Benoît Cœuré: Interview in Kathimerini

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, in Kathimerini, conducted by Ms Eirini Chrysolora and published on 5 September 2018.

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Does the completion of the programme mark a new era for Greece in your view? Is enhanced surveillance not just a continuation of the programme?

Let me start by saying that it would be all too easy to take the opportunity of Greece graduating from the programme to turn the page and say "mission accomplished". The programme years have been very difficult for the Greek people. Policymakers across Europe have a duty to learn the lessons of this painful journey and improve policy, at both European and national levels.

With hindsight, one can argue that the design of the programmes could have been more effective in supporting social safety nets and combating rent-seeking, that the pace of reform of the financial sector could have been faster, and that the need for debt reduction was overlooked by creditors. All this has gradually improved over time. I would like to congratulate the Greek government for its remarkable work in recent years, implementing key reforms in the economy and the society in general and in the financial sector in particular. For example, social solidarity income helps direct scarce resources to those who need them most, and opening up industries or sectors, such as pharmacies, benefits households which have borne the brunt of crisis adjustment. Regarding the financial sector more specifically, the new legislative framework provides much better support for reducing non-performing loans (NPLs) compared with the situation a couple of years ago. This will help banks support economic growth and job creation more effectively.

But let's not forget where it all started. Never again should a euro area country end up in such an unsustainable position as Greece's in 2010. We need responsible national fiscal and economic policies, and a better euro area governance framework.

As for enhanced surveillance, it is not a new programme but rather a strengthened form of cooperation between Greece, the European institutions and the euro area countries to support the transition towards full market access. Make no mistake, the burden of gaining the trust of markets and depositors has now fully shifted to the Greek government. Don't expect building trust among investors to be easier than convincing the institutions.

What will be the ECB's role in the context of enhanced surveillance? Will you provide your contribution as in the past?

We will remain involved in the enhanced surveillance, as mandated by the European regulations underlying this framework (the so-called two-pack). But the end of the programme is also an opportunity for us to refocus our activities, as already indicated in the opinion we published in April 2018. Looking ahead, our work in Greece will now be focused on financial and macro-critical issues. More specifically, this includes financial sector stability, macroeconomic projections, headline fiscal targets, and sustainability and financial needs.

What do you see as the main priorities for the post-programme period? What are the areas that Greece should focus on in the years ahead so as to achieve sustainable growth? And what are the main risks?

In line with what I have just said, allow me to focus on the financial sector. Reducing NPLs is certainly top of the list from our point of view. On the one hand, only stronger and healthier banks can provide the necessary basis for an increase in the supply of credit that can support economic growth. On the other hand, the restructuring of private and tax debt that could accompany the reduction of NPLs is also expected to help healthy companies restart their activities and thus reinforce the demand for credit. A lot has been achieved under the programme. The legislative framework is in place, but continued implementation will be key. Improving the effectiveness of the judicial system is also essential to guarantee a well-functioning financial sector. We also still envisage improvements in banks' governance frameworks, which will be essential to establish the conditions necessary to attract both domestic and foreign investors and allow the divestment of Hellenic Financial Stability Fund (HFSF) holdings over time. In any case, it will be very important that the authorities refrain from trying to influence banks' credit decisions and focus instead on improving the framework within which they operate.

Are Greek banks now safe in terms of their capital position? Will they manage to reach the NPL targets as agreed? Should the targets be tightened for the years after 2019?

The capital position of Greek banks has strengthened substantially during the programme and is now quantitatively at higher levels than in other countries affected by the crisis. However, the quality of Greek banks' capital is lower than elsewhere in Europe, consisting partly of deferred tax assets, and there is still a large amount of non-performing exposures (NPE) as a legacy of the crisis. There is a need to be prudent and to set ambitious targets in order to significantly reduce the NPE ratio by the end of 2019. The performance of Greek banks has so far been broadly in line with their approved NPL targets, as shown in the Bank of Greece's quarterly NPL monitoring reports. However, the targets to be achieved by the end of 2019 are back-loaded. Beyond 2019, continued efforts are needed to further reduce the NPE ratio in Greece in the years ahead, until it is closer to the euro area average.

Swift progress in resolving NPLs is crucial not only for economic recovery, but also for the forward-looking capital adequacy of Greek banks. This depends on the economic environment stabilising and, importantly, on the continued and improved effectiveness of the relevant legal frameworks (household and corporate insolvency, out-of-court workout, NPL sales and e-auctions). For example, it will be easier to reduce the amount of NPLs if there is a reduction in the backlog of cases related to the household insolvency framework (the so-called Katseli law) that are still pending before the courts. In June the government presented an ambitious action plan that will be closely monitored in the context of the enhanced surveillance framework.

Are you satisfied with the pace of e-auctions?

A comprehensive approach involving all stakeholders must remain in place at all times to ensure that the e-auction system continues to be successful. We have seen a clear improvement here in recent months, but further progress in raising the number of auctions is needed, especially for properties located outside Attica. So we will continue to monitor the situation closely, in cooperation with the authorities. It is also important to recognise that e-auctions have incentivised borrowers (including strategic defaulters) and banks to work towards a mutually beneficial solution. There are indications of increased restructurings and settlements of loans now that e-auctions have started.

The ECB lifted the waiver for Greek government bonds. Wasn't the enhanced surveillance sufficient to keep it? How much liquidity did banks have to get from ELA as a result of lifting the waiver?

The minimum credit rating rule for ECB collateral eligibility pre-dates the Greek crisis. In 2010, we acknowledged that the rule could be procyclical and granted a waiver to countries under an EU/IMF programme, because policy conditionality and access to comprehensive information gave us confidence about the sovereign's creditworthiness. The framework has been applied unchanged to all countries since 2010. But enhanced surveillance is not a programme and does not entail conditionality – I assume this is exactly why the government accepted it! It therefore does not comply with our framework.

That being said, the lifting of the waiver was a “non-event” for banks, as one Greek bank CEO recently pointed out. Greek banks have broadened their market financing and successfully shifted parts of their financing from monetary policy operations onto the interbank repo market. The significant increase in deposits during the summer months helped as well. Overall, bank liquidity has been continuously improving. It is important that this trend is further supported in the period ahead.

Is the Greek debt sustainable according to the ECB? We were wondering, if you consider it sustainable, why you couldn’t have included the Greek bonds in the public sector purchase programme (PSPP – also known as QE) for at least a few weeks after the Eurogroup decision on debt measures, when the waiver was still in force. Are you going to publish the ECB’s debt sustainability analysis?

The agreement reached by the Eurogroup on 22 June was a significant step towards restoring debt sustainability, especially over the medium term (that is, until the end of the deferral period). In the long term, we welcome the Eurogroup’s readiness to consider further debt measures if there are adverse developments. Indeed, downside risks to both macroeconomic and fiscal assumptions remain sizeable.

As for the PSPP, Greek government bonds lost their eligibility on 21 August when the programme ended. At that point, the Eurogroup’s debt measures had still not been ratified. In any case, purchases would have been very limited over such a short period.

Is there any chance that Greek bonds could be included at some point in the future in the reinvestment phase of the PSPP? How many years do you think the reinvestment of maturing securities will last?

Without a programme, Greek government bonds are now treated like any other bonds for the purpose of ECB eligibility. Once they regain investment grade status they could be included in all ECB programmes, subject to a Governing Council decision.

As you know, we intend to reinvest the principal payments from maturing securities purchased under the asset purchase programme (APP) for an extended period of time after the end of our net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The government seems to have put on hold, for the time being, plans to return to the markets. Do you think that Greece has now regained full access to international capital markets? Do you think it should wait until after the elections to go back to the markets?

Greece’s market access conditions have clearly improved compared with one year ago. Bond market liquidity has also improved after the swap operation conducted in November 2017, which contributed to the normalisation of the Greek government bond yield curve and also supported increased foreign participation in the bond market. Over the past few months, however, Greek bond yields have remained elevated and volatile, reacting to international and European stress, even after the approval of debt measures by the Eurogroup in June and the upgrade of Greece’s credit rating by the rating agencies. So we should be patient and prudent when assessing market access. Crucially, investor confidence will rely on the continued implementation of reforms and on avoiding backtracking on past improvements.

Are you concerned that a crisis, for example in Italy, could jeopardise Greece’s market access? Wouldn’t a precautionary credit line, as Mr Stournaras had suggested, have been useful in this respect?

Indeed, a precautionary credit line would have helped to cushion negative spillover effects from the international markets and to reinforce the credibility of the Greek sovereign as an issuer. It was therefore a less risky path from a purely financial standpoint. That being said, it would have entailed continued policy conditionality. I respect the government's judgement that, after eight years under various programmes, it was time for Greece to regain ownership of its policies.

Is the ECB concerned about a hostile spirit often expressed by the government toward the Governor of the Bank of Greece, Mr Stournaras, and recently even indirectly towards the former Vice-President of the ECB, Mr Papademos?

We do not intervene in internal political discussions, whether in Greece or elsewhere. It is important that the independence of the Bank of Greece and its governor is preserved. Personally, I have the highest appreciation for Mr Papademos and Mr Stournaras as economists and policymakers. I must stress that an independent statistical system is also crucial. I won't comment on Greek judicial decisions, but one should not underestimate the damage inflicted on Greece's credibility by never-ending legal action against the former president of Elstat. Mr Georgiou discharged his duty in compliance with the European framework and his findings remain unchallenged today, including by the government.

Do you think that the planned pension cuts for 2019 should be suspended or postponed, as the government wants? Has the government made any concrete proposals ahead of the mission and in view of the 2019 draft budget? The government also plans tax cuts in 2019 using the expected excess primary surplus, affecting ENFIA and social security contributions, among others. Do you agree with these measures?

In line with what I said on the refocusing of our contribution to the programme, we do not want to discuss specific fiscal policy measures. What is essential for us is that fiscal targets for 2019 are met and that the budget composition is growth-friendly. As is the case in a number of countries in the euro area, it is important that the level of direct income taxation supports economic growth while ensuring that fiscal targets are met.

What about a reversal of labour market reforms (minimum wage, collective bargaining)? Do the institutions have to consent? And do you think the markets will react, interpreting it as a sign of backtracking?

Again, I don't want to discuss specific measures.

When do you think capital controls should be fully removed?

The pace and composition of capital controls are in the hands of the Greek authorities. Many of the restrictions imposed in mid-2015 have already been lifted; the government published a roadmap for relaxing capital controls in May 2017, which it is closely following. This steady and responsible approach has been successful so far. Only once capital controls have been completely removed will the Greek economy and Greek banks be able to function normally inside the euro area. To achieve this, it is crucial to build an environment which strengthens depositors' confidence and makes the Greek financial system resilient to outside stress.