Speech by Alexandros Tourkolas, CEO of NBG, in Thessaloniki

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Thank you very much indeed for coming here today and giving me this opportunity to set out my views at this key moment -- as I see it -- in the endeavour to reboot the Greek economy. A number of discernible positive signs on the front of the profound crisis experienced by our country in recent years are beginning to emerge. Progress towards recovery and a virtuous growth cycle is accompanied by significant challenges. The next few quarters will be of crucial importance for the sacrifices of a large section of Greek society to be translated into a genuine improvement in economic conditions.

In mid 2012 we saw the first faint but clear signs of a decrease in uncertainty that accompanied the rollout of the financial assistance program and the agreement for further assistance that aimed at securing debt sustainability. The agreement with our partners in the euro area reflects, among other things, their recognition of the intense efforts we have been making as well as the enormous social cost that progress in achieving fiscal adjustment has entailed: the biggest and fastest primary deficit adjustment -- in the order of 10.5% of GDP or almost €25 billion -- ever recorded in an EU country over a four-year period. However, the recessionary impact and the social costs have been high, making it imperative that moves towards recovery are stepped up.

Under the agreement of November 2012, the creation of a primary surplus at the level of the general government has become the most important criterion for assessing progress and future decisions by our partners when considering further assistance to Greece with a view to attaining long-term debt sustainability. Implementation of the state budget in the first seven months of 2013 has been significantly better than initially targeted, outperforming targets for containment of primary spending and gradual normalization of divergences from revenue targets.

In the first seven months of 2013, the primary surplus amounted to €2.6 billion thus providing an adequate cushion in the event of possible shocks later in the year, while the revenue trends have improved markedly in the last quarter. The shocks stem mainly from the social security system and the health system. Accordingly, the balancing -- at least -- of the general government primary balance now appears to be a wholly realistic possibility: it is not mere wishful thinking, but now widely accepted as achieved.

The terms of debt servicing (interest, repayment schedule) and funding needs have already improved substantially, especially with regard to loan facilities via the
support mechanism, following the restructuring of the public debt in early 2012, in tandem with the supplementary agreement signed in November of the same year. These terms are now comparable with those of the core countries of the euro area, although the total gross debt still remains very high (it should start to decline after 2015).

The debate on the funding gap, which seems to have become more heated in recent weeks, hardly amounts to news, as the situation was clearly spelled out in the publication of the Second Program for Greece back in March 2012. In any case, the required amount of around €10-12 billion through to 2016 is remarkably small -- and could even be met through alternative funding means -- when compared with the €245 billion of the two support programs for Greece and the flows of liquidity from the Eurosystem to the Greek banking system amounting to almost €80 billion in Jan-Jul 2013.

The impact of more positive sentiment was reflected instantly in the improved valuation of bonds and Greek equities vs. the exceptionally low levels of the previous year.

In addition, by the end of the first quarter of the year, almost €12 billion of private deposits that had been withdrawn from the banking system because of heightened uncertainty flowed back to the banks. However, following the crisis in Cyprus, this trend lost momentum, leaving the cumulative increase in retail deposits at around €8 billion between June and July 2013.

The rebound of the forward indicators of economic activity (consumer, business confidence) in the first quarter of 2013 started to translate into real improvement in the trend of various economic indicators -- industrial production, export orders, activity and turnover in services. It is notable that the pace of contraction in GDP slowed significantly to -3.8 % yoy in the Q2.2013 vs. -5.6 % in Q1, and seems to have stabilized on a quarterly basis for the first time since the end of 2009. This trend is expected to continue in the third quarter, backed by ongoing strong performance by the tourism sector. It is now highly likely that this year -- for the first time in five years -- the recession will be consistent, or perhaps even less than, initial official forecasts.

Some early signs of a slowdown in the jobless rate also became visible in the second quarter of 2013, with trends looking more favourable for the coming quarters. Specifically, on a seasonally adjusted basis, it appears that employment increased slightly in Q2.2013 for the first time since 2008, although it will take a significant acceleration in the rate of new job creation to turn the unemployment trend around.
These developments reflect the very painful process of restructuring in the private sector, which appears to be flattening out for most sectors of the economy, though the damage caused by the crisis is undoubtedly profound. At the same time, however, various healthy, creative and extrovert players in the economy have started to emerge. The increased and multifaceted interest of foreign investors in the private sector of the economy, besides the obvious attractiveness of very low valuations, is gradually being reflected in the positive re-evaluation of the country’s economic outlook, in light of the ongoing progress and the virtual elimination of euro exit risk.

Accordingly, whatever our personal economic or social position may be, we should not seek to repudiate these improving expectations. On the contrary, we need to implement effectively the critical structural reforms and likely additional adjustments in the private sector that will help give more solid substance to a stable and attractive business environment. A vote of confidence in the economy and its prospects, as it takes off on a new footing, will surely set in motion a critical mass of investment capital from within Greece and abroad that will definitively transform the growth model of the economy to being one that is based more on production and less on consumption.

Ladies and Gentlemen,

The Greek banking industry, and NBG in particular, could hardly remain unscathed by the immense challenges and shocks brought about by the crisis. Within an extremely stressed environment, they have not hesitated from assisting the efforts of the Greek government to restore fiscal sustainability.

Above all, however, and despite the obvious constraints, Greek banks have never ceased to support their customers, maintaining open lines of credit and helping a large number of customers (who despite their best intentions have been put under inordinate economic strain by the crisis) to continue to service their debt obligations. It should be noted that deleveraging in the Greek economy is significantly less -- at 20% on average vs. 2007 -- than the other countries that are currently implementing fiscal adjustment programs (Ireland, Portugal and Spain). This reflects the more conservative lending policies followed by Greek banks, which have had a relatively positive impact on loan portfolio quality, as well as their emphasis on the customer relationship rather than just transactional banking.

The Greek banking system lost around €100 billion of private deposits between mid-2009 and June 2012, and despite the recovery from mid-2012 on, the net loss for the system has been in excess of €90 billion. Borrowing from the ECB and via the ELA helped to plug the shortfall in liquidity, though on a technical rather than an
operational basis. Since the end of 2012, however, the pick-up in the deposit base and the restoration of acceptance, directly by the ECB, of existing securities as collateral on better terms, has enabled banks to reduce their reliance on the Eurosystem and hence their funding costs.

In particular, the Bank managed to reduce by a further €9.2 billion its need for funding from the Eurosystem (€25.5 billion at end-June 2013, compared with €34.7 billion a year earlier), which has helped give a boost to interest income. This positive development was supported to an even greater extent by the improved mix of funding from the Eurosystem, since NBG’s exposure to high-cost emergency liquidity (ELA mechanism) has fallen dramatically from 100% at the beginning of the year. Notably, according to August data, NBG’s exposure to ELA funding is now below €1 billion.

Meanwhile, Greek banks have stepped up their efforts to reduce costs, enhance risk management on a more vigorous basis, and streamline their operations. The ultimate goal is to achieve healthy core profitability, which -- coupled with a substantial pool of provisions and the final estimate, under the upcoming stress tests, of losses incurred in banks’ portfolios -- will place banks’ balance sheets on a sound and steadily improving trajectory in the years ahead.

The successful completion of the recapitalization process -- which attracted a substantial proportion of private capital -- has repaired the damage inflicted on the capital base of the banking system by, primarily, the restructuring of the public debt and, secondarily, the impact of the recession on the bank book. At the same time, the foundations have been laid for continuing and further strengthening, over the longer horizon, the private nature of banks’ management and attracting new investors.

Further moves over the coming quarters will round off the overall reform and fortification story that has been implemented by the Greek banking system. As a result, backed by a stronger capital base and enhanced liquidity the banking system will be ready to play a leading role in the growth process. The quantity of liquidity available and how it will be channelled into the real economy at a satisfactory pace is a matter that can hardly be left to its own devices, and nor can it rely solely on business and government decisions; rather, it requires an environment of economic equilibrium and growth prospects going forward. It is our duty to ensure the best possible allocation of what are still limited resources to those who are prepared to play a role in the recovery story, and to those who, on account of cyclical factors rather than inherent problems, are temporarily in severe distress. A glance at the structure of credit across the economy in recent quarters confirms that this effort is already taking off and that the pace of deleveraging is now at a minimum.
Our focus on investment programs must take on board the lessons of the past. More than ever, we need to foster innovative, outgoing, competitive businesses. And NBG can be relied on to stand by those businesses that take part in this effort.

I am convinced that the turning point is just round the corner. And it is essential that we stay on course during the final phase of this difficult journey, so as not to betray the expectations of the Greek people. If our partners adopt an even more constructive and realistic stance, particularly as regards growth and social support, but also with regard to any minor deviations from the targets of the fiscal adjustment program, we can expect that the conditions are now right for the Greek economy to make a new start.

Ladies and Gentlemen,

I have not focussed today on issues that relate only to NBG, where I have worked for the past 17 years, after many years working for a number of overseas banks -- I was fortunate to join NBG’s ranks under Theodoros Karatzas, who was a key figure in the modernization of the Greek banking system.

Allow me, however, to say this about NBG: it is the only bank in Greece (and, indeed, stands out on the European level) to post a loan-to-deposit ratio at 93% in the first half of the year, compared with an average of around 120% for the rest of the system and a European average that is higher than 110%. And, to put it simply: NBG has a solid base on which to finance the economy and the production process. Despite the problems and hurdles, we have enhanced our deposit base in Greece by 11% year on year. For the first time in more than two years, we achieved operating profits that exceeded forecasts. The rate of creation of new loan delinquencies is now decelerating. Yet, despite this fact, we maintain the highest levels of provisions for NPLs in Greece. We shall not cease in our efforts to further strengthen our capital base, with tangible results soon to follow. In other words, we have laid the right conditions and are equipped with the knowledge and determination to play a key role in kick-starting the country’s productive potential. That is, we are in a position to support your business plans and translate your vision into action, for the benefit of society as a whole.

To sum up, we can fairly say that National Bank of Greece has clearly demonstrated that “where there’s a will, there’s a way”.