The Greek economy: Current developments and future prospects

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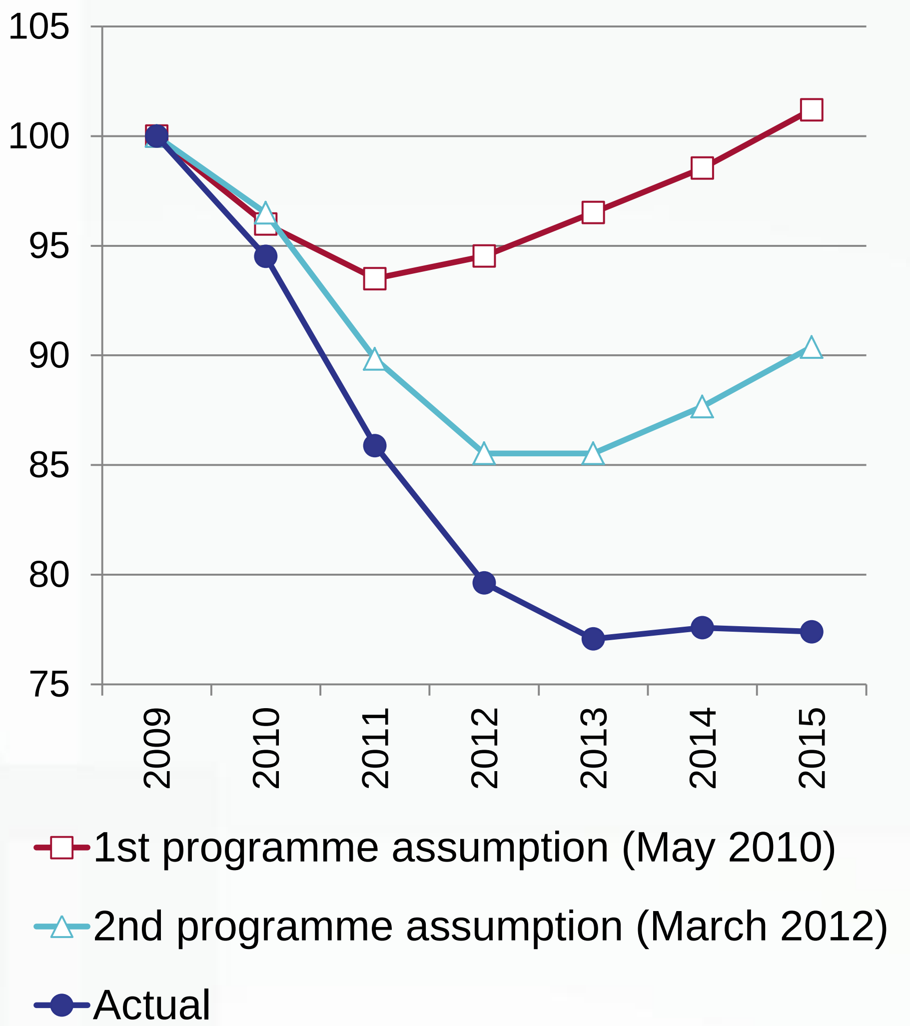
Euro-area Troika programmes in 2010-2013

- **Same strategy:**
  - Fiscal adjustment
  - Structural reform
  - Financial sector clean-up

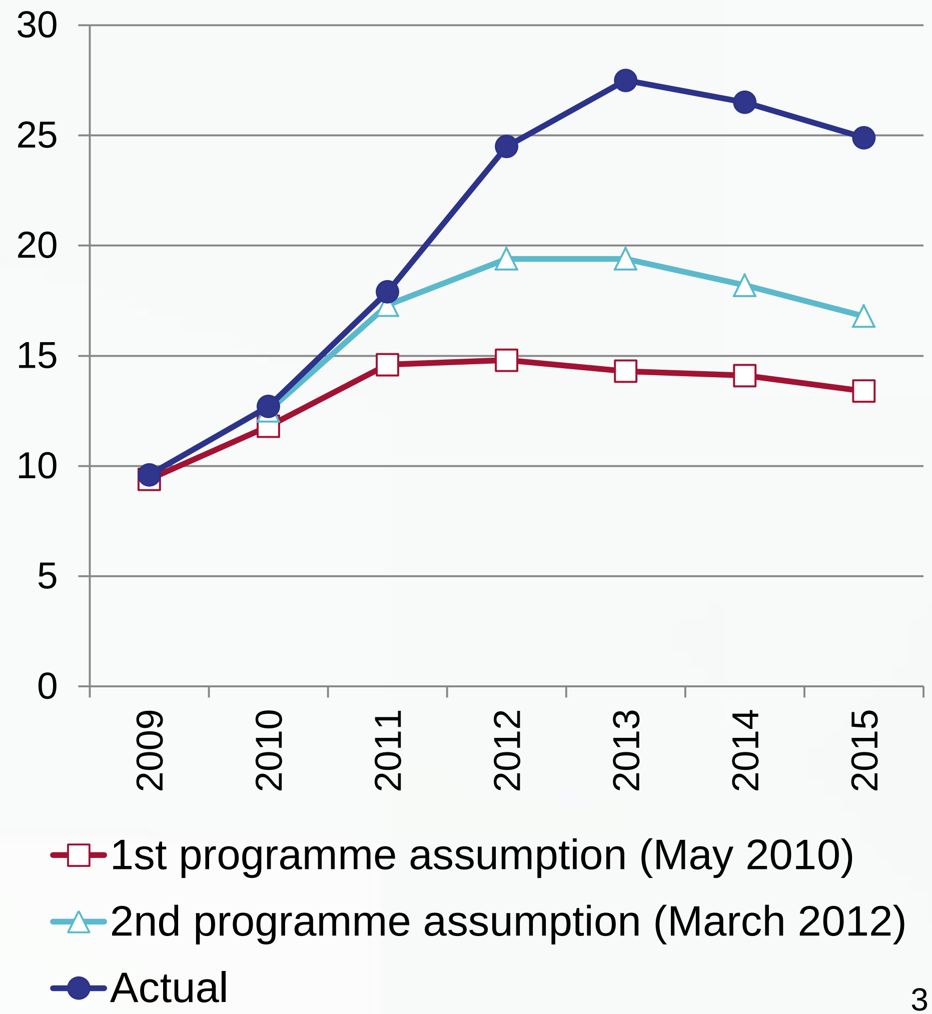
- **Widely different outcomes:**
  - Greece – great tragedy
  - Ireland – great success
  - Portugal and Cyprus – in between

Greece: GDP and unemployment projections vs outcomes under the 2010 and 2012 programmes

GDP at constant prices (2009 = 100)

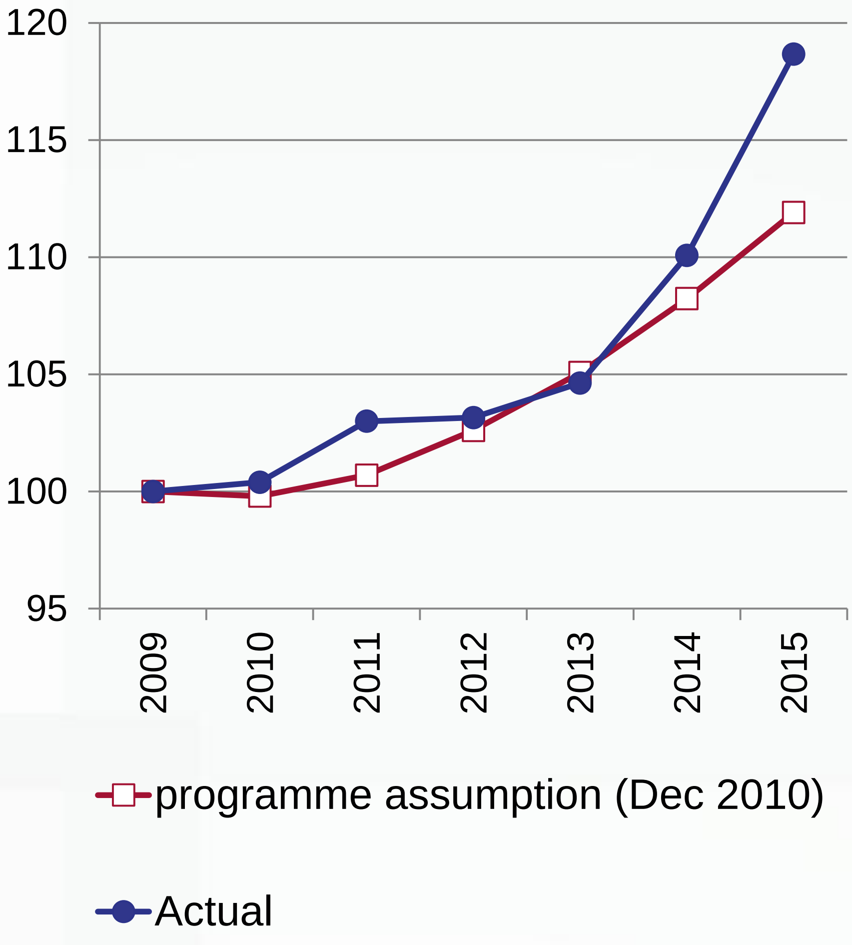


Unemployment rate (%)

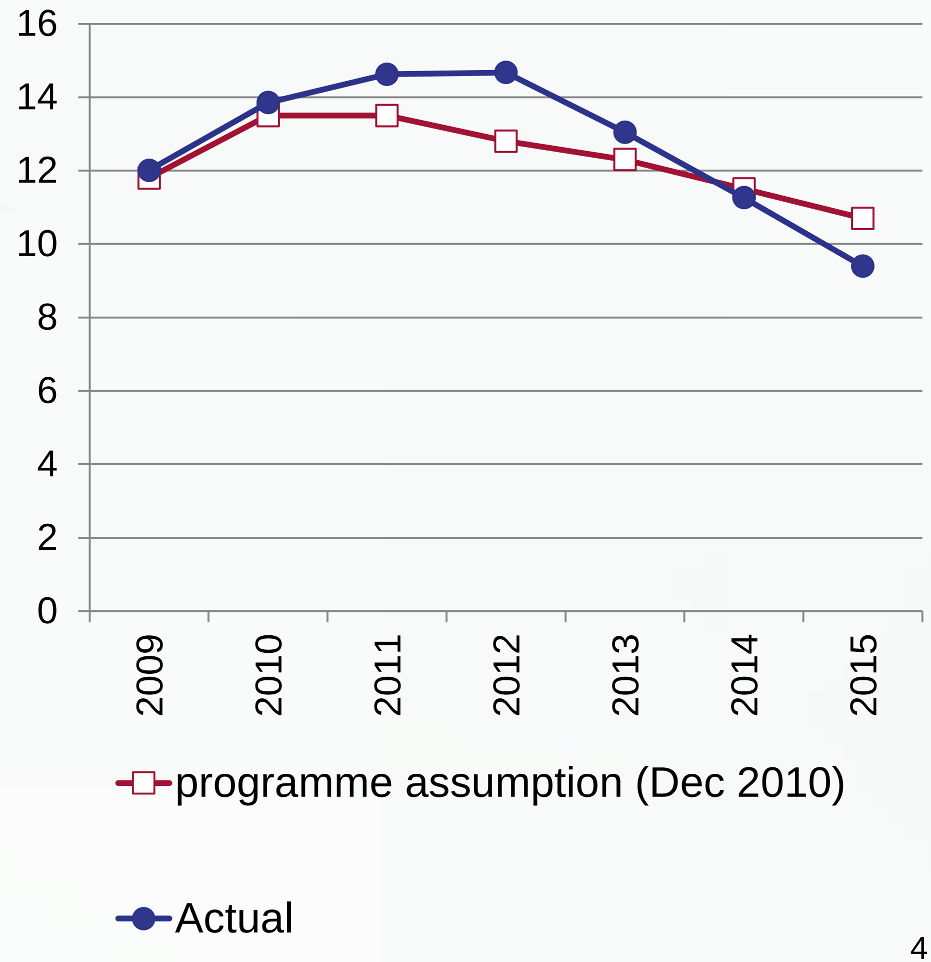


Ireland: GDP and unemployment projections vs outcomes

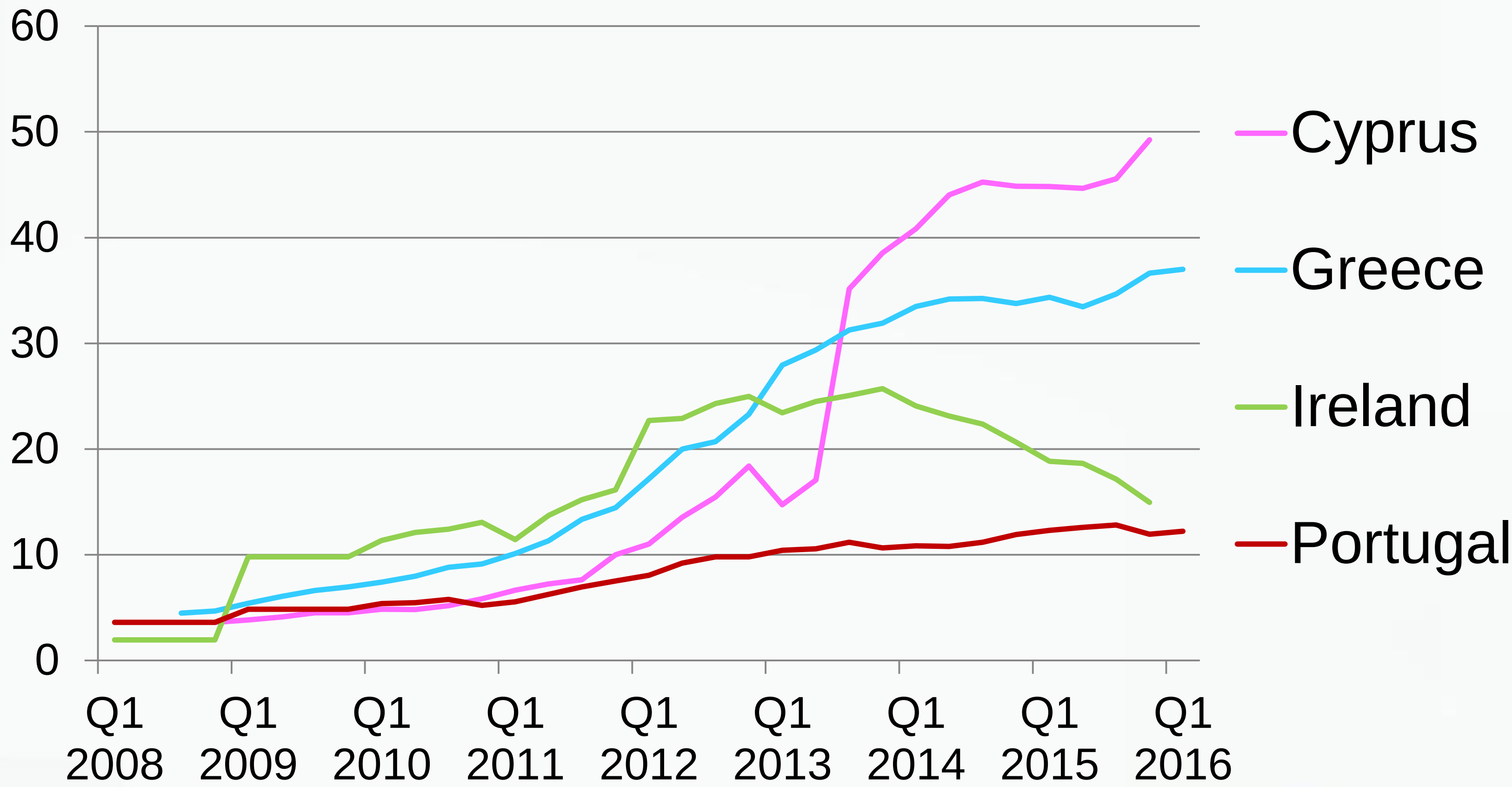
GDP at constant prices (2009 = 100)



Unemployment rate (%)



Share of non-performing loans (%)



Source: IMF Financial Soundness Indicators database. Note: quarterly data is not available for Ireland and Portugal in 2008 and 2009: for these two years, the corresponding annual data is indicated in each quarter.

Design problems with the 2010/12 Greek programmes

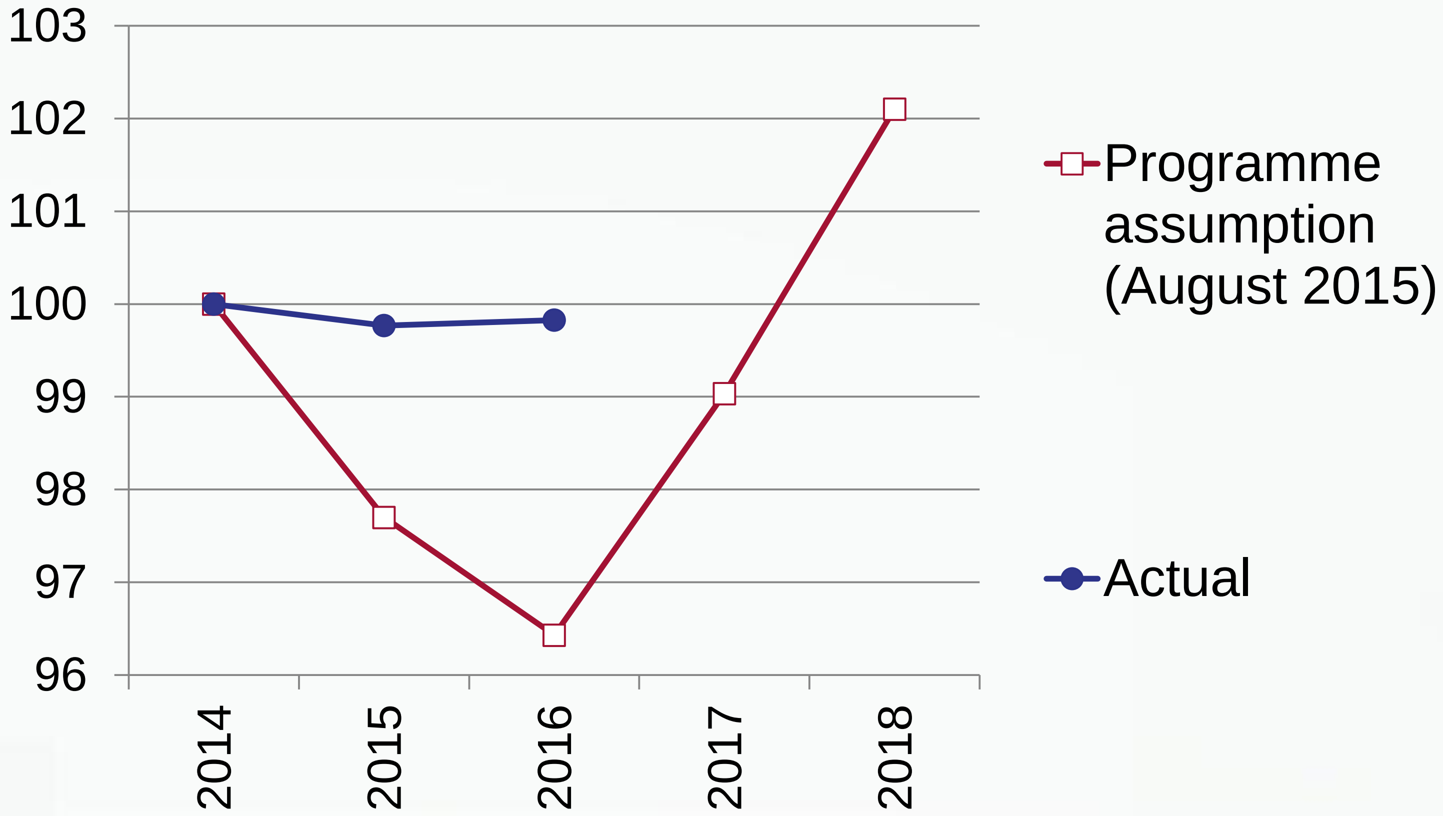
- **Major flaws of the 2010 financial adjustment programme:**
  - **Overly-optimistic assumptions** → more fiscal adjustment had to be implemented when GDP and tax revenues became weaker, because financial assistance was fixed in nominal terms
  - **Pretending that Greek public debt was sustainable** → dispute about default and euro exit deterred investment, consumption and led to fall in asset prices and capital outflows
  - **Extremely ambitious privatisation plan was requested** → missing the target necessitated more fiscal consolidation
  - **Structural reform sequencing** → Concentrating on labour market rather than product market reforms → the sharp wage fall could not be paralleled by a similar reduction in prices + large wage fall increased social hardship → undermining support for needed reforms

Why was Ireland different?

- Much better starting position (both structural and fiscal)
- Almost no need for labour and product market reforms
- The major challenge for Ireland was to contain the banking crisis and the fiscal impact of the burst pf the pre-crisis housing bubble

Current Greek programme: better than expected outcomes

GDP at constant prices (2014 = 100)



Note: actual data (including forecast for 2016) is from the October 2016 World economic Outlook of the IMF

Greek outlook

- **Reasons for being optimist:**
  - In 2014, employment and GDP growth restarted
  - Most structural reforms implemented (IMF estimate: more than 90%)
  - Significant increase in the share of tradable sector
  - Deep recessions used to be followed by quick recoveries
  - Euro-area and global environment is more supportive now
  - Some form of public debt relief will come in 2018
- **Market access unlikely in 2018; 4th financial assistance programme will be needed**
- **Reasons to worry:**
  - Weak institutions (e.g. World Bank/ World Economic Forum indicators)
  - Inefficient tax collection and social redistribution system
  - Business obstacles remain (e.g. OECD indices on barriers to FDI, Complexity of regulatory procedures; Enforcing contracts;State control)
  - Continued banking problems

Thank you for your attention

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