

Greece's economy at a crucial crossroads

Dominique Strauss-Kahn, entretien avec Athanasios Ellis

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The program for the consolidation of the Greek economy is at a crucial crossroads as a series of fundamental structural changes have to be implemented in the following few months, said IMF Managing Director Dominique Strauss-Kahn in an interview with *Kathimerini*. He estimated that if Greece can maintain the momentum of reform, investors' confidence will grow, and through the gradual return of competitiveness will follow growth. Mr. Strauss-Kahn noted the need for consensus among the political parties and in that context he opened a "window" for limited adjustments in the memorandum, saying that "ideas for policy changes should, first and foremost, be discussed with the government". In the spirit of political consensus he said that "playing the blame game is not helpful" and calls upon the political parties to "look forward instead of backwards".

He repeated that the IMF is advocating the extension of the repayment period for the loan to Greece, noting that "we will work with our European partners on a solution to give Greece some further breathing room". His assessment was that the Euro is not in danger, but described the situation in Europe as "serious" and underlined the need for a comprehensive European approach to the crisis, in an indirect criticism of Germany which, as was the case last May with respect to the assistance to Greece, today takes a reserved stance with respect to the extension of the loan to Greece, while it opposes the proposed issuing of Eurobonds.

Finally, Mr. Strauss-Kahn described as excellent his relationship with Prime Minister Papandreou and Finance Minister Papaconstantinou, and said the government has reacted in a timely fashion to the looming crisis. He called the demonstrations against his recent visit to Athens as "part of every healthy democracy" and expressed understanding for the people who are upset, noting that "ordinary workers and pensioners have done their part" and there is a need for the high-income earners to contribute their part.

What specific moves are needed in the next couple of months in order for the fourth installment of the loan to Greece, in March, not to be endangered?

DSK: As the recent assessment of the EC, ECB, and IMF made clear, the program is broadly on track. There has been good progress in a number of key areas--notably in reducing the fiscal deficit and in completing a landmark pension reform. Now, the program is at an important crossroads. The overriding issue--as I reiterated during my visit to Athens--is to get growth going again. Growth--and the jobs that come from it. To achieve this, fundamental structural reforms are needed. For example, opening up services, trade, and the professions; streamlining state enterprises; and improving the climate for business and investment. In short, unlocking the potential of Greek industry and the Greek people. This is not easily done, but if Greece can maintain the momentum of reform, investors will come to realize the country's commitment to change and confidence will grow. I am optimistic Greece can do it.

The IMF has repeatedly noted the need for political consensus. The leader of the main opposition party, who voted against the program, has said he is willing to show solidarity, provided there are changes to the program. Is that something you would accept?

DSK: I met with the leadership of the Opposition during my visit to Athens. I think we agreed that Greece is at a defining moment in its history and that the country can only succeed if

there is the broadest possible support for the changes that are needed. That said, it is not up to the European partners or the IMF to make decisions on policy changes--that is the government's prerogative. So ideas for policy changes should, first and foremost, be discussed with the government. What the IMF does is advise on policy options and their feasibility based on our global experience.

Is today's crisis the sole fault of the previous government, or is there enough blame to go around, given that the spreads skyrocketed during the first six months that Papandreou came to power?

DSK: Playing the "blame game" is not helpful. What matters is how to get out of the crisis. To that end, the government is implementing an ambitious program that aims at restructuring broad parts of the economy to make it more competitive, create jobs, and put it on a path of sustainable growth. At the same time, the government is trying to do this in a way that is fair, socially balanced, and protects the most vulnerable groups. So let's look forward instead of backwards--that's what is important now: to support the reform effort and realize the country's true potential.

In that context, did Mr Papandreou take too long to request assistance from the EU/IMF last Spring?

DSK: When the crisis deepened last year, the government took the necessary steps to consult its partners and seek help. Don't forget also that the government had already begun to implement substantial measures to lower the deficit and stabilize the situation--long before the Europeans or the IMF came in. When the pressures increased to unsustainable levels, the government did the right thing and sought assistance.

Is the fact that the IMF and EU will assist Ireland helpful or detrimental to Greece's effort, and how? And should the repayment plans for the two countries be the same?

DSK: Greece and Ireland are very different cases. While Greece was mainly affected by mounting public debt in an uncompetitive and relatively closed economy, Ireland, which has a very open and dynamic economy, faced mainly a crisis in the banking system that became a heavy burden on state finances. These differences mean that the economic programs supported by the European partners and the Fund need to be tailored to those specific circumstances. Regarding the repayment period for Greece, we are--as you know--advocating an extension and we will work with our European partners on a solution to give Greece some further breathing room.

Should Portugal, and even Spain, opt for the EU/IMF mechanism in the near future?

DSK: Neither country has requested help from the IMF, and there is no point to speculate about hypotheticals.

Do you find the idea of issuing Eurobonds helpful, or even necessary at this stage, and can it materialize given Germany's opposition which brings to mind its delay in agreeing with the mechanism for Greece last year?

DSK: The situation in Europe is serious and economic recovery sluggish-- and there is no silver bullet to fix it overnight. What the Eurozone needs is a comprehensive solution. Just as the resolution of the global financial crisis two years ago required a global approach, a European approach is now needed to resolve the problem of low growth in the Eurozone.

What is your view on the potential for the members of the Eurozone going back to their national currencies, or the introduction of a two-speed Europe with a stronger euro for the North, and a weaker one for the South?

DSK: As I said, the situation in Europe is serious, but it is not a threat to the euro. The Eurozone's system and institutions worked well during the "good times" over the past decade. Now they need to be strengthened so as to better deal with crises. I am confident this will happen.

The global crisis demands a globally coordinated response, but how helpful is the fact that Germany is following a tight policy while the Obama Administration has opted for expansionism?

DSK: Again, every country's circumstances are different and the response needs to be customized accordingly. What is important is that national policies do not create or exacerbate global imbalances. That's why we are advocating, within the framework of the G20, the Mutual Assessment Process to help countries monitor and coordinate policy responses that invariably affect their neighbors, regions, and the world. No doubt the world can do better on this point, but we are getting there--one step at a time.

Are you worried that the crisis in Southern Europe could spread to the whole continent and negatively affect growth?

DSK: Clearly, the plight of some European countries affects growth in neighboring countries and across the region. All countries in Europe should be concerned about the slow pace of growth. Looking at the bigger picture, Europe risks falling behind other regions of the world and needs to become more innovative and competitive. Europe has done this before, and it can do it again. A growing and dynamic Europe, of course, is also good for the rest of the world.

At a press conference during the Annual Meetings, I asked you about the difficulty Greece faces in achieving growth in the present world economic environment. Can you please tell us where growth can come from in the case of Greece?

DSK: Well, I pointed to some of the potential areas for growth in my previous answer. Among the sectors that offer strong potential growth are tourism, and the energy and transport sectors, and I am also convinced that liberalization and opening up of closed professions will spur the retail and service sector. The key is for Greece to restore its competitiveness in Europe and beyond. If Greece can implement the reforms in the program, we project growth returning in the latter half of next year or early in 2012. This depends, of course, on there being a positive economic environment in the rest of Europe and in the global economy--because we are all connected now. That is true for Greece as it is for every other country.

How would you describe your personal relationship with PM Papandreou and FM Papaconstantinou?

DSK: Excellent. PM Papandreou and FM Papaconstantinou, as well as other government officials, are showing great resolve in getting the country back on track under very difficult circumstances. Political will and leadership are essential for any economic program to succeed.

How do you assess the lack of coordination among ministers and would the personal involvement of the PM be needed?

DSK: The government is committed and fully engaged. Otherwise an ambitious reform program such as this wouldn't go anywhere.

Finally, may I ask you for your reaction, both on a personal level, as well as head of the IMF, to the demonstrations against you?

DSK: Demonstrations are part of any healthy democracy. It is only natural that some people are unhappy about the changes that need to be made. I understand that. This is a very difficult situation for the Greek people and I do not underestimate the efforts they are making. In fact, I commend them on those efforts--as I believe the rest of the world also is beginning to do. I would only emphasize this point again: when you have to make tough decisions and take difficult measures, it must be done in a socially just manner. From the beginning, we--and the government--have stressed the issue of fairness. Ordinary workers and pensioners have done their part. Now, others in Greek society--including the high-income earners--must do their part too. That is why, for example, strengthening tax administration, and coming down hard on tax evasion, is so important. Yes, this will help increase needed revenues but, more than

this, it will help enhance fairness. I believe that, ultimately, people will support reforms--even very difficult reforms--if they feel they are in the best interest of their country and if everyone is contributing their fair share.