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A controversial consolidation

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A SURPRISE offer by Piraeus Bank, Greece's fourth largest, to buy the government's stakes in two other lenders could be the start of a much-needed consolidation in the country's banking industry. It could also give a boost to the big privatisation programme that the government is planning, to help cut its crippling debt burden. But the proposal is likely to prove highly controversial.

Piraeus's boss, Michalis Sallas, a smart and stealthy mover in Greek banking, announced his offer to pay the state €701m in cash for a 33% share of TT (Hellenic Postbank) and a 77% share of ATE (Greek Agricu Bank) on July 15th. Both banks are losing money, but TT is generally regarded as the ap Greek state's eye because of its solid deposit base. Quite the opposite, ATE has long bee administrations as something of a trash bin for bad loans. Both institutions also have a s significance. TT is associated with the growth of the Greek petit bourgeoisie: it is a hous brand that spells security. Greece's large agricultural class has emotional ties to ATE tha to sever.

According to Piraeus, if the three banks join forces they will form the second-largest len domestic industry, with combined assets of around €105 billion and deposits of €64 billi talks of cost reductions of up to €220m and gains from synergies of up to €100m (http://www.piraeusbank.gr/ecPage.asp?id=233460&lang=2&nt=103&sid=&fid=23345 However, Standard & Poor's responded to the news of the offer by putting Piraeus Bank watch list for a possible downgrading of its credit rating—despite the deal's merits in ter improving Piraeus' business profile and deposit base:

> *"...we believe that these benefits would be offset by the higher credit risk that would be embedded in the consolidated entity's loan book compared with Piraeus' own credit por We also believe that the execution risks that would arise from the acquisition would be exacerbated by the current sharp economic contraction and the weak operating environ expect in Greece for the coming years. Additionally, if the acquisition is completed unde terms of the offer presented by Piraeus, the bank estimates a pro forma solvency ratio*

consolidated entity of 9%, 80 basis points below Piraeus' current total solvency indicato

The Greek finance minister, George Papaconstantinou, had made an urgent call for cons among the banks (http://www.forexyard.com/en/news/Greek-banks-must-regroup-urge finance-minister-2010-07-14T202712Z) just a few hours before the offer was announcec government has said it will hire independent consultants to assess Mr Sallas's offer. It is receive rival bids for the bank stakes. It will also have to deal with the public's likely wo about Piraeus's proposal.

Like other Greek banks, Piraeus has been getting capital injections from the government 2008. None has paid back the state yet. So Greek taxpayers may be indignant at the sig lender that they rescued spending large amounts of money on a potentially highly profit before it has repaid them. Employees of TT and ATE have already expressed their oppos Friday they went on strike in protest at a "bankers' conspiracy against the property of th people," warning the government: "Don't you dare".

Although the deal is likely to be politically awkward, in principle there is little doubt tha banking system, and the country's precarious finances, would benefit greatly from consc produce a smaller number of stronger, more efficient institutions. To satisfy the public's and get the best value for the taxpayer's money, instead of negotiating the sales of the s shareholdings in a murky, rumour-driven process—as is usual in Greek public life—the government would do well to follow the letter of the existing legal framework for selling assets. Doing things openly and by the book will be a bit of a novelty for a Greek goverr given the long list of privatisations that Mr Papaconstantinou is hoping to push through, the TT and ATE bank stakes is a good opportunity to start getting better at it.
