Benoît Cœuré: Interview in *Kathimerini*

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, in *Kathimerini*, conducted by Mr Alexis Papahelas on 22 April 2015.

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The Greek government would like to reach an agreement on a new programme in June without concluding the current review. Is that acceptable? Will Greece need a new programme anyway in order to finance its fiscal needs?

Since the elections were announced, heightened uncertainty has been dragging down economic activity and risks impacting the health of the financial system. The current situation is clearly not sustainable and requires quick and decisive action by the Greek authorities to turn things around. In recent days, there has been tangible progress in the quality of the discussions with the three institutions – the ECB, the European Commission and the IMF – which can be built upon. Still, significant differences on substance remain and substantial further work is needed. We wish these discussions to succeed. The current programme was extended by the Eurogroup on 20 February with the express purpose of working towards a conclusion of the review. It expires on 30 June, and the Eurogroup has also made it clear that a new programme would, as a minimum, require the present one – and thus the present review – to be successfully concluded in good time. This is what the Greek government now has to focus all its energy on. Issues related to a possible follow-up arrangement can be addressed afterwards.

The Greek government claims that it should get the SMP profits without concluding the programme review in order to overcome the liquidity crunch it is facing. Could this happen?

The so-called "SMP profits", i.e. the profits made by the ECB on the Greek bonds it purchased during the crisis, are distributed to the National Central banks that are members of the ECB and then are transferred to the Member States. It is therefore for euro area governments to decide when to transfer the money to Athens. The Eurogroup clarified on 20 February that only a successful conclusion of the review will permit this transfer.

There has been speculation that the Greek government might not pay the next instalment to the IMF. What would the consequences of such a move be?

You are right to ask about consequences. And it is important to understand all the consequences for the economy and for the people, direct and indirect, that would result from a failure to repay debt in a timely manner. Let me give you just one very important one, which is that it would constrain the ability of banks to support the economy: if the government were to default on its debt, then obviously the value of government bonds would be negatively affected. This would make it more difficult for banks to obtain liquidity, because at the moment they rely for that on government bonds which they use as collateral, both in the market and with the Eurosystem. So it would impair the ability of banks to provide credit, which would be detrimental to the Greek people in general. But the government has been clear that it intends to honour its obligations to all its creditors, so I don't want to speculate on other, more adverse scenarios.

Is the Greek banking system adequately capitalised or will it need further recapitalisation? Is the "Cyprus model" of a bail-in an option?

The Greek banking sector is better capitalised than in previous years due to the capital injections under the programme over the last two years and continued progress in bank restructuring. These measures made Greek banks attractive to external investors, who participated last year in capital increases. The improved resilience was also confirmed last year in the ECB's comprehensive assessment of banks' balance sheets. At the same time, non-performing loans continue to weigh on banks' balance sheets. The progress that has been achieved in the Greek banking sector is currently overshadowed by the heightened political uncertainty, hence the importance of prompt policy action.

According to various reports, the ECB has prepared capital controls or IOU contingencies for Greece. Could you comment on these, and under what circumstances would they be applied?

Capital controls are not a working assumption. In any case, it would not be up to the ECB to take measures of that sort. Those fall within the competence of national authorities, which means the Greek authorities.

Is there a limit to the increase in emergency liquidity assistance (ELA) to the banking system? If no agreement is reached by 11 May, is the ELA going to be affected?

We are the central bank of Greece and we have always fully played our role to support the banking system and thereby its ability to fund the economy. This means in particular that we have always ensured that solvent banks remained funded, despite the stress they have been under. But like everybody, we have to act within the law. And the EU Treaty requires two things of us: first that we lend only to solvent banks; and second that we lend only against adequate collateral. So we will continue to extend liquidity to the Greek banks, as long as they are solvent and they have adequate collateral, as is the case today. Indeed, the amount of assistance we have provided is considerable. Just look at the facts: emergency liquidity assistance has been increased week after week by the Bank of Greece according to the needs of the system. As a result, the Greek banking system currently receives around €110 billion of central bank liquidity, more than double the level of last December and 61% of Greek GDP, the highest level of any euro area country.

At the last press conference the President of the ECB, Mario Draghi, called discussion of a "Grexit" premature. Isn't this scenario a huge risk for the euro area?

It is out of the question to speculate about such a scenario. The euro area needs Greece just as Greece needs the euro. An overwhelming majority of the Greek population want to keep the euro. It is the responsibility of the Greek government to take the appropriate steps to ensure that its policies are in line with these clear preferences.

Is the Greek debt viable? Was it a mistake not to restructure it at the beginning of the programme? How would the sustainability of debt be affected if the targets for growth, fiscal indicators and privatisations aren't met?

Let me start by expressing regret that several of the latest policy initiatives and announcements have worsened the outlook for debt sustainability. In the short term, the burden and risks associated with the large stock of debt are substantially mitigated by the fact that more than 60% of Greece's debt is financed by the European Financial Stability Facility and euro area governments through bilateral loans at very favourable conditions. The low interest rate on official loans has a positive impact on fiscal accounts, and the long average maturity of Greek debt reduces refinancing risks. Over the coming years, Greece will devote a much lower share of national income to debt service than many other euro area countries, such as Spain, Portugal and, in particular, Italy. The Greek government can use the opportunities created by this concessional funding support provided by European partners to undertake reforms and maintain a prudent fiscal path, with the ultimate objective of allowing a return to full market financing. Looking ahead, whether long-term debt sustainability will require further effort by the Member States is not for the ECB to decide. As for the debt held by the ECB itself through the SMP, the EU Treaties do not allow us to cancel or extend that debt.

While the rest of the euro area is already benefiting from quantitative easing, Greece is totally isolated from this development. Doesn't this undermine the long-term growth prospects of Greece and consequently the possibility of reducing unemployment faster? What can the ECB do about it?

It is true that one consequence of the policy uncertainty currently prevailing in Greece is that the economy is benefiting less than it could from the cyclical rise in demand in the euro area, which our monetary policy is facilitating with visible effects. This is unfortunate for growth and employment in the near term, and one more reason to wish that this period of uncertainty is brought to an end as soon as possible. As regards long-term growth, let me clarify, however, that our asset purchase programme can do little to lift long-term growth, in Greece or in any other euro area country. Our policy is aimed at bringing euro area inflation back to levels below but close to 2%. It can engineer a cyclical recovery, not a long-lasting one. Long-term growth is driven by the capacity to innovate and to efficiently allocate capital and labour, which hinges on reforms undertaken by governments.

Why aren't we currently buying Greek bonds? For their bonds to be eligible for the ECB's asset purchase programme, euro area countries need to have a sufficiently high credit rating. This requirement can be waived only if an EU-IMF programme has been implemented and successfully reviewed, which is not the case today in Greece.

Greek government officials have said that the ECB is using liquidity as a means to blackmail Greece. Prime Minister Tsipras even said that the ECB has got a rope around Greece's neck. What is your comment on that?

Decisions by the ECB are guided by rules, not political considerations. Following these rules, the ECB has fully played its role as the central bank of Greece, continuously increasing its liquidity provision to Greek banks to ensure that they can serve the real economy. What we cannot do is fund the government, for example by refinancing Greek banks' purchases of T-bills at a time when the Hellenic Republic does not have market access. This is due to the fact that, for very good reasons, the EU Treaty prohibits any central bank from financing its government. This applies to Greece as to any other euro area country, and our decisions have followed exactly the same rules under this government as under the previous ones. The ECB is the central bank of Greece, but we are also the central bank of 18 other countries and we cannot bend our rules to suit the occasion. The Greek government can relieve funding constraints by pursuing policies which will open the way to disbursements by other Member States under the programme and, ultimately, restore market access. Let me add that the ECB's monetary policy stance is currently very accommodative. Greece also clearly benefits from this.