Greek contagion fears spread to other EU banks

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Published: June 15 2011 15:55 | Last updated: June 15 2011 19:06

European banks’ exposure to Greece unnerved investors again as Moody’s said it might cut the credit ratings of France’s three largest banks because of their large holdings in Greek debt.

Pressure is mounting on eurozone leaders to agree a fresh bail-out for the debt-laden country involving private creditors bearing part of the costs, after Greece earlier this week became the lowest-rated sovereign in the world.

Moody’s on Wednesday placed **BNP Paribas**, **Crédit Agricole** and Société Générale on review for a possible downgrade, citing the potential for “inconsistency” between the impact of a Greek default or restructuring and their current rating levels.

“Following the deterioration of Greece’s creditworthiness, although still manageable, the risk is likely to have increased for certain banks,” said Nick Hill, analyst at Moody’s Investors Service.

“This results from both the direct effects of a potential default and the secondary effects, in terms of a potential deterioration of Greek private sector credit.”

French banks are among Greece’s biggest creditors, with $53bn in overall net exposure to Greek private and public debt, according to the latest figures from the Bank for International Settlements. German banks are also exposed with $34bn, including loans made through KfW.

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While some analysts said the prospect of a Greek default had already been priced into European bank stocks, shares in BNP, Crédit Agricole and SocGen slid by between 2.3 and 2.6 per cent on Wednesday as shareholders digested the Moody’s report.

Concerns are growing that a restructuring of Greece’s debt could have a potentially disastrous knock-on effect on the European financial system, with several commentators drawing a comparison with the investor panic sparked by the collapse of US investment bank Lehman Brothers in 2008.

Executives play down review

French bankers sought to play down the impact of Moody’s decision to put the country’s three largest banks on review for a possible downgrade to their credit ratings, saying their exposure to Greece was well-known in the market.

BNP Paribas and Crédit Agricole could see their rating cut by a notch, and Société Générale two, as eurozone ministers work to agree a fresh Greek bail-out.

All three banks are exposed to the debt-laden country through sovereign holdings, and, in the case of Crédit Agricole and SocGen, majority stakes in local banks.

Crédit Agricole’s Emporiki Bank had outstanding net loans of €21.1bn ($30.1bn) at the end of March, while SocGen’s 54 per cent stake in Geniki gives it €3.4bn in loan exposure.

BNP, which does not have a local subsidiary bank, had €5bn in exposure to Greek sovereign debt at the end of 2010, while SocGen had €2.5bn in net exposure to Greek government bonds.

Senior executives at all three banks have repeatedly insisted that a restructuring of Greek debt would be painful, but not calamitous.

“There is no smoking gun here,” said one French bank official.

“We are surprised that they referred to the Greek debt issue for a potential downgrade as the banks have repeatedly said any impact would be manageable.”

According to the latest figures from the Bank for International Settlements, French lenders have $53bn in exposure to Greek public and private debt.

Moody’s said it would consider similar actions for other banks whose current ratings would be inconsistent with the impact of a restructuring.

Ministers are considering three options for private sector involvement, set out in a briefing paper circulated by the European Commission and seen by the Financial Times. The most drastic is for a voluntary debt exchange, involving an extension of maturities on Greek government bonds to buy time for Athens to cope with its debt crisis. The second and third options are for a voluntary “rollover” of bonds, which would be less likely to trigger a bond downgrade.

A restructuring would have “very dangerous implications”, the European Central Bank warned on Wednesday, in a report that highlights a number of risks to the eurozone’s biggest banks.

Vítor Constâncio, vice-president, said all banks that had posted Greek government debt as collateral with the ECB would face an impact if a Greek debt restructuring were treated as a default. The ECB has said it could not accept as collateral any defaulted bonds, leaving Greek banks in particular facing a massive financing need.

In Athens, bankers were sceptical of claims, contained in the same briefing paper, that they would need an additional €20bn ($28bn) of capital if private sector creditors were involved in a new bail-out package. “We desperately need liquidity not capital,” said one senior Athens banker. “We can’t deleverage fast enough under current conditions.”

Greek banks, which are waiting to access a €30bn package of additional state guarantees pledged by the government, have been dependent on the ECB for liquidity since losing access to wholesale and interbank markets 18 months ago at the start of the crisis.

All six first and second-tier Greek banks reported modest net profits in the first quarter, in spite of significantly increased provisions for bad loans. Their core tier one capital ratio stands at about 10.5 per cent. One banker said the ECB, as the eurozone’s lender of last resort, could continue to accept Greek collateral even if the sovereign rating was downgraded to a selective default. “This is what a lender of resort is there for,” he said.

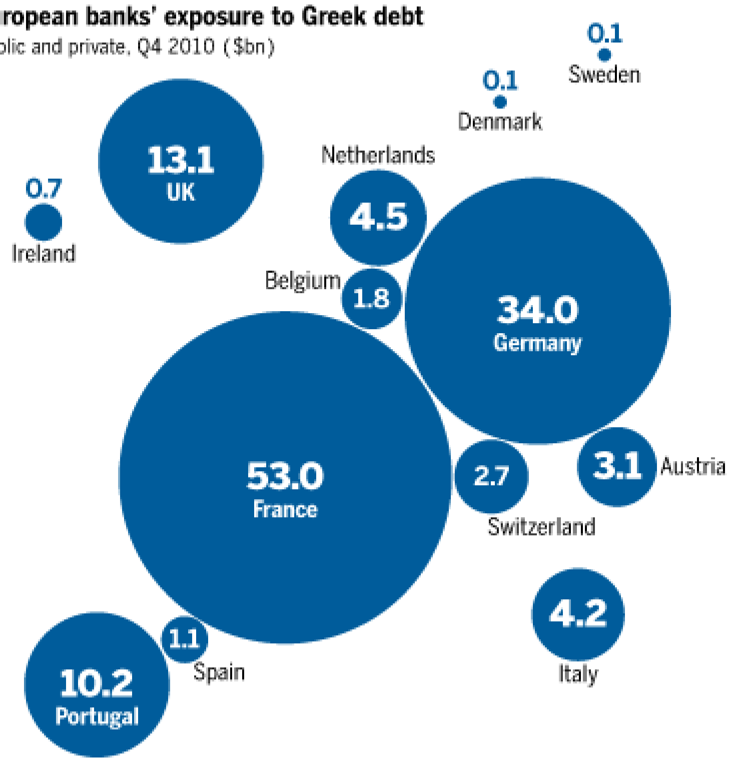
The Greek central bank is setting tighter conditions for allocating the new package of guarantees, including a medium-term plan or cutting costs and boosting capital ratios further.

Another banker added: “This dispute over private sector involvement in the new Greek package risks opening a Pandora’s box …If confidence falters, a run on a Greek bank would bring a new and unpleasant reality.”

Fresh fears mount over contagion

European banks' exposure to Greek debt

Public and private, Q4 2010 ($bn)



French banks under scrutiny

	Crédit Agricole	Société Générale	BNP Paribas
Indirect net exposure to Greece (local subsidiary net customer loan book)*	€21.1bn	€3.4bn	n.a.
Direct net exposure to Greek government bonds*	€600m	€2.5bn	€5bn Dec 31 2010
Share price change, Jun 15 2011 (%)	▼ 0.96	▼ 2.75	▼ 2.28

* Mar 31 2011

Sources: BIS; Moody's; Thomson Reuters Datastream