

***The resilience of the Greek banking system during the  
Greek debt crisis***

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## I. The Greek banking system – An overview

### The Greek banking sector

- 61 banks with 4,200 branches
- 64,000 employees

### Four main categories of banks operating in Greece:

- 19 commercial banks established in Greece
- 16 cooperative banks established in Greece
- 21 branches of banks established in another Member State of the EU
- 5 branches of banks established in third countries (outside the EU)

### HBA members

- 25 banks (95% market share)
  - 16 commercial banks established in Greece
  - 8 branches of banks established in another Member State of the EU
  - 1 branch of a bank established in a third country (outside the EU)
- 400 billion € in assets

## I. The Greek banking system – An overview

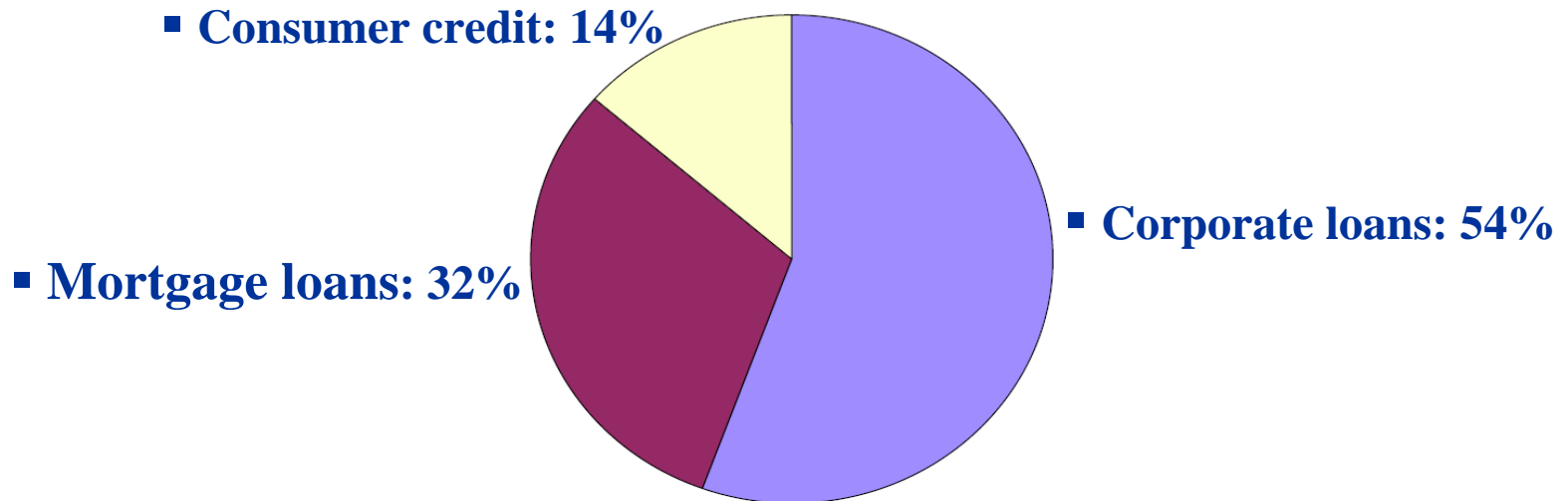
### Greek banks

- manage an equivalent of 113% of the Greek GDP (loans to households and businesses),
- hold an equivalent of 106% of the Greek GDP in deposits and repos,
- lend 115,6 billion € for housing purchase and consumer credit, an equivalent of 10,246€ per inhabitant,
- with an aggregate balance sheet at 210% of GDP, the size of the Greek banking system is not excessive compared to other countries,
- the average loan-to-deposit ratio was 120% at the end of 2010 (2008-2009: 114%) mainly due to the shrinking deposits

## I. The Greek banking system – An overview

### Composition of bank loans

Composition of bank loans



## II. The effect of the global financial crisis on the Greek banking system (2007-2009)

1. **Greek banks were not exposed to risks that triggered the causes of the recent global financial crisis**
2. **Thus, the spillover effects from the global financial crisis on the Greek banking system were limited.** Accordingly, there was no need to activate a bank rescue program
3. **The recovery program adopted by the Greek government** (the 28 bn euro “package”) in late 2008 was *mainly* aimed at the enhancement of liquidity conditions in the system
4. **Moreover, the level of deposit guarantee was raised to 100,000 euros** (from 20,000) per depositor *immediately* after the bankruptcy of Lehman Brothers in order to enhance depositor confidence in the system (successfully)

## **II. The effect of the global financial crisis on the Greek banking system (2007-2009)**

**However, during the global financial crisis liquidity conditions were strained**

- Greek banks had limited access to wholesale markets to fund their lending activity
- Maturing inter-bank liabilities put additional pressure on their liquidity position

## **II. The effect of the global financial crisis on the Greek banking system (2007-2009)**

Despite the problems, Greek banks have shown remarkable resilience and were able to overcome the difficult days due, inter alia, to a number of factors:

- 1. They had a strong capital base and steadily increased their provisions (more than 40% Year on Year)**
- 2. They were facilitated by measures taken by the European Central Bank and the Greek government**
- 3. The effective prudential supervision by the Bank of Greece ensured the stability of the Greek banking system**

**During the global financial crisis, the Greek banking system remained healthy, adequately capitalized, and highly profitable**



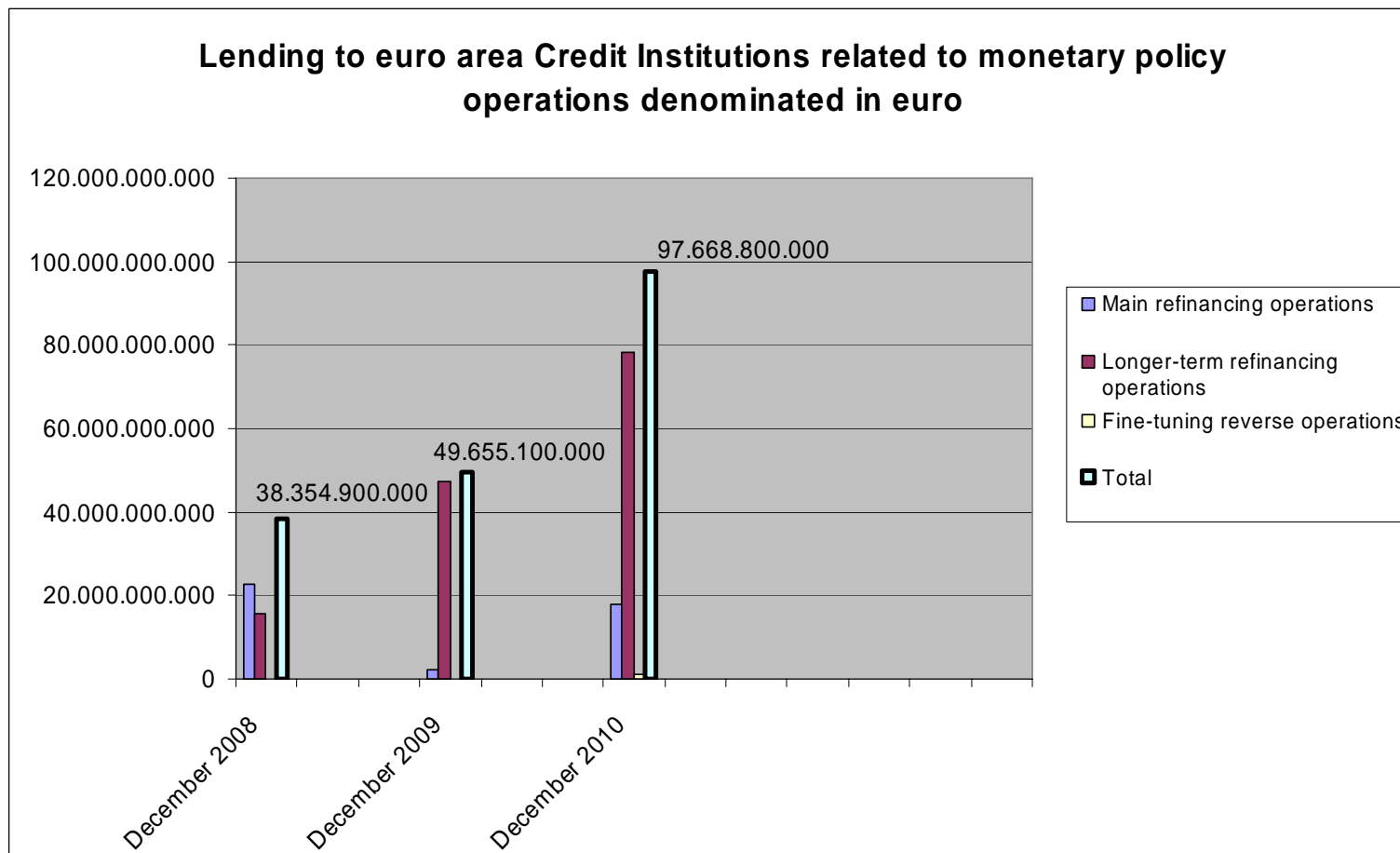
### III. The impact of the Greek fiscal crisis to the banking system

The Greek banking system was negatively affected mainly by the Greek debt crisis. Greek banks are facing the following main challenges:

#### 1. The liquidity situation of banks remains tight:

- **Bank deposits** declined by 16% since the beginning of 2010
- Extremely limited access to the inter-bank money and debt capital markets
- High **reliance on Eurosystem credit**. Borrowing from the ECB represents, currently, nearly 20% of banks' liabilities (97,7 billion €)
- In January 2011 **interest rates for new deposits from households** with agreed maturity up to 1 year were the 2<sup>nd</sup> highest (3,74%) among the Eurozone
- In January 2011 **interest rates for new deposits from non-financial corporations** with agreed maturity up to 1 year were the highest (3,40%) among the Eurozone

### III. The impact of the Greek fiscal crisis to the banking system



Source: Bank of Greece, Balance sheets 2008, 2009, 2010

### III. The impact of the Greek fiscal crisis to the banking system

#### 2. Improving Capital Adequacy:

- The average CAR at the end of September 2010: 11,4%
- The average Tier I ratio at the end of September 2010: 10,1%
- **Some banks carried out successful capital increases on the market:**  
NBG (1,8 billion €), PIRAEUS Bank (0,8 billion €)
- **Sales of subsidiaries:** sale by NBG of a minority stake in Finansbank (Turkey) and Eurobank sale of a majority stake in Polbank (Poland)

	Banks		Banking groups	
	December 2009	September 2010	December 2009	September 2010
Capital Adequacy Ratio (CAR)	13,2%	12,8%	11,7%	11,4%
Tier 1 Ratio	12%	11,2%	10,6%	10,1%

## III. The impact of the Greek fiscal crisis to the banking system

### 3. Non-performing loans

NPLs increased to 10% in September 2010 (from 7,7% at the end of 2009)

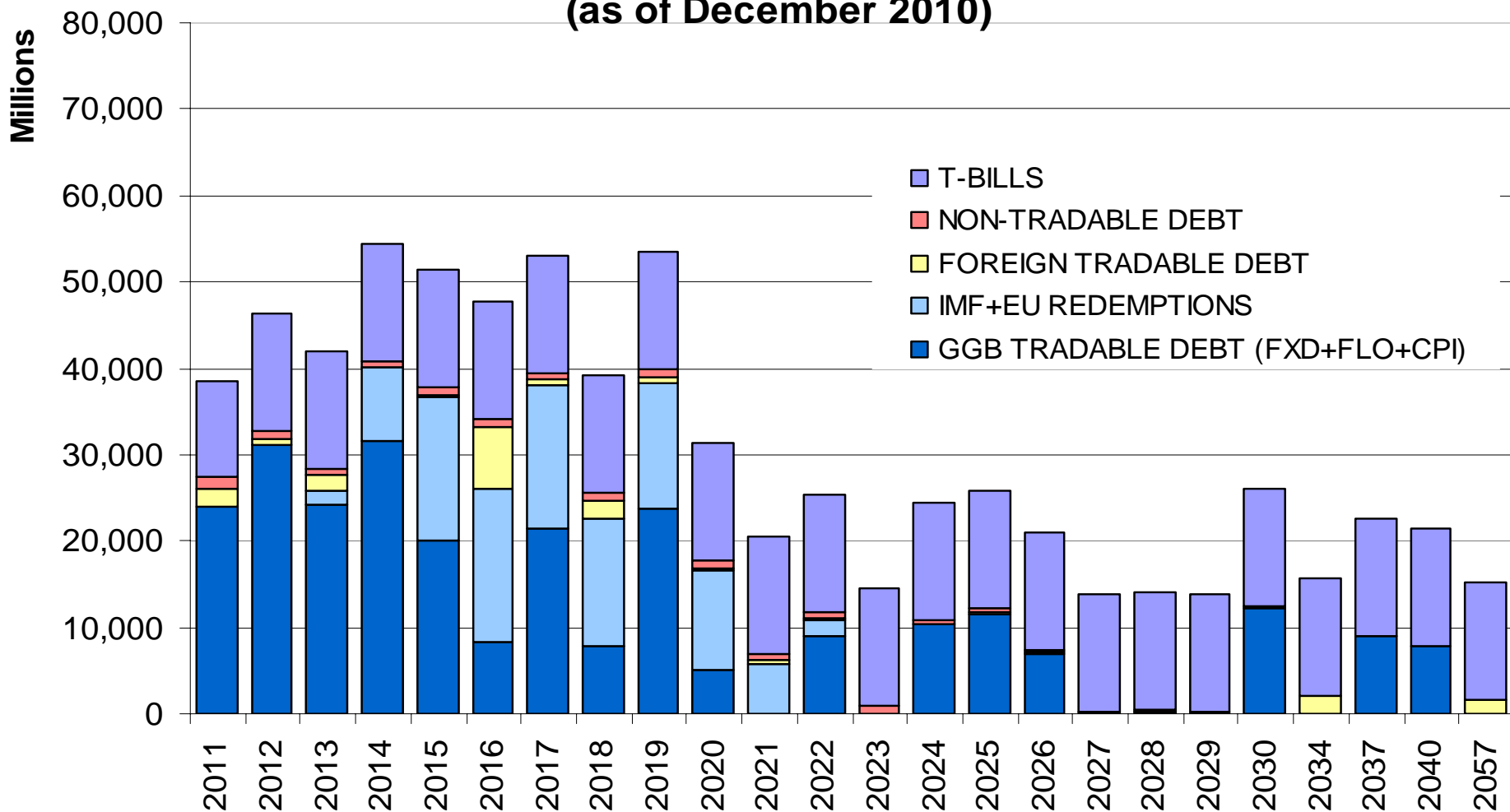
**74% or 18,7 bn. €** (December 2009: 75,5% or 14,9 bn. €) of the NPLs are **secured loans** (loans to non-financial corporations and mortgage loans)

### 4. Greek government 10-year bonds spreads vis-à-vis German Bonds (basis points)

	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP	OCT	NOV	DEC
<b>2011</b>	827	862	-	-	-	-	-	-	-	-	-	-
<b>2010</b>	273	327	311	474	514	647	770	832	824	820	897	906
<b>2009</b>	250	254	280	232	179	179	151	118	127	133	156	226

### III. The impact of the Greek fiscal crisis to the banking system

**CENTRAL GOVERNMENT DEBT  
REDEMPTIONS SCHEDULE AFTER REPROFILING OF EU LOAN  
(as of December 2010)**



### III. The impact of the Greek fiscal crisis to the banking system

#### 5. Consolidated foreign claims of reporting banks - immediate borrower basis on individual countries by nationality of reporting banks / Amounts outstanding (as of September 2010)

Month (end of)	Year	Amount (mil USD)	% (annual basis)	European Banks	Other NON European Banks
September	2010	184069	-39,2%	153553	30516
June	2010	175418	-21,60%	141.564	33854
March	2010	223735	-5,33%	177649	46086
December	2009	236211	-22%	188780	47431
September	2009	302566		252813	49753

Source: BIS Quarterly Review, March 2011, Statistical Annex

### III. The impact of the Greek fiscal crisis to the banking system

#### 5. Consolidated foreign claims of reporting banks - immediate borrower basis on individual countries by nationality of reporting banks / Amounts outstanding (as of September 2010)

<b>Ranking</b>	<b>nationality of reporting banks</b>	<b>Million USD</b>
<b>1</b>	France	59364
<b>2</b>	Germany	40253
<b>3</b>	United Kingdom	12655
<b>4</b>	Portugal	10697
<b>5</b>	Ireland	8474
<b>Sub-Total</b>		<b>131443</b>
<b>Total</b>		<b>184069</b>
<b>Sub-Total / Total</b>		<b>71,40%</b>

Source: BIS Quarterly Review, March 2011, Statistical Annex

### III. The impact of the Greek fiscal crisis to the banking system

#### 6. New loans interest rates (Greek and German averages, January 2011)

<b>Households</b>	<b>GR</b>	<b>DE</b>
Bank overdrafts, revolving loans, convenience and extended credit card debt	11,14%	10,01%
For house purchase at floating rate and up to 1 year initial rate fixation	3,93%	3,38%
<b>Non-financial corporations</b>		
Bank overdrafts, revolving loans, convenience and extended credit card debt	6,80%	4,91%
Other loans up to EUR 1 million at floating rate and up to 1 year initial rate fixation	6,12%	3,36%
Other loans over EUR 1 million at floating rate and up to 1 year initial rate fixation	4,85%	2,50%

Source: ECB, Euro area and national MFI interest rates (MIR)



### III. The impact of the Greek fiscal crisis to the banking system

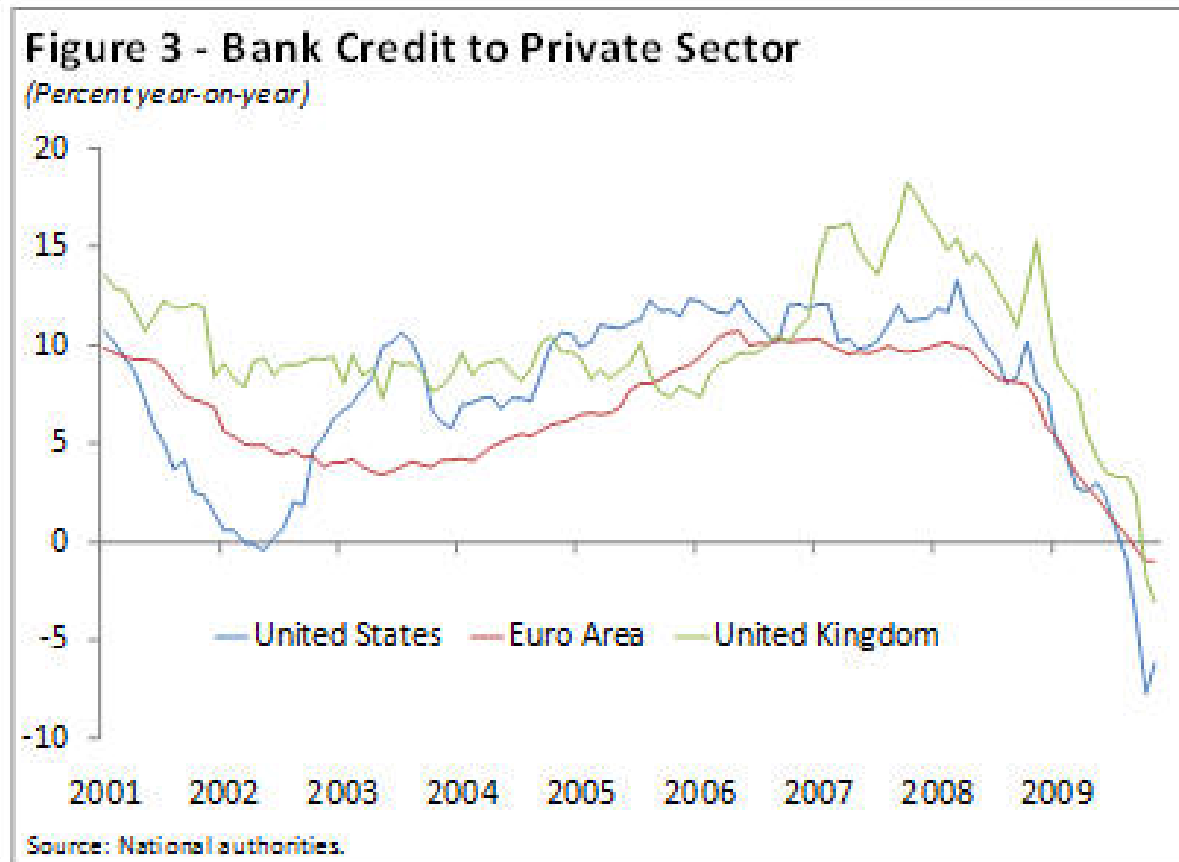
#### 7. Bank credit to the domestic private sector is marginally negative

	DEC. 2009	DEC.2010	JAN.2011
<i>ENTERPRISES</i>	5,1%	0,9%	0,8%
<i>SOLE PROPRIETORS</i>		0,2%	0,1%
<i>INDIVIDUALS &amp; PRIVATE NON-PROFIT INSTITUTIONS</i>	3,1%	-1,9%	-1,4%
<b>TOTAL</b>	<b>4,1%</b>	<b>-0,1%</b>	<b>-0,3%</b>

Source: Bank of Greece, Bank credit to domestic enterprises and households, monthly press releases

### III. The impact of the Greek fiscal crisis to the banking system

#### 7. ... and the corresponding trend in US, Eurozone and UK



Source: IMF, Global Financial Stability Report, January 26 2010

## IV. The resilience of the Greek banking system

Despite the severe fiscal crisis, **the Greek banking system remains solvent and stable.**

According to the results of the EU-wide stress-testing exercise -which was conducted in 2010 by the predecessor of the European Banking Authority (the Committee of European Banking Supervisors) and national supervisory authorities, in close cooperation with the European Central Bank - in order to assess the overall resilience of the EU's banking sector to major economic and financial shocks, for the Greek six banks, which participated, the results indicate:

- a net surplus of Tier 1 capital of the order of €3.3 billion above the 6 percent ratio of Tier 1 capital that was agreed as a benchmark solely for the purpose of the stress test (the baseline scenario)

## IV. The resilience of the Greek banking system

Apart the initiatives underway to help preserve sufficient system liquidity, several initiatives have already been taken in order to provide adequate support to the system. More specifically:

- *Issuance of additional government guarantees* to be used as collateral in order to obtain funding from the European Central Bank (15 and 25 bn euros respectively) (laws 3845/2010 and 3872/2010). Said packages were authorised by the European Commission under State aid control rules

## IV. The resilience of the Greek banking system

- Establishment of the “*Financial Stability Fund*” (FSF) (legal person of private law) whose purpose is the maintenance of the stability of the Greek banking system, through the enhancement of capital adequacy of credit institutions established in Greece and authorized by the Bank of Greece, in case a credit institution faces problems of capital adequacy

*The FSF is operating, its Board of Directors has been elected and by-end June 2011 it should be fully operating. Its capital is foreseen to be 10 bn euros originating from the support mechanism of the Greek economy by euro area Member States, the European Central Bank and the International Monetary Fund*

## IV. The resilience of the Greek banking system

- *Establishment of the “Council of Systemic Stability”* (law 3867/2010) whose purpose is the analysis of the dynamics between the various sectors of the financial system and the constant monitoring in order to address proactively situations of stress and crises
- Credit institutions have been asked to devise and implement *medium-term funding plans in order to reduce their reliance on Eurosystem refinancing operations and state guarantees* over a medium-term horizon. Preliminary drafts will be completed by mid-April and their adequacy will be assessed by the Bank of Greece and the ECB in close cooperation with the European Commission and the IMF. Submission of these plans to the ECB and the Bank of Greece is proposed as a program structural benchmark for end-May 2011

## **V. The Pact for the Euro with respect to the adjustment programme of Greece**

The Pact for the Euro, which has been endorsed in order to establish a stronger economic policy coordination for competitiveness and convergence provides the following in relation to the adjustment programme of Greece:

In view of the commitments undertaken by Greece:

- the interest rate on its loans will be adjusted by 100 basis points,
- the maturity for all the programme loans to Greece will be increased to 7.5 years in line with the IMF

## VI. Conclusions

**Under current conditions, the challenge for the Greek banking system has mainly three aspects:**

1. To maintain the stability, with adequate capital adequacy ratios and adequate liquidity
2. To assist enterprises and households to accommodate with the inconveniences caused by the recent economic downturn
3. On the medium term, to comply smoothly with the **regulatory storm underway** (Basel III, Review of the Deposit Guarantee Schemes Directive, banking resolution, taxation of the financial sector, SIFIs)