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Greek banks in €6.4bn bond switch

By Tracy Alloway

Alpha Bank was one of the three banks that issued a total €6.4bn of government-guaranteed bonds

Three of Greece's biggest banks have issued €6.4bn ($8.8bn) of government-guaranteed bonds likely to be used as security to obtain financing from central banks, a move that points to worsening market conditions amid talk of a disorderly Greek default.

Alpha Bank, EFG and Piraeus on Friday issued the floating-rate notes, which analysts say will probably be used as part of a new €30bn liquidity facility created for cash-strapped Greek banks earlier this year. Under the scheme, Greek banks can issue bonds guaranteed by the government, which can then be used as collateral to receive funding from central banks.

Greek lenders have two sources of central bank liquidity support: the European Central Bank, as well as the so-called Emergency Liquidity Assistance, or ELA, provided by Greece's own central bank.

"Greek banks had not thus far made full use of a facility to issue an additional €30bn of government-guaranteed bonds, almost surely because the ECB was not prepared to accept them as collateral," JPMorgan analysts wrote. Friday's "issuance suggests a softening of that stance", they said, noting it was the first Greek government-guaranteed bank bond issuance since the summer.

In July the International Monetary Fund urged the ECB to approve a new €30bn liquidity package to keep Greek banks afloat in case of a default. The ECB had authorised Greek bank bonds for use as collateral on a tranche-by-tranche basis since 2010, but had failed to do so with the new package.

"Wholesale funding markets remain closed, and exceptional ECB liquidity support has grown," the IMF said that month. "Contrary to programme expectations, the ECB governing council has not taken a decision on whether to accept as eligible collateral the proposed new €30bn tranche of government-guaranteed bank bonds."

Market participants are on alert for signs of fresh strain in the Greek financial system after George Papandreou, Greek prime minister, rattled investors last week by first saying the country would hold a referendum on a second bail-out package, only to scrap the plan later.

Deposits in Greek banks have fallen in recent months, according to central bank data, and lenders' access to normal market means of financing remains practically non-existent.

EFG said in its prospectus for the new bonds that the debt would be held in a manner that would make them eligible to be used as central bank collateral. However, they would still need to satisfy eligibility requirements to be used as security for central bank financing.

The potential softening of the ECB's stance "could point to a deterioration in Greek bank funding conditions, such as further deposit outflows", the JPMorgan analysts said.