

The Macroeconomics of the Greek Depression*

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Abstract

The Greek economy has experienced three distinct phases in the past 20 years: a boom from 1999 to 2007, a crash from 2007 to 2012, and a flattening from 2012 to 2017. We explore these dynamics using a quantitative model of a two-sector small open economy with nominal frictions, collateral constraints, and endogenous utilization. We first evaluate the roles of shocks to productivity, financial conditions, fiscal policy, external demand, and disaster risk in contributing to the cycle. We then ask whether counterfactual policies such as an unexpected devaluation or an alternative mix of fiscal adjustments could have facilitated the recovery.

JEL-Codes: E44, E62, F45, G01.

Keywords: Greek Depression, devaluation, fiscal policy.

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