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FOCUS ON GREECE

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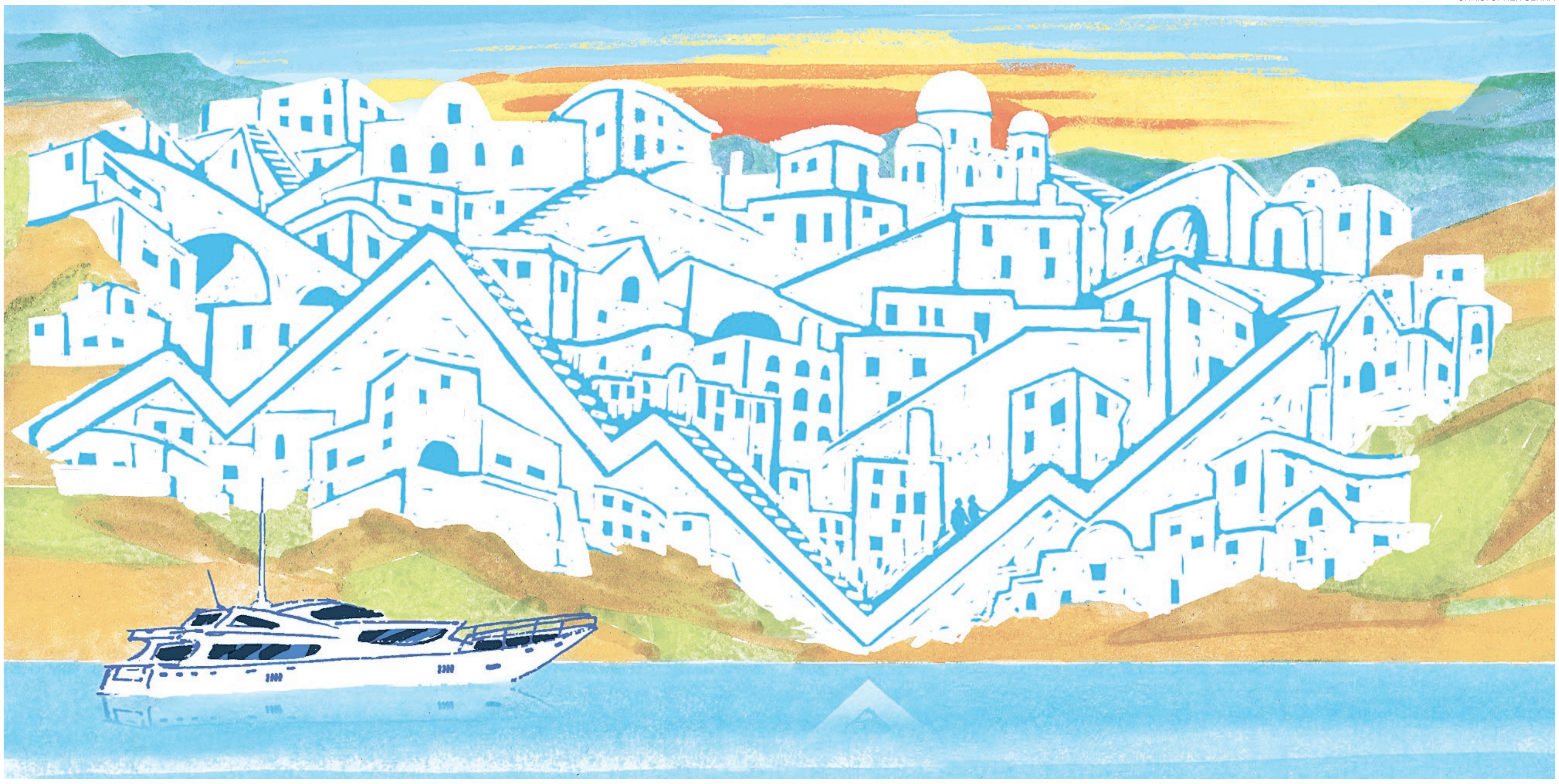

OPTIMISTS REAP DIVIDENDS IN RETURN FOR THEIR FAITH

REFORMS ARE BEGINNING TO BITE AND TO STIMULATE A BROAD ECONOMIC RECOVERY

*By **Catherine Bolgar***

Investing in Greece has been highly profitable for a number of foreign investors, and they're going back for more.

"Many foreign investors invested in Greek government bonds," says Spyros Skouras, economics professor at the Athens University of Economics and Business. "Several billion dollars were made in the last year and a half through those trades as the price of Greek government bonds recovered," thanks to the Private Sector Involvement (PSI) deal cut last spring as part of the country's financial bailout.

Foreign investors also bet on the recovery of Greek corporations and invested in the recapitalization of Greek banks.

According to press reports, Third Point LLC, a London-based hedge fund run by Daniel Loeb, reaped a $500 million profit last year on Greek government bonds. In March, Third Point created the Hellenic Recovery Fund to invest in Greece, and in May the fund announced that it paid $60 million for a stake in Greek oil producer Energean Oil & Gas.

In May, the Financial Times reported that hedge funds Farallon Capital, York Capital Management, QVT Financial and Dromeus were set to participate in the recapitalization of Greek banks, starting with a €550 million ($747 million) share issue by Alpha Bank.

Other hedge funds in Greece include Baupost Fund, run by Seth Klarman, which bought government bonds, and Emma Delta, which agreed to buy a 33% stake in gambling monopoly OPAP for €652 million. Dufry AG of Switzerland bought 51% of the travel retail business of Folli Follie Group for €200.5 million.

"The perception broadly is there is a wave of opportunity for people who are willing to take a relatively optimistic view of developments in Greece—such as that Greece won't exit the euro any time soon," Dr. Skouras says. "People who took that view a year and a half ago made a very large amount of money. However, that opportunity has run out of steam as that perception has become widely accepted."

Indeed, perceptions about Greece's economy are getting more positive by the day.

"Greece has made important progress in rectifying pre-crisis imbalances," the International Monetary Fund said in its July review. The IMF, the World Bank and the European Central Bank make up the so-called Troika that has set difficult conditions for the two bailouts it has funded since the crisis began six years ago.

Greece is one of the 10 most improved economies in the 2013 edition of the World Bank's Doing Business survey. Greece shot up to 78th place out of 185 countries, from 89th a year earlier.

The country made key business-friendly reforms in three areas, according to the survey. It sped up the process for getting construction permits by setting strict time limits for municipalities to process permit applications. It strengthened investor protections by requiring greater disclosure of related-party transactions and it eased insolvency with a new pre-bankruptcy rehabilitation procedure to make the rescue of distressed companies more attractive.

> GREECE IS ONE OF THE 10 MOST IMPROVED ECONOMIES IN THE 2013 EDITION OF THE WORLD BANK'S DOING BUSINESS SURVEY.

Greece is also beginning to go after tax evaders. "As part of reforming the overall Greek revenue collection system, you are seeing enforcement of the rules," says Jacob Kirkegaard, research fellow at the Peter G. Peterson Institute for International Economics in Washington.

However, successes in one area bump up against the need for more improvement in other areas. Tax cases can take years to settle, and the Troika now is demanding that Greece reform its legal system to overcome these constraints, Mr. Kirkegaard says.

The labor market also has been liberalized. "It has become easier to fire private-sector workers," he says. Two million Greeks—out of a total population of around 11 million—have lost their jobs in the private sector since the crisis began.

Greece is "in the process now of a sorely overdue reorganization of the entire public sector, including actual layoffs," Mr. Kirkegaard says. "It's one of the things private investors should be looking at. Greece has changed."

Public-sector workers have held several strikes recently, "a signal that reforms are beginning to bite and to take shape," Mr. Kirkegaard says. "You would expect those who are losing their jobs to be up in arms about that. What you don't see is hundreds of thousands of Greeks joining the strikes. The fact that you don't have widespread popular protests is a sign of health and broader political stability."

With unemployment topping 27%, the highest rate in the European Union, Greece has a huge pool of available, highly skilled workers.

"There are opportunities, because I don't think wages are going to increase anytime soon, but they can't drop further," says Dimitri Papadimitriou, executive

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GETTY IMAGES/Izzet Keribar

Greece has 6,000 islands in the Aegean and Ionian Seas, but only 227 are inhabited.

A PLACE TO EXPLORE SIGHTS AND OPPORTUNITIES

Sun, sea, sand, not to mention fabulous food—Greece has all the makings of a dream vacation. Tourism directly accounted for 6.5% of gross domestic product and indirectly for 16% last year.

On the one hand, that low percentage shows that Greece has managed to diversify its economy. On the other hand, it shows that plenty of opportunity for growth remains.

"Greece has such a natural advantage in terms of geography for tourism, it's very far from having exhausted its potential," says Spyros Skouras, economics professor at the Athens University of Economics and Business. "There are certainly a lot of foreign investors who are considering buying existing hotels, or land, at historically low prices. We also see wealthy individuals purchasing premium properties for their own use, with sales of private islands in the last couple of years."

Greece has 6,000 islands in the Aegean and Ionian Seas, but only 227 are inhabited.

Agrotourism and health tourism are underexploited niches, says Dimitri Papadimitriou, executive vice president, provost and professor of economics at Bard College, in Annandale-on-Hudson, New York.

Tourism boomed this summer, accelerating the gradual recovery, as the country attracted travelers wary of unrest in many other Mediterranean destinations such as Turkey or Egypt.

Greece expects to hit a record 17 million visitors this year, a million more than last year. Tourism receipts are expected to rise 10% over 2012, the central bank forecasts.

— Catherine Bolgar

Optimists reap dividends in return for faith

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vice president, provost and professor of economics at Bard College, in Annandale-on-Hudson, New York, and president of its Levy Economics Institute. Investors who are sensitive to the frustrations of people who have seen wages fall 30% to 40% can find plenty of well-educated, skilled workers, he adds.

The prices of many assets also have fallen sharply. Greek banks face a Troika mandate to rid their portfolios of assets from outside the country. Real estate values have shrunk considerably, and though they might drop further, Dr. Skouras says, "investors may decide we're near the bottom and make significant purchases."

Equity prices also are down. The benchmark Greek index is at about 20% of its pre-crisis levels, despite a rally that made it Europe's top performer last year.

"For financial investors, the stock market has dropped dramatically," Dr. Papadimitriou says, "but it maybe isn't an opportunity for one to go in and quickly get out. There is excessive volatility" because of reactions to events within the Euro Zone and the Troika's response to Greece's situation.

Another opportunity with a longer horizon is buying Greek companies, which also have seen values drop. "Some companies are not effectively run and others are but are undervalued," he says.

Both private and state-owned companies are looking for foreign partners. The Troika had counted on privatizations to bring in €50 billion, but those aspirations have been whittled to €3 billion. Although valuations have collapsed, buyers remain few.

Cosco, a Chinese state-owned shipping giant, bet on Greece in 2010, investing €500 million to lease and upgrade half of the Athens port of Piraeus. Cosco last month reached a deal to expand its operations at Piraeus.

Logistics is one of the sectors that play to Greece's strengths—its strategic location on the Mediterranean at the gateway between Europe and Asia, its mild climate, and the lingering benefits of infrastructure investment in roads, bridges and airports built for the 2004 summer Olympics in Athens.

Greece also has been expanding in other hot sectors, such as renewable energy, having both lots of sun and lots of wind. Conergy and WPD from Germany, EDF-EEN from France, Greece's PPC, the Greek-Spanish alliance of Rokas-Iberdrola and Next Solar from the U.S. have invested in solar facilities in Greece.

Such investments require a long horizon, but "it does pay off," Dr. Papadimitriou says. "Dependency on shale oil from Russia and Kazakstan eventually may become very troublesome. Having in Europe the capacity to use clean energy is an opportunity."