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Greece Prolongation of the Support Measures for the Credit Institutions in Greece

European Union: European Commission

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Subject: State Aid N 690/2009 - Greece
Prolongation of the Support Measures for the Credit Institutions in Greece

Sir,

I. PROCEDURE

(1) On 19 November 2008, the Commission approved the Support Measures for the Credit Institutions designed to ensure the stability of the Greek financial system. On 2 September 2009, Greece notified a number of amendments to the support measures and a prolongation until 31 December 2009 that were approved on 18 September 2009.

(2) On 14 December 2009, Greece notified a prolongation of its support measures for the credit institutions in Greece until 30 June 2010, following a number of pre-notification exchanges. The Commission requested additional information that was submitted on 21 December 2009.

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3 On 21 December 2009, Greece also submitted information regarding the restructuring of banks participating in the Recapitalisation Scheme. The Commission will assess this information separately. As already indicated in the Commission decisions in cases N560/2008 and N504/2009, in order to facilitate the work of the Member States and the Commission, the Commission will be prepared to examine grouped notifications of similar restructuring cases, particularly where the aid amounts are relatively small and the beneficiaries can be clearly considered as fundamentally sound. See, for instance, footnote 5 of the Commission decision of 18 September 2009 in case N504/2009.
II. DESCRIPTION

1.1. The original support measures

(3) In response to the exceptional turbulence in world financial markets, Greece brought forward a package of measures designed to ensure the stability of the Greek financial system. The purpose of these measures was to restore confidence and encourage healthy inter-bank lending, through the provision of liquidity, the recapitalisation of the financial sector and provision of a State guarantee to new debt issuance.

(4) The measures consisted of i) a Bank Recapitalisation Scheme ("the Recapitalisation Scheme") whereby the State made available Tier 1 capital to participating institutions by acquiring preference shares in them; ii) a Wholesale funding Guarantee Scheme for debt instruments with a maturity of between three months and three years in return for appropriate remuneration as well as iii) support through the issuance of Greek State special purpose securities to credit institutions, in return for appropriate remuneration, to be used to obtain liquidity from the ECB and the interbank markets ("the Bond Loan Scheme"). Further details on the measures are provided in the Commission's previous Decisions. The various measures are referred to jointly in this decision as "the Schemes".

1.2. The notified measure

(5) Greece intends to prolong the support measures for the credit institutions until 30 June 2010. Greece does not request any amendments to the Schemes. Consequently, the various elements of the Schemes such as, for instance, the overall budget, the beneficiary institutions and all other terms of the schemes already approved by the Commission decisions in State aid cases N560/2008 and N504/2009 remain unchanged.

1.3. Reports on the operation of the Schemes

(6) In line with point 41 of the Banking Communication, Greece has undertaken to report on the operation of the Schemes every six months. Such a report dated 1st December 2009 was submitted to the Commission.4

(7) According to the Greek authorities, the Schemes exhibited satisfactory performance in the first year of implementation. 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.

(8) According to the information submitted by the Greek authorities, which is under assessment by the Commission, there have only been minor amendments to the amounts taken up by the banks since the last report regarding the operation of the Schemes was submitted to the Commission at the end of July 2009.

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4 The Greek authorities provided additional information and clarifications on 21 December 2009. Regarding the previous reporting period, the Greek authorities submitted a summary report on the operation of the Schemes dated 19 May 2009 and a more detailed report dated 24 July 2009.
More specifically, as regards the **Recapitalisation Scheme**, according to the Greek authorities, there have been no further recapitalisations since the amendments introduced to the scheme by Commission decision of 18 September 2009 which provided that any further recapitalisation would take place in line with the provisions of the Recapitalisation Communication⁵ which had been adopted in December 2008 i.e. after the approval of the original Greek scheme. The amount allocated is around EUR 4 billion i.e. around 75% of the total amount available (out of a maximum EUR 5 billion).

Regarding the functioning of the **Guarantee Scheme**, according to the Greek authorities, no new guarantees have been issued. Currently only two banks participate in the scheme, having received the State guarantee for issuing bonds of a total value of EUR 1.5 billion. The fee paid by the banks was calculated on the basis of the Recommendations of the ECB on the pricing of Government Guarantees. Therefore, there has been no increase of the total amount absorbed to date. There has been no default by the banks participating in the scheme and the guarantee has not been called.

In relation to the **Bond Loan Scheme** (the special purpose securities), with duration of up to 3 years, according to the Greek authorities, bonds have been lent to 12 credit institutions and the value of the bonds allocated amounts to EUR 4.567 billion (i.e. around 60% out of the maximum EUR 8 billion available). The collateral offered took mainly the form of corporate loans, mortgage loans and loans to shipping. The value of the new bonds allocated is approximately EUR 127 million.

### III. Position of Greece

The Greek authorities have notified the prolongation of the Schemes as State aid within the meaning of Article 107(3)(b) of the Treaty on the Functioning of the European Union (TFEU)⁶.

The Greek authorities consider that the markets remain under stress and that the economic and financial crisis is still ongoing, exerting continuous pressures in the markets and thus affecting their normal operations.

Taking into account a number of factors such as market demand conditions, the responsiveness of the market to policy stimulus as well as the fragility of the emerging recovery in the financial markets, the Greek authorities consider that a prolongation of the Schemes until 30 June 2010 would enable the restoration of confidence and the normalization of the functioning of the markets. This would

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⁶ With effect from 1 December 2009, Articles 87 and 88 of the EC Treaty have become Articles 107 and 108, respectively, of the Treaty on the Functioning of the European Union. The two sets of provisions are, in substance, identical. For the purposes of this Decision, references to Articles 107 and 108 of the TFEU should be understood as references to Articles 87 and 88, respectively, of the EC Treaty where appropriate.
allow the Schemes, the implementation of which is still under way, to yield the desired results.

(15) The Bank of Greece, in a letter dated 2 December 2009 submitted that the prolongation of the Schemes will help to avoid excessive deleveraging by credit institutions and will enhance the provision of credit to the economy. The Bank of Greece submits that, based on macroeconomic projections, there is an expectation that domestic economic activity is likely to remain subdued at least in the first half of 2010. * […]

(16) Greece thus submits that the Schemes will need to continue until 30 June 2010 in order to provide a safety cushion for the Greek banks. Greece therefore considers that the notified prolongation of the Schemes remains compatible with the internal market pursuant to Article 107(3)(b) TFEU as aid to remedy the continuing serious disturbance in the economy of Greece.

(17) The Greek authorities have committed to including in the future six monthly reports to the Commission recent data on the cost of comparable (nature, volume, rating, currency, etc) non-guaranteed and guaranteed debt issuances.

(18) Greece commits that, in the context of the obligation it undertook to inform the Commission at the moment of each recapitalisation taking place under the scheme about the risk profile of the beneficiary bank so that the Commission can assess its situation and draw consequences regarding the need to provide a restructuring plan (cf paragraphs 16 and 19 of Commission decision of 18 September 2009), it will also ensure the non payment of coupon on hybrid (tier 1 and tier 2) instruments where a bank which needs to restructure has no legal obligation to proceed with such payment.

IV. ASSESSMENT

1.4. Existence of State aid

(19) As set out in Article 107(1) TFEU any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market, save as otherwise provided.

(20) For the reasons indicated in its decisions in the above-mentioned State aid cases N 560/2008 and N 504/2009, the Commission considers that the Schemes constitute State aid. The notified prolongation does not affect that finding. The Schemes remain State aid within the meaning of Article 107(1) TFEU.

1.5. Compatibility of the Schemes

(21) For the reasons indicated in the previous Decisions on the Schemes, the Commission found the Schemes to be compatible with the internal market under

* Confidential information
Article 107(3)(b) TFEU, as they met the relevant criteria of appropriateness, necessity and proportionality.

(22) Given that the notified prolongation makes no change to the substance of the Schemes, it is only necessary to assess whether the finding of compatibility holds true also in view of the prolongation of the Schemes’ validity.

(23) The Commission observes that the prolongation of the Schemes is a response to the continuing financial difficulties that Greece, as most Member States, continues to experience. The information provided by the Greek authorities confirms that the prolongation of the Schemes could function as a safety cushion for certain banks in order to react to market needs.

(24) As a consequence, the prolongation of the Schemes is considered from a competition point of view as appropriate to remedy the serious disturbance of the Greek economy. Regarding the duration of the notified prolongation, the measure will be temporary in nature as it will last until 30 June 2010. Thus any potential distortion of competition will be limited.

(25) In assessing the request for the prolongation of the Guarantee Scheme, the Commission has to consider the distortions of competition and the delay in the return to a normal functioning of the financial markets that the prolongation entails. The Scheme should contain minimum exit incentives, and a gradual alignment to market conditions should take place in order to minimise negative spill-over effects on competitors and other Member States.

(26) The evolution of the market situation and the reduction of the risk premia for unguaranteed debt have brought about a first step towards an alignment with market conditions, whilst providing an exit incentive for the sounder institutions. While more convergence towards market conditions may be necessary to further reduce distortions across banks in the internal market and avoid the risk of State aid dependence, the still fragile recovery suggests that banks should retain for the time being the possibility of accessing government schemes at the present conditions.

(27) In addition to the above, Greece committed to complementing its future reports with updated available data on the cost of comparable (nature, volume, rating, currency, etc.) non-guaranteed and guaranteed debt instruments. This will allow the Commission to assess the appropriateness, necessity and proportionality of potential prolongations of the Guarantee Scheme and its conditions after 30 June 2010. Any further prolongation will require the Commission’s approval and will have to be based on a review of the developments in financial markets and the Guarantee Scheme’s effectiveness.

(28) On the basis of the above, the Commission considers that the notified prolongation of the Greek support measures until 30 June 2010 in the present conditions is compatible with the internal market.

(29) The Commission notes that, as indicated in the Annex to the Restructuring Communication, any restructuring plan should contain all State aid received as individual aid or under a scheme during the restructuring period and all such aid needs to be justified as satisfying all criteria prescribed by the Restructuring Communication (i.e. return to viability, own contribution by the beneficiary and
limitation of competition distortion). Accordingly, once a Member State is under an obligation to submit a restructuring plan for a certain aid beneficiary, the Commission needs to take a view in its final decision as to whether any aid granted during the restructuring period satisfies the criteria required for the authorisation of the restructuring aid. To this end an individual ex ante notification is necessary.

(30) Furthermore, the Commission recalls that, based on paragraph 16 of the Restructuring Communication, if aid not initially foreseen in a notified restructuring plan is necessary for the restoration of viability, this additional aid cannot be granted under an approved scheme but needs to be subject to individual ex ante notification and any such further aid will be taken into account in the Commission’s final decision on that bank.

V. DECISION

The Commission finds that the Schemes constitute State aid within the meaning of Article 107(1) TFEU.

Since the Schemes satisfy the conditions for aid under Article 107(3)(b) TFEU, they are compatible with the internal market. The Commission has accordingly decided not to raise any objections to the prolongation of the Schemes until 30 June 2010.

The Commission notes that Greece has formally accepted that the decision be adopted in the English language.

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European Commission  
Directorate-General for Competition  
State Aid Greffe  
Rue Joseph II, 70  
B-1049 Brussels  
Fax No: +32-2-296 12 42

Yours faithfully,  
For the Commission

Neelie Kroes  
Member of the Commission