

Focus-Greece

January-August budget execution data suggest deficit reduction is well above the 8-month target; unemployment decreased in June 2010 compared with May 2010

Key points

- **January-August central government budget deficit declines by 32.2% YoY; outperforms the 8-month target of -26.5%YoY**
- **Deficit reduction is driven, primarily, by lower primary expenditure and investment outlays relative to the same period a year earlier; revenue growth positive, but lower than full-year targets**
- **Unemployment decreased to 11.9% For June 2010 compared with 12.0% for May 2010.**

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

According to preliminary data released by the General Accounting Office (GAO) earlier today, the year-to-August central government budget deficit reached ca €14.49bn, compared to €21.38 bn in the respective period last year, implying a 32.2% YoY decrease which is lower than the annual target of -39.5% but well above the -26.5% target for the January-August period.

The reduction of the year-to-August central government budget deficit was mainly the result of sharply lower primary expenditure and investment program outlays, relative to the same period a year earlier. On the other hand, interest costs overshoot targets; the recorded increase was augmented by the fact that 40% of the annual total for these payments took place in July. Furthermore, growth in ordinary budget revenue was lower than the corresponding government target for the full year.

Net revenues increased by 3.3% YoY in January – August 2010 (the respective amounts were €32.4 bn for 2010 and €31.3 bn for 2009). Revenues before tax refunds increased by 2.8%, while tax refunds declined by 1.5% YoY. Meanwhile, budget expenditure decreased by 7.7% YoY compared with an annual target of -5.5% (the respective amounts were €43.5 bn for 2010 and €47.1 bn 2009). Primary expenditure fell by €4.5 bn for the period January – August 2010, a decrease of 12.0% YoY compared with an annual target of -5.8%. As already mentioned above, interest expenses increased by 0.7bn or 6.6% YoY, well above the annual target of 5.6%. Finally, Public Investment Budget (PIB) revenues fell by 0.2bn for the period January – August 2010, a decrease of 1.9% compared with an annual target of a 59.6% increase and PIB expenditure fell by 2.3bn for the respective period, a decrease of -32.8% which is well above the annual target of -4.0%.

January-August 2010 budget execution data			
Ordinary Budget	January-August 2010 (€bn)	January-August 2010 (%YoY)	Annual target (%YoY)
1. Net Revenues (a-b)	32.4	3.3%	13.7%
a. Gross revenue	35.4	2.8%	12.7%
b. Tax returns	3.1	-1.5%	3.0%
2. Expenditure (α+β)	43.5	-7.7%	-5.5%
α. Primary expenditure	32.6	-12.0%	-5.8%
β. Transfers to hospitals for the settlement of part of past debt	0.2		
γ. Interest costs	10.7	6.6%	5.6%
Public Investment Budget (PIB)			
3. Revenue	1.3	-1.9%	59.6%
4. Expenditure	4.7	-32.8%	-4.0%
5. Budget deficit (1-2+3-4)	-14.5	-32.2%	-39.5%

Source: Ministry of Economics

2. Unemployment decreased in June 2010 compared to May 2010

Data from the Hellenic Statistical Authority show that unemployment rate declined in June to 11.6% from 12.0% in May 2010. This decrease is mainly due to the increase of temporary employment in the touristic regions of the country. On an annual basis unemployment increased since the 11.6% of June 2010 compares with the 8.6% figure of June 2009.

3. Bottom Line

Even though, the deficit reduction is well above the respective target for the January-August period, developments in the revenue side are worrying, especially vis-à-vis a deepening recession. Yet, we expect that VAT hikes implemented from July 1st, as well as taxes on property, will yield in the following period. The overshooting of interest expenses lends support to our previous assessment that related targets may prove optimistic. The reduction in unemployment should be deemed only temporary.

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