

Οικονομική κρίση και τα επόμενα βήματα της ελληνικής οικονομίας:

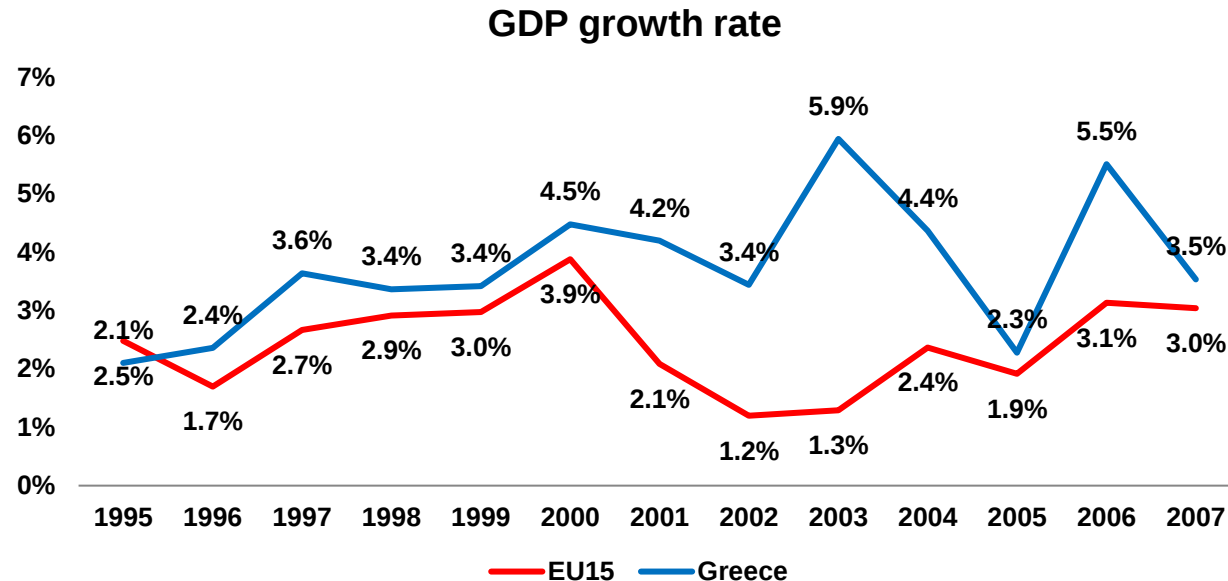
Θα μπορούσε το καράβι της ελληνικής οικονομίας να
φέρει την επωνυμία Αργώ;

ΑΡΓΩ-ΔΙΚΤΥΟ ΕΛΛΗΝΩΝ ΒΡΥΞΕΛΛΩΝ
Βρυξέλλες 7/2/2024

Πάνος Τσακλόγλου
Υφυπουργός Εργασίας και Κοινωνικής Ασφάλισης

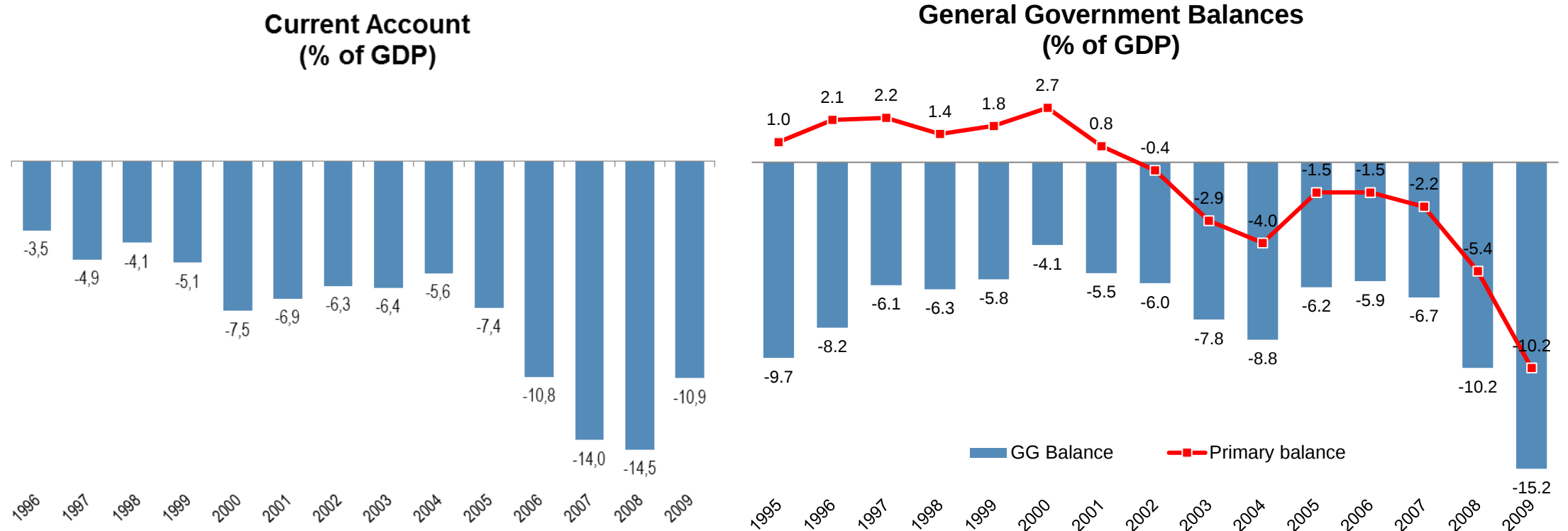
Getting into the crisis

- Despite its manifestation as a fiscal crisis, Greek crisis primarily a competitiveness crisis
- Roots of the Greek crisis: 2001
 - Failed pension reform
- Earlier reforms + low interest rates (euro)
 - Positive growth rates till 2007; substantially higher than EU15 average (3.9% vs 2.4%)



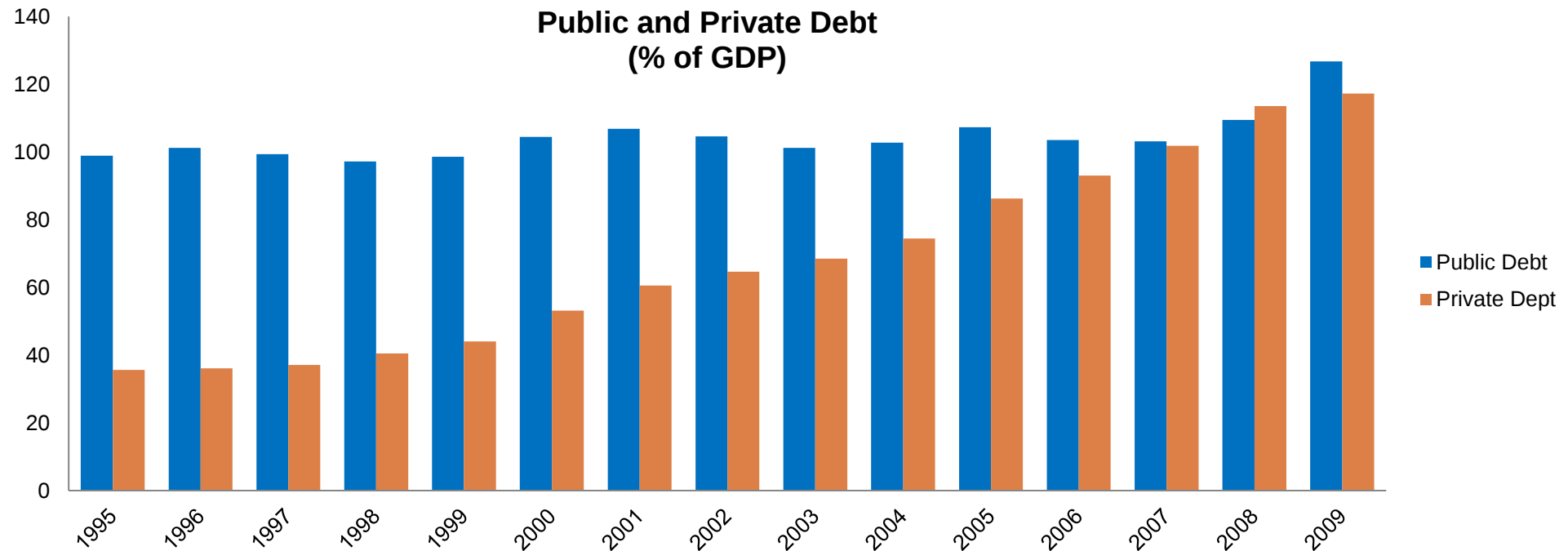
Getting into the crisis

- Growth model based on consumption and borrowing
- Typical case of “twin deficits” (Fiscal and Current Account)



Getting into the crisis

- In 1995-2009 public debt rose by 28 p.p. of GDP
 - Strongly pro-cyclically
- While private debt rose sharply by 82 p.p. of GDP
 - Still lower than in most EZ countries

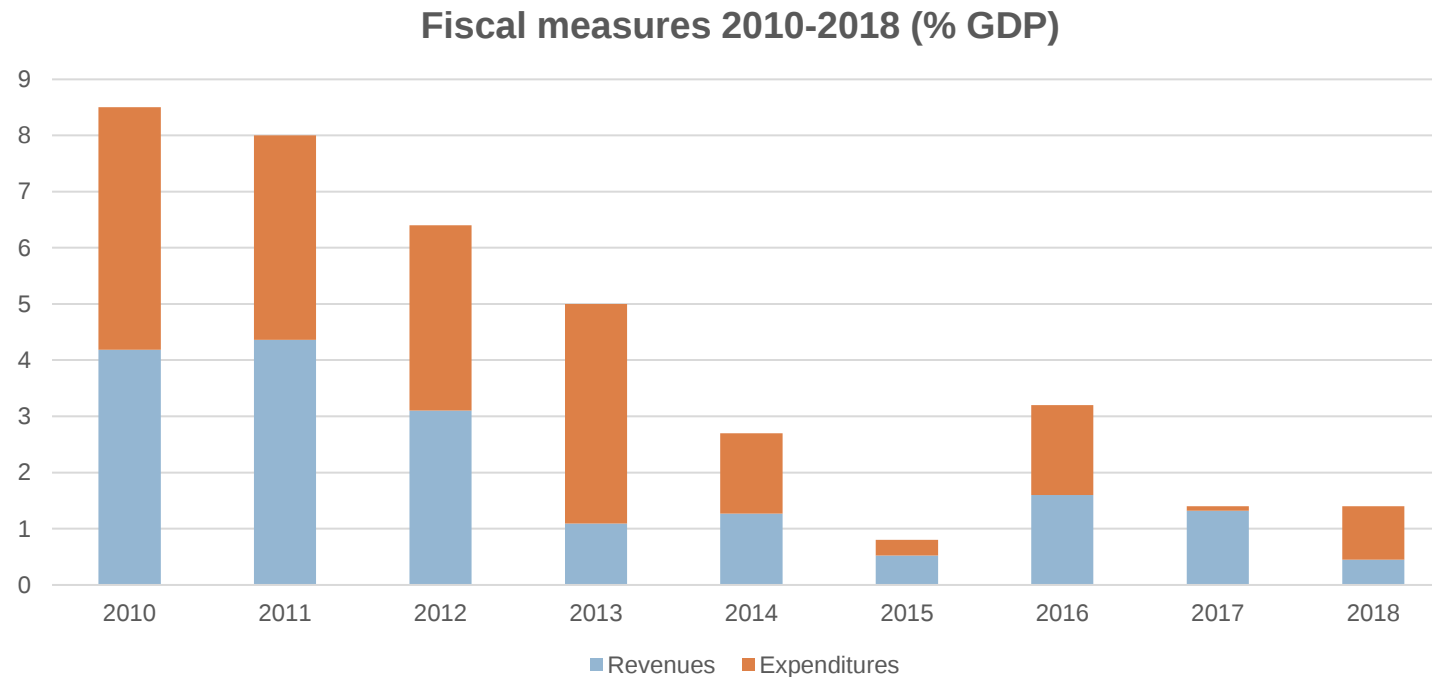


Getting into the crisis

- Greece was hit by the banking crisis only indirectly
- In 2009, early elections due to implicit government inability to pass the budget
- New government; revelation of large deficits (*Greek statistics*); ambivalent reaction
- In 2010 Greece could not tap the international markets anymore
- Forced to seek borrowing from our European partners and the IMF
- Three Programs: 2010, 2012 & 2015
 - Loans in exchange of Fiscal Consolidation and Structural Reforms
- Taken together, the largest loan in history (almost 290 bn Euro)
- Different Approaches
 - First Program (GLF) : Liquidity
 - Second and Third Programs (EFSF/ESM) : Solvency
 - (PSI – also largest in history)

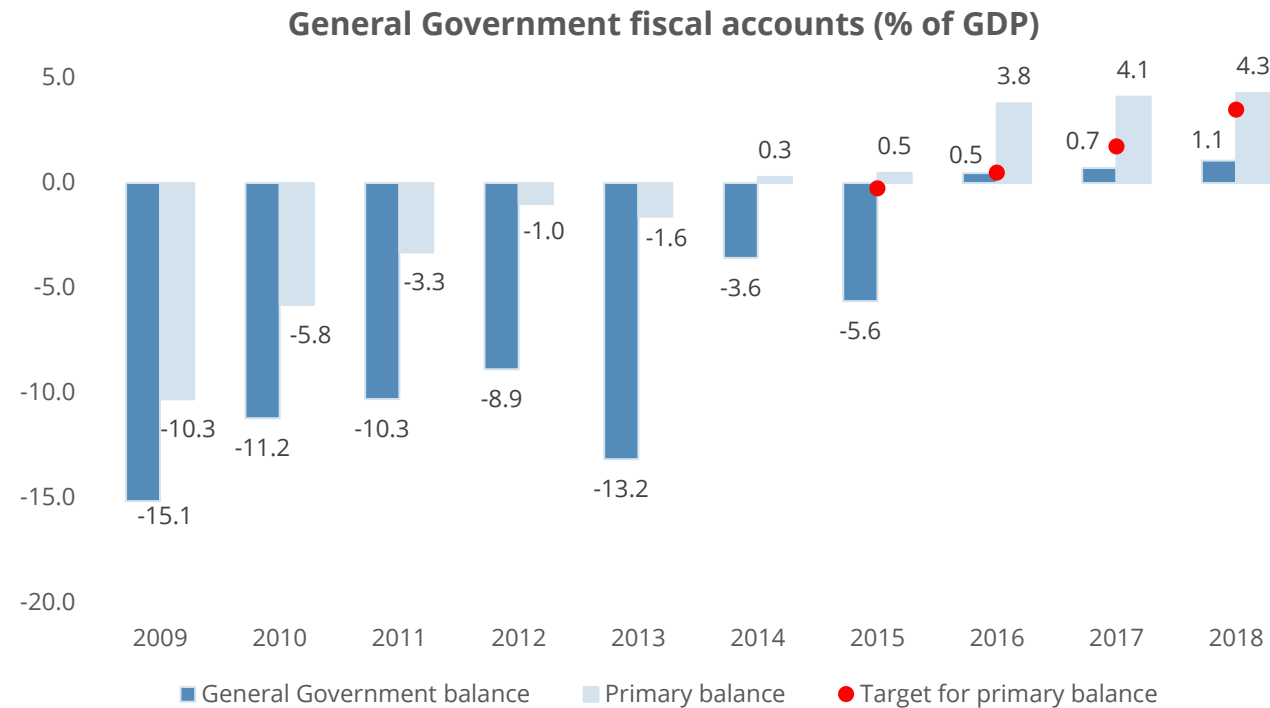
Fiscal consolidation

- Measures amounting to nearly 40% of GDP
- Almost equally split between expenditure cuts and revenue increases
- Relatively heavier emphasis on tax increases in earlier and later years and expenditure cuts in middle period



Fiscal consolidation

- In 2009-2018, GG deficit shrank by 16.2 p.p. and primary balance by 14.6 p.p. of GDP
 - Largest and fastest reduction in OECD records
 - The last 3 years of the economic programmes significant overshooting of the program target

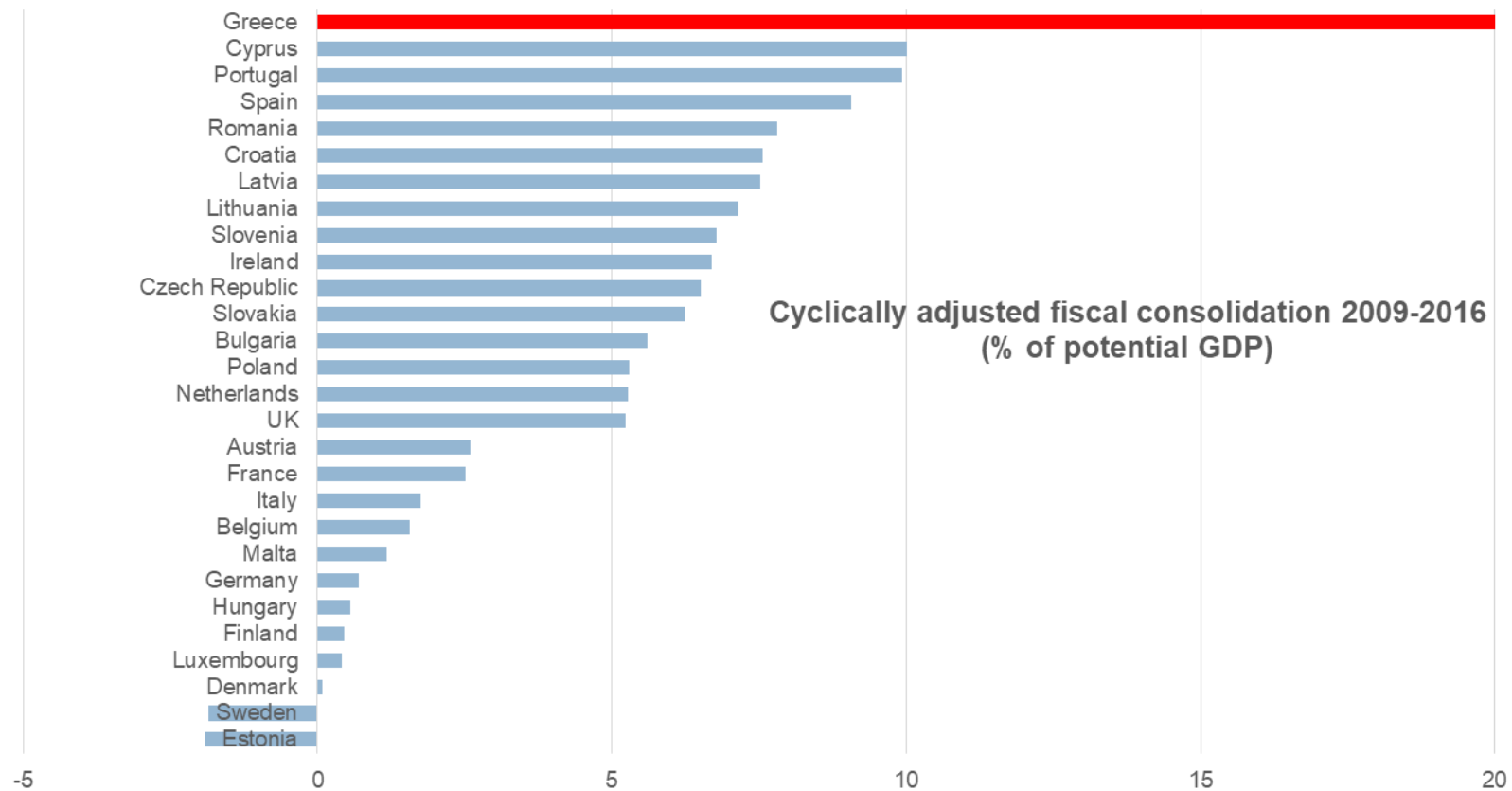


Source: European Commission,

Note: GG according to ESA 2010 definition, Primary balance: according to Program Definition

Fiscal consolidation

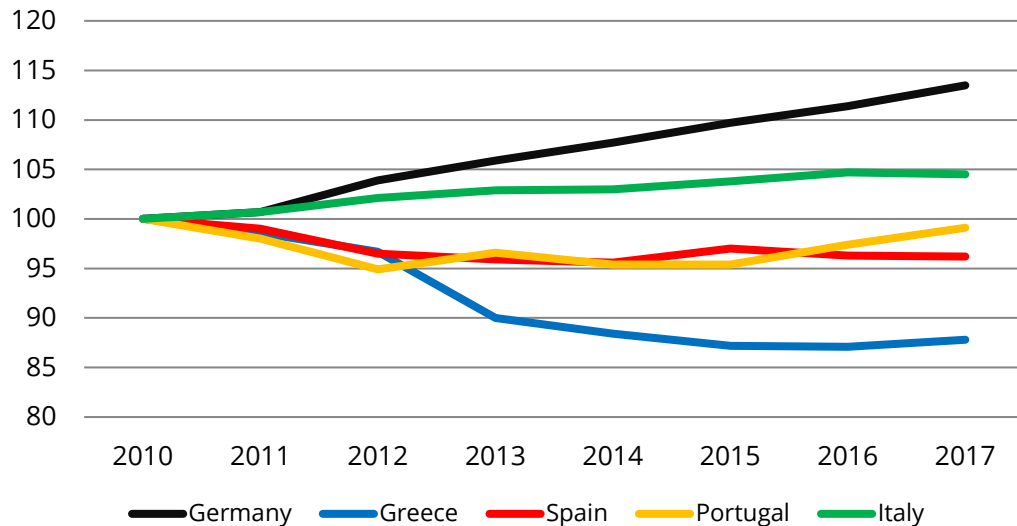
- Adjustment strongly pro-cyclical
 - Cyclically-adjusted over potential output, 20.1%; by far the largest in the EU



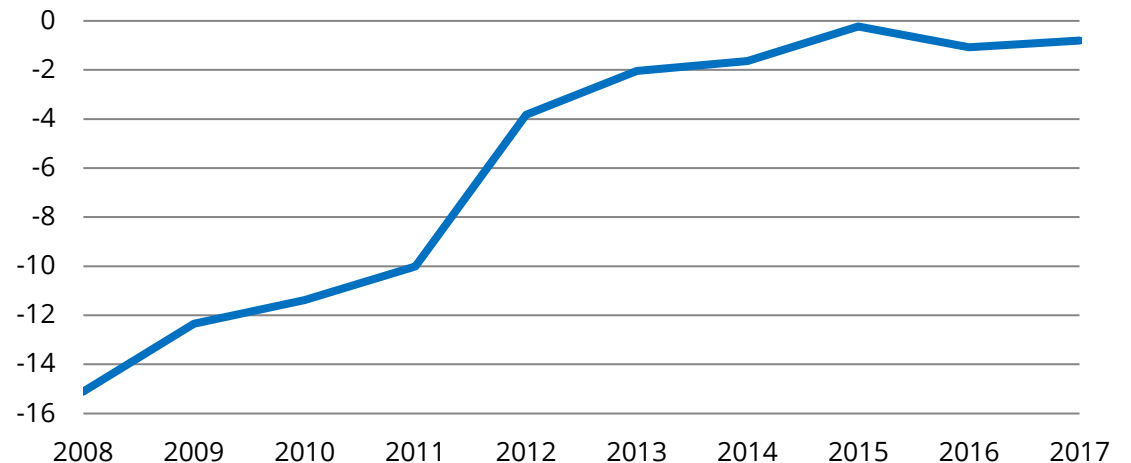
External rebalancing

- Main problem leading to the crisis: low competitiveness
- Sharp rise in wages in the pre-crisis period
- Since 2010, labour market liberalization + crisis => Nominal ULC cost back to pre-euro levels
- External rebalancing (over 15pp of GDP); but mostly through import decline
 - Size of Greek firms; Lack of Credit; Cost of Capital

ULC in selected EU countries



Current account balance



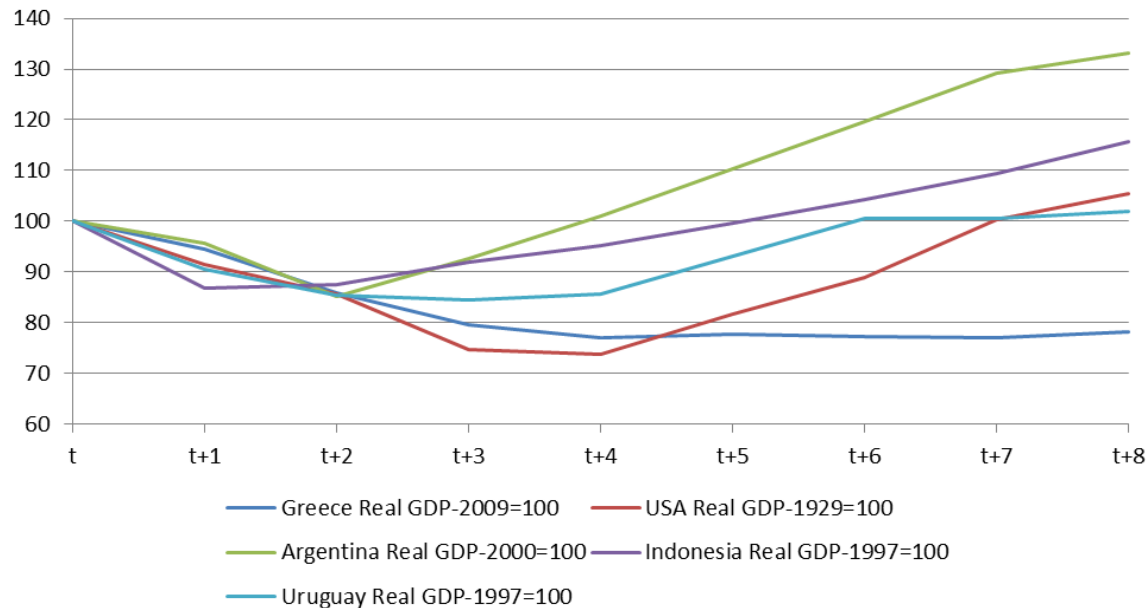
Structural reforms

- Root of the problem
- Why are structural reforms so difficult to implement?
 - Winners and losers / Hicks-Kaldor criterion
 - Timing of costs and benefits
 - Lack of counterbalancing forces before the reform is implemented?
- Greece was starting from a very low base
- Usual claim in the public discourse: “No structural reforms”
- Existing evidence: Large number of reforms, incl. “difficult reforms”
- Covering, literally, every sector of the economy. But uneven pace across sectors
- Impressive improvement recorded by several international organizations
 - OECD “Going for Growth” / Lisbon Council’s “Adjustment Progress Indicator” / World Bank “Doing Business”

Socioeconomic costs of adjustment

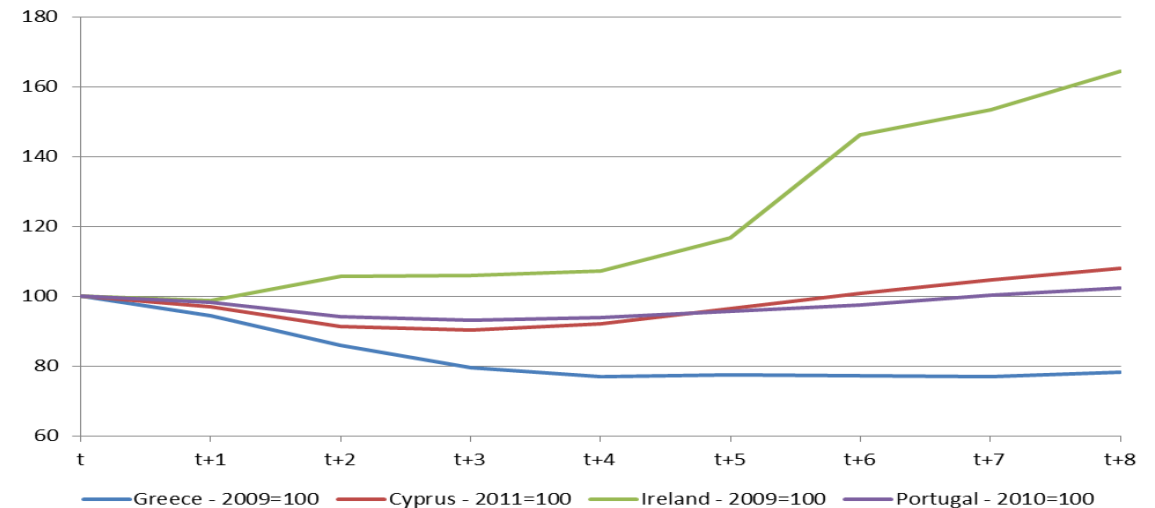
- Greece suffered an unprecedented recession in 2009-2016
 - One of the longest and deepest in modern economic history

Selected Economic Crises



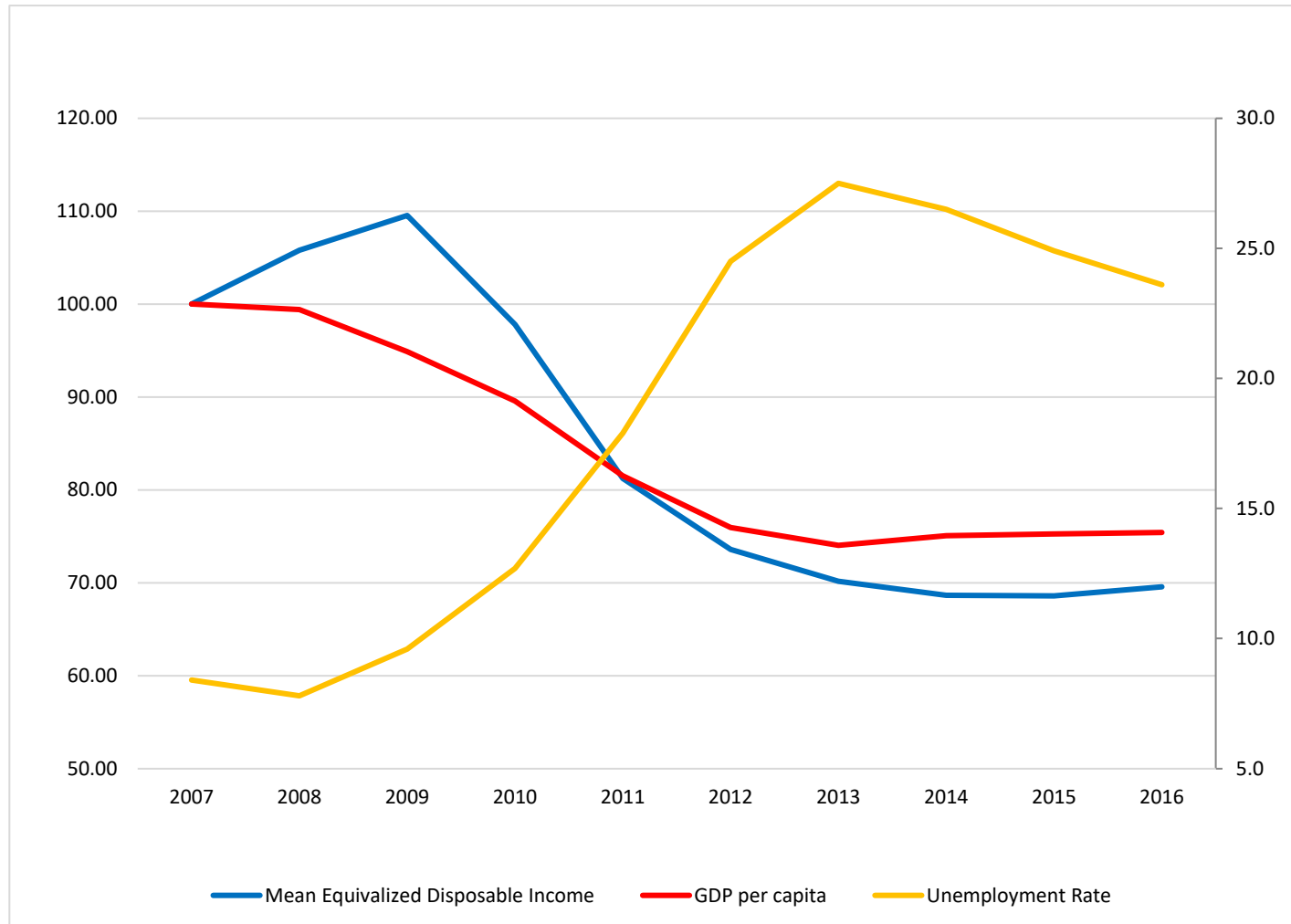
Source: FRED, ELSTAT

Crises of Countries under Programme



Source: Eurostat

Socioeconomic costs of adjustment



➤ Decline in GDP per capita -26.0%

2007-2013

➤ Consolidation effort relied extensively on tax increases

➤ Decline in mean (equiv.) disposable income -44.8%

2009-2015

➤ Peak of unemployment in 2013 (27.5%)

➤ Increase in both poverty and inequality

➤ Sharp drop in savings and investment

➤ Huge increase in Non-Performing Loans

Assessment

Was the (severity of the) recession inevitable?

- Greece's conditions far worse than all countries that entered a program
- To close the, very large, fiscal gap revenue increases and spending cuts
 - Both reduce output
- Further, no redenomination (no Grexit)
 - Competitiveness through "internal devaluation"
 - Inflexible markets
 - Low level of social capital / trust
- Deep recession probably inevitable; but not so deep
 - Econometric studies: between 1/2 and 2/3 of the decline almost inevitable

Assessment

Why this outcome?

- Faults in the design of the program (esp. the first)
 - No haircut; short adjustment period; no private sector wage cuts
 - Fiscal multipliers
- Faults in implementation
 - Composition of austerity measures
 - Tax increases vs expenditure cuts
 - Timing of structural reforms
 - Labour vs product market reform
- Last but not least, political factors
 - Unmitigated populism internally
 - Dauville and, especially, fear of Grexit

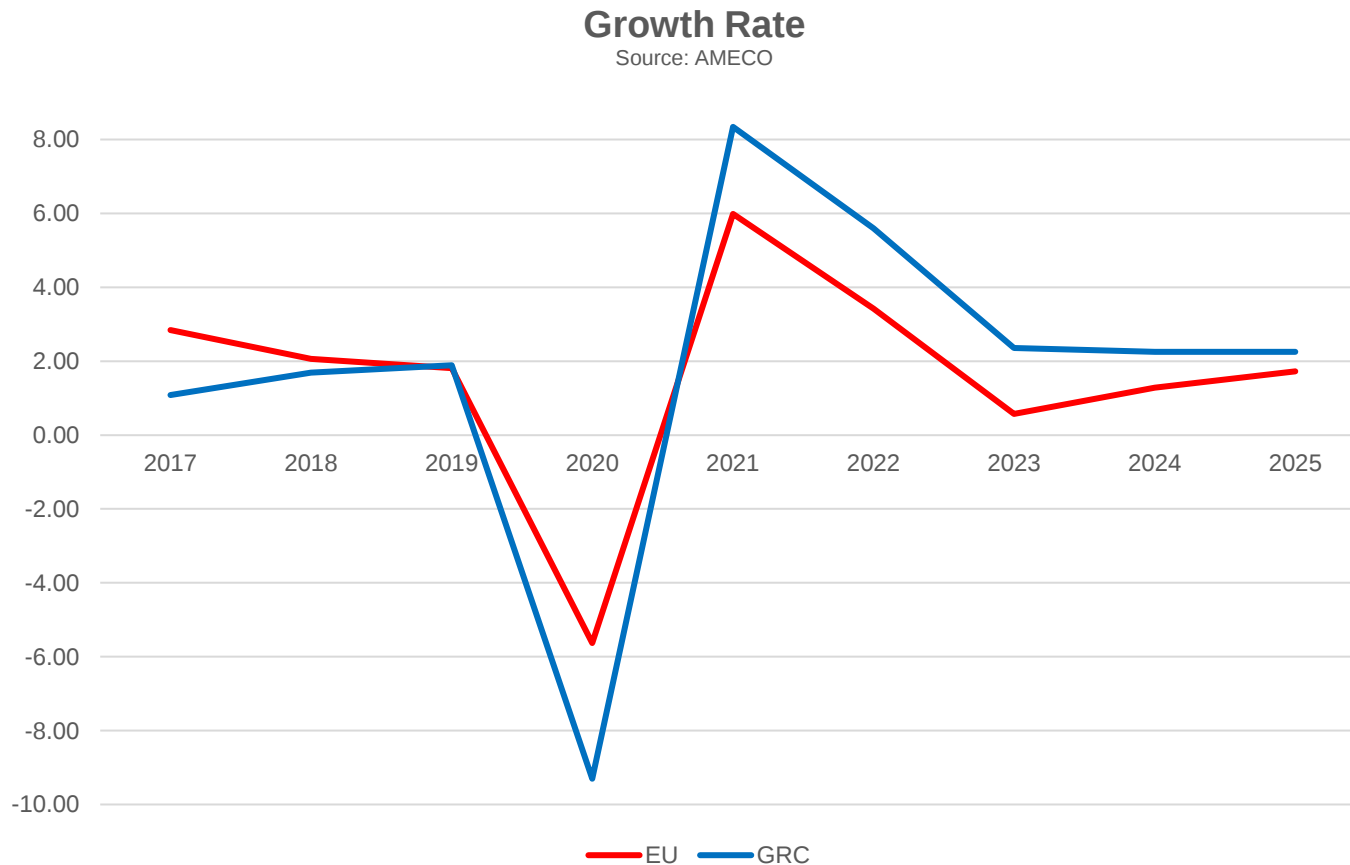
Assessment

- Golden opportunity missed in 2014/15
 - Change in government
 - Confrontational approach
 - In the brink of Grexit; Third Program
- 2015-2018: Incredibly favourable global conditions
 - Low interest rates; Liquidity
 - Low euro exchange rate
 - Low price of oil
 - Growth in almost all regions of the globe

2019 and beyond

- 2019: General Elections, ND in power with comfortable majority
 - Even better electoral results in 2023 General Elections
- Political stability
- Shift in paradigm
 - Macroeconomic stability
 - Structural reforms
 - New model for the Greek economy
 - Shift from consumption to investment
 - Increased openness of the economy
- Crises
 - Frictions with Turkey
 - Covid pandemic (but, RRF)
 - War in Ukraine and energy crisis

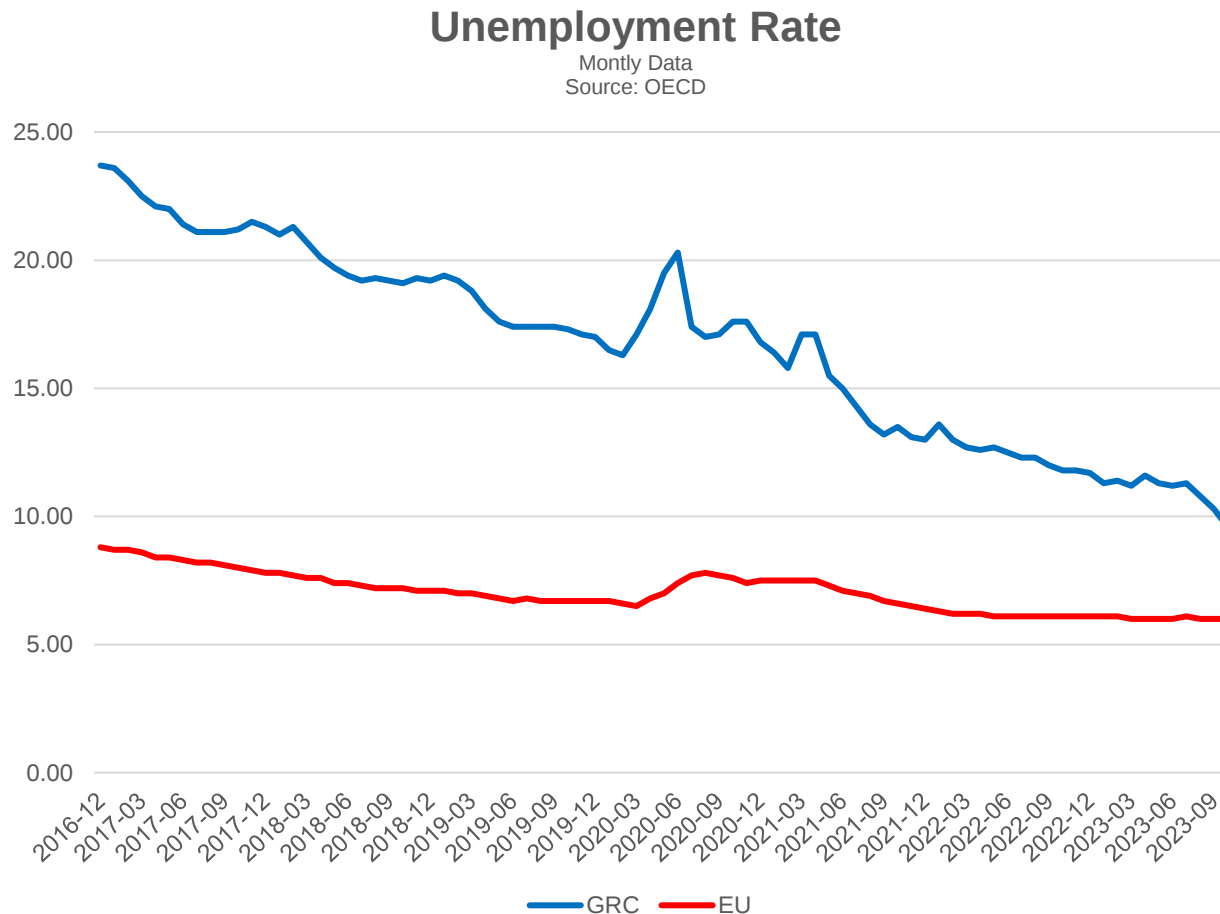
2019 and beyond - growth



How did the economy perform?

- Effects of covid pandemic(2020) stronger in Greece than the EU
 - Structure of production
 - Tourism
 - Shipping
- Impressive recovery (2021)
 - Helped by EU transfers
 - Structural Funds and RRF
- Growth higher than EU average for the next years
 - According to international organizations and houses

2019 and beyond - unemployment

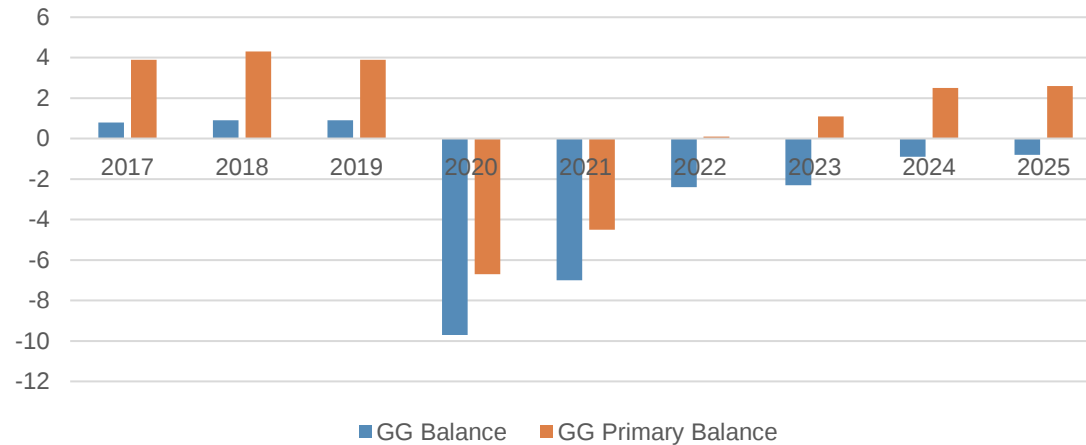


- GR record bad even before crisis
- (Almost) steady decline in unemployment rate
 - Apart from covid period
- Almost 8 pp drop since mid-2019
- With increased labour force participation
- Unemployment rate at pre-crisis level
 - But still high
- No longer EU “champion”
 - Ditto for youth and females
- Effect due to growth and structural reforms

2019 and beyond – deficits and debt

Government Balance (% GDP)

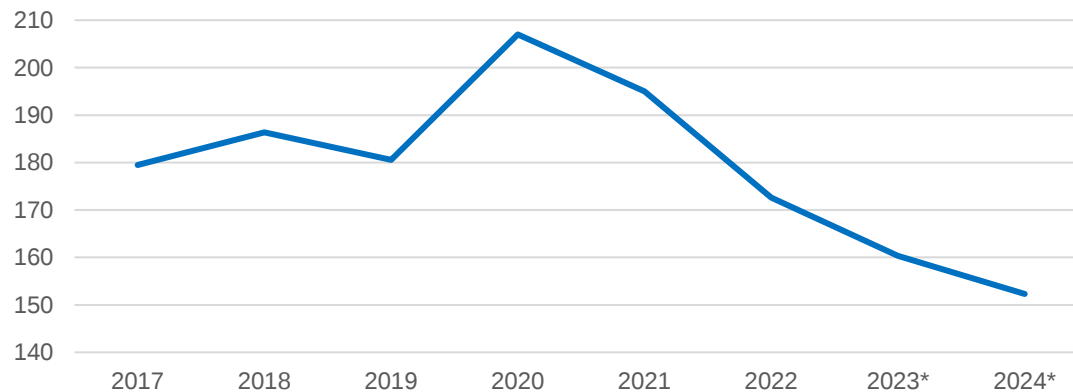
Source: AMECO



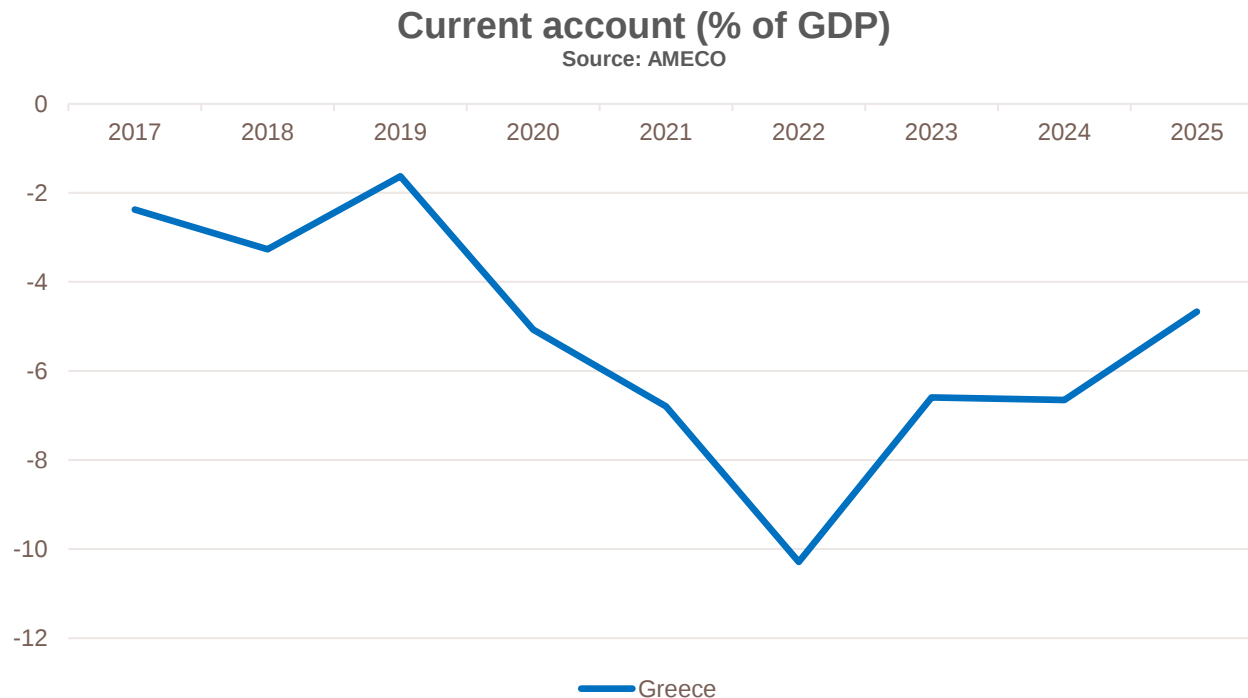
- Public Debt rose during the first year of the pandemic
- Since then, in steady decline
- Since 2022, primary surpluses
- Role of growth and inflation

General Government Gross Debt (% GDP)

Source: Eurostat



2019 and beyond – current account

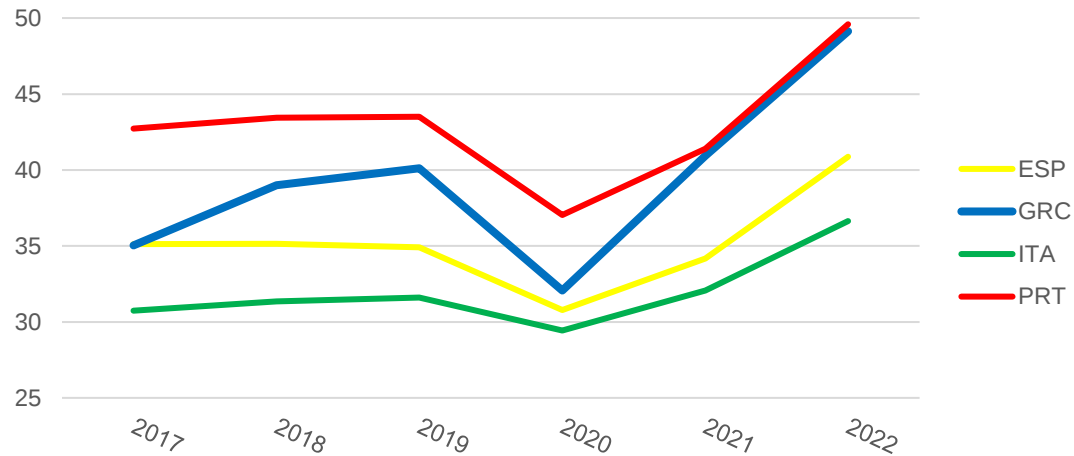


- Less rosy picture regarding the current account
 - Traditionally, the Achilles heel of the Greek economy
- At the peak of the energy crisis, over 10% of GDP
 - Gradually back to around 4%
- But role of autonomous inflows into the capital account
 - Esp. Structural Funds and RRF grants – more than 3% of GDP

2019 and beyond – exports and FDI

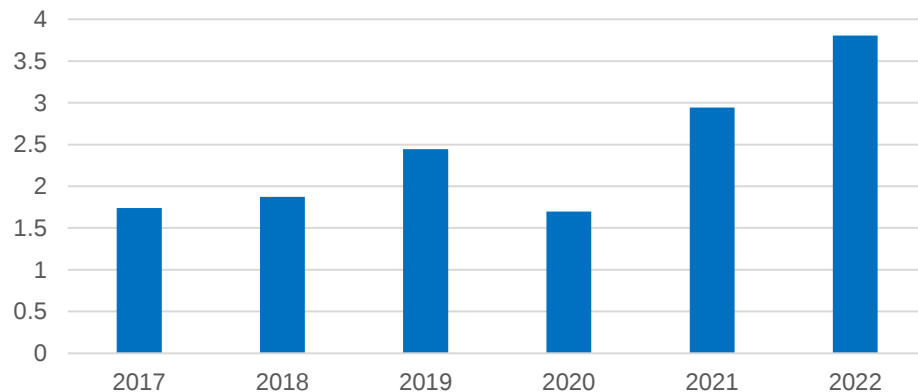
Exports (% GDP)

Source: World Bank



FDI (%GDP)

Source: OECD



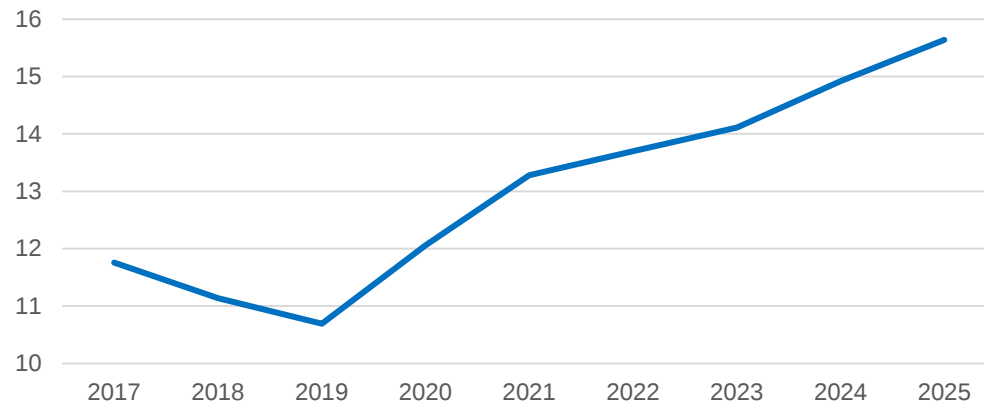
On the positive side:

- Sharp increase in share of exports in GDP
- Increase in manufactured exports
- Increase in technological content of manufactured exports
- Sharp increase in Foreign Direct Investment
 - Real estate purchases a relatively small component

2019 and beyond - investment

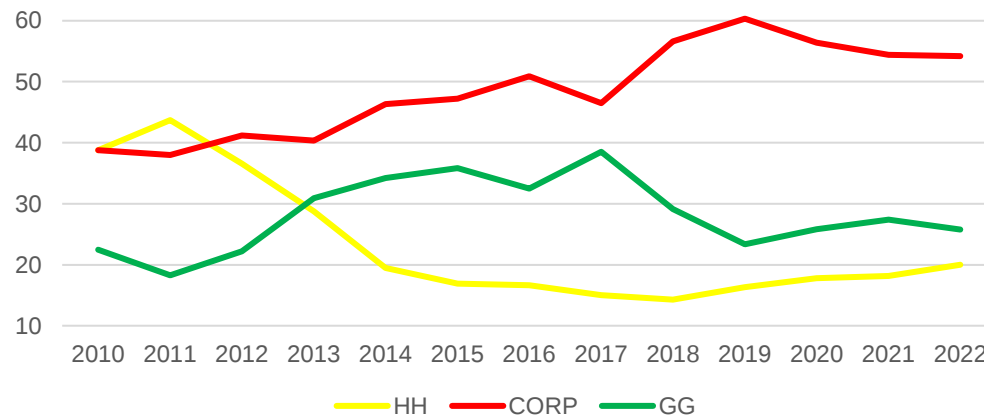
Gross Fixed Capital Formation (% GDP)

Source: AMECO



**Gross Fixed Capital Formation by Sector
(% of Total GFCF)**

Source: OECD



- Share of investment in GDP rises
- But still far below EU average
 - 14% vs 22%
- Change in sectoral composition of investment
- Rise in share of business investment
- Close to EU average
 - 55% vs 60%

2019 and beyond – banking and savings

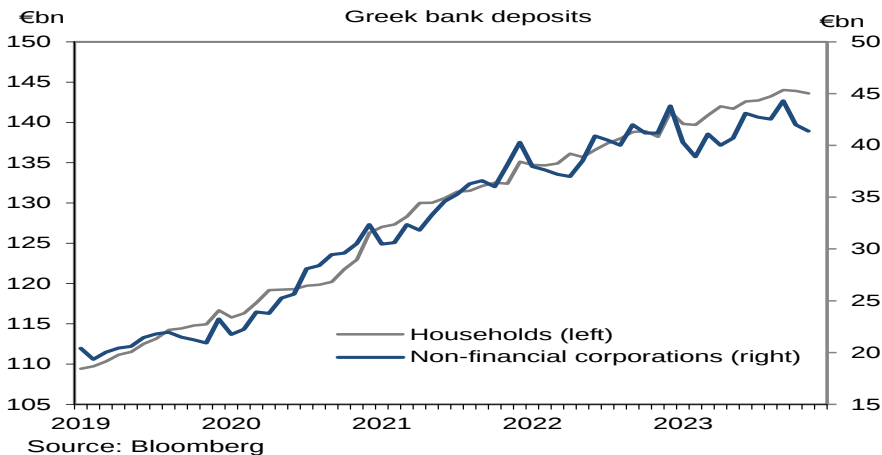
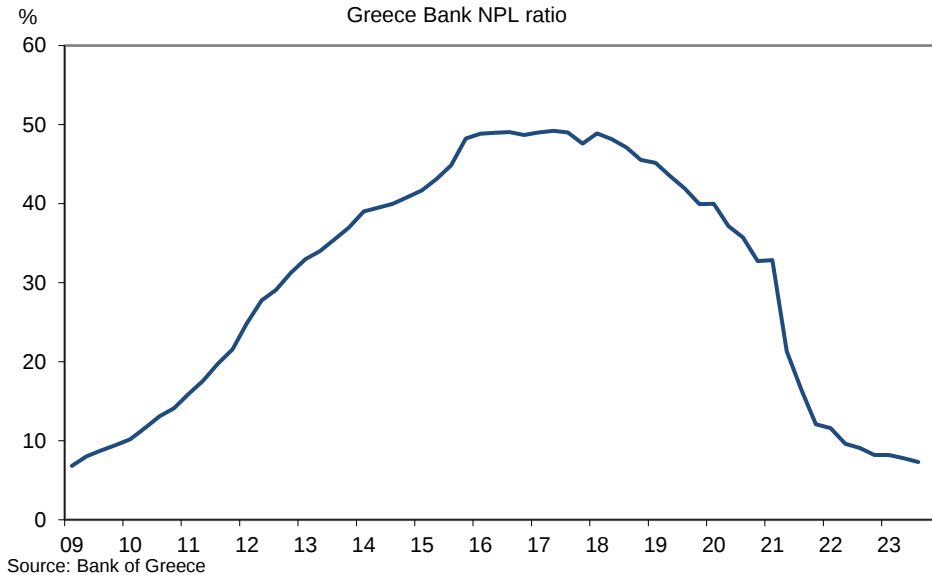
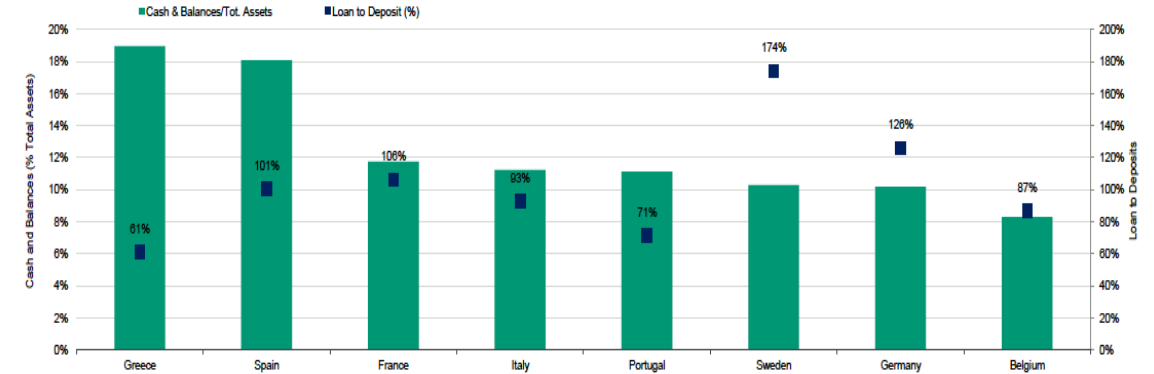


Exhibit 1

Southern European banks have higher liquidity buffers than their northern peers
Euro area banks' liquidity buffers and loan to deposit ratios



Source: European Banking Authority, Moody's Investors Service

- Very substantial reduction in non-performing loans
- High liquidity ratios of Greek banks
- Gradual increase in savings

2019 and beyond – structural reforms

Last but not least, structural reforms continued unabated on all fronts

Indicatively:

- Digitisation and digital transformation of several gvt functions (incl simplification of administrative processes)
- Single insolvency framework
- Implementation of the Hercules Asset Protection Scheme leading to a sharp reduction in the NPL ratio
- Improvement in public financial management (performance budgeting, spending reviews, electronic transactions, etc)
- Measures to fight tax evasion (connection of POS with cash registers, digital tax audits, etc)
- Measures to simplify business licensing
- Labour market reform promoting flexicurity, introducing digital card, arrangements for platform workers, etc
- Pension reform, shifting to defined contribution, fully funded supplementary pensions
- New skilling framework, new framework for active and passive labour market policies
- Primary healthcare reform, National Action Plan for Mental Health, rationalization of pharmaceutical expenditure
- Education reform (development of skills, including soft and digital skills, upgrading VET)
- Renewable energy reform (simplification of RES licensing, including simplification and digitalisation of procedures)
- Acceleration of privatisations and gradual divestment of HFSF from Greek banks

2019 and beyond – long run challenges

- As a result of the above, re-capturing of investment grade & positive comments from several diverse quarters
- Prospects for the short- and medium-term positive
- Main medium to long-run challenges:
 - Population ageing
 - Climate change
 - + *Populism*
 - *Arguably, the most important impediment; certainly not as bad as it used to be*



Nevertheless, I do remain optimistic!

Thank you for your attention