

GREECE MACRO MONITOR

November 22, 2011

Focus notes: Greece

Written By:

Dr. Platon Monokroussos
Assistant General Manager
Head of Financial Markets
Research

2012 Budget: Main Targets & Assessment

New national unity government unveils 2012 budget

Greece's national unity government unveiled last Friday its final budget draft for 2012, which is expected to be voted in Parliament by the end of December. As things stand at this point, we expect the tripartite coalition supporting the new government (252 seats in the 300-seat Parliament) as well as a number of independent MPs to vote in favor of next year's budget.

The new budget is framed around a particularly adverse macroeconomic environment, envisioning a real GDP decline of 2.8%, after an expected contraction of 5.5% this year. Domestic inflation is expected to decelerate further in 2012, averaging 0.6% vs. 2.8% in 2011.

As to the main targets of the new budget, the general government deficit (ESA-terms) is seen declining to 5.4%-of-GDP in 2012, from 9.0%-of-GDP in 2011. That is, assuming full implementation of the new PSI deal envisaged in the October 26-27 EU Summit Statement. Furthermore, the general government's primary balance (which excludes interest rate payments) is seen switching into a surplus of 1.1%-of-GDP, following deficits of 1.8%-of-GDP this year and 4.7%-of-GDP in 2010.

The beneficial impact of the new PSI on the 2012 budget mainly stems from lower interest rate payments on the privately-held government debt. Excluding this effect – and on a ceteris paribus basis – the 2012 general government deficit is seen falling to 6.7%-of-GDP. As a reminder, the October 26-27 Summit Statement envisions a 50 percent nominal reduction in the outstanding notional of privately-held Greek government debt, aiming to facilitate a decline in the public debt ratio towards 120%-of-GDP by 2020.

Naturally, realized savings in 2012 due to lower interest rate payments on privately-held Greek government debt will be a function of the final structure of the new PSI (e.g. notional discounts & coupon rates of new bonds), which remains unknown at this point.

In table 1 at the end of this document we summarize the main components of the 2012 Greek government budget. For each of the years 2011 and 2012 two columns are presented, corresponding to the respective targets/projections of the government's medium-term fiscal plan (under the heading "MTFS") and the 2012 budget (under the heading "expected").

DISCLAIMER

This report has been issued by EFG Eurobank Ergasias S.A. (Eurobank EFG), and may not be reproduced or publicized in any manner. The information contained and the opinions expressed herein are for informative purposes only and they do not constitute a solicitation to buy or sell any securities or effect any other investment. EFG Eurobank Ergasias S.A. (Eurobank EFG), as well as its directors, officers and employees may perform for their own account, for clients or third party persons, investments concurrent or opposed to the opinions expressed in the report. This report is based on information obtained from sources believed to be reliable and all due diligence has been taken for its process. However, the data have not been verified by EFG Eurobank Ergasias S.A. (Eurobank EFG), and no warranty expressed or implicit is made as to their accuracy, completeness, or timeliness. All opinions and estimates are valid as of the date of the report and remain subject to change without notice. Investment decisions must be made upon investor's individual judgement and based on own information and evaluation of undertaken risk. The investments mentioned or suggested in the report may not be suitable for certain investors depending on their investment objectives and financial condition. The aforesaid brief statements do not describe comprehensively the risks and other significant aspects relating to an investment choice. EFG Eurobank Ergasias S.A. (Eurobank EFG), as well as its directors, officers and employees accept no liability for any loss or damage, direct or indirect, that may occur from the use of this report.

The implementation of the PSI bond exchange is projected to facilitate an incremental reduction of the overall general government deficit (ESA-95) in 2012 by ca €2.36bn (or around 1.3ppt-of-GDP). This is expected to result from the interplay of lower interest rate payments (by ca €5.15bn or 2.4ppt-of-GDP) and the ensuing losses inflicted on domestic social security funds' bond portfolios.

All in, the implementation of the 2012 budget is likely to prove challenging, given lingering uncertainties over the pace of domestic economic contraction next year, the final structure of the new PSI, the attainability of the 2011 fiscal target and the degree of authorities' success in fighting tax evasion. On a more constructive note, the recently announced austerity measures – including, among others, the closure or merger of a number of “unproductive” public entities, further steep cuts in public-sector employee salaries and special benefits as well as the implementation of a special Labor Reserve – are likely to facilitate fulfillment of the new budget's expenditure targets. Yet, this will again depend on the recessionary impact of fiscal austerity on the domestic economy.

November 22, 2011

Focus notes: Greece

<i>In EUR billion (unless otherwise stated)</i>	2010 Realised	2011 MTFS	2011 expected	2012 MTFS	2012 expected	2011/10 YoY %	2012/11 YoY %
Central Government Budget							
Ordinary Budget							
A. Ordinary budget revenue (A1+A2+B+C)	56,178	57,842	56,309	59,926	58,235	0.2%	3.4%
a. Direct tax revenue (a1+a2)	20,223	20,554	20,619	21,711	24,213	2.0%	17.4%
a1. Income tax revenue	14,287	12,656	12,779	14,860	14,382	-10.6%	12.5%
a2. Property & other (direct) tax revenue	5,936	7,898	7,840	6,851	9,831	32.1%	25.4%
b. Indirect tax revenue (b.1+b.2+b.3)	31,042	30,219	29,083	31,243	29,088	-6.3%	0.0%
b.1 Transaction tax revenue (b1.1+b1.2)	18,495	18,372	17,855	19,160	17,608	-3.5%	-1.4%
b1.1 VAT (fuels, tabbaco, other)	17,374	17,361	16,900	17,997	16,560	-2.7%	-2.0%
b1.2 Other transaction tax	1,121	1,011	955	1,163	1,048	-14.8%	9.7%
b.2 consumption tax	11,822	10,813	10,395	11,198	10,629	-12.1%	2.3%
b.3. Other indirect tax	725	1,034	833	885	851	14.9%	2.2%
A1. Total tax revenue (a+b)	51,265	50,773	49,702	52,954	53,301	-3.1%	7.1%
A2. Total non-tax revenue (EU transfers & other)	3,115	4,029	3,625	4,314	2,591	16.3%	-28.5%
B. Non-ordinary revenue	1,798	2,250	1,926	2,258	2,113	7.1%	9.7%
C. Other revenue		790	1,056	400	230		-78.2%
D. Tax returns	5,322	3,800	5,000	3,697	3,800	-6.0%	-24.0%
E. Ordinary budget net revenue (A-D)	50,856	54,042	51,309	56,229	54,435	0.9%	6.1%
F. Ordinary budget expenditure (Z+H+I+G+K)	66,787	71,471	70,742	71,071	64,857	5.9%	-8.3%
Z. primary expenditure (z1+z2+z3+z4+z5)	52,180	52,050	51,830	50,669	49,085	-0.7%	-5.3%
z1. Salaries & pensions	20,309	19,914	20,087	19,296	19,415	-1.1%	-3.3%
z2. Other benefits	1,602	1,399	1,420	1,242	882	-11.4%	-37.9%
z3. Operating & other expenditure	2,972	2,667	2,590	2,518	2,545	-12.9%	-1.7%
z4. Social transfers (other than transfers to hospitals for the settlement of old debts)	17,485	18,660	18,788	16,531	17,173	7.5%	-8.6%
z5. Other primary expenditure	9,812	9,410	8,945	11,082	9,070	-8.8%	1.4%
H. Transfers to hospitals for the settlement of old debts	367	450	450	350	400	22.6%	-11.1%
I. Military expenditure (on a cash basis)	1,017	1,500	600	1,500	1,000	-41.0%	66.7%
G. State guarantees called		1,469	1,481	1,652	1,623		9.6%
K. Interest payments	13,223	16,002	16,380	16,900	12,750	23.9%	-22.2%
1. Ordinary budget balance (E-F)	-15,930	-17,428	-19,432	-14,842	-10,424	22.0%	-46.4%
Public Investment Budget (PIB)							
L. PIB revenue	3,072	3,925	3,364	4,615	4,750	9.5%	41.2%
M. PIB expenditure	8,454	7,550	6,890	7,700	7,700	-18.5%	11.8%
2. PIB balance (L-M)	-5,382	-3,625	-3,526	-3,085	-2,950	-34.5%	-16.3%
Central Government Balance (1-2)	-21,312	-21,053	-22,958	-17,927	-13,374	7.7%	-41.8%
Central Government Balance (ppt-of-GDP)	-9.4%	-9.3%	-10.5%	-7.8%	-6.3%		
General Government Budget - ESA 95							
3. General Government Balance	-24,125	-16,360	-19,683	-12,872	-11,427	-18.4%	-41.9%
General Government Balance (ppt-of-GDP)	-10.6%	-7.3%	-9.0%	-5.6%	-5.4%		
3.1 General government primary balance	-10,623	-801	-3,925	5,628	2,423		
<i>General government primary balance (ppt-of-GDP)</i>	<i>-4.7%</i>	<i>-0.4%</i>	<i>-1.8%</i>	<i>2.5%</i>	<i>1.1%</i>		
Nominal GDP (EUR bn)	227,318	225,400	217,771	228,400	212,544		

Source: MoF, Eurobank EFG Research

Research Team

Editor, Professor Gikas Hardouvelis

Chief Economist & Director of Research Eurobank EFG Group

Financial Markets Research Division

Platon Monokroussos, *Head of Financial Markets Research Division*

Paraskevi Petropoulou, *G10 Markets Analyst*

Galatia Phoka, *Emerging Markets Analyst*

Sales Team

Nikos Laios, *Head of Sales*

Vassilis Gioulbaxiotis, *Head of International Sales*

Yiannis Seimenis, Ioannis Maggel, *Corporate Sales*

Stogioglou Achilleas, *Private Banking Sales*

Alexandra Papathanasiou, *Institutional Sales*

Economic Research & Forecasting Division

Dimitris Malliaropoulos, *Economic Research Advisor*

Tasos Anastasatos, *Senior Economist*

Ioannis Gkionis, *Research Economist*

Vasilis Zarkos, *Economic Analyst*

Stella Kanellopoulou, *Research Economist*

Olga Kosma, *Economic Analyst*

Maria Prandeka, *Economic Analyst*

Theodosios Sampaniotis, *Senior Economic Analyst*

Theodoros Stamatiou, *Research Economist*

Eurobank EFG, 20 Amalias Av & 5 Souri Str, 10557 Athens, tel: +30.210.333.7365, fax: +30.210.333.7687, contact email: Research@eurobank.gr

Eurobank EFG Economic Research

More research editions available at <http://www.eurobank.gr/research>

- **New Europe:** Economics & Strategy Monthly edition on the economies and the markets of New Europe
- **Economy & Markets:** Monthly economic research edition
- **Global Economic & Market Outlook:** Quarterly review of the international economy and financial markets

Subscribe electronically at <http://www.eurobank.gr/research>

