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Amendment to the Support Measures for the Credit Institutions in Greece

European Union: European Commission

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EUROPEAN COMMISSION

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Subject: **State Aid N 163/2010 - Greece**
Amendment to 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.

(2) On 6 May 2010, Greece notified an amendment of the Guarantee scheme, which is currently authorised until the end of June 2010. The amendment solely concerns an increase of the ceiling but not a prolongation of the granting period. The Greek authorities have exceptionally accepted that the Commission decision be adopted in the English language.

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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.

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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. The notified amendment

(5) On 3 May 2010, Greece agreed with the International Monetary Fund (IMF), the European Central Bank (ECB) and the European Union (EU) 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.

(6) Greece intends to increase the ceiling for the Guarantee Scheme from EUR 15 billion up to EUR 30 billion. Consequently, the global budget of the Schemes will increase from EUR 28 billion to EUR 43 billion.

(7) The new budget allocated will be distributed between credit institutions under the same criteria provided for in the Original Decision[4]. 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.

(8) All other terms and commitments given by Greece within the context of the Commission decisions in State aid cases N560/2008, N504/2009 and N690/2009 remain unchanged until 30 June 2010, when the Schemes expire.

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[4] 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 0,1 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.

III. Position of Greece

(9) The Greek authorities have notified 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)[5]. The Greek authorities seek urgent authorisation for the amendment to the scheme. According to the Bank of Greece, the increase of the ceiling for the Guarantee Scheme by a total of EUR 15 billion is necessary in the current macroeconomic conditions and for the rescue package approved.

(10) More specifically, the Bank of Greece indicated in a letter of 5 May 2010 that, given that the original amount of EUR 28 billion was determined on the basis of estimations made in November 2008 regarding the implications of the banking crisis in Greece, it is clear that under present circumstances that original amount is no longer sufficient. Up to 4 May 2010, almost the total amount of the EUR 28 billion has been used. According to the Bank of Greece, the fiscal crisis undermined confidence in the Greek economy and led to the downgrading of both the sovereign and Greek banks. As a result, market financing for Greek banks dried up. Moreover, the size of the fiscal consolidation sought, the negative outlook concerning the extent and the duration of the recession and the reduction in consumer disposable income are expected to have a further effect and sizeable impact on Greek banks' liquidity.

(11) In the light of the above, the Bank of Greece has recommended the provision of immediate additional liquidity in the banking system through Greek government guarantees under the terms and conditions already approved.

(12) Greece committed to provide monthly reports on the operation of the Guarantee scheme.

IV. Assessment

1.3. Existence of State aid

(13) 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.

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

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[5] 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.

1.4. Compatibility of the Schemes

(15) 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.

(16) The Commission notes that the Greek banking sector is facing liquidity constraints caused by the severe fiscal imbalances that led to successive downgradings of the country's credit rating and consequently the credit ratings of Greek banks, thereby restricting their access to international capital markets. Meanwhile, the slow-down in deposit growth has affected the domestic supply of credit, putting even more constraints on the banking sector. The immediate challenge for the banks is to manage carefully the current tight liquidity conditions. In the general context of the turbulence affecting the debt markets for the Greek government, the Greek banks have lost wholesale market access to fund their operations since end-2009. Maturing interbank liabilities have not been renewed, or only at high costs, and some moderate deposit outflows were noted during the first months of 2010, which has put pressure on the liquidity position of many Greek banks. As a result, the banks have increasingly relied on Eurosystem credit operations. As indicated above, the size of the fiscal consolidation sought, the negative outlook concerning the extent and the duration of the recession and the reduction in consumer disposable income are expected to have a further effect and sizeable impact on Greek banks' liquidity.

(17) The amendment notified by the Greek authorities on 6 May 2010 is a response to these difficulties that Greek banks have to deal with, in order to restore confidence. The reattribution of the unused amounts of the allocated guarantees also serves this purpose.

(18) The Commission notes that the Guarantee Scheme is, under current circumstances, an important instrument of funding for the Greek credit institutions and it is in consequence vital for the credit supply to the economy and financial stability. Moreover, the Commission notes that the Greek scheme will expire at the end of June 2010. 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.

(19) 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 amendment to the Schemes.

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