

ECB interventions in distressed sovereign debt markets:
The case of Greek bonds
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Macroeconomics After the Great Recession
IMF Seventeenth Jacques Polak Annual Research Conference
Washington DC, November 3–4, 2016



Pertinent questions

- ▶ Do central bank purchases of sovereign debt reduce long-term yields?
- ▶ Do the modalities of asset purchases matter?
 - ▶ Communication
 - ▶ Clarity of objective
 - ▶ Transparency
 - ▶ Commitment
- ▶ Was the ECB's SMP effective?



Findings

- ▶ ECB SMP purchases of Greek debt had a sizeable temporary effect on yields.
- ▶ Effect was highly localized, reducing yields of specific securities purchased and only as long as purchases continued.
- ▶ The SMP did not achieve a generalized sustained reduction of yields.
- ▶ The result is in stark contrast to evidence on QE programs. QE delivers a generalized reduction of yields beyond the securities purchased. (e.g. D'Amico and King, 2013, for Fed's QE program.)



Praise and lessons

- ▶ Amazingly resourceful use of public data sources and careful empirical analysis shed light on an episode where the ECB has not been transparent.
- ▶ An important implicit lesson for designing asset purchase programs: A central bank's clear communication and commitment to reduce yields may be far more important than the quantity of actual purchases made.
- ▶ Results raise questions about the wisdom of ECB's SMP decision, which was already quite controversial when made. (Under its current secrecy norms, the ECB may keep the identity of dissenters under wraps until 2040.)
- ▶ Failure of the ECB's SMP raises further uncomfortable questions about the overall mismanagement of the euro area crisis.



Some questions about the SMP

- ▶ What was the ultimate objective?
- ▶ Was it “monetary policy”?
- ▶ What determined the size and timing of purchases?
- ▶ What determined the member states whose debt was purchased?
- ▶ Was there explicit or implicit conditionality involved?



A snapshot of the SMP (after its termination)



PRESS RELEASE

21 February 2013 - Details on securities holdings acquired under the Securities Markets Programme

The Governing Council of the European Central Bank (ECB) decided today to publish the Eurosystem's holdings of securities acquired under the Securities Markets Programme (SMP). This decision is in line with the envisaged transparency stance for the Outright Monetary Transactions (OMTs) as communicated on 6 September 2012, at which time the SMP was terminated.

To this end the following table shows the breakdown of the Eurosystem's SMP holdings as at 31 December 2012, per country of issuer, indicated at nominal value, book value and average remaining maturity.

Issuer country	Outstanding amounts		Average remaining maturity (in years)
	Nominal amount (EUR billion)	Book value ^[1] (EUR billion)	
Ireland	14.2	13.6	4.6
Greece	33.9	30.8	3.6
Spain	44.3	43.7	4.1
Italy	102.8	99.0	4.5
Portugal	22.8	21.6	3.9
Total	218.0	208.7	4.3

^[1]The SMP holdings are classified as held-to-maturity and consequently valued at amortised cost.



SMP: Government bond purchases with conditionality?

“Dear Prime Minister,

The Governing Council of the European Central Bank discussed on 4 August the situation in Italy’s government bond markets. The Governing Council considers that pressing action by the Italian authorities is essential to restore the confidence of investors. . . .

In view of the severity of the current financial market situation, we regard as crucial that all actions listed in section 1 and 2 above be taken as soon as possible with decree-laws, followed by Parliamentary ratification by end September 2011. A constitutional reform tightening fiscal rules would also be appropriate. . . .

We trust that the Government will take all the appropriate actions.”

(Letter by Mario Draghi and Jean-Claude Trichet sent to Silvio Berlusconi on August 5, 2011, as published by Italian press.)



The data: Official Gazette of the Hellenic Republic

ΑΔΑ: Β44ΥΗ-3ΜΝ

ΑΔΑ: Β44ΥΗ-3ΜΝ



ΕΛΛΗΝΙΚΗ ΔΗΜΟΚΡΑΤΙΑ
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ΓΕΝΙΚΟ ΛΟΓΙΣΤΗΡΙΟ ΤΟΥ ΚΡΑΤΟΣ
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ΚΑΙ ΠΡΟΫΠΟΛΟΓΙΣΜΟΥ
ΔΙΕΥΘΥΝΣΗ :23η Δημοσίου Χρέους
ΤΜΗΜΑ: Α'

Ταχ. Δ/ση : Πανεπιστημίου 37
Ταχ. Κώδικας : 101 65 Αθήνα

Αθήνα, 15 Φεβρουαρίου 2012
Αριθ. Πρωτ. 2/13203/0023Α

ΑΝΑΡΤΗΤΕΑ ΣΤΟ ΔΙΑΔΙΚΤΥΟ
(Πρόγραμμα Διαύγεια
N. 3861/2010)

Δημοσιεύθηκε στο ΦΕΚ 574 Β/2012

ΘΕΜΑ: «Απόφαση ανταλλαγής ομολόγων του Ελληνικού Δημοσίου».

ΑΠΟΦΑΣΗ
Ο ΥΠΟΥΡΓΟΣ ΟΙΚΟΝΟΜΙΚΩΝ

Έχοντας υπόψη:

- Τις διατάξεις του άρθρου 1 του ν.2187/94 «Ρύθμιση θεμάτων δημοσίου χρέους» (ΦΕΚ 16Α/8.2.1994).
- Τις διατάξεις των άρθρων 5 έως και 12 του ν.2198/1994 «Αύξηση αποδοχών δημοσίων υπαλλήλων εν γένει, σύναψη δανείων υπό του Ελληνικού Δημοσίου και δημιουργία στην Τράπεζα της Ελλάδος Συστήματος Παρακολούθησης Συναλλαγών επί τίτλων με λογιστική μορφή (δύοι τίτλοι)» (ΦΕΚ 43Α/22.3.1994).
- Τις διατάξεις των άρθρων 31 και 32 του ν.1914/90 «Εκσυγχρονισμός και ανάπτυξη του Δημοσίου ταμεία και της Κεφαλαιαγοράς, φορολογικές ρυθμίσεις και άλλες διατάξεις» (ΦΕΚ 178Α/17.12.1990).
- Τις διατάξεις του άρθρου 11 του ν.2459/1997 «Κατάργηση φορολογικών απαλλαγών και άλλες διατάξεις» (ΦΕΚ 17 Α' /18.2.1997), όπως τροποποιήθηκε με το άρθρο 9 του ν. 2579/98 (ΦΕΚ 31 Α/1998).
- Τις διατάξεις των άρθρων 90 & 91 του ν. 2362/1995 «Περί Δημοσίου Λογιστικού, ελέγχου των δαπανών του Κράτους κ.α.δ.» (ΦΕΚ 247 Α/1995) και του άρθρου 64 του παραπάνω νόμου, όπως τροποποιήθηκε και ισχύει με το άρθρο 38 του ν. 3871/2010 (ΦΕΚ 141 Α/2010).
- Την αριθμ. 2021180/2981/0023/31.3.1997 απόφαση του Υπουργού των Οικονομικών «Περί των δαπανών σύναψης, έκδοσης και εξυπηρέτησης κλπ. των δανείων του Δημοσίου» (ΦΕΚ 286Β/10.4.1997).
- Την αριθμ.2/4627/0023/25.01.2001 απόφαση του Υπουργού Οικονομικών «Καθορισμός όρων, τύπου και καμμένων των ομολόγων Ελληνικού Δημοσίου σε Ευρώ, σταθερού επιτοκίου (ΦΕΚ 370 Β/2001)».
- Την αριθ. 2/20187/0023Α/20-4-2004 (ΦΕΚ 670Β/10-5-2004) απόφαση του Υπουργού Οικονομικών «Καθορισμός γενικών όρων, τύπου και καμμένων των ομολόγων Ελληνικού Δημοσίου σε Ευρώ, κυμαινόμενου επιτοκίου».
- Τις αποφάσεις έκδοσης του Υπουργού Οικονομικών με αρ. πρωτ. 2/11184/0023Α/13-2-2009, 2/13482/0023Α/27-2-2009, 2/20947/0023Α/18-3-2008, 2/5004/0023Α/26-1-2009, 2/6276/0023Α/29-1-2010,

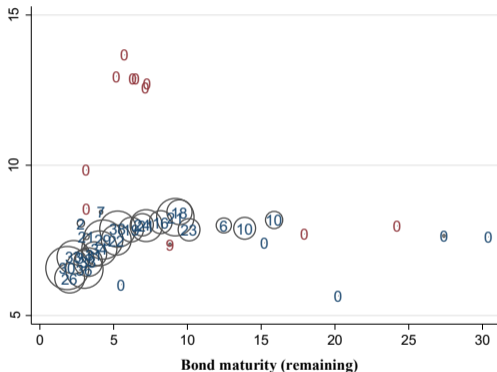
ISIN υπαρξάντων ομολόγων προς απώλωση	Ημερία πλήρωσης	Ημερία λήξης	Τοσοφ. μέγεθος	Ονομ. αξία ομολόγων προς απώλωση (€)
GB0011400123	17-2-2009	30-9-2012	4,30%	42.731.950.000,00
GB0011403047	2-7-2007	30-9-2012	4,10%	2.517.421.000,00
GB0011402148	26-7-2008	30-9-2013	4,00%	1.902.000.000,00
GB0011403249	26-7-2009	30-9-2014	5,30%	3.525.820.000,00
GB0011402345	2-2-2010	30-9-2012	6,10%	3.020.300.000,00
GB0011801269	9-9-2010	30-9-2013	5,90%	1.185.800.000,00
GB0013401835	13-12-2002	18-5-2012	3,25%	2.073.950.000,00
GB0012402152	17-7-2003	30-9-2011	4,60%	3.258.645.000,00
GB0012402258	3-7-2003	3-7-2013	3,90%	34.300.000,00
GB0012402450	13-1-2004	30-9-2014	4,50%	2.968.250.000,00
GB0012402599	1-9-2004	1-9-2014	4,90%	10.000.000,00
GB0012402601	27-5-2002	30-7-2013	3,70%	2.095.580.000,00
GB0012402623	18-1-2006	30-7-2016	3,60%	1.446.070.000,00
GB0012402629	17-1-2007	30-7-2017	4,30%	2.412.206.000,00
GB0012403043	13-5-2005	30-7-2011	4,60%	1.233.900.000,00
GB0012403160	11-3-2002	10-7-2010	6,00%	3.117.950.000,00
GB0012403269	11-3-2010	10-6-2020	6,25%	1.112.350.000,00
GB0013400134	30-5-1999	30-5-2013	7,50%	1.791.550.000,00
GB0012900259	11-1-1999	11-1-2014	6,50%	1.424.750.000,00
GB0013300140	22-10-1999	22-10-2019	6,30%	1.450.650.000,00
GB0013300215	24-4-2002	22-10-2022	5,90%	539.300.000,00
GB0013300180	20-9-2002	20-7-2024	4,10%	1.180.000.000,00
GB0013300411	10-11-2002	30-7-2024	5,30%	606.306.000,00
GB0013800163	7-3-2002	30-9-2017	4,50%	16.800.000,00
GB0512001356	11-2-2009	20-7-2011	6M Eurobar + 2,00%	121.278.000,00
GB0514011743	21-5-2009	21-5-2014	6M Eurobar + 1,30%	40.000.000,00
GB0513000215	4-4-2002	4-4-2011	6M Eurobar + 0,00%	48.000,000,00
110008627532	11-3-1999	11-3-2010	5,00%	17.117.000,00
XS0097596463	21-5-1999	21-5-2014	(float 4,00%)	1.000.000,00
XS0260034279	5-7-2008	5-7-2010	6M Eurobar + 0,00%	14.000.000,00
XS0373330520	11-4-2003	11-4-2010	6M Eurobar + 0,075%	22.500.000,00
Σύνολο				42.732.864.000,00

3. Για την πραγματοποίηση της ανταλλαγής εκδίδονται νέα ομόλογα, χωρίς άνωτατη αποκοπή τοκομεριδίων και ξεχωριστές τους διαπραγματεύσεις, με τους παρακάτω όρους:

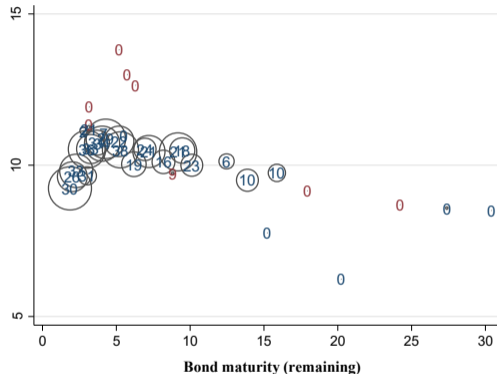
- Α) Ομόλογα με ημερομηνία έκδοσης 15.02.2012, ημερομηνία λήξης 20.03.2012, έναρξη 1^{ης} τοκοφόρου περιόδου 20.03.2011, ημερομηνία πληρωμής πρώτου τοκομεριδίου 20.03.2012 και ISIN GR0106004808. Κατά τα λοιπά ισχύουν οι όροι έκδοσης του ISIN GR0110021236 (Απόφαση Υπουργού Οικονομικών με αρ. πρωτ.2/11184/0023Α/13-2-2009).
- Β) Ομόλογα με ημερομηνία έκδοσης 15.02.2012, ημερομηνία λήξης 20.08.2012, έναρξη 1^{ης} τοκοφόρου περιόδου 20.08.2011, ημερομηνία πληρωμής πρώτου τοκομεριδίου 20.08.2012 και ISIN GR0106008629. Κατά τα λοιπά ισχύουν οι όροι έκδοσης του ISIN GR0114020457 (Απόφαση Υπουργού Οικονομικών με αρ. πρωτ. 2/13482/0023Α/27-2-2007).
- Γ) Ομόλογα με ημερομηνία έκδοσης 15.02.2012, ημερομηνία λήξης 20.08.2013, έναρξη 1^{ης} τοκοφόρου περιόδου 20.08.2011, ημερομηνία πληρωμής πρώτου τοκομεριδίου 20.08.2012 και ISIN GR0108007460.

The impact of purchases on bond yields: After most purchases

Panel B: Yield curve on May 17 (1 week after SMP start)



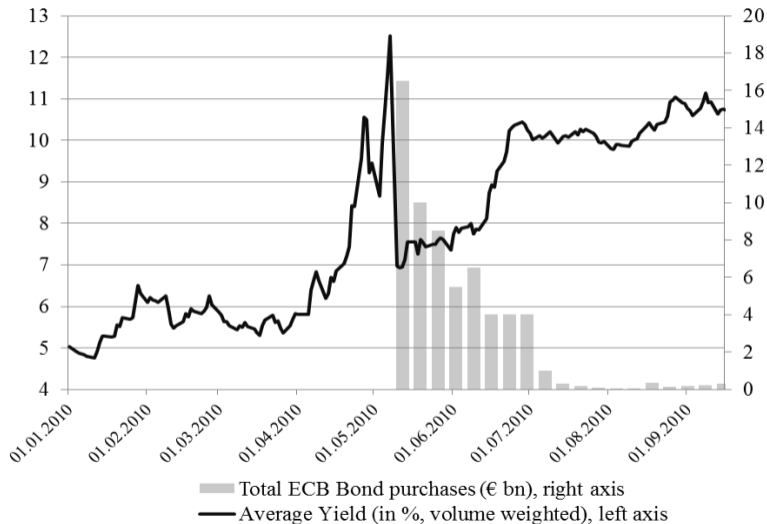
Panel C: Yield curve on July 5 (8 weeks after SMP start)



Reproduced from Figure 4. A notable partial reversal by week 8 of program.



Ultimately the program “failed” when purchases stopped



Reproduced from Figure 5.

The broader context: The SMP and the Troika program

- ▶ The SMP was just one component of larger scheme for Greek crisis.
- ▶ The ECB's "independent" SMP decision complemented negotiations taking place over many months between certain governments of the euro area and certain IMF officials.
- ▶ The SMP was, in effect, an integral part of the **Troika** program designed to deal with the Greek issue.
- ▶ Should the design, implementation and failure of the SMP be examined in isolation of the rest of the scheme?

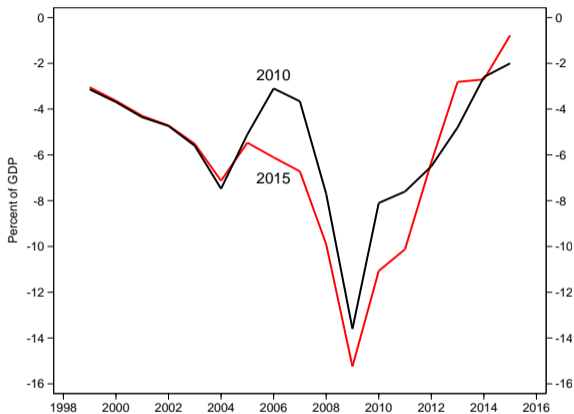


Timeline of the May 2010 Troika program for Greece

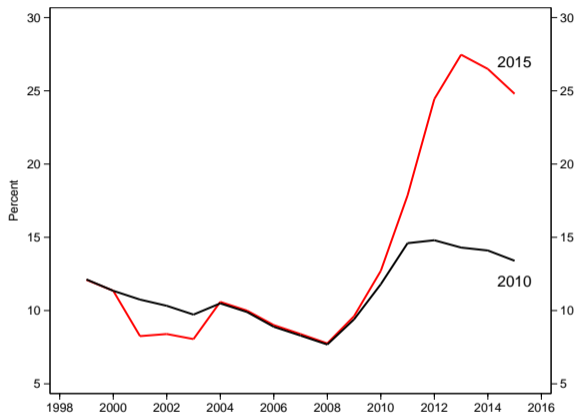
- ▶ May 8, 2010
 - ▶ Summit of the Heads of State or Government of the euro area: Finalized procedures to implement EU/IMF program for Greece.
- ▶ May 9, 2010
 - ▶ IMF: Approval of the Greek program
 - ▶ EU: Ecofin/Eurogroup announce establishment of EFSF.
 - ▶ ECB: SMP



The Original Sin of the euro crisis: 2010 program vs outcomes



Deficit

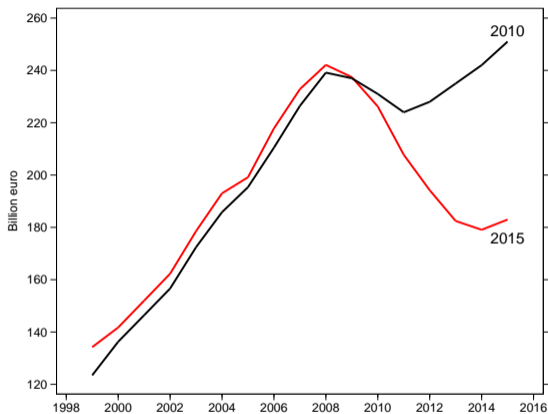


Unemployment

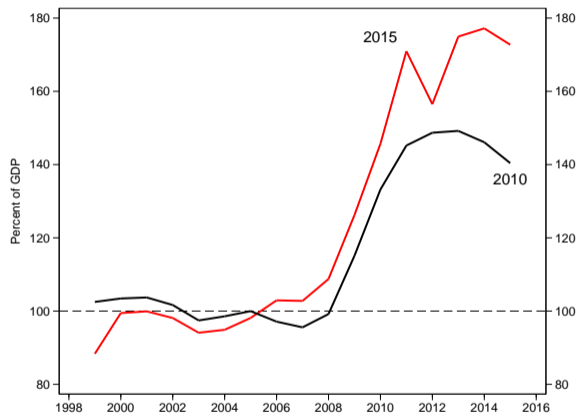
2010 series reflects estimates in program approved by IMF on 9 May 2010. 2015 series from April 2015 WEO.



The Original Sin of the euro crisis: 2010 program vs outcomes



Nominal GDP



Debt

2015 series for debt ratio includes effect of 2012 haircut



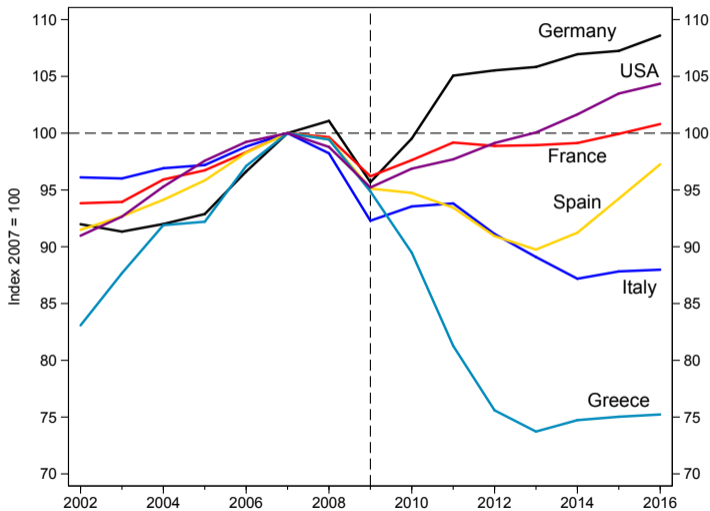
What was the Troika program about?

“It was about protecting German banks, but especially the French banks, from debt write offs”

(Karl Otto Pohl, Former Bundesbank President, Spiegel, May 18, 2010.)



Summary evaluation of Troika: Winners and losers



Real GDP per person, index, 2007=100. IMF WEO, October 2016.

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