Remarks by Peter Dohlman, IMF
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Thank you for inviting me to provide the IMF's views on Greece's return to markets and the outlook.

There are signs that financial markets are now placing more trust in Greek prospects. These include the recent strong stock market performance, falling sovereign bond yields, recent sovereign issuances, full repayment of bank emergency liquidity assistance (ELA), and the recent Tier II bank bonds.

So what is driving this improvement in market access? Probably a recognition of Greece's substantial fiscal adjustment in combination with several rounds of debt relief and the government's large cash buffer at program exit. It also may reflect the modest return of growth and higher employment, and perhaps an expectation that macro and financial conditions could continue to improve. The reduction of political uncertainty has likely contributed, with elections now in the rear-view mirror, as well as external indications that monetary policy may remain accommodative for longer.

But despite this improvement in financial markets, Greek citizens are arguably not feeling much improvement in their daily lives and the conditions for sustained, long-term market access are not yet clearly in place. To understand this, let me say a few words on how the IMF sees Greece today:

First, the Greek economic recovery is much too weak for a country that experienced such a huge fall in income. Unemployment remains unacceptably high – the highest in the Euro Area. The risk of poverty remains significant, and Greek consumers continue to overpay for services. Labor and product market policies are too rigid. At the current projected pace, it will take more than a decade for Greece to go back to where income was before the crisis.

Second, the fiscal policy mix is weak. It does not sufficiently support growth or provide an effective social safety net.

Third, banks remain, for the most part, a missing engine of growth. NPLs are the highest in the Euro Area and credit has been falling steadily for 10 years.

Fourth, public debt remains the highest in the euro area. Large sums currently owed to official creditors under concessional terms will eventually need to be replaced by financing at market rate terms. In addition, consumers and businesses alike are saddled with debt. Securing higher growth will be crucial for debt sustainability.

So what, in the IMF's view, is needed for Greece to thrive in the Euro Area and for citizens to benefit from it? We see five inter-related priorities to achieve the goal of higher, more socially inclusive growth.

First, Greece needs a better fiscal policy mix. Priorities include lower direct tax rates, higher investment and non-pension social spending, and securing a broader tax base backed by better payment compliance and enforcement. This will help support growth, reduce the risk of poverty, and enhance social cohesion needed to undertake deeper structural reforms.

Second, more labor market flexibility is needed to support continued job creation and wage setting aligned with firm-level productivity growth and restructuring needs.

Third, the business environment needs to be significantly strengthened. In many cross-country business environment and opinion surveys, Greece currently ranks at or near the bottom among Euro Area countries. Strong vested interests have blocked significant change for many years. There is a large amount to be done to reduce red tape and to turn the public sector and judicial system from a barrier to an enabler of business.

A fourth priority is to restore growth-friendly bank lending. Greece needs a more comprehensive and well-coordinated strategy in the banking sector that involves all key stakeholders, aiming to restore the flow of credit and mitigate financial and fiscal stability risks.

Finally, Greece must address acute demographic challenges. According to the EU Aging Report, the working-age population in Greece is expected to shrink by close to 40 percent over the next 50 years. Greece needs to support a thriving private sector that creates good, higher-paying jobs, that includes more women in the labor force and that attracts back emigrants.

So what is the bottom line? The bottom line is that a reality check is in order – Greece needs a significant renewed and sustained reform effort on multiple inter-related fronts to close the significant gaps with the rest of the Eurozone and to accelerate growth. Only then will Greek citizens start to see a more material and sustained improvement in their living conditions and see sustained improvements in market conditions. The IMF looks forward to advising the new government in addressing these challenges.