

**The convergence experience of the Greek
economy in the EU: lessons for EU
accession countries**

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Figure 1: Greece, growth performance in per capita terms, 1980-2002

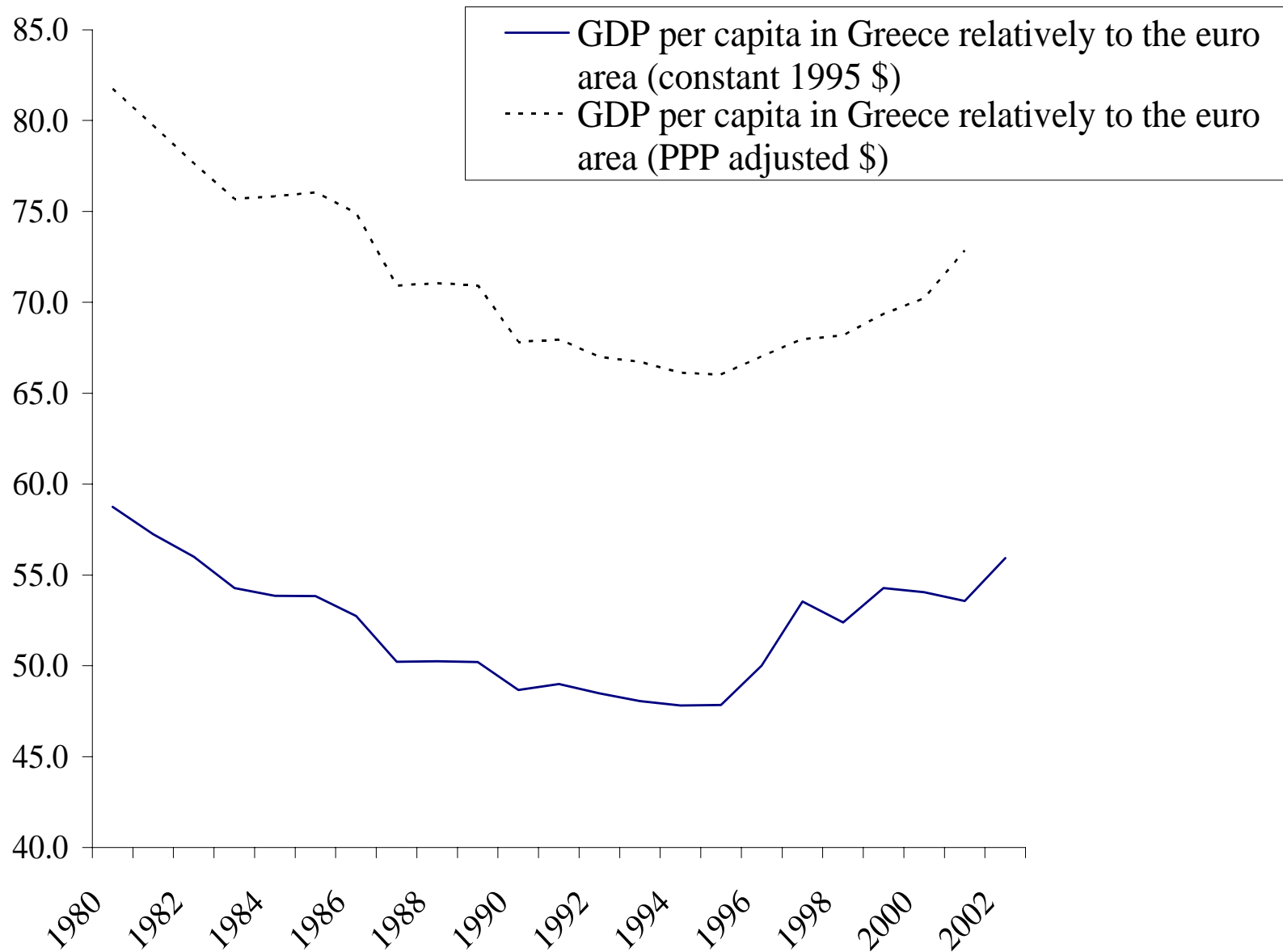


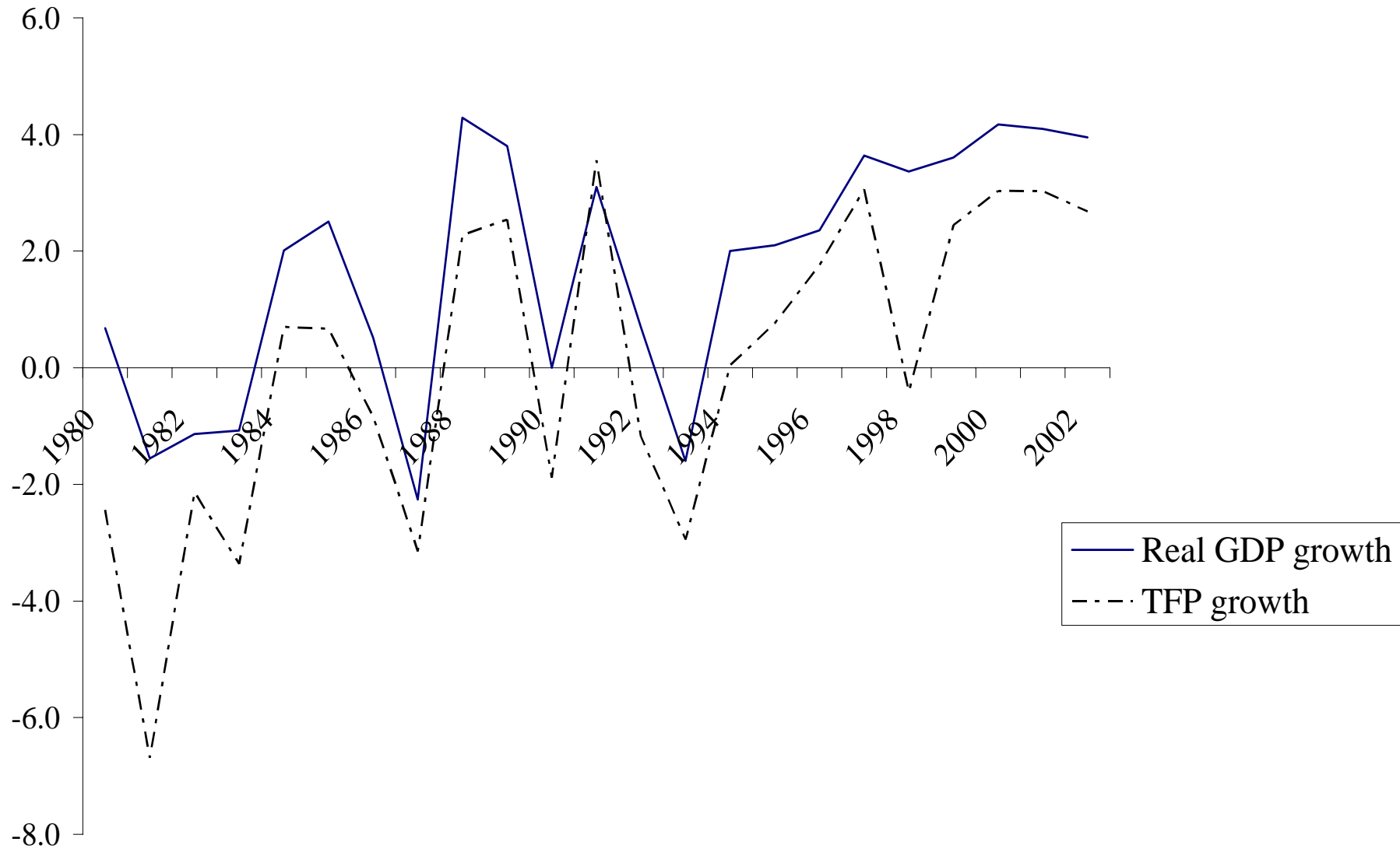
Table 1. Growth determinants in Greece (1980-2002) and in the euro area (2002)

	1980	1990	Greece 1995	2002	Euro area 2002	
Convergence						
GDP per capita relative to the euro area (in percent)	58.7	48.7	47.8	55.9	100.0	
Investment						
Gross fixed capital formation (in percent of GDP)	29.2	23.0	18.6	23.1	20.2	
Private gross fixed capital formation (in percent of GDP)	14.6	18.7	15.4	19.2	17.3	
Public gross fixed capital formation (in percent of GDP)	14.7	4.4	3.2	3.8	2.8	
Foreign direct investment inflows (in percent of GDP)	1.4	1.2	0.9	0.0	1.8	1/
Macroeconomic policy						
General government balance (in percent of GDP)	-2.7	-16.1	-10.2	-1.2	-2.3	
General government primary balance (in percent of GDP)	-0.3	-5.9	1.0	4.3	0.9	
General government total revenue and grants (in percent of GDP)	27.9	32.1	36.5	41.4	46.6	
General government total expenditure and net lending (in percent of GDP)	30.5	48.2	46.6	42.7	48.9	
Primary expenditure (in percent of GDP)	28.2	38.0	35.5	37.1	45.7	
General government debt (in percent of GDP)	25	81	109	105	69	
CPI inflation (in percent)	24.9	20.4	8.9	3.9	2.3	
Financial sector						
Domestic credit to private sector (in percent of GDP)	43.8	36.3	33.6	63.6	1/	102.8 1/
Lending interest rate (in percent)	21.3	27.6	23.1	7.4	6.1	
Interest rate spread (in percent)	6.8	8.1	7.3	4.7	3.3	
Human Capital						
Primary school enrollment ratio (in percent)	102.9	97.8	93.9	99.3	2/	104 2/
Secondary enrollment ratio (in percent)	81.2	93.3	95.3	98.4	2/	107 2/
Tertiary school enrollment ratio (in percent)	17.1	36.1	42.3	50.5	3/	52 4/
Labor force with primary education (in percent of total)	.	52.6	49.7	44.8	4/	.
Labor force with secondary education (in percent of total)	.	25.0	28.0	29.2	4/	.
Labor force with tertiary education (in percent of total)	.	11.4	20.9	25.1	4/	.
Public spending on education (in percent of GDP)	2.0	2.4	2.9	3.8	2/	4.8 4/
Structural						
Trade in goods and services (in percent of GDP)	51.4	45.9	42.6	47.4	70.5	
Freedom to trade with foreigners (increasing from 1 to 10)	5.6	6.1	6.6	7.6	1/	8.4
Economic freedom index (increasing from 1 to 10)	5.5	5.8	6.3	6.7	1/	7.3 1/
of which:						
Legal system and property rights	5.6	6.8	6.7	5.6	7.8 1/	
Business Regulation	...	...	4.7	4.8	5.7 1/	
of which:						
Starting a new business	...	...	4.2	4.0	5.1 1/	
OECD product market regulation index (decreasing from 1 to 3)	...	...	...	2.2	4/	1.7 5/
Labor market regulation index (increasing from 1 to 10)	3.6	3.7	4.0	3.8	1/	4.4 1/
Unemployment rate	5.5	7.0	9.1	9.9	8.4	
Spending on active labor market policies (in percent of GDP)	...	0.8	0.9	0.8	4/	3.0 5/
Technology						
R&D spending (in percent of GDP)	...	...	0.5	0.7	5/	2.1 2/
Information and communication technology expenditure (in percent of GDP)	...	2.3	3.8	6.1	1/	7.2 1/
Personal computers (per 1,000 people)	...	17	33	81	1/	286 1/

Sources: IFS, WEO, WDI, OECD, Economic Freedom Network.

1/ 2001.
2/ 2000.
3/ 1997.
4/ 1998.
5/ 1999.

Figure 2: Greece, real GDP growth and total factor productivity growth, 1980-2002



Lessons for the EU accession countries

- **Participating in the EU will not necessarily lead to convergence. Convergence is conditional on good policies, macroeconomic and structural**
- **Macroeconomic and structural reforms do deliver substantial growth benefits**
- **Structural reforms may be easier to initiate within the EU**
- **Macroeconomic reforms are also easier to implement when are based on EU or/and euro area requirements**

Greece: Challenges ahead

- **Fiscal consolidation**
- **Pension reform**
- **Reducing inflation**
- **Reducing the role of the state: privatization and product market liberalization**
- **Labor market reform**