

A GREEK ODYSSEY: IS A RE-CONVERSION TO THE DRACHMA FEASIBLE?

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A growing chorus has been espousing the view that Greece should not only default but also exit from the EuroZone in order to effect a steep depreciation of the new currency and return the country to a trajectory of growth and solvency. While there is no legal mechanism for an exit from the EuroZone, this strategy is gaining momentum as Greek debts mount, Gross Domestic Product contracts, Greece becomes insolvent and social unrest mounts.

Part of any decision is its feasibility. While an orderly re-conversion to the Drachma is not a feasible short-term strategy, it is viable in the medium-term. We provide herein a Blueprint for an Orderly Re-Conversion to the Drachma.

An increasing number of Greek nationals already have coalesced around the EuroZone exit scenario. Anecdotal evidence of local barter systems in Greece with “alternative currency units” suggests that Greeks are anticipating a sudden collapse of the Euro. Should this eventuality occur, clearly Greek citizens believe that these “alternative currency units” will fill the potential void in a national legal tender effecting payments resulting from a collapse of the Euro.

Any decision by the Greek government to re-introduce the Drachma will have to be executed with the dual objective of non-disruption of its national payments and securities settlements systems and ensuring stability of demand and productivity. A country’s payments and settlement systems are the cornerstone of its monetary and financial system and ensuring the stability and safety of this system is the building block of sound monetary and financial policy. If the Drachma is to be re-introduced, it has to be done in an orderly manner such that Greek payments and securities settlements systems are not destabilized.

A country’s currency is its medium of exchange for payments between buyers and sellers of goods, services and securities. While a payment is how a monetary instrument—cash, claims, securities—is transferred between buyer and seller to finalize a transaction, a country’s national payment and settlement system is the entire nexus of institutions, arrangements, processes and infrastructures that effect payments.

The January 1, 2002 conversion to the Euro by the original twelve European countries (including Greece) was seamless and orderly by virtue of years of planning, coordination and infrastructure and legal overhaul. Should a strategy of re-introduction of the Drachma be pursued by the Greek government, laws will have to be changed and the Greek payments and settlement systems will have to be re-engineered and in certain instances replaced by new infrastructure. This is not a process that can occur overnight without significant disruptions throughout the financial system. Years of planning, coordination, infrastructure change and testing will be required to ensure that the national payment and securities settlement systems are not disrupted in a re-conversion and the monetary and financial system functions in a stable and safe manner.

Given the necessity of maintaining a safe and stable monetary and financial system combined with the fact that any re-conversion to the Drachma entails time to change Greek laws and re-engineer the payments and securities settlements systems, we do not believe a *complete instantaneous* re-conversion to the Drachma in an orderly manner is a feasible short-term strategy. As a viable medium-term strategy

and abstracting from any discussion of repercussions to other EuroZone countries, we chart in what follows a course of action for an “Orderly Re-Conversion to the Drachma”.

A Blueprint for an Orderly Drachma Re-Conversion

(I) A National Re-Conversion Plan

The Greek government will have to draw up a national re-conversion plan with the aim of a stable orderly transition with minimal disruptions to the domestic economy while coordinating and monitoring all Drachma re-conversion activities and stakeholders. Some of the areas the plan should address are the following:

- Decrees establishing the Drachma Re-Conversion Date and Re-Conversion Rate and Rounding simultaneous with
 - Establishing structured efficient capital controls so as to stem capital flight while maintaining domestic productivity of capital
 - Establishing structured efficient restrictions and rules on select banking activities such as withdrawals so as to stem a run on the banks while maintaining domestic demand and consumption
- Decrees regarding legal tender in Greece during a transition period of dual circulation of the Drachma and the Euro (at the Re-Conversion Rate), including length of the transition period and pricing of goods and services
- Laws for continuity of contract law pertaining to both public and private contracts with a Drachma re-denomination/conversion of these contracts including all assets and liabilities of the public, financial and non-financial sectors
- Decrees for the Drachma re-denomination/conversion of all government securities, private sector securities, bank deposits, wages, pensions, social welfare, public sector budgets, taxes, national accounts and government financial operations
- New statutes for the Bank of Greece separating and withdrawing the Bank of Greece from the Eurosystem and the statutes of the European System of Central Banks and the European Central Bank
- Legal framework for the role of the Bank of Greece in the Drachma re-conversion including its role of oversight, coordination and support of the re-engineering of the various national payments and securities settlements systems, introducing and distributing Drachma notes and coins to the financial system and withdrawing Euros from circulation
- Establish roles and activities of all public and private stakeholders and their requisite coordination during the re-conversion
- Establish rules governing the re-engineering and testing of all national payments and securities infrastructure (clearing and settlement systems for cash, claims and securities) and their linkages to international payments, clearing and settlements systems
- Coordination of financial institutions, exchanges, retailers, manufacturers and service providers in the re-engineering and testing of their in-house systems and their linkages to the national infrastructure
- Establish Nostro/Vostro accounts using the Drachma

(II) Re-Engineering the Payments and Securities Settlements Systems

A country’s payments value chain is best visualized as a circular target with payment clearing systems in the center of the circle, banks/credit institutions on the first ring, business customers of

banks and credit institutions (providers of goods and services) on the second ring and consumers on the outermost ring.

A country's securities clearing and settlements systems can be envisioned in the same manner with the clearing and settlement systems at the core, the broker dealers on the first ring, and their clients on the outer ring.

A Drachma re-conversion requires the re-engineering of the payments value chain, as well as the country's securities clearing and settlements systems. To guarantee an orderly and stable re-conversion, significant testing must be carried out to ensure that all functions process correctly within each ring as well as in the handoffs between the various rings.

Greece's payments systems include cheque clearing and large value and small value electronic payments systems. Securities clearing and settlement systems exist for both government and private sector publicly traded securities. All these systems necessitate reconfiguration to manage clearing and settlements in the new currency. However, this process requires considerable programming and testing. Once this is complete, a series of parallel processing of the systems for Drachma and Euro will need to take place for a minimum of six to twelve months to ensure complete confidence in the operating system post re-conversion.