



GREECE MACRO MONITOR

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Focus notes: Greece

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Q1-2012 central government deficit lower than targeted

Greece's state budget execution (preliminary) data for the three months of 2012 recorded a better-than-expected deficit outcome (**Table 1** at the last page of this document). Specifically, the overall deficit of the central government budget amounted to ca 7.302mn, compared to a targeted shortfall of €8.596mn (*i.e.*, as per the 2012 *Supplementary Budget* that was approved by the Greek Parliament in February). More importantly, the state budget primary balance recorded a shortfall of only €365mn, compared to a corresponding deficit target of €1.399mn and a shortfall of €1.547mn realized in the first three months of 2011.

Ordinary budget gross revenue grew by 0.1% YoY in January-March 2012, underperforming by ca €357mn the corresponding 3-month target set in the 2012 *Supplementary Budget*. This was primarily the result of reduced receipts from excise taxes on energy products and VAT (complete data for the first quarter of this year are not out yet, but VAT revenue declined by 13.8% YoY in January-February 2012, undershooting by a significant margin the corresponding budget target). On a more positive note, sharply lower tax refunds relative to the same period a year earlier (-37.2% YoY), improved collection of (direct and indirect) tax arrears as well as receipts from a special levy on real estate collected through electricity bills provided some offset. Reflecting these developments, *net* ordinary budget revenue grew by ca 2.8% YoY in the three months to March 2012.

On the expenditure side, ordinary budget primary outlays in January-March 2012 grew by 1.1% YoY, undershooting by €593mn the corresponding government target for Q1-2012. A detailed breakdown of primary expenditure in Q1-2012 has not been published yet, but available data for the first two months of this year revealed some interesting developments. Specifically, central government salary and pension payments - *by far the biggest item of state budget expenditure* -, declined by 4.9% YoY, covering around 16.7% of the corresponding full-year budget target. On a less comforting note, grants to the social security sector grew by 26.3% YoY in the first two months of 2012, covering 24.1% of the budget target for the full full-year.

In the Public Investment Budget, sharply higher revenue and lower-than-budgeted PIB expenditure facilitated the attainment of a better-than-expected headline state budget deficit outcome in Q1-2012.

As a general assessment, the cash data for the state budget execution in the first two months of this year appear to be encouraging overall, supporting hopes for the attainability of the (revised) full-year general government deficit target of 6.7%-of-GDP (ESA95) in 2012 (*Note that IMF's March 16th country report on Greece forecasts a general government deficit of 7.3%-of-GDP this year*). That is especially in view of: **(i)** the new package of austerity measures applied this year, as per the MTF52012-15, the 2012 Budget law and the supplementary budget of expenditure cuts (1.5ppts-of-GDP) that was voted in Parliament in February 2012; and **(ii)** sharply lower interest payments - *by an estimated amount of*

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€3.2bn or 1.6pps-of-GDP relative to 2011 (Eurobank EFG Research estimate) - as a result of the Greek sovereign debt exchange (PSI) and improved terms on existing and new EA/EFSF loans.

According to Bank of Greece estimates (see *BoG Monetary Policy 2011-2012*), total austerity measures worth € 20.6bn will be applied this year to attain an estimated reduction in the general government deficit of ca €6.3bn. As shown in **Table 2** below, this implies a fiscal policy "efficiency coefficient" of 30.6% vs. 21.5% last year and around 51.5% in 2010. The *targeted* "efficiency coefficient" for this year does not look unreasonable, given: **a)** the new measures that came into effect since the beginning of this year (e.g. further reduction in the tax except threshold for personal incomes to €5k/annum, from €8k/annum); and **b)** the recent shift in the emphasis of the fiscal effort towards expenditure-side adjustment.

Having said all these, still considerable uncertainties continue to surround the execution of the state and the general government budgets this year including, among others, the pace of domestic economic contraction, fiscal slippage risks ahead of the next national election (May 6, 2012) as well as lingering tax and social security contributions evasion.

Table 1 – Greek State budget execution (January-March 2012)

	Jan-Mar 2011	Jan-Mar 2012				FY-2011	FY-2012	FY-2012
	Realization €mn (1)	Realization €mn (2)	Realization YoY % (3)	Target (*) €mn (4)	Deviation €mn (4)-(3)	Realization €mn (5)	Target €mn (6)	Target YoY % (7)
I. Ordinary budget balance (A-B)	-4,713	-8,184		-9,018	834	-20,044	-11,589	
A. Ordinary budget net revenue (a1+a2-a3)	11,123	11,437	2.8%	11,603	-166	50,091	51,409	2.6%
a1. Ordinary budget gross revenue	11,948	11,955	0.1%	12,312	-357	54,217	54,949	1.4%
a2. Special revenue from licencing and public rights	0	0		20	-20	1,157	270	
a3. Tax refunds	825	518	-37.2%	729	-211	5,283	3,810	-27.9%
B. Ordinary budget expenditure (b1+b2+b3+b4+b5)	15,836	19,621	23.9%	20,621	-1,000	70,135	62,998	-10.2%
b1. Primary expenditure	12,086	12,222	1.1%	12,815	-593	51,548	47,685	-7.5%
b2. Grants to hospitals for the settlement of old debts	375	355	-5.3%	370	-15	435	400	-8.0%
b3. Military procurements	50	4		120	-116	359	700	
b4. Guatantees called	91	103		119	-16	1,445	1,163	
b5. Net interest payments	3,234	6,937	114.5%	7,197	-260	16,348	13,050	-20.2%
II. Public investment budget (PIB) (C1-C2)	-68	883		422	461	-2,838	-2,550	
C1. PIB net revenue	609	1,371	125.1%	1,372	-1	3,770	4,750	26.0%
C2. PIB expenditure	677	488	-27.9%	950	-462	6,608	7,300	10.5%
III. Central government budget balance (I+II)	-4,781	-7,302		-8,596	1,294	-22,882	-14,139	
Central government primary balance (III+b5)	-1,547	-365		-1,399		-6,534	-1,089	

Source: MoF, Eurobank EFG Research

Table 2 – Greek fiscal policy efficiency assessment

	2010	2011	2012 Supplementary budget
A. Total measures applied (€ bn)	23.5	19.4	20.6
B. Total deficit reduction (€ bn)	12.1	4.2	6.3
Efficiency coefficient B/A	51.5	21.5	30.6

Source: MoF, BoG, OECD, Eurobank EFG Research

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