Yannis Stournaras: Reforming and rebalancing the economy in Greece

Introduction by Mr Yannis Stournaras, Governor of the Bank of Greece, to the presentation of the European Bank for Reconstruction and Development (EBRD) Transition Report 2016-2017, Athens, 25 January 2017.

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It gives me great pleasure to welcome Artur Radziwill, Director for Country Economics and Policy of the EBRD, and his colleagues to the Bank of Greece.

As you are aware, the Bank of Greece has on several occasions provided the venue for the presentation of the Transition Report and for many other EBRD initiatives. It this vein, we endorse the activity and positive role of the EBRD in Greece, in particular during the last couple of years following the establishment of its local office. Its commitment to the country sends a strong signal to private sector investors that Greece is serious about reforming and rebalancing its economy.

The 2016 Transition Report is of particular relevance to Greece, since it deals exclusively with the important subject of inequality and economic inclusion. The Report focuses on a number of key aspects of inclusive growth: the distribution of income; the impact that the transition process has had on people's well-being and happiness; equality of opportunity; and financial inclusion. These aspects are topical for Greece. The economic adjustment programmes that have been implemented since 2010 in Greece aimed at addressing the twin deficits (i.e. fiscal and current account) and structural weaknesses from which the economy has suffered for decades. The achievements so far have been remarkable:

- Unprecedented fiscal consolidation. Over the period 2013–16, the primary deficit was eliminated and, for the first time since 2001, general government primary surpluses were recorded. Moreover, the improvement in the "structural" primary budget balance by more than 17 percentage points of potential GDP between 2009 and 2016 means that, taking the impact of the economic cycle into account, the fiscal adjustment in Greece was more than double the one achieved in other Member States under similar programmes.
- A recouping of the sizeable cumulative loss in labour cost competitiveness vis-à-vis our trading partners between 2000 and 2009.
- An elimination of the external deficit, which exceeded 15% of GDP in 2008.
- An increase in the share of exports from 19% of GDP in 2009 to 32% today.
- Structural reforms, notably in the labour market, but also in the product markets and in public administration.
- Recapitalisation and restructuring in the banking system, enabling it to withstand the crisis and the flight of deposits, and ensuring that it now has adequate capital, provisions and collateral, i.e. that the necessary (though not sufficient) conditions are in place for the banking system to address the major problem of non-performing loans.
- A halting of the increase (and even a slight decrease) in the volume of non-performing loans in the second and third quarters of 2016, for the first time since 2014.
- A rebound of the economy in the second and third quarters of 2016, making it reasonable to anticipate a positive growth rate for the year as a whole, for the first time since 2014.

These stabilisation policies in order to correct the unsustainable twin deficits inevitably came at an economic and social cost: even more recession, job and income losses. But as argued above, these sacrifices have not been wasted.

Greece is currently on the road to recovery. It is therefore more topical than ever that the reforms that will be put forward in order to keep Greece on the track of a new, extrovert growth model will also safeguard social cohesion. This is a prerequisite to ensure that reforms will be politically sustainable, a key finding of this Report.

The analysis of the 2016 Transition Report draws, inter alia, on the third round of the Life in Transition Survey (LiTS III), a household survey conducted by the EBRD and the World Bank. Crucially, the Life in Transition Survey also covered Greece, to which a whole chapter of the respective Report is dedicated. According to the Life in Transition Survey, the impact of the economic crisis on Greek households has been deep and widespread.

Lastly, the Bank of Greece has repeatedly underlined the importance of investment in the revival of the economy. Therefore, tackling successfully the obstacles Greek firms are currently facing in the business environment, according to the key findings of the Business Environment and Enterprise Performance Survey (BEEPS) for Greece, will induce investment, boosting in turn the economic prospects of Greece.

I am looking forward to today’s presentations and I am confident that they will contain many useful insights for Greece that will contribute to the constructive discussions on the way forward.