



ENA
Institute
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Policies

POST-PANDEMIC SCENARIOS & POLICIES FOR GREECE'S ECONOMIC RECOVERY

Back to “normality” or Opportunity
for a transition towards a sustainable future?

ENA Institute for Alternative Policies





Executive Summary

POST-PANDEMIC SCENARIOS & POLICIES FOR GREECE'S ECONOMIC RECOVERY

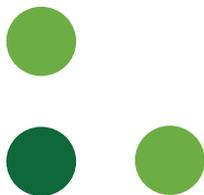
Back to “normality” or Opportunity
for a transition towards a sustainable future?

MAY 2020



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1. Depth and characteristics of the crisis

An immediate and strong recovery?

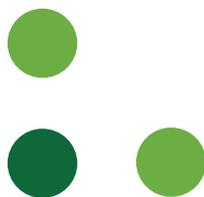
- **Global economy** has entered a deep crisis with particularly uncertain developments concerning both its economic and public health dimensions.
- **Although International Organisations** seem to maintain the optimistic 'V-shaped' scenario (or the more prudent scenario in U), concerns are being raised about the risk of a more structural crisis due to the impact and interaction of a set of economic and sanitary potential developments (e.g. second wave of the pandemic, spillover effects, non-linear impact of the crisis, inadequate policy response)
- **The prospect of a strong and spontaneous economic recovery**, capable of bringing GDP back to its pre-crisis levels in a short period of time, should not be considered as a baseline scenario taking into account the experience of previous crises and recessions. A lasting and substantial GDP loss is not to be excluded.

An increased exposure of the Greek economy to the direct and indirect impact of the pandemic

- **The majority of forecasts** seem to converge on the extremely high impact of the crisis on the Greek economy.

Greece: GDP forecasts

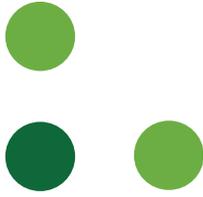
	2020	2021
European Commission	-9,7	7,9
International Monetary Fund	-10,0	5,1
Ministry of Finance	-4,7	5,1
Fitch	-8,1	5,1



- **The accumulated problems** and weaknesses inherited from the 2010 economic crisis (high unemployment, private and public debt, investment gap, etc.) interact with economic impacts of the lockdown associated with Greece's vulnerable and low added-value productive specialisation.
- **The extensive dependence on tourism**, the role of shipping and transportations and logistics, the large number of low-innovation micro-enterprises in the non-tradable service sector and the limited footprint of the agricultural sector and manufacturing are among the key structural factors responsible for the increased impact of confinement measures on the Greek economy.

The economy is returning to a high-risk zone

- **The Covid-19 crisis** has halted the steady improvement of economic, social and structural indicators achieved in recent years.
- **The economy has returned** now to a zone of increased risks. It should be noted that a clear weakening of key performances had been recorded even before the pandemic crisis (Q4 2019). This trend needs to be taken into account during the shaping of the policy-agenda for the economic recovery of Greece.
- **Economic conditions prevailing** at the international level after the pandemic limit the prospects of an export & FDI-led recovery (a top policy-priority during recent months). The increased risk aversion of investors and the weakening of external demand in the post-Covid19 period limit the effectiveness of economic policies prioritising FDI-attraction and exports at the expense of other potential sources of sustainable growth (e.g. improvement of labour, energy and resource productivity, substitution of imports, non-price competitiveness, private consumption)
- **Declining of employment** levels and wages combined with a new wave of labour market flexibilisation/precarisation entails serious risks regarding both the evolution of private consumption and the transition of the economy towards sustainable and high-added value activities.
- **The export and FDI-led strategy** should be re-assessed according to new economic conditions. The size of today's challenges calls therefore for the re-establishment of a comprehensive and realistic strategic planning for sustainable growth based on a modern, fair and inclusive, efficient and balanced economic model.



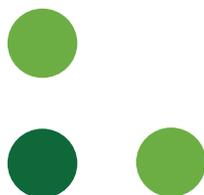
2. Scenarios and policies for the “day-after”

- **The gradual lifting of the lockdown** restrictions have fueled an interesting discussion on the “day after” the pandemic regarding the role of the sustainable development agenda.
- **Despite the apparent consensus** on the necessity of a strong and sustainable recovery, competing approaches regarding both the quantitative and qualitative aspects of the post-Covid19 recovery plan are being discussed in the public sphere.
- **Three main scenarios** for the post-Covid19 period can be distinguished:
 - *The optimistic scenario of a sustainable recovery*
 - *The pre-crisis “business-as-usual” scenario*
 - *The baseline scenario* which consists in a more ambitious response at European level in comparison to the past (Euro-crisis) but still not timely and adequate.

3. Planning the sustainable recovery of the Greek economy

Conclusions from the pandemic regarding future systemic risks

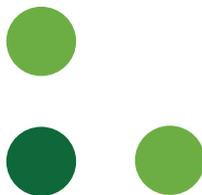
- **The pandemic have revealed** only a limited fraction of the potential economic impact of climate change with simultaneous supply and demand disruptions.
- **Humanity is expected** to face increasing pressures such as extreme weather and natural disasters (drought and desertification, widespread fires, storms and hurricanes, floods, etc.).



- **Climate change**, according to estimates, will have consequences which will be felt over years, decades and even centuries, presenting much more extensive and prolonged impacts than pandemics.
- **The health crisis** reveals thus the central role of resilience.

Strengthening resilience stands out as a point of reference for post-covid19 discussions

- **Governments and taxpayers** bear the cost of the crisis acting as a payer, lender and guarantor of last resort in many cases.
- **Resilience and sustainability** must therefore be fundamental and non-negotiable elements of economic recovery plans.
- **However, the concept of resilience** is subject to different and even competing interpretations.
- **A comprehensive approach** of resilience must not only be limited to its economic dimension, but needs also to incorporate other dimensions such as social, environmental, regional and institutional resilience.
- **A country with high levels** of social and regional inequalities is structurally exposed to systemic risks. Only a holistic approach can ensure truly effective policies for Greece and other countries against future risks and crises.
- **In the absence of natural disasters** or health crises, investments in structures to strengthen holistic resilience (welfare state, climate adaptation of infrastructure and businesses, institutions for sustainable economic development, etc.) are often considered as an additional and counterproductive burden on companies and enterprises. Therefore, prevention costs should be assessed in comparison with the economic costs of the current crisis.
- **Societies will always be vulnerable** to risks and threats that cannot be predicted but are certain under the law of probabilities. The experience of the pandemic calls for the strengthening of organisations/systems for the prevention and management of risks as a new universal rule. This approach, in turn, raises the need to restore policies aiming at the restoration of reserves (monetary and non-monetary).
- **Dealing with complex and unpredictable** systemic risks cannot be left alone to market-based insurance mechanisms.



Priorities for strengthening the resilience of the Greek economy: the crucial role of the sustainable development agenda

- **Strategies for strengthening** the resilience of the Greek economy can focus on three priorities:
 - strengthening resilience of existing as well as new economic activities and businesses
 - strengthening the resilience of the economy as a whole through the diversification of the domestic production base
 - strengthening the resilience of the economy and the labour market against disruptive changes induced by the 4th Industrial Revolution (4IE)
- **The values, principles and applied policies** of sustainable development combined with the adoption of new technologies are the most direct and effective way to enhance holistic resilience by providing economic stability and social cohesion, reducing exposure to external risks and releasing significant financial resources from non-efficient usages for investments in high value-added activities both in economic and social terms.

Six criteria for planning economic recovery policies

Based on the above, economic recovery policies must take into account six key criteria:

- i. The time frame for the achievement of expected results
- ii. The importance of the economic multiplier of investments
- iii. The impact of investments in environmental and climate terms
- iv. Their contribution to the creation of well-paid and stable jobs
- v. The degree to which they contribute to the strengthening of resilience (climate adaptation of businesses and infrastructure, economic diversification and pluralism, stability of the current account balance)
- vi. Their contribution to regional and local development

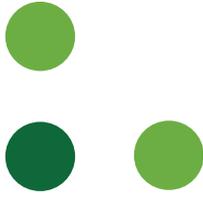


Tourism industry

- **The depth of the recession** is directly related to the quantitative and qualitative characteristics of Greece's tourism industry.
- **Strengthening the Greek tourism industry's** resilience can be achieved through 4 priorities:
 - **extending the tourist season** ("365-day model") and reducing the current high-level of seasonality
 - **shaping a more balanced** and sustainable relationship between external and domestic demand
 - **the promotion of Greece** as an "Attractive and Safe International Destination all over the year" through: a) the creation of high-quality and resilient health infrastructures especially in touristic regions, b) the branding of Greece as a pole of health excellency, innovation, technology and research on epidemiological issues
 - **reinforcing the sustainability** of tourist infrastructures (energy and water savings, introduction of circular economy, etc.)
- **The above interventions** are a first step towards a more comprehensive adaptation of the tourism industry to the priorities of sustainable development such as minimizing its negative externalities (over-tourism) and maximizing its benefits for local communities, workers, SMEs and the natural and cultural capital of the country.

Agri-food sector

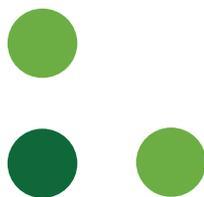
- **To date**, no major disruption concerning food availability has been recorded at the global, European or national levels thanks to sufficient stocks of basic food staples and to the swift adjustment of the supply chain.
- **The issue of food sufficiency** though needs constant monitoring and vigilance on the part of the authorities.



- **Today's restrictions** on the production and supply chain of the agricultural sector may -at any time- come into interaction with unpredictable economic, climatic and geopolitical factors which could lead to a sharp deterioration of food availability. The crisis has renewed the public discussion on global food security.
- **Despite a structural deficit** in its food balance, Greece was not included (according to pre-crisis data) among countries whose food security is estimated to be under threat.
- **However, the pandemic crisis** introduces new challenges for the agricultural sector such as opportunities to and enhance food quality and safety.
- **The key-challenge for the domestic agricultural system** seems to lie in ensuring food security both quantitatively (enhancing self-sufficiency in certain agri-products) and qualitatively (quality, biosafety). In this direction, the re-organisation of the domestic agricultural sector on the basis of small value chains is vital with the aim of fostering the production of quality, branded, certified and safe food products.

Energy sector

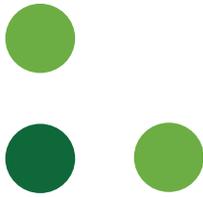
- **The economic slowdown** has reduced demand for electricity in the EU and Greece, as well as greenhouse gas emissions.
- **These developments are expected to be temporary.** The gradual removal of health restrictions and the restarting of the economy is likely to restore the debate on climate and energy transition according to the pre-crisis terms (in conjunction with the current extremely low oil prices).
- **Greece's energy model** is characterized by significant weaknesses such as a high dependence on energy imports and a low energy productivity which impacts on the competitiveness of the economy.
- **Fuel imports significantly burden** the country's current account balance. Dealing with the economic, social, environmental and geopolitical weaknesses of the current energy model requires the acceleration of the process of energy and climate transition according to three main priorities:



- reducing the energy intensity of the economy
- increasing the penetration of RES in an economically, socially and environmentally beneficial way
- fostering a greater penetration of electricity into the energy mix
- **In this frame**, local authorities can play a leading role in energy transition using the possibilities offered by innovative instruments such as Energy Communities/Cooperatives introduced in 2018 in order to strengthen energy democracy, tackle energy poverty and support just transition in regions relying on carbon-intensive industries.
- **Carbon-intensive companies** and sectors must move proactively to the “greening” of their products and production processes taking into account all the related variables (employment, local aspects, social cohesion etc.) to avoid painful restructurings.
- **A just energy transition** should not be left merely to market mechanisms (e.g. Carbon taxes, ETS, green bonds), requiring the planning of comprehensive economic policy interventions and tools.

Circular economy

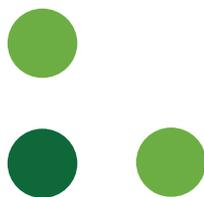
- **The development of the circular model** of production and consumption encompasses significant opportunities for promoting together Sustainability-Resilience-Efficiency.
- **Greece’s performances** in the field of recycling / reuse of materials remain extremely poor.
- **The circular economy has a significant potential** for reducing energy intensity and dependence on imported fuels and materials, increasing resource productivity of businesses and supporting regional development and the social economy.
- **The implementation of circularity** in the digital economy presents important opportunities for the operation of collection, repair, reuse and recycling companies.



Manufacturing

- **The strengthening of Greek manufacturing** over the last decade seems to confirm its higher degree of resilience compared to the service sector.
- **The manufacturing sector** presents significant opportunities for increasing the productivity of the economy, regional development, employment of high-skilled workers and participation in productive networks with other economic sectors (e.g. manufacturing - RES - tourism - agricultural sector - circular economy).
- **In recent years, a set of policies** has been implemented to support the manufacturing sector in the framework of the National Growth Strategy¹.
- **Recent pre-crisis legislation and policies**, however, has reviewed this strategic orientation by promoting low-value added activities in the service sector. The pandemic has renewed the interest in the strategic role of manufacturing. The lack of institutional continuity and cohesion cancel policy actions and forward-looking reforms, causing confusion and delays.
- **At the same time, the public debate** is dominated by proposals aimed to strengthen manufacturing by reducing energy prices for businesses, taxation and labour costs, while proposals for improving competitiveness in line with the values and priorities of sustainable development are missing (energy and resource intensity, non-price competitiveness, economies of scale through business networks, etc.).
- **Sustainability can be a key-driver** of price and non-price competitiveness of manufacturing through various channels:
 - **lowering substantially energy intensity** (energy intensity of the manufacturing sector can be lowered by 25% and 59% by 2030 and 2050 respectively according to the national energy planning)
 - **taking advantage** of business opportunities arising from energy and climate transition
 - **improvements in resource productivity** through the increase of circularity
 - **strengthening R&D and innovation** in order to meet the challenges and opportunities of the 4IR.

¹ <https://www.nationalgrowthstrategy.gr/el/>

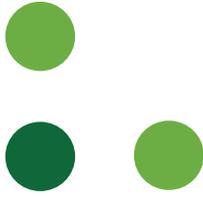


Networks & Infrastructures

- **Energy, telecommunications, transportation and water networks** are subject to new climate or other risks (e.g. cyber-attacks). The resilience of networks and infrastructure plays a crucial role in the overall resilience of the economy and society.
- **The resilience of networks** to the new conditions call for the integration of new technologies with the aim of enhancing digital supervision and control, remotely repairing damages and providing customer service.
- **Public authorities need** to make an overall assessment of the network's operating conditions during the current crisis in order to initiate systemic adaptation against future and diversified threats.
- **The crisis also highlights** more general issues for the regulatory and ownership regime of public utility companies.
- **The strategic nature of networks and utilities** regarding the prevention of systemic risks, the support of just energy transition and the provision of public goods can lead to the re-examination of the importance and role of public ownership policy.
- **In the same direction**, public authorities could assess the effectiveness of regulatory authorities regarding the implementation of public interest objectives under conditions of oligopolistic competition and proceed to improvements in their mandate and means.

Digital economy

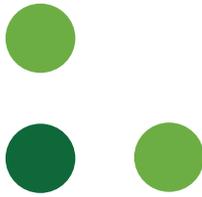
- **Digital technologies and services** have played a key role during the lockdown for the transition to teleworking, e-commerce, access to public services and the functioning of the education system. The use of teleworking may be consolidated in the post-Covid19 era.
- **Teleworking presents** a number of economic and environmental benefits as well as potential risks which could lead to the deterioration of employment standards and working conditions.



- **Today's crisis should not lead to erroneous conclusions** about the current and especially future environmental footprint of the digital economy. The energy intensity of the digital sector is steadily increasing. This trend - which could increase due to the much more important energy consumption of the 5G networks- contrasts with climate targets and the declining energy intensity of global GDP.
- **The growing environmental footprint** of the digital economy is linked to the prevalence of purely commercial criteria in the operation of this sector and with the over-consumption of digital equipment and services in developed economies.
- **Public policies aimed at optimising** the public and social value of digital infrastructure and services is needed in order to support social innovation, reduce its environmental impact and foster the development of sustainable economic activities at the local level.
- **Enhancing the circularity of the digital economy** in conjunction with the establishment of a "Right to Repair" (in the context of the goals of the European Green Deal) encompass significant business opportunities, including for the social economy.

Welfare State, work and resilience

- **The health crisis has highlighted** new social needs under "state of emergency". The probability of new health or climate crises requires the design of services to effectively prevent and manage their impact on society.
- **The resilience of a country** under conditions of economic, social, health or climate crisis is largely dependent on the effectiveness of its welfare state.
- **This includes, among others,** the readiness of the health system to deal with pandemics or the impact of natural disasters, the existence of mechanisms for providing decent guaranteed income or guaranteed employment and an effective transition to digital education.



- **The crucial issue of social resilience** is dependent on the sufficiency of social spending in relation to existing and emerging social needs. Fiscal policy must therefore monitor and draw conclusions from the evolution of specific indicators assessing the sufficiency of social spending according to social needs.
- **Strengthening labour income** can be examined as a relevant policy tool for increasing resilience of the economy against disruptions in the international environment.

4. Reassessing the local-global levels in terms of complementarity

- **The creation of complex globalised value chains** has increased the vulnerability of economies against natural and other crises. The strengthening of local production and the shortening of value chains in the agricultural sector and energy are now being assessed as drivers of resilience and efficiency.
- **Local governments and local communities** can play a key role in harnessing the growth opportunities of sustainable development in the post-Covid19 era.
- **Strengthening the local economy does not imply** a return to a form of local self-sufficiency and national autarky. In his context two parallel processes -seemingly contradictory but actually complementary- shall be supported:
 - **On the one hand**, globalisation can focus on promoting the necessary international cooperation to ensure global common goods and to create governance institutions to prevent the risks posed by increased interdependence and interaction of economic systems.
 - **On the other hand**, de-globalisation can ensure conditions of elementary autonomy and quality in local living conditions, as well as economic and demographic revival of the countryside.



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