

Regional financial centres: pathways for Greece and Cyprus

Anthony Bartzokas (UoA, LSE and UNU-MERIT) and Dimitris Sourvanos, (EBRD Principal Counsellor, writing in a personal capacity) - with additional input from Apostolos Thomadakis (CEPS and ECMI)

Introductory slide deck

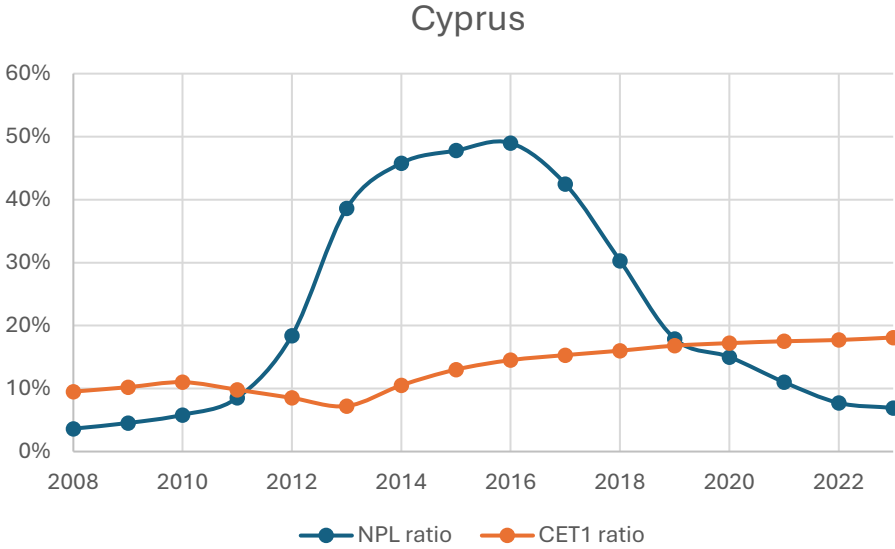
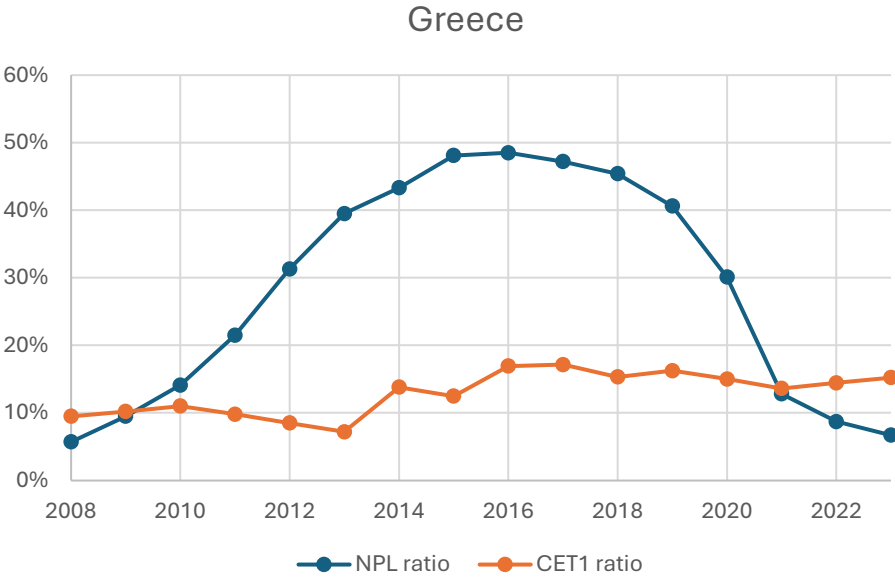
LSE-Hellenic Observatory Online Public Event

25 November 2024

Introduction

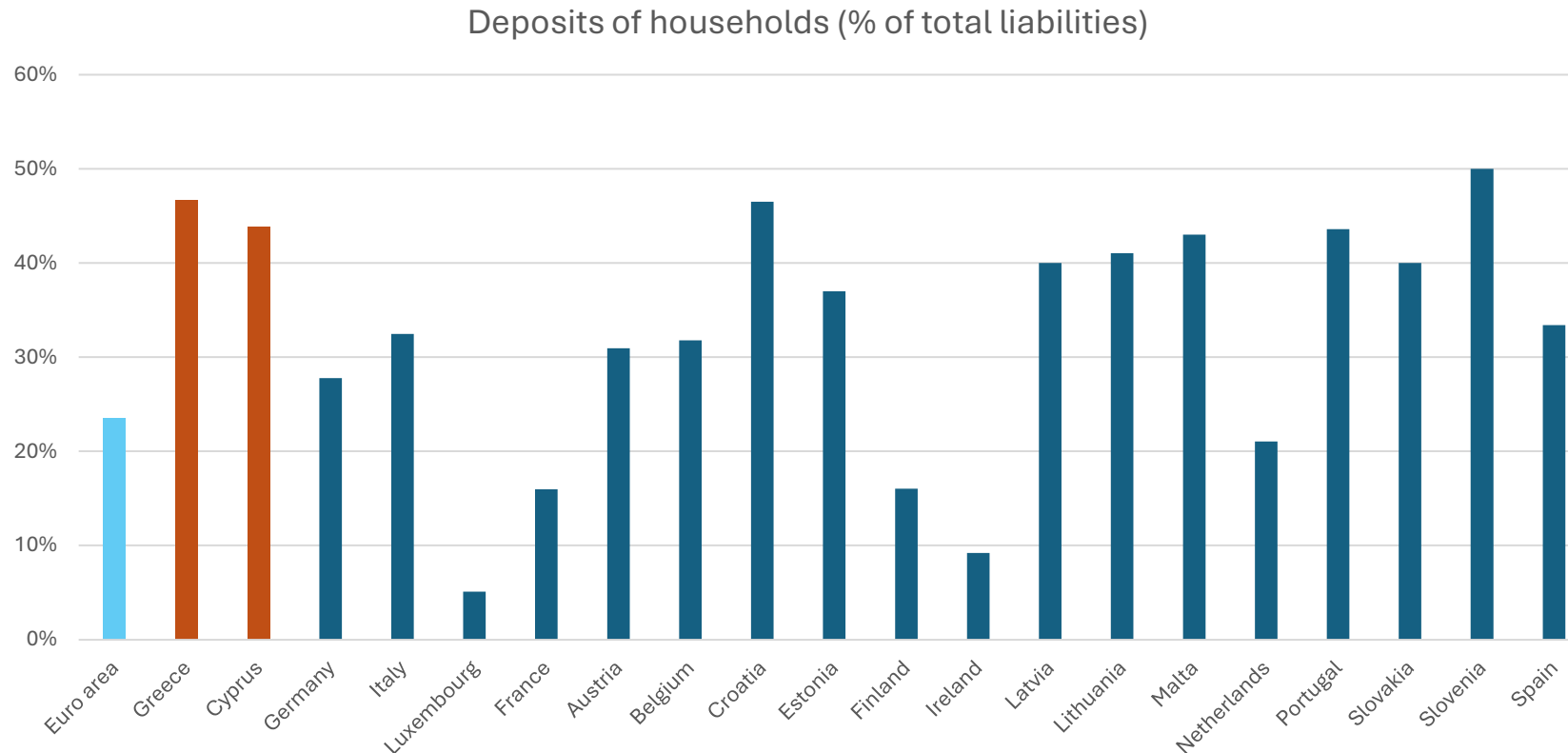
- After a long adjustment process, financial systems in Greece and Cyprus have gradually regained **credibility and access** to international financial markets for inter-bank lending.
- Core idea: We consider the adjustment of banking balance sheets in three phases. First, **restructuring the asset side**, second **improving the profile of liabilities** and third **addressing growth challenges** on the asset side.
- In previous episodes, **asset acquisition and client support** have been the preferred modalities for internationalisation.
- The success of regional financial centres calls for new paths of engagement aiming at the improvement of **external positions**.
- **Market conditions** have changed in terms of technical infrastructure, regulatory requirements, and the increasing role of non-banking entities.
- Finally, we present five **post crisis pathways** for financial systems in Greece and Cyprus.

Greek and Cypriot banking system: CET1 solvency ratio and non-performing loans ratio, 2008 - 2023



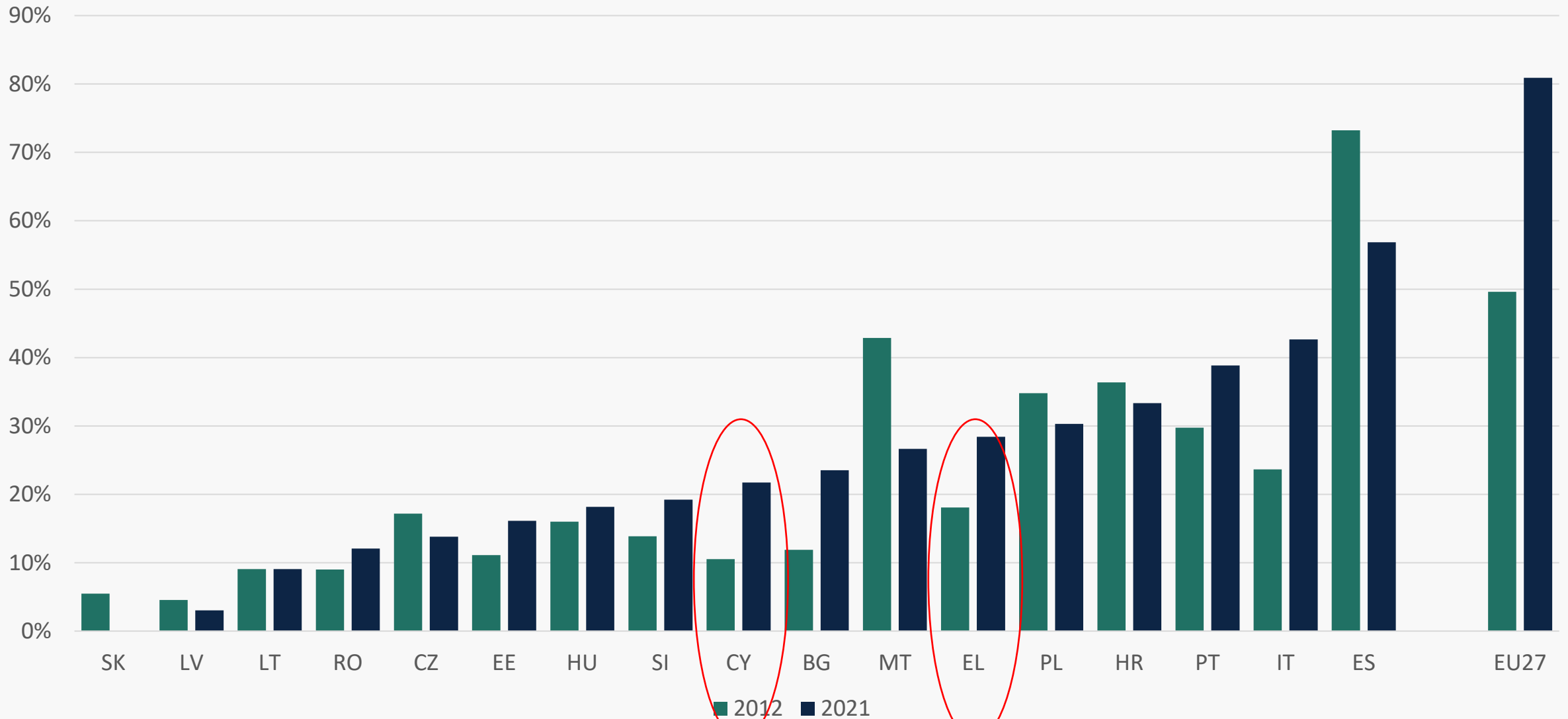
Sources: Statista, CEIC data, Bank of Greece and Central Bank of Cyprus reports.

Eurozone countries banking systems: household deposits % of total liabilities, 2024

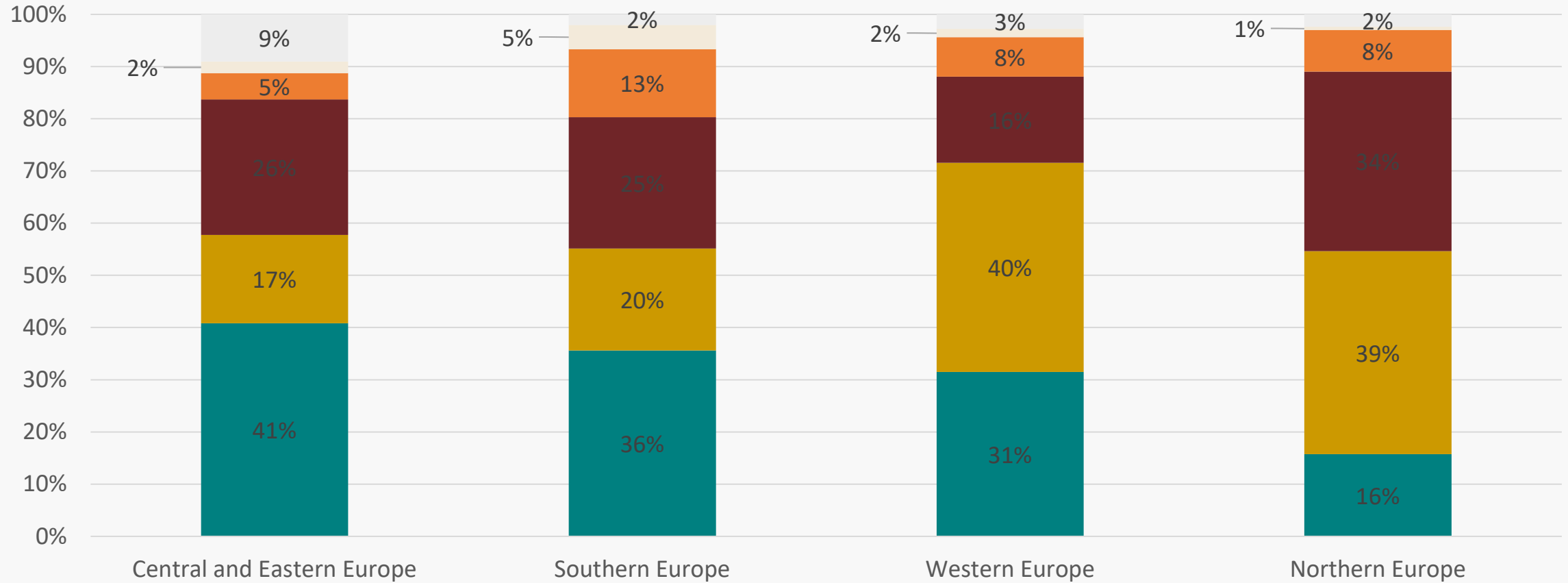


Source: ECB data and authors' calculations.

Market capitalisation in SE and CEE (% of GDP)



Households' financial assets (% total financial assets, 2015-2022)



■ Currency and deposits

■ Insurance and pension funds

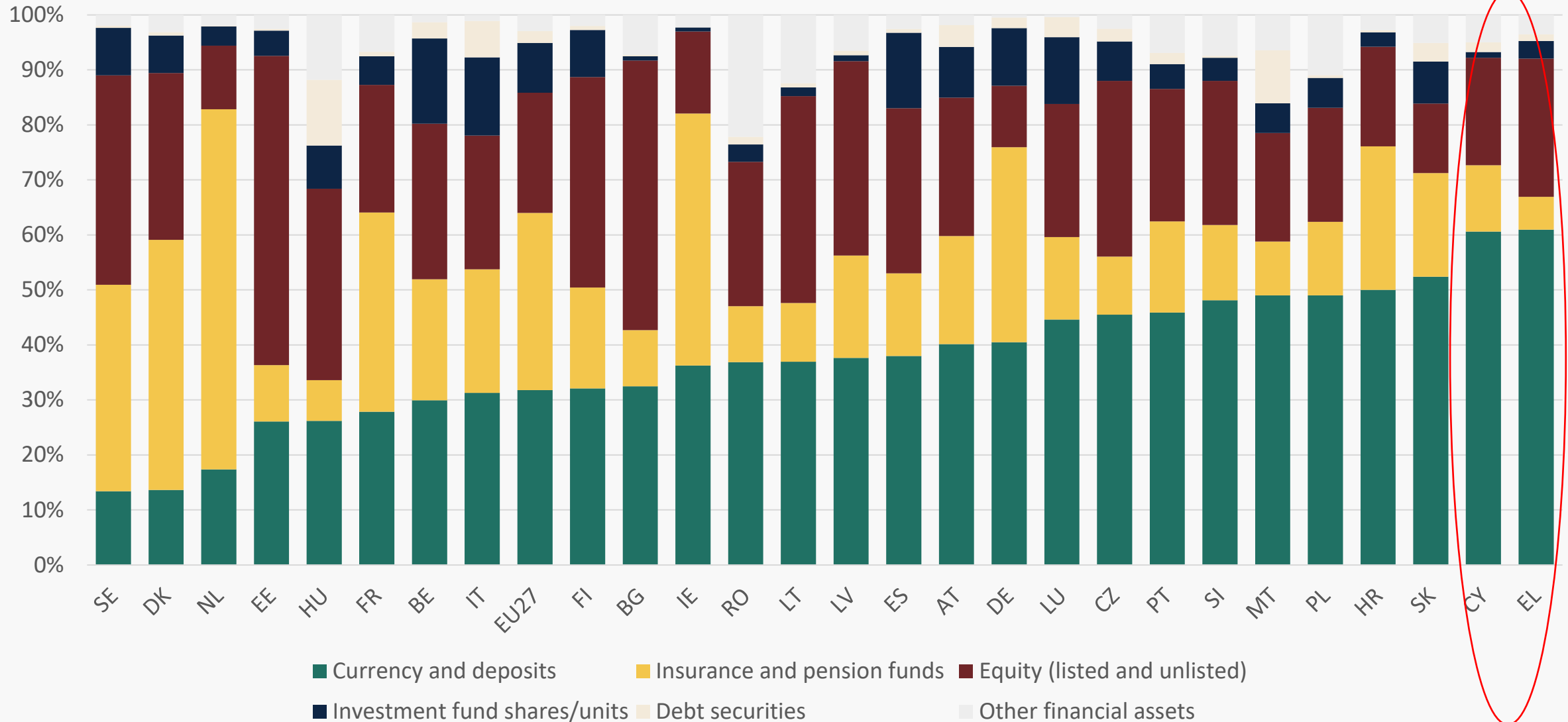
■ Equity (listed and unlisted)

■ Investment fund shares/units

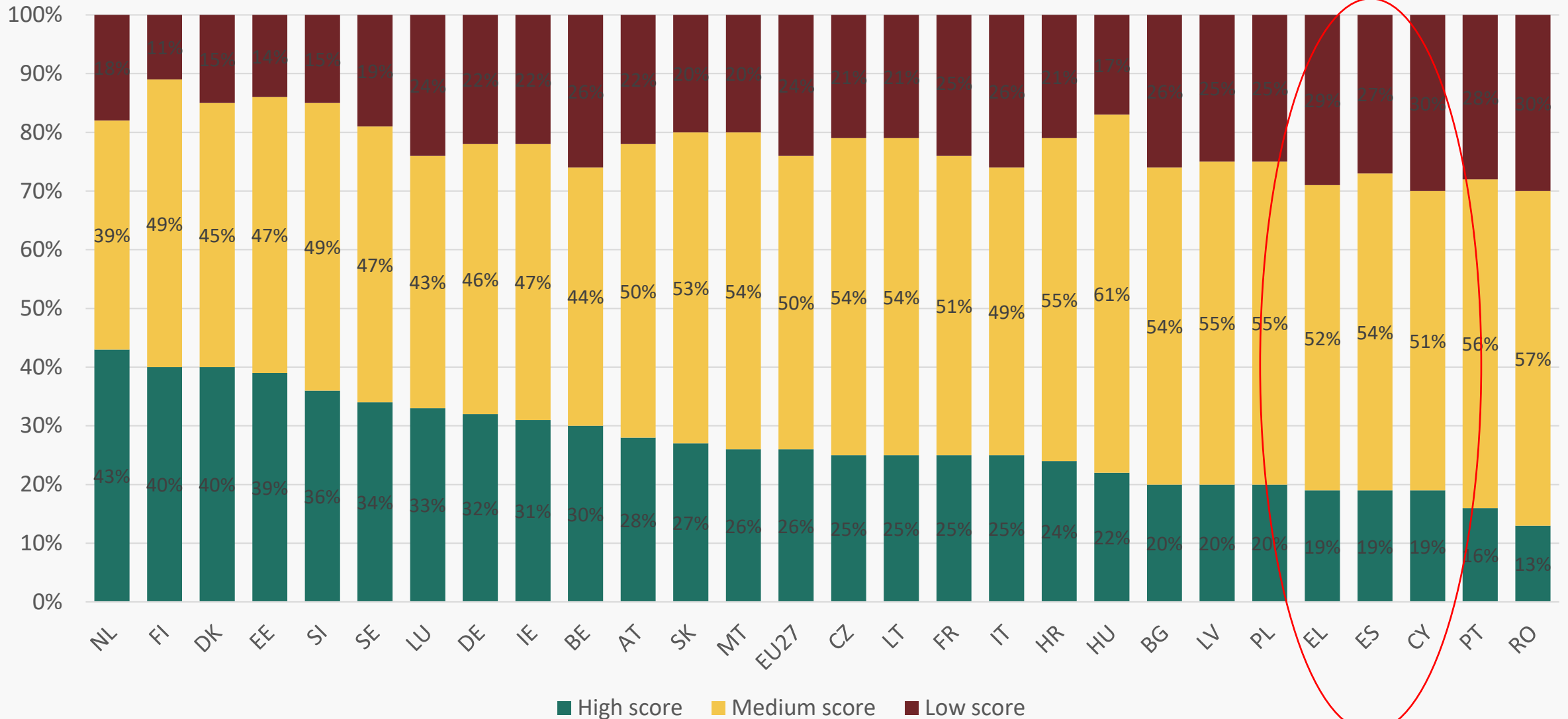
■ Debt securities

■ Other financial assets

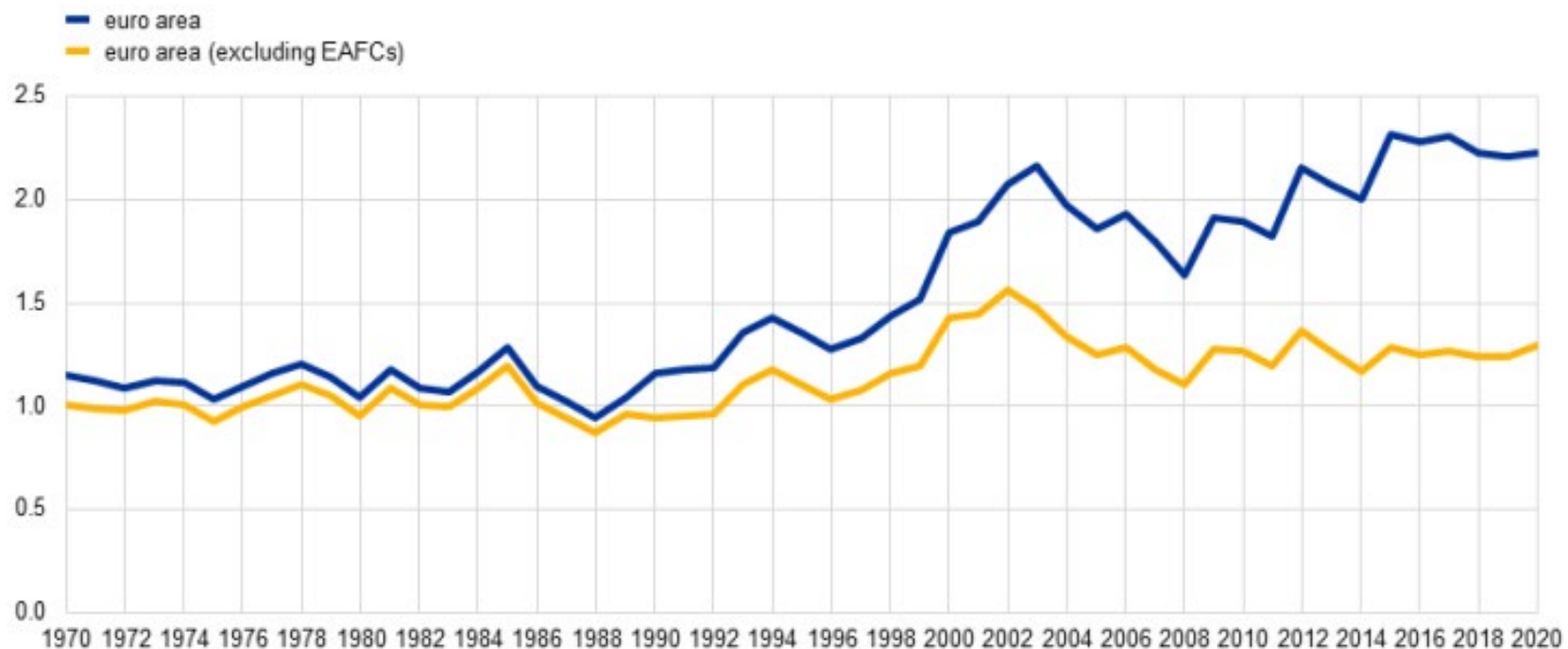
Households' financial assets (% total financial assets, 2015-2022)



Financial knowledge across Member States (2023)



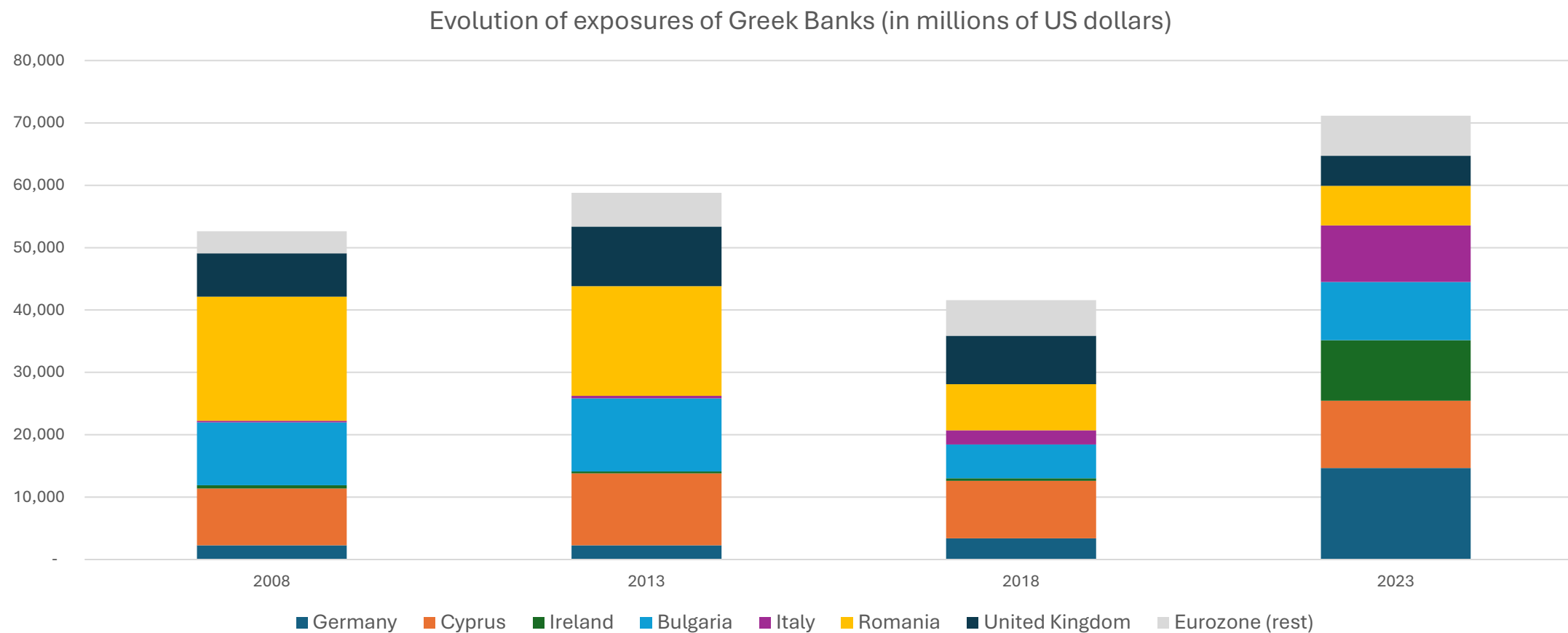
Gross external positions relative to GDP: divergence of regional financial centres



Note: EAFCs (euro area financial centres): **Luxemburg, Ireland and The Netherlands**

Source: Beck, R., Coppola, A., Lewis, A.J., Maggiori, M., Schmitz, M. and Schreger, J., “The Geography of Capital Allocation in the Euro Area”, Working Paper, No 32275, National Bureau of Economic Research, March 2024.

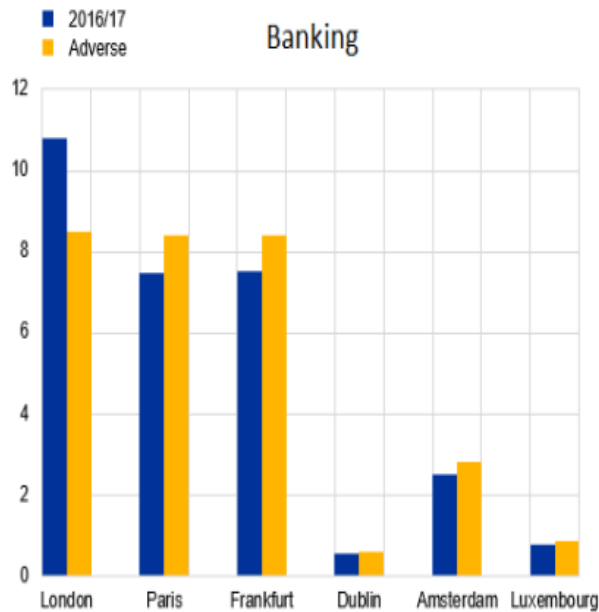
Evolution of exposures of Greek banks to Europe (2008, 2013, 2018 and 2023)



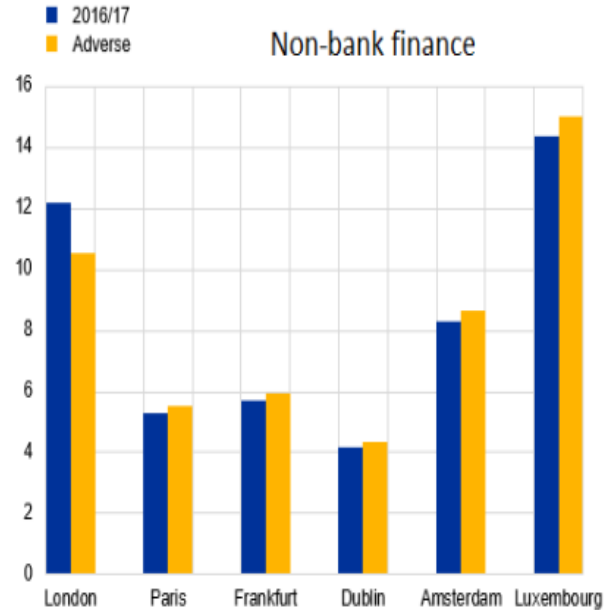
Source: BIS database, Consolidated Banking Statistics.

Scenarios for Post-Brexit Financial Centres in the EU

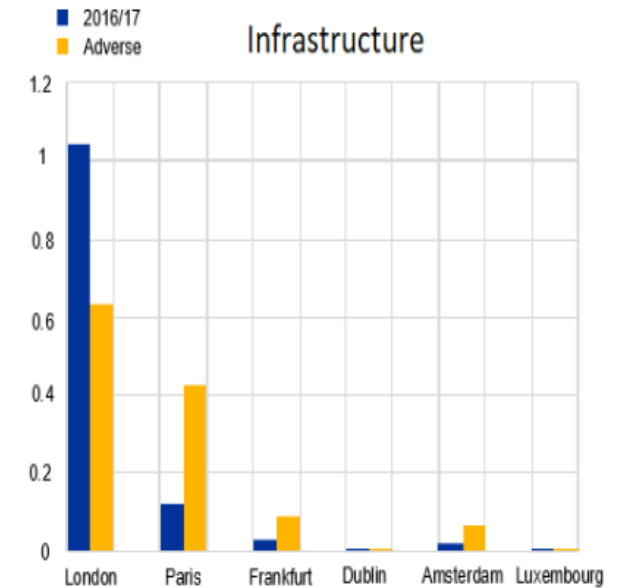
Trillions Euro



Trillions Euro



Trillions Euro



Source: Silvia Calò and Valerie Herzberg (2019) The Future of Global Financial Centres after Brexit: an EU Perspective. Central Bank of Ireland, Financial Stability Notes, Vol. 2019, No. 9.

Five Pathways for Greece and Cyprus

Case example 1: The expanding role of investment funds

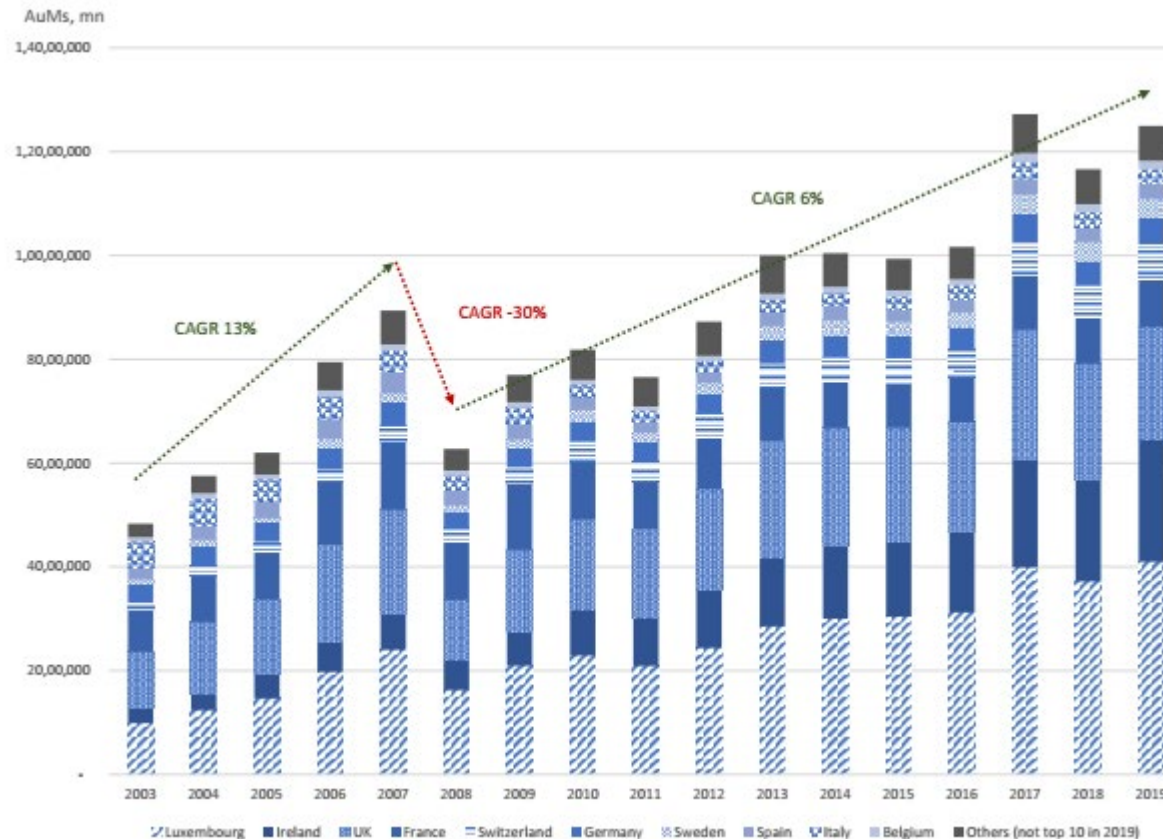
Case example 2: Regional integration potential

Case example 3: FinTech and Digitalisation

Case example 4: Capital markets deepening

Case example 5: Green finance offerings

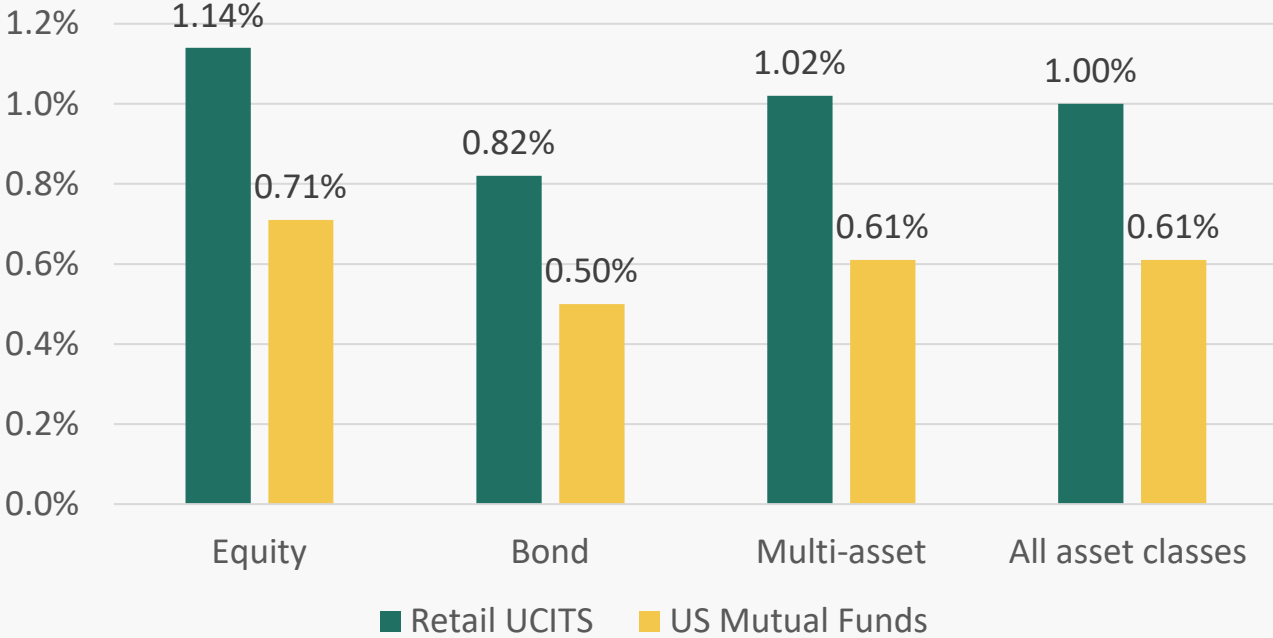
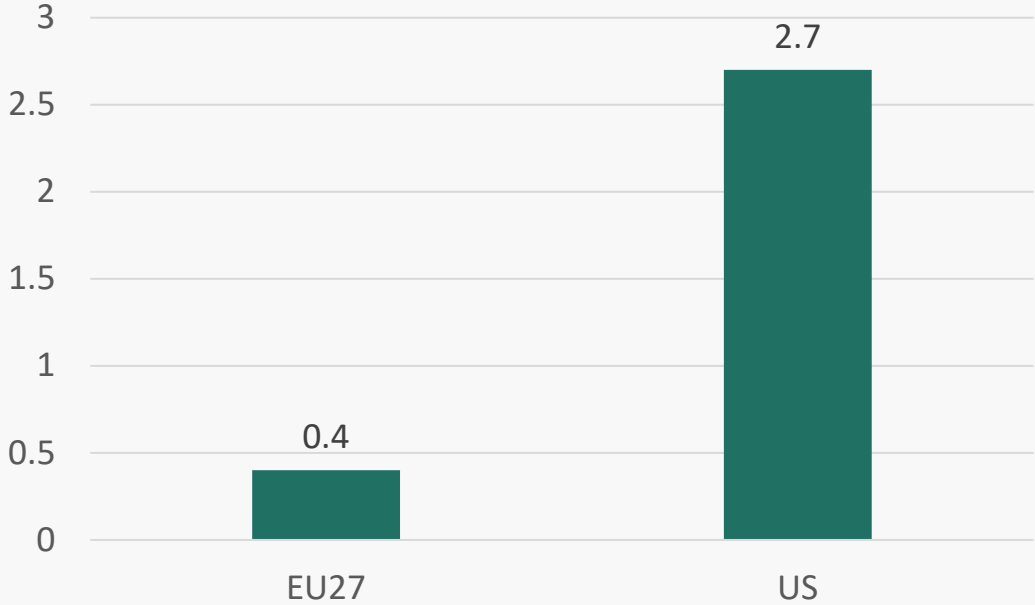
Case example 1: The expanding role of investment funds



Luxembourg and Ireland

Source: Dariusz Wójcik, Michael Urban and Sabine Dörry (2021) Luxembourg and Ireland in global financial networks: Analysing the changing structure of European investment funds. Transactions of the Institute of British Geographers.

Average size (EUR billion) and average cost (%) of an investment fund in the EU and the US (2023)



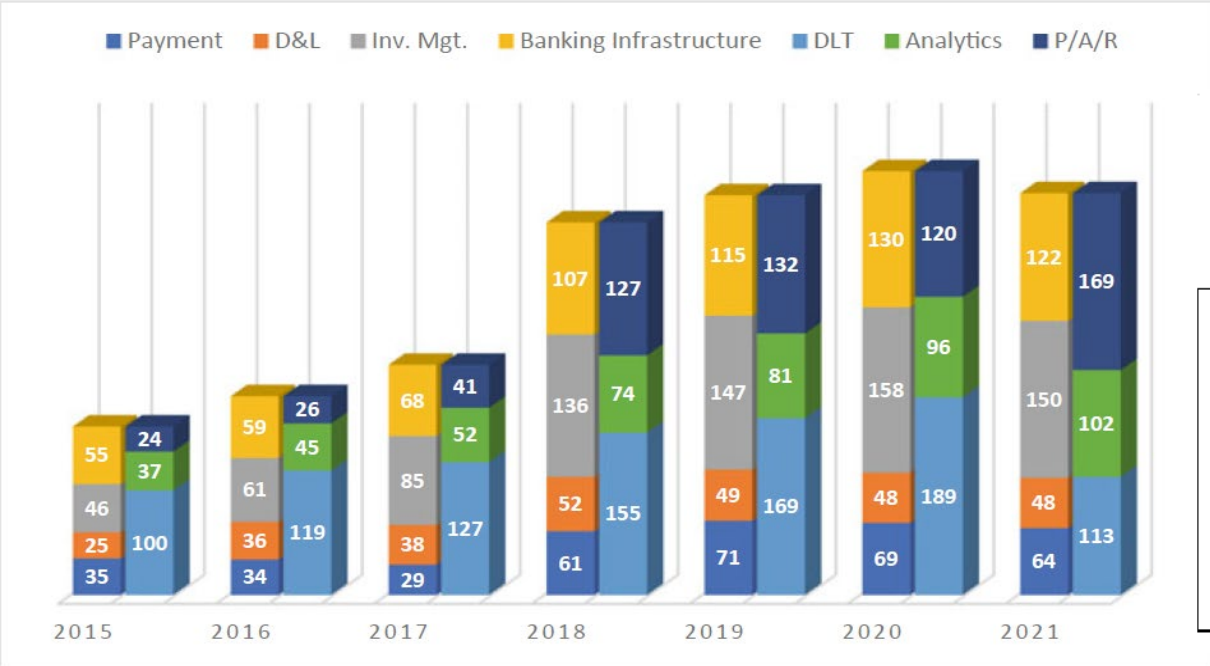
Case example 2: Regional integration potential - the Baltic case

- **Developing capital markets:** The EBRD acquired a stake in the Port of Tallinn through its IPO on the Nasdaq Tallinn Stock Exchange. The IPO saw the partial privatisation of the major Baltic infrastructure company and played a crucial role in improving the liquidity and attractiveness of the Tallinn Stock Exchange and reintroducing the Baltic states to the global capital market.
- **New financial instruments:** The EBRD participated in the first-ever issuance of a commercial paper in the Baltic states, improving access to short-term finance for local corporates. EBRD supported issuers of commercial paper are required to meet enhanced standards of reporting transparency and disclosure.
- **Better regulation:** With the support of the EBRD, the Lithuanian government passed the pan-Baltic covered bond law and the securitisation law, which unlock new investment opportunities and diversify financial sources.
- **Further capital markets development:** The EBRD supported capital market development and green financing across the Baltic states with a €40 million investment in the €200 million senior preferred bond issued by AS Citadele banka.
- **Capital market integration:** The EBRD worked with the Ministries of Finance of Estonia, Latvia and Lithuania, the European Commission and Nasdaq Baltic to consolidate the Estonian, Latvian, and Lithuanian markets and create a regional MSCI index. The new single index raises the profile of the Baltic region among international investors.

Source: EBRD (2024), The EBRD in the Baltic States, Results Snapshot.

Case sample 3: Swiss digitalisation - FinTech companies in Switzerland

Number of FinTech companies in Switzerland

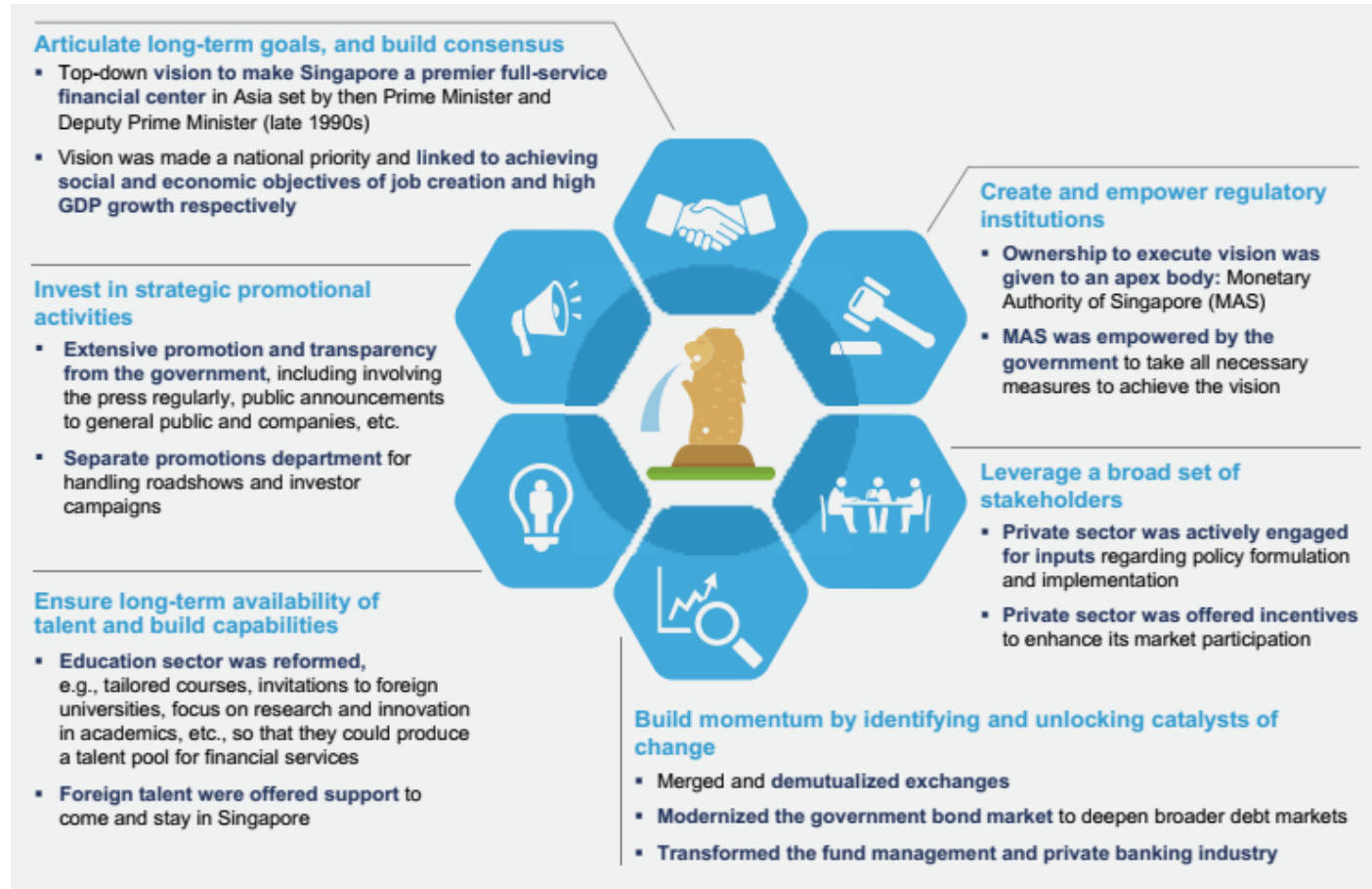


Business Models of Swiss and Global FinTech Companies (2021)

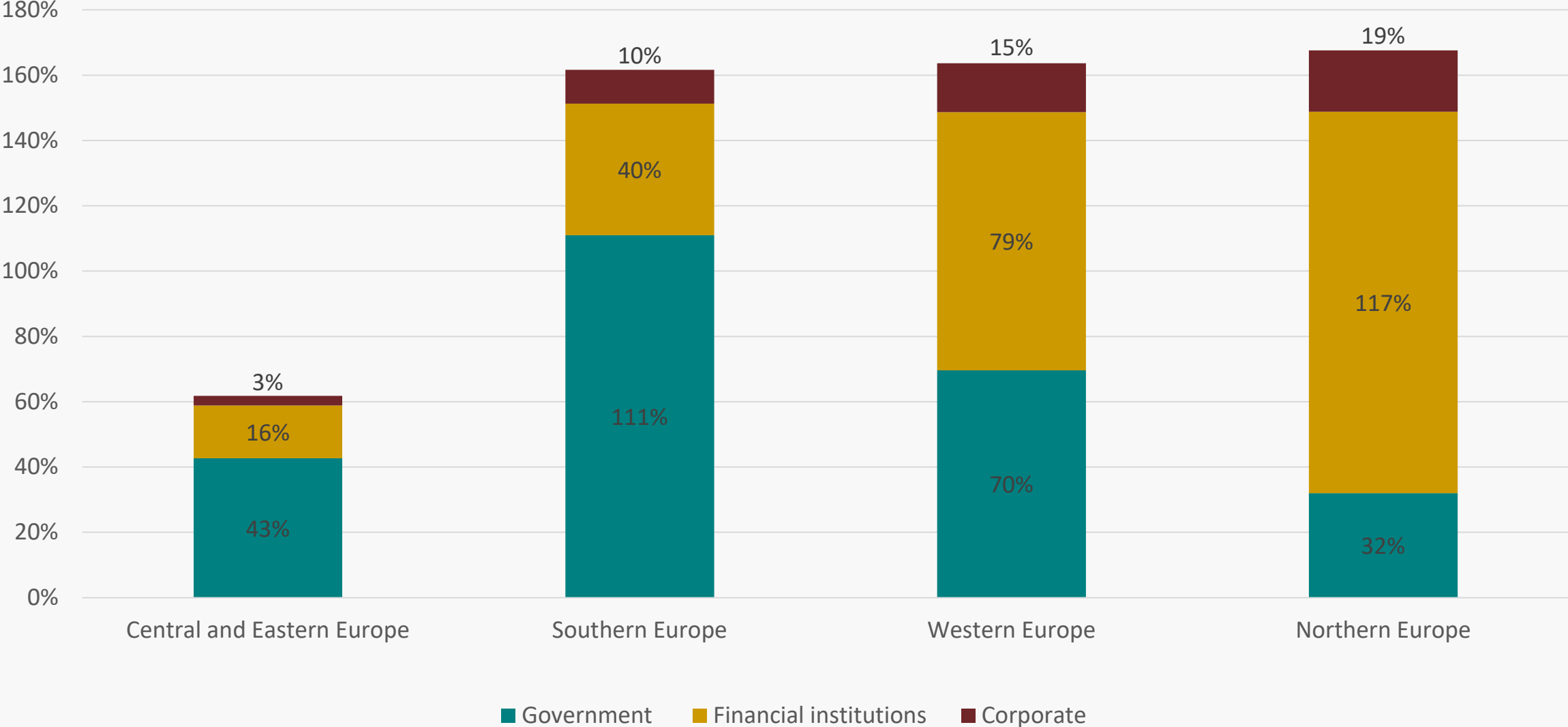
		Product Area							
		Payment		Deposit & Lending		Investment Management		Banking Infrastructure	
		CH	Global	CH	Global	CH	Global	CH	Global
Technology Area	Process Digitization, Automatization, Robotics	9.6%	20.4%	8.1%	11.8%	14.6%	9.1%	11.7%	27.9%
	Analytics, Big Data, Artificial Intelligence	2.1%	1.3%	1.6%	2.7%	15.4%	4.0%	7.6%	8.3%
	Distributed Ledger Technology	4.9%	1.6%	2.9%	0.5%	9.1%	2.9%	12.5%	9.4%

Source: Henri B. Meier, et al. (2023) Swiss Finance Banking, Finance, and Digitalization: Palgrave, Macmillan.

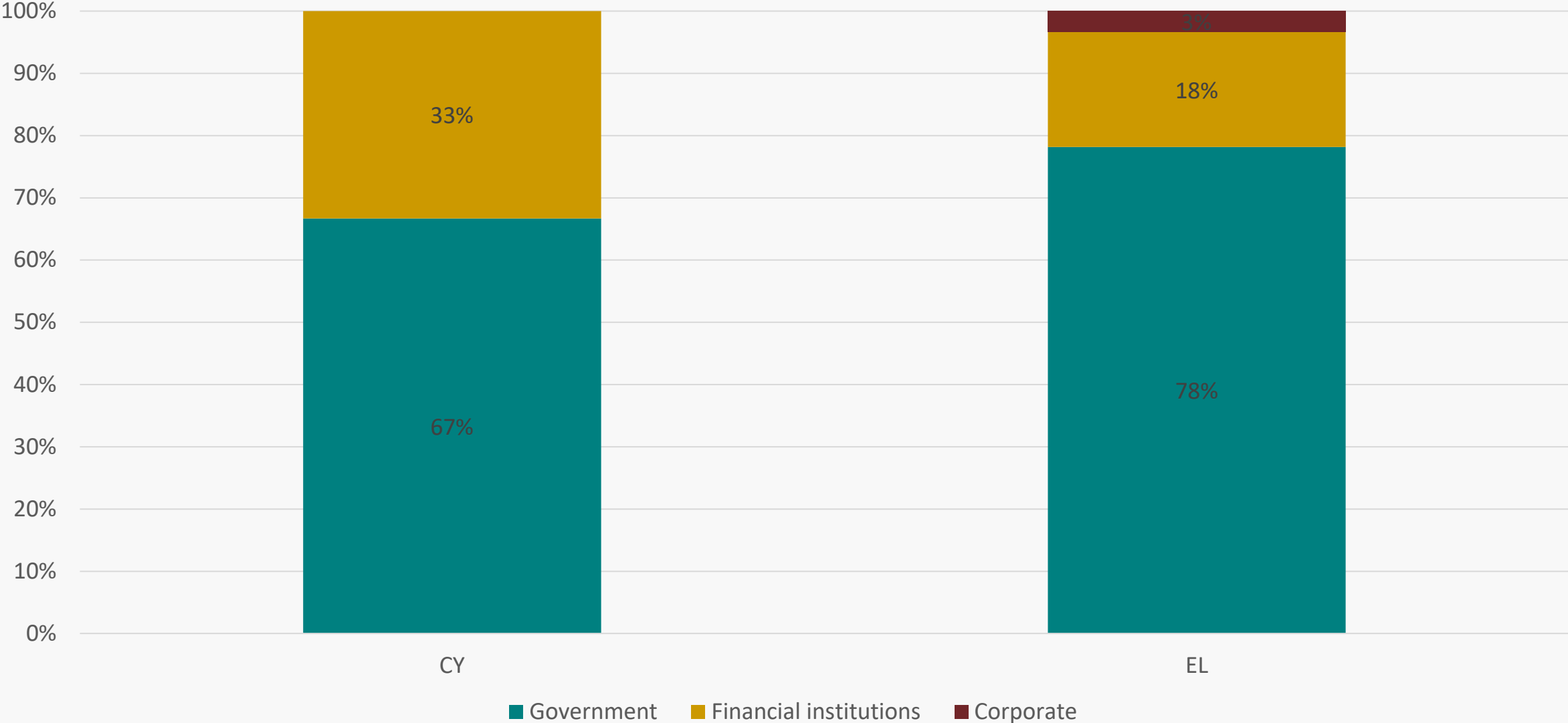
Case example 4: Singapore's journey to capital markets development



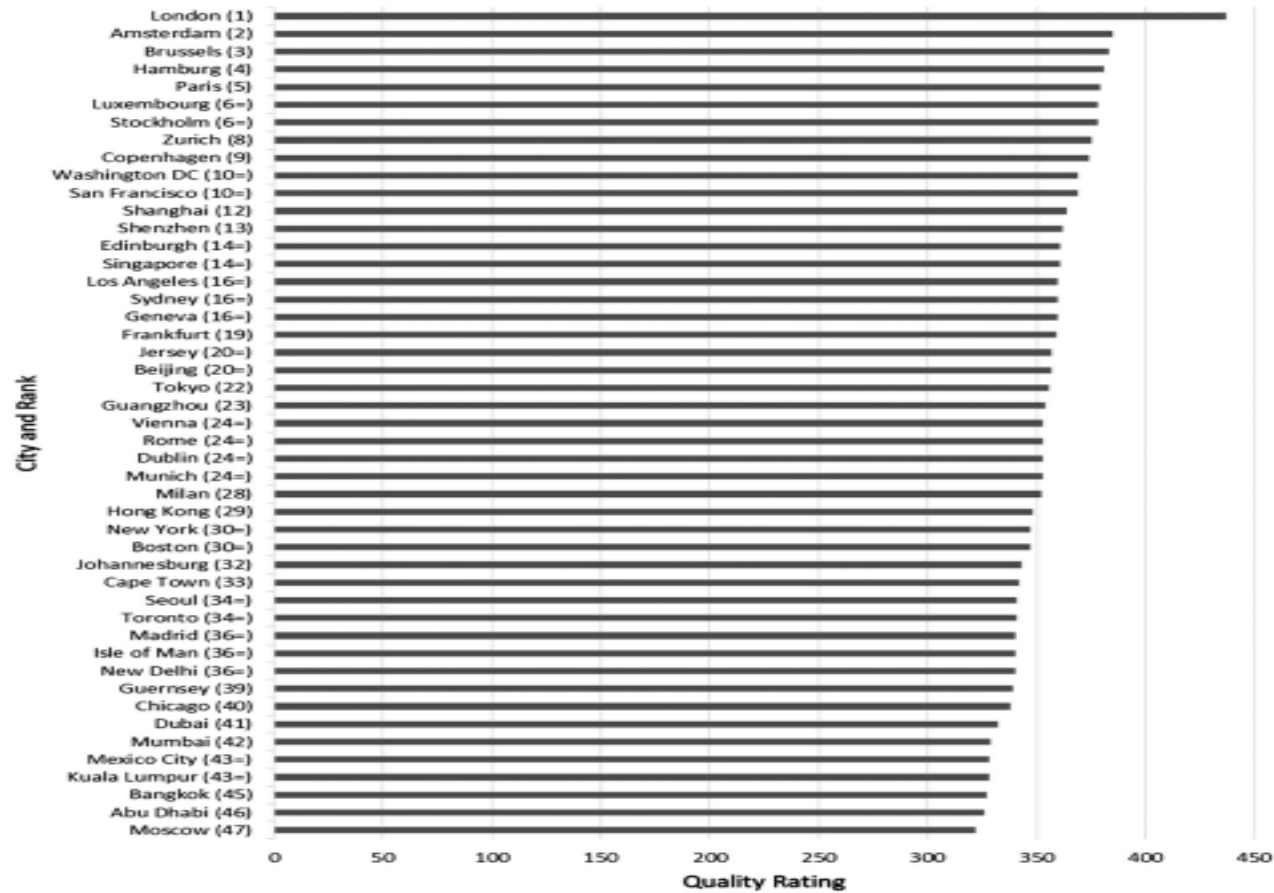
Outstanding debt securities across regions (% of GDP, 2021)



Outstanding debt securities in CY and EL (% of total debt, 2021)



Case example 5: The quality of green finance offerings in financial centres



Source: Mike Wardle & Simon Mills (2018) Transparency and disclosure – do policy frameworks enhance financial centre reputation? Journal of Sustainable Finance & Investment. The Global Green Finance Index.

References

- Bank of Greece statistics and data & Bank of Greece, Financial Stability Review, April 2024
- Beck, R., Coppola, A., Lewis, A.J., Maggiori, M., Schmitz, M. and Schreger, J., “The Geography of Capital Allocation in the Euro Area”, Working Paper, No 32275, National Bureau of Economic Research, March 2024.
- BIS database, Consolidated Banking Statistics
- Central Bank of Cyprus reports
- CEIC dataset
- Dariusz Wójcik, Michael Urban and Sabine Dörry (2021) Luxembourg and Ireland in global financial networks: Analysing the changing structure of European investment funds. Transactions of the Institute of British Geographers.
- EBRD (2024), The EBRD in the Baltic States, Results Snapshot
- ECB data portal
- Eurostat dataset
- French Economy and Finance Ministry. Developing European capital markets to finance the future. Experts Report, 25 April 2024.
- McKinsey& Company (2017) Deepening capital markets in emerging economies
- Henri B. Meier, et al. (2023) Swiss Finance Banking, Finance, and Digitalization. Palgrave, Macmillan
- Mike Wardle & Simon Mills (2018) Transparency and disclosure – do policy frameworks enhance financial centre reputation? Journal of Sustainable Finance & Investment. The Global Green Finance Index
- Silvia Calò and Valerie Herzberg (2019) The Future of Global Financial Centres after Brexit: an EU Perspective. Central Bank of Ireland, Financial Stability Notes, Vol. 2019, No. 9.
- Statista dataset
- World Bank. 2024. Digital Progress and Trends Report 2023. Washington, DC: World Bank
- World Bank database