

### *Gazing through the looking glass*

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Greece is not yet out of the woods. The country's risk continues to be elevated and it will take persistent public budget efforts and multiyear steadfast fiscal discipline on the part of Greek governments before interest rates decline to more reasonable levels than where they stand presently. As a result, how the political developments will shape in the coming years and decades and to what extent relative political stability will be maintained, are issues that rank at the top of the list of concerns of domestic and international investors.

If we were asked for prognostication and advice in these fronts, we would suggest that all indications point now in the direction of a fairly stable political environment, gradually shifting to more business-friendly policies and this irrespective of party antagonisms and reshufflings at the helms of governments. We view this outlook as most likely on account of four fundamentals. Namely, first, that as long as Greece is under closed monitoring by European Union (EU) and European Central Bank (ECB) authorities, there will be no going back to past fiscal excesses; second, that at long last Greek governments will take ownership of the structural reforms to which the country has agreed with its creditors, thus opening up the product and labor markets to the creative forces of competition and outward looking entrepreneurship; third, that after some time of staying in this course, the confidence of international financial markets in Greece's public management will increase, thus leading to a gradual reduction of the interest rates and alleviating the burden of its service in the balance of payments; and, fourth, that eventually, EU authorities will take again a hard look at the unsustainable nature of Greece's public debt and act so as to bring it down to more sustainable levels. There is no doubt that due to bad experiences in the longer past, lingering uncertainties abound. But on the other hand, public management in Greece is now set to operate within externally imposed constraints, so that the likely outcomes are quite easier to glimpse.

Unlike the public sector, which is due in the coming years for further far reaching reforms, so as to exploit the latent boost to economic growth that it hides, the private sector, having borne already the brunt of the adjustment from Greece's default in 2009, is much leaner and competitive. Thousands of small and medium size enterprises shut down, thus relinquishing market shares for the more efficient ones to grow. A few hundreds or even more are expected to shut down soon in the process of clearing the Non-Performing Loans, which is actively pursued now

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by banks. Business firms in general have been forced to make more efficient use of scarce financial resources, as well as to adjust for survival in the protracted regime of capital controls which is in place. Labor markets have certainly become more flexible; and the results have started to show for the time being in a timid rate of growth in conjunction with a gradual lowering of unemployment and a healthy expansion of exports of goods and services.

Naturally this multitude of shifts in the private sector has been accompanied by advanced signals of newfound business opportunities. Early on, as it could be expected, most of these opportunities have emerged in the sectors in which Greece has maintained all along solid comparative advantages. These can be subsumed under the motto of a Great Location endowed with plenty of Sun, plenty of clean Seas, plenty of mild Climate, and plenty of economic and strategic linkages in the crossroads of international trade. That is why we believe that investments in related sectors of economic activities will continue to enjoy markedly above average returns, irrespective of the economic growth rates that Greece will achieve in the coming years and decades.

Our view above is not meant to imply that investment opportunities are limited to sectors like tourism, shipping, logistics, renewable energy, etc. Given that returns on capital are related intimately to the cost of doing business, the great adjustment Greece has gone through in the last 10 years has improved investment prospects across the board. In particular, against the perennial and well-known difficulties emanating from state bureaucracy and the sluggish state institutions, Greece offers to prospective investors the advantages of a highly educated and multilingual labor force, a stable currency by being a full member of the Eurozone, developing networks of roads, communications, etc. Above all, Greece that has come out of the last severe financial crisis seems to be poised to return by all sustainable means to a robust growth path.

Thus, looking forward, we believe that the terms of doing business will continue to improve and that those who take the risk to invest now will be rewarded handsomely in terms of returns to their capital.

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