

Theodore Mitrakos: Distressed loans in the Greek banking system – restructuring portfolios, reviving enterprises

Address by Mr Theodore Mitrakos, Deputy Governor of the Bank of Greece, at the workshop co-organised by the Bank of Greece and EBRD on “Distressed loans in the Greek banking system – restructuring portfolios, reviving enterprises”, Athens, 10 March 2016.

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Ladies and gentlemen, dear guests,

It is a great pleasure for me to welcome here at the Bank of Greece Mr. Nick Tesseyman, Managing Director Financial Institutions of the European Bank for Reconstruction and Development (EBRD), the distinguished speakers and all the participants in today’s workshop, focusing on the management of non-performing exposures (NPEs).

Let me take this opportunity to welcome the activity of the EBRD in Greece. The EBRD Governors, following a request of the Greek authorities, voted in February 2015 with overwhelming majority for the Bank to invest in Greece until the end of 2020. The Bank’s investments, backed by technical assistance and policy dialogue, are intended to strengthen progress in the reform of Greece’s economy and contribute to its recovery. In this vein, as you probably know, the EBRD Representative Office in Athens was recently established. Greece will benefit greatly from the expertise and the finance that the EBRD can bring to projects designed to contribute to sustainable growth and encourage trade. The EBRD has already participated in the recapitalisation of the four significant Greek banks in late 2015, which shows its confidence in the prospects of the entire Greek banking sector, and has invested overall around €300 million in Greece. Moreover, as of early March the EBRD is supporting the expansion of international trade with a facility to National Bank of Greece under the EBRD’s Trade Facilitation Programme (TFP). Through the programme, the EBRD provides guarantees to international confirming banks and short-term loans to selected banks and factoring companies for on-lending to local exporters, importers and distributors. The facility will help National Bank of Greece to scale up its trade finance activities, despite the financial market conditions, and reaffirm itself as a prime trade partner, supporting trade activities of exporters, importers and distributors of imported goods in Greece. It is anticipated that similar agreements will be signed with other Greek banks in the near future. More generally, the EBRD’s commitment to the country sends a strong signal to private sector investors that Greece is serious about reform and rebalancing its economy. I would like therefore to thank Ms. Sabina Dziurman, EBRD Director for Greece and Cyprus, for her contribution so far, as well as for putting forward the idea of holding a joint workshop on non-performing exposures. Ladies and gentlemen,

The Bank of Greece, as you all know, has taken a series of initiatives to promote more rigorous and efficient management of non-performing exposures. It has also underpinned government efforts towards shaping and implementing a national NPL strategy.

In this regard, let me very briefly mention some of these Bank of Greece initiatives:

- The issuance of the Executive Committee Act 42/2014 on the supervisory framework regarding the NPE management by commercial and cooperative banks.
- The activation of the Code of Conduct, which provides guidelines regarding the interaction of credit and other financial institutions with borrowers in arrears.
- The conduct of several on-site inspections to monitor banks’ progress in implementing the supervisory framework.
- The conduct, with the support of an external consultant, of a study on NPL segmentation and the preparedness and capacity of banks to deal with each NPL segment in a rigorous manner.

- The issuance of the Executive Committee Act 82/2016 (under publication) regarding the framework for the licensing and operation of NPL servicing and acquiring firms.

Last but not least, the Bank of Greece, in cooperation with the ECB Banking Supervision and the commercial and cooperative banks, is in the process of agreeing a set of operational targets for NPEs. Meanwhile, the Bank of Greece is setting up a Coordination Office to support the monitoring of the implementation of the national NPL strategy.

- Against this background, in today's workshop we will have the opportunity to extensively discuss **three main topics**:
- **Solutions for borrowers with exposure to multiple banks.** The bulk of distressed large corporate borrowers have exposures to multiple banks rendering necessary a coordinated approach among creditors to agree comprehensive and sustainable solutions in a reasonable timeframe. The Hellenic Financial Stability Fund (HFSF) has recently launched a study regarding this pertinent issue of "common borrowers".
- **Development of a secondary market for NPL servicing and sales.** The recent Law 4354/2015 laid down the framework for the development of a secondary market for NPL servicing and sales. There will be two panels covering essential aspects in the process of setting up the local infrastructure for NPL servicing and sales respectively.
- **The banks' internal workout: managing distressed SMEs.** SMEs are the backbone of the Greek economy. The shift of banks towards long-term forbearance measures coupled with the restructuring of viable businesses with appropriate changes in their structure, business model and, if necessary, corporate governance would help stimulate an uptick in economic activity and assist the rebalancing of the Greek economy towards export-oriented sectors. Ladies and gentlemen, The successful completion of the recapitalization of Greek banks in late 2015 has been a decisive first step towards safeguarding financial stability and restoring the intermediation role of banks. The capital adequacy ratio of the Greek banking sector stands (pro forma) at around 18% and compares favorably with the average for European Union banks. The next milestones for the Greek banking sector relate to a return to profitability, a return of deposits through the restoration of depositors' confidence and, more importantly, the supply of credit for working capital and investment. Undoubtedly, these goals are closely linked to the politically and socially sensitive issue of tackling non-performing exposures, which poses a real challenge for us all. As of September 2015, non-performing exposures stood at €107 billion, representing 43.6% of total exposures. Hence, the more effective management of non-performing exposures, avoiding the pitfalls of regulatory forbearance or over-enforcement alike, will bring about multiple benefits for banks, households, businesses and the society at large. In the process, it will unlock funding to the real economy, bolstering investment and employment. This in turn will enable the Greek banking sector to protect and strengthen the productive fabric of the country, while concurrently enhancing its social role. I am confident that today's workshop will show the significant progress that has already been made regarding the development of an appropriate institutional and supervisory framework for a more effective NPE management. Moreover, it will help to identify the appropriate tools and approaches to this end. I look forward to an exciting discussion and a very fruitful exchange of views. The overwhelming interest of market participants, from Greece and abroad, to join this workshop is, I think, a key ingredient for its success.

Thank you again for being here today.