

**Platon Monokroussos**  
Assistant General Manager  
Head of Financial Markets  
Research  
[pmonokroussos@eurobank.gr](mailto:pmonokroussos@eurobank.gr)

## Latest budget execution data point to a likely outperformance of the revised fiscal targets for FY-2012

### Key points

**The latest available data (December 2012) on the execution of the State Budget portray a pretty encouraging picture as regards the fulfillment of the revised full-year fiscal targets agreed with official lenders**

**That is, despite the deeper-than-expected recession and certain underlying soft spots, primarily in the form of weak VAT and other indirect tax collections as well as increased state transfers to the social security system to offset weak business and employee contributions**

**Note that the full-year 2012 general government accounts in ESA95 terms will not be out before March 2013, as the data will need to incorporate the realization of certain expenditure and revenue items over the first two months of this year**

**Nonetheless, we now expect a significant outperformance of the general government primary deficit target for FY-2012, with the corresponding shortfall now seen coming below 1%-of-GDP**

### DISCLAIMER

This report has been issued by Eurobank Ergasias S.A. ("Eurobank") and may not be reproduced in any manner or provided to any other person. Each person that receives a copy by acceptance thereof represents and agrees that it will not distribute or provide it to any other person. This report is not an offer to buy or sell or a solicitation of an offer to buy or sell the securities mentioned herein. Eurobank and others associated with it may have positions in, and may effect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for those companies. The investments discussed in this report may be unsuitable for investors, depending on the specific investment objectives and financial position. The information contained herein is for informative purposes only and has been obtained from sources believed to be reliable but it has not been verified by Eurobank. The opinions expressed herein may not necessarily coincide with those of any member of Eurobank. No representation or warranty (express or implied) is made as to the accuracy, completeness, correctness, timeliness or fairness of the information or opinions herein, all of which are subject to change without notice. No responsibility or liability whatsoever or howsoever arising is accepted in relation to the contents hereof by Eurobank or any of its directors, officers or employees. Any articles, studies, comments etc. reflect solely the views of their author. Any unsigned notes are deemed to have been produced by the editorial team. Any articles, studies, comments etc. that are signed by members of the editorial team express the personal views of their author.

Greece's state budget execution data for December 2012 was pretty encouraging, supporting our earlier expectation for a likely outperformance of the *full-year* general government deficit target, despite the much steeper than expected recession.<sup>1</sup> Specifically, according to preliminary figures for the execution of the state budget in a modified cash basis (**Table 1.1**), the overall central government deficit in the 12-months to December 2012 declined by 30.1% relative to the same period of the prior year, coming in at €15.9bn. Importantly, the latter shortfall was lower by ca €0.4bn (0.2ppts-of-projected GDP) than that envisaged in the *2013 budget* that was approved by the Greek parliament last December. In a similar vein, the central government primary balance recorded a shortfall of €3.69bn, compared to a 12-month deficit target of ca €4.58bn.

Ordinary budget gross revenue was broadly in line with the corresponding 12-month target presented in the 2013 budget, but declined by 5.3%YoY relative to the same period a year earlier. This was mainly the result of lower than expected *indirect* tax receipts. Detailed data on the performance of various expenditure and revenue categories over the full period January-December 2012 are not published yet, but total *direct* and *indirect* tax receipts in the first eleven months of last year fell by 2.4%YoY (**Table 1.1**).

<sup>1</sup> See Greece Macro Monitor, "Greece's 2013 Draft Budget: Key Targets and Assessment", Oct. 2 2012; <http://www.eurobank.gr/Uploads/Reports/GREECE%20MACRO%20FOCUS%20October%202012.pdf>

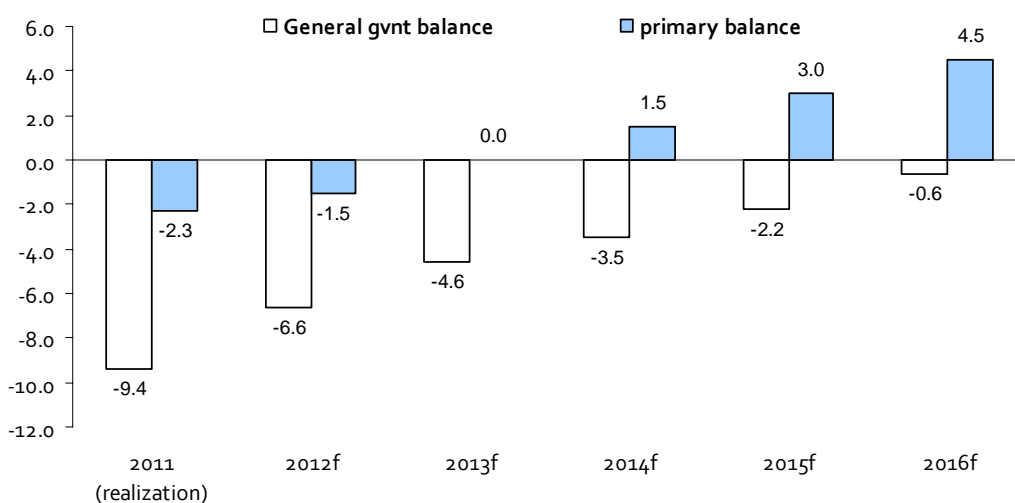
Specifically, indirect taxes (~50% of total State Budget net revenue) declined by 9.2%YoY over that period, yet coming broadly in line with the respective official target for the first 11 months of 2012. Transaction taxes and consumption tax receipts were the two main items in the aforementioned aggregate revenue category recording the biggest declines (by 11.6% YoY and 6%YoY, respectively). On a more positive note, direct tax revenue (~40% of total State Budget net revenue) recorded positive annual growth of 7.3%YoY in January-November 2012, coming in slightly higher relative to the respective 11-month target for FY-2012. Apparently, this was the result of higher taxation on individual incomes and property assets, helping to more-than-offset a sharp contraction in corporate tax receipts as a result of the steeper-than-expected economic contraction. Reflecting these trends and a 37.1%YoY drop in tax refunds, net ordinary budget revenue in the 12-months to December 2012 fell by ca 4.1%YoY, but exceeded the respective budget target by ca €0.41bn.

On the spending side, total ordinary budget primary outlays in January-December 2012 declined by 8.6%YoY, underperforming the corresponding budget target by ca €0.45bn. The breakdown of the expenditure data for the first 11 months of the year (**Table 1.1.2**) showed *salary* and *pension-related* costs (~43% of ordinary budget primary expenditure) declining by 6.9%YoY, with transfers to public health and the social security system also falling by ca 8.4%YoY. Elsewhere, net interest payments to service public debt declined by 25.2%YoY in January-December 2012, reflecting the beneficial impact of a successful restructuring of privately-held government debt conducted earlier this year as well as more favorable terms on official-sector loans under Greece's 1<sup>st</sup> and 2<sup>nd</sup> adjustment programmes. Finally, the overall balance of the public investment budget (PIB) was a bit worse than projected, recording a deficit of ca €2.5bn. A notable acceleration of PIB expenditure was recorded in the last months of 2012 and, according to the General Accounting Office, this is likely to lead to increased EU inflows in the first two months of 2013.

At the general government level (=State budget + local governments + social security funds and other public entities), the most recently released data (January-November 2012), showed that the overall fiscal deficit on a *non-consolidated* cash basis reached ca €9.66bn (or 5% of projected full-year GDP), while the primary balance recorded a surplus of ca €2.3bn or 1.2% of projected full-year GDP (**Table 1.2**). According to the General Accounting Office, the primary balance on a *consolidated* basis would be smaller by ca €0.54bn relative to the *non-consolidated-basis* reading, with the respective primary surplus easing to €1.77 or 0.9%-of-projected GDP.

As a reminder, the recently revised Memorandum of Understanding (MoU) for Greece under the country's 2<sup>nd</sup> adjustment programme envisages a General Government deficit (ESA95) of €12.9bn (6.6%-of-GDP) in 2012 (**Graph 1**) compared to an earlier expected shortfall of 7.3%-of-GDP for FY-2012 and a deficit realization of 9.4%-of-GDP in 2011. Furthermore, the primary balance was expected to reach a deficit of 1.5%-of-GDP in FY-2012, from a shortfall of 2.3%-of-GDP recorded in the prior year.<sup>2</sup>

**Graph 1 - Greece General Government balance and primary balance (%-of-GDP); realizations and revised targets under the 2<sup>nd</sup> adjustment programme**



Source: EC Dec 2012

<sup>2</sup> See European Commission, "The Second Economic Adjustment Programme for Greece First Review – December 2012".

A particularly worrying development last year was the further significant accumulation of state arrears *i.e.*, government debts to third parties outstanding for more than 3 months. According to the latest general government data, the total stock of arrears stood at €8.57bn in November 2012, up from ca €7bn at the end of 2011. To this amount, one should also add some €0.78bn in the form of tax refunds due as of the end of November 2012 to get a more complete picture of outstanding government liabilities.

According to the European Commission's first review of the second adjustment programme for Greece (December 2012), an amount of €2bn of official funding was earmarked for the partial clearance of government arrears until the end of last year. Reportedly, the government actually managed to settle only €0.7bn of the whole amount of funds owed to third parties and it now plans to clear all arrears by the end of 2013. Under the revised adjustment programme, total financing of €8.5bn has been earmarked for the settlement of government arrears (€2bn in December 2012 + 4 equiproportional installments in 2013).

As an overall assessment, the latest official data on state budget execution and the general government accounts portray a clearly encouraging picture despite the deeper-than-expected recession and certain underlying soft spots, primarily in the form of weak VAT and other indirect tax collections as well as 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 more data are needed to form a better assessment of current budgetary trends. Note that the full-year 2012 general government accounts in ESA95 terms will not be out before March 2013 and the data will incorporate the realizations of certain expenditure and revenue items over the first two months of this year. Nonetheless, the state budget execution and general government cash data released so far suggest that the government remains on track to fulfill the revised fiscal targets for 2012 agreed with the troika. If anything, we expect a significant outperformance of the general government primary deficit target for FY-2012 (1.5%-of-GDP), with the corresponding shortfall now seen coming below 1%-of-GDP.

Table 1.1 - State Budget Execution (January-December 2012)

cash-basis provisions data in mn €

	Jan-Dec 2011	Jan-Dec 2012				FY-2011	FY-2012	
	Realization €mn (1)	Realization €mn (2)	Realization YoY % (2)/(1)	Target (*) €mn (3)	Deviation from target €mn (4)=(2)-(3)	Realization €mn (5)	Target (*) €mn (6)	Target (*) YoY % (6)/(5)
<b>I. Ordinary budget balance (A-B)</b>	<b>-19,988</b>	<b>-13,383</b>		<b>-14,149</b>	<b>766</b>	<b>-19,988</b>	<b>-14,149</b>	<b>-29.2%</b>
<b>A. Ordinary budget net revenue (a1+a2-a3)</b>	<b>50,158</b>	<b>48,116</b>	<b>-4.1%</b>	<b>47,706</b>	<b>410</b>	<b>50,158</b>	<b>47,706</b>	<b>-4.9%</b>
a1. Ordinary budget gross revenue	54,284	51,425	-5.3%	51,363	62	54,284	51,363	-5.4%
a2. Special revenue from licencing and public rights	1,157	15		32	-17	1,157	32	
a3. Tax refunds	5,283	3,324	-37.1%	3,689	-365	5,283	3,689	-30.2%
<b>B. Ordinary budget expenditure (b1+b2+b3+b4+b5+b6)</b>	<b>70,146</b>	<b>61,499</b>	<b>-12.3%</b>	<b>61,855</b>	<b>-356</b>	<b>70,146</b>	<b>61,855</b>	<b>-11.8%</b>
b1. Primary expenditure	51,561	47,137	-8.6%	47,586	-449	51,561	47,586	-7.7%
b2. Grants to hospitals for the settlement of old debts	435	392	-9.9%	400	-8	435	400	-8.0%
b3. Military procurements	360	410		700	-290	360	700	
b4. Guarantees called	1,442	796	-44.8%	869	-73	1,442	869	-39.7%
b5. Net interest payments	16,348	12,223	-25.2%	11,735	488	16,348	11,735	-28.2%
b6. Loan disbursement fee to EFSF	0	541		565	-24	0	565	
<b>II. Public investment budget (PIB) (C1-C2)</b>	<b>-2,786</b>	<b>-2,524</b>		<b>-2,163</b>	<b>-361</b>	<b>-2,786</b>	<b>-2,163</b>	
C1. PIB net revenue	3,773	3,590	-4.9%	4,687	-1,097	3,773	4,687	24.2%
C2. PIB expenditure	6,559	6,114	-6.8%	6,850	-736	6,559	6,850	4.4%
<b>III. Central government budget balance (I+II)</b>	<b>-22,774</b>	<b>-15,908</b>	<b>-30.1%</b>	<b>-16,312</b>	<b>404</b>	<b>-22,774</b>	<b>-16,312</b>	
Central government primary balance (III+b5)	-6,426	-3,685		-4,577	893	-6,426	-4,577	

Source: FinMin, Eurobank Research

(\*) Targets as envisaged in the 2013 Budget law that was approved by Parliament in Dec. 2012

Table 1.1.1 - State Budget Revenue (January-November 2012)

cash-basis provisions data in mn €

	Jan-Nov 2011	Jan-Nov 2012			FY-2011	FY-2012		
	Realization €mn (1)	Realization €mn (2)	Realization YoY % (2)/(1)	Target (*) €mn (3)	Deviation from target €mn (4)=(2)-(3)	Realization €mn (5)	Target (*) €mn (6)	Target (*) YoY % (6)/(5)
<b>Major State Budget revenue categories</b>								
Total State Budget net revenue (1+2)	46,503	45,860	-1.4%	45,822	38	53,930	52,393	-2.8%
1. Ordinary budget net revenue (A+B-C)	43,859	42,903	-2.2%	42,383	520	50,157	47,706	-4.9%
A. Recurring revenue (I+II+III)	46,217	44,343	-4.1%	43,971	372	52,306	49,477	-5.4%
I. Direct taxes (a1+a2+a3)	17,709	19,007	7.3%	18,750	257	20,317	20,840	2.6%
a1. Income tax (i+ii+iii)	11,687	11,953	2.3%	11,673	280	12,933	13,081	1.1%
i. Personal income tax	7,443	8,928	20.0%	8,815	113	8,285	9,932	19.9%
ii. Corporate income tax	2,506	1,539	-38.6%	1,492	47	2,760	1,645	-40.4%
iii. Other	1,738	1,486	-14.5%	1,366	120	1,888	1,504	-20.3%
a2. Property taxes	429	2,612	508.9%	2,519	93	1,172	2,750	134.6%
a3. Direct tax arrears & other taxes	5,593	4,442	-20.6%	4,558	-116	6,212	5,009	-19.4%
II. Indirect taxes (b1+b2+b3)	25,543	23,191	-9.2%	23,152	39	28,632	26,210	-8.5%
b1. Transaction taxes (i+ii)	16,466	14,552	-11.6%	14,575	-23	17,789	15,757	-11.4%
i. VAT	15,701	13,903	-11.5%	13,980	-77	16,887	15,089	-10.6%
ii. Other transaction tax (ii)	765	649	-15.2%	595	54	902	668	-25.9%
b2. Consumption taxes	8,432	7,923	-6.0%	7,865	58	10,131	9,674	-4.5%
b3. Indirect tax arrears & other indirect taxes	645	716	11.0%	712	4	712	779	9.4%
Total tax revenue (I+II)	43,252	42,198	-2.4%	41,902	296	48,949	47,050	-3.9%
III. Non-tax revenue	2,965	2,145	-27.7%	2,069	76	3,357	2,427	-27.7%
B. Non-recurring & other special revenue	2,351	1,531	-34.9%	1,541	-10	3,134	1,918	-38.8%
C. Tax refunds	4,709	2,971	-36.9%	3,129	-158	5,283	3,689	-30.2%
2. Public investment budget revenue	2,644	2,957	11.8%	3,439	-482	3,773	4,687	24.2%

Source: FinMin, Eurobank Research

(\*) Targets as envisaged in the 2013 Budget law that was approved by Parliament in Dec. 2012

Table 1.1.2 - State Budget Expenditure (January-November 2012)

cash-basis provisions data in mn €

	Jan-Nov 2011	Jan-Nov 2012		FY-2012	Execution rate
	Realization €mn (1)	Realization €mn (2)	Realization YoY % (2)/(1)	Target (*) €mn (3)	
<b>Major State Budget expenditure categories</b>					
Total State Budget expenditure (1+2)	68,002	58,712	-13.7%	68,705	85.5%
1. Total Ordinary Budget expenditure (I+II+III+IV+V+VI+VII)	63,715	55,085	-13.5%	61,855	89.1%
I. Ordinary Budget Primary Expenditure (A+B+C+D)	46,421	41,990	-9.5%	47,586	88.2%
A. Salaries & pensions	19,718	18,363	-6.9%	20,629	89.0%
B. Grants to Social Security sector	16,550	15,158	-8.4%	16,202	93.6%
C. Operational & other expenditure	5,555	5,350	-3.7%	7,146	74.9%
D. Other primary expenditure	4,598	3,119	-32.2%	3,609	86.4%
II. Grant to hospitals for the settlement of past debts	434	392	-9.7%	400	98.0%
III. Net interest expenditure	15,542	11,433	-26.4%	11,735	97.4%
IV. Loan disbursement fee to EFSF	0	370		565	65.5%
V. Payments for military equipment procurement	272	282		700	40.3%
VI. Guarantees called	1,046	618	-40.9%	869	71.1%
2. Public investment budget expenditure	4,287	3,627	-15.4%	6,850	52.9%

Source: FinMin, Eurobank Research

(\*) Targets as envisaged in the 2013 Budget law that was approved by Parliament in Dec. 2012

Table 1.2 - General government accounts (January-November 2012)

cash-basis provisions data in mn €

	Jan-Nov 2011	Jan-Nov 2012	YoY %	FY-2011	FY-2012	YoY %
	Realization	Realization	Change	Realization	Target (2012 supplementary budget)	Change
	(1)	(2)	(2)/(1)	(3)	(4)	(4)/(3)
<b>A. State budget</b>						
a1. Revenue	46,503	45,860	-1.4%	53,931	52,393	-2.9%
a2. Primary expenditure	52,460	47,279	-9.9%	60,357	56,970	-5.6%
a3. Interest payments	15,542	11,433	-26.4%	16,348	11,735	-28.2%
A1. Balance (a1-a2-a3)	-21,499	-12,853	-40.2%	-22,774	-16,312	-28.4%
Correction/2	-303	1,067		-316	0.0	
A2. State budget balance (after corrections)	-21,802	-11,786	-45.9%	-23,090	-16,312	-29.4%
<b>B. Extrabudgetary funds</b>						
b1. Revenue	5,203	5,092	-2.1%	7,289		
<i>of which grants from the State</i>	2,679	2,049	-23.5%	4,065		
b2. Primary expenditure	3,420	3,443	0.7%	4,169		
b3. Interest payments	562	429	-23.7%	628		
B1. Balance (b1-b2-b3)	1,221	1,220	-0.1%	2,492	2,171	
<b>C. Local governments</b>						
c1. Revenue	6,960	6,027	-13.4%	7,839		
<i>of which grants from the State</i>	3,859	3,045	-21.1%	4,279		
c2. Primary expenditure	5,817	5,743	-1.3%	7,007		
c3. Interest payments	86	90		101		
C1. Balance (c1-c2-c3)	1,057	194		730	145.0	
<b>D. Social security funds</b>						
d1. Revenue	38,397	35,329	-8.0%	43,560		
<i>of which grants from State</i>	16,307	14,097	-13.6%	18,158		
d2. Primary expenditure	38,708	34,596	-10.6%	44,269		
d3. Interest payments	37	17		71		
D1. Balance (d1-d2-d3)	-348	716		-780	-953	
<b>E. General government</b>						
e1. Revenue (a1+b1+c1+d1)	97,063	92,308	-4.9%	112,619		
<i>of which intra-government transactions</i>	-22,845	-19,191		-26,502		
e2. Primary expenditure (a2+b2+b3+b4)	100,707	89,994	-10.6%	116,117		
<i>of which intra-government transactions</i>	-22,845	-19,191		-26,502		
e3. Primary balance (e1-e2) / 3	-3,644	2,314		-3,498		
e4. Interest payments (a3+b3+c3+d3)	16,227	11,969		17,148		
E1. Balance (e3-e4)	-19,871	-9,656	-51.4%	-20,646	-14,949	
ESA adjustment				959	2069	
<b>ESA 95 general government balance</b>				<b>-19,687</b>	<b>-12,880</b>	
(% of GDP)				-9.4%	-6.6%	

Source: FinMin; Eurobank research

Notes

(1) Target included in the 2012 Supplementary Budget Law approved by Parliament in February 2012

/2 Correction

Advance payment in Dec 2011 against next year expenditure

Other expenditure

/3 On a non-consolidated basis after the implementation of cash correction

### Research Team

**Editor, Professor Gikas Hardouvelis**

*Chief Economist & Director of Research Eurobank Group*

#### Financial Markets Research Division

**Platon Monokroussos:** *Head of Financial Markets Research Division*

**Paraskevi Petropoulou:** *G10 Markets Analyst*

**Galatia Phoka:** *Emerging Markets Analyst*

#### Economic Research & Forecasting Division

**Dimitris Malliaropoulos:** *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 Stamatou:** *Research Economist*

Eurobank 20 Amalias Av & 5 Souri Str, 10557 Athens, tel: +30.210.333.7365, fax: +30.210.333.7687, contact email: [Research@eurobank.gr](mailto:Research@eurobank.gr)

## Eurobank Economic Research

More research editions available at <http://www.eurobank.gr/research>

- **New Europe:** Economics & Strategy Monthly edition on the economies and the markets of New Europe
- **Economy & Markets:** Monthly economic research edition
- **Global Economic & Market Outlook:** Quarterly review of the international economy and financial markets

Subscribe electronically at <http://www.eurobank.gr/research>

Follow us on twitter: <http://twitter.com/Eurobank>

