Consumer Loans Communication Policy of Banks in Greece: Implications for Social Prosperity

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Abstract: *For nearly a decade before the outbreak of the international economic crisis of 2008, Greek banks had been turning to consumer loans as a new market that would boost their earnings. They employed an aggressive promotional communication policy based chiefly on advertising, personal selling, promotional activities and direct marketing to persuade consumers to take out loans. This paper elaborates on the impact of communication policy of banks on the real economy and social prosperity of the Greek people drawing insights from secondary sources. The evidence shows that the high number of consumer loans made to households briefly increased bank earnings, boosted consumption and fuelled a temporary rise in personal prosperity. In the long term, however, the increase in consumer loans led to a worsening of the national economy, a decrease in social prosperity and a loss of cohesion in the social fabric. Interestingly, the banks themselves suffered from their own policy, namely the excessive promotion of consumer loans in Greek households.*
Keywords: *Business communication, Greek banking system.*

1. INTRODUCTION

It is a tenet of business ethics that businesses should combine profit-seeking goals with an interest in citizen-consumer and social prosperity. On aspect of this ethical behaviour can be manifested in embracing honesty and morality in their communication efforts (De George, 1999). In this way they earn the confidence of the consumer, contribute to the smooth operation of society and assure long-term prosperity for all involved stakeholders: business, the citizen-consumer and society (Malar, 2008).

For nearly a decade before the international economic crisis of 2008, Greek banks had been turning to consumer loans as a highly profitable source of income. They employed an aggressive communication policy and granted personal loans with a lavish hand. This increased consumption and in the short term raised both bank profits and living standards. Over the long run, it is worthwhile considering the implications of this bank policy to the public.

The purpose of this paper is to examine the effects the aggressive promotional communication policy followed by the Greek banks in the consumer loans sector from 2000-2008 had on the real economy and social prosperity. It argues that the high number of consumer loans made to households briefly increased bank earnings, boosted consumption and fuelled a temporary rise in personal prosperity. In the long term, however, it led to a worsening of the national economy, a decrease in social prosperity and a loss of cohesion in the social fabric. The banks themselves seemed to be victims of their own policy.

The findings presented in this paper derived from the comparison and analysis of data from secondary sources that record the real economy and social prosperity. Data on the real economy include figures relating to trade balance, competitiveness, the deficit and the national debt, while data on social prosperity include figures relating to household indebtedness, purchasing power and the ability to repay loans.

The paper is structured as follows. The second section of the paper provides the theoretical background on the relationship between business earnings and communication policy on the one hand and economic growth and social prosperity on the other. This is followed by the third section that presents consumer loans figures for Greece in 2000-2008, the reasons for their sharp rise and the contribution of the banking system to that increase. The fourth section illustrates the short- and long-term effects of this lending on bank earnings; the real economy and social prosperity. The fifth section of the paper discusses insights from secondary sources associated with the effects on the increase of consumer lending in economy. The paper concludes with implications of the consumer lending for prosperity.

2. ECONOMIC GROWTH, BANK POLICY AND SOCIAL PROSPERITY

By the dawn of the 20th century important sociologists and political economists were already considering the relation between capital, social prosperity and growth. Max Weber (1895), for example, distinguished the concept of “rational economic activity”, which seeks to maximise the return on the resources available to a productive unit or a society, from that of “economically oriented activity”, which seeks to maximise profits. Hilferding (1910) recognised that capital has to be channelled by the banks into productive activity, into industry rather than consumption. The long-term application of this principle in practice led Western societies to economic growth and social prosperity.

Nowadays, in a similar vein, Wartenberg and Hass (2006) argue that rational economic activity serves to satisfy human needs and personal prosperity. Economic growth is a dynamic process, which aims at improving an economy’s long-term consumer possibilities. Investments create plus-value and pave the way for even greater consumption in the future.

Stehr (2007) sees the market and society as two frequently conflicting factors that exist in a dynamic relationship. When the rules of the market are subject to the values and the volition of society, then the market serves society via the dynamic of production and consumption. When the opposite occurs, however, then the market controls society. It imposes social values and behaviours that are expressed in an excessive consumerism that in the long term acts against the interests of society.

It is clear from these various positions that long-term social prosperity comes through real economic growth and consumption that is proportional to a society’s economic possibilities. Violating this principle leads in the long term to the opposite result: recession, a decline in the standard of living and disintegration of the social fabric. The social fabric, or social network, comprises the whole set of social relations and interdependencies that develop among the members of a society, which are at risk when the society experiences a period of severe economic crisis (Wellman and Berkowitz, 1988).

In this context, the role of the banks, as systems for managing and distributing capital, is particularly important. In the long run, a shift towards investing in consumption is at the expense of economic growth and social prosperity. When such a strategy is accompanied by an aggressive promotional communication policy, the results for that society’s future are even worse. Corporate social responsibility dictates that a business’s communication policy should have a moral dimension as well as seeking short-term financial gain (Malar, 2008). It should be based on honesty and should contribute to the long-term prosperity of the society as a whole. This of course applies to the communication policy of banks as well.

3. LENDING IN GREECE AND THE ROLE OF THE GREEK BANKING SYSTEM

For most of this decade consumer lending by banks in Greece increased substantially. As the table 1 shows, from 2000 to 2008 consumer loans exceeded loans to industry by a considerable factor. This reflects a shift in the banks’ strategic choices towards what is called retail banking (Lewis and Spyrakopoulos, 2001), and particularly the granting of personal loans for purposes of consumption.

Table 1: Percentage change in annual bank lending for industrial and consumer loans over the period 2000-2008

Year	Industrial loans (+mining and light industry)	Consumer loans (excluding mortgages)
2000	12.8%	42.7%
2001	6.7%	42.5%
2002	13.9%	24.2%
2003	10.5%	27.2%
2004	1.1%	37.9%
2005	-0.6%	29.9%
2006	5.7%	22.4%
2007	19.9%	22.6%
2008	17.3%	18.4%

Source: Annual reports of the Governor of the Bank of Greece 2000-2008

Up until the middle of the 1990s, the consumer loan sector in Greece was virtually virgin territory. In terms of life cycle, for nearly fifteen years consumer loans were a developing product with an extremely fast growth rate. Greek banks saw consumer loans as a business opportunity, exploited the existing climate and encouraged the public to borrow, employing a variety of promotional communications methods.

The causes of any economic-social phenomenon are multiple, complex, and operate on many levels (Giddens, 2009). This certainly applies to the case under discussion. The rise in consumer borrowing is due to a variety of factors, of which the following may be cited as the most important:

3.1 The increase in the cost of living for the average Greek during that period.

Greece’s entry into the eurozone in 2001 brought about a huge rise in the prices of basic consumer goods without a corresponding increase in salaries and incomes. In 2008 basic consumer goods were as much as 240% more expensive than in 2001 (Skoufou and Nikolaou, 2008). The result was that a large part of the population, especially the lower-paid, resorted to borrowing in order to maintain their former standard of living or even to meet basic needs.

3.2 The easy-living mentality characteristic of the average Greek in recent decades.

Greek society has lately been ruled by a desire to enjoy a better and easier life through the consumption of material goods, without a corresponding increase in real income. The Greeks turned to personal loans in order to buy material goods and services like cars, electrical appliances, clothing, leisure travel, etc.

3.3 The change in business payment policy.

Many businesses dealing in consumer goods, such as car dealerships, electrical and electronic goods chains, travel agencies, furniture stores and the like, altered their payment policy and began offering the consumer the option of paying for their purchases in a large number of small instalments. This made their products “accessible” to everyone and increased their turnover considerably (http://www.statistics.gr/portal/page/portal/ESYE/PAGE-database).

3.4 The strategic choice of the domestic banking system.

Greek banks saw in consumer loans a highly profitable business opportunity. These loans carried an interest rate that was double that of other types of loans (commercial loans, mortgages, etc.) and many times greater than the inflation rate. They also carried high penalties for late payment, as well as onerous terms for the borrower that in many cases were found by the courts to be illegal and abusive (KEPKA - Consumer Protection Centre, 2008).
Since the middle of the 1990s the banks had been employing a particularly aggressive communications policy promoting consumer loans, which they stepped up even further in the following decade. By the beginning of 2010, the banks in Greece were offering more than 220 different consumer loans (http://www.moneyexpert.gr). Advertising campaigns with huge budgets promoted the various loans in an attractive and often misleading manner. Marketing activities and aggressive direct marketing initiatives, including persistent calling to landlines and cell phones, even during the traditional afternoon siesta time, tried to persuade consumers to take out loans. The banks readily approved loans for all who applied, following swift procedures and without looking too closely at the possibility that they might not be able to repay them.
The banks’ communication policy aroused ethical concerns. Aggressive marketing and deliberate concealment in selling and advertising were among the examples of non-ethical business communication (De George, 1999).

4. THE EFFECTS OF THE INCREASE IN CONSUMER LENDING ON THE ECONOMY

Aggressive communication policy had a positive impact on bank profits. As Table 2 shows, bank earnings on the whole increased substantially over the period 2003-2008. Although part of this was due to their expansion into the Balkan and Eastern European markets, banks also achieved excellent earnings on the domestic market (Papapanagos and Laspa, 2010). The drop in 2008 is due to the outbreak of the global economic crisis.

Table 2: Pre-tax profits of Greek banks in billion euros, 2004-2008

Year	Pre-tax profits of Greek banks
2004	1,305
2005	2,208
2006	2,531
2007	4,226
2008	2,600

Source: Annual reports of the Governor of the Bank of Greece 2000-2008

Greece’s GNP also rose significantly over the same period, achieving an average of 4% a year over the decade (Papapanagos and Laspa, 2010). The growth of the Greek economy, however, was distorted. It was based primarily on the tertiary sector and on consumption (Table 3) that, as has been shown, was large supported by borrowing.

Table 3: Structure of Greece’s GDP in 2008

Economic Sector	Share of GDP
Primary	3.7%
Secondary	20.6%
Tertiary	75.7%

Source: http://el.wikipedia.org

Greece’s entry into the eurozone and the abolition of customs duties on imports from EU countries led Greeks to purchase increasingly imported products often due to the status symbol that these goods carried. The net result was that the primary and secondary sectors of the Greek shrank instead of benefiting from the increase in consumption. This downturn is manifested in various economic indicators makes this clear. The negative trend is apparent in rudimentary indicators as the balance of trade, the competitiveness index, the deficit and the national debt. The trade balance has steadily worsened, as shown in Table 4.

Table 4: Greece's balance of trade deficit 2001-2008 in billion euros

Year	Balance of trade deficit
2001	21,610.9
2002	22,708.7
2003	22,643.5
2004	23,435.8
2005	27,559.9
2006	35,286.3
2007	41,499.2
2008	44,048.8

Source: Annual reports of the Governor of the Bank of Greece 2001-2008

The Greek economy was also becoming less competitive. According to the World Economic Forum, which publishes an annual competitiveness report for 133 countries, Greece's world ranking fell from 31st in 2002 to 71st in 2009 (Table 5).

Table 5: The competitiveness of the Greek economy

Year	Greece's position
2002	31
2003	35
2004	38
2005	47
2006	47
2007	65
2008	67
2009	71

Source: www.weforum.org/documents/GCR09/index.html

The Greek economy is constantly in deficit and the national debt very high (Table 6). Greece essentially owes every euro it produces and more. These figures are contrary to the terms of the Treaty of Maastricht, which provides that the countries of the eurozone must hold their deficit and their national debt to a maximum of 3% and 60% respectively. In 2009, Greece's deficit reached 13.6%, the largest eurozone, and its national debt is expected to exceed 120% in 2010.

Table 6: The annual deficit and the change in the Greek national debt in 2001-2008

Year	Deficit	National Debt
2001	6.1%	114.4%
2002	5.2%	110.7%
2003	5.6%	97.9%
2004	7.5%	98.6%
2005	5.2%	100.0%
2006	2.9%	97.1%
2007	3.7%	95.6%
2008	7.7%	99.2%

Source: European Commission, 2010

5. THE EFFECTS OF THE INCREASE IN CONSUMER BORROWING ON SOCIAL PROSPERITY

The Legatum Institute of New York's prosperity index shows that the 10 top-ranking countries share certain common attributes: (1) increase in capital invested; (2) good governance in economic matters; (3) commercialisation of new ideas; (4) good governance in political matters; (5) high incomes (www.oepu.at/cms/cms/ooe/files/10-08_Legatum.pdf). Given the small increase in investment in a country with the low production potential and the ever-growing problems of the Greek economy, the prospects for social prosperity and a cohesive social fabric are poor.

The effects of the increase in consumer borrowing and the increasingly problematical Greek economy are gradually becoming more apparent in everyday life. They have become particularly tangible in recent months, when the global economic crisis really hit the Greek economy. The indebtedness rate of Greek households is very high, many households are overextended, many of them are struggling or simply unable to repay their loans, and repossessions and auctions of houses and cars have risen sharply, as has the number of NSF cheques in circulation.

Essentially, at the beginning of 2010 total household debt – including the housing loans that were also granted with such abandon in the same period – was nearly 120 billion euros, or approximately 50% of GDP. Housing loans accounted for 81 billion of this and consumer loans 36 billion (European Central Bank, 2010). According to *Imerisia* newspaper (Iliodromitis, 2010) 61% of Greek households, or roughly 2,500,000 households, are indebted to the banks. Of these:

390,000 have monthly loan payments that exceed 60% of their monthly income and another 450,000 have monthly payments ranging between 41%-60% of their income; 600,000 owe more than the total of their assets; 70,000 have defaulted on their debt; more than 700,000 are late in meeting their instalments, and 820,000 have scarcely enough to live on after they have met their monthly payments. Table 7 shows the NSF cheques and outstanding bills of exchange in Greece for the period 2002-2009.

Table 7: NSF cheques and outstanding bills of exchange in Greece in 2002-2009

Year	NSF cheques	Outstanding B/E
2002	629,596,475	158,214,735
2003	769,398,288	152,377,908
2004	1,024,822,799	169,208,366
2005	1,.464,418,553	180,687,688
2006	1,202,135,945	188,121,455
2007	921,881,532	177,547,771
2008	1,291,347,786	170,240,819
2009	3,008,635,761	250,819,678

Source: http://www.tiresias.gr/statistics/previous_years.html

6. CONCLUDING REMARKS

These figures point to the conclusion that the aggressive communication policy employed by the Greek banks in 2000-2008 to promote consumer loans had negative consequences for the real economy and for social prosperity. The banks' emphasis on consumer loans encumbered the Greek economy, which has for many years been afflicted with structural problems, including high deficits and low competitiveness.

The gloomy picture that has been painted raises concerns not only for the present but also for the future of the Greek economy. Greek consumers have already spent future earnings and will find it hard to maintain their present level of prosperity and consumption in the future. This has become even more likely with the imposition of a severe austerity programme supervised by the International Monetary Fund, the European Commission and the European Central Bank. By the end of 2009 and the beginning of 2010 cuts had been made to nominal and real pay, and the expectation is that more will follow and unemployment will rise. This has already had, and will continue to have, more negative chain reactions on the market, on production, on commerce, and on the Greek economy itself, which is already in recession.

The Greek banks have contributed to this ailing system by enticing the Greek consumer into transient consumption/prosperity without assuring these in the long term. In the long run, this may prove to be a boomerang for the banks themselves, which are already having problems with bad loans, which are expected to reach 15% in 2010 despite the huge write-offs the banks have already been forced to make (Tzortzi, 2010). A further drop in real incomes, employment and GDP, which seems probable, will very likely push this percentage up even higher. The banks are now rejecting 80% of applications for consumer loans. The net flow of consumer lending, that is, the total of all new loans issued less those paid off, was negative in 2009, for the first time in many years (Tzortzi, 2010). What is required is not a check on consumption, but a check on loan-financed consumption. In the short term, expanded consumption pushed up GDP, bank earnings and the prosperity of the Greek population. The effects, however, were transient, and in the long run it appears to be having the opposite result.

Social prosperity, economic competitiveness and the evolution of the balance of trade are all indicators reflecting a society's present and its future. The comparatively small increase in business lending in contrast to consumer lending, or more simply the under-financing of the productive economy, finds its expression in the social prosperity index and the index of economic competitiveness.

Capital, in other words, has to be returned to productive investment, production has to be placed ahead of consumption, and not the reverse as is largely the case today. In Greece the feeble increase in investment as compared to consumer lending, coupled with the problems of the economy, renders inevitable a further constriction of consumption in the immediate future, with concomitant problems for social prosperity and the cohesiveness of the social fabric.

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