

The Greek fiscal crisis and its impact on the domestic banking system

Christos Vl. Gortsos

**Professor of International Financial Law
Secretary General, HBA**

September 2010

TABLE OF CONTENTS

A. The effect of the global financial turmoil on the Greek banking system

B. The effect of the Greek financial crisis on the Greek banking system

1. Liquidity conditions
2. Capital adequacy
3. Liquidity provision by the ECB/Eurosystem to Greek banks
4. Deposits and repos
5. Ratio of total credit to domestic enterprises and households to deposits and repos
6. Non performing loans
7. Bank credit to the domestic private sector
8. Provisions

C. Conclusions

A. The effect of the global financial turmoil on the Greek banking system

1. **The spillover effects from the global financial turmoil on the Greek banking system were limited** – accordingly, there was no need to activate a bank rescue program.
2. **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).
3. **The recovery program adopted by the government** (the 28 bn euro “package”) in late 2008 was *mainly* aimed at the enhancement of liquidity conditions in the system.
4. **The Greek banking system remained healthy, adequately capitalized, and highly profitable** – however, key risks needed to be monitored closely in the middle of a global recession, which had not yet affected the Greek economy.

B. The effect of the Greek fiscal crisis on the Greek banking system

1. Liquidity conditions are strained

- Greek banks have limited access to wholesale markets to fund their lending activity
- Maturing interbank liabilities put additional pressure on their liquidity position
- The sovereign downgrade by Moody's in June 2010 put further pressure

.....and response actions at domestic level

1. The law establishing the Financial Stability Fund (FSF) passed on July 13 providing a new mechanism for the maintenance of the stability of the Greek banking system through the enhancement of credit institutions' capital adequacy
2. The law enabling a new tranche of government guarantees to the banking sector at the amount of €25 billion passed in September in order to contribute to liquidity enhancement

B. The effect of the Greek fiscal crisis on the Greek banking system

2. Capital adequacy

- In the first quarter of the year, the capital adequacy ratio of Greek banks, at group level, declined only by 0.05 percentage points to 11.7 percent

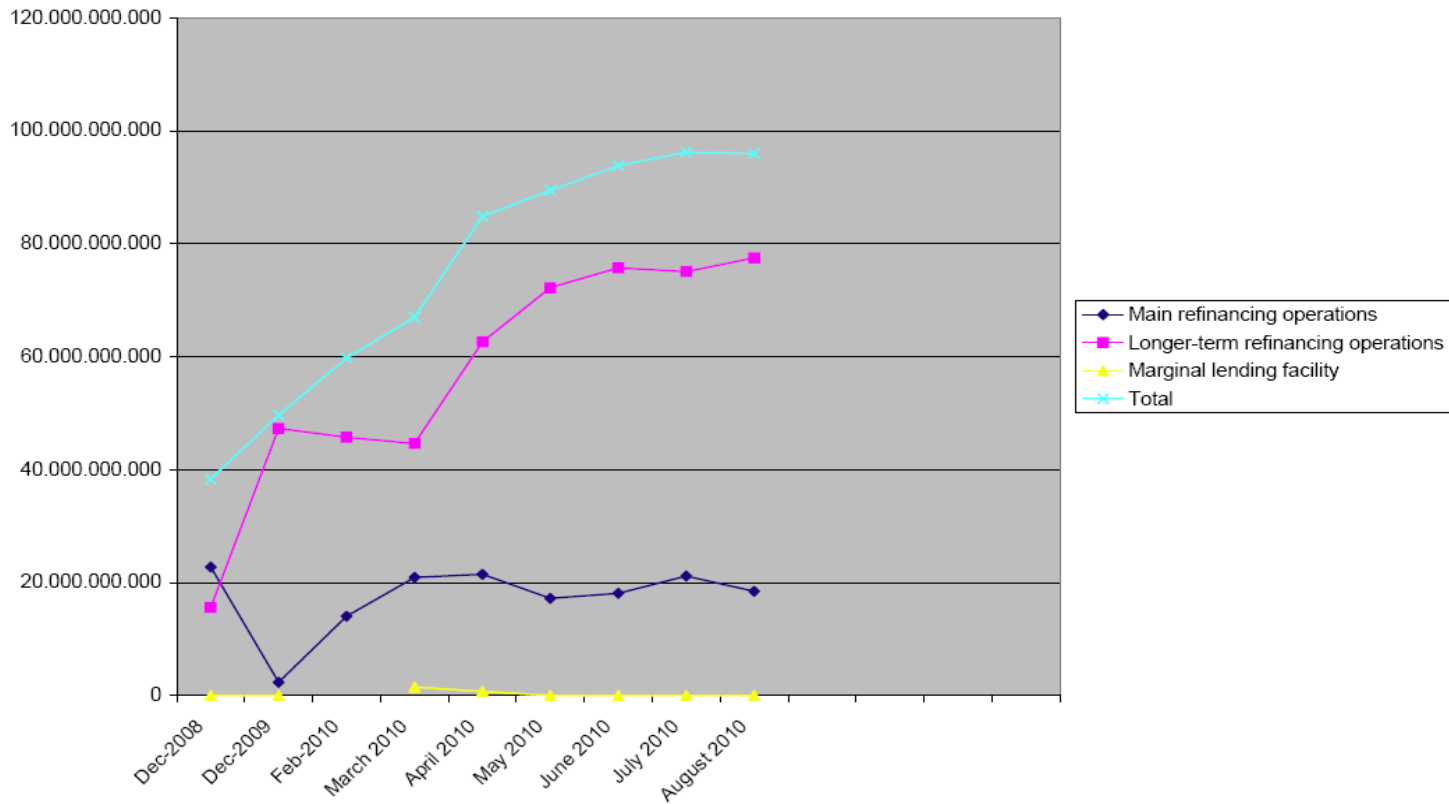
	Banks		Banking groups	
	December 2009	March 2010	December 2009	March 2010
Capital Adequacy Ratio (CAR)	13,2%	13%	11,8%	11,7%
Tier 1 Ratio	12%	11,7%	10,6%	10,6%

Source: Bank of Greece, Financial Stability Report, July 2010

- All banks are in compliance with the minimum capital adequacy requirement of 8 percent.
- The July 2010 CEBS “stress tests” covered more than 90 percent of the Greek banking system’s assets and all (but one) banks passed successfully.

B. The effect of the Greek fiscal crisis on the Greek banking system

3. Liquidity provision from the ECB/Eurosystem to Greek banks



Source: Bank of Greece, Monthly Financial Statements

B. The effect of the Greek fiscal crisis on the Greek banking system

4. Deposits and Repos

- Outstanding amounts on May 2010: **Euro 258,5 billions**
- Outstanding amounts on May 2009: **Euro 277,4 billions**
- Year on Year drop by **6,8%**

5. Ratio of total credit* to domestic enterprises and households / deposits & repos

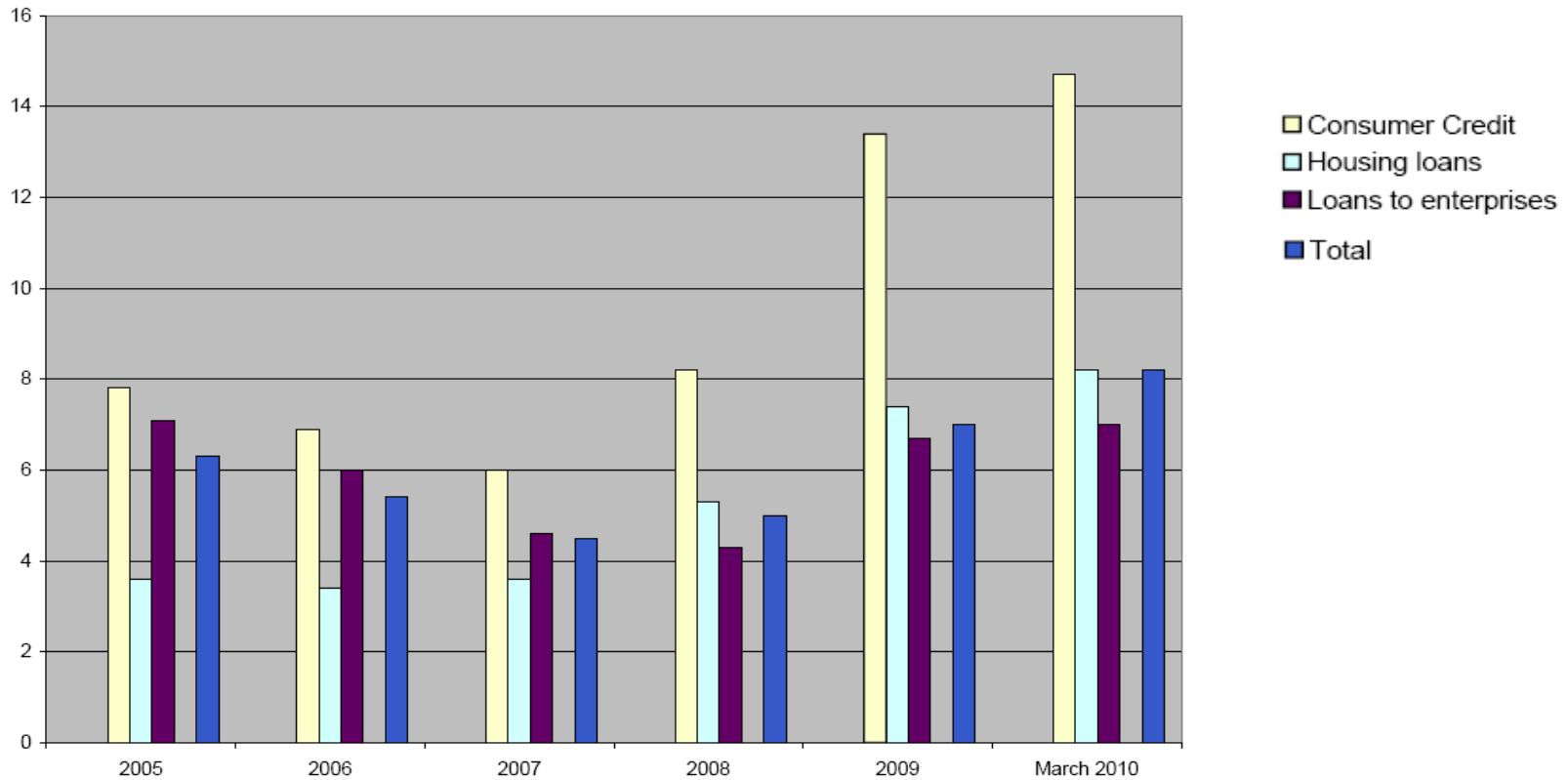
- May 2010: **98,9%**
- May 2009: **90,4%**

* Including loans, credit institutions' holdings of corporate bonds, securitised loans as well as securitised corporate bonds.

Source: Bank of Greece, Bulletin of Conjunctural Indicators, Number 130, June-July 2010

B. The effect of the Greek fiscal crisis on the Greek banking system

6. Non performing loans (%)

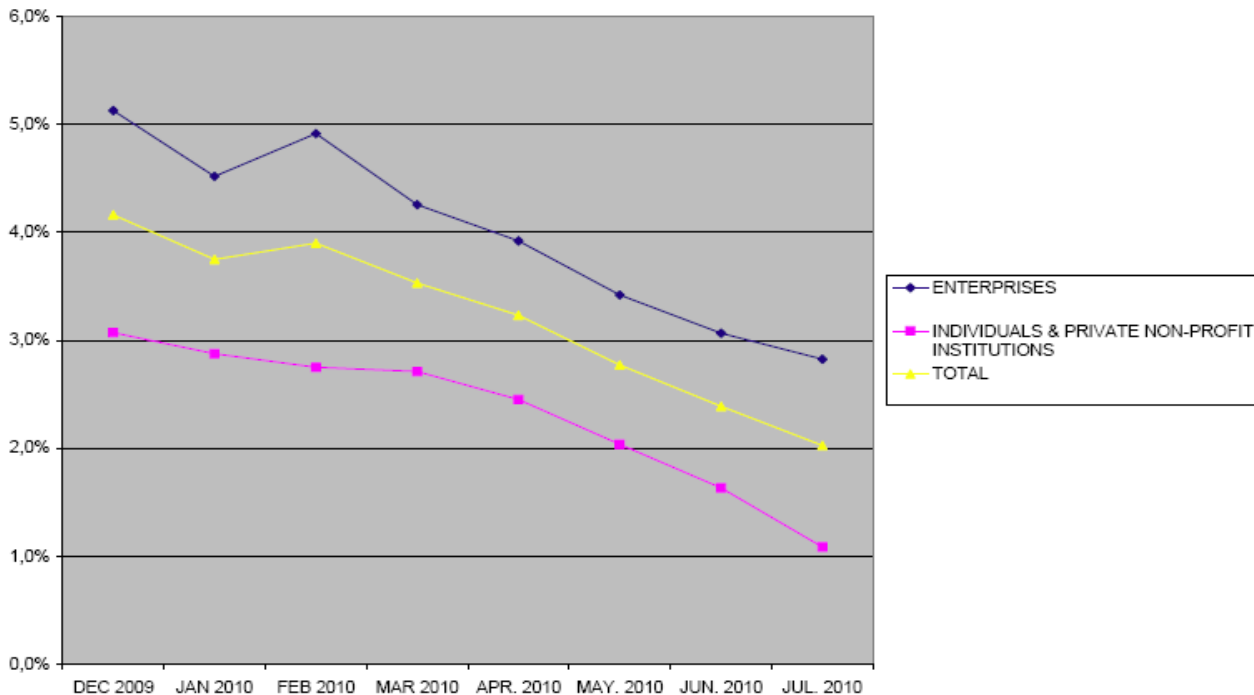


Source: Bank of Greece, Financial Stability Report, July 2010

B. The effect of the Greek fiscal crisis on the Greek banking system

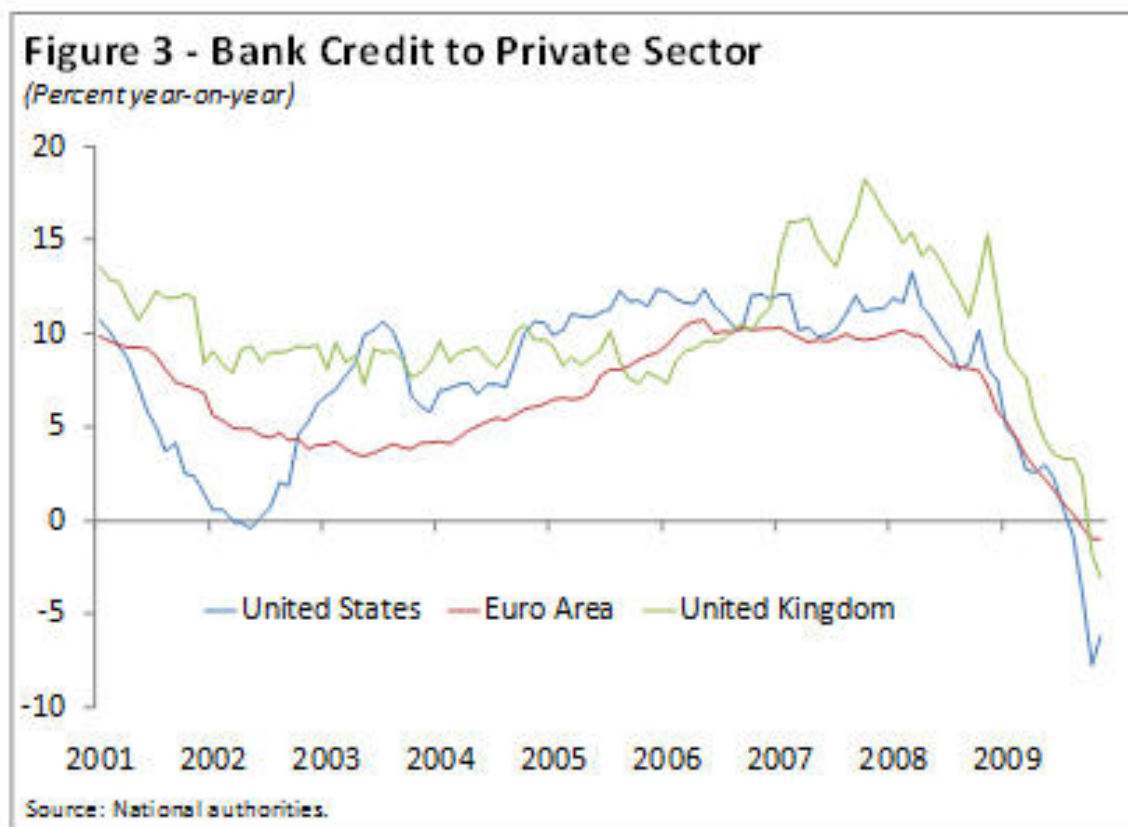
7. Bank credit to the domestic private sector

The **annual growth rate** of total credit granted to the domestic private sector decreased to 2.0% in July 2010, from 2.4% in June 2010 and 4.2% in December



B. The effect of the Greek fiscal crisis on the Greek banking system

7. ... and the opposite trend in US, Eurozone and UK



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

B. The effect of the Greek fiscal crisis on the Greek banking system

8. Provisions

Increases in provisions by 42% (Year on Year)

Provisions 2q 2009 (million euros)	Provisions 2q 2010 (million euros)
2218	3160

Source: 10 Banking Groups Financial Statements (30.6.2010)

C. Conclusions

(A) The Greek banking system was negatively affected mainly by the Greek fiscal crisis and not by the international crisis

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. Were not exposed to risks that triggered the causes of the recent global financial crisis
2. Have a strong capital base and steadily increase their provisions
3. Were facilitated by measures taken by the European Central Bank and the Greek government
4. Effective prudential supervision by the Bank of Greece ensured stability of the Greek banking system

C. Conclusions

(B) 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 new capital and liquidity requirements under “Basel III”