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Delicate balancing act for Greek banks

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By Kerin Hope and Ralph Atkins in Athens

Burnt-out bank buildings in Athens are a reminder of violent demonstrations that have marred attempts to save the country from economic collapse. But the repairs needed to premises torched during last month's riots are nothing compared with a bigger challenge for Greece: rebuilding a financially devastated banking sector in such a way that it allows the country to return to economic growth.

With a second Greek bailout plan in place, work has started on using international funds to recapitalise the country's banks, allowing them to resume basic banking functions, including providing adequate credit to companies and consumers.

If the plans drawn up with European Union partners and the International Monetary Fund are successful, Greece will not only have stronger banks. Its financial sector will be streamlined, focused on just four main banks, with a dozen smaller lenders wound down.

But successful implementation will require delicately balancing official aid and private investment and, more critically, a revival of confidence in Greece's economic prospects.

"The next few months will be make-or-break for the Greek banking system. It will be critical to the recovery to have a strong banking sector," says Nikos Karamouzis, deputy chief executive of Athens-based EFG Eurobank.

Since the Greek debt crisis erupted in late 2009, its banks have suffered a series of life-threatening blows. Most dramatic has been a fall of some €70bn – more than a quarter – in bank deposits as Greek households and companies have instead stuffed notes under mattresses, transferred money out of the country, or kept overseas earnings from exports.

The country's €206bn debt restructuring, meanwhile, has wiped out much of the value of Greek government bonds held by the country's banks. On top of that, independently conducted "stress tests" on loan books have revealed significant extra capital needs.

Shut out of international capital markets, Greece's banks, like those in other crisis-hit eurozone periphery countries, have become dependent on liquidity from the European Central Bank. But they have also had to fall back heavily on emergency liquidity provided by the country's own central bank and specially approved by the ECB, which at its peak reached €70bn.

Rebuilding from that low base will be crucial to a revival in Greek business fortunes, says Yannis Stournaras, director of the Iobe think-tank. "If you don't have somebody to lend to you, you are suffocated just because you are Greek, even if you don't have any problems."

As part of Greece's second bailout, its international creditors have set aside €45bn to bolster the Hellenic Financial Stability Fund, a rescue facility for struggling banks. Roughly half is expected to be used to recapitalise Greece's four biggest commercial lenders – National Bank of Greece, Alpha Bank, EFG Eurobank and Piraeus Bank.

The quid pro quo is that they must raise at least 10 per cent of their extra capital requirements, estimated at just under €4bn, from the private sector or by selling assets such as their Balkan and Turkish subsidiaries. That would ensure that current managers would continue to run their banks and would be given a chance to buy out the HFSF stake within a specific deadline.

But confidence is low among private investors who have seen the value of their shareholdings almost wiped out since the crisis erupted. The combined market capitalisation of the four big lenders on the Athens stock exchange, for example, is less than that of Coca-Cola Hellenic, the Athens-based holder of Coke franchises for central and eastern Europe.

The remainder of the €45bn will be used to fund a "resolution framework", allowing the activities of other banks to be run down without creating disruption.

The result could be a sweeping restructuring of Greece's banking system. But many of the country's bankers fear it will take far more to reverse the damage inflicted over the past few years.

One worry is that, despite close outside supervision of the HFSF, Greek politicians will hold sway over the recapitalised banks, reducing their efficiency and driving away foreign investment, especially if a national election due to be held by early May increases the influence of extremist parties of the left or right.

A broader concern is that money will only flow back into Greek bank deposit accounts once confidence is restored in the country's economy and its future in the eurozone.

That would take more than just restoring the banks' capital buffers to pre-crisis levels, says Michael Massourakis, a senior manager at Alpha Bank, Greece's second-largest. "I don't think you can rely on these measures to produce new growth in the economy."

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