European Central Bank policy makers will discuss Greek bank aid on Wednesday in a chore that is getting more uncomfortable every week.

The Governing Council will meet in Frankfurt to debate whether to tighten rules on Greek access to Emergency Liquidity Assistance as the country veers toward default. At the same time, officials are well aware their decision could worsen the political crisis just as bailout talks show signs of progress.

ECB President Mario Draghi has repeatedly said politicians rather than unelected central bankers must decide Greece’s future, and council decisions will be based on rules such as the solvency of Greek banks and a prohibition on state financing. Even so, the wider implications of action are becoming harder to ignore, meaning officials might hold off for now.

“It’s very simple: the ECB doesn’t want to be the one that pulls the plug on Greece when political negotiations are still ongoing,” said Marco Valli, an economist at UniCredit SpA in Milan. “As long as there is the chance that Greece will remain solvent, that it might receive further European Union aid, then ELA can be given. Should this possibility disappear, then it will have to stop.”

ELA is provided by the Bank of Greece to replace deposit outflows at the country’s lenders, which have mounted as the government’s reluctance to commit to economic reforms blocks international aid payments.
Debt Rollovers

Without bailout cash, Greece risks defaulting on its debt. At the same time, the solvency of Greece’s government and the country’s banks is linked by the roughly 9 billion euros ($10 billion) of treasury bills that Greek lenders hold and regularly roll over.

The Governing Council, which reviews ELA weekly and can curb it with a two-thirds majority in a vote, has allowed it to rise roughly in line with the deposit outflow. The cap on the emergency cash available now stands at 80 billion euros.

Banks have enough collateral to stretch the ELA lifeline to about 95 billion euros under the terms currently allowed by the ECB. At the current rate of increase, that could mean they reach their limit by the end of June.

The crunch might come even earlier though, should the Governing Council decide to increase the discounts on the collateral posted by banks in return for ELA. If those so-called haircuts are increased to levels not seen since late last year, the maximum emergency liquidity available would drop to about 88 billion euros.

ELA Doubts

That could happen should policy makers decide that easier haircuts introduced at the end of 2014, when Greece’s return to markets seemed within reach, are no longer appropriate. As long ago as April 25, Bundesbank President Jens Weidmann said he had doubts about the provision of ELA.

Concerns that increasing the haircuts would pre-empt the political talks may stall any move this time around. European Union leaders will meet in Riga, Latvia, starting on May 21, though European Commission President Jean-Claude Juncker has ruled out a pact being reached at the summit.

Greek Finance Minister Yanis Varoufakis said on Monday that “we are very close” to an agreement, estimating it would take about one week. Eurogroup Chairman Jeroen Dijsselbloem said on Tuesday that progress is being made “cautiously.”

The risk of default may be focusing the minds of political leaders on both sides of the table, a shift that Draghi and his colleagues are likely to take into account.

“As long as negotiations are ongoing and taking place in good faith, the ECB doesn’t want to be the one pulling the straws,” said James Nixon, an economist at Oxford Economics Ltd. in London. “The ECB will continue to refer to political progress, increase ELA and keep collateral requirements unchanged. As soon as there are signs that political progress is becoming unhinged, the ECB’s stance would change immediately.”