

Immediate impact of Covid-19 and key policy response

For the Greek economy, the initial recession is inevitable and is expected to be very deep, overall for the year 2020, perhaps around the levels of the first years of the adjustment programs. Equally, or even more, important as reducing the current year's recession is the degree and characteristics of the economy's response from the next year. In the same vein, an effective response to the health crisis, with whatever measures become necessary, does not contradict the response to economic crisis, but is a prerequisite for a real restart – thus, dealing with the health problem is and should remain a priority. However, the evolution of the problem may depend on factors that remain unknown, while the impact of the economic developments in other countries will be also critical.

Following an accelerated rise in 2019, Economic Climate Greece overperformed the Euro Area average to reach in February 2020 its highest level in 19.5 years. Nonetheless, risks from the rapidly expanding Covid-19 crisis and the economic lockdown led to an abrupt decline during March–April 2020, noting the largest consecutive monthly declines ever recorded

Regarding the European and global economy, they are not entering the new crisis without problems. Quite the opposite is true, as in previous years a tendency to postpone the solution of important problems has prevailed. This was happening mainly through increased borrowing and at the same time indecision and lack of determination in the face of necessary structural changes. Central banks had been forced to implement unconventional policy measures, reinforcing the economy with new money for an extremely long period, in order to address the weak appetite for investment and to boost growth. Additionally, these policies have buoyed much of the recent dynamics in the financial markets. Certainly, however, they are not without limits, as they borrow growth from the future and must be applied primarily in times of crisis. Now that a new crisis has come, the global economy has more accumulated debt and structurally is not as prepared as it could be.

Challenges for the next day

The Greek economy enters this new crisis as a patient with “underlying diseases”: structural weaknesses, low competitiveness, and only partial structural adjustment during the last three programs, very high public debt and a large percentage of non-performing private debt. Overall, the new crisis is bringing the Greek economy and the EU to a moment of truth and decision-making that will determine growth rates in the long term. There is a risk that not only will the Greek and European economies start next year from a significantly lower income base, but also achieve weaker growth rates in the medium term.

It is true that in Greece, Europe and globally, economic policy appears determined, in the last weeks, to support the



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solution to the health problem. A large increase in public deficits and debt is a plausible response to an instant disorder that is treated as unique. At the same time, for the Greek economy, there is no room for fiscal derailment after the sovereign debt crisis. The credibility of economic policy is of utmost importance for an economy with high accumulated public debt and with a history of fiscal deficits. Therefore, at the same time as assuring the continuing financing of the economy at a macro level, there has to be a careful change in the mix of expenditures and revenues, that will be more conducive to growth.

The role of tourism and a new role for manufacturing

As the Greek economy depends more on incoming tourism than any other European economy, it is estimated that its recession will be greater and last longer. Last year, about 34 million tourists arrived in the country, providing receipts of €18 billion. As a measure of comparison, Greeks themselves spent less than €2 billion on domestic tourism and around €3 billion abroad. For the final impact on the economy, multiplier effects should be taken into account, as well as imported inputs. In any case, the contraction of the sectors appears that will be particularly large and a key factor in the overall recession.

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Looking ahead, tourism should be supported by improving the relevant infrastructure, mainly for travel and communication technology and health services. It is also essential that there are stronger connections with other sectors of the economy, such as food and culture, a more extensive time and geographic distribution and overall quality improvement. In this way, even with a lower number of foreign arrivals, the net impact to the Greek economy will be higher. However, in the foreseeable future, for the tourism sector to do better, it is also required that there is effective coordination at the EU level, common rules and regulations to

enhance credibility of safe travel and cost-sharing of the needed structures and processes between countries.

At the same time, for the Greek economy it becomes obvious that it is necessary to bolster a strong second pillar, focusing on manufacturing, which will be based on innovation and will boost exports of goods. Today, the Greek economy has the lowest participation of manufacturing and one of the lowest in R&D in the EU. A systematic strengthening of various manufacturing sectors will be crucial in the next years for the balance and growth of the economy. However, such a road will not be easy to follow and will require changes in many aspects of economic policy. In this regard, and in addition to domestic policies, it is important what policies will prevail in Europe. There is a risk that large economies will turn to self-sufficiency policies that will reduce the possibility of exports for Greek companies. There is also a risk that large companies in stronger economies will be supported with strong state aid and thus, the relative competitiveness of the Greek firms will be reduced. This may result in a further contraction of the manufacturing sector in the country. Overall policies to assure access to funding, as well as rules to maintain a level playing field are both essential.

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Decision time for both the public and private sectors

In the public sector, the accelerating process of digital upgrading and transformation that has been observed in the last weeks, as a response to the limitation of movement and access, must be accompanied by a reorganization of the administration, so that bureaucracy is not “upgraded” in the new digital environment. At the same time, there must be a drastic redesign of the tax policy to support labor and investment. It is also of key importance to re-plan public investments and necessary projects with fast-track procedures as well as to redesign the use of EU funds and the Program of Public Investments.

In such a difficult turn, companies must also, to the fullest extent possible, protect their potential, continue their production as long as the conditions allow, and plan their action, from the next day, on new terms. Otherwise, the Greek economy will find itself with significantly lower ability to generate income. In other words, it will not only start from a lower base but it will also fall at a lower rate. It will also be necessary to turn branches and businesses towards new activities and productive methods. If this does not happen, the economy will not be able to claim the necessary production and export shares, as the global markets will be fundamentally changed and with an overall lower global demand. Technologically backwards and inefficient companies that do not offer high quality services and products will face even harder times now, relative to the previous years.

The new crisis as a new opportunity

This new crisis puts the Greek economy in front of some major challenges. Already in need to achieve and sustain high growth rates in the coming years, so that it can both sustain balance in its public finances and also improve the welfare of the households, it had to count for this on a significant increase in investment and exports. With an adverse global environment, this proposition now becomes even harder. At the same time, parts of the economy that traditionally created a large part of the total employment, namely tourism, retail trade, food and drink services, and housing construction may see a systematic decrease in their revenues that will last much longer than the current summer. It becomes, thus, imperative that Greece follows a path of structural reforms, both in improving the functioning of markets and in the public sector so that, with increased competitiveness, it can capture a larger part of incomes from abroad.

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As crucial it is for the Greek economy to go through the next difficult months at the lowest possible cost, it is equally important to prepare for the next day. The health crisis will sooner or later come to an end and, when this happens, many economic and other indicators will recover strongly. At that time, the Greek economy should be ready to claim a larger share in global growth and to position itself for the future. Overall, the current situation makes it clear that the transformation of the economy in the coming years is not a luxury, but an absolute and urgent necessity, with policy and business efforts that will begin immediately and systematically.

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Recession is a permanent nightmare