Eurobank Research
www.eurobank.gr/research
research@eurobank.gr

Eurobank EFG

GREECE MACRO MONITOR

May 4, 2012

Focus notes: Greece

Q1-2012 general government accounts:

Pretty encouraging despite some weak spots

Platon Monokroussos
Assistant General Manager
Head of Financial Markets Research
pmonokrousos@eurobank.gr

Theodoros Stamatiou
Research Economist
tstamatiou@eurobank.gr

Key points

- **FY-2011 general government deficit a bit lower than expected earlier**
- **Q1-2012 general government accounts record a primary surplus of 1.14%-of-projected GDP**
- **General government arrears still at elevated levels**

FY-2011 general government deficit a bit lower than expected earlier

According to Eurostat's last EDP notification published in late April, Greece's 2011 general government budget deficit reached ca €19.56bn or 9.1%-of-GDP. This compares with the troika's latest (March 2012) 9.3%-of-GDP estimate and the government's earlier *downwardly-revised* deficit target of 9.0%-of-GDP. Furthermore, the gross consolidated general government debt stood in late 2011 at ca €355.61 bn or 165.3%-of-GDP, broadly in line with the latest official projections.

In more detail, total general government expenditure in FY-2011 (ESA95 terms) amounted to €107.67 bn or 50.1%-of-GDP, while total revenue came in at €88.08 bn or 40.9%-of-GDP. In addition, the April 2012 EDP notification revealed a slight improvement in the 2009 and 2010 general government deficit figures relative to earlier estimates. Specifically, the 2009 fiscal gap was re-estimated at 15.6%-of-GDP from 15.8%-of-GDP reported earlier, while the 2010 deficit was revised to 10.3%-of-GDP from 10.6%-of-GDP recorded previously. These revisions were mainly attributed to:

a) changes in the recording of payments to the government following the 2008 bank-support scheme; and

b) updated data on payables and revisions to the accounts of a number of general government entities

Q1-2012 general government accounts: pretty encouraging despite some weak spots

According to the recently-released general government accounts for the first quarter of this year, the overall deficit on a cash basis reached ca €4.74bn (or 2.3% of projected full-year GDP), while the primary balance (which excludes interest payments) recorded a surplus of €2.31bn (1.1% of projected GDP). As per the *2012 Supplementary Budget* that was approved by the Greek Parliament earlier this year, the official general government deficit target for this year stands at 6.7%-of –GDP (ESA 95 terms).

A closer look at the fiscal accounts for the first quarter of this year reveals some interesting developments (see Table page 4). Specifically,

— The general government deficit on a cash basis rose by €1.9bn (or 68.7%) relative to Q1-2011.

However, this was exclusively due to higher interest rate payments vs. the same quarter a year earlier. Yet, due to the PSI (and more favorable terms on existing and new EA/EFSF loans), full-year interest rate payments in 2012 are projected to be lower by around 3.3bn (or 1.6%-of-GDP) relative to last year.

— Even more importantly, the general government *primary* balance on a cash basis (i.e., overall balance before interest rate payments) recorded a €2.3bn surplus in Q1 2012, compared to a surplus of €0.52bn in the same period of last year. Note that the official target for FY-2012 is for a primary *deficit* of ca 1%-of-GDP (ESA-95 terms), which compares with a primary deficit realization of ca 2.1%-of-GDP last year (Eurobank EFG Research estimate).

— At the *central* government level, total revenues grew by 9.4% YoY in Q1-2012. A closer look at the State budget figures (not shown in Table 1) reveals that this was mainly the result of sharply higher receipts in the public investment budget (+129.4% YoY). On the other hand, net ordinary budget revenue grew by 2.9% YoY relative to the first quarter of 2011, primarily assisted by a sharp decline of tax refunds (-37.2% YoY), improved collection of tax arrears and receipts from a special levy on real estate collected through electricity bills. These developments helped to more than outweigh a sharp decline in revenues from VAT on fuels and other products (-12.7% YoY), primarily as a result of reduced consumer demand. (For a more thorough analysis on the execution of the State budget in January-March 2012, please see http://www.eurobank.gr/Uploads/Reports/GREECE%20MACRO%20FOCUS%20April%20B%2020%202012.pdf).

— Other general government revenue categories (i.e., outside the State budget) also recorded positive growth compared to a year earlier. It should be noted though that a certain part of these proceeds were in the form of transfers and grants from the central government. State budget transfers to extra-budgetary funds and local governments in Q1-2012 declined by 17.9% YoY and 27.5% YoY, respectively, whereas grants to social security funds increased by 12.4% YoY. The latter reflects reduced social security contributions from employees and businesses as a result of reduced domestic economic activity, business closures and higher unemployment.

— At the expenditure side, central government primary outlays (on a cash basis) declined by 0.8% YoY in Q1-2012. The published general government accounts did not provide a detailed breakdown of primary spending, but the State budget execution data for the same period revealed that the aforementioned improvement was mainly driven by a 4% YoY reduction in salary and pension payments, by far the biggest item of State budget expenditure. On a less comforting note, grants to the social security sector grew by 15.1% YoY in the first three months of 2012, covering 32.6% of the corresponding full-year target.

— Other general government expenditure categories revealed a rather mixed picture. Primary spending of extrabudgetary and social security funds declined by 7.5% YoY 1.8% YoY, respectively, whereas local governments primary outlays increased by 49.8% YoY in Q1-2012.

As an overall assessment, the latest official data on state budget execution and the general government accounts for the first quarter of this year portray a pretty encouraging picture despite certain underlying soft spots, primarily in the form of weak VAT collections and increased state transfers to the social security system to offset weak business and employee contributions. Apparently, the domestic macroeconomic outlook remains clouded by an exceptionally high degree of uncertainty and the more data are needed to form a better assessment of underlying fiscal developments. Nonetheless, the Q1-2012 data suggest that, at least as of the end of last quarter, the government was broadly on track to meet its full-year fiscal targets.

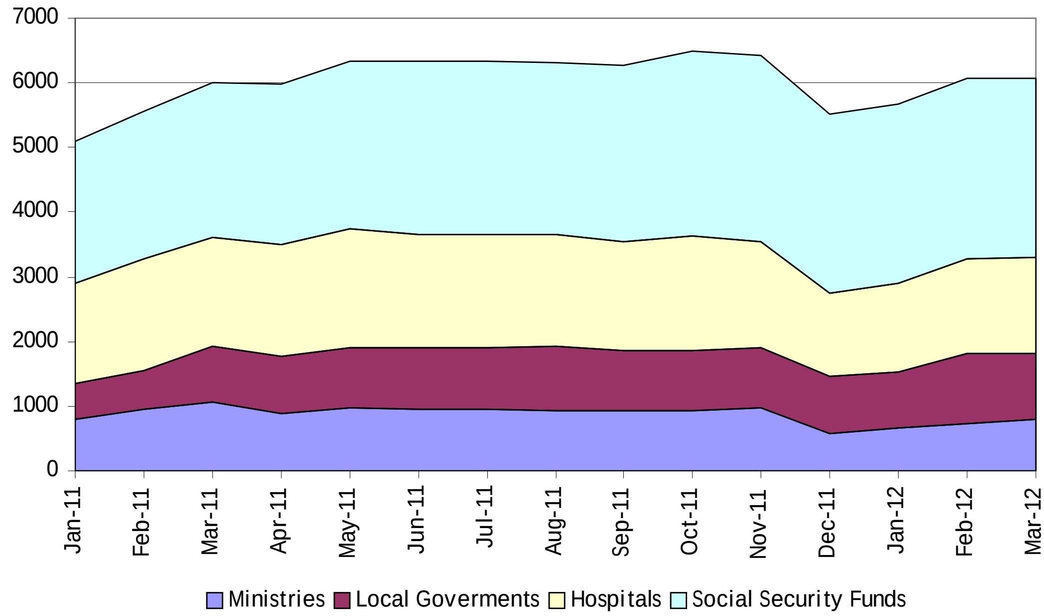
General government arrears still at elevated levels

Total general government arrears - defined as unpaid debts to third parties for over 90 days - stood at ca €6.33bn at the end of March (or 3.1%-of-projected GDP), broadly unchanged from a month earlier but up by ca €600mn from their December 2011 level. The largest part of these (€2.78 bn) is owed by social security funds, while arrears of hospitals and ministries/other central government entities amounted to €1.47bn and €0.81bn respectively at the of Q1-2012.

Graph 1 below depicts the evolution of general government arrears since January 2011. Between May 2011 and November 2011, their overall stock remained above €6.5bn, partly as a result of delays in the disbursement of the 4th and 5th loan installments under 1st EU-IMF bailout programme (Greek Loan Facility). Note that the *Quantitative Performance Criterion* on the non-accumulation of arrears as of the end September 2011 was missed as a result of fiscal slippages and the delayed completion of the 5th EU-IMF programme review.

The loan disbursement following the completion of that review provided some financing for the settlement of outstanding government debts, with their total stock declining by €0.93bn to €5.73bn in December 2011. However, in the first three months of 2012 arrears increased again as no official funding was allocated to clear outstanding arrears over that period.

Graph 1: Evolution of general government arrears



The current stock of arrears does not necessarily constitute a risk for the achievement of this year's general government deficit target, as it is measured on an accruals basis. However, the creation of new outstanding debt in the following period might bring forward doubts over the attainability of the 2012 fiscal target. The latter view is particularly relevant given lingering weaknesses in the reporting of general government obligations. The first EU-IMF bailout programme required domestic authorities to provide by the end of last year a comprehensive plan for the full clearance of the arrears in 2012 as well as the implementation of reforms on spending controls and the reporting of outstanding government debts. The government failed to meet the end-2011 deadline for the preparation of such a plan and the quality of arrears reporting was far from satisfactory at the end-of 2011.

According to current (2^{nd}) EU-IMF support programme for Greece, official financing for the clearance of general government arrears will take place in a progressive manner. Note that the settlement of outstanding government debts is also important for releasing much–needed liquidity to the domestic real economy.

Table 1 - General government acounts
cash-basis provisions data in mn €

	Q1-2011 Realization	Q1-2012 Realization	*YoY, % Change*	FY-2011 Realization	FY-2012 Target	*YoY, % Change*
A. State budget						
a1. Revenue	11,732	12,840	*9.4%*	53,861	56,159	*4.3%*
a2. Primary expenditure	13,279	13,173	*-0.8%*	60,395	57,248	*-5.2%*
a3. Interest payments	3,234	6,945	*114.7%*	16,348	13,050	*-20.2%*
A1. Balance (a1-a2-a3)	-4,781	-7,278		-22,882	-14,139	
Correction/1	920	1,060		-294	0	
A2. State budget balance (after corrections)	-3,861	-6,218		-23,176	-14,139	
B. Extrabudgetary funds						
b1. Revenue	965	1,029	*6.6%*	7,289		
of which grants from State	*369*	*303*	*-17.9%*	*4,065*		
b2. Primary expenditure	816	755	*-7.5%*	4,169		
b3. Interest payments	79	79		628		
B1. Balance (b1-b2-b3)	70	194		2,492	2,371	
C. Local governments						
c1. Revenue	1,463	1,628	*11.3%*	7,839		
of which grants from State	*1,069*	*775*	*-27.5%*	*4,279*		
c2. Primary expenditure	836	1,252	*49.8%*	7,007		
c3. Interest payments	13	21		101		
C1. Balance (c1-c2-c3)	614	356		730	0	
D. Social security funds						
d1. Revenue	10,051	10,437	*3.8%*	43,560		
of which grants from State	*3,855*	*4,334*	*12.4%*	*18,158*		
d2. Primary expenditure	9,682	9,507	*-1.8%*	44,269		
d3. Interest payments	3	6		71		
D1. Balance (d1-d2-d3)	367	925		-779	-1,533	
E. General government						
e1. Revenue (a1+b1+c1+d1)	24,210	25,934	*7.1%*	112,549		
of which intra-government transactions	*-5,432*	*-5,412*		*-26,641*		
e2. Primary expenditure (a2+b2+b3+b4)	23,692	23,626	*-0.3%*	116,134		
of which intra-government transactions	*-5,432*	*-5,412*		*-26,641*		
e3. Primary balance (e1-e2) / 2	518	2,308		-3,585		
e4. Interest payments (a3+b3+c3+d3)	3,329	7,051		17,148		
E1. Balance (e3-e4)	-2,811	-4,743	*68.7%*	-20,733	-13,301	
ESA adjustment				*1,168*	*-432*	
ESA 95 general government balance				**-19,565**	**-13,733**	
(% of GDP)				-9.1%	-6.7%	

Source: FinMin; Eurobank EFG research

Notes

/1 Correction

Advance payment in Dec 2011 against next year expenditure	924	1149	-225
Other expenditure	-4	-89	-69

/2 On a non-consolidated basis

Research Team

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 Malliaropulos, *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@eurobnak.gr