ALEXANDER S. ONASSIS PUBLIC BENEFIT FOUNDATION

PRESS RELEASE

International Scientific Conference

«*Financial and Economic Crisis: The Return to Stability*»

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The international scientific conference «***Financial and Economic Crisis: The Return to Stability***», which was organised by the Scholars' Association of the Alexander S. Onassis Public Benefit Foundation, was successfully completed on Monday, June 21, 2010. The conference, under the aegis of the Onassis Foundation, was held at the Karatzas Building Auditorium of the National Bank of Greece.

Both the conference chairmen and the speakers, 16 in total, were distinguished academics and practitioners from the European Union and North America. The Governor of the Bank of Greece, Professor George Provopoulos also participated. Welcome speeches were addressed by the President of the Onassis Foundation Mr. Anthony Papadimitriou, the Vice Chairman of the European Parliament Mr. Stavros Lambrianides, the Member, Ex Chairman, of the Greek Parliament and Ex Minister Mr. Dimitris Sioufas as well as the Member of the Greek Parliament and Ex Minister Mr. Dimitris Avramopoulos. The conference was also attended by the Deputy Minister of Infrastructure, Transportation and Networks Mr. Nicos Sifounakis, the Member of the Greek Parliament Mr. Evangelos Antonaros and by Ex Minister Mr. Petros Molyviatis. Furthermore, the audience was composed of the President and the Members of the Board of Directors of the Onassis Foundation, ambassadors, governors, CEOs and executives of the financial, shipping and other sectors, university professors, students and the Onassis Foundation scholars.

The conference put emphasis on the current situation of the world economy, the consequences of the crisis, the implemented policies, the way in which economic stability and growth can be achieved, the implications of the crisis on the stability of the financial system, the measures that should be initiated, the lessons for risk management, the way in which the financial system could become less procyclical as well as the kind of policy that should be followed by the companies of the non-financial sector. In addition, emphasis was given to the possible measures against the crisis in the Eurozone and Greece. Conclusions and policy proposals followed for all these issues and on what has to be accomplished towards the direction of a stable and growing world economy. The following could be mentioned among the basic conclusions:

Analysis of the causes of the crisis

The world economic crisis resulted from a long term interconnection of significant redistributive trends which led to the increase of the participation of profits in world output, where the financial sector depicted a rising participation on them while in parallel the proportion of labour salaries and wages was reduced. What followed was the rise of the debt to assets ratio of the financial institutions and the undertaking of high risk on their side. Basic contributors towards this direction were the financial liberalisation and the financial innovations which were not followed by the required adjustment of the control mechanisms, the international economic imbalances of the last decade as well as the procyclical operation of the international credit rating agencies.

Furthermore, following two decades of monetary policy implementation under the only objective of inflation stability, which was combined, in the European Union, with a stability and growth plan, Keynesian policies were implemented to face the crisis. However, since 2009, economic stabilisation fiscal policies are implemented, entailing the risk of a significant world economy slow down, in particular in the Eurozone as countries endeavour to tame their fiscal deficits. In combination to the observed trend where savings exceed investment that calls for the initiation of expansionary fiscal policies. It is only when the economy becomes overheated that a process should be activated for the reduction of excessive fiscal deficits.

Proposals for financial stability and growth

The developments and the factors that acted lead to the need of abandoning the unique objective that is currently under management by the central banks which refers to price stability, as it seems not to be able to guarantee economic stability, in total. What is needed is the coordination between monetary and fiscal policy, while in addition a new direction is required with respect to the main operation of each central bank which refers to the safeguard of financial stability in general. The proposals to safeguard financial stability extend from the imposition of limits on the size of each financial institution, the wiping out or the significant reduction of own account trading and in general own account investments of the banks, and the ownership of hedge funds until the total restructuring of the financial sector. Emphasis was put on the priority that has to be placed by countries and central banks on proactive actions on the financial system. This can be achieved with the rise in each capital of the financial institutions during the downward periods. Also, a strong and effective financial supervision was proposed as a substantial component of any financial sector reform. Proposals are discussed like the introduction of «financial stability taxes» and «financial activity taxes». Questions are raised though with respect to the ability of the financial sector under such measures, to provide financial services without significantly reducing its profitability and its credit operation. The scene is not clear so far. The proposals seem to be complicated while, in addition, world agreement is needed for their implementation.

Furthermore, reference was made to the non-financial sector. There the wiping out of substantial disincentives is needed which act against private entrepreneurship and prevent economic growth. In particular, due to the accumulated experience, it was reported that enterprises can utilize the opportunities stemming form this crisis by taking both defensive and offensive measures and achieving sustainable growth. What is needed is the focus on competitive advantages, on company networking, on qualitative and differentiated products which offer «value for money». The important rule of Foreign Direct Investments was also mentioned.

Moreover, it was stressed that countries with fiscal surpluses should proceed to fiscal expansion in order to assist economic recovery in the Eurozone while the coordination mechanisms within EU should be strengthened. This is reinforced by the fact that the economic crisis in the Eurozone also includes countries such as Italy, Spain, Portugal and Ireland. So, it is «European» solutions that are needed more, which should support the economic recovery of the Eurozone and also deepen economic integration, including substantial statutory measures which lead to a genuine monetary union. The crisis in Greece and other Eurozone countries creates the opportunity for the European integration to progress to the benefit of the EU policy. The economic and monetary union can not possibly continue in its current form. It remains of vital importance for those who implement economic policy in the European Union to determine European solutions which care for the interests of all EU citizens.

The causes of the Greek crisis

With respect to the Greek economic crisis, it came out that it is related to five main causes: a) the fiscal weaknesses of the Greek state, b) the restrictions in the implementation of fiscal and monetary policies in combination to transferring the pressure of economic adjustment to the labour market in an unsatisfactory way in terms of competitiveness, c) the steady gradual worsening of competitiveness of the Greek economy, d) the world economic crisis which worsened fiscal magnitudes and e) the dramatic increase of the burden of interest note costs.

It was stressed that only the first cause is undoubtedly related to the effort that Greece has to undertake through the fiscal austerity package. The others have a European dimension and should be faced at the EU level. Therefore, the contribution of ECB is needed for fiscal improvement and the wiping out of imbalances. The Greek package must have a long term orientation, with the less possible effects on demand, to aim at combating tax evasion, wage freezing and the creation of fiscal surplus. Special attention was paid on the importance of the fiscal package turning successful on the alternative solutions are not preferable while

they increase the problems put economic growth at risk as well as the country's social cohesion for many years.

In this context, from the presentation of the Governor of the Bank of Greece, it became evident that the course of the support memorandum between Greece, the EU, the ECB and the IMF is developing satisfactorily and that the timetable that has been set shall be finally fulfilled successfully. In particular, Professor George Provopoulos stressed that the measures gradually cotribute to the restoration of reliability on the fiscal magnitudes. This will progressively lead to the restoration of confidence by the markets on the Greek economy, further interest rate reduction as well as to the Greek crisis way out. In addition, he pointed that the Greek economic package forms a unique opportunity for the adjustment of the economy, indicating the need for undertaking structural measures. Finally, he mentioned that the Greek economy possesses significant growth prospects, which also answers the analysts' criticisms on the unsustainability of the Greek general government debt.

Risk management-credit rating agencies

The financial crisis leads to certain basic conclusions on risk management. A first lesson is that a necessary term for the effective operation of a risk management system is on possessing sufficient, exact and timely information. One more lesson is that the financial system in the way it operates today is «loaded» with many problems which put at risk and loosen the proper banking rules- the moral hazard issue- on each step. Finally, the credit rating agencies must recognise that the finance that is linked to structural products differs from products such as corporate bunds and therefore they have to develop tools which quantify these risks properly. Also the way of compensation of these houses should change so that it ends the current interest conflict between the credit rating houses and the firm creating the structured products. Finally, the banks and other financial institutions must limit the risk endurance of the risk management system that they possess. This can lead to the increase of their capital needs, the rise of own capital and long term debt as well as the increase of the maturity of their short term debt.

Other conclusions

It is also necessary to reduce the procyclicality that is being observed on the financial system. This is defined as the continuous dynamics of the financial system

and the real economy to reinforce each other, increasing the upward trend as well as the downward trend, affecting adversely the stability of the financial system. For this reason, the factors that reinforce procyclicality have to be determined while action has to be taken to reduce it. The basic directions of these actions, which were thoroughly presented, refer to the economic environment, to the financial environment, to the formation of economic policies and to the characteristics of the financial system.

Finally, the conference dealt with the environmental issues and in particular to the economic incidence of implementing environmental policies. The experience indicates that even during the current period of economic crisis, countries that invest on environmental protection measures are also benefiting economically form such investments. Therefore, the current economic crisis should not provide the justification for avoiding these investments but, on the contrary, should be implemented at a speedier way now. In addition, economic theory in turn exerts a positive incidence on environmental policy as its economic tools demonstrate how the latter affects social welfare.

In general, the conference dealt with all significant current economic problems of the world, the Eurozone and Greece. The speakers accomplished, through presentations, new and essential policy proposals, conclusive to a stable financial system, as well as to economic stability and recovery, while, again it became clearer what has to be achieved and certainly what has to be avoided.

Our Association aims at communicating these conclusions and policy proposals of the conference to all relevant decision making bodies. In addition, the Association will prepare and distribute the conference proceedings.

Above all, the deep gratitude of the Scholars' Association is addressed to the President of the Onassis Foundation Mr. Anthony Papadimitriou, the Vice President Mr. John Ioannides, the Secretary Mrs. Marianna Moschou and the other Members of the Board of Directors. Thanks are also due to the Programme Committee which worked systematically for more than a year, for the successful organisation of the scientific part of the conference, and in particular to Professors Costas Grammenos of City University of London, George Constantinides of

Chicago University and to Dr. Panayiotis Thomopoulos, Member of the Scientific Council of the Bank of Greece. Finally, this conference would not have been realised without the tireless effort and professionalism of the Foundation's personnel.

Our Association will continue pointing out current social issues, through the organisation of conferences, lectures and cultural events. A conference concerning the audiovisual language and education is already being prepared and will take place at the Onassis Cultural Centre in Athens in November 2010.