ISSN 1109-1592

businessfile

NOVEMBER-DECEMBER 2017 | No 113 | € 5.00

www.economia.gr

The last mile

businessfile ASKS

2018: What's to be done?

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Stagnation or growth ahead?

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As the 3rd Greek economic rescue programme comes to an end in August 2018, the interesting question is what follows next. Will it be a period of stagnation in Greece or a period of sustainable growth?

Over the past decade Greece underwent an economic depression, with a whopping 26% drop in GDP and unemployment rising and peaking at 27.5% in 2013. Greece went through the biggest government debt restructuring in history, plus it received an unprecedented amount of European and IMF loan aid, which up to date amounts to approximately 253 billion euros. Its economy is tightly micromanaged by its lenders since 2010. Yet, after all the pain and effort, the question remains: Starting from next year, would the country be stagnating at the bottom of EMU or is it ready, instead, for a major growth take off that would last for years or decades?

Many observers, including the IMF, have come to the conclusion the country is incapable of growing by more than 1% over the long term. They cite the unprecedented future shrinking of the population as well as factors that leaååd to low productivity: the low levels of investment and national savings coupled with lack of FDI, the low technological content of production, the debt overhang of the public and private sectors, the fragile financial sector with its large NPL problem, the over-taxation and lack of incentives for innovation, creativity and work, the ever increasing underground economy in which only a fraction of citizens carry the burden of taxation, plus the continuous immigration of Greek youth abroad. They also cite the huge debt-to-GDP ratio of 179% and the strict future primary surpluses needed to keep the debt dynamics in check. On top of those economic negatives, pessimists point to the lack of ownership of reforms and the corresponding absence of political will for their rapid implementation, coupled with the inability of the Greek society itself to come to terms with the new globalised world and its competitive demands.

Others are more optimistic, perhaps more hopeful. They downplay the negative factors like the ongoing capital controls or the political resistance to change, and emphasise the return of the country to balanced budgets and balanced current accounts already since 2014. They point to the privatisation effort which continues despite the present leftist government's deep hostility. They claim reforms already made labour markets quite flexible, brought down unit labour costs and expanded exports of goods (excluding oil and ships). Optimists are fully aware of the problems, yet believe the politically hard work is behind us; it is now easier to keep up the momentum of reforms. They forecast ever improving competitiveness and living standards.

Presently pessimists win hands down. Their arguments are overwhelming. Yet, it is instructive to explore ways through which the probability of the sustainable growth scenario increases steadily in the future. Greeks may take small steps at a time in the right direction, creating a virtuous circle over time that would gradually cure the negative economic factors mentioned earlier. What are those small steps over the next year?

First, the programme has to be completed on time, including a fourth review before the summer of 2018. I expect this to materialise as Europeans are tired of the Greek problem and no longer afraid of contagion, thus are eager to wrap up the programme without pushing as hard as in the past.

Second, it is imperative that by 2018 the country regains the ability to tap the market at low interest rates, which is realistic only in an environment of debt sustainability and policy credibility. The Europeans are likely to condition further debt relief on the gradual delivery –and non-reversal– of reforms. I expect them to keep the country on a tight leash for a long time.

Third and more important, the country needs to go beyond the demands of its lenders and become the owner of reforms and the navigator of its own destiny. It needs to design its own growth plan, preferably built on consensus. The growth recipe ought to include, *ceteris paribus*, a reversal of the current misdirected over-taxation policy, a more direct linkage of pension payments to contributions, a speeding up of the liberalisation of energy markets, the rationalisation of the public sector, a reversal of its current anachronistic educational policy, etc. Only then would the possibility of the growth scenario have a chance.