The Impact of the Current Eurozone Fiscal Crisis on the Greek Banking System and the Measures Adopted to Preserve its Stability

BIS Central Bank Legal Experts Meeting

Christos Vl. Gortsos

Professor of International Economic Law, Panteion University of Athens,

Visiting Professor at the Europa Institut, Universität des Saarlandes, and the Law School, National and Kapodistrian University of Athens

Basel, 3 October 2013

TABLE OF CONTENTS

A. Basic economic data on Greece in a historical context

B. The impact of the recent international (2007-2009) financial crisis on the banking system: general considerations

C. The impact of the current European fiscal crisis on the Greek banking sector

D. Measures adopted to preserve the stability of the Greek banking sector in 2008 (in the middle of the recent international financial crisis)

E. Institutional arrangements after the Eurozone fiscal crisis

F. Concluding remarks

A. Basic economic data on Greece in a historical context

Chart 1:
General government debt, external debt and general government deficit

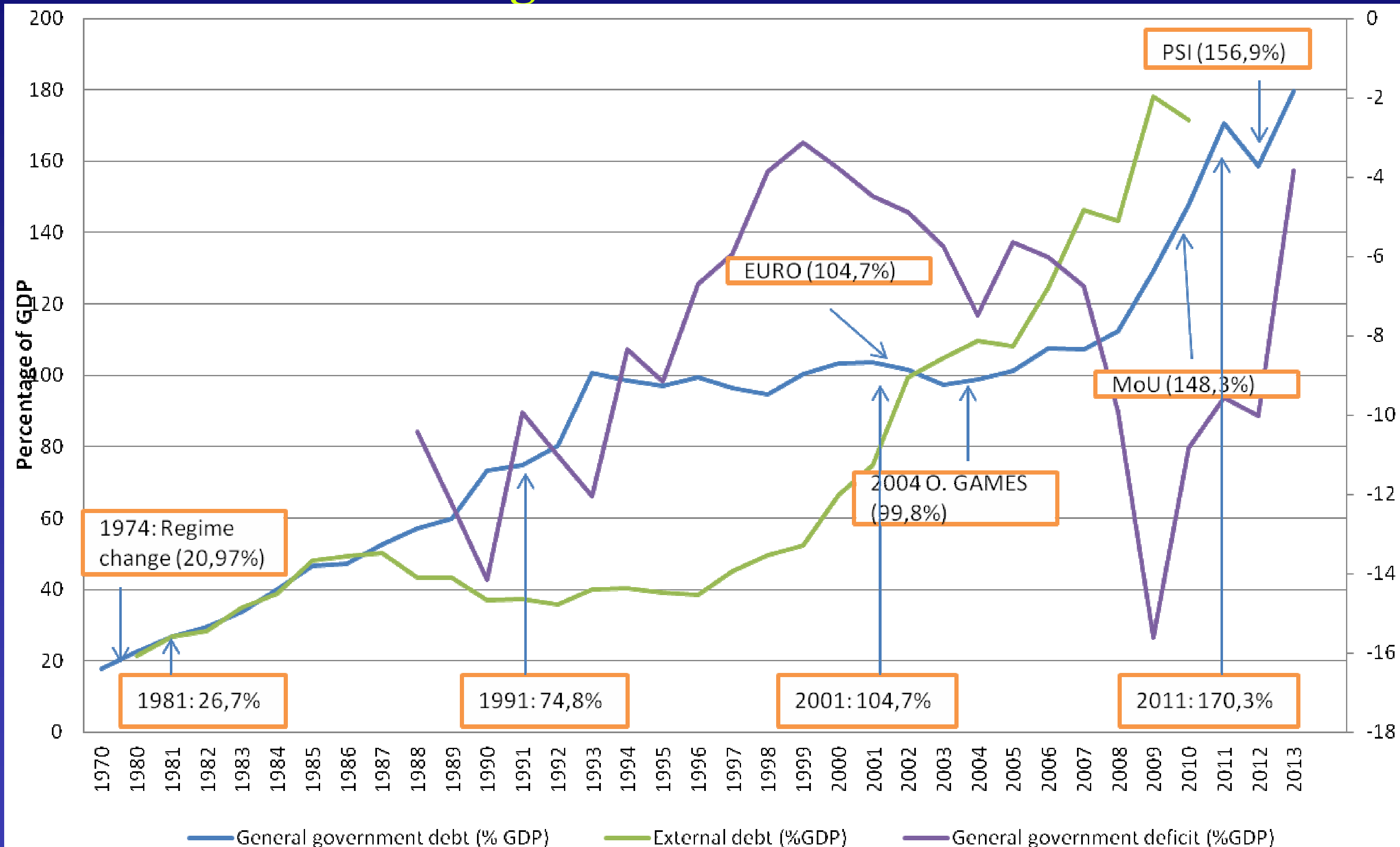
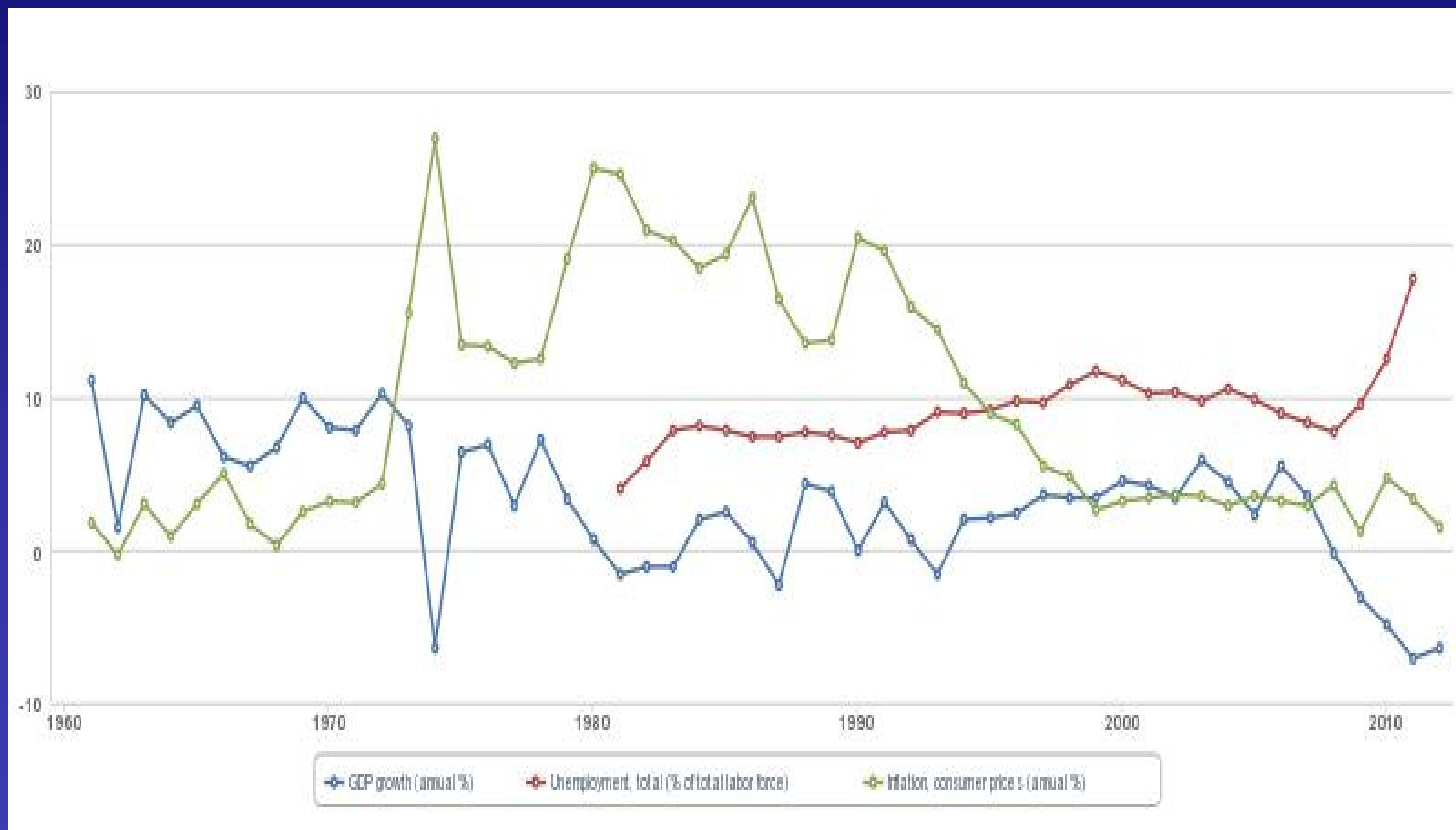


Chart 2:
GDP growth, unemployment and inflation



1970s-1993: the performance of the Greek economy was rather poor:

- 1979-1993: cumulative impact and interaction of various economic, structural and political factors
  - very high inflation (18.9 per cent on average),
  - slow economic growth (0.9 per cent on average),
  - very high levels of budget deficit relative to GDP,
  - public debt raised from 23% of GDP in 1979 to 74,7% in 1990 and then to 99,1 % in 1993, and
  - the national currency ("drachma") lost about 83% of its value during that period.

- Efforts to improve the situation of the economy (1985-87 and 1992-93) were not successful under the pressure of political considerations and the lack of an institutional framework for economic policy making

1994-2000: convergence to the EMU criteria

- Average annual inflation (HICP) fell to 2 per cent in 1999
- Budget deficit shrunk to 1.8 per cent of GDP in 1999
- Public debt was at 104.4 per cent at the end of 2000

2000-2009:

- Until 2003 strong economic growth was driven by (a) domestic demand, (b) high investment spending for the preparations of the 2004 Olympic Games, and (c) large inflows from the EU Structural Funds
- However, despite strong growth, Greece had been in excessive deficit since 2000 mainly due to excessive primary spending
- In the middle of the decade, investment growth was significantly declining
- In 2005 the deficit ratio declined due to the lower investment expenditure brought by the end of the Olympic Games and fiscal adjustment presented in the government budget

2009-2013:

- The economic downturn of 2009 pushed debt higher, thus weakening its sustainability and making its refinancing much more expensive, especially since the general government deficit exploded to 15% of GDP in late 2009
- In spring 2012, the implementation of the bond exchange programme (Private Sector Involvement – PSI) caused an unprecedentedly large public debt nominal haircut
- Nevertheless, by the end of 2013 the general government gross debt is expected to climb at 175.2% of GDP according to the European Commission forecast
- Debt ratio is projected to decline onwards as the fiscal balance is improving and economic growth resumes

B. The impact of the recent (2007-2009) international financial crisis on the banking system: general considerations

1. The consequence of the recent international financial crisis (2007-2009) was that several banks and other financial institutions around the world (including 'systemically important' institutions) were exposed to insolvency.

This resulted, *inter alia*, in negative effects on the real economy, obliging several governments (especially in the United States and in several member-states of the European Union) to adopt rescue packages and recovery plans in order to support or even bail out individual banks (and, in some cases, the entire banking system). Such government interventions created serious fiscal imbalances, some of which evolved to fiscal crises, which, in turn, spread to become financial (and mainly) crises.

This was not the case of Greece.

2. A study of the CGFS identifies four (4) main channels of transmission from a fiscal crisis to the financial system:

i. the impact of negative sovereign ratings on banks' ratings,

ii. losses incurred by banks from their sovereign debt holdings,

iii. the 'collateral/liquidity channel', and

iv. losses from state guarantees granted to banks (explicit and implicit).

In addition, the negative impact on the performance of bank loans (in the event of recession) has also to be taken into account

3. The Eurozone fiscal crisis was *triggered* by the exceptionally severe fiscal imbalances in Greece, which were then transmitted to other EU Member States of the 'Eurozone periphery'. This crisis is the main cause of the current severe instability in the European banking sector, which cannot be fully assessed yet, neither as to the severity of its implications nor as to its potential spillover effects on a global scale.

Amidst this crisis, apart from the initiatives undertaken at the European level in order to enhance the existing institutional and regulatory framework governing the operation of the 'economic pillar' of the EMU, governments and central banks in several Eurozone Member States resorted to institutional, supervisory and regulatory measures in order to preserve the stability of their domestic banking sectors (and, more generally, financial systems).

C. The impact of the current European fiscal crisis on the Greek banking sector

1. The Greek banking sector

I. (a) In September 2011 (even in the middle of the fiscal crisis) the Greek banking sector consisted of 58 credit institutions with 4,005 branches and 63,400 employees. There were four main categories of credit institutions operating in Greece:

- nineteen (19) commercial banks incorporated in Greece and operating under a license by the Bank of Greece,
- sixteen (16) cooperative banks incorporated in Greece and operating under a license by the Bank of Greece (both of which are hereinafter referred to as 'Greek credit institutions'),
- the branches of nineteen (19) credit institutions incorporated in other EU Member States, and
- the branches of four (4) credit institutions incorporated in third countries (outside the EU).

1. The Greek banking sector (cont.)

(b) At that time (and even currently) credit institutions in Greece:

- manage an equivalent of 128% of the Greek GDP (loans to households and enterprises),
- hold an equivalent of 96% of the Greek GDP in deposits and repos, and
- lend €113.4 billion for mortgage and consumer credit, an equivalent of €10,200 per inhabitant

With aggregate on-balance sheet assets at 217% of GDP, the Greek banking sector is not oversized compared to other economically developed countries. In January 2012, the average loan-to-deposit and repos ratio was 146.5% (January 2011: 132.3%, January 2010: 119.9%), a development which is mainly due to the shrinking deposit base (which deteriorated further until September 2012 and since then has improved).

2. The impact of the crisis

(c) Greek credit institutions were not exposed to the risks that triggered the recent (2007-2009) international financial crisis. As a result, the spillover effects on the Greek banking sector were limited. Accordingly, there was no need for a bank rescue package.

(d) However, liquidity conditions were strained during this crisis, since Greek credit institutions had restricted access to wholesale market liquidity for their lending operations, while maturing interbank liabilities put additional pressure on their liquidity position, thus rendering necessary the adoption of a recovery program (see below, under D).

2. The impact of the crisis (cont.)

(e) Despite these problems, Greek credit institutions have shown remarkable resilience and were able to overcome adversities due to a number of factors, such as, *inter alia*,:

- a strong capital base and steadily increased provisions (more than 40% on a year-to-year basis),
- liquidity-support measures by the European Central Bank and the Greek government, and
- effective micro-prudential supervision by the Bank of Greece, which ensured the stability of the Greek banking sector

As a result, the Greek banking sector remained healthy, adequately capitalised, and highly profitable amidst the international financial crisis.

2. The impact of the crisis (cont.)

II. On the other hand, the Greek banking sector was negatively affected by the current Eurozone fiscal crisis. All the abovementioned channels for the transmission of problems from the government to the banking sector were set in motion. In particular:

(a) The successive downgrades of Greece's sovereign debt since late-2009 resulted in cuts also in the ratings of Greek credit institutions and severely tightened their liquidity position:

(i) Bank deposits and repos declined by 19% since the end of 2010 (29% since the end of 2009)

(ii) Greek credit institutions' ability to raise liquidity on the international interbank market, as well as international bond markets was almost totally constrained

(iii) Accordingly, there was a need to rely heavily on the Eurosystem credit facilities. Greek banks are also heavily reliant on the 'Emergency Liquidity Assistance' (ELA) mechanism of the Bank of Greece, which acts as a lender of last resort to Greek credit institutions, even though at a lower pace recently.

2. The impact of the crisis (cont.): Total gross PSI loss for the Greek banking system

(ba) The private sector involvement (PSI) in Greece's debt exchange offer was extremely high. Out of a total of €205.5 billion in bonds eligible for the exchange offer, approximately €199 billion (96.9%) have been exchanged with a nominal discount of 53.5%

The total gross PSI loss(*) for the Greek banks was €37.7 billion (€28.2 billion for the four "Core banks")

(*) The gross PSI loss is the sum of the PSI loss of GGBs and PSI loss of state - related loans

2. The impact of the crisis (cont.): Total Debt Buy-Back loss for the Greek banking system

(bb) The Greek authorities also completed, on 18 December 2012, a voluntary buyback of bonds from the private sector after the Eurogroup decisions of 27 November 2012(*)

The buyback 'retired' €31.8 billion in exchanged bonds, including €14.1 billion from Greek banks (or 44% of the total amount). The average price reached 33.8 with the tendered bonds spread about equally across the maturities. In all, the exchange is estimated to have reduced 2020 debt to GDP by 9½ percentage points.

The total Debt Buy-Back loss for the Greek banks was €4.8 billion.

(*) Eurogroup statement on Greece, 27 November 2012 and Hellenic Republic, Ministry of Finance Press Releases, 3, 10 and 12 December 2012

2. The impact of the crisis (cont.)

(c) The ‘collateral/liquidity’ channel has also been activated, since the European Central Bank has gradually:

• been cutting the market value of Greek government bonds and the other assets provided as collateral by Greek credit institutions, and

• has been referring them to the ELA mechanism of the Bank of Greece

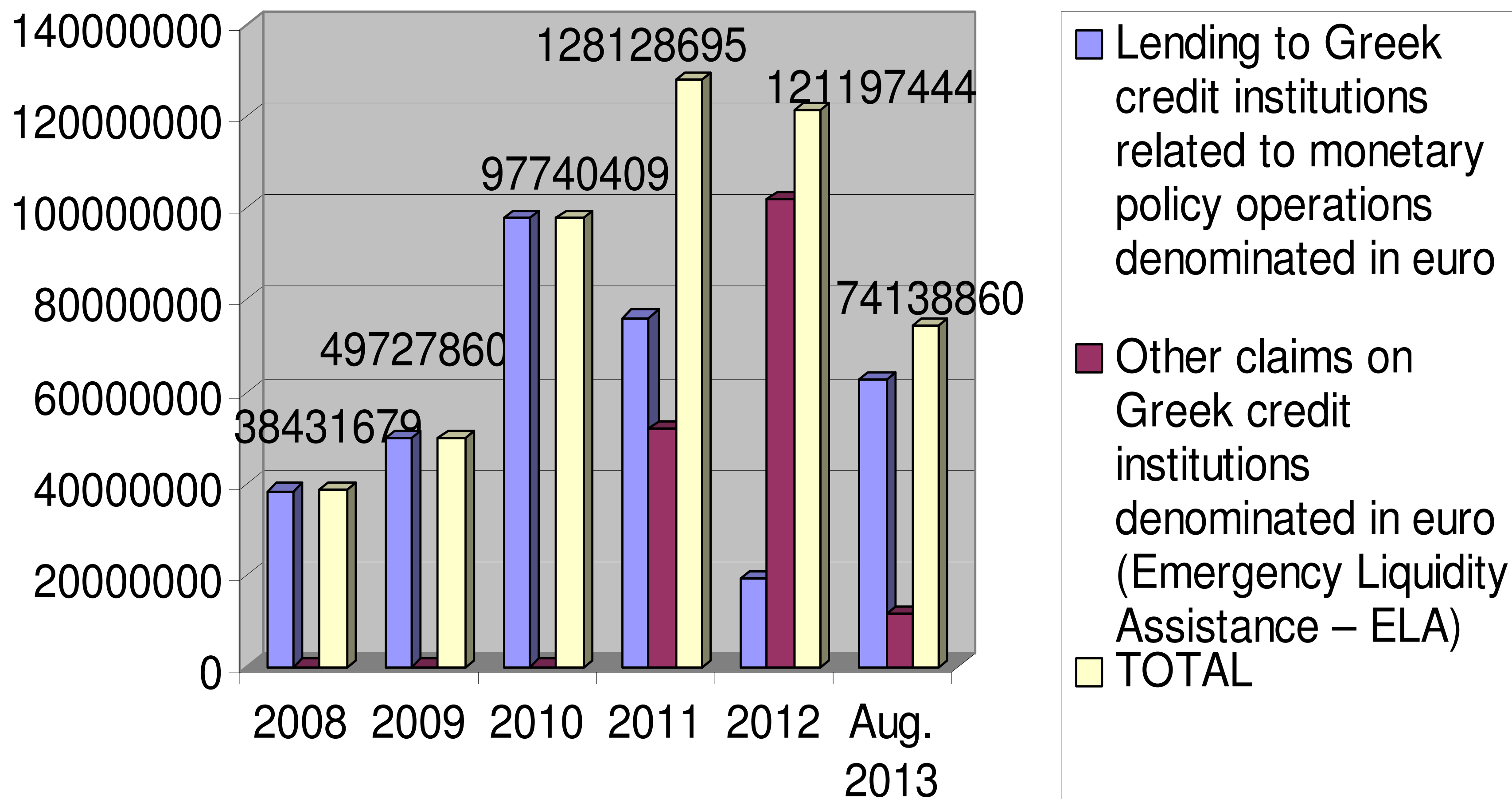
(despite the fact that the ECB has repeatedly relaxed its regulatory framework with regard to the relevant eligibility criteria).

Table 1
Lending to Greek credit institutions related to monetary policy operations (ECB) and other claims (Emergency Liquidity Assistance – ELA) (in thousand euro)

	2008	2009	2010	2011	2012	Aug. 2013
Lending to Greek credit Institutions related to Monetary policy Operations Denominated in euro	38.354.900	49.655.100	97.668.800	76.119.500	19.346.500	19.346.500
Other claims on Greek credit institutions denominated in euro (Emergency Liquidity Assistance–ELA)	76.779	72.760	71.609	52.009.195	101.850.944	11.706.860
TOTAL	**38.431.679**	**49.727.860**	**97.740.409**	**128.128.695**	**121.197.444**	**74.138.860**

Source: Bank of Greece, Financial Statements, Annual Accounts and Monthly Balance Sheets

Chart 3:
Lending to Greek credit institutions related to monetary policy operations (ECB) and other claims (Emergency Liquidity Assistance – ELA)
(in thousand euro)



2. The impact of the crisis (cont.)

(d) Greek credit institutions also suffer losses on account of (explicit or implicit) Greek government guarantees granted to them, which cannot be honoured in full given the current fiscal strains.

(e) Finally, in the front of non-performing loans, the situation seems to deteriorate consistently: they increased to 14.7 % in September 2011 (from 10.5% at end-2010 and 7.7% at end-2009), and the trend seems to worsen due to the ongoing economic recession in Greece (currently, in September 2013, around 30%).

D. Measures adopted to preserve the stability of the Greek banking sector in 2008 (in the middle of the recent international financial crisis)

1. As already mentioned, the recent (2007-2009) international financial crisis did not have a severe impact on the Greek banking sector, since Greek credit institutions were not exposed to the risk of holding ‘toxic assets’ or other crisis-related risks. Thus, the negative effects of the international crisis on the Greek banking sector were limited and, accordingly, there was no need for a bank rescue package, in contrast to several other countries, including EU Member States.

2. Nevertheless, in late 2008, in order to enhance the solvency and especially the liquidity of the Greek banking sector amidst the crisis, following the bankruptcy of the investment bank *Lehman Brothers Holdings Inc.* (the ‘LBHI’) on 15 September 2008, the Greek government was urged to take initiatives, which led to the adoption of two legal acts by the Hellenic Parliament:

(a) By virtue of Law 3714/2008, adopted immediately after LBHI’s bankruptcy, the level of deposit guarantees provided by the then existing Hellenic Deposit Guarantee Fund was raised to €100,000 (from €20,000 previously) per depositor (for each credit institution), in order to enhance depositors’ confidence in the banking sector (successfully averting a potential bank run)

(b) In addition, in December 2008 the Greek government adopted a ‘recovery program’ (widely known as ‘the 28bn euro package’) under Law 3723/2008 *“For the enhancement of liquidity of the economy in response to the impact of the international financial crisis”*. This program was mainly aimed at the enhancement of liquidity conditions in the banking system

According to this Law’s provisions, the government took the following liquidity-support measures in aid of Greek credit institutions:

(i) A capital support of €5 billion, through capital increases with the issue of preference shares rendering a fixed annual return of 10% (the ‘first pillar’)

(ii) Issuance of bank bond guarantees (with commission) worth €15 billion in order to facilitate fund-raising on international markets and bolster their liquidity (the ‘second pillar’)

(iii) Issuance of ‘special’ Greek government bonds (also with commission worth €8 billion, in order to further bolster their liquidity and to ensure competitive terms for the financing of small and medium enterprises, and also housing loans for households (the ‘third pillar’)

3. All these support measures fall into the category of state subsidies under EU competition law and were authorised by the European Commission as state aid compatible under Article 107, paragraph 3(b), of the Treaty on the Functioning of the European Union.

It is also worth mentioning that in February 2009 the Hellenic Deposit Guarantee Fund was transformed into the Hellenic Deposit and Investment Guarantee Fund (hereinafter the 'HDIGF') pursuant to Law 3746/2009. The major development was the establishment of an 'investor compensation scheme', alongside the 'deposit guarantee scheme', in order to ensure that the customers of Greek credit institutions providing investment services would be adequately covered in accordance with the provisions of Directive 97/9/EC of the European Parliament and of the Council "on investor compensation schemes".

4. After the onset of the Eurozone fiscal crisis in 2010, however, the need to reinforce the stability of the Greek banking sector became imperative. This triggered important initiatives, which made use of:

- ear-marked institutional measures,
- micro-prudential supervisory and regulatory measures, and
- reorganisation measures and resolution tools.

In addition, the ‘second pillar’ of Law 3723/2008 (on p. 28 above) has been further reinforced on three (3) occasions, in 2010 with €15 billion and in 2011 with an additional €25 billion, and another €30 billion.

E. Institutional arrangements after the Eurozone fiscal crisis

1. The ‘trilemma’ during a banking crisis with regard to credit institutions exposed to insolvency

- Winding-up of credit institutions – activation of the Deposit Guarantee Scheme
- Recapitalisation of ‘systemically important’ credit institutions
- Resolution of not ‘systemically important’ credit institutions

2. The Hellenic Financial Stability Fund

(a) The Hellenic Financial Stability Fund (hereinafter the 'HFSF') was established in 2010 by Law 3864/2010 as a legal person of private law. This Law is in force today as amended repeatedly.

(b) The HFSF has full legal capacity and the right to bring an action in court (*locus standi*), and it does not come under the public sector. It enjoys administrative and financial independence, and operates exclusively in accordance with the rules of private economy

(c) Its capital has been set at €50 billion from the financial support mechanism for the Greek economy by euro area Member States, the European Central Bank and the International Monetary Fund.

2. The Hellenic Financial Stability Fund (cont.)

(d) The objective of the HFSF is to maintain the stability of the Greek banking sector by:

- providing equity capital to 'systemically important' Greek credit institutions, in case a credit institution faces capital adequacy problems as laid down in Law 3864/2010,
- providing equity capital to bridge banks, and
- acting, temporarily, as a resolution fund.

In pursuing this objective, the HFSF has to manage its capital and assets and exercise the rights ensuing from its capacity as shareholder of credit institutions in a way that:

- *preserves the value of its assets,*
- *minimises risks for Greek taxpayers, and*
- *does not hamper or distort competition in the banking sector.*

2. The Hellenic Financial Stability Fund (cont.)

(e) On the other hand, it is not up to the HFSF to provide liquidity to Greek credit institutions, which is exclusively granted by the European Central Bank (in the course of its open market operations) and the Bank of Greece (through the 'Emergency Liquidity Assistance' in its capacity as lender of last resort).

(f) According to the amendments introduced by Law 4051/2012, the governance of the HFSF has been delegated to two bodies: the General Board and the Executive Committee. The General Board consists of seven (7) members and the Executive Committee of three (3) members (including its General Manager).

2. The Hellenic Financial Stability Fund (cont.)

(g) It is worth noting that, with regard to the systemically important banks, the HFSF's shareholders' rights have been graduated as follows:

- full rights, if the HFSF were to participate in the capital increase with more than 90%,
- restricted rights in the opposite case.

This graduation has been introduced in order to create incentives for the maximum possible participation of the private sector in the recapitalisation of the four (4) systemically important institutions (NBG, Piraeus Bank, Alpha Bank and Eurobank). The 90% threshold has not been achieved only by the latter.

2. The Hellenic Financial Stability Fund (cont.)

(h) Finally, it is also noteworthy that the HFSF, as a major shareholder of the systemically important credit institutions, has the right to appoint up to two members in their Board of Directors.

This is on top of the representative appointed by the Hellenic Republic according to the provisions of Law 3723/2008.

It goes without saying that the corporate governance of these credit institutions has been totally altered, especially if one takes also into account the role that the Monitoring Trustees, which have been appointed on behalf of the European Commission due to the state aid that has been provided to them, play on their decision-making processes.

3. Resolution tools and resolution authority

According to the provisions of Law 4021/2011 (amending the basic Banking Law 3601/2007), two (2) resolution tools were introduced in Greek law, which may be initiated for the sake of protecting financial stability and boosting public confidence in the banking sector. The Law contains detailed provisions on the conditions under which these tools can be activated, for systemically not important credit institutions, such as the impossibility of taking alternative measures of equivalent effect:

(a) the sale of specific assets and liabilities (including the deposits covered by the DGS) of an insolvent credit institution to another credit institution (article 63D of Law 3601/2007),

(b) the sale of specific assets and liabilities (including the deposits covered by the DGS) of an insolvent credit institution to a ‘bridge bank’ (article 63 E of Law 3601/2007),

in both cases with the withdrawal of the former’s license (which is set under liquidation).

The Bank of Greece (Committee on Resolution Measures) is acting as ‘resolution authority’.

4. The ‘resolution fund’ of the HDIGF

1. In accordance with the provisions of Article 7 of Law 4021/2011, a ‘resolution fund’ was established in 2011, as the third pillar of the HDIGF. This fund is the only pillar of the HDIGF which is not (yet) premised on provisions of European law.

2. The resolution fund, which is independent from the other two pillars (the deposit guarantee scheme and investor compensation scheme), provides funding, either in the case of the transfer of a credit institution’s assets to another credit institution or another entity, or if a bridge bank is established under the provisions of Articles 63D and 63E of Law 3601/2007. The participation of all Greek credit institutions (as well as Greek branches of credit institutions from third countries, non-EU Member States) in the resolution fund is mandatory, as well as the payment of contributions to it.

4. The ‘resolution fund’ of the HDIGF (cont.)

3. In this context, it is also worth mentioning that according to paragraph 12 of Article 9 of Law 4051/2012 (amending Law 3864/2010 on the HFSF), for a transitional period of twelve (12) months from the date of enactment of that Law, it is the HFSF which will cover the ‘funding gap’.

In the author’s view, this provision is adequate, taking into account that imposing additional contributions on credit institutions for funding the ‘resolution scheme’ of the HDIGF (given the current liquidity strains) would not be appropriate (especially to the extent that the Ministry of Finance, Bank of Greece and HFSF have decided, in the course of the recent restructuring of the Greek banking sector, to apply existing resolution tools laid down in Articles 63D and 63E of Law 3601/2007 to several credit institutions).

TABLE 2

Amounts that the Hellenic Financial Stability Fund (HFSF) has disbursed to cover the funding gap in banks that were resolved and for the capital provided to Transitory Credit Institutions (Bridge Banks)

Resolved Bank	Status	Date (m/ y)	Amount (€)	Purpose
Proton Bank	Transitory Credit Institution (Bridge Bank)	10/2011	259.621.860	Funding gap
Proton Bank	Transitory Credit Institution (Bridge Bank)	10/2011	515.000.000	Capital
T-Bank	Purchase and assumption by Hellenic Postbank	12/2011	226.956.514	Funding gap
Three Cooperative Banks *	Deposits Acquisition by National Bank of Greece (NBG)	03/2012	320.484.480	Funding gap
ATE Bank	Purchase and assumption by Piraeus Bank	07/2012	7.470.717.000	Funding gap
Hellenic Postbank	Transitory Credit Institution (Bridge Bank)	01/2013	3.732.554.000	Funding gap
Hellenic Postbank	Transitory Credit Institution (Bridge Bank)	01/2013	500.000.000	Capital
FBB	Purchase and assumption by National Bank of Greece (Bridge Bank)	05/2013	349.550.000	Funding gap
PROBANK	Purchase and assumption by National Bank of Greece (Bridge Bank)	07/2013	237.550.000	Funding gap
TOTAL AMMOUNT (€)			**13.612.433.854**	
TOTAL Funding gap amount (€)			12.597.433.854	
TOTAL Capital amount (€)			1.015.000.00	
* Achaiki, Lamias, Limnou-Lesvou				
Source: Hellenic Financial Stability Fund (2013), First Half 2013 Activities Report, 30 July				

<table>
<tr><th colspan="5">Table 3
Bank acquisitions</th></tr>
<tr><th>Acquired Bank / Branch</th><th>Acquirer</th><th>Date of Acquisition (m/y)</th><th>Amount (€)</th><th>Comments</th></tr>
<tr><td>Geniki Bank</td><td>Piraeus Bank</td><td>12/2012</td><td>1.000.000</td><td>According to the agreement and the necessary adjustments following the financial due diligence, Societe Generale (Geniki Bank’s parent company) proceeded with a capital support of Geniki Bank of €297.000.000 while it also subscribed for a bond issued by Piraeus Bank for an amount equal to €163.000.000.</td></tr>
<tr><td>Emporiki Bank</td><td>Alpha Bank</td><td>02/2013</td><td>1</td><td>According to the agreement and the necessary adjustments following the financial due diligence, Crédit Agricole (Emporiki Bank’s parent company) proceeded with a capital support of Emporiki Bank of €2.893.000.000 while it also subscribed for a €150.000.000 convertible bond issued by Alpha Bank</td></tr>
<tr><td>Bank of Cyprus*</td><td>Piraeus Bank</td><td>03/2013</td><td rowspan="3">524.000.000</td><td rowspan="3">On 18/06/2013, the HFSF disbursed to Piraeus bank EFSF bonds with a nominal value of €524.000.000 so as to cover the capital needs resulting from the transaction</td></tr>
<tr><td>Cyprus Popular Bank (CPB)**</td><td>Piraeus Bank</td><td>03/2013</td></tr>
<tr><td>Hellenic Bank***</td><td>Piraeus Bank</td><td>03/2013</td></tr>
</table>

Table 3 (cont.)
Bank acquisitions

Acquired Bank/Branch	Acquirer	Date of Acquisition (m/y)	Amount (€)	Comments
Millenium Bank	Piraeus Bank	04/2013	1.000.000	Before the completion of the transaction, Millennium's parent company BCP capitalized the bank with €413,000,000 while it invested another €400.000.000 in Piraeus' share capital increase via a private placement
New Hellenic Postbank	Eurobank	07/2013	681.000.000	Eurobank agreed to pay a total consideration of €681.000.000 in the form of newly issued Eurobank ordinary shares
New Proton Bank	Eurobank	07/2013	1	Under the terms of the sale, the HFSF committed to recapitalize the bank prior to its sale with an amount of €395.000.000
TOTAL AMOUNT (€)			**1.207.000.002**	
* Branch of Bank of Cyprus, Cyprus				
** Branch of Laiki Bank, Cyprus				
*** Branch of Hellenic Bank, Cyprus				
Sources: Hellenic Financial Stability Fund (2013), First Half 2013 Activities Report, 30 July and credit institutions press release				

5. The Greek banking sector today

In September 2013, after the recent restructuring, the number of credit institutions operating in Greece has been reduced from 58 (in September 2011) to 45 but most importantly the degree of concentration has increased considerably. The GBS consists of:

- the 4 systemically important credit institutions which have been recapitalised by the HFSF,
- 4 Greek credit institutions which are subsidiaries of the above (of which only one is expected to remain as a separate legal entity) (all the above account for almost 90% of total deposits and assets)
- another 5 Greek credit institutions,
- thirteen (13) Greek cooperative banks (the number of which may also be reduced, once a relevant study of the Bank of Greece has been completed),
- the branches of fifteen (15) credit institutions incorporated in other EU Member States, and
- the branches of four (4) credit institutions incorporated in third countries (outside the EU).

F. Concluding remarks

(a) In the current conjuncture, the main challenges for the Greek banking sector are as follows:

(aa) The first is the preservation of its solvency, with adequate recapitalisation from the private sector and, as a last resort, the Hellenic Financial Stability Fund. This has already been achieved for the four systemically important banks. In this respect, these credit institutions will also have to take in the coming months deleveraging initiatives on the basis of specific 'reorganisation plans'.

In any event, the primary objective is for private ownership to be maintained to the extent possible.

(ab) The second is maintaining its liquidity, while creating conditions for gradual independence from European Central Bank and Bank of Greece financing.

(ac) The third is granting credit to viable enterprises in order to support, as much as possible, the Greek economy's growth.

F. Concluding remarks (cont.)

(b) In the medium term, however, the Greek banking sector will also have to adapt to the European regulatory 'tsunami' underway. More specifically, Directive 2006/48/EC of the European Parliament and of the Council relating to the taking up and pursuit of the business of credit institutions (known as 'CRD'), already amended by Directive 2009/111/EC ('CRD II') and Directive 2010/76/EC ('CRD III'), has been replaced by Regulation 575/2013/EC ('CRR') and Directive 2013/36/EC ('CRD IV') transposing into European law the 'Basel III regulatory framework'. Greek credit institutions will have to be compliant by 1 January, 2014.

In light of this, it can be rightly argued that the business model of EU credit institutions, including those in Greece is in the process of a considerable review (taking also into account the other EU regulatory developments (i.e., capital markets law, consumer protection law) and the proposals of the Liikanen Report).

F. Concluding remarks (cont.)

(c) Finally, the European Banking Union underway provides a totally new dimension to the operation of the Greek banking system:

- The four (4) systemically important Greek credit institutions (covering almost 90% of the Greek banking sector) will be directly supervised, by October 2014, or so, by the ECB.
- This implies, *as intended*, that the link between the Greek public sector and the Greek banking system will be weakened, to the benefit of the stability of the banking system in the medium to long term.
- In this context, it is worth mentioning that the possibility can not be excluded that the amount endowed to the Hellenic Financial Stability Fund will be transferred to the ESM. This could lead to a substantial reduction of the Greek debt (amounting to almost 30 bn. euros).