# Yannis Stournaras: Ensuring Greece's European path

Honoree keynote address by Mr Yannis Stournaras, Governor of the Bank of Greece, at the "2024 Capital Link Hellenic Leadership Award" event, New York City, 9 December 2024.

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I am deeply moved and grateful for the great honour you bestowed upon me tonight.

I was born in Athens, Greece, on 10 December 1956. I graduated from Filothei High School in 1974, and from the Department of Economics, University of Athens. I obtained my post-graduate degrees (M.Phil. in 1980 and D.Phil. in 1982) from the University of Oxford. My doctoral thesis aspired to ground macroeconomic theory in mathematical microeconomic models.

I started my academic career at Oxford University, at St. Catherine's College, right after my D.Phil., taught economics as a Lecturer and also conducted research in the field of the oil industry. In fact, I was the first Research Fellow at the then (1982) newly founded Oxford Institute for Energy Studies. This played a pivotal role in shaping my future career path, as you will find out shortly!

It seemed as Oxford would become our permanent home, as both my wife, Lina (who also obtained her D.Phil. in Neurophysiology from Oxford University and began her academic career along with me), and I were perfectly happy with our lives in Oxford.

My sabbatical leave from the University of Oxford to fulfil my military service in Greece, and above all luck, was what changed my plans!

After completing my military service, I was about to return to Oxford when I accidentally came across a friend from Oxford, the now renowned Greek economist Dr. Platon Tinios, who arranged for me an appointment with the then (1986) leadership of the Greek Ministry of National Economy, Minister Costas Simitis and Deputy Minister Yannos Papantoniou.

Out of politeness and as Platon wouldn't take no for an answer, I did go and met them. They suggested that – who would have thought? – I should extend my leave from Oxford University, stay a little longer in Greece and help them with the economic stabilisation programme that had been launched in 1985, and more importantly to join, as an energy expert, the team which, led by the late Anastasios Peponis, then Minister of Energy and Industry, negotiated a gas supply contract with the then Soviet corporation Gazprom.

To cut a long story short, they convinced me to stay. I went back to Oxford and extended my sabbatical leave for a year. Lina did not agree at the time. "I'm not going back to Greece", she said, "at least not until you return to Oxford for good". We agreed that this would be the best. Deep down, I had always wanted to return to Greece. Unlike Lina.

So I returned to Athens without her. As a Special Advisor to the Ministry of National Economy on sabbatical from the University of Oxford. And that was it! I really loved to pair academic work with policymaking. I decided to find a permanent job in Greece, something that didn't take long. Soon, I joined the University of Athens, after a vacancy announcement, at the Department of Economics. Meanwhile, the late Dimitris Halikias, who at the time was Governor of the Bank of Greece, told me that he would engage me as an Advisor to the Bank of Greece once my contract with the Ministry of National Economy ended, if I decided to stay in Greece and leave Oxford for good.

I went back to Oxford only to resign. Lina and I had decided to take risk and quited prominent academic jobs in Oxford, London and Bristol to return home to Greece. The words of my superiors at the University of Oxford, the late Sir Partrick Nairne (Provost of St. Catherine's College) and the late Robert Mabro (President of the Oxford Institute for Energy Studies), as they were bidding me farewell, are still ringing in my ears: "You must be mad to leave Oxford". They didn't make me change my mind. I left. Lina and I did not regret leaving, but we both feel a huge debt to Oxford. Especially to the true meritocracy of the system. We worked hard, got top-notch doctorate degrees and found top research posts at a very young age.

Greece has honoured me with very important posts, both in the public and the private sector. I was fortunate and privileged to serve at the economic and financial sectors of my country and to cooperate with the governments of six Prime Ministers: Andreas Papandreou, Costas Simitis, Panagiotis Pikrammenos, Antonis Samaras, Alexis Tsipras and Kyriakos Mitsotakis. I have never abandoned my University career, until my retirement last August. During the last years I was mentoring and supervising doctorate candidates and co-authored research papers with them. The years as a Research Fellow in Oxford included, I successfully completed 42 years of academic teaching and research. My esteemed colleagues at the Department of Economics, as well as the Rector of the University of Athens, honoured me a few weeks ago with the title of Emeritus Professor.

Being an academic-cum-policymaker thrilled me. This wouldn't have been possible had I stayed in Oxford and has been a huge asset in my professional life, even though it required endless hours of hard work. As an academic, I quickly realised the limitations of academic thought, if not tested in the arena of economic policy. As a policymaker, I soon became aware of the shortcomings of an economic policy that is not grounded in economic fundamentals.

Turning to the economic policy arena, my first job in Greece, as an Advisor to the Minister of National Economy Costas Simitis and his Deputy Minister Yannos Papantoniou in the context of the so-called "Simitis Stabilisation Programme 1985-1987", concerned the restructuring of public enterprises and organisations as well as the design of an incomes policy based on productivity growth. Sadly, this plan was never implemented, as Costas Simitis resigned. Over the same period, I also worked on the gas pipeline project and the import of natural gas to Greece.

In my capacity as Advisor to the Bank of Greece (1988-1994), I worked with two Governors, Dimitris Halikias and Efthymios Christodoulou, as well as with the then Economic Advisor Lucas Papademos, on monetary policy issues.

As Chairman of the Council of Economic Advisers at the Ministry of National Economy (1994-2000), I was involved in the design and implementation of economic policy measures in preparation for Greece's entry into the euro area and I represented the Greek government in the Monetary Committee of the European Union in the negotiations for Greece' participation in Economic and Monetary Union, first under Prime Minister Andreas Papandreou and subsequently under Prime Minister Costas Simitis and Minister of National Economy and Finance Yannos Papantoniou, who was responsible for the overall coordination of the effort.

As Chairman and CEO of Emporiki Bank (2000-2004), I negotiated and implemented the first stage of the strategic partnership with Crédit Agricole and contributed to the establishment of a number of jointly owned subsidiaries.

As Managing Director of Kappa Securities (2005-2008), I gained vast experience in investment banking and capital markets, which would later prove very useful in all the public offices I was entrusted with.

As Research Director and, later on, Director General of the Foundation for Economic and Industrial Research (IOBE) (2009-2012), I was responsible for the design and implementation of research projects, as well as for managing the Foundation; this experience offered me valuable insights into key industries of the private sector.

In my term as Minister of Development in the caretaker government of Panagiotis Pikrammenos in 2012, I signed the approval of several investment projects under the development law.

As Minister of Finance in the Samaras government (2012-2014), I contributed to the restoration of the smooth programme refinancing for Greece by the fulfilment of policy commitments; the partial restructuring of Greece's sovereign debt; a public debt buyback on favourable terms; the implementation of reforms; the normalisation of public finances and the economy, a shift to a primary surplus at general government level after years of persistent deficits; a drastic decline in Greek government bond spreads; Greece's return to international bond markets; and  the recapitalisation of systemic banks.

As Bank of Greece Governor (2014-to date), a post to which I was appointed chosen by Prime Ministers Antonis Samaras in 2014 and, for a second term, Kyriakos Mitsotakis in 2020, I contributed, along with the Bank of Greece staff, in keeping Greece in the euro area during the first half of 2015; in the effective imposition and management of capital controls in 2015 until their full withdrawal in 2019; in ensuring the smooth provision of emergency liquidity assistance (ELA) to banks during the crisis; in the recapitalisation and resolution of systemic and non-systemic banks, while fully protecting bank deposits; in cleaning up ailigning banks and strengthening competition in the banking sector; and in the organisational restructuring of the Bank of Greece itself. In addition, as member of the Governing Council of the European Central Bank (ECB), I have been participating in the formulation and implementation of the single monetary policy, both in times of crisis and in a very low inflation environment, as well as in conditions of high inflation after the Covid-19 pandemic, while also having served as Chair of the ECB's Audit Committee.

Looking back, I am immensely gratified to have played my part, to the best of my ability and with the invaluable help of my highly competent associates in all my public engagements, first, in Greece joining the euro area, second, in Greece remaining in the euro area under the extremely adverse circumstances of the debt crisis, and, third, in Greece becoming – without exaggeration – a success story.

The Greek economy is beyond any doubt an international success story over the past few years. The recovery of investment grade status confirms this. Government bond spreads compare favourably with those of other Member States. Economic growth is considerably higher than the average euro area growth rate. Major fiscal problems, debt sustainability as well as bank restructuring and recapitalization issues have been successfully resolved, while bank deposits have been fully protected. In the second half of the 2000s, an imprudent fiscal policy and loss of competitiveness created gigantic "twin deficits" and financial stability problems, which brought Greece into the center of the Global Financial Crisis, with markets and analysts predicting Grexit both in 2012 and 2015. So, how did Greece turn itself into a success story? In my opinion, this can be explained by the following six reasons:

(a) painful domestic fiscal and structural adjustment during the three adjustment programmes;

(b) strong will to stay in the euro area;

(c) generous debt refinancing at very favorable terms;

(d) ECB waiver when Greece did not have investment grade status;

(e) NGEU-RRF generous participation; and

(f) Orthodox fiscal, financial and structural policies that are being pursued over the last several years.

The Greek economy has continued growing throughout 2024 at a rate considerably higher than the eurozone average. The labor market has maintained its momentum, fiscal figures are improving and the public debt-to-GDP ratio is falling rapidly, while inflation remains well below 2023 levels and is expected to converge to 2% in the medium term.

Over the coming years, the Greek economy is expected to continue to grow at higher rates than the rest of the eurozone. This is a particularly significant development, as it will reinforce the convergence of the country's real per capita GDP with the EU average. The primary drivers of economic activity will continue to be investment spending, thanks in part to European funds and particularly the Recovery and Resilience Facility (RRF), and consumer spending, due to the increase in real disposable income resulting from higher employment and lower inflation.

However, in spite of the undeniably positive prospects of the Greek economy, we should not lose sight of the economic challenges lying ahead. The most important challenge for Greece is the large current account deficit (6.2% of GDP in 2023), despite the very substantial fiscal adjustment and the improvement in labour cost competitiveness.

The main reason is that Greece lags behind most European countries in terms of structural competitiveness, despite significant improvements in recent years. For instance, on the basis of Switzerland's International Management Institute Global Competitiveness Index for 2024, Ireland ranks 4th, Portugal 36th and Greece 47th. (I compare Greece with Ireland and Portugal because in 1974, with the restoration of democracy in Greece and Portugal,  these three countries had very similar competitiveness and other economic characteristics).

A similar picture arises if one looks at data from the World Bank, which compiles six Worldwide Governance Indicators for more than 200 countries covering the 1996-2022 period. Greece lags behind Portugal and Ireland over the entire period and across all indicators. Accordingly, and despite the progress achieved over the past few years, Greece has still a long way to go in order to catch up with the structural competitiveness levels of most European countries.

Greece's persistent shortfall in all the above indicators translates into lower structural competitiveness and explains the major part of the current account deficit. The rest is explained by Greece's higher economic growth compared with its trade partners. Compounded by weaker investment, relatively low structural competitiveness inevitably weighs on productivity and living standards over the long run.

Investments play the most decisive role in shaping the future course of the economy, as well as in transforming the growth model with an emphasis on boosting productivity, driving innovation, increasing production of internationally traded goods and services, effectively dealing with climate change and facilitating the green transition. Increased production of internationally traded goods and services leads to higher exports and import substitution and thus to a reduction in the current account deficit.

Investment spending can underpin economic growth, particularly through improvements in infrastructure, education and health or investments in manufacturing equipment, machinery, or even intangible assets and cutting-edge technologies, including those that promote the green transition of the energy sector. There are considerable synergies between investments in tangible and intangible capital, and these should be fully utilized. Simultaneously investing in new technologies and in digitally skilled human capital results in the largest possible increase in productivity in the long run.

Investments as a percentage of GDP have increased in recent years, owing to particularly strong investment activity in the three years 2021-2023. Business investments have fully recovered to pre-2010 levels. On the other hand, residential investment is low, but rapidly growing in response to strong demand from both domestic and foreign investors, including investors from EU countries as well as countries further afield in the context of the Golden Visa program. Nonetheless, total investments as a percentage of GDP remain below the EU average, at 15.2%, compared to the EU's 22% in 2023.

For one, RRF funds must be received and disbursed to the private sector promptly. To date, the receipt rate of RRF funds is satisfactory (51% of a total €36 billion), and Greece is among the top performers in the EU. Satisfactory progress has also been made in terms of signing loan agreements. However, the disbursement of grants to the final beneficiaries is moving at a slower pace.

In order to improve structural competitiveness, it is also essential to implement a broad range of ambitious reforms, aiming at addressing structural weaknesses such as delays in the delivery of justice, bureaucracy in public administration and lack of digital skills. At the same time, it is crucial to eliminate any remaining restrictive practices preventing markets from being competitive, by removing barriers to entry and opening up goods and services markets to competition. These reforms will help attract foreign direct investment, as well as facilitate the participation of Greek companies in global value chains, in turn leading to the adoption of new technologies and innovative production methods that will enable Greek companies to offer high-added value products and knowledge-intensive services.

A healthy and competitive banking sector capable of financing businesses and households is essential. There has been a marked improvement in banking sector fundamentals over the past decade: Profitability, liquidity, capital adequacy and loan portfolio quality have all improved; new healthy and adequately capitalized banks have been created forming a fifth banking pillar, while divestment of the Hellenic Financial Stability Fund's shareholdings in the four systemic banks has been largely completed. Still, the sector's resilience must be further strengthened, including through quantitative and qualitative improvements in the capital base of Greek banks, by further reducing the non-performing loan (NPL) burden closer to the EU average and by improving the services provided to businesses and households. This will enable the sector to contribute even more to the financing of the real economy. Bank financing of business investment needs can be further bolstered by utilizing the full range of national and European financing mechanisms, such as the RRF, the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the Hellenic Development Bank (HDB).

Crucially, financing sources must be diversified. Beyond bank financing, it is important to explore possibilities of tapping private financing, of all kinds, for investments, including access to capital markets. Venture capital, private equity, crowdfunding, business angels, startup accelerators and microfinancing can be used to cover the investment needs of small and medium-sized enterprises that lack sufficient fixed assets to use as collateral for securing bank loans.

Implementing the reforms and changes outlined above can improve structural competitiveness and, at the same time, boost the economy's growth rate and support the transition towards a sustainable and competitive growth model, focused on entrepreneurship, competitiveness, innovation and extroversion. The priority must be the timely utilization of available EU funds, particularly RRF funds, to strengthen investments in human capital, green energy and digital technologies, which will in turn facilitate the country's green and digital transformation.

In a competitive global environment, the path towards effective and efficient implementation of reforms passes through broader political consensus building. Despite the substantial progress so far achieved, structural reforms should not be a taboo issue for political forces. Broader political consensus can enhance accountability as well as ownership of reforms and provide lasting solutions.

A strategy adopting a technocratic approach to political governance, which is based on measurable results, systematic assessment and benchmarking against the rest of Europe, as well as on seeking a genuine consensus in society at large, is key to addressing problems in a number of critical policy areas. Sticking to ideological red lines hampers building consensus around tried and tested answers to problems such as tax evasion, lawlessness and impunity, shortcomings in educational standards vis-à-vis the rest of Europe and delays in the delivery of justice. Only well documented policies can provide sustainable solutions and usher the country to a new era of growth and prosperity.

With regard to public finances, which is and should remain our number one priority, given the fiscal challenges ahead and the need to maintain our fiscal credibility, I would like to point out that we are still in the early stages of implementation of the new Stability and Growth Pact (GSP). The revised fiscal framework imposes control on government net expenditure growth, while also implying that any fiscal space created on the revenue side will be used to reduce public debt. These new conditions are opening up scope for rapprochement and synthesis between political parties towards consensus decisions on how to prioritise public spending and investment and improve their efficiency, combat tax evasion (with a view to broadening the tax base) and ensure a fairer distribution of tax burdens.

At this point, let me elaborate on the disproportionately heavy burden of defence expenditure borne by Greek taxpayers relative to taxpayers in many other euro area countries, which is linked with the protection of European borders and, in particular, Greek-Turkish relations. The burden of such expenditure, which primarily concerns imported military equipment, falls exclusively on Greek taxpayers. What is lacking today is a coherent and effective European security policy in the area of defence (as also suggested by the Draghi Report), aimed at maximising the benefits of defence investment and minimising the disproportionate costs entailed by defence equipment (e. g. through defence co-production programmes). At the same time, efforts should continue so as to find points of convergence in Greek-Turkish relations, given their bearing on Greece's economic and social performance, stability and security.

A very important fact to note is that the dialogue between Greece and Turkey which started in 2023 has already delivered significant results with regard to airspace infringement over the Aegean Sea, managing migration flows and economic cooperation. But above all, it has created an environment of stability and security for citizens: it is no coincidence that, while two years ago Greek-Turkish relations, together with the rising cost of living, were citizens' primary concern, nowadays, as suggested by opinion polls, citizens are still interested but not worried. This has had a strong positive impact on the stability and outlook of the Greek economy. I believe that an agreement on the settlement of our dispute with Turkey, on the delimitation of maritime zones, would be more than welcome, unquestionably paving the way for long and sustainable peace as well as economic growth and welfare in the region and Greece in particular.

The complexity of modern societies, characterised by frequent crises, multi-dimensional challenges, heightened uncertainties, globalisation and the ubiquitous presence of social media, has, in my opinion, rendered traditional political ideologies such as the left and the right, inadequate to describe today's political clashes. Therefore, the left-right dichotomy sounds rather outdated. Rather, in modern democracies, the critical divide is between liberal and populist policies, as experienced in Greece after the collapse of the two-party system and the emergence of new political formations in 2012.

Citizens must demand from traditional and new parties alike a minimum degree of commitment to dialogue and compromise. Even if this may require institutional reforms in the context of our parliamentary system, potentially involving amendments to the Constitution, such changes should be set in motion in the coming years.

The broader the policy agendas the parties manage to agree upon, the brighter the economic outlook will be, thus helping to increase welfare. Besides, the country's European orientation largely entails a convergence of views on the direction to be followed by national economic policies within EMU.

Unfortunately, today at the European level, despite a long tradition of political consensus and alliances, anti-systemic populism is on the rise, with public trust in democratically elected governments plummeting. I would like to underline that such a shift towards a polarised and fragmented political landscape in Greece, which has already suffered from a protracted and painful economic crisis, would have disastrous social and economic consequences.

However, in light of the hard lessons learned from the recent economic crisis, I believe that the so-called "systemic" Greek political parties have come to realise the country's political and economic stability as well as European path as essential pillars. This realisation creates a unique opportunity for fostering a consensus political culture in Greece, which would facilitate the sharing of political cost, hence the effective implementation of necessary reforms. In my opinion, consensus on economic policy matters should comprise four key elements: First, commitment to fiscal responsibility, with continued achievement of primary cyclically adjusted budget surpluses of 2% of GDP annually. Second, commitment to safeguarding financial stability, i.e. maintaining the robustness of the financial system and protecting deposits. Third, commitment to economic convergence by closing the investment gap as well as to advancing the appropriate reforms and upgrading the institutions. Fourth, bringing Greek-Turkish relations and the associated positive economic potential into the agenda.

Thank you for your attention.