EXECUTIVE SUMMARY

Non-performing loans (NPLs) are a predominant feature of an economy passing through financial and fiscal crisis, on the one hand, and recession in the real economy on the other. This was the situation in the Greek economy during the second decade of the 2000s, which left as its legacy the yet unresolved problem of NPLs.

In the present study, we approach this issue in two respects. The first part of this study is preoccupied with delineating recent literature on the NPL issue, following the literature reviews of Syed (2021), Naili & Lahrichi (2020), Manz (2019) and Nikolopoulos & Tsalas (2017). However, concerning the empirical research, the focus is on the Greek case. Through such a review, both theoretical and empirical problems are clarified, along with the related policy challenges to solve them. At first, we discuss the various factors that affect NPLs at the theoretical level, especially the macroeconomic, bank-based, borrower-based and the institutional ones. Subsequently, we review the empirical literature in order to identify the quantitative relationships that link NPLs to their aforementioned determinants and to gain a better understanding of the econometric models used and the results they yield. In addition, in separate sections, we discuss the inverse relationship concerning the way NPLs affect the real economy and the various policy approaches concerning possible solutions to the NPL problem.

In the second part of this study, the empirical one, we profit from the above literature review in order to shape our own econometric models and the methodology with which we intend to approach the NPL issue in the Greek case. Our research uses the available time series data of basic macroeconomic variables in the Greek economy along with aggregated banking data for the period 2002Q4 – 2019Q1.

Econometric estimations are based on Vector Error Correction Models (VECM), as we are looking for long-run equilibrium relationships among the relevant variables along with the identification of the related short-run

dynamics. We estimate overall three models corresponding to the three categories of NPLs, i.e., business, consumer and mortgages. Our findings support the significant positive relationship between the unemployment rate and NPLs. Statistically significant coefficients also characterize the relationships between NPLs and the fiscal variables of the government budget balance and public debt, though without a consistent sign. Finally, our findings confirm the existence of a positive, statistically significant relationship between NPLs and the capital adequacy of banks.

The major conclusion that can be drawn from these results is the multiplicity of dimensions that should characterize a successful solution to the NPL problem in the Greek economy. This relates, on the one hand, to policies that would ameliorate conditions in the real economy by exploiting new credit channels or by improving the existing ones. On the other hand, this might also relate to initiatives that enhance the financial health of banks and improve conditions in the financial markets and the relations between lenders and borrowers. Such initiatives, we argue, are those of the government ("Hercules" plan) and of the Bank of Greece to reduce NPLs, the establishment of the Hellenic Development Bank and the new bankruptcy law that improves the relevant legal framework. This study concludes by pointing out certain directions for future research both at the institutional and behavioral level, to the degree that the particular institutional conditions in each country, the comparisons with the European and international experiences and the factors that determine the behaviour of financial markets' participants, enrich the findings of the present study.