

# Credit Multipliers in a Crisis Economy: The Case of Greece (1960-2011)

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## Abstract

Credit creation is strongly related to economic activity and therefore recessions and crises. However, only limited research has been done on the subject despite the recent global financial and economic crisis. As we know, despite the fact that Greece has a developed economy which is a member of the EMU, in 2009 the local economy went into recession. In fact, by the end of 2009, the Greek economy faced a severe economic crisis, as a result of a combination of international and local factors. In 2010, the Troika bailout package was activated and, thus, a series of austerity measures was proposed. This paper explores the recent crisis in Greece with the objective of finding the determinants of the local credit multipliers in an attempt to assess the effectiveness of macroeconomic policies in limiting the consequences of a crisis. Using data over the 1960-2011 period, a number of determinants of the credit multiplier (credit-to output-ratio) are examined including local, European and international factors. The results are intriguing, offering new policy insights for modeling credit multipliers in economies facing persisting financial and economic shocks and deep recessions. We believe that further work on the subject would be of great interest.

**Keywords:** Credit Multipliers, Crisis, Greece, EMU, Shocks

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