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Statement by the Hon. **GEORGE A. PROVOPOULOS,**
Governor of the Fund for **GREECE,**
at the Joint Annual Discussion

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The global economy is now emerging from its most severe crisis since the Great Depression of the 1930s. Why was this crisis so severe? Because the financial system was at its epicenter, the ramifications of the crisis were quickly transmitted to all sectors and countries. The effects of the crisis were magnified by a collapse in business and consumer confidence. History shows that financial crises are more likely to be followed by severe economic downturns when they are centered in the banking system and occur in the context of rapid build-ups of credit and fast-rising asset prices. This has also been the case with the present crisis.

The policy responses to the crisis have been rapid, bold, and unprecedented. These responses reduced uncertainty and improved economic sentiment.

With the global recovery in its initial stages, and economic activity still far below pre-crisis levels, it is too soon to begin withdrawing the stimulus measures. However, the formulation of a medium-term macroeconomic framework for the post-crisis period will be crucial. It will facilitate the achievement and maintenance of a sound fiscal position and enhance the ability of the monetary authorities to deliver price stability. It will also help foster financial stability. The challenge will be to choose the correct timing for the withdrawal so as to avoid: first, a premature unwinding of public interventions; second, jeopardizing what has been achieved in stabilizing economic and financial conditions; third, letting these measures continue for too long, at the risk of distorting incentives and damaging public balance sheets. Safeguarding the sustainability of public finances will be a key objective in many advanced economies, the deficit and debt ratios of which have reached levels unseen in peacetime.

The IMF has played a key role in helping the global economy weather the storm. The tripling of IMF resources has significantly increased the Fund's lending capacity, and the new SDR allocation has provided additional liquidity to the global economy. At the same time, the launch of the Flexible Credit Line will add flexibility to the Fund's lending framework.

The best way to manage a crisis is to prevent it. The present crisis has revealed that macro-prudential factors play an important role in determining the size, nature, and propagation of systemic risk. Therefore, it is essential to establish an effective framework for macro-prudential supervision that will ensure both the systematic analysis of risks and the formulation of policies to address such risks.

The state of the Greek economy

The economic slowdown has been less severe in Greece than in many other European countries. However, this outcome reflects factors that, if left untreated, will reduce growth potential in the medium term. Specifically, the performance of the Greek economy during the crisis reflects the relatively-low level of openness and the deterioration of public-sector balance sheets from a position that was already worrisome prior to the onset of the crisis.

A factor that has, however, supported the Greek economy has been the soundness of its banking system. Greek banks have been free of toxic assets and their exposure to the emerging economies of South-Eastern Europe has remained within manageable limits. A recent stress test conducted in close cooperation with the IMF has reaffirmed the soundness of the Greek banking system.

The relatively-high growth rates experienced by the Greek economy since its entry into the euro area reflect a catching-up process. To sustain a robust growth rate in the future, Greece will need to address several key challenges, reflected in persistently very large current-account imbalances, high fiscal deficits, and worrisome debt levels. These imbalances are the result of structural rigidities, which have undermined competitiveness over time. To restore competitiveness and remove the imbalances, a dual agenda needs to be concurrently implemented: first, a multi-year program of fiscal consolidation, which can reduce risk premia and crowd-in private investment, raising the growth potential of the economy; second, bold and wide-ranging institutional reforms in the public sector and structural reforms in product and labor markets, which can enhance productivity and raise the employment rate. Only by undertaking these reforms will the Greek economy be able to become more competitive and increase its growth potential and the prosperity of its citizens. The broad support received by the newly-elected government will greatly facilitate the implementation of the reform agenda.