



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Danièle NOUY

Chair of the Supervisory Board

COURTESY TRANSLATION

Mr Nikolaos Chountis
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 17 October 2017

Re: Your letter (QZ090)

Honourable Member of the European Parliament, dear Mr Chountis,

Thank you for your letter on the Greek banking sector, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 13 September 2017. In your letter you raised questions relating to the supervision of Greek banks.

Regarding your first question, the ECB is monitoring the capital positions of Greek banks on an ongoing basis. The aggregate Common Equity Tier 1 (CET1) ratio of the four Greek significant institutions (SIs) stood at 16.7% as of March 2017¹, and the ECB deems their current capital levels to be adequate.

At the same time, Greek banks still face major challenges, including the need to reduce the very high stock of non-performing exposures (NPEs), which amounts to around 45% of their total exposures, the highest level in all banking union countries. As the ECB has pointed out on numerous occasions, it is of crucial importance for the economic recovery and their forward-looking capital adequacy that the four Greek SIs make swift progress on NPE resolution, in line with the targets that they communicated to the ECB last year. The ECB will continue to monitor very closely their efforts in this respect. Furthermore, on-site inspections with a focus on NPE management in Greek SIs are already ongoing or will be launched later this year.

In 2018 the ECB will also conduct stress tests for the four Greek SIs. The results of the stress tests will be incorporated when determining the Pillar 2 Guidance for Greek banks, in line with the common methodology for the Supervisory Review and Evaluation Process (SREP) that applies to all SIs within the Single Supervisory Mechanism. The main reason for conducting the stress tests is to get an updated assessment of the resilience of banks under baseline and adverse conditions. We intend to make the outcome of this

¹https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.supervisorybankingstatistics_first_quarter_2017_201707.en.pdf

exercise known ahead of the conclusion of the third European Stability Mechanism (ESM) macroeconomic adjustment programme for Greece, so that any warranted follow-up action can be taken in good time.

Let me also remind you that the four Greek SIs were subject to asset quality reviews (AQRs) in 2014 and 2015. ECB Banking Supervision does not see merit in conducting another AQR for Greek banks at this point, and ongoing inspections are focusing on reviewing troubled assets.

Turning to your second question, important steps have been taken during the third ESM programme to address structural impediments to NPE resolution, such as opening the market for loan sales and establishing new out-of-court workout and electronic auction frameworks. In order to ensure that these reforms translate into accelerated NPE resolution in Greece, it is necessary to ensure that they are implemented in full, for instance as regards making the new platform for electronic auctions operational. Additional efforts will be needed to strengthen the capacity of the Greek judicial system and insolvency frameworks, as highlighted in the “Stocktake of national supervisory practices and legal frameworks related to NPLs” conducted by ECB Banking Supervision² and envisaged under the ESM programme³.

As regards your third question, ECB Banking Supervision is not involved in programme negotiations between the institutions and the Greek authorities. The legal framework for the protection of borrowers’ residences had already been agreed and adopted by the Greek Parliament in previous programme reviews. Specifically, the Greek authorities have committed, in the Memorandum of Understanding of August 2015⁴, to implement “amendments to the household insolvency law to introduce a time-bound stay on enforcement in line with cross country experience; establish a stricter screening process to deter strategic defaulters from filing under the law, include public creditor claims in the scope of the law providing eligible debtors with a fresh start, tighten the eligibility criteria for protection of the primary residence, and introduce measures to address the large backlog of cases”.

Yours sincerely,

[signed]

Danièle Nouy

² https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.stock_taking2017.en.pdf

³ https://ec.europa.eu/info/sites/info/files/s mou_final_to_esm_2017_07_05.pdf

⁴ https://ec.europa.eu/info/sites/info/files/01_mou_20150811_en1.pdf