Institutions, reforms and entry barriers

Breaking the Bottlenecks - Steps towards Sustainable Growth

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Professor, Athens University of Economics and Business
Gross Domestic Product and Unemployment in Greece

GDP

Unemployment

Sources: Eurostat/European Economic Forecast, winter 2016, European Commission
Investments
Gross Fixed Capital Formation (% of GDP)

Source: AMECO
## Key Macroeconomic and Financial Figures

<table>
<thead>
<tr>
<th>Key Macroeconomic Figures</th>
<th>2009</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2016*</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>-3.1</td>
<td>-3.2</td>
<td>0.7</td>
<td>-0.2</td>
<td>-0.3</td>
<td>-1.0</td>
</tr>
<tr>
<td>Unemployment</td>
<td>9.5</td>
<td>27.5</td>
<td>26.5</td>
<td>24.9</td>
<td>24.7</td>
<td>25.2</td>
</tr>
<tr>
<td>General Government Balance&lt;sup&gt;1&lt;/sup&gt;</td>
<td>-15.6</td>
<td>-12.4</td>
<td>-3.6</td>
<td>-7.2</td>
<td>-3.1</td>
<td>-3.0</td>
</tr>
<tr>
<td>Current Account Balance</td>
<td>-14.4</td>
<td>-2.2</td>
<td>-3.0</td>
<td>-0.2</td>
<td>0.6</td>
<td>0.2</td>
</tr>
<tr>
<td>Harmonized Inflation</td>
<td>1.3</td>
<td>-0.9</td>
<td>-1.4</td>
<td>-1.1</td>
<td>-0.3</td>
<td>-0.2</td>
</tr>
<tr>
<td>Gross Fixed Capital Formation</td>
<td>-13.7</td>
<td>-9.4</td>
<td>-2.8</td>
<td>0.7</td>
<td>-0.9</td>
<td>-4.0</td>
</tr>
</tbody>
</table>

<sup>1</sup>Including State aid to the banking sector on the deficit

* IOBE projections

**Sources:** Eurostat/European Economic Forecast, spring 2016, European Commission
## Recent economic performance of Greece

### Macro
- Significant success in the areas of government budget and balance of payments (‘twin deficits’)
- Weak performance for investments and exports

### Structural
- The economy has adjusted primarily via an extremely deep recession
- Increase in competitiveness mainly through the reduction in labor unit cost
- Lack of wide enough political support and social consensus for structural reforms, despite some important efforts

### Other
- Public sector has been shrinking but administrative burden and inefficiency remains a key issue
- Accumulated debt remains a significant problem

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**Overall evaluation:** significant successes and failures – high uncertainty deters investment and postpones the start of a virtuous growth cycle
Perspectives

- Product design ‘details’
- Eurozone architecture
- Low capacity to implement reforms and lack of ownership
- Entry barriers and rents
Pre-crisis

- GDP and productivity
- Current account and competitiveness
- Investment
- Public sector
- The Eurozone effect
### GDP Change

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>Germany</td>
<td>1.7%</td>
<td>France</td>
<td>2.3%</td>
</tr>
<tr>
<td>Ireland</td>
<td>7.4%</td>
<td>Italy</td>
<td>1.7%</td>
</tr>
<tr>
<td>Greece</td>
<td>3.6%</td>
<td>Cyprus</td>
<td>4.5%</td>
</tr>
<tr>
<td>Spain</td>
<td>3.6%</td>
<td>Portugal</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

**Sources:** The Conference Board Growth and Total Factor Productivity database, AMECO database
Determinants of GDP change in Greece

Source: The Conference Board Growth and Total Factor Productivity database
Trade balance (Goods and Services)

Sources: ELSTAT/European Economic Forecast, spring 2016, European Commission
Harmonized Inflation

Sources: Eurostat/European Economic Forecast, spring 2016, European Commission
Investment

Source: Eurostat
Current account balance – Eurozone periphery (% of GDP)

Sources: Eurostat/European Economic Forecast, spring 2016, European Commission
Crisis – post 2009

- Twin deficits
- Investment
- Exports
- Structural reforms
Real effective exchange rate

Real Effective Exchange Rate (CPI), 2005=100

Real Effective Exchange Rate (ULC), 2005=100

Source: Eurostat

Real Effective Exchange Rate (deflator: CPI - against 37 trading partners)
Real Effective Exchange Rate (deflator: unit labor costs in total economy - against 37 trading partners)
Budget Primary Balance (% of GDP)

Source: European Economic Forecast, spring 2016, European Commission
Change of the value of exports, 2007-2015: +33%
Change of the volume of exports, 2007-2015: +51%

Source: Eurostat
Foreign Direct Investment (% of GDP)

FDI as a % of GDP

<table>
<thead>
<tr>
<th></th>
<th>2000-2008</th>
<th>2009-2015</th>
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</thead>
<tbody>
<tr>
<td>Germany</td>
<td>3.0%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Ireland</td>
<td>21.0%</td>
<td>27.9%</td>
</tr>
<tr>
<td>Greece</td>
<td>1.1%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Spain</td>
<td>4.2%</td>
<td>2.1%</td>
</tr>
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<td>Portugal</td>
<td>3.7%</td>
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</tr>
</tbody>
</table>

Source: Eurostat
Barriers to entrepreneurship and investment

Source: Public Sector, Taxation and Market Regulation, OECD Stats.
Source: Public Sector, Taxation and Market Regulation, OECD Stats.
Professional Services Regulation

**Engineer**

- Czech Republic
- Estonia
- Germany
- Greece
- Ireland
- Italy
- Poland
- Portugal
- Spain
- United States

**Legal professions**

- Czech Republic
- Estonia
- France
- Germany
- Greece
- Ireland
- Italy
- Poland
- Portugal
- Spain
- United Kingdom
- United States

**Source:** Public Sector, Taxation and Market Regulation, OECD Stats.
Unfavorable macroeconomic conditions of period 2008-2012 discouraged the entry of new firms operating in Knowledge and ICT intensive industries.

Only 6% of those firms that founded during period 2008-2012 belong to knowledge intensive sectors. The corresponding percent during period 2000-2007 was nearly 20%.

**Sources:** Hellastat - Financial Statements Database – data processing IOBE
But knowledge and ICT intensive firms exhibit lower percentage of exit during period 2008-2012.

**Sources:** Hellastat - Financial Statements Database – data processing IOBE
Reforms that boost competition and reduce mark-ups in product markets lead to higher income and employment

Greece has significantly higher mark-ups than the EU average

Stronger competition in the product markets implies lower mark-ups

What would happen if the difference in the mark-ups in Greece and the EU was halved for non-tradables (-9 p.p.) and eliminated for tradables (-5 p.p.)?

Real GDP, Consumption and Investment

Permanent increase in competition in T and NT sectors, percentage deviations from base:

Medium-term results (deviation from base):
- Private consumption +6.9%
- Investment +9.7%
- GDP +7.3%
- Employment +60,000 jobs

Source: Zonzilos (2014), Assessing the Macroeconomic Impact of Structural Reforms in Greece
Now

- The role of ‘outsiders’
- New investment and growth model
- Improvement cannot be uniform, allowing some to ‘run faster’ if they wish
- Tax reform, public administration
- Justice and education system
Prospects of the Greek economy

Gradually increased consensus and clarity, new investment, new growth model, positive interaction with EU environment improvements

Lack of ability to implement reforms, low liquidity and investment, lingering uncertainty, external effects