Ministry of Finance

Special Secretariat for Private Debt Management

Private Debt in Greece
Challenges and Solutions

Fotis Kourmousis
Special Secretary

JUNE 2021

Contents (1/2)

Contents (2/2)

1 PRIVATE DEBT

1.1a. Private Debt: global data

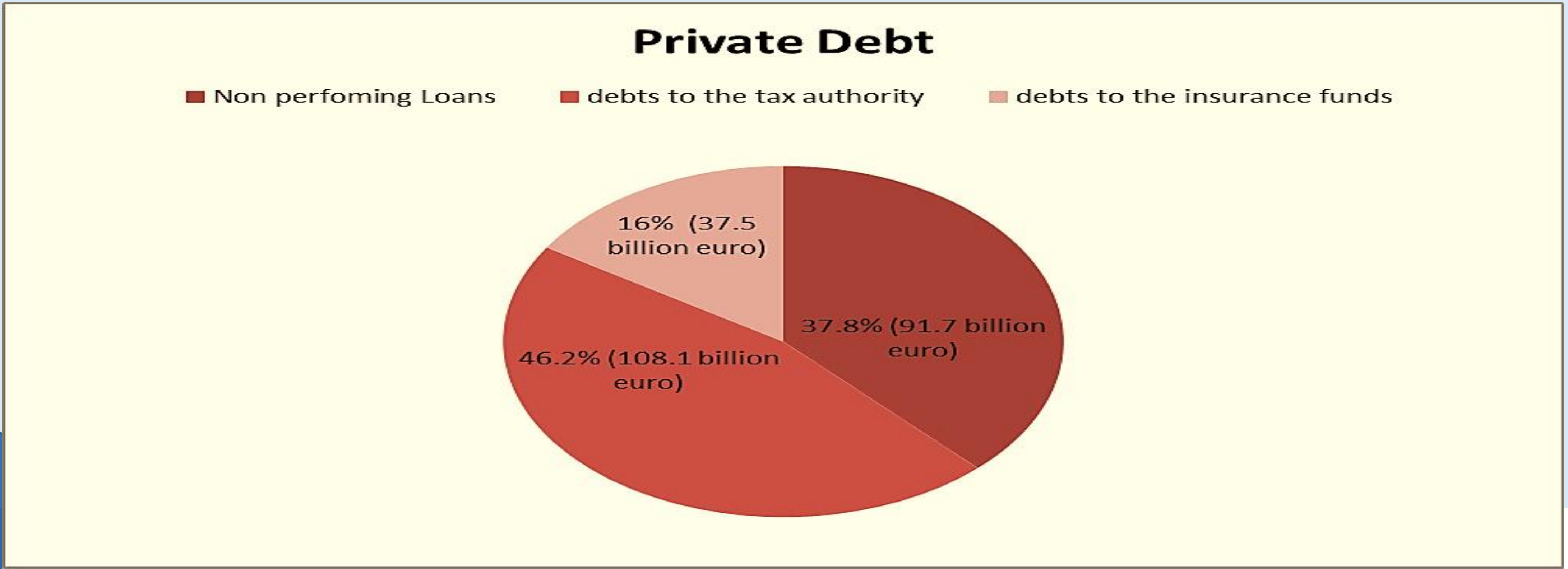
Global private debt:

- 215 trillion euro global private debt at the end of 2019 (source: Institute of International Economics IIF)
- +20 trillion euro, during the corona virus pandemic, in 2020. Significantly higher increase than the corresponding increase made during the global financial crisis of 2008 – 2009.
- 237 trillion euro global debt at the end of December 2020. Corresponds to 355% of the global GDP.

1.1b. Private Debt: data in Greece

Private debt in Greece:

- 234 billion euro private debt at the end of 2019 (includes tax and social security arrears as well as non-performing loans). This debt stemmed from the 10-year financial crisis.
- It will be aggravated by the corona virus pandemic and the respective financial crisis.



1.2 The main debt problems in Greece

Till now, the goal of reducing over-indebtedness has not been achieved, for a number of reasons, inter alia:

- there were significant limitations for an in-depth understanding of the problem (collection, availability and quality of data) that hindered not only the design of policies to expedite its resolution, but also a basic monitoring of its evolution (quantitative and qualitative indicators, etc)
- there was a lack of proper governance framework (absence of responsible authority or many co-responsible authorities, lack of change management processes, etc)
- there were several laws and in many cases overlapping debt settlement tools, which created controversies and implementation challenges that reinforced the problem instead of tackling it effectively

1.2 The main debt problems in Greece

- provisions for specific cases of debtors and/or types of debts that did not exist, in order to settle them (e.g. loans guaranteed by Greek State, leasing, factoring, companies that have shut down and have not gone bankrupt within the last 2 years, etc)
- there was lack of commonly accepted principles and processes for restructuring as well as for enforcement procedures among major creditors (including between various entities of the wider public sector)
- there were no alternative dispute methods, such as mediation, while the basic resolution tools required the involvement of the courts (at some stage of the process) resulting in a large volume of backlog cases, due to chronic structural weaknesses of the judicial system (long waiting period for judgment, suspended periods, lack of financial training of judges, etc)

1.2 The main debt problems in Greece

- there was an informational asymmetry between creditors (lack of a consolidated database, absence of Credit Bureau. There was a competitive (rather than cooperative) disposition among the creditors, in order to come up with a coordinated and holistic solution and achieve debt settlement
- existence of tax disincentives (e.g. taxable debt write-off) discouraged debt restructuring
- lack of access by debtors to appropriate debt counseling, including knowledge of the tools at their disposal to restructure their liabilities
- there was fear of liability from executives of private creditors and public sector in cases of debt restructuring (haircut, extensions of repayment period etc)

1.2 The main debt problems in Greece

- tax disincentives in loan resolution for creditors and the frequent changes in tax regimes affected the debtor’s ability to repay, undermined the servicing of existing restructuring agreements
- up to 2017 a dynamic secondary market for non-performing loans had not been developed
- there was lack of expertise, capacity or tools that banks possess, in order to deal with NPLs on a large scale and the lack of specialized skills to manage real estate services and corporate turnarounds

1.2 The main debt problems in Greece

- the reduction of the nominal house price indices (as collaterals), which in many cases was not significant compared to the total outstanding loan amount, reduced banks' collaterals value and hence, appetite to refinance or restructure
- there was a lack of a culture of consultation and cooperation among stakeholders and limited participation spirit to the available out-of-court schemes of debt resolution. Furthermore in many cases there was competition among creditors
- there was a shortage of financial literacy of debtors and at the same time a lack of training and know-how of experts (lawyers, accountants, economists, etc.)
- strategic defaulters have not been identified and enforced, while consistent payers have not been rewarded, raising moral hazard issues

1.3 National Private Debt Resolution Strategy

In order to tackle the problem of private debt, the Government has designed a Private Debt Resolution Strategy

1st Axis

- Aims at improving the insolvency process for individuals – households and businesses. Previous insolvency process was lengthy, time-consuming and inefficient.
- Introduces a new insolvency framework, which:

a. was activated at 1st March for businesses

b. will be activated at 1st June 2021 for households

2nd Axis

Development and implementation of preventive mechanisms, in order to avoid future accumulation of new private debt of similar magnitude to the existing one

3rd Axis

Development of tools and improvements in the transaction and tax framework, aiming at empowering the NPL market

1.4 Projects for National Private Debt Resolution Strategy

15 projects of the National Private Debt Strategy consist of significant reforms and thus have been included in the Recovery Plan, in order to be funded by the Resilience and Recovery Facility of the EU:

1	Introduce best practices for negotiation in the form of "soft law"	9	Establish a common data template for the NPL transactions
2	Design an auditing mechanism for identification of strategic defaulters through random checks	10	Establish a common template for the portfolio screening and evaluation
3	Draft, consult and launch new legislation eliminating tax disincentives to debt recoveries and restructurings	11	Design and implement a transaction platform for NPL portfolios to assist sellers and buyers to exchange information and submit bids in an efficient and confidential manner
4	Provision of mentoring to debtors at early levels of financial distress on a voluntary basis, leveraging Corporate Social Responsibility programs	12	Establishment of a Public Credit Bureau and development of a relevant IT system defining interfaces with Tiresias / other credit rating agencies
5	Empower professional associations to provide mentoring services to their members relevant to debt / solvency issues	13	Design and implementation of a monitoring and reporting mechanism of aggregated data on Private Debt
6	Extend reach of Debt Information and Support Centers operated by Special Secretariat for Private Debt Management	14	Development of an information system/ platform to support the new insolvency framework
7	Introduce subsidized access (voucher) to expertise for vulnerable individuals, sole proprietors and micro companies	15	Design and implementation of Early Warning Mechanism for indebtedness, at debtor level
8	Draft, consult and launch new legislation eliminating tax disincentives to NPL transfers		

2 INSOLVENCY CODE

2. Insolvency Code

The new insolvency law 4738/2020 was voted at end-October 2020, harmonizing the respective European Directive 1023/2019.

It allows households and businesses to manage their debts towards all their creditors. It entails:

a. Debt restructuring, through an electronic platform with out-of-court procedures providing a long-term repayment plan (240 instalments)
b. Debt discharge (bankruptcy – 2nd chance), through court order

2.1 Insolvency Code: restructuring debts and/or bankruptcy of businesses

On 1st of March 2021 we enacted the 1st part of the new insolvency law related to debt restructuring and bankruptcy of medium – large companies.

Debt restructuring is made with the rehabilitation process, through a viability assessment study conducted by a certified economist and verified by a chartered auditor. If the majority of creditors agree on the proposed debt restructuring plan, then it is submitted to court for ratification and thus is enforced to all creditors.

Bankruptcy is made through court process and provides full debt discharge (in case there is no fraudulence).
All the necessary Ministerial Decisions have been issued, in cooperation with stakeholders, such as Tax Authority, Social Security Institutions, Banks and Servicers.

Furthermore, the necessary electronic platforms have been activated, in order to support the prompt and effective implementation of the law, increasing transparency and minimizing bureaucracy.

2.2 Insolvency Code: restructuring debts and/or bankruptcy of households

On 1st June 2021 the 2nd part of the new insolvency law has been enacted related to debt restructuring and bankruptcy of households, including self-employed and small businesses.

Debt restructuring is made through an electronic platform via the out-of-court workout mechanism (respective automated algorithm), where all major creditors (i.e. Banks, Servicers, Tax Authority, Social Security Institutions) participate.

Bankruptcy is made through court process and provides full debt discharge (in case there is no fraudulence), however the application is submitted to the electronic platform, in order to avoid bottle-neck effects (as it happened in the past).

2.3 Out-of-court workout mechanism: debt restructuring workflow

Stage 1. Creation of a Debt Restructuring Application and Data Collection

1. Registration of an applicant on the platform and lifting secrecy of applicant and spouse
2. Create a New Application
3. Collecting Banking, Tax Authority and Social Security Institutions data
4. Solemn Declarations
5. Authorization of Consultant (optional)
6. Add family members (if they exist)

Stage 2. Spouse / Dependent Members

7. Lifting secrecy of spouse / dependent members (if they exist) → 8. Collection of Banking, Tax Authority and Social Security of Spouse / Dependent Members

Stage 3. Co-debtors / Guarantors

9. Entry of co-debtors / guarantors and lifting secrecy (if they exist) → 10. Collection of tax and banking data as well as data on debts of co-borrowers / guarantors

Stage 4. Completion of Data, Application and Calculation Tool

11. Filling-in details, selection of primary residence and attachment of documents
12. Pre-screening of eligibility criteria
13. Submission of application and notification to involved parties
14. Carry out automated eligibility checks
15. Calculation Tool
16. Carry out automated eligibility checks for bilateral arrangements

Stage 5. Evaluation of application by financial institutions

17. Overview of automated tool's debt restructuring proposal, optional creditors' leader alternative proposal and participation in voting → 18 Result of the vote of creditors → 19. Checks to determine the next stages of the application

Stage 6. Evaluation of agreement by a debtor

20. Mediation (optional) between debtor and creditors → 21. Debtor's acceptance / rejection of debt restructuring proposal

Stage 7. Evaluation by Public Bodies

22. Overview of the application

→

23. Check of the criteria of the State (if the eligibility criteria are met)

Stage 8. Bilateral agreement between Debtor and Public Sector

24. Automated debt restructuring through a bilateral agreement

2.4 Social Policies

There are various specific safeguards for strategic defaulters.
There are also social policy measures supporting the primary residence of vulnerable households:

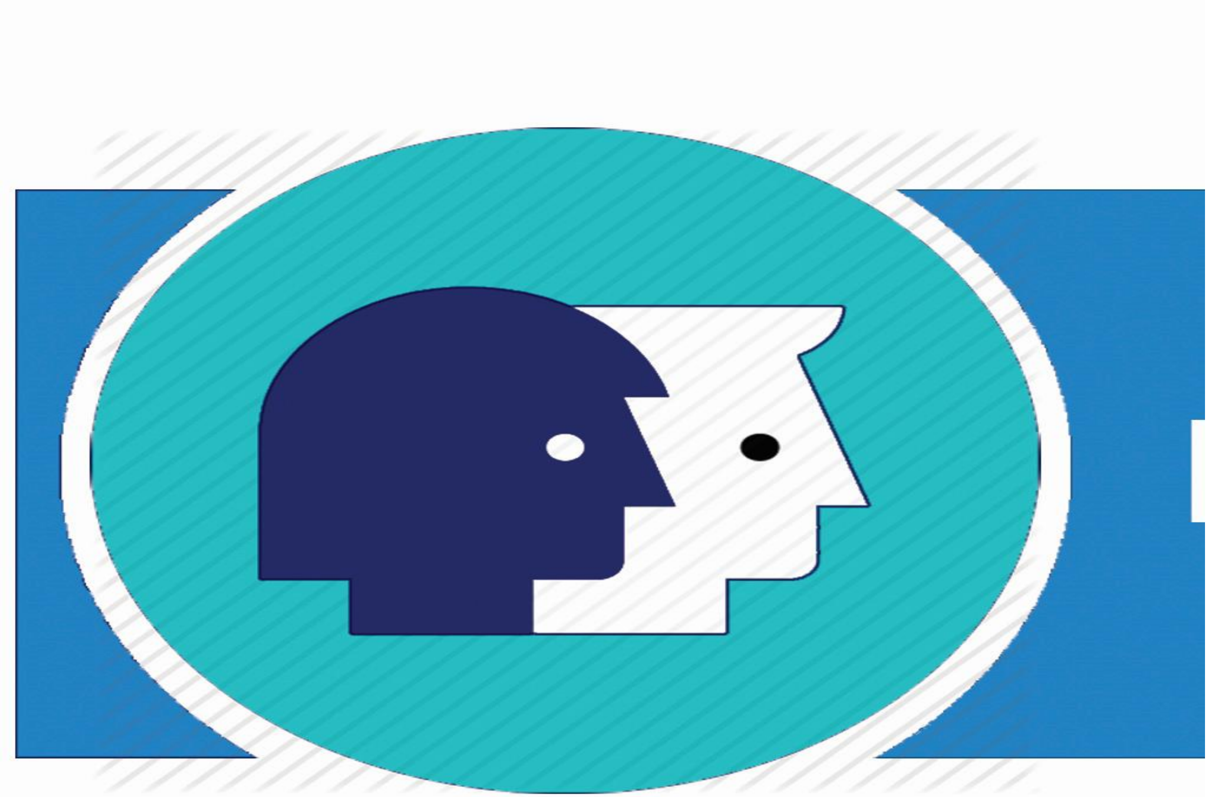
a. Primary residence loans are subsidized at the stage of the out-of-court debt settlement mechanism, for 5 years, including performing loans (rewarding scheme)

2.4 Social Policies

b. At the stage of the 2nd chance - debt relief by liquidation of property or auction: the primary housing is purchased by a special private Organization, which is obliged to lease the housing to the citizen for 12 years. The state provides a monthly rent allowance to the vulnerable citizens (i.e., a monthly rent allowance), (the housing benefit **https://opeka.gr/stegasi-proti-katoikia/epidoma-stegasis/)** to help him stay in residence. The Organization is also obliged to resell it to the debtors at a price objectively determined, if they recover financially. This way evictions are avoided, which would occur if a third party acquired the property.

This Organization is private and selected by the state, through a competitive process. However, the operation of this Organization is a separate measure of social policy and does not impede or block the enactment and implementation of the new insolvency law. Thus, the law explicitly specifies that the insolvency law is activated, regardless of the operation or not, of the Sales-and-lease-back Organization.

Individual debtor consumers, entrepreneurs and small and medium businesses can receive information and support on debt management issues from the **50 Debt Information and Support Centers**, which operate by the State in large cities in Greece (http://www.keyd.gov.gr/kgeyd).



Thank you!