Restarting the Greek financial sector: A comprehensive set of proposals

May 2022

(Translation from the original version in Greek)

Authors[1]:

Gikas A. Hardouvelis

Professor, Department of Banking and Financial Management, University of Piraeus and Chair of the Board, National Bank of Greece

Nikos S. Magginas, PhD

Chief Economist, National Bank of Greece

Study published by "diaNEOsis" Research & Policy Institute

Summary

The current study presents proposals for upgrading the financial system and strengthening its capacity to finance the private sector. The proposals have a short- and medium-term implementation horizon. They are organized in three categories. The first relates to the private banking sector; the second concerns the stock market; and the third category focuses on issues of market supervision and a suitably targeted role for the State.

The section on strengthening bank lending and banking activity presents measures that foster the gathering of full and accurate information from borrowers, to enable the assessment and correct pricing of credit risk by lenders. We propose, among other things: the immediate launch of an independent national credit rating authority ("Independent Credit Bureau"), which would be assigned with a wide coverage of the business sector; the operation of a digital real estate register; the enhancement of published accounting information (especially for SMEs); the use of external auditors in non-listed companies; the effective implementation of the new bankruptcy process; the immediate appointment of a committee to facilitate potential investors and thereby utilize and leverage effectively the funds of the Recovery and Resilience Facility (RRF); the support for the judicial system so that it can respond swiftly and effectively to the growing and increasingly complex legal environment, while also fostering a better level of financial education for judges and the

[1] We would like to thank Angelos Antzoulatos, Dimitri Vayanos, Frangiska Voumvaki, Ioannis Gkionis, Stavros Thomadakis, Olga Kosma, Panagiotis Kyriakopoulos, Vasiliki Lazarakou, Sokratis Lazaridis, Eleni Louri, Fay Makantasi, Kostas Mitropoulos, Spyros Pantelias, Stelios Papadopoulos, George Papanastasopoulos, and Christoforos Sardelis for their constructive comments.

general population already trained in Law. We also propose, at national or supranational level, to prepare early for the possibility of setting up an asset management company in order to shield the banking system from unforeseen shocks that could take on systemic proportions in the future.

The section on upgrading the Greek capital market emphasizes the importance of measures to improve the corporate governance of domestic companies and to provide incentives for business growth and mergers through structural measures and tax reforms. This section also includes proposals aiming at: expanding the range of companies that are obliged to follow the rules of good corporate governance; promoting business growth strategies and M&A activity; broadening the economy's savings base and thereby enabling investment in the domestic capital market through the operation of a funded pillar in the social security system; encouraging technological deepening and international link-up of the Greek stock market, and upgrading of its human capital. Considering the course toward a European Capital Markets Union, we propose that ambitious reforms should be implemented to ensure that the stock market is ready to participate in the future Capital Union and reap the maximum possible benefit.

In the section dealing with effective supervision and more specialized government participation in the financial system, we present specific options for the potential future form of supervision by strengthening the pillar concerning the capital market, while considering specific characteristics of the Greek economy, as well as international trends. We also suggest that synergies between the Hellenic Development Bank and the Recovery and Resilience Facility should be fully exploited on a sustainable basis in the future.

1. Introduction

The international experience shows that the competitiveness of the business sector, the pace of economic growth, and the general level of prosperity are inextricably linked to the health and competitiveness of the financial system. The financial system carries more weight in an economy than being a simple sector of economic activity. It is a co-shaper of the overall economic reality, which it also reflects.

The next chapter provides a brief description of the financial system in Greece and its two main pillars, the banking system and the capital market (Ch. 2). It describes the characteristics of the system over time and provides details of the negative overall imprint of last decade's deep crisis.

The analysis leads to the finding that behind the weaknesses of the financial sector that constrained its capacity to support the economy in the previous decade, there are longstanding structural characteristics of the economy itself, such as the very high percentage of small businesses, the low level of domestic savings and pension system reserves, and the weak interconnection of the Greek business sector with the international value chains and the global financial system. There are also inherent distortions in these sectors, which were exacerbated by the prolonged economic crisis and led to an increase in non-performing loans as well as a further contraction in the role of the capital market. Last, there are significant differences in the requirements, standards, constraints, and general structure of the supervision of the banking sector on the one hand, and the capital market on the other.

The third chapter maps the immediate and far-reaching challenges, which lie in front of both banks and the capital market today. These challenges are the outcome of increasing competition, as well as of constant changes in the international economic environment and the domestic market. They lead us to identify potential areas for action and initiatives that will accelerate the upgrading of the financial sector.

The fourth and main chapter presents specific measures for improving the financial system. The measures are classified into three categories. The first concerns the banking sector and, specifically, the efficient provision of financing. The second concerns the stock market and the Greek capital market in general. The third focuses mainly on the area of financial supervision as well as on the need for a more efficient role of the State in helping to unlock funding flows to the private sector. Within each intervention package, the proposals specify the desired targets, the means, and the expected outcomes. A common denominator across the proposals is the desired improvement of information flows, the reduction of uncertainty, the enhanced transparency and resilience of institutions, the strengthening of extroversion, the inter-operability of the technological base underpinning the structures of the financial system, and the strengthening of the competitiveness of the business sector itself.[2]

The same chapter examines the impact and challenges arising from the current momentum towards a European Capital Markets Union. It presents proposals for the improvement of the supervisory framework and for a more direct – though based on strict and transparent criteria and targets – participation of the State in the financing of the business sector and of specific significant investment projects. The State's contribution is critical in mitigating credit risk. A reference point for such a role for the public sector are the targeted guarantee-schemes implemented in 2020, which were activated on an emergency basis due to the pandemic, albeit with specific scope and duration. Another reference point is the establishment of the EU's Recovery and Resilience Facility.

The fifth and last chapter summarizes the main conclusions and characteristics of each of the 18 proposals of the previous analysis.

2. The Current State of the Financial Sector

2.1. Characteristics of the Greek financial system

The size of the Greek financial system, measured by its asset size of as a percentage of GDP, is significantly smaller than the euro area average and one of the smallest in the EU-27.[3] As in the rest of Europe, the Greek financial system relies heavily on banks. In fact, after

[2] Some of the proposals complement and expand similar proposals already included in the "Pissarides Report" (November 2020), or set forth by the Committee of Experts of the Ministry of Finance "Proposals of the Committee of Experts for the Development Strategy of the Greek Capital Market" (in Greek), November 2020.

[3] The total value of the assets of the Greek financial system amounted to 179% of GDP in December 2021, compared to 316% in the euro area.

the ten-year deep crisis of 2008-2017, the number of banks has declined significantly, with four banks today representing about 96% of the total assets and total loans of the entire Greek banking system. Other categories of financial institutions, such as insurance, investment, leasing, factoring and real estate companies, mutual funds, and venture capital firms, are either relatively small or are subsidiaries of banks.[4]

In the years of the economic crisis, the financing of Greek enterprises stemmed mainly from their cash generation capacity and their own liquidity reserves as well as from capital transfers.[5] External financing through loans, bonds or equity issuance was meager. The crisis not only reduced the demand for financing; it simultaneously made access to external financing more difficult.

A result of the ten-year crisis was the extremely high level of non-performing exposures (NPEs) as a percentage of total loans -- which peaked in September 2016 -- while today, despite the significant progress that has been made to reduce them, Greek NPEs remain by far the highest in Europe as per cent of total loans.[6] In December 2021, NPEs accounted for 12.1% (€19.4 billion) of total loans, vs. 49% in September 2016. Today they follow a steady downward trend but also continue to be an obstacle to a faster growth in lending and in overall banking activity.[7] It is important to mention that the significant reduction of NPEs to levels comparable to the euro area average is a key precondition for the transition of the country's credit rating to investment grade.[8]

In recent years, the pursuance of a more rapid decline of NPEs to single digits[9] was slowed down, *inter alia*, by the obstacle of negative profitability. Negative profitability is usually caused by the need to provide for and write off large amounts of NPEs. Negative profitability, in turn, has many side effects. First, it negatively affects banks' book value and equity, at a time when Greek banks are working hard to meet the minimum requirements of the SSM (Single Supervisory Mechanism). Second, it triggers a supervisory rule that accompanies the legislation of Deferred Tax Credits (DTC), by which the Greek government acquires – under certain conditions – additional shares of the bank in question, an event that has been viewed rather dimly by most stakeholders. The increase in DTCs is undesirable for private shareholders because their ownership is diluted by the State; and it is also undesirable for the supervisory authorities (SSM, BoG) for reasons of systemic stability.[10]

---

[4]For a recent description of the financial system and its comparison with the corresponding systems in the rest of Europe, see M. Haliassos, G. Hardouvelis, M. Tsoutsoura and D. Vayanos (2017).

[5] See Diagram 5.2, p. 122, in C. Pissarides, D. Vayanos, N. Vettas and K. Meghir (2020).

[6]According to the Bank of Greece, NPEs as a percentage of total loans reached their peak in September 2016: 49%. This occurred when NPEs were €106 billion. This was not their highest value in absolute terms. The highest value was recorded in March 2016 and amounted to €107.2 billion.

[7] The recent rapid decline in NPEs is due to securitizations through the Hercules-I and Hercules-II programs.

[8] For a comprehensive analysis of the current bank challenges as well as a historical overview of the ten-year crisis (in Greek), see G. Hardouvelis (2021).

[9] Ideally below 5% and close to the European average, which is in the region of 3%.

[10] The Bank of Greece (2021) prefers to see the rate of DTCs decrease over time because of the growing interconnection of the Greek banking sector with the central government' debt, the so-called "bank-sovereign nexus." This interconnection poses a potential source of risk. After the completion of Hercules-I and the provision of state guarantees in the securitization process, the exposure of the systemic banks to sovereign risk (as a percentage of assets) has increased to about 20% of their assets.

The above obstacles made the task of reducing NPEs particularly challenging. Therefore, NPEs remained high for many years. This high level, coupled with an economic environment of high credit risk, resulted in a reduction of the supply of credit, that is, a slowdown in the provision of new loans to healthy, mainly small and medium-sized enterprises; hence reducing the growth dynamics of the economy.[11] The comparatively high level of NPEs continued to have a negative impact on the credit rating of banks and, indirectly, on the credit rating of the economy as a whole. This remains a burdensome factor for the entire structure of risk premia in the economy, pushing higher the overall cost of borrowing for the private sector.

In parallel with the weak credit expansion of the previous decade, the Athens Stock Exchange (ATHEX) had and continues to have only a limited impact on the overall financing conditions of the economy. This contrasts with the pivotal role of capital markets in most developed economies. Indeed, ATHEX is one of the smallest stock exchanges in Europe and struggles to provide the necessary impetus to financial intermediation. With only short breaks, it followed a trajectory of almost continuous contraction over the last 12 years. At the end of 2021 its capitalization corresponded to approximately 36.7% of GDP, compared to 42.4% of the Lisbon stock market, 43.8% in Milan, 69.5% in Frankfurt, and 183.6% in London.

In the period 2010-2020, the value of funds raised through ATHEX by listed companies as well as by the new listings, amounted to just €65.1 billion, of which €46.7 billion originated from the forced bank recapitalizations of the 2013-2015 period. Similarly, the total net value of corporate bonds issued from 2016 until the end of 2021, amounted to €3.2 billion, of which €2.4 billion corresponded to bonds issued during the last two years 2020-2021.

In 2021 – a year of intense activity and large transaction volumes in international stock exchanges – the Greek stock market remained under the radar. At the end of 2021, a total of 158 companies were listed in the ATHEX (in the Main and Alternative Market), seven of which were suspended from trading, and nineteen were under scrutiny. In 2021, the stocks of the five most traded companies[12] corresponded to a hefty 50% (76%) of the volume (value) of total share trading, compared to 24.9% (40.7%) in the Milan Stock Exchange, and 9.2% (14.3%) in the London Stock Exchange.

In general, the country's low ranking in competitiveness and, in particular, in the quality and efficiency of the financial environment, shows the significant and multifaceted challenges that lie in front of an effort to materially upgrade the financial system.[13] Greece

[11] The negative impact of NPEs on new financing is due to the fact that, faced with existing non-performing loans, banks have become reluctant to take on additional business risk. This was exacerbated by the strong supervisory pressure and the surrounding environment of significant uncertainties regarding the assessment of many applicants for new credit. Uncertainties arise mainly from the weak, incomplete, or relatively short and imperfect credit history of applicants. The negative impact of NPEs on new lending is also highlighted in the Report of the Hellenic Court of Audit (2021) on "Financing of the real economy by the banks: Did the State's financial intervention contribute to the restoration of financial regularity?" (in Greek).

[12] According to the Monthly Bulletins issued by the ATHEX, the top five companies in trading volume in 2021 were: Alpha Bank, Eurobank, Piraeus Bank, National Bank of Greece, and MIG, while top five in transaction value were: Alpha Bank, OTE, Eurobank, OPAP, and PPC.

[13] See relevant World Bank research (Doing Business 2020, October 2019), OECD Competitiveness Surveys (OECD, Going for Growth: Shaping a Vibrant Recovery, April 2021) and the International

continues to lag in indicators of institutional capacity, such as issues of transparency, adequate information, competition, corporate governance, collateral recording, valuation and liquidation, efficiency of the justice system and protection of creditor rights.[14] In a highly competitive international environment, the combination of all of these factors continues to inhibit financial development and deepening, the strengthening of competitiveness, and the sustainable transformation of the economy's production model.

The cost of external funding for businesses in Greece remains significantly higher than the corresponding costs in other euro area countries due to the confluence of several adverse factors. Obvious culprits were, until recently, the high levels of non-performing loans and the anemic recovery rates of credit claims following defaults. As a result, in March 2022, according to the ECB data and without considering various loan handling charges, the average borrowing rate for medium and large enterprises in Greece was 3.06%, while in the Eurozone it was 1.49%.[15]

Major obstacles to the diffusion of the available financial resources into the economy are the lack of adequate information, the uncertainty, and limited, at best, awareness regarding the financial status and behavior of business entities. These characteristics reduce the overall risk appetite for lending and increase the cost of borrowing, since creditors require high risk premia. Consequently, the design of appropriate structural measures to improve the operation of the financial system must focus on enhancing transparency and reducing uncertainty. Only in this way will it be possible to accelerate the flow of liquidity to the economy, mobilize investment funds, and reduce risk premia. The latter impact both on the pricing and granting of loans and on the raising of share capital.

The idiosyncratic structure of the Greek economy, comprising mainly of small or very small enterprises, in conjunction with the long years of economic crisis, have amplified the problem. In particular, the vast majority of firms in Greece are SMEs (with a turnover of < €10 million and an average number of 2 to 3 employees). These SMEs, for the most part, have comparatively lower productivity than their EU counterparts,[16] are operating in relatively low value-added sectors and, in principle, are marked by poor export performance. Yet they represent a huge proportion of the business sector, accounting for some 99% of the total company population, 55% of total employment, and 44% of sales.[17]

Even before the outbreak of the Greek economic crisis, less than 30% of Greek companies had access to some formal form of external borrowing (excluding informal short-term financial arrangements with customers and suppliers). Of course, they did not have the slightest chance of raising capital. Then, as the ten-year crisis unfolded, 50-60% of bank

---

Institute for Management Development (IMD, World Competitiveness Ranking 2020 Results, June 2020).

[14] Greece is ranked 79th in the world out of a total of 190 countries in the "Ease of Doing Business" rankings of the World Bank (Doing Business Ranking 2020, October 2019), and 46th (out of 63 economies) in terms of digital competitiveness (IMD World Digital Competitiveness Ranking 2020 Results, June 2020).

[15] Source: ECB Statistical Data Warehouse, Composite cost of borrowing indicator for non-financial corporations, March 2022. Obviously, the risk premia used in setting interest rates are higher in Greece.

[16] According to data of the General Directorate for the Internal Market, Industry, Entrepreneurship and Small and Medium Enterprises of the European Commission, average productivity per SME in Greece corresponded in 2020 to just ¼ of the corresponding EU average.

[17] Source: Economic Analysis Division, National Bank of Greece.

loans to SMEs and more than 30% of loans to larger companies could no longer be serviced.[18]

Similarly, the relatively high rate of use of commercial credits and postdated checks (a long-lasting common business practice in Greece), as well as the slow speed of collection of receivables – more than double the euro area average – also reflect the idiosyncratic characteristics of the country's business sector and the constraints that apply to financial activity. Smaller firms resort to informal short-term financing from suppliers and other counterparties and customers, often at high cost, not having the required assets to serve as collateral or the required credit record and documentation to enable them to access bank lending or other forms of external funding, in general.

A strengthened role of the financial system and, in particular, an expansion of financial intermediation and strengthening of the capital market would be directly related to an expanding perimeter of enterprises that both *want and are able* to request and utilize external financial resources.[19] According to the findings of SME surveys conducted by the NBG's Economic Analysis Division, the European Central Bank[20] and the Global Entrepreneurship Monitor (GEM),[21] a large part of entrepreneurship in Greece comes from the need to earn a living and not from the utilization of genuine business opportunities and the development of initiatives. The Greek micro enterprises have a lower willingness to invest in order to become more extroverted and innovative. They also have a lower willingness to borrow. This behavior reflects a conservative mentality and wariness regarding healthy business-risk taking rather than a genuine entrepreneurial spirit. In conclusion, the transformation and growth of the financial sector is in part dependent on the transformation and reform of the business sector itself and the structure of the economy in general.

2.2. Supervision of the financial system in Greece

A basic parameter of the attractiveness and competitiveness of a financial system, which plays a key role in pricing risk in a market, is the framework of supervisory mechanisms that ensure the proper functioning of the system and support transparency and reliability. The Eurosystem and the Hellenic Capital Market Commission supervise the main pillars of the financial system in Greece.

Following the global financial crisis, bank supervision standards have been strengthened, especially on the systemically important banks. This stricter supervision focuses, *inter alia*, to the quality and quantity of capital that financial institutions must pursue. It also addresses issues of liquidity, corporate governance and overall transparency and accountability to investors regarding banks' operations, performance, and strategy.

---

[18] Source: Bank of Greece, Financial Stability Report (in Greek), January 2021, Chart III.4, p. 28.
[19] At the initiative of the ATHEX, the "Roots" program aiming to enhance access by innovative SMEs and start-ups to the Greek capital market was launched, as a funding alternative for their business plans (https: //www.roots-program.com/).
[20] ECB Survey on the Access to Finance of Enterprises in the euro area (SAFE), November 2021.
[21] Global Entrepreneurship Monitor, 2021/2022 Global Report, Opportunity Amid Disruption, February 2022.

In Europe in particular, bank supervision has become even stricter for an additional reason: the quest for a banking union. In November 2014, a common supervisor of the systemic banks (the Single Supervisory Mechanism (SSM)) was set up, and in January 2016 the Single Resolution Mechanism (SRM). Specific eligible bail-in obligations have been defined in the event of bankruptcy (Minimum Requirement for own funds and Eligible Liabilities, or MREL). The aim is to make sure that credit institutions can be restored to health by getting their shareholders and creditors to cover potential losses, without affecting depositors and resorting to recapitalization measures with public funds.[22]

The supervision of the non-banking financial sector is carried out mainly by the Hellenic Capital Market Commission (HCMC), which was established in 1991. The HCMC monitors and supervises, among others , regulated official markets, clearing houses, domestic and foreign undertakings of collective investments operating in Greece, UCITs, investment funds, listed companies and their major shareholders (regarding their obligation to disclose significant holdings) and related financial transactions regarding issues of compliance, market abuse and manipulation.

The HCMC is an independent public legal entity serving as a supervisory authority whose management and staff, under the European and Greek legal framework, enjoy "guarantees of operational and personal independence for the fulfillment of their mission."[23] However, in reality, and given the increasing complexity of its work, the HCMC remains in a disadvantaged position as regards the availability of appropriate means, support, know-how and, in essence, the operational self-sufficiency that is available to the other key regulator, the Bank of Greece. The latter operates as an arm of the Eurosystem with the corresponding access to the institutional might, support, and expertise of the ECB and with its independence enshrined in Greek legislation, following the Treaty on the Functioning of the European Union.

The HCMC is charged with ensuring the smooth operation of the stock market while safeguarding its credibility and reliability with timely and preventive measures. Significant efforts are being made today to reform and modernize it. One such measure is the goal of more effective and faster supervision. Another measure is the drive to strengthen its internal operations through appropriate staffing, digital transformation, active participation in related European institutions, and ongoing supervisory convergence towards European best practices.

3. New Environment – New Challenges

3.1. The challenges for the banking sector

In the field of financial intermediation, the challenges are significant and likely to increase in the years ahead, as described in detail in a previous study (Hardouvelis (2021)).

---

[22] This tightening was also a result of the effort to increase the reliability and comparability of financial systems in the euro area by reducing national divergences, as the experience of the global financial crisis and the "asymmetric threats" faced by financial institutions of significant systemic importance at that time was still fresh.
[23] Source: Official website of the Hellenic Capital Market Commission (www.hcmc.gr).

On the global level, the profitability of banks has been under constant pressure in recent years. The first source of pressure was the extremely low level of nominal interest rates for a prolonged period, until the beginning of 2022. In periods of low interest rates, the spread between lending and deposit rates is also narrow and leads to a contraction in profit margins (net interest margin). The unprecedented intensity and duration of international monetary easing involving the use of new policy instruments (e.g., quantitative easing) kept interest rates at extremely low levels and exacerbated the challenge.[24]

A second source of pressure, especially in retail banking, originates from the intense competition from "challenger banks," especially high-tech firms, Fin-Tech and mainly Big-Tech. These firms and, more generally, companies operating in the shadow banking system,[25] are seeking to penetrate the most profitable activities of banks, such as credit cards and payment services. They also aim at other dynamic market segments that are not sufficiently serviced by the banking system (micro-enterprises, young people, access to innovative investment products) without, however, being subject to the thorough constraints imposed by supervisors on traditional banks. Admittedly it will be more difficult for these companies to operate successfully in the Greek market. This is due to the idiosyncrasies of the Greek economy and the history of high default rates, combined with the lack of systematic information on the credit record of many businesses and households. Yet there is obvious business interest that is likely to intensify as uncertainty regarding the Greek economy wanes.

One such challenger bank operating in Greece is Viva-Wallet, 49% of which was acquired in January 2022 by JP Morgan. Viva-Wallet specializes in electronic payments, is active in 23 countries in Europe, and in August 2020 obtained a banking license in Greece. In the future, it will probably expand its lending activities on a Europe-wide level.

The Greek systemic banks are not sitting on their laurels, of course. In recent years, they were busy entering into partnerships with global financial players that specialize in digital payments.[26] Furthermore, they are investing heavily on the digitization of their services in order to retain the younger generation of customers that wants flexible banking solutions without any location or time restrictions on their transactions.

A third basic source of pressure on bank profitability is the tightening of the supervisory framework, which limits risks for banking activity but also increases their financial costs and makes banks more reluctant and less prone to take credit risk.

---

[24] In January 2022, interest rates began to return to higher and more normal levels. However, the crisis – beginning in February – in Ukraine is likely to prolong the previous low interest rate regime for some time.

[25] The phenomenon of "shadow banking" refers to companies that provide only a handful of banking services, in a way that goes beyond the legal "definition" of a company as a "bank", and which are therefore not subject to the same strict supervisory control that applies to banks.

[26] More specifically, the binding agreements signed by Piraeus Bank with Euronet, Alpha Bank with Nexi, Eurobank with Worldline BV, and National Bank of Greece with EVO Payments, provide for the spin-off and operation of new companies in the merchant acquiring sector, which are expected to obtain business licenses as electronic money institution from the Bank of Greece. Thereafter, the strategic partners will acquire a majority stake in the new companies for a price. For example, Euronet will pay €312.5 million to Piraeus Bank for a 99.36% stake, Nexi will pay €156.6 million to Alpha Bank for a 51% stake, Worldline BV will pay €256 million to Eurobank for an 80% stake, and EVO Payments will pay €158 million to NBG for a 51% stake.

In Greece, there are additional sources of potential pressure on the profitability of banks. These pressures are related to i) the measurement of profitability according to established accounting rules, which credits interest income to NPEs, that declines together with the reduction of NPEs; ii) the withdrawal of Greek banks from most of their international operations and related financial activities; iii) the up-front costs of their digital transformation; iv) the increased mobility of traditional bank customers, who are turning to alternative sources of financing; v) competition emerging even in the area of credit to SMEs; and vi) elevated personnel costs, which have been lowered through intensive efforts following several years of shrinkage of bank networks and extensive implementation of voluntary exit schemes, in a period of continuous pressure on revenue generation from traditional and non-traditional activities. At the same time, the need to modernize their operations is compelling them to compete with other industries for executives or to hire expensive external services in the fields of sales, IT solutions, application programming, network security, business strategy, reorganization, management, and HR development.

Today, banks are further obliged by their supervisor, the SSM, to adopt and apply policies that integrate Environmental, Social and Corporate Governance (ESG) factors into their business strategy. This obligation implies the need to consolidate the perception in the financial system that without a basic knowledge and implementation of ESG principles, a business will not be able to get competitive access to the market, and this will subsequently be incorporated into the pricing of its borrowing terms. The implementation of ESG principles and their interconnection with credit criteria will become increasingly important in the near future. Thus, banks are striving to get the most reliable information possible, and to encourage and collaborate with businesses to enrich the actions and information they provide under ESG principles.

Supervisors in Europe place emphasis on the promotion of green banking, sustainable financing and investment, thus contributing to environmental protection and sustainable development. The European Banking Authority (EBA) has already set new standards for how financial institutions will record their environmental risks and emission reduction targets.[27]

In addition to the pillars of social and environmental responsibility, banks are also well ahead of the rest of the business sector in terms of transparency, accountability, and corporate governance. They have embarked on an internal structural transformation. These efforts are expected to generate a comparative business advantage. They will support a healthy and sustainable trajectory of rising annual profitability in the future.

Profitability has been compressed due to NPEs, yet it shows clear signs of improvement. Its further strengthening is a *sine qua non* for the health of Greek banks. The current high concentration of 96% of the sector's assets among just four banks and the deep and intensifying restructuring, are expected to contribute towards a maximization of synergies and of quality and differentiated services with higher added value for customers. Of course, a sustainable growth of profitability will be closely related to the pace and quality of economic growth as the economic recovery gets on a sustainable footing. This would ultimately lead to an increase in the population of businesses and households that *both want and are able* to resort to bank lending to fund their viable expansion plans.

---

[27] Source: European Banking Authority," Final report draft Implementing Technical Standards (ITS) on prudential disclosures on ESG risks in accordance with Article 449a CRR", January 2022.

3.2. The challenges for the Greek capital market

The Greek stock market – the Athens Stock Exchange or ATHEX – has been trapped in a long-term trajectory of contraction. It is important that it finds a way out and reenergizes itself as a key pillar of financing and business growth. The ATHEX needs to encourage large companies to pursue new capital raising opportunities, as well as, healthy SMEs to seek a credible path for achieving growth. After all, SMEs will be the spearhead of the productive transformation of the country and the nursery of the next generation of larger business configurations.

The mobilization of resources from both within and outside Greece is essential. The international environment of extremely low or (until recently) even negative nominal interest rates on high quality fixed-income securities appears to be abating in 2022. The comparatively high proportion of deposits and safe placements by Greek households at a time of historically low interest rates on bank deposits reflects the reluctance of Greeks in the face of business funding risks.

The mobilization of internal resources and the attraction and repatriation of new funds from abroad require, on the part of the ATHEX, major investment in deepening the market. This means retaining existing and attracting additional healthy companies, an effective communication, safeguarding reliability and providing well-targeted incentives. A similar level of dynamism will be needed to attract foreign investors more efficiently and into a wider range of securities, beyond government bonds and the shares of the major listed companies.[28]

The challenges and opportunities for the ATHEX are amplified by the competitive global environment for international exchanges. The environment is in a constant process of reconfiguration with trends towards stock market mergers and internationalization, decentralization, and digitization of trading. At the same time, there is on-going creation of specialized sub-markets, new products, and new financing schemes, which concern businesses of specific size, industry focus and growth strategy.[29]

[28] Retained liquidity by Greek households exceeded €175 billion at the end of 2021 due to increased savings and liquidity support measures during the Covid-19 pandemic, as well as the consequent rapid improvement of market conditions in the labor market, business turnover, and income from non-wage sources in 2021. To some extent, the said increase in deposits is also related to repatriation of funds. It is notable that almost €60 billion mainly in the form of deposits – of households and businesses – left the country over the last decade, seeking mainly safe placements, yet offering very low returns. The said amount has now shrunk to less than €25 billion after the recovery of confidence in the Greek economy and the even lower or negative returns of safe placements internationally in recent years. (Sources: a) Eurostat, Type of assets of Households per Member State, 2020, b) Bank of Greece Monetary and Banking Statistics, December 2021, and c) estimates of National Bank of Greece).

[29] When it comes to digitization, many electronic stock exchanges abroad have offered the widespread use of electronic corporate bonds, i.e., “smart” electronic contracts, block-chain technology, digital ledger technology and so on. For the raising of funds, security tokens (STOs) are widely used. All these tools are gradually gaining ground and becoming part of everyday stock market life. In Greece, their use is either limited or non-existent.

These complex challenges combined with the need to restart the Greek economy show that we need to move fast, upgrading and fortifying the stock market in its new mission. There is a need for vigilance and a redefinition of the broader strategy of the Athens stock market as an institution, which should aim either at strengthening its autonomous activity and regional role,[30] or possibly its integration into a larger pan-European platform, as other countries such as Portugal and Italy have done in the past.

4. Short-Term and Medium-Term Restart Measures

The analysis and findings of the previous chapter serve to determine the scope of measures to be applied to the financial system. In this chapter we group these measures into three categories, with the first concerning the banking sector, the second the stock market (and investments in the Greek capital market in general), and the third supervision.

The chapter sets out 18 proposals, which include a wide range of potential interventions and options. Most proposals are new, while some others complement or specify in greater detail similar efforts by other authors, serving as the natural continuation of past reports and analyses.[31] Key reports in this respect are: (a) the Development Plan for the Greek Economy, widely known as the “Pissarides Report” (November 2020), (b) the Report by the Committee of Experts of the Ministry of Finance on a development strategy for the Greek capital market (November 2020), and (c) the study of the Foundation for Economic and Industrial Research (IOBE) on the likely impact of proposals aimed at developing the Greek capital market (July 2021).

4.1. Facilitating financing by means of loan funds

The ultimate goal of the proposed measures in the area of lending is to enable for the timely, consistent and detailed assessment of the credit risk of each individual borrower in order to substantially reduce the cost of borrowing for creditworthy and reliable borrowers. It will, thus, be possible to avoid a, nearly horizontal, diffusion of elevated risk-premia to virtually all borrowers (especially in the case of loans to SMEs). The existing large premia reflect the fact that the market cannot distinguish between insolvent & non-sustainable borrowers from healthy borrowers. Put differently, this results in an equilibrium in which healthy borrowers “subsidize” insolvent ones.

[30] At the international level, the ATHEX has entered into partnership agreements with the Boursa Kuwait, the Cyprus Stock Exchange (CSE), the Energy Exchange Group (EnEx), as well as the National Natural Gas System Operator (DESFA). In addition, the ATHEX has entered into new strategic partnerships with Balkan stock exchanges, including the Belgrade Stock Exchange (BELEX) and the Albanian Electricity Exchange (ALPEX).

[31] The proposals include the establishment of new independent Authorities. Once established, their responsibilities should be clarified so that they do not overlap (or conflict) with each other or with existing Authorities; instead, they ought to be coordinated. The present study does not go into such a detailed description of their architecture.

Proposal A.1: Launch an Independent Credit Bureau so as to have the greatest possible impact on credit operations, encompassing all the features needed to enable it to contribute forthwith to the transparency and leverage of information in order to reduce credit risk of whatever origin.[32] To this end, the government has already moved ahead with legislative proposals presented in March 2022, which are based on the principles outlined in the National Recovery and Resilience Plan (NRRP).[33] This Authority is expected to lay the groundwork for the creation of a "credit profile" for borrowers on the basis of information stemming from government agencies and banks.

The Credit Bureau will collect, store and process primary data on the credit behavior of natural and legal persons vis-à-vis the State. It will provide reliable assessments of their credit behavior and can even come up with a specific credit rating. This rating can subsequently be used by public agencies and bodies, credit institutions, or even private sector counterparties. It is important that the Bureau enjoys independent status so that in the future it may develop into a body that can be seen as a fully developed national rating agency with a pivotal role in filling information gaps regarding SMEs; this needs to be accompanied by swift activation of all accompanying legislation, ministerial decisions and so on, to ensure that the Bureau is truly useful and functional and not a cumbersome tool with numerous legal and operational loopholes that only serve to weaken its scope.

Ideally, the expansion of the Authority's reach should be pursued by means of a coordinated use of multiple interconnected sources of information. This can be done by creating a comprehensive database that is frequently updated and fully connected with the databases, such as the government's General Secretariat for Information Systems (GSIS), including real-time transaction data from the integration of merchants' cash registers with the tax authorities, business registries of the various chambers of commerce, banking data, and the standardized data of periodic accounting statements.

The information should include the maximum possible range of businesses and households, and not just borrowers who have fallen into some form of default as registered in Tiresias.[34] Today Tiresias records borrower behavior regarding bank debt, promissory notes, and mortgages. There is need to include more detailed information on the nature, causes and extent of the default as well as the subsequent credit behavior of the individual or business that has fallen into temporary or longer-term difficulty.

The Credit Bureau's data collection perimeter should include the credit behavior of all borrowers, including new businesses and start-ups and borrowers with a good credit record, as well as obligors who have rescheduled their dues or who have resorted to provisions of the bankruptcy code. The information could be enriched with data on credit behavior vis-à-vis other organizations or companies such as public utilities, social security funds, and dues/transactions with third parties. Furthermore, data on the rate and speed of

[32] The desired extent of independence as well as the content of the Authority's accountability are important issues but cannot be further analyzed in this study.

[33] The Finance Ministry appears to be planning the launch of the Credit Bureau, which will record all dues in arrears of households and businesses toward the State (tax authorities, social security funds and municipalities). It plans two other tools for monitoring private debt: the Private Debt Monitoring Register and the Central Credit Register. In addition, the Credit Expansion Observatory has been set up, tasked with monitoring the progress of new loans and financing in general.

[34] Tiresias SA specializes in the collection and distribution of financial behavior information and data on the collection of loans (for individuals and companies), mortgages and promissory notes, as well as data that help prevent fraud in banking transactions, which it provides through specialized information systems.

debt recovery against collateral by both banks and NPL managers should also be systematically monitored and updated along similar lines, for example, as the Credit Register of the Central Bank of Italy.[35]

The entire data collection and storage process should be supervised by the State under strict data protection provisions, given the criticality of the information and its multiple and potentially improper use if such provisions are not strictly observed. Collected data may be extracted for specific purposes (e.g., lending), only after getting the borrower's consent. The aim should be to support new business and investment efforts, to reward consistency in loan repayment, and to discourage strategically delinquent behavior in a preventive and lasting manner. An effective incentive would be the possibility of drastically improving the conditions under which borrowers access bank lending. Another incentive is to enable those who disclose such data to access programs backed by State resources, compared to those who refuse to provide sufficient information.

Proposal A.2: Set up a fully digitized real estate register. Real estate is by far the most prevalent form of collateral pledged by households and businesses in borrowing agreements. The database in question should also be backed by an upgraded real estate valuation process for both residential and commercial real estate.

Monitoring and updating such data, needs to be more thorough and systematic than the current approach of periodic appraisals carried out for the purpose of determining reference values for tax purposes (in Greek, they named "*objective values*"), and should include information by type and age of the property. In addition, updating of data should be carried out frequently, with adequate sampling and utilization of information from private entities, including real estate investment companies, NPL management companies, and tax authorities.

Proposal A.3: Provide a more accurate accounting picture of the financial status of non-listed companies and SMEs, most likely under the supervision of the Hellenic Accounting and Auditing Standards Oversight Board (ELTE), which could be changed to an independent authority with enhanced responsibilities (including targets, strict criteria for hirings, competitive salaries, and performance incentives) without any operational dependency with the State or the Institute of Certified Public Accountants.[36]

A reliable record of the financial status of companies is a key component in the drive to enhance the financial environment and strengthen confidence. The selective and often incomplete and delayed annual publication of data on the financial condition of companies

[35] Source: Central Bank of Italy, Central Credit Register (CR).

[36] ELTE is currently the national supervisory authority of the auditing profession and is responsible for imposing and supervising the proper and effective implementation of accounting and auditing standards. Its mission is to continuously strengthen the confidence of the investing public in the auditing and accounting function in Greece. ELTE is comprised of two supervisory boards that carry out oversight of the respective market: a) The Quality Control Board, which oversees Auditing Standards and compliance of certified public accountants and auditing firms with IAS and the IFAC Code of Conduct, and b) the Accounting Standardization Council (SLOT), on which ELTE acts as quasi-advisor to the Minister of Finance, proposes the establishment of accounting standards for Greece, and answers the public's queries about accounting. See https://elte.org.gr/about-elte/

is not enough to remove the uncertainty and caution that often surrounds related financing decisions.[37]

As already noted, the business sector in Greece is comprised of an extremely high percentage of small and medium-sized, and – above all – micro enterprises as well as business units without formal legal substance. This structure implies that the formal quality and detail of the published information falls far below an acceptable minimum, not to mention the EU average.

Today the listed as well as other large corporations apply the latest version of International Accounting Standards (and are accordingly subject to stricter audits, certification and reporting commitments), while other companies apply a simpler and more rules-based National Framework for Auditing Standards, which is more flexible for smaller businesses.[38] Notably, Community Directive 2013/34/EU of the European Parliament led to the introduction of new Greek Accounting Standards and Law 4308/2014 in November 2014. This Law sets forth standards that converge circa 70-80% with IFRS for non-listed companies (micro, small, medium, and large, Article 2 of Law 4308/2014). Since then, progress in implementation has been slow, and full convergence will require more time (e.g., more detailed financial statements and disclosures for micro-enterprises, careful amendment of article 30 regarding exemptions / simplifications for small businesses, etc.).

The high cost of adaptation and the complexity of the standards are usually cited as the main reasons for choosing to apply simplified accounting methods both in Greece and the EU, especially in the case of SMEs. But for an economy like Greece, which is trying to enhance the credibility of its business sector and escape the shadow of a multi-year crisis, it is important to pursue a more ambitious approach. One such approach, for example, is that of Ireland, that provides the option to apply IAS in the form of a version of the IFRS specifically adapted for SMEs.

Besides the "convenient" option of the minimum degree of harmonization embraced by the EU (which leaves related matters to national jurisdiction), emphasis should be placed on rapidly upgrading the quality and comparability of the information provided by Greek businesses. This becomes imperative if they aspire to grow, internationalize, and attract foreign investors. Whatever the case, it is reasonable of course to adhere to the principle of proportionality when considering the level of governance standards required, accounting standardization and control procedures in relation to the size, type, and systemic importance of the business in question, without creating excessive compliance burdens.

It is also important to provide incentives. The incentive for more favorable credit treatment and the attraction of foreign investors could offset any operational costs associated with moving towards and implementing a more standardized and recognizable system that is compatible with best international standards. To strengthen such a policy, tax incentives could also be provided, as well as incentives associated with the conditions allowing access to state guarantees, participation in public tenders and projects related to

[37] Today at least half of medium and large companies do not publish their balance sheets on time. This is because under article 202 of Law 4281/2014, since 01/01/2016 public corporations and private limited companies that do not keep their books in line with IAS or are not listed on the stock exchange do not have the obligation to publish such information within strict deadlines. It is probably sensible to make timely disclosure of such financial information mandatory again.

[38] This flexibility may be convenient for businesses, but at the same time it exposes them to possible arbitrariness in the interpretation of the law by official auditors.

the public investment program and the RRF, as well as leveraging opportunities provided by investment legislation.

Proposal A.4: Expand the use of external auditors to a wider range of companies, in line with an earlier proposal by ELTE.[39] The quality and effectiveness of external control mechanisms enhance the value and completeness of published accounting statements, boost administrative efficiency, and strengthen the position of financial executives and the credibility of their accountability to the shareholders.

Ensuring the quality and credibility of external auditors by identifying inadequate or incomplete services in a timely manner, as well as providing financial and banking incentives to companies that choose to use an external auditor on an optional basis (e.g., for certain categories of SMEs) would further strengthen safeguards and reduce risk premiums for access to external borrowing. In addition, possible extension of the mandatory statutory audit to a broader range of firms could also improve matters.

Currently, Law 4336/2015 specifies that only companies that are classified as medium or large (as per Law 4308/2014)[40] are subject to mandatory audit by certified auditors. In February 2019, ELTE submitted a proposal for adjustment of the criteria for inclusion of companies in the mandatory statutory audit in line with the average criteria and parameters applying in the member states of the European Union.[41]

Proposal A.5: Mobilize effective implementation of the pre-insolvency and insolvency procedure. The new National Insolvency Framework (4738/20) marks a step in the right direction, comprising the most comprehensive legislative framework prepared to date in the country and drawing on valuable experience and lessons learned from a double-digit number of related legislations designed over the last fifteen years that focused on various individual aspects of the problem.

The new law seeks to put in place a coherent framework for the preventive handling of possible insolvency, the option to activate a pre-insolvency restructuring/rehabilitation process, and for bankruptcy if the latter would eventually become unavoidable. In addition, it enhances effectiveness through the implementation of automatic clauses requiring monitoring and early warnings. Last, it provides a protection framework for vulnerable debtors and clarifies the scope of action of insolvency administrators.

The effective implementation of Law 4738/20 remains, however, a significant challenge, due in part to the size and complexity of the legislation. Ultimate success depends on the smooth and combined input of many factors. While the law came into force for both individuals and legal entities in June 2021, many of the technical issues related to the special online platform for the out-of-court mechanism were only resolved at the end of the first quarter of 2022. Accordingly, although the legislative and technological infrastructures of the Insolvency Code have been strengthened and the number of applications submitted has

[39] Hellenic Accounting and Auditing Standards Oversight Board (HAASOB/ELTE, Announcement 004/2019, “Enhancing transparency in mandatory audits” (in Greek), February 2019.
[40] Medium or large companies are those companies that exceed for two consecutive years two of the following three criteria: 1) total assets: €4 million, 2) net turnover: €8 million, 3) average number of employees: 50.
[41] According to an ELTE survey, the following modification of the limits for inclusion in a statutory audit is proposed: Companies that exceed for two consecutive years two of the three criteria: 1) total assets: €1 million, 2) net turnover: €2.5 million, and 3) average number of staff employed during the period: 50 (see footnote 39).

increased, most of these applications have not been finalized for the process to move ahead. According to the 7th Progress Report of the Finance Ministry's Office for Private Debt Management, by the end of April 2022 only 361 borrowers out of a total of 4,353 applications had received proposals for debt resolution.[42]

Furthermore, the launch of the Real Estate Acquisition and Leasing Agency, which will serve as the main lever for the protection of vulnerable borrowers, is still pending (May 2022). According to press reports, the Ministry of Finance is expected to hold a public international tender to attract potential investors in 2023 for the setup of the Agency. In the meantime, until the Agency commences operations, a legislative initiative (interim program) provides protection for vulnerable borrowers.

To ensure the effectiveness of the insolvency law and fair access to its safety-net provisions, it is important to have an accurate assessment and continuous monitoring of the efficiency of the provided workout solutions with a view to ensure their viability and appropriateness. The credibility and efficiency of the collaterals' liquidation process, if the latter is eventually required, is also of great importance. Greece has one of the lowest rates of debt recovery through collateral liquidation, which complicates the financial process and amplifies credit risk. Last, the large number of pending cases under the so-called "Katseli law" for the bankruptcy of individuals, despite efforts to expedite court proceedings, is neither consistent with the creation of a normal payment culture, nor does it help deal with the phenomenon of strategic defaulters.

The organization and active management of the properties that have come into the possession of banks and the State has improved in the last few years. Strengthening further this framework can be done through digitization, consolidation of auction infrastructures, a launch of corresponding structures by the NPL servicing companies, a functional real estate register and a further streamlining of the related taxation framework. Such improvements are expected to enhance transparency, the number of transactions and the overall market liquidity. Moreover, these improvements will have multiple positive effects on banking activity, will increase the recovery value from the liquidation of collaterals and bolster credit expansion.

Proposal A.6: Establish an investor advisory committee for the provision of information to potential investors in the context of the Recovery and Resilience Facility (RRF), probably under the executive guidance of the Hellenic Bank Association. The said committee could serve as an information hub tasked with providing full and wide-ranging information to businesses, thus supplementing the already rapid response by banks on this front; since banks, up to now, primarily target their own customers or firms with whom they already have a loan relationship. At the same time, the advisor committee can also help aspiring investors create eligible business plans.

A long-standing weakness of Greek SMEs is their difficulty in preparing investment plans to raise funding. This often reflects their lack of experience and insufficient information. A recent survey by National Bank of Greece on the RRF highlighted a combination of both i) a strong desire by SMEs to participate in investment plans, and ii) a difficulty in formulating plans that meet RRF specifications.[43] An expanded advisory role for

[42] Ministry of Finance, Special Secretariat for Private Debt Management, "7th Progress Report on the problem of private debt" (in Greek), May 2022.
[43] National Bank of Greece, Economic Analysis Department, Semi-Annual SME Survey of Greek SMEs: "SMEs in the Recovery Fund" (in Greek), H2 2021, February 2022.

banks could close part of this gap (which could also involve referring the companies concerned to the assistance of specialized consulting firms, if required). Banks can play a key role in the preparation of sustainable investment proposals by SMEs. To this end, they have already been swift to inform and mobilize businesses in the drive to leverage RRF resources.

Proposal A.7: Accelerate and integrate measures and initiatives that have been set in motion for the faster delivery of justice in the country, drawing on RRF resources.

Quality, independence and efficiency are among the most important determinants of a competitive and judicial system. An efficient judicial system is, in turn, a prerequisite for creating an investment-friendly environment, inspiring credibility, and reducing the uncertainty surrounding business and financial decisions. It is essential for the protection of individual rights as well as of property rights over tangible and intangible assets and, above all, social rights, as well as, for promoting the fight against corruption.

In recent years, the judiciary system has gained unprecedented significance in the smooth functioning of the financial system. It is burdened with a huge number of cases, such as the protection of borrowers and the application of insolvency law in general. The burden is expected to remain high despite efforts to strengthen the potential for out-of-court settlements. Delays in the administration of justice continues to have today a negative impact on the investment appeal of the country. The delay of justice is a problem identified by many international competitiveness surveys even before the workload of cases grew larger in recent years (World Bank, Doing Business surveys).

Numerous and important studies by leading authors on the justice system have described the background and the conditions for the delays and have formulated important proposals by analyzing in depth the function and challenges faced by the judicial system. They highlight the kind of reforms that need to be made and the areas that should be targeted to enhance efficiency and quality in the administration of justice; but they also highlight the hurdles that lie in the way. Without those reforms, an ineffective and slow judicial system, even if it is independent, could adversely affect social and business conditions and economic growth, in general.[44]

Recall that the faster delivery of justice was among the requirements of the economic support programs of the past decade and remains so to this day (May 2022), within the framework of enhanced supervision and the subsequent post-Program monitoring framework that continues to govern our EU obligations. Despite significant progress, this goal was not fully realized.[45] More specifically:

- By virtue of Law 4700/2020 enacted in June 2020, special departments were set up for the faster adjudication of cases of investment interest. With the approval of the plenary session of the Supreme Court, specialized judges will accelerate adjudication of cases concerning competition, telecommunications, energy, and personal data.

- The reform of the Code for the Organization of Courts and the Status of Judicial Officers (KODKDL) that began in early 2017 is still pending (as of May 2022). The new Code introduces important innovations in the organization and operation of the courts, while reforming the system of carrying out reviews of judges. Following

[44] diaNEOsis, "Justice in Greece: Proposals for a modern judicial system" (in Greek), February 2019.
[45] See: a) European Commission, 2021 Rule of Law Report, "Country Chapter on the rule of law situation in Greece", July 2021, b) European Commission, "13th Enhanced Surveillance Report on Greece", Institutional Paper 170, February 2022.

submission of the relevant bill to the Council of Ministers in early March 2022, further elaboration is expected after consultation with the country's judicial associations. The reformed Code aims at eliminating system dysfunctionalities that lead to significant delays in the administration of justice and limit its effectiveness.

- The operation of the Office for the Collection and Processing of Judicial Statistics (JustStat), which was set up in the auspices of the Ministry of Justice at the end of 2020, requires the introduction of additional legislation that is forthcoming.

- As regards speeding up the pace of digitization in the justice system, progress has been made in specific areas thanks to an overhaul of the old IT systems.[46] However, the roll-out of electronic filing of lawsuits remains to be completed and fully implemented in all courts, while the new system of electronic registration of lawsuits needs to be extended to other courts.

- There is a need to revise the judicial charter according to the relevant European standards. In other words, there is need to prepare the ground for a rationalized and efficiently functioning judiciary through restructuring and redesign of existing courts and judicial services.[47]

- In implementation of the proposals of the "Pissarides Report," the Code of Judicial Employees who assist judicial officers and who would be able to assist in the more timely delivery of justice, was approved in April 2021 and introduced in September 2021. However, some of the provisions of the new Code have yet to be fully implemented.

- The recent introduction of "pilot trial" procedure in civil justice, following the successful implementation of a similar process in administrative justice, should help speed up the delivery of justice. This particular litigation concerns the possibility for both the parties (accuser and defendant) and the courts to request, either by means of a formal request or a preliminary ruling, respectively, from a three-member committee of the Supreme Court to introduce for hearing in the plenary session of the Supreme Court any legal remedy or instrument that poses a new difficult interpretative legal matter of general interest that has consequences for a wider circle of persons. After the resolution of the issue, the plenary session of the Supreme Court refers the legal instrument or remedy to the competent court in order to complete the trial of the case. In this way, a reference point is created in the administration of justice and the sense of legal certainty is strengthened, contradictory decisions are avoided, and issues which by their nature give rise to a significant number of lawsuits, and the perpetuation of cases before the competent courts, are effectively dealt with.

More generally, a look at the data on EU countries compiled by the European Commission for the Efficiency of Justice (CEPEJ) of the Council of Europe[48] sheds light on key aspects of the features, developments and broader challenges facing the Greek judicial system. The data also shed additional light on the low performance of the system in terms of efficiency, notwithstanding the progress made in recent years. For example, the estimated time needed for the judicial settlement of civil and commercial cases, even in the first

[46] Electronic issuance of court certificates, electronic insolvency register, upgrade of the electronic auction platform, electronic filing of lawsuits.
[47] diaNEOsis, "Reform in Three Critical Sectors of the Judicial System" (in Greek), January 2021.
[48] European Commission for the Efficiency of Justice (CEPEJ) of the Council of Europe, "European judicial systems – CEPEJ Evaluation report – 2020 Evaluation cycle".

instance, was still in 2019 (latest available data) in Greece 600 days, roughly three times the EU average.

It should be emphasized here that the decade-long economic crisis and the unprecedented pressure on the economic and social environment have exacerbated the number of court cases and to some extent have overshadowed the progress that has certainly been made and which is reflected in other indicators. It is worth noting that the estimated time required for the judicial settlement of administrative cases in the first instance (prior to possible appeal) has decreased over the past ten years by more than 50% to about two years, which is not far off the EU average. The same is true of the number of pending civil and commercial cases of disputed jurisdiction per 100 inhabitants, which decreased by about 30% – the fastest rate of improvement among EU countries – though it remains well above the EU average.

The area where Greece seems to lag far behind most EU countries is in the availability and promotion of effective alternative dispute resolution methods in civil, commercial and consumer disputes as well as in labor and administrative disputes. (This finding does not consider the impact of the recent operation of the out-of-court mechanism provided for in the latest insolvency code). This absence of alternative mechanisms places an even greater burden on the courts and undermines their effectiveness. The design and appropriate support, through IT systems and other means and staffing, for such additional broad dispute resolution mechanisms would significantly improve the efficiency of the judicial system.

Moreover, even though the number of judges and lawyers per 100 inhabitants in Greece exceeds the EU average and total government spending on the justice system as a percentage of GDP (due in part to the prolonged recession) is not far off the EU average, the per capita expenditure and the expenditure per legal case lag far behind EU average. Most importantly, more than 90% of the relevant government spending in Greece – the highest rate in the EU – concerns personnel salaries and other staffing costs while expenditure on infrastructure, operational support, software, and ancillary services is very limited. (By way of comparison, this latter kind of expenditure amounts to circa 30% of total public expenditure on the judicial system in most European countries). In the most advanced European countries, fixed and variable expenditures for digital services and related infrastructure to support the justice system (e.g., teleconferencing, digitization of documents and other material, use of blockchain technologies, artificial intelligence, electronic allocation of cases on the basis of algorithms, evaluation of judicial personnel) comprise a substantial percentage of such costs, with the total amount of spending also including more conventional cost elements such as rental costs for buildings and other costs for ancillary services.

In order to close the remaining gap from the euro area average in the delivery of justice (World Bank, Doing Business 2020), Greece needs to put much more effort and support in human resources, physical infrastructure, financial education, and digital transformation. Also, regarding the timely adjudication and resolution of important cases of an economic and business nature with a potentially significant impact on the reputation and credibility of the economy and the overall financial environment, additional effort is required: There is need for the creation of specialized courts staffed by specially trained judges with the assistance of specialized consultants whenever required.

It is important that the relevant actions, and even more ambitious ones, be successfully included in initiatives financed by the Recovery and Resilience Facility. If possible, they should be combined with the aforesaid plans for enhancing and systematizing information on the economic status of individuals and legal entities.

The National Recovery and Resilience Plan already includes several projects and reforms aimed at strengthening infrastructures and digital transformation – including the digitization of records and court documentation as well as the introduction in Greece of e-trials – with a total budget of around €300 million. The gap separating Greece from the more advanced EU countries is significant and it is essential that even greater synergies are sought with the wider scope of RRF-funded digital transformation measures in the government sector, with tax and regulatory authorities being able to provide valuable data specifically on economic matters. The RRF provides a unique opportunity to enhance infrastructures and interoperability with enormous potential benefits for the efficiency and underpinning of the judiciary.

A well-staffed, well-trained, and technologically savvy judiciary with access to powerful IT systems and specialized assistance, can be a powerful multiplier for the country's financial development and for its attractiveness as an investment destination.

Proposal A.8: Place greater emphasis on training in finance of both judges and the wider population of legal professionals.

On the issue of training of legal professionals, much can be done. One groundbreaking proposal is to include courses in economics and finance in the curriculum of all law schools, and to cover the equivalent of at least one semester in the subject (i.e., 1/8 of the law school's degree curriculum). Another proposal is to enrich the curriculum of the National School of the Judiciary with more courses in finance.[49]

The demand by legal professionals for knowledge in the areas of economics and finance is high. This is evident from the creation of new postgraduate programs combining law and economics. For example, the Departments of Economics, Business Administration, and International and European Studies of the School of Economics, Business and International Studies of the University of Piraeus have set up and currently run an interdisciplinary postgraduate program on law and economics, [50] having responded to the needs of today's social and economic reality, where law and economics coexist and complement each other. Similarly, the postgraduate programs on "European Law and Economics" and "Economics and Law in the Energy Markets" run by the Athens University of Economics and Business[51] combine interdisciplinary training, providing basic economic and legal knowledge regarding the workings of the business environment within a global environment, and matters of business planning within the European Union.

Proposal A.9: Prepare a framework of rules for the establishment of an Asset Management Company ("AMC" or "bad bank," as it is more commonly known), which could be launched into action if the need were to arise.

---

[49] The current studies program of the National School of the Judiciary includes three course orientations with finance and accounting components: 1) administration: 1a) economics and accounting, 1b) tax, customs and fiscal law, 2) political & criminal issues and Justice of the Peace: 2a) audit & accounting issues, 2b) insolvency & bankruptcy law, and resolution, and 3) public prosecution: 3a) banking law issues of practical orientation.

[50] https://mle.unipi.gr/

[51] https://www.dept.aueb.gr/el/inteu/european-law-economics, https://www.dept.aueb.gr/el/lawecon

The debate over the creation of a so-called "bad bank" was intense in the past but has since subsided, mainly because banks have embarked on a process of drastic reduction of their non-performing exposures with successful securitizations, backed by Greek government guarantees under the Hercules-I and Hercules-II schemes.[52] Discussion has also waned because the drive for banking union in Europe has brought to the fore new European legislation designed to protect depositors in the event of a bank becoming insolvent and – since the beginning of 2016 – the activation of the Single Resolution Mechanism (SRM).[53]

Nevertheless, consolidating, in a pre-emptive manner, the potential framework of a functioning bad bank that is compatible with European legislation would still be useful in the event of the reappearance of cases of systemic banking risk; in other words, when not just a single bank but several systemically important banks and other financial or investment institutions face insolvency problems simultaneously due to both endogenous and exogenous factors. The painful experiences in previous years suggest that systemic risks can easily turn into a major economic crisis. The recent Covid-19 pandemic once again demonstrated the threats posed by unanticipated and extreme events. The pandemic problem was overcome due to decisive state support besides the transitory nature of the shock.[54]

4.2. Assisting companies with the provision of share capital

The previous section dealt with the conditions and factors that will enable financial deepening of the economy and boost the number of companies that both *want and are able to* tap the capital market to raise funds or seek alternative non-banking sources of financing. This section sets out several additional and multi-layered interventions in the stock market and at the company level. The proposed interventions are the following:

Proposal B.1: Expand the range of enterprises that are obliged to implement best practice corporate governance rules. This would be in addition to the companies already listed on the ATHEX, which must follow the provisions of Law 4706/2020. Companies that are classified as medium and large should systematically invest in:

- Adequate internal control systems, which assess the vulnerabilities of the company and the potential risks of derailment or abuse.

---

[52] Ministry of Finance, Hercules Program – Questions and Answers (in Greek), Law 4649/2019 on Hercules-I, and Law 4818/2021 on Hercules-II.

[53] In 2014, Law 4261/2014 was passed, which incorporated the provisions of Directive 2013/36/EU (Capital Requirements Directive – CRD IV) and included all articles on the reform of monetary financial institutions. In 2015, Law 4335/2015 incorporated Directive 2014/59/EU (Bank Recovery and Resolution Directive – BRRD), which sets out the framework for the consolidation of European Union credit institutions.

[54] In the recent pandemic, volatility in markets and economies increased and great uncertainty prevailed. In response, the European Commission brought the case of AMCs to the foreground by means of the 2020 NPL Action Plan (Communication to the European Parliament, the Council, and the European Central Bank: "Tackling non-performing loans in the aftermath of the COVID-19 pandemic", European Commission, 2020). Also, the Bank of Greece (2020) has submitted a respective proposal for the establishment of an AMC at national level (in Greek).

- Development of a code of ethics that governs the behavior and decisions of management and employees.

- Development of a well-defined and comprehensive internal regulatory framework, with an appropriate structure and hierarchy of approval authority, which promotes transparency, security, and cooperation.

- Boards of directors, which are enriched with independent members with experience and strong reputation, who can supervise, strengthen and enrich the decision-making process.

Good corporate governance improves the terms and prospects of financing a business, enhancing transparency, accountability, and reliability. It also strengthens its effectiveness and reputation and consolidates security for its shareholders, creditors, and business parties.

The new Law 4706/2020 on corporate governance incorporates many of the aforesaid elements and is already binding on listed companies. Inevitably, it is not easy to find a golden mean between, on the one hand, the additional management costs and burden that such changes require and, on the other, keeping a necessary degree of practicality, functionality and discretion leeway. This difficulty can lead to idleness. And experience shows that many essential changes are not made, or remain shelved, when left to the discretion of companies.

Law 4706/2020 seeks to deal with this reluctance, but its application is limited to listed companies. It is imperative, however, that the range of companies that apply sound corporate governance principles be extended beyond the perimeter of listed companies. This expansion could be done with the application of specific individual features, adapted to the needs and capabilities of smaller companies.

Proposal B.2: Focus on a policy that bolsters business growth and facilitates mergers and acquisitions. The following factors will help in this effort:

- Moving further towards a simpler, fairer, neutral, and competitive tax system aiming at an attractive and effectively balanced tax structure, which does not foster and perpetuate fragmented, informal, and non-competitive entrepreneurship that lacks transparency and official corporate form. This improvement would diminish the tendency for “informality”-driven tax avoidance as well as tax evasion through the concealment of taxable income and wealth.

- An ambitious tax incentives system, tailored to today’s needs, bolstering investment expenditures, by providing tax breaks (e.g. increased depreciation rates) for investments that boost productivity and extroversion, as well as, for costs and related expenditures arising from mergers and acquisitions, in order to contribute to the viability and profitability of new important business initiatives and transformations.

- Structure the criteria appropriately applying to the provision of guarantee-schemes, access to financing from the RRF as well as any settlement of debts to the State (e.g., rebates and other tax and social security contribution breaks) that reward business actions such as new productive investments and M&A activity that increase the likelihood of servicing private debt in the long run.[55]

- Adjustment of banks' credit criteria in such a way that they have the necessary flexibility, forward-looking character and the supervisory approval to swiftly take into consideration a positive change in the credit profile of a company or potential improvements in the creditworthiness of new corporate configurations that result from viable mergers or acquisitions.

- Incentives (standardization, reduced management costs, faster evaluation, simplification of the IPO process) that facilitate access to the capital market by companies that grow or merge.

- Strengthening of the perception in family businesses that the asset that has been created (i.e., the enterprise) can be better retained and developed in the future if the value of multi-stakeholder involvement and specialized management were realized.

- Greater interconnection and promotion of wider partnerships among business players and the academic community. Greek entrepreneurship is marked by a general lack of cooperation, which is particularly evident in the field of business cooperation with universities and research centers.

Today, international trends point to accelerated business restructuring and M&A activity, spurred on by the pandemic (PwC, 2021).[56] The most competitive companies, with the greatest degree of adaptability, specialized staff, and appropriate infrastructures (especially digital), export orientation and expanded sales or services networks, are the ones that have shown the greatest resilience in the crisis and increased their distance from their competitors. In addition, in recent years the provision of services that deliver digital advantages, automated inventory management, online transactions, and even full digital transition of key business operations to the "cloud" through standardized packages are offered by IT and Telecommunication companies, banks and global e-commerce giants.

---

[55] Regarding business plans that are eligible for RRF funding, the RRF already places a special emphasis on the pillar "development of economies of scale through partnerships, acquisitions and mergers," setting out specific conditions for the nature of the merger or acquisition, the participating companies, and the final outcome, alongside significant tax benefits. Additional incentives include the amortization of part of the acquisition cost, income tax breaks on capital gains from the transfer of assets to a third party after the merger, as well as the possibility of transferring losses to loss-making companies.

The nature of the incentives and the criteria applied have been seen as more attractive for medium and large enterprises that seek to boost their efficiency, size and competitiveness. However, they also serve as a benchmark for the design of appropriate policies across the whole range of companies, and for the implementation of similar measures through investment legislation or even through the Multiannual Financial Framework.

In addition, in the case of micro-enterprises such as sole proprietorships, the terms of the RRF loans provide that in the event that they are transformed into a larger business entity or other form of company, or two or more sole proprietorships are merged in order to create another legal entity, the new enterprise can be exempted from paying income tax on pre-tax profits at a rate of 30%, provided that certain conditions are met, including the keeping of double-entry accounts by the new entity. This provision encourages business transformation and the transition to corporate configurations that likely enjoy better funding prospects.

[56] PricewaterhouseCoopers (PwC), Acquisitions and Mergers in Greece 2020, February 2021.

We note also that utilization of the newly established RRF, with its clear orientation towards strategic investments, is better leveraged by the existence of large companies. In addition, fertile ground is being created for corporate restructuring and the transition to healthier and more competitive business schemes by effective management of NPLs, which is now entering its final phase.

Proposal B.3: ATHEX upgrade policy (I). There is ample room for improvement in this area. The Pissarides Committee has already stressed the need to abolish the 1% tax on capital raised through the ATHEX and, in general, for more favorable tax treatment of listed companies for at least five years, and even for favorable tax treatment of households investing in the ATHEX, such as already exists in countries such as France, the UK or Italy.[57]

The Committee of Experts of the Ministry of Finance proposed a series of similar measures, such as facilities and subsidies for entry into the ATHEX, consolidation of stock and bond markets in both trading and clearing operations, and the creation of Listed Funds with co-investment by EU funds and/or participation of the HDBI, Equifund and so on and institutional (e.g., EBRD)/private investors, which, by means of being listed on the Stock Exchange, will be able to raise funds.

All the above measures are steps in the right direction. However, most of them need to be implemented quickly and in tandem if they were to become “game changers” for the life of the Greek capital market.

Proposal B.4: ATHEX upgrade policy (II). An important policy is to encourage a more direct connection of the ATHEX with employees and their savings by setting up an individual pension account or “piggy bank” for every newcomer to the labor market, as is the case in most developed countries.[58] The individual savings account could include placements in financial securities of domestic or foreign corporations in such a way as to mitigate risk effectively, while it can be combined with tax incentives for such retail investors.[59]

This policy also concerns the pension system and is urgently needed. On 1 January 2022, the new auxiliary pension system was launched with the establishment of the publicly controlled Auxiliary Pensions Defined Contributions Fund (TEKA), which concerns new entrants into the labor market if they are employed in a sector for which auxiliary insurance is mandatory.[60] With the right incentives, part of these funds can be channeled to the ATHEX and support the domestic pensions sector. The “piggy bank” will also help increase domestic savings over the course of the employees’ lifetime.

It is vital that these savings be legally protected from the possibility of any future attempt to change their use, change the system architecture, or redistribution of the reserves amassed though legislative amendments under the pretext of important national interest or emergent needs of the State. In addition, the precise framework for the

---

[57] Today, only four European countries (Greece, Spain, Poland, and Portugal) still have a Capital Accumulation Tax (CAP), versus seven countries in 2007. The abolition of CAP should reduce the cost of share capital raising operations via regulated markets, bringing national tax legislation into line with the European Directive (IOBE, July 2021).

[58] The creation of a “piggy bank” was proposed as far back as 2001, but the idea never flourished in the past. See: Hardouvelis, *Oikonimikos Tachydromos* (in Greek), January 2001.

[59] See the IOBE study (in Greek), “Impact assessment of proposals regarding development of the capital market in Greece”, July 2021, pp. 14-17.

[60] Ministry of Labor, Press Releases, “The new Hellenic Auxiliary Pensions Defined Contributions Fund (TEKA) has been launched” (in Greek), January 2022.

professional management of these reserves based on international best practices should be set out with clarity, accuracy and accountability.

The strengthening of the institution of occupational pension funds (or Institutions for Occupational Retirement Provision (IORP)) could contribute to the upgrade of the ATHEX. By changing the institutional framework and providing incentives, such funds could boost the current low levels of savings, contribute to the financing of the economy, and prove beneficial to those insured. A recent IOBE study[61] estimates that if participation in such types of pension funds were to converge closer to the European average, then in about twenty years' time occupational pension funds would manage funds worth up to circa €27 billion (vs. €1.85 billion today), contributing €1 billion to real GDP on an annual basis. Also, the long-term annual GDP level increase could exceed €2.7 billion in real terms.

Proposal B.5: ATHEX technology upgrade policy (III). Digitization, harmonization, and reliability are integral elements of the international environment and are usually synonymous with the participation of major players who lead global developments, and drive expanding partnerships and trends towards consolidation. A growth strategy for the Greek capital market, designed to enhance its competitiveness and put it on the "radar" of different categories of international investors, could include the following:

- Technology upgrades and harmonization (focusing on trading, clearing and settlement systems) in line with the most widely applied global standards and prevailing trends, as reflected in the new European architecture. ATHEX also needs to gear up to respond to a more decentralized operating architecture with partnerships, synergies, and technology compatibility with other markets, together with an infrastructure that can respond to different activities and financial products.

- Reliable databases, containing business registers and company data in line with standardized principles. Such databases will draw on information from mechanisms analyzed in the previous sections and should be agreed at EU level so that they are accessible to both analysts and investors.

- Negotiation with European institutions for permanent suspension (from June 2020) of the separate charge for investment research ("unbundling") (Oliver Wyman, 2017),[62] to encourage quality production and dissemination of information and investment research and analysis regarding companies and especially SMEs.

- Further upgrade and adaptation, to evolving market needs of the digital standardization framework, and the process for carrying out IPOs and preparing prospectuses and other information bulletins (relevant regulatory rulings have already been issued in the past two years by the HCMC to this end), in order to become more attractive and useful for institutional investors while also providing sufficient information for individual investors.

- Inclusion of the above initiatives and related expenditures into funding pillars of the RRF as they constitute structural changes, *de facto* having "digital content" and aim at economic resilience and growth. It is worth noting that significant progress has already been made in this direction as well, but we need to remain vigilant about

[61] IOBE, "Occupational pensions in Greece: Challenges and prospects", February 2022.
[62] Oliver Wyman, Research Unbundling: "Revealing quality and forcing choices", September 2017.

planning and funding, and additional measures that may be required in the light of evolving needs, trends, and global competition.

In addition, digitalization policy of the regulated stock market could be enriched with specialized cutting-edge features and functions or investment options such as already exist in other national capital markets, even in economies that are smaller than the Greek economy. By way of examples, we note:

- Extensive use of electronic corporate bonds, with standardized features and lower management costs, accessible to smaller businesses.

- Use of so-called “smart contracts” that correspond to digital transaction protocols that automatically execute, control and/or document legally related events and actions under the terms of a specific contract or agreement. This can significantly reduce fraud-based losses and enforcement costs and mitigate the need for intermediaries.

- Use of blockchain technology (i.e., decentralized databases managed by various participants), which offers transparency in transactions and significantly reduces the risk of hacking, while also offering compatibility with other platforms for future partnerships or mergers. Notably, the Australian Stock Exchange (ASX) and NASDAQ have been pioneers in the use of this technology.

- Use of Digital Ledger Technology (DLT). DLT enables, on a simultaneous basis, fail-safe access, validation and updating of documents in a network.

- Regarding raising funds, security tokens (STOs) have become particularly popular in recent years on an international scale. Their main advantages are that they reduce costs, are usually cheaper (than, for example, IPOs), and can be negotiated at any time.

Proposal B.6: Create the right conditions for further upgrade of the human resources on which the entire financial ecosystem is based. Enhance training and certification structures, attract specialized executives to the supervisory mechanisms and independent authorities with attractive remuneration schemes, provide salary-based and other incentives and procedures for promotion and organic advancement of executives to ensure quality, expertise, and organizational continuity.

In general, continuous investment in and fostering of financial literacy, by leveraging funds from European programs for all players in the financial arena, and of course for investors, via different channels, bodies, and methods (e.g., educational system, seminars, information materials, and so on), could generate significant benefits. It could lead to rational investment decisions and the undertaking of well-calculated risk by investors – especially individual investors – mobilizing, among other things, otherwise latent liquidity, while also acting as a means for upgrading the overall market through the response of institutions, authorities, and businesses to the requirements of a much larger population of better informed and demanding investors with substantial funds to invest. What is more, upgrading human resources would have a beneficial knock-on effect on enhancing the ability to evaluate innovative projects, expanding, and promoting the overall ability to plan and integrate structural changes and innovation.

4.3. European Capital Markets Union

In recent years, significant efforts have been made to accelerate the integration of European capital markets by removing cross-border barriers to investment within the EU, with a view to creating a strong and efficient European capital market with greater depth and liquidity, capable of financing businesses on competitive terms and attracting a wider range of investors. In June 2020, the European Commission published a report setting out detailed proposals and priorities aimed at accelerating developments (European Commission, 2020, A new Vision for Europe's capital markets).

A key finding of this report is that European capital markets are for the most part too small and fragmented to offer an attractive risk/return reward for domestic and international investors.[63] The problem is even more acute when it comes to financing SMEs, and in particular enterprises operating mainly in regional markets. A second finding is that the upgrade of the institutional infrastructure and effective supervision of European capital markets at a central level, in alignment with the SSM for banks, will not be sufficient by itself to replace the need first and foremost for major national initiatives in the direction outlined in the previous section.

Proposal B.7: ATHEX needs to have a clear long-term strategy regarding growing global competition in attracting domestic and international capital. In the first phase, ATHEX should be timely prepared for possible link-up with the nascent European Capital Markets Union. This link-up would be more beneficial for ATHEX if it is based on a preceding and timely developed domestic background that is competitive from an institutional, technological, and administrative perspective. The link-up could be a multiplier for liquidity, innovation, competitiveness and, in general, sound financial development, lifting the Greek market out of a vicious cycle of introversion.

Preparing for such a link-up means exploiting synergies with the institutional, business and banking transformation that is currently underway. Many of the points mentioned in previous sections regarding enhanced transparency, quality of information, the application of ESG principles by companies, the transformation of the business model of the banks, or the technological and institutional upgrade of the capital market, are all directly related to effective response to the challenges ahead, and to the ability to take advantage of the opportunities offered by the deepening of the European Capital Markets Union.[64]

[63] A similar conclusion is reached by the Oxera study published in September 2020 for the account of the European Commission, "Primary and secondary equity markets in the EU".
[64] The link-up of ATHEX concerns not only ATHEX itself, but also the HCMC, the Finance Ministry and other bodies. Everyone has a part of the responsibility of keeping Greek savings in Greece and attracting additional foreign savings. In a free competitive global financial environment, savings, regardless of their country and source of origin, seek to secure reliable returns where the level of risk is reasonably transparent.

4.4. State participation in financing

The crisis caused by the Covid-19 pandemic highlighted the key role that well targeted state guarantee schemes can play in mitigating the financial risk, under certain conditions. The efficient cooperation between banks and the government helped 2020 become the year in which credit expansion to businesses reached its highest level since 2009,[65] preventing thousands of businesses from closing along with subsequent massive job losses, as well as a deep double-digit recession in the economy. This experience, as well as the final assessment of the impact that these guarantees have had will be instructive for the design of relevant policies. The said experience will help to establish some key principles that should govern the use of selective and strategic involvement of the government in the financing process through targeted credit risk sharing with a clear strategic goal and transparent standards of cooperation with the private sector.

Proposal C.1: Leveraging synergies between the Hellenic Development Bank (HDB) and the RRF to strengthen the financial and administrative/strategic impact of the former. It should be noted that the HDB[66] (successor to the Hellenic Fund for Entrepreneurship and Development, renamed in 2019) has sought over time (since it was established in 2003 as the Guarantee Fund for Small and Very Small Enterprises) to serve as a link in the credit cycle between SMEs and the banking sector, by undertaking that part of SME business risk that banks are not prepared to undertake.

The HDB has so far managed to channel lending resources to SMEs totaling some €15.2 billion, of which €6.1 billion are related to the Covid-19 Guarantee Fund set up in the midst of the crisis caused by the pandemic. Another €2.2 billion concern the business restart program, implemented through the Entrepreneurship Fund (TEPIX II), while €0.8 billion have been directed the home energy savings programs (I and II). The significant increase in the financing impact of the HDB over the past two years during the pandemic, when the availability of government guarantees increased and the relevant approvals by the European Commission were accelerated, is undeniable. The key challenge now is to consolidate the dynamic presence of the HDB in the years ahead with significant benefits for financing to SMEs, in tandem with a longer-term strategy and in harmony with the overall growth strategy as outlined in the Growth and Sustainability Program.

The intention to use part of this financing and especially the loans from the RRF for leverage of private investments, if an agreement is adopted and reached at EU level, significantly increases the funding strength of the HDB. It is important that strict and targeted criteria be adhered to throughout the process, and that a good cooperation with the banking sector is present. Some of the permanent functions of HDB's operation could be the following:

- To specialize and codify its financing strategy according to business sector, type of business, the nature and type of investment (e.g., in exporting or strategic sectors, start-ups, technology-intensive investments, investments that lead to the creation of clusters or that contribute to the success of mergers and restructurings).

---

[65] According to the latest available BoG data, the net flow of financing to non-financial corporations amounted to €6.7 billion in 2020 and €2.5 billion in 2021.
[66] Hellenic Development Bank: https://hdb.gr/

- To set out and codify the principles that govern the strategic targeting of the lending/guarantee programs of the HDB and the process for channeling the relevant funds.

- To maintain a close working relationship with the banking system and specialized rating agencies and, above all, with the Independent Credit Bureau to get sound estimates of the financing risk and to avoid loss-making competition with imperfect risk pricing.

- To adhere to transparent disinvestment principles both in the favorable scenario, when the loan facility supporting the business plan is successful and leads to sufficient capacity for market financing and a timely repayment of loans, as well as in the unfavorable scenario, when a loss must be recognized by the guarantor along with the potential fiscal impact.

- To ensure the operational independence of the HDB, enhancing the principles of corporate governance and effective supervision by an independent authority. The HDB must first and foremost ensure coordination in the management and planning of the financing programs implemented, in essence, by the banks. The international experience shows that these characteristics are prerequisites for success and can contribute to the successful leverage of the available funds.

4.5. Effective Supervision

In setting out potential directions for the redesign of the Greek supervisory system, the Pissarides Committee proposed, among other items, an architecture based on the following "twin-peaks" model: 1) solvency and prudential supervision of credit institutions and organizations, including banks and the rest of the financial sector, and 2) investor protection (conduct/consumer-protection regulation). The report also proposes that the Hellenic Capital Market Commission (HCMC) be properly strengthened so that it can shoulder the operation of the second pillar, i.e., investor protection.

The previously mentioned separation of supervisory system applies in many developed countries and is widely considered to be more effective in responding to the wide range of interrelated activities.[67] However, it is just one of the different types of supervision applied in European countries, each of which has its advantages but is also accompanied by corresponding challenges. Those challenges must be assessed according to the prevailing market needs.

[67] In Greece, these twin supervisory pillars currently correspond to the Bank of Greece and the HCMC, both of which exercise both prudential and corrective supervision in different areas of the financial system: the BoG on credit institutions and insurance companies; the HCMC on investment companies, managers of collective and alternative investment organizations, and the organizations themselves. Accordingly, if the Pissarides proposal were adopted in Greece, it would need to be done together with a transfer of responsibilities and personnel between the two respective authorities of the financial sector. Adopting the newer supervision model would undoubtedly involve difficulties, such as the high cost of staff transfer between the authorities, the possible need for a change in the legal status of the Capital Market Commission, and the acquisition of expertise by the executives of each authority.

Proposal C.2: Redesign the system of supervision in accordance with the proposals of the Pissarides Committee and, in particular, by strengthening the HCMC. Top priority areas for upgrading the HCMC include enhancing human resources, expanding technology and legal support, providing access to expert advisors, upgrading corporate governance and internal control, and consolidating, in practice, its absolute independence from potential pressures on the part of those being supervised as well as from administrative authorities.

There are several legislative and administrative initiatives, which are under way or are already being implemented and aim at supporting and strengthening the HCMC. Yet more is needed, particularly as regards the allocation of government resources (including the RRF) towards training, digital upgrade, and organizational restructuring. This way the Capital Market Commission can meet its diverse mission requirements, which are likely to increase further.

Another policy priority is the overall upgrade of structures for controlling solvency and prudential supervision across the market. It is noted that both in Greece and in the EU as a whole, the high degree of harmonization of rules and the intensity and rigor of prudential supervision, especially for systemically important banks, as exercised by the SSM in direct cooperation with national authorities (central banks), is an already strong pillar that ensures stability, comparability and reliability.

Regarding the non-banking sector, regulation and supervision are based on a legislative framework that follows uniform principles across the EU. These uniform principles, however, are not as binding, nor do they lead to the same degree of direct cooperation and central monitoring as the rules imposed by the SSM on banks. This relative laxity in the non-banking sector is due to the different backgrounds of application of the principles in the various countries. In other words, many factors play a part in the effective exercise of supervision in each country: the national characteristics and the specifics of the business and institutional framework, the characteristics of the supervisory framework or the supervised entities themselves, as well as other independent and public authorities and institutions like the judicial system.

In practice, an asymmetry arises between the increased requirements to which banks are subjected due to their upgraded and complex supervisory framework, and the weaknesses or differences – especially in terms of transparency, standardization of comparability, and adequate information – of the rest of the regulatory and administrative environments in which businesses operate. The asymmetry can be remedied by an overall symmetrical upgrade of the solvency control and prudential supervision architectures across the market as a whole, and not by pursuing regulatory discounts or "flexibility" vis-à-vis the already upgraded banking sector supervision.

At the same time, the growing role of the shadow banking sector, as well as entities carrying out quasi-banking activities, will probably soon lead to an expansion of the scope of supervision. This is likely to be done either centrally by enriching the supervision exercised by the SSM or initially locally, through the Bank of Greece. Opening the regulatory umbrella will alleviate some of the asymmetries that have begun to form between systemic banks and other intermediaries, which have so far escaped the supervisory radar.

The creation, however, of a common supervisory umbrella that includes banks, the rest of the financial sector and the capital market may prove to be dysfunctional due to excessive complexity and cost. The decisions on the future structure of the supervisory framework must have a strategic dimension and consider both the current conditions and the specificities of the Greek economy, as well as future trends, needs and goals of economic transformation in parallel with global and European developments. The strengthening of the HCMC and the initiatives undertaken to upgrade it and prepare it to take part, from an enhanced and competitive position, in jointly shaping the trends emerging in the euro area, are of paramount importance.

Regarding the rest of the financial system, there is considerable scope for strengthening the HCMC so as to take on an increasingly demanding supervisory role. This development is imperative considering the needs of the economy as well as developments at EU level. Global trends and the creation of the European Capital Markets Union are giving momentum to strengthening the supervisory role of the European Securities and Markets Authority (ESMA) in line with the deepening of the respective structures for the European Banking Union of the past decade, with the establishment of the SSM and the SRM in 2014 and 2016, respectively.

In line with the trends described above and the growing demands created by the acceleration of developments towards a European Capital Markets Union, the HCMC must be supported immediately and ahead of time, so that it is able to exercise much more effective preventive and repressive supervision. Its future development will most likely aim at functioning, in the near or distant future, as an arm of the upgraded ESMA within a Single Market with high standards and in need of full harmonization and standardization.

If the path of deepening the existing supervisory architecture with the inclusion of areas supervised imperfectly under the existing pillars is chosen, the next step would be to ensure closer cooperation between the banking and supervisory structures of the rest of the financial system in the context of a more preventive system that ensures the efficient, coordinated, and reliable operation of the entire financial market. The aim, then, is to create two stable and more evenly balanced poles of the system – supervision of (mainly) credit institutions, and supervision of the capital market – to reach a maximum degree of harmonization with the requirements of the European financial architecture, thereby making the Greek market an integral part of the next cycle of European integration, with significant benefits for financing, and internationalization of Greek firms.

5. Epilogue

This study set out the main challenges facing the Greek financial system, highlighted priority areas for reforms, and presented specific proposals for immediate action. Given the multi-year economic crisis of the 2010s, and in the aftermath of the pandemic and war in Ukraine thereafter, there is a sense of urgency.

The improved financial intermediation requires an ambitious and holistic endeavor, with coordinated interventions that refer to the wider structure of the economy and include, *inter alia*, a wide range of institutions, governance, supervision, transaction technologies, human resources, and cooperation with European institutions. The study sets out a substantial number of proposals aimed at a more symmetrical development of banking activity and the capital market, in order to accelerate the flow of lending and equity financing to the private sector by enhancing credibility, mobilizing domestic savings, and attracting international funds.

To sum up, regarding the goal of facilitating more lending, the following proposals are made:

1) Set up an Independent Credit Rating Authority ("Independent Credit Bureau").

2) Create a comprehensive digital real estate register.

3) Ensure a more complete accounting picture of the actual financial status of companies by strengthening supervision and control structures involving, *inter alia*, the activation of ELTE.

4) Expand the use of external auditors to a wider range of companies beyond listed ones.

5) Support an effective implementation of out of court settlements and the bankruptcy process.

6) Establish an advisory committee tasked with providing information, consulting, and technical assistance to potential investors via RRF.

7) Continue the reforms aiming to enhance the efficiency and speed of the judicial system.

8) Place greater emphasis on specialized training in finance for judges as well as for legal professionals charged with cases/tasks with a financial content.

9) Prepare the ground for the possible future creation of an asset management company ("bad bank") at a national or supranational level.

With respect to facilitating businesses to use equity capital, we make the following proposals:

1) Expand the perimeter of companies that are obliged to apply sound corporate governance.

2) Encourage businesses to pursue policies that aim at scaling-up their size.

3) Provide incentives to enhance the attractiveness of ATHEX.

4) Leverage pensions/savings pillar so as to expand the investment base of the Stock Exchange.

5) Support the technology upgrade of ATHEX.

6) Upgrade human resources at ATHEX and in the wider financial sector.

7) Prepare the ground for link-up of Greece with the emerging European Capital Markets Union and clarify ATHEX strategy vis-à-vis partnerships with other stock exchanges.

Regarding the State participation in funding and supervision, we make the following proposals:

1) Leverage synergies between the Hellenic Development Bank and the Recovery and Resilience Facility.

2) Redesign the supervision architecture for the financial system along the lines set out in the “Pissarides Report” and strengthen the Hellenic Capital Market Commission.

Bibliographical references in English

Athens Stock Exchange (ATHEX), official website, Monthly Statistical Bulletin. https://www.athexgroup.gr/web/guest/info-markets-activity-publications-monthly-securities

Central Bank of Italy: Central Credit Register (CR).

https://www.bancaditalia.it/statistiche/raccolta-dati/centrale-rischi/index.html?com.dotmarketing.htmlpage.language=1&?dotcache=refresh

European Banking Authority, ”Final report draft Implementing Technical Standards (ITS) on prudential disclosures on ESG risks in accordance with Article 449a CRR”, January 2022.

https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Draft%20Technical%20Standards/2022/1026171/EBA%20draft%20ITS%20on%20Pillar%203%20disclosures%20on%20ESG%20risks.pdf

European Central Bank, ECB Statistical Data Warehouse, “Composite cost of borrowing indicator for non-financial corporations”, March 2022. https://sdw.ecb.europa.eu/reports.do?node=1000004935

European Central Bank, “ECB Survey on the Access to Finance of Enterprises in the euro area” (SAFE), November 2021. https://www.ecb.europa.eu/stats/accesstofinancesofenterprises/pdf/ecb.safe202111~0380b0c0a2.el.pdf

European Commission, "A new Vision for Europe's capital markets", Final Report of the High Level Forum on the Capital Markets Union, June 2020.

https://ec.europa.eu/info/sites/default/files/business_economy_euro/growth_and_investment/documents/200610-cmu-high-level-forum-final-report_en.pdf

European Commission, Communication from the Commission to the European Parliament, the Council and the ECB: “Tackling non-performing loans in the aftermath of the COVID-19 pandemic”, COM(2020) 822 final, December 2020.

https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0822&from=EN

European Commission for the Efficiency of Justice (CEPEJ) of the Council of Europe, “European judicial systems – CEPEJ Evaluation report – 2020 Evaluation cycle”,

https://rm.coe.int/rapport-evaluation-partie-1-francais/16809fc058

European Commission, “Greece - SME Fact Sheet 2021”, June 2021. https://ec.europa.eu/docsroom/documents/46077/attachments/1/translations/en/renditions/native

European Commission, 2021 Rule of Law Report, "Country Chapter on the rule of law situation in Greece", July 2021.

https://ec.europa.eu/info/sites/default/files/2021_rolr_country_chapter_greece_en.pdf

https://ec.europa.eu/info/sites/default/files/business_economy_euro/growth_and_investment/documents/200610-cmu-high-level-forum-final-report_en.pdf

European Commission, ”13th Enhanced Surveillance Report on Greece”, Institutional Paper 170, February 2022.

https://ec.europa.eu/info/sites/default/files/economy-finance/ip170_1_en.pdf

Foundation for Economic and Industrial Research (IOBE), “Occupational insurance in Greece: Challenges and prospects”, February 2022.

http://iobe.gr/docs/research/en/RES_03_03022022_PRE_ENG..pdf

Press release available at: http://iobe.gr/docs/research/en/PRS_03022022_RLS_ENG.pdf

Global Entrepreneurship Observatory, “Global Entrepreneurship Monitor (GEM), 2021/2022 Global Report, Opportunity Amid Disruption”, February 2022. https://gemconsortium.org/file/open?fileId=50900

Haliassos, Michael, Gikas Hardouvelis, Margarita Tsoutsoura and Dimitri Vayanos, " Financial Development and the Credit Cycle in Greece," pp. 251-305 in *Beyond Austerity: Reforming the Greek Economy*, Costas Meghir, Christopher Pissarides, Dimitri Vayanos and Nikos Vettas edt., 2017, MIT Press, ISBN 978-0-262-03583-5. https://doi.org/10.7551/mitpress/9780262035835.003.0007

Hellenic Capital Market Commission, official website, “Mission and Duties”. http://www.hcmc.gr/el_GR/web/portal/duties

Hellenic Court of Audit, “Financing of the real economy by the banks: Did the State’s financial intervention contribute to the restoration of financial regularity?” Audit Report 7/2021, December 2021.

Executive Summary available at: https://www.elsyn.gr/sites/default/files/SUMMARY_7.pdf

International Institute for Management and Development, "IMD World Competitiveness Ranking (WDCR) 2020 Results", June 2020.

https://www.imd.org/news/updates/IMD-2020-World-Competitiveness-Ranking-revealed/

International Institute for Management and Development, "IMD World Digital Competitiveness Ranking (WDCR) 2020", June 2020. https://www.imd.org/globalassets/wcc/docs/release-2020/digital/digital_2020.pdf

Oliver Wyman, Research Unbundling: "Revealing quality and forcing choices", September 2017.

https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2017/sep/Oliver_Wyman_Unbundling_Research_POV.pdf

Organization for Economic Co-operation and Development (OECD), "Going for Growth: Shaping a Vibrant Recovery", April 2021.

https://doi.org/10.1787/3c796721-en

Oxera Consulting LLP: "Primary and secondary equity markets in the EU", September 2020. https://op.europa.eu/en/publication-detail/-/publication/54e82687-27bb-11eb-9d7e-01aa75ed71a1/language-en

PriceWaterhouseCoopers (PwC), "Acquisitions and Mergers of Companies in Greece 2020", February 2021.

https://www.pwc.com/gr/en/publications/deals-in-greece-2020-- pwc-greece /Deals_report_final.pdf

World Bank, "Doing Business 2020", October 2019.

https://openknowledge.worldbank.org/bitstream/handle/10986/32436/9781464814402.pdf

Bibliographical references in Greek

Bank of Greece, “Financial Stability Report”, January 2021.

https://www.bankofgreece.gr/Publications/%CE%95%CE%9A%CE%98%CE%95%CE%A3%CE%97_%CE%A7%CE%A1%CE%97%CE%9C%CE%91%CE%A4%CE%9F%CE%A0%CE%99%CE%A3%CE%A4%CE%A9%CE%A4%CE%99%CE%9A%CE%97%CE%A3_%CE%A3%CE%A4%CE%91%CE%98%CE%95%CE%A1%CE%9F%CE%A4%CE%97%CE%A4%CE%91%CE%A3_%CE%99%CE%91%CE%9D%CE%9F%CE%A5%CE%91%CE%A1%CE%99%CE%9F%CE%A3_2021.pdf

Bank of Greece, “Interim Report on Monetary Policy”, December 2020. https://www.bankofgreece.gr/Publications/Inter_NomPol2020.pdf

Committee of Experts of the Ministry of Finance, "Proposals of the Committee of Experts for the Development Strategy of the Greek Capital Market", November 2020. https://www.minfin.gr/-/protaseis-gia-te-strategike-anaptyxes-tes-ellenikes-kephalaiagoras

diaNEOsis, “Justice in Greece, Proposals for a modern judicial system”, February 2019. https://www.dianeosis.org/wp-content/uploads/2019/02/justice_study.pdf

diaNEOsis, “Reform in Three Critical Sectors of the Judicial System”, January 2021.

https://www.dianeosis.org/wp-content/uploads/2021/01/Justice-final.pdf

Foundation for Economic and Industrial Research (IOBE), "Impact assessment of proposals for the development of the capital market in Greece", July 2021. http://iobe.gr/docs/research/RES_05_F_23072021_REP.pdf

Haliassos, Michael, Gikas Hardouvelis, Margarita Tsoutsoura and Dimitri Vayanos, “Financial Development and the Credit Cycle in Greece”, ch. 7, pp. 273-334 in *Beyond Austerity: Reforming the Greek Economy*, Costas Meghir, Christopher Pissarides, Dimitri Vayanos, Nikos Vettas, edt., 2017, Crete University Press. https://www.cup.gr/book/pera-apo-ti-litotita/

Hardouvelis, Gikas, “Crisis and Financial Exposures in Greece”, in *Obligations of Financial Institutions*, pp. 245-297, 29th Panhellenic Conference on Commercial Law, ed.: Association of Greek Commercial Scientists, Athens 2021, Athens. http://hardouvelis.gr/wp-content/uploads/2020/12/08_XARDOYBELHS-1.pdf

Hardouvelis, Gikas, Interview, *Oikonomikos Tachydromos*, Issue 3 (2437), pp. 12-17, Saturday, January 20, 2001.

https://hardouvelis.gr/wp-content/uploads/2022/04/gh-interview-ot-jan-2001-p.12-17.pdf

Hellenic Accounting and Auditing Standards Oversight Board (HAASOB/ELTE), Announcement 004/2019, "Enhancing transparency in mandatory audits", February 2019.

https://elte.org.gr/wp-content/uploads/2021/03/anakoinosi_004_2019.pdf

Hellenic Court of Audit, "Financing of the real economy by the banks: Did the State's financial intervention contribute to the restoration of financial regularity?" Audit Report 7/2021, December 2021.

https://www.elsyn.gr/sites/default/files/%CE%95%CE%9A%CE%98%CE%95%CE%A3%CE%97%20%CE%95%CE%9B%CE%95%CE%93%CE%A7%CE%9F%CE%A5%207%20%CE%A4%CE%A1%CE%91%CE%A0%CE%95%CE%96%CE%95%CE%A3.pdf

Ministry of Finance, Hercules Program – Questions and Answers, Law 4649/2019 for Hercules-I, and Law 4818/2021 for Hercules-II.

https://www.minfin.gr/-/programma-erakles-eroteseis-kai-apanteseis?inheritRedirect=true

Ministry of Finance, Special Secretariat for Private Debt Management, "7th Progress Report on the issue of private debt", May 2022. Available at: http://www.keyd.gov.gr/

Ministry of Labor, Press Releases, "The new Hellenic Auxiliary Pensions Defined Contributions Fund (TEKA) has been launched", January 2022. https://ypergasias.gov.gr/xekinise-i-leitourgia-tou-neou-tameiou-fikii asfalisis-teka /

National Bank of Greece, Semi-Annual Survey of Greek SMEs: "SMEs in the Recovery Fund", H2 2021, February 2022.

https://www.nbg.gr/el/omilos/meletes-oikonomikes-analuseis/elliniki-epixeirimatikotita/meletes-epixeirimatikotitas

https://www.nbg.gr/-/jssmedia/Files/nbgportal/reports/migrated-data/files/greek/the-group/economic-analysis-research/RRF-monitor_20212-nfographic_RRF-2021h2.pdf?rev=5fd6273d724344c986879b9a14cedad5

Pissarides, Christoforos, Dimitri Vayanos, Nikos Vettas, and Costas Meghir, "Growth Plan for the Greek Economy", November 2020.

https://government.gov.gr/schedio-anaptixis-gia-tin-elliniki-ikonomia/