Benoît Coeuré: Interview in Les Echos

Interview with Mr Benoît Coeuré, Member of the Executive Board of the European Central Bank, in *Les Echos*, conducted by Mr Nicolas Barré, Ms Catherine Chatignoux, Mr Jean-Philippe Lacour, Mr Etienne Lefebvre, Mr Guillaume Maujean, Mr Dominique Seux and Mr François Vidal, and published on 29 June 2015.

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Is Greece's exit from the euro area now the most probable hypothesis?

Greece exiting the euro area, which used to be theoretical, can unfortunately no longer be ruled out. It's the result of the Greek government choosing to end discussions with its creditors and resorting to a referendum, causing the Eurogroup not to prolong the second adjustment programme.

The ECB, like the other European authorities, wishes Greece to stay in the euro area. That's the substance of the proposal made last week by the Commission, the IMF and the ECB in the form of a programme of reforms and a financing offer that is much more favourable than anything proposed in the past. Europe has never abandoned Greece.

In what way were these proposals more favourable?

They gave Greece the time and the freedom to reform its economy, for example its labour market, while envisaging a demanding budgetary path, but taking account of the deteriorating economic climate. The primary surplus requested was reduced to 1% of GDP in 2015, compared with 3% previously. We were also proposing larger cuts in military spending to create room for manœuvre elsewhere.

So does the responsibility for breaking off talks lie entirely with Greece?

The decision to interrupt discussions was taken by the Greek authorities. That also surprised us, for we were coming to the end of some quite focused and fruitful exchanges.

You are talking about proposals in the past tense. Does the ECB consider that the question to be put to the Greeks in the referendum is already null and void, since the assistance arrangement will no longer be relevant from the evening of 30 June?

The programme will indeed formally expire on Tuesday evening. Having said that, if the response is "yes" I have no doubt that the euro area authorities will find the means, one way or another, to honour the commitments that have been made. The question is a political one. It's the Greeks who hold the answer to that question.

And if the Greeks say "no"…

That would be to refuse the offer made by the other 18 members of the euro area. It would then be very difficult to revive the political dialogue. The Eurogroup clearly considered that the proposals of the three institutions had reached the limits of what was acceptable.

Alexis Tsipras feels that Europe has not lived up to its commitments on debt restructuring…

The debt question was indeed a priority for the Greek government. But since 20 February the Eurogroup ministers have said that this discussion would only come in a second phase and that it was necessary first of all to decide on a credible reform programme. Greece has chosen to break off talks before the second part of the sequence.

Doesn't that debt have to be restructured to make the Greek economy viable?

First of all, it has been adjusted three times since 2012. Adding up the exchange and the buyback of private debt, coupled with the revision of the maturity and the interest rates on European loans, that represents more than 100% of GDP in terms of debt reduction that has been approved. The Greek debt burden represents 4% of GDP, less than in Italy or in Spain. The question is not therefore to know if restructuring the debt is necessary but whether restructuring it a fourth time would help Greece. The most important thing for the future of Greece is for it to return to growth. To achieve that, it's necessary to remove the rigidities of the Greek economy, the tariff barriers and vested interests, all of which impede economic activity and weigh down on the purchasing power of employees, of whom much has been asked. The Greek executive has never made these questions the focal point of the talks and that has been a real disappointment from a government which everyone expected to be very committed to combating vested interests.

What about the funds earmarked under the second plan to support the Greek banks?

That money, €10.9 billion, disappears with the stopping of the programme, on Tuesday evening, as does all assistance for Greece which was still available but conditional on the implementation of the programme.

The ECB has maintained its emergency liquidity assistance (ELA) to the banks. Did the question of its withdrawal come up last weekend?

The ECB acts within its regulatory framework. We can offer emergency liquidity assistance to the banks provided that they are solvent, the collateral submitted is of good quality, and that the ELA doesn't interfere with the ECB's monetary policy. Until Sunday these conditions were met. It was found at the same time that the creditworthiness of the Greek government was seriously degraded, particularly after the Eurogroup's decision to withdraw the safety net granted to Greece. That led to us not authorising new drawdowns from the central bank, while maintaining the current level of liquidity. I regard this as a measured decision as it does not create an irreversible situation.

Are you going to continue providing support to the banks until Sunday evening?

We are going to continue the support until further notice. The situation is being constantly monitored by the Governing Council.

What is the ECB's exposure to Greece?

On the one hand, there are the loans extended to Greek banks by the Eurosystem, with a total value of more than €116 billion. On the other hand, there is the outstanding debt under the debt purchase programme established in 2010 (SMP), which amounts to close to €20 billion.

Are we looking at a scenario entailing a potential loss of close to €135 billion if Greece leaves the euro?

I do not want to speculate on that. Greece can remain in the euro area.

What would be the consequences for the euro area of a "no" vote in the referendum, which would undoubtedly lead to "Grexit"?

A distinction must be made between the short and long-term impact. The reaction of global financial markets on Monday demonstrated that they were surprised. Up until Friday evening, it was not envisaged that the negotiations would break down and a referendum would be called. The markets have become risk-averse. But their reaction remains relatively calm. This shows the extent to which Greece's current situation is a unique one – it is a special case.

Other countries in the euro area have experienced great difficulties. They have been through adjustment programmes, and come out of them. For these countries, this has been a chapter with a successful conclusion. This is the case in Ireland and Portugal. The Cypriot programme is still ongoing and proceeding well, which should allow the ECB soon to begin purchasing Cypriot securities. I do not underestimate the efforts these programmes have required, or their social costs. The citizens of these countries have paid dearly. But when ambitious reform programmes are adopted and implemented, that is what happens! These countries are on the road to recovery.

The markets have been quite calm so far. But what if the situation worsens?

Their reaction also shows the resilience of the euro area to external shocks. The safety nets that have been put in place in recent years are playing their part. I'm referring to the European Stability Mechanism (ESM), the banking union and the different European Central Bank programmes. But we must be vigilant. The ECB clearly stated on Sunday that it was monitoring economic and market developments closely. Should risks arise, we are ready to use the instruments we have at our disposal – quantitative easing and the OMT programme – and we are even ready to use new instruments within our mandate.

What could these new instruments be?

The Governing Council of the ECB is monitoring the situation in real time. We have already said that we are ready to do more in terms of monetary policy, if necessary. Until now, the ECB has always found answers to crises, within its mandate. The Court of Justice of the European Union has validated the OMT programme that was put in place in 2012 [a bond-buying programme for countries receiving financial assistance, which has not yet been used, ed.]. It was the Court's judgment that the ECB should be allowed broad discretion when choosing its instruments.

In the long term, wouldn't "Grexit" risk putting on record that a country can, in fact, leave the euro area, and thus that the euro is not irreversible?

If Greece had to leave the euro area, that would risk casting doubt on the nature and functioning of the monetary union. That would create fragility. It would be a tragedy for Greece and, moreover, for its economy. It would be a challenge that Europe would have to rise to as quickly as possible, by substantially reinforcing its institutional framework. The stability of the euro area depends on a balance between responsibility and solidarity. In order to be stronger and more convincing, concrete initiatives are required to reinforce these two dimensions.

What would you say to the Greeks to convince them not to leave?

It is vital to put Greece back on a growth path, to reach a consensus in order to recreate a viable economic model for the country. Total factor productivity in Greece grew at a rate of only 1% per year between 1981 and 2014, against 2% per year in the euro area, and that happened despite the sizeable transfers Greece has benefited from. To achieve this, the Greek economy must remain within the single European market and be able to rely on its institutions. What's more, were Greece to leave, austerity would be far worse. The country would no longer benefit from the solidarity of the euro area, which has given it the time to make the necessary adjustments.