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Weekly Briefing

Greece economy briefing:
Greece, the EU and COVID-19

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Greece, the EU and COVID-19

The COVID-19 pandemic is dramatically impacting on the Greek economy. In order to mitigate the impact Greece counts on critical decisions reached at the EU level. In parallel with the Multiannual Financial Framework (MFF), the Next Generation EU (NGEU) widely known as Recovery Fund can provide new opportunities. Greece needs to formulate a clear national fund in order to benefit by funds to be released. Experience from the previous decades suggests that while Greece had received high amounts of money from the EU which contributed to the improvement of living conditions, cases of maladministration were not rare. Whether Prime Minister Kyriakos Mitsotakis will solve this problem remains to be seen. He has formed a Committee with the participation of excellent economists. Greece, however, never lacked ideas. It lacked the political will to implement them.

On 21 July 2020, the leaders of 27 EU member-states agreed on a comprehensive package of €1824.3 billion. The amount combines the Multiannual Financial Framework (MFF) and an extraordinary recovery effort, Next Generation EU (NGEU). The decision for the NGEU, in particular, is historic as it will be the first time that the EU will borrow from capital markets to finance expenditures. Although there are significant modifications in comparison to the initial proposal of the European Commission – because the amount of grants has been reduced and that of loans increased – the EU remained united in difficult times. This is in the interest of Greece because the country counts on the European support to mitigate the economic impact of the pandemic.

Prime Minister Kyriakos who participated in the long Brussels negotiations gave a press conference in which he outlined benefits. He said that funds worth of €72 billion could be released for Greece from all European instruments including the MFF. According to the recent EU decision, loans will amount at circa €12.5 billion and grants to €19 billion. Additionally, in the words of Mitsotakis, Greece managed to increase the amount it would receive from the Cohesion Fund and keep the same portion for farmers. He also explained that his government could be able to finance expenditures that have been made since February 2020 by using the new European tools. Of course, the modifications in the final EU decisions deprive Greece from some funds – in comparison to the initial EU Commission proposal. According to Bruegel Institute Greece will receive grants worth of €16.69 billion instead of €23.21 billion. However, this is the case for all member-states with the exception of Germany, and France. Italy only managed to keep the same amount with insignificant changes comparatively (circa €85 billion).

On the whole, Prime Minister Kyriakos Mitsotakis has attempted to strengthen Greece's voice at the EU level, calling for an efficient response of Europe to COVID-19. On 25 March 2020, a few weeks after the outbreak of the novel coronavirus in Europe, he was among the leaders of eight other member-states, namely Belgium, France, Ireland, Italy, Luxemburg, Portugal, Slovenia and Spain, who sent a letter to President of the European Council Charles Michel proposing, among other things, 'to work on a common debt instrument issued by a European institution to raise funds on the market on the same basis and to the benefits of all member-states. In their view, this could ensure stable long term financing for the policies required to counter the damages caused by the pandemic.

The nine leaders are partly vindicated, even if no transition to a fiscal federation was made. The determination of the EU to use its budget as a guarantee to accelerate the economic recovery does not entail debt mutualization but brings to the forefront the idea of a Eurobond, which, in this case, has a special objective. The EU shows it is now able to proceed to actions similar to the ones taken by the European Stability Mechanism in 2012. The most important challenge is to deal with inequalities, especially among Northern and Southern States. Greece hopes that the recent EU decisions will contribute to this direction.

Looking towards the future, what is critical for Greece is to benefit by the recent European decisions and avoid the maladministration of previous decades. Greece will need to submit its national plan to the European Commission by mid-October. Mitsotakis has formed a new commission led by Christopher Pissarides, who is Professor at the London School of Economics (LSE) and won the 2010 Nobel Prize for Economics. Other members include: Director General of the Foundation for Economic and Industrial Research (IOBE), Nikos Vettas, Professor at the LSE, Dimitrios Vagianos and Professor at Yale University, Costas Meghir. At the beginning of 2020, Mitsotakis had already appointed Pissarides to chair a committee tasked with drafting a long-term growth strategy for the country. At that time, the novel coronavirus had not started to hit the national economy.

The task of the new Commission is far from easy. It requires a careful study of how the new European tools function as well as a fast adjustment to new realities which are changing as long as the COVID-19 crisis persists. In an interview with *Hi Kathimerini* newspaper President of the European Commission Ursula von der Leyen urged member-states to draft their plans. These plans cannot overlap with the MFF though. According to the same newspaper, the national plan of Greece will rely on six main pillars: regional development, digital transformation, green growth, the strengthening of infrastructure, employment with social cohesion, and smart entrepreneurship, mainly concerning innovation in production.

The Committee led by Pissarides places, according to publicly available information, particular emphasis on unemployment. It believes that the Manpower Employment Organization should actively help unemployed people to find a job via specific education programs. This proposal is highly significant. That is because unemployed people currently offered allowances by the Manpower Employment Organization rather feel marginalized and unable to return to the labor market. Additionally, the Committee proposes the extension of the parental leave scheme from women to men in order for gender balance to be achieved. It also considers important for a stimulus to be provided for households which invests in Greek companies in the Greek stock market, as it is happening in other countries such as the UK, France and Italy.

Moreover, the Committee considers it important for the Greek government to facilitate the acquisition or merging of companies. In its view, the small size of Greek enterprises hinders productivity and exports. Furthermore, it suggests for special economic departments in courts to be formed which will be authorized in dealing with significant economic affairs - with the mandate of reaching a decision in a period of twelve months. The Committee, of course, reiterates already known ideas such as the need to upgrade the Greek education system and link it with the labor market as well as to improve infrastructures.

Mitsotakis has congratulated the Committee for its work but has only said his government would study the proposals. The experience during the economic crisis does not allow much optimism, especially taking into account that the current Greek government does not need to meet strict demands under deadlines by its creditors. As already mentioned Greece has failed to implement significant reforms – for example on restructuring the higher education system – even during the Troika years. Several Greek intellectuals encourage the current Greek government to change the country's production model and grasp the opportunity offered by the recent EU decisions. However, they remain skeptical on the final result because the draw on the previous experience of the problematic absorption of the structural funds.

In the interim, COVID-19 is dramatically impacting on the national economy. On 29 July, the leader of the main opposition SYRIZA party, Alexis Tsipras, gave a speech in Parliament and accused the governing New Democracy for idealizing economic developments. This is happening in a period during which recession is expected to be deeper than anticipated.

International organizations – including the IMF – remain pessimistic about the future economic outlook. On the contrary, the Greek government elaborates on an alleged success story narrative that is reproduced by almost all national media.

Conclusion

Greece is encircled in a labyrinth of serious economic problems. After the economic crisis which broke out in 2010, the COVID-19 pandemic is causing a new recession with unknown end. The Greek government hopes that recent decisions made at the EU level will contribute to the country's recovery. The mission is difficult though. A Committee led by Professor Christopher Pissarides has been authorized to help it provide the EU with a necessary national plan to absorb funds from Brussels. It is certainly positive for Greece that it can rely on European solidarity in a particularly tough period for the national economy. The benefits of Greece's EU membership are, once again, becoming evident. Of course, the way the Greek government has managed the national economy since it has come to power in July 2019 does not generate enthusiasm. Growth had already been anemic even before the outbreak of COVID-19.