GREECE: THE WAY FORWARD

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On Friday, October 14, the London Business School hosted a discussion on Greece. The invited participants were of high caliber and included professionals and academics, who combine a wide spectrum of expertise in government, the banking industry, the consulting industry, or the legal profession. It also included restructuring experts. Their names are attached at the end of this Memo. LBS intends to publish a White Paper soon, aiming to gain traction for the school and, perceived by almost everyone as a neutral observer, perhaps influence the IMF, the EU or the Greek Government.

The organizers were of the view that deep structural reforms ought to proceed, accompanied by an equally deep haircut. Objections to the latter were raised only by some Greek participants (of both major political parties), who argued that a deep haircut would create contagion. I intervened by referring to the domestic exposure to GGBs, which would hurt banks and pension funds, implying the benefit to the State would not be as big as it appears.

Most Greek participants viewed a €50bn – now €35 bn - (or even a €10 bn for that matter) amount of privatizations in the existing Troika Greek Programme as completely unrealistic. LBS organizers described the possible creation of SPVs like Roland Berger's EURECA, which would relieve the fire-sale pressure, provide incentives to the government for action, and generate immediate income to the country. Participants criticized the fact that so far the Greek Privatization Agency only has 5 managers and no employees, when it should have had over 100 employees by now in order to do its job effectively. The Greek politicians in the group commented that the managers of the privatization agency would likely go to jail in case privatizations proceed at today's prices.

There was a lot of worry about the possibility the Greek State may re-nationalize the banking system following a haircut, yet most non-Greeks as well as many Diaspora Greeks seemed unaware of the existence of the Financial Stability Fund and its rules. The question of how to secure the State does not mingle with the private sector was the key topic of discussion.

On banking, the moment I answered questions on the Black Rock audit and mentioned that the audit is unlikely to change drastically the NPL picture like it did in Ireland, the Greek politicians among the participants jumped, claiming large losses and quoting the problems Proton Bank! I also brought up the topic of how the EU last week had announced higher minimum Core Tier I capital ratios in Europe and how this is a pro-cyclical regulatory policy that economic theory argues it ought to be avoided. It could easily bring recession to Europe and deteriorate the Greek external environment.

On the structural reform agenda, a lot of time was spent on the failure of the Hellenic tax collection mechanism, which people considered the top priority to fix. A consensus seemed to have formed that the current body of employees are so corrupt that they ought to be sacked. Dionysius Spinellis, the Greek IT General Secretary, was there to provide information from the ground. The other reform priorities were the re-organization of the State sector and the reduction of public expenditure, but in a targeted way and not with ridiculous horizontal methods that worsen the growth prospects.

Many participants worried about the Greek State stalling all together, as individual public sector groups refuse to work, hence causing a huge recession – perhaps depression and unraveling of Greek society - next year. One participant, a non-economist, mentioned at dinner that the debate in Greece today reminds him of the debate in Bosnia, prior to the civil war.

The organizers began a discussion on the issue of corruption to which I responded that corruption is also a function of the disorganization of the Greek public sector plus the fact that the self-employed in Greece represent a bigger fraction of the labor force. Some Greek politicians among the participants subsequently suggested to the organizers that the White Paper ought to also emphasize some positive aspects of Greece.

One interesting idea was brought by a consultant, right after I had talked about the lack of "ownership" of the stabilization program by Greek citizens. He argued that there is lack of ownership by the Troika as well. "*The Troika people are stuck with the macro targets and have forgotten the micro-incentive aspects of how those targets can be attained. As a result the Greek government does crazy things, taking blind horizontal measures simply to attain the numbers*." One ex-IMF official objected to this argument, saying the problem lies with the Greek political establishment that refuses to act on time.

No solution was offered to the political problem of extreme hesitancy in carrying on with the reforms. There were enough politicians there for some remarks to be heard, yet this was avoided. I mentioned the need for transforming the Troika Program into a specific Greek Development Plan on which the two major parties ought to agree. Yet, not much discussion followed, apart from a remark by a non-Greek, who claimed to have visited Ireland, Portugal and Greece. "*Only in Greece there is confusion about what to do*" he said.

Overall, the meeting was useful in flushing out some ideas and for finding out how everybody thinks of the crisis and its resolution. The White Paper ought to be a positive contribution.

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