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Lateral Thinking

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IN THIS ISSUE

EUROFIN GROUP

This Newsletter is the official newsletter published by Eurofin Group on a monthly basis. The purpose of the Newsletter is to provide an up-to-date summary and insight on current developments in both the private and public sectors in Greece and to highlight potential opportunities. The intended audience of the Newsletter is our clients, prospective investors and market participants all over the world.

The Eurofin Group is an investment banking boutique founded in 1984. With offices established in London, Athens and Singapore, Eurofin offers financial advisory services and assistance to corporates and individuals conducting business or considering investments in a number of different industries and countries.

Although the main focus of the Group has been the shipping industry, over the years, Eurofin has also been active in other sectors such as Real Estate, Energy, Telecoms and Tourism among others.

Having established and operated our Athens office for over 25 years, we have been witnessing, monitoring and analysing the developments in Greece. During the recent years nonetheless, where the country has been in the forefront of global news for all the wrong reasons, we have kept a close watch on these developments, in an effort to share our observations with our audience.

NATIONAL ECONOMY NEWS AND TRENDS

- Following the EU statistics office data release on member states' budgets, the European Commission said that Greece had a primary budget surplus before debt service last year, beating the target set in its bailout programme, . A Commission spokeswoman said Athens recorded a primary surplus of 0.7% of GDP in 2015.
- The Greek government is using cash surpluses deposited by public sector entities to pay its bills because delays on a bailout review have stopped funds from international lenders being disbursed. Shut out of debt markets and with aid from its official lenders frozen, Greece has borrowed the surplus cash that institutions such as schools, hospitals and utilities deposit with the central bank.
- The Finance Ministry has decided to abolish the levy of 5 cents per entry in games of chance organized by Greek betting firm OPAP. Instead of the controversial levy, the new tax bill provides for an increase in the tax on gaming companies net revenues from 30 to 35%.
- In its World Economic Outlook, IMF expects for Greece a GDP contraction of 0.6% y-o-y for 2016, with growth resuming in 2017 to 2.7% y-o-y, in line with the recent European Commission's projections.
- Greece's economy will shrink 1.0% this year with the recession expected to deepen after a 0.3% contraction in 2015, the country's influential think tank IOBE projected in its last quarterly report.
- New fiscal measures to meet bailout targets will have an impact on private consumption and employment in sectors of the economy, leading to a decline in GDP, IOBE said, despite a projected further rise in tourism.
- The Eurogroup held on May 9 welcomed the completion of a policy package, paving the way for a successful completion of the first review of the ESM programme on Greece, upon the adoption of the agreed prior actions. A first package of fiscal parametric measures amounting up to 3% of GDP by 2018 (pension reform, a reform of the personal income tax and additional fiscal parametric measures, such as a VAT reform and public sector wage bill measures) and an additional contingency mechanism, which will be legislated to ensure that a package of measures would be automatically implemented as soon as there is objective evidence of a failure to meet the annual primary surplus targets in the programme (3,5% in the medium-term).
- Over €3 billion of debts owed by state Healthcare Provider EOPYY to Greek public hospitals will be written off, following an amendment submitted in Parliament by the Health Ministry and aimed at putting the beleaguered organization's finances in order.
- Citizens' capacity to pay taxes is diminishing by the year, and the latest data from the General Secretariat of Public Revenues show debts to the state on the rise: In the first quarter of 2016, taxpayers' debts increased by €3.2 billion, taking the sum of all debts to the tax authorities to more than €87 billion.
- In total, the state collateral for sovereign bond issues, including the bonds of some private companies, comes to €14.5 billion, which represents a "hidden debt" for the Greek state as it is not calculated in the official debt. In fact, about a third of the entire amount of the €14.5 billion concerns collateral, in the form of state guarantees, for bonds issued by the Hellenic Railways Organization (OSE) under English Law.
- The Paris-based OECD said in a report published recently that Greece is ranked 14th among the 34 OECD member countries with a tax burden of 39.3% in 2015, for the average single worker, compared with the OECD average of 35.9%, occupying the same position as it did in 2014,. Greece also had the sixth highest tax burden in the OECD for an average married worker with two children at 38.1% in 2015, compared with the OECD average of 26.7%, the report said.

- Greek lawmakers passed unpopular pension and tax reforms on Monday 10th May, marking a major advance in negotiations towards unlocking more rescue funds from the country's creditors; a positive sign-off on the review will unlock more than €5 billion to ease Greece's squeezed finances and cover debt repayments maturing in June and July.
- The Economy Ministry's Special Secretariat for Public-Private Partnership (PPP) Projects will also operate as a point of contact for investment projects put forward to the ministry for inclusion into the Investment Plan for Europe (also known as the Juncker Plan).
- The Administrative Reform Ministry sent a circular to all Greek state organizations as part of an initiative aimed at slashing through the red tape that continues to hamper the efforts of Greek citizens and businesses to get things done. The ministry has asked the organizations to list all the documents they demand for various services, aiming to abolish or simplify procedures deemed to be excessively time-consuming.
- Budget revenues slumped last month, according to official figures from the Finance Ministry, as they posted a shortfall of more than €1 billion. The big shortfall is seen in tax takings, which is what keeps leading the country's creditors to demand further measures, as tax collectability has been dramatically reduced.

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FINANCIAL MARKETS NEWS

- Returning to profit is the major ambitious target that local banks have set for 2016, following six long years of historically high losses for the sector. This is a challenge that depends primarily on the handling of non-performing loans (NPLs) and the performance of the economy in general.
- Bank officials say that there are three points which could make a difference this year: the slowdown in NPLs already reflected in the results of the last quarter of 2015, the further reduction of operating costs and the improvement of interest revenues. Since 2014, interest rates on deposits have been slashed, bolstering the relevant figures.
- Greek bank deposits fell in March 2016 for the third month in a row, according to data released by the country's central bank. Business and household deposits decreased by €210 million, or 0.17% m-o-m, to €121.5 billion, their lowest level since July 2003.
- The number of orders received by banks to seize deposits belonging to customers with outstanding debts to the state has skyrocketed to an average of around €1,000 a day, according to bank data. The average number of seizures that are actually carried out – meaning that depositors have enough cash in their accounts for the orders to be executed – came to 28,000 in March 2016 from 22,000 in December 2015 and February 2016, 15,000 in January 2016, 1,700 in November 2015 and 1,800 in October 2015.
- The credit and debit card market will grow at an annual rate of 40% this year, following on from the expansion trend recorded in the second half of 2015, after the government imposed the capital controls. Bank estimates put the plastic money turnover at €13 billion in 2016, against €9.2 billion in 2015, the majority of which was in the latter half of the year.
- ECB President Mario Draghi threw a lifeline to local lenders as the bank has decided to include bonds issued by the European Financial Stability Fund (EFSF) – of which there are more than €30 billion in Greek lenders' portfolios – in the list of securities the ECB can buy in its quantitative easing program. The decision, which will provide a huge cash boost to Greece's credit sector, provides for the purchase of up to 50% of the above bonds held by the country's banks.

- Greek banks could get access to cheap ECB funding again soon after Athens clinches a deal with creditors, sources have told Reuters, bringing relief to troubled lenders after almost a year on an expensive liquidity lifeline. Once Greece wraps up talks with international creditors, the ECB could waive its minimum credit rating requirement on Greek debt within days or weeks, two sources said.
- Emergency central bank funding to Greek lenders fell by 2.6% or €1.8 billion in March compared to the previous month, according to Bank of Greece (BoG) data.
- Greece's bank bailout fund has picked consulting firm Spencer Stuart to undertake a review of the board of directors of the country's four big banks, part of a drive to crack down on how members are chosen.
- Interest rates were lower during February across the board with the spread between loans and deposits unchanged compared to January, according to data published by BoG. Specifically, the average deposit interest rate was lower by 6bps at 0.49% on new balances and lower by 3bps at 0.51% on existing ones. The average loan rate was lower by 8bps at 4.91% on new balances and by 3bps at 5.01% on existing ones.
- An agreement between Greece and its lenders will lead to the vast majority of NPLs linked to primary residences with a taxable value under €140,000 being protected from sale until 2018, Economy Ministry sources have said.
- Greece is the Eurozone leader in NPLs, according to data from the IMF. Bad loans in the euro area add up to almost €900 billion of which some €100 billion are in Greek banks' portfolios. While the Greek economy accounts for just 1.5% of the Eurozone, its NPLs have an 11% share of the bloc's bad loans.
- Greek banks and the state are in the process of creating a national register for offshore company owners, in compliance with a EU directive to that effect.
- Piraeus Bank will turn profitable this year, helped by cost cuts and lower provisions for NPLs, according to its chairman. Mr. Sallas said that improving trends on bad loans continued in the first quarter and he expects the group to lower its ratio of NPLs – credit in arrears for more than 90 days – to come to less than 17% of its book by 2018.
- Piraeus Bank said it will redeem the remaining state-guaranteed securities it issued under a liquidity boosting program launched in 2008, becoming the first Greek lender to fully exit the scheme.
- S&P continues seeing high risks in Greek banks due to the uncertain economic environment in Greece. It expects Greek banks to record high credit losses in 2016 and 2017 despite the high level of provisions recorded in previous years. The agency appears to have low expectations about Greek banks' profitability for the current year.

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BUSINESS NEWS

- The European Bank for Reconstruction and Development (EBRD) has received and is examining Greek requests for project financing adding up to €500 million. This will constitute direct EBRD financing to Greek enterprises, without the intermediation of any banks, aimed at the implementation of growth investment plans that will strengthen the companies' international competitiveness.
- Athens-based food company Chipita will expand its production to Malaysia, agreeing on the creation of a consortium with the Southeast Asian country's biggest biscuit producer, Munchy's.

- Brussels believes the number of businesses in Greece came to 613,973 last year, against 630,050 in 2014. This translates, according to the same estimates, to 45,000 fewer jobs and to a significantly reduced added value to the economy. The number of the companies that closed down last year is in fact much greater, as the company numbers also include those that were created in 2015.
- Preliminary data for 2016 are not at all encouraging either. Figures from the General Commerce Register (GEMI) show that in the first quarter there were 9,812 businesses written off and just 5,988 new ones registered. This signifies a fresh reduction of 3,824 enterprises within three months.
- Car rental bookings from abroad recorded a y-o-y decline for the months of April and May, according to data from the Association of Hellenic Car Rental Tourism Enterprises. Its president, Dimitris Magioros, estimates that the drop in bookings for the period amounts to 20% compared to the same two months last year.
- Greek home appliance retailer Electroniki Athinon shut down its 45 outlets across the country after a court ruled the company was bankrupt, becoming the latest casualty of the country's economic slump. Electroniki Athinon employed 450 people, who now join the nearly one in four Greeks who are out of work.
- The Economy Ministry is examining a change in the quality and quantity criteria for an investment to qualify as strategic and enter the fast-track licensing system. The reason for the shift is that the fast-track incentives are only being utilized by enterprises in tourism and, to a lesser extent, in energy, while the government's objective is for the legal framework to be attractive for other economic sectors too.
- Nearly 4 in every 10 Greek enterprises are contemplating leaving the country, which translates into some 9,000 companies, according to a survey by Endeavor Greece, conducted in March. Local enterprises are leaving or considering doing so as they are seeking and cannot find a favorable tax environment, stability, access to funds and less bureaucracy in the country.
- Some 15% of the enterprises sampled have already moved the base of their operations abroad. Worse, the companies that have already emigrated and those about to do so in the near future are active in sectors with high added value, such as those of technology and healthcare.
- The businessmen's pessimism is reflected in a survey, as 56% of respondents estimate that the situation in the country will not improve for at least another five years, while two years ago (in May 2014) only 4% of respondents had given the same answer. At that time, 62% had said they expected an improvement within two years, while it is no coincidence that 8 out of 10 entrepreneurs now say that if they were to start up a business again they would do it abroad.
- Greek retail sales by volume dropped 2.2% in January and 6.6% in February compared to the same month a year ago after a downwardly revised 0.2% rise in December, according to statistics service ELSTAT. Retail sales were led lower by fuels, lubricants, foods and electrical appliances, the data showed.
- Greece's private sector is resorting to funding support from the European Investment Bank, seeking a share from the Investment Plan for Europe (also known as the Juncker Plan). After Creta Farm, which has already secured such funding, Terna Energy has submitted an investment plan of more than €1 billion for the renewable energy sources sector.
- There were 28 mergers and acquisitions in Greece last year, representing a 27% rise in the number of deals and 33% annual growth in value, which added up to $1.77 billion in total, according to Ernst & Young's M&A Barometer. The sectors with the greatest M&A activity last year in Greece were financial services and information technology, while the countries with the largest presence in the Greek M&A market were the UK and Austria, with 4 and 2 deals respectively.
- The Hellenic Federation of Enterprises & Industries (SEV) was particularly critical of the government, as well as the country's creditors, warning that the policy mix under consideration will aggravate the Greek recession. It also estimated that the new tax and social security bills do not tackle the country's biggest problem, which is the fact that it does not encourage the

creation of new jobs due to the high increases in contributions and spoke of a policy destined for failure with the economy mired in stagnation.

- Greece had the highest rate of unemployment in the EU with 24% in December 2015, according to data released by Eurostat.

Real Estate

- The Greek residential property market posted the worst performance among its EU peers during the last quarter of 2015, according to data released in Brussels by Eurostat. Comparing the data of the European statistics service with those of the BoG, it is evident that house prices in the country declined at a rate of more than twice that of any other country in the bloc during the same period: Prices dropped 5.4% in Q4 2015 compared to the same period in 2014, after a 5.8% slide in Q3 2015.
- Greek home prices fell 5.1% during the whole of 2015, against a decline of 7.5% in 2014. In total, the price drop from 2008 to 2015 comes to almost 40%, and this southbound course is anticipated to continue into 2017. Still, market professionals anticipate the drop to continue easing.
- Construction activity kept declining in January as building permits fell 18.9% year-on-year, according to ELSTAT.
- The company responsible for drawing up the Greek land register, the National Cadastre & Mapping Agency (EKHA), has launched a tender for the final phase of the project, budgeted at €465 million and set to be completed by 2020. The project is expected to cost the state €399 million over the next four years, the bulk of which – €148.6 million – will be part of the 2019 budget.
- Property owners are bracing for an increased tax burden this year, as the rates for income from rentals are to rise in a measure that will apply retroactively from January. Even landlords with small properties who make no more than €1,000-2,000 annually will see their tax demands for 2016 grow.
- The Greek property market will record investments of some €400 million within this year, as the interest expressed to date points to a significant increase in activity by investment funds and property investment companies, a survey by Savills Hellas has found.

Tourism

- British Airways announced the addition of two more Greek destinations out of London for this summer, as it will operate two flights per week to Chania and Kalamata from April 28. It will also further strengthen its schedule to Corfu and Santorini, two of Greece's most popular islands.
- Hotel bookings at most popular destinations in Greece showed an increase over this Easter period, according to hoteliers and travel agents.
- The Greek National Tourism Organization has decided to implement five programs to promote the country as a holiday destination via Google, Facebook, TripAdvisor and Expedia, adding up to over €2 million. Two of the programs concern Google. The first, budgeted at €215,000 is aimed at attracting visitors from the US and Canada, while the second – €505,000 – will target the markets of Britain, Germany, France, Italy, the Netherlands, Poland, Switzerland and Serbia.
- Greek hotels' online rates showed an increase in April, just as the tourism season began, according to data collected by the Trivago travel booking website. The average online hotel rate for a twin room in Greece has posted a 7.1% annual increase from April 2015 to reach €90 per night, from €84 a year earlier, while, in contrast, Spain has recorded a yearly increase of 12.1% and Turkey – whose tourism sector has been hit by terrorist attacks in the country – has shown a 24.8% annual decline.

- Part of the increase in Greek hotel rates can be attributed to the value-added tax hikes on accommodation and food service.
- Alternate Minister for Tourism Elena Kountoura has assured reporters that she has secured a pledge from Finance Minister Euclid Tsakalotos that Greek hotels will not have to pay a much feared extra levy this summer, easing the concerns of hoteliers about the season that is just getting under way.
- Many businesses in Greece will this year be offering tourists from the US, Russia, Israel and Turkey price discounts of at least 20%, in addition to the customary tax refund. The initiative was announced this week by Deputy Foreign Minister Dimitris Mardas and Hellenic Confederation of Commerce and Enterprises president Vassilis Korkidis.
- Tourism bookings for this season have turned to negative territory compared to last year, according to March data by Amadeus cited by the president of the Association of Hellenic Tourism Enterprises (SETE), Andreas Andreadis.
- The growth in Greek tourism in terms of arrivals from abroad, travel receipts and the number of nights spent in the country eased last year compared to 2013 and 2014, according to figures released by the BoG. Tourism takings amounted to €14.1 billion last year, posting a 5.5% increase from 2014, when the rise had amounted to 10.2%. In 2013, the growth had come to 16.4%.
- Security concerns in other countries will help Greece secure as many as 2.3 million tourist arrivals from Europe's leading tour operator TUI in 2016.

Energy

- Greek authorities and the institutions reached an agreement on ADMIE and energy auctions by Public Power Corporation aimed to liberalize the electricity market in the country. Energy Minister Panos Skourletis said that an agreement on Independent Power Transmission Operator (ADMIE) envisaged the transfer of majority stake (51%) from Public Power Corporation to the state (PPC will be compensated), while the remaining 49% will be offered to a strategic investor -who will be the manager of the grid and will be able to buy at least 20% of the shares- and to private investors. The process to sell at least 20% of ADMIE is expected to begin in June.
- Bulgarian Energy Minister Temenuzhka Petkova reported significant corporate interest in participation in the Interconnector Greece-Bulgaria (IGB) gas pipeline and the project that is dependent on it – the liquefied natural gas terminal at Alexandroupoli in Thrace. The Bulgarian minister announced that six companies have submitted binding offers for the acquisition of capacity in the pipeline for quantities that total a greater capacity than what the IGB will allow for in its early stages.

Investments

- Foreign investors raised their participation in the capitalization of the Greek stock market in March to 60% including the participation of Hellenic Financial Stability Fund. Foreign investors were net buyers in March with capital inflows of€ 5.9 million, while Greek investors were net sellers with capital outflows of €5.9 million.

Technology - Communications

- One in two Greek consumers is unable to purchase products over the Internet as their credit cards are rejected. This revealing finding, which reflects the geographical exclusion that Greek consumers continue to endure in supposedly borderless online commerce, is included in a report based on a recent survey by the European Consumer Centre in Greece.
- The same survey also found that about 30% of consumers reported that they had been told that goods they had ordered could not be delivered to Greece, while 44% of respondents said the price of the product or the service chosen was raised during the course of the order, owing to the nationality or the customer's country of
- Athens-listed Forthnet's chief executive Panos Papadopoulos said recently that the imminent imposition of a special tax on pay TV in Greece will be "extremely harmful" to Greek pay-TV platforms, saying "it would create extremely burdensome conditions of unfair competition in favour of foreign companies that cannot be taxed in Greece."
- Greece's biggest betting company, OPAP, is ready to launch new video lottery machines once regulations governing the new business are amended, its chief executive said recently.

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TENDERS - PROCUREMENTS

- After a delay of more than 3 months and a strong reaction from some cabinet members, contacts regarding the extension of Athens International Airport's concession contract between officials from AIA and state sell-off fund TAIPED finally began again. The relevant agreement will be monitored by the country's creditors as it is a bailout obligation which has been pending since 2015.
- Parliament will approve the concession contracts for the 14 regional airports to be operated and upgraded by the Fraport-led consortium just after Orthodox Easter, and definitely before the completion of the bailout review. The draft law to that effect is almost ready and is expected to include the two concession contracts, each concerning a cluster of seven airports, as provided for by the tender proclaimed by state privatization fund TAIPED.
- The COSCO group president, who signed a €368.5 million agreement with Greece's TAIPED asset development fund for a majority stake in Piraeus Port Authority (OLP), insisted in a recent interview that his company's objective is to transform Piraeus into the Mediterranean's most competitive port. Under the last deal, COSCO will pay €280.5 million to buy 51% of Piraeus and €88 million for another 16% after five years on the condition it undertakes investments of €350 million in the next decade.
- Mid-July will be the new deadline for the submission of binding bids for a controlling stake in Thessaloniki Port Authority (OLTH), its chief executive officer, Dimitris Makris, said in the context of a presentation of its results to investors. At least five groups have reiterated their interest following an invitation to that effect by the state privatization fund (TAIPED).
- PAEGAE, NBG's logistics subsidiary, will likely be the third pillar of the consortium seen as favourite to win railway properties company GAIAOSE's contract for the Thriasio Transit Center in western Attica. The logistics company is in advanced talks with Athens-listed Grivalia Properties and China's COSCO for the creation of a consortium that will table a binding bid before the May 31 deadline for Thriasio concession tender offers.
- Stergios Pitsiorlas, the chairman of sell-off fund TAIPED, revealed that the government and the country's creditors are discussing a one-year extension to the 2018 deadline for revenues of €6.4 billion from privatizations.

- Russian Railways, Athens-listed GEK Terna and Italy’s Trenitalia have formally expressed their interest in the acquisition of the 100% stake in Greek railway service operator Trainose in the context of the first stage of the tender by state sell-off fund TAIPED which ended recently.

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GREEK CONTROLLED SHIPPING MARKET DEVELOPMENTS

During April the dry bulk market slightly improved giving a positive feeling to the dry bulk shipowning community as freight rates increased to levels sufficient to cover vessels' operating expenses. In the tanker sector, activity for tanker vessels slightly softened mainly due to the volatility of the oil price. The LPG market was a bit dull during April mainly due to the public holidays; even though a lot of fixtures were negotiated the majority of them still remain on subjects. On the other hand, the spot market for the LNG carriers experienced a small increase but in general it remains at low levels close to US$ 30,000/day. The container sector continues to experience a challenging market and we see some container players thinking of joining forces in order to strengthen their position.

On the financing front, as RBS, HSH and Commerzbank have lost their position as the top lender to the Greek shipping community, a huge gap has been created in the Greek ship financing arena. Credit Suisse, Deutsche Shipping and Nordea, but also many lenders from the Far East involved in newbuilding business, have tried to fill in this gap during the last years and gain a respectful market share. According to Petrofin's recent bank research report the borrowing of Greek shipping companies from Greek banks’ shrank by 15% to US$9bn last year, with Piraeus Bank remaining the biggest lender with a portfolio of $3bn (excluding loans to coastal shipping companies). The total borrowing of Greek-owned shipping firms from Greek and foreign lenders came to US$62.7 billion last year, down 2% from 2014.

During the last month, Greek shipowners were almost fully abstaining from ordering new vessels. Last month only one order was placed by a Greek shipowner to an international shipyard. Data compiled by Golden Destiny shipbrokers also showed that only two vessels were ordered in February, comparing it with 30 vessels of various types ordered in March last year. This is mainly due to the fact that the market is experiencing a relative slowdown that does not justify new vessels' orders.

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