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From a vicious to a virtuous cycle?

Turning Greece into an attractive investment destination: Opportunities and Challenges

1. Introduction[1]

Since the signing of the first bailout agreement with official creditors in May 2010, Greece has made remarkable progress in eliminating its earlier fiscal and current account deficits, restoring international price competitiveness and implementing significant reforms in the institutional framework and the domestic labor and product markets. However, these improvements came at a high social and economic cost, especially in terms of output and employment losses, transforming what initially started as a fiscal crisis into a full-blown economic and banking-sector crisis. Furthermore, despite the most recent signs of stabilization in domestic economic activity, investment expenditure remains at quite depressed levels; export performance, despite recent improvements, lags behind that of other euro area periphery economies; and the country has yet to restore full market access.

One could cite several important factors that potentially explain the unprecedented depth and duration of the Greek crisis, ranging from the acute initial imbalances to significant policy mistakes made along the way and the lack of ownership of the agreed reforms by the domestic authorities. In any case, there are a couple of inescapable conclusions that can be drawn from the experience of the past several years. First, the roots of the crisis can be traced back to the consumption- and residential investment-driven growth model of the pre-crisis period, following Greece's accession to the EMU. That model was mainly fueled by bloated fiscal deficits, cheap financing from abroad, wage increases that significantly exceeded productivity gains and unprecedented credit expansion. Over the pre-crisis period, the country did not manage to exploit the credibility implied by EMU membership to transform and modernize its economic structures and institutions. In addition, it did not channel the massive EU structural funding received into more productive sectors of its economy in order to boost competitiveness and embark on a sustainable growth path. In effect, in the previous decade Greece lost a valuable opportunity to create a competitive economy. Second, it is no longer disputed that, a sustained, job-creating, investments- and exports-driven economic recovery is the only remedy to heal the wounds inflicted by the ten year-long recession, which wiped out a quarter of the country's economic output, leaving half of its youth unemployed and forcing nearly one in twenty Greeks to seek opportunity abroad.

[1] The authors wish to thank Fokion Karavias and Foivos Karzis for their insightful comments; Anna Dimitriadou, Stelios Gogos, Antonis Kouleimanis, Paraskevi Petropoulou, Galatia Phoka, Thodoris Stamatiou and Elia Tsiampaou for their valuable help; any remaining mistakes are our own

The latest severe episode of the Greek crisis in mid-2015 led to the signing of a new (3rd) bailout agreement with official creditors in August 2015. Since then, the completion of the first two reviews of the programme, albeit with delays, paved the way for the gradual normalization of the domestic economic climate and the resumption of official sector financing to assist the State to meet its debt service obligations. With the country having overcome the imminent risk of exiting the single currency area, the key policy challenge that needs to be convincingly addressed is how to put the domestic economy on a sound growth path.

While additional effort is required to generate the critical mass of reforms and privatizations that could unleash the growth potential of the Greek economy, material progress has already been made, arguably to an extent that is not yet fully appreciated by financial markets. Conditional on a stronger ownership of reforms and a greater sense of purpose to move the economy away from its past pathogenies and towards a more sustainable and balanced growth paradigm, there are convincing reasons why Greece is shaping up to be an emerging opportunity for investors, especially those with a medium- and longer-term investment horizon.

This note identifies and documents a number of important macroeconomic, structural and strategic factors rendering Greece an attractive destination for private and foreign investment. These include, but are not limited to, the country's unique geographical and geostrategic position, which makes it an important crossroads for trade, transport and energy distribution connecting Middle and Far East with Central and South Europe; its heritage, culture, mild Mediterranean climate and natural beauty; competitive labor costs and a skilled and educated workforce; increasing signs of stabilization in the domestic economy and a gradual resumption of positive rates of economic growth; improving domestic financial conditions and funding opportunities, resuming market access and sizeable EU (and other official-sector) sources to finance future investments; depressed asset prices and unique investment opportunities in key sectors of the domestic economy; small size of Greek companies, which raises significant M&A opportunities; asset sales and firm restructurings accruing from NPL management, which require substantial injections of private equity and debt; a more balanced growth position following the correction of pre-crisis macro imbalances; an increasing pro-euro & pro-reform political and social consensus; the strong commitment by euro area partners to deal more resolutely with the country's public debt sustainability issue in due course; the massive privatization programme and significant infrastructure projects that are underway.

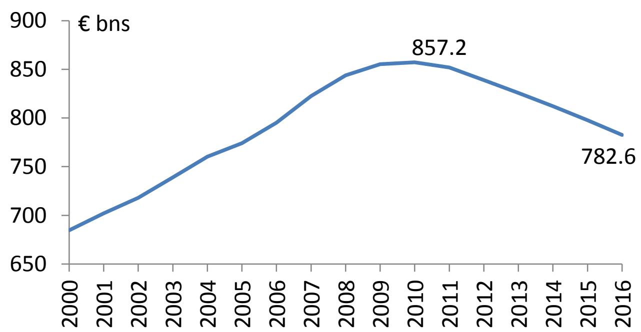
Notwithstanding these advantages and potential opportunities, a number of lingering impediments and rigidities continue to contaminate investor sentiment and delay the transition to a more sustainable growth paradigm. Depending on the speed and consistency of economic policy-making in dealing with them, these factors can work as either inhibitors or accelerators to Greece's attractiveness as a potential destination for foreign investment flows. Among others, some of the most important of these include or are related to: policy credibility and ownership of reforms; a tradition of skepticism towards private business initiatives (albeit rapidly fading away); high tax rates and an inherently unstable tax system; remaining restrictions on capital movements (capital controls); a still high cost of setting up and operating a business; a bureaucratic and inefficient public administration; lingering legal framework inadequacies and weak law enforcement; a high public debt overhang and excessive fiscal primary surplus obligations; adverse demographics and brain drain; lingering regulatory and other obstacles to attracting investment and especially FDI; and slow pace of financial sector's return to regularity of business.

The remainder of this document is organized as follows: Chapter 2 explains why the mobilization of significant domestic and foreign financial and real resources for investing in the domestic economy is a key precondition for sustainable economic growth. Chapter 3 identifies and analyzes as many as fifteen important factors rendering Greece a potentially attractive destination for investment, especially for FDI and other inward capital flows; Chapter 4 discusses some of the most important lingering obstacles and risks to the domestic investment environment; and Chapter 5 concludes. Finally, an extensive, though not exhaustive, list of key privatizations and private-sector investments (completed or in the process of completion) is presented in the Appendix at the end of this document, which indicates foreign investment activity and interest in Greece.

2. A strong and enduring recovery of private investment is a key precondition for returning to sustainable economic growth

Following the outbreak of the Greek crisis, national savings and private investment collapsed to unprecedented levels, generating a huge funding and investment gap. Taking into account the relative scarcity of domestic saving resources, the still falling disposable income and the substantial funding shortfall currently facing the banking system, this gap cannot be adequately closed without substantial and sustained foreign capital inflows. To put things into perspective, the net capital stock of the Greek economy at 2010 prices is estimated to have been ca €782.6bn at the end of 2016 vs. €857.2bn in 2010 (Figure 1). This effectively means that, ceteris paribus, the Greek economy would need net investment (after the deduction of depreciation) of ca €75bn at 2010 prices just to reach the levels of capital stock and (ceteris paribus) GDP of 2010. That is, assuming constant productivity and economic structures. The actual figure is probably higher, if one considers the changing sectoral GDP composition that is currently taking place, which needs to be supported by stronger investment activity in growing sectors to make up for obsolete capital in decaying ones.

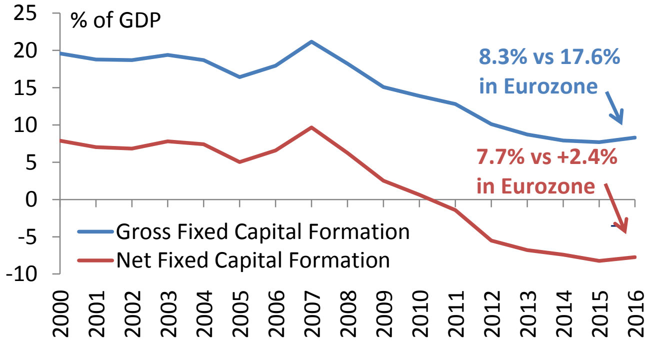
Figure 1: Net Capital stock at 2010 prices



Source: Ameco, Eurobank Research

Public investment is also a significant component of total investment as it entails expenditures with large multipliers. Its size and share in total expenditure should also be restored to pre-crisis levels, instead of being the first thing cut in order to correct fiscal slippages. Public investment stood at 3.1% of GDP in 2016 vs an average of 5.3% in the period 2000-2008. However, the largest by far and most significant part to cover the aforementioned investment shortfall is private investment. Private gross fixed capital formation has declined sharply, both in nominal terms (from €49.2bn in 2007 to just €13.5bn in 2015 and €14.6bn in 2016) and as a percentage of GDP (from 21.1% in 2007, to 8.3% in 2016).

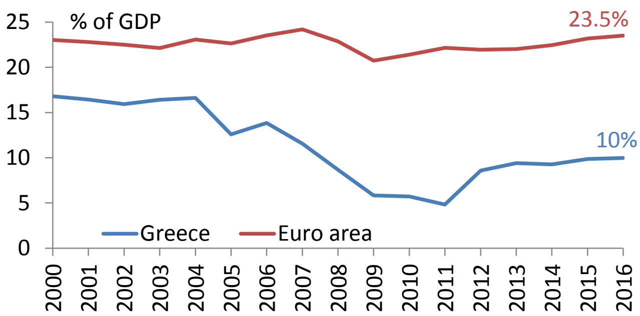
Figure 2: Fixed Capital Formation (Gross & Net), Private sector, Greece



Source: Ameco, Eurobank Research

If one takes into account consumption of fixed capital, private net fixed capital formation was negative in 2016 at -7.7% of GDP, compared to a euro area average of +2.4% of GDP (Figure 2). What complicates matters further is that national savings have also collapsed (10% of GDP in 2016 vs. a Eurozone average of 23.5% of GDP), while net savings (mainly without depreciation) remain in a deeply negative territory (-€16.9bn or -9.6% of GDP in 2016 vs. +5.6% of GDP in the euro area), see figures 3 & 4.

Figure 3: Gross National Savings

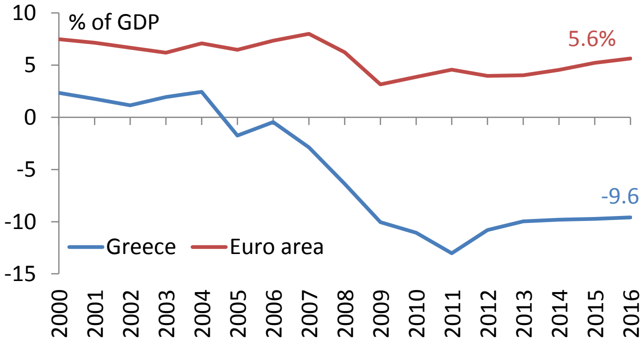


Source: Ameco, Eurobank Research

Elsewhere, the banking system's funding gap (discrepancy between loans and deposits) is currently

(July 2017) around €74.7bn (€67.5bn for the private sector), while the return of deposits is very slow.

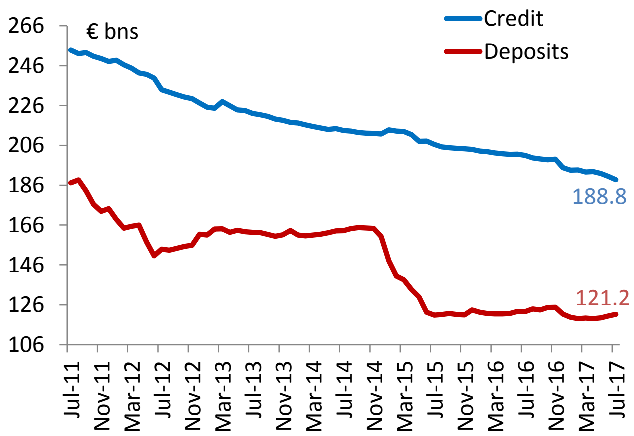
Figure 4: Net* National Savings



**Net saving is gross saving after deducting consumption of fixed capital (i.e., depreciation)*
Source: Ameco, Eurobank Research

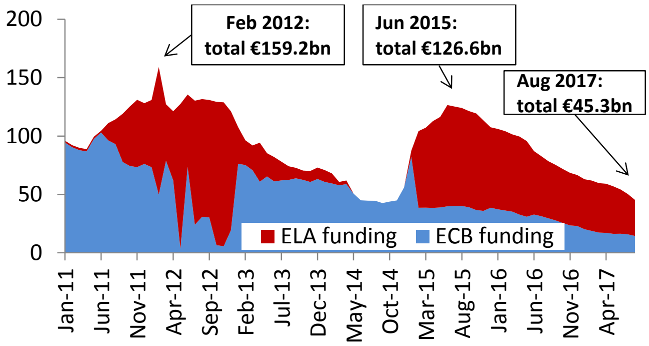
In addition, the dependency of domestic financial lenders on emergency Eurosystem funding (ELA) is falling (€30.9bn in August 2017), but this is an emergency facility and banks have a supervisory obligation to eliminate it (figures 5 & 6). Furthermore, access of Greek economic agents to international money and capital markets is improving in recent months, but still remains limited. Lately, a few large Greek corporates have tapped international and domestic markets issuing corporate bonds at relatively favourable terms, better than the Greek state could attain; the latter is unusual and reflects a lingering credibility gap of the sovereign. Overall, the country continues to face an acute liquidity shortage, which seriously undermines its economic recovery potential.

Figure 5: Credit & Deposits, Private Sector



Source: Ameco, Eurobank Research

Figure 6: Eurosystem Funding



Source: Bank of Greece, Eurobank Research

Hence, it is extremely difficult, if not impossible, to finance the required investment boom with solely internal financial resources. This is especially so if one considers that an improvement in the domestic savings ratio would require a reduction in private consumption, which represents a record 70% of GDP; that could adversely affect the current economic growth rates. In order to close this significant savings - investment gap, Greece needs to attract a massive inflow of foreign capital and investment of all kinds in the coming years. This, along with restoring full access of domestic economic agents to international capital markets would make adequate liquidity resources available for funding growth and investment. Overall, initiatives aiming at attracting foreign capital inflows and investment should constitute the main priority of economic policy, if the country wants to return to a sustainable growth trajectory.

3. Fifteen factors making Greece an attractive place to invest

Several instances of discontinuity in domestic policy making and episodes of increased uncertainty over the outlook of negotiations with official creditors have, to a large extent, obscured the fundamental structural changes and supply-side reforms that have been implemented in recent years. These have significantly transformed the morphology of the Greek economy and contributed to upgrade and modernize its institutions and decision making bodies. Although more needs to be done to facilitate the transition to a more business–friendly, investment-driven and extrovert growth paradigm, the country is currently developing important competitive advantages, which complement and unleash its pre-existing strengths. These factors together render Greece a potentially attractive investment place and a destination for FDI and other capital inflows in the years to come. In what follows we highlight some of these advantages and aspects.

3.1 A stable, peaceful and democratic country; an island of stability in the region

Greece is a euro area member state with a stable political system, coherent social stratification, sound institutions and a modern parliamentary democracy based on European norms. It is a member of NATO, the Council of Europe, the UN, the European Union and other major international organizations. It is in the white list of OECD jurisdictions that have implemented internationally agreed tax standards. It maintains peaceful relations with its neighbors and is rich in culture, history and human values. It features a well-educated and multilingual population and workforce known for its hospitality. It is an open society, a market economy, a safe country to live in, do business or visit, a vibrant international community, with friendly people, excellent weather conditions (300 days a year of sunshine), high quality leisure and entertainment. Greece stands at the crossroads of three continents, Europe, Asia and Africa. It remains the country with the highest per capita income in the region and borders a number of important emerging market economies.

3.2 Stronger pro-euro and pro-reform political & social consensus diminish political risks

The outlook of Greece's political stability and its commitment to the European Union and the single currency are now stronger than ever in recent years. This is demonstrated by the fact that, during the crisis period, various governments across the political spectrum have signed and implemented pro-market adjustment programmes agreed with the official creditors. In the current parliament, all mainstream political parties, all parties that have a realistic chance to govern or be part of a governing coalition and more than 80% of the elected representatives are in favor of EU, reform implementation and Eurozone participation. Furthermore, polls consistently show that the majority of the public opinion is in favor of the EU and the euro; after a transitory decline in 2015 towards 60%, the percentage of the population that favors euro participation has recovered, currently standing at around 65%.[2] Despite early resistance, the present coalition government comprised of SYRIZA and ANEL parties has now agreed with the institutions (Troika) and voted for a set of important reforms, which are being gradually implemented in an environment of considerably reduced social tensions. Furthermore, the main opposition party, New Democracy, which is leading in recent opinion polls, is in favor of an even more aggressive reform agenda and the implementation of pro-market and pro-growth strategies. Overall, Greece's participation in the EU acts as an anchor for quality and intertemporal consistency of legislation, adherence to democratic values, currency and price stability and the market economy.

3.3 Euro area participation offers currency and price stability and safeguards banking prudency

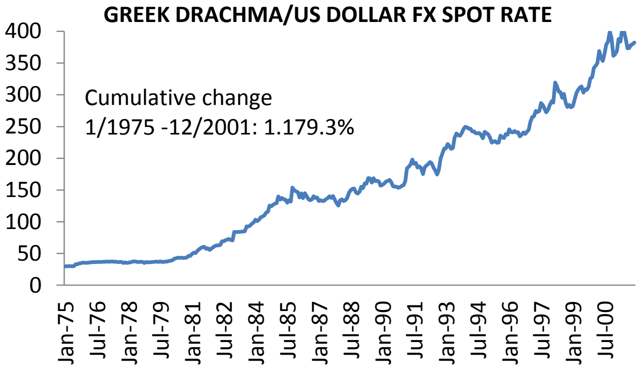
What also makes Greece an attractive investment case is that it combines a stable, international currency with an economy that features emerging market characteristics and opportunities. This offers the potential for higher returns on investment against a backdrop of improving political and economic stability and sharply diminished risks, including Grexit. The euro is a strong currency, the second most important reserve currency globally. Greece can enjoy the benefits of currency and price stability administered by ECB, a strong and credible Central Bank. The ECB possesses enormous firepower to defend currency stability against speculative attacks. On the contrary, a return to a national exchange rate regime (drachma) would likely be accompanied by much higher currency volatility (Figure 7), a steady depreciation drift disrupted by one-off devaluations and, as history shows, lower policy discipline feeding into inflation, uncertainty and currency risk.

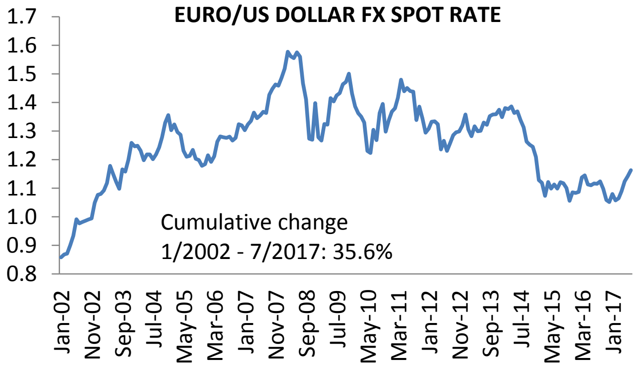
The exchange rate policy of the Euro allows investors and international commerce participants to mitigate large unpredictable disruptions in their cash flows. In

[2] According to the latest European Commission's Standard Eurobarometer (September 2017), the respective figure for Greece was 64, compared to 68 in November 2016 and an EU-28 average of 60.

the case of Greece, it has also been instrumental in better controlling domestic inflation relative to the earlier era of monetary autonomy (Figure 8).

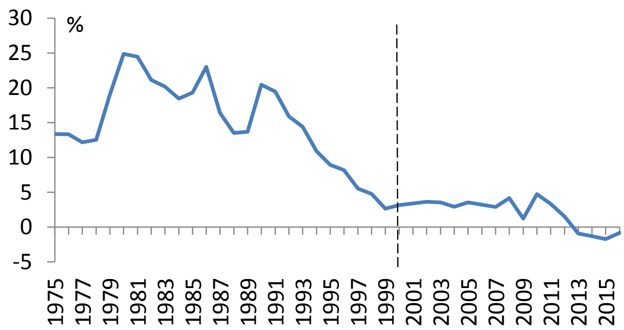
Figure 7: FX spot rates





Source: Thomson Reuters

Figure 8: Average Inflation, Greece (CPI)



Source: Ameco, Eurobank Research

Numerous international studies and earlier domestic experience demonstrate the limitations of using currency devaluation as a tool for permanently improving competitiveness and current account imbalances in the medium-term. In the pre-euro period, the drachma rate was steadily depreciating and devalued several times, in an unsuccessful effort to rein in external deficits. Most of these currency depreciations/devaluations have largely failed to lead to a sustainable competitive advantage, translating quickly into higher wages and inflation rates.

The ECB and the Single Supervisory Mechanism (SSM) offer a strong framework of supervisory and regulatory prudence for European banks (including Greek ones), preserving an independent, efficient and transparent banking system.

3.4 Correction of unprecedented pre-crisis macro imbalances and a more disciplined framework in place strengthen macroeconomic and fiscal stability

Greece has achieved remarkable progress in correcting its earlier macroeconomic imbalances and introducing institutional reforms, in a relatively short time span, albeit incurring huge social and economic costs. However, due to uncertainty from the lengthy negotiation process, as well as the lingering credibility and confidence gaps, the achieved progress is not fully reflected in asset prices and inward capital movements. Some important areas in which considerable improvement has already been recorded include:

i. *Fiscal consolidation*: cumulative improvement of 15.8pps of GDP in the general government balance (and 14pps in the primary balance) along with a 21.1pps improvement in cyclically adjusted terms over the period 2009-2016. Greece recorded a primary surplus of 3.9% of GDP in 2016 (or 4.2% in MoU terms) against a programme target of +0.5% of GDP. Furthermore, the country remains on track to fulfilling the target set for this year (1.75% of GDP).

ii. *Elimination of external deficit*: cumulative adjustment of c. 15.3pps of GDP in the current account (from a deficit of 15.8% in 2008 to a tiny shortfall of 0.5% in 2016), which has mainly been the result of the contraction of imports.

iii. *Reduction of fiscal annual interest rate cost*: €5.6bn (3.2% of GDP) in cash interest payments on public debt in 2016 compared to €15.1bn (7.3% of GDP) in 2011. Further measures to reduce gross financing needs have been agreed with official creditors in the context of the first and the second review of the current programme.

In addition to the above unprecedented macroeconomic adjustment attained thus far, numerous reforms have been legislated and implemented in the context of the three consecutive stabilization programmes, aiming at promoting a more sustainable model of economic growth and preventing the creation of future macroeconomic imbalances. Some of these reforms & initiatives are highlighted below.

- **Ambitious primary surplus targets**
  The medium-term programme target of 3.5% of GDP for the primary surplus is programmed to be maintained until 2022, before being gradually reduced to 2.2% of GDP, according to the baseline scenario, and remain at this level for the rest of the entire projection horizon (till 2060). This aims at ensuring adherence to EU rules for fiscal prudence and enhanced debt sustainability, despite the incipient risks to the growth outlook emanating from the maintenance of a restrictive fiscal stance for an extended time period. Furthermore, the continuing surveillance of Greece's macroeconomic and fiscal situation under the relevant European monitoring frameworks (e.g. SGP and six-pack) will aim to prevent future policy derailments.
- **Commitment for additional fiscal measures**
  Besides the new fiscal measures agreed (and to a large extent already carried out) in the context of the present adjustment programme, domestic authorities (pre-) legislated a range of additional measures to be implemented after the programme's completion. These include, a new pension reform, aiming to deliver permanent net savings of 1% of GDP over the period 2019-2022, as well as a new personal income tax reform, which is expected to deliver net savings of 1% of GDP in 2020-2022, through a further lowering of the tax-free threshold.
- **Improved tax administration**
  The Greek government has already implemented a number of comprehensive actions to improve tax administration efficiency and fiscal management. These include, but are not limited to: a) establishment of a fully autonomous revenue agency featuring, inter alia, broad powers and authority vested in the CEO, an independent Board of Governors and complete budgetary autonomy; b) initiatives to enhance compliance and fight tax and contributions evasion through a range of incentives and penalties, increased use of electronic payments, enhanced customs services' efficiency and reinforced efforts to reduce smuggling; c) further reforms in the income tax system to help broaden the tax base, improve tax efficiency and collectability; d) improvements in public financial management with a view to upgrading expenditure controls in the budget implementation process and speeding up the clearance of arrears; and e) strengthening of budget reporting and cash management processes as well as improvements in efficiency, transparency, control and accountability of public procurements.
- **More clarity on public debt restructuring**
  Greece's international creditors have recently provided some additional clarity on the medium- and long-term relief framework for Greek public debt that was formally agreed at the Eurogroup of 25 May 2016. The aim of this framework is to address the expected increase in the country's debt service payments post 2025. Creditors have agreed to ensure that Greece's annual gross financing needs will be capped at 15% of GDP for the medium-term (until 2038) and at 20% thereafter, until 2060. This will be achieved with a combination of measures, such as extensions in the duration and grace periods of EFSF loans (2nd programme) and the return to Greece of the profits accrued to the Eurosystem's SMP and ANFA portfolios of Greek government securities. These actions, when fully specified, will significantly boost market confidence in the sustainability of Greece's public debt and help to further reduce country risk premia.
- **Social welfare system reforms**
  A significant volume of reforms have already been implemented to bring Greece's social welfare system to a sustainable footing and ensure that relevant budgetary transfers will not increase by more than 2.5pps of GDP by 2060. These include, inter alia, reforms aiming to: strengthen the system's long-term sustainability by establishing a closer link between contributions and benefits; recalibrate pension benefits & gradually eliminate EKAS (solidarity grants); harmonize contribution and benefits rules across classes of beneficiaries; implement mergers of funds; increase the effective pension

age limits and abolish early retirement privileges.

- **Improvement of health care sector efficiency**
  In addition, major reforms have been implemented in the health care sector to control public expenditure, including: better control of prices of pharmaceuticals and diagnostic tests, a centralized procurement system for hospital supplies, modernized IT systems, and introduction of electronic prescriptions for the efficient management of the demand for pharmaceuticals.

3.5 The deep and prolonged recession has bottomed out; economy is gradually shifting towards a more sustainable growth path, creating investment opportunities

The Greek economy exhibited notable resilience after the shock of the 2015 discontinuity: a real output contraction of just 0.2% in 2015 and a flat GDP reading in 2016. These compare with the respective official sector forecasts of -2.3% and -1.3%, made in July 2015, around the time when the 3rd adjustment programme was agreed. This better-than-expected performance occurred despite the imposition of capital controls, a liquidity squeeze and heightened uncertainty in negotiations with official creditors in the context of the first and the second review. To a great extent, this was the result of recovering private consumption, albeit from quite depressed levels and at the expense of further dissaving as households strived to maintain consumption levels amid expectations for a gradual normalization of economic conditions in the period afterwards. It may also have been related to a deferral of annual tax and debt obligations towards the latter part of 2015 as well as lower oil prices compared to the previous years. In any case, the relative resilience of private consumption over the last couple of years may be indicative of the scope for a technical recovery, once certain remaining obstacles are removed.

In H1 2017, the annual rate of change of real GDP turned positive, coming in at +0.6%, compared to a contraction of -0.6% recorded in the first semester of the previous year. According to the latest European Commission forecasts (Spring 2017) Greece's real GDP is expected to grow by 2.1% and 2.5% in 2017 and 2018, respectively, though some other agencies project lower growth rates. Higher frequency indicators and survey data point to a gradual strengthening of domestic economic activity in recent months, supporting expectations for positive rates of GDP change also in the second half of this year (traditionally, the peak season for tourism inflows occurs in the third quarter). There is little doubt that a range of additional fiscal parametric measures to be implemented until the current programme expires (August 2018) and afterwards (e.g. pension reform and lowering of tax-free threshold) will take a toll on domestic economic activity. To some extent, offsets will be provided by other policy initiatives/sources, including, inter alia, committed programme financing to help clear state arrears. Moreover, the external environment has improved considerably, with the Eurozone economy, Greece's main trading partner, now expected to exhibit healthier growth rates of 1.7% and 1.8% in 2017 and 2018 respectively (EC Spring 2017 Forecasts).

The positive conclusion of the first review allowed the reinstatement of the ECB waiver on Greek sovereign debt by the European Central Bank, facilitating a gradual reduction of ELA and other Eurosystem emergency funding for covering the liquidity needs of the domestic banking system. Later on, the conclusion of the 2nd review improved the climate further and allowed the Greek sovereign to tap capital markets for the first time since 2014, with the issuance of a new syndicated €3 billion 5-year government bond at a yield of 4.625%. The new issuance comprised of €1.43 billion new money and €1.57 billion switch tenders accepted in full by holders of the outstanding 4.75% notes due in 2019 (2014 issuance).

Taking account of these positive developments, Moody's upgraded Greece's long-term issuer rating in late June from 'Caa3' to 'Caa2' (still eight notches below investment grade). S&P followed suit, revising in late July its outlook for Greece to positive from stable, while affirming its 'B-' sovereign credit rating, which currently stands two notches above Moody's. On the same wavelength, Fitch also upgraded Greece's long-term foreign-currency issuer default rating in mid-August from 'CCC' to 'B-', the same grade as S&P, with a positive outlook. Assuming further progress in the reforms agenda and more clarity on the debt relief measures, one could expect further positive developments in the period ahead. These could include, inter alia, participation in the

ECB expanded asset purchase programme (QE), a further reduction in the haircut applied on collaterals for ECB & ELA funding as well as further (positive) rating action by rating agencies (positive outlook implies at least 33% probability for a rating upgrade over the next 12-18 months). In sum, the recession and downturn risk has been substantially diminished, forward-looking indicators support the hypothesis that the recession has bottomed out and Greece is moving towards a positive growth territory.

3.6 Substantial reduction of labor costs and more flexible labor markets

The internal devaluation policies implemented in the context of the three consecutive bailout programmes have been instrumental in fully removing the wage competitiveness losses accumulated in the initial years after the Euro adoption. In what follows we highlight the decrease achieved, as well as a number of factors that will likely ensure that Greece's labor costs will remain competitive for a significant period of time.

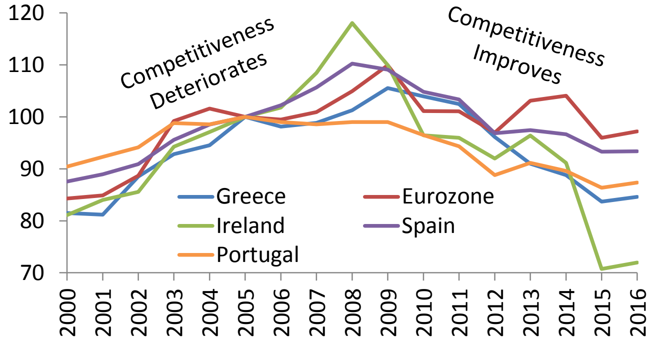
- Greece's Real Effective Exchange Rate (REER) based on ULCs has returned to its 2001 level, having depreciated by c. 18.5pps between 2010 and 2016 against the group of former EU15 countries (and by 18.8% against 37 main trade partners). By way of comparison, the respective improvement in other euro area periphery countries was: Spain 10.5%, Portugal 8% and Ireland 22.8% (Figure 9).

- Greece's nominal compensation per employee in 2016 was €21,600 (compared to €26,600 in 2009), against an EA average of €41,200 (Germany €40,600; Ireland €48,800; Spain €35,100; France €50,600; Italy €40,000), see Figure 10.

- The minimum wage has been reduced to € 683.8 per month, from €877 per month in 2011 and is now significantly lower than the OECD average (Figure 11).

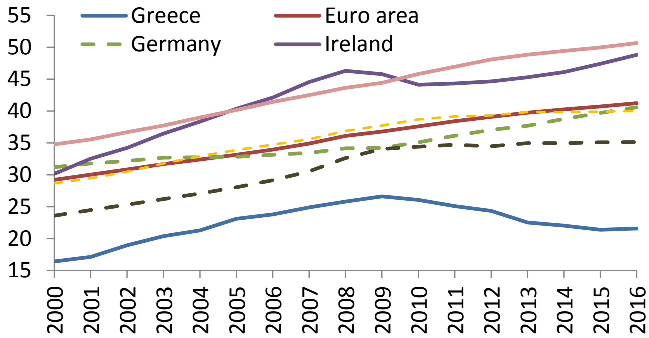
- In a less positive note, the adjustment based on relative consumer prices vs. major trading partners has lagged behind (cumulative relative improvement of 4.4pps in 2012-2016) due to lingering rigidities in the domestic product and services' markets, as well as a series of VAT hikes implemented in recent years. In any case, the said adjustment is expected to accelerate significantly in the following years, driven by a still substantial output gap, as well as the medium- and long-term impact of market reforms. (Figure 12)

Figure 9: Real Effective Exchange Rate based on ULC, Index 2005=100, 37 trading partners



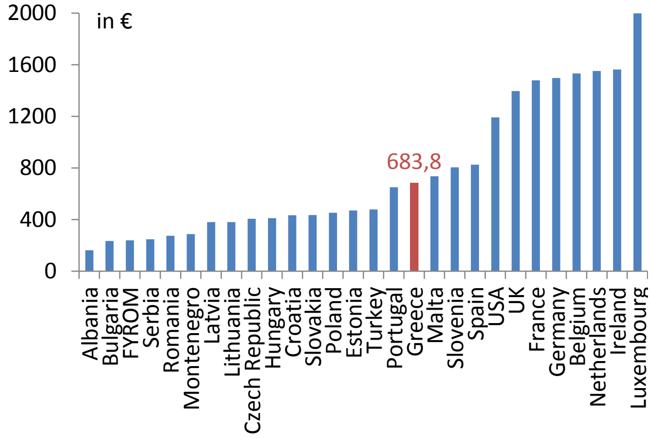
Source: Eurostat, Eurobank Research

Figure 10: Nominal Compensation per employee



Source: Ameco, Eurobank Research

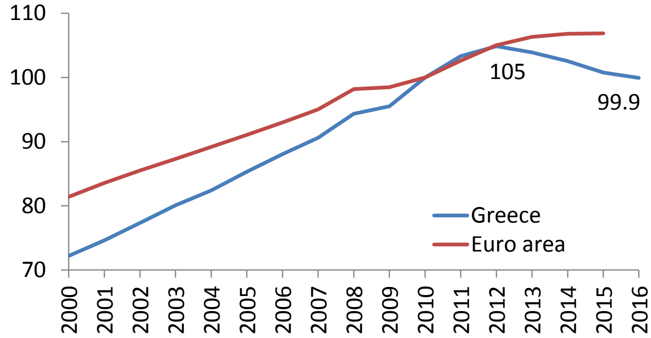
Figure 11: Monthly minimum wage, as of H1/2017



Source: Eurostat, Eurobank Research

- However, it should be noted that, the improvement in competitiveness was partly mitigated by significant, in certain cases, increase of the nonwage costs, including taxation, cost of money, access to financing and cost of energy, while bureaucracy remains a significant and costly obstacle.

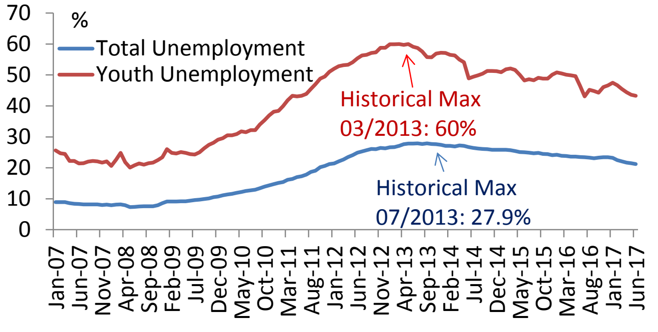
Figure 12: National Consumer Price Index (CPI), 2010 = 100



Source: Ameco

- Rigidities in the labor market have been drastically curtailed. Reforms implemented already include, inter alia, de-centralisation of wage bargaining (negotiations at a firm-level supersede those at a branch/national level), no carry-over of past privileges, facilitation of part-time employment and consensus arbitration.

Figure 13: Unemployment rate (total & youth), as % of labor force unemployment



Source: Eurostat

- Greece's unemployment rate remains excessively high, especially among the youth (Figure 13). This is likely to keep wage increases under control in the years to come, even if economic growth rates pick up considerably. Along with the significant liberalization of the domestic labour market that has already taken place, it should prevent persisting deviations between labour costs and productivity developments. Note that following the comprehensive labour market reform that was implemented in 2011-2012, new rules to further enhance labour market flexibility were introduced as part of the second review of the current adjustment programme. These include, inter alia, the replacement of the current framework of administrative approval of collective dismissals with a notification procedure of maximum three months that do not involve ex-ante approval; a fast-track judicial procedure for judging the legality of strikes; a review of the list of justified reasons for terminating the contract of workers under protection as trade union members; and the rationalization of the system of leave benefits for trade union members. Further labour market interventions are expected to be discussed in the context of the next (3^{rd}) programme review, including a stricter rule for declaring strikes.

3.7 Attractive financial and real asset prices; the lowest in decades

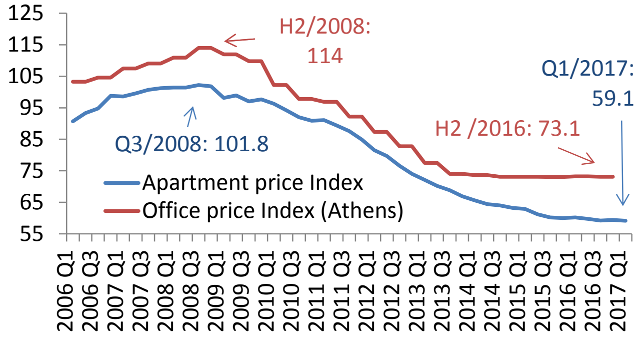
The seven-year-long crisis along with the ensuing deep recession and uncertainties have caused prices of Greek stocks, bonds, real estate and real productive assets to decline dramatically compared to international equivalents. In relative terms, considering the substantial degree of macro adjustments, reform implementation and growth prospects, Greek assets seem currently extremely competitively priced, offering the potential for a strong recovery and double-digit returns in the medium-term. There are also competitively priced, compared to Europe and countries that went through an adjustment program and exhibit today similar macro performance.

- According to the BoG property index, apartment prices declined by 42.2% between Q3 2008 and Q1 2017, while Athens office space prices dropped by 38.3% in 2008-2016 (Figure 14)

- The ASE general index underwent a dramatic decline in recent years, reaching 450 points in February 2016 and 800 points today, from levels above 5,300 recorded in October 2007 (Figure 15).

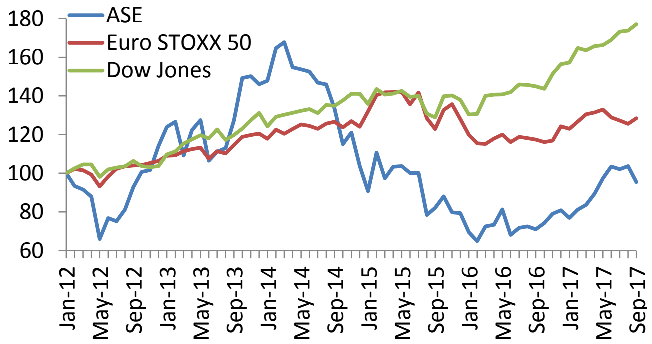
- Greek banks have lately been trading at around 0.3 times their tangible book value, considerably lower than their European peers and substantially below their historic performance.

Figure 14: Property Indices



Source: Bank of Greece, Eurobank Research

Figure 15: General Stock Indices' performance, Jan 2012=100

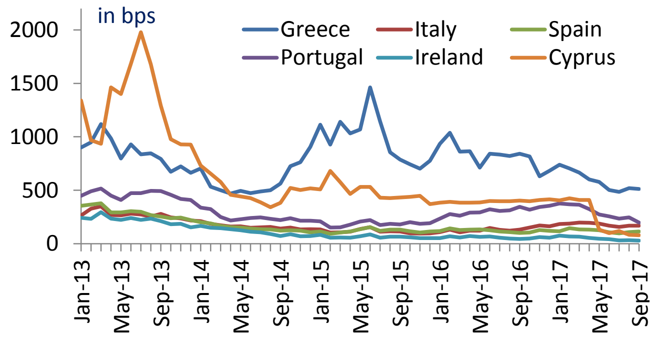


Source: Thomson Reuters, Eurobank Research

- Despite the most recent spread compression of Greek government bond yields, the yield of the 10-year Greek benchmark continues to price significantly higher risk premia relative to its euro area periphery counterparts. At mid September 2017, the said yield was ca 2.3 times higher than that of Portugal, 2.7 times that of Italy, 3.8 times that of Spain, and 7.6 times that of Ireland (Figure 16). Similar differences are recorded in the pricing of CDSs.

- At the same time, the yield spread vs. the 10-year German benchmark was ca 500bps. Considering the substantial macroeconomic and fiscal adjustment implemented in Greece in recent years, we believe that a significant part of the Greek bond spread differentials reflect a lingering credibility and confidence gap. In a Monetary Union, such a dramatic yield divergence cannot be maintained in the longer term and further correction is likely upon full restoration of credibility and confidence in Greek public policies.

Figure 16: 10-Year Government Bond spreads (from 10-Year German Bond Yields)



Source: Thomson Reuters

3.8 A massive privatization programme & major infrastructure projects under implementation are transforming economic potential and prospects

Greece offers unique opportunities to investors for acquiring strategic assets in a wide range of sectors and activities. Social and political consensus on the necessity and acceptability of privatizations has increased substantially and recent polls show the majority of the population is in favor of privatizations.

As part of the 1st programme review, Greece established the Hellenic Corporation of Assets and Participations (HCAP), an umbrella privatization and investment fund to which the vast majority of public properties and participations are being transferred. The fund, which is administered by independent bodies, has a 99-year mandate to develop, sell, manage and monetize assets and rights owned by the Greek government with the goal of raising up to €50bn. The companies that fall under the HCAP are: the existing privatization agency (HRADF), the Hellenic Financial Stability Fund (HFSF), a sub-entity that will monetize publicly-owned real estate assets (ETAD) and a new sub-entity to manage and monetize participations in state-owned enterprises and investments (EDIS). In an effort to better monitor the activities of the HCAP and seal it from political influence, an independent supervisory board was established. The 5-member Supervisory Board of HCAP was jointly appointed in late 2016 by the Greek authorities (3 members) and the European institutions (2 members including the Chairman).

As part of the 2nd programme review, HCAP has become operational, with the General Assembly adopting the remaining internal regulations. The Supervisory Board selected the Board of Directors of HCAP, including the CEO and the Board of Directors was constituted as a body. In addition, the process for determining the remaining portfolio of SOEs and real estate to be transferred was agreed between the institutions and the Greek authorities. Finally, the Asset Development Plan (ADP) of HRADF was approved. Significant assets have already been transferred to the HCAP in the sectors of energy, banking, real estate, utilities, tourism and infrastructure (ports, airports, railways, highways) and several privatization projects have already been completed. Among others, the concession agreement for the operation of 14 regional airports with Fraport has been completed (€1.4bn foreign investment); the Hellinikon project has been assigned to a consortium of private developers (€7bn investment in total); the privatization of Piraeus port has been completed; and the railway commercial company was sold to Italian Railways. The privatization of Thessaloniki port is still in progress, with its completion reportedly planned by the end of 2017.

HRADF's portfolio of privatizations and development schemes includes a large number of land assets, infrastructure (Athens International Airport, Athens Water Supply and Sewerage Company, small ports and marinas, Public Power Corporation, ROSCO, remaining regional airports), and corporate assets (Hellenic Petroleum, Hellenic Post, Public Gas Corporation, State Lotteries License). As part of the 2nd programme review, HRADF launched procurement processes to hire advisors for the key remaining tenders of the ADP including Hellenic Petroleum (HELPE), the electricity company (PPC), the gas company (DEPA), the water companies for Thessaloniki and Athens (EYATH, EYDAP, respectively), the telecom company (OTE) and the 30% stake in the Athens International Airport. Furthermore, Egnatia Motorway launched a tender for the construction and full equipment of the remaining toll stations vis-à-vis its privatization. Regarding the Hellinikon project, domestic authorities are dealing with the forestry and archaeology issues and are planning to revise the legislative framework regarding the granting of casino licenses in Attica Region. Elsewhere, HRADF has initiated a new tender process (currently underway) for the privatization of 66% of the gas operator DESFA. It will also proceed with the steps needed for the concession agreements for 10 regional port authorities, while the remaining 23 regional airports will be transferred to HCAP.

Regarding real estate and property development investments, the potential seems to be very promising. Greece features a substantially under-developed coastline (some 16,000km), with much of its public land remaining unexploited, including the valuable coastline along the shores of the Attica region. By way of comparison, Greece's coastline is the second longest in Europe (Spain's coastline is only 4,960km) and the 12th longest in the world. In addition, only 165 out of the 2,500 Greek islands are inhabited and developed, while the broader public sector and the Ministry of Defense own significant city property, coastal land and other real estate assets situated mostly in commercially attractive locations, including the Athens region. HCAP and its integrated sub-entity, ETAD, will play a critical role in developing, monetizing and privatizing public real estate assets. ETAD owns a total of 71,459 public real estate assets, spanning a total area of 3,427,871 m^2. These include, inter alia, 277 tourist assets and Olympic sports facilities occupying an area of 4,800,000 m^2.

Other large infrastructure projects and privatizations are currently underway. These are expected to lower transportation cost and further boost economic activity, international trade, tourism and domestic growth. Some of these are listed below.

- Major, mostly completed, motorways across Greece linking: Athens to Patras, Patras to Ioannina, Athens to Sparta and Kalamata; the Egnatia motorway connecting Turkey with western Greece; the E65 crossing Thessalia; and stretches of the main motorway connecting Athens and Thessaloniki.
- Upgrading of the rail network and the privatization of Trainose, the commercial arm of the national railroad company.
- Privatization of 14 regional airports and the commitment of Fraport to invest more that 300 millions of Euros to upgrade them.
- Privatization of the ports of Piraeus and Salonica and commitment to privatize additional regional ports.

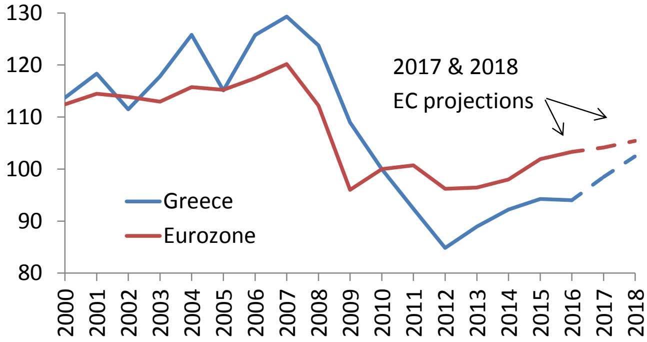
3.9 Return of economic growth combined with current depressed levels of capital stock imply scope for revival of private investment

Over the period 2007-2016, Greece's investment expenditure declined by more than 65% cumulatively, returning to levels not seen since the mid-90s. Over the same period, the share of residential investment in total investments collapsed by c. 95%, reaching around 6% (~€1bn), from 42% (~€25bn) at the start of that period. International experience suggests that the return to positive economic growth that is expected from this year onwards should lead to a revival of domestic business and investment activity. Conditional on the timely programme implementation and further improvement in market sentiment, Greece has the potential to enter a virtuous economic cycle. Hence, the very low starting point implies scope for a rapid economic rebound (if only a technical one in its initial phase) in order to close the still large output gap. The European institutions and the Greek government forecast a strong rebound of domestic growth rates this and the coming few years. This is expected to be driven by a more business friendly environment, sustained fiscal prudence, better alignment of labor costs with productivity changes, and the advancement of key supply-side reforms. All these should improve productivity and therefore increase the projected profitability of investments (Figure 17).

International experience shows that, in periods of economic recovery, the de-escalation of real interest rates and higher equity prices feed back into higher investment returns, thus creating more favorable conditions for investment activity.

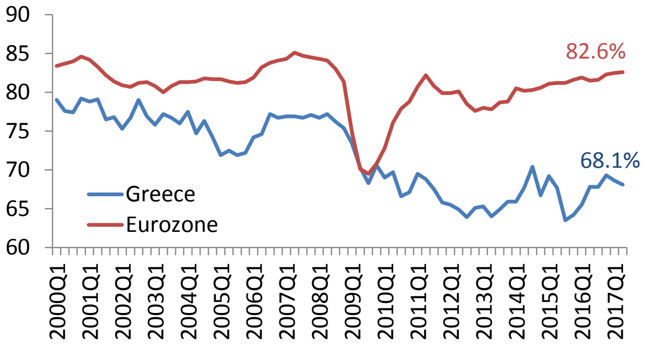
On a less sanguine note, capacity utilization in the Greek economy remains excessively low (Figure 18). In theory, this limits the amount of investment that may be immediately undertaken as corporates tend to fully utilize existing capacity before investing in new capital. However, a large amount of unused capital capacity has currently become obsolete in diminishing sectors that used to be dominant in the domestic demand-driven growth model of the pre-crisis years. By contrast, a number of sectors and activities are emerging and growing, still requiring substantial amounts of investment, such as tourism, energy, manufacturing and agriculture. The focus seems to be on tradable goods and services, which are expected to drive a more extrovert and sustainable model of economic development.

Figure 17: Net returns on net capital stock, Index, 2010=100



Source: Ameco

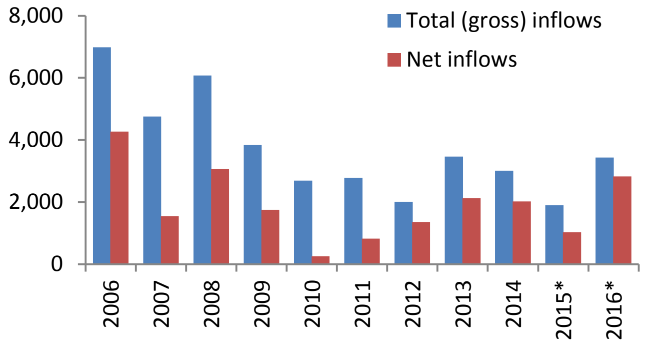
Figure 18: Current level of capacity utilization in manufacturing industry



Source: Eurostat

In addition, due to uncertainties and bureaucratic obstacles, Greece has traditionally lagged behind EU partners and other regional economies with respect to foreign direct investment (FDI) inflows. Over the period 2006-2015, France and Germany were the main origin countries in terms of inward FDI. After a slump in 2015, foreign investments in Greece increased in 2016, with gross FDI inflows reaching almost EUR 3.5 billion, (up by 82% and 14% from 2015 and 2014, respectively). Given also that FDI outflows, mostly to neighboring countries, seem to have completed their recent cycle, net inflows were increased in 2016, reaching EUR 2.8 billion, the highest since 2009 (Figure 19). The main bulk of inward investment came from EU member states, with Luxembourg being the top source country followed by the UK, Netherlands, Germany, Cyprus and France. In terms of FDI inflows by sector of activity, in the past few years the territory sector attracted the lion's share. On the other hand, investment in tradables' sectors and greenfield investment has been lagging behind. Financial intermediation tops the list with 43.6% of total investment in the tertiary sector, while real estate has also seen increased inflows as the sharp reduction in real estate prices has brought to the fore attractive investment opportunities. The primary and secondary sectors account for relatively low portions of total FDI inflows, potentially suggesting considerable scope for improvement. In sum, the improving business and economic environment should make Greece a more attractive destination for FDIs. However, a sharp acceleration would require FDI attraction to become a key target of economic policy; a set of measures facilitating FDIs must be introduced, including a functioning and efficient "one stop shop" for foreign investors.

Figure 19 - FDI inflows in Greece 2006-2016 (in million Euros)



Source: Bank of Greece, Enterprise Greece

3.10 Improving financial stability, funding and liquidity conditions for the economy, business and investment

The ongoing stabilization of the Greek economy and the return to positive growth rates, along with the substantial reduction of uncertainties and risks, are expected to support a gradual improvement of domestic financial conditions and funding availability for the economy. This process is being facilitated by the gradual return of bank deposits, improving access of banks to global capital markets, lower risk premia on Greek financial assets, improving corporate access to global markets, the eventual resumption of positive credit creation, the eventual lifting of capital controls, the net capital inflows attracted by rising investment opportunities in real and financial assets, and the gradual reduction of the elevated stock of non-performing loans. Moreover, financial stability has improved due to the progress that has been recorded in enhancing banks' governance, strengthening capital, improving liquidity conditions and gradually reducing NPLs stock, while the insolvency framework and enforcement procedures have been improved.

3.10.1. Liquidity conditions in the domestic banking system continue to improve

The position of the Greek banking system has strengthened considerably in recent years. Greek banks were fully recapitalized in 2015 through an injection of €14.3bn of fresh equity, with some € 5bn of this coming from private investors (more than €60bn of additional capital injected in the last four years). They currently maintain high capital ratios (system-wide Core Tier I capital ratio of 17%, among the highest in the Eurozone) and they have already taken significant provisions (c. €53bn) against bad debts, maintaining a coverage ratio of NPEs close to 50%. Furthermore, over the last few years they have undergone three exhaustive stress tests administered by foreign official institutions and have managed to return to organic profitability in 2016. As regards liquidity, domestic banks' reliance on the Eurosystem for emergency funding is declining (August 2017: €45.3bn in total €30.9bn, out of which ELA vs. June 2015: €126.6bn, with €86.8bn of which ELA). Furthermore, in recent months Greek banks have been increasingly successful in restoring market access for raising liquidity by reporting high quality uncorrelated and correlated assets (total interbank borrowing currently estimated at c. €24bn). Yet, they still broadly continue to lack access to uncollateralized lending. Deposit gathering is slowly improving and the last two months c. € 1.8bn returned to the banking system. Last but not least, domestic lenders have committed to their supervisors (SSM and BoG) to reduce their stock of NPEs by 38% (c. €40bn) by the end of 2019, remaining so far broadly on track to achieving the agreed relevant targets. The aforementioned improvement in domestic financial conditions is broadly expected to continue in the period ahead, while the upcoming new regulatory and supervisory obligations (i.e. IFRS9, TRIM, Stress Tests) are likely to have a manageable impact on capital adequacy. All in all, it is expected that liquidity will be more readily available for attractive investment projects and business activities in the years ahead, which is likely to accelerate with further improvement of market sentiment, the lifting of capital controls, and convincing growth prospects.

3.10.2 Sizeable EU structural funds and international official sector financing available to support business and economic recovery

Up to June 2017, Greece had received some €41bn from a pool of EU funds pertaining to the programme period 2007-2013.[3] This translates into a high rate in terms of funds absorption. For the 2014-2020 period, which is the current multiannual programming period of the EU budget, the total allocation of EU funds for Greece is around €36bn, consisting of: (i) €21bn from the European Structural and Investment (ESI) Funds; and (ii) €15bn from the European Agricultural Guarantee Fund, through direct payments to bolster farmers' and producers' income and support young farmers setting up small businesses.

ESI Funds - mainly grants given to specific projects that relate to EU policies - are by far the main source of public investment in Greece. Through 20 national and regional programmes, the overall envelope for 2014-2020 is available to Greece through the following funds:

(i) The European Regional Development and the Cohesion Funds that provide assistance for investment by SMEs, innovation and research, improvement in business competitiveness and extroversion, environmental protection and energy efficiency.
(ii) The European Agricultural Fund for Rural Development that supports initiatives to improve the competitiveness of the agricultural sector, promote economic development and job creation in rural areas and ensure an efficient use of natural resources.
(iii) The European Social Fund that finances active labor market and promotes social inclusion policies aiming to boost employment and reduce poverty.
(iv) The European Maritime and Fisheries Fund that helps coastal communities to diversify their local economies and assists in the transition to sustainable fishing.
(v) The Fund for European Aid to the Most Deprived that supports the fight against poverty, providing food, clothing and other basic necessities to those most in need.
(vi) The Youth Employment Initiative that helps young people to get work experience and training.

In a move to help Greece make the best use of available EU funds and address its acute liquidity problems, the European Commission has proposed (and the European Council has accepted) a series of exceptional measures, including: (i) a EUR 1bn increase in the level of annual pre-financing available for projects co-financed under the cohesion policy for the 2014-2020 programme period; and (ii) an annual payment of 3.5% in additional pre-financing for the total of EU funds available for the years 2015 and 2016. With the help of the aforementioned EC measures[4], Greece received about EUR 2bn in additional EU funds in 2015 and 2016 compared to what was initially planned. EC initiatives were complemented by an increased sense of purpose from Greek governments to fully exploit structural funds' resources. Hence, regarding the previous programming period 2007-2013, at end 2014 Greece had reached an absorption rate of 88%, ranking 4th among EU member-states, from 20th in 2012; thanks to all extraordinary EC measures mentioned, and facilitated by simplification measures adopted recently in Greek legislation, Greece reached top rank in 2017 in terms of the absorption of EU structural funds. Regarding the period 2014-2020, based on recent European Commission data (June 2017), Greece ranked 6th in terms of use of EU funds (Table 1).[5] Even if the aforementioned exceptional measures are excluded, Greece still ranks above average (13th) with an absorption rate of c. 13%. Alertness is necessary as absorption rate in 2016 undershot expectation and further decreased in Q1 2017.[6] Furthermore, prioritization of projects should be compatible with the pursued extrovert and knowledge-intensive growth model. Nevertheless, EC

[3] The final closure payments to Greece for the period 2007-2013 can be made in 2018-2019, at the latest.

[4] Exceptional measures were also adopted for Greece for the 2007-2013 programming period including an increase in the co-financing rate to 100%.

[5] The ranking refers to the absorption of European Structural and Investment Funds, see https://cohesiondata.ec.europa.eu/overview.

[6] See http://www.bankofgreece.gr/BogEkdoseis/NomPol20162017.pdf, page 84.

structural funds are a valuable growth tool as related projects produce very high multiplicatory effects in the economy.

As a result of the Commission's review in 2016 for the allocation of cohesion policy funding to all member States for the years 2017 to 2020 (and after taking into account the latest GDP statistics), Greece has been allocated an additional EUR 970mn for 2017-2020. Provided that all new (available) EU funding for Greece is effectively used, the European Commission expects, inter alia, that by year 2020 some 2,680 start-ups will be created, 10,800 enterprises and 23,900 young farmers will receive support, 110,000 young people up to 29 years old will benefit from traineeships and apprenticeships, 16,000 new direct jobs will be created and roads of 724km in total length will be built or upgraded.

In addition to direct EU funding for 2014-2020, Greece could benefit in the coming years from indirect funding through thematic programmes, available Europe-wide on a first-come-first-served allocation basis. These include, inter alia:

(i) The Connecting Europe Facility (CEF), a key EU funding instrument for promoting growth, jobs and competitiveness in the fields of transport, energy and digital services.
(ii) Horizon 2020, the biggest EU Research and Innovation programme focusing on research and innovation in the areas of transport and energy.
(iii) The Programme for the Competiveness of Enterprises and SMEs (COSME), aiming to promote entrepreneurship and improve the business environment for SMEs.
(iv) The LIFE programme, targeting environmental and climate action projects.

Separately, domestic projects focusing in the areas of infrastructure, innovation and SME financing already approved under the Juncker Plan's European Fund for Strategic Investments (EFSI)[7] represent total available financing for Greece in the vicinity of EUR 1bn, which the European Commission expects to generate EUR 3bn in investment. The European Fund for Strategic Investments, one of the three pillars of the Juncker's investment plan for Europe, has been launched jointly by the European Commission and the EIB Group aiming to mobilize private investment in projects which are strategically important for the EU. The EIB Group is comprised of the European Investment Bank (EIB) and the European Investment Fund (EIF), with the latter focusing on innovative financing for SMEs and Midcaps. Since 2011, it has actively supported Greek SMEs under the JEREMIE (Joint European Resources for Small and Medium-sized Enterprises) initiative, aiming in cooperation with the four systemic Greek banks, to facilitate access to credit for start-ups, ICT businesses and micro-enterprises. Meanwhile, in order to further enhance its engagement and operations in the country, the EIB established in early 2016 a special Investment Team for Greece, the first time ever such a team has been set up for a specific country. The EIB Group has a strong track record in investing in Greece. Since the outbreak of the debt crisis in 2008, it has provided over EUR 12 billion in the form of loans and guarantees for investment. Out of that amount, nearly half was invested over the last five years 2012-2016 (c. EUR 6.5 billion) concentrated mainly in the fields of small and medium- projects, energy, transport & telecommunications, industry, services & agriculture. Outstanding EIB Group loans are estimated at around EUR 18 billion, representing around 10% of the Greek GDP.

On top of these, Greece could also benefit from lending opportunities offered by the International Financial Institutions (IFIs) of which Greece is a member. At the request of Greek authorities, the European Bank for Reconstruction and Development (EBRD) started investing in Greece in 2015 and, since then, it has invested some €1.2 billion in 22 projects in the financial, energy, infrastructure, and agribusiness sectors. Last but not least, the International Finance Corporation (IFC), an official international financial institution that offers investment, advisory, and asset-management services to encourage private-sector development in developing countries, supported Greece's four systemic banks in December 2015 in the context of the 3rd bank recapitalization exercise. IFC may also

[7] The European Fund for Strategic Investments (EFSI), one of the three pillars of the Juncker's investment plan for Europe, has been launched jointly by the European Commission and the EIB Group —the European Investment Bank (EIB) and the European Investment Fund (EIF) —aiming to mobilize private investment in projects which are strategically important for the EU.

engage in other selected projects in the financial sector and in infrastructure.

Table 1- EU funding available to the Greek economy (2014-2020, in EUR mn)

I. European Structural and Investment Funds (ESIFs)	Amounts programmed 2014-2020	Amounts paid from 2014 (start of the programming period) up to 10 June 2017
European Regional Development Fund (ERDF)	8,381	1,587
European Agricultural Fund for Rural Development (EAFRD)	4,718	745
European Social Fund (ESF)	3,684	966
Cohesion Fund (CF)	3,241	409
European Maritime and Fisheries Fund (EMFF)	389	48
Fund For European Aid to the Most Deprived (FEAD)	281	43
Youth for Employment Initiative (YEI)	172	108
II. European Agricultural Guarantee Fund (EAGF)	15,074	8,177
Subtotal (I+II)	35,940	12,083
Other EU funds		1,370
TOTAL AMOUNTS PAID		13,453

Source: EU Commission, "A new start for jobs and growth in Greece- Almost two years on", June 2017.

3.10.3 Increasing access of Greece's largest companies to international and domestic debt capital markets

Even though the vast majority of domestic companies continue to face serious financing constraints, a rising but relatively small number of large Greek corporations managed to restore access to international funding markets before the Greek state and the banks did, and on relatively satisfactory borrowing terms.

Throughout the duration of the crisis, from 2011 to 2016, there had been 20 bond issues by just nine Greek corporates, raising a total of €7.1bn in new capital. However, even for these large corporates, the cost of issuance fluctuated considerably, in line with domestic (and to a lesser extent international) macroeconomic and political developments.

It is indicative that corporate issuances between 2011 and 2013, a period characterized by elevated economic uncertainty, yielded an average interest rate of around 8.1%. By contrast, the borrowing cost on corporate issuances during the spring and the summer months of 2014 fell by c. 340bps to around 4.7%. Recently, trading in the secondary bond market has shown further improvement, with impressively low yields on Greek corporates (Table 2), lower than or comparable to sovereign debt maturities.

In the first seven months of 2017, five more corporate bond issuances have taken place on the Athens Stock Exchange at yields of around 3.3%, or 150bps lower than those issued between 2015 and 2016 (Motor Oil €350mn @ 3.225%, Sunlight €50mn @ 4.25%, OPAP €200mn @ 3.50%, Mytilineos €300mn @ 3.10% and Terna Energy €60mn @ 3.85%).

Issuance appetite seems to be improving, thus providing an additional source of funding for business activities.

Table 2: Greek corporate bond issuances during the crisis

	Issuer	Issue date	Coupon	Amount (€ m.)	Yield (%) 26/07/2017	Maturity
1	OTE '14	Apr-11	7.250%	500.0	-	Apr-14
2	Titan '17	Dec-12	8.750%	200.0	-	Jan-17
3	OTE '18	Jan-13	7.875%	700.0	1.718	Feb-18
4	ELPE ' 17	Apr-13	8.000%	500.0	-	May-17
5	Frigoglass '18	May-13	8.250%	250.0	122.637	May-18
6	Intralot '18	Oct-13	9.750%	325.0	-	Aug-18
7	Intralot '21	May-14	6.000%	250.0	5.278	May-21
8	DEH '17	Apr-14	4.750%	200.0	-	May-17
9	DEH '19	Apr-14	5.500%	500.0	10.520	May-19
10	ELPE '16	May-14	4.625%	400.0	-	May-16
11	Motoroil '19	May-14	5.125%	350.0	-	May-19
12	FollieFollie '19	Jun-14	1.75% (convertible)	249.5	3.209	Jul-19
13	ELPE '19	Jun-14	5.250%	325.0	3.405	Jul-19
14	OTE '20	Jul-14	3.500%	700.0	2.164	Jul-20
15	Titan '19	Jul-14	4.250%	300.0	1.278	Jul-19
16	OTE '19	Nov-15	4.375%	350.0	1.759	Dec-19
17	Titan '21	Jun-16	3.500%	300.0	1.679	Jun-21
18	Intralot '21	Sep-16	6.750%	250.0	5.187	Sep-21
19	Housemarket (Fourlis)	Oct-16	5.000%	40.0	-	Oct-21
20	ELPE '21	Oct-16	4.875%	375.0	3.578	Oct-21

Source: Thomson Reuters, Eurobank

3.11 Markets seem to underestimate the progress already recorded in reforming and transforming the Greek economy

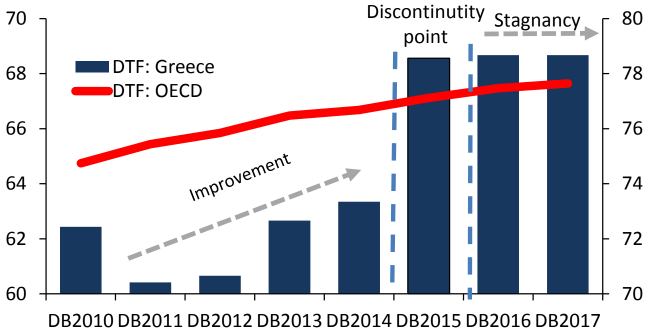
Financial markets and the international investor community do not yet seem to fully appreciate the progress made in removing past macroeconomic imbalances and reforming the Greek economy. Arguably this is because there is a prevailing perception of a lack of programme "ownership" on behalf of the domestic political establishment and the society at large. An attitude of "we do it because we have to", which undermines confidence in that more necessary reforms and po licy commitments will be implemented. Truth be told, the progress made in various fronts towards a more extrovert and business-friendly domestic environment has so far been broadly uneven. Furthermore, Greece began implementing its reforms agenda from a very low base, and this probably explains why the Lisbon Council Report for 2015 ranks it at the bottom of EU countries. Yet, this cannot conceal the fact that a large number of successful macro adjustments and reforms have taken place, producing measurable gains in the quality competitiveness rankings of the Greek economy.

Between 2009 and 2014 Greece improved by ca. 40 positions in the Word Bank's Doing Business rankings (6.1pps in the WB DB DTF rankings). Yet, it still ranks 60 in the DB 2016 vs an average ranking of 25 for the OECD countries (Figure 20). Relevant areas where significant progress has been achieved include: Starting a Business (rank 54); Getting Electricity (rank 47); Protecting Minority Investors (rank 47); Trading Across Borders (rank 27); Resolving Insolvency (rank 54). Elsewhere, according to the Berenberg Bank Euro Plus Monitor (Dec. 2015), Greece's summary score in total adjustments (fiscal, labor cost, external reforms) stands among the highest in Europe, second only to Ireland and around two times higher than the Eurozone average. The OECD Economic Policy Reforms 2015 survey also suggests that Greece has implemented significant reforms during the period 2007-2014.

Notwithstanding the policy discontinuity of the first half of 2015, a large number of important reforms have been implemented in recent years, as part of the conditionality attached to the country's bailout agreements with official creditors.

Indicatively, between March 2014 and January 2015, 380 MoU/MEFP actions were completed and marked as "observed" by the Institutions. In addition, the new (3rd) adjustment programme entails a significant number of reforms, with as many as 240 of them pertaining to the already-completed 1st and 2nd reviews.

Figure 20: Doing Business, Distance to Frontier (2009 - 2016)
100: Fronier (best performance)



Source: World Bank

These include, inter alia, social security and income tax reforms; a new medium-term fiscal strategy framework (MTFS 2018-2021); the newly established umbrella privatization fund (HCAP); a comprehensive resolution framework for household and corporate bad debts (liberalization of servicing and selling whole portfolios of NPLs, new bankruptcy procedure & OCW framework, e-auctions of collateral, removal of earlier ban on primary residence foreclosures as well as other important measures); initiatives on education and vocational education and training; new reforms to the social welfare system; modernization of public administration (mobility scheme for civil servants, special wage grid, selection processes for managers, performance assessment scheme); completion of the electricity sector reform (e.g. NOME auctions); further liberalization of product markets (OECD's Toolkits I & III); further simplification of investment licensing procedures; further measures to reduce administrative burden (e.g. environmental licensing, one-stop shops for businesses to allow for the electronic incorporation of companies, simplification of the licensing procedure for fuel traders); further opening up of closed professions (engineers, public works' engineers, stevedores); and additional reforms in the water utilities, the transport sector and logistics industries. The aforementioned reforms (and these that remain to be implemented over the duration of the current programme), if consistently implemented, are expected to have a substantial impact on qualitative competitiveness factors and the domestic entrepreneurial environment, contributing to the creation of a more stable and competitive economy.

3.12 A skilled and well-educated workforce

According to recent Eurostat data for year 2016, 42.7% of the Greek population aged 30-34 had attained tertiary education vs a 37.6% EA average. Furthermore, 55% of Greece's population aged 0-29 comprises of pupils and students vs a corresponding EA-18 average of 52%. In Greece, 11.3% of the population of post-compulsory school age consists of students compared to an EU average of 9.5%. Furthermore, a recent study by the Foundation for Economic and Industrial Research on the tertiary education in Greece showed that the number of persons with an undergraduate degree from a Greek university increased from 14.8 thousand in academic year 1973-74 to 32.9 thousand in academic year 2013-2014, an increase of 122.3% which is almost 6 times the increase of the population (21.5%) over the said period. Accordingly, the number of persons that obtained a graduate (MSc) degree increased from just 61 in 1974 to 9.2 thousand. Finally the number of persons that obtained a PhD increased from 285 persons in 1973-74 to 1,596 persons in 2012-2013. Note that the aforementioned figures refer only to persons that obtained degrees from a Greek university. No official data exist on the persons that obtained degrees (graduate, MSc or PhD) from universities outside Greece. In general we can assume that this figure increased also as a result of the EU membership from 1981 onwards and the improvement in disposable incomes over that period. Last but not least, 15.1% of all Greek students study in the fields of science, mathematics and computing (disciplines that are more crucial for economic growth), while the respective EA average is 10.9%. On top of all these, it should be expected that a significant number of highly skilled Greeks living abroad would be willing to return to the country once the economic recovery and job creation takes more traction, further enhancing the quality of the domestic workforce. Having said all these, more work is needed in aligning the priorities of higher education with the needs of the real economy, while also ensuring the non-reversal of earlier reforms that aimed at strengthening the independence of higher education institutions.

3.13 Effective reduction of NPL stock necessitates asset sales and restructurings; these in turn require substantial injections of private equity and debt

Non-performing loans have reached extremely high levels as a result of the unprecedented recession. At the end of the first half of 2017, on-balance sheet NPEs in the Greek banking sector stood at €102bn or 50.6% of total loans, with approximately half of these representing corporate exposures. Against this stock of bad debts, Greek banks have taken €53bn stock of provisioning. Domestic lenders have committed to their supervisory authorities (SSM and BoG) to undertake a significant reduction of their non-performing loans stock (NPEs) over the next three years. Banks have committed to cut their overall NPE stock to € 66.7bn by the end of 2019, which amounts to a 38% cumulative reduction from current levels.

This requires banks to explore all available options including, inter alia:

- Re-performing assets (curing)
- sell NPEs/NPLs portfolios to third-parties;
- transfer the servicing of NPLs to third parties, allowing the latter the option to inject new capital or debt into distressed companies;
- sell repossessed assets and collaterals;
- restructure non-viable companies, either through the injection of fresh private equity and debt and/or by implementing some type of debt forgiveness;
- merge non-viable companies with a healthy competitor in Greece or abroad; and
- sell part or all of a non-viable company to an outside private investor.
- liquidations

As per the NPE reduction targets agreed with the supervisors, the largest part of the reduction will materialize in 2018 and 2019. This will be mainly driven by the curing of loans (€31bn) and write-offs (€14bn) and, to a lesser extent, by liquidations (€11bn), collections (€6bn) and sales (€7bn) of loans. The NPE reduction plan also assumes the generation of ca €30bn new NPEs over the same period. Banks have been piling up real estate assets repossessed through liquidations; approximately 20,000 properties, which are currently valued at more than €5bn. Like corporate NPLs, there is a strategic objective and regulatory pressure to dispose of them in an orderly manner. The stock of repossessed assets is likely to increase substantially as banks have recently resumed foreclosure procedures. The speed of the process will increase by the recent legislation, which significantly liberalizes the management of NPLs by, inter alia, permitting their sale to private investors, assigning their servicing to specialized entities and speeding up the legal procedures for resolving relevant disputes.

3.14 Small size of Greek companies raises significant M&A opportunities and consolidation prospects

The number of Greek companies employing fewer than nine employees comprises 95% of the total, the highest ratio in the Eurozone. The relatively small size of Greek companies, both commercial and industrial, and the fragmented nature of the domestic agricultural sector constitute major impediments to effectively competing in international markets. Small companies face difficulties in penetrating foreign markets, absorbing the relatively high cost of marketing and R&D, obtaining competitive borrowing terms, accessing international capital markets and building a strong brand. In an increasingly competitive global marketplace, the strategic reorientation of the country towards more extrovert growth activities offers attractive opportunities to domestic and international investors to internalize economies of scale in selective sectors of the domestic economy and generate above-average returns. This process can be facilitated by the ongoing reforms aiming to open up domestic markets and bring them in line with European norms. In this context, it is important to provide tax and amortization incentives to encourage mergers and acquisitions (M&A) in key sectors, with a view to creating companies that have the financial strength and the appropriate size to compete internationally.

3.15 Certain sectors of the economy feature rising opportunities for investing

The sizeable macroeconomic adjustment that took place in recent years and the need to accelerate the transition to a more business-friendly and extrovert model of development give rise to significant investment opportunities in a range of domestic sectors and economic activities that feature important competitive advantages and growth prospects in the post-crisis era. Some of the significant challenges for and the potential investment opportunities in some of them are highlighted below. The sectors briefly analyzed herein include: travel & tourism, manufacturing & food processing, energy, transportation, logistics, minerals, agriculture and trade (wholesale & retail). We emphasize that neither the list of the sectors presented nor the relevant risks and challenges highlighted is by any means exhaustive. A more thorough account of the domestic sectors and activities that could offer attractive investment opportunities in the post-crisis era is well beyond the scope of this paper, to be addressed in a future publication.

Travel & Tourism

Travel & Tourism is an important sector of the Greek economy, with substantial direct and indirect impact. According to the most recent data from the World Travel & Tourism Council, the sector's *direct* and *total* contribution to Greece's GDP in 2016 was €13.2bn (7.5%) and €32.8bn (18.6%), respectively. In the same year, the sector directly supported some 423k jobs (11.5% of total employment), with its total contribution to employment estimated at 23.4%, including demand created for other sectors. Recent developments are more than encouraging. The number of arrivals has been steadily going up and may reach 30 million visitors in 2017. Revenues lagged behind in 2016 but are apparently gaining pace in 2017, which may turn out to be another record year. Yet, by no means does this good performance imply that the Greek tourism has reached the full of its potential. Significant investment opportunities lie in business initiatives aiming to, inter alia: i) extend the tourism season; ii) expand the product mix beyond the traditional "Sun & Sea" model by further developing other products and services such as City Break, Thematic Sun & Beach, Nautical, Cultural & Religious, Medical, as well as Meetings and Incentives tourism; iii) penetrate markets with good growth potential e.g. China and India; iv) promote touristic development of geographic areas that have so far been underdeveloped; and v) upgrade existing tourist accommodation and related infrastructure, with the aim to increase expenditure per visitor. In order to help achieve this potential, a number of policy priorities should be set with the aim to improve the business environment in which the domestic tourism industry operates. Some of these include: a) further modernization of the existing institutional and regulatory frameworks by, inter alia, reducing bureaucracy, simplifying licensing procedures, removing restrictions inhibiting the development of facilities (e.g. integrated resorts) and markets (e.g. vacation homes), improving the framework for uses of land; b) acceleration of the public property development program by, inter alia, developing the southern coastal front of Attica and upgrading critical infrastructure e.g. regional airports, marinas and cruise embarkation ports; c) creation of the appropriate tax and other incentives for facilitating investment in new facilities as well as acquisition/restructuring of old ones; d) acceleration of effective management of non-performing loans in the domestic tourism industry.

Manufacturing

The sector's contribution to the domestic economy in terms of gross value added (GVA) has diminished to c. 9.5% in 2016 from 12.1% in 1995 (Eurostat data, the definition excludes energy).[8] Yet, compared to other productive sectors of the Greek economy, the manufacturing sector remains among the strongest contributors in terms of value added, employment and tax revenues. International experience has showed that countries with a developed manufacturing sector achieve more sustainable and strong growth rates. Many Greek manufacturing firms are relatively undersized and less productive compared to their EU counterparts. This implies that there is ample room for improvement related to scale as a crucial factor for: higher R&D and marketing expenditure, professional management, market and pricing power, adequate distribution channels and, ultimately, higher competitiveness. In order to help achieve this potential, a number of policy priorities should be set and business initiatives should be taken with the aim to improve the business environment in which the domestic manufacturing industry operates. Some of these include: a) measures aiming to increase the technological content of the sector's exports (e.g. increased R&D)[9]; b) business initiatives aiming to increase the participation of the sector's products in Global Value Chains (GVC)[10]; c) further modernization & simplification of the existing institutional and regulatory frameworks, by inter alia, reducing bureaucracy, simplifying licensing procedures, removing unjustified employment, land-use and other restrictions, as well as accelerating judicial proceedings; d) reduction of corporate tax rates and property rates on productive buildings and factories, as well as simplification of the tax system; d) effective management of non-performing loans in the domestic manufacturing sector so as to mitigate unfair competition and support viable companies; e) policies and initiatives aiming to improve the country's competitiveness, such as the creation of a National Observatory for Competitiveness and the improvement of domestic infrastructure; f) reduction of energy and financial costs in order to improve competitiveness and cost structure.

Energy

The energy sector directly contributes around 4% to the domestic economy (in terms of gross value added) and accounts for c. 1% of total employment. In terms of total energy production (as measured in Million Tons of Oil Equivalent or Mtoe), around 72.1% comes from solid fuels, 26.3% from renewables and the rest from petroleum & petroleum products, natural gas and wastes (Eurostat, latest available data for year 2014). Opportunities exist through Greece's favorable geostrategic position, the required change of the current energy mix away from fossil-fuel generated electricity and towards RES and the planned privatization of key energy assets. Some of the key policy priorities and business initiatives to further enhance the sector's potential include, but are not limited to: a) acceleration of privatizations and liberalization of the domestic energy market; b) initiatives to further leverage Greece's geographical position with the aim to secure participation in regional gas & electric power infrastructure projects; c) improvement/streamlining of the licensing process for major energy projects; d) improvement of energy efficiency in buildings & transportation, by utilizing latest technologies e.g. smart metering, smart grid technologies and LED lighting; e) acceleration of

[8] By comparison, the respective GVA contribution of the manufacturing sector in the European Union was 16.1% in 2016, compared to 19.6% in 1995.

[9] Greece in 2014 was ranked 46th among 124 countries in the Economic Complexity Index as a result of the low technological content of its exports, notwithstanding imperfections of these indices in capturing the technological content of sub-sectors.

[10] Currently, Greece only marginally participates in GVC and that is mainly through its chemical and petroleum sectors, see e.g. http://www.oecd.org/sti/ind/GVCs%20-%20GREECE.pdf

major infrastructure initiatives, such as the interconnection cable of the Greek islands with the mainland; f) improvement of the energy mix and assessment of fuel & tech distribution alternatives in terms of supply security, financial impact & environmental implications; g) initiatives to support extroversion and participation in the sector's global value chains.

Agriculture

In the last two decades, the relative contribution of agriculture, forestry and fishing (GVA terms) has fallen significantly, from 8.1% in 1995 to around 4.1% in 2015, bringing the sector in the 7th position among the main sectors of the Greek economy.[11] In absolute terms, the GVA of the sector over the period 2006-2015 has been around €6.4bn. With respect to employment, some 455 thousand people were working in the sector in 2016, accounting for c. 12.4% of total employment (the respective figures for 2008 were 514 thousand and 11.1%). In 2015, exports of agricultural products amounted to €4.7bn or 20.2% of total goods exports. Greek agro-products and the Mediterranean diet to which they are core ingredients are gaining popularity world-wide and opportunities exist through the development of the sector which is currently characterized by small holdings, low R&D and marketing expenditure, unfocused specializations and low productivity. Some key policy priorities and orientations for commercial strategy in the sector include: a) development of R&D and biotechnology; b) improvement of agricultural education; c) better use of available EU funding; d) creation of clusters of producers of different products; e) promotion of large-scale production; f) introduction of standardization and certification mechanisms for the sector's output; g) investment in products that fall under the favorable PDO-PGI-TSG EU framework.[12]

Wholesale and retail trade

Wholesale and retail trade represents a dynamic sector of the Greek economy accounting for 10.7% in terms of total gross value added (GVA). In absolute terms, the GVA of the sector stood at EUR 16.6bn in 2015 at current prices, ranking 2nd among the main sectors of the economy after real estate activities (Eurostat data). With respect to employment, around 658 thousand people were working in the sector in 2016 accounting for 17.9% of total employment, some 182 thousand lower than in 2008 (the respective figure for 2008 was 840 thousand or 18.2% of total employment). Recent reforms in the labor and product markets, as well as infrastructure projects in the transportation and logistics sector have significantly improved the sector's prospects. Some key policy priorities and orientations for commercial strategy to improve the productivity and investment prospects of the sector include: a) implementation of the remaining OECD recommendations (beyond these already implemented in the context of the so-called OECD toolkits I, II & III) and EU best practices in order to promote competition and a more business-friendly environment; b) removal of retail trade-specific labor rigidities; c) utilization of latest IT and supply chain management technologies to improve inventory and warehouse management; d) development of e-commerce; e) initiatives aiming to promote consolidation among small and medium companies with the view to achieving economies of scale and scope.

Transportation and storage

Over the past five years, the average contribution in the GVA of the transportation and storage sector has been around 7.0% (7.5% in 2015). Accordingly, its average contribution to employment has been 4.9% (5.0% in 2016). The sector is undergoing a phase of transformation as a number of high-impact projects and deals have been recently implemented or will soon be underway, such as the sale of the Port of Piraeus to COSCO, the sale of Trainose to Ferrovie dello Stato Italiane, the concession of the development and operation of 14 regional airports to Fraport, and the privatization of the Port of Thessaloniki and other ports. Through these projects, the existing infrastructure is expected to be significantly upgraded which, in conjunction with Greece's favorable geographic position on the crossroads between East and West, will expand the

[11] Eurostat data, NACE Rev. 2 classification

[12] Under the EU agricultural product quality policy, three quality logos – Protected Designation of Origin (PDO), Protected Geographical Indication (PGI) and Traditional Specialty Guaranteed (TSG) - attest to the specific traditions and qualities of food, agricultural products and wines, aromatized wines and spirit drinks, produced in the European Union or in other countries. Registration under these schemes provides producers with legal protection against imitation or misuse of the product name.

prospects of the sector. Additionally, the opening up of the road freight carrier profession in 2010 has rendered conditions in the sector more favorable for new players. Some key policy priorities & orientations for the specific sector include: a) implementation of OECD recommendations and EU best practices in order to promote competition and a more business-friendly environment; b) acceleration of major privatization projects; and c) utilization of latest IT and supply chain management technologies to improve fleet and warehouse management.

Mining and quarrying

The contribution of the mining and quarrying sector to GVA in 2015 was 0.5% and 0.3% respectively, levels that have remained broadly steady in the past decade. In spite of its low contribution to economic activity and employment, the sector is important. Firstly, it supplies raw materials to downstream industries and secondly, it is highly export-oriented, with marbles, industrial minerals and metals exhibiting particularly strong export performance. The competitive advantage of the mining and quarrying sector lies in the quantity, quality and variety of the mineral resources in Greece, especially in the northern part of the country, but also in the easy access to water transport via Greece's numerous ports. Some key policy priorities and orientations for commercial strategy in the Greek mining and quarrying sector include: a) simplification of licensing procedures; b) land-use planning; c) reduction of energy costs; and d) vertical integration of production and development of branded products.

4. Risks and accelerators: what factors could enhance or contain the prospects of an investment boom?

Despite the remarkable progress made so far in reforming the Greek economy, remaining impediments and rigidities continue to contaminate investor sentiment and delay the transition to a more sustainable growth paradigm. Greece's risk premia remain excessive, policy credibility and market trust still run low, capital controls are still in place, FDI inflows continue to lag significantly behind those in other periphery economies and the domestic economy has yet to embark on a sustainable growth path. Depending on the speed and consistency of economic policy in dealing with them, these characteristics can work as either inhibitors or turn into accelerators of Greece's attractiveness as a potential destination for foreign investment flows. This section briefly discusses some of these lingering weaknesses.

- **Policy credibility and ownership of reforms**. Restoring full credibility of economic policy and improving market trust are critical parameters in accelerating the return to sustainable economic growth and the revival of private investment. Throughout the various phases of the Greek crisis, the lack of ownership of the agreed reforms weighed heavily on market perceptions over the credibility of domestic economic policies. This continues to be reflected in the still elevated country risk premia and constitutes a factor that deserves closer monitoring by the domestic authorities. Credibility of economic policy and trust of the markets remained low throughout the crisis; in more detail, this is related to a number of reasons that are briefly highlighted below.

    1. Elevated political uncertainty and risk due to the lack of wider political consensus over the need for radical reforms. This has raised populism and highly confrontational rhetoric in the domestic political system, leading to frequent changes of government (as many as 10 finance ministers have been appointed over the last 8 years), divergent views between the IMF and European institutions on the outlook of the Greek programme and, eventually, the real threat of Grexit.
    2. Serious inconsistencies and delays in delivering reforms and implementing what was agreed with the creditors, as well as the prevailing perception that reforms were forced upon the Greek side rather than being endorsed by it. To make matters worse, the misperception of the broader public over the need for radical reforms as a means of exiting the crisis was exacerbated by a political system that was endorsing *supposedly* lower cost alternatives in resolving the Greek crisis, as well as the prospect of reaching a political agreement with the European partners that would entail softer measures. All these played a crucial role in undermining market

confidence in the commitment of domestic authorities to implementing the agreed measures (programme ownership).

3. Wrong policy mix in certain areas, disproportionally focusing on severe, front loaded fiscal consolidation, mainly from the revenue side, without putting as much emphasis on structural reforms and privatization. In addition, sequencing of structural reform was mistaken, since the reform of the labour market was not accompanied in the initial phases of the crisis by a reform of products & services markets. This resulted in wage cuts not being matched by cost of living improvements, which undermined, both competitiveness adjustment, as well as public tolerance vis-à-vis adjustment programmes. More generally, Programmes were largely late to combine the much-needed fiscal adjustment with growth and investment initiatives, the introduction of higher tax rates was chosen over effectively fighting tax evasion, and progress in reforming public administration has been inadequate. These factors contributed to the eventual destabilization of the domestic banking system and the explosion of the public debt ratio via the shrinkage of GDP. These features were observed by markets and undermined credibility further.
4. Absence of a convincing and credible national plan for exiting the crisis that would enjoy wide political and social acceptance and support. The adjustment programmes were constantly disputed and challenged by large parts of the political system, which, however, did not present their own comprehensive plan to restore fiscal sustainability, financial stability and growth prospects. As a result of the above, financial markets became exceptionally skeptical and doubtful as to the real intentions of the Greek side.

- **A tradition of skepticism towards private business initiatives.** In the aftermath of the 1967-1974 dictatorship, the prevailing social rhetoric led large parts of the population to view foreign investment as profiteering and an attempt to reap the country's wealth. To a large extent, a similar view was also shared by the public administration which, along with its notorious inertia, nepotism, and lack of effective meritocratic system, led to the creation of severe bureaucratic obstacles to investment licensing procedures and other critical aspects of new business and investment initiatives. However, the collapse of the consumption-led growth model in 2009, as well as the defeat in reality of populist views promising more favourable and less painful ways of dealing with the crisis, has led to a noticeable change in the public sentiment and perception over the merits of market economy. The change in public opinion is illustrated in recent polls. Indicatively, in a relevant survey run by Dianeosis earlier this year, 84.4% of interviewed citizens stated that they are in favour of foreign investment, with only 12.4% being against. In addition, 73.2% of those interviewed replied that the most effective growth tool would be for the State to offer incentives for the increase of private investment and exports, while only 21.8% favoured a demand boost through a State-induced increase in wages and pensions. Last but not least, 58.7% of respondents disagreed that foreign investment undermines sovereignty.[13]

- **High tax rates and an inherently unstable tax system.** After subsequent hikes in recent years, effective tax rates compare unfavorably with the respective EU-28 averages in most categories of taxation i.e. tax on income, consumption, property or wealth. In addition, policy discontinuity and mediocre quality of tax legislation in the past have led to numerous revisions in both primary and secondary legislation, as well as to subsequent supplementations in order to deal with inadequacies and gaps in the initial laws. Between 2002 and 2015, 36 tax laws were introduced, featuring: 1,094 articles; 310 tax-related articles appearing in laws on other subjects; 108 transitory provisions; and 714 regulatory authorizations.[14] Regarding tax collectability, tax evasion and the necessity of broadening the tax base, fundamental challenges remain. Tax collection rates relative to estimated obligations of tax payers have deteriorated to around 46% by end-2016 from 70% in 2010. The

[13] http://www.dianeosis.org/research/tpe_2017/
[14] http://www.dianeosis.org/research/polynomia-kai-kakonomia/

codification and simplification of tax legislation, along with provisions τo ensure that legislation remains in force for a longer period of time, are of crucial importance for the ability of investors to conduct adequate financial planning. With regard to property taxes, it is imperative that property tax assessment zonal values be aligned with market prices in order for unreasonable and unfair discrepancies in the property tax burden to be addressed. In addition, it is of paramount importance that all available (or created) fiscal space is utilised for reducing tax rates, with the priority being given to tax rates that have a higher multiplicative impact on GDP. Having said all these, it should be noted that the first and the second reviews of the current programme included measures aimed at tackling chronic tax and collection problems. To name a few, the establishment of the Independent Authority of Public Revenue can contribute in increasing the efficiency of tax collection and immunizing the tax collection mechanism from political interventions. At the same time, the latest income tax reform will significantly broaden the tax base by lowering the share of wage and pension earners who are exempt from taxation to c. 35% from 55%, currently.[15] Additionally, recent legislation that renders the use of point-of-sale (POS) equipment obligatory for the vast majority of merchants and professionals will further promote the use of electronic payments. In these lines, a number of additional measures have been adopted aiming at increasing the tax administration's efficiency and fighting tax evasion. Among others, they include: prioritization of audit cases based on their prospects for collection; increased access to debtors' comprehensive financial information, including banking assets; and improvements in the processing capacity of prosecutor-initiated tax audit cases. Efficient tax administration, lower tax rates and tax stability will encourage investment and boost economic activity. In sum, a sustainable investment recovery could not be materialized in an environment of high tax rates, narrow tax bases, complicated tax structures and unstable tax laws.

- **Capital controls undermine trust and confidence.** Despite recent legislation to ease some related restrictions, capital controls remain in place more than two years after the controversial negotiation process with official creditors that led to their imposition in June 2015. Existence of capital controls in a member-state of a monetary union is a paradox: it contradicts the very essence of participating in the EMU and puts wedges in the equivalence of currency value across member states. Furthermore, capital controls cause disruptions in the day-to-day operation of domestic businesses and households, interfere with the process of allocating resources and distort motives to work and invest. The swift removal of all remaining capital controls should be both a policy priority and a manifestation of recovering confidence in the country's prospects.

- **High cost of setting up and operating companies in a less friendly business environment.** According to World Bank's Doing Business 2017,[16] Greece ranks 56th out of 190 countries in the cost of setting up a business compared to 49th in 2016 (general ranking 61st). Among others, this reflects persisting inefficiencies and red tape in public administration, such as a complicated bureaucracy for licensing procedures and a lack of access to regulatory information. In terms of tax burden, the latest Doing Business report mentions that the total amount in taxes and social security contributions that businesses have to pay in Greece stands at 50.7% of profit compared to an OECD average of around 40%. In the same vein, a business needs to operate for 193 hours per year to cover the amount of taxes and contributions due, above the OECD average of around 165. Furthermore, it takes 13 working days to set up a typical firm in Greece vs an OCED average of 8.3 days for high income countries. Thus, despite the significant progress made in recent years[17], additional work is needed to bring Greece in line with best international practices.

[15] This will be attained by reducing the present, generous tax exemptions through the further lowering of the personal income tax credit by €650 (to take effect in 2020 or 2019 if it is deemed necessary for reaching the 2019 primary surplus target of 3.5% of GDP).

[16] http://www.doingbusiness.org/data/exploreeconomies/greece

[17] In the WB's Doing Business 2010, Greece ranked 140th in the Starting a Business sub-index, with as many as 19 working days required to set up a typical firm.

Land-use planning, environmental licensing rules, lengthy processes to acquire clearance from archaeology services, defective operation of investor reception and information services are also cited as obstacles to investment. Companies operating in the energy sector, distribution, logistics and transportation sectors are among the most affected. In addition to the above, it is noted that the still incomplete electronic land registry (Cadastre) exposes potential investors to risks such as litigation over ownership of land. Separately, although Greece has an independent judiciary, the court system is deemed as a time-consuming (see below) and unwieldy means of enforcing property and contractual rights. Reforms promoting more open markets, fewer disruptions and competition are being implemented in the product markets, and especially the regulated network industries (energy, water transport), and need to be accelerated. Last but not least, the alleviation of unjustified and disproportionate restrictions in remaining regulated professions could also make a decisive contribution to stimulating investment.

- **Bureaucratic and inefficient public administration.** The public sector in Greece is traditionally characterised by inefficient and bureaucratic procedures; fewer independent agencies; old fashioned administrative and organizational structures; lack of adequate human resources management, performance-based evaluation and remuneration schemes; low level of training; a hostile attitude towards investment and business activity; and inadequate use of new technologies. Though significant progress has been made in recent years, Greece has committed to a number of additional reforms for the modernization and de-politicization of public administration as part of the conditionality attached to upcoming reviews of the current ESM economic adjustment programme. These incorporate, inter alia: (i) a performance assessment exercise for civil servants; (ii) completion of job descriptions for the effective implementation of the new mobility scheme; (iii) completion of the process for the recruitment of top managers in the civil service performed through a non-political panel chaired by ASEP (the independent entity in charge of the recruitment of civil servants); (iv) amendment of any primary and secondary legislation, in line with the results of the horizontal review on independent agencies, to strengthen their autonomy and effectiveness. Again, the adjustment programmes have included many structural reforms aiming to address many of these inefficiencies and drawbacks. Yet, the speed of implementation has been uneven and also compromised by political wavering, employee reluctance and the low numbers of skilled personnel. Further work is needed in streamlining processes and structures, rationalizing remuneration, providing performance-related incentives and improving digitization.

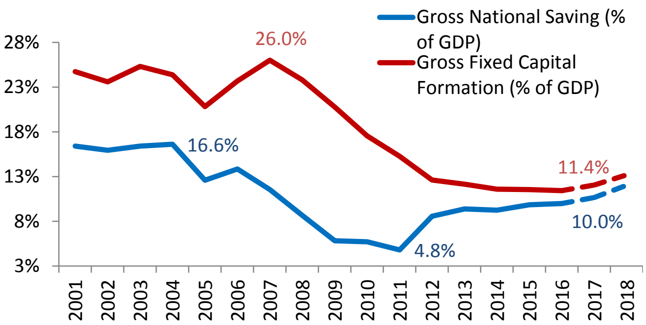
- **Legal framework inadequacies, poor transparency and weak legal enforcement.** In the World Bank's Doing Business 2017, Greece ranks 133rd out of 190 countries in the "enforcing contracts" sub-index, with the situation having aggravated from 2010, when it ranked 89th. The main reasons for this are the long delay in judicial proceedings and the low level of judicial staff specialization. The World Bank estimates that the time to resolve a dispute, counted from the moment the plaintiff files the lawsuit in court until payment, is 1,580 days or three times that of the respective OECD average for high income countries. Regarding protection of investors' rights, performance is poor in the area of registering property, where Greece ranks 141st out of 190 countries in the Doing Business 2017. The culprit here is the inadequate progress in setting up the cadastre and legislating land uses. Last but not least, the country is still lacking an appropriate legislative framework for setting up trusts and nominee companies.

- **A high public debt overhang and very demanding primary surplus targets undermining growth prospects.** At the end of 2016, Greece's general government gross public debt amounted to 179% of GDP. This admittedly elevated headline figure conceals the significant improvement that has already been made in terms of debt serviceability, thanks to the concessionary terms granted by the official creditors (loan maturity and grace period extensions as well as broadly concessional interest rates).[18] Despite this improvement, many investors today continue to focus on the sheer size of nominal public debt, which renders its future evolution highly sensitive to the course of certain critical variables, including nominal GDP growth, the primary surplus, international interest rates and the impact of demographics on long-term productivity. Some international institutions, including the IMF, believe that the policy discontinuity of 2015 and lingering ambiguities in the ownership of growth-friendly reforms have undermined the long-term growth potential of the Greek economy and therefore the sustainability of public debt. In that respect, the crystallization of further measures to enhance public debt sustainability after the current programme expires (and in the context of the medium and long-term relief framework agreed at the Eurogroup of 25 May 2016), is important in order to improve market perceptions over debt sustainability. In addition, the obligation to generate significant fiscal primary surpluses for an extensive period of time (3.5% of GDP from 2018 to 2022 and 2.2% or higher thereafter, until 2060) is excessively restrictive, implying the absorption of significant resources that could otherwise be mobilized to stimulate the economy and public investment.

- **Adverse demographics and brain drain, undermining long-term growth potential.** Greece features some of the most adverse demographic projections in the euro era. Based on certain assumptions, Greece's population is expected to be between 8.3-10mn in 2050, compared to 10.8mn people in 2015.[19] Birth rates have dropped significantly in recent years and the number of foreign immigrants settling in the country has been declining steadily, except during the recent refugee crisis, not to mention integration issues. The problem has been greatly aggravated by the exodus of ca 300,000-400,000 people in recent years due to high unemployment and grave domestic economic prospects. This emigration is even more of a problem if one considers that, to a great extent it concerns highly educated persons with a large potential contribution to labor productivity. These individuals felt that their domestic work prospects and salaries did not fully reflect their skillset. These trends have to be reversed soon with the return to sustainable economic growth, the creation of well-paid, full-time jobs and the improvement of economic sentiment and prospects.

- **Lingering regulatory and other legal and institutional impediments to attracting FDI**. Foreign direct investment (FDI) and other capital inflows are crucial for boosting Greece's growth potential. National savings as a percentage of GDP have increased over the last 5 years by 5.2 ppts (from 4.8% in 2011 to 10.0% in 2016). However, this is due to the shrinkage of public deficits, while the private sector has engaged in increasing dissaving. All in, total gross savings are still lower by more than 6 ppts relative to their pre-crisis period (Figure 21). This along with the fact that gross fixed capital formation has declined from 26.0% of GDP in 2007 to 10.0% in 2016, underlines the need for strong and sustainable foreign capital inflows to address the savings and investment gap, as explained in Section 2.

Figure 21 - Gross National Savings & Gross Fixed Capital Formation (% of GDP)



Source: AMECO (European Commission)

In this respect, a boost in FDI can constitute an important step towards investment recovery. In an effort to facilitate FDI inflows, domestic authorities have undertaken a number of initiatives in recent years. These include, inter alia: (i) signing of bilateral investment conventions with a number of countries; (ii) adoption of various laws aiming to improve the institutional framework for strategic and private investments, accelerate investment procedures

[18] As an illustration, interest paid on public debt in 2016 amounted to 3.2% of GDP vs 7.3% in 2011 and 10.7% in 1995.
[19] http://www.dianeosis.org/research/demography/

and increase transparency; and (iii) establishment in 2014 of "Enterprise Greece", a new outward-looking institution aiming to make Greece more attractive as an international business partner. However, significant headwinds continue to exist, requiring appropriate policy action to make Greece a more attractive destination for foreign direct investment. Among others, such policies should include (i) adoption of a simple and stable tax system including lower tax rates; (ii) improvement of the regulatory framework and public administration performance that would make the investment process, end to end, simpler, more transparent and efficient and hence, less expensive and risky; (iii) upgrading of the efficiency of the judicial system to swiftly and effectively address legal matters that may arise from investing activities; in other words, reduce legal uncertainty and risks; and (iv) adoption of focused sectoral policies aiming to attract investments in the key sectors of the Greek economy.

- **Speed of financial sector return to regularity of business.**

The return of the Greek financial sector to regular course of business by further strengthening financial stability and enhancing its ability to fund the economy is one of the key factors for accelerating return to sustainable economic growth. This includes improving liquidity conditions and market access, strengthening the confidence of clients and markets, effectively reducing the high NPLs, strengthening and steamlining the debt restructuring legal framework, fully lifting capital controls and ensuring balance sheet prudency.

5. Concluding remarks

This note has attempted to map the parameters that define the attractiveness of Greece as a destination for investment. Following the deep and prolonged recession, the country is in acute need of large amounts of investment to facilitate the change of the growth paradigm towards extrovert, knowledge-intensive activities. However, given the inadequacy of internal resources to fund this process, the ability to attract foreign capital is key for achieving sustained growth and consolidating the progress already made in restoring the fiscal accounts.

Greece has always possessed a number of important structural and strategic advantages that could potentially make it a magnet for foreign investment flows. These include a unique geographical and geostrategic position, a rich cultural heritage, mild Mediterranean climate and natural beauty, natural resources, and a skilled and educated workforce. However, the country has been chronically plagued by impediments, rigidities, an unfriendly business environment, inefficient public administration, weak institutions and macroeconomic imbalances that have discouraged investment and made Greece a laggard in FDI inflows, Europe-wide.

Many of these drawbacks were addressed in the context of the three consecutive adjustment programmes that the country implemented since 2010. Now Greece, in addition to its pre-existing advantages, has a number of macroeconomic and institutional strengths, including elimination of twin deficits (fiscal and external), competitive labor costs, bottoming-out of recession, improving domestic financial conditions, incipient access to markets and sizeable official-sector sources to finance future investments, a more disciplined fiscal framework, pro-reform political and social consensus, a more market-oriented economy and a commitment by euro area partners to deal more resolutely with the country's debt sustainability issue in due course. Furthermore, Greece features depressed asset prices, a massive privatization programme and significant infrastructure projects underway, all these raising unique investment opportunities in key sectors of the domestic economy. From the viewpoint of investors, early entry means a larger potential to participate in the upturn.

This is not to say that all is roses. A number of lingering factors continue to contaminate investor sentiment and delay the transition to a more sustainable growth paradigm. Depending on the speed and consistency of economic policy-making in dealing with them, these factors can work as either inhibitors or accelerators to Greece's attractiveness as a potential destination for foreign investment flows. These include high tax rates and an inherently unstable tax system, remaining restrictions on capital movements, a -decaying- tradition of skepticism in

Greece towards private business initiatives, a cumbersome licensing procedure for setting up and operating companies, a bureaucratic and inefficient public administration, lingering legal framework inadequacies and weak legal enforcement, a high public debt overhang and excessive fiscal primary surplus obligations, adverse demographics and brain drain and the speed with which the financial sector returns to regularity of business.

Returning to strong and sustainable growth rates and restoring normality is the only way for dealing with the problems inherited by the prolonged crisis, i.e. unemployment, poverty, state indebtedness and a high level of NPEs. In addition, economic growth would give hope for the return of many of 500,000 skilled people that fled the country during the crisis, strengthen social cohesion and the long-term sustainability of the social security system. However, strong and sustainable growth can only ensue from an investments- and exports-driven growth model.

To this end, perhaps the single most important factor, which defines the degree to which all other constraints will remain binding or will work as accelerators, relates to policy credibility, consistency and ownership of reforms. Determination, and illustration thereof, in delivering the critical mass of reforms and privatizations could have a decisive role in boosting markets' and citizens' confidence, attracting investment and, therefore, unleashing the significant growth potential of the Greek economy. Given the still favorable conditions in international markets in the aftermath of unusually accommodative monetary policy internationally, time is of essence. As presented in appendices I & II, foreign investment interest is on the rise and several important transactions have been completed (or are in the process of completion), including some key privatizations. Consistent implementation of reforms, along with fiscal stability and open economy institutions, would lead to an acceleration of the investment interest and especially FDIs. A pro-growth, pro-investment policy agenda and consistent implementation can really allow Greece to take off. Greece could turn page from a vicious cycle to a virtuous cycle of growth and prosperity. The opportunity for a productive transformation of the country should not be lost once again.

Appendix I

Greece: key privatizations / projects completed or the process of completion

	Privatisation / Project	Notes
1.	**14 regional airports**	**Completed (11/2017) –** The 40-year concession, granted to the consortium Fraport AG – Slentel entails an upfront payment of €1,234 million and an annual payment of €22.9 million for the life of the concession, annually adjusted according to CPI. Furthermore, the investor is obliged within 4 years to upgrade and maintain the airports for the duration of the concession. In addition to the aforementioned upfront payment and annual (fixed and variable) price, the Greek government expects cumulative fiscal, social and other benefits amounting to EUR 4.6 billion. The development is expected to bring about considerable benefits for Greek tourism and the local economies of the islands and cities where the airports are situated while the increased capacity and traffic will result in job creation that will amount to 1,500 new jobs in and around the airports.
2.	**Afantou Rhodes**	The project entails a golf and tourist development in two properties in the Afantou area of the island of Rhodes. The HRADF will sell 100% of the shares of the two SPVs that have been set up, one for each property. Although the preferred investors have been selected, a complication arose in the spring of 2016 when the Central Archaeological Council of the Ministry of Culture declared a large part of the area an archaeological site. Ever since the Greek government has sought for ways to address the problem but no satisfactory for all sides solution has yet been found while the investors have at times implied that unless the issue is resolved they might take legal action against the Greek state.
3.	**Astir Vouliagmenis**	**Completed (10/2016)** A 90% share – of which 21.23% was held by the HRADF - of the Astir Palace Vouliagmeni S.A. hotel complex was sold to Apollo Investment Holdco S.A.R.L. in 2016 for €395.15 million.
4.	**Camping & Xenia Paliouri**	Completed (10/2013) HRADF's BoD accepted Donskoy Tabak's improved offer of €14 million, regarding the greenfield development of the real estate in Paliouri area of Chalkidiki, concluding the respective tender process.
5.	**Sale of 2 Airbus aircrafts**	Completed (06/2016) The Fund has successfully concluded an international single-stage tender process for the sale of 2 Airbus aircraft A340-300. Turboshaft FZE was declared the preferred bidder in the tender, with an offer of USD 4.2 million.
6.	**Xenia Hotel Skiathos**	Completed (12/2013) The Board of Directors of HRADF declared unanimously the TE.NA construction company as the successful bidder of the tender for the development of Xenia hotel in Skiathos, by accepting the company's improved by 30%offer, amounting to €2,628 million.
7.	**Hellenic Football Prognostics Organisation S.A., ie "OPAP"**	Completed (10/2013) HRADF concluded the privatization of OPAP, following the transfer of its 33% stake to EMMA DELTA HELLENIC HOLDINGS LIMITED and the payment of the purchase price amounting to €622 million
8.	**- License for the installation and operation of of gaming machines (VLTs) - OPAP**	Completed (09/2011) The License will have 10 years duration, starting 12 months following the issuance by the Hellenic Gaming Commission of the VLT's Regulation and OPAP will be responsible for determining the pricing policy in all 35,000 VLTs. In return OPAP agreed to pay a total fee of €560m, out of which €474m was paid upon execution of the VLT Concession Agreement and €86m will be paid in 24 months after the license is granted.
9.	**Hellinikon S.A.**	The share-purchase agreement for Hellinikon was ratified by the Greek Parliament on

		September 21st 2016 paving the way for the financial closing of the €900 million concession, which will take place when a number of conditions have been fulfilled. The final size of the investment is expected to reach €7bn.
10.	**International Broadcasting Centre ("Golden Hall")**	Lease for 90 years by Lamda Development for an amount of €81 million
11.	**Modiano Market, Thessaloniki**	Completed (07/2017) Sale of Modiano Enclosed Market to "One Outlet S.A." was completed for a total amount of €1,9 million, following the signing of the relevant agreement, by which HRADF transferred 43.63% of the indivisible ownership of the property to the Investor.
12.	**Mutual Horsebetting License**	The Hellenic Republic Asset Development Fund (HRADF) completed the concession process for granting the 20-year exclusive license to organize and conduct horse races mutual betting to "Horse Races S.A.", a 100% subsidiary of "OPAP Investments Ltd". The determined economic price stands at €40,5 million
13.	**Piraeus Port Authority S.A. (OLP)**	Completed A 67% share of HRADF in OLP was sold in August 2016 to the Chinese Cosco Group Limited. The sale of the 67% share in OLP which will materialise in two phases (51% + 16%) was concluded in 2016 and a tranche of €280.5 million corresponding to 51% was received. An additional €88 million for the remaining 16% will be paid once the investor has completed investments in the area of €300 million at the port.
14.	**Real Estate Properties Abroad**	Completed Sale of selected buildings abroad for a total amount of €55,5 million
15.	**E-AUCTIONS**	Sale of domestic public properties
16.	**Sale & Leaseback of selected public buildings (28)**	Completed Total amount of €261,3 million
17.	**State Lotteries License**	Completed (07/2013) The concession agreement for the exclusive right to operate the Hellenic Republic's State Lotteries for a period of 12 years was signed between HRADF and Hellenic Lotteries SA. The total value of the financial consideration for the Hellenic Republic includes the upfront fee of €190 million in cash, and a guaranteed minimum income of €580 million (over a 12- year period), namely a total amount of at least €770 m
18	**St. Ioannis - Sithonias Property**	**Completed (11/2013)** HRADF accepted the improved offer of €9,61 million submitted by Ioannis Mentekidis and Georgios Mentekidis for the development of the real estate St. Ioannis in the area of Sithonia in Chalikidiki, concluding the respective tender process.
19	**Egnatia Motorway S.A.**	On October 5th 2016 the BoD of the HRADF launched a preparatory and consultative period with potential investors that will end with the submission of the expressions of interest. The tender is expected to be concluded by Q3 2017.
20.	**Trainose S.A.**	**Completed (09/2017)** The 100% of the HRADF share in Trainose S.A. was sold to Ferrovie dello Stato Italiane S.p.A. for €45 million.
21.	**Thessaloniki Water Supply and Sewerage S.A. (EYATH)**	EYATH has the exclusive right to provide water and sewerage services in the Greater Thessaloniki area through a 30-year exclusive concession agreement with the Hellenic Republic effective from 2001. The HRADF holds 74% of EYATH shares and according to its April 2016 Asset Development Plan (ADP), is planning to sell 23%. According to a decision by the Council of State regarding the similar privatisation of EYDAP, only a minority stake can be sold. The procurement process to hire advisors has been launched.
22	**Thessaloniki Port Authority S.A. (OLTH)**	In June 2017, the Board of Directors of HRADF unanimously declared the consortium comprising of «Deutsche Invest Equity Partners GmbH», «Belterra Investments Ltd.» and «Terminal Link SAS» as the Preferred Investor for the acquisition of the 67% of the shares of Thessaloniki Port Authority SA. It is noted that, the financial offer which has been submitted by the investor envisages payment of €231.9 million for the acquisition of 67% of shares in

		ThPA S.A. The total value of the agreement amounts to €1.1 billion and includes among others the aforementioned €231.9 million offer, the mandatory investments amounting to €180 million over the next seven years and the expected revenues from the Concession Agreement for the Hellenic Republic, in an expected amount in excess of €170 million. The total amount takes also into account the expected dividends receivable by the HRADF for the remaining 7.22% shareholding as well as the estimated investments (in excess of the mandatory ones) until the expiration of the concession, in 2051.
23	**Hellenic Company for Rolling Stock Maintenance S.A. (EESTY or ROSCO)**	EESSTY is 100% owned by the HRADF, which is planning to sell the whole of its shareholding. The deadline for the submission of binding offers has been pushed back various times and has now been moved to 3 November 2017.
24	**Public Power Corporation S.A. (PPC)**	The HRADF holds 17% of PPC's shares and in accordance to the HRADF Asset Development Plan the procurement process to hire advisors has been launched.
25	**Independent Power Transmission Operator S.A. (ADMIE).**	The unbundling of the Independent Power Transmission Operator S.A. (ADMIE) from the Public Power Corporation S.A. (PPC) was completed (June 2017) and at the same time the sale of the 24% stake of the PPC in ADMIE to the Chinese State Grid Corporation was concluded with the payment of €326 million.
26	**Hellenic Gas Transmission System Operator S.A. (DESFA)**	In August 2017 the HRADF announced that six investment schemes expressed their interest in acquiring the 66% (31% stake owned by HRAF and 35% stake owned by HELPE) shareholding of the Hellenic Gas Transmission System Operator S.A. (DESFA). The HRADF BoD is now expected to decide which investment schemes are eligible to proceed to the next phase of the tender process.
27	**Hellenic Petroleum S.A. (HELPE).**	HELPE is the leading oil refiner and distributor in Greece and a significant player in the Southeast European market. It operates three refineries in southern and northern Greece which cover approximately 2/3 of the country's refining capacity. HELPE's shareholders are Paneuropean Oil and Industrial Holdings S.A. (42.6%), HRADF (35.5%), institutional investors (15.3%) and private investors (6.6%). The April 2016 HRADF Asset Development Plan (ADP) envisaged the engagement of advisors to evaluate alternative strategic options and provide recommendations to HRADF. The procurement process to hire advisors has been launched.
27	**Public Gas Corporation S.A. (DEPA).**	DEPA is the incumbent natural gas importer and distributor. It sources gas from a number of suppliers through long-term contracts and provides approximately 90% of the gas consumed in the country. It is owned 65% by the HRADF and 35% by Hellenic Petroleum (HELPE). The April 2016 HRADF Asset Development Plan (ADP) envisaged the appointment of advisors to assess alternative options and re-launch a new process. The procurement process to hire advisors has been launched.
29	**Athens International Airport S.A. (AIA).**	HRADF holds 30% of AIA and the right to extend the concession agreement, the Greek State holds 25% while private shareholders collectively hold 45%. The current concession agreement expires in 2026 while the BoDs of both AIA and HRADF have decided to examine its extension for 20 years, i.e. up to 2046. Following AIA's improved offer (which provides a total cost of €600 million, including the corresponding VAT, while the net proceeds from the privatization program amount to €483.87 million), HRADF accepted to launch the 20-year extension process of the Athens International Airport Concession Agreement, in May 2017.
30	**Athens Water Supply and Sewerage S.A. (EYDAP).**	HRADF holds 27% of EYDAP shares and according to its April 2016 Asset Development Plan (ADP), is planning to sell 11%. According to a decision by the Council of State the state should retain at least 50% plus 1 share of EYDAP so only a minority stake can be sold. The procurement process to hire advisors has been launched.
31	**Hellenic Post S.A. (ELTA)**	The HRADF holds 90% of its voting rights, not ownership of shares. The April 2016 HRADF Asset Development Plan (ADP) envisaged the transfer of ELTA to the HCAP following a restructuring plan that would be prepared six months prior to the transfer. In December 2016, the General Assembly of ELTA decided the engagement of a financial advisor to assess the company's financial position.

Appendix II

Greece: Some recent important private sector deals & success stories

Most important deals in private sector in Greece

1.	Acquisition of Marinopoulos (Carrefour) by Sklavenitis. Agreement finalized in January 27 2017.
2.	Acquisition of 100% of Nikas by Chipita in 12/2016 (Chipita is expected to pay up to €23.27 million for the controlling stake).
3.	Acquisition of 80% of Pharmaten by BC Partners in 06/2015.
4.	Acquisition of Stoneworks (which controls Mermeren Kombinat AD Prilep) by Pavlidis Marmara in 06/2015(for €73 million).
5.	Acquisition of 50,3% of Hellenic Seaways by Attica Group (a subsidiary of Marfin Investment Group), in 08/2017. The – in principle – agreement was reached between Piraeus Bank and minority shareholders and foresees that Attica Group will acquire 39,039,833 shares of Hellenic Seaways for €30.61 million in cash. According to the announcement, Attica Group will then issue 24,145.523 new common shares through the process of capital increase. The purchase of 1,250,000 shares of Hellenic Seaways has already been completed, while the deal for the acquisition of the remaining 37,789,833 shares awaits the approval of regulatory authorities.
6.	Acquisition of 100% of S&B by Imerys in February 2015. The acquisition price for the S&B group was determined on the basis of an equity value of €525 million for all shares, increased by a performance-linked amount not to exceed €33 million. It was paid in cash for approximately €311 million, financed by the bond issue completed by Imerys in December 2014, and by the issue of €3.7 million Imerys shares on a preemptive basis to the Kyriacopoulos family, S&B's shareholder for more than 80 years.
7.	Acquisition of Yioula Glass (Voulgarakis Group) in Greece, Romania & Bulgaria by Portuguese BA Vidro for a total amount of €170 million, in October 2016.
8.	Acquisition of 100% of Olympic Air by Aegean, in 10/2013, for a total amount of €72 million.
9.	Acquisition of the remaining 51% of KAE by Dufry (it had already acquired the 49% of KAE) in 12/2013.
10.	Acquisition of 72,7% of Hellas Online SA ("HOL") from the Intracom Group ("Intracom") and World Equities Investments Holdings SA ("WEI") by Vodafone for a total cash consideration of €72.7 million, in August 2014.
11.	Acquisition of 75% stake in insurer Ethniki Hellenic General Insurance S.A. by EXIN Financial Services Holding B.V. for €718 million, in June 2017.
12.	Restructuring actions in the companies of the fish farming sector; banks capitalized debt, merged companies and now proceed to their sale via international auctions.
13.	Sales of non-core business assets of Greek banks.
14.	Home Holdings completed in December 2016 its acquisition of Ionian Hotels, the owner of the Athens Hilton hotel building, from Alpha Bank. The holding company, whose shareholders are TEMES SA and D-Marine Investments Holding BV, paid €76.1 million to buy 97.3 percent of Ionian Hotels, with the total revenue for Alpha amounting to €143.3 million, as it includes the refinancing of Ionian's loans (€67.2 million).
15.	US Third Point Gas In May 2013 made an equity capital injection of $60 million into Energean Oil & Gas (Greek based Oil & Gas explorer & producer).
16.	Qatar Petroleum International (QPI) in July 2013 signed an agreement with the Greek based GEK Terna to acquire an interest in the Heron II power plant.
17.	Fairfax Holdings acquired 5% stake (~ €30 million) in Greek industrial energy group Mytilineos, becoming the latter's 3rd largest shareholder.
18.	ERGO International AG acquired 100% of ATE Insurance from Piraeus Bank in August 2016 (for €90.1 million).
19.	Fairfax Holdings in December 22 2017 acquired 80% interest in Eurolife ERB Insurance Group Holdings S.A (for €316 million).
20.	US-based York Capital Management announced in May 5 2015 the acquisition of 10% stake (~€100 million) in Greece's energy group GEK Terna.
21.	In January 17 2017, Grivalia Hospitality S.A. announced the acquisition of 60% of the Pearl Island Project in Panama, from Dolphin Capital Investors ("DCI"). The acquisition price agreed will reach €27 million in cash, out of which €1 million has already been paid to DCI as a deposit, €24 million will be paid upon completion of the sale, while the remaining €2 million will be retained in an escrow account for a period of 12 months post completion to cover any

	potential breach of warranties or any undisclosed indebtedness
23.	Grivalia Hospitality agreed in August 18 2017 to acquire 80% of Nafsika Sa, lessee of Asteria Glyfadas (for €17.2 million)

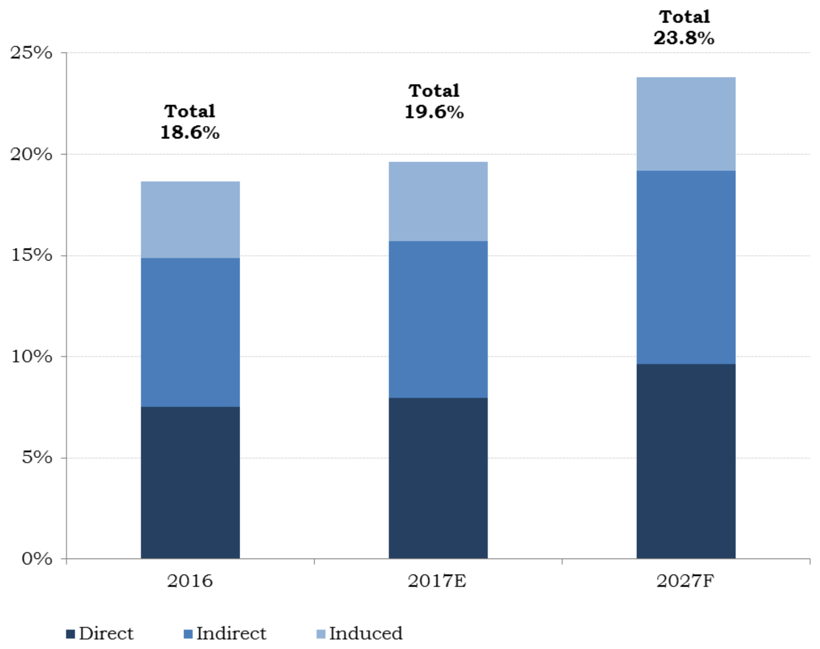
Some recent success stories in the Greek energy sector

••	**US Third Point Gas** has recently made an equity capital injection of $60m into Energean Oil & Gas (Greek based Oil & Gas explorer & producer).
••	**Qatar Petroleum International (QPI)** signed an agreement with the Greek based GEK Terna to acquire an interest in the Heron II power plant.
••	Canada's **Fairfax Holdings** acquired 5% stake (~€30mn) in Greek industrial energy group Mytilineos, becoming the latter's 3rd largest shareholder.
••	US-based **York Capital Management** announced acquisition of 10% stake (~€100mn) in Greece's energy group GEK Terna.

Appendix III

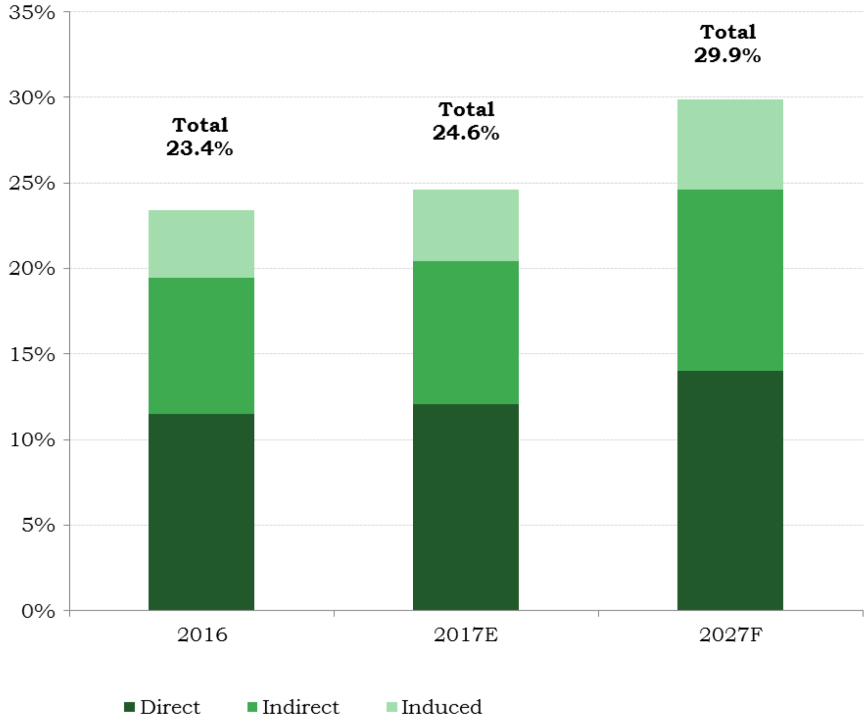
Greece: facts and figures for the domestic tourism, manufacturing & energy sectors

Graph A1: Total contribution of Travel & Tourism to GDP (%)



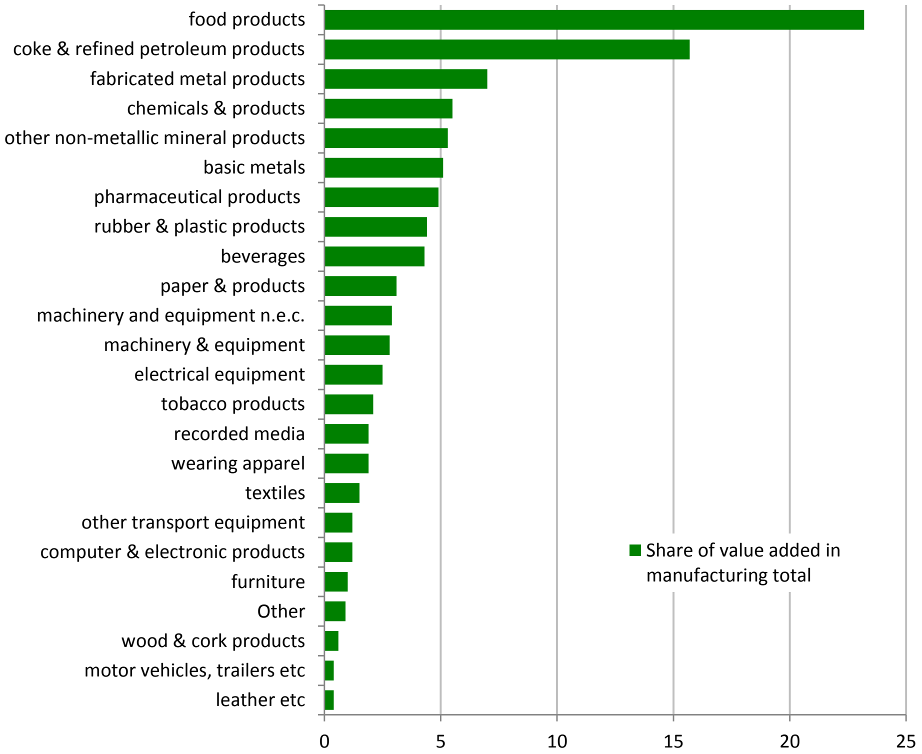
Source: World Travel and Tourism Council, "Travel & Tourism Economic Impact 2017, Greece"

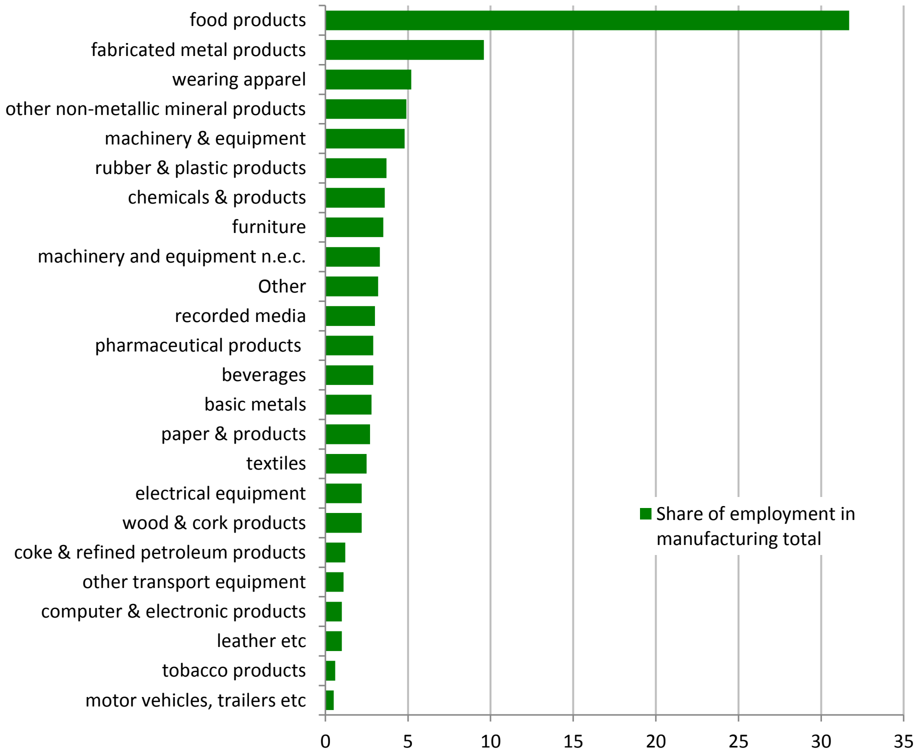
Graph A2: Total contribution of Travel & Tourism to Employment (%)



Source: World Travel and Tourism Council, "Travel & Tourism Economic Impact 2017, Greece"

Graphs B1 & B2: GVA and employment contributions of major manufacturing sub-sectors in Greece (% total manufacturing)





Source: Eurostat

Table B1. Key facts & figures for the Greek manufacturing sector

	2008	2010	2015
Number of enterprises	85,004.0	79,338.0	63,890.0
Production value	59,434.5	53,449.0	45,394.1
Gross operating surplus	8,505.0	7,364.8	:
Personnel costs	8,536.1	8,548.4	5,446.5
Wages and Salaries	6,606.0	6,644.1	4,375.4
Social security costs	1,930.1	1,904.3	1,071.1
Gross investment in tangible goods	3,528.7	2,810.0	1,422.2
Gross investment in land	126.8	54.7	:
Number of persons employed	431,566.0	379,269.0	303,234.0
Number of employees	326,223.0	301,699.0	245,614.0
Number of hours worked by employees	556,649,661.0	523,360,665.0	:
Turnover per person employed	155.3	149.9	173.5
Apparent labour productivity (Gross value added per person employed)	39.5	41.9	35.3
Gross value added per employee FTE	53.9	53.4	:
Gross value added per hour worked by employees	0.0	0.0	:
Labour cost per hour worked by employees	0.0	0.0	:
Growth rate of employment (%)	:	-5.4	7.1
Number of persons employed per enterprise	5.1	4.8	4.7

Source: Eurostat

Table: Key facts & figures for the Greek energy sector

Mtoe, unless otherwise stated	1995	2000	2005	2010	2013	2014
Production	**9.36**	**10.01**	**10.33**	**9.46**	**9.33**	**8.85**
Solid Fuels	7.51	8.22	8.54	7.32	6.73	6.38
of which Hard Coal						
Petroleum and Products	0.46	0.28	0.1	0.13	0.09	0.11
of which Crude and NGL	0.46	0.28	0.1	0.12	0.07	0.07
Gases	0.06	0.04	0.02	0.01	0.01	0.01
of which Natural Gas						
Nuclear	0.04	0.04	0.02	0.01	0.01	0.01
Renewables	1.29	1.4	1.64	1.97	2.49	2.33
Wastes, Non-Renewable	0.04	0.06	0.03	0.03	0.02	0.02
Gross Inland Consumption	**23.87**	**28.29**	**31.41**	**28.84**	**24.3**	**24.43**
Solid Fuels	8.39	9.04	8.94	7.86	6.98	6.69
of which Hard Coal	0.96	0.73	0.34	0.4	0.2	0.17
Petroleum and Products	14.02	16.09	18.12	15.09	11.29	12.03
of which Crude and NGL	15.05	19.7	18.9	19.77	20.01	21.05
Gases	0.06	1.71	2.35	3.24	3.24	2.48
of which Natural Gas	0.04	1.71	2.35	3.24	3.24	2.48
Nuclear						
Renewables	1.29	1.4	1.64	2.13	2.62	2.45
Electricity	0.07	0	0.33	0.49	0.16	0.76
Wastes, Non-Renewable	0.04	0.06	0.03	0.03	0.02	0.02
Main Energy Indicators						
Energy Intensity (toe/M€'10)	150.3	149	136.7	127.6	131.8	131.7
Energy per Capita (kgoe/cap)	2265.2	2625.6	2863.3	2593.5	2208.4	2235.8
Final Electricity per Capita (KWh/cap)	3235.3	4004.5	4640.3	4777.3	4434.1	4530.1
Primary Energy Intensity (toe/M€'10)	147.2	145.2	133.4	122.7	128.3	127.9
Import Dependency (%)	**66.7%**	**69.5%**	**68.6%**	**69.2%**	**62.2%**	**66.2%**
of Solid Fuels	11.0%	8.5%	4.1%	5.1%	3.2%	2.9%
of Hard Coal	95.2%	105.9%	112.5%	100.3%	110.2%	109.8%
of Petroleum Fuels	98.4%	100.2%	97.7%	98.6%	94.6%	99.8%
of Crude and NGL	98.8%	99.5%	95.2%	99.5%	97.1%	100.4%
of Natural Gas	0.0%	99.1%	99.1%	99.9%	100.0%	99.3%

Source: EU energy in figures, Statistical Pocketbook 2016, European Commission

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