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Focus notes: Greece

Foreign Direct investment in Greece

Recent trends and Outlook

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1. Preface

This paper provides a detailed overview of foreign investment activity in Greece and analyses the progress made so far by authorities in creating a more business-friendly domestic environment. Based on recent evidence on a number of investment projects that have been undertaken in key sectors of the economy - and drawing on the international literature on the determinants of FDI - this paper argues that the ongoing stabilization/improvement in the domestic macroeconomic, institutional and regulatory environment will provide a solid base for a sustainable model of economic development, emphasizing extroversion, competitiveness and investment. The rest of this document is structured as follows: Chapter 2 takes a bird eye's view on the international literature on the economic benefits and determinants of foreign direct investment; it also provides a brief summary of recent trends in global FDI. Chapter 3 offers an intertemporal perspective of FDI in Greece. Chapter 4 explains why Greece can become a more favorable destination of inward FDI in the years to come, and Chapter 5 concludes.

2. Related literature & recent trends in global FDI

2.1 Term & definition

The IMF provides the following definition for FDI: *"direct investment is the category of international investment that reflects the objective of a resident entity in one economy obtaining a lasting interest in an enterprise resident in another economy… The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the investor on the management of the enterprise. Direct investment comprises not only the initial transaction establishing the relationship between the investor and the enterprise but also all subsequent transactions between them and among affiliated enterprises, both incorporated and unincorporated".*[1] The IMF (1993) stipulates that the concept a direct investment capital transaction encompasses equity capital, reinvested earnings and other capital as its components.[2] The aforementioned provided the base for the relevant definition adopted in the second edition of the OECD (1999), which recommends that the minimum equity stake for an investment to qualify as direct should be 10%.[3]

[1] See IMF (1993: 86).
[2] The differential measurement and recording of these components in the national accounts among countries impedes correct comparisons of the FDI inflows. See *e.g.* Bitzenis (2006a), Bitzenis et al. (2007).
[3] The definition of FDI Bank of Greece uses in its balance of payments accounts in in line with OECD (1999).

2.2 Why FDI matters

From an external sustainability standpoint, FDI is generally considered to be the most stable source of financing of a country's current account position, with significant economic benefits for the host country. Among others, such benefits may include:[4]

- introduction of new technologies and development of innovative products & services;
- strengthening of competition in the domestic economy;
- structural transformation of an economy's development model and production base (Lipsey 2004);
- exports boost as the subsidiaries of foreign companies tend to be more extrovert than their domestic counterparts (Camarero Tamarit, 2004);
- faster accumulation of know-how and intelligence about foreign (export) markets through partnerships and joint ventures between domestic businesses and subsidiaries of foreign companies operating domestically and/or imitation of the products & production processes of foreign competitors; and
- FDI is less easily reversible than other forms of inward foreign investment (*e.g.* portfolio inflows) and thus, they can operate as a source of stability for the hosting country in periods of increased financial instability and deleveraging.

For Greece in particular, attracting increased amounts of foreign direct investment in the period ahead is a key prerequisite for a swift return to positive economy growth, among other reasons because:

- FDI can finance domestic economic activities and investment projects, facilitating the necessary transformation towards a more sustainable and extrovert model of economic development;
- FDI can provide a boost to the economy's medium-term growth potential by stemming the hemorrhage of high-skilled human capital to foreign markets and by decelerating the pace of depreciation of idle physical capital due to the pronounced disinvestment and the protracted economic recession; and
- FDI can partly substitute for bank credit to the domestic economy, as even after the recently completed bank recapitalization programme, domestic banks continue to face significant supply-side headwinds in the form of *e.g.* rising NPLs and a still high dependence on central bank funding.

2.3 FDI determinants: a bird eye's view on the international literature

A recent study published by Greece's Center of Planning an Economic Research (KEPE)[5], provides a good summary of the international literature on the determinants of foreign direct investment. Among others, such determinants include:

- economic enlargement rates and growth potential (positive relationship), see *e.g.* Daude & Stein (2007), Nikolopoulos (2008), Kinda (2010), and Arbatli (2011).
- global liquidity conditions, especially as regards small economies with strong growth potential (positive relationship), see e.g. Arbatli (2011);
- degree of domestic political and economic stability (positive association), see *e.g.* Arbatli (2011) and Pantelidis et al.;
- sovereign solvency and creditworthiness (positive relationship), see *e.g.* Walch & Worz (2012);
- hosting country's geostrategic importance and proximity to countries/regions featuring special characteristics *e.g.* abundance of natural and other resources (positive relationship), see *e.g.* Kinda (2010), Pandelidis et al. (2012);
- size of domestic market in terms of *e.g.* per capita income, population and demographics (positive relationship), see *e.g.* Kinda (2010), Pantelidis et al. (2012);
- stability of taxation system and level of corporate tax rates, see *e.g.* Mateev (2009), Pantelidis et al. (2012);
- high inflation rates or persisting deflation discouraging FDI (ceteris paribus basis), see *e.g.* Dabla-Norris et al. (2010), Arbatli (2011);
- labor costs in the domestic economy (negative relationship), see *e.g.* Arbatli (2011);

[4] See Bank of Greece *Annual Report 2013*.

[5] "Foreign Direct Investment: "A comparative Study for Greece and a Selective Group of Countries - 3rd draft", KEPE, September 2013 (available in Greek).

- degree of liberalization of hosting country's economy and existence of restrictions to trade, see *e.g* Morrisey and Rai (1995), Arbatli (2011);
- domestic regulatory framework, quality of institutions, friendliness of business environment, efficiency and fairness of judicial system (positive association), see e.g. Benassy-Quere et al. (2007), Arbatli (2011);
- level of intermediation and degree of development of domestic financial system (positive association), see e.g. Arbatli (2011);
- sufficiency of domestic education system and quality of human capital (positive relationship), see e.g. Pandelidis and Nikolopoulos (2008), Kinda (2010);
- R&D expenditure (positive relationship), see e.g. Thompson (2001).

2.4 Recent trends in global FDI

Global FDI inflows recorded a sharp decline in 2009 as a result of the global financial crisis, reaching $1.21 trillion, compared to $2.01 trillion in 2007. The years 2010 and 2011 witnessed a partial recovery of global FDI to $1.65 trillion, with their total volume remaining well below pre-crisis levels. According to latest UNCTAD report published last June, global FDI inflows amounted to $1.35 trillion in 2012, declining by 18.2% from a year earlier.[6] This was purportedly the result of lingering investor uncertainty about the prospects of the world economy as well as weak economic conditions in major economies (e.g. euro area). In this difficult environment, Greece managed to substantially increase its FDI inflows in 2012 (to $2.95 billion from $1.14 billion in the prior year), surpassing the levels of FDI inflows of the year 2007. As we will explain later, this is a positive development of significant importance regarding the outlook of Greece as a potential destination of global FDI inflows, especially considering that 2012 marked the 4th consecutive year of an unprecedented domestic economic crisis.

3. FDI in Greece: an intertemporal perspective

3.1 FDI contribution in the financing of Greece's balance of payments

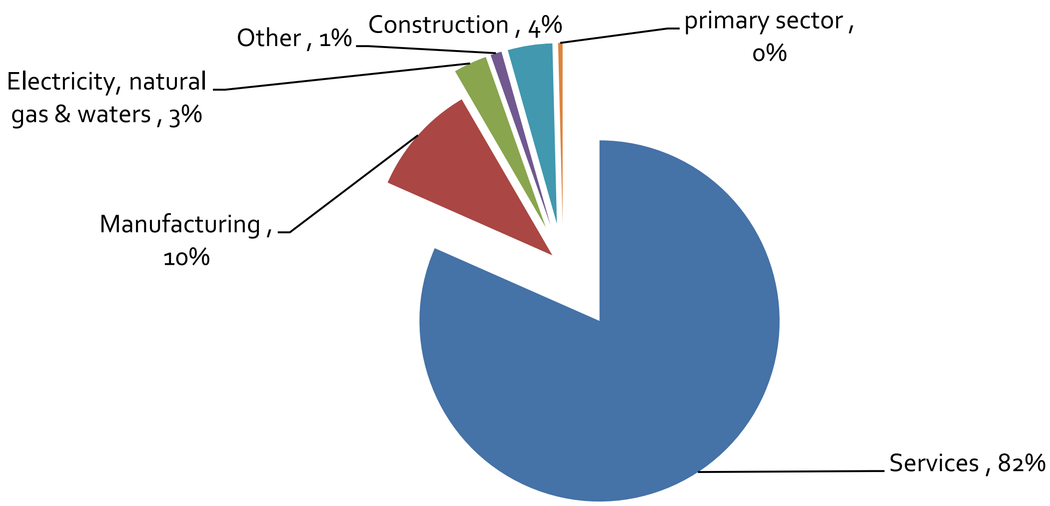
The intertemporal analysis of the financing sources of Greece's balance of payments (BoP) reveals some interesting developments as regards the evolution of foreign *direct* investment (FDI). Between 2001 and 2008, the main bulk of the current account deficit was financed by inward *portfolio* investment and, to a lesser extent, by *other* investment (mainly cross-border loans), with net FDI flows having a rather insignificant contribution. However, the outbreak of the 2008/2009 global financial crisis and the ensuing collapse of global investor sentiment led to a steep drop of net portfolio inflows and a further decline in inward direct investment, with the ensuing financing gap being almost exclusively covered by increased external government borrowing in the context of the two bailout programmes agreed with official lenders (May 2010 and March 2012). In more detail, over the period 2001-2008 cumulative FDI in Greece from non-residents reached €14bn, while outward direct investment from residents amounted to €12.5bn. Accordingly, total net FDI inflows over that period amounted to only €1.6bn. Net FDI in Greece over the period 2009-2012 totaled €1.2bn, as a result of investment inflows from non-residents to the tune of €5.1bn and outward investment from residents of €3.9bn. In average annual terms, direct investment from non-residents declined to 0.6%-of-GDP in 2009-2012, from 0.9%-of-GDP over the period 2001-2008. To a large extent, foreign direct investment inflows in Greece over the period 2001-2008 represented acquisitions of domestic companies by foreign investors, with many of these companies constituting privatizations of formerly State-owned enterprises. In the contrary, a relatively small portion of foreign direct investment over that period targeted the extension of existing business activities or the development of new ones (*i.e., greenfield investment*). On a more positive note, the period 2009-2012 witnessed a partial reversal of the aforementioned trends, with an increasing portion of FDI being channeled to more productive activities, such as the setting up of new companies and/or contributions to the share capital increase of existing ones. However, the aforementioned development was partially offset by the losses incurred by foreign companies operating in Greece (as a result of the domestic recession), which have been recorded as negative reinvested earnings, in line with the international methodology of calculating FDI.

[6] UNCTAR, "World Investment Report 2013", June 2013. (http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=588

3.2 Geographic and sectoral analysis of FDI

Between 2001 and 2012 the main bulk of inflows were channeled to the domestic services sector, especially in the areas of financial services, telecommunications and, to a lesser extent, commerce and real estate (Graph 1.1 below and Graph A.1 in *Appendix I*).[7] In the domestic manufacturing sector, foreign investor interest was primarily focused in the areas of chemicals, machinery and foodstuff and, to a lesser extent, metallurgical products and refineries. Over the last decade or so, the overwhelming share of inward direct investment from non-residents came from the EU-27 (mainly from euro area countries), with France and Germany accounting for more than 50% of total FDI (Table 1.1 below & Graph A2 in *Appendix I*). In more detail, the most important FDI transactions (*i.e.*, in excess of €1bn) realized in the period 2001-2012 included: (i) the acquisition and the subsequent participation in the share capital increase of *Commercial Bank of Greece* by France's *Credit Agricole*; (ii) the acquisition and the subsequent participation in the share capital increase of the *Hellenic Telecommunications Organization (OTE)* by *Deutsche Telekom*; and (iii) the acquisition and the subsequent participation in the share capital increase of Greece's Geniki Bank by Societe Generale. In a cross country comparison, FDI in Greece (as percent of GDP) has been lagging that in other countries in the euro area and in the broader region in recent years (Table A1 in *Appendix I*).

Graph 1.1 – Foreign direct investment in Greece by sector of economic activity (2001-2012; % of total)



Source: BoG

[7] See *Bank of Greece, "Annual Report 2012", May 2013*

Table 1.1 – Foreign direct investment in Greece by country/region of origin (2001-2012, million euros)

Inward FDI from non-residents			
	2010	**2011***	**2012***
EU-27	197	376	2,237
Euro area	*530*	*224*	*2,065*
Other OECD countries	45	509	155
Balkan countries	3	-2	-3
Middle East, Mediterranean region & former Soviet Union /1	9	15	21
Other countries	-4	-77	-118
Total	**249**	**822**	**2,292**
Outward FDI from residents			
	2010	**2011***	**2012***
EU-27	607	837	-418
Euro area	*489*	*120*	*402*
Other OECD countries	542	324	218
Balkan countries /1	90	18	53
Middle East, Mediterranean region & former Soviet Union /1	17	12	12
Other countries	-80	84	105
Total	**1,176**	**1,275**	**-30**
Source: Bank of Greece, "Annual Report 2012"			
(*) Provisional data			
1/ Greece's main trading partners in the said region			

3.3 Sharp increase of FDI inflows to Greece in 2012 despite the pronounced domestic recession

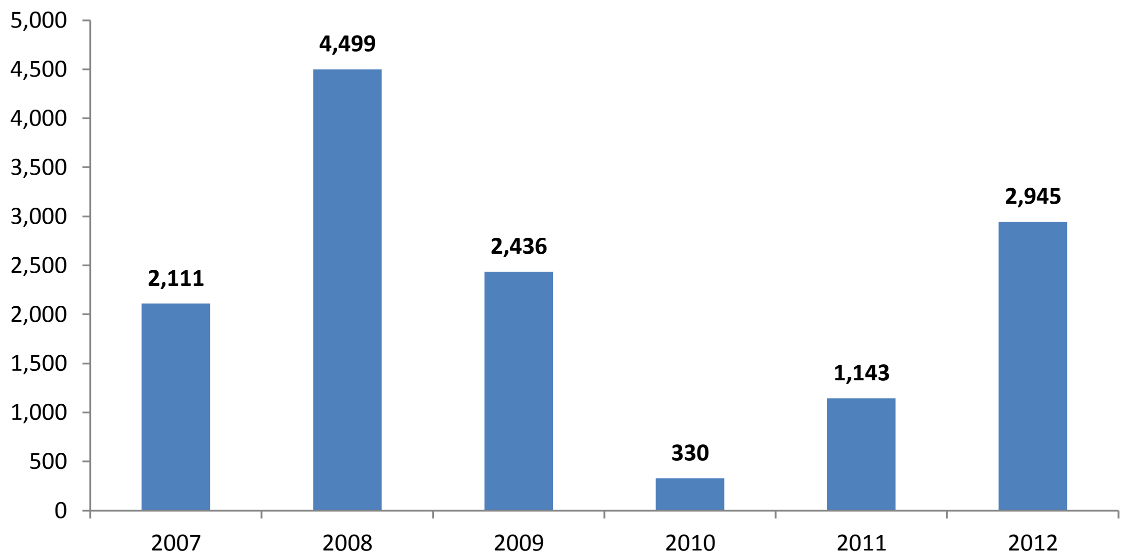
According to United Nations Conference on Trade and Development (UNCTAD) *World Investment Report 2013*, FDI inflows to Greece recorded a significant increase in 2012 (+158% YoY) despite the pronounced domestic recession, reaching €2.95bn (Graph 1.2). It must also be noted that UNCTAD's report refers to *net* FDI inflows and not to total (*gross*) inflows that represent a better metric of actual foreign investment activity in a country. In fact, Greece's performance in attracting foreign investments in 2012 is much strong than mentioned in the aforementioned report (more than €4.4bn, according to Bank of Greece data), but is substantially decreased due to the calculation methodology used (negative reinvested earnings because of losses in enterprises, which is a common phenomenon during periods of crisis).[8] Overall, 2012 marked a positive year for Greece as regards foreign direct investment trends, especially taken into consideration that global FDI inflows declined that year by 18% YoY. Furthermore, there was an improvement (rise) in the share of foreign direct investment channeled to more productive uses, such as business startups and participations in share capital increases with related gross foreign inflows amounting to ca €4.67bn, compared to just €0.4bn for mergers and acquisitions of domestic companies. In 2o12, areas of domestic economic activity that attracted the primary bulk of inward FDI included banks, tourism and commerce as well as food and machinery. More specifically, the five most sizeable FDI tickets realized in 2012 include:[9]

[8] "Under the current treatment, it is possible for reinvested earnings to be negative in cases where the direct investment enterprise makes an operating loss. Reinvested earnings are then recorded as a negative income payment and disinvestment in the enterprise. There are claims that this makes little sense and creates presentational difficulties. However, the negative income can be seen as offsetting a withdrawal of equity in the enterprise, that is in case that the enterprise takes money from the investors, who in turn take the money out of the enterprise". (Source: IMF committee on balance of payments statistics and OECD workshop on International Investment Statistics, Issue Paper 5A, Reinvested Earnings, May 2004).

[9] Sources: KEPE (2013), Kathimerini 28.7.2013.

- participation in the share capital increase of *Commercial Bank of Greece* by *Credit Agricole* (***€2.3bn***);
- participation in the share capital increase of Greece's *General Bank* by *Societe Generale* (***€286mn***);
- Investment to *RBS NB* (Greece) from its mother company *RBS NB* (Holland) (***€213bn***);
- share capital increase of *Johnson & Johnson Hellas SA* from its mother company *JC General Services CVBA* (Belgium) (***€175mn***); and
- participation in the share capital increase of *Pfizer Hellas SA* from its mother company in Luxemburg (**€164mn**).

Graph 1.2 – Greece's FDI flows (million euros)



Source: (UNCTAD) World Investment Report 2013

4. Can Greece become a favorable destination of global FDI inflows? *What has been achieved so far and the challenges lying ahead*

4.1 Causes of Greece's poor past record in attracting FDI

Although a detailed analysis of Greece's past underperformance in attracting FDI is beyond the scope of this document, one can trace the causes of such underperformance in a multitude of administrative problems and domestic structural rigidities preventing the creation of an environment conducive to foreign investment. In a nutshell, such rigidities included, among others:

- red tape, beurocratic structures and inferior licensing procedures for business startups;
- an over bloated and highly inefficient public sector crowding out healthy private investment;
- a highly inefficient, distortive and inherently unstable taxation system;
- fast ULC growth in the initial years following the euro adoption, not moving in synch with respective productivity rates;
- a rigid domestic labor market and pronounced product market rigidities encouraging rent-seeking behavior and raising severe barriers to entry;
- lack of reform appetite by the political establishment;
- an unsustainable development model oriented towards consumption and non-productive investment; and
- lack of a national strategy to emphasize extroversion and competitiveness.

4.2 Adjustment programme success stories: *steps already taken toward establishing a more business-friendly environment*

Over the last 3½ years or so, Greece has embarked on a major adjustment effort aiming to correct long-standing macroeconomic imbalances and to facilitate a return to a sustainable medium-term economic growth.[10] The adjustment attained thus far has come at a high economic and social cost (in view of the pronounced domestic recession and high unemployment), but it was undoubtedly necessary given the country's severe initial position.[11] Following the June 2012 national election, the new government made significant efforts to correct past implementation slippages and bring the EU/IMF-supported economic adjustment programme back on track. This effort culminated in the provision a new package of debt-relief measures[12] and the unlocking of official funding to Greece since December 2012. In spite of certain delays and slippages in implementing the agreed structural reforms programme, there is no doubt that the adjustment effort currently underway is already delivering tangible results. Among others: a) recent real activity and sentiment indicators signal a bottoming out of the domestic recession with a shift to positive GDP growth now expected from 2014 onwards; b) the budget execution remains on track to generate a primary surplus this year, a development that is expected to open the door for the provision of additional debt-relief measures by official lenders as early as in spring of 2014; c) the recently completed bank recapitalization programme has established the conditions for a gradual normalization of domestic monetary and financing conditions; and d) the recent labor marker reform has already engineered a rapid improvement of labor cost competitiveness, as reflected in the return of Greece's ULC-REER to its pre-EMU accession levels. In addition to the aforementioned success stories, a number of recent developments suggest that the ongoing efforts to restructure and liberalize the domestic product markets have already started to transform the domestic business environment towards a more investor-friendly orientation. The following points provide a testament of the aforementioned views:

- Greece ranked among the 10 most-improved economies in the ***World Bank and IFC Doing Business 2013*** report.
- Greece moved up five places In the ***World Economic Forum's Global Competitiveness Report*** for 2013-2014, raking 91st out of 148 countries compared to 96th among 144 countries last year. According to the World Economic Forum's report, Greece has started to show improvements in a number of areas, including the institutional environment, the efficiency of the labor markets, and technological adoption, although continued efforts are still needed.
- ***World Bank's "Global Investment Promotion Benchmarking 2012"*** ranked Greece's investment promotion entity, ***Invest in Greece Agency***, among the **top three** globally in their investor response performance. According to World Bank, *"Invest in Greece Agency improved greatly from 2009. Invest in Greece Agency went from being among the OECD's weakest performers in 2009 to being among the world's strongest in 2012. Most impressively, at a time of economic turmoil, when many IPIs would be discouraged, Invest in Greece Agency tried harder."*

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[10] This effort has been undertaken in the context of two consecutive economic adjustment programmes agreed with the EC/ECB/IMF troika of official lenders.

[11] The 2008/2009 global financial crisis found Greece suffering by far the most severe macroeconomic and fiscal imbalances

[12] The said relief measures were announced after the conclusion of the Eurogroup meeting of 26/27 November 2012.

4.3 Recent interventions in the domestic regulatory framework and taxation system

Some of the most recent initiatives taken by the domestic authorities to facilitate the transformation of the domestic business environment include:

(i) Endorsement of a new *Fast Track Law* titled "Creation of a Development Friendly Environment for Strategic and Private Investments" (*Table B1, Appendix 2)*. Among others, the new law aims to simplify and accelerate the licensing and implementation procedure of *strategic* investments, in view of their potential (beneficial) effects on the national economy;

(ii) Endorsement of a new law titled "Investment Tools for Development, Financing and other Provisions" (*Table B2, Appendix 2)*, incorporating certain amendments to the Income Tax and VAT Code. Among others, the new law aims to offer tax incentives to strategic investors.

(iii) Introduction of "One-Day, One-stop Shop" service (*Table B3, Appendix 2*), aiming to facilitate and speed up the procedure for the establishment of a new business.

(iv) Publication of "The Ultimate Legal Guide to Investing in Greece" (*Table B4, Appendix 2*), aiming to keep potential investors updated for any changes in legislation or the regulatory framework for investment.

(v) Introduction of a "Renewable Energy Sources (RES)" law, aiming to facilitate investment in the energy sector (*Table B5, Appendix 2)*

4.4 Increasing signs of foreign investor interest in key sectors of the domestic economy

The ongoing transformation of the domestic economic environment appears to be already producing tangible results, as attested by the sharp rise in foreign direct investment inflows in 2012 and visible signs of increased foreign investor interest in key sectors of the domestic economy. In an effort to highlight the geographic and sectoral aspects of foreign investor interest in Greek assets, we present below a list of some of the most important projects completed or initiatives taken over the last two years in areas not formally included in the country's privatization programme (Tables 2.1 & 2.2). As the following tables demonstrate, some of the most important FDI deals (or other investment-related activities) realized in recent months include**: (i)** the agreement between *Piraeus Container Terminal SA* (full-owned subsidiary of *COSCO Pacific Limited*) and *Piraeus Port Authority S.A.* on a new sizeable investment at the Commercial Port of Piraeus; **(ii)** the agreement between *Hewlett Packard (HP)* and *Cosco's Piraeus Container Terminal* SA for the use of Piraeus as a base for shipping HP's products to Eastern & Central Europe, North Africa and the Middle East**; (iii)** the agreement between Greece's *Eurobank Ergasias S.A.* and Canada's *Fairfax Financial Holdings Limited* on the terms of a proposed transaction aiming to increase the latter's participation in the share capital of *Eurobank Properties S.A.*, **(iv)** the acquisition of Greece's *Specifar* by ***U.S.*** *Watson Pharmaceuticals;* and **(v)** the "green light" given to a Joint venture between Italy's *Enel* and Greece's *Kopelouzos Group* for the construction and development of the biggest wind park in Greece. Finally, at an intergovernmental level, a recent development of great economic and geostrategic importance for Greece includes the announcement by the consortium operating the *Shah Deniz II* natural gas reserve in Azerbaijan that it has chosen the *Trans Adriatic Pipeline (TAP)* to transmit Azeri gas to Central Europe. The pipeline will run across northern Greece and it is expected to bring significant benefits to the domestic economy and the Greek society. Among others, it is estimated to bring in more than €1.5bn in foreign direct investment, while according to a recent study conducted by the Foundation for Economic and Industrial Research, benefits to the domestic economy over the next 50 years are expected to come in at €17-18bn.

Sector/activity	Investment project / initiative/transaction	Terms / strategic objectives / economic benefits
Natural gas transmission	**Trans Adriatic Pipeline (TAP)** chosen by the consortium operating the ***Shah Deniz II*** natural gas reserve in Azerbaijan to transmit Azeri gas to Central Europe.	*TAP constitutes one of the major components of the Southern Gas Corridor, running from Azerbaijan to Italy. The pipeline will run across northern Greece and it is expected to bring significant benefits to the domestic economy and the Greek society. Among others, it is estimated to bring in more than **€1.5bn** in foreign direct investment. According to a recent study conducted by the Foundation for Economic and Industrial Research, benefits to the Greek economy over the next 50 years are expected to come to **€17-18bn**. Furthermore, the construction work, which will start in the spring of 2014, will create **8k-10k new jobs** while the operation of the pipeline will generate **4.3k jobs** over next 50 years.*
Maritime transport	***Cosco Pacific Limited*** (world lading container terminal operator) announces new investment in ***Piraeus port.***	*Agreement reached between Piraeus Container Terminal SA (wholly-owned subsidiary of COSCO Pacific Limited) and Piraeus Port Authority S.A. envisages new investments at the Commercial Port of Piraeus with a budget of **€230mn**. COSCO has invested **€340mn** at the Piraeus port to date. According to the terms of the agreement PCT SA undertakes to, among others (a) construct the western part of Pier III; (b) construct the new terminal Petroleum piers and their networks; and (c) enhance Pier II with 12 E-RTG's. New investment is expected to increase the overall capacity of the container terminals by 3.7m TEUs to 6.2m TEUs annually. The duration of the Concession Agreement with Piraeus Container Terminal SA remains unchanged for all projects (until 2044), while the new Western Pier III will be operationally ready by 2020. The new investment project is expected to create 400 permanent jobs and to make Piraeus "the number one port of the Mediterranean".*

Sector/activity	Investment project / initiative/transaction	Terms / strategic objectives / economi benefits
Maritime tansport & logistics	Agreement between ***Hewlett Packard (HP)*** and China's ***Cosco***, operator of the Piraeus Port's Pier II, for the use of Piraeus as a base for shipping HP's products to Eastern and Central Europe, North Africa and the Middle East.	*The deal will also benefit Greek train service operator* ***TRAINOSE***, which has signed its own contact with HP for transporting its products to Central and Eastern Europe. Initial revenues to TRAINOSE are expecte to amount to c. €10mn/annum, before rising to €70mn/annum. The governmen expects the creation of many new jobs an the signing of similar agreements with other major multinational companies, including ***Ikea*** and ***Dell***.
Commercial real estate	Agreement between Greece's ***Eurobank Ergasias S.A***. and Canada's ***Fairfax Financial Holdings Limited*** on the terms of a proposed transaction aiming to increase the latter's participation in the share capital of ***Eurobank Properties S.A***. *The transaction is subject to regulatory & other required approvals and it is expected to be finalized in Q3 2013.*	*Upon completion of the transaction (and b investing approximately* ***€164mn****), Fairfax will increase its participation in Eurobank Properties to ca. 42% (from ca. 19% previously), while Eurobank would hold ca. 33.5%, assuming that all other shareholders Eurobank Properties will exercise their Right Furthermore, Eurobank and Fairfax would enter into a shareholders' agreement that would allow Eurobank to retain manageme control of Eurobank Properties until 30 June 2020, while Fairfax would have representatic in the board of directors of Eurobank Properties and customary veto rights for transactions of this type. The agreement wi be in force for as long as Eurobank's participation in Eurobank Properties remain above 20%. Proposed transaction aims to broaden considerably the ability and resources of Eurobank Properties to becom the leading real estate company in Greece a the surrounding region.*
Telecoms	Joint investment by ***Vodafon Hellas*** and ***Wind Hellas.***	*Vodafone Hellas and Wind Hellas proceed with the partial integration of their network to create a new company, aiming to ensure best use of their existing networks, reduce operating costs and better compete in the domestic market. New company to invest* ***c. €150mn*** *over the next 2 years in constructio & telecommunications equipment.*

<u>Other investment projects/transactions/initiatives</u>

- ✓ Cooperation agreements signed between Greece and China, during Greek Premier's official visit to China (May 15-19, 2013). Agreements signed by the two sides include: (I) a Cooperation Protocol between China Development Bank and the Hellenic Republic Asset Development Fund (HRADF); (ii) a Cooperation Memorandum between the Greek Ministry of Development, Competitiveness, Infrastructure, Transport and Networks and China's Huawei for the creating by the Chinese company of a logistics hub in Greece and a center for research and innovation, in cooperation with leading Greek research centres and tech companies; (iii) A Cooperation Memorandum between the Greek Ministry of Development, Competitiveness, Infrastructure, Transport and Networks and China's ZTE for the use of the port of Piraeus as a transit and logistics hub for ZTE products in Europe and the greater Mediterranean region. ZTE is among the five leading manufacturers of telecommunications equipment worldwide.
- ✓ Acquisition of stake in Greece's Loulis Mills S.A. by Al Dahra Agriculture Spain S.L. Purchase of 10% of share capital & agreement to cover Loulis Mills capital increase through a private placement of €7.8mn; entire stake after capital increase to reach 20%.
- ✓ Cooperation agreement signed between Greece's Attica Finance SA and the Chinese group of companies SUMEC for the supply of machinery to projects relating to local government, street lighting, trash, desalination, biological purification, renewable energy sources and business parks.
- ✓ Acquisition of 2.5% of Greece's MLS Multimedia by Qatari Investment Company (310,425 shares @ €2.70/share); investment firm has the right to quire 2.5% of MLS over a 12-month period.
- ✓ Earth Friendly Products, makers of the world's top-selling green laundry detergent, opens its first global office in Athens.
- ✓ Switzerland's Syngenta launches new insecticide and herbicide production line in Greece, initially targeting the African market (investment involves €1.5mn).
- ✓ Italy's Energy Resources Signs €50mn RES contract to build a 32 MW photovoltaic park in Greece.
- ✓ Completion of tendering process for the transfer of 1,849,171 ordinary registered voting shares representing c. 50.36% of the issued share capital of the Greek Tobacco Company SEKAP SA., with DONSKOY TABAK JSC (of Russian interests) being the preferred candidate.
- ✓ Procter & Gamble opens new Innovation Center in Athens. This is P&G's third innovation center (the other two are in England and Germany), with its initial investment cost estimated at €3mn.
- ✓ Johnson & Johnson announces plans to bring additional production to Greece. Johnson & Johnson owns two other factories in Europe. In Greece, the consumer products division has 200 employees and 95% of the production is exported to more than 35 countries.
- ✓ Ahmet C. Bozer, President of Coca-Cola International, expresses his conviction that Greece will emerge from the crisis stronger and more resilient and reiterated commitment to remain in the Greek market. According to Mr. Bozer, over the last two years Coca-Cola has invested more than €160mn in Greece
- ✓ Join ministerial decision clears €30mn investment proposal by Dolphin Capital Investments group for the creation of a tourist accommodation complex on the island of Kea. This constitutes the group's second investment in Greece under the Aman Resort Asia luxury resort brand.
- ✓ Acquisition of 51% of Hellenic Duty Free Shops (KAE) by Swiss group Dufry AG.

Source: Invest in Greece Agency, Eurobank Research

Table 22 - Inward FDI and other important investment deals & initiatives in 2012

Sector/activity	Investment project / initiative/transaction	Terms / strategic objectives / economic benefits
Commercial real estate	Acquisition from ***Lamda Development SA*** of 19.1% stake in ***Eurobank Properties REIC S.A.*** by Canadian company ***Fairfax Financial Holdings Limited***	*See table 2.1*
Pharmaceuticals	Acquisition of Greece's ***Specifar*** by ***U.S. Watson Pharmaceuticals.***	*Acquisition completed for **$562mn.***
Retail trade	***McArthurGlen*** opens its 20th European outlet in Athens	***€100mn** investment, occupying a gross land of 21k square meters and creating 1,000 new jobs.*
Renewable energy	Joint venture between Italy's ***Enel*** and Greece's ***Kopelouzos Group*** receives "green light" for the biggest wind park in Greece.	***€250mn** investment project to generate total installed capacity of 140 megawatts.*
Renewable energy	Signing of memorandum between China's ***Sinovel*** and Greece's ***Public Power Corporation*** for Sinovel's participation in a wind farm in the Rhodope area in northeastern Greece	*Wind farm to have a capacity of 300MW and a budget of **€220-250mn**.*

Other investment projects/transactions/initiatives

- ✓ Acquisition of c. 13.4% stake in Greece's multinational company ***Folli Follie Group*** by Chinese Group of Companies ***FOSUN.***
- ✓ Two international joint ventures submit technical auction bids for ***Cyclades Interconnection Project*** (total budget of €***400mn***). The interconnection project, spearheaded by the Greece Public Power Company (PPC) is one of the largest submarine electrical interconnection projects anywhere in the world.
- ✓ Acquisition of all ***European Goldfields*** shares by Canadian ***Eldorado Gold.***
- ✓ Acquisition of hotels and residences in Greece's Chalkidiki region by ***Cronwell Hotels and Resorts*** and ***Russian private investors.***
- ✓ Acquisition of significant stakes in Greek aquaculture companies and increase in equity stake (to more than 50%) in ***Dias Aquaculture*** by Dutch-based ***Linnaeus Fund***.
- ✓ Initiation of investment in the food sector by Dutch group ***Friesland - Campina*** (***€10mn** in committed funds).*
- ✓ Granting of 40-year concession contract to Turkish ***Setur Servis Turistik AS*** (subsidiary of Koç Holding) and Greece's multinational ***Folli Follie SA*** for the operation of a marina in the Greek island of Mytilini
- ✓ Equity investment in Greece's ***Antcor*** (provider of software-based intellectual property for Wi-Fi in handsets, machine-to-machine & small cells) by ***US CEVA Inc*** (NASDAQ listed company).
- ✓ Granting of electricity generation license to Spain's multinational corporation ***Abengoa*** for the construction and operation of a 25MW CPS plant on Crete.
- ✓ Granting of a 38MW electricity generation license to ***NUR-MOH***, a joint venture between ***Motor Oil Hellas (MOH)*** and ***Nur Energie***, an independent power producer & developer active in the Mediterranean region.
- ✓ Construction of 1.1MW solar plant by ***Phoenix Solar*** in Central Macedonia region.
- ✓ Construction by ***Conergy*** of a 1.5MW photovoltaic park in Arta and a 2MW photovoltaic park in Grevena (northern parts of Greece).
- ✓ ***Unilever*** announces investment initiative to begin production of 110 of its product lines in Greece ***Elais - Unilever Hellas*** currently exports products to 19 countries, with a turnover of €30mn, accounting for 7.5 percent of its total turnover.
- ✓ ***Philip Morris International*** announces transfer of some of its production from other plants in Europe to its Greek subsidiary, ***Papastratos,*** with output to be exported to 15 countries (***€3mn*** of new investment involved). Philip Morris currently buys more than 50 percent of the Greek tobacco production, supporting over 12,000 local tobacco farmers.
- ✓ Greek renewable energy company ***Renes Development*** submits application to Energy Regulatory Authority (RAE) for the construction of a highly innovative marine energy project, which will generate electricity from subsurface currents.
- ✓ Greek Ministry of Environment, Energy and Climate Change concludes bid for ***oil and gas explorations*** in the Gulf of Patras, Katakolo, and Ioannina regions, with as many as eleven international companies responding to the call.
- ✓ U.S. based photovoltaic developer, ***SPI Solar***, completed construction of two large-scale solar energy facility ("SEF") projects in Greece.
- ✓ Government grants *Fast Track status* to a €267mn resort project on the island of Crete. The project, undertaken by ***Minoan Group Plc.,*** is one of the largest resort projects in Europe.
- ✓ ***Enel Green Power*** launches four new photovoltaic plants in the Peloponnese region for an installed capacity of 17.4 MW.

- ✓ ***Interministerial Committee of Strategic Investments approves plan to include six new large investments***, worth €5.6bn in Greece's *Fast Track* programme. Said projects to have a highly positive impact on the country's energy balance, as they are expected to add 2,900 MW from renewable energy source (RES) projects.
- ✓ ***Austria's Unigea Erneuerbare Energien Gmbh*** announces plans to make a significant investment of at least €600mn for the production of 1,200 mw of wind energy in Greece - *Company's CEO statement in the Austrian newspaper "Der Standard."*

4.5 Greece's privatization programme: recent developments and outlook

Certain postponements and delays in the approval of contracts have altered the implementation timeline of several privatization projects in recent months. Yet, important progress has already been made in preparing state assets for sale (*e.g.* in the areas of title clearance and licensing), signaling a clear intention by domestic authorities to bring the programme on track. Among others, 3,140 real estate assets of commercial significance (with an estimated value of c. €10bn) were identified and pre-valued in early 2013 to provide the basis for sales over the next 2-3 years. Out of them, 1,000 are scheduled to be transferred to the Hellenic Republic Asset Development Fund (HRADF) by end-2013. Additionally, authorities have committed to develop a plan aiming to gradually transfer to HRADF a large number of preselected real estate assets currently under the management of line ministries and the Public Properties Company (ca 80k pieces with an estimated commercial value of ca €28bn). Elsewhere, one of the most important projects of the privatization programme was completed earlier this year with the sale of a 33% stake in betting company OPAP (Hellenic Football Prognostics Organisation) to Greek-Czech investment consortium Emma Delta Fund (up-front payment of €622bn, upon finalization of the transaction, plus €30mn in ten equal annual installments). The said transaction has already been approved by the Court of Auditors and its finalization remains subject to approval by the relevant competition authorities. Other important privatization projects completed in recent months include:

(i) The concession of the International Broadcasting Center (IBC) to Lamda Development generating €69mn.

(ii) A 12-year contract signed with Hellenic Lotteries SA (a consortium formed by OPAP Investment Limited, Intralot Lotteries Limited and Scientific Games Global Gaming S.á.r.l.) for the operation of State Lotteries. The concession agreement has already been approved by the Court of Auditions, the Hellenic Parliament and the Greek competition authority and involves: a) €580mn in 12 annual installments (€30mn in the first year and €50mn/annum afterward) and b) an upfront payment of €190mn (out of which, €38mn has already been paid to a special segregated account, €95bn is due upon finalization of the concession and the remaining €57bn is expected in early 2014). Finalization of the transaction is subject to approval by the competition authority of Cyprus (reportedly expected by end-September/early October 2013).

(iii) The Sale of a 66% stake in National Gas Transmission Network Operator DESFA (31% owned by HRADF plus 35% owned by Hellenic Petroleum S.A) to Azeri state energy company Socar for €400mn. Finalization of the transaction remains subject to approval by the EU competition authorities (reportedly expected by end-2013).

(iv) The sale of four State properties abroad *i.e.*, London, Nicosia, Brussels and Belgrade (c. €33mn).

(v) The granting of a concession contract to NCHF Capital for the exploitation of the Kassiopi area in the island of Corfu for 99 years (€23mn via the acquisition of the leasehold).

(vi) The finalization of the regulatory framework for airports & water companies, consistent with EU legislation and taking into account the current best practice as regards *e.g.* capping levels for airport charges and imposed taxes (Fact box 1).

(vii) The finalization of the PPC restructuring and privatization plan.

In the context of the latest programme review (June-July 2013), the privatization proceeds target for 2013 was adjusted downward (by €1bn to €1.6bn) after Greece failed to secure binding bids for the sale of Public Gas Corporation (DEPA). Cumulative projected privatization revenues over the period 2011-2020 have been revised as follows: €6.7bn by end-2014 vs. €6.1bn expected earlier; €8.7bn by end-2015 (vs. €8.1bn), €10.7bn by end-2016 (vs. €10.1bn projected initially); and €24.2bn by end-2020 (from €23.6bn previously). The earlier-envisaged amount of €50bn in cumulative privatization revenue remains valid, though it is now expected to take longer to materialize.

Fact box 1.1 - Utilization of regional airports & marinas

Green light given to 11 investment schemes for their participation in the 2nd phase of competition for the operation, management & development of marinas and small ports. Earlier this year, the Hellenic Republic Asset Development Fund (HRADF) gave the green light to as many as eleven investment schemes for their participation in the second phase of the competition for the operation, management and development of a group of marinas and small ports, including Alimos Marina, the tourist berth of Nea Epidaurus, part of Hydra port and part of the port and the tourist haven of Poros. The Hellenic Republic's portfolio currently contains 850 small ports and 115 marinas. The Concession of marinas and small ports throughout the country, the so-called "Nereids" Project, constitutes a key component of Greece's privatization programme. The project aims to contribute to the development of tourist ports by granting, through a series of international open tenders, long-term concessions (up to 40 years) to 46 marinas located throughout Greece. The marinas and ports are bundled in groups or offered individually. In addition to an upfront fee, a share of the ensuing revenue will be apportioned to the Hellenic Republic.

Utilization of Regional Airports. The Board of Directors recently approved the procedure and terms of use for granting the right to use, operate, and manage regional airports, which are divided into two groups, each comprising 7 to 10 airports. Group A includes the airports of Thessaloniki, Corfu, Chania, Kefalonia, Zakynthos, Preveza, Kavala and optionally up to three of the airports of Alexandroupoli, Araxos, Kalamata and Nea Anchialos. Group B comprises the airports of Rhodes, Kos, Samos, Lesvos, Mykonos, Santorini, Skiathos and optionally up to three of the airports of Lemnos, Chios, Karpathos and Nea Anchialos.

Source: Invest in Greece

(*) For the entire privatization programme and related timelines see e.g. European Commission, Occasional Papers 159/July 2013, "The Second Economic Adjustment Programme for Greece, Third Review-July 2013", page 27.

4.6.1 Bank recapitalization & resolution programme completed successfully; revised MoU envisages prompt disposal of "substantial" equity stake in Eurobank to private investors by end-March 2014

Another import aspect of Greece's privatization strategy involves the eventual disposal to the private sector of bank-related assets acquired by the Hellenic Financial Stability Fund during the (recently completed) bank recapitalization and resolution programme. The updated MoU envisages additional steps to safeguard financial stability and to facilitate a swift restoration of liquidity conditions in the domestic economy. As part of this strategy, domestic banks will have to undertake a new stress test exercise by the end of this year, based on end-June 2013 bank-related data and updated macro scenarios. The said exercise will update domestic banks' capital needs and will be conducted by the Bank of Greece (BoG) under the oversight of a steering committee comprised of representatives from the EC/ECB/IMF troika and the EBA. In addition, domestic authorities will undertake further steps for improving the management of non-performing loans (NPLs) and divesting non-core assets. Importantly, the BoG, in cooperation with official lenders, has committed to present options for the prompt disposal by end-March 2014 of a "substantial" equity stake in Eurobank to private investors. To this end, an evaluation metric for potential investors will be developed by end-October 2013 and potential bidders will be allowed to start a due diligence process no later than end-November 2013.

4.6.2 Construction works resume in four major highways

Following a 2-year hiatus, construction of four major highway projects has been resumed after Greece's Ministry for Development, Competitiveness, Infrastructure, Transport and Networks, reached an agreement with concessionaires and manufacturers for the amount of €353mn to settle all outstanding financial claims. On the basis of that agreement, private contracts were signed and construction works began in four highways, including the Olympia Odos (Eleusis - Corinth - Patras - Pyrgos - Tsakona), the Aegean Motorway (Maliakos - Klidi), the Central Greece Motorway (Maliakos - Egnatia Odos) and the Ionian Road/New Road (Antirio - Ioannina).The aforementioned amount of €353mn is allocated by the Public Investment Programme, with 43 Greek and foreign banks financing individual projects. Furthermore, a loan of €650mn from the European Investment Bank (EIB) has been earmarked for the completion of specific highways.

4.7 Foreign direct investment in Greece: Outlook, opportunities and challenges

Recent positive FDI trends and the ongoing stabilization of the domestic macroeconomic environment raise optimism that Greece will be able to attract increased amounts of foreign direct investment in the years to come. Besides the sharp increase of such investment inflows in recent quarters other factors supporting the aforementioned view include a number of potential drives that are increasingly turning in favor of inward FDI. Among others:[13]

— **The domestic economic shows increasing signs of stabilization** with the latest (Q2-2013) national accounts data recording the first positive quarter-on-quarter, seasonally-adjusted GDP growth rate in the last 3 ½ years. Mainly thanks to strong tourism revenue, Q3-2013 is likely to be another positive quarter for GDP growth (quarter-on-quarter seasonally adjusted terms), effectively signaling an exit from recession, following 5 consecutive years of steep output losses. A return to positive growth rates is now expected from 2014 onwards, with the IMF forecasting a cumulative medium- term boost to domestic GDP growth by as much 10ppts upon completion of the agreed structural reforms agenda.[14]

— **As regards Greece's sovereign solvency position, we note the unprecedented progress already made in repairing the country's fiscal position,** with the attainment of an annual general government primary surplus in 2013 expected to open the door for additional debt-relief measures by official lenders as early as in spring 2014. This is likely to provide a further significant boost to Greece's creditworthiness outlook, facilitating a further de-escalation of sovereign bond spreads and market rates.

— **Domestic labor costs are adjusting rapidly**, with the European Commission now expecting Greece's ULCs-based real effective exchange rate to return to its pre-EMU accession levels by the end of this year. Furthermore, the wage pass-through to domestic prices is accelerating lately, overall creating a more stable domestic inflation environment.

— **Greece's business environment is becoming increasingly conducive to foreign direct investment**, in the context of the ongoing reform efforts in the domestic product markets, public administration, regulatory framework and the judicial system.[15] Concrete steps already taken to upgrade the country's investment framework include, among others:

- A new ***Fast Track*** law was approved by the Hellenic Parliament earlier this year, aiming to simplify and accelerate the licensing and implementation procedure of strategic investment projects in view of their potential positive effect on the national economy.

- **Upgrade of *Invest in Greece* promotion agency.** As noted already, a report issued by the World Bank Group titled "Global Investment Promotion Benchmarking 2012" ranked Invest in Greece Agency 3rd globally in handling enquiries from the international investment community. Note that, in 2009, at the outset of Greece's debt crisis, Invest in Greece Agency was ranked among the OECD's weakest performers.

[13] See also Section 2.3 in this document.
[14] IMF Country Report No. 13/155, "*Greece, Selected Issues*", June 2013.
[15] As we have noted already, World Bank & IFC's "Doing Business 2013" repo ranked Greece as the 8th top improver globally in terms of implementation of institutional and regulatory reforms, aiming to improve the business environment. Greece moved up by 22 places, raking 78th out of 185 economics compared to 100th in 2012 mainly thanks to reforms in 3 regulatory areas of regulation i.e., construction permits, protecting investors and resolving insolvency.

- **Targeted investment promotion actions**: Apart from traditional investors originating from the EU, a growing investment interest from Asia (especially China), the Arab countries and Russia is evident in recent months as a result of targeted investment promotion actions. Indeed, Greece has put increased effort over the last few years into highlighting the vast investment potential in a variety of areas, including tourism, energy, food and beverage, environment management, life sciences and Information and Communications Technology (ICT).

— **In the context of the 2nd economic adjustment programme, *authorities have already implemented a number of important innervations in the domestic taxation system*** in an effort to establish a more stable (and less distortive) framework going forward. Recent important steps in this direction include (i) a comprehensive income tax reform introduced in early 2013 and (ii) the adoption (by end September 2013) of new *income* and *tax procedure* codes. Furthermore, under the current planning, a new single property tax will be in effect from 1.1.2014. The new tax will target properties rather than individuals, it will have a broader base than the current wealth-based system and, as a result, it will lessen the burden on currently taxed properties.

— **As regards domestic liquidity conditions and the level of financial intermediation in the domestic economy,** it is expected that the *recently completed* bank recapitalization programme (and any additional measures to be taken so as to safeguard domestic financial stability) will substantially improve domestic financing conditions going forward.

— Last but not least, potential investors should also take into consideration Greece's **unique comparative** advantages as regards its geopolitical, climatological, and historic characteristics. Note that the recent Trans Adriatic Pipeline (TAP) deal is expected to further enhance Greece's geostrategic position in the global energy arena. The pipeline will run across northern Greece and it is expected to also bring significant benefits to the domestic economy and the Greek society.

A more thorough analysis on specific sectors in the domestic economy that could attract increased inflows of foreign direct investment in the period ahead is beyond the scope of this paper. Nonetheless, Fact boxes 1.2 & 1.3 below highlight briefly some of the special aspects of two such sectors, namely tourism and renewable energy. As to the potential challenges facing Greece in the way to becoming a more attractive destination of foreign direct investment, these include, risks emanating from a currently unstable social fabric, resistance to reforms from special groups and vested interests as well as a worsened geopolitical environment in the border region.

Fact box 1.2 – Greek tourism industry: features & trends

Tourism accounts for 15.7% of national GDP and 18.4% of employment in Greece. The sector has grown significantly over the years and remains a strong area for investment. Greece is 17th in tourist arrivals globally and tourism is 24th in total contribution to GDP globally. Supporting Greece's tourism industry is a well-developed infrastructure featuring:
- More than 9,500 hotels and 1,3mn beds
- 4,500 travel agencies
- A fleet of 160,000 cars for rent
- More than 7,500 tourist coaches
- 500 yacht agencies with 3,500 yachts to explore Greece's seas
- 29 International airports and 45 airports in total, all ready to host domestic flights
- A comprehensive ferry system connecting the mainland with Greece's islands
- A rail and intercity coach system that covers most of the country

Currently, Greece is ranked 29th in the world, among 139 countries, in terms of tourism competitiveness:
- 5th in tourism infrastructure
- 1st in environmental treaty ratification
- 15th in airport density and in operating airlines
- Significant hotel infrastructure

Source: Invest in Greece, Eurobank Research

Fact Box 1.3 - Greece's Renewable Energy Sources (RES) sector: recent developments & outlook

Greece has witnessed increased international interest on its renewable projects over the last couple of years, mainly due to a national push on green energy and the adoption of the Fast-Track investment scheme.

The biggest wind park in the country, located in Kafirea, Evia, received last year the official approval for implementation. The concession was awarded to a joint venture between Kopelouzos Group and Italy's Enel. The investment will have a total installed capacity of 140 megawatts and, upon completion, it is estimated to amount to €250mn.

In another sign of the mounting interest on the country's renewable projects, the CEO of Unigea Erneuerbare Energien Gmbh expressed the Austrian company's strong interest in making a significant investment of at least €600mn for the production of 1,200 mw of wind energy in Greece.

Separately, Third Generation Photovoltaics, which will use very small amounts of inexpensive materials (100 nano instead of 10 microns) are being prepared by the first pilot project producing organic electronics, comprised of 18 organizations from Greece and abroad. The new type of solar panels will be 50% cheaper than the second-generation photovoltaics that are currently in the market. The head of the Laboratory of Nanotechnology (LTFN) and project coordinator said a few months earlier that the first pilot production line of organic electronics is scheduled to begin in Greece in two years and it is expected to create 40-50 jobs for skilled personnel while the total funding expected to come to the country for equipment and jobs is projected to reach €2.5mn.

A recent report by Hellenic Scientific Associations of Wind Power Energy read that the value of investments made in renewable energy sources in Greece totaled around €2.5bn in 2012, of which around €150mn were in wind power projects. As per the same source, net increase in wind power was 115.2 MW in 2012, up 7% compared with the previous year, after a 23.5% growth rate recorded in2011 which was the best ever year for the wind power sector in Greece.
Source: Invest in Greece, Eurobank Research

5. Concluding remark

This paper provides a detailed overview of foreign investment activity in Greece and analyses the progress made so far by authorities in creating a more business-friendly domestic environment. Based on recent evidence regarding a number of investment projects that have been undertaken in key sectors of the economy and drawing on the international literature on the determinants of FDI this paper argues that the ongoing stabilization/improvement in the domestic macroeconomic, institutional and regulatory environment will provide the basis for a more sustainable model of economic development, emphasizing extroversion, competitiveness and investment.

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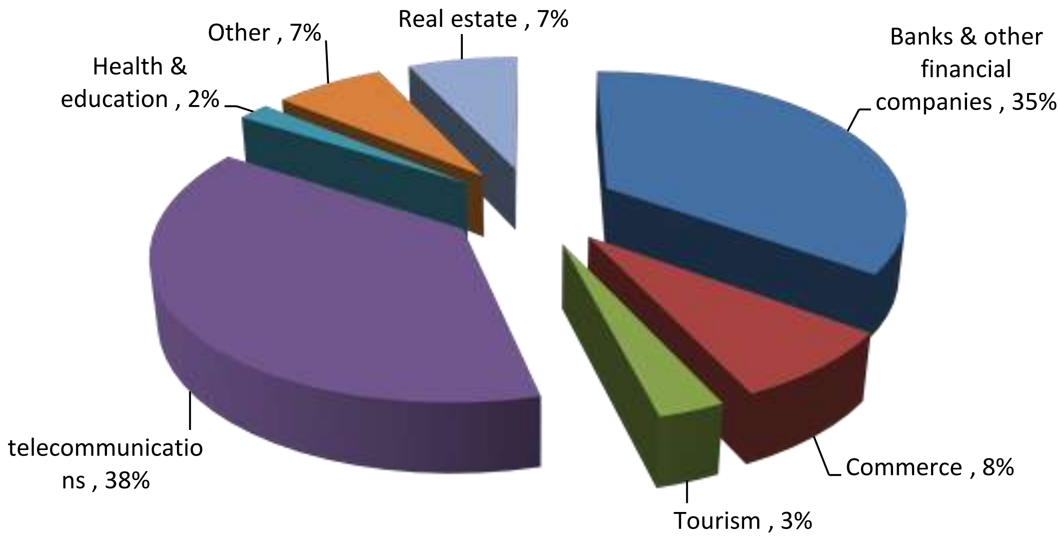
World Bank & IFC's "Doing Business 2013"

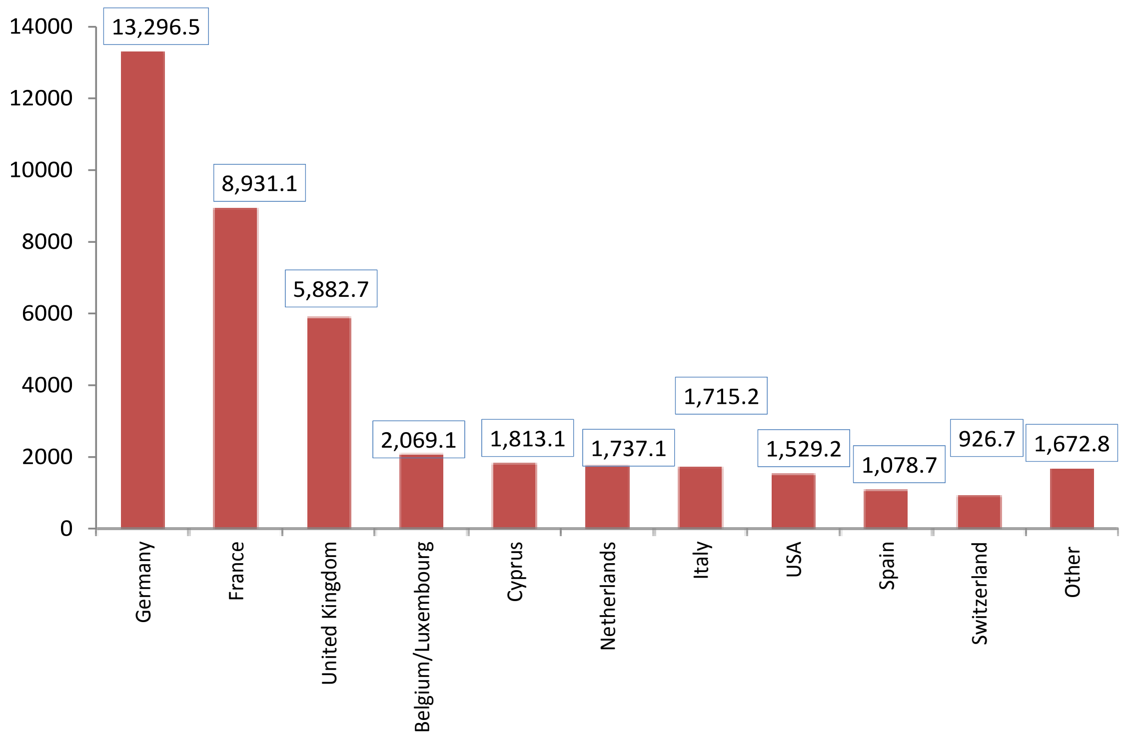
Appendix I - *Graphs and Tables*

Graph A1 – Foreign direct investment in Greece's services sector (2003-2012; % of total) - *Total value: €27.92bn.*



Source: BoG 2013

Graph A2 – Cumulative FDI inflow by country of origin (2003-2012 period in million euros)



Source: Bank of Greece 2013

Table A1 – FDI in Greece and in competitor countries

	2004	2005	2006	2007	2008	2009	2010	2011	2004-2011 averag
EU-27	0.6	1.1	2.1	3.6	1.6	2.4	1.7	1.9	1.9
Euro area	1.1	1.9	3.0	4.7	1.2	3.2	2.9	2.7	2.6
Bulgaria	10.3	14.9	23.5	29.4	19.0	7.0	3.2	4.5	14.0
Greece	0.9	0.3	2.0	0.7	1.3	0.8	0.1	0.4	0.8
Ireland	-5.7	-15.6	-2.5	9.6	-6.3	11.5	20.7	5.2	2.1
Portugal	1.0	2.0	5.4	1.3	1.9	1.2	1.2	4.4	2.3
Romania	8.5	6.6	9.3	5.8	6.8	3.0	1.8	1.4	5.4
Turkey	0.7	2.1	3.8	3.4	2.7	1.4	1.2	2.1	2.2

Source: Eurostat, Bank of Greece

Appendix II – Changes in the domestic regulatory environment & tax system

Table B1 - Law 4146/18.04.2013
"Creation of a Development Friendly Environment for Strategic and Private Investments"

Key objectives

- ✓ **Establishment of a more streamlined investment environment** for strategic (public and private) projects including certain amendments to a) Law 3894/2010 titled "Acceleration and Transparency in the Implementation of Strategic Investments" and b) Law 4072/2012 titled "Improvement of the business environment-New corporate form-Trade Marks-Realtors-Regulating maritime, port & finishing matters and other provisions".
  Provisions introduced aim to:
  - *Simplify and accelerate the licensing and implementation procedure of investment plans*
  - *Reinforce transparency and enhance the overall auditing procedures* of the Fast Track Law
  - *Introduce tax exemptions* and other important initiatives for strategic investments.
  - *Enhance liquidity*, especially to SMEs.
- ✓ **Introduction of special spatial development plans.**

Key features

- ✓ **Enhancing Transparency and overall Auditing Procedures**
  - *The General Secretariat for Strategic and Private Investments* will undertake all licensing procedures. A final decision on the issuance of the license has to be reached within 45 business days from the submission of the application and the required documentation. Following the expiry of this period, the requested license shall be deemed as granted in accordance with the relevant application.
  - The framework for *Strategic Investments* is broadened, incorporating companies already in operation that are deemed crucial for the national economy.
  - Abolition of *Letter of Guarantee*.
  - *Invest in Greece S.A* state-owned company operates as a one-stop-shop for interested investors, undertaking, on behalf of them, certain responsibilities, *i.e.*, (i) accepts application for the introduction of investments in the Fast Track Procedure; (ii) examines and evaluates the investment proposals; (iii) asks for complementary documentation (if needed) from the investors, (iv) submits its opinion to the *Interministerial Committee of Strategic Investments* (I.C.S.I.) on the inclusion or not of the proposed investment to the Procedure; (v) monitors and evaluates the implementation progress of strategic investments, etc.
  - The role of the *Interministerial Committee of Strategic Investments* (I.C.S.I.) is reinforced. The said committee, responsible for a final decision on whether the proposed investment falls within the scope of the Fast Track Procedure, is composed of the Minister of Finance as its President, the Minister of Development and other competent government members.
  - Submission of investment projects may be held throughout the year (instead of only in April and October previously) while the assessment will be held in May and November each year.
- ✓ **Granting of Residence Permits** for executives of Strategic Investments and their families.
- ✓ **Granting of tax exemptions,** i.e., exemption from payment of income tax on pre-tax profits.
- ✓ **Granting of subsidy**
  - *Capital subsidy* to cover part of the subsidized expenditure of the investment.
  - *Leasing subsidy to* cover part of the leasing installment for the acquisition of machinery or/and other equipment.

- ✓ ***Acceleration of the grant disbursement procedures***
  - Tax relief may be upfront to enhance both the liquidity and viability of companies.
  - Investors may choose the preferred mixed of Tax relief or Subsidy for investments up to €50mn to enhance the flexibility of financing for SMEs.
- ✓ **Soft loans by employing resources of ETEAN** (National Fund for Entrepreneurship and Development). The amount to be covered by a bank loan may be funded by soft loans from credit institutions that cooperate with ETEAN enterprises.

- ✓ **Introduction of a new financial tool, SPV** in the development process of public real estate located in the area between Peace & Frendship Stadium and Cape Sounio.

- ✓ Improvement of the licensing procedures and the clarification of regulations for the establishment, operation and exploitation of **waterways for use as seaports for air transport**.

Investment categories entitled to take advantage of the new law include:

- ✓ ***General Entrepreneurship***
- ✓ ***Regional Cohesion***, *i.e.*, investors with projects that address local needs or capitalize on local competitive advantage.
- ✓ ***Technological Development***, *i.e.*, enterprises that invest in innovation and want to upgrade their technology infrastructure.
- ✓ ***Youth Entrepreneurship***, *i.e.*, investors from 20-years to 40-years old. The new scheme covers part of the operating costs (and leasing costs) of a new company for a five-year period to support new entrepreneurs in their first steps.
- ✓ ***Large Investment Plans;*** *i.e.*, investments with a budget of at least €50,000,000.The investors may chose the preferred mixed of tax relief or/and grand aid.
- ✓ ***Integrated, Multi-Annual Business Plans;*** *i.e.*, companies legally formed at least five years previous to application, to implement integrated multi-annual (2-5 years**)** business plans with a budget of at least €2,000,000 in total.
- ✓ ***Partnerships and Networking;*** *i.e.*, partnerships and networking configurations or clusters. The latter shall be comprised of at least five enterprises in the Region of Attica and Thessaloniki Prefecture and of at least three enterprises in other prefectures, operating in the form of a consortium.

Investments are considered as strategic should at *least one* of the following criteria be met**:**

- ✓ total value of the investment should exceed €100,000,000, regardless of the sector investment;
- ✓ total value of the investment should exceed €15,000,000 for investments in the industry sector and €3,000,000 for investments in the context of JESSICA;
- ✓ total value of the investment should exceed €5,000,000 for the development of Investment Parks;
- ✓ total value of the investment should exceed €40,000,000 and, in parallel, at least 120 new jobs to be created;
- ✓ 120 new jobs to be created concurrently or at least 600 jobs to be maintained in a viable and sustainable manner.

Source: **Invest in Greece Agency, Ministry of Development and Competitiveness, KPMG**

Table B2 - Law 4141/05.04.2013 *"Investment Tools for Development, Financing and other Provisions"*
<u>Key objectives & features</u> Establishment of a more streamlined investment environment via certain **amendments to the Income Tax and VAT Code** • **Individual Taxation:** (i) Greek tax residents intending to transfer their residence or habitual abode to countries with a preferential tax regime can now do so *immediately* provided that they can prove that they indeed have or will have their tax residence or habitual abode in such countries; (ii) the provisions related to the preparation of a wealth of Capital Statement (Register of Assets) will only apply to those individuals who are Greek tax residents and not to all individuals holding a Greek tax registration number. As per the new law, shares held in companies incorporated under the provisions of Law 2687/1953 and Law 27/1975 (Shipping Companies) are exempted (according to the Registry of Assets, bank deposits, Greek Bonds and domestic Mutual Funds are also exempted). • **Corporate Taxation:** the new depreciation rates in relation to the 17 categories of assets as stipulated by Law 4110/2013 (Paragraph 22, Article 3) will apply to all fixed assets as of January 1st 2013 and not only to fixed assets acquired as of January 1st 2013 onwards. The new depreciation rate of 10% will also apply for capitalized expenses. • **VAT Code**; *i.e.*, the collection of an advance payment related to an intra-community of goods is not subject to VAT. • **Annual Special Contribution on companies (as per Article 25 of Law 27/2975):** a 50% reduction in rates applied for the calculation of the annual special contribution. The said contribution applies to offices or branches of foreign enterprises that have been established in Greece (based on Article 25 of law 27/2975) and are engaged in the chartering, insurance, average settlements, purchase, charting of shipbuilding brokerage, or chartering of insurance of ships under Greek or foreign flag of total tonnage over five hundred shipping tons, as well as the representation of ship-owner companies. ***Source: Invest in Greece Agency, KPMG***

Table B3 - Introduction of *Table B3- One-Day, One-Stop Shop* *service* to start a business in Greece
✓ **Key objectives** Attractive investment through improved transparency and reduced bureaucracy for the creation of a new business ✓ **Key features** • Steps required to set up a business have been reduced to 1 from 11 previously. • Days required to set up a business have been reduced to 1 from an average of 19 previously. • Cost required to set up a business significantly reduced. • 52 Selected Citizen Information center (KEP) will eventually be placed in the system. • 3,200 notary offices will eventually operate as One-Stop Shop. • 5 information systems of ministries interoperate. • 59 offices of commercial chambers operate as One-Stop Shop ***Source: Invest in Greece Agency***

Table B4 - Greek Law Digest ***The Ultimate Legal Guide to Investing in Greece***
✓ The most complete and comprehensive English language guide to the regulatory and legal aspects of investing in Greece keeping potential investors updated for any changes in legislation or the regulatory framework for investment. It is posted on the websites of state authorities and the website of Invest in Greece. ***Source: Invest in Greece Agency***

Table B5 - Introduction of a *Renewable Energy Sources (RES)* law

✓ **Key objectives**

Investment opportunities through the dramatic transformation of the RES market.

- Doubling the target for the contribution of RES to electricity consumption in Greece by 2020 to 40% from 20% originally.
- Reducing the licensing procedure time from 3-5 years to 8-10 months.
- Granting discounts in the energy bills of some communities.
- Introduction of a new tariff regime for new RES installations.
- Provision of a 20% higher tariff to investors who choose not to take advantage of state subsidies in the development of RES installations.

✓ **Some key components**

- *National Targets for RES for the Year 2020*; (i) 20% of the gross final energy consumption; (ii) 20% of the final energy consumption for heating and cooling; and (iii) 10% of the final energy consumption in transportation should derive from the energy produced through RES.
- *Offshore Wind Farms*. Installation is permitted. For the construction and operation of such projects companies must comply with the procedure of Environmental Terms Approval. For the completion of the project and the connection to the grid an open public tender is held.
- *Land Planning for RES*. The installation of RES power plants must be in compliance with the General and Special Framework for Land Planning and Sustainable Development for RES. Electricity production is permitted on high production agricultural land provided that the land is covering no more than 1% of all farmland in the specific prefecture.
- *RES in Buildings*. The use of RES in new buildings is mandatory. There is also a provision for energy savings in the building sector.
- *One-Stop Shop for RES*. An independent service for RES is being introduced in the Ministry of Environment, Energy and Climate Change which will act as an “one-stop shop” and will be responsible for providing information to all investors interested in RES.

Source: Invest in Greece Agency

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