Economic policy in Greece the day after
Under Extreme Market Conditions:
Options, Decisions and Implementation
Presentation

- Current accounts and low productivity vs cost
- Public finances and the history of revenues and expenses
- A long history for public debt
- Twin deficit budget and current accounts
- Stylized facts
  - To stimulate or not to stimulate
  - Theoretical explanation
  - Stylized facts
- Issues to be discussed
  - Crisis in the periphery illiquidity and all its friends
  - Self-interested reaction or collaborative behavior
- Introduction
Concluding Remarks

- Defauliting or running a primary surplus and how much bondholders' confidence
- A trade-off between stimulating and risking
- To stimulate or not to stimulate

Too interconnected to fail

- Mutual monitoring
- Regulatory evasion
- The economics of contagion
- The theory behind, explaining a tail event
- Financial panics and cash flow inefficiencies

Introduction
excessive debt accumulation imposing systemic risks during a boom. There is one common theme to the vast range of similar crises. The count on both funding and market liquidity. We claim that in order to meet its current liquidity shortfall, Greece should structural reforms appear relatively stronger.

tax collection, and some delays and capacity problems in delivering complex towards other Eurozone partners, persistent local deficiencies for example in deluding following the economic crisis, fears of contagion from and as decisions are not straightforward. If we are asked to implement them on upheaval, in real life, however, it is easier to say than do. From a theoretical point of view, this analysis shows that in such extreme cases, social cohesion disappears and self-interested reactions predominate. Countercyclically, prudence and collaborative behavior among individuals or members of a community is the safest exit from an incidence of social cohesion, discipline disappears and self-interested reactions predominate.
Total Gross Public Debt as Share of GDP (%)
For foreigners. Unlike other countries a considerable amount was held by foreigners. A remarkable feature is that a substantial portion of it has to come from sources not included in the deficit higher than the euro average. A remarkable feature is that a substantial seventies to 150% presently. During the last fifteen years was 35-67% under period of observation the share skyrocketed from 20% in early present feature of Greek public finance (the first out of two deficits). As a consequence of the above the total government deficit was an ever remaining 10 percentage points below the euro average. Total tax revenues respectively increased from about 20% to 33% up the euro area average – in the last years. During the observed period total government spending as a share of GDP first public finance and total government spendings. How unsustainable was the unsustainable Greek fiscal path the twin deficit problem. Reinhart and Rogoff.
Markets woke up to Euro Area imperfections

10-year interest rate spreads over Bunds
(September 1992 – March 2011)

Formation of Euro Area

Note: Monthly Averages; Annualized yields to maturity on fixed coupon bonds. Eurostat estimates whenever monthly 10-yr yields were not available.

Source: Eurostat
Tax revenues and effective tax rates
8. Effective tax rate on capital excluding self-employment income

7. Effective tax rate on self-employment income

6. Effective tax rate on consumption

5. Effective tax rate on capital income

Tax Revenues and Effective Tax Rates
Taxation and Revenues

The Euro average.
Rates on all types of income are substantially below Direct revenues as a share of GDP and effective tax.

Whether the effective tax rates will rise or fall depends on the progressivity of the tax rate system and the idiosyncratic characteristics of the system.
Key macroeconomic variables
Key macroeconomic variables
Inflation rates and real effective exchange rate
Unit labor costs in various sectors
Issues on Competitiveness and Productivity
at least disregarded it.

Politicians and authorities largely overlooked this systemic risk, or
of liquidity – all contributed to a large collapse on real activity.
causing fire sale of assets, flight to quality, and strategic hoarding
sheet driven crisis – funding and margin spirals caused by and

Greece is a typical event of a standard mechanism of a balance
unlikely position. I feel confident to support the argument that
reality grouped with an illiquid environment puts Greece in an
It is the purpose of this section to explain, how the twin deficit

Financial panics, cash-flow inefficiencies and adverse

Selection in markets of collateral
Credit availability (b)

Credit rationing due to unpledgeability

Ex ante aggregate shock

Supplies' response to an ex ante shock

Effective rate

Interest

Financial Panics, Cash Flow Inefficiencies and adverse selection in the Markets of Collateral
Consequences of pulling the plug

Markets and regulators have little information about the

carefully monitored by the latter. More importantly both
were allowed to borrow from other parties without being
available themselves of access to a Eurozone safety net. They
alarmed. They were unregulated and at the same time could

Global bailout for unregulated countries of the South is

Very recently EU realized that the magnitude of a partial or

system with cross exposure

institutions or the economy may propagate in the financial

A large literature describes how small shocks to one

The economics of contagion: Regulatory evasion
I have an information that makes me trust you and so, I'm willing to accept the corresponding counterparty risk.

... Saying

A multilateral exposure should really be about

Government bail-out

Option: Multi-government guarantees, or

Eurozone regulator

Decentralized information not held by a central bank or a

Cross borrowing and bilateral exposure

Ineffective monitoring

The economics of contagion: the opacity of the
Regulations and we that we should live for much more. In the world, financial markets are still dominated by home-based from Basel III and ending to the most recent Frank – Dodd. Realistically up international regulatory and monitoring framework initiatives (starting the past for various consider all the different objections raised in the past for various raise serious objections. But before we stand against them we should international bailouts as an issue per se in and for any financial system order to avoid cross country spillovers and financial contamination. A realistic approach demands all sites to collaborate at the final stage in whether one should append a liquidity measure to the solvency one.

From the current crisis, we realized that an important regulatory issue is the core of failures and rescues in the recent crises. Liquidity mismatches and the overreliance on wholesale funding were at

Conclusion Notes
Dealing with problems of illiquidity and sovereign insolvency in order to capture a tractable insight we must use models with infinite horizons. Such models are not available by now. Therefore as an alternative, it's time to utilize cooperative understandings in order to safely navigate through shallow waters on short run. Finally we are still lacking behind a theory capable to provide a good understanding of all interconnections between corporate and public finance. Since now regulators and rating agencies focus on monitoring quantity of liquidity, ignoring to a large extent the qualitative aspect of it. But dealing with public insolvency is mostly qualitative and partially a quantitative issue. Corporate finance is not of great help to us. The bottom line is that monetary and fiscal bailouts are different in working. And effects towards a common objective of restoring the institutions' liquidity and solvency position and should conceived separately.

Concluding Notes