



Greek Banking Expansion in South Eastern Europe and its Role in the Post-2009 Recession¹

Yiannis Kokkinakis*

Department of History and Archaeology, University of Crete, Greece, Misail Apostolidou 1, 73131 Chania, Crete-Greece.

*Email: kokkinakis@uoc.gr

ABSTRACT

Capital investments by Greek banks in South Eastern Europe expanded rapidly during the period immediately before and after the introduction of the Euro. Through mergers and acquisitions, direct investments in a network of affiliated banks and subsidiary companies, as well as credit granted to Greek industrial capital invested in the region, by the mid-2000's the Greek banking system had come to possess a substantial share of the entire South Eastern European banking sector. The commitment to support subsidiaries in the area has had negative consequences as regards the provision of credit and liquidity in the rapidly shrinking post-2009 Greek economy. The so-called Vienna initiative involved undertakings by major international financial bodies and the most important European institutions to maintain the exposure of western parent banks to emerging Europe. In conjunction with the Greek sovereign debt crisis, this increased the overall burden of the bailout loans, and hence European Union and IMF involvement in Greece. This in turn contributed to the imposition of austerity measures that impaired an already fragile internal market.

Keywords: Greek Banks, Balkans, Vienna Initiative, Financial Crisis

JEL Classifications: F36, G21, P34

1. INTRODUCTION

Both before and since the global financial crisis, much has been written in defense of the stabilizing effects arising from deregulated trade and investment areas, and of the ability of multinational firms to take unhindered decisions concerning the allocation of resources in a global market. In this paper I argue that such aggressive expansionist banking policies have played an important role in the current long-term economic recession in Greece. From this perspective it is inaccurate to argue that “the multinational banks” did not “exacerbate the crisis” but “rather regulatory failure to deal with large cross-border banks [...] deepened the crisis” (Allen et al., 2011b). Prior to the crisis, multinational banks in both the US and the European Union (EU) acted consistently and concertedly to prevent the imposition of effective regulation in global finance. They did actually solicit action after 2008, with a two-fold agenda: To limit ring-fencing in countries where their

subsidiaries operated, and to coordinate emergency IMF and EU loan agreements in order to improve banking group liquidity and shore up solvency. It is thus more to the point to conclude that “global banks facilitate the cross-border transmission of shocks, and therefore require effective coordination and cooperation between national supervisory authorities to prevent the international spillover of financial shocks” (De Haas and Van Lelyveld, 2014). The non-existence of such coordination mechanisms necessitated the specific concerted action known as the Vienna Initiative (VI).

This paper is structured as follows: Section 2 presents some well-known data on the size and importance of the financial sector in the EU, and the presence of multinational banking groups in Central and South Eastern Europe (CESEE). Section 3 describes the reactions of parent banks and CESEE governments to the new stringent reality imposed by the global crisis. Section 4 accounts for the logic behind the informal action organized by the “official and private sectors” and international financial institutions to avoid a “meltdown” in the CESEE region. I conclude with some implications for the Greek economy of multinational bank exposure in the CESEE region.

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2. FINANCIAL SECTORS IN THE EU AND GREECE: A BRIEF COMPARATIVE ACCOUNT

The EU countries possess one of the world's most sizable financial sectors. Eurozone banks dominate international banking; at the end of 2013 their external claims accounted for almost 24% of the global total, surpassing that of both the USA and Japan. Claims by Euro area banks in emerging markets accounted for some 1.6 trillion euro, representing 45% of overall foreign claims vis-à-vis emerging markets (Lehman and Nyberg, 2014).

One common yardstick applied to measure the size of the banking sector is the ratio of banking assets (or total assets of credit institutions) to gross domestic product (GDP)². Figure 1 shows this figure for 75 countries in 2012. Looking at a list of 22 countries where the ratio is < 2 - a strong indication that their banking sectors have outgrown the "real" economy - only 5 (Singapore, China, Canada, Australia and Malaysia) are non-EU countries. If we further limit our sample to cases where the ratio is larger than 3, we end up with a mere 10 countries, all of which are EU or EFTA members (Luxemburg, Ireland, Switzerland, the United Kingdom, the Netherlands, France, Malta, Austria, Germany and Portugal).

If we compare the Greek bank asset to GDR ratio with that in a sample of 17 EU member states (including the United Kingdom and Norway), we see that although the country's banking system is more than double the size of its GDP, it is one of the least oversized in relative terms (Figure 2). However, if we then compare Greece with a sample of 22 Southeastern European countries, we can conclude that by the onset of the global financial crisis Greece possessed the most outgrown banking sector in the region (with the exception of Italy, and only for 2008 and 2009) (Figure 3).

In relation to the size of their national economies, EU banking systems are not only among the largest in the world, but also among the most globalized. According to some estimates, in 2009-2010 the exposure of core EU countries to economies on the Eastern periphery of the Union amounted to \$1.3 trillion (Kudrna and Gabor, 2013). The Greek banking system followed this trend towards financial globalization. Decreased transaction costs after the introduction of the Euro facilitated direct foreign investment between member states, as well as market access "for higher-risk issuers" (Lane, 2006). The deregulation of credit and capital markets in the late 1980s and 90s, the liberalization of cross-border capital movement and the abolition of direct credit controls enhanced profit opportunities for many Greek credit and industrial corporations, especially after the enlargement of the EU into the CESEE region (Gortsos, 2005).

In the 1990s and 2000s the Greek banking system participated in a massive investment effort in order to "foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries" (EBRD, 2013). Groups such as the National Bank of

Greece (NBG), Marfin Financial Group, Eurobank, Alpha Bank, Piraeus Bank, and industrial corporations including Viohalco (metal production), Titan (the largest cement producer in the Balkans), Vivartia (food production), Mytilineos (metal and energy production), Coca-Cola 3E (the largest fresh juice producer in the Balkans), Intracom (telecommunications, information, defense, etc.) invested heavily in the Balkans (Michaletos, 2007). In 2006, Greek banking, commercial and industrial capital accounted for "27% of total direct foreign investment in Albania," ranking first in foreign investment in Macedonia, second in Bulgaria and fifth in Romania, as well as investing billions of euros in Bosnia and Serbia-Montenegro. These investments required the involvement of Greek banks through subsidiaries operating in the region, which was achieved via the acquisition of local banks or the collaboration of multilateral financial institutions (Athanasopoulos and Delitheou, 2006; Kokkinakis, 2011).

A 2010 IMF Working Paper by Eugenio Cerutti, Anna Ilyina, Yulia Makarova and Christian Schmieder attempted to assess the cost of tightened restrictions on intra-group cross-border transfers to banking groups operating in the CESEE region (Cerutti et al., 2010). The writers focused on 25 banking groups with parent banks in Austria, Belgium, Norway, France, Germany, Greece, Italy, the Netherlands and Sweden, with subsidiaries operating in 17 CESEE countries and Turkey. The research sample included 113 subsidiaries with total assets of at least \$1 billion, in which the parent bank had an ownership stake of at least 20%. These CESEE subsidiaries represented on average about 50% of the host country's total banking system assets. Tables 1-3 summarize some of the results of this research (Cerutti et al., 2010).

The most "pluralistic" CESEE banking systems - in the sense that they "hosted" foreign investments from several core EU countries - were Poland, Russia, Bulgaria and Turkey (Table 1). At the other end of the spectrum (the "least pluralistic" CESEE countries), the banking sectors in Bosnia and Serbia were dominated by 7 Austrian subsidiaries, while 2 Swedish subsidiaries dominated the market in Estonia. Austrian subsidiaries played a leading role in Croatia and Slovakia (Table 2).

The most prominent multinational banking groups operating in CESEE countries were those from Austria, France, Germany, Italy, Greece, Belgium (and Sweden for the Baltic). The five major Austrian banking groups [Erste Group, RZB, Bank of Austria, Volksbank, Hypo Alpe Adria Group] had established 44 subsidiaries in 16 of the 18 countries in the sample. CESEE lending by the two major Austrian-owned banks [Erste Group, RZB] surpassed \$300 billion in 2010, approximately equaling 68% of the country's GDP (Haiss and Schellander, 2010). French parent banks owned 16 subsidiaries in 11 CESEE countries, followed by German, Belgium, and Italian institutions. Banking groups from Greece had established 8 subsidiaries in 4 Balkan countries. (Table 3).

3. THE GLOBAL CRISIS, STATE AID AND RING FENCING

During the severe global financial crisis of 2008-2009, European banks were seriously hurt by the major reduction in interbank

2 But see Schoenmaker and Werkhoven's (2012) objections on the limitations of this yardstick.

Table 1: CESEE countries with subsidiaries from more than 3 EU countries and numbers of subsidiaries (2010)

A/A	Host country	Home countries	Subsidiaries
1	Poland	9 [Austria, Belgium, France, Germany, Italy, Holland, Sweden, Norway, Ireland]	10
2	Russia	6 [Austria, Belgium, France, Germany, Italy, Holland, Sweden]	11
3	Bulgaria	6 [Austria, Belgium, France, Germany, Greece, Ireland]	9
4	Turkey	6 [Austria, Belgium, France, Germany, Greece, Holland]	8
5	Romania	5 [Austria, France, Germany, Greece, Italy]	11
6	Albania	5 [Austria, France, Germany, Greece, Italy]	5
7	Ukraine	5 [Austria, France, Italy, Holland, Sweden]	7
8	Hungary	4 [Austria, Belgium, Germany, Italy]	8
9	Slovenia	4 [Austria, Belgium, France, Italy]	6

Source: Cerutti et al., 2010, appendix 2, 25-27

Table 2: Host CESEE countries with banking sectors dominated by foreign subsidiaries from 1-3 EU countries

A/A	Host country	Home country (number of countries)	Subsidiaries
1	Bosnia	1 [Austria]	3
2	Serbia	1 [Austria]	4
3	Estonia	1 [Sweden]	2
4	Lithuania	2 [Norway, Sweden]	3
5	Belarus	2 [Austria, France]	2
6	Croatia	2 [Austria, France]	7
7	Slovakia	2 [Austria, Belgium]	6
8	Czech Rep	3 [Austria, Belgium, France]	7
9	Latvia	3 [Austria, Denmark, Sweden]	4

Source: Cerutti et al., 2010, appendix 2, 25-27

ECB liquidity. The sum injected into Greek banks by this kind of liquidity via guaranteed bonds exceeded 140 billion euro in the stress period (Kathimerini, 2016; Varoufakis, 2014).

As financial losses increased and spread across markets, multinational banks came under severe funding stress and cross-border banking activity declined sharply. Many of the governments offering rescue packages to their banks demanded of them that part of any state money should be loaned for the recovery of the domestic market. "For instance, French banks that received state support had to increase domestic lending by 3-4% annually, while Dutch bank ING announced that it would lend \$32 billion to Dutch borrowers in return for government support" (De Haas and Van Horen, 2011). Like the illusory promises given by successive US governments that troubled assets relief program (TARP) money would not only infused hundreds of billions of dollars into the nation's largest financial institution but also buy troubled mortgages from the banks to help struggling homeowners and prevent avoidable foreclosures, assurances given to Greek taxpayers that the November 2008 state-aid measure would suffice for the banking system and economy to recover proved fallacious (Swagel, 2009; Taibbi, 2013; Barofsky, 2011). In fact, Greek banks were in need of successive state-funded bailouts: From 2008 to 2016, governments allocated a total of 87.6 billion euro to the domestic banking sector (almost 50% of the country's GDP in 2015), yet no effective effort was made to ensure banks extended credit or restored lending to business and households.

In many Eurozone countries, especially those in receipt of EU and IMF emergency rescue programs, the promises to satisfy needs in the real economy were given to convince a confused and bombarded electorate of the indispensability of the so-call

one-way road to recovery, i.e. harsh austerity measures. Yet there was also great anxiety about the exposure of CESEE countries to those multinational banks that played a dominant role in their banking sectors (Allen et al., 2011a). Without the aid of heavily indebted states and concerted action by governments, private bankers and multinational organizations aimed at committing insolvent banks to maintaining cross-border exposure, "emerging Europe" would have suffered unacceptable political and financial collapse. Indicative of the general trend by major multinational banks to reducing exposure to the CESEE region was the cross-border lending behavior of two Greek banking groups, NBG and Alpha Bank, in two different periods. The first ran from July 2006 to September 2007, i.e. prior to the collapse of Lehman Brothers, and the second from October 2008 to September 2009. Alpha Bank Group, with a presence in Cyprus, Romania, Bulgaria, Serbia, Ukraine, Albania, FYROM and the United Kingdom, curtailed lending to its subsidiaries by 97.7% from 1.69 billion euro pre-crisis to 39 million. Over the same period, NBG, which operated the most extensive branch network among Greek banks in Southeastern Europe, curtailed its lending by 33.5% (De Haas and Van Horen, 2013; De Haas et al., 2012).

CESEE countries were hard hit by the global financial crisis. During 2009 the cumulative GDP contraction in Romania (-8.5) Bulgaria (-6.6), Croatia (-5.2), Montenegro (-4.1), Serbia (-4), Bosnia (-3) and FYROM (-2.5) reached -33.9% (Figure 4).

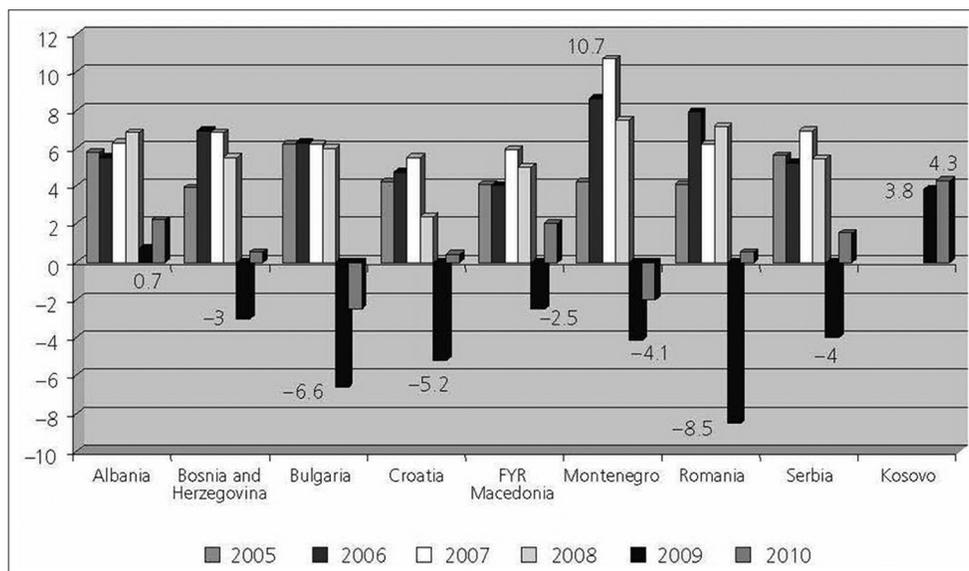
In response to this unprecedented crisis, which undermined the whole structure of the CESEE countries' transition to "market-oriented economies," IMF, the World Bank (WB), EU, and the EBRD intervened heavily to support the contracting economies. Between October 2008 and March 2009 the aforementioned organizations lent a total of \$110.4 billion to CESEE countries (Bastian, 2010).

Eager to provide a more stable environment for domestic investments and to avert the repatriation of funds from subsidiaries to parent banks, CESEE governments imposed restrictions on the ability of multinational banks to freely allocate capital and liquidity among their subsidiaries. Recent studies have confirmed that during the 2008-09 global crisis, multinational bank subsidiaries "had to slow down lending growth about three times as fast as domestic banks" (Haas and Van Lelyveld, 2014). Two divergent agendas concerning cross-border banking group fund allocations were formulated during 2008-2009. The first was a corporate strategy: The parent banks wished to be able to re-allocate funds freely across affiliates, either through capital injections or by

Table 3: Home countries and their subsidiaries in CESEE (2010)

A/A	Home country	Host countries	Subsidiaries
1	Austria	16 [Slovenia, Czech Republic, Slovakia, Poland, Turkey, Bulgaria, Hungary, Romania, Albania, Bosnia, Croatia, Serbia, Latvia, Russia, Ukraine, Belarus]	44
2	France	11 [Slovenia, Czech Republic, Poland, Turkey, Bulgaria, Romania, Albania, Croatia, Russia, Belarus, Ukraine]	16
3	Germany	7 [Poland, Turkey, Bulgaria, Hungary, Romania, Albania, Russia]	9
4	Belgium	7 [Slovenia, Czech Republic, Poland, Turkey, Bulgaria, Hungary, Russia]	9
5	Italy	7 [Slovenia, Poland, Hungary, Romania, Albania, Russia, Ukraine]	7
6	Sweden	6 [Poland, Estonia, Latvia, Lithuania, Estonia, Latvia, Russia, Ukraine]	10
7	Greece	4 [Romania, Albania, Turkey, Bulgaria]	8
8	Holland	4 [Poland, Turkey, Russia, Ukraine]	4
9	Ireland	2 [Bulgaria, Poland,]	2
10	Norway	2 [Lithuania, Poland]	2
11	Denmark	1 [Latvia]	1

Source: Cerutti et al., 2010, appendix 2, 25-27

Figure 4: Real gross domestic product, Southeast Europe, 2005-2010

Source: Bastian, 2010

“shifting” assets between different parts of the group. CESEE governments, on the other hand, were not greatly concerned over the needs of a cross-border banking group network, but “foremost about domestic depositors, domestic borrowers, domestic owners and, ultimately, domestic taxpayers” (Allen et al., 2011b).

An example of the second agenda was the statement made by the Governor of the Croatian National Bank (CNB) in February 2009, in which he emphasized that: “The CNB would not look favorably upon attempts to withdraw capital, deposits, or pay out total accumulated profits, because that would destabilize the domestic banking system.” (Cerutti et al., 2010). This was understandable, considering that in 2002 foreign banks owned 90% of Croatia’s banking system (IMF, 2002). After 2008, foreign banks in Turkey were not free to distribute dividends because, according to the regulatory agency: “It is our natural right to expect those profits generated in this country to be invested and used in credit extension again in this country.” In Poland, the only EU economy to have escaped a recession in 2009, IMF officials argued that any restriction on dividend payouts by subsidiaries of foreign banks was “a form of capital control” (Cerutti et al., 2010). According

to the relevant IMF country report, the Polish banking system was “dominated” “by a handful of foreign-owned banks” - although the relative foreign share of 65% was smaller than that of other neighboring countries (IMF, 2013). Polish authorities emphasized that “the excessive share of foreign controlled banks in Poland is not beneficial to the Polish economy and presents an important risk factor,” not least because national regulatory authorities would be “unable to prevent a potential credit crunch in Poland caused by banks owned by foreign banking groups aiming to improve capital ratios at the group level” (Report, 2012). One of the problems faced by the regulatory authorities in CESEE countries after 2008 was foreign exchange-denominated lending. In Poland, foreign exchange mortgages “comprise about 22% of the total loan portfolio and more than half of mortgages.” Under a floating exchange rate regime, borrowers had been exposed to serious repayment risk in cases of high long-term depreciation of local currencies, as occurred in Poland and Hungary (Cerutti et al., 2010; IMF, Country Report, 2013; Buszko and Krupa, 2015).

Regulation of these loans led to a heated debate between the Hungarian government and the EU, centring on the control of

domestic monetary policy. In October 2008 Hungary received an emergency loan of \$25 billion from the IMF, EU and WB in order “to improve fiscal sustainability and strengthen the financial sector.” In May 2010 the new government allowed distressed foreign currency borrowers to repay their loans at fixed Swiss franc and euro-exchange rates lower than the market rates, so as to reduce “households’ burden of foreign currency debt.” 2 months later the government banned foreign-currency-denominated loans, a decision partially lifted the following year; on 27 June 2013 the European Commission ruled that restrictions on foreign currency-denominated mortgages violated the EU principle of the free movement of capital (The Orange Files, 2015). Combined with heavy losses due to a rise in non-performing loans and a new higher bank tax, in 2011 these measures led two major Austrian multinational banks to cut staff numbers and close branches in Hungary (Salzman, 2011; IMF Survey Magazine, 2008; Kudrna and Gabor, 2013). In March 2013, when the Hungarian government announced its intention to increase domestic ownership of the banking sector to 50%, claiming that: “It’s an unhealthy situation that foreigners have such a high degree of ownership in Hungary’s banking system,” the director of an investment banking and brokerage services firm operating in CESEE warned that “this is a democracy and free market, which means it is not acceptable [...] to force foreign banks out of the country” (Chamonikolas and Gergely, 2013).

4. GREEK BANKS AND THE VI

From the end of 2008 the EU and the IMF began trying to find a *modus operandi* for lending to CESEE countries such as Romania, Serbia, Bosnia and Hungary, all of which faced serious current account deficits. At the same time, the aim was to restore the liquidity of European banks and provide incentives for them to maintain their exposure in “emerging Europe.” Evidence from cross border lending during the 2008-2009 crisis showed an increasing tendency of international banks to transmit financial shocks across borders. De Haas and Van Horen found that international banks remained more committed to countries they were geographically closer to, where “they had built up pre-crisis lending experience and where they were well integrated into a network of domestic co-lenders” (Haas and Van Horen, 2013).

The global liquidity crisis highlighted the excessive dependence of western subsidiaries on funding through parent banks. European banking groups entered a phase of de-leveraging their external assets from the vulnerable countries in the Eurozone periphery. The situation was exacerbated by the deteriorating capital positions of parent banks, which ultimately stemmed from their exposure to the respective sovereign home debt markets. Between the first quarter of 2008 and mid-2012, Euro area banks reduced their foreign exposure by 38%. This reduction was modest (roughly 13%) as concerned CESEE subsidiaries, indicating the continuation of intra-bank-group support across borders and an orderly withdrawal of parent banks from the area (Lehman and Nyberg, 2014). This would not have been possible without the VI.

In early 2009 10 multinational banks with extensive networks and commitments in 10 EU countries, the Western Balkans and Turkey

met in Vienna with the participation of the EBRD, the European Investment Bank, and the WB (EC and ECB were present as observers), to reconfirm the commitment of foreign parent banks to their CESEE subsidiaries and the extension of state support packages to western bank subsidiaries in emerging Europe (Allen et al., 2011a). Austria, the country with the greatest exposure in the CESEE region, and international financial organizations heavily involved in the region, such as the WB and EBRD, offered an effective informal solution via the European Bank Coordination Initiative (EBCI - known as the VI). According to its creators, the VI “has been a powerful example of a successful relationship between the public and private sectors, as it brings together all the key stakeholders in the EU-based cross-border groups that are active in emerging Europe” (Kudrna and Gabor, 2013; Reuters, 2011; VI 1.0, 2014).

One major motivation behind the VI was the fear that EU governments with extensive national restructuring and recapitalization plans would demand that the banks deleverage their CESEE subsidiaries as a condition for receiving state aid. Such pressures were evident during parliamentary debates concerning state support measures. For example, on November 18, 2008, when a 28 million Euro state aid package for the banks was debated in the Greek parliament, mounting concerns were expressed that it would be used up in limiting the exposure of the country’s banks in the Balkans: Socialist (PASOK) MP Evaggelos Papachristos raised the following objections: “The major problem with our credit system is its exposure in Southeastern Europe, in the Balkans. We had an explosive rise in loans in the Balkans [...] Over 50% of those loans were in foreign currency [...] This explosion in lending was not matched by a corresponding boom in deposits [...] At the same time, those countries have huge external account deficits which will impair their exchange rates. In such an environment, the governments in those countries lack the resources and credit facilities to support their banks. So there is an eminent risk that Greek banks and the Greek banking system will be called upon to cover these huge imbalances in the Balkan countries. And the big question is where the liquidity to be given to the banks will be channelled. Will it be channelled first and foremost to the domestic market, to stimulate the Greek economy, or will it be diverted to other areas?” (Greek Parliamentary Records, 2008).

These questions remained unanswered during the debates. But it was the VI and the subsequent financial assistance programs that gave a more credible answer. In May 2009, following an invitation by the IMF, EC and WB, representatives of six major European parent groups with extensive operations in Hungary met in Brussels and agreed on a 20 billion Euro international financial support package for Hungary. The six European parent groups (Bayerische Landesbank, Erste Group Bank AG, Intesa SanPaolo, KBC Group, Raiffeisen International Bank Holding and UniCredit Bank Austria AG), declared their awareness that the success of the Hungarian program “depends on the continued involvement of all banks operating in or with Hungary, including foreign-owned banks.” One of the eight “considerations and conclusions” co-signed by the six foreign-owned banks runs as follows: “We entered the Hungarian market as strategic investors and key contributors to its transition toward an open, market-based economy [...] We have made substantial investments in

Hungary over a number of years, and we remain committed to doing business in the country” (IMF, 2009).

The EC ensured that no rule granting priority to domestic markets would be introduced into public aid packages, and at the same time that all major European banks active in the CESEE region would receive some form of financial support from home governments. The initial 2009-2010 commitment of 24.5 billion euro launched by the EBCI proved inadequate due to the depth of the crisis and the slow path to recovery in CESEE (Figure 4). More than 33 billion euro was made available through EBCI informal agreements, the bulk of which was directed to the 10 new EU member states in CESEE (14.5 billion), and to the Western Balkans and Turkey. 56% of the total 8.1 billion euro in the EBRD funding packages supported the Austrian, French, Italian and Greek multinational bank subsidiaries in the region (Final Report, 2011). Due to the fact that between 5% and 30% of the banking system assets in CESA countries were owned by Greek banks, and that the sovereign debt crisis created a “funding shock” to Greek parent banks, EBCI intervention was crucial for Greek subsidiaries in CESEE.

On March 27, 2009 representatives of ten major EU banking groups operating in Serbia met in Vienna to reaffirm their commitment to maintaining exposure in the region. Their number included four Greek multinational banks: NBG, Alpha Bank, Eurobank EFG, and Piraeus Bank. In 2008, Greek and Austrian banks had the highest share of EU-based foreign bank lending as a percentage of GDP in CESEE. In the case of Greece, foreign loans represented 21.9% of total banking loans, equivalent to 76.7% of the country’s GDP—even excluding Greek loans to Serbia, Albania and FYROM. The percentages for Austrian banks were 49.3% and 70% respectively (Figure 5).

By the end of 2008, Greek bank exposure in Southeast Europe had reached 52.8 billion euros in investments and loans (Figure 6).

In 2008 the total assets of Greek banks had reached 200% of the country’s GDP, i.e. twice the average percentage of the 22-country

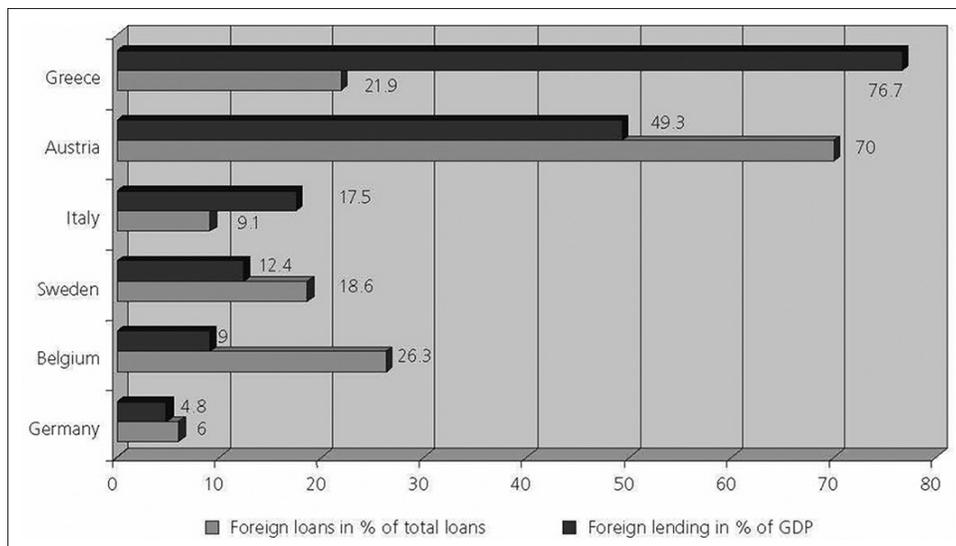
sample in Figure 3. One characteristic of the social and political objectives of the Greek bail out programs is that even though Greek banking assets had been shrinking in absolute numbers since 2008, the overall share of the banking sector continued to grow. In 2012, after four consecutive years of recession, banking assets were 14% higher as a percentage of GDP than in 2008 (Figure 7). The deleveraging process initiated for the WB sector after 2008 was not so painful for Greek banks as it was for other sectors in the national economy. From this point of view, the global crisis actually represented an opportunity for major Greek banks, and the 22.6% cumulative reduction in GDP between 2008 and 2012 impaired banks and bankers to a far lesser degree than the rest of the economy.

5. CONCLUSION

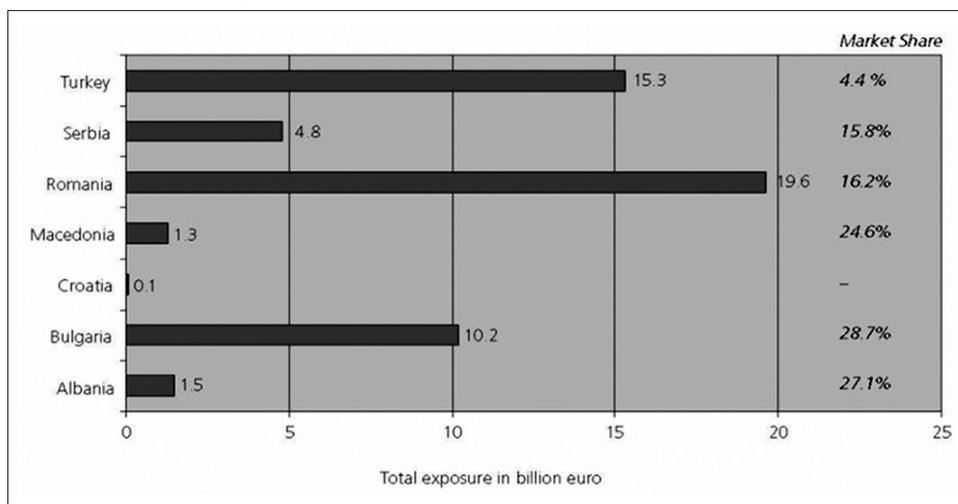
A great deal of research remains to be done in relation to Greek multinational bank resource allocation, for the added reason that empirical analysis “is constrained by the lack of publicly available bank-level data on intra-group lending and asset transfers” (De Haas and Van Lelyveld, 2014). However, I do find the prospect of continuing refinancing of Greek sovereign debt and Greek banks doubtful, without the express obligation of governments and banking authorities in Greece that they will continue to fund the tremendous exposure of Greek banking capital in the Balkans. From this point of view, the Greek loan assistance program was not only an effect of sovereign crisis and public deficits, but also a byproduct of overall European and Greek banking exposure in the CESEE region. Without these exposures, the inability of Greek banks to make credible commitments to funding the real economy would be incomprehensible.

Greek banks were to be the beneficiary of Greece’s financial assistance programs, with consecutive recapitalizations absorbing 87.6 billion euro, which made the public debt more burdensome and Greek commitments even more onerous for the majority of Greek society. Of course, I am not suggesting that the country’s

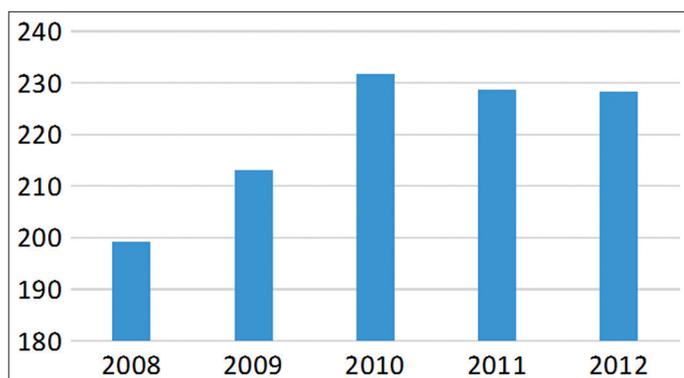
Figure 5: Foreign bank lending in Central and Eastern Europe, 2008



Source: Bastian, 2010

Figure 6: Exposure of Greek Banks in Southeast Europe, 2008 (billion euros)

Source: Bastian, 2010

Figure 7: Banking assets as a percentage of gross domestic product in Greece, 2008-2012

banks did not suffer serious capital losses from choices made by governments and creditors, such as the 2011 Greek bond exchange program Private sector involvement. But what I am arguing is that that they were reimbursed for these losses, and one aspect of the vicious circle initiated by Greek austerity programs was this negative interrelationship between a deteriorated and deleveraging real economy and a banking sector with a perpetual need for recapitalization. This burdened the absolute magnitude of public debt and society with binding terms (strict conditionality) so as to reassure “lenders, not only that they will be repaid but also that the borrower will be able to stand on its own feet” (Bank of Greece, 2013). The phrase “to stand on its own feet” seems contradictory to say the least, considering the religious fervour with which the EU, ECB and IMF have attempted to implement pro-cyclical policies in a devastated economy, and the continuing concerns over the prospects of a region which was deemed “a natural extension of the [Greek] home market” in the 1990s and 2000s (Staikouras, 2006).

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