Levy Economics Institute of Bard College

Strategic Analysis

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Greece: Growing on an Unsustainable Path

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Our February 2024 report (Papadimitriou, et al 2024) raised serious concerns of Greece's dependency on imports. In this report we argue that the problems we highlighted have worsened, and the relatively high growth rates the country has recently achieved have been at the expense of an increase in foreign indebtedness, as well as an increasing transfer of real estate property rights to foreigners. A pattern that cannot be sustained for long.

Determinants of 2024 real GDP growth

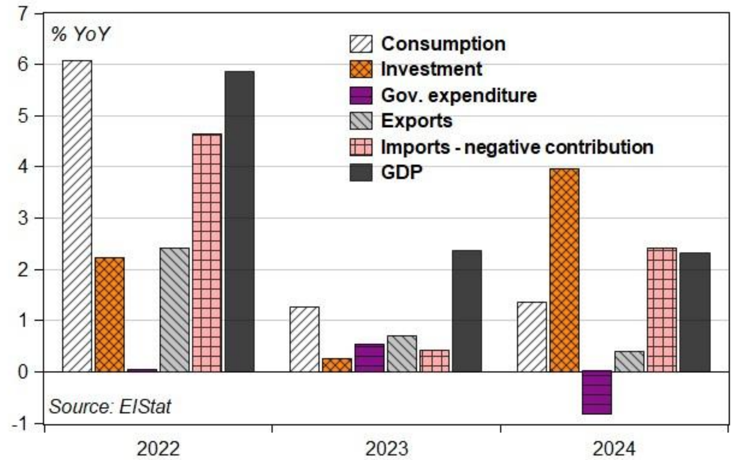
The economy of Greece continued growing higher than the average of the EU-27 in 2024 (Table 1) although some of the latest indicators exhibit economic weakness which will impact the economy long-term. The prospects for the short-term horizon appear mostly positive based on reported indicators for 2024 in GDP growth, employment, industrial production, producers and consumer sentiments and retail sales despite some declines in the later months of the year. The recently announced preliminary results from ELSTAT confirmed the average market estimates including those of the EC and IMF for GDP growth for the year 2024 at 2.3 percent. Preliminary monthly statistics for the Q4 show declines in some of the indicators mentioned above: consumption, exports of goods, employment, industrial production, producers and consumer sentiment and retail sales. On the

Table 1. Growth rate in real GDP

	2022	2023	2024
European Union	3.5	0.4	1.0
Greece	**5.7**	**2.3**	**2.3**
Germany	1.4	-0.3	-0.2
France	2.6	0.9	1.2
Italy	4.8	0.7	0.7
Spain	6.2	2.7	3.2

Source: Eurostat

Figure 1. Greece. Contributions to GDP growth



positive side, increases are recorded in Q4 (2024) in gross fixed capital formation, exports of services while imports of goods and services decreased in concert with lower consumption even though for the entire year 2024 imports of goods and services continued surpassing the export sector overall. As we cautioned in previous reports (Papadimitriou, et. al. 2024, 2022a, 2022b) and will discuss later, continuing the imbalance in the external sector will most likely lead to another financial crisis with severe repercussions given the country's large public sector debt.

The major driving growth components for 2024 were investment and private consumption with exports lagging imports very significantly, the all-time high number of tourist arrivals notwithstanding (Figure 1). Unlike the post-Covid-19 years (2021-2023), the net government expenditures growth, in 2024, turned to a negative contribution to GDP growth, if the public investments funded from the Recovery and Resilience Facility (RRF) were excluded. Indeed, government consumption decreased in 2024 while the surge in investment was due to the RRF funding raising concerns for the long-term prospects for the Greek economy when these funds cease flowing in early 2027.

As Figure 1 illustrates the investment contribution to growth exceeded the level of the post-Covid-19 years and all other growth drivers in 2024. Imports also overtook exports resulting in the stubbornly continuing trade deficit and a larger current account imbalance.

A curious and disturbing issue is the increasing inventories in 2024 that are unclassified, i.e., components of consumption or investment. The most serious concern, however, is that when they

Figure 2. Greece. Population

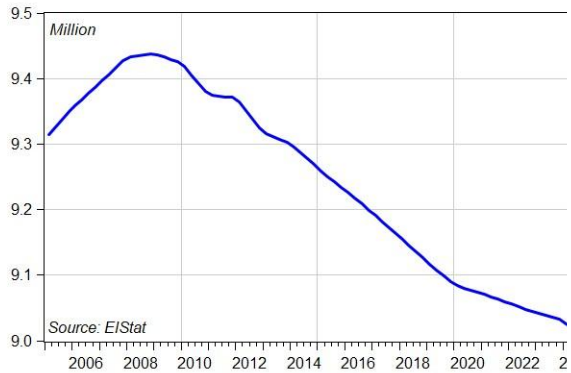
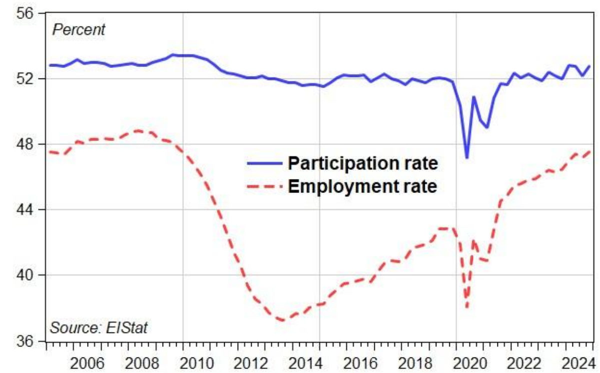


Figure 3. Greece. Labour market



will disappear in 2025 what would follow is a recession. We will return to this issue later providing comparable levels of inventories of other Eurozone member states.

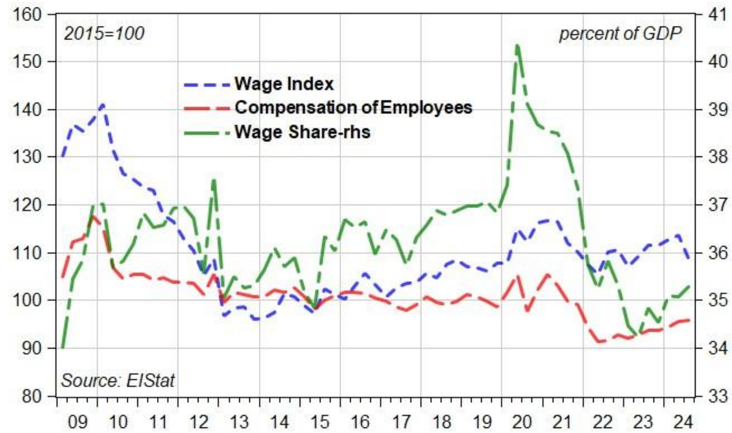
In the two years post-Covid-19 and in response to higher inflation, disposable income was supported by a variety of government cash transfers that eased the pain of extraordinary costs of foodstuffs and energy. In the latter quarters of 2024, government support decreased affecting disposable income negatively. Wage income was the primary component of disposable income followed by self-employment and income from wealth all directed primarily to consumption resulting in negative growth rate of saving of -2.2% in Q3.

Employment growth continued to be very slow, and population level maintained its negative trend, given by net migration (Figure 2). The employment population ratio in Q4 2024 was 52.8% -- one of the lowest in the EU and about 23% lower than the average EU-27 (Eurostat 2024). Figure 3 shows that both the participation rate and the employment rate have barely reached their pre-crisis level.

To reach the European Pillar of Social Rights Action Plan target (EU-27) of 78% by 2030, it will not only require a dramatic decrease in unemployment, but also creating opportunities for employment of those citizens who are not in or marginally attached to the labor force especially women and those seeking opportunities by moving abroad (brain drain).

Moreover, official unemployment statistics in Greece do not always reflect an accurate record of the unemployed since their number differs from the Unemployment Registration Service (DYPA) which usually reports a higher level of unemployment than the Statistical Agency (ELSTAT) which stood at 9.4% in December 2024. In December 2024, for example, the registered unemployed were

Figure 4. Greece. Real Wage indexes and Wage Share



977,687 –more than twice the number included in the Elstat report, out of which only 262,548 were receiving unemployment insurance. A good number were seasonal employees in the tourism services sector. This emphasizes the urgency of the government's response to increasing the opportunities and improving the conditions of employment including increases in the minimum and median wages which in turn will increase economic activity and the prospects of further growth.

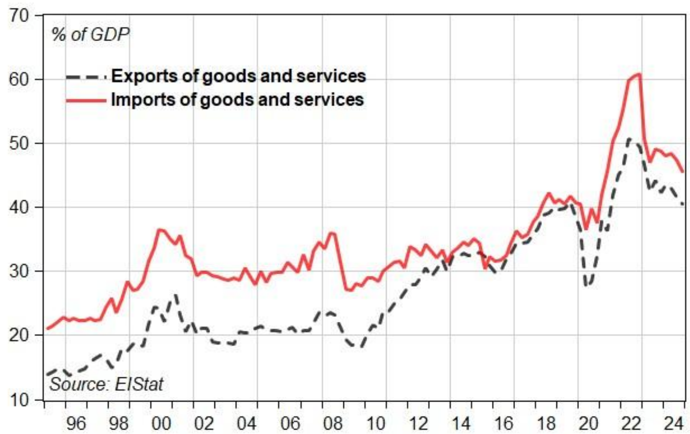
Observing the labor market conditions is to examine the real wage and employee compensation indices and the wage share as percent of GDP. The wage share in Greece for 2024 was around 34.7% of GDP (Figure 4) as compared with the EU average of 57%. As Eurostat reported Greece is in the bottom of the EU ladder regarding hourly wage rates. In 2024Q3 Greece recorded a 2.9% decline in hourly wages while the EU average over the same period showed a 5.1% increase and a corresponding 4.6% in the Eurozone. As Figure 4 shows employee compensation has lost ground when compared to 2015 while the wage index and the wage share have gained very little, if at all.

The foreign constraint

The chart in Figure 5 summarizes the defeat of the (fragile) EU strategy for Greece, based on austerity, hoping to eliminate the structural current account deficit.

The chart shows that, indeed, until the Great Recession of 2009 the current account balance grew, with a record 12.4 percent of GDP in 2008q2. The crisis first, and austerity measures later, implied an initial drop in imports, which grew more slowly in the following periods, while exports of

Figure 5. Greece. Trade



services – tourism – started to boom given the increase in price competitiveness achieved through cuts in labor costs.

However, austerity also implied the disappearance of many other businesses, or the acquisition of profitable firms from foreign competitors, so that the strong boom in exports of services started to imply a similar increase in imports of goods.

The strategy for closing the current account imbalance seemed to work in the 2015-2019 period, but the Covid shock in 2020 first, the shock to international prices that followed, and the Ukraine war with its impact on the prices of energy showed the fragility of this growth strategy.

The current account balance is now back over 5 percent of GDP, a value that implies an increase in net foreign debt which may trigger a new financial crisis.

The ability of the Greek tourism industry to keep growing is, however, uncertain. In the chart in Figure 6 we report the dynamics of the number of tourists as estimated by the Bank of Greece, measured both in number of travelers and in number of overnight stays of non-residents. We excluded the data for 2020, when the Covid pandemic implied a stop to traveling. The chart shows how rapidly the number of tourists increased after 2021, so much that in 2024 the number exceeded the pre-Covid level.

The average expenditure per night also had an increasing trend, with the latest annual average at 83 euro per night, up from 74 euro in 2019.

Figure 6. Greece. Tourism

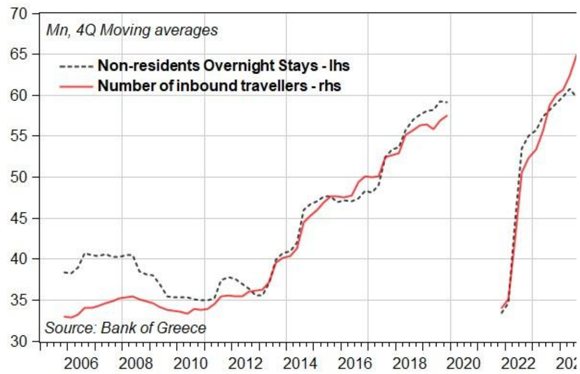
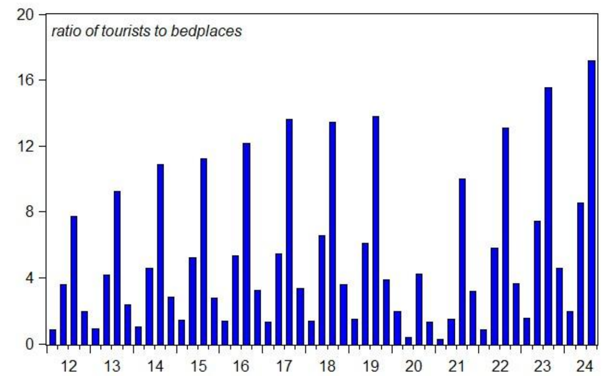


Figure 7. Greece. Bedroom occupancy



Source: Bank of Greece; Eurostat

We would expect these figures to imply an increase in supply, but the statistic on the number of bed places in tourist accommodations reported by Eurostat show a decline from 1.3 million in 2019 to 1.2 million in 2023 (the latest available figure).

In we compare this statistic to the number of tourists reported by the Bank of Greece (Figure 7). The figure shows that there must be an underestimation of the supply of tourist accommodations, probably due to the increasing availability of accommodations through "non official" channels like the AirBnb platform and "Rooms To Let" facilities in rural Greece. In any case, the figures show that the demand likely may be increasing over the existing supply, casting doubts on the ability of the industry to keep growing at the rate experienced between 2021 and 2024.

Baseline scenario

As it is customary with the Levy Institute's Strategic Analysis reports, we first develop a basic scenario of projected GDP growth and the behavior of the sectoral financial balances of the three institutional sectors: private, public and external from which we draw conclusions of the conditions that must be realized to deliver our projected results. Furthermore, by changing our assumptions relating to government's stance, effective and timely utilization of the funds from the RFF and the behavior of the private sector households and non-financial corporations--in relation to consumption and investment, saving and borrowing and net exports, we simulate alternative growth paths and financial balances scenarios. Our baseline scenario, as it will be seen, differs significantly from the estimates of the government, international and other research organizations in that we are pessimistic of the growth rate being sustained in the next two years at the same level of the recent past. Our contrarian view is based on limits of growth in consumption and the widening current account balance both of them to be discussed below.

The simulation of the baseline scenario is conditional on "neutral" assumptions, we make, about the external determinants of aggregate demand and prices and official projections for monetary and fiscal policy. These projections, in turn, have implications on the private sector's financing of consumption and investment expenditures.

Monetary policy

At the time of writing (March 2025) the ECB announced a new reduction in interest rates in response to lower inflation. It is not clear whether these reductions continue. The interest rate on the "Marginal lending facility" mistakenly increased from a low of 0.25 percent in 2019 to 4.75 percent in September of 2023, in response to the increase in inflation originated from the Covid-19 epidemic and the impact of the Ukraine war on supply chain disruptions on gas, oil and foodstuffs dramatically affecting prices. Although the inflation rate has dropped in most European Union countries, the ECB interest rate, after the recent reduction of 25 basis points is still high at 2.90 percent, higher than the average long-term rate of 2.81 percent, but lower than the U.S. Federal Funds effective rate which is still at 4.33 percent. Despite the high interest rates consumer credit in Greece showed an increasing trend in the major part of 2024 decreasing in December 2024 to 8.61 billion euro and 8.58 billion euro in January 2025 (Trading Economics). We expect consumer borrowing to increase to cover necessary expenditures that cannot be funded from disposable income. The consumer confidence level in February 2025 at -42.00 (Trading Economics) was very low as compared to the average in the EU of -12.9.[1]

In our simulation of both the baseline and alternative scenarios, we assume that relevant interest rates for the Greek economy will remain at their current level over the 2025-6 simulation period.

Fiscal policy

The Greek government's fiscal policy stance was not as relaxed in 2024 as compared to the previous years. Revenues from both direct and indirect taxes increased in 2024 and the expectations are that this policy stance will be continued so as to enable the government to produce budget

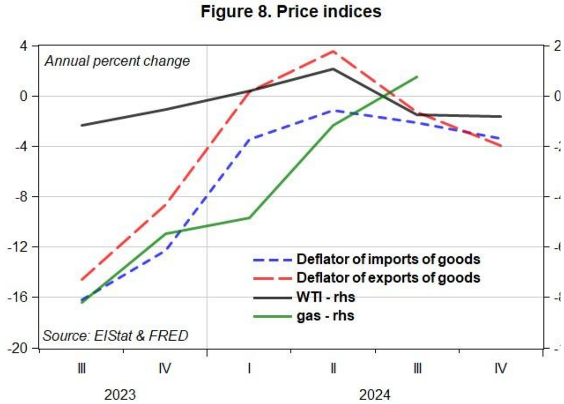
[1] It should be noted that the higher negative value indicates the higher degree of the pessimistic outlook of consumers.

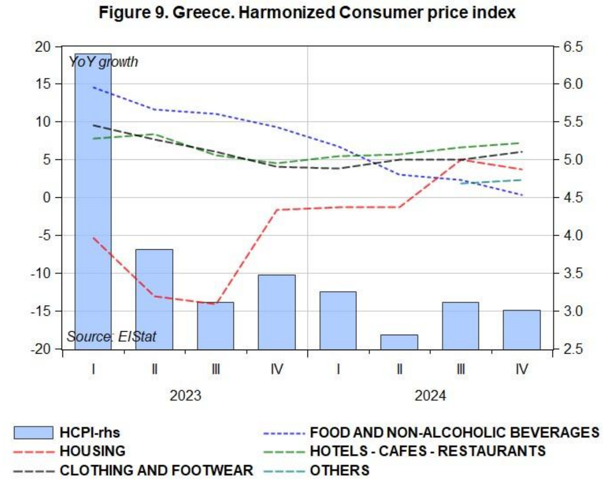
surpluses in accordance to EU directives. We assume tax rates and expenditures will be those shown in the official government projections. The government expects total tax revenues to increase from its efforts to reduce tax avoidance and evasion.

On the tax revenues side, we assume tax rates to remain stable, although the data show that in the first three quarters of 2024 the direct implicit ex-post tax rate increased by 3 percent. Our assumption is that it would be reduced by 1.5 percent in the first quarter of 2025, and remain stable thereafter. Other tax rates including social contributions are projected to remain stable in our simulation period even though the government announced that social contributions may decrease by a small amount.

On the expenditure side, we assume government consumption to remain constant in real terms, i.e. to grow with the expected rate of inflation. Public investment, we expect will be limited to those funded by the Recovery and Resilience Facility and further assume that these will grow from 8.5 billion euro in 2024 to almost 10 billion in 2025, and about 12 billion in 2026.

Government transfers and subsidies to households and small family firms, as mentioned earlier, were successfully used to counter the effects of the Covid 19 epidemic, reaching 11.5 billion euro in 2022, but falling to 4 billion euro in 2023. We assume they will decrease slightly in the simulation period and that households will continue the dissaving trend started in 2024 and increase their borrowing.





Inflation

Inflationary pressures seem to have eased worldwide, and in the EU particularly for we assume that international prices (imports and exports deflators) will continue to fall, slowly reverting to their pre-Covid level (Figure 8).

Domestic inflation in Greece, despite the recent uptick, is expected to stabilize and ultimately converge to the targeted ECB rate of 2 percent from its present rate of 2.7 percent. The observed higher prices in energy and foodstuffs, as illustrated in Figure 9, are also expected to slowly come down, especially if the government continues the imposition of penalties and fines to those profiting from artificial supply disruptions. The most recent attempts to end the Ukrainian-Russian war, if successful, will likely ease the unsustainable price hikes in energy, and ECB 's lowering of interest rates may further support the construction activity especially in residential housing.

Inventories

As it was mentioned earlier, inventories have been large in 2024 increasing steadily every quarter in 2024.

The change in inventories is sometimes obtained in national accounts as the residual item between the estimate of GDP and the estimate of the other components of demand. Moreover, the change in inventories at constant prices is not reported, but can be inferred by the difference between Gross Fixed Capital Formation (proper investment) and Gross Capital Formation, which includes the change in inventories. In Figure 10 we show how the latter has been a major contributor to real GDP growth in 2024, for reasons that will become clear only when national accounts data will be revised

Figure 10. Greece. The role of inventories on growth

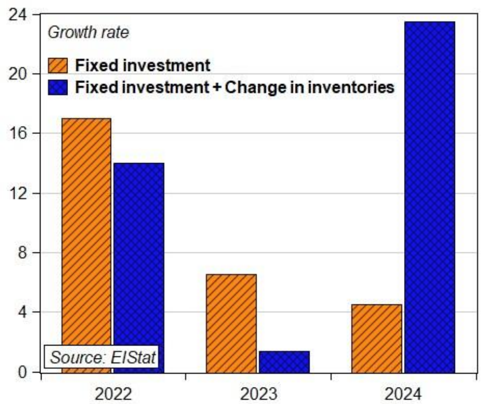
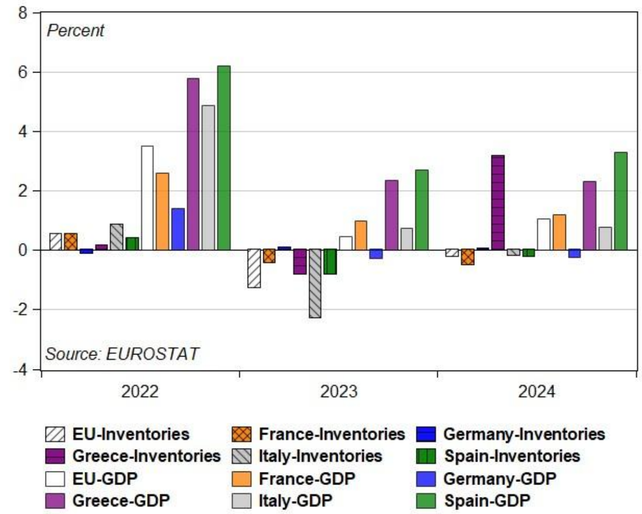


Figure 11. EU. Inventories Contributions to GDP growth



and updated by Elstat. The corresponding inventory changes for other Eurozone member states are shown in Figure 11 denoting their extraordinary size in Greece.

Industrial Production and Retail Sales

Retail sales declined significantly by 5.4 % in December 2024 from December 2023 and current estimates indicate further declines in 2025. The declines recorded include foodstuffs by -6.7%, non-food sector excluding gasoline by -3.3% and gasoline by -7.4%. The drop in retail sales, on a seasonally adjusted basis, was 3% in December 2024 (Elstat).

The industrial sector increased in December 2024 by 5.8% YoY while the manufacturing sector within it specifically grew by 3.6%. Similarly, the average general index of industrial production rose by 5.2% as compared to the same period in 2023 and on a seasonally adjusted basis the index rose by 2.4% compared to the previous month (Elstat). Manufacturing goods such as computers, electronics and optical products grew significantly Y-o-Y, but very few of these products were destined for the foreign sector as it will be noticed in Figure 13 below. The individual sectors within the manufacturing sectors show great disparity among them when one compares for example the production of computers and electronics rising 61.7%, tobacco products at 32.7% and motor vehicle production at 25.7% among others with the declines in mining, quarrying and leather products. The industrial sector as a whole was also significantly affected by a significant rise in electricity and water supply in addition to the 3.6% rise in manufacturing.

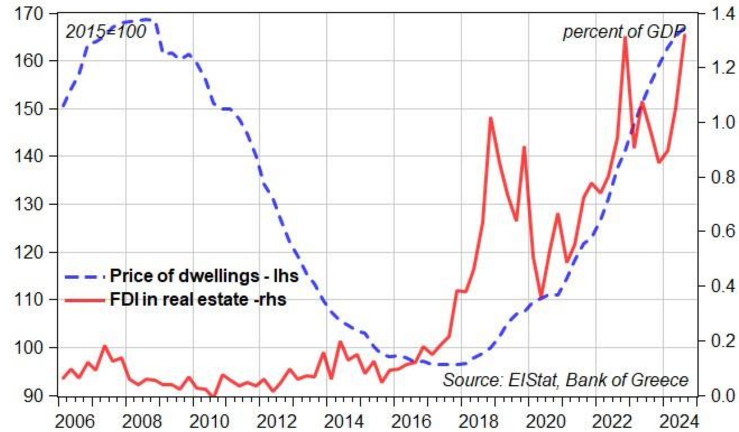
The positive growth is in concert with the S&P Global Manufacturing PMI index for Greece that recorded a rise in December 2024 to 53.2 from 50.9 the previous month indicating improvement in the goods producing sector while the Harmonized Composite PMI index for the Eurozone was below 50 signaling a contraction in manufacturing driven primarily from Germany, France and Italy.

Construction activity

The fourth quarter 2024 statistics released from Elstat record construction output to have accelerated by 23.6% Y-o-Y considering the upward revision of 18.6% in the previous quarter. The rise between the fourth and the previous quarter climbed by 52% with production of civil engineering and building construction rising sharply. Excluding the major construction and redevelopment projects of Ellinikon and airport expansion most construction is centering on residential housing funded by capital from abroad. This is in concert with the rise of private building permits that increased by 12.8% for the twelve-month period, November 2023 - October 2024, representing a 16.1% increase in surface and a 12.5% increase in volume for the same period in 2022-2023 (Elstat).

Based on estimates by the Bank of Greece housing prices in urban areas continued to rise: 7.9% in 2024Q3 from the previous year, 9.24% in 2024Q2 and 10.84% in 2024Q1 from the corresponding quarters in 2023 which also saw high increases from the quarters in 2022. Given this house inflation and the accelerated demand from abroad caused by the Golden Visa programs many homeowners have opted to sell their houses realizing the capital gains, and in some cases enhancing their disposable income.

Figure 12. Greece. The housing market

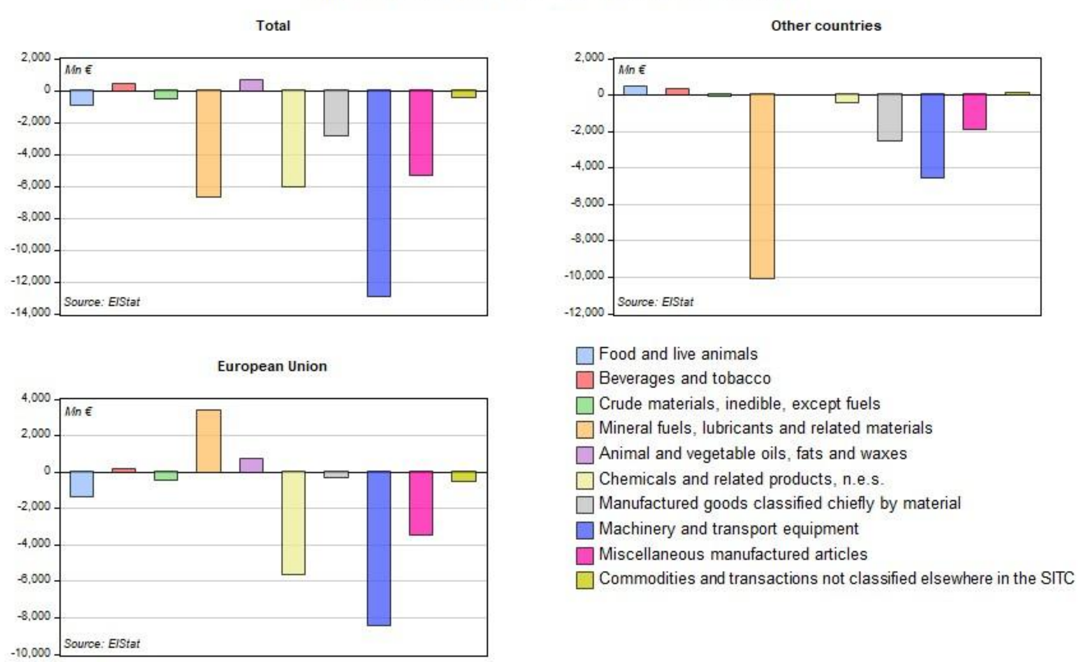


The accelerated price increases in the real estate market caused by increased demand from foreigners is documented in Figure 12 and is concert with our observation that the sale of real estate assets helps support expenditures that are unlikely to be funded by the declining wage income.

Foreign demand

The demand for exports of goods depends on a weighted average of real GDP of Greece's trading partners drawn from their GDP projections from the IMF World Economic Outlook (2024).

Figure 13. Greece. 2024. Net Trade Value per Good Category



Exports of services, in turn, depend on a weighted average of real GDP of the countries generating the largest number of tourists. Tourism is the largest economic activity in Greece even though its net effect towards GDP, considering the negative effects of necessary imports and the lower expenditure per tourist of the recent past, is surprisingly much lower (Rodousakis, et al). As illustrated in Figure 13 Greece's Net Trade Value per good category is mostly negative with some exceptions, notably mineral fuels, lubricants – mainly the result of refineries which import crude oil and sell refined oil to EU partners – and animal and vegetable oils with its EU trading partners and beverages and tobacco with its non-EU trade.

Our projections 2025-2026

On the basis of the analysis above, our model projections are summarized in Table 2.

Table 2. Greece: Baseline projections

Annual growth rates	**2024**	**2025**	**2026**
GDP	2.5	0.9	-1.3
Consumption	2.2	1.8	-0.7
Investment	5.7	13.3	9.7
Government expenditure	-4.2	1.4	1.5
Exports of goods and services	1.2	2.4	1.4
- Exports of goods	-1.7	-1.4	1.8
- Exports of services	4.0	6.0	1.0
Imports of goods and services	5.4	7.2	3.1
- Imports of goods	5.0	8.7	4.1
- Imports of services	6.7	2.4	-0.1
Percent of GDP			
Total Government surplus/deficit	3.4	0.9	-0.7
Primary Government surplus/deficit	6.8	4.1	2.5
Percent of GDP			
External balance	-5.3	-8.8	-10.6

Source: Authors' calculations

Our projections are less optimistic than those of other institutions mainly because of the major role that financial balances play in our model.

Greece is experiencing a fiscal tightening policy aiming at turning government deficit into a budget surplus, and the country has indeed reached an overall surplus position. The serious implication of this is that resources subtracted from the private sector through taxes, contributions etc. exceed sources of funds received by the private sector from the public sector in the form of necessary expenditure support, transfers, etc., so as the available funds for households and firms will decrease.

Moreover, the increase in imports projected to significantly surpass exports will result in a current account deficit which, in turn, subtracts funds from the private sector.

In the last years, the current account deficit has been to some extent compensated by an increase in net debt of the private sector against the rest of the world, and by incoming Foreign Direct Investment mainly directed to transferring ownership of firms – and real estate – from domestic holders to foreigners (mainly speculators in financial centers).

These transfers of ownership generated additional funds that have been used to sustain private sector expenditures including consumption, but in the forthcoming years they also imply that a growing share of the revenues from tourism – as well as from profits earned by foreign-owned firms – will be transferred abroad, pushing down consumption and aggregate demand. All in all, the omens for the long-term suggest turbulent and dangerous times ahead.

Alternative Scenarios

As mentioned earlier in these Strategic Analyses reports, we provide alternative more optimistic scenarios by changing our assumptions of the behavior of the drivers of GDP growth. In this report, we will instead evaluate the assumptions used by the projections provided by the three major international organizations, the IMF, OECD and the European Commission. The assumed growth drivers in the projections of the three organizations are detailed in table 3 shown below.

To begin at the beginning, the first entry in table 3 is the optimistic GDP growth rates ranging from 2.1% to 2.3% for 2025 as compared to our own pessimistic ones depicted in table 2 above. The main growth drivers listed in all three is the increased use of the NGEU (RFF) funds provided for investment, employment gains that will in turn fuel private consumption. Another growth driver assumed by the EC is export growth benefiting from the recovery of external demand. We, of course, agree that NGEU investments are a major driver of growth but are skeptical of a much larger increase given the experience of the last two years. The effective and timely utilization of investment funds is not what characterizes the Greek economy. Thus, in our projections, we use more "reasonable" assumptions based on the experience of previous years. In terms of increased consumption, our assumption is that it will not continue as robustly as in previous years, but rather will slow down given the precarious labor market conditions, the low wages and the decline in government support that taking them all together will fail to increase disposable income. Furthermore there is the troubling matter of the continuing sizeable imports which together with lower consumption will contract growth.

Table 3: GDP growth projections for 2025 from IMF, OECD, EC

Assumption	IMF	OECD	European Commission
GDP Growth Rate	2.1%	2.2%	2.3%
Primary Growth Drivers	- Investment, especially NGEU-funded projects- Solid private consumption supported by employment and income growth	- Growing disbursements from EU Recovery and Resilience Funds- Gradual disinflation- Continuous employment gains	- Robust private consumption due to steady real income growth- Accelerated investment, peaking at nearly 9% in 2025, driven by RRF implementation and improved financing conditions- Export growth benefiting from recovering external demand and structural reforms
Inflation Outlook	- Headline inflation expected to resume downward trend- Core inflation to be more persistent due to services inflation and wage growth	- Gradual disinflation expected	- Headline inflation projected at 2.4% in 2025- Inflation excluding energy and food forecasted at 2.7%
Fiscal Outlook	- Primary surplus expected to remain around 2.5% of GDP in 2025- Reduced social security contributions offset by revenue gains from tax reforms	- Emphasis on maintaining significant primary fiscal surpluses while preserving investment	- Headline deficit expected to decline to 0.1% of GDP in 2025- Public debt-to-GDP ratio projected to fall to 146.8%
Employment and Labor Market	- Favorable employment growth supporting private consumption	- Continuous employment gains expected	- Employment growth set to continue, though at a slower pace due to structural challenges- Unemployment rate forecasted to decline to around 9.0% by 2026
External Sector	- Current account deficit expected to narrow below 4% of GDP as imports slow with the winding down of NGEU-funded investment	- Export growth supported by recovering external demand and structural reforms	- Export growth anticipated to benefit from recovering external demand, cost competitiveness gains, and structural reforms

The assumptions regarding inflation are similar to our own but we question the positive effects of the continuing budget surplus on growth for the reasons we discussed earlier. Increases in tax revenues along with decreases of expenditure, features of a restrictive fiscal policy, are drivers of contracting growth. Last but not least, is the assumptions in all three projections of employment gains. This is a troubling matter given the number and the conditions of the unemployed, those who are not in the labor force and those who choose to move abroad as we detailed earlier.

The assumptions on which the growth projections are drawn do not appear "neutral" to us and we expect the optimism of this year's GDP growth rate to be very unlikely fulfilled.

As discussed above, Greece needs additional sources of funds to achieve growth rates higher than those we have projected. These may come from:

a) A further decrease in private sector net assets, achieved either by a larger transfer of property rights on real estate to non-residents, or from additional borrowing from abroad.

b) A reversal of current fiscal policy: an increase in public expenditure, or larger transfers from the public sector to the private sector.

For instance, we evaluated the former hypothesis using our model. In our baseline projection we assumed that foreign direct investment in real estate would increase from 682 million euro in 2024 to 854 million euro in 2025, an increase similar to what was registered between 2023 and 2024. Assuming an acceleration of this process, with FDI in 2025 increasing to 1.5 billion euro, would increase real GDP growth rate to 1.3 percent, still far from the projections in Table 3.

To achieve a growth rate of 2.3 percent in 2025 through a fiscal expansion, our model estimates that an increase in net government expenditure of more than 6 billion euro would be required. Such a policy would bring the overall public balance back to deficit, although the government would still be running a primary surplus of about 1.3 percent of GDP.

Conclusions

Greece has been among the fastest growing economies among the EU member states in the post-Covid-19 period. In this report, however, we discuss some developing issues of serious concern regarding the continuation of this GDP growth rates. We review and analyze very carefully the recently released statistical elements on growth within the existing conditions in labor markets, employment gains, consumption and investment along with both monetary and fiscal policy stances. While the ECB's monetary policy is beginning to be more accommodative, national fiscal policy is tightening.

The analysis of the drivers of growth in the last two quarters of 2024 show the decline of government expenditure save for the significant investments primarily funded by the NGEU (RRF) program due to expire in 2027. Serious weakness is observed in disposable income, consumption and net exports which in terms of the financial balances of the three sectors –private, public and external— suggest that many difficulties and even a crisis may occur in the near future. Both the private and the external sectors financial balances are in deficit while the public sector in surplus. Experience has shown that these conditions cannot last for long with ultimate result being a recession and an increase in public debt and a financial crisis.

The economy of Greece after exhausting the seven-year escape clause imposed on highly indebted Eurozone member states in 2032, it must begin to produce even higher budget surpluses to start repaying its outstanding public debt. A stubbornly increasing current account deficit together with a private sector deficit are most definitely the worst positions to be in unless some dramatic changes take place in the country's production model that will reverse both external and private sector negative balances. As we cautioned in our previous report (Papadimitriou, et al 2024) and re-emphasize strongly in this report, Greece must reverse its dependence on imports. Moreover, replacing government expenditures to programs supporting disposable income with sales of real assets is a recipe for disaster as we have seen in the past in many places around the world. Neither the highly inflated housing prices nor consumer credit can be continued for a long horizon.

As we discussed, disposable income can be increased with rising median wages and labor market policies employed in other EU member states such as increasing the minimum wage and the re-instituting the 13th and 14th monthly salaries to public sector employees. Budget surpluses cannot be linked to internal devaluation. What is needed instead is the transformation of the production model and not through wage suppression and reduced demand.

Our own model's simulations show that growth rates of over 2% are not in the cards. Our pessimistic growth projections are based on neutral assumptions drawn from our analysis of the existing conditions. We believe the assumptions used by the Greek government, IMF, OECD and EC are based on rather unreasonable assumptions and wishful thinking.

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