THE DRIVING FORCES OF THE CURRENT GREEK GREAT DEPRESSION

George Economides, Dimitris Papageorgiou, Apostolis Philippopoulos

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Abstract: This paper provides a quantitative study of the main determinants of the Greek great depression since 2010. We use a medium-scale DSGE model calibrated to the Greek economy between 2000 and 2009 (the euphoria years that followed the adoption of the euro). Then, departing from 2010, our simulations show that the fiscal policy mix adopted, jointly with the deterioration in institutional quality and, specifically, in the degree of protection of property rights, can explain essentially all the total loss in GDP between 2010 and 2015 (around 26%). In particular, the fiscal policy mix accounts for 14% of the total output loss, while the deterioration in property rights accounts for another 8%. It thus naturally follows that a less distorting fiscal policy mix and a stronger protection of property rights are necessary conditions for economic recovery in this country.

The full working paper can be found here.