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Greece Needs Currency Board to Instill Fiscal Discipline, Prof. Hanke Says

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Europe will be much better off without **Greece** and the best thing for the country is to introduce a **currency board** system, a leading economics professor said on Monday.

"The best thing for **Greece** would be to get out, have the drachma and have a **currency board** because the **currency board** would do just what it does in **Bulgaria**, it would discipline the system," Prof. **Steve Hanke**, a professor of Applied Economics at Johns Hopkins University in Baltimore, said at news conference in **Bulgaria**'s capital Sofia.

"It would discipline the system because the finance ministry in Athens couldn't go to the central bank and get credit. They could get drachma but they have to take euros or dollars into the **currency board** to get them," he added.

"The money supply in **Greece** has been contracting rapidly and the contraction has accelerated massively since the new government was elected three months ago in **Greece** and the reason that it is contracting is that about 85% of the money supply is created by commercial banks … and the commercial banks are bankrupt … the four big commercial banks which have about 90% of all the assets in the banking system in **Greece** … My latest analysis indicates that they are all bankrupt and they will collapse unless they are bailed out for the third time. So the money supply keeps shrinking and the situation will be very bad in Greece."

He also said **Bulgaria** should stick to its **currency board** system rather than aim to join the euro to preserve its financial stability. The **currency board** mechanism pegs the lev to the euro at a fixed exchange rate and ties the level of levs in circulation to the level of foreign exchange reserves.

"I think there's absolutely no reason to get rid of the currency board. If you go in [the **eurozone**] you'll lose the discipline of the **currency board**," said Hanke, who advised **Bulgaria**'s President Petar Stoyanov on the introduction of the restrictive monetary mechanism in 1997 that ended a spiral of hyperinflation.

Hanke spoke to the press after being awarded a honorary degree by Varna Free University. Earlier on Monday, he took part in a conference on financial education.

“Why did **Greece** get in trouble? Because **Greece** is formally part of the eurozone. They got in trouble because the Greeks [believed] if they entered the **eurozone** they could have no fiscal discipline, they could have a fiscal mess and if they really got in trouble, the European Central Bank and the European Union will bail them out which is exactly what’s happened. So they were completely undisciplined, with huge fiscal deficits and huge **debt**, and the reason why is because they joined the **eurozone** and the **eurozone** has associated with what’s called the moral hazard … it’s a very dangerous situation.”

Commenting on potential implications of the Greek **debt** crisis on **Bulgaria** Prof. Hanke said the effects will be mitigated and minimized because “with the **currency board** in **Bulgaria** the fiscal discipline has been strong and banks appear to be fairly strong” despite the collapse of Corporate Commercial Bank.

Hanke also said that the **currency board** system is making **Bulgaria** attractive to foreign investors due to the stability and predictability it generates.

“What you have to have is if you are selling anything, any kind of product …is what’s called a USP, unique selling proposition, and what makes **Bulgaria** unique is the **currency board**,“ he said.

Through its lev/euro peg **Bulgaria** has been informally been part of the **eurozone** anyway, so “I think there’s absolutely no reason to get rid of the **currency board**,” Prof. Hanke added.