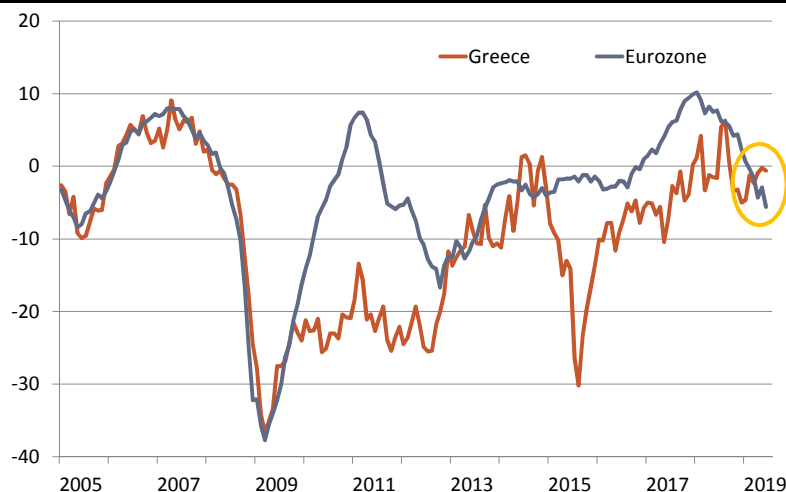


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5 July 2019

Greece: life after populism

Industrial confidence in Greece and the Eurozone



Source: European Commission

- Change is in the air:** Judging by opinion polls, the centre-right New Democracy (ND) will win the Greek parliamentary election this Sunday with c38% of the vote, well ahead of the ruling Syriza party with c28%. If so, the pro-business ND leader Kyriakos Mitsotakis can replace Alexis Tsipras as prime minister either with – or more likely without – a coalition partner. The political change could boost business confidence, investment and jobs.
- The worst is over:** Greece has gone through exceptionally rough times caused largely by three major policy mistakes. First, successive Greek governments had borrowed far too much in the years up to 2009. Second, in the Greek debt crisis from 2010 to 2013, Greece and its official creditors put far too much emphasis on austerity to suppress demand instead of structural reforms to raise supply. Third, after Greece had finally managed to get back on the growth track in 2014, new finance minister Yanis Varoufakis aborted the economic rebound in his futile confrontation with creditors in the first half of 2015. By the time he left office, banks had to be closed and growth had stalled.
- Greek economy:** Since Tsipras changed tack in the summer of 2015, the Greek situation has stabilised. Having returned to growth, Greece is now weathering the downturn in global industry better than the Eurozone as a whole (see chart). Still, the penchant of Syriza to prioritise tax hikes over pro-growth reforms is holding back the economy. The programme of tax cuts and tax simplification promised by Mitsotakis could raise growth decisively. If Mitsotakis also sees to it that Greece finally implements those reforms that its parliament has passed, but which its administration has not fully put into practice, Greece could start to rebound more decisively soon.
- Life after populism:** Perhaps the most remarkable feature of Greece is the political maturity that its citizens and many of its policy makers have shown in recent years amid widespread economic pain. Chastened by the Varoufakis crisis of 2015, Tsipras has turned his Syriza party from a motley collection of radical firebrands into an almost standard centre-left party. Settling Greece's dispute with North Macedonia will remain his lasting achievement. Greece shows that populism can be tamed and defeated. Judging by opinion polls, the nasty far-right Golden Dawn is scoring around a mere 4% while Varoufakis's new left-wing radical outfit may get around 3%. Shunning the populists, the choice for Greeks this Sunday will be between two pro-European mainstream parties.
- Do not listen to the prophets of doom and gloom:** In Europe and beyond, the Greek crisis had given the prophets of doom and gloom one of their best runs in living memory. Assertions that the euro is a failure, that Greece will collapse and bring the whole Eurozone down with it and that German taxpayers would lose their shirt over Greece made headlines for years. Some observers even claimed that support for Greece will bring high inflation to core Europe. History has proven them wrong. Greece – and the Eurozone – have shown that they can get their act together even if the process is sometimes quite bumpy.

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