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Summary of Government Interventions in Financial Markets: Greece

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Overview

The UK model for governmental intervention announced in October 2008 became the European standard, with national variations to take account of differing systems. Although Greek banks have little exposure to "toxic" products and have not suffered large write-downs like some of their European peers, their rapid expansion in neighbouring Balkan markets has contributed to a liquidity squeeze.

On 15 October 2008, the Greek government announced a EUR 28bn (USD 36bn /GBP 22.1bn) government intervention package which included capital injections by way of sale of preferred shares to the State, guarantees on debt issuance by banks and liquidity support via special government bonds.

State guarantees

As part of the Greek intervention package, the Greek government has offered a EUR 15bn guarantee of new medium to long-term bank loans with a duration of 3 to 5 years that will be issued until the end of 2009. The guarantee will be provided at a cost of 100-150 basis points. The state guarantee aims at more favourable lending terms, to avoid passing on high inter-bank interest rates to borrowers. To date, Greek banks have qualified for EUR 1bn in state-backed debt guarantees.

Bank deposit guarantee

The Greek government has implemented a unilateral guarantee on bank deposits in all banks which operate in Greece. This guarantee was raised from EUR 20,000 to EUR 100,000 per depositor and institution for 3 years (until 31 December 2011). The Greek government has indicated that this date may be extended if necessary.

Government capital and liquidity injections

EUR 5bn capital was made available, as part of the EUR 28bn package, for capital injection into Greek banks in return for equity stakes with voting rights. These shares will have the required characteristics of tier 1 capital, will include a buyback option no sooner than 5 years, and pay the state a return of up to 10 per cent. The scheme provides the government with the right of veto on dividend policy, bonuses and executive pay, in return for the guarantees and cash offered to banks. In these cases, the state will be represented on banks' boards of directors with the right to veto pay packages for top executives. Executive pay may not top that of the central bank governor – about EUR 25,000 monthly – and dividends may not exceed 35 per cent. of net profit.

Another EUR 8bn is being used for the issuance of special bonds to be able to inject liquidity into banks. These 2, 3, and 5 year bonds will be placed with Greek banks against a commission of 50 to 100 basis points. Under the plan, the state may also give banks state bonds against collateral to strengthen their liquidity. These special bonds will be issued by the state and will be offset by equal amounts of state deposits in the banking system.

So far, Greek banks have used EUR 12bn of the EUR 28bn government package, including EUR 1bn in state-backed debt guarantees, EUR 3.8bn in government-held preferred shares and EUR 4.4bn in special bonds. Applications for capital injections have come from all major Greek banks including the National Bank of Greece SA.

On 1 June 2009, the Greek government extended for 6 months the deadline for application by Greek banks for government support in the EUR 5bn capital and liquidity injection scheme. The initial deadline for application expired on 19 May 2009 however, EUR 1.2bn of funds is still available.

Notable developments with commercial banks

Rating agency changes

Moody's Investors Service has changed the outlook on the bank financial strength ratings and long-term deposit and debt ratings of the following 4 Greek banks to negative from stable: National Bank of Greece (Aa3), EFG Eurobank (A1), Alpha Bank (A1) and Piraeus Bank (A2).

Standard & Poor's Ratings Service has placed its 'A/A-1' long- and short-term counterparty credit ratings on Emporiki Bank on CreditWatch with negative implications.

Public offer for shares in Proton Bank

Piraeus Bank announced that it will proceed with a public offer for the 68.7 per cent. of Proton Bank that it does not already own in the first 2 months of 2009, however there has been no such offer to date.

Emporiki Bank relies on private shareholders

In February 2009, Emporiki Bank's shareholders approved an EUR 850m rights issue to boost capital and liquidity. Parent company Credit Agricole subscribed in the issue and raised its holding in Emporiki Bank to 82.48 per cent. Emporiki Bank decided not to take part in the Greek government liquidity support package, but instead opted to rely on its shareholders for a capital boost. However, on 29 July 2009 Emporiki Bank announced a net loss of EUR 190m in the second quarter of 2009. It is unclear at this stage whether the loss will affect Emporiki Bank's decision not to partake in the government's support.

National Bank of Greece SA

On 17 February 2009, National Bank of Greece ("NBG"), Greece's largest lender, was reported to be planning the issue of medium-term debt worth EUR 500m guaranteed by the State under the government's EUR 28bn liquidity support package. The bank has also received shareholder approval to sell the government EUR 350m in preferred shares under the government support package.

On 15 April 2009, NBG completed a private placement of 5.95m of its treasury shares, representing 1.2 per cent of the bank's share capital, to domestic and international institutional investors via an accelerated book-building process.

On 18 June 2009, NBG's board of directors authorised its buy-back of the bank's EUR 1.05bn hybrid bonds in cash at a price of between 60 and 65 per cent. of their nominal value. The buy-back and the latest rights issue by the bank would support the bank's efforts to increase its core equity.

On 16 July 2009, NBG proposed a rights issue of up to EUR 1.25bn. The rights issue was intended to provide capital flexibility ahead of other expected capital raisings within the banking sector, and to reflect heightened investor expectations regarding capital adequacy levels in anticipation of tighter regulatory regimes worldwide. On 22 July 2009, NBG announced that shareholders had registered to buy all the new shares offered as part of the EUR 1.25bn rights issue; the rights issue was in fact 2.25 times oversubscribed.

http://www.nbg.gr

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Piraeus Bank

On 23 January 2009, the shareholders of Piraeus Bank, Greece's fourth largest lender, approved a EUR 370m increase of share capital through issue of preferred shares to the Greek government under the government support package.

On 18 August 2009, Piraeus Bank announced that it had completed three new loan securitisations totalling EUR 3.5bn to improve its liquidity. The bank stated that the class A notes of these securitisations were eligible collateral for the European Central Bank's refinancing purposes.

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Other developments

Greece's credit rating

On 14 January 2009, Greece became the first big western European economy to have its credit ratings downgraded since the start of the financial crisis because of rising fears over its ballooning public sector debt. Greece plans to borrow about EUR 42bn (USD

52.3bn) this year, a bit less than in 2008, via t-bills and 3, 5 and 10-year benchmark government paper to cover maturing debt and interest payments. Standard & Poor's cited a loss of competitiveness in Greece's economy and its wide current account deficit when it downgraded the country's sovereign debt by one notch in January 2009 to A-/A-2. The European Commission forecast that Greece's economic growth would slump to 0.2 per cent. in 2009, and the fiscal deficit would hit 3.7 per cent., breaking Brussels' 3 per cent. ceiling for third consecutive year. On 15 April 2009 the Central Bank of Greece released a revised forecast on Greece's economy projecting that Greece's economic growth will come to a halt in 2009.

On 25 February 2009, Moody's changed the outlook for the Greek government's A1 bond ratings to stable from positive, saying a rise was unlikely for around 18 months due to the limited shock adjustment capacity of the economy and government.

Greek banks' credit ratings

On 5 May 2009, Standard & Poor's ("**S&P**") lowered the ratings on 5 Greek banks due to the potential for more loan losses. The ratings were lowered as follows:

- - EFG Eurobank Ergasias S.A's ("**EFG**") long-term counterparty credit rating was lowered to 'BBB+' from 'A-' and the ratings on EFG's hybrid capital securities (preferred stock) to 'BB-' from 'BB+', with the 'negative' outlook;
- - Piraeus Bank S.A.'s long-term counterparty credit rating was lowered to 'BBB' from 'BBB+' and the ratings on Piraeus Banks S.A.'s hybrid capital securities (preferred stock) to 'B+' from 'BB', with the 'stable' outlook; and
- - Emporiki Bank of Greece S.A.'s long-term counterparty credit rating was lowered to 'BBB' from 'A-', with the 'stable' outlook.

S&P also revised their outlooks on National Bank of Greece S.A. ("**NBG**") and Alpha Bank A.E. ("**Alpha**") to negative from stable, at the same time affirming their 'BBB+/A-2' long- and short-term counterparty credit ratings on both banks. The ratings on the hybrid capital securities of NBG (preferred stock) and Alpha (preferred stock and junior subordinated debt) were also lowered to 'BB-' from 'BB'.

Short selling

Greece's securities watchdog extended a ban on short selling on the Athens stock exchange to 31 May 2009. In October 2008 the regulator extended the ban on short sales to 31 December 2008.

According to a Reuters report of 15 May 2009, Greece will allow short selling on the Athens stock exchange from 1 June 2009 but such orders must be flagged and meet an "uptick rule". Short-selling orders will have to be entered at a price higher than the last deal on the exchange ("uptick rule"). The securities regulator was also reported to say that investors with short positions exceeding 0.10 per cent. of a listed company's outstanding shares will have to promptly disclose this to the stock market authorities and the investing public, not later than a day after the limit is breached. The Athens stock exchange will publish on a daily basis the short interest and the amount of short sales on individual stocks.

New EU bank accounting rules

The Greek government intends to implement new EU bank accounting rules that ease fair value accounting and plans to strengthen the role and coordination of regulatory authorities.

Stock capital gains tax delay

On 6 March 2009, the Finance Ministry of Greece announced that the introduction of a 10 per cent. capital gains tax on stock trading shall be delayed by 9 months to 1 January 2010. The 10 per cent. tax on capital gains and dividends in 2009 was announced last summer as part of a package of measures to boost budget revenues, but adverse market conditions have forced its delay.

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