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Budget execution data reveal 2010 central government deficit down more than expected

Highlights

- **Central budget deficit down more than expected in 12 months to December 2010**
- **State budget execution data raise optimism over fulfillment of 9.4%-of-GDP general government deficit target in 2010**

According to preliminary data released earlier today, Greece's central government budget gap shrunk by 36.5% YoY to €19.6bn last year, outperforming a *revised* official forecast for a 33.2% YoY deficit reduction *(see 2011 budget)*. The better-than-expected execution of the state budget in 2010 was primarily driven by a sharp cut in primary outlays *(-10.7% YoY vs. a revised full-year target of -9.0% YoY)* that more than offset a small slippage in net ordinary budget revenue relative to the corresponding full-year target (see table on page 2).

Specifically, last year's aggressive cuts in pensions and wages and lower government operational costs facilitated an overall reduction in primary spending that was higher by ca €1bn *(~0.43ppts-of-GDP)* relative to the revised target for the year 2010 as a whole. On the other hand, net ordinary budget revenue underperformed the corresponding full-year target by ca €200mn *(~0.09ppts-of-GDP)*.

Ordinary budget receipts net of tax returns grew by 5.5% YoY in the 12-months to December 2010 compared to a revised full-year target of 6% YoY and growth of 4.8% YoY recorded in the first eleven months of last year. Reportedly, state budget revenue derived further support in December from a continuation of strong VAT receipts, a one-month extension in a special scheme to settle outstanding tax obligations to the state, the collection of annual vehicle excise tax duties and a intensification of efforts to tract down tax evasion.

As a result of these developments, the deficit of the central government budget in 2010 amounted to €19.6bn, which compares with a revised official deficit forecast of ca €20.6bn. This raises optimism over the fulfillment of the revised official target for the 2010 deficit of the overall *general government* budget (ESA 95 definition), which also includes such sub-national-level entities as local governments, public hospitals and other state-controlled enterprises. Effectively, the outperformance of the state budget relative to the official forecast in January-December 2010 by ca €1bn (~0.43ppts-of-GDP) should be enough to broadly offset any expenditure overruns occurred in the broader public sector over the same period. (*Official data for the fiscal performance of the broader public sector in the year 2010 as a whole are not out yet).*

Note that Greece revised in late November the forecast for its 2010 general government budget deficit to €21.9bn *(~9.4%-of-GDP)*, from ca

€18.7bn *(~8.1%-of-GDP)* projected earlier. This was the result of significant revisions to Greek past fiscal data announced by Eurostat in mid-November and, primarily, a number of methodological changes in recording Greece's fiscal accounts. These changes included a reclassification of selected loss-making public enterprises into general government, improved data on pension arrears and a number of other corrections in cash-to-accrual adjustments.

Execution of the State Budget (January-December 2010)

Ordinary Budget	Jan-Dec 2010 (€bn)	Jan-Dec 2010 (%YoY)	Annual target (%YoY)*
1. Net Revenues (a-b)	51.14	5.5	6.0
a. Gross revenue	56.12	5.0	5.7
b. Tax returns	4.98	0.5	3.0
2. Expenditure (α+β+γ)	65.37	-9.0	-7.5
α. Primary expenses	51.80	-10.7	-9.0
β. Transfer to hospitals for the settlement of part of past debt	0.34		
γ. Interest costs	13.22	7.3	7.6
Public Investment Budget (PIB)			
3. Revenue	3.06	50.2	41.7
4. Expenditure	8.44	-12.0	-11.3
5. Central government budget deficit (1-2+3-4)	19.60	-36.5	-33.2

Source: Ministry of Economics
(*) 2011 budget projections

For 2011, the new budget Greek aims to fully offset the impact of the November 2010 fiscal data revisions and achieve the 7.4%-of-GDP deficit target originally agreed with its official lenders under the present 3-year EU/IMF adjustment programme. In nominal terms, the overall general government budget deficit is expected to decline to ca €16.8bn this year, from €21.9bn estimated in 2010. To assist attainment of the 2011 deficit target, the new budget incorporates a number of additional austerity measures *i.e.,* beyond these already included in the September 2010 update of the Memorndum of Understanding (MoU) with the EC/ECB/IMF.

The IMF estimates these additional measures to be worth 2.2ppts-of-GDP, bringing the total expected size of the 2011 austerity package to ca 6.2ppts-of-GDP *(=2.2 ppts-of-GDP + 2.4ppts-of-GDP carry over from measures implemented during 2010 + 2.3ppts-of-GDP measures for 2011 incorporated in the September 2010 MoU – 0.7ppts of non-recurring revenue-generating measures applied in 2010).*

The above figures suggest that, baring any unforeseen macroeconomic or political developments and assuming full implementation of the 2011 budget, the government should be able to attain the 2ppts-of-GDP targeted reduction in the fiscal deficit this year. In support of the latter view note that the overall size of the fiscal adjustment package for 2011 appears adequate enough to largely offset the drag from a *(downwardly)* revised macroeconomic outlook, structural spending pressures stemming from higher interest costs, the expiration of a number one-off measures implemented in 2010 *(e.g. the levies on high income individuals)*, and some new fiscal initiatives introduced by the authorities to support growth and the unemployed *(e.g. selected corporate and VAT cuts and a new jobs program)*. Moreover, the lifting of reservations on Greece's fiscal accounts in Eurostat's November 2010 notification, effectively means that any further revisions to the country's past fiscal data would not be due to methodological factors and thus, not nearly as significant in magnitude as the revisions instrumented in the recent past.

With regards to the 2014 government deficit target of less than 3.0% of GDP, the revised MoU envisages that ca 5.0%-of-GDP or ca €12bn of (yet unidentified) measures need to be specified. The government is expected by March 2011 to unveil these measures, as well as a complete plan of fiscal adjustment for the period 2011-2014, in line with the Financial Management law adopted last July.

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