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The Greek Economy: Current State, Challenges and Prospects

I want to thank "The Economist" for inviting me to address this high level Conference and put forward some thoughts regarding the *current* state of the Greek economy, but also its challenges and prospects.

Ladies and Gentlemen,
Greece has exited the financial support programs, and now relies, *mainly*, on capital markets to capture its financing needs.
To date, the cost of funding is *high and extremely volatile*.
The non-issuance of new GGBs since February is due to a number of endogenous and exogenous factors.
Going forward, the external environment is *complex*, *full of uncertainties*:

- Political instability in some Eurozone member states.
- Exploration of new architecture in European sub-systems.
- *Adverse* demographic trends and *high* long-term and youth unemployment.
- Gradually, *more* restrictive monetary policy.
- *High* public and private debt.
- *Possible* increase in international oil prices.
- Escalation of trade tensions between major economies.
- *Rapid* technological developments.
- The implications of climate change.

Within this *fragile* external environment, the country is trying, *without* a coherent growth plan, to stabilize at a new equilibrium point, covering the "ground" that was lost in the last 4 years.
But where we stand at the moment?

Austerity policies are sustained, high fiscal targets are maintained, and the enhanced surveillance mechanism has been activated, for the first time in Europe.

The *necessary* prerequisites for *sustainable* access to capital markets were not created, with *adverse* effects on real economy, enterprises and financial institutions.

Fiscal over-performance, due to *excessive* taxation on households and enterprises and *expenditure* under-spending, mainly on PIB, undermines the country's growth prospects.
Indeed, the economy is expanding at an *anemic* pace, *below* its *initial* estimates and forecasts.

Return to normality remains *pending*:

- Competitiveness is deteriorating.
- The quality of governance is downgraded.

- Capital controls still exist.
- Deposits are not returning – in a substantial way – to the banking system.
- Credit shrinking is continuing.
- Banking system challenges, mainly reducing *substantially* NPEs and improving organic profitability, have not yet been successfully addressed.
- Private sector debt has skyrocketed.
- State arrears are not cleared.
- Stock market has collapsed.
- The liquidity of significant public entities is deteriorating.
- And the wage bill grows, although – according to ILO – wages declined.

Ladies and Gentlemen,

This is where we stand at the moment, according to our point of view.

What is needed, *moving forward*, is the implementation of a *coherent, outward-looking* economic plan:

- that will enhance the quantity and improve the composition and the quality of domestic product,
- that will improve productivity, structural competitiveness and extroversion,
- that will reverse "brain drain" and "business drain",
- that will respond *effectively* to the "structural labor transformation", due to technological revolution.

The *main* pillars of this plan should be:

1st Pillar: The simplification of the tax regime and the *overall* reduction of tax rates and social security contributions on households and enterprises (i.e. the uniform reduction of social security contributions, the upfront reduction of corporate interest and dividend tax, the reduction of introductory personal income tax rate, the reduction of VAT on catering etc.).

2nd Pillar: The *implementation* of structural reforms. Among others by:

- Simplifying the licensing and white-collar procedures.
- Improving the spatial and urban planning framework.
- Promoting privatizations and exploiting public property.
- Unblocking emblematic investment projects, like Hellenikon.
- Restructuring the energy market.
- Creating an efficient and productive public sector.
- Accelerating judicial system processes.
- Investing in endogenous growth sources, like education, research and innovation.

A *broad* and *bold* constitutional amendment proposal, including the aforementioned critical fields, could safeguard the implementation of these reforms.

3rd Pillar: The enhancement of liquidity in the real economy.

Through:

- the exploitation of European financing tools,
- the execution of PIB,
- the clearance of state arrears,
- the abolishment of capital controls, and
- the *gradual* stimulation of credit expansion.

Given the intensity and the extent of the NPEs' problem, proposals by European institutions, initiatives by supervisory bodies and actions by banks should be considered by each stakeholder in the framework of a cost-benefit analysis for the Greek economy, for taxpayers, for depositors and for credit institutions.

4th Pillar: Strengthening entrepreneurship.
The State will create a *safe*, *stable* and *friendly* business environment.
And businesses will fully adopt corporate governance tools and demonstrate *enhanced* corporate social responsibility.

The implementation of this plan will lead to an *upward* spiral, achieving high and sustainable growth, creating quality jobs and enhancing social cohesion.
Undoubtedly, Greece has gone a long way, over the last 8 years.
It has resolved its twin-deficit problem.
According to the OECD, it has implemented a large scale of structural reforms.
It runs a significant privatization programme, with the regional airports and OTE being success stories.
Thus, we invite you to invest in Greece.
Even now.
Opportunities exist.
And it's up to the next Nea Demokratia government to reconstruct, on a *modern* basis, the country, guaranteeing a stable and pro-investment environment.
Thank you for your attention.