Audit Report 7/2021

Financing of the real economy by the banks: Did the State's financial intervention contribute to the restoration of financial regularity?

EXECUTIVE SUMMARY

The audit was carried out at the request of the Institutions and Transparency Committee of the Hellenic Parliament. It is included in the category of audits for the detection of systemic financial problems, the quest for their causes and the evaluation of the means for their remedy. The proportionality principle is a fundamental tool for understanding this type of audit. It is used as a structural element of the analysis and as a limit of the evaluation powers of the Hellenic Court of Audit, a body integrated in the judicial function.

The main audit findings are as follows:

I. Despite the State's serious financial engagement in favour of the banks, there are still characteristic deviations from the financial regularity. This fact justifies mainly the State's further intervention as a public power, pursuing its objective of fully restoring financial regularity, an aim qualified as of public interest.

II. There are at least three exceptional causes that explain reduced financing of the real economy by banks. These causes are: (i) the non-performing loans, (ii) the so-called deferred tax credit, and (iii) the moral hazard due to delays in liquidation of loan collaterals. These causes constitute a compelling need, justifying the intervention of the State, in order to proceed to their remedy.

III. The State has adopted measures for the full restoration of financial stability. These include: (i) the extension of the Hellenic Financial Stability Fund operation, (ii) the introduction and subsequent expansion of the HERCULES programme to support banks, so that the latter may reduce non-performing loans from their balance sheets, (iii) combating moral hazard by identifying strategic defaulters and protecting vulnerable bank debtors; and (iv) resolving the deferred tax credit issue so as not to distort the banks' behaviour.

IV. Analyzing the measures taken in the light of the principle of proportionality, the HCA concludes that (i) the Hellenic Financial Stability Fund does not have the necessary competences to address the problems identified, (ii) although the HERCULES programme contributes to the reduction of non-performing loans from the banks' balance sheets, it needs constant monitoring while being implemented, in order to deliver its expected results without any financial sacrifice and (iii) interventions should be initiated to remedy the moral hazard issue and to remove the obstacles that lead banks to cautious lending policies.