Estimation rapide – mai 2017 – Le taux d'inflation annuel de la zone euro en baisse à 1,4%

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Benoît Cœuré: Greece: progress, challenges and the way forward

Speech by Benoît Cœuré, Member of the Executive Board of the ECB, at a conference organised by The Economist: “Greece: a comeback to the financial markets? A glimpse into Europe’s financial landscape”, Frankfurt am Main, 31 May 2017

Thank you for inviting me to speak here today.

The topic of this conference is very timely. As you know, in recent weeks the Greek authorities have made significant progress in adopting measures to finalise the second review of the ESM programme. Discussions on medium-term debt measures and a new IMF programme are ongoing and expected to be concluded in the weeks ahead.

In my short remarks this morning, I will explain why timely clarity on debt measures and debt sustainability is important – not only to restore trust in public finances but also to help rebuild confidence in the Greek economy more generally, and the financial sector in particular.

But I would first like to focus on one element of the Greek adjustment programme where I believe the ECB’s advice is of particular relevance – the financial sector strategy.

Financial sector reforms are a key element of macroeconomic adjustment programmes, for one simple reason: any sustainable economic recovery needs to be supported by an adequate supply of credit. Without credit, firms may not be able to invest in productive capital, create new employment or cover ongoing expenses.

A healthy credit supply is also important for our monetary policy to filter through to households and firms: it is one of the main ways in which we can affect bank lending conditions and, ultimately, price developments. Indeed, the broad-based and solid recovery we are currently observing in the euro area economy owes much to our policy measures having been effective in repairing the bank lending channel – that is, in overcoming credit supply restrictions and in bringing bank lending rates down to levels consistent with our monetary policy stance.

Greece is a sad exception, unfortunately. Bank loans to the domestic non-financial private sector have contracted in every quarter since end-2008 and by a cumulative 28% up until the end of last year. And although the level of loans to the private sector has stabilised recently, rates on loans to firms are still some 250 basis points above the current euro area average.

Main challenges for the Greek financial sector

This means, of course, that there is still important work to do to allow credit to become a net contributor – rather than an impediment – to growth in Greece and to allow the Greek economy to reap the full benefits of the firming and broadening euro area recovery.

But still, we have seen progress.

The situation of Greek banks has improved in several ways since the summer of 2015 when the third programme was negotiated. Capital adequacy, for example, has been strengthened from CET1 ratios of around 11% in the third quarter of 2015 to around 16-17% at the end of last year, following the successful recapitalisation of the four main banks in late 2015. Bank governance has also improved, as shown by the significant changes in the composition of Greek bank boards over the past year. And, importantly, bank profitability recovered in 2016 after years of substantial losses. The average return on assets improved from -1.9% in 2015 to 0.1% in 2016, based on continued operations.

What, then, are the main obstacles that still need to be overcome?

I would argue that they are mainly related to the fragile state of banks’ balance sheets – on both the asset and liability sides.

Let me start with the asset side.

As you know, non-performing loans (NPLs) are a problem in many euro area countries. But in Greece 45% of all bank loans are non-performing. They severely depress the profitability of banks and their ability to extend new, productive loans to firms and households.

Decisive and rapid action is therefore needed. The roadmap was drawn up last year when ECB Banking Supervision agreed with the four main Greek banks on a 50% reduction in their NPL stock by the end of 2019.

Progress so far has been broadly in line with agreed targets, but NPL objectives for this year and the next two years are ambitious. A step change in NPL resolution activities will be needed – in particular after the weak performance in the first months of 2017 that was, in part, also due to the uncertainties related to the delay in the second review.

But I am happy to see that the Greek authorities recently passed several important pieces of legislation to support NPL resolution. Full and timely implementation of these reforms in the months ahead will be crucial to support the required step change in NPL resolution efforts.

Let me highlight three elements that are of particular importance:

- First, the overhaul of the out-of-court workout framework. This element is of particular importance in Greece, where many firms are heavily indebted both to banks and the state.
- Second, legal provisions to facilitate debt restructuring agreements by reducing the liability of the individuals involved.
- And third, after many delays, a framework for electronic auctions for the recovery of claims. An electronic auction platform has become increasingly important as physical auctions have essentially come to a standstill, which has caused significant losses for creditors, debtors and the economy as a whole.

Let me now briefly turn to the liability side of banks’ balance sheets.

Deposits are the cornerstone of any sound banking system. A stable deposit base allows banks to engage in maturity transformation and to extend credit to the real economy.

So far, however, there is no evidence of a sustained return of private deposits in Greece. Since the summer of 2015, when capital controls were imposed, private sector deposits have only recorded a modest 2.5% increase. They remain some 25% below their levels at the end of 2014 before deposit outflows accelerated noticeably.

The upshot is that Greek banks still rely to a significant extent on central bank funding. Although recourse to our facilities, including emergency liquidity assistance, has fallen from 41% of total assets in June 2015 to around 21% of assets today, total central bank funding still amounts to more than 35% of Greek GDP.

Part of the reduction in central bank funding is attributable to improved access to wholesale financing. This is certainly good news. Greek banks have gradually returned to the interbank market and were able to perform repo transactions with a wide range of mostly international counterparties – also thanks to the ECB, in June last year, reinstating the waiver affecting the eligibility of Greek government-related assets for Eurosystem monetary policy operations.

But for credit to become a vital source of economic growth in Greece again, a lot will depend on banks being able to regain the trust of private depositors and rebuild stable funding lines in wholesale funding markets.

Of course, this is not only in the hands of banks. Broader macroeconomic stabilisation is essential, as I will explain in a second. But banks need to contribute actively to this process by making further progress in repairing the asset side of their balance sheets – that is, by reducing the amount of non-performing loans.

Debt sustainability and the public sector purchase programme

Restoring confidence, of course, also means dispelling uncertainty about the sustainability of Greek government debt – and this brings me back to my opening remarks. I think we all agree that uncertainty about high public debt levels has undermined confidence in the Greek economy in general, and the financial system in particular.

In this respect, we regret that no clear definition of debt relief measures was reached at the last Eurogroup meeting. Discussions are ongoing, but in my view it is important that an agreement is reached at the Eurogroup meeting on 15 June.

According to the framework agreed in May last year, debt measures would be implemented in mid-2018, at the end of the programme. But being sufficiently clear on the measures *today* would help frontload many of the beneficial effects, in particular the rebuilding of confidence of both the international and domestic community in the ability of the Greek economy to return to a path of normality and stability.

Clarity about debt measures is also a necessary condition for Greek government bonds to be potentially eligible under the ECB's public sector purchase programme (PSPP).

In June last year, the Governing Council clarified that it would examine possible purchases of Greek government bonds under the PSPP, taking into account the progress made in the analysis and reinforcement of Greece's debt sustainability, as well as other risk management considerations. Any decision by the Eurosystem will be taken independently and autonomously.

This means that one important element in our deliberations is our assessment of the sustainability of Greece's public debt. But we can only make an informed assessment if we have a clear view of the nature and extent of the envisaged debt measures. Then we can assess how much they would contribute to the sustainability of Greek debt. In other words, we need a sufficient degree of specificity. And as for any other decisions, we will look at all the relevant information. The IMF’s debt sustainability analysis will be an important input in this respect.

Concluding remarks

Let me conclude.

To bring the Greek programme to a successful conclusion it is essential that the Greek authorities continue to show a serious commitment to the goals set and measures taken in the context of the programme. Only with such a commitment can all stakeholders be confident that reforms will be strengthened in the aftermath of the programme and not reversed.

At the same time, other stakeholders have to do their part to put in place the conditions that will ultimately allow the Greek banking system to fully recover and to enable the country to return to the financial market.

These efforts are not only about Greece – they are also about the euro area as a whole. Based on currently available information, Greece is the only euro area country whose economy contracted, albeit marginally, at the start of this year, despite the cyclical recovery becoming increasingly solid and broad-based – thanks in large part to our monetary policy measures, which have led to a pronounced easing of financing conditions and a convergence of funding costs across countries. But convergence will only be achieved if all euro area countries are involved.

I therefore encourage all parties to continue working hard on making the programme a complete success.

Thank you.

Capital Markets Union: EU reaches agreement on reviving securitisation market

Late on Tuesday, the European Parliament, the Council and the Commission agreed on a package that sets out criteria for simple, transparent and standardised securitisation (STS). The deal is one of the cornerstones of the Capital Markets Union (CMU), the Juncker Commission’s pivotal project to build a single market for capital in the EU. The swift implementation of the securitisation package could unlock up to EUR 150 billion of additional funding to the real economy.

Securitisation can allow diversification of funding sources and a broader distribution of risk by allowing banks to transfer the risk of some exposures to other institutions or long-term investors, such as insurance companies and asset managers. This allows banks to free the capital they set aside to cover for risks of those exposures, allowing them to generate new lending to households and SMEs. STS securitisations will also provide new investment opportunities for institutional investors such as pension funds and insurance companies.

Valdis **Dombrovskis,** Vice-President responsible for Financial Stability, Financial Services and Capital Markets Union, said: *"This agreement marks another big step towards the creation of a Capital Markets Union. It will help build a sound and safe securitisation market in the EU, bringing real benefits to investment, jobs and growth. It will free up bank lending so that more financing can go towards supporting our companies and households."*

The new regulatory framework agreed by co-legislators sets out a risk-sensitive, transparent and prudential treatment of securitisation. At the same time, the package also ensures an appropriate capital treatment of securitisation instruments in general.

Next Steps

Today's political agreement will be followed by further technical talks to finalise the text. The Permanent Representatives Committee (COREPER) of the Council of Ministers is expected to endorse the agreement ahead of the European Parliament's plenary vote.

Background

In September 2015 the European Commission proposed new rules on securitisation as part of the Capital Markets Union (CMU) action plan (IP/15/5731). The Commission proposed a regulatory framework for securitisation which is simple, transparent and standardised and subject to adequate supervisory control. According to the Commission's estimates at the time, if EU securitisation issuance was built up again to the pre-crisis average, it would generate up to EUR 150bn in additional funding for the economy.

Securitisation is the process where a financial instrument is created, typically by a lender such as a bank, by pooling assets (for example car-loans or SME-loans) for investors to purchase. This facilitates access to a greater range of investors, thereby increasing liquidity and freeing up capital from the banks for new lending.

The new EU legal framework provides a clear set of rules to ensure that STS benefits the real economy. It bears no relation to the securitisation of subprime mortgages created in the US that contributed to the financial crisis. The European Commission does not intend to go back to the days of opaque and complex subprime instruments. Instead, the new rules clearly differentiate between simple and more transparent securitisation products and other products which do not satisfy such criteria. This will restore an important funding channel for the EU economy without endangering financial stability.

More information:
https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-markets/securities-markets/securitisation_en

MEMO: http://europa.eu/rapid/press-release_MEMO-15-5733_en.htm

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Aviation Security: Statement by Commissioners Dimitris Avramopoulos and Violeta Bulc following the phone conversation with U.S. Secretary for Homeland Security John Kelly

Today the Commissioner for Migration, Home Affairs and Citizenship Dimitris Avramopoulos and the Commissioner for Transport Violeta Bulc had a positive and constructive phone conversation with U.S. Secretary for Homeland Security John Kelly.

Both sides agreed to intensify talks both at technical and political level to find common solutions to mitigate potential threats to aviation security and work together to step up security requirements.

No conclusion was reached today and no new announcement was made.

Discussions are ongoing in view of raising the bar for aviation security globally.

The EU and U.S. will continue working together to secure EU and U.S. citizens' safety and global aviation security and to maintain clear lines of communication and strong cooperation going forward.