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Greece: Capital Injections

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Greece (2008) – Capital Injections

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Abstract

In October of 2008, in the midst of the Global Financial Crisis (2007-09), the Greek government announced a €28 billion ($36 billion) government package (Reuters 2008) The Greek Law 3723/2008 "Enhancement of liquidity in the economy in response to the impact of the international financial crisis" was passed and approved under EU State aid rules (Hellenic Republic 2008a). The Greek law provided for three voluntary programs: recapitalizations (€5 billion), guarantees (€15 billion), and securities (€8 billion) (European Commission 2008a; Hellenic Republic 2008a). This case exclusively examines the recapitalization program. In this program, the Greek government acquired convertible preferred shares in banks in order to build and maintain bank's Tier 1 capital at a minimum of 8% of risk-weighted assets. By July 2009, ten banks had received capital injections for a total of €3.8 billion.

Keywords: Greece, banks, recapitalization, capital injections, financial crisis

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Capital Injections – Greece (2008)

At a Glance

The collapse of Lehman Brothers in mid-September 2008 and the ensuing financial crisis prompted governments around the world to take aggressive, often unprecedented actions. On October 12, 2008, in a Summit held in Paris, Euro heads of state released a concerted European action plan to reestablish confidence and the functioning of the financial system (Euro Summit 2008).

Days later, the Greek government passed a €28 billion ($36 billion) package (11.4% of GDP) through the Greek Law 3723/2008 "Enhancement of liquidity in the economy in response to the impact of the international financial crisis" (Hellenic Republic 2008a; Reuters 2008). The law provided for three voluntary programs: recapitalizations (€5 billion), guarantees (€15 billion), and securities (€8 billion). In the recapitalizations, the Greek government acquired preferred shares in order to build and maintain Tier 1 capital ratios of at least 8% (European Commission 2008a; Hellenic Republic 2008a). By July 2009, ten banks had received capital injections for a total of €3.8 billion. By 2012, two banks received additional capital, bringing the total to €5.2 billion.

Summary of Key Terms

Purpose: "Enhancement of liquidity in the economy in response to the impact of the international financial crisis" (Hellenic Republic 2008a)

Announcement Date	October 15, 2008
Legal Authority	Greek Law 3723/2008; EC Treaty Article 87 (3)(b); Later, Article 107 (3)(b) TFEU (European Commission 2010b, 3)
Date of first capital injection	May 2009 (see Table 1)
Sunset Date	Voluntary participation. No sunset dates
Program Size	€5 billion maximum
Participants	10 banks by end of 2009.
Usage	10 banks participated. By the end of 2009, €3.8 billion. By 2012, €5.2 billion. The Greek government acquired preferred shares to boost Tier 1 capital.
Administrators	Greek Minister of Economy and Finance
Outcomes	By 2014, only three banks had repurchased the preferred shares. Another three banks were liquidated (see Table 1)
Notable features	Bonuses abolished, limits on salary.

Summary Evaluation

Greek authorities expressed satisfaction with the first year of implementation of the schemes. In their view, "the schemes had made an important contribution to providing a safety net that corresponded well to the market's needs" (European Commission 2010a, 2; 2010c, 2). However, in early 2010, Greece entered into a sovereign debt crisis. Its large fiscal and current account deficits threatened the financial stability of Europe. In May 2010, the EU and IMF agreed to provide Greece a three-year aid package worth €110 billion (Bank of Greece 2014, 82).

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I. Overview

Background

The collapse of Lehman Brothers in mid-September 2008 and the ensuing 2007-2009 Global Financial Crisis (GFC), prompted governments around the world to take aggressive, often unprecedented actions. On October 12, 2008, in a Summit held in Paris, Euro heads of state released the "Declaration on a concerted European action plan of the Euro area countries" which committed efforts to reestablish confidence and the well-functioning of the financial system (Euro Summit 2008).

European governments, central banks and supervisors agreed to support financial institutions by facilitating: a) appropriate liquidity conditions, b) funding of banks, c) additional capital resources, d) recapitalizations of distressed banks, e) flexibility in the implementation of accounting rules, and f) cooperation among European countries (Euro Summit 2008). Greece did not start to feel the tremors of the crisis until 2009. Although in October 2008, Greek banks had not yet experienced the significant losses or liquidity pressure that struck other financial markets, the government intended to protect the Greek economy by increasing liquidity and facilitating credit institutions extend loans to the private sector (Bank of Greece 2014, 53)

Program Description

On October 15, 2008, the Greek government announced a package of up to €28 billion ($36 billion), estimated at 11.4% of GDP (Mayer Brown 2009; Reuters 2008). The Greek Law 3723/2008 "Enhancement of liquidity in the economy in response to the impact of the international financial crisis" came into effect on October 24, 2008. However, Greek authorities committed to the European Commission (Commission) that the law would not be applied before the Commission's approval (European Commission 2008a, 2; Hellenic Republic 2008a). On November 19, 2008, the Commission authorized the new law under EU State aid rules compatible with Article 87 (3)(b) of the EC Treaty, limited in time and scope, and "intended to stabilize the markets as a response to the global financial crisis" (European Commission 2008a). The Greek law provided for three voluntary programs: recapitalizations (€5 billion), guarantees (€15 billion), and securities (€8 billion) (European Commission, 2008a, 3, 5, 7). This case exclusively examines the recapitalization program.

Through the program, the Greek government would acquire preferred shares in banks to increase and maintain adequate capital ratios. Eligible institutions included all banks licensed by the Bank of Greece (BoG), including subsidiaries of foreign banks (European Commission 2008a, 1-2).

The only means for bank recapitalization were preferred shares, considered Tier 1 capital by the BoG (European Commission 2008a). The amount to purchase would be decided by the Minister of Economy and Finance, based on the advice of the Governor of the BoG. The preferred shares would be non-cumulative and considered as non-core Tier 1 capital.

Cumulative shares would have required banks to pay the government all dividends owed first, before other dividends were paid. In the case of a bank's liquidation, preferred shares would hold priority over common shares. Through recapitalizations, banks would reach a Tier 1 capital ratio of no less than 8%, which had to be maintained throughout the duration of the scheme. The annual fixed rate of return of the preferred shares was 10% (European Commission 2008a, 1-3).

Banks had to communicate their interest by February 1, 2009. The issuance of preferred shares would occur no later than mid-May 2009, but the window could be extended up to December 31, 2009 (European Commission 2008a, 3). Bank recapitalizations were decided according to supervisory criteria which considered capital adequacy levels, the bank's size, and the credit to small- and medium-sized enterprises (European Commission 2008a, 3).

The price of the preferred shares was determined as the nominal value of common shares of the bank's most recent issuance. The Greek government would cover this amount with Greek State bonds paying interest at a spread to Euribor, the leading benchmark interest rate (Hellenic Republic 2008a, 2) (Petrovic and Tutsch 2009, 43). The Greek law stated that recapitalized banks had to repurchase the preferred shares from the government within five years and for the amount originally invested in the bank. Repurchases of preferred shares could be done using Greek government bonds or cash. In the case of government bonds, their nominal value would equal the nominal value of the bonds originally issued for the acquisition of the preferred shares (European Commission 2008a; Hellenic Republic 2008a).

For recapitalized banks that did not repurchase the shares after six months, Greek authorities committed to notify the Commission of restructuring plans submitted by the banks. The BoG would not allow banks to repurchase the shares if they did not meet minimum capital ratios. If after five years, a bank still did not meet capital adequacy requirements, the preferred shares would be converted into common shares or other similar instruments. To determine the conversion rate, the average of the market value of these securities in the last trading year would be considered. For cases where the securities were not listed on an organized market, the bank's internal book value of the last fiscal year would be considered (European Commission 2008a 3-4; Hellenic Republic 2008a).

The Greek State, through the preferred shares acquired, was allowed to appoint a representative to a bank's Board of Directors. The State representative would attend the bank's general assembly of common shareholders and have veto power on decisions related to dividend distribution as well as benefits to the President, Managing Director and other members of the Board of Directors (European Commission 2008a, 3). Additionally, recapitalized banks were subject to conditions such as caps on salary and benefits, and bans on bonuses. They also were restrained from taking any aggressive market strategies or balance sheet expansions (European Commission 2008a, 4).

Outcomes

By the end of 2009, recapitalizations totaled €3.8 billion (Bank of Greece 2010, 36). The ten banks recapitalized were the EFG Eurobank, Alpha Bank, Agricultural Bank of Greece (ATE), Piraeus Bank, National Bank of Greece (NBG), Hellenic Postbank (TT), Attica Bank, Proton

Bank, First Business Bank (FB) and Panellinia Bank (Boudghene et al. 2011, 1; Triantopoulos 2015, 68). Eight of the ten bank recapitalizations occurred in May 2009. The other two occurred in July 2009 (see Table 1).

Table 1: Recapitalizations under Greek Law 3723/2008
Portfolio of Banks' Preferred Shares in 2009

Bank	Recapitalization (euros)	RWA (*) %	2009	
EFG Eurobank	950,125,000	2	May	(European Commission 2012d, 10)
Alpha Bank	940,000,000	2	May	(European Commission 2012b, 10)
Agricultural Bank of Greece (ATE)	675,000,000		May	(ATE Bank 2010, 10)
Piraeus Bank	370,000,000	1.2	May	(European Commission 2012e, 10)
National Bank of Greece (NBG)	350,000,000	0.7	May	(European Commission 2012c, 10)
Hellenic Postbank (TT)	224,960,000	2.9	May	(European Commission 2014a, 26)
Attica Bank	100,200,000		May	(European Commission 2016, 2)
Proton Bank	80,000,000	4.58	May	(European Commission 2012a, 3)
First Business Bank (FB)	50,000,000	3	July	(European Commission 2014b, 26)
Panellinia Bank	28,300,000	5	July	(European Commission 2015, 9)
Total	3,768,585,000			

(*) % of risk-weighted assets of the bank at the time.

Source: (Triantopoulos 2015, 68)

In addition to the bank recapitalizations performed by the Greek government in May and July of 2009, by November 2009 five banks had completed capital increases from private investors for €2.2 billion (Bank of Greece 2009, 11). There were no further recapitalizations under the Greek Law 3723/2008 until the end of 2011 (Triantopoulos 2015, 68).

Emporiki Bank decided not to participate in the Greek government package and instead relied on private shareholders. In February 2009, Emporiki Bank's shareholders approved a €850 million rights issue to strengthen capital and liquidity. Its parent company Credit Agricole subscribed and raised its holding in Emporiki Bank to 82%. In July 2009 Emporiki Bank reported a €190 million net loss corresponding to the second quarter of 2009 (Mayer Brown 2009, 2).

In the context of the GFC, Greece was the first major western European country to have its credit rating downgraded in January 2009. Standard & Poor's (S&P) projected lack of economic growth in Greece and loss of competitiveness in the economy. In February 2009, Moody's downgraded Greece from positive to stable projecting no rating improvements for the following year and a half. Additionally in 2009, Moody's revised negatively the outlook on the bank financial strength ratings, long-term deposit, and debt ratings of four Greek banks: National Bank of Greece (NBG), EFG Eurobank, Alpha Bank and Piraeus Bank. In May 2009, S&P downgraded five Greek banks: EFG Eurobank, Piraeus Bank, Emporiki Bank of Greece, National Bank of Greece (NBG), and Alpha Bank (Mayer Brown 2009, 2–3). In the first months of 2010, as Greece entered a sovereign debt crisis, its rating was significantly downgraded by all major international rating agencies (Bank of Greece 2014, 163).

In 2011, the Agricultural Bank of Greece (ATE) repurchased the €675 million of preferred shares from the Greek government (Triantopoulos 2015, 68). In December 2011 the Commission approved additional capital injections of €1 billion for the National Bank of Greece (NBG) and €380 million for Piraeus Bank (around 1.1% of RWA) (European Commission 2011, 1). In 2012, the total amount granted under the law reached €5.2 billion, of which €4.5 billion was outstanding. In 2014, Piraeus Bank and Alpha Bank repurchased the preferred shares from the Greek government for €1.7 billion (Triantopoulos 2015, 68). By 2014, only three banks had repaid the total value of the preferred shares to the government. The total outstanding government investment stood at €2.8 billion. Three banks were liquidated: Proton Bank in 2011, Hellenic Postbank and First Business Bank (FB) in 2013 (Triantopoulos 2015, 68; Bank of Greece 2011; 2013a; 2013b).

CHART 1

Public revenues from the banking funding support, 2009-2014

	2009	2010	2011	2012	2013	2014
Preferred Shares Return (law 3723/2008) to HFSF	0.0	0.0	0.0	555.6	0.0	0,0
State Guarantees for ELA	0.0	0.0	0.0	167.8	47.2	4.4
Law 3723/2008 Package	47.4	634.7	909.4	703.1	600.3	398.0

Source: State ***Budgets 2010, 2011, 2012, 2013, 2014 και 2015.***

Note: The public revenues from the three pillars of the law 3723/2008 package are included in code 2993 of the State Budget with the title "Revenues from the funding of the financial crisis program" and the public revenues from the provision of state guarantees to the Bank of Greece for the ELA mechanism are included in code 3337 of the State Budget with the title "Revenues from fees on the state guarantees provision to the Bank of Greece to cover credit to banks based in Greece". The data on 2014 have been derived from the 2015 State Budget (the only available data) and consist of estimations that may slightly change during the review of the year's fiscal data. However, any small change will not alter the broad picture.

Source: (Triantopoulos 2015, 69)

The GFC hit the Greek economy with some delay. A slowdown in credit expansion to the private sector became significant only in 2009. In early 2010, the GFC turned into a sovereign debt crisis for some European countries. The Greek government's credit rating was downgraded by international rating agencies. Greek banks faced difficulty accessing funding markets as borrowing costs increased while the value of the Greek bonds in their portfolios diminished. Greece's large fiscal and current account deficits threatened the financial stability of Europe. In May 2010, the EU and IMF agreed to provide a three-year aid package worth €110 billion (Bank of Greece 2014, 54–55, 82).

II. Key Design Decisions

1. The recapitalization scheme for Greek banks was part of a package approved by the European Commission (Commission) in late 2008.

On October 15, 2008, the Greek government announced a €28 billion ($36 billion) package estimated at 11.4% of GDP. The Greek Package included three pillars: bank recapitalizations (€5 billion), guarantees on debt issuance by banks (€15 billion), and liquidity support via special government bonds (€8 billion) (European Commission 2008a; Hellenic Republic 2008a; Mayer Brown 2009; Reuters 2008). The recapitalization scheme was not aimed at distressed banks. It was aimed at strengthening capital ratios against possible losses (European Commission 2008a, 11).

2. The Greek Law 3723/2008 "Enhancement of liquidity in the economy in response to the impact of the international financial crisis" was passed in late October of 2008.

The Greek Law 3723/2008 "Enhancement of liquidity in the economy in response to the impact of the international financial crisis" came into effect on October 24, 2008, less than two weeks from its announcement. However, the Greek authorities committed that the law would not be applied before the Commission's approval (European Commission 2008a, 2). The Bank of Greece (BoG) contributed significantly in the drafting of the law. It provided technical support and recommendations on the financial support to banks, based on capital adequacy and liquidity needs (Bank of Greece 2014, 53).

3. The Commission approved the Greek law under EU State aid rules compatible with the EC Treaty.

On November 19, 2008, the Commission authorized the Greek package under EU State aid rules compatible with Article 87 (3)(b) of the EC Treaty that permits state aid to "remedy a serious disturbance in the economy of a Member State" (European Commission 2008a, 8).

4. Greece and other European countries communicated government interventions to contain the global financial crisis.

On October 12, 2008, in a Summit held in Paris, Euro heads of state released the "Declaration on a concerted European action plan of the Euro area countries" which committed efforts to reestablish confidence and the well-functioning of the financial system." European governments, central banks and supervisors agreed to support financial institutions by facilitating: a) appropriate liquidity conditions, b) funding of banks, c) additional capital resources, d) recapitalizations of distressed banks, e) flexibility in the implementation of accounting rules, and f) cooperation among European countries (Euro Summit 2008, 1–2).

5. The Greek Minister of Economy and Finance managed the recapitalization scheme with advice from the BoG.

The Supervisory Council was set up by the Greek Law and was chaired by the Greek Minister of Economy and Finance with the participation of the BoG Governor, the Deputy Minister of

Economy and Finance, and the Greek State's representatives at the Board of Directors of the participating banks. The Council would convene monthly to coordinate the implementation of the law and make sure depositors, borrowers and the Greek economy benefited from the scheme (European Commission 2008a, 4–5).

6. Limited by the EU state aid rule, the Greek government was allowed to acquire up to €5 billion in preferred shares in banks in total.

The EU State aid was intended to be limited in time and scope. The Greek Government could acquire up to €5 billion in preferred shares in banks that chose to participate in the recapitalization scheme (European Commission 2008a, 11).

7. Eligible institutions included all banks authorized to operate in Greece (including subsidiaries of foreign banks) but the actual participation was decided by the Minister of Economy and Finance, based on the recommendation of the BoG Governor.

Eligible institutions included all banks authorized to operate in Greece with license from the BoG, including subsidiaries of foreign banks. Banks could increase their capital by issuing preferred shares regardless of their transferable securities were listed in organized markets or the stock exchange (European Commission 2008a, 2).

8. Bank recapitalizations followed supervisory criteria based on capital adequacy levels, size, and credit to small- and medium-sized enterprises.

Banks willing to participate in the recapitalization scheme had to communicate their interest by February 1, 2009. Then, they had to issue the preferred shares by May 19, 2009 (six months after the approval of the scheme). The window to issue the preferred shares could be extended up to December 31, 2009, upon the Commission's approval (European Commission 2008a, 3).

Bank recapitalizations were accepted based on supervisory criteria. First, the amount of capital required to meet the capital adequacy level of Tier 1 ratio between 8% and 10%, as defined by the BoG, was weighted at 50% of the total evaluation. Second, the size of the bank, its market share, and its importance in preserving financial stability was weighted at 40%. And third, the contribution of the bank in financing small- and medium-sized enterprises and residential loans was weighted at 10% (European Commission 2008a, 3).

The amount to purchase would be decided by the Minister of Economy and Finance, based on the recommendation of the Governor of the BoG (European Commission 2008a, 3). The Greek government would issue Greek government bonds paying interest set at a spread to Euribor to cover the price of the preferred shares, which was determined as the nominal value of common shares of the bank's most recent issuance (Hellenic Republic 2008a, 2).

In the case of the Proton Bank Group, after the 2009 recapitalization of €80 million, its balance sheet increased from €1.9 billion in 2008 to €2.9 billion in 2009, and to €4.3 billion in 2010. Thus, its balance sheet grew by over 100% from 2008 to 2010 (European Commission 2012a, 2). In 2011, the BoG withdrew the license of Proton bank and placed the entity in liquidation (Bank of Greece 2011).

9. Recapitalizations consisted of preferred shares exclusively and held priority over common shares in case of a bank's liquidation.

In the recapitalizations, the Greek government would acquire exclusively preferred shares as they were considered Tier 1 capital by the BoG. Through the recapitalizations, banks would reach a Tier 1 capital ratio of 8% or above, which had to be maintained throughout the duration of the scheme. The capital adequacy ratios set by the BoG also corresponded with 8% of Tier 1 capital (European Commission 2008a, 2).

The preferred shares paid a 10% dividend. They were non-cumulative and considered non-core Tier 1 capital (European Commission 2008a, 2–3). Based on EU State aid rules, recapitalizations had to be performed at terms that minimized the amount of aid. Data at the time, under distressed market conditions, showed that the yield for hybrid Tier 1 capital, such as preferred shares, was around 15% or more. However, the Commission recognized that setting a higher dividend yield, in the vicinity of that market level, would discourage banks from participating in the recapitalizations. Additionally, the Commission intended to adjust to long-term market conditions and not to impose unfavorable conditions at the time. The Commission noted in approving the Greek program that in the UK and Germany, the programs had come with strict behavioral conditions, and paid dividend yields of 12% and 10%, respectively. Consequently, the Commission positively observed that if equivalent behavioral conditions were met, the 10% yield in the Greek case was appropriate, and reflected a market-oriented remuneration on the capital injected (European Commission 2008a, 10–11). In the case of a bank's liquidation, preferred shares would hold priority over common shares (European Commission 2008a, 3–4).

10. Banks that did not repurchase the shares after six months were required to submit restructuring plans.

For recapitalized banks that did not repurchase the shares after six months, Greek authorities committed to notify the Commission of restructuring plans submitted by the participating banks (European Commission 2009, 3,5). Cases of conversions of preferred shares into common shares would also be considered within the restructuring plan (European Commission 2008a, 4).

The Commission noted that the restructuring plans were the foundation of the Community Guidelines on State aid for Rescuing and Restructuring Firms in Difficulty for the Commission's understanding of Article 87 (3) (c) EC for aid of this kind. It was important that banks returned to long-term viability and the plans were adequately scrutinized. The Commission would not require restructuring plans for banks that repurchased the preferred shares within six months (European Commission 2008a, 12). Additionally, if further recapitalizations were needed, Greek authorities would ensure that future beneficiary banks were fundamentally sound, which they would scrutinize ex ante, and provide this information to the Commission at the time of a capital injection. Greek authorities would notify the Commission of a restructuring plan within six months of the capital injection. If the Greek government intended to recapitalize a bank previously recapitalized, then Greek authorities would have to present an individual notification for the Commission's approval (European Commission 2008a, 4-6).

11. The Greek government was allowed to appoint a representative to a bank's Board of Directors.

The Greek State, through the preferred shares acquired, was allowed to appoint a representative in a bank's Board of Directors. The State representative would attend the bank's general assembly of common shareholders and have veto power on decisions related to dividends distribution as well as benefits to the President, Managing Director and other members of the Board of Directors. This would come in consideration if the State representative considered that a decision "may jeopardize the interests of depositors or substantially affect the solvency and the good functioning of the bank" (European Commission 2008a, 3)

12. Banks that received government capital were subject to other behavioral conditions.

The behavioral conditions imposed on recapitalized banks included:

a) The salary and benefits of the President, the Managing Director and other members of the Board of Directors, General Directors and Deputy General Directors of recapitalized banks could not surpass the salary and benefits of the Governor of the BoG. The law required banks to review their activities regularly and limit the remuneration of bank executives involved in a State intervention (European Commission 2008a, 12).

b) Any additional bonuses were abolished throughout the duration of the recapitalization.

c) Although the Greek Law allowed dividend distribution of up to 35% of distributable profits, in principle, no dividends would be paid out while the Greek government was involved (Hellenic Republic 2008b; ATE Bank 2010, 10; Mayer Brown 2009). The Commission declared that based on Article 1(3) of the Greek Law and by decision of the Greek Minister for Economy and Finance, the State representative appointed at the bank Board of Directors, would ensure through their veto rights that no dividends were distributed until government participation had been redeemed (the veto right could not be overruled). The Commission noted that an important behavioral constraint was the ban on dividends, because it provided an incentive for the bank's common shareholders to repurchase the State's preferred shares as early as possible. Through the ban on dividends, the capital base of the bank would be built by the accumulation of reserves, in line with the overall goal of the program. In cases of dividend distribution, Greek authorities would notify the Commission to seek its approval.

In June 2009, the BOG Governor George A. Provopoulos expressed that:

> "In matters relating to banking supervision and financial stability there is no room for even the slightest complacency. My main priority, since the first day I took up my duties, has been to protect financial stability. In view of the increased risks resulting from the weakening economic activity, high market volatility and the prevailing liquidity conditions, I have asked banks to implement the kind of policies that ensure financial resilience, stability and health.

> I have also urged them to make use of the government plan, so as to enhance liquidity in the economy. I have asked them not to distribute any dividends, to substantially increase their provisions for bad debts, and to reduce bonuses to their executives. All these measures create additional 'cushions' that shield banks in the difficult times we are experiencing. Nevertheless, continued vigilance is required" (Bank of Greece 2014, 48).

d) Banks recapitalized had to report to the BoG every three months of the specific use of the capital injected. Based on these reports, the BoG would prepare semi-annual reports to be submitted to the Commission that would outline the use of the capital injected, implementation of business plans, and any restructuring plans. If a bank seriously violated the terms and conditions of the recapitalization, the Minister of Economy and Finance following proposal of the BoG governor, could impose sanctions or cancel government support in full or in part.

e) Banks were expected to restrain from any aggressive market strategies or advertising, particularly against competitors not receiving equal coverage or not part of the scheme.

f) Banks were expected to refrain from expanding their activities or pursuing different purposes that might unduly distort competition. Banks were forced to ensure that during the government's involvement in the recapitalization, the average increase of the total assets did not surpass the highest of these amounts: a) the annual growth rate of the Greek nominal GDP of the previous year, b) the average rate of increase of the Greek banking sector's total assets for the 1987-2007 period, or c) the average rate of increase of the EU banking sector's total assets for the previous six months.

The compliance with these obligations would be controlled by the Supervisory Council and based on the BoG's reports. The Supervisory Council was set up by the Greek Law and was chaired by the Greek Minister of Economy and Finance with the participation of the BoG Governor, the Deputy Minister of Economy and Finance, and the Greek State's representatives at the Board of Directors of the participating banks. The Council would convene monthly to coordinate the implementation of the law and make sure depositors, borrowers and the Greek economy benefited from the scheme (European Commission 2008a, 4–5).

13. Recapitalized banks had to repurchase the preferred shares acquired by the Greek government within five years, or face conversion into common shares.

The Greek law stated that recapitalized banks had to repurchase the preferred shares from the Greek government within five years and for the amount originally invested in the bank. The BoG would prevent bank repurchases in cases where capital adequacy ratios were not met. If after five years, the bank could not make the repurchase because of capital adequacy requirements, the preferred shares would be converted into common shares or other similar instruments. To determine the conversion rate, the average of the market value of these securities in the last trading year would be considered. For cases where the securities were not listed on an organized market, the bank's internal book value of the last fiscal year would be considered (European Commission 2008a, 3–4).

III. Evaluation

Although there are limited evaluations specific to the Greek recapitalization scheme, Greek authorities expressed satisfaction with the first year of implementation of the schemes. In their view, "a stock-taking of their effectiveness so far reveals that the measures adopted have provided a safety net that corresponds well to the market's needs" (European Commission 2010a, 2; European Commission 2010c, 2)

Initially, banks were reluctant to participate in the government measures due to potential negative market reactions (stigma effect). The BoG urged banks to participate to solidify their capital base. Through the recapitalizations banks improved their capital positions and the contraction of credit growth was significantly less than anticipated given the depth and length of the recession (Bank of Greece 2014, 53).

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VI. Appendices

Appendix A: Timeline

Date	Event	Description
Oct/07/2008	The European Council of Economic and Financial Affairs (ECOFIN) met to plan a response to the global financial crisis.	The ECOFIN Council outlined a coordinated approach in response to the crisis. Link
Oct/12/2008	Declaration on a concerted European action plan of the Euro area countries.	Summit of Heads of State of Euro area countries in Paris. Link
Oct/13/2008	The European Commission releases the "Banking Communication."	The European Commission provided guidance on the application of State aid measures for banks in the context of the global financial crisis. It highlighted that recapitalization schemes were important measures Member States could take to preserve financial stability and proper functioning of financial markets. Link 1, Link 2
Oct/15/2008	Announcement of the €28 billion Greek government package	The package included capital injections, guarantees on debt issuance by banks and liquidity support via special government bonds. (Mayer Brown 2009)
Oct/24/2008	Greek Law 3723/2008 enacted on "the enhancement of liquidity in the economy in response to the impact of the international financial crisis"	The Greek law entered into force but Greek authorities committed that the law would not apply until the European Commission's approval. Link (European Commission 2008a)
Nov/19/2008	The European Commission approves the Greek package.	State Aid N 560 /2008 – Greece. "Support Measures for the Credit Institutions in Greece." Link
Nov/26/2008	The Greek Minister for Economy and Finance implemented the Greek Law 3723/2008.	Decision 54201/B 2884/26.11.2008. (Petrovic and Tutsch 2009, 41)
Dec/02/2008	The ECOFIN Council anticipates the need for further recapitalizations.	The ECOFIN council expresses that it "recognized the need for further guidance for precautionary recapitalizations to sustain credit, and called for its urgent adoption by the European Commission. Link(European Commission 2008b)

Jan/15/2009	The European Commission releases a communication for recapitalization schemes.	The Communication "The recapitalization of financial institutions in the current financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition" provided guidance for new recapitalization schemes and adjustments of existing ones (European Union 2009). Link
Sep/18/2009	The European Commission approved amendments to the Greek package and prolonged it until December 31, 2009.	"Prolongation and amendment of the Support Measures for the Credit Institutions in Greece." State aid Case N 504/2009, OJ C 264/5. Link
Jan/25/2010	The European Commission approved a second prolongation until June 30, 2010.	"Prolongation of the Support Measures for the Credit Institutions in Greece." State aid Case N 690/2009, OJ C 57/6. Link
May/12/2010	Greece increased the government package from €28 to €43 billion by increasing the guarantee scheme.	"Amendment to the Support Measures for the Credit Institutions in Greece." State aid Case N 163/2010 OJ C 166/2. Link
Jun/30/2010	The European Commission approved amendments to the Greek package and a third prolongation until December 31, 2010. The government package increased from €43 to €68 billion by increasing the guarantee scheme.	"Extension and amendment to the Support Measures for the Credit Institutions in Greece." State aid Case N 260/2010, OJ C 238/3. Link
Dec/21/2010	The European Commission approved a fourth prolongation of the Greek package until June 30, 2011.	"Fourth extension of the Support Measures for the Credit Institutions in Greece". State aid Case SA.31998 (2010/N). Link
	The government package increased from €68 billion to €98 billion by increasing the guarantee scheme.	"Amendment to the Greek Bank Guarantee Scheme." Commission Decision SA 32767: OJ 2011, C 164/8. Link
Apr/04/2011	The European Commission approved an amendment.	''Amendment to the Support Measures for the Credit Institutions in Greece." Commission decision in State aid SA.32767 (2011/N), OJ C 164. Link
Jun/27/2011	The European Commission approved a fifth prolongation of the Greek package until December 21, 2011.	"Fifth prolongation of the Support measures for the credit Institutions in Greece." Commission decision in State aid SA.33153 (2011/N), OJ C 274. Link
Feb/06/2012	The European Commission approved a sixth prolongation of the Greek package until June 30, 2012.	"Sixth prolongation of the Support Measures for the Credit Institutions in Greece." Commission

		decision in State aid SA.34149 (2011/N), OJ C 101. Link
Jul/06/2012	The European Commission approved a seventh prolongation of the Greek package until December 31, 2012.	"Seventh prolongation of the Support Scheme for Credit Institutions in Greece." Commission decision in State aid SA.35002 (2012/N). Link