The ECB's decision to toughen its stance on Greece signals the end of the Greek government's honeymoon period

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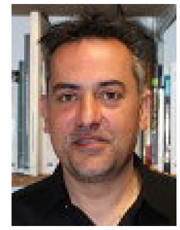

The European Central Bank (ECB) has announced that it will no longer accept Greek government bonds as collateral for lending money to commercial banks. **Vassilis Monastiriotis** *writes on how the decision should be interpreted in light of the current discussions surrounding Greek debt. He notes that while the immediate effect on the Greek economy is not particularly serious, the decision nevertheless signals the end of the honeymoon period for the Greek government and gives an indication of the tough negotiations which are set to follow.*

The European Central Bank's decision on 4 February to suspend the waiver for the acceptance of Greek government bonds as loan collaterals came as a shock to Greece, but it was rather more expected by the financial markets (although this does not preclude a strong 'market reaction'). The decision per se does not have immediately dire consequences for the Greek economy. It raises the cost of borrowing for Greek banks (from 0.05 per cent to 1.5 per cent) but it doesn't stop their access to liquidity, as this will continue to be provided by the Bank of Greece through the Emergency Liquidity Assistance (ELA) mechanism.

The decision is moreover rather sensible from the point of view of central bank finance, as Greece indeed cannot be assumed to be in an adjustment programme given the recent pronouncements of the Greek government following its election on 25 January. It should be recalled that the European Central Bank accepted Greek bonds as collaterals, which are not credit-worthy in a market-rating sense, solely on the basis of the implicit guarantee by the Eurogroup that Greece's solvency is guaranteed as long as the country remains in an adjustment programme.

Alexis Tsipras, Credit: Martin Schulz (CC-BY-SA-3.0)

On a first reading, this decision is above all of political value and significance, representing a strong message by the ECB that Greece should work swiftly and with pragmatism towards a new (or old) agreement with its Eurozone partners. On a second reading, the message may have multiple recipients, including ones in Germany and elsewhere, signalling to all sides that failure to reach a political agreement will not be 'accommodated' with technical rescues by the ECB – the Greek government certainly favours this interpretation.

But I think there is more to this than that. One should not forget that the ECB itself is largely divided on the issue of Greece and of monetary accommodation more generally. Those in its Executive Board that are more amenable to accommodation and have a more forgiving or favourable stance towards Greece, have to battle with those who see the ECB's activism as an unacceptable departure from its constitutional role and mandate.

Under this prism, there is a battle brewing inside the ECB and the decision made on 4 February was not the time for its executive members to open up their cards and pick up fights. The decision by the ECB maintains its adherence to consensual decision-making, strengthens its credibility with regard to non-politicisation and rules-based policy-making, and gives it space and more degrees of freedom for future decisions concerning the handling of the Greek crisis.

For the Greek government, however, which of these interpretations carries more water makes little difference. The ECB decision signals the end of the short-lived honeymoon period and the optimism created by the rather positive climate in many of the meetings of Prime Minister Alexis Tsipras and Finance Minister Yanis Varoufakis with officials in France, Italy and Brussels. As Syriza had already anticipated, tough negotiations lie ahead for the Greek government. And the going has just started to get tough. But it is the realists, not the tough, that should now get going…

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Note: This article originally appeared at the Greece@LSE blog and gives the views of the author, not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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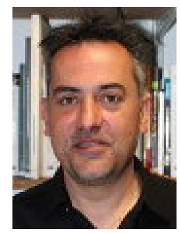

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