Crisis, reforms and growth prospects

Nikos Vettas
General Director
Foundation for Economic and Industrial Research (IOBE)
Professor of Economics
Athens University of Economics and Business (AUEB)

nvettas@aueb.gr

Integrating Greece into the European Semester Policy Framework:
Priorities for sustainable growth and competitiveness

Greece in the European Policy Framework

Athens, March 20th, 2019
GDP per capita, 2010 prices

Source: Eurostat
End of the programs. Prospects?

- Elimination of fiscal deficit
  
  But is the mix of taxes, expenses, and pensions consistent with growth?

- Elimination of trade deficits
  
  Primarily through reduction in imports. Sustainable?

- Competitiveness has been restored
  
  Primarily, through decrease in unit labor cost.

- Greece is back to growth.
  
  Slow and anaemic, low investment.

- Greece has stayed in the euro-zone.
  
  But why was this even put on the table?
GDP

GDP per capita
(in 2014 US dollars and PPP adjusted)

- Greece experienced a large growth and subsequent decline of GDP after Euro entry.
- Its growth over the long term (1980-2017) has been relatively small.
Corporate investment

- Corporate investment in Greece has been relatively low.
  - But total investment (incl. housing) is comparable to EU average!
- It rose significantly in the run-up to Euro entry, but dropped again during the crisis.
Current Account Deficit

- Current account deficit rose significantly in the run-up to and after Euro entry.
Economic Climate

Sources: IOBE / European Commission
Consumer Confidence Indicator

Sources: IOBE / European Commission
Business Expectations Indicators

Sources: IOBE / European Commission
Investment collapses

Sources: Eurostat/ELSTAT

- Highest investment level in 2007 (€64.9 bn)
  - Highest level of investment as a % of GDP in the same year (25.9%)
- Significantly lower investment in 2017 (€24.9 bn, 13.3% of GDP)
Investment indicators in manufacturing

"Economic policy" has the strongest negative impact on investment in manufacturing

*According to the responses to the Investment Survey in Manufacturing, about the previous year, in the first survey of the following year

Source: IOBE
Trade balance (goods and services)

Source: AMECO
Exports of goods

- Change in the value of exports, 2007-2018: +73.1%
- Change in the volume of exports, 2007-2018: +76.9%

Source: Eurostat
A closed economy

Source: Eurostat
Foreign Direct Investment (% GDP)

*Ireland: 81.7% of GDP
Source: Eurostat
Global Entrepreneurship Monitor - IOBE

Source: IOBE

<table>
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<th>Source-Driven countries</th>
<th>Primary sector (%)</th>
<th>Manufacturing (%)</th>
<th>B2B (%)</th>
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<td>20.1</td>
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<td>28.8</td>
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Increasing opportunity entrepreneurship

- **Opportunity**: 53.5%
- **Necessity**: 22.9%

**Innovation countries**

- Opportunity: 53.5%
- Necessity: 22.9%

Source: IOBE
Key structural improvements achieved

• Labor market
  • Significant deregulation of a formerly over-regulated labor market.

• Pensions
  • Unification of a highly fragmented pension system.
  • Viability through significant pension cuts.

• Product markets
  • Deregulation, privatisations, and reduction of legislated barriers to entry.

• Tax administration
  • Establishment of an independent tax collection authority.
  • Fully electronic filing.
Strengthening of market competition increases demand for inputs and leads to a steady rise in income, which supports demand. In the medium term, GDP, private consumption and investment will be higher by 7.3%, 6.9% and 9.7% respectively.
Boost to competitiveness by structural reforms

**Real effective exchange rate**

(Permanent increase in competition in T and NT sectors, += depreciation)

Source: Assessing the Macroeconomic Impact of Structural Reforms in Greece (2014), IOBE, for European Commission

Strengthening of competition changes relative prices and leads to a devaluation of the real exchange rate, which increases competitiveness.
Core areas of micro reforms

• Public administration

• Business environment and innovation

• Need to monitor implementation and outcomes
Key reform areas

• Pensions
  Labor supply, shadow economy, domestic savings and investment

• Taxation
  Tax rates, base and electronic payments, property
  Stability

• Education
  Autonomy of units and decentralization, links to production, reverse brain drain.