

Client Alert

Greek Government Measures in Response to COVID-19

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Greece and COVID-19

As of April 6, 2020, Greece recorded a total of 1,755 Coronavirus cases, 79 fatalities, and 269 full recoveries. The country has been in a state of lockdown, with schools closed, the retail high street all but closed, and air travel from and into Greece fully suspended.

On March 18, 2020, the Greek government announced the mandatory suspension of businesses to contain the spread of COVID-19. The mandatory suspension, which will remain in place until April 11 (unless further extended), has affected a wide range of businesses, including various retail shops, hotels and restaurants. Only certain businesses, such as supermarkets, food stores, pharmacies and kiosks have been permitted to remain open.

On the same date, the Greek government banned public gatherings of 10 or more people and banned the entry of citizens of non-EU countries, subject to certain exceptions. On March 23, 2020, the Greek government also instituted a lockdown, requiring individuals to have a valid reason to leave their homes.

General Impact of the Crisis on Greece and the Greek financial system

The unfolding crisis is expected to have severe consequences on the Greek economy. The Bank of Greece has slashed its growth forecast from 2.8% to 0% for 2020 but more recent (and more bearish) projections are forecasting a contraction between 5% and 10% for 2020, with a strong recovery expected in 2021. It is to be noted that forecasts are still significantly better than 2010, the worst year of contraction during the Greek financial crisis (contraction of 9.1%).

Given the impact of the crisis on public finances, the 10-year spread between the Greek government bonds and the German bund has widened from its lowest point of approximately 1.3% in February 2020 to over 3%, but still much lower than the 4% in the beginning of 2019 and the double digit returns in the darker years during the Greek financial crisis (2010-2019). The Athens Stock Exchange has also contracted dramatically by approx.. 40% since January 2020, underperforming by comparison to other major exchanges. The equity values of the systemic Greek banks have suffered similar contractions (which are, however, not as dramatic as the contractions during the Greek financial crisis).

We summarize below some of the key measures taken by European institutions and the Greek government to support Greek businesses in response to the extraordinary circumstances.

1. Financial Institutions

Monetary Policy

The European Central Bank (“**ECB**”) has responded to the COVID-19 outbreak with two modifications to its monetary policy so far.

Firstly, the ECB announced a modification of its existing targeted longer-term refinancing operations program (“**TLTRO III**”) to inject additional low interest rate funding into the Eurozone to support the continued access of firms and households to bank credit. The modifications included, among other things, reducing the interest rate on TLTRO III, raising the borrowing allowance and removing the bid limit per operation.

Secondly, the ECB launched a new temporary asset purchase program of private and public sector securities until the end of 2020. The overall envelope of the Pandemic Emergency Purchase Programme (“**PEPP**”) amounts to €750 billion. It includes all the asset categories eligible under the ECB’s existing asset purchase programs as well as securities issued by the central government of the Hellenic Republic, which were previously excluded. Under PEPP, about €12 billion in Greek government debt is likely to be eligible for purchase by the ECB.

The ECB further enhanced these measures by increasing its flexibility when applying the PEPP by: (i) softening the proportionality of purchases of assets of a particular class or a particular jurisdiction to the ECB capital key; (ii) waiving maximum limits on holding a specific issue of securities; (iii) expanding the range of eligible assets to non-financial commercial papers; (iv) easing the collateral standards by adjusting the main risk parameters of the collateral framework; and (v) including securities of a minimum remaining term of 70 days and a maximum of 30 years.

Supervision of Financial Institutions

EU-wide Bank Stress Tests Postponed

The European Banking Authority (“**EBA**”) announced that addressing any operational challenges that banks may face will be the priority during the COVID-19 outbreak and therefore decided to postpone its annual EU-wide stress test of banks to 2021.

Capital Rules

In its role as chief bank supervisor of the Eurozone, the ECB announced that it would make full use of the flexibility that is already embedded in the existing regulatory framework, allowing banks to operate temporarily below the capital levels defined by the Pillar 2 Guidance, the capital conservation buffer and the liquidity coverage ratio. The ECB also announced that it would accelerate some measures that would have come into effect in January 2021 as part of the Capital Requirements Directive by allowing banks to partially use capital instruments that do not qualify as Common Equity Tier 1 (“**CET1**”) capital, such as Additional Tier 1 or Tier 2 instruments, to meet the Pillar 2 Requirements. The ECB estimates the capital relief provided by these measures would amount to €120 billion of CET1 capital.

Supervisory Treatment of Non-Performing Loans (“NPLs”)

To support initiatives aimed at providing sustainable solutions to temporarily distressed debtors in the context of the COVID-19 outbreak, the ECB will exercise supervisory flexibility regarding the treatment of NPLs on the basis of the existing ECB Guidance to Banks on Non-Performing Loans (dated March 2017). Specifically, the ECB will exercise flexibility regarding the classification of debtors as “unlikely to pay” when banks call on public guarantees and with respect to loans under Covid-19 related public moratoria. Loans which become non-performing and are guaranteed by public guarantees will benefit from preferential treatment with respect to capital requirements. The ECB has also indicated that NPL reduction strategies will take into account the extraordinary nature of any current market conditions.

Separately, to avoid excessive procyclicality of regulatory capital and published financial statements, the ECB has recommended that banks determine loan loss provisions on the basis of countercyclical assumptions and that banks adopt IFRS 9 transitional rules unless done already.

Timetables, Processes and Deadlines Adjusted

The ECB has indicated that timetables, processes and deadlines for the granting of access to reliable information on each financial institution will be adjusted to the current circumstances where applicable. This may include postponing on-site inspections, deadline extensions for certain non-critical supervisory measures and data requests. The EBA has recommended that supervisors take a flexible approach to assessing institutions’ compliance with the deadlines for the publication of their Pillar 3 reports under the Capital Requirements Directive (Directive 2013/36/EU as amended from time to time).

Recommendation to Reconsider Dividend Payments

In its role as chief bank supervisor of the Eurozone, the ECB has recommended that banks should not pay dividends for the financial years 2019 and 2020 until at least October 1, 2020 and should also refrain from share buy-backs aimed at remunerating shareholders. This recommendation does not retroactively cancel any dividends already paid out by some banks for the financial year 2019. However, banks that have asked their shareholders to vote on a dividend distribution proposal in their upcoming general shareholders meeting will be expected to amend such proposals in line with the ECB’s recommendation.

2. Supporting the Liquidity of Businesses and Individuals

Suspension of the Repayment of Loan Principal

Businesses that have been mandatorily suspended or severely affected by COVID-19, as determined based on their business activity codes, may suspend the repayment of principal on loans to Greek banks that were performing as of December 31, 2019 until September 30, 2020. While interest will continue to be payable during the suspension period, the Greek government has announced that it would pay the interest on such loans for April through June. In addition, individuals who are eligible to receive the special-purpose compensation (as a result of being affected by COVID-19, as described below under “Employment, Compensation and Other Arrangements—For the Protection of Businesses—Suspension of Employment”) may suspend the repayment of loan installments for a period of three months.

The above-mentioned businesses and individuals may also suspend for a period of three months the payment of installments due under out-of-court settlements, the framework for the settlement of debt for over-indebted households and the framework for the protection of primary residences. The suspension will not affect the duration of the debt arrangements.

Business Financing

The Hellenic Development Bank will issue guarantees to assist businesses affected by COVID-19 in their working capital needs. The European Commission has approved a guarantee scheme of up to €2 billion in the aggregate under the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak.

In addition, certain small- and medium-sized businesses with up to 500 employees will be entitled to receive financing of up to €1 billion in the aggregate in the form of a “refundable advance payment” at low interest rates. The financing will be for a term of five years, where no principal repayments will be required in the first year. Repayments will commence after the first year and be made over a four-year period on a monthly basis.

Furthermore, the Greek government has announced its plan for a series of additional measures, which include: (i) the introduction of a guarantee mechanism in collaboration with the European Investment Bank Group for investment loans of up to €500 million in the aggregate; (ii) the financial support of the Hellenic Development Bank’s Entrepreneurial Fund with an additional funding of €250 million to be used to make loans to business affected by COVID-19, alongside a subsidy of 100% of the interest for a two-year period; (iii) liquidity support by the European Investment Bank to Greek banks for the granting of new business loans of up to €2 billion; and (iv) additional funding support through the allocation of €1.8 billion by the European Investment Fund.

Suspension of Deadlines for Post-Dated Cheques and Other Negotiable Instruments

The deadlines for post-dated cheques and other negotiable instruments are suspended for 75 days from the date referred to in the body of the relevant instrument. The suspension will be in effect from March 30, 2020 until May 31, 2020 for post-dated cheques issued by certain businesses mandatorily suspended or severely affected by COVID-19, as determined on the basis of their business activity codes.

3. Tax / Social Security Contribution Measures

Extension of Payment Deadlines

Various payment deadlines are extended for businesses which have been mandatorily suspended or severely affected by COVID-19, as determined on the basis of their business activity codes, as well as their employees:

- the deadlines for the payment of VAT and other tax liabilities that are due between March 11, 2020 and April 30, 2020 (including installment payments under a settlement or payment facilitation process) are extended to August 31, 2020;
- the deadlines for the payments of social security contributions in February and March 2020 are extended to September 30, 2020 and October 31, 2020, respectively; and

- the deadlines for installments of social security liabilities under a settlement or payment facilitation process due from March 31, 2020 onwards will be extended by three months.

In addition, payment deadlines are extended for self-employed workers who operate a business which has been mandatorily suspended or severely affected by COVID-19, as determined on the basis of their business activity codes:

- the deadlines for tax payments due in March 2020 are extended to August 31, 2020;
- the deadlines for the payments of social security contributions for February and March 2020 are extended so that such payment will be made in four monthly installments starting on September 30, 2020; and
- the deadlines for installments of social security liabilities under a settlement or payment facilitation process due from March 31, 2020 onwards will be extended by three months.

The extensions are not be subject to any interest or surcharges.

Tax and Social Security Contribution Reductions

25% Discount for Timely Payment

Discounts will be provided for certain payments that are made in time notwithstanding the extension of the deadlines mentioned in “—Extension of Payment Deadlines” above:

- A 25% discount will be provided for the timely payment of tax liabilities due in March and April 2020, except for VAT and withholding taxes whose payments are not part of a settlement or payment facilitation process; and
- A 25% discount will also be provided for the timely payment of social security contributions for February and March by self-employed workers.

Reduced VAT Rate for Personal Hygiene Products

Until December 31, 2020, the VAT rate are reduced to 6% from 24% for the following personal hygiene and health protection products: medical masks and gloves, soap, antiseptic solutions, denatured ethyl alcohol and pure ethyl alcohol of non-denatured agricultural origin with 95% alcoholic strength.

Acceleration of Income Tax and VAT Refunds

Pending refund of income tax and VAT of up to €30,000 per type of tax and per beneficiary will be made immediately.

4. Employment, Compensation and Other Arrangements

For the Protection of Employees

Employees may not be Dismissed

Employers whose businesses have been mandatorily suspended or voluntarily suspended may not dismiss any employees.

Special-Purpose Compensation

Employees of a business that has been mandatorily suspended or voluntarily suspended are entitled to a tax-free special-purpose compensation of €800, covering a period of 45 calendar days. This period is equivalent to the number of days an employer of an affected business may voluntarily suspend employment contracts (See “—For the Protection of Businesses—Suspension of Employment” below). Employees who were terminated or resigned between March 1, 2020 and March 20, 2020, as well as self-employed workers and business owners employing up to five people, are also entitled to the special-purpose compensation. Social security contributions calculated on the basis of nominal wages for a period of 45 calendar days will be covered out of the state budget.

An employee is permitted to work remotely and receive wages from an employer whose business has been mandatorily suspended for temporary business needs. An employer may also receive a special allowance from the employer. In such cases, the amount that an employer receives, including the special-purpose compensation, must be capped at the employee’s salary under the employment contract.

Rent Reduction

An employee whose contract has been mandatorily suspended is exempted from 40% of the rental payments due in March and April on his or her principal place of residence.

Special Purpose Leave for Parents

As schools have been closed, employees in the private sector with children up to 15 years old may request a leave for a minimum period of at least three days. The special leave is available until April 10, 2020. Two-thirds of the special leave will be paid by the employer and one-third will be paid out of the state budget. Employees must use one day of their annual leave for every three days of special purpose leave.

For the Protection of Businesses

Suspension of Employment

Employment contracts of a business that has been mandatorily suspended are suspended for the duration of the suspension. As a result, employers are not required to pay wages (as employees are not required to render their services). In particular, fixed-term employment contracts are suspended until the mandatory suspension is lifted, at which time they will be in effect again and will continue for the remainder of their terms.

Employers whose businesses have been severely affected by COVID-19, as determined on the basis of their business activity codes, may also voluntarily suspend some or all of the employment contracts for a continuous period of 45 calendar days. The suspension may be triggered as late as April 20, 2020.

Deferral of Easter Bonuses and Partial Payment by the State

Employers whose businesses have been mandatorily suspended or significantly affected by COVID-19 may defer the payment of Easter bonuses until a date no later than June 30, 2020. Easter bonuses are

commonplace in the Greek private sector. If the employment contract is suspended, then the employer will be responsible for the portion of the bonus corresponding to the period from January 1, 2020 to the date of business suspension, while the portion of the bonus corresponding to the period from the date of business suspension to April 30, 2020 will be paid out of the state budget.

Operation of Businesses with Safe Operation Personnel

For a period not exceeding six months, employers are permitted to operate their businesses with “safe operation personnel”: i.e., implement work sharing. As the employees will work less, this will result in savings to the employers.

Under this arrangement, each employee would work for a minimum of two weeks per month, either continuously or intermittently, but on a weekly basis. The arrangement must cover at least 50% of the employees and the employers must maintain the same number of employees.

Transfer of Employees between Group Companies

A business that has been significantly affected by COVID-19 may transfer its employees to another company within the same corporate group if the relevant employee agrees.

Rent Reduction

A business that has been mandatorily suspended is exempted from 40% of the rental payments due on its commercial premise and 40% of the lease payments due on leases of movable or immovable assets, in each case, in March and April 2020.

5. Miscellaneous Other Measures

Capital Markets Measures

Ban on Short-Selling

The Hellenic Capital Market Commission has temporarily prohibited short selling and certain aspects of credit default swaps, short sales and other transactions that create or increase the net short positions in shares admitted to trading on the regulated market of the Athens Stock Exchange for which the HCMC is the competent authority. The temporary prohibition also includes sales of shares covered by subsequent intraday purchases. The ban is effective from March 18, 2020 until April 24, 2020. It does not, however, apply to market makers performing transactions, only for hedging purposes, on:

- the abovementioned shares;
- the stock derivatives of the abovementioned shares;
- warrants on the abovementioned shares; and
- ETFs and index derivatives including the abovementioned shares in their composition.

Suspension of the Deadline for Publication of Annual Reports for Listed Companies

The deadline for publication of annual reports for the year ended December 31, 2019 by companies listed on the Athens Stock Exchange is extended to June 30, 2020.

Health Protection Measures

Prohibition of Gross Profit Margin Increases

The gross profit margin resulting from the sale of goods or services that are essential for the health, nutrition, transportation and safety of consumers cannot exceed the levels as of February 1, 2020. The scope of these goods and services includes, in particular, healthcare products, personal protective equipment and personal hygiene products, such as surgical masks, antiseptic liquids and other disinfectants. Violations of such prohibition may result in fines in the range of €1,000 to €1,000,000.

Maximum Quantity of Goods Sold

For a period not to exceed six months, all businesses engaged in the retail sale of personal protective or personal hygiene products can only sell to consumers a maximum quantity of up to three units per customer of disinfectants, products of ethyl alcohol and antiseptic products. Non-compliance with this measure may result in fines in the range of €1,000 to €100,000.

Requisition of Certain Special Hospital Equipment, Personal Protective Equipment and Medicines

Certain privately-owned special hospital equipment, personal protective equipment and medicines may be requisitioned for a period of six months. The scope of requisition includes respirators, hospital beds, durable bed equipment, vital signs monitors, closed suction systems and essential medical devices adjacent to the operation of respirators, as well as all kinds of masks, personal protective equipment and sanitary clothing.

Suspension of Certain Government Operations

Suspensions and Extensions of Deadlines in Relation to Public Procurement Contracts

The competent Minister may decide to:

- suspend the process of public tenders;
- extend the deadline for submission of participation petitions or tender offers when such tenders had already been published as of March 20, 2020; and
- suspend all deadlines in connection with public procurement contracts and extend contractual deadlines, in each case for a period of up to six months.

Suspension of Court Operations

Courts are closed until April 10, 2020 and court proceedings are generally suspended, with certain exceptions generally in relation to matters of urgent nature. Subject to those exceptions, court hearings, deadlines, enforcement proceedings and auctions are suspended.

European Leveraged Finance/Capital Markets Contacts

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