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# Greece (2008) – Capital Injections<sup>1</sup>

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Yale Program on Financial Stability Case Study  
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## **Abstract**

In October 2008, in the midst of the Global Financial Crisis (2007–09), the Greek government announced a €28 billion (\$36 billion) government package. Greek Law 3723/2008, “Enhancement of Liquidity in the Economy in Response to the Impact of the International Financial Crisis,” was passed and approved under European Union State Aid rules. The Greek law provided for three voluntary programs: recapitalizations (€5 billion), guarantees (€15 billion), and securities (€8 billion). This case study exclusively examines the recapitalization program. In this program, the Greek government acquired convertible preferred shares in banks in order to build and maintain banks’ Tier 1 capital at a minimum of 8% of risk-weighted assets. By July 2009, 10 banks had received capital injections for a total of €3.8 billion.

**Keywords:** banks, capital injections, financial crisis, Greece, recapitalization

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<sup>1</sup> This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering the responses to the Global Financial Crisis that pertain to broad-based capital injection programs.

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# Greece (2008) – Capital Injections

## At a Glance

The collapse of Lehman Brothers in mid-September 2008 and the ensuing financial crisis prompted governments around the world to take aggressive, often unprecedented actions. On October 12, 2008, in a summit held in Paris, euro area heads of state released a concerted European action plan to reestablish confidence and the functioning of the financial system (Euro Summit 2008).

Days later, the Greek government passed a €28 billion (\$36 billion) package (11.4% of GDP) through Greek Law 3723/2008, “Enhancement of Liquidity in the Economy in Response to the Impact of the International Financial Crisis” (Greece 2008a; Reuters 2008). The law provided for three voluntary programs: recapitalizations (€5 billion), guarantees (€15 billion), and securities (€8 billion). In the recapitalizations, the Greek government acquired preferred shares in order to build and maintain Tier 1 capital ratios of at least 8% (EC 2008a; Greece 2008a). By July 2009, 10 banks had received capital injections for a total of €3.8 billion. By 2012, two banks received additional capital, bringing the total to €5.2 billion.

## Summary Evaluation

Greek authorities expressed satisfaction with the first year of implementation of the schemes. In their view, “the schemes had made an important contribution to providing a safety net that corresponded well to the market’s needs” (EC 2010a; EC 2010c). However, in early 2010, Greece entered into a sovereign debt crisis. Its

Summary of Key Terms	
Purpose:	“Enhancement of liquidity in the economy in response to the impact of the international financial crisis” (Greece 2008a)
Announcement Date	October 15, 2008
Legal Authority	Greek Law 3723/2008; EC Treaty Article 87 (3)(b); later, Treaty on the Functioning of the European Union Article 107 (3)(b)
Date of First Capital Injection	May 2009 (see Figure 1)
Sunset Date	Voluntary participation. No sunset dates
Program Size	€5 billion maximum
Participants	10 banks by July 2009
Usage	10 banks participated. By July 2009, €3.8 billion. By 2012, €5.2 billion. The Greek government acquired preferred shares to boost Tier 1 capital
Administrators	Greek minister of economy and finance
Outcomes	By 2014, only three banks had repurchased the preferred shares. Another three banks were liquidated
Notable Features	Bonuses abolished; limits on salary

large fiscal and current account deficits threatened the financial stability of Europe. In May 2010, the European Union and International Monetary Fund agreed to provide Greece a three-year aid package worth €110 billion (BoG 2014).

<b>Context: Greece 2008</b>	
<b>GDP</b>	\$355.6 billion in 2008 \$331.5 billion in 2009
<b>GDP per capita</b>	\$31,997 in 2008 \$29,771 in 2009
<b>Sovereign credit rating (five-year senior debt)</b>	Data for 2008: Fitch: A Moody's: A1 S&P: A  Data for 2009: Fitch: BBB+ Moody's: A2 S&P: BBB+ *-
<b>Size of banking system</b>	\$358.6 billion in total assets in 2008 \$349.4 billion in total assets in 2009
<b>Size of banking system as a percentage of GDP</b>	100.8% in 2008 105.4% in 2009
<b>Size of banking system as a percentage of financial system</b>	100% in 2008 100% in 2009
<b>Five-bank concentration of banking system</b>	81% of total banking assets in 2008 80% of total banking assets in 2009
<b>Foreign involvement in banking system</b>	14% of total banking assets in 2008 14% of total banking assets in 2009
<b>Government ownership of banking system</b>	None
<b>Existence of deposit insurance</b>	Yes in 2008 Yes in 2009
<i>Source: Bloomberg</i>	

# I. Overview

## Background

The collapse of Lehman Brothers in mid-September 2008 and the ensuing 2007–09 Global Financial Crisis (GFC), prompted governments around the world to take aggressive, often unprecedented actions. On October 12, 2008, in a summit held in Paris, euro area heads of state released the “Declaration on a Concerted European Action Plan of the Euro Area Countries,” which committed efforts to reestablish confidence and the well-functioning of the financial system (Euro Summit 2008).

European governments, central banks, and supervisors agreed to support financial institutions by facilitating: (a) appropriate liquidity conditions, (b) funding of banks, (c) additional capital resources, (d) recapitalizations of distressed banks, (e) flexibility in the implementation of accounting rules, and (f) cooperation among European countries (Euro Summit 2008). Greece did not start to feel the tremors of the crisis until 2009. Although in October 2008, Greek banks had not yet experienced the significant losses or liquidity pressure that struck other financial markets, the government intended to protect the Greek economy by increasing liquidity and facilitating credit institutions in extending loans to the private sector (BoG 2014).

## Program Description

On October 15, 2008, the Greek government announced a package of up to €28 billion (\$36 billion), estimated at 11.4% of GDP (Mayer Brown 2009; Reuters 2008). Greek Law 3723/2008, “Enhancement of Liquidity in the Economy in Response to the Impact of the International Financial Crisis,” went into effect on October 24, 2008. However, Greek authorities committed to the European Commission (EC) that the law would not be applied before the EC’s approval (EC 2008a; Greece 2008a). On November 19, 2008, the EC authorized the new law under European Union (EU) State Aid rules compatible with Article 87 (3)(b) of the EC Treaty, limited in time and scope, and “intended to stabilize the markets as a response to the global financial crisis.” The Greek law provided for three voluntary programs: recapitalizations (€5 billion), guarantees (€15 billion), and securities (€8 billion) (EC, 2008a). This case study exclusively examines the recapitalization program.

Through the program, the Greek government acquired preferred shares in banks to increase and maintain adequate capital ratios. Eligible institutions included all banks licensed by the Bank of Greece (BoG), including subsidiaries of foreign banks (EC 2008a).

The only means for bank recapitalization were preferred shares, considered Tier 1 capital by the BoG. The amount purchased was decided by the Minister of economy and finance, based on the advice of the governor of the BoG. The preferred shares were noncumulative and considered as noncore Tier 1 capital. Cumulative shares required banks to pay the government all dividends owed first, before other dividends were paid. In the case of a bank’s liquidation, preferred shares held priority over common shares. Through recapitalizations, banks reached a Tier 1 capital ratio of no less than 8%, which had to be

maintained throughout the duration of the scheme. The annual fixed rate of return of the preferred shares was 10% (EC 2008a).

Banks had to communicate their interest by February 1, 2009. Originally, the issuance of preferred shares had to occur no later than mid-May 2009, but the window could be extended up to December 31, 2009. Bank recapitalizations were decided according to supervisory criteria, which considered capital adequacy levels, the bank's size, and the credit to small and medium-sized enterprises (EC 2008a).

The price of the preferred shares was determined as the nominal value of common shares of the bank's most recent issuance. The Greek government covered this amount with Greek state bonds paying interest at a spread to the euro interbank offered rate (Euribor), the leading benchmark interest rate (Greece 2008a; Petrovic and Tutsch 2009). The Greek law stated that recapitalized banks had to repurchase the preferred shares from the government within five years and for the amount originally invested in the bank. Repurchases of preferred shares could be done using Greek government bonds or cash. In the case of government bonds, their nominal value had to equal the nominal value of the bonds originally issued for the acquisition of the preferred shares (EC 2008a; Greece 2008a).

For recapitalized banks that did not repurchase the shares after six months, Greek authorities committed to notify the EC of restructuring plans submitted by the banks. The BoG did not allow banks to repurchase the shares if they did not meet minimum capital ratios. If, after five years, a bank still did not meet capital adequacy requirements, the preferred shares were converted into common shares or other similar instruments. To determine the conversion rate, the average of the market value of these securities in the last trading year was considered. For cases where the securities were not listed on an organized market, the bank's internal book value of the last fiscal year was considered (EC 2008a; Greece 2008a).

The Greek state, through the preferred shares acquired, was allowed to appoint a representative to a bank's board of directors. The state representative attended the bank's general assembly of common shareholders and had veto power on decisions related to dividend distribution as well as benefits to the president, managing director, and other members of the board of directors. Additionally, recapitalized banks were subject to conditions such as caps on salary and benefits, and bans on bonuses. They also were restrained from taking any aggressive market strategies or balance sheet expansions (EC 2008a).

## **Outcomes**

By July 2009, recapitalizations totaled €3.8 billion (BoG 2010). The 10 banks recapitalized were the EFG Eurobank, Alpha Bank, Agricultural Bank of Greece (ATE), Piraeus Bank, National Bank of Greece (NBG), Hellenic Postbank (TT), Attica Bank, Proton Bank, First Business Bank (FB), and Panellinia Bank (Boudghene et al. 2011; Triantopoulos 2015).

Eight of the 10 bank recapitalizations occurred in May 2009. The other two occurred in July 2009 (see Figure 1).

**Figure 1: Recapitalizations under Greek Law 3723/2008—Portfolio of Banks' Preferred Shares in 2009**

<b>Bank</b>	<b>Recapitalization (euros)</b>	<b>RWA* %</b>	<b>2009</b>	<b>Source</b>
<b>EFG Eurobank</b>	950,125,000	2	May	(EC 2012d)
<b>Alpha Bank</b>	940,000,000	2	May	(EC 2012b)
<b>Agricultural Bank of Greece (ATE)</b>	675,000,000		May	(ATE Bank 2010)
<b>Piraeus Bank</b>	370,000,000	1.2	May	(EC 2012e)
<b>National Bank of Greece (NBG)</b>	350,000,000	0.7	May	(EC 2012c)
<b>Hellenic Postbank (TT)</b>	224,960,000	2.9	May	(EC 2014a)
<b>Attica Bank</b>	100,200,000		May	(EC 2016)
<b>Proton Bank</b>	80,000,000	4.58	May	(EC 2012a)
<b>First Business Bank (FB)</b>	50,000,000	3	July	(EC 2014b)
<b>Panellinia Bank</b>	28,300,000	5	July	(EC 2015)
<b>Total</b>	<b>3,768,585,000</b>			

*\*Percent of risk-weighted assets of the bank at the time.*

*Source: Triantopoulos 2015.*

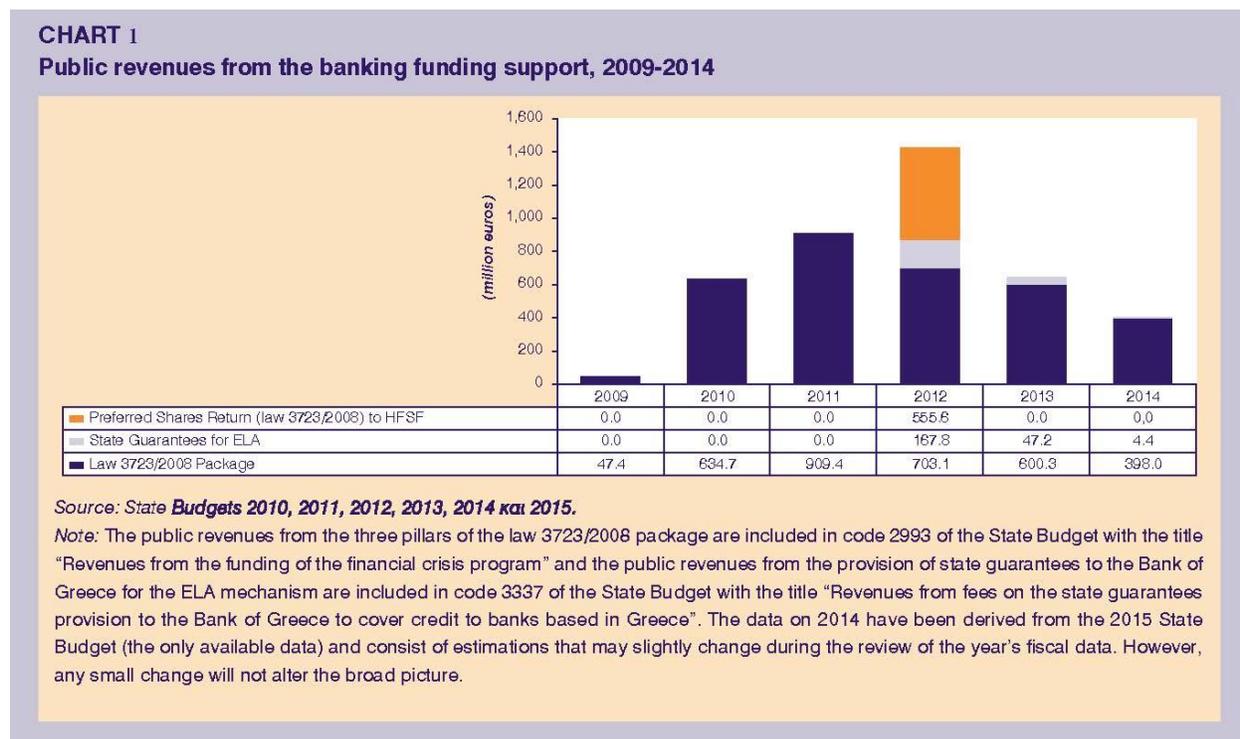
In addition to the bank recapitalizations performed by the Greek government in May and July of 2009, by November 2009, five banks had completed capital increases from private investors for €2.2 billion (BoG 2009). There were no further recapitalizations under Greek Law 3723/2008 until the end of 2011 (Triantopoulos 2015).

Emporiki Bank decided not to participate in the Greek government package and instead relied on private shareholders. In February 2009, Emporiki Bank's shareholders approved an €850 million rights issue to strengthen capital and liquidity. Its parent company, Credit Agricole, subscribed and raised its holding in Emporiki Bank to 82%. In July 2009, Emporiki Bank reported a €190 million net loss corresponding to the second quarter of 2009 (Mayer Brown 2009).

Initially, in 2008, Greek banks were reluctant to participate in recapitalizations due to potential negative market reactions (stigma effect), concerned that their subscription could indicate weakness (BoG 2014). A representative from the BoG pointed out that given the magnitude of the financial crisis seen by the end of 2008, and the trends and expectations of a prolonged period of financial turmoil and deteriorating asset quality, over a period of time, the BoG informally persuaded Greek banks to participate in recapitalizations.

In the context of the GFC, Greece was the first major western European country to have its credit rating downgraded in January 2009. Standard & Poor's (S&P) projected lack of economic growth in Greece and loss of competitiveness in the economy. In February 2009, Moody's downgraded Greece from positive to stable, projecting no rating improvements for the following year and a half. Additionally, in 2009, Moody's revised negatively the outlook on the financial strength, long-term deposit, and debt ratings of four Greek banks: National Bank of Greece, EFG Eurobank, Alpha Bank, and Piraeus Bank. In May 2009, S&P downgraded five Greek banks: EFG Eurobank, Piraeus Bank, Emporiki Bank of Greece, National Bank of Greece, and Alpha Bank (Mayer Brown 2009). In the first months of 2010, as Greece entered a sovereign debt crisis, its rating was significantly downgraded by all major international rating agencies (BoG 2014).

In 2011, the Agricultural Bank of Greece repurchased the €675 million of preferred shares from the Greek government (Triantopoulos 2015; see Figure 2). In December 2011, the EC approved additional capital injections of €1 billion for the NBG and €380 million for Piraeus Bank (around 1.1% of risk-weighted assets) (EC 2011). In 2012, the total amount granted under the law reached €5.2 billion, of which €4.5 billion was outstanding. In 2014, Piraeus Bank and Alpha Bank repurchased the preferred shares from the Greek government for €1.7 billion (Triantopoulos 2015). By 2014, only three banks had repaid the total value of the preferred shares to the government. The total outstanding government investment stood at €2.8 billion. Three banks were liquidated: Proton Bank in 2011, and Hellenic Postbank and First Business Bank in 2013 (BoG 2011; BoG 2013a; BoG 2013b; Triantopoulos 2015).

**Figure 2: Public Revenues from the Banking Funding Support, 2009–2014**

*Source: Triantopoulos 2015, 69.*

The GFC hit the Greek economy with some delay. A slowdown in credit expansion to the private sector became significant only in 2009. In early 2010, the GFC turned into a sovereign debt crisis for some European countries. The Greek government's credit rating was downgraded by international rating agencies. Greek banks faced difficulty accessing funding markets as borrowing costs increased while the value of the Greek bonds in their portfolios diminished. Greece's large fiscal and current account deficits threatened the financial stability of Europe. In May 2010, the EU and IMF agreed to provide a three-year aid package worth €110 billion (BoG 2014).

## II. Key Design Decisions

### 1. The recapitalization scheme for Greek banks was part of a package approved by the European Commission in late 2008.

On October 15, 2008, the Greek government announced a €28 billion (\$36 billion) package estimated at 11.4% of GDP. The Greek package included three pillars: bank recapitalizations (€5 billion), guarantees on debt issuance by banks (€15 billion), and liquidity support via special government bonds (€8 billion) (EC 2008a; Greece 2008a; Mayer Brown 2009; Reuters 2008). The recapitalization scheme was not aimed at

distressed banks. It was aimed at strengthening capital ratios against possible losses (EC 2008a).

**2. Greek Law 3723/2008, “Enhancement of Liquidity in the Economy in Response to the Impact of the International Financial Crisis,” was passed in late October 2008.**

Greek Law 3723/2008, “Enhancement of Liquidity in the Economy in Response to the Impact of the International Financial Crisis,” went into effect on October 24, 2008, less than two weeks from its announcement. However, the Greek authorities committed that the law would not be applied before the European Commission’s approval (EC 2008a). The Bank of Greece contributed significantly in the drafting of the law. It provided technical support and recommendations on the financial support to banks, based on capital adequacy and liquidity needs (BoG 2014).

**3. The EC approved the Greek law under EU State Aid rules compatible with the EC Treaty.**

On November 19, 2008, the EC authorized the Greek package under EU State Aid rules compatible with Article 87 (3)(b) of the EC Treaty that permits the use of State Aid to “remedy a serious disturbance in the economy of a Member State” (EC 2008a).

**4. Greece and other European countries communicated government interventions to contain the global financial crisis.**

On October 12, 2008, in a summit held in Paris, euro area heads of state released the “Declaration on a Concerted European Action Plan of the Euro Area Countries,” which committed efforts to reestablish confidence and the well-functioning of the financial system. European governments, central banks, and supervisors agreed to support financial institutions by facilitating: (a) appropriate liquidity conditions, (b) funding of banks, (c) additional capital resources, (d) recapitalizations of distressed banks, (e) flexibility in the implementation of accounting rules, and (f) cooperation among European countries (Euro Summit 2008).

**5. The Greek minister of economy and finance managed the recapitalization scheme with advice from the BoG.**

The Supervisory Council was set up by Greek law and was chaired by the Greek minister of economy and finance with the participation of the BoG governor, the deputy minister of economy and finance, and the Greek state’s representatives at the boards of directors of the participating banks. The Council convened monthly to coordinate the implementation of the law and make sure depositors, borrowers, and the Greek economy benefited from the scheme (EC 2008a).

**6. Limited by the EU State Aid rule, the Greek government was allowed to acquire up to €5 billion in preferred shares in banks in total.**

The EU State Aid was intended to be limited in time and scope. The Greek government could acquire up to €5 billion in preferred shares in banks that chose to participate in the recapitalization scheme (EC 2008a).

**7. Eligible institutions included all banks authorized to operate in Greece (including subsidiaries of foreign banks), but their actual participation was decided by the minister of economy and finance, based on the recommendation of the BoG governor.**

Eligible institutions included all banks authorized to operate in Greece with license from the BoG, including subsidiaries of foreign banks. Banks could increase their capital by issuing preferred shares regardless of whether their transferable securities were listed in organized markets or the stock exchange (EC 2008a).

Initially, in 2008, Greek banks were reluctant to participate in recapitalizations due to potential negative market reactions (stigma effect), concerned that their subscription could indicate weakness (BoG 2014). A representative from the BoG pointed out that given the magnitude of the financial crisis seen by the end of 2008, and the trends and expectations of a prolonged period of financial turmoil and deteriorating asset quality, over a period of time, the BoG informally persuaded Greek banks to participate in recapitalizations.

**8. Bank recapitalizations followed supervisory criteria based on capital adequacy levels, size, and credit to small and medium-sized enterprises.**

Banks willing to participate in the recapitalization scheme had to communicate their interest by February 1, 2009. Then, they had to issue the preferred shares by May 19, 2009 (six months after the approval of the scheme). The window to issue the preferred shares could be extended up to December 31, 2009, upon the European Commission's approval (EC 2008a).

Bank recapitalizations were accepted based on supervisory criteria. First, the amount of capital required to meet the capital adequacy level of a Tier 1 ratio between 8% and 10%, as defined by the BoG, was weighted at 50% of the total evaluation. Second, the size of the bank, its market share, and its importance in preserving financial stability was weighted at 40%. And third, the contribution of the bank in financing small and medium-sized enterprises and residential loans was weighted at 10% (EC 2008a).

The amount to purchase was decided by the minister of economy and finance, based on the recommendation of the governor of the BoG (EC 2008a). The Greek government issued Greek government bonds paying interest set at a spread to Euribor to cover the price of the preferred shares, which was determined as the nominal value of common shares of the bank's most recent issuance (Greece 2008a).

In the case of the Proton Bank Group, after the 2009 recapitalization of €80 million, its balance sheet increased from €1.9 billion in 2008 to €2.9 billion in 2009, and to €4.3 billion in 2010. Thus, its balance sheet grew by more than 100% from 2008 to 2010 (EC 2012a). In 2011, the BoG withdrew the license of Proton bank and placed the entity in liquidation (BoG 2011).

**9. Recapitalizations consisted of preferred shares exclusively and held priority over common shares or other similar instruments in case of a bank's liquidation.**

In the recapitalizations, the Greek government acquired exclusively preferred shares as they were considered Tier 1 capital by the BoG. Through the recapitalizations, banks reached a Tier 1 capital ratio of 8% or above, which had to be maintained throughout the duration of the scheme. The capital adequacy ratios set by the BoG also corresponded with 8% of Tier 1 capital (EC 2008a).

The preferred shares paid a 10% dividend. They were noncumulative and considered noncore Tier 1 capital. Based on EU State Aid rules, recapitalizations had to be performed at terms that minimized the amount of aid. Data at the time, under distressed market conditions, showed that the yield for hybrid Tier 1 capital, such as preferred shares, was around 15% or more. However, the European Commission recognized that setting a higher dividend yield, in the vicinity of that market level, would discourage banks from participating in the recapitalizations. Additionally, the EC intended to adjust to long-term market conditions and not to impose unfavorable conditions at the time. The EC noted in approving the Greek program that in the UK and Germany, the programs had come with strict behavioral conditions and paid dividend yields of 12% and 10%, respectively. Consequently, the commission positively observed that if equivalent behavioral conditions were met, the 10% yield in the Greek case was appropriate and reflected a market-oriented remuneration on the capital injected. In the case of a bank's liquidation, preferred shares held priority over common shares (EC 2008a).

**10. Banks that did not repurchase the shares after six months were required to submit restructuring plans.**

For recapitalized banks that did not repurchase the shares after six months, Greek authorities committed to notify the Commission of restructuring plans submitted by the participating banks (EC 2009). Cases of conversions of preferred shares into common shares were also considered within the restructuring plan (EC 2008a).

The commission noted that the restructuring plans were the foundation of the Community Guidelines on State Aid for Rescuing and Restructuring Firms in Difficulty for the commission's understanding of EC Article 87 (3)(c) for aid of this kind. It was important that banks returned to long-term viability and the plans were adequately scrutinized. The EC did not require restructuring plans for banks that repurchased the preferred shares within six months (EC 2008a). Additionally, if further recapitalizations were needed, Greek authorities ensured that future beneficiary banks were fundamentally sound, which they scrutinized ex ante, and provided this information to the commission at the time of a

capital injection. Greek authorities notified the European Commission of a restructuring plan within six months of the capital injection. If the Greek government intended to recapitalize a bank previously recapitalized, then Greek authorities had to present an individual notification for the commission’s approval (EC 2008a).

**11. The Greek government was allowed to appoint a representative to a bank’s board of directors.**

The Greek state, through the preferred shares acquired, was allowed to appoint a representative in a bank’s board of directors. The state representative attended the bank’s general assembly of common shareholders and had veto power on decisions related to dividends distribution as well as benefits to the president, managing director, and other members of the board of directors. This came into consideration if the state representative considered that a decision “may jeopardize the interests of depositors or substantially affect the solvency and the good functioning of the bank” (EC 2008a).

**12. Banks that received government capital were subject to other behavioral conditions.**

The behavioral conditions imposed on recapitalized banks included:

- (a) The salary and benefits of the president, the managing director and other members of the board of directors, general directors, and deputy general directors of recapitalized banks could not surpass the salary and benefits of the governor of the BoG. The law required banks to review their activities regularly and limit the remuneration of bank executives involved in a state intervention (EC 2008a).
- (b) Any additional bonuses were abolished throughout the duration of the recapitalization.
- (c) Although the Greek law allowed dividend distribution of up to 35% of distributable profits, in principle, no dividends were paid out while the Greek government was involved (ATE Bank 2010; Greece 2008b; Mayer Brown 2009). The commission declared that, based on Article 1(3) of the Greek law and by decision of the Greek minister of economy and finance, the state representative appointed at the bank board of directors would ensure through their veto rights that no dividends were distributed until government participation had been redeemed (the veto right could not be overruled). The commission noted that an important behavioral constraint was the ban on dividends, because it provided an incentive for the bank’s common shareholders to repurchase the state’s preferred shares as early as possible. Through the ban on dividends, the capital base of the bank was built by the accumulation of reserves, in line with the overall goal of the program. In cases of dividend distribution, Greek authorities notified the EC to seek its approval.

In June 2009, then–BOG Governor George A. Provopoulos expressed that:

- (d) “In matters relating to banking supervision and financial stability there is no room

for even the slightest complacency. My main priority, since the first day I took up my duties, has been to protect financial stability. In view of the increased risks resulting from the weakening economic activity, high market volatility and the prevailing liquidity conditions, I have asked banks to implement the kind of policies that ensure financial resilience, stability and health.

- (e) I have also urged them to make use of the government plan, so as to enhance liquidity in the economy. I have asked them not to distribute any dividends, to substantially increase their provisions for bad debts, and to reduce bonuses to their executives. All these measures create additional ‘cushions’ that shield banks in the difficult times we are experiencing. Nevertheless, continued vigilance is required” (BoG 2014).
- (f) Banks recapitalized had to report to the BoG every three months on the specific use of the capital injected. Based on these reports, the BoG prepared semiannual reports to be submitted to the commission that outlined the use of the capital injected, implementation of business plans, and any restructuring plans. If a bank seriously violated the terms and conditions of the recapitalization, the minister of economy and finance, following a proposal of the BoG governor, could impose sanctions or cancel government support in full or in part.
- (g) Banks were expected to restrain from any aggressive market strategies or advertising, particularly against competitors not receiving equal coverage or not part of the scheme.
- (h) Banks were expected to refrain from expanding their activities or pursuing different purposes that might unduly distort competition. Banks were forced to ensure that, during the government’s involvement in the recapitalization, the average increase of the total assets did not surpass the highest of these amounts: (a) the annual growth rate of the Greek nominal GDP of the previous year, (b) the average rate of increase of the Greek banking sector’s total assets for the 1987–2007 period, or (c) the average rate of increase of the EU banking sector’s total assets for the previous six months.

Compliance with these obligations was controlled by the Supervisory Council and based on the BoG’s reports. The Supervisory Council was set up by the Greek law and was chaired by the Greek minister of economy and finance with the participation of the BoG governor, the deputy minister of economy and finance, and the Greek state’s representatives at the boards of directors of the participating banks. The Council convened monthly to coordinate the implementation of the law and make sure depositors, borrowers, and the Greek economy benefited from the scheme (EC 2008a).

### **13. Recapitalized banks had to repurchase the preferred shares acquired by the Greek government within five years or face conversion into common shares.**

Greek law stated that recapitalized banks had to repurchase the preferred shares from the Greek government within five years and for the amount originally invested in the bank. The

BoG prevented bank repurchases in cases where capital adequacy ratios were not met. If, after five years, the bank could not make the repurchase because of capital adequacy requirements, the preferred shares were converted into common shares or other similar instruments. To determine the conversion rate, the average of the market value of these securities in the last trading year was considered. For cases where the securities were not listed on an organized market, the bank's internal book value of the last fiscal year was considered (EC 2008a).

### III. Evaluation

Although there are limited evaluations specific to the Greek recapitalization scheme, Greek authorities expressed satisfaction with the first year of implementation of the schemes. In their view, “a stock-taking of their effectiveness so far reveals that the measures adopted have provided a safety net that corresponds well to the market's needs” (EC 2010a; EC 2010c).

Initially, banks were reluctant to participate in the government measures due to potential negative market reactions (stigma effect). The BoG urged banks to participate to solidify their capital bases. Through the recapitalizations, banks improved their capital positions and the contraction of credit growth was significantly less than anticipated given the depth and length of the recession (BoG 2014).

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## V. Key Program Documents

### Summary of Program

(EC 2008a) State Aid N 560/2008. Support Measures for Credit Institutions in Greece  
*The European Commission outlined the description of the Greek Scheme to support credit institutions.*

<https://ypfs.som.yale.edu/library/state-aid-n-5602008-support-measures-credit-institutions-greece>

(Greece 2008a) Enhancement of Liquidity in the Economy in Response to the Impact of the International Financial Crisis

*The Greek Minister of Economy and Finance outlined its decision and course of actions.*

<https://ypfs.som.yale.edu/library/enhancement-liquidity-economy-response-impact-international-financial-crisis>.

### Legal/Regulatory Guidance

(EC 2008b) Recapitalisation Communication

*Communication provided by the European Commission on the recapitalization of financial institutions during the financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition.*

<https://ypfs.som.yale.edu/library/recapitalisation-communication>.

(Mayer Brown 2009) Summary of Government Interventions in Financial Markets: Greece.  
*A summary of Greek government interventions to support financial institutions.*

<https://ypfs.som.yale.edu/library/summary-government-interventions-financial-markets-greece>.

### Press Releases/Announcements

(European Commission, October 7, 2008) Press Release of the 2894th The European Economic and Financial Affairs Council (ECOFIN) Meeting.

*The Council agreed on a coordinated approach in response to the financial crisis.*

<https://ypfs.som.yale.edu/library/2894th-council-meeting-economic-and-financial-affairs-luxembourg-7-october-2008>.

### Media Stories

(Reuters 2008). Greece to Spend 11 Pct of GDP to Shield Banks.

*Greece reportedly to spend up to 11.4 percent of GDP to help banks deal with the crisis.*

<https://ypfs.som.yale.edu/library/greece-spend-11-pct-gdp-shield-banks>.

### Reports/Assessments

(BoG 2014)The Chronicle of the Great Crisis: The Bank of Greece 2008-2013: Public Interventions and Institutional Actions to Safeguard Financial Stability and Overcome the

Crisis.

*A detailed report by the Bank of Greece on the financial crisis occurred in Greece from 2008 to 2013.*

<https://ypfs.som.yale.edu/library/chronicle-great-crisis-bank-greece-2008-2013-public-interventions-and-institutional-actions>.

(Petrovic and Tutsch 2009) National Rescue Measures in Response to the Current Financial Crisis *A comprehensive overview of measures introduced by the 27 EU Member States from October 2008 through June 2009.*

<https://ypfs.som.yale.edu/node/4151>.

(Triantopoulos 2015) Greek Economic Outlook 2015. Greek Banking Support Framework: A First Attempt

*A detailed report of banking support measures.*

<https://ypfs.som.yale.edu/library/greek-economic-outlook-2015-greek-banking-support-framework-first-attempt>.

## VI. Appendix: Timeline

Date	Event	Description
Oct./07/2008	The European Economic and Financial Affairs Council (ECOFIN) met to plan a response to the global financial crisis.	ECOFIN outlined a coordinated approach in response to the crisis.
Oct./12/2008	Declaration on a concerted European action plan of the euro area countries.	Summit of heads of state of euro area countries in Paris.
Oct./13/2008	The European Commission (EC) released the banking communication.	<p>The EC provided guidance on the application of State Aid measures for banks in the context of the global financial crisis.</p> <p>It highlighted that recapitalization schemes were important measures member states could take to preserve financial stability and proper functioning of financial markets.</p>
Oct./15/2008	Announcement of the €28 billion Greek government package.	The package included capital injections, guarantees on debt issuance by banks, and liquidity support via special government bonds (Mayer Brown 2009).
Oct./24/2008	Greek Law 3723/2008 was enacted on “the enhancement of liquidity in the economy in response to the impact of the international financial crisis.”	The Greek law entered into force, but Greek authorities committed that the law would not apply until the EC’s approval (EC 2008a).
Nov./19/2008	The EC approved the Greek package.	State Aid N 560/2008 – Greece. “Support Measures for the Credit Institutions in Greece.”
Nov./28/2008	The Greek minister of economy and finance implemented Greek Law 3723/2008.	Decision 54201/B 2884/26.11.2008 (Petrovic and Tutsch 2009, 41).
Dec./05/2008	ECOFIN anticipated the need for further recapitalizations.	ECOFIN expressed that it “recognized the need for further guidance for precautionary recapitalizations to sustain credit and called for its urgent adoption by the EC (EC 2008b).
Jan./15/2009	The EC released a communication for recapitalization schemes.	The communication “The recapitalization of financial institutions in the current financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition” provided guidance for new recapitalization schemes and

		adjustments of existing ones (EU 2009).
Sep./18/2009	The EC approved amendments to the Greek package and prolonged it until December 31, 2009.	"Prolongation and amendment of the Support Measures for the Credit Institutions in Greece." State Aid Case N 504/2009 (EC 2009).
Jan./25/2010	The EC approved a second prolongation until June 30, 2010.	"Prolongation of the Support Measures for the Credit Institutions in Greece." State Aid Case N 690/2009 (EC 2010a).
May/12/2010	Greece increased the government package from €28 billion to €43 billion by increasing the guarantee scheme.	"Amendment to the Support Measures for the Credit Institutions in Greece." State Aid Case N 163/2010 (EC 2010b).
June/30/2010	The EC approved amendments to the Greek package and a third prolongation until December 31, 2010. The government package increased from €43 billion to €68 billion by increasing the guarantee scheme.	"Extension and Amendment to the Support Measures for the Credit Institutions in Greece." State Aid Case N 260/2010 (EC 2010c).
Dec./21/2010	The EC approved a fourth prolongation of the Greek package until June 30, 2011.	"Fourth Extension of the Support Measures for the Credit Institutions in Greece". EC State Aid Case 31998.
Apr./04/2011	The EC approved an amendment. The government package increased from €68 billion to €98 billion by increasing the guarantee scheme.	"Amendment to the Support Measures for the Credit Institutions in Greece." EC State Aid Case 32767.
June/27/2011	The EC approved a fifth prolongation of the Greek package until December 21, 2011.	"Fifth Prolongation of the Support Measures for the Credit Institutions in Greece." EC State Aid Case 33153.
Feb./06/2012	The EC approved a sixth prolongation of the Greek package until June 30, 2012.	"Sixth Prolongation of the Support Measures for the Credit Institutions in Greece." EC State Aid Case 34149.
July/06/2012	The EC approved a seventh prolongation of the Greek package until December 31, 2012.	"Seventh Prolongation of the Support Scheme for Credit Institutions in Greece." EC State Aid Case 35002.

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