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Greece's banks are fighting to regain trust

Optimism is unfolding in the crisis-hit country. Banking association boss Karamouzis is now hoping that investors and depositors will start to return.

Frankfurt, 19. September. The absolute volumes might seem like a drop in the ocean, but they mark a new trend: Customers are again putting their trust in Greece's banks. In conversation with this newspaper Nikolaos Karamouzis, President of the Greek Banking Association and Chairman of the board of directors of Eurobank, reports that deposits managed by the country's financial institutions have increased by 1.8 billion euros since May. But the path to normality is still a long one: the sovereign debt crisis, and fears that Greece would have to leave the euro saw Greek savers withdraw nearly 85 billion euros between 2010 and 2016. Deposits currently amount to 125 billion euros. The crisis – and in particular the 2012 sovereign-debt restructuring - shook the foundations of the Greek banking industry and led to a loss of some 40 percent of Greek banks deposits.

But Karamouzis is optimistic again because confidence of foreign investors in the Greek economy and its prospects has risen again. "They are in particular investing in tourism, pharmaceuticals, logistics and transportation, in infrastructure or renewable energy," he says. The chairman of the board of Eurobank should know what he's talking about as one of the bank's biggest shareholders is the US Commerce Secretary Wilbur Ross who is sometimes called a "scrap dealer" by the media, given his penchant for investing in crisis and trouble-hit companies.

Greece's sovereign credit rating is still in junk territory. But the rating agency Standard & Poor's (S&P) recently restored its credit rating of the other crisis-hit euro zone member, Portugal to investment grade. Nevertheless, Greece was able to place a five-year bond with a volume of 3 billion euros in mid-July. In this first placement since 2014, investors' demand was as twice as high. It was the first placement since 2014.

Indeed, there is speculation about another sovereign bond issuance when the current review of Greece's third aid program is completed. When that program ends, in August 2018, Alexis Tsipras, Greek prime minister and head of the left-wing Syriza party, wants to lead the country out of the rescue program and end its dependence on its current creditors, the Eurogroup and the International Monetary Fund. At their meeting in Tallinn last Friday, EU finance ministers confirmed that the Greek government was making great progress. The Commission recently even proposed to release the country from the EU's excessive sovereign debt monitoring programme. Dutch Minister of Finance and Eurogroup Chairman Jeroen Dijsselbloem touted the step as a sign of the significant progress Greece had already made. Recently, French President, Emmanuel Macron, used a speech in Athens, an illuminated Acropolis visible behind him, to call for a "refounding" of the European Union in order to strengthen democracy within the bloc.

Greek Banking Association President Karamouzis is certain that "developments in Greece are moving in the right direction." This year, he adds, the Greek economy is expected to grow for the first time in ten years – by about 1.5 percent year-on-year. The country lost about one quarter of gross domestic product (GDP) during the crisis and unemployment hit 27 percent. Joblessness recently fell again, to 21.5 percent. Karamouzis sees the reasons for the recovery in declining fears that Greece will have to leave the euro area. The political risk of "Grexit" is markedly lower than in the past, according to Karamouzis. The current government is working to enact reforms agreed with its creditors, he says. And the conservative Nea Dimokratia opposition party, currently ahead in opinion polls, had pledged to push ahead with further structural reforms and privatise more. "The common currency is an anchor of stability for the Greek economy, and we're better off as a member of the euro area," Karamouzis says, leaving no shadow of a doubt of where he stands on the issue.

One of his priorities is now to convince private and foreign investors to take heart. The crisis saw private investment in Greece fall from 22% of annual GDP in 2007 to 8% in 2016. Karamouzis said this was one reason why Greece had to remain in the euro. Foreign investors like the euro area's exchange rate and price stability. "Greece's bureaucracy, high taxes, the uncertain tax environment, and administrative inefficiencies are currently the biggest hurdles to new investment," he concedes. But the government also recognized the need to improve investment conditions. Private investment is a prerequisite for sustainable growth, he says.

"The position of Greek banks has improved in line with Greece's overall recovery," the Banking Association President reports. Two years ago, when Tsipras forced a confrontation with creditors, Greek banks almost went under, he concedes. The country's largest banks - the National Bank of Greece, Alpha Bank, Piraeus Bank, and Eurobank - were dependent on emergency loans from the European Central Bank (ECB). "But the liquidity situation has now improved, and the Eurosystem 's emergency loans currently only amount to 32 billion euros," Karamouzis reports. Two years ago, emergency loans still totalled 87 billion euros.

He also points to the Greek banking system's improved capital ratio – which he claims is "one of the highest in Europe". But the quality of the underlying equity is put into question. According to Moody's rating agency, half of the equity is attributable to tax credits from losses carried forwards, so-called Deferred Tax Assets (DTA). These are payment promises by the Greek State. But Karamouzis emphasizes that regulators no longer question the solidity of these instruments, indeed they are also recognized as equity in other countries – Italy, for example.

The biggest problem for the Greek banks is still the volume of risky loans. It is estimated to total at least 100 billion euros – more than half of all outstanding loans to the private sector, some 195 billion euros. Greek banks have promised the ECB's banking supervisors to cut non-performing loans by 40 billion euros over the next three years. "The main instruments to achieve this will be deferment of repayments, write downs, the sale of distressed debt or having loans managed by third parties, and use of collateral," says Karamouzis. In his view, the new legal framework is flexible enough to deal with this. "At present, credit demand in Greece is still weak - a reflection of the economy's long recession and tentative recovery."