Speech by the CEO of National Bank of Greece

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The Greek banking system and shipping

The combined challenges facing the Greek economy and the Greek banking system are without precedent, while stabilization and the return to a trajectory of sustainable growth require—despite the significant progress already made—further continued efforts and initiatives. At the same time, the shipping industry, which—on the basis of the experience of the past decades—is more familiar with global scale crises and periods of extreme volatility, entered rough waters at a much earlier stage of the current crisis, and is still experiencing a protracted and substantial slowdown in activity.

The shipping sector is of both real and symbolic importance for the Greek economy. Directly and indirectly—via synergies with other industries—the shipping sector contributes over 6% per year to economic activity, and is the spearhead and most recognizable symbol of dynamic outward-looking Greek entrepreneurship, capable of competing successfully on a global level.

I cite a few facts:

- The shipping industry employs, directly or indirectly, more than 160,000 people.
- Greek shipowners own vessels of all types and sizes, with a total capacity of circa 260 million tonnes (dwt), holding first place worldwide in terms of tonnage.
- The Greek shipping industry comprises more than 700 companies, owning circa 4,500 ships.
- Greek shipowners are in the vanguard in terms of orders of new buildings at the largest shipyards in the world.
- 52% of shipping companies listed on the two largest international stock exchanges belong to Greek interests.
- The participation of Greek shipowners in investment activity in Greece is very substantial, in sectors of particular significance for the Greek economy such as tourism, construction and power, generating a large number of jobs.

To return to the economic crisis in Greece, it hardly needs pointing out that the unprecedented fiscal adjustment effort, the high uncertainty, and intense recessionary pressures that accompany it, have had a debilitating impact.
The Greek banking system, which shouldered a significant part of the cost of participation in the restructuring of the Greek sovereign debt, had to meet a number of substantial challenges that were amplified by the fallout of the uncertainty and recession, chiefly as regards domestic deposits, but also as regards asset quality. The assistance strategy of the ECB and the provision of state guarantees to banks for collateral under the Eurosystem refinancing operations that served to offset the impact of these developments on banks’ liquidity, certainly helped to stabilize the situation, but could not fully normalize liquidity and credit conditions in the economy.

The said developments in the Greek economy, coupled with the realignments in the global (and, particularly, the European) banking environment—where the prevailing trends included the high level of liquidity retention, the limited provision of new credit, selective deleveraging, the enhancement of capital adequacy and preparation for adjustment to even stricter rules regarding liquidity and capital adequacy/quality—have generated a complex and demanding setting, in marked contrast to the favourable environment experienced in the previous decade. These developments cannot but affect the shipping industry. Ocean shipping continues to struggle in an environment of lacklustre recovery in what was already low global demand and the structural imbalances of the previous decade, the most serious problem being excess supply combined with the changes in the international financial environment.

As a natural channel of support to the shipping sector, the Greek banking system, besides the diffusion of its benefits to all the other economic sectors, could hardly remain unscathed by the Greek crisis. Consequently, appropriate strategies were developed to enable the domestic banking system to adapt to the conditions imposed by the crisis—which I will discuss in a moment—and a recapitalization process was set up in order to restore the banks’ health and their ability to provide material support to the economy. At the same time, Greek banks have not ceased preparing for the day after, when they will be called upon to provide rapid and decisive assistance in rebooting the Greek economy.

Greek banks have made every effort to function as a buffer against the impact of the unprecedented force of the economic crisis. Specifically, they have kept their pace of deleveraging at low levels, kept vital credit lines open, and rescheduled loans to households and fundamentally sound, though struggling, sectors of the economy. In addition, banks worked hard to repair the heavy damage inflicted on them by their active contribution to ensuring the sustainability of the Greek sovereign debt via restructuring (PSI, debt buyback). I shall give a brief account of key aspects of this strategy:
As regards impacts, such as the net/necessary deleveraging carried out across the Greek economy during the crisis, we can remark that it was lower compared with the support programs implemented in other countries. As regards loans by the Greek banking system to shipping businesses, the average annual contraction of the shipping lending balance was less than the average contraction to the business sector as a whole, mainly thanks to the very consistent loan repayment profile of the shipping sector.

It is notable that in a period of review of shipping lending strategies on a global level, where adjustments for weighted risk in the shipping loan portfolio are particularly costly for banks (and conditions will become even more strict in the future, in the framework of Basel III), and as large European banks with a leading position in this sector have scaled down their positions in the sector, or withdrawn altogether, Greek banks have continued to support the industry. No less than nine Greek banks participated in 2012 in the financing of the shipping sector, lending circa €10 billion in total, while 42 foreign banks have an exposure to Greek-owned shipping companies that amounts in total to circa €40 billion.

Shipping finance has been adversely impacted by factors such as lower freight rates, lower value and price of ships, lower expectations for the future of the freight market, increased orders for new buildings, but also more additions of new ships vs. shipbreaking. In Chinese shipyards alone, Greek shipowners have invested in the last few years more than US$17 billion for new buildings, obviously at a competitive cost, though this has an impact on the industry overall, especially as regards management of the existing fleet. The rebalancing of the market, on the one hand, and access to funds for the purchase of second-hand vessels, on the other, would contribute to a faster recovery of the freight market. Investments in the purchase of ships at below amortized cost create opportunities for capital gains. As the supply of new vessels contracts, with older ships and uncompetitive units being sent for scrap at a faster pace, and the number of new orders declines, the freight market will, de facto, return to a new equilibrium.

Nevertheless, the need to restructure the Greek sovereign debt struck such a severe blow to the capital base of Greek banks, meaning that they could not recover from the impact solely on the basis of their own resources. Inevitably, banks have had to take every possible measure to control their capital requirements and stabilize the sources from which—and the terms under which—they could raise liquidity.

Furthermore, the sharp slowdown and uncertainty dealt additional blows to the capital base of banks and deprived the credit system of precious liquidity. The support from the ECB was significant, but it was not able to replace operationally stable and long-term sources of liquidity, while various passing developments, such
as panic among depositors and the shift from direct ECB borrowing to the Emergency Liquidity Assistance mechanism, increased both the cost of access to liquidity as well as the quantity of liquidity available for use. Deposits dipped to their low point in June 2012, i.e. €100 billion lower than in 2009 (equivalent to a fall of 40%). Since then, however, deposits have posted growth, by almost €13 billion.

Accordingly, the financial support program for Greece and the relevant loan agreements with our partners, the EU and the IMF, provided for the commitment of funds needed to carry out the recapitalization program, alongside funds injected by the private sector. This process will soon be completed, thereby creating a new, sound springboard for the Greek banking system.

At the same time, the recovery of deposits over the past three quarters (the trend weakened in March and April due to the crisis in Cyprus), coupled with the restoration of access to borrowing from the ECB, clearly demonstrate that the climate has improved and that we can derive benefits from the reduction in uncertainty and the smooth implementation of the adjustment program. In addition, there has been significant progress in terms of restructuring, both as regards costs, with streamlined operating expenses and exploitation of potential synergies, and as regards the sale of certain non-core assets. The completion of the recapitalization process and the stabilization and gradual recovery of the deposit base will act as a springboard for the banking system at a moment in time when banks will be able to play a crucial role in restoring the economy to a growth path.

In my opinion, it is clear that the intensity and combination of these factors make the current conjuncture extremely challenging. However, on the basis of my previous experience—having served in various key positions in the financial system over the years—of previous crises in the shipping industry, and of periods of significant business adjustment and restructuring in other sectors of the economy, I am well aware that every adjustment phase, however painful it may be, follows a natural course of development that eventually leads to a new departure point. Without a doubt, the challenge of establishing and redefining a sustainable business model for an entire country is an even greater challenge.

In this new environment, dynamic and outward-looking sectors, such as the shipping sector, export companies, tourism, and the banking system with its successful penetration into SE Europe, will spearhead economic growth. All these sectors should be supported at multiple levels. And this is what National Bank of Greece intends to do. NBG—the first Greek bank to finance the shipping sector—which today manages a shipping portfolio worth around €1.7 billion, has been and will continue to be a pillar of support for the dynamic presence of Greek shipping on the global stage.
The competence, vision, stamina and ability to adapt of all players are being put under severe stress by the various dimensions of the crisis: fiscal, macroeconomic, banking. But usually the extent of the restructuring and adjustment that accompany combined crises of this magnitude generate very substantial opportunities.

Evidence of this, for example, is the swift re-evaluation by financial markets—as reflected, for example, in Greek bonds yields or stock valuations—of the significantly improved prospects of Greece, following a reasonable period of credible implementation of the Program and achievement of the nominal targets, coupled with a greater degree of mutual understanding between Greece and its partners. Of course, the challenges are massive, but key parameters of the economic environment—with the reduction in uncertainty being a key factor—have significantly improved. The Greek banking system will be here to support sound entrepreneurship, having healed the wounds caused by the crisis.

As I am responsible for running, at this extremely difficult time, the oldest banking institution in Greece, and being fully aware of the obstacles and the challenges that lie ahead, allow me to express my conviction that the current economic crisis, however intense and multifaceted it may be, will inevitably lead to a new starting point for the economy and the banking system. The new starting point will concern, above all, the genuinely dynamic and extrovert part of the Greek business scene. And the Greek shipping industry has repeatedly demonstrated that it comprises a core structural component of the new economic model on which our country’s recovery will be based. I firmly believe that the healthy sectors of the economy will succeed in forging a course ahead, and that we must all work together to ensure this is achieved as soon as possible.

The great challenge to stabilize the economy and place it on a sustainable footing—with the shipping industry once again playing a key role—is before us. Be assured that the Greek banking system will stand by these efforts at this critical, but potentially promising, juncture.