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

European Union: European Commission

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Subject: State Aid – N 260/2010 - Greece
Extension of the Support Measures for the Credit Institutions in Greece

Sir,

I. PROCEDURE

(1) On 19 November 2008\(^1\), the Commission approved the Support Measures for the Credit Institutions designed to ensure the stability of the Greek financial system (hereinafter referred to as the "Original Decision"). 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 25 January 2010\(^3\), the Commission approved a second prolongation of the support measures until 30 June 2010. On 12 May 2010, the Commission approved an amendment to the Guarantee Scheme\(^4\).

(2) On 18 June 2010, Greece notified the extension of the support measures until 31 December 2010. The Greek authorities have exceptionally accepted that the Commission decision be adopted in the English language.

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II. DESCRIPTION

1.1. The original support measures

(3) In November 2008, 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 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 ("the Guarantee Scheme") 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. 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. Operation of the Schemes up to 16 June 2010

(5) According to the Greek authorities, the Schemes have made an important contribution to providing a safety net that corresponds well to the market's needs.

(6) 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. The total amount granted is EUR 3.769 billion i.e. around 75% of the total amount available (EUR 5 billion). The remainder, EUR 1.231 billion, is allocated but not yet granted.

(7) Regarding the functioning of the Guarantee Scheme, an amount of EUR 26.979 billion has been granted in the form of guarantees i.e. around 90% of the total amount available (EUR 30 billion, after the increase of the budget on 12 May 2010 by EUR 15 billion). The remainder, EUR 2.898 billion is allocated but not yet granted. An amount of EUR 123 million has been transferred from the budget of the Guarantee Scheme to the Bond Loan Scheme's budget.

(8) In relation to the Bond Loan Scheme (the special purpose securities), the amount of EUR 7.591 billion has been granted in the form of bond loans i.e. around 93% of the total amount available (after the transfer of EUR 123 million from the budget of the Guarantee Scheme, the maximum amount available is EUR 8.123 billion). The remainder, EUR 532 million, has been allocated but not granted.

5. According to the report of the Greek authorities on the unguaranteed issuance between 1 January – 31 May 2010, there have been 11 issuances of unguaranteed debt for a total amount of around EUR 9.4 billion.

6. The possibility of transfer from the budget of the Guarantee Scheme to the budget of the Bond Loan Scheme is provided in the Greek Law "For the enhancement of liquidity of the economy in response to the impact of the international financial crisis".
1.3. The notified prolongation and amendments

(9) Greece intends to prolong the Schemes until 31 December 2010. The Greek authorities commit that all the conditions taken in the context of the Commission's decisions in State aid cases N560/2008, N504/2009, N690/2009 and N163/2010 remain unchanged with the exception of the following:

Amendments to the Guarantee and the Bond Loan Schemes

Budget

(10) On 3 May 2010, Greece agreed with the International Monetary Fund, the European Central Bank and the European Union on a EUR 110 billion rescue package. This agreement also envisages additional measures regarding the provision of liquidity by means of an increase of the ceiling of the Guarantee Scheme. On 12 May 2010, the Commission approved an increase of the ceiling for the Guarantee Scheme from EUR 15 billion up to EUR 30 billion.

(11) Greece intends to further increase the ceiling for the Guarantee Scheme from EUR 30 billion up to EUR 55 billion. Consequently, the global budget of the Schemes will increase from EUR 43 billion to EUR 68 billion.

(12) The new budget allocated will be distributed between credit institutions under the same criteria provided for in the Original Decision. The Greek authorities indicated that if there are unused allocated amounts of the notified budget, a new allocation may be carried out according to the same criteria.

Remuneration

(13) Under the proposed modification of the Guarantee and the Bond Loan Schemes, the fees payable for eligible liabilities incurred under the Guarantee and the Bond Loan Schemes from 1 July 2010 onwards will increase to at least the following levels above the pricing formula recommended by the ECB in October 2008:

- 20 basis points for participating institutions with a rating of A+ or A8,
- 30 basis points for participating institutions rated A-9, and
- 40 basis points for participating institutions rated below A-.

Participating institutions without a rating will be considered to belong to the category of banks with a BBB rating.

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7 According to the allocation mechanism indicated in point 22 of the Original Decision, the amounts will be distributed between financial institutions based on the following criteria:
- the liquidity and capital adequacy position of the financial institution and the likelihood its capital adequacy to be affected. The weighting of this criterion is set at 0,5 of the total evaluation;
- the size of the credit institution as derived by its market share in the general financing of the economy, as well as its importance in maintaining financial stability. The weighting of this criterion is set at 0,3 of the total evaluation;
- the size of the residual maturity of the financial institution's liabilities until 31/12/2009. The weighting of this criterion is set at 0,3 of the total evaluation;
- the contribution of the credit institution in financing small- and medium-sized enterprises and residential loans. The weighting of this criterion is set at 0,1 of the total evaluation.

8 Or A1 and A2 depending on the rating system employed.

9 Or A3 depending on the rating system employed.
Viability review

(14) Greece undertakes to present a viability review for every bank that is granted guarantees on new or renewed liabilities as from 1 July 2010 and for which at the time of the granting of new guarantees the total outstanding guaranteed liabilities (including guarantees accorded before 1 July 2010) exceed both a ratio of 5% of total liabilities and the total amount of EUR 500 million. The viability review will be communicated to the Commission within three months of the granting of guarantees and will comply with the principles set out in the Restructuring Communication\(^{11}\). In particular, it will cover the solidity of the funding capacity of the bank concerned; where necessary and in any event where requested by the Commission in case of doubt, a liquidity stress test will be carried out. No separate viability review has to be presented for banks that are already in restructuring or obliged to present a restructuring plan or subject to a pending viability review at the time new guarantees are granted.

Reporting obligations

(15) In addition to the existing commitments concerning reporting obligations, Greece undertakes to submit to the Commission a concise mid-term review on the operation of the Guarantee and the Bond Loan Schemes by 15 October 2010 at the latest.

Recapitalisation Scheme

(16) Greece undertakes to present a restructuring plan (or update the existing restructuring plan) for banks that need a second recapitalisation measure.

III. POSITION OF GREECE

(17) The Greek authorities have notified the prolongation and the amendments to the Schemes as compatible State aid within the meaning of Article 107(3)(b) of the Treaty on the Functioning of the European Union (TFEU)\(^{12}\). According to the Bank of Greece, the further increase of the ceiling for the Guarantee Scheme by a total of EUR 25 billion is necessary in the current macroeconomic conditions and in light of the rescue package approved.

(18) According to the Greek authorities, the extension of the Schemes would prove beneficial for the restoration of confidence and the normalization of the functioning of the markets, taking into account a number of factors such as market demand conditions and responsiveness of the market to policy stimulus.

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\(^{10}\) In the case of divergent assessments by different rating agencies the relevant rating for the calculation of the fee increase should be the higher rating. The material time for the rating in the determination of the guarantee fee is the day on which the guarantee is granted in relation to a specific bond issuance by the beneficiary.

\(^{11}\) OJ C 195, 19.8.2009, p.11, point 8 in conjunction with section 2.

\(^{12}\) 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 TFEU should be understood as references to Articles 87 and 88, respectively, of the EC Treaty where appropriate.
More specifically, according to the Bank of Greece, up to 18 June 2010, almost the total amount of the additional EUR 15 billion approved on 12 May 2010 has been allocated and recommended to the beneficiary credit institutions. However, the recent downgrade of the sovereign by Moody's and possible further downgrades of banks as well as the continuation of deposit withdrawals create a need for additional liquidity support. Therefore the provision of additional liquidity to the banking system totalling EUR 25 billion is needed.

Greece undertakes to present a restructuring plan (or update the existing restructuring plan) for all banks that require a second recapitalisation.

IV. ASSESSMENT

1.4. Existence of State aid

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.

For the reasons indicated in its decisions in the above-mentioned State aid cases N 560/2008, N 504/2009, N 690/2009 and N 163/2010, the Commission considers that the Schemes constitute State aid. The notified prolongation and amendments do not affect that finding. The Schemes remain State aid within the meaning of Article 107(1) TFEU.

1.5. Compatibility of the Schemes

For the reasons indicated in the previous Decisions on the Schemes, the Commission found the Schemes to be compatible with the internal market under Article 107(3)(b) TFEU, as they met the relevant criteria of appropriateness, necessity and proportionality.

Although access to funding and capital for banks has gradually improved in most markets over the past year and is no longer a systematic and generalized problem, markets have not yet fully returned to entirely normal functioning. Against this background and taking into account the specific situation of the Greek economy and banking sector, the continuation of the Schemes can be deemed necessary to ensure financial stability as confirmed by the Bank of Greece.

The Commission therefore considers that the prolongation of the Schemes for a further six months is appropriate and necessary to remedy a serious disturbance of the Greek economy.


As regards the specific features of the Guarantee and Bond loan Schemes, in assessing the request for the prolongation the Commission has to balance its positive effects for financial stability with the distortions of competition and the delay in the return to a normal functioning of the financial markets that the prolongation entails. The schemes 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.

(28) The gradual stabilization of the market situation in some Member States and the resulting reduction of the risk premium for unguaranteed debt in some markets have brought about a first step towards an alignment with market conditions, whilst providing an exit incentive for the sounder institutions. It is necessary to minimise distortions across banks in the internal market and avoid the risk of State aid dependence. There should therefore be an adjustment of the terms on which banks may retain for the time being the possibility of accessing government guarantees schemes.

(29) On the basis of these considerations, the prerequisites for the compatibility of guarantee schemes with Article 107(3)(b) TFEU that have been established by the Banking Communication13 and the Commission's subsequent decisional practice continue to apply but need to be complemented by requirements aimed at achieving two objectives.

(30) First, banks should be incentivized to scale down or terminate their recourse to government guarantees by means of pricing rules that bring the funding costs of beneficiary banks closer to market conditions and thereby reduce distortions of competition. This should be achieved by an increase in the guarantee fee14 in comparison with the ECB recommendations of October 2008 that amounts at least to 20 basis points for banks with a rating of A+ or A15, 30 basis points for banks rated A-16, and 40 basis points for banks rated below A-17.

(31) Second, the use of guarantee schemes should not enable banks with structural weaknesses in their business models to postpone or avoid the necessary adjustments. To this end, the Member State concerned should present a viability review for any bank that requests new guarantees under a scheme which take or keep the total amount of the bank's outstanding guaranteed liabilities above 5% of the bank's total liabilities and above the absolute amount of EUR 500 million. The viability review should be presented on the basis of the parameters established in the Restructuring Communication within three months of the granting of the guarantees18. The viability review will either confirm the bank's long-term viability without State support or show that further-reaching restructuring is required.

(32) In addition, the Commission notes the increase in the ceiling of the Guarantee Scheme is a response to the liquidity constraints the Greek banking sector is still facing, as illustrated by the Bank of Greece. This situation justifies the provision of additional liquidity to the banking system totalling EUR 25 billion.

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14 For liabilities of all eligible maturities.
15 Or A1 and A2, depending on the rating system employed.
16 Or A3, depending on the rating system employed.
17 Banks without rating will be considered as having a BBB rating.
18 Except where the bank concerned is already in restructuring or subject a pending viability review on the basis of a restructuring or viability plan; in those circumstances the award of additional State aid will be assessed within the framework of the ongoing restructuring/viability review process.
The Greek authorities commit to increase the fees for guarantees and bond loans under the respective schemes in line with the requirements as regards the phasing out of guarantee schemes\(^{19}\). Moreover, the required presentation of the viability review is also included. Thus, the Commission considers that the notified prolongation and amendments until 31 December 2010 of the State Guarantee and bond loan Schemes complies with the requirements set out above and is compatible with the internal market.

As regards the combination of the Schemes with other aid measures, as indicated in the Annex to the Restructuring Communication\(^{20}\), 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 restructuring aid. To this end an individual *ex ante* notification is necessary.

Furthermore, the Commission recalls that based on point 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.

In addition to the above, Greece agrees to provide the Commission with a concise mid-term review of the operation of the Guarantee and the Bond Loan Schemes by 15 October 2010 in addition to the pre-existing reporting requirements and to complement its future reports on the operation of the scheme with updated available data on the cost of comparable (nature, volume, rating, currency, etc.) non-guaranteed and guaranteed debt issuances. This will allow the Commission to assess the appropriateness, necessity and proportionality of possible further prolongations of the scheme beyond 31 December 2010 and the conditions for such prolongations. 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 scheme's effectiveness.

The Commission notes that the extension of the Schemes would prove beneficial for the restoration of confidence and the normalization of the functioning of the markets, taking into account a number of factors such as market demand conditions and responsiveness of the market to policy stimulus. In particular, the extension of the Recapitalisation Scheme is necessary as a safety net to provide banks with an additional buffer to deal with potential capital shortfalls and preserve the financial sector soundness.

The prolongation and the amendments notified by the Greek authorities on 18 June 2010 are a response to the difficulties that Greek banks have to deal with,


in order to restore confidence. The Commission notes that the Schemes are, under current circumstances, vital for the credit supply to the economy and financial stability. Moreover, the Commission notes that the Greek Schemes will expire at the end of December 2010.

(39) If the Greek authorities wish to prolong the schemes after this date, they will have to notify this separately to the Commission which will assess at that stage the terms and conditions for the prolongation.

(40) As a consequence, the prolongation and the amendments to the Schemes are considered from a State aid point of view as an appropriate, necessary and proportionate means to remedy the serious disturbance of the Greek economy.

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 objections to the notified prolongation and amendment to the Schemes until 31 December 2010.

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

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Yours faithfully,
For the Commission

Joaquín ALMUNIA
Vice-President of the Commission