

## **Poul Thomsen Interview with *To Vima***

- 1. What is the best case scenario for the Greek economy and society to exit this crisis; when and how could this happen? Will the recession will be less than a 4% contraction this year?*

The economic program undertaken by the government represents Greece's best option for exiting the crisis. Certainly, it is an ambitious program and a difficult program to implement, but it is a credible program.

With effective implementation, Greece will be better off three years from now. The investment climate will have improved significantly and the public finances will be on a much sounder foundation. As a result, the economy will be growing again, employment will be increasing again, and incomes will be rising again.

At this early stage, as the interim review by the EC, ECB, and IMF indicated last week, the program is on track and we are already seeing positive developments: the deficit is decreasing; public finances are being better managed; the banking system is stable; and crucial structural reforms are progressing. Some of these measures will take more time before their full benefits can be recognized, but economic conditions will gradually improve.

As for projections, it is too early to revise them. We are still expecting the economy to contract by 4 percent this year before it will begin to improve. But by 2012, the Greek economy should be expanding again.

- 2. What is your main concern before your next visit to Athens at the end of July? What is the biggest threat to the program?*

Again, the government has made a strong start with the program and it is on track. But of course, more work needs to be done. For example, rigidities in product and service markets need to be reduced further to complement the labor market reforms that are well under way.

With every successful step of the program, confidence in the Greek economy will be restored, which in turn will reduce skepticism and risks.

While it is only normal that the public is anxious when the country goes through a difficult time like this, other countries that have experienced

economic crises have found that, with steady and dedicated policy efforts, they emerge in better shape.

3. *Who is going to head your office in Greece?*

A final decision has not been made yet, but we hope that the office will be operational in the next few weeks.

4. *Your critics in Greece are accusing you that your plan is to shift the whole burden and “sink” the middle class in order make the whole country more competitive. What is your answer to them?*

First of all, this economic program was designed and is being implemented by the Greek government—in consultation with the EU, ECB, and IMF. So it is not correct to call it an “IMF plan”.

Secondly, from the beginning, the program has been designed with fairness in mind. Everybody has to carry part of the burden in order to get the country back on track. At the same time, the government is taking measures to restructure the economy so that it becomes more dynamic and thus, can offer better and more opportunities for the Greek people, including the middle class. As much as people have to share the burden now, they will share the benefits later.

5. *Up to now, the measures that are part of the program have hurt the salary workers and the pensioners, are widely considered unfair, and have caused a significant increase in inflation. Who is to blame for the inflation, the taxes imposed or the structural problems of the market? What is the possibility for new fiscal measures in 2010?*

We fully appreciate that undertaking the measures included in the government’s program are difficult, but we would not call them unfair. Costs in the Greek economy are far too high and average compensation in the public sector is even higher than in the private sector (a very unusual situation in comparison with other countries). Further, given that two-thirds of the budget comprises wages and pensions, the country has little option but to address this imbalance. It is also important to note that those who get only the minimum wage and pension are in effect exempt from the reduction in wages and pensions. On the question of inflation in Greece, it is too high and is damaging the country’s competitiveness and ability to grow and generate new jobs. Part of the high inflation, in our view, is due to a lack of competition in domestic markets. That is why the program advocates structural reforms to introduce more competition.

Higher consumption taxes have a one-time effect on prices, but that is not inflation in a sense that they cause a permanent tendency for prices to increase. It is the inflation as a permanent feature that is much more damaging to the economy and job creation.

The government is implementing its program as planned and I therefore see no need for new measures.

*6. How is your collaboration with Mr. Papaconstantinou so far?*

Excellent. The Greek authorities, including Minister Papaconstantinou, are very determined to make the program a success, and they are demonstrating resolute leadership in a difficult environment.

*7. Did you ask the Labour minister Andreas Loverdos to impose a 50% cut to job termination compensations?*

No. The details of the labor market reforms are still under discussion and it is therefore too early to comment on this publicly. But let me stress that we encourage Greece to implement reforms to make the economy much more competitive, and that reforming labor markets and lowering labor costs is an integral part of this effort. Thus, we strongly support the government's proposals to lower hiring and firing costs in order to create more jobs, and we believe that the preliminary proposals for labor reforms that it has put on the table are an important step in the right direction.

*8. You have more than 25 years of experience with the IMF. Do you fear possible social upheaval in Athens after the new measures for the pensions and the labour market?*

While the program is difficult, the Greek government—and, I am confident, most people, too—recognize that the alternative would be even worse in terms of low growth and lost. The economic measures implemented by the government are introducing some major changes and that kind of adjustment is not easy and often causes discontent. This is understandable, because people see things get worse before they get better. But I am sure that the Greek people understand this and are resilient. They will get through this time of change and reform because they know that in the end, with a more dynamic economy, better employment opportunities, and stronger growth, they and their children will be better off.

9. *Economists like for example Nouriel Rubini say that Greece should restructure its public debt “in an orderly way” in the next six to 12 months in order to avert greater damage to the global economy. Do you agree or not?*

The Government has carefully considered its options and I agree with it that a forced or involuntary restructuring would not be in Greece's best interest because it would entail huge costs. Instead, the implementation of the economic program will help Greece to regain credibility and confidence, and get back on a path of stable economic growth, and that will also benefit Europe and the world. Once such confidence is restored, I am sure that Greece can gradually lengthen the maturity of its debt by issuing bonds with a long maturity.

10. *When your plane lands in Athens do you get the feeling that you have just arrived in a place where you are unwanted? What was your best and worst moment in Athens so far?*

Personally, I have only had positive experiences in Greece. People are extremely friendly and appreciate that we are here to help. They are of course worried about their country and their own situations, but they understand that something needs to be done. This is not about me or about other individuals or officials, but about getting Greece out of the crisis. The government is working very hard to build a stable, growing, and dynamic economy. Its effort has gotten off to a strong start and I firmly believe that Greece will succeed.