

Greece. Structure, problems, application

2.1% Real GDP growth 2025 (Q2 2026 +1.9% y/y)	~25% Fall in real GDP 2008–13; still below 2007	~\$29,700 GDP per head (IMF 2026 est.); low for EU	~€36 bn EU Recovery Fund money, 2021–26	–6.0% Current account % of GDP, 2025
3.8% CPI Aug 2026, energy shock	7.4% Unemployment Aug 2026; peak 27.5% (2013)	~23% Aged 65+; fertility ~1.3	~0.32 Gini, disposable income 2025	146% Gross debt % GDP 2025; >200% in 2020

STRUCTURE OF THE ECONOMY

	% OF GDP (2025)	% OF JOBS (2025)
Agriculture	4.1	9.2
Industry	17.7	16.3
Services	78.2	74.4

- Farm jobs far exceed farm output → low agricultural productivity; small family firms.
- AD mix:** high C (~⅓ of GDP), investment recovering with EU funds, negative (X–M).
- Before 2009:** C and G funded by foreign borrowing; wages rose faster than productivity.
- System:** eurozone member; ECB sets rates; most debt owed to eurozone partners.

MAIN INDUSTRIES

- Tourism:** record ~38 m arrivals (2025); seasonal; islands and Athens.
- Shipping:** Greek owners control ~⅓ of world tonnage.
- Agri-food:** olive oil, feta, fruit; exposed to drought and fires.
- Energy:** refined oil is the largest goods export; solar and wind growing.
- Logistics:** Piraeus port, sold to COSCO in 2016.
- Banks:** bad loans from nearly half to single digits.

GROWTH STORY: TURNING POINTS

1981 Joins EEC; 2001 joins euro: cheap credit	2009 True deficit revealed (final figure 15.4% of GDP); yields soar	2010 1st bailout €110 bn; troika austerity	2012 2nd bailout + PSI write-down; min wage –22%
2013 Unemployment ~27.5%; GDP –25% vs 2008	2015 Referendum, capital controls; 3rd bailout €86 bn	2018 Exits bailouts; 2020 Covid –9.2%	2023 Investment grade regained; 2026 energy shock

Why so deep: austerity with a large multiplier, banking crisis, no devaluation, political uncertainty.

EIGHT PROBLEMS

PROBLEM	EVIDENCE	SPEC LINK
Public debt	146% of GDP, highest in EU	Sustainability
External deficit	CA –6.0% of GDP (2025)	BoP
Brain drain	Hundreds of thousands left in 2010s	Human capital
Ageing	~23% aged 65+; deaths > births	Dependency ratio
Low investment	RRF ~€36 bn ends 2026	LRAS
Tax evasion	Shadow economy ~⅓ of GDP (est.)	Taxation
Tourism dependence	2020 GDP –9.2%; wildfires	Structural risk
Cost of living	CPI 3.8%; rents up	Real wages

INEQUALITY & DEVELOPMENT

- Wages, pensions and public jobs cut; minimum wage –22% (2012).
- Unemployment 27.5% (2013) → 7.4% (Aug 2026); youth 54.9% (2012) → 16.8% (2026).
- Hysteresis: long spells out of work cut skills and future earnings.
- Gini ~0.32: crisis raised poverty more than measured inequality.
- GDP per head at PPP among the lowest in the EU.

Was austerity right? For: no one would lend without it; surpluses and investment grade now. Against: GDP –25%, multiplier underestimated, debt relief too late.

CLASSIC CHAINS USING GREECE

Austerity: G ↓ and taxes ↑ → AD ↓ by a multiple → output and jobs ↓ → tax revenue ↓, welfare ↓ → debt/GDP rises as GDP shrinks.

Internal devaluation: unemployment ↑ → wages ↓ → unit labour costs ↓ → exports cheaper → X ↑, but real debt burden ↑.

Debt crisis: deficit revealed → confidence ↓ → bond yields ↑ → refinancing costs ↑ → deficit widens → bailout or default.

A · DATA RECALL (1 MARK EACH)

1. Real GDP growth in 2025: _____
2. Budget deficit in 2009 (final figure): _____
3. Fall in real GDP, 2008–13 (approx.): _____
4. Peak unemployment rate (2013): _____
5. Gross public debt, % GDP (2025): _____
6. Year Greece joined the euro: _____
7. Size of the first bailout (2010): _____
8. Unemployment rate, Aug 2026: _____

B · MATCH THE EVIDENCE TO THE ECONOMIC CONCEPT

GREECE EVIDENCE	LETTER	CONCEPT
1. Wages cut to make exports cheaper		A. Fiscal multiplier
2. Spending cuts shrink GDP by more than planned		B. Hysteresis
3. Years out of work erode skills		C. Internal devaluation
4. Bank losses on bonds cut lending		D. Bank–sovereign "doom loop"
5. Graduates move to Germany and the UK		E. Brain drain / lower LRAS
6. Debt ratio falls as nominal GDP grows		F. $r < g$ debt dynamics

C · COMPLETE THE CHAINS

1. Government cuts public sector wages → _____ → consumption falls → _____ → tax revenue falls.
2. Investors fear default → bond yields rise → _____ → _____
3. Tourism collapses (2020) → _____ → _____ → GDP falls 9.2%.

D · EXAM-STYLE QUESTIONS

Extract. Greece's general government balance moved from a deficit of 15.4% of GDP in 2009 to a surplus of 1.7% in 2025. Gross public debt fell from over 200% of GDP in 2020 to 146.1% in 2025 and is forecast to reach 134.4% by 2027. Real GDP grew by 2.1% in 2025. Most Greek debt is owed to eurozone governments at low, fixed interest rates.

(5 marks) With reference to the extract, explain one reason why Greece's public debt ratio has fallen since 2020.

(8 marks) Examine why being a member of the eurozone made it harder for Greece to recover from its recession after 2010.

E · PLAN A 25-MARK ANSWER

(25 marks) Evaluate whether fiscal austerity is the most effective policy for a country facing a sovereign debt crisis.

ARGUMENTS FOR (WITH GREECE EVIDENCE)	ARGUMENTS AGAINST / ALTERNATIVES
OVERALL JUDGMENT: IT DEPENDS ON...	

A · DATA RECALL

1. 2.1%
2. 15.4% of GDP
3. About 25% (a quarter)
4. About 27.5%
5. 146.1% (accept about 146%)
6. 2001
7. €110 bn
8. 7.4%

B · MATCHING

1 → C · 2 → A · 3 → B · 4 → D · 5 → E · 6 → F

C · CHAINS

1. Disposable incomes fall → AD falls by a multiple (multiplier effect) / output and employment fall.
2. Cost of refinancing government debt rises → deficit widens / spending cuts or bailout needed (loss of market access).
3. Services exports fall → (X-M) and AD fall / jobs lost in hotels, transport and food.

D · EXAM-STYLE GUIDANCE

5 marks: Define the debt ratio as government debt as a percentage of GDP (1). Identify a reason from the extract: budget surplus of 1.7% of GDP (2025) lets debt be repaid; or real growth of 2.1% plus inflation raises nominal GDP, the denominator (1–2). Explain: low, fixed interest rates keep interest costs below nominal GDP growth ($r < g$), so debt grows more slowly than GDP (2). Use data: over 200% (2020) → 146.1% (2025). Must use extract data.

8 marks: Knowledge/application: no currency to devalue, so competitiveness had to be restored by cutting wages and prices (internal devaluation); no independent monetary policy, so interest rates and QE were set for the whole eurozone. Analysis: chains to falling AD, rising real debt burden, long recession. Evaluation (2 points for full marks): eurozone partners lent at low rates; leaving would have caused bank collapse and high inflation; the ECB later supported Greek banks; domestic factors (tax evasion, low exports) also mattered.

E · 25-MARK PLAN: POINTS TO LOOK FOR

For austerity

- Markets would not lend: 2009 deficit 15.4% of GDP.
- Condition for bailout loans; avoids disorderly default.
- Restores credibility: surplus 1.7% (2025), investment grade 2023.
- Debt now falling: >200% (2020) → 146% (2025).
- Forces reforms: tax collection, pensions, privatisation.

Against / alternatives

- Multiplier: GDP –25%, unemployment 27.5%.
- Debt ratio rose during austerity as GDP fell.
- Hysteresis and brain drain cut long-run supply.
- Earlier debt relief (PSI came only in 2012) or slower consolidation.
- Outside a currency union: devaluation or default (Argentina).

Judgment: some consolidation is unavoidable when a country loses market access, but the pace, timing, debt relief and support for demand decide the cost. Ireland's milder experience shows context (open economy, strong exports) matters.