The Greek economy

Daring to hope, fearing to fail

Back to the source of the euro-zone crisis

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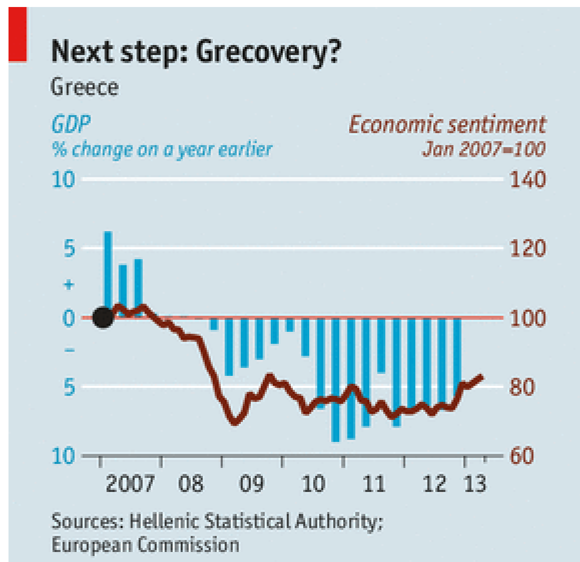
THE protesters were back in Syntagma square on May 1st, a disquieting reminder of the pressures facing the nearly one-year-old coalition government as it strives to meet the terms of Greece's second bail-out. These strains will intensify if the economy remains stuck in recession. So how plausible are sightings of an economic recovery on the horizon?



In central Athens there are some promising signs. This week's protests aside, the demonstrations are fewer than they were. Ermou, a pedestrianised shopping street, has some boarded-up premises but it is busy. A handful of new shops have opened in Kolonaki, an upmarket district, as rents have come down. There are fewer waiters beseeching custom at empty restaurants. Across the country confidence has risen since its low last June, when fears of a "Grexit" from the euro were at their peak. Although the improvement has been among businesses rather than consumers, a composite index from the European Commission stands at its highest point since late 2009, before the sovereign-debt crisis erupted (see chart).

Tourist bookings for the crucial summer season are buoyant. Work on motorways that had been suspended for two years recommenced in April. Liquidity is returning to an economy parched of credit. The government has made a start in paying off the money it owes suppliers, which was over 4% of GDP late last year. Bank deposits held by households and firms, which had fallen by 37% last June from late 2009, have since recovered by 9%.

A turnaround must occur sooner or later: GDP has shrunk by 20% since 2007. The ordeal is not over. Output is forecast to fall by a further 4.4% this year, not least because of more austerity. But the measures are having an effect. The government's primary deficit (ie, before interest payments) should disappear this year, having already fallen to 1% of GDP in 2012 from 10.5% in 2009. Yannis Stournaras, the finance minister, says it is feasible for the government to run a primary surplus of 4.5% of GDP from 2016.

The European Commission forecasts a modest return to growth, of 0.6%, in 2014, despite a continuing drag from austerity. Much depends on the banks. Their recapitalisation, which became essential because of heavy losses on their holdings of Greek government bonds in last year's debt restructuring, is now being completed. The provision of up to €50 billion ($65 billion) from the bail-out funds should both make up for these losses and leave them able to withstand a further souring in their private loans, 25% of which are already non-performing. But banks will lend more only once growth returns, says Gikas Hardouvelis, an economist at Eurobank.

Consumers won't lead the way. The jobless rate has reached 27.2%, the highest in Europe. Pay has fallen sharply following a 22% cut in the minimum wage (32% for young workers) and a big labour-market reform that allowed employers to bargain directly with their staff. Lower incomes are being squeezed by higher taxes, not least since pervasive tax evasion raises the burden on those who do pay them.

Can exports help to restore growth? Lower labour costs, down by 13% in the year to autumn 2012, will help. About two-thirds of the competitiveness lost in the decade before the crisis has been regained. But the outlook for goods exports (which account for nearly half of Greece's trade) is hindered by recession in the euro area. Most of the reduction in the current-account deficit, from 15% of GDP in 2008 to 3% last year, is explained by lower imports.

What could transform the outlook is a surge in foreign investments. But Greece is still a risky place for outsiders to do business. One obstacle that Mr Hardouvelis stresses is a poor and still largely unreformed legal system, which means that investors can get bogged down in long court cases. Negotiating Greek bureaucracy is another headache. Dimitri Papalexopoulos, the head of Titan, a cement firm, says it is difficult to describe how badly and inefficiently the public sector is run.

Some failings are being tackled. Export procedures are being simplified, halving the number of days that goods are stuck at ports. The time taken for a ship to be registered has been cut from seven months to ten days. On April 28th the parliament passed measures to sack 15,000 civil servants by the end of 2014; they will be replaced by young, qualified new entrants.

A litmus test will be the privatisation programme, which matters less for the revenues it will raise than for the wider opening-up of the economy it signals. An original target of €50 billion has been halved and the programme has been plagued by delays and setbacks. The sale of a stake in OPAP, a gambling monopoly, was concluded on May 1st. Since this was supposed to mark a fresh start, it was disappointing that there was only one valid bidder.

The Greek economy is at a precarious point. Despite the surveys showing a revival in confidence, many businesses remain downbeat. Such pessimism may be self-fulfilling. And Mr Papalexopoulos is not alone in worrying that Greek society, struggling with a youth-unemployment rate of almost 60%, is reaching a limit on how much pain it can endure. If a recovery does occur, it may be in the nick of time.

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