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# Reform and Revitalization in Greece

A CONVERSATION WITH GEORGE PROVOPOULOS

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**FLETCHER FORUM:** *What is your vision for the Greek economy? Specifically, what are the necessary steps to spur sustainable macroeconomic growth, and where do you see the Greek economy five or ten years from now?*

**GEORGE PROVOPOULOS:** First of all, Greece is now implementing a third bailout program, as agreed upon with our creditors. This program is aimed primarily at fiscal conservation, but it also includes a number of structural reforms that would make the economy more efficient and more competitive. I think that in five or ten years, the Greek economy will be in a position to have left behind the deep crisis that took place in previous years, and it will hopefully be a flourishing economy, given that the macroeconomic imbalances that accompanied the crisis have already disappeared. What is missing at the moment is further structural reform, which will make the economy more competitive.

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**George Provoopoulos** served as the Governor of the Bank of Greece from 2008 to 2014, as well as a member of the European Central Bank's Governing Council. Prior to his appointment as Central Bank Head, he was a Professor of Economics at the University of Athens from 1979-2007. Mr. Provoopoulos has held numerous other positions, including Vice Chairman & Managing Director of Piraeus Bank (2006-2008), Chairman of the Board and Chief Executive Officer of Emporiki Bank (2004-2006), Economic Adviser to Alpha Bank (1994-2004), General Manager of the Foundation of Economic & Industrial Research (IOBE) (1993-1997), and Deputy Governor of the Bank of Greece (1990-1993). Mr. Provoopoulos received the Award of the Class of Ethical and Political Sciences from the Academy of Athens in December 2003 for his book *The Dynamics of the Financial System*, co-authored with P. Kapopoulos. He holds a B.A. in Economics from the University of Athens, and an M.A. and Ph.D. in Economics from Essex University.

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**FLETCHER FORUM:** *And what further structural reform do you foresee? Is that part of the bailout package, or is something else necessary?*

**PROVOPOULOS:** Many things: I foresee structural reform in the areas of health spending and pensions, for example, and in making both the labor market and the products and services market more efficient, more competitive. It's about modernizing institutions—it's too many things to count.

**FLETCHER FORUM:** *Specific to the Eurozone, you've argued in the past that a goal for joining the Eurozone was to converge with other member states in real terms. Do you still think this is an achievable goal?*

**PROVOPOULOS:** Yes, I think it is an achievable goal, subject to changing the whole economic landscape within the country. We have to proceed, first, to correcting macroeconomic imbalances, but then also to introducing bold structural reforms.

**FLETCHER FORUM:** *How long would these changes take?*

**PROVOPOULOS:** Those changes have already started. We are in the middle, or even further. But what is still missing are some further steps towards finalizing structural reforms.

**FLETCHER FORUM:** *Many have called for separating the Eurozone into a "Northern Zone" and a "Southern Zone," with more stable economies in the Northern Zone and less stable economies in the Southern Zone. Do you see any merit in this argument?*

**PROVOPOULOS:** No, not at all, not at all. Only a unified monetary unit can work. Otherwise, a two- or three-split Europe will not work.

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**FLETCHER FORUM:** *Given that, then, how do you envision Greece's role in the future of the Eurozone?*

**PROVOPOULOS:** Greece will be, of course, one of the members of the Eurozone. I think the number of members will increase in the coming years. Recently, we had two or three countries enter the Euro area. Greece will be part of the prosperous and unified Euro area, and it will play the

role it should have played from the very beginning. Given the economic difficulties, we had a kind of deviation from this role—now we will come back to normality.

**FLETCHER FORUM:** *Can you comment on the recent elections in Greece? How do you think the coalition government will shift Greek economic policy?*

**PROVOPOULOS:** First of all, we have the same government that we had a few months ago. This government negotiated a new bailout program, which now they have to implement. The mere fact that they negotiated and signed the program and that they have now to implement it—all this makes me more comfortable that the program will be implemented smoothly and strictly.

**FLETCHER FORUM:** *Speaking specifically of this program, the most recent budget released by the Prime Minister is expected to keep Greece in recession through 2016 and return the country to growth in 2017. Do you agree with these predictions? What are your thoughts on the recently released budget?*

**PROVOPOULOS:** I think you mentioned we are going to hear “recession” this year and the next as they start introducing fiscal changes, especially with regards to taxation, because when we post new, additional taxes, then these act in a recessionary way. The same applies to public spending cuts—when you cut public spending, then they act in a recessionary way. This will apply for this year, next year. I hope that, for the year after, things will change.

**FLETCHER FORUM:** *You’ve also commented in the past that weak companies should be allowed to fail in order to sustain growth. What would that actually look like? What kind of policy would the government need to enact for that to happen?*

**PROVOPOULOS:** You know that in every crisis, there are victims. In the capitalist system, even without crisis, some companies are winning and others are failing. Even without crisis, there is a need for those who fail to disappear, because it is to the benefit of the greater system to work in this way; it is the philosophy, the essence.

Given the crisis in Greece, we have a bigger number of victims. Some of these victims suffered from the fact that the banking system could not work properly to extend credit. Or perhaps they were faced with domestic

demand falling suddenly, drastically. Because of these banking and economic issues, those companies faced reduced demand for their products, and they failed as a result of that.

This kind of failure is not similar to the previous category that I mentioned when I spoke about old habits in the capitalist system—this relates to the crisis itself. So, I think that one must give more attention to these cases. In the end, these companies did not fail because of their errors; they failed because of the macroeconomic climate. Because of this, I think one should be more sympathetic to try to see how those companies might again become viable, and to explore what kind of assistance they should get in order to become viable again. It was not their fault for failing.

**FLETCHER FORUM:** *What would that assistance look like? Would it involve subsidies?*

**PROVOPOULOS:** The biggest form of assistance for these companies is for the macroeconomic environment to get back to normal and for the banking system to work properly again. These are the kinds of changes included in the bailout program. So, it is imperative that this program is implemented strictly and in a decisive way, so the economy gets back

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..... on the right track and all the agents of the economy—companies, consumers, depositors—get back to normal.

**FLETCHER FORUM:** *On that note, since you've overseen the recapitalization of Greece's bank, how do you picture the future of the banking industry in Greece?*

**PROVOPOULOS:** The future of the banking system is closely associated with the health of the economy. When we have some deep crisis, as with the kind we had in Greece—which is similar to what happened in the United States back in 1929 and 1930—we have gigantic changes. In my capacity as Central Bank Governor for the previous six years, I was able to restructure the whole banking system, of course on the basis of the financial assistance provided as part of the bailout program. We had more than thirty banks before the crisis, and we have closed down, through resolution measures,

around fifteen banks. In the meantime, no depositor lost a single euro, so financial stability was fully protected. I think that this gigantic transformation of the banking system—preserving financial stability, preventing depositors from suffering any losses, recapitalizing and strengthening the banks—was a major achievement.

**FLETCHER FORUM:** *Do you think there might be lessons from the banking system and its recapitalization for other sectors of the Greek economy?*

**PROVOPOULOS:** Yes, there should be lessons. First of all, this kind of gigantic transformation in the banking sector was disciplined and orderly, and that's why we didn't have victims in this process. This disciplined kind of transformation should apply to other business sectors—for instance, weaker companies should be absorbed by more efficient companies, creating bigger companies that will be able to compete in the international market. This kind of transformation is, I'm afraid, lagging in Greece, and it should be sped up.

**FLETCHER FORUM:** *Of Greece's non-banking sectors, tourism is especially important to Greece's economy. What other sectors could potentially see growth in the next five to ten years? Where does Greece have comparative advantage?*

**PROVOPOULOS:** Apart from tourism, shipping is also a flourishing activity. Greek ships and ship owners are forming the biggest power worldwide. But, turning to other areas of the real economy, I would highlight agriculture and processing of agricultural products; that is, light industry. Because the weather, the climate in Greece, is quite exceptional, naturally supporting this sector, I expect agriculture and light industry to be some of the more dynamic sectors of the economy.

Also, I think that other areas in the so-called “service sector,” such as education and health, could expand. Right now, Greece has so many big professors at American universities and good European universities. With Greece's exceptional climate, we could open good private universities on islands—in a way, to try to imitate California.

The same principle applies to the health sector. We have so many doctors and well-trained, well-educated people working in medicine abroad. These people could work in Greece if we expand this sector intensively—bringing patients, clients from other areas, and rich people into the country, where the weather is nice and the landscape is nice. It's a pleasant way to spend your time.

**FLETCHER FORUM:** *Considering these Greek professors or doctors who live abroad or around Europe, what do you see as the role of Greece's diaspora around the world?*

**PROVOPOULOS:** The Greek diaspora is one of the strongest elements in the current economic difficulty; given the crisis in Greece, we have a brain drain at the moment. Well-educated young people are leaving the country because they cannot find appropriate jobs. This is inevitable, I would say.

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But as things improve, I think, this flow of emigration will switch to a kind of immigration. Not tomorrow, of course, but after some time. But it is necessary for that to happen.

**FLETCHER FORUM:** *Europe is facing an unprecedented refugee crisis right now, and a lot of people are coming to or through Greece. How do you think Greece should or will address the situation?*

**PROVOPOULOS:** Indeed, this is a very difficult problem, because Greece is the first European country facing the problem. Immigrants cross Greece before going somewhere else, so we have a disproportionate share of immigrants. The cost of dealing with this problem is huge, and at a time when Greece's economy itself is suffering, the pain is even bigger.

I am more optimistic now, however, because the European Union recently decided to follow certain European policies regarding this problem. Until recently, this problem was in a sense ignored by Europeans. They thought that it was a Greek problem, a Bulgarian problem, a Turkish problem—but not a European problem. Now, Europeans have agreed that the refugee crisis is a European problem, and have made some crucial decisions as to how immigrants in Greece should be distributed to other countries like Germany, Austria, Belgium, and the Netherlands. For Greece, this would be very positive, because the numbers would be reduced and the strain of the crisis distributed more evenly.

**FLETCHER FORUM:** *Thank you. f*