

THE GREEK ECONOMY: CURRENT DEVELOPMENTS AND FUTURE PROSPECTS

Chris Allen: Thessaloniki Summit Intervention

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1. The ESM Programme

- Greece urgently needs stability and economic growth after 6 years of difficult adjustment. Last August, an ambitious three-year ESM programme was agreed. It is designed to move Greece back to fiscal stability and towards a sustainable economic growth path.
- The four pillars of the programme are:
 - A stabilising fiscal package that is pre-legislated in order to build credibility and avoid commitment fatigue.
 - The recapitalisation of the banking system and other measures to safeguard financial stability
 - A package of structural measures to stimulate growth, competitiveness and investment
 - A series of actions to create a modern State and public administration
- Success requires full government commitment and ownership. The timely implementation of all the pillars of the programme is needed order to gain the confidence of domestic and international investors.
- We have to acknowledge that government has strengthened its capacity for implementation through a new programme management structure introduced in September 2015. The structure separates the work of the negotiating team, essentially the Ministers of Finance and Labour, from the programme implementation team based in Cabinet office. This new - more focussed - structure has worked well and has assisted greatly in improving implementation.

2. Steady progress on implementation since August last year

- In fact, there has been steady progress in programme implementation since August last year.
- First review was very ambitious and was concluded in June. The package of measures included:
 - Front-loaded fiscal package worth 3% of GDP to deliver the programme targets, including a primary surplus target of 3.5% by 2018. The package included a major reform of pension system worth 1% of GDP, an income tax reform worth another 1% of GDP, and a series of other expenditure and tax measures amounting to an additional 1% of GDP.

- Key structural measures were implemented including setting up an independent Revenue agency and a Privatisation fund, measures to improve the autonomy of Hellenic Competition Commission and the depoliticisation of Secretary Generals in civil service, and a series of improvements to the business environment and competition.
- Following the review, a further package of measures (called a "Milestone") has just been completed and approved by the Eurogroup last Monday. The milestones included key steps towards the opening up the gas and electricity markets, moving forward on the Privatisation fund and a number of privatisation projects, and establishing the budget and staffing for the Revenue agency.

3. Macroeconomic situation slowly improving

- Our assessment now is that the macroeconomic situation is slowly improving. Conjunctural indicators look favourable for a recovery, after small positive 0.2% q-on-q growth in Q2. We expect positive growth in the second half of this year, accelerating into next year.
- Programme implementation is supporting the recovery
 - Credibility of programme slowly being established, as witnessed directly by some recovery in bank deposits
 - The programme carefully planned a phase-in of measures to support demand
 - An arrears clearance programme of some 2% of GDP is supporting the economy: €1.8 billion in June followed by €1.7 billion in October (once it is clear that arrears have been sustainably reduced).
- Nevertheless of course there are some downside risks to growth, not least from the external environment

4. Challenges for Second Review

- In our view, it is essential to close the Second Review as soon as possible, if possible before the end of the year.
 - The rollout of the GMI/SSI programme that will provide for the first time for a social welfare safety net for Greece. Financing the rollout will include needing to find resources from Expenditure reviews and the Social welfare review.
 - Tackling NPLs, through a workable Out-of-court workout scheme and through reforms to the Corporate Insolvency Code
 - Establishment of the privatisation and investment fund and progress on privatisation

- Labour market reform in line with best European practices and liberalisation of regulated professions
- Further steps to modernise the business environment and public administration

5. Next steps: attracting investment and growth

- As reflected in the priorities of the review, attention now needs to focus on advancing structural reforms to stimulate investment and growth.
- Domestic investors seem to slowly be realising that Greece is returning to stability. It is less clear that international investors have got the message yet. To attract such investors, further steps forward are necessary on structural reforms.
- Essential for the government to develop a growth strategy with the business community that sets out a vision with concrete reforms for the next 2-3 years.
 - Further improvements are needed to the business environment and to increase competition to reverse the low level of private investment- currently only at 11% of GDP.
 - New investment in logistics, energy and tourism sectors must be stimulated through though opening markets, favourable regulation, and by mobilising privatisation assets, especially land. These are all areas in which Greece has important competitive advantages.
 - The long-term unemployed need to be quickly integrated into the workforce through active labour market policies and the availability of vocational education and training.
 - Progress on NPL resolution is needed to open the door to improved access to finance and risk capital
 - Action plans are needed for key industries such as ICT, pharmaceuticals and agro-food to stimulate growth and investment. In particular, a rapid catch up of Greece in IT, including broadband investment and creation of a digital market
 - Finally, there is a need to improve the capacity of the public sector and the judicial system to support growth
- This list contains important opportunities, as well as challenges. We are confident however that Greece can and will deliver on them.

Annex: Details of the session

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Greece's achievements during the difficult years of economic adjustment and on the current developments in the Greek economy and the sustainability of the Greek debt, highlighting future challenges and prospects.

MODERATOR: Paschos Mandravelis, Journalist, KATHIMERINI

Evangelos Venizelos, former Deputy Prime Minister, Greece

Chris Allen, Commission Resident in Athens, European Commission

Christos Staikouras, former Alternate Minister of Finance, Greece

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