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# GREECE MACRO MONITOR

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## *ECB lifts eligibility waver on debt issued or guaranteed by the Hellenic Republic Implications for Greek banks and the state of ongoing negotiations with official lenders*

In a surprise move, the ECB Governing Council decided yesterday to lift the waver of minimum credit-rating requirements for marketable instruments issued or guaranteed by the Hellenic Republic. Collateral eligibility of the said instruments in Eurosystem monetary operations will case as of the maturity of the current main refinancing operations on February 11, 2015. The accompanying press release read that the suspension is in line with existing Eurosystem rules, given that it is currently not possible to assume a successful conclusion of the Greek program review. Following the ECB announcement, Greece's Ministry of Finance issued a statement saying that the said decision does not reflect any concerns about the health of the domestic financial sector and that the Greek banking system remains adequately capitalized and fully protected through access to the Emergency Liquidity Assistance (ELA) facility. Furthermore, "by taking and announcing this decision, the ECB puts pressure on the Eurogroup to proceed rapidly to conclude a new mutually beneficial agreement between Greece and its partners". Note that the Euro Working Group convenes today and will reportedly decide whether euro area finance ministers will hold an emergency meeting on February 11 to discuss the Greek situation.

### ***Implications for the Greek banking system and the state of ongoing negotiations with official lenders***

The decision will not affect the counterparty status of Greek financial institutions in monetary policy operation and thus, the liquidity needs of Eurosystem counterparties for counterparties that lack sufficient alternative collateral will be satisfied by the respective NCBs via the ELA facility.

Unless there is an agreement by February 11 to resume the pending, still incomplete, review of the present program (seems unlikely at this point, given the most recent government announcements/comments) or to replace it with some other kind of mutually-accepted arrangement, Greek banks will need to resort to ELA to cover most of their funding needs. ELA constitutes a more expensive source of liquidity for Greek banks (to the tune of c. 1.55%) relative to ECB funding (just 5bps, currently).

The most recent BoG data revealed that Eurosystem funding of Greek financial institutions stood at c. €56bn in December 2014 (*Table 1*). This exposure has likely increased further in January due to deposit outflows and reduced interbank funding by domestic institutions. Note that a certain part of this funding is secured by pledging collateral (e.g. recapitalization-related EFSF bonds, loans and other bonds without government guarantees) that will remain eligible for regular Eurosystem monetary operations post-February 11.

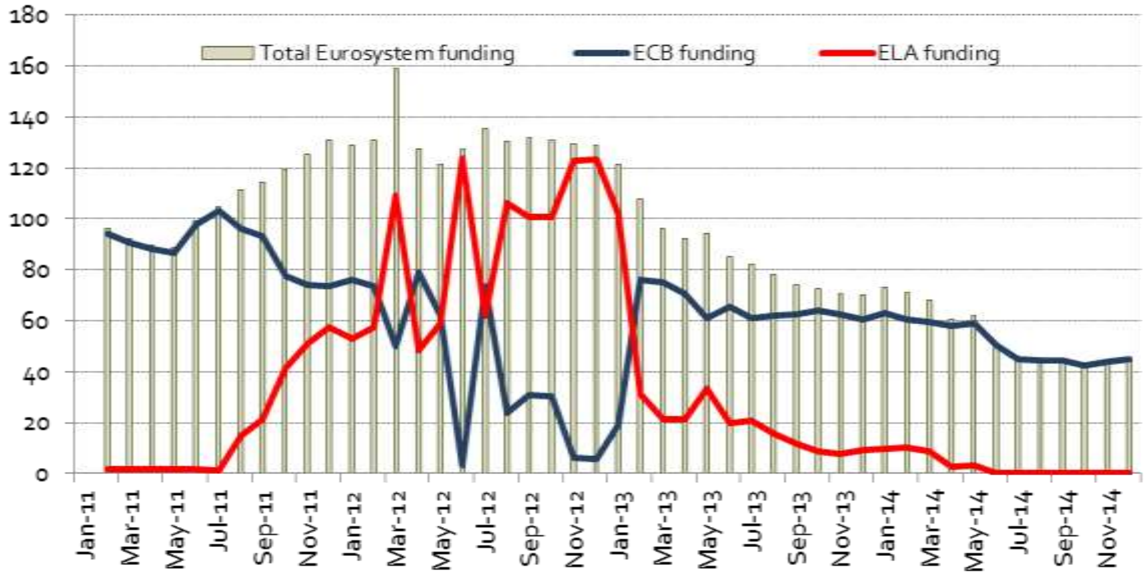
On the other hand, the ECB decision will affect: a) pillar-two bank bonds with government guarantees (c. €55bn in total notional currently utilized by Greek banks in Eurosystem monetary operations plus a still unutilized €30bn notional amount of ELA-eligible bonds); b) Greek government securities; and c) T-bills (only €3.5bn can be currently pledged by Greek banks).

However, Greek government guaranteed bank bonds were to lose their collateral eligibility for Eurosystem monetary operations at the end of February 2015. That means that the net impact of the ECB decision will effectively be on T-bills (c. €9.5bn currently held by domestic banks, according to our estimates) and domestic banks' GGB holding (c. a total of €10bn in notional terms, consisting of c. €6.5bn of pillar-three bonds and €3.5bn in other GGB holdings).

Note that any costs and risks arising from the operation of the ELA facility are incurred by the relevant national central bank (NCB). Nevertheless, there is an obligation of the latter to seek approval from the ECB for the provision of such liquidly which is renewed on a fortnight basis. The ECB, which had first granted a two-week approval for Greek banks on January 21, after receiving a formal request by the Bank of Greece, renewed its decision for a €10bn emergency liquidity line to Greek banks at its February 4th policy meeting. It is also worth noting that, the Statute of the European System of Central Banks and of the ECB (Art. 14.4), assigns the ECB Governing Council responsibility for restricting ELA operation should it consider that activation of ELA "interferes with the objectives and tasks of the Eurosystem" (e.g., violates the Treaty's prohibition of monetary financing). Such decisions can be taken with a majority of two-thirds of the votes cast.

The ECB is scheduled to reassess Greek banks' access to ELA on February 18. Until then, the newly elected Greek government will bring in the Hellenic Parliament its programmatic statements for approval. The whole process will last three days and will conclude with a vote of confidence at the midnight of February 9. Other key developments/events expected to lure market attention ahead of the February 18th ECB meeting include the next EU Summit on February 12 and the next scheduled Eurogroup meeting on February 16.

**Table 1- Eurosystem funding to Greek banks (outstanding amounts in EURbn)**




Source: BoG, Eurobank Global Markets Research

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