



EUROPEAN CENTRAL BANK
EUROSYSTEM

COURTESY TRANSLATION

Jean-Claude TRICHET

President

Mr Ioannis A. Tsoukalas
Member of the European Parliament
European Parliament
60 Rue Wiertz
B-1047 Brussels

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Questions related to the Greek crisis

Dear Mr Tsoukalas,

Thank you for your letter raising the questions on the Greek crisis, which was sent to me by Ms Bowles, Chairperson of the Economic and Monetary Affairs Committee, on 20 May 2010.

The ECB has made both public and non-public warnings concerning the economic developments that may lead to a deterioration in competitiveness in euro area Member States, including Greece. The following references seek to offer a broad overview:

First, in addition to the messages on the monitoring of relative competitiveness given by the Vice-President of the ECB and by myself on the occasion of the monthly Eurogroup meetings, there is an array of publicly available reports, articles and other analysis on competitiveness issues and price differentials¹ in the ECB's Monthly Bulletin and in speeches delivered by the members of the ECB's Executive Board and Governing Council. These emphasise the importance for euro area Member States to maintain appropriate domestic, fiscal and structural policies to support competitiveness, output and employment growth, and as such are applicable to Greece.

¹ See, for example: 30 September 2003, the report entitled "Inflation differentials in the euro area: potential causes and policy implications" prepared by the Monetary Policy Committee of the European System of Central Banks, which comprises experts from the ECB and the national central banks; 13/14 December 2004, papers from the workshop "Monetary policy implications of heterogeneity in a currency area"; May 2005, the Monthly Bulletin article entitled "Monetary policy and inflation differentials in a heterogeneous currency area"; 13 June 2007, a speech given by me entitled "Economic integration and adjustment processes in the euro area".

Second, a number of public interventions have been made by the ECB which refer to Greece specifically. Examples include a speech delivered as long ago as 7 September 2007 by the then Vice-President of the ECB, Mr Lucas Papademos, entitled “Inflation and competitiveness divergences in the euro area countries: causes, consequences and policy responses”. Similar statements by Lucas Papademos, Nicholas Garganas, the then Governor of the Bank of Greece, and myself were also made at the press conference following the Governing Council meeting held in Athens on 8 May 2008.²

Third, I should also like to bring to your attention our Introductory Statements, published on the ECB web site every month, which have repeatedly called for determined efforts from all euro area Member States to consolidate public finances and meet their commitments under the Stability and Growth Pact.³

With regard to developments in Greece over the last few months, on 6 January 2010 a delegation of EU officials, comprising staff from the European Commission and the ECB, visited Athens to discuss the need for credible fiscal consolidation measures with the Greek authorities. Following these discussions, the ECB received the Hellenic Authorities’ Stability Programme, dated 15 January 2010. This report presented the Greek government’s set of measures to deal with the fiscal, economic and structural difficulties at that stage. In response to discussions at the EU level, further steps were taken by the authorities on 2 February 2010. The additional consolidation measures announced on that day were welcome, but they were not yet sufficient. Following another round of discussions, the Council Decision of 16 February 2010 identified a list of urgent fiscal measures to be taken by 15 May 2010. The Council Decision also requested the submission, by 16 March 2010, of a report containing information both on the implementation of consolidation measures in 2010 and on additional measures taken to safeguard the 2010 deficit target. Shortly afterwards, a joint visit of staff from the European Commission, the ECB and the International Monetary Fund to Greece took place on 22-25 February 2010 to discuss the need for further measures with the Greek authorities. It was following the joint visit of Commissioner Rehn and Mr Jürgen Stark, Member of the ECB’s Executive Board, on 1 March 2010 that the Greek authorities announced additional measures, which were welcomed by the ECB in a press release published on the ECB’s website. This statement also stressed the need for the rapid adoption and implementation of decisive structural reforms in line with the Council Decision of 16 February 2010.

² Extracts from the press conference held in Athens on 8 May 2008: “On the economies of the euro area...for all economies, including Greece... particular attention should be given to cost competitiveness indicators and to relative competitiveness indicators, particularly in countries or economies where deterioration of the competitive position has been observed over time and where current account deficits of considerable magnitude have also been observed”

³ See, for example, the following Introductory Statements: 6 June 2007, “As regards fiscal policy, all countries should be in line with the rules and provisions of the Stability and Growth Pact. This will be crucial for the smooth functioning of Monetary Union, given that the Stability and Growth Pact is an indispensable part of its institutional setting”; 8 November 2007, “2008 budget plans in a number of countries point to a pro-cyclical fiscal stance and an unwarranted relaxation of consolidation efforts. This gives rise to concern as consolidation shortfalls undermine in particular the Eurogroup agreement to achieve sound budgetary positions by 2010 at the latest”; 6 November 2008, [There is a] “need for fiscal policy to focus on medium-term sustainability and thereby build confidence. (...) The fiscal policy provisions of the Maastricht Treaty and the Stability and Growth Pact should continue to be applied fully. The fiscal rules are one of the indispensable pillars of EMU and the single currency, which must remain firmly in place so as not to undermine the confidence in fiscal sustainability”; 4 June 2009, “To ensure trust in the sustainability of public finances, an ambitious and credible adjustment effort will be required to return as soon as possible to sound fiscal positions, supported by a full application of the provisions of the Stability and Growth Pact”.

Finally, the Greek government decided to provide an updated Stability Programme on 8 March 2010, detailing the measures that had previously been announced, which was evaluated through the Eurogroup in line with the aforementioned Council Decision.

Concerning the last part of your question, the lack of discipline in fiscal policy over recent years meant that Greece was threatened with a major economic slowdown accompanied by a collapse in confidence. Without the measures that are now being implemented, it would not have been possible to regain a perspective for growth and employment to recover. Rather, we would be seeing much more adverse macroeconomic and financial market developments. Looking ahead, the economic and financial programme decided by the Greek government, which has been assessed by the European Commission, the ECB and the IMF, represents a solid basis for a more positive outlook. The programme is based on realistic macroeconomic assumptions and, in addition to the necessary expenditure cuts and tax increases, includes a very rigorous and comprehensive structural reform agenda. Over the medium term, this sound combination of structural reform and return to fiscal sustainability will help to support employment, renew growth and combat the competitiveness problems that Greece has accumulated.

Yours sincerely,

[signed]

Jean Claude Trichet