

New Growth Agenda and Structural Reforms

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Greece beyond the Programmes

London Business School

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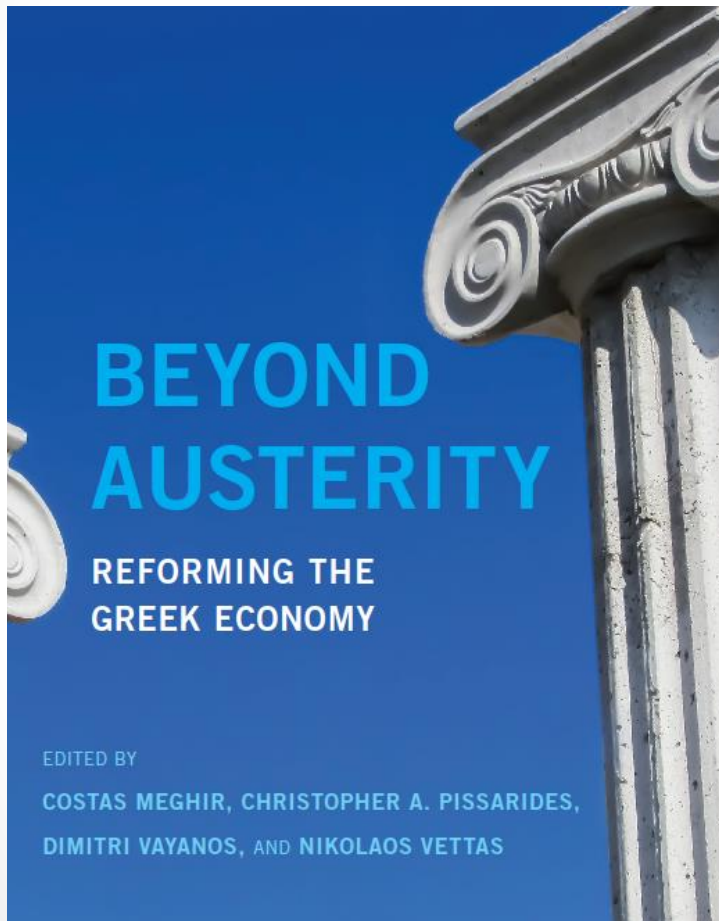
Success?

- Elimination of twin deficits
Through recession. Sustainable?
- Competitiveness has been restored
Primarily, if not exclusively, through decrease in unit labor cost.
- Greece is back to growth.
Very low, slow and anaemic.
- Greece has stayed in the euro-zone.
But why was this even put on the table?

Future outlook?

- Can the remaining reforms be done?
Possibly, as governments can no longer generate growth by borrowing.
- What are growth prospects?
High, if reforms continue.
- What should be done with the debt?
Gradual reduction, conditional on reform milestones.
- Does the Euro benefit Greece?
Yes, discipline to reform (provided EZ architecture is set right).
- The effects of the external environment?
Debt management, fiscal monitoring, deposit insurance, incentives for structural reform

A book



- “Beyond Austerity: Reforming the Greek Economy”, MIT Press.
 - <https://mitpress.mit.edu/books/beyond-austerity>
- Economic institutions and resulting incentives, across wide range of areas.
 - Pre-crisis situation.
 - Changes during crisis.
 - Policy proposals going forward.
- Collective effort of Greek economists in Greece and diaspora.



The development of self-care and the benefits to public health and national economy

The aim of the study is to define self-care and self-medication in Greece and Europe, to analyze the Greek and European market of O.T.C., as well as to describe social and economic benefits of the proper development of self-care in Greece. In addition, a quantitative primary research analysis describes the perception of citizens and pharmacists about self-care, self-medication and O.T.C products....

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The contribution of passenger shipping to the Greek economy

The study aims to analyse the latest data and developments in passenger shipping, to underline the importance and the potential of the sector and to highlight the challenges that it still faces. The study presents the latest changes in its key figures, analyses its performance in comparison with that in other European countries, examines the factors that drive the demand for passenger shipping, analyses the financial performance of the ...

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Tertiary education in Greece: Impact of the crisis and challenges

The scope of the study is to analyse the challenges faced by the higher education sector in Greece, in order to contribute to the formation of the new production model of development of the Greek economy, based on knowledge, skills, entrepreneurship and innovation. In this regard, the study draws policy implications aiming to contribute to the preparation of a plan for the utilisation of the higher education in order to achieve a sustai...

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About I.O.B.E.



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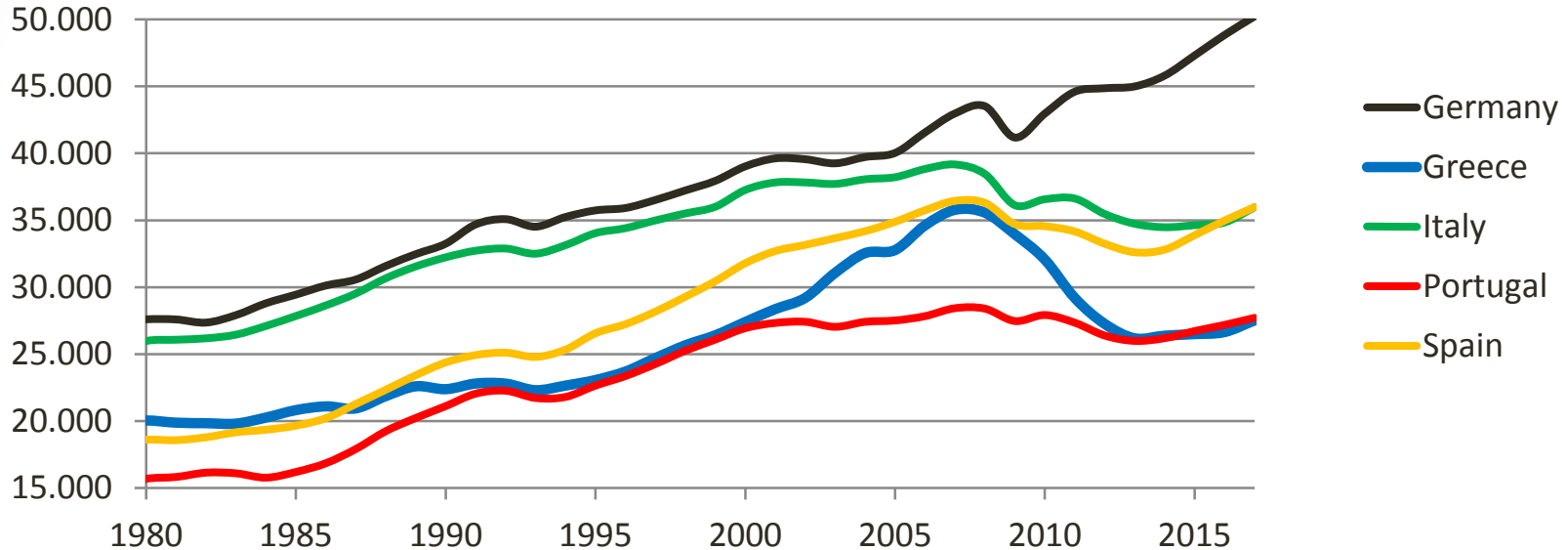
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Key background points

- Crisis partly due to long-term domestic problems:
 - Low long-term growth.
 - Low corporate investment and FDI.
- Crisis exacerbated by flows in EZ architecture that facilitated excessive borrowing and current account deficits.
 - No framework for sovereign default within EZ.
 - Weak bank-regulation framework.
- Euro entry had some positive outcomes for Greece.
 - Increase of productive (corporate) investment.
- Greece was “canary in the mine” – weaker and first to fall.
 - High current account deficit (as Portugal and Spain).
 - High government debt (as Italy) and deficit.

GDP

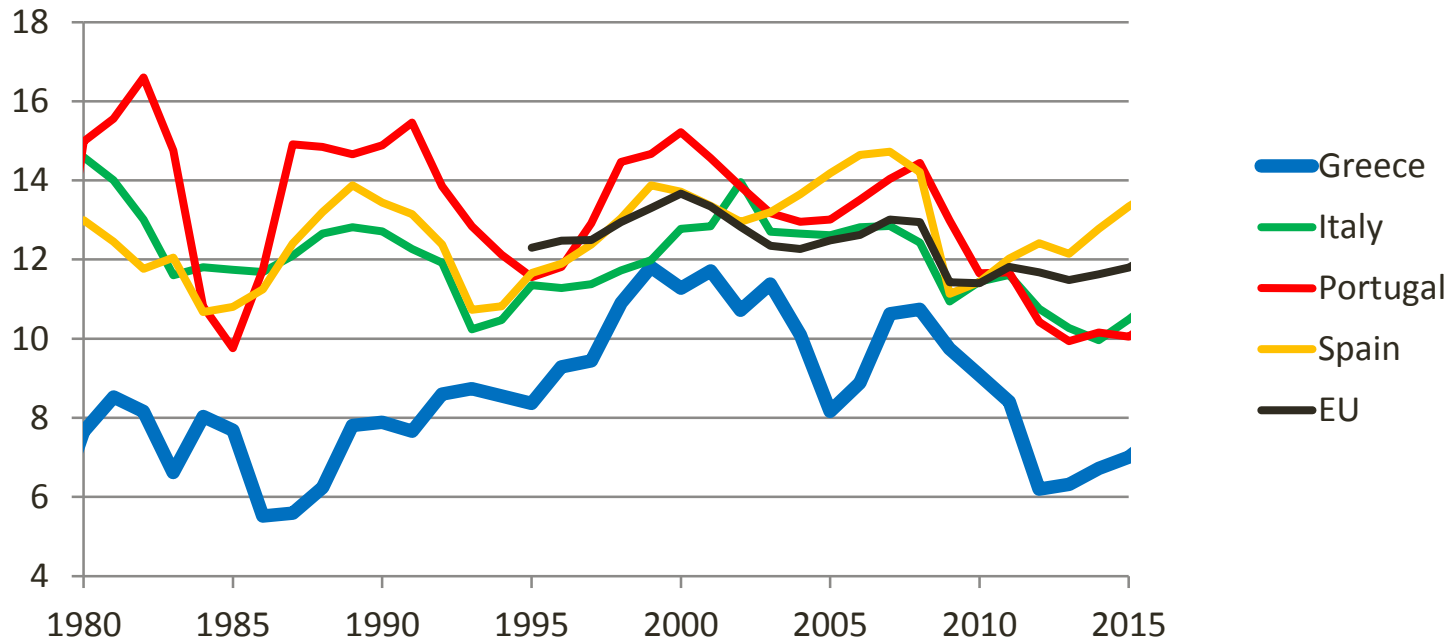
GDP per capita
(in 2014 US dollars and PPP adjusted)



- 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.
 - Similar to Italy.
 - Similar before and after Euro entry.

Corporate investment

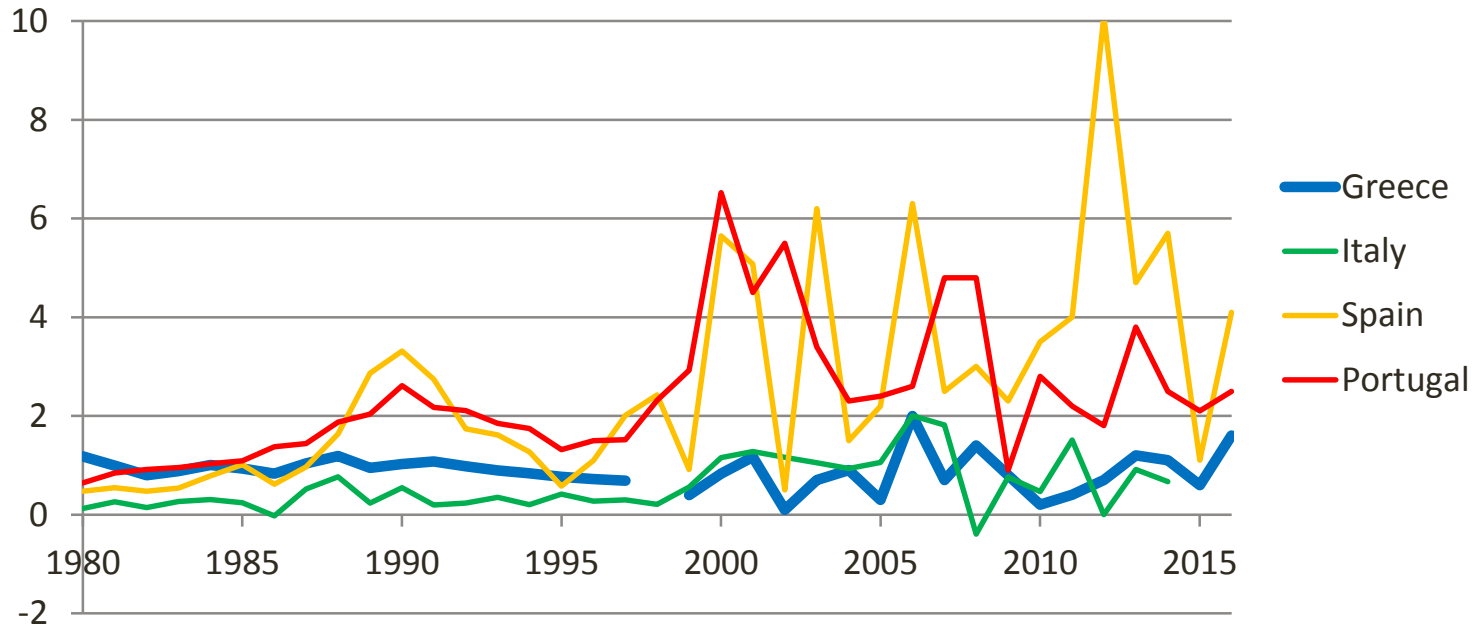
Corporate Investment as % of GDP



- 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.

Foreign Direct Investment

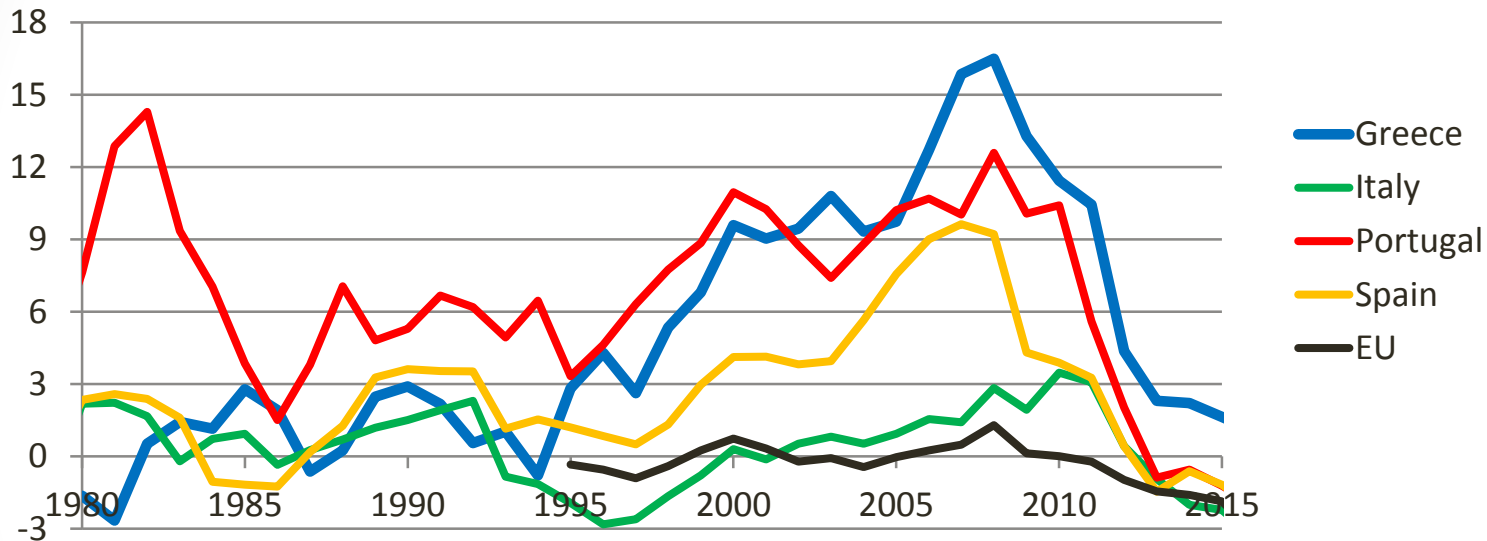
Foreign Direct Investment as % of GDP



- FDI in Greece has been low.
 - Similar to Italy.
 - Even during the boom years after Euro entry.
- Indicative of broader problems with business environment.

Current Account Deficit

Current Account Deficit as % of GDP



- Current account deficit rose significantly in the run-up to and after Euro entry.
 - Similar to Portugal and Spain.
 - Rise in investment, consumption, and GDP.

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 independent tax collection authority.
 - Fully electronic filing.

Labor market

- Over-regulated before the crisis.
 - EPL in 2008 fifth-highest in OECD.
 - High % of long-term unemployed and of self-employed.
 - Low reallocation rate (hirings and firings).
- Key changes in regulation.
 - Severance pay has been halved, to five months of salary.
 - Collective dismissals no longer require ministerial approval.
 - Firm-level agreements have become possible, and effectively replaced collective agreements.
- EPL in Greece is now at OECD average.

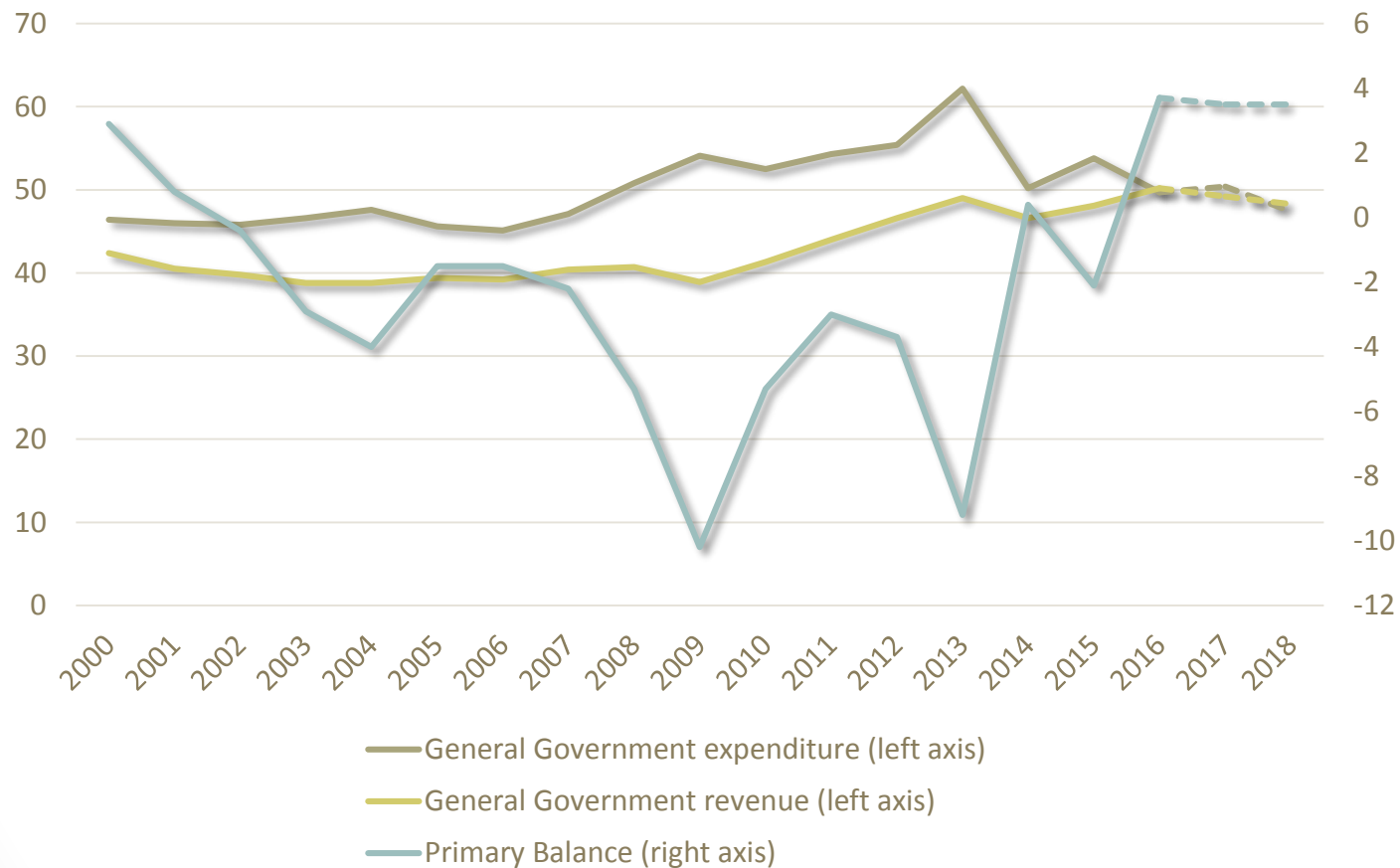
Pensions

- Costly, inefficient and fragmented system before the crisis.
 - Pension expenditure in 2007 second-highest in EU (12% of GDP), and projected to double by 2060.
 - Yet, high old-age poverty.
 - Rules mapping contributions to pensions differed across professional groups.
- Key changes:
 - Single pension calculation for all.
 - Minimum pension (384 Euros).
 - Pension proportional to number of working years.
 - Single retirement age at 67.
 - ➔ Drastic cuts to some existing pensions.

Product markets

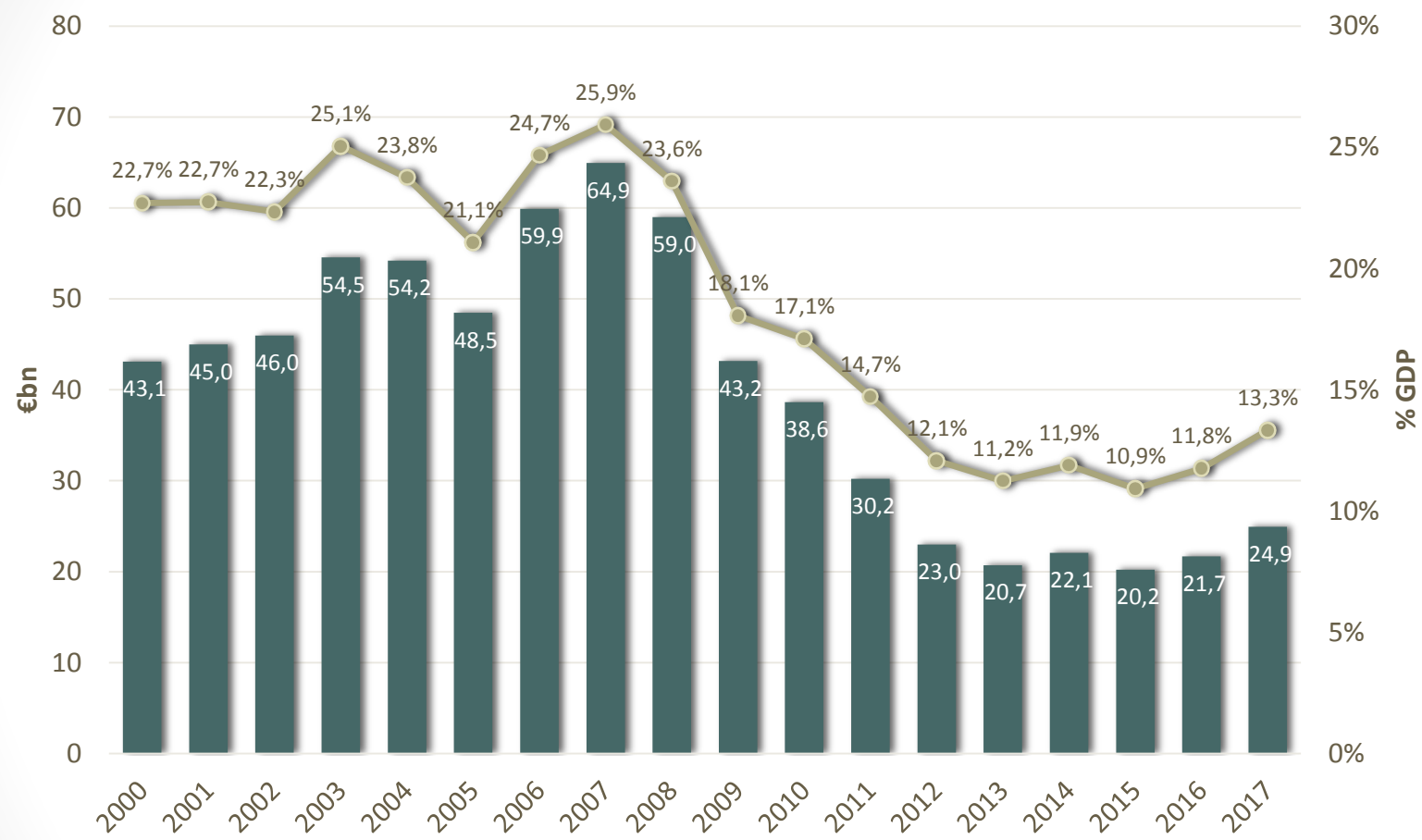
- Over-regulated before the crisis.
 - PMR in 2008 second-highest in OECD.
- Reduction in barriers to entry and competition in a number of key sectors.
 - Implementation of “OECD tool-kit”.
- PMR improved significantly.
 - Fourth-highest in OECD in 2013.
 - Dropped from 2.21 to 1.74. OECD average dropped from 1.59 to 1.47.

Government Expenditure, Spending, Primary Balance (% GDP)



Sources: Eurostat/European Economic Forecast, autumn 2017, European Commission

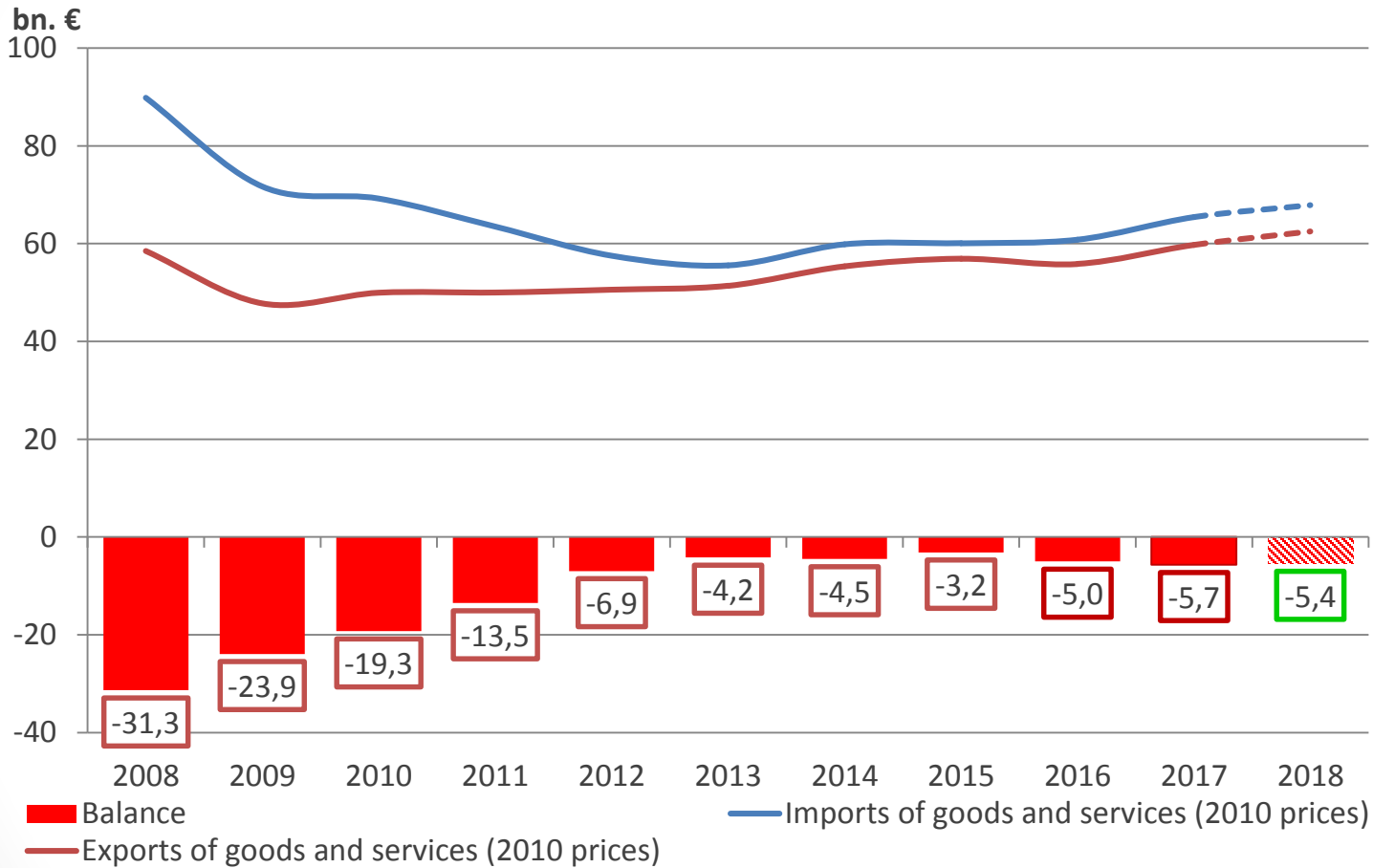
Investment collapses



Sources: Eurostat/ELSTAT

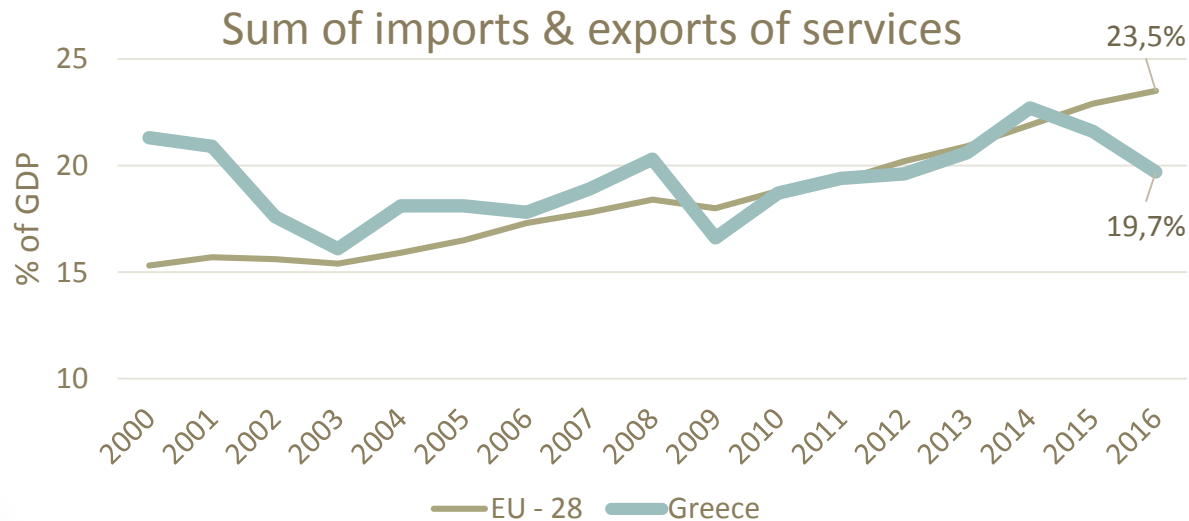
- Highest investment level in 2007 (€64.9 bn)
 - Highest level of investment as a % of GDP in the same year (25.9%)
- Significantly lower investment in 2017 (€24.9 bn, 13.3% of GDP)

Trade balance (goods and services)

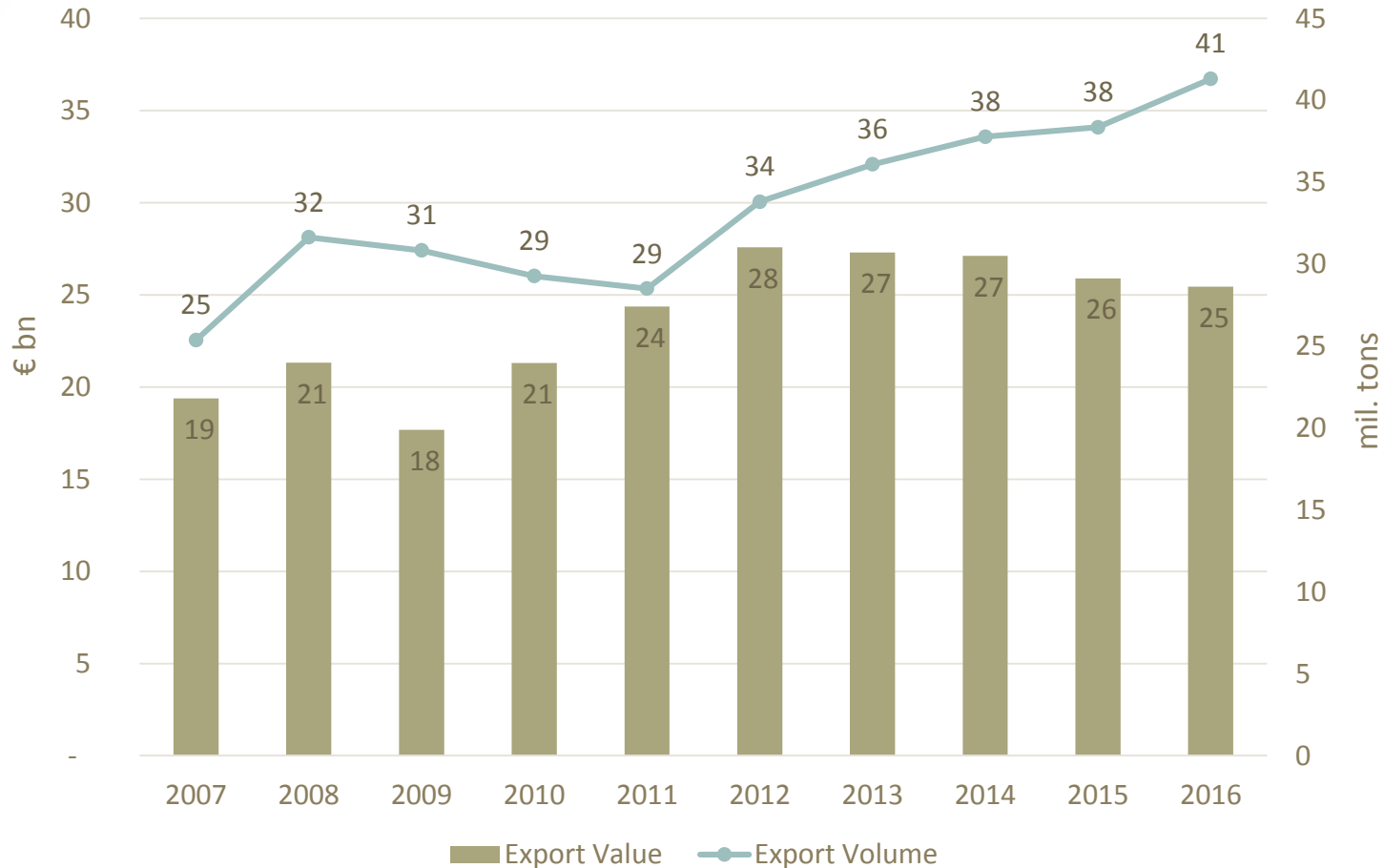


Source: AMECO

Openness



Exports of goods

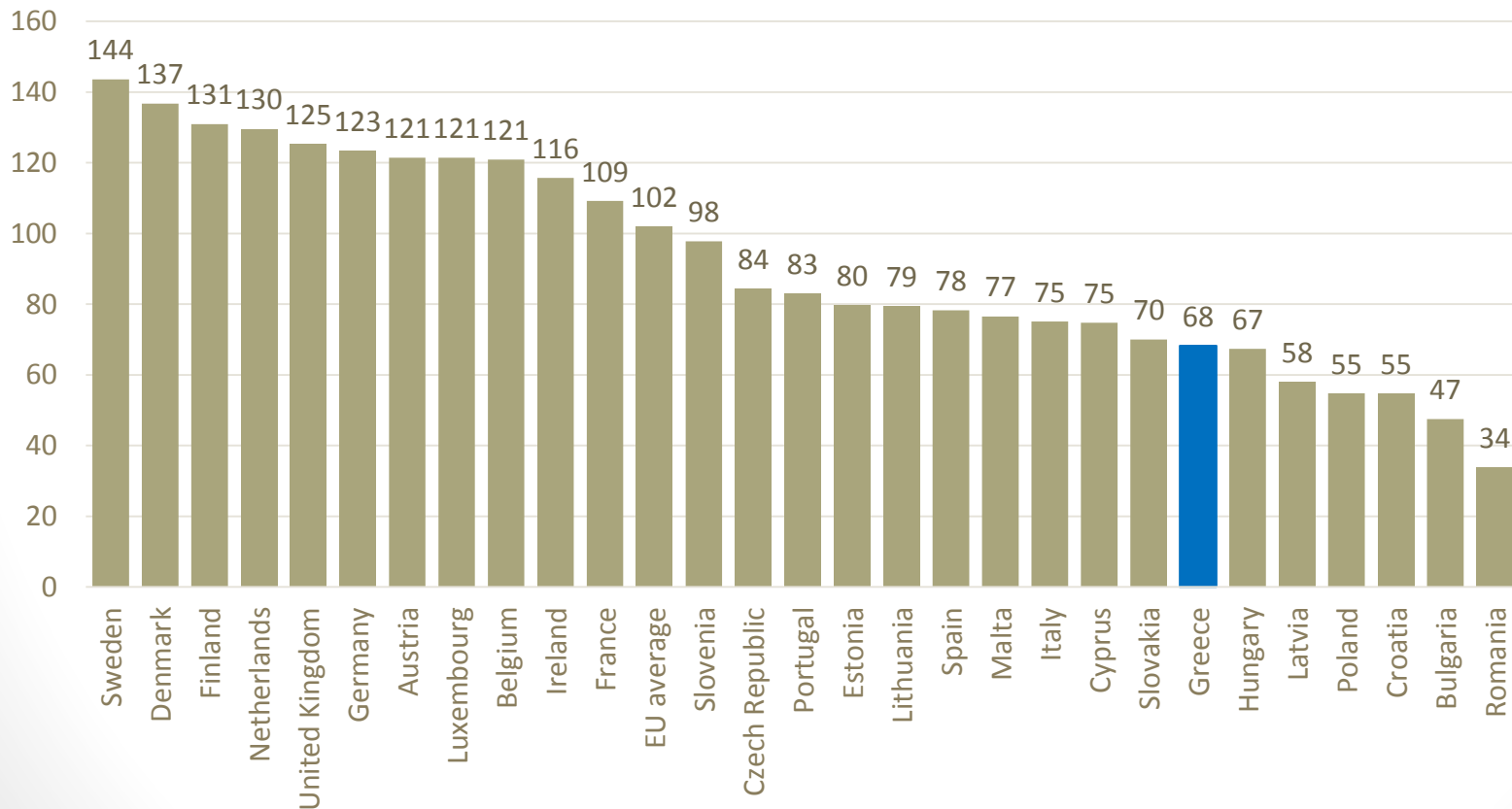


Source: Eurostat

- Change in the value of exports, 2007-2016: +31.2%
- Change in the volume of exports, 2007-2016: +62.9%

Innovation

2016 European Innovation Scoreboard across EU28 countries
(Index 100 = EU average in 2010)



Source: European Commission

Current picture

- Economy has been stabilized; current growth prospects are weak.
- Economy does not generate new fiscal deficits; but mix of tax revenue and expenditure neither contributes to growth nor serves social protection.
- Trade deficit has been fixed; but exports growth is weak and uneven. External risks.
- Public debt has been stabilized; but level of public and private debt hinders growth, access to finance is problematic.

A 'growth agenda'

1. Open markets, improve institutions that facilitate long-term productive investment.
2. Education and Health Care systems.
3. Allow the economy to shift towards local comparative advantages: geography and technology.

Details: conditions for growth

- Education system: governance needs modernization, extremely heavy control by state.
- Health care: significant reduction of public expenditure but structure should provide incentives.
- Health care and education also provide important opportunities for investment and growth with Greece becoming a local hub.
- Public administration: fine-tuning the level of autonomy of units from central control.
- Justice: remains very slow.

Looking a bit deeper

- Shift to a new growth model implies investment and exports will be a larger part of the economy.
- Uncertainty keeps investment out: it depresses growth directly, but it also weakens incentives and effectiveness related to structural reforms.
- Diminish burden of State on economy: allow dynamic part of the economy to grow faster. Shift economic activity away from non-tradables and state-based rent seeking.

Growth prospects

- Growth prospects are high. Significant unrealized potential.
- But only as long as reform efforts continue. ‘Reform’ does not refer to ‘level’ but to ‘dynamics’.
- Functioning of an efficient and non-partisan State.
- Reduction of uncertainty is essential to facilitate investment inflow and management of public and private debt.
- Medium-term vs longer term growth (“the crisis is too good an opportunity to waste”)

Transition and perspective

- Adjustment programs operated as an implicit contract between Greece and its debtors: managing old debt versus fixing structure and eliminate deficits.
- Inertia from current dynamic is **not** enough. A lot more is required, a more ambitious approach.
- Investment?
- Public debt is high - a credible mechanism to (a) prevent debt from generating excessive tax burden and (b) provide systematic incentives for reform.
- Insurance as Greece gradually gains access to capital markets. Cash buffer vs credit line. Frankfurt and banks.
- Investment programs: Brussels. EU responsibility.
-

Evolving views in politics and public opinion

1. Greece is immune to the world financial crisis.
2. Greek public debt is sustainable + no bail out.
3. Greece is 'unreformable' + there is 'another way'
4. The (only) solution is for Greece to leave the EZ.
5. Greece needs and deserves a massive nominal debt reduction.
6. 'Clean exit'.

Some more clarity (and credibility)!