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Greek exit from eurozone 'possible'

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By Ralph Atkins in Brussels

Greece's exit from the eurozone "would be possible," even if not in Europe's interest, and countries should have a democratic right to quit, according to a member of the ECB's governing council.

The comments from Luc Coene, the central bank governor of Belgium, in a Financial Times interview highlight how eurozone policy makers are losing patience with Athens after an inconclusive election threw into doubt Greece's commitment to reforms demanded under its international bailout.

Mario Draghi, president of the European Central Bank, has refused to even discuss the possibility of a country exiting the euro, which is not foreseen under European treaties. The ECB would suffer massive financial losses and damage to its credibility in the event of Greece's financial collapse: it has spent about €40bn acquiring Greek government bonds as part of support measures for the country.

However Mr Coene's remarks – echoing similar comments by other eurozone central bankers – hinted at swirling debate within the ECB's 23-strong council and suggested the ECB now realises such an outcome has become distinctly possible.

If Greece's banks became insolvent as a result of international financial support being withdrawn, the ECB would have no choice but to cut off emergency liquidity, Mr Coene warned. The decision on whether Greece stayed in the eurozone was for politicians, however. "It will be a political issue – where is the balance of solidarity – rather than a technical issue about whether the banks have been sufficiently recapitalised or not."

He said: "The ideal would be if all member states stayed in the club – that would be the best for everyone, even the Greeks. But, of course, if one member decides it no longer has a shared interest in being a member, you must allow them to get out – that is part of a democratic system."

In the past, ECB policy makers have warned a Greek exit could have disastrous consequences well beyond Greece's borders. "Divorce is never smooth," Mr Coene said. But he went on: "I guess an amicable divorce – if that was ever needed – would be possible but I would still regret it."

He suggested that government-constructed "firewalls", including the European Financial Stability Facility, would be "sufficient for the moment and I am quite confident that if circumstances showed that more was needed, more would be there."

Some economists have speculated that the ECB would continue to prop-up Greece's banks, even if international donors had pulled the plug. But Mr Coene said ECB approval for "emergency liquidity assistance" had to be withdrawn automatically if banks became insolvent. "It is emergency liquidity assistance – not solvency assistance," he said.

Uncertainty over Greece's future, as well as worries about the strength of Spain's financial system, have cast shadows over eurozone growth, threatening to push it deeper into recession. However Belgium, sometimes seen as a bellwether of eurozone prospects, has bucked the trend – growth data earlier this month showed growth resumed in the first quarter, lifted by the strength of neighbouring Germany.

Mr Coene insisted "we never pre-commit to anything" but hinted the ECB was still some way from taking further action to support economic prospects. Interest rates were earlier this month left at the record low of 1 per cent and the central bank is still monitoring the impact of more than €1tn in three year loans it has injected into the financial system.

Revised ECB forecasts to be published next month would show "maybe a slight deterioration in growth [compared with March's forecasts] but nothing dramatic or fundamental," he said.

He went on: "We cannot solve the fundamental problems. We can only buy time, and there is a limit to how much time you can buy. One of the lessons we have learnt is that low interest rates for too long create new problems."

Although, the ECB has not yet cut interest rates to zero, Mr Coene argued its liquidity offers were similar in effect to large scale asset purchase schemes launched by the US Federal Reserve and Bank of England. "I don't see a difference between what we are doing already and quantitative easing."

Asked whether that meant further offers of three-year ECB liquidity were possible, he said: "You can do a lot of things but if they have no effect, what is the usefulness of doing them? This is basically a crisis of confidence. Monetary policy cannot fundamentally change perceptions of confidence. The issues are about fiscal policy, growth prospects, the soundness of banking systems ... We cannot stimulate the economy as such."

François Hollande, France's new president, has called for the ECB to underwrite government debt, providing a backstop in the case of the crisis escalating.

But Mr Coene said the ECB's government bond buying programme should remain dormant. The programme had been activated last August to support the Italian bond market, he said, "and then [Silvio] Berlusconi, [then Italian prime minister] backed off [from] a number of promises he had made on reforms."