Growth after Crisis in Europe
An Interdependence of Macroeconomic and Structural Policies[+]

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Abstract

Greece, Ireland, Portugal and Spain entered a period of severe economic and financial stress in the aftermath of the 2008-9 crisis. This paper compares the recovery experience of these countries in light of recent policy debates and research on the growth impact of macroeconomic and structural reforms. It highlights, (a) the primacy of total debt, private or public, in affecting the onset of, depth of, and recovery from economic crisis; (b) that the quality of the policies adopted to stabilize economies in the short run affects growth recovery in the long run; (c) that the relationship between financial system development and growth is complex; (d) that macroeconomic policies (fiscal and monetary) are most effective in supporting growth when they take into account structural conditions and country context; and (e) that policies must be adapted to global/regional conditions. A partial, rather than holistic, approach to policymaking may neglect to influence the binding constraints to growth and, thus, slow down recovery.

Keywords: Financial crisis, European debt crisis, Greece, Ireland, Portugal, Spain, Market risk perceptions, Product complexity, Labour intensity of GDP, Fiscal consolidation, Keynesian multipliers, Expansionary consolidation, Real effective exchange rates.

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