
Fiscal consolidation: the Greek case

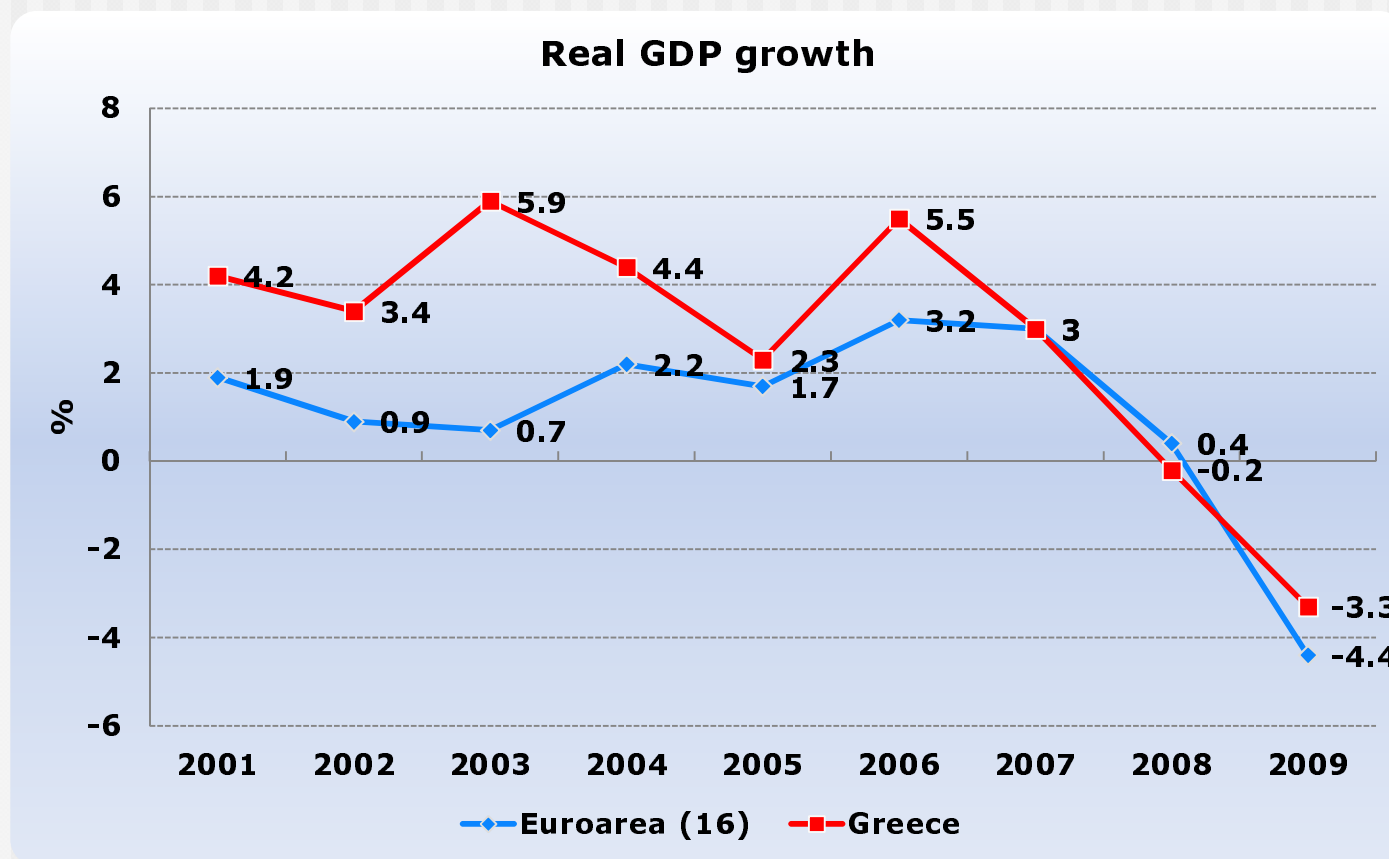
Dionysios A. Lalountas
Directorate of Macroeconomic Policy & Forecasts
Ministry of Finance

Structure of the presentation

- Macroeconomic developments before the sovereign debt crisis
- The economic adjustment programme(s), and the policy framework
- The economic implications
- Concluding remarks

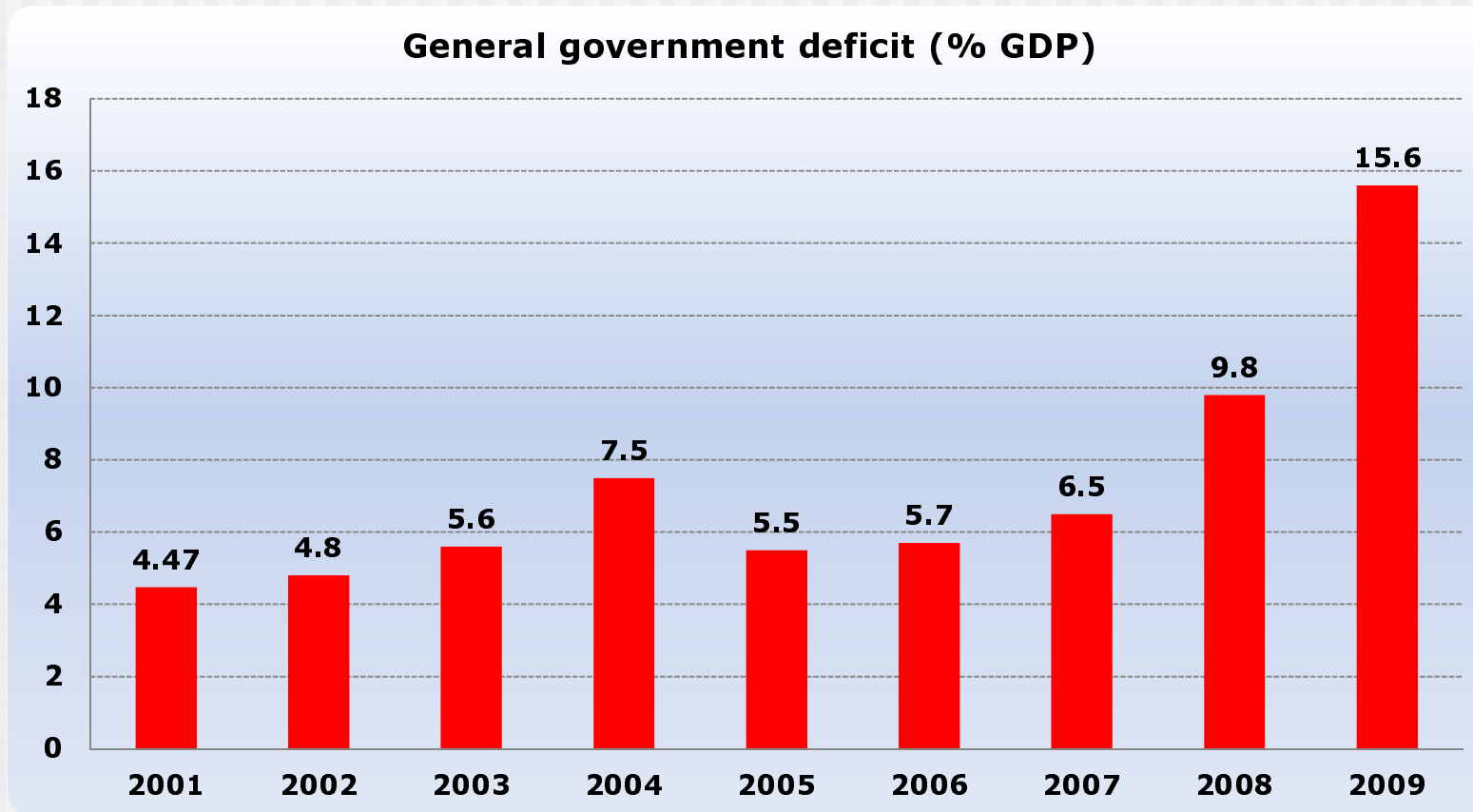
I. Macroeconomic developments before the sovereign debt crisis

Economic growth was robust during the last decade

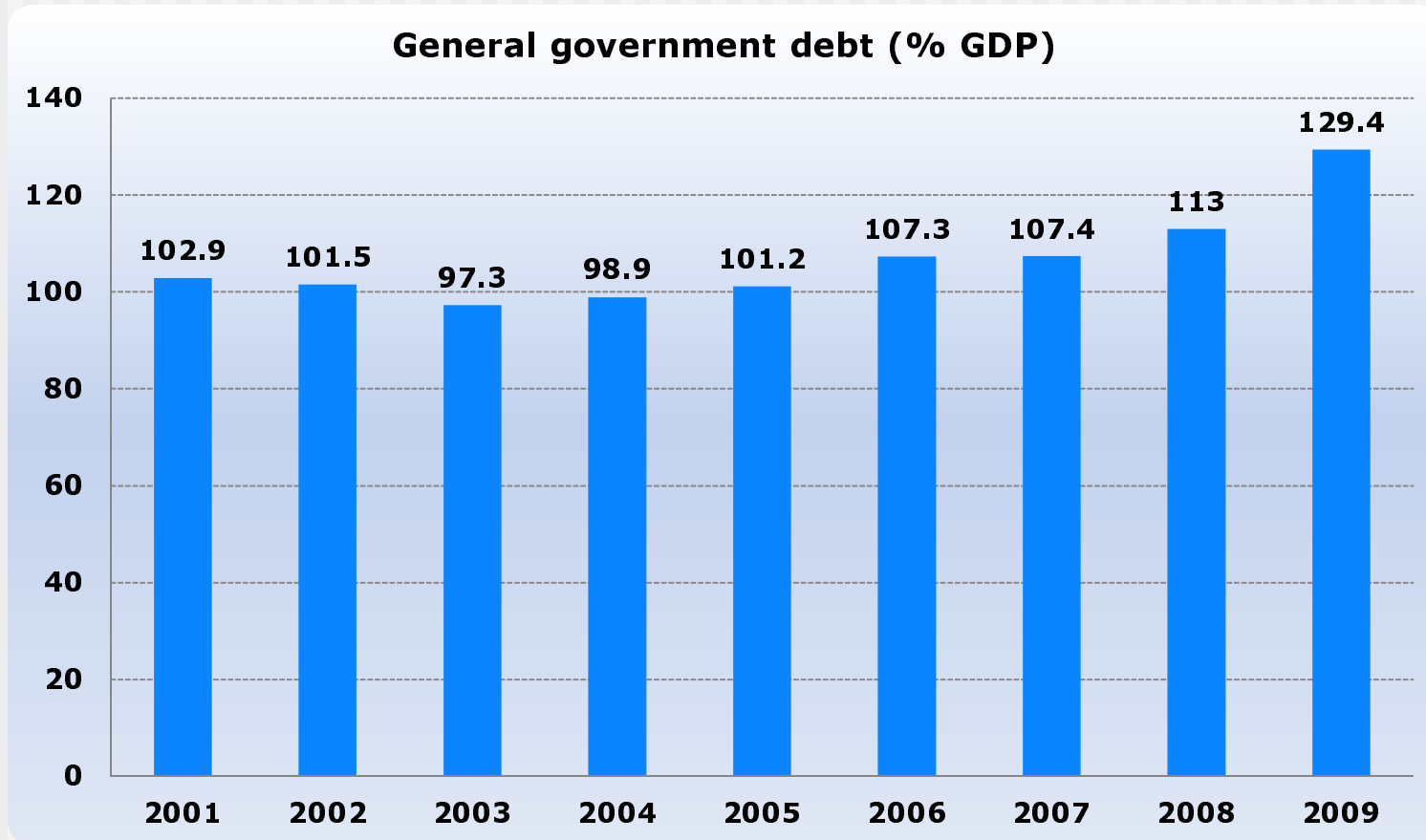


Source: European Commission

Fiscal imbalances: High deficits



Fiscal imbalances: High debt

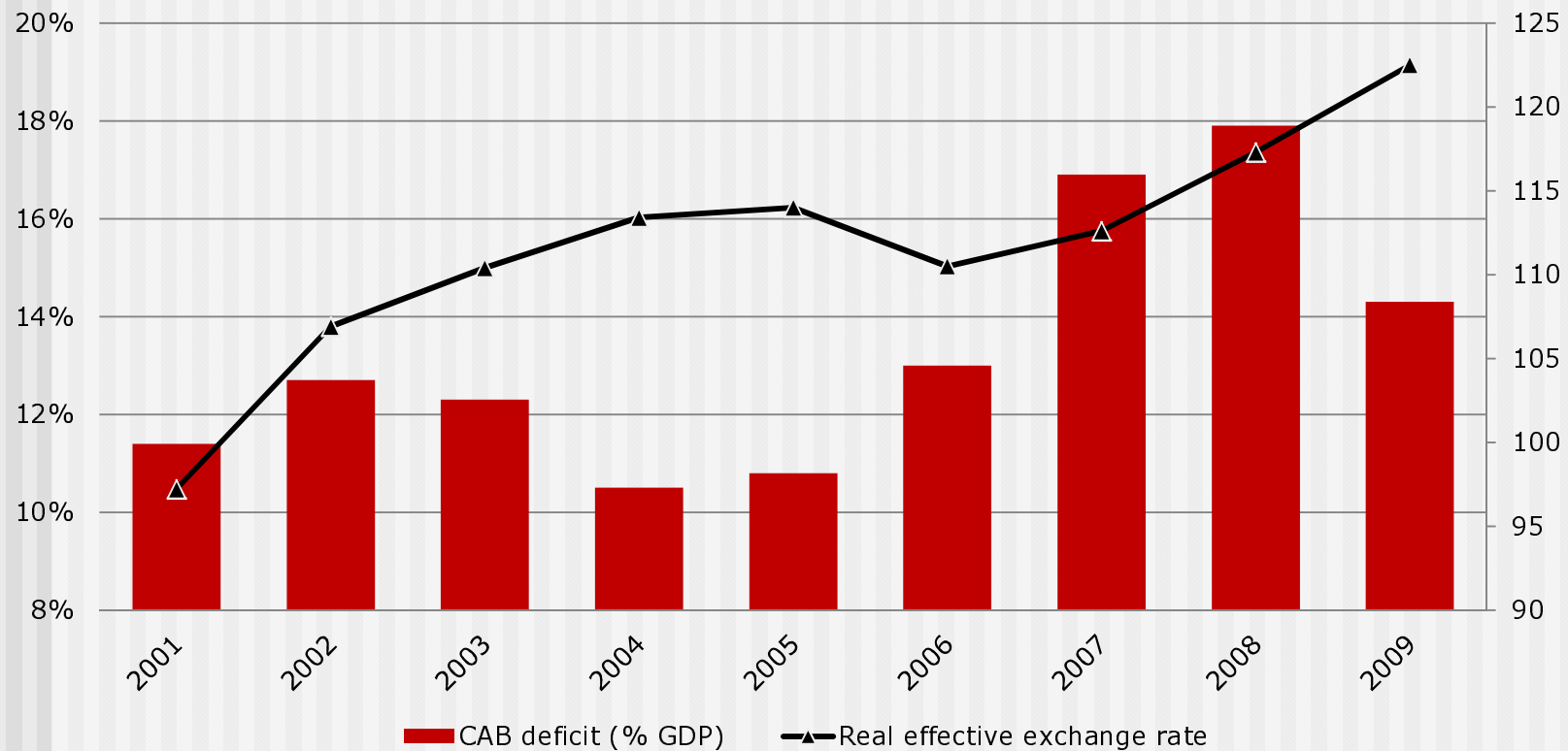


External imbalance: Large deficits



Loss in competitiveness

Current Account Deficit and Competitiveness



II. The Adjustment Program and the policy framework

The Adjustment Programme's Objectives

The Economic Policy Programme of Greece aims at:

- Restoring **confidence and fiscal sustainability**
- Restoring **competitiveness and sustainable growth**
- Safeguarding **financial sector stability**

Economic policy framework

Greece is implementing an **ambitious** programme including:

- **A significant fiscal adjustment effort.** The cumulative adjustment over the period 2010 – 2013 was 13.6% of GDP.
- **Fiscal structural reforms** to safeguard medium and long term sustainability of public finances.
- **Structural reforms in product, services and labor markets** to promote competitiveness and enhance growth potential.
- **A new growth model** to boost competitiveness and exports via **internal devaluation**. The current account is expected to be in surplus in 2013, following a deficit of 11.2% of GDP in 2009.
- **Private Sector Involvement and buy back operations** to help place debt on a sustainable level by 2020.
- **Financial sector reforms to safeguard** the stability of the banking system. Greek banks are fully recapitalised, while smaller banks have been restructured or resolved.
- **Privatization program** to help support growth and debt reduction

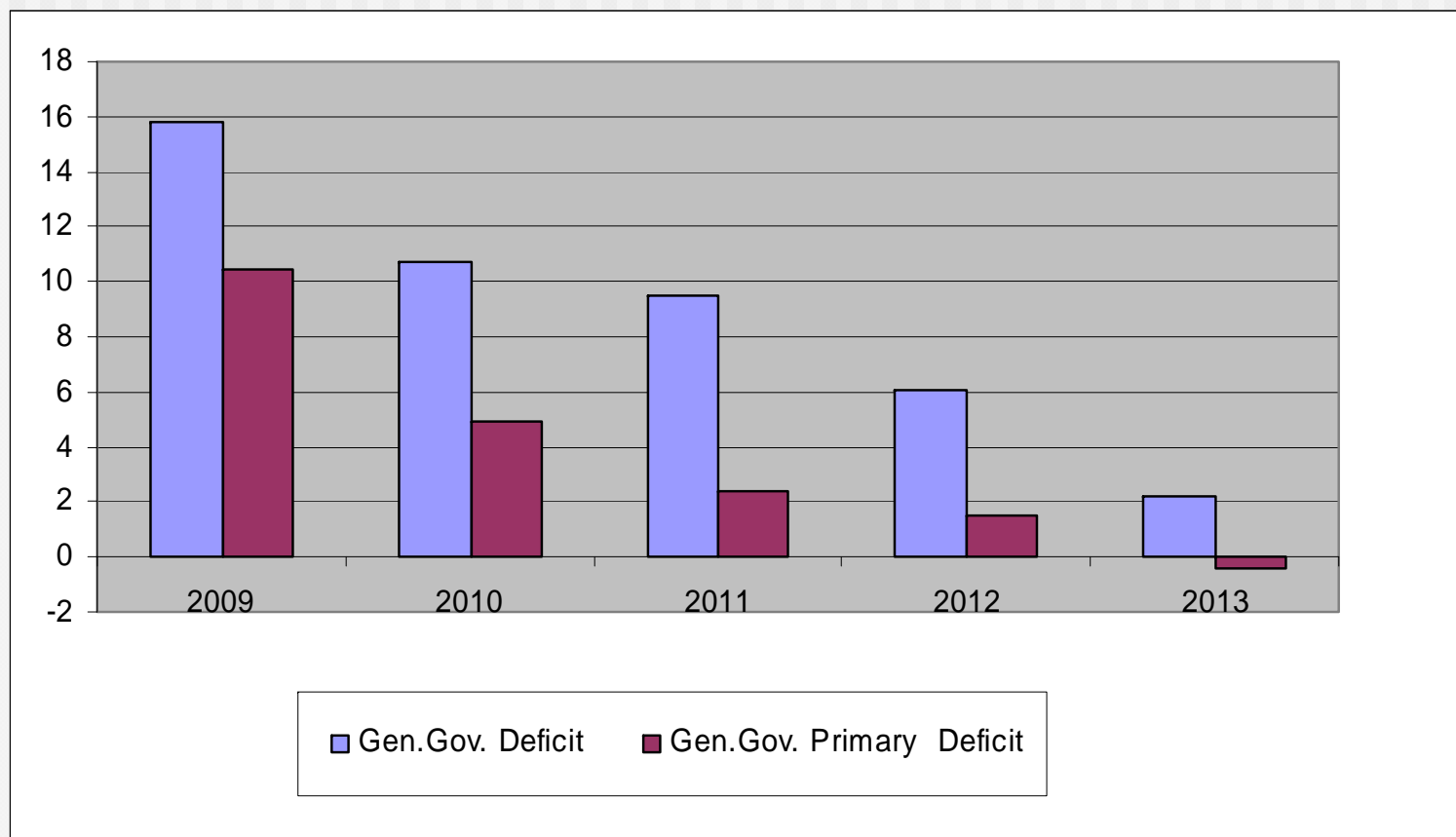
Composition of consolidation: measures in % of GDP

	2010	2011	2012	2013	2014
Revenue	4.83	4.69	3.11	1.16	0.52
Expenditure	3.76	4.06	2.84	4.41	1.58
Total	8.6	8.8	6.0	5.6	2.1

Source: European Commission and Ministry of Finance

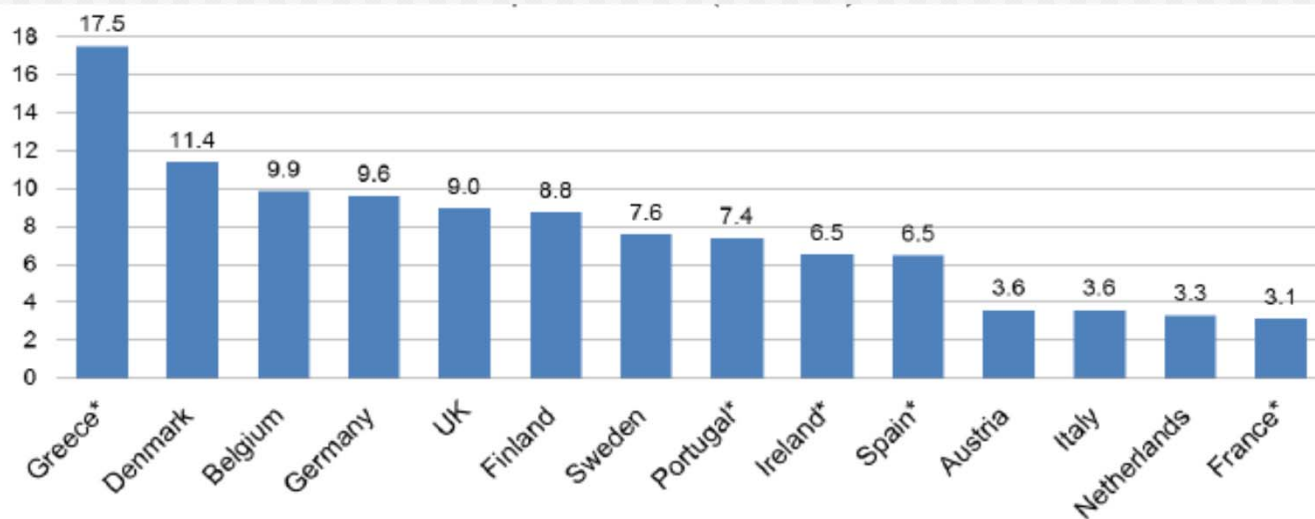
III. Economic implications

The size of the fiscal adjustment



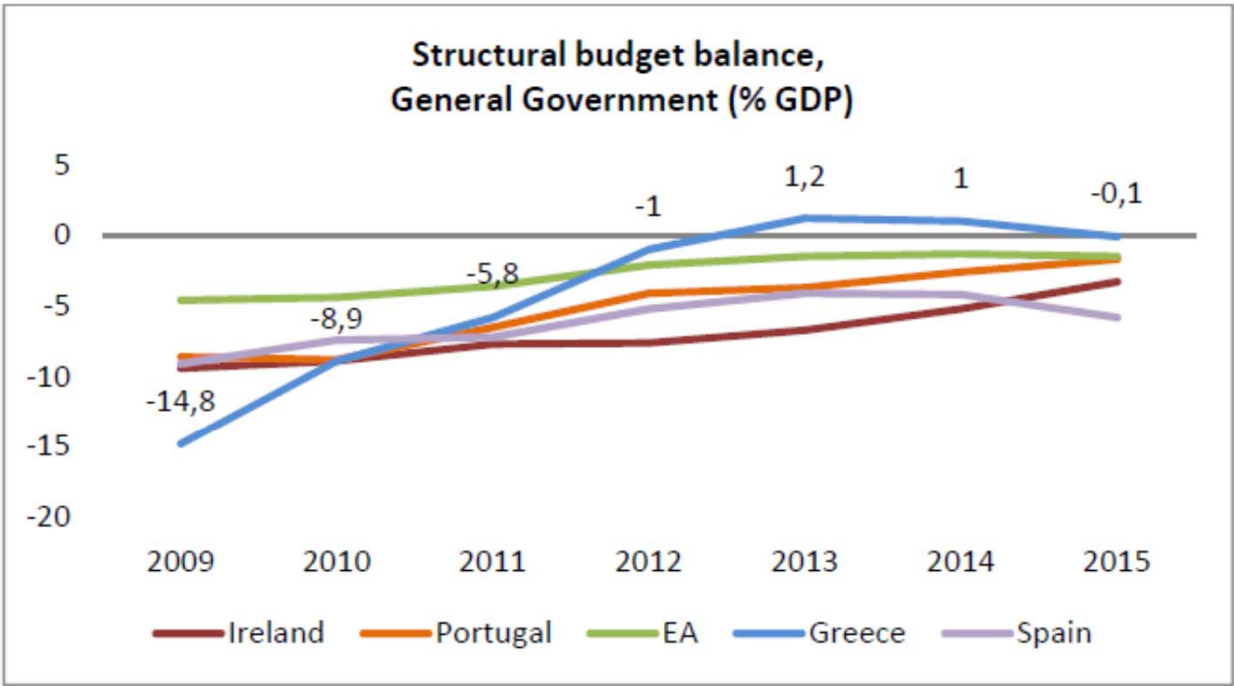
Source : AMECO, Ministry of Finance

Highest scores of cyclically adjusted primary balance improvements



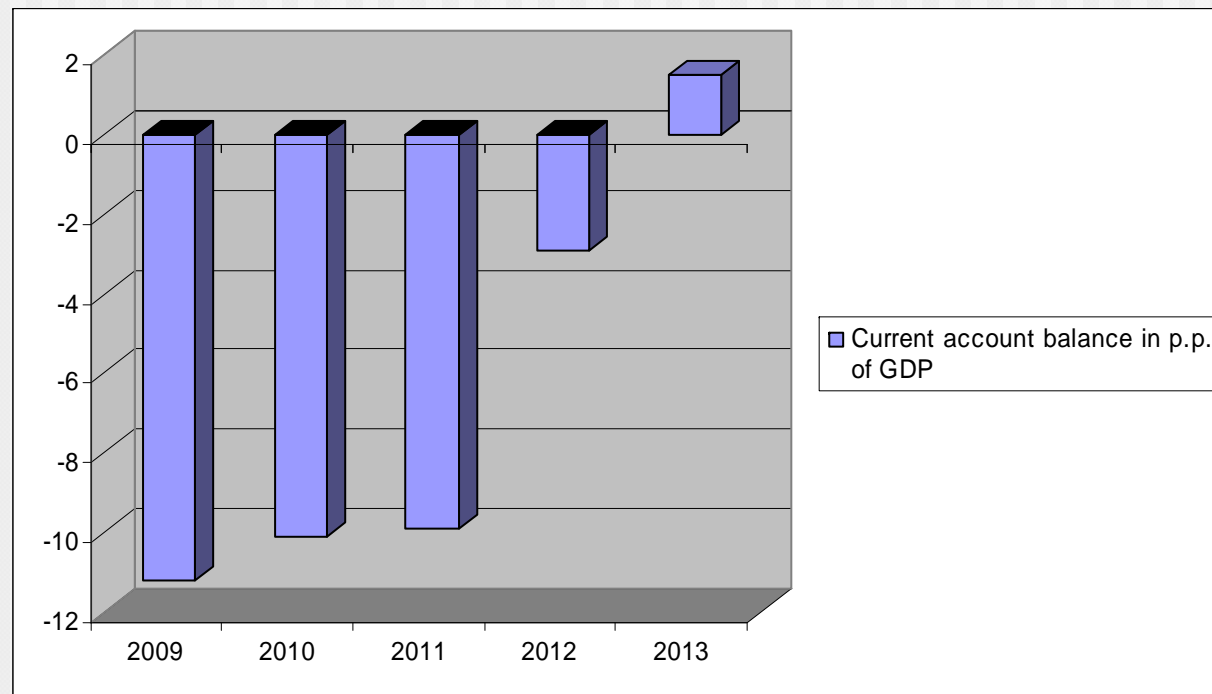
Source: Ameco and IMF

General Government Structural Balance 2009-2015



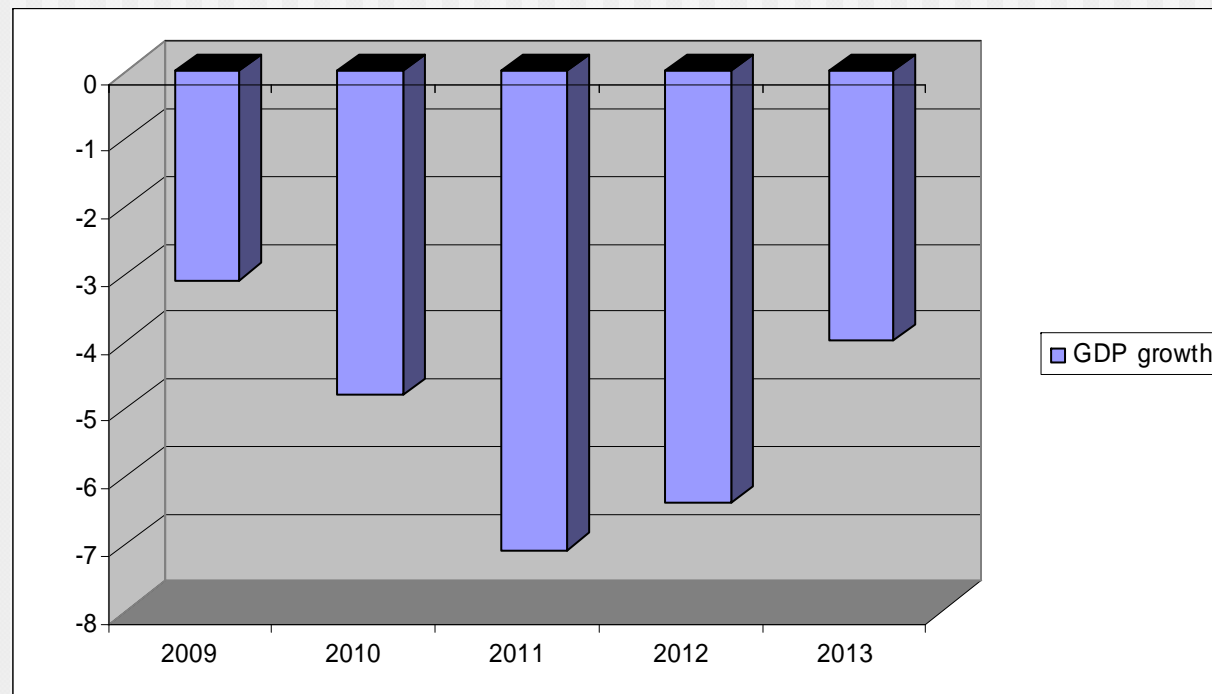
Source: European Commission, Autumn Forecast 2013

For the first time the current account balance is expected to be positive in 2013



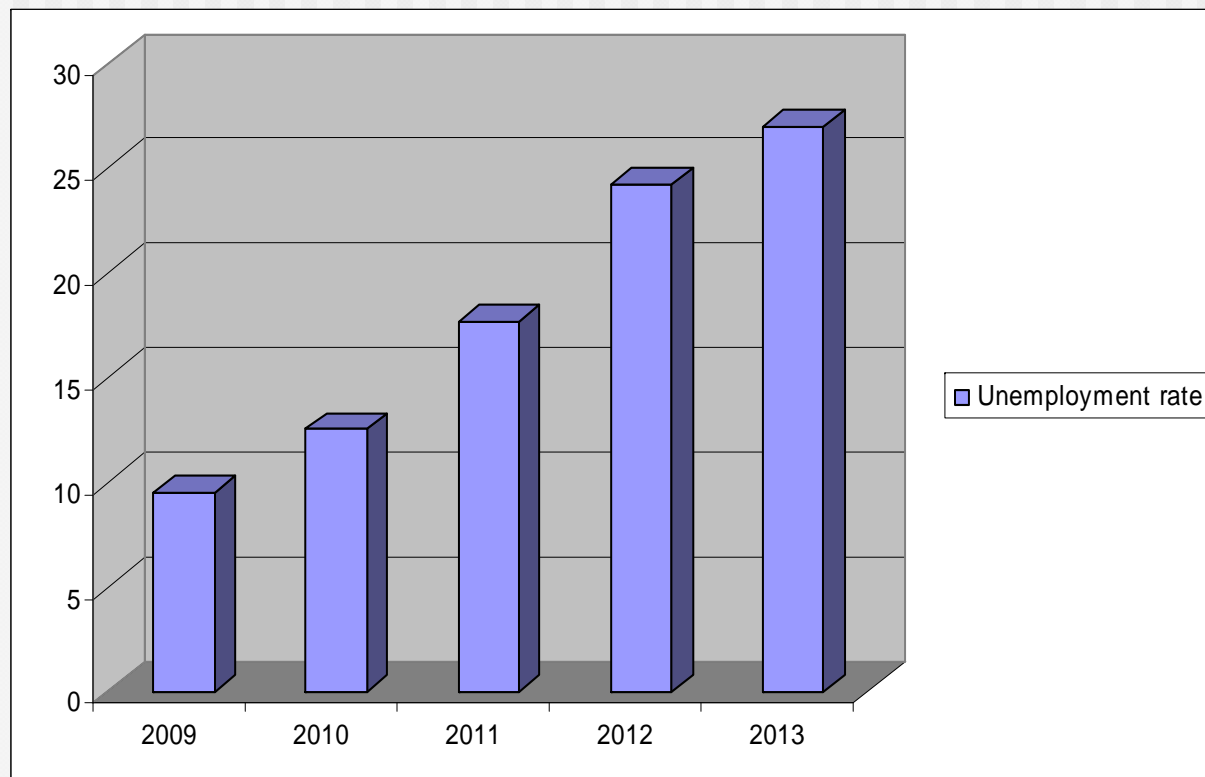
Source : Bank of Greece

However, since 2009 GDP has declined by approximately 25%



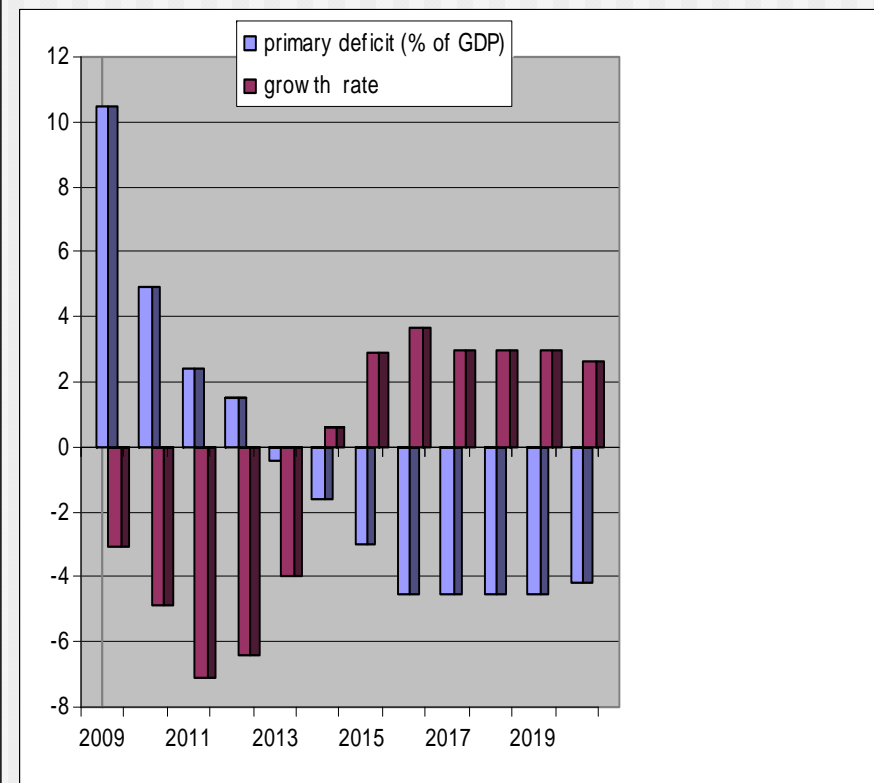
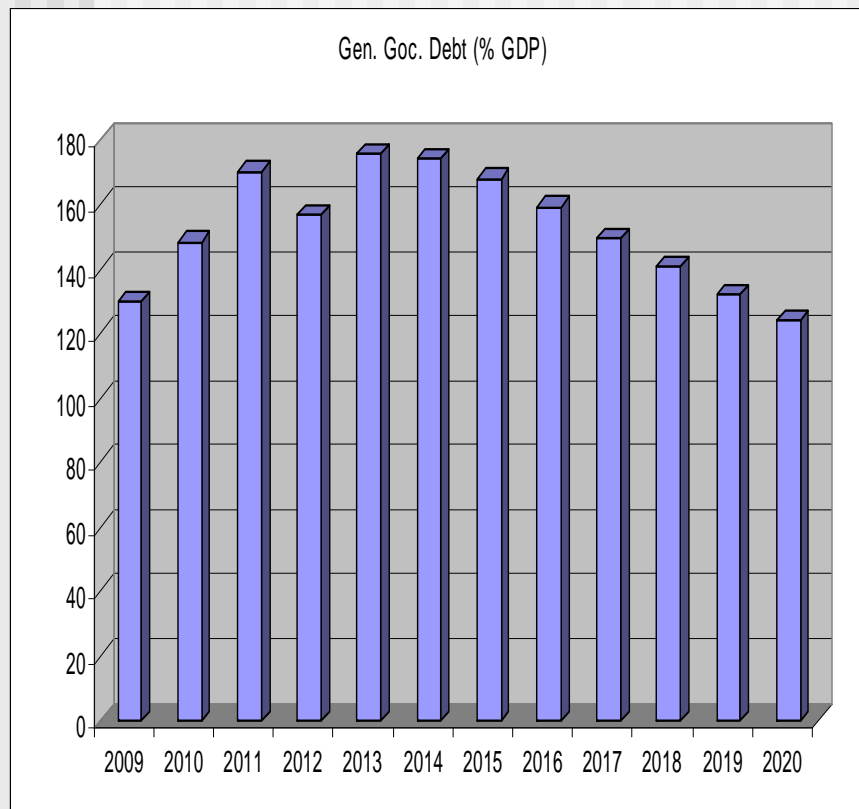
Source: Eurostat

Unemployment rate is above 27%



Source: Eurostat

Debt sustainability analysis



Source: Ministry of Finance and IMF DSA analysis

Impact on equity

- The number of unemployed has increased by 1 million.
- People at risk of poverty or social exclusion are increasing (by 5 pp of the total population higher than five years ago).
- The disposable household income declined by 35% during the years of the program.

Measures to protect vulnerable groups

- The lowest income pensioners are protected.
- The social system has been reformed to target social groups in need (means-testing).
- Over-indebted households are protected.
- The tax reform intends to make the tax system more progressive
- Enforcement of the fight against tax-evasion

IV. Concluding remarks

Lessons from the Greek experience

- Adjustment programs should include growth enhancing policies.
- Fiscal consolidation should place priority on reduction of government expenditure.
- The evaluation of adjustment programs design (macroeconomic forecasts, program architecture, adequacy of financing) is needed.
- Greece's sovereign debt crisis triggered the creation of the appropriate institutions and mechanisms (EFSF, ESM) to tackle financial and debt crises.