

Where is the credit crunch in Greece?

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Greek policy-makers like to make the point that their economy cannot recover because of a lack of credit. The argument that a lack of credit is among the root causes of the continuing recession in Greece is applied to exports, in particular, whose growth has been disappointing. Austerity is an easy explanation for the weakness of domestic demand, but it is more difficult to explain why Greek exports have stagnated in recent years, even though wages have fallen by over 20%. Greek exporters have thus become much more competitive and should have been able to increase their export sales. But this has not been the case. Greek exports (if calculated on a proper value-added basis) are barely higher now than just before the crisis. This is surprising, because Portugal – another programme country with a similar income per capita – has been able to increase its exports by over 30%, although wages in that country have not fallen. The only explanation that might fit this observation is that Greek exporters were starved of credit, whether for working capital or for investment in new exporting activities.

The macro-data does not fit this facile explanation, however. Overall, credit has not really fallen, at least relative to GDP, and interest rates on loans to non-financial corporations did not increase during the crisis.

The thesis that a credit crunch is holding back the Greek economy should imply that overall credit has fallen, at least relative to GDP, which is a good indicator of credit demand. But this has not been the case. The ratio of overall credit (not just bank credit) to non-financial corporations as a % of GDP has actually *increased* in Greece over the last few years.

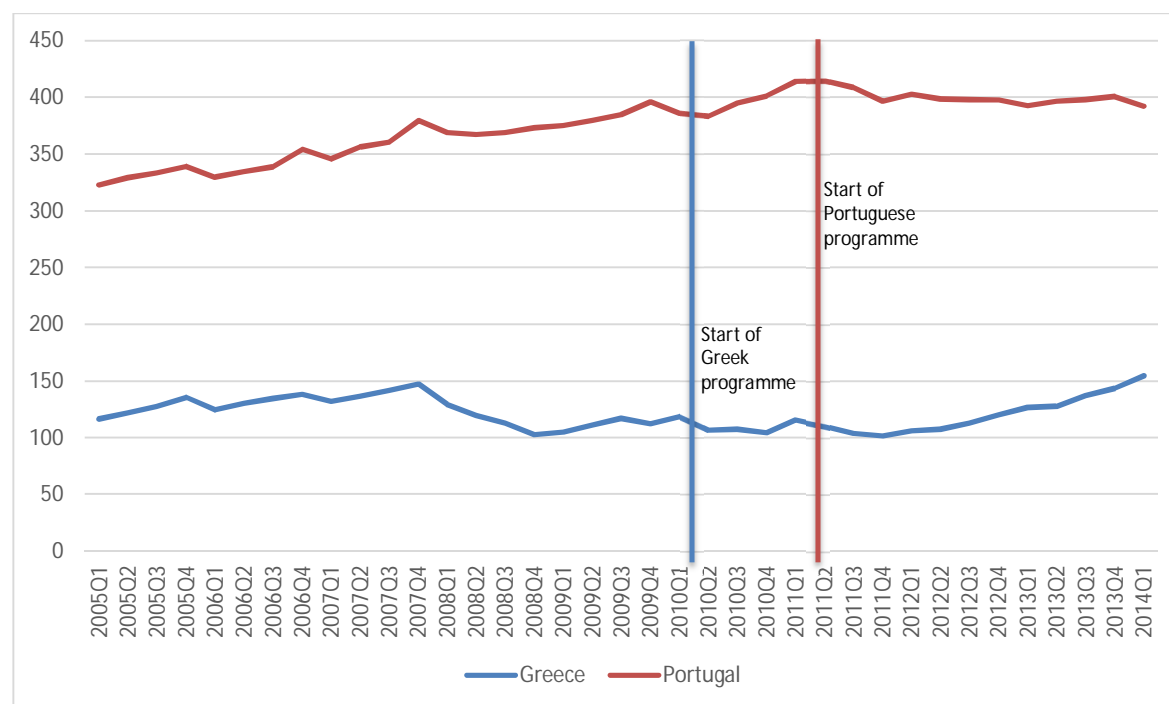
Figure 1 shows this ratio for both Greece and Portugal. It is apparent that the credit intensity of Portugal is much higher than that of Greece. A priori, one would have expected that the credit crunch associated with the bailout programme would have hit the Portuguese economy harder than the Greek one, which seems to depend less on credit. But this did not happen. Moreover, it is apparent that since the bailout programme started the 'credit intensity' of the Greek economy has actually increased, which is not compatible with an economy that cannot expand due to insufficient credit.

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Figure 1. Credit to NFC as % of GDP



Source: ECB Statistical Data Warehouse.

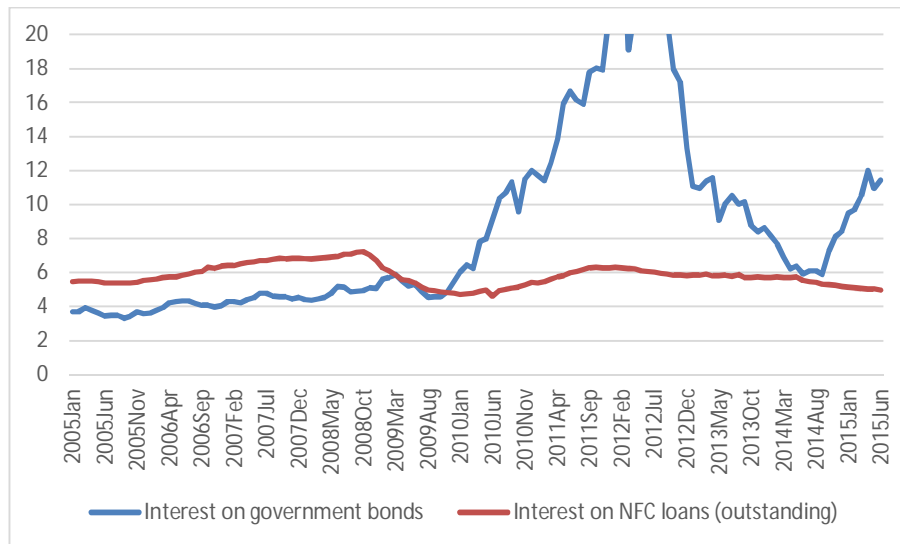
Portugal shows that a recovery is possible, even with a stagnating credit ratio. But this is not an exceptional case. It is well known a financial boom and bust is often followed by what is called a 'credit-less recovery'.¹ This happened in Portugal (with a higher credit intensity) – why not in Greece?

One explanation might be the very high-risk premia on Greek government paper that arose around the de facto default of 2012. In general, banks charge more for their loans than the amount the government has to pay on its debt. But this has not been the case in Greece since the crisis started.

Figure 2, below, shows the interest rate on government Greek government debt and the interest rates charged by Greek banks to (Greek) non-financial corporations (NFCs). The data reveals that in Greece NFCs were already paying a high interest rate (3-6%) during the boom period, demonstrating that high interest rates did not curtail credit demand while the boom was ongoing. But during the recession (and the entire bailout period) interest rates charged by banks to the domestic (non-financial) corporate sector barely increased, although government bond yields increased to double-digit rates. Domestic NFCs were thus able to (re-)finance themselves during most of this period at much lower rates than the Greek government. Even at the peak of the crisis Greek banks charged their non-financial corporate customers less than they had done before the crisis.

¹ See, for example: S. Claessens, M. Ayhan Kose, M. E. Terrones (2009), "A recovery without credit: Possible, but...", Voxeu.org, 22 May 2009 (www.voxeu.org/article/creditless-recoveries-what-do-we-know), and A. Abiad, G. Dell'Ariccia, and B. Li (2011), "What Have We Learned about Creditless Recoveries?", International Monetary Fund.

Figure 1. Interest rate, Greece



Sources: Bank of Greece and ECB Statistic Data Warehouse.

Note: The time series on interest rates on new business loans are available only for few points in time over the period considered, this is why outstanding loans are shown. Yet there is no substantial difference between the two interest rates.

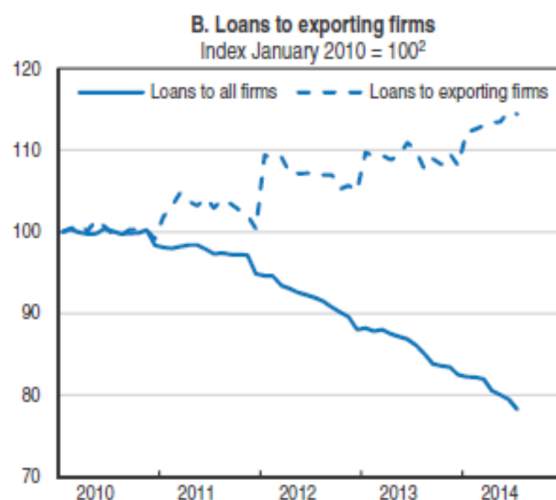
Interest rates did therefore operate as an allocation mechanism for credit and investment, at least at the macro-economic level. Non-price mechanisms, such as rationing, must have played a key role.

The overall availability of credit and the interest rates are thus not compatible with the credit crunch story. However, it is still possible that some sectors, and exports in particular, were hampered by a lack of credit, for example because banks might not have been able to redirect credit from the non-tradable to the tradable sector.

Unfortunately the data on credit to exporting firms is not separately available for Greece.

For Portugal this data exists (see Figure 3, below), and it shows that the total amount of credit to exporting firms increased by about 15%, whereas the amount of credit to non-exporting firms fell by over 20%. This shows that the banking system in Portugal was able to facilitate the adjustment by redirecting the limited amount of available credit away from non-traded activities towards exports.

Figure 2. Loans to exporting firms, Portugal



Source: OECD Economic Surveys, Portugal, 2014, Figure 5, p. 17.

This does not seem to have happened in Greece. The sparse data suggests that the allocation of bank credit did not facilitate the adjustment towards export-led growth and that even where credit was available activity did not increase.

For example, Table 1, below, shows that since 2010 (bank) credit to small and medium sized enterprises (SMEs) increased slightly, whereas credit to larger firms fell by over 40%. Given that the bulk of exports comes from larger firms this suggests that the anecdotal evidence of a credit crunch for exporters might be correct: credit to large firms was indeed curtailed massively.

Table 1. Credit to SMEs and larger firms

	Credit growth to NFC (% change)
	2010-2015
Total NFCs	-25.1
Non-SME NFCs	-41.8
SMEs	1.8

Source: Bank of Greece.

The data on credit by economic activity confirms a mixed picture.

Table 2, below, shows the growth rate of credit to different sectors. The last-but-one column shows 2015 (August) relative to 2010 (also August). The decline in credit to manufacturing was somewhat smaller than the overall decline in credit to the corporate sector, which could be taken as another sign that the credit crunch was not the main factor holding back exports (of goods). Another interesting observation is that credit to the tourism sector actually increased (slightly) during the programme years. But tourism exports did not increase much (until this year). It is thus difficult to argue that tourism exports were held back by a credit crunch.

Real estate activities represent another surprise since credit to this, relatively small, sector actually increased considerably. This is a non-tradable sector that should have been in decline.

Table 2. Growth in bank credit by economic sector

	Percentage change			Share in total
	2014-2015	2010-2015	2005-2010	2015
Total	-2.8	-20.1	77.7	100
Agriculture	-5.7	-35.5	27.1	1.8
Manufacturing, Mining and Quarrying	0.5	-15.2	39.6	26.5
Electricity, Gas and Water Supply	-1.6	6.4	121.6	6.1
Construction	-2.2	-6.7	142.6	12.9
Trade	-5.2	-29.6	65.2	23.8
Accommodation and food service activities (Tourism)	-3.7	1.3	70.3	9.5
Information and communication	-10.9	-9.2	NA	3.1
Real estate activities	-6.2	27.2	NA	5.8
Professional, scientific, technical, administrative and support activities	2.8	-9.4	NA	4.2
Other	-2.8	-60.1	143.7	6.3

Source: Bank of Greece.

All in all it is difficult to argue that the Greek economy could not recover via export-led growth because of a credit crunch. The overall availability of credit was higher than GDP, and interest rates remained relatively low. There is some indication of a misallocation of bank credit. But the responsibility for any mistakes in this direction must lie squarely with the government and the Troika, given that the Greek banking system has been under government control since 2012.