

HOW TO GENERATE GROWTH & PROSPERITY IN SOUTHEAST EUROPE?

Boosting competitiveness & growth while maintaining fiscal stability

Initiatives to establish the region as an investment hub Regional and cross-border cooperation

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Ladies and Gentlemen,

Allow me first to thank the organizers for their kind invitation. It is a pleasure and an honor to join such an impressive list of panelists, and to have the opportunity to address such a distinguished audience.

'How to regenerate growth and prosperity in south-east Europe'. That is the theme of this panel.

I have one addition on my behalf. The question is how to generate 'sustainable' growth. Because, this is the only kind of growth that can create lasting prosperity. As opposed to the bubble-led growth which comes easier but it soon ends. And when it does, comes the crisis.

Allow me to share our own experience in Cyprus.

After a couple of decades of being one of the most dynamic and fastest growing economies in Europe, by 2013, Cyprus was faced with an unprecedented crisis.

Excessive credit-led growth led to a severe banking crisis which resulted to the collapse of one of our systemic banks and a bail-in of deposits that shook the whole banking sector.

An equally severe fiscal crisis with the public coffers being literally on the brink of exhaustion. With unemployment increasing to unprecedented levels. It was a “perfect storm” which brought into question our membership to the euro-area as well as the EU.

Two years later things have improved significantly. Our newly-elected, at the time, government quickly came to an agreement with the EU and the IMF on a conditions-based support program that enabled us to focus towards the implementation of an ambitious program of economic reform and consolidation.

A three-pillar reform program.

The first pillar has to do with the banking sector. Inevitably we have a smaller banking sector, but without the excesses of the recent past. Built on healthy grounds, better capitalised, better managed, and better supervised.

The second pillar deals with the fiscal situation. Public expenditure and particularly the public payroll had to come under control. The excessive deficit had to come down and eventually eliminated in order to reduce the overall debt burden from our economy.

And a third but equally important pillar has to do with the promotion of structural reform program.

In fact, this is a program which is delivering. Our economic performance is rebounding and the unemployment rate is showing the first signs of de-escalation. We have seen the first international investors placing a vote of confidence to our country and bringing fresh money into our economy.

We had to make difficult, but unpopular decisions. We had to cut spending significantly. Some refer to this as austerity; I call it a balanced budget.

This combination of economic recovery and fiscal consolidation is instrumental when it comes to meeting yet another fundamental key policy objective; The restoration of confidence. And as we all know the economy is about confidence.

It was this loss of confidence which led many countries in the region to a negative spiral of events leading our economies into crisis.

A loss of confidence in the state, means that it can no longer borrow from the markets.

A loss of confidence from the consumers, brings down their spending. Business stop hiring and they start to lay-off.

A loss of confidence from international investors means that they invest somewhere else. We live in a competitive world. And coming to the 'theme' of this panel, the 'investment hub' is where the investors chose to go.

By bringing our public finances back on a downward path, at 20% lower than what our program partners had originally expected, we have already seen successive rating upgrades and an impressive improvement of our bond yields.

This shows that the perception that fiscal consolidation always leads to deeper recession and rising unemployment is false, as is the austerity vs growth dilemma. We can be more productive by ensuring that fiscal consolidation and economic growth go in hand.

This is what we, as well as other countries, have demonstrated. Economic recovery or growth is a structural issue and does not always require continuously increasing public expenditure.

For instance, by placing a leash on public expenditure we were able to avoid the need for imposing any new taxes. And maintaining a stable and competitive tax regime is a key element of success. It is a key element of creating a business friendly environment or for attracting foreign investments.

Ladies and gentlemen,

There can be no sustainable growth model without bold structural reforms.

Structural reforms that will place greater emphasis to the tradeable good sector as an engine of growth and will include lifting the Non-Tariff-Barriers to trade, deregulation and cutting back on red tape, creating an enabling business environment, and a bold public administration reform.

Reforms to tackle corruption and tax evasion. Two problems that most of the countries in the region face at different levels of which constitute a huge cost to our effort to attract investments.

Privatisations, which should be seen as a reform that will boost competitiveness and attract foreign investment in key sectors of our economies.

Action in these areas is always politically difficult and demanding, in any part of the world. But we must openly acknowledge that this is where we must improve.

Ladies and gentlemen,

Let me conclude, by repeating that there are no magical solutions to generate growth. The answer is the economic transformation found in economic orthodoxy; Free market, healthy banking sector, sound public finances, and structural reforms to enhance competitiveness. It works.

And it is those items that any regional cooperation agenda should include. Both from a convergence point of view and at strategic or macroeconomic policy level.

Because these are the prerequisites for achieving the aim of regional cooperation; to enhance inter-industry trade, to expand markets for foreign investors, to reap the benefits and the economies of scale of a larger, single market.

And perhaps more importantly, to ensure that regional cooperation would achieve a more timely and efficient process of integrating the economies of SEE with the core of the EU economy. That SEE fits into the larger economic block of the EU and that there can be no two or three-speed Europe.

And this is the job we have to do. By correcting, reforming, and consolidating our economies in a coordinated effort, we lay the foundations for a more viable growth model for the region, relieved from the 'sins of our past'.

Because the region is indeed an excellent place. To live, to do business, to invest, to prosper. As long as we allow it to utilize its full potential.

Thank you very much.

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