

Growth strategies for Greece and Cyprus

Speakers:

Gikas Hardouvelis, Professor of Finance and Economics, University of Piraeus in Greece

Sir Christopher Pissarides, Regius Professor of Economics, LSE; Professor of European Studies, University of Cyprus

Constantinos Petrides, Minister of Interior, Cyprus

Dimitri Vayanos, Professor of Finance, LSE

Chair: Vassilis Monastiriotis

Associate Professor of Political Economy, LSE

Twitter Hashtag: #LSECyprus

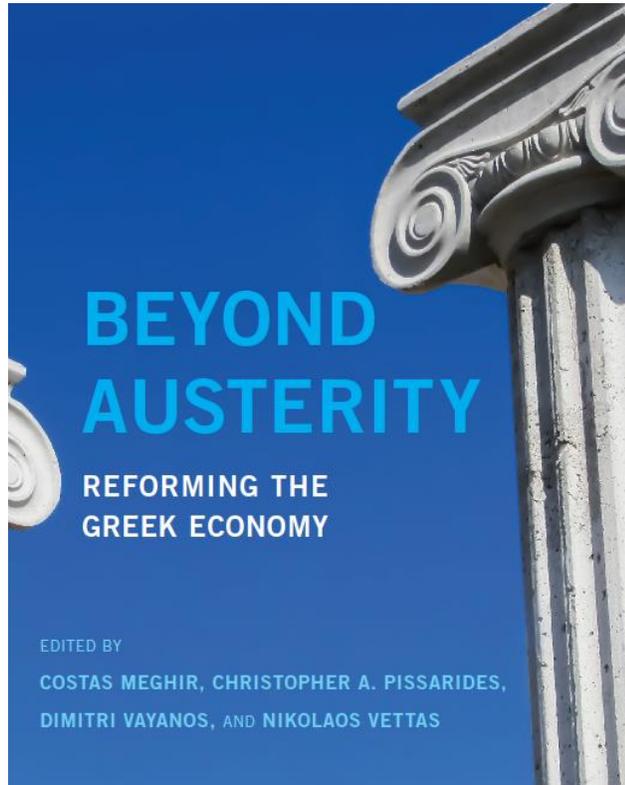
Hosted by the Hellenic Observatory & School of Economics & Management, University Of Cyprus

Reform Priorities and Outlook for Greece

Dimitri Vayanos, London School of Economics

University of Cyprus, 27 November 2018

The Book



- Website of English Edition: <https://mitpress.mit.edu/books/beyond-austerity>
- Website of Greek Edition: <https://www.cup.gr/book/pera-apo-ti-litotita/>
- Financial support by the LSE Hellenic Observatory is gratefully acknowledged

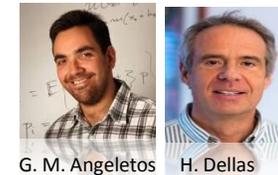
Chapters and Contributors



1. The Greek Economy



2. Greece and the Euro



3. Trade Balance



4. Product Markets



5. Privatizations



6. Labor Market



7. Financial System



8. Education



9. Healthcare



10. Taxation



11. Pensions



12. Justice System



13. Corruption



14. Public Administration I



15. Public Administration II



Structural Reforms in Greece

—Improvements So Far

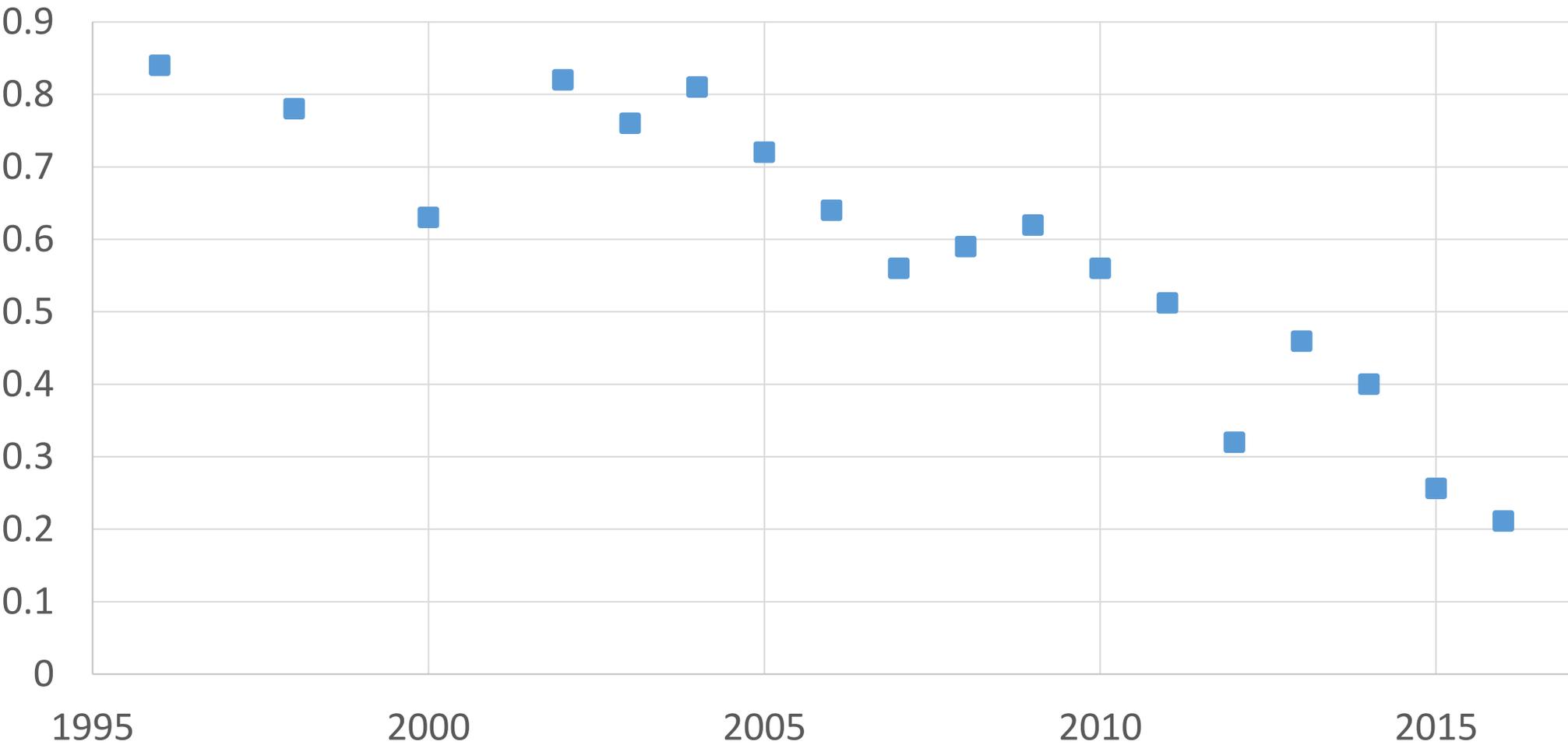
- Labour market.
 - Significant deregulation of a formerly over-regulated labor market.
- Product markets.
 - Significant deregulation and reduction of barriers to entry.
- Pensions.
 - Unification of a highly fragmented pension system.
 - Viability achieved through significant pension cuts.
- Tax administration.
 - Establishment of independent tax collection authority.
 - Fully electronic filing.

Structural Reforms in Greece

—Priorities Going Forward

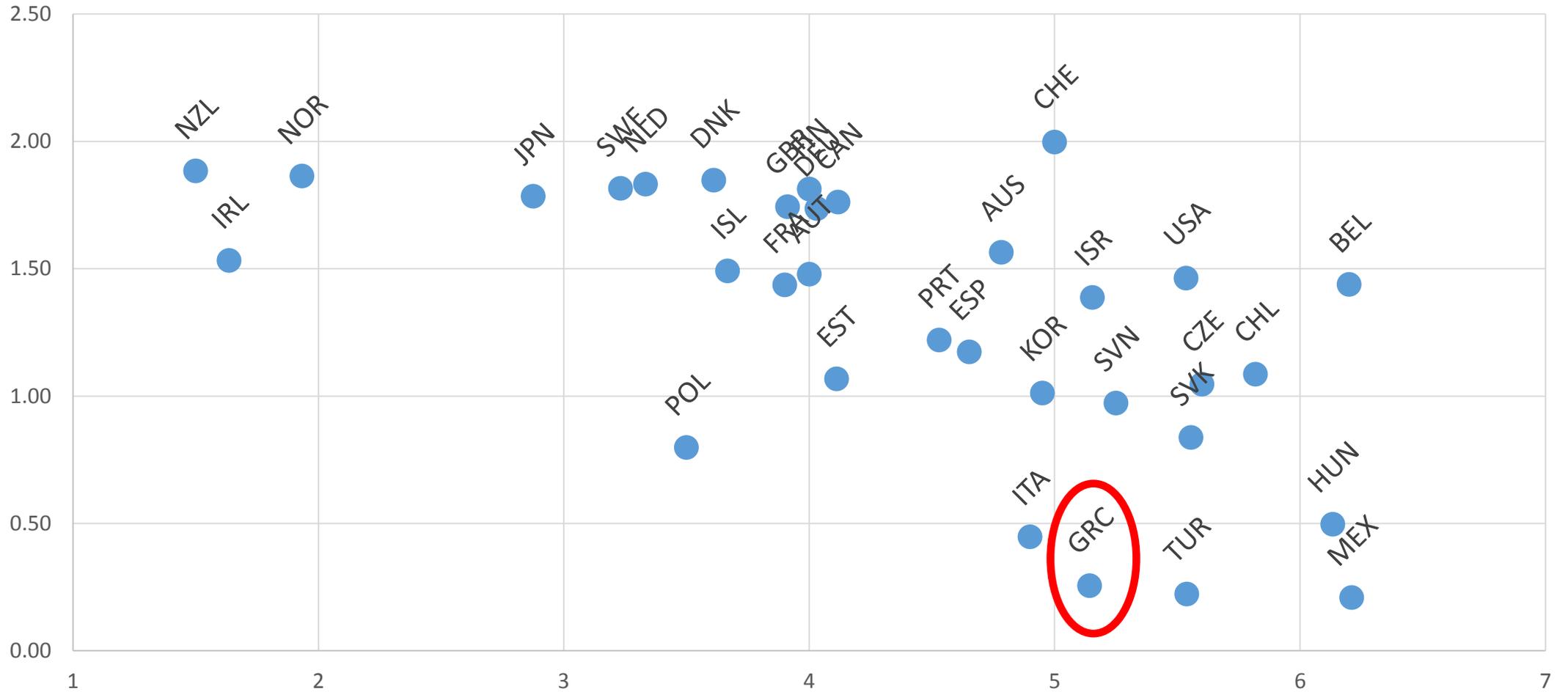
- Reduce tax burden on productive activity.
 - Move to a flat tax system, with a minimum guaranteed income and possibly EITC.
 - More emphasis on consumption taxes, and less on income and corporate taxes.
 - Multi-pillar pension system, with tight link between contributions and pensions.
- Enhance competition in product markets.
 - Abolish more barriers to entry. Strengthen competition authorities.
 - Use privatizations as a tool to enhance competition. (Not only to maximize revenue)
 - Facilitate NPL resolution, via bankruptcy laws and bad bank.
- Make public administration more efficient and independent.
 - Enshrine independence between public administration and political system.
 - More autonomy to organizational units (schools, universities, hospitals, courts).
 - More performance measurement and incentives.

Efficiency of the Public Administration



Governance Indicators, World Bank (Government Effectiveness Index)

Efficiency of the
Public Administration



Dependence on Politicians

Dependence on politicians: Quality of Government Indicators, University of Gothenburg, 2015 (“the top political leadership hires and fires senior public officials”). Efficiency of public administration: Governance Indicators, World Bank, 2015 (Government Effectiveness Index). OECD countries.

Outlook for Greece

- Limited progress, and backtracking, on many reform areas.
 - Greece is sliding back in competitiveness rankings, e.g., Doing Business.
 - Europeans (in IMF's absence) are turning a blind eye.
- If growth remains anaemic, a new bailout programme is likely in a few years.
 - Cash buffer can carry Greece for a few years.
 - Market access is conditional on expectations of future growth.

Growth or Stagnation Ahead? Cyprus vs. Greece

Prof. Gikas Hardouvelis



www.hardouvelis.gr

www.hardouvelis.com

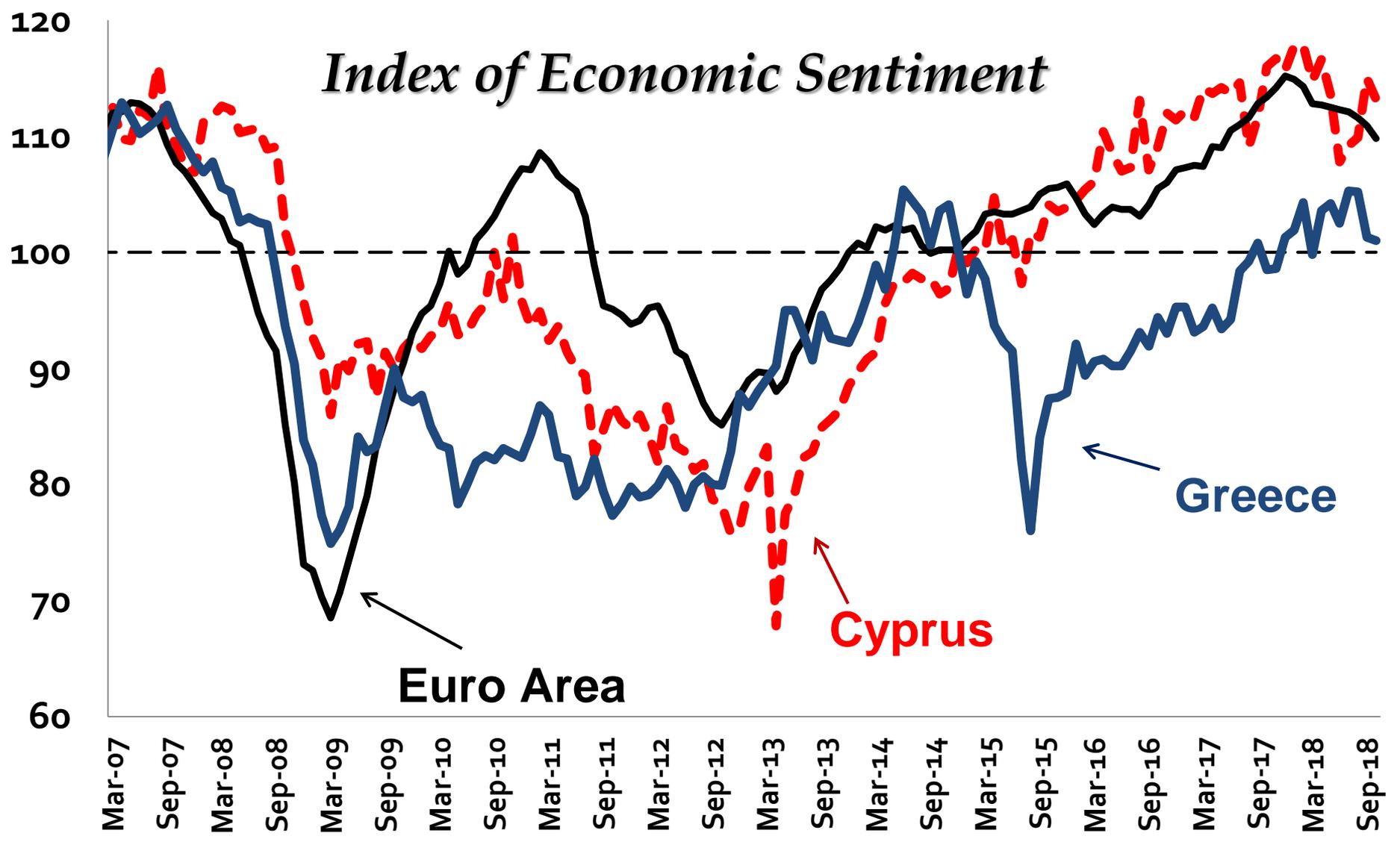
**Conference on "Growth strategies for Greece and Cyprus," organized by
The Hellenic Observatory, London School of Economics and Political Sciences
& The School of Economics and Management, University of Cyprus
Nicosia, Cyprus, November 27, 2018, 18:00
University of Cyprus, Aglantzia Campus, Leventis Building , Amphitheatre B108**

TABLE OF CONTENTS

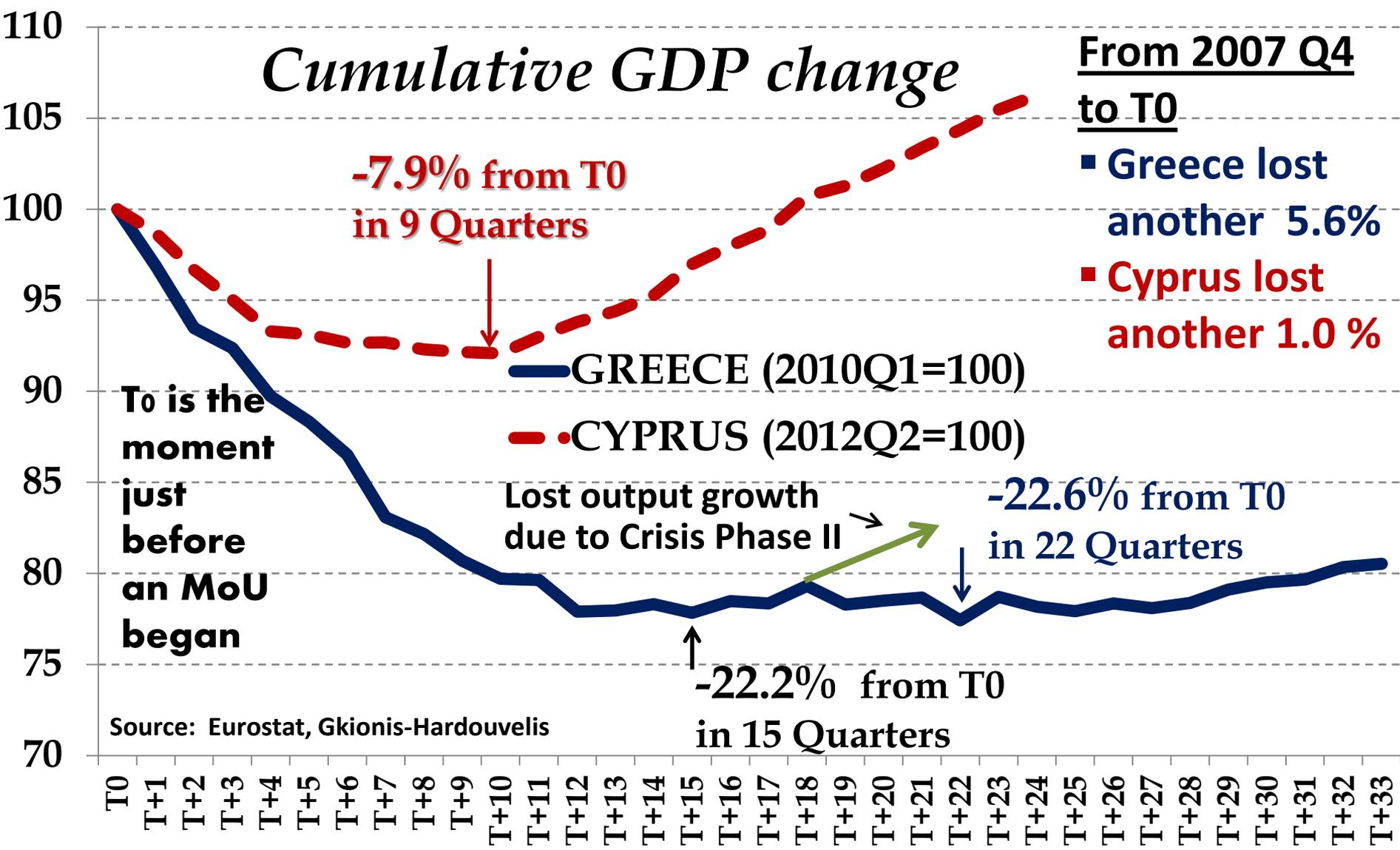
Growth or Stagnation Ahead? Cyprus vs. Greece

- I. **A different economic trajectory following the crisis**
- II. **The challenge of achieving lasting growth**

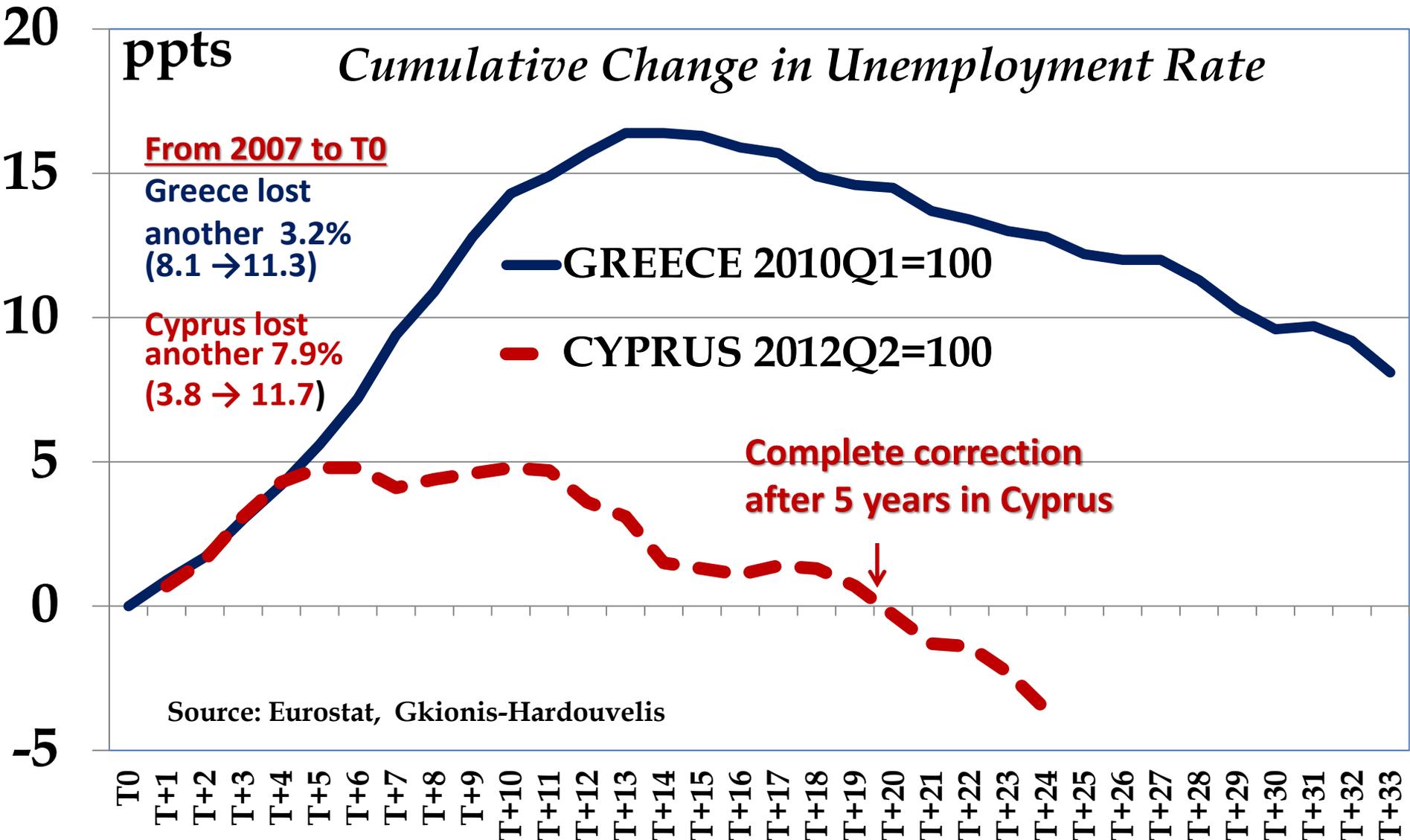
I. Despite the crisis, economic sentiment in Cyprus unlike in Greece, tracks European sentiment



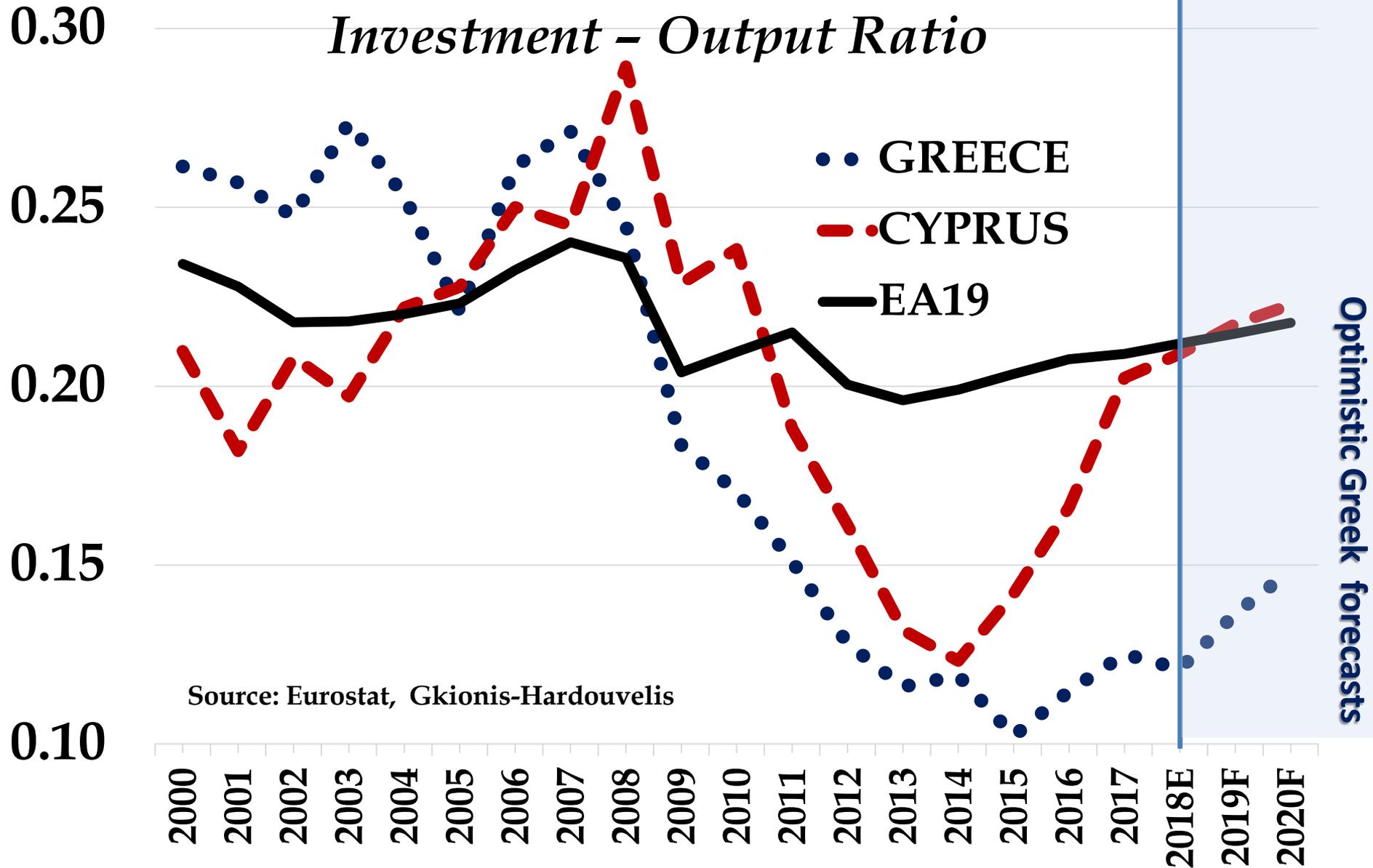
I. Small output loss and quick recovery in Cyprus, huge loss and continued stagnation in Greece



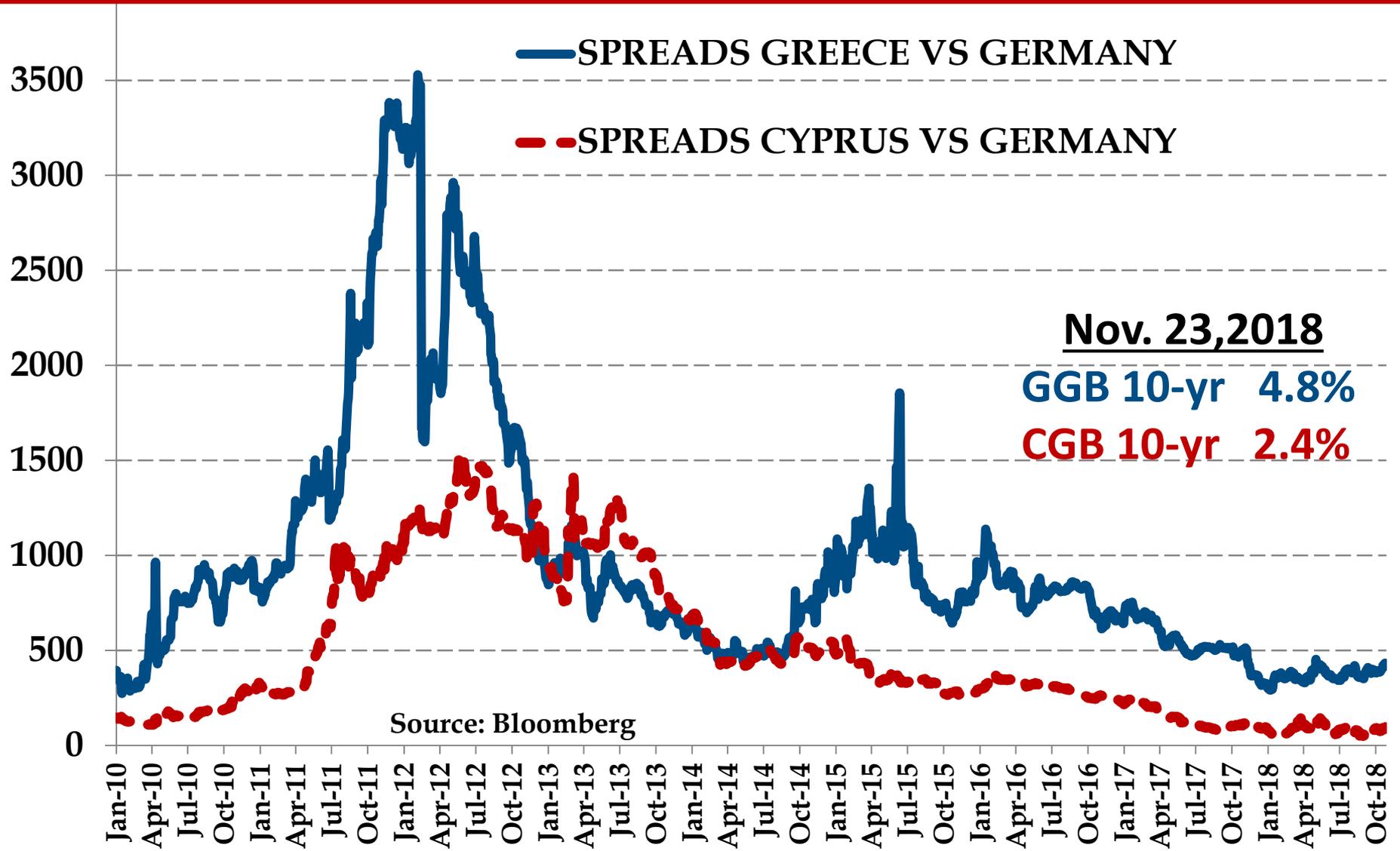
I. Unemployment declines fast in Cyprus, now less than when crisis started



I. Investment picks up in Cyprus, not in Greece



I. Markets are willing to lend to Cyprus, spreads consistently lower than Greek spreads



II. Hence ... different policy targets today

CYPRUS

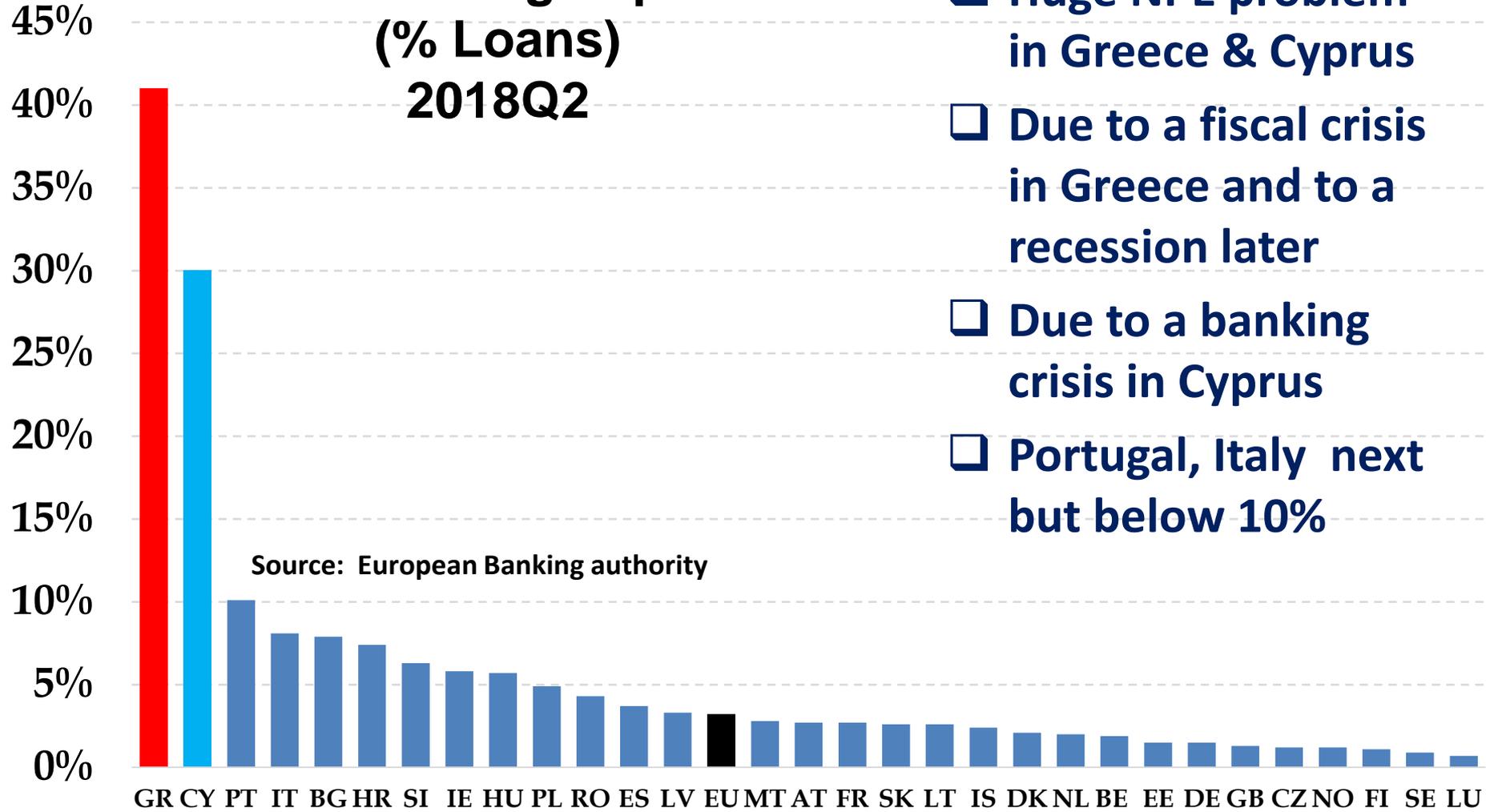
- ❑ Strong growth rates
~4%
- ❑ Escaped the crisis without losing its previous international competitive advantages
- ❑ Major long-term risks:
 - high NPLs
 - complacency in reforms (public sector, privatizations, etc.)

GREECE

- ❑ Reversed the 2014 recovery and disappointing cyclical recovery since 2017, unable to access financial markets
- ❑ In post 2014 crisis-phase II, a reversal in international competitive rankings
- ❑ Major long-term risks:
 - high NPLs
 - low investment
 - Tax disincentives for growth
 - No reform momentum

II. Non-Performing loans: The elephant in the room

Non-Performing Exposures (% Loans) 2018Q2



Source: European Banking authority

- Huge NPE problem in Greece & Cyprus
- Due to a fiscal crisis in Greece and to a recession later
- Due to a banking crisis in Cyprus
- Portugal, Italy next but below 10%

II. Other key indicators today

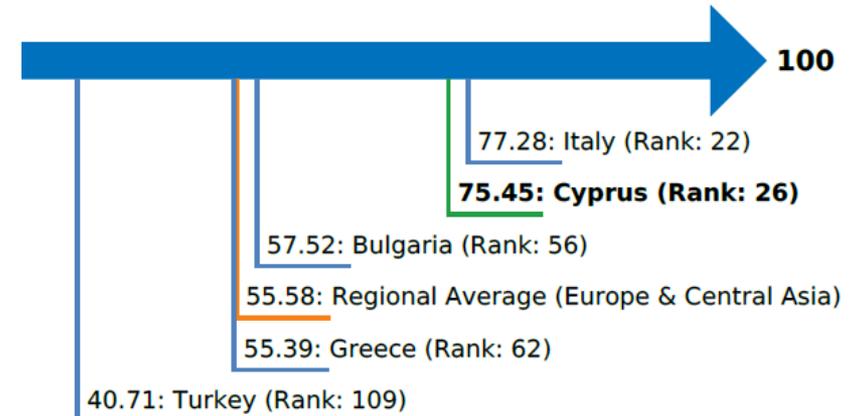
Conditions	Greece 2018	Cyprus 2018
Primary Balance (% GDP, ESA2010)	3.9	5.5
General Gov. Balance (% GDP)	0.6	2.8
Gross Public Debt (% GDP)	182.5	105
Current Account Balance (% GDP, 3-yr average)	-0.8	-5.0
Ease of Doing Business	68.08	71.71
REER (ULC total economy deflated, 1999Q1 = 100, 3-yr % change)	-2.8	-6.6
Private Sector Debt (% GDP, 2017)	116.4	316.3
Banks Assets (% of GDP, 2018-H1)	132	336

- 1) **Fiscal statistics: Deficit OK in both countries , Debt is high in Greece**
- 2) **Competitiveness statistics: No problem yet**
- 3) **Financial sector statistics: Cyprus more exposed to a shock**

II. Revealing Doing Business competitive rankings

Rank	Economy	170 countries EODB score	score change
1	New Zealand	86.59	0.00
2	Singapore	85.24	+0.27
3	Denmark	84.64	+0.59
4	Hong Kong SAR, China	84.22	+0.04
5	Korea, Rep.	84.14	-0.01
6	Georgia	83.28	+0.48
7	Norway	82.95	+0.25
8	United States	82.75	-0.01
9	United Kingdom	82.65	+0.33
10	Macedonia, FYR	81.55	+0.32
56	Chile	71.81	+0.37
57	Cyprus	71.71	+0.44
58	Croatia	71.40	+0.34
59	Bulgaria	71.24	+0.11
71	Ukraine	68.25	+0.94
72	Greece	68.08	-0.12
73	Indonesia	67.96	+1.42

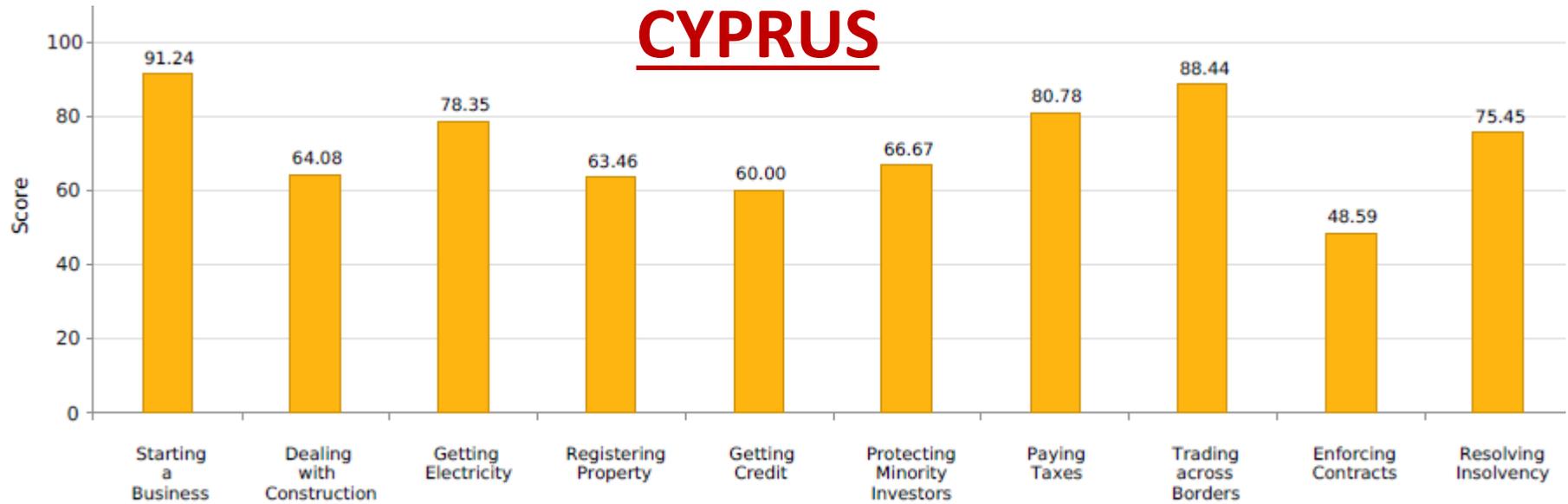
DB 2019 Resolving Insolvency Score



DB 2019 Enforcing Contracts Score



II. Revealing Doing Business competitive rankings



II. Revealing Doing Business competitive rankings

2018	Greece	Cyprus
Overall Score DTF	68.08	71.71
Starting a business	92.39	91.24
Dealing with construction permits	75.29	64.08
Getting electricity	75.97	78.35
Registering property	47.59	63.46
Getting credit	50.00	60.00
Protecting minority investors	63.33	66.67
Paying taxes	76.89	80.78
Trading across borders	93.72	88.44
Enforcing contracts	50.19	48.59
Resolving insolvency	55.39	75.45

II. Concluding recipe for persistent growth

1. Safeguard macroeconomic stability, ensure pension system is solvent
2. Clean up the banking system
3. Keep up the reform effort

**Thank you
for your attention!**

www.hardouvelis.gr

www.hradouvelis.com



Greece and Cyprus: Are we embarking on sustainable growth?

Christopher Pissarides

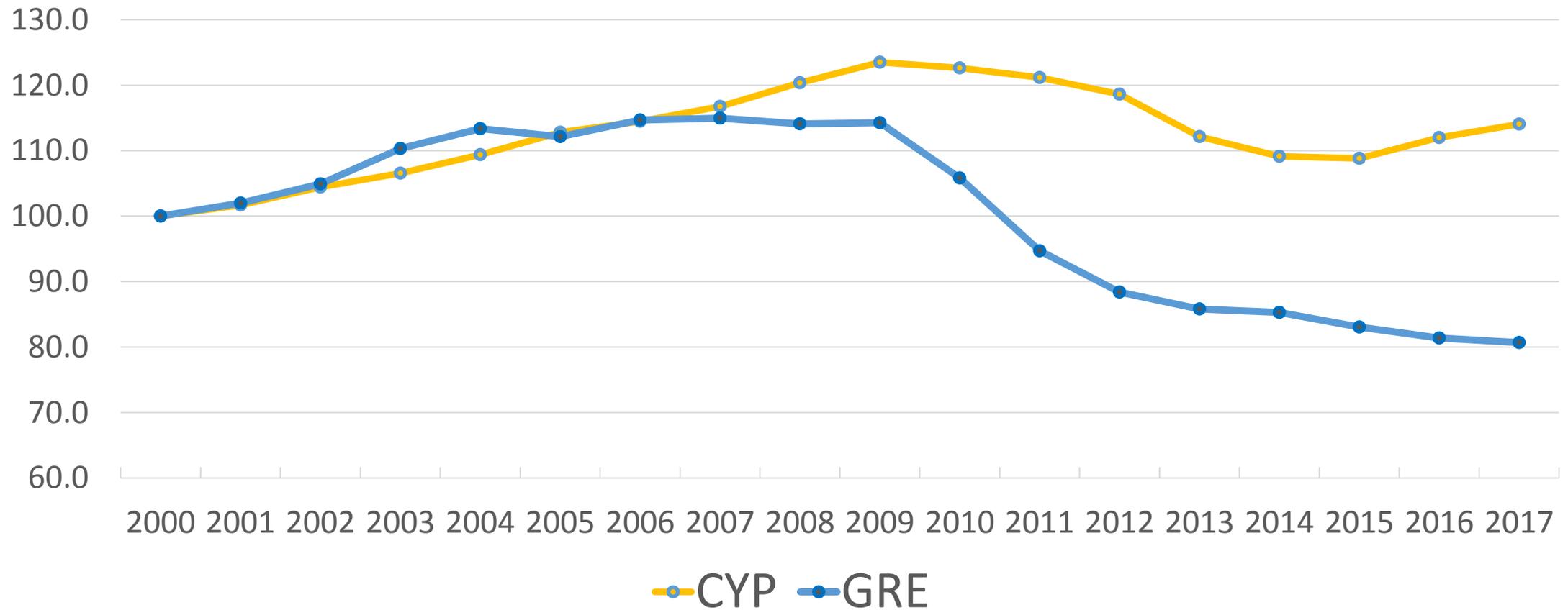
University of Cyprus and London School of Economics

University of Cyprus panel discussion, 27 November 2018

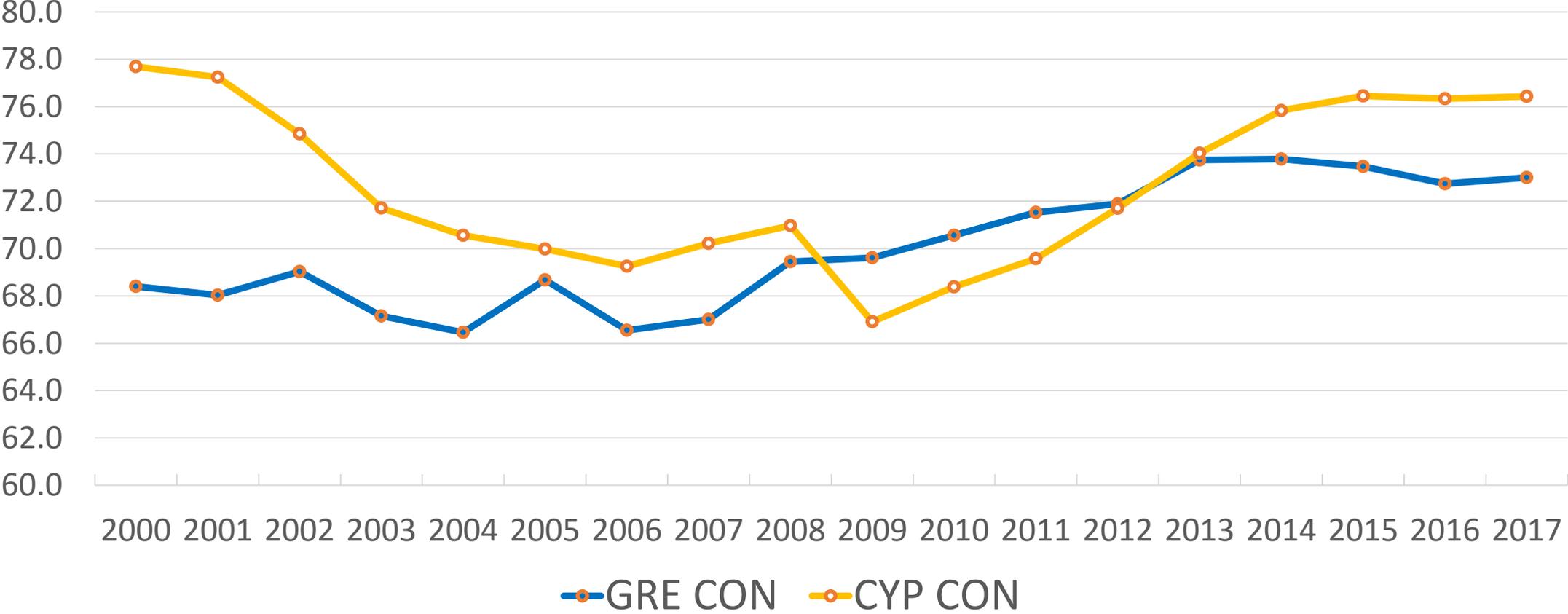
Where are we?

- Lots of progress has been made since the crash – more in Cyprus than in Greece
- We are almost out of the woods in macro aggregates
- But investment still very low, productivity stalling
- Employment improved but has not yet recovered

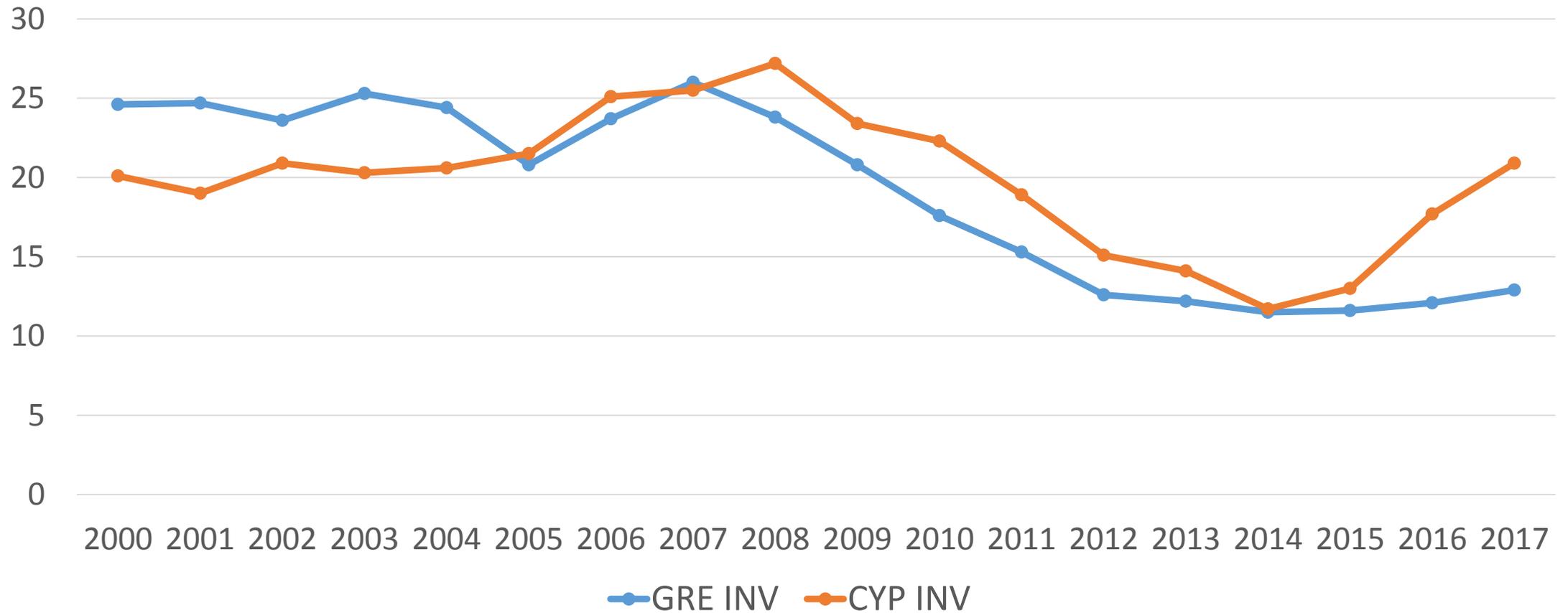
GDP relative to Eurozone, Greece and Cyprus. percent, 2000=100



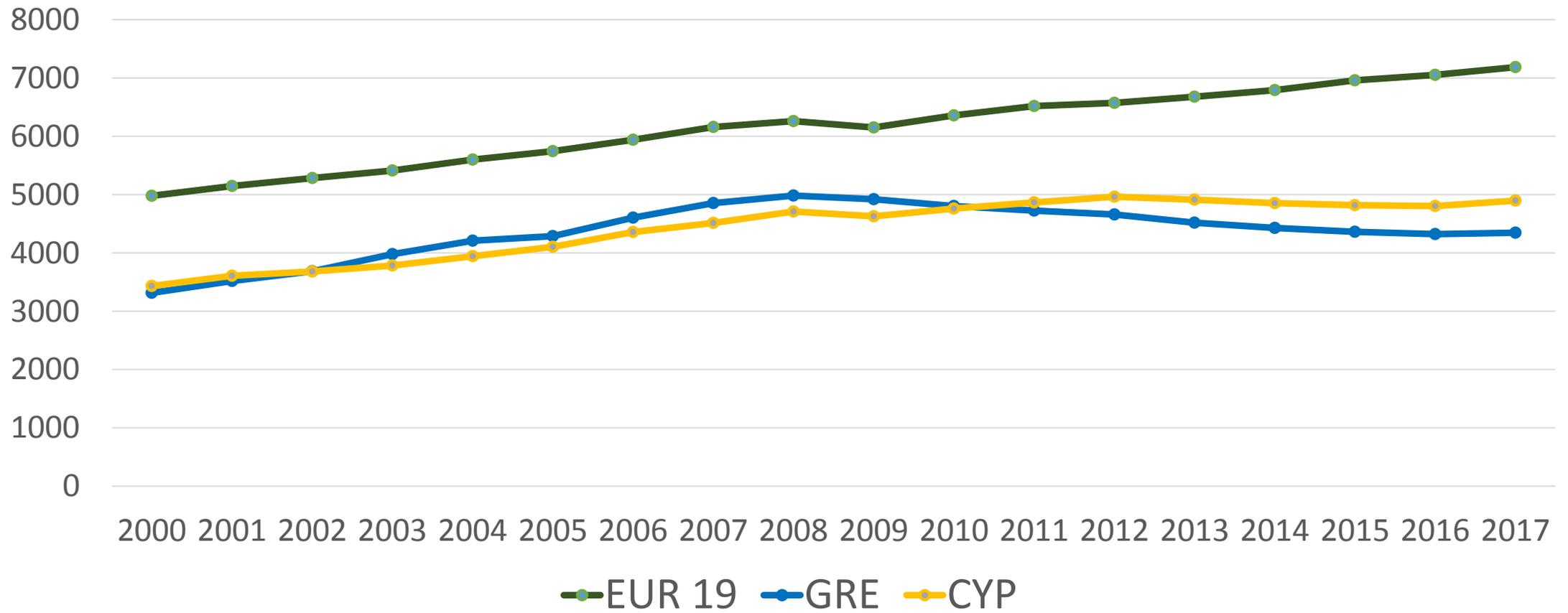
Consumption, % GDP



Investment, % of GDP

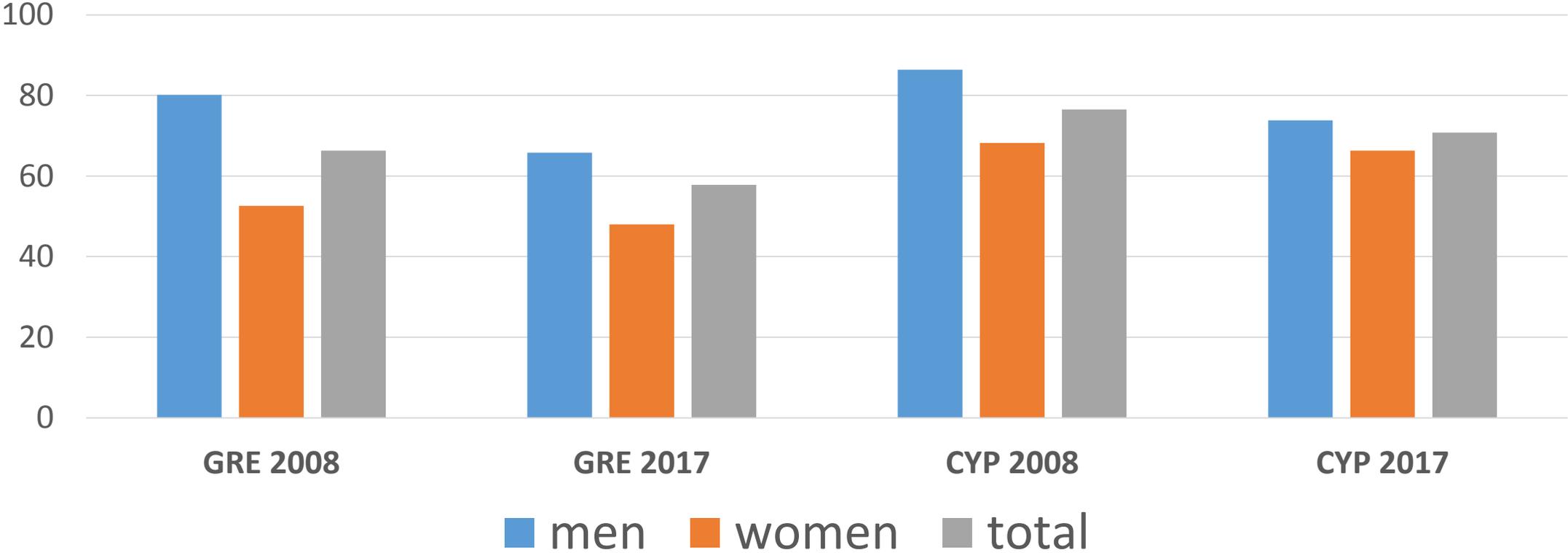


Labour productivity at current prices



Employment rates, 2008 and 2017, percent of population 20-64

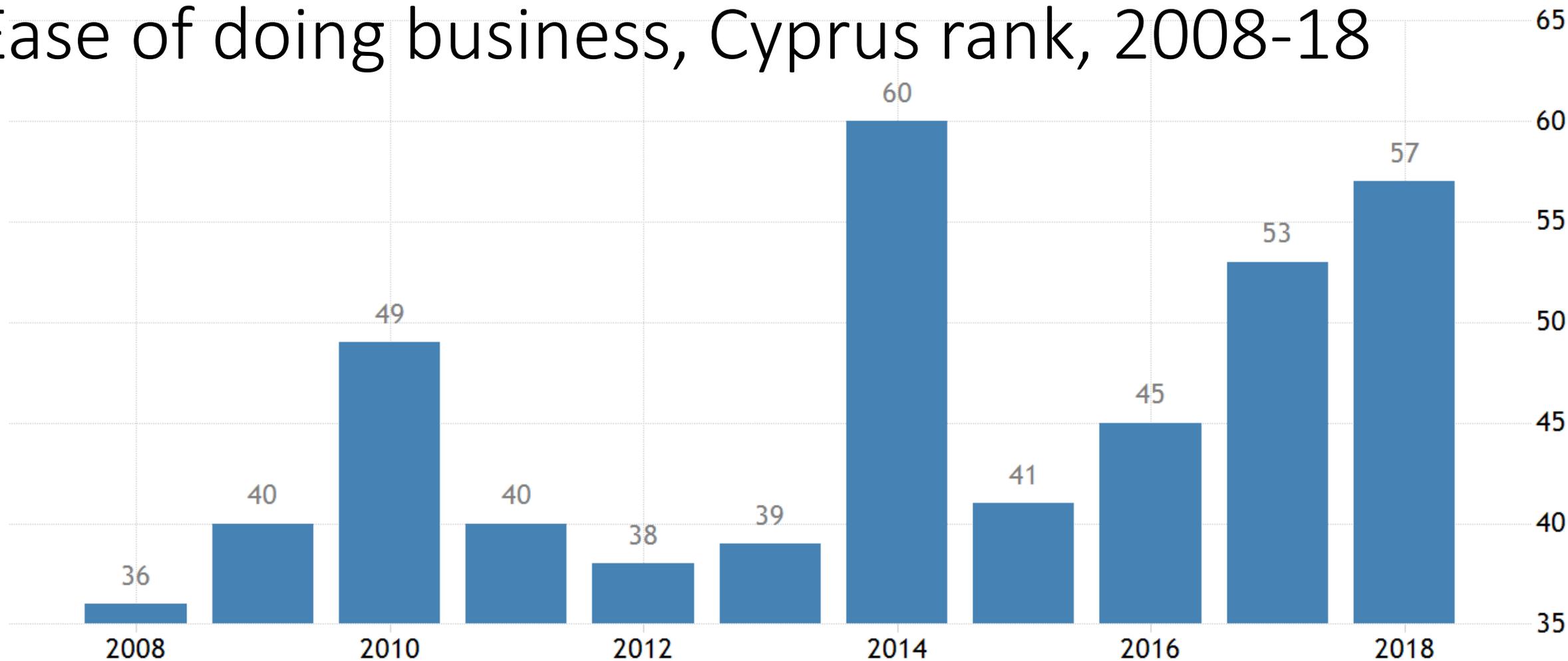
Chart Title



Sustainable growth

- New theories of growth emphasize the importance of institutions and politics in generating sustainable growth
- Both Cyprus and Greece doing very badly in institutional reform
- Worst in the European Union, and red tape is deteriorating
- Corruption prevalent, especially political

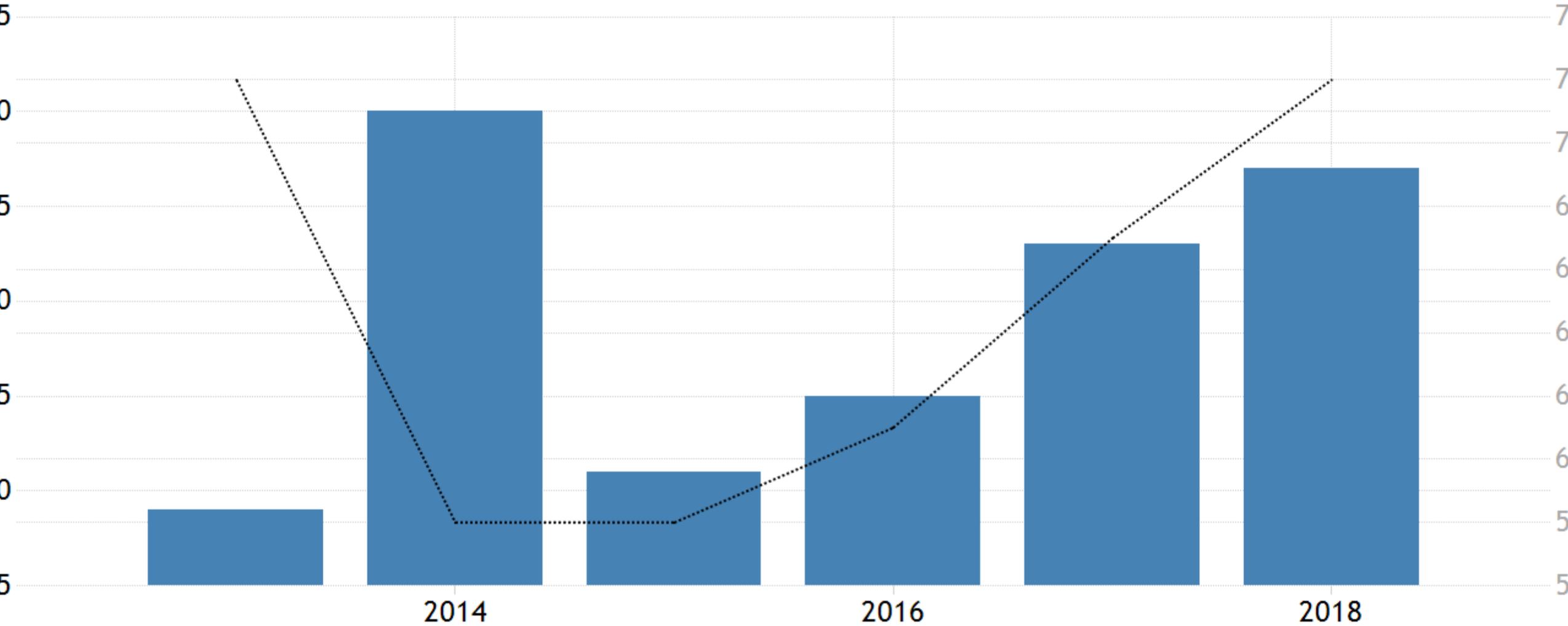
Ease of doing business, Cyprus rank, 2008-18



SOURCE: [TRADINGECONOMICS.COM](https://tradingeconomics.com) | WORLD BANK

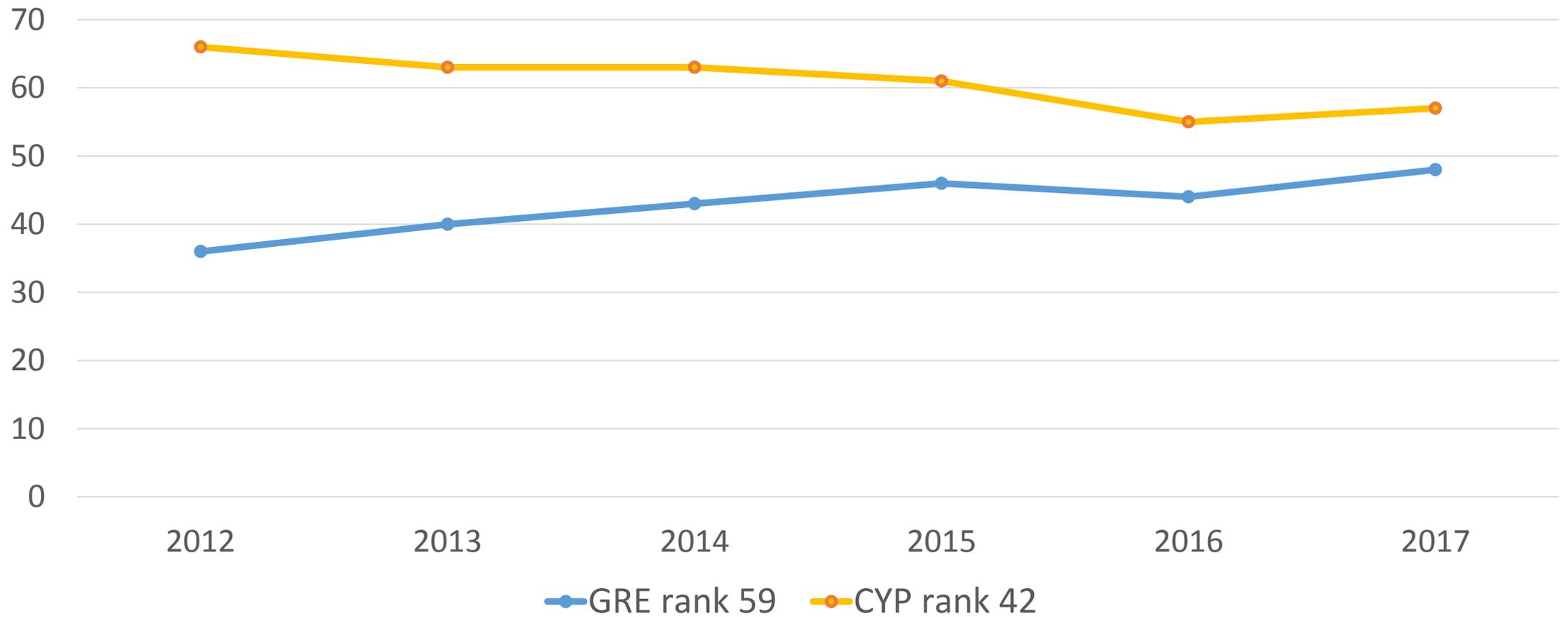
Cyprus and Greece compared

EASE OF DOING BUSINESS IN CYPRUS
..... EASE OF DOING BUSINESS IN GREECE



SOURCE: [TRADINGECONOMICS.COM](https://www.tradingeconomics.com)

Corruption in public life: Perceptions of corruption 2012-17, score out of 100 (0 most corrupt)



Sources of corruption in Cyprus

- Excessive bureaucracy in public sector leads to delays and inconsistent outcomes – political connections help get you through the red tape quickly
- Courts are so slow to deal with disputes that they are essentially ineffective
- Cyprus is the country reporting biggest influence of political parties in appointments and in doing well in business (winning contracts, avoiding excessive red tape etc.)

Where does one start?

- No doubt that in Cyprus the source of institutional inefficiency is the public sector – virtually nothing works quickly, with transparency and with confidence that the case has been dealt with fairly in the absence of political interference
- E.g., property titles delayed because the tax authorities consider threats in this connection as the most effective way to collect overdue taxes – in other countries the courts play that role
- Tax office responds to queries about tax owed with 6-7 years delay and then penalise you heavily for the delay in paying the taxes

Company red tape

- Red tape becoming worse, still no digital technology used. Recent report by the auditor general about tax evasion criticising dividing lines between VAT and income tax – response from the companies office and tax authorities: give us another 150 employees and we will deal with it.
- In the tourist sector (the biggest foreign exchange earner on the island) it is not clear where local authorities' powers end and where central government ones begin. As a result, there is chaos in maintenance and issuing of permits, with detrimental results on the quality of the product (environment, licencing etc.)

Good signs – or are they?

- Most encouraging development is that people in high office started to complain in public, e.g., auditor general, attorney general, even central bank governor.
- Public who have been disgruntled but got on with their life are beginning to talk more loudly
- Hopefully progress is on its way – but it has to come from government and Parliament, which has the vested interest in preserving the status quo