Supporting the liquidity in Greek Corporate Market

Article by Alexandros Kontopoulos
Managing Director of Ethniki Factors SA
at "HRIMA" Magazine (Issue May 2013)

In 2012, the Greek factoring market showed signs of fatigue for the first time since the beginning of the severe crisis that has affected the domestic economy. Specifically, according to the Hellenic Factors Association and the EU Federation for the Factoring and Commercial Finance Industry, the total amount of factoring turnover declined by circa 13%. This figure incorporates, to some extent, the cumulative reduction of economic activity in Greece during the past five years, which is also reflected in the significant contraction of GDP and greatly impacted by reduced liquidity conditions and the constraints faced by the banking system.

The key reasons for such a decline in business volumes are mainly the aforementioned contraction of domestic business activity, the restricted liquidity conditions in both the financial sector and the real economy, and the restructuring of the Greek financial system.

Despite these factors, however, it is notable that in the five-year period 2008-2012 the factoring market posted a cumulative increase of approximately 25% in absolute terms, reflecting firms' interest in adopting factoring services to a continuously greater degree, and the strategy of financial groups to support the use of this financial tool.

In assessing the volume of factoring services in comparison with the size of the economy, a useful figure is the factoring penetration as a percentage of GDP, which amounted to 6.85% in 2011 and 6.59% in 2012. This ratio in 2006 was just 2.55%! Our country stands close to the EU average, where average penetration in 2012 amounted to approximately 7.25%.

Comparing the Greek with other European markets, there are two opposing forces driving factoring evolution: on the one hand, long-term credit in trade transactions that favours use of factoring while, on the other, the use of post-dated cheques as a means of working capital financing.

Further to its contribution in providing liquidity, the reasons for factoring growth in Greece over the past five years are summarized as follows:

- added value in receivables management,
- economies of scale, a particularly attractive aspect on buyer’s interest,
- use of financial and transactional behaviour criteria on buyer’s credit worthiness,
- constant receivables turnover, and
- solid security for the lender (bank or factor), underlying security (receivable) is also used as the repayment instrument.

As regards effective management of receivables, this is a key factor in efforts to resolve the financial status of any business entity. Just as with other corporate assets, claims are also likely to incorporate both risks and opportunities, which should be carefully assessed in the working capital resolution process (see also, DEMICA, Research Report, The Hidden Player, Sizing the Invoice Finance Market, May 2012).

In the context of the Greek economic restructuring process, we often hear that there is a need to strengthen exports so as to restore equilibrium to the trade balance. In this respect, factoring can offer, besides liquidity enhancement, a number of further significant
advantages, such as assessment and coverage of buyers’ credit risk and effective collection through a network of correspondents. Note that in 2012 our country ranked 6th among the EU countries in international export factoring via correspondent factors.

Last, reverse factoring, in which a key buyer negotiates, coordinates and implements a master factoring agreement for the account of a large number of suppliers, has posted significant growth over the past years, as it facilitates easy access to liquidity on the part of suppliers, minimum credit risk on the part of the factor, and economies of scale on the part of the buyer (debtor).

**The performance of Ethniki Factors in 2012 and its plans for 2013**

In 2012 Ethniki Factors, a company with a solid capital base, highly specialised personnel and state-of-the-art operational systems, expanded its operations. Our policy focused on providing liquidity to Greek companies and substantially contributing to the improvement receivables management efficiency.

Among Company's objectives for 2013 are the following:

1. **Enhancement of international and particularly export factoring business with a view to supporting the national effort to strengthen exports.**

2. **Further optimisation of monitoring methods implemented and mitigating financial and operational risks.**

3. **Upgrade of IT and operational software aiming at improving productivity and offering advanced reporting to customers.**

2013 will be a key year for the Greek economy with high expectations regarding the restoration of growth rates during the last quarter or within 2014 at the latest. At this point, factoring contribution is likely to be significant in two main ways: enabling smooth business operations and shaping working capital for firms—this being the foundation on which investment activity, so badly needed by our country, needs to be based.

Ethniki Factors, a member of the NBG Group, will continue to provide ongoing support to Greek businesses with a view to assisting in the restructuring of the Greek economy and putting it back on a growth path.