Athens, July 13, 2010

Focus - Greece

January-June budget execution data suggest government on track to meet 2010 fiscal deficit; 26-week Treasury bills auction meets good investor demand

Key points

- **January-June central government budget deficit declines by 46.0% YoY; outperforms full-year target of -39.5% YoY**
- **Deficit reduction in H1 driven, primarily, by sharply lower primary expenditure and investment outlays relative to the same period a year earlier; revenue growth positive, but lower than full-year targets**
- **Greek Government sold €1.6bn of 26-week Treasury bills earlier today; auction was well absorbed, producing a 3.64 coverage ratio and a uniform yield of 4.65%**

1. Preliminary budget execution data for January-June 2010 broadly satisfactory

According to preliminary data released by the General Accounting Office (GAO) earlier today, the year-to-June central government budget deficit reached ca €9.65bn, compared to €17.87 bn in the respective period last year, implying a 46.0% YoY decrease which is higher than the annual target of 39.5%. Note here that the latter figure is different than the 35.1% YoY annual deficit-reduction target reported in the May 2010 budget execution report, because it incorporates the measures included in the EU/IMF adjustment programme for Greece, which was agreed in early May. (The same is also true for all the other annual targets of budget execution).

The sharp reduction in the central government budget deficit in H1 was mainly the result of sharply lower primary expenditure and investment program outlays, relative to the same period a year earlier. On a less positive note, growth in ordinary budget revenue was somewhat lower than the corresponding government target for the full year. Yet, we continue to expect revenue growth to accelerate somewhat in the following months, as the 2nd installment of hikes in VAT and range of other indirect tax rates will have only been in effect since July 1.

Net revenues increased by 7.2% YoY in January – June 2010 (the respective amounts were €23.8 bn for H1 2010 and €22.9 bn for H1 2009). Revenues before tax refunds increased by 5.8%, while tax refunds declined by 7.5% YoY. Meanwhile, budget expenditure decreased by 12.8% YoY compared with an annual budget of 5.5% (the respective amounts were €30.1 bn for H1 2010 and €34.6 bn for H1 2009). Primary expenditure fell by €3.6 bn for the period January – June 2010, a decrease of 12.7% YoY compared with an annual target of -5.4%. Finally, interest expenses fell by 0.9bn a decrease of 13.3% YoY compared with an annual target of 5.6%.

Ordinary Budget	January-June 2010 (€bn)	January-June 2010 (%YoY)	Annual target (%YoY)
1. Net Revenues (a-b)	23.8	7.2%	13.7%
a. Gross revenue	26.1	5.8%	12.7%
b. Tax returns	2.3	-7.5%	3.0%
2. Expenditure (α+β)	30.1	-12.8%	-5.5%
α. Primary expenditure	24.4	-12.7%	-5.4%
β. Interest costs	5.7	-13.3%	5.6%
Public Investment Budget (PIB)			
3. Revenue	0.4	-40.2%	59.6%
4. Expenditure	3.7	-39.8%	-4.0%
5. Central government balance (1-2+3-4)	-9.6	-46.0%	-39.5%

Source: Ministry of Economics

2. Six-month T-bill auction meets good demand

Earlier today, the Greek Government sold €1.6 bn ($2.1 bn) of 26 week Treasury bills at a yield of 4.65% which is well below the 5.0% that Greece currently pays for the first installment of the €110 bn package of the EU/IMF/ECB package.

According to the Greek Public Debt Management Agency, the auction was oversubscribed 3.64 times. The previous Treasury bills auction took place back in April 13th 2010, the respective yield was 4.55% and it was oversubscribed 7.67 times.

3. Bottom Line

Given that today's T-bills sale was the first attempt of the Greek government to access the market after the initiation of the EU/IMF-supported stabilization program, we consider that the auction results provide as a first positive evaluation of the progress made so far in implementing the program. To that end, the Greek Parliament voted last week two of the major reforms included in the adjustment program, namely the Pensions and Labor bills. Finally, we consider that the budget execution so far is satisfactory and that a range of revenue measures include in the EU/IMF/ECB adjustment programme will start yielding results in the following period thus pointing to positive surprises to budget execution.

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