



# Greece



## An overview of Greece's economy

Greece has to undergo significant fiscal adjustment and implement far-reaching reforms to reduce its high deficit, stabilize its debt level, and emerge from the current crisis.

**For several years, the Greek economy was one of the fastest growing in the euro area. But this performance masked deep structural and fiscal problems, which came to the surface only after the global financial crisis struck.**

Greece joined the European Union in 1981 and adopted the euro as its currency in January 2002, replacing the drachma as its currency. Membership in the euro area gave Greece the benefit of lower interest rates than it had previously enjoyed. This fuelled higher consumption and increased borrowing. As a result, the country experienced strong real GDP growth, averaging close to 4% between 1995 and 2007. But this performance masked deep-rooted structural and fiscal problems.

In late 2009, the newly elected government announced a significant revision to the 2008 and 2009 fiscal deficit data which shocked markets and triggered a spectacular loss in investors' confidence in the government's ability to pay back what it had borrowed. The deficit figures for those two years were revealed to be twice as large as initially reported, and also showed that the country had a history of reporting unreliable budget statistics.

The government began making spending cuts and raising taxes, but Greece was rocked by strikes and protests, further unsettling financial markets. Some commentators speculated that the country might default and could even be forced to abandon the euro. In order to underpin market confidence and support the government's reform objectives, Greece's euro area partners and in May 2010 the IMF announced a joint €110bn loan program. Greece would be able to borrow under this program rather than by issuing debt to markets at a much higher interest rate. In return, the country committed itself to introduce further reforms to improve competitiveness and raise its growth rate, and to continue its efforts to sharply cut its high budget deficit. Continued market pressure and the recognition that Greece would not make its deficit-reduction commitments for 2011 led to a broad agreement on a second bailout program, the specific terms of which are currently under discussion.



### Did you know...?

**History** By 1460, Greece had become a province in the Ottoman Empire. It won independence by 1827 with sovereignty guaranteed by Britain, France, and Russia.

**Geography** The length of Greece's coastline is estimated at 9,300 miles; America's coastline is estimated at 11,800 miles. The land area of Greece is slightly smaller than Alabama.

**Sports** The modern Olympic marathon comes from the legend of Pheidippides, who ran 26 miles from Marathon to Athens to bring tidings of the Greeks' surprise victory over the Persians. He died from exhaustion.

**Politics** Democracy was first developed as a system of rule in Athens in the sixth century BC. It was an elaborate system that had an assembly, a council, and courts.

**Fun Fact** The yo-yo is the second oldest known toy in the world and was created over 3,000 years ago in Ancient Greece.



## Greece's Economy – Key Facts

- Greece is the world's 39<sup>th</sup> largest economy. More than 50% of Greek industry is located in the greater Athens area. The main economic sectors are agriculture, tourism, construction and shipping.
- The World Economic Forum (WEF) Global Competitiveness Report for 2011/2012 ranked Greece 90<sup>st</sup> out of 142 countries in terms of competitiveness. In terms of macroeconomic stability and labor market efficiency, the WEF ranked Greece 140<sup>nd</sup> and 126<sup>th</sup> respectively. Many commentators claim that inefficient government bureaucracy and restrictive labor regulations are most problematic.
- The World Bank's 2011 Doing Business Report ranked Greece 109<sup>th</sup> out of 183 countries.
- In 2011, government debt reached 157.7% of GDP – the second highest level in the euro area after Italy and is expected to rise to 166% in 2012. According to the European Commission's Spring 2011 forecast, the country's budget deficit stood at 10.5% of GDP.
- In the short run, fiscal tightening will have a strong contractionary impact on economic activity. The European Commission expects real GDP to contract by 3.5% in 2011 before starting to recover mildly at 1.1% in 2012.

## References

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**GDP** Greece's public sector accounts for approx. 40% of GDP, while tourism provides 15% of GDP. Per capita GDP is about two-thirds that of the leading euro area economies.

**Competitiveness** Inflationary pressures and rising labor costs have resulted in a steady deterioration in competitiveness.

**Unemployment** is a serious problem at 16%, particularly for women whose unemployment rate is 20%, compared to men at 14% unemployment.

**Social System** Reforming Greece's generous pension system is key for the consolidation of public finances. The latest pension reform will be fully implemented in 2018.

**Deficits** In December 2009, the new socialist government revealed that the budget deficit for 2009 would be much larger than previously reported at 12.7% of GDP. In May 2010, rising concerns about the country's fiscal deterioration forced euro area members and the IMF to put together a €110bn loan program, followed by a second program in 2011.

**Immigration:** Immigrants make up nearly one-fifth of the work force, mainly in agricultural and unskilled jobs.