

# THE GREEK BANKING SYSTEM, THE LIQUIDITY STRESS AND THE ENTREPRENEURIAL INSECURITY

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## Abstract

According to a report by the Director of the Bank of Greece, during the past few months there have been signs that the Greek economy has entered a phase of balance and that it will possibly claw its way back to viability in the next year.

It seems that the Greek banking system successfully went through the crisis and now follows a course of a restructuring process. The restructures are vital in order to manage an eventual restoration of normal funding circumstances in the real economy.

Despite the careful optimistic reports of the government concerning the economy, the reality of the economic and entrepreneurial world is rather different. More particularly, according to the results of researches, seems that the vast majority of the enterprises are in a really bad situation.

The situation of most of the Greek enterprises is bad as they face many problems, such as: liquidity, access to bank funding, difficulties and delays in entering state programs or special funding programs, reduction of their turnover and difficulties in collecting overdue debts from their customers.

**Keywords:** Greece, Banking System, Liquidity, Stress

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## 1. The Greek economy and the banking system

According to a report by the Director of the Bank of Greece, during the past few months there have been signs that the Greek economy has entered a phase of balance and that it will possibly claw its way back to viability in the next year.

These signs are briefly the following:

-All the analysts and international institutions acknowledge the fact that there is no real danger that Greece will leave the euro zone.

-The confidence in the future prospects of the Greek economy is currently restored. This is proved by the fact that the difference between the Greek bonds and the German bonds yields dramatically decreased.

It seems that the Greek banking system successfully went through the crisis and now follows a course of a restructuring process. The restructures are vital in order to manage an eventual restoration of normal funding circumstances in the real economy.

The twin deficits, the government deficit and the account deficit of external exchanges, have been widely reduced. The implementation of the stability program is satisfactory and the influx of capitals under the loan agreement is running without any problems.

All these signs are definitely positive and if they keep up, the real economy will soon improve. However, for the time being the production activity is

still in recession and unemployment is rising. In order to adapt to the new circumstances, the country had to pay a heavy price in terms of production, employment and liquidity. The main reason is that the country had to solve at once problems that have been in the background for decades.

Until very recently, the Greek banking system had to deal with problems of liquidity, loan portfolios quality and capital adequacy. These problems have not been erased but they have been partly solved. After all, it is very important that despite the adverse economic situation, the State and the Bank of Greece managed to insure financial security and the entirety of the deposits. This was particularly proved in the end of March 2013, when the Greek banks had to deal with the crisis in the Cypriot banking system.

After the transitional recapitalization of the systemic banks by the Hellenic Financial Stability Fund in May and December 2012 through the injection of securities of the HFSF, the actual course of recapitalization is going to be complete within schedule.

The recapitalization will be the starting point for the eventual restructuring of the financial system based on a collective strategy. An important number of mergers and acquisitions have already been completed. The contribution of the purge of some credit institutions, which were realized without jeopardizing the stability of the market, has also been quite important.

The banking system is definitely going to deal with more challenges in the near future. Having established a strong capital base, the banks need to manage their new structures in order to achieve strong cooperations, in the context of the regular funding plans, which need to be evaluated by the Bank of Greece. At the same time, the banks ought to prepare themselves for extreme situations by issuing stress tests, run by the Bank of Greece and completed by the end of 2013. Furthermore, extra attention must be paid on the late bank loans in order to find a long term viable solution. When it comes to the cooperative banks, they will have to implement a legal frame of operation according to the international standards by the end of September 2013.

There is a number of factors that decisively contribute to the restoration of confidence in the prospects of the Greek economy and that are actually prerequisites for potential emergence of investments. Some of those factors are the following: return of deposits, lower cost of refunding credit institutions, complete reformation of the bank system and capital enhancement.

All the encouraging developments described above do not leave any room for relaxing, as the dangers and the insecurities are still around and capable of jeopardizing the established stability and the economic recovery. Despite the admitted development in many factors, the long and intensive recession and lack of liquidity may lead many enterprises –basically sustainable- to cease operation or postpone investments.

It is highly necessary that the liquidity of the enterprises is regularly enhanced through the fast promotion of policies concerning: a) the payment of public sector arrears towards the enterprises and b) the exploitation of the National Strategic Reference Framework (NSRF) and the European Investment Bank resources in order to realize the investing plans and to restart the development of infrastructure.

The enhancement of the banking system is central to the restoration of a normal liquidity situation. Along with certain restructurings, this enhancement will allow the full restoration of the confidence in the prospects of Greek economy and the increase of offer and demand for bank funding.

Given the fact that the domestic deposits are not enough to fund, through bank loans, the development, it would be wise to expand and utilize alternative ways to fund the economy apart from bank loans and state resources.

Under this light, the attraction of immediate foreign investments through privatization and utilization of corporate bonds are absolutely necessary to improve the prospects of the Greek economy and the Greek enterprises.

## 2. The entrepreneurial reality

Despite the careful optimistic reports of the government concerning the economy, the reality of the economic and entrepreneurial world is rather different.

More particularly, according to the results of a research carried out by the Centre of Post-school Education and the Athens Chamber of Commerce and Industry regarding the liquidity state of the enterprises-members of the Chamber, the vast majority of the enterprises seem to be in a really bad situation. 523 enterprises participated in the research. It is concluded that:

- 86% of the participants declare that they have liquidity issues
- 89% of the participant enterprises cannot access bank funding
- 82% of the enterprises face difficulties in entering their businesses into state programs
- 93% of the enterprises declare that their turnover has been reduced due to the crisis
- 91% of the enterprises face difficulties in collecting arrears from their costumers

The president of the Athens Chamber of Commerce and Industry, Mr. Michalos, estimates that:

- Apart from the general recession, a very important factor is the inability of the enterprises to get bank loans and enter state programs
- The Greek banking system is excluded from the international markets and thus it cannot help private enterprises
- The economic team of the government is moving towards the wrong direction, as its policy is restricted in serving the interests of the creditors, ignoring thus big problems of the market and the society in general

A research by the Institute of Small Businesses of the General Confederation of Professional Craftsmen and Merchants in Greece in a random sample of enterprises shows that the 75% of the Small and Medium Enterprises are close to ceasing payments due to liquidity problems and uncovered checks. The research is realized twice a year since May 2009<sup>1</sup>. The sample of the research was 1,201 very small and small businesses (0-49 employees), on 21-28 January 2013 and its basic target is to record the economic profile of very small and small businesses that operate in the sectors of alteration, trade and services, which represent the 99,6% of the total number of enterprises in Greece. The main outcomes of the research are:

### Concerning the general situation:

<sup>1</sup> The researches by the Institute of Small Businesses of the General Confederation of Professional Craftsmen and Merchants in Greece are the only tools that record the situation and the course of the biggest part of the real economy, on a national level.

The evaluation of the second semester of 2012 is still negative, since the 82% of the enterprises state that the situation is worse. All the economic figures are also negative, presenting marginal retardation. 81, 1% of the participant businesses answered that their turnover has been reduced, especially the trade businesses. The average reduction in the turnover of the second semester of 2012 is 32, 9%.

The number presenting the most important retardation is the investment rate. Only 5, 7% of the businesses have increased their investments. 45, 2% of them estimate that they will not proceed in any investments during 2013 and another 41, 5% intends to reduce the investments. It seems that most of the enterprises are being directed away from investments.

The investment insecurity and slumber of the entrepreneurs is justified by the fact that 33% of them estimates that the recovery of market will occur after 2020 and 6, 8% believe that the recovery will never come.

Only 18, 7% of the respondents said that their businesses were profitable during 2012. 44, 7% of the enterprises said that there are trying to live up through the crisis, even without financial profit.

### ***Concerning the debts and the operational cost:***

33, 8% of the enterprises have overdue debts towards their suppliers. More than 30% of them have overdue debts to their rents, banks and Government-owned Corporations. The percentage for the Insurance Organization of Free Agents is 43% while for the Social Insurance Institute the percentage is 17, 3%.

The enterprises that delay their tax debts have been increased by 25%. More than half of the sample (51, 1%) estimates that they will not be able to pay their tax responsibilities in 2013.

83, 7% of the participant enterprises have reduced the prices of their products and services during the past 2, 5 years. The greatest reductions were recorded in the prefecture of Attica and especially in the offered services.

Despite the given reductions, the owners of the enterprises think that the restraining factor for a further reduction is the operational cost and the taxes (summed up as "state expenses"). 50, 9% of the businesses consider that the taxes, the Government-owned Corporations bills and the energy cost are the biggest problems. Only 5% believe that the salary cost is a significant issue.

### ***Concerning the liquidity and the banks:***

80, 9% of the owners of the enterprises have used their personal deposits in order to cover the expenses of their businesses.

21, 5% have divested their personal properties. The adverse terms of funding and the accumulative

recession forced the entrepreneurs to turn to their last solution, the family budget and the family property. This means that the Greek economy is captured in a "liquidity trap".

The percentage of the entrepreneurs who consider that their deposits are safer outside the banking system has been increased. This practice is supported by the rumors about repossessions and seizures of deposits, publication of the identity of the depositors and retrospective taxation on the interests.

Three out of four enterprises face liquidity issues (84% in the alteration sector) and the problem of uncovered checks. The "cease of payments" has influenced the prospects of the enterprises, as half of them (47, 5%) estimate that they will reduce their orders to their suppliers during the next semester and 35, 4% of them estimate that the size of orders will remain the same.

The percentage of the entrepreneurs that the country is still in danger of a potential default has decreased from 54, 3% (1<sup>st</sup> semester) to 44, 9% (second semester). This optimism, however, is not reflected on the actual entrepreneurial activity.

Finally, the president of the General Confederation of Professional Craftsmen and Merchants in Greece, Mr. D. Asimakopoulos, talking about Credit Guarantee Fund for Small and Very Small Enterprises, he says that certain amount of money has not been yet given and he also estimates that the biggest part of the money will be used to cover the payment of interests and older loans. Thus, this project will not eventually contribute to the activation of the market.

### **3. Conclusions**

All the encouraging developments of the Greek banking system do not leave any room for relaxing, as the dangers and the insecurities are still around and capable of jeopardizing the established stability and the economic recovery. Despite the admitted development in many factors, the long and intensive recession and lack of liquidity may lead many enterprises –basically sustainable- to cease operation or postpone investments.

It is highly necessary that the liquidity of the enterprises is regularly enhanced through the fast promotion of policies concerning: a) the payment of public sector arrears towards the enterprises and b) the exploitation of the National Strategic Reference Framework (NSRF) and the European Investment Bank resources in order to realize the investing plans and to restart the development of infrastructure.

The situation of most of the Greek enterprises is bad as they face many problems, such as: liquidity, access to bank funding, difficulties and delays in entering state programs or special funding programs, reduction of their turnover and difficulties in collecting overdue debts from their customers.

The Greek banking system is excluded from the international markets and thus it cannot help private enterprises.

The economic team of the government is moving towards the wrong direction, as its policy is restricted in serving the interests of the creditors, ignoring thus big problems of the market and the society in general.

All the economic figures of the enterprises are negative, presenting a marginal retardation. The most important problem is the investment activity of the enterprises. The investment insecurity and slumber of the entrepreneurs is justified by the fact that they estimate that the recovery of market will occur after 2020.

The adverse terms of funding and the accumulative recession forced the entrepreneurs to turn to their last solution, the family budget and the family property. This means that the Greek economy is captured in a "liquidity trap".

The entrepreneurs consider that their deposits are not safe in Greece. This practice is supported by the rumors about repossessions and seizures of deposits, publication of the identity of the depositors and retrospective taxation on the interests.

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