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## “Do Greek Stocks Have a Place in Foreign Investor Portfolios?”

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by Nicola Facciorusso

Greek IR Awards
Capital Link

Kalispera everybody,

Madame Minister Katseli, dear Olga, dear Nicolas, Ladies & Gentlemen,

in my speech I'm going to take a brief look at the perception of the Greek capital market by international investors during this historical challenging time for the country.

I'll begin by making a few observations on what is currently denting confidence in the Greek stock exchange and then I'll go on to highlighting a few selected topics.

In the fact book of this **great** event of my good friends Olga and Nicolas Bornozis you can find my complete speech, which I am unable to read out in full due to the obvious limited time available.

All the previous Greek governments have borrowed **more** than they could ever afford to pay back. Practically Greece has lost its sovereignty as the new debt issued in the past years was good only to pay interest for the old debt and for salaries to civil servants.

The genuine austerity measures introduced by the Government represent severe handicaps for the Greek economy and cannot support either the industrial growth or consumer spending in the country, therefore can hardly be able to improve the devastating condition of the Greek economy.

Almost ¾ of the Greek labor force earn an average monthly salary of €800 to €1,200. Basically austerity reforms hit the pockets of the man on the street, and in regards to Greece it cannot provide an income, needed to reduce substantially the debt of €300bn and to sustain the country's economy.

Despite the potential attractive fundamentals about a long and prosperous future of the country, **if** a necessary pivotal today still missed friendly tax reform will come, macro visibility remains low and volatility in the Greek capital market should continue.



How can a country be able to reduce debt by a collapsing growth of the economy? We learnt it at the school and in the capital markets it is universally known that when the economy grows higher than the yields of its own sovereign bonds, it is favorable to extend debt or to pay back part of it from the growth, but vice versa, as in the case of Greece currently, this cannot be possible.

Therefore, international investors are still reluctant to invest in Greek stocks, even if these are of well-managed and particularly favorable valued companies.

In 2008 a small economy like Iceland (GDP of €12bn versus Greece's €339bn) was severely hitting the worldwide financial system and received $11bn bailout from the IMF and the EU, who both denied this year any willingness to help Greece. These same institutions handled the Hellenic debt too awkwardly as it would not be their business, but of the Greeks only.

With only 2.1 percent of the European Union's GDP, Greece represents a small part of the economy of one of the major currencies in the world, however the Greek debt problem is a much-too serious problem for the whole EU and the ECB, as well for the IMF, to be ignored, as they did since begin of the year.

Under such historical dramatic circumstances the policy in Athens to do not see any urgency to ask formally for the unavoidable assistance from Brussels, Frankfurt and Washington provided rooms to speculators to bet against the Euro and caused higher refinancing costs to the own sovereign debt. The ECB and the EU council knew too well that a monetary union without supporting the restructuring of the Greek debt is mathematically **no longer realistic**. They have **fully** failed to calm any natural irrationality and well known speculative ambiguity of the market. Both were not quick with dealing with the facts and did not put a stop to **unnecessary** daily comments about Greece, as high senior bankers in Germany unfortunately also did again these last days.

The Greek problem proves once again how deteriorated and inefficient are capital markets and their financial instruments worldwide. Hedge Funds, Credit Default Swaps, Short Selling and so on and so fort: actually a truly authorized amok run and nothing happens to stop this anarchy. The scruffy structure of financial markets, the incomprehensible behavior of market players and the instrumentalization of the universally known Greek debt as such, aggravated the deterioration of the Euro and of capital markets dramatically, induced by the foreseeable no longer manageable financial situation in Athens .

As one of the key measures to substantially improve the critical performance of the debt ratio, the privatization of the most State's assets has to be a priority: the Government needs urgently to simultaneously privatise the most assets and reduce the listed holdings. According to Greek  sources the valuation of the State's owned assets is supposed to be more than €120bn (what can reduce the debt of €300bn substantially). The privatization's most strategic effect is the cost reduction for the State in terms of salaries and company related expenses.

This is **very very** important to the international investors, more than the too much overrated role of ratings agencies, who mostly give to short sellers the opportunity to take advantage of accurate, but questionable downgrades.

Speaking about developments of capital markets, Romania, Argentina, Turkey and Hungary had an interesting market reaction as they received IMF support for debt situations as in Greece today. Before the announcement of the support their capital markets were respectively under pressure; after the IMF support they rebounded, outperforming benchmarks and gaining pre-IMF levels few months later. In Athens the incognito of a sustainable performance of the domestic capital market remains linked to the ongoing recession.

Last but not least, the strategic geographical position of Greece in the European Mediterranean area represents a natural gateway to a market characterised by a very competitive structure of labour costs and industrial production sites.

According to the 2009 GDP list of the CIA World Factbook, the major commercial partners of Greece in the Southern East European market, Eastern Europe and the Mediterranean represented an impressive area with combined GDP of US$1.6 trillion, ranking worldwide #8 with a share of 2.8% of total worldwide GDP, ranking ahead of Brazil, Spain, Russia, Canada, India and ahead of the rich oil countries in the Middle East.

The unique advantages of this natural market still go unnoticed by the Western industrial players and have to be institutionally highlighted more efficiently in the context of a very promising economic area, where Greece should improve its role as a key player, with know-how and quality standards to get the job done.

But back to Greece: Because of the country's historical crisis, it is time now to take historical decisions in Syntagma Square and save the future of the country.

Foreign investors and capital markets appreciate big coalitions: both leading parties in Greece need to navigate **TOGETHER** the country out of the crisis in a moment when unity is mandatory, along with the help of technocrats from the private sector who have experience in restructuring and running companies, therefore able to participate in the cabinet as member of the parliament.

Basically this historical nightmare is a chance for Greece to implement necessary **historical** still missed reforms for the economy to boost GDP growth of the country, because – as we learnt in the school and we know by experience in the capital market – only with growth and consumer spending you can be able to generate income, prosperity and pay back debt, therefore provide key criteria also for a sustainable strong performance of the domestic capital market, which should represents the signboard of the country abroad.

As when thousands of years ago, Greece has now the opportunity to become an example again of making modern politics for the entire world.

Ladies and Gentlemen, thank you very much for your attention at this awards ceremony, by personal experience a clear efficient and practical tool in supporting the perception of the Greek capital market by foreign investors abroad.

Please feel free to discuss with me further perspectives after this presentation.

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