YPFS Lessons Learned Oral History Project: An Interview with Spiros Pantelias

Spiros Pantelias

Maryann Haggerty

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Lessons Learned Oral History Project Interview

| Interviewee Name and Crisis Position | Spiros Pantelias\(^1\)  
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<td>Director, Financial Stability Division, Bank of Greece</td>
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| Interviewer Name | Maryann Haggerty, Interviewer  
| Yale Program on Financial Stability |
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Introduction:

Spiros Pantelias, an economist and investment banker, was an advisor to the Governor of the Bank of Greece from late 2011 until early 2016.\(^2\) In that post, he was responsible for projects related to the reform of the domestic banking sector as envisaged by the Memorandum of Economic and Financial Policies (MEFP) and the Memorandum of Understanding (MOU) of the Hellenic Republic’s Economic Adjustment Programme, two of the three international bailout efforts undertaken to return the nation to financial stability in the wake of its sovereign debt crisis.


*This transcript of a Zoom interview has been edited for accuracy and clarity.*

Transcript

YPFS: In this discussion, I would like to focus on the decisions that Greek policymakers have faced over the last decade, plus the choices they have made and the lessons that you can distill for others in the future. That’s a lot of ground. Let’s go chronologically. And let’s go back to, what was your job during the global financial crisis of 2007 and 2009? And then see if you can expand, from your perspective, on what effects that crisis had on Greece.

Pantelias: Sure. I was not with the Bank of Greece at that time. As a matter of fact, I joined the country’s central bank at the end of 2011. From 2007 to 2009, I was an

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\(^1\) The opinions expressed during this interview are those of Mr. Pantelias, and not those any of the institutions with which he is affiliated.

\(^2\) A stylized summary of the key observations and insights gleaned from this interview with Mr. Pantelias is available [here](#) in the Yale Program on Financial Stability's *Journal of Financial Crises.*
investment banker at a commercial bank, at that time dealing particularly with capital market transactions.

Honestly, at that time, although you know as I like to say I was on the other side of the river, it was already well-established that Greek banks were very well protected from what was going on in terms of the global financial turmoil, they virtually had zero investment in toxic assets, they were not exposed in any kind of questionable securitization balances, etc.

However, the Greek economy as a whole had key structural weaknesses. It was already very well established that the Greek economy was running twin deficits, both on the fiscal affairs front as well as in terms of the current account balance. These were weaknesses that were identified, but they were neglected by politicians.

At that time, everybody was quite relaxed. There was ample liquidity within the system. GDP was growing because primarily of public investment, which was to a large extent fueled by European Union funds. And that thing in 2008, 2009 broke down. And the government started having huge deficits. Deficits which were totally unsustainable in terms of the dynamics created, especially in 2009. And if I am allowed some sort of criticism, poorly managed by local politicians. At some point in time, second quarter of 2010, you basically have the bailout mechanism, which introduces the European Commission, the IMF [International Monetary Fund], as well as the European Central Bank into play. Honestly, one of the things that I have witnessed over the past 12 years and I fail to understand is, why we as a society, as a system of agents and institutions, we cannot draft, design, and implement a full plan addressing the problems of the economy as well as necessary reforms.

There was austerity indeed introduced back in 2010, which was inevitable. At that time, the government at the end of 2009, had a public deficit approximately 15%-plus of GDP.

Public finances were clearly non-sustainable. And honestly, people started understanding that well, fortunately or unfortunately, we had to cut down on pensions as well as wages and compensation of public sector employees. We had to stop this government growing, simply because the rest of the economy could not support it.

So indeed, there was a series of austerity measures. But I believe that these measures should have been taken by Greek politicians much, much earlier. And the later you're about to take some difficult decisions, the tougher it's going to get. Because, these problems accumulate over time.

YPFS: What options did Greece have? You were still in the private sector at that point, right? For the first package? Thus, you were a Greek citizen. What did it look like? What options were there? We’re going to go through, just
mostly for background here, several years of other packages before we can get to today. But the main lesson, it seems to me that you're taking from that period is, possibly taking your medicine earlier. Am I misinterpreting?

Pantelias: No, not at all. As a matter of fact, let’s talk a little bit about dates and facts and events. Close to the end of the third quarter of 2009, you have a change in government. The political discussion which preceded the 2009 election basically avoided any kind of disclosure, any kind of conservatism about the measures that would have to be taken for the Greek economy.

On the contrary, people were led to understand that, "Well, there may be alternatives. We’re going to make it no matter what." I believe that up until the end of that year, of year 2009, there were a great deal of major investors that were trying to figure out what the Greek government was going to do—if I’m allowed to sound a little bit cynical, whether they would go long or short in Greek sovereign bonds. Very quickly, they figured out that going short was the optimal investment strategy for them and the market followed suit.

As a matter of fact, in early 2010, the Greek government initiated introduction of several austerity measures. But if you ask me it was way too late. At some point in time, I think it was around March, it was evident that the Greek government had no market access in terms of refinancing public debt. Policymakers had a much, much better understanding about budget deficit figures that were significantly higher than everybody thought in the first place. So, at that time, end of the first quarter of 2010, the only option available was to have some sort of coalition of international governmental players, that they would provide a support package for Greece. And this is what happened.

It was unprecedented for the European Union. One of the prime reasons why the IMF was called, it was basically because the IMF had some knowledge, some technical expertise that executives of the European Commission simply did not have. I’m not saying that the IMF economists are top of the world or the most sophisticated or whatever, but it was a huge difference between European Union executives and IMF staff.

YPFS: Well, because the IMF has done interventions in other economies, even though not I may not have my months straight here, not in an advanced economy like Greece’s, although maybe Ireland’s ...

Pantelias: They dealt with European jurisdictions, as you pointed out like Greece and Ireland or Portugal, at a later stage, that they required a different rule of intervention, certainly not the instrument of devaluation. They could not correct trade balance deficits through mechanisms that they have been considering in other parts of the world.
They also had to learn a lot about European institutions. I’m going to come to this in a little while, especially when we discuss about banks. But they definitely had expertise in terms of financing, and they definitely had expertise in terms of producing market reforms.

I’m saying this and if you think it’s a criticism, please be my guest. The European Commission, although it appears to be an executive body, honestly it may be subjected to political pressure by national governments, by local politicians. It’s not immune. So we understood there were a lot of jurisdictions at that time within the European Union that did not trust the European Commission completely. So they needed someone more independent like the IMF.

These two agencies were accompanied by the European Central Bank. The European Central Bank has a much, much different mandate. As a matter of fact, it has a mandate which does not necessarily resemble to that of the Federal Reserve.

YPFS: Can you explain that a little?

Pantelias: First of all, they have an agenda which is exclusively driven by inflation. They have a very strict rule book about monetary operations, even about their own involvement in extraordinary cases like the Greek one. To give you an example, anything that may directly or indirectly qualify as monetary debt financing, it’s a no-go for them. It’s something that cannot fly on legal and operational terms.

Their participation was more or less related to supporting discussions and policy making in banking reform agenda in terms of solvency and liquidity. They would be less involved in fiscal affairs and other kind of macroeconomic consultations.

YPFS: Okay. As we’re in 2010, with that first package, you’re still in the private sector, but you’re going to, if I understand correctly, by 2011, move over to the Bank of Greece. Dealing with this package is going to be part of your remit. Can you discuss your perceptions of the effectiveness of this bailout and the structure, whether it could have been structured differently ... then I'll move onto the securities market program.

Pantelias: Several things happened in between. In 2010, after the announcement of the intervention of the IMF, the EC, and the ECB, for a period of approximately four to six months, there was some optimism. Markets had rebounded, sovereign yields had declined, because as you also point out, the ECB also actively intervened in secondary markets. And that was something that helped.

But honestly, even being outside the Bank of Greece at that time, we could understand that what was going on was not enough. We were counting the numbers. We were looking at the effects of budget deficits upon public debt.
And if you start at the end of 2009 with a budget deficit of 15% of GDP and a little bit more, you cannot move to primary balances within a year or two. So you will be accumulating debt.

At the same time, you have the so-called snowball effect. You have austerity measures, which means recession. Recession implies that the denominator in the debt-to-GDP ratio is going to be deflated. So, the ratio becomes larger and larger.

So it was generally anticipated that something more is going to be required, and indeed politicians started discussing the possibility of having what it was finally called a PSI [private sector involvement], which is basically, introducing a haircut upon the outstanding balance of Greek government bonds. In mid-2011, they talked about 20%. Very soon they figured out that this 20% was not sufficient, so the final haircut was 50%.

So that meant a second program, a second fiscal adjustment program, an MEFP, Memorandum on Economic and Financial Policies, because on top of the money you’re going to need for inducing equilibrium to fiscal affairs and GDP developments, you also need a major package for the financial sector if you are to preserve financial stability.

So according to the first adjustment program in 2010, there was an amount of 10 billion [euros] devoted to the restructuring and/or resolution of Greek banks. It was never utilized. It was not required at that time. The second program, the one which became Greek Law in 2012, included a financial envelope of 50 billion euros. Why? Because technically speaking, the vast majority of the Greek banking sector was insolvent. And when we say insolvent, we take under consideration losses in Greek government bonds as well as the growing credit losses associated with their loan books because of the recession. In reality we had banks with very little equity or some banks with negative equity. The situation was not just dramatic, it was unprecedented.

At that time, the Bank of Greece, in cooperation with the other three main institutions, all of us, we had the key role of designing and implementing a comprehensive reform agenda for the Greek banking sector. Now I may work for the Bank of Greece, but if you see my business card, below the title Bank of Greece, it says, part of the Euro system. Legally, we are a Greek registered legal entity, but in terms of the rule book, in terms of the operations, in terms of everything we do, this is done at the Euro system level. At that time, it was strictly monetary operations. Now it is monetary operations and supervision.

We had a certain lack of know-how at that time. We also had lack of resources. Together with the ECB, the European Commission, and the IMF, we had to work out reform structures for the very first time.
YPFS: And the we at this point is the Bank of Greece and who else?

Pantelias: It was primarily the Bank of Greece and what we called at that time, the Troika. The IMF, European Commission, and the ECB.

Of course, at the end of the day politicians legislate and politicians produce a set of policies. Sometimes they also have to be involved in their implementation, but when it comes to financial sector reforms, we had the prime responsibility, in cooperation with the government, to draft a set of policies that made sense in terms of producing reforms. This is where my personal involvement begins.

YPFS: Okay.

Pantelias: At that time, end of 2011, beginning of 2012, we asked ourselves two simple questions. One, how much money Greek banks were going to need, not only because of current loss at that time, but also because of projected loss in the years to come. To give you an example, when I joined the bank end of 2011, at that time, the macroeconomic forecast for GDP decline in 2012, it was something like 3.5 to 4%. It turned out to be 7.5%.

YPFS: Ouch.

Pantelias: It was expected that the economy would rebound in 2013, it slightly rebounded in 2014. So as central bankers, being by definition conservative, we drafted a comprehensive framework of calculating recapitalization losses, in particular, losses associated with the PSI as well as estimates of three-year and lifetime expected losses in banks’ loan books.

We utilized a third party, at that time it was BlackRock, to provide an independent report on expected three-year and lifetime losses, per asset class, year etc. And then we took on board these estimates in order to produce a stress test exercise, in order to calculate potential capital adequacy shortfalls in the years ahead of our exercise.

Now that was one part of the exercise. The other part was, okay, now we have calculated a set of numbers, for each individual bank, how much money they need if they are to be solvent. Solvent, not only right now, but in a dynamic sense, say for the next three years at least. Will the private sector cover it? No way. Especially if you look at the banks with negative equity, there’s no possibility.

You have a troubled economy. You have, at that time, sovereign yields north of 25%, despite the haircuts. Greece honestly is not investable. So, we know that government support, the 50 billion financial envelope, is going to be required.
So you have to ask yourself some basic questions, will this government support be open to everybody? Well, I'm afraid the answer is no. Some banks are going to survive. Some other banks have to be resolved. If they are considered to be sustainable in terms of certain quality and quantity characteristics, fine, give them public support. If they cannot demonstrate these particular characteristics, sorry, they cannot have a license, they have to be shut down.

So the second part of the exercise was to produce a framework, which included something that we call the viability assessment, and then to proceed with policy implementation, i.e., certain banks are going to be recapitalized with public support, the rest are going to disappear.

It must be stressed that those banks that disappeared, they disappeared with public support. That was one of the key elements that we prioritized from the very beginning. At that time, we only had one request: That all depositors were going to be protected. In terms of financial stability considerations, we could never let any depositor, regardless of size, characteristics or whatever, incur loss. In terms of preserving local liquidity and confidence to the domestic banking system, we had to protect deposits, and deposits were protected 100% regardless of size. So that meant that in certain cases, if banks were shut down, the government paid the difference between net assets and the full range of deposits, to fully compensate for a balanced statement between assets and liabilities.

**YPFS:** Okay. I want to clarify, is this program the same as the Hellenic Financial Stability Fund or different?

**Pantelias:** The Hellenic Financial Stability Fund comes at the second stage.

**YPFS:** Ah, okay.

**Pantelias:** What is the issue now? You have government support, and in order for that support to be provided, there has to be certain remuneration, according to European state aid rules. So, the Greek State had to receive equity. At the same time, institutions and the Bank of Greece preferred the Greek government not to be a shareholder of Greek banks.

We wanted to maintain private sector management, private sector control. We didn't want politicians to produce administered solutions aimed at specific market segments or whatever. We wanted Greek banks to be as much as possible remote from the government. So the HFSF [Hellenic Financial Stability Fund] was set up. It may be a 100% owned by the government in terms of the initial equity, but the operations of the HFSF and the very decisions of the HFSF are driven under the monitoring of the European Central Bank, the European Commission, and the IMF at that time.
So it was something which was somewhat disassociated from the Greek government. The HFSF never had any say in whether they would be investments in banks or how much they would be investing. We had the legal responsibility to decide which bank, and how much it's going to get. The HFSF had, according to the second adjustment program, restricted voting rights. However, they also had certain rights in terms of monitoring operations of each bank they participated, overseeing certain activities, especially in terms of credit risk management and internal audit, and definitely introducing corporate governance that would upgrade the efficiency and the know-how of the executive and non-executive management of each bank. So they had a very clear mandate. I'm not saying whether it was a strong or weak mandate, but it was clear, it was disassociated from the government. And it had to obey certain rules. Rules, which were defined by EU standards—and I know it sounds bad, but not by local politicians.

YPFS: How does this effort you're talking about on the stabilization of the banks, etc., fit in with the second international bailout in 2012 and its consequences? Are there lessons from the first international intervention that carry through here?

Pantelias: There is definitely a much, much better understanding in terms of what has to be done. At the same time, policymakers, and by policymakers I include in the definition both Greeks as well as international execs, they do understand certain limitations about the capacity of the local political system, as well as capacity to produce reforms.

To give you an example, they had a lot of things that they felt they could be done, but at the same time, you say, okay this policy has within four years, induced a decline of GDP 27%! In our years, this is worse than the great recession!

You know that in terms of enhancing markets, liberalizing markets removing barriers to entry etc., there is a certain lack of know-how as well as there is resistance from certain interest groups. So, there is better understanding at that time, there is still some overperformance or underperformance, but the second program is definitely more focused and much, much better thought out. That's why it starts producing results.

YPFS: Okay.

Pantelias: I mean, in 2014, Greece produces a primary budget surplus. Markets have recovered, equities have gone up, Greek debt yields have been dramatically reduced. Things started looking better.

YPFS: And then?
Pantelias: And then we have elections in early 2015. We have a change in government. We have an unprecedented first half of 2015, unprecedented!

YPFS: In what way?

Pantelias: In a way that the country was dealing with an impossible situation. I mean, an absence of negotiation and consultation between Greek politicians at that time and European politicians, as well as the IMF. It was going nowhere, and everybody who is in that kind of business is very well aware that it would go nowhere, since there was no possibility that the Europeans would step back and abort program implementation as it was requested by the Greek government at that time.

Thus, we get to the events of summer of 2015. We have a series of unfortunate events, including a rather peculiar referendum which was never implemented. In the referendum, Greek voters backed refusing another EU deal. Moreover, we have the unfortunate imposition of capital controls as well as a two-week bank holiday. From a central bank's point of view, the very things that we had been working all these years to avoid, this is exactly what we were facing in the summer of 2015. Including the possibility of having a Grexit...

YPFS: I was going to go there. That becomes serious international speculation at the time—that Greece could exit the EU. It didn't happen. But from the Greek perspective, from the Bank of Greece perspective, how real was the possibility, and would Greece have been better able to navigate its problems without the eurozone? Why or why not.

Pantelias: Look, to exit the eurozone—I would not rule out the possibility of having a war in Greece. I am afraid it could be that bad. Greece was not prepared to make the transition from a hard currency to a weak currency. There was a lack of institutions. There was a public debt that even in the remote possibility, that there would be an official sector haircut, it would still be unsustainable.

Greece is a country that in terms of productive capacity in primary and secondary sectors, it relies so much on CapEx [capital expenditures] and imports associated with private investment. I would think that we would follow the track to what other Balkan States went through during the '90s. And as a matter of fact, this is exactly what politicians thought at that time.

And although they had a referendum decision not to accept the European terms, they finally went back to Europe and they negotiated a deal with more fiscal measures compared to the one that they demonstrated during the referendum. It was well understood that it was a situation simply non-manageable.

A lot of unfortunate things have happened in Greece over the last 12 years or so. A lot of these things should not have happened. It took years for a large
amount of the population to understand that the European union is not a country, it is a union of several jurisdictions with their own parliaments, their own taxation systems. So, for a Greek resident, to ask a Dutch or a German or a Spaniard to pay for someone else’s debt—it cannot fly. We have to pay for our debts. Unfortunately, we learned the hard way, and we could have subjected ourselves to less recession, less pain. At least the right decisions were taken, better late than never.

From a central banking point of view, there was a tremendous impact upon depositor confidence. And this is exactly what we observed the very same night the referendum was announced, with tens of thousands of people running at ATMs trying to withdraw their liquidity. It was detrimental that a bank holiday was imposed for two weeks in a row. And then, once they re-opened, people were allowed to withdraw 60 euros per day.

I'm so happy this thing is six years behind us.

YPFS: Just to clarify, that 60 euros, could I also write a check to the electric company or does that have to come out of my 60 euros?

Pantelias: No, no. The sixty euros restriction always associated with cash balances. Yes, you could transfer money from one Greek bank to another Greek bank but not abroad. You had no restrictions to your credit cards for domestic transactions. In international transactions, it was likely that domestic credit cards could be rejected.

If there were a Greek Amazon, there would have been no problem, but to order from the American or the English Amazon, no. There were also FX [foreign exchange] restrictions if you were to travel abroad. But indeed, you could pay your bills. You could transfer money from one Greek bank to another Greek bank. You could not withdraw liquidity. You could not withdraw cash. The very last restrictions were lifted in 2019, it took us four years to fully restore confidence.

YPFS: So there you are in 2015, there's going to be third international bailout. IMF doesn't participate because it wants restructuring that it's not going to get. How is this one different? Again, what lessons do we have, besides don't shut the banks down for two weeks? How's this one different, how do we build on the experience?

Pantelias: Given that Europeans decided that they would not abandon Greece, although at that time in 2015, there were indeed some voices within Europe that we should part ways. They came back. As you pointed out, the IMF did not participate for several reasons. They also had disagreements with the policy mix at that time, they felt that there should be some sort of debt relief.
measures associated with government debt from one government to the other, not their balances, but the EU balances.

At that time, the third program was more or less designed to introduce some additional reforms, relatively limited fiscal measures, relatively limited, compared to what we had gone through in 2012, 2013. And gradually, to improve financial stability considerations and work out an agreement with Greece about what Greece is going to do when this three-year program was going to be over.

They did not press the Greek government excessively. Maybe they had concerns about the repercussions of additional fiscal adjustment. To some extent it was successful, but from a financial sector point of view, we felt that they should have pressed for more reforms.

YPFS: Such as?

Pantelias: Look, when you look at Greek banks, you basically look at four institutions. We used to supervise 18. Now there are four. And a few very, very small banking operations. In terms of solvency, in terms of liquidity, they have improved considerably. They are basically sound. They basically look good. But they have problems in two key metrics from where we stand.

One is associated with asset quality. They have a massive amount of non-performing loans, which is basically a legacy problem from the past. And the second problem, which is entirely a Greek phenomenon. It’s a weird thing which is called DTC.

YPFS: Which is?

Pantelias: We have become growingly vocal about Deferred Tax Credits (DTC) over the past three years, but as we stand, there’s a problem. You have a significant chunk of regulatory capital which has not been paid. Now, I apologize if I’m going to sound a little bit technical, but let’s see what this situation is all about. Well, you have deferred tax assets all over the world, all kind of enterprises, financial, non-financial, whatever.

At some point in time, 2013, European lawmakers, correct me if you have to. They said, "Okay, guys, banks in Europe can have as much DTAs as they want. They are not going to count as part of regulatory capital.

YPFS: And DTA is deferred tax asset?

Pantelias: Yeah.

YPFS: Okay. DTC, again...
Pantelias: Deferred tax credit. So, in 2013, European law says, DTAs have to be deducted from capital. Good, unless you can transform these DTAs to something that is going to be triggered both in cases of profits or in cases of loss. Fine, that sounds decent. I mean, my P&L cannot be a flat line, sometime I’m going to have profits, sometime I’m going to have losses. These assets are going to offset gradually.

Well, in the case of Greek banks, there was so much loss accumulated that this amount became excessive. And at the same time, after the accumulation of these DTCs, Greek banks did not wish to post losses. Why? Because if they were to post losses according to local law, they would trigger a series of rights issues, which would be exclusively subscribed by the Greek government, therefore they would be nationalized.

So you have a case of banks trying to produce a flat line in terms of net income, and this has been the case over the last six years. And you have a growing proportion of these deferred tax credits within the regulatory capital, about 50%-plus of regulatory capital. From a supervisory perspective, it is a problem. It doesn’t get any more problematic than this.

YPFS: And this is the current state of affairs.

Pantelias: Yes.

YPFS: Here in 2021.

Pantelias: Yes.

YPFS: I’m going to want to jump back chronologically before we get into some of the more current things. So, before we get to the current world, one thing I want to get you to comment on specifically from the past was the Securities Markets Programme with the ECB. Did that have any impact from a Greek perspective? That’s where the EU buys the securities.

Pantelias: That was a support mechanism introduced in 2010. It only lasted for a few months.

YPFS: Okay.

Pantelias: Because very quickly, in terms of sovereign ratings, Greek banks could not qualify according to Euro system rules. The Greek government bonds which were purchased by the ECB were not subjected to a haircut. However, given that the ECB purchased these bonds for certain institutional reasons, like support, it was an agreement that all accruals or any kind of capital gain associated with these Greek government securities held by ECB would be directly returned to the Greek government, in order to strengthen fiscal data
to the extent possible. In terms of the numbers, etc., it was significant for a few months.

YPFS: Okay. Let's go back to the more interesting stuff then. So, before the pandemic, and obviously things will change as we go through 2020. But pre-COVID, how close was Greece to financial stability? And as you look back over that decade, '09 to 2019, what was done well, what could have been done differently? Let's look from that point and then we'll go into the more contemporary.

Pantelias: Oh, at the end of 2020 key metrics of Greek banks were satisfactory. They had significant capital adequacy buffers, improving liquidity. They still had weaknesses, like the two key metrics I’ve already mentioned. Although in terms of NPL reduction, there has been significant progress lately. We have not solved the problem, but there is some progress, while there was no progress for several years. And there is a criticism not only by me, but from a lot of people I know that, "Do we have a view about the next day, how we want Greek banks to look like, will they be investing in FinTech, will they be expanding their business? Will they be involved in other banking or non-banking activities? What is going to be the strategy?" They have only recently engaged in discussions about the so-called RRF, which is the Recovery and Resilience Facility. It’s a support mechanism at the EU level to help all jurisdictions to quickly rebound from the negative repercussions of the pandemic.

So banks believe that their participation is going to improve their fundamentals, etc., but in general, there has been a discussion about, "Okay, what is your business case going forward?" But in terms of their picture at the end of 2019, and honestly at the end of 2020, it hasn’t been any different. Okay, they have strong capital adequacy ratios, they have maximum growth liquidity, they have reduced their cost structure substantially. They have eliminated all non-strategic holdings. They have done a great deal of work in terms of restructuring. They have to address the remaining weaknesses.

YPFS: Now, from your position of wisdom here, go back and tell yourself in 2007 or in 2011 lessons you wish you had known. That you can pass along to your next generation.

Pantelias: 2007, from a central bank perspective, honestly, I’m not really sure that more things could be done. Honestly. Now let us disassociate Greek banks from Irish banks or Spanish banks. In the Greek crisis, banks were the victim of the fiscal imbalances. They did not produce a fiscal problem like it was in Ireland, for instance. If you say you know that the beginning point for the Greek problem is 2009. In 2009, Greek banks look much, much better than what they are right now.
They had strong capital adequacy ratios, good asset quality, ample liquidity, significant profitability. That’s why we had 18 banks at that time. There was room and space for most of them to be profitable. You had a significant number of foreign banks operating in Greece, which at that time was an indication that they looked positively at the local market.

We would definitely have done things much, much different after 2011. I strongly believe that Greek authorities, including this one, should have dealt with the non-performing loan problem earlier. Please do not take this as an excuse, but we were way too much occupied with recapitalization, resolution, the restructuring of the domestic banking market as a whole.

And we produced very little in terms of producing a sound framework that supports resolution of private debt. I am afraid we lost time over there. It was also a great experience for us because things that maybe we should have thought about much, much earlier, we had to work out overnight or during weekends. To give you a few examples, to draft resolution laws, to draft laws about strengthening solvency and strengthening a series of capital adequacy measures.

The supervisory function strengthened substantially over these years. We learned a lot from these lessons. Honestly, in supervisory grounds, we’re much, much stronger compared to what we were 10, 12 years ago. We should also have paid attention to corporate governance, including the fit and proper process, much earlier than what we did.

YPFS: **Now let’s come closer to the present day, where you’ve talked about the non-performing loans at Greek banks when the pandemic hit. I know last year, the Bank of Greece had proposed a bad-bank asset management company. Talk a little about that, the status, the goal, the status where we are now on that.**

Pantelias: Our suggested approach is not anticipated to be implemented by the government. The government feels that they have a success story in what is called the Hellenic Asset Protection Scheme. It is basically a process under which Greek banks securitize non-performing loans. The government guarantees the senior parts and therefore these loans are deconsolidated and derecognized.

We think that it helps significantly as a quality metric. I would anticipate that if nothing goes wrong, sometime, most likely in 2022, Greek banks are going to have NPL ratios at single digits, when they had north of 45% up until a couple of years ago. So, to go from 45% down to 7% or 8%, it is really a major step. But at the same time, you have this unfortunate thing of the large portion of deferred tax credits in their regulatory capital, which we think is a major weakness.
At the same time, there is limited liquidity injection associated with these securitizations, because they're basically financial engineering solutions. They're not market-driven transactions. And at the same time, you have something that we have utilized as a lesson from the past. Greek banks suffered from the fiscal problems of the Greek government, because there was what we call a significant nexus between the Greek sovereign and Greek banks.

There was a significant part of exposure in Greek balance sheets, vis-à-vis the Greek government. So if the government had problems, this exposure could become problematic. Now, Greek banks no longer have a lot of Greek government bonds. They have a significant book, but it is not excessive. But if you add to these Greek government bonds the guarantees which are received by the Greek government for the senior notes associated with the Hellenic Asset Protection Scheme; if you also add the exposure associated with deferred tax credits, because this is basically the claim that the bank has against the Greek government, then this reliance of Greek banks to government risk is becoming larger and larger. And this is something that we would like—we would definitely welcome—any meaningful policy suggestion over there, because we do not think it's a viable proposition going forward.

YPFS: **So you're pinpointing there one major and growing risk to the financial stability of your system. As head of the financial stability department, can you pinpoint other risks to stability you see, and then maybe, flip side, are there points where resilience has increased?**

Pantelias: I think that if you talk about risks and vulnerabilities, you have what we just said about the sovereign bank nexus. What we also said about the growing number of DTCs, and a significant part of regulatory capital in virtual form, not paid-up. Finally, there is an additional issue which is not associated exclusively with Greek banks, I think it's basically a practice followed by many European banks. There is a rather timid approach with regard to credit loss associated with the pandemic.

I understand that U.S. banks have been more aggressive on that stance while Europeans, in terms of their financial statements, appear as being in business as usual. Our experience shows, that if you enter a period of significant GDP decline, then credit losses are unavoidable. Actually this is the first lesson I learnt during my presence at the Bank of Greece.

The third item in terms of risks vulnerabilities, proper reflection in financial statements of credit loss associated with the pandemic. I think that they have to be doing much, much work in detail in order to assess these losses, and in order to properly reflect upon their financial statements. Banks may have the luxury of having a series of public support measures in place for borrowers in distress, etc., but honestly, these support measures are not going to be there forever. If you're doing your job at the bank level, you should have your own
sustainability assessment, who is going to make it at the end of the road, and who is not going to make it. Sorry. It's part of your mandate if you work at the bank. I think that these are the three main concerns.

YPFS: **Okay. Is there anything else I should be asking you before I allow you to get back to work?**

Pantelias: About this 10 years, we can talk for days and by the way, if you need the second or third round or whatever, please be my guest. We love having these discussions. There are a lot of things that we could be saying. I think a great deal of discussion should be directed to what the next years are going to look like. I mean, we suggested an AMC [asset management company], but the AMC was only a part of the agenda.

The AMC idea was accompanied by certain structures, which dealt with DTC, with operating profitability, with liquidity injection. We wanted to produce banks that have sustainable quality income in the years ahead. Something that it would improve their investment case. No matter if you talk about equity investors or fixed income investors.

Right now, they benefit because there's so much liquidity around the world. Well, some of this liquidity is getting to Greece, but we would prefer their investment case to be a little bit tangible, not to be liquidity driven.

We recently had a major rights issue at one of the four systemic banks referred to the Bank of Piraeus. It has been a very successful capital market transaction honestly. A transaction which was not anticipated for a series of years.

But it was a transaction which became a success in terms of valuation multiples, and in terms of pricing. We would like to see transactions originated because banks have a story, something that is going to be valued a little bit more expensive by market participants.

YPFS: **Okay. Anyway, I do want to let you wrap up the day. So I'm going to turn off the recording, then go over a few little things.**