



EURECA – complementing or being an alternative to the "haircut"?

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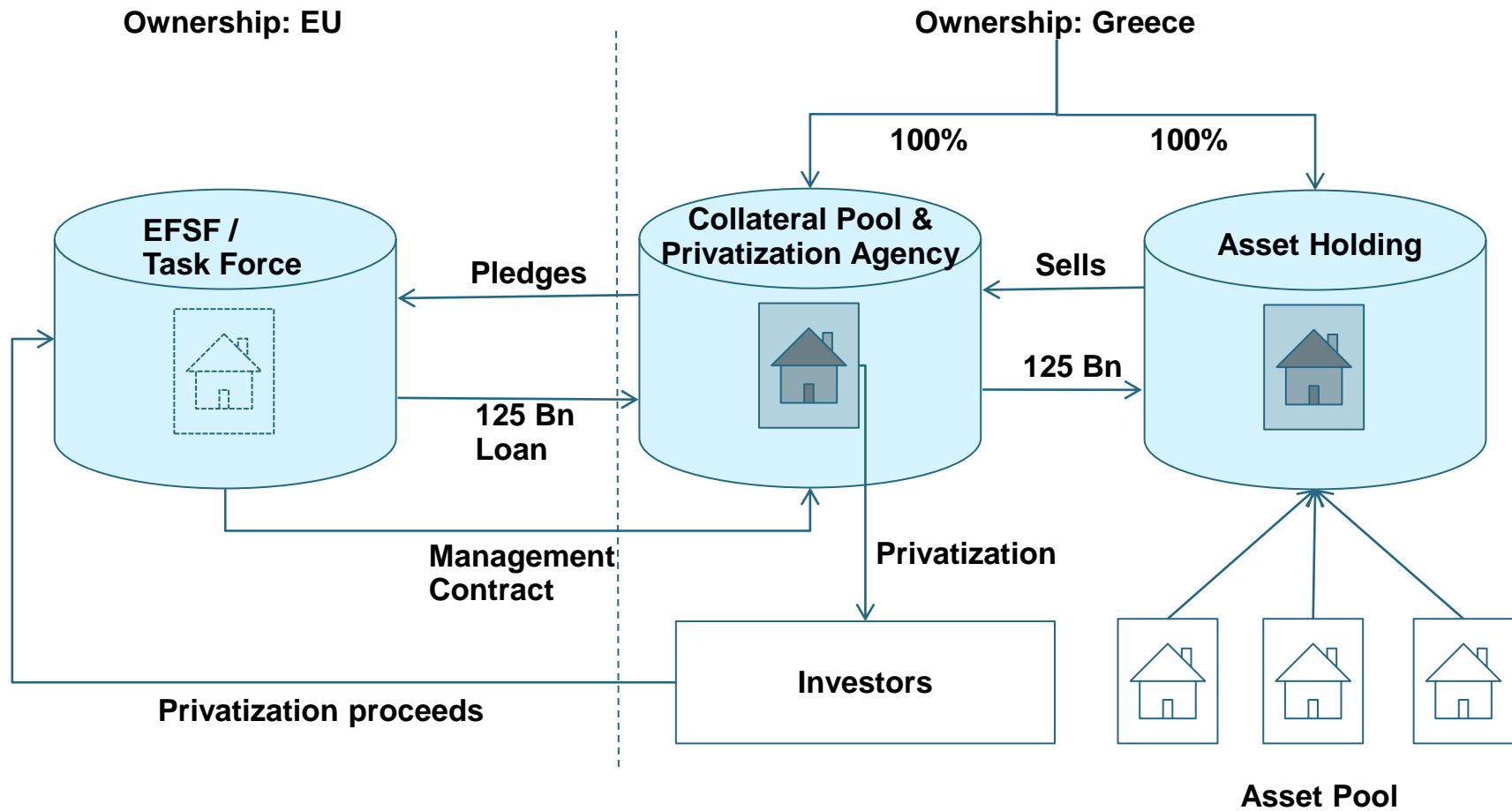
Introduction – Europe at the cross roads

- The Greek solvency crisis has created an extreme stress for fiscal and monetary policy in Europe
- On the most recent meeting of the European heads of state private investors have been urged to contribute to the crisis resolution by writing of 50% of the Greek debt
- A EFSF-financed program is offered to replace the equity which removes control of the banks from its shareholders and hands it over to the state
- The new target is to achieve a level of debt to GDP of 120% by 2020 which supposedly would lift the country out of the debt trap. Returning to markets thus takes 10 to 15 years.
- For banks and their shareholders it is a critical question to know if there are alternatives to this approach which could protect the legitimate interests of the industry and offer a better macroeconomic prospect for Greece while being based on market economy principles
- Greece still needs and is waiting for an alternative macroeconomic approach that lifts the country credibly out of the debt trap and restores growth and fiscal sovereignty
- EURECA is such an approach and we continue to believe in it as a viable alternative as it could replace, complement or diminish the haircut proposed to Europe's and Greece's banks

How does EURECA work?

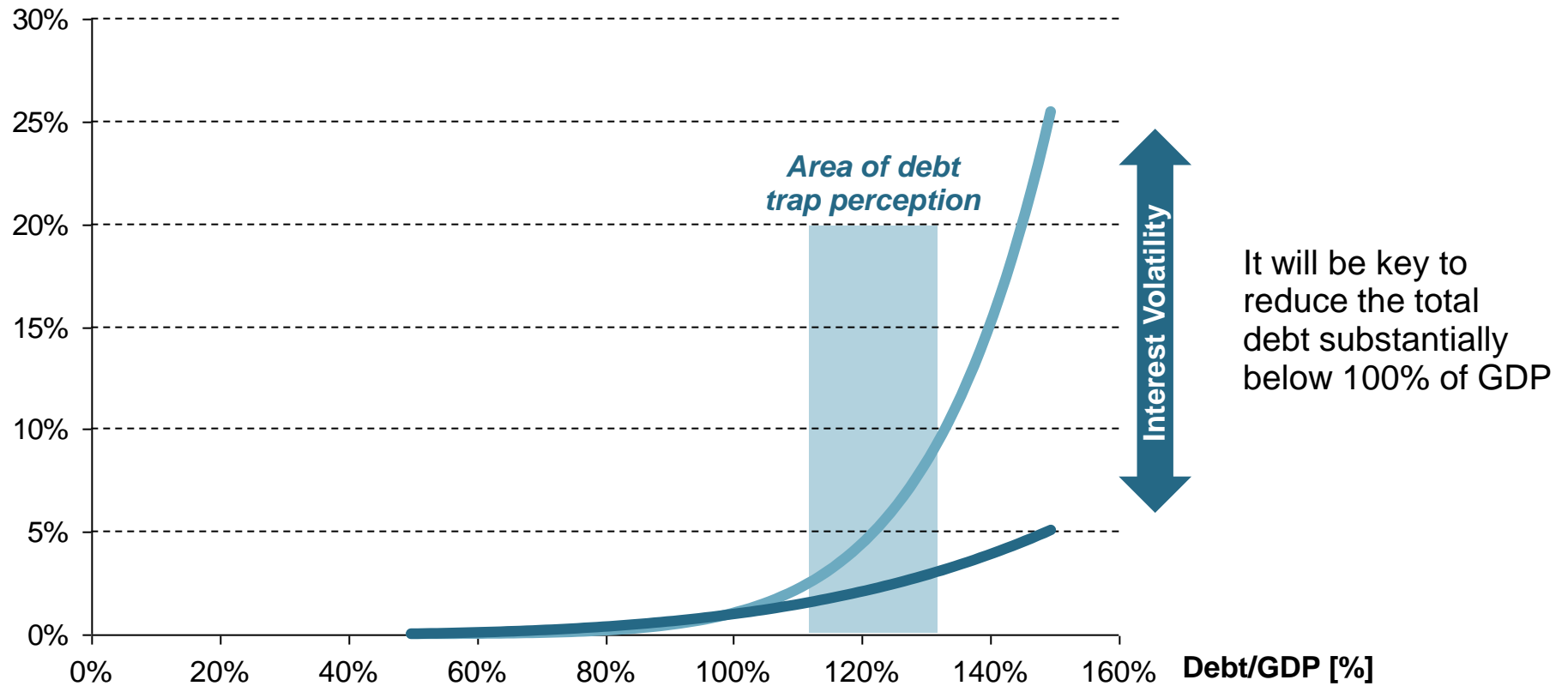
- 1 Collect Greek state assets with EUR 125 bn value in central holding ("Treuhand")
- 2 Sell or collateralize complete holding to European Union Institution at EUR 125 bn
- 3 Greek state uses proceeds to repay EUR 65 Bn to Troika and fund EUR 60 Bn buyback program through EFSF
- 4 Thereby reduction of Greek debt from 150% to just under 100% of GDP
- 5 Reducing ECB and EU Taxpayer exposure to Greek debt to zero
- 6 Investment of EUR 35 bn in restructuring assets to maximize privatization value (EUR +40-60 bn)
- 7 Restructuring program will add 15% of GDP stimulus to Greek economy as side effect
- 8 Growth swing from -5% to +3 to +5% producing approximately 4% of GDP as additional tax revenues
- 9 Debt reduction and rating improvement cut interest burden by about 40%
- 10 Combination of (8) and (9) enabling debt repayment of 1% of GDP p.a. leading to debt ratio of under 40% of GDP by 2026
- 11 2026 payment of surplus to Greece for additional debt reduction, shortfall to be covered by Greece up to 30% of GDP (by then EUR >150 bn)
- 12 Side effect 1: Collapse of CDS spreads leading to speculators losses preventing attacks on Ireland, Portugal and Spain
- 13 Side effect 2: 100% privatization of Greek state sector will stamp out corruption and foster long term growth and investment
- 14 Side effect 3: Value gain of EUR 30 bn for Greek Banks holding Greek Bonds restores banking system solvency and reduces collateral risk for ECB by 95%, ends credit supply crisis in Greece.
- 15 Creation of EUR 30 Bn windfall profit in EFSF buyback program as a risk buffer for privatization proceeds

Eureca can be structured to ensure Greek Sovereignty

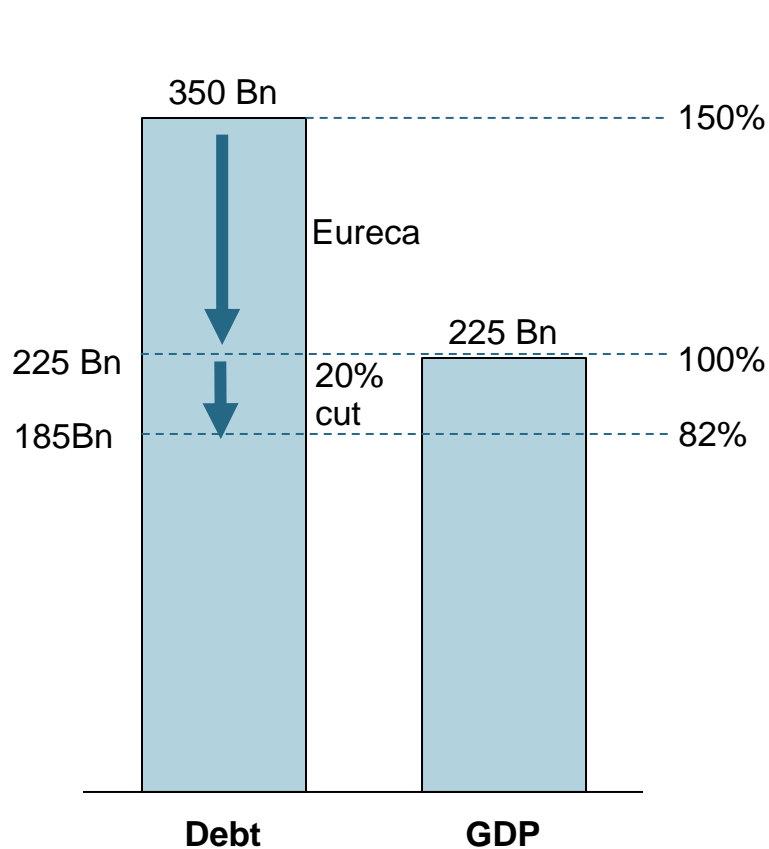


Debt burden of Greece clearly unsustainable as long as debt/GDP exceeds 100%

Risk Premium Range [%]

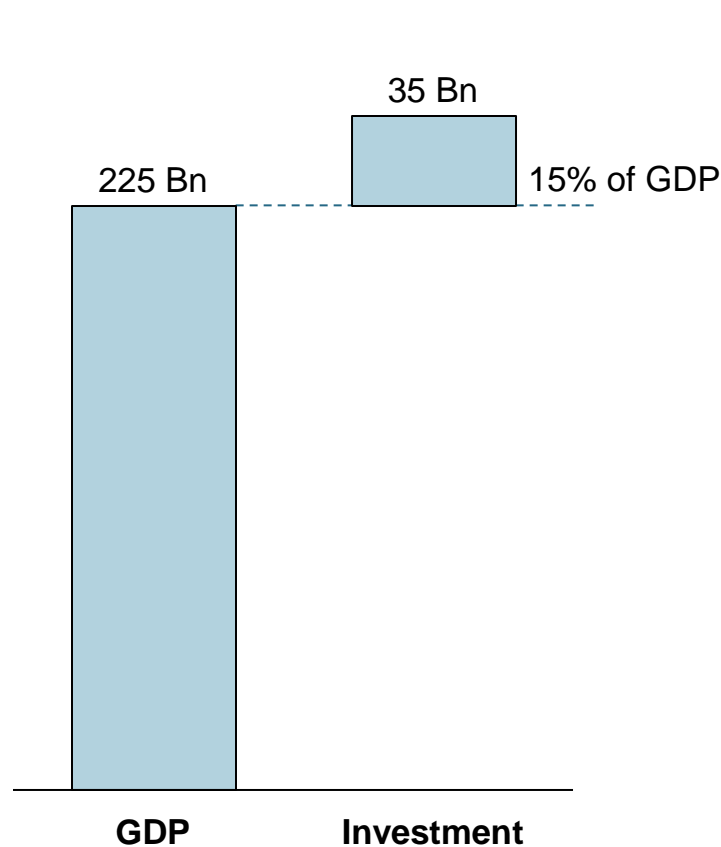


Purchase transaction of EUR 125 bn moves Greece firmly back into manageable debt/interest coverage



- **Eureca could cut Greek debt from 150% of GDP to about 100%**
- **(When it was first proposed the numbers were 140% and 88% respectively!)**
- **Combining it with a 20% "haircut" along the lines of the July 21 agreement would reduce Greek debt to just over 80% of GDP**
- **Every month of waiting costs the country billions of Euros in terms of future wealth**

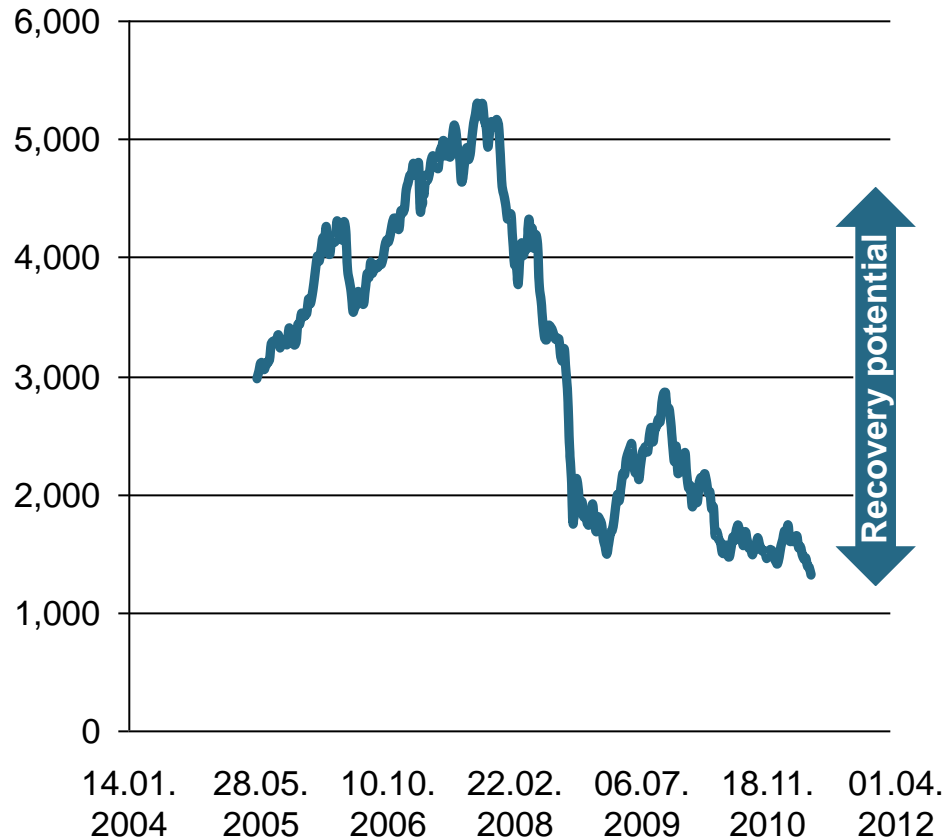
Greece needs to grow out of its problems, it cannot shrink out of them – EURECA enables exactly that



- 15% stimulus of GDP over 36-48 months
- Multiplier high due to investment nature of program and dependent on external conditions
- Will improve value of privatization assets by approximately EUR 50+ bn due to change in market environment and sentiment alone assuming that actual value is in range of purchasing price
- Could in combination with structural improvements resulting from privatization increase Greek GDP by approximately EUR 80 bn over 3 to 4 years moving growth rate from -6% to +%3 - +5% in the short term
- Increasing tax base and debt repayment capacity
- Program needs 20 Bn fresh money plus 15 bn "dormant" funds at EU which currently cannot be drawn by Greece due to lack of balancing Greek funding. Investing in value creating restructuring will have highest impact on growth and job creation

Privatization in a recession will not bring in the best value for Greece

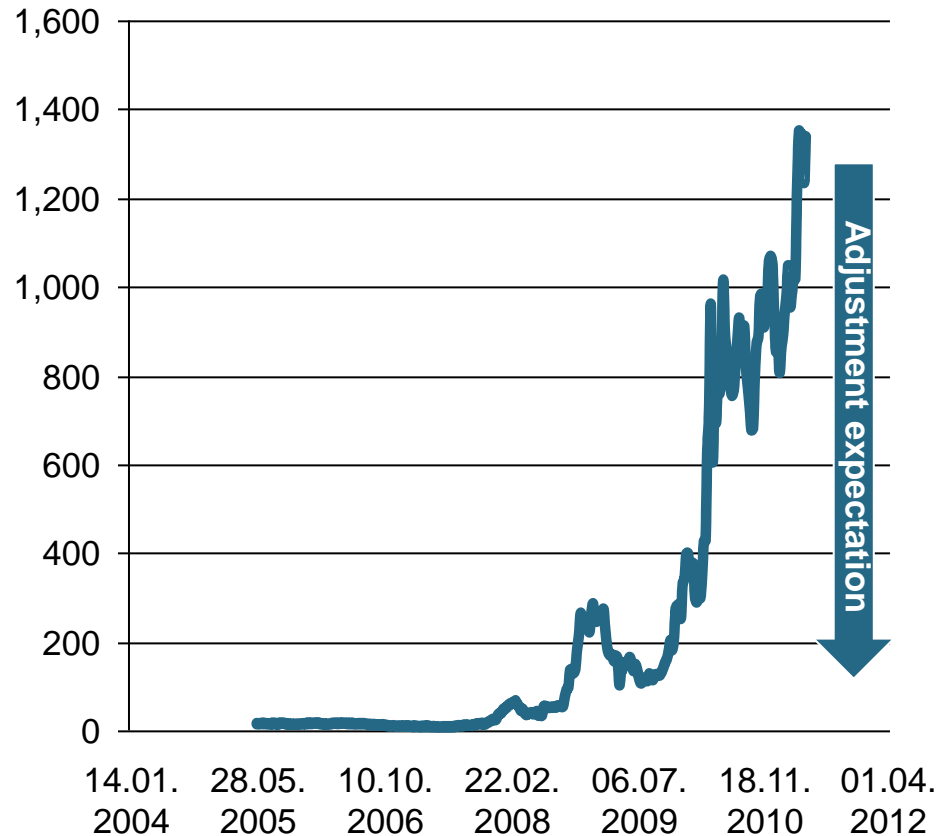
Athens Bourse Index since 2005



- **Three levers of successful maximisation of privatization revenues:**
 - **Timing: Not in a recession**
 - **Time: Remove the pressure**
 - **Profitability: Restructure first**
- Asset valuations reflect the discounted value of expected future free cash flows
- For this reason they are strongly affected by the business cycle and market sentiment
- Stimulating the economy with an investment program of 15% of GDP over 3 to 4 years will create secondary growth of approximately 5%+x per annum thus triggering a very fast recovery of asset prices

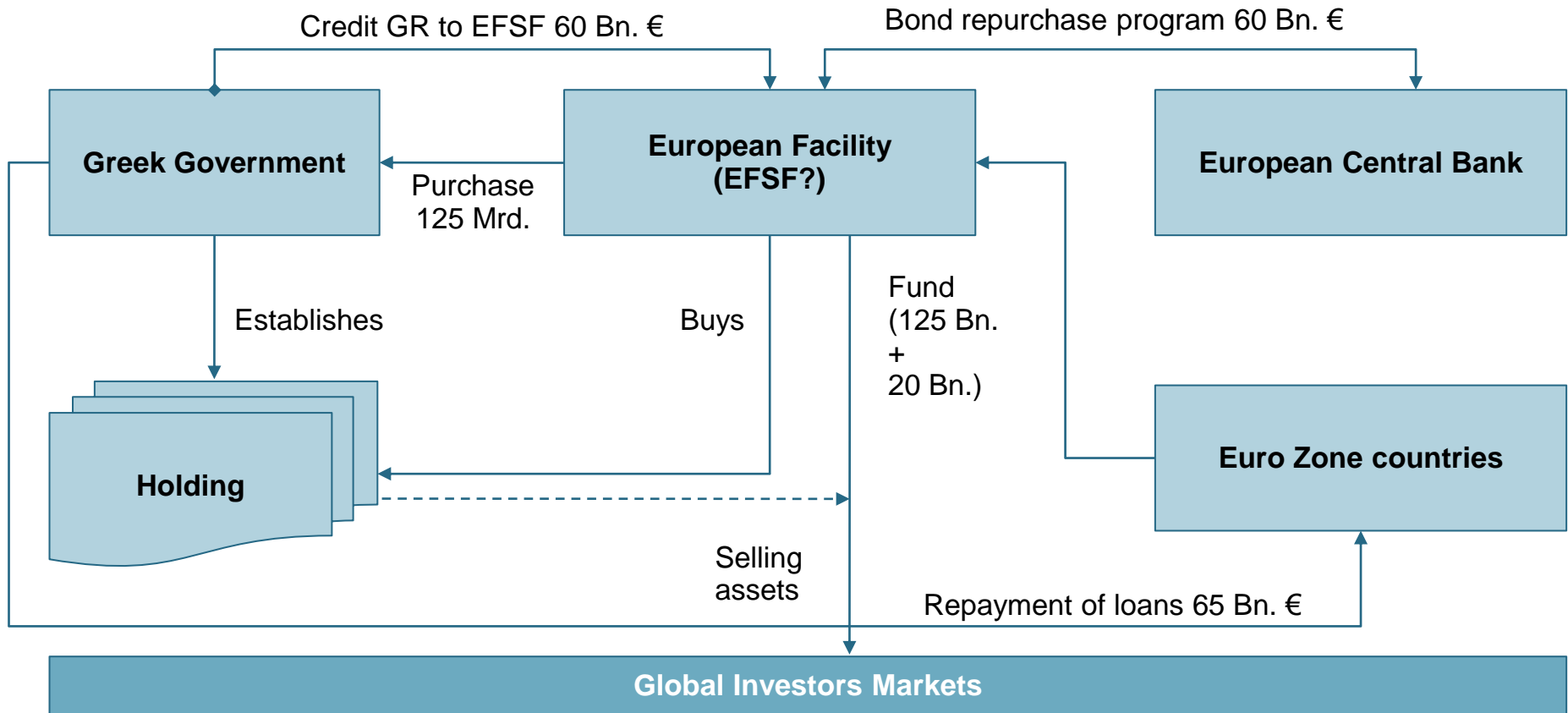
Successful transaction will stop speculation against other EU member states

CDS Spreads Greece 5y



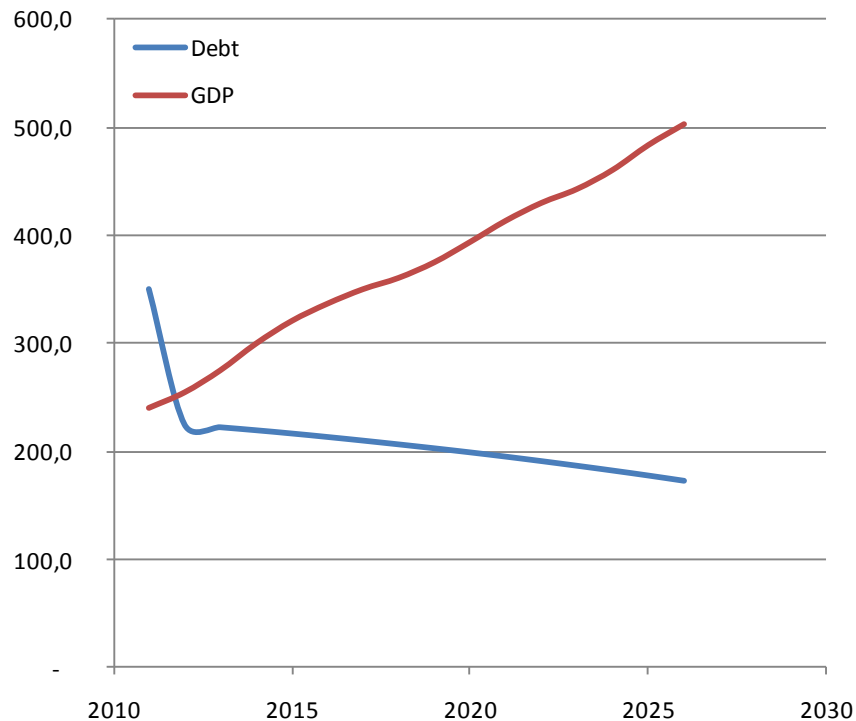
- Reduction of Greek debt to significantly under 100% of GDP in combination with other measures will generate investment grade rating for Greece in relative short term
- This will reduce interest risk premium and CDS spreads to the level of A/A+ paper
- Prices for medium to long term bonds will recover from around 70% to 95%, later 99%
- CDS cover price will drop and investors on the short side will incur substantial losses
- These losses erode the capital base of speculative investors and drains risk bearing capacity from speculative attacks on other EU member states
- Removing the Greek bonds from the ECB balance sheet will increase levels of freedom for the central bank and allow a generally lower interest rate level since a large perceived driver of future inflation will cease

Overview: Hellenic Recovery Fund

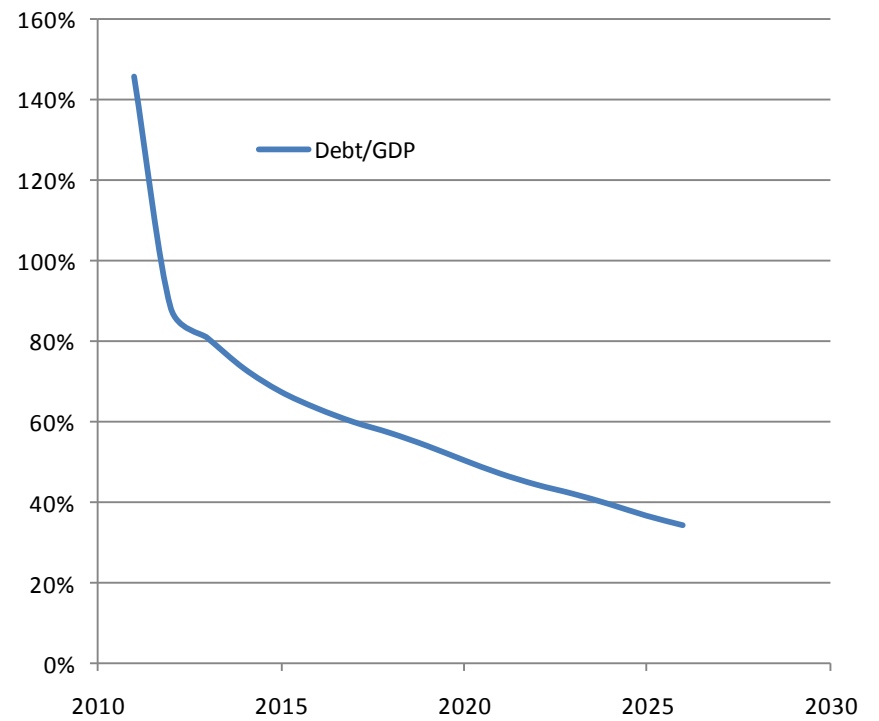


Simulation of impact on long term debt and GDP levels for Greece (Calculation without haircut contribution)

Debt & GDP [EUR bn]



Debt/GDP [%]



Eureca can help achieve a range of objectives for Greece, the EU member states supporting the country and the ECB

- Lifting Greece out of the Debt Trap?
- Achieving A-Level Rating for Greece?
- Reducing CDS spreads to investment grade levels?
- Creating immediate market access for funding Greece on its own?
- Kick starting the Greek Economy back to growth
- Reducing European tax payer exposure to Greek credit risk to zero?
- Reducing ECB exposure to Greek credit risk to zero?
- Getting maximum collateral to cover remaining risk for taxpayer?
- Optimizing incentives for Greece to continue austerity program?
- Optimizing incentives for Greece to remove investment obstacles?
- Maximizing privatization volume?
- Getting a substantial and voluntary contribution from private sector?
- Repelling the speculation against the Euro zone periphery?
- Avoiding any form of default and its associated risks?



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**Creative
strategies
that
work.**