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Greece

Introduction

The year 2019 was one of positive developments for the Greek economy and for its banking system. The Greek economy maintained its growth path and recorded a growth rate of 1.9 per cent, which was higher than the growth in the wider European economy, which according to the European Commission in the winter of 2019 was around 1.5 per cent, and in the Eurozone was about 1.3 per cent.

The increase in bank deposits, the improvement in bank financing conditions and the recovery of confidence in the banking system have led to the complete abolition of capital movement restrictions since September 1st, contributing to the further strengthening of economic activity.

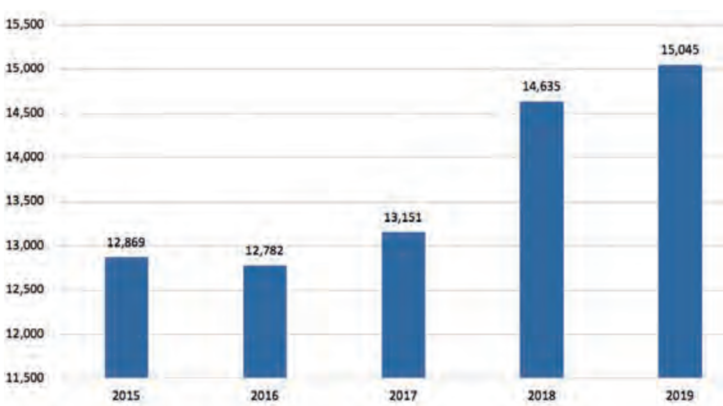
The yields on Greek government and corporate bonds have depreciated significantly. However, the upgrade of Greece's indebtedness by Standard & Poor in October 2019 and the issuance of low-interest bonds confirm the progress that the country has made in its debt reduction program.

The Greek economy has experienced the worst crisis in its post-war history and, despite setbacks, has managed to rectify major macroeconomic and fiscal imbalances. However, the path way leading to high and sustainable growth is difficult.

The coronavirus pandemic and the increasing refugee-immigration problem are currently the two biggest external risks that are testing the resilience of the Greek economy and society. Meanwhile, the Greek banking system is facing the challenge of a high stock of non-performing loans (NPLs), despite the decline of last year, and the need to strengthen the institutional framework for private debt management.

The banking system and the Greek economy are facing extraordinary conditions amid the uncertainty that currently prevails at the time of writing in April 2020. It is very likely that things will get worse before the recovery starts. Our capabilities are being totally tested to deal with this major crisis in collaboration with our European partners.

Total Factoring Volume (EURm)



Factoring Industry Environment

The factoring industry in Greece, in contrast to the economy and the banking sector, has been able to withstand the recent difficult times and has constantly grown. Having experienced some slowdown in growth during the financial crisis, the factoring market has grown 17 per cent in the last five years to EUR 15.1bn in 2019 from EUR 12.9bn in 2015.

The Greek economy has been growing since 2017, with GDP growth of 2.1 per cent in 2018 and around 1.9 per cent in 2019. At the end of 2019 the forecast for 2020 was growth of 2.2 per cent.

The growth of the industry is mainly the result of a better understanding and acceptance of factoring by clients and banks. In the last few tough years the SME sector has become a fundamental generator of growth with an increasing number of clients. In addition, the banks have recognised the importance of account receivables management tools in their product portfolio mix, especially in a period when NPLs have been the main issue for all the Greek banks.

It is obvious that the strategy of all the major financial groups is to support and enhance the use of factoring as an important and secure financial tool for their clients. This trend has led the factoring GDP penetration to grow in importance reaching 8.0 per cent in 2019. This, is the highest it has ever been and quite impressive given that this ratio was only 5.2 per cent in 2009. It is also a clear indication that this product is developing and growing in influence. On the other hand, anyone can see that Greece's factoring GDP penetration is still lower than the average EU penetration rate of roughly 12 per cent, which means that there is a potential for further development in the industry, in other words much higher volumes for existing factoring entities. (Greek GDP for 2019 was EUR 194.4 bn)

Market Performance and Supply

Factoring has proved to be a much used financial solution since its launch in the Greek market in the early 1990s. After its first decade, during which local factors had to educate the market and show the successful outcome of their services, the number of companies using factoring increased strongly. Today, this trend continues with an accelerating number of companies using the service.

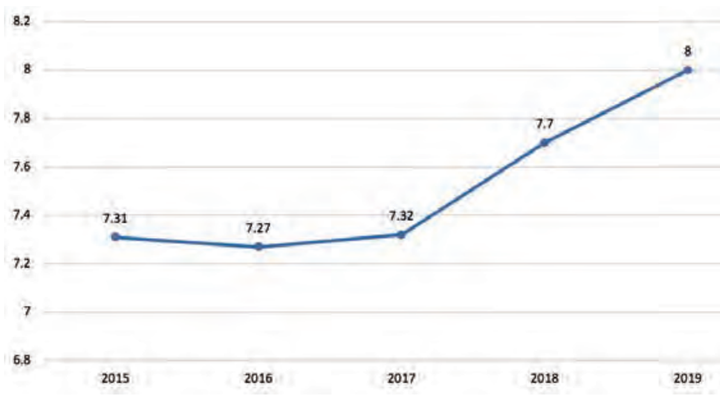
The factoring industry has been helped by a beneficial legal and tax regime which has enabled factors to offer:

- Low factoring costs for SMEs which consist the main part of factoring portfolio on national level
- Specialised financial analysis and transaction monitoring
- Long experience and high level of know-how

Factoring Products and Services

- **Domestic factoring**
  - Recourse and non-recourse
- **International factoring**
  - Export factoring, recourse or non-recourse
  - Import factoring full service
- **Reverse factoring, supply chain finance**
- **Invoice discounting**
- **Collection only services**

GDP Factoring Volume Penetration (%)

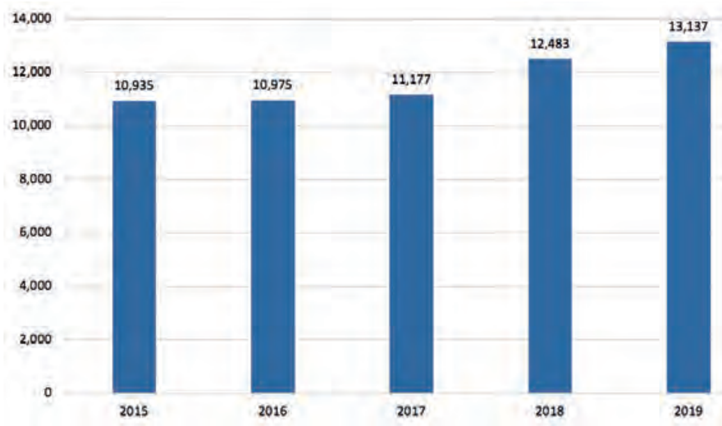


The market's greatest increase in volume was in 2018 when it grew by 11.3 per cent compared to 2017. The optimistic view was that this high rate of growth would continue in 2019, but due to an unexpected event in the middle of 2019 the volumes increased by only 2.8 percent.

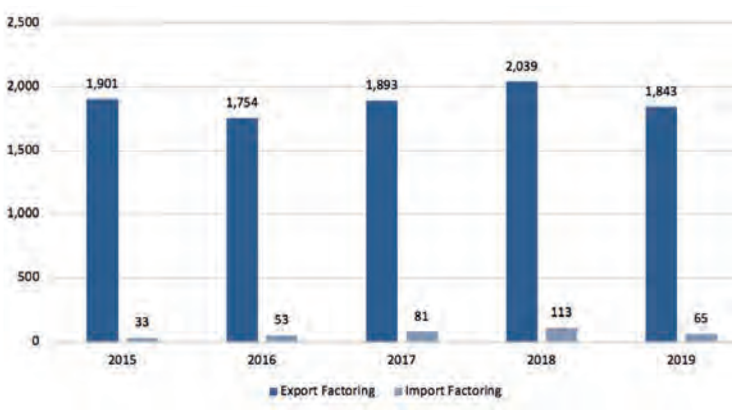
In May 2019, the then government imposed a 0.6 per cent charge on outstanding factoring advances, similar to an existing tax that has been charged since 1975 on bank loan balances. Immediately after the voting of the law that imposed this tax on our services, we drafted a very comprehensive impact assessment that we shared with the government. Using domestic data, examining thoroughly the structure of the Greek market and also considering reports released from international institutions (OECD, EUF etc), we reached the conclusion that the imposed tax would have the following negative effects:

i. Shrinking of public revenue: the imposition of the 0.6% levy on factoring advances by Greek factors could result in a significant shrinking of

Domestic Factoring Volume (EURm)



International Factoring Volume (EURm)



Data sources: Bank of Greece, Hellenic Factors Association, EU Federation

the sector (since factoring would be rendered as a non-competitive financial service against the traditional tools of financing), resulting in a reduction of income tax and VAT paid by the factoring companies. Thus the levy would be unfavourable to the government as well as the factoring industry.

ii. An increase in businesses' financing costs, particularly affecting small- and medium-size businesses and export-oriented businesses. SMEs use factoring as a means of effectively enhancing their working capital. This legislation would burden the cost of their financing and even result in significant operational difficulties.

iii. Weaker contribution of factoring to the growth of the Greek economy: factoring and invoice discounting activities have remained relatively stable between 2007 and 2016, and they have actually increased since 2014, at a time when bank credit for Greek SMEs dried up in the aftermath of the financial crisis. Additionally, this imposition would also severely injure the factoring industry's GDP penetration which in 2018 reached 7.6 per cent, and therefore would result in its falling further below the EU average of about 12 per cent.

The tax was applied in April 2019 (effective from 1/5/2019) and was removed in December (effective from 1/1/2020), by the new government that had been elected in July. By the end of December it had been in force for eight months. According to our estimates, the factoring sector was substantially affected, for in the first half of 2019 our industry experienced an increase in volume of 4.8 per cent compared with the first half of 2018, whereas in the second half of 2019 the increase slowed to one per cent resulting in a slight annual growth of 2.8 per cent. Although we could be satisfied with the final performance, our strong growth in 2018 (11.3 per cent) had created the expectation of much higher growth.

Hellenic Factors Association, as the representative body of the factoring industry in Greece, sent a very detailed memorandum to the Ministry of Finance which gave us the chance to present our arguments in the course of two consecutive meetings with the two Deputy Ministers of Finance. In those meetings we tried to communicate the impact of the tax on the economy, that it was increasing the cost of finance especially for SMEs. We supported our case by citing research from widely respected institutions, using data from their annual reports on the role of factoring for SMEs, and our arguments were seen as very valid by a liberal government that is currently trying to pull together all the country's resources in order to help the recovery of the Greek economy.

Factors in Greece offer the traditional factoring services: domestic and export factoring, recourse and non-recourse, import factoring and collection services. As commercial and trade finance solutions evolve, there is a growing demand for supply chain finance (reverse factoring solutions) by large corporations with high credit ratings in order to optimise their cash flow cycles as much as possible and at the same time enable their suppliers (SMEs mainly) to have access to a secure source of financing through their account receivables. This means that factoring penetrates large companies as well, and the factor is an important part of the supply chain finance solution, where the company can establish a closer cooperation with its customers, and at the same time its suppliers can have access to a source of finance that is non-recourse. The pricing structure is quite traditional and consists of a commission fee for administration and collection of assigned invoices and buyer credit risk assessment, and an interest fee charged for the respective financing.

During 2019, fintech service providers tried to take market share from the 'traditional' bank-based factoring sector. Compared to the banks and their factoring services and clients, the new providers are targeting smaller companies needing single or intermittent financing. Some of those attempts turned out not to be successful, but we need to recognise that it is still important for banks and factors to be aware of such developments and decide whether to extend their product lines to include simplified financing services or not.

Future Trends

In general, the trend in Greece's factoring industry is to simplify procedures using technology as much as possible. Clients want to receive financing in a fast and convenient way, and are trying to avoid highly labour-intensive and paper-based procedures. Recognising that requirement, there are providers who facilitate data exchange between sellers and buyers (e-invoicing). These providers present an opportunity for the factors, because by connecting to those providers factors can receive invoice information automatically in a very efficient way.

Hoping that market and economic conditions will start to improve (we have to overcome the challenge of COVID-19), we estimate that in the coming years, factoring will be in a position to unfold to its full potential as a financial product, that enables companies to access the finance they are seeking for. The client penetration rate of factoring is expected to be higher in future, both among SMEs and large corporates, as the last three years have shown the importance that factoring can play in a country's effort to adopt export-led growth.

Legal Framework

The provisioning of factoring services in Greece is regulated by Law No. 1905/1990 and Law No. 4261/2014. The Bank of Greece is the supervising authority, which issues licenses to factoring companies upon incorporation or to other kinds of companies that become factoring companies. Licenses are granted only to banking institutions and designated factoring companies that must have at least a quarter of the minimum share capital that is required for banking institutions (currently EUR 18m), that is, they must have a share capital of at least EUR 4.5m. The legal form of these special purpose factoring companies is that of a société anonyme.

The Factoring Law No. 1905/1990 (and the subsequent Law No. 4261/2014) refers to the factoring of claims arising from contracts for the sale of goods, provision of services or performance of works. Since the law does not expressly limit the origin of receivables that can be factored, it is considered that any type of receivables may be factored. The law does not provide for any restriction on the maturity of receivables that can be factored and there is no maximum time exposure of factoring companies to the factored receivables. In addition, the law does not provide for any restriction on the quantity of receivables assigned, meaning that a assignor may assign all his receivables against all his debtors, present and future.

The law on factoring, as well as the local law, also expressly allows the assignment of future receivables as long as they are either defined or definable. To this end, the type, scope and debtor (not necessarily named in the agreement as long as their identity is ascertainable or will be ascertainable in the future) of the future receivable must be specified in the notification of assignment.

In order for a legal assignment to be valid against the debtor, the supplier's insolvency practitioner or any third-party creditors, the factor shall have a written factoring agreement, a written notification of the assignment to the debtor served by any means to the debtor (for verification reasons it is advisable to be served by a court bailiff). With regard to the notification of assignment to debtors as legal entities according to public law, there are provisions which differ according to whether the debtor is in the public or private sector; for a public sector debtor the notification is sent via a bailiff).

The transfer of ownership of receivables is completed, immediately after written notification is served to the debtor.

After notification to the debtor of the assignment, the factor becomes the owner of the receivables and substitutes the assignor in all his rights relating to these receivables, thus the factor may also negotiate the extension or restructuring of the debt.