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Greece: Economic recovery is overdue

- **Greece has implemented reforms**
- **Greece has rebalanced its twin deficit**
- **Greece improved competitiveness**
- **Strong growth in export and tourism**
- **Significant upside for equities, bonds and house prices**

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Carsten Hesse
European Economist
+44 20 3753 3001
carsten.hesse@berenberg.com

Five reasons why Greece will recover:
(1) Greece implemented lots of reforms (part 1)

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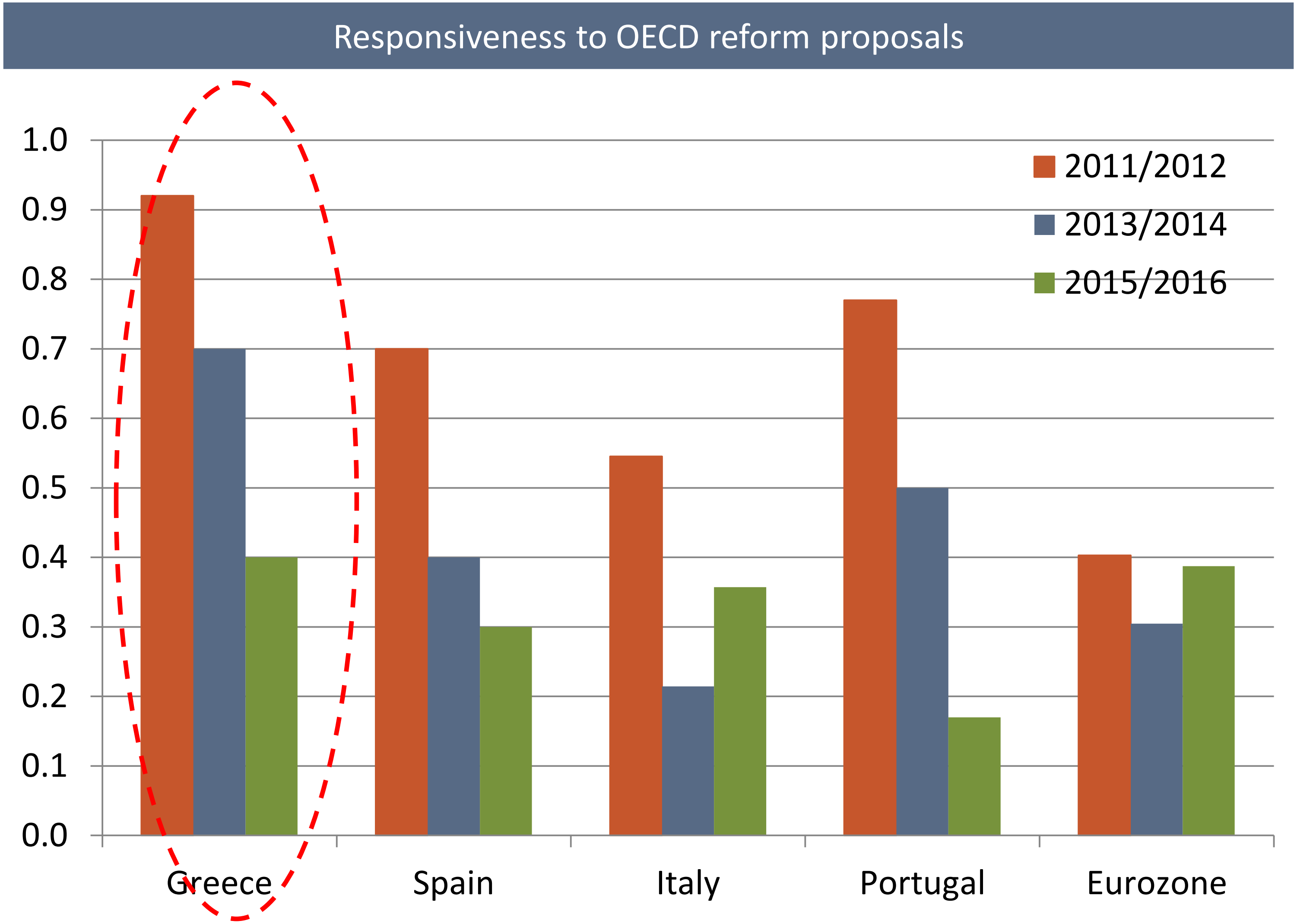
Cumulative adjustment progress since 2009

Rank			Total score			External adjustment			Fiscal adjustment			Labour cost adj.			Reform drive		
2016	2015	Country	2016	*Change*	2015	2016	*Change*	2015	2016	*Change*	2015	2016	*Change*	2015	2016	*Change*	2015
1	1	Greece	7.6	*-0.1*	7.7	7.3	*-0.1*	7.4	7.7	*0.2*	7.5	7.5	*-0.7*	8.2	7.7	*0.0*	7.7
2	2	Ireland	6.9	*-0.1*	7.0	6.5	*-0.3*	6.8	5.9	*-0.3*	6.3	9.1	*0.0*	9.1	6.1	*0.1*	6.0
3	3	Latvia	6.3	*-0.5*	6.8	9.3	*-0.1*	9.5	5.8	*0.1*	5.7	3.8	*-1.4*	5.2	n.a.	*n.a.*	n.a.
4	5	Spain	6.0	*-0.1*	6.1	7.3	*0.1*	7.2	5.5	*-0.1*	5.6	5.6	*0.2*	5.4	5.6	*-0.9*	6.5
5	4	Romania	5.9	*-0.3*	6.3	6.9	*-0.3*	7.2	5.9	*-0.2*	6.1	5.0	*-0.5*	5.5	n.a.	*n.a.*	n.a.
6	7	Portugal	5.6	*-0.1*	5.6	6.3	*0.2*	6.1	4.9	*0.5*	4.4	5.6	*-0.2*	5.8	5.4	*-0.8*	6.3
7	6	Lithuania	5.4	*-0.6*	6.1	7.0	*-0.6*	7.6	6.8	*0.2*	6.6	2.5	*-1.5*	4.0	n.a.	*n.a.*	n.a.
8	9	Estonia	5.3	*-0.1*	5.4	7.1	*-0.3*	7.4	3.7	*0.0*	3.7	4.3	*-0.7*	4.9	6.1	*0.5*	5.6
9	8	Cyprus	5.1	*-0.4*	5.5	2.8	*-0.9*	3.7	5.3	*-0.3*	5.6	7.1	*0.0*	7.1	n.a.	*n.a.*	n.a.
10	14	Malta	5.0	*0.6*	4.4	6.8	*0.1*	6.7	4.6	*1.7*	3.0	3.6	*0.0*	3.6	n.a.	*n.a.*	n.a.
11	10	Slovenia	4.9	*-0.2*	5.1	7.4	*0.4*	7.1	5.9	*0.5*	5.4	4.0	*-0.5*	4.4	2.3	*-1.1*	3.4
12	11	Slovakia	4.8	*0.2*	4.6	7.1	*0.0*	7.1	5.6	*1.2*	4.3	2.2	*-0.4*	2.6	4.3	*0.1*	4.3
13	12	Croatia	4.8	*0.2*	4.6	6.2	*0.1*	6.0	2.9	*0.1*	2.8	5.2	*0.4*	4.9	n.a.	*n.a.*	n.a.
14	20	Bulgaria	4.4	*0.6*	3.8	7.9	*-0.2*	8.1	5.0	*2.1*	2.9	0.3	*0.0*	0.3	n.a.	*n.a.*	n.a.
15	16	Czech Republic	4.3	*0.0*	4.3	6.3	*0.4*	5.9	5.3	*0.9*	4.4	1.4	*-0.9*	2.2	4.1	*-0.6*	4.6
16	13	Hungary	4.1	*-0.5*	4.5	6.7	*-0.3*	7.0	3.7	*0.6*	3.1	2.4	*-1.3*	3.7	3.4	*-0.9*	4.2
17	15	Poland	4.1	*-0.3*	4.4	5.2	*-0.2*	5.4	5.7	*0.1*	5.6	0.8	*-0.4*	1.2	4.5	*-0.8*	5.3
18	21	Netherlands	3.9	*0.4*	3.6	5.5	*0.3*	5.2	4.3	*0.8*	3.5	2.3	*-0.1*	2.4	3.6	*0.5*	3.1
19	18	United Kingdom	3.9	*0.1*	3.8	2.6	*0.2*	2.4	6.5	*0.5*	5.9	2.4	*-0.4*	2.9	4.2	*0.1*	4.1
20	17	Italy	3.8	*-0.3*	4.1	4.0	*0.1*	3.9	3.6	*-0.5*	4.1	3.4	*-0.1*	3.5	4.3	*-0.6*	4.8
21	19	Luxembourg	3.7	*0.0*	3.8	4.3	*-0.1*	4.4	3.5	*-0.3*	3.8	5.6	*0.2*	5.5	1.6	*0.2*	1.4
		Euro 19	3.7	*0.1*	3.6	4.3	*0.2*	4.1	3.8	*0.0*	3.8	2.5	*-0.1*	2.6	4.2	*0.3*	3.9
22	22	Denmark	3.3	*-0.1*	3.4	3.9	*0.3*	3.6	2.7	*0.5*	2.1	3.3	*-0.6*	4.0	3.3	*-0.7*	4.0
23	24	Belgium	3.3	*0.4*	2.9	4.6	*0.2*	4.4	2.4	*0.1*	2.3	2.5	*0.4*	2.1	3.5	*0.9*	2.6
24	23	Austria	3.0	*0.1*	2.9	3.2	*0.0*	3.2	2.7	*-0.6*	3.3	0.9	*-0.1*	1.0	5.2	*0.9*	4.3
25	25	France	3.0	*0.2*	2.8	2.2	*-0.2*	2.3	3.3	*0.2*	3.2	1.6	*0.0*	1.6	4.8	*0.8*	4.0
26	26	Germany	2.5	*0.0*	2.4	3.4	*0.0*	3.4	2.7	*-0.4*	3.1	0.5	*-0.3*	0.8	3.2	*0.8*	2.4
27	27	Finland	2.4	*0.1*	2.2	1.3	*0.5*	0.9	1.7	*-0.1*	1.7	2.6	*0.2*	2.5	3.8	*-0.1*	3.9
28	28	Sweden	2.1	*-0.1*	2.2	2.3	*0.1*	2.3	2.1	*-0.1*	2.2	1.2	*0.1*	1.1	2.8	*-0.3*	3.2

Source: Berenberg Research, Lisbon council, Euro Plus Monitor: Cumulative adjustment progress, scores from 10 (best possible) to 0 (worst) . The overall score is the average of 4 sub-scores for external adjustment, fiscal repair, labour cost adjustment and structural reforms

- Berenberg + Lisbon Council track how 28 countries in the EU are adjusting on four separate criteria:
- External adjustment, fiscal repair, labour costs and structural reforms
- The results are aggregated into one indicator which sums up the cumulative adjustment progress since 2009 on a scale of 10 (best) to 0 (worst)
- Greece scores number 1 in fiscal repair + structural reforms + 2 in labour costs + top 5 in external adjustment
- The 6 bailout countries top our league

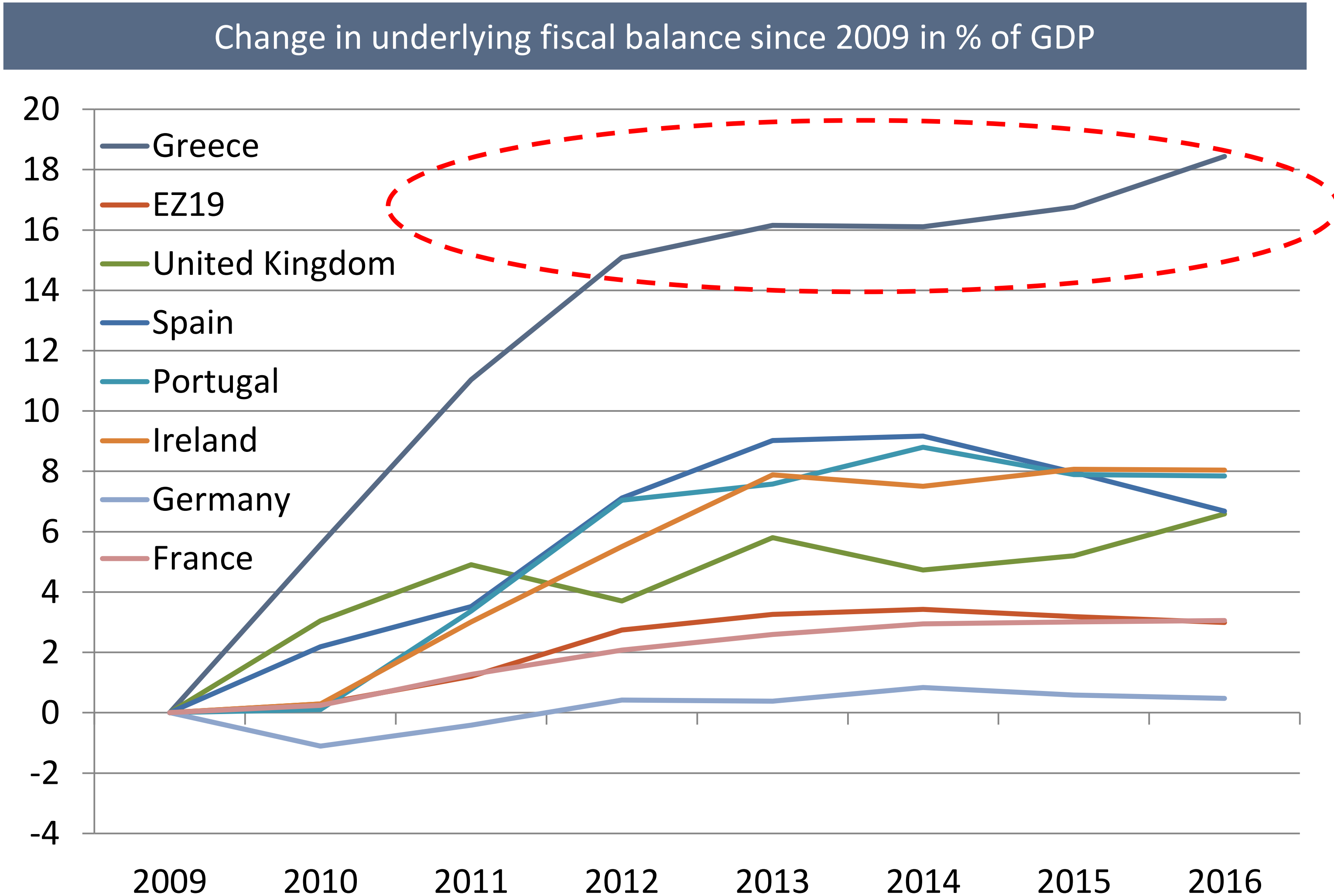
(1) Greece has implemented lots of reforms (part 2)



Source: Berenberg Research, Lisbon council, Euro Plus Monitor, OECD: Responsiveness to OECD's Going for Growth reform recommendations.

- Who is implementing pro-growth structural reforms?
- The OECD regularly makes detailed reform proposals
- Once a year the OECD checks whether countries are heeding such advice
- Under the pressure of crisis, the euro periphery including Greece reformed at a rapid pace
- The pace slackened in the 2014/15 period
- Greece was leading the pro-growth reforms in 2010-2014
- Figures for 2017-18 should show an improvement in Greece.

(2) Greece has rebalanced its twin deficit (part 1)

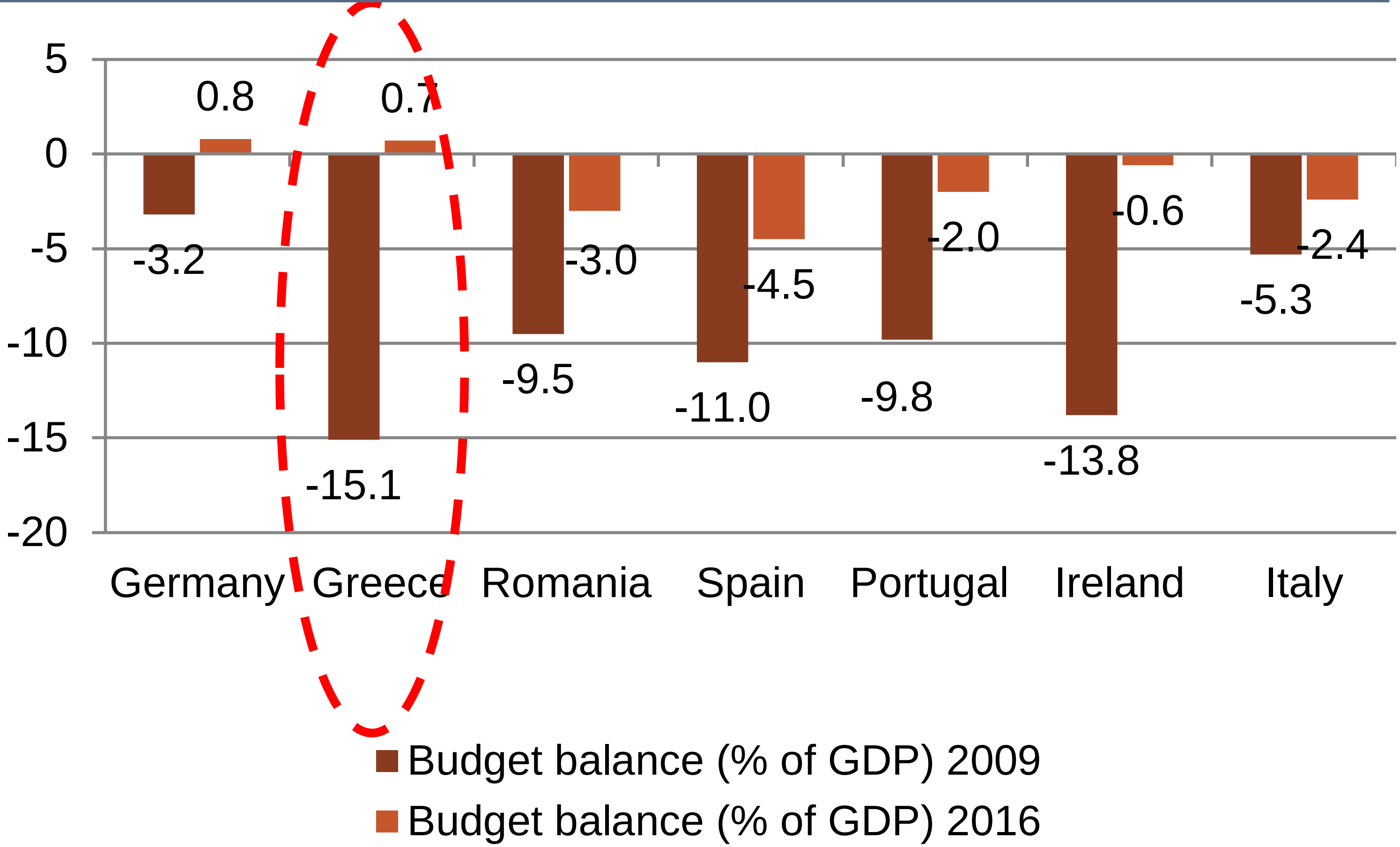


Source: European Commission, Berenberg research

- The overall change in Greece's underlying fiscal position of 18.4% of GDP since 2009 exceeds that of any other country in the EU
- Ireland, Portugal, and Spain improved their balances by around 6-8%, significantly less than Greece
- To avoid distortion, we used data that adjust the actual fiscal balance for the impact of the short-term business cycle, interest payments and some significant one-off factors such as a recapitalisation of banks.

(2) Greece has rebalanced its twin deficit (part 2)

Greece achieved a budget surplus in 2016 similar to Germany



- Greece achieved a budget surplus of 0.7% in 2016 and its primary surplus was over 4%
- Only Germany had a surplus of a similar size

Source: Bloomberg, Berenberg research

(2) Greece has rebalanced its twin deficit (part 3)

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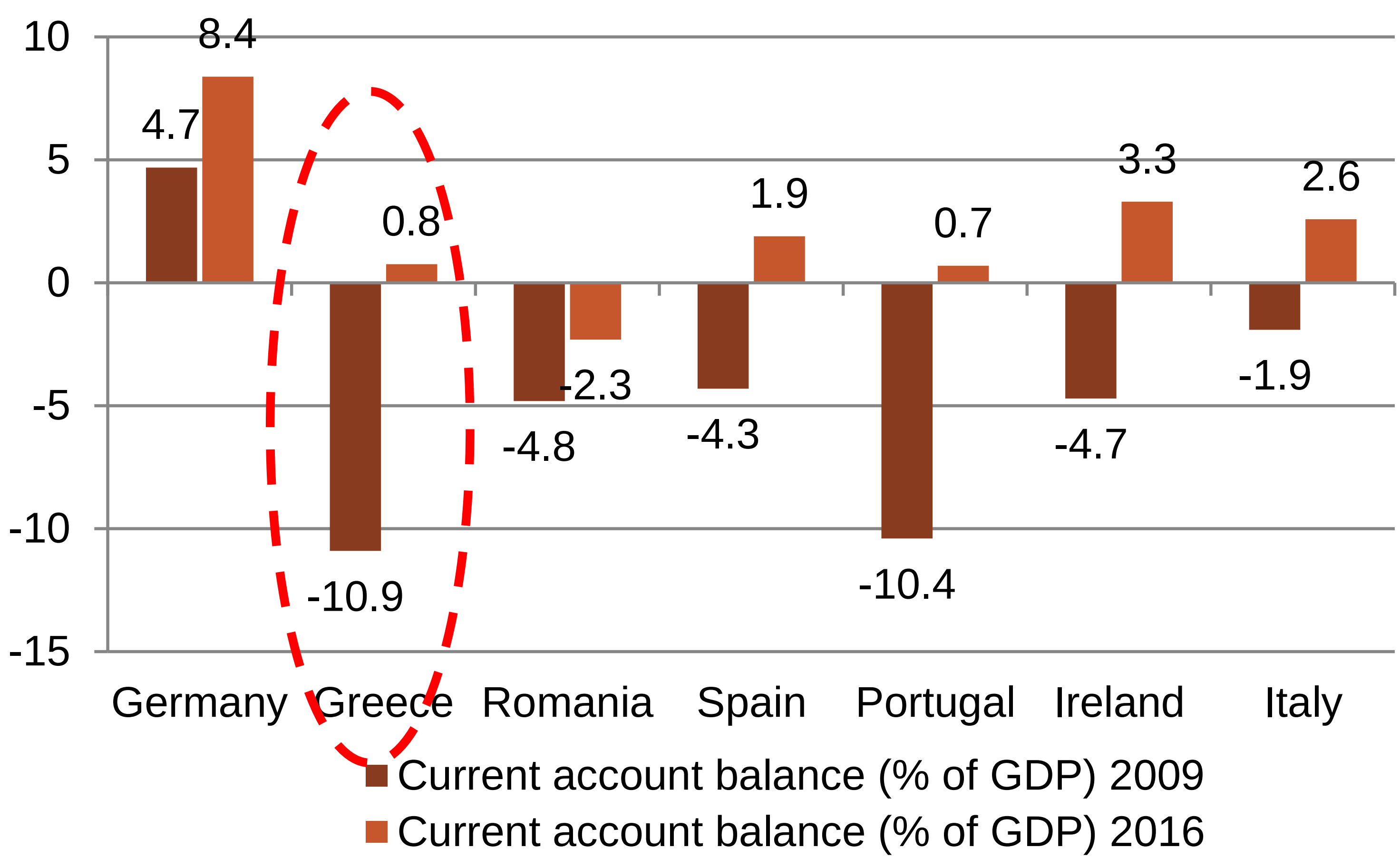
Greece eliminated its current account deficit

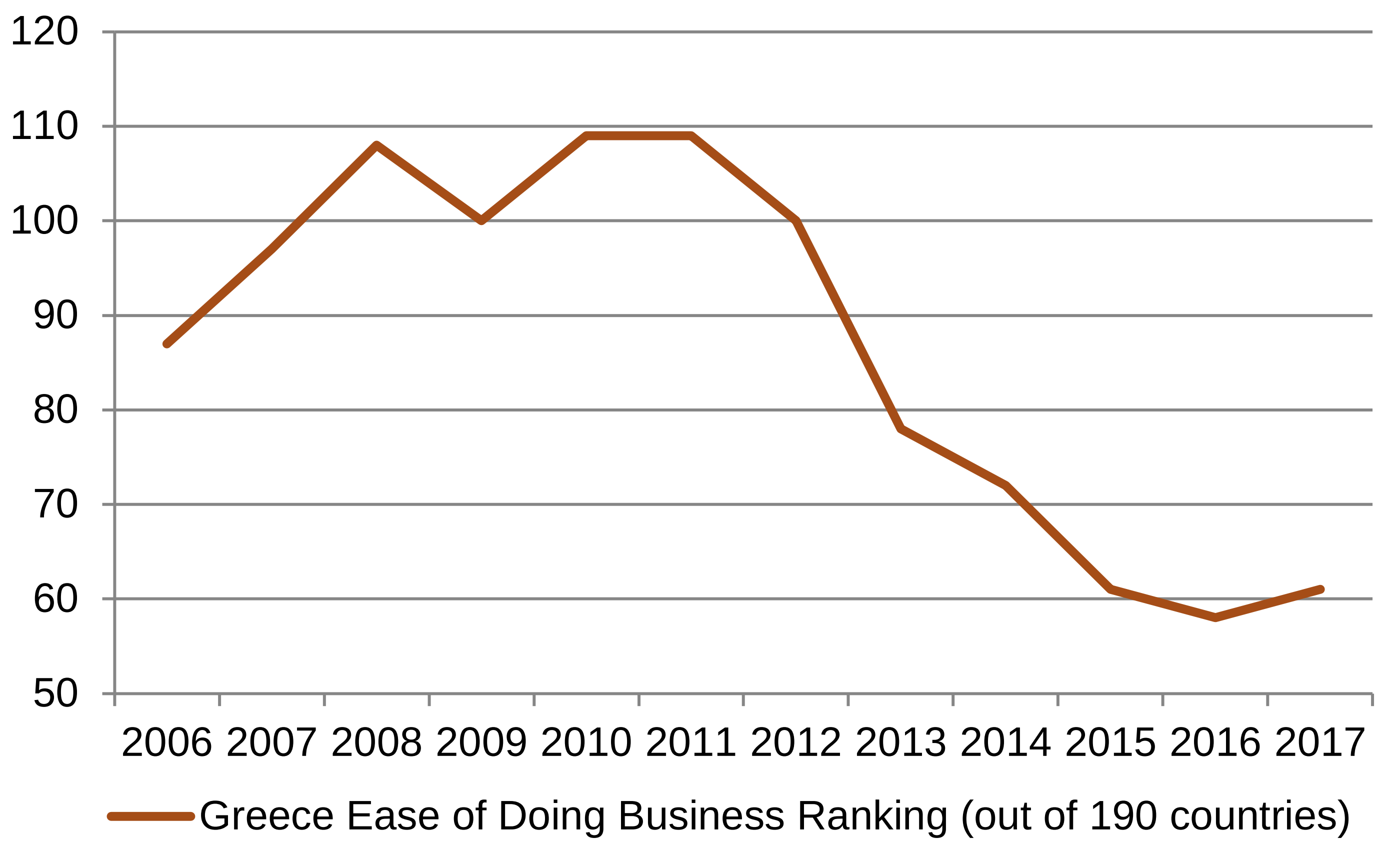


- Greece managed to rebalance its current account which suffered from a 10-12% p.a. deficit between 2009 and 2011
- Greece achieved a current account surplus in 2016 of 0.8%
- Greece had the largest improvement in the current account compared to other bailout countries

Source: Bloomberg, Berenberg research

(3) Greece has become more competitive (part 1)

Greece has improved in the ease of doing business index

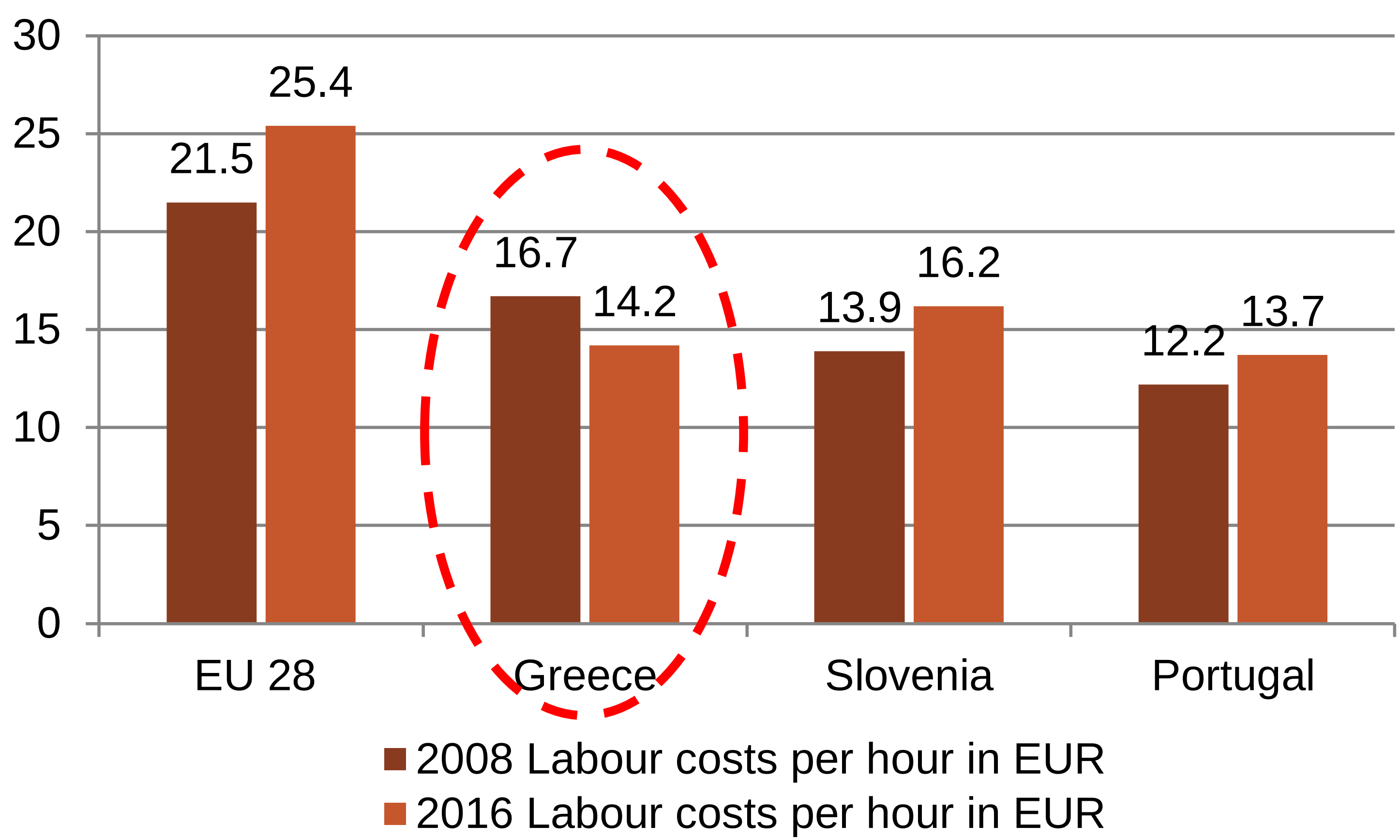


- Greece climbed from Position 109 in 2010 to Position 58 in 2016 in the ease of doing business index
- Greece is performing well in the fields of trading across boarders (29), protecting minority investors (42) and getting electricity (52)
- Greece has room for improvement in the fields of registering property (141), enforcing contracts (133) and getting credit (82)

Source: doingbusiness.org, Berenberg research

(3) Greece has become more competitive (part 2)

Labour costs fell significantly in Greece

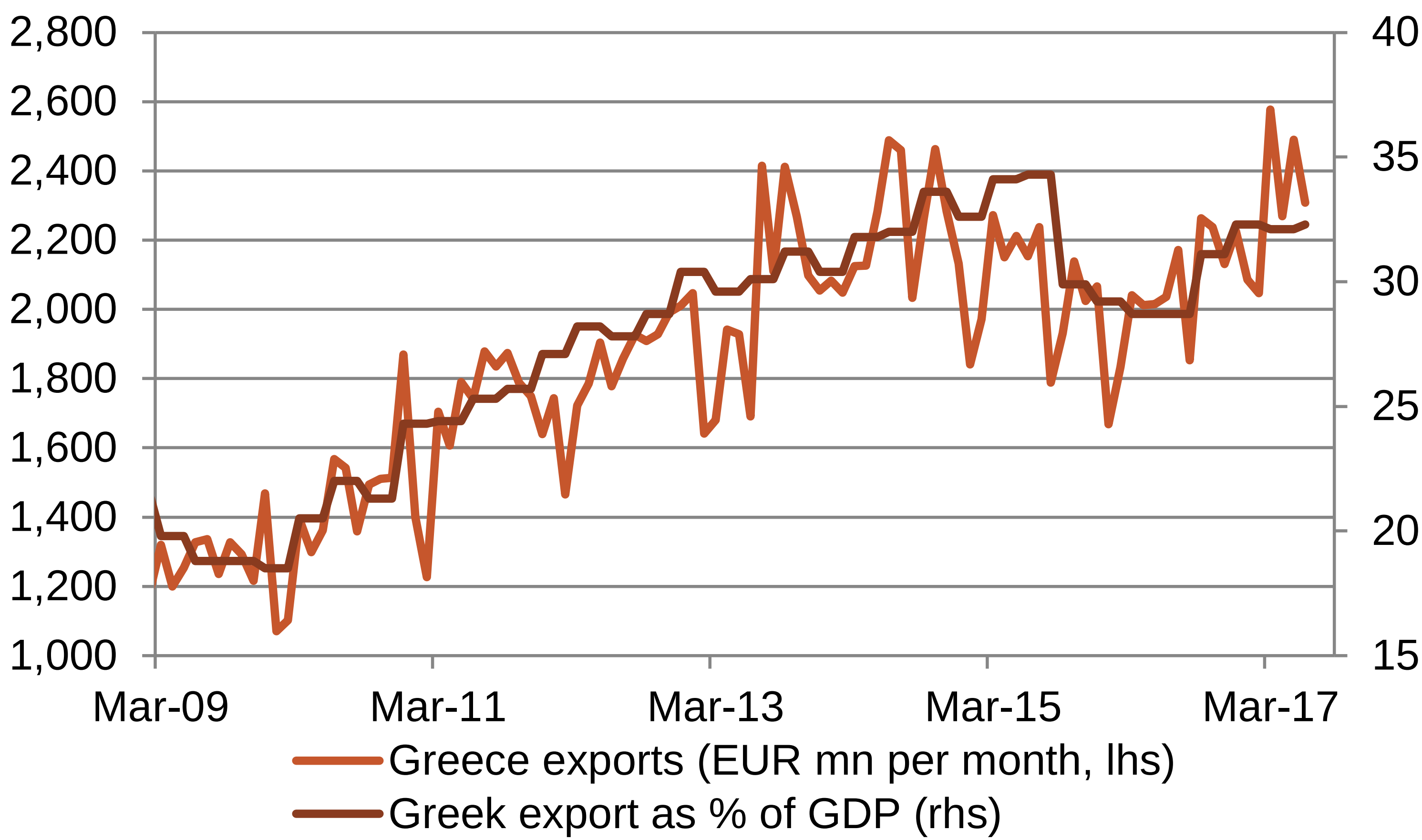


- Labour costs fell in Greece by 15% between 2008 and 2016
- Labour costs rose by 18% during the same period in Europe
- Greek labour costs are now lower than in Slovenia and on a similar level to Portugal

Source: Eurostat, Berenberg research

(4) Healthy growth in exports and tourism (part 1)

Exports grew at record speed in 2017

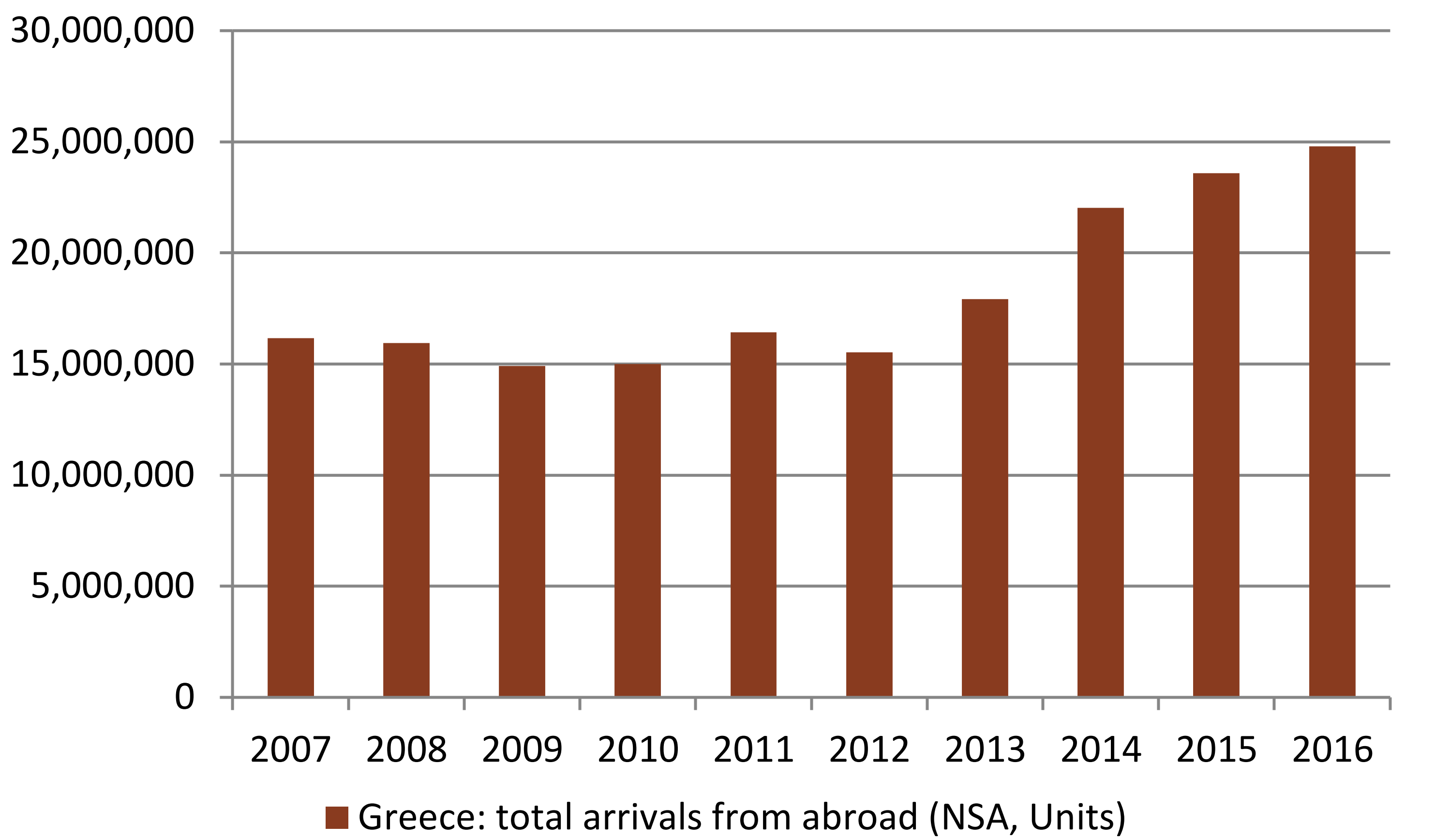


- Exports are worth around 32% of GDP, up from less than 20% in 2009
- Exports are on the up and March 2017 was the strongest export month since data is available in 2009
- In 2017 YTD exports are up 19% (however mainly driven by oil exports)

Source: Bloomberg, Berenberg research

(4) Strong growth in exports and tourism (part 2)

The number of tourist arrivals rose by 60% since 2012



- Tourism is an important sector for Greece, contributing around 19% to GDP
- In 2016 nearly 25 million tourists arrived in Greece, up 60% from 2012
- Outlook for tourism in 2017 is very strong,. International arrivals were up 10.5% yoy for 1H 2017.
- More importantly the average spend per tourist has stabilised after falling in 2016

Source: Eurostat, Berenberg research

(5) In the footsteps of other bailout countries (part 1)

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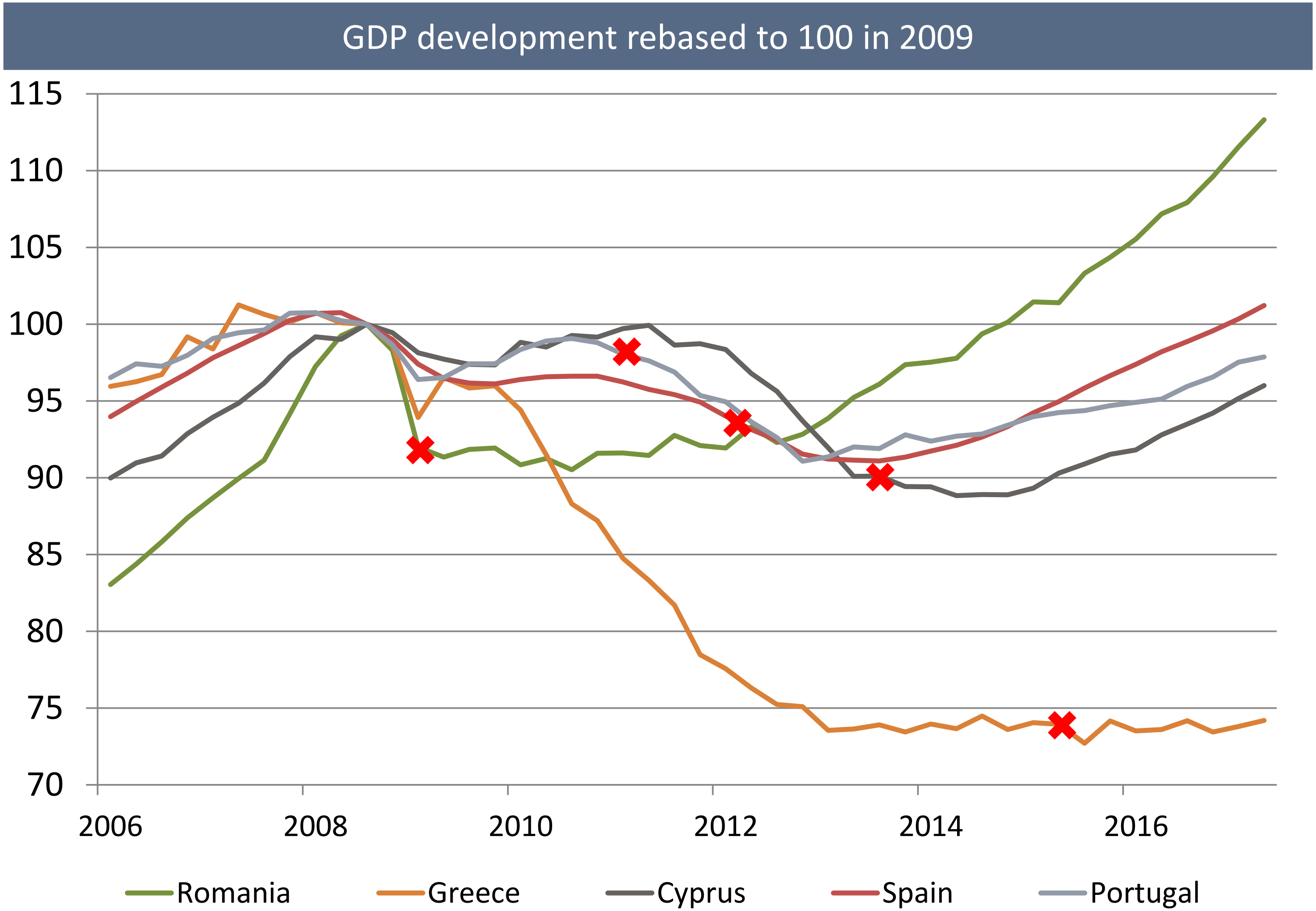
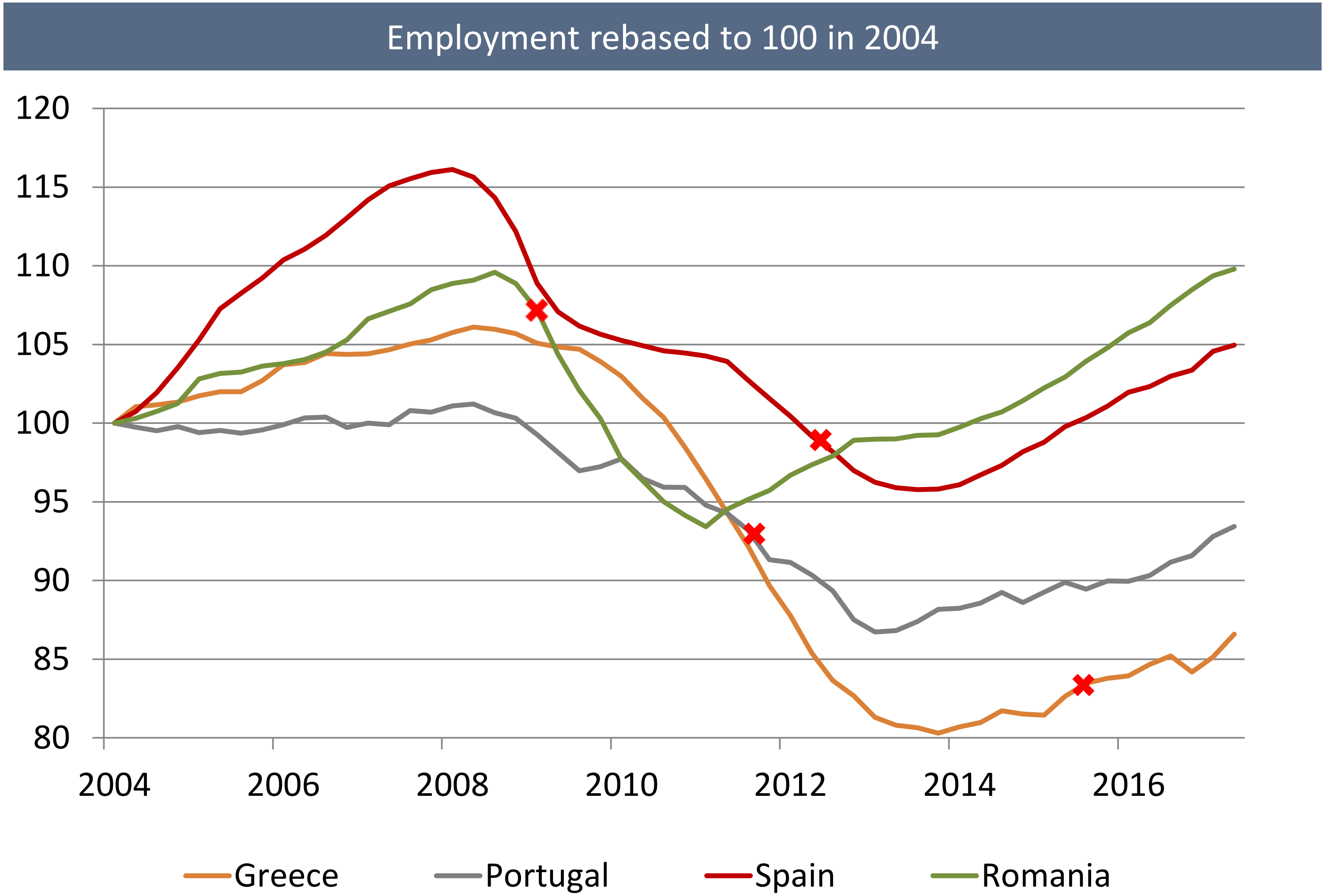


Source: Eurostat, Berenberg research, Red X signals the date of the last bailout (Romania March 2009, Ireland Nov. 2010, Portugal May 2011, Spain June 2012, Cyprus March 2013, Greece August 2015)

- Greek's economy will recover and follow the footsteps of Spain, Portugal, Ireland, Romania and Cyprus which received bailouts between 2009 and 2013
- Greek's economy has not recovered yet from the financial crisis and its economy has shrunk by more than 25% since 2009
- Ireland, Romania and Spain's GDP is already above 2009 levels
- Portuguese and Cyprus GDP is close to 2009 levels
- It is just a question of time for Greece to follow the successful path of the other countries

(5) In the footsteps of other bailout countries (part 2)

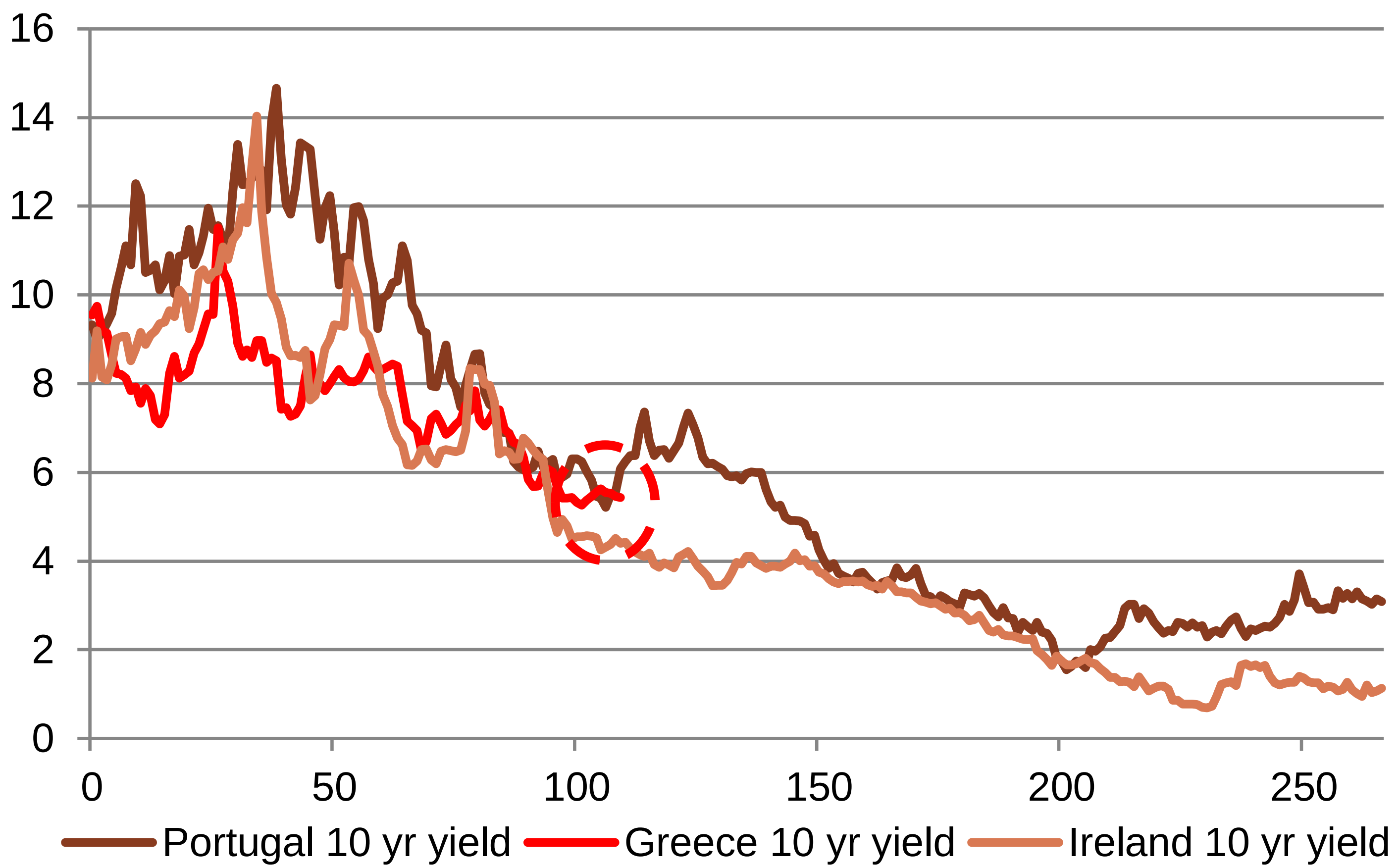


Source: Eurostat, Berenberg research

- Greek's employment levels are rising since 2014 but are still far below pre-crisis times
- Greek's employment levels shrunk by up to 20% since 2004. Since 4Q 2013 nearly 300k jobs were created in Greece
- Other bailout countries have managed to speed up employment growth after receiving the bailout and implementing reforms
- Romania and Spain's employment levels are already above 2004
- Greek's economic recovery will lead to higher employment levels

How to profit from the recovery Greece?
(a) Bond yields will likely fall further

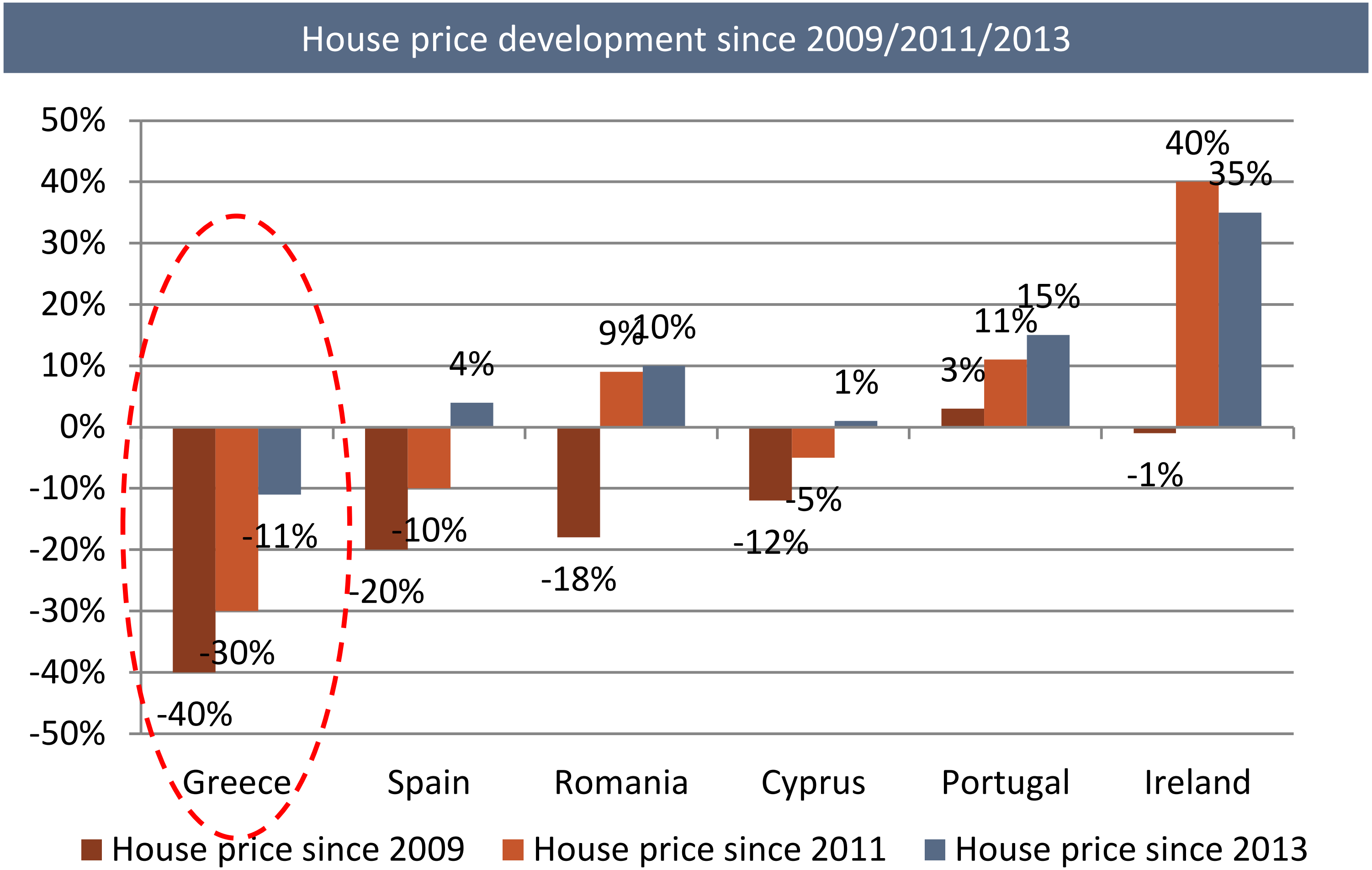
Government bond yields since bailout (weeks)



- Ireland received the bailout package in November 2010. In the first months following the bailout, bond yields rose, before they started to drop significantly
- Portugal received the approval for its bailout package in May 2011. The yields rose for another 9 months, but started to shrink afterwards
- Two year after the latest bailout program Greek yields remain elevated but follow in the footsteps of Portugal and Ireland
- In a year from now 10 year yields should be around 4%

Source: Bloomberg, Berenberg Research (in %)

How to profit from the recovery in Greece?
(b) House prices will likely go up



- In every single bailout country house prices recovered from end 2013 levels, only in Greece they are still down 11%
- Since 2009, Greek house prices suffered the most, falling by 40%, followed by Spain (-20%), Romania (-18%) and Cyprus (-12%)

Source: Bloomberg, Berenberg Research

How to profit from the recovery in Greece?
(c) Equities will likely go up (part 1)

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Greek stocks have been one of the best performers globally

Period Cust 02/11/16 - 09/19/17 1) Total Return Currency USD

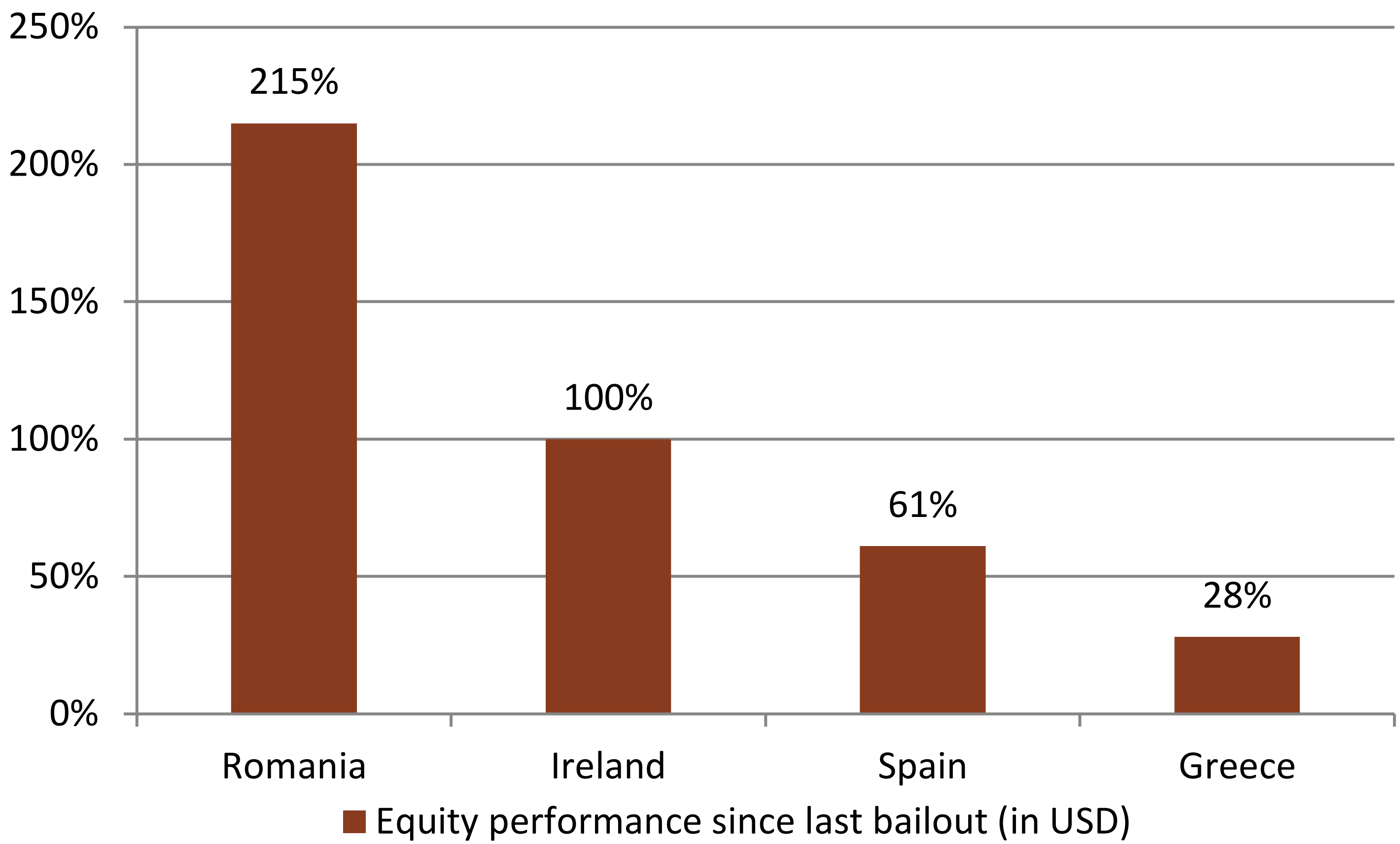
Return	Groups (96)	Return	Positive Price Return
	Primary Equity Indices	53.34%	
	Best Performing		
11)	VENEZUELA STOCK MKT INDX	1749.07%	
12)	BRAZIL IBOVESPA INDEX	144.12%	
13)	Kazakhstan KASE Stock Ex	136.25%	
14)	S&P/BVLPeruGeneralTRPEN	96.38%	
15)	ARGENTINA MERVAL INDEX	84.80%	
16)	Athex Composite Share Pr	82.98%	
17)	Ukrainian Equities Index	81.77%	
18)	BUDAPEST STOCK EXCH INDX	80.32%	
19)	AUSTRIAN TRADED ATX INDX	77.85%	
20)	OMX RIGA OMXR	70.63%	
	Worst Performing		
21)	AMMAN SE GENERAL INDEX	0.39%	
22)	Montenegro Stock Exchnge	--	
23)	BLOM STOCK INDEX	-0.99%	
24)	Tunis SE TUNINDEX	-3.08%	
25)	Botswana Gaborone Dom	-3.32%	
26)	SRI LANKA COLOMBO ALL SH	-4.24%	
27)	MSM30 Index	-6.72%	
28)	QE Index	-13.76%	
29)	Laos Composite Index	-13.77%	
30)	NIGERIA STCK EXC ALL SHR	-21.65%	

Source: Bloomberg, Berenberg research

- The Greek ASE index is one of the best performing equity index globally since mid February 2016.
- Among Emerging Market countries only Brazil climbed more
- Therefore Greece is the second best performing index in the EM/DM universe

How to profit from the recovery in Greece?
(c) Equities will likely go up (part 2)

Greek stocks have more upside looking at peer performance

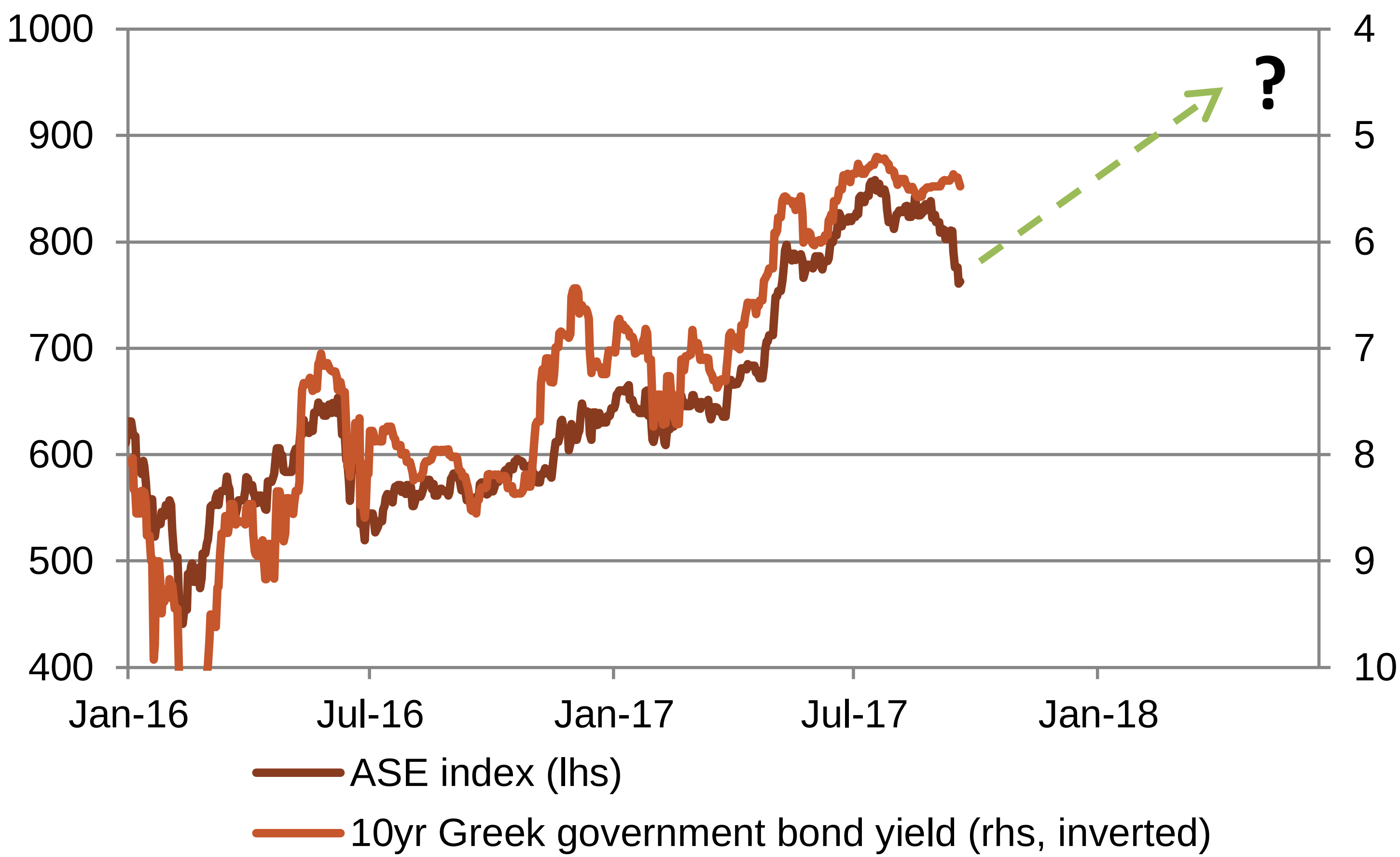


- Greek stocks rose around 30% since the last bailout in August 2016
- Romanian stocks rose over 200% since the bailout received in March 2009
- Irish stocks rose 100% since the last bailout in November 2010
- Spanish stocks increased 60% since the last bailout in June 2012

Source: Bloomberg, Berenberg research

How to profit from the recovery in Greece?
(c) Equities will likely go up (part 3)

Greek ASE index vs 10 year government bond yields (inverted, in %)



- Greek equities and bond yields are highly correlated
- If Greek yields continue to follow the declining path of other ex-bailout countries, we should see significant upside for Greek equities
- Current 10yr government bond yields in Portugal and Cyprus are around 2.4%

Source: Bloomberg, Berenberg Research

How are international investors positioned?
(I) Emerging market funds (GEM) are UW Greece

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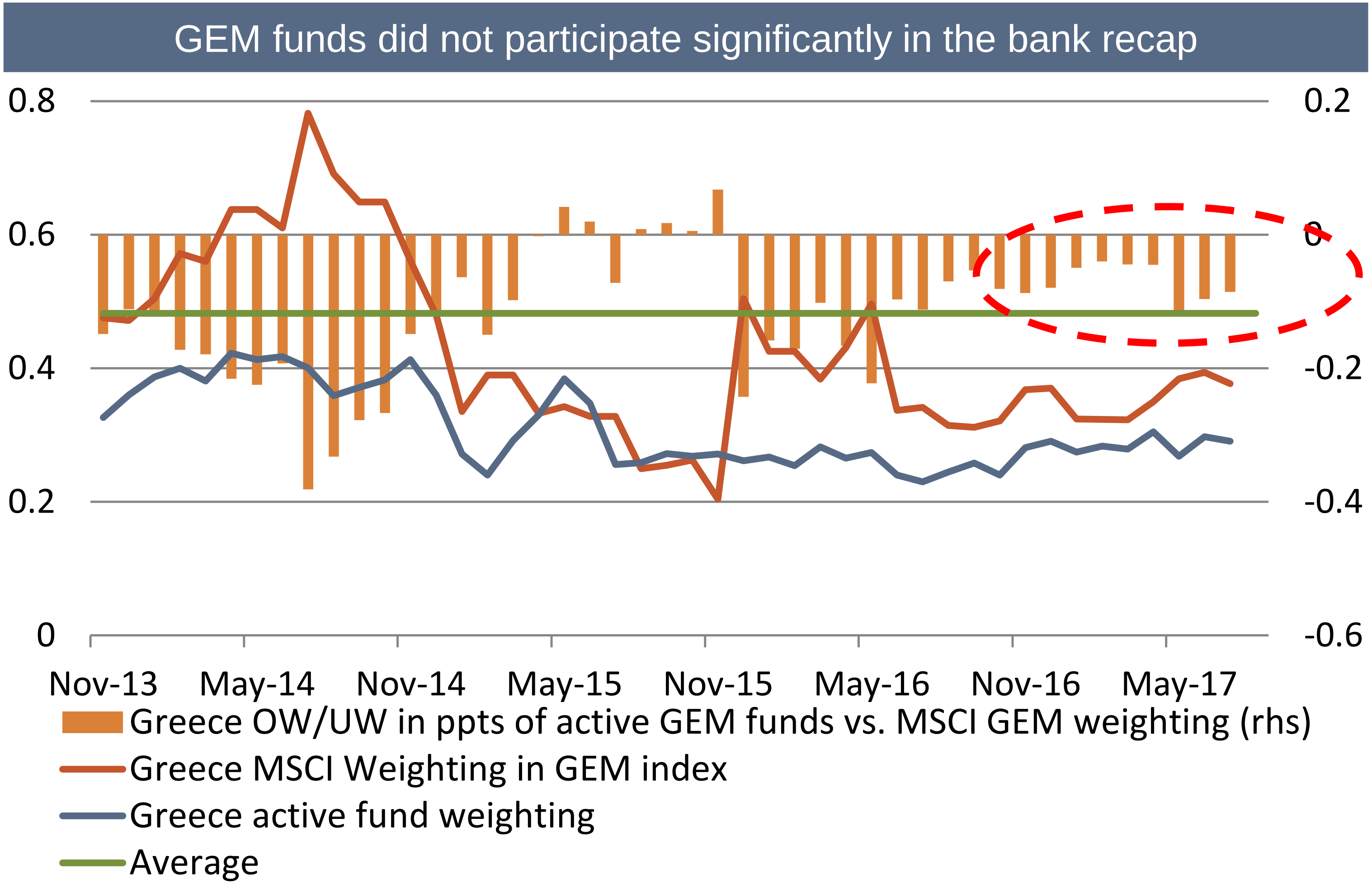
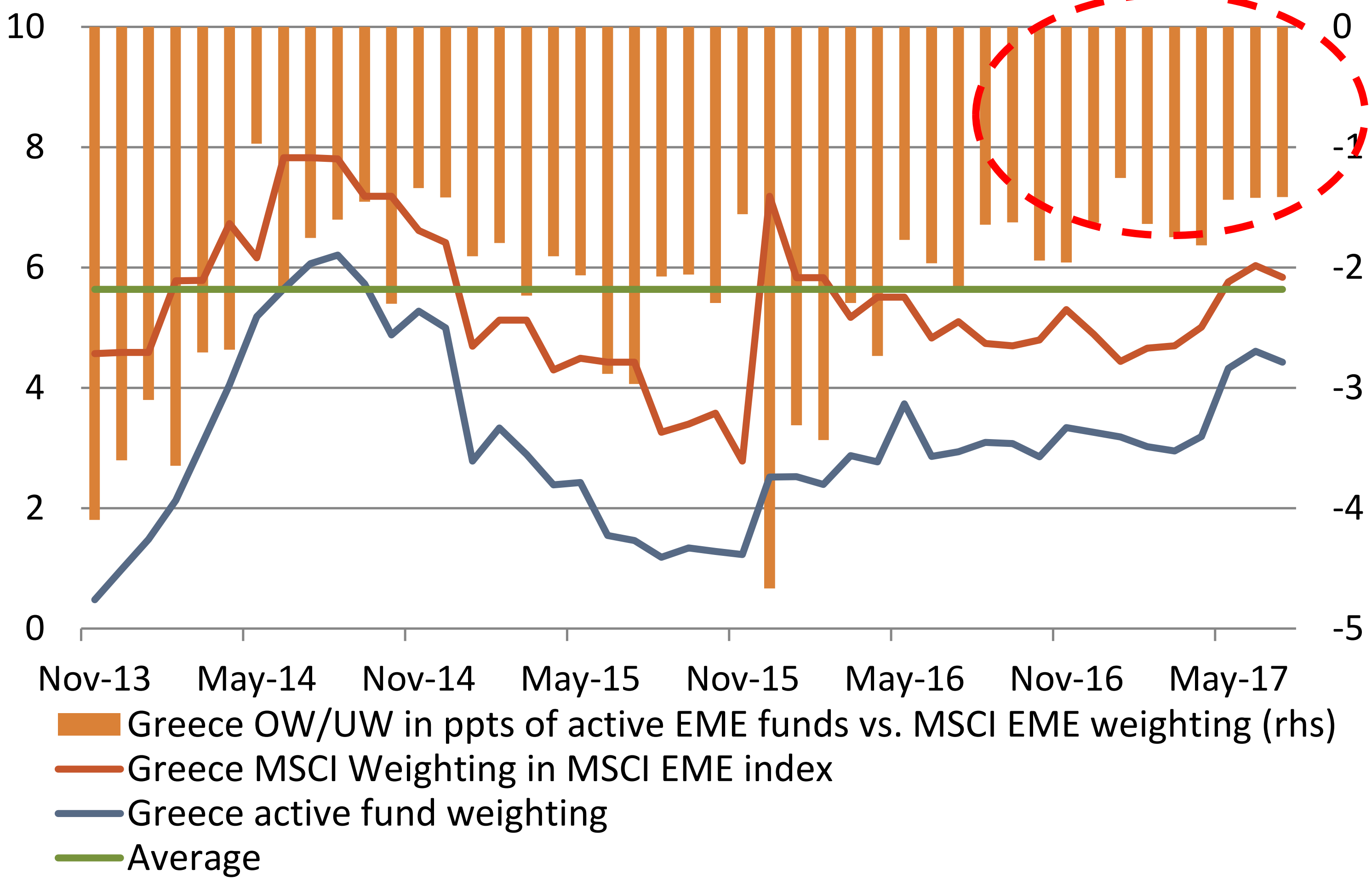


- Greece became part of the MSCI emerging market universe in November 2013
- GEM investors started to close some of the UW positions in 2014/2015 amid hopes for a recovery
- GEM investors did not participate significantly in the end 2015 bank recap, leading again to a large UW of GEM investors compared to the MSCI Greece benchmark weighting
- Currently Greece equities roughly presents 0.37% of the MSCI EM index
- GEM funds hold only 0.29% weight in Greece

Source: Bloomberg, EPFR, MSCI, Berenberg Research, (in ppts), active investors only and adjusted for cash and investments outside MSCI EM universe

How are international investors positioned?
(II) Emerging Europe funds (GEM) are UW Greece

EME funds also did not participate significantly in the bank recap



Source: Bloomberg, EPFR, MSCI, Berenberg Research, (in ppts)

- EME funds had almost no positioning in Greece when it became part of their benchmark
- They increased their weight significantly in 2014
- Interest faded in 2015 and UW rose
- UW rose to record highs after recap in December 2015, but are currently back to below average levels
- As of end of July Greek equities are around 5.8% of the MSCI EME index
- EME funds hold only 4.4% weight in Greece

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