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The ECB collateral for Greece must be lowered to 5 pct

By Dimitri Tzanninis *


Lower borrowing costs and more funds available for growth in Greece are sure to follow an ECB policy change that is long overdue.

According to recent reports, the European Central Bank plans to reduce the "57 percent penalty," that is the discount applied to almost all Greek government bonds (GGBs) held as collateral by the ECB. That 57 percent penalty has kept borrowing costs for all Greek borrowers at astronomical rates and has frozen bank lending to households and small businesses.

The amount of the collateral required determines the borrowing amounts and interest rates. Greek and eurozone banks must dedicate 57 percent of their GGBs as collateral, in contrast to only 5 percent applied to most of Greece's credit peers. The tenfold amount of collateral required for GGBs suffocates banks' borrowing capacity and pushes interest rates sky-high.

Even during the peak of the crisis – when the ECB was seeking to influence Greece's policies – the ECB penalty on GGBs did not exceed 10 percent, which by the way was up from 5.5 percent. However, the ECB hit Greece with a supposedly temporary "57 percent penalty" in December 2012. Temporary was understood by most reasonable people to mean weeks, not nearly two years.

A provision in the relevant ECB regulation states specifically that program countries – even those with below investment-grade ratings, such as Greece – will have a maximum collateral penalty of 13 percent. However, Greece was not allowed to benefit from this provision and was hit with a special bad-boy clause stating that the rather favorable rate of 13 percent would not apply to Greece.

Greece is in an excellent position to win the 5 percent collateral rate, but the ECB needs to be educated on the actual creditworthiness of Greece. Winning the 5 percent collateral rate could cut borrowing costs at least in half, bringing them in line with Greece's credit peers and opening the gates to new lending to stimulate the economy. Credible independent estimates indicate the potential impact on job creation at 200,000 to 400,000 jobs in Greece in the next 24 months. This is a badly needed boost to the country's economy that no one should ignore.

In addition to Greek citizens being burdened unjustifiably with the consequences of the 57 percent penalty, the country's flagship companies that compete internationally face borrowing costs that are 3 to 5 percentage points above those of their competition. These companies are further burdened with vastly worse borrowing terms and only have access to a fraction of the funds available to competitors. These sky-high borrowing costs are basically a death knell.

The ECB penalty is not the only matter preventing job creation. The Greek government has the option of reporting its financial data according to international accounting standards, officially titled International Public Sector Accounting Standards (IPSAS). In fact, other EU program countries, such as Ireland and Portugal, have made excellent progress in implementing IPSAS. Both countries are belatedly joining the Western world's leading countries in implementing international accounting and management. Unfortunately, Greece has little progress to show when it comes to adopting IPSAS. The status quo within Greece has stifled progress.

Many concerned Greeks have already spoken both publicly and informally encouraging the Greek government to implement IPSAS. There are smart and progressive individuals within Greece's business and political leadership who are supporters of IPSAS; however, they have yet to gain sway.

Greece has a huge competitive advantage, which to date has been only spoken of in the shadows. Specifically, Greece's public debt as a percentage of GDP – when calculated correctly under international accounting standards – is one-third (yes, 1/3!) of its credit peers Ireland, Italy, Spain and Portugal, and not the 175 percent blindly repeated. The country's leaders must communicate effectively this huge competitive advantage.

To be clear, this fact does not mean that Greek government debt is not high, nor does it mean Greece should pile up more debt. What it does mean is that this huge competitive advantage must be communicated to the ECB so that Greece can win what it has rightfully earned: borrowing costs half of the current ones as well as the release of funds for domestic lending.

Lower borrowing costs and more funds available for growth in Greece are sure to follow an ECB policy change that is long overdue. Yes, 200,000 to 400,000 new jobs are awaiting this change. What will not create jobs is having the country's leaders travel throughout Greece and abroad selling fear that the country needs debt relief. What the country needs is an ECB collateral rate of 5 percent and the adoption of IPSAS.

International accounting standards prove beyond any doubt that Greece has a huge competitive advantage: public debt at one-third of its peers. There are two pressing questions for Greeks now. Who among Greece's leaders will be effective enough to sell the country's competitive advantage to the ECB and the world and get a 5 percent rate on the collateral? And who will win the respect and admiration of the Greek voters and the international community for jump-starting the economy with 200,000 to 400,000 new jobs?

* Dimitri Tzanninis is a former chairman of the Council of Economic Advisers at the Ministry of Economy and Finance in Greece who has also worked at the International Monetary Fund.

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