30/08/2018

Speech of Mr. Nikolaos Karamouzis | Chairman of the Hellenic Bank Association Dinner with key note speaker Dr. Jens Weidmann, President of Deutsche Bundesbank

Dear Dr. Weidmann,
Mr. Deputy Prime Minister,
Mrs President of the Movement for Change political party
Mr. Vice President of New Democracy political party
Mr. Governor of the Bank of Greece,
Representatives of the Supervisory and Regulatory Authorities,
Representatives of the business associations,
Co-leagues from the Greek banks,

Distinguished guests,
Ladies and gentlemen

It is an honor to welcome here tonight Dr. Jens Weidmann, President of the Deutsche Bundesbank – one of his many distinctions.
His visit to Athens could not come at a better time.
On August 21st, Greece successfully completed its third and final adjustment program, after a painful and protracted eight-year period of deep crisis. The crisis came at an enormous social and economic cost to the country.

Over the last eight years, Greece received a record €288.7 billion in financial assistance from its Eurozone partners -- Germany being the biggest contributor -- and the International Monetary Fund, in exchange for implementing a comprehensive reform package.

As a result, Greece's place in the Euro-area and the European Union was secured and a catastrophic Grexit was averted. I would like to express my sincere thanks for the very constructive role that Dr. Weidmann played during those critical years.

The Greek experience, has been a difficult journey in which Greek society paid a heavy price.

- Greece's GDP contracted by more than a quarter from its pre-crisis levels
- Private investment and household savings collapsed to unprecedented low levels
- Greek banks had to be recapitalized three times with official and private money, a total of €64 billion in fresh capital
- Despite an extraordinary sovereign debt restructuring, the PSI, public debt as a percentage of GDP has soared close to 180%,
- Non-performing private financial obligations rose dramatically, especially banking NPEs which stood at € 110 billion at the peak of the crisis
- At the height of the crisis, unemployment exceeded 27%
- Capital controls were imposed.

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Yet, today we have reasons to be cautiously optimistic.

1. The economy has rebounded, growing at an 1.4% rate in 2017, and is expected to grow by 1.9% in 2018 and 2.3 % in 2019, according to European Commission Spring 2018 forecasts.
2. The fiscal balance has swung, from a massive deficit equal to 15.1% of GDP in 2009, to a surplus of 0.8% in 2017 – and Greece continues to run large primary fiscal surpluses.
3. Competitiveness has improved significantly, reclaiming most pre-2009 losses, thereby contributing to a revival of export activity but unfortunately, labour productivity continued to decline until very recently.
4. The current account is now almost balanced, with a deficit of just -0.8% of GDP in 2017 from – 15.8% in 2008.
5. Unemployment appears to be edging below 20% – still very high -- but on a clear declining trend.
6. Housing prices have bottomed out after a 42% freefall, and are showing signs of recovering.
7. Bond markets have reacted cautiously with 10year Greek sovereign bond yield declining to around 4% -- but still 230 basis points above the comparable 10-year Portuguese bond yield, raising issues of policy time consistency, policy credibility and market trust.
8. Ratings agencies have recently upgraded several times their ratings for the country which, however, still remain below investment grade.
9. Capital Controls have been relaxed but not fully lifted.
10. Business climate and conditions are improving but we are still far away from creating a friendly business and investment framework.
11. Liquidity conditions are improving:
    - ELA dependency declining, currently around € 4 billions, from € 86.8 billions at the peak of the crisis;
    - deposits gathering is accelerating but their stock still remains far below the pre-crisis levels,
    - but market access is still not fully restored and
    - domestic credit expansion remains negative, on a deleveraging trend.
12. NPEs are on a declining trend but still remain at unprecedented levels, close to € 92 billions, acting as a major overhang on the economy.

Ladies and Gentlemen,

In this economic and financial context, the end of the bailout program, should not lead to fiscal laxity, return to populism and compromises in the reform agenda.

This could be a strategic mistake.

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The country still faces daunting challenges and a pressing requirement to bring the economy into sustainable recovery and a steeper growth path.

Convincing exit from the crisis, return to regularity and delivering strong and sustainable growth, require an unprecedented boost of investment, foreign capital inflows and productive activities, in essence, a multi-year annual double-digit increase in capital formation.
This is the true major challenge for the country, post program exit.
This is the main way to create jobs and fiscal space, to increase targeted social spending, to reduce still high poverty and inequality.

Therefore, it is of paramount importance for our future that our political system, across the spectrum, commits to fiscal stability and on implementing consistently and credibly, growth-friendly structural reforms, aiming at:

- creating jobs and sustainable inclusive growth,
- attracting sizeable much needed local and foreign investment,
- restoring full market access, policy credibility and market trust,
- further strengthening the export orientation of the economy,
- reducing interest rates and risk premia,
- improving business and investment environment,
- significantly reducing NPEs banking exposure,
- improving competitiveness, productivity and real wages.

We should have no doubt in our mind that fiscal rigor, commitment to growth-friendly reforms and policy consistency across time, are key prerequisites for addressing lingering market doubts, concerning the political system's adherence to macroeconomic and fiscal stability and rapid growth.

To consolidate market confidence and strengthen economic recovery, the country should not undo the reforms that have been done so far.
In addition, we should continue consistently and convincingly with the implementation of the reform agenda, focusing especially on:

- tax rebalancing by lowering tax rates, broadening the tax base and successfully fighting tax evasion,
- overhauling the justice system,
- stepping up privatizations and commercialization of public property,
- lifting capital controls,
- modernizing inefficient and bureaucratic public administration,
- further liberalizing product & services markets and professions,
- creating a more friendly business and investment framework,
- further strengthening financial soundness in the banking sector.

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Ladies and gentlemen,

Dr. Weidmann was named President of the Deutsche Bundesbank in May 2011.
He is also a member of the ECB Governing Council, Chairman of the Board of the Bank for International Settlements, and a Governor of the IMF.
His reputation precedes him, so a lengthy introduction is probably not necessary.

But briefly: Dr. Weidmann was awarded a PhD from Bonn University and has served in various posts at the IMF, the German Council of Economic Experts, the Bundesbank, and in the German government.

He has been at the forefront of the debate over Europe's economic and monetary union, and his views are well known and respected.

Critical of certain aspects of the European response to the financial crisis, Dr. Weidmann has favored gradual normalization of monetary policy.

For Europe's future prosperity and the further advancement of European integration, he favors adherence to four key principles:

1. A monetary policy geared towards price stability.
2. A sound financial system accompanied by strong macro and micro prudential policies.
3. Sustainable public finances bound by common rules.
4. Resilient and flexible economies.

Above all, Dr. Weidmann argues that further advancement of European monetary and economic union means that obligations and liabilities must be paired:
in Europe, we cannot demand greater solidarity but reject any transfer of decision making.

Powers must be transferred along with risks.

I look forward to him sharing his views with us.

And on this note, I would like to pass the floor to Dr. Weidmann.