Subject: State aid SA.42215 (2015/N) – Greece
Prolongation of the Greek financial support measures (Art. 2 law 3723/2008)

Sir,

1. PROCEDURE

(1) On 19 November 2008, the Commission approved the support measures for the credit institutions designed to ensure the stability of the Greek financial system ("the Original Decision")\(^1\). The support measures included a recapitalisation scheme, a guarantee scheme ("the Guarantee Scheme") and a bond loan scheme ("the Bond Loan Scheme").

(2) On 2 September 2009, Greece notified a number of amendments to the support measures and a prolongation until 31 December 2009 that were approved on 18 September 2009\(^2\). On 25 January 2010, the Commission approved a second prolongation of the support measures until 30 June 2010\(^3\). On 12 May 2010, the Commission approved an amendment to the Guarantee Scheme\(^4\). On 30 June 2010,

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\(^1\) See Commission decision of 19 November 2008 in State Aid N 560/2008 "Support Measures for the Credit Institutions in Greece", OJ C 125, 05.06.2009, p. 6. A detailed description of the measures is provided in the Original Decision, in particular recitals 2 to 5 concerning their legal basis and objectives as well as recitals 10 to 37 containing the description of the measures.


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the Commission approved a number of amendments to the support measures and an extension until 31 December 2010\(^5\). On 21 December 2010, the Commission approved the extension of the support measures until 30 June 2011\(^6\).

(3) On 4 April 2011, the Commission approved an amendment to the support measures in the form of an increased ceiling of the Guarantee Scheme with an additional tranche amounting to EUR 30 billion\(^7\). On 30 June 2011, the Commission approved a prolongation of the support measures until 31 December 2011\(^8\). On 6 February 2012, the Commission approved an amendment to the support measures and a prolongation of the support measures until 30 June 2012\(^9\). On 6 July 2012, the Commission approved a prolongation of the support measures until 31 December 2012\(^10\). On 22 January 2013, the Commission approved a prolongation of the Guarantee Scheme and the Bond Loan Scheme until 30 June 2013\(^11\). On 25 July 2013, the Commission approved a prolongation of the Guarantee Scheme and the Bond Loan Scheme until 31 December 2013\(^12\). On 14 January 2014, the Commission approved a prolongation of the Guarantee Scheme and the Bond Loan Scheme until 30 June 2014\(^13\). On 26 June 2014, the Commission approved a prolongation of the Guarantee Scheme and the Bond Loan Scheme until 31 December 2014\(^14\).

(4) On 14 January 2015, the Commission approved a prolongation of the Guarantee Scheme and the Bond Loan Scheme until 30 June 2015\(^15\).

(5) On 15 June 2015, the Greek authorities notified a prolongation of the Guarantee Scheme until 31 December 2015.

(6) By letter dated 15 June 2015, Greece agreed exceptionally to waive its rights deriving from Article 342 TFEU in conjunction with Article 3 of Regulation 1/1958\(^16\) and to have the present decision adopted and notified in English.

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2. FACTS

2.1. Description of the scheme

(7) In November 2008, Greece brought forward a package of measures designed to ensure the stability of the Greek financial system. The purpose of those measures was to restore confidence and encourage healthy inter-bank lending, through i) the provision of liquidity, ii) the recapitalisation of the financial sector and iii) provision of a State guarantee to new debt issuance.

(8) In the context of its notification of 15 June 2015, Greece seeks approval of the prolongation of the Guarantee Scheme for debt instruments with a maturity of between three months and three years in return for a fee.

(9) The budget for the Guarantee Scheme stays at EUR 85 billion\(^\text{17}\). However, under the provisions of Article 4 of Law 3723/2008, any unused amounts of the EUR 8 billion budget approved under the Bond Loan Scheme\(^\text{18}\), which will not be prolonged, will be transferred to the Guarantee Scheme. On 31 May 2015, EUR 7.951 billion of the EUR 8 billion budget were used and those existing loans of bonds will mature from April 2016. As a result, the total budget of the Guarantee Scheme will progressively increase to EUR 93 billion.

2.2. Operation of the Guarantee Scheme until 31 May 2015


(11) According to the report, on 31 May 2015 the outstanding guarantees amounted to EUR 50.6 billion, whereas the unused State guarantee which remained available\(^\text{19}\) amounted to EUR 34.4 billion.

3. POSITION OF GREECE

(12) Greece requests a prolongation of the Guarantee Scheme until 31 December 2015.

(13) Greece submits that the Guarantee Scheme constitutes State aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union (“TFEU”), but is of the view that the proposed prolongation is compatible with the internal market on the basis of Article 107(3)(b) TFEU as it is necessary to remedy a serious disturbance in the economy of Greece.

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\(^{16}\) Regulation No 1 determining the languages to be used by the European Economic Community, OJ 17, 6.10.1958, p. 385.


\(^{19}\) The total budget of the Guarantee Scheme includes the initial budget of the Original Decision (EUR 15 billion), the increase in the budget carried out on 12 May 2010 (EUR 15 billion), the increase in the budget carried out on 30 June 2010 (EUR 25 billion), the increase in the budget carried out on 4 April 2011 (EUR 30 billion), except for the amount of EUR 123 million which has been transferred from the budget of the Guarantee Scheme to the Bond Loan Scheme (see Commission decision of 30 June 2010 in State Aid case N 260/2010, recitals 7-8).
Greece submitted a letter by the Central Bank of Greece confirming the need for the proposed prolongation of the support scheme to safeguard the stability of the financial system in Greece, because prevailing market conditions do not allow for a termination of the scheme. According to the Bank of Greece, Greek banks continue to operate in a challenging environment and have still not returned to (after-provision) profitability. The cost of risk is still elevated, although on a declining trend, with some tentative signs of a levelling-off in the pace of non-performing loan formation. Furthermore, the observed significant cumulative reduction of deposits in Greece since December 2014 resulted in a substantial deterioration of the liquidity of the Greek banks, which were forced to resort again to the Emergency Liquidity Assistance (ELA) mechanism of the Bank of Greece. In that regard, the State's support scheme for the banking system still remains a crucial supplementary element underpinning the liquidity of the banks.

In line with the requirements of the 2011 Prolongation Communication, Greece provided an indicative fee (estimation) for each financial institution eligible to benefit from the guarantees. The estimation was based on an application of the Guarantee Scheme's remuneration formula and recent market data. The indicative fee for the guarantees covering debt with a maturity of less than one year as of May 2015 was 115 basis points ("bp") or 90 bp, if the credit institution had eligible collateral. The indicative fees for guarantees with a maturity of one year or more were 132 bp and 107 bp respectively. Those fees are applicable to all credit institutions in Greece as, according to the Greek authorities, the individual credit default swap ("CDS") spreads observed are still not representative. Therefore the Greek authorities will determine the guarantee fee for all banks on the basis of the CDS of the sample of representative European banks in the lowest rating buckets (BBB and below).

Greece submitted the following commitments relating to the Guarantee Scheme:

(i) to grant the guarantees only for new issuance of credit institutions' (banks') senior debt (subordinated debt is excluded);
(ii) to provide guarantees only on debt instruments with maturities from three months to three years;
(iii) to determine the minimum level of State guarantee remuneration in line with the formula set out in the Commission's Communication on the application, from 1 January 2012, of State aid rules to support measures in favour of banks in the context of the financial crisis;
(iv) to submit a restructuring plan, within two months of the granting of the guarantees, for every credit institution that is granted guarantees on new liabilities or renewed liabilities for which, at the time of the granting of new guarantee, the total outstanding guaranteed liabilities (including guarantees accorded before the date of this decision) exceed both a ratio of 5% of total liabilities and the total amount of EUR 500 million;

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(v) to submit individual restructuring or wind-down plans\textsuperscript{22} within two months after the guarantee has been activated for credit institutions which cause the guarantee to be called upon;

(vi) to impose a ban on advertising referring to the State support on the beneficiaries of the scheme and to prevent them from employing any aggressive commercial strategies which would not take place without the State support;

(vii) to grant aid measures under the Guarantee Scheme only to credit institutions which have no capital shortfall\textsuperscript{23} and, where a credit institution with a capital shortfall is in urgent need of liquidity, to submit an individual notification to the Commission;

(viii) to report to the Commission on i) the operation of the Guarantee Scheme, ii) the guaranteed debt issues, and iii) the actual fees charged, on a three-monthly basis, meaning by 15 October 2015 (for the period 1 July 2015 to 30 September 2015) and by 15 January 2016 (for the period 1 October 2015 to 31 December 2015) at the latest; and

(ix) to supplement its reports on the operation of the Guarantee Scheme with available updated data on the cost of comparable non-guaranteed debt issuances (as regards nature, volume, rating, currency).

4. **ASSESSMENT**

4.1. **Existence of State aid**

(17) According to Article 107(1) TFEU, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market.

(18) For the reasons indicated in the Original Decision, the Commission considers that the Guarantee Scheme constitutes State aid within the meaning of Article 107(1) TFEU because it concerns the provision of State resources to a certain sector, i.e. the financial sector, which is open to intense international competition. Under the Guarantee Scheme, participating banks obtain guarantees under conditions which would not be available to them under market conditions, and so receive an advantage. Given the characteristics of the financial sector, any advantage from State resources to a credit institution affects intra-Union trade and therefore threatens to distort competition. The measure therefore constitutes State aid within the meaning of Article 107(1) TFEU.

\textsuperscript{22} The plan must be prepared on the basis of the parameters established in the Commission Communication on the return to viability and the assessment of the restructuring measures in the financial sector in the current crisis under the State aid rules (Restructuring Communication) (OJ C 195, 19.8.2009, p. 9).

\textsuperscript{23} "No capital shortfall" is certified by the competent supervisory authority, as it is established, in line with point 28 of the 2013 Banking Communication, in a capital exercise, stress test, asset-quality review or an equivalent exercise at Union, euro area or national level, which has to be confirmed by the competent supervisory authority.
4.2. Compatibility assessment

4.2.1 Legal basis

(19) Under the Guarantee Scheme, Greece intends to provide aid in the form of guarantees in favour of credit institutions.

(20) Given the exacerbation of tensions in sovereign debt markets that has taken place since 2011 and in light of the persisting circumstances and risks, the Commission considers it appropriate, as confirmed by the 2013 Banking Communication\footnote{Communication from the Commission on the application, from 1 August 2013, of State aid rules to support measures in favour of banks in the context of the financial crisis, OJ C 216, 30.7.2013, p. 1.}, to examine the measure under Article 107(3)(b) TFEU.

(21) Article 107(3)(b) TFEU empowers the Commission to find that aid is compatible with the internal market if it is intended "to remedy a serious disturbance in the economy of a Member State". The Commission has acknowledged that the global financial crisis can create a serious disturbance in the economy of a Member State and that measures supporting banks are apt to remedy that disturbance. That assessment has been confirmed in the Recapitalisation Communication\footnote{Commission Communication - Recapitalisation of financial institutions in the current financial crisis: limitation of the aid to the minimum necessary and safeguards against undue distortions of competition, OJ C 10, 15.1.2009, p. 2.} and the Restructuring Communication. The Commission still considers that the conditions for State aid to be approved pursuant to Article 107(3)(b) TFEU are present. The Commission confirmed that view by adopting the 2013 Banking Communication\footnote{See points 4 to 6.}.

(22) The Commission does not dispute the position of the Greek authorities, which is also confirmed by the Bank of Greece, that the observed significant cumulative reduction of deposits in Greece since December 2014 resulted in a substantial deterioration of the liquidity of the Greek banks. Indeed, in the meantime both the commercial banks and the Greek government have lost again their access to the market for short-, medium- and long-term debt. As a result, banks in Greece rely significantly on Central Bank funding. Given that adverse effects of the sovereign crisis still persist, the State's support scheme for the banking system still remains a crucial supplementary element underpinning the liquidity of the banks. Hence, the Commission finds that the Guarantee Scheme aims at remedying a serious disturbance in the Greek economy.

(23) Therefore, the Commission continues to base its assessment of State aid measures in the banking sector on Article 107(3)(b) TFEU.

(24) In order for an aid to be compatible with the internal market, it must comply with the general principles for compatibility under Article 107(3) TFEU, viewed in the light of the general objectives of the Treaty. Therefore, according to the Commission's decisional practice\footnote{See Commission decision of 6.9.2013 in State Aid Case SA.37314 "Rescue aid in favour of Probanka", OJ C 314, 29.10.2013, p. 1 and Commission decision of 6.9.2013 in State Aid Case SA.37315 "Rescue aid in favour of Factor Banka", OJ C 314, 29.10.2013, p. 2.} any aid or scheme must comply with the following conditions: (i) appropriateness, (ii) necessity and (iii) proportionality.
The 2013 Banking Communication and the Restructuring Communication formulate assessment criteria which reflect those general principles and their requirements in light of the specific policy context.

4.2.2 Compatibility assessment of the Guarantee Scheme

Appropriateness

(26) The Guarantee Scheme is appropriate to remedy a serious disturbance in the Greek economy. The objective of the Guarantee Scheme is to temporarily offer appropriate measures to establish backstops for the financial system in a timely and efficient manner, where banks face difficulties in obtaining sufficient funding. The Commission observes that the crisis has eroded confidence in the creditworthiness of the banks, which results in difficulties in obtaining necessary funding on the financial markets. Hence, a backstop mechanism by the Member State, which in case of urgency ensures that banks would have access to funding, is an appropriate means to strengthen banks and thus to restore market confidence.

(27) Points 23 and 60(a) of the 2013 Banking Communication explain that guarantee schemes will continue to be available in order to provide liquidity to banks but that such schemes should be limited to banks without a capital shortfall. The Commission observes that Greece has committed to restrict the Guarantee Scheme only to banks without a capital shortfall as certified by the competent supervisory authority.

(28) Further the Commission notes that Greece has committed to grant guarantees only for new issues of banks' senior debt, as prescribed in point 59(a) of the 2013 Banking Communication.

(29) In addition, the Commission notes that, although Greece has not yet adopted the legislation transposing Directive 2014/59/EU on bank recovery and resolution into national law,28 the Guarantee Scheme does not violate intrinsically linked provisions of Directive 2014/59/EU which in this specific case relate to Article 32(4)(d)(ii). The criteria of the Guarantee Scheme ensure that the institutions benefitting from it will not be deemed failing or likely to fail on the sole basis of their participation in the scheme. If the criteria did not ensure that outcome, the Guarantee Scheme could not be deemed appropriate since it would not be apt to remedy the serious disturbance in the Greek economy.

(30) The first subparagraph of Article 32(4) of Directive 2014/59/EU establishes that an institution shall be deemed to be failing or likely to fail and placed into resolution, (if all the other pre-conditions for resolution are met), where, inter alia, extraordinary public financial support is required, except when, in order to remedy a serious disturbance in the economy of a Member State and preserve financial stability, the extraordinary public financial support takes the form, inter alia, of a State guarantee of newly issued liabilities (Article 32(4)(d)(ii) of Directive 2014/59/EU).

(31) The second subparagraph of Article 32(4) of Directive 2014/59/EU provides that in order not to trigger resolution such State guarantees on newly issued liabilities must be confined to solvent institutions and must be conditional on final approval under the Union State aid framework. Those measures must be of a precautionary and temporary nature and must be proportionate to remedy the consequences of the serious disturbance and must not be used to offset losses that the institution has incurred or is likely to incur in the near future.

(32) The Commission notes that the Guarantee Scheme is limited to solvent institutions. The guarantees granted under the scheme are of a temporary nature since the window of their issuance is limited to six months and their maturity is limited to three years and are of a precautionary nature since they only cover newly issued liabilities. The guarantees granted are also proportionate to remedy the consequences of the serious disturbance as explained in recital 25. Therefore, at the present stage, the Commission concludes that the aid measure does not violate the intrinsically linked provisions of Directive 2014/59/EU.

Necessity

(33) With regard to the scope of the measure, the Commission notes positively that Greece has limited the size of the Guarantee Scheme by setting its maximum budget at EUR 85 billion and that the scheme applies until 31 December 2015.

(34) The Commission notes that Greece has committed to grant guarantees only on debt instruments with maturities from three months to three years, which complies with the requirements in points 59(b) and 60(b) of the 2013 Banking Communication.

(35) Regarding the remuneration level, the Commission observes that Greece, in line with point 59(c) of the 2013 Banking Communication, has committed to follow the pricing and other conditions for State guarantees laid down in the 2011 Prolongation Communication which requires, in particular, the application of a pricing method based largely on market data.

(36) Since the beginning of the sovereign debt crisis the CDS spreads of Member States in difficulty have widened very significantly. The CDS of the large banks located in those Member States have increased in line with those of their sovereign. The very high CDS of large banks in programme countries do not seem to primarily reflect their intrinsic risk profile, but are mainly driven by the sovereign risk. That link can lead to a situation in which the application of the guarantee pricing formula based on the individual CDS spread of the bank results in an excessively expensive guarantee, which is not justified by the risk profile of the bank. Therefore, it seems appropriate to consider the CDS spreads of individual banks located in the countries subject to a financial assistance programme as temporarily non-representative of the intrinsic risk of those banks.

(37) On that basis, the Commission does not object to Greece's intention to determine the guarantee fee for banks which still have a traded CDS on the basis of the CDS of the sample of Union banks in the "BBB- and lower" rating category.

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29 The total budget amounts to EUR 93 billion when taking into account the potential transfer of the EUR 8 billion of the Bond Loan Scheme when the loans of bonds will mature starting from April 2016.
Commission will review its assessment of the macro-economic situation and appropriateness of that exceptional pricing mechanism if a further prolongation of the scheme is notified.

Proportionality

(38) As regards proportionality, the Commission notes, first, that Greece, in line with point 59(d) of the 2013 Banking Communication, has committed to submit a restructuring plan within two months for any bank granted guarantees on new liabilities or on renewed liabilities for which, at the time of the granting of the new guarantee, the total outstanding guaranteed liabilities (including guarantees accorded before the date of the decision) exceed both a ratio of 5% of the bank's total liabilities and a total amount of EUR 500 million. That commitment ensures that the use of Guarantee Scheme will not enable banks with structural weaknesses in their business models to postpone or avoid the necessary adjustments.

(39) Second, the Commission notes that Greece has committed, in line with point 59(f) of the 2013 Banking Communication, to a number of behavioural safeguards such as a ban on advertisements referring to the State support and a ban on any aggressive commercial strategies which would not take place without the State support. Such safeguards help ensure that the participating institutions do not misuse the received State support to expand their activities.

(40) Finally, the Commission welcomes that Greece undertakes to submit individual restructuring or liquidation plans, within two months, for banks which cause the guarantee to be called upon, in line with point 59(e) of the 2013 Banking Communication.

(41) As regards the combination of the Guarantee Scheme with other aid measures, the Commission recalls that, as indicated in the Annex to the Restructuring Communication, the restructuring plans to be submitted should contain all State aid received as individual aid or under a scheme during the restructuring period.

(42) Furthermore, based on point 16 of the Restructuring Communication, the Commission recalls that, should further aid not initially foreseen in a notified restructuring plan be necessary for the restoration of viability, such additional aid cannot be granted under an approved scheme but needs to be subject to individual ex ante notification. All State aid measures received by a bank as individual aid or under a scheme during the restructuring period will be taken into account in the Commission's final decision on that bank.

Monitoring

(43) The Commission welcomes, in line with point 60(c) and (d) of the 2013 Banking Communication, that Greece undertakes to present every three months a report on the operation of the Guarantee Scheme, on guaranteed issuances and on the actual fees charged and to supplement it with updated available data on the cost of comparable non-guaranteed debt issuances (nature, volume, rating and currency).

Conclusions on the compatibility

(44) On the basis of the above, the Commission finds the notified prolongation of the Guarantee Scheme to be in line with the 2013 Banking Communication and the Restructuring Communication. The prolongation of the Guarantee Scheme remains

(45) In line with the Commission’s decisional practice, the Guarantee Scheme can therefore be prolonged until 31 December 2015. Any further prolongation will require the Commission’s approval and will have to be based on a review of the developments in financial markets and the scheme's effectiveness.

(46) Finally, the Commission notes that Greece agreed to have the present decision adopted and notified in English due to the urgent need for a decision relating to the State aid case for the Prolongation of the Greek financial support measure.

5. **CONCLUSION**

The Commission has accordingly decided to consider the aid to be compatible with the internal market pursuant to Article 107(3)(b) TFEU and not to raise objections to the Guarantee Scheme.

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Yours faithfully
For the Commission

Margrethe VESTAGER
Member of the Commission

CERTIFIED COPY
For the Secretary-General,

Jordi AYET PUIGARNAU
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