

Governance, Growth and the Recent Economic Crisis: The Case of Greece and Cyprus

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Abstract

Greece and Cyprus are two countries that have been affected gravely by the international economic crisis. As a result both countries were cut off from the international financial markets, and resorted to rescue packages financed by the IMF, the European Commission and the ECB (known as troika). Because of the austerity programs both countries have entered a period of deep recession. In this paper we argue that the length of the adjustment period does not depend only on the severity of the adjustment measures, but also on the quality of institutions and governance mechanisms of the two countries. On the basis of well accepted indicators for the quality of institutions and public governance, we argue that the shorter period of recession in Cyprus is due not only to the less severe policies imposed by troika, but also to the higher quality of its institutions and governance mechanisms.

Keywords: Governance, institutions, economic crisis, Greece, Cyprus.

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