KATHIMERINI BUSINESS & FINANCE
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ATHENS STOCK EXCHANGE -2.25% GENERAL INDEX 1,062.00

EURO - DOLLAR 1.4191

Rehn rebukes impatient markets

Commissioner says bailout plan will be ready within weeks and praises Athens's efforts in the process

European Commissioner Olli Rehn asked markets for some breathing room of a few "weeks" as Brussels tries to put into place measures to stem contagion of a debt crisis across the eurozone, while also praising Athens's austerity efforts.

The Economic and Monetary Affairs Commissioner said that the reaction of the markets to a European plan thrashed out during a summit on July 21, was not the one anticipated as did not give enough time for progress to show.

"Such a comprehensive, detailed and technically complex agreement requires time to implement. But there were expectations in financial markets that all elements could be implemented immediately. It would have been fantastic if the agreement had been fully operational on 22 July," Rehn said. "But this was of course impossible."

He added that officials "are working night and day to put flesh on the bones" of the agreement struck at a summit called over fears that the Greek debt crisis could spill over into Spain and Italy. He said he expects the process to be completed within the next few weeks.

If national parliaments ratify the changes as swiftly as hoped, the euro's new financial armor, including the newly created European Financial Stability Facility, should be in place "by early September."

"This is the necessary and legitimate price to pay for living in democracies," he added.

Referring to the participation of the private sector in the plan, he said the Greek government is acting correctly so that the relevant negotiations can be completed on time.

"Greece has made a huge effort," Rehn conceded, stressing that the EFSF pot needs a top-up, though the refuses "to enter into the numbers game at this stage." The temporary fund will be replaced in January 2013 by a 750-billion-euro European Stability Mechanism (ESM). "To be effective, the EFSF needs to be credible and respected by the markets. Thus it will need to be continuously assessed," Rehn said.

"The political will of Europe to defend the euro should not be underestimated," sources quoted the commissioner as saying, adding that he did not expect the crisis to spill over to Spain and Italy, "as their fundamentals did not change overnight."

ANA

***Gas stations** on the Dodecanese, Cyclades and Chios have been imposed a ceiling on the price of unleaded gasoline as of this morning. The Development Ministry said yesterday that the ceiling stands at 1.704 euros per liter for the Dodecanese, 1.705 euros/l for the Cyclades and 1.719 euros/l for Chios, and will apply for as long as deemed necessary. The decision, which drew the wrath of national federation of fuel station owners as being 'unacceptable and selective,' was based on the opinion of the Regulatory Authority for Energy that found retail prices on those islands to be unjustiflably high even though they have a reduced value-added tax, at 16 percent, against 23 percent on the mainland.*

Athens stocks slide continues in line with global bourses

Stocks declined for a 10th day in a row yesterday, in line with the trend across global markets and amid fresh worries concerning the eurozone debt crisis.

The Athens Exchange (ATHEX) general index ended at 1,062 points, declining by 2.25 percent from Thursday's closing at 1,086.43 points. The blue chip FTSE/ATHEX 20 index dipped 2.35 percent to end at 459.09 points. Mid-caps fared worse as their index tumbled by 3.95 percent. In the last month the main index has lost 17.4 percent of its value.

Duty Free Shops slid by 10.59 percent, Viohalco dropped by 7.54 percent and Marfin Popular Bank fell by 6.98 percent. The only blue chip to buck the trend was Coca-Cola HBC, with a 0.91 percent rise.

In total, 24 stocks moved up, 107 went down and 40 remained unchanged. Turnover came to 87.8 million euros.

New tax system in the pipeline

The government aims to unveil a new tax system by the end of next month, the Finance Ministry announced yesterday, while July data has given it reason to hope budget targets can be met.

The new system will include measures to curb tax evasion and create a more just levy and collection plan, according to the presentation, titled Strategic Greek Tax Management Plan 2011-2015, by the ministry.

Alternate Minister Pantelis Economou stated that "July revenues exceed expectations by 3.16 percent and that was without additional measures last month. If we continue like that when we discuss the tax issues in the fall we will be within the targets of the midterm fiscal plan."

Economou and the rest of the government were satisfied to see inflation drop to 2.4 percent in July, from 3.3 percent in June, according to data released yesterday by the Hellenic Statistical Authority (ELSTAT). The decline was attributed to the summer sales and the decline in pharmaceuticals' prices.

Greek companies not fleeing north

Just 600 to 650 of the 4,100 companies registered in Bulgaria as being fully Greek or including Greek participation are in fact active, according to data recently released by the Bureau for Economic and Commercial Affairs of the Greek Embassy in Sofia.

In its report, which was submitted to Parliament last week by Deputy Development Minister Sokratis Xynidis, the bureau has found that "many – possibly most – of the recently founded companies listed were based in Bulgaria for the sole purpose of a real estate or automobile purchase and not necessarily in order to transfer their production activity from Greece."

FOCUS

The report submitted by Xynidis – in response to a question on the subject by Ilias Polatidis, the Popular Orthodox Rally (LAOS) deputy for Serres in northern Greece – says that according to Bulgaria's national revenue service, the number of Greek businesses that filed a tax return last year stood at 2,072, three times higher than in 2006. According to the same report, in the first half of 2011 there were 800 new Greek businesses registered, while this number is expected to double by the end of the year.

The Bulgarian authorities believe that this increase marks a trend in investment in Bulgaria "because of the low cost of labor, low taxation, cheaper rent and transportation, as well as the stable macroeconomic environment."

In contrast, Xynidis argued that the only real incentives for investing in Bulgaria are low wages and insurance payments, as corporate tax in Bulgaria is just 4 percent below Greece at 20 percent. "We cannot turn into Bulgaria nor into the Former Yugoslav Republic of Macedonia with a minimum wage of 123 euros a month and around 400 euros in the public sector," Xynidis told Parliament, adding that Greece needs a new model for the development and support of Greek enterprises in order to stem the flow of migration to neighboring countries.

For his part, Polatidis noted that industrial migration has created unemployment of 35 percent in the northern Greece prefecture of Serres, stressing that the hardest-hit sectors are clothing and footwear.

HRT

***The Greek Embassy** in the Bulgarian capital, Sofia, issued a report suggesting that most Greek companies there are registered for the sole purpose of a real estate or automobile purchase.*

Exports to China keep increasing while imports fall

The rebound of Greek exports to China continued in the first five months of 2011, contrary to the amount of Chinese exports to Greece, according to a document by the Financial and Trade Affairs agency of the Greek Embassy in Beijing.

The flow of trade between the two countries remains on a completely different level in absolute prices, as the Greek trade deficit with China closed at 2.7 billion euros in end-2010, while it has already reached 974 million euros in the year to May.

The first five months of 2011 saw a considerable increase from the same period last year in all food categories, with dairy products exported to China increasing by 55.5 percent, olive oil by 87.3 percent, other food products by over 170 percent and drinks by a spectacular 417 percent, although with the exception of olive oil, no category has achieved a turnover of more than 1 million euros as of yet.

There is also a steady rising course for the categories of marble, mining products and plastic, exceeding 50 percent.

On the other hand, the embassy's report showed a steep decline in the export of unprocessed leather (73.3 percent) and fur skins (32.6 percent).

WHAT'S ON

MUSIC

Onar
> Rhodes
> August 6
Greek pop act Onar will be performing work from its latest album at Tsambikas Beach on Rhodes on the evening of Saturday, August 6, as part of the 1st Sunmoon Camp.

EXHIBITION

Pavlos Habidis
> Aegina
> To August 14
Artist Pavlos Habidis takes a good look at the Saronic island of Aegina through his "Aegina Notebooks", a series of works depicting island life. The artist is known for his signature take on cities and places and the show runs to August 14. The For opening hours contact the museum.
Aegina Historic and Folk Museum, 16 Spyrou Rodi, Aegina Town, tel 22970.26401 & 22970.28232

THEATER

Herakles
> Epidaurus
> August 6
The Greek Festival presents Euripides' "Herakles" at the Ancient Theater of Epidaurus on Saturday, August 6. The play is directed by Michail Marmarinos and features a cast led by Thodoris Atheridis, Karyofilia Karabeti, Theodora Tzimou, Minas Hadjisavvas and Yiannis Vogiatzis. The performance starts at 9 p.m. For more information on tickets and getting there, visit www.greekfestival.gr.
Epidaurus Ancient Theater, Epidaurus, tel 27530.22026

FILM

Cinedoc
> Antiparos
> To August 7
Four days of documentaries make up the Cinedoc Festival which takes place at the Cycladic island of Antiparos to August 7. The event features screenings of noted documentaries, while at the end of each evening viewers will be invited to sample local delicacies and wines. Entrance costs 6 euros and screenings take place at 9 p.m. For more information call 210.721.1071 or visit www.cinedoc.gr.
Oliaros Cinema, Antiparos

FESTIVAL

Less Is More
> Naxos
> To September
The 11th Naxos Festival takes place at the Bazeos Tower on the Cycladic island with events running to September. Among the festival's highlights is "Drawer XXII: Decomposed Pictures," an exhibition of images stemming from the Benaki Museum photographic archives which were reconstructed on the occasion of the show. The festival also includes concerts, theater performances and more. For more on the events, visit www.bazeostower.gr.
Bazeos Tower, 12th kilometer Chora-Agiassos, tel 22850.31402

BAZAAR

Books
> Athens
> To August 12
Akritas Editions are organizing a summer sale of books at its bookstore in Athens. Running to August 12, the sale includes children's books and novels at considerably reduced prices.
Akritas Editions Bookstore, 5 Pesmatzoglou, Stoa tou Vivliou, tel 210.324.7678

PARTY

Nestorio River Party
> Kastoria
> To August 7
One of the country's biggest festivals outside of Athens, the 33rd River Party at Nestorio in Kastoria on the banks of Aliakmonas, will be featuring live music and a number of parallel events and activities through Sunday, August 7. For program and ticket details, log on to www.ticketservices gr.
Nestorio River Party, tel 210.362.9246

IN BRIEF

S&B first-half profit climbs on higher steel production

S&B Industrial Minerals SA, a Greek company, said yesterday that first-half profit almost doubled as global demand for steel and industrial production in Europe and the US boosted sales. Net income climbed to 10.4 million euros from 5.6 million euros in the same period a year earlier, according to an Athens bourse filing. Sales rose 13 percent to 229.8 million euros. The company manufactures and trades industrial minerals and ores for the steel, metallurgy and construction markets. About 60 percent of S&B's operations relate to steel production, which has "performed very well" in the last six months, Chief Executive Officer Kriton Anavlavis said in a telephone interview. "We've come out of a sequence of very positive quarters but we are aware of what might come and we are ready to address any adverse impact," he said. "We continuously look at our costs. What concerns us now is the raw material increases." Such increases can be passed on to customers, the CEO said. "I believe we are in a good position to continue doing that even in an adverse environment," Anavlavis said.
(Bloomberg)

Turkey renews threats on Cyprus gas exploitation

ANKARA (AP) – Turkey yesterday threatened to show the "necessary response" to any move by Cyprus to start exploratory drilling for offshore gas deposits. Foreign Minister Ahmet Davutoglu said Cyprus had no right to go ahead with efforts to search for gas before a settlement to reunify the divided island will be reached. "No one has the right to do anything over the island's natural resources ... before the Cyprus issue is resolved," Davutoglu told reporters. There must be an administration representing both parts of the island, he insisted. "Turkey would show the necessary response if further steps are considered," Davutoglu said. He did not specify what Turkey's response would be. The Cypriot government aims to start exploratory offshore drilling at the end of the year. Cyprus's Commerce Ministry energy service chief Solon Kassinis this week suggested that drilling could begin in October, adding that it would take a couple of months before officials have a clear picture of the gas reserves size. Turkey has long opposed the Greek Cypriot government's search for offshore gas saying it disregards Turkish Cypriots' rights. It also believes the search would damage long-running talks aimed at reunification. The Cypriot government has said Turkish Cypriots could share the potential bounty once a peace accord is signed.

Diana Shipping. Diana Shipping Inc, a Greek owner of ships that move commodities including iron ore and coal, said second-quarter profit fell 18 percent as shipping rates declined. Net income dropped to $27.7 million, or 34 cents a share, from $33.9 million, or 42 cents a share, a year earlier, the Athens-based company said in a statement. Diana was expected to earn 35 cents a share, according to the average of five analyst estimates compiled by Bloomberg. Sales fell to $64.6 million from $68.7 million. Diana kept its fleet under long-term time-charter contracts, a strategy that protected it from declines in the spot, or single-voyage, market. "Despite a moderate miss, this is solid profitability," said Urs Dur, an analyst at Lazard Capital Markets Ltd, who has a "buy" rating on the stock. The profit number is "excellent given dry bulk freight market conditions," he said.
(Bloomberg)

Serbian inflation. Serbia's central bank expects inflation to slow, unaffected by increased volatility in the country's currency, paving the way for future interest rate cuts, Vice Governor Bojan Markovic said yesterday. The change in the level of the dinar's exchange rate against the euro affects consumer prices more than its daily volatility, Markovic said in Belgrade. Policymakers expect annual price growth to slow to less than 10 percent by the end of 2011 and to within next year's target of 4 percent plus or minus 1.5 percent by mid-2012 from 12.7 percent in June.
(Bloomberg)

Νέα μορφή πρόγραμμα
21/7/2011

Eurozone deal and what it means for Greece

Economists speak to Kathimerini English Edition about the implications of the agreement for debt, growth and future prospects

By Nick Malkoutzis
Kathimerini English Edition

The European Commission announced this week that it's prepared to provide 95 percent of the funding for structural projects in Greece. Members of an EC task force are due to arrive in Athens later this month to oversee the implementation of reforms. Ministers, meanwhile, are trying to put together legislation

Analysis

that will convince Greece's lenders that it is taking its role seriously.

In one way or another, these actions all stem from the deal agreed between the eurozone and Greece in Brussels last month. Even though the agreement has set in motion such a wide-ranging process, there is still great uncertainty about what the agreement on July 21 actually means for all those involved and how it will benefit Greeks. There is a sense that Greece and its eurozone partners are trying to navigate through a storm with a patchwork map and some untested instruments to help them.

"Greece mostly gains time because it has now been completely excluded from financial markets for the foreseeable future," Costas Lapavitsas, a professor of economics at the University of London's School of Oriental and African Studies, told Kathimerini English Edition. "But time alone does not fix things."

Despite all the conjecture, though, there were certain tangible aspects to the 159-billion-euro Brussels agreement. Firstly, the eurozone is willing to continue providing Greece with the loans it needs for as long as it is locked out of the markets. This, of course, means that Athens has to continue to meet the fiscal targets set by its lenders. Although there is no guarantee that this will happen between now and mid-2014, the give-and-take process was established by the first loan agreement, or Memorandum.

"Greece gains time, a somewhat eased debt burden and, perhaps most importantly, the political signal that other EU members recognize that too much was being asked of Greece," says Iain Begg, a professorial Research Fellow at the European Institute of the London School of Economics and Political Science.

The positives for Greece are that the new loans, which amount to 109 billion euros, will come with lower interest. The first package began with a rate of about 6 percent but the new money will be borrowed with interest of 3.5 percent. The repayment period will also be longer: 15 to 30 years, rather than 7.5. But that's round about where the givens end and the variables begin.

Seeing the crisis grip Spain and Italy, whose borrowing costs reach record level this week, European Commission President Jose Manuel Barroso suggested last Thursday that the July 21 package had been undermined by "undisciplined communication, complexity and incompleteness." It seems Greece will find it difficult to dispel these shortcomings.

A number of question marks hang over the involvement of the private sector in the second rescue package for Greece. Finance Minister Evangelos Venizelos hopes to have ready by the middle of this month Athens's proposals for private sector bondholders, who may be willing to contribute up to 50 billion euros. Banks are likely to be offered four options – three bond exchanges and a rollover into debt with maturities of up to 30 years – alongside a scheme to buy back Greek government bonds. The process is set to lead to banks taking a 21 percent loss on bonds maturing by 2020 but their participation will be on a voluntary basis.

"The Achilles' heel [of the package] is the voluntary nature of the exchange options and the fact that it has to be negotiated," says Jens Bastian, a senior economic research fellow at Athens-based think tank the Hellenic Foundation for European & Foreign Policy (ELIAMEP). "Both elements imply that you have the option to refuse or withdraw and to drive a hard bargain."

Many experts believe that lenders are getting off far too lightly in comparison to taxpayers. "The summit should have made up its mind to go for a much more drastic haircut and should have made banks' participation really binding," Ansgar Belke, an economics professor at the University of Duisburg-Essen and a research director at the Berlin-based German Institute for Economic Research, told Kathimerini English Edition.

Upside for banks

In fact, he suggests that banks are getting a much better deal than they might have expected. "The market value of Greek bonds is currently about 50 percent below their nominal value, whereas the effective haircut only amounts to 21 percent. The banks have already written off losses of this magnitude in their trading and even their banking books. They are thus able to conduct even upward value adjustments as a consequence of the summit agreement."

Furthermore, of the 109 billion euros Greece receives, 20 billion will have to be invested in top-rated AAA bonds to be used as collateral in the swap deal with lenders. Another 20 billion euros will be used to recapitalize Greek banks, which are the biggest holders of Greece's sovereign debt. All in all, this represents a nice piece of business for the lenders, argues Lapavitsas.

"Banks got off exceptionally lightly. The deal was indeed structured by banks and hence they minimized the costs to themselves. They have also gained new credit-enhanced securities, secured liquidity and obtained guaranteed of recapitalization.

The European Union and the Greek flags fly side-by-side with the Parthenon in the background, in a file photo. Uncertainty continues to loom over what the midterm agreement with the EU and the IMF of July 21 will behold for debt-ridden country. AFP

"There appears to be no concept of moral hazard when it comes to lenders, among European policymakers at least."

The contentious involvement of the private sector feeds into another controversial aspect of the Greek rescue package, which is that – in the short term at least – it will add to the country's debt mountain. As several analyses have shown over the past few days, although the bond swap is designed to reduce Greece's debt, its effect will not be felt for some time.

Charles Forelle of the Wall Street Journal explains it as follows: "The bond exchange will swap 135 billion euros of old Greek debt for 121.5 billion in new debt, cutting the total debt stock by 13.5 billion. But first, Greece must borrow money to fund the purchase of collateral that backs the newly exchanged bonds. That new borrowing more than offsets the savings. In all, we estimate that the exchange means the debt stock will rise by 18 billion euros by the end of 2011.

"Of course, Greece will have an offsetting financial asset (the collateral) but the rules used by the EU to compute debt ratios rest on a definition of gross debt, not debt reduced by the value of assets, financial or otherwise. And, decades hence, Greece will get to liquidate the financial asset to repay debt, with a corresponding drop in the debt stock."

Forelle's calculations mean that Greece could be looking at a debt of 370.6 billion euros, or 164.7 percent of GDP, next year. Reuters Breakingviews columnist Hugo Dixon estimates that the bond swap will lead to Greece's borrowing increasing by 31 billion euros, leading to its debt reaching a staggering 179 percent of GDP. Given that most economists agree that the debt-to-GDP ratio needs to be below 90 percent to be sustainable, it is clear that Greece will face an even more Herculean task than it envisaged.

Lapavitsas describes the process of burdening Greece with more debt as an "absurd thing to do." Belke says the absence of a bolder move to reduce Greece's debt means that a further assistance package for Athens is inevitable.

More contagion risk

"Although parts of the agreement point in the right direction, the extent of the concrete measures decided is disappointing," he said. "They do not have the potential to put an end to the debt crisis. Instead, the risk of contagion of other countries will increase. This is because the much too low haircut sends the message to the market participants that an even more significant restructuring, if not a more gigantic transfer from euro-area countries to Greece, will be necessary and will take place in the near future."

The German economist believes that the transformation of the European Financial Stability Facility (EFSF) into the more potent European Stability Mechanism in two years' time will lead to the eurozone taking another look at what it can do with Greek debt.

"Presumably, we will see an even more substantial debt restructuring after 2013 when the EFSF will be substituted by the ESM and the German elections will have taken place."

Bastian agrees that given the current conditions, which include an economy that shrank by 4.5 percent last year, it is almost certain that further action will have to be taken to reduce Greece's debt. "In my view these debt exchange, rollover and debt buyback options are a precursor for a second restructuring arrangement two or three years down the road, if and when debt sustainability does not prevail because of lacking GDP growth, continued revenue collection problems and high unemployment," he said.

One part of the Brussels package seeks to address the growth issue through what eurozone leaders referred to in their statement as "a comprehensive strategy for growth and investment in Greece" or a new Marshall Plan, similar to the US-backed aid program that kicked in after the World War II.

"I would rather call it a Hercules Plan," said Bastian. "It is significant for two reasons. Firstly, it acknowledges that Greece needs an investment perspective that was sorely missing from the first Memorandum with the troika. Secondly, it puts the focus on Europe's shared responsibility to confront Greece's deep underlying administrative and regulatory deficits."

The EC confirmed this week that it will increase its share in the co-financing of structural projects in Greece from 73 percent to 95 percent as part of the effort to "relaunch the Greek economy." Greece has so far only claimed some 5 billion euros of 20.2 billion available, mostly for infrastructure works, between 2007 and 2013 through the EU's National Strategic Reference Framework Scheme. The slow pace is partly due to the bureaucratic holdups in granting approval for funded projects. More than 4,700 schemes are currently awaiting approval, according to the government.

This is one of the reasons for the Commission sending its own task force – to be headed by Horst Reichenbach, vice president of the European Bank for Reconstruction and Development – to Greece to oversee the reforms the government has promised.

Overall policy shift

However, Lapavitsas says that unless overall economic policy – focused on public spending cuts, tax hikes and reducing salaries – in Greece changes, then the situation is unlikely to improve.

"There has been no real change with regard to austerity and raising the competitiveness of the Greek economy through internal devaluation," he said. "This is the major weakness of EU policy."

According to Belke, for the investment program to have any positive effect, the underlying structural conditions, barriers to growth, will have to be overcome first.

"The starting point of any consideration of a Marshall Plan-like investment boost in Greece should be the diagnosis that Greece does not suffer from a lack of infrastructure but from private, public and foreign over-indebtedness and a huge lack of competitiveness. What is more, conditions of efficient investment have to be improved before investment itself is given a strong boost."

Belke says it is a fallacy that the countries, including Greece, Sweden and the UK, which benefited from US funding after the World War II, saw quicker economic recovery than Germany and Italy. "Much more important for the German way out of the mess after WWII was deregulation of price controls under Ludwig Erhard," he said. "This pattern again emphasizes the importance of improving the institutional environment before one should go for a boost of investment.

"A classical infrastructure program as was conducted in East Germany two decades ago is simply not necessary in Greece. More promising is a transfer of technical assistance in areas such as privatization schemes and efficiency programs for the public administration – such as tax offices and the land registry – and administration of EU funds."

Belke suggests that among those who stand to benefit most from a new Marshall Plan are German firms with an eye on making strategic investments in Greece.

"German firms are interested in a bridgehead partner country with competitive wages and a sound institutional infrastructure for trade with the Far East via the Suez Canal," he said.

All of which brings us back to the original question of how the deal agreed in Brussels last month will benefit Greece and its people. This, it seems, is an issue shrouded in uncertainty, a feeling that Greece and the eurozone are rapidly becoming used to.