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Greek FDI in the Balkans: How is it affected by the crisis in Greece?

by

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The current Greek crisis raises the question of its impact on foreign direct investment (FDI) by Greece on its neighbors in the Balkans.¹ Greek multinational enterprises (MNEs) first began to establish a presence there in the 1990s, following the breakup of the former Yugoslavia. This trend accelerated during the past decade. As of 2009, Greece's outward FDI stock in the Balkans stood at US\$ 10.5 billion or 26.5% of Greece's outward FDI stock worldwide.²

From the point of view of Balkan countries, Greece is an important source of FDI -- but not the biggest. First place is reserved for Austria, which accounted for 19% of the Balkan's combined inward stock (excluding Albania) as of 2009. Greece accounted for 6% of Balkan countries' combined inward FDI stock, or US\$ 10 billion (outside Albania). The highest Greek FDI shares are in Macedonia FYR (13%) and Serbia (10%). Greek FDI accounts for 41% of Albania's inward FDI stock.³

Greek banking presence, however, is quite significant for the Balkan host countries.⁴ Greek foreign affiliates make up four of Bulgaria's top 10 banks, three of Serbia's top 10 banks and two

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¹ Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia FYR, Romania, and Serbia.

² FDI stock data are from the IMF's Coordinated Direct Investment Survey database. Some Greek FDI might have been channeled through holding companies in Cyprus.

³ As of 2008. Ministry of Economy, Trade and Energy, Report on Foreign Direct Investment in Albania, 2010 (December 2010).

⁴ Laza Kekic, "The Greek crisis: The threat to neighbouring Balkan economies," in Will Bartlett and Vassilis Monastiriotis, eds., *South East Europe after the Economic Crisis: A New Dawn or Back to Business as Usual?* (London: LSEE, 2010).

of Romania's top 10 banks. Greek banks account for about 28% of the banking system's assets in Bulgaria, about a quarter of those in Macedonia FYR and about a sixth of those in both Romania and Serbia.

According to Barclays Capital,⁵ the five Greek banks (National Bank of Greece, Piraeus Bank, Eurobank EFG, ATE Bank, Alpha Bank) most exposed to the sovereign debt crisis in Greece, which also operate in the Balkans, hold around US\$ 52 billion of Greek sovereign debt. In addition to the recently agreed "haircut" of 50% for private creditors, Greek banks are also required to introduce a 9% core tier-one capital ratio by June 2012. The European Banking Authority reported that Greek banks would need an additional US\$ 41 billion in capital for the latter, in principle covered by funds under by the EU-IMF program.⁶

The main issue is the extent to which all of these measures will strain the Greek banking system. The process of recapitalizing Greek banks could force their affiliates in the Balkans to cut back lending. The effects of this would be amplified by a slowdown in lending by other European banks with significant exposure to the Greek sovereign debt crisis. Greek bank affiliates may also be asked to help raise funds for their parent banks in Greece. In September 2011, the National Bank of Greece announced plans to establish a separate bank holding company to manage its foreign affiliates in the Balkans, reportedly to gain independent access to global capital markets.⁷ Greek bank foreign affiliates may even be sold off to foreign or local banks. For example, ATE Bank has announced plans to sell its majority stake in ATE Bank Romania by the end of 2012 and exit the Romanian market.⁸ One possible option to prevent the reduction in credit availability would be to introduce a framework for coordinating crisis management in the financial sector when foreign affiliates in banking are involved, similar to the "Vienna Initiative" (2009-2011).⁹ In the longer term, more attention should be paid to the extent of foreign ownership in banking, which can have important consequences on lending in times of crisis.

In sum, the recession in Greece and financing constraints on Greek MNEs will continue having a direct negative effect on Greek FDI into the Balkans in both banking and non-banking sectors. For most Balkan countries, the impact on FDI overall will be limited given the relatively low levels of Greek FDI in the region. Albania is the exception given its much greater dependence on Greek FDI. Curtailed lending by Greek bank foreign affiliates would also affect any expansion plans of Greek non-financial foreign affiliates already in the Balkans.

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⁵ See Figure 1 in "Everyone's problem," *The Economist*, June 22, 2011.

⁶ European Banking Authority, "The EBA details the EU measures to restore confidence in the banking sector," Press release of October 26, 2011. According to EBA, the existing backstop facility exceeds the results of the EBA capital exercise for Greek banks.

⁷ "Greece's NBG plans holding company for Balkan units," *Reuters*, September 12, 2011.

⁸ "Greek group ATE Bank plans to sell the majority stake in its Romanian subsidiary," *Balkans.com*, May 27, 2011.

⁹ EBRD, "Vienna Initiative: Moving to a new phase," May 2011.

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