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The Greek Crisis Two Years On: Policy Options and Resolution Prospects

Lucas Papademos
Center for Financial Studies

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I. Introduction

Ladies and Gentlemen,

Crisis is a Greek word with multiple meanings. Resolution is a Latin word with multiple interpretations. Crisis resolution has a precise meaning but as a policy goal it has proved elusive both in Greece and in Europe.

It has been more than two years since the outbreak of the Greek sovereign debt crisis. In Greece, what started as a fiscal crisis has evolved into a full-blown multidimensional economic, social and political crisis threatening the country's future. In Europe, the debt crisis of one country has spread across the euro area and, currently, four other member states – including two large ones – are trying to cope with serious fiscal imbalances and financial market stresses. The euro area as a whole is experiencing the direct and indirect effects of these developments on its financial system and real economy. Thus, two years on, the Greek debt crisis has evolved and spread; it has become one element - still at the epicenter - of a bigger and more complex problem, commonly referred to as the "Euro Crisis".

I would like to thank the Institute of International Finance (IIF) for inviting me to this impressive gathering of financial leaders and economic policymakers in order to address key policy issues pertaining to the current stage of the Greek crisis and the challenges ahead, notably the potential policy options and the instruments available for resolving it.

The IIF played a pivotal role in the voluntary restructuring of Greece's public debt held by the private sector (PSI). Let me take this opportunity to join other participants in this meeting, to pay tribute to the outgoing chairman of the Institute, Dr. Josef Ackermann, for his outstanding contributions to global finance. I have known Josef for more than 30 years and have been impressed by his leadership and professional excellence, combined with great personal integrity. I would like to thank the IIF's Managing Director, Mr. Charles Dallara, for his leadership and cooperation that was crucial for the success of the historic – because of its size and complexity – debt exchange. I want also to express my appreciation to Mr. Charles Dallara and Mr. Jean Lemierre, the Co-Chairs of the Steering Committee of the Private Sector/Investor Committee for Greece, for their direct involvement in this process and their contribution to reaching a mutually acceptable agreement between the Greek government, the private creditors and the official sector.

[1] Prof. Lucas Papademos is a Senior Fellow at the Center for Financial Studies, Goethe University Frankfurt.

I have to be frank, however, and admit that I am not thankful for the timing of this IIF Membership meeting. In the light of recent events and of future political uncertainty, as elections in Greece will take place in ten days from now, this speaking opportunity is itself a real challenge. Inevitably, the outcome of the elections will determine the political environment within which economic policy decisions will be taken and be implemented. Nevertheless, I will seize the opportunity and try to offer an objective assessment of the current situation in Greece and a realistic view of how Greece can overcome the crisis and return to a path of stability and prosperity, rather than zigzag towards a vortex of self-destruction.

More specifically, in my remarks today, I will focus on three sets of issues: First, I will briefly assess the current state of the Greek economy in comparison with that prevailing 30 months ago, when the real size of the fiscal problem was fully revealed, and 6 months ago, when the country found itself on the brink of an abyss despite the substantial economic adjustments that had been undertaken. I will highlight, in particular, the achievements and the failures: the progress made towards restoring fiscal sustainability and international competitiveness, and the inability of the country to address some long-standing structural weaknesses.

Second, I will examine the effectiveness and implications of alternative policy options for overcoming the crisis, which have been, and are being, discussed both at home and abroad. I will also draw some lessons from past experience and indicate what I consider to be the appropriate policy strategy and instruments for the coming years.Third, I will share some thoughts with you on the ongoing debate concerning the perceived trade-off between austerity and growth-promoting policies and its implications for the resolution of the euro crisis.

II. The current stage of the crisis: achievements and failures

Over the past two and a half years, the Greek economic drama has gone through various stages and passed several key milestones. The main phases of market turbulence and economic adjustment are four: first, the period of growing market tensions in the spring of 2010, following the revelation of the real magnitude of the fiscal problem in the autumn of 2009 and the timid attempts to address it, which led to the adoption of the first economic program and the financial bailout package in May 2010; second, a phase of substantial fiscal adjustment accompanied by a number of significant reforms in the second half of 2010; third, a period of mixed performance during the first 10 months of 2011 that was characterized by modest progress in fiscal consolidation, but serious delays and shortcomings in the implementation of reforms; and fourth, the six-month period from early November 2011 until the elections held on May 6 this year. During this period, the second bailout package was agreed, a new economic program was adopted and the restructuring of the public debt held by the private sector - the PSI you are all familiar with - was completed. Hence, essential conditions have been established for the completion of the adjustment process and the recovery of the economy.

Nevertheless, today Greece stands again at a critical crossroad. I say again because the country has found itself several times in recent years at crossroads marked by extraordinary economic circumstances where exceedingly difficult choices had to be made.[i] At present, the stakes are exceptionally high because the decisions to be made at, and immediately after, the forthcoming elections will determine the country's future for at least the next decade. They will determine whether we move forward and complete the process of restoring fiscal sustainability and international competitiveness, thus establishing the necessary conditions for strong and viable economic growth, or whether we move backward and inward, trying to solve our economic problems by resorting to short-

sighted, seemingly easier approaches, which, however, will not help to overcome the crisis and are likely to result in a prolonged decline in living standards.

But where does Greece stand now in its effort to stabilize and reform its economy? In particular, what progress has been made towards securing sound government finances and improving international competitiveness? What has been done right and what has gone wrong? And how can Greece's economy recover from protracted recession and rising unemployment?

The progress made so far towards fiscal consolidation and restoring competitiveness is significant and much greater than often acknowledged. Let me briefly elaborate by referring to relevant indicators (based on official IMF, European Commission and ECB data and calculations) that can highlight and quantify this statement.

The actual fiscal adjustment achieved is substantial, indeed impressive. In the two years, 2010-2011, the primary deficit of the general government declined by 8 percentage points of GDP and this is the largest (year-to-year) fiscal adjustment of any EU or OECD country in recent years. In the first quarter of 2012, the general government had a primary surplus of 1.1 per cent of GDP[ii] that was in line with the program's annual target, which foresees a small primary deficit (on a cash basis) of 0.2 percent of GDP in 2012.[iii] Needless to say, the policies to be implemented after the election will determine the pace and effectiveness of fiscal consolidation.

The improvement in competitiveness is also remarkable. In the past two years, 2010 and 2011, cost competitiveness, as measured by relative unit labor cost, increased significantly and Greece recouped 50 percent of the competitiveness loss vis-à-vis the other euro zone and EU member states during the previous 9 years (2001-2009) since the adoption of the euro. It also restored 1/3 of the competitiveness lost during that same period vis-à-vis its main (37) trading partners.[iv] Thus, internal devaluation has taken place and contributed to the improvement of an important determinant of competitiveness. Looking ahead, it is projected (by the Bank of Greece) that, following the recent measures and reforms in the labour market, by the end of 2013, Greece should have restored 90 percent of the competitiveness lost during 2001-2009 vis-à-vis both its main trading partners and the rest of the euro area.

As a result of the lower government budget deficit and the higher competitiveness, Greece's current account deficit narrowed by about 5 percent of GDP between 2008 and 2011. The real improvement was actually greater, as the external balance was adversely affected by special factors, such as the rise in the price of oil during the past two years.

All in all, macroeconomic adjustment has been sizeable so far. In addition, a number of important reforms have been implemented, including a major reform of the pension system and the first steps of the planned overhaul of public administration. However, the progress made in the reform of the public sector, though notable, was inadequate given its size and inefficiency.

The positive picture I have painted of the progress made in addressing the two main weaknesses of the Greek economy – high fiscal and external imbalances and low productive efficiency and international competitiveness – is encouraging. But it is also apparently at great odds with the concerns of markets and analysts about the prospect of successfully completing the adjustment and reform effort.

How can we explain this apparent contradiction? How can we reconcile what has been achieved with market concerns and doubts about the future? More importantly, how can we reconcile the progress made with the low confidence of the Greek people themselves in the country's ability to pursue

successfully the next stages of the adjustment process and achieve economic recovery and sustainable growth in the foreseeable future?

The answers to these questions can be found in certain short-comings in the implementation of the program and the various factors that account for the greater than initially expected weakness of economic activity and the consequent higher rate of unemployment. An understanding of these facts and factors and their implications for the economy's performance is essential for choosing the appropriate strategy and policy instruments, for completing the reform and adjustment effort successfully and for avoiding a policy backtracking that would result in failure and imply that the sacrifices suffered by the Greek people have been in vain.

Clearly, the fundamental shortcoming of the economic adjustment process is that it has been accompanied by a much weaker performance of the real economy than forecast, initially and subsequently, at different points in time. GDP, which had already started to decline in 2008, fell by 10.2 percent during the first two years (2010 and 2011) of the program and it is forecast to contract further by about 4.7 percent in 2012.[v] The implications of the protracted and deepening recession and the rising unemployment rate, which exceeded 20 percent in April 2012, have been profound and manifold: for the effective implementation of the program, for social cohesion and public confidence and thus for the support of the program by the Greek people, and for the assessment of debt sustainability by markets and institutions.

There are two main concerns about, and associated risks regarding, the successful continuation of the adjustment effort. The first is the prospect of a vicious circle of weaker activity, more fiscal consolidation measures, deeper recession and so forth. The second is the risk of another vicious circle, that is of a further decline in confidence that would adversely affect economic activity, bank system liquidity, and credit expansion, and reduce public support for the program. It could even lead to abandoning the effort and to a disastrous default, which would further reduce confidence and real income. The public discontent about the program, especially among the younger people who experience much higher unemployment, reflects the fact that the benefits from the reduced budget and external deficits and the improved competitiveness are distant and not tangible, while the main visible outcome of the program is lower real income and higher unemployment. It is thus imperative that the risks of the two potential vicious circles must be prevented from materializing.

III. Overcoming the Crisis and Restoring Growth

Looking ahead, let me address four pertinent questions: How can we prevent the two major risks - the two vicious circles - I just mentioned, from materializing? More generally, how can Greece overcome the crisis and secure sound public finances and restore growth? What are the appropriate strategies and the effective policy instruments? And will the Greek people support the new program's policies, agreed with the official creditors, and will they respect the commitments made? Or will they opt for an alternative approach to resolving the crisis?

It is evident that the key policy challenge that must be addressed in order to overcome the crisis, both in Greece and in the euro area, is to define and implement a two-pronged policy strategy that combines (1) the measures and reforms required for achieving fiscal sustainability, restoring competitiveness and safeguarding financial stability with (2) the policies and reforms that can have an immediate and significant impact on economic activity and employment. There is growing consensus in Europe that this is the right approach. The issue is whether and how this can be done in practice. I believe it is

feasible to combine so-called “austerity policies” with “growth-promoting measures”, but it requires bold and effective action both at the European level and at the national level. Although such a policy strategy has certain common features, the specific measures and reforms are likely to differ across countries. I will focus on the Greek case, but aspects of the strategy require initiatives at the European level.

The view that there is a trade-off between, "austerity" or "stability-oriented" policies on the one hand and "growth-promoting" policies on the other, is potently mistaken. This is clearly not the case in the long run, since stability is a necessary condition for sustained growth. It need not be the case in the short run, provided adequate policy instruments exist and are effectively employed. In the case of Greece, it is often argued that the protracted and deep recession is the consequence of the implementation of the first economic program, of the "memorandum" on economic policies, as commonly referred to in Greece. This is partly correct, but it is not the whole story.

It is, of course, true and expected that an economic adjustment program, which aims at reducing an excessive government deficit and secure debt sustainability and which includes reforms to improve the viability of pension systems and the functioning of labour markets, is likely to entail short-term adjustment costs. It is likely that it will adversely affect real income and employment for some time, until the benefits of stability and efficiency for growth are realized. Short-term sacrifices may be necessary and unavoidable, depending on the magnitude of the initial fiscal imbalances and the extent of structural weaknesses, in order to reap the long-term benefits of stronger and viable growth.

In the case of Greece, the depth and length of the recession is also due to other factors. First, delays in and ineffective implementation of the reforms included in the first program that would have helped stimulate activity and partly offset the impact of fiscal consolidation measures are an important factor.[vi] Second, the credit crunch, which resulted not only because Greek financial institutions had no access to capital markets following the downgrading of the credit rating of the Hellenic Republic, but also because of the sizable outflow of bank deposits as a result of (i) increased uncertainty about the successful implementation of the program, (ii) reduced confidence in the country's economic prospects and (iii) public concerns about a possible exit from the euro zone, ís a factor. Rumors and unhelpful communication, both at home and abroad about such a possibility, played a key role in raising concerns and in triggering deposit outflows. Although the ECB provided substantial financing to accommodate the impact of these factors on the diminishing liquidity of Greek banks, the greatly reduced availability of credit to the private sector (also due to the reduced value of eligible collateral for ECB refinancing) was a major contributing factor to the economic downturn. These arguments highlight the crucial importance of confidence and of the fact that in a monetary union financing conditions across member states can deviate dramatically from the stance of the single monetary policy, which has been very accommodating in recent years.

It follows from the above that a policy strategy to overcome the crisis should be based on three pillars: First, an economic program focusing on fiscal consolidation policies and market reforms aimed at debt sustainability and improving longer-term growth performance; second, measures to strengthen the capital and liquidity of domestic banks and decouple the banking system and the financing of the private sector from the constraints and pressures stemming from the sovereign debt crisis; and third, policy actions that can help stimulate economic activity and reduce unemployment in the short run.

Concerning Greece, the decisions and actions taken in March provide a very good basis and a favorable financial framework for implementing such a strategy. As many of you know, these actions include:

- The official financial support package (provided by the EFSF and the IMF) of 130 billion euro that meets the government's financing requirements for the three-year period 2012-2014;
- The voluntary restructuring of Greece's public debt held by the private sector, which resulted in reducing its face value by about 106 billion euro, extended its maturity and lightened significantly the country's debt-servicing burden; and
- A new multi-annual economic program, which was a prerequisite for the other two actions that should secure debt sustainability, strengthen the banking system, improve competitiveness and promote long-term growth.

If these actions are as positive as they sound, why are markets doubtful and the Greek people concerned and unsupportive? I have previously explained some of the main reasons. In a few words, and to paraphrase the famous political dictum: "it is the lack of growth and jobs, stupid". I will now argue that the second financial package, the new economic program and the debt restructuring – if effectively implemented, appropriately supplemented and reasonably amended in the light of developments – provide the financial foundation and key policy ingredients, to achieve the stability objectives and accelerate economic recovery and job creation.

The second program contains, contrary to what is often presumed (by those who criticize it without having analyzed it), a whole range of reforms which, if effectively and promptly implemented, will increase both potential and actual growth over the medium term. These reforms include:

(1) A new simple, stable, investment-promoting and equitable tax system;

(2) Measures to improve the business environment and foster export-oriented production;

(3) Policies to strengthen market competition and efficiency;

(4) Reforms and measures to enhance the functioning of the labor market and improve competitiveness;

(5) Policies to exploit the country's comparative advantage in the field of energy, including renewable resources;

(6) Last but not least, a wide-ranging reform of public administration and local government, which is carried out with the support of a special task force and experts from France and Germany.

It is not my intention to advertise the merits of the program. What I want to emphasize and highlight is that the second program is reform-based and growth-oriented, though it also includes measures and reforms that aim at reducing the government deficit. The point I would like to stress is that the key to success lies in effective and timely implementation, without which growth benefits will be modest, if not marginal, and will accrue at a very slow rate. Effective implementation requires strong political will and commitment, as well as some pertinent institutional changes.

In order to speed up the positive impact of the program on economic activity and public confidence, priority must be given, in addition to the reforms previously mentioned, to three other areas and to the achievement of relevant quantifiable objectives: First, the further increase in the rate of absorption and utilization of available EU funds. A lot of progress has been made to this end over the last year and a half. But there is great need and ample scope to further improve the use of these funds to support economic activity and reduce unemployment.

A second major priority is the fight against tax evasion that must finally be won and the taxable income and wealth base must be enlarged in an equitable way. These objectives have been elusive for many years. Achieving them is vital for several reasons: the obvious ones are for reducing the deficit and for social justice, but also because if this fight is won it will make it possible to lower certain taxes and tax rates and thus eliminate distortions and foster economic growth.

To achieve this objective, political will as well as improved administrative capacity and effectiveness are essential. In the light of past experience, institutional change is also needed. I thus support the establishment of a new independent tax authority that will have the powers, means and instruments to achieve its objectives. The relevant experience in a number of countries is encouraging and can provide useful blueprints.

A third priority is the prompt completion of the recapitalization and restructuring of banks, which is crucial for boosting confidence in the banking system and for facilitating the provision of credit to the real economy. The second financial package includes 50 billion euro for this purpose, so as to offset the effects of the debt exchange and of the recession on the value of banks' assets and capital position. Already, 18 billion euro have been provisionally transferred to recapitalize the four largest banks. The recapitalization process should be concluded by September, as planned.

If these three priorities are effectively pursued and the growth-enhancing reforms are implemented, the economy's recovery will be accelerated and it could become visible in the second half of 2013. However, there is an urgent need to catalyze the recovery process and this can be done by further enhancing bank liquidity and investment financing. To this end, over the past three months, the Greek Government, the European Commission and the European Investment Bank have collaborated to develop and deploy new "financial instruments", including (i) the establishment of a Guarantee Fund (based on available EU funds) for the financial support of Small and Medium Sized Enterprises (SMEs) and (ii) the development of a Risk Sharing Instrument which would enable the co-financing of infrastructure and other investment projects. The role of the EIB in leveraging EU funds to finance firms directly or indirectly through domestic banks is pivotal. These actions are supplementary to the program and their effects will become visible in the coming months and quarters. By providing a short-term stimulus to economic activity, they can help to avoid the development of the vicious circles I mentioned earlier and also boost confidence that can reinforce their impact on the economy. Nevertheless, in the light of the continuing weakness of the real economy, it is necessary to expand the scope and increase the firepower of these policies (e.g. by increasing the degree of EIB leveraging of EU funds). Moreover, time is of the essence.

To sum up:

(1) The recently agreed second official financial support package of 130 billion euro and the historic voluntary debt exchange, which brings debt relief of 106 billion euro and significant cash-flow savings, provide a unique and exceptionally favorable financial basis for the completion of Greece's adjustment and reform effort.

(2) The second economic program is the main vehicle and blueprint for restoring fiscal sustainability and international competitiveness, which are necessary for strong and viable growth.

(3) Although the program includes measures necessary for securing sound public finances, it is fundamentally growth-oriented. It envisages the introduction of many reforms that are essential for achieving robust growth over the medium and longer term.

(4) If these reforms are implemented effectively, if the country succeeds in fighting tax evasion and in better utilizing EU funds, and if the program's growth-enhancing structural policies are complemented by financial instruments and measures to strengthen economic activity in the short run, then the recovery of the Greek economy will be brought forward and the foundations for sustained growth will be firmly established.

(5) In the light of recent developments, it would also be appropriate to extend the horizon of the fiscal adjustment process by at least one year, so as to maximize the short and medium term stimulus to economic activity, boost confidence and facilitate the program's ultimate success.

IV. Alternative Policy Strategies: To Be or Not to Be in the euro zone - That is the Question

I have made the case for "staying the course" and completing the necessary economic adjustment within the existing financial and economic policy framework, by implementing effectively, supplementing appropriately and adjusting reasonably the economic program in the light of recent developments and past experience. I am convinced that this is the right way forward, which would also imply that the sacrifices made by the Greek people will not have been in vain.

Recently, the public debate in Greece has revolved around proposals to substantially modify the agreed program or even rescind it. If it turns out that there is no sufficient public support and political will to pursue the strategy I outlined, (which includes possible reasonable amendments to the program), what are the alternative policy options and the associated likely prospects for Greece? The alternative outcome is essentially to pursue economic adjustment outside the monetary union. European political leaders, G-8 leaders and Presidents of European and international institutions have conveyed a clear message: "Greece should remain in the euro zone while respecting its commitments", that is, those undertaken when the second financial package was agreed. That being the case, the real dilemma faced by policymakers and the Greek people, to paraphrase the famous Danish prince, is: "To be or not to be in the euro zone? - That is the Question".

In principle, economic adjustment can be pursued more flexibly, and under certain conditions successfully, outside the euro zone, employing the additional policy instruments that will become available when a country has its own currency and national monetary policy, that is the exchange rate and the interest rate, and possibly the monetary financing of the government deficit.

In practice, however, and especially in the case of Greece, an exit from the euro (which most likely would be accompanied by a debt-service moratorium) would have many and profound adverse consequences: Inflation would accelerate, real income would sharply decline, the banking system would come under extreme stress, access to capital markets would become more remote, and fiscal consolidation would be more challenging, even though monetary financing would temporarily ease the funding constraints faced by the government. There are several reasons supporting this assessment. The main one is that the conditions will not be in place for the conduct of prudent fiscal policy and the implementation of the reforms necessary for achieving higher and viable real income growth.

Let me briefly explain why the expected or presumed gains in competitiveness and real income will not materialize. The exchange rate of the new national currency against the euro would most likely fall well below the level required for current account balance. Inflation, which is currently 1.5 per cent, would jump to a double digit rate and, in all likelihood, trigger a wage-price inflation spiral. Model-based calculations suggest that inflation would accelerate to 30 per cent, or even higher to 50 per cent,

depending on the impact of such developments on inflation expectations and on the strength of second-round effects of price increases on wages. Such an inflationary spiral would effectively offset the short-term beneficial impact of the devalued new national currency on price competitiveness and economic activity. On the contrary, real income would likely decrease substantially, rather than increase as some would predict, for a number of reasons, including the stresses to be experienced by the banking system and the exclusion of firms from international capital markets. Some simulations indicate that real national income would contract by about 20 per cent on top of the decline already recorded over the past three years (2009-2011). Thus, following a euro exit and a sovereign default, competitiveness would not improve in a fundamental and sustained manner, as a result of the consequent wage-price spiral and the likelihood that efficiency-enhancing reforms would not be implemented in such an environment.

Moreover, fiscal consolidation would be hampered by (1) reduced tax revenue as a result of the sizable contraction of economic activity, (2) increased public demand for more government spending to support real income, (3) the rise in public debt that would be redenominated in the new devalued national currency, and (4) the higher real interest rates that would be required to stabilize the exchange rate and bring inflation under control. So, fiscal adjustment would become more challenging, unless the view prevails - and it could prevail - that monetary financing of the budget deficit and accelerating inflation would help resolve the country's fiscal problem. Such a view is not only wrong and dangerous, it is also inconsistent with Greece's membership in the European Union, which requires that all member states - not only those in the euro zone - should pursue policies aimed at low inflation and sound public finances.

Overall, the economic consequences of a Greek euro exit would be disastrous, or, to use a Greek word, catastrophic. Moreover, the adverse social implications, especially for the weaker members of our society, would also be substantial and long-lasting. For Greece, a potential euro exit would also entail a national defeat, since it would be seen as proof that the country could not manage to put its own economic house in order in the context of monetary union and it would effectively diminish its role in the European integration process.

For all these reasons, I am convinced that, despite the admittedly difficult current economic conditions and the challenges ahead, Greece can achieve its twin policy objectives of achieving fiscal sustainability and restoring international competitiveness more effectively inside the euro zone than outside. This is my answer to the hypothetical question contemplated by the Danish prince.

V. Concluding remarks

In conclusion, I would like to make two final reassuring points. First, the overwhelming majority of the Greek people appreciate the devastating implications of a euro exit. That is why 70 to 80 per cent of the Greek people, according to several recent opinion surveys, want the country to remain in the euro zone. They understand and value the benefits of a credible currency for stability and long-term prosperity. The issue is whether they will support the process of economic adjustment and reform which is consistent with the country's continuing membership of the euro zone and which will secure sustained growth, at a time when many citizens may consider that the short-term adjustment costs exceed the expected long-term benefits that still appear distant and uncertain. I hope that the government that will emerge after the elections will work closely and fruitfully with our European partners to render these longer-term benefits more tangible. I am also hopeful that the Greek people

will decide not to throw down the shields but to continue on the road of reform that will lead to solid economic recovery and robust growth.

Finally, let me stress the importance of decisive and convincing action at the European level for the resolution of the euro crisis. Each country in the euro zone and each member state of the European Union should, of course, do its homework and should act responsibly in order to address its own economic problems. At the same time, the euro crisis will not be effectively resolved until (1) specific bold and coordinated steps are taken at the European level to support growth "here and now" and (2) concrete actions are taken to address systemic problems and market concerns by strengthening and deepening the economic pillar of EMU. I am hopeful that the growing convergence of views on these issues will forge a consensus on the way ahead, including the integration of financial markets and the oversight of financial institutions. If not, crisis resolution is likely to remain an elusive policy goal in the euro zone. European leaders and policymakers should not allow this to happen.

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[i] Notably, in May 2010, when the first bailout package was agreed, in June 2011, when a revised mid-term economic program was approved by the Greek Parliament, and in November 2011, when, following the announcement of a possible referendum on the policies being pursued, the government resigned and a coalition government was formed.

[ii] According to provisional data, in the first four months of 2012, the general government primary account was in balance, compared to a primary deficit of 0.7 percent of GDP in the corresponding period of 2011.

[iii] According to the program's baseline scenario, the debt-to-GDP ratio is projected to reach a peak in 2013 and to steadily decline in subsequent years.

[iv] This figure is derived from the Real Harmonized Competitiveness Indicators calculated by the European Central Bank. See ECB Monthly Bulletin, May 2011.

[v] According to the Spring Forecasts of the European Commission and the IMF.

[vi] Hence, it is not the full implementation of the program, but the non-implementation of its growth-enhancing components that explains part of the greater than initially expected economic weakness. For example, the only partial implementation of measures to increase competition, the failure to fight tax evasion that made necessary additional increases in VAT rates and real estate taxes, delays in privatization, etc..