Richard McCreery's Business Blog

How does the Greek financial crisis affect your bank?

Richard McCreery's Business Editorial RLTV 30 Apr 10

Riviera based Independent Investment Adviser, Richard McCreery, has joined the expanding *RivieraLife.tv* team as Business Editor. Richard publishes a weekly Financial Editorial every Friday with informed comment on topical financial matters relevant to residents and businesses on the Cote d'Azur.

Anyone watching the news recently will have been bombarded with stories about the Greek government as they try to organise a bailout for the national finances. Greece's problems have come about due to excessive government borrowing but also because they used inaccurate and possibly fraudulent figures to describe their country's fiscal position, in order to gain entry to the Euro. This has now come back to haunt them. French television viewers might have felt that scenes of rioting in Athens were rather familiar and been glad that they are thousands of kilometres away from their Mediterranean neighbour, but they might not realise that Greece and France share certain links that could have serious implications for the French banking system.

Before obtaining a bailout from the European Central Bank and the International Monetary Fund the Greek government had hoped to refinance its debt in the open market. However, reticence from Germany and other European countries about the cost of guaranteeing the security of Greece's debt habit, and their generous state pensions, caused investors to doubt the resolve of the EU and interest rates in the market rose to record levels. This week the ratings agency Standard and Poors downgraded the country's sovereign bonds to junk status and yields on 10-year bonds have now pushed past 11%. This effectively closed the door to the open market for refinancing as short-dated Greek sovereign bonds became untradable and the government has been forced to ask for help. At this stage it looks likely that Greek debt will be restructured with some analysts talking about a loss of 30% on par value for existing bond holders.

The restructuring of Greek debt is of particular relevance to us in France because French banks are the largest holders of Greek debt, with an estimated $75.2billion of exposure to Greek borrowers. By comparison, the UK only has about $15billion exposure. Credit Agricole and Societé Générale are two French banks that have a branch network in Greece and are therefore exposed directly but there are plenty of others holding Greek liabilities. Most banks don't reveal their bond holdings in detail so we would have to rely on their good nature and hope that they see fit to tell their customers how much they might be at risk.

At best, French banks will have to revalue their Greek bond holdings to market values, effectively writing off a large part of their value, but the worst case scenario is that the banks incur much larger losses due to a default, which cuts into their capital reserves and then impacts on other areas of their business, or their client's business. Even though the Greek crisis is said to be "containable' no-one should forget that the US Federal Reserve described the sub-prime crisis in exactly the same words, and in today's global economy these things have a habit of spreading.

Generally, the French banks seemed to come through the credit crunch relatively unscathed but this new development reminds us that the financial crisis might not be over and we could be seeing signs of a new government debt crisis which is merely the next stage of a deeper problem. It is one thing for a government to bail out a few car manufacturers, or even a few banks, but it is more difficult to bail out a country and Greece might just be the start of a chain reaction that impacts on Portugal, Italy and Spain. Greek savers have been withdrawing their cash from Greek banks as they obviously don't trust the government's promise to protect their savings. Our banks may be holding similar promises from the Greek government which they are then using to boost their own capital reserves and these reserves might not be the solid foundation they hoped they were. For those of us holding money in France it would be comforting to know that our banks are not too heavily exposed to defaulting sovereign debt but this information is usually not made public until it is too late so you need to protect yourself. Take professional independent advice about what you can do and, above all, don't rely on the state to guarantee your savings at this stage in a financial crisis because governments are running out of money and solutions.

Richard McCreery 30th April 2010 Send us your comments for publication email: richard@rivieralife.tv