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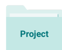

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Issue 26, February 2015

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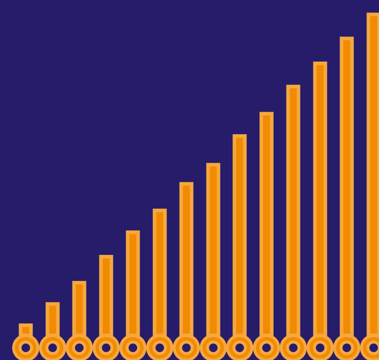

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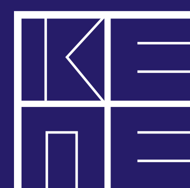

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Greek banking support framework: A first attempt

Christos Triantopoulos*

1. Introduction

The contagion of the 2007/2008 global financial crisis to the European economies hit inevitably the Greek economy with a small delay due to two facts. Firstly, because the level of extroversion of the real economy was particularly low (the current account deficit reached 15% of GDP in 2008). Secondly, the exposure of the banking system to "toxic" products was minimal (Pagoulatos and Triantopoulos, 2009). However, along with the external deficit, the Greek economy at the break of the crisis faced a high fiscal deficit, which (after a series of reviews in the following years) reached 9.9% of GDP. Substantially, it was the peak of the "twin-deficit" problem, which, on the one hand, was characterized by an extensive state intervention and an orientation towards domestic consumption and, on the other hand, was based on the excessive borrowing of the public and private sectors –mainly– from the international markets (Pagoulatos and Triantopoulos, 2014). The unwillingness of the international markets to continue funding the Greek economy –in an environment of global turbulence– led the Greek economy to a recession and to a sovereign crisis. As long as the international markets were not willing to fund the Greek state, the official sector appeared as the only funding solution. Thus, a Support Mechanism was set up by the European Union (EU), the European Central Bank (ECB) and the International Monetary Fund (IMF).

The recession and the debt crisis greatly affected the domestic banking system, reversing the route crisis spillover against what happened in other developed countries. This means that it was not the financial system's "toxicity" that undermined the public finances (due to the need of credit institutions' bailouts) and the real economy –as happened in other countries; it was the public debt crisis and the recession that undermined the sustainability of the domestic banking market. The latter was a main component of a statist, bank-centered financial system of South Europe which had entered a phase of rapid growth. After the financial deregulation that started at the end of the '80s (Pagoulatos, 2003) the domestic banking market took advantage of the general stabilization of the economy and the great reduction of the funding cost in order to achieve significant growth. This led the total assets of the credit institutions from 96% of GDP in 1995 to 193% of GDP in 2008 (Pagoulatos, 2014) and to greater openness through the expansion of the Greek banks in other economies, like those in Southeast Europe (Koutsomanoli *et al.*, 2010).

However, as a structural component of developing the domestic growth paradigm, the banking system was closely connected and exposed to uncompetitive and non-tradable economic sectors (consumer credit, housing market, media, construction, services, etc.). Consequently, the system could not resist the outbreak and the deepening of the crisis of the Greek economy (Pagoulatos, 2014). Since 2008, the need of providing support to the domestic banking system by the state emerged, in order –initially– to cope with the consequences of the international financial crisis of 2007/08 and –consequently– to deal with the structural difficulties of the period between 2010 and 2014, like (1) the domestic banks' exclusion from funding from the international markets, (2) the downgrades of the country's credit rating by the international credit rating agencies, (3) the reduction of bank asset value and the weakening of their operating profits, (4) the large deposit outflows, (5) the significant worsening of the quality of their loans portfolio due to the crisis, (6) the large losses attributed to the public debt restructuring of Greece and (7) the bail-out need of many credit institutions (Bank of Greece, 2014).

Therefore, after 2008 a new support framework for the banking system emerged. This covered the institutional gaps, responded to the needs created by the crisis and the participation of Greece in the Support Mechanism and was aligned with the institutional developments at the European level. The specific framework was based on two pillars: (a) the institutional strengthening of banking stability and (b) the securing of the necessary financing for the banking system in order to avoid a wider systemic crisis. This paper is a first approach and analysis of the initiatives, during the period 2008-2014, for the establishment of the support framework for the Greek banking system.

2. Institutional strengthening of banking stability

Before the crisis, the Greek supervisory framework of the financial system followed the traditional structure of the "three pillars", of which the most important institution was the Central Bank. Thus, since the 1930s the Bank of Greece had undertaken the general monitoring and supervision of the financial system, as the core institution of the supervisory framework, while its competences

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expanded also to rest of the economy (Pagoulatos, 2003; Psalidopoulos, 2014). From the '90s the Bank of Greece's supervisory responsibilities were limited to the banking market, after the creation of the Hellenic Capital Market Commission –which undertook the supervision of the capital markets– and the Hellenic Private Insurance Supervisory Committee – which undertook the supervision of the private insurance sector.

During the period 2008-2014, the framework was strengthened as the supervisory role and the activities of the Bank of Greece were enhanced, following the general trend of the supervisory architecture in Europe (Triantopoulos, 2014). In parallel, new actors and legal procedures have been created in the framework of the EU/ECB/IMF Support Mechanism due to the needs for restructuring credit institutions in order to maintain systemic stability. In particular (apart from the harmonisation process with the institutional developments in the Euro Area and the EU), the basic components of this institutional strengthening during the period 2008-2014 were:

(1) In 2008, after the approval of law 3601/2007 on the new framework for the calculation of the capital adequacy ratio (known also as Basel II) and the operation of the financial institutions (Directives 2006/48/EC and 2006/49/EC), the Bank of Greece enhanced and enriched supervision with a macroeconomic dimension. In this framework, the scope and the frequency of data submission by the credit institutions increased. A Directorate of Financial Stability was also established, aiming to strengthen macro-prudential supervision by monitoring the stability of the financial system, analyzing the developments at a systemic level and supervising payments in order to contain the systemic risk (Bank of Greece, 2014).

(2) The deposit guarantee regime was strengthened. In 2008, law 3714/2008 raised the maximum limit of deposits guarantee from €20,000 to €100,000. In the beginning of 2009, the Hellenic Deposit and Investment Guarantee Fund (TEKE) was established with law 3746/2009, replacing the Deposit Guarantee Fund (TEK) and modernising the regulation for compensating the depositors and the investors/customers of credit institutions which cannot repay the deposits or fulfil the obligations created by investment services. Initially, TEKE consisted of the Deposit Cover Scheme and the Investment Cover Scheme. In 2011, law 4021/2011 added to it the Resolution Scheme for the financing of resolution measures before the activation of the compensation process by the TEKE. Thus the continuity of the basic function of the credit institution is secured, until the compensation process, securing financial stability (Bank of Greece, 2014).

(3) In 2010 and after a series of bankruptcies of private insurance companies in 2009, the supervision of the private insurance market was transferred from the Hellenic Private Insurance Supervisory Committee to the Bank of Greece under law 3867/2010. The choice of the Bank of Greece –and a respective Directorate– was based mainly on the fact that because of its structural characteristics the Bank of Greece was considered the only institution which could reassure the market and guarantee the handling of past supervisory weaknesses, minimizing systemic concerns (Triantopoulos, 2014).

(4) In 2010, the Ministry of Finance created, under law 3867/2010, the Council of Systemic Stability, an inter-institutional actor in which the heads of the Ministry of Finance, the Bank of Greece and the Hellenic Capital Market Commission participate. The Council handles emergency and extreme systemic incidents. It is a high-level institution which focuses on the pre-emptive action against extreme situations and crises.

(5) Under law 3864/2010, the Hellenic Financial Stability Fund (HFSF) was established in 2010. It is a private legal entity with administrative and financial autonomy and it operates exclusively under the rules of the private economy. HFSF's objective is to contribute to the stability of the Greek banking system by providing capital support to credit institutions and to transitional credit institutions. In the framework of the EU/ECB/IMF Support Mechanism and the recapitalization of the banking system and under the amendments of law 4051/2012, HFSF is the basic vehicle for the restructuring of the credit institutions by participating (essentially representing the government) in the management of the credit institutions which received capital support and by monitoring and assessing how these credit institutions comply with their restructuring plans. The Fund's goal is to sell its share in the credit institutions under the restructuring to private investors.

(6) In cooperation with Bank of Greece, the Ministry of Finance has shaped, since 2011, under laws 4021/2011 and 4051/2012, the institutional framework for the resolution of the credit institutions, providing the capacity to handle a banking crisis, in order to safeguard systemic stability. In particular, the resolution process for a credit institution is financed by HFSF (which has replaced the Consolidation Scheme of TEKE due to the latter's insufficient assets) and the resolution measures are the result of the Bank of Greece's intervention after the evaluation of the alternatives, the assessment of the assets, the choice of the assets and liabilities, etc. As long as the bankruptcy of a credit institution is not an appropriate option, the proposed resolution measures could be either the transfer of the assets of the institution under resolution to an already existing credit institution or the transfer of the assets chosen by the Bank of Greece to a newly

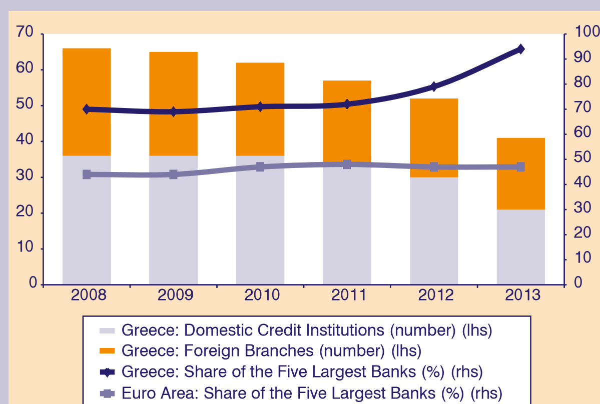
established credit institution. In the latter possibility, the HFSF becomes a shareholder of the newly established credit institution, in order to promote its consolidation and its sale in the next phase.

The interventions, therefore, create an institutional framework for the stability of the banking system aimed, at their core, at preventing the collapse of a single credit institution from becoming a wider crisis of the banking system with significant negative consequences and losses in both the real economy and the wider domestic investment and deposit trust. Thus, the supervisory framework was strengthened, the deposit guarantee scheme was expanded and modernized, a framework was established regarding the resolution of financial institutions, as well as a high-level body to monitor the systemic stability and an entity to support the resolution process were set.

As in the case of other institutional changes that interact with many other economic, financial, political and institutional conditions, within and outside of an economy, the institutional framework is particularly difficult to evaluate as a whole – especially in the early years of its implementation. The truth, however, is that the framework for banking stability was largely exploited, as within this framework the banking market –acting in an economy which was characterised by a deep and prolonged recession and exclusion from international markets– entered a phase of structural restructuring. It was, essentially, a process of high concentration, so that the remaining strong credit institutions would obtain satisfactory capital adequacy, improve their liquidity margins and enhance their efficiency through the achievement of synergies and economies of scale. The main objectives, as a result of the resolution options for unsustainable credit institutions, were the protection of depositors, the retaining of employment in credit institutions and the ensuring of systemic stability. Thus, the forms of resolution that were selected were either the establishment of a transitional credit institution (Proton, Hellenic Postbank) or the transfer of assets (or part of the assets) to another credit institution (T-Bank, Agricultural Bank of Greece, FBB, Probank, and the other cooperative banks).

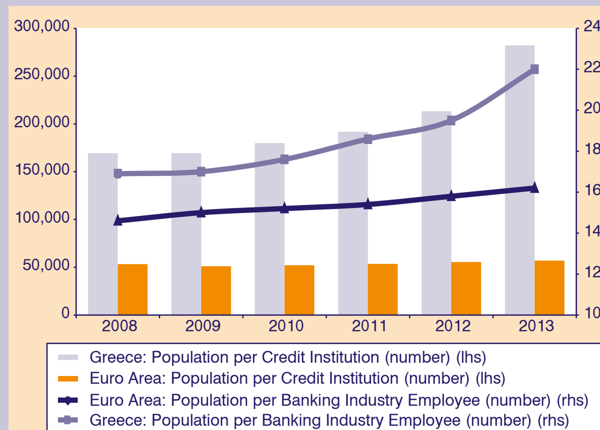
The process of resolution for credit institutions was accompanied by a series of takeovers and transfers, including those of branches of Cypriot banks, resulting, in 2013, in a radical change of the banking map compared to 2008 that included fewer and more powerful financial institutions. Specifically, the total number of credit institutions in Greece in 2013 was limited to 41 institutions from 66 institutions in 2008, of which 21 are domestic (from 36 in 2008) and 20 are branches of foreign credit institutions (30 in 2008). This reduction in the number of credit institutions translates into an unprecedented high concentration of assets in the banking system of a few banks, especially domestic credit institutions, following also the negative developments in the Cypriot banks (Chart 1). Thus, the ratio of the share of the five largest banks in the total banking system amounted to 97% in 2013 from 70% in 2008, while in the Euro Area the same ratio is kept just below 50%. In the case of Greece, the banking market has been limited to four credit institutions which significantly expanded their size. These institutions are, in particular, according to data of the Bank of Greece (2014), Piraeus Bank with a share of 26% (from 11% in 2008), the National Bank of Greece with a share of 24% (from 18% in 2008), EFG Eurobank with a share of 23% (from 20% in 2008) and Alpha Bank with a share of 19% (from 14% in 2008). The decrease in credit institutions led to a significant increase in the share of the popula-

CHART 1
Banking system structure, 2008-2013



Source: ECB (2014).

CHART 2
Banking system size in Greece and the Euro Area, 2008-2013



Source: ECB (2014).

tion per bank, amounting in 2013 to 282,252 people per institution, which is by far the highest in the Euro Area. Of course, the reduction in the number of credit institutions was not accompanied by an equivalent reduction in the number of employees, since the retaining of jobs in the banks under resolution was a priority of any plan. However, an increase in the number of citizens per bank employee is recorded, which is mainly due to retirements and large voluntary retirement plans, although it is worth noting that the ratio is higher than the Euro Area average (Chart 2).

3. Securing funding for the banking system

Securing the stability of the banking sector and the wider system made necessary the funding support of domestic banks through policies and instruments aimed at stimulating liquidity and strengthening their capital adequacy. During the period 2008-2014, the basic pillars of providing the necessary capital to the banking system were:

(a) The package for the support of the liquidity of the economy in order to face the impact of the global financial crisis was created in 2008 with law 3723/2008 and it included measures for the support of the liquidity and the capital adequacy of the credit institutions. The package's value reached €28 billion and it had initially a preemptive character – after all, it was one of the smallest in the EU (Hardouvelis, 2008). Later, and despite the initial criticism, it proved an important instrument for the support of the banking system (Pagoulatos and Triantopoulos, 2009). Thus, even though the initial aim was to strengthen the liquidity in order to ease the pressure on the credit rates (due to the international financial crisis) and to promote credit expansion of the credit institutions, during the escalation of the crisis of the Greek economy, the package became the first support instrument for the domestic banking system. The package is based on three pillars. The first one concerns the recapitalization of credit institutions by issuing preferred shares for the state of up to €5 billion for the direct strengthening of the banking system's capital adequacy and liquidity. The second pillar concerns the provision of a state guarantee of €15 billion for the support of bank lending to increase liquidity and to cover the financial needs of companies and households. After 2008, and in particular after 2010, the limit of the guarantees by the Greek state to facilitate the financing of the credit institutions multiplied, reaching €85 billion –after the amendments of law 3845/2010 (€15 billion), law 3872/2010 (€25 billion) and law 3965/2011 (€30 billion). Finally, the third pillar concerns the issuing of €8 billion worth of government bonds on behalf of credit institutions.

(b) The mechanism for providing emergency liquidity to the banking system (Emergency Liquidity Assistance - ELA) was activated by the Bank of Greece in 2011, under the guarantees of the Greek state. Through the specific mechanism of the Eurosystem, the national Central Banks provide emergency funding to credit institutions that face temporary liquidity problems. The financing is provided against collateral and after the approval of the Governing Board of the ECB. The emergency support is provided under the responsibility of the Bank of Greece, while the Greek state offers guarantees to the Bank of Greece for credit coverage in order to face temporary liquidity problems. The Greek state guarantees cap was determined –after consecutive raises with the MD 2/43219/0025 in 2011 (€15 billion), law 4031/2011 (€45 billion) and law 4056/2012 (€30 billion)– at €90 billion.

(c) The process of the wide recapitalization of the banking system, inside the framework of the EU/ECB/IMF Support Mechanism, was activated in 2012 along with the restructuring of the Greek public debt, in order to cover the shrinkage of the capital base of the domestic credit institutions due to the latters' participation in the restructuring of the Greek public debt, as their exposure to this was significant. Essentially, the loans of the EU/ECB/IMF Support Mechanism were channeled to the HFSF, which obtained equity capital of the credit institutions through their recapitalization. The recapitalization process was based on the calculation of the capital needs of the credit institutions after their participation in the restructuring of the Greek public debt and considering the risks that were connected to their assets. The calculation of the capital needs was conducted by the Bank of Greece after the stress tests that were run in cooperation with the company BlackRock Solutions, which carried out a thorough check of the banks' loan portfolios. The capital needs were covered mainly with public resources in order to secure the sustainability and the stability of the banking system.

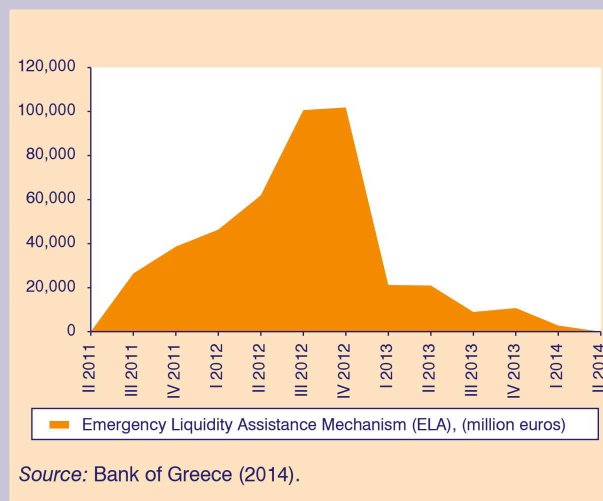
All three pillars of funding support of the banking system contributed decisively to its sustainability and to the prevention of a wide systemic destabilization. It also helped to complete the consolidation and the restructuring of the banking system, along with the institutional framework which was being created. The three pillars of the package of law 3723/2008 were fully exploited from the first minute. Thus, by focusing on the strengthening of their capital adequacy, the credit institutions joined the first pillar, offering preferred shares instead of capital to the government, and they used the greater share of the provided amount. In particular, by 2009, 3.76 billion euros of the provided 5 billion euros were exploited. This amount rose to 4.47 billion euros in 2012 (after the return of 675 million euros by the Agricultural Bank of Greece

in 2011 – Table 1). Five years after the issuance of the first preferred shares, two credit institutions repaid the total value of the preferred shares to the government. After these developments, the level of exploitation was reduced to 2.78 billion euros.

Along with the third pillar, which from its first steps was being used to a great extent by the smaller credit institutions (i.e. cooperative banks), the exploitation of the second pillar of the package was critical to the liquidity of the banking system, which was excluded from the international markets and was facing deterioration of the quality of its loans portfolio and deposit outflows. After the expansion of the guarantees limit to €85 billion, the use of the Greek government guarantees for the acceptance of credit institutions securities as collateral by the ECB (even at a great premium) has been the basic tool of securing liquidity for the banking system since 2010. That year, the total amount of guarantees reached €47.9 billion (Table 1).

The deepening of the recession, the continuous inability to access the markets and the restructuring of the public debt significantly raised the capital needs of the banking system in the following two years. By the end of 2011, the total amount of state guarantees under the second pillar reached €67.7 billion. In 2012 the guarantees reached €58.8 billion. To this amount we should add guarantees of €25.4 billion that had been issued and matured during 2012. The liquidity problem was so huge, that, in 2011, the emergency liquidity assistance mechanism of Bank of Greece was activated to support the domestic credit institutions, using the public guarantees to the Bank of Greece. When the funding needs passed the maximum limits of guarantees (€90 billion) from the emergency mechanism, the guarantees under the second pillar were also used. The emergency mechanism was used the most in 2012, when it reached approximately €100 billion (Chart 3).

CHART 3
Emergency Liquidity Assistance Mechanism for the banking system, 2011-2014



Source: Bank of Greece (2014).

The use of the package under law 3723/2008 and the ELA by the credit institutions contributed to the public revenues which were raised either by the yield of the preferred shares (first pillar of law 3723/2008) or by the charges connected with other financing instruments. However, the public revenues under the first pillar of law 3723/2008 did not reach the initial target, due to a legal issue (linked to the credit institutions' profitability) which was raised with a 10% return to the state. In 2012 the specific issue was solved with an amendment to law 4093/2012. According to this, €555.6 million (an amount which equaled to the return for the state during the previous years) were disposed from the credit institutions to the HFSF (Ministry of Finance, 2014). Thus, during the period 2009-2014 the public revenues by the use of the law 3723/2008 package (including the contribution to the HFSF and the ELA) totaled €4.07 billion (Chart 4).

The use of the funding instruments of the law 3723/2008 package and the ELA mechanism averted the collapse of the domestic banking system until the completion of its restructuring and recapitalization, which (excluding the cases of Proton Bank and T Bank) started in the first half of 2012. Then, the restoration of the funding flows by the EU/ECB/IMF Support Mechanism (which was the result of the continuation of the Economic Adjustment Programme) allowed the continuation and the completion of the recapitalization of the credit institutions after the restructuring of the public debt, ending the credit institutions' dependence on the above means of financing support. The gradual increase of the deposits after the second half of 2012 and the partial recovery of the banks' access to the money markets also contributed towards this direction. Thus, the credit institutions began to move away from the ELA. After that, the use of the instruments of the second and third pillars under law 3723/2008 also decreased (Table 1).

The recapitalization was a long process that occurred along and in connection with the restructuring of the credit institutions, the evaluations and the stress tests that took place at national and European levels. The total cost of the credit institutions' recapitalization for the period 2011-2013 reached 45.1 billion euros. Of this amount, 1.3 billion euros was derived from TEKE (the first organization that undertook the cost of the restructuring process), 40.7 billion euros were funds of HFSF and 3.1 billion euros were funds offered by the private sector to the three core banks which managed to meet the terms of the recapitalization process (concerning the coverage of 10% of the capital needed by the private sector – Table

TABLE 1 Support package of Law 3723/2008, 2009-2014

A. Portfolio of Credit Institutions' Preferred Shares under Law 3723/2008 (pillar a)

(in euros)

	2009	2010	2011	2012	2013	2014
National Bank of Greece	350,000,000	350,000,000	350,000,000	1,350,000,000	1,350,000,000	1,350,000,000
Attica Bank	100,200,000	100,200,000	100,200,000	100,200,000	100,200,000	100,200,000
Proton Bank	80,000,000	80,000,000	80,000,000	80,000,000	80,000,000	80,000,000[3]
Hellenic Postbank	224,960,000	224,960,000	224,960,000	224,960,000	224,960,000	224,960,000[3]
Eurobank	950,125,000	950,125,000	950,125,000	950,125,000	950,125,000	950,125,000
FBB	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000[3]
Panellinia Bank	28,300,000	28,300,000	28,300,000	28,300,000	28,300,000	28,300,000
Piraeus Bank[1]	370,000,000	370,000,000	370,000,000	750,000,000	750,000,000	
Alpha Bank[1]	940,000,000	940,000,000	940,000,000	940,000,000	940,000,000	
Agricultural Bank of Greece[2]	675,000,000	675,000,000				
Total	**3,768,585,000**	**3,768,585,000**	**3,093,585,000**	**4,473,585,000**	**4,473,585,000**	**2,783,585,000**

Notes: [1] In 2014, Piraeus Bank and Alpha Bank bought from the Greek government the preferred shares they had issued (face value: €1.69 billion).

[2] In 2011, Agricultural Bank of Greece bought from the Greek government the preferred shares it had issued (face value: €675 million).
[3] Hellenic Postbank, Proton Bank and FBB are in liquidation.

Sources: State budgets 2010, 2011, 2012, 2013, 2014 and 2015.

B. State Guarantees to the Credit Institutions under Law 3723/2008 (pillar b)

(€ billion)

	2009[6]	2010	2011	2012[6]	2013	2014[7]
New Guarantees - Total[4]	**3.00**	**46.9**	**19.7**	**27.8**	**41.8**	14.7
Total Guarantees in the end of the year[5]	**1.00**	**47.9**	**67.7**	**58.8**	**48.7**	36.1

Notes: [4] The total amount of state guarantees provided to the credit institutions on an annual basis, without taking into account the state guarantees that had been provided during the previous period.
[5] The total state guaranteed amount of all the credit institutions in the end of each year, without taking into account the amount of state guarantees that were issued and matured in the same year.
[6] According to the available data, 2009 and 2012 are the years during which state guarantees were issued and matured in the same economic year. In particular, in 2009 an amount of €2 billion in state guarantees was issued and matured before the end of the year and in 2012 an amount of €25.4 billion in state guarantees was issued and matured during the same economic year. Thus, in 2012 even though a large amount of state guarantees was provided, it translated into an increase in the total amount in the end of the year.
[7] The available data for 2014 refers to the end of November 2014, according to the General Government Bulletin.

Sources: The figures are the result of the author's calculations and are based on State Budget 2010 (2009), Ministry of Finance data submitted to the Hellenic Parliament (2013) and General Government Bulletin for November 2014 (2015).

C. Special Securities under Law 3723/2008 (pillar c)

(€ billion)

	2009	2010	2011	2012	2013	2014
Total Amount[8]	**4.6**	**8.0**	**8.0**	**2.8**	**2.4**	**7.9**

Notes: [8] The total amount of special government bonds for specific credit institutions on an annual basis.

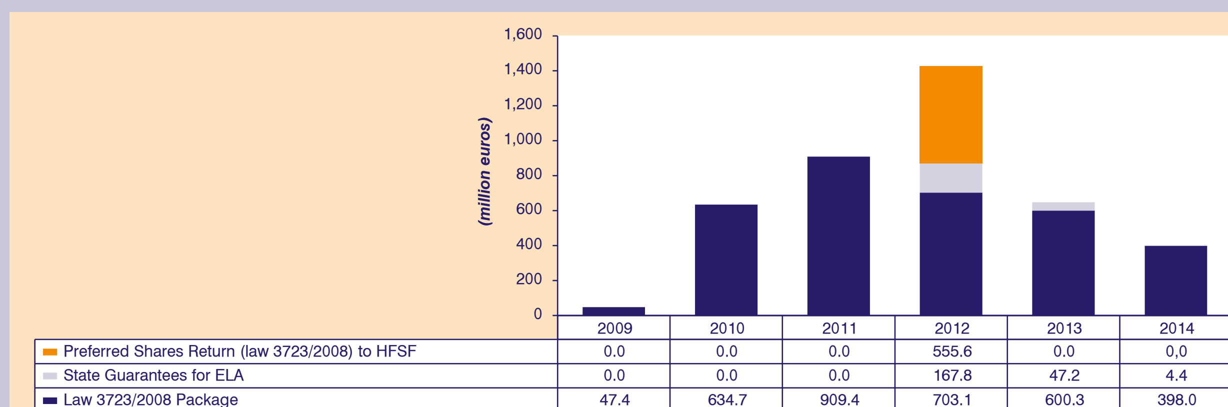
Sources: The figures are the result of the author's calculations and are based on State Budget 2010 (2009), Ministry of Finance data submitted to the Hellenic Parliament (2013) and relative data from the Ministry of Finance (2014).

TABLE 2 Banking system recapitalization, 2011-2013

	TEKE Funds	Private Sector Funds	HFSF Funds	Total Funds
		Core Credit Institutions		
National Bank of Greece	0	1,079,000,000	8,677,000,000	9,756,000,000
Piraeus Bank	0	1,444,000,000	5,891,000,000	7,335,000,000
Alpha Bank	0	550,000,000	4,021,000,000	4,571,000,000
Eurobank	0	0	5,839,000,000	5,839,000,000
Total Cost for the Core Credit Institutions	**0**	**3,073,000,000**	**24,428,000,000**	**27,501,000,000**
		Non-core Credit Institutions		
Proton Bank	862,000,000	0	1,169,621,860	2,031,621,860
T Bank	450,000,000	0	226,956,514	676,956,514
Hellenic Postbank	0	0	4,232,554,000	4,232,554,000
Cooperative Bank of Lesvos and Lemnos	0	0	55,516,733	55,516,733
Achaiki Cooperative Bank	0	0	209,473,992	209,473,992
Cooperative Bank of Lamia	0	0	55,493,756	55,493,756
Agricultural Bank of Greece	0	0	8,040,717,000	8,040,717,000
Cypriot Banks	0	0	524,000,000	524,000,000
FBB	0	0	551,970,455	551,970,455
Probank	0	0	795,733,502	795,733,502
Bank of Western Macedonia	0	0	Pending	Pending
Evia Cooperative Bank	0	0	Pending	Pending
Bank of Dodecanese	0	0	Pending	Pending
Total Cost for Non-core Credit Institutions	**1,312,000,000**	**0**	**16,288,981,753**	**17,600,981,753**
Total Cost for all Credit Institutions	**1,312,000,000**	**3,073,000,000**	**40,716,981,753**	**45,101,981,753**

Source: Bank of Greece (2014).

CHART 4
Public revenues from the banking funding support, 2009-2014



	2009	2010	2011	2012	2013	2014
Preferred Shares Return (law 3723/2008) to HFSF	0.0	0.0	0.0	555.6	0.0	0,0
State Guarantees for ELA	0.0	0.0	0.0	167.8	47.2	4.4
Law 3723/2008 Package	47.4	634.7	909.4	703.1	600.3	398.0

Source: State Budgets 2010, 2011, 2012, 2013, 2014 και 2015.

Note: The public revenues from the three pillars of the law 3723/2008 package are included in code 2993 of the State Budget with the title "Revenues from the funding of the financial crisis program" and the public revenues from the provision of state guarantees to the Bank of Greece for the ELA mechanism are included in code 3337 of the State Budget with the title "Revenues from fees on the state guarantees provision to the Bank of Greece to cover credit to banks based in Greece". The data on 2014 have been derived from the 2015 State Budget (the only available data) and consist of estimations that may slightly change during the review of the year's fiscal data. However, any small change will not alter the broad picture.

2). The HFSF was funded by the EU/ECB/IMF Support Mechanism with approximately 50 billion euros, from which a "buffer" of 11 billion euros was created, that could be used for the coverage of potential additional needs of the domestic banking system. However, after the results of the stress tests of 2014 and the ability of the systemic banks to cover the needs –according to the adverse scenarios– by other means (own and private means), the "buffer" remains intact and could be used at any time by the domestic banking system in the framework of the EU/ECB/IMF Support Mechanism.

4. Concluding remarks

The Greek banking system, running the first decades of being liberated from state intervention and constituting one of the main areas of feeding and expanding an obsolete development model, followed the broader global trend of financial euphoria, without, however, covering the distance of financial evolution that had been covered by the more developed banking systems. The euphoria of banking growth, combined with the favorable macroeconomic developments, as expected, did not create the conditions for the supervisory and regulatory framework to be prepared in addressing a major disturbance in the domestic banking system. The global financial crisis of 2007/2008 and the crisis of the Greek economy that followed created an imperative need for a substantial enrichment of the supervisory and regulatory framework, by the end of 2008, with institutions and procedures that would strengthen supervision, set a resolution framework concerning collapsing credit institutions and provide financial support to the banking system. As became clear during this institutional enrichment, its main objective was to enable the banking system to come out of a difficult restructuring phase –which was necessary in order to address the problems arising from the crisis– without affecting deposits, without resulting in job losses in the banking industry and, more importantly, without causing turbulence to the broader stability of the system.

The exploitation on behalf of the credit institutions of the new institutions and procedures, in a framework of close cooperation and synergy between the state and the Bank of Greece, contributed to achieving this target, under the EU/ECB/IMF Support Mechanism, bringing, however, significant consequences. Initially, the cost of the financial assistance that the state has to endure is high. On the one hand, the capital of the preferred shares of the first pillar of law 3723/2008 gradually returns, the guarantees of the Greek State for the second and third pillar of law 3723/2008 and the exceptional liquidity provision mechanism are not forfeited, and the public revenues from the funding support framework amounted to approximately 4 billion euros. However, on the other hand, the cost of recapitalization of the banking system –which the state took by borrowing from the EU/ECB/IMF Support Mechanism– remains particularly high, even if the revenues from the sale of the HFSF shares are excluded. Additionally, the conditions of competition in the domestic banking system have been significantly affected by the restructuring process, as the entire mediation process has now been accumulated in four major core credit institutions. At the same time, the restructuring and resolution process affected significantly the international position of domestic credit institutions, stopping, reducing or slowing down their activity in Southeastern Europe. Finally, although the first support package concerning the banking system was described as a package providing liquidity support in the economy, unfortunately, the domestic banking system –significantly affected by its interconnection with the outdated growth model– has not succeeded in recovering from the credit crunch of the recent years, significantly affecting domestic economic activity. The response to these consequences constitutes now a great challenge at both European and national levels, and, of course, a distinct field of analysis and research.

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