Recapitalization of the Greek banking system & the fallacy of PSI

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Abstract

This paper aims to shed light on the venture of the recapitalization of the Greek "systemic" banks in the time period following the major global financial crisis in 2008. The aim is both to present an objective representation of the situation that occurred in the Greek banking system, as a result of the bad fiscal situation, and also to criticize the measures taken in response. More specifically, an empirical analysis is implemented to examine the application of Private Sector Involvement (PSI) and its impact on Greek banks. The results show the negative effect that this measure had changing the whole banking system and endangering its private nature. It is proved that Greek banks were well shielded against recession and that if PSI hadn't imposed on them, the funds raised solely by individuals, during the recapitalization process, were enough to maintain the required capital adequacy set by the authorities. Conclusively, the present study highlights the recapitalization procedure of the Greek Banking System, employs a critical evaluation of the measures taken and discusses what the future holds for the newly established banking map.

Keywords: *recapitalization, "systemic" banks, capital requirements, FSF, PSI*

Introduction

The recapitalization of a banking system by the government is a policy that applies when a substantial increase in the financial risk of the banks that show a serious drop of their capital adequacy and liquidity crunch due to a significant outflow of deposits. The main aim is to improve capital ratios and strengthen the creditworthiness of banks, thus bringing back the required trust which will lead to a return of the deposit funds. The general framework for the recapitalization of Greek banks, first described in the Memorandum of March 2012, was updated in the revision of December 2012, while the specific terms and tools of recapitalization by the Financial Stability Fund (FSF) are described in the Cabinet Act 38 / 09.11.2012.

More specifically, the Act states:

- The FSF covers unsubscribed ordinary shares issued under the share capital increase decided by the institution pursuant to N3864/2010 and of this Act, provided that the following cumulative conditions are met:

  The total amount of the increase, taking into account the premium amounts set by the credit institution may not:

a. Be less than the amount set by Bank of Greece and required that the main factor of basic own funds (Core Tier 1 ratio) of the credit institution, as defined by Bank of Greece in accordance with paragraph 4 of Article 27 of N. 3601/2007, be at least 6%.

b. Exceed the amount equal to the total capital requirements of credit institutions, as defined by Bank of Greece within the scope of Article 7 of N. 3864/2010 and of this article.

- The Fund shall, in accordance with Article 7 of N. 3864/2010, meet contingent convertible bonds, which were issued by the credit institution in accordance with the provisions of this Act.

- The Fund shall issue certificates representing the rights to purchase shares of common stock undertaken in Article 1 of this Act, provided that a minimum percentage of the private sector participation in the increase is achieved, in accordance with paragraph 1 of Article 7a of N. 3864/2010.

2. Empirical analysis

Based on the "Report on the Recapitalization" by Bank of Greece, the required capital needs are analyzed and are compared to the results of recapitalization. Then, an empirical analysis is presented based on the application of a certain scenario. The aim is to show how strong the negative impact of PSI was on the capital structure of the banking system and in particular, on the four "systemic" banks (Alpha Bank, Eurobank, National Bank of Greece and Piraeus bank) and which were the overall consequences to the whole economy.

Bank of Greece, in the early months of 2012, carried out the assessment of financing needs of all banks to meet the minimum required levels of Core Tier during 2012-2014. Two macroeconomic scenarios were used, which incorporated the estimated, for the period 2012-2014, evolution of key economic indicators (e.g. growth of real GDP, unemployment, inflation, housing and other property prices):

- The baseline scenario, in accordance with the Memorandum and aiming at Core Tier 1 Ratio - CT1 ratio 9% in 2012 and 10% in both 2013 and 2014.
- The adverse scenario, according to the assumptions of Bank of Greece and with a target of 7% for the Core Tier I for the entire period 2012-2014.

As a starting point Core Tier 1 funds of December 2011 are utilized, as submitted by the banks, and then the development of Core Tier is estimated during the aforementioned period, taking into consideration the following facts:

- Losses from PSI in the Greek State bond swap and selected loans, after deducting the already formed for this reason special provisions.
- Expected credit risk losses (Credit Loss Projections - CLPs) of loans granted:
  a) in Greece, based on the assessments of the consulting company BlackRock Solutions, which prepared a diagnostic study for domestic loan portfolios of Greek banks,
  b) abroad, based on the implementation of Bank of Greece, of the methodology that was implemented by the European Banking Authority (EBA) in the pan-european stress tests in June 2011, and
  c) entities and organizations related to Public Sector, based on estimates made by BlackRock or Bank Greece.
  In all three cases, from the expected losses were deducted the accumulated provisions of the banks for credit risk.
- Estimated internal capital generation in the period 2012-2014, as stemming from the conservative approach of basic elements of operational profitability that were predicted by the submitted by the banks' three year business plans. Furthermore, the effects of raising funds actions were taken into account till the end of this exercise.

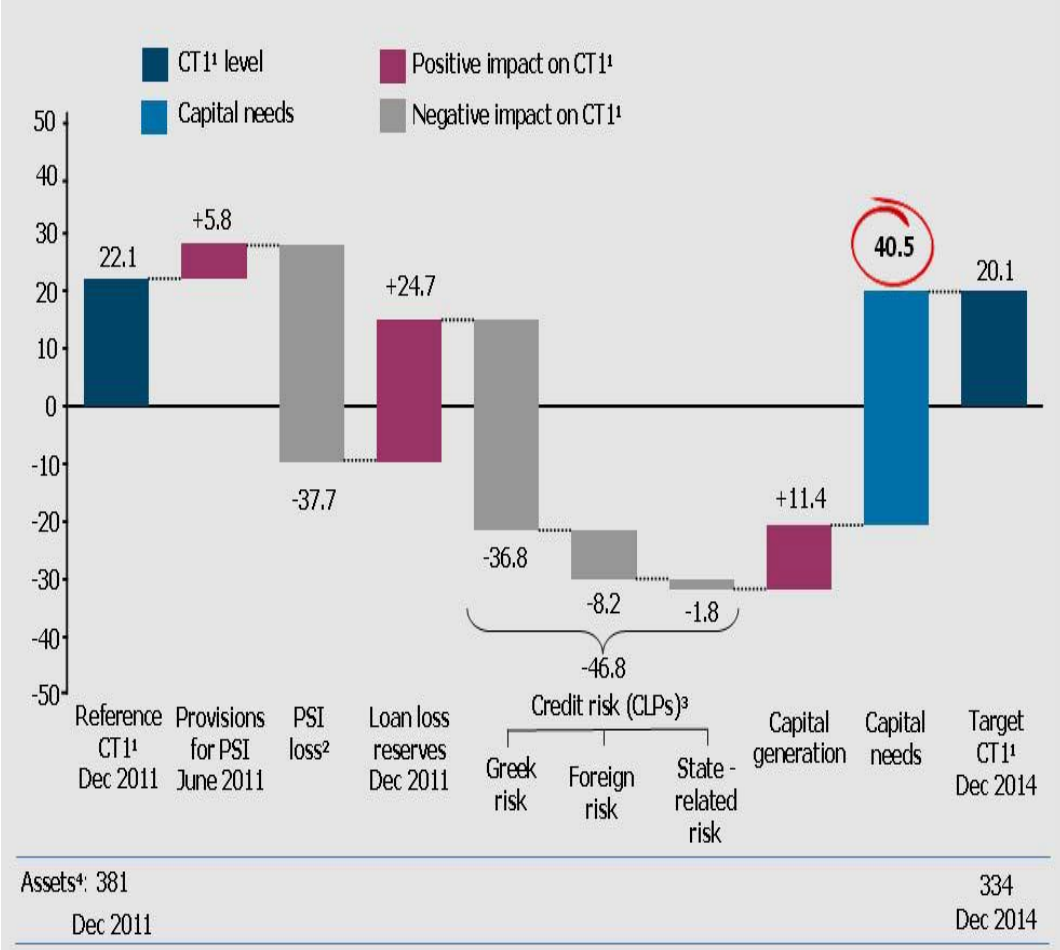
The process for calculating capital needs is depicted in the following Table 1.

Table 1

Process for calculating capital needs

(December 2011 – December 2014, consolidated basis)

(billion euro, estimated in May 2012)



Source: Bank of Greece.
[1] CT1 : Core Tier 1.
[2] Loss incurred by the Private Sector Involvement on Greek Government Bonds and selected state-related loans.
[3] CLPs: Credit loss projections.
[4] Total assets as per banks' Business Plans.

Finally, Bank of Greece calculated the target for the required level of Core Tier 1 capital at the end of each year up to 2014, based on the target set for the corresponding indicator in each scenario and the evolution of the risk adjusted assets (Risk-Weighted Assets-RWAs). More specifically, to ensure that banks won't underestimate their exposure to risk, RWAs were adjusted under the more rigorous methodology set by Bank of Greece. In the following table we can see the process for calculating capital needs specifically for each bank.

Table 2: Process for calculating capital needs per bank

(December 2011 – December 2014, consolidated basis)

(million euro; estimated in May 2012)

Banks 1	Reference Core Tier 12 (1)	Total gross PSI loss (Dec 2011) (2)	Provisions related to PSI (June 2011) (3)	Gross CLPs for Credit Risk 3 (4)	Loan loss reserves (Dec 2011)4 (5)	Internal Capital Genera-tion5 (6) 5	Target CT1 Dec 2014 (7)	Capital needs (8) = (7)-[(1)+(2)+(3)+(4)+(5)+(6)]

NBG	7,287	-11,735	1,646	-8,366	5,390	4,681	8,657	9,756
Eurobank	3,515	-5,781	830	-8,226	3,514	2,904	2,595	5,839
Alpha	4,526	-4,786	673	-8,493	3,115	2,428	2,033	4,571
Piraeus	2,615	-5,911	1,005	-6,281	2,565	1,080	2,408	7,335
Emporiki	1,462	-590	71	-6,351	3,969	114	1,151	2,475
ATEbank 6	378	-4,329	836	-3,383	2,344	468	1,234	4,920
Postbank	557	-3,444	566	-1,482	1,284	-315	903	3,737
Millennium	473	-137	0	-638	213	-79	230	399
Geniki	374	-292	70	-1,552	1,309	-40	150	281
Attica	366	-142	53	-714	274	15	248	396
Probank	281	-295	59	-462	168	147	180	282
New Proton	57	-216	48	-482	368	34	115	305
FBB	145	-49	0	-285	167	-29	116	168
Panellinia	82	-26	3	-118	48	-26	42	78
Total	**22,119**	**-37,733**	**5,861**	**-46,834**	**24,727**	**11,381**	**20,062**	**40,542**
"Systemic banks" Subtotal 7	**17,944**	**-28,214**	**4,154**	**-31,367**	**14,583**	**11,093**	**15,693**	**27,501**

Source: Bank of Greece.

1 The exercise concluded that for ABB, Credicom and IBG no additional capital was needed.

2 Core Tier 1 in December 2011 as submitted by banks without taking into account the impact of the Private Sector Involvement (PSI) and the bridge recapitalization by the Hellenic Financial Stability Fund (HFSF).

3 Gross Credit Loss Projections (CLPs) over the June 2011 – December 2014 period for Greek loan portfolios, foreign and state-related loan portfolios. CLPs for Greek loan portfolios take into account three elements: (a) three-year CLPs estimated by BlackRock, (b) a fourth year of CLPs and (c) the credit risk cost for the new production.

4 Accumulated provisions (as at December 2011) already recorded by banks for the loan portfolios referred to in col-umn 4.

5 Internal capital generation based on banks' Business Plans for the period 2012 – 2014, as conservatively stressed according to the Bank of Greece methodology, taking also into account the capital actions that had already materialized at the time of the exercise.

6 ATEbank was resolved in July 2012.

7 NBG, Eurobank, Alpha Bank and Piraeus Bank.

Then the capital needs of each bank were calculated as the difference between:

a) the target level of Core Tier 1 capital and

b) the estimated level of Core Tier 1 capital at the end of each year until 2014.

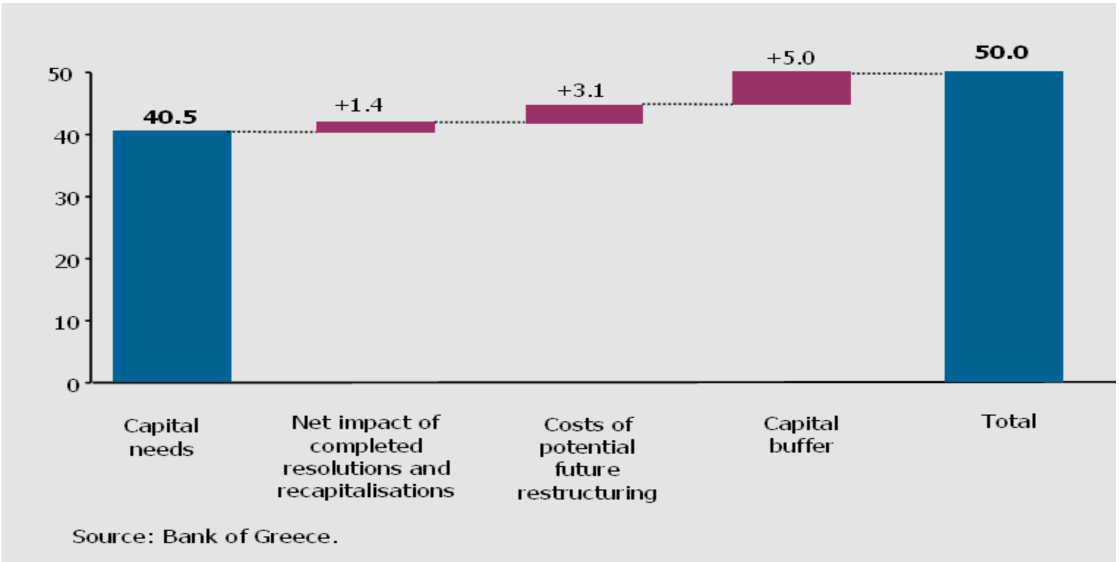
These calculations were made both with the Baseline and the adverse scenario. For each bank, the scenario result in higher capital requirements was binding. To ensure objectivity and robustness of the exercise was crossing the results with those obtained from a formula approach "top-down". Specifically, in this approach the results for each bank year 2011 was used as a starting point, with future projections under a quantitative model that took into account macroeconomic forecasts, independent of the submitted business plans. The capital requirements for all Greek commercial banks were estimated in May 2012 to 40.5 billion euros, of which the 27.5 billion corresponding to the four "systemic" banks. In October 2012, the Bank of Greece updated the capital needs assessment estimated earlier this year in light of the first half 2012 preliminary financial results and confirmed that the conservatively estimated capital needs were adequate.

2.1 The Calculation of financial resources

In December 2012, the Bank of Greece completed an updated assessment of the adequacy of financial resources, i.e. the level of public resources required to meet Greek banking sector's recapitalization needs and restructuring costs over the 2012-2014 period. The starting point of this conservative estimate is the outcome of the capital needs assessment for all commercial banks, i.e. 40.5 billion (see Diagram 1), regardless of whether they are appropriate for recapitalization with public support.

Diagram 1: Estimation of Financial Resources

(billion euro, estimated in December 2012)



The Bank of Greece incorporated in its assessment of financial resources:

- the net impact (€1.4 billion) of completed resolutions[1] and recapitalizations-in particular, a) the cost from the activation of resolution procedures for three commercial banks (ATEbank, Pro-ton Bank, T-Bank) and three cooperative banks (Achaiki, Lamias and Lesvou-Limnou) over and above their capital needs, and b) the reduction in estimated capital needs due to the recapitalization of two foreign subsidiaries operating in Greece, namely, Emporiki Bank and Geniki Bank, by their parent companies, Crédit Agricole and Société Générale respectively

[1] The term "resolution" refers to the restructuring of an institution in order to ensure the continuity of its essential functions, preserve financial stability and restore the viability of all or part of that institution.

- costs of potential future restructuring (€3.1 billion) over and above the respective capital needs for "non-systemic banks" and cooperative banks, if needed;

- a capital buffer (€5 billion), deemed appropriate, taking into account potential developments that could increase or de-crease the needed funds. Developments that could potentially increase the needed funds include the impact on banks from further deterioration of macroeconomic conditions and from the recent sovereign debt buy-back. Developments that could decrease the needed funds include the private participation in the recapitalization process, the recognition of deferred tax, the planned liability management exercises and the realization of synergies from mergers and acquisitions.

The Bank of Greece considers that, under reasonable levels of economic uncertainty, the amount of €50 billion earmarked in the Economic Adjustment Program is appropriate to cover the Greek banking sector's recapitalization and restructuring costs.

2.2 The timeline of recapitalization

The overall framework for the recapitalization of Greek banks was outlined initially in the March 2012 Memorandum and was subsequently updated in the December 2012 re-vised Memorandum.

- in April 2012, €25 billion were provided to the Hellenic Financial Stability Fund (HFSF), in the form of European Financial Stability Facility (EFSF) Notes;

- in May 2012, the HFSF extended €18 billion to the "systemic banks" in the form of an advance towards their capital increase, thus restoring their Capital Adequacy Ratio to the minimum requirement of 8%;

- in November 2012, following the issuance of the Cabinet Act 38 of 2012 on Recapitalization Tools and Terms by the HFSF, the Bank of Greece officially in-formed banks of their individual capital needs requesting them to finalize their capital raising process by end-April 2013.

The process of recapitalization of the "systemic" banks includes three steps:

- bridge recapitalization by the HFSF. This refers to a capital advance in view of the capital increases scheduled to take place by end-April 2013. This capital advance has been completed in December 2012.
- issuance of contingent convertible bonds (by end-January 2013). The amount will be determined by the "systemic banks", in accordance with the recapitalization framework. These instruments will be fully subscribed by the HFSF.
- completion of share capital increases (by end-April 2013), which will be fully underwritten by the HFSF.

In practice, the schedule was extended and the process of share increases of the "systemic" banks was completed in mid-July 2013.

3.1 The impact of PSI on the capital needs of the banking system

At this point we will attempt to highlight how strong was the influence of the application of PSI to the capital needs of banks, to examine the evolution of capital enhancement of the "systemic" banks, if the "haircut" of the bonds hadn't been applied and to draw the relevant conclusions. The percentage of the required capital of "systemic" banks covers 68% of the total required capital. For the purpose of the analysis, Table 2 is used as the basis, which is repeated partially (in terms of quantitative data) below:

Table 3

Process for calculating capital needs per bank
(December 2011 – December 2014, consolidated basis)
{Table 2 modified}

(million euro; estimated in May 2012)

BANKS	Reference Core Tier (1)	Total gross PSI loss (Dec 2011) (2)	Provisions related to PSI (June 2011) (3)	Gross CLPs for Credit Risk (4)	Loan loss reserves (Dec2011) (5)	Internal Capital Generation (6)	Target CT1 Dec 2014 (7)	Capital needs (8)=(7)-[(1)+(2)+(3) +(4)+(5)+(6)]
NBG	7,287	-11,735	1,646	-8,366	5,39	4,681	8,657	**9,754**
Eurobank	3,515	-5,781	830	-8,226	3,514	2,904	2,595	**5,839**
Alpha	4,526	-4,786	673	-8,493	3,115	2,428	2,033	**4,570**
Piraeus	2,615	-5,911	1,005	-6,281	2,565	1,08	2,408	**7,335**
Emporiki	1,462	-590	71	-6,351	3,969	114	1,151	2,476
ATEbank6	378	-4,329	836	-3,383	2,344	468	1,234	4,92
Postbank	557	-3,444	566	-1,482	1,284	-315	903	3,737
Millennium	473	-137	0	-638	213	-79	230	398
Geniki	374	-292	70	-1,552	1,309	-40	150	281
Attica	366	-142	53	-714	274	15	248	396
Probank	281	-295	59	-462	168	147	180	282
New Proton	57	-216	48	-482	368	34	115	306
FBB	145	-49	0	-285	167	-29	116	167
Panellinia	82	-26	3	-118	48	-26	42	79
Total	**22,118**	**-37,733**	**5,86**	**-46,833**	**24,728**	**11,382**	**20,062**	**40,540**
"Systemic banks" Subtotal	**17,943**	**-28,213**	**4,154**	**-31,366**	**14,584**	**11,093**	**15,693**	**27,498**

From the last column 8 (Capital requirements) we hold that total funds needed to recapitalize the banking system amounted to 40.5 billion euros, of which 27.5 billion are intended for the systemic banks. More specifically, 9.8 billion account for NBG, 5.8 billion for Eurobank, 4.6 billion for Alpha Bank and € 7.3 billion for Piraeus Bank. From the above table, with the removal of the two columns that refer to PSI, column (2) "Total gross PSI loss" and column (3) "Provisions related to PSI", derives the following Table 4. This table basically shows the capital needs of the banking system at the end of 2012, with the hypothetical scenario that PSI wasn't applied and so the «haircut" of Greek government bonds never occurred. Focusing on column 6 "Capital needs", we come to the conclusion that the funds required to recapitalize the banking system, without the application of the PSI, are 8.7 billion euros, of which 3.8 billion intended for systemic banks. Particularly, for NBG there is no need for recapitalization, as the funds remain positive by 335 million euros, Eurobank requires only 888 million, Alpha Bank only 457 million and Piraeus Bank 2,429 million euros.

Table 4

Hypothesis: Capital Needs per Bank without the application of PSI

Process for calculating capital needs per bank (December 2011 – December 2014; consolidated basis)

(million euro; estimated in May 2012)

BANKS	Reference Core Tier (1)2	Gross CLPs for Credit Risk 3 (2)	Loan loss reserves (Dec2011) (3)	Internal Capital Generation (4)	Target CT1 Dec 2014 (5)	Capital needs [6=5-(1+2+3+4)]
NBG	7,287	-8,366	5,390	4,681	8,657	**-335**
Eurobank	3,515	-8,226	3,514	2,904	2,595	**888**
Alpha	4,526	-8,493	3,115	2,428	2,033	**457**
Piraeus	2,615	-6,281	2,565	1,080	2,408	**2,429**
Emporiki	1,462	-6,351	3,969	114	1,151	1,957
ATEbank6	378	-3,383	2,344	468	1,234	1,427
Postbank	557	-1,482	1,284	-315	903	859
Millennium	473	-638	213	-79	230	261
Geniki	374	-1,552	1,309	-40	150	59
Attica	366	-714	274	15	248	307
Probank	281	-462	168	147	180	46
New Proton	57	-482	368	34	115	138
FBB	145	-285	167	-29	116	118
Panellinia	82	-118	48	-26	42	56
Total	**22,118**	**-46,833**	**24,728**	**11,382**	**20,062**	**8,667**
“Systemic banks” Subtotal	**17,943**	**-31,366**	**14,584**	**11,093**	**15,693**	**3,439**

The difference is impressive and is better shown in the next Table 5 which analyzes the capital difference in both absolute figures and percentages. Without the implementation of the PSI the system required 31.5 billion (78% less) for the recapitalization, of which 23.7 billion (86% less) for "systemic" banks. During the time period of May-June 2013, the four “systemic” banks completed their increases in share capital. The amount paid by the Fund for the participation in the capital increase, was less than the total capital requirements set by Bank of Greece due to the involvement of the private sector in the capital increase. Furthermore, bonds that ultimately contributed to the banks (in nominal value) were less than the total contribution of the FSF, given the premium fair value. The final contribution of the FSF to the recapitalization was bonds of nominal value 24,998.1 million., while the total share capital increase of four banks was 28,595 million, resulting in less use of the resources of the FSF, which were committed to the Greek banking sector, by 3,596.9 million euros.

Table 5

Quantitative & Percentage Analysis of Capital Difference

(million euro; estimated in May 2012)

BANKS	**Capital Needs with application of PSI (1)**	**Capital Needs without application of PSI (2)**	**Sum difference (3)=(1)-(2)**	**Initial Sum Percentage decrease (4)=(3) : (1)**
NBG	9,754	(-335)	**10,089**	**103%**
Eurobank	5,839	888	**4,951**	**85%**
Alpha	4,570	457	**4,113**	**90%**
Piraeus	7,335	2,429	**4,906**	**67%**
Emporiki	2,476	1,957	519	21%
ATEbank	4,920	1,427	3,493	71%
Postbank	3,737	859	2,878	77%
Millennium	398	261	137	34%
Geniki	281	59	222	79%
Attica	396	307	89	22%
Probank	282	46	236	84%
New Proton	306	138	168	55%
FBB	167	118	49	29%
Panellinia	79	56	23	29%
Total	**40,540**	**9,002**	**31,538**	**78%**
“Systemic banks” Subtotal	**27,498**	**3,774**	**23,724**	**86%**

Table 6 shows the summary of the results of the capital increase of the four banks.

Table 6

Results of Capital Increases of the systemic banks

(million euro; estimated in May 2012)

Banks	Capital Needs with application of PSI (1)	Capital Cover by FSF (2)	Participation of PSI (3)	Capital Cover by individuals (4)	Participation by individuals (5)	Capital Needs without application of PSI (6)	Over coverage of Capital Increase (7)
NBG	9,756	8,677	89%	1,079	11%	0	1,079
Eurobank	5,839	5,839	100%	0	0%	888	0
Alpha	4,571	4,021	88%	550	12%	457	1,128
Piraeus	8,429	6,985	83%	1,444	17%	2,429	1,700
	28,595	**25,522**		**3,073**		***3,774***	***3,907***

In column (7) "Over coverage of Capital Increase" appear the amounts that were offered by the private sector, during the completed Capital Increases (based on the official press releases of all systemic banks of the outcome of the coverage of Capital Increase).

The overall conclusions, if PSI wasn't applied, are summarized below:

- ✓ In late 2012, the four "systemic" banks, taking into consideration that were operating in an extremely difficult economic environment for the last years, need only 3.774 million euros so as to meet the requirements of the Core Tier 1 as set by the Bank of Greece until 2014.
- ✓ Carry out capital increases during the first half of 2013 from which they raise from the private sector 3,907 million euros.
- ✓ There is no need of public support
- ✓ The participation of the FSF is not required.
- ✓ The management and consequently the private character remain unchanged.

Of course the reality is very different. The FSF has contributed €25.5 billion, almost equal to the losses suffered by the "systemic" banks from the application of PSI, excluding the provisions that had formed for this reason, i.e. €24 billion as shown in Table 3. The consequences of the Greek fiscal and debt crisis are transferred entirely in the banking system. On the one hand, the loss of the PSI and on the other hand the losses from credit risk, both caused by the extensive recession that the country got into and resulted in the severe income decline and the consequent increase of the possibility for individuals and corporations not to fulfill their loan obligations. Nevertheless, the banking system proves resistant and this is surprising, however, is obliged to continue seamlessly its operation to re-raise the lost funds. The funds are drawn from the FSF, through the European FSF. The funds contributed by FSF correspond to certificates representing the right to acquire shares (warrants) that are acquired by private shareholders during their participation in the Capital Increases. The FSF's participation in the share capital of the four banks after the recapitalization and the shares of FSF per warrant purchase shares (warrant), are presented in Table 7.

Table 7 Participation of FSF -Shares per warrant		
BANKS	**FSF participation percentage (%)**	**Shares per warrant**
NBG	**84,39%**	**8,23**
Eurobank	**81,01%**	**4,47**
Alpha	**83,66%**	**7,40**
Piraeus	**98,56%**	**-**

Over the next 4.5 years period, individual shareholders are invited to buy back from FSF the shares it holds, by exercising the warrants they hold. Essentially, they are invited to regain full property of banks' share capital (or to cover the losses from PSI), in order to maintain the present ownership status.

In the present study, the 'non-systemic' banks were not included in the empirical analysis on purpose due to the fact that their method of recapitalization was different thus, making the values not comparable. The percentage of capital required for them, based on the study of the Bank of Greece, amounts to 32% of total capital requirements. In two cases, we had recapitalization made by the parent bank abroad and then sale to a Greek bank. Specifically, Emporiki Bank was recapitalized by its French parent Credit Agricole in the summer of 2012 with the amount of €2.905 million and then was sold to Alpha Bank. Moreover, Millenium Bank in a similar way was recapitalized by Portuguese parent BCP with the amount of €413 million and then was sold to Piraeus Bank. In other cases, split took place into "good" and "bad" bank. The financing gap was covered by the FSF and then the sound portion was sold or is to be sold.

4. The new banking map

The new established banking map is modeled after the recapitalization process in the following Table 8 that shows all the credit institutions operating in Greece as of 31.12.2012, with details of their network and also their staff. Of these banks have arisen the big four groups with a total number of employees approximately 45,000 and presence in almost 3,000 points.

Table 8

Branch Network Data & Number of Personnel of the HBA Members & Associate Members as of 31.12.2013

	Bank Branches Network				
	Attica Region	Thessaloniki Region	Rest Regions of Greece	Total	Total Number of Personnel
Total (a+b)	1,206	303	1,377	2,886	50,167
a) HBA Member Banks	1,202	303	1,377	2,882	50,034
Piraeus Bank	359	103	495	957	14,110
NBG	213	49	278	540	12,818
Eurobank	240	65	232	537	9,158
Alpha Bank	271	63	292	626	10,452
Attica Bank	41	10	29	80	908
Geniki Bank of Greece	35	6	39	80	1,108
Citibank	19	2	0	21	944
HSBC	14	1	0	15	372
Panellinia Bank	10	4	12	26	164
b) HBA Associate Member Banks	4	0	0	4	133
Bank of America Merrill Lynch	1	0	0	1	18
Deutche Bank	1	0	0	1	11
RBS	1	0	0	1	81
Unicredit Bank	1	0	0	1	23

Source: Greek Bank Association (www.hba.gr)

5. Concluding remarks & future prospects

A common ground is that the recapitalization of the Greek banks that occurred in response to the global financial crisis was inevitable for many reasons. But in spite of the fact that the Greek banking system was well shielded, as it wasn't highly exposed to the "toxic" products that led to the recession, it was forced to the application of certain measures that proved harmful. And this was due to the fiscal problems of the Greek economy, stemming from the high public debt. The empirical analysis showed that the banks could have encountered the crisis with their own forces, without the governmental help (the implementation of PSI). But even with the existing procedure, the recapitalization of Greek banks, in combination with the rearrangement of the banking sector, are expected to gradually restore confidence to markets and depositors. The improved capital position and liquidity of Greek banks will allow them to continue to support the real economy, thus helping to improve the general business climate.

Prospects of the new recapitalized banking system

So what the future holds for the Greek banks? The four "systemic" banks have engaged themselves in a continuous effort to improve their practices regarding the administration of assets-liabilities, cost reduction and risk management. Greek banks now have the experience and the expertise to early recognize the potential risk and apply the proper measures in order to deal with it. The model of traditional banking is more up-to-date than ever. This means simpler banking models, without complex investment practices and absolute priority been mainly depositors' safety. Crucial role to maintain the latter shall play the future compliance and regulatory framework. The new recapitalized system should be based on transparency which includes lower real wages and bonus for the executives due to the fact that the amounts given previously were extraordinary. Shareholders recognize the need for smaller dividends, more investing and less financial leverage. So the principal question remains the following:

- ✓ are the four "systemic" banks able to continue their financing straight from the markets when the support they enjoyed till now cease to exist?

And moreover,

- ✓ when will the banks be in the position to finance again the economy?

In any case, the Greek banks after the completion of the recapitalization will be able to cope with any challenges from advantageous position. The new recapitalized system has prospects for sustainable operation in the foreseeable future provided that all the measures taken to address crisis remain as permanent goals and strategies of the banks and are not halted with the first signs of recovery and economic growth.

So the overall conclusion is that the recapitalization of the Greek banks and the total restructuring of the banking sector are expected to gradually restore depositors' and market confidence. The improvement in the capital and liquidity position of the Greek banks will enable them to continue supporting the real economy and thus, contribute to the improvement of the business environment. These facts will be critical in rebooting the Greek economy and in restoring sustainable growth that shall help to leave behind the recession once and for all.

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