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GREXIT BETWEEN SPECULATION AND TRUTH

Ph.D. Romeo-Victor IONESCU[1]

Abstract

The paper deals with the idea of supporting or not Greece's exit from the Euro area. Four economic indicators are used in the analysis: GDP growth rate, inflation rate, unemployment rate and government gross debt, in order to obtain a scientific conclusion.

The comparative analysis between all Euro area countries is followed by regression, which is able to highlight the economic disparities. According to the results of the analysis, Greece faced the same challenges as Cyprus, Spain, Portugal or Italy, for example during 2010-2013. The economic contraction in Greece was followed by a new recovery process started in 2014. The official forecast for 2015 highlights positive trends for all above four indicators, as well.

The main conclusion of the paper, using the economic approach, is that Greece does not have to exit from Euro area. Only a political decision can do it.

The whole analysis and all conclusions of the paper are supported by the latest official statistical data and pertinent diagrams. Moreover, dedicated forecasting software is used in the paper.

Keywords: economic disparities, economic regression, forecasting procedures, economic contraction, economic recovery.

1. General approach

The global crisis had a powerful impact on the EU economy. The effects of the economic contraction during 2008-2010 were not the last. As a result many socio-economic imbalances are still present across the EU28.

One of the countries which were the most affected by the economic crisis is Greece. It faced great economic contraction during 2010-2013 and high budgetary cuts. A little economic growth in 2014 (0.6%) will be

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[1] Danubius University, Galati, Romania; Member of the Romanian Regional Science Association (A.R.S.R); Member of the European Regional Science Association (E.R.S.A).

followed by an important GDP growth of 2.9% in 2015 (European Commission, 2014).

Other member states, such as Portugal, Italy and Spain faced the same negative trends. As a result, these four countries were named PIGS countries, under a pejorative approach (Vernet 1997).

More specialists consider that the huge public debt and loans from IMF, World Bank and European Central Bank will force Greece to be the first to exit from the Euro area. This idea was doubled by a portmanteau combining the words Greek and exit as Grexit. The term was implemented by Citigroup's Chief Analysts, Willem H. Buiter and EbrahimRahbari (Buiter 2012).

At the beginning of 2015, the political elections in Greece led to a new government which wants to relax the economic restrictions in the economy and to pay the price to return to national currency (Drachma).

This is why the exit of Greece from the Euro area is described as inevitable (Greenspan 2015).

2. Literature review

The European Commission concluded in its report that Greek economic reform stabilized the economy and is laying the foundations for sustainable growth and jobs (European Commission, 2014). The Commission was optimistic because Greece returned to economic growth in 2014, after six years of recession. Moreover, Greece achieved huge progress in restoring fiscal sustainability. As a result, Greece exceeded 2013 target with a 1.5 bn. primary surplus (0.8% of GDP).

A less optimistic point of view is that the solution for the Greek debt crisis is fiscal austerity or the exit from the Euro area. "If Greece remains in the euro area while accepting higher bond yields, reflecting its high government deficit, then high interest rates would dampen demand, raise savings and slow the economy. An improved trade performance and less reliance on foreign capital would be the result" (Armitstead L., 2011).

An interesting point of view is that „prolonged austerity will result in a continuous fall in employment, since real GDP cannot grow fast enough to arrest, lethal one reverse, the downward trend in the labour

market." The authors of this theory used a new macroeconomic model that supports their conclusions (Papadimitriou, Nikiforos &Zezza 2013).

The Greek financial crisis was initiated by large and growing external and fiscal imbalances. The main characteristics of the crisis are declines in competitiveness and in public-sector saving and the banking crisis (Provopoulos 2014).

3. Research methodology

The analysis in the paper is focused on pertinent macroeconomic indicators which can support or not the exit of Greece from the Euro area.

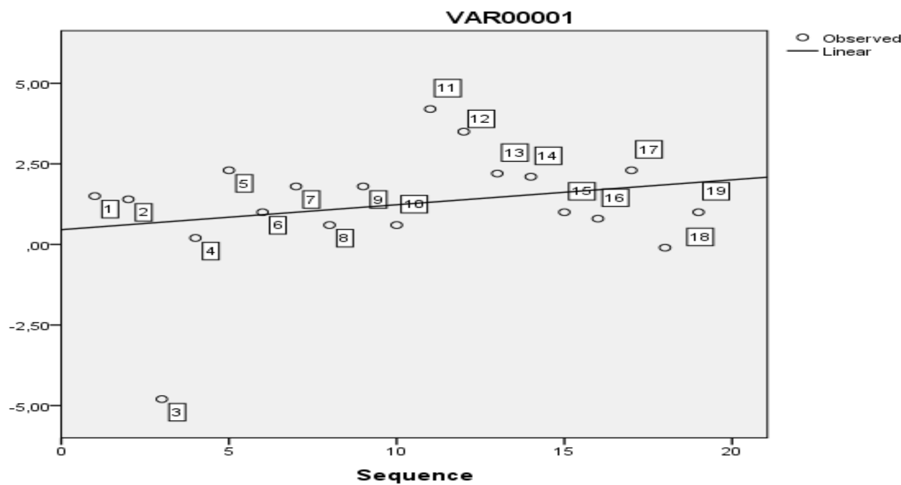
As a result, the macroeconomic performances will be compared to Euro area average.

Regression is used in order to highlight the disparities between Euro area economies. Forecasting procedures support the quantifying of the economic trend. Finally, a cluster approach allows finding solutions for the Greek economy.

4. Euro area economy under the impact of the crisis

The Euro area achieved economic growth in 2014. The forecast is positive for 2015, as well. The inflation rates are lower than in EU average during 2012-2014, while the unemployment rates are higher during the same period.

The GDP growth rate had a sinuous evolution during 2010-2014 in all economies in the Euro area. As a result, there were great disparities in 2014 (see Figure 1).



1 – Austria; 2 – Belgium; 3 –Cyprus; 4 – Finland; 5 – Estonia; 6 – France; 7 – Germany; 8 – Greece; 9 – Ireland; 10 – Italy; 11 – Latvia; 12 – Lithuania; 13 – Luxembourg; 14 – Malta; 15 – Netherlands; 16 – Portugal; 17 – Slovakia; 18 – Slovenia; 19 – Spain.

Figure 1: GDP growth rate's disparities in the Euro area (%)

According to Figure 1, with a GDP growth rate of 0.6%, Greece had a better position than Cyprus (-4.8%), Finland (0.2%) and Slovenia (-0.1%)in 2014. As a result, from the GDP growth rate's point of view, Greece has no reason to exit the Euro area.

The unemployment rate varies very much between the Euro area states. The level of the unemployment in 2014 is presented in Figure 2. According to this figure, Greece faced the highest unemployment rate (26.0%), while employment increased by 0.6% in the same year. High unemployment rates were in Spain (25.7%), Portugal (16.8%) and Cyprus (19.2%) as well.

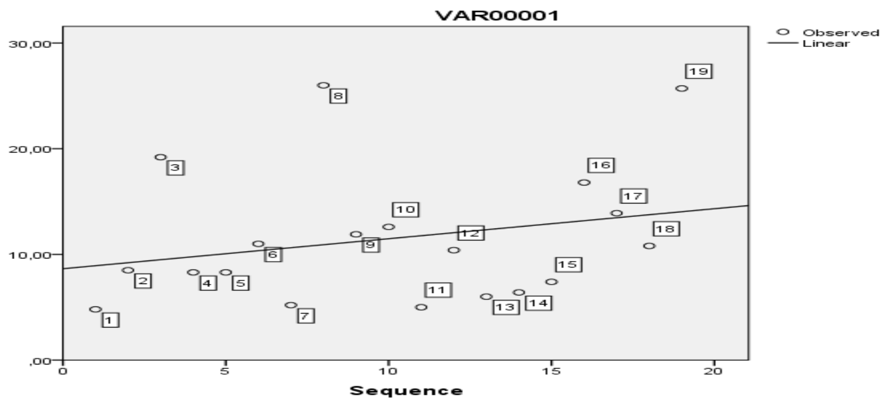


Figure 2: Unemployment rate's disparities in the Euro area (%)

An important economic indicator is inflation rate. After the economic recovery process started almost in all Euro area states in 2010, the inflation level is quantified in Figure 3.

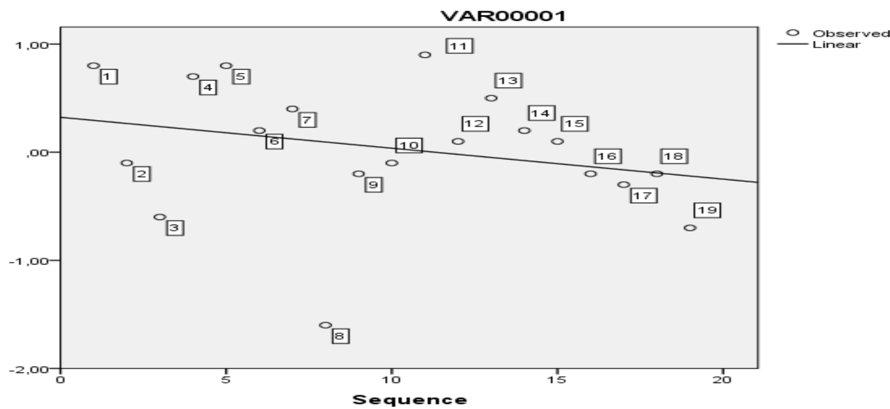


Figure 3: Inflation rate's disparities in the Euro area (%)

Greece achieved the lowest inflation rate in 2014. This rate helped mitigating the decrease in private consumption.

The worst indicator for the Greek economy is the government gross debt, which increased to 177.0% of GDP in 2014. Other states with high government gross debts are: Cyprus (121.5%), Belgium (100.5%), Ireland

(120.3%), Italy (133.7%) and Portugal (126.6%). The disparities connected to this indicator are presented in Figure 4.

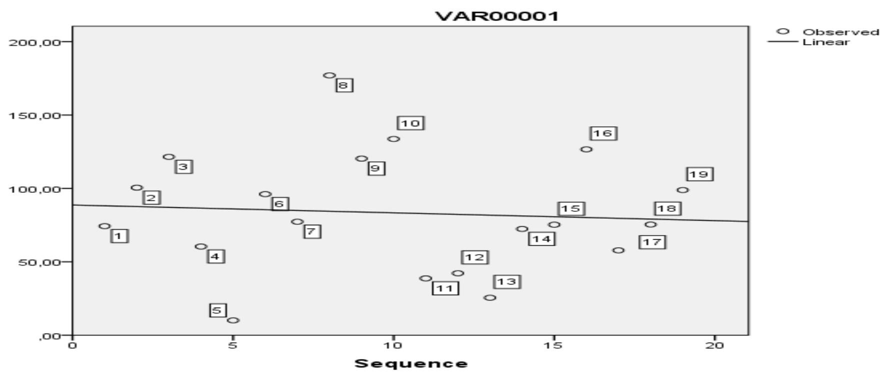


Figure 4: Government gross debt's disparities in the Euro area (% of GDP)

5. Greek economy's forecast for 2015

European Commission made an optimistic forecast for Greece in 2015. According to this forecast, the GDP growth rate, private consumption, gross fixed capital formation and employment will increase compared to 2014. On the other hand, unemployment rate will decrease (see Figure 5).

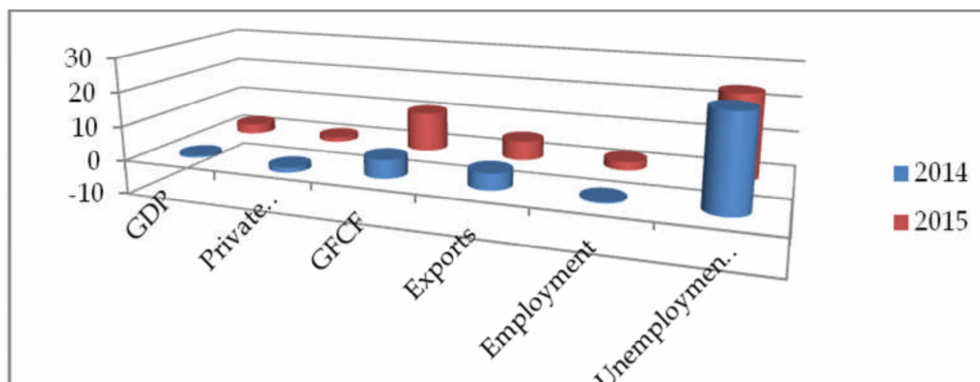


Figure 5: Macroeconomic indicators (5)

Moreover, the government gross debt will decrease from 177.0% of GDP in 2014 to 171.9% of GDP in 2015.

All these positive economic trends would be the result of the economic reform implemented before in Greece. The question is if the new Greek government wants to assume stopping the painful but necessary economic reform and to abandon the foreign loans?

In order to answer this question, a comparison between Greek economy and the Euro area average is useful.

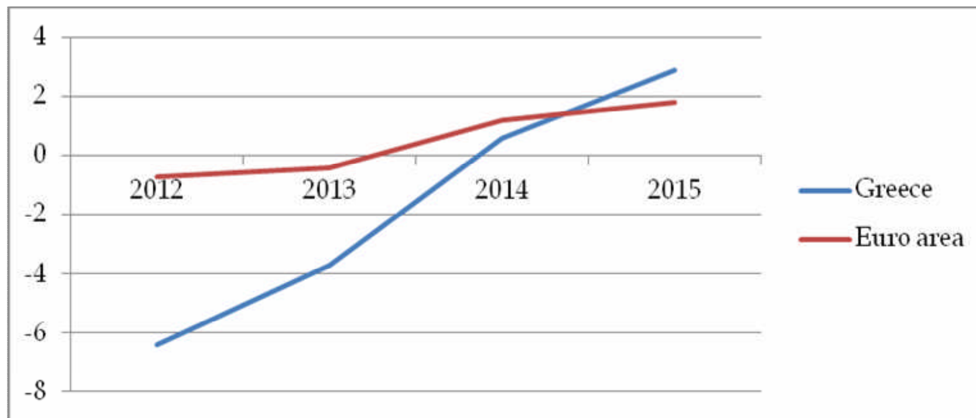


Figure 6: GDP growth rate in Greece and the Euro area average (%)

According to Figure 6, the economic growth rate in Greece will exceed the average in 2015 by 1.1%. This represents the start of a new recovery process able to bring the Greek economy closer to the other economies from the Euro area.

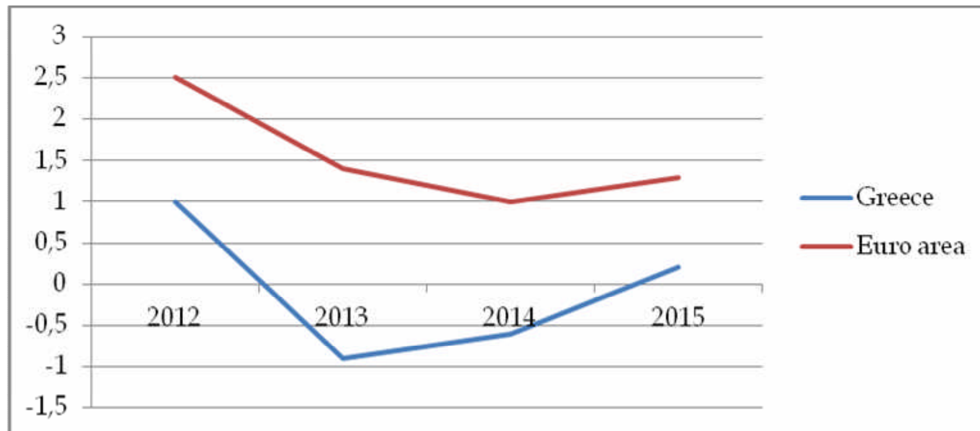


Figure 7: Inflation rate in Greece and the Euro area average (%)

The inflation rate was lower than the Euro area average during 2010-2014 and will continue this trend in 2015. This represents the second positive element for the Greek economy.

The unemployment rate will be a great challenge for Greece in 2015, even if it decreases by 2.0% compared to 2014 (see Figure 8).

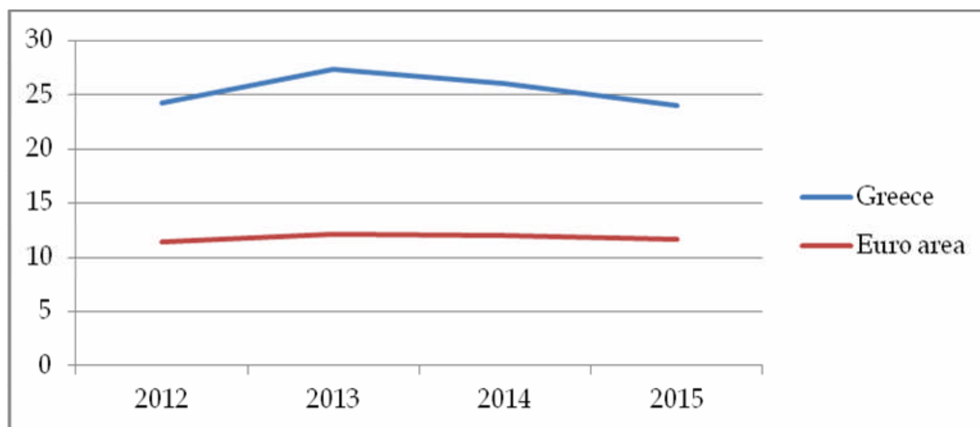


Figure 8: Unemployment rate in Greece and the Euro area average (%)

Since 2014, Greece has succeeded in decreasing its governmental gross debt. Even if this decrease is higher than the Euro area average, the distance is still big (see Figure 9).

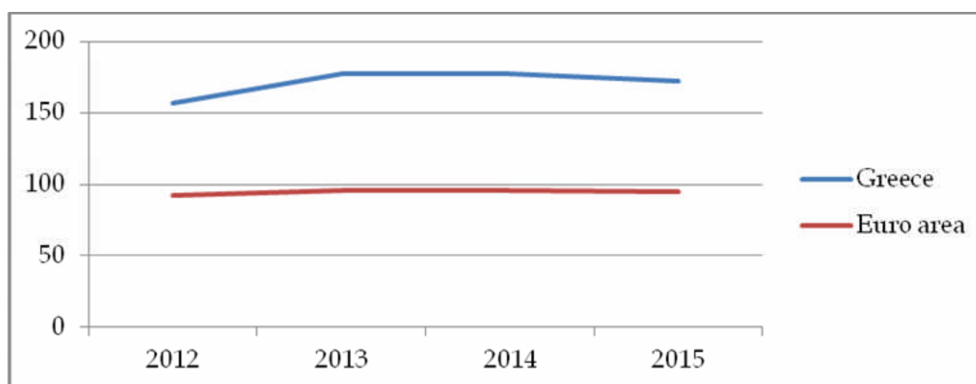


Figure 9: Government gross debt in Greece and the Euro area average (%)

Conclusions

The above economic analysis is far from supporting the idea of Greece's exit from the Euro area. The huge economic contraction seems to be defeated and Greece started a new recovery process in 2014.

On the other hand, there are other countries, such as Cyprus, Spain, Portugal or Italy, with similar challenges.

The social costs of the economic reform's implementation are still high in Greece, but the results are positive. Greece does not have to exit from the Euro area.

Moreover, a potential exit will represent a weakness of the European regional organization, which will affect not only its image but also the future enlargement process.

Basically, there is a political game between Greece and EU, where Greece made the first winning move.

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