Investing in NPL in Greece: A promising market starting to emerge

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Now that investors in Non-Perfoming Loans (NPL) are increasingly looking for higher returns in emerging markets and seem to be heading south for opportunities, Greece could be one of the most promising emerging markets in Europe as the country continues to have not only a very dense volume of bad debt but also a record-high NPL ratio of over 40%. The pressure to reduce NPL and deleverage the banking system is stronger than ever, and the transactional market is just now starting to emerge.

Economy

Following almost a decade of being under international financial aid, Greece has officially exited the external bailout programs last August, ending 2017 with a 1.5% year-on-year (y-o-y) Gross Domestic Product (GDP) growth. This was the first time in over 10 years that the Greek Economy grew, following a period of successive GDP decreases that peaked at -9.1% in 2011, followed by an also very expressive fall of -7.3% in 2012. The current year is not only confirming the positive performance of 2017, as it brought a faster pace of growth. So, in the 1st quarter of 2018, the Economy in Greece expanded by 2.6% (y-o-y) and in the 2nd quarter exhibited a 1.8% rise. The latest means a deceleration when facing Q1, but continues to be above the 1.4% y-o-y growth recorded an year ago, in Q2 2017.
This slowdown in GDP between the last two quarters follows the European trend, as y-o-y GDP growth in EU (28-member countries) backed from 2.4% in Q1 to 2.2% in Q2. But also means that if the Greek Economy was growing above the European average in Q1, it is now underperforming it.
As for prospects, Eurostat (in its Summer forescast) estimates Greek GDP to grow 1.9% in 2018 and further accelerate to 2.3% in 2019.

GREECE GDP GROWTH Q2 2018 (YoY)

1.8%

EU28 GDP GROWTH Q2 2018 (YoY)

2.2%

Property Market

Positively impacted by an improving Economic environment and by growing foreign interest – including the one boosted by the investment attraction program that grants the "Golden Visa" -, the residential market is finally picking up. According to the central Greek Bank, housing prices (the national price index refers to apartments, both new and old) have increased 2.5% in the 3rd quarter, the double of the 1.2% rise recorded in the previous quarter. The 1st quarter of 2018 was the first time in nine years that housing prices in Greece have grown, although at a residual 0.3% y-o-y. Q4 of 2008 was the last time housing prices had increased in Greece and from then, and up until the beginning of 2018, every quarter had shown a downward trend in prices. In fact, between 2012 and 2013 these falls have even ranged between -9.6% and -12.8%. Since then, the decrease has been slowly softening, but only this year prices have definitely inverted the long downward path.
Specifically, in Athens, prices are now rising 3.7%, following the 1.8% (Q2) and 0.7% (Q1) growths of the two previous quarters. It was also only early this year that prices in the capital city inverted the downward trend of the previous years, with the aggravating that falls in prices had begun earlier than in total market, namely in mid-2008. During this period, prices fell the most around 2012 and mid 2014, also between -9% and -13.2%. As for Thessaloniki, prices only started to pick up in 2nd quarter 2018, after 37 quarters of consecutive falls, that low-peeked at -14.6% in mid-2012. In 3rd quarter, prices of apartments in this city rose 1.9% facing 2017, following an 0.8% growth in Q2.

GROWTH OF HOUSING PRICES TOTAL (Q3 18 YoY)

2.5%

GROWTH OF HOUSING PRICES ATHENS (Q3 18 YoY)

3.7%

GROWTH OF HOUSING PRICES THESSALONIKI (Q3 18 YoY)

1.9%

NPL Stock and Ratio

The NPL stock in Greece continued to shrink in the Q2 2018, now sitting at €88,9 billion (bn). This is an important reduction of €18,2 bn from the peak of €107,1 bn seen in Q1 2016, but continues to be a very important burden (about 12%) in the total European stock, that now stands at €731 bn. Nevertheless, the good news is that we have to go back to Q3 2013 to find a lower stock (at the time €87,8 bn), once for over almost two and half years - from Q1 2015 to Q2 2017 - the NPL quarterly stock in Greece as always stood above the €100 bn mark. But on the other hand, the current stock is almost three times the volume of bad debt the country had at the time of the first bailout program in mid-2010 (€31,8 billion). The highest stock continues to be in business loans (€50,8 billion), but this was also the segment with the sharpest decrease (from €63,5 billion in Q1 2016). As for residential loans, the stock now stands at €27,5 bn, compared to €28,5 in Q1 2016). As for consumer loans, NPL decreased from €15,2 bn in Q1 16 to €10,4 bn in Q2 2018).

As expected, the ratio of NPL (to total gross loans, in %) continues to be far ahead all the European countries and it is more than ten times the EU28 average, that at Q2 2018 sat at 3.6%. NPL ratio in Greece now stands at 47.8% (Central Bank of Greece) and although the reduction in stock, the ratio however hasn't showed a similar decrease process, once that the peak of 49.1% has only been hit in Q3 2016 and it is not faraway from the current level. In fact, in over 13 consecutive quarters the ratio stands above 45%. In the beginning of 2010, NPL ratio was 11.6%, steadily and regularly increasing from then to now. Since Q1 2014, this ratio has been above 40%. In all segments, NPL ratios are above 44%, the highest being in consumer NPL, in which 57% of gross loans are now non-performing. In the residential segment, NPL ratio is 44.3%, showing a residual increase facing the previous quarter and in companies these ratio stands at 48.3%, below the 49.7% the quarter before.

Potential NPL Deals

Tackling NPL continues to be a major challenge for Greece, whose almost half the gross loans in the banking systems are non-performing, this being the case in the last four years, despite improvements in reducing the stock. The Greek pipeline, which is for a long time-awaited by investors, has come more visible over last year, when close to €3,5 bn were traded. This is a market that has just now started to emerge, and this year is expected to strongly overcome the 2017 performance. So, Greece is finally expected to come into the spotlight as one of the most promising markets in Europe at a time when investors are seeking alternative emerging markets for higher returns and heading south in Europe for this purpose. So, in the first half of the year alone, the Greek market accounts for over €6.5 bn in NPL sales and at least other €7 bn are known to be in the pipeline for the remain of the year, as the four major banks in the country are now more open to dispose NPL, also taking advantage of more favourable economic conditions. Alpha Bank and Piraeus are expected to be some of the most active sellers in the market and are known to have several new projects for disposal, as is the case of the two €400 million portfolios owned by Piraeus Bank and expected to be transacted over H1 2019 and a €900 million-portfolio of Alpha Bank. This bank is also already in the bidding process for the €1 bn Jupiter project.

NPL STOCK (Q2 2018)

€88,9bn

NPL RATIO TOTAL (Q2 2018)

47.8%

NPL RATIO RESIDENTIAL (Q2 18)

44.3%

NPL RATIO BUSINESS (Q2 2018)

48.3%

ESTIMATED NPL TRANSACTION VOLUMES (2018)

€13-14bn

2018 NPL TRANSACTION Y-O-Y EXPECTED GROWTH

285%

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