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Bank recapitalizations in Greece: From state-led bailouts to the ownership transfer of banks to foreign hands

Athanasios Kolliopoulos

Postdoctoral Researcher, Athens University of Economics and Business

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Λεωφ. Βασιλίσσης Σοφίας 49, 10676, Αθήνα
Τηλ. 210 7257 110, Fax 210 7257 114, E-mail eliamep@eliamep.gr, www.eliamep.eu

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Author's information:

Athanasios Kolliopoulos is a Postdoctoral Researcher at the Athens University of Economics and Business. He has completed a doctoral degree in Political Science (University of Athens), his Ph.D. thesis being about global and European financial regulation. His research interests focus on the politics of financial regulation and banking reform. His latest work includes two books written in Greek: (2020). *Μελέτες για την πολιτική οικονομία του σύγχρονου καπιταλισμού: Σύνοψη και κριτική*. Αθήνα: Παπαζήση, (2019). *Η κρίση ως ευκαιρία και ως πρόκληση: Για μια νέα ρύθμιση του χρηματοπιστωτικού συστήματος*. Αθήνα: Παπαζήση.

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Bank recapitalizations in Greece: From state-led bailouts to the ownership transfer of banks to foreign hands

Introduction

The crisis disrupted the deficit-driven growth model of the Greek economy. The Greek financial system, which came out untouched by the global financial crisis effects, at its initial stage, due to the reduced exposure of Greek banks to the US subprime crisis (Pagoulatos and Triantopoulos, 2009), was at the center of developments after the conclusion of the first economic adjustment programme in 2010. Despite three consecutive recapitalizations and waves of financial reform over the past decade, Greek banks still suffer from the highest Non-Performing Loans (NPLs) ratio in the Eurozone, with credit expansion in the "real economy" remaining anemic. Furthermore, IMF staff (2019: 52-54) estimated that the overall impact on public debt from government financial support to Greek banks, over the last decade, amounted to a quarter of 2018 GDP (close to €45 billion) -one of the largest among the Eurozone countries. Government spent about €57 billion on capital support and bank resolutions -taking into account the first crisis package which was also introduced in late 2008 (i.e. a set of liquidity measures and a precautionary capital injection of €5 billion via preferred shares)-, of which about €7 billion was repaid or recovered via liquidations. The most important pillar of financial support to the banking system was the recapitalization process, which was promoted through the Hellenic Financial Stability Fund (HFSF). The total amount of capital required for the recapitalization process during the period of 2011 to 2013 amounted to €45,1 billion. The HFSF provided €40,7 billion, which was funded by the stability support programme for Greece (Triantopoulos 2015: 10).

What went wrong? What were the reasons that the domestic financial system ended up in this exceptionally sad state? Why did the recapitalization policy not have the desired outcome? The argument developed here suggests that recapitalization policy in Greece did not follow the international practice -according to the literature on policy responses to banking crises- of bank bailouts. It simply focused on safeguarding the private management of banks and concentrating even more the Greek banking system. The IMF (2015: 3), for example, reported that there was not any "radical solution to the governance issues that are at the root of the problems of the Greek banking system". Only after the third recapitalization, more substantive measures were taken (under the Troika's pressure) to reorganize the financial system by authorities. For example, in 2016, banks -responding to the assessment of the Hellenic Financial Stability Fund for the new corporate governance framework- appointed new governing board members aiming to regain the confidence of all stakeholders. Regardless of piecemeal improvements, radical reforms were undermined. As a result, the significant inertia prevailing among authorities and bankers throughout the recapitalization process brought about the ownership (and management) transfer of the Greek banking system to foreign hands ("dehellenization") after the third recapitalization in late 2015.In other countries, on the contrary, healthy banks organized consortium rescues and used political influence to rescue failing banks directly or prevent the transfer of banks' control to foreign competitors(mostly in Italy and Ireland).In this regard, an attempt is made here to show that the three rounds of recapitalization -held from 2013 to 2015- of Greek banks failed to exploit the advantages of the different (public or private) forms of bank rescues. Systemic banks in Greece have mostly stopped functioning as credit institutions and operate as payment systems; therefore banks still cannot focus on "what really matters for the future: modern business models, finding new profitable growth opportunities and activities, exploiting digital technologies, and above all, financing the real economy" (Stournaras 2019).

When we talk about financial reforms we mean, principally, two broad categories of measures: On the one hand ensuring banks resilience through increasing bank capital and maintaining adequate liquidity. On the other hand, financial reforms include tackling non-performing loans and improving corporate governance and supervision for banks. This paper does not scrutinize, nevertheless, the policy failure in the second type of financial reforms. An attempt is made here(a) to describe in detail the various phases and the political context of recapitalization process; (b) to highlight, according to the literature, policy errors and omissions - or the cost of the choices made; and (c) to sketch out where do Greek banks stand today. Consequently, our analysis is based on published statistics by authorities and other official sources.

Responses to banking crises and the recapitalization policy in Greece

In principle, policy responses to banking crises involves a "continuum that ranges from no government help to banks to complete government absorption of all losses" (Rosas 2009: 6), taking the form either of private solutions or public rescues through liquidity and capital measures (Laeven and Valencia2010: 4). All these options can be evaluated by policymakers on the basis of: i) effectiveness at curbing the crisis and ii) the degree of moral hazard attached by government intervention (Rosas and Jensen, 2010: 108).At one extreme, private market responses create no moral hazard concerns nor entail redistributive consequences or direct cost to government budgets, but may end up totally ineffective at limiting the crisis (Wright 2010, Grossman and Woll 2014).Furthermore, an option for policymakers to not involve the State in a financial crisis may aggravate a pressing situation. For example, the Lehman Brothers collapse contributed to the economic disaster and was the catalyst for the collapse of the banking and housing industries. In the same vein, Goodhart and Avgouleas (2014) have shown that private solutions are likely to fail to eradicate the need for an injection of public funds where there is a threat of systemic collapse. Additionally, letting private investors cover losses during the crisis does not guarantee successful capital injection. Existing shareholders sometimes prove to be reluctant to or incapable of raising money from private resources. As this paper will show, the historic shareholders of Greek banks covered a very limited amount of the total capital shortfall of their banks over the past decade (Table 1). Private rescues also may take the form of bank mergers, in order to increase value by reducing costs. Cost reductions can be achieved by eliminating redundant managerial positions, closing overlapping bank branches, vacating redundant headquarters facilities, and consolidating back office functions (Houston et al. 2001: 288). Yet, for such a strategy to be successful requires a healthy bank to purchase a near-failed firm. Otherwise, if two troubled banks with complementary weaknesses merge, they may end up to an ill-conceived strategy of consolidations. The reason is that -as was the case in Spain with the consolidation wave of failed regional credit institutions (cajas)- merged balance sheets with minimal capital injections without a clear recovery of the legacy losses. Consequently, resulting entities were bigger and balance sheets more opaque (Santos 2017: 91).

Table 1. Fund resources of systemic banks' recapitalizations in € billion

Funds from public resources	Funds from private resources
First recapitalization (May-June 2013)	
25	3,1
Second recapitalization (April-May 2014)	
n/a	8,3
Third recapitalization (December 2015)	
5,5	5,3

Sources: HFSF's Annual Financial Reports

At the other extreme, government intervention can take different forms, depending on the type of crisis. In case of a liquidity crisis, state-backed guarantees (for creditors and depositors) intend to reduce panic and to increase market confidence. Governments address the problem of moral hazard by charging a fee for the provision of guarantees. Another form of public rescue is the lending-of-last-resort action, thereby provision of liquidity aims at addressing severe tensions in the interbank and other short-term money markets. Central banks have traditionally held this role ensuring that financial markets function smoothly and the financial system is stable. Similarly, in 2008 central banks -mainly, the European Central Bank- were forced to massively increase liquidity in order to save the banking system, setting aside all fears of moral hazard and inflation, or concerns about the fiscal implications of its lending (De Graw 2011, De Graw 2015). In particular, after the collapse of Lehman Brothers, central banks substantially eased the collateral requirements, thereby easing banks' refinancing problems. Yet, membership in the monetary union of the euro means that lender of last resort tools are not directly controlled by the national central banks. This constraint, always important when tackling banking crises, became even more critical -in the Eurozone periphery- in the crisis in question. The reason is that any delay -i.e. unsuccessful negotiations of the Greek government with the Troika in the first half of 2015- risks making a liquidity crisis into a solvency one and in a monetary union meeting a solvency crisis requires fiscal commitments, always a difficult political decision (Santos 2017: 114). That said, in the summer of 2015, when the ECB's Governing Council refused to increase the emergency liquidity assistance (ELA), the Greek government -being in a desperate situation- was forced to impose capital controls.

While being illiquid implies that banks struggle to repay all their depositors simultaneously, being insolvent implies that they are unable to do so in the long term. In the latter case, public rescue can take the form i) of state-subsidized private purchase -through the establishment of a "bad" bank-; ii) of direct capital injection; iii) of (full or partial) nationalization. More specifically, capital injections may take the form of ordinary shares. In that case (partial or full nationalization), governments enjoy the same dividends and voting rights as other investors. A government-managed bankruptcy procedure for banks insulates market actors from losses, limits the crisis and allows the government to reform the banking sector -through wiping out bank shareholders, replacing failed management, cleaning up the balance sheets- and then selling the banks back to the private sector. For example, that is the case of the banking crisis in the early 1990s in Sweden. The government required from its banks to promptly write down their losses before coming to the state for recapitalization. That strategy held banks responsible and turned the government into an owner. When distressed assets were sold, the profits flowed to taxpayers, and the government was able to recoup more money later by selling its shares in the companies as well. The main advantage of such a solution is "immediate recognition of the problem so that it can be solved before it grows worse" (Johnson 2009). In this case, the compelling recapitalization and restructuring of the banking system as a whole becomes a matter of survival for the national economy (Avgouleas 2015: 5).

In this direction, the measures that the UK government undertook to prevent a wholesale collapse of the financial system in 2008/9 included the nationalization or partial nationalization of several banks. On the downside, this approach involves distortions of incentives and prices, significant moral hazard and huge redistributive consequences. Otherwise, governments choose to inject capital in exchange of preferred stock that does not include voting rights, but pay a higher fixed dividend. This solution obviously intends to safeguard the private management of banks, independently of the ownership potentially being state-controlled. On the other hand, states can claim a greater share of the profit than the shareholders with ordinary shares are entitled to do. In addition, preferred shares are in principle a senior claim; that is, their attached dividends are paid in full before ordinary shareholders exert their claims, in case of a bankruptcy proceeding. Nevertheless, preferred shares involve moral hazard issues. These concerns, however, can be overcome by a high value of the fixed dividend paid per share (Mitchell 2016: 15). The solution of a "bad" bank involves a government own entity aiming buy non-performing exposure of other banks. After that, "bad" banks usually try to recover the amount. The original financial institution may clear the balance sheet, which in turn increases their credit quality. In Spain and in Ireland, for example, the SAREB

(Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria) and the NAMA (Gníomhaireacht Náisiúnta um Bhainistíocht Sócmhainní) respectively, are government-owned companies which are responsible for managing assets transferred by troubled financial institutions.

Moreover, the setting of burden-sharing between public and private stakeholders and the cost of bank bailouts depended on "the political structure of the banking sector, not simply its exposure to the crisis" (Grossman and Woll 2014: 576). In some cases, therefore, the financial sector was involved in the design of bailout packages; elsewhere it chose to remain at arm's length. For example, the Danish banking industry collectively established a private alternative in 2007. Thus, the collectively negotiated rescue package shifted the burden of failing banks to the private sector. Also, Germany relied on voluntary plans and avoided state ownership (nationalizing only the Hypo RE). On the other side, the United States, like the United Kingdom, relied on compulsory state-led rescue plans (Tooze 2018: 196). In the same vein, the Irish government decided in late 2008 a recapitalization package financed by public money, after the refusal of Irish banks to accept capital injection from foreign equity funds, including sovereign wealth funds from the Middle East (Kluth & Lynggaard 2013). In Italy as well, there was strong reluctance -in 2017- to abandon the transfer of control of local banks of Veneto to foreign competitors. Under such conditions, the Italian government broke the EU obligations, which ban state aid, to preserve national financial institutions, in ways that are incompatible with foreign ownership (Donnelly and Asimakopoulos 2019).In Greece, however, interbank relationships collapsed and a bank rescue package financed by public resources, as discussed in detail below, was out of play in the summer of 2015. Greece was close to abandoning the euro and Greek banks faced a severe liquidity crisis due to the refusal of increase the Emergency Liquidity Assistance by the ECB' Governing Board. As a result, the full foreign control ("dehellenization") of the domestic financial system upon of the third recapitalization process comes in strong contrast to the effects of other bank bailout programs.

The adventurous road for the two first recapitalizations: from public control to foreign control of Greek banks

The "veil of ignorance" of bankers and authorities for capital shortfalls

Significant government support which would ensure the soundness of the banking system as well as maintain depositor confidence was required in the face of the combination of the deep recession and the sovereign debt restructuring in 2012.At the same time, Greek banks turned up to be absolutely unprepared and significantly reluctant to such prospect despite their prior exposure to public debt accounting for 25% of GDP. By comparison, Spanish banks held government bonds about 20% of GDP, while Portuguese and French held about 10%. Over the period prior to the debt restructuring in 2012a wave of complacency about the bank capital needs prevailed. Banks and authorities faced the crisis as a liquidity crisis and not as a solvency one. The only marginal exposure of Greek banks to "assets directly or indirectly related to the underlying causes of global turmoil, the satisfactory level of their capital adequacy, their relatively strong deposit base, the implementation of stricter lending criteria and the Bank of Greece's ongoing audits helped to mitigate the adverse effects of the crisis on their fundamentals, leaving the Greek banking system essentially sound" (Bank of Greece 2009: 18).

Bankers as well, on their part, adopted the approach above. This is reflected in that in July 2010,the Hellenic Bank Association (2010) advised the standing committee on Economic Affairs of the Hellenic Parliament that capital bases of Greek banks were quite strong; therefore the Association head rejected the possibility of needing public funds for bank capital needs, affirming "we are satisfied with the Hellenic Financial Stability Fund establishment law […] Beyond that […] we hope we won't use it". Furthermore, for Greek bankers "bank capital adequacy ratios are very satisfactory [...]. In other countries the banks failed and governments saved them; that is not the case in Greece for any bank, which is the reason why it can be said that the fundamentals are satisfactory. The problem of liquidity is not related to a lack of sufficient capital adequacy ratios but to the deterioration that the banks have suffered due to the sovereign credit rating downgrading" (Hellenic Bank Association 2010). In the same vein, on the possibility of debt renegotiation, the Hellenic Bank Association's president commented that "All indications show us that it won't be needed…". Nevertheless, taking a look at the payment flows for the period 1998-2006, "Greek governments paid for interests about 11%-12% of GDP. Nowadays, projections for the worst scenario stand at 8,5%...". In this context, Greek bankers weren't worried about the "€40 billion of Greek government bonds held in banks portfolios […] we think that's not so negative, because we were holding so many Greek bonds in our portfolio in the past for so long. In the 1990s, in particular, banks were earning significant interest revenues […]; I do not understand why some foreign analysts advise that an extensive 'haircut' must be made as the Greek State is going to fail. I am just wondering: In case of a sovereign default, what will happen to the private sector?".

In the light of the above, the first recapitalization of systemically important banks started in April 2013. But to get there, three elected governments (plus an interim coalition government) drew up different plans on fulfilling banks' capital shortfall. Different ideological preferences, vested interests and contradicting policy priorities unfolded in the case of banks' recapitalization. From the initial point (2010-2011) of managing banks' recapitalizations via common stock with voting rights attached (idea supported by the socialist PASOK under George Papandreou), the recapitalization process ended up to two pro market capital injections (2013 and 2014) implemented by the conservative New Democracy government allying with PASOK under Evangelos Venizelos this time. From these two recapitalizations which protected the private management of Greek banks, we get to the full foreign control ("dehellenization") of the domestic financial system upon of the third recapitalization process, negotiated by the SYRIZA/ANEL government in 2015.

The starting point of the first recapitalization: common stock carrying voting rights

To start with, the socialist PASOK under George Papandreou won the elections of October 2009. The first financial assistance programme was signed in May 2010. The MoU required the creation of a rescue fund, the Hellenic Financial Stability Fund (HFSF), anticipating a further worsening in asset quality down the road, which impacted the bank capital bases. The HFSF was setup in 2010 as a capital backstop for viable banks, initially, amounting to €10 billion, financed by the international financing package. The form of the HFSF participation (via common or preference shares) in banks as a result of the recapitalization process was the crucial stake. PASOK government stood by the solution of common shares carrying voting rights, in case existing shareholders could not deliver the equity increases. This strategy echoed Labour government policy under Gordon Brown, which took ailing bank Northern Rock into public ownership in 2008 - the first nationalization in the UK since the 1970s. In view of the foregoing, PASOK government voted the founding law for the HFSF in 2010 (Law 3864/2010), which gave room for public control. More specifically, according to the Article 9 of the Lawany credit institution which does not cover the minimum supervisory threshold of 8% and whose operational plan is not considered sufficient to restore the capital requirements is required to be subject to public ownership and management.

From the beginning of the debate about capital shortfall of systemic banks, Papandreou government associated voting rights with the activation of the HFSF. More analytically, during the parliamentary deliberations for the transition of the HFSF's establishment into law, the Deputy Minister for Finance, Phillipos Sachinidis (2010: 10168, 10169), described the governmental strategy in greater detail: "… We put tough conditions on the provision of these funds. First and foremost, shareholders, existing or new, have to put in extra funds. And if it is not possible […] bankers can apply to the fund […] we say 'yes you don't give money, but you lose the rights to manage the bank and furthermore, you will also pay for support which you will get'.

So, it is clear that the support provided, included in the draft law, is not a free treat…". In the same direction, in the aftermath of the decision taken by the EU Summit of 26-27 October upon the debt restructuring in 2011, the Greek Prime Minister, George Papandreou (2011), stated that "a temporary nationalization of a large part of the Greek banking sector is very likely", but the privatization of State's stake "will be made as soon as possible". Furthermore, Papandreou advised that he had a long discussion about temporary nationalization of Greek banks with the Sweden authorities, who had gone through this process a few years back, with very positive results for both the Swedish banking sector and the Swedish economy. Following this strategy, Papandreou appeared 'optimistic' to bring Greek banks back to the markets very soon".

The deferral of the final decision during Papademos government

Subsequently, in November 2011, George Papandreou resigned from Prime Minister. A newly 3-party (the socialist PASOK, the conservative New Democracy and the pure right-wing Popular Orthodox Rally - LAOS) grand coalition government under former ECB vice president Lucas Papademos took office. In this period, we can detect a gradual departure from the common shares option. To begin with, the coalition government was provisional and its main purpose was to determine the final provisions for the debt restructuring (PSI) -the principle prerequisite for the conclusion of the second rescue package for Greece- which Papademos government negotiated and voted, in March 2012. Nevertheless, Papademos government was politically weak and had a very restricted life span as the stance of the conservative New Democracy, under Antonis Samaras, was not essentially supportive. Samaras, who was foreseeing himself as the future Prime Minister, was very reluctant to nominate members of his party as ministers in the coalition government because of political cost. As a result, even though the government consisted of 48 ministers and deputy ministers, only 6 of them came from the New Democracy and 4 from LAOS. The vast majority of them came from PASOK, many of whom had been nominated by Papandreou government. However, Prime Minister Papademos oversaw the enactment of various austerity measures before leaving office in May 2012; but he did not have the necessary political support and the ideological cohesion in his government to implement the first recapitalization.

A clear shift from the common shares' strategy toward a less state involvement solution was observed, which was combined with the external pressure from the Troika. The coalition government suffered from the beginning from conflicting political preferences. On February 2, only a few days before a crucial meeting of all political leaders with Papademos for achieving a final agreement on recapitalizations, Papandreou, who was still the PASOK leader, reaffirmed his position on the recapitalization via common shares carrying voting rights; he also disapproved preferential shares option, as the Troika was pushing to avoid state-owned banks. On the occasion of a session of PASOK parliamentary group, Papandreou (2014) denounced "a variety of interests that limit political autonomy". In this line, he defended that "I have no personal differences with anyone. But I don't bend my head to anyone. I have never been a puppet…". In the same session, the Minister for Finance and vice President of the coalition government, Evangelos Venizelos-prominent member of PASOK who remained in his position from the Papandreou government-also supported the common shares choice saying: "the preference shares solution is out of play" and that "the stance of the Ministry of Finance on that is very clear". Nevertheless, Venizelos, in an attempt to balance between his party line and the tough stance of the Troika, pointed out ambiguously that the government does not intend "to nationalize banks, turning them into public enterprises; instead we want competitive banks" (To Vima 2012a). Maintaining the private management of banks was a solid choice of the Troika. The IMF (2012: 27, 28) insisted that the private management of banks should be kept "to the maximum possible", while eligible banks for recapitalization should be given the opportunity to receive HFSF assistance "in such a way as to provide incentives for private investors to participate in the recapitalization".

In this context, the Minister for Finance Venizelos was stressing throughout the period of negotiations with the Troika for the conclusion of the second programme that "we are not interested in nationalizing banks, we respect private administrations" (in.gr 2012). In fact, Papademos government proposed the common shares option, which for three to five years will not have voting rights. At the end of a five-year period, the private shareholders will have the right to repurchase State's stake. The European Commission as well had proposed a combination of financial tools for bank recapitalizations, such as non-voting common shares and equity convertible bonds. Besides the pressure from the Troika, the gradual departure from the common shares with full voting rights option was facilitated also, due to the ideological heterogeneity of the coalition government. As the socialist Minister for Finance, also a member of the PASOK government put it: "Obviously, there has been no ideological convergence of the three parties constituting this government […] there are ideological differences with New Democracy and the Popular Orthodox Rally (e.g. LAOS) […] the fact that I am participating in the government of Prime Minister Lucas Papademos has not forced me to back down from my ideological view on the role of the financial sector…" (Sachinidis 2012: 4141).

For the conclusion of a second rescue package for Greece in March 2012, the implementation of the debt restructuring (private-sector involvement-PSI) was the most significant prerequisite. In the context of the PSI, Greek banks exchanged Greek

Government Bonds (GGBs) of a total face amount of €48,6 billion, for new bonds issued by the Hellenic Republic and PSI Payment Notes issued by the EFSF. For the Greek banking sector, these losses amounted to €37,7 billion, of which €5,8 billion had already been recorded on the June 2011 financial statements. As a result, the recapitalization and resolution plan, following the implementation of the PSI, aimed to restore the capital base of the four systemic banks and resolve all other non-systemically important banks unable to recapitalize themselves through private capitals, with the large part of €50 billion in debt securities that had been earmarked for this purpose in the economic adjustment programme (Bank of Greece 2012: 13). In parallel, a strategic assessment of the banking sector was carried out in the first months of 2012 by the Bank of Greece (BoG). In consultation with the Troika (EC/ECB/IMF), the BoG with the support of external consultants (BlackRock) undertook the assessment of banks' capital needs. The resulting capital needs for all Greek commercial banks were estimated in May 2012 at €40,5 billion, of which the €27,5 billion accounted for the four systemic banks (Bank of Greece 2012: 39,40). The strategic assessment identified four systemically important banks, namely National Bank of Greece, Eurobank, Alpha Bank and Piraeus Bank, which were considered eligible nominees for recapitalization using public funds. Regarding non-systemically important banks, the final agreement with the creditors required them to be recapitalized with private funds by end-April 2013. Otherwise, they would be resolved by the end of June 2013 (Bank of Greece 2012: 10).

Finally, the general framework for the recapitalization of Greek banks was outlined initially in the Memorandum (MoU) signed in March 2012 and was subsequently updated in December 2012.In April 2012, €25 billion was provided to the Hellenic Financial Stability Fund (HFSF), in the form of European Financial Stability Facility (EFSF) Notes. The creditors in the second MoU placed strict limitations on the voting rights associated with the banking shares in HFSF's possession despite the fact that the rescue fund was to acquire a significant participation in banks. The explicit objective of creditors was to ensure that Greek banks will have full business autonomy. For this reason, "the shares and/or the voting rights acquired by the HFSF shall not be transferred or sold to any other state-related entity in any form. Private shareholders will be given incentives to purchase HFSF-held shares. A ministerial decision in line with European Commission, ECB and IMF advice shall provide the technical details of the banks' recapitalization framework, embodying these principles" (IMF 2012: 172). Thus, the MoU excluded the possibility of public management of the recapitalized credit institutions.

Nevertheless, the decision upon the technicalities (common stock or preference shares) for banks' recapitalization was postponed until the elections held on 6 May. However, in May 2012, the HFSF had already extended €18 billion to the core banks in the form of an advance towards their capital increase. Therefore, the Troika's concerns on the outcome of the forthcoming elections blocked the solution at that stage. The creditors' will was for a stable political environment to agree on a solution. The domestic political system as well was reluctant to take on the responsibility of the final terms of recapitalizations. The minister for Finance, Evangelos Venizelos, appeared cautious about taking decisions that could lead to conflicts within PASOK, especially in the run-up to the elections. On the other hand, the strategy of conservative leader Antonis Samaras was to postpone final decisions until the elections, given the New Democracy' rising polling-based dynamic; on the contrary, Prime Minister Lucas Papademos was pushing for an immediate solution being worried that any delay could mean recapitalizing banks in worse conditions (To Vima 2012b).

The first recapitalization: public money without voting rights

Greek voters returned to the polls in May 2012, but no party won a parliamentary majority. Subsequently, Samaras came to power in June 2012, after two successive elections. Initially, as the head of a three-party coalition government with PASOK, and the Democratic Left and later with PASOK only. As soon as the new government was in place, talks began in July 2012 about how to move ahead with the programme, which had stalled during the run-up to the elections and the subsequent change in government. Indeed, the programme ran off track due to a severe political crisis. As a result, programme policies were revised to deal with macroeconomic declination and to better reflect real implementation capacity. In turn, the new government recognized the necessity of a final agreement upon the issues at stake; final agreement was reached on refinements to the recapitalization and resolution process after the first review of the second economic adjustment programme in December 2012.

The reviewed roadmap for the recapitalization process was arranged as follows: The deadline to complete the recapitalization of systemic banks was extended from end-September 2012 to end-April 2013. The longer period was considered necessary "to stagger the rights issuance of each of the core banks, in order to avoid saturating the very thin market for Greek bank equity". Then, by end-January 2013, "the HFSF will subscribe to 100% of any convertible instruments that the banks will decide to issue". In the next stage, by end-April 2013, the core banks will complete the rights issue and "any shares not subscribed by the private sector would be acquired by the HFSF subscription to the common equity" (European Commission 2012: 43, 44). Non systemic banks to operate on a stand-alone basis were required to be fully capitalized with private resources, or merge with other sound institutions before end-

April 2013. Regarding the resolution framework, the timeline was extended to end-June 2013, including the scenario of smaller banks being acquired by core banks. Lastly, the BoG would set out a strategy to deal with cooperative banks including the restructuring options of (i) integrating these institutions into the viable banks; or (ii) merging them into a core cooperative unit to be recapitalized with a viable business plan.

The first review of the programme in December 2012 ratified a series of legislative initiatives taken by Greek authorities over the previous months. In October 2012, the Bank of Greece reviewed the capital needs assessment in the light of the first half 2012 preliminary financial results and confirmed that the conservatively estimated capital needs were adequate. In November 2012, the government laid down the Cabinet Act 38 on recapitalization tools and terms. According to the Cabinet Act 38 of 9 November 2012, private shareholders would retain control of the core banks, provided they subscribed no less than 10% of the newly issued common shares. The HFSF would subscribe the remaining unsold shares. Yet, should the Fund's participation exceeded 90% of the common equity capital increase, the HFSF shares would carry full voting rights, implying an effective nationalization of credit institutions. It is important to note that the recapitalization framework according to the Article 3of the Cabinet Act 38 of December 2012made provisions for HFSF exit from bank ownership by offering warrants to private investors involved in a capital increase. To attract private investors, new shares issued by the core banks received free warrants to buy all HFSF's shares at a predetermined price (strike price) at regular points in time over the next 54 months (i.e. up to December 2017). Warrants provided significant incentives to the private sector, i.e., high number of HFSF shares per warrant. Each warrant corresponded to a number of shares that depends on the extent of private investors' participation in the capital increase. The strike price of each warrant was to be equal to the offer price of new share, with an interest rate of 3% plus a spread increasing by 100 basis points per annum. After all, the legislative framework intended to motivate private investors to exercise their warrants as soon as possible. Therefore, the option of a more costly recapitalization with contingent convertibles (CoCos) was not preferred as it was also included in the above-mentioned Cabinet Act. In general, CoCos have a specific strike price that once breached, can convert the bond into equity. Their use helps to shore up a bank's balance sheets by allowing them to convert debt to stock if specific capital conditions arise. In the Cabinet Act in particular, CoCos terms were such as to prevent banks from using them for two reasons: On the one hand, due to the expensive interest rate (7% plus 50 basis points per year) and on the other, because of their low conversion price on common shares (50% of fair value) in case of default.

At the end of the day, during May - June 2013, the four largest Greek banks completed their equity capital increase. Three out of the four banks managed to derive more than at least 10% of their required capital requirements, i.e. almost

€3,1billion, by private resources. The final HFSF contribution to the recapitalization was by EFSF bonds with a nominal value of €24,998 billion, while the total equity increase of the 4 banks was €28,595 billion resulting in less use of EFSF resources, which were committed to the HFSF, by €3,597 billion (Table 2). Moreover, with the cover of funding gaps of non-systemic banks under liquidation, HFSF total contribution amounted to €30,767 billion (HFSF 2014: 53). After the completion of this plan, one core bank (Eurobank) was fully under HFSF control,[1] but the other three remained under private management, even though more than 80% of their capital was owned by HFSF. Finally, the three systemic banks which managed to raise at least 10% of the new shares issued for recapitalization, avoided a full public control.

Table 2. Equity participation after the first recapitalization (2013) of the 4 systemic banks

Bank	**HFSF contribution (%)** **(1)**	**HFSF shares per warrant** **(2)**	**Private contribution (%)** **(3)**
National Bank of Greece	84,39	8,23	11,06
Piraeus Bank	81,01	4,47	19,68
Alpha Bank	83,66	7,40	12
Eurobank	98,56	n/a	n/a

Source: HFSF

The consolidative wave

The Ministry of Finance, in cooperation with the Bank of Greece, set up the institutional framework (Laws 4021/2011 and 4051/2012) for the resolution of credit institutions. The resolution process may involve either the transfer of the assets of the problematic institution to another credit institution or the transfer of assets that have been approved by the Bank of Greece in a newly established credit institution (bridge bank). In the latter case, the HFSF is the shareholder of the newly established

[1]The HFSF channeled €5,8 billion into the Eurobank and became the major shareholder with full voting rights.

credit institution, with the aim of promoting its restructuring and sale later. The HFSF, which replaced the limited funds of the Greek Deposit Insurance Fund's Resolution Part (TEKE), will work as a backstop of resources in the resolution process. In general terms, the forms of consolidation implemented in Greece were either the establishment of a bridge institution (Proton, Hellenic Postbank) or the transfer of assets to an another credit institution (T-Bank, Agricultural Bank of Greece, FBB, Probank, Cooperative Banks of Lamia, Achaiki, Lesvos-Lemnos, Western Macedonia, Dodecanese and Euboea) (Triantopoulos 2015: 75).

Soon after the implementation of the new bank resolution framework, at the beginning of October 2011, Proton Bank was split into a good bank (Nea Proton) and a bad bank. The resolution arm of the Greek Deposit Insurance Fund (TEKE) covered the funding gap between the assets and liabilities of Nea Proton, while the HFSF provided the capital and assumed responsibility for management oversight of the new institution. In December, another ailing bank, T-Bank, was resolved by a transfer of assets and liabilities to Hellenic Postbank, which previously envisaged a merger with T-Bank. TEKE covered the funding gap between the assets and liabilities of T-Bank that were transferred to TT Postbank.

The extensive consolidation wave of the Greek banking sector continued apace in 2013. The acquisitions of Geniki Bank, Millennium Bank (subsidiaries of Société Générale and Millennium BCP respectively) and of the Greek assets of Cypriot banks by Piraeus Bank completed the exit of foreign banks from the domestic market. A number of smaller resolved banks (FBB and Probank, Hellenic Post Bank and Proton) were subsequently acquired by National Bank of Greece and Eurobank respectively in mid-2013. Through mergers, acquisitions and resolutions, the total number of operational financial institutions dropped from 64 to 38. Moreover, many of foreign banks ceased retail service networks in the Greek market. Among the foreign banks that departed are Crédit Agricole and Société Générale which sold their subsidiaries in Greece to Piraeus Bank and Alpha Bank respectively. The Portuguese Millennium BCP as well, sold its subsidiary in the summer of 2013. Moreover, in mid-2013, Cypriot banks sold their Greek branches to Piraeus Bank, ensuring that those entities could reopen and that Greek depositors would not be touched by severe restrictions imposed to Cypriot banking system. To date, the four systemic banks (plus Attica Bank) account for 97% of the Greek banking system (by assets), with respect to 67,7% of the five largest banks at the end of 2007. In the euro area the market concentration indicator remained slightly below 50%. Within a five-year period, 21 credit institutions ceased to operate in Greece. Specifically, from October 2010 to December 2015, seven commercial and seven cooperative banks consolidated, among them the Agricultural Bank and the Post Bank (EET 2018: 30-34). The banking market has been concentrated as mentioned in four systemically important credit institutions. These are Piraeus Bank with a share of 26% (from 11% in 2008), National Bank of Greece with a share of 24% (from 18% in 2008), Eurobank with a share of 23%

(from 20% in 2008) and Alpha Bank with a 19% share (from 14% in 2008) (Triantopoulos 2015: 75).

But the overall process of consolidation raised some questions about its transparency. Crony banking in Greece was evident from lending scandals that culminated in a number of prosecutions of senior bankers and businessmen (Avgouleas and Papadimitriou, 2015: 2). On 25 March 2013, a €10 billion bailout by the Eurogroup was announced, in return for Cyprus agreeing to close the country's second-largest bank, the Laiki Bank, imposing a one-time bank deposit levy on all uninsured deposits. The Greek branch of Laiki was sold to Piraeus Bank. It is interesting to note that among the questionable loans of the Laiki were €113 million made to three offshore investment vehicles controlled by the family of then Piraeus Bank head. According to the Laiki audit reports, these loans were used in 2011 to buy Piraeus shares in the open market (this practice is known as "loan stock"). As a result, the then executive chairman of the bank became the biggest shareholder as well of the Piraeus. On their part, the Bank of Greece, the supervisory authority, commented that "Loan stock is a common practice all over the world. Neither European law, nor Basel, nor national law prohibit this option [...] moreover, only if [...] those shares exceed 10% of total equity, the regulatory framework requires to deduct such funds from the calculation of the Core Tier 1 capital …" (Provopoulos 2012). In the case of the Piraeus Bank, the equity participation of the then executive chairman stood below 5%. In this regard, the European Court of Auditors (2017: 52) determined that in the first Memorandum of Understanding it was not required by the Bank of Greece to ensure that the diagnostic assessment of Greek banks was sufficiently transparent. For example, banks did not have access neither to their ratings nor to the underlying calculations. In particular, the Bank of Greece "failed to respond to repeated requests to identify what disclosure and conflict of interest rules apply to Greek banks, or to questions about Piraeus property deals" (Reuters 2012).

Second recapitalization: excessive sweetener to attract private funds

After the second quarter of 2013 and having completed the first recapitalization process on the basis of the 2012 capital needs, the Bank of Greece commissioned the consulting firm BlackRock, as in 2011, to carry out an independent diagnostic study on the loan portfolios of all Greek commercial banks. This requirement was in line with the second and third review of the second MoU in April and June 2013 respectively, according to which Greek authorities committed themselves to "step up measures to minimize the significant risks as Greek banks had suffered heavy losses on both their investments in government bonds and their loan portfolios due to the long recession of the Greek economy". Thus, "their recapitalization became crucial in maintaining the banking sector's capability to support the real economy" (European Commission 2013: 37). To that end, the Bank of Greece, in cooperation with the HFSF (and in accordance with their memorandum of understanding), and in consultation with the EC/ECB/IMF, *inter alia*, would "assess the effectiveness of established frameworks and policies to deal with troubled assets by end September 2013, with the assistance of an independent third party" (IMF 2013: 85,86).

After all, the assessment concluded that for the period June 2013-December 2016, the Greek banking sector needed €6,4 billion in order to be adequately capitalized (Bank of Greece 2014a: 4-11). At the same time, the government set up the framework for the second recapitalization, making the 18th amendment of the HFSF establishment Law 3864/2010 with the Law 4254/2014 (Article 2). Thus, the Greek government enabled the HFSF to sell its own equity participation (or part of it) to private investors, not just below its acquisition price but even below current market price (fair value). Moreover, according to the above legislative initiative, the HFSF could participate in the recapitalization process exclusively as "backstop" of last resort. This meant that the HFSF could not participate in bank recapitalization in case of interest from private investors. In this way, further public control of Greek banks was minimized as the HFSF required to be activated only in the case of covering extra capital needs after any involvement of private sector investors. Therefore, during the recapitalization process, there was pressure on equity prices, resulting in significant losses of the HFSF' equity participation, which was the majority shareholder of banks after the 2013 recapitalization (Table 3).

These developments brought about political tension even within the coalition government. The former Prime Minister and incumbent deputy with PASOK, George Papandreou, voted down the Article 2 of the Law 4254/2014. Furthermore, another deputy with PASOK, Apostolos Kaklamanis, servicing as Speaker of the House in the past, did not vote in favor; and the only one deputy with New Democracy who disapproved the Article 2 was expelled from the parliamentary group of New Democracy. Finally, the Article 2 passed with a marginal majority of 151 out of 300. Papandreou (2014) defended his stance at Bloomberg as "a matter of values; I would do it again..."; and added that only in "very exceptional cases", governments should privatize banks losses. But to perpetuate this policy in a formal and permanent way by law, "especially when we have imposed so many austerity measures to rescue banks…I don't agree with this point of view…". In the same vein, along time after the disapproving voting, George Papandreou (2019) pointed out in an interview that "My government collapsed under the pressure of the growing backlash that was cultivated by specific interests, after my decision to recapitalize the banks carrying voting rights common shares. Then, all against us… No one was interested in reforming banks and the banking system. Everyone was playing the game of these interests".

Given all this, the second recapitalization (2014) was fully covered by private equity investments of €8,3 billion. Nevertheless, the process caused a large devaluation of the HFSF's assets due to severe stock dilution. The HFSF's stake in the four systemic banks was worth €18,5 billion in the spring of 2014. On the 31st December 2014, after SYRIZA triggered early elections, the fair value of the HFSF's portfolio amounted to €11,6 billion, while on the 31st December 2013 to €22,6 billion (HFSF 2015: 7). In combination with a very limited exercise of warrants (Table 4) granted to the private investors on the occasion of the first recapitalization, HFSF's participation in the systemic banks decreased significantly. In other words, the second recapitalization ipso facto represented an admission of failure of the first recapitalization process.

Table 3. HFSF's equity participations

Banks	**31/12/2014**	**31/12/2013**
Alpha	66,2%	81,7%
Eurobank	35,4%	95,2%
National Bank of Greece	57,2%	84,4%
Piraeus	66,9%	81%

Source: HFSF

Table 4. Small number of exercised warrants

Banks	**Alpha Bank**	**National Bank**	**Piraeus Bank**
Number of warrants (1/1/2014)	1.204.702.851	245.748.580	849.195.130
Exercised warrants	(62.954.884)	(121)	(5.554.540)
Rest of active warrants	1.141.747.967	245.748.459	843.640.590

Source: HFSF

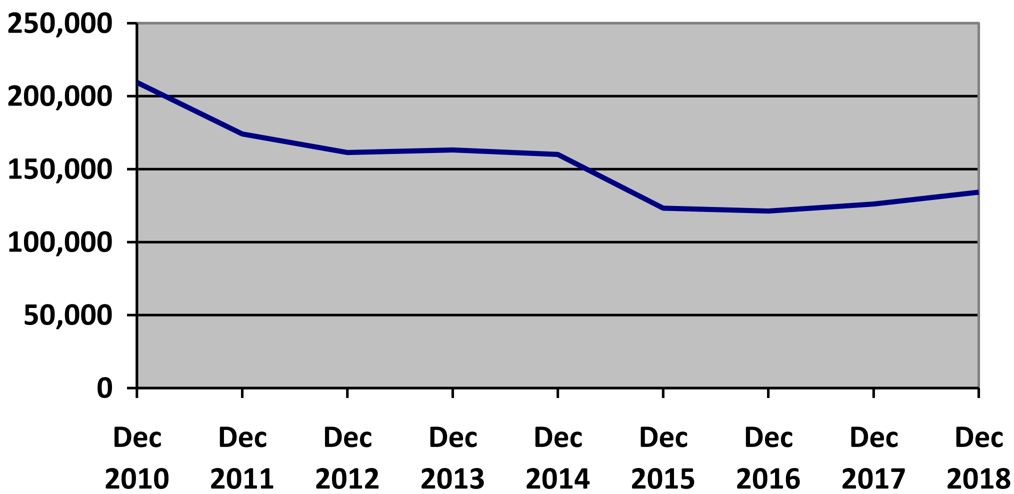
In October 2014, the ECB revealed the results of the comprehensive assessment for the systemically important European banks. Three out of four systemic banks in Greece failed their ECB stress tests. The results of the ECB's comprehensive assessment revealed that National Bank and Eurobank had too little capital at the end of 2013 - showing shortfalls of €3,43 billion and €4,63 billion respectively. A third Greek bank, Piraeus, had a small capital shortfall of €659,9 million and Alpha Bank had no capital shortfall. However, balance sheet projections from ECB were not fully representative of these banks' capital positions, because the restructuring plans of the Greek banks had not been officially approved and published before 31/12/2013. All four Greek banks had already implemented restructuring plans in the course of 2014 and these plans had been officially approved by the European Commission. Thus, taking into account the restructuring plans and the recapitalization of €8,3 billion with private funds in 2014, the results for the Greek banks were better than what the market expected. In this context, the BoG stated that "[t]he results of this exercise provide confirmation that the capital raising and restructuring plans implemented by the four Greek banks have significantly strengthened their capital positions" (Bank of Greece 2014b).

After the results of the ECB's comprehensive assessment, in the summer of 2014, the Greek government passed a legislation that allowed Greek banks to count as capital the tax refunds that they would receive in the future from the State (differed tax credits - DTCs). In short, banks would get a discount on tax if they make a profit, or a payment from the government, if they end up making a loss. Under the legislation (Law 4302/2014, Article 23), the Greek government allowed the four significant banks to amortize their DTCs over 20 years via their future profits up to € 16 billion in order to reduce the bulk of NPLs. That means that their capital base has become heavily depended on DTCs, which amount to €16,2 billion of a total €27 billion of core capital (Kathimerini 2018). Hence, significant restrictions on using DTCs to purge their balance sheets of NPLs were set up. However, given that banks should reduce NPLs at level slower than 10% by 2022, they will find it very difficult to carry out this task without taking losses. That means the government could be called upon to financially backstop those DTCs in return for shares issued by the banks. In this case, banks should either find new capital from private investors or the DTCs could be used as a tool for increased public control with an extra fiscal burden for the government.

Third recapitalization: Political failure and foreign control of the domestic financial system

In January 2015, the coalition of a radical left-wing party (SYRIZA) and an ultraright-wing party (ANEL) rose to power, with the illusory promise to unilaterally terminate the austerity measures of Memoranda and to renegotiate the public debt. In 2015, the domestic banking system was at the center of developments: the overdependence on the Emergency Liquidity Facility (ELA) in February, the "bank holiday" and capital controls in June, the release of the results of the ECB's stress tests in October; and the rapid bank recapitalization of December. More specifically, the decision of the Governing Council of the ECB in early February to lift the waiver affected marketable debt instruments issued or fully guaranteed by the Hellenic Republic. The Governing Council decision was based on the unsuccessful conclusion of the programme review. Suspension led the four systemic banks to the ELA, but at a much higher cost. Thus, from the approximately €5 billion of liquidity outstanding at the end of January 2015, it jumped to approximately €87 billion at the end of June. The paralytic uncertainty around the Greek economy triggered a massive deposit outflow (Figure 1). Between December 2014 and June 2015, deposits by domestic corporations and households went down by €37,9 billion, a reduction equivalent to nearly a quarter of the total deposits (Bank of Greece 2015).This trend was hampered mainly because of the imposition of capital controls at the end of June; but also by the signing of the agreement in Euro Summit of 12 July in the aftermath of a resounding "No" in the July 2015 referendum, when the Tsipras government, under the threat of disorderly default and Grexit, was forced to capitulate into accepting a new €86bn ESM program. More importantly, the ECB's Governing Council refused in July to increase the amount of ELA. These developments led the entire the Greek banking system in a severe liquidity crisis, followed by the landmark of bank recapitalization in December 2015.

Figure 1. Deposits by domestic corporations & households (EUR millions)



Source: Bank of Greece

The necessity for recapitalization was acknowledged in the July 12 Euro Summit's agreement, which provided for up to €25 billion for their bank capital shortfall. In the fall of 2015, the ECB conducted a comprehensive assessment of the four systemically important Greek banks in line with the decision by the Euro Summit on 12 July 2015 and the third Memorandum of Understanding signed on 19 August 2015 (European Commission 2015).Overall, the stress test identified a capital shortfall across the four participating banks of €4,4 billion under the baseline scenario and €14,4 billion under the adverse scenario. What was clear was that the process of recapitalization had to be completed before the end of 2015 so as avoid the full implementation of the EU Bank Recovery and Resolution Directive (BRRD) that was set to come into effect on January 1st of 2016. The BRRD requires to bail in 8% of bank liabilities before the disbursement of resources by the ESM. In practical terms this would have meant a partial haircut on unsecured deposits over €100.000.

However, concerns about the recapitalization process focused on the very low market prices of the issued equity, which caused huge losses for the existed shareholders (mainly the Hellenic Financial Stability Fund). More analytically, foreign private funds basically met capital needs of four Greek systemic banks (€5,3 billion), while of the €25billion initially embarked, only €5,5 billion was used up through the HFSF for the banks' extra capital needs. Only extra capital needs under the adverse scenario of the Piraeus Bank (€3,3 billion) and the National Bank (€2,029 billion) were financed with public money. For this capital injection the HFSF's participation was covered at 25% with common shares with voting rights attached and at 75% with contingent convertible (CoCos) with a coupon of 8% per annum. As a result, under the third bank recapitalization, the participation of the Greek shareholders in four significant banks was almost eliminated, and the equity stake value of nearly €25 billion of the HFSF held from the first recapitalization in the summer of 2013 dropped dramatically. By the end of 2014 the public rescue funds' stake "was worth €11,6 billion. Following protracted and fruitless negotiations with creditors after SYRIZA won the January 2015 elections, the share value dropped to €7,5 billion at the end of June 2015, when capital controls were imposed" (Xafa 2016). Moreover, in the summer of 2014, the stock market value of the four systemic banks rose to €33.4 billion, while at the end of November 2015 the prices at which capital increases took place dropped to €747 million. Consequently, all the historic shareholders lost their funds, with large losses for the Greek State particularly, which was the largest shareholder of the banks (Papadogiannis 2015).

In the rigorous context of the third MoU, the priority was to attract private funds for bank recapitalization. In fact, foreign private funds participation prevailed in the Greek banking system. Fairfax owned 17,29% of the Eurobank and Capital Group owned 8,54%, followed by Mackenzie, Wellington, Fidelity and Wilbur Ross with less than 5%. In the case of Alpha Bank, the largest private shareholder was John Paulson with 7,32%, followed by Crédit Agricole (4,98%) and Paramount. Regarding the Piraeus Bank, private investors who participated in the private placement controlled 51,15% of the bank. It is noteworthy to mention the participation of John Paulson in the Piraeus Bank as well, with a percentage of 9,13%. Lastly, 6,8% of the National Bank transferred to foreign funds after the private placement, while 11,07% to Greek private investors (Mariolis 2016). That meant extreme stock dilution through writing off the HFSF' shares and selling them at important discount to private investors (Table 5). Consequently, the total participation of the HFSF in bank equity decreased significantly (Table 6). Furthermore, a clear sign of the weak negotiating position of the Greek government is the MoU requirement which set strict restrictions regarding the control that the Greek government could exert over the bailed-out banks. The Troika imposed the cession of the HFSF' equity participation to a newly established privatization fund (Hellenic Corporation of Assets and Participations)[2] that was established as part of the third MoU.

[2] The purpose of the HCAP is to exploit the assets of the Greek State that have been assigned to it and to manage the implementation of the privatization program in Greece, contributing thus to the reduction of the sovereign debt of the Hellenic Republic.

Table 5. Significant share price drop during the 3rd recapitalization

(Price performance prior to the reverse stock split)

Banks disposal stock price (€)		
	3rd recapitalization	2nd recapitalization
Piraeus Bank	0,003	1,7
National Bank	0,02	2,2
Eurobank	0,01	0,31
Alpha Bank	0,04	0,65

Sources: systemic banks' announcements

Table 6. HFSF participations in the systemic banks' share capital

National Bank of Greece	**Alpha Bank**	**Eurobank**	**Piraeus Bank**
First recapitalization			
84,9%	83,6%	98,5%	81%
Second recapitalization			
57,4%	66,2%	35,4%	66,9%
Third recapitalization			
40,3%	11%	2,3 %	26,4%

Source: HFSF's Annual Financial Report (2016)

Where do Greek banks stand today?

Despite three recapitalizations and waves of financial reform over the past decade, "the banking system remains a misfiring engine of growth and source of fiscal and financial stability risks". Strict MoUs' requirements for cleaning up and updating bank business models "have been hindered by a combination of poor banking practices, weak financial sector policies, forbearance, sovereign debt restructuring, deeper-than-expected recession, changing regulatory goal posts, and weak coordination among key stakeholders" (IMF 2019: 17). According to ECB supervisory banking statistics for the third quarter of 2019, the four Greek systemic banks (National Bank, Piraeus Bank, Alpha Bank and Eurobank) have the highest NPLs rate in the Eurozone and at the same time the lowest liquidity. In more detail, the rate of NPLs has fallen to 3,4% in the third quarter of 2019 in the Eurozone, but in Greece it was 37,4 % - the highest rate in the Eurozone. Despite the very large bulk of NPLs, the Greek banks' capital ratios are robust, as they range around Eurozone average rates. While the average the Common Equity Tier 1 (CET1) ratio in the Eurozone stood at 14,3%, the Tier 1 ratio at 15,5% and the total capital ratio at 18,05%, for Greek banks these ratios exceed 15%. Furthermore, the Eurozone liquidity index eased to 145,1% in the third quarter of 2019, from 146,8 % in the second quarter. Greek banks were in the worst position, with their rate at 115,4% (ECB 2020).

In the light of the above, Greek banks still cannot focus on finding new profitable growth activities and on financing the real economy. Moreover, low profitability and negative net credit expansion is counterbalanced by increased lending margins although in March 2019 banks fully repaid the costly emergency liquidity assistance (ELA) drawn from the domestic central bank. In particular, in November 2019, the annual growth rate of total credit extended to the domestic economy stood at -0.8% (Bank of Greece 2019). The cost of lending money mainly to small and medium-sized enterprises is compounded by interest rates that are twice as high as those in the euro area. During the period January-November 2019, banks reduced their average deposit rate by about 0,10% -from 0,29% to 0,19%- while total deposits increased for the same period, following the complete lifting of capital controls. This implies a loss of interest income of €100 million, on the consumer's side. Of course, the reduction in deposit interest rates is fully compatible with the trend in the Eurozone. On the other hand, regarding the average interest rate for loans up to €250.000 it stood at 4,92%, while in the euro area it stood at 2,01%. At the same time, banks charged more fees for the services they provide to their customers. In 2019, it is estimated that the four systemic banks collected in total more than €1,5 billion in commissions. The Greek Competition Commission has launched an investigation into the charging issue (AMNA 2020).

Conclusion

The literature on responses to banking crises involves a policy spectrum ranging from no government help to failing banks to complete government absorption of losses. Each solution has its own pros and cons. On the one hand, private market responses create neither moral hazard concerns nor direct cost to government budgets but may end up ineffective at curtailing the crisis. On the other hand, government intervention reduces panic and increases market stability. Moreover, such a strategy allows governments to reform the banking sector and then to sell the banks back to the private sector. In the Greek case, however, there is not a consistent pattern in the policy responses. A combination of poor banking practices, vested interests, weak financial sector policies, political uncertainty, sovereign debt restructuring, and deep recession watered down the opportunity of significant reforms in the bank business models. All these factors created a significant inertia both to authorities and the banking system that ended up in the sad state of full foreign ownership and control ("dehellenization") after the third recapitalization in late 2015. Accordingly, "dehellenization" implies the sale of banking assets and a large stake of the bank shares held by the Hellenic Financial Stability Fund -with significant losses imposed on taxpayers- to foreign funds.

More specifically, in the first recapitalization, Greek banks were completely unprepared to raise capital from the existing shareholders. Thus, the State found itself overwhelmingly in possession of the domestic banking system -injecting capital in exchange of preferred stock, without even taking over the management. Consequently, governments wasted the opportunity to reform the banking sector (replacing for example failed management, cleaning up the balance sheets, etc.). But, even so, preferred stock did not bring higher returns, because of the extreme dilution of the stake held by the State over the following rounds of recapitalization. In fact, as the crisis deepened and the bulk of non-performing loans increased significantly, banks needed a second round of recapitalization. The government, under the pressure of the Troika, sought to restore private ownership of the banks by providing pro market incentives for private investors. As a result, private funds covered the total capital shortfall on the one hand, but a significant dilution of the stake held by the State took place on the other. The bumpy ride of the Greek economy was further aggravated by the ineffective negotiations of SYRIZA/ANEL government with the Troika in the first half of 2015.Against a backdrop of severe financing difficulties, the third round of recapitalization took place obviously under pressure to prevent the implementation of the new bail-in tool in the EU bank resolution framework. The threat of a deposit haircut and the resulting political costs led the government to a rushed recapitalization before the relevant Directive (BRRD) came into force (1/1/2016). The consequences were the ownership (and management) transfer of the Greek banking system to foreign investors and a large devaluation of the Hellenic Financial Stability Board's assets due to severe stock dilution. As a result, each one of the consecutive bank recapitalizations represented ipso facto an admission of failure of the one preceding it.

Overall, the Greek case points to a broader research question: What becomes of bank based financial systems and the surrounding political economy when the time of bailing out failed banks comes? What says the experience of other European economies that dealt with bank failures? Does bankers' influence become stronger on the making of the rescue policies, or governments are more likely to undertake a more active role in rescuing the domestic banking system? And, on the other hand, what is the case in market-based economies? These are open questions for future research.

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