The Greek Economy At A Glance

What Should Change

10/2/2015
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THE GREEK ECONOMY AT A GLANCE

The Greek economy is facing an extremely difficult situation due to the public deficit which has led the country to a new much more severe memorandum.

After 6 years of austerity measures and 2 memorandums which have been put into practice by the IMF, the European Central Bank, the EU and which have been agreed with the national political forces, the economy is still falling deeper into a recession as the imposed formula has completely failed to help the economy stand on its own feet.

This program has been built on the following pillars: austerity measures, very high taxes, cuts in social spending, significant restrictions in business financing from banks, reforms of the public sector, public companies' privatizations.

But the program was rushing, furious, unrealistic and additionally didn't quite apply to the Greek economy. Moreover, it completely ignored the most important factor that was the root of the real problem: the weakness of the Greek economy and the false model that the country was following for many decades.

Given the current situation of net debt for the private and public sectors in the economy, no solution is feasible if the cost of borrowing, for the private and the public sectors, remains above the growth rate in income, which is now negative. Moreover, since Greece's net debt is now entirely a credit held by foreigners, servicing the debt implies a net transfer of a large share of income out of the country, with obvious consequences for aggregate demand.

The most important problems that led Greece to bankruptcy were:

- The lack of a friendly environment for the development of small and medium-size companies along with an unfriendly environment for investors
- The over-consumption and indebtedness of companies and households
- The gradual destruction of the Greek productive forces
- The hyperinflation of the services sector
- The bureaucracy and the development of an unproductive huge public sector based on a mechanism of party electioneering
- The inadequate functioning of the banking system and the lack of control
- The deterring tax system which prevents the attraction of investment that is really needed by the country in order to be able to build a strong economy

- The absence of a connection between the national education system, science and enterprises
- The lack of a steady, socially fair and efficient taxation system
- The corruption in the public sector and the large number of state-funded private companies
- The absence of an integrated investment plan that would boost, take advantage of the labor forces and keep a balance between private and public investments
- The cartelized situation in many public and private organizations
- The directing of bailout money mainly towards paying off Greece's international loans, rather than making its way into the economy
- The Greek market was not ready to enter the euro zone as the national economy was not strong enough to support it. The public sector was not advanced in technology while the private sector did not become competitive and was unable to expand worldwide to overcome competition regarding technology production management

Today the main figures of the Greek economy are as follows:

- Greece's economy shrank every year from 2008 onward until 2013, with a peak year-on-year decline of 8.1%. The cumulative GDP decline has been 25 percent, from the high peak of 242.096 Euro in 2008 to 179.080 Euro during 2014
- Over 27% unemployment, with a figure even higher as regards unemployment in young people which nears 53%
- Business Confidence in Greece decreased to 75.20 in August from 81.30 in July of 2015. Business Confidence in Greece averaged 100.51 from 1985 until 2015, reaching an all time high of 119.10 in July of 2000 and a record low of 74.80 in March of 2009 (Measure:current prices)
- Ease of Doing Business in Greece improved to 61 in 2014 from 72 in 2013. Ease of Doing Business in Greece averaged 90.29 from 2008 until 2014, reaching an all time high of 109 in 2009 and a record low of 61 in 2014
- Consumer Confidence in Greece decreased to -64.80 in August from -52.90 in July of 2015. Consumer Confidence in Greece averaged -35.96 from 1985 until 2015, reaching an all time high of -3.20 in May of 1985 and a record low of -83.80 in October of 2011

Taking into account the result of the previous referendum and the negative results of the economy, it is rather likely that the new memorandum will further narrow any free space for the Greek economy to grow and will ultimately destroy any possibility for

Greece's growth. Furthermore, this will not allow the Greek economy to take advantage of its own national resources and create the necessary wealth. This creation of national wealth is an essential element for being able to move forward socially and financially and to allow the safe repayment of the country's debt. Political games within the country as well as EU tactics are continuously moving Greece into deeper problems.

McKinsey wrote that what the country needs is a National Growth Model which could create the prerequisites for a sustainable future. This is indeed right but before this the country must swiftly redesign the state's functionalities and law. Without institutional reforms that will support the country's public and private sectors' operations no kind of plan will be sufficient enough to get the nation out of the deep recession cycle. A national restructuring plan of state mechanisms is necessary before any kind of National Growth Model.

The National Growth Model should build on well-balanced public and private investments and should take into account not only the services sector, which is already huge and cannot stand inside borders, but mostly the primary and secondary sectors which will allow the nation not only to increase exports but also to create new jobs and boost internal spending. Many are saying that the country cannot develop its industry sector. I believe this is completely wrong. As Greece starts working seriously on the primary sector and takes advantage of the country's abundant natural resources it can easily open the door for the secondary sector and support the further extension of the services sector changing its role dramatically.

Indeed a lot has been written about the areas that Greece could work on in order to improve the country's financial situation and build a really strong and viable in the long term economy, gaining a bright future for itself.

Beyond the current situation Greece remains a country of great geopolitical importance, with political stability compared to the wider region. It is a cultural and commercial connection point between Asian, African and Middle Eastern countries, with an ideal climate and many natural resources. This makes Greece an ideal place for different types of investments.

Mc Kinsey, Boston Consulting Group and other consulting firms have suggested some fields for healthy growth in the Greek economy such as: manufacturing of generic pharmaceuticals, aquaculture, alternative forms of tourism such as medical tourism, offering long term and elderly care, establishment of a regional cargo and logistics hub, waste management, creating a graduated Classics education hub, specialized Greek food, international conference centers etc.

But I insist that the key still is the construction of a combined business framework for each one of the primary, secondary and tertiary sectors. Maybe not heavy industry but other forms such as technology and innovation. There were great examples of well-structured industries in the very near past that can still show Greece the way even if due to wrong business models and government policies the country hasn't managed to survive through time.

Sources: Mc Kinsey & Company, Boston Consulting Group, Levy Economics Institute, European Commission, Greece Economic Profile(Index Mundi), Trading Economics, OECD, Huffington Post, New York Times, Washington Post, Zero Hedge, The Guardian.