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Panel | Challenges of the Greek Banking Sector hosted by Hellenic Bank Association
Debating on the post-crisis opportunities with emphasis on funding the economy, digitalization, liquidity and effective NPLs management

Opening Remarks: N. Karamouzis, Chairman Hellenic Bank Association
Chairman Eurobank Ergasias

Good afternoon ladies and gentlemen,

My name is Nick Karamouzis, Chairman of Eurobank and of the Hellenic Bank Association.

I am very happy to be here today, in front of such a distinguished audience in the great city of Berlin.

My role is to coordinate the panel discussion on the challenges facing the Greek banking system, focusing on the post-crisis opportunities with emphasis on the funding the economy, the digitalization process, the liquidity situation, and the effective NPL management.

On behalf of the Hellenic Bank Association, I would like to thank The Economist and the German-Hellenic Chamber of Industry and Commerce for organizing this very interesting event. We thank also the Federation of German Industries and the Association of German Chambers of Commerce and Industry for their valuable support.

I would also like to introduce and thank my fellow panel members for joining me today.

- Mr. Christos Megalou, CEO of Piraeus Bank
- Mr. Pavlos Mylonas, CEO, National Bank of Greece
- Mr. Artemis Theodoridis, Deputy CEO of Alpha Bank,
- Mr. Theodoros Kalantonis, Deputy CEO of Eurobank.

As we are all aware, Greece was hit by an unprecedented, crisis in 2009 which was building up for years before. The crisis lasted for 8 painful years, challenging in a few occasions the Eurozone cohesion and resulting in an enormous social, financial and economic cost.

The main causes of the crisis were the following:

a. Unprecedented fiscal and current account deficits (both at 15.1% of GDP in 2009)
b. a sharp deterioration of competitiveness

c. a sharp expansion of consumption and imports, all fueled by:
   1. rampant and credit expansion (+18% p.a.),
   2. wage increases above productivity gains and
   3. unlimited supply of international funding at low cost (state borrowed for year paying only 20-30 bps premium over bond).

At the peak of the crisis Greece:

1. Lost more than ¼ of its GDP
2. Unemployment skyrocketed to 27.7%
3. Private Investment collapsed to 7.7% of GDP
4. Half of total deposits left the banking system (€ 117bn)
5. 10ys government bond yield took off to 37%
6. Property prices dropped by 42.4%
7. Stock market prices collapsed by 89%
8. Banks had to be recapitalized three times with € 64bn total private and state capital injection.

The country lost any access to international markets in early 2010 and it was rescued from a full blown-up bankruptcy, thanks to:

1. The three Financial Assistance Programmes provided by our European Partners and IMF amounting to € 289bn and
2. The steady support of the Eurosystem, which at the peak of the crisis provided almost € 160bn of liquidity to Greek banks and the economy.

Today, after 8 painful years, Greece has successfully exited the financial Assistance Programmes, but it has not exited from the problems and key challenges remain ahead of us. Specifically:

1. Growth has returned, estimated at 2% in 2018
2. Unemployment is declining by still at 19.4%

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3. Macroeconomic imbalances and the loss of competitiveness have been corrected and actually the country delivers a 4% of GDP primary fiscal surplus in last three years
4. Leading indicators are on positive upward trend
5. Greece has become a more open economy with exports at 33% of GDP from 18.5% before the crisis and are seen growing
6. Liquidity is improving and
7. FDIs are on an upward trend.

But as I mentioned before, key challenges remain, which undermine the ability of the country to deliver a much needed steeper and sustainable growth path.

1. Rapid and sustainable growth is necessary to cure the problems inherited by the deep crisis, especially
2. high unemployment,
3. private and state over indebtedness declining standard of living and,
4. unprecedented level of NPEs

Key policy challenges ahead of us are following:

1. Private investment recovery remains subdued
2. Extremely high tax rates are killing the economy. A different more growth friendly fiscal policy mix is needed
3. Unprecedented levels of NPEs in the banking sector constitute a major drag on the economy
4. Implementation of key reforms are delayed, especially the privatizations, the streamlining of the public administration and judicial system, opening up product markets to competition and the creation of a growth and business friendly framework
5. Risk premia and interest rate cost, still at high levels (10ys Greek government bond is traded today approximately 230 bps higher compared to sovereign Portuguese bond) not facilitating faster growth and reflecting that policy credibility and market trust still are an issue in the market

6. Consumption is maintained via dissaving not a healthy improvement of personal incomes and productivity
7. Extremely high primary surplus commitments are a drag on the economy
8. Medium term public debt sustainability still an issue but not materially affecting current economic policy.

In this context, conditions in the Greek banking are improving steadily and the key challenge, the "elephant" in the room, remains the unprecedented level of NPEs.

1. Greek banks have passed successfully the stress test only few months ago, but markets remain skeptical and hence market valuations remain depressed
2. Liquidity and access to markets are improving, total system deposits increased by € 10bn in 2018, Eurosystem dependency down to around € 12bn from almost € 130bn in June 2015 and outstanding repos with foreign bank close to € 23bn
3. Capital controls have eased but not fully lifted
4. The Greek important banks have turned organically profitable maintaining declining but still healthy pre-provision income over € 3.6bn annually in 2018, (9M18 annualized), which could act as a buffer to deal with additional NPEs before capital is hit
5. Greek important banks have reduced NPEs form € 107bn in 2016 to ca. € 83bn in the first 9 months of 2018. In addition, it is highly likely to meet their announced NPE reduction targets for 2018, and they have set an ambitious program to reduce them further to € 33.1bn by the end of 2021, using all available techniques (write off, securitizations and deconsolidation, curing and cash collection, selling loans and REOs, assigning management to third party servicers)
6. Despite the crisis, Greek banks are investing heavily on technology and digitalization and they are transforming their business and operating model to meet the ongoing challenges
   - I estimate that close to € 1bn to be invested on technology upgrades by the four systems banks the next three years in parallel, reorganizing and streamlining their operations and branch network, cutting costs and the number of branches.

7. Greek banks, on the top of the major challenge of managing an unprecedented level of NPE stock, have also to deal with intensifying competition , more demanding and costly regulatory and supervisory framework, and for reaching technological innovations, that are transforming in a disruptive way, the traditional banking business model, front and back.
8. It is interesting to know that in Greece there is a dramatic shift in clients' preferences in banking transactions channels the last few years.
   Today, only 23% of all monetary transactions are going through a branch vs 40% in 2014, while, the use of e and m banking has jumped to 37% of total monetary transactions vs 19% back in 2014.

Finally, recently there are extensive official and market discussion concerning the acceleration of NPE reduction plans and of the need of cleaning up faster the NPE portfolios.

Eurobank presented a comprehensive plan recently, a private solution to accelerating NPE reduction and strengthening capital ratios that it was well received by the market.

The Bank of Greece and Ministry of Finance/HFSF are working on structures aiming at providing the means of accelerating NPE reduction, which are welcomed initiatives to be discussed by the banks, taking into account that each one bank already is implementing its own plan for dealing in an accelerated way with the NPE challenge.