

Saratsis, Yiannis; Kotios, Angelos; Galanos, George

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# **Greek economic crisis and its impact on regional development and policy**

**ANGELOS KOTIOS**

University of Piraeus

**YIANNIS SARATSIS**

University of Thessaly

**GEORGE GALANOS**

University of Piraeus

## **Abstract**

In the past 3 decades the main financial support mechanism for the development of Greek Regions was the European Cohesion Policy and less national instruments as the Regional Investment Framework and public investments. Under the provisions of Cohesion Policy, a significant amount of money was given to all countries, including Greece of course, in order to accelerate the development dynamics in Europe. Moreover, this money was spent in specific interventions that were estimated to have positive influence in regional competitiveness and promote regional development.

The current economic crisis that has emerged in the Greek economy has already an enormous effect on several national and regional development indicators like GDP growth, unemployment, social exclusion, industrial production, bank credits etc., and also has shrunk the available financial resources for public and private investment through the Community Structural Funds and the national regional policy funds. This is a negative perspective regarding the Greek Regions that still face many structural problems that have been deteriorated during the current crisis.

This article discusses some of the above problems, and focuses on the changes that need to be implemented in Greek Regional Policy under the current situation. Having a fiscal problem that urgently needs to be addressed, the reductions in all public spending can result in the deduction of available resources for regional policy. This will result not only in smaller effectiveness of the interventions, but also Greek Regions will not be able to comply with the requirements and the goals of the Europe 2020 Strategy.

Furthermore, not all the Greek Regions have the same economic structure. So, the changes that must be applied must have a diversified character for each region. Also, the provisions for the 2014-2020 Programming Period do not take into account the crisis in the Greek Economy and estimate Greek Regions as having moved from the "Cohesion" goal (with the exemption of 5 Regions) and this implies that the allocated funds will be lesser in the next years.

With all that in mind the paper concludes with some proposals for the review of the Greek Regional policy for the remaining of the 2007-2013 period and also some suggestions for the 2014-2020 period, assuming that there cannot be significant changes in the European context of the overall Cohesion Policy.

**Key Words:** Economic Crisis, Greece, Regional Policy, European Cohesion Policy

**JEL Codes:** R58, O21

## **Introduction**

The current global economic crisis and the EU cohesion policy are in a relationship of important interactions and interdependencies. Initially, it is reasonable that the economic crisis, which has strongly influenced the economies and economic policies of EU member states to affect the EU cohesion policy as well, which is considered to be the prime development policy. With the beginning of the crisis, in the autumn of 2008, an environment of risks for the cohesion policy was developed.

These risks are listed in the following:

### **Ensuring resources and funding due to economic downturn Disposal of significant public funds for rescuing the banks, Countercyclical fiscal programs and problem of the public debt**

This risk has two dimensions: One the one hand, the risk is referred to the safeguard of the Community's own resources for the cohesion policy and the relevant EU initiatives, most of which comes from national contributions and from the other hand, the risk is referred to the secure of funds from member states for the co-financing of the projects and actions of their operational programs.

Until nowadays, the implementation of the cohesion policy has shown that the funding at Community level did not reveal any real problem. Instead, as we show below, in some cases there was an increase of the relative capitals. On the other hand, problems occurred in some countries, such as Greece and other countries of the south community regarding the securing resources for the co-financed projects due to the excessive debts and / or of the budget deficits or due to the risk collapse of the national banking system.

The implementation of programs of fiscal consolidation in many countries of the Union meant additionally and the reduction of public investment projects with negative effects on the absorption of resources of the programming period 2007-2013. This trend is reinforced by the necessarily restrictive or deliberately conservative attitude of the financial sector, which is ongoing, resulting in a reduction in the appropriations for the funding investment. This explains the phenomenon, from the one hand, of the high commitment of resources for projects of national operational programs; and from the other hand, the low level of actual absorption. More specifically, despite the efforts of the Council and the Commission in early 2011, the total absorption of the Structural Funds remained low, as well as the use of loans from the European Investment Bank (EIB). For Greece, it is estimated that more than 80% of the allocated resources or a cumulative 7% of GDP (early 2011) remains unused. Similarly, the same happens in the case of Portugal and of the new Member States. Overall, the EU absorption evolves more slowly than the corresponding period for 2000-2006. As for the future,

it is estimated, that at Community level, the cohesion policy funding of the current programming period is not in danger. Moreover, except for Greece, Ireland and Portugal, all other EU countries and especially the big countries with the most significant contribution to the Community budget have been put into an orbit of exit from the crisis and have now positive growth rates.

The high deficits combined with the high debts in most countries of the EU, led the member states to a progressive strategy in order to consolidate public finances and to return to a strict or a stricter fiscal discipline. This may cause demands from the part of the countries with clear contribution to EU funds in order to raised demands to reduce their payments to the EU and, therefore, reducing both the Structural Funds for the period 2014-2020. Risks exist in the countries of the south Community, that are forced to follow a policy of forcible adjustment of their public finances, resulting in problems in the co-financing of projects and in attracting private capital and carrying out national investment. In this case, the suggested solutions are the resources of the EIB and the growth rate of Community assistance in the works, along with a further increase of pre-financing from the EU side.

### **Hierarchy of objectives, priorities at European level**

Cohesion policy is by definition a developmental and structural policy of a long term. Normally it is based on interventions that often need long time implementation and therefore attribute in the long run, despite the income multiplier effects that can develop during the implementation phase of projects. By contrast, the recent financial crisis has caused a strong recession in most countries of cyclical nature. The exit from the recession led to expansionary fiscal and monetary policies to stimulate demand. In this context, the aim was to implement quick impact measures such as the reduced taxes and contributions, increased transfer income and an increase in budgetary expenditure on projects with short-term performance and effect on overall domestic demand, etc. The risk for European politics was the digression from its main target of reducing development disparities among regions in countercyclical policy.

The European Plan for Economic Recovery captures a European strategy to fight the recession, particularly for 2009. In this Plan there is on the one hand a distinction between Community and national interventions and on the other hand a distinction between cyclical and structural interventions. For the cohesion policy it is not suggested any substantial change scorecard. What is asked it is simply to accelerate the promotion of the objectives of the Lisbon Strategy, which anyway are incorporated in the guidelines of the Cohesion Policy 2007-13. For example, a cohesion policy is called through the acceleration process and some increase in resources to support actions in the areas of employment, because of the cyclical rise in unemployment, entrepreneurship, due to difficulties in financing SMEs, infrastructure, energy, research and innovation. The last two steps give great emphasis on the energy networks, energy efficiency and green technology because of the comparatively large EU needs, but also because of the problem of climate change. In conclusion, the EU policy in order to tackle the current economic crisis did not cause any significant change in the hierarchy of objectives and priorities of the programming period 2007-13. Of course, in the potential for a less time-consuming process of revising

their operational programs, Member States may alter goals and priorities for tackling the crisis.

For the new cohesion policy of 2014-2020, the configuration of which has already begun, the Commission in its fifth report on economic, social and territorial cohesion, suggests, the proclamation of the proposed objectives of the Strategy "Europe 2020" and the objectives of cohesion policy. These objectives are not directly linked to the economic crisis; rather, they reflect the established concept of the European Commission for a top-down design of European regional policy, expressing an arrogant perception of better understanding the development potential of regions of the Union by EU bureaucracy and re degeneration of European regional policy in leveling development priorities and themes.

Also, the priorities of the strategy "Europe 2020" reflect the development priorities of the north countries of the Community and not necessarily those of the south Community.

It is worth noting that the conclusions of the General Affairs Council make no reference to the crisis, nor the relationship between crisis and European cohesion policy. The crisis is in the form of recession, despite the apparent exceeded in some Nordic countries, that will continue for many years as a sovereign debt crisis and the recession as the traditional medium of the cohesion countries (eg Greece, Ireland, Portugal, Spain and Italy), but also in many new Member States. For this reason, this dimension should take into account the objectives and priorities of the new programming period, both at Community (eg eligibility of convergence zones to be extended to a specific target "areas in crisis") and national level.

### **The connection of the fiscal policy discipline and cohesion policy**

The relationship between fiscal policy discipline and cohesion policy has mainly two dimensions.

On the one hand the application of discipline leads to a reduction in government spending and increase tax revenues. Therefore, the resources are limited in order to pursue the national component of regional policy and co-financing of projects of the OP, shrinking liquidity in the economy with negative consequences to leverage private resources, reduced demand and investment and direct foreign investments. In other words, it is difficult to support regional economies for real convergence.

On the other hand, a connection with budgetary discipline on sanctions against cohesion policy would be detrimental to the targeting of which is to reduce the development gap and the balanced development of the community. It is correct the position that argues that the structural changes and reforms, namely the macroeconomic conditions and the institutional and investment environment in each country directly affects the effectiveness of cohesion policy. The question that arises is whether the regions should be invited to be punished for mistakes and omissions of the central government, while already punished by the real negative effects on regional policy and regional development. Therefore, if the sanctions would have the paradox of a double "punishment" of the regions in the countries that are under surveillance by strengthening trend divergence instead of convergence. In order to overcome this problem consistent with the goals and institutional commitments of cohesion policy, a solution would be the

full decoupling between policies and fiscal discipline of European regional policy. Even more appropriate would be the additional direct support for regional governments, because of problems of the central level and because of the negative impact of fiscal adjustment in their development.

With the beginning of the crisis and because of the likely effects of recession, cohesion policy is proclaimed as an important arm of the European policy to deal with the crisis. It is no coincidence that the European plan for economic Recovery is based on three financial instruments; the increase of public expenditure from the Member States (EUR 170 billion for 2009), an increase in average intervention of EU and EIB and cohesion policy . The political cohesion was identified as a counterweight to reduce national and private funding of regional development. However, the polar cohesion of 2007-2013 designed and agreed before the onset of economic crisis during a period when the EU and its Member Countries, especially the poorest, were experiencing high growth rates. For instance, in 2006, the average growth rate of the EU was 3.2%. With regard to individual countries, GDP growth in 2006 were: Germany 3.4%, France 2.2%, UK 2.8%, Netherlands 3.4%, Austria 3.6%, Sweden 4.3% Italy 2.0% Spain 4.0%, Ireland 5.3%, Greece 4.5%, Portugal 1.4%, Poland 6.2% and 4.4% for Finland. On the basis of growth and then the positive expectations, it was formed a framework of medium-term financial prospects of the EU and the objectives and instruments of Cohesion Policy for 2007-13. Therefore, the negative development in all EU countries (except Poland) in 2009, led the EU in some changes to the policy coherence. As already mentioned, there has been no change in goals and priorities. As emphasized by the European Commission, the objectives of cohesion policy and guidelines on cohesion and employment were compatible with policies to address the problems caused by the crisis in the regions of Europe. However, in order to improve the rapid absorption of resources and, wherever it was possible to increase the existence of these resources, the Commission and the Council of the EU have proceeded on the one hand in modifications of the Regulations for the Structural Funds and on the other hand, they have increased the resources of EIB and of some community initiatives.

In details, the activation of the cohesion policy in order to tackle the crisis, led to the following:

- Amendments to existing regulations (2006) for accelerating the absorption and simplification of planning and programs' management.

The Council on the initiative of the Commission proceeded to modifications of the General Rules and Regulations for the ERDF and the ESF (see Table), to make cohesion policy more effective in addressing the crisis. The main changes were:

- Increasing the level of payments for operational programs, especially for countries with a large fall in GDP and large fiscal problems. (The first 3 years were granted a total of 30 cm, or 8% of total resources for structural policy advances).
- Extending the length of programs for the period 2000-6 (385 to 555 programs were extended).
- The release by the rule  $n + 2 / 3$  of the 2007 commitments.

- Increasing the limit to 50 cm for designation as major projects and environmental projects, to no cost-benefit studies and promoted faster.
- Immediate start spending projects by Member States, without prior Commission approval.
- The possibility of funding a large national (super regional) project from different IPs.
- Changing the setting for the revenue-generating projects: projects were excluded from the ESF and the ceiling rose from 200,000 to 1 million Euros.
- Reducing time to monitor the revenue from a project 3 years 15 months from the closure of the OP, ie latest by 31.3.2017.
- Simplification of the costs of a fixed calculation of indirect costs, for simplicity, speed, etc. (flat rate costs).
- To promote green investment: In each Member State, expenditure on energy efficiency improvements and use of renewable energy in existing homes are eligible up to 4% of the total ERDF allocation.
- The eligibility of costs for use of financial engineering.
- The possibility of revising the plans without prior interim evaluation.

These changes should not have a limited duration, as the crisis continues to affect developing countries of the Community Region. It should also be included in the arrangements of the following programming period.

### **Amendments to the Structural Funds Regulations**

18/12/2008	REGULATION (EC) No 1341/2008 OF THE COUNCIL to amend the Regulation (EC) No 1083/2006 for the European Regional Development Fund, European Social Fund and the Cohesion Fund for certain revenue-generating projects
7 /4/2009	REGULATION (EC) No 284/2009 OF THE COUNCIL amending Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, European Social Fund and the Cohesion Fund concerning certain provisions relating to the financial management
6/5/2009	REGULATION (EC) No 396/2009 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL to amend the Regulation (EC) No 1081/2006 on the European Social Fund to extend the types of costs eligible for a contribution from the ESF
6/5/2009	REGULATION (EC) No 397/2009 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL to amend the Regulation (EC) No 1080/2006 on the European Regional Development Fund as regards the eligibility of energy efficiency and renewable energy in housing
1/9/2009	REGULATION (EC) No 846/2009 COMMISSION, amending Regulation (EC) No 1828/2006 laying down rules for implementing Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European

	Parliament and the Council on the European Regional Development Fund
19/5/2010	REGULATION (EC) No 437/2010 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL to amend the Regulation (EC) No 1080/2006 for the European Regional Development Fund as regards the eligibility of housing interventions for marginalized communities
16/6/2010	REGULATION (EC) No 539/2010 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, European Social Fund and the Cohesion Fund on the simplification of certain requirements, and on certain provisions relating to financial management

- The expansion of financial instruments in favor of regions and enterprises.

To enhance liquidity in the affected regions, besides the above settings, the EU and some EU institutions have proceeded to some additional actions, such as:

- The relaxation of rules on state aid (aid was authorized for business by 500 thousand Euros for 2 years, government guarantees, subsidies, loans especially in the production of green products, assistance in risky funds up to 2.5 cm for SMEs when at least 30% comes from a private investor).

- The increase of EIB lending to participate in the financing of the Structural Funds, loans and guarantees etc. So, in 2009 the Bank increased its lending under the European Plan for Economic Recovery in 79 billion. 37% or 29 billion was channeled to the regions of convergence (from 21 bn in 2008).

- Activated and expanded the Community initiatives JASPERS, JESSICA, JEREMIE and JASMINE. For instance, the resources of JASPERS initiative were increased by 25%.

- The possibility of direct contract with the EIB and EIF to facilitate and accelerate the financing of investments. In subsequent years the Bank intends to focus its lending on firms, sectors and regions that have been mostly affected by the crisis, such as the media, investments to tackle climate change and convergence in the regions.

Most of these changes and EU interventions have a limited time horizon, and some have already expired. The countries of central and northern Europe that have been in recovery path, they want to believe that cohesion policy has fulfilled its mission to address the impact of the crisis in the Community regions. The countries with the most convergence regions are excluded.

The exit from the crisis will take several years even in the countries of the Mediterranean south and east and southeastern Europe. It is therefore essential that these efforts be maintained during the current and the next programming period.



## **Direct impacts of the crisis in the national regional development policy**

The crisis of our country is predominantly a crisis of excessive budget deficits and debt. The reduction in these figures and the resulting strong recession put the implementation of the developmental strategy and the current program to test the NSRF. Already the country in order to receive public assistance from the rest countries of the euro zone and the International Monetary Fund, has applied under the Memorandum, a broad program of fiscal consolidation and structural adjustment. Both strands of the program of adjustment create new measures for the NSRF and for the regional development of the country. In particular, fiscal adjustment, among others, means:

- Reduction of government consumption expenditures and government grants and thereby reduction of the total domestic demand, with negative consequences for the evolution of GDP and the positive current account balance. Coupled with the decline in private consumption and gross total investment expected strong recession in 2011 (-3.0 of GDP) and a strong increase in unemployment (see Table).
- Reduction in public investment, with negative consequences for the country's total investments. Already in 2011 the budget for public investment in 2011 is reduced by 900 million euros versus 2010 (8.5 billion in 2011 versus 9.4 billion in 2010). According to the Third Review of the Memorandum, in 2012 there will be a further cut in the domestic funding for investments worth 500 million euros (Memorandum page 29). According to recent estimates of the Memorandum, the gross public investment will decline until 2012 and, while below 2010 levels and well below the 2009 levels until 2014 (see Table).

On the other hand, the Memorandum contains a series of structural measures to increase flexibility and efficiency of the state, to reduce waste and mismanagement in a variety of areas (eg health, security, public enterprises, local authorities) for reforming the public sector, reforms in education, the economic environment and entrepreneurship, to enhance competitiveness, etc. with long-term positive effects on the general framework of economic development. The completion of these changes could create positive conditions for the development strategy of the NSRF and regional development.

The overall framework of national and regional development has changed, however, significantly (negatively) affected by the crisis but also due to other exogenous developments. The most important of these developments are the following:

- The limitation of banks' liquidity and reduced financing for consumption and investment, while increasing lending rates.
- The flight of capital from the country because of insecurity of depositors and speculation.
- Drastic reduction of capital inflows for foreign direct investment and loans.
- The decrease in demand in some countries of destination Greek exports (eg Balkan countries, Italy).

- The decrease in revenues from tourism because of reduced income or reduced expenditure in many countries of origin of visitors.
- The domestic social unrest, with negative consequences for the environment and the general attractiveness of the country.
- The intensification of social problems like unemployment, economic and social exclusion and poverty.
- The external shocks have a negative impact on growth, inflation and growth prospects of our country's exports such as soaring oil prices and the crisis in the Arab countries of North Africa and Middle East (but with potential positive impact in Greek tourism).

### Macro-economic forecasts

	2009	2010	2011	2012	2013	2014
GDP (at market prices, annual change)	-2,0	-4,5	-3.0	1.1	2.1	2.1
Final domestic demand (annual change)	-2.0	-7.1	-5.7	-1.0	0.8	1.0
Gross investment (annual rate)	-10.4	-17.4	-7.5	-2.6	1.1	1.2
Exports of goods and services (annual change)	-18.3	-0.3	6.4	6.0	7.2	6.7
Unemployment (annual change)	24.7	34.8	21.3	1.3	-3.5	-5.2
Gross public investments(%of GDP)	3.38	2.70	2.65	2.35	2.47	2.45
budget deficit General government balance (% of GDP)	-15.4	-9.6	-7.6	-6.5	-4.8	-2.6

Source: European Commission (2011), *The Economic Adjustment Program for Greece third review – winter 2011*, European Economy, Occasional Papers 77

The new data raise questions about the validity of the developmental strategy of the NSRF, the feasibility of OPs and its effectiveness. It also raised questions about the new threats and new dynamics that can be deployed to regional economies due to the crisis.

A brief attempt follows, in order to answer the above questions.

### Effects of the new environment in the validity of the NSRF

The NSRF was designed and adopted well before the outbreak of the crisis (2005-6). Therefore, the environment of that period was very different. The development strategy of the NSRF is reflected in:

*"The goal is to broaden the development possibilities of the country, maintaining the pace of economic growth and productivity growth at levels above the EU average to stimulate employment, to achieve real convergence and improve the quality of life for all citizens without*

*exclusions. A country like Greece in the new period 2007-2013 aims at becoming an outward-looking country with a strong international presence with competitive and productive economy. A country, giving emphasis on education and young people, quality, technology and innovation, respect for the environment. "*

The strategy of the NSRF is developmental, ie a long process of changing all the terms and conditions of the economy and society. This is not a tool of cyclical economic policy. Consequently, for the most part the above strategic objective of NSRF would be maintained. It should however be modified to the point that refers to "maintaining the pace of economic growth" with phrases such as "restoring the country's fast economic growth" or "reversing the recession and the country's return to positive growth rates." Also, greater emphasis could be given to issues such as structural adjustments and address the issue of unemployment. Due to changes in the current environment might be a deliberate adaptation of SWOT analysis of the NSRF:

### The changes in the SWOT analysis of NSRF

<b>STRENGTHS</b>	<b>COMMENTS</b>
<ul style="list-style-type: none"> <li>- High rates of economic growth.</li> <li>- Stabilized macroeconomic environment.</li> <li>- More than the EU average propensity to entrepreneurship.</li> <li>- The existence of informal networks of social cohesion that mitigate the risk of poverty and social exclusion.</li> <li>- High cost of health.</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable. Since 2009, negative rates, strong recession</li> <li>- Not applicable. Unstable and uncertain macroeconomic environment.</li> <li>- Reverse voltage due to crisis</li> <li>- The sharp rise in unemployment and poverty is doubtful whether they can be addressed by these networks</li> <li>- Proved largely ineffective and fictitious because corruption and wastefulness</li> </ul>
<b>WEAKNESS</b>	<b>COMMENTS</b>
<ul style="list-style-type: none"> <li>- Below the EU average GDP per capita.</li> <li>- Low performance in attracting foreign direct investment (FDI).</li> <li>- Low rate of job creation.</li> </ul>	<ul style="list-style-type: none"> <li>- Tendency for strong divergence instead of convergence of the Greek GDP per capita</li> <li>- Almost zero FDI due to the Greek crisis</li> <li>- Dramatic increase in unemployment and reduction in new positions in public and private sector</li> <li>- Drastically cut public spending and investment</li> <li>- Falling GDP, investment, demand and employment</li> <li>- A negative international image of the country</li> </ul>
<b>OPPORTUNITIES</b>	<b>COMMENTS</b>
<ul style="list-style-type: none"> <li>Upgrading of markets in the Balkan hinterland after the 2007 enlargement.</li> <li>- Rising living standards and growing demand internationally for quality products and services.</li> <li>- Further access of Greek exports in</li> </ul>	<ul style="list-style-type: none"> <li>- Reducing opportunities as a result of economic crisis</li> <li>- Slowdown in international demand</li> <li>- Political and economic crisis in the Middle East and North Africa aside for the immediate future,</li> </ul>

new developing areas (Middle East, North Africa)	the opportunity for growth opportunities from structural interventions Memorandum
<b>THREATS</b>	<b>COMMENTS</b>
<ul style="list-style-type: none"> <li>- Escaping domestic capital in other countries due to difficulties in the development of investments in Greece.</li> <li>- Increasing the brain drain of high-level overseas.</li> <li>- Illegal migration &amp; trafficking of people who threaten the resilience of the welfare system, particularly in remote areas.</li> </ul>	<ul style="list-style-type: none"> <li>- Mass exodus of capital that banks and bankruptcy risks of public</li> <li>- The threat is reinforced by the crisis and the brain tends to involve more young</li> <li>- A growing threat to urban centers with strong political and social dimensions and great risks for social cohesion</li> <li>- Risk of bankruptcy of the country</li> </ul>

Despite the crisis and the new negative environment the thematic priorities of the NSRF probably are still valid. For Greece's exit from the current recession and to address its competitive disadvantage, it is deemed necessary to increase exports, increase foreign direct investment and to increase the overall national savings. For this reason, efforts are needed to improve the competitiveness of domestic factors such as prices, wages and non-price factors of competitiveness. Only then the problem of the second large deficit of the country will be tackled, that is considered as the international competitiveness timeless deficit and current account. This could include a new thematic priority be given to improving all factors that determine the competitiveness of our country and to increase openness, although to some extent included in the impact of the crisis operational feasibility of the NSRF.

A crisis in the scope of this Greek crisis, it stands to affect the implementation of a development program such as ESPA, because of the violence on fiscal and structural adjustment. For example, the reduction in public investment could adversely affect the interests of national funding for projects and assistance from the OP. The same applies to those projects (eg strengthening of private investment) targeted at private parties and other private entities, and for projects with expected revenues due to the reduction of bank funding and liquidity problems faced by most companies. Also, the pressing problem of handling the multiple effects of the crisis is likely to lead to a shift in priorities of economic policy at the expense of achieving the objectives of the NSRF. Current progress of NSRF indicates that there were fundamental changes. In contrast, the rapid use of the resources of the NSRF, despite the tight financial margins, has been awarded a key pillar for tackling recession and the growth of the Greek economy. Thus, integration projects, the legal commitment of resources and to absorb so far show that the overall implementation of the NSRF is satisfactory and comparable to other EU countries and in the course of 2000-2006. In this direction contributed modifications of the Community Regulations (see above) and the intervention of the Greek government to simplify administrative procedures. However, it is possible to accelerate both the capture and absorption of certain sectoral and regional operational programs which exhibit hysteresis (eg Administrative Reform OP, OP Environment and Sustainable Development, Digital Convergence OP, OP Human Resources Development, OP Education and Lifelong Learning, ROP ROP of Attica and the Peloponnese, Western Greece, Ionian Islands).

Noted that increasing the absorption of Structural Funds is included in the Memorandum, this provides additional assurance of proper implementation. For example, the memorandum includes measures to increase absorption through accelerations award contracts, land expropriation, licensing by the Central Archaeological Council and approval of environmental terms, recognizing one of the pathologies in the absorption of funds is the lack of comprehensive studies. In addition, for monitoring progress absorption Memorandum sets specific targets, management adequacy of beneficiaries and submitting to the Commission from Greece 5 major projects per semester and overall objectives of the NSRF, who continue to be sustained .

### **Quantitative objectives of the Memorandum for the NSRF**

	2010	2011	2012	2013
ERDF and Cohesion Fund	Goal: 2.330,0 Result: 2.372,4	2.600	2.850	3.000
ECB	Goal: 420,0 Result: 447,6	750	880	890
Goal of A semester		1.105	1.231	1.284
Goal of B semester		2.245	2.499	2.606
Annual goal in total	Goal: 2.750 Result: 2.820	3.350	3.730	3.890

### **Estimates of the impact of the crisis in the overall efficiency of the NSRF**

The effectiveness of the NSRF is dependent on many factors such as internal reception conditions and the general economic climate, the multiplier effects of investment, the increased private investment by leveraging private capital, the increase in the competitiveness factors, its contribution to productivity growth, the improvement in quality of life conditions, etc. The assessment of the effectiveness of cohesion policy is a project with too many methodological difficulties. Regarding the overall contribution to economic growth, it should not overestimate the impact; given that the annual costs in our country is about the order of 1.2% - 2% of GDP, given that a large proportion of these expenditure returns abroad in the form of imports of goods and services. Although there are the results of interim evaluations and specific scientific research is likely that the crisis in the country to have some negative impact on the effectiveness of implementation of the NSRF, OP, for reasons such as:

- Negative general economic climate and reduction of business activity.
- Reduce the possibility of leveraging private capital.
- Investment decisions because Incorrect price distortion and different sectoral dynamics.
- Mitigation of multiplier effects through reduced consumption and the expected growth of savings behavior.
- Increase in imports of capital goods due to the crisis of the corresponding Greek industry.

- Increased payments to foreign construction companies because of the Greek crisis, mainly due to the strong reduction of their funding from banks and delays in payments from the State.
- Decrease due to additional works to reduce the investment arm of the National Budget.
- Possible increase pressure on the 'soft programs with the strongest consumer item and a direct impact on demand at the expense of" hard
- . Moreover, the effectiveness in achieving the basic objective of regional convergence can be reduced or it can be the strength of the deviation due to effects opposing forces of the market.

First is absolutely fair to note that the crisis has different effects in different regions. The individual regional economies differ in size, competitiveness, economic and social structures, the quantity and quality of inputs, the degree of openness, the system of regional governance, culture, demographic structure, manpower, geographic location, level of development and innovation, etc. In general, the regional impacts of crises are expected to be comparatively stronger in regions:

- With a strong export orientation, ie with a large participation of exported goods in the total regional production due to reduced global demand and international trade (eg Attica and Central Macedonia).
- With a high percentage of industrial products, especially industrial investment goods (eg machinery, metal products), intermediate products (eg components for the automotive, chemical raw materials), duration of industrial consumer goods (eg electrical and electronics, furniture) and transport (eg motor vehicle industry, shipbuilding, aviation industry).
- With previous high level of construction activity (eg housing) and they have strong industry and marketing building materials.
- With dependence on tourism and recreation, and other special categories of services such as consulting, advertising, technical, transport, marketing, IT and communications, financial, etc.
- With dependence on foreign direct investment, international subcontracting and outsourcing.
- With dependence international transport and transit services (eg port cities)
- By relying heavily on a limited number of industries with an international orientation.
- With low level of development, structural problems and limited funding opportunities supporting structures of firms and workers.

These assumptions are verified by relevant empirical research conducted by the Assembly of European Regions (Assembly of European Regions, AER) in 24 regions in 13 European countries in May 2009 (AER 2009). Furthermore, there were common problems such as rising unemployment, reduced demand and investment, reduce funding for SMEs and households etc. For Greece, the expected results relevant study commissioned by the Ministry of Regional Development and Competitiveness to be conclusive.

## **Regional disparities in development times and in times of crisis**

If you follow (in broad terms, of course) the neo-classical proposal, a period of crisis or recession or stagnation, it would be characterized by apparent rearrangements between regions within the national domain. On the other hand, a time of widespread development would (assuming that they removed the various "slag" or "structural weaknesses" but which logically and according to theory should have been eliminated) in reducing imbalances.

In the case of the European economic area, such a result in accordance with all the analyses<sup>1</sup> did not take place while all scenarios "territorial cohesion"<sup>2</sup> show strong divergence tendencies rather than convergence.

In the case of continuation of current trends and implementing the same policies, the consequences for negative, while under the assumption that a stronger political conscripted "Cohesion", the consequences for not only tragic or slightly positive, the central element of all forecasts are The trend towards concentration.

To the extent that the creation of the Economic and Monetary Union economic area converts each country - member of the EU-15 "regional" economic space (with the adoption of a common currency and fiscal discipline is a necessary condition and complete the "Single Market"), completed theoretically the free movement of factors of production and therefore would be expected to benefit all homogenization of economic space and Dearing 'convergence', albeit gradually. But obviously, under full liberalization (as in the Eurozone), always favored "national" economy has (either historically or because they took advantage of the opportunities offered recently) to complete initial endowment of capital, innovation, human resources and geo-financial position<sup>3</sup>.

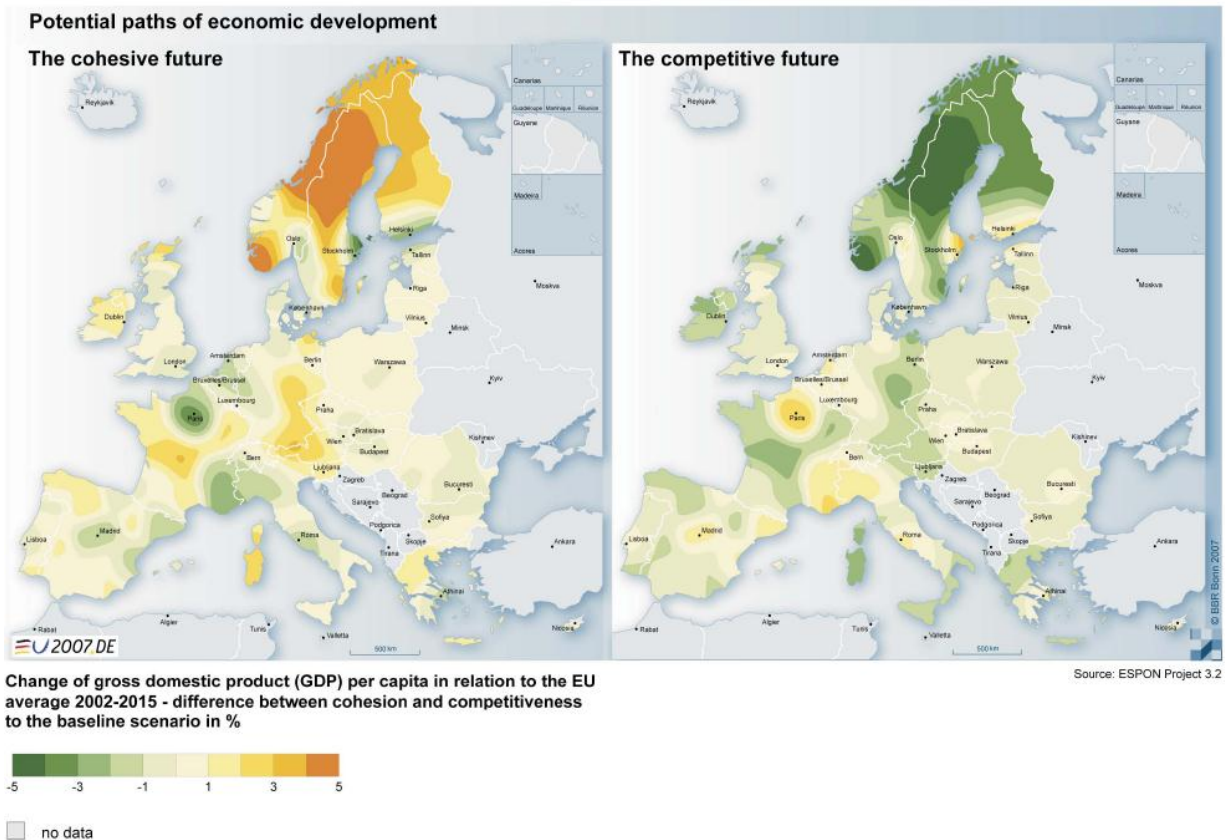
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<sup>1</sup> see EC, Labour Asociados S.L.L., *Analysis of the impact of Community Policies on Regional Cohesion*, EC, 2003.

<sup>2</sup> see ESPON, *Scenarios on the territorial future of Europe*, 2007.

<sup>3</sup> Position that was adopted in the 1<sup>st</sup> Cohesion exhibition of the European Commission but was later "forgotten" , see. EC, DG Regio, 1<sup>st</sup> Cohesion Report, 1996

## Cohesive regions scenarios<sup>4</sup>



If you make an attempt to investigate the phenomenon in the Greek area, based only imperfect indicator of per capita GDP in each region compared to the national average (see next chart), the data is worth noting the following:

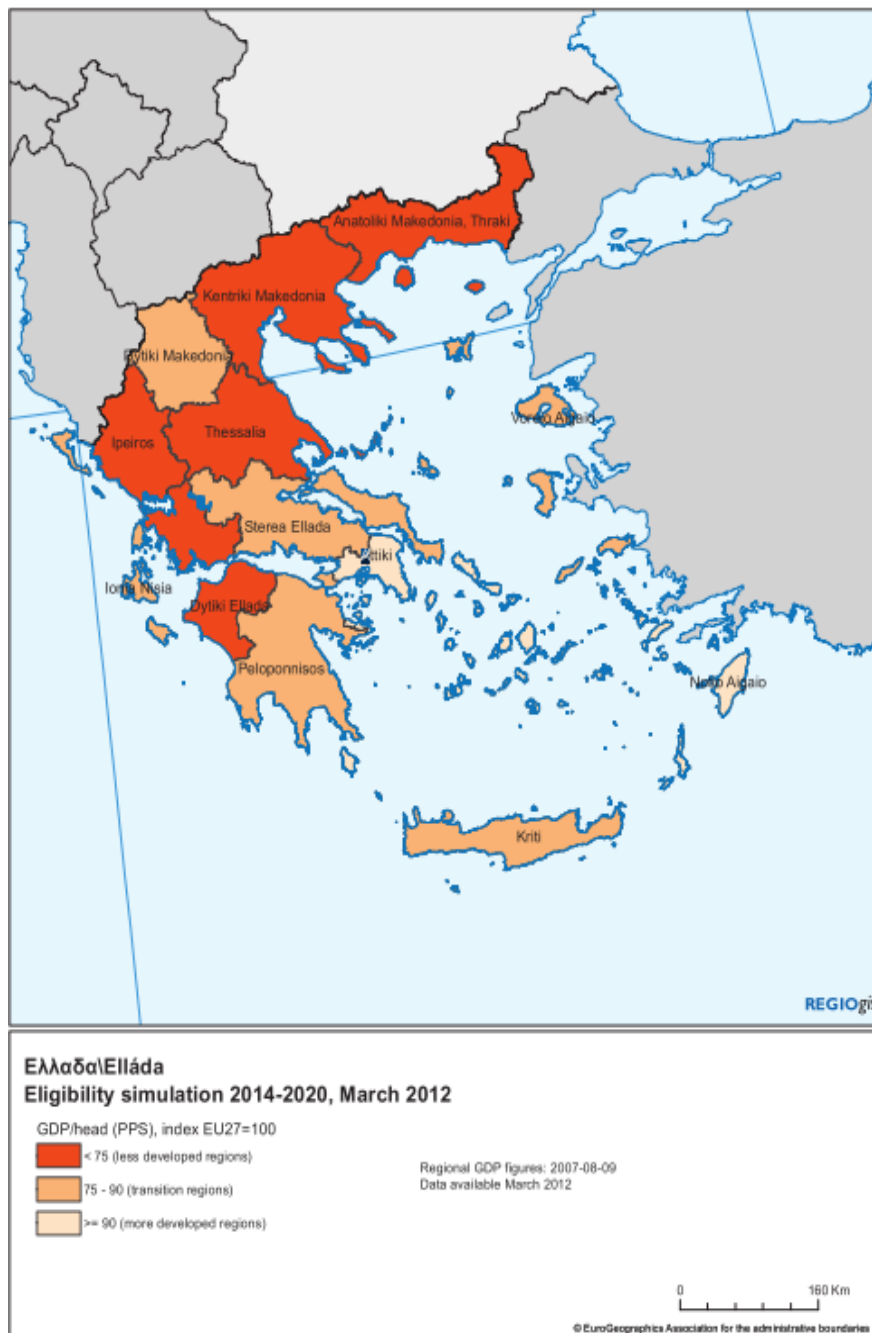
- The concentration trend in formation + Attica Central Greece does not go away
- Any "flashes" appear in some regions nearly all in a short time (two years - three years) recede
- Since 2000 (in which case the new method of calculating GDP, taking into account the production economy), the leader of Athens explodes
- The route follows a significant upward to very significant downward trend (eg, Central Greece, South Aegean, Central Macedonia), and most regions show a general trend of light "convergence" or a stagnation in the period of "crisis" (1975-1993) usually continues towards "recovery" without much inflection
- The recovery in GDP growth in the country after 1995 essentially followed only by the curve of Attica (continuously), Central Greece, North and South Aegean (up to the revision of GDP).

<sup>4</sup> *Maps on European territorial development*, A contribution of the German Presidency to the Informal Ministerial Meeting on Urban Development and Territorial Cohesion, 2007.



The analysis is still incomplete so they can be documented in specific positions. At this time (a) contradicts the widespread perception that in Greece (in contrast to other EU-15) are inter-regional disparities are small and (b) indicates that within the national domain, the crisis does not play automatically a specific spatial configuration.

### Eligibility Simulation for Greek Regions



### Conclusions – Policy Recommendations

Due to the economic crisis in Greece the European Cohesion Policy is of crucial importance for recovery and the creation of new work positions. For

the current programming period 2007-2013 the allocated funds must be properly used. The following programming period 2014-2020 is much more important because Greece will have to give much more effort in order to regain its development dynamics. The 2007-2009 reference period for the calculation of the development levels of European Regions does not reflect the ongoing reality, (e.e. recession. -3,5% in 2010, -6,9 in 2011, -4,7 in 2012, 0,0% in 2013, unemployment 17,7% in 2011, 19,7% in 2012 and 19,6% to 2013). This has as a result that many Greek Regions have moved from Cohesion Goal to Transition Goal, despite the fact that most Regions have diverged from average development levels.

So the Greek Negotiation Strategy should focus on:

- The revision of the calculation method of the development levels due to economic crisis.
- The planning and implementation of regional operational programs aiming at the enhancement of regional comparative advantages and not at the EU 2020 Strategy provisions.
- Avoiding the macroeconomic conditionality, by not calculating the public spending on regional policy in the deficit and debt estimates.

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