Prolongation of the State Guarantee Scheme (Art. 2 law 3723/2008)

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European Union: European Commission

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Sir,

1. **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 ("the Original Decision"). The support measures included a recapitalisation scheme, a guarantee scheme ("the Guarantee Scheme") and a bond loan scheme ("the Bond Loan Scheme").

   (2) 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

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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. A detailed description of the measures is provided in the Original Decision, in particular recitals 2 to 5 concerning their legal basis and objectives as well as recitals 10 to 37 containing the description of the measures.


extension until 31 December 2010. On 21 December 2010, the Commission approved the extension of the support measures until 30 June 2011.

(3) On 4 April 2011, the Commission approved an amendment to the support measures in the form of an increased ceiling of the Guarantee Scheme with an additional tranche amounting to EUR 30 billion. On 30 June 2011, the Commission approved a prolongation of the support measures until 31 December 2011. On 6 February 2012, the Commission approved an amendment to the support measures and a prolongation of the support measures until 30 June 2012. On 22 January 2013, the Commission approved a prolongation of the Support Measures for the Credit Institutions in Greece, OJ C 238, 03.09.2010, p. 3.


Commission approved a prolongation of the Guarantee Scheme until 31 December 2016\(^\text{18}\).

(4) On 2 December 2016, the Greek authorities notified a prolongation of the Guarantee Scheme until 30 June 2017.

(5) By letter dated 06 December 2016, Greece agreed exceptionally to waive its rights deriving from Article 342 TFEU in conjunction with Article 3 of Regulation 1/1958\(^\text{19}\) and to have the present decision adopted and notified in English.

2. FACTS

2.1. Description of the scheme

(6) 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 i) the provision of liquidity, ii) the recapitalisation of the financial sector and iii) provision of a State guarantee to new debt issuance.

(7) In the context of its notification of 2 December 2016, Greece seeks approval of the prolongation of the Guarantee Scheme for debt instruments with a maturity of between three months and three years in return for a fee.

(8) The total budget of the Guarantee Scheme is currently EUR 93 billion\(^\text{20}\).

(9) On 7 October 2016 the Commission authorised liquidity aid of EUR 380 million to Attica bank. Although the Greek authorities granted the support using the same national legal basis that applies to the Guarantee Scheme, i.e. Article 2 Law 3723/2008, the support to Attica bank is not covered by the present decision. The present decision concerns state aid approval of liquidity support to banks which have no capital shortfall, as reflected in commitment recital (15)(vii) of this decision. Following the Comprehensive Assessment conducted by the Bank of Greece in 2015, Attica bank had a remaining capital shortfall. Therefore the liquidity support of EUR 380 million was authorized in an individual decision\(^\text{21}\).

2.2. Operation of the Guarantee Scheme until 2 December 2016

(10) On 2 December 2016, the Greek authorities submitted a report dated 2 December 2016 on the operation of the Guarantee Scheme.

(11) According to the report, on 2 December 2016 the outstanding guarantees amounted to EUR 5.18 billion. This amount includes the EUR 380 million liquidity support for Attica bank authorized in an individual Commission decision as explained in

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\(^{19}\) Regulation No 1 determining the languages to be used by the European Economic Community, OJ 17, 6.10.1958, p. 385.


\(^{21}\) See Commission decision of 7 October 2016 in State aid case SA.46558 (2016/N) "Liquidity Support to Attica Bank" (not yet published in the Official Journal)
recital (9). When this amount is deducted, the outstanding guarantees under the scheme amount to 4.80 billion.

3. **Position of Greece**

(12) Greece requests a prolongation of the Guarantee Scheme until 30 June 2017.

(13) Greece submits that the Guarantee Scheme constitutes State aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union (“TFEU”), but is of the view that the proposed prolongation is compatible with the internal market on the basis of Article 107(3)(b) TFEU as it is necessary to remedy a serious disturbance in the economy of Greece.

(14) Greece submitted a letter by the Central Bank of Greece confirming the need for the proposed prolongation of the support scheme to safeguard the stability of the financial system in Greece, though to a lesser extent compared to the previous months. According to the Bank of Greece, the Greek banking system has maintained its capital buffers that were already restored after the 2015 recapitalisation. However, in order to maintain sufficient capital buffers in the medium term without recourse to a new recapitalisation, non-performing exposures (NPEs) should, as an urgent priority, be dealt in an efficient manner, in order to ensure the viability of the Greek banking system. In this respect, the Bank of Greece, in consultation with financial institutions and the Single Supervisory Mechanism (SSM) proceeded to set operational targets for NPEs management during the period 2016-2019. Greek banks further reduced their borrowing from the Emergency Liquidity Assistance mechanism (ELA), which reflects an improvement of their liquidity situation, amid a reduction of uncertainty and the stabilization of private sector deposit flows. The depository base of credit institutions increased during the second and third quarter of 2016. The possibility of inclusion of Greece in the ECB’s bond buying programme within 2017 could open the way for the country to regain bond market access and enable Greek banks to play their intermediation role of providing credit to the real economy. In that context, the scheme remains, though to a lesser extent when compared to the previous months, an essential supplementary element underpinning liquidity. Hence, the Bank of Greece recommends the prolongation of the scheme for an additional six-month period.

(15) Greece submitted the following commitments relating to the Guarantee Scheme:

(i) to grant the guarantees only for new issuance of credit institutions' (banks') senior debt (subordinated debt is excluded);

(ii) to provide guarantees only on debt instruments with maturities from three months to three years (this three year-limit applies also in the case of covered bonds);

(iii) to determine the minimum level of State guarantee remuneration in line with the formula set out in the Commission's Communication on the application, from 1 January 2012, of State aid rules to support measures in favour of banks in the context of the financial crisis;

(iv) to submit a restructuring plan, within two months of the granting of the guarantees, for every credit institution that is granted guarantees on new

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liabilities or renewed liabilities for which, at the time of the granting of new
guarantee, the total outstanding guaranteed liabilities (including guarantees
accorded before the date of this decision) exceed both a ratio of 5% of total
liabilities and the total amount of EUR 500 million;

(v) to submit individual restructuring or wind-down plans23 within two months
after the guarantee has been activated for credit institutions which cause the
guarantee to be called upon;

(vi) to impose a ban on advertising referring to the State support on the
beneficiaries of the scheme and to prevent them from employing any
aggressive commercial strategies which would not take place without the
State support;

(vii) to grant aid measures under the Guarantee Scheme only to credit institutions
which have no capital shortfall24 and, where a credit institution with a capital
shortfall is in urgent need of liquidity, to submit an individual notification to
the Commission; also, for banks under resolution and bridge banks, an
individual notification will be submitted, and no liquidity support will be
provided until and unless the Commission authorizes it;

(viii) to report to the Commission on i) the operation of the scheme, ii) the
guaranteed debt issues, and iii) the actual fees charged, on a three-monthly
basis, meaning by 15 April 2017 (for the period 1 January 2017 to 31 March
2017) and by 15 July 2017 (for the period 1 April 2017 to 30 June 2017) at
the latest; and

(ix) to supplement its reports on the operation of the Guarantee Scheme with
available updated data on the cost of comparable non-guaranteed debt
issuances (as regards nature, volume, rating, currency).

(16) In line with the requirements of the 2011 Prolongation Communication25, Greece
provided an indicative fee (estimation) for each financial institution eligible to
benefit from the guarantees. The estimation was based on an application of the
Guarantee Scheme's remuneration formula and recent market data. The indicative
fee for the guarantees covering debt with a maturity of less than one year, as of 1
January 2017 will be 115 basis points ("bp") or 90 bp, if the credit institution had
eligible collateral. The indicative fees for guarantees with a maturity of one year or
more will be 99 bp, or 74 bp if the credit institution had eligible collateral26. Those
fees are applicable to all credit institutions in Greece as, according to the Greek
authorities, the individual credit default swap ("CDS") spreads observed are still
not representative. Therefore the Greek authorities will determine the guarantee fee
for all banks on the basis of the CDS of the sample of representative European
banks in the lowest rating buckets (BBB and below).

23 The plan must be prepared on the basis of the parameters established in the Commission
Communication on the return to viability and the assessment of the restructuring measures in the
financial sector in the current crisis under the State aid rules (Restructuring Communication) (OJ C 195,

24 "No capital shortfall" is certified by the competent supervisory authority, as it is established, in line
with point 28 of the 2013 Banking Communication, in a capital exercise, stress test, asset-quality
review or an equivalent exercise at Union, euro area or national level, which has to be confirmed by the
competent supervisory authority.

25 Communication from the Commission on the application, from 1 January 2012, of State aid rules to

26 With regard to the minimum guarantee fee that can be requested under the Pricing Formula as laid
down in "2011 Prolongation Communication", Greece has decided to increase the fee by 25 bps when
the State guarantee is covering uncollateralised debt.
4. ASSESSMENT

4.1. Existence of State aid

(17) According to 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.

(18) For the reasons indicated in the Original Decision, the Commission considers that the Guarantee Scheme constitutes State aid within the meaning of Article 107(1) TFEU because it concerns the provision of State resources to a certain sector, i.e. the financial sector, which is open to international competition. Under the Guarantee Scheme, participating banks obtain guarantees under conditions which would not be available to them under market conditions, and so receive an advantage. Given the characteristics of the financial sector, any advantage from State resources to a credit institution affects intra-Union trade and therefore threatens to distort competition. The measure therefore constitutes State aid within the meaning of Article 107(1) TFEU.

4.2. Compatibility assessment

4.2.1 Legal basis

(19) Under the Guarantee Scheme, Greece intends to provide aid in the form of guarantees in favour of credit institutions.

(20) Given the exacerbation of tensions in sovereign debt markets that has taken place since 2011 and in light of the persisting circumstances and risks, the Commission considers it appropriate, as confirmed by the 2013 Banking Communication\(^{27}\), to examine the measure under Article 107(3)(b) TFEU.

(21) Article 107(3)(b) TFEU, in particular, empowers the Commission to find that aid is compatible with the internal market if it is intended "to remedy a serious disturbance in the economy of a Member State". The Commission has acknowledged that the global financial crisis can create a serious disturbance in the economy of a Member State and that measures supporting banks are apt to remedy that disturbance. That assessment has been confirmed in the Recapitalisation Communication\(^{28}\) and the Restructuring Communication\(^{29}\). The Commission still considers that the conditions for State aid to be approved pursuant to Article 107(3)(b) TFEU are present. The Commission confirmed that view by adopting the 2013 Banking Communication\(^{30}\).

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\(^{27}\) Communication from the Commission on the application, from 1 August 2013, of State aid rules to support measures in favour of banks in the context of the financial crisis, OJ C 216, 30.7.2013, p. 1.


\(^{30}\) See points 4-6 of the 2013 Banking Communication.
The Commission does not dispute the position of the Greek authorities regarding the stressed liquidity position of the banks. The Commission observes that the deposit outflows that Greek banks have experienced since December 2014 have weakened their liquidity position. The Commission remarks that banks’ liquidity position was further deteriorated by the application of a bank holiday on 28 June 2015 and the subsequent maintenance of capital controls since banks reopened on 20 July 2015. In 2016, Banks’ dependency on ELA has been reduced, reflecting improving liquidity conditions. However, given that the closure of the second review of the third assistance programme for Greece\(^{31}\) is still pending and that the level of NPEs in the Greek banking system remains high, uncertainty is maintained. Despite the rise observed in Greek bank deposits, they still remain at low levels. The prolongation of the scheme is, therefore, necessary for an additional six-month period. Hence, the Commission finds that the Guarantee Scheme aims at ensuring financial stability and, thus, remedying a serious disturbance in the Greek economy.

Therefore, the Commission continues to base its assessment of State aid measures in the banking sector on Article 107(3)(b) TFEU.

The Commission has recently found the aid granted to the four Greek systemic banks in the form of underwriting and/or recapitalisation, \textit{i.e.} Alpha Bank\(^{32}\), Eurobank\(^{33}\), Piraeus Bank\(^{34}\) and National Bank of Greece\(^{35}\), as compatible with the internal market on the basis of Article 107(3)(b) TFEU.

In order for an aid to be compatible with the internal market, it must comply with the general principles for compatibility under Article 107(3) TFEU, viewed in the light of the general objectives of the Treaty. Therefore, according to the Commission’s decisional practice\(^{36}\) any aid or scheme must comply with the following conditions: (i) appropriateness, (ii) necessity and (iii) proportionality.

The 2013 Banking Communication and the Restructuring Communication formulate assessment criteria which reflect those general principles and their requirements in light of the specific policy context.

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\(^{31}\) Greece has been receiving financial support from euro area Member States and the International Monetary Fund to cope with its financial difficulties and economic challenges since May 2010. In August 2015 a third assistance programme was launched under the European Stability Mechanism (ESM) framework, http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm.


4.2.2 Compatibility assessment of the Guarantee Scheme

**Appropriateness**

(27) The Guarantee Scheme is appropriate to remedy a serious disturbance in the Greek economy. The objective of the Guarantee Scheme is to temporarily offer appropriate measures to establish backstops for the financial system in a timely and efficient manner, where banks face difficulties in obtaining sufficient funding. The Commission observes that the crisis has eroded confidence in the creditworthiness of the banks, which results in difficulties in obtaining necessary funding on the financial markets. Hence, a backstop mechanism by the Member State, which in case of urgency ensures that banks would have access to funding, is an appropriate means to strengthen banks and thus to restore market confidence.

(28) Points 23 and 60(a) of the 2013 Banking Communication explain that guarantee schemes will continue to be available in order to provide liquidity to banks but that such schemes should be limited to banks without a capital shortfall. The Commission observes that Greece has committed to restrict the Guarantee Scheme only to banks without a capital shortfall as certified by the competent supervisory authority.

(29) Further the Commission notes that Greece has committed to grant guarantees only for new issues of banks’ senior debt, as prescribed in point 59(a) of the 2013 Banking Communication.

**Necessity**

(30) With regard to the scope of the measure, the Commission notes positively that Greece has limited the size of the Guarantee Scheme by setting its maximum budget at EUR 93 billion and that the scheme applies until 30 June 2017.

(31) The Commission notes that Greece has committed to grant guarantees only on debt instruments with maturities from three months to three years, which complies with the requirements in points 59(b) and 60(b) of the 2013 Banking Communication.

(32) Regarding the remuneration level, the Commission observes that Greece, in line with point 59(c) of the 2013 Banking Communication, has committed to follow the pricing and other conditions for State guarantees laid down in the 2011 Prolongation Communication which requires, in particular, the application of a pricing method based largely on market data.

(33) Since the beginning of the sovereign debt crisis the CDS spreads of Member States in difficulty have widened very significantly. The CDS of the large banks located in those Member States have increased in line with those of their sovereign. The very high CDS of large banks in programme countries do not seem to primarily reflect their intrinsic risk profile, but are mainly driven by the sovereign risk. That link can lead to a situation in which the application of the guarantee pricing formula based on the individual CDS spread of the bank results in an excessively expensive guarantee, which is not justified by the risk profile of the bank. Therefore, it seems appropriate to consider the CDS spreads of individual banks

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37 *i.e.* countries subject to a programme for receiving financial assistance from the ESM, the EFSF, the EFSM, the EU balance of payments assistance facility, other Member States and/or the IMF.
located in the countries subject to a financial assistance programme as temporarily non-representative of the intrinsic risk of those banks.

(34) On that basis, the Commission does not object to Greece's intention to determine the guarantee fee for banks which still have a traded CDS on the basis of the CDS of the sample of Union banks in the "BBB- and lower" rating category. The Commission will review its assessment of the macro-economic situation and appropriateness of that exceptional pricing mechanism if a further prolongation of the scheme is notified.

Proportionality

(35) As regards proportionality, the Commission notes, first, that Greece, in line with point 59(d) of the 2013 Banking Communication, has committed to submit a restructuring plan within two months for any bank granted guarantees on new liabilities or on renewed liabilities for which, at the time of the granting of the new guarantee, the total outstanding guaranteed liabilities (including guarantees accorded before the date of the decision) exceed both a ratio of 5% of the bank's total liabilities and a total amount of EUR 500 million. That commitment ensures that the use of Guarantee Scheme will not enable banks with structural weaknesses in their business models to postpone or avoid the necessary adjustments.

(36) Second, the Commission notes that Greece has committed, in line with point 59(f) of the 2013 Banking Communication, to a number of behavioural safeguards such as a ban on advertisements referring to the State support and a ban on any aggressive commercial strategies which would not take place without the State support. Such safeguards help ensure that the participating institutions do not misuse the received State support to expand their activities.

(37) Finally, the Commission welcomes that Greece undertakes to submit individual restructuring or wind-down plans, within two months, for banks which cause the guarantee to be called upon, in line with point 59(e) of the 2013 Banking Communication.

(38) As regards the combination of the Guarantee Scheme with other aid measures, the Commission recalls that, as indicated in the Annex to the Restructuring Communication, the restructuring plans to be submitted should contain all State aid received as individual aid or under a scheme during the restructuring period.

(39) Furthermore, based on point 16 of the Restructuring Communication, the Commission recalls that, should further aid not initially foreseen in a notified restructuring plan be necessary for the restoration of viability, such additional aid cannot be granted under an approved scheme but needs to be subject to individual ex ante notification. All State aid measures received by a bank as individual aid or under a scheme during the restructuring period will be taken into account in the Commission's final decision on that bank.

Monitoring

(40) The Commission welcomes, in line with point 60(c) and (d) of the 2013 Banking Communication, that Greece undertakes to present every three months a report on the operation of the Guarantee Scheme, on guaranteed issuances and on the actual
fees charged and to supplement it with updated available data on the cost of comparable non-guaranteed debt issuances (nature, volume, rating and currency).

**Conclusions on the compatibility**


(42) In line with the Commission’s decisional practice, the Guarantee Scheme can therefore be prolonged until 30 June 2017. 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.

5. **COMPLIANCE WITH THE INTRINSICALLY LINKED PROVISIONS OF DIRECTIVE 2014/59/EU AND REGULATION (EU) 806/2014**

(43) The Commission notes that the Guarantee Scheme does not violate intrinsically linked provisions of Directive 2014/59/EU on bank recovery and resolution ('BRRD') and Regulation (EU) 806/2014 on the Single Resolution Mechanism ('SRM-R'), which in this specific case relate to its Article 32(4)(d)(ii) BRRD and Article 18(4)(d)(ii) SRM-R. The criteria of the Guarantee Scheme ensure that the institutions benefitting from it will not be deemed failing or likely to fail on the sole basis of their participation in the scheme. If the criteria did not ensure that outcome, the Guarantee Scheme could not be deemed appropriate since it would not be apt to remedy the serious disturbance in the Greek economy.

(44) The first subparagraph of both Article 32(4) BRRD and Article 18(4) SRM-R establishes that an institution shall be deemed to be failing or likely to fail and placed into resolution, (if all the other pre-conditions for resolution are met), where, *inter alia*, extraordinary public financial support is required, except when, in order to remedy a serious disturbance in the economy of a Member State and preserve financial stability, the extraordinary public financial support takes the form, *inter alia*, of a State guarantee of newly issued liabilities (Article 32(4)(d)(ii) BRRD; Article 18(4)(d)(ii) SRM-R).

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39 Transposed into Greek law by Law 4335/2015.
(45) The second subparagraph of Article 32(4) BRRD and Article 18(4) SRM-R provides that in order not to trigger resolution such State guarantees on newly issued liabilities must be confined to solvent institutions and must be conditional on final approval under the Union State aid framework. Those measures must be of a precautionary and temporary nature and must be proportionate to remedy the consequences of the serious disturbance and must not be used to offset losses that the institution has incurred or is likely to incur in the near future.

(46) The Commission notes that the Guarantee Scheme is limited to solvent institutions. The guarantees granted under the scheme are of a temporary nature since the window of their issuance is limited to six months and their maturity is limited to three years and are of a precautionary nature since they only cover newly issued liabilities. The guarantees granted are also proportionate to remedy the consequences of the serious disturbance as explained in recital (27).

(47) The Commission therefore concludes that the notified prolongation does neither seem to violate any intrinsically linked provisions of Directive 2014/59/EU nor of Regulation (EU) No. 806/2014. The Guarantee Scheme is in compliance with the requirements of Article 32(4) BRRD and Article 18(4) SRM-R and, therefore, apt to remedy the consequences of the serious disturbance in the Greek economy.

6. **CONCLUSION**

The Commission has accordingly decided to consider the aid to be compatible with the internal market pursuant to Article 107(3)(b) TFEU and not to raise objections to the Guarantee Scheme.

Greece exceptionally accepts that the present decision be adopted in the English language, for reasons of urgency.

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Yours faithfully,
For the Commission

Margrethe VESTAGER
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