



The rehabilitation of the Greek banking system as a mean to spur economic growth

Presented by:

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Agenda

- 1 Snapshot of Greek Banks' NPEs, Loans & Private debt to GDP evolution & comparison to Euro Area
- 2 Some thoughts



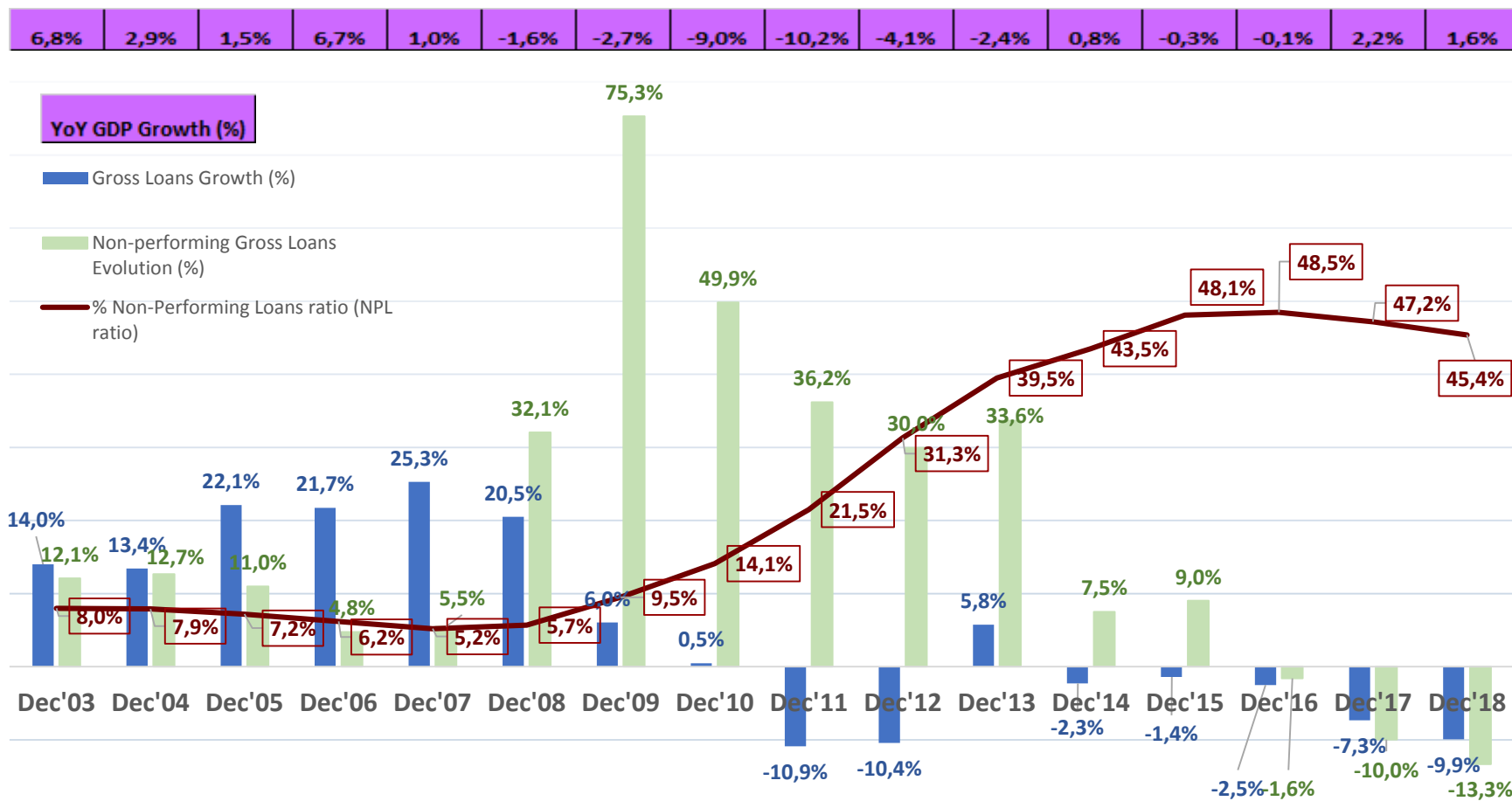
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Snapshot of Greek Banks' NPEs, Loans & Private debt to GDP evolution & comparison to Euro Area



Greek Banking Sector's asset quality profile

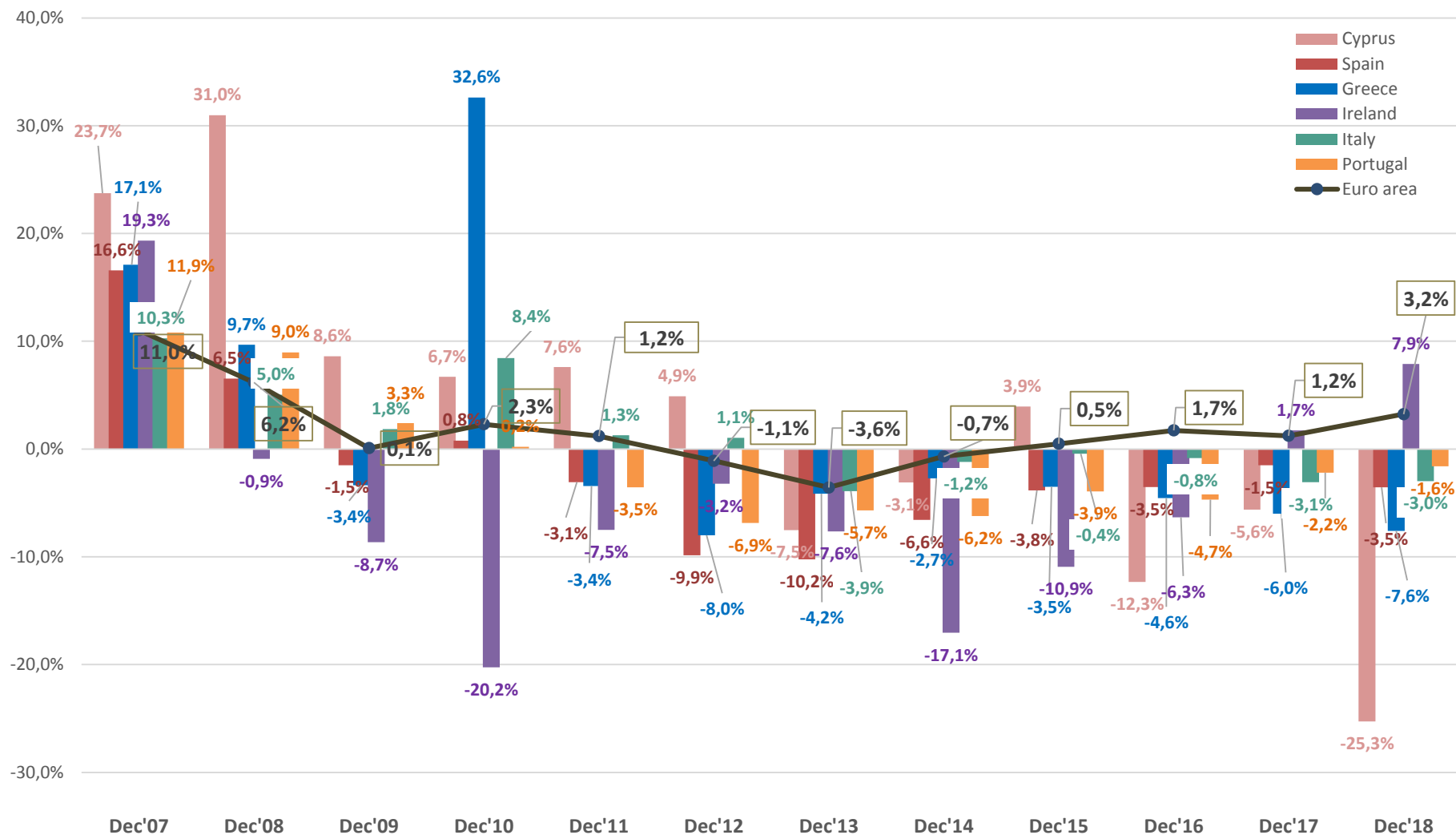
Gross Loans' Evolution against NPL/NPEs evolution (%)



Sources: Hellenic Statistical Authority GDP (Seasonally and calendar adjusted figures) & BoG data on Loans & NPLs/NPEs

- All items are on solo basis and refer to on-balance sheet gross loans and advances of Greek commercial and cooperative banks.
- For 2014 onwards, the source is data from banks' submissions according to Act 42/2014 (as applicable) and European Banking Authority (EBA) rules and definitions.
- For 2002 - 9M 2014, the source is data from banks' submissions according to Act 2442/1999 with the following assumption:
 - Non-performing loans include also loans that have been restructured over the past 12 months.
- Balance changes between some quarters may be affected by the restructuring of the Greek banking system (resolution of banks, sale of foreign branches e.t.c.)
- All items refer to on-balance sheet loans and advances, in consistency with the operational targets for the reduction of non-performing loans. For that reason, balances and indicators may differ from previously published figures, where off-balance sheet items were also included in the perimeter.

Euro Area Monetary Financial Institutions Loans' Evolution (%)



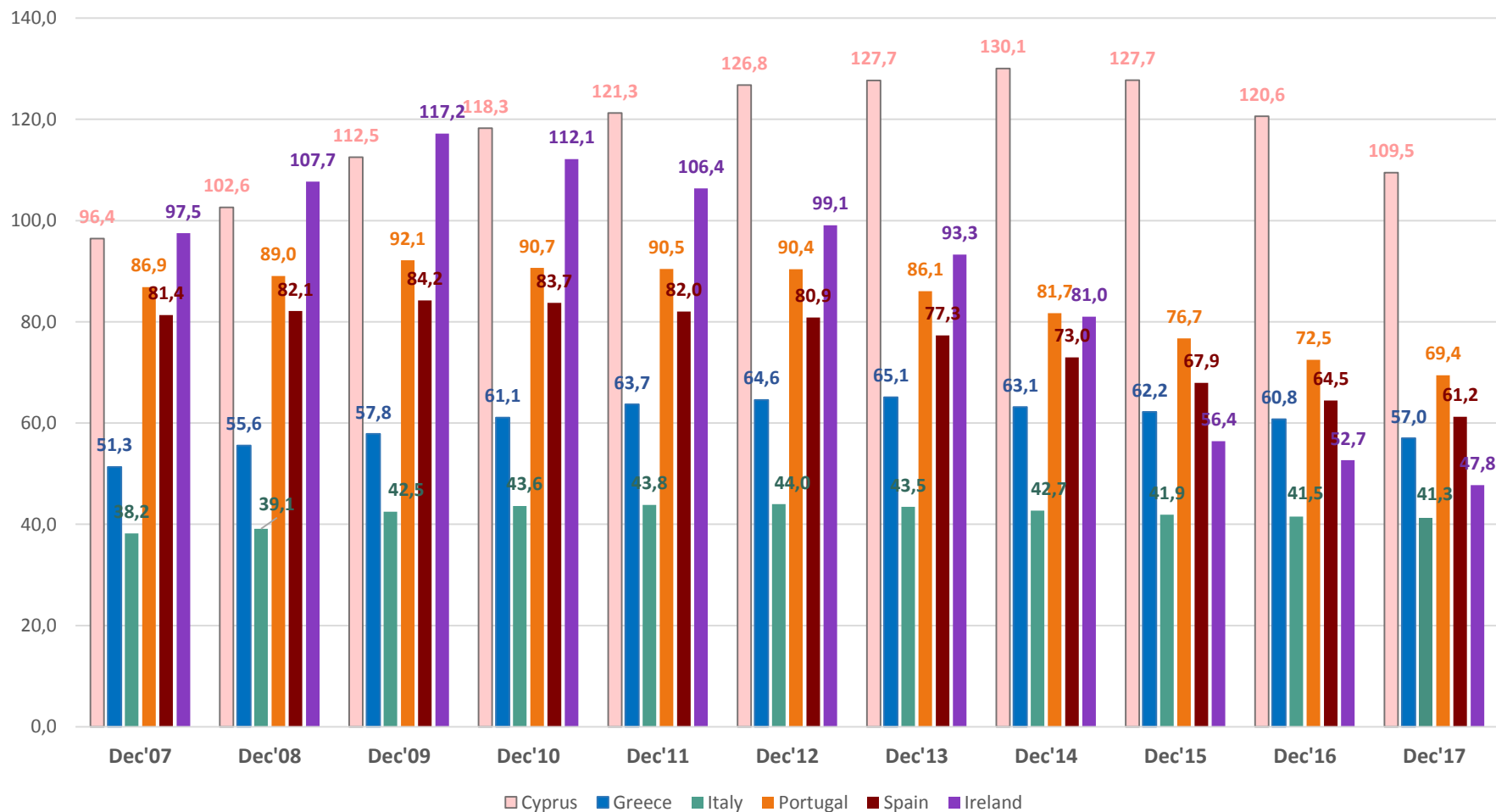
Source: Euro Area Statistics – Statistical Data Warehouse – Monetary Financial Institutions

Loans include: Corporates, Households, Insurance & Pensions and Other financial institutions

Euro Area: includes the 19 euro area member states

Private Debt to GDP (%)

Household debt, loans & debt securities (% of GDP)



Source: IMF, 2019 data

2 Some thoughts



Explanatory observations...

- ❑ **Reduction** of the **NPE ratio** of the Greek banking system since its peak, in December **2016** from **48,5%** to **45,4%** in December **2018**, but still a long way to go to **converge to the European average of less than 5%**;
- ❑ **Gross loans' evolution** is alarming. It remains at **negative territory** for the last eight years, as a result of banks **commitments under their restructuring plans**, but also due to the **loans' write offs, sales of portfolios**, etc. Although we must assume that the reduction of **gross loans volumes will persist**, since write offs and disposals of NPLs will continue, banks have to accelerate their actions for credit growth to compensate for the lost loans volumes, as a result of their NPE reduction initiatives;
- ❑ Banks eventually have to **break** the **vicious circle**, where low asset quality and **decreasing lending activity** (due to the banks' need to strengthen capital) results in low profitability, which leads to insufficient growth in banks' capital and more NPLs. Banks will have to make every effort to increase their profitability, by both reducing their NPL burden and by accelerating cost reduction, in order to internally strengthen their capital & boost their capacity to lending the economy;
- ❑ On a comparative basis to selected European member states, we observe that the **process** of deleveraging as depicted via the negative loan growth for countries with high NPL burden has been rather **lengthy**. From the selected countries, we observe only **Ireland** having returned to **positive loan growth**, whereas the other countries are still struggling but at a lower pace;
- ❑ Household debt as a % of GDP also portrays a similar picture. Following **crescendos** observed at different timings for each of these countries, e.g. **for Ireland in 2009, for Cyprus in 2014 for Greece in 2013**, we observe private debt deleveraging for all selected countries, albeit at a swifter or slower pace depending on the country;



Main remarks from a shareholder's standpoint...

- ❑ From a shareholder's perspective, we want a **healthy** and **profitable** banking system whilst ensuring **financial stability**;

- ❑ From the angle of **financial stability**, the **goal is achieved**. But banks' effort is **hampered** by:
 - **Low bottom line profitability** caused among others, by the effect of high NPE burden not only evident by the decrease in NII, but also through the elevated impairment charges;
 - **Loans' growth** at **negative** territory;

- ❑ Greek Banks need to **adjust to the new reality**. They have to define their **competitive edges** versus their peers. In Greece there are **four universal banks** for an **11mn people market**, which are more or less competing with the same tools;

- ❑ Banks have **room to boost their competitiveness** by developing platforms, hence becoming more cost efficient and create value and a better experience for their customers;

- ❑ **The first line of reaction to the above challenges, lies with the banks**. Priorities have been explicitly articulated. It is up to the banks now, to respond to those priorities, by working in parallel to:
 - Bring their NPE ratios down to below 10%;
 - Develop new own business models targeting the right client base with the right products;
 - Rationalise costs and explore areas for synergies;

Then, we expect to see profits rising and equity can be generated from internal sources and externally, which will allow banks to resume positive loan growth and attract strategic investors.



Thank you

Q & As

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