

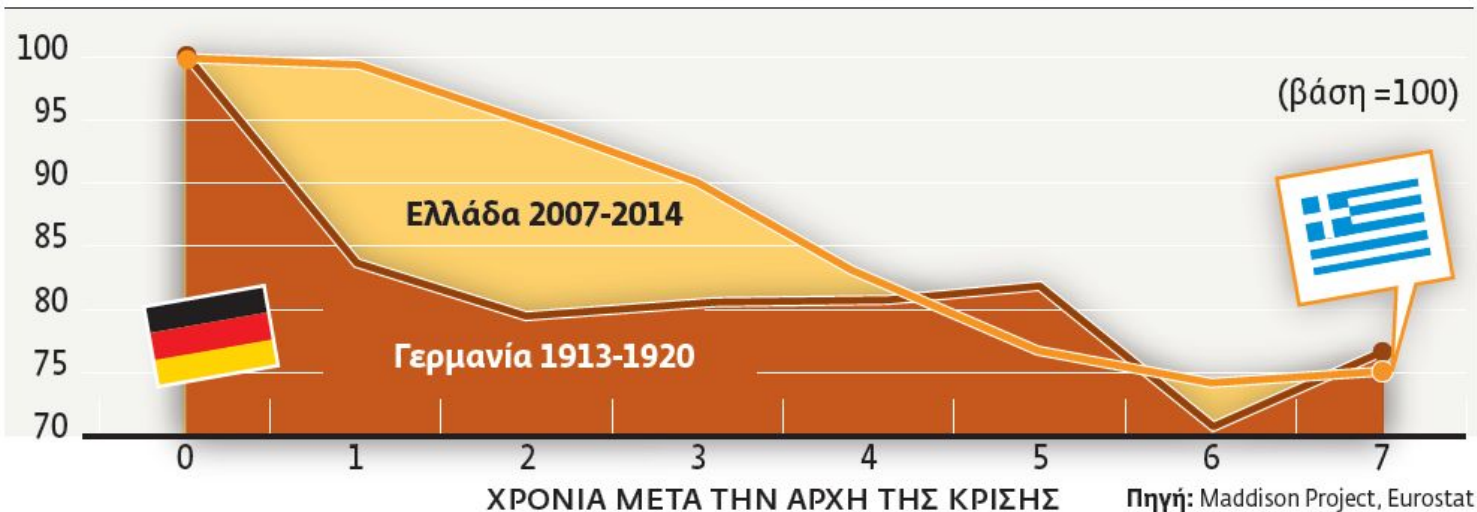
Policy proposals for management of NPLs portfolios

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Introduction

- In Greece, the economic crisis began originally as sovereign debt crisis. Soon it turned into a deep banking crisis.
- The basic policies were on the one hand extreme austerity and on the other the so-called "structural reforms" in order to achieve fiscal consolidation and "internal devaluation". Inevitably it was caused an unprecedented recession (depression), with enormous social costs: excessive increase of poverty, humanitarian crisis, unemployment record, dramatic reduction in disposable income and countless padlocks.
- At the same time: reduced deposits, dried liquidity, fallen property prices and more recently deflation (negative inflation).
- As a result, Greek citizens are unable to meet their obligations and now encounter a huge non private debt, which came to be added to the public. NPLs in 2007 were 4.6%, today they are 34.2%, according to official data.
- Increased bad debts of banks threaten banks' balance sheets, delaying the provision of liquidity and ultimately postpone the economic recovery.
- The problem is really explosive. Along with the debts to State, pension funds, public enterprises etc total private debt exceeds 150 billion, approaching nominal GDP.

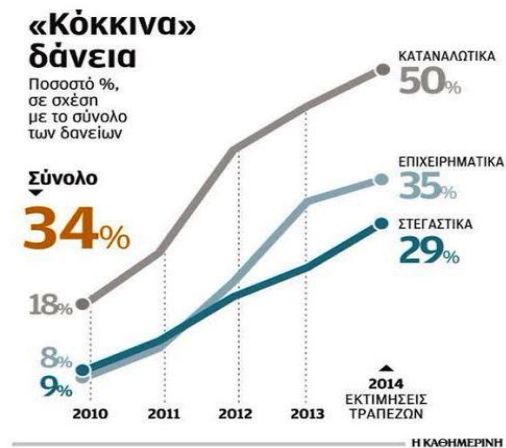
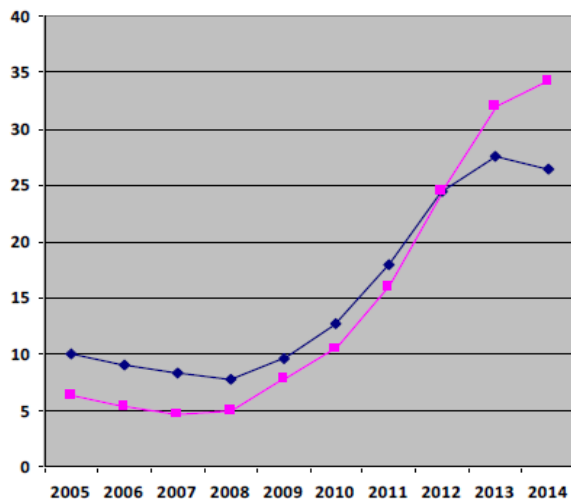
Εξέλιξη κατά κεφαλήν ΑΕΠ της Ελλάδας με τη Γερμανία στην εποχή της Βαϊμάρης



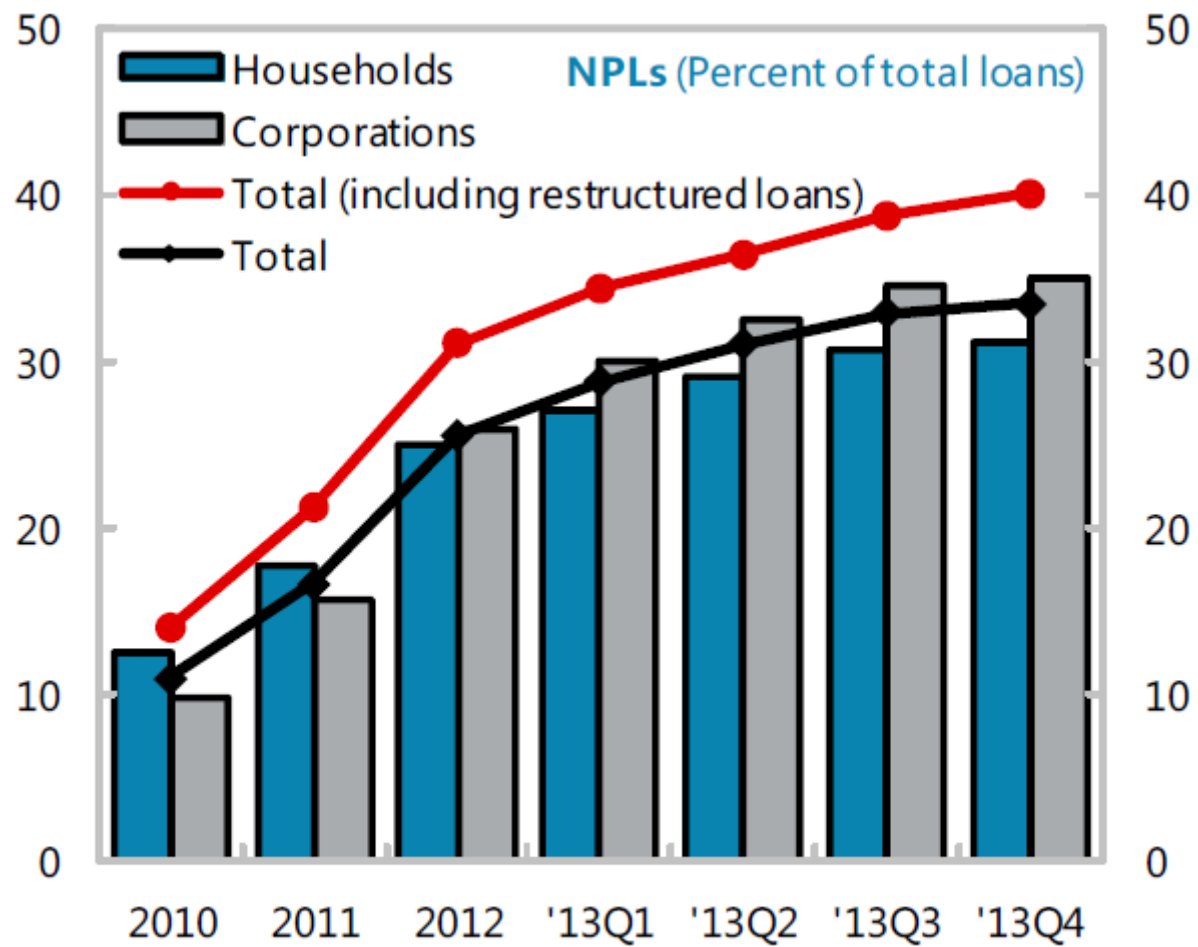
Η ελληνική «Μεγάλη Υφεση» είναι χειρότερη από την αντίστοιχη των ΗΠΑ του 1929



Το γράφημα, που ακολουθεί, είναι ενδεικτικό της αναλογικότητας μεταξύ της αύξησης της ανεργίας και του ποσοστού των καθυστερημένων δανείων. Η μικρή υποχώρηση της ανεργίας το 2014, χωρίς όμως να έχει αυξηθεί ο αριθμός των απασχολούμενων, δεν είναι αρκετή για τη μείωση των «κόκκινων δανείων».



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 (ΕΚΤ.)
Ανεργία (μέσο ετήσιο ποσοστό)	10,0	9,0	8,4	7,8	9,6	12,7	17,9	24,4	27,5	26,4
Καθυστερήσεις (χωρίς τις ρυθμίσεις)	6,3	5,4	4,6	5,0	7,8	10,4	16,0	24,5	31,9	34,2



Sources: Bank of Greece; and IMF staff calculations.

The myth of the excessive debt of Greek households

Before the crisis household borrowing in Greece as a percentage of net disposable income was much lower than most European countries. The rate has increased, despite the credit crunch, because of the crisis, since the income has collapsed.

Debt of households

As a percentage of net disposable income



Note: Debt of households and non-profit institutions serving households, as a percentage of net disposable income.

Source: OECD 2014

The effects of deflation

During the last two years, as a result of internal devaluation, Greece is in deep deflation (negative inflation).

Deflation increases the real value of outstanding interest (effective interest rate increases, as it equals the nominal interest rate minus inflation, which, if negative, is added).

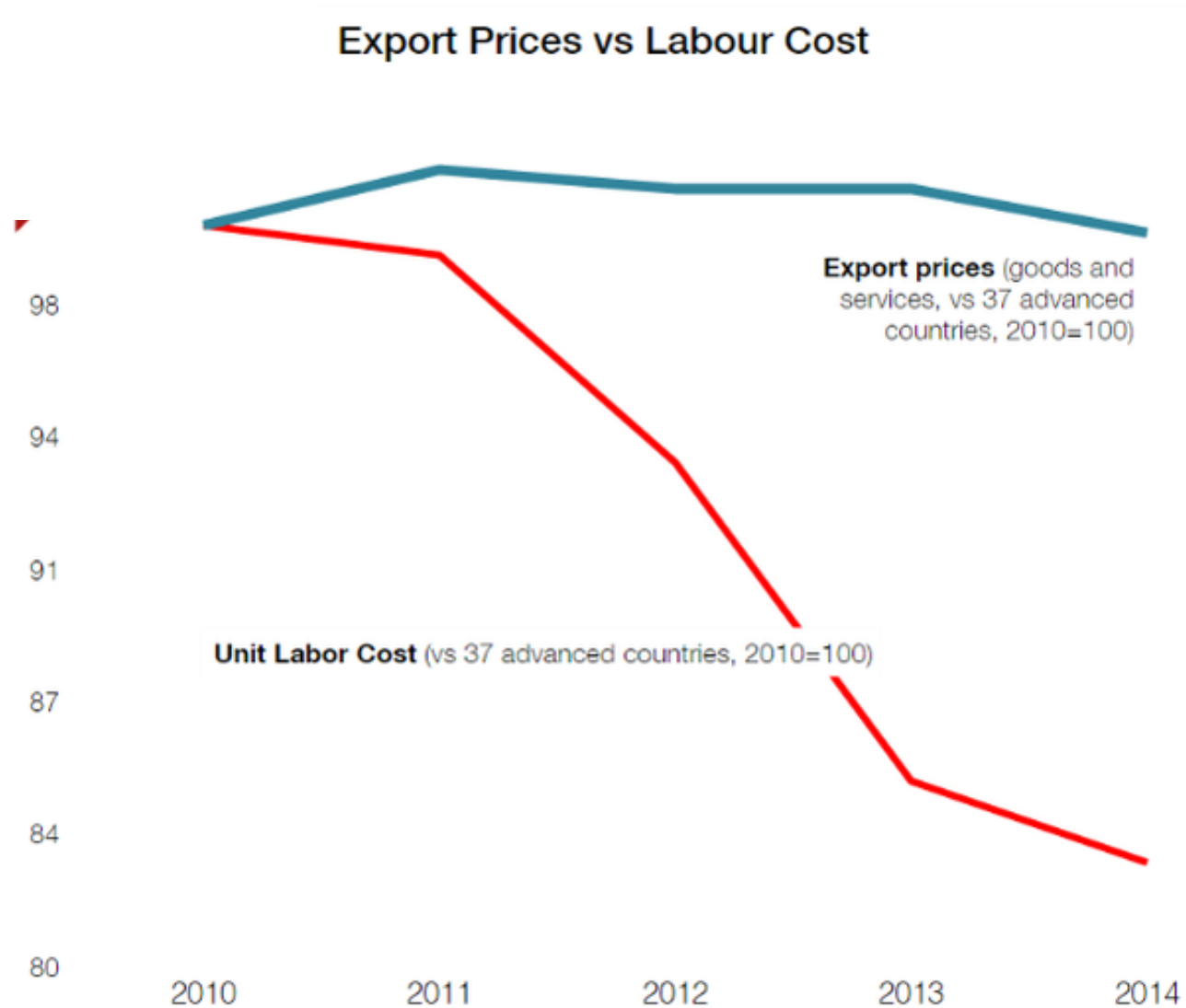
So, we have higher real borrowing costs for State, enterprises and households. In particular, deflation makes public debt difficult to be repaid, despite the low nominal interest rates of the loans.

In 2014, due to the deep deflation, nominal GDP shrank by 2% or 3.5 billion, despite the growth 0.7%. Nominal GDP fell from 182.2 to 178.7 billion.

As a result, incomes have continued to shrink, burdening the service of private debt.

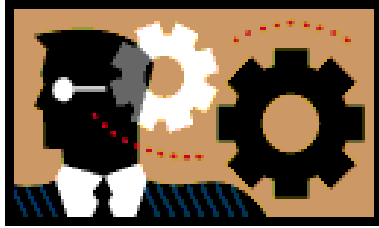
At the same time, public debt to GDP ratio reached 181% instead of 174%, as previously expected, completely upsetting the analyzes of its viability.

The myth of the relationship between labor costs and price competitiveness



Management policies of NPLs

- The problem with the Greek case is that the level of NPLs is so high (34.2% at end-2014), so that the reduction to acceptable levels can not be achieved even under conditions of perennial growth.
- The policies used to date had to do with:
 - **Management within balance sheet**
 - Create a specialized unit within the bank
 - Outsourcing of management
 - **Manage off - balance sheet**
 - Transfer of loans and existing staff in a new company
 - Transfer of loans to a new company, which will be restaffed.



International trends

- In most cases, both in the past and during the present crisis, it was adopted the off - balance sheet management, through management companies (Asset Management Companies - AMCs).
- These companies may operate either centralized (one for all transfers of loans) or non-centralized (one separate for each bank).
- Funds are required for their operation.

The Greek case

It is undeniable that the non performing private debts should be restructured. No attempt of economic, social and productive reconstruction, ultimately the exit out of the economic crisis, can be achieved, if the problem of excessive non performing private debt is not addressed in a direct and meaningful way.

The private debt of households and businesses is not in one single bank, but there are often debts to different banks, making necessary a central coordination and management.

Liabilities and the ability to repay the whole debt for each debtor should be examined, as there are arrears not only to banks but also to the State, pension funds, public enterprises and to third parties.

Thus, the management of private debt cannot be achieved only by banks. It is needed an intermediary independent body, which will be able to take into account and manage the total debt per debtor.

Possible solutions - directions

It would be possible to create an intermediate independent operator of private debt, of public interest, which may be integrated in the Hellenic Financial Stability Fund.

There will be separate sectors to manage every category of loans (housing, consumer, business).

This body will not be a "Bad Bank" but probably will have the form of a fund, in order to make use of modern financial tools.

Its primary role will be to institutionalize a setup program, based on specified required (minimum) decent living expenses.

Furthermore, the role of the institution will be an oversight on the implementation of the framework.

Finally, the debt, which can not be managed by banks themselves, will be transferred to the AMC.

The Greek case - case setting body (AMC)

- At the beginning, whatever form of AMC will be selected, it will regard a specific category of loans (e.g. only loans for commercial properties).
- This company (state, private or a combination) should have such a status, which can "leverage" effectively the relatively inexpensive initial capital, which will flow into it. This will enable it to absorb most of problem loans.
- It would help for pricing of the transferred loans and for reducing the required capital, which will initially be needed for the operation of the AMC. It will give the possibility of absorbing greater number of NPLs with no requirement for additional funds.
- So, it would reduce the need for recapitalization of banks.

The Greek case - case setting body (AMC)

- Potential shareholder could be the HFSF, something that could be a target of the negotiations. In this context, part of the funds returned to the EFSF, on the basis of the agreement of the Eurogroup, could be requested, in order to cover capital needs of banks, that may arise from the transfer of NPLs to the AMC.
- The technical solution of a body similar to the Spanish SAREB and to the Irish NAMA does not seem to be in contrast with the BRRD Directive (Bank Resolution Regulatory Directive) and the Third Amendment of MFFA Agreement. Therefore, we are deliberating the possibility of financing the setting up of the program from the buffer of the € 10.9 billion of EFSF, in collaboration with ECB and SSM.

Closing presentation

- Reported potential directions of NPLs portfolios management policies.
- The Government considers all possible solutions to the directions already mentioned in its programmatic statements.
- The government's intention is to use solutions to ease borrowers from the burden of debt based on social criteria (weaker classes, unemployed etc.), without creating problems for banks' capital adequacy.
- It is important to ensure transparency, social justice and equal treatment.
- It is also important to protect the weak and those affected by the crisis.
- They should also take into consideration the needs for recovery of the economy, tackling unemployment and productive reconstruction.
- The government plans will be brought to the attention of our partners during the negotiation, which are ongoing.