

Institutions, reforms and entry barriers

Breaking the Bottlenecks - Steps towards Sustainable Growth

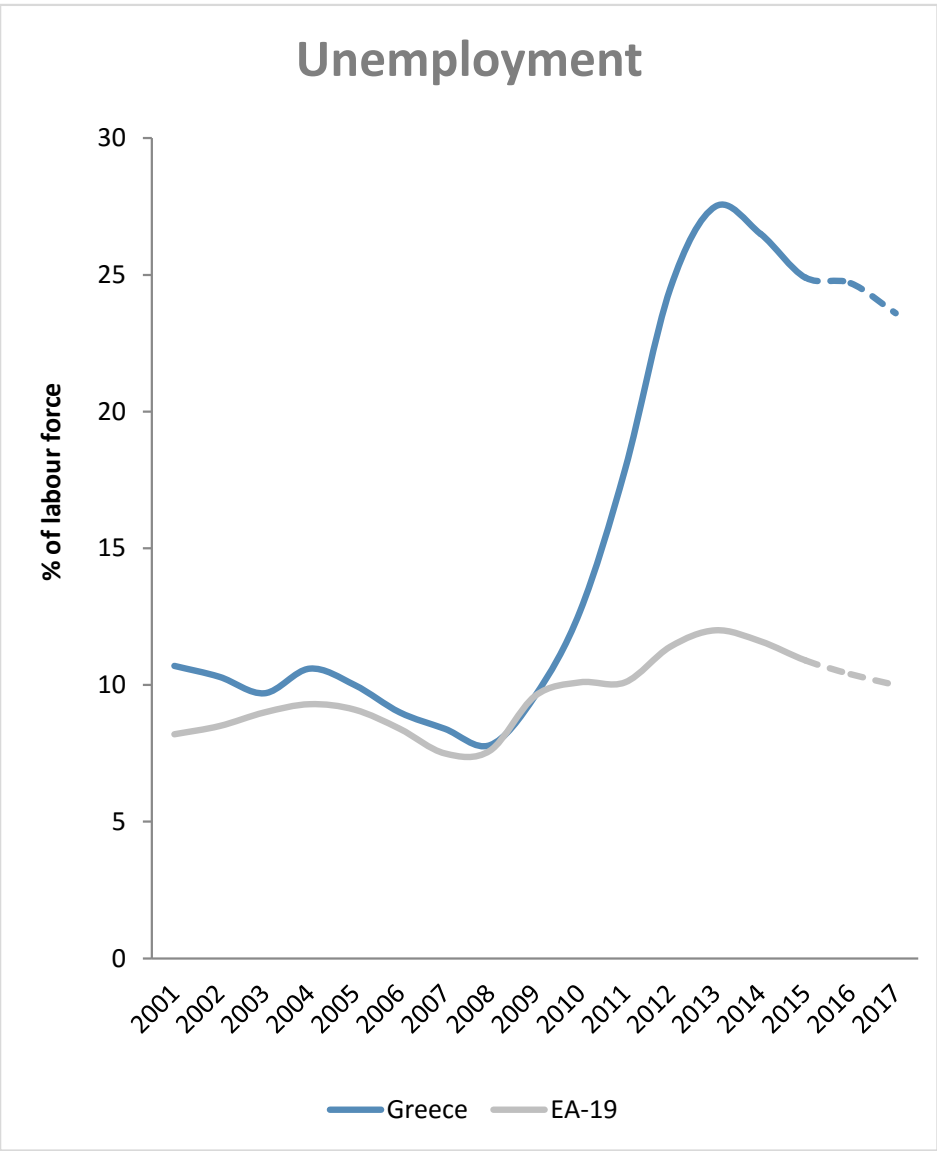
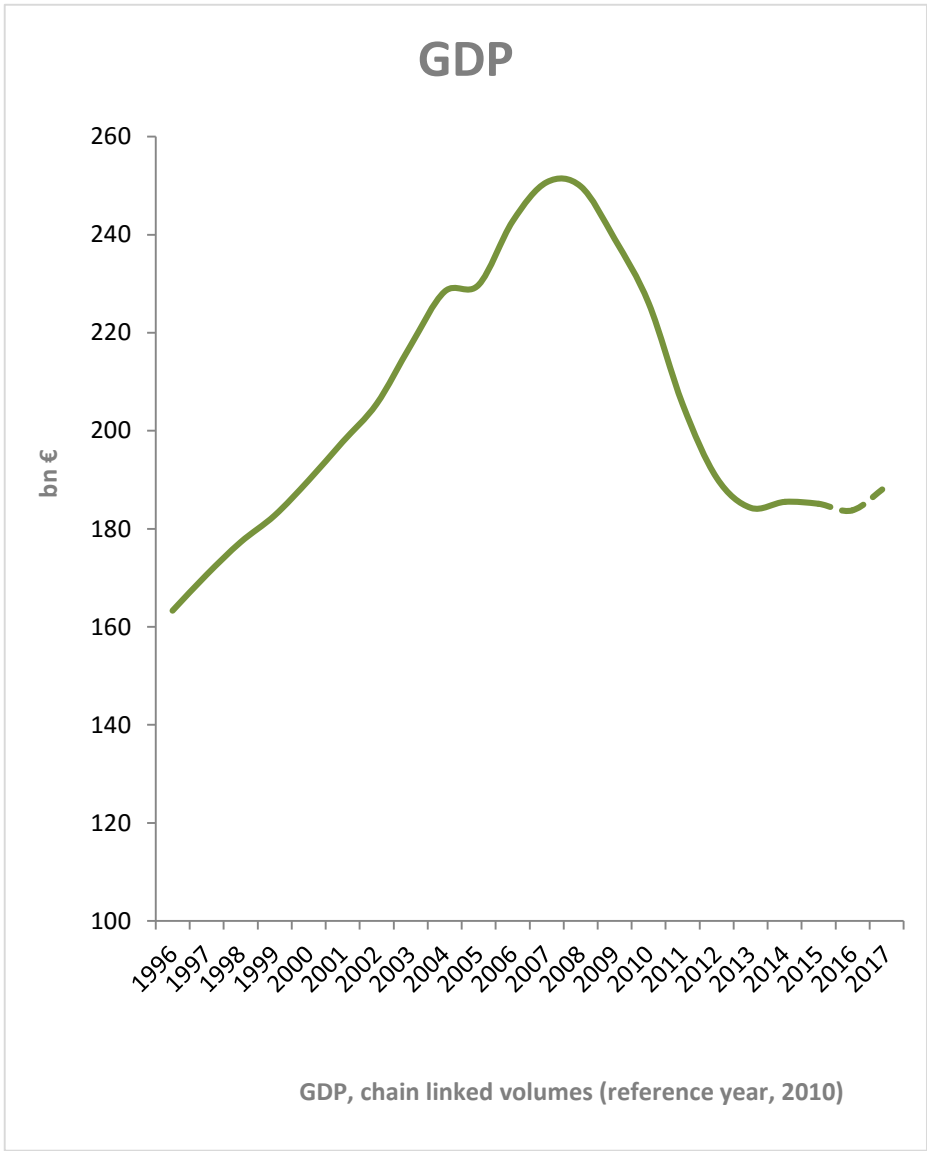
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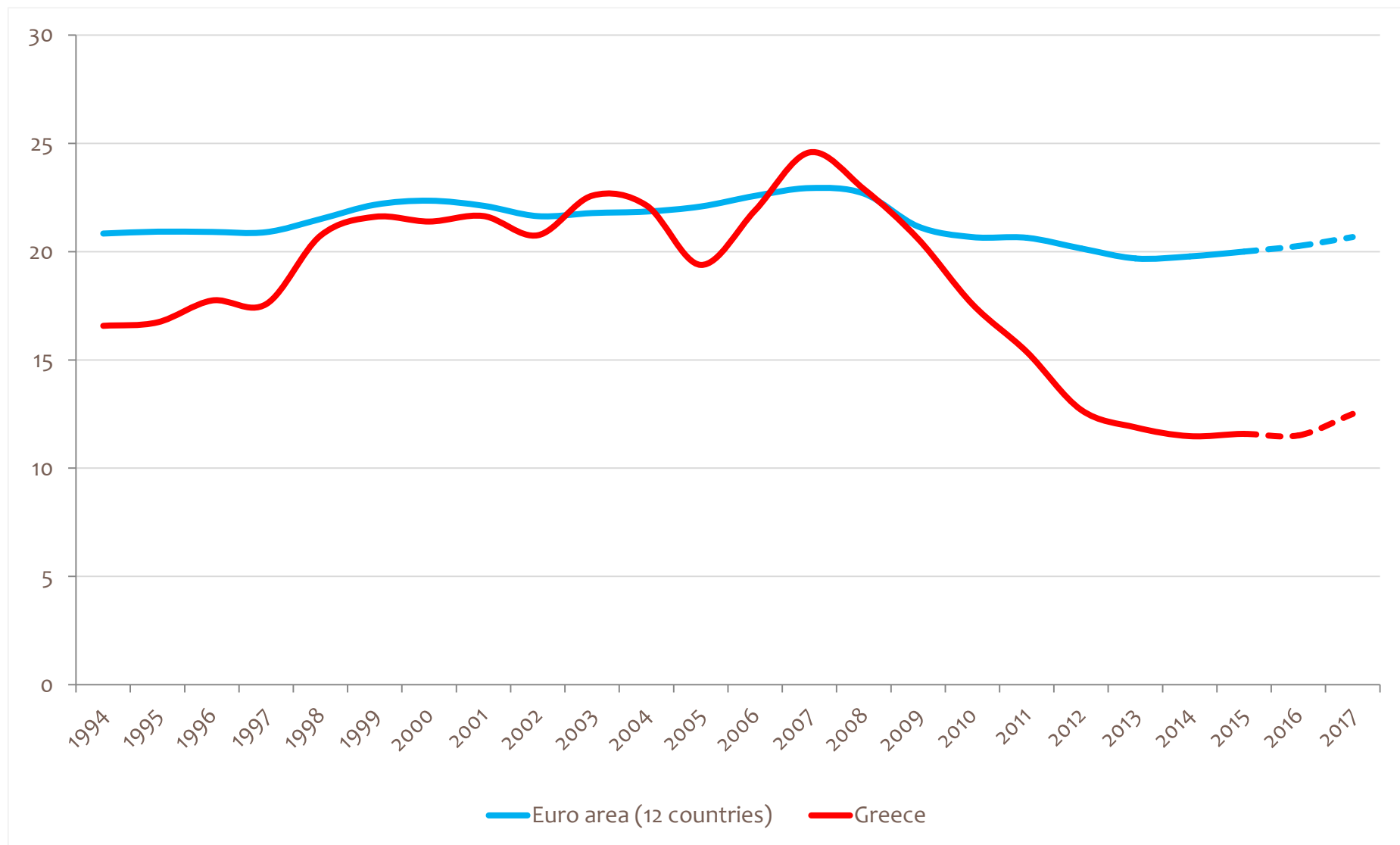
Gross Domestic Product and Unemployment in Greece



Sources: Eurostat/European Economic Forecast, winter 2016, European Commission

Investments

Gross Fixed Capital Formation (% of GDP)



Key Macroeconomic and Financial Figures

Key Macroeconomic Figures	2009	2013	2014	2015	2016	2016*
GDP	-3.1	-3.2	0.7	-0.2	-0.3	-1.0
Unemployment	9.5	27.5	26.5	24.9	24.7	25.2
General Government Balance¹	-15.6	-12.4	-3.6	-7.2	-3.1	-3.0
Current Account Balance	-14.4	-2.2	-3.0	-0.2	0.6	0.2
Harmonized Inflation	1.3	-0.9	-1.4	-1.1	-0.3	-0.2
Gross Fixed Capital Formation	-13.7	-9.4	-2.8	0.7	-0.9	-4.0

¹Including State aid to the banking sector on the deficit

* IOBE projections

Sources: Eurostat/European Economic Forecast, spring 2016, European Commission

Recent economic performance of Greece

Macro

- Significant success in the areas of government budget and balance of payments ('twin deficits')
- Weak performance for investments and exports

Structural

- The economy has adjusted primarily via an extremely deep recession
- Increase in competitiveness mainly through the reduction in labor unit cost
- Lack of wide enough political support and social consensus for structural reforms, despite some important efforts

Other

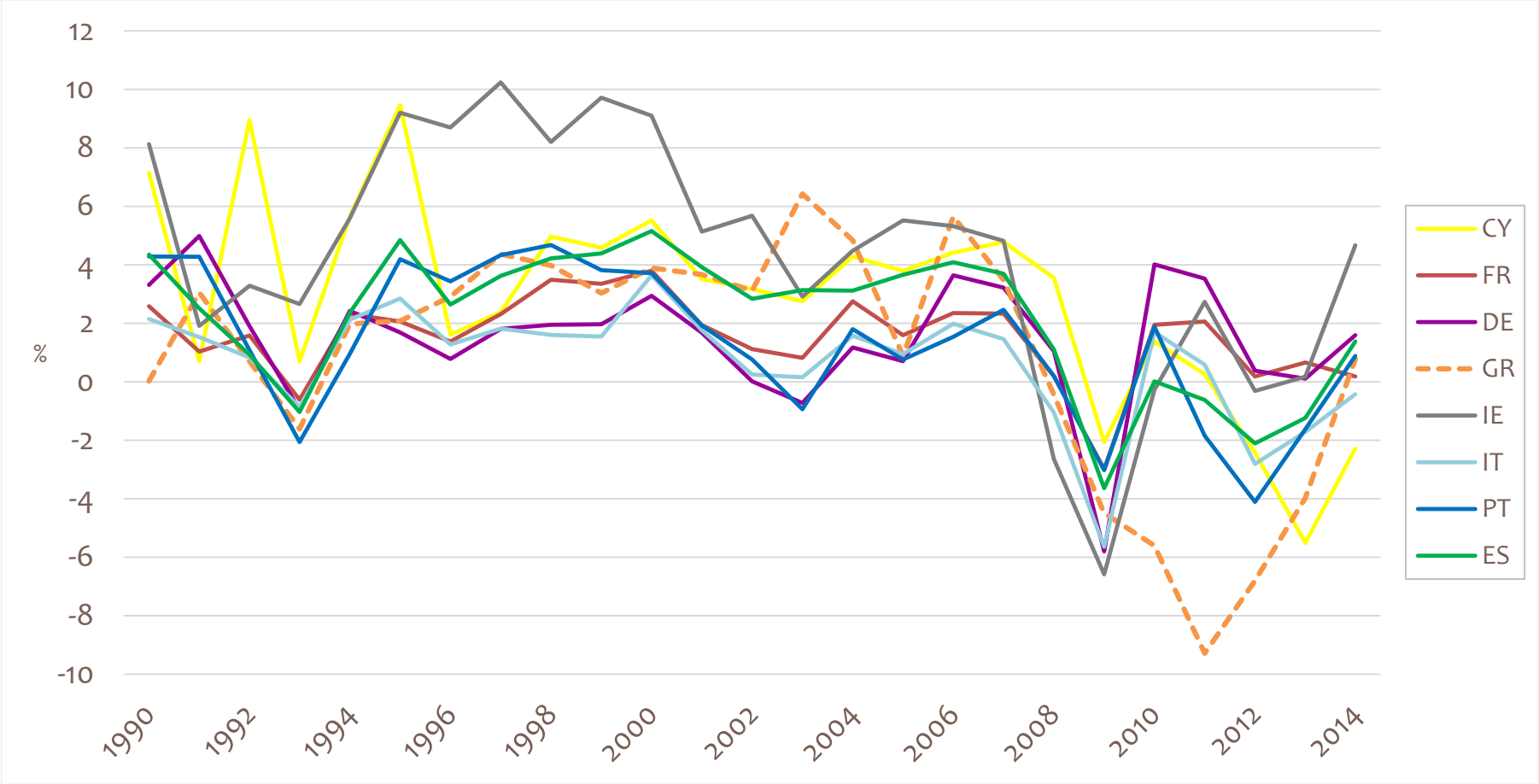
- Public sector has been shrinking but administrative burden and inefficiency remains a key issue
- Accumulated debt remains a significant problem

Overall evaluation: significant successes and failures – **high uncertainty deters investment and postpones the start of a virtuous growth cycle**

- Product design 'details'
- Eurozone architecture
- Low capacity to implement reforms and lack of ownership
- Entry barriers and rents

- GDP and productivity
- Current account and competitiveness
- Investment
- Public sector
- The Eurozone effect

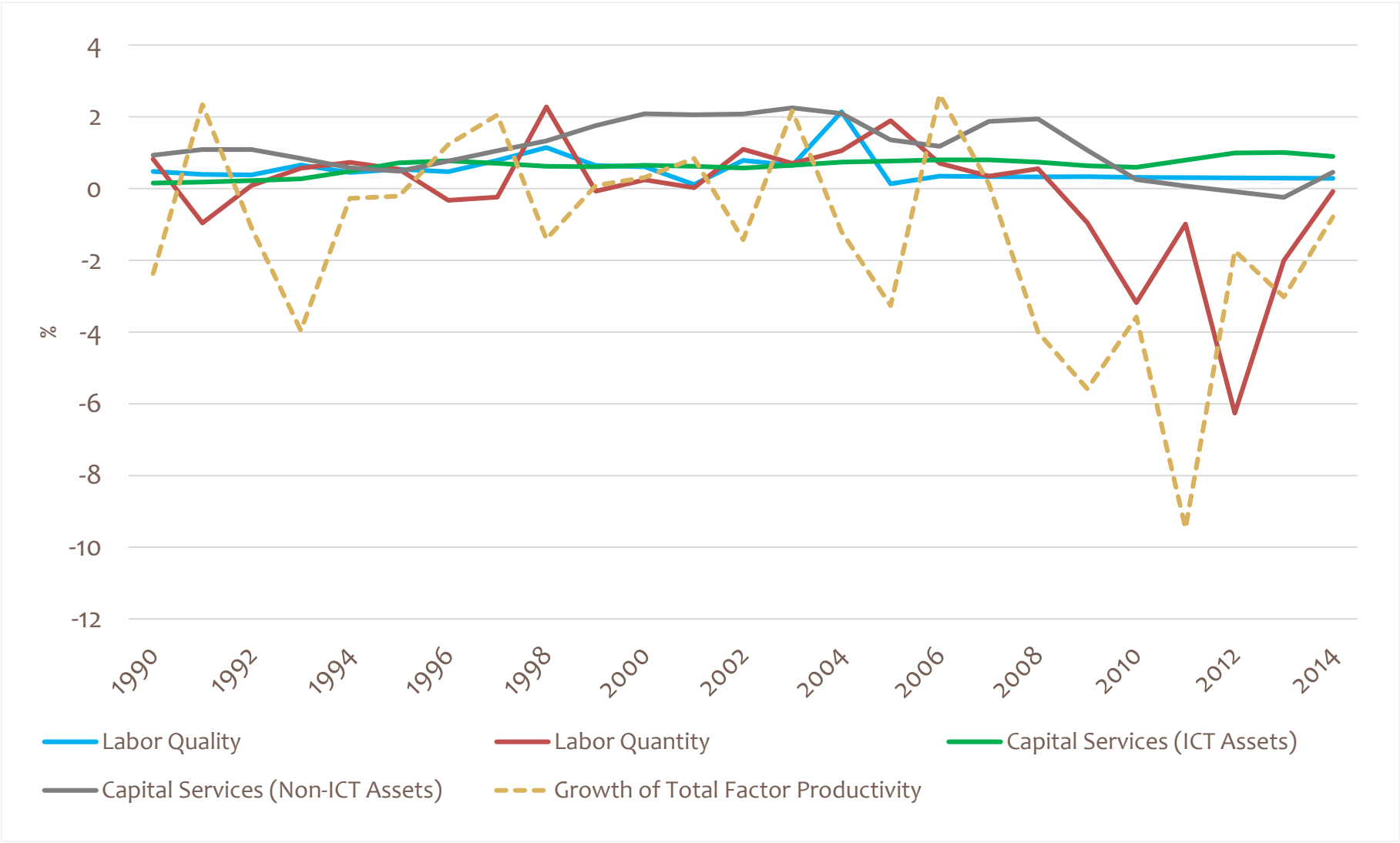
GDP change



Country	Avg. Growth Rate 1994-2007	Country	Avg. Growth Rate 1994-2007
Germany	1.7%	France	2.3%
Ireland	7.4%	Italy	1.7%
Greece	3.6%	Cyprus	4.5%
Spain	3.6%	Portugal	2.3%

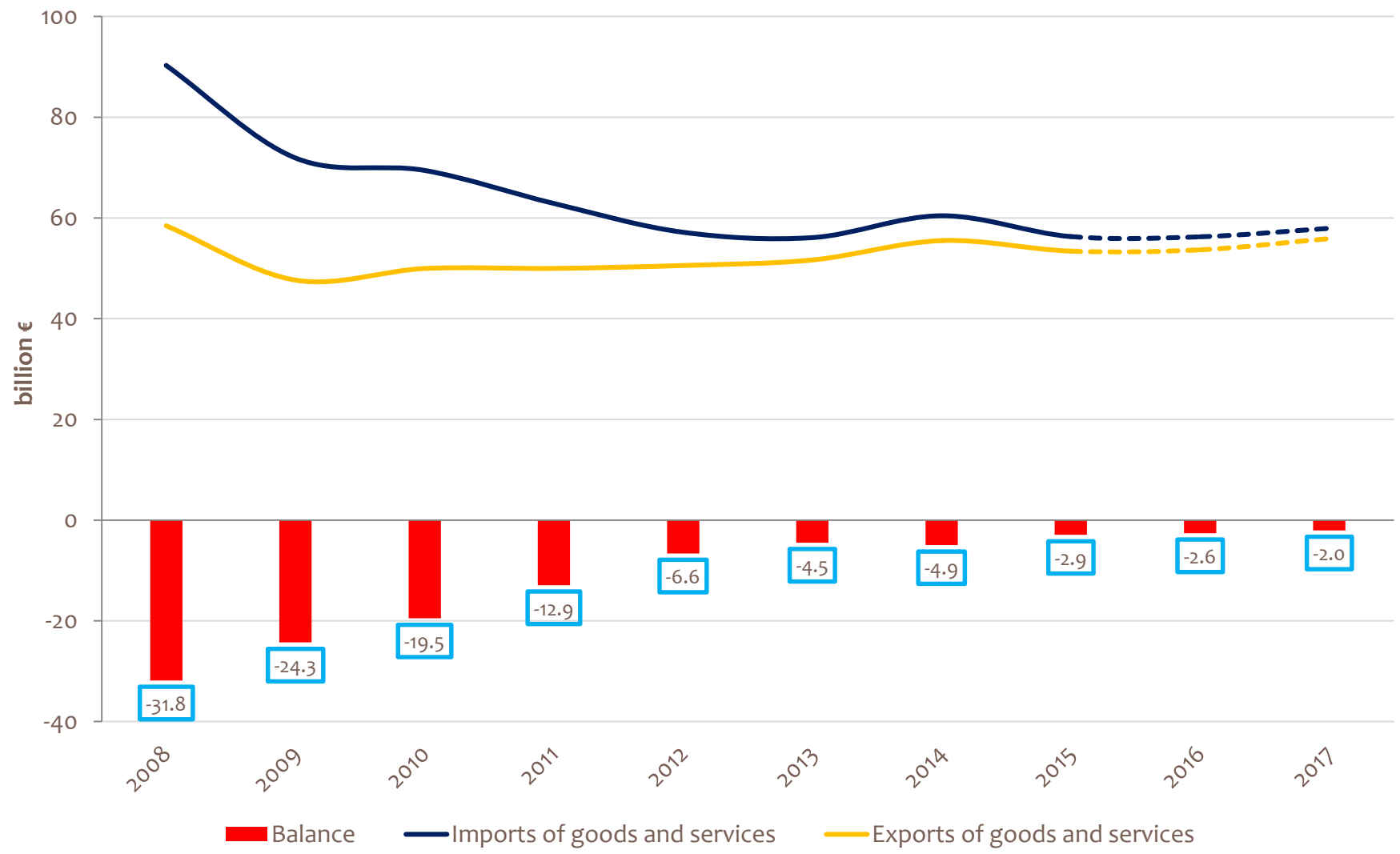
Sources: The Conference Board Growth and Total Factor Productivity database, AMECO database

Determinants of GDP change in Greece



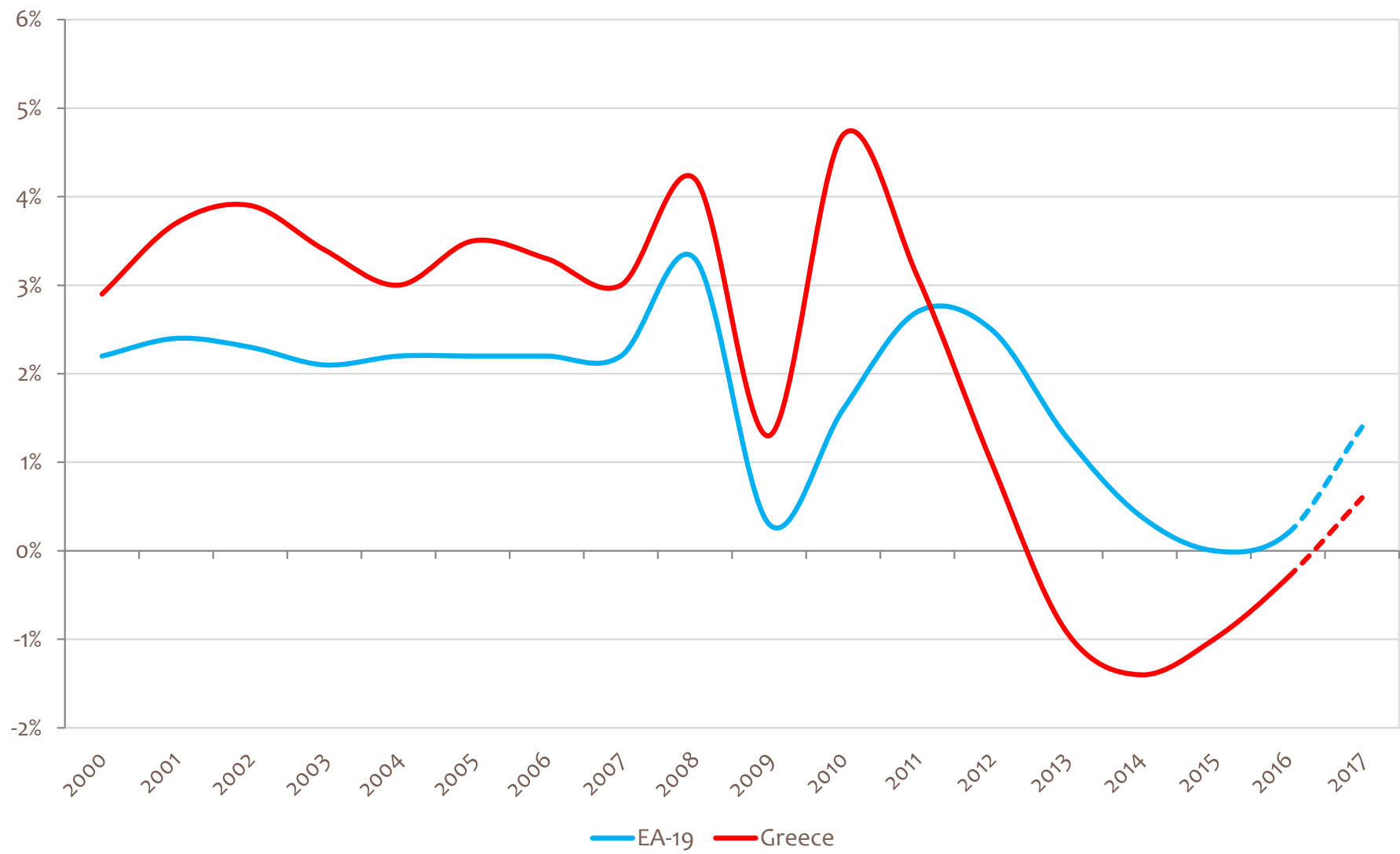
Source: The Conference Board Growth and Total Factor Productivity database

Trade balance (Goods and Services)



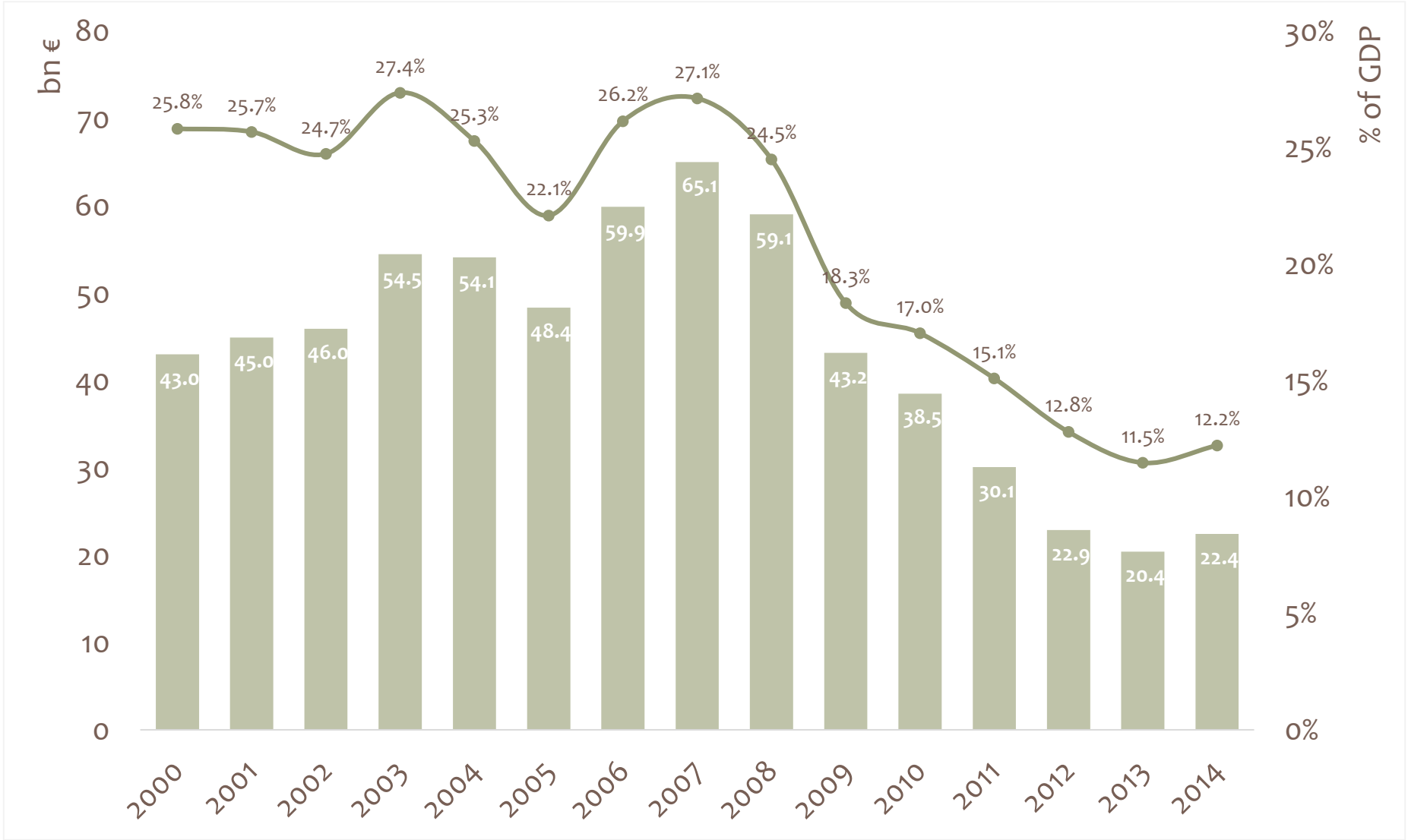
Sources: ELSTAT/European Economic Forecast, spring 2016, European Commission

Harmonized Inflation

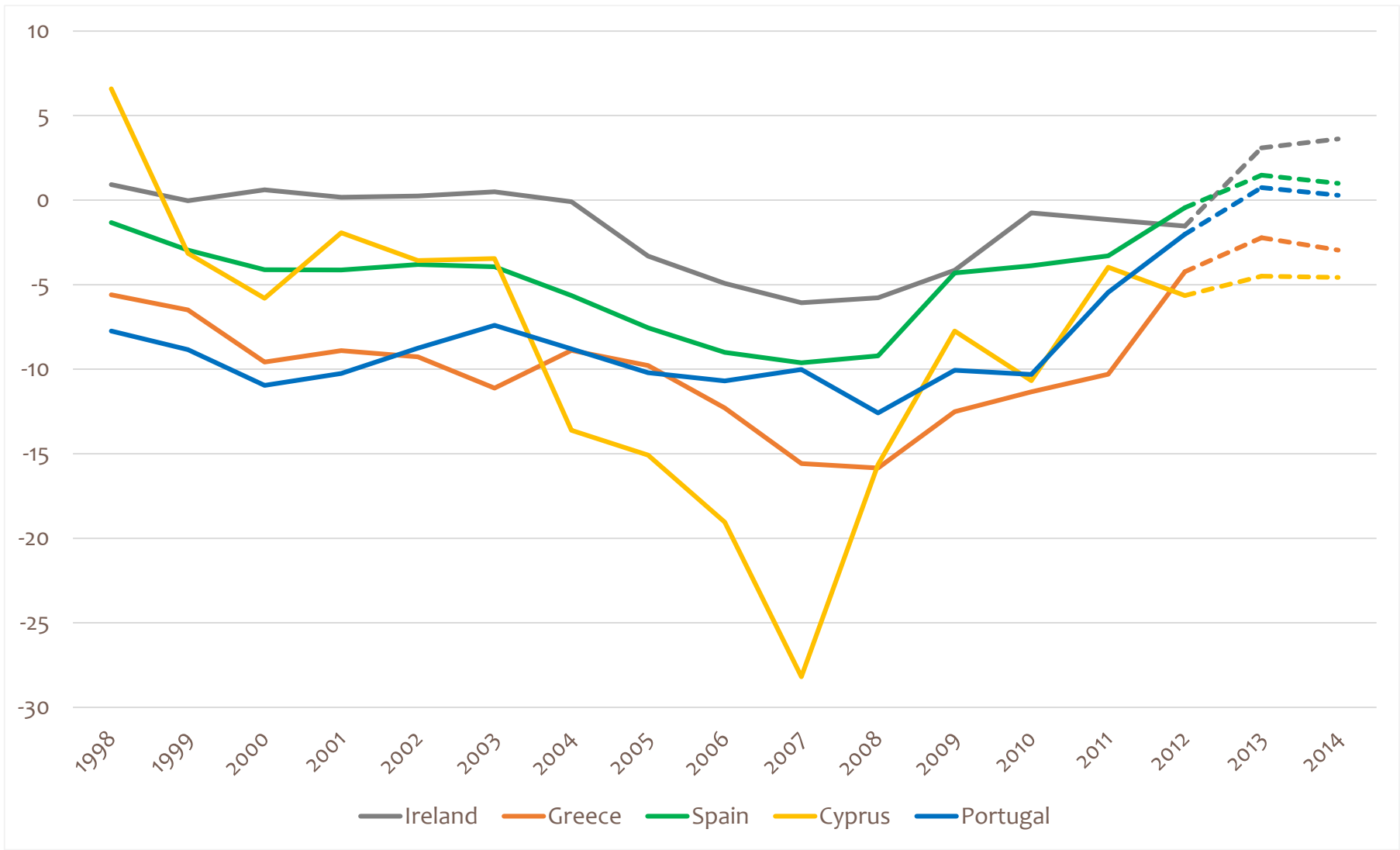


Sources: Eurostat/European Economic Forecast, spring 2016, European Commission

Investment



Current account balance – Eurozone periphery (% of GDP)

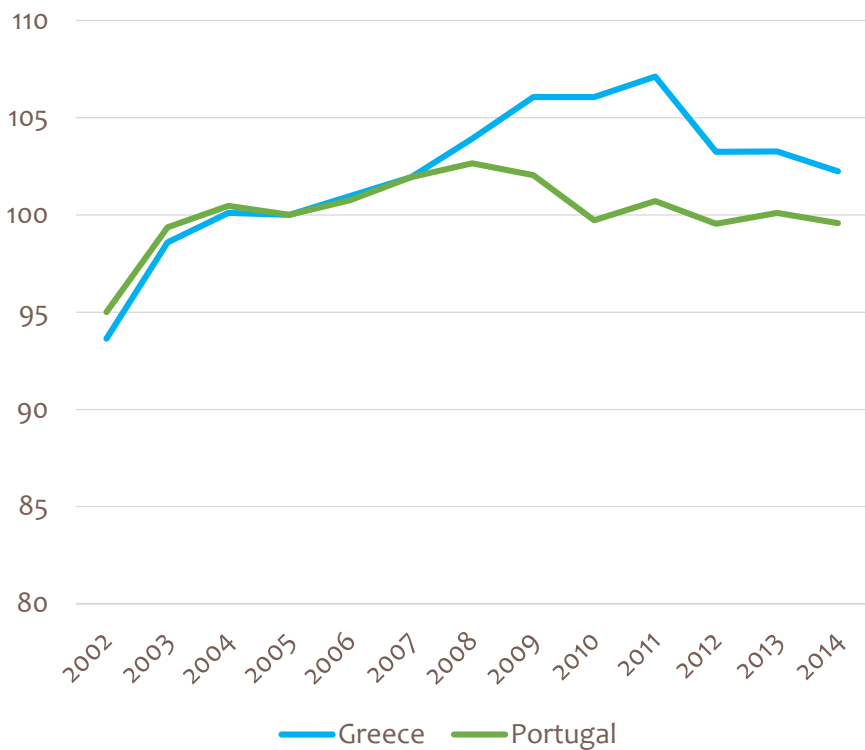


Sources: Eurostat/European Economic Forecast, spring 2016, European Commission

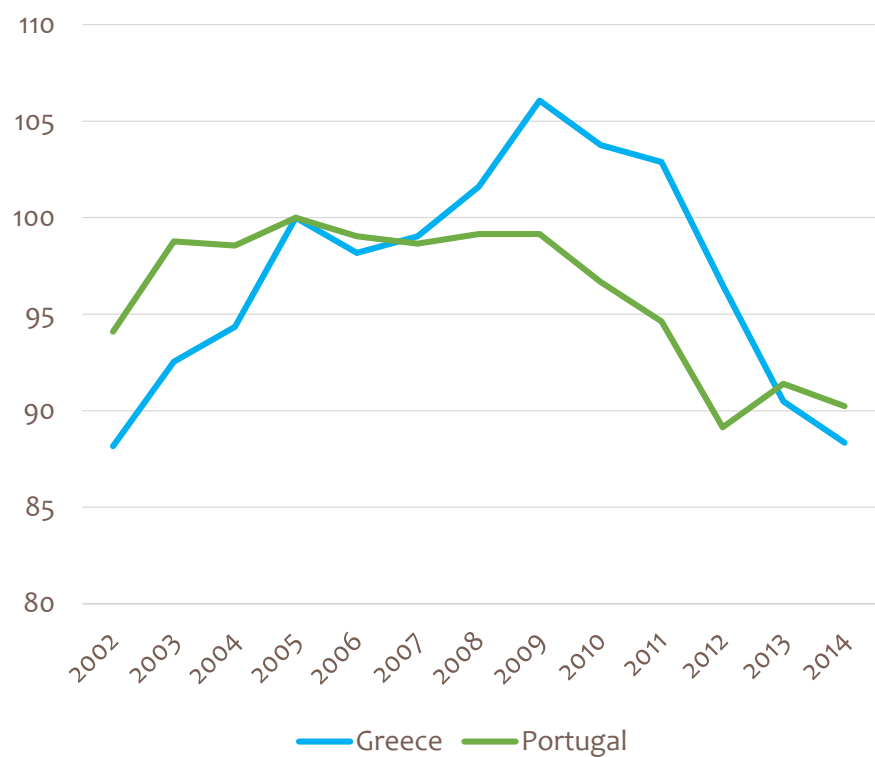
- Twin deficits
- Investment
- Exports
- Structural reforms

Real effective exchange rate

Real Effective Exchange Rate (CPI),
2005=100



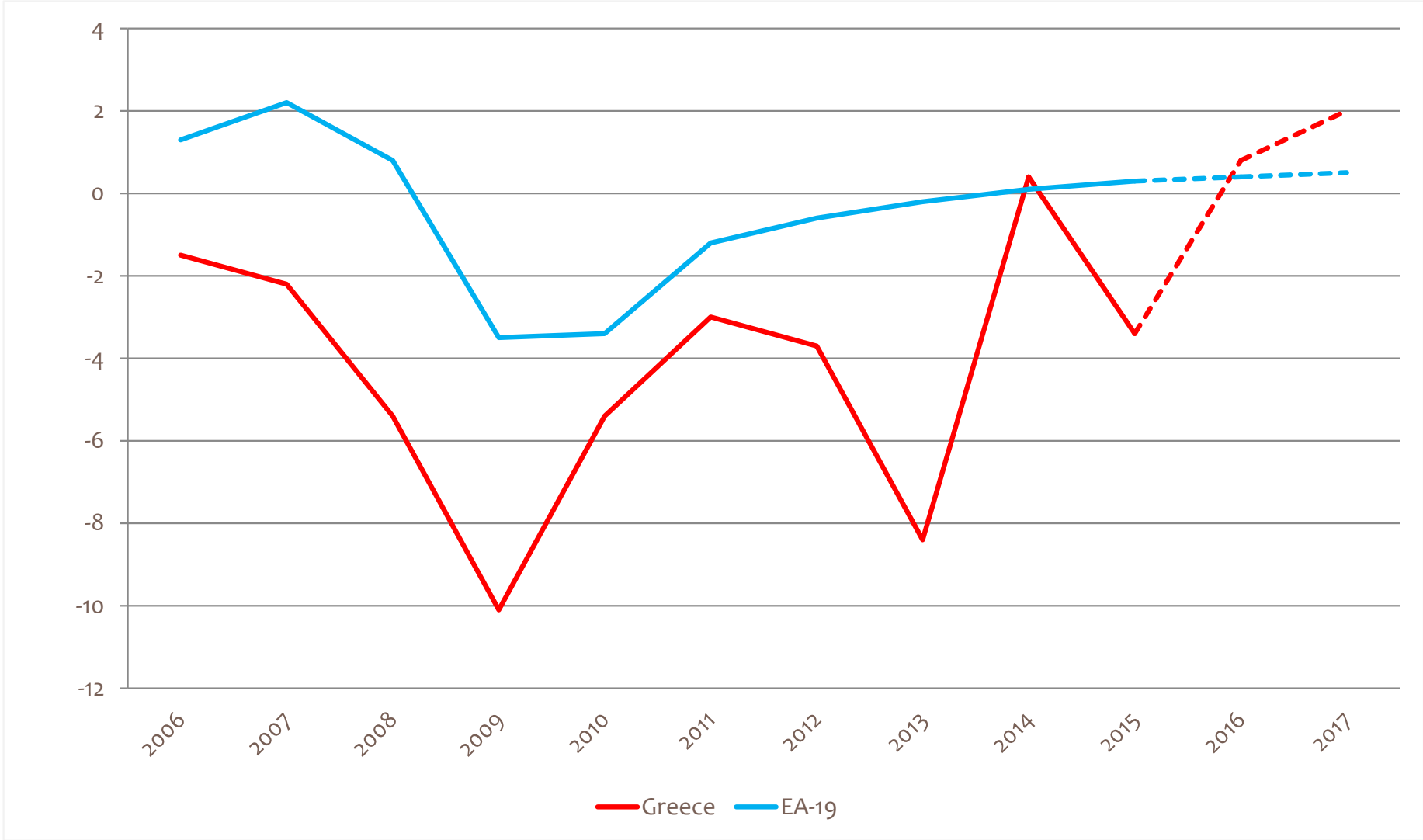
Real Effective Exchange Rate (ULC),
2005=100



Source: Eurostat

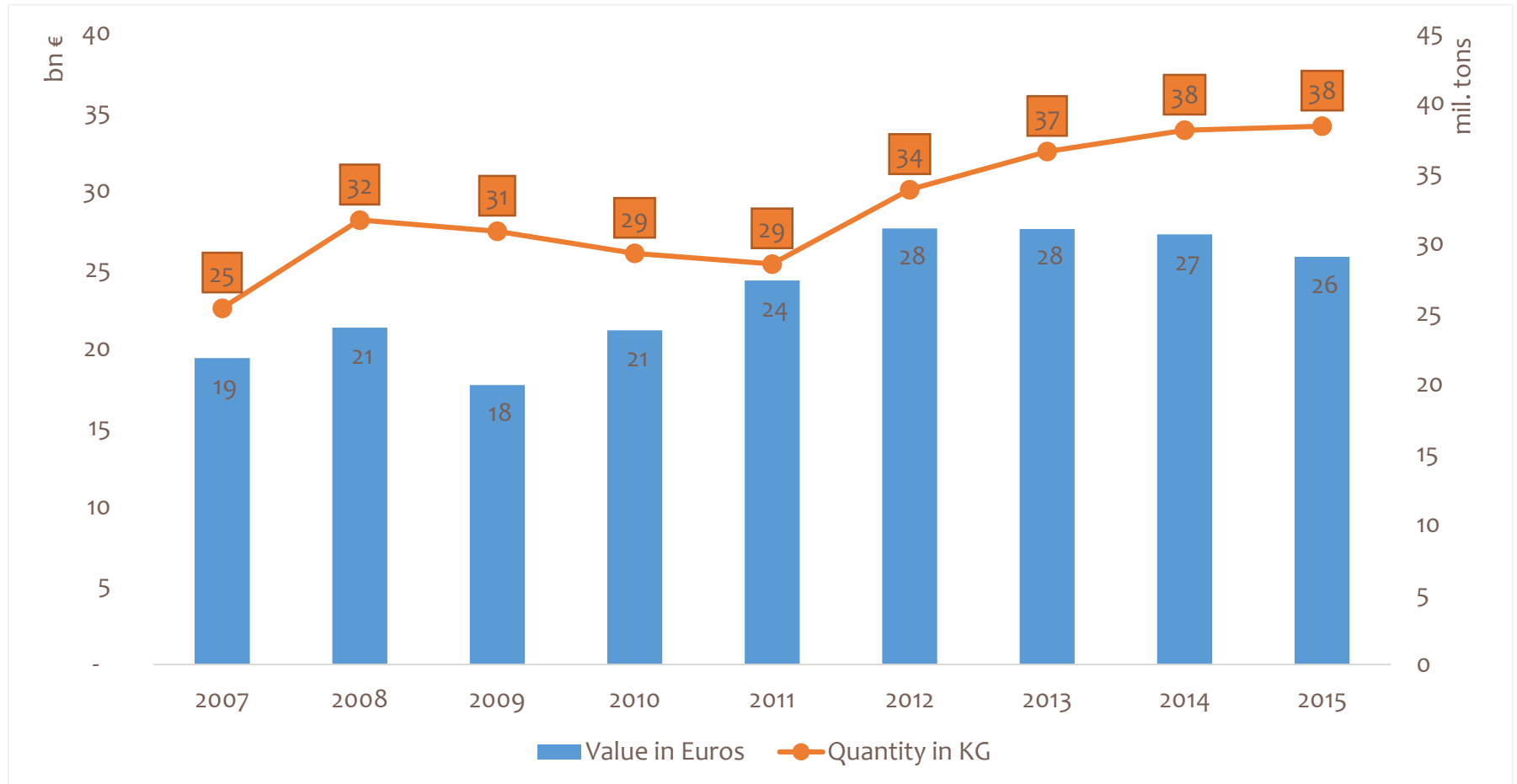
Real Effective Exchange Rate (deflator: CPI - against 37 trading partners)
Real Effective Exchange Rate (deflator: unit labor costs in total economy - against 37 trading partners)

Budget Primary Balance (% of GDP)



Source: European Economic Forecast, spring 2016, European Commission

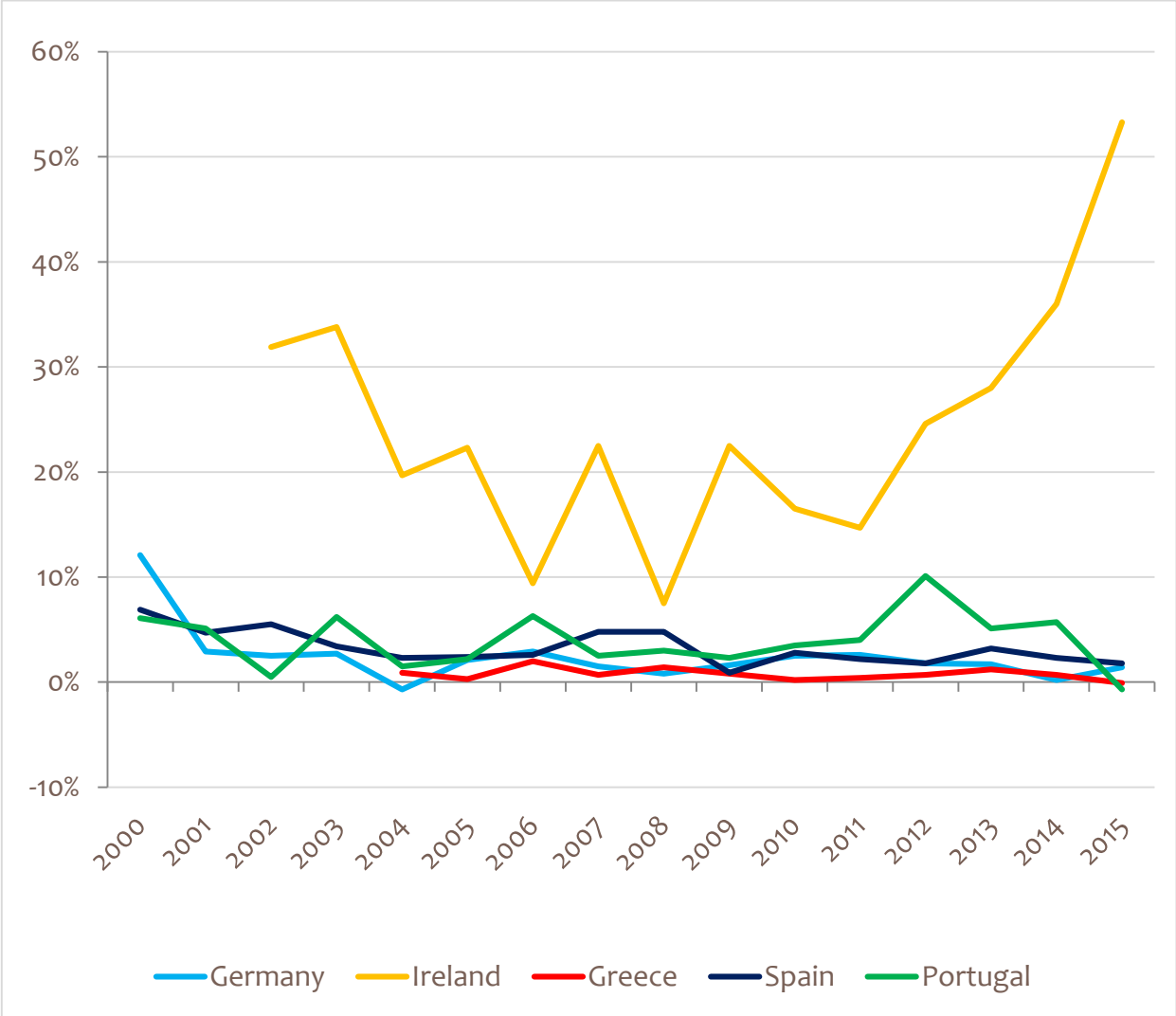
Value vs. Volume of Exports



Source: Eurostat

- Change of the value of exports, 2007-2015: +33%
- Change of the volume of exports, 2007-2015: +51%

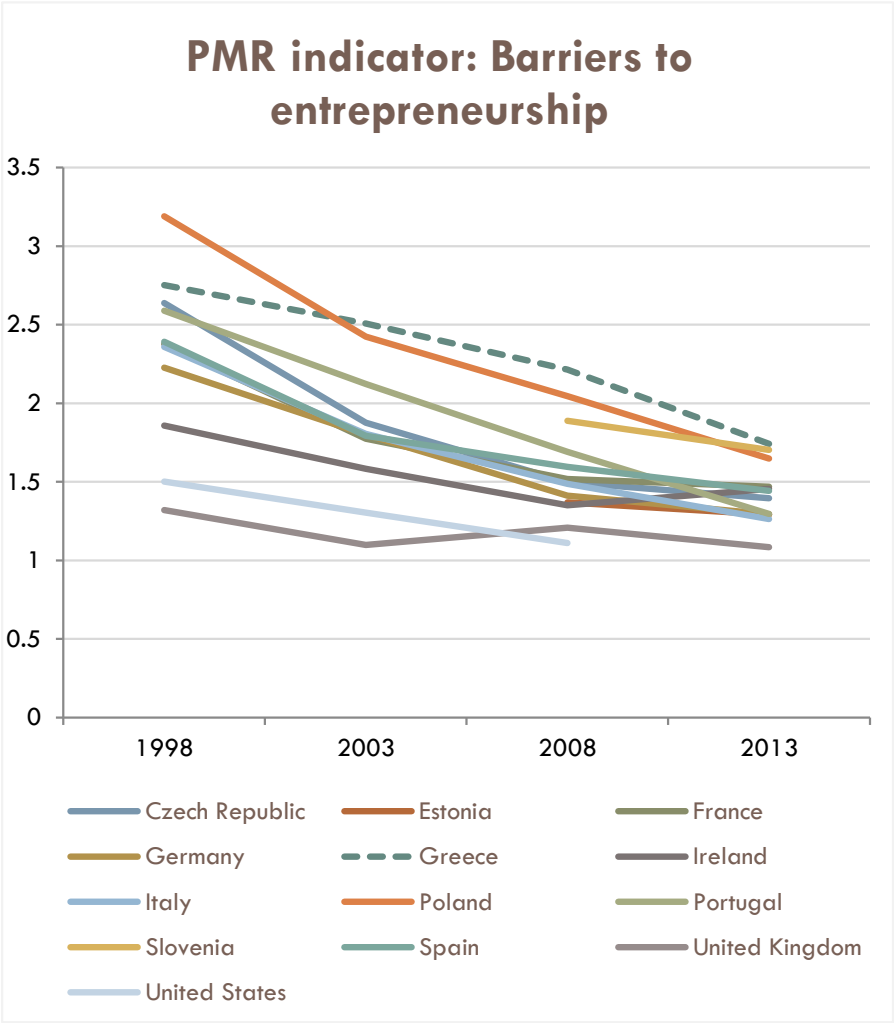
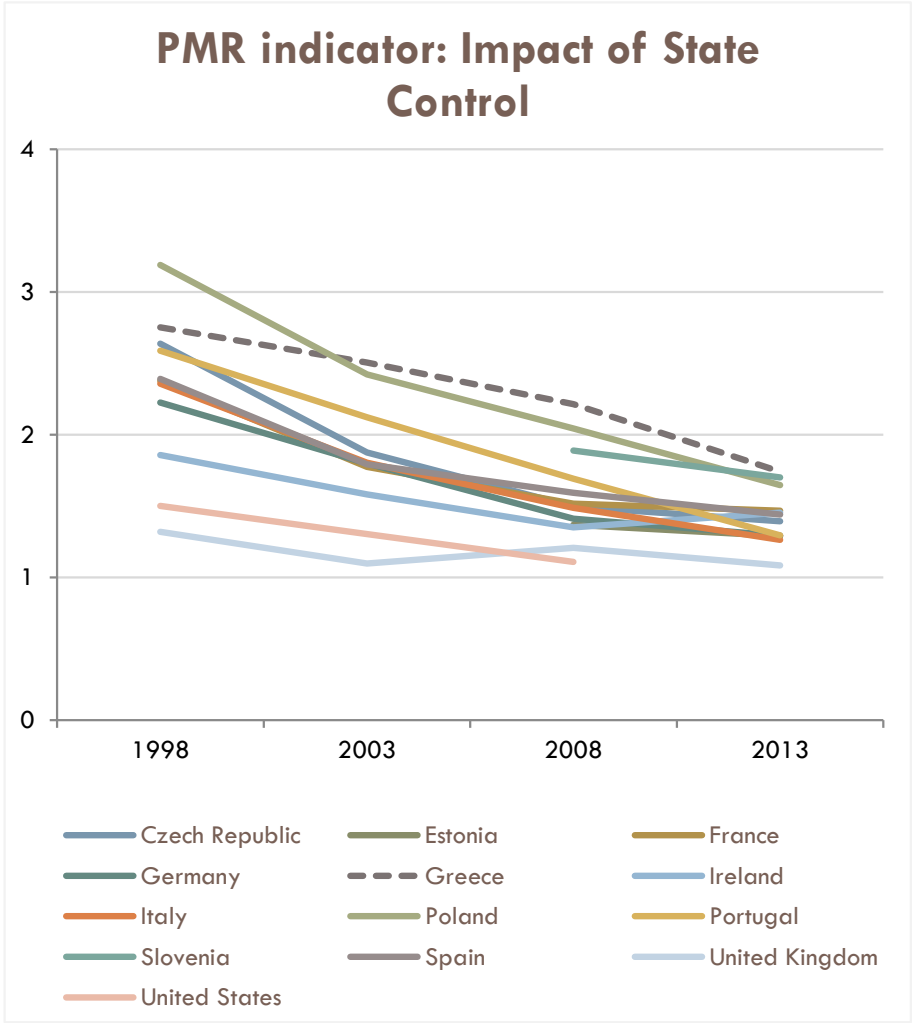
Foreign Direct Investment (% of GDP)



FDI as a % of GDP		
	2000-2008	2009-2015
Germany	3.0%	1.7%
Ireland	21.0%	27.9%
Greece	1.1%	0.6%
Spain	4.2%	2.1%
Portugal	3.7%	4.3%

Source: Eurostat

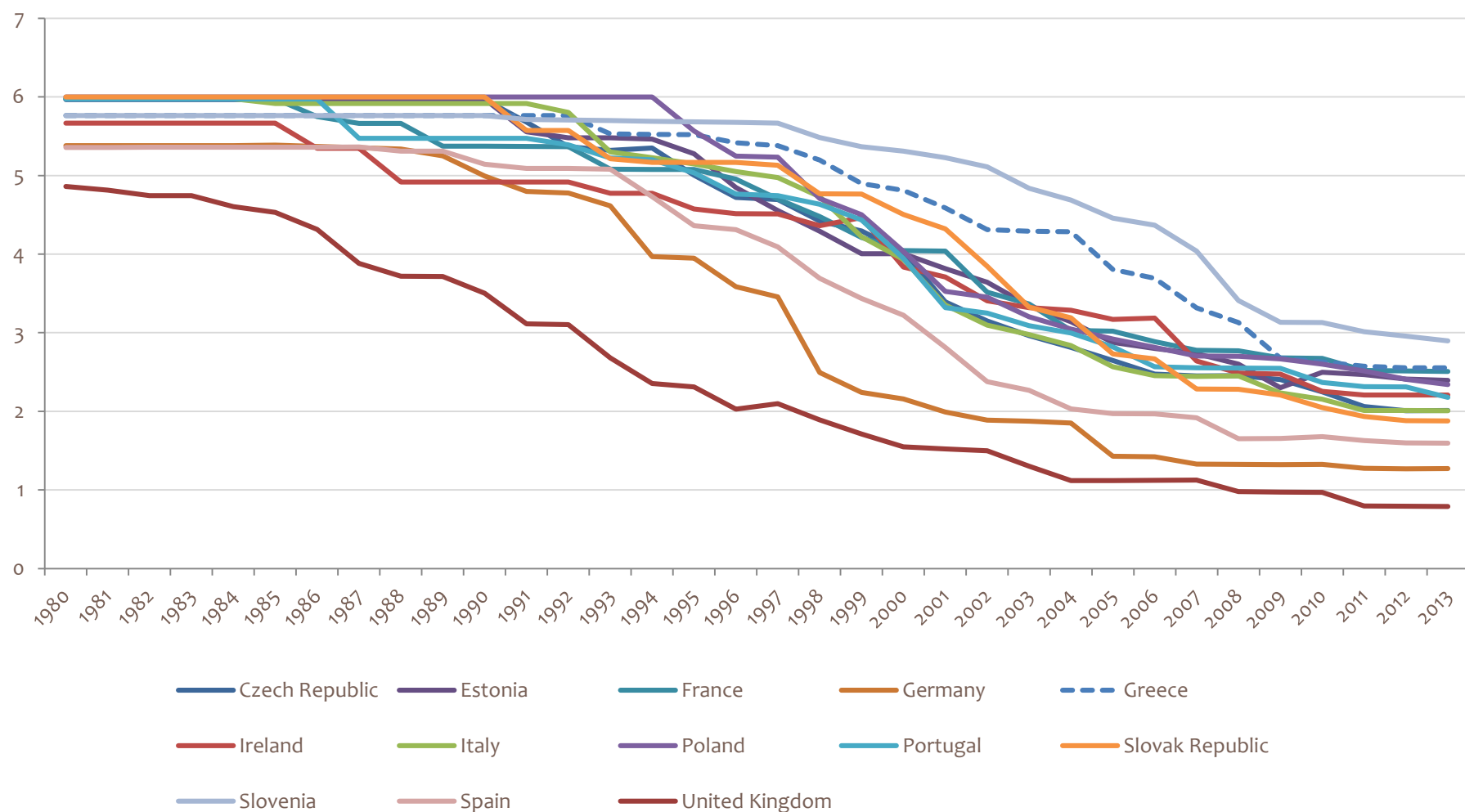
Barriers to entrepreneurship and investment



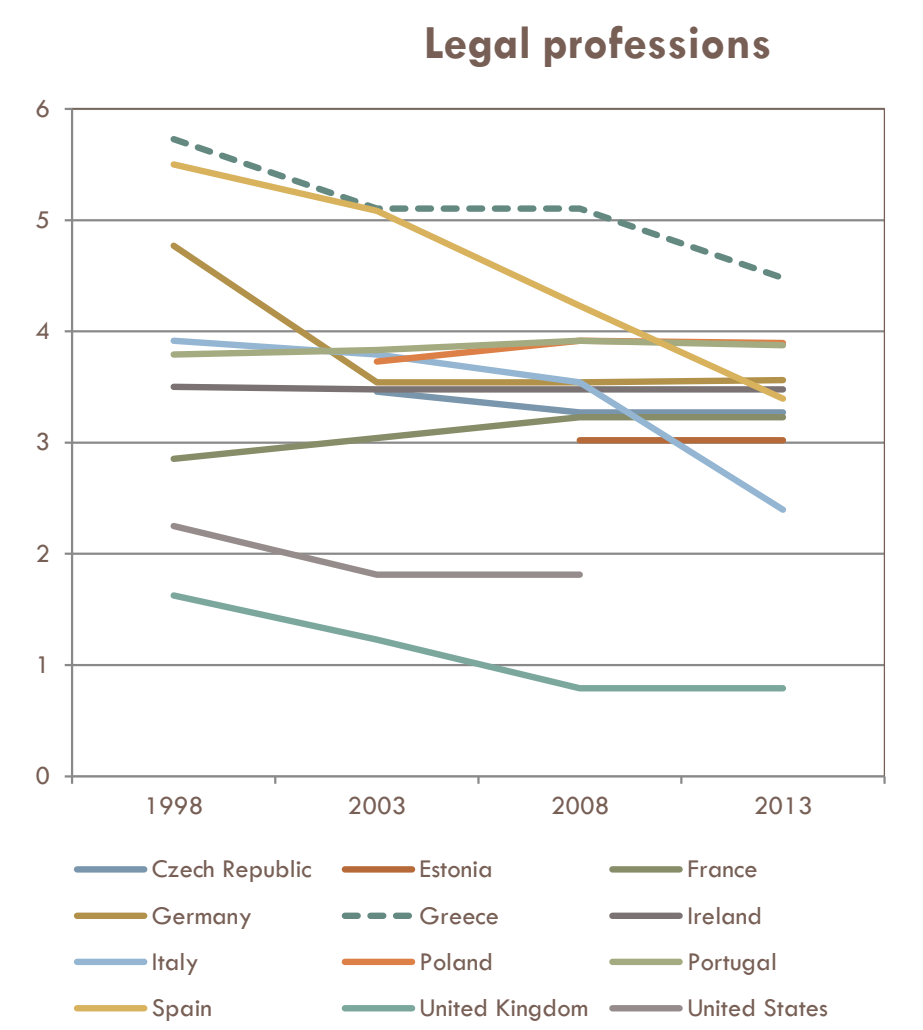
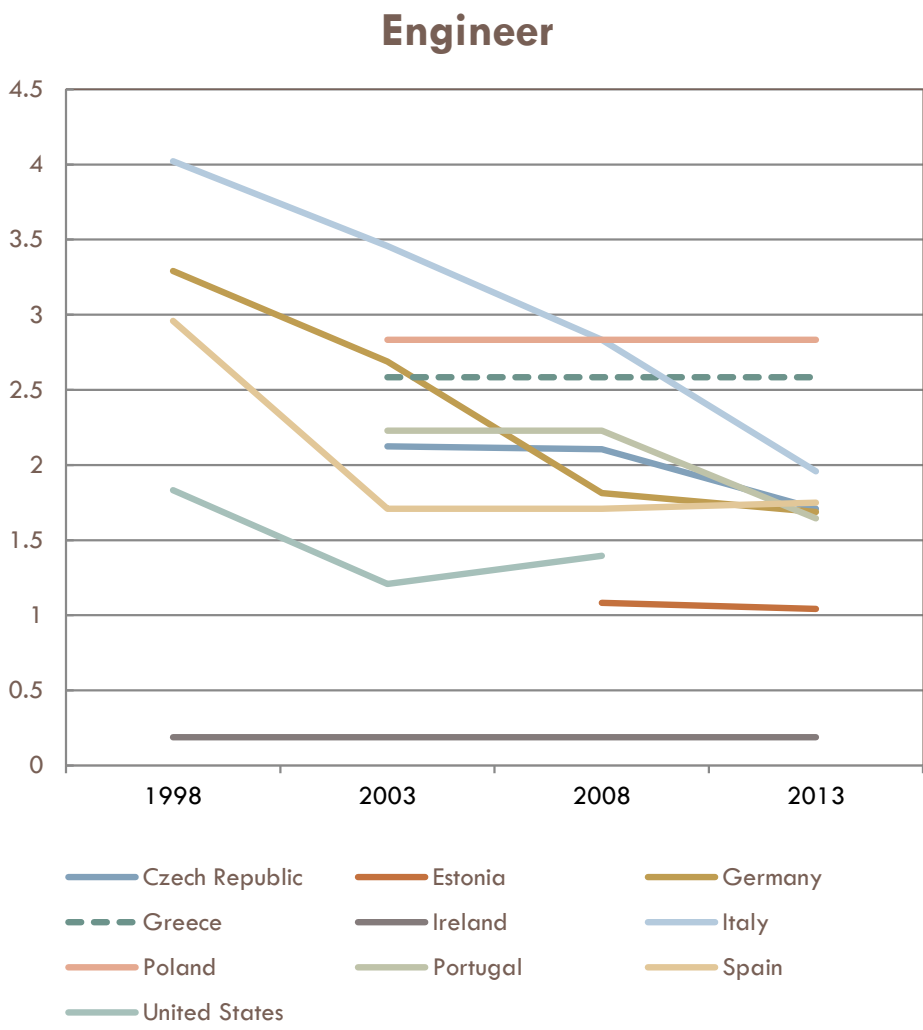
Source: Public Sector, Taxation and Market Regulation, OECD Stats.

Services markets regulation

Regulation in Energy, Transport and Communications

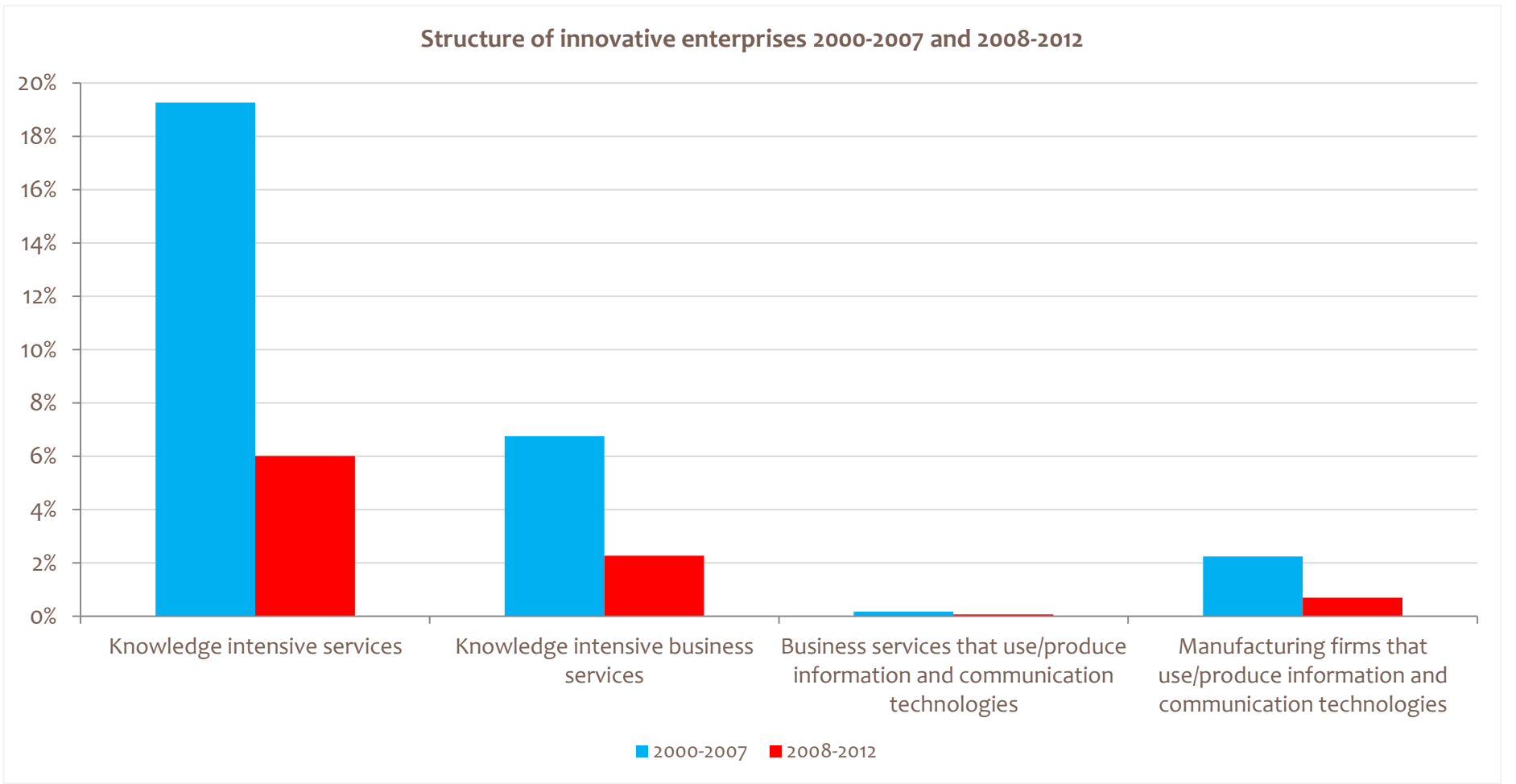


Professional Services Regulation



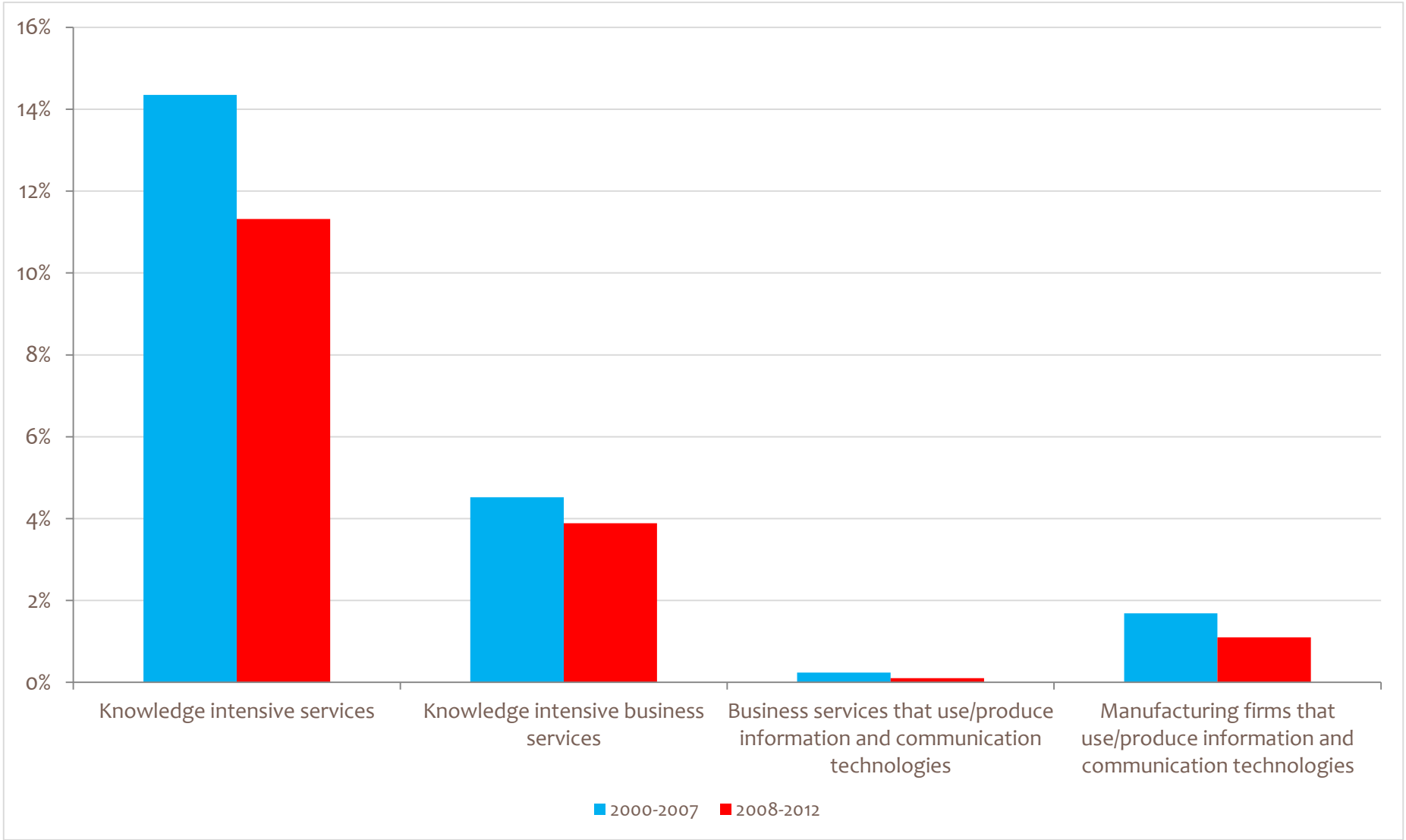
Source: Public Sector, Taxation and Market Regulation, OECD Stats.

Unfavorable macroeconomic conditions of period 2008-2012 discouraged the entry of new firms operating in Knowledge and ICT intensive industries



Only 6% of those firms that founded during period 2008-2012 belong to knowledge intensive sectors. The corresponding percent during period 2000-2007 was nearly 20%

But knowledge and ICT intensive firms exhibit lower percentage of exit during period 2008-2012



Sources: Hellastat - Financial Statements Database – data processing IOBE

Reforms that boost competition and reduce mark-ups in product markets lead to higher income and employment

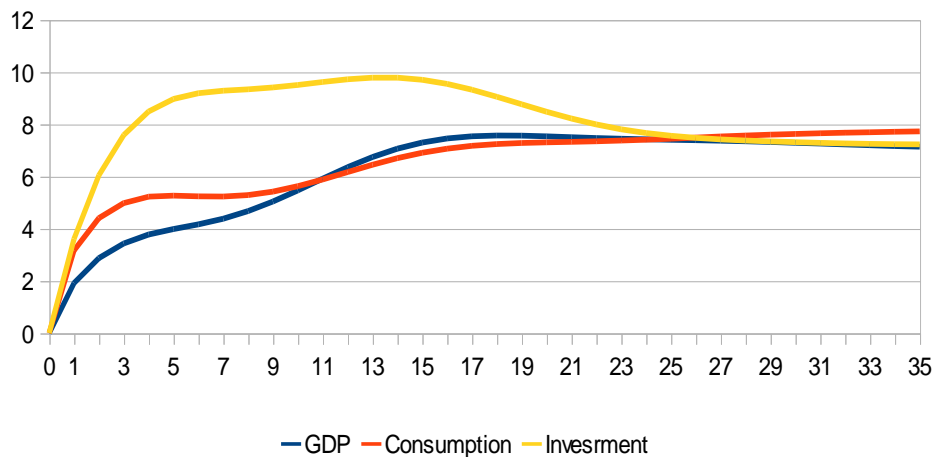
Greece has significantly higher mark-ups than the EU average

Stronger competition in the product markets implies lower mark-ups

What would happen if the difference in the mark-ups in Greece and the EU was halved for non-tradables (-9 p.p.) and eliminated for tradables (-5 p.p.)?

Real GDP, Consumption and Investment

Permanent increase in competition in T and NT sectors, percentage deviations from base



Medium-term results
(deviation from base):

- Private consumption +6.9%
- Investment +9.7%
- GDP +7.3%
- Employment +60,000 jobs

- The role of ‘outsiders’
- New investment and growth model
- Improvement cannot be uniform, allowing some to ‘run faster’ if they wish
- Tax reform, public administration
- Justice and education system

Prospects of the Greek economy

