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The Greek Economy a Decade Later

GREEK & EUROPEAN ECONOMY OBSERVATORY

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Summary

The Greek economy has made a remarkable comeback from a decade ago, to the point that the Economist rated it to have performed the best in the OECD in 2023. This paper reviews Greek economic performance over the last ten years and identifies a number of major challenges that remain, despite the progress made. The last part presents an action plan for the next decade in four priority areas: the labor market, social services, migration and savings-investment. In these areas, reforms are urgently needed, if Greece is to achieve sustainable and equitable growth. The analysis concludes that, because of the continued debt burden, successful reforms will require the Greek government to maintain a delicate and difficult balance between fiscal sustainability and taking the necessary measures to support green and inclusive growth.

Introduction

In late 2023 the *Economist* published its annual review of the economic performance of OECD countries.[1] Subtitled 'Another unlikely triumph' and 'From the ruins' it showed that for the second year in a row, the Greek economy performed best in the OECD. This is a remarkable achievement given that, exactly a decade ago, the Greek economy was in the midst of a debt crisis, unemployment stood at 29%, and there was plenty of Grexit talk.

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The *Economist* results were based on five, primarily macro-economic indicators, and made me wonder as to whether use of different metrics would have changed the results. This paper reviews briefly Greek economic performance based on the *Economist* indicators and a number of others in which Greece's performance does not look as good. Then I turn my attention to the next decade and what policies should be given priority by the Greek government to promote the achievement of sustainable and equitable development.

The 2023 performance and the past decade

Global economic performance significantly exceeded expectations last year, as everybody seemingly had anticipated a global recession which did not happen: Inflation was curbed while output and employment rose globally. The five indicators the *Economist* used to assess performance included two pertaining to inflation, change in core prices and inflation breadth; growth in GDP and employment, and change in stock market share prices. Greece ranked number one in increase in share prices, did exceptionally well (top five) in containing inflation, pretty well in GDP growth (11th) and worse in employment growth (15th). The *Economist* noted that the Greek economy was 'until recently a byword for mismanagement' and that the IMF praised the government in its recent Article IV consultation for its efforts to promote the digital transformation of the economy and enhancing market competition.[2]

In reviewing the performance of the Greek economy over the last decade, a few things stand out: The debt/GDP ratio has been lowered to below pandemic levels- thanks both to GDP growth and increased inflation. The banking system has been strengthened by divesting its large portfolio of non-performing loans, but a recent IMF report[3] notes that banks need to increase their resilience against future risks; and in late 2023, Greek government bonds were raised to investment grade level by three of the four rating agencies, thus, in a way, both reflecting and confirming the euphoric performance of the stock market.

Despite the good recent performance, Greek GDP per capita is still below pre-crisis levels. Almost 19% of its population are below the poverty line, compared to 14% in the EU.[4] Unemployment has come down from the staggering 2014 levels to 11.7% in February 2024 still double the EU average. Spending on social assistance is the lowest as a percent of GDP

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[1] *The Economist* (2023) "Which economy did best in 2023?" (https://www.economist.com/finance-and-economics/2023/12/17/which-economy-did-best-in-2023).
[2] IMF (2024) "Greece: Article IV Consultation" Country Report No.24/23, Staff Report p.7 (https://www.elibrary.imf.org/view/journals/002/2024/023/002.2024.issue-023-en.xml).
[3] IMF (2022) "Greece: Selected Issues" Country Report No.22/174, p.22 (https://www.elibrary.imf.org/view/journals/002/2022/174/002.2022.issue-174-en.xml).
[4] World Bank (2024) (https://pip.worldbank.org/country-profiles/GRC) assessed 10 April 2024.

in the euro area.[5] Greece entered the debt crisis with much higher income inequality, but income distribution indicators showed that, while still higher, inequality came closer to the euro area average by 2020.[6]

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On balance, some of the progress resulted from the reforms in the context of an excessively tight fiscal policy forced on the SYRIZA government by the country's lenders following the famous Tsipras somersault in July 2015. Some was brought about by the steady improvements implemented by the Mitsotakis government in various areas, in the last five years. Six months after the latter took office, and just before the onset of the pandemic, I argued that the EU should give Greece a new deal: the government should be allowed to pursue more expansionary fiscal policies than those implied by the agreed primary surplus of 3.5% of GDP in exchange for an increase in public investment which was (and still is) lagging.[7] At the time, even the IMF had concluded that the straightjacket forced on the government by its creditors was too tight: In its Article IV consultation, IMF Staff urged the authorities to seek consensus with European partners on a lower primary balance target.[8]

The pandemic changed all that. The Greek government, as many other governments around the world, was forced to run large deficits in both 2020 and 2021, prior to restoring equilibrium in 2022 and achieving a primary surplus again in 2023. The government increased COVID-related spending by 18% of GDP—much higher than the EU average of 10% - though the results in terms of mortality were not that great: Greece's mortality from COVID of 327 per 100,000 of population, placed it 9th highest in the EU, despite its favorable climate conditions--probably as a result of weaknesses in the health system.[9] Investment levels were maintained and even increased somewhat, partly as a result the EU's Recovery and Resilience Fund scheduled to provide 36 billion Euro (17% of the country's GDP in 2022) by 2026. The government has also introduced a number of reforms to strengthen the pension system and competition, improve the administration of social assistance, as well as increase digitalization. Still, a lot remains to be done.

Greece entered the debt crisis with much higher income inequality, but income distribution indicators showed that, while still higher, inequality came closer to the euro area average by 2020.

The most recent IMF Board discussion supported the government's commitment to continue to run primary budget surpluses and referred again to the need to address the 'structural' problems facing the Greek economy. These include the usual suspects—the sclerotic judicial system, tax evasion in the large informal sector and the self-employed and the still low level of investment; as well as the new challenges arising from the need to address climate change.[10]

Both the IMF and the government's perspective—let alone the *Economist* stock-market-driven assessment, are too optimistic. They do not adequately address the fundamental problems that affect the long run supply and quality of both factors of production: labor and capital. In particular, there is a demographic time bomb which will dominate the labor

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[5] IMF (2022) "Greece: Selected Issues" Country Report No.22/174, p.13. (https://www.elibrary.imf.org/view/journals/002/2022/174/002.2022.issue-174-en.xml).
[6] IMF (2022) "Greece: Selected Issues" Country Report No.22/174, p.8. (https://www.elibrary.imf.org/view/journals/002/2022/174/002.2022.issue-174-en.xml).
[7] C. Michalopoulos "It's time for a new deal" *Kathimerini*, 10 February 2020 (www.ekathimerini.com/248983/opinion/ekathimerini/commnet/its-time-for-a-new-deal)
[8] IMF (2019) "Greece: Article IV Consultation" Press Release Staff Report (https://www.imf.org/en/Publications/CR/Issues/2019/11/14/Greece-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-48806#).
[9] Incidence of coronavirus (COVID-19) deaths in Europe as of January 13, 2023, by country *(per 100,000 population)* (https://www.statista.com), accessed on 8 April 2024.
[10] IMF (2024) "Greece: Article IV Consultation" Country Report No.24/23, Press Release p.2 (https://www.elibrary.imf.org/view/journals/002/2024/023/002.2024.issue-023-en.xml).

market, and which together with raising investment for equitable and sustainable growth are the two main challenges facing Greek society in the coming decade.

Europe's population is shrinking and aging. And Greece is among the leaders in both.

The next decade

Labor

Europe's population is shrinking and aging. And Greece is among the worst affected countries in both. Despite a recent uptick, the fertility rate in Greece, at 1.32 births per woman in 2022, is among the lowest in the EU[11]. Greece's working age population declined by 0.7% per annum in the last decade and is projected to decline by 1% per annum until 2030.[12] The dependency ratio for old age is currently at 39% (compared to an EU average of 33%), and is projected to reach 42% by 2027, and an almost impossible 75% by 2050.[13]

The problem with pensions is already here: Greece spends 16% of its GDP on pensions—the highest in the EU while the share of social assistance spending at 8% of GDP is among the lowest in the EU.

The problem with pensions is already here: Greece spends 16% of its GDP on pensions (the highest in the EU), while the share of social assistance spending is among the lowest in the EU (next to last, Latvia, in per capita terms).[14] Although income inequality has recently declined, the composition of social spending remains inefficient, as pensions are not as well targeted as social assistance.

The implications of demographic change for the labor market are equally obvious: given the increase in the old-age group and the decline in labor force, the dependency ratio will increase – unless there is a very large increase in the labor force participation rate, and/or in net immigration, especially of young people.

The labor force participation rate (59% for men and 45% for women) is among the lowest in the EU.[15] Clearly, raising female employment while avoiding adverse effects on fertility (which is already low) requires investing in childcare.

Over the last decade, Greece net migration was negative—with tens of thousands of Greek workers—as well as undocumented foreigners moving out of Greece to the EU and beyond.

Unfortunately, the migration story is also grim. While the international press and human rights organizations have rightly focused on the abominable conditions prevailing in Greece's detention centers for asylum seekers, and the government has rightly sought an improved EU wide policy towards migrants, Greece has been suffering from net loss of migrants. Over the last decade, Greece net migration was negative—with tens of thousands of Greek workers—as well as undocumented foreigners moving out of Greece to the EU and beyond. Greece has the highest unemployment rate among highly-educated workers (around 12%) in the euro zone, which also drove emigration during the crisis years (2010-2015). The statistics on such flows are not good, but there is considerable evidence of Greek professionals migrating to Western Europe. There are at least 3,000 Greek physicians operating in Germany, motivated by differences in employment conditions and in health policies.[16]

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[11] Eurostat (2024) "How many children were born in the EU in 2022?" (https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20240307-1).
[12] IMF (2024) "Greece, Article IV" Country Report No. 24/23, Staff Report p.16 (https://www.elibrary.imf.org/view/journals/002/2024/023/002.2024.issue-023-en.xml).
[13] OECD (2024) "Old Age Dependency Ratio" (doi: 10.1787/e0255c98-en), accessed on 8 April 2024.
[14] IMF (2022) "Greece: Selected Issues", Country Report No. 22/174, p.14 (https://www.elibrary.imf.org/view/journals/002/2022/174/002.2022.issue-174-en.xml).
[15] World Bank (2024) "Gender data Portal" (https://genderdata.worldbank.org/countries/greece).
[16] A. Gkolfinopoulos (2017) "The Migration of Greek Physicians to Germany: Motivations, Factors and the Role of National Health Sectors" (https://doi.org/10.18278/epa.2.2.8).

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The Mitsotakis government has made a good start in passing a new law that improves security and stability for existing migrants, while the new EU migration policy can also be expected to provide improved conditions for both new and existing migrants. But a lot more needs to be done, as discussed below.

Finally, the economy is dominated by small firms with low productivity. Estimates suggest that labor productivity is about two-thirds of the OECD average. In terms of share of firms using high speed internet, Greece ranks last.[17] Strengthening the labor market is needed both to raise labor productivity and to keep highly trained professionals from migrating.

Capital

The problems of doing business are well known. The last World Bank survey done in 2019 placed Greece last among the OECD and 79th place globally.

There are two aspects to the story about investment: private and public. On the private side, the absence of a developed capital market combined with occasional bouts of inflation, had made Greeks channel their private savings to housing. Many Greek families of modest means own a house in the village or island of origin, and an apartment in Athens or another urban area—much to the chagrin of ordinary German taxpayers who thought they were being unfairly asked to bailout rich spendthrift Greek capitalists during the debt crisis. In spite of the development of capital markets, and improved monetary stability, the household savings rate (7.1%) is the lowest in the EU.[18] This obviously needs to be addressed urgently.

The problems of doing business are well known. The last World Bank survey done in 2019 placed Greece last among the OECD and 79th place globally.[19] This was actually a fall from the 67th place the country held in 2017.[20] The government has done a few things to reduce red tape, and various Greek governments have provided incentives to foreign investors which have resulted in significant inflows (e.g. the partial sale of the port of Pireaus), and more projects under construction (e.g. the development of the old airport near Athens). The 'golden visa' regime has been recently modified, doubling to €800,000 the amount that needs to be invested to qualify. But the scheme creates few jobs and, the housing units purchased are often used for short term rentals—aggravating housing shortages for young people. As in the past, the role of public sector investment remains critical.

As in the past, the role of public sector investment has been and will be critical.

The story here was disappointing, is currently improving, but still has a long way to go in order to meet Greece's future challenges. As noted earlier, all recent economic assessments have stressed the importance of raising public sector investment. Yet, the most recent government figures discussed with the IMF project an actual decrease in public sector investment after 2026,[21] most probably because that is when the EU Recovery Fund will end.

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But the Green Transition makes public investment more rather than less urgent. Raising the price of carbon emissions will adversely affect the poor, as they spend more of their income on energy-intensive goods—which will raise the need for social transfers.

[17] OECD (2023) "Greece: Economic Policy Reform. Going for Growth" pp.30,43 (https://www.oecd.org/economy/greece-economic-snapshot/#:2023).
[18] IMF (2022) "Greece: Selected Issues", Country Report No. 22/174, p.65 (https://www.elibrary.imf.org/view/journals/002/2022/174/002.2022.issue-174-en.xml).
[19] World Bank (2021) "Ease of Doing Business Rank" (https://databank.worldbank.org/source/doing-business).
[20] C. Michalopoulos (2018) *Kathimerini* "Policy priorities for the day after" (in Greek) 8 August 2018.
[21] IMF (2024) "Greece: Article IV Consultation" Country Report 24/23, Staff Report Table 3 (https://www.elibrary.imf.org/view/journals/002/2024/023/002.2024.issue-023-en.xml).

Raising the carbon price will adversely affect the poor as they spend more of their income on energy-intensive goods—which will give rise to additional needs for social transfers.

Furthermore, for various reasons climate change is likely to affect Greece more than other EU countries: On the one hand, the country has a very large coastal area (the third largest in Europe), requiring investment to deal with rising water levels threatening littoral communities. On the other hand, the country is prone to wildfires which require investments to prevent future catastrophes as well as dealing with inevitable disasters. Lastly, the shift to renewable energy also requires large investments.

An action program

Addressing the need for green inclusive growth in an ageing society while maintaining fiscal sustainability requires a set of mutually reinforcing reforms in four areas: (a) the labor market; (b) social services; (c) migration; (d) savings and investment. These are discussed below.

The labor market

Both labor productivity and mobility between jobs will also need to increase […]This will require active labor market policies involving additional spending on training.

The Mitsotakis government has taken some important steps to streamline the pension system, reduce some benefits and raise the retirement age through reforms enacted in 2020. EU projections suggest that under certain assumptions about employment, labor force participation, GDP and productivity growth, these reforms could reduce the pension spending-to-GDP ratio by several percentage points by 2070.[22] Until 2030, the improvement would be small, as the increased dependency ratio would offset the reduced benefits and stricter rules on early pensions. In later years, an important dimension of the reform is that the mandatory retirement age for both men and women will be adjusted for projected changes in life expectancy.[23] Nevertheless, the projections depend critically on an increase in the labor participation rate for both men and women, which is assumed to increase by four percentage points in 2020-2030. There is nothing in the pension reform as such that would help achieve this.

Both labor productivity and mobility between jobs will need to increase as a consequence of changes needed to promote the green transition. This will require active labor market policies for reskilling, especially in sectors affected by the transition.

Social assistance and social services

As noted earlier, an important government objective should be to increase the share of the GDP that goes to social assistance and social servicesy. In particular, it is essential to: (a) expand health care where coverage is low and public health care facilities are inadequate; (b) increase spending on childcare, which will help increase mothers' employment; and (c) provide support to low-income families which will be adversely affected by higher emission prices. The result of that should be a decrease in both poverty and income inequality.

[22] EU (2021) "The 2021 Aging Report: Economic and Budgetary Projections for the EU Member States (2019-2070), Greece" (economy-finance.ec.europa.eu1b6d32b6-74bc-4343-9d16-f4386f5141afen).

[23] It appears that legislation to this effect has been passed by the Greek parliament. However, the current and previous governments have not implemented it so far, Pension reform is very unpopular as recent experience in France has shown. But it will have to happen in Greece as well in the near future.

Migration

In the context of the new EU policy on migrants and refugees, the government needs to develop a national plan that has three dimensions: (a) the quantity and skills of new immigrants that need to be added to the labor force; (b) investment and recurrent costs of integrating refugees and/or illegal immigrants into the economy; (c) simplification of requirements for permanent residence and citizenship status for new immigrants.

Useful proposals have been put together,[24] aimed at planning and regulating the flow of immigrants and refugees into the EU, involving local government to identify labor needs. However, applying this to the Greek context will need to take account of specific characteristics: on the one hand, labor demand in agriculture and tourism, the two main sectors where much more labor is likely to be needed, is highly seasonal; on the other hand, local authorities have limited capacity to do serious planning.

Strengthening the development of the domestic capital market and taking steps to reduce the grey economy—to which the government is already committed, will help increase private savings.

Savings and investment

Strengthening the domestic capital market and taking steps to reduce the grey economy (to which the government is already committed) will help increase private savings. Additionally, a recent IMF report notes that, if households invest some of their savings in government bonds, this could also help rolling over some external long-term debt.[25] It is unclear however, what the incentives would be for the public to do so.

Finally, the demands of climate adaptation and a green economy require large public sector investment. There is simply no reasonable growth scenario under which public sector investment should decline after 2026, as government estimates currently forecast.

Implications and conclusions

The above recommendations imply significant increases in public sector spending relative to present levels. Can they be accommodated by increased revenues? In this connection, the projections contained in the most recent consultations with the IMF are disappointing. The share of both direct and indirect taxes in GDP is projected to decline after 2023. Greek personal income tax rates are above the EU average, but yield less than half the EU average. Similarly, the share of indirect taxes in GDP is projected to decline from 17% in 2023 to 16% in 2026.[26] This is inconsistent with government proposals to increase digitalization in the economy and other measures to reduce tax avoidance and the size of the grey economy.

The bottom line of the macro-economic projections for the next decade is that either the government does not believe its own rhetoric about raising public sector revenues, or that it aspires to a cushion which will permit an even larger primary surplus, itself an unwanted result. The IMF recommends that "Better than expected revenue should be saved for debt

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[24] G. Schwan "Towards a Humane Refugee Policy for the European Union" (https://feps-europe.eu/publication/towards-a-humane-refugee-policy-for-the-european-union/).
[25] IMF (2022) "Greece: Selected Issues" Country Report 22/174 p.65 (https://www.elibrary.imf.org/view/journals/002/2022/174/002.2022.issue-174-en.xml).
[26] IMF (2024) "Greece: Article IV Consultations" Country Report 24/23. Staff Report Table 3 (https://www.elibrary.imf.org/view/journals/002/2024/023/002.2024.issue-023-en.xml).

reduction".[27] This is wrong. Extra resources are needed to finance additional investment and improvements in social services, as discussed above.

The mistakes made during the crisis by Greece, its EU creditors, and the IMF, cast a long shadow on the future.

The mistakes made by Greece, its EU creditors, and the IMF, during the debt crisis cast a long shadow on the future. Aiming to save European banks, and delaying a 'haircut' on private sector debt, burdened Greece with large amounts of official debt, with low interest and very long maturity. This means that, barring unexpected generosity from its official EU creditors, the Greek government must continue to walk a fiscal tightrope. But there is no reason to plan a primary surplus in the budget for ever. It might be important to do so for a couple of years, so as to safeguard the government's credibility with its recently achieved investment grade status in the capital markets. Nevertheless, doing so indefinitely imposes unnecessarily tight constraints, which is inconsistent with the requirements of equitable and sustainable growth.

The road ahead contains numerous policy challenges. The current government has made a good start in dealing with these. The future demands that all Greek governments maintain a very delicate and difficult balance between fiscal sustainability and supporting a just green transition. Let us hope that they will be up to the task.

[27] IMF (2024) "Greece: Article IV Consultation" Country report 24/23 Staff Report p.10 (https://www.elibrary.imf.org/view/journals/002/2024/023/002.2024.issue-023-en.xml).