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Greece Fourth extension of the Support Measures for the Credit Institutions in Greece

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EUROPEAN COMMISSION

Brussels, 21.12.2010
C(2010) 9453 final

Subject: State Aid SA.31998 (2010/N) - Greece
Fourth extension of the Support Measures for the Credit Institutions in Greece

Sir,

I. PROCEDURE

- (1) On 19 November 2008¹, 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 2009². On 25 January 2010³, 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 Scheme⁴. On 30 June 2010, the Commission approved a number of amendments to the support measures and an extension until 31 December 2010⁵.
- (2) On 26 November 2010, Greece notified the extension of the support measures until 30 June 2011. On 8 December 2010, the Greek authorities exceptionally accepted that the Commission decision be adopted in the English language.

¹ See Commission decision of 19 November 2008 in State Aid N 560/2008 "Support Measures for the Credit Institutions in Greece", OJ C 125, 05.06.2009, p. 6.

² See Commission decision of 18 September 2009 in State Aid N 504/2009 "Prolongation and amendment of the Support Measures for the Credit Institutions in Greece", OJ C 264, 06.11.2009, p. 5.

³ See Commission decision of 25 January 2010 in State Aid N 690/2009 "Prolongation of the Support Measures for the Credit Institutions in Greece", OJ C 57, 09.03.2010, p. 6.

⁴ See Commission decision of 12 May 2010 in State Aid N 163/2010 "Amendment to the Support Measures for the Credit Institutions in Greece", OJ C 166, 25.06.2010, p. 2-3.

⁵ See Commission decision of 30 June 2010 in State Aid N 260/2010 "Extension of the Support Measures for the Credit Institutions in Greece", OJ C 238, 03.09.2010, p. 3.

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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 those 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 8 November 2010

- (5) On 11 November 2010, the Greek authorities submitted the mid-term report on the operation of the Schemes prepared by the Bank of Greece.
- (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 27.9921 billion has been granted in the form of guarantees i.e. around 51% of the total amount available of EUR 54.877 billion⁶. The remainder, EUR 26.8849 billion is still available for use. According to the Greek authorities, the amount available following the budget increase approved on 30 June 2010 (i.e. EUR 25 billion) has not been used up to the reporting date.
- (8) In relation to **the Bond Loan Scheme** (the special purpose securities), the amount of EUR 7.591 billion has been approved and made available to beneficiary banks in the form of bond loans i.e. around 93% of the total amount available (EUR 8.123 billion).

⁶ The total budget of the Guarantee Scheme includes the initial budget of the Original Decision (EUR 15 billion), the increase in the budget carried out on 12 May 2010 (EUR 15 billion), the increase in the budget carried out on 30 June 2010 (EUR 25 billion), except the amount of EUR 123 million which has been transferred from the budget of the Guarantee Scheme to the Bond Loan Scheme (see Commission decision of 30 June 2010 in State Aid N 260/2010, para. 7-8).

III. POSITION OF GREECE

- (9) 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").
- (10) Greece intends to prolong the Schemes until 30 June 2011. 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, N163/2010 and N260/2010 remain unchanged.
- (11) According to the Greek authorities, the extension of the Schemes should 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 the fiscal difficulties of Greece, the current market demand conditions and the responsiveness of the market to policy stimulus.
- (12) According to the Bank of Greece, although there has been some improvement during the last few months in the ability of the banks to access financial markets, the banking system continues to face funding problems. The liquidity squeeze on Greek banks forced them to curtail their credit expansion and, in some cases, to reduce their total credit exposure, a policy that has had negative effects on the banks' profitability. In addition, the contraction of economic activity, along with reductions in both credit expansion and households' incomes, has contributed to a significant rise in non-performing loans. As the effects of the government's fiscal consolidation and structural reforms take effect, confidence will return, fostering a return to normalised conditions in the banking system. In the meantime, a prolongation of the Schemes will be crucial in helping to ensure that Greek banks continue to carry out their functions as financial intermediaries.
- (13) Furthermore, 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 April 2011 at the latest.
- (14) As regards the Recapitalisation Scheme, Greece undertakes to submit a restructuring plan (or update the existing restructuring plan) for any bank which benefits from a recapitalisation after 31 December 2010, independently of whether the beneficiary pursuant to the rules set out in the Recapitalisation Communication⁷ is considered to be fundamentally sound or distressed. The submission of the restructuring plan should be within six months from the granting of the capital injection at the latest. Greece undertakes that the restructuring plan to be submitted shall comply with the principles set out in the Restructuring Communication⁸ in order to re-establish the individual

⁷ Communication on the recapitalisation of financial institutions in the current financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition see in particular Annex "Indicators for the assessment of a bank's risk profile", OJ C 10, 15.01.2009, p. 2.

⁸ Communication on the return to viability and the assessment of restructuring measures in the financial sector in the current crisis under the State aid rules, OJ C 195, 19.08.2009, p. 9.

bank's long-term viability without reliance on State support, while containing adequate burden sharing measures and measures to limit distortions of competition.

IV. ASSESSMENT

1.3. Existence of State aid

- (15) 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.
- (16) For the reasons indicated in its decisions in the above-mentioned State aid cases N 560/2008, N 504/2009, N 690/2009, N 163/2010 and N 260/2010, 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.

1.4. Compatibility of the Schemes

- (17) 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.
- (18) 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 that 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.
- (19) 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.
- (20) 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.
- (21) The Commission considers that the conditions of the Schemes comply with these requirements.

- (22) 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 Communication⁹ and the Commission's subsequent decisional practice continue to apply. The Commission considers that the notified prolongation until 30 June 2011 of the Guarantee and the Bond Loan Scheme complies with the requirements set above and is compatible with the internal market.
- (23) 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 April 2011 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 issuances¹⁰. This will allow the Commission to assess the appropriateness, necessity and proportionality of possible further prolongations of the Schemes beyond 30 June 2011 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 Schemes' effectiveness.
- (24) As regards the Recapitalisation Scheme, the renewed extension is in line with the requirements set out in Commission Communication of 1 December 2010 "on the application, after 1 January 2011, of State aid rules to support measures in favour of banks in the context of the financial crisis" which requires, in particular, the presentation of a restructuring plan in any event of granting of recapitalisation measures.
- (25) The Commission notes that Greece confirms that all the commitments made in relation to the Recapitalisation Scheme will continue to apply, including those related to presenting every six months a report on the operation of the Scheme. Furthermore, the Commission notes that Greece committed to submit individual restructuring plans within six months for all beneficiaries of a recapitalisation after 31 December 2010.
- (26) As regards the combination of the Schemes with other aid measures, as indicated in the Annex to the Restructuring Communication¹¹, 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). This means that 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.

⁹ Communication from the Commission - The application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis, OJ C 270, 25.10.2008, p. 8.

¹⁰ See point 36 of the Commission decision of 30 June 2010 in State Aid N 260/2010 and point 12 of the Commission decision of 12 May 2010 in State Aid N 163/2010.

¹¹ OJ C 195, 19.08.2009.

- (27) Furthermore, the Commission recalls that based on paragraph 16 of the Restructuring Communication, should further aid not initially foreseen in a notified restructuring plan be 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.
- (28) The Commission notes that the prolongation 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 the fiscal difficulties of Greece, the current market demand conditions and the responsiveness of the market to policy stimulus.
- (29) The prolongation notified by the Greek authorities on 26 November 2010 is 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 June 2011.
- (30) If the Greek authorities wish to prolong the Schemes after that date, they will have to notify that prolongation separately to the Commission which will assess at that stage the terms and conditions for the prolongation.
- (31) On the basis of the above, the notified prolongation of the Schemes does not alter the Commission's previous assessment in the decisions in the above-mentioned State aid cases N 560/2008, N 504/2009, N 690/2009, N 163/2010 and N 260/2010.
- (32) 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 to the Schemes until 30 June 2011.

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