CHAPTER 8

The Risk Scenario Analysis

8.1 INTRODUCTION

In any strategic planning it is critical to be able to identify the risks lurking in the positive and negative direction. However, this chapter is more oriented toward risk detection in the negative direction. Thus, in this book, after the analysis that preceded the previous seven chapters, a risk scenario analysis for the Greek economy is presented, which includes the picture of risk on a global level, since the last major crises of the Greek economy are related to external shocks. It should be noted that the analysis presented could be regarded as a strategic foresight—a way to present multiple scenarios of possible futures to test the arsenal for strategic adaptation—, while taking into using trend analysis—what to expect if the present continues—, and intelligence analysis which provides adversary courses of action based on established patterns of behavior (Sotiriadis and Grove 2020). In this way, the analysis gives the opportunity to create a virtual training ground for policy-makers and the Greek government. However, as Sotiriadis and Grove (2020) point out, in times of economic shocks, such as during a pandemic or a financial crisis, experimentation can appear imprudent. It is the capacity to develop and maintain intellectual capital for new thinking that enables research to take the high ground when a security environment is turned upside down.

The structure of the chapter is as follows: first (Sect. 8.2) the most significant risks that threaten humanity at the global level are presented,
and then (Sect. 8.3) the corresponding risks are presented specifically for
the case of Greece. Section 8.4 presents a downside scenario for the world
and the Greek economy and reflects the expected developments for the
Greek economy based on this scenario. In addition, Sect. 8.5 presents a
scenario analysis for the Greek economy, with the presentation of various
possible scenarios for the developments up to 2030. Finally, Sect. 8.6
presents the scenario that the Greek economy will join after 2021 and
until 2030 in a third wave of stable growth.

8.2 Risks in the World

The monitoring of global risks has been the target of the World Economic
Forum (WEF) for the past fifteen years. The Global Risks Report 2020
(WEF, 2020a)—which was issued before the onset of the Covid-19
pandemic globally—noted that it is the first time in the last fifteen
years that all five of the top risks by likelihood, and three by impact
are climate-related. Below are the main global risks according to WEF
(2020a).

The biggest threat globally is about the climate. Climate change is
hitting harder and faster than expected and the last five years have seen a
record of natural disasters, disasters are becoming more intense and more
frequent. The temperature on Earth tends to rise twice as much as the
warnings of scientists. These developments impact not only the biodi-
versity (collapse of food, effects on health systems, disruption of supply
chains, etc.) but also the economic systems.

At the same time, there is a danger that economic stability and social
cohesion will collapse. Nationalist policies emerge, disappearing economic
growth, while there is high level uncertainty regarding the effective-
ness of economic policy. The threat is both economic confrontations
and “internal political polarization.” In the absence of economic and
social stability, there is a risk that countries will lose the advantage of
raising economic resources, budgetary margins, or the resources needed
to design policies between them and social support, to address key global
risks.

Digital fragmentation is another global threat. Digital technology
provides more and more economic and social benefits to much of the
world’s population, however there are issues that emerge that raise
significant risks, such as unequal internet access, lack of a global technolo-
gical governance framework and government insecurity. There are also
other threats that are connected to digital fragmentation, since geopolitical and geo-economic uncertainty could prevent the full potential of next-generation technologies from being realized.

Another major threat is health systems, since new diseases emerge due to changing circumstances on social, environmental, demographic, and technological issues. In addition, increasing longevity and the economic and social costs of managing chronic diseases have called into question many health systems in many countries.

At the same time, Covid-19 pandemic highlighted many of the weaknesses globally but at the same time has also illuminated strengths. However, the changes it has brought about in the habits of societies concerning everyday issues such as consumption and mobility, the use of new technologies for issues of education, work, production and care, lead to the emergence of risks that people did not realize exist and must overcome in order to make our world a better place.

World Economic Forum (WEF, 2020b) collected the opinions of 350 global risk experts on the risks associated with the Covid-19 pandemic that concern the world and businesses in particular. Economic risks dominate the perceptions of these experts. Two out of three experts identified a prolonged global recession as the top concern. One in two responded that critical issues are bankruptcy, consolidation of industries, failure to recover industries, and disruption of the supply chain.

However, non-financial risks are also present. Fifty percent of respondents are particularly concerned about the increase in cyber-attacks against their companies and expect restrictions on cross-border movement of people and goods to remain until 2021, while 40% believe another outbreak of an infectious disease is a major risk globally. In addition, another concern expressed concerns that climate degradation will worsen if countries fail to incorporate sustainability criteria into their recovery plans and if Covid-19 overshadows the concept of sustainability on the public policy agenda. Another concern is the widespread anxiety associated with the emergence of entrenched unemployment, intergenerational frictions and the pressure of social distance, fear and isolation on mental health. Finally, another risk mentioned is the fact that the more extensive use of technology for more and more everyday actions of people (consumption, working from home, etc.). It could lead to an increase in cyber-crimes, violations of civil liberty and deeper digital inequality.
8.3 Country-Specific Risks

The main risk for the Greek economy in 2020 is the possibility of a recovery of the health crisis with an increase in the number of cases. This would result in administrative new direct restrictions on economic activity being imposed, or a widespread contraction of “spontaneous” choices by citizens due to the intensity of a potentially generalized insecurity. In this case, the projected recession should be expected to become even more severe and the new budgetary support measures to be taken will further burden the state budget.

Beyond the issue of managing the pandemic, the big stake is to increase investment and continue reforms. The reactions from those affected should be taken for granted, but the duty of policymakers is to remain steady on the path of structural change. Also, as the International Monetary Fund (IMF, 2019) notes, there is a reform fatigue in Greece that can lead to setbacks against previous reforms, while there is also the risk that judicial decisions to cancel memorandum measures will have a snowball effect, resulting to fiscal derailment (for example, the country’s highest court will now have to decide on the constitutional legality of pension cuts enacted in 2013). If reform momentum is accelerated and maintained, it will further encourage positive trend and investor confidence.

Another risk is the signs of an international slowdown, Brexit and trade wars, which create a climate of uncertainty, which obviously does not favor the growth prospects of Greece, as it will limit the export potential of the economy at a time when internal demand, de facto, will not be particularly strong. Trade wars lead to increased protectionism with adverse effects on trade, confidence, and financial market volatility.

Another important issue is immigration. There is a risk of intensifying geopolitical tensions that could lead to socio-economic disruptions and greater migration to Greece. This could put social cohesion at risk, reduce tourism, and put the budget under pressure.

In addition, critical is the issue of the financial system. There is a visible risk of delays in the remediation of banks’ balance sheets, that could lead to a rapid deterioration in the investment and deposits’ environment toward banks. Also, one of the biggest constraints on the future development of the country is the ability of banks to provide credit to the real economy, as they are loaded with a huge volume of non-performing loans.
Regarding Greek companies, Allianz’s (2019) global risk barometer noted that the biggest threat (41% of responses) concerns changes in legislation and regulatory environment brought by events such as trade war and tariffs, economic sanctions, protectionism and the possibility of dissolution of the Eurozone. Second biggest risk for Greek businesses, with 36%, are market developments (such as volatility, intense competition, and acquisitions and mergers), while in third place, collecting 27% of the responses each, are: (a) macroeconomic developments—i.e., austerity programs, increases in commodity prices—along with (b) the risk of fire explosion and (c) natural disasters. Although for companies worldwide the top threat is the disruption of business activity (such as, for example, the disruption of the supply chain), for Greece it has the sixth place with 18%. The top ten risks for Greek businesses include climate change and increasing weather change (18%), political risks and violence or social disturbances that may emerge from the political scene (18%), cyber-incidents (9%) and, finally, theft, fraud, and corruption (9%).

8.4 The Downside Scenario for the World and the Greek Economy

Downside Scenario for the Greek case can derive from two sources, with each having an equal distribution of probability of occurrence. It can be epidemiological, or it can be of an economic and financial nature.

A possible epidemiological crisis is associated with the pronounced recurrence of the Covid-19 pandemic or even its mutations. In such a case the effect of the disease would probably be compared with that of the first wave which would lead to extensive lockdowns. Confidence would sink and nationalism would grow amid greater travel restrictions, etc. Supply chains would be more disruptive and the restoration of Chinese production capacity would not find outlets for demand. Fiscal and monetary policy would not have enough space to be activated and the economy would move at negative levels for longer. Interest rates would remain negative or zero.

The economic crisis is mainly characterized by the emergence of the Covid-moment that expresses the financial imbalance that can be created. Thus, even without having preceded the epidemiological deterioration, a situation can be created where, with the inability of monetary and fiscal policies to meet their targets, a financial imbalance is formed since the asset value of enterprises is lower than the value of its liabilities and
their ability to repay their loans is impaired. This causes bankruptcies and balance-sheet recession with a long-term character (as in Greece after the Memoranda). Thus, the phenomenon of “Japanization“ of the 1990s that lasts until today will occur with intensity. There will be a serious “lag” and the trends of Secular Stagnation as we already know it (low yields, interest rates and negative growth) will be strengthened in the West. This will create a picture similar to the crisis of 2008.

In the downside scenario, consumer confidence will not easily return and uncertainty will last for long, squeezing investment. Small and medium-sized enterprises will be the biggest issues. The banking sector will face sustainability problems which will make the banks much more conservative than they have been to date. Individuals will refrain from consumption by increasing their savings. The combination of the above characteristics leads to the perfect recessionary storm, with a very serious lag in the produced output (a permanent negative change in the trend of product development) and the labor market. Hence, there will be job losses where employees will not easily find their way to new jobs.

At the same time, the world will be entering a prolonged low recovery, accompanied by corporate bankruptcies, debt and balance of payments crises in mainly developing countries, and finally a “political debt crisis“ in developed countries and the Eurozone (Italy).

Therefore, it is possible that the recession observed in 2020 will be much greater than we thought, or that the recovery will be slow, and finally there is the possibility that the measures triggering the recovery will turn into a financial crisis, mainly due to a failure in the targeting of the measures.

The downside scenario described gives a relatively high probability of occurrence (around 40%), despite the brave mobilization of institutions and processes in Europe (EU Generation Next). This is due to two reasons: (a) the first is that so far under the influence of Covid-19 the analysis scenarios fail in terms of the prevalence of Normal Scenario (as presented in Chapter 7). Until now that the text is written (June 2020) the epidemiological crisis in the West does not seem to be fully controlled and reopening in some countries poses greater risks, such as in the United States. (b) the second reason is that the negative effects of downside scenario will be very large compared to those of normal scenario. So it needs knowledge and greater attention because it will be a major negative paradigm shift with dramatic economic, political and social consequences.
On the basis of the Oxford Economics global economic model (May 2020), two scenarios are created: the prevailing (Normal Scenario) and the bad scenario (Downside Scenario), that is, a scenario in which all countries have severe restrictions (lockdowns), where these extend into the third-quarter (probably due to a second wave of the virus), and domestic activity is even slower to return, than China’s hypothesis proves, which is exacerbated by a weak global environment (Fig. 8.1). Also in the same Figure are the estimates for the growth rate of 2020 expected before the onset of the Covid-19 pandemic (January 2020 estimates).

Thus, the downside scenario described here refers to a recession for the world—8%, for the Eurozone—13% and the US—10.6%, for China—6%, for Japan—14% and for Greece—12.5%. It also points to an economic development from the present phase of the W-type crisis with medium and long-term effects of the pandemic extending beyond three years.

![GDP growth for 2020 pre-pandemic, post-pandemic and downside scenario](image)

Fig. 8.1 GDP growth for 2020 pre-pandemic, post-pandemic and downside scenario (Note Data for Normal Scenario of Greece concerns estimates of April 2020. Source Oxford Economics [2020] and authors’ calculations)
8.5 Scenario Analysis

Below are the various scenarios presented in Chapter 7 in combination with the downside scenario for the Greek economy, which present possible versions of how the future of the Greek economy should be expected to evolve by 2030.

The basic analysis scenario is the Normal Scenario which concerns an evolution for the Greek economy, under normal circumstances, which takes into account the pandemic of Covid-19 (the picture that exists until the end of April 2020) but not the European funds which are expected for the Greek economy nor the implementation of an extensive structural reform program. This is the scenario on which the construction of all other scenarios is based.

The Optimal Scenario is a scenario which stimulates the economy for 2020. This is done through increasing government spending by 3 billion euros in 2020 to stimulate the Greek economy against the crisis of the Covid-19 pandemic. Besides, this scenario includes the implementation of a structural reforms framework described in the first six chapters of this book, which should be expected to lead to a significant gradual increase in TFP. The main feature of this recovery will be a U or even V shape in which the recovery lasts 1.5 to 2 years so that the GDP levels of 2019 are approached until the end of 2021. In this scenario there are good epidemiological news and the economic environment remains deflationary. Confidence returns so consumer and investment behavior get back to where it was, with precautionary savings declining and tourism recovering in the summer of 2021.

The European Growth I scenario is based on Normal Scenario, which is strengthened by the Next Generation EU. It is an approach based on the cases of the European Commission (2020) based on which an increase of 1.75% of the eurozone’s GDP should be expected in 2021 and 2022 and 2.25% by 2024.

The European Growth II scenario is an alternative approach to how EU funds will inflow in the Greek economy, based on Oxford Economics (2020) based on which the Eurozone is expected to grow by 6.2 to 7.4% in 2021 and by 1% in 2024.

Finally, Downside Scenario, described in the previous section, is a painful scenario of 223,000 young unemployed people taking about three years to get absorbed in the labor market. Deficits remain for the entire
period 2021–2025 and the economy manages to return to the level it was in 2019, in 2023.

Figures 8.2 and 8.3 present the expected development of the above scenarios for the Greek economy, regarding the GDP growth rate and the GDP levels, until 2030.

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**Fig. 8.2** GDP growth rate (%) *(Source Oxford Economics [2020] and authors’ calculations)*

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**Fig. 8.3** Evolution of real GDP (billion Euros) *(Source Oxford Economics [2020] and authors’ calculations)*
The European Growth I and European Growth II scenarios offer significant support to the economy in the short- and medium-term (around 2024) but then these scenarios approach the growth rate of the Normal Scenario.

At the same time, the Optimal Scenario enables a sustainable growth approach after 2023, significantly boosting the growth rate of the economy, resulting in the level of GDP in 2030 at Optimal Scenario being 18.6 billion euros higher than in the Normal Scenario.

On the other hand, the main problem for the Greek economy in the downside scenario is the depth of the recession for 2020 which is expected to reach—12.5%, when in the rest of the scenarios it is—5.94% and in the optimal scenario at—4.93%. This leads to a significant reduction in GDP in 2020 compared to the Normal Scenario of 12.8 billion euros in 2020, which reaches 6.7 billion in 2030.

If the Greek economy avoids the downside scenario and manages to effectively absorb the EU funds described in the European Growth I or II scenario, while implementing the structural reform framework of the optimal scenario, this is expected to offer a unique opportunity to the economy to achieve a satisfactory and sustainable growth until 2030.

8.6 Toward the Third Wave of Growth?

Greek economy has experienced (since 1830 until today) two significant waves of growth. The first was in the period 1902–1919, the period the historian Dertilis has described it as a period of “silent prosperity,” and the second (much longer in time) is recorded in the period 1970–2009. It relied on the model of consumer demand including the expansion of the construction sector. In both growth episodes there was access to international capital markets. Both waves were driven by economic disaster and consequent exclusion from private capital markets.

In the medium term it seems that in the period from 2021 to 2030 we are heading toward a third long wave of growth based on an efficiency/demand model. It will be based on macroeconomic rebalancing in the period 2021–2025. The general economic framework (Eurozone) in which the Greek economy operates is so organized that the most likely is that we will be led to this third wave with a high probability of realization.

However, it is estimated that there are two more possible paths of evolution that can occur interchangeably with this good path. The first is a peculiar populism to be dominant in the political field, which leads to
hyper-emphasizing the political element as the decisive means for solving economic problems (!). Populism can have either left or right origins. The second, which, compared to the first, has milder negative results, is related to the possibility of prevailing an environment of constant political turmoil with dubious winners and losers. This situation, although it will differ more positively from a model of populist supremacy, will disempower any momentum that the Greek economy will attempt to develop. If to this development an arising ambiguity in the European political elite about its relations with Greece will be added, then it is possible to put in question or at least to invalidate the first good development for the economy. However, a window of opportunity has opened to ensure the economy enters the new wave of growth.

The key element is the attitude of each person to the expected developments. We should be neither optimistic nor pessimistic about the future, but pragmatic.

The time for restoring social balances is long. The second wave of growth took 35 years to reach its peak. This does not mean that something similar will be required in this third wave of growth. At this point of the process of the research, we must agree that we do not know. All we can see now is the direction and the fact that, financially, we have a highly developed level as a starting point.

Policymakers in the Greek economy should therefore channel their energy toward shaping the content of the policy framework they will follow. Policy will provide to this framework the elements that will make it the least-promising platform of life, especially for the younger generation, by activating the positive catalysts it contains. But a lot of work is needed to hopefully determine the context of the framework.

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