"The Greek Crisis: Where Are We? Where Do We Go from Here?"

Yannis M. Ioannides

Max and Herta Neubauer Professor of Economics
Tufts University
http://sites.tufts.edu/yioannides/
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BU Law School

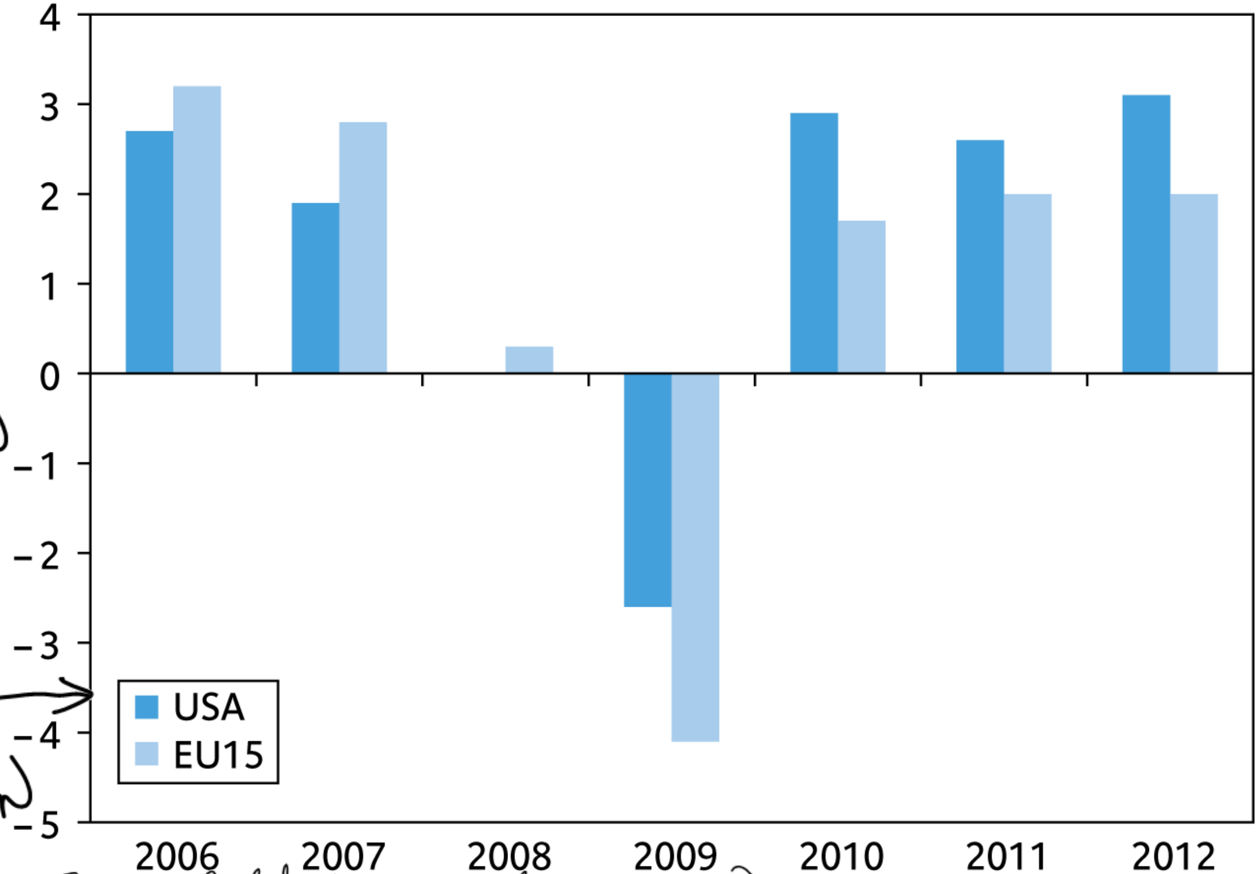
The Great Recession: Dec. 2007–June 2009

- US: GDP recovering, unemployment more slowly
- EZ: GDP and unemployment, both more slowly

GDP growth 2006–12:

GREAT RECESSION

12/07 – 06/09



GREAT RECESSION

Source: Baldwin & Wyplosz (2012)

Eurozone Crisis: Greek Context

- The Greek crisis, new phase in Spring 2012: Greek Government, led by Lucas Papademos, restructured its privately held debt.
- Elections of 2012, May and June, dramatically changed political landscape: New Democracy, leading coalition with the virtually extinct Pasok.
- Debt continues to be huge.
- Reforms being legislated, but not easily implemented. Greece's Eurozone partners delivered and may have to deliver more.
- Question: has Greece reformed sufficiently? Ready to face the future?
- Even if Greek economy were to move forward as forecast by the Troika, will not be able to return to its real income of 2008 until after 2030! (IMF, July 2013 Report)

Eurozone Crisis: European "Periphery" Context

- Greece, Portugal
- Ireland, Cyprus
- Italy, Spain

Table 1
The Cypriot Economy Compared to the EMU Periphery

Average 1999-2012	CY	Euro Area	GR	PT	IR	SP	IT
GDP, %yoy	2.6	1.4	1.0	0.7	3.5	2.1	0.5
Unemployment, %	5.3	9.1	11.7	8.6	7.3	13.7	8.4
Budget Balance, % GDP	-3.4	-2.8	-7.4	-5.1	-4.2	-3.1	-3.2
Public Debt, % GDP	64.7	74.2	117.7	72.9	50.6	54.0	110.6
Current Account, % GDP	-6.2	0.4	-12.0	-9.1	-1.0	-5.4	-1.1
Average 1999-2007	**CY**	**Euro Area**	**GR**	**PT**	**IR**	**SP**	**IT**
GDP, %yoy	3.9	2.3	4.0	1.8	6.3	3.7	1.5
Unemployment, %	4.3	8.7	10.2	6.7	4.5	10.6	8.4
Budget Balance, % GDP	-2.7	-1.9	-5.3	-4.1	1.6	0.2	-2.9
Public Debt, % GDP	64.3	69.1	103.3	59.9	31.9	49.4	106.5
Current Account, % GDP	-4.9	0.4	-11.8	-9.4	-1.4	-5.7	-0.4
Average 2008-2012	**CY**	**Euro Area**	**GR**	**PT**	**IR**	**SP**	**IT**
GDP, %yoy	0.2	-0.2	-4.4	-1.1	-1.5	-0.9	-1.4
Unemployment, %	7.0	9.8	14.4	12.0	12.3	19.2	8.4
Budget Balance, % GDP	-4.6	-4.5	-11.0	-6.9	-14.6	-9.1	-3.8
Public Debt, % GDP	65.4	83.3	143.6	96.3	84.2	62.4	117.9
Current Account, % GDP	-8.6	0.4	-12.4	-8.6	-0.2	-4.8	-2.4

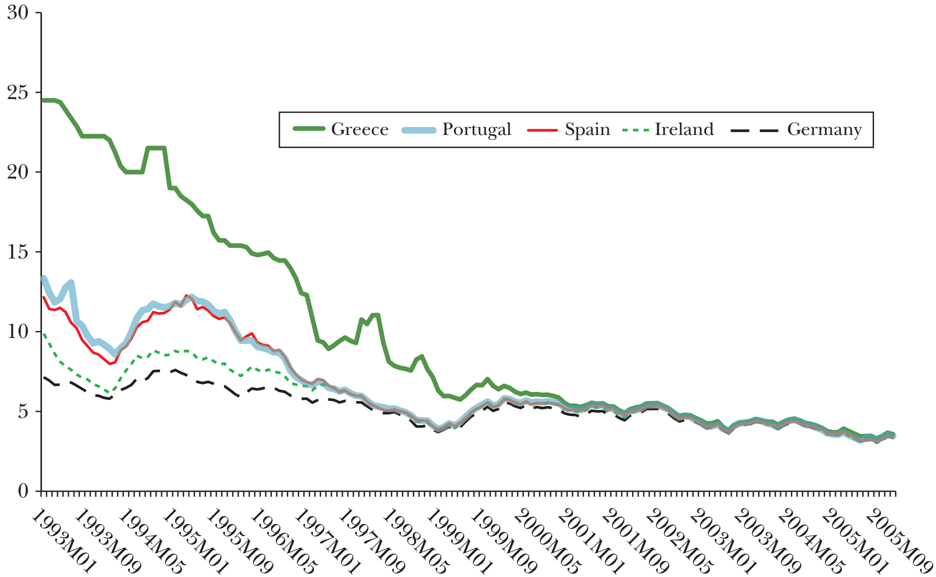
Source: Eurostat, IMF World Economic Outlook, Eurobank Research.
Note: CY=Cyprus, GR=Greece, PT= Portugal, IR=Ireland, SP=Spain, IT= Italy.
GDP reflects real GDP and the growth is annual.

Source: G. Hardouvelis, Tassos Papadopoulos Conference (2013)

Eurozone Crisis: Leading up to the crisis

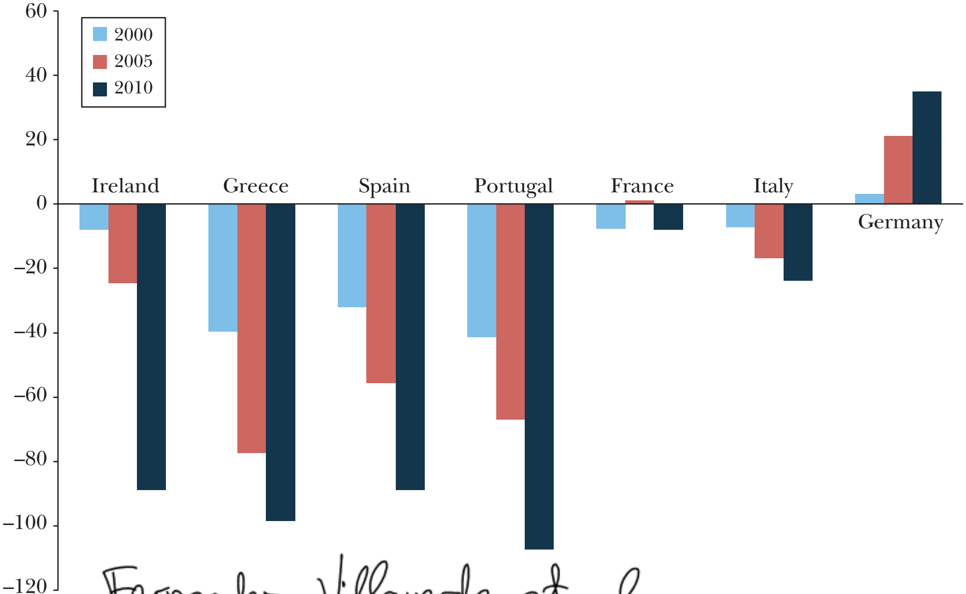
- Convergence of interest rates
- Massive inflows of capital into the European Periphery
- Massive build-up of debt
- Greece: public, government borrowed to finance twin deficits: consumption above what economy produced internally and externally

Figure 1
Convergence in Yield for Government Bonds
(10 year yields in percent; monthly from 1993M01 to 2005M12)



Source: Eurostat. Fernandez-Villaverde, et. al, J. Econ. Persp. (2013)

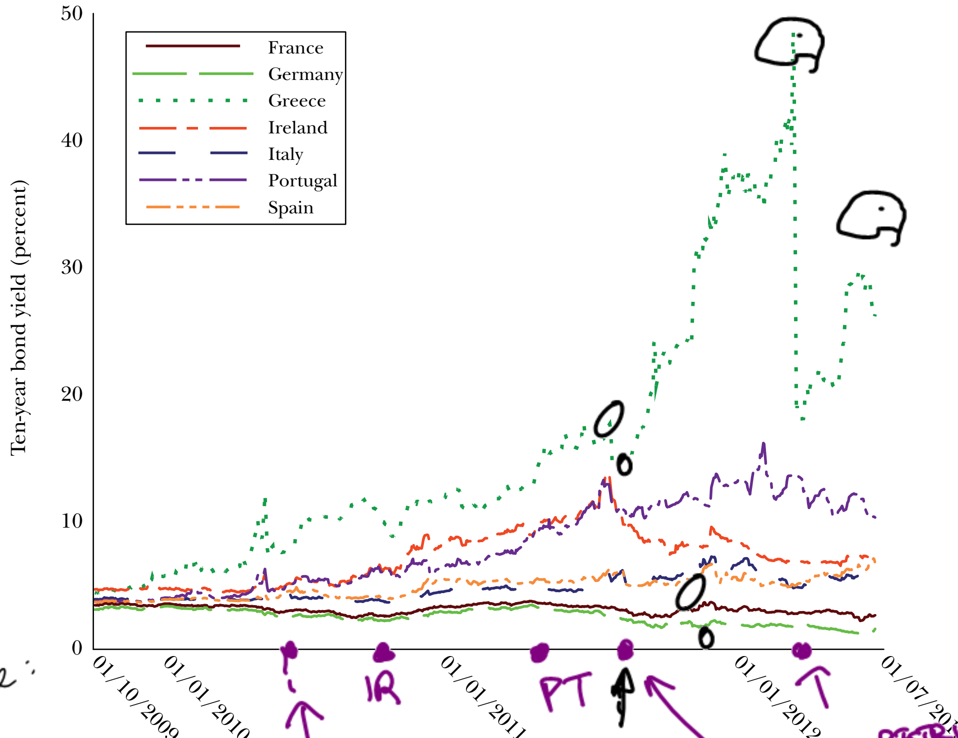
Figure 2
External Indebtedness
(net international investment position as a percentage of GDP)



Source: Eurostat.

Fernandez-Villaverde et al
J. Econ. Persp. (2013)

Figure 2
Yields on Ten-Year Sovereign Bonds, October 2009 to June 2012
(percent)



Source: Lane J. Econ Persp. (2012)

GR AGREEMENTS

IR PT

GR FAILED RESTRUCTURING

Source: Author's calculations based on data from Datastream.

German yields, although the greater relative vulnerability of France is not pursued

Troika in Charge

- IMF, ECB, EZ/EC assisting Greece, Portugal, Ireland
- Policy option: restructuring of debt, austerity, reform
- Policy option: restructuring of debt, reform plus a little bit of inflation, (4%)
- Austerity prevails

Prospects for the future

- Even if Greek economy were to move forward as forecast by the Troika, will not be able to return to its real income of *2008* until *after 2030!*
- Will the social structure sustain itself?
- Will the political structure?
- Forgiveness of debt (now mainly official, ECB, EZ, IMF) appears difficult?
- There is only one solution?

Prospects for the future

- There is only one solution:
  Reform, Reform, Reform, . . . , Reform!
- This applies to the entire Eurozone Periphery, too.
- Loss of competitiveness led to China's (and other emerging economies') advances in market shares of EZ periphery.*

Source: *Ruo Chen, Gian Maria Milesi-Ferretti, and Thierry Tressel, External Imbalances in the Euro Area, IMF WP/12/236, Sept. 2012