

# The Paradox of Confidence

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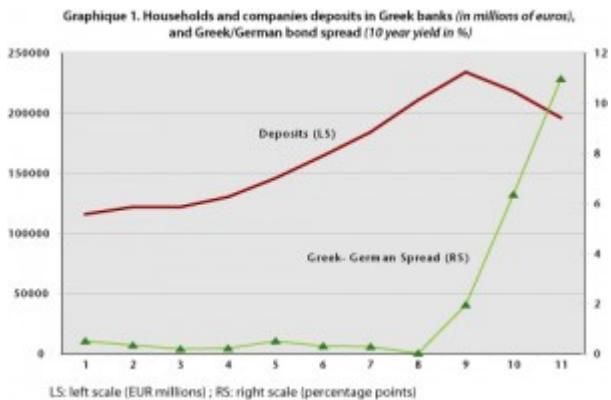
An interesting question raised in many forums is why Greek depositors continue to have confidence in their government while Greek bonds holders do not.

The Hellenic Deposit and Investment Guarantee Fund's (HDIFGF) derives resources from initial membership as well as from annual contributions paid by credit institutions. If these resources are not sufficient to compensate depositors in case of failures, supplementary resources are provided by the Central Bank (Law 3746/2009).

But in the case of a bank run, would the Greek government be able to pay those depositors without the help of the European Central Bank? The Greek debt is now 153% of the GDP, up from 106% in 2007. Is it reasonable to believe that the government can raise extra funds in case of a bank run without the need to print money and with no explicit guarantee? (In practice, the European Central Bank is not obliged to bailout Greek banks or to insure Greek depositors).

In the aftermath of Irish increase of the deposit guarantee in 2008, many countries followed suit in order to prevent depositors from looking for safer accounts in other European countries. Greece was one of them. It increased the insurance to cover deposits up to 100,000€. That might be one of the reasons why Greek bank deposits increased considerably during 2008 and 2009 (14.4 and 11% respectively). Although it seems to be that depositors are turning their back to the banks (deposits have been falling since then, -6.7% in 2010 and -10.14% during the first 7 months of 2011), once considering the effect of the fall of income, the deposit/consumption ratio is still over the average for the decade (the ratio

between deposits and consumer expenditures is decreasing but it is still higher than what it was during the period 2001-2008, figure 2). Surprisingly, depositors' behaviour has not been really affected by the country risk (see figure 1, the spread of Greek bonds over the German ones is a measure of government risk and it has risen).



Source : Own calculations based on data from the European Central Bank (bond yields), Bank of Greece (deposits) and Eurostat (consumer expenditures). Note that for 2011 we use the average of the first 7 months of the year.

What makes Greek depositors apparently so confident in their banks? It must be recalled that beyond deposit insurance, it might take time if depositors were to get their money back in case of failures, (up to 6 months according to the HDIFGF – ask Northern Rock depositors for more information about the subject!). What would happen if eventually Greece decided to abandon the Euro? In which currency would depositors expect to be paid? In this case better ask the question to Argentinean depositors!

I do not want to spread fear among Greek depositors but to debate the implications of greater financial integration without an explicit European safety net. For example, should

deposit insurance be a national matter or a European one? What about supervision? Today the centre of the hurricane is in Greece, but the risk of contagion to other countries is high.

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# Bienvenue à nos lecteurs

par **Philippe Weil**, président de l'OFCE

Ce blog est un travail collectif de l'OFCE qui présente sous une forme simple, rapide et attrayante ses analyses des [grandes questions de politique économique](#), ses recherches et ses [prévisions macroéconomiques](#).

L'OFCE n'est pas monolithique, il s'exprime – en toute indépendance et sans esprit partisan – par la voix de ses chercheurs. Il n'y a pas de pensée unique de l'OFCE. Derrière la diversité des approches et la variété des sujets qui seront abordés dans ce blog, la seule unité est celle que donne la rigueur de l'analyse économique.

L'OFCE est désormais présent dans la blogosphère pour y accomplir sa mission : animer le débat public, susciter la réflexion, poser des questions et apporter, quand cela est possible, [là](#) les réponses que suggèrent la théorie économique et les travaux empiriques.

L'OFCE est un observatoire (français des conjonctures économiques) mais, comme Jean-Marcel Jeanneney et Jean-Paul Fitoussi avant moi, j'entends qu'il observe pour influencer, qu'il analyse pour contribuer. L'OFCE n'est pas un [Monday morning quarterback](#) qui, du confort des tribunes, étudierait après coup le match du weekend et décernerait avec morgue bons et mauvais points en ignorant allègrement les difficultés auxquelles font face les décideurs. Rien de cela ici, juste une tentative humble mais déterminée d'enrichir le débat

public.

\*Le comité de rédaction du blog de l'OFCE est dirigé par [Jérôme Creel](#) et composé d' [Éric Heyer](#), [Hélène Périvier](#) et [Francesco Saraceno](#)

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# To our English-speaking friends

by **Philippe Weil**, president of OFCE

Yes, I know, it looks like we are ignoring you by launching in French this collective blog of OFCE, the French Economic Observatory. *Le français* is a beautiful language but not all of you may understand it. We must make sure our primary audience – the community of French policy makers, journalists, business people and academics – can read us and not all of them, alas, can (yet) do it *dans la langue de Shakespeare*. So please forgive us if most of this blog is in French.

We will post for you in English, though, from time to time (hopefully with an increasing frequency!) when we want to make sure we can reach you. The mission entrusted to OFCE is to bring the insights of economics to bear on the analysis of the business cycle and of the policy challenges facing the country. In our globalized world, most of our contributions are relevant beyond France. So, please, bookmark this blog and keep an eye on it, you too are our target audience and we will not forget you!