The ECB Collateral for Greece Must be Lowered to 5 percent

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According to reports, the ECB plans to reduce the "57 percent penalty," which is the discount applied to Greek government bonds (GGBs) it holds as collateral. The penalty has kept borrowing costs for all Greeks at astronomical rates and has frozen bank lending to households and small businesses.

Banks must dedicate 57 percent of their GGBs as collateral, in contrast to only 5 to 13 percent applied to Greece's credit peers, even to those with below investment-grade ratings. Even during the peak of the crisis, the ECB penalty on GGBs did not exceed 10 percent. However, the ECB hit Greece with a supposedly temporary "57 percent penalty" in December 2012 that was understood by most reasonable people to mean weeks, not nearly two years.

Greece is in an excellent position to win the 5 percent collateral rate, but the ECB needs to be educated on the actual creditworthiness of Greece. The 5 percent rate could cut borrowing costs in half, unleashing new lending to stimulate the economy. Credible independent estimates indicate the potential impact on job creation at 200,000 to 400,000 jobs in Greece over the next 24 months. This is a badly needed boost to the economy that no one should ignore. What will not create jobs is having Greece's leaders sell fear that the country needs debt relief.

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In addition to Greek citizens being burdened unjustifiably with the consequences of the "57 percent penalty," the country's flagship companies face borrowing costs that are 3 to 5 percentage points above those of their international competitors. These sky-high borrowing costs are a death knell.

The ECB penalty is not the only matter preventing job creation. The Greek government has the option of reporting its financial data according to International Public Sector Accounting Standards (IPSAS). In fact, other EU countries have made excellent progress in implementing IPSAS. Unfortunately, the status quo within Greece has stifled progress with IPSAS. Many concerned Greeks have encouraged the Greek government to implement IPSAS. There are smart and progressive individuals within Greece's leadership who are supporters of IPSAS; however, they have yet to gain sway.

Greece has a huge competitive advantage, which has been discussed only in the shadows. Specifically, Greece's public debt-to-GDP, when calculated correctly according to IPSAS, is one-third of its credit peers, and not the 175 percent so often repeated. To be clear, this does not mean that Greek government debt is not high, nor does it mean Greece should pile up more debt. What it means is that this competitive advantage must be communicated to the ECB so that Greece can win what it has rightfully earned: half the current borrowing costs and the release of funds for domestic lending. This ECB policy change is long overdue.

There are two pressing questions for Greeks now. Who among Greece's leaders will sell the country's huge competitive advantage and get a 5 percent rate on the ECB collateral? And who will win the respect and admiration for jump starting the economy with 200,000 to 400,000 new jobs?