<u>Finance in Days of Global Economic Turmoil</u>

Thank you for inviting me to the WISTA Conference and for giving me the opportunity to share a few thoughts on the topic of finance at a time of global economic turmoil.

It is perhaps strangely fitting, although unfortunate, that the conference takes place this year in Greece, which is going through its own period of economic upset and turmoil, albeit one that was sparked by the global financial crisis of 2008 and transformed into a sovereign debt and fiscal crisis in 2010.

As a result, the country is currently going through a period of fundamental change and rebuilding – one that we hope will bring about a shift in decades-long practices and enable the country to enter an era of growth, effective fiscal policy and tight financial management, while developing the right strategies to build on its competitive advantages and strengths.

While the situation in Greece will remain fluid for some time to come, on a global scale, things are still on shaky ground. Recovery in the US is slow and fragile; the FED had to maintain interest rates at record low levels while the government is preparing to inject another multibillion stimulus package in business tax breaks and infrastructure outlays to boost spending and job creation with the aim of achieving a GDP growth rate of at least 3.5% for next year; and this is on top of the $800 billion stimulus measure enacted last year while the U.S. government's total outstanding debt is fast approaching the size of its GDP! I think it is clear from the extreme growth-enhancing measures taken by the US government, that the danger of a double-dip recession is clear and present, despite the very diplomatic language of the FED.

At the same time, China's growth is projected to slow down – albeit, only relative to the growth explosion that it has experienced in the past decades. In the second quarter of 2010, GDP growth rate averaged at 10% compared to almost 12% in Q1. At the same time, China has experienced a reduction in its trade surplus due to a growth in imports. In any event, as China gradually moves from a net producer to a net consumer position, its place on the global financial map will become harder to gauge going forward.

Finally, Europe is going through a critical phase of its own. While the focus in 2010 has been the containment of the Greek fiscal crisis and the shielding of the euro and the other economies from a potential spill-over, the EU's slow response to the Greek issue has highlighted the differences in opinion between its stronger member states. Since Europe, as a whole, needs to reposition itself after a long period of leverage-led growth across the continent, a lack of common vision and strategy between the member states –especially within the Euro zone– will make the task at hand considerably tougher.

In a nutshell, if I were to summarise the challenges our world is facing during the next decade, these would be

- how to rebalance the East-West trade and finance flows, without falling into the trap of protectionism; this is easier said than done, as politicians are under tremendous pressure due to high unemployment, and there are few things scarier than a politician under pressure…

- how to recreate a strong and systemically safe world financial system; the tough balance here is timing: do it faster than you should and you create all sorts of squeezes on economy growth; delay it more than necessary and face a disastrous lack of trust associated with weak banks.

- how to give back to capitalism its essence, which seems to have been lost during the explosion of the global financial mega-industry; the French may shout a bit more than the rest, but it seems that few people have truly accepted the need to destroy the wall gradually but consciously built between financial capitalism and morality.

Failure to achieve any of the above, will –in my view- lead the world into a series of crises which will rock it to its very foundations.

Leaving the bigger picture, the effects of this economic turmoil on the western financial and banking sector are pronounced. Banks operate within an environment of scarce funding and expensive liquidity whereas asset quality is often less than satisfactory with bad debts soaring. They are facing an economic environment of slow or no growth. They appear to have limited or no appetite to provide new financing due to their continued de-leveraging exercise, a trend that is itself certainly not a stimulus for growth. They are often coping with a new shareholder – usually the state- and the new list of priorities that may be set by them. They may be still recovering from the sub-prime crisis or trying to accommodate stricter capital requirements. And they are probably looking with awe at both the various new regulatory schemes as well as the upcoming sovereign debt issuances.

For shipping finance in particular, given the capital intensity of the industry and its specialisation (and hence the already limited number of banks interested in it) the aforementioned effects have even more significant impact, though there is certainly a differentiation between different names. What are in effect the consequences?

- Private lending is already squeezed-out be sovereign one and on-top of this shipping is oftentimes overseas lending, a rather unpopular sub-category for many banks nowadays.

- Banks tend to monitor closely their existing portfolios' behaviour and proceed with effective and proactive restructuring of risky lending relationships. They also focus more on the core clientele and are not very proactive in expanding their client base.

- Higher pricing and tougher covenants, including lower advances, which leads to a requirement for higher equity contribution on behalf of shipowners, i.e. lower return on their capital.

All of the above are happening at a time when the outlook for the shipping industry itself remains unclear: while most banks have not experienced the losses that they expected from shipping in 2008 the mood is subdued due to - among other things- the significant new building orderbook on the supply side as well as the uncertain overall economic environment, as described above, on the demand side.

So, what are the alternatives for ship finance and what are the implications for ship-owners?

It seems that there are alternatives to banking finance. You can call them Asian banks, yard financing, bond markets, capital markets or other forms of private equity.

But all of the above have one common axis: they are more or less geared towards larger than average companies with transparency in their structure, quality assets, strong ties to the chartering market, clarity of strategy, even brand name.

Many companies are lacking one or more of the above. Only few have the right mix. My view is that this will change by necessity, and the easier and faster way to acquire at least the size, which can under some conditions lead to the rest, is consolidation.

It is my opinion that this period of crisis and turmoil – however short- or long-lived it may be – is an opportunity for many players in the industry to transform their companies and become the catalysts of this consolidation. Being more involved in Greek shipping and having witnessed its ability to adapt to ever changing conditions, I'm tempted to predict that it will –once more- find a way to lead this change.

But in all honesty, the only certain thing about shipping is our inability to predict its dynamics.

Thank you for your attention.