

PIRAEUS BANK



Greek Economy: Trends & Prospects



Ilias Lekkos
Irina Staggel
Anastasia Aggelopoulou

Lekkosi@piraeusbank.gr
Staggelir@piraeusbank.gr
Aggelopouloua@piraeusbank.gr

Economic Research & Investment Strategy

July 2018

Disbursement & Cash Buffer

- ❑ **Disbursement: € 15 bn**
*€ 5.5 bn to be used for debt servicing and
€ 9.5 bn to build up cash buffers*
- ❑ **Cash buffer at end - Aug. 2018**
€ 24.1 bn covering the sovereign financial needs for around 22 months

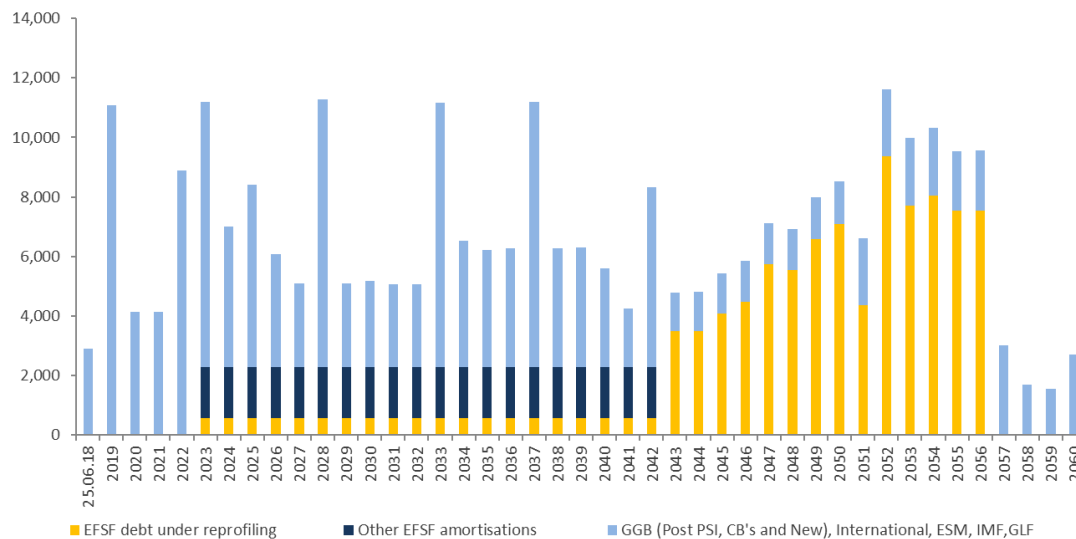
Measures Under Conditionality

- ❑ The **abolition of the step-up interest rate margin** related to the debt buy-back tranche (€ 11.3 bn)
- ❑ The use of **2014 SMP profits** and the transfer of **ANFA and SMP income** (as of budget year 2017)

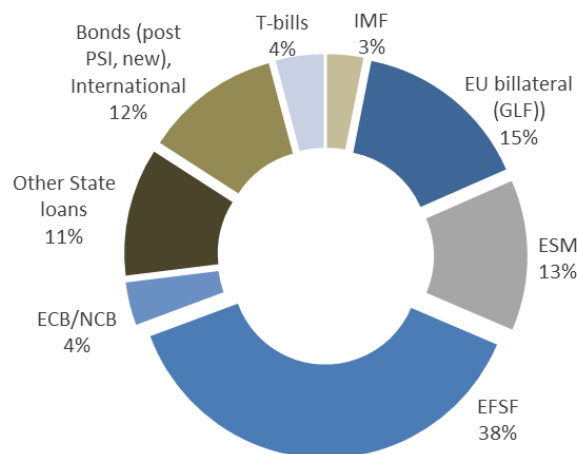
Measures with Immediate Effect

- ❑ 10 yrs deferral of **EFSF interest payments**
- ❑ 10 yrs extension of **EFSF loans amortization** (€ 96.4 bn)
 - **10 yrs extension of the maximum** weighted average maturity (WAM)

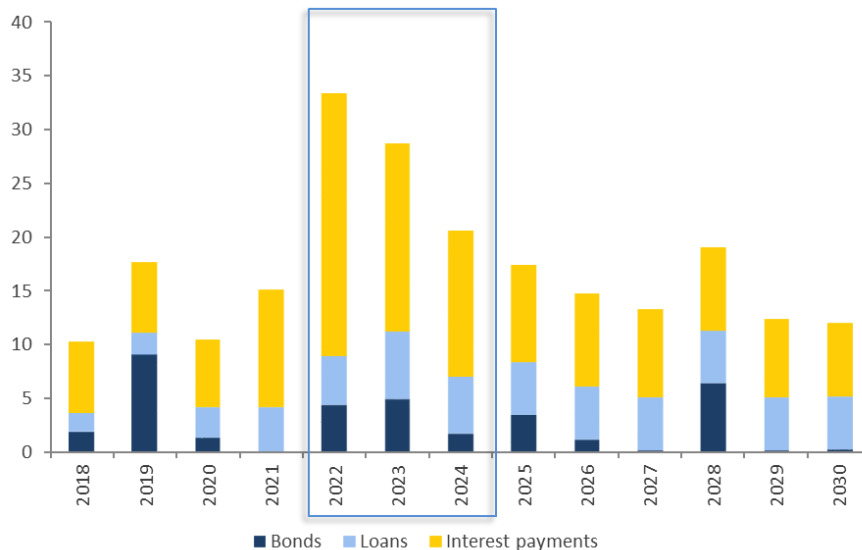
Bonds & loans Maturities* (principal amount as of June 2018, € mn)



Debt distribution by holder



Maturities* & Interest Payments (€ bn)

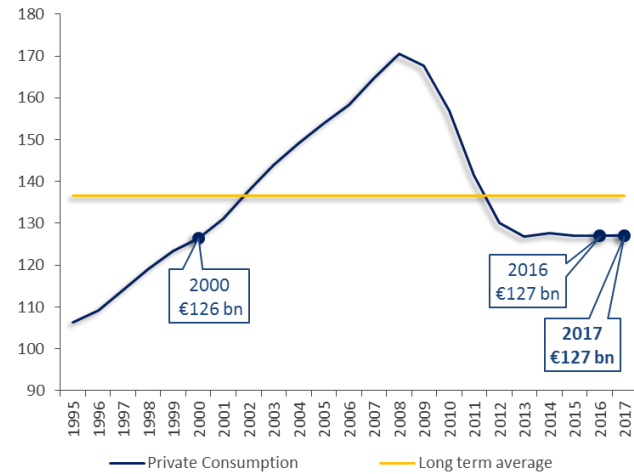


* Figures do not include T-bills, securitizations issued abroad, Bank of Greece loans, special purpose and bilateral loans, other domestic and external loans and repos. ESM loan: after the repayment of €2 bn and not including the €2.2 bn cashless transaction of the total €5.4 bn that have been disbursed for funding bank recapitalization.

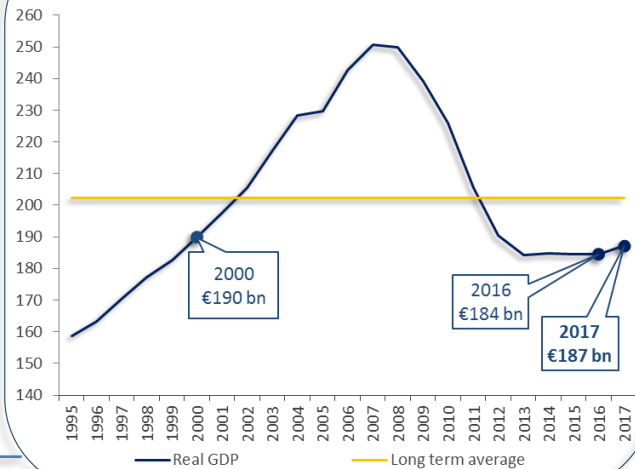
Source: MinFin, EFSF, ESM, IMF, Piraeus Bank Research



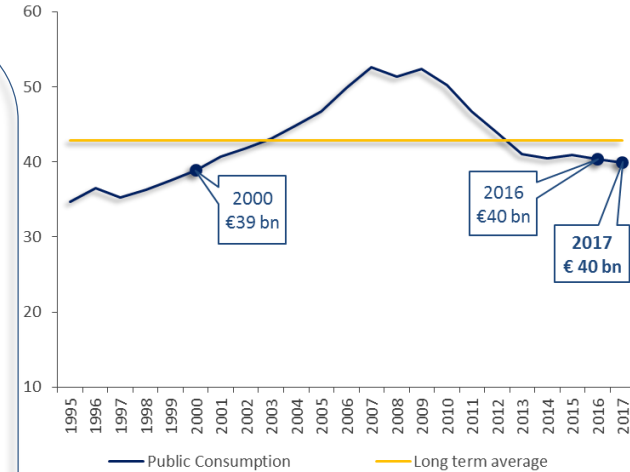
Private Consumption has stabilized close to its 2000 levels



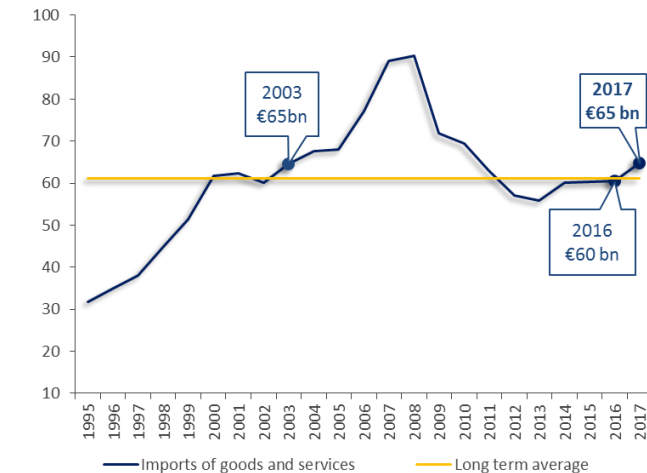
Real GDP has increased by 1.4% in 2017



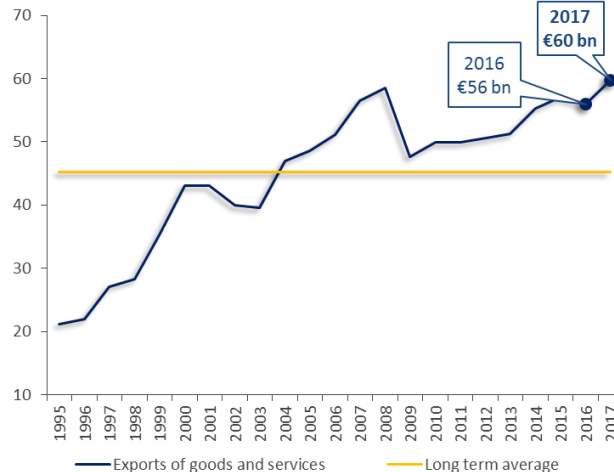
Public Consumption has remained stable at approx. €40 bn since 2013



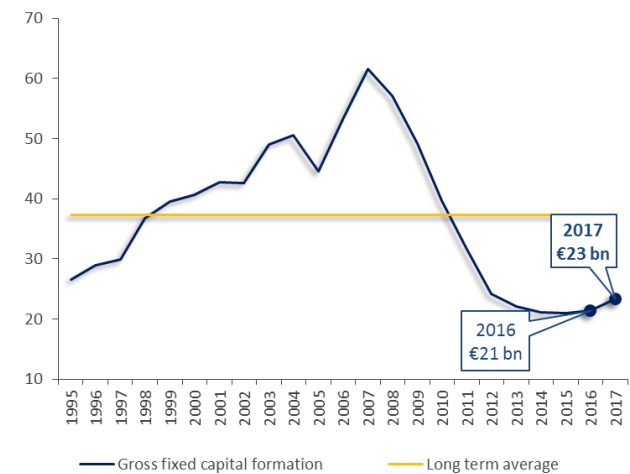
Imports have increased substantial in 2017 returning at 2003 levels



Exports at record high in 2017



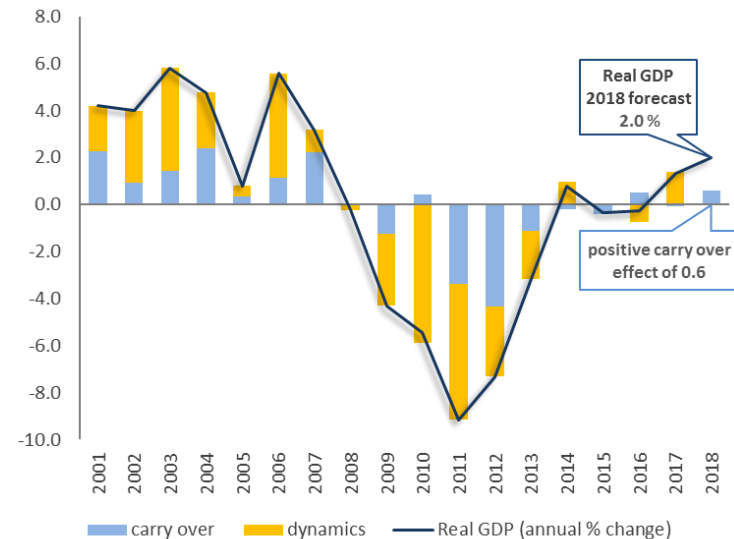
Investments on a clear upward trend



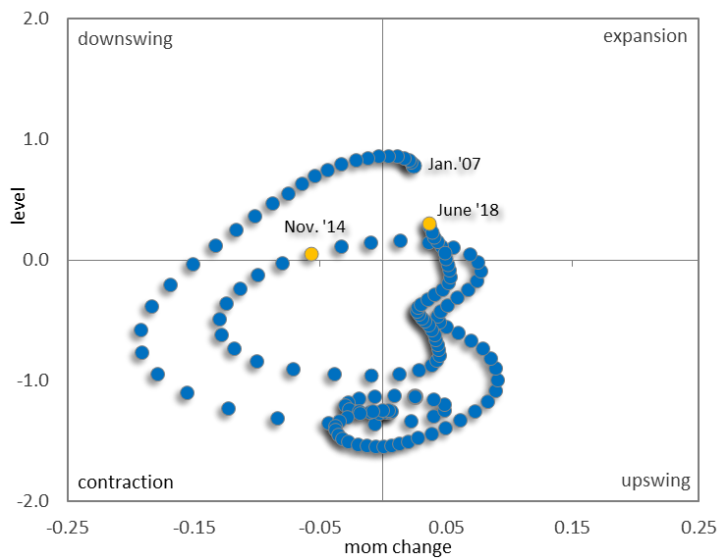
Macroeconomic Outlook

	2017	2018	2019	2020
Real GDP (% change)	1.4	2.0	2.2	2.3
Nominal GDP (% change)	2.0	2.1	2.8	3.2
HICP (% change)	1.1	0.6	1.0	1.4
CPI (% change)	1.1	0.4	0.9	1.4
Unemployment Rate (%)	21.5	19.0	16.9	15.2

Carry Over Effect & Growth Dynamics



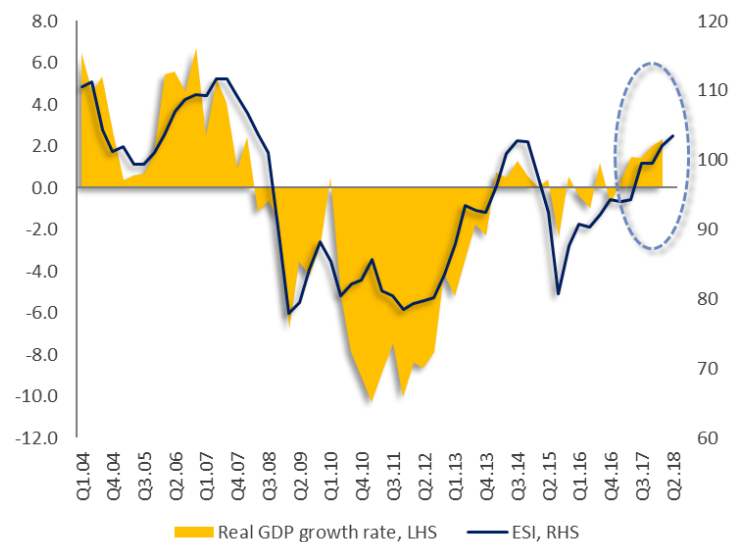
Economic Climate Tracer



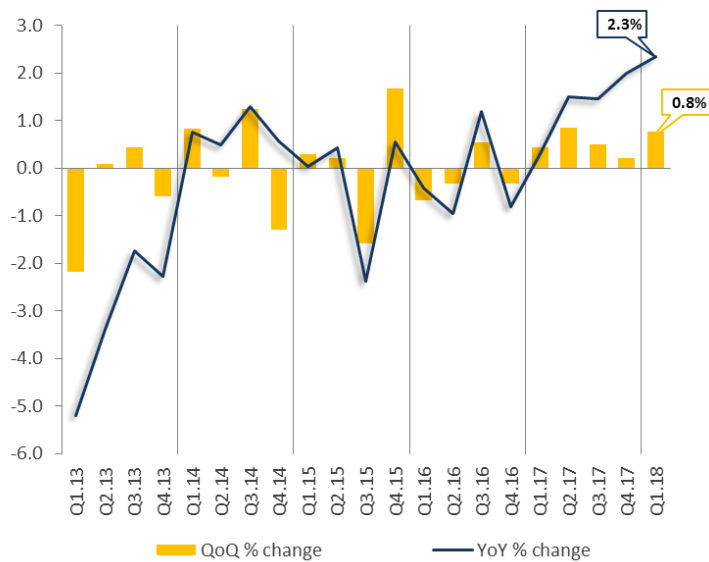
Economic Sentiment Indicator (ESI)

VS

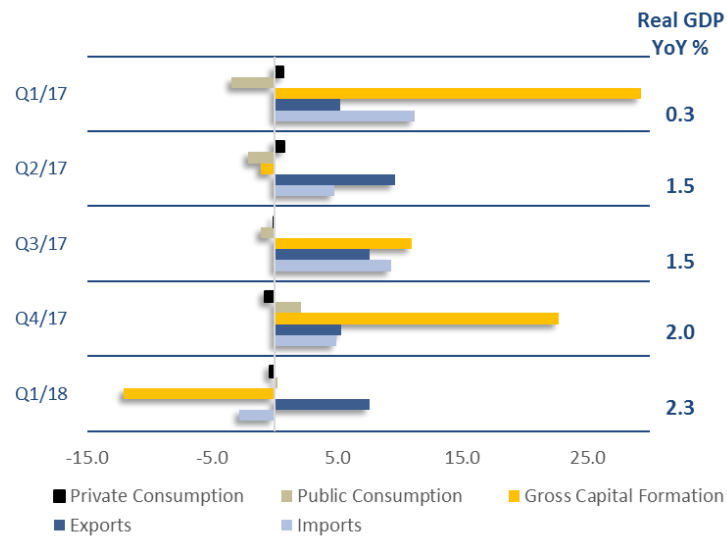
Real GDP growth rate (annual % change)



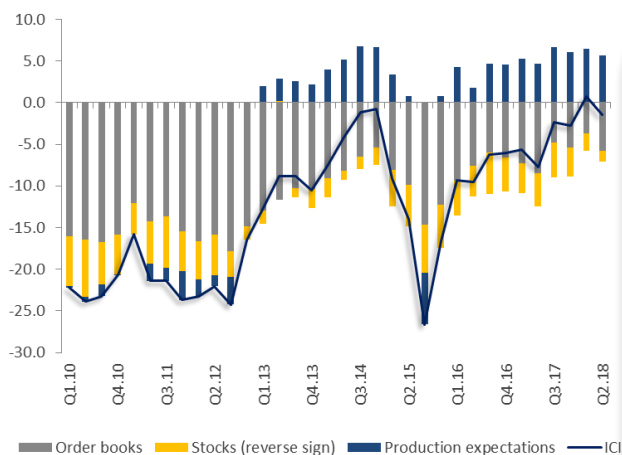
Real GDP (% change)



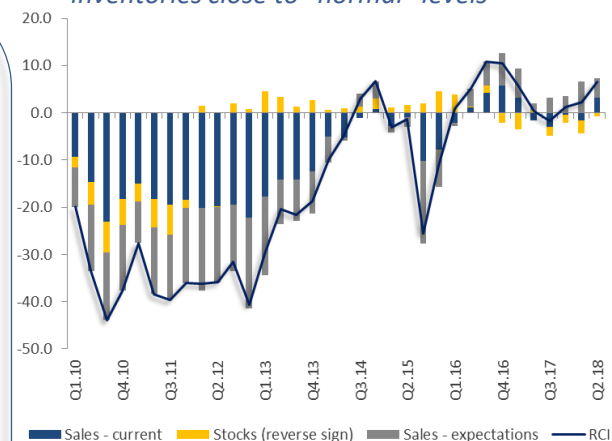
GDP growth rate Drivers (annual % change, 2010 prices)



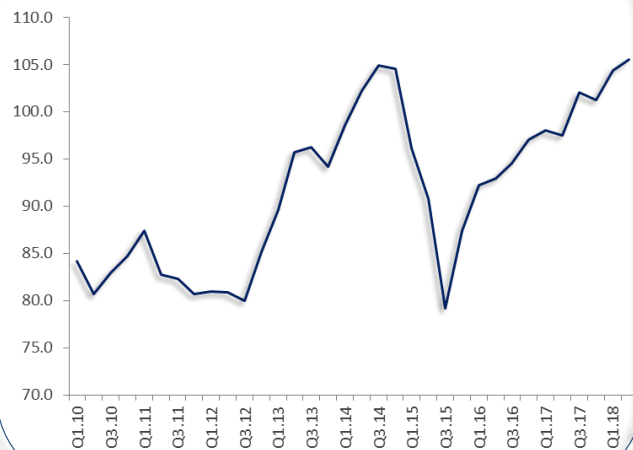
Industry: optimistic production expectations



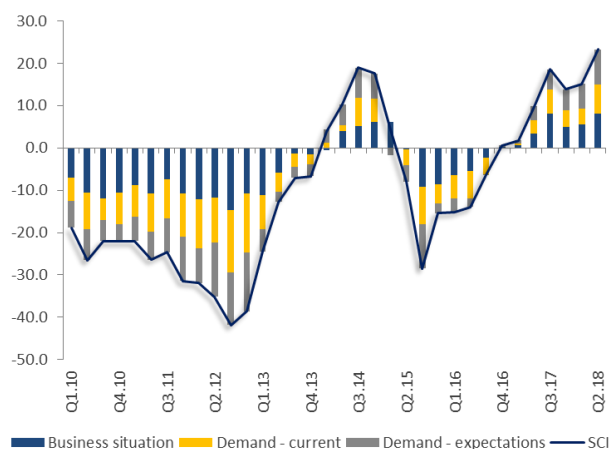
Retail Trade: positive expectations & inventories close to "normal" levels



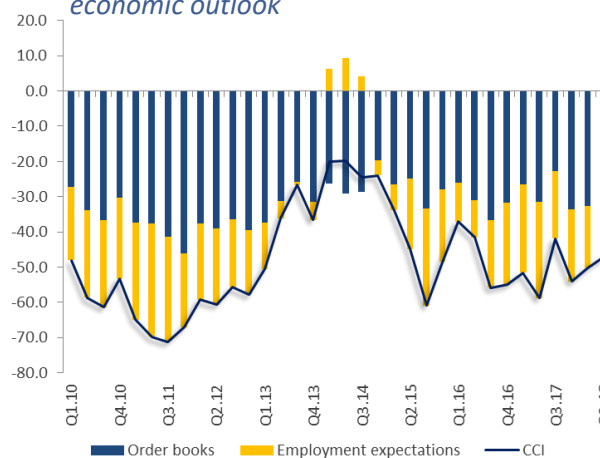
Business confidence Index* back to 2014



Services: robust positive economic expectations



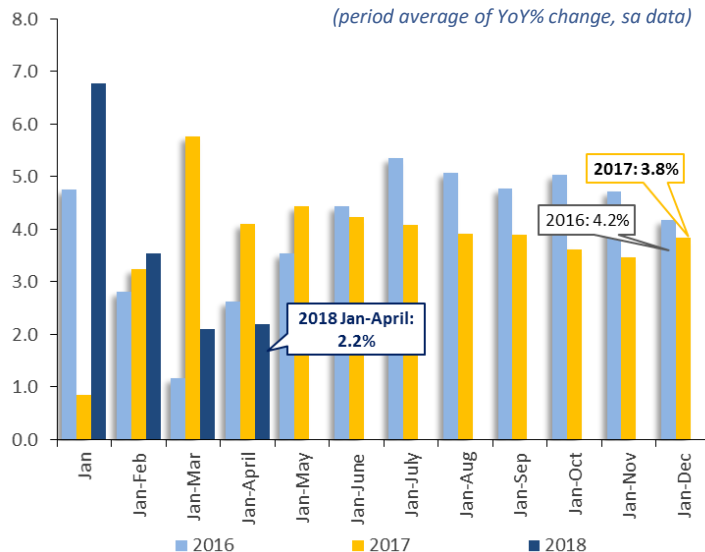
Construction: negative but improving economic outlook



Our methodology is based on DG Ecfm Business & consumer surveys. For more details: Lekkos I., Staggel I., Aggelopoulou A. "Investment led Growth: Expectations vs Reality" Aug. '16 [link](#)

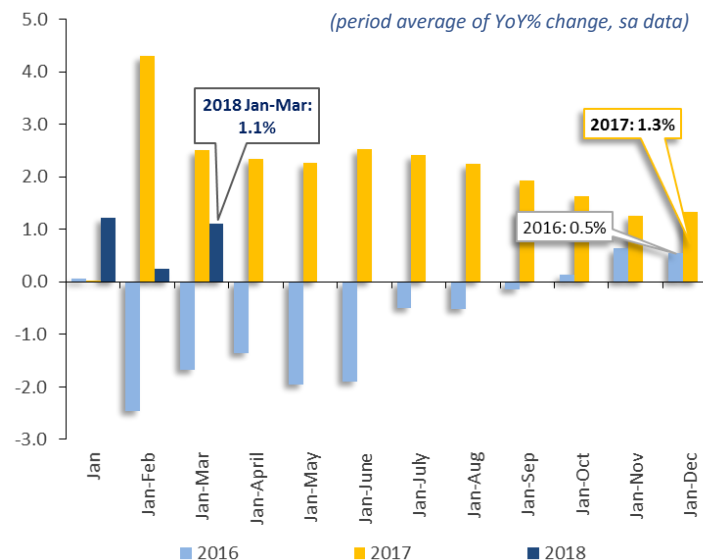
Industrial Production Index - Manufacturing

(period average of YoY% change, sa data)



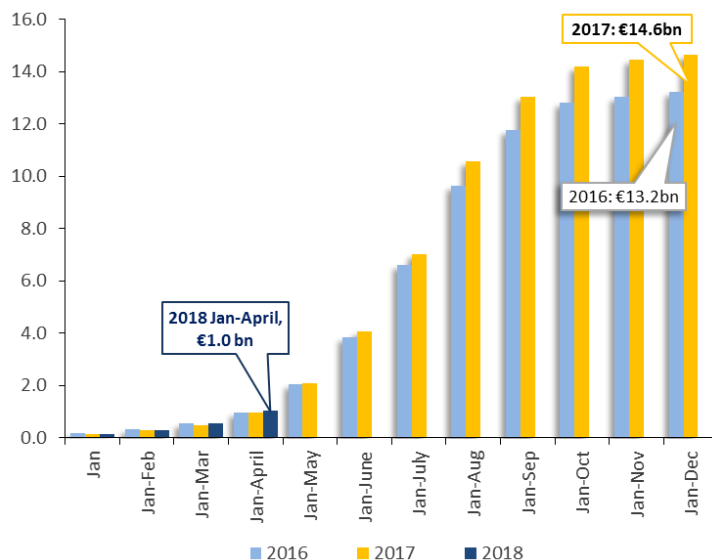
Volume Index in Retail Sales excl. automotive fuels

(period average of YoY% change, sa data)



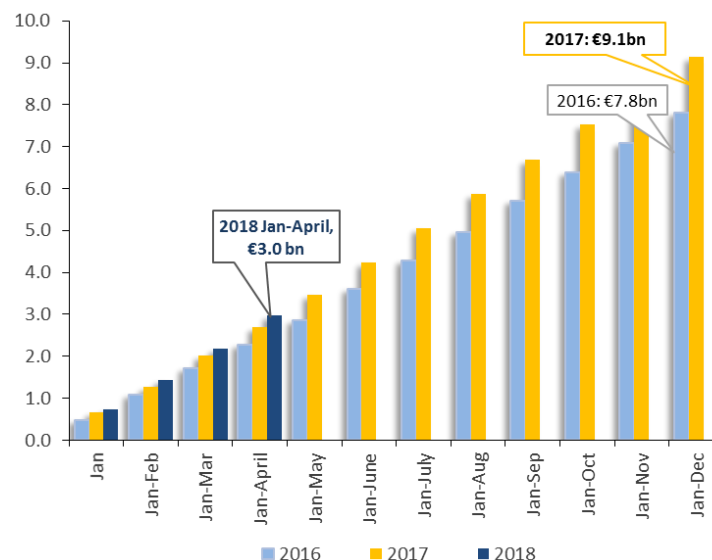
Travel Receipts

(€ bn, cumulative, nsa data)



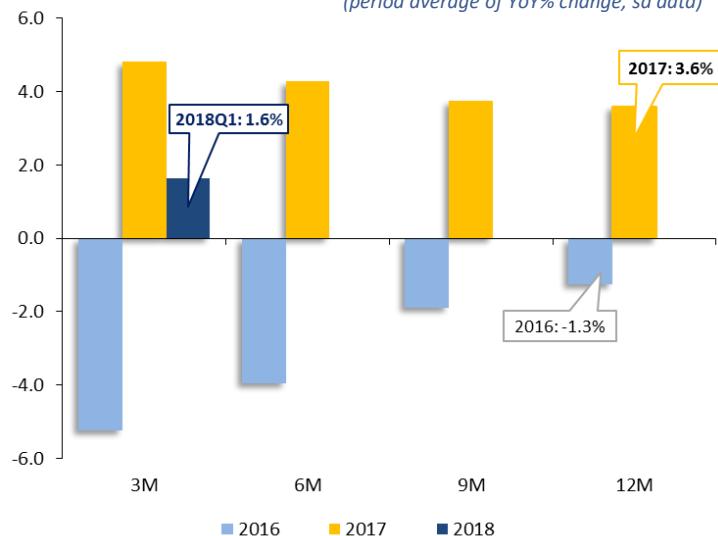
Transportation Receipts

(€ bn, cumulative, nsa data)



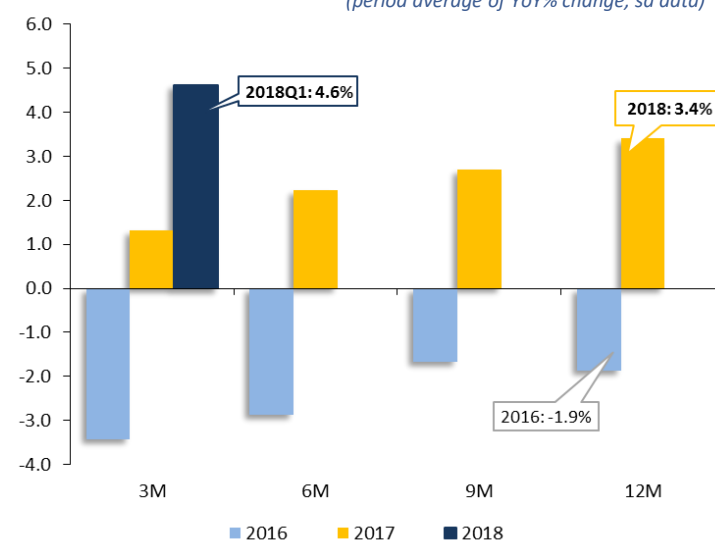
Turnover Index in Wholesale Trade

(period average of YoY% change, sa data)



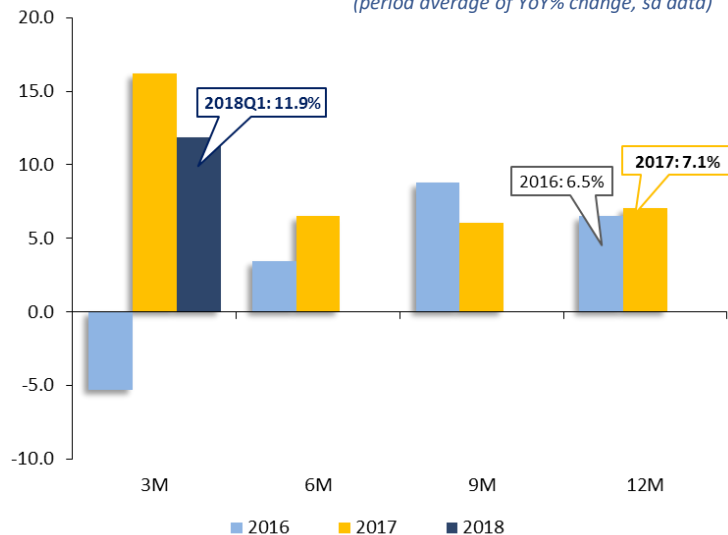
Turnover Index in Services excl. trade & vehicles

(period average of YoY% change, sa data)



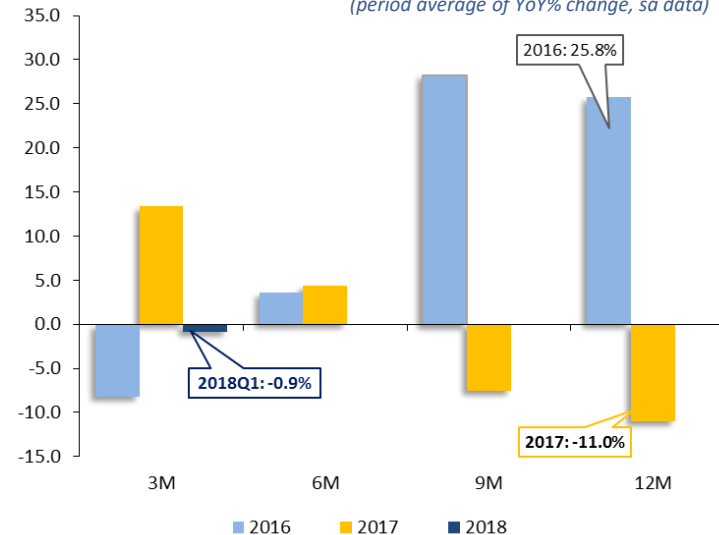
Turnover Index in Motor Trade

(period average of YoY% change, sa data)

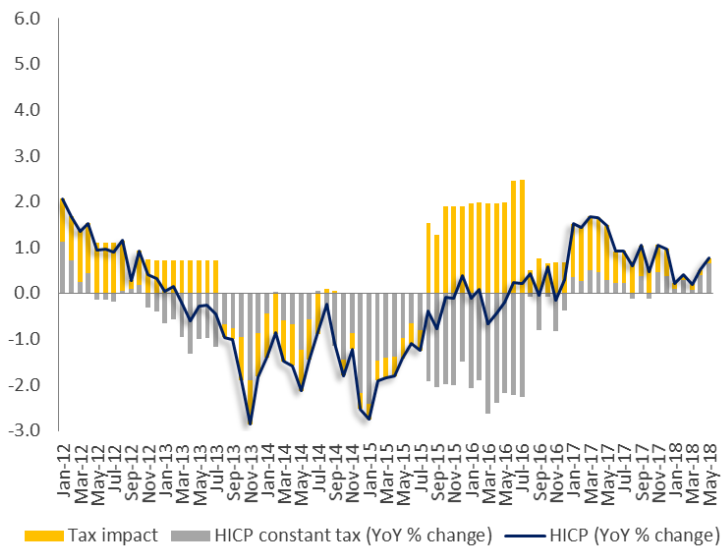


Production Index in Constructions

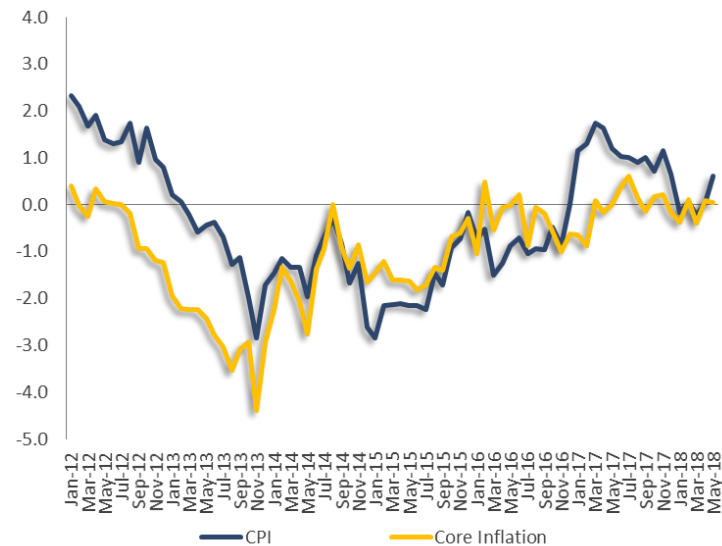
(period average of YoY% change, sa data)



HICP (annual % change) & Effect of tax changes

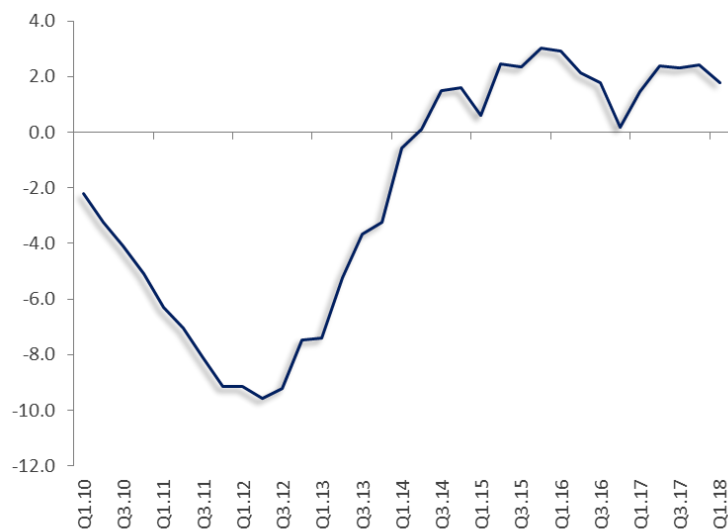


CPI vs Core CPI* (annual % change)

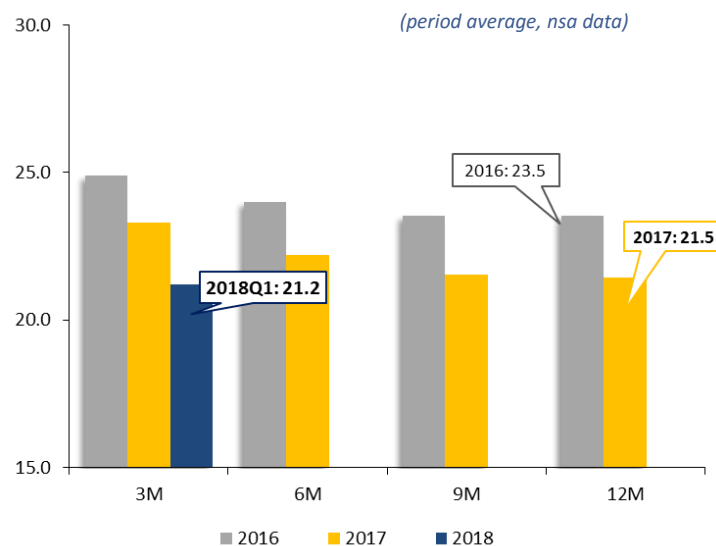


Note: Core Inflation Index is calculated from the Overall Consumer Price Index excluding “Food and non-alcoholic beverages” “Alcoholic beverages and tobacco” and “Energy Prices”

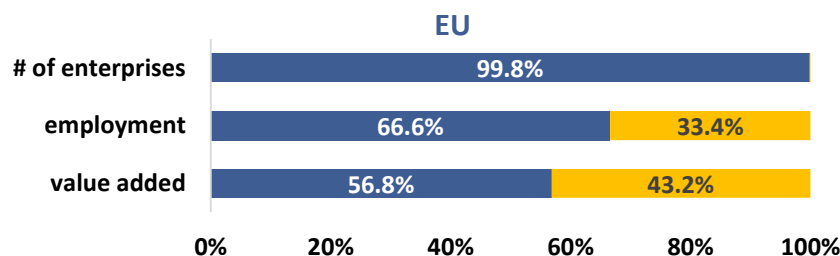
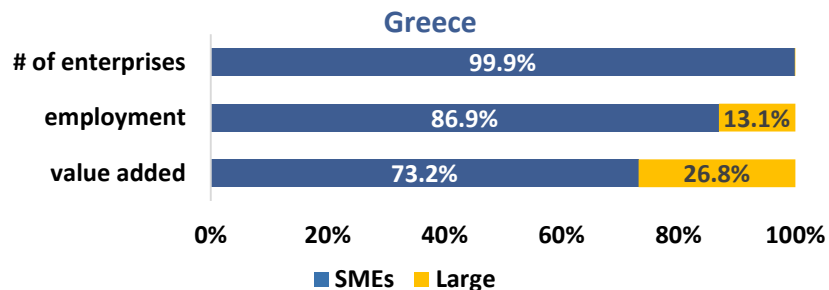
Employment (annual % change)



Unemployment Rate (%)







- The **backbone** of the Greek non-financial business economy is SMEs.
- 87% of **employment** is engaged to Greek SMEs vs the EU average 67%.
- The **average Greek SME is smaller than the EU**, since it employs 2.8 persons against the average 3.9 persons of an EU SME.
- The total **value added** produced by Greek SMEs **outperform** the EU average by 16.4% to 73.2%.
- However, **the Greek SME labour productivity is less than the half of EU average**, which gives room for improvement.
- Greek SMEs seem to have started **rebound** from the economic crisis.



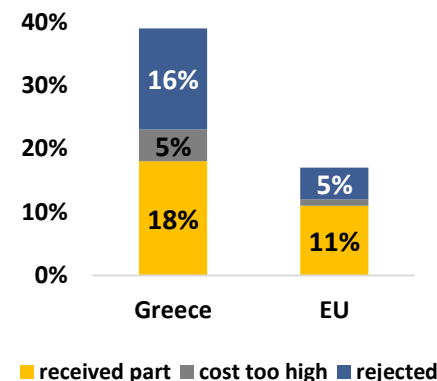
Trade credit, bank loans, grants (53% each)
 Credit lines (41%)
 Leasing (31%)
 Equity capital (21%)
 Internal funds (18%)
 Other loans (16%)

*used in the past or considering in the future



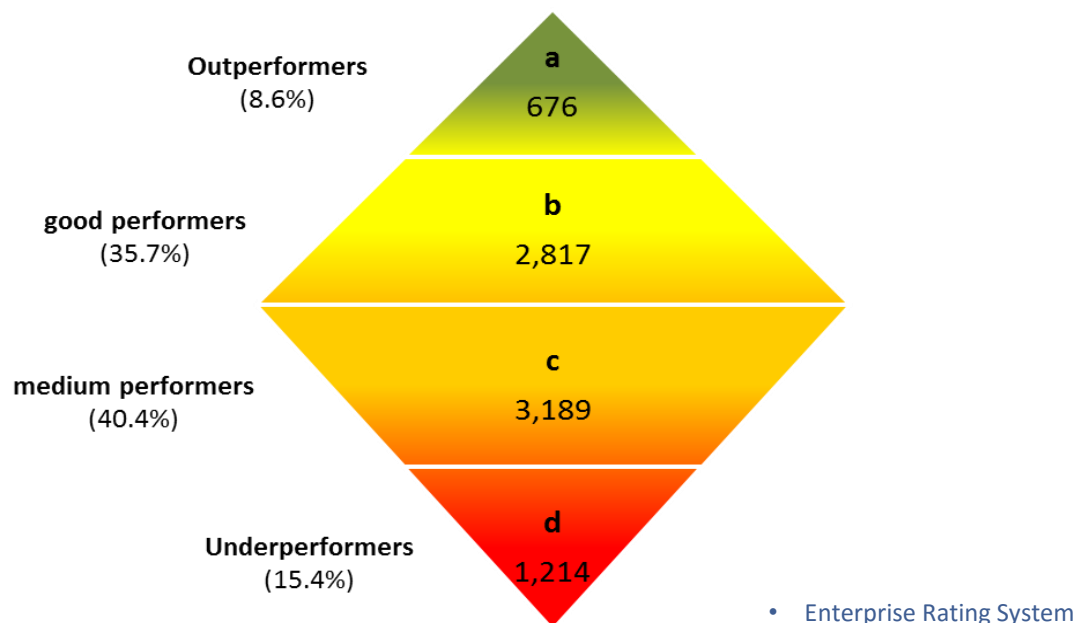
Inventory & working capital (45%)
 Refinancing obligations (30%)
 Fixed investment (27%)
 Developing new products (21%)
 Hiring & training employees (12%)
 Other (6%)

Outcome of bank loan applications of SMEs



In our Small and Medium-sized Enterprises universe:

- 8.6% records an outstanding performance in liquidity, profitability and solvency, thus achieving the highest rating,
- another 35.7% of SMEs belongs to the next rating with positive but less satisfactory performance,
- 40.4% is classified in the third rating, which means that its performance falls behind significantly,
- while 15.4% of the sample is in the last rating, which means that they are seriously problematic enterprises.



Profile of the average SME per final ERS rating, 2015

Outperformer “a”

- High levels of efficiency with the EBITDA margin amounting to 24% and the return on equity to 19.3% on average
- ***None of the outperformers has interest coverage ratio less than 1***
- ***Only 0.9% of them have positive EBITDA and net losses before taxes***
- High liquidity, with current assets covering their current liabilities by approximately 3.9 times
- Low levels of leverage, since their debt amounts to only half of their equity
- High level of debt servicing, since EBITDA covers financial expenses by 21.4 times

Good performer “b”

- More conservative, but satisfactory level of operating profitability, with EBITDA margin at 15.4%
- Profitable efficiency of equity, with the return on equity at 13%
- ***Only 0.7% of good performers have an interest coverage ratio less than 1***
- ***7% of them have positive EBITDA and net losses before taxes***
- Lower, but satisfactory level of liquidity, since the current assets amount to 2.5 times the current liabilities
- Higher debt levels, as liabilities exceed equity by 1.2 times
- Adequate debt service ability, since EBITDA covers financial expenses by 11.9 times

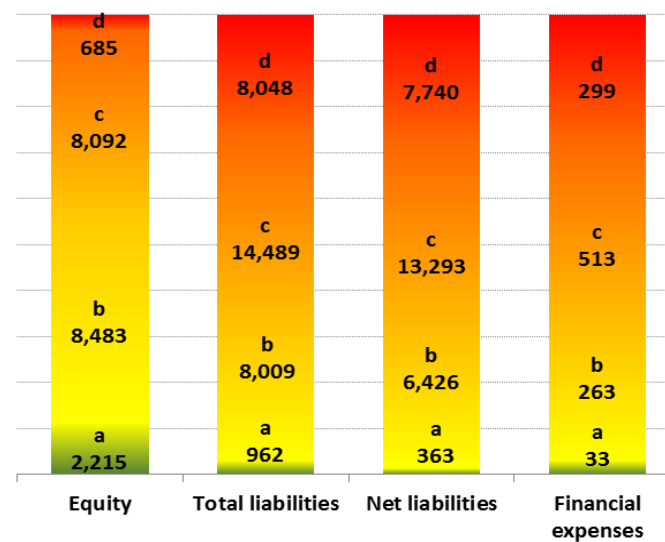
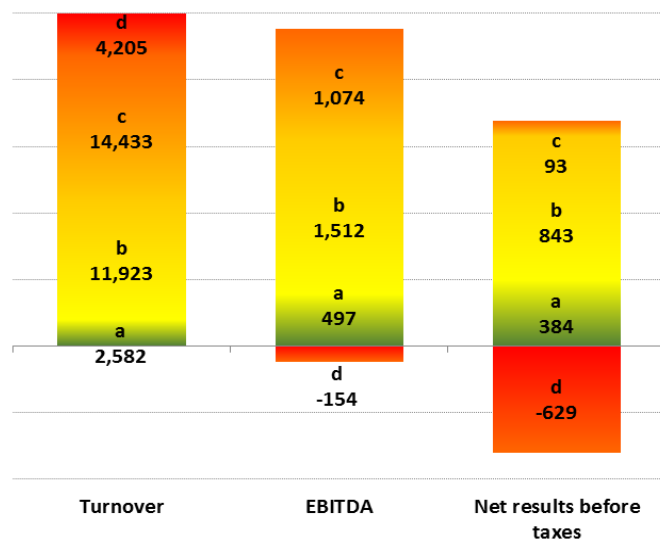
Medium performer “c”

- Low levels of efficiency and profitability, since the EBITDA margin is limited to 7.3% and the return on equity to 4.1%
- ***22.1% of medium performers have interest coverage ratio less than 1***
- ***17.7% of them have positive EBITDA and net losses before taxes***
- Satisfactory, but limited liquidity, with current assets covering current liabilities by 1.5 times
- High net debt level, which exceeds EBITDA by 13.6 times
- Low level of debt servicing, since EBITDA covers financial expenses by 3 times

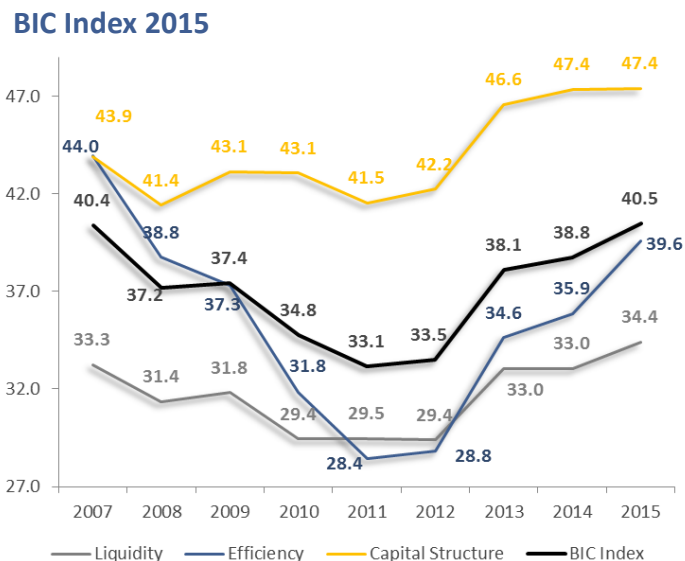
Underperformer “d”

- Loss making, with EBITDA margin at -9.1%.
- Inefficient management of equity, with a negative return on equity at -16.1%
- ***Almost all underperformers (82.5%) have an interest coverage ratio that is less than 1***
- ***18.3% of underperformers have positive EBITDA and net losses before taxes***
- Liquidity difficulties, since the current liabilities exceed the current assets (current ratio: 0.7 units)
- Overleveraged, with 3.5 times higher debt than equity and net debt 25 times higher than EBITDA

Figures of SMEs in 2015 (€ mn)



- After a period of turbulence, especially in the years of deep recession from 2011 until 2012, the domestic small and medium-sized entrepreneurship seemed to recover and return to its pre-crisis level. From the structure of the dimensions, it appears that this improvement stems from the stabilisation of capital structure at a higher level and the strengthening of liquidity. Still, although the dimension of efficiency – which is linked to enterprise profitability – improved over 2014, it failed to reach 2007 levels.



Top 10 “performers”

The sectors with the strongest performance, 2015	
33	Repair and installation of machinery and equipment
32	Other manufacturing
E	Water supply; sewerage etc.
62+63	Computer programming, information service etc.
68	Real estate
24	Manufacture of basic metals
29	Manufacture of motor vehicles etc.
N-79	Administrative activities excluding travel agencies etc.
50	Water transport
27	Manufacture of electrical equipment

Bottom 10 “performers”

The sectors with the weakest performance, 2015	
59+60	Motion picture, music publishing activities, mass media etc.
16	Manufacture of wood etc.
R	Arts, entertainment and recreation
15	Manufacture of leather and related products
B	Mining and quarrying
31	Manufacture of furniture
A	Agriculture, forestry and fishing
51	Air transport
23	Manufacture of other non-metallic mineral products
12	Manufacture of tobacco products

Top 5 “movers”

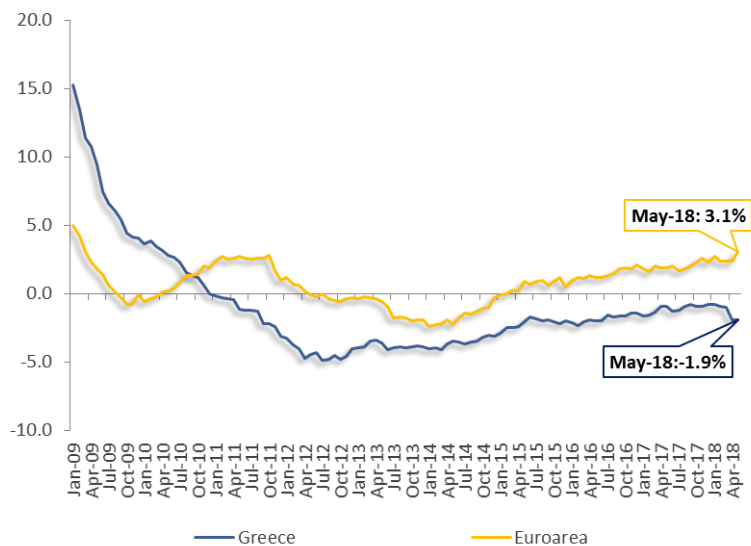
Sectors with the 5 largest positive cumulative changes in the BIC Index ranking, 2007-2015	
50	Water transport
N-79	Administrative activities excluding travel agencies etc.
25	Manufacture of fabricated metal products
19	Manufacture of refined petroleum products etc.
30	Manufacture of other transport equipment

Worst 5 “movers”

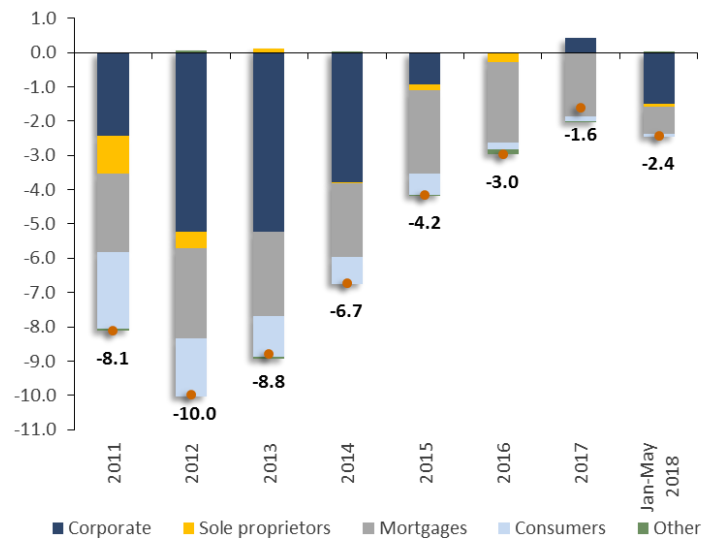
Sectors with the 5 largest negative cumulative changes in the BIC Index ranking, 2007-2015	
B	Mining and quarrying
Q	Human health and social work activities
58	Publishing activities
23	Manufacture of other non-metallic mineral products
31	Manufacture of furniture



Private Sector Credit* (annual % change)

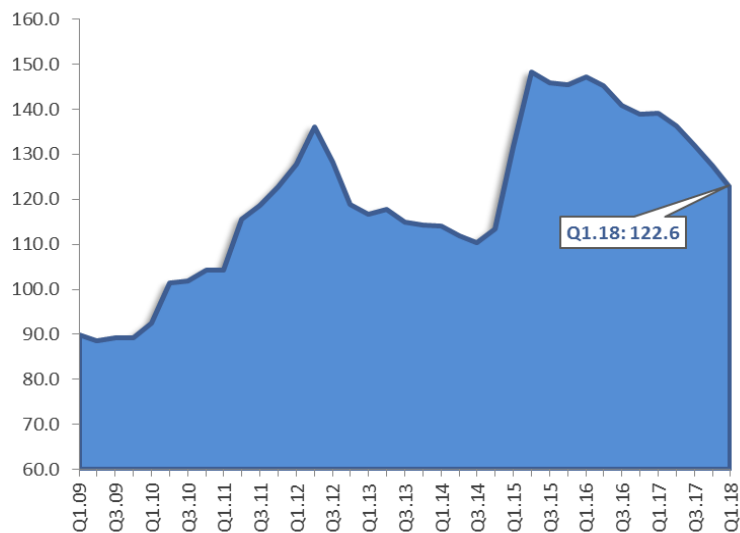


Credit Net Flows* (€ bn)

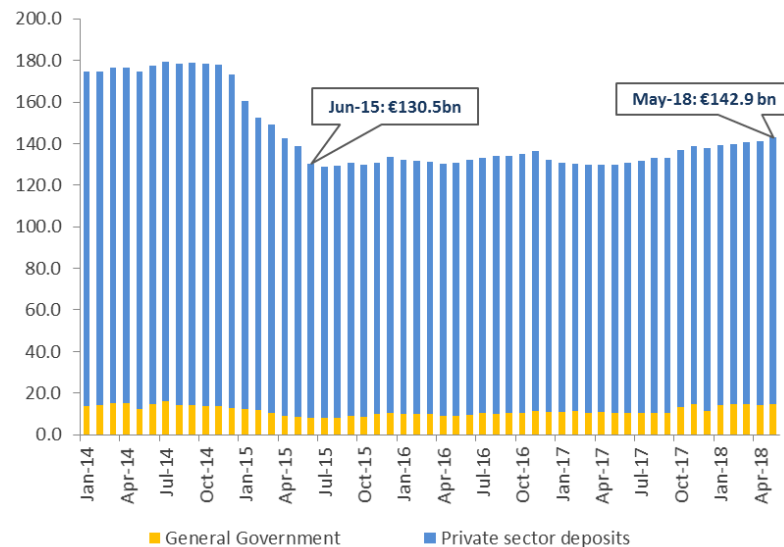


*Growth rates and Flows are derived from the differences in outstanding amounts corrected for loan write-offs, exchange rate valuations and reclassifications.

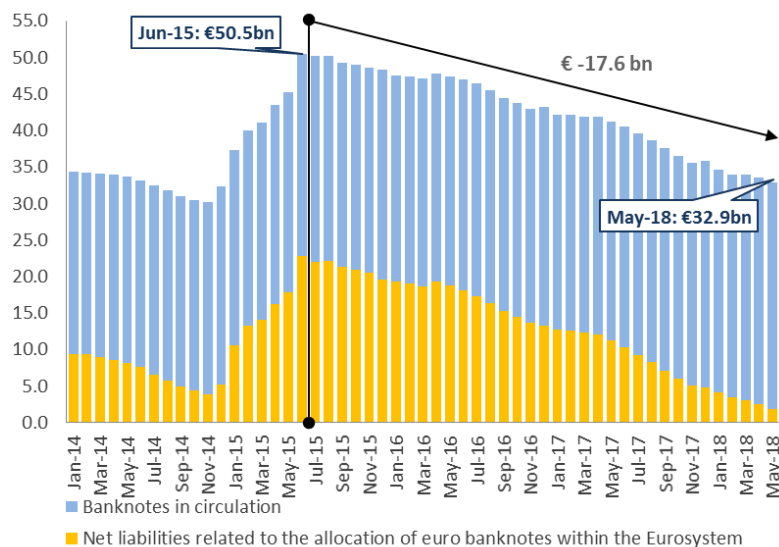
Loans to Deposits (L/D ratio) (%)



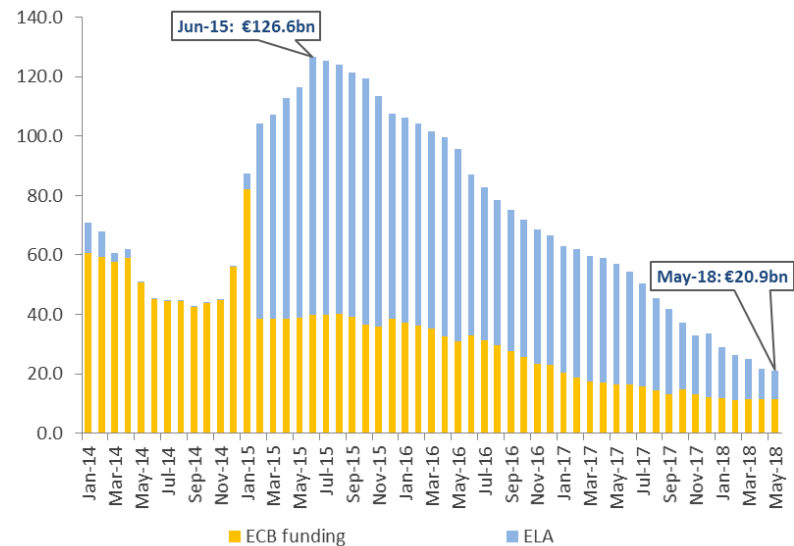
Domestic Deposits (€ bn)



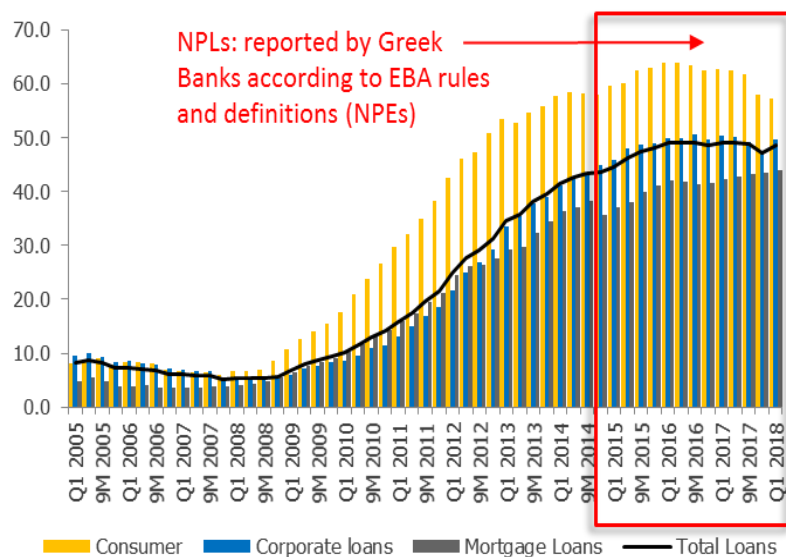
Banknotes in Circulation (€ bn)



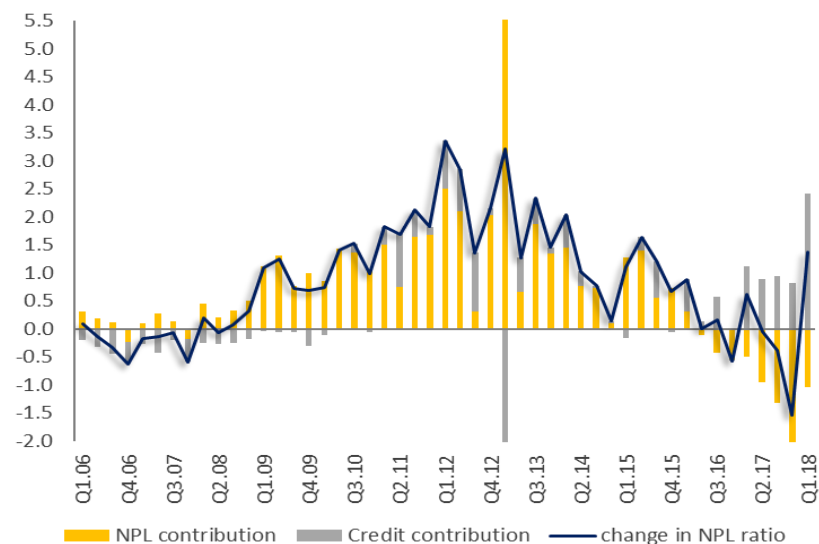
Eurosystem Funding (€ bn)



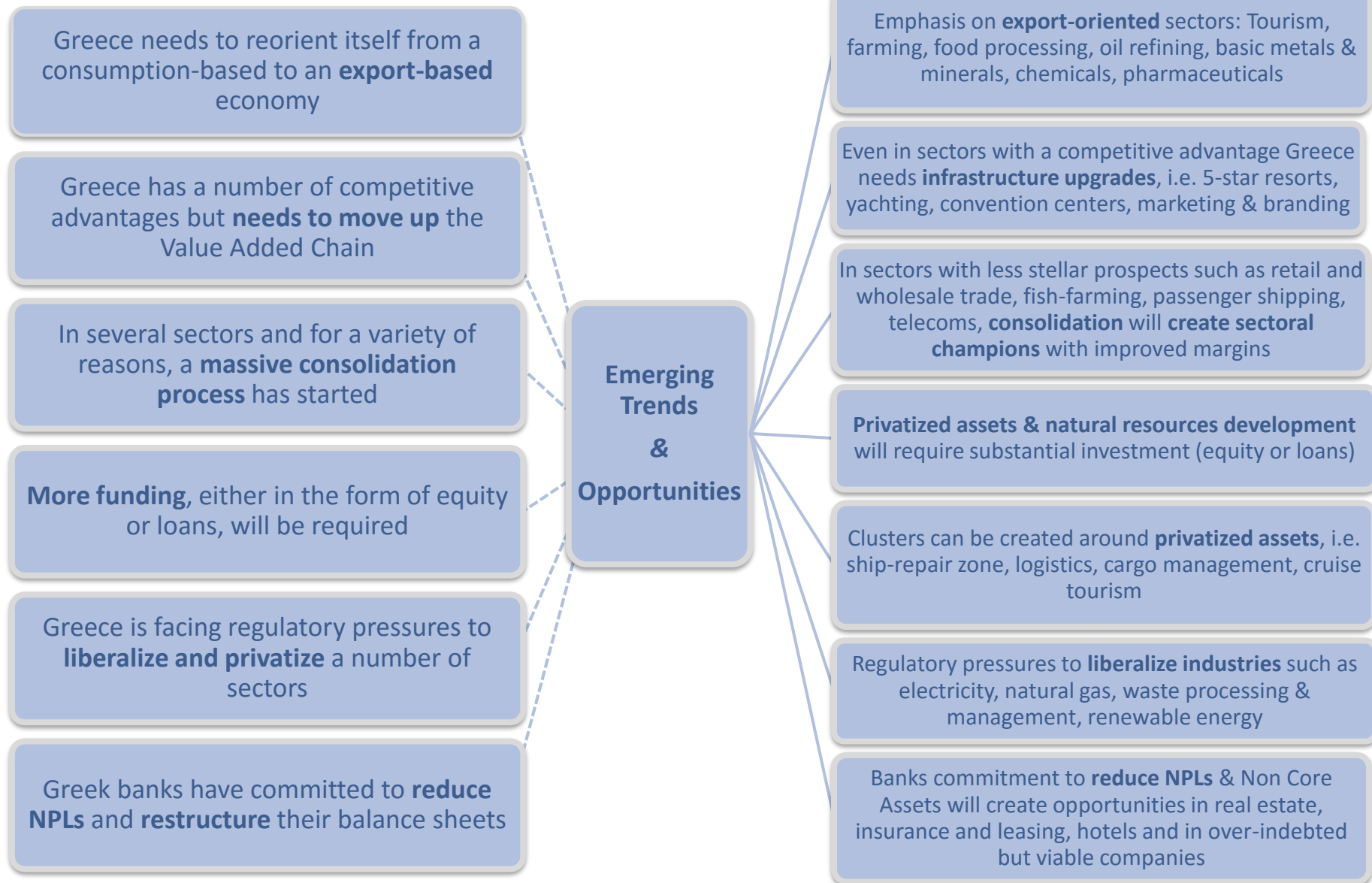
NPLs Ratio



Contribution to the NPLs ratio change







Disclaimer: This document is produced by the Economic Research & Investment Strategy Department of Piraeus Bank (hereinafter “the Bank”), which is supervised by the European Central Bank (ECB), in collaboration with the Bank of Greece and is sent or provided to third parties, without any obligation of its author. This document or any part of it should not be duplicated in any way without the prior written consent of its author.

The information or opinions included in this document are addressed to existing or potential clients in a general manner, without taking into account the particular circumstances, the investment objectives, the financial ability, the experience and/or knowledge of the potential recipients of this document and, as a result, they do not constitute or should not be considered neither as a solicitation or offer for the conduct of transactions in financial instruments or currencies nor as a recommendation or advice for decision making in relation to those. Taking into account the aforementioned, the recipient of the information contained in this document should proceed with his/her own research, analysis, and confirmation of the information which is included in this document and seek for independent and professional legal, tax and investment advice, before proceeding with any investment decision making.

The information depicted in this document is relied on sources that the Bank considers to be reliable and is provided on an “as is” basis, however, the Bank cannot warrant as to their accuracy and completeness. The opinions and estimates herein are related to the trend of the local and international financial markets at the indicated date (prices at closing time) and are subject to changes without any prior notice. Notwithstanding the above, the Bank might include in this document investment researches, which have been conducted by third persons. In this case, the Bank does not modify those researches, but it presents them on an “as is” basis, therefore, no responsibility is assumed in relation to the content of the aforementioned investment researches. The Bank is under no duty to update the information contained in this document. Considering the above, the Bank, the members of its Board of Directors and the relevant persons assume no responsibility for the information included in the present document and/or for the outcome of any investment decisions made according to such information.

Piraeus Bank Group is an organization with a significant presence in the Greek market and an increasing one in the international markets providing a wide range of investment services. In the context of investment services offered by the Bank and/or any other Piraeus Group companies in general, there might be cases whereby conflict of interests may arise in relation to the information provided herein. Reference should be made to the fact that the Bank, the relevant persons and/or other Piraeus Group companies indicatively:

Are not subject to any prohibition in relation to trading on own account or in the course of providing portfolio management services prior to the publication of this document or the acquisition of any shares prior to any public offering or the acquisition of any other securities.

May offer upon remuneration investment banking services to issuers for whom this document may contain information.

May participate to the issuers’ share capital or acquire other securities issued by the aforementioned issuers or attract other financial interests from them.

Might provide market making or underwriting services to issuers that might be mentioned in this document.

Might have published papers the content of which is different or incompatible to the information presented herein.

The Bank as well as the other Piraeus Group's companies have enacted, implement and maintain an effective policy, which prevents circumstances that may give rise to conflicts of interests and the dissemination of any information among the departments (“chinese walls”) and they also constantly comply with the provisions and regulations relevant to inside information and market abuse. Also, the Bank confirms that it doesn’t have any kind of interest or conflict of interest with a) any other legal entity or person that could have participated in the preparation of the present document and b) with any other legal entity or person that couldn’t have participated in the preparation of the present document, but had access to it before its publication.

It is duly stated that: the investments described in the present document include investment risks, among which the risk of losing the entire capital invested. In particular, it is stated that;

The figures presented herein refer to the past and that the past performance is not a reliable indicator of future performance.

In case the figures refer to simulated past performance, that past performance is not a reliable indicator of future performance.

The return on investments might be positively or negatively affected as a result of currency fluctuations, in case the figures are denominated in a foreign currency (other than Euro).

Any forecasts in relation to future performance, may not be a reliable indicator of future performance.

The tax treatment of the information as well as transactions pertained in this document, depends on each investor's individual circumstances and may be subject to change in the future. As a result, the recipient should seek for independent advice in relation to the applicable tax legislation.

The distribution of the present document outside Greece and/or to persons governed by foreign law may be subject to restrictions or prohibitions according to the applicable legislation. Therefore, the recipient of the present should seek for independent advice in relation to the applicable legislation, in order to look into such restrictions and/or prohibitions.