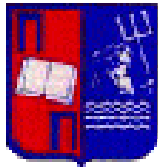


Growth or Stagnation Ahead? Cyprus vs. Greece

Prof. Gikas Hardouvelis



www.hardouvelis.gr

www.hardouvelis.com

**Conference on "Growth strategies for Greece and Cyprus," organized by
The Hellenic Observatory, London School of Economics and Political Sciences
& The School of Economics and Management, University of Cyprus**

Nicosia, Cyprus, November 27, 2018, 18:00

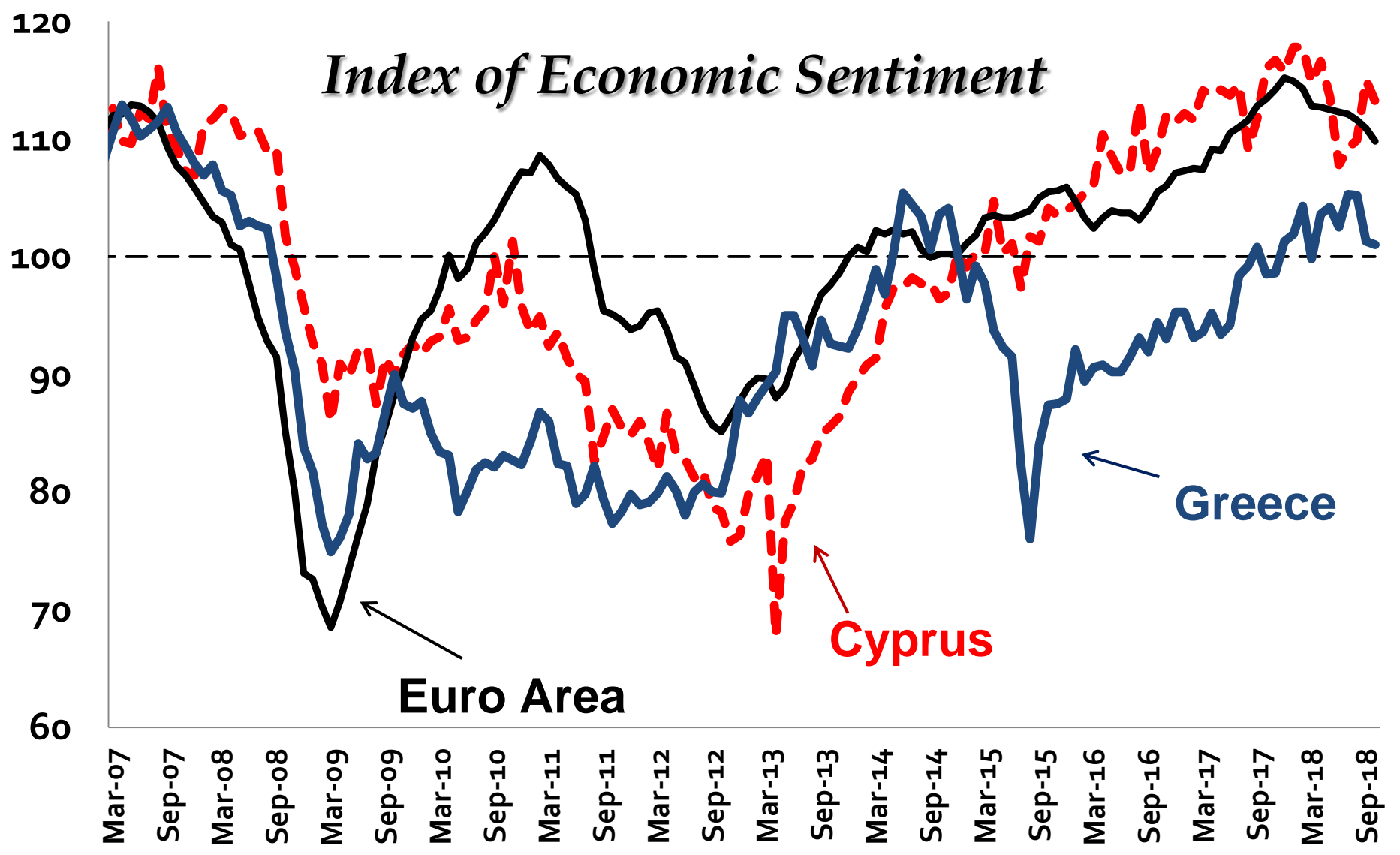
University of Cyprus, Aglantzia Campus, Leventis Building , Amphitheatre B108

TABLE OF CONTENTS

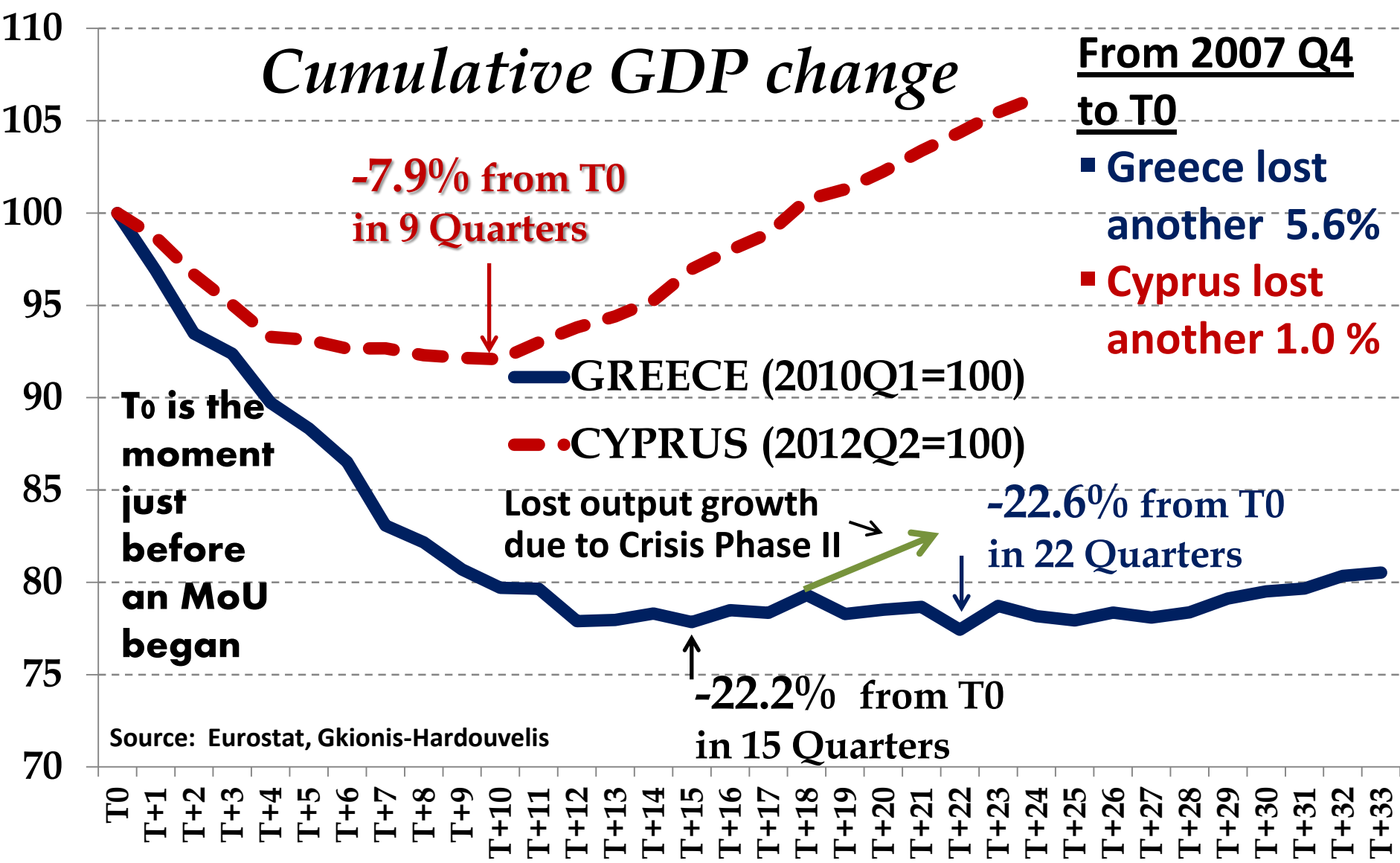
Growth or Stagnation Ahead? Cyprus vs. Greece

- I. A different economic trajectory following the crisis**
- II. The challenge of achieving lasting growth**

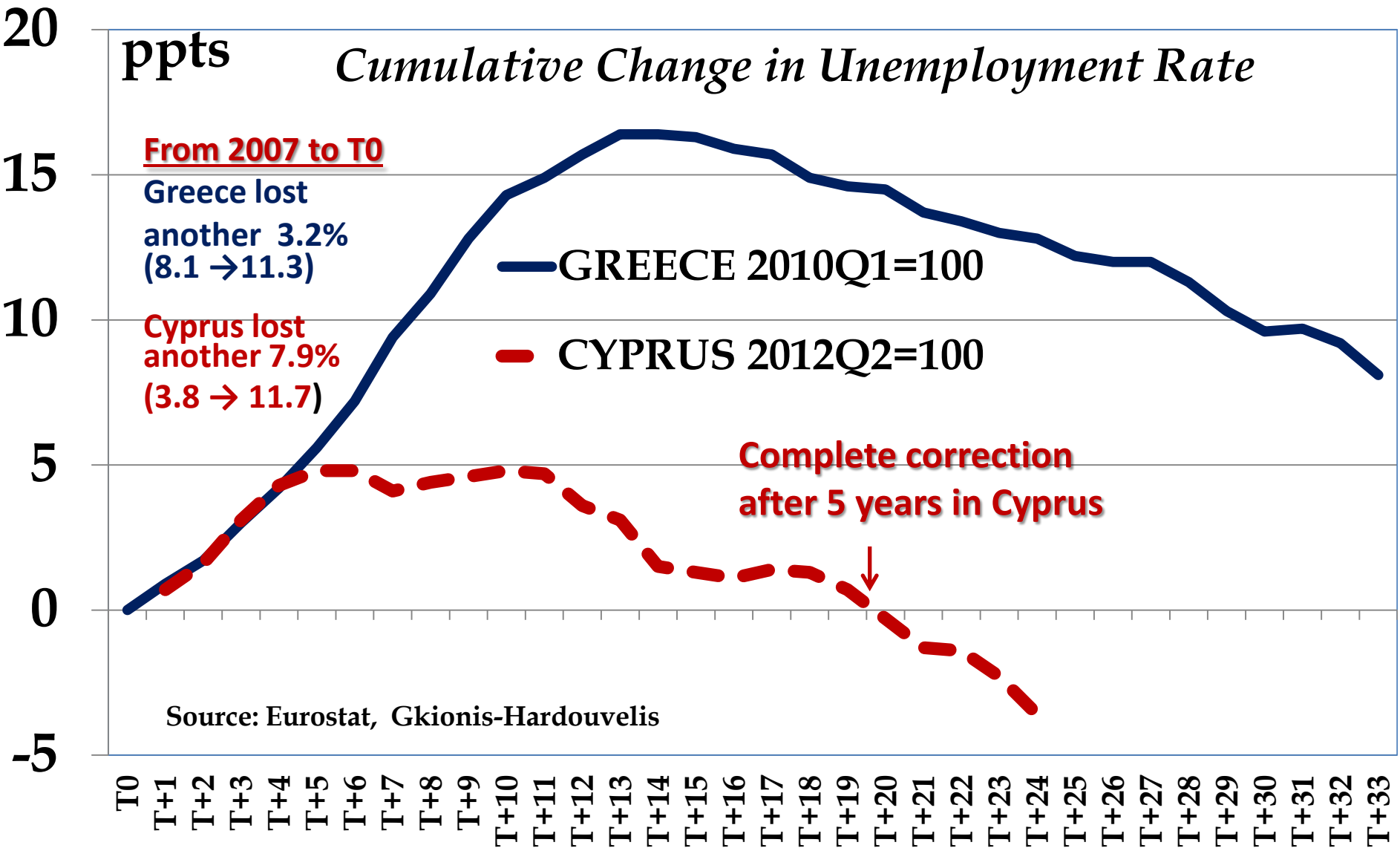
I. Despite the crisis, economic sentiment in Cyprus unlike in Greece, tracks European sentiment



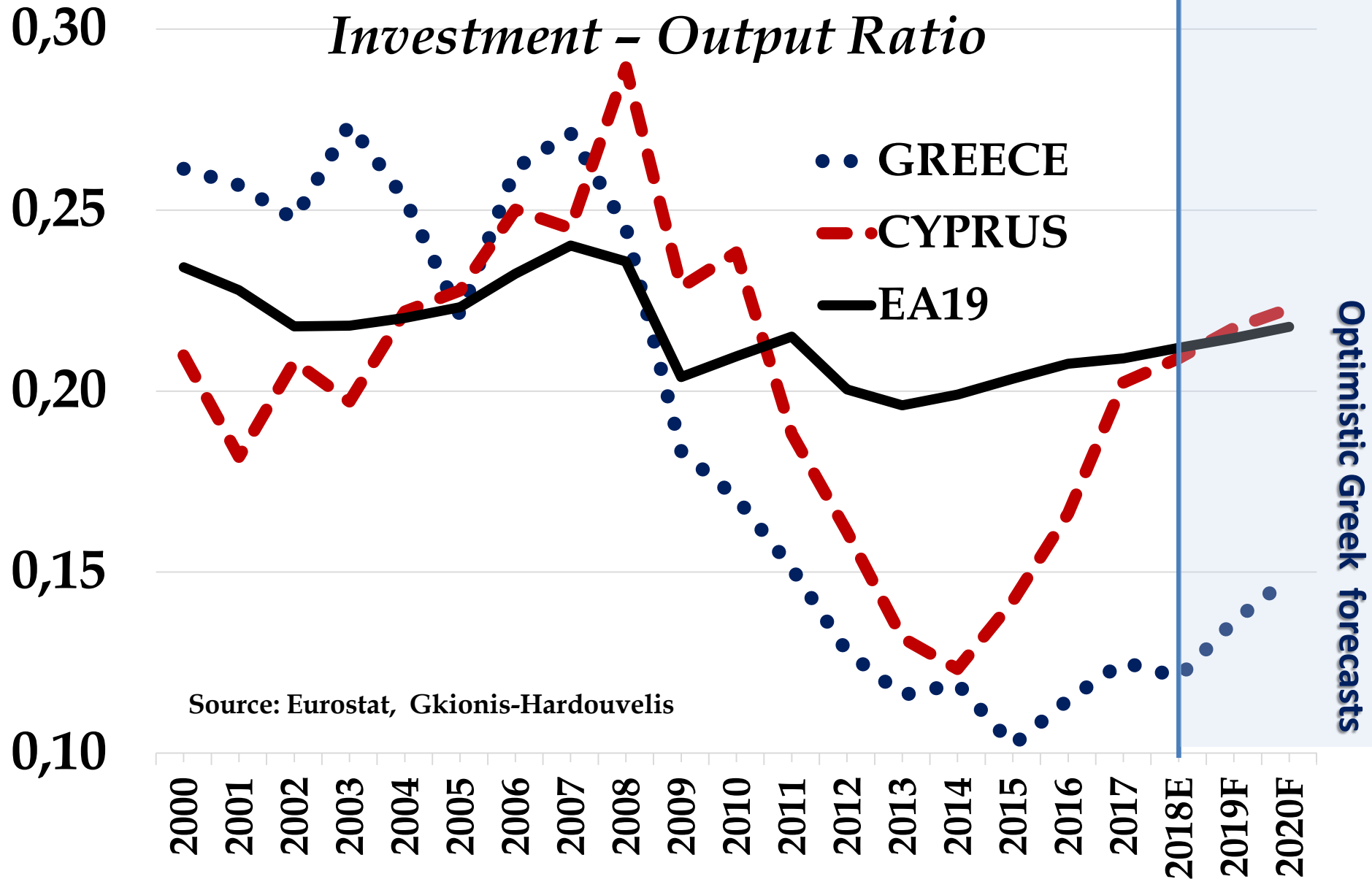
I. Small output loss and quick recovery in Cyprus, huge loss and continued stagnation in Greece



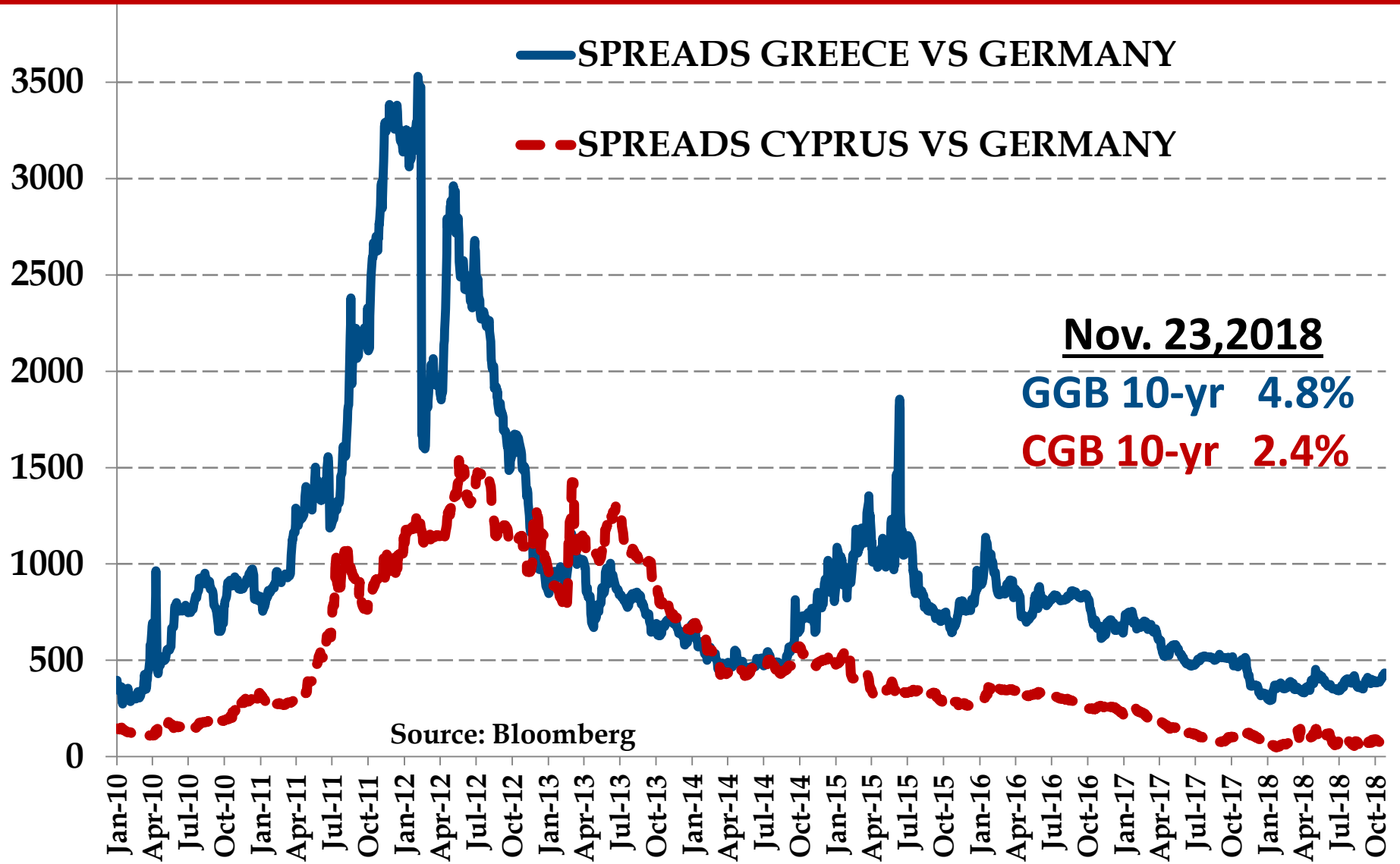
I. Unemployment declines fast in Cyprus, now less than when crisis started



I. Investment picks up in Cyprus, not in Greece



I. Markets are willing to lend to Cyprus, spreads consistently lower than Greek spreads



II. Hence ... different policy targets today

CYPRUS

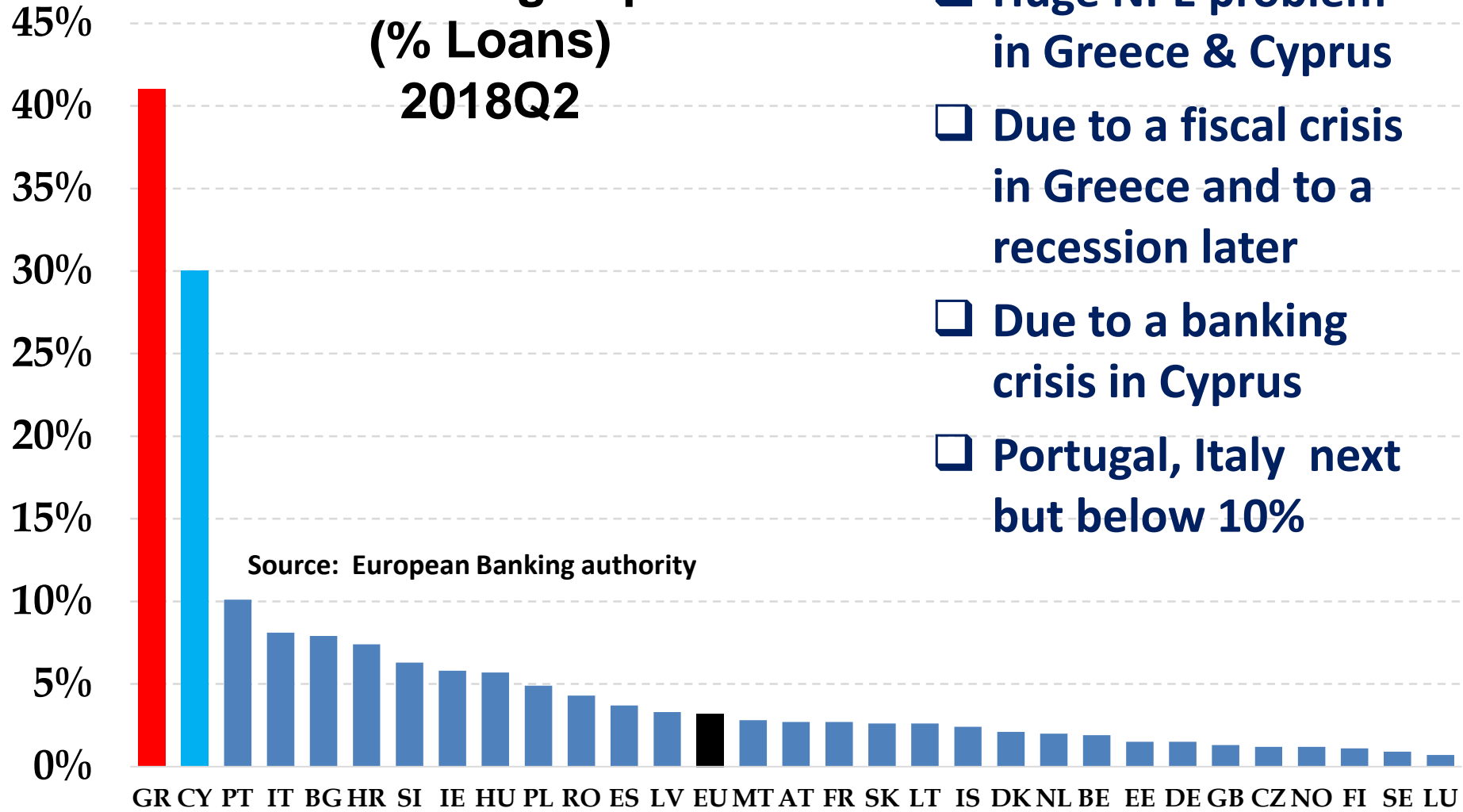
- ❑ Strong growth rates
~4%
- ❑ Escaped the crisis without losing its previous international competitive advantages
- ❑ Major long-term risks:
 - high NPLs
 - complacency in reforms (public sector, privatizations, etc.)

GREECE

- ❑ Reversed the 2014 recovery and disappointing cyclical recovery since 2017, unable to access financial markets
- ❑ In post 2014 crisis-phase II, a reversal in international competitive rankings
- ❑ Major long-term risks:
 - high NPLs
 - low investment
 - Tax disincentives for growth
 - No reform momentum

II. Non-Performing loans: The elephant in the room

Non-Performing Exposures (% Loans) 2018Q2



Source: European Banking authority

- Huge NPE problem in Greece & Cyprus
- Due to a fiscal crisis in Greece and to a recession later
- Due to a banking crisis in Cyprus
- Portugal, Italy next but below 10%

II. Other key indicators today

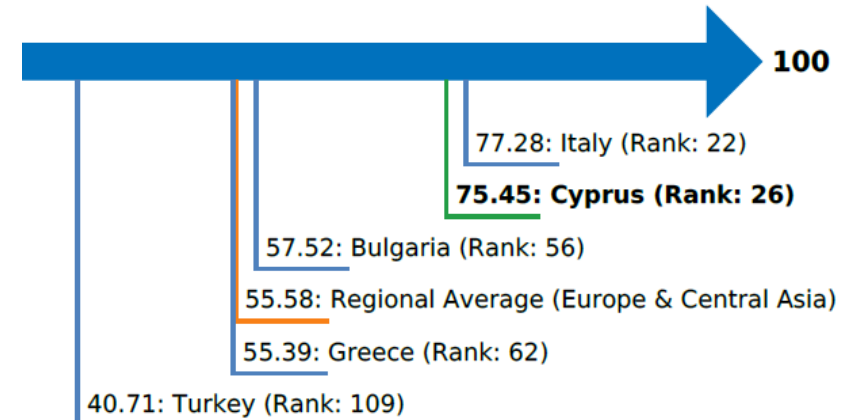
Conditions	Greece 2018	Cyprus 2018
Primary Balance (% GDP, ESA2010)	3.9	5.5
General Gov. Balance (% GDP)	0.6	2.8
Gross Public Debt (% GDP)	182.5	105
Current Account Balance (% GDP, 3-yr average)	-0.8	-5.0
Ease of Doing Business	68.08	71.71
REER (ULC total economy deflated, 1999Q1 = 100, 3-yr % change)	-2.8	-6.6
Private Sector Debt (% GDP, 2017)	116.4	316.3
Banks Assets (% of GDP, 2018-H1)	132	336

- 1) Fiscal statistics: Deficit OK in both countries , Debt is high in Greece**
- 2) Competitiveness statistics: No problem yet**
- 3) Financial sector statistics: Cyprus more exposed to a shock**

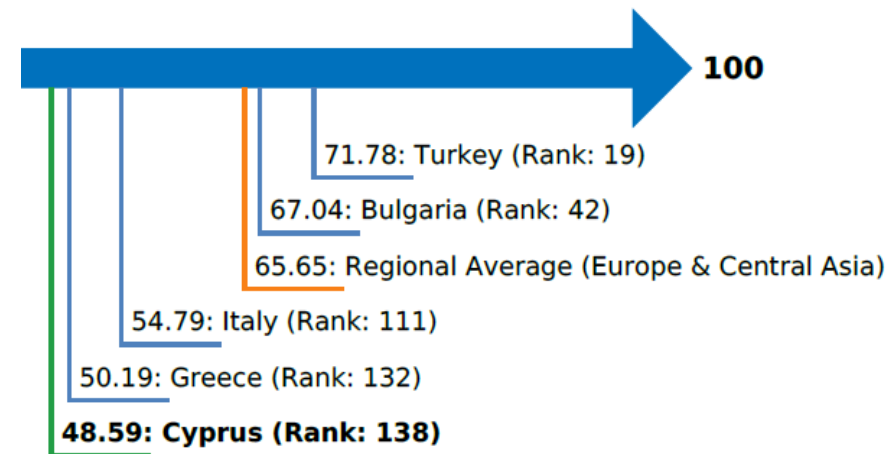
II. Revealing Doing Business competitive rankings

Rank	Economy	EODB score	score change
1	New Zealand	86.59	0.00
2	Singapore	85.24	+0.27
3	Denmark	84.64	+0.59
4	Hong Kong SAR, China	84.22	+0.04
5	Korea, Rep.	84.14	-0.01
6	Georgia	83.28	+0.48
7	Norway	82.95	+0.25
8	United States	82.75	-0.01
9	United Kingdom	82.65	+0.33
10	Macedonia, FYR	81.55	+0.32
56	Chile	71.81	+0.37
57	Cyprus	71.71	+0.44
58	Croatia	71.40	+0.34
59	Bulgaria	71.24	+0.11
71	Ukraine	68.25	+0.94
72	Greece	68.08	-0.12
73	Indonesia	67.96	+1.42

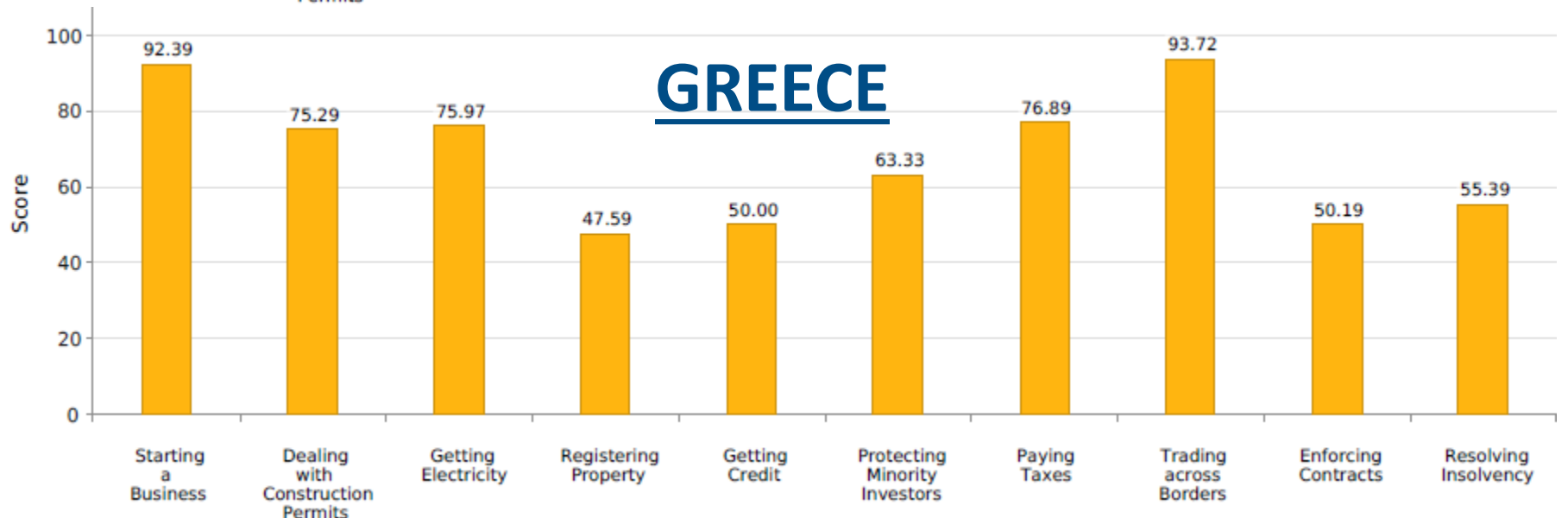
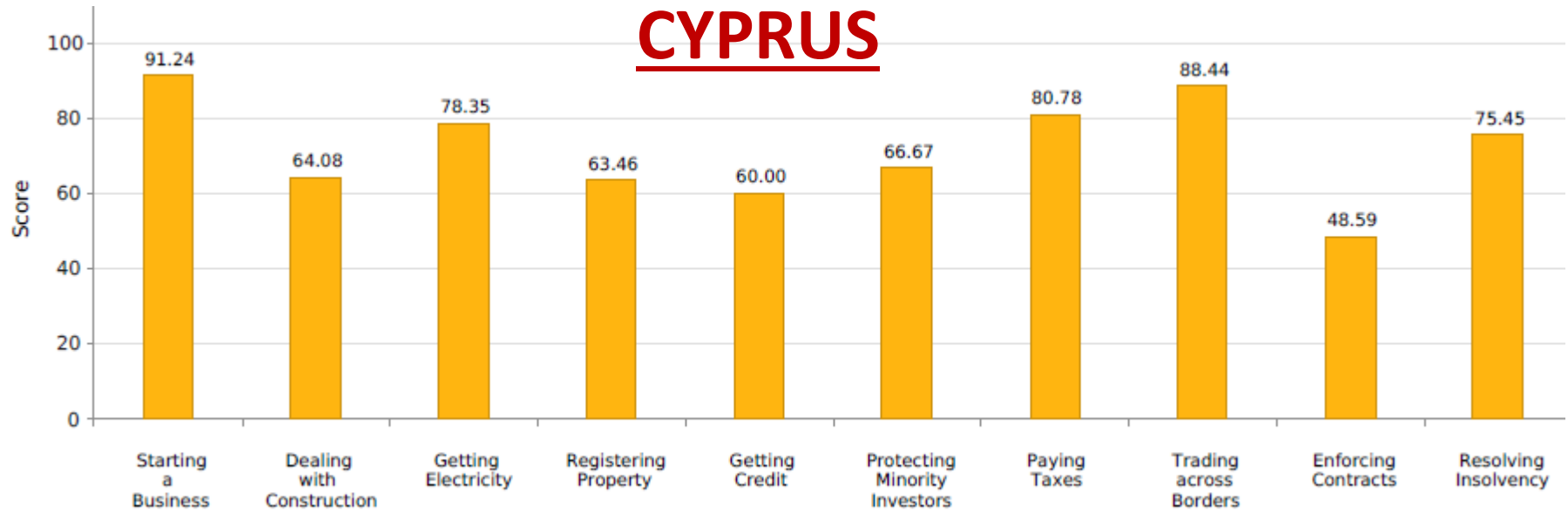
DB 2019 Resolving Insolvency Score



DB 2019 Enforcing Contracts Score



II. Revealing Doing Business competitive rankings



II. Revealing Doing Business competitive rankings

2018	Greece	Cyprus
Overall Score DTF	68.08	71.71
Starting a business	92.39	91.24
Dealing with construction permits	75.29	64.08
Getting electricity	75.97	78.35
Registering property	47.59	63.46
Getting credit	50.00	60.00
Protecting minority investors	63.33	66.67
Paying taxes	76.89	80.78
Trading across borders	93.72	88.44
Enforcing contracts	50.19	48.59
Resolving insolvency	55.39	75.45

II. Concluding recipe for persistent growth

1. Safeguard macroeconomic stability, ensure pension system is solvent
2. Clean up the banking system
3. Keep up the reform effort

**Thank you
for your attention!**

www.hardouvelis.gr

www.hradouvelis.com

