

George A Provopoulos: Interview in *Süddeutsche Zeitung*

Interview with Mr George A Provopoulos, Governor of the Bank of Greece, in *Süddeutsche Zeitung*, conducted by Mr Alexander Hagelüken and Mr Markus Zydra, published on 31 January 2013.

* * *

Governor Provopoulos, there is still a lot of scepticism towards your country. Why should Europe's taxpayers give ever more money to Greece?

As a Greek citizen I thank the European taxpayers – 230 billion euros to Greece is a gigantic sum. Previously we implemented fiscal consolidation, but we did not adequately implement structural reforms. As it became evident that the program was off track, confidence declined. Therefore, I can understand the concerns of European taxpayers. But I can tell them: this time the Greek government is committed to deliver. The country is changing. European taxpayers will get their money back.

That sounds very optimistic.

Look, there has been a lot of progress. Here are just a few examples: Greece cut its fiscal deficit by nine percentage points compared to 2009. It cut the structural fiscal deficit – that is, excluding cyclical effects – by even more: 15 percentage points. These figures are unprecedented for any country at any time. Plus, by the end of this year, Greece will have fully regained the 32 percent loss in competitiveness (measured in terms of relative unit labor costs) that we suffered from 2001 to 2009.

But that's not the whole story. Greece hasn't fulfilled other promises.

That is true. In the past structural reforms were not properly or adequately implemented. That was a big mistake, because they were needed to generate growth. And we badly needed measures that could offset the contractionary effects of fiscal consolidation.

Some economists say: It's not about lower labor costs, the Greeks simply don't have products that can compete internationally.

That is not true! We have tourism, shipping, light industry, agriculture, sources of renewable energy and so on – plus our ports are uniquely placed to serve as transportation hubs for a much broader area. With our warm weather we could be a significant agricultural producer. Instead we import tomatoes from Northern Europe where the weather is like this (points out of the window). A major problem however was the steady erosion of competitiveness.

Do you really believe the politicians? It was you who testified before a parliamentary committee last year that you had warned the two previous governments that the crisis would come – but they didn't do anything.

True. When the financial crisis started in the USA, I believed that it would come across the ocean and hit countries with large imbalances, like Greece, the hardest. In January 2009, for example, I warned the political leadership that it was necessary to act because growth could not be sustained in light of the large fiscal and external imbalances. But since Greece had been growing at a rapid pace for many years, my warnings were not taken seriously into consideration.

...shoot the messenger...

Exactly, the messenger was not popular. Again, both before and immediately after the October 2009 election in Greece I warned that the deficit as a percent of GDP could explode to double-digit levels. But my warnings were ignored. Instead, government spending continued to increase.

Shocking enough. So why are you optimistic that Premier Samaras will act?

Greeks, including politicians, realize that this is the last chance for Greece. We are all wiser and determined to keep Greece in the euro. Prime Minister Samaras and the other leaders of the coalition government are delivering and will continue to deliver.

How is it to be the Greek in the ECB meetings? For nearly three years you had to ask for help nearly every four weeks...

In fact, we meet every two weeks. I will answer as to a psychiatrist (laughs). Because of the painful, but necessary adjustment measures that I advocate, some Greeks do not view me sympathetically. In Frankfurt, as the only person at the table from the country from which the euro crisis originated, the situation has, at times, been difficult, even though I forewarned my country on the dangers that we faced. I must add that my Governing Council colleagues have gone out of their way to support Greece throughout the crisis.

Still you try to be optimistic. Is that really founded? The Greek economy is set to contract more.

Although this will be a difficult year, I believe that the worst is over for Greece. I expect the economy to contract by about 4 percent this year, mainly as a result of additional fiscal measures. The crucial question is, will the mood brighten because of the progress and thus boost the economy? I believe that we have been taking – and will continue to take – the measures necessary to restore sustainable growth. Plus, the banking system is more efficient and more competitive...

...what did you do exactly?

The banks were recapitalized and restructured. About a year ago, the banking system was comprised of 17 banks. Within the next few months, there will only be three large banks and a few small ones. What had been a credit crunch, as banks deleveraged, is being reversed. Now confidence is returning.

How do you know that?

I'm proud that the Bank of Greece protected financial stability in difficult – even dramatic – times. No Greek has lost a single euro in his bank account. And now deposits are even coming back! Depositors emptied 87 billion euros from their accounts during the crisis, more than one third of the deposit base. They sent the funds abroad or hid them under their mattresses. Since June the funds are returning to the banking system. So far around 15 billion euros have returned. In December alone 6 billion euros returned in deposits.

Why did Greece's fiscal position become so difficult despite the programme?

The main reason for the deterioration of the debt dynamics was that we lost 20 percent of GDP since 2009. So if we are able to change the mood and boost confidence and growth, the debt dynamics will improve fast.

In 2010 you were also optimistic that, under the May 2010 adjustment program, Greece will get out of the crisis without help from outside.

After Greece started implementing the program in May of 2010, bond spreads halved the following months. That is why I was optimistic Greece would continue with the progress. But after the fall of 2010 a kind of reform fatigue set in. And then there was the talk about private sector involvement that eroded investors' confidence.

Was the debt restructuring a mistake?

What is a mistake in this situation? If investors fear to lose their money, confidence is lost. Had Greece followed through with reforms, fully implementing its program, and in the absence of talk about the restructuring of private sector debt, the debt restructuring for the private sector could have been avoided.

There was a criticism of you because you received a large severance payment after leaving your post in the bank Piraeus after only two years.

In early 2008 when I left that bank for the central bank, the situation in the banking sector was very different from the present situation. At that time, there was still extreme optimism. My payment was made in such a situation and was also stipulated under my contract. It was approved by all the relevant bodies, including the shareholders of my previous bank at their General Assembly. Let me also point out that the Greek banking sector at that time was strong and had not received any state aid. In most countries, including Ireland, Iceland, Spain and the US, the banking sector was the source of the crisis. In contrast to the situation in other countries, Greek banks did not hold toxic assets or excessive real estate loans. Moreover, their capital ratios were high and their loan to deposit ratios were low. In Greece, the banking system was hit by the sovereign crisis.

Do the business world and the rich people really do enough for your ailing country? There are countless cases of tax evasion.

Although tax evasion is a problem in many countries, in Greece we have had relatively more. That is why I repeatedly called upon past Greek governments to tackle the problem. Fortunately, the present coalition government is acting. As a central bank we are doing our part to contribute. In this regard, may I also point out that the Bank of Greece provided evidence that has been the basis of criminal proceedings in the judicial system involving money laundering.

Concerning tax evasion, the French submitted a list of Greek tax evaders that wasn't followed on in Greece.

This was most unfortunate. However, the Greek tax authorities are now taking the necessary actions. In this connection, they have asked banks to provide data of people who have moved money out of the country in order to investigate whether there has been tax evasion. We already see positive results from these actions.