

National Development Bank: an important missing link for the economy of Greece

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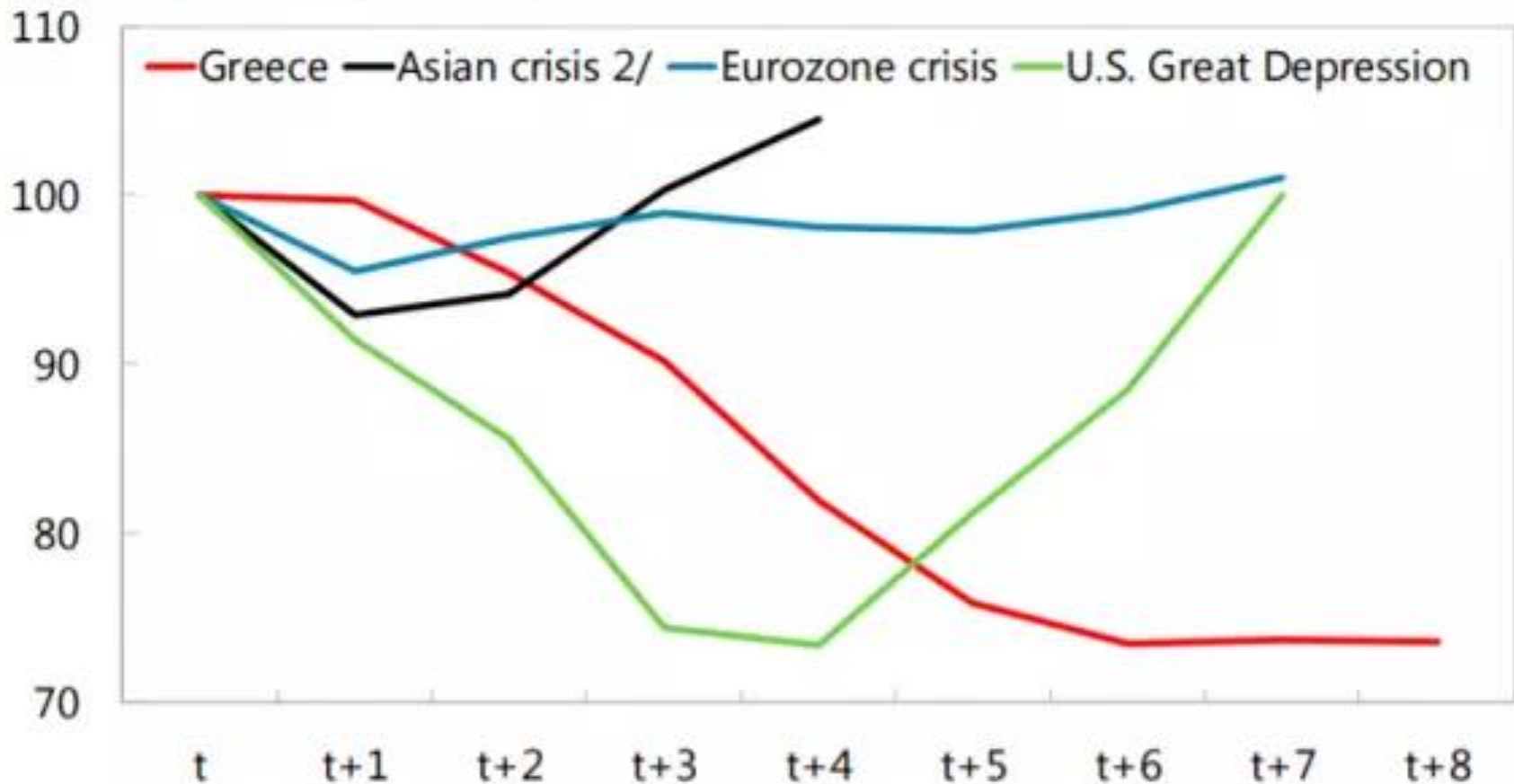
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Real Output

(Index, pre-crisis peak = 100 1/)



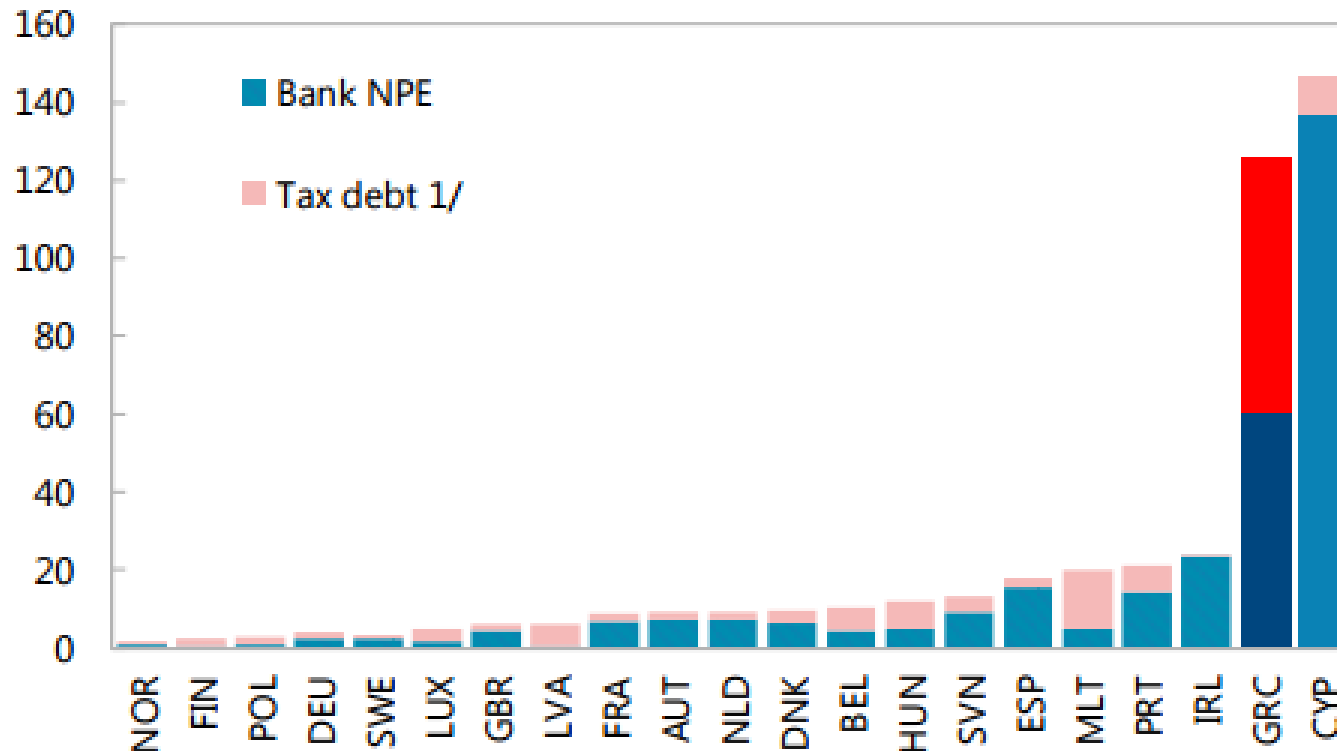
Sources: Eurostat; Haver Analytics; and IMF staff calculations.

1/ Pre-crisis peaks are 2007 for Greece, 1997 for Asian crisis, 2008 for Eurozone crisis, and 1929 for Great Depression.

2/ Including Indonesia, Republic of Korea, and Thailand.

Private Sector Arrears

(Percent of GDP)



Sources: EBA 2015 June Report; Eurostat; OECD; and IMF Staff Calculations.

1/ Data for Greece are estimates as of end-November 2016 and include social security contribution debt.

The theory: Why national development banks (ndb) are needed

- ✓ NDBs fill the gaps left by private financial institutions (UNCTAD December 2016)
- ✓ The main gap is usually insufficient finance for economic transformation; i.e. large-scale projects with long maturity
- ✓ funding of financial institutions is often short-term.
- ✓ long-term finance requires maturity transformation; a risk that banks usually prefer to avoid

Four distinct ndb roles

- ✓ countercyclical;
- ✓ developmental;
- ✓ venture capitalist role; and
- ✓ challenge-led (Mazzucato and Penna, 2014)

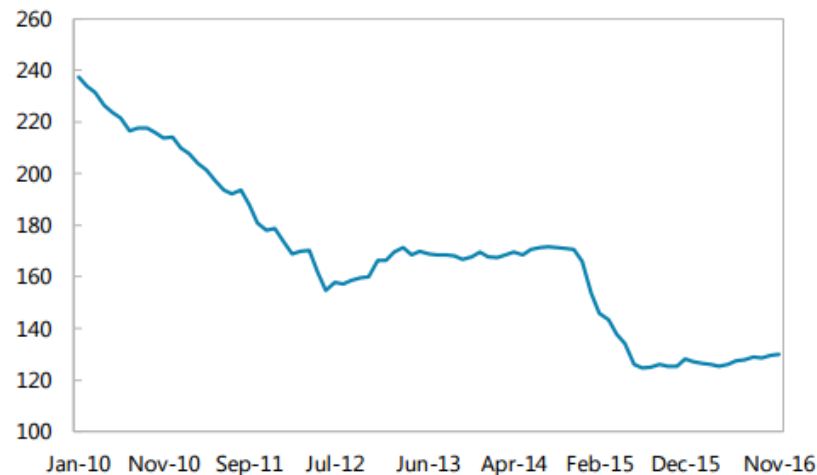
confidence in banking sector has yet to return

- ✓ 3 rounds of recapitalizations since 2010
- ✓ massive liquidity support from the European Central Bank (ECB) and the Bank of Greece (BoG)
- ✓ capital controls are still in place
- ✓ quality of bank capital is weak, with half being comprised of deferred tax assets (DTAs), which could add to contingent liabilities for the state
- ✓ non-performing loans (NPLs) have continued to rise in recent years (IMF Country Report No. 17/40 February 2017)

In survival mode, commercial banks have retreated from financing real economy

Greece: Total Bank Deposits

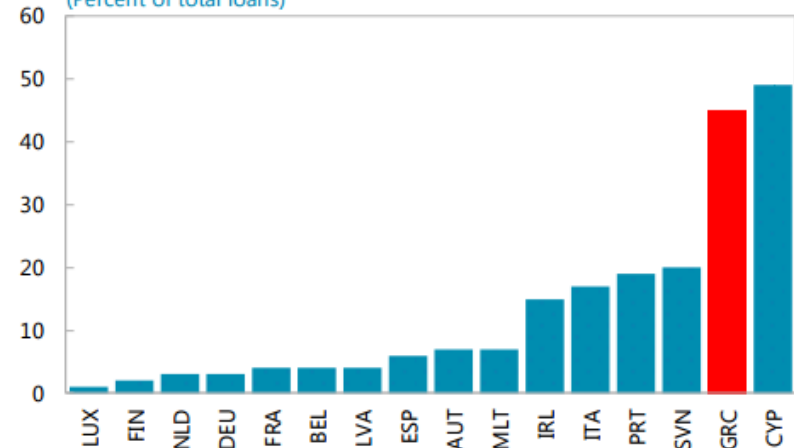
(Billions of euros)



Source: Bank of Greece.

Non-Performing Loans

(Percent of total loans)



Sources: Bank of Greece; and 2016 EBA report.

Note: Data for Greece as of September 2016, data for other euro area estimates as of March 2016.

Current privatization approach is myopic

State assets are sold via fire sales with huge liquidity discounts

Most assets privatized are natural monopolies

As soon as 14 airports were recently privatized a 12€ “modernization” fee per departing passenger was initiated

A ndb should follow a Venture Capital approach instead of fire sales

- In high risk situations, the NDB should take a VC like approach
 - Provide both finance and hard assets
- NDB should give **profit sharing contracts**
- Cash flow rights, voting rights, control rights, and future financings **should be contingent on observable measures of financial and non-financial performance**. For instance, the NDB obtains voting control or board control from the entrepreneur if the firm's EBIT falls below a pre-specified level

Why a national development bank (ndb) is needed for Greece

- ✓ long-term view on investing and privatizations
- ✓ Enhanced Leverage
- ✓ Better negotiating of contracts with investors
- ✓ Local know-how
- ✓ Besides local know-how ndbs have in-house **technical expertise** that allows them to participate in decisions involving choices of technology, scale and location

conclusion

- market failure framework is limited for Greece
- state banking has to play a much more important role; that of **shaping and creating markets** (Mazzucato and Penna, 2014)
- Greece needs to achieve 'smart' (innovation-led) growth