Greek banks: one year on from the bailout

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Barely one year ago the situation of Greece and its banks was one of the major global economic concerns. The advent of a new government determined to renegotiate the terms of the international bailout, the uncertainty surrounding the possibility of Greece's leaving the euro zone, a badly impaired economy and a massive run on deposits culminated with the imposition of capital controls, a third bailout programme and the recapitalisation of its banks. The world seemed to breathe more easily: we had a critically sick patient to whom we had administered treatment, so we just had to await improvement.

Has the patient improved? Judging by the banking indicators, not much. Lending continues to fall and liquidity is improving only slowly. In fact only €5 billion in deposits have been recovered of the €45 billion withdrawn after the elections, and this despite most of the capital controls remaining in place (such as the limit on withdrawals of €840 per two weeks per depositor). Furthermore, ECB financing is still essential, much of it in the form of expensive emergency liquidity assistance. Profitability has returned to positive territory, but only to a very limited extent, and with the additional disadvantage of the low official interest rates. Solvency, which improved significantly with the recapitalisation, is now deteriorating once again. As for the quality of assets, the fact that the consolidated NPL rate stands at 38% shows that much remains to be done.

Not all the indicators are negative, since the restructuring plans imposed on the financial institutions seem to be bearing fruit. The efficiency of the system is one of the best in Europe, over-capacity in branch networks has been substantially reduced and banks have withdrawn from non-core countries and business lines.

Does this mean that the treatment applied was inappropriate? Not necessarily. Perhaps the right measures were taken but the patient is not the banking sector but the economy and the public sector. In the case of Greece the situation of the banks is like a fever that is symptomatic of something wrong with its economy and its public sector. And these institutions are highly exposed to their country, especially after the divestments of assets abroad such as in Eastern Europe and Turkey.

What is needed in this case is for the country as a whole to improve and confidence to be restored so that loans and deposits can flow. And for that to happen, it seems that this patient requires a very long course of treatment not focused solely on the banks.