

GERASIMOS ARSENIS

“The Role of the Banking Sector in the Greek Crisis”

Abstract. The banking sector is usually portrayed as the victim of the current crisis. As a result, attention is focused almost exclusively on the issue of recapitalization. This approach sidesteps the equally important issue of the role that the banking sector itself has played in creating the economic crisis. Episodes such as the “nonperforming loans” of the ‘50s, the ailing and overindebted firms of the ‘80s, the asset bubble of the ‘90s, and the current overindebtedness of households and firms are all examples of misallocation of resources due to dysfunction of the banking sector, which operated under the influence of a “close network of elites” drawn from politics and enterprises. Exit from the crisis requires, among other things, daring institutional reforms that will free the banking sector from the yoke of this network and will enable banks to finance innovative investment activities.