On the front line

Greece's biggest banks may appear to be out of danger, but they are not
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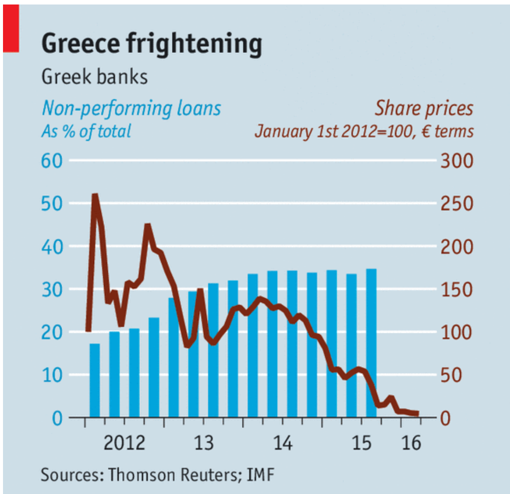

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ON THE face of things, Greece's four big banks are in their best shape in years. In November they received their third bail-out in as many years. The extra €14.4 billion ($15.9 billion) they got then (some of it from private investors) raised their capital ratios to 18%, well above the European average of 13%. Recent legal changes make it easier for them to repossess collateral and to sell loans to third parties. Better yet, recent data suggest the economy shrank by only 0.2% last year, much less than initially feared. The Bank of Greece predicts that growth could return as early as this summer. After eight years of crisis and recession, normality at last seems within reach.

But beneath the cushion of fresh capital, cracks remain. Greek banks are still losing money. Piraeus Bank, the country's second-largest lender, this week reported a net loss of €1.9 billion in 2015. Deposits have barely begun to grow again after last year's run; the capital controls it prompted remain in place. Fully 40% of loans and 55% of mortgages are not being paid down, compared with a European average of 5%. Big losses on non-performing loans (NPLs) and debt securities could erode the banks' capital once again. Greece is rowing with the other members of the euro zone about the conditions of its bail-out, raising the spectre of another crisis. A fourth recapitalisation is not out of the question, says Josu Fabo of Fitch, a rating agency. The markets remain nervous: bank shares are down by 36% since the start of the year.

The banks are largely innocent bystanders in the endless back and forth between the Greek government and its creditors, but they are guilty of procrastination when it comes to their NPLs. Instead of restructuring the loans worth saving, calling the bluff of defaulters that could probably pay, and reclaiming and selling the collateral of the hopeless cases, they are counting on a return to growth to rescue delinquent borrowers. That, in turn, is impeding the flow of capital to ventures that might help revive the economy. Yannis Stournaras, the head of the central bank, recently demanded “bold and innovative initiatives” to clean up bad loans. “This cannot be ensured by the current ‘business as usual’ approach,” he added.

The banks could also cut costs, by closing branches and shedding assets, such as National Bank of Greece’s Turkish subsidiary, Finansbank. Governance, too, is ripe for scrutiny. Many of those in charge of Greece’s banks when things went horribly wrong remain at the helm. As a condition of their latest loans, Greece’s creditors demanded a review of bank board members’ qualifications.

As ever, however, the banks’ fate is largely out of their hands. An escalation of the government’s ongoing row with its creditors, a global economic downturn or a deepening of Europe’s migration crisis could all prolong and deepen Greece’s recession. The most immediate risk is that euro-zone governments and the IMF will withhold the next instalment of Greece’s bail-out, leaving the government unable to pay its bills this summer.

Even if a crisis is averted, Greek banks are in no shape to make lots of new loans. NPLs may be on the verge of peaking (“If you haven’t defaulted after eight years of recession”, notes one banker wryly, “you probably never will”), but they still tie up the banks’ capital. Liquidity is another problem, points out Miranda Xafa of the Centre for International Governance Innovation, a research institute. Greek banks have around €202 billion in outstanding loans yet only €122 billion in deposits (down from €237 billion in 2009). Deposit-holders pulled out over €40 billion in the first half of last year alone. Emergency loans from the European and Greek central banks make up the difference. Cash machines in Athens still greet customers with a reminder that they can withdraw no more than €420 a week. As long as they have to deliver such messages, Greek banks cannot be expected to prosper.