Lloyd's List

Athens treads a fine line on economic recovery

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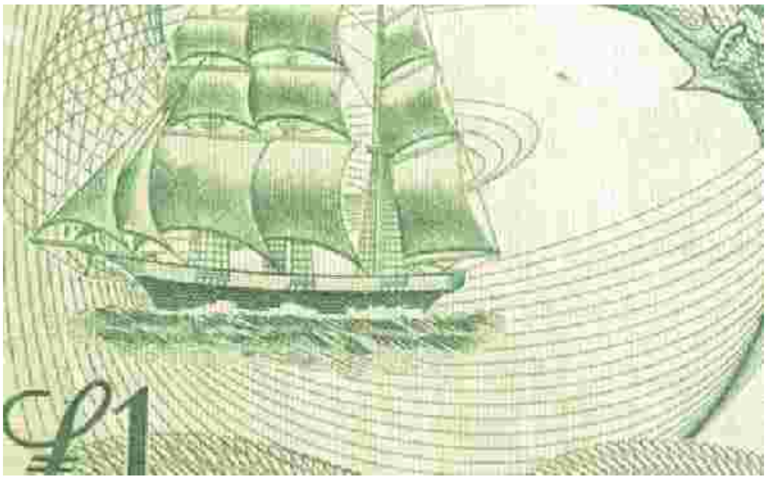
- by Nigel Lowry

As Greece considers how to revive its economy, it receives a timely caution against driving shipowners away. Yet billions are rumoured to have aleady left the country, writes Nigel Lowry



Athens treads a fine line on economic recovery

ONLY last week George Papaconstantinou could be heard comparing Greece to the Titanic in a maladroit metaphor for the challenging task facing the government as it tries to deal with a debt that has ballooned to €300bn ($406bn), or 113% of gross domestic product.

Apparently, the finance minister merely intended to conjure up the difficulty of steering a great beast like the Titanic — read: Greece — away from disaster when it is bearing down on calamity at a rate of knots.

“We are trying to change the course of the Titanic,” said Mr Papaconstantinou, in remarks aimed at calming financial markets and rallying support among European Union partners for the government’s efforts to tackle the financial crisis.

Unfortunately, most people remember the Titanic mainly for its sinking, made inevitable by its scrape with the iceberg which sent water rushing through too many compartments to be survivable. Greece, by comparison, looks eminently salvable.

Even if the legendary ship’s fate is somehow removed from the association, the pre-berg Titanic was hardly a better choice for the George Papandreou administration’s public relations purposes. Our predominant image of the world’s first, and last, ‘unsinkable’ liner being of a floating gin palace packed with revellers and hubris, sailing blindly into risky waters.

That is pretty much the image of Greece that northern European commentators and some politicians, notably in dour Germany, have been peddling to score political points and deny Athens the immediate comfort of bailout promises. Naturally, this is deeply unfair on the folk in steera e — for which read the majority of Greece’s 11m population who are in line for more than their fare share of the sufferin to come.

But if Greek shipowners winced at the metaphor, it will have been because they are already sensitive to any sign, however slight or intuitive, that the government might be thinking of them as it reviews how it is going to raise the funds to set the country back on a healthier course.

Hellenic Chamber of Shipping president George Gratsos says that the government’s intentions remain unclear, but any aggressive move against the industry would be “unintelligent of them”.

“They have to be careful not to kill the goose that lay the golden eggs,” he says.

The easy treatment shipping has traditionally enjoyed in Greece is not to everyone’s liking. “The problem is that the shipping community does not pay any tax on its earnings and therefore contributes nothing to the Greek government’s budget,” says one scathing foreign critic, who prefers to remain anonymous. “If Greece has to get bailed out by the EU or the International Monetary Fund, this situation will c e to light and under EU rules would be considered an illegal subsidy,” he says.

But at the same time, it is part of Greek shipping's folklore that the country has reaped steady rewards from drawing shipowners back to Greece through the industry's official tax-protected status at home, thinning out what were once thriving Greek expatriate communities in New York and ondon.

"It was the Inland Revenue that killed British shipping," says one Piraeus-based Greek in an aside. "You should be writing that story," he suggests.

Greece's gross returns from shipping rose steadily during the recent boom years — from a GDP contribution of about 3% in 2000, to a record €19bn or almost 8% of GDP in 2008. While this figure pr bably does not accord with the industry's total earnings, its significance does not need labouring.

Even though they are better settled in their homeland than ever before, Greek owners will leave for other locations if pressured, says Mr Gratsos, and this, unthinkable though it might have been a few years ago, is echoed by others. According to Mr Gratsos, a likely destination for some ould be the Far East, "where the industry is headed anyway".

So far there is little sign of an exodus, but the comm nity's cash is another matter. There is a widespread belief hat some shipowners have already elected to ship capital overseas, rather than let the government get its hands on their reserves. No one knows the amount of capital that has led Greece since the onset of the crisis late last year, and it is doubtful if even the country's central bank can say with any accuracy what has been transferred from the accounts of anxious shipowners. But it is probably billions.

One Greek report recently put the overall amount to have been moved out over the last three months at €10bn, while a prominent shipping banker tells Lloyd's List he estimates that half of the $10bn-$20bn of shipowners' money he believes is lying in Greek banks will flee if it has not already done so.

It is hard to know what credence to attach to figures t are being bandied about, but one leading owner with a mixed fleet says: "Maybe those levels are true. Certainly there have been some large sums leaving Piraeus accounts. People are nervous because the government has been careless. Too many politicians have been talking when really there should be one official line, expressed through the minister of the economy or the prime minister."

He says panic moves are "self-defeating" and "unnecessary". However, "psychology is half of everything and now some people have got nervous".

Shipowners may have been anxious on two grounds — first of all by airy government talk of taxing offshore companies, the building blocks of the industry's tax-exempt status, and then by international speculation about national bankruptcy.

"The government has to be seen to tax the rich as a pol libi for the unpopular measures," says ship finance consultant Ted Petropoulos of Petrofin. "But what is not realised is that as soon as you start threatening that, the ones that can take action are the rich, so it is a big mist me will always make the calculation that, even if there is only slight risk, it is better to be safe than sorry."

Despite this, Mr Petropoulos says there has been no real effect on shipping so far and the overall scenario of a possible Greek default has been ridiculously over-hyped in his opinion. "This is a most unlikely scenario, although people have been voting with their feet and I am now much more con erned with the liquidity problem. The scaremongering has been unprecedented. I do not think I have seen any other co ntry so steadily maligned for what, at the end of the day, is simply a higher debt," he says.

One interesting question is whether Greek banks may be ed with a double whammy of soaring borrowing costs on the international market and a pull-out of large deposits, which could squeeze their lending to owners. For a golden moment in the second half of 2009, Greek banks — which already account for about one-quarter of lending to the Greek-owned fleet — looked as though they were primed to expand their share as foreign banks on the whole remained quiet.

Experts contest the suggestion that the balance has sw ely against them. "We are honouring our commitments and we are considering new business in line with the risks in the various shipping markets," says a senior official at one of the leading Greek shipping lenders. "It is a case of so far so good."

He admits the institution has been affected by the higher financing costs and that related to how competitive it could be for owners' projects. "But we do entertain new business," he says.

"We have customers accepting our offers and we hope to continue to do so for the rest of 2010."

The same banker even suggests: "Foreign banks do not like Greek risks much at the moment and some have included even shipping in that, so there are international lend t are having problems in supporting Greek owners and to that extent we are more competitive than some foreign banks."

He also shrugs off any impact from customers withdrawing funds, saying that his bank has budgeted for deposits to remain at 90%-95% of lending for this year, the same level as for 2009.

Mr Petropoulos agrees that so far the banks are holding up well. “Surprisingly, up to about a couple of weeks ago, there was still a good share of [ship] lending taking place by Greek banks. At the moment I think things have slowed down because they are taking stock of the situation.

“In particular, I think they are a little perplexed as how to price loans for eight to 10 years when in the short term the country’s debt is so expensive. All the Greek banks know this is temporary and will be eased when some order is put into the country’s affairs.”

In the meantime, though, there is positive financing n ws for owners as Petrofin has detected a pick-up since last November in the number of foreign banks willing to lend to Greek owners. “It is not an explosion, but there is a positive trend,” he says. “Greek shipping is fundamentally strong and so is the G k banking system. You might say they just happen to be in a country that is going through some p oblems.”

Mr Petropoulos identifies one of the main problems in the EU’s reaction to the Greek crisis, and in Athens’ own well-intended austerity proposals, as “a lack of hope and a lack of a catalyst for growth”.

Here, he believes that Greek shipowners’ enormous liquidity could be part of the solution rather than the problem. “There is a great opportunity if the government provided prop r incentives to bring it in, and also to invest, rather than moving it out. Other countries are doing this, but so far we are not,” he says.

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