DEPRESSION IN GREECE AND REVEALING MORAL HAZARDS ON ENTREPRENEURSHIP FINANCIAL GUARANTEES

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ABSTRACT

At the beginning of the crisis, Greek Guarantee Fund for Small and Very Small Enterprises (GGFSVSE) provided no interest or low interest loans to almost 60.000 Greek enterprises. Moral hazards created as entrepreneurs neglect to repay the stately guaranteed loans. J. Stinglitz and P. Krugman have referred to depression in Greece and Moral Hazards creation in the banking system. Moral Hazards and the constructive ambiguity principle are commented by scientists as Campbell Andrew & Lastra Rosa, Wood Geoffrey, Roka & Gortsou, N. Konsola and Ch. Balomenou. The theoretical last part deals with the presentation of data provided from Hellenic Statistical Authority and Serres Chamber of Commerce and Industry. At the empirical part are depicted the results of our research on the 188 local entrepreneurs which have benefited from these loans. It is worth mentioning the accordance between our results from our empirical research and the relevant used literature.

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INTRODUCTION

Greece nowadays is “the country with the deepest depression” (Stinglitz (2016) pp.78). In such an adverse macroeconomic environment, crisis has affected local entrepreneurship. “SMEs haven’t recovered in Greece, where more than a third continue to report “access to finance” as the single largest obstacle to doing business” (Stinglitz (2016) pp.127-128)

At the beginning of the new era, nine years ago Greek Guarantee Fund for Small and Very Small Enterprises (GGFSVSE or TEMPME in Greek language) provided enterprises no interest or low interest loans. In order to support micro and small enterprises Greek state offered guarantees to the banking institutions. Almost 60.000 enterprises were benefited from guarantee funds. The main objective of this article is to mention moral hazards creation as a result of the differentiated repayment of guarantee versus non-guarantee loans. Precarious loans in Greek banks are increased as a reverberation of depression. Thus great attention was given on one hand to the revealing moral hazards and on the other hand to the formation of a most suitable mitigation plan.

Our research is divided into 2 parts, a theoretical and an empirical one. In the first one, given that the literature on moral hazards creation is extensive, we will refrain from a comprehensive review and concentrate on selected work. Taking under consideration the fact that Greek Public Debt has become a subject of global scientific importance, the paper’s literature review includes -among others-detailed references of the Nobel laureate in economy, P. Krugman and J. Stiglitz, as they have extensively dealt with the Greek nine years recession. P. Krugman in his book (Krugman, (2012, pp. 38) deals with moral risks in the banking system. He refers: “What happened instead was that deregulation created a classic case of moral hazard, in which the owners of thrifts had every incentive to engage in highly risky behaviour. After all, depositors didn’t care what their bank did; they were insured against losses. So the smart move for a banker was to make high interest-rate loans to dubious borrowers, typically real estate developers. If things went well, the bank would register large profits. If they went badly, the banker could just walk away. It was heads he won, tails the taxpayers lost." In addition, relevant references to the moral hazards creation in the banking system of scientists as Wood Geoffrey, Campbell Andrew & Lastra Rosa, Roka & Gortsou, N. Konsola and Ch. Balomenou complete the utilized literature.

It is worth mentioning that Serres Chamber of Commerce and Industry Hellenic Statistical Authority have provided data for this research.

In the second part, we conduct a research which relies upon three formalised questionnaires, which is concentrated on 188 eligible entrepreneurs from Regional Unity of Serres. These 188 businessmen, from the total approximately 400 ones who received TEMPME loan R.U. of Serres, joined in the application of the program and consequently benefited from the relevant loans. Data collected in three phases, on June 2012, on June 2013 and on July 2014. The said data are analysed by using descriptive statistics methods, where are calculated the average, the standard deviation, the coefficient of variation and coefficient of correlation.

One of our research main results is the fact that the majority of entrepreneurs neglect to repay the guaranteed loans. Thus, the non-performing TEMPME loans after the forfeiture of the Greek State guarantee, is "added" to national debt. The increase in the Greek Public Debt owing to the above mentioned entrepreneurial statutory guaranteed loans illustrates the actuality and the gravity of the under examination issue. Entrepreneurs' different approach towards guaranteed and not guaranteed loans is one of the main reasons of the creation of moral hazards. Apart from this, it should be noted that according to our findings, local entrepreneurs who invested at core regions (like Thessaloniki) tend to repay their loans. Furthermore such relevant moral hazards are more likely to occur on personal businesses. Also such significant differences are noticed in the behaviour of borrowers according to the enterprise's size.

Taking under consideration all the above mentioned, we propose audit arrangements on providing guarantees and consequently the adoption of strict ex ante, on going and ex post evaluation and assessment procedures, implementing during the total of the duration of these loans.

In this scientific work, our main purpose is to gauge the revealing of moral hazards in the repayment of the state guaranteed and the banking loans and to propose the adoption of effective and efficient procedures in order to reduce these risks. So this is the main contribution of our paper to the relevant literature.

THEORETICAL part; Depression in Greece

This part draws firstly, on an overview of recent literature, as there is by now a large extant literature on this area. While, “we live in the shadow of economic catastrophe” (Krugman 2012 pp. 15), Nobel awarded scientists have mentioned to crisis in Greece. “In Europe, as in America, the slump has hit regions unevenly; the places that had the biggest bubbles before the crisis are having the biggest slumps now” (Krugman 2012 pp. 13). “Spain is on its own, as are Greece, Portugal, and Ireland. So in Europe the depressed economy has caused fiscal crises, in which private investors are no longer willing to lend to a number of countries. And the response to these fiscal crises—frantic, savage attempts to slash spending—has pushed unemployment all around Europe’s periphery to Great Depression levels, and seems at the time of writing to be pushing Europe back into outright recession”. (Krugman 2012 pp. 13).

Crisis’ reverberations on entrepreneurship are enormous. The volume of loans to SMEs has been decreased “As money flowed out of their banking systems, the banks in weak countries had to contract their lending. I refer to this contraction in lending as private austerity. The magnitude of this contraction is enormous and affects especially small and medium sized enterprises….By 2013 the volume of small loans less than 1 million -a proxy of lending small and medium sized enterprises- was still far bellow its precrisis peak in all crisis countries – nearly halved in Portugal, down by two-thirds in Greece and Spain.” (Stinglitz 2016 pp.127-128). Krugman adds: “Lenders became much more cautious about making new loans; the people who had been borrowing were forced to cut back sharply on their spending. And here’s the problem: nobody else was ready to step up and spend in their place. Suddenly, total spending in the world economy plunged, and because my spending is your income and your spending is my income, incomes and employment plunged too.” (Krugman 2012 pp. 19). In addition, Greek enterprises face many obstacles as they make efforts to export their products “As small enterprises faced an increasing risk of bankruptcy, foreigners who might bought their goods shied away. The failure to ensure the adequate supply of capital and the increasing risk of bankruptcy, made it more difficult for the crisis countries to export.

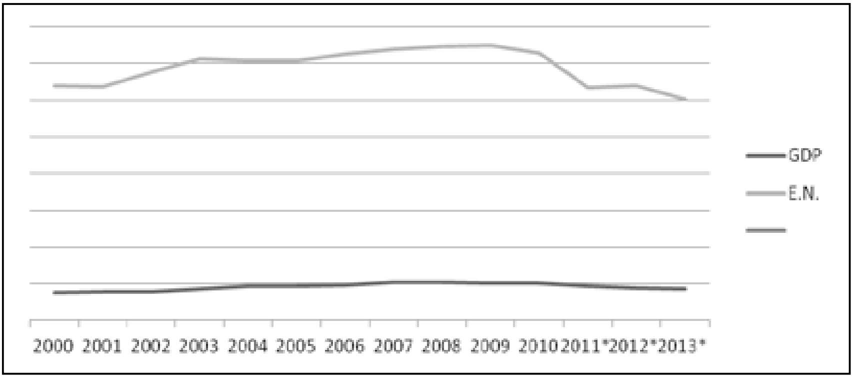
The increasing risk means that the firms were less willing to undertake investment or even increase employment at any interest rate" (Stinglitz 2016 pp.104).

Crisis and reverberations on local entrepreneurship

Regarding R.U. of Serres, on the table/figure 1 below it is presented Gross Domestic Product and Number of Enterprises on Regional Unity of Serres.

Table/Figure 1: Gross Domestic Product and Number of Enterprises on R. U.of Serres

YEAR	GDP (in million €)	NUMBER OF ENTERPRISES
2000	1.487	12.784
2001	1.563	12.738
2002	1.568	13.516
2003	1.712	14.268
2004	1.841	14.146
2005	1.839	14.133
2006	1.888	14.499
2007	2.084	14.799
2008	2.071	14.956
2009	2.030	15.021
2010	2.004	14.585
2011	1.859	12.666
2012	1.756	12.773
2013	1.700	12.078



Source: Hellenic Statistical Authority (http://www.statistics.gr/) a) Gross Domestic Product years 2000-2013 β) Number of Enterprises years 2000-2010

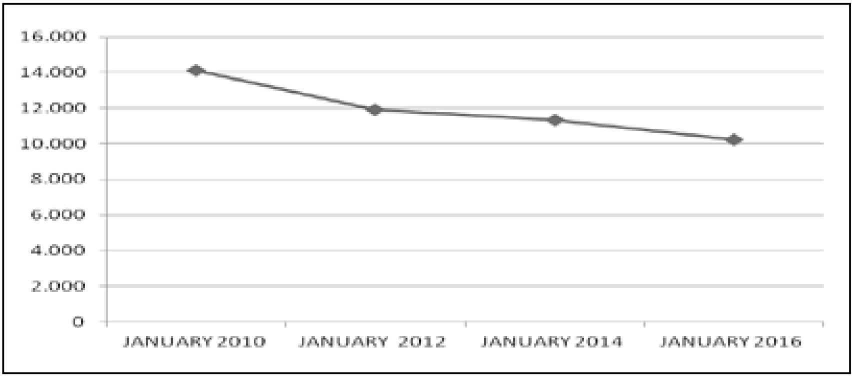
Source: Serres Chamber of Commerce and Industry (http://www.serreschamber.gr) Enterprises members of the Chamber years 2011-2013

Both local GDP and Number of Enterprises have decreased since to onset of the crisis (2009). According to Stinglitz "In Europe alone, the cumulative loss in GDP from the financial crisis is in trillions of dollars" (2016, pp. 147). In his reference to local enterprises, President of Serres Chamber of Commerce and industry Mr C. Meglas (2016) noticed that "There is a great necessity of the economic encouragement (back up-support) to the local small medium enterprises that are severely suffocated from liquidity problems. Additionally, the Executives of Developmental Company of Serres (AN.E.SER.), Mr J. Kalogeroudis & Mr N. Anixiadis. (2016) refer "Many local investments were not completed due to lack of loan providing funds".

On the table/figure 2 below, it is presented the number of local enterprises-members of Serres Chamber.

Table / Figure 2: Number of local enterprises-members of Serres Chamber

year	JANUARY 2010	JANUARY 2012	JANUARY 2014	JANUARY 2016
E. N.	14.103	11.892	11.340	10.233



Source: Serres Chamber of Commerce and Industry (http://www.serreschamber.gr)

The number of local enterprises is continuing to decrease. According to Stinglitz (2016, pp. 63) “the Eurozone‘ s downturn has lasted now for eight years”. As R.U. of Serres is one of the most underdevelopment R.U. in Greece, it is worth referring to the differential policy makers approach towards development and under development regions during downturns. “In periods of recession, the crisis policy responses focus on more resources in core regions” (Myrdal (1969) cited in Konsolas (1997) & Balomenou (2003))

Politics in USA and European Union took action in order to face consequences of crisis. “For the past few years the comparison between economic developments in Europe and in the United States has seemed like a race between the halt and the lame—or, if you like, a competition over who can bungle the crisis response more. At the time of writing, Europe seemed to be nosing ahead in the race to disaster, but give it time”. (Krugman 2012 pp. 87). Five years later, recession returned to depression.

Greek Guarantee Funds

a) **Greek Guarantee Fund for Small and Very Small Enterprises (GGFSVSE)**

On the table 3 below there are presented the main characteristics of Greek Guarantee Fund for Small and Very Small Enterprises (GGFSVSE or TEMPE). Tempe provides loans to small and micro enterprises.

Table 3: Greek Guarantee Fund for Small and Very Small Enterprises

	A΄ PHASE	B΄PHASE
Enterprises Number	27.069	30.308
Total amount of Credit	3.234.968.175,48€	2.043.512.795,03€
Interest rate	NON-INTEREST RATE	LOW-INTEREST RATE
Maximum amount of Credit per enterprise	350.000€	125.000€
Main condition	3 profitable financial years in succession during last three years at their profit and loss accounts	achieve a positive profit mean of their last three financial years in succession
Period	1/1/2009-8/4/ 2009	9/4/2009-31/12/2010

Source: National fund for entrepreneurship and development (ETEAN)

Apart from the above the main characteristic of GGFSVSE loans was the total lack of any control. It is worth mentioning that GGFSVSE loans, as well as all guaranteed by the Greek government loans, which not being repaid by borrowers, are indebted to their vast majority, after the forfeiture of the guarantee, in the public tax authorities (DOY), and finally are “added” to the public debt. The fact that Greek taxpayers are consistently asked to undergo excessive taxation and large wage cuts to pay for the personal and social spending of some “entrepreneurs” strongly raises the question of a strict control of the offered guarantees procedure. Therefore it is to be seriously under consideration the importance of arising moral hazards due to the providing of the statutory guarantees.

b) Hellenic Deposit and Investment Guarantee Fund (TEKE)

The Hellenic Deposit and Investment Guarantee Fund (HDIGF or TEKE in Greek Language) is governed by law 4370/2016 (Government Gazette 37 A'/07 March 2016) and it is the operator of the deposit guarantee and investment compensation schemes and the Resolution Fund for credit institutions. TEKE pays compensation to depositors, investor clients etc. On the table 4 below there are presented the main characteristics of TEKE.

Table 4: Hellenic Deposit and Investment Guarantee Fund (TEKE)

	Deposit Cover Scheme (DCS)	Investment Cover Scheme (ICS)	Resolution Scheme (RS)
Coverage	Depositors	Investor Clients	Financing of resolution measures
Amount	100.000€	30.000€	-

Source: Hellenic Deposit and Investment Guarantee Fund (TEKE)

Moral Hazards

a) Moral Hazards and deregulation

Can an entrepreneur be "moral"? In ancient Greece, thousands years ago, Hermes was the god of Trade and the god of Thievery. In modern Greece "Germany and those who are doing relatively well now blame the crisis on fundamental flaws in the structure of crisis countries. They have rigid labor markets, are prone to corruption, are nations of taxavoiders and lazy spendthrifts (Stinglitz (2016) pp. 74-75)".

It is above mentioned the role of state provided guarantees on moral hazards' creation. Many scientists study moral hazards in the banking system. Bankers do not make the appropriate efforts to collect the guaranteed loans as these loans will be paid by the Greek authorities. At the same time, bankers put deposit guarantees on high-risk investments. This work examines the factors that contribute to moral hazards' creation. Deregulation is considered to be one of the most important factors. According to Krugman "Glass-Steagall (Act 1933) limited the amount of risk banks could take. This was especially necessary given the establishment of deposit insurance, which could have created enormous "moral hazard." (Krugman 2012, pp. 34). He continues "And thanks to regulation, banks grew much more cautious about lending than they had been before the Great Depression (Krugman 2012, pp 35).....All that began to change, however, in 1980. (Krugman, 2012 page 35)", and "In that role (deregulation), he (Senator Phil Gramm of Texas) championed a number of deregulatory measures; the crown jewel, however, was the Gramm-Leach- Bliley Act of 1999, which effectively repealed Glass-Steagall, and retroactively legalized the Citi-Travelers merger. (Krugman 2012, page 47)." He adds "it (deregulation) didn't work out that way. What happened instead was that deregulation created a classic case of moral hazard, in which the owners of thrifts had every incentive to engage in highly risky behaviour. After all, depositors didn't care what their bank did; they were insured against losses. So the smart move for a banker was to make highinterest-rate loans to dubious borrowers, typically real estate developers. If things went well, the bank would register large profits. If they went badly, the banker could just walk away. It was heads he won, tails the taxpayers lost." (Krugman, 2012 page 38).

The Dodd-Frank Wall Street Reform Act was passed instead of the absolute reinstatement of the Glass-Steagall Act. A part of the Dodd-Frank Wall Street Reform Act, known as Volcker Rule, puts restrictions on banks' ability to use depositors' funds for risky investments. But it does not require them to change their organizational structure. If a bank becomes too big to fail and threatens the U.S. economy, Dodd-Frank requires that it be regulated more closely by the Federal Reserve. This Act is the most comprehensive financial reform since the Glass-Steagall Act. As we have, already, mentioned, the Gramm-Leach-Bliley Act, that repealed Glass-Steagall in 1999, allowed banks to use deregulated derivatives, causing the 2008 financial crisis. On the contrary, Dodd-Frank regulated the financial markets to make another economic crisis less likely. That's exactly what Glass-Steagall did after the 1929 stock market crash.

Despite the fact that the Dodd – Frank Wall Street Reform Act, undoubtedly, issued very important and necessary regulatory reforms, nevertheless, there stands an extent debate on it. In general, we can say that if somebody tried to assess / evaluate the positive and negative sides of the examining Act, he would realize that the contribution of this regulatory reform to the prevention and protection of future crises occurrence, deriving from the design - modification and adaptation of adequate measures, is really precious. And, in any case, this is the heart of the philosophy of this Act,. Of course, undoubtetly, Dodd – Frank except for the mentioning pros of its ouevre has and some weacknessess, mainly, that according to some experts, relied on contradictory fears for limiting or bothering the economic development activity on the one hand, whereas on the other hand some other experts, strongly, believed that there is a lack of willingness to end the doctrine << too big to fail >>, with all ancillaries which may possibly result from the tight - excessive or loose - inadequate implementation of the said regulatory rules respectively. (Balomenou, 2015).

Finally, whether Dodd-frank Wall Street Reform Act (2010) will eliminate the occurred moral hazards or not is a mater under serious consideration after USA recent elections.

b) Moral Hazards and Lender of Last Resort (LORD)

As Creek banking system is under capital controls since July 2015, it is worth referring to Moral Hazards and Lender of Last Resort. Freixas et al. (2002) (cited inCampbell, A.& Lastra R, 2009, p.466).provide the following description of the use of lender of last resort in modern times: “The discretionary provision of liquidity to a financial institution (or the market as a whole) by the central bank in reaction to an adverse shock which causes an abnormal increase in demand for liquidity which cannot be met from an alternative source”.

The reveiling moral hazard, to reduce market discipline, arising from the fact that when commercial banks are aware of and confident that they will be refinanced the aftermath of a crisis,they complace. Concequently, their motivation, for prudent management, decreases. (Balomenou, 2015).

For avoiding or reducing the above mentioned moral hazard, a Central bank would have the formal right not to lend. However, economic costs of such a policy would be high and the Central bank would fail to provide the public good of a stable financial system.

In any case, the absence ever, of the Central Bank’s explicit commitment to act as lender of last resort, could be described as a deliberate constructive ambiguity, as having neither at national nor at EU level, statutory/regulatory basis.

(Balomenou, 2015). Hence, the central bank's LOLR role is discretionary, not mandatory. (Campbell, A.& Lastra R, 2009).

LOLR operations have acquired a new significance in light of the turmoil in financial markets over the last months, leading to remarkable changes in Europe and elsewhere. (Campbell, A.& Lastra R, 2009 & Herr, H, 2014). Thus, in times of deep economic recession, like the present one, moral hazard has to be solved by financial market regulation and the threat of losing property. This is exactly the conclusion, drawn by Paul De Grauwe (2011, p. 8), who wrote under the impression of the Great Recession after the outbreak of the subprime crisis: "Liquidity provision should be performed by a Central bank; the governance of moral hazard by another, institution, the supervisor" Such a role could possibly be played by the ECB in, terms of its new responsibilities, under the framework of the European Banking Union, and more specifically, through the «Single Supervisory Mechanism" (SSM). Here, it maybe underlined that central banks and the relevant supervisory authorities should, apriori (in periods of economic growth), have enforced with the necessary regulatory framework the Banking System in order to be able to overcome the arising dificulties in crisis and economic recession, periods.

EMPIRICAL PART: RESEARCH ON LOCAL ENTERPRISES

Data

This questionnaire based research took place at Regional Unity of Serres-Region of Central Macedonia-Greece. We addressed to 188 Micro and Small enterprises. We did not use the random sampling method but we addressed only to those entrepreneurs who took loans from the above mentioned TEMPME (the half of the total in R.U. of Serres). The research conducted in three phases: From 1-6-2012 up to 30-6-2012, from 25-5-2013 up to 20-6-2013 and from 4-7-2014 έup to 20-7-2014. It is worth mentioning that a)we took as a granted that the participants gave true answers b)the dead line for the repayment of GGFSVSE loans was on June 2012. At the time we conducted this part of our research (July 2014) all the GGFSVSE loans were non performing ones (or precarious ones)

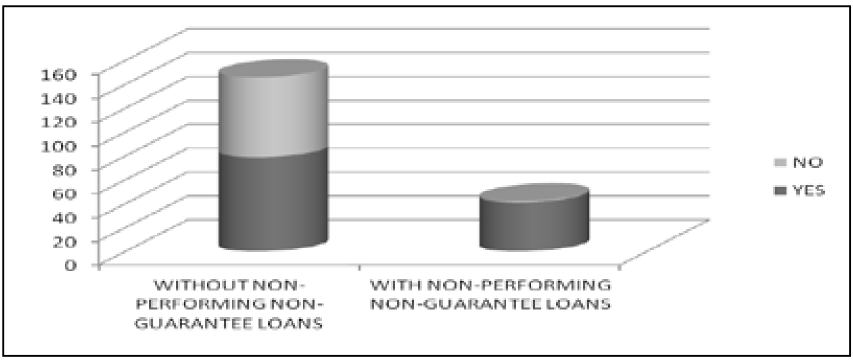
METHODOLOGY IMPLEMENTATION-DESCRIPTIVE STATISTICS AND CORRELATIONS

We present the results of our question-based research and we analyze them using the variables 1 for positive answer and 2 for negative answer. Then, we calculate the average, the standard deviation, the coefficient of variation and the coefficient of correlation

RESULTS

As Greek economy is facing an economic slump, borrowers usually can not meet their obligations. Thus, we examine the differentiated result concerning the repayment of the guaranteed from statutory institutions loans on behalf of the borrowers and the banks. On the figure 5 bellow we present that entrepreneurial non-guarantee (banking) loans are repaid while the guarantee ones are not.

Figure 5: Outstanding Loans of Greek Guarantee Fund for Small and Very Small Enterprises (TEMPME)

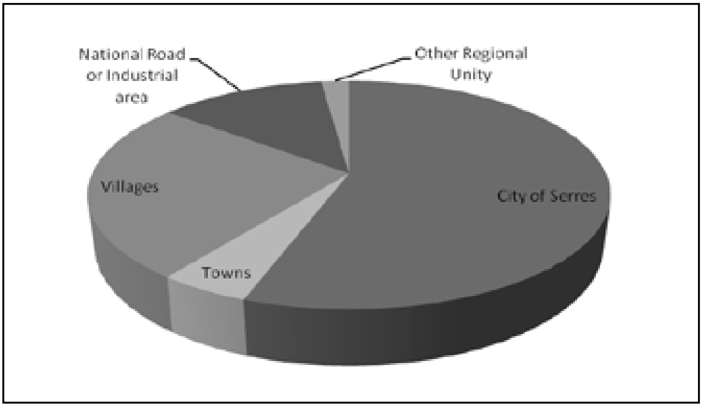


The only borrower who repay the guarantee loan is an exception to this rule, thus we will not present in every category entrepreneurs with non-performing non-guarantee loans and performing guarantee loan.

Taking under granted that bankers make more efforts to collect the non-guarantee loans, in this research we examine entrepreneurs different approach towards guarantee and non-guarantee loans.

On the figure 6 we present loans distribution of TEMPME per company's administration building situation.

Figure 6: Loans distribution of TEMPME per company's administration building situation



According to previous researches (Balomenou & Maliari (2015)) the majority of activities took place at the city of Serres, thus the majority of borrowers-businessmen are located at Serres.

On the figure 7 we present those entrepreneurs with performing non-guarantee loans and non-performing guarantee loan per company's administration building situation and on the figure 8 we present the percentage of Entrepreneurs with performing non-guarantee loans per sector.

Figure 7: Entrepreneurs with performing non-guarantee loans and non-performing guarantee loan per company's administration building situation

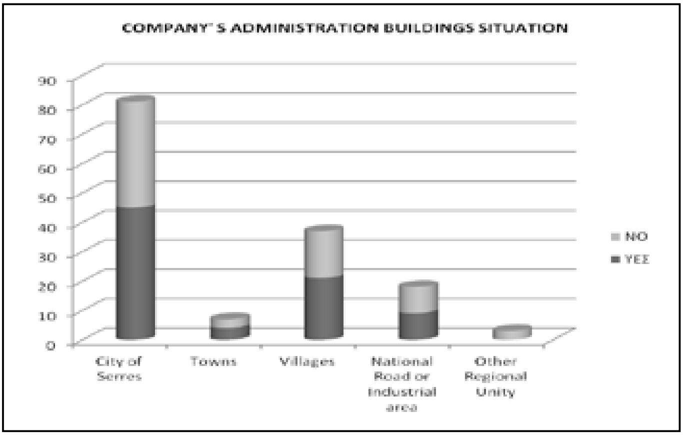
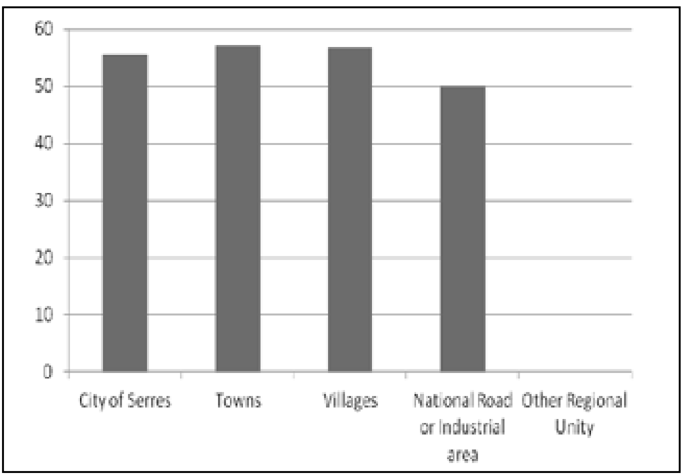


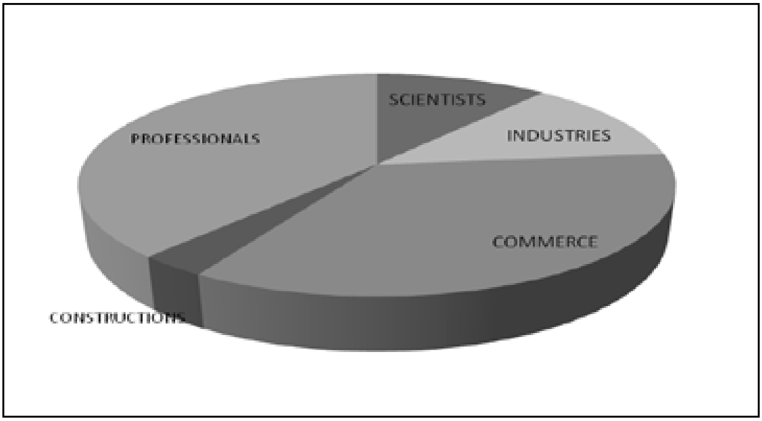
Figure 8: Percentage of Entrepreneurs with performing non-guarantee loans per company's administration building situation



Although, there is a small sample on core regions, local entrepreneurs who invested at core regions (like Thessaloniki) tend to repay their loans.

On the figure 9 we present loans distribution of TEMPME per sector. There is a small sample on constructions.

Figure 9: Loans distribution of TEMPME per sector



On the figure 10 we present those entrepreneurs with performing non-guarantee loans and non-performing guarantee loan per sector and on the figure 11 we present the percentage of Entrepreneurs with performing non-guarantee loans per sector.

Figure 10: Entrepreneurs with performing non-with guarantee loans and non-performing guarantee loan per sector

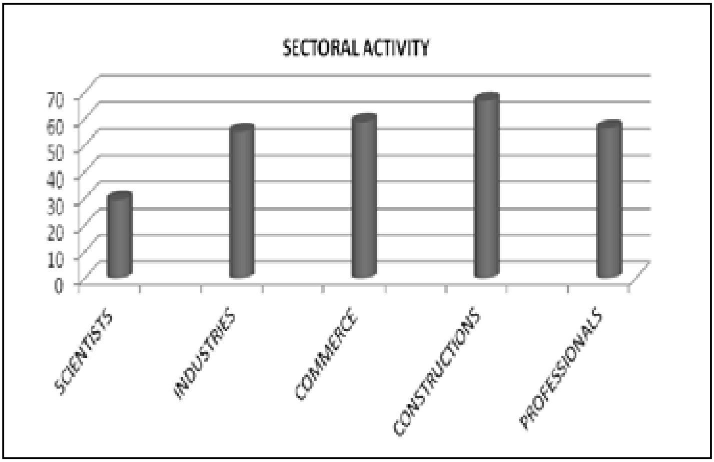
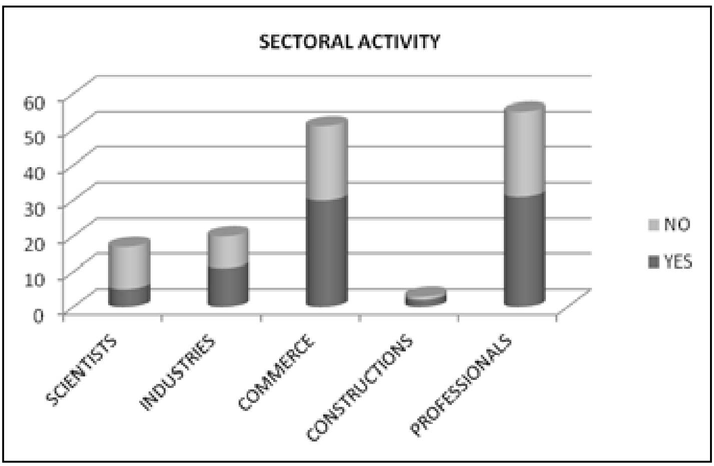


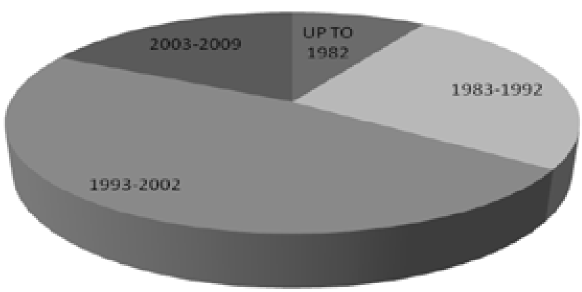
Figure 11: Percentage of Entrepreneurs performing non-guarantee loans per sector



Freelancer scientists, perform the minimum difference repayment rates, towards the guaranteed and the not guaranteed loans. The education rate may possibly influence the solvency rate of an entrepreneur. Construction sector entrepreneurs severely affected by the current crisis, perform the maximum divergence rates, in relation to unsecured loans repayment and guaranteed loan defaulting. The fact that the production, insurance and banking clearance procedure is a fundamental prerequisite for an entrepreneur in order to be paid from the public sector and to participate in public works, along with the time consuming process of forfeiture of the Greek State guarantee, prompted manufacturers to give absolute priority to non-guaranteed Greek government loans repayment. As far as other freelancers, merchants and craftsmen-manufacturers, perform similar solvency attitude.

On the figure 12 we present loans distribution of TEMPME per enterprise's age. This distinction is based on Porter's four stages.

Figure 12: Loans distribution of TEMPME per enterprise's age



Porter's four stages

Introduction (2003-2009)

Growth (1993-2002)

Maturity (1983-1992)

Decline (up to 1982)

Most beneficials of GGFSVSE loans are in the growth stage. Problems start ups face are analyzed by Nobel awarded Porter and Stinglitz. "As a result of newness, the high level of uncertainty, customer confusion, and erratic quality, the emerging industry's image and credibility with the financial community may be poor". (Porter 1998 pp. 223). Especially in Greece and other crisis countries entrepreneurs face more obstacles. "The rich and well performing could invest in better schools and infrastructure. Their banks could lend more, making it easier for entrepreneurs to start a new business" (Stinglitz 2016 pp.15).

On the figure 13 we present those entrepreneurs with performing non-guarantee loans and non-performing guarantee loan per enterprise's age and on the figure 11 we present the percentage of Entrepreneurs with performing non-guarantee loans per enterprise's age.

Providing funds to start-ups lurks the greatest moral hazard. Firms at the decline stage perform the minimum difference repayment rates, towards the guaranteed and the not guaranteed loans.

Figure 13: Entrepreneurs with performing non-guarantee loans and non-performing guarantee loan per enterprise's age

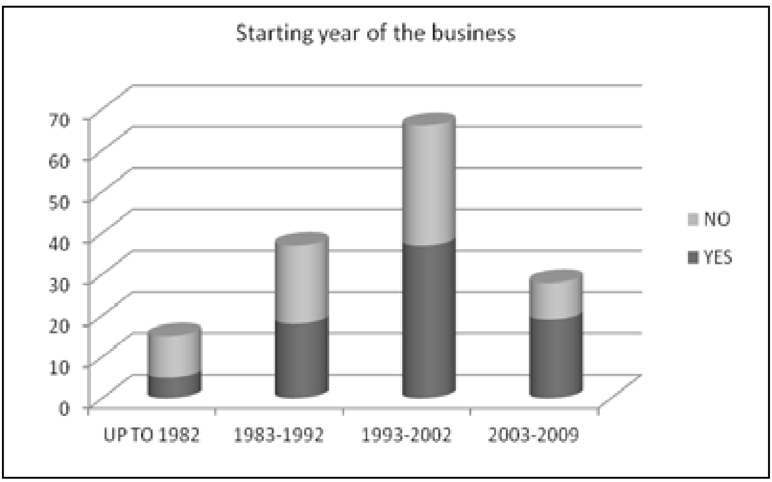
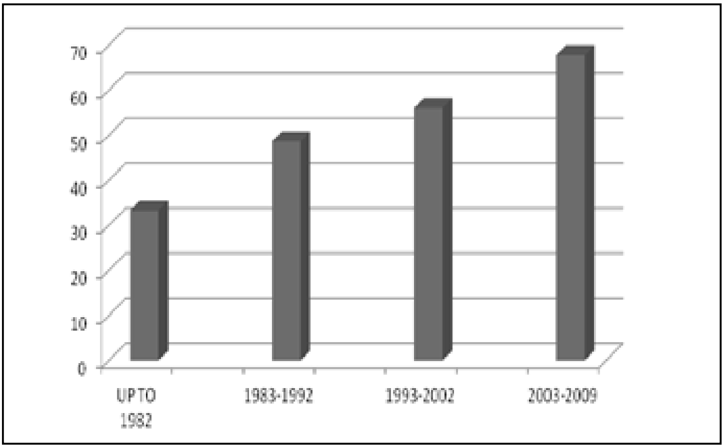
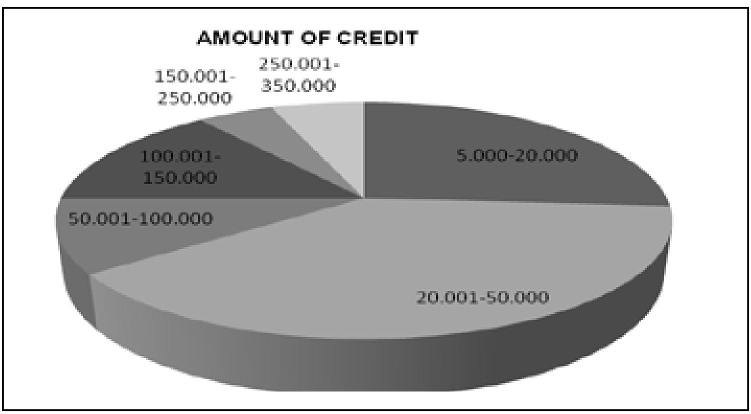


Figure 14: Percentage of Entrepreneurs with performing non-guarantee loans per enterprise's age



On the figure 15 we present loans distribution of TEMPME per amount of credit and we made the assumption that the amount of credit is analogue to enterprise' s size.

Figure 15: Loans distribution of TEMPME per amount of credit



Taking under consideration that in the aftermath of 2008 crisis Greek entrepreneurs found themselves without access to credit, micro enterprises were benefited from TEMPME loans.

As both winners of the Nobel Prize Pissaridis and Stinglitz have referred to small enterprises' problems Pisaridis, (cited in Piperopoulos (2007)) "in every type of economy, smaller enterprises are punished by facing higher interest rates than bigger enterprises" and Stinglitz (2016, pp135) "Decreased availability of loans to small and medium size enterprises further diminishes opportunity on the crisis and near-crisis countries, encouraging even more migration" TEMPME provided funds to micro enterprises.

On the figure 16 we present those entrepreneurs with performing non-guarantee loans and non-performing guarantee loan per amount of credit and on the figure 17 we present the percentage of Entrepreneurs with performing non-guarantee loans per amount of credit.

Figure 16: Entrepreneurs with performing non-guarantee loans and non-performing guarantee loan per amount of credit

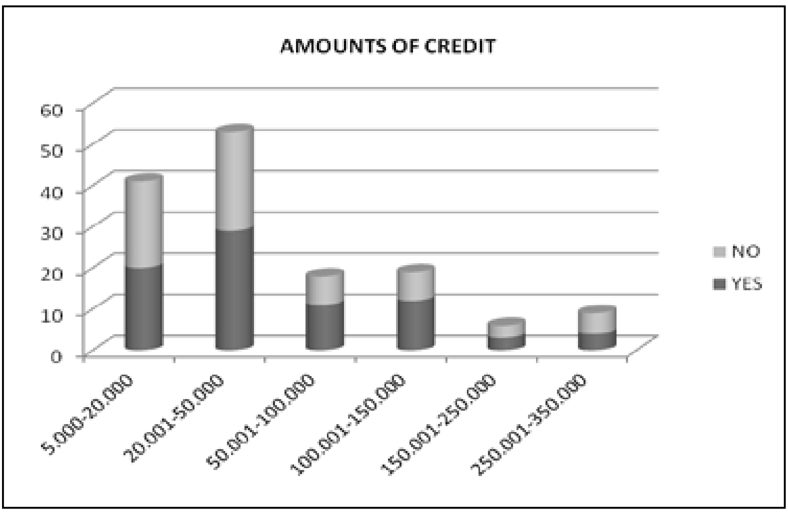
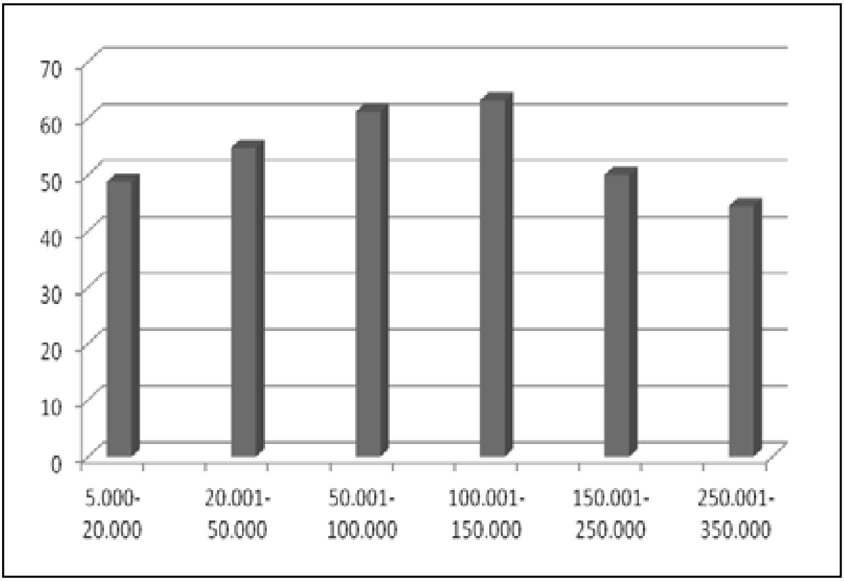


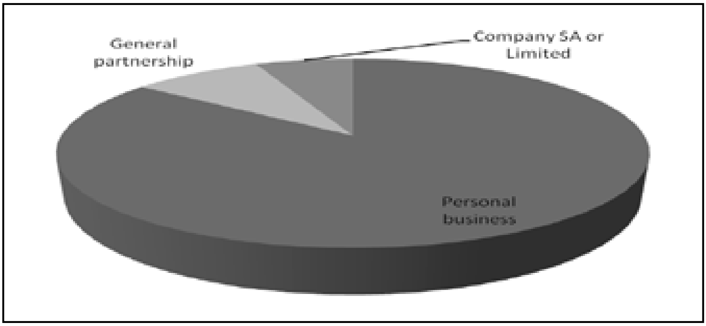
Figure 17: Percentage of Entrepreneurs with performing non-guarantee loans per amount of credit



The smaller and the greater firms perform the minimum difference repayment rates, towards the guaranteed and the not guaranteed loans, while providing firms at the average size lurks the greater moral hazards.

On the figure 18 we present loans distribution of TEMPME per form of business. The majority of beneficial enterprises have the form of personal business.

Figure 18: Loans distribution of TEMPME per form of business



On the figure 19 we present those entrepreneurs with performing non-guarantee loans and non-performing guarantee loan per form of business and on the figure 20 we present the percentage of Entrepreneurs with performing non-guarantee loans per form of business.

Figure 19: Entrepreneurs with performing non-guarantee loans and non-performing guarantee loan per form of business

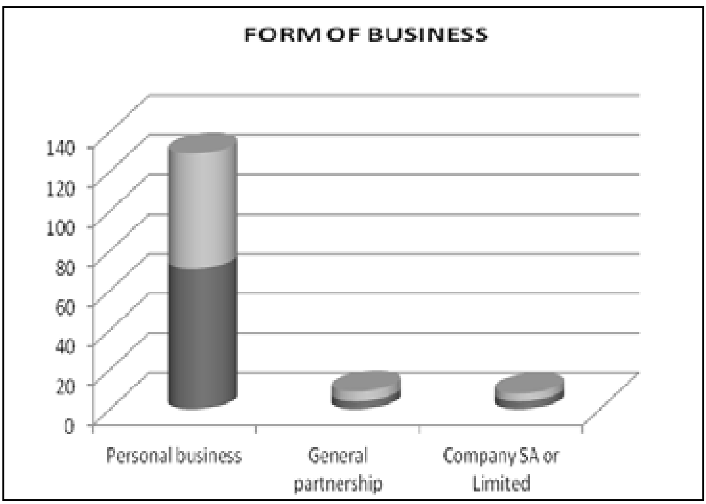
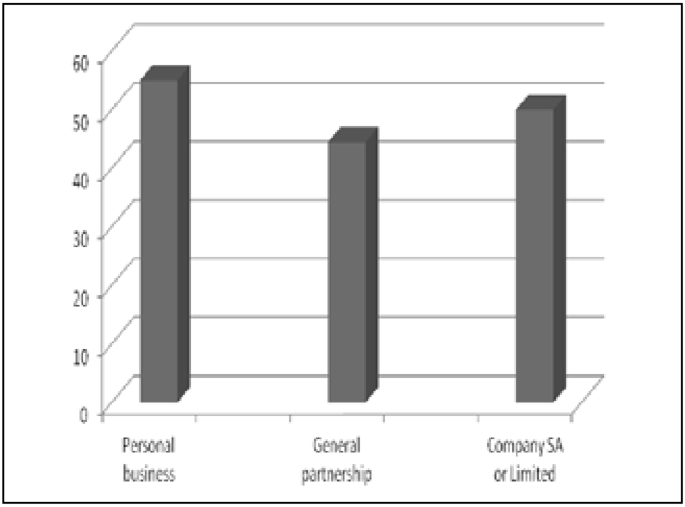


Figure 20: Percentage of Entrepreneurs with performing non-guarantee loans per form of business



General partnership firms perform the minimum difference repayment rates, towards the guaranteed and the not guaranteed loans, while personal business and Companies SA or Limited lurk the greater moral hazards.

CONCLUSION

The ongoing recession in Greece deeply affects almost all the economical and social aspects of the country and the people. Concerning that certain environment, the limited resources must be allocated in such a way that their optimum achievement will be ensured. The loan guarantee providing process mainly on behalf of the Greek state to the banks must strongly take under consideration the potential moral hazards that are the main result of the current paper.

The finding of the research is formed according to the fact that neither banks nor their debtors (loan owners) equally behave to the guaranteed and not guaranteed loans. Banking institutions do not exhaust? Their strictness to their effort to collect guaranteed loans from the borrowers and the borrowers accordingly do not easily repay those loans depending on the statutory guarantee. The main outcome of this research reveals that most of the borrowers normally repay their debts to the banks and not the TEMPME ones with only one exception. Consequently, all the categories of the borrowers, irrelevantly of their differences, set as a repayment priority the non-guaranteed loans.

As far as the regional activity of the local entrepreneurs this is concentrated mainly around the city of Serres in contrast to the absence of any activity in the remote mountaineering areas of the region.

Moreover, from the core analysis, it is deduced that the least probability of potential moral hazards it is referred to the entrepreneurial efforts of scientists when activated to core regions. On the other hand, sole traders perform great probabilities of potential moral hazards while the volume of the business affects businessmen's behavior.

Taking for granted the assumption that the lack of controls over the disbursement contributed to the increase in moral hazard, it is to be proposed that guarantee providing process benefits should be accompanied by gradual disbursements with strict controls. It is also to be suggested a combination of obtaining collaterals the subsidizes granted, as for example was the guaranteed Rural Entrepreneurship Fund (ICF) loans which were given only to farmers who had already been included in the Improvement Plan and received a subsidize of 40% to 60% net value of the investment.

This paper aims to provide the impetus for the study of moral hazard and constitutes an initial attempt of the authors towards a further analysis. It still remains as a main goal an intraregional investigation of the potential moral hazards, while the research must be and is going on.

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