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Fifth prolongationof the Support Measures for the Credit Institutions in Greece

European Union: European Commission

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<u>Subject:</u> **State Aid SA.33153 – (2011/N) - Greece**
Fifth prolongation 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]. On 30 June 2010, the Commission approved a number of amendments to the support measures and an extension until 31 December 2010[5].

(2) On 21 December 2010 the Commission approved the extension of the support measures until 30 June 2011[6]. On 4 April 2011 the Commission approved an amendment to the

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.

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.

6 See Commission decision of 21 December 2010 in State Aid SA.31998 (2010/N) "Fourth extension of the Support Measures for the Credit Institutions in Greece", OJ C 53, 19.02.2011, p. 2.

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support measures, i.e. an increased ceiling of the Guarantee Scheme with an additional tranche amounting to EUR 30 billion[7]. On 9 June 2011, the Greek authorities notified a prolongation of the support measures until 31 December 2011. On 10 June 2011, the Greek authorities exceptionally accepted that the Commission decision be adopted in the English language.

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"); and 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 10 June 2011

(5) On 10 June 2011 the Greek authorities submitted a report on the operation of the Schemes.

(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 approved by the 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 54.855 billion has been granted in the form of guarantees, i.e. around 65% of the total amount available of EUR 84.877 billion[8]. According to the Greek authorities, EUR 27.262 billion of the

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[7] See Commission decision of 4 April 2011 in State Aid SA.32767 (2011/N) "Amendment to the Support Measures for the Credit Institutions in Greece", OJ C 164, 02.06.2011, p. 8.

[8] 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), the increase in the budget carried out on 4 April 2011 (EUR 30 billion), except

amount available following the budget increase of EUR 30 billion approved on 4 April 2011, i.e. around 91% of that amount, has been allocated but not yet granted.

(8) In relation to **the Bond Loan Scheme** (the special purpose securities), the amount of EUR 7.895 billion has been granted to beneficiary banks in the form of bond loans and the amount EUR 221 million has been allocated but not granted, i.e. around 99% of the total amount available (EUR 8.123 billion).

III. POSITION OF GREECE

(9) The Greek authorities have notified the prolongation 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 31 December 2011. The Greek authorities commit that all the conditions and commitments taken in the context of the Commission's decisions in State aid cases N560/2008, N504/2009, N690/2009, N163/2010, N260/2010, SA 31998 and SA 32767 remain unchanged.

(11) According to the Greek authorities, the prolongation 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, the previous and impending downgrading in valuations of collateral eligible for Eurosystem funding, etc.

(12) According to the Bank of Greece, "the Greek banking system still faces acute funding problems, resulting from the continued market volatility, despite the temporary improvement during the past few months. Moreover, the previous and expected rating downgrades, along with further deposit withdrawals, the inability of banks to rollover maturing debts and the decline in revenues mainly due to the increase in underperforming loans, create additional difficulties for the banks. In this context, the State's support scheme for the banking system is increasingly becoming a vital element in maintaining the soundness of the Greek banking system. Therefore, the extension of the application of the existing State support Scheme for an additional six-month period, i.e. until the end of December 2011, is an appropriate and necessary means to manage the current tight liquidity conditions and will be crucial in helping to ensure that Greek banks continue to carry out their functions as financial intermediaries and preserve the financial stability".

(13) Greece confirms the existing commitments concerning reporting obligations, in particular the commitment to provide monthly reports on the operation of the Guarantee and Bond Loan Schemes. Moreover, 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 2011 at the latest.

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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 case N 260/2010, para. 7-8).

(14) As regards the Guarantee and the Bond Loan Schemes, the Greek authorities clarify that the budgets of EUR 84.877 billion and EUR 8.123 billion represent a ceiling on the amount of guarantees and bonds respectively, outstanding at any point in time. The budget represents therefore a cap on the State exposure at any point in time. Thus, when a guaranteed debt instrument matures and is repaid by the issuing bank, it creates space for issuing new State guarantees. An analogous system also applies to the Bond Loan Scheme. Greece confirms that new guarantees or bond loans, including roll-over, will be priced on the basis of the fee levels introduced as of 1 July 2010 (i.e. an increase in the guarantee fee in comparison with the ECB Recommendation of October 2008 that amounts at least to 20 basis points for banks with a rating of A+ or A, 30 basis points for banks rated A-, and 40 basis points for banks rated below A-).

(15) The Greek authorities confirm the commitment to present a viability review for any beneficiary that requests new guarantees under the Guarantee and Bond Loan Schemes which take or keep the total amount of the beneficiary's outstanding guaranteed liabilities above 5% of its 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 guarantees.

IV. ASSESSMENT

1.3. Existence of State aid

(16) 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.

(17) 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, N 260/2010, SA 31998 and SA 32767 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.

1.4. Compatibility of the Schemes

(18) 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.

(19) 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. However, access to funding for Greek banks remains very difficult. The continuation of the Schemes can be deemed necessary to ensure financial stability as confirmed by the Bank of Greece.

(20) 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.

(21) 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.

(22) According to the information submitted by the Bank of Greece, the Greek banking system still faces acute funding problems, resulting from the continued market volatility.

(23) The prerequisites for the compatibility of guarantee schemes with Article 107(3)(b) TFEU that have been established by the Banking Communication[9] and the Commission's subsequent decisional practice continue to apply but have been complemented by additional requirements aimed at achieving two objectives:

(24) First, credit institutions should be induced to scale down or terminate their recourse to government guarantees by means of pricing rules that bring the funding costs of the beneficiaries closer to market conditions and thereby reduce distortions of competition. That realignment was achieved as from 1 July 2010 by an increase in the guarantee fee[10] in comparison with the ECB Recommendation of October 2008 that amounts at least to 20 basis points for banks with a rating of A+ or A[11], 30 basis points for banks rated A-[12], and 40 basis points for banks rated below A-[13]. In that respect, Greece committed to price the new guarantees or bond loans, including roll-over, on the basis of those fee levels.

(25) Second, the use of the Guarantee Scheme should not enable beneficiaries with structural weaknesses in their business models to postpone or avoid the necessary adjustments. To that end, as from 1 July 2010, Greece should present a viability review for any beneficiary that requests new guarantees under the Scheme which take or keep the total amount of the beneficiary's outstanding guaranteed liabilities above 5% of its 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[14] within three

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 For liabilities of all eligible maturities.

11 Or A1 and A2, depending on the rating system employed.

12 Or A3, depending on the rating system employed.

13 Banks without rating will be considered as having a BBB rating.

14 Commission 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, 19.8.2009.

months of the granting of the guarantees[15]. The viability review will either confirm the Beneficiary's long-term viability without State support or show that further-reaching restructuring is required.

(26) The Commission observes that the clarification provided by Greece on the cap of the budget of the Guarantee and Bond Loan Schemes, as explained in paragraph 14, does not change the feature of Schemes. The Commission also observes that State guarantees do not currently allow banks to raise funds on the market. The new State guarantees are therefore likely to be exclusively used to guarantee self-issued bonds in order to make such bonds eligible collateral for ECB funding, in replacement of assets having lost their eligibility as collateral due to repeated downgrades by rating agencies. The State guarantees will therefore not be used to raise funds to grow lending but to reduce the pace of deleveraging. In addition, in the framework of the programme for Greece[16] the Greek banks have to submit medium-term funding plans by which they have to demonstrate how they will reduce their reliance on ECB funding. As a result of all those constraints, the risk that the State guarantees are used for distortive market activities is very limited.

(27) The Commission considers that the notified prolongation until 31 December 2011 of the Guarantee and the Bond Loan Scheme complies with the requirements set above and is compatible with the internal market.

(28) 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"[17] which requires, in particular, the presentation of a restructuring plan in any event of granting of recapitalisation measures.

(29) As regards the combination of the Schemes with other aid measures, as indicated in the Annex to the Restructuring Communication[18], 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). It 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 that end, an individual *ex ante* notification is necessary.

[15] Except where the bank concerned is already in restructuring or subject to 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.

[16] The Economic Adjustment Programme for Greece Third Review-Winter 2011, p.1-4 available at http://ec.europa.eu/economy_finance/publications/occasional_paper/2011/pdf/ocp77_en.pdf

[17] O.J. C195, 19.8.2009, p. 9

[18] OJ C 195, 19.08.2009.

(30) 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, that 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.

(31) 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, the previous and impending downgrading of valuations of collateral eligible for Eurosystem funding etc.

(32) The prolongation notified by the Greek authorities on 9 June 2011 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 December 2011.

(33) 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 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 issuances[19].

(34) 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, N 260/2010, SA 31998 and SA 32767.

(35) As a consequence, the prolongation 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 prolongation to the Schemes until 31 December 2011.

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

[19] 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.

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Yours faithfully,

For the Commission
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