



# **PROSPECTS AND POLICIES FOR THE GREEK ECONOMY**

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**23rd Annual Hyman P. Minsky Conference:**  
**Stabilizing Financial Systems for Growth and Full Employment**  
**Washington, DC**  
**April 9-10, 2014**

**LEVY ECONOMICS INSITUTE OF BARD COLLEGE AND FORD FOUNDATION**



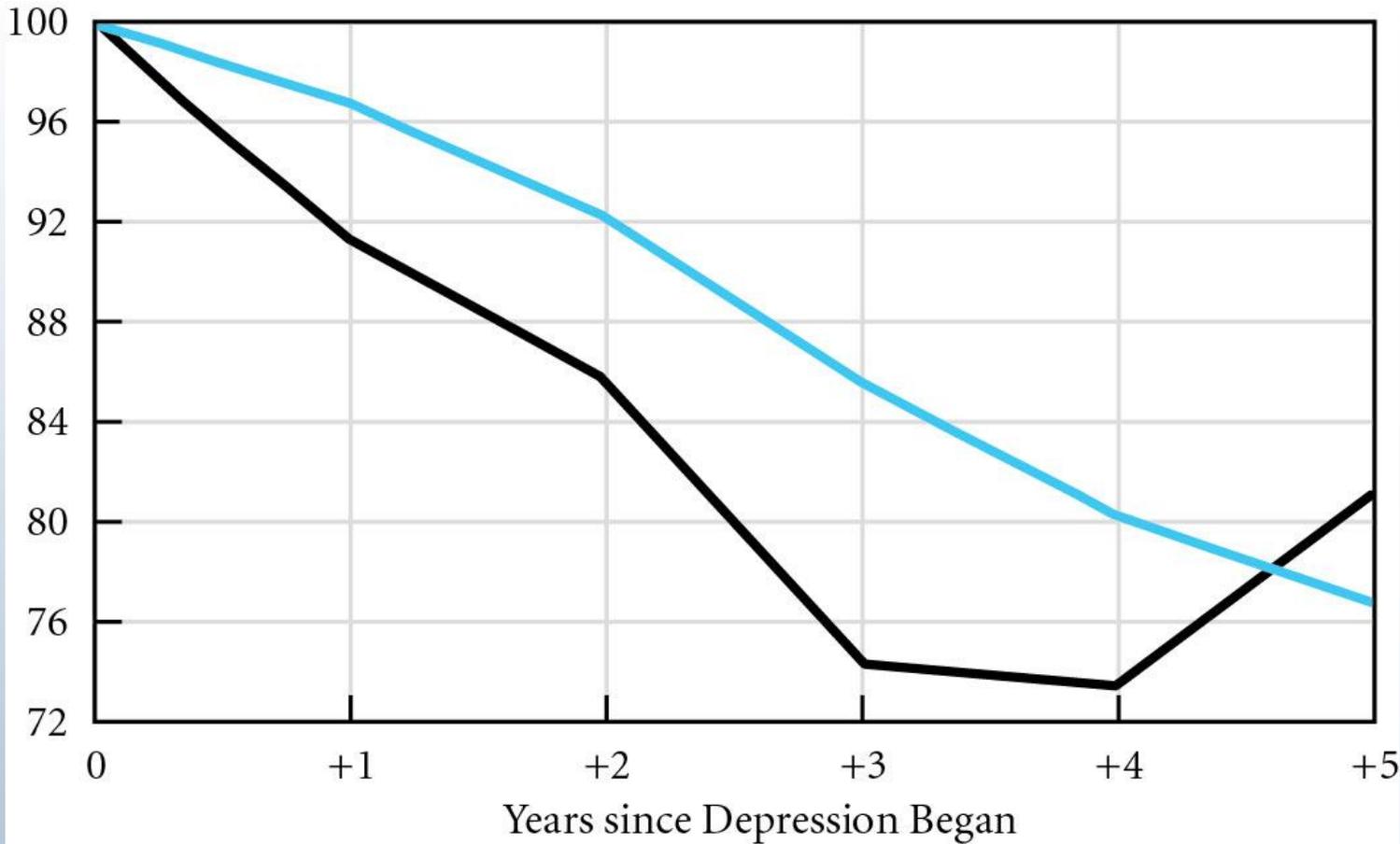
# **GREEK SOVEREIGN DEBT CRISIS**

**Inability of Greece to roll over maturing debt in 2009 because of much higher government deficits (15.8%) than originally estimated, and accumulated debt of over 125% of GDP.**

**Greece turned to EU and IMF. The result was two rescue programs totaling 240 billion euros requiring the implementation of harsh austerity measures and labor market reforms that are still continuing and causing devastating effects in loss of output, very high unemployment and poverty.**

**Greece is, for the sixth year, in continuing recession, and the cumulative economic effects are much worse than those experienced by the U.S. during the Great Depression.**

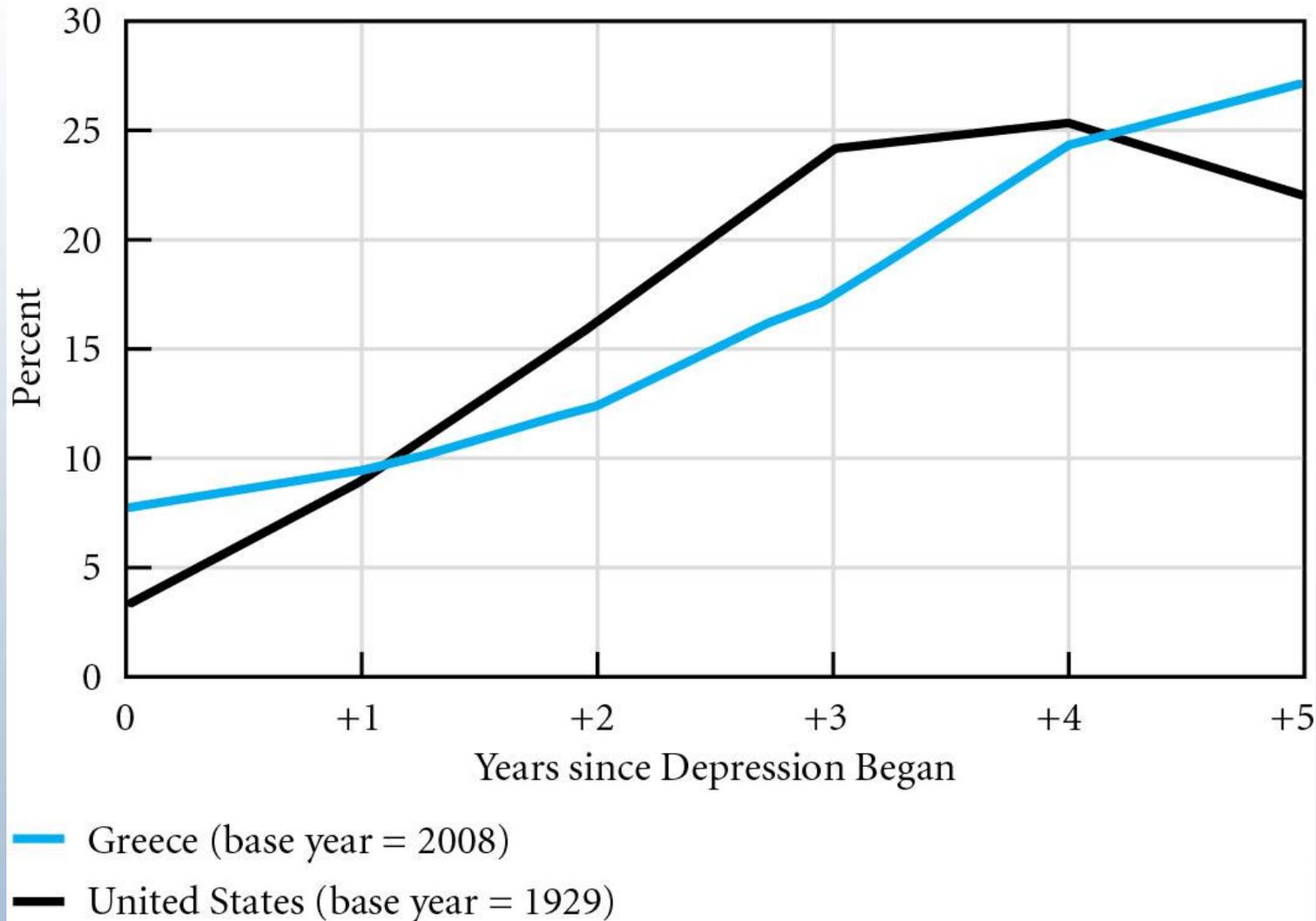
# Figure 1 Greece and the United States: Two Great Depressions—Real GDP Indices



— Greece (2008=100)  
— United States (1929=100)

Sources: BEA; ElStat

## Figure 2 Greece and the United States: Two Great Depressions—Unemployment Rates



Sources: BEA; ElStat

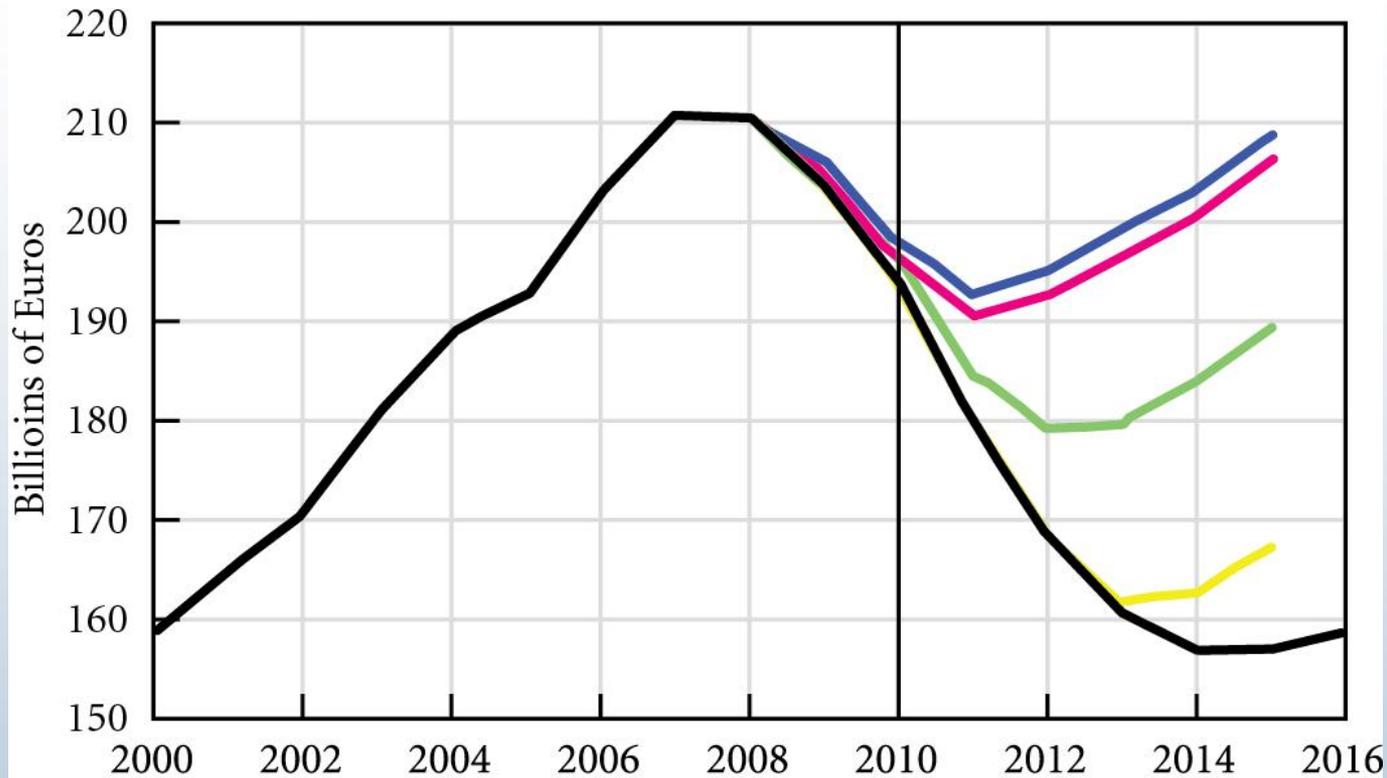
# THE TROIKA PLAN



**The Troika (IMF; EU; ECB) plan aimed at solving the problems through**

- **Fiscal austerity: reducing public spending and employment; increasing taxes; public pension cuts; privatizing public enterprises.**
- **Internal devaluation: target 15% decrease in nominal wages; actual devaluation is close to 30%, double the target.**
- **Public debt has been restructured (haircut) and gradually transformed, but it has increased to 175% of GDP. Now most of Greek public debt is a credit of the ESM and other Eurozone institutions.**

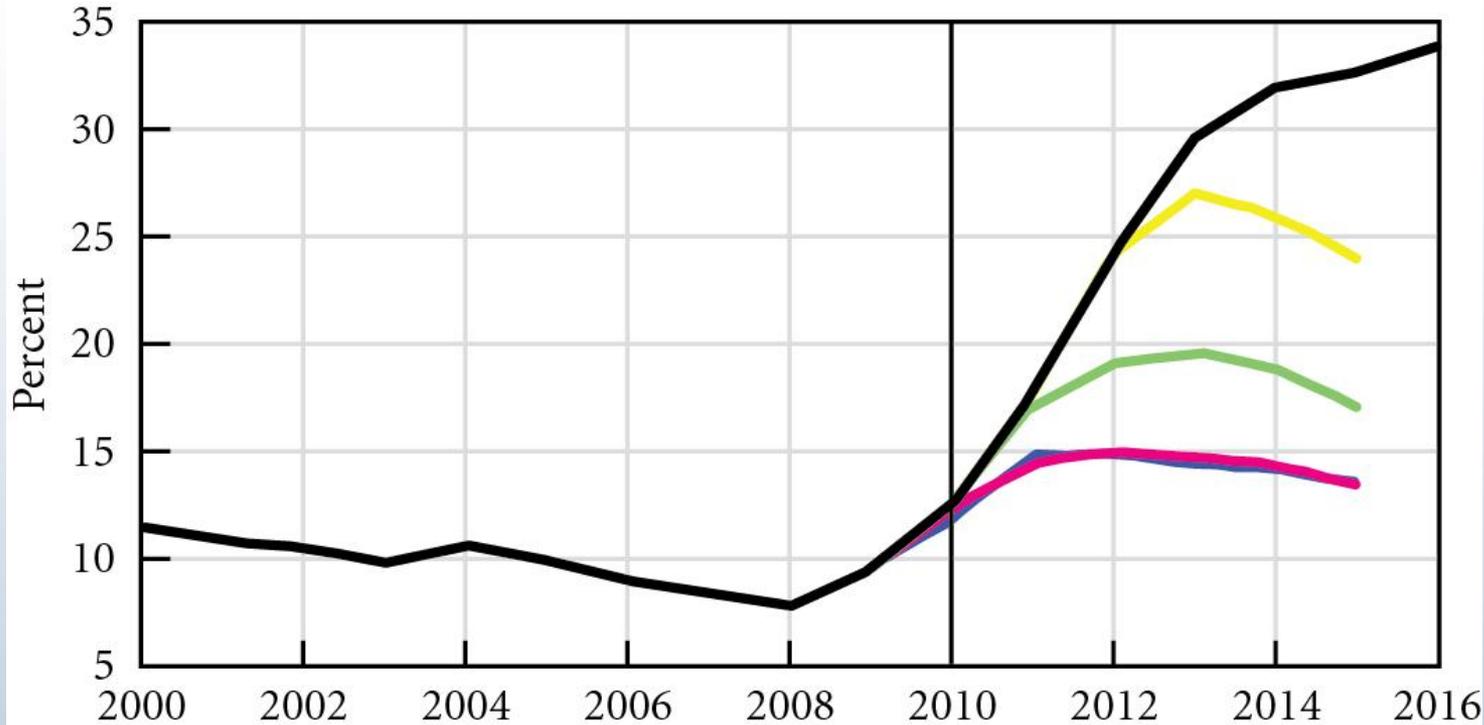
**Figure 3 Greece: Real GDP (2005=100)**



- Baseline Scenario
- Troika Projections (May 2010)
- Troika Projections (December 2010)
- Troika Projections (December 2011)
- Troika Projections (June 2013)

Sources: IMF; EC; authors' calculations

# Figure 4 Greece: Unemployment Rate

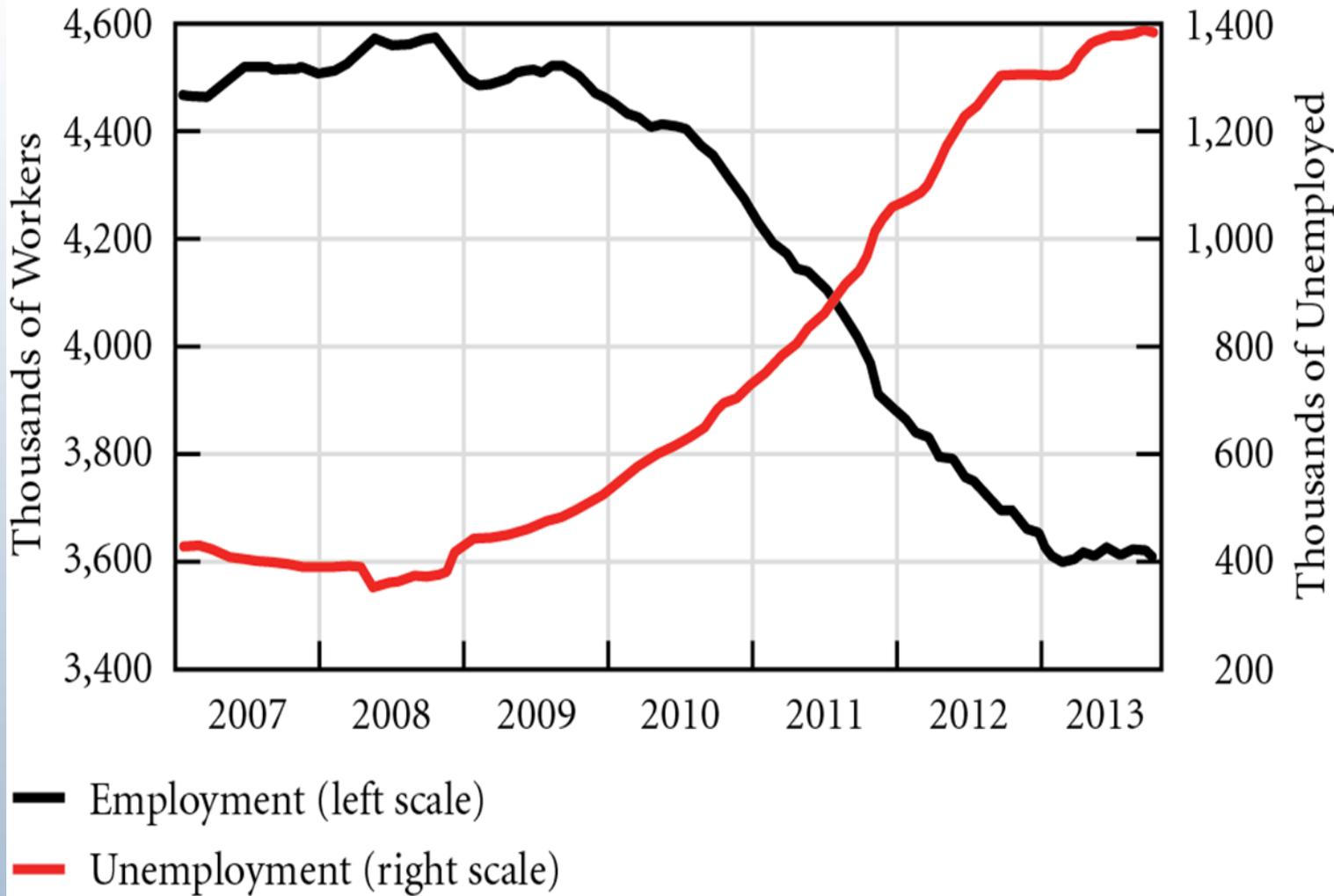


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Sources: IMF; EC; authors' calculations

# Figure 5

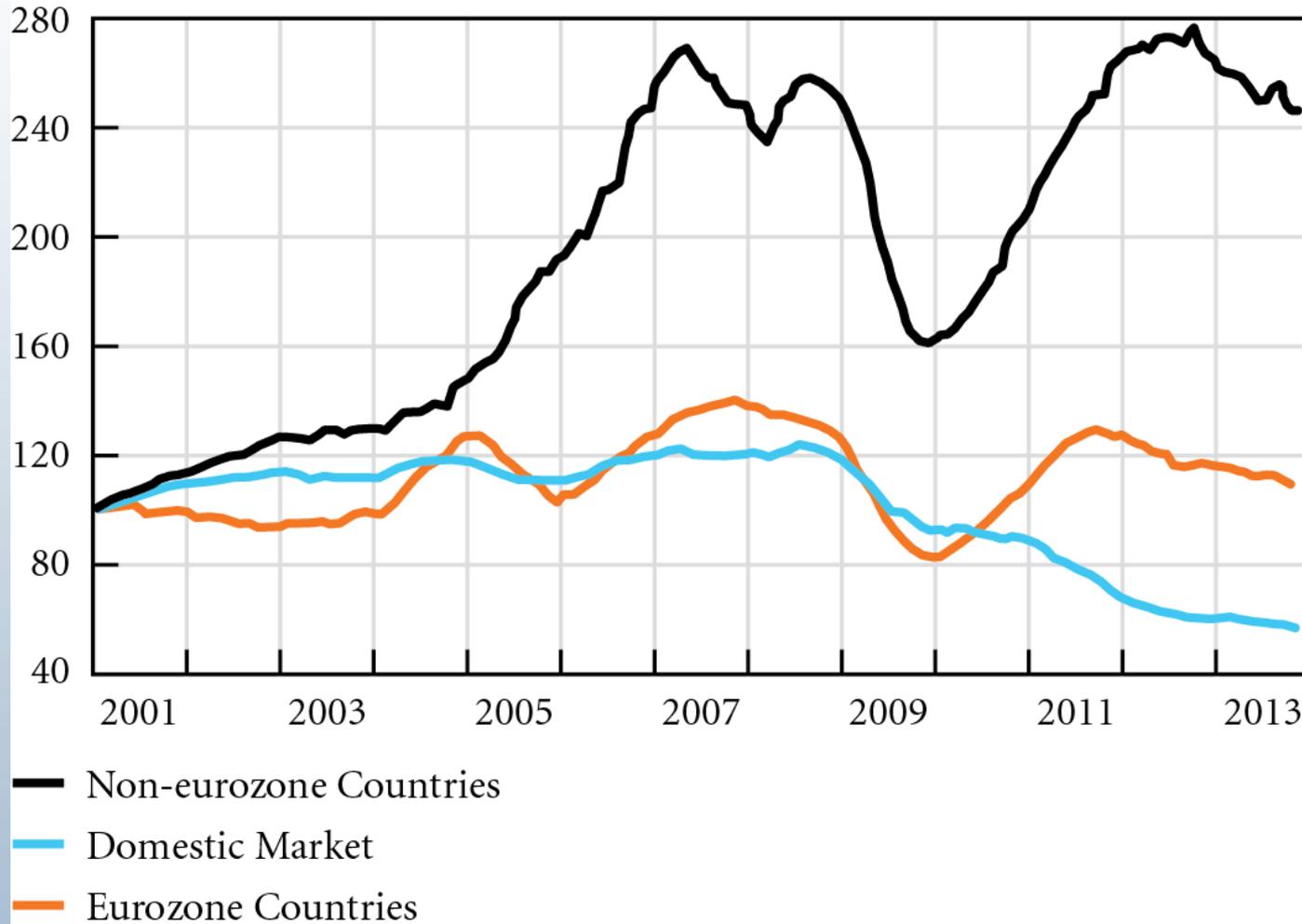
## Greece: Employment and Unemployment



Source: ElStat

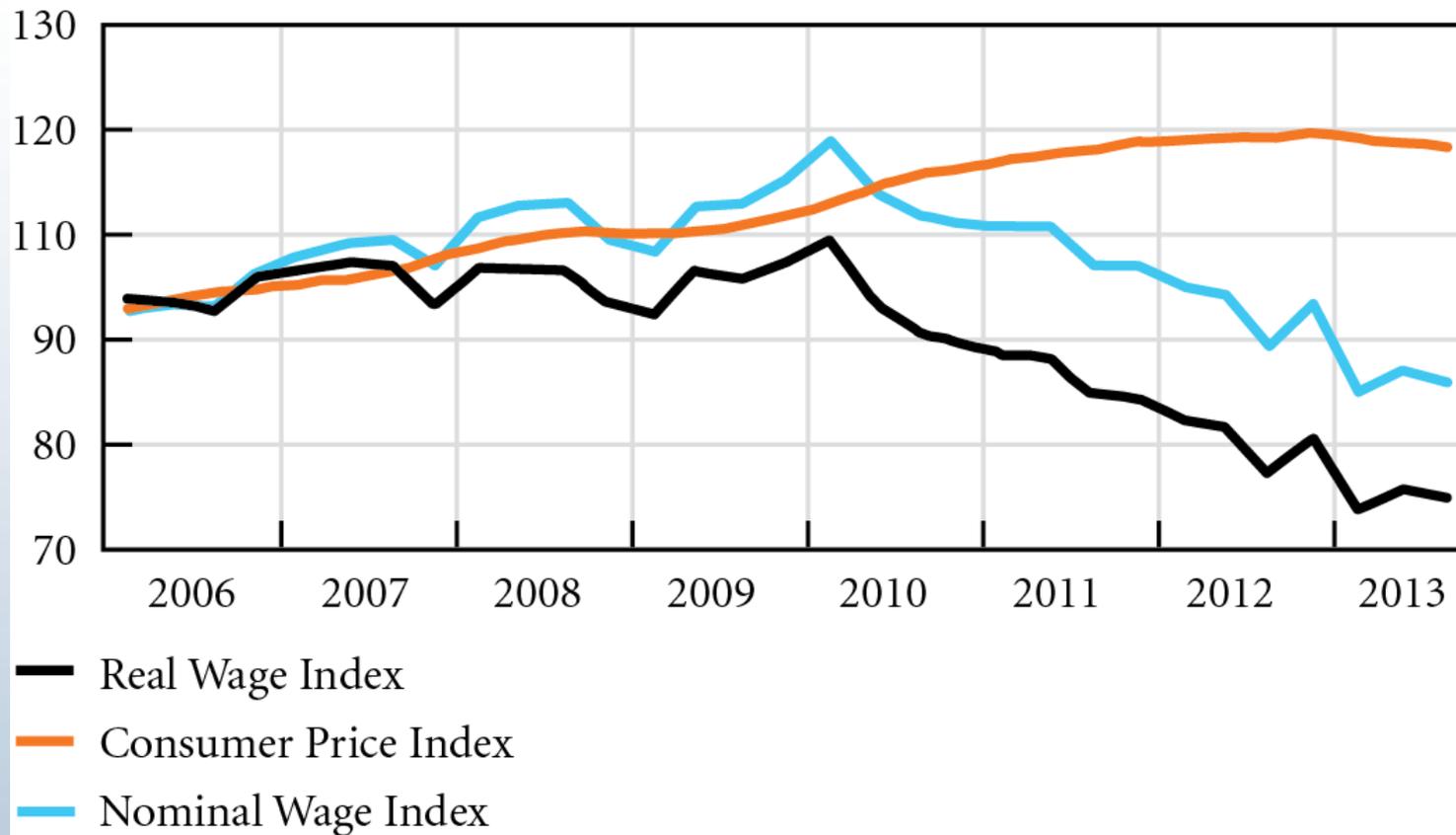
**Figure 6**

**Greece: New-orders Indices in Industry (Four-quarter Moving Averages, 2000=100)**



Source: ElStat

**Figure 7** Greece: Wage and Price Indexes (2006=100)

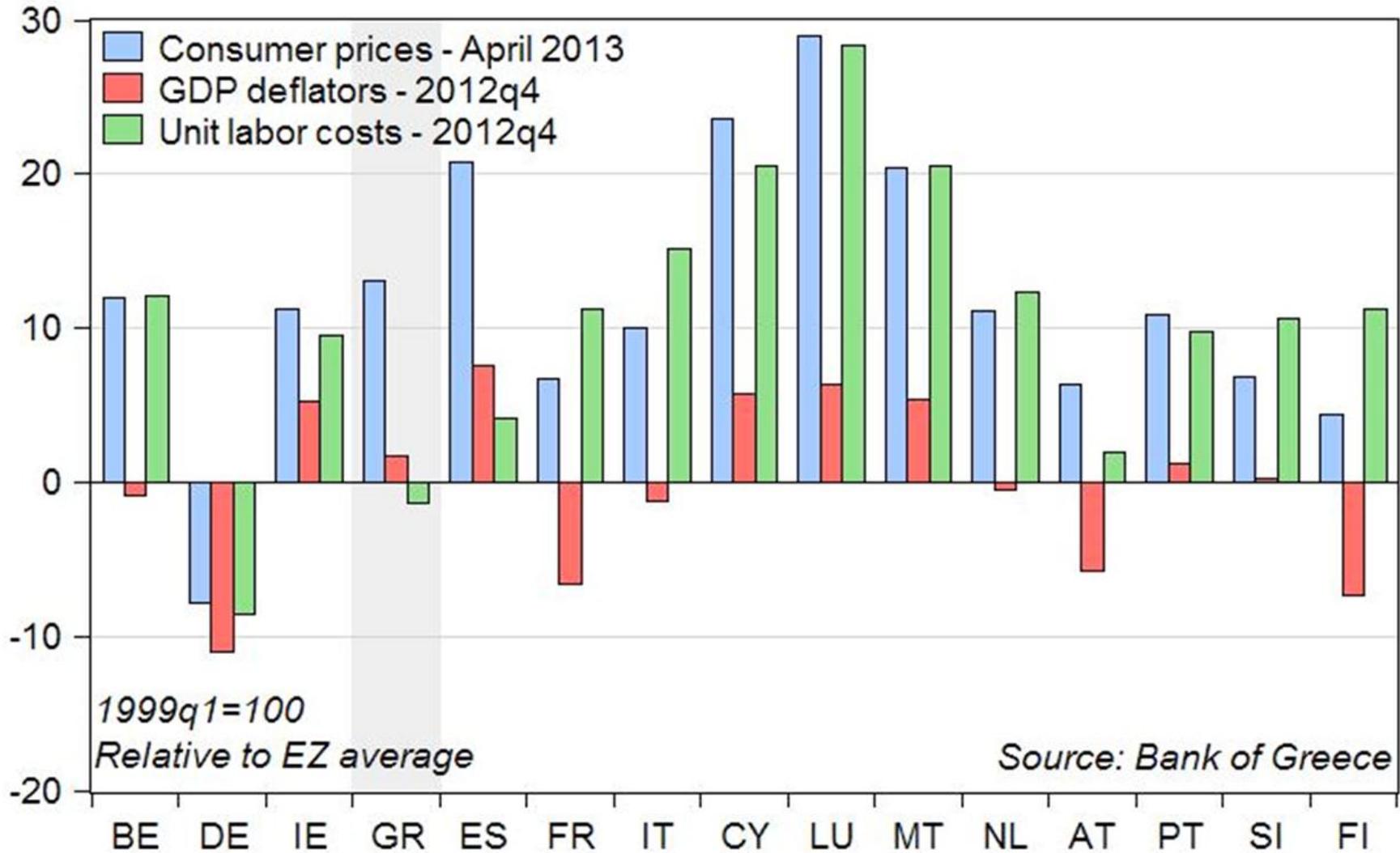


*Note:* The nominal wage index is published by ElStat, while the real wage index is obtained by deflating the nominal wage index by the CPI, also published by ElStat. The latter has been seasonally adjusted and converted to quarterly frequency.

*Source:* ElStat

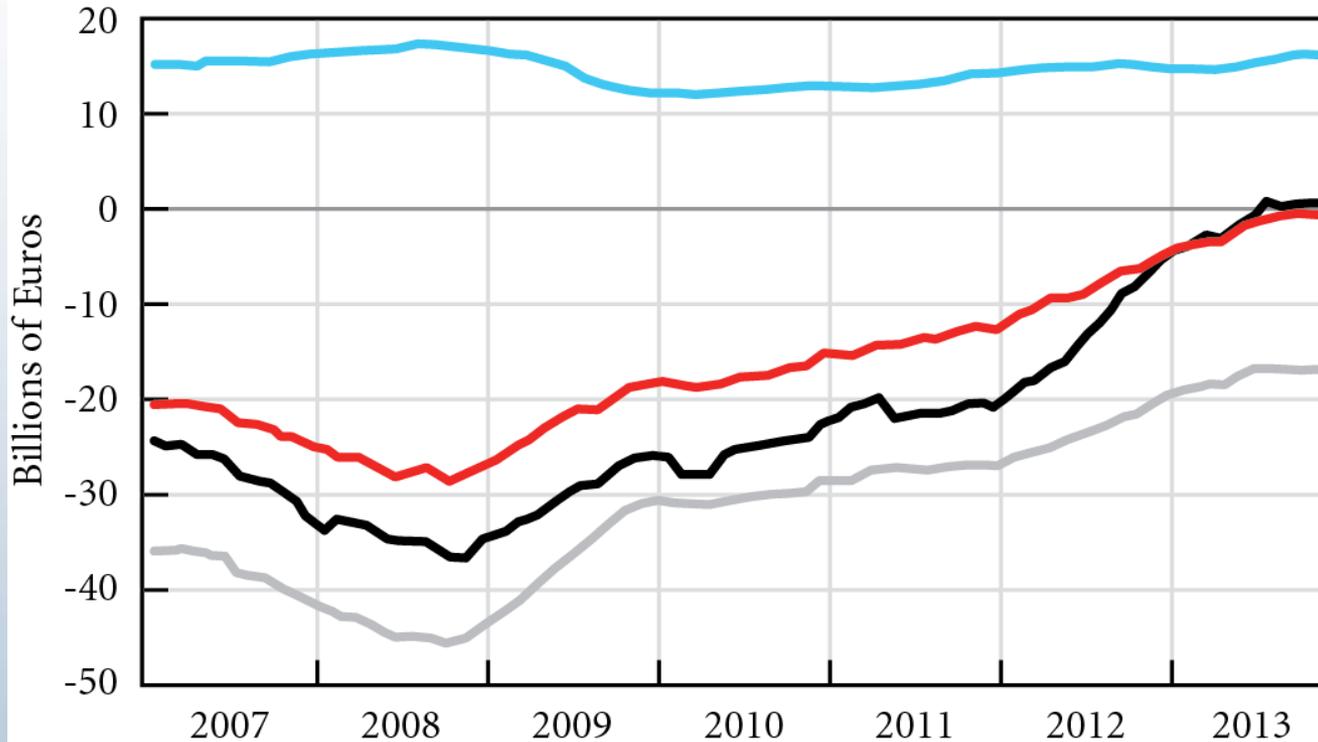
# Figure 8

## Euro area. Competitiveness indexes



# Figure 9

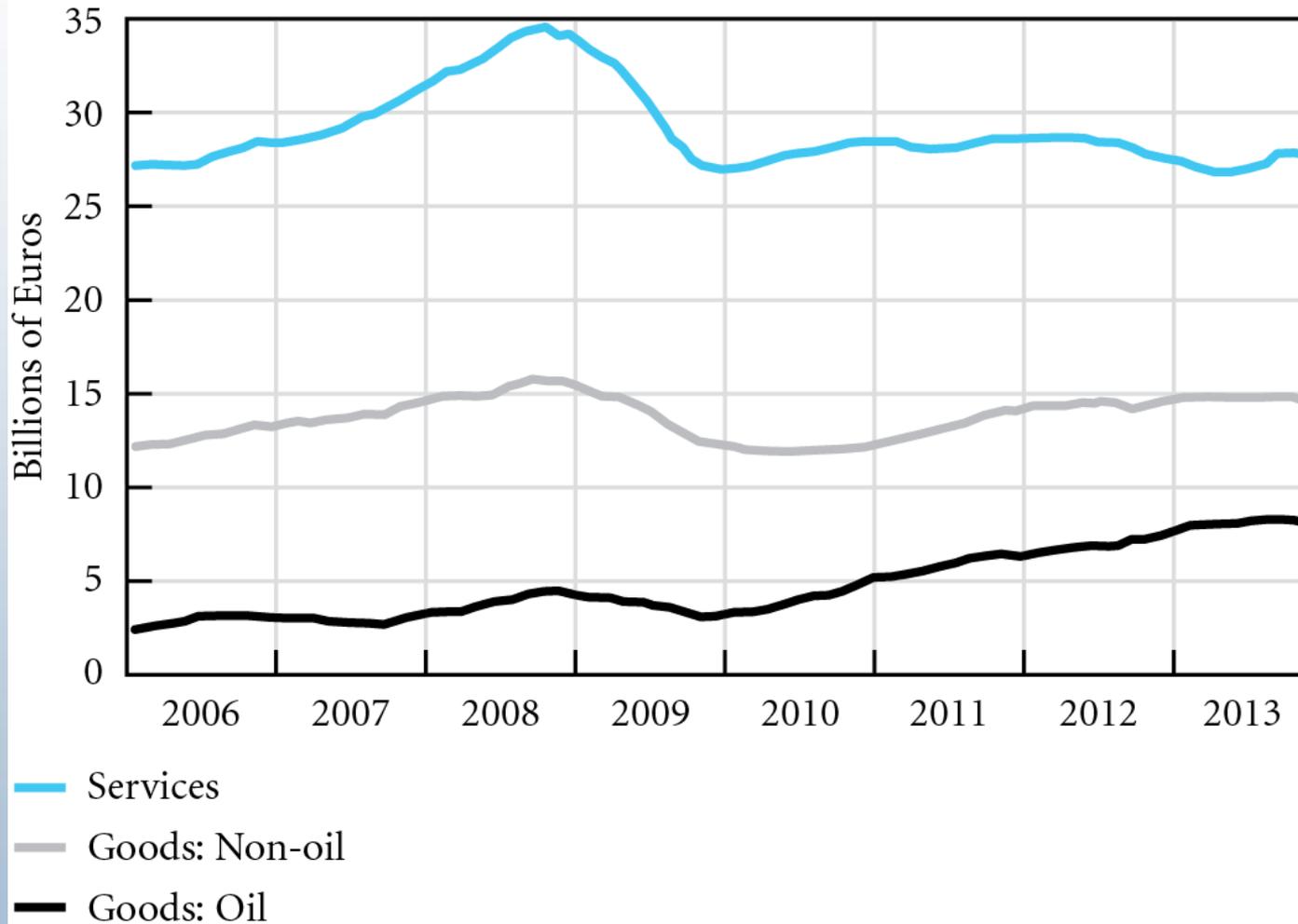
## Greece: Current Account Balance and Components (Annual Moving Averages)



- Balance on Services
- Balance on Goods and Services
- Current Account Balance
- Balance on Goods

Source: Bank of Greece

**Figure 10**  
**Greece: Exports of Goods and Services (Annual Moving Averages)**

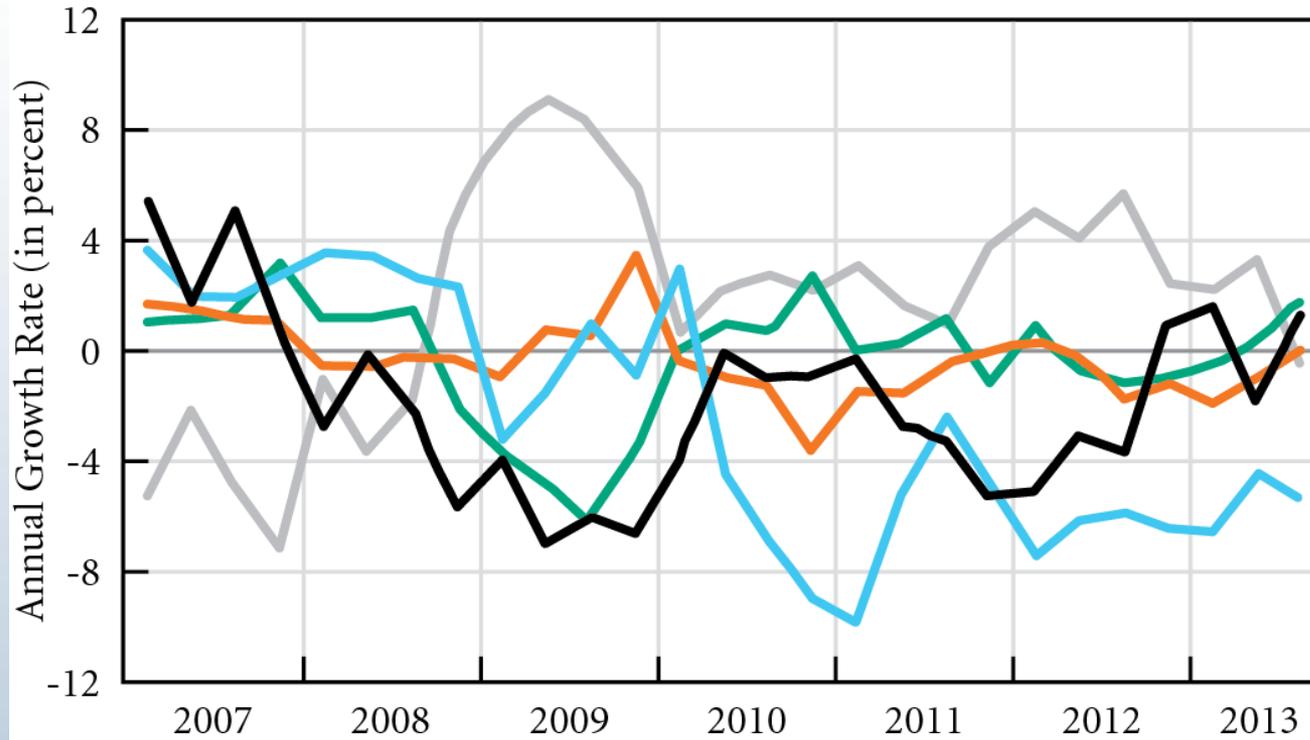


Source: Bank of Greece

**Table 1**  
**Greece – Exports by destination (2011)**

	<i>Million</i>	<i>Percent Cumulated</i>	
	<i>euro</i>		
Italy	2,955	9.32	9.32
Turkey	2,485	7.84	18.64
Germany	2,454	7.74	26.47
Cyprus	1,903	6.00	34.21
Bulgaria	1,724	5.44	40.21
United States	1,712	5.40	45.65
United Kingdom	1,239	3.91	51.05
France	906	2.86	54.96
Romania	830	2.62	57.81
Singapore	818	2.58	60.43
Macedonia	794	2.50	63.01
Spain	640	2.02	65.51
Netherlands	637	2.01	67.53

**Figure 11**  
Greece: Contributions to Real GDP Growth

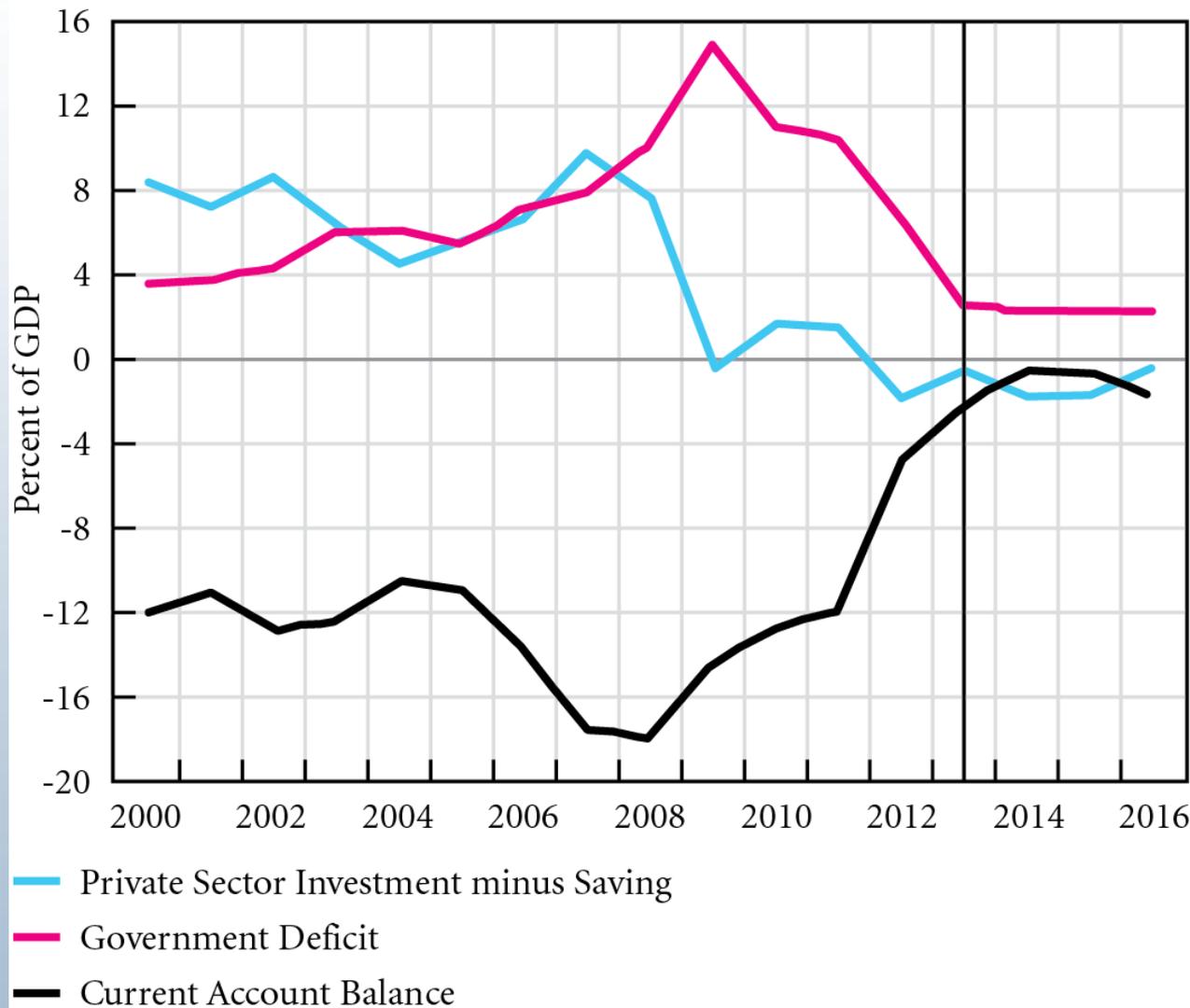


- Investment
- Consumption
- Government Expenditure
- Exports
- Imports (reversed)

Source: ElStat

# Figure 12

## Greece: Baseline Main Sector Balances



Source: Authors' calculations

**Table 2 Greece: Projections for Real GDP, 2013–15  
(in percent)**

	2013	2014	2015
Current Levy Institute projections	-3.9	-2.6	-0.0
Ministry of Finance <sup>1</sup>	-4.0	0.6	NA
IMF <sup>2</sup>	-4.2	0.6	2.9
OECD <sup>3</sup>	-3.5	-0.4	1.8
Citibank <sup>4</sup>	-3.4	-1.9	-0.4
Ernst & Young <sup>5</sup>	-4.6	-1.0	1.3
PwC <sup>6</sup>	-3.8	0.2	1.86

Sources: <sup>1</sup>MinFin 2013b. <sup>2</sup>IMF 2013b; EC. <sup>3</sup>OECD 2013. <sup>4</sup>Citi Research 2014.

<sup>5</sup>Ernst & Young 2013. <sup>6</sup>PwC 2014.

# THE FAULTY STRUCTURE OF THE EURO PROJECT



- If the European leaders had good knowledge of Eurozone countries' balance sheets, they would know that, for example, Germany's trade surpluses are matched with the south member countries' trade deficits.
- Member states with surpluses need to behave in a cooperative manner toward the trade deficit member states.
- An expansionary policy in Germany and other north European member states, together with increases in private sector wages, would help reduce Eurozone internal imbalances.
- Eurobonds, a Euro Treasury and/or a recycling of trade surpluses are the solutions to rehabilitate and complete the Euro project.
- But, since all of the above are not politically digestible, other national options should be considered.



# **AN ALTERNATE POLICY OPTION: A MARSHALL PLAN**

- **Externally funded and overseen by the European Investment Bank or other EU institution, for a total amount of 30 billion Euros at the rate of 2 billion each quarter beginning now.**
- **Funds would be spent for public consumption and targeted investment to foster growth in key production of goods and services sectors.**
- **Funds could be used to finance a direct job creation program.**

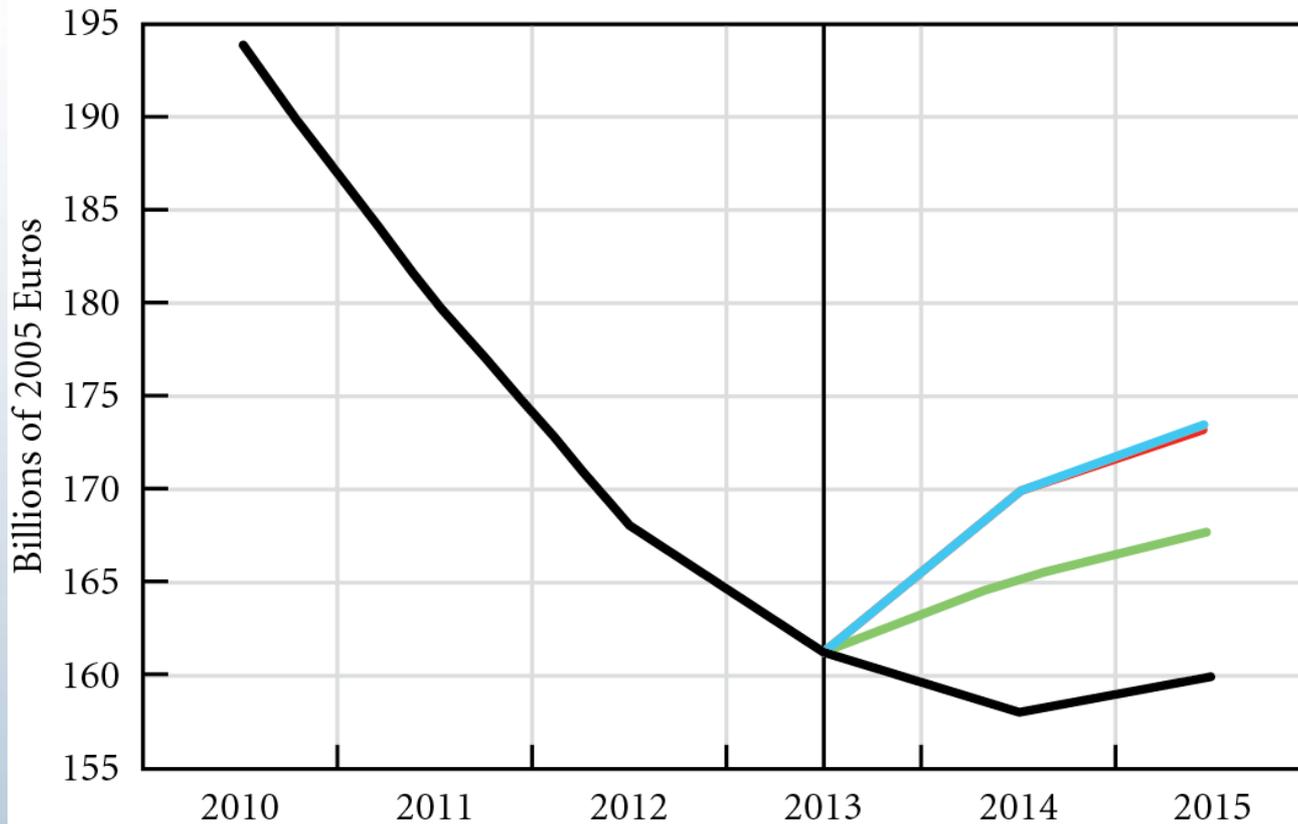
# **A SECOND ALTERNATIVE POLICY OPTION: SUSPENDING ALL INTEREST PAYMENTS AND FREEZING PUBLIC DEBT**



- **Public sector debt is frozen with no interest payments made until GDP levels are restored to 2010 levels.**
- **Creditors agree to roll over maturing debt for as many years, until 2010 GDP levels are restored.**
- **Interest payments are conservatively estimated at about 7.5 billion Euro per year.**
- **The amount of 7.5 billion Euro per year could be used, instead, for public consumption and targeted investments or to finance a direct job creation program.**

# Figure 13

## Greece: Alternative Scenarios for Real GDP

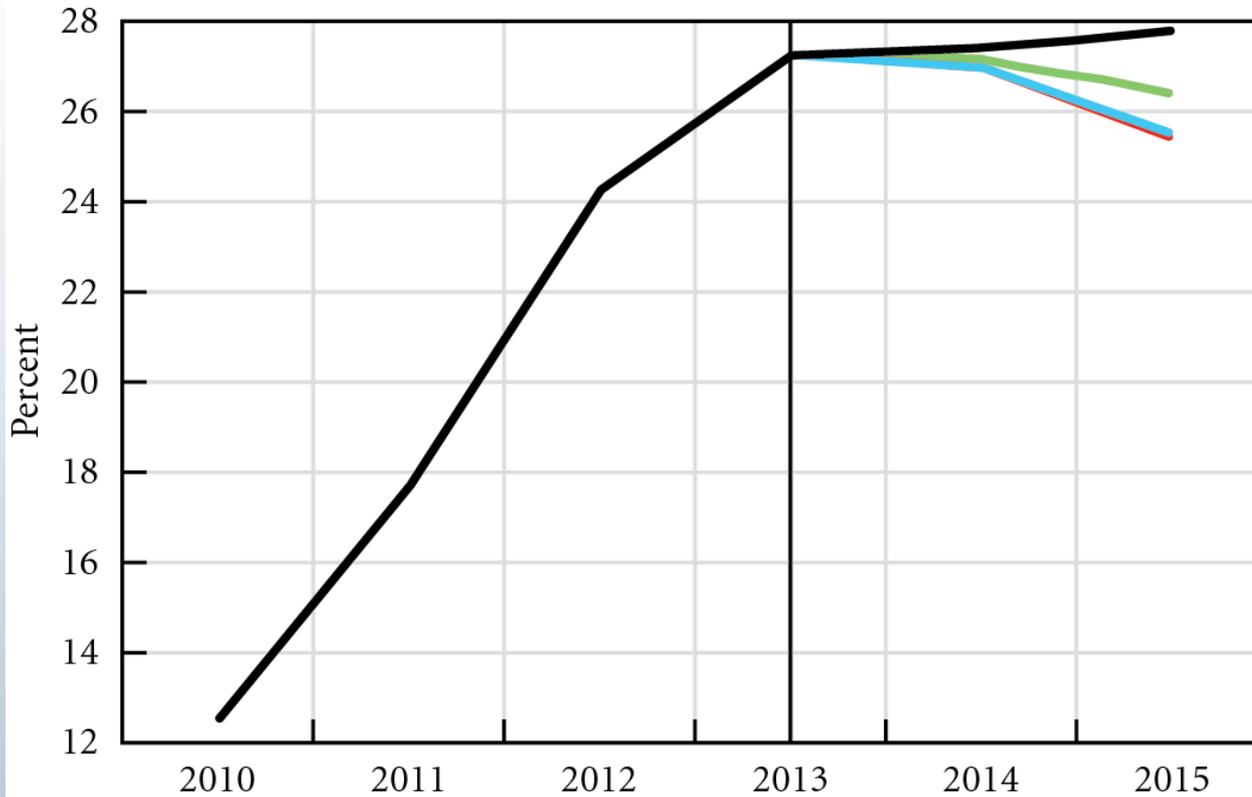


- Baseline Scenario
- Marshall Plan Scenario
- Debt Freeze Scenario
- Development Bonds Scenario

Source: Authors' calculations

**Figure 14**

**Greece: Alternative Scenarios for the Unemployment Rate**



- Baseline Scenario
- Marshall Plan Scenario
- Debt Freeze Scenario
- Development Bonds Scenario

Source: Authors' calculations



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