

GREECE, A READY TO HAND WAY TO BRIDGE THE CRISIS

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WHILE POLICY-MAKERS and investors around the world are fretting about a Grexit—the possibility of Greece abandoning the common currency—I would instead insist on considering an agreement as to the most likely outcome of current negotiations between Athens and the Brussels institutions. Even in the case of extreme political and financial turbulences, the Euro area could still arrange emergency assistance to Greece through the provision of an emergency credit line by the European Stability Mechanism (ESM), which is operated by the European Central Bank (ECB).

Before June 30, Greece must repay 1.6bn euro to the International Monetary Fund. If Greece fails to meet its financial obligations to the IMF, its political relationship with its official creditors would deteriorate further. Moreover, Greece would enter a 'grace period' where its access to additional IMF resources (and consequently to further European financial support) would be cut off and a long administrative process would be launched which, in principle, could ultimately result in Greece's expulsion from the IMF with severe consequences for the country's future access to the markets. But along this process, European policy makers can exercise discretion as to the nature of their response and they are likely to take in the due consideration the high risk that Grexit would represent for the future existence of the Eurozone.

Far from designing a definitive solution for the dramatic Greek crisis, the current negotiations primarily ought to provide a reasonable bridge in order to overcome the July-August deadline for Athens' debt refinancing. In fact, after the summer, the Greek government should be able to make good on its financial commitments.

Against this backdrop, one should consider whether the current hostile rhetoric can be rewound and whether small tactical concessions on the part of both negotiating parties can wipe out the mistakes of the past six months, taking into consideration what the former Greek government had already obtained from the Eurogroup at the end of last year.

In November 2014, under pressing demands from former PM Antonis Samaras, who wanted Greece to exit its bailout assistance program at the end of the year, Eurozone finance ministers backed a precautionary credit line for Greece, in a bid to balance the need to reassure investors with the demands of domestic Greek politics.

After two bailouts totaling 240 billion euros since 2010, the Greek government had staked its survival on regaining economic policy-making sovereignty after the end of the euro zone lending program and on exiting an IMF bailout a year earlier than the originally envisaged 2016.

The Eurogroup had found strong support for a precautionary credit line in the form of an existing ESM tool called the ECCL (Enhanced Conditions Credit Line). The credit line was to be provided by the European Stability Mechanism (ESM), the bailout fund created by the euro zone to rescue governments cut off from markets, in exchange for a reform package. The credit line was intended to make use of the 11 billion euros the euro zone already granted Athens to recapitalize Greek banks.

The adoption of an ECCL should not be considered as a cheap stratagem to circumvent stricter rules. An ECCL would also mean that Greece would still have to sign a new MOU (Memorandum of Understanding), which is politically sensitive because the previous MOU detailed austerity reforms demanded by lenders, terms many Greeks consider a symbol of Athens' loss of sovereignty. The direct involvement of the ECB – that contributes operationally to the ECCL – implies that the MOU would be rigorously detailed and meticulously respected. However, the guidelines elaborated by the ESM for applying Precautionary Financial Assistance diminishes the role of the IMF, both in the design of the MOU and in its regular review.

The role of the IMF is a sticking point in the negotiation. It should not come as a surprise that on June 16 Alexis Tsipras publicly attacked the IMF before the Greek Parliament as a pursuer of “semi-criminal policies” against his country. Greek public opinion is against the IMF, which it blames for the austerity imposed on the country over the last five years. But several euro zone countries consider the IMF an independent guarantor of Greek reforms, and they want it to remain in the picture. The ESM disposition on the approval of the ECCL provides a wide margin for interpretation with regard to the IMF's role.

According to ESM guidelines, the objective of precautionary financial assistance is to support sound policies and prevent crisis situations by allowing ESM members to secure assistance before they face major difficulties raising funds in capital markets. Precautionary financial assistance may be provided via a Precautionary Conditioned Credit Line (PCCL) or via an Enhanced Conditions Credit Line (ECCL). A PCCL and ECCL credit line can be drawn from via a loan or primary market purchase. Both types of credit lines shall have an initial availability period of one year, renewable twice, for six months at a time.

While access to a PCCL is based on pre-established conditions and limited to ESM members with fundamentally sound economic and financial situations, access to an ECCL is possible for ESM members that do not comply with some of the eligibility criteria required for a PCCL, but whose general economic and financial situation remains sound. Although it is highly disputable that Greece falls into this category, it is still possible for Athens, assuming the EU Commission's agreement, to design an appropriate commitment corresponding to the requisites.

The beneficiary ESM member shall, after consultation with the European Commission and the ECB, adopt corrective measures aimed at addressing the above-mentioned weaknesses, avoid any future problems with respect to accessing market financing, and ensure continuous compliance with eligibility criteria previously met when the credit line was granted.

In order to benefit from an ESM credit line, the request by the ESM member should follow the following steps:

1. An ESM member may address a request for precautionary financial assistance to the Chairperson of the ESM Board of Governors. Upon receipt of said request, the Chairperson of the Board of Governors shall entrust the European Commission, in liaison with the ECB, with the following tasks:

- (a) to assess the existence of a risk to the financial stability of the euro area as a whole or of its Member States;
- (b) to assess whether general government debt is sustainable. Wherever appropriate and possible, such an assessment shall be conducted together with the IMF;
- (c) to assess the actual or potential financing needs of the ESM member concerned.

The guidelines show a marked “Europeanization” of the process that diverges significantly from the Troika’s elusive feature of “IMF imprinting.” It is the European Commission, in liaison with the ECB, that shall be requested to assess whether the ESM member meets the conditions for accessing an ECCL. Moreover, it is the ESM Managing Director who shall prepare a proposal for financial assistance consistent with the aforementioned assessment, taking into account the financial situation of the ESM.

Finally, it is the Board of Governors of the ESM who decides to grant precautionary financial assistance to the ESM member, and who dictates its amount and duration.

If a decision is adopted, the Board of Governors shall, in accordance with article 13(3) of the ESM Treaty, entrust the European Commission, in liaison with the ECB and, wherever possible, together with the IMF, with the task of negotiating an MOU with the ESM member, detailing the policy conditions attached to the precautionary financial assistance. In this case, the marginalization of the IMF in the design of the new program is evident. Similar Europeanization applies to the process of preparing a proposal for a financial assistance facility agreement (FFA), detailing the financial terms and conditions of the precautionary financial assistance to be adopted by the Board of Governors. More explicitly, the right to sign the MOU on behalf of the ESM pertains exclusively to the European Commission.

From a Greek perspective, it is of interest that the activation of the credit line is at the initiative of the beneficiary ESM member, as if it were an autonomous decision. The member shall have the flexibility to request the draw-down of funds at any time during the availability period of the credit line according to the agreed terms. It shall inform the ESM at least a week in advance of its intention to draw funds, depending on the intended size.

It will be difficult for Tsipras to maintain that the new agreement poses much limitation on sovereignty. Where an ECCL is granted, the ESM member shall be subject to enhanced surveillance by the European Commission for the availability period of the credit line. An ESM member under enhanced surveillance shall, in consultation and cooperation with the European Commission, acting in liaison with the ECB, the European Supervisory Authorities (ESA), and the European Systemic Risk Board (ESRB), and where appropriate the IMF, adopt measures aimed at addressing the sources or potential sources of difficulties.

I will reproduce here the text of the guidelines on enhanced surveillance:

Upon request from the European Commission, the ESM Member under enhanced surveillance shall:

- a) Provide the ESM with all necessary information required for the execution of its lending activity and related risk management, such as monthly information regarding its financial condition, cash balance and other key information that would usually be provided for facilities of this type and any of the information mentioned in points (b) to (f);
- b) Communicate to the European Commission, the ECB, and the relevant ESA(s) at the requested frequency disaggregated information on developments in its financial system. The European Commission, the ECB, and the relevant ESA(s) shall preserve the confidentiality of the disaggregated data received;
- c) Carry out, under the supervision of the relevant ESA(s), stress test exercises or sensitivity analyses as necessary to assess the resilience of the financial sector to various macroeconomic and financial shocks, as specified by the European Commission and the ECB in liaison with the relevant ESA(s) and the ESRB, and share the detailed results with them;
- d) Be subject to regular assessments of its supervisory capacities over the banking sector in the framework of a specific peer review carried out by the relevant ESA(s);
- e) Carry out and report on a comprehensive independent audit of the accounts of the general government conducted in coordination with national supreme audit institutions, aiming at assessing the reliability, completeness and accuracy of these public accounts for the purposes of the excessive deficit procedure. In this context, the European Commission (Eurostat) shall assess the quality of data reported by the beneficiary ESM Member in accordance with Regulation (EC) No 679/2010;
- f) Where appropriate, provide additional information for the purposes of monitoring the progress towards the correction of the excessive deficit.

The European Commission shall, in liaison with the ECB and the ESA(s) as needed, and where appropriate the IMF, which is relegated to a secondary role, conduct regular review missions in the ESM member state to verify the progress made in the implementation of adopted measures. It shall communicate its findings to the Board of Directors every quarter, and assess whether further policy measures are needed. Re-examination of the adequacy of the precautionary financial assistance will thus be conducted on a regular basis. If the beneficiary ESM member deviates from its policy conditions or if those commitments have become inadequate to resolve the threat of financial disturbance, the Board of Governors may decide to close the credit line. The beneficiary ESM member would then be expected to request a regular stability support, with a full macroeconomic adjustment program, following the applicable procedure.

As previously stated, the mechanisms of precautionary financial assistance could only provide a temporary break between two assistance programs. However, the ECCL solution may just be what is politically feasible in the current tragic contingency.