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The absorption of a shadow economy in the Greek GDP

Bitzenis Aristidis, Makedos Ioannis*

University of Macedonia, Egnatias 156 Str., Thessaloniki GR 54006, Greece

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Abstract

The aim of this paper is to explain why a small part of shadow economy was absorbed by the Greek GDP once in 2008 and the necessity to do so again in order to overcome the current economic/debt crisis in Greece. It is believed that the negative result of the austerity measures that were imposed to the countries which have been hit by the sovereign debt crisis create a decisive European issue. The size of the shadow economy in Greece is debateable although there is research that estimates it between 28%-

*Corresponding author. Tel.: +30-2510837783

E-mail address: john130570@gmail.com

30%. Also, the majority of people in Greece during the current economic crisis are trying to balance "the lost part" of their income through their participation in the shadow economy. In the previous years, Eurostat had expressed its reservations on the credibility of the quality of the Greek debt and deficit figures. Specifically, Eurostat had publicly expressed doubts on the debt and deficit figures transmitted by the Greek authorities since 2002 by the way of "footnotes" or specific comments in the press releases where these figures are published. Also, Eurostat continued to express its reservations on the data presented at the notification of March 2004. Because of the present Greek sovereign debt crisis, the authors of this paper present their opinion that part of the shadow economy must be adopted in the Greek GDP and become part of the official economy.

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1. Introduction

This paper presents why a shadow economy was included in the Greek GDP in the past and the necessity to do so again in order to overcome the current economic crisis. The membership of Greece into the EU is a special case and worth mentioning (see also <http://www.ecb.europa.eu/pub/pdf/conrep/cr2000en.pdf>) Commission of the European Communities, 2000, "European Central Bank (ECB) Convergence Report 2000 (prepared in accordance with Article 122 (2) of the Treaty). Greece entered the Exchange Rate Mechanism (ERM) I on 16 March 1998. At that time, the central parity was 357 Greek Drachmas (GRD or GDR) against the European Currency Unit (ECU) and the fluctuation band +/-15%.

However, the ERM II replaced the ERM I in January 1999 and the euro replaced the ECU – for further discussion see various Convergence reports of 1996-2012 (<http://www.ecb.europa.eu/pub/convergence/html/index.en.html>). After the conversion rate of the euro had been determined, the drachma was valued at a central rate of 353,109 GRD against the euro. On 17 January 2000, the central rate of the Greek drachma was re-valued at 340.75 GRD against the euro.

As mentioned in Bitzenis and Makedos (2013) the statistical issues of the shadow economy, GDP, debt and deficit figures were debatable between the Greek statistical authorities and Eurostat. Eurostat continued to express its reservations as to the data presented at the notification of March 2004. Because of the present (2009-2013) Greek sovereign debt crisis, the authors present their opinion that part of the shadow economy should be absorbed (included) in the Greek GDP and become part of the official economy.

2. The Revision of the Greek Government Deficit and Debt Figures in 2002-2004

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