Yannis Stournaras: Lessons from the Greek sovereign debt crisis

Speech by Mr Yannis Stournaras, Governor of the Bank of Greece, in the context of his honorary recognition from the "Istituto Bruno Leoni" titled "Lessons from the Greek sovereign debt crisis", Athens, 7 November 2025.

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Ladies and gentlemen,

It is a great honour to receive recognition from the Istituto Bruno Leoni for the efforts undertaken by my country, Greece, to overcome the debt crisis. In two public roles, as Finance Minister from mid-2012 to mid-2014 and Central Bank Governor since then, I have sought to actively support this national effort, deeply rooted in the determination and aspirations of the Greek people, while at the same time safeguarding the independence of the Bank of Greece and Greece's participation in the eurozone. In my remarks today, I will offer a concise overview of how Greece entered the debt crisis, how it got out despite the gloomy forecasts of many market analysts, policymakers and academics who predicted Grexit twice, in 2012 and 2015, and the key lessons to be drawn from that experience. I will then outline the substantial progress achieved in recent years and the outlook for the Greek economy, before concluding with the lasting legacy of the crisis and the challenges that still lie ahead – both for Greece and for the eurozone more broadly.

1. What led to the Greek crisis

Following a strong and sustained nominal convergence effort in the 1990s, during which nominal interest rates fell by more than 15 percentage points, Greece experienced strong economic growth, low inflation and falling unemployment from 2000 to 2007, largely driven by rapid credit expansion and cheap borrowing, particularly after entry into the eurozone in 2001. However, structural weaknesses remained. The Maastricht criteria for participation in the eurozone focused mainly on nominal convergence – inflation, deficit, a falling debt ratio, interest rates and the exchange rate – but did not require deep and sustainable reforms in labour markets, product markets, the pension system and public administration to improve structural competitiveness and institutional capacity. As a result, while GDP per capita rose rapidly and approached the EU average, governance, productivity, pension system sustainability and structural competitiveness lagged behind, while the fiscal deficit remained almost twice as large as the reference value.

In fact, towards the end of the 2000s fiscal policy became overly expansionary, driven by the political cycle, while real wage growth exceeded productivity growth by a wide margin. The ensuing real exchange rate appreciation along with rapid economic growth led to a large current account deficit. The general government deficit in 2008 and 2009 jumped to 10% and 15% of GDP respectively, from 6% on average in the period 2000-2007. The public debt ratio rose to 128% of GDP in 2009 from 104% in 2007.

Hence, the Greek crisis did not start as a banking crisis as in other Member States, but as a fiscal crisis, which led to a current account crisis, a sovereign debt crisis and, eventually, a banking crisis through government bond losses, withdrawal of deposits and an explosion of non-performing loans (NPLs).

Crucially, Greece failed to use the favourable pre-crisis period to address persistent vulnerabilities. Public administration continued to be inefficient, tax evasion was widespread, the pension system remained unsustainable and the public debt ratio stayed constant but high, around 105% of GDP, before it soared in 2008 and 2009 to unsustainable levels.

When the sovereign debt crisis hit in 2010, Greece rapidly lost market access. Credit ratings were downgraded, bond yields surged and both the government and the banking sector were cut off from international funding. Depositors withdrew cash, real estate collateral values slumped and liquidity conditions deteriorated sharply.

Greece attempted to address the large fiscal and external imbalances in its first economic adjustment programme through rapid fiscal consolidation and reforms to achieve the necessary improvement in competitiveness in the absence of an exchange rate devaluation. Fiscal consolidation relied more on tax increases rather than spending cuts and pro-growth reforms. With the benefit of hindsight, reforms were rather poorly sequenced under the insistence of the "three institutions" (IMF, European Commission, ECB), targeting labour markets first and then product markets. As a result, nominal wages declined faster than prices, leading to falling real wages and collapsing household consumption, further exacerbating the recession. Banking sector fragility was aggravated by soaring NPLs; EU-level weaknesses further worsened the crisis as early EMU architecture lacked tools for crisis management; debt relief was delayed; and the sovereign-bank doom loop amplified instability – until decisive ECB intervention in mid-2012 finally stabilised conditions**.**

2. What was the effect of the economic adjustment programmes

In response to the sovereign debt crisis, Greece implemented three consecutive economic adjustment programmes from 2010 onwards, supported by the "three institutions" and its European partners. These programmes aimed at fiscal consolidation, structural reforms and banking system stabilisation to restore macroeconomic balance and regain market confidence.

The programmes achieved their major stabilisation goals: the primary fiscal deficit of 10.1% of GDP in 2009 turned into a primary surplus exceeding 4% of GDP by 2018, while the current account deficit fell by roughly 12 percentage points between 2009 and 2018. Comprehensive structural reforms were implemented in pensions, healthcare, labour markets, tax administration and public administration, improving long-term competitiveness and fiscal sustainability. At the same time, Greece began rebalancing its growth model toward exports and tradable activities.

The banking sector underwent deep restructuring. Extensive mergers and liquidations reduced the system to four systemic banks, now controlling over 95% of the market. The Bank of Greece played a pivotal role by ensuring monetary and financial stability, maintaining liquidity, securing uninterrupted cash availability nationwide and coordinating closely with the ECB and European supervisory authorities. Thanks to mechanisms such as the Hellenic Financial Stability Fund (HFSF) and the Hellenic

Asset Protection Scheme (HAPS "Hercules"), the NPL ratio was slashed from 49% in 2016 to 3.6% by mid-2025, while capital ratios, profitability and regulatory resilience all improved significantly. Capital controls were imposed in 2015-2019 to safeguard financial stability. In fact, not a single euro of deposits was lost, thus fully protecting financial stability, even during the difficult period when the majority of analysts, academics and certain policymakers predicted, or even recommended, Grexit.

However, the adjustment came at a substantial social and economic cost. The process relied more on tax increases rather than expenditure reforms or investment-friendly policies, and privatisation targets were largely unmet. The "three institutions" insisted on excessive and rapid fiscal adjustment and ignored its impact on growth, employment, social cohesion, tax revenue and the "snowball effect" (that is, the difference between the effective nominal interest rate on public debt and the nominal growth rate, a significant determinant of debt ratio dynamics). Between 2008 and 2016, Greece lost over one-quarter of its GDP, the unemployment rate surged by 16 percentage points, inequality and poverty indices soared, investment collapsed, and a massive brain drain occurred. Thus, while macroeconomic stabilisation and banking repair were ultimately successful, the cost in terms of lost output, social cohesion and long-term human and physical capital was immense.

3. Lessons learned from the Greek crisis

The Greek crisis offers several key lessons for economic policy, monetary union governance and crisis management.

First, political ownership and credibility matter. Populism, political polarisation and vested interests can hold back reforms and undermine economic recovery. Strong political leadership, institutional commitment and transparent policy frameworks enhance confidence among investors, households and international partners.

Second, fiscal and external imbalances must be addressed before they reach unsustainable levels. Reliance only on nominal convergence criteria, without structural reforms, can mask vulnerabilities and delay necessary adjustments. Countries joining a monetary union need to strengthen institutions, governance and structural competitiveness in parallel with fiscal convergence. Labour cost competitiveness is a necessary but not sufficient condition for structural competitiveness.

Third, the sequencing and design of structural reforms are crucial. Reforms that excessively depress wages or focus narrowly on one sector can exacerbate recessions. A balanced approach that combines fiscal consolidation with growth-enhancing structural measures and public investment is essential. Legislative and administrative capacity must be adequate to implement reforms efficiently and effectively.

Fourth, the banking sector requires careful oversight and timely interventions during crises. The failure to early manage NPLs prolonged the recession and weakened banks' capacity to finance the real economy. A systemic solution for distressed assets at the earliest possible stage, supported by an appropriate legal and institutional framework, is critical.

Fifth, the architecture of a monetary union matters for crisis resolution. The absence of effective risk-sharing mechanisms, crisis management tools and coordinated oversight within EMU amplified Greece's difficulties. Timely ECB intervention, the creation of the ESM, public debt restructuring and favourable refinancing conditions were essential to prevent a disorderly default and stabilise the system. Notably, Greece ultimately benefited from generous debt refinancing on very favourable terms, which created a favourable "snowball effect" by allowing the debt-to-GDP ratio to improve as the effective interest rate on public debt remained below GDP growth for extended periods. In addition, the ECB waiver ensured the smooth refinancing of the Greek banking system during the crisis years – a support that was no longer necessary once Greece regained investment-grade status.

Finally, crisis management requires both fiscal discipline and support for long-term growth. Greece's experience demonstrates that adjustment programmes can restore macroeconomic balance and improve competitiveness, but at a high social cost. Future policy programmes should balance fiscal targets with structural reforms and growth-oriented policies to minimise social hardship and shorten recovery periods. Public investment should be exempted from expenditure cuts, while the effects on the public debt ratio from the improvement in the primary balance of general government induced by fiscal measures should be considered along with the "snowball effect".

In sum, Greece's crisis underscores the need for robust institutions, both at home and in the EU, effective governance, prudent fiscal policies and comprehensive structural reforms. The combination of domestic weaknesses, institutional gaps, delayed reforms and external shocks created one of the most severe economic crises in history. Yet, the response through the adjustment programmes has restored macroeconomic and financial stability, fiscal sustainability and competitiveness, offering valuable lessons for both Greece and other member countries of monetary unions. In addition, Greece can be seen as the midwife of history: due to the Greek crisis, the eurozone and Europe created new institutions and obtained experience and the necessary mentality and attitude for crisis management, which proved useful later during the Covid-19 pandemic. Hopefully, it will continue to prove useful in the years ahead.

4. Progress, current state and outlook of the Greek economy, and policy priorities ahead

Greece has undergone a profound economic transformation in recent years, emerging as one of the euro area's strongest performers after over a decade of crisis and structural adjustment. Since 2019, Greek GDP growth has consistently outpaced the euro area average, bringing the country back to a path of convergence towards European income levels following many years of divergence. In the first half of 2025, real GDP grew by approximately 2% year-on-year – significantly above the euro area average – and the Bank of Greece expects comparable growth rates to be sustained through at least 2027.

Most importantly, this trajectory is not underpinned by short-term stimulus, but rather by strong fundamentals: solid public finances; resilient household consumption; a powerful rebound in investment supported by the RRF (Recovery and Resilience Facility); and exceptional export performance – particularly in tourism, logistics, digital services and innovation-intensive sectors. Meanwhile, the labour market has strengthened, with unemployment falling to single-digit levels for the first time since the beginning of the crisis and labour force participation rising, while export reach is extending beyond tourism towards high-value-added manufacturing goods. Rising disposable incomes and a marked decline in inequality, poverty and social exclusion indices between 2019 and 2023 demonstrate that the recovery is now translating into social welfare gains as well, rather than just macroeconomic ones.

Macroeconomic governance has been instrumental in rebuilding international confidence. Greece continues to deliver robust primary and overall budget surpluses without reverting to restrictive fiscal policy measures, but instead supported by disciplined public finances, improved tax administration and a forceful crackdown on tax evasion. Public debt is firmly declining as a percentage of GDP, driven by strong nominal GDP growth and favourable debt service conditions. Sound fiscal policies have created space for targeted tax relief, protection of vulnerable households and investment in digital, green and infrastructure priorities – all while remaining fully aligned with the EU fiscal rules. International rating agencies have responded with sovereign and banking upgrades, helping to attract renewed foreign capital into Greek assets.

However, the external environment remains fragile. Geopolitical instability, protectionist pressures, financial fragmentation, major climate disruption, and energy volatility are sources of considerable downside risks. At home, certain legacy issues from the crisis, such as private debt, lower capital stock and labour force, a persistent investment gap, as well as demographic pressures, low female and youth labour force participation, and delays in judicial and administrative reforms, remain unresolved, while housing costs continue to impose a growing burden on households.

Against this background, Greece has shifted its focus from recovery to "strategic acceleration". Its central economic objective is now to secure long-term real convergence with the euro area without recreating past macroeconomic imbalances. Achieving this requires closing the remaining investment gap and sustaining productivity gains by efficiently mobilising and allocating domestic resources, EU structural and RRF funds as well as foreign direct investment (FDI), especially in sectors producing internationally traded goods and services, in a world increasingly shaped by technological progress and geopolitical competition.

Macroeconomic, fiscal and financial stability must remain the linchpin. Strict adherence to EU rules and accelerated debt reduction, including early repayment of the Greek Loan Facility (GLF), will be essential to preserve credibility. But stability is not enough. Fiscal strategy needs to become intrinsically pro-growth, redirecting spending towards infrastructure, education, innovation and demographic support, while modernising the tax system to reinforce competitiveness and fairness.

The decisive battleground is investment mobilisation. RRF deployment must be fast and effective, but external funding alone is insufficient. Private capital must be aggressively attracted through faster licensing, capital market deepening and non-bank finance development – while private savings should be rebuilt through the enhancement of the third, fully funded, pillar of the pension system, the provision of incentives for closing the insurance gap for natural catastrophes and improvements in financial literacy.

Finally, Greece must view the green and digital transitions not as obligations but as strategic competitiveness opportunities. Accelerated investment in renewables, grid capacity, interconnections, AI readiness and circular economy innovation is essential – as is a housing policy shift from subsidies to structural supply-side reform.

If policy consistency, institutional credibility and reform momentum are maintained, Greece is positioned not merely to sustain recovery but to graduate into a phase of permanently higher investment ratio, productivity growth and economic resilience.

5. Concluding remarks: The EU/EMU lessons from the Greek crisis

The Greek crisis showcased the vital need for fiscal discipline and debt sustainability in the euro area. It also highlighted that structural rigidities must be addressed to boost productivity and investment. Greece's experience underscores the importance of innovation, high-tech transition, efficient use of EU funds and FDI, deeper capital markets and secure, affordable energy to enhance long-term competitiveness and resilience.

However, while Greece and other Member States must remain fully committed to structural reforms, a purely national strategy is no longer sufficient. The global environment has shifted dramatically in just a few years, with rising geopolitical fragmentation, armed conflicts, trade tensions, tariffs and intensifying technological rivalry among major powers. Europe as a whole now confronts a broad set of challenges, not only economic but also technological, environmental, energy- and security-related. It is increasingly clear that a coherent European-wide strategy is required, in line with the strategic thinking reflected in recent high-level reports such as the Letta report on deepening the Single Market and eliminating the still large internal barriers to trade in goods and services, as well as the Draghi report on Europe's investment needs, productivity and competitiveness. Only through coordinated joint action can the EU hope to close productivity and innovation gaps, reinforce resilience and preserve its strategic autonomy.

In this regard, recent EU initiatives such as the ReArm Europe Plan and Readiness 2030, as well as the European Commission's Competitiveness Compass and Clean Industry Pact, signal a major policy shift towards a stronger, forward-looking industrial and strategic posture, which seek to incentivise investment in new technologies and innovation. These initiatives support deeper market integration and stimulate large-scale investment in critical technologies and infrastructure, thereby increasing resilience to external shocks. Completing the banking union – especially through the establishment of a European deposit insurance scheme – and launching a true savings and investment union would significantly reduce financial fragmentation. Building on the success of NextGenerationEU, the issuance of a permanent common EU safe asset such as a Eurobond, could catalyse cross-border investment, strengthen the international role of the euro and decisively enhance Europe's long-term competitiveness.