

From Crisis to Growth: When and How?

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I. Past euphoria & today's economics of supply & demand

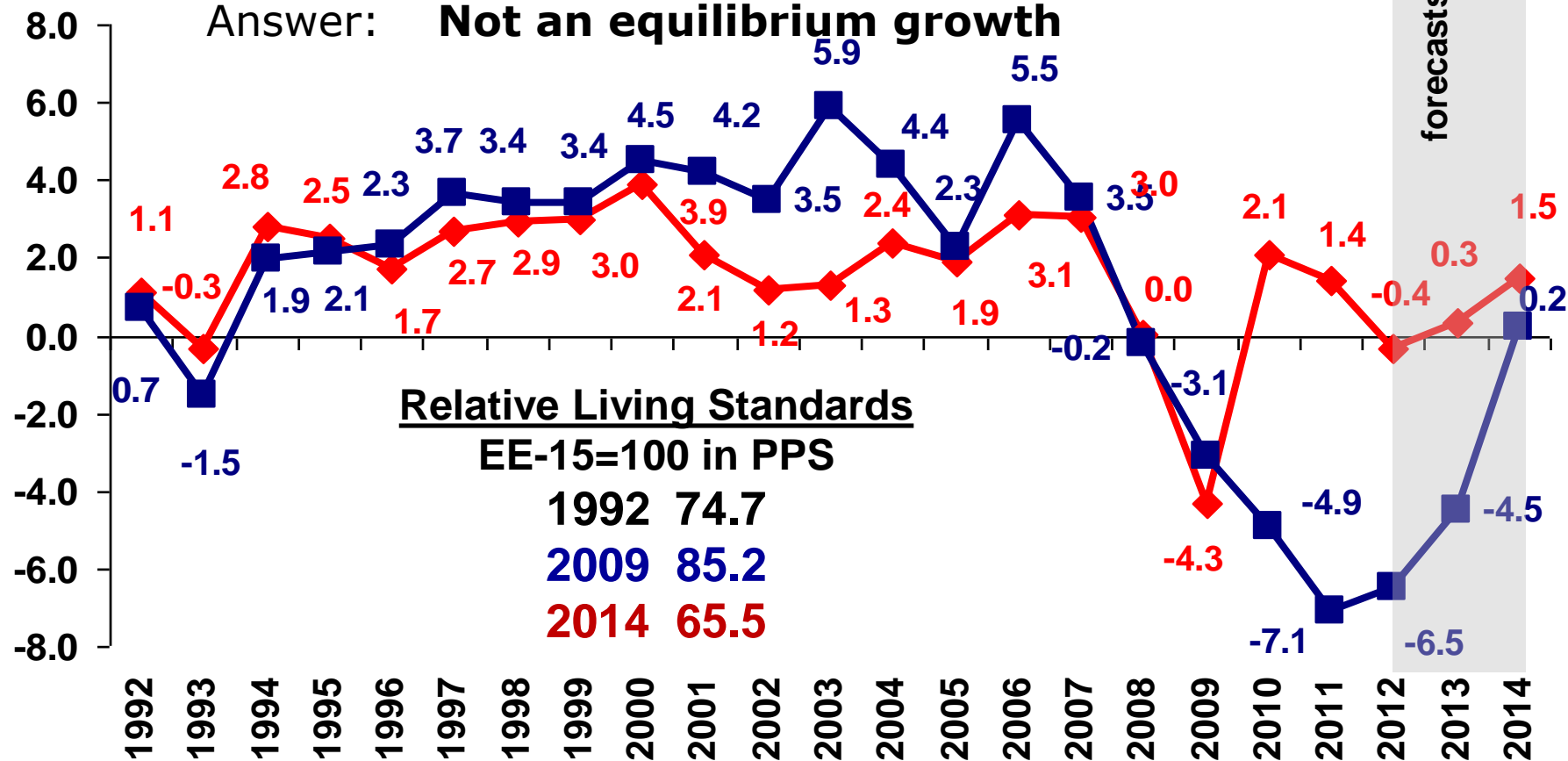
- A. Structural weaknesses
- B. MoUs' impact
- C. When will the recession end?

II. A new growth paradigm & reforms for long-term growth



I. HIGH GREEK GROWTH RATES UNTIL 2007 ...

Greece: From boom to bust. How come?
Answer: Not an equilibrium growth



- ❖ Real growth rates in Greece — EU-15 — Greece were higher than in EU-15 from 1996 through 2007
- ❖ HUGE DIVERGENCE today; Remember politicians fighting over the rate of convergence?

Source: EU, MTFIS 2013-16

I.A ... YET, DEEP STRUCTURAL WEAKNESSES ALREADY EVIDENT PRIOR TO THE GREEK CRISIS

1. Overconsumption (huge as a % of GDP) and ...
2. Under-production:
 - a) **Gross Investment low and declining as a %GDP**
 - b) **Weak external sector & loss in competitiveness until 2009**
3. Within a very weak & disorganized state sector
 - c) **Fiscal profligacy** at central & local governments and at public sector enterprises → **Deficits & Debt**
 - d) **Unsustainable pension and a runaway healthcare system**
 - e) **Weak tax administration** & collection system (tax evasion > 8% of GDP)
 - f) **Large size of underground economy** ~25% of GDP (36% of labor force self-employed)
 - g) **Monstrous bureaucracy** (Ease of Doing Business rank of 78 out of 185) and **Rule of Law** not commensurate to the state of the country's economic development

I.A Greece: OVER-CONSUMPTION & UNDER-PRODUCTION

| | Greece | | EA17 | |
|---------------------|--------|-------|--------|--------|
| | 2009 | 2012f | 2009 | 2012f |
| Private consumption | 72.3% | 74.5% | 57.5% | 57.5% |
| Public consumption | 20.6% | 16.9% | 22.3% | 21.5% |
| Private investment | 16.7% | 12.2% | 16.6% | 16.5% |
| Public investment | 3.2% | 1.8% | 2.8% | 2.1% |
| Exports | 19.3% | 27.8% | 36.8% | 45.6% |
| Imports | 30.7% | 33.2% | 35.5% | 43.1% |
| GDP (€bn) | 231.1 | 195.0 | 8922.2 | 9503.0 |

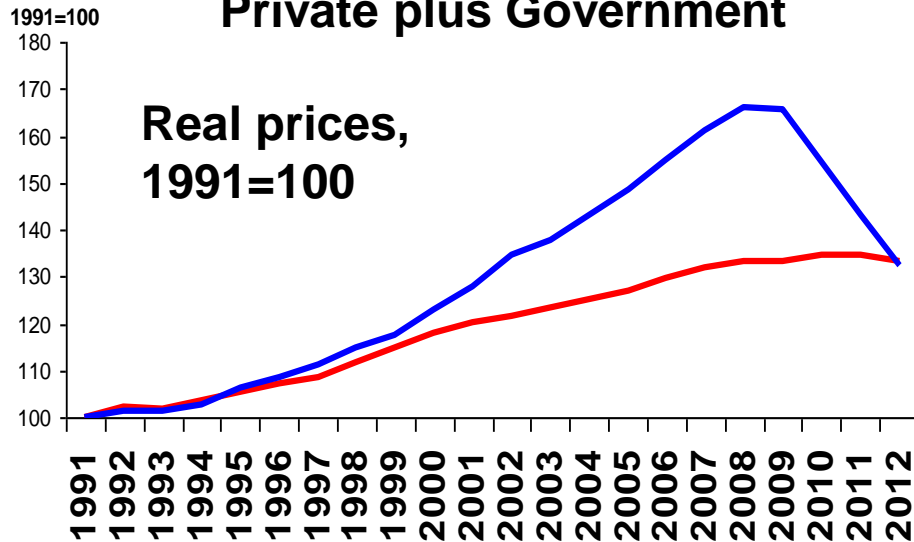
- ❖ Private consumption share way above EMU average Source: AMECO
- ❖ Total investment share around 14% of GDP, down from 25% a decade ago and below the 18.6% share in EA17
- ❖ Degree of openness much smaller than in EA17 and in deficit
- ❖ Export share adjusted upward during the crisis, but so did in EA17
- ❖ Import share also adjusted upward, but by less than export share

I.A HISTORICAL TRENDS REVEAL THE UNDER-PRODUCTION & OVER-CONSUMPTION PROBLEM

Consumption

Private plus Government

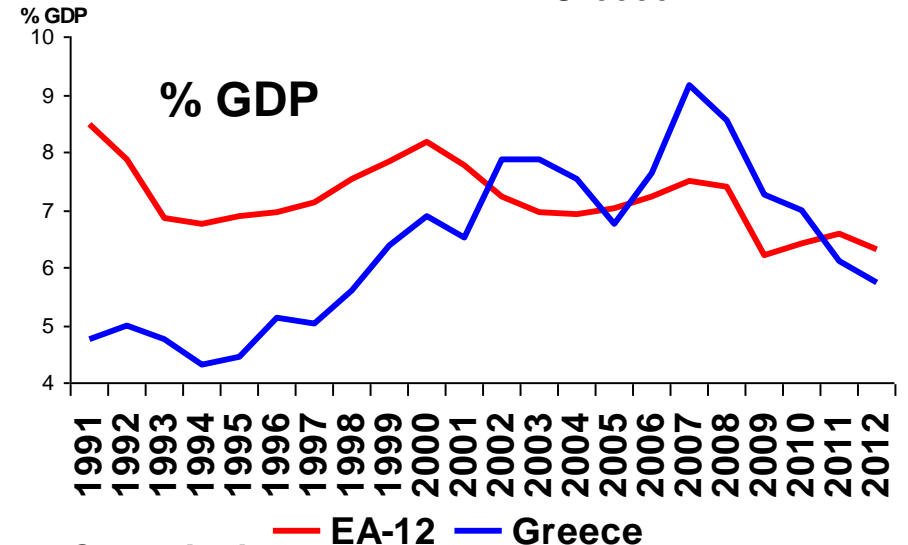
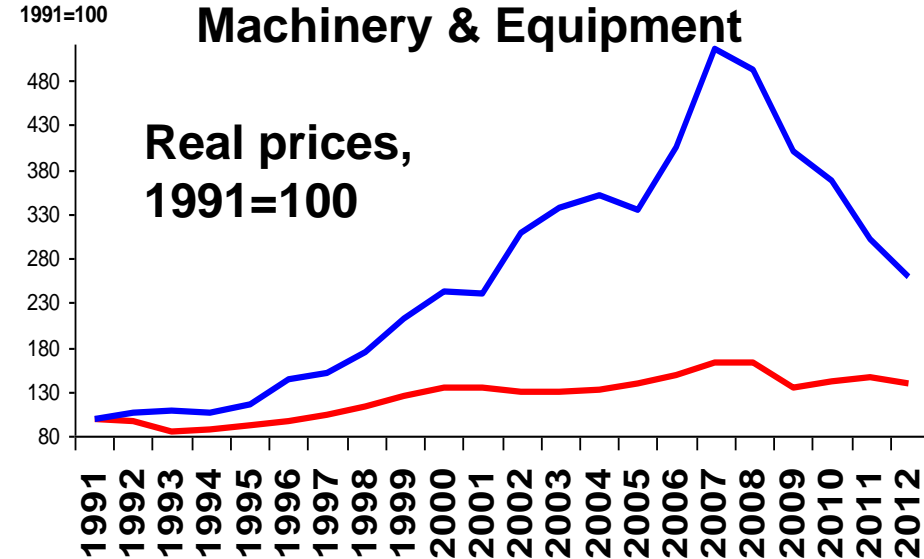
Real prices,
1991=100



Investment

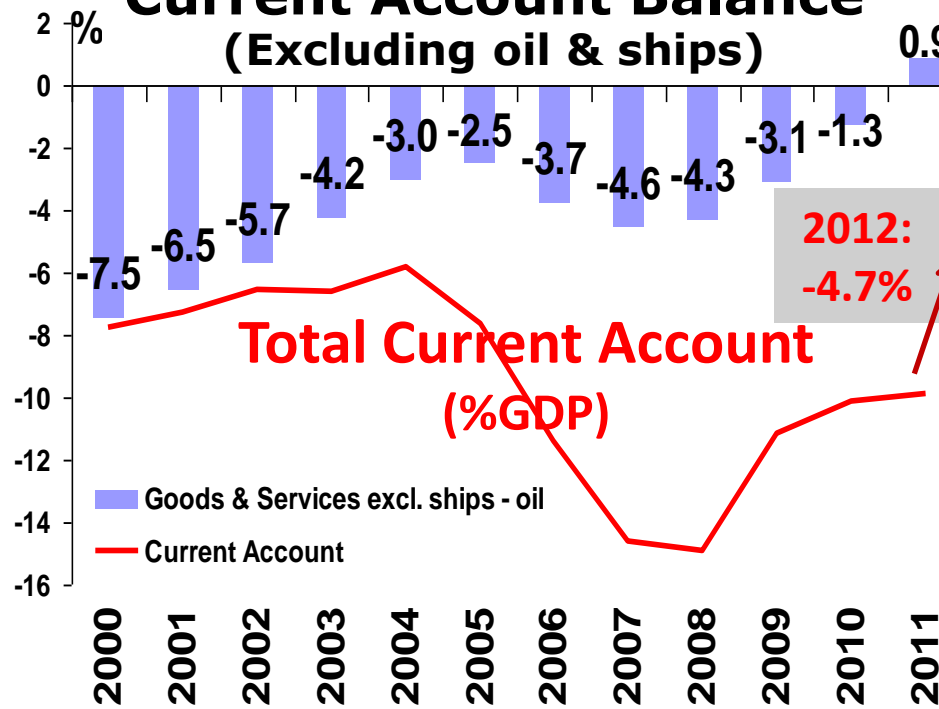
Machinery & Equipment

Real prices,
1991=100

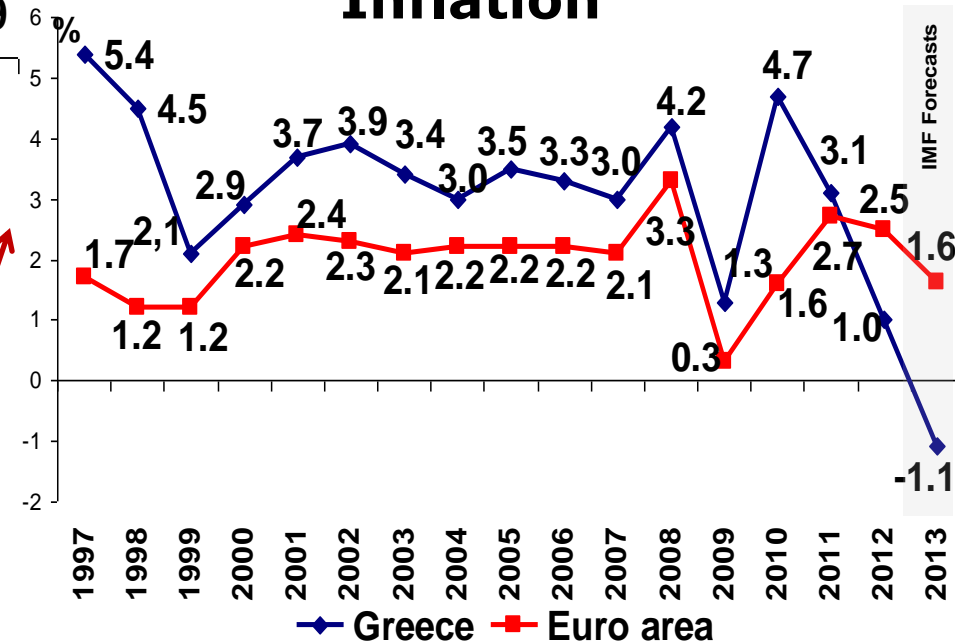


I.A LACK OF COMPETITIVENESS SHOWS UP IN CURRENT ACCOUNT DEFICIT AND IN HIGHER INFLATION

Current Account Balance (Excluding oil & ships)



Inflation



Source: IMF, Eurostat, BoG

| | 2011 | € mill. | % GDP |
|------------------------|------|------------------|--------------|
| Current Account | | -20,633.5 | -9.9 |
| Goods | | -27,229.1 | -13.1 |
| Services | | 14,629.6 | 7.0 |
| Income | | -8,594.8 | -4.1 |
| Current Transfers | | 560.8 | 0.3 |

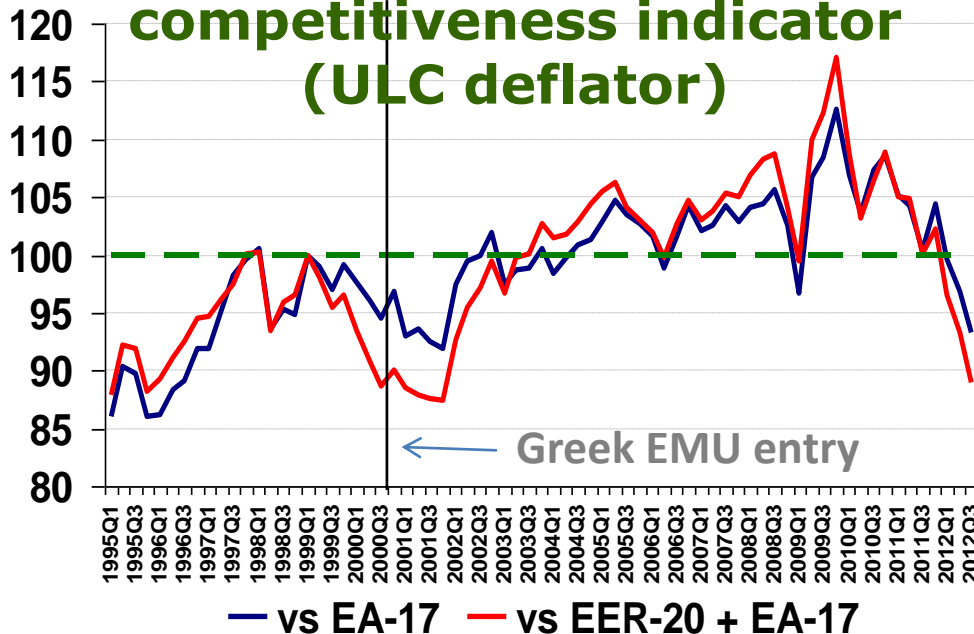
I.A LOSS IN COST COMPETITIVENESS MEDIATED RECENTLY

NOMINAL UNIT LABOR COSTS

| % Δ | GR | CY | DE | FR | IT | ES | IE | PT | US | EA17 | EU27 |
|-------------|-------|------|-----|------|------|------|-------|------|------|------|------|
| 2000 - 2009 | 33.2 | 31.0 | 5.6 | 22.4 | 31.4 | 33.8 | 34.6 | 26.8 | 18.2 | 21.0 | 23.2 |
| 2009 - 2012 | -10.5 | 2.0 | 3.1 | 3.9 | 2.7 | -6.0 | -10.3 | -6.1 | 3.3 | 1.5 | 2.4 |

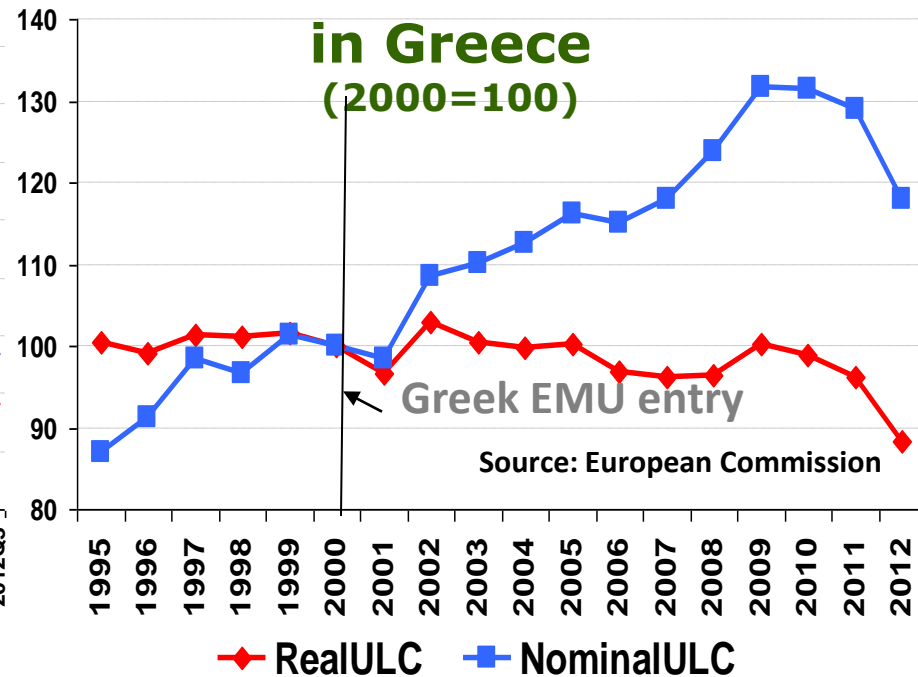
Source: European Commission

Real harmonized competitiveness indicator (ULC deflator)



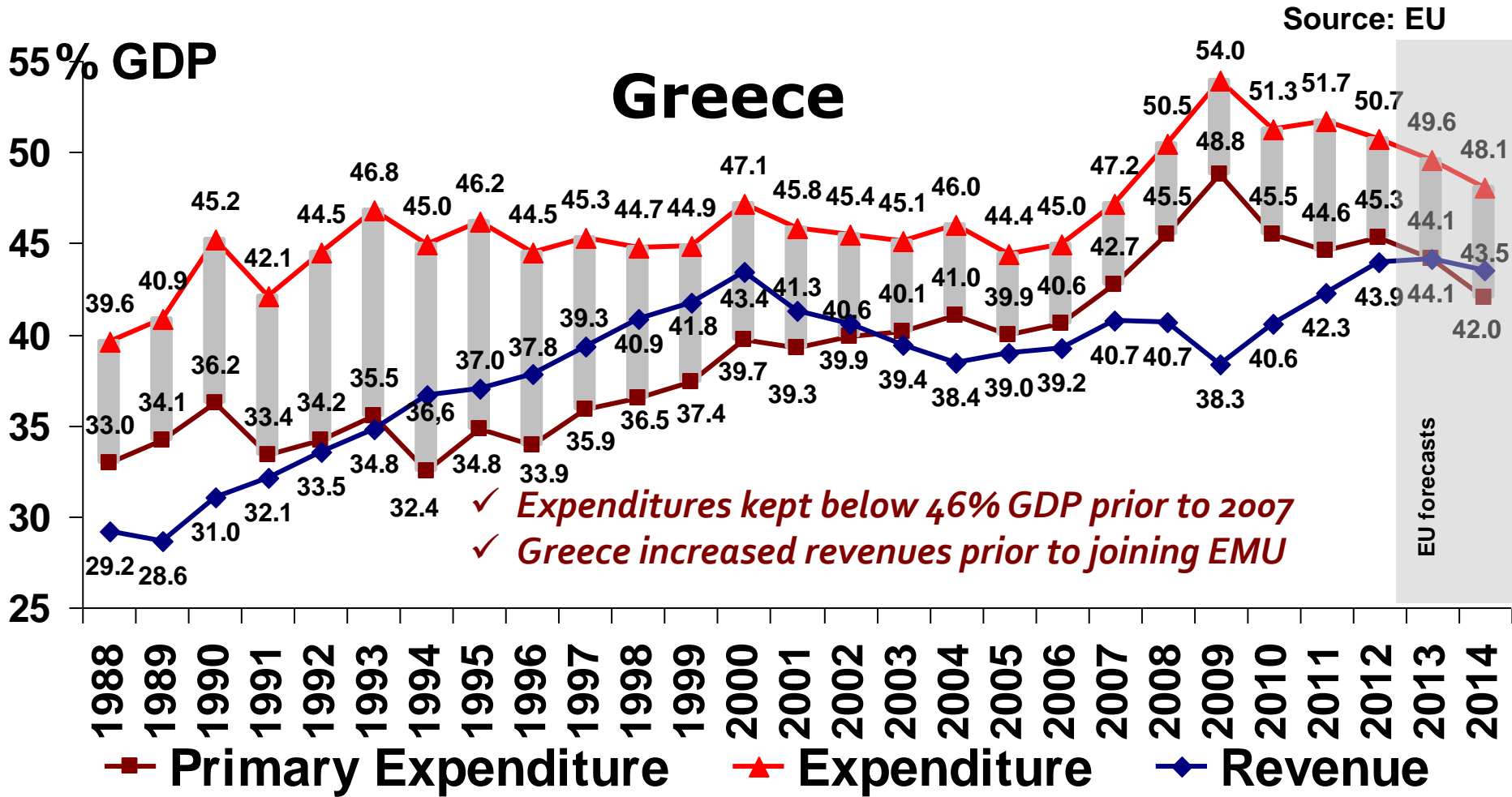
Source: ECB

Nominal & Real ULCs in Greece (2000=100)



Source: European Commission

I.A FISCAL PROFLIGACY, WHICH GREW WORSE AFTER 2006



- ✓ Greece was almost always in fiscal trouble, but the fiscal mess grew way prior to the onset of the 2008 recession, during 2006
- ✓ The period of primary surpluses was from 1993 to 2003, and hopefully from 2013 on

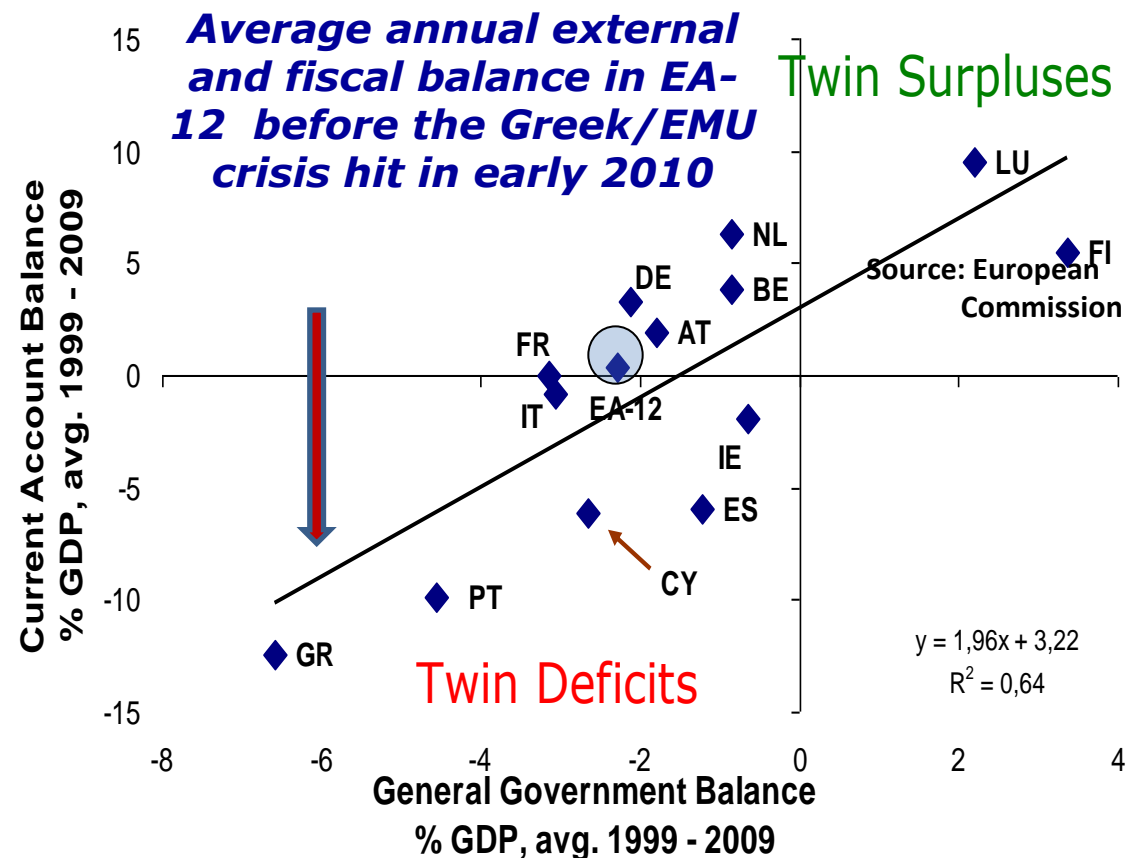
I.A GREECE WAS AN OUTLIER IN BOTH FISCAL & COMPETITIVENESS IMBALANCES, BUT FIXED ITS PENSION IMBALANCES

A third imbalance in pension system fixed

❖ Fix system's parameters ⇒ reduce increase in future annual state pension liabilities (by 2060) from 12.5% of GDP to 2.5% of GDP

- ❖ Retirement age for everyone at 67, increasing in line with life expectancy after 2020 with minimum contributory period of 40 years by 2015
- ❖ Early retirement restricted to the age of 60 by 2015, will be penalized more than before (6% loss per year, including those insured prior to 1993)
- ❖ Size of pension linked to life-time contributions
- ❖ List of heavy and arduous professions reduced drastically, ceiling of 10% of labor force

| | Old Regime | 2010 | 2020 | 2035 | 2060 |
|--------------------------------|------------|------|------|------|------|
| Pension Exp. (% GDP) GR | | 11.6 | 13.2 | 19.4 | 24.1 |
| Dependency* | | 56 | 59 | 78 | 102 |
| Pension Exp. (% GDP) EA | | 11.2 | 11.6 | 13.2 | 13.9 |



I.B MoUs ADDRESS THE IMBALANCES ... BUT NEGATIVE IMPACT ON THE ECONOMY HIGHER THAN EXPECTED

✓ **Negative effects of fiscal consolidation** on real economy were expected to be **partly mitigated** by **positive effects of internal devaluation and other structural reforms**

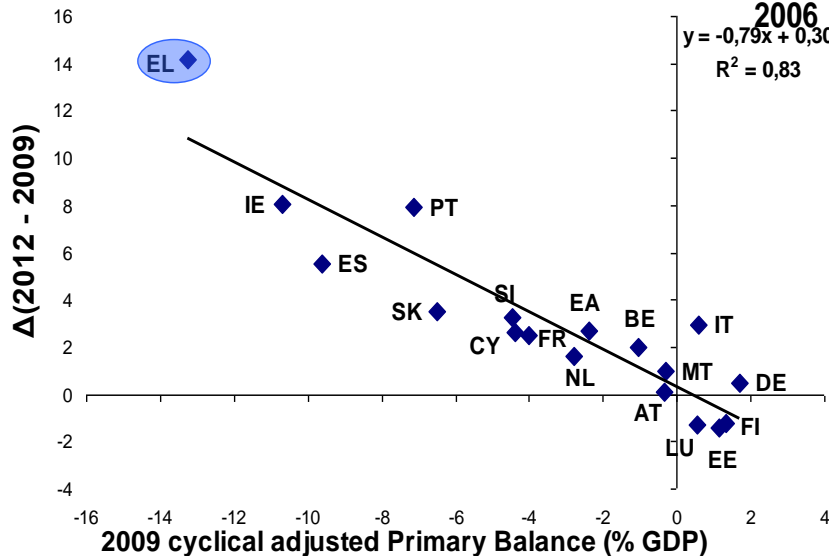
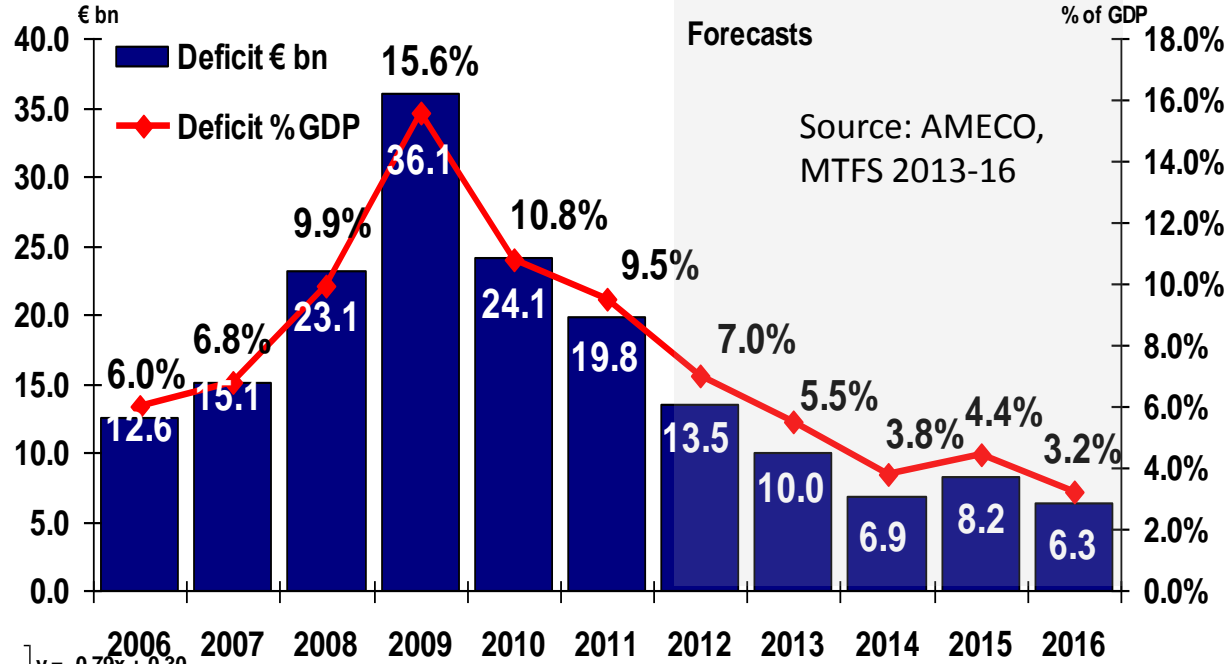
✓ **Yet, major Troika flaws in Short-Run forecasts:**

| <u>POLICIES</u> | <u>SUCCESS</u> |
|-------------------------|-----------------------|
| 1. Fiscal consolidation | + |
| 2. Internal devaluation | + |
| 3. Structural reforms | ~ |
| 4. Privatizations | - |
| 5. Debt restructuring | + |

1. Fiscal multipliers proved to be much higher than assumed
2. Size of exports a lot less than size of consumption, thus cost-competitiveness gains translate into higher export shares with delay
3. Structural reforms proved difficult to complete as democratic societies cannot change attitudes overnight, plus supply side effects materialize only in the long run

I.B FISCAL CONTRACTION WAS HUGE

- ❖ From 2009 to 2012, Fiscal balance improved from -15.6% to -7.0% GDP
- ❖ Primary balance improved more, by 9.1 pp of GDP

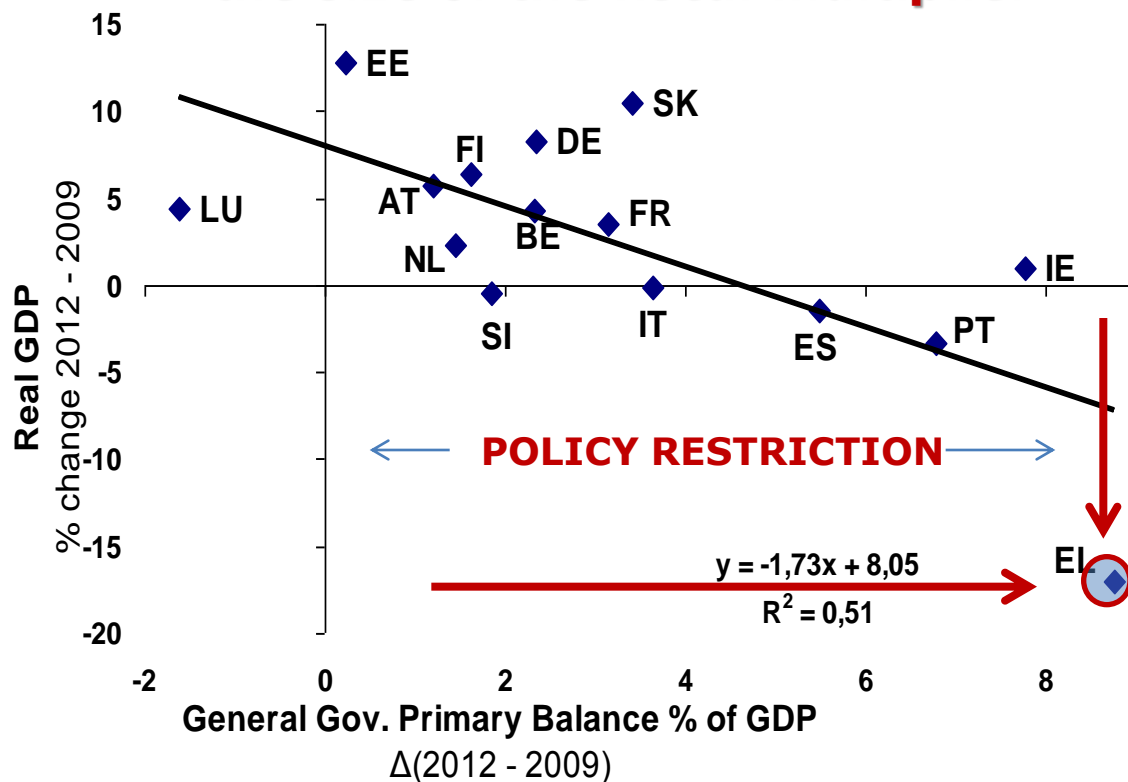


- ❖ On a cyclically adjusted basis, consolidation even more impressive as cumulative recession reached 17%
- ❖ Compared to other EMU countries, Greece shows largest improvement

I. B DEMAND SIDE COLLAPSED: FISCAL AUSTERITY DEEPENED THE RECESSION

- ❖ Recent IMF and Eurobank studies confirm that the fiscal multiplier is larger during recessions, close to 2.0, (for every 1% GDP cut of budget deficit, GDP declines by 2.0%) not 0.5, as was assumed
- ❖ Multiplier high for investment, wages & pensions but low for tax rates
- ❖ Fiscal effort 2010-2012 = 25% GDP, but decline in budget deficit 2010-2012 = 9% of GDP
- ❖ The difference between “fiscal effort” and “fiscal outcome” (16% of GDP!) is due to deepening recession
- ❖ From 2009 to 2012, a reduction in primary deficit of 9% GDP was associated with a drop of 17% in real GDP

Greek MoUs underestimated the size of the fiscal multiplier

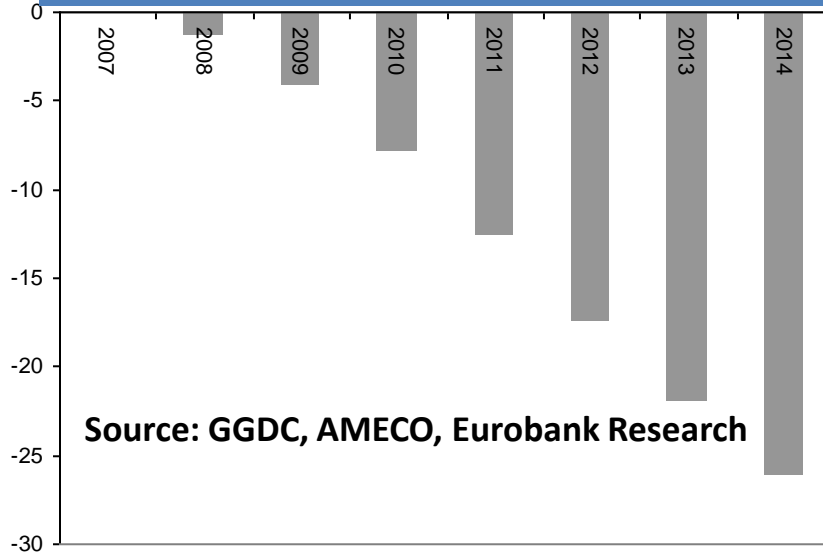


- ❖ Hence, a further reduction in the primary balance of 6% GDP (planned fiscal effort of 10% GDP in 2013-2016) could add another cumulative contraction of 10%

I. B THE SUPPLY SIDE COLLAPSED AS WELL , CAUSING HYSTERESIS

❖ Potential GDP is now falling

Annual Potential Output relative to pre-2008 trend



By 2014, potential output will be 26% lower than previous trend

- ❖ **Hardouvelis – Malliaropulos estimate of hysteresis parameter $\eta = 0.4$** , that is, for every 1% of recession, potential GDP declines by 0.4%
- ❖ Before economy jump-starts, the recession has to stop. Will the recession stop? This is the demand side of the problem

❖ HYSTERESIS:

- ❖ Current depression **destroys human capital**, increases long-term unemployment and reduces labor force participation
- ❖ Current depression **destroys capital stock**
- ❖ By the end of 2014, living standards compared to EU-15, back to the 1980s

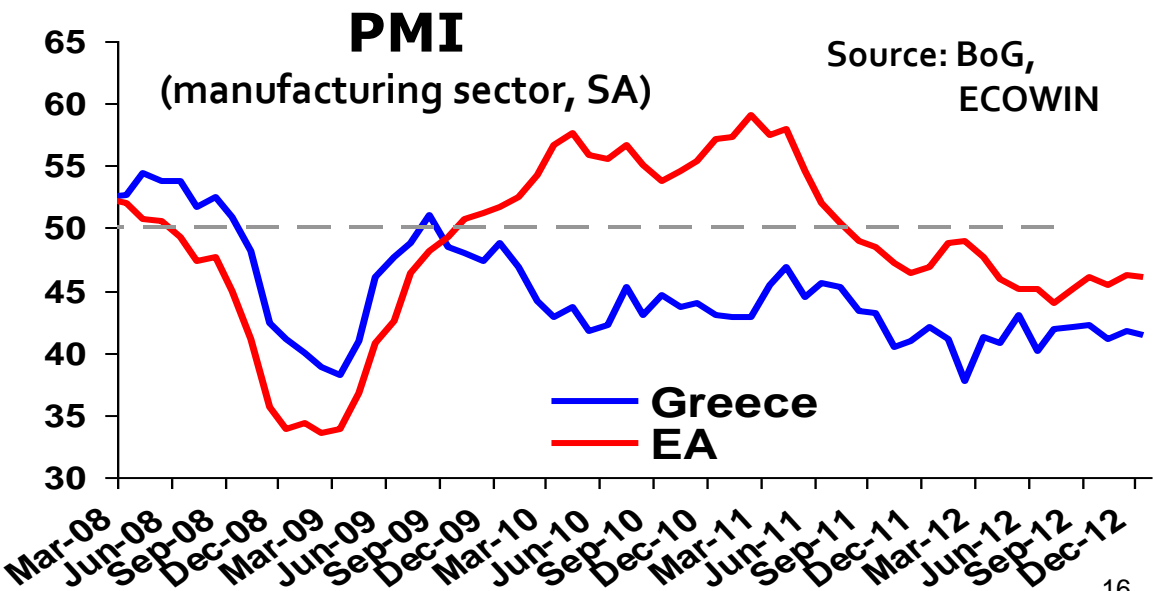
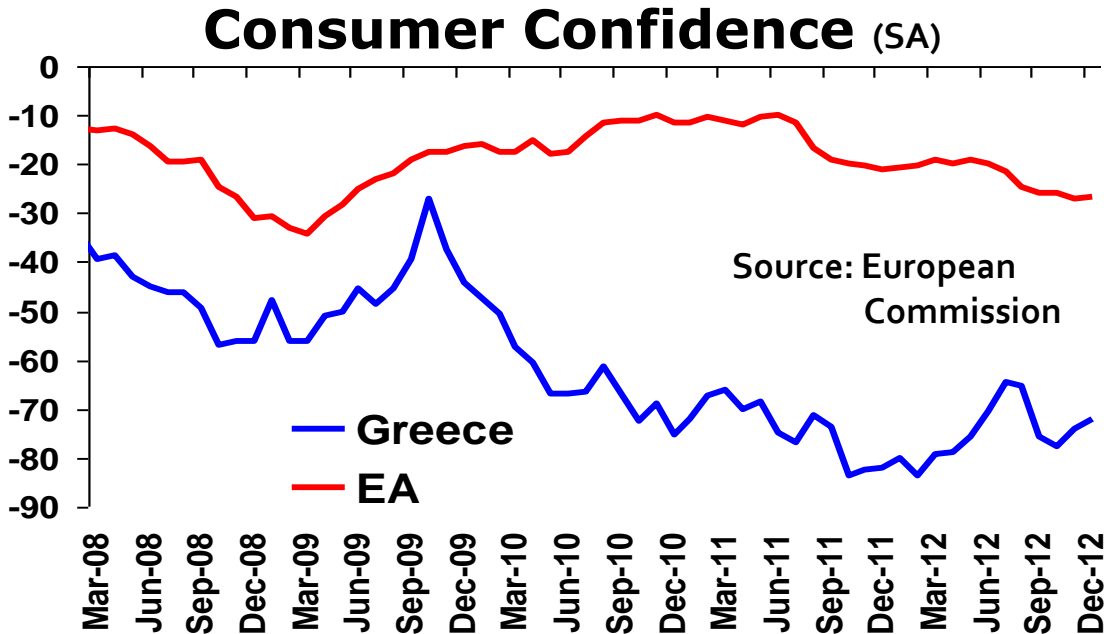
Relative Living Standards

EE-15=100 in PPS

| | |
|------|------|
| 1991 | 75.6 |
| 1995 | 71.7 |
| 1999 | 71.0 |
| 2003 | 80.7 |
| 2007 | 80.9 |
| 2014 | 65.5 |

I.C AT TIMES OF AUSTERITY, FOR THE RECESSION TO STOP, A NUMBER OF PREREQUISITES EXIST

- ❖ Political stability & Credibility, which would improve if,
 - Reforms proceed at a faster pace, particularly the taxation of self-employed
 - Government works as a private company, in a managerial fashion
- ❖ Liquidity, which is a suffocating constraint even for exports,
- ❖ Reversal of Sentiment and investment pessimism, some high-profile privatizations would help
- ❖ Increase in Public Investment
- ❖ Begin Restructuring the State sector



I.C BANKS CONTINUE TO PROVIDE INTERMEDIATION

- ❖ Loans fell by less than deposits as banks continue to **restructure loans**, keeping low the NPL increase
- ❖ **Deposit withdrawal** stopped after June 2012 elections
- ❖ Greek banks in need of over €40bn in January 2012. Since then, the rising NPLs and the new higher CAR of 9% imply additional capital needs
- ❖ NPLs rose by 5.5ppts in H1-2012 or ~ €13bn and they keep rising, representing the major risk to the pool of existing rescue money
- ❖ If economy turns more sour than expected, then more NPLs may turn into defaults plus the Loss given Default rate may rise
- ❖ New injected capital does not necessarily translate into new liquidity to the private sector

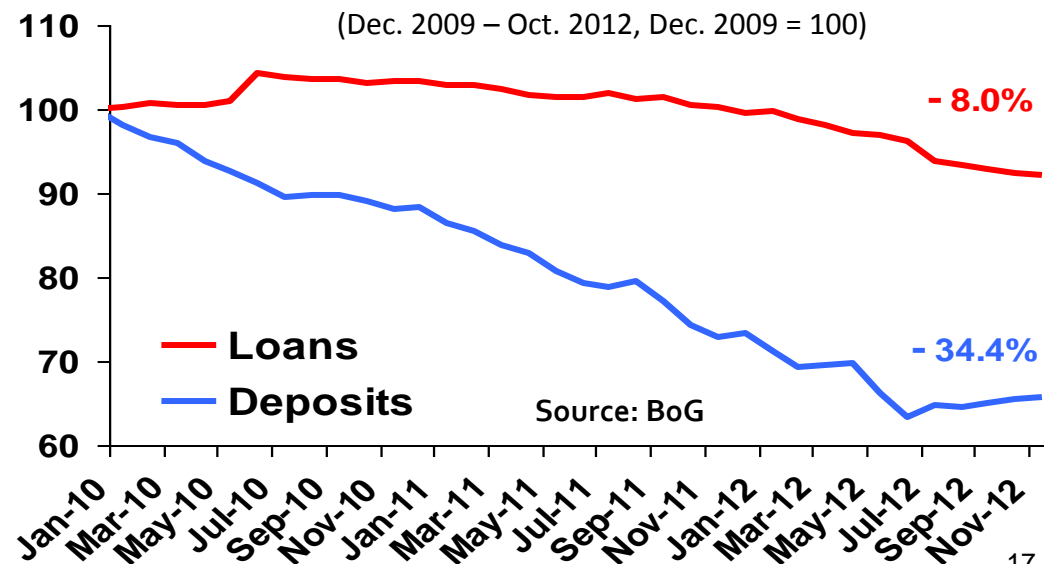
Domestic Private Sector

| (€ bn) | Credit | Deposits | | Credit | Deposits |
|--------|--------|----------|-----------|--------|----------|
| 2007 | 215.4 | 197.9 | Jan. 2012 | 249.1 | 169.0 |
| 2008 | 249.7 | 227.6 | Mar. 2012 | 245.1 | 165.4 |
| 2009 | 257.8 | 237.5 | Jun. 2012 | 240.1 | 150.6 |
| 2011 | 248.5 | 174.2 | Aug. 2012 | 233.0 | 153.4 |
| | | | Sep. 2012 | 231.8 | 154.3 |
| | | | Oct. 2012 | 230.7 | 155.2 |
| | | | Nov. 2012 | 229.8 | 155.9 |

Source: BoG

Domestic Private Sector Deposits & Loans

(Dec. 2009 – Oct. 2012, Dec. 2009 = 100)



I.C GDP OUTLOOK IN 2012 AND 2013

| | 2011 €bn, Nominal | Share in 2011 GDP | 2012 %yoy Real | 2013 %yoy Real |
|------------------------|----------------------|----------------------|-------------------|-------------------|
| Private Consumption | 162.3 | 75.5% | -9.6% | -8,5% |
| Government Consumption | 37.5 | 17.5% | -7.8% | -7% |
| Total Consumption | 199.9 | 92.9% | -9.2% | -8,4% |
| GFCF | 31.3 | 14.5% | -18% | -4% |
| Domestic Demand | 231.1 | 107.5% | -10.4% | -8% |
| Exports | 67.7 | 24.0% | 2.5 % | 5,7% |
| Imports | 51.7 | 31.5% | -12,9% | -9,4% |
| Real GDP | 215.1 | | -6.7% | -3,8% |
| GDP deflator | | | -0.5% | -1% |
| Unemployment | | | 24% | 27% |

I.C UPSIDE POTENTIAL TO THE NEGATIVE 2013 GDP OUTLOOK

- ❖ The **fiscal drag** from fiscal consolidation measures (€2.185bn from the carry-over of previous measures and €9.374bn from measures agreed in October 2012) can be **counterbalanced** by the following **Liquidity Boosts**:
 - ✓ Improved absorption of **EU Structural Funds**: gov. budget accounts for €5.7bn or 3.1% of GDP of net inflows from the EU (comparable to previous non-recessionary years)
 - ✓ Planned **reduction of gov. arrears** of €9.5bn or 5.0% of GDP, €0.7bn disbursed in Dec 2012, and remaining throughout 2013
 - ✓ **Recapitalization of Greek banks** (€23.5bn) and its impact on banks' cost of funding, as well as by a possible return of deposits (this factor is mitigated by the need to reduce exposure to the Eurosystem for liquidity- no assumed impact)
 - ✓ Better outlook of investment and consumption due to **resolve of uncertainty regarding Euro participation** (no assumed impact)
 - ✓ €1bn of **EIB funding** agreed for 2013 for SMEs (this will probably be larger due to leveraging/co-financing of projects by banks)

- ❖ **Net liquidity injection is positive**

I.C DOWNSIDE RISKS TO THE 2013 GDP OUTLOOK

- ❖ If private sector **liquidity squeeze** persists, it could lead to a **non-linear** increase in the number of –otherwise healthy- firms closing down with severe repercussions on unemployment and GDP
- ❖ **Liquidity constraints** for households which consume > 100% of their disposable incomes and a **negative wealth effect** (falling house prices and stock prices, bond haircuts) could increase pass through on consumption
 - Estimations above implied a 0.9 elasticity of consumption w.r.t. disposable incomes; if e.g. elasticity is increased to 1.3, private consumption could be reduced by -12.2% and the subsequent GDP fall would enlarge to **-6.4%**.
 - If, in addition, investment falls by -20%, instead of -4%, due to firms' closing down, GDP fall would enlarge to **-8.5%**.

Other Downside Risks:

- ❖ Political or Social turmoil
- ❖ Euro accident
- ❖ Slippages in privatizations & budget execution that have to be dealt by extra measures, thereby enlarging the fiscal drag

II.

I. Past euphoria & today's economics of supply & demand

II. A new growth paradigm & reforms for long-term growth

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II.A NEW GROWTH PARADIGM

- ❖ Thus far we showed a drastic contraction in potential output, which is to stay with us for a while due to hysteresis
- ❖ This section addresses the problem of potential output growth once the economy stabilizes to a new lower equilibrium potential output.
- ❖ A lot is being said about a new growth paradigm. Clearly, there is a crying need to expand exports at the expense of domestic aggregate demand, simply to close the current account gap.
- ❖ Anastassatos & Maliaropoulos (2013) estimate that export growth can rise to 8% annually, or 3 pp. more than the 5% average growth in EU-17, and this rise is sufficient to close the current account deficit by 2020
- ❖ The authors base their projection on existing and future (30%) competitiveness gains.
- ❖ For competitiveness gains, the wage cost reduction may have reached its limit, as it hurts domestic aggregate demand, required to stop the recession.
- ❖ Hence, the way forward is to increase competitiveness via an increase in productivity growth. But productivity growth can increase only after a fundamental restructuring of the economy.
- ❖ What is the evidence on the sources of growth?

II.A DETERMINANTS OF LONG-TERM ECONOMIC GROWTH

- ❖ Economic growth theory began with the Solow-Swan model, which describes potential output growth as a function of Capital, Labor and ... productivity
 - In Greece, during 1990-2008, average growth was 3%
 - Was due to Capital (1.10 pp.), Labor hours (0.90 pp.), TFP (1.00 pp.)
- ❖ Technology & endogenous growth received lots of emphasis in the 1990s (Romer)
- ❖ Then in the 2000s, institutional characteristics like corruption, rule of law, efficient organization of the State sector, etc. were thought to be the deeper causes of long-term growth (Acemoglu, ...)
- ❖ The empirical literature makes cross-country comparisons over decade-long time intervals. Variables found important:
 - I. (+) Investment as a % of GDP (affecting size of physical capital)
 - II. (+) Rate of human capital increase, ~ by % population in sec. education
 - III. (-) Initial income, capturing convergence
 - IV. (-) Government consumption, thought not to be productive (e.g. military exp.)
 - V. (-) Inflation, which destroys the price mechanism
 - VI. (-) Real effective exchange rate, showing the competitiveness effect
 - VII. (+) Openness
 - VIII. (+) Quality of institutions
 -
 - IX. (-) FX risk premium in countries that have flexible exchange rates

II.A VARIABLES RELATED TO GROWTH: GREECE vs. EA-12

| | <u>Greece</u> | <u>EA-12</u> | | <u>Greece</u> | <u>EA-12</u> |
|---|---------------|--------------|---|---------------|---------------|
| <u>Investment</u> (% GDP) | | | <u>Inflation</u> (annual,%) | | |
| 2001-2011 | 21.6 | 20.3 | 2001-2011 | 3.4 | 2.3* |
| 2012 | 14.0 | 18.6 | 2012 | 1.0 | 2.5* |
| <u>School Enrollment:</u> | | | <u>Openness</u> (Imports+Exports)/ GDP, % | | |
| sec.ed. (%net,2010) | 98.0 | 92.1 | 2001-2011 | 57.4 | 108.2* |
| tert.ed. (%gross, 2007) | 89.4 | 59.0 | 2012 | 61.0 | 120.0* |
| <u>2012 GDP per</u> <u>capita</u> ,(2005 prices, 1000€) | 14.9 | 26.1 | <u>Corruption</u> <u>Perceptions Index</u> 2012 (0-100) | 36.0 | 70.6* |
| <u>Gov.Cons.</u> (% GDP) | | | <u>Rule of Law 2011</u> (score -2,5 to 2,5) | 0.57 | 1.41* |
| 2001-2011 | 18.3 | 20.8 | <u>Government</u> <u>Effectiveness 2011</u> (score -2,5 to 2,5) | 0.48 | 1.36* |
| 2012 | 16.9 | 21.5 | | | |

Source: EU Commission, World Bank, EUROSTAT,
Transparency International

* EA average

II.A DETERMINANTS OF LONG-TERM ECONOMIC GROWTH IN GREECE

Two recent studies in Greece:

1. Tavlas & Petroulas (2010) examine earlier variables during 1980-2000 and focus on the importance of institutional characteristics, concluding that
 - ✓ if Greece reached the institutional development of Nordic (EE-15) countries, growth would be 31% (22%) higher every year
2. Eurobank Research (forthcoming, 2013) for 2000 -2010, claims
 - ✓ Growth (in per capita PPP) can increase by 1.0% every year
 - a) Government consumption share in GDP: A decline from an average of 18.4% of GDP in the 2000s to 13% could add about 0.80% to Greece's long-term growth
 - b) Terms of trade interacted with openness: An increase in the relative price of exports to imports from an average annual growth of -0.7% in the 2000s to 0.5%, combined with an increase in openness from 57.6% to 70%, could contribute about 0.23% to Greece's long-term growth.
 - c) International Openness: An increase in the ratio of exports plus imports to GDP from 57.6% to 70% could add about 0.17% to Greece's long-term growth.
 - d) Inflation: A decline in CPI inflation from an average of 3.3% in the 2000s to 1.0% could contribute positively by about 0.06% to Greece's long-term growth.
 - e) Investment share in GDP: A decline in gross capital formation from an average of 23.2% of GDP in the 2000s to 20.0% could subtract 0.20% from Greece's long-term growth.

II.B REFORMS NEEDED AS "EASE OF DOING BUSINESS 2013" SHOWS: 78th FROM 185 COUNTRIES IN 2012

| | Rank | $\Delta(2011-12)$ | Starting a business (days) | Protecting Investors (0-10) | Exporting Goods (days) | Resolving insolvency (years) | Paying Taxes (hours/year) |
|-------------|-----------|-------------------|----------------------------|-----------------------------|------------------------|------------------------------|---------------------------|
| OECD | | | 12 | 6.1 | 10 | 1.7 | 176 |
| US | 4 | 0 | 6 | 8.3 | 6 | 1.5 | 175 |
| GR | 78 | 11 | 11 | 4.7 | 19 | 2.0 | 202 |
| CY | 36 | 1 | 8 | 6.3 | 7 | 1.5 | 147 |
| DE | 20 | -2 | 15 | 5.0 | 7 | 1.2 | 207 |
| FR | 34 | -2 | 7 | 5.3 | 9 | 1.9 | 132 |
| IT | 73 | 2 | 6 | 6.0 | 19 | 1.8 | 269 |
| ES | 44 | -2 | 28 | 5.0 | 9 | 1.5 | 167 |
| IE | 15 | 1 | 10 | 8.3 | 7 | 0.4 | 80 |
| PT | 30 | 0 | 5 | 6.0 | 13 | 2.0 | 275 |

- ❖ The first improvement in years in a competitiveness index (from 89th). Columns include selected questions that compose various sub-indices
- ❖ Greece is among the 10 economies globally that improved the most
- ❖ The DB 2013 covers 185 countries and describes the regulatory environment of each country measured from June 2011 through May 2012.

II.B MoU and REFORMS

MoU includes 11 categories, which are grouped below as:

(a) Sectoral (b) Labor (c) Internal Competition, (d) Government restructuring

a) Sectoral

1. Financial Sector Reform

- Hellenic Financial Stability Fund, Temporary recapitalization, ATE bank, viability of insurance companies

2. Growth enhancing structural reforms

- Liberalization of Transports;
- Energy: Competition on electricity generation, Regulated tariffs, Renewables, Regulation of Gas;
- Plan for R&D and innovation,
- Absorption rates of structural and cohesion funds

b) Labour supply

1. Labour market reform

- Min W reduction, severance payment reduction, elimination of unilateral recourse to arbitration, maturity freeze or abolition, reduction in non-wage labour costs, etc.

2. Education reform

- Restructuring and evaluation of Greek universities

II.B MoU and REFORMS (cont.)

c) Internal competition

1. Business Environment

- Competition, Fast track licensing, exports imports facilitation, land registry and spatial planning

2. Regulated Professions

d) Government restructuring

1. Structural Fiscal Reforms

- Asset Management & Privatization, Tax Policy, Revenue Administration

2. Public Sector Modernization

- Public Administration: Census, Single Payment Authority, local gov. reforms
- Public Sector Wages (Wage Grid) and HR, Public Procurement

3. Pensions reform

- Increase in retirement age in line of life-expectancy, disincentives for early retirement, future expenditure increase not to exceed 2.5% of GDP

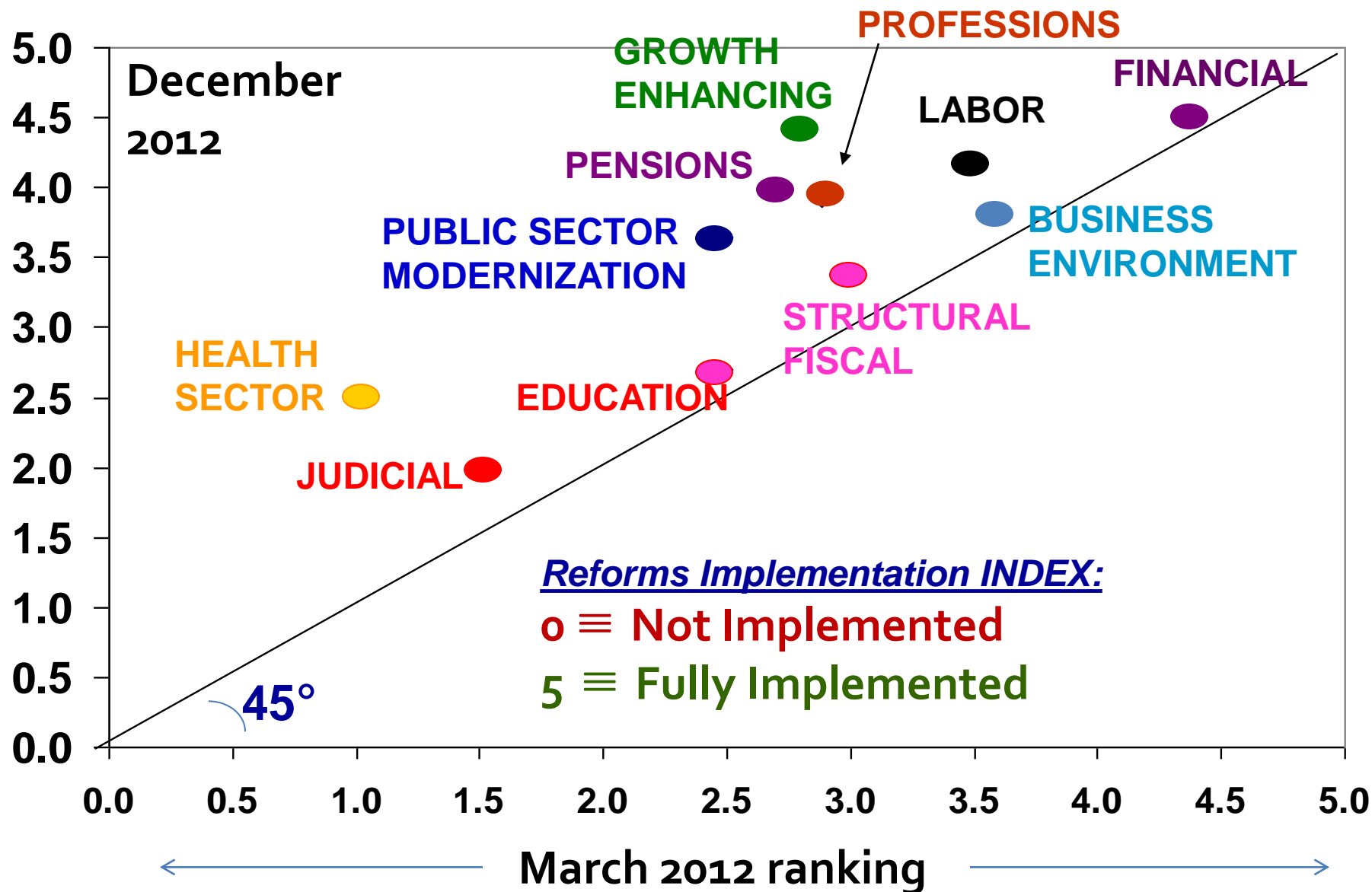
4. Health sector reform

- Merging of social security funds, stricter disability criteria, reduction in pharmaceutical expenses, health expenditure < 6% GDP

5. Judicial reform

- Clearance of backlog of tax & non-tax cases
- Code of civil procedure in line with international standards (small and dormant cases to go outside the courts, relief from non-adjudicatory work)

II.B QUANTIFYING THE PROGRESS IN REFORMS FROM MARCH 2012 TO DECEMBER 2012



II.B REFORMS: PRIORITY WORK REMAINING AHEAD

a) Sectoral

1. Financial Sector Reform

- Complete the bank recapitalization, viability of insurance companies

2. Growth enhancing structural reforms

- Absorption of structural and cohesion funds
- Regulatory framework for gas and renewable energy markets even after privatizations

b) Labour supply

1. Labour market reforms

- Independent assessment of labour inspectorate structure and activities
- Unify Collection of taxes and social contributions plus Audits, for largest tax debtors

2. Education reform

- Evaluation of Higher-education is behind targets
- Clearance of the various legal problems, which prevent the operation of the newly elected external governing bodies in the universities

II.B PRIORITY WORK REMAINING AHEAD (cont.)

c) Internal Competition

1. Business Environment

- Delays in the process of simplification of export and customs formalities, portal pending
- Spatial planning: Simplify Urban plans, codify legislation on forests, two disposal sites for hazardous waste
- Full land registry by 2020, digitalizing operations of Mortgage & Notary offices by end 2015

2. Regulated Professions

- Delays in various aspects of the deregulation of legal profession
- Point of Single Contact for services not operational yet
- Open access to non-Lawyers for mediation

d) Government restructuring

1. Structural Fiscal Reforms

- Anti-corruption plan (penalties for tax evasion, protection of whistle blowers, empower the internal audit of tax offices)
- Complete Restructuring of the tax system (closure of offices, increase number of inspectors to 1.000 from 235, audits of large tax payers not operational yet)
- IT system that interconnects tax offices: on-going
- Legal Clearance of real estate for future privatizations

II.B PRIORITY WORK REMAINING AHEAD (cont.)

2. Public Sector Modernization

- Transfer of redundant staff to the labour reserve started. Uncertainty remains on what will happen after 12 months (dismissals?)
- Speed-up of the public procurement framework (pilot process in hospitals)

4. Health sector reform

- Pharmaceutical spending reduction (reduction of profit margins in the chain of pharmacists, wholesalers, companies; claw-back rebate, generics to reach 60% from current ~ 30%)
- Centralized procurement not covering all parties yet
- Quarterly revision of positive price list to include all medicines
- Review of the price list for diagnostic services
- Double entry accrual accounting for ~ 70% of hospitals

5. Judicial reform

- Update the existing plan for the reduction of the backlog of tax cases as previously specified targets (50% reduction by June-end & 80% reduction by December-end) are already missed
- Non tax cases: Not even the study of the problem is ready, the plan is supposed to be operational by June 2013
- Reform of the magistrates court to expedite cases
- Opening access to mediation services for non-lawyers
- New Code of Civil Procedure to be ready by end 2013

SUMMARY: From crisis to growth, (1) When and (2) How?

1. WHEN

- ❖ When aggregate demand stabilizes, implying a delicate balance between fiscal austerity and pro-growth policies.
- ❖ We failed in this balance partly due to the loss of credibility of Greek politicians and the economy is in a **depression**
- ❖ There is a bifurcation point over the next 4 months as households and companies are being squeezed by higher taxes, declining wages and pensions, rising unemployment and a shortage of liquidity. We either survive the crash, public revenue projections materialize and regain the ability to see a way forward, **OR we enter a rapid vicious economic and political cycle that takes the country down to the 1960s.**

2. HOW

- ❖ By addressing the factors which drive long-term growth: (i) **Investment/GDP**, (ii) quantity plus **education and quality of human capital** (iii) reduction in the size of government, (iv) inflation (v) cost competitiveness, (vi) openness, (vii) **quality of institutions like Government functioning & effectiveness, rule of law and corruption**
- ❖ The MoUs addressed all 7 factors, and we can claim success in improving (iii), (iv), (v), (vi)
- ❖ Challenges are (i), (ii), and (vii). Reforms, in particular, take time to bear fruit

**Thank you
for your attention**

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I wish to thank my colleagues at Eurobank for their comments