



**Gikas A. Hardouvelis**  
Chairman, National Bank of  
Greece  
Professor, Dept. of Finance  
University of Piraeus

**[www.hardouvelis.gr](http://www.hardouvelis.gr)**

# The Greek economy in the age of Crisis Continuum

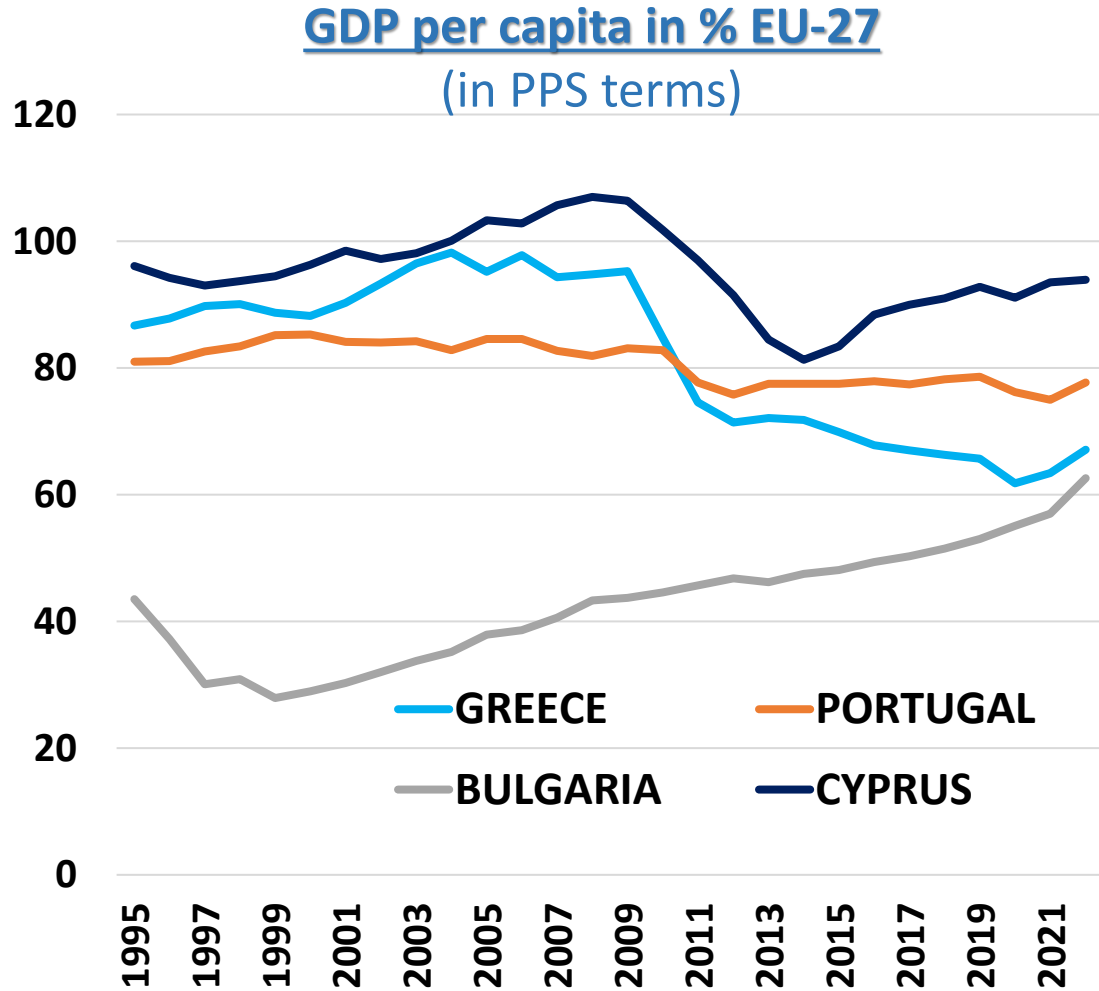


Athens, November 15, 2023, 9:20-9:50 AM

# The Greek economy in the age of Crisis Continuum

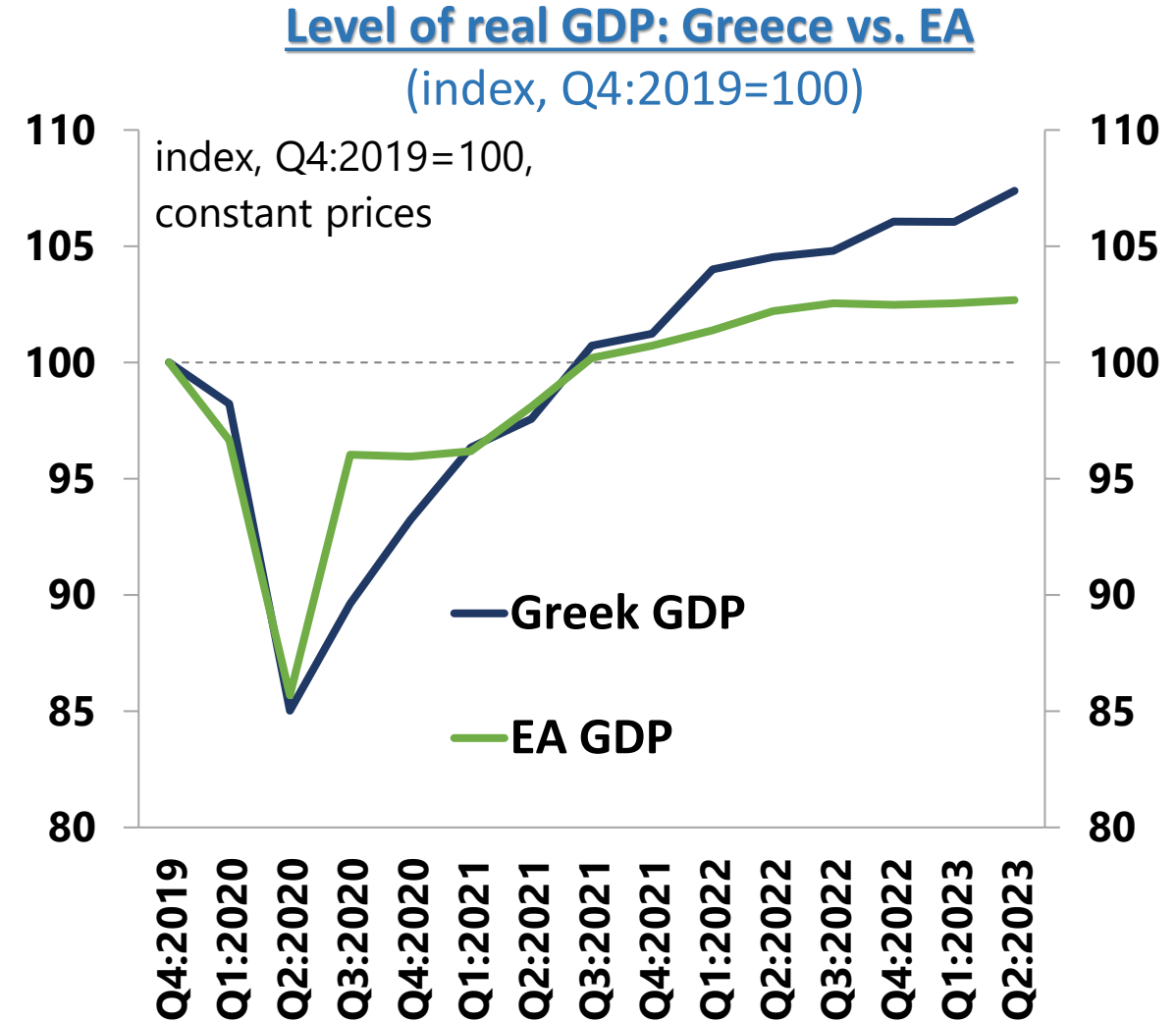
- I. How does the Greek economy compare to twenty years ago?**
- II. Has the crisis cured all economic disequilibria?**
- III. Main economic concerns today**
- IV. Conclusions**

# I. The illusive Convergence

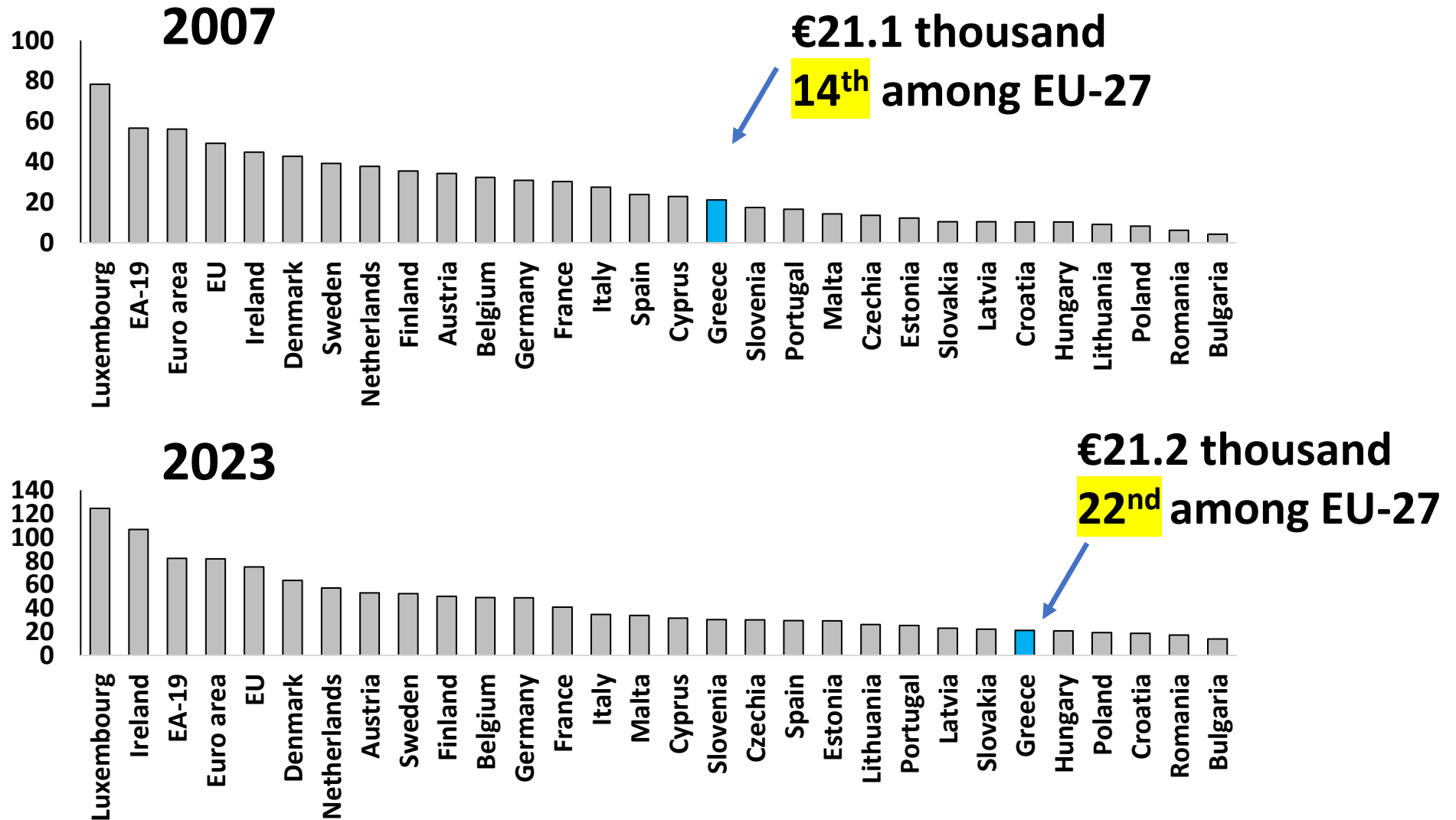


Sources: ELSTAT, Eurostat & NBG Economic Analysis estimates

❑ **Greece's GDP per capita in PPS terms stands at 67.1% of EU27 in 2022, down from 95.3% in 2009 and a peak of 98.2% in 2004.**

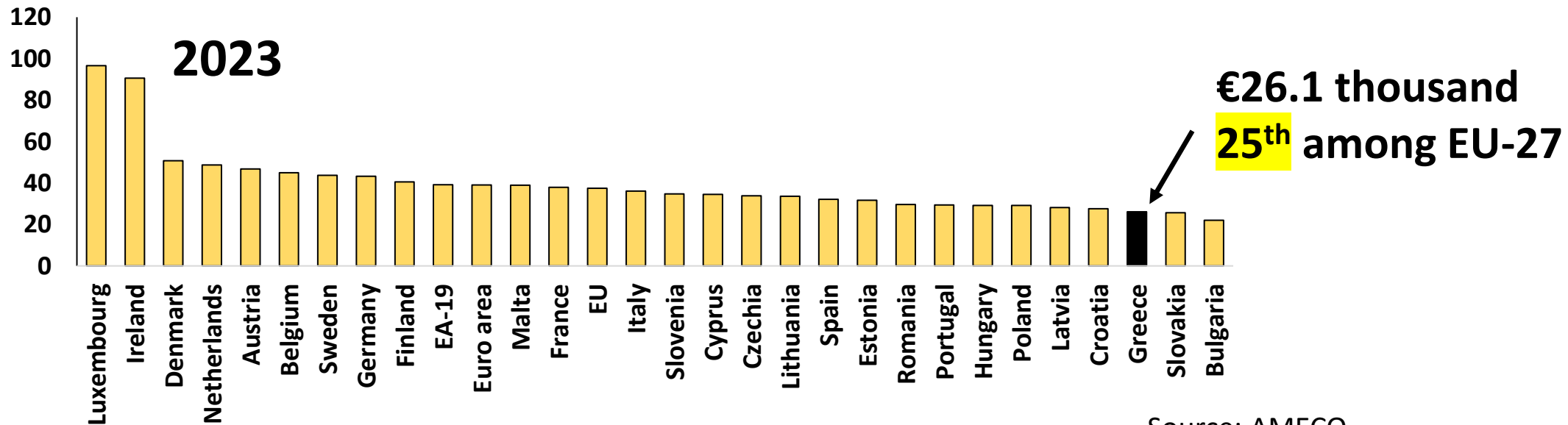
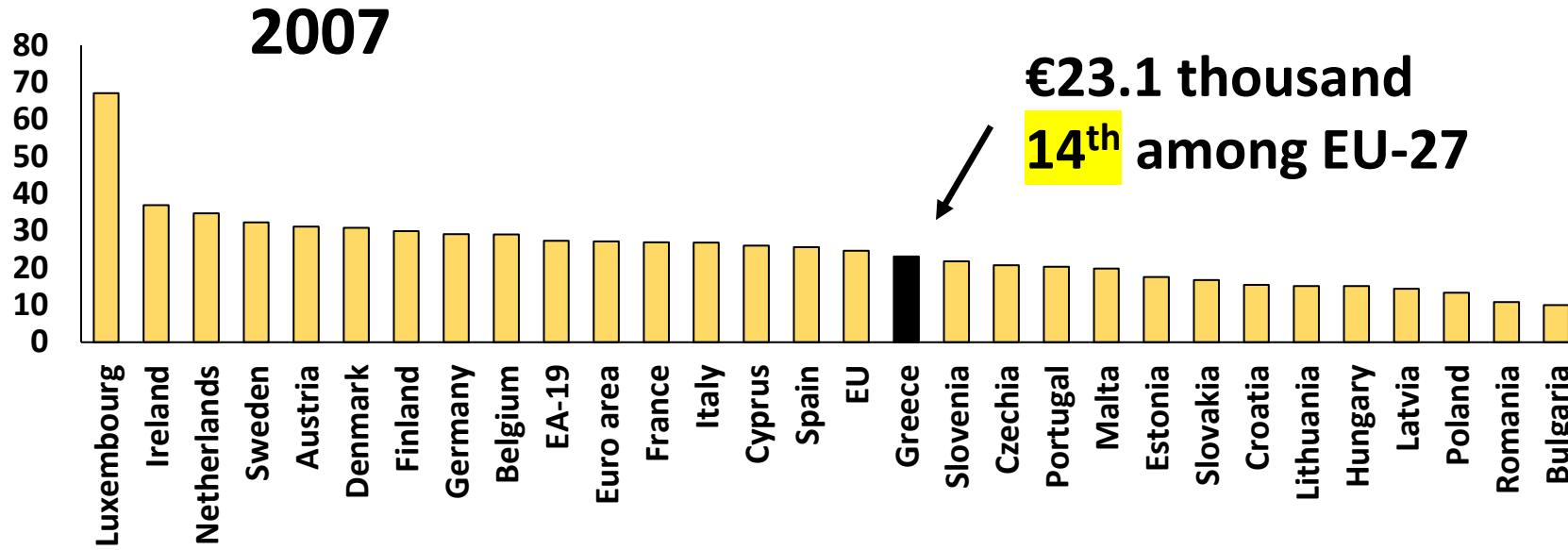


# I. Divergence: GDP per capita at current prices (€thousands) has shrunken



Source: AMECO

# I. Divergence is worse in PPS terms: From 14<sup>th</sup> to 25<sup>th</sup>



Source: AMECO

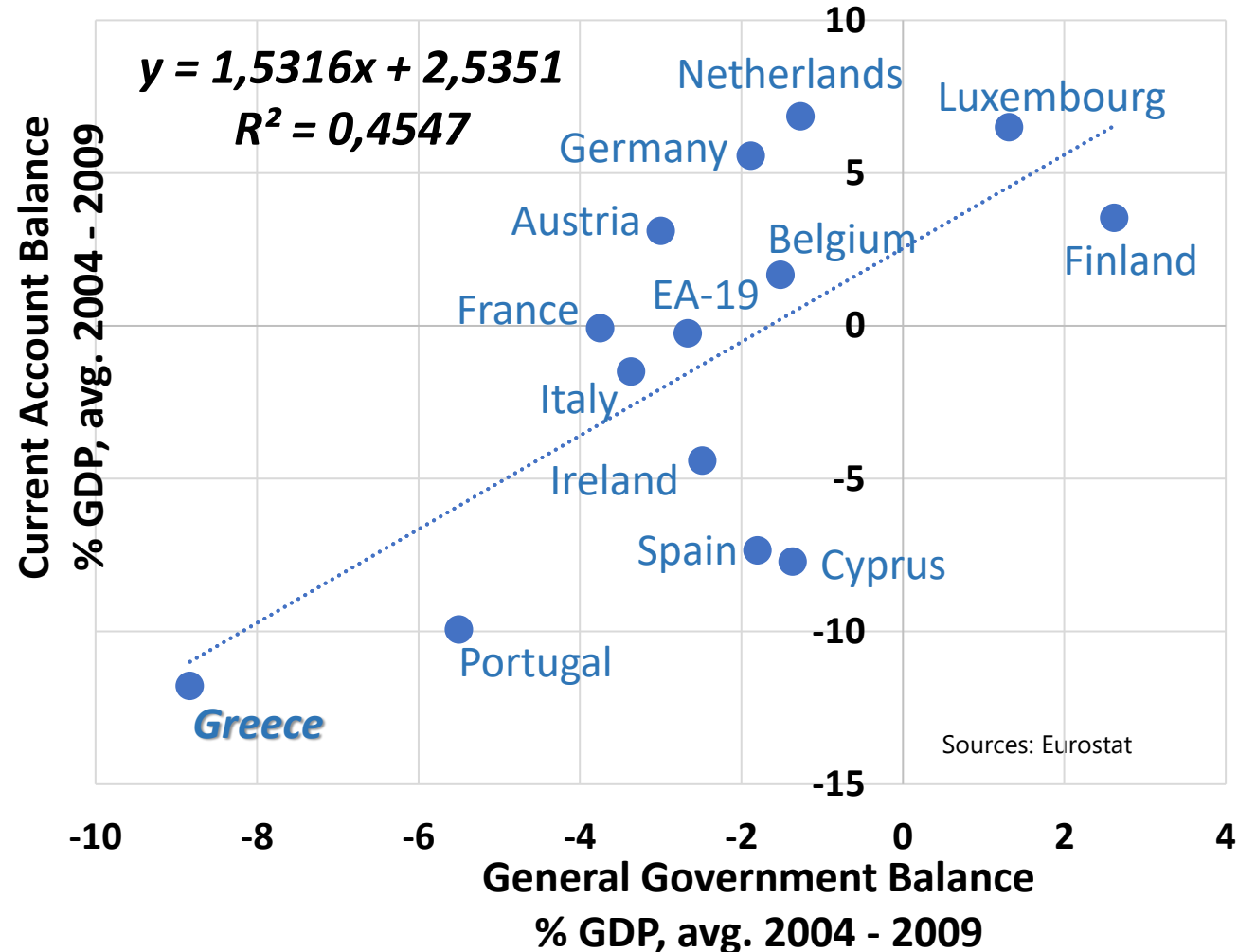
# The Greek economy in the age of Crisis Continuum

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## II. Macroeconomic Imbalances brought the Greek Crisis

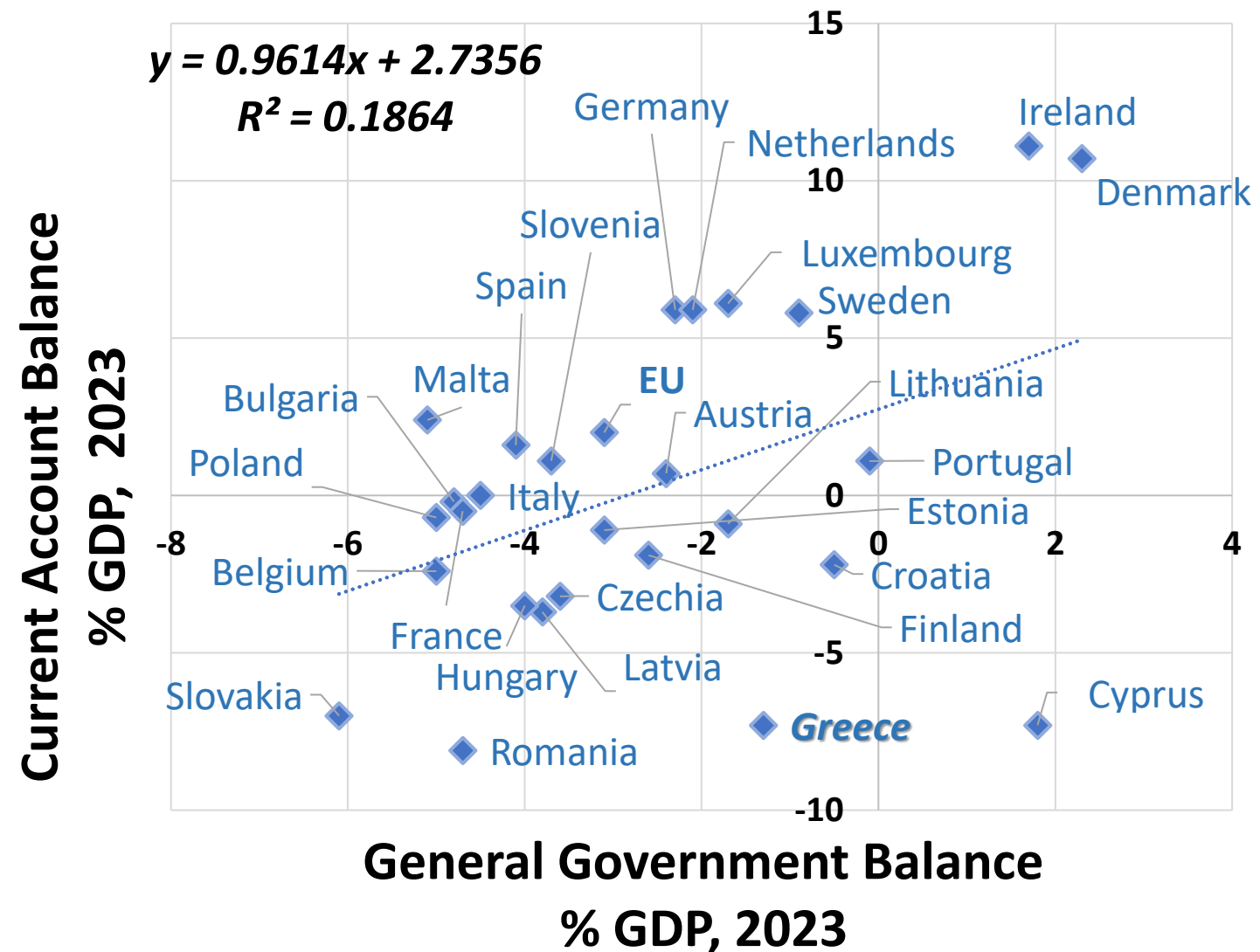
- ❑ Greece suffered from lack of fiscal discipline and lack of competitiveness
- ❑ Private sector leverage was not a problem.
- ❑ Post-EMU, a **competitive North** and an **uncompetitive South** emerged.

Average external and fiscal balance in EA-19  
(before the Greek/EMU crisis hit in early 2010)



## II. Macroeconomic Imbalances today: Is this time different?

- ❑ In 2023, Greece fairs better than most EU countries in the space of fiscal balance
- ❑ Yet the current account continues to be in deficit

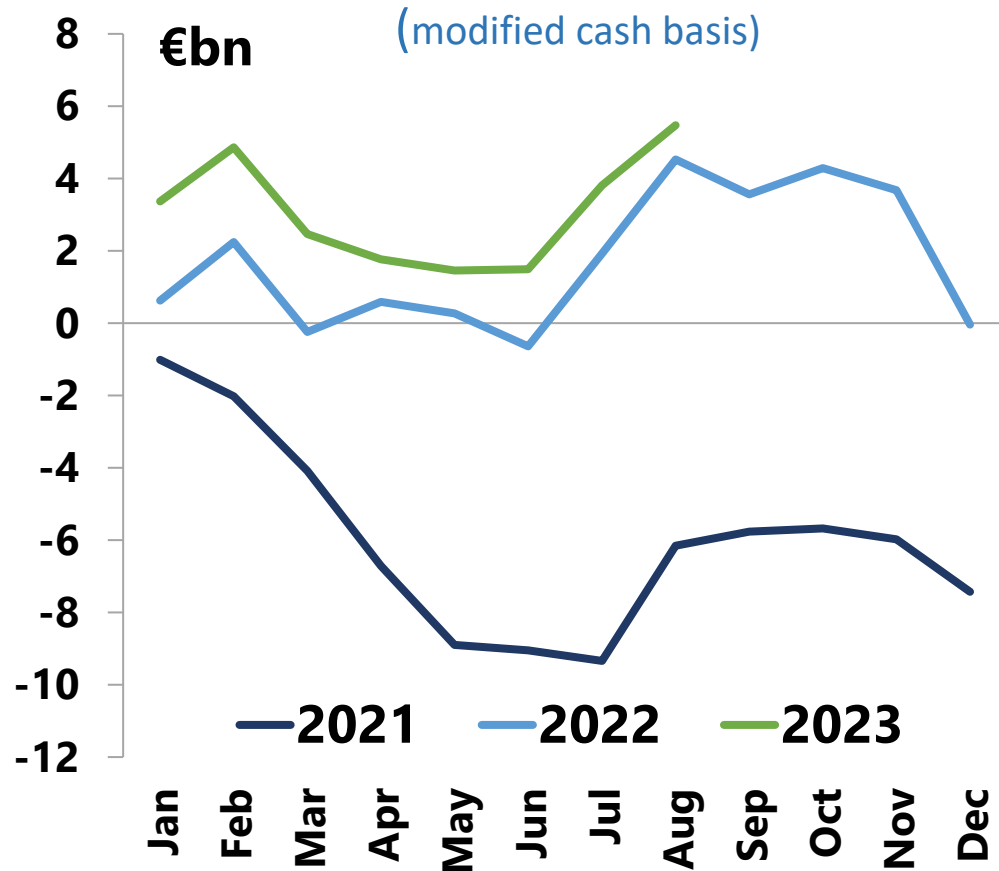


Source: AMECO forecasts

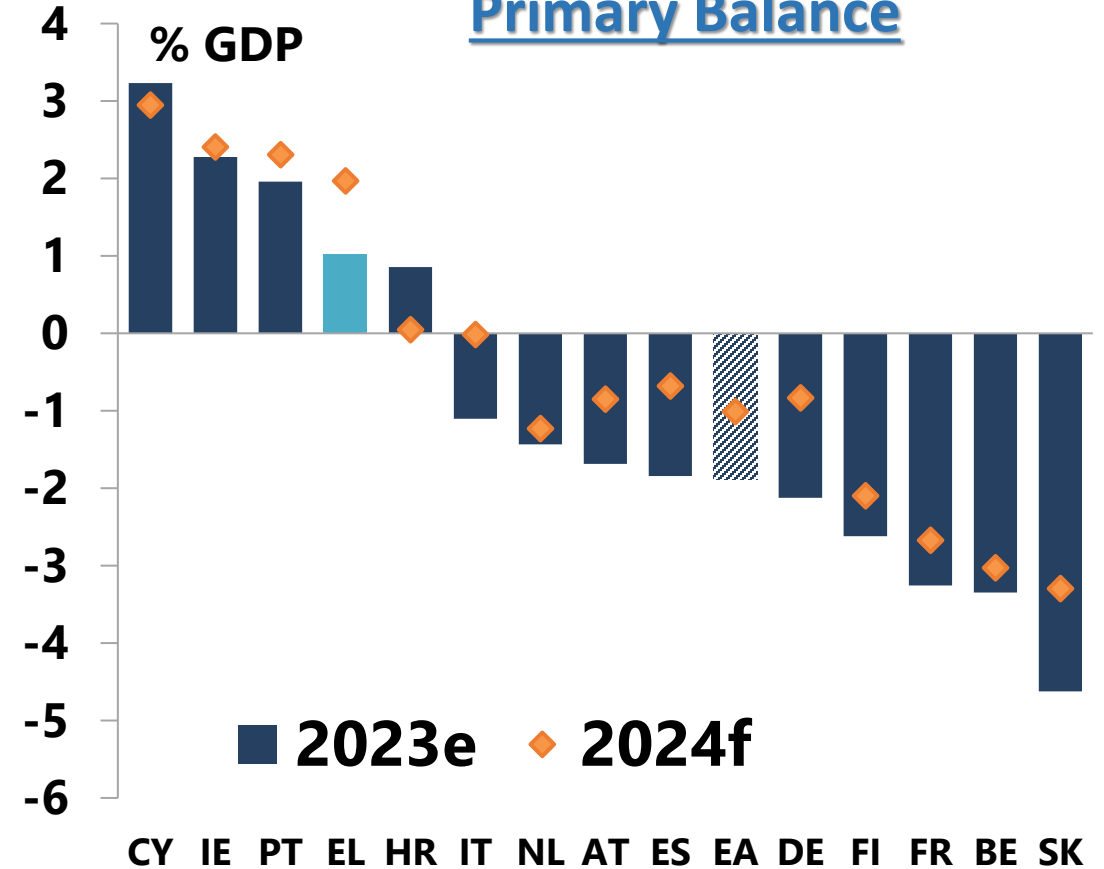


# II. Fiscal performance

## Greek General Government Primary Balance



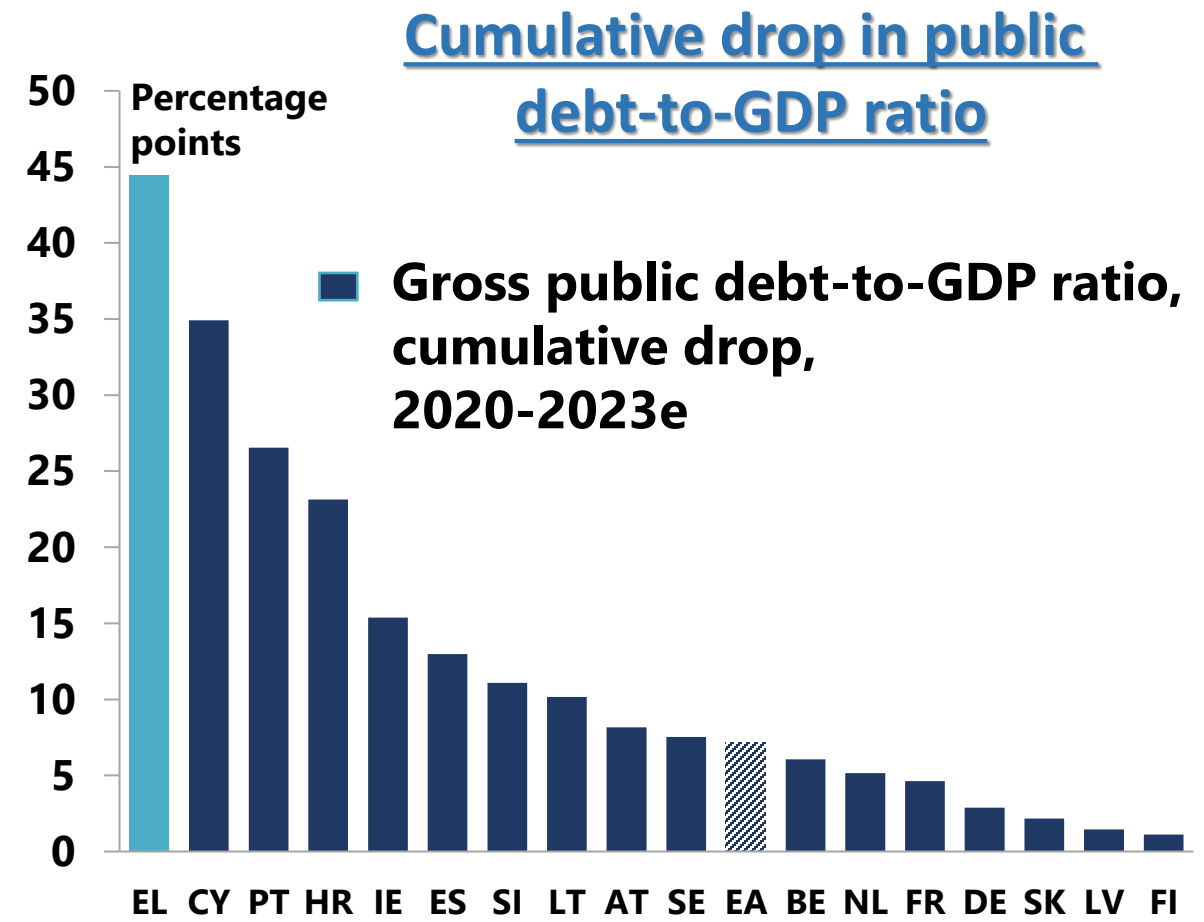
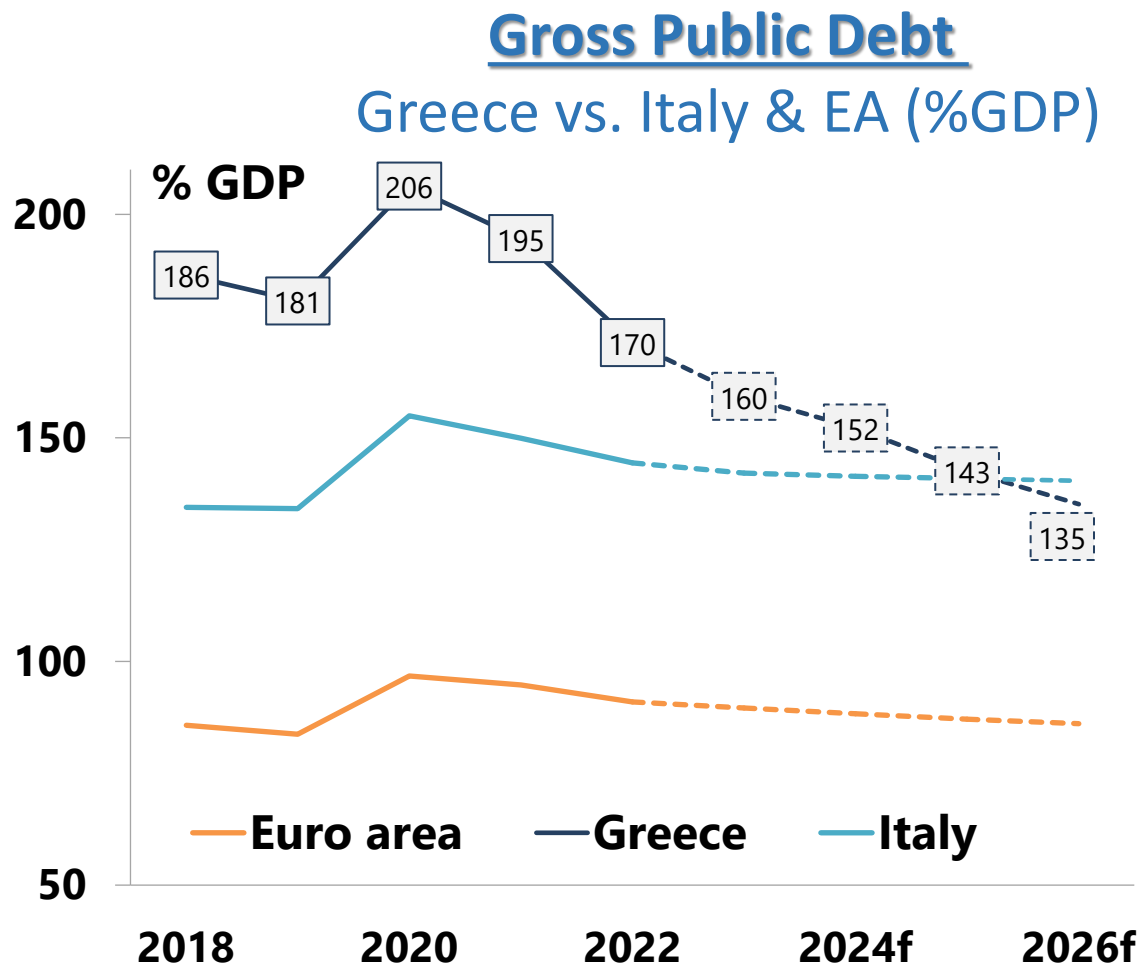
## General Government Primary Balance



Sources: Monthly State Budget Execution – Greek Ministry of Finance, IMF

Sustained fiscal overperformance

## II. High government debt (%GDP) despite its reduction

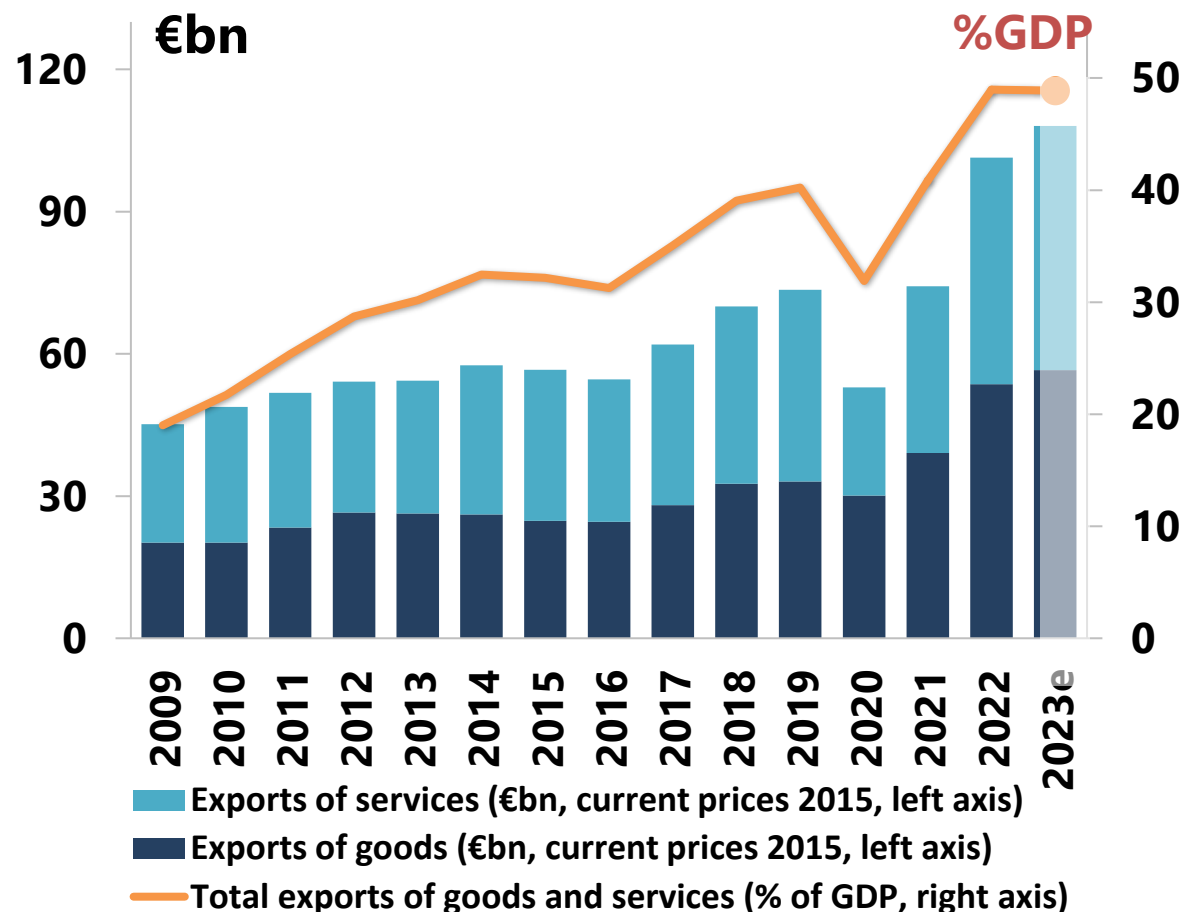


Sources: ELSTAT, Draft Budget 2024, Stability Programme 2023, IMF, EC, Eurostat

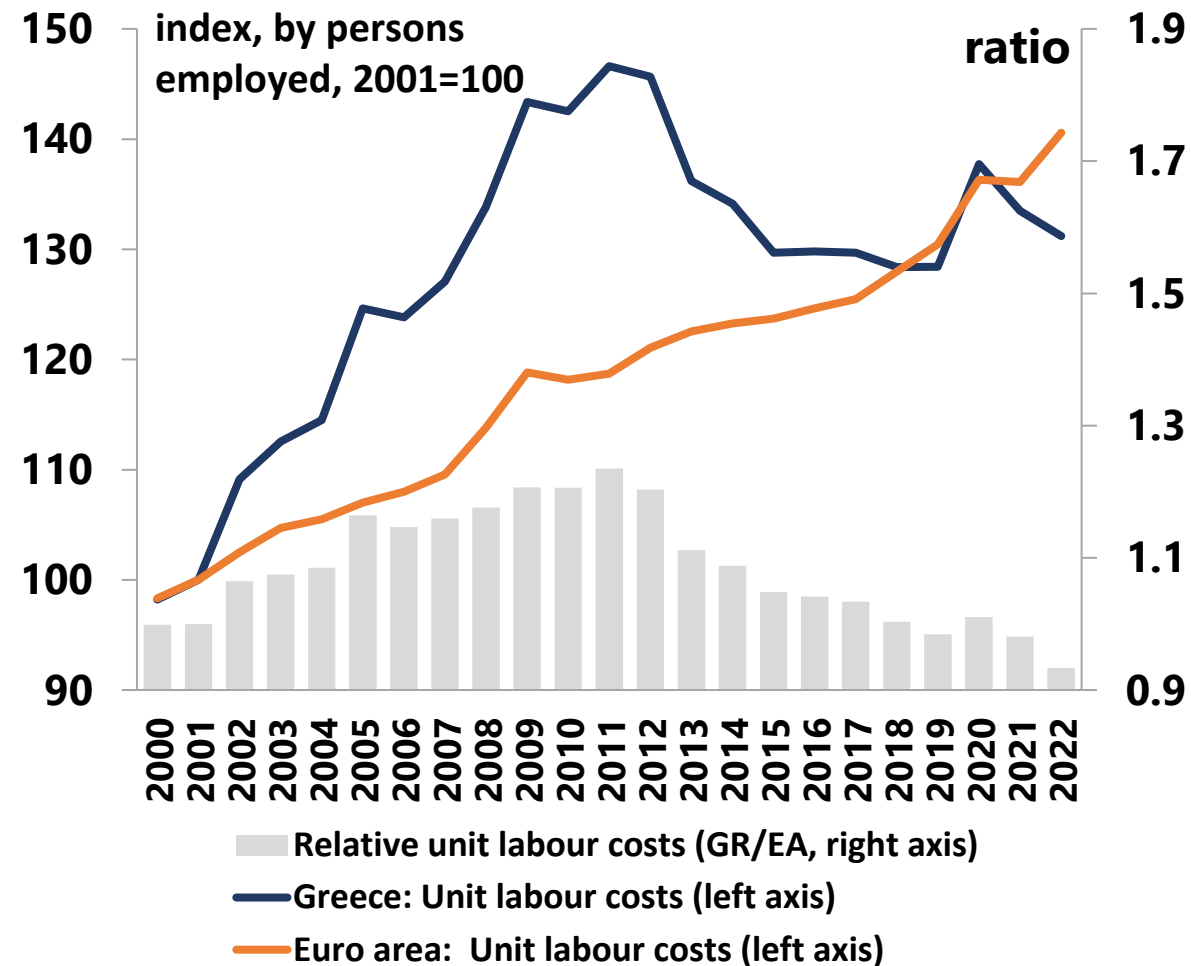
Fiscal rebalancing and inflation speed up the debt reduction

## II. Post-crisis economy becomes more export-oriented, while cost competitiveness remains in check

Exports of goods & services  
(€bn & %GDP)

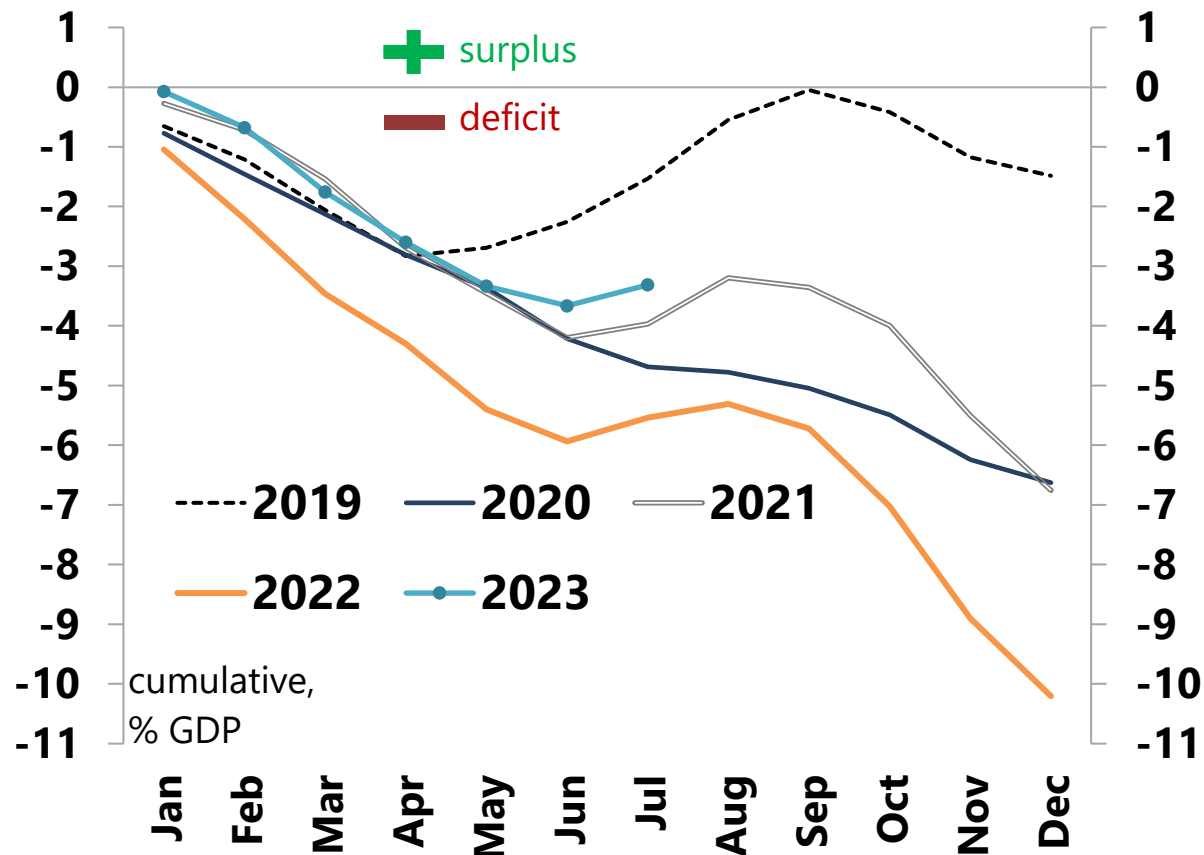


Relative ULCs  
(Greece vs EA)



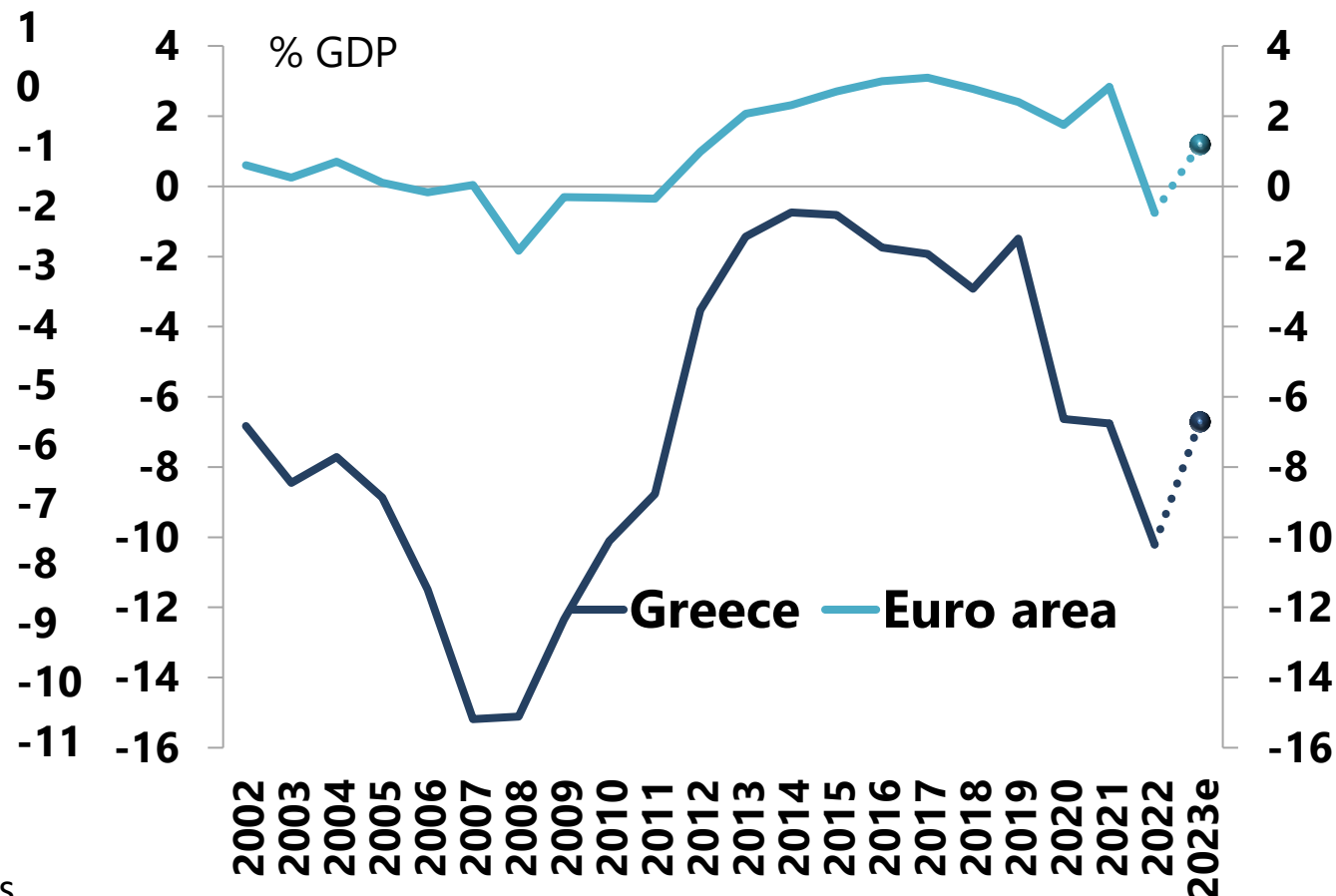
## II. Yet external sustainability remains a concern

Current account balance  
Greece (% GDP)



Sources: ELSTAT, BoG, IMF, NBG Economic Analysis estimates

Current account balance  
Greece vs EA (% GDP)



- ❑ Current account deficit spiked in 2022, due to surging import prices and pent-up household demand
- ❑ There is a structural deficit of ~ 3% GDP, which is a concern

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### **III. Which are the main disequilibria - or concerns - today?**

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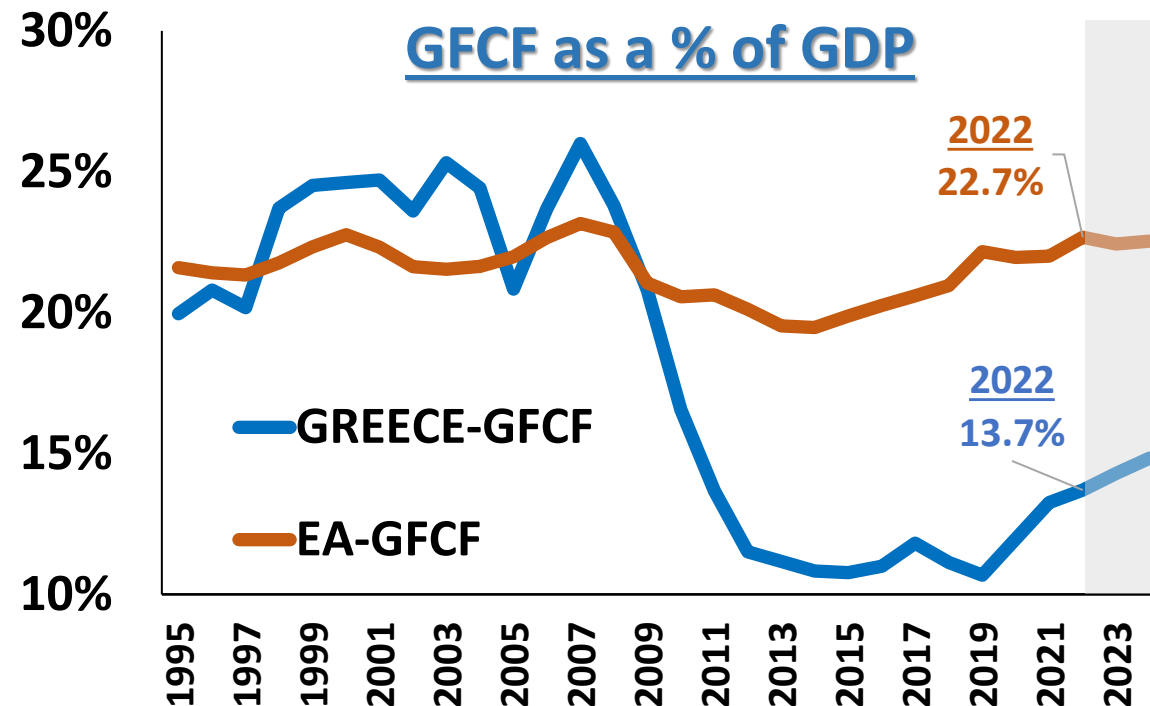
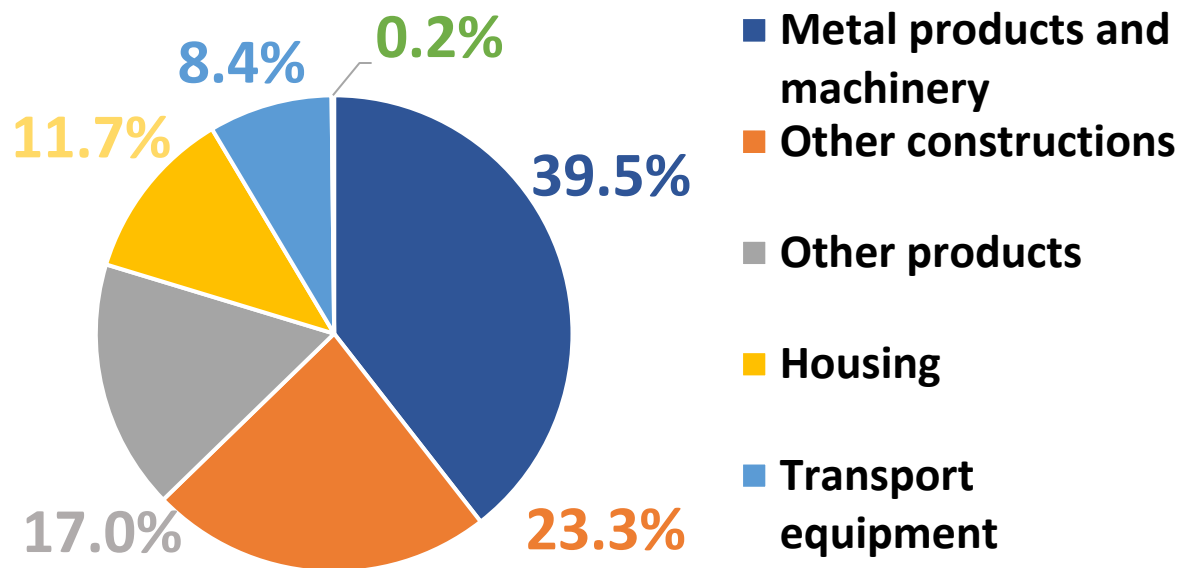
- 1) Low Investment**
- 2) Productivity and quality competitiveness in question**
- 3) Dismal demographics**
- 4) Challenging global environment**

# III.1 First concern: Low Investment

- ❑ From €60bn investments in 2007 to €28bn today
- ❑ Low investment is accompanied with low savings
  - Lowest savings ratio in the euro area
  - Only economy with a negative households saving rate

## GFCF by investment product

2022 current prices



- ❑ Slow improvement since 2019
- ❑ Recent IMF study points to a target Investment/GDP of 20%

## III.2 Second concern: Productivity & quality competitiveness

- **How does productivity improve by methods other than cost-cutting?  
Can we divert resources towards high valued products & services?**
  - i. **Improve investment in digital economy (in physical & human capital)**
  - ii. **Improve labor market skills and matching between demand & supply of specialties**
  - iii. **Improve competition, delivery of justice, and governance (Voice & Accountability, Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption)**
  - iv. **Improve economic justice (lower tax evasion, improve distribution of income, etc.)**
  - v. **Reduce economic uncertainty**



## III.2.i Digital Investment: There is progress, yet more is needed

Digital Economy and Society Index	Greece			EU	EU
	DESI 2021	DESI 2022	DESI 2023	DESI 2023	Digital Decade Target by 2030
<b><u>Digital Skills</u></b>					
At least basic digital skills ( <i>% individuals, 2021</i> )	N/A	52%	<b>52%</b>	<b>54%</b>	80%
ICT Specialists ( <i>% individuals in employment aged 15-74</i> )	2.1%	2.4%	<b>2.4%</b>	<b>4.5%</b>	20mn
<b><u>Digital infrastructure/connectivity</u></b>					
Fixed Very High-Capacity Network coverage ( <i>% households</i> )	10%	20%	<b>28%</b>	<b>73%</b>	100%
Overall 5G coverage ( <i>% populated area</i> )	0%	66%	<b>86%</b>	<b>81%</b>	100%
<b><u>Digitalization of businesses</u></b>					
SMEs with at least basic level of digital intensity ( <i>% SMEs</i> )	N/A	N/A	<b>41%</b>	<b>69%</b>	90%
Big data ( <i>% enterprises, 2020</i> )	13%	13%	<b>13%</b>	<b>14%</b>	75%
Cloud ( <i>% enterprises, 2021</i> )	N/A	15%	<b>15%</b>	<b>34%</b>	75%
<b><u>Digitalization of public services</u></b>					
Digital public services for citizens ( <i>score 0-100</i> )	N/A	52	<b>65</b>	<b>77</b>	100
Digital public services for businesses ( <i>score 0-100</i> )	N/A	48	<b>74</b>	<b>84</b>	100

# III.2.ii Labor market improvement, but labor market slack

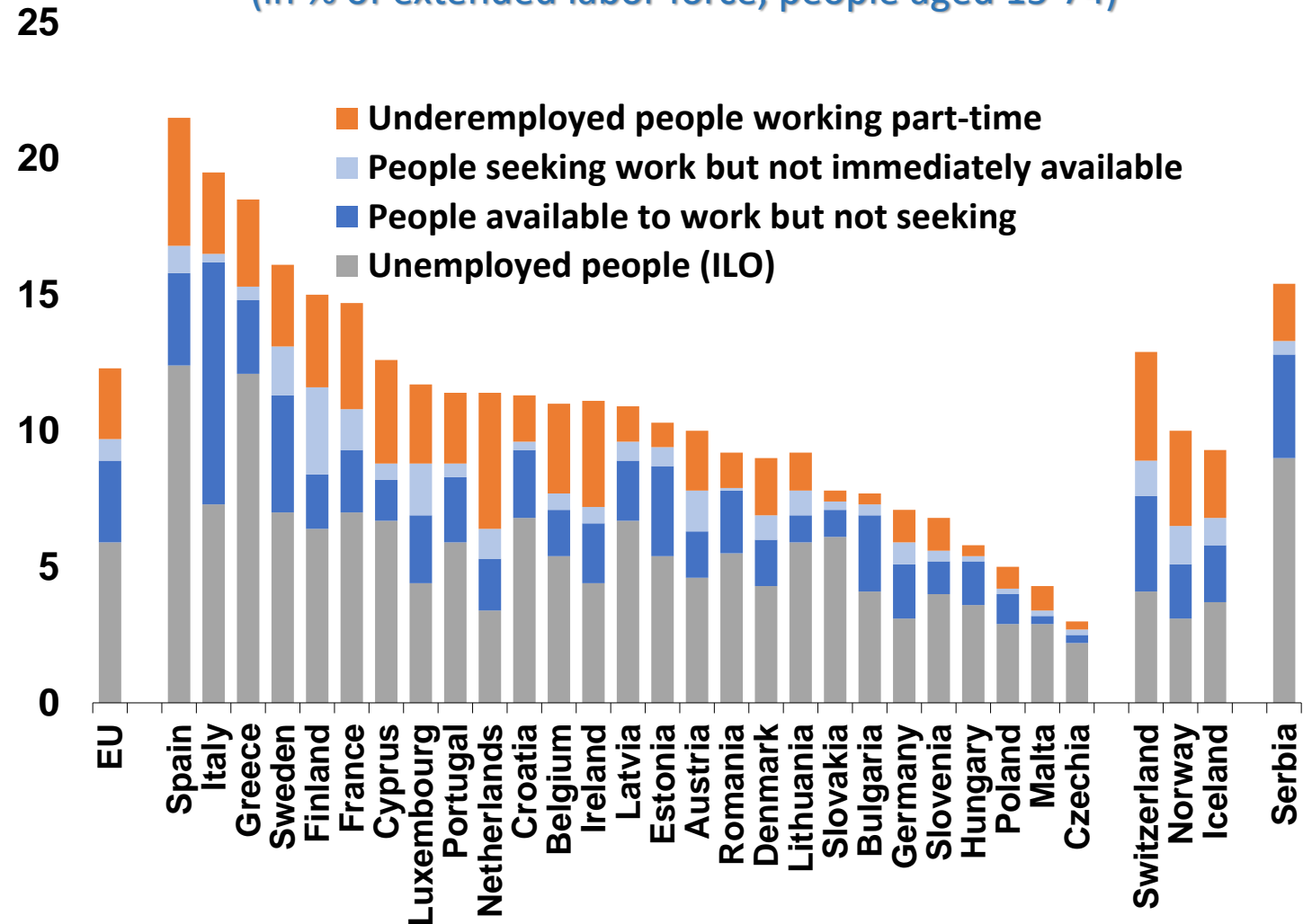
## Employment & Unemployment

(mn persons & percentage)



## Labor market slack by country & components, 2022

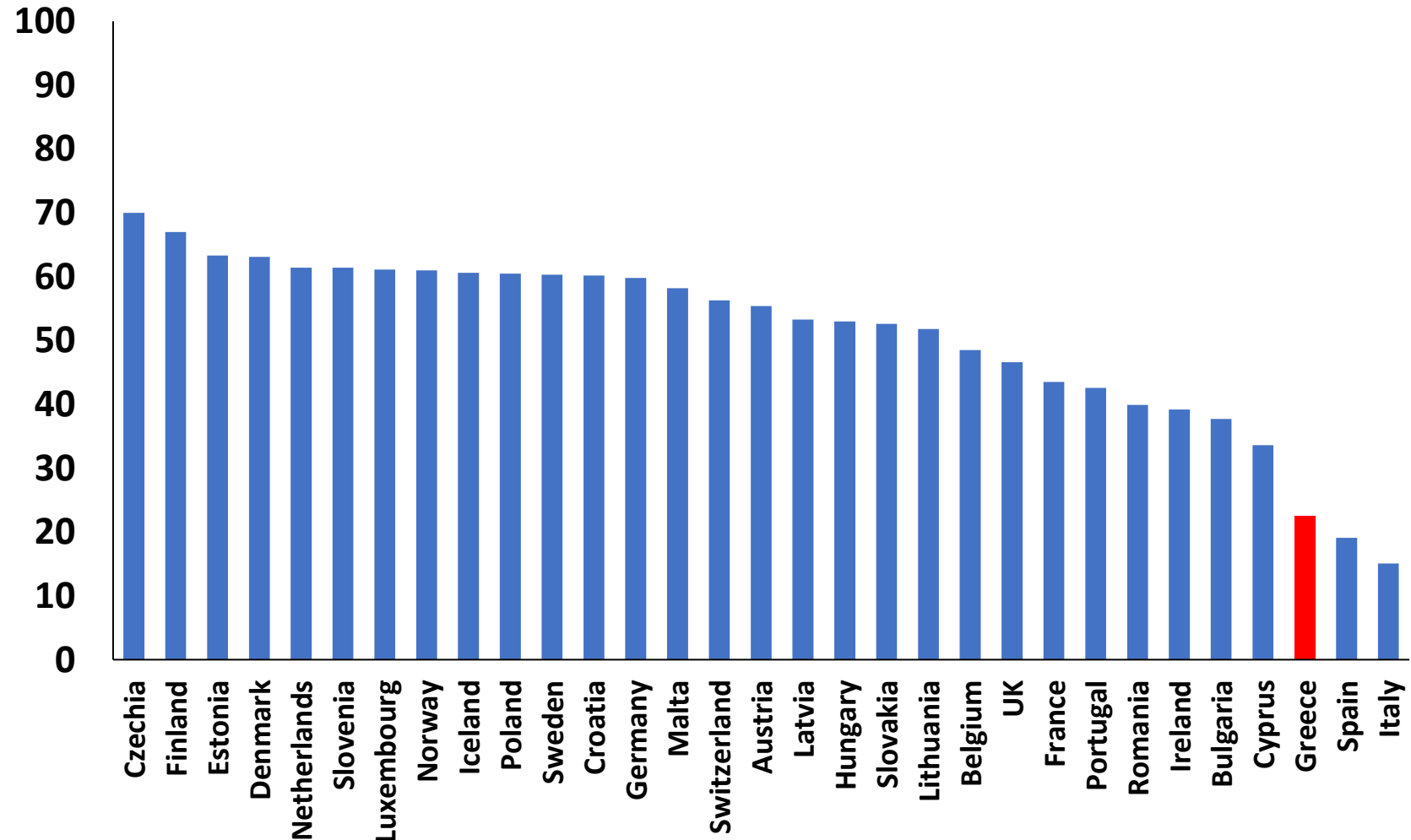
(in % of extended labor force, people aged 15-74)



Source: Eurostat

## III.2.ii Behind Europe in the European Skills Index (ESI)

- ❑ ESI consists of 3 pillars:
  - Skills Development
  - Skills Activation
  - Skills Matching
- ❑ ESI measures countries' "*distance to the ideal*" performance. This ideal performance is chosen as the highest achieved by any country over a period of 7 years.
- ❑ **Greece ranked 29th** in 2022, unchanged in the past two years.
  - 28<sup>th</sup> in skills development (35 of 100 pts)
  - 27<sup>th</sup> in skills activation (32 of 100 pts)
  - 30<sup>th</sup> in skills matching (13 of 100 pts)

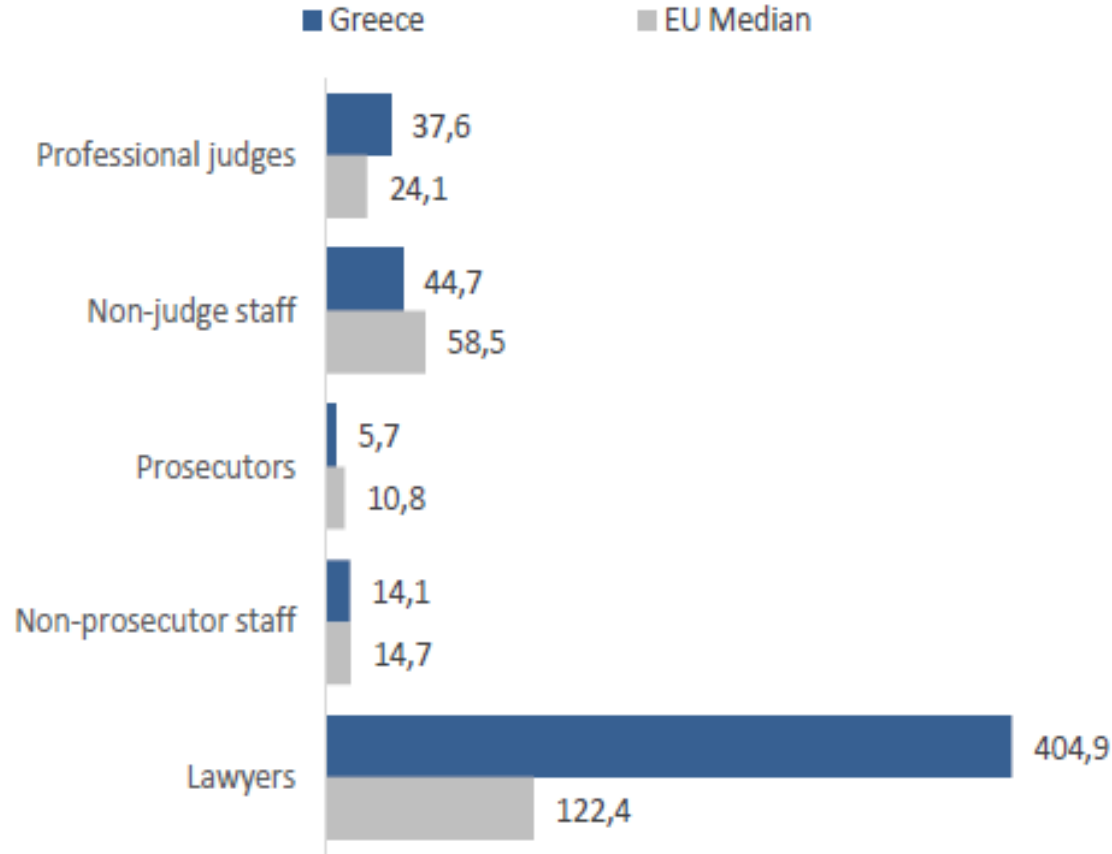


Source: CEDEFOP

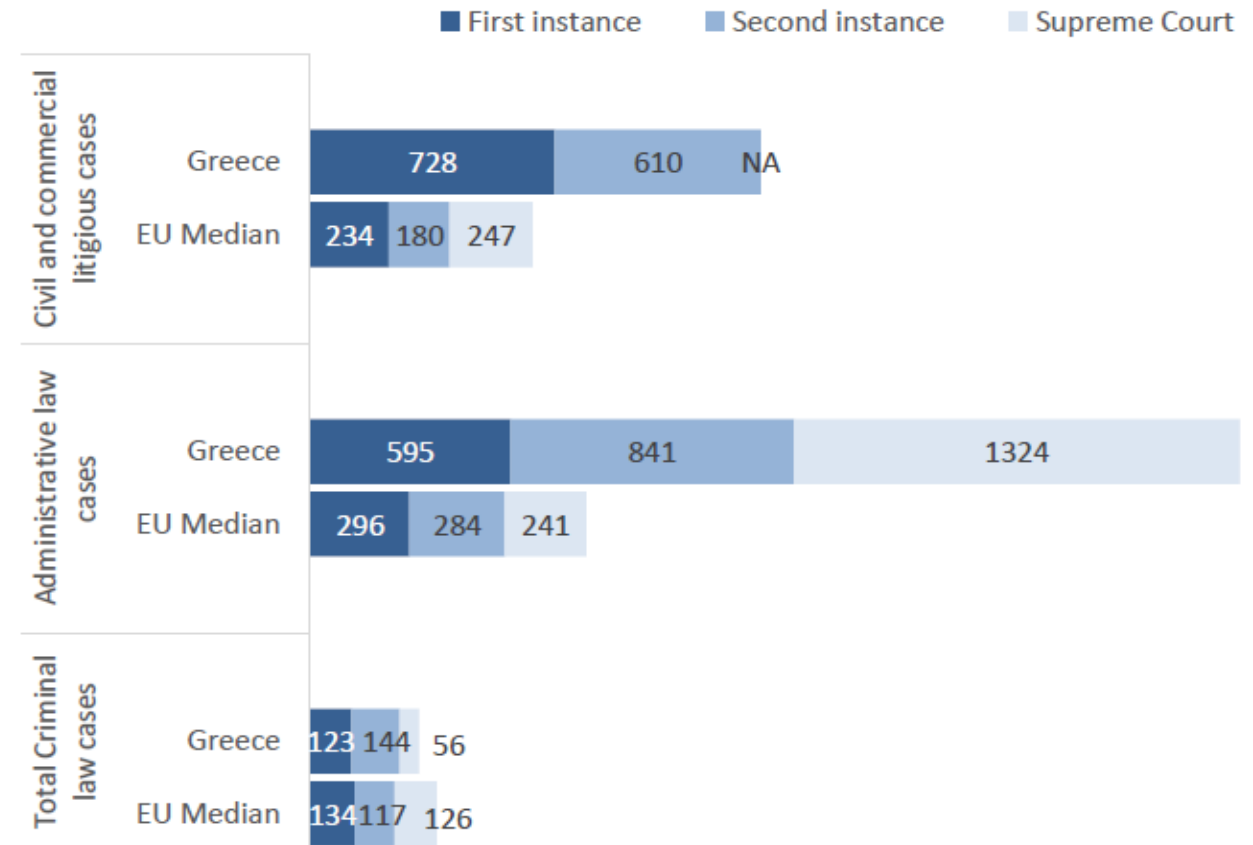
MORE MATERIALS: <https://www.cedefop.europa.eu/en/tools/european-skills-index>

# III.2.iii Justice system efficiency needs urgent boost

Judicial professionals per 100 000 inhabitants



Disposition Time by instance and by matter in 2021 (days)

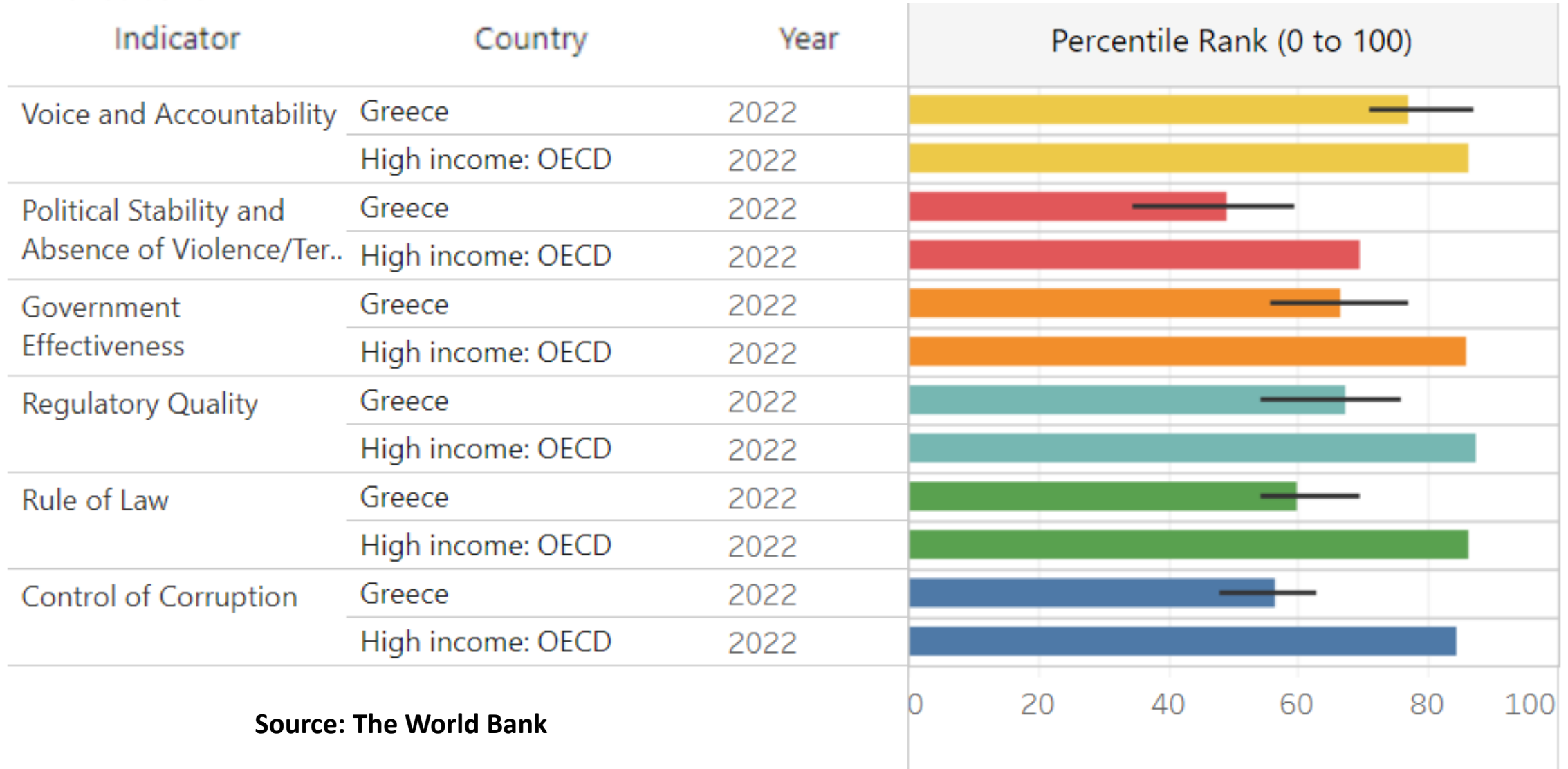


Source: CEPEJ Study for the EU Justice Scoreboard 2021

[https://commission.europa.eu/strategy-and-policy/policies/justice-and-fundamental-rights/upholding-rule-law/eu-justice-scoreboard\\_en#factsheets](https://commission.europa.eu/strategy-and-policy/policies/justice-and-fundamental-rights/upholding-rule-law/eu-justice-scoreboard_en#factsheets)  
<https://www.coe.int/en/web/cepej/cepej-study-for-the-eu-justice-scoreboard>

## III.2.iii Proper governance needs more work

- Compared to high income OECD countries, Greece is behind in most governance Indicators

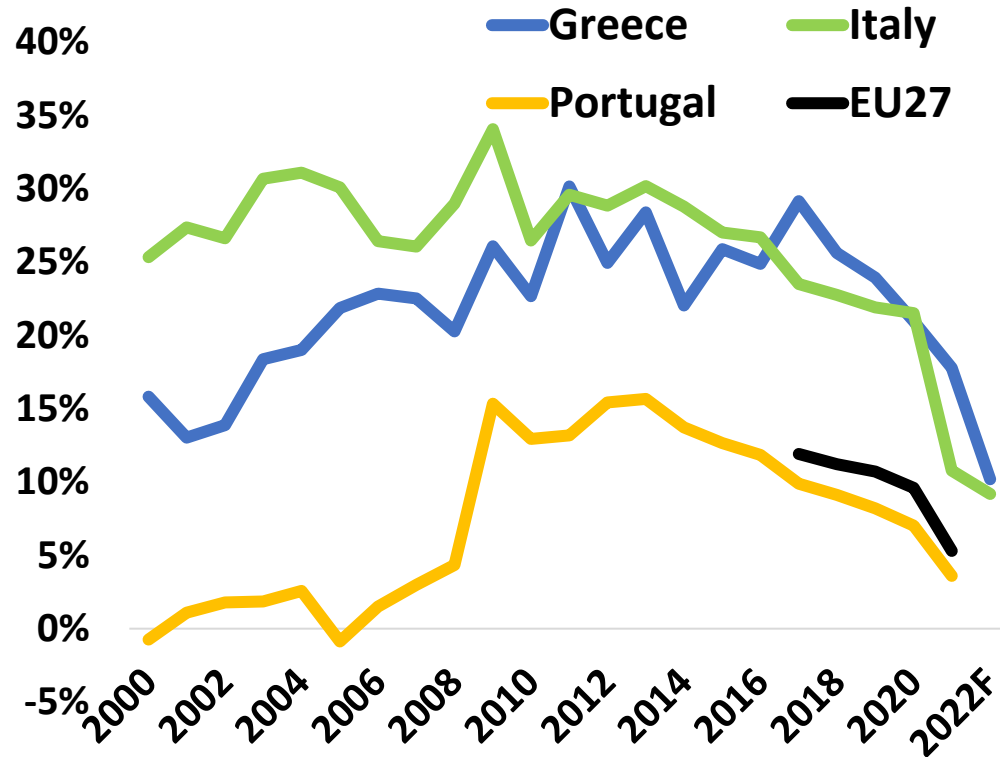


Source: The World Bank

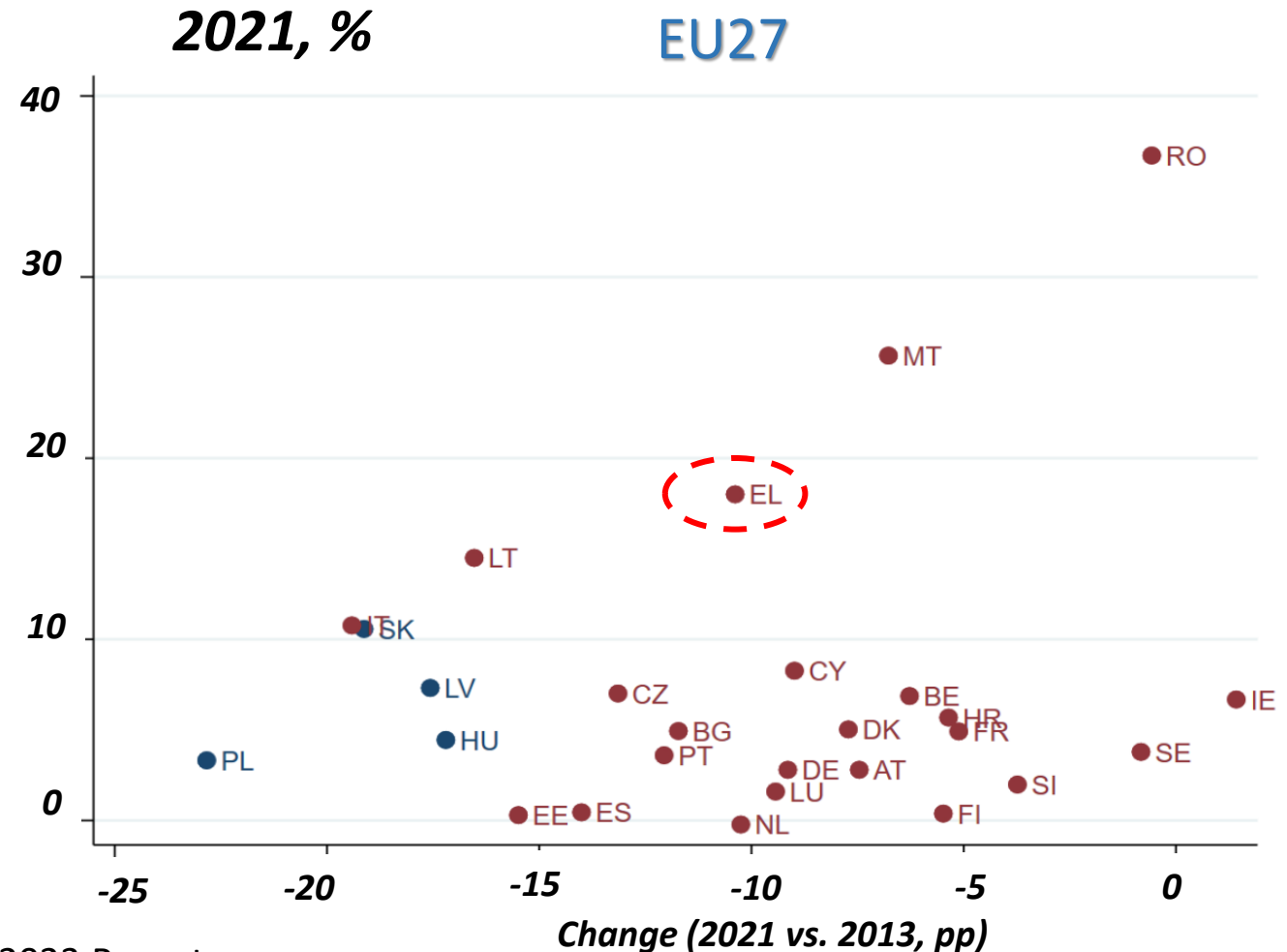
## III.2.iv Economic Justice: Tax compliance improves but more is needed

- ❑ VAT compliance improved from a Gap of 29.2% in 2017 to 9.2% in 2022
- ❑ Yet we still remain the 3<sup>rd</sup> worst country in Europe

VAT Compliance Gap  
(% of VTTL)



VAT Compliance Gap  
EU27

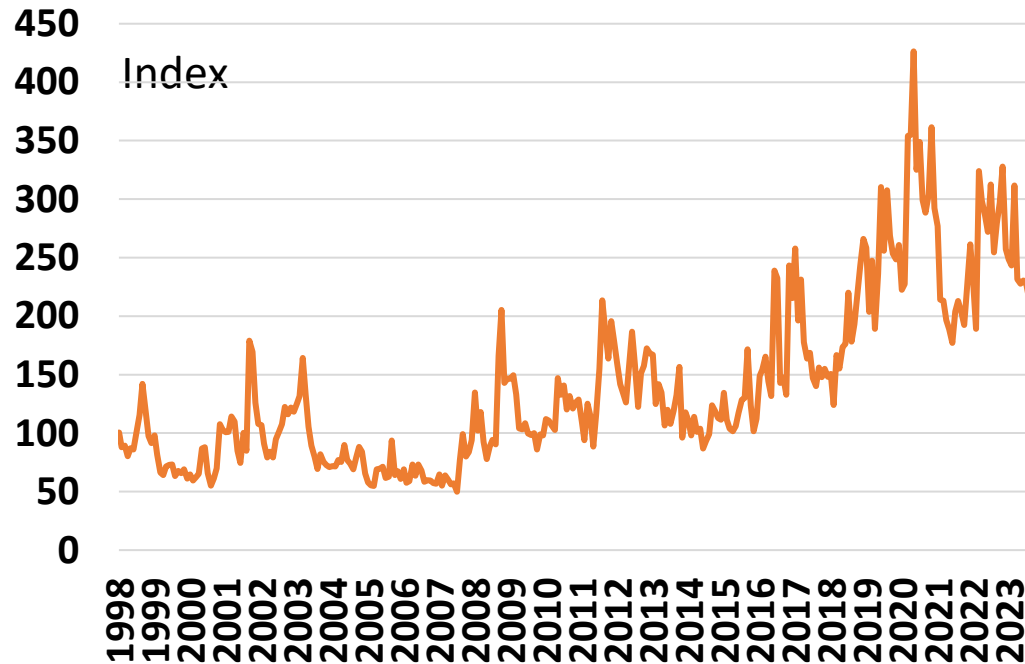


Sources: EU VAT Gap in the EU, 2023 Report

# III.2.v Economic Policy Uncertainty (EPU)

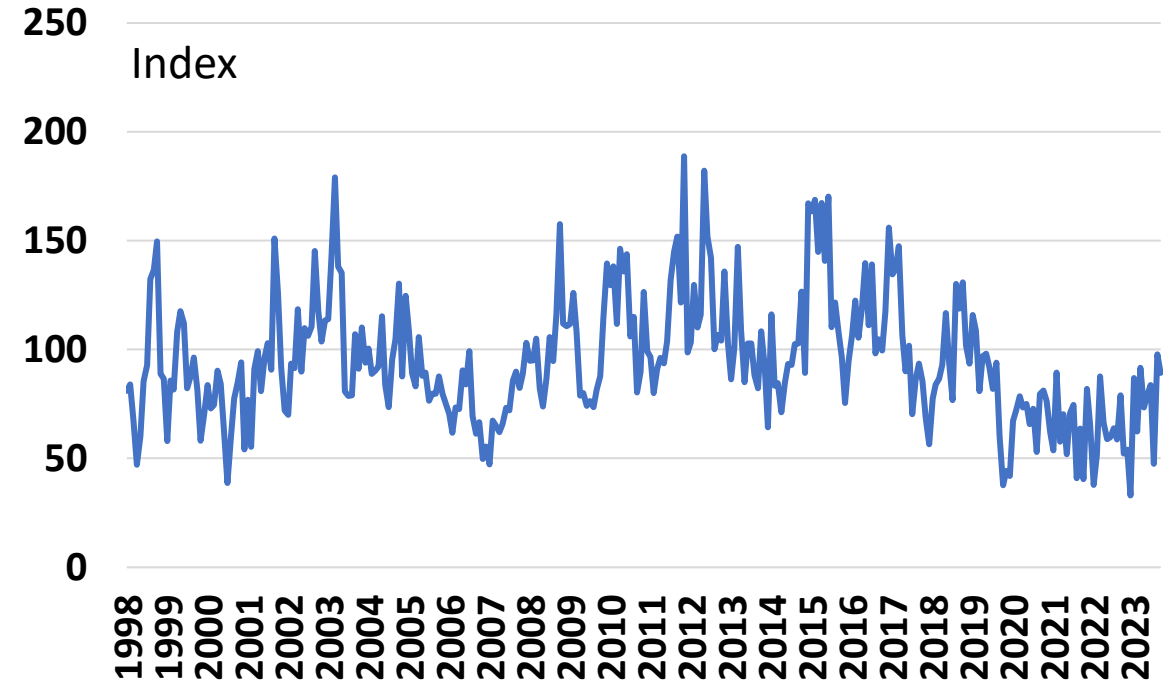
❑ In the last five years, Economic Policy Uncertainty has risen globally but declined in Greece

## Global Economic Policy Uncertainty (GEPU)



Note: The GEPU Index is a GDP-weighted average of national EPU indices for 21 countries: Australia, Brazil, Canada, Chile, China, Colombia, France, Germany, Greece, India, Ireland, Italy, Japan, Mexico, the Netherlands, Russia, South Korea, Spain, Sweden, the United Kingdom, and the United States. Each national EPU index reflects the relative frequency of own-country newspaper articles that contain a trio of terms pertaining to the economy (E), policy (P) and uncertainty (U).

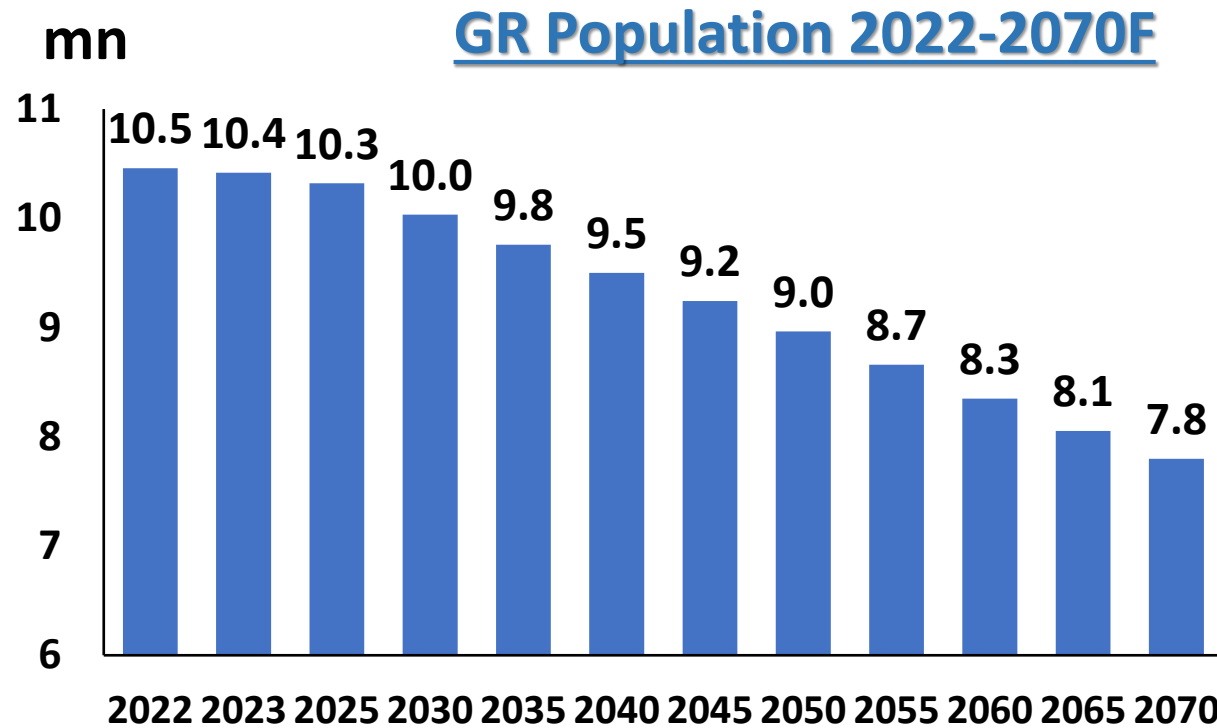
## Economic Policy Uncertainty for Greece



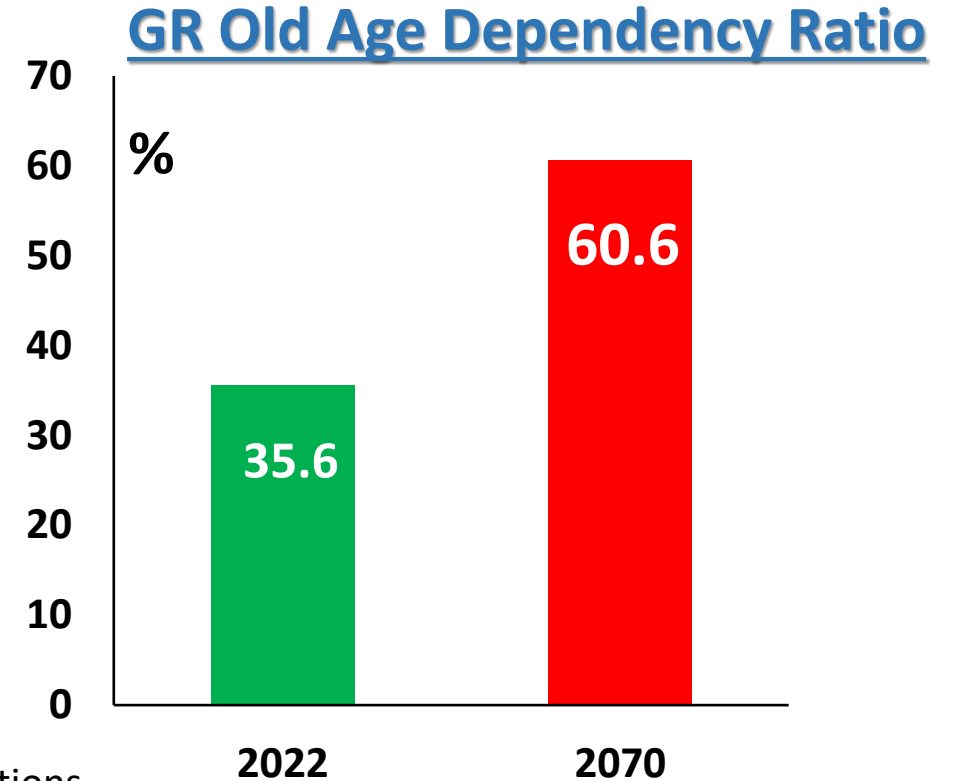
Note: The Economic Policy Uncertainty for Greece is developed by the team of Gikas Hardouvelis, Georgios Karalas, Dimitrios Karanastasis and Panagiotis Samartzis

Source: <https://www.policyuncertainty.com/index.html>

### III.3 Third concern: Dismal Demographics



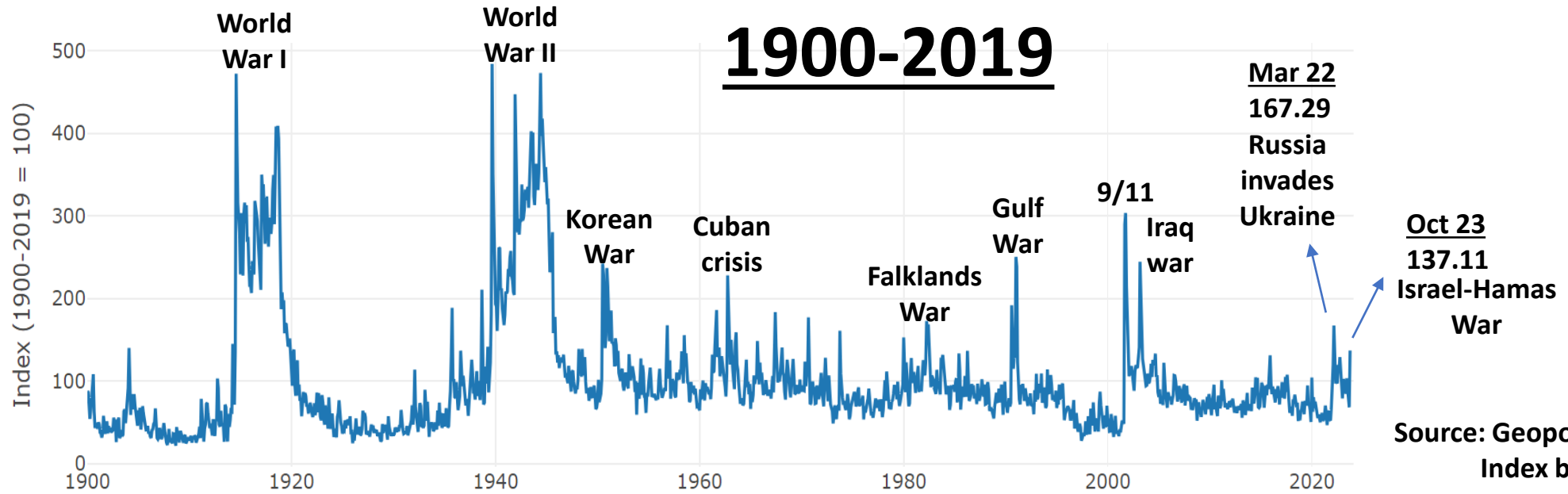
Sources: Eurostat population projections



- Population growth is a main source of economic & political power; it does not look good.
  - According to Eurostat, the **Greek population** is expected to **decrease** to **7.8 mn in 2070** from 10.5 in 2022.
  - The **Greek Old Age Dependency Ratio** (the ratio between inactive population above 64 y.o. and the employed aged 22-64) is expected to **increase** to 60.6% in 2070 from 35.6% in 2022.

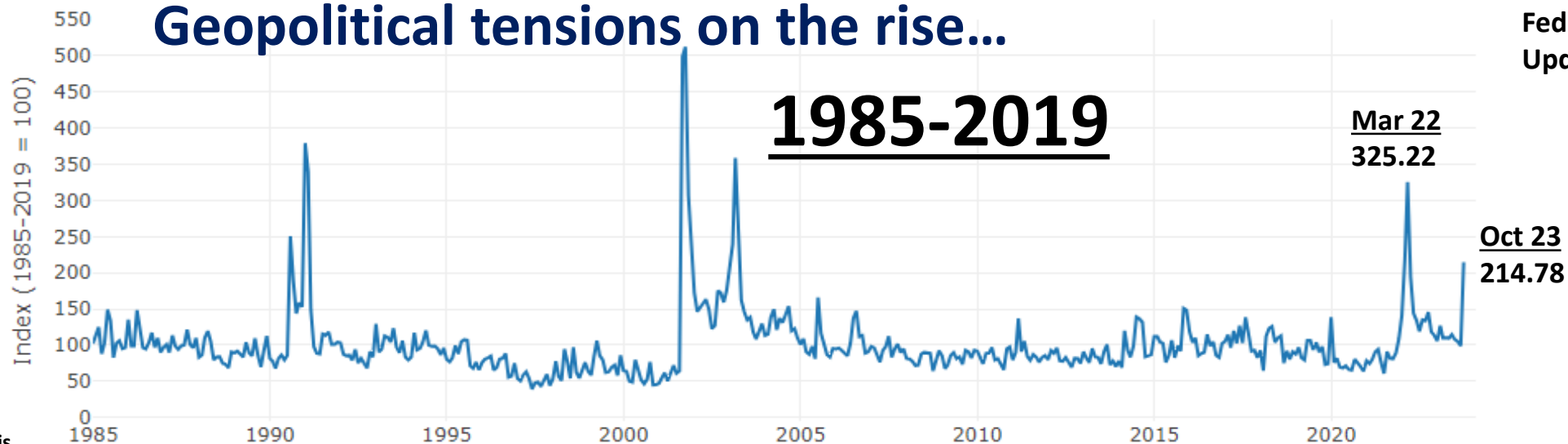


# III.4 Fourth concern: Global geopolitical risk



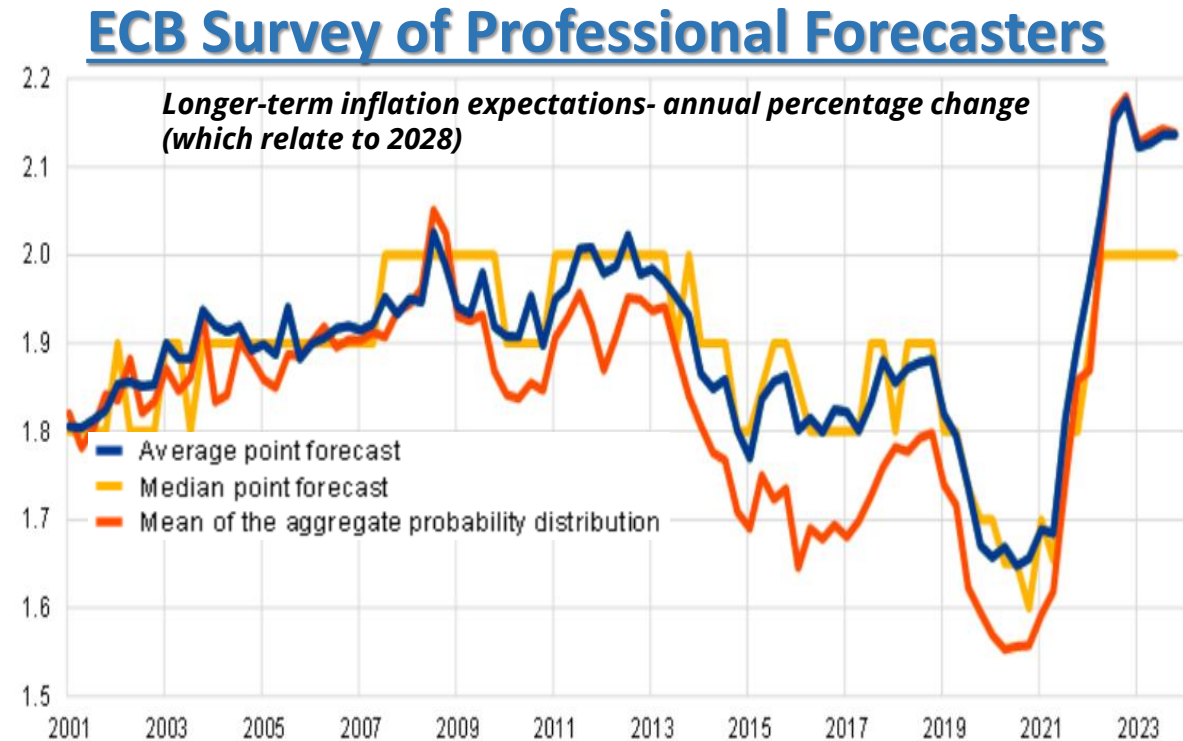
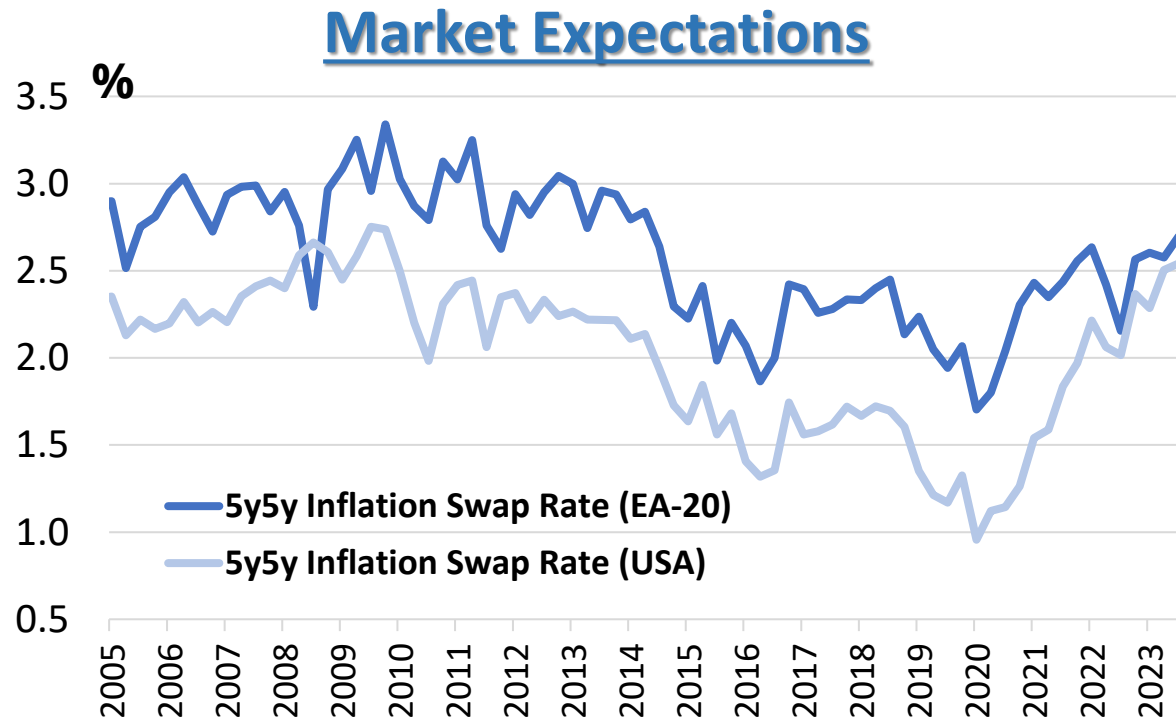
Source: Geopolitical Risk (GPR) Index by Dario Caldara & Matteo Iacoviello of the Federal Reserve Board (Last Update 1/11/2023)

## Geopolitical tensions on the rise...



## III.4 What is different today relative to 2007-2008 in inflation, interest rates and macro stability?

- ❑ Monetary and regulatory authorities are more alert today
- ❑ The recent period of abnormally low (even negative) interest rates is over with expected inflation on the rise
- ❑ Monetary authorities under pressure to revisit the 2% target

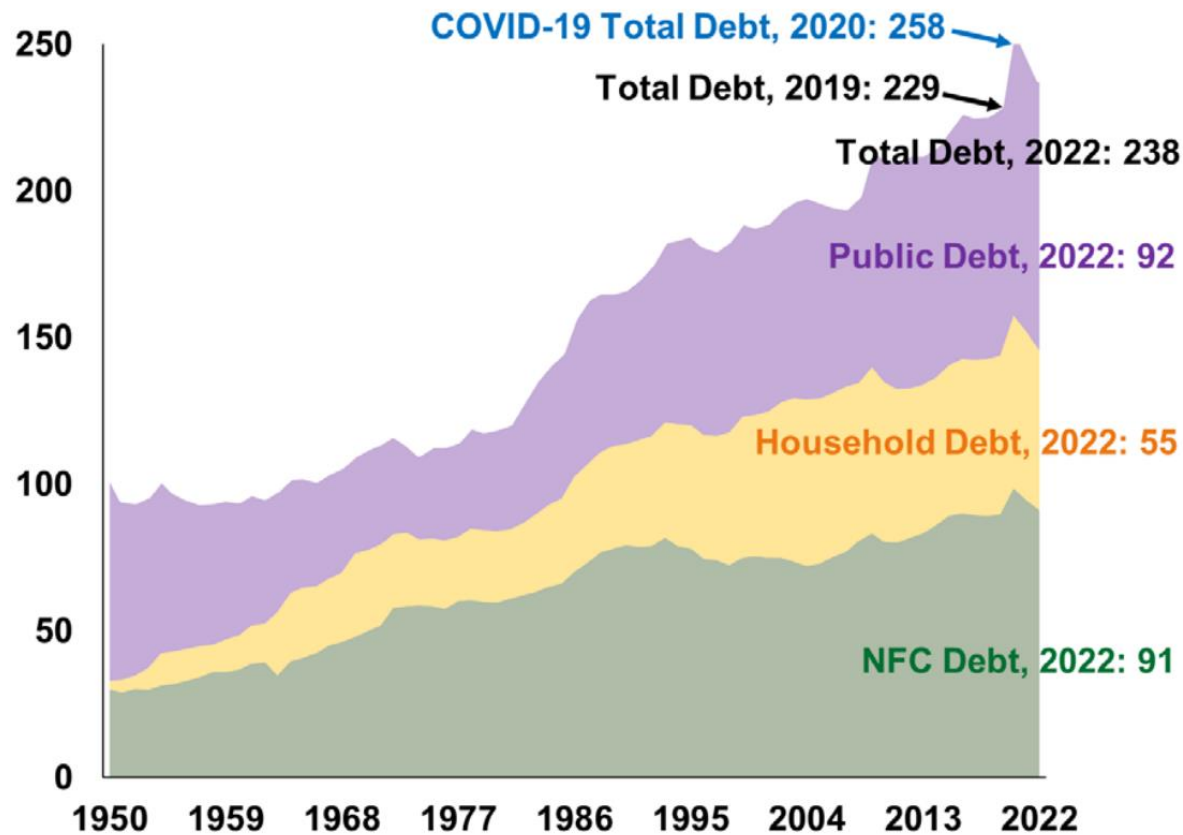


Sources: Bloomberg, ECB

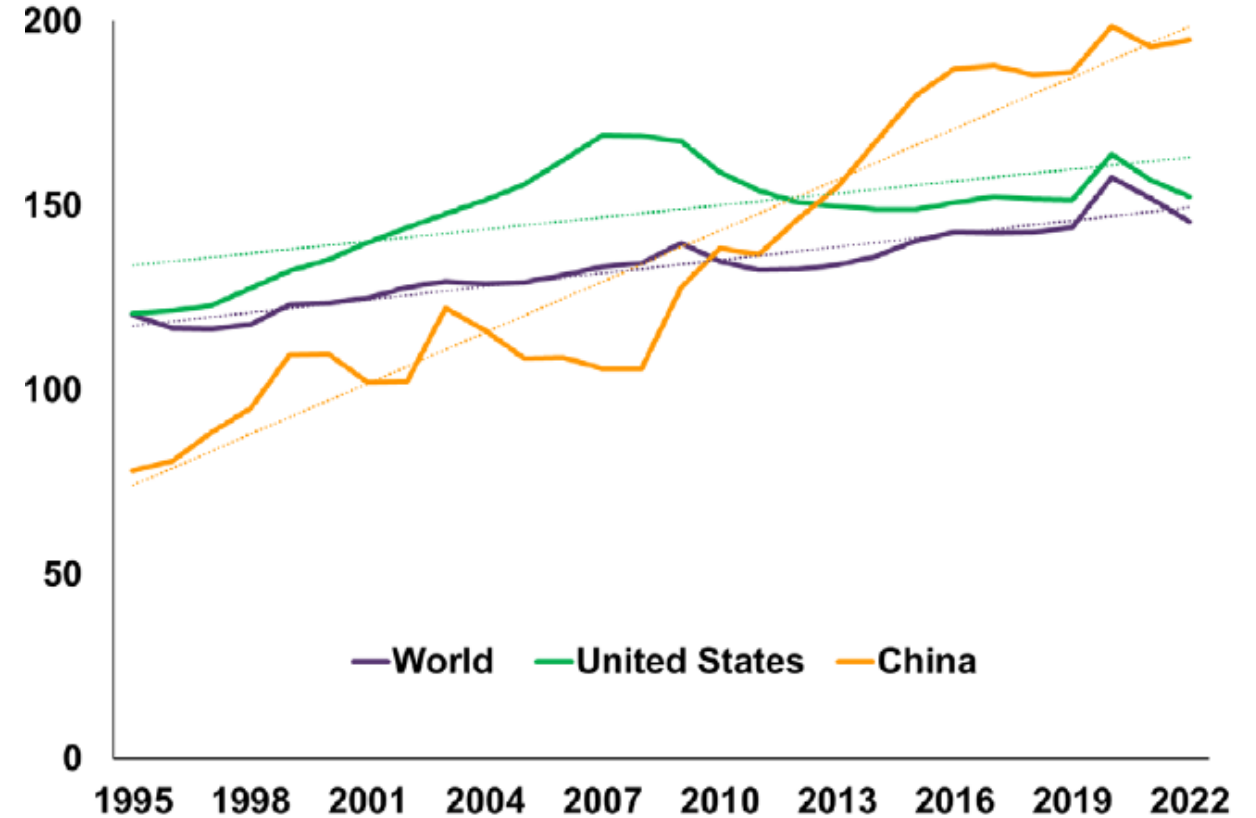
# III.4 Global debt remains on an upward trend

- ❑ Debt on an upward trend, with China a main culprit during the last 10 years
- ❑ The past two years, the rise in inflation pushed down global debt ratios

### Global Public and Private debt, 1950-2022 (Percent of GDP)

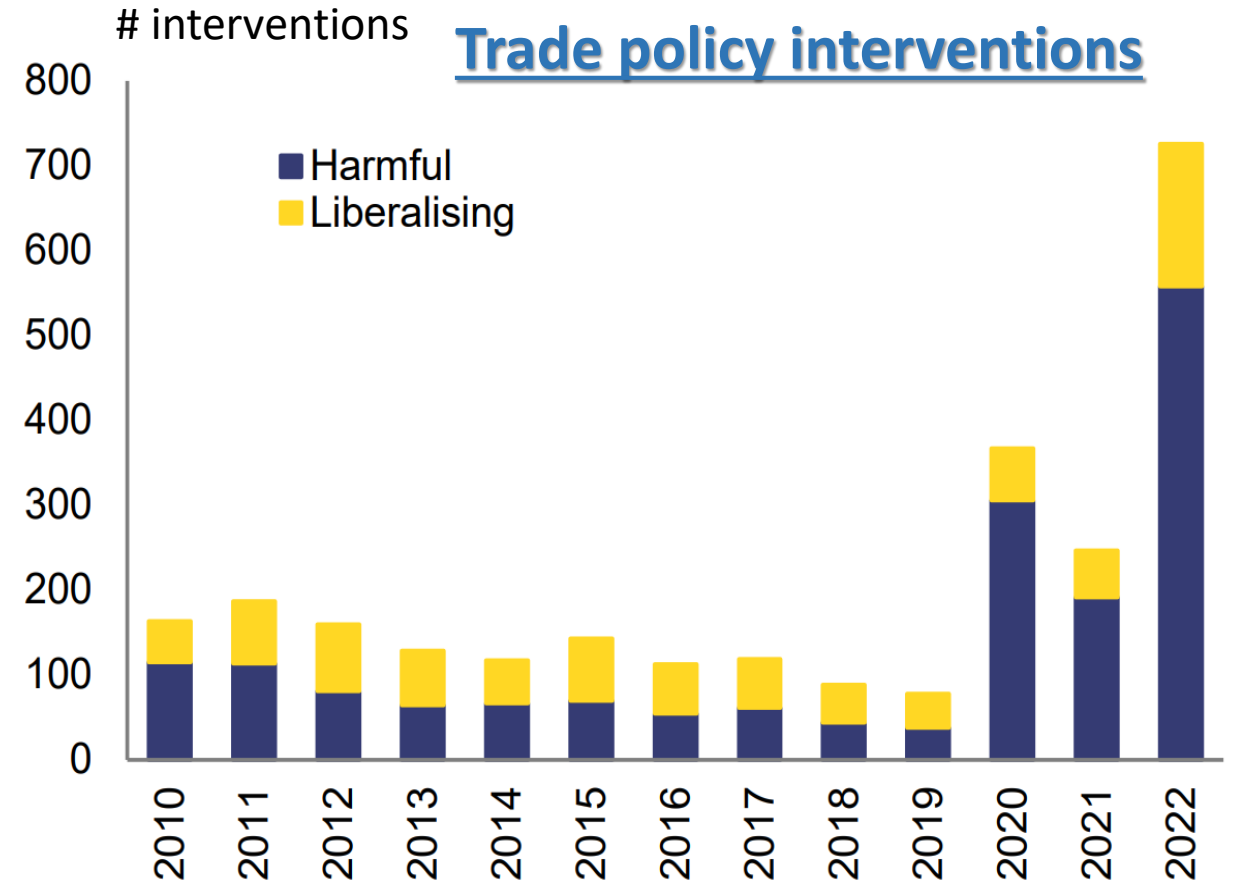
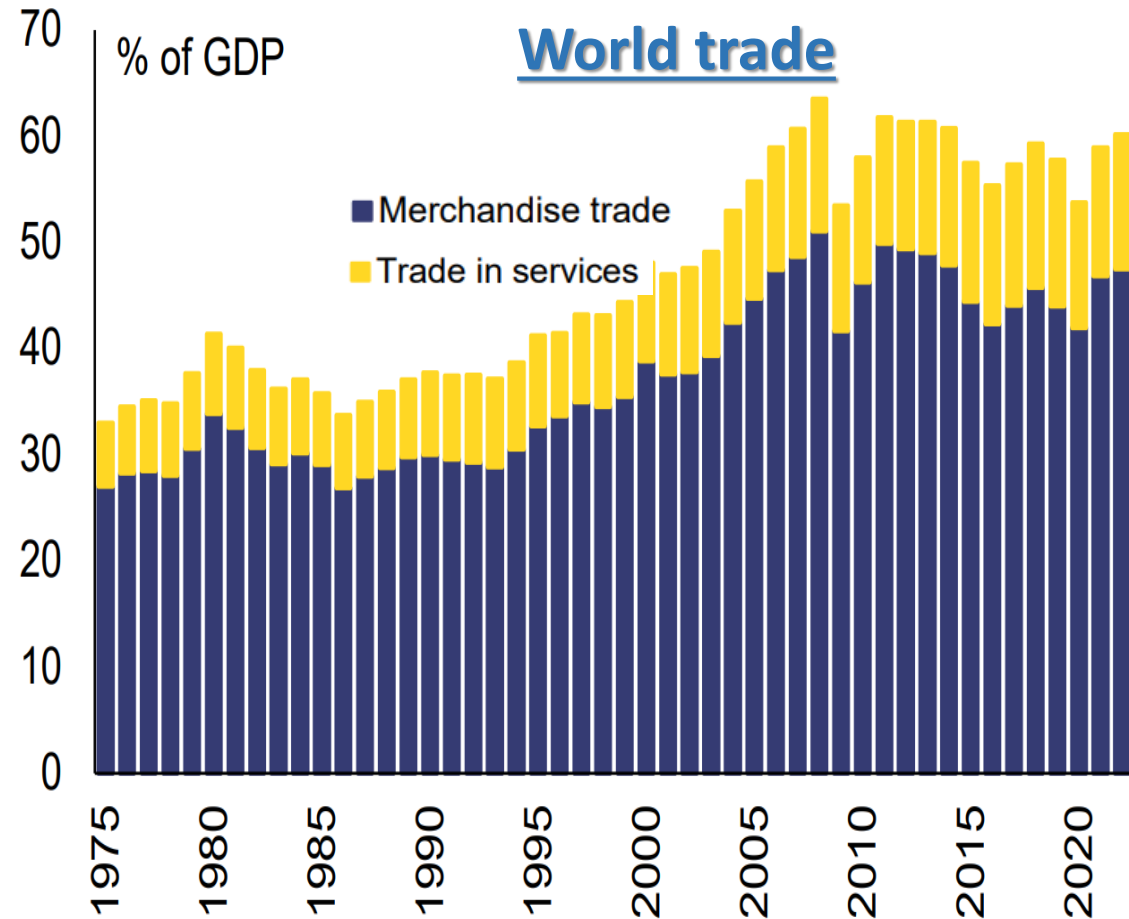


### Global Private debt, 1995-2022 (Percent of GDP)



Sources: IMF 2023 Global Debt Monitor

# III.4 Global Trade Integration has stalled with restrictions rising



Sources: EC Economic Brief 075, Sept. 2023, World Bank, Global Trade Alert

- ❑ Global trade slowed down after the GFC but remained close to the 2008 peak
- ❑ The annual average of harmful trade restriction measures, from 71 between 2010-2019, rose sharply to 530 in 2022.
- ❑ “Off-shoring” is becoming “near-shoring” in global trade

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## IV. Summary: Can Greece overcome its challenges?

- Greece's convergence process was reversed during the Greek crisis
- The crisis cured the fiscal disequilibrium, yet government debt remains a long-term burden and constraint
- The crisis partially cured the competitiveness disequilibrium with ULCs remaining subdued, the export share rising, but with still a structural current account deficit
- An investment gap is a major short- and medium-term headache today
- Greece needs to also worry about the allocation of investment towards new economy goods and services. This is understood in the RRF allocation.
- Productivity improvement requires improvement in skills, market competition, judicial efficiency, and overall governance
- The demographics are dismal
- The external environment is challenging, with inflation and interest rates higher than a decade ago, yet not obstructive.
- Economic policy uncertainty is lower in Greece than abroad. Political stability exists.
- We need to begin thinking of ourselves as global sellers of high-value added products & services.