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The Determinants of Bank Bailouts in Greece: testing the extreme limits of the "Varieties of Financial Capitalism" framework

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ABSTRACT

This article explores the determinants of the three bank bailouts in Greece during the recent financial crisis. Building on literature from comparative studies applying the "Varieties of Financial Capitalism" framework, the paper analyzes the factors contributing to bank rescue package design. Although this analysis verifies the institutionalist hypotheses in the case of the two fist recapitalizations, the article attempts to explain the significant changes in the domestic banking system and the transfer of control of systemic banks to foreign hands, which were caused after the third recapitalization in 2015. Interpreting such an exceptional case, we focus on the ECB's lender of last resort tools as a catalyst for bank restructuring.

Keywords: Greek banks, "dehellenization", Varieties of Capitalism, bailout, Emergency Liquidity Assistance

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1. Introduction

In the aftermath of the global financial crisis, several institutionalist and comparative studies of government-led rescue packages for banks attempted to explain divergent crisis responses exploiting the "Varieties of Capitalism" (VoC) framework. These studies illustrated that - despite the specific characteristics of the crisis incurred in each national economy - there are some consistent patterns in the policy responses to banking crises on the basis of i) the degree of the financial sector's involvement in the design of bailout packages, ii) the implementation (mandatory or voluntary) of rescue packages and iii) the conditionality (generous or tough) attached to state aid. In this regard, the VoC approach seems to offer some enlightening hypotheses for further investigation. As Torben Iversen (2004: 1) has argued "in a VoC framework, exogenous economic shocks are expected to lead to different government responses depending on existing institutional frameworks. Yet, there is little in the original versions of this theory that explains the politics of how shocks get translated into policy". In the light of the above, a core assumption of institutionalist scholars suggests that "countries where banks have strong interbank ties and collective negotiation capacity have business-government relations that were much more apt to design a national bailout solution". On the other hand, "countries with close one-on-one relationships between policy makers and bank management tended to develop unbalanced bailout packages". As a result, the setting of burden-sharing between public and private stakeholders and the costs of bank bailouts, depend on "the political structure of the banking sector, not simply its exposure to the crisis" (Grossman and Woll, 2014: 576). In some cases, therefore, the financial sector is intimately involved in the design of bailout packages; elsewhere it chooses to remain at arm's length. In bank-based economies (corporatist systems and mixed market economies), healthy banks use their own resources and political influence to rescue near-to-fail banks directly (with more favorable terms) or prevent the transfer of banks' control to foreign ownership (mainly in Italy). In market-based financial systems (the United States and the United Kingdom), healthy banks are either indifferent or hostile to failing ones. But what are the consequences when both private actors and governments simultaneously suffer? What does it mean for bailout settings and how the public and private sectors share the cost burden of policy outcomes? These questions have not been scrutinized by existing comparative studies which anticipate a strong negotiation capacity either by banks or governments or by both. To put it precisely, that is the case of the third round of recapitalization of Greek banks in late 2015. In fact, interbank relationships collapsed and a bank rescue package financed by public resources was out of play. In the summer of 2015, Greece was close to abandoning the euro and Greek banks faced a severe liquidity crisis due to the refusal of the ECB's Governing Council to increase Emergency Liquidity Assistance.

Therefore, the purpose of this paper is to focus on Greece's policy response to the banking crisis and to consider the identification of recapitalization policy, in order to incorporate the Greek case in the wider comparative literature. Although building on and investigating hypotheses from comparative studies of state responses to financial crises, this paper tests the limits of them, interpreting the overall "hybrid" response to the Greek banking crisis as a combination of two features: firstly, the specific institutional foundations of the Greek banking system originating from a mixed market economy and, secondly the Eurozone architecture, which enables the ECB's lender of last resort facilities, in extreme cases, to be a catalyst for bank restructuring. As a matter of fact, the combination of these constraints and the internal contradictions of the policy strategy forced Greek governments to attract private funds with excessively sweetened terms – thus bringing on significant losses to the state rescue fund's equity participations. As a result, the control of the Greek banking system has been transferred to foreign hands since 2015 to date.

2. Recapitalizing the Greek banking system: A failure story

In the light of the above, this paper analyzes the three rounds of recapitalization - held from 2013 to 2015 - of Greek banks. The unfolding argument here is that bank recapitalizations in Greece principally fall within the policy responses of bank-based economies; but, after an overall consideration, the policy recapitalization in Greece appears to be a "hybrid" or an exception among the above typologies. During the first two rounds of bank recapitalizations (May-June 2013 and April-May 2014), Greek banks used access to the state rescue fund (Hellenic Financial Stability Fund - HFSF) to secure a voluntary plan (Table 1 and Table 2). This, in turn, made the ultimate terms of assistance more generous and the likelihood of repayment of assistance lower than with a compulsory plan. Thus, the Greek state was forced to negotiate with systemic banks to a far greater degree than in the other cases (in the UK and the US), where the state made a "take-or-leave it" proposal.

Table 1. Fund resources of systemic banks' recapitalizations (€ billion)

Funds from public resources	Funds from private resources
First recapitalization (May-June 2013)	
25	3,1
Second recapitalization (April-May 2014)	
n/a	8,3
Third recapitalization (Dec 2015)	
5,5	5,3

Source: HFSF's Annual Financial Reports

Table 2. HFSF participations in the systemic banks' share capital

National Bank of Greece	**Alpha Bank**	**Eurobank**	**Piraeus Bank**
First recapitalization			
84,9%	83,6%	98,5%	81%
Second recapitalization			
57,4%	66,2%	35,4%	66,9%
Third recapitalization			
40,3%	11%	2,3 %	26,4%

Source: HFSF's Annual Financial Reports

The third round of recapitalization ended up with the transfer of control of the Greek banking sector to foreign funds ("dehellenization") which acquired control of the banks at fire-sale prices (for a detailed account, see Kolliopoulos, 2020). In more precise terms, the term "dehellenization" -which was introduced in the public debate after the third recapitalization-critically refers to changes related to: the ownership and control of banks by distressed funds, the sweeping replacements of many prominent governing board members and the changes in the corporate governance, mainly made with the entry of foreign executives. "Dehellenization" is also related to the liquidation and sale of foreign assets and of a significant portion of the shares held by the HFSF. Finally, this term refers to the transfer of politically "sensitive" assets (such as loans to small and medium-sized businesses and to the agrarian sector) to foreign investors. As such, significant changes in the Greek variety of financial capitalism could be attributed to the lack of a national lender of last resort. This translates into the Greek banks' dependence on foreigners to refinance a substantial fraction of bank and sovereign liabilities, which made them subject to sudden stops. The third recapitalization of Greek banks, therefore, was not an outcome of power games between banks and the government, because neither had the influence to determine unilaterally the terms of rescue packages. Instead, the reciprocal weakness of private and state actors resulted in the foreign ownership of the Greek banking sector. In this context, the VoC literature, with its domestic institutionalist focus, isn't able to accommodate external intervention. Essentially, the core argument of the VoC literature - that is, that the healthy banks and the nature of interbank relationships demonstrate substantially different power resources for failing firms and the ability of state policymakers to set (more or less) stringent conditions - reaches its extreme limits.

3. Theoretical framework: Applying the VoC framework to crisis responses

The classic reference on the comparative political economy of finance is John Zysman's (1983) *Government, Markets and Growth: Financial Systems and the Politics of Industrial Change*. Zysman developed a theory on how bank activities created a structure that influenced government capacity to steer the economy and shaped government-business interactions. He outlined three main varieties of financial capitalism (government-led credit-based, bank credit-based and capital market-based) based on the potential pressures on non- financial companies from holders of their debt and equity. The maturity of bank lending, either short or long-term, was an important part of his distinction between financial systems. More specifically, in bank-based financial systems such as those in Germany and Japan, banks play a crucial role in mobilizing savings, allocating capital, overseeing the investment decisions of corporate managers, and in providing risk management vehicles. The long-term maturity of bank lending leads banks to take large enough ownership stakes in firms to influence firm decisions (relationship-based financing). In market-based financial systems, such as in the United Kingdom and the United States, corporate management is reliant on the capital markets. Investors have very little control over firms. Nevertheless, this implies that firms must consistently show short-term positive returns or lose the ability to access capital markets (arm's length financing). In statist bank-based systems, such as in France, the state controls the flow of capital to firms and can direct credit to those sectors it wishes to promote. This enables the state to promote new industries more easy than in liberal systems, but allows troubled firms to survive because of their political influence rather than their economic performance.

However, the impact of "financialization" (among others see Turner, 2016; a sociologist view is articulated in Knipper, 2005) and interdependence of global financial markets (Streek, 2010; Howell, 2003) challenged Zysman's typology. As a result, the privatization of the French banking system in the 1980s, for example, made the statist bank-based model more or less obsolete (O'Sullivan, 2007). Furthermore, Rajan and Zingales (2003) remarked on the expansion of “arm’s length financing” in Europe owing to the process of financial integration, both at the European level and the worldwide level, and the revolutionary nature of innovation. Other scholars have illustrated that the modern credit-driven system, unlike the classic Zysman bank-based model, is less and less likely to be dependent on deposit-taking. Thus, Hardie, Howarth, Maxfield and Verdun (2013: 1-21) have proposed the “market-based banking model” as an analytical tool that can be applied to modern financial systems. In a “market-based banking model”, the financial institutions rely on the market to enable their lending in a variety of ways; most importantly, by transforming debt into investment.

Hall and Soskice (2001), with their groundbreaking “Varieties of Capitalism” (VoC) approach, breathed new life into the literature of comparative political economy. The VoC framework places emphasis upon longstanding institutional structures and coordination problems of different models of capitalism that shape economic performance. In particular, “It provides a new analysis of the pressures governments experience as a result of globalization and one capable of explaining the diversity of policy responses that follow” (Hall and Soskice, 2001: vi). The basic idea is that firms are the central actors in the economy, whose behavior is crucial for economic prosperity (Hall and Soskice, 2001: 6-8). Adopting a relational view of the firm, the VoC approach assumes that success in each of these endeavors depends on efficient coordination with other actors. As a theory of institutional complementarities, the efficient coordination with other actors is crucial for the VoC approach. Firms must engage with other actors in multiple spheres of the political economy: to raise capital from financial markets, to regulate the firm-employee relations (i.e., wages, working conditions), to invest in education and training, to develop inter-firm relations in order to ensure inputs and technology, and to expand product markets (Hall and Gingerich, 2009: 4).

The VoC framework draws a distinction between two modes of coordination: liberal market economies (LMEs) and coordinated market economies (CMEs). In LMEs (such as the USA, UK, Australia, Canada, New Zealand and Ireland), firms coordinate with an “arm’s length exchange of goods or services in a context of competition and formal contracting” (Hall and Soskice, 2001: 8). By contrast, in CMEs (such as Germany, Japan, Denmark and Sweden) firms rely more on collaborative relationships to resolve their coordination problems. Nevertheless, the general approach of Hall and Soskice left in ambiguous positions six countries: France, Italy, Spain, Portugal, Greece and Turkey (Hall and Soskice, 2001: 21). As a result, the southern European states are not clearly adapted into the two ideal types. An alternative formulation for the southern European states is provided by Molina and Rhodes (2005). Working within the VoC framework, they propose an additional model: Mixed Market Economies (MMEs). In MMEs, unions and employers have stronger organizational structures than in LMEs. However, due to their fragmentation (Featherstone, 2008), they are unable to deliver collective goods or create strong autonomous forms of coordination as CMEs do. In MMEs rather, “organized interests use their resources to lobby the state for protection or compensation” (Hassel 2014: 7). Consequently, they appear as hybrid systems or “a cluster of countries in transition with only partially formed institutional ecologies” (Hancke, Rhodes and Thatcher, 2007: 4).

4. Testing the limits of the VoC literature in the crisis

Generally speaking, it is true that the examination of national financial systems was not “in the mainstream of VoC literature, which has maintained a more narrow focus on institutional complementarities in the welfare state component of national systems of capitalism or labor relations within the state” (Hardie, Howarth, Maxfield and Verdun, 2013: 5). Yet, in the aftermath of the global financial crisis, the VoC literature was enriched by academic endeavors, in order to explore the determinants - besides the politics of reform in the light of adjustment programmes (*inter alia*, see Hall, 2017) - of bank rescue packages (Mitchell, 2016; Grossman and Woll, 2014; Woll, 2014; Schneider, 2014; Kluth and Lynggaard, 2013; Weber and Schmitz, 2011). Because "institutions determine actor strategies" (Deeg and Jackson, 2007: 159), it causes no big surprise that such analyses mainly scrutinize the institutional factors contributing to differences among national approaches to crisis intervention. Similarly, other scholars illustrate how institutional features of national banking sectors convincingly account for the divergence in EU member state preferences on capital rules (for example, Thiemann, 2014; Howarth and Quaglia, 2013).

Institutionalist literature does not deny that the specific form and size of the crisis in each economy matter (for an overall view see Laeven and Valencia, 2010; Laeven and Valencia, 2018 and for the US economy in particular see Cukierman, 2015); nor that other political factors -for example, government partisanship, electoral cycle and institutional design- (Schneider and Tobin, 2020; Behn *et al.,* 2013) or "regulatory capture" view -that is, how the bankers capture policymakers in order to get more favorable treatment- (Culpepper and Reinke, 2014; Braun and Raddatz, 2009) influence the conditionality attached to state aid. That is not, however, the whole story. Crucially, explaining policy variance requires looking at the national differences in the structure of financial industries and the political organization of the banking sector. The variations in government responses can be explored by the organization of the banking sector and its collective action capacity. To put it precisely, the institutional variables driving the different systems, especially "the nature of interbank relationships and the resulting differences in levels of collective action", demonstrate "substantially different power resources for failing firms in the two kinds of systems, with attendant differences in the ability of state policymakers to address the concerns of nonfinancial actors versus financial ones" (Mitchell, 2016: 36). Stronger private governance institutions enable financial firms to act collectively to shape state policy responses. Therefore, states will be under greater pressure to provide aid on generous terms. In other words, "where banks maintained close but individualized relationships with the government, governments impose the conditions in a top down manner". Where banks negotiated collectively, by contrast, they helped to "ring-fence the failing banks and use only a minimal amount of tax payers' money" (Grossman and Woll, 2014: 585, 595).

Across financial systems, differences in financing structure might explain different conditionalities. Private bank-based systems (whether corporatist systems or mixed market economies) resolve crises with mostly facilitative rather than mandatory arrangements and more generous conditionality, relative to liberal systems. Offering adequate sums for bank rescue measures might suffice to keep up financing flows to the non-financial sector because relationship banking ensures credit flows as long as banks are sufficiently capitalized. But in market-based systems, additional measures might be necessary in order to enable bank lending. Because relationships between banks and firms in liberal systems are of an arm's length nature, healthy firms are more concerned about generous aid to distressed firms. After Lehman, the authorities had to encourage banks to fill the gap by attaching specific lending requirements to state aid (Weber and Schmitz, 2011: 7). Moreover, interdependence and private governance create incentives or disincentives for healthy banks to support failing ones. Therefore, private bank-based systems resolve crises with minimal state involvement or investment (for example Denmark) - relative to liberal systems where the state is frequently the first resort for a failing financial institution. When the state does get involved, however, banks and private governance institutions will press -in bank-based systems- for terms more favorable to the failing banks (for example Germany and France) and more costly for taxpayers (Mitchell, 2016: 53).

In times of crisis therefore, state responses appear to follow generally consistent patterns which are not the outcomes of path-dependent processes. Nevertheless, Woll (2014: 6,7) underlines the importance of the power to remain “collectively inactive”. This means that financial institutions were most powerful in those settings where they could force governments to deal with banks on a piecemeal basis. More specifically, Woll (2014) develops the argument that the nine big financial players forced the U.S. administration to address individual circumstances, with the Troubled Asset Relief Program (TARP), with more favorable terms for their interests. However, such a conclusion is not precise because it confuses the size of a rescue package with the generosity of the conditions attached. As a matter of fact, huge sums of state aid do not necessarily imply a substantial part of the burden for governments. More stringent conditions to banks help the amount of state aid to be recovered. In fact, the United States under the TARP made direct investment, or partial nationalization, in failing banks. Partial nationalization was mandatory for the nine largest US banks to eliminate the stigma of accepting state aid. Moreover, state aid in the U.S. imposed tough conditionality on failing banks thus making thus state aid a “take-or-leave it” proposal. The state would require after five years a moral hazard-limiting dividend of 8-10 percent to give banks an incentive to repay early (Mitchell, 2016: 147, 197; Tooze, 2018: 196). As a result, despite individual banks’ influence on policy making prior to the crisis, banks lost significant power once they failed (Culpepper and Reinke, 2014). By contrast, the banks’ fear of stigma of having to rely on state aid forced the Germans to offer aid on more generous terms. Also, Germany relied on voluntary plans and avoided state ownership (nationalizing only the Hypo RE).

Regarding mixed market economies, such as in Italy and Spain, political and economic actors do not have similar coordinating capacities as in corporatist bank-based systems. However, organized interests used their political influence to lobby the state for protection against domestic (in Spain) or foreign competitors (in Italy). In Italy for example, there was strong reluctance -in 2017- to abandon the transfer of control of local banks of Veneto to foreign competitors. Under such conditions, the Italian government broke the EU obligations, which ban state aid, to preserve national financial institutions, in ways that are incompatible with foreign ownership.

5. Verifying the VoC literature’s hypotheses: Generous conditionality in the first two recapitalizations of systemic Greek banks

In the light of the above, the case of the first two recapitalizations of systemic Greek banks seems to be in line with the main hypotheses from comparative studies applying the VoC framework. In fact, in the Greek bank-based economy resolving a financial crisis involved i) facilitative rather than mandatory actions; ii) state aid with less stringent conditions potentially resulting in significant losses[2]; and iii) relatively high levels of collective action by systemic banks. The first recapitalization of four systemically important banks started in April

2 In Greece particularly, IMF staff estimate that the government spent about €57 billion on capital support and bank resolutions, of which about €7 billion was repaid or recovered via liquidations. These losses amount to a quarter of 2018 GDP and account for one of the largest bailouts among the eurozone countries (IMF 2019: 52-54).

2013. However, to that end, three successive governments drew up different plans on fulfilling banks' capital shortfall. Different ideological preferences, vested interests and contradicting policy priorities unfolded in the case of banks' recapitalization. From the initial point (2010-2011) of managing banks' recapitalizations via common stock with voting rights attached (an idea supported by the Panhellenic Socialist Movement - PASOK - under George Papandreou), the recapitalization process ended up with two pro market capital injections (2013 and 2014) implemented by the conservative New Democracy government allying with PASOK, under Evangelos Venizelos, this time.

The background to the case is that the first financial assistance programme was signed in May 2010. The MoU required the creation of a rescue fund, the Hellenic Financial Stability Fund (HFSF), anticipating a further worsening in asset quality down the road, which impacted on the bank capital bases. The HFSF was setup in 2010 as a capital backstop for viable banks, initially, amounting to €10 billion, financed by the international financing package. For their part, the Greek banks were found to be significantly reluctant to a prospect of making use of government funds. In mid 2010, the head of the Hellenic Bank Association rejected the possibility of using public funds for bank capital needs, affirming that "we are satisfied with the Hellenic Financial Stability Fund establishment law […] Beyond that […] we hope we won't use it" (Hellenic Bank Association, 2010). Furthermore, for Greek bankers

> "bank capital adequacy ratios are very satisfactory [...]. In other countries the banks failed and governments saved them; that is not the case in Greece for any bank, which is the reason why it can be said that the fundamentals are satisfactory. The problem of liquidity is not related to a lack of sufficient capital adequacy ratios but to the deterioration that the banks have suffered due to the sovereign credit rating downgrading" (Hellenic Bank Association, 2010).

Consequently, throughout the final negotiations of debt restructuring (by the interim coalition government under Lucas Papademos), maintaining the private management of banks was a solid choice of the Troika that facilitated the voluntary character and made the conditions of the rescue programme more generous. The IMF insisted that the private management of banks should be kept "to the maximum possible", while eligible banks for recapitalization should be given the opportunity to receive HFSF assistance "in such a way as to provide incentives for private investors to participate in the recapitalization" (IMF, 2012: 27,28). Intervention in favor of maintaining the private profile of the banking system was made also by the Hellenic Federation of Industrialists: "Banking would become more recessionary and put the tombstone to growth", in case of nationalization. "It is necessary", the Federation of Industrialists' statement emphasized, "to adopt global practices in the modern economy: to allow private equity to participate in the recapitalization process" (Hellenic Federation of Industrialists, 2012).

Finally, the conservative government of New Democracy allying with the socialist PASOK set up the final framework. According to the Cabinet Act 38 of 9 November 2012, private shareholders were to retain control of the core banks, provided they had subscribed no less than 10% of the newly issued common shares. The HFSF was to subscribe the remaining unsold shares. Yet, should the Fund's participation exceed 80% of the common equity capital increase, the HFSF shares would carry full voting rights, implying an effective nationalization of credit institutions. It is important to note that the recapitalization framework according to the Article 3 of the Cabinet Act 38 of December 2012 makes provisions for HFSF to exit from bank ownership by offering warrants to private investors involved in a capital increase. To attract private investors, new shares issued by the core banks received free warrants to buy all HFSF's shares at a predetermined price (strike price) at regular points in time over the next 54 months (i.e. up to December 2017). Warrants provided significant incentives to the private sector, i.e., high number of HFSF shares per warrant. Each warrant corresponds to a number of shares that depends on the extent of private investors' participation in the capital increase. At the end of the day, during May-June 2013, the four largest Greek banks completed their equity capital increase. Three out of the four banks managed to derive more than at least 10% of their required capital requirements, i.e. almost €3,1 billion, by private resources. The final HFSF contribution to the recapitalization was by European Financial Stability Facility (EFSF) bonds with a nominal value of €24,998 billion, while the total equity increase of the 4 banks was €28,595 billion resulting in less use of EFSF resources, which were committed to the HFSF, by €3,597 billion. Moreover, with the cover of funding gaps of non-systemic banks under liquidation, HFSF total contribution amounted to €30,767 billion (HFSF, 2014: 53). After the completion of this plan, one core bank (Eurobank) was fully under HFSF control, but the other three remained under private management, even though more than 80% of their capital was owned by HFSF. Finally, the three systemic banks which managed to raise at least 10% of the new shares issued for recapitalization, avoided a full public control.

After the second quarter of 2013 and having completed the first recapitalization process on the basis of the 2012 capital needs, the Bank of Greece commissioned the consulting firm BlackRock to carry out an independent diagnostic study on the loan portfolios of all Greek commercial banks. This requirement was in line with the second and third review of the second MoU in April and June 2013 respectively. Greek authorities committed themselves to step up measures to "minimize the significant risks as Greek banks had suffered heavy losses on both their investments in government bonds and their loan portfolios due to the long recession of the Greek economy" (European Commission, 2013: 37). Thus, "their recapitalization became crucial in maintaining the banking sector's capability to support the real economy" (European Commission, 2013: 37). Consequently, the Greek government set up the framework for the second recapitalization.

Thus, the HFSF was enabled to sell its own equity participation (or part of it) to private investors, not just below its acquisition price but even below the current market price (fair value), a form of subsidy made by the Greek authorities. Moreover, according to the new regulatory framework, the HFSF could participate in the recapitalization process exclusively as a "backstop" of last resort. In this way, further public control of Greek banks was minimized as this regulatory framework required that the HSFF be activated only in the case of covering extra capital needs after any involvement of private sector investors. Therefore, during the second recapitalization process, there was tough pressure on equity prices, resulting in significant losses of the HFSF' equity participation, which was the major shareholder of banks after the 2013 recapitalization. That said, the second recapitalization was fully covered by private equity investments of €8,3 billion. Nevertheless, the process caused a large devaluation of the HFSF's assets due to severe stock dilution. The HFSF's stake in the four systemic banks was worth €18,5 billion in the spring of 2014. On the 31st December 2014, after SYRIZA triggered early elections, the fair value of the HFSF's portfolio amounted to €11.622 million, while on the 31st December 2013 to €22.585 million. In combination with a very limited exercise of warrants granted to the private investors on the occasion of the first recapitalization, the HFSF's participation in the systemic banks decreased significantly (HFSF, 2015:7).

6. Testing the extreme limits of applying the VoC framework to crisis responses in a monetary union

Although initial policy responses in Greece are in line with consistent patterns of policy responses in other bank-centered economies, the third recapitalization of banks caused significant changes in the Greek variety of financial capitalism. Not only did banks' collective capacity action collapse in 2015, but also the state capacity to protect the domestic ownership of the banking sector was very limited. This was a feature also found with the Italian government in 2017. Explaining the paradox, therefore, requires taking into account the pure political role of the ECB as lender of last resort. In short, we have to examine the liquidity provision by the ECB as a lever of restructuring the banking system. Greece's membership in the monetary union meant that lender of last resort tools were not directly controlled by the national central bank. In addition, loose credit following euro-accession and credibility conferred by Eurozone membership led the banks and the state in Greece to a debt-driven growth funded by external capital inflows, which made them subject to sudden stops (Pagoulatos 2018). Generally, the nature of sovereign debt in a monetary union is different compared to countries which can control monetary policy (De Grauwe, 2011). Sovereign currency countries can use their central bank to combat a liquidity squeeze, whereas member states in a currency union cannot. Therefore, a whole range of structural factors significantly increase the vulnerability of countries which constitute a monetary union. In the early years of the crisis, however, the liquidity measures of the ECB kept financial institutions in southern Europe afloat (Pisani-Ferry 2014: 125), filling in the gap of a banking union in which member states would take joint responsibility for losses. As a result, tensions in financial markets eased and spreads stabilized. Thus, ECB policies, perhaps unsurprisingly, became less predictable. The ECB developed into an "unexpectedly strong and autonomous European player" (Enderlein and Verdun, 2009: 501) and gradually, the ECB reluctantly became the "only game in town" (El-Erian, 2016**)**.

On the other hand, the European institutions did not have the authority, at the early stages of the crisis, to intervene in national banking policies (Pisani-Ferry, 2014: 149). The funds for recapitalization that had been created in 2008-2009 "were spotty and facultative rather than mandatory in their application" (Tooze, 2019). National governments (mainly the German) were unwilling to disturb the comfortable status quo and national programs were defined by "the circumstances of the banks and local politics" (Tooze, 2018: 194). As a result, Europe focused on fiscal sinners, as Greece was seen. There was "a double pretense" as "[t]he troika went on pretending that Greek debt was sustainable, if only Athens adopted enough austerity" (Tooze, 2019).

However, Merkel concluded that "falling dominoes after a Grexit could lead to far graver economic and political consequences" (Mody, 2018: 329). Thus, Germany accepted the bail out of Greece of May 2010. Nevertheless, there was a "substantial element of hypocrisy in the German positions in that, in effect, the May 2010 programme amounted to a bailout of German and French banks" (Brunnermeier *et al.,* 2016: 183). The German persistence on moral hazard therefore was "intellectually appropriate", since "the German government had previously conducted a large and politically unpopular bank rescue of 480 billion in the immediate aftermath of the 2008 crisis" (Brunnermeier *et al.,* 2016: 183). Moreover, the bank stress tests in Europe lacked the backing of clear recapitalization facilities (Santos, 2017: 80). Meanwhile, the British had tipped the discussion in favor of recapitalization. Rather than buying bad assets or guaranteeing more borrowing by the banks, the government should inject share capital (Tooze, 2018: 196). As was the case in monetary policy, the U.S. authorities as well understood very early the urgency of stabilizing their banks (Mody, 2018: 227-229).

Since the creation of the European banking union and the establishment of the single supervisory mechanism (SSM) that followed[3], the ECB' Governing Council had increased even more its political role on the grounds of upholding the criterion of solvency of banks receiving emergency liquidity assistance (ELA). ELA provision is monitored for compliance with the prohibition on monetary financing which applies to the Euro system and is not limited to monetary policy counterparts. It is available to a broader set of credit institutions, provided they are solvent. The set of assets accepted as collateral for ELA purposes is wider than the one required for the Euro system monetary policy operations. Therefore, the cost of liquidity drawn under ELA is also higher than the marginal lending rate (Praet, 2016).

As the crisis unfolded, ELA provision assumed significant political influence over bank rescue packages. In three cases, the ECB's Governing Council threatened to object to restrict the provision of ELA (Koutsiaras, 2020). Whereas in the first two cases (Ireland in November 2010 and Cyprus in March 2013) the ECB called for resolution of insolvent banks (with bail out in Ireland, with bail in Cyprus) prior to ELA provision, in the Greek case no insolvent banks' resolution was demanded. Initially, the decision of the ECB's Governing Council to lift in early February 2015 the waiver affected marketable debt instruments issued (or fully guaranteed) by the Hellenic Republic. The Governing Council decision was based on the unsuccessful conclusion of the programme review. Suspension led the four systemic banks to the ELA. Thus, from the approximately €5 billion of liquidity outstanding at the end of January 2015, it jumped to approximately €87 billion at the end of June. The paralytic uncertainty around the Greek economy triggered a massive deposit outflow. Between December 2014 and June 2015, deposits by domestic corporations and households went down by €37,9 billion, a reduction equivalent to nearly a quarter of the total deposits (Bank of Greece 2015). More importantly, following the Greek government's announcement in June 2015 of a referendum on the terms of a third adjustment programme, the ECB's Governing Council decided to refuse of increase ELA provision. It was, therefore, a pure political decision under which, as the situation in Greece, in particular, showed, "the assessment of a bank's solvency is intertwined with the decision to provide or prolong financial assistance to the country itself, if that bank has outstanding loans to its national government" (European Parliament, 2017: 5). As a result, the acute liquidity crisis generated by the ECB decisions turned into a solvency crisis for the entire Greek banking system.

7. Substantial changes in Greek variety of financial capitalism after the third recapitalization

Consequently, in a make-or-break EU summit in August 2015, the Tsipras government was forced to accept a new bailout deal, with even stricter measures than those the Greek people had rejected earlier in the summer. The necessity for recapitalization was acknowledged in the July 12 2015 Euro Summit's agreement, which provided for up to €25 billion for their bank capital shortfall. In the fall of 2015, the ECB conducted a comprehensive assessment of the four systemically important Greek banks in line with the decision by the Euro Summit on 12

[3] The SSM's founding texts confer supervisory tasks on the ECB. The ECB assumed its supervisory tasks in November 2014.

July and the third Memorandum of Understanding signed on 19 August (European Commission, 2015). Overall, the stress test identified a capital shortfall across the four participating banks of €4,4 billion under the baseline scenario and €14,4 billion under the adverse scenario. What became clear was that the process of recapitalization had to be completed before the end of 2015 so as to avoid the full implementation of the EU Bank Recovery and Resolution Directive (BRRD) that was set to come into effect on January 1st of 2016. The BRRD requires 8% of bank liabilities be bailed in before the disbursement of resources by the ESM. In practical terms this would have meant a partial haircut on unsecured deposits over €100.000.

As a result, after the third recapitalization, foreign investors took control of systemic Greek banks, whilst the equity stake value of the state rescue fund was extremely diluted. More analytically, foreign private funds basically met capital needs of the four Greek systemic banks (€5,3 billion), while of the €25 billion initially earmarked, only €5,5 billion was used up through the HFSF for the banks' extra capital needs. In the rigorous context of the third MoU, the priority was to attract private funds for bank recapitalization. In fact, foreign private funds participation prevailed in the Greek banking system. For example, Fairfax owned 17,29% of the Eurobank and Capital Group owned 8,54%, followed by Mackenzie, Wellington, Fidelity and Wilbur Ross with less than 5%. In the case of the Alpha Bank, the largest private shareholder was John Paulson with 7,32%, followed by Crédit Agricole (4,98%) and Paramount. Regarding Piraeus Bank, private investors who participated in the private placement controlled 51,15% of the bank. It is noteworthy to mention the participation of John Paulson in the Piraeus Bank as well, with a percentage of 9.13%. Lastly, 6.8% of the National Bank was transferred to foreign funds after the private placement, while 11.07% to Greek private investors (Mariolis, 2016).

Only extra capital needs under the adverse scenario of Piraeus Bank (€3,3 billion) and of the National Bank (€2,029 billion) were financed with public money. For this capital injection, the HFSF' participation was covered at 25% with common shares with voting rights attached and at 75% with contingent convertibles (CoCos) with a coupon of 8% per annum. As a result, under the third bank recapitalization, the participation of the Greek shareholders in four significant banks was almost eliminated, and the equity stake value of nearly €25 billion of the HFSF held from the first recapitalization in the summer of 2013 dropped dramatically. In the tough conditionality attached to the third MoU, the priority was to attract private funds for bank recapitalization. That meant extreme stock dilution through writing off the HFSF' shares and selling them at important discount to private investors. By the end of 2014 the public rescue funds' stake was worth €11,6 billion. The share value dropped to "€7,5 billion at the end of June 2015, when capital controls were imposed" (Xafa, 2016). Moreover, in the summer of 2014, the stock market value of the four systemic banks rose to €33,4 billion, while at the end of November 2015 the prices at which capital increases took place dropped to €747 million (Table 3). Consequently, all the historic shareholders lost their funds, with large losses for the Greek State particularly, which was the largest shareholder of the banks (Papadogiannis, 2015). Accordingly, HFSF's participations shrunk from 66,2% to 11% in the case of Alpha Bank; from 35,4% to 2,3% in the case of Eurobank; from 57,4% to 40,3% in the case of the National Bank of Greece and from 66,9% to 26,4% in the case of Piraeus Bank (HFSF, 2016: 39,40).

Table 3. Significant share price drop during the 3rd recapitalization (Price performance prior to the reverse stock split)

Banks	**disposal stock price (€)** 3rd recapitalization	2nd recapitalization
Piraeus Bank	0,003	1,7
National Bank	0,02	2,2
Eurobank	0,01	0,31
Alpha Bank	0,04	0,65

Source: HFSF's Annual Financial Reports

Additionally, the transfer of ownership control caused significant changes in the management of Greek banks. The new corporate governance framework, despite improving governing boards' independence against the political system, cut off the necessary connection of the Greek banking system with the real economy. Greek banks traditionally - as in a mixed market economy - had businessmen, union leaders and politicians on their boards. Yet, under the third MoU, Greece agreed to "de-politicise" relations between governmental officials and the bankers. Under the pressure of international creditors, amid fierce lobbying by bankers against the above framework, the Hellenic Parliament established the new corporate governance rules, which in effect banished "local business magnates and former politicians. The result is a small pool of eligible directors and a large pool of frustrated elites" (The Wall Street Journal 2016). In this context, with the assistance of an international consulting firm, the HFSF evaluated the boards of directors of the Greek systemic banks. The evaluation was completed in July 2016 (HFSF 2017: 11). As of the end of 2016 significant changes took place: 44% of the total board headcount (excluding State and HFSF Representatives) and 58% of the total non-executive directors (excluding State and HFSF Representatives) were replaced (HFSF 2017: 11). As a result, the "dehellenization" meant that many governing board members of banks, with their significant understanding of the domestic market, had been substituted for by foreign experts.

8. Conclusion

Competing views have been articulated about the determinants that shaped policy responses to banking crises. Were bank bailouts a spontaneous response by governments to the severity of the crisis or did the bankers' influence "capture" rescue packages on favorable terms? As illustrated by the rescue policy for the Greek banking sector, institutional features matter and lead to similar bank bailouts, despite the different types of exposure to the financial crisis. Systemic banks and the nature of interbank relationships demonstrate substantially different power resources for failing firms and the ability of state policymakers to set (more or less) stringent conditions. Applying a "Variety of Capitalism" approach to crises responses, this paper verified the principle hypotheses of institutionalist scholarship from comparative studies. For a bank-based economy, such as Greece, resolving a banking crisis involves i) facilitative rather than mandatory actions; ii) state aid with less stringent conditions potentially resulting in significant losses; and iii) relatively high levels of collective action by systemic banks. The first two recapitalizations of Greek banks (held from mid 2013 to mid 2014) were designed by policy makers (the Troika and Greek governments) to maintain the private management of banks. This policy priority facilitated, therefore, the voluntary character and made the conditions of the rescue programmes more generous.

After the third round of recapitalization in late 2015, however, the control of Greek banks was transferred to foreign hands (in a process of "dehellenization"). As such, significant changes in the Greek variety of financial capitalism occurred, including sweeping reforms, *inter alia*, in their corporate governance, mainly made with the entry of foreign executives. In the Greek case, then, the VoC approach reached its limits. Neither the state nor the banking system had the power to set the conditions of the third bailout. Consequently, foreign funds covered capital shortfalls of all systemic banks. That is an exceptional case among European bailouts. To explain the Greek paradox, this analysis exploits arguments from the political economy of the Eurozone crisis. More specifically, the ECB' s lender of last resort facilities in extreme cases -as it was in mid 2015 in Greece- could assume a catalytic role for bank restructuring. This is because the assessment of the banks' solvency was intertwined with the ECB's decision to provide financial assistance to the country itself. Thus, the potency of the VoC framework falls as key interventions are made by external actors.

Lastly, the Greek case points to a broader research question: what are the long term consequences of "dehellenization" for the Greek variety of financial capitalism and the surrounding political economy? Does the "dehellenization" imply deeper transformation to (or a convergence towards) a more liberal financial model? These are open questions for future research and they warrant a range of cross-disciplinary perspectives being brought to bear to fully address them.

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