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Greece made largest fiscal adjustment, says EU paper published 'by mistake'

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Brussels - Greece performed the largest fiscal adjustment in the eurozone between 2011 and 2013, according to a research paper by the European Commission’s Directorate-General for Economic and Financial Affairs, which was apparently published by mistake on Monday.

The paper, which examines the systemic impact of deficit reduction programs, was taken down from DG ECFIN’s site and Twitter account a few hours after being published but Kathimerini has a copy of the study and proof that it was published.

A Commission spokesman told Kathimerini that the paper was a draft and had been published “by mistake”. He added that the study would be published “in the coming weeks” and that research papers “don’t represent Commission positions.”

The study, titled “Fiscal consolidations and spillovers in the euro area periphery and core” says that: “By far the largest fiscal consolidations have taken place in Greece, 9 percent of GDP on the basis of the change in the structural balance over these three years.”

“Portugal has also undertaken large consolidations, close to 7 percent of GDP, while the adjustment in Ireland amounted to 4 percent over these years,” adds author Jan in ‘t Veld.

The basic academic conclusion of the paper is that the simultaneous adoption of adjustment programs in the eurozone made it more difficult for periphery countries, like Greece, to achieve fiscal balance and regain competitiveness.

“Spillovers from consolidations in Germany and core euro area have worsened the overall economic situation. A temporary fiscal stimulus in surplus countries can boost output and help reduce their current account surpluses,” the author argues in his abstract.

Even though Greece’s current account balance improved by 2.3 percent of GDP during the period in question, Germany’s also improved by 0.6 percent, meaning that Germany essentially continued to compete against the eurozone periphery and pile pressure on the already struggling economies of the south.

The projections in the research paper suggest that the contraction of Greece’s economy would have been 2 percent smaller during the last three years if fiscal adjustment programs were not applied at the same time throughout the eurozone.

The negative impact of these programs on fiscal multipliers is most pronounced in Italy and then Greece, with a factor of 0.9. The author says the impact would have been smaller if the adjustment programs focussed more on revenues rather than spending.