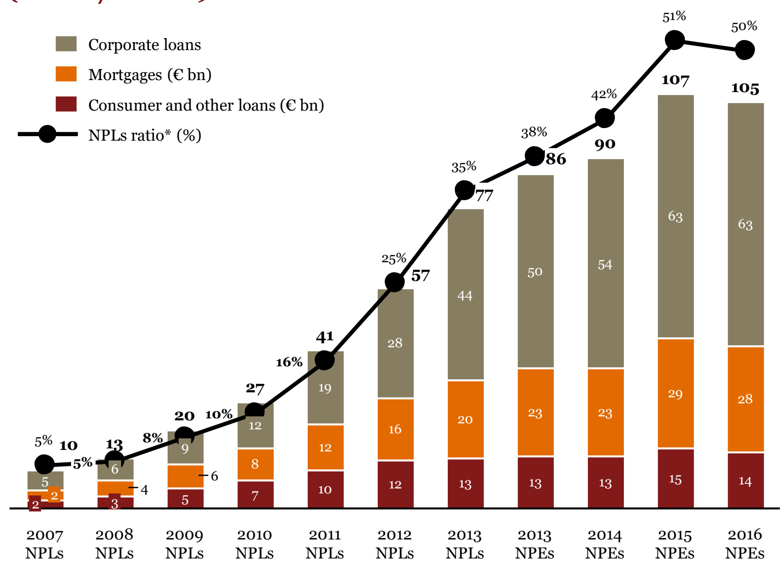
The systematically negative net savings, limited lending by Greek banks and the expansion of non-performing loans lead to limited investments

Financing of Greek banks by ECB and ELA (€ bn)



Source: Bank of Greece

Evolution of non-performing Loans and Exposures (NPLs / NPEs)



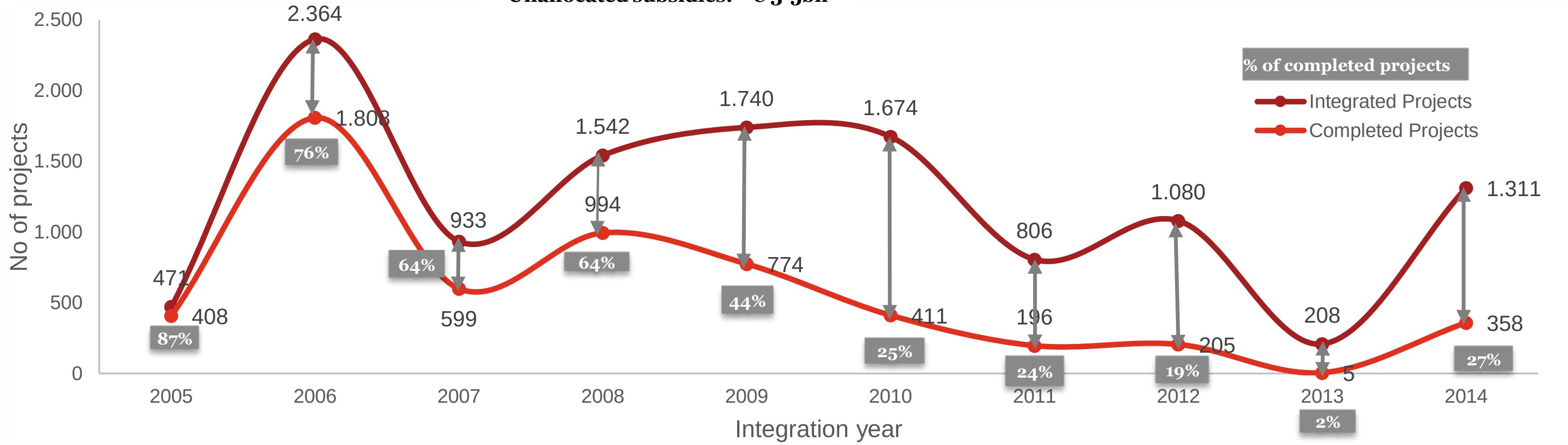
* From 2013 and afterwards the NPEs ratio is reported instead

Source: Bank of Greece

- Available funding originates almost exclusively from internal funds due to lack of access to international markets, while it can not cover depreciation costs
- The ELA and ECB funds, covering the liquidity deficit, stand at € 60bn
- The non-performing exposures of the Greek banks rose sharply reaching around € 105bn (at the end of 2016), accounting for 50% of credit to private sector and 60% of GDP, practically eliminating the ability to finance banks' balance sheets

The lack of equity of Greek companies and the absence of coordination of funding agencies for "soft" financing, originating mainly from the EC, blocked the flow of "development" funds

Unallocated subsidies: ~€ 3-5bn



Source: www.ependyseis.gr

The unallocated subsidies from the development Law (NSRF 2007-2013) are estimated at € 3-5bn. From 2009 to 2013, the percentage of completed projects to integrated ones, continuously declined. As a result, in 2013 only 2% of the integrated projects were completed

There are **5 funding agencies with 11 financing programs**. The **absence of single point planning** and monitoring of the financial instruments' implementation led to the fragmentation of resources overlapping and competition between the available programmes

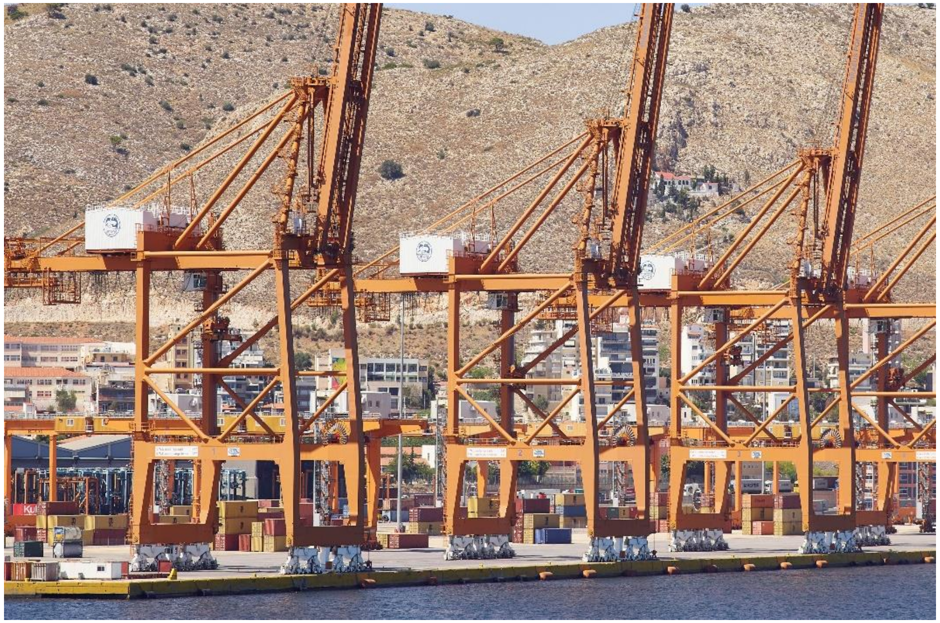
It is difficult to cover the usual **equity participation required** by many companies, rendering the utilisation of financial tools impossible in practice

Summary

- Investment needs for 2017-2022, compatible with rapid economic growth trends, are estimated at around € 270bn, but foreseeable funding flows are not enough to cover them
- The trust gap combined with the intrinsic risk of each investment, generally exceeds the expected return on investment after tax
- Greek companies have difficulty in accessing funds that could increase their productivity and competitiveness, due to low returns
- Private sector's credit expansion declined, on average, by 3.5% annually since 2009
- The systematically negative net savings, limited lending by Greek banks and the expansion of non-performing loans lead to limited investments
- The lack of equity of Greek companies and the absence of coordination of funding agencies for "soft" financing, originating mainly from the EC, blocked the flow of "development" funds

Policies towards economic recovery

It is necessary to expand the annual investments in order to facilitate economic growth



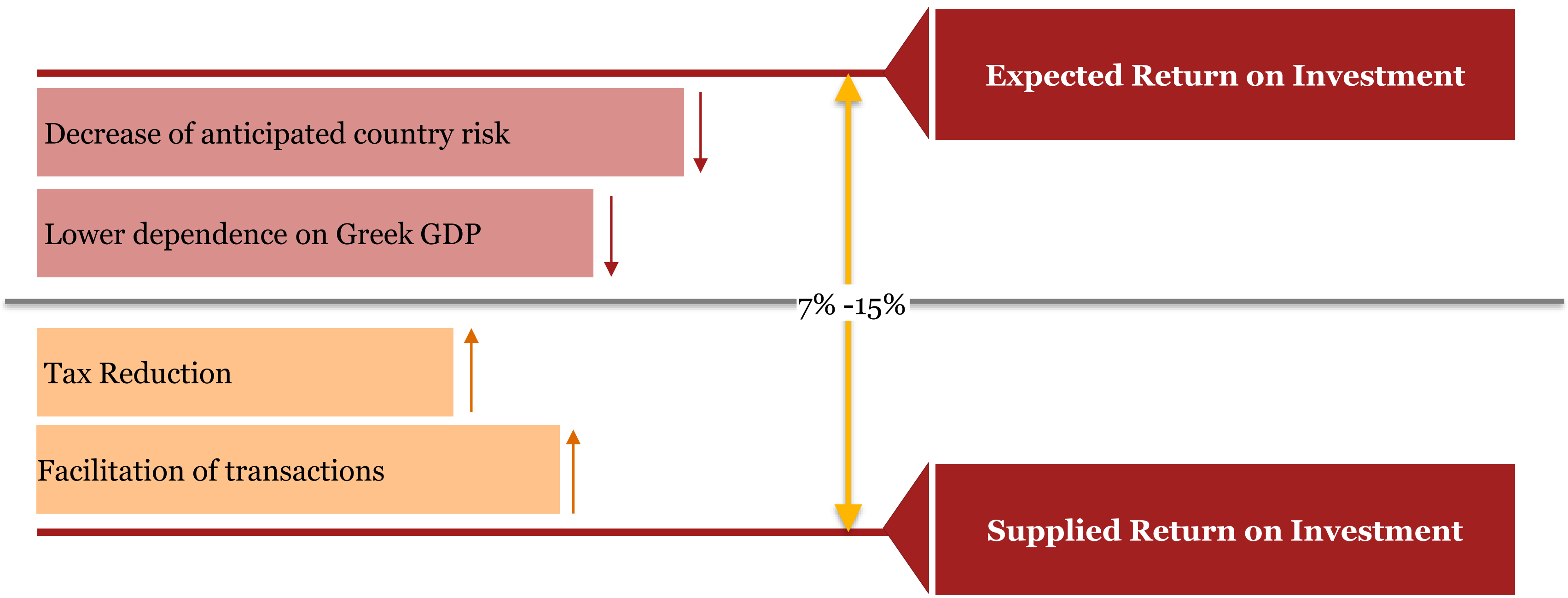
- There are increased investment needs in the economy of about € 270bn until 2022 to fund companies, infrastructure projects and the real estate market
- Financing sources, at the current pace, are significantly lacking of funds with the funding gap estimated at about € 155bn
- External funds are unlikely to cover a large portion of the gap, as they have not until now
- The fiscal distress has stalled or postponed public funds targeted at investment projects
- Any increase in the investment growth rate should go through extensive reforms and mobilisation of Greek funds

If the gap between expected and final yield is not limited, then the upcoming Greek recovery could possibly be creditless

The gap between expected and supplied returns can be compressed

As far as Greek firms are concerned, the total yield gap is smaller, since country's risk is mainly driven by Greek funding

This is why the first wave of investments is expected to be funded by internal funds



The grid of investment recovery policies

In order to be effective, the policies should be carefully designed and implemented with consistency

1. Improving confidence in political processes and institutions
2. Active management of non-performing loans
3. Acceleration of infrastructure investments
4. Restructuring of the housing market
5. Change in the architecture of the financial sector
6. Mobilisation of institutional equity for SMEs
7. Increase of “soft” funding
8. Adoption of a stable tax system

Building trust in political processes and institutions is the cornerstone of economic growth

The unstable economic environment that has been established will have to be overcome in a clear way

1. The country should have a clear **long-term national vision and target**
2. The public sector should have a **permanent management structure** and leave behind any political placements in administrative roles
3. The country should have measurable targets to **improve its competitiveness** in various areas
4. The **interconnection of all public sector information systems** will facilitate transactions and enhance trust towards state mechanisms

The sound, stable and efficient operation of institutions is crucial in order to build an environment around trust

1. The **speed of change in the legislative framework** should slow down, with a limited number of new laws to be voted on a yearly basis
2. The **codification of the existing laws** and its establishment as a prerequisite when adopting new laws will provide the basis for improving the regulatory stability
3. Much faster **delivery of justice**
4. Strict **adherence to laws and regulations** will reduce regulatory violations

Active management of non-performing loans will create opportunities and attract funding

The Greek corporate economy needs to be significantly relieved from debt, in order to start growing again and attract new funds

- **Assets trapped in the banks and the corporate balance sheets** must be released back into the economy to increase production capacity
- Approximately 1,000 companies with annual revenues of over € 10m are fairly competitive and are in need of investments. There are another 1,400 companies with characteristics that could attract investments. **By restructuring** € 13.5bn of debt and **refinancing** another € 10.3bn through higher risk instruments, a further € 6bn could be mobilised in the form of equity or quasi-equity and about € 2bn of assets to re-enter
- The consistent implementation by all parties involved (banks, corporates, BoG, the state) of such an approach to facilitate growth will boost the Greek economy by **adding 0,7%-1% to GDP annually up to 2020**

Investing in large infrastructure projects can be accelerated as long as they are funded

- The **limited national budget** does not allow the State to finance future infrastructure projects
- **Greek banks, being constrained by constantly compressed balance sheets**, do not have the funding capacity to support large infrastructure projects
- **Private funding** is vital for the smooth implementation of projects, will remain limited until the business environment improves and the political uncertainty decreases
- **Project Bonds issuance** may cover part of the funding gap as well as **PPPs** (Public Private sector Partnerships) that do not require a state contribution or could also be potentially substituted by the new NSRF 2014-2020
- **The total available resources** for infrastructure are estimated at **€ 8.2bn** (NSRF 2014-2020). Infrastructure projects to be financed concern mainly transport and energy as well as environmental protection

The recovery of the housing market remains the big bet

Reduction of excess dwelling stock

- The Greek housing market shows **signs of oversupply** due to systematic investments in the sector, while at the same time it suffers from the **non-scrapping of the aged stock and from fragmented property rights**
- In order to reduce the oversupply of houses, the accumulated dwelling stock should be reduced by **massive redevelopment and reorganisation projects** along with simultaneous **investments in infrastructure and technology** (upgrading non-operating buildings and scrapping of old stock, moving ministries and other public services buildings out of the city center, upgrading underdeveloped urban areas, improving external demand)

Transaction facilitation

- A lever in addressing fragmented property rights and reconstructing underdeveloped urban areas, is the **establishment of management and collection mechanism of building-coefficients and development rights ("Land Bank")** through transferring building-coefficients to appropriate reception construction areas (building coefficient reception zones) and through converting property rights from properties in underdeveloped areas into long-term lease rights (leasehold)

Changing the architecture of the banking system is necessary for the recovery of deposits and the overall financing of the economy

- **The banking sector must be redesigned** in order to be more efficient and flexible, following the evolution of the European environment
- **Elimination of non-performing loans from banks' balance sheets** so that the management focuses exclusively on banking activities. Efficient management of non-performing loans could be done outside the banking system, leading to an **increase in the banks' credit rating** by the rating agencies
- **Establish a state controlled credit rating mechanism** for companies and design procedures for collecting and processing data in order to assess companies' credit risk (especially for those not required to publish Financial Statements)
- **The creation of new banks will improve competition** in customers interest by expanding their funding, attracting new funds, improving technology and innovation, and providing higher levels of trust to depositors

The mobilisation of institutional equity for SMEs, which is the backbone of the Greek economy, is a necessary condition to unlock debt and "soft" funding

- **Facilitating M&As** in order to increase their size through technical and tax incentives
- **Facilitating the creation of investment funds** for smaller (<10 million) transactions
- **Creation of a listed investment fund** with an initial capital (seed) of € 200mn - € 300mn, from the IfG and the Greek State with the sole purpose of investing in SMEs
- The Fund will be managed by an accredited Venture Capital manager, and continuous and regular monitoring, evaluation, control and support of companies where the ECF has invested

A hidden part of the Greek economy will become visible to international investors through the Enterprise Capital Fund

Increasing "soft" financing will accelerate the investment cycle

- **Appointment of an** institution to coordinate all European credit actions for companies **(National Coordinator)**, which will manage and promote all SME financing programs and allocate the funds through credit institutions and equity providers
- **Central monitoring and evaluation of funding needs (periodically),** developing appropriate financing instruments for SMEs and proposing interventions in public policy
- **Develop information and support mechanisms for all involved parties** (both supply and demand side) for the ultimate resource usage
- **Subsidising investment**, at least in a short term horizon, is necessary to boost the market
- **Simplification and acceleration of integration processes** into subsidised schemes for easier access to finance for all companies
- **Reducing entry barriers to new players** by improving the time needed to set up a new company, rapid litigation of insolvent companies and accelerating dispute resolution

Strengthening funding frameworks and optimising procedures for granting subsidies will improve business activity and increase the flow of European funds to Greek companies

The adoption of a stable tax system will provide incentives to attract funds

- **Reduction of corporate taxes** to reduce the gap between anticipated risk and return in Greece, providing incentives for investment
- The complete reconfiguration of the tax system towards simplification, tax rate reductions, tax-free threshold increases and higher marginal income will make it more effective. Tax rate reduction is absolutely associated to the settlement of the tax system, which absorbs around 10% of GDP
- **Performing regular tax audits** could bring immediate financial benefits to the economy, while providing at the same time a message of legality and transparency of Greek business in the markets
- Tax stability can be achieved through an "informal contract" of **a commitment not to change the tax regime for at least five years**
- **Aligning Greece with EU Tax Practices** (Public Sector International Accounting Standards) will make the reporting of public finances more reliable and easier to compare to their European counterparts

The existence of a reliable tax plan will contribute towards investment security and trust to the Greek state

Summary

- It is necessary to expand annual investments in order to facilitate economic growth
- The gap between expected and supplied returns can be compressed
- Building trust in political processes and institutions is the cornerstone of economic growth
- Active management of non-performing loans will create opportunities and attract funding
- Investing in large infrastructure projects can be accelerated as long as they are funded
- The recovery of the housing market remains the big bet
- Changing the architecture of the banking system is necessary for the recovery of deposits and the overall financing of the economy
- The mobilisation of institutional equity for SMEs, which is the backbone of the Greek economy, is a necessary condition to unlock debt and "soft" funding
- Increasing "soft" financing will accelerate the investment cycle
- The adoption of a stable tax system will provide incentives to attract funds

Conclusion

Conclusion

- The role of credit in the economy as a whole is vital for growth and stability. The lack of "credit space" squeezes business initiatives having, at the same time, a macroeconomic impact
- Factors such as economic downturns, which affect credit mobility can drive the economy into a non-investment cycle. However, credit may not be a necessary condition for growth
- Following a recessionary period, there are cases where the economic recovery without the corresponding credit is possible. Studies show that there are examples of economies that bounced back without the aid of credit and entered a period of “creditless recovery" which is however about 40% weaker than a recovery with credit
- A recovery is called creditless when, during its first three years, the change in bank credit is zero or negative. The characteristics of an economy that can lead to such an outcome focus on the change in credit rate, the deterioration of the construction and the banking sectors, as well as on the general squeeze of the economy

- The Greek economy has all these characteristics that can potentially lead to a creditless recovery. This could be prevented by a strong investment environment, however, Greece is also in a tight spot in terms of investment interest
- Since 2009, there has been an investment gap which has a negative impact on Greek competitiveness and growth. This gap stems mainly from a 67% decline in the construction sector and the fact that the Greek economy does not attract foreign capital
- Increased private credit demand, limited bank funding, and the lack of equity of Greek companies exacerbate the negative investment climate and lead the economy to a slow and perhaps unfavorable adjustment
- It is important that Greece introduces consistent policies that promote and facilitate investment. These policies include the strengthening of confidence in political processes and institutions, the active management of non-performing loans, the acceleration of infrastructure investments, the restructuring of the housing market, the changing of the financial sector's architecture, the mobilization of institutional equity for SMEs, the increase of "soft" financing, and the adoption of a stable tax system
- These policies can strengthen confidence in investment processes and act as drivers for a sustainable growth

"Let me remind you that credit is the lifeblood of business, the lifeblood of prices and jobs"

Herbert Hoover (31st President of the USA)