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Lessons Learned: Spiros Pantelias

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Yale Program on Financial Stability
Lessons Learned

Spiros Pantelias

By Maryann Haggerty

Spiros Pantelias, an economist and investment banker, was an adviser to the governor of the Bank of Greece from late 2011 until early 2016. In that post, he was responsible for projects related to the reform of the domestic banking sector as envisaged by the Memorandum of Economic and Financial Policies (MEFP) and the Memorandum of Understanding (MOU) of the Hellenic Republic's Economic Adjustment Program, two of the three international bailout efforts undertaken to return the nation to financial stability in the wake of its sovereign debt crisis. He is currently director for general and prudential supervision and resolution for the Bank of Greece. This "Lessons Learned" is based on an interview with Pantelias in May 2021. The full transcript can be accessed here.

Ignoring or downplaying a situation involving systemic risk only makes matters worse. Honest acknowledgment and timely attack can help moderate a developing crisis.

The Greek financial system weathered the turmoil of the 2007–09 Global Financial Crisis well. Unlike elsewhere, the nation's banks were not caught up in obscure financial investments or risky real estate lending. Instead, they held a lot of government debt, and Greece had internal problems that soon led to its own financial crisis. "The Greek economy as a whole had key structural weaknesses," Pantelias said. "It was already very well established that the Greek economy was running twin deficits, both on the fiscal affairs front as well as in terms of the current account balance. These were weaknesses that were identified, but they were neglected by politicians."

Greece's problems can be traced to its mounting government deficits, Pantelias said, but many downplayed the danger. He recalled, "The political discussion which preceded the 2009 election basically avoided any kind of disclosure, any kind of conservatism about the measures that would have to be taken for the Greek economy." On the contrary, people were led to believe that there were various less painful options available. But that wasn't the case. The government's debt burden was just too high. Pantelias said,

> In early 2010, the Greek government initiated . . . several austerity measures. But if you ask me, it was way too late. At some point in time, I think it was around March, it was evident that the Greek government had no market access in terms of refinancing public debt. Policymakers had a much, much better understanding about budget deficit figures that were significantly higher than everybody thought in the first place. So, at that time, end of the first quarter of 2010, the only option available was to have some sort of coalition of international governmental players, that they would provide a support package for Greece. And this is what happened.

International help came from a "troika" of the International Monetary Fund, the European Commission, and the European Central Bank. The international group agreed to lend Greece

110 billion euros over three years. But that wasn't enough to fix the problems, Pantelias said. At the end of 2009, Greece had a budget deficit of 15% of GDP. At the same time, he said, the country experienced "the so-called snowball effect. You have austerity measures, which means recession," which meant increased deficits.

> So that meant a second program, a second fiscal adjustment program, an MEFP, Memorandum of Economic and Financial Policies, because on top of the money you're going to need for inducing equilibrium to fiscal affairs and GDP developments, you also need a major package for the financial sector if you are to preserve financial stability.

According to Pantelias, the Greek government should have taken steps much earlier to address the known problems, rather than ignoring them, which only let them grow and made the necessary remedies more severe. "Unfortunately, we learned the hard way, and we could have subjected ourselves to less recession, less pain. At least the right decisions were taken, better late than never," said Pantelias.

The lack of effective, credible communication by the government can fuel public rejection of necessary crisis-fighting measures, sometimes with long-lasting effects.

The Greek crisis was layered with communication failures that made it more difficult for the government to respond to the growing financial and political turmoil, and that fueled the social, political, and economic effects of the crisis. First, Pantelias pointed out:

> It took years for a large amount of the population to understand that the European Union is not a country; it is a union of several jurisdictions with their own parliaments, their own taxation systems. So, for a Greek resident to ask a Dutch or a German or a Spaniard to pay for someone else's debt—it cannot fly. We have to pay for our debts.

Second, during the 2009 elections, as the crisis stirred, the government and candidates minimized and misrepresented the country's economic situation. So, in 2010 (after Greece had threatened to default on its debt, putting the euro at risk), when the necessary international bailouts came with fiscal austerity measures, they were deeply unpopular. In 2012, a second program was required to prop up the nation's banks, "because technically speaking," Pantelias said, "the vast majority of the Greek banking sector was insolvent."

In early 2015, a new government was elected, with promises to renegotiate the bailout terms and renew government spending, a strategy that Pantelias thought was "going nowhere." This undermined the central bank's efforts and sent the populace into overdrive. "We have an unprecedented first half of 2015, unprecedented!" Pantelias said:

> The country was dealing with an impossible situation. I mean, an absence of negotiation and consultation between Greek politicians at that time and European politicians, as well as the IMF. It was going nowhere, and everybody who is in that kind of business is very well aware that it would go nowhere, since there was no possibility that

> the Europeans would step back and abort program implementation as it was requested by the Greek government at that time.
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> Thus, we get to the events of summer of 2015. We have a series of unfortunate events, including a rather peculiar referendum which was never implemented. In the referendum, Greek voters backed refusing another EU deal. Moreover, we have the unfortunate imposition of capital controls as well as a two-week bank holiday. From a central bank's point of view, the very things that we had been working all these years to avoid, this is exactly what we were facing in the summer of 2015.

There was also talk, in Greece and elsewhere, of Grexit—that is, Greece exiting the European Union or the monetary union. In Pantelias's view, that would have been disastrous, and he said, "Greece was not prepared to make the transition from a hard currency to a weak currency. There was a lack of institutions. There was a public debt [the size of which], even in the remote possibility that there would be an official sector haircut, it would still be unsustainable." Eventually, Pantelias said, the people understood that pensions had to be cut and the government had to stop growing, "simply because the rest of the economy could not support it."

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