John Iannis Mourmouras: Introductory remarks at a meeting with members of the European Parliament's ECON Committee

Introductory remarks by Professor John Iannis Mourmouras, Deputy Governor of the Bank of Greece, at a meeting with members of the European Parliament's ECON Committee FAWG fact-finding mission (with an Appendix on the Greek economy), Athens, 27 June 2017.

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1. Introduction

Mr. Vice President of the European Parliament,

Mr. Chairman of the ECON Committee of the European Parliament,

Distinguished members of the European Parliament,

Advisors and other staff,

Kalimera,

Good morning to all of you,

I, an unelected official, am very delighted today to welcome a group of <u>elected</u> representatives of the European Parliament, the guardian of democratic accountability and a major pillar of the European Union governance system. Gleaning the latest news for prime examples of the European Parliament's influence and great contribution to current European affairs, the list is unlimited, I will name but a few such issues: from the successful abolition of roaming charges, to the Paris agreement, to Brexit, and even the latest developments in Turkey, I try to follow your actions as closely as I can, given my busy schedule.

At a global level, leaving behind us the second worst global financial crisis of the last century and its significant fallout around the world (economic stagnation, high levels of unemployment, a widespread risk of deflation, etc.) and, sooner or later, all the relevant policy responses including fiscal austerity and unconventional monetary policies, the world is growing faster and a new global economic policy agenda is taking shape, determined, among others, by the UK's decision to leave the European Union (Brexit), a differentiated policy framework in the US, the rebalancing of the Chinese economy, divergent monetary policies and a declining role of globalisation. Growth in the eurozone was more than twice faster in the first quarter of 2017 than in the US.

Of course, we meet at a fortunate moment for my country. We now have a completion of the second review, perhaps not the best one, but I consider the completion of it very important, because it can stabilise expectations and can trigger, as I am going to explain in a minute, a positive narrative for my country and mark a real turnaround.

Procedurally, I am going to offer a few introductory remarks, then perhaps the head of mission or the Vice President may like to say a word or two and then I am happy to answer your questions and have a productive discussion. Finally, we will take a group photo to send it to Governor Stournaras, who is away in Portugal for Bank commitments.

I have three messages to you, ladies and gentlemen, two on the upside, one on the downside.

Message#1: Getting Greece into ECB's QE is a feasible scenario and there is still time to get the benefits of it, as I am going to explain in a minute.

Message#2: The return to the markets is also within reach, subject to a number of qualifications, which I will refer to later on. This may imply the end of an era for Greece, the end of the Memorandums, as we know them today, but some sort of conditionality will be with us for many years ahead.

And Message#3: I am going to wear my professorial hat for the third message and underline a long-run risk for the country which is coming from the brain drain and the depreciation of human capital and the huge disinvestment over the last 8 years that took place in this country, namely I worry about the long-run growth prospects for my country.

2. Greek economic and financial outlook

2.1 Some initial remarks

Greece today is again at a crossroads, but this time may be different. Under some preconditions, which I will discuss later on, a case could be made for a strong turnaround of the economy. If the Greek authorities remain vigilant with no complacency (no delays, no back-tracking) and we ALL roll up our sleeves and stick to structural reforms and the privatisation agenda, and, on the other hand, our lenders, deliver on their promises about debt relief sooner rather than later, the 'pacta sunt servanda' principle that our President Pavlopoulos likes to remind all of us, should apply to both lenders and borrowers. Then, I'm quite optimistic that the return to European normality after the completion of the current programme in August next year is within reach.

2.2 Adjustment progress

The Greek economy's progress during the last eight years of adjustment has been unprecedented, both in terms of fiscal and external adjustment of more than 15 percentage points of GDP. The huge twin deficits turned into surpluses. Last year, the primary surplus was 4.2% of GDP, outperforming the target of 0.5%. The current account during the last two years had effectively been in balance from a 15% deficit eight years ago.

At the same time, sweeping structural reforms have been implemented, covering the pensions system, the health system, labour markets, product markets, the business environment, public administration, etc. Recapitalisation and restructuring have taken place in the banking system and significant institutional reforms have been initiated aiming at reducing the volume of NPLs. Moreover, there is evidence that the economy has been undergoing a rebalancing towards tradable, export-oriented sector: the share of exports of goods and services in GDP increased from 19% in 2009 to 28.2% in 2016, with most of the increase coming from exports of goods.

2.3 Recent economic and financial developments

See Appendix for an update on the macroeconomy and the banking sector.

3. BoG proposal - a mild debt relief exercise

See Appendix for details.

4. Major pending issues

Two quotes from the latest Eurogroup statement (15.06.2017):

i) "The Eurogroup stands ready to implement, without prejudice to the final DSA, extensions of the weighted average maturities (WAM) and a further deferral of EFSF interest and amortization by between 0 and 15 years. As agreed in May 2016, these measures shall not lead to additional costs for other beneficiary Member States".

ii) "In view of the ending of the current programme in August 2018, the Eurogroup commits to provide support for Greece's return to the market: the Eurogroup agrees that future disbursements should cater not only for the need to clear arrears, but also to further build up cash buffers to support investor's confidence and facilitate market access".

4.1 Getting Greece into QE

The person speaking before you was the first Greek economist to talk about the modalities and the benefits of getting Greece into ECB's QE programme, in October 2015 talking to international investors in New York, and the programme – let me remind you that the QE programme started in March 2015.

President Draghi, when asked about the eventuality of Greece's participation in the ECB's QE programme [on many occasions in fact, right after many Governing Council press conferences with Q&As, but also at his regular hearings before the European Parliament (his last hearing was on the 29th of May before your Committee), if I am not mistaken, he was also asked on this by Vice-President Papadimoulis], gave two preconditions: **1.** The full completion of the second review and stick with the implementation of the programme, and **2.** A DSA report by the ECB itself. Of course, the last precondition depends on the IMF's role and report due on the 27th of July (next month) (rumours say that this will be delayed after the German elections in September). However, we have something in our hands: the last Eurogroup statement, which sets out a roadmap for this, not very much in detail, but it is a step forward compared with the decisions taken on 25 May 2016.

I expect – sooner or later – perhaps sometime after the German elections, there is still time, that some sort of debt relief will be given to my country, along the lines of the Eurogroup statement of 15 June ("extension of maturities between 0 and 15 years"), here at the Bank of Greece, I just gave you the cut-off figure, 8.5 years according to our own DSA, which makes our debt sustainable and will be an enormous help for ECB President Draghi.

In terms of timing, when could all this happen, given that the QE programme officially ends in December this year? The crucial parameter here is 'tapering', which means that for the first six months or perhaps more in 2018, the ECB will keep buying government bonds, but at a diminishing rate (from €60, to €50, to €40 billion, etc.) and during this period, it could – provided that the above preconditions are met – include GGBs.

Why is it so important, you may say, to get Greece into QE? For one simple reason: because it is going to affect the cost of sovereign borrowing on capital markets. It is not so much the real demand issue, this is going to be around €3-4 billion, but it is <u>the signalling effect</u> that it is included in Draghi's umbrella and the best evidence for what I am saying is the next figure (see page 18) that shows the powerful <u>impact of signalling</u>.

[As you know,] the most powerful Roman after Julius Caesar and his three famous words "veni, vidi, vici" is President Draghi with his famous three words "whatever it takes" (to save the euro) announced in July 2012 in a speech in London, thereafter quantified with the announcement of the OMT programme in September of the same year, which resulted in a huge drop in Italian and Spanish yields as you can see from the following Figure (page 18). And you know how much money the ECB has spent for this?? **0€**!!

4.2 Return to international capital markets

There are two different issues here: one is a tentative return which may take place within this year, for instance, the recycling of the three-year bond issue of September 2014 or the reopening of the existing five-year bond issue which matures in 2019. For this, given the low interest rate environment and that Greece's future is now firmly secured within the eurozone and there is so much liquidity out there and the recent upgrade in Greece's ratings, this is something feasible, ladies and gentlemen. The government doesn't need QE for this, probably, or the medium-term debt-relief measures. This is useful, as you understand. And the current financial outlook in our sovereign bond market is favourable – it compares to the outlook of 2014, when Greece for the first time returned tentatively to international capital markets (see Appendix).

However, for a permanent return to the markets which would signal the end of an era for Greece, namely the end of adjustment programmes of this sort, and no need for a 4th Memorandum, which has various aspects and requires a number of small, steady positive steps, which might include a successful and timely completion of the third review, the full implementation of reforms and the privatisation agenda but, last but not least, as described in the last paragraph of the Eurogroup statement (15 June), which talks about the building up of cash buffers, or as it is also known a precautionary credit line, to facilitate market access during the first year after the end of the 3rd programme in August next year, to support investors' confidence. This amount of money is there, will be given to Greece as part of the third and final review of the current programme, and of course, quite plausibly, it will come with some sort of conditionality; not perhaps a 4th Memorandum per se, not perhaps with any involvement of the IMF, it will be a first for the ESM, but we have every confidence as Europeans in Klaus Regling and his excellent team that they will do a brilliant job.

Closing remarks

In closing, I would like to stress that Greece belongs to the core of Europe. Its future is within the eurozone, within the group of solidary countries, to the people of whom we, the Greeks are grateful for their financial support. Despite all these years of uncertainty and austerity, this is the overwhelming wish of the majority of the Greek people still today, within the core of Europe. This is our legacy as a nation that goes back to our history and our tradition and, more recently, expressed by a visionary Greek politician, a great European statesman, who stood above political parties, Konstantinos Karamanlis, who showed the Greek people the way forward, the European way.

I would now like to invite the Committee Chairman and head of this mission or the Vice President of the European Parliament to say a few words and then have a productive discussion with all of you on the Greek programme and beyond.

Thank you very much.

Appendix: The risks and prospects for the Greek Economy - June 2017