Speech by CEO Alexandros Tourkolias

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Early signs of improvement in the economic climate are gradually turning into economic outcomes, but the challenges that lie ahead are still substantial

First of all, thank you very much indeed for coming here today and giving me this opportunity to set out my views on the Greek economy, shipping and NBG, particularly at the present juncture when the Greek economy looks set to turn around, and secure the right conditions to end the deepest recession experienced by the country since the Second World War. The challenges are formidable, as has also been the blow dealt by the crisis on the Greek economy and, by extension, society as a whole -- which must be healed in the years ahead. However, for the first time since the crisis broke out, the right conditions for a gradual economic recovery have started to appear. The coming quarters will be critical for the consolidation and enhancement of the current dynamic, particularly if accompanied by:

1. the attainment of a primary surplus, and
2. specific decisions, at the euro area level, that serve to support the long-term sustainability of the Greek public debt, as well as more earnest support for the return to growth of the Greek economy.

Equally crucial, however, is the need to safeguard the conditions required to transform the sacrifices of the Greek public into a positive economic force. Accordingly, it is essential that there should be no backtracking or shortsighted policy adjustments: at whatever level, and on whatever agenda. And as regards the business scene, mobilization towards this end should be a matter of concern to us all.

For even when our decisions obey the logic of numbers, we have to bear in mind -- in a spirit of responsibility -- the impact that these decisions may have on the psychological climate, on how they will be interpreted or misinterpreted, as each business move takes place.

The progress made by Greece on the fiscal front has been very considerable, but the social cost has been enormous

The key economic indicators on the country's performance, set by our partners and the markets, have shown a steady improvement, thereby boosting confidence in the prospects of recovery of the Greek economy. This improvement, however, is not enough to offset the huge social cost of the crisis, at least before the nascent stabilization evolves into a sustained economic recovery dynamic.

As I said, the country's progress on the fiscal front has been remarkable:

- Cumulative improvement in the primary surplus of circa €25 billion, or 10.5% of GDP within the course of four years: the biggest and fastest adjustment ever recorded in an EU country.

- Reversal of accumulated imbalances in the country's external position, with an estimated 14pp of GDP contraction in the current account balance, reflecting, among other things, the ongoing decline in unit labour costs, which implies an improvement in the economy's competitiveness. Since 2012, the value of exports (goods and services, excluding fuel) has surpassed the value of corresponding imports. It goes without saying that the needs for external financing of the economy have been contracting respectively.

Despite the delays, remarkable progress has been made in structural reforms: reforms in pensions, reductions in health system costs (mainly drugs and consumables), transparency and rationalization of expenditure in other public sector procurements, the institutional framework for investments, and the opening up of markets and professions. However, there are still a considerable number of outstanding issues, while the protracted recession continues to put a brake on efficiency and hold back the potential benefits from synergies.

- The endeavor to achieve the targets of the program and to accelerate fiscal consolidation -- against an extremely adverse backdrop and at a social cost that has still to be properly understood -- has certainly helped to reduce one of the most important "deficits" of our country, with the rehabilitation of the institutional environment and credibility.

- The benefit deriving from abating uncertainty has started to appear in financial valuations (the spreads on 10-year GGBs have fallen to a three-year low, while stock valuations have increased by 83% over the average level of June 2012). What's more, the downward trend of deposits was reversed in the second half of 2012. The successful completion of four consecutive reviews by the Troika in the past 10 months, coupled with the initial agreement (in late 2012) to provide further assistance in order to ensure debt sustainability, underscore both the country's commitment to meeting the conditions set by its creditors and the recognition, by its partners, of the efforts and sacrifices that have been made.

- On the issue of debt sustainability, I want to stress that -- taking into consideration the circa threefold duration of Greek sovereign debt vs. the euro area average, and the current favorable borrowing costs (less than 3% in 2013, a level comparable with the core countries of the euro area) -- the situation is already much more favorable than the aggregate data on the debt would have us think.

Applying relatively modest assumptions for the discount rate, the current value of Greek debt will, in a few years time, be less than that of Italy, particularly if we manage to get even more favorable repayment terms and, moreover, add to our estimations the possibility of recovering part of the funds that have been allocated for the recapitalization of Greek banks.

- As regards business production, I see that extrovert manufacturing segments such as food industries, beverages, petroleum products and refining, pharmaceuticals and chemicals presented clear signs of recovery in the first 7 months of 2013, signaling the end of a protracted cycle of contracting Greek manufacturing output. Indeed, in August the leading PMI indicator for the Greek manufacturing sector was at its highest level (48.7) since December 2009.

- The multiple benefits to be derived from the virtuous circle created by implementation of the program for full fiscal consolidation and completion of the necessary structural changes, coupled with the restructuring of the private sector, have probably not been fully appreciated. In the second and third quarters of 2013, the tourism sector succeeded in boosting economic activity despite strong fiscal restraints. At the same time, the improvement in the economic climate and the slow but accelerating flow of liquidity to the economy (via the repayment of dues to the private sector by government, absorption of Community funds, and selective normalization of credit flows to specific sectors) has led to stabilization of GDP quarter-on-quarter. This has emerged after 14 consecutive quarters of unremitting contraction. Upcoming upgrades in the country's credit rating should help give momentum to a virtuous circle with improving financial valuations and conditions that enable the private sector to access the markets.

- I firmly believe that the forces that will place the economy back on a solid growth path, thereby alleviating the social consequences of the crisis and enhancing the sustainability of the long-term debt dynamic, are latent in the economy. The mobilization of these forces under the right conditions -- including attracting investment capital from abroad -- could generate positive surprises.

Three short- and medium-term challenges

First: The country needs to continue to fulfill its key commitments, thereby enhancing its credibility and shifting responsibility for resolving any outstanding issues onto its partners.

Second: The reform of the economy, and the transformation of this reform into a sustainable growth dynamic, is above all a national goal.

In my view, it is far more crucial and important for us to complete swiftly our own "Memorandum of Understanding" – at least in our consciences and in our national dialogue: a Memorandum that sets out targets for credibility, stability, competitiveness, and ongoing intergenerational solidarity that replaces technocratic "commands". Fulfillment of, and progress towards, these ends is emerging as a matter of course. We need to realize that, ultimately, we are not so much accountable to our lenders as we are to society at large, and to ourselves, and to the next generations. The easy solutions of the past or the invocation of faceless enemies or saviors from outside the country belong merely to a fantasy world. The price for restoring macroeconomic balance and credibility is high and there is no leeway for hesitation or back-stepping.

Third: The efforts and challenges that lie ahead for the final stage of full fiscal adjustment continue to be substantial:

The fiscal adjustment program was based on the implementation of unprecedented measures, with a disproportionately large part of the burden placed on part of the population. This policy mix needs to gradually give way to a longer-term, sustainable and fairer strategy for fiscal consolidation.

- The tax system needs to be both efficient and competitive, so as to effectively take on -- particularly in the business sphere -- neighboring countries and the euro area economies.

- The significant progress in improving cost competitiveness -- especially labour costs -- needs to be accompanied by an all-embracing national competitiveness strategy. The intensification of international competition and the protracted domestic crisis continue to put pressure on Greek businesses. Shrinking demand, tight cash flows, restrictive credit conditions, and the global economic slowdown have put stress even on structurally sound businesses. Accordingly, the creation of an attractive business environment under the canopy of legislative stability and free of market distortions, barriers and government interference is a vital precondition for ensuring the successful outcome of the current round of painful business restructuring and efforts to forge an extrovert business culture.

- Apart from demands and criticism of the failings of government policies, companies themselves must act in a spirit of national purpose and duty, forging strategies that effectively balance opportunities and challenges, taking steps to increase their capital, enter mergers, and effectively restructure.

I see with satisfaction that various healthy, creative and extrovert forces in the economy have started to make their presence felt. In addition, growing and diverse interest by international investors in our country's private sector -- besides the attractiveness of very low valuations -- is gradually being reflected in the positive reassessment of Greece's economic prospects.

The vote of confidence in the economy and its prospects, as it makes a new start, will mobilize a critical mass of investment capital from both within the country and outside that will shift the economy's growth model to one rooted more in production and less in consumption.

The Greek banking sector and NBG

The banking industry and NBG in particular could hardly remain untouched by the challenges and shocks of the crisis. Within an extremely stressed environment, they have played an important role in helping the Greek government restore fiscal sustainability.

Above all, however, and despite the obvious constraints, Greek banks have consistently stood by their customers, keeping credit lines open and facilitating the servicing of debt obligations of a large number of customers who, despite their good intentions, have been put under severe strain. It is notable that deleveraging in the Greek economy (20% on average vs. 2007) is much lower than in other countries implementing similar programs of fiscal or banking reform (Ireland, Portugal, Spain). On the one hand, this reflects the more conservative lending policy of Greek banks, which has had a positive impact on the quality of their assets, while it also reflects their focus on relationship rather than transactional banking.

The Greek banking system lost about €100 billion of private deposits from mid-2009 to June 2012, while despite the upturn since mid-2012, the net loss for the system has been more than €90 billion. The expansion of the deposit base and the restoration of acceptance, by the ECB, of existing securities pledged under better terms and conditions have made it possible for banks to reduce reliance on the Eurosystem and, since the end of 2012, push down funding costs.

2013 was a watershed year for the Greek banking system, with a series of mergers and acquisitions as well as the recapitalization of systemic banks by the Financial Stability Fund, in which -- in the case of three out of the four banks -- private investors participated, thereby enabling them to retain their private status. This has fortified the banking system and enables banks to provide more active support in stabilizing the Greek economy, as healthy demand for credit starts to recover.

The normalization of conditions provides very encouraging signs for the future progress of the NBG Group. According to the latest figures for H1.2013, the Bank achieved positive profitability, based on operating income for the third consecutive quarter. It is particularly encouraging that operating income in the second quarter of 2013 more than covered provisions for the first time in nine quarters, thanks to improved revenues and sustained cost-cutting efforts.

As regards rationalization of costs, NBG has achieved a cumulative decline in domestic operating costs by 23% over the last three years. Domestic operating costs will post a further decline from the second half of 2013 onwards.

Another comparative advantage of NBG is that its portfolio has started to generate fewer new delinquencies than the rest of the market due to its mix (mortgages and corporate loans) as well as its geographical dispersion.

The Bank keeps a close eye on its non-performing loans, which in an environment of deleveraging, as at the current juncture, are still increasing, but at a much more moderate pace. We are confident that the findings of the diagnostic tests carried out by BlackRock will verify our estimates.

With regard to liquidity, following the extremely tight conditions experienced by the banking industry, the situation appears to have made significant steps toward normalcy in the first half of 2013 due to:

- the 10% rebound in the Group's deposits since the lows of June 2012,
- deleveraging of the loan book in Greece and the countries of SE Europe, due to recessionary pressures and the ongoing decline in demand,
- reduced reliance on Eurosystem financing, which for the Group corresponds to €5.4 billion since the beginning of the year, and €9.2 billion on an annual basis,
- the parallel reduction in exposure to the ELA emergency liquidity mechanism to less than €1 billion in August 2013, compared with €33 billion a year earlier. This is particularly noteworthy, since it implies a significant reduction in funding costs which impact operating profitability.

These factors resulted in the improvement of the loan-to-deposit ratio to 90% for the domestic market, which means that, after a run of years, the Bank's lending activity is fully financed by deposits.

In addition, as a result of the recapitalization process, NBG's Core Tier I capital has been restored to 9.2 %.

In the period ahead, the Bank aims to further strengthen its capital base so as to gain a greater margin over the 9% set by the European Banking Authority. The next step – and this, of course, is one of NBG's key targets -- is to enable the improvement in banks' liquidity to feed through to the real economy and, in particular, to the most productive and outward-looking sectors.

We note, of course, that the leverage ratio that applies globally for systemic banks, setting the ratio of Core Tier I capital to total risk-weighted assets at 3%, stands at 8.3% for NBG. Our recapitalization measures mainly concern the sale of the Group's non-strategic shareholdings.

Shipping sector – Financing and challenges

NBG holds a strong position in the financing of Greek shipping, with an uninterrupted presence in the sector stretching back for half a century. Currently the Bank has a shipping portfolio worth circa €2 billion as well as a strong customer base that enjoys a longstanding relationship with the bank and a substantial pool of deposits. Reciprocity between the Bank and its shipping clients has led to fruitful cooperation, while the Bank has lent continuous support for investment projects in difficult markets under the right terms and conditions.

Support for the Greek-flagged fleet is a strategic pillar for NBG, for a host of reasons:

- It secures participation for the Bank itself and its people in a globalized industry.
- It contributes positively to the Bank's economic performance.
- Support for shipping has an exponential impact on the Greek economy, given its capacity to generate income and jobs for the entire shipping cluster.
- Last, Greek-flagged shipping holds a significant place on the European and international levels, in the service of maritime trade and transport. In addition, it plays a key role in economic growth and the revival of global production, while helping to meet basic human needs.

The shipping industry is an outward-looking business activity, whose content serves both national and European interests. Support for this industry, if not its actual strengthening, is surely a sine qua non for Europe to maintain a decent presence in global maritime transport.

A precondition for securing the strength and role of Greek-owned shipping as an international cross trader is that the shipping services are performed on a strictly competitive basis, free of any practices of preferential treatment or unfair discrimination by international commercial players.

The key players in the formulation of shipping policy, whether on a nationwide level (through international organizations) or on a European level, must ensure that that shipping businesses remain seriously competitive, given that shipping industries in other parts of the world are benefitting from support. The important place of Greek-owned shipping in the European fleet needs to be fully appreciated by the relevant European bodies, and be promoted accordingly by means of a common European policy that will be able to offset the impact of protectionist policies elsewhere in the world.

Today, the European fleet is comprised of all kinds of vessels, with a total capacity of 199 million DWT, with Greek vessels making up 2/3 of this figure.

I have followed at close hand the sector's business model, from my positions in the Bank of America, the Bank of Nova Scotia and NBG over the course of the last 36 years, within an environment of intense cyclicality. The causes of the cyclicality vary in each phase of the economic cycle, meaning that the industry displays marked fluctuations, which the greater part of the Greek ship-owning community has managed to handle with enviable success. I have met people who started out with just half a ship or one single ship and now manage fleets comprised of 30 to 80 vessels, representing capacities of considerable magnitude in terms of global trade.

The Greek shipping community, through its long-standing presence in the seas around the world, has a thorough knowledge of the sector and indisputable know-how. Moreover, the Greek shipping community stands out for its speed in decision making and implementation, even under the most adverse conditions in the various jurisdictions where they conduct business. Indeed, Greek ship-owners surpass -- and in essence generate -- economic developments, because they work on a global basis.

Greek shipping businesses, although multinational in nature, are based mainly on the strong bonds of Greek shipping families. This is true even for shipping firms that have access to capital markets.

Last year was far from easy for shipping, as there was an oversupply of capacity in most segments of the industry for the fourth consecutive year, while international growth was anemic. China's economy continues to play the central role in the demand for transportation, while developing economies continue to keep demand at satisfactory levels.

The second half of 2013 looks to be more favorable for the drybulk sector, particularly for capesize vessels. The reduction in new orders and deliveries coupled with the high rate of scrapping over the past three years allows the players in this sphere to face the future on a more positive basis, given that the order book is now at 15% of current tonnage (239 ships), while vessels to be delivered total 74, i.e. one third of previous years.

On the supply side the Panamax sector does not face the same situation as the capesize sector, given that the Panamax order book for 2013 has not contracted at the same pace as the capesize order book.

On the demand side, there was significant growth during the course of the year, driven primarily by transport of coal and iron ore for the needs of the Chinese and other Asian economies. Indeed, there is likely to be further market improvement, as China is expected to carry out investments in infrastructure and inventories build up, which is also the situation in Japan. It should also be noted that there was a very limited supply of grain in the previous year, due to adverse weather conditions.

As regards tankers -- crude carriers -- the order book shows significant decline to the level of 5% of existing tonnage, though effective supply has seen a significant increase of 20% over the last three years. Actual deliveries and scrapping of such vessels are leading to an increase in available tonnage. US economic activity will play a decisive role in developments, where traditional importers of oil serve to boost production at home, reduce imports and increase exports.

Saudi Arabia's decision to increase its refining capacity by 16% vs. 2012 will have a similar impact, while a further 30% increase is expected over the course of the next two years.

This will lead to increased demand for product carriers, and probably a reduction in demand for crude carriers. Of course, the stabilization in the order book of product carriers at 11% of existing tonnage serves to reinforce the positive outlook of the freight market, especially if it isn't disrupted by new orders.

The malaise of the European economies in recent years has had a significant impact on the containership market. Containership freight rates are close to historic lows because of excess supply. New orders -- especially for larger capacity vessels –have persisted at high levels, while demand has been shrinking. Economic recovery in Europe and the increase in consumption of final goods in the developing economies should have a positive impact on this sector, whose growth usually comes in the wake of growth in the dry bulk market.

Specialized vessels such as chemical tankers, LNGs and LPGs show a positive outlook due to the de-escalation of new orders and significant activity in the US, particularly for LPG carriers. It is notable that in the past year they increased their exports by 32%, thereby pushing up freight rates.

Today, it is the LNG sector that is spurring the interest of ship-owners worldwide. It represents a potentially high-growth sector that generates significant revenues for market players, offering long-term contracts with major global corporations and significant growth prospects going forward. Of course, Greek ship-owners will be playing a part in this story. As early as 2008, they foresaw the prospects for this sector and have taken strong positions by investing circa $10 billion in buildings. Almost 40% of orders are orders placed by Greek ship-owners, clearly indicating how much they believe in this sector and its prospects.

The realignments that have been taking place in the international (and particularly the European) financial environment have created a complex and demanding backdrop, in sharp contrast to the favorable environment of the previous decade, and will certainly have a major impact on the shipping sector. Oceangoing shipping is still struggling to cope with the slow recovery from what was already low international demand, as well as the structural imbalances of the past decade, the key problem being oversupply, in tandem with changes in the international financial environment.

The shipping industry is capital intensive. This is why banks play a key role in its growth. The economic crisis in Europe has led to a decline in respective new loans, as total bank exposure to both Greek and foreign-owned shipping amounts to €50 billion, €10 billion of which is from Greek banks and €40 billion from foreign (mainly European) banks.

The new regulatory framework governing capital adequacy under Basel III has increased the cost of capital, thereby tightening future financing, while only the biggest and financially strongest banking groups will be able to put up the relevant funds. Since the global crisis broke out the overall exposure of banks to Greek-owned shipping has contracted by 10%. What is more, large banks have significantly reduced their presence in the sector, deploying a strategy of deleveraging and downsizing risk-weighted assets.

In addition, new pressures on financing to shipping by European banks may arise in the coming quarters, in view of the upcoming Asset Quality Review and related stress tests for euro area banks in the 1st half of 2014. If the tests reveal capital adequacy shortfalls on a European level this will most likely cause credit flows to decline further or lending costs to increase.

Because of the squeeze on traditional financing from banks, ship-owners are turning to alternative sources of financing, such as bonds, private equity, and the international money markets. It is notable that 50% of listed shipping companies on the two largest (in terms of capitalization) stock markets in the world -- the NYSE and NASDAQ -- are of Greek origins.

Nevertheless, in light of developments in the freight market, mutually beneficial investment proposals for ship financing continue to emerge and attract the interest of those banks whose capital ratios and liquidity allow them to lend support.

From now on therefore, ship-owners will be focusing their attention on the following:

- The reading of the shipping business cycle should not seduce firms into investing in new ships because of low prices or availability of financing without first taking into consideration the likelihood of another shift in the equilibrium point of the freight market that could lead to higher costs for the existing fleet.
- The entry of hedge funds and private equity, which traditionally take up short-term positions into shipping is hardly consistent with investment horizons that for the shipping sector typically range from 20 to 30 years. The key feature of such investment configurations is the liquidation of the investment in the short term, which could prove to be destabilizing if the prevailing conditions are not favorable.

Through the years, the contribution of Greek shipping to maritime transport has been founded on continuity, consistency and seriousness of purpose, while it has served as the backbone of European shipping. This needs to be taken into account when assessing its role, whether on a European or national level, without bias or shortsightedness.

As a matter of course, my speech today -- and allow me again to thank you for your invitation to address an audience whose activity is truly global -- has focused both on issues of public finance as well as banking and shipping. I could hardly do otherwise.

Undoubtedly the dominant feature of the shipping business is its extroversion, and its ability to compete effectively and play a leading role on the global stage. While it may be the case that our country sank in respect of competitiveness, or saw its transparency ratings decline, or posted a substantial credibility deficit, the causes of all these shortcomings lay firmly at the feet of introvert and, accordingly, shortsighted business models.

By contrast, the spirit that inspires the Greek shipping sector, which knows precisely what crisis and adjustment entail, can be accurately summed up in the word "resilience", i.e. hope grounded in endurance and the will to succeed. It is precisely this spirit that we need in order to address and overcome the impact of the current crisis.

The broader consensus of opinions suggests that 2014 will see the emergence of a new direction for the Greek economy. And I do not mean only the indices for primary surplus or a turnaround of the recession. Rather, in line with the estimates of a large number of Greek and foreign entrepreneurs, I see the emergence of a revival of confidence -- confidence which is nevertheless accompanied by concerns that just before reaching the finishing post some unforeseen setback will undo the progress that has been made. We must ensure that the hard work and sacrifices are not thrown to the winds. I am optimistic that we can deliver to future generations the virtuous circle that we need, and moreover a virtuous circle that is not confined only to the economy.

In a word, **resilience** is the key.