

2. Fiscal developments

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State Budget, public debt, and fiscal figures perspectives

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2.1. The 2021 State Budget execution and the 2022 Preliminary Draft State Budget

The 2022 Preliminary Draft State Budget was recently submitted to the Greek Parliament. The Draft, in addition to the 2022 Budget, also contains estimations of both the macroeconomic figures and the execution of the 2021 Budget. Table 2.1.1 presents the State Budget data of 2021 and 2022 as well as the Medium-Term Fiscal Strategy Framework (MTFS) 2022-2025.

The 2021 State Budget execution

For the present year, 2021, and according to the data, the real Gross Domestic Product (GPD) growth rate of the country is estimated to reach 6.1%. This forecast of the Ministry of Finance is based on recent data announced by ELSTAT for the GDP's change in the second quarter of 2021. This estimate is higher than the forecasts of the international organizations, of about 4%, and the MTFS 2022-2025, which predicted a growth rate of only 3.6%. This improvement is mainly due to the recovery of economic activity after the deep crisis owed to the pandemic and is expected to be even more favorable when the country's data on tourism are included, as tourism activities opened mainly in the third quarter. The first data show a very successful tourist season, which is now compared, in financial results, with that of 2019.

The 2021 fiscal figures of the Draft Budget display a deviation from the Budget's forecasts, as it was submitted, while the MTFS 2022-2025 estimates are relatively close. More specifically, revenues are expected at 50.1 billion euros (28.3% of GDP), reduced by 2.4 billion euros or 4.6% compared to the 2021 Budget forecast, and only 415 million euros or 0.8% com-

pared to the MTFS 2022-2025. Accordingly, the expenditures are estimated at 70.7 billion euros (40% of GDP), increased by 3.5 billion euros or 5.2% from the Budget and only 606 million euros or 0.9% from the MTFS 2022-2025. These discrepancies resulted in an increased estimate for the Primary State Budget deficit, according to the ESA, at 15 billion euros (8.5% of GDP), increased by 7 billion euros or 87.7% compared to its 2021 Budget forecast, and 1 billion euros or 7.3% compared to the MTFS 2022-2025 estimate. The figures of the State Budget deficit, according to the ESA of 2021, amounted to 20.6 billion euros (11.7% of GDP), with discrepancies of 5.9 billion euros or 40% and 1 billion euros or 5.2%, respectively. It is important to mention the significant increase of the Public Investment Program's (PIP) expenditures: that is, an increase of 1.6 billion euros or 23.7% compared to the Budget forecast and 350 million euros or 4.4% compared to the MTFS 2022-2025 estimate, which shows an investment orientation, if the expenditure for the pandemic needs were included in the estimation of the MTFS.

Preliminary Draft Budget 2022

Regarding the 2022 Preliminary Draft Budget, the macroeconomic forecast for the country's GDP growth rate is 4.5%, showing a growing Greek economy, due both to the increase in economic activity and to investment spending due to the resources flow into the Greek economy from the Recovery and Sustainability Fund (RSF). However, this forecast is lower than those of the international bodies (OECD and IMF 5%, European Commission 6%) as well as the MTFS 2022-2025 with 6.2%. This downward revision came due only to the high growth of 2021, but also to the fact that the pandemic consequences are expected to affect the economy in 2022. However, overall, the expected growth in 2021-2022 is particularly significant and much higher than the expected average economic growth in EU countries.

In fiscal terms, the Preliminary Draft foresees a significant reduction of the State Budget's deficits with a simultaneous increase of revenues and a reduction of expenditures compared to the estimates for 2021. The

TABLE 2.1.1 State Budget figures, million € on a modified cash basis

	2021			2022	
	Budget Forecast 2021	MTFS 2022-2025	Preliminary Draft Budget Estimate 2022	MTFS 2022-2025	Preliminary Draft Budget Forecast 2022
State Budget					
Net Revenue	52,469	50,489	50,074	54,822	54,675
<i>Taxes</i>	47,836	45,530	45,440	49,433	49,519
<i>From which:</i>					
<i>VAT</i>	17,466	16,998	17,175	18,797	18,752
<i>Excise taxes</i>	6,601	6,594	6,471	7,009	7,049
<i>Regular property tax</i>	2,667	2,620	2,562	2,578	2,502
<i>Personal income tax</i>	10,193	9,585	9,460	10,157	10,111
<i>Business income tax</i>	3,416	2,309	2,348	3,211	3,595
<i>Other current taxes</i>	2,419	2,352	2,170	2,404	2,222
<i>Social contributions</i>	54	55	55	55	55
<i>Transfers</i>	6,842	6,541	6,163	7,164	7,377
<i>Sales of goods and services</i>	656	649	652	726	764
<i>Other current revenue</i>	2,007	2,197	2,568	2,289	2,025
<i>Sales of fixed assets</i>	330	336	36	26	26
<i>Tax refunds</i>	5,256	4,820	4,841	4,290	4,290
Expenditure	67,184	70,071	70,677	62,994	64,335
<i>Compensation of employees</i>	13,531	13,476	13,444	13,468	13,474
<i>Social benefits</i>	199	194	202	198	219
<i>Transfers</i>	30,804	36,161	37,493	29,548	29,612
<i>Purchases of goods and services</i>	1,084	1,685	2,040	1,202	1,004
<i>Subsidies</i>	80	80	338	80	80
<i>Interest payments (gross basis)</i>	5,700	5,560	5,560	5,600	5,550
<i>Other current expenditure</i>	91	91	89	51	101
<i>Non allocated expenditure (without PIB)</i>	14,094	11,179	9,925	12,214	13,141
<i>Purchase of fixed assets</i>	1,599	1,644	1,586	632	1,153
Public Investment Program (PIP)					
<i>Revenue</i>	4,092	4,800	4,800	4,290	4,290
<i>Expenditure</i>	6,750	8,000	8,350	7,250	7,450

TABLE 2.1.1 (continued)

	2021			2022	
	Budget Forecast 2021	MTFS 2022-2025	Preliminary Draft Budget Estimate 2022	MTFS 2022-2025	Preliminary Draft Budget Forecast 2022
State Budget Primary Balance	-8,015	-14,022	-15,044	-2,572	-4,110
% GDP	-5.2%	-8.1%	-8.5%	-1.4%	-2.2%
State Budget Balance	-14,715	-19,582	-20,604	-8,172	-9,660
% GDP	-8.8%	-11.4%	-11.7%	-4.4%	-5.2%
GDP	171,934	172,089	176,855	184,658	186,479

Sources: Preliminary Draft State Budget 2022, Ministry of Finance.
State Budget Introductory Report 2021, Ministry of Finance.
Medium-Term Fiscal Strategy 2022-2025, Ministry of Finance.

* Deficit (-)/Surplus (+).

State Budget's primary result, according to the ESA, will be restricted to a deficit of 4.1 billion euros (2.2% of GDP), while the total result will be 9.7 billion euros (5.2% of GDP), reduced by 10.9 billion euros or 72.7% and 10.9 billion euros or 53.1%, respectively. More specifically, net revenues, expected to reach 54.7 billion euros (29.3% of GDP), are increased by 4.6 billion euros or 9.2%, while expenditures will reach only 64.3 billion (34.5% of GDP), reduced by 6.3 billion euros or 9% compared to the 2021 figures. The increase in revenue is anticipated to arise from increased VAT and Income Tax collectivity, mainly from businesses, but also Transfers, while the reduced expenditures will come from Transfers (7.9 billion euros or 21% more than in 2021) and secondarily from the Purchase of Goods and Services. An increase in expenditure is expected only by the Appropriations under Distribution, as they are necessary to cover the needs arising from the pandemic as well as the energy crisis that is expected at the end of 2021, until 2022.

However, the submitted Preliminary Draft Budget is expected to be revised in the final draft of the 2022 Budget in November or in the Stability and Growth Plan in April 2022. These revisions concern expected developments that could not be predicted and/or measured accurately in the preparation of the draft, as these developments were simply not apparent at

the time. These revisions concern the growth rate of the Greek economy, which is expected to be higher for 2021, but lower for 2022. Relevant revisions have already been made by international organizations (IMF from 5% to 6.5%). An upward revision of GDP growth will result in a revision of revenue; more revenue will arise due to the multiplier.

In addition, an upward revision of spending is expected as additional measures may be needed to contain energy prices, basic inputs and goods and transport costs, as well as measures to address both pandemic and post-pandemic problems and the problems it has created, such as health issues that patients neglected due to the pandemic, but also issues created by the pandemic, such as mental health problems due to restricted mobility and limited economic activity that led to a loss of income and/or labor but also chronic diseases caused by COVID-19 in those who became ill.

2.2. The evolution of Greek public debt, second quarter 2021

According to the latest data available from the General Accounting Office,¹ for the second quarter of 2021, the Central Government's debt amounted to 387.33 billion euros, an increase of approximately 6.5 billion

1. Public Debt Bulletin, June 2021, General Accounting Office, Ministry of Finance.

euros (1.7%) compared to the previous quarter, 13.3 billion euros (3.6%) in relation to end of the year 2020 and 24.5 billion euros (6.7%) compared to the corresponding quarter of 2020. In addition, cash deposits remained constant compared to the end of 2020. However, cash deposits decreased compared to the previous quarter of 2020 by 783 million euros (4.1%).

The observed increase in debt is due to the issuance of Bonds and Treasury Bills to cover Budget deficits created by increased borrowing to meet both the expenditures to cover the needs created by the pandemic and the reduced revenues due to the economic crisis brought about by the long period of restricted economic activity to reduce mobility in order to restrain the pandemic.

The composition of Central Government debt in the second quarter of 2021 is presented in Table 2.2.1. Based on the type of interest rate, fixed versus floating, the Central Government Debt, on a percentage basis,

amounted to 98.5% and 1.5%, respectively. There is a change in the composition of debt in favor of floating rates as compared to the previous quarter (97.8% and 2.2%), as well as regarding the corresponding quarter of 2020 (96.5% and 3.5%, respectively). An analogous change is observed in favor of the non-tradable to tradable debt, which stood at 23.9% and 76.1%, respectively, over the period considered. Finally, the composition of Central Government debt by currency remained essentially unchanged compared with the previous quarter, 98.9% in euro currency, and shows little variation compared to the same quarter of 2020 (98.1% in euro). Finally, a significant rise of the guarantees provided by the Greek government, at 19.8 billion euros, increased by 5.88 billion euros (42.3%) in comparison to the previous quarter and more than doubled regarding the 2020 corresponding quarter.

The distribution of debt, based on the residual maturity in the second quarter of 2021, is reflected in Table 2.2.2. Short-term Greek government securities (with

TABLE 2.2.1 Central Government debt¹ (in million €)*

Period	2020 (B' quar.)	2020 (D' quar.)	2021 (A' quar.)	2021 (B' quar.)
Outstanding Central Government debt	362,871.42	374,005.73	380,795.05	387,328.87
Debt by type of interest rate				
Fixed rate ²	350,170.92	361,663.54	372,417.56	381,518.94
Floating rate ^{2,3}	12,700.50	12,716.19	8,377.49	5,809.93
Debt by way of trading				
Tradable	74,388.64	79,289.21	86,440.48	92,571.60
Non-Tradable	288,482.78	294,716.52	294,354.57	294,757.27
Debt by currency				
Eurozone	358,879.83	369,891.67	380,033.46	386,554.21
Non-Eurozone currencies	3,991.59	4,114.06	761.59	774.66
Cash deposits of the H.R.⁴	19,267.30	17,891.90	18,476.60	18,484.40
Debt guaranteed by the Central Government	9,862.58	14,306.26	13,896.65	19,776.11

Source: Public Debt Bulletin, General Accounting Office, Ministry of Finance.

Notes:

1. Central Government Debt differs from General Government Debt (Maastricht definition) by the amount of intra-sectoral debt holdings and other ESA '95 adjustments.

2. Fixed/floating ratio is calculated taking into account: i) interest rate swap transactions, ii) the use of funding instruments by the ESM regarding the loans that have been granted to the Hellenic Republic and iii) the incorporation of the risk metrics of the EFSF's liability portfolio into the Greek debt portfolio.

3. Index-linked bonds are classified as floating rate bonds.

4. Included balance of dedicated cash buffer account, 15,697.3 million euros on 31/03/2021 & 30/06/2021.

* Estimates.

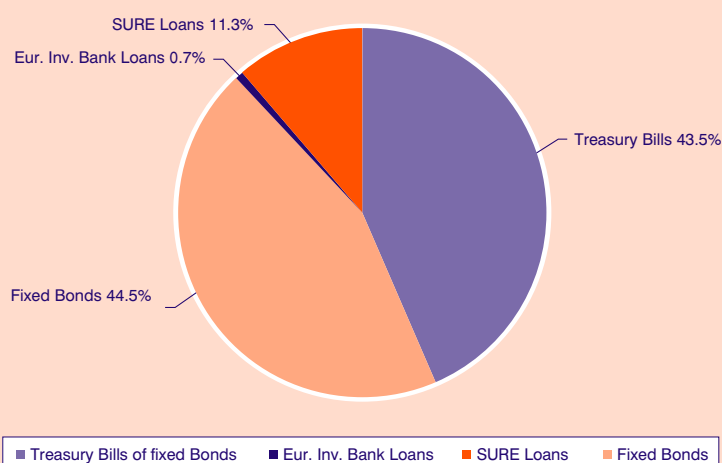
TABLE 2.2.2 Budgetary Central Government debt by residual maturity* (amounts in million €)

Period	2020 (B' quar.)	2020 (D' quar.)	2021 (A' quar.)	2021 (B' quar.)
Total volume	362,871.42	374,005.73	380,795.05	387,328.87
Short-term (up to 1 year)	45,868.77	52,461.48	53,464.91	53,053.05
Medium-term (1 to 5 years)	39,938.88	39,861.04	40,722.34	43,327.99
Long-term (more than 5 years)	277,063.77	281,683.21	286,607.80	290,947.83

Source: Public Debt Bulletin, General Accounting Office, Ministry of Finance.

* It concerns the volume of Bonds, Treasury Bills and Short-term Securities and not the total Debt of the Central Administration.

**GRAPH 2.2.1
Composition of new borrowing, A' Semester 2021**



Source: Public Debt Bulletin, General Accounting Office, Ministry of Finance.

maturity less than one year) represent 13.7% of the total, compared to 11.2% from the medium-term notes (with maturities of one to five years), and 75.1% from long-term issues (maturity after five years) of 14%, 10.7% and 73.5%, respectively, which was the first quarter of 2021. Compared to the same quarter of 2020, an increase in the share of the short-run and a respective decrease in the medium-term securities is exhibited.

The average residual maturity of the total Central Government debt stood at 18.98 years, slightly increased from that of 20.85 years in the corresponding quarter of 2020. It should be noted that the average residual maturity of the total Central Government debt has

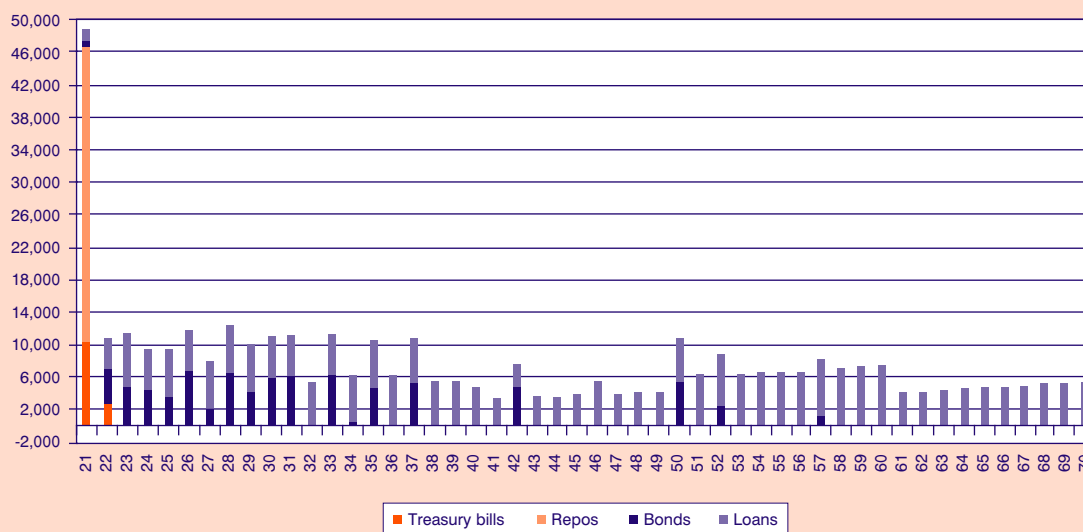
tripled since the country's entry to the support mechanism, which amounted to 7.65 years in the second quarter of 2010. Furthermore, regarding the new borrowing of the Greek government during the reporting period, the weighted average maturity rose to 8.45 years, with a significant increase from the level of 4.05 years at which it had formed at the end of 2019.

The new borrowing for the first half of 2021 decomposes to 43.5% of Treasury Bills, 44.5% of fixed bonds, 11.3 in SURE loans and only 0.7% comes from European Investment Bank loans (Graph 2.2.1).

Graph 2.2.2 shows the redemption schedule of the Central Government debt based on the latest pub-

GRAPH 2.2.2

Redemption schedule of Budgetary Central Government debt on 30/6/2021 (amounts in million euro)



Source: Public Debt Bulletin, General Accounting Office, Ministry of Finance.

Notes: Buy-backs are scheduled for the smoothening of redemptions. Including extension of EFSF loans agreed on at the Eurogroup of 22-6-2018.

lished data. From the display of newer data, it seems that apart from the current year (2021), the dispersion of the burden of redemption of public debt has now leveled, with few exceptions, at less than 10 billion euros per year until 2070.

2.3. Fiscal figures perspectives

The course of the country's fiscal figures in both the last months of 2021 and 2022 is expected to be positive, as the Greek economy seems to be coping, despite the impact of the pandemic and the economic crisis that followed. Important factors of recovery that were and are expected to be the driving forces for the further improvement of the Greek economy are:

1. The opening of economic activities, despite the evolution of the pandemic, improves expectations for the course of domestic demand, investment, exports, etc., leading to increased GDP growth rates for both 2021 and 2022.
2. The significant growth of tourism, domestic and foreign, which is expected in terms of travel revenues to reach about 80% of that in 2019, if the influx of tourists continues, as shown by the bookings, in the coming months.
3. The extension of the general escape clause of the Stability and Growth Pact for 2022 allows the avoidance of interruptions to the economic recovery from a reduction of the expansionary fiscal policy in the Member States, which allows the Greek government to intervene where necessary and to assist economic activity.
4. The investment orientation of both the State Budget for 2021, with the increase of the expenditures of the PIP, and the Preliminary Draft Budget for 2022, which is based both on the dynamic recovery of the year 2021 and on the flow into the Greek economy from the Recovery and Sustainability Fund (RSF).
5. The monetary policy of the European Central Bank (ECB), which, through the Pandemic Emergency Purchase Program, facilitates Greece by keeping borrowing costs low. This policy is expected to continue until at least March 2022, while even after the end of the program, the ECB intends to reinvest these bonds in its portfolio at least until the end of 2023, a period when the Greek economy is expected to recover investment grade so as the Greek bonds will be included in the regular Asset Purchase Program of the ECB.

On the contrary, there are sources of uncertainty that, if confirmed, will lead to a slowdown in the recovery of the Greek economy. Sources of uncertainty are:

1. The course of the pandemic. If the outbreak of cases, deaths and illnesses as well as the slowdown of vaccinations are not addressed, it will lead to overwhelming the health system and, consequently, the need to take new measures and restrictions.
2. The evolution of the inflation rate due to the appreciation of international energy prices and other productive inputs that will lead to increases in the prices of basic goods and transport costs and, as a result, to a reduction in disposable income.
3. The activation rate of the investment support schemes financed by the Recovery and Sustainability Fund. Any delay in the disbursement of funds from the Fund may slow down the planned investments and thus lead to a slowdown in the economic recovery.
4. The evolution of geopolitical factors (Eastern Mediterranean, Turkey, immigration, etc.) that could be an important obstacle to the development of the Greek economy.