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Greece, the so-called PIGS, the eurozone and the mysteries of the universe. A round-table discussion on the Greek crisis, with Vassilis Monastiriotis (LSE), Paul Mylonas (National Bank of Greece), Brian Coulton (Fitch), David Mackie (JP Morgan) and Mats Persson (Open Europe). Held on Monday, March 8, 2010 at Innholders Hall, 30 College Street, London EC4R 2RH, from 12:30-2:15pm

A large group of attendees gathered to discuss the difficulties facing Greece, possible outcomes and the implications for the rest of the eurozone. From early on in the discussion it became clear that there were some real differences in opinion as to whether the current situation in Greece was a Greek problem or a eurozone problem.

One speaker began by reviewing the recent chronology of events in Greece and, in particular, pointed to two budget shocks in the second half of 2009. First, as a service economy, he noted that the recession hit Greece somewhat later than the rest of the EU and second, the fiscal impact of the new government putting through what he referred to as a 'kitchen sink' budget. The outcome was an increase in the deficit by 2%.

The speaker went on to say that perhaps there had been some dissembling on the part of the government or, possibly, it had been caught off guard but the slowness of the initial response led to increased market focus on Greece. When the government finally put together a package to deal with the crisis, the initial indication from Brussels was positive but then it reversed its opinion. This led to a skyrocketing in spreads and, he felt, a bigger game of sovereign risk being played out. He said that Brussels should have said up front that more needed to be done. The speaker then went on to point out some of the short-term hurdles that would have to be overcome in the next few months. Some €20bn needed to be raised in April through 3-4 auctions and the speaker felt that would be done (though it would be expensive) without European help. Revenue and expenditure targets would also have to be met as promised and the eligibility of Greek government bonds held as collateral at the ECB (criteria loosened during the recession and due for review at the end of 2010) highlighted the potential impact of further rating down-grades.

The implications of the ECB review and possible further downgrades were, he claimed, more important for other European countries than for Greece. Both Spain and Germany held a lot of the Greek sovereign bonds at the ECB. Of the €300bn in Greek government debt, about €40bn was held by Greek banks.

The outcome by the end of 2011 had to be credible. All the panellists agreed that stronger fiscal plans were needed. One speaker felt there would be a lot of volatility going forward. The question remained as to whether the government would have the nerve to handle the social response that the necessary reforms would provoke. Another member of the panel noted that Greece had failed to make improvements in the public finances even when times were good and had been running large deficits pre-recession.

The overall outlook of the panel was, however, cautiously optimistic. Most of them felt that Greece would not default and would muddle through. One of the speakers believed that the current crisis provided a real opportunity to remodel the public sector and to make the Greek economy more competitive. With a fresh mandate and a large majority in parliament, he felt that the government should be able to make the necessary changes.

A speaker noted that there were some important differences in Greece compared with the other European countries. The private sector carried less debt than elsewhere (and had amongst the lowest debt levels in the OECD), there had not been a housing bubble and the banking sector was in pretty good shape. Another panellist pointed out that the debt structure in Greece was relatively favourable – most debt was medium-term and so there was no instantaneous feedback on the budget.

Addressing the high levels of tax evasion in Greece was a priority. One of the speakers felt that there were a number of effective measures that could be adopted, such as naming and shaming, improving the standard of tax collectors, using targeted groups as examples (i.e. audit doctors) and getting rid of bank secrecy laws so that the IRS could examine accounts. He noted that approximately half of the Greek workforce was self-employed, boosting tax evasion and creating additional incentives to be self-employed.

Pension reform, an issue highlighted by most of the speakers as one of the most pressing issues in Greece, would have to be addressed. One panellist claimed that the Greek government had no credibility on this issue whatsoever.

One comment – which set out a primary area of disagreement – emphasised that the crisis in Greece did not represent a problem of public finances but a loss of competitiveness due to the euro. In essence only two thirds of what would constitute a typical IMF adjustment package could be implemented as the currency could not depreciate. The only option, therefore, was increased transfers.

One member of the panel, who felt that the current crisis did represent a Greek problem, argued that the most desirable outcome for the EU would be no bailout. If necessary Greece could go to the IMF, as it would not get a blank cheque from Germany and was not likely to accept conditionality from another EU state. He also noted that there was a real lack of clarity on the ‘no bailout’ clause in the European treaty, an issue raised by a few members of the panel. Another speaker, agreeing that this was a fiscal issue, said that the EMU needed to look at other ways to re-establish fiscal discipline as peer pressure, via the stability pact, clearly had not worked. He wondered whether there was a need for some type of painful, but credible, ultimate sanction

The notion of a European Monetary Fund was discussed and a number of panellists felt that the necessary treaty changes would be very difficult to achieve. One speaker doubted that there was a mandate for the strict conditionality needed for such an institution and was concerned about the possible political backlash in member states. As for the question raised about whether a country could leave the eurozone but remain in the European Union, the majority of those present felt that Greece would still be in the eurozone in five years’ time.