

THE EVOLUTION OF THE GREEK ECONOMY



1950-60s
 Greece ends decade **3rd poorest**
Poorest member of the eventual EU-15
 Fast growth, low inflation (2% in 1960s), **standard of living increases** to match Irish/Portuguese Levels
 Dictatorship under **Salazar regime**
Growth faster than rest of Europe

1970s
 Openness to trade increases but **competitiveness weak**
 Oil Shocks 1973 and 1979 - **growth slows** dramatically

1980s
GREECE JOINS EU
 Greece **poorest** in EU-15 again

1990s
NEW GROWTH FOCUS
 Greek **focus on low tech**, labour intensive manufacturing (weak position)
 1990: Constant budget deficits peak at **16% GDP**, decline thereafter to **2% in 1999**
 National saving still **less than EU average**
 One of the **oldest populations** in EU
NO GENERAL GROWTH STRATEGY
 Continued weakness of Greek exports
weak competitive position
 FDI increases but still weak (<1% of EU total)
 1995: Fiscal Consolidation programme (**Taxes Up**)
 Weak investment in **education**
 Growth picks up again
 Doesn't meet **Maastricht Criteria** and other problems
1999
GREECE DENIED MEMBERSHIP OF EMU
 1. National **debt: GDP ratio too high** (should be 60%, actual 100%+)
 2. Spiraling **inflation** (>4%) far **above EU average**
 3. Overall high **Unemployment** (10%)
 Protectionism in industry decreases, Greek **competitiveness decreases** further
 Inflation hits **20%**
New economic policy but labour market and strict Labour laws **highly inefficient**
 1981: Greece Joins EU (EC)
 Socialist (Neo-Marxist) **Pan-Hellenic Party (PASOK)** takes over from conservative **New Democracy Party**

2000s
GREECE JOIN EMU
 Greek borrowing becomes far cheaper with **10% interest** to **2-3%** - similar to German levels
 Structurally - **economy still in a mess** huge wage growth, high debts, **huge pension payments** (up to 92% of preretirement salary) and high public sector burden
 Suspicious at EU level of 'massaged' figures to paint a false picture of Greek economy
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Late 2000s
Standard of living unequal with that of rest of EU
 1980 **5%** below EU avg
 2000 **20%** below EU avg
MAIN STRUCTURAL PROBLEMS FOR GREECE
 Tourism @ **€10bn** (key sector for growth) flat and weak throughout 00s
 Major export **Shipping @ €4.5bn** unchanged from 2000-2010
2004 Olympics Cost **€4.5bn** worsening debt situation
 Cheap borrowings spent on raising public pay and growing public sector - employees in **public sector earning 2x private sector**
 Greek bond yields nearly = German bond yields
FAILURE TO ADDRESS STRUCTURAL PROBLEMS
 Very large public sector, costly government spending
 1980 **25%** of GDP || 1990 **45%** of GDP || 2009 **50%** of GDP
 Huge Public Debt
 Private debt levels low
 1980 **22%** of GDP
 1995 **100%** of GDP
 2010 **145%** of GDP
 2011 **165%** of GDP
Investor confidence hugely hit - they seek to avoid risk
 Greek government **struggling** to fund its costly economy
Massive increase in pension payments + Greying population = inevitable problems

September 2008
THE CREDIT CRUNCH
LEHMAN'S COLLAPSE
 Lending to Greece is **extremely risky** - bond markets dry up, banks stop lending
2009-2010
 Unsustainable path - Greek **cost of borrowing climbs** June/July 2011 (heads toward pre-EMU levels) **10%+**
 April 2010 Credit agency S&P downgrades Greek debt to **'junk'**
THREAT OF GREEK DEFAULT RISES
May 2010
 1st EU-IMF Bailout - **€100bn** via new European Financial Stability Facility **€80bn (EU/EZ) +30bn (IMF)**
2010-2011
EUROZONE CRISIS
Austerity reigns increases taxes, inflation, decrease wages, decrease public sector size decrease pensions (gov increasing unstable)
July 2011
Hugely unpopular social unrest + strikes austerly making things worse
1. GDP down 5.5% 2011 (down **2.5% 2012 est**)
2. Unemployment 15% (2012 **16.5%**)
3. Budget deficit 8.5% GDP (over **€18.5bn**)
2nd EU-IMF Bailout heavily dependant on hitting **targets**
 Deep spending cuts + New taxes + €50bn Privatisation Plan by 2015
Debt: GDP 165-180% in 2011/2 + National Debt pile of **€350bn**

