UPDATE 2-Greece to spend 11 pct of GDP to shield banks

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(Adds details, quotes, analyst comment)

ATHENS, Oct 15 (Reuters) - Greece stands ready to spend up to 11.4 pct of its gross domestic product (GDP) to help its banks deal with the credit crunch and limit the impact on the real economy, the finance minister said on Wednesday.

Greece pledged up to 28 billion euros ($38 billion) in support measures as part of a European Union-wide response to a global financial crisis that has pummelled stock markets and frozen interbank lending.

“With a combination of state guarantees, state participation and increased liquidity that can reach 28 billion euros we will help the banking system to overcome the credit crunch,” Finance Minister George Alogoskoufis told reporters after a cabinet meeting.

The move will enable banks to turn to the state for guarantees of their loans from the capital market, to obtain extra liquidity, and get a capital boost by selling preferred shares to the government, if they so wish.

Under the plan, salaries of top executives at banks that opt to participate in the state support programme may not exceed that of the central bank governor -- around 25,000 euros per month -- the finance minister said.
Legislation will be submitted to parliament “as soon as possible”, the minister said, reiterating that the country’s banking system was safe and sound.

“Greece’s banking system does not face problems seen in other countries ... but is feeling the impact of the crisis mainly because of the large rise in interest rates and the lack of liquidity in the international system,” Alogoskoufis said.

Under the plan, the government is prepared to boost the capital of Greek banks by up to 5.0 billion euros by buying preferred shares with voting rights.

The government vowed to guarantee up to 15 billion euros of capital market loans and stands ready to issue 8.0 billion euros of special bonds to be able to inject liquidity into banks.

“With these measures we not only shield the economy but borrowers as well and help economic growth,” Alogoskoufis told reporters.

Analysts said Greece’s package of bank support measures was higher than Portugal’s 20 billion euro plan.

“The measures are more intended to limit the imported uncertainty due to the global financial crisis,” said economist Nick Magginas at National Bank. “This is not an emergency plan, but measures of a preventive character to avoid imported risks and boost liquidity.”

Bank of Greece Governor George Provopoulos, also a governing council member at the European Central Bank, said the capital adequacy of Greek banks was likely to “drop somewhat” as a result of the financial crisis.

“Greek banks will be able to benefit from these measures ... which tackle the problem of a frozen interbank market, a non-existent market actually. The goal is to thaw the frozen interbank market,” Provopoulos said.

For factbox on measures please click on [nLF160184].
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