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State Aid SA.32767 (2011/N) - Greece Amendment to the Support Measures for the Credit Institutions in Greece

European Union: European Commission: Directorate-General Competition

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EUROPEAN COMMISSION

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C(2011) 2341 final

Subject: State Aid SA.32767 (2011/N) - Greece
Amendment to 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 (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. On 25 January 2010, 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. On 30 June 2010, the Commission approved a number of amendments to the support measures and an extension until 31 December 2010. On 21 December 2010, the Commission approved the fourth extension of the support measures until 30 June 2011.

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On 23 March 2011, Greece notified an amendment of the Guarantee Scheme, which is currently authorised until the end of June 2011. The amendment solely concerns an increase of the budget, but not a prolongation of the granting period. The Greek authorities exceptionally accepted that the Commission decision be adopted in the English language.

II. DESCRIPTION

1.1. The original support measures

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.

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. The notified amendment

Greece intends to increase the ceiling of the Guarantee Scheme with an additional tranche amounting to EUR 30 billion (hereinafter "the new tranche"). Consequently, the budget of the Guarantee Scheme will increase from EUR 54.877 billion to 84.877 billion, while the global budget of the Schemes will increase to EUR 98 billion. That increase in the budget of the Guarantee Scheme has already been envisaged in the Memorandum of Economic and Financial Policies (MEFP) under the Third Review of the Economic Adjustment Programme for Greece7.

In order to be eligible for assistance from the new tranche, potential beneficiary banks must prepare and implement a plan for their medium-term financial needs. As regards the allocation of the new tranche between the eligible banks, the Greek authorities are not certain whether it will be done according to the criteria set down in the Original Decision8 and whether some criteria will be added. Any change of the criteria will lead to a change of the relevant legislative framework by the Greek authorities.

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8 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;

III. POSITION OF GREECE

(8) The Greek authorities have notified the amendment 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").

(9) According to the Greek authorities, the increase in the budget of the Guarantee Scheme would prove beneficial for the restoration of confidence and the normalization of the functioning of the markets, taking into account a number of factors that continue to create fiscal difficulties in Greece.

(10) According to the Bank of Greece, the Greek banking system continues to face funding problems. Moreover, previous and impending downgrades in valuations of collateral eligible for Euro-system funding, along with the decline in revenues due to the increase of non-performing loans, create additional difficulties for the Greek banks.

(11) The liquidity squeeze of Greek banks has forced them to curtail their credit expansion and, in some cases, to reduce their total credit exposures, a policy that has had negative effects on economic activity and 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.

(12) The Bank of Greece considers that the State-supported Schemes for the banking system will be a vital element in maintaining the soundness of the banking system. The further EUR 30 billion enhancement of liquidity will be provided under the condition that each credit institution will prepare and implement a plan for medium-term financial needs, which will be verified by the Bank of Greece. The preparation, completion and implementation of those plans will be monitored by the Bank of Greece and approved by the European Central Bank, in cooperation with the Commission and the International Monetary Fund.

(13) The Greek authorities submit that they will amend the relevant national legislative provisions regarding the allocating criteria of the Guarantee Scheme9 if any further criteria for the allocation of the new tranche will result from the information included in the plans for medium-term financial needs.

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9 Ministerial Decision 54201/B2884.

- 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 0.1 of the total evaluation; and
- 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.
IV. ASSESSMENT

1.3. Existence of State aid

(14) 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.


1.4. Compatibility of the Schemes

(16) 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.

(17) The Commission notes that the Greek banking system continues to face funding problems. Greek banks are facing difficulties due to downgrades in valuations of collateral eligible for the Euro-system funding and the decrease in revenues caused by the increase in non-performing loans.

(18) Since the Greek banks have lost wholesale market access to fund their operations in late 2009, they have increasingly relied on Euro-system credit operations. Their potentially higher refinancing needs, deposit outflows and the non-renewal of maturing wholesale market transactions, as well as the erosion of collateral due to market volatility, changes to the ECB's collateral framework and possible further downgrades of the sovereign debt, call for a further increase in the budget of the Guarantee Scheme. That additional liquidity should provide an adequate buffer to address liquidity needs. At the same time, to restore their long-term viability, the Greek banks should aim to reduce their dependency on the Euro-system liquidity. In that respect, the Commission notes that banks' access to the new tranche is conditional on the preparation and implementation of a plan for medium-term financial needs by each bank. The plans will aim at reducing reliance on the Euro-system refinancing operations and State guarantees over a medium-term horizon. The Commission finds therefore that additional eligibility criterion appropriate. It ensures that the new guarantees are not used to finance unsustainable business models or growth.

(19) The Bank of Greece and the ECB, in close cooperation with the Commission and the IMF, will assess the adequacy of those plans. The submission of the plans for medium-term financial needs to the Commission is without prejudice to the obligation of the credit institution to present to the Commission a viability review, where the
credit institution is required to do so pursuant to previous decisions. Should the credit institution be obliged to present a restructuring plan or a viability review, the medium-term funding plan has to be consistent with the restructuring plan or the viability review.

(20) Regarding the allocation of the new tranche between the eligible banks, the Greek authorities are not sure yet whether they will stick to the approved four criteria or whether those criteria will have to be changed, in particular as the medium-term funding plans may identify different needs for different banks. The Commission observes that if the allocation were to be carried out according to the criteria endorsed in the Original Decision, it would be covered by the Commission decisions approving the Schemes and their prolongations. Conversely, any change of the criteria, which will require a change of the relevant legislative framework by the Greek authorities, would be considered as a substantive change of the Schemes not covered by the present decision and which must be notified to the Commission for its approval.

(21) Moreover, the Commission notes that the Greek Schemes will expire at the end of June 2011. 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.

(22) As a consequence, the amendment to the Schemes is 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 amendments to the Schemes.

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

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http://ec.europa.eu/eu_law/state_aids/state_aids_texts_el.htm

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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, paras. 15 and 27; 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, para. 14. However, 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.
Your request should be sent by registered letter or fax to:

European Commission
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Yours faithfully,
For the Commission

Joaquin ALMUNIA
Vice-President