




Greek banks and corporate funding costs

January 2014

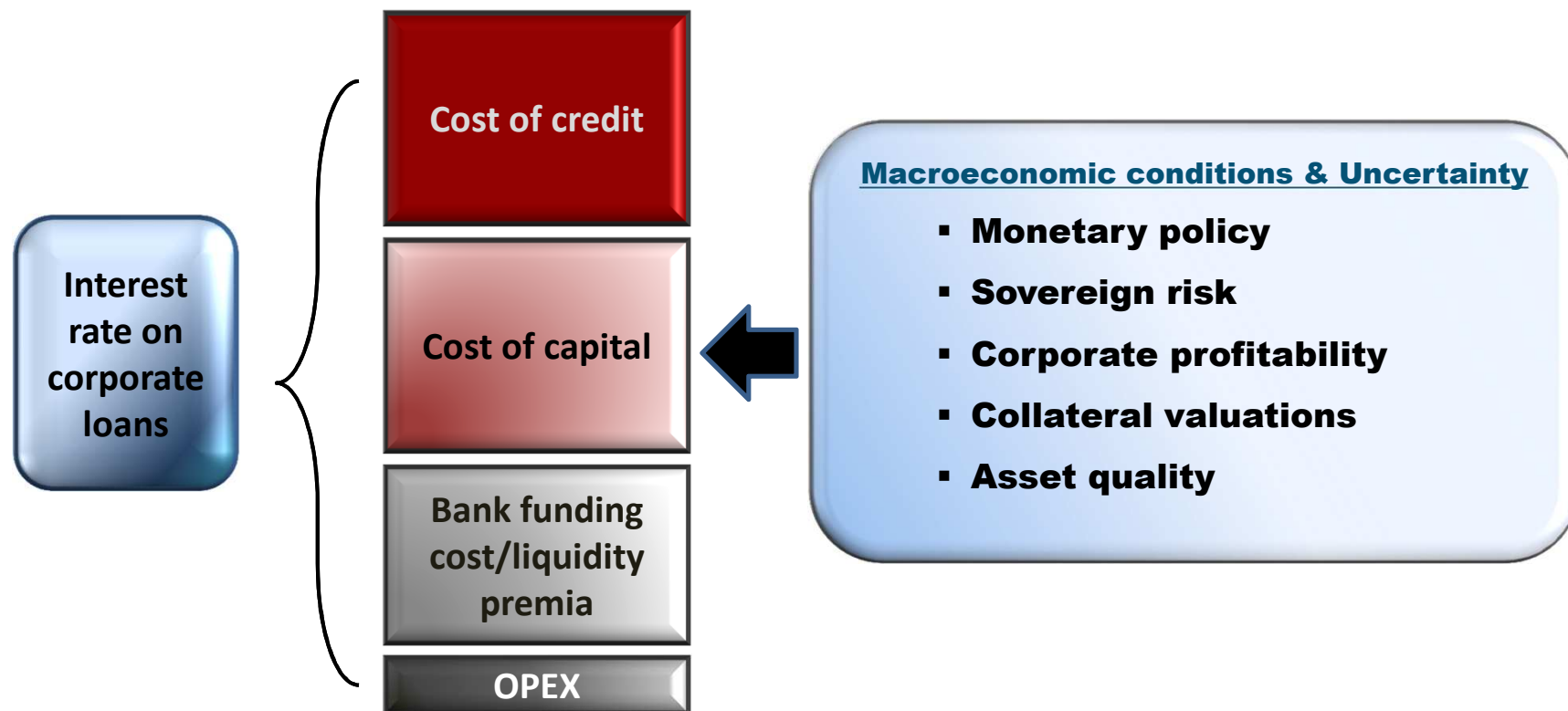
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Roadmap

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- **High corporate lending rates in Greece**
 - **The role of credit risk premia**
 - **The role of liquidity premia**
 - **Lending rate decomposition**
 - **Outlining the path to lower rates**

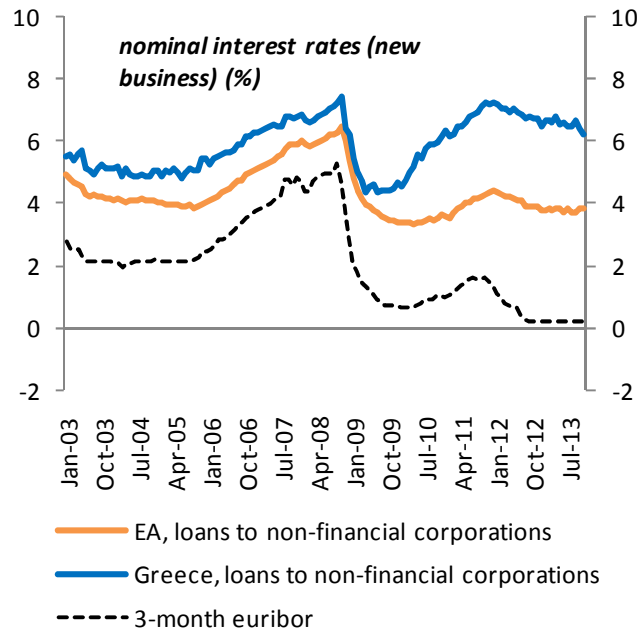


High loan rates in Greece mainly reflect high credit and liquidity risk premia

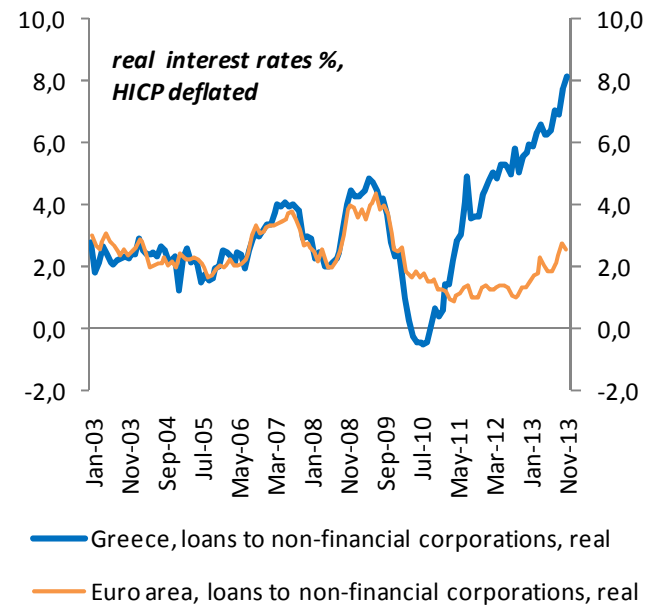


Greece has much higher loan rates to enterprises than other euro area countries, especially in real terms

High risk premia lead to a disconnect between market rates and lending rates...



...while accelerating disinflation amplified the discrepancy with the euro area, in terms of real lending costs

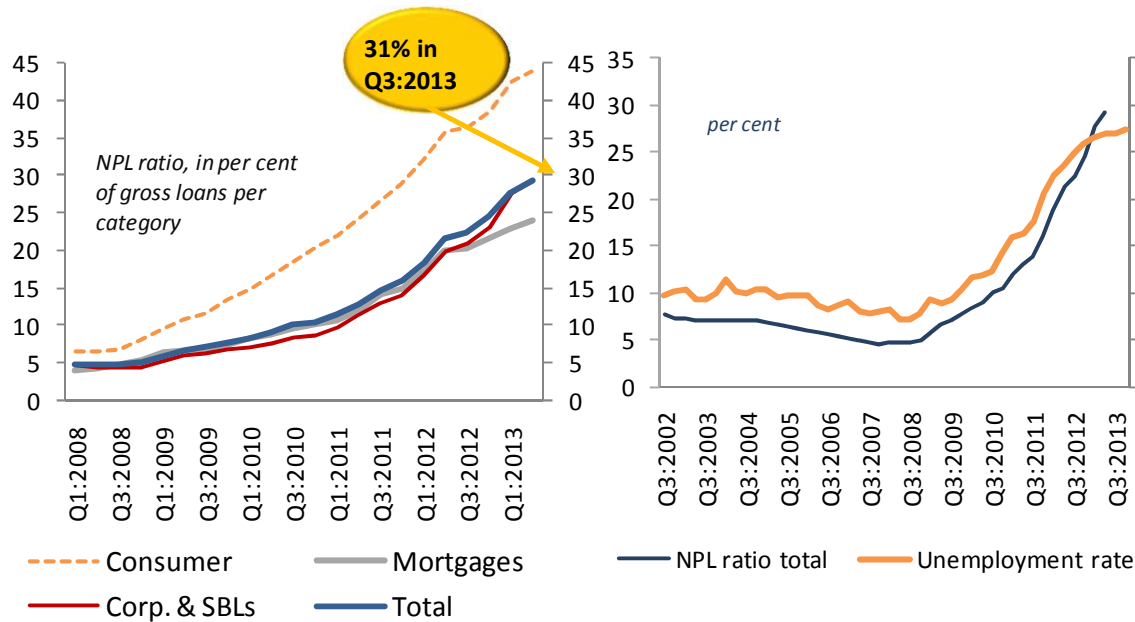


Source: Bank of Greece, ECB, ELSTAT



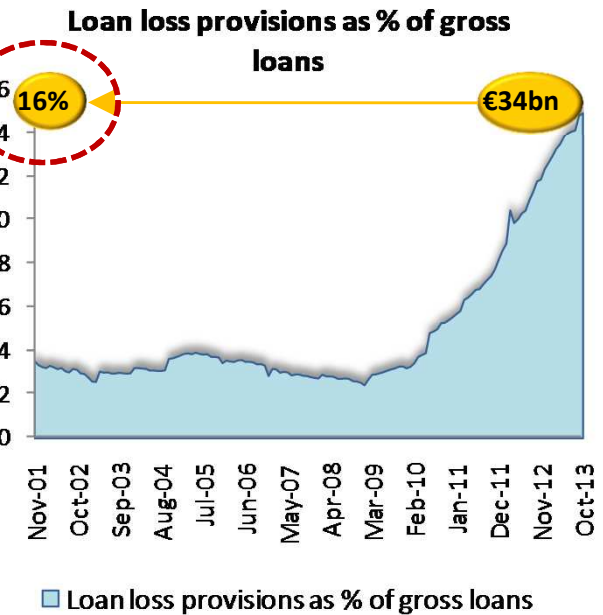
The crisis resulted in severe asset quality deterioration and high provisions (cost of risk)

The NPL ratio has climbed to unprecedented levels...



Source: Bank of Greece

...and prompted a sharp increase in provisions for potentially impaired loans

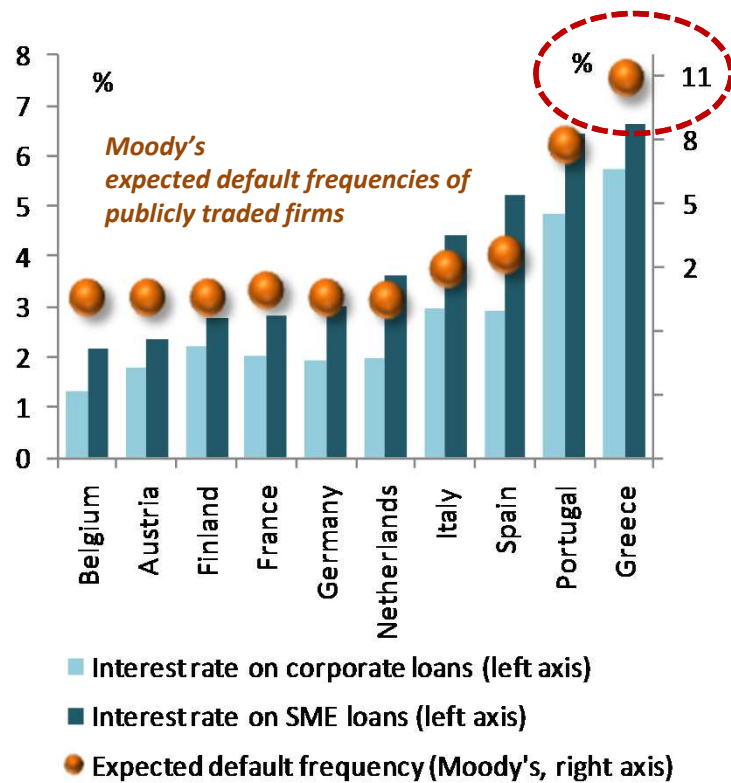


Source: Bank of Greece



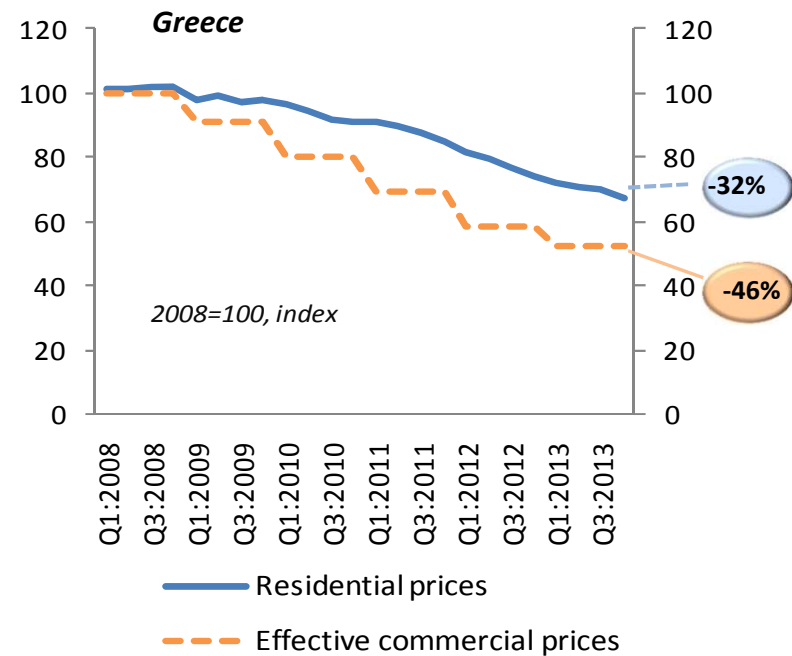
Lending rate differentials reflect high credit risk premia and an across-the-board risk re-pricing

Lending rates and country/business specific credit risk



Source: ECB, EUROSTAT, IMF, Moody's

Collateral valuations are also feeding into lending costs



Source: Bank of Greece & NBG estimates

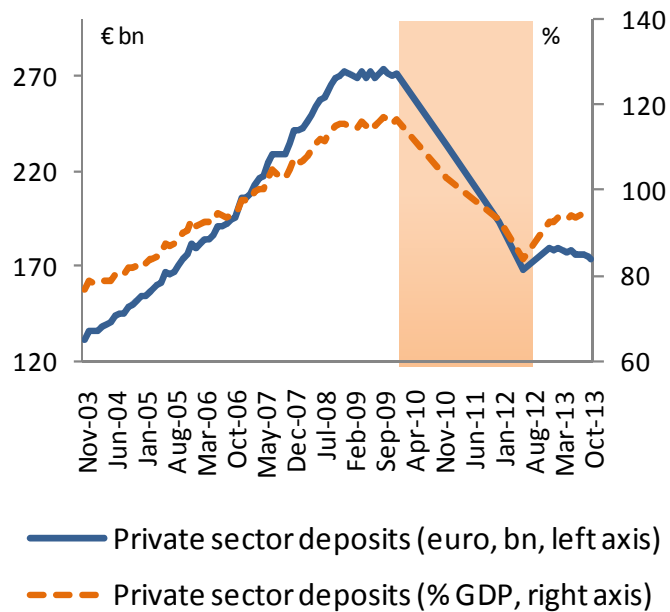


A sharp, and largely uncertainty-driven, drop in bank deposits...

Deposits fell by €100bn, equivalent to about ½ of 2013 GDP...

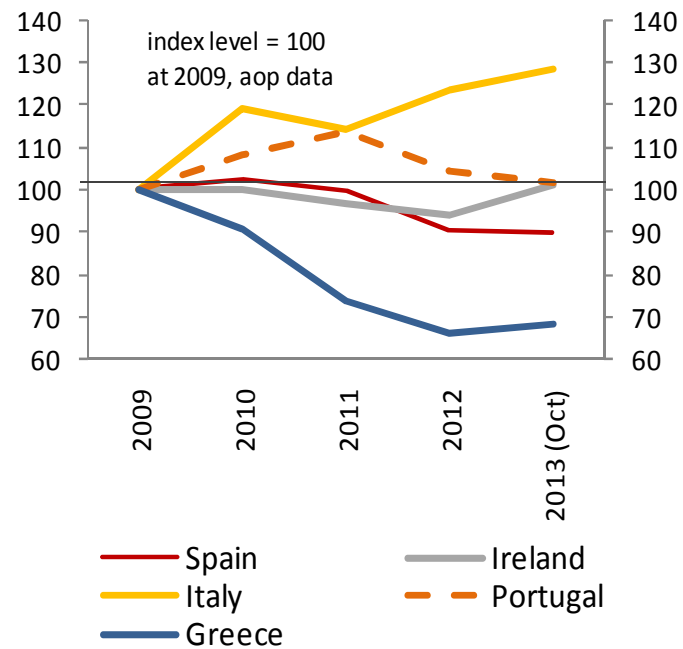
...far in excess of other programme countries...

Private sector deposits



Source: Bank of Greece

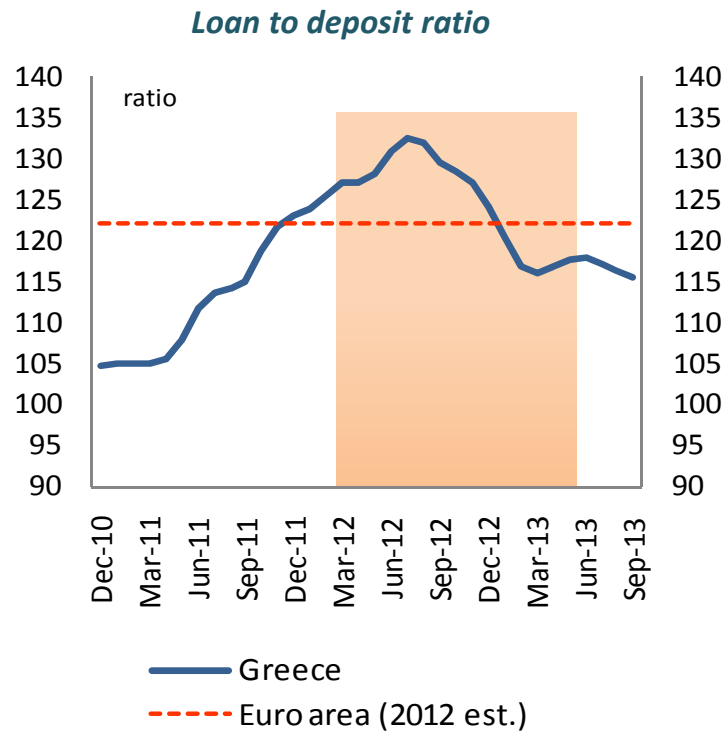
Total deposits



Source: ECB

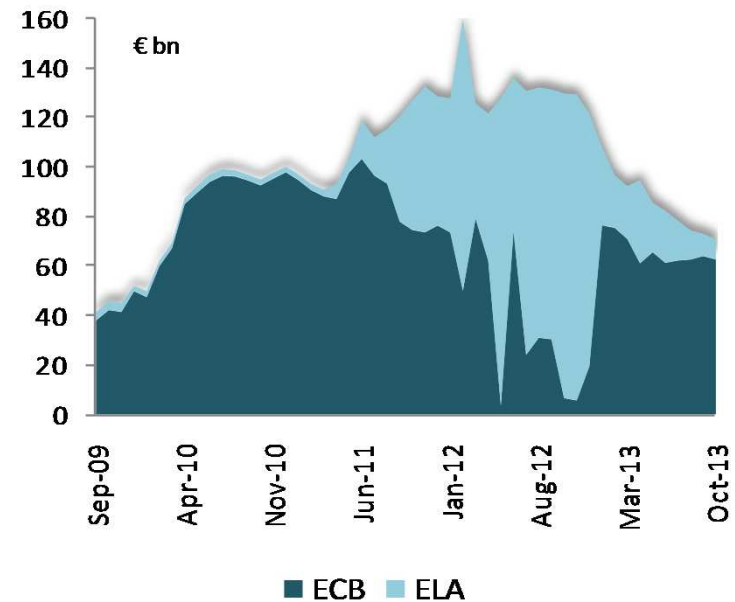


...amplified liquidity shortages, despite ECB support



Source: Bank of Greece

Greek banking system dependence on Eurosystem

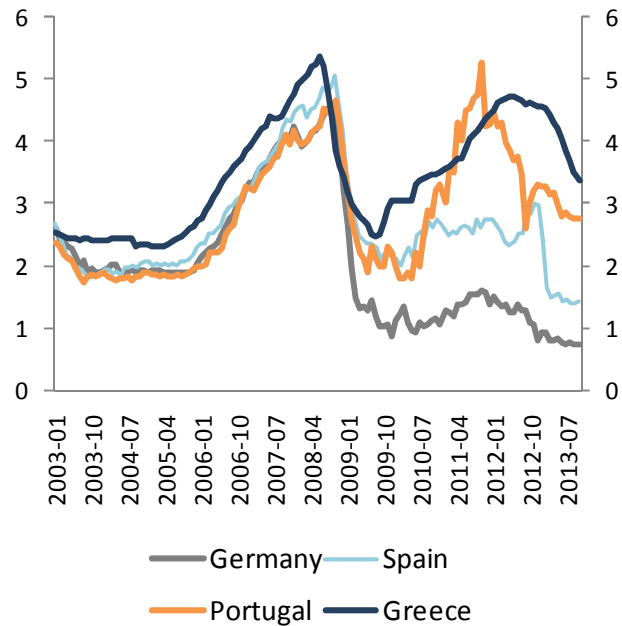


Source: Bank of Greece and NBG estimates



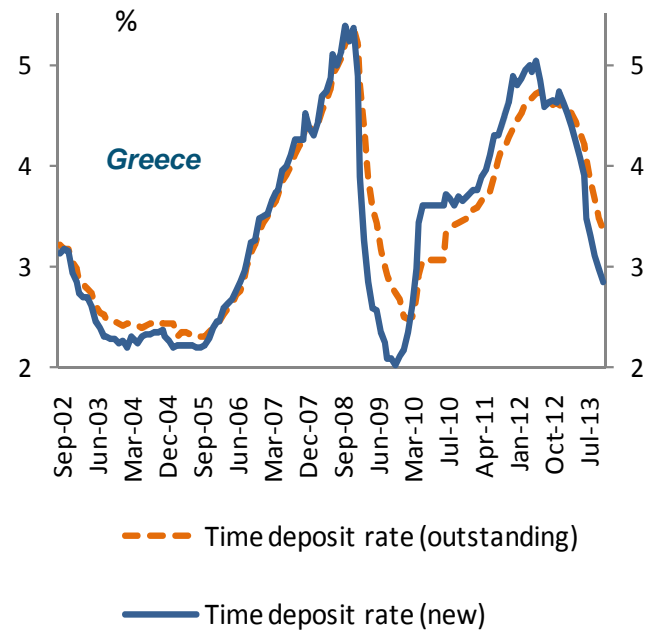
... and fed into bank funding costs

Nominal interest rate on bank deposits with agreed maturity up to 1 year (outstanding amounts)

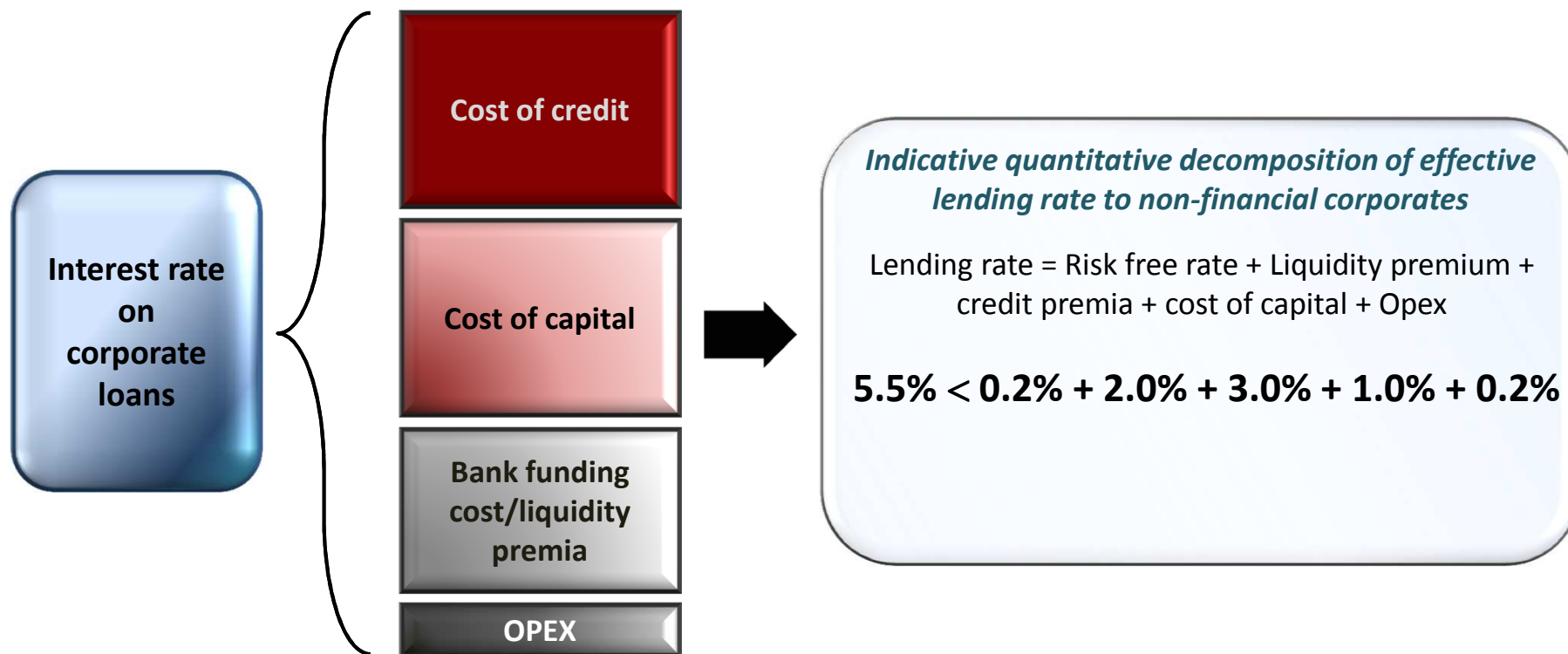


Source: Bank of Greece, ECB

Marginal cost of new time deposits vs interest rate on outstanding amount



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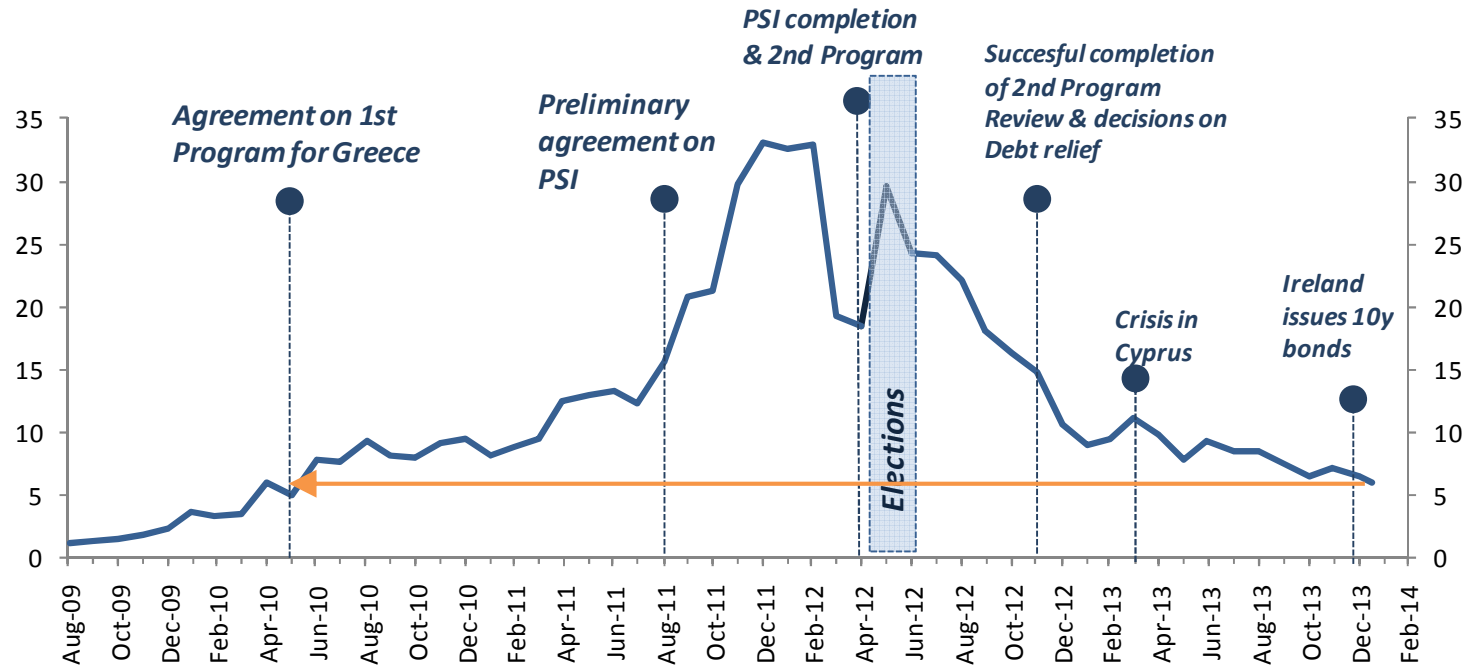


Outlining the path to lower interest rates



Sovereign risk re-pricing and bank deposit developments reflect a notable reduction in uncertainty

Greece: 10-year government bond spreads over bund



Source: Bloomberg, Bank of Greece



Further uncertainty reduction will be based on a successful implementation of the programme

- ✓ ***Fiscal measures for the period 2014-16 (c. 4% of GDP) so as to achieve a primary surplus of 4½% of GDP by 2016***
- ✓ ***Closure of funding gap of the programme (c. €10 bn)***
- ✓ ***Success in the implementation of structural reforms and privatizations agendas (tax evasion, public administration, social security, labor markets, judicial reform)***
- ✓ ***Political risk***



What policy can do “at the margin”

- 1. *Lending on more secure terms will permit lower rates***
 - *Strong cash flows (e.g. export orientation)*
 - *Higher equity participation by borrower*
 - *More security (e.g. factoring)*
- 2. *European risk sharing mechanisms (co-financing and guarantees)***
- 3. *Development of securitization market for loans***



“Keep calm and carry on”

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