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# Greece, Before and After the Pandemic

Student Research Internship Report

Atul Arya

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# Greece, Before and After the Pandemic

Atul Arya[1]
Indian Institute of Technology, Kharagpur

*In this article, I try to explain Greece's overall economic situation over the last two decades. As a member of the Eurozone, the Greek economy can't pursue independent economic policies. Furthermore, the article explains the economic policy in Greece until the emergence of the "Covid-19 pandemic", and for the post-pandemic era, we shall study how Greece coped with the pandemic especially with relaxation over restricted policies and the change in the stand of the ECB over fiscal deficits, public debt. Finally, we shall also look at the implications for macroeconomic theory from the lessons drawn on post-pandemic policies adopted by Greece.*

## A brief recent economic history pre-pandemic

Greece, a country that has been through the worst economic crisis over recent past years. It joined the European Union in 1981, with its debt to GDP ratio of just 28%. Due to the mismanagement of the government (increase in government expenditure for welfare, fiscal profligacy that was in power especially during the election years), its debt continued to rise. They spent more money than they had. The country's debt to GDP ratio reached 97% by 1999[1]**.** Despite failing to fulfill the **Maastricht Criteria[2],** Greece joined the Eurozone and accepted the Euro as its currency in 2001. There was considerable growth until 2008 with GDP per capita rising rapidly. The people were very happy, employment was rising, but so was the debt. Then came the global financial crisis in 2008, which had a disastrous effect on Greece especially because the structural problems had already existed in its economy before a spiraling fiscal deficit. It had borrowed far more money than it was able to earn through taxes. In 2004, Greece admitted for the first time that it had been involved in financial data fudging to be accepted into the union. In 2009, their budget deficit exceeded **15%[2].** Under pressure from the EU, the fiscal deficit was reduced sharply by 2014 but at the cost of major depression with the unemployment rate soaring to 28% in 2013 and the youth unemployment rate at 65%. As a result, Investors lost their trust, withdrew their investments, and the country's credit rating was downgraded. Unlike other countries[3] in such a crisis, Greece can't devalue its currency as it surrendered its currency sovereignty and it is not the sole country using Euro. Instead, it was forced to adopt austerity measures (decrease spending, increase taxes). At the same time, The EU did not want Greece's economy to crash because that would affect the reputation of the Euro currency and other member states. Therefore, they made bailout plans for this purpose. The IMF and EU gave the first bailout, worth €110 billion in 2010, and asked Greece to implement austerity measures in return. But it could not revive Greece's economy. Amid Public anger over austerity, a second bailout was given of €130 billion in 2012. In exchange, Greece would have to reduce its debt-to-GDP ratio from 160% to 120.5%. After

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I, Atul Arya, declare that this work is my own and has not been plagiarized.

this, the third bailout of €86 billion was provided in 2015 and by 2018, some 'positive results' finally began to dawn. The GDP growth rate turned positive and unemployment began falling. Despite this harsh adjustment mechanism thrust upon Greece, it ended up owing the EU and IMF around €290 billion. To finance this debt, Athens has committed to running a budget surplus through 2060.

## During Pandemic

### Timeline

| | |
|---|---|
| Feb 26, 2020 | First confirmed COVID-19 case reported. |
| Mar23, 2020 | First national lockdown that restricted all but essential movement and economic activity. |
| July 2020 | Gradually lifted the lockdown except for large public events |
| 7 Nov 2020 | Second national lockdown with some essential business open, due to rising cases. |
| Jan 2021 | Lifted the second lockdown with curfews and selected restrictions. |
| Mar 2021 | Third national lockdown, extended till May. |

*Source: Policy Responses to Covid-19, IMF*

The ongoing "Covid" pandemic has altogether altered the economic landscape for Greece as well as for European Union. On 18 March 2020, the government announced a package of measures to support the economy, businesses, and employees. The measures included the suspension of tax and social security obligations of corporations for four months (extended later) with the condition that they do not lay off any workers and no late payment of interest would be applicable during the suspension period. The measures also include an €800 stipend to the employees of businesses the activity of which was suspended by the state. The reduction of VAT tax from 24% to 6% on pharmaceutical products. Moreover, the Finance Minister announced the inclusion of Greece in an emergency asset purchases program worth €750 billion launched by the ECB. There was EU relief on many levels and most importantly the suspension of the 3.5% primary surplus target which Greece had been agreed upon with creditors. The pandemic has halted the recovery of the Greek economy that had begun in 2017, mainly driven by the decline in exports and private consumption. The gradual lifting of the restrictive measures and the extended monetary and fiscal policy measures led to a strong recovery of the Eurozone as well as Greek GDP. Inflation fell sharply throughout 2020, an appreciation of the euro, as well as a drop in effective demand. The 'expansionary' fiscal policy and labor market measures along with an easing of monetary policy have supported the Greek and European economy, reduced the negative effects of the pandemic on economic activity, and mitigated its adverse effects on the labor market. The ECB was the first to respond, introducing the flexible Pandemic Emergency Purchase Program (PEPP) to ensure that the euro area economies had the liquidity they required. The Single Supervisory Mechanism (SSM) and many temporary measures to provide relief to banks. This flexibility will remain available until 2022. It is the **Greek Banking sector** that was hard hit by the crisis and pandemic. Regarding non-performing loans (NPLs) resolution, the Bank of Greece proposed the Hercules Asset Protection Scheme (HAPS), designed to attract privatization investors, to assist banks in securitizing and moving NPLs off their balance sheets and improve their solvency, without granting aid or distorting competition so that banks can fully contribute to the recovery of the economy. Since the introduction of the scheme in October 2019, Greek banks have made significant progress in reducing the stock of their NPLs.[4] In March 2021, Greece formally applied to extend "HAPS" to help lenders attain a single-digit ratio of bad loans and bring them more in line with eurozone averages and ECB extended this scheme for another 18 months, till Oct 2022. The MMT advocates that no country can default if it can issue debt in its currency or its currency is an international reserve currency. But for Greece, this was not the case. Back in 2012, a lot of people were talking about "**Grexit**"[5]. Some argued that leaving the 'overvalued' euro and switching back to the drachma would boost exports and economic growth, and lowered its euro exchange rate by printing more money. But as the drachmas fell, it would debase the value of repayments in their currency, banks would go bankrupt, it inflates the price of goods, and even triggered hyperinflation. The depreciation of the currency would hit imported goods as well as the prices of domestically produced goods. Hence, it would impose excessive hardship on its citizens. This may not only harm the reputation of the eurozone but also cause civil unrest in Greece.

**Conclusion**

The resurgence of the pandemic has increased uncertainty regarding the depth of the recession and has weakened the prospects of economic recovery in Greece (Eurozone). For this reason, fiscal and monetary policy should remain expansionary until 'at least' the economy returns to a stable growth path. However, more has to be done to make the European economy and banking sector more resilient.

**Opinion**: Getting out of the depression doesn't prove anything, it's the cost of hardship they have come out of. It may be debatable but does Greece need to wait for these years. Ultimately, we can appreciate the power of "Modern Money" and the power it gives to the state in such crises.