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Assessing the impact of austerity in the Greek economy: A sectoral balances approach

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Abstract. The principal goal of the Economic Adjustment Programmes applied in Greece since 2010 was the elimination of the economy's so-called 'dual deficit problem' by a mix of austerity and internal devaluation measures. This policy prescription was originally expected to put the country's public debt back on a sustainable track and boost the competitiveness of the Greek productive sector, promoting export-led growth. Whereas the implemented policy agenda resulted in a sharp reduction in fiscal deficit and unit labour costs, Greece still faces a high creditworthiness risk, lackluster export growth and a gloomy macroeconomic outlook. The root cause of the failure could arguably be found in the detrimental impact of austerity on private sector performance and the ensuing repercussions in the aggregate economy. The paper aims at proposing an alternative context of explaining and assessing the cost of creditors' policy, pointing out the way it has undermined the quality of each sector's balance sheet and disturbed inter-sectoral linkages and interdependencies within the economy, eventually engulfing the economy as a whole in a full-blown balance sheet recession and a debt-deflation trap.