Europe's Onetime Crisis Economies Are Now Outperformers

Spain, Portugal, Greece are among the euro area's fastest growing economies.

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(Bloomberg) -- Giannis Moschos remembers the bad days. An economy in ruins, business relationships in tatters, his country the butt of jokes.

That was the Greece of 2012, the same year Moschos and his brother founded their family olive business. Now, having built up the company, he wants to be part of the future of Europe; making quality produce and doing it with clean energy, saving money and helping the continent's lofty climate ambitions at the same time.

Similar rewriting of stories is playing out across a swathe of Southern Europe as Greece, Spain and Portugal, once seen as economic basket cases, start to strut a bit after years of slogging through a brutal crisis and deep recessions.
They've become the region's outperformers, growing at rates twice the euro-area average and far in excess of many of their neighbors. Expansion in Spain and Greece is set to top 2% this year, compared with just 0.8% for the euro area. Germany, the region's largest economy, will barely grow.

But the scars of the economic slump remain — particularly in the labor market — and reputation rebuilding goes on.
The crisis period embedded a view that Southern Europe is irresponsible, lazy, unproductive, clinging on to the euro

currency only thanks to handouts from richer northern European countries.

That perspective turned a geographic divide into a deep schism of doubt, suspicion and antagonism. From Athens to Madrid and Lisbon, the hard work goes on to change that.
When Greek companies started to export at the beginning of the crisis, mistakes, or even scams in some cases, gave them a bad name, according to Moschos.

“The biggest challenge we faced during the crisis was lack of trust of Greece from other markets,” he said. “We had to take baby steps. We sold, earned and re-invested” for several years.
Things have changed now. For governments, as well as businesses and households, the hope is that the new dynamism doesn’t prove to be a flash in the pan.

But they must also ensure the benefits of stronger growth reach all corners of the economy and boost living standards.
Both Portugal and Greece have a minimum wage that’s less than €1,000 a month, Eurostat figures show.

Failure to address that could foment the type of voter discontent that’s already on display in large parts of Europe.
In the latest European Parliament elections, there were gains for populist and far right parties in Germany, France and Italy — the three largest economies. If that leads to broader uncertainty about politics and policies, that’s a threat to the stability investors and businesses need to see in the region.
In Spain, the far-right VOX added seats, while Portugal’s Chega also made gains after its strong showing in national elections earlier this year.

The economic growth across Southern Europe is partly driven by tourism and a post-pandemic surge in visitors, but it’s not the only factor. A years long cleanup operation has also put these economies on a more solid footing.

“The uncertainty for Greece and the rest of the Southern countries is now gone,” said Nikos Vettas, director general of the Foundation for Economic and Industrial Research in Athens.
“This does not mean that there is not much still to be done. The absence of uncertainty, however, is the most important factor as in the past it was driving away capital and labor.”

Greece, for example, lost a quarter of its output during a decade-long crisis, and its debt burden soared.

But last year the country regained its investment grade and its debt-to-GDP ratio fell to the lowest in more than a decade. In a sign of how directions have shifted, France was downgraded by S&P Global Ratings last month.

Portugal's debt ratio has also been on a downward trajectory in recent years, excluding the pandemic impact, after it had ballooned to unsustainable levels.

"When I arrived in Portugal there was nothing going on," said fashion designer Ana Penha e Costa, who returned from Brazil in 2014 after working for a clothing store in Rio de Janeiro.

Despite the fact that Portugal was recovering from a deep recession and struggling to bring down record unemployment, she decided to set up her own online clothing business. Two years later, Penha e Costa opened her first physical store in the center of Lisbon.

"Today 80% of our clients are foreigners," said the 36-year-old. "We're doing very well."

In Greece, Moschos Olives is expanding as its current facility is at maximum capacity. It's applied to a post-pandemic EU fund, known as RRF, in order to turn green, installing solar panels and replacing forklifts with electric models starting this summer.

Fiscal positions are also still a risk, but the work over the past decade is paying off. Even as the European Central Bank scaled back its bond-buying programs, once a huge lifeline, spreads on bonds stayed broadly in check.

The investor worries that dominated the bond market a decade ago have faded away.

Italy remains an outlier in this story, a larger economy that's lagging behind its Southern European neighbors and which has made less fiscal progress.

"For the four — Italy, Greece, Spain, Portugal — there are certain things that are true, such as a renewed sense of financial stability and the stabilization of bond spreads," said Valentina Meliciani, a professor of applied economics at Luiss university in Rome. "But when it comes to economic growth, there are some differences. Italy has not been able to stabilize its debt.”

While mass tourism and cheaper manufacturing are still a large part of Southern Europe’s economies, there’s also a drive to push into higher-value areas, such as biotech services. It reflects a realization that there’s no benefit to sitting still. Monica Sada had been advising wealthy Latin Americans in New York for a number of years on how to invest their money with JPMorgan and Deutsche Bank. Suffering with skin problems, and frustrated with the treatments available, she returned to Spain to set up her own business.

The beauty company, Unicskin, sells skincare creams and tech devices such as an LED face mask to wealthy clients in the Middle East and elsewhere.

Revenue has been doubling annually, with exports making up the bulk of sales, according to the company.

Sada’s approach to her business is a microcosm of the image that Spain, along with Greece and Portugal, want to project. “The years I worked in banking taught me discipline, and living in New York opened my mind,” Sada said. “I manage my company prudently, with the goal of growing steadily and in a very profitable way.”

--With assistance from Sotiris Nikas, Donato Paolo Mancini, Joao Lima, Rodrigo Orihuela and Henrique Almeida.