NATIONAL BANK
OF GREECE

The Post-Crisis Greek Economy

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FLETCHER

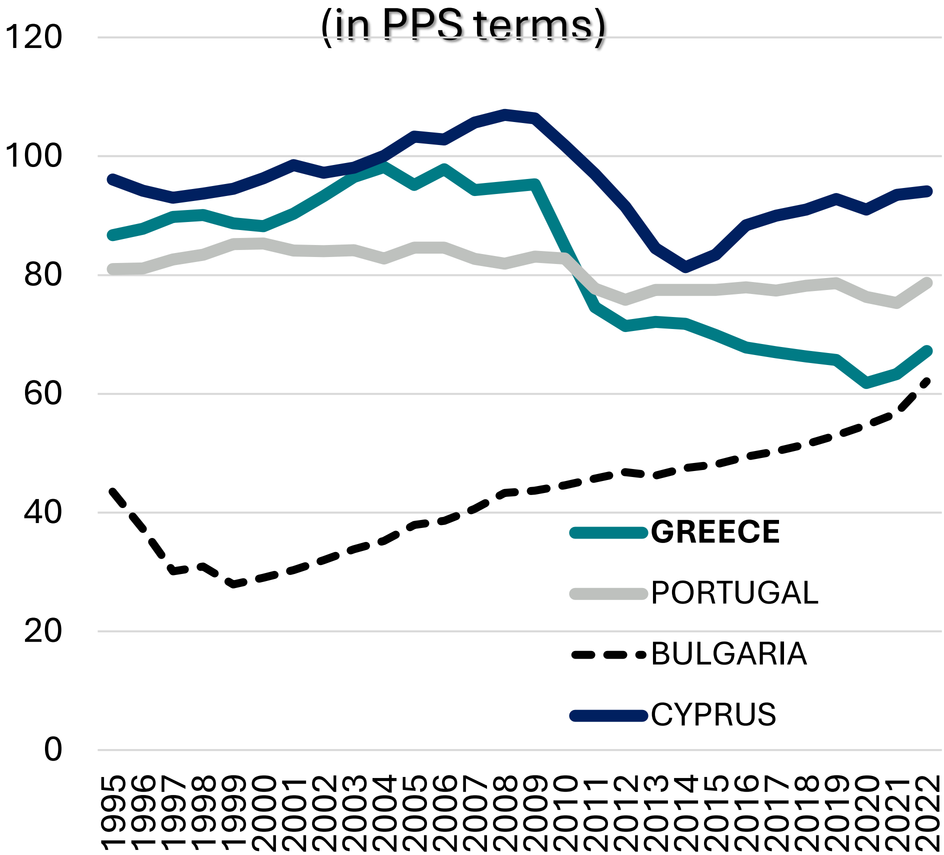
Contents

The Post-Crisis Greek economy

1. How does the Greek economy compare to twenty years ago?

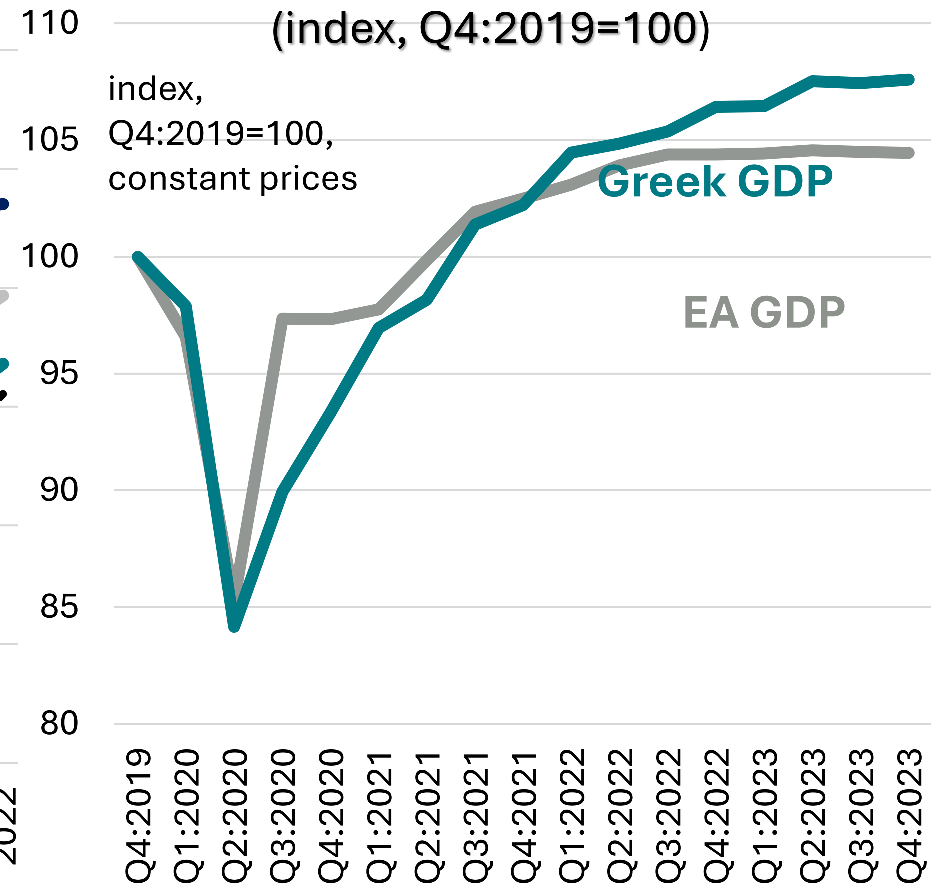
1. The illusive Convergence

GDP per capita in % EU-27



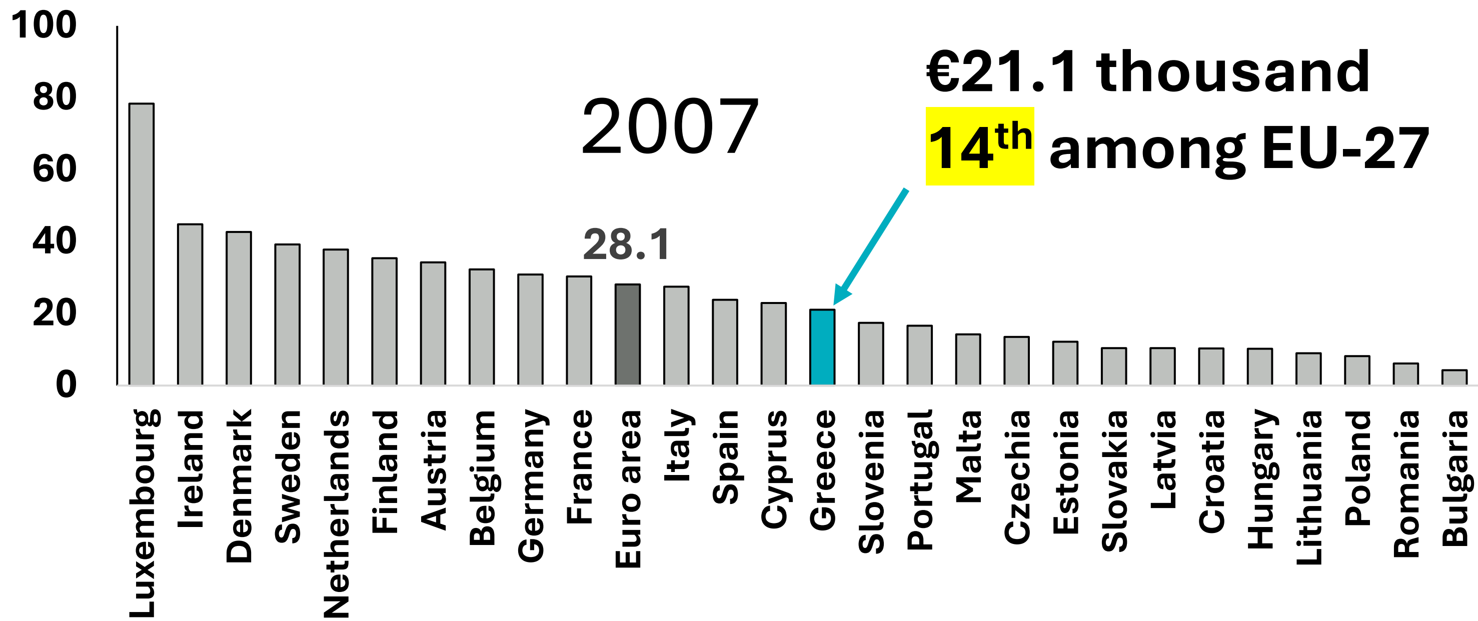
Source: Eurostat

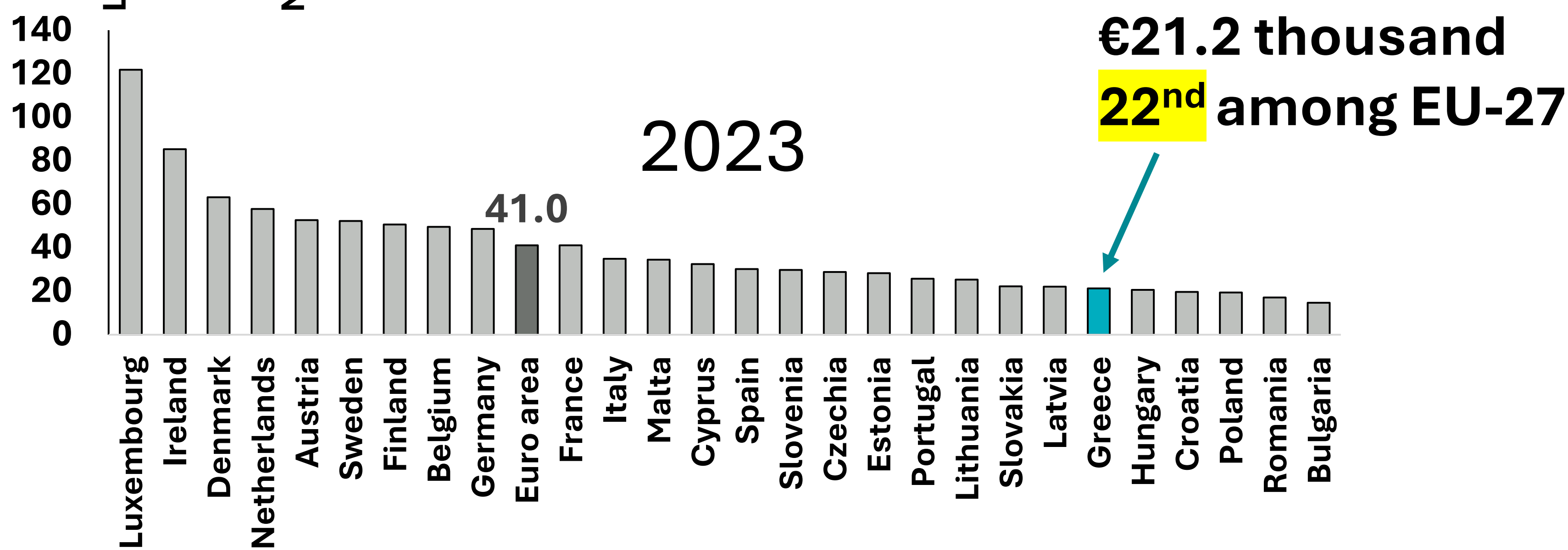
Level of real GDP: Greece vs. EA



- **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.**

1.Divergence in GDP per capita at current prices





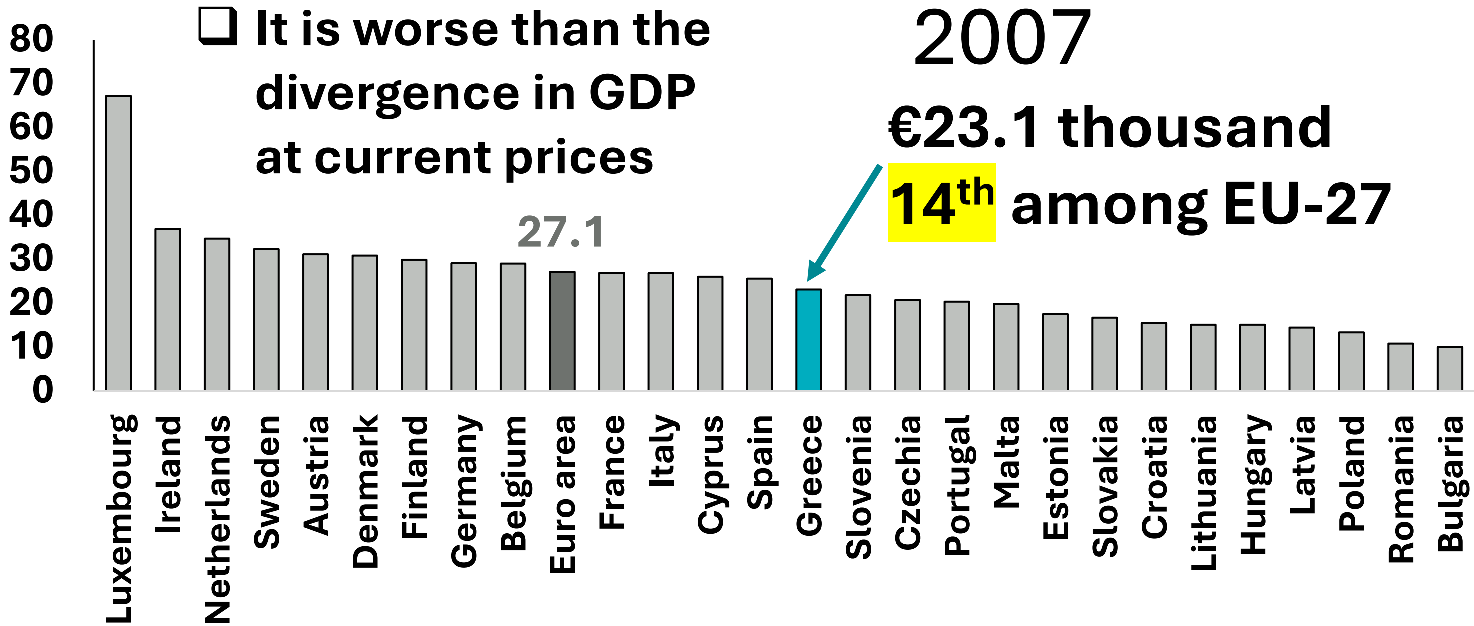
ΕΘΝΙΚΗ ΤΡΑΠΕΖΑ

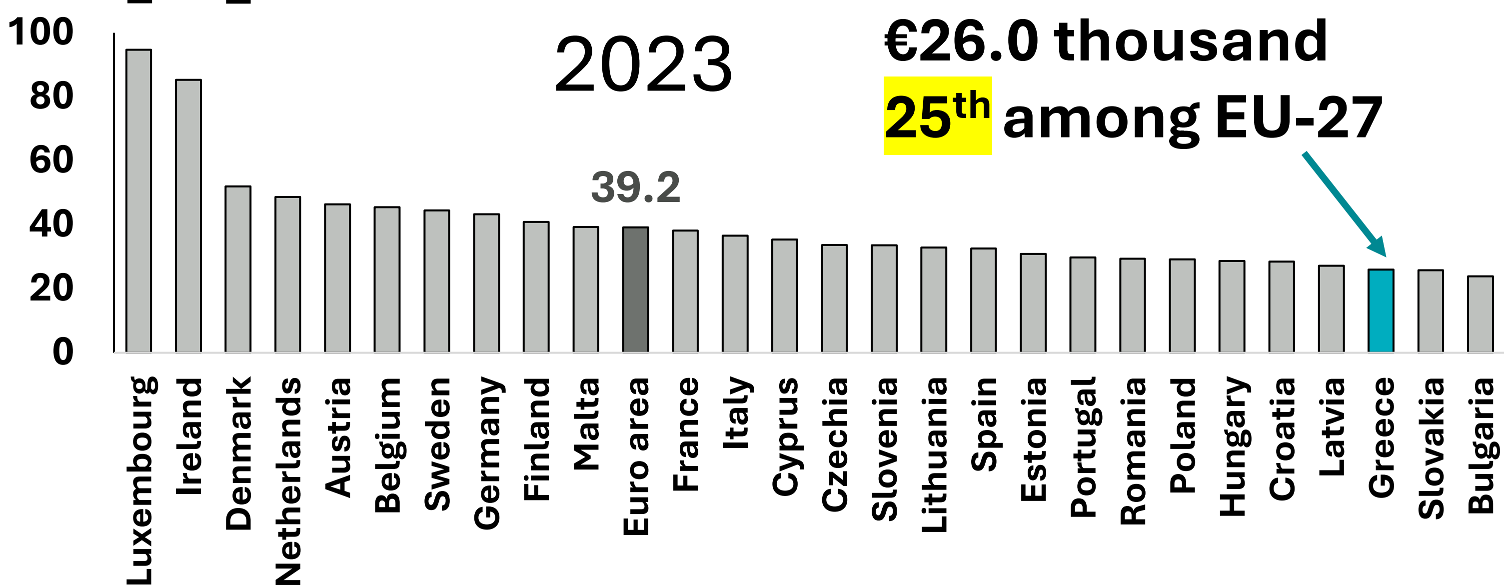
Gikas Hardouvelis

Source: AMECO

1. Divergence in PPS terms

- It is worse than the divergence in GDP at current prices

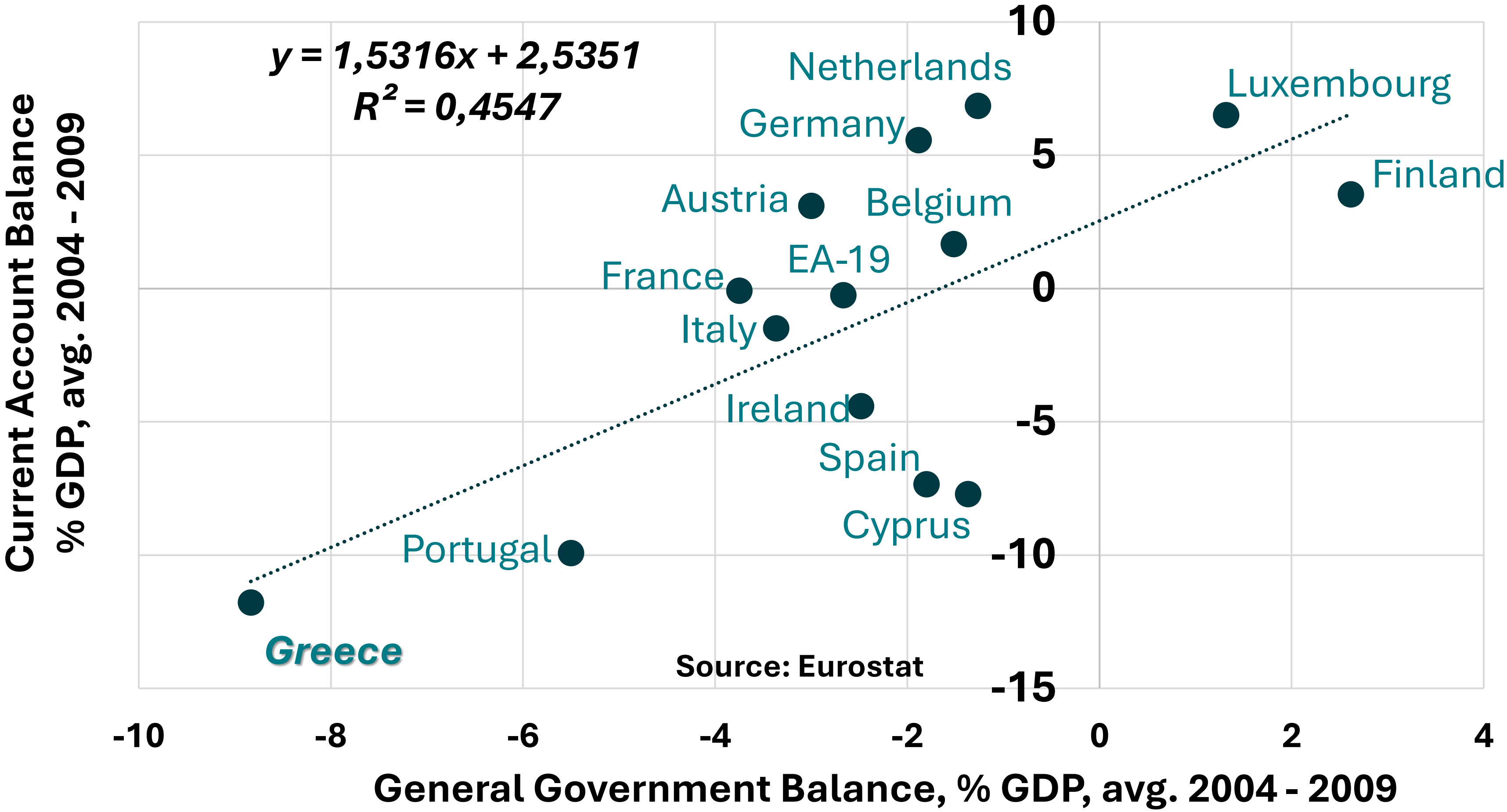




Source: AMECO

2. Has the crisis cured all economic disequilibria?

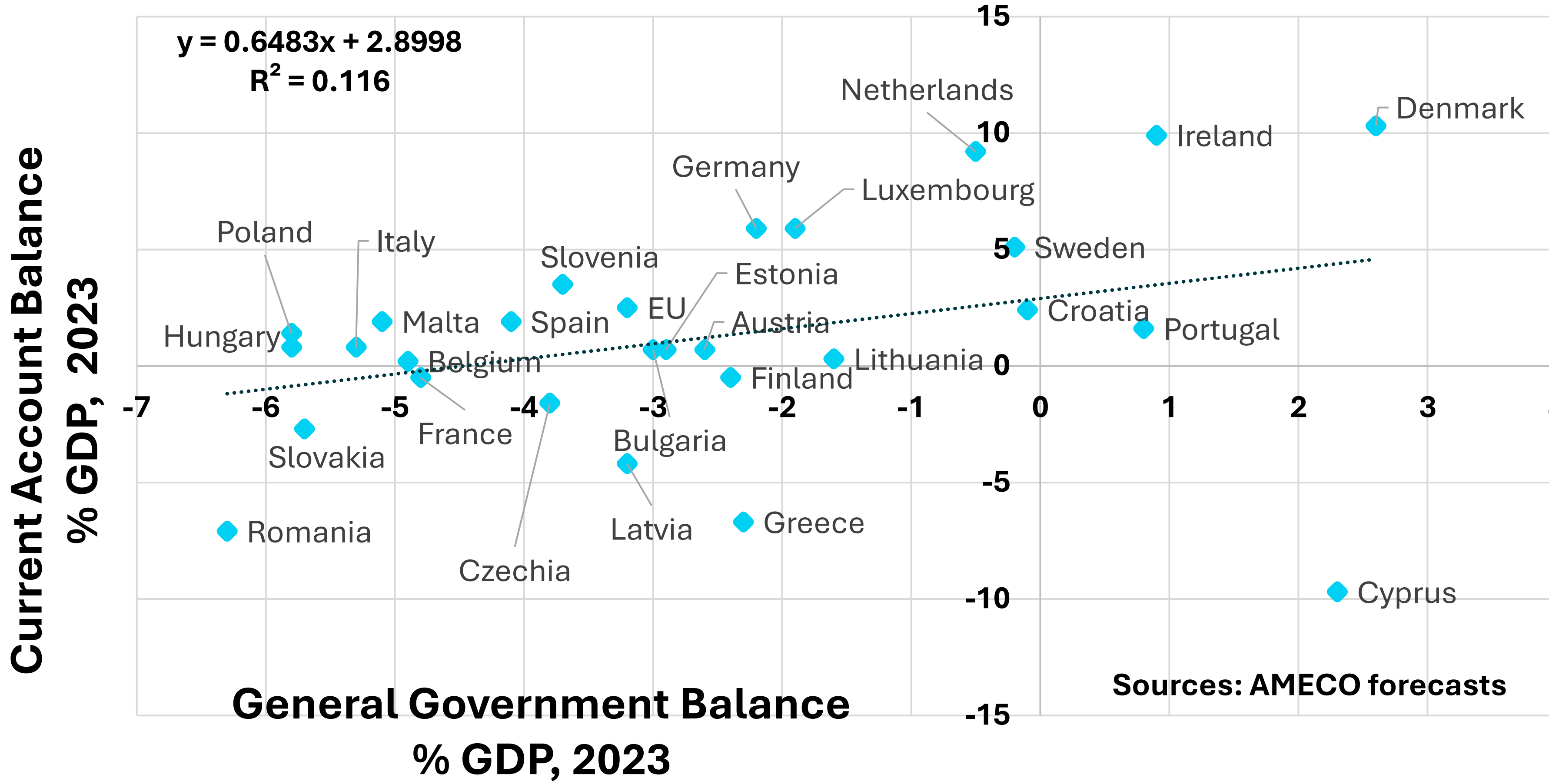
2. Macroeconomic Imbalances before the Crisis



- 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.

ΕΘΝΙΚΗ ΤΡΑΠΕΖΑ

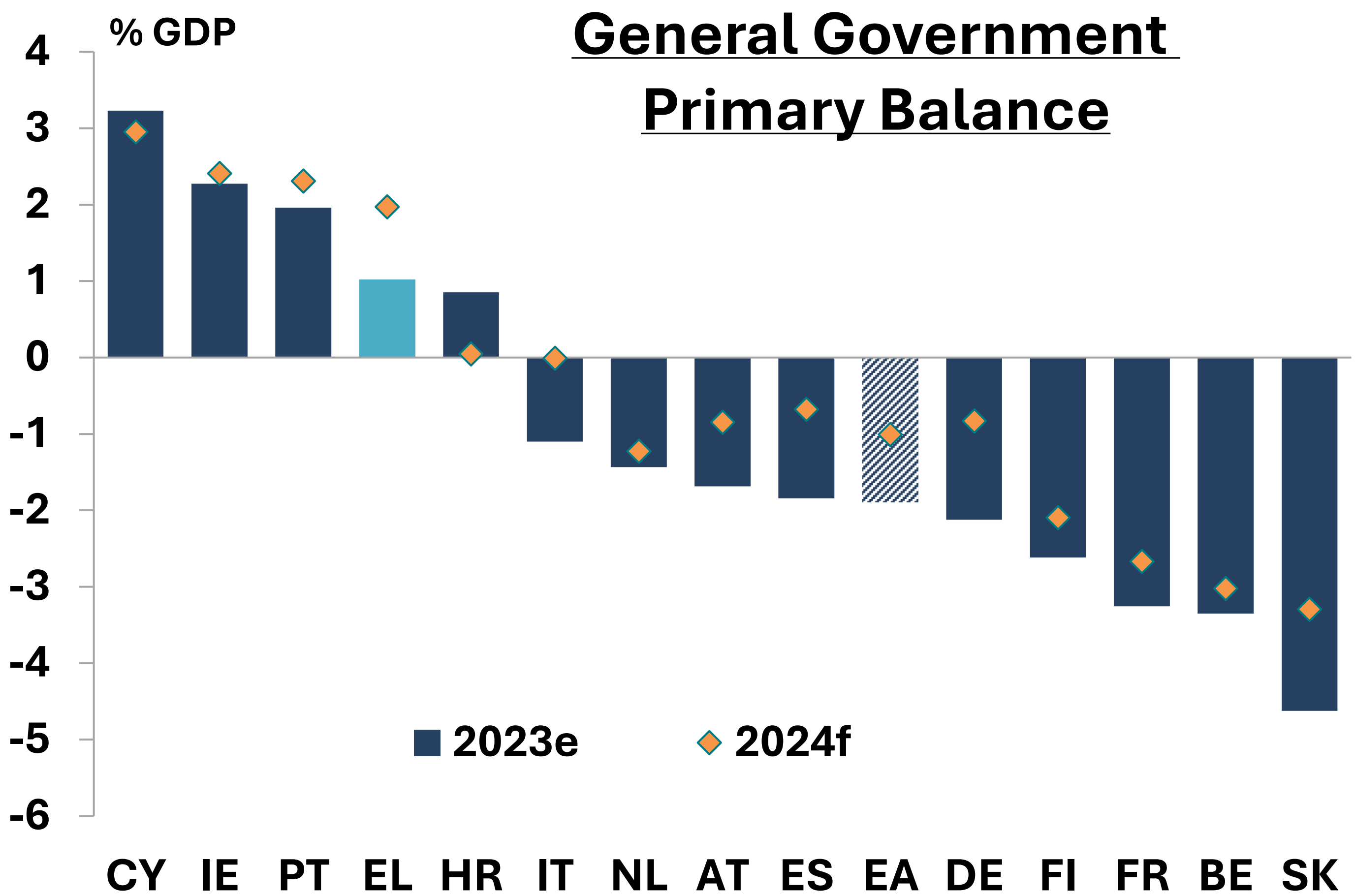
2. Macroeconomic Imbalances in 2023



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

ΕΘΝΙΚΗ ΤΡΑΠΕΖΑ

2. Fiscal performance today



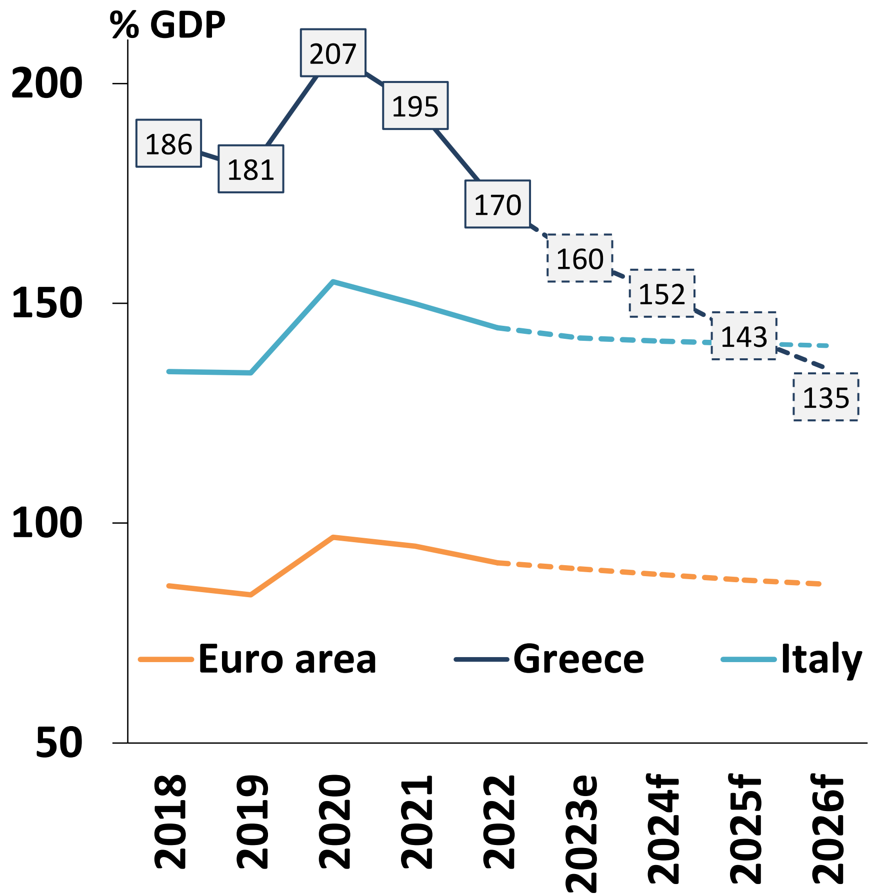
Sources: Monthly State Budget Execution – Greek Ministry of Finance, IMF

- Sustained fiscal overperformance

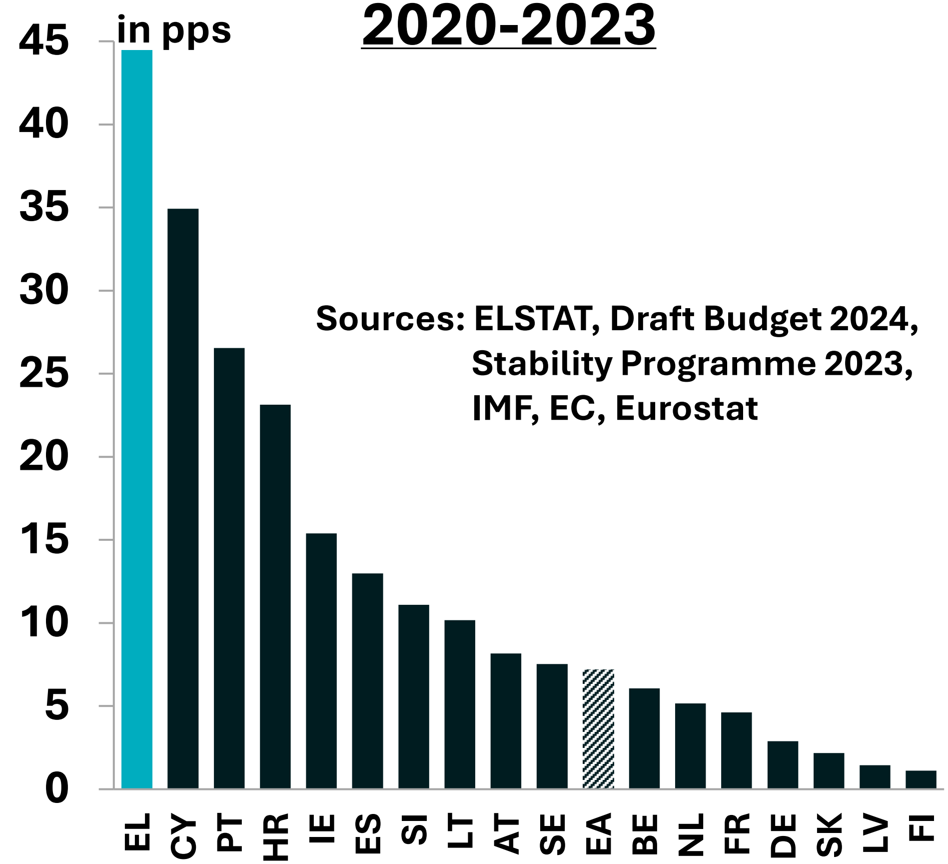
2. General government debt (%GDP)

Gross Public Debt

Greece vs. Italy & EA



Cumulative drop in public debt-to-GDP ratio 2020-2023

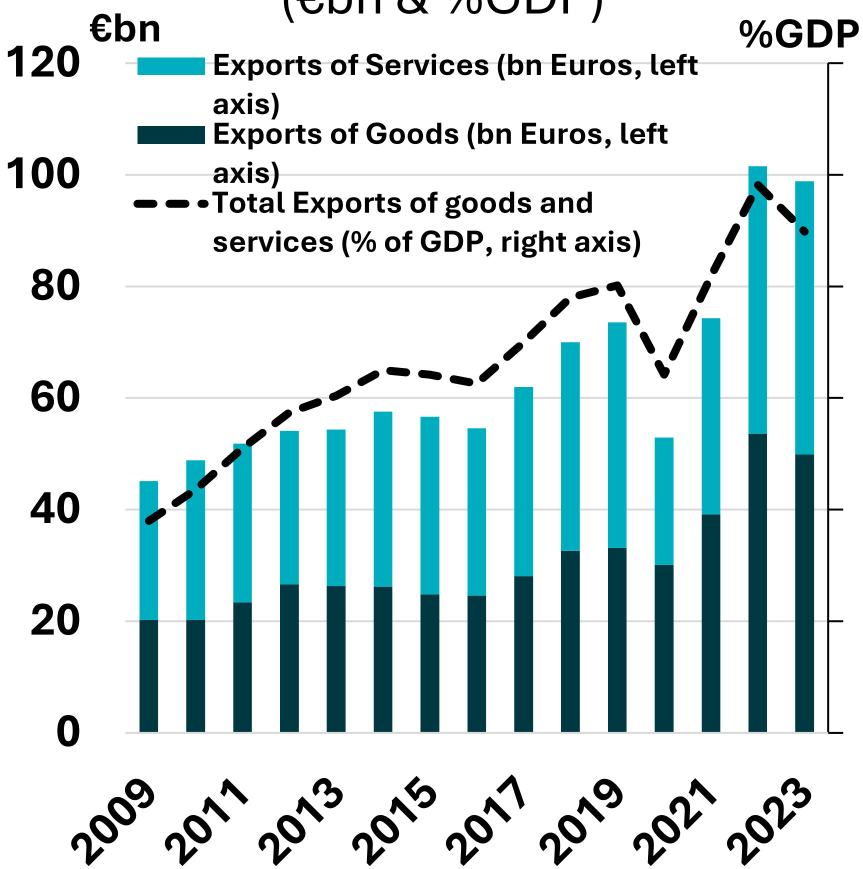


❑ Fiscal rebalancing and inflation speed up the debt reduction.

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

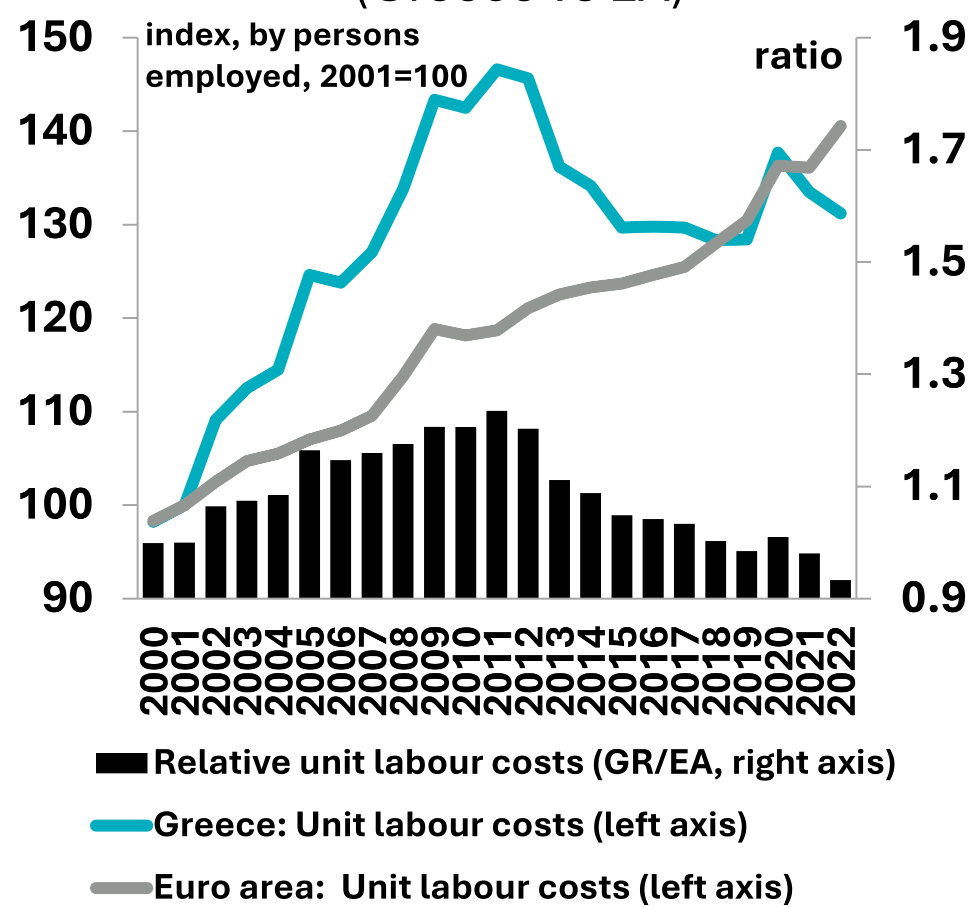
Exports of goods & services

(€bn & %GDP)



Relative ULCs

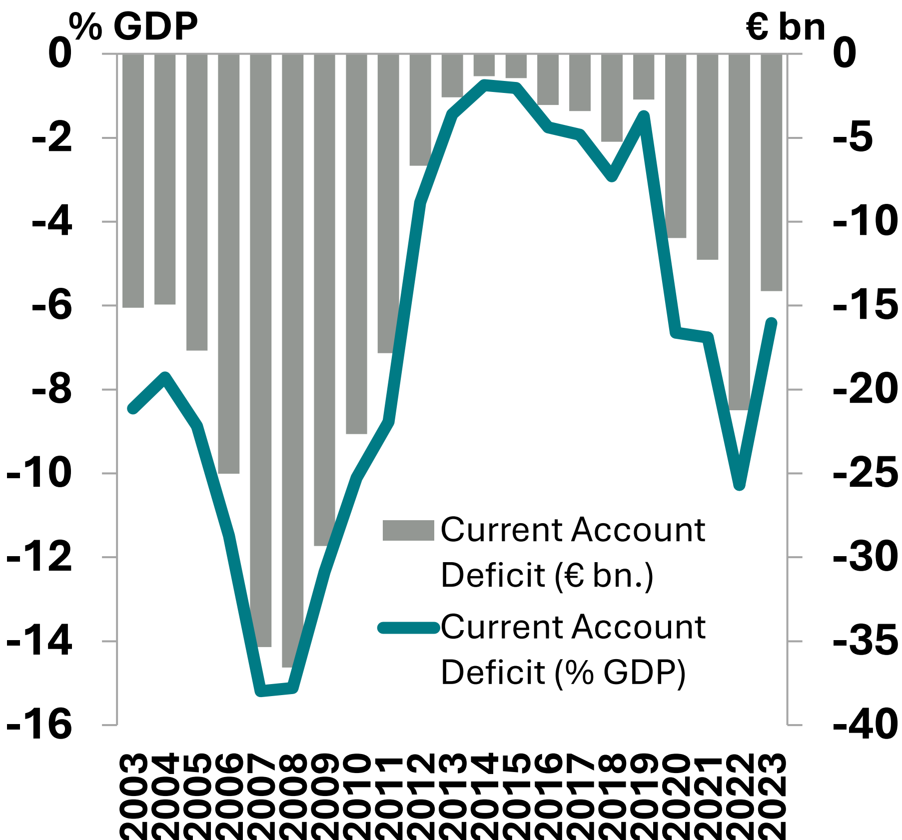
(Greece vs EA)

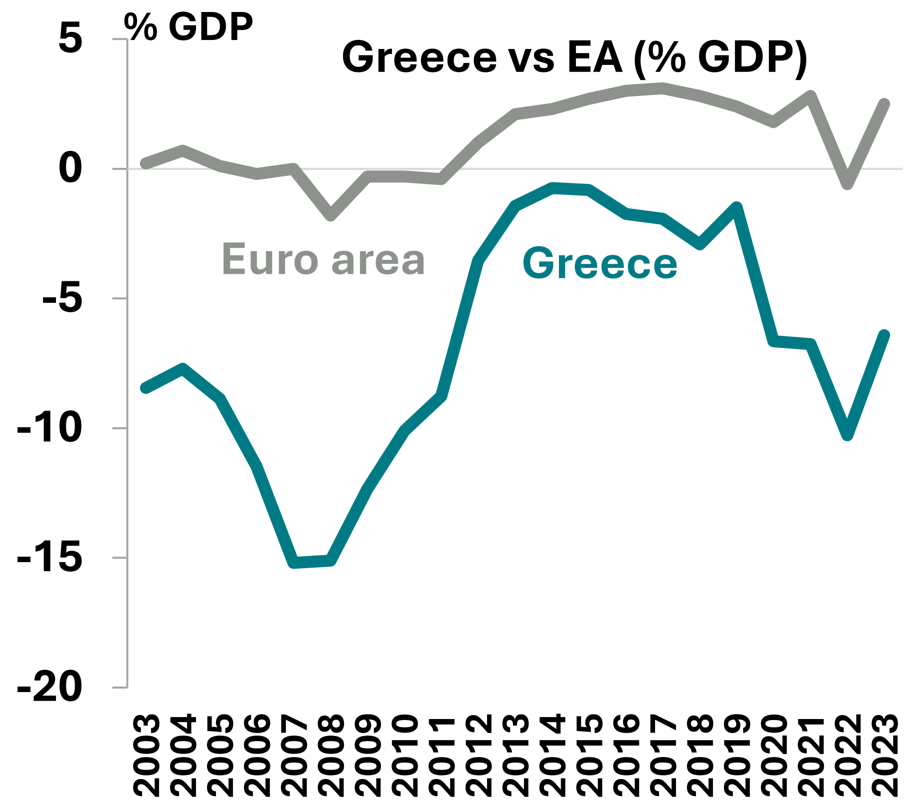


Sources: ELSTAT, Eurostat & NBG Economic Analysis estimates

2. Yet external sustainability remains a concern

Current account balance





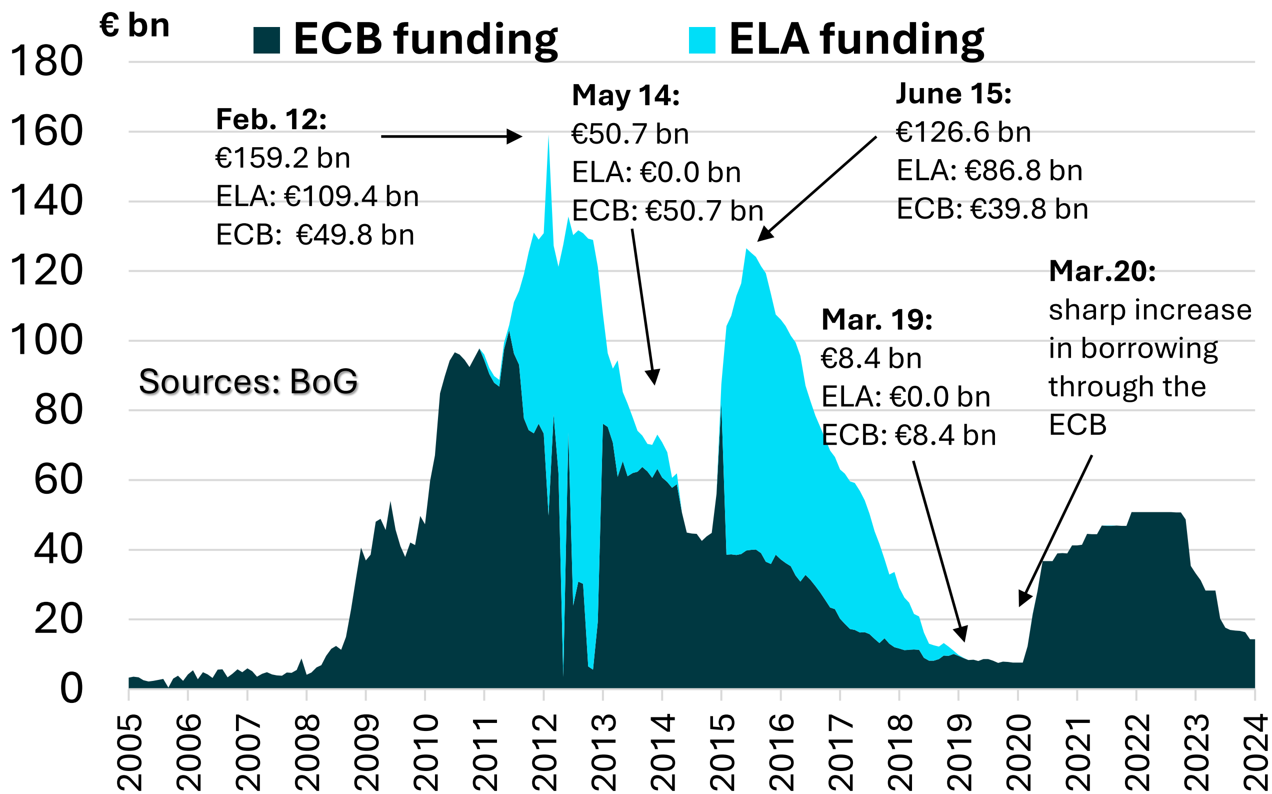
Sources: BoG, Ameco

- 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.

ΕΘΝΙΚΗ ΤΡΑΠΕΖΑ

2. The two Stages of the Crisis & Greek Banks

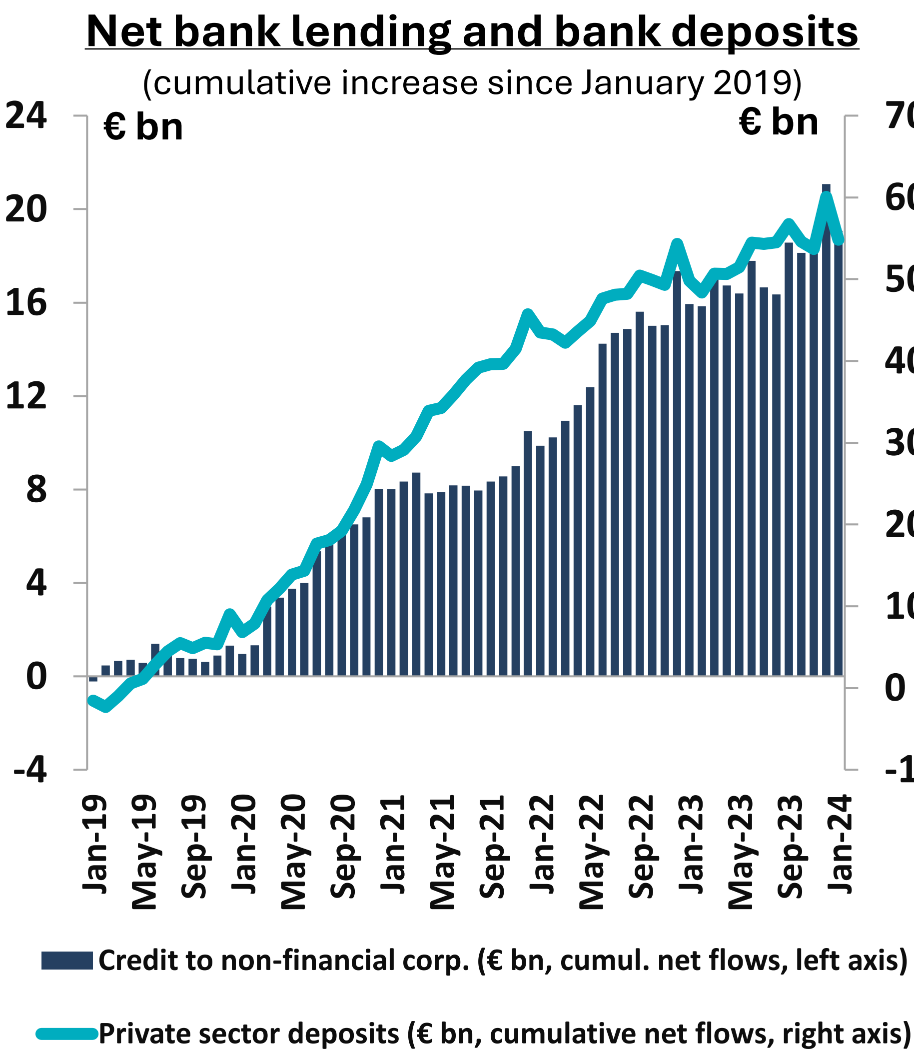
- ❑ Bank dependence on ECB reveals the two distinct stages of the crisis
- ❑ Prior to the International Crisis of 2007-2009 little use of ECB borrowing.
- ❑ Lehman episode froze the interbank market, raising borrowing to €55bn.
- ❑ Greek crisis raised dependence to > €100bn.
- ❑ Since July 2011 Emergency Liquidity Assistance (ELA)
  - •Max value in 11/2012
  - •Down to ZERO in 11/2014
  - •Back to €87bn in 6/2015, capital controls
  - •Down to Zero again in 03/2019

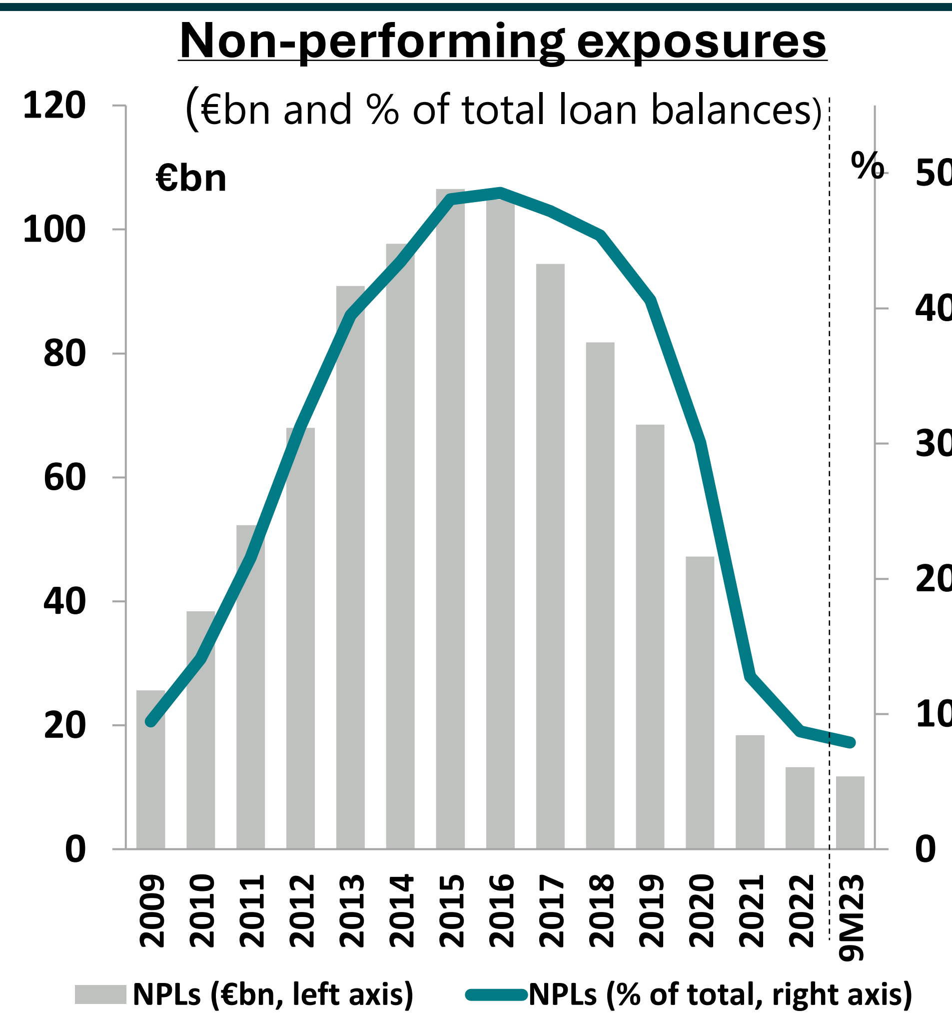


- ❑ ELA borrowing costs 1.5% more due to low quality collateral. Risk born by Greeks.
- ❑ Two humps show existence of two separate crises.
- ❑ Third hump since March 2020 not due to liquidity need: Profitable to borrow cheaply from ECB and redeposit the proceeds at a higher rate.

ΕΘΝΙΚΗ ΤΡΑΠΕΖΑ

2. Banking Sector regains its strength





Sources: BoG & NBG Economic Analysis

- ❑ Both lending & deposits increase after 2019
- ❑ NPEs are cured but a large part remains in the economy
- ❑ Positive profitability, great performance in 2023 stress tests

3. Main economic concerns today

3. Which are the main disequilibria – or concerns – today?

I. Low Investment

II. Dismal demographics

III. Productivity and quality competitiveness in question

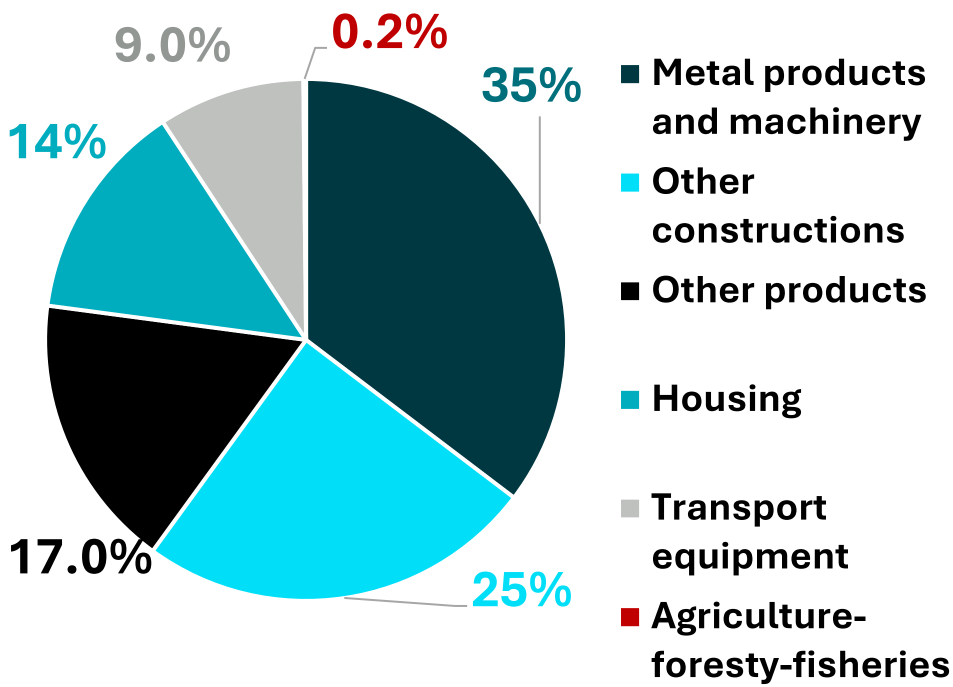
IV. Challenging global environment

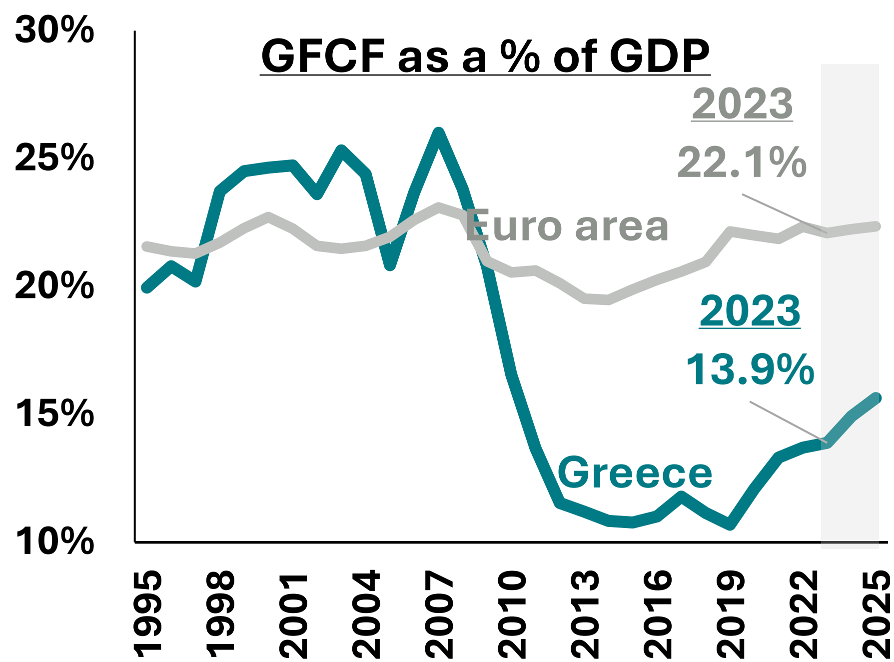
3. I. First concern: Low Investment, too much in housing

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

GFCF by investment product

2023 current prices

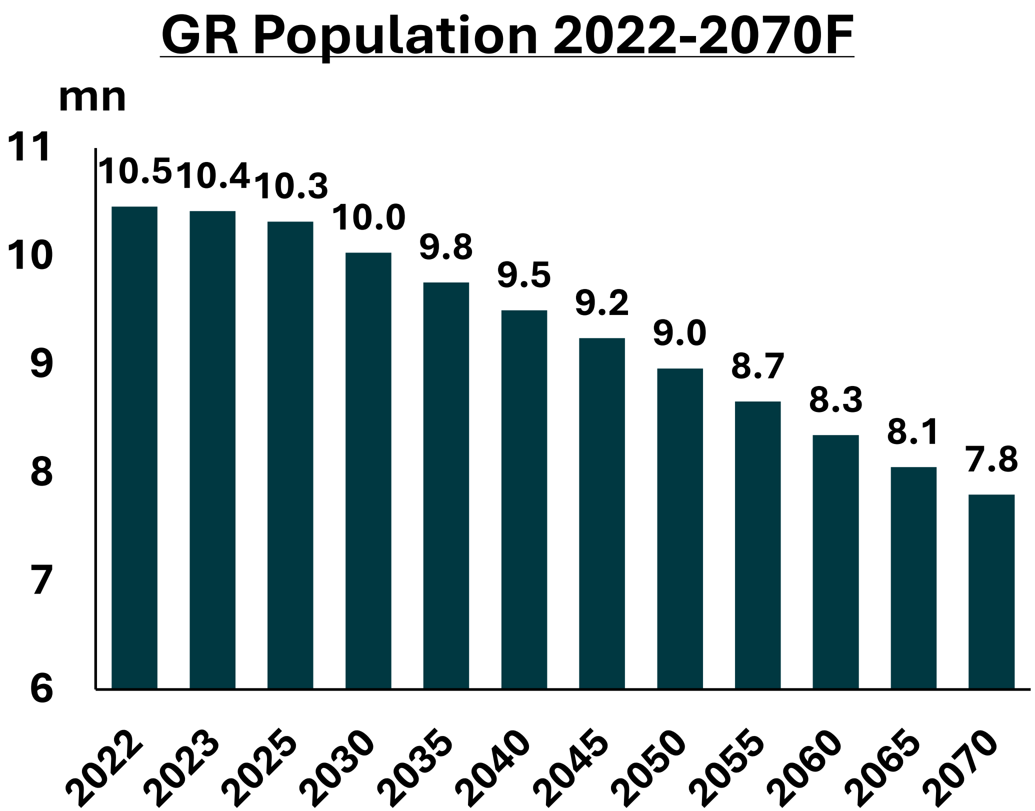


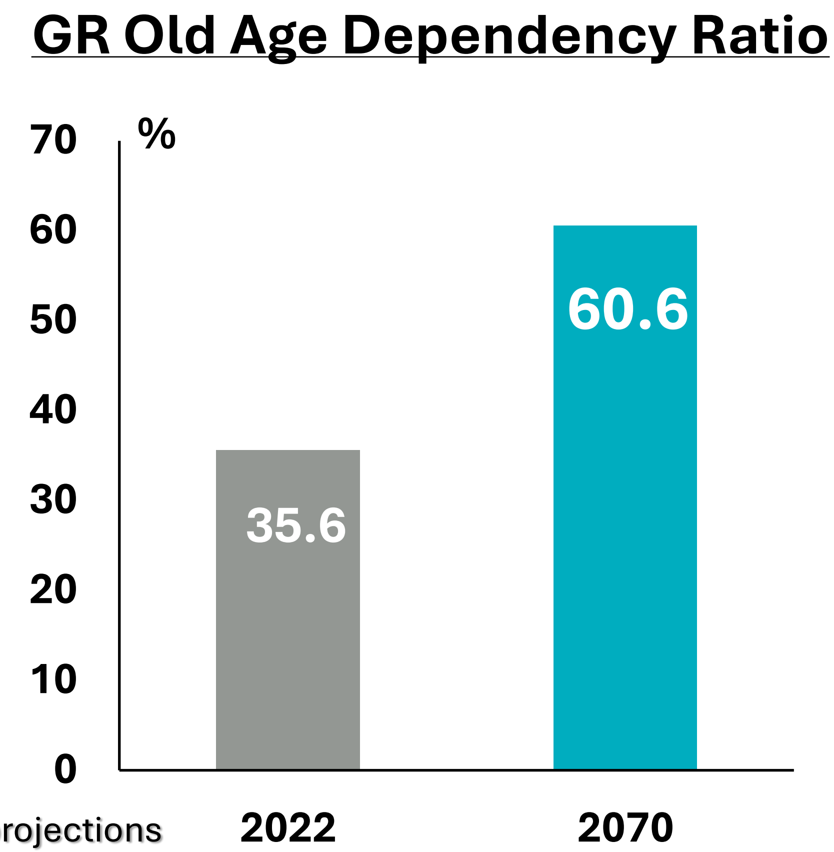


Sources: Ameco, ELSTAT

- ❑ Investment allocation is problematic

3.II. Second 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.

ΕΘΝΙΚΗ ΤΡΑΠΕΖΑ

3. III. Third concern: Productivity & quality competitiveness

- How does productivity improve by methods other than cost-cutting? Can we divert resources towards high valued products & services?

    a. **Improve investment in digital economy (in physical & human capital).**

    b. **Improve labor market skills and matching between demand & supply of specialties.**

    c. **Improve competition, delivery of justice, and governance (Voice & Accountability, Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption).**

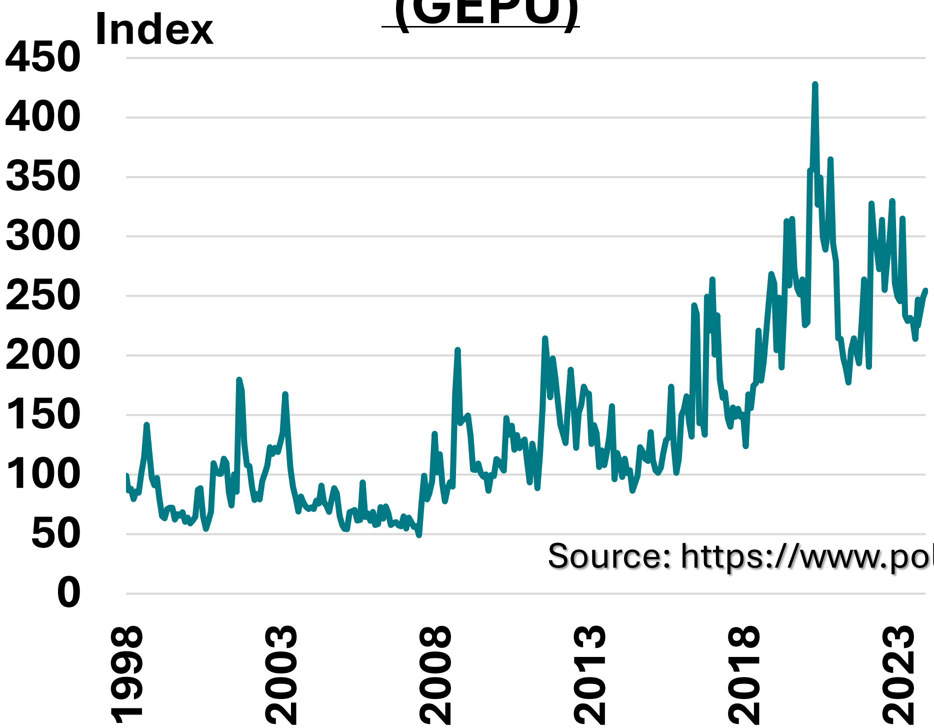
    d. **Improve economic justice (lower tax evasion, improve distribution of income, etc.)**

    e. **Reduce economic uncertainty.**

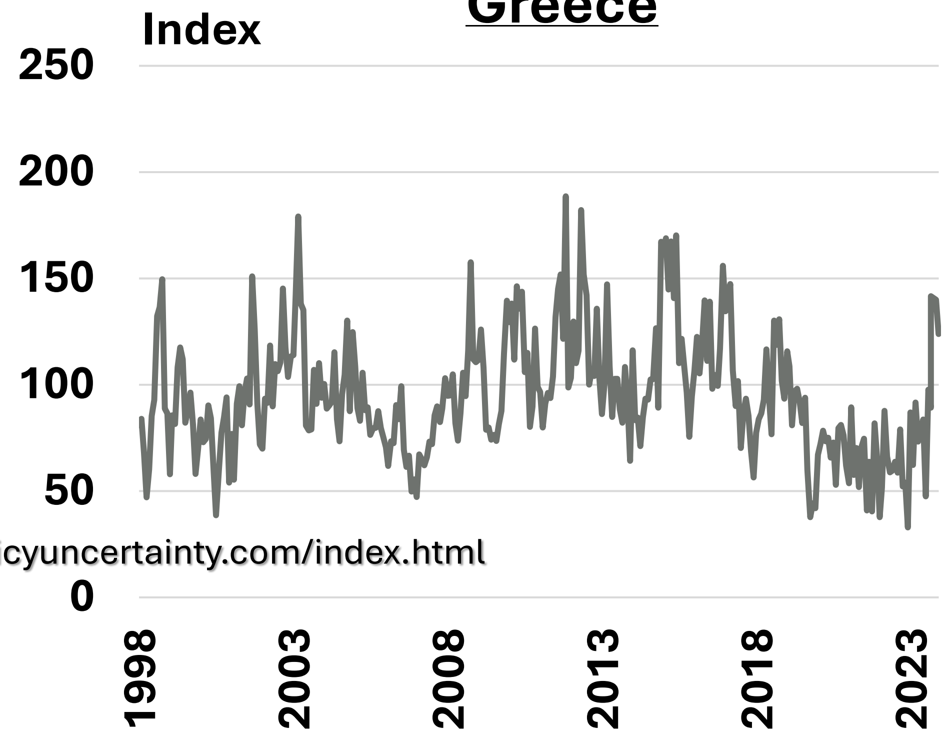
3. IV. Fourth concern: The global environment

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

Global Economic Policy Uncertainty (GEPU)



Economic Policy Uncertainty Greece



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

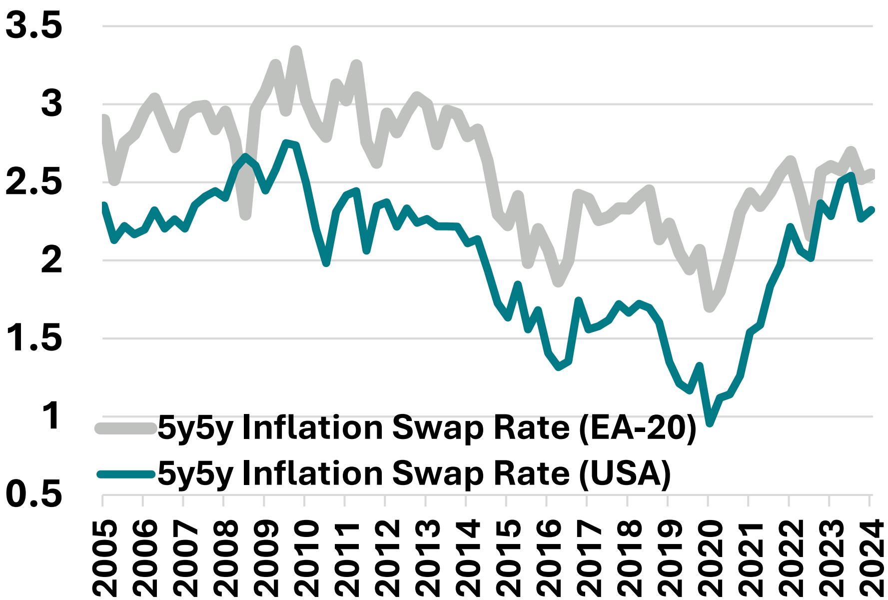
Note: The GEPU Index is a GDP-weighted average of national EPU indices for 21 countries: Australia, Brazil, Canada, Chile, China, Colombia, France, Germany, Greece, India, Ireland, Italy, Japan, Mexico, the Netherlands, Russia, South Korea, Spain, Sweden, the United Kingdom, and the United States. Each 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).

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

3.IV. Macro and Regulatory Policy

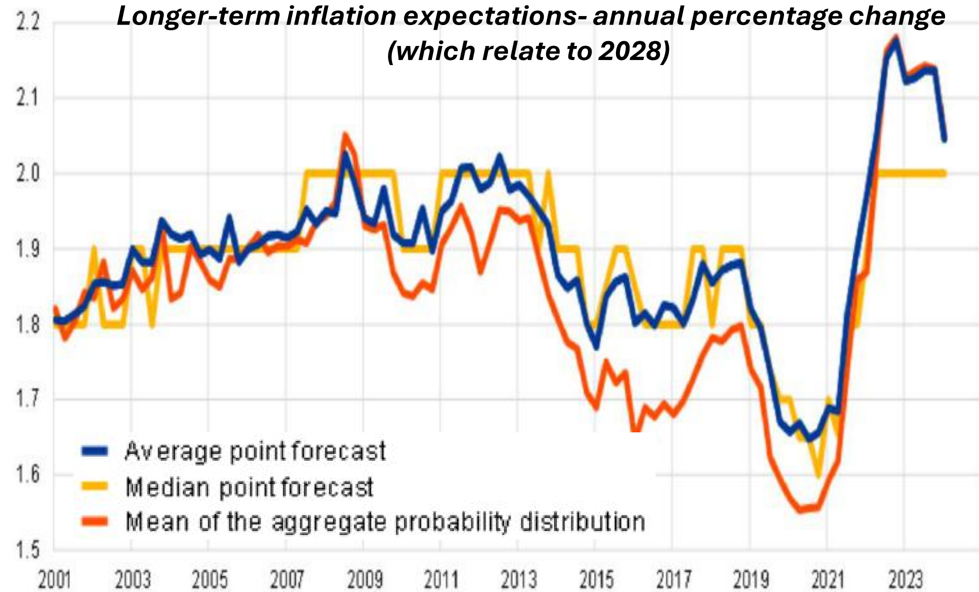
- Monetary and regulatory authorities are more alert today.
- The recent period of abnormally low (even negative) interest rates is over with expected inflation on the rise.
- Monetary authorities under pressure to revisit the 2% target.

Market Expectations



ECB Survey of Professional Forecasters

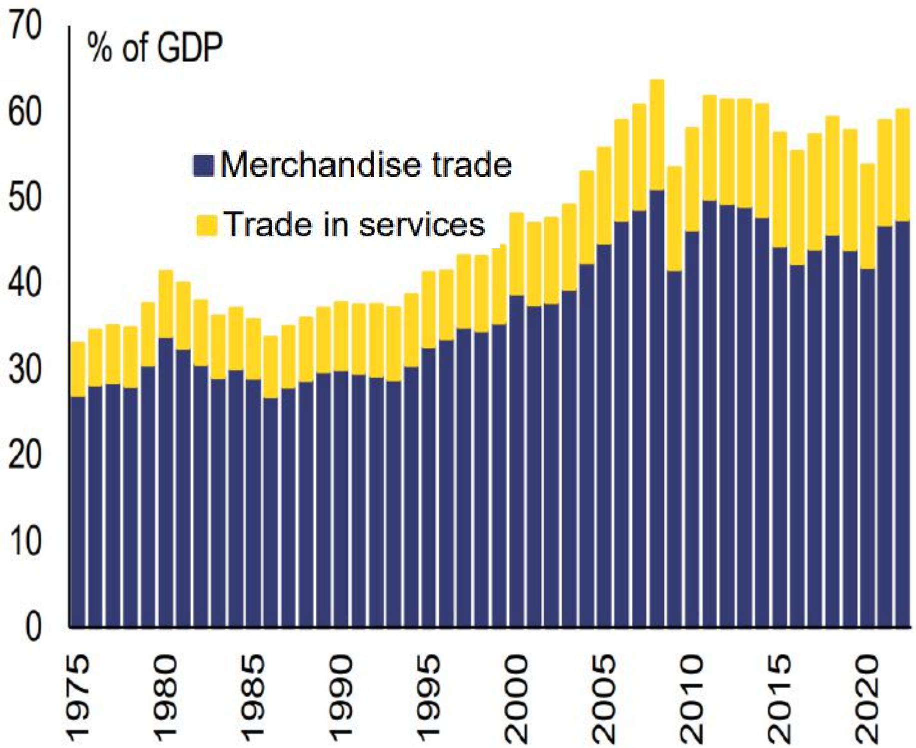
Longer-term inflation expectations- annual percentage change (which relate to 2028)



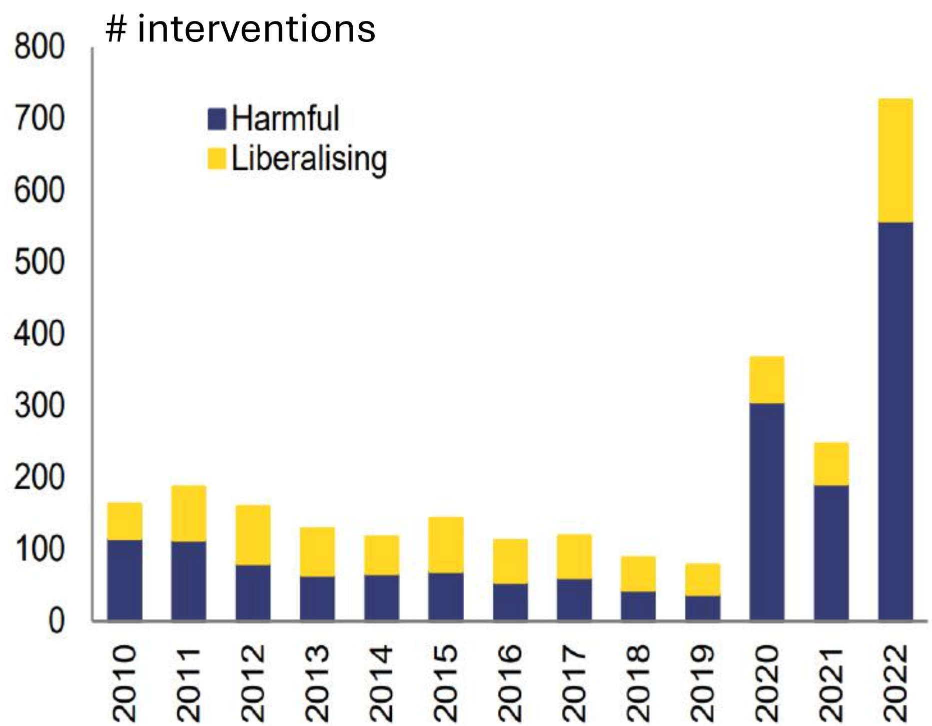
Source: Bloomberg, ECB

3. IV. Global Trade Integration has stalled with restrictions rising

World trade



Trade policy interventions



- 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.

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

4. Conclusions

4. 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.
- The demographics are dismal
- Productivity improvement requires improvement in skills, market competition, judicial efficiency, and overall governance
- 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.

Thank you

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Appendix

3. III. a. Digital Investment: There is progress, yet more is needed

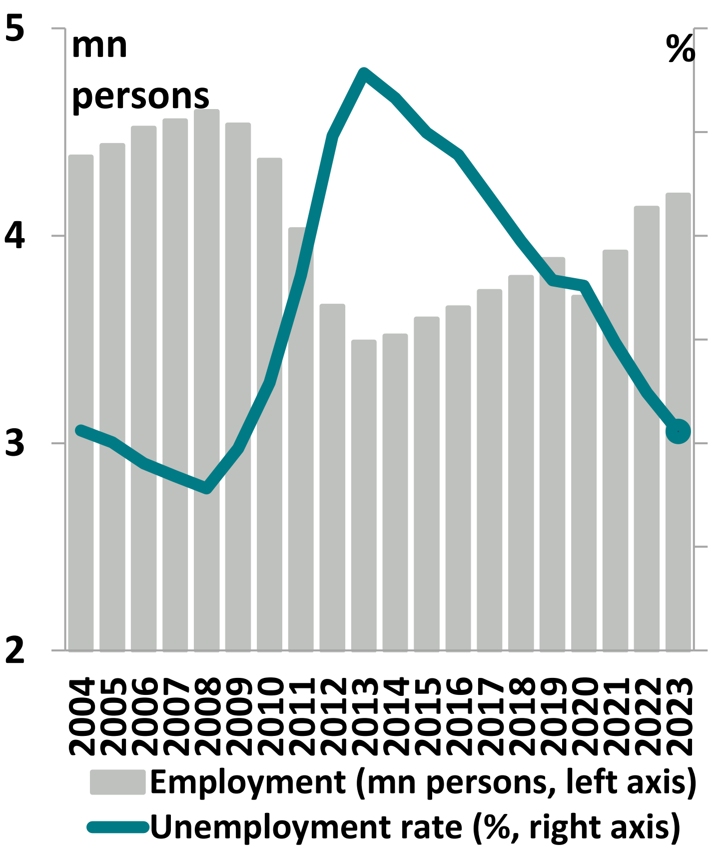
Digital Economy and Society Index	Greece			EU	EU
	DESI 2021	DESI 2022	DESI 2023	DESI 2023	Digital Decade Target by 2030
Digital Skills					
At least basic digital skills (% individuals, 2021)	N/A	52%	**52%**	**54%**	80%
ICT Specialists (% individuals in employment aged 15-74)	2.1%	2.8%	**2.5%**	**4.6%**	20mn
Digital infrastructure/connectivity					
Fixed Very High-Capacity Network coverage (% households)	10%	20%	**28%**	**73%**	100%
Overall 5G coverage (% populated area)	0%	66%	**86%**	**81%**	100%
Digitalization of businesses					
SMEs with at least basic level of digital intensity (% SMEs)	N/A	39%	**41%**	**69%**	90%
Big data (% enterprises, 2020)	13%	13%	**13%**	**14%**	75%
Cloud (% enterprises, 2021)	N/A	17%	**15%**	**34%**	75%
Digitalization of public services					
Digital public services for citizens (score 0-100)	N/A	52	**65**	**77**	100
Digital public services for businesses (score 0-100)	N/A	48	**74**	**84**	100

Source: European Commission

3.III.b. Labor market improvement, but labor market slack

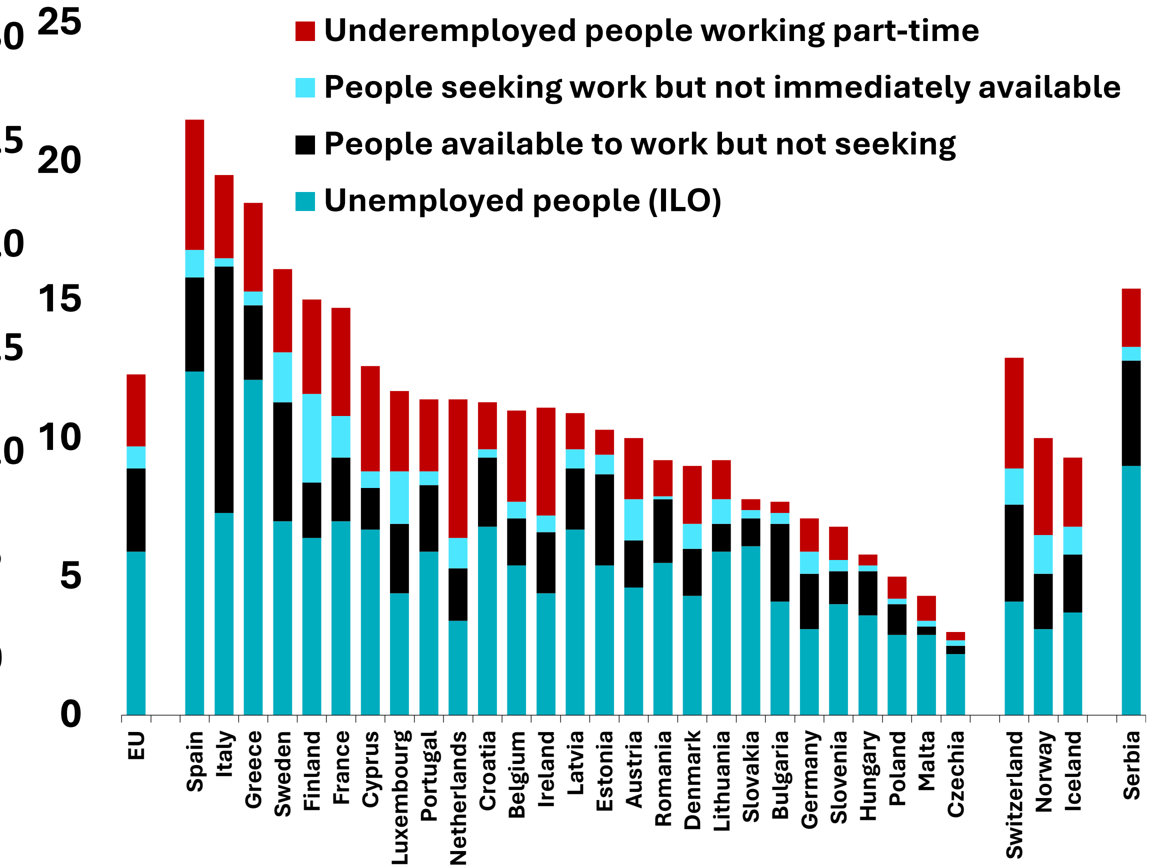
Employment & Unemployment

(mn persons & percentage)



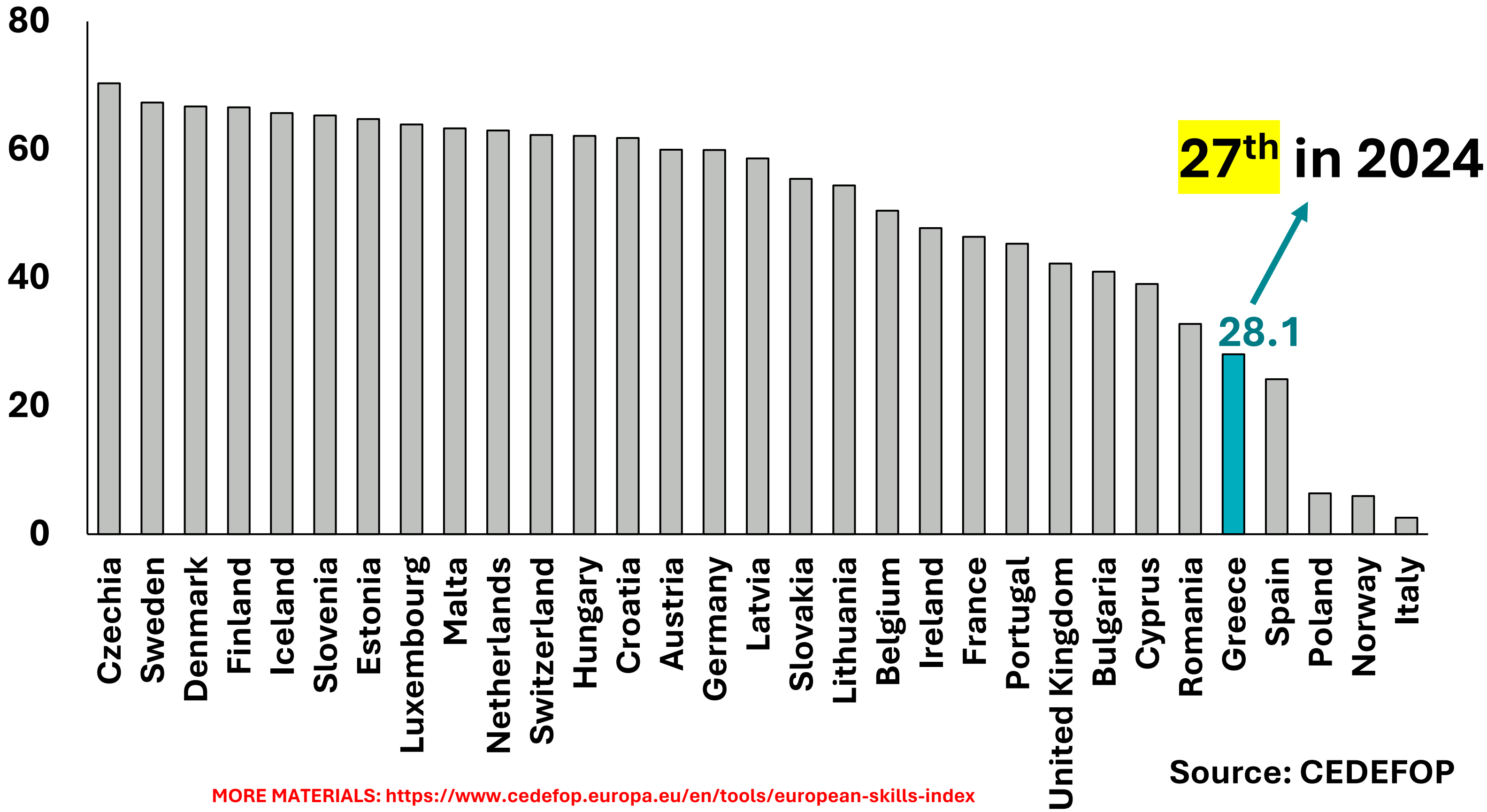
Labor market slack by country & components, 2022

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



Source: Eurostat

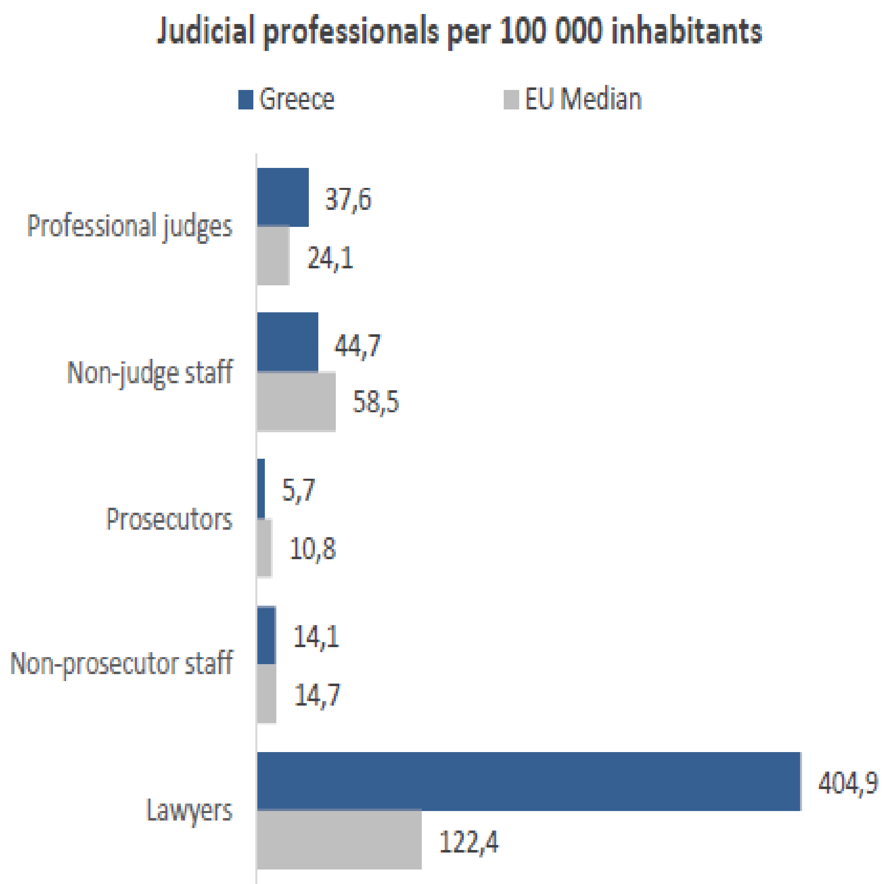
3.III.b. Behind Europe in the European Skills Index (ESI)

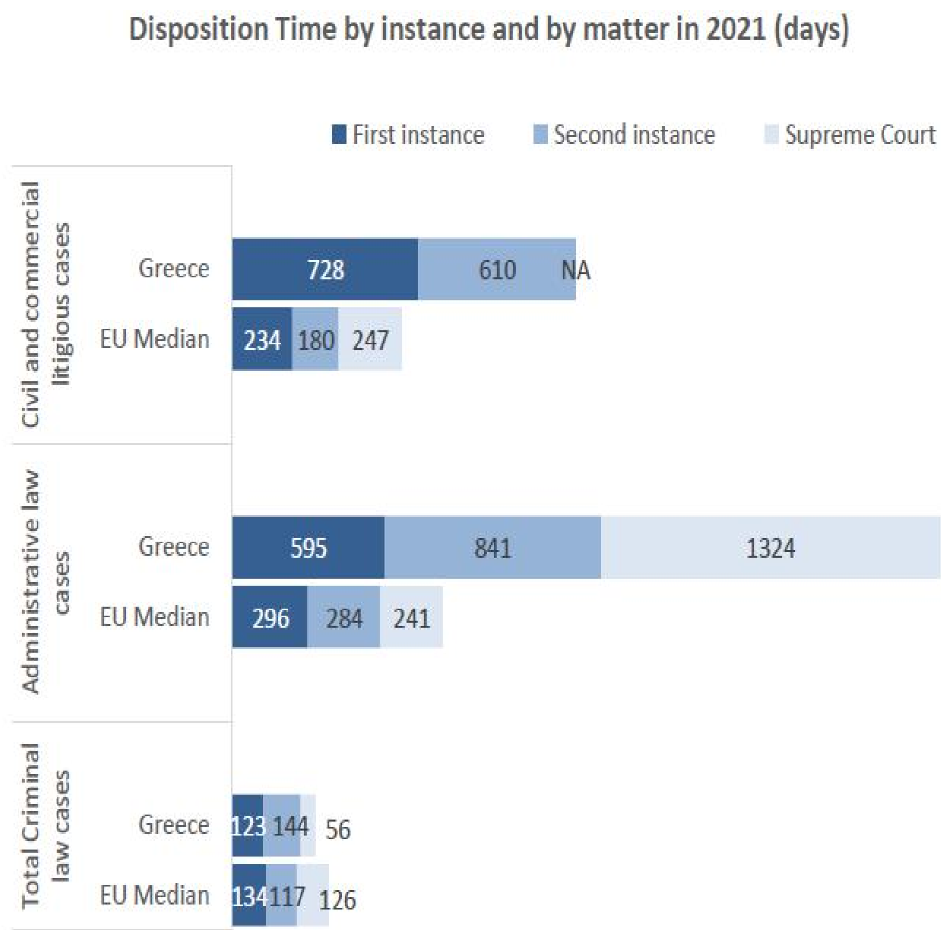


MORE MATERIALS: https://www.cedefop.europa.eu/en/tools/european-skills-index

- ESI consists of 3 pillars: (i) Skills Development, (ii) Skills Activation and (iii) 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 27th in 2024: (i) 28th in skills development (35.2 of 100pts), (ii) 27th in skills activation (37.4 of 100pts) and (iii) 30th in skills matching (20.0 of 100pts).

3.III.c. Justice system efficiency needs urgent boost





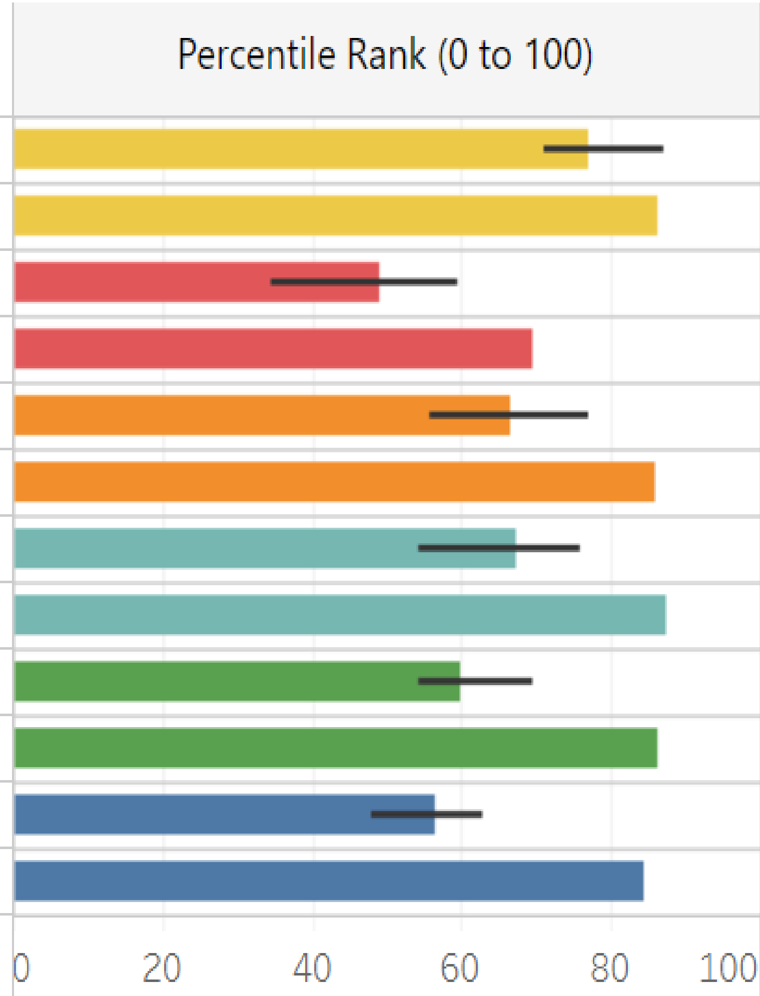
Source: CEPEJ Study for the EU Justice Scoreboard 2021

https://commission.europa.eu/strategy-and-policy/policies/justice-and-fundamental-rights/upholding-rule-law/eu-justice-scoreboard_en#factsheets
https://www.coe.int/en/web/cepej/cepej-study-for-the-eu-justice-scoreboard

3. III. c. Proper governance needs more work

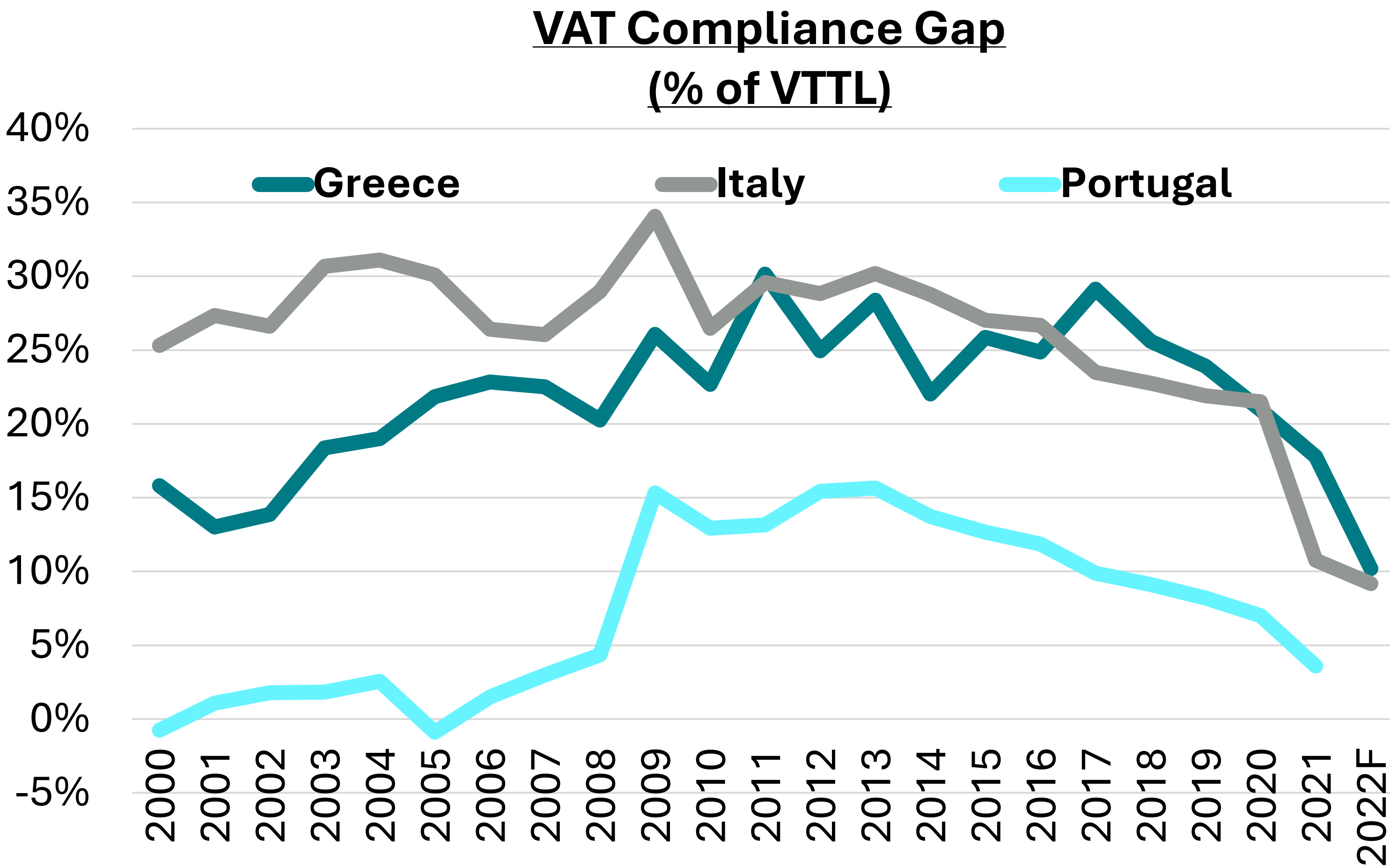
- Compared to high income OECD countries, Greece is behind in most governance Indicators

Indicator	Country	Year
Voice and Accountability	Greece	2022
	High income: OECD	2022
Political Stability and Absence of Violence/Ter..	Greece	2022
	High income: OECD	2022
Government Effectiveness	Greece	2022
	High income: OECD	2022
Regulatory Quality	Greece	2022
	High income: OECD	2022
Rule of Law	Greece	2022
	High income: OECD	2022
Control of Corruption	Greece	2022
	High income: OECD	2022



Source: The World Bank

3. III.d. Economic Justice: Tax compliance improves but more is needed



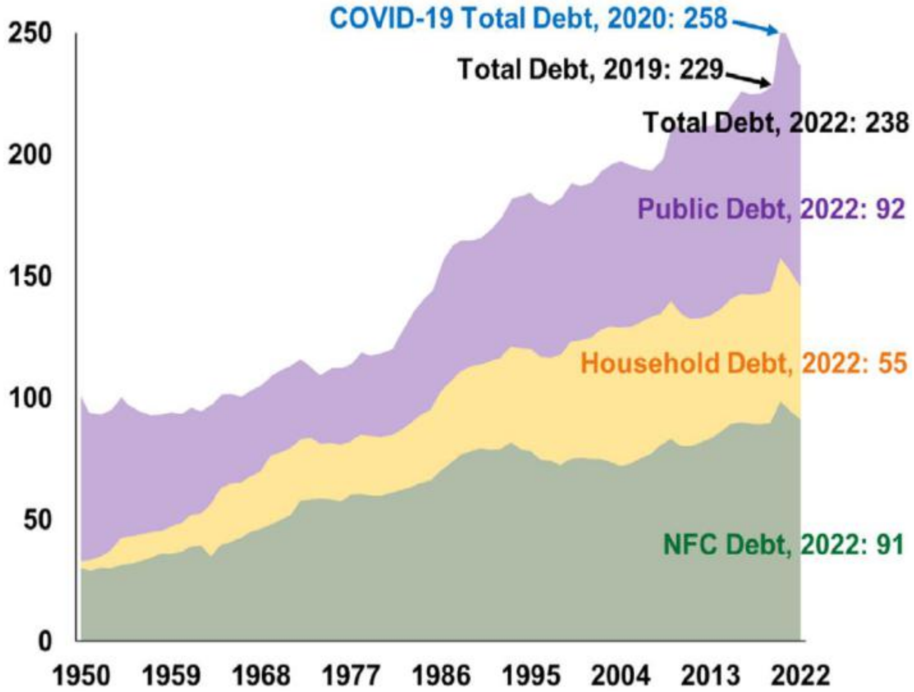
- VAT compliance improved from a Gap of 29.2% in 2017 to 9.2% in 2022.
- Yet we still remain the 3rd worst country in Europe.

Sources: EU VAT Gap in the EU, 2023 Report

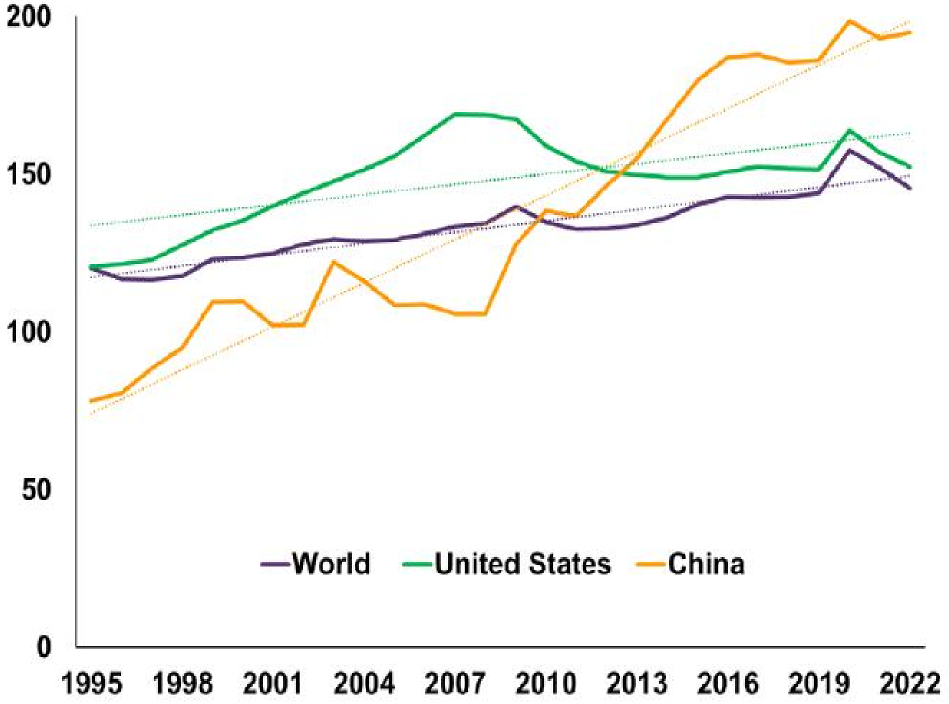
3. IV. Global debt remains on an upward trend

- 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, (%GDP)

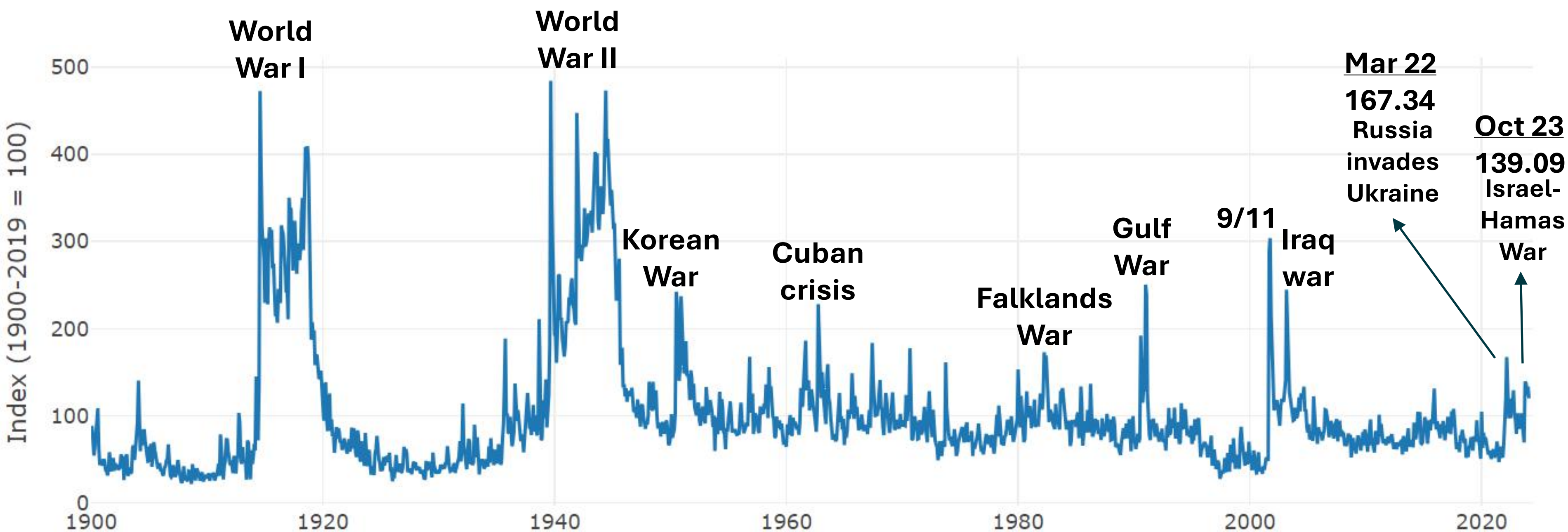


Global Private debt (%GDP)



Sources: IMF 2023 Global Debt Monitor

3. IV. Fourth concern: Global geopolitical risk



Source: Geopolitical Risk (GPR) Index by Dario Caldara & Matteo Iacoviello of the Federal Reserve Board (Last Update 12/3/2024)