Benoît Cœuré: Interview in Efimerida ton Syntakton

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, in Efimerida ton Syntakton, conducted by Mr Vasilis Georgas, and published on 26 November 2016.

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Is it realistic to expect that the second review of Greece's economic adjustment programme will be completed by the end of the year, so that, in combination with the short-term measures on debt, the ECB can include Greek bonds in the quantitative easing (QE) programme?

The conclusion of the review is something that is eventually decided by the Eurogroup and by the Board of Directors of the European Stability Mechanism, in line with the assessment of the European Commission and in liaison with us. The review is still ongoing and discussions are making good progress but are still under way on all different policy areas. The Eurogroup meeting on 5 December will be a useful opportunity to take stock of the progress made and set the timeline for the conclusion of the review.

It is in the interest of the Greek economy that the review is completed in a timely way. As for including Greek government bonds in the Public Sector Purchase Programme (PSPP), we don't have a precise timeline. This is a decision taken independently by the Governing Council of the ECB. Programme developments and clarity on debt measures are an important input given our concerns about debt sustainability, but they are not the only determinant of the final decisions. The Governing Council will base its assessments also on internal analysis and will take into account other risk management considerations before making its final decision.

Is inclusion in the QE enough for one to argue that Greece is turning the page? Many believe that it will be the short-term speculative funds that will benefit from this, while the country will continue to be burdened with high public debt and extremely high unemployment.

The inclusion of Greek bonds in the PSPP could be an important signal that reforms are on track and debt is being put on a more sustainable footing. But again, we do not have a precise timeline yet and any decision will be based on internal analysis taking into account risk management considerations.

Is the Greek programme workable? Do you believe that, in 2018, Greece will have returned to the markets successfully and will be able to be entirely funded by them?

The explicit aim of the financial assistance programme is to restore Greece's full access to international capital markets by mid-2018. Clearly, this objective cannot be achieved without a strong commitment from the Greek authorities to continue implementation of the reforms necessary to bring the fiscal stance on a sustainable path and to support growth.

Over the past years, Greece has achieved a significant adjustment in terms of reversing the twin deficit of fiscal and trade balance. Greece is moving towards a more outward-oriented economy with a prudent fiscal stance. The challenges, however, remain considerable, and it is essential to maintain the momentum and persist with the reform efforts to have a sustained improvement. Regaining market access needs to be also based on restoring debt sustainability. To this end, the full implementation of the programme needs to be complemented by a set of debt-mitigating measures in accordance with the Eurogroup agreement of 25 May 2016. This in turn can provide the assurance that markets require for financing the future needs of the Greek economy.

What will happen to Greece if this programme is not successful either? Is there a plan B? There are already rumours and scenarios of a fourth Memorandum of Understanding (MoU).

This is not an option that anyone is considering. It is vital for Greece that the third programme is a success.

What do you believe will be the final outcome of the discussions on Greek debt? Will the interventions that will be decided now be enough to ensure the much talked-about "sustainability"?

The ECB supports the need for debt measures in line with the Eurogroup agreement of 25 May 2016. The nature of the measures is for the euro area Member States to decide.

The International Monetary Fund (IMF) argues that Greek debt is not sustainable and that the primary surpluses foreseen in the July agreement will be difficult to achieve. Greece's EU creditors take a different view. Doesn't this disagreement between the institutions send mixed signals to the international markets and to investors?

All the institutions have voiced concerns about the sustainability of Greek debt. There are different views on the primary surplus which the measures included in the MoU can deliver, but diversity of views is in itself useful: risks should be highlighted and accounted for by specific debt measures. Let me say again that I consider IMF participation to be a factor of credibility for the programme.

Do you agree with the view that the policy mix applied in Greece, with successive tax increases, spending cuts and high targets for primary surpluses, is "deadly" for economic growth?

Bringing public finances back into surplus is a necessity for Greece given its high debt level, with or without debt measures. Of course, consolidation itself should be carried out in a growth-friendly way and tilted towards a reduction in expenditure rather than an increase in taxation. Fiscal policies are embedded in a wider reform strategy comprising labour and product market reforms, measures to fight tax evasion and the reduction of non-performing loans (NPLs) to allow banks to lend again to Greek households and companies. These measures will help reduce unemployment, increase investment and support growth. This will accelerate the lifting of capital controls and reduce fiscal constraints over time. Greece is starting to reap the benefits of these reforms. Economic sentiment is improving and we expect real GDP growth to increase in 2017.

Why is it that, after three MoUs and five governments since 2011, Greece has not yet managed to turn the page? What has been done wrong under the MoUs all these years?

Greece has been through a painful adjustment, which could not have been avoided given the high imbalances it built up until 2010. And the adjustment took longer because of the lack of implementation and prevailing uncertainty (including in the rest of the euro area). With hindsight, the programme could have been designed to be more conducive to growth. For example, the opening-up of the product market has lagged wage cuts, protecting rents and making the burden of adjustment fall heavily on workers. Greece still lacks a comprehensive social safety net and had to protect the most vulnerable using taxes and pensions, making the tax structure very distortive. And Europe had only limited instruments to support social safety nets during the adjustment phase. But let's also not forget that Europe had to build its own crisis resolution architecture out of nothing when the crisis hit.

How do you explain the fact that, after the last recapitalisation of Greek banks and the relaxation of capital controls, we have witnessed neither a significant return of deposits

nor more liquidity in the economy nor a reduction in non-performing loans?

Even though confidence levels as evidenced by a return of deposits and hoarded cash have strengthened following the successful completion of the first review of the programme, confidence still remains fragile. We expect that market and depositor confidence will further improve following the successful completion of the second review and the steady, successful implementation of the programme. Several of the measures to be implemented in the context of the second review will contribute to the return of confidence. For example, the establishment of the out-of-court workout framework is expected to restore the financial viability of healthy enterprises and support investment and growth. At the same time, it will contribute to improving the balance sheets of banks and of the state.

Is the target of reducing non-performing loans by €40 billion by 2019 attainable? Doesn't managing the problem aggressively entail risks for the capital adequacy of banks?

ECB Banking Supervision, in cooperation with the Bank of Greece, has recently agreed with the four banks it supervises on bank-specific NPL resolution targets, with the aim of reducing NPLs to sustainable levels in the medium term. The Bank of Greece will soon publish an aggregated summary report on the agreed targets and developments in selected key performance indicators.

It is important that banks make swift progress with the resolution of the unprecedentedly high stock of NPLs and the restructuring of viable but distressed companies, thereby improving banks' ability to support the economic recovery. These efforts also require the development of an active market for non-performing loans. To this end, the law regulating the sale of loans needs to be fully implemented. Therefore, we look forward to the Bank of Greece issuing the first licences for loan servicing companies, which will play a key role in the sale of loans.

Besides NPL resolution, it is also important to make progress in the area of bank governance. To ensure arm's length decisions that are in the best interest of its stakeholders and of the Greek economy, bank management needs to be free of political interference and vested interests.

The results of the expansionary monetary policy followed by the European Central Bank are being strongly criticised. Many argue that QE is responsible for a bubble in the equity and bonds markets and that the negative interest rates ultimately benefit the affluent north and not the poor south, and that QE masks the structural problems of the euro area. What is your view after nearly two years of the programme?

Growth is returning in the euro area and this is largely due to monetary policy measures, notably our asset purchases, low interest rates and targeted lending operations. They have improved funding costs for banks and financing conditions for companies and households throughout the euro area. For example, lending rates for firms have fallen by over 100 basis points since June 2014. In peripheral countries, lending rates have fallen even further. Loans to small and medium-sized companies that are the backbone of our economy and are often family-run micro-firms have improved even more strongly; since May 2014, bank lending rates on very small loans to corporations declined by around 170 basis points. They are now converging towards those of large-scale borrowers. As for the structural challenges, they are many and they of course need to be addressed by governments. Monetary policy cannot create sustainable growth.

Is the vision of banking integration in Europe still alive? Why is the EU-wide deposit guarantee scheme not advancing?

The banking union is an essential project for Europe to help match savings with investments and to improve the safety of European banks, avoiding that taxpayers have again to pay for risks taken by bankers. The ECB is committed to building a single supervision at arm's length from political interference and from vested interests, which was not always the case in the past. This way banks can work in the interest of the economy.

We continue to believe that a European Deposit Insurance Scheme (EDIS) is the necessary third pillar of the banking union. However, you are right that political negotiations on EDIS are not making much progress. There is, however, an understanding that risk sharing across banks needs to be complemented by appropriate measures to reduce risks in banks. In our view, both work strands should progress in parallel.

Proposals for a two-tier euro have been made from time to time. At the same time, euroscepticism is on the rise, as evidenced by the growing support for political parties of the extreme right or by citizens distancing themselves from developments taking place in Brussels. Can Europe, as we know it today, continue to exist?

European citizens are understandably frustrated because Europe and national governments have not been able to create growth and jobs in a meaningful way since the crisis. There are three challenges in my view. First, national governments should undertake the reforms which will create jobs and investment. Second, European institutions should contribute to create growth and stability at European level. This is what the ECB has been doing, within its mandate, with a visible impact on growth. And third, it is up to Member States' governments to reform jointly our monetary union to make it more resilient. To provide security to its citizens, Europe needs a stronger economy, and a stronger economy requires a more resilient monetary union.