



EUROPEAN CENTRAL BANK
EUROSYSTEM

COURTESY TRANSLATION

Christine LAGARDE
President

Mr Georgios Kyrtos
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 28 May 2021

L/CL/21/117

Re: Your letter (QZ-022)

Honourable Member of the European Parliament, dear Mr Kyrtos,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 31 March 2021.

Since mid-2014 bank lending rates for firms have declined substantially both in the euro area and in Greece following the introduction of several monetary policy measures by the ECB (targeted longer-term refinancing operations, asset purchase programmes, forward guidance and negative interest rates), including those announced in response to the outbreak and spread of the coronavirus (COVID-19). In February 2021 the cost of borrowing for firms in Greece was 296 basis points lower than in May 2014 (202 basis points in the case of loans up to €1 million), while in the euro area as a whole the decrease was 145 basis points (196 basis points in the case of loans up to €1 million). The cost of borrowing for house purchases by households in Greece was 21 basis points lower than in May 2014, compared with a decrease of 160 basis points in the euro area as a whole.

The measures introduced both by national governments and at European level in response to the COVID-19 crisis have proved instrumental not only in keeping lending rates close to their historical lows but also in maintaining the flow of credit. In Greece, lending to firms has increased substantially following the deployment of COVID-19-related support measures (encompassing fiscal as well as monetary policy and supervisory measures), reaching levels not seen since the global financial crisis.

Address
European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Postal address
European Central Bank
60640 Frankfurt am Main
Germany

Tel. +49-69-1344-0
Fax: +49-69-1344-7305
Website: www.ecb.europa.eu

Nevertheless, and despite the decline, bank lending rates in Greece in February 2021 were 151 and 135 basis points higher than the euro area average for firms and households respectively.

While average bank lending rates can to some extent be influenced by monetary policy, borrowing costs for firms and households in any jurisdiction also reflect a variety of factors that are beyond the control of the central bank. These include the specific economic situation and creditworthiness of borrowers and other determinants of credit risk such as the quality of collateral, the design and efficiency of insolvency procedures, the efficiency of legal procedures and more generally the payment history. Market practices, banks' profitability and preferences in terms of interest rate fixation and choice of market reference rates, as well as specific features of the banking system, also play a role.

In Greece, in particular, the persistently high level of non-performing loans and elevated credit risk associated with some types of lending are likely to contribute to higher bank lending rates. Firms, and in particular small and medium-sized ones, are characterised by vulnerabilities that are a legacy of the protracted crisis that has afflicted Greece and are likely to be quite severely affected by the economic implications of the pandemic. Restoring the intermediary role of the banking sector in financing Greek households and firms thus requires the continuation of the reforms currently being undertaken under Greece's enhanced surveillance process¹. For example, implementing the new insolvency code in a timely and effective manner and easing impediments to collateral enforcement, as well as improving the efficiency of the judicial system, can support a convergence of lending rates to euro area averages. More generally, further reducing non-performing loans, restoring banks' profitability and enhancing their loss absorption capacity would help to strengthen the intermediation capacity of the banking sector. At the level of EU-wide initiatives, the completion of the banking union, including harmonisation of judicial practices across euro area countries, and deeper financial integration could support a convergence of bank lending rates across countries. While some of these measures, especially those at EU level, take a long time to be implemented, the sooner they are put in place the sooner tangible results will be seen in terms of the financing costs that Greek households and firms face.

Yours sincerely,

[signed]

Christine Lagarde

¹ See *Enhanced Surveillance Report – Greece, February 2021*, European Commission, 24 February 2021, available at: https://ec.europa.eu/info/publications/enhanced-surveillance-report-greece-february-2021_en.

Address

European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Postal Address

European Central Bank
60640 Frankfurt am Main
Germany

Tel. +49-69-1344-0
Fax: +49-69-1344-7305
Website: www.ecb.europa.eu