A two-pronged investment strategy for sustainable development

Louka T. Katseli, Professor of Economics at the National and Kapodistrian University of Athens and Chair of the Board, NBG Cyprus

The Greek economy is at a critical juncture. After a severe loss of output that has exceeded 25% of its GDP since 2010, a reduction in gross capital formation of 12 percentage points of GDP and a dramatic rise in the unemployment rate, GDP is expected to grow by 1.6% in 2017 and by 2.5% in 2018.

Private investment and private consumption are expected to be the main drivers of growth, supported by an increase in employment and the improvement of business and consumer confidence. Net exports are also expected to contribute positively to growth since the improvement in export performance, tourist receipts and the service balance are expected to counterbalance the foreseen increase in imports.

Despite these positive developments, there are a number of challenges ahead which entail risks that contribute to the prolongation of uncertainty and affect negatively the business climate and investment prospects. These challenges are related to a number of internal and external factors that include:

- The timely conclusion of the third review and the completion of the third Financial Assistance Programme by August 2018, including the implementation of all structural measures envisaged in the Programme,
- The smooth and successful return to international markets after the end of the Programme in August 2018 and the lifting of capital controls,
- The conclusion of negotiations to restructure public debt so as to make it sustainable and lower the burden of future debt repayments,
- The timely and effective management of non-performing loans by the banking system so as to lower provisions, channel liquidity to the real economy, spur investment and avoid a fourth recapitalisation of the Greek banks,
- The maintenance of peace and the timely resolution of geopolitical disputes in the region so as to mitigate tensions and lower the probability of a new refugee crisis.

The above are necessary but not sufficient conditions for Greece to avoid future crises and promote a sustainable development path. To do so, the country needs to engage in an economic, technological and social transformation driven by new investment in its tradable sectors. It has been estimated that approximately 100 billion euros need to be invested over the next ten years for Greece to return to the pre-crisis ratio of investment to GDP (approximately 23%). Given the negative rate of domestic private saving and the foreseen magnitude of attainable net public saving (approximately 3.5% of GDP), new investment needs to be financed by foreign saving and repatriation of domestic capital from abroad. For this to happen without a new sovereign debt crisis, *a two-pronged strategy needs to be promoted to mobilise investment and improve its composition and quality*. The first goal can be achieved through adoption of an ambitious reform agenda to enhance the stability and simplicity of the tax licensing and regulatory systems, to reduce the costs of doing business, to speed-up resolution of disputes by courts, to strengthen property rights and competition, and to establish a credible process for the effective and speedy restructuring of non-performing exposures (NPE) and over-indebted enterprises. To ensure sustainability, the composition and quality of investment needs to be improved. Investing in quality means investing in competitive export-oriented sectors, higher value-added activities, ICT technology and clusters that are part of regional and global value chains supported by appropriate infrastructure and business services. Such strategic investment agenda can be implemented only through a proactive partnership between the public, private and financial sectors. Leadership is needed for this to happen.