

GREECE MACRO MONITOR

December 23, 2011

Focus notes: Greece

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- **Ordinary budget outlays for the year-to-November 2011 totaled ca €62.71bn, a 6.2% YoY increase as a result of the ongoing recession, public administration inefficiencies and mounting interest expenditure.**

Final budget execution data for year-to-November 2011 undershoot the 11-month target for 2011

Final data for the execution of Greece's State budget for year-to-November 2011 showed that the central government deficit rose by 5.1%YoY reaching ca €20.52bn. This resulted into an undershooting of the respective 2012 Budget target for year-to-November 2011 by €0.57bn or -2.7%. Note that the year-to-month and annual budget execution targets follow the most recent 2012 Budget projections and not the outdated Medium Term Fiscal Strategy 2011-2012 projections (June 2011).

Net revenues for year-to-November 2011 were at €43.86bn, a decline of -3.0%YoY. Net revenues for the year-to-November are lower by €0.19bn or -0.4% from the respective 2012 Budget revenue target for year-to-November

2011.

The main reasons driving revenues were: **a)** the larger than previously projected (in the 2011 Budget) recession and its impact on incomes and consumption, **b)** reduced receipts from withholding personal income tax in 2011 due to a more favorable tax treatment of personal incomes as a result of the new tax law, and **c)** the increased tax refunds due to the clearing of 2010 obligations. Tax refunds amounted to €4.71bn for year-to-November 2011, an 8.2%YoY increase. Note that the government, in an effort to reduce VAT evasion, introduced in 2010 a scheme linking 2010 tax refunds with the volume of retail receipts submitted by tax payers. Reportedly, this was the main reason behind the sharp rise in tax returns in the year-to-November 2011. The government already modified the tax refunds scheme in the calculation of the 2011 taxable income.

In addition to the aforementioned, it appears that persisting disfunctionalities in the revenue collection mechanism and widespread tax evasion continued to weigh on budget revenues over the first ten months of the year. VAT revenues decreased by €0.3 bn or -2.0% YoY despite the increase in the VAT rate applied to restaurants and catering implemented from September 1st onwards. Specifically, VAT revenues from fuel and tobacco products increased by 10.0% YoY and 10.1% YoY, respectively; on the other hand, VAT revenues from other goods decreased by -5.3% YoY.

With regards to the tax collection system and revenues, the recently published 1st quarterly report of the Task Force for Greece, a European Commission sponsored technical assistance team on fiscal and structural issues, is of critical importance. The Task Force estimates that there are ca €60bn outstanding in unpaid taxes. Out of these, €30bn are the subject of court cases, some of which have been pending for over a decade. The processing of the tax related disputes from Greek courts remains one of the major concerns of EC/ECB/IMF officials. The Task Force further estimates that ca €7.0bn could be collected in the immediate period, thereby improving the Greek fiscal situation. The Task Force for Greece highlighted the following areas as critical for the improvement of the tax administration and tax revenues:

- debt collection
- audit of large taxpayers
- dispute resolution
- tax audit

For 2011, the State budget ordinary revenue target is €51.31bn, an increase of 0.9%YoY. To achieve this target, the government needs to generate revenue of ca €7.48bn in December 2011. Note that total annual revenues in ESA95 terms include a number of receipts that will be made in the first two months of 2012, as long as they pertain to 2011 revenues. It is expected that total 2011 revenues will be further increased due to **a)** the collection of the car circulation fees, **b)** the extension of the period for the tax settlement and **c)** the expected inflow of PIB revenues at the end of the year. However, any shortfall in revenues might cause the need for additional measures in order to achieve the 2012 deficit target of -4.7% of GDP according to the 5th Review of the EC/ECB/IMF Adjustment Programme.

On the expenditure side, ordinary budget outlays for the year-to-November 2011 totaled ca €62.71bn, a 6.2% YoY increase. This was mainly the result of a €1.34bn or 3.0%YoY increase in primary expenditure over the first eleven months of this year,

chiefly attributed to **a)** higher transfers to social security funds (total amount ca €1.61bn) due to lower social security contributions, **b)** higher grants (total amount ca €0.41bn) to the Employment Agency for unemployment benefits and **c)** hospitals procurement expenses (total amount ca €1.06bn) covering this year's and past year's hospitals expenditure.

The main reason driving the increase of the expenditure for the social security contributions and the grants to the Employment Agency is the ongoing recession and the resulting unemployment. Note that according to the recent 5th Review of the EC/ECB/IMF Adjustment Programme, the Greek GDP is expected to decline by -6.0% in 2011 and by another -3.0% in 2012. Most recent data show unemployment was at 17.5% in September 2011, against an official projection of 17.0% for 2011 and 19.0% for 2012.

At the same time, the rationalization of the health expenditure is among the main targets of the structural-fiscal reforms included in the 5th Review of the EC/ECB/IMF Adjustment Programme.

A large part of ordinary expenditures increase relates to interest payments, which increased by 20.4%YoY for year-to-November 2011. This highlights the immediate need for a proper PSI implementation. In the public investment budget (PIB), year-to-November 2011 revenue amounted to €2.64bn, an increase of 81.2% YoY. On the other hand, PIB expenditure was down by €4.29bn or -40.1%YoY.

Table 1: January-to-November 2011 Budget execution

Ordinary Budget	Jan-Nov. 2010 (€bn)	Jan-Nov. 2011 (€bn)	Jan-Nov. 2011 (%YoY)	2011 new target Jan-Nov. (€bn)	Annual target (%YoY)
1. Net Revenue (a-b-c)	45.24	43.86	-3.0	44.05	0.9
a. Gross revenue	49.58	47.76	-3.7	48.04	-1.7
b. NATO revenue	0.01	0.03	138.5	0.03	67.5
c. Special revenue from licensing public rights	0.00	0.79		0.51	
c. Tax refunds	4.35	4.71	8.2	4.54	-6.0
2. Expenditure (α+β+γ+δ+ε+σ)	59.05	62.71	6.2	63.50	3.8
α. Primary expenditure	45.07	46.41	3.0	46.92	-0.7
β. Transfer to hospitals for the settlement of part of past debt	0.35	0.43	25.8	0.45	22.6
γ. NATO expenditures	0.01	0.01	-20.1	0.03	20.8
δ. Military procurement	0.60	0.27	-55.0	0.48	-41.0
ε. Forfeiture of Government Guarantees	0.11	0.04	-66.9	0.05	62.1
σ. Interest costs	12.90	15.54	20.4	15.57	23.9
Public Investment Budget (PIB)					
3. Revenue	1.46	2.64	81.2	2.62	9.5
4. Expenditure	7.16	4.29	-40.1	4.23	-18.5
5. Budget deficit (-) or budget surplus (+)					
(1-2+3-4)	-19.52	-20.49	5.1	-21.06	1.2

Source: Ministry of Finance

Concluding Remarks

The Greek economy is expected to continue in a recessionary path in 2011 and 2012. The 5th Review of the EC/ECB/IMF adjustment programme expects a GDP decline of -6.0% for 2011 and -3.0% for 2012, lower than the respective projections of -5.5% and -2.8% of GDP made in the 2012 Budget. Budget execution data, at the central and general government level, indicate a derailment from the recently upwards revised budget deficit target of -9.0% of GDP. The report of the Task Force for Greece highlights lingering deficiencies of the Greek tax collection system and urges the government to work on their improvement.

As an overall assessment, developments in the State budget deficit for year-to-November 2011 signal a deviation from the updated 2011 annual deficit target of -9.0% of GDP. Even though the State-budget execution is on a cash basis it provides a clear indication for the developments of the ESA-95 budget deficit.

The timely and strict implementation of measures announced by the Government in September 11th 2011 could provide a temporary fix but the need for additional measures cannot be excluded. In the medium term however, the fight against tax evasion and the structural reduction of costs in the broader public sector are the necessary prerequisites for a sustainable improvement in public economics.

Table 2: Greece-Key Indicators						
	Last	ytd	2010	2009	2008	2007
Macroeconomic indicators						
GDP growth (%YoY)*	-5.0 (Q3 11)	-	-3.5	-3.2	-0.2	3.0
Budget deficit (% of GDP, forecast for last)	-9.0	-	-10.8	-15.8	-9.9	-6.8
Gross public debt (% of GDP, forecast for last)	161.7	-	144.9	129.3	113.0	107.4
CPI (%YoY, cum. ytd)	2.9 (Nov. 11)	0.6	4.7	1.2	4.2	2.9
CPI constant taxes (%YoY, cum. ytd)	1.5 (Oct.11)	0.7	1.4	1.1	4.2	2.9
Unemployment rate (%YoY, cum. ytd)	17.5 (Sept. 11)	35.9	14.8	10.2	8.9	8.9
Economic Sentiment (index level-period average)	68.6 (Nov. 11)	73.0	75.1	76.3	76.1	94.9
Competitiveness Indicators						
Real harmonised comp/ness indicator CPI deflated (%YoY, cum ytd)	-0.3 (Nov. 11)	0.4	-0.9	1.5	2.5	1.6
Unit Labor Cost (%YoY, cum ytd)	-19.3 (Q3 11)	-3.4	-1.2	6.9	7.1	3.6
Labor Cost (%YoY)	-1.9 (Q3 11)	-12.7	-2.7	5.3	2.4	3.4
Consumer indicators						
Private consumption in constant prices (% YoY)	-5.5 (Q3 11)	-5.5	-3.6	-1.3	4.0	3.7
Retail sales excl. fuels & lubricants volume (% YoY)	-5.2 (Sept. 11)	-21.2	-6.9	-9.3	-1.4	2.3
New private passenger car registrations (% YoY-cum. ytd)	-16.5 (Nov. 11)	-33.1	-35.6	-17.8	-4.5	4.5
Consumer confidence (index level - period average)	-82.3 (Nov. 11)	-73.3	-63.4	-45.7	-46.0	-28.5
Retail trade expectations (index level - period average)	-34.9 (Nov. 11)	-35.3	-33.7	-15.4	14.2	34.2
Industrial-activity indicators						
Industrial production (% YoY)	-12.2 (Oct. 11)	-9.5	-5.2	-6.8	-8.2	2.0
Capacity utilization in industry (index level - period average rate)	66.0 (Oct. 11)	67.7	68.6	70.5	75.9	77.0
Industrial confidence (index level - period average)	-23.6 (Nov. 11)	-20.4	-22.5	-28.4	-5.9	5.2
Manufacturing PMI (index level - period average)	40.5 (Oct. 11)	44.0	43.8	45.4	50.4	53.8
Construction sector & other investment-activity indicators						
Cross fixed capital formation in constant prices (% YoY)	-15.2 (Q3 11)	-	-9.2	-23.1	-5.5	13.1
Housing investment in constant prices (% YoY)	-23.5 (Q3 11)	-	-18.4	-20.2	-25.8	-5.8
Other construction in constant prices (% YoY)	-15.7 (Q3 11)	-	-5.9	18.2	44.3	-5.5
Private building permits volume (% YoY-cum. ytd)	-37.4 (Feb. 11)	-58.8	-24.1	-26.8	-17.3	-5.0
Construction confidence (index level - period average)	-70.2 (Nov. 11)	-69.0	-55.4	-39.5	-9.6	-9.2
Balance-of-Payments statistics (€-terms)						
Current Account (% YoY-cum.ytd)	-33.2 (Oct. 11)	-12.6	-11.0	-25.8	6.7	37.2
Tourism revenues (% YoY-cum. ytd)	15.0 (Oct. 11)	10.0	-7.6	-10.6	2.8	-0.3
Transportation revenues (% YoY-cum. ytd)	-7.9 (Oct.11)	-10.1	13.8	-29.4	13.3	18.3
Gross External Debt (% of GDP-cum ytd)	183.0 (Q3 11)	-1.3	177.6	178.4	155.7	138.5
Customs-based statistics (€ - terms)						
Goods exports (% YoY-cum. ytd)	10.6 (Oct. 11)	34.1	11.3	-19.5	4.5	3.8
Goods exports to EU (% YoY-cum. ytd)	-7.3 (Oct. 11)	10.8	9.2	-21.5	4.1	25
Goods exports to non-EU countries (% YoY-cum. ytd)	40.7 (Oct. 11)	48.7	12.9	-18.6	3.5	-20.9
Goods imports (% YoY-cum. ytd)	-33.8 (Oct. 11)	-11.8	-4.4	-21.8	11.2	9.3
Goods imports from EU (% YoY-cum. ytd)	-17.7 (Oct. 11)	-8.3	-1.3	-17.8	5.4	16.4
Goods imports from non-EU countries (% YoY-cum. ytd)	-52.9 (Oct. 11)	-21	-0.3	-35.6	10.9	0.6
Domestic MFI credit to domestic enterprises & households (outstanding balances and net flows)						
Private sector (% YoY)	-2.2 (Oct. 11)	-2.6	0.0	4.2	15.9	21.5
Enterprises (% YoY)	-0.4 (Oct. 11)	-1.3	1.1	5.2	18.9	20.8
Households (% YoY)	-3.6 (Oct. 11)	-3.6	-1.2	3.1	12.6	22.2
Housing loans (% YoY)	-2.4 (Oct. 11)	-2.0	-0.3	3.7	11.2	21.5
Consumer credit (% YoY)	-6.7 (Oct. 11)	-4.8	-4.2	2.0	16.0	22.4
Private-sector credit outstanding (% GDP) **						
Total domestic enterprises & households	115.3 (Oct. 11)	-	113.4	107.8	107.2	96.7
Domestic households	52.3 (Oct. 11)	-	52.0	51.7	50.3	46.7
Stock Indices***						
Athex General Index (level, %ytd, end of year level 2007-10)	656.5	-53.6	1413.9	2196.2	1786.5	5178.8
FTSE/ASE 20 Index (level, %ytd, end of year level 2007-10)	252.1	-62.0	663.1	1125.4	932.5	2752.5
Athex Banks Index (level, %ytd, end of year level 2007-10)	239.5	-80.9	1251.0	2661.7	1899.4	7296.4
Baltic Dry Index (level, %ytd, end of year level 2007-10)	1787.0	0.8	1773.0	3005.0	774.0	9143.0
Bond/CDS spreads***						
10yr Bond Spread over Bund (bp, %ytd, end of year level 2007-10)	3487.7	266.8	950.9	238.7	227.4	32.2
5yr Bond Spread over Bund (bp, %ytd, end of year level 2007-10)	5347.3	359.7	1163.1	254.2	264.3	21.2
2yr Bond Spread over Bund (bp, %ytd, end of level year 2007-10)	15215.7	1241.3	1134.4	211.9	240.1	26.8
5yr CDS Spread (bp, %ytd, end of year level 2007-10)	9077.5	775.1	1037.3	282.8	238.0	-
T-Bills, Auction Rate						
26-Weeks average rate (% last auction, last auction of year)	4.95 (13/12/2011)	-	4.82	0.35	5.09	4.18
13-Weeks average rate (% last auction, last auction of year)	4.68 (20/12/2011)	-	4.10	0.59	4.46	4.14

Source: Hellenic Statistical Authority, PDMA, Bank of Greece, ECOWIN, AMECO, Bloomberg, Eurobank EFG Research

* Non-seasonally adjusted GDP data were used for columns Last and ytd. Seasonally adjusted data not available. Growth rates

** For 2011 the respective GDP forecast at market prices (€ 217.8 bn) from the 2012 Budget was used. For 2007-2010 the respective AMECO

***As of 22/12/2011. Note that from mid-September 2011 Greek CDS spreads are priced on an upfront basis

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