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Bigger haircuts put strain on Greek banks

By Joshua Chaffin and Kerin Hope in Athens

A plan to impose bigger losses on private holders of Greek bonds will place further strain on a Greek banking system that is already struggling to staunch a quickening outflow of deposits.

The plan will result in billions of euros in additional writedowns for Greece's banks, which are big holders of government bonds.

Some observers worry that this could deepen fears about the banking system's health, accelerating what they describe as a "slow-motion" run over the past 18 months as nervous customers drain accounts.

An estimated €9.5bn ($13.5bn) – amounting to 5 per cent of deposits – was withdrawn from Greek banks in the six weeks to mid-October. That comes on top of a 14 per cent fall in deposits in 2010, according to central bank figures.

While a voluntary haircut of 50 per cent will trim Greece's debt load, it will put extra pressure on the country's banks, which are suffering in the recession.

Recognising this, the troika of Greece's lenders – the European Commission, European Central Bank and the International Monetary Fund – set aside €20bn-€30bn to recapitalise Greek banks as part of a July rescue package. But some observers worry that will not be sufficient to enable the banks to begin lending again to credit-starved Greek businesses.

Moreover, the amount set aside fails to take into account the vulnerabilities in Greece's pension and social security funds, which are big holders of Greek government debt as well as Greek bank shares.

In order to achieve the 9 to 10 per cent core tier one capital ratio mandated by European leaders, Greece's six largest banks would have to come up with an extra €16bn, according to analysts.

They have already taken a €6.1bn one-off charge – equivalent to a 17 per cent haircut on their bond portfolios – to reflect the original haircut agreed in July.

They face another hit when BlackRock Solutions – a specialist risk manager hired by the troika – releases its report on non-performing loans in the country's banking system. The publication is expected to reveal €15bn in extra losses, according to several Athens analysts.

All these factors appear to be unsettling depositors, with households winding down accounts in order to pay taxes and keep cash.