IS GREECE HEADING FOR A RECOVERY?

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Europe at the Crossroads: A Union of Austerity or Growth Convergence?
Athens, Greece
November 21–22, 2014
IMF and the EC are optimistic about the performance of the Greek economy:

- Primary budget surplus of 1.9 billion € achieved
- Internal devaluation surpassed the goal of 15% decrease in nominal wages
- Labor market reforms legislated
- Initial signs of economic stabilization:
  1. GDP stopped falling
  2. Unemployment decreased slightly
  3. Current account balance improved significantly
THE OPTIMISM IS UNFOUNDED

☑ Negative response from the financial markets despite global excess liquidity
☑ Components of aggregate demand are not increasing
  ① Private investment
  ② Net exports
  ③ Wages in line with productivity to increase domestic consumption
☑ Expected profitability is low because of the depressed domestic economy and stagnant external demand
☑ Short-term indicators, i.e. industry turnover index, declining except for tourism
Figure 1  Greece: Real GDP

Source: ElStat
Figure 2  Greece: Wage and Price Indices (2006=100)

Source: ElStat
Figure 3  Greece: Unit Labor Costs Index (2000=100)

Source: OECD
Figure 4  Greece: Productivity Index (GDP per Person Employed, 2000=100)

Source: OECD
Figure 5  Greece: Employment and Unemployment

Source: ElStat
Figure 6  Greece: Population Aged 15 or Older

Sources: ElStat; authors’ calculations
Figure 7  Greece: Migration

Source: OECD International Migration Database
Figure 8  Greece: Unemployment by Duration

Source: ElStat
Figure 9  Greece: Contributions to Real GDP Growth

Annual Growth Rates (in percent)

2007 2008 2009 2010 2011 2012 2013

Consumption  Exports  Investment  Imports  Government Expenditure

Source: ElStat
Figure 10  Greece: Gross Value Added

Source: ElStat
Figure 11  Greece: Exports of Goods and Services

Source: Bank of Greece
Figure 12  Greece: Turnover Index in Industry

Source: ElStat
Figure 13a  Greece: Main Sector Balances, Net of Transfers on Capital Account

Percent of GDP, 4q moving averages

Government Current Deficit
Private Sector Investment minus Saving
Current Account

Sources: ElStat; OECD; Ameco; authors’ calculations
Figure 13b  Greece: Main Sector Balances

Sources: ElStat; Authors' calculations

Legend:
- Red: Government Deficit
- Blue: Current Account
- Black: Private Sector Investment minus Saving
Figure 14: Greece: Credit to Households

Source: Bank of Greece
Figure 15  Greece: Domestic Loans to the Non-financial Sector

- **To Individuals**
- **To Non-financial Corporations**

*Source: Bank of Greece*
Figure 16  Greece: Government Receipts

Bn €, 4q moving averages, annual level

2008 2009 2010 2011 2012 2013

Taxes on Production and Imports
Taxes on Income and Wealth
Social Contributions

Source: ElStat
Figure 17  Greece: Government Outlays

Source: ElStat
CURRENT GOVERNMENT POLICY
(BASELINE SCENARIO)

Assumptions:

- Exchange rate €/$ stable at current (November 2014) level
- Interest rates stabilize at current level
- Equity market prices stabilize at current level
- Private sector deleveraging slows toward zero
- Credit remains negative
- Deflation stops at the end of 2014, zero inflation thereafter
- Foreign inflation and growth based on IMF projections
- Fiscal policy
  → Public sector expenditures stabilize (real terms)
  → Social benefits remain stable (nominal terms) but decrease slightly relative to GDP
  → Tax rates remain at current level
GOVERNMENT REVENUES AND OUTLAYS  
(BASELINE SCENARIO)  
(Current Prices, Billion €)

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<td>Collective consumption</td>
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<td>Social benefits</td>
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Figure 18  Greece. Baseline: Main Sector Balances

Source: Authors’ calculations
ALTERNATIVE POLICY OPTIONS:

Scenario 1: A New Deal Plan

Building on the current government plan (baseline scenario) with further assumptions:

• EU funded and overseen by the European Investment Bank or another EU institution a transfer of 1.650 billion € per quarter, starting in 2015 for three years, for a total of 19.8 billion €

• Funds would be spent for additional public consumption and targeted investments to foster growth in production of goods and services

• Funds could finance a direct public job creation program of at least 300,000 unemployed workers
ALTERNATIVE POLICY OPTIONS:

Scenario 2: Suspending Interest Payments and Freezing Public Debt

Building on the current government plan (baseline scenario) with further assumptions:

• Public debt is frozen with no interest payments made to public sector investors (PSI) until 2010 real GDP levels are restored
• All creditors agree to roll over 100% of maturing debt for as many years, until real GDP is restored to 2010 level
• Interest payments to private sector investors not affected
• The suspended payments could fund, instead, targeted investments or a direct public job creation program
Figure 19  Greece: Projected Real GDP

Source: Authors’ calculations
Figure 20  Greece: Projected Unemployment Rate

Source: Authors’ calculations
### SUMMARY OF POLICY OPTIONS

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