

GREECE: NOW COMES THE HARD PART, MAY 2016

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by Georgios A. Savvakis *

Difficulties for the Greek asset prices start just now as the first review of the third Greek program came to an end, even with some remarks and minor issues still open. Having rallied hefty since February the 11th, discounting many positive developments, seems like it's time to take some rest and reconsider the facts and the outlook.

Eurogroup's results is no secret that lack any strong positive surprise for the country, especially on the debt issue, which could be the catalyst for the equity and the bond markets to continue strong. The target of killing the beast and set it once and for all, holy-grail for the past and the current government, the rating agencies and the investment community as a whole, once again was postponed.

The first reading is that the agreement is undoubtedly positive for short-term liquidity but for the debt relief is certainly negative. The most important negative element is the reluctance of the European creditors to make a firmer commitment to decrease the Greek debt. The rest was more or less as expected.

The main points are:

- ❖ The liquidity injection is an important development since it removes completely the risk of "accidents" till the end of the year while a significant part of the money will be given to the Greek government to repay its arrears. Tranche will give some space to the economy to breathe, although part of the air will be clipped by the austerity measurements recently adopted.
- ❖ The decision allows the ECB to restore immediately, probably on the 2nd of June, the waiver for the Greek bonds, thereby providing cheaper source of funding for Greek banks. It also entitles the ECB to revise its policy on

- haircuts for Greek collateral, improving further the prospects of the profitability of the banks this year.
- ❖ The other positive aspect is that the threshold for gross financing requirements over the medium term remains 15%. Conversely, however, in the long term, the bar rises to 20%, this being an example of the discontent of Europeans to maintain the levels desired by the IMF on long-term rates of ESM loans and the inability of the fund to push effectively towards their direction for a complete solution.
 - ❖ The need for reassessment of the debt sustainability analysis is likely to delay the ECB's decision to include the Greek bonds in its QE program, which according to our moderate estimates could amount to 2.9 bn euros.
 - ❖ The key decisions are postponed again until mid-2018, after German and French elections, which is a continuation of the existing political approach of «extend and pretend». The decision is partly an IMF defeat because it required direct and more substantive unconditional debt relief for Greece. The IMF should review its decision to participate in the program before the end of 2016, remaining on the sidelines for now.
 - ❖ Clearly, failure to include quantitative data and targets on debt reduction is a negative factor, expect a targeted re-profiling of 131 bn. euros of EFSF loans without incurring extra charges to the EU member states and the use of 20 bn euros of ESM funds inherited from the Greek banks. The agreement does address the obvious problem of when and how Greece will get market access again.
 - ❖ Quite the opposite and in continuity with the previous one, any other action on debt relief will be subject to political approval by the Eurogroup and be subject to "full implementation of the program."
 - ❖ Release of the European Central Banks profits through ANFA and SMP programs –already achieved in 2013/14 - also postponed to 2018 depriving liquidity from the domestic system.

All in all we did expect a better outcome on the debt issue and some more decisive approach from the IMF and the Europeans, but we were wrong.

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VRS is an independent equity research firm based in Athens, Greece.

NOTES

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