

GREECE MACRO MONITOR

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Focus notes: Greece

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General Government data signals that the Government is still on track to meet the full-year deficit target, despite rising overshooting risks

- **Year-to-June 2012 General Government Deficit recorded a decrease of ca 12.9% YoY**
- **Primary deficit at ca 0.49 bn, decreased by 87.8% YoY on the back of decreased grants to general government entities and rationalization of wages and pensions expenditures**
- **General government arrears at elevated levels; increased relative to their end-of-May 2012 level**
- **Creation of new arrears might bring forward doubts over the attainability of the 2012 fiscal target given the still lingering weaknesses in the reporting of general government obligations**

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Year-to-June 2012 General Government deficit recorded a 12.9% YoY decrease; primary deficit at ca 0.49 bn, decreased by 87.8% YoY

According to the recently-released general government accounts for year-to-June 2012, the overall deficit on a cash basis reached ca €9.88bn (or -4.0% of projected full-year GDP), while the primary balance (which excludes interest payments) recorded a deficit of €0.49 bn, a positive development compared with the respective 2011 primary balance. Note that the primary balance was negative at ca €4.0 bn in the first six months of 2011. The primary balance decreased despite the continuation of the slippage observed in budget revenues as a result of the ongoing economic recession.

According with the 2012 Supplementary Budget that was approved by the Greek Parliament in late February 2012, the official general government deficit target for this year stands at 6.7%-of-GDP (ESA 95 terms) with a primary

balance of -1.0%-of-GDP.

A closer look at the fiscal accounts for the first six months of 2012 reveals some interesting developments (see Table 1). Specifically:

- The year-to-June 2012 general government deficit on a cash basis decreased by €1.47bn (or 12.9%) compared with the respective 2011 period and despite the increase in interest payments by ca 28.0% YoY (i.e. the correction came from the primary balance). However note that 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.
- The general government primary balance on a cash basis (i.e., overall balance before interest rate payments) recorded a €0.49 bn deficit for year-to-

Table 1: General Government Monthly Cash Data						
	Jan-June 2011	Jan-June 2012	change (% YoY)	FY-2011 Realization	FY-2012 target	change (% YoY)
State budget						
Revenue	22.54	23.19	2.9	53.86	56.16	-4.1
Primary Expenditure	28.66	26.51	-7.5	60.40	57.25	5.5
Primary balance	-6.12	-3.32	-45.8	-6.53	-1.09	500.0
Interest payments	7.01	9.16	30.7	16.35	13.05	25.3
Balance (+surplus, -deficit)	-13.13	-12.48	-5.0	-22.88	-14.14	61.8
Correction\1	-0.25	1.03	-503.9	-0.32	0.00	
Balance (+surplus, -deficit)	-13.38	-11.45	-14.4	-23.20	-14.14	64.1
Extrabudgetary funds						
Revenue	2.71	2.63	-2.8	7.29		
of which grants from state	1.23	0.85	-31.5	4.07		
Primary Expenditure	1.84	2.00	8.9	4.17		
Primary balance	0.87	0.63	-27.6	3.12		
Interest payments	0.28	0.17	-40.6	0.63		
Balance (+surplus, -deficit)	0.59	0.46	-21.4	2.49	2.37	5.1
Local Governments						
Revenue	3.36	3.22	-4.1	7.84		
of which grants from state	2.20	1.53	-30.3	4.28		
Primary Expenditure	2.36	3.00	27.1	7.01		
Primary balance	1.00	0.23	-77.3	0.83		
Interest payments	0.04	0.05	27.5	0.10		
Balance (+surplus, -deficit)	0.96	0.18	-81.7	0.73	0.00	
Social Security Funds						
Revenue	21.29	20.43	-4.0	43.56		
of which grants from state	9.02	8.48	-6.0	18.16		
Primary Expenditure	20.80	19.48	-6.3	44.27		
Primary balance	0.49	0.94	93.4	-0.71		
Interest payments	0.00	0.01	175.0	0.07		
Balance (+surplus, -deficit)	0.49	0.93	92.2	-0.78	-1.53	-49.2
General Government						
Revenue	49.90	49.47	-0.8	112.55		
intra-government transactions	-12.45	-10.86	-12.8	-26.50		
Primary Expenditure	53.91	49.96	-7.3	116.16		
intra-government transactions	-12.45	-10.86	-12.8	-26.50		
Primary balance	-4.01	-0.49	-87.8	-3.61		
Interest payments	7.33	9.39	28.0	17.15		
Balance (+surplus, -deficit)	-11.35	-9.88	-12.9	-20.75	-13.30	56.0
ESA adjustments				1.17	-0.43	-370.4
ESA 95 general government balance				-19.59	-13.73	42.6
(% of GDP)				-9.10	-6.70	35.8

Source: Ministry of Finance, Eurobank EFG Research

/1 Correction includes a and other expenditure

Advance payments in Dec. against next

year's expenditure 0.92 1.17 -0.25

Other expenditure 0.00 -0.12 -0.07

/2 On a non consolidated basis

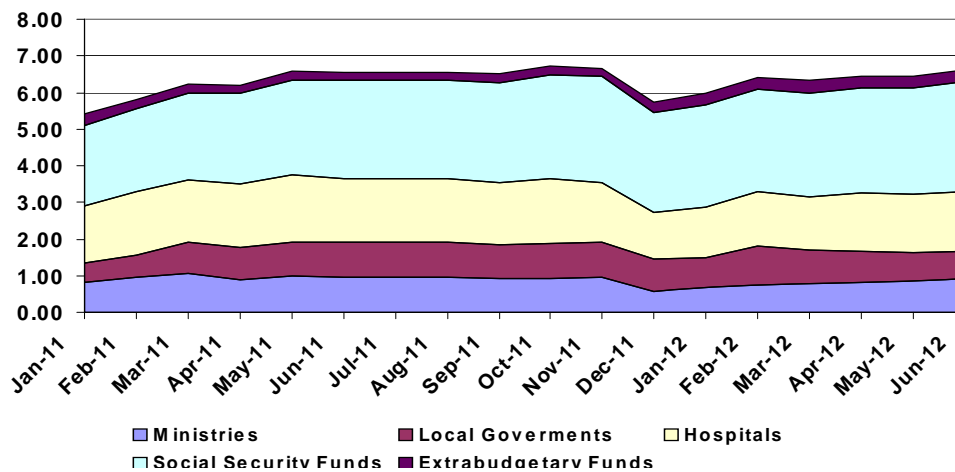
June 2012, compared to a deficit of €4.01 bn in the respective 2011 period. Note that the official target for FY-2012 is for a primary deficit of ca €2.0 bn or 1%-of-GDP (ESA-95 terms), which compares with a primary deficit realization of ca 2.4%-of-GDP for 2011.

- At the central government level, year-to-June 2012 total revenues grew by 2.9% YoY. A closer look at the central government budget figures reveals that this was mainly the result of sharply higher receipts in the public

investment budget (+90.0% YoY).

- On the other hand, year-to-June 2012 central government net ordinary budget revenue decreased by 0.6% YoY. The decrease was mainly due to a sharp decline in revenues from VAT on fuels and other products (-11.8% YoY), primarily as a result of the effect of the economic recession on consumer demand. The decline on tax refunds (34.6% YoY), the improved collection of tax arrears and the receipts from a special levy on real estate

Graph 1: Evolution of general government arrears



collected through electricity bills were not enough to surpass the effect of the lower VAT and related consumption taxes revenues.

- Other general government revenue categories (i.e., outside the central government) recorded negative growth compared to a year earlier. The year-to-June 2012 revenues of the social security funds excluding grants decreased by only 2.6% YoY probably as a result of the rationalization of the revenues process as well as collection of social security funds arrears and despite the reduced social security contributions from employees and businesses because of reduced domestic economic activity, business closures and higher unemployment.
- At the expenditure side, year-to-June 2012 central government primary outlays (on a cash basis) declined by 7.3% YoY. The published general government accounts did not provide a detailed breakdown of primary spending. The central government budget execution data for the same period revealed that the aforementioned improvement was mainly driven by a 7.4% YoY reduction in salary and pension payments, by far the biggest item of central government budget expenditure (43.0% of primary expenditure in 2011). In addition there was a reduction in grants from the central government to other general government entities. Grants to extra-budgetary funds and local governments for year-to-June 2012 declined by 31.5% YoY and 30.3% YoY, respectively. Grants to social security funds decreased by 6.0% YoY.
- Other general government expenditure categories revealed a rather mixed picture. Year-to-June 2012 primary spending

of extra-budgetary and local governments increased by 8.9% YoY and 27.1% YoY, respectively, whereas social security funds primary outlays decreased by 6.3% YoY.

- However, the authorities continued, in their recent April 2012 general government report, the practice of not publishing the monthly general government targets. This poses a certain risk with regards to the better auditing and control of the respective data.

General government arrears at elevated levels; increased relative to their end-of-May 2012 level

Total general government arrears - defined as unpaid obligations to third parties for over 90 days - stood at ca €6.62bn at the end of June 2012 (or 3.2%-of-projected GDP), increased by ca €0.17 bn or 2.7% relative to the previous month. Arrears increased by ca €0.89 bn or 15.4% relative to December 2011.

The largest part of these (€2.98 bn) is owed by social security funds. This figure recorded an increase of 3.5% MoM. Hospitals arrears were ca €1.63 bn, an increase of 0.6% MoM while local government arrears were ca €0.78 bn, a decrease of 1.3% MoM. Total central government budget arrears were at ca €0.91 bn, increased by 8.4% MoM and extra-budgetary funds arrears remained virtually unchanged at €0.33 bn.

Graph 1 above 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.

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 obligations, 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.

The current stock of arrears does not necessarily constitute a risk for the achievement of the 2012 general government deficit target, as it is measured on an accrual basis. In other words when the government makes a transaction this is recorded as expenditure in the relevant month. If the actual cash payment is not made within a 90 days period, the transaction appears also in the arrears account. The revisions of past months arrears indicates that the expenditure data of previous months were not properly recorded because of still lingering weaknesses in the general government's data reporting mechanism. This misreporting of past expenditures implies that the general government deficit might be underestimated. In order to solve this problem the 1st EC/ECB/IMF bailout programme required the implementation of reforms on spending controls and the reporting of outstanding government obligations.

In addition, the 1st EC/ECB/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. 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 the current (2nd) EC/ECB/IMF adjustment programme for Greece, official financing for the clearance of general government arrears will take place in a progressive manner and after the submission of the respective plan for the elimination of arrears. Note that the settlement of outstanding government obligations is also important for releasing much-needed liquidity to the domestic real economy.

Concluding Remarks

Developments in the year-to-June 2012 General Government data signal that the government is still on track to meet the full-year deficit target, despite rising overshooting risks. However, the deepening of the economic recession poses a serious problem for the achievement of the general government targets especially with regards to revenues and grants to social security

funds.

At the same time the delays in the elimination of general government arrears might cause an additional worry given the still lingering weaknesses in the reporting of general government obligations.

August 03, 2011

Focus notes: Greece

Greece-Key Indicators							
	Last	ytd	2011	2010	2009	2008	2007
Macroeconomic indicators							
GDP growth (%YoY, prov. estimate for last, forecast for 2011)*	-6.5 (Q1 12)	-	-6.9	-3.5	-3.2	-0.2	3.0
Budget deficit (% of GDP, 2012 forecast for last)	-7.3	-	-9.1	-10.8	-15.8	-9.9	-6.8
Gross public debt (% of GDP, 2012 forecast for last)	163.2	-	165.3	144.9	129.3	113.0	107.4
CPI (%YoY, cum. ytd)	1.3 (June 12)	1.5	3.3	4.7	1.2	4.2	2.9
CPI constant taxes (%YoY, cum. ytd)	-0.2 (May 12)	0.5	1.3	1.4	1.1	4.2	2.9
Unemployment rate (%YoY, cum. ytd)	22.6 (April 12)	40.1	21.0	14.8	10.2	8.9	8.9
Economic Sentiment (index level, period average)	76.1 (July 12)	75.6	72.8	75.1	76.3	76.1	94.9
Competitiveness Indicators							
Real harmonised comp/ness indicator CPI deflated (%YoY, cum ytd)	-3.0 (March 12)	-2.3	0.3	3.1	1.0	0.9	0.9
Unit Labor Cost (%YoY, cum ytd)	-11.1 (Q1 12)	-11.1	-6.0	-1.2	6.9	7.1	3.6
Labor Cost (%YoY)	-11.1 (Q1 12)	-11.1	-	-2.7	5.3	2.4	3.4
Consumer indicators							
Private consumption in constant prices (% YoY)	-7.5 (Q1 12)	-1.0	-	-3.6	-1.3	4.0	3.7
Retail sales excl. fuels & lubricants volume (% YoY)	-16.4 (May 12)	-18.5	-8.7	-6.9	-9.3	-1.4	2.3
New private passenger car registrations (% YoY, cum. ytd)	-43.3 (June 12)	-49.2	-31.0	-35.6	-17.8	-4.5	4.5
Consumer confidence (index level, period average)	-64.7 (July 12)	-76.1	-74.1	-63.4	-45.7	-46.0	-28.5
Retail trade expectations (index level, period average)	-31.0 (July 12)	-35.3	-35.4	-33.7	-15.4	14.2	34.2
Industrial-activity indicators							
Industrial production (% YoY)	-2.9 (May 12)	9.3	-11.4	-5.9	-6.8	-8.2	2.0
Capacity utilization in industry (index level, period average rate)	65.2 (May 12)	64.1	67.4	68.6	70.5	75.9	77.0
Industrial confidence (index level, period average)	-25.5 (July 12)	-23	-20.6	-22.5	-28.4	-5.9	5.2
Manufacturing PMI (index level, period average)	41.9 (July 12)	40.8	43.6	43.8	45.4	50.4	53.8
Construction sector & other investment-activity indicators							
Cross fixed capital formation in constant prices (% YoY)	-21.3 (Q1 12)	-	-	-9.2	-23.1	-5.5	13.1
Housing investment in constant prices (% YoY)	-30.9 (Q1 12)	-	-	-18.4	-20.2	-25.8	-5.8
Other construction in constant prices (% YoY)	-10.0 (Q1 12)	-	-	-5.9	18.2	44.3	-5.5
Private building permits volume (% YoY, cum. ytd)	0.7 (March 12)	1.9	-39.4	-24.1	-26.8	-17.3	-5.0
Construction confidence (index level, period average)	-56.3 (July 12)	-59.4	-68.3	-55.4	-39.5	-9.6	-9.2
Balance-of-Payments statistics (€-terms)							
Current Account (% YoY, cum.ytd)	-37.9 (May 12)	-39.9	-8.3	-11.0	-25.8	6.7	37.2
Tourism revenues (% YoY, cum. ytd)	-13.9 (May 12)	-12.5	9.5	-7.6	-10.6	2.8	-0.3
Transportation revenues (% YoY, cum. ytd)	4.4 (May 12)	0.9	-8.6	13.8	-29.4	13.3	18.3
Gross External Debt (% of GDP, cum ytd)	180.5 (Q4 11)	-1.3	-	177.6	178.4	155.7	138.5
Customs-based statistics (€-terms)**							
Goods exports (% YoY, cum. ytd)	6.9 (April 12)	7.2	37.0	11.6	-18.1	4.5	3.8
Goods exports to EU (% YoY, cum. ytd)	-4.6 (April 12)	-9.0	8.1	10.4	-20.1	4.1	25.0
Goods exports to non-EU countries (% YoY, cum. ytd)	18.4 (April 12)	16.2	62.2	13.5	-14.6	3.5	-20.9
Goods imports (% YoY, cum. ytd)	-13.3 (April 12)	-9.6	-10.1	-3.3	-19.2	11.2	9.3
Goods imports from EU (% YoY, cum. ytd)	-9.4 (April 12)	-12.9	-7.3	-12.9	-17.4	5.4	16.4
Goods imports from non-EU countries (% YoY, cum. ytd)	-16.9 (April 12)	-18.7	-32.7	16.6	-32.7	10.9	0.6
Domestic MFI credit to domestic enterprises & households (outstanding balances and net flows) & NPLs							
Private sector (% YoY)	-4.3 (June 12)	-5.3	-3.6	0.0	4.2	15.9	21.5
Enterprises (% YoY)	-4.1 (June 12)	-5.6	-2.5	1.1	5.2	18.9	20.8
Households (% YoY)	-4.4 (June 12)	-4.7	-4.3	-1.2	3.1	12.6	22.2
Housing loans (% YoY)	-3.5 (June 12)	-3.5	-2.6	-0.3	3.7	11.2	21.5
Consumer credit (% YoY)	-6.3 (June 12)	-5.5	-5.6	-4.2	2.00	16.0	22.4
Non Performing Loans (NPLs) (% of total gross loans)	14.7 (Q3 2011)	-	-	10.4	7.7	5.0	4.5
Private-sector credit outstanding (% GDP) ***							
Total domestic enterprises & households	117.9 (June 12)	-	-	113.4	107.8	107.2	96.7
Domestic households	54.3 (June 12)	-	-	52.0	51.7	50.3	46.7
Stock Indices****							
Athex General Index (level, %ytd, end of year level 2007-10)	592.7	-6.2	680.4	1413.9	2196.2	1786.5	5178.8
FTSE/ASE 20 Index (level, %ytd, end of year level 2007-10)	213.0	-7.8	264.9	663.1	1125.4	932.5	2752.5
Athex Banks Index (level, %ytd, end of year level 2007-10)	199.5	-5.1	262.9	1251.0	2661.7	1899.4	7296.4
Baltic Dry Index (level, %ytd, end of year level 2007-10)	861.0	-49.5	1738.0	1773.0	3005.0	774.0	9143.0
Bond/CDS spreads ****, †							
10yr Bond Spread over Bund (bp, %ytd, end of year level 2007-10)	2456.8	-	3313.4	950.9	238.7	227.4	32.2
5yr Bond Spread over Bund (bp, %ytd, end of year level 2007-10)	6091.8	-	5163.1	1163.1	254.2	264.3	21.2
2yr Bond Spread over Bund (bp, %ytd, end of level year 2007-10)	22520.5	-	13408.3	1134.4	211.9	240.1	26.8
5yr CDS Spread (bp, %ytd, end of year level 2007-10)	-	-	10231.4	1037.3	282.8	238.0	-
T-Bills, Auction Rate							
26-Weeks average rate (% , last auction, last auction of year)	4.70 (10/07/2012)	-	4.95	4.82	0.35	5.09	4.18
13-Weeks average rate (% , last auction, last auction of year)	4.28 (17/07/2012)	-	4.68	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 2007-9 include the recent ELSTAT's revision. EFG forecast for 2011.

**Note that custom based statistics (Source: ELSTAT) on imports and exports are subject to frequent revisions.

***For 2012 the respective GDP forecast at market prices (€ 203.7 bn) from the IMF's 2nd Greek Bailout Report was used. For 2007-2011 the respective AMECO figures were used

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