Greece in the Euro Area: A difficult road ahead

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May 22, 2012

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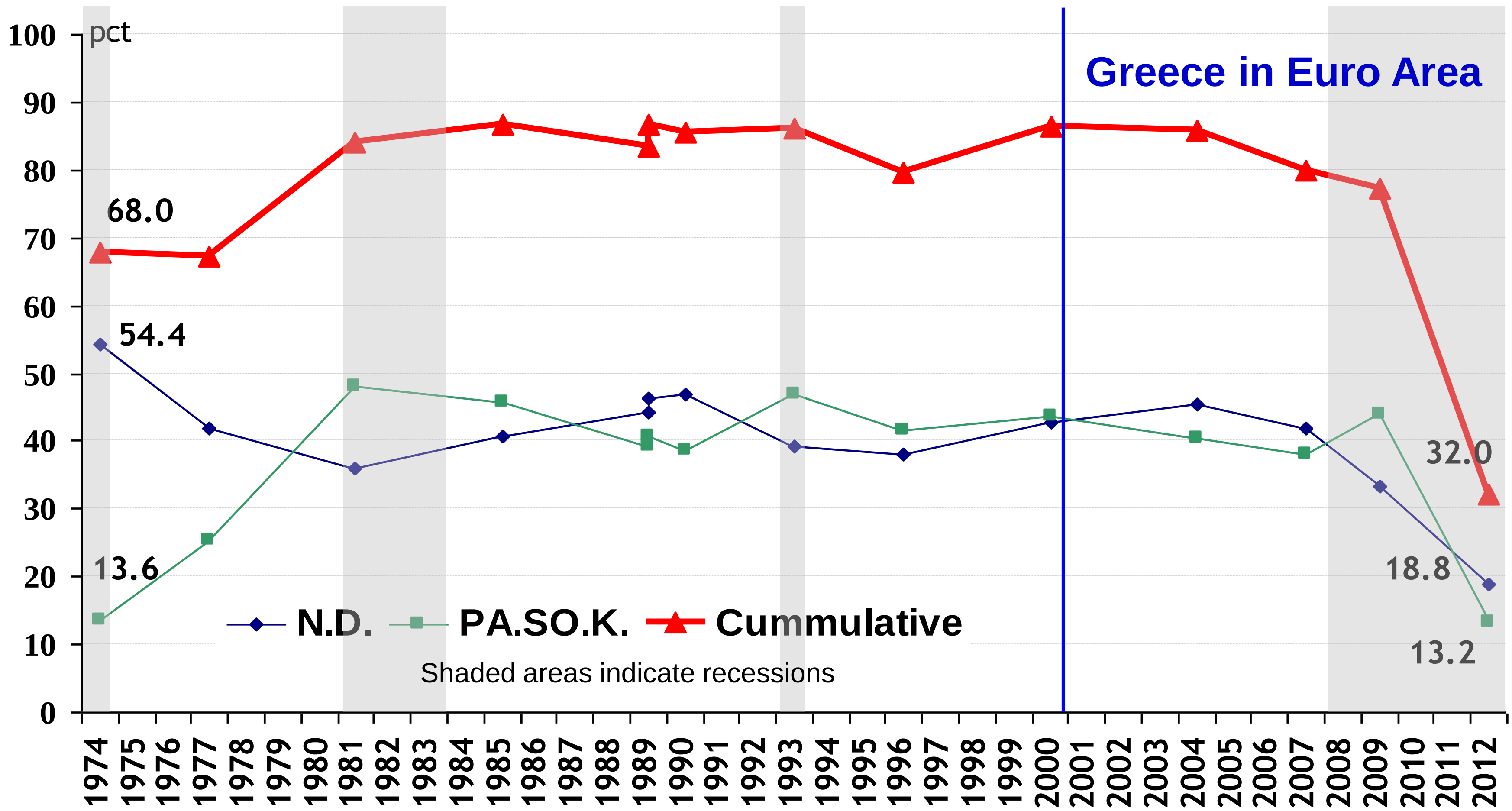
I. New risks after May elections

- **The political center shrinks after the May 6 elections, hence**
  - support for the Economic Program declines among political parties
  - Probability of Euro exit becomes non-trivial as fed up Europeans seem to take a hard line
  - Lack of liquidity becomes a real threat
  - Political stalemate creates not only fiscal trouble, but delays in pushing reforms
  - New elections are called for June 17, 2012
    - Central voter dilemma: EMU membership with the Economic Program or departure from EMU and no Program?
    - How much renegotiation can credibly take place?
    - Are Europeans willing to relax the fiscal austerity a bit?

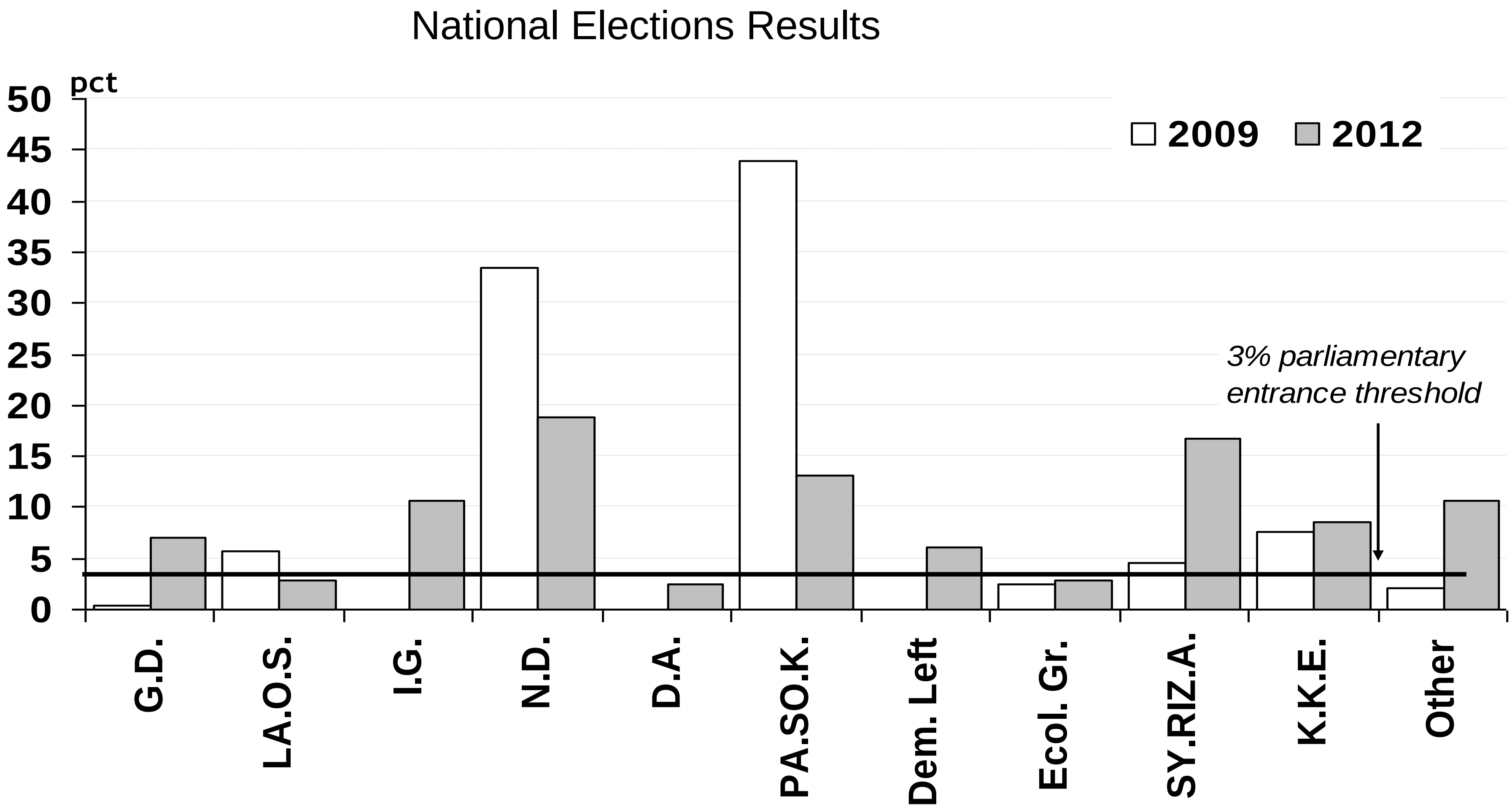
I. The collapse of the two dominant center parties



Source: www.in.gr, Ministry of Internal Affairs, Hellenic Parliament, Eurobank EFG Research

- ✓ Four decades of political dominance destroyed, from 80% down to 30%
- ✓ Both parties supported the 2nd Economic Program
- ✓ A new era ahead?

I. Distribution of votes in the May 2012 elections



Source: Ministry of Internal Affairs
Political parties are positioned on the graph from right to left on the political spectrum

I. Distribution of votes in the May 2012 elections

	Percentage of votes	Members in new parliament
New Democracy (center right, supports program)	18,85	108
SY.RI.ZA. (left, against program)	16,78	52
PA.SO.K. (center left, supports program)	13,18	41
Independent Greeks (right, against program)	10,60	33
KKE (extreme left, against program)	8,48	26
Golden Dawn (extreme right, against program)	6,97	21
Democratic Left (left, against program)	6,11	19
Ecologists Green (left, against program)	2,93	
LA.O.S. (right, against program)	2,90	
Democratic Alliance (center right, suports program)	2,55	
Other	10,65	

Source: Ministry of Internal Affairs

I. Voting behavior & individual characteristics

Source: Public Issue

% of votes		G.D.	LA.O.S	I.G.	N.D.	D.A.	PA.SO.K.	D.L.	E.G.	SY.RIZ.A	K.K.E.	Other
Official Results		6.97	2.9	10.6	18.9	2.5	13.2	6.1	2.9	16.8	8.5	10.6
by Age	18-24	14	4	11	7	1	8	5	5	20	11	15
	25-34	12	4	13	8	3	6	5	6	16	10	17
	35-44	11	3	14	11	3	5	7	5	20	9	15
	45-54	7	3	11	13	2	10	8	3	21	10	12
	55-64	5	3	10	22	2	17	7	2	19	9	6
	65+	3	3	8	34	4	24	4	1	9	6	5
by Perceived economic situation	Difficult	7	3	12	17	2	11	6	3	18	10	11
	OK	6	3	8	22	4	19	6	3	14	6	10
by 2009 national elections vote	N.D.	10	1	16	51	5	1	2	1	7	2	5
	PA.SO.K.	4	3	6	6	3	36	10	3	16	5	10
	K.K.E.	2	0	1	1	0	1	3	1	15	70	5
	SY.RIZ.A.	1	1	3	1	1	2	11	2	70	3	6
	LA.O.S.	18	27	23	9	0	0	2	1	8	2	10
	Other	15	2	9	1	1	2	6	16	9	3	38
	New voters	22	8	10	10	0	7	7	0	30	4	3
	Did not vote	7	4	15	14	2	5	7	5	19	6	15
	DK/NA	4	2	14	12	1	4	5	7	21	6	25

Political parties from right to left of the political spectrum . Horizontal lines add to 100%.

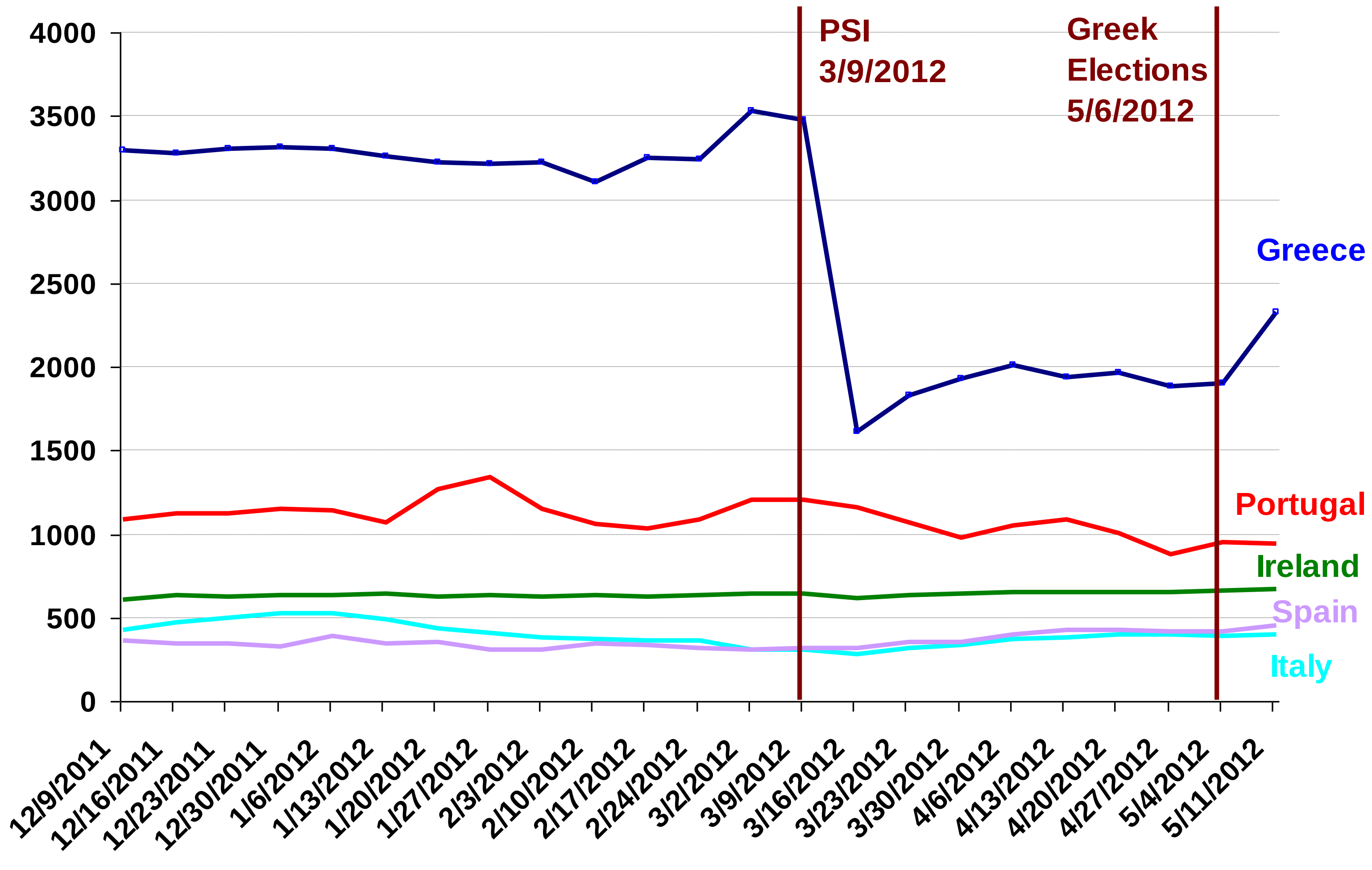
I. Why are voters upset?

	2009	2011	% Δ
GDP per capita (€ in current prices)	20,531	19,018	-7.4
Real GDP per capita (€ in 2005 prices)	18,749	16,099	-10.4
Nominal comp. per employee (€ in current prices)	27,207	25,470	-6.4
Average Gross Earnings (nominal, % changes)	**2010**	**2011**	**2012 (est.)**
- whole economy	-4.8	-3.0	-8.4 to -9.2
- central government	-8.5	-4.9	-7.4
- public utilities	-5.5	-7.9	-9.5
- banks	-1.8	0.1	-7.5
- non-bank private sector	-2.9	-1.7	-8.5 to -10.1
Minimum earnings	1.7	0.9	-19.6
Average gross earnings (real)	-9.1	-6.4	-9.5 to -10.3
	2007	**2011**	**2012 (proj.)**
Unemployment rate (annual average)	8.3	17.7	19.7
youth unemployment	22.9	44.4	
	2007	**2011**	**April 2012**
Economic Sentiment Index (SA, 1990-2011=100)	108.4	77.6	77.3
Consumer Sentiment Index (SA)	-28.5	-74.1	-78.7
	Jul. 2009	**Dec. 2011**	**April 2012**
% of households that either "barely makes ends meet " or "spend their savings" or "took debt"	74%	86%	88.5%

Source: EU, BoG, Eurostat, IOBE

I. The odds of remaining in the Euro Area: The market view

End-of-week 10-yr spreads over Bunds

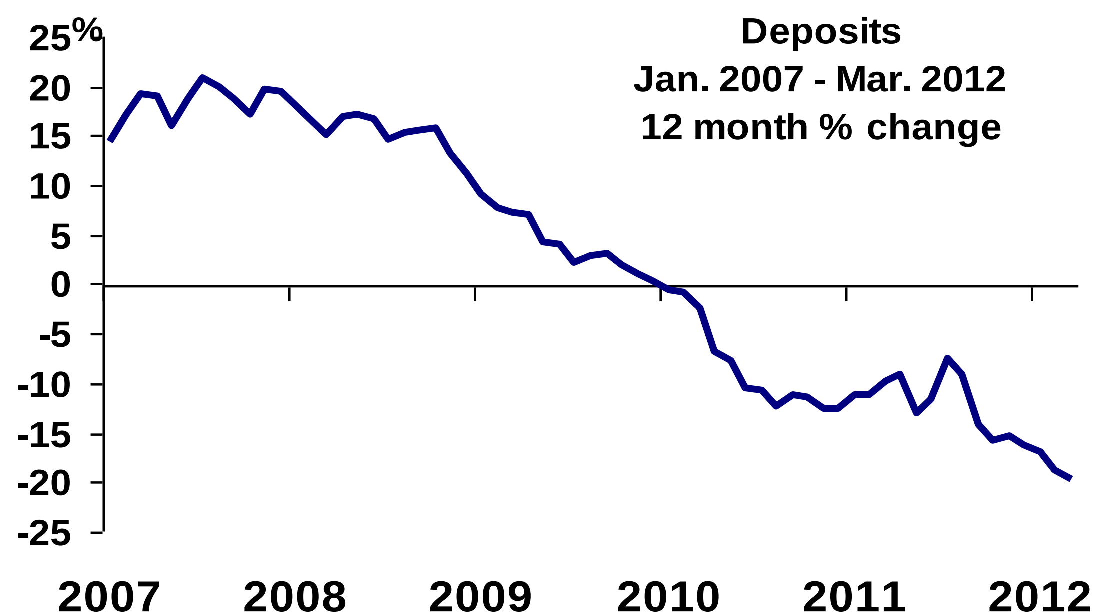


Source: Bloomberg

I. Liquidity at center stage

- Successful PSI had calmed markets and stabilized bank deposits, yet elections reignited fears
- Recapitalization of Greek banks by September, yet bridge recapitalization delayed and induced the ECB to move most Greek bank lending to the ELA mechanism on May 16
- Significant arrears by the State further reduce much needed liquidity
- As bank lending resumes, companies will gain breathing space

	Bank Assets (€ bn)	Bank Assets (% of GDP)	ECB liquidity (€ bn)	ELA liquidity (€ bn)	ECB ELA liquidity (% of Assets)
2007	391.5	175.7	8.8	0	2.2
2008	464.7	199.5	40.6	0	8.7
2009	492.6	212.7	49.7	0	10.1
2010	515.0	226.5	97.8	0	19.0
2011	476.9	221.7	76.9	52.7	27.2
Mar. 2012	434.9	213.8	78.9	46.5	28.8



II

I. May 2012 elections generate new risks

II. Greek & Euro Area imbalances

III. Greece: Recent positive developments

IV. Can Greece escape the crisis?

II. Different Euro Area countries confronted with different challenges

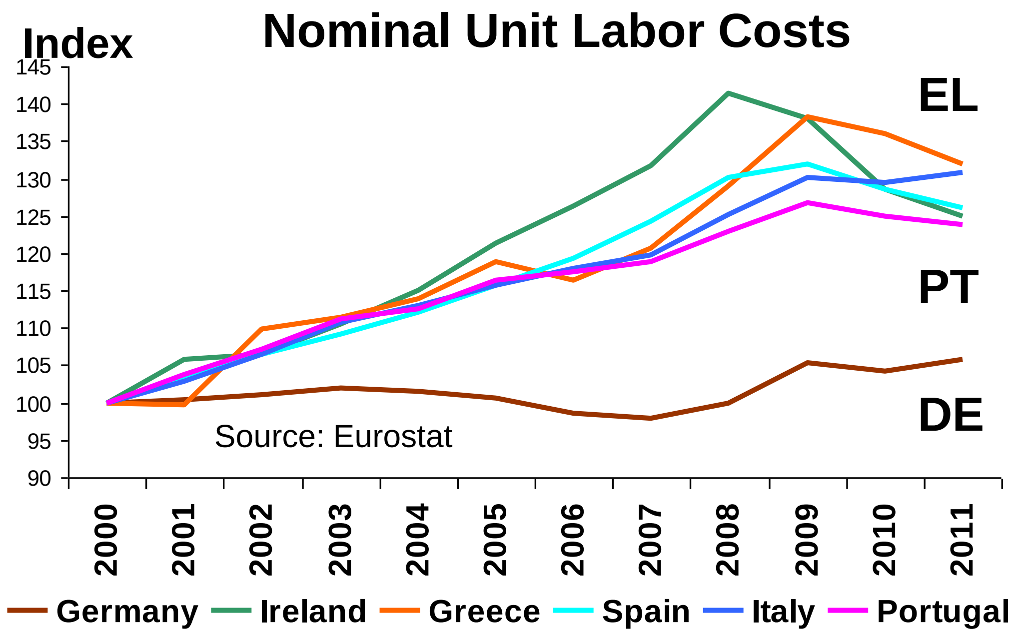
- ✓ **IRELAND**
  - ↓ Housing market
  - ↓ Banks → rise of public debt
  - ↓ High private debt
- ✓ **PORTUGAL**
  - ↓ Low competitiveness
  - ↓ Large fiscal deficits, but not debt
  - ↓ High private debt
- ✓ **SPAIN**
  - ↓ Low competitiveness
  - ↓ Housing market
  - ↓ Small savings banks
  - ↓ High private debt

GREECE

- ↓ Low competitiveness
- ↓ High fiscal deficits & debt

ITALY

- ↓ competitiveness
- ↓ High debt

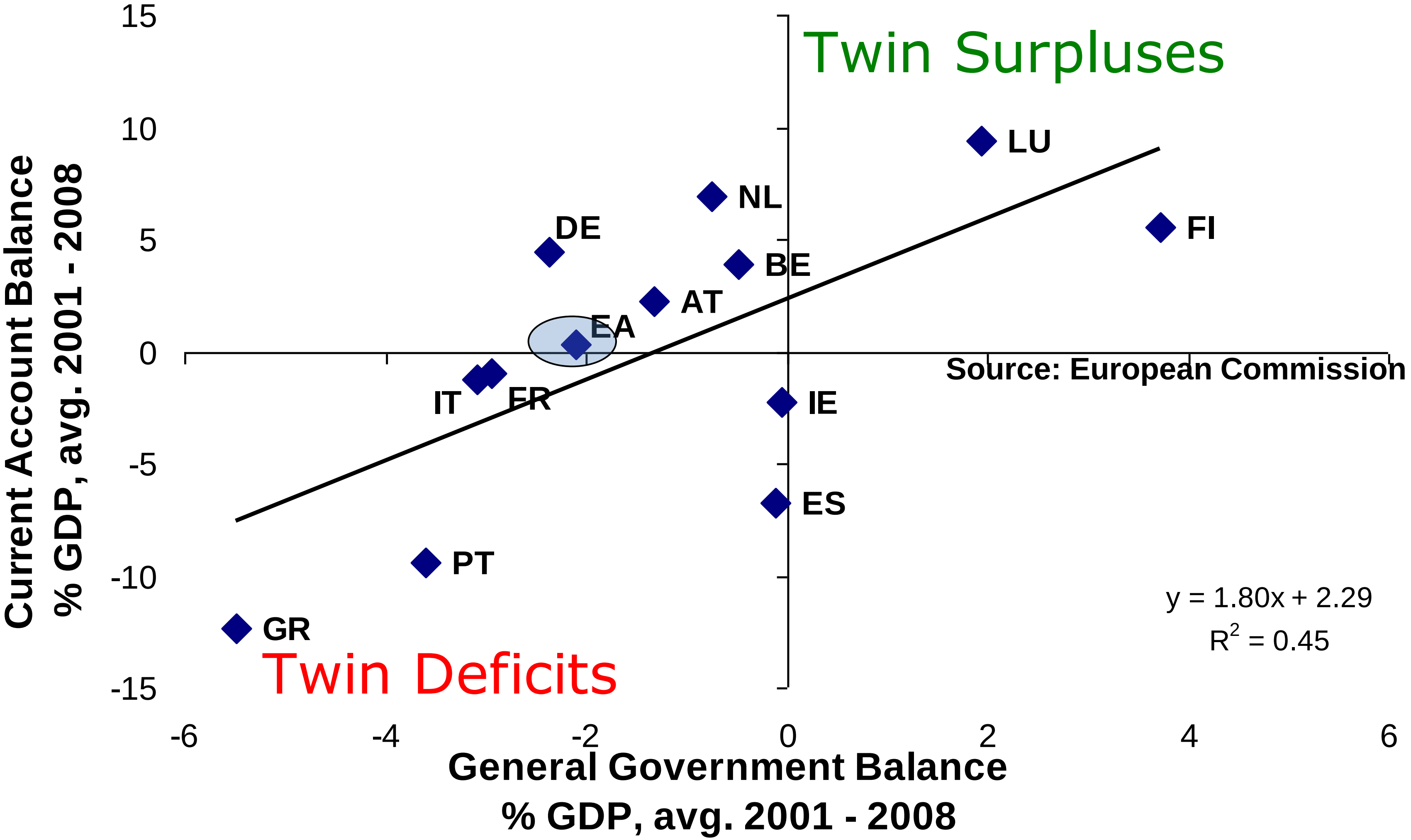


II. Is there a solution? Europeans in disarray are fixing an architecture with a 15 year lag

- ✓ Euro Area countries understand EMU dissolution is not an option: Implies huge costs in financing, in trade, in politics and the average European living standards
- ✓ The crisis revealed <u>**two needs,**</u> <u>**not necessarily complementary**</u>:
  1) **Need for actions to contain the crisis**
  2) **Need for a better long-run framework, which would ensure long-term stability of the euro**
- ✓ The chosen sequencing was incorrect
- ✓ Euro Area has chosen to focus on redesigning its framework and ignored the need to contain the crisis, which has slowly grown larger and larger. The **new design** comes ex-post with a 15-year lag and **tends to inhibit actions that may add to moral hazard, but can counter the crisis**
- ✓ The Euro Area is working on three fronts:
  - ❖ **Fiscal Compact** & Harmonization of Fiscal policies
  - ❖ Financial stability – Better regulation & supervision of Financial Institutions plus the European **Stability Mechanism**: No-bailout clause gone, funds boosted, ability to intervene in primary & secondary market, Core Tier I capital requirements to 9% from current 7% <u>is not prudent</u>
  - ❖ ***Euro Plus Pact***: Harmonization of Competitiveness policies, takes less prominence

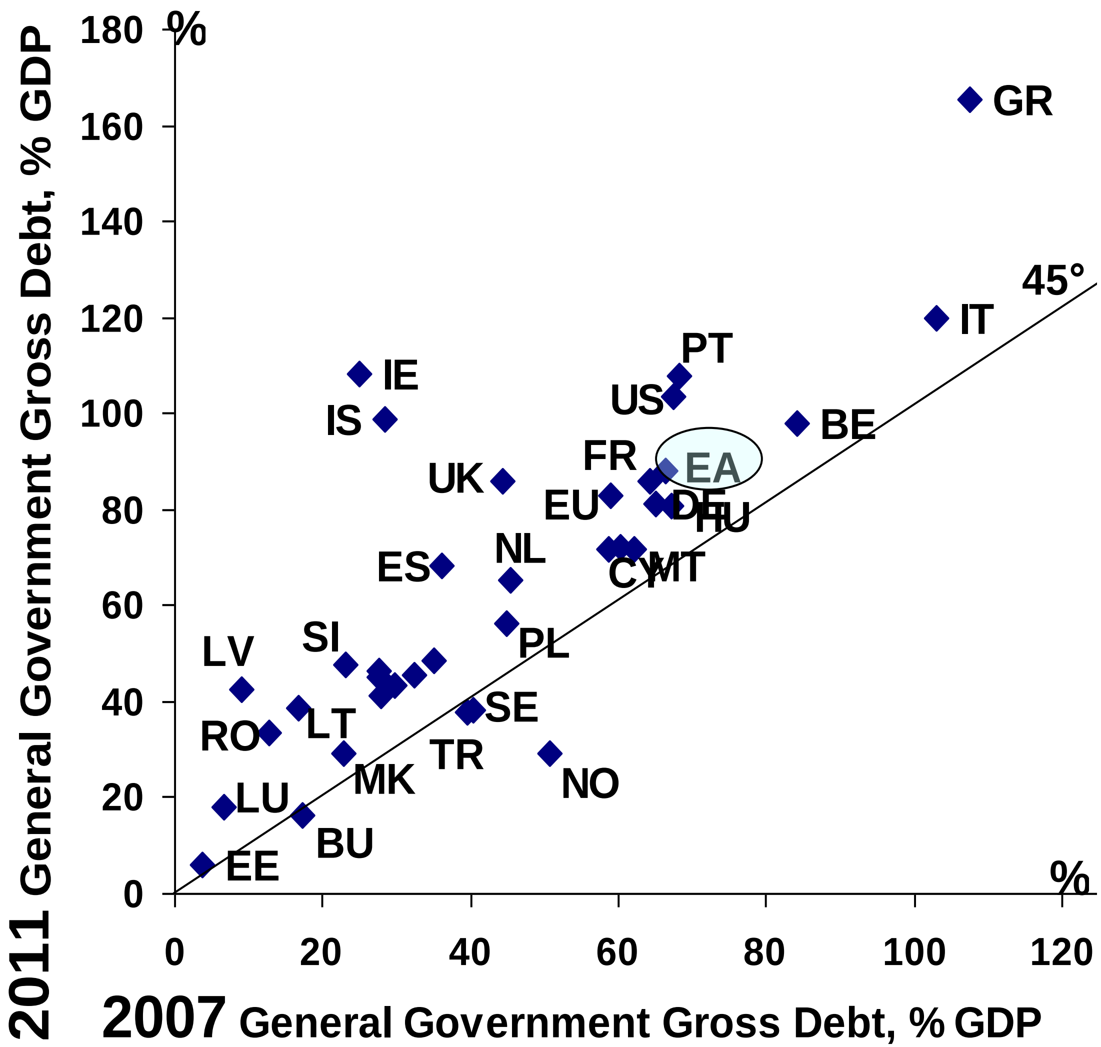
II. External and internal (fiscal) imbalances in the Euro Area: Greece showed the largest ones

- ✓ **Uncompetitive South vs. competitive North**
- ✓ **Fiscal profligacy almost everywhere**



II. Fiscal imbalances and the international financial crisis led to rising public debt worldwide

General Government Debt-to-GDP



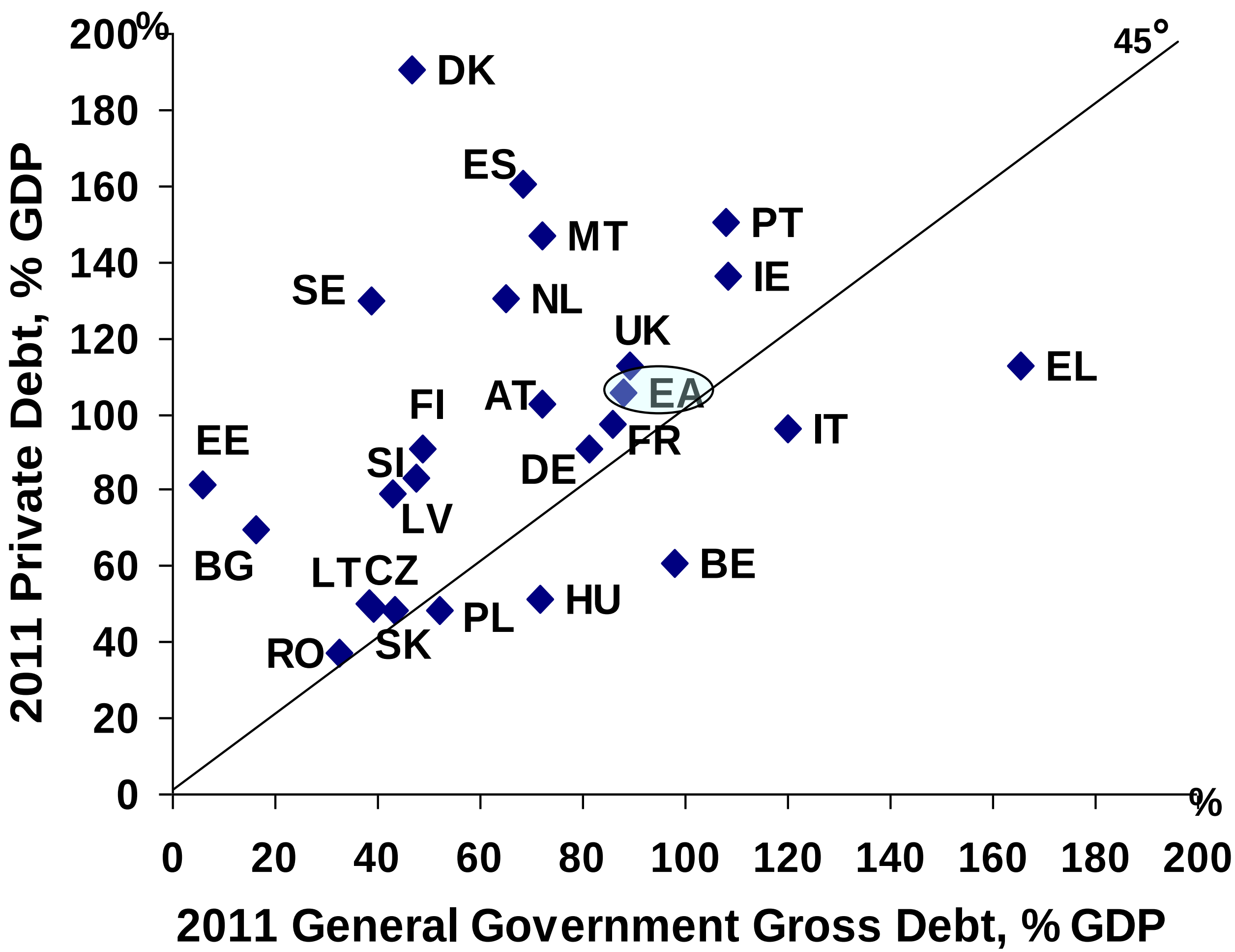
Source: EU

2011 GG Debt (€ bn)	
Portugal	184.3
Ireland	169.3
Italy	1,897.2
Spain	735.0
Greece	355.6
Belgium	361.7
Germany	2,088.5
France	1,717.3
UK	1,547.5

- ✓ Debt Deterioration everywhere from 2007 to 2011, exceptions being Bulgaria, Turkey, Sweden and Norway.
- ✓ Largest deterioration in Ireland
- ✓ EA showed smaller deterioration than US or UK

II. Private Debt: Not a Greek problem, neither a current market concern

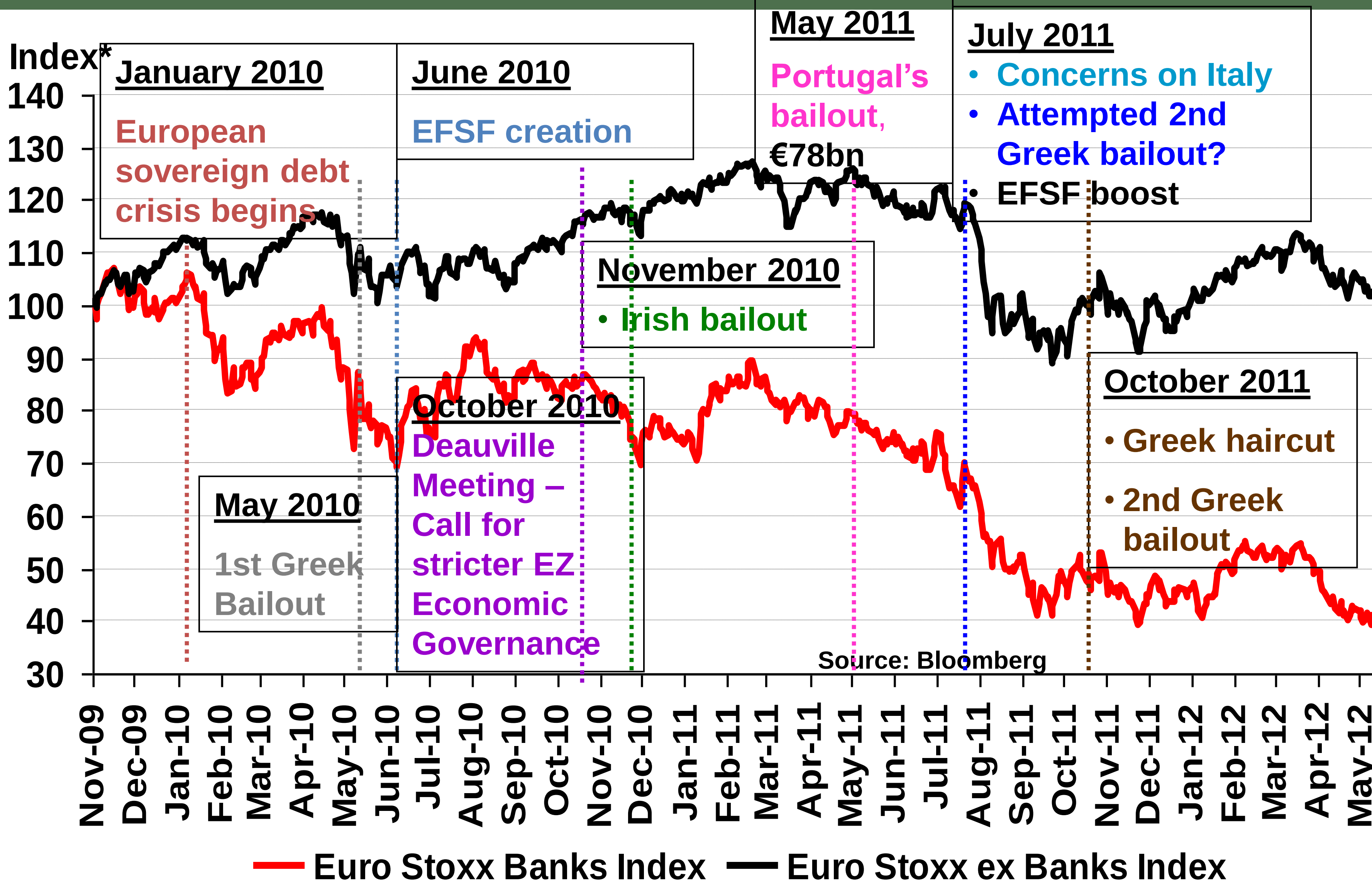
Household & Corporate Debt-to-GDP in 2011



- ✓ EA Private debt higher than Public debt in 2011
- ✓ Most countries above the 45-degree line: Higher private than public debt
- ✓ Exceptions in the EA are Belgium, Italy & Greece, where Private debt is smaller than Public Debt

Source: EU, IMF, ECB, Federal Reserve, NBS

I. Euro Area bank stocks distressed



* October 30, 2009=100, first observation: Beginning of November 2009

Capital deficiency € 114.7 bn from (a) stress tests that mark-to-market sovereign bonds, and (b) increase in Core Tier I ratio to 9% from 7%

III

I. May 2012 elections generate new risks

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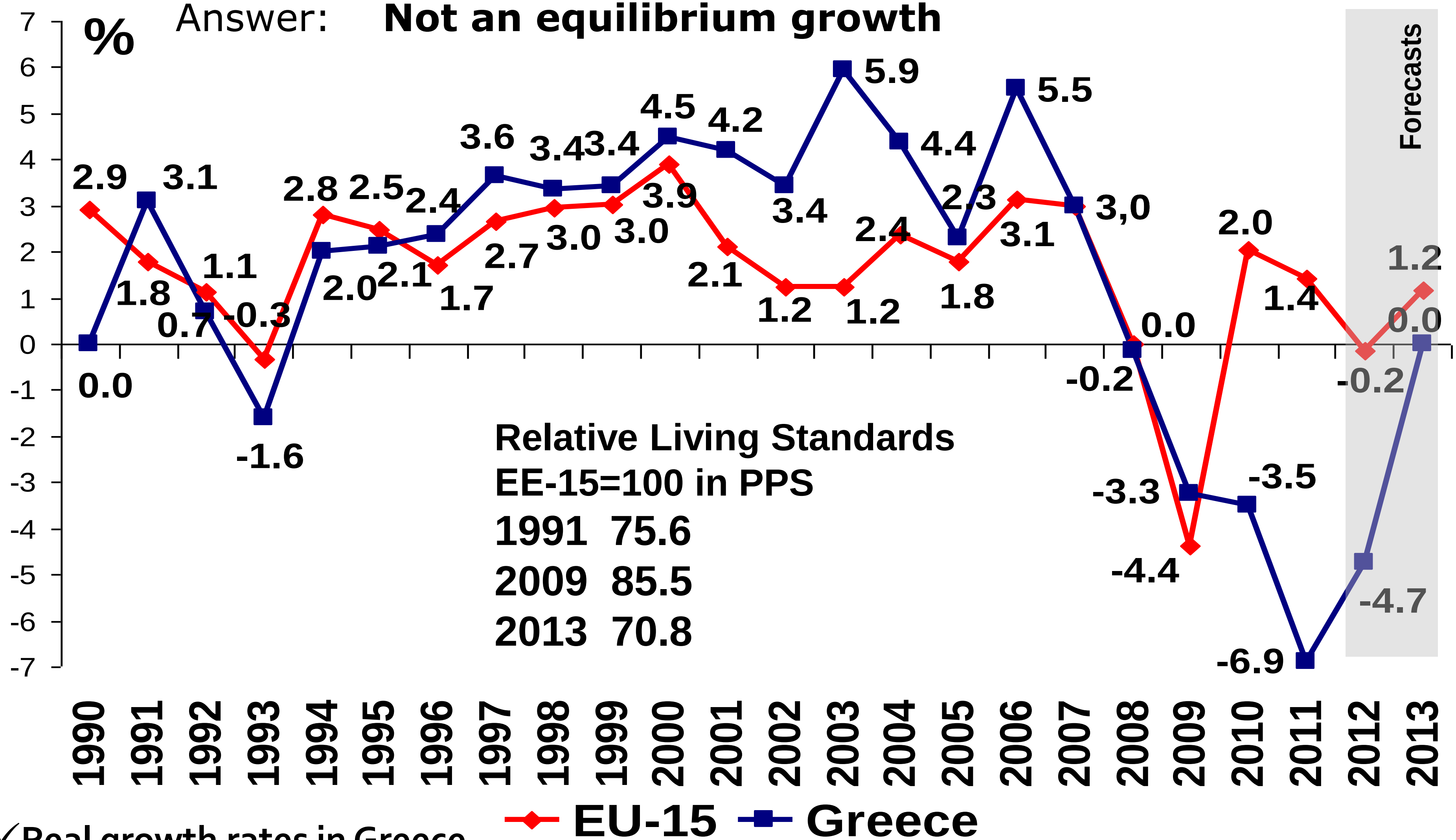
III. A bird's eye view on Greece: Population and the economy

2010	Greece	EA17		World
Population (mil.)	11.3	331.4		6,840.5
Geographical Area (thousand km²)	132.0	2,624.0		148,940
GDP per capita (€)	19,019	27,600		6,971
Living standards (UN ranking among 194 countries)	22			
Life expectancy (years) (2009)	80.2	80.5		69.4
Motor vehicles per 1000 inhabitants (2007)	560	602		
Suicides / 100 thousand inhabitants (2009)	3.0	9.1	(EU-15)	
Primary Sector (% GDP)	3.2	1.7		3.2
Secondary Sector (% GDP)	18.8	25.1		26.1
Tertiary Sector (% GDP)	78.0	73.2		70.7
Tourism (Total contribution, % GDP)	15.4	7.9	(EU-27)	9.1
Construction (% GDP)	5.3	6.2		
Public Sector (Gen. Gov. Exp. % GDP)	50.1	50.9		
Exports (% GDP)	21.5	40.9		
Imports (% GDP)	30.4	39.6		
Private Consumption (% GDP)	74.5	57.5		
Gen. Gov. Debt (% GDP)	144.9	85.6		

III. High Greek growth rates, yet based on an imbalanced economy

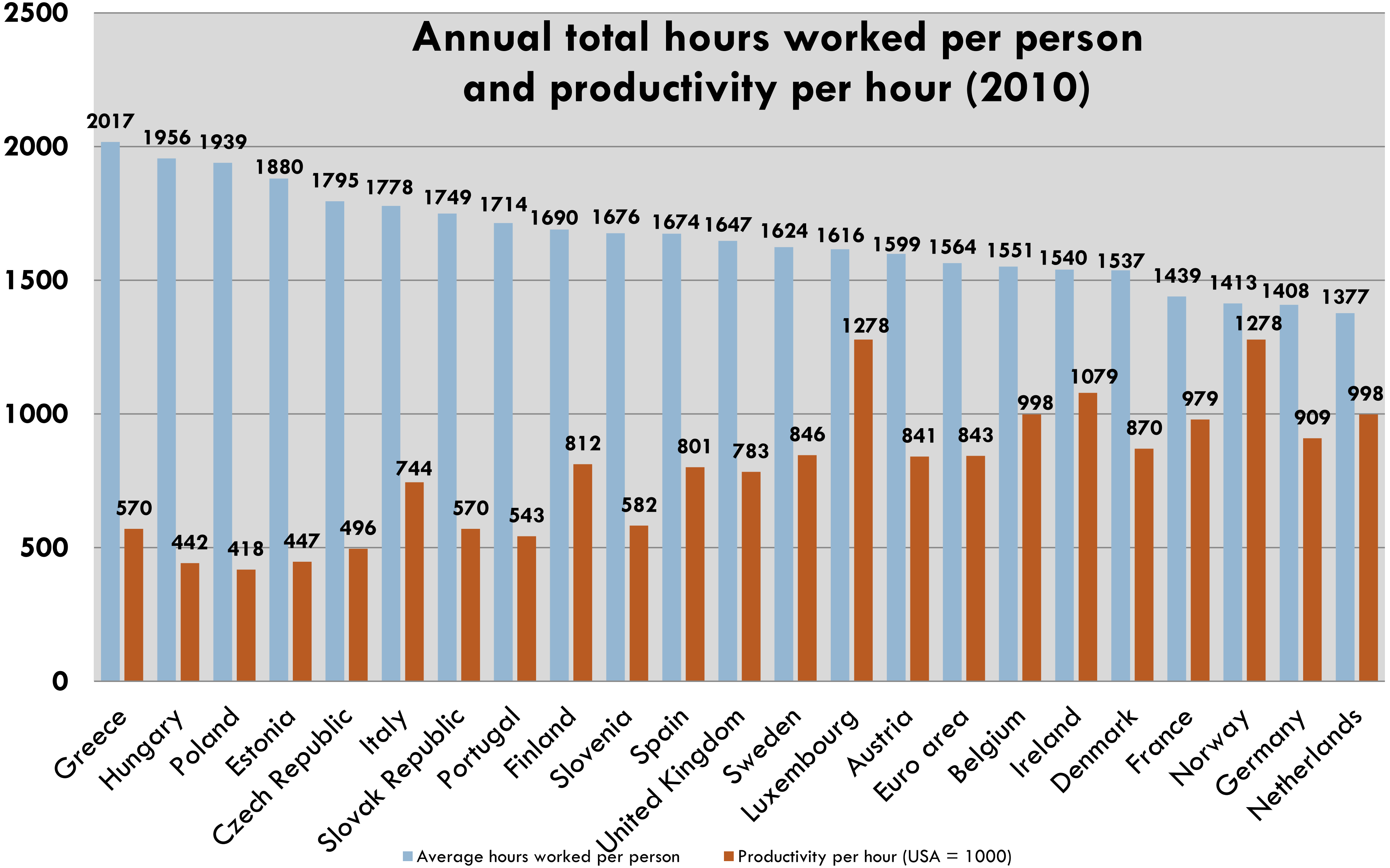
Greece: From boom to bust. How come?
Answer: **Not an equilibrium growth**



✓Real growth rates in Greece were higher than in EU-15 from 1996 through 2007

Source: EU

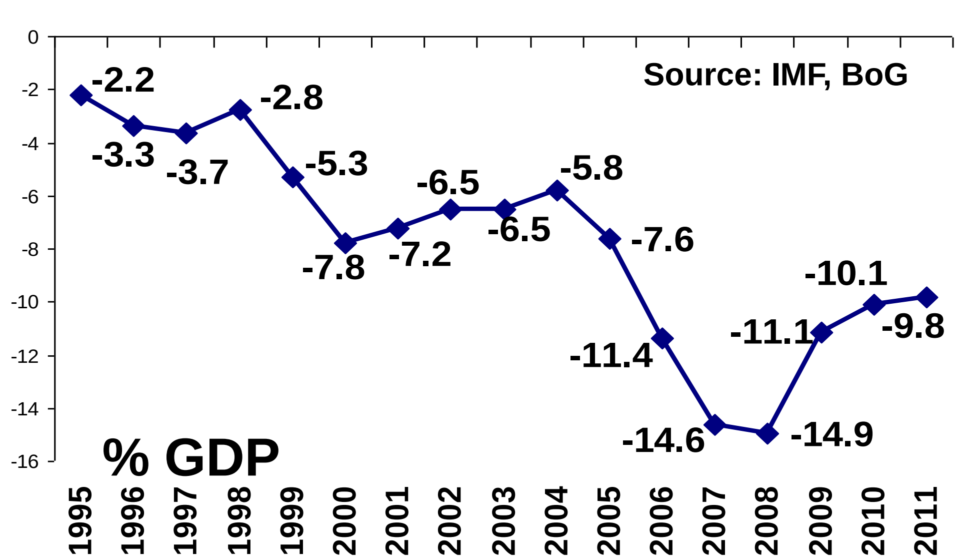
III. The crisis is not about "lazy" Greeks: They are the hardest working in Europe!



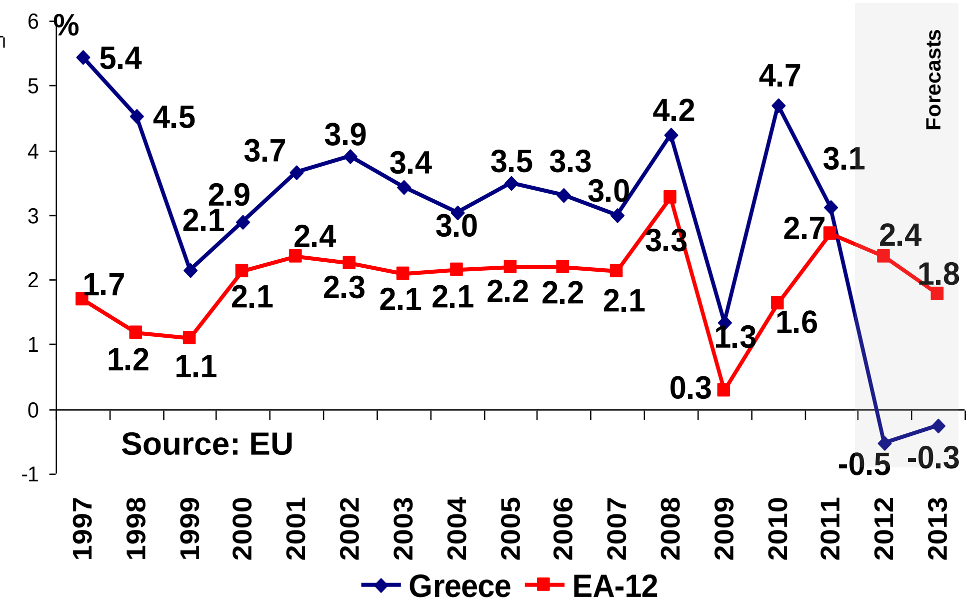
Source: OECD, StatExtracts: Labour productivity levels in the total economy, 2010

III. The crisis is about the loss in competitiveness, exacerbated inside the Euro Area

Current Account Balance

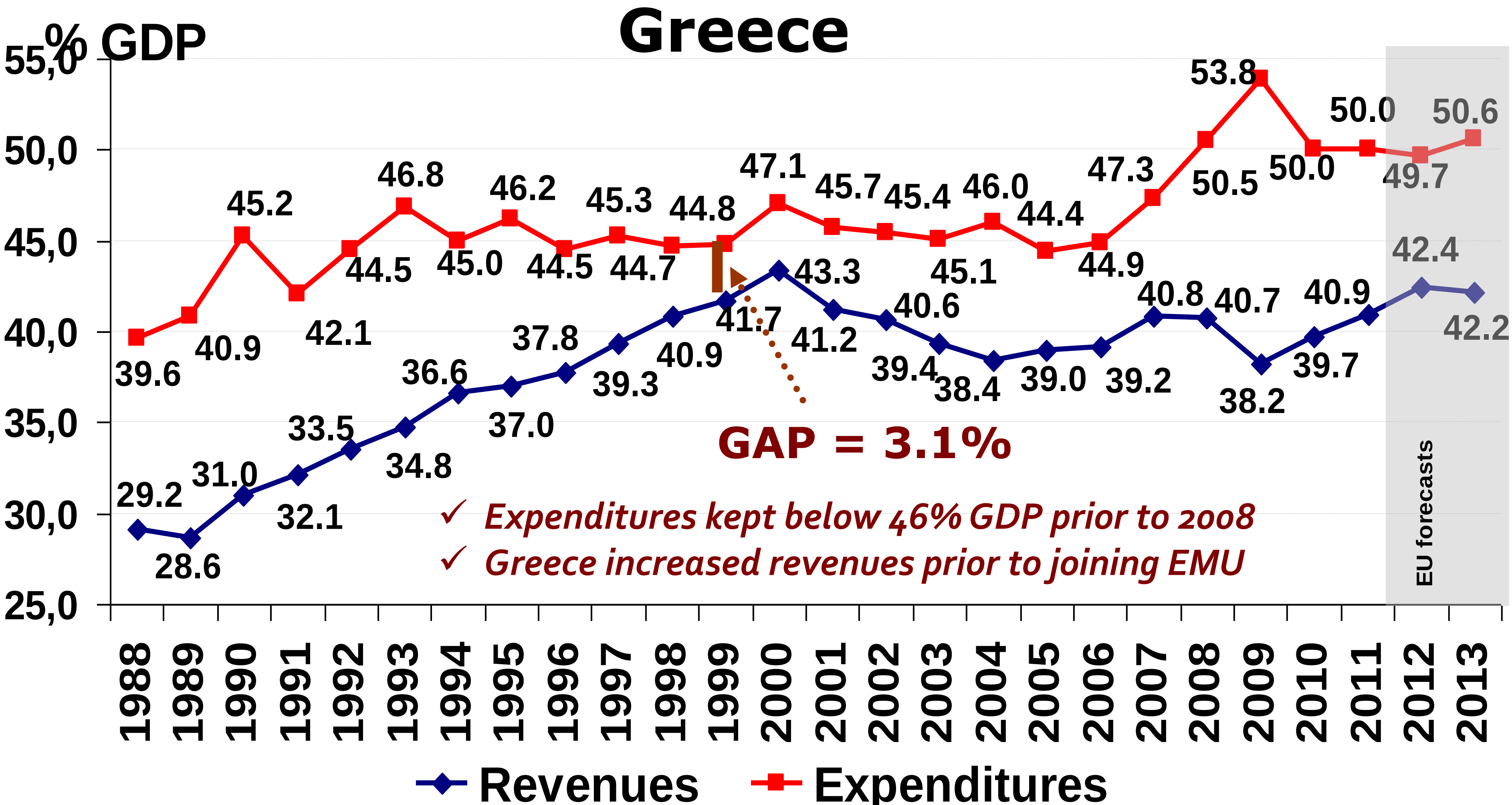


Inflation



2011	€ mill.	% GDP
Current Account	-21.096,1	-9.8
Goods	-27,221.2	-12.7
Services	14,630.8	6.8
Income	-9,066.5	-4.2
Current Transfers	560.8	0.3

III. Fiscal laxity is a reflection of a disorganized State



Source: EU

- ✓ Greece was almost always in fiscal trouble, but fiscal mess grew prior to the onset of the 2009 recession

III. A decade of run-away expenses inside the Euro Area requires strong fiscal measures

General Government expenditure, € bn

	2001	2009	2011	2012	% Δ 2001-11	EU27 - %Δ 2001-11
Total expenditure	**66.3**	**124.6**	**107.8**	**101.1**	**62.5**	**40.3**
- Interest	9.5	11.9	15.0	12.8	59.0	11.3
Primary Expenditure	**56.9**	**112.7**	**92.7**	**88.3**	**63.1**	**42.6**
Employee Comp	15.2	31.0	26.1	24.0	71.7	34.9
Social transfers	22.5	49.0	47.0	43.3	109.0	43.0
Interm. Consumption	9.1	17.1	9.7	10.7	7.5	50.3
Other Expenditure	1.4	3.5	2.5	2.7	77.9	65.1
Capital expenditure	8.5	12.1	7.4	7.5	-12.7	28.1
GDP (nominal)	**145.1**	**231.6**	**215.2**	**203.7**	**48.3**	**31.8**

Source: AMECO

III. Decomposition of primary expenditure

- The primary deficit from 2009 to 2011 has fallen by 8.2% of GDP, with more than **two thirds** of the adjustment coming from cuts in primary expenditure (5.6% of GDP)
- Primary expenditure has fallen by **17.7%** since 2009

Primary Expenditures 2009-11 (bn euros)

	2009 Act.	2010 Act.	2011 Est.	2009-11 Change %
Primary Expenditure	112.7	100.9	92.7	-17.7%
Wages	31.0	27.8	26.1	-15.9%
Social benefits and pensions	49.0	47.2	47.0	-4.0%
Goods and services	17.1	13.7	9.7	-43.2%
Other current	3.5	3.4	2.5	-28.5%
Capital	12.1	8.8	7.4	-38.8%

Source: AMECO

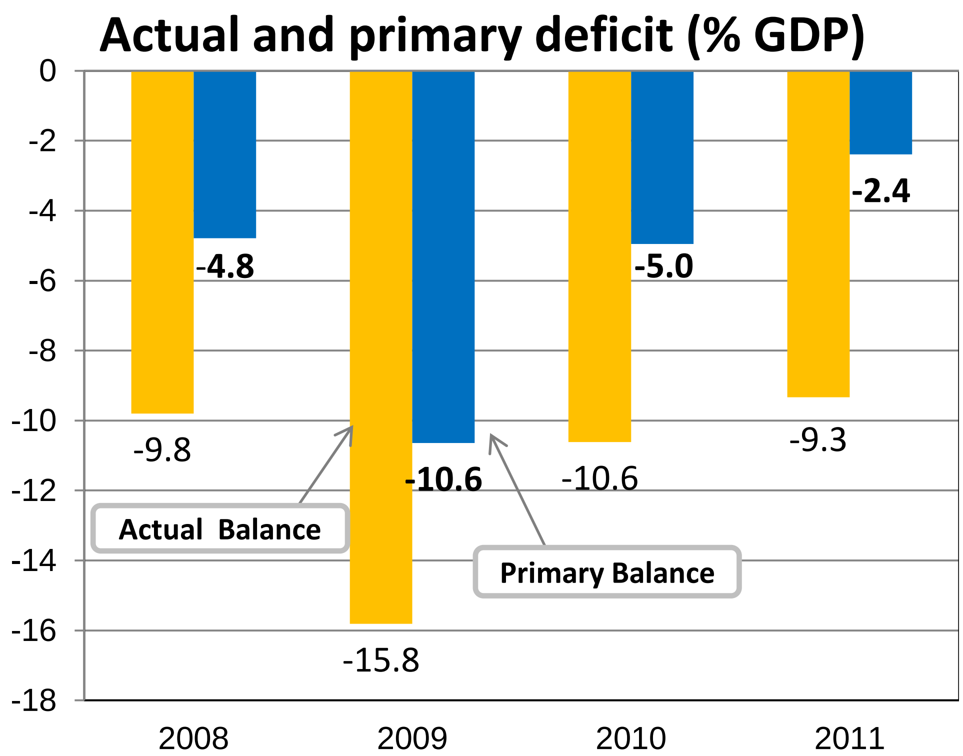
III. General Government Finances 2009-11: A comparison

	2009 Act .	2010 Act .	2011 Est.	2012 Proj.	2009-2011	
					Change	%
Greece (bn euros)						
Revenue	**88.6**	90.2	**88.1**	86.3	-0.5	-0.6%
Primary Expenditure	**112.7**	100.9	**92.7**	88.3	-20.0	-17.7%
Primary Balance	**-24.1**	-10.7	**-4.7**	-2.0	19.5	-80.7%
Greece (% GDP)						
Revenue	**38.3**	39.7	**40.9**	42.4	2.7	7.0%
Primary Expenditure	**48.7**	44.4	**43.1**	43.4	-5.6	-11.4%
Primary Balance	**-10.4**	-4.7	**-2.2**	-1.0	8.2	-79.2%
Euro Area 17 (% GDP)						
Revenue	**44.8**	44.7	**45.3**	46.2	0.4	1.0%
Primary Expenditure	**48.4**	48.1	**46.3**	46.2	-2.0	-4.2%
Primary Balance	**-3.5**	-3.4	**-1.1**	0.0	2.5	-69.8%
Greece (bn euros)						
GDP (nominal)	**231.6**	227.3	**215.1**	203.5	-16.5	-7.1%

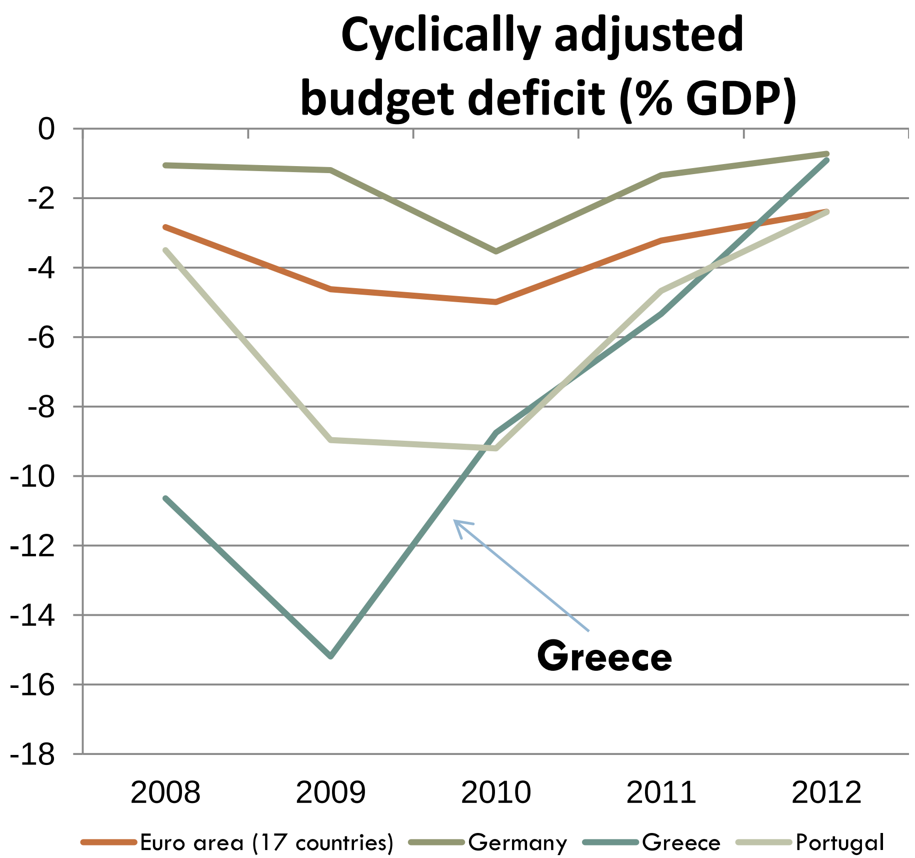
Source: AMECO

III. Fiscal consolidation: deficits drop fast

- ***Primary* deficit reduction of 8.2 p.p.** from €24.7 bn in 2009 to €5.2 bn in 2011
- ***Structural* deficit reduction** estimated at **15 p.p.**

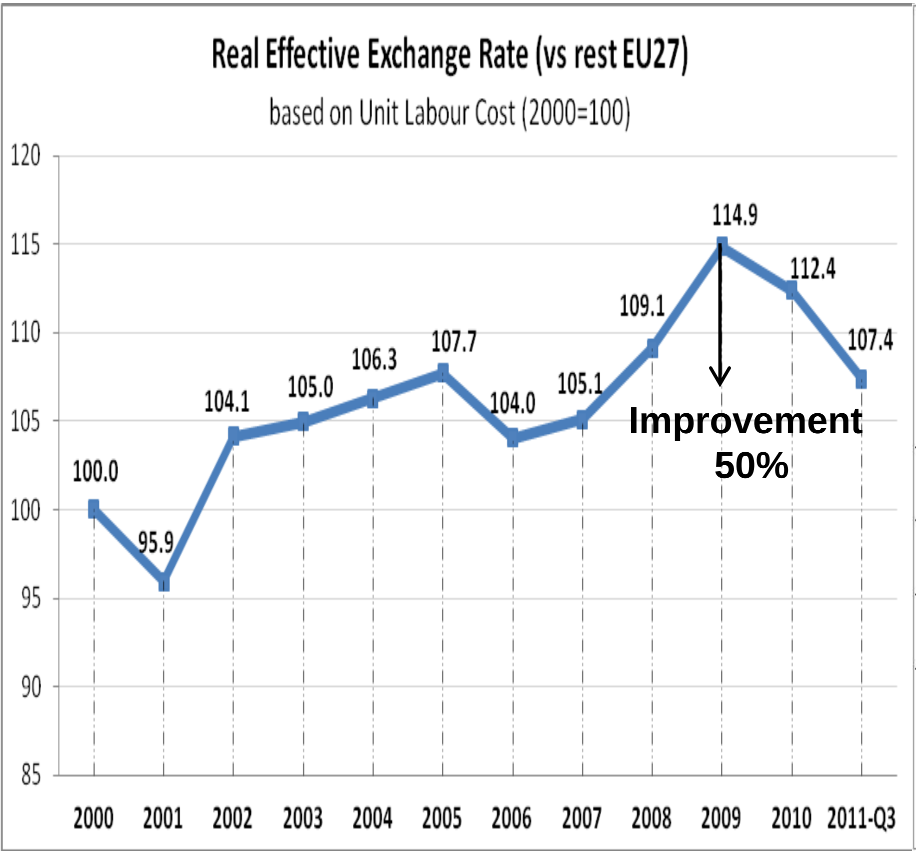


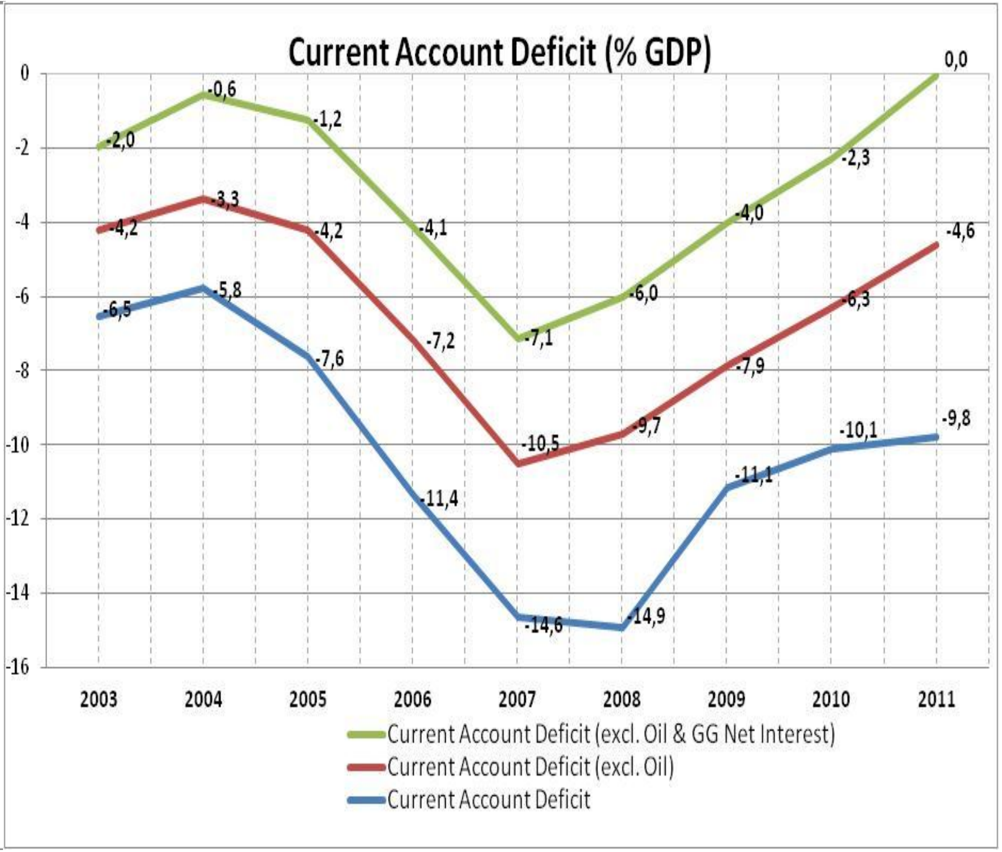
Sources: For 2008-10, Eurostat. For 2011, EC/ECB/IMF estimates



Source: Eurostat's AMECO (2012 assumes PSI)

III. Competitiveness gradually being regained





Source: Eur. *Commission.* **Within two years, 2010-11, Greece managed to regain over 50% of the competitiveness lost between 2000 and 2009**. From 2009 to 2011, the Real Effective Exchange Rate (vis-à-vis its 26 EU trade partners), as measured by the Unit Labor Cost, fell from 114.9 to 107.4 index points. Real effective exchange rate is the nominal EER deflated by a weighted average of foreign, relative to domestic, prices or costs. It is, thus, a measure of price and cost competitiveness

Source: *Bank of Greece*. **The current account deficit fell from 15% of GDP in 2008 to 9.8% of GDP in 2011.** The deficit reduction is even more significant if we exclude the oil trade balance and the general government interest payments: in this case the deficit in 2011 was around 0% GDP, down from 6% GDP in 2008. This also demonstrates the burden of the debt servicing cost.

III. New policies began to reverse the disequilibria: Austerity across the board

- **Cuts in Public Sector wages per employee** by 30% over 2010-12
- **Cuts in public sector employees**
  - Across the board wage cuts of 15% in 2010 and 17% average reduction in 2011-12
  - reduced by 82,400 in 2010 (10% decrease); further net decrease by 150,000 employees by 2015 as per 1:5 rule (cf. Law 4046/2012, 2nd Memorandum of Understanding (MoU) voted on 13 Feb)
- **Cuts in salaries** in State-owned Enterprises (SoE)
  - By **30%** in 2010, with an additional average cut of **20%** in 2011-12 and ceiling on average monthly salaries at €1,900
  - As of February 2012, average SOE wage is at 65% of average wage in 2009
- **Cuts in pensions**
  - In the public & private sector by 10% in 2010, further 4% average cut in 2011-12
- **Cuts in minimum wage**
  - By 22% in 2012, by 32% for under-25 (Law 4046/2012)

III. Labor market reforms – 2nd MoU

Improve the functioning of the labour market (Law 4046/2012 – 2nd MoU)

- **Adjustment / Reduction of wage floors:**
  - 22% reduction in the minimum wage
  - 32% reduction in the minimum wage for employees under the age of 25
- **Structural measures to level the playing field in collective bargaining**
  - Shortening the length of collective contracts and reduction of their ‘after effects’ time.
  - Removal of ‘tenure’ (contracts with definite duration defined as expiring upon age limit or retirement) in all existing legacy contracts in all companies.
  - A freeze of ‘maturity’ (referring to all automatic increases in wages dependent on time) until unemployment falls below 10 percent.
  - Elimination of unilateral recourse to arbitration
- **Adjustment to non-wage labor costs:**
  - Close earmarked funds engaged in social expenditures (OEK, OEE).

III. Earlier labor market reforms

More flexible working arrangements & wage bargaining

- Part-time working arrangements, possibility to opt for short-term (intermittent); working on a daily, weekly or other basis
- Sub-minimum wages to facilitate youth employment
- 50% reduction in severance payments; 20% cut in overtime premia
- Extension of probation period from 3 to 12 months
- Increase in permissible dismissals from 2 to 5% per month
- Rationalized eligibility criteria for unemployment benefits
- Reform of the Labor Inspectorate
- Collective bargaining decentralization: firms allowed to opt out from sectoral-level agreements
- The role of the Mediation and Arbitration Organization (OMED) has been strengthened.

III. Public sector reforms

- **Single Payment Authority** established
- **Wage grid** adopted aimed at creating simplified uniformed remuneration system
- New **census of civil servants** (717,792 employees on public payroll)
- **EU Taskforce** established to support implementation of structural reforms
- **Local government reform**
  - Municipalities reduced from 1034 to 325
  - Local authority entities reduced from 6,000 to 1,160
  - Decrease of elected officials from 30,795 to 16,657
  - Annual cost reduction exceeds 400 mn euros

III. Pension and health benefits reforms

- Future rise in public pension expenditure not to exceed 2.5 % of GDP or the EU-wide average of 14% - since May 2010
- Retirement age in line with life expectancy; benefits linked to lifetime contribution; disincentives for early retirement
- Supplementary pensions to be rationalized in 2012
- Health expenditure not to exceed 6% of GDP (2nd MoU)
- Social security funds merged into one (EOPYY), equalizing benefits and contributions, yielding significant cost savings
- Overhaul of the list of difficult and hazardous occupations
- Disability criteria and rules revised (since Sep. 2011)
- Pharmaceutical expense reduction (2nd MoU)

III. Important tax reforms underway

- **Merger and centralization** of tax offices in process, with **new IT system** interconnecting all tax offices by January 2013
- **"Fast track"** (90 days) administrative tax dispute resolution mechanism legislated shortening judicial procedures for tax cases
- **New unit for large tax-payers** activated to monitor, audit and collect tax payments and debts
- **Big rise in audits and new risk-based audits** for high-net-worth and self-employed individuals identified by the anti-evasion task force
- **Disclosure of tax evaders:** 4,152 individuals and 5,955 private companies
- **Reducing the backlog** of tax cases in the court system
- Institutional arrangements leading to criminal charges for tax offenders
- Full overhaul of taxation system, under 2nd MoU

IV

I. May 2012 elections generate new risks

II. Greek & Euro Area imbalances

III. Greece: Recent positive developments

IV. Can Greece escape the crisis?

IV. Tough road ahead for the Greeks: From riches to rags?

√ **The Greek economy is in deep recession with no clear sign of recovery, causing popular anger**

- ❖ the new recovery date of 2013 in the Troika Program is a guess based on previous experience with many countries in crisis and is conditional on reforms being implemented soon and on the political landscape stabilizing
- ❖ The austerity program turned out stricter than Europeans anticipated, but more in line with IMF unofficial projections

√ **The political handling of the crisis remains a central issue**

- ❖ Citizens' Ownership of the MoU targets was never tried
- ❖ Reforms were delayed prior to the Papademos government of National Unity , especially from October 2010 to October 2011
- ❖ The contradictory aspects of claiming one can be for both EMU membership and against the MoU were never explained prior to the May elections
- ❖ No serious debate ever took place
- ❖ Will SYRIZA prefer EMU membership and accept the main policies of the MoU?
- ❖ Europeans have responded to the outspoken Greek left with a strict language, yet contagion will always be there ; Ring-fencing European banks is not enough to eliminate contagion;
- ❖ Negative events may accelerate a Greek collapse

IV. Greek Economic Outlook: Main characteristics of latest IMF forecasts

Main characteristics of long-term outlook

- ✓ **Greek economy: Conservative future expansion**
  - ❖ Real GDP growth around **2.7%** from 2015 to 2020, below the 1996-2008 average. Much lower real growth, **1.5%,** after 2020 due to demographics
  - ❖ Future expansion is questionable in today's uncertain environment
  - ❖ Inflation subdued, never above ECB target of 2%: It is necessary to break up oligopolistic market structures
- ✓ **Huge downsizing of the public sector:**
  - ❖ Primary Expenditure **from 48.7%** of GDP in 2009 **to 35.6%** in 2020, meaning a big reduction in the relevant size of the public sector, especially given the large and inelastic transfer component of those expenditures
- ✓ **A negative snowball effect on Debt/GDP:**
  - ❖ Nominal interest rate always larger than nominal growth: Big primary surpluses needed in order to obtain fiscal sustainability.
- ✓ **The public debt burden eases gradually as a % of GDP from 2013 onwards**

IV. Is Greek public debt sustainable? Latest IMF estimates

After the February 2012 haircut

	2009	2010	2011	2012	2013	2014	2015	2020	2030
GDP Growth (%)	-3.3	-3.5	-6.9	-4.8	0.0	2.5	3.1	2.2	1.4
GDP deflator (%)	2.8	1.7	1.6	-0.7	-0.5	-0.1	0.8	1.9	1.9
Nominal GDP (€ bn)	232	227	215	204	203	208	216	265	---
Interest Rate (%)	4.5	4.4	4.5	3.3	3.4	3.5	3.6	3.8	5.0
Real Interest Rate (%)	1.7	2.7	2.9	3.9	3.9	3.6	2.8	1.9	3.1
Interest Expense (€ bn)	11.9	13.2	14.9	12.8	13.0	13.8	13.3	---	---
Interest Expense (% GDP)	5.1	5.8	6.9	6.3	6.4	6.6	6.1	6.4	---
Primary Expenditure (% GDP)	48.7	44.4	43.4	43.2	40.4	37.6	35.6	35.8	36.6
General Gov Revenues (% GDP)	38.0	39.5	41.0	42.2	42.2	42.1	40.1	40.1	40.1
Primary Balance (% GDP)	-10.6	-5.0	-2.4	-1.0	1.8	4.5	4.5	4.3	3.5
General Gov Deficit (% GDP)	-15.8	-10.8	-9.3	-7.3	-4.6	-2.1	-1.6	---	---
General Gov Deficit (€ bn)	-36.6	-24.5	-20.0	-14.8	-9.4	-4.4	-3.6	---	---
General Gov Debt (% GDP)	129	145	165	163	167	161	153	116	88
General Gov Debt (€ bn)	299	329	356	332	339	334	331	309	---

Source: IMF Country Report No. 12/57, March 2012

IV. Greek economic outlook: Recession continues accompanied by a fear of imminent social collapse

	%GDP	2011 %change	2012 %change
Private final consumption	75.5	-7.1	-8.5
Gen Gov consumption	17.4	-9.1	-13.4
Total consumption	92.9	-7.5	-9.5
Gross fixed capital formation	13.9	-20.7	-3.5
Domestic demand	107.4	-8.5	-8.6
Imports g&s	31.5	-8.1	-9.7
Exports g&s	24.0	-0.3	6.9
Real GDP Growth		**-6.9**	**-4.9**
GDP Deflator		**1.7**	**-2.9**

Source: Eurobank EFG Research

<u>*Our Assumptions*</u>*:* Real disposable income -13% in 2012, Δ(consumption) = 90% Δ(disposable income) due to intertemporal consumption smoothing, Exports a function of ULCs & unitary elasticity w.r.t. trading partners' growth rates, unitary elasticity of imports w.r.t. net disposable income.

IV. Elements of a Greek strategy forward

- ❖ Political consensus and MoU ownership still missing, yet required for a Long-Term Growth Strategy that builds credibility
- ❖ Follow an export-led paradigm of growth (to replace the failed consumption-led one) based on price- and quality-competitiveness, support a switch from non-tradeables to tradeables sectors
- ❖ This strategy implies:
  - ✓ Emphasis on capturing tax evasion and increasing revenues without raising marginal tax rates
  - ✓ Switch the allocation of public spending away from consumption and military towards Public Investment and Education
  - ✓ Reduce public consumption expenditure by shrinking redundant agencies
  - ✓ Privatizations should not be viewed exclusively as cash machines, but as a way to improve public sector efficiency and bring FDI
  - ✓ Improve absorption of Cohesion Funds, PPPs, stabilize business sentiment, stabilize tax regime, simplify legislation
  - ✓ Be more aggressive with special interest groups that extract economic rents, reduce bureaucratic cost to business, open-up markets and closed professions, emphasize education and R&D
  - ✓ Avoid ad hoc last minute decisions simply to attain the MoU macro targets, as they can lead to a slow death trap

CONCLUSION: Is a reversal story possible?

- Current recession should not blur the achievements in competitiveness and in restructuring the general public sector
- Yet, the election results revealed a distance between citizens' desire to stay in EMU (70% of population) and the desire to continue with the Economic Program (30% of voters)
- The two targets do not go hand-in-hand and politicians have so far avoided the hard debate
- A reversal in sentiment is possible, if political stability were to be achieved and banks recapitalized but not nationalized
- As credibility improves and liquidity comes back to the financial sector, companies can begin utilizing the structural funds more effectively
- Investment can subsequently reverse its downward trend
- An export-led paradigm slowly replaces the failed consumption-led one, with price- and quality-competitiveness as the key characteristics

Thank you for your attention