

2. Fiscal developments

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State Budget, public debt and fiscal figures perspectives

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2.1. The 2022 State Budget execution and the 2023 Preliminary Draft State Budget

The 2023 Preliminary Draft State Budget was recently submitted to the Greek Parliament. The Draft, in addition to the 2023 Budget, also contains estimations of both the macroeconomic figures and the execution of the 2022 Budget. Table 2.1.1 presents the State Budget data of 2022 and 2023 as well as the Medium-Term Fiscal Strategy Framework (MTFS) 2022–2025.

The 2022 State Budget execution

For the present year, 2022, and according to the data, the real Gross Domestic Product (GDP) growth rate of the country is estimated to reach 5.3%. This forecast of the Ministry of Finance is related to the better-than-expected performance of the Greek economy in the first half of the year, the revised upward estimate for annual tourism revenues and the increased amount of support measures to deal with the energy crisis. This estimate is higher than the forecasts of both the 2022 State Budget, by 0.8%, and the April 2022 Stability Program, by 2.2%. However, it should be noted that the GDP growth rate forecast in the 2022-2025 MTFS for 2022 amounted to 6.2%. It is, though, important to emphasize that the 2022-2025 MTFS was drawn up at a time when the geopolitical developments could not have been predicted, nor could the major energy and financial crises that followed with the surge in product prices; therefore, the presentation of these forecasts will not particularly weigh on the analysis that follows. However, the data of the execution of the 2021 State Budget from the excessive deficit procedure (EDP) of April 2022 will be used.

The 2022 fiscal figures of the Draft Budget of 2023 display a deviation from the 2022 Budget's forecasts,

as it was submitted. More specifically, revenues are expected at 61 billion euros (29% of GDP), increased by 5.5 billion euros or 10% compared to the 2022 Budget forecast, and 7.7 billion euros or 14.4% compared to 2021. This increase will mainly occur from VAT collection of 2.6 billion euros or 13.7%, revenue refunds of 870 million euros, transfers of 1.5 billion euros or 19.8% and personal income tax of 786 million euros or 7.6%. The increase in tax revenues is due in terms of VAT to the strong inflationary pressures that have arisen worldwide due to the energy crisis, which mainly affects indirect taxes and in particular VAT, while for income tax to the restart of the economy and the subsequent increase in economic activity that increased workers' incomes and therefore tax returns. Transfers are increased due to increased PIP revenues, as well as revenue collection from ANFAs and SMPs and EFSF interest refunds, which were not anticipated. Finally, refunds of unduly collected revenue are presented due to increased VAT refunds.

Accordingly, the expenditures are estimated at 72.5 billion euros (34.5% of GDP), increased by 6.8 billion euros or 10.5% from the 2022 Budget and 1.8 billion euros or 2.6% from 2021. This increase arises mainly from transfers, by 2.9 billion euros or 9.7%, non-allocated expenditure by 1.3 billion euros or 9.6% and purchases of goods and services, which doubled, showing an increase of 1.1 billion euros. This increase is primarily due to the increase in State Budget expenditures to deal with the energy crisis as a result of the adverse geopolitical developments. The urgency of these needs can also be seen from the fact that the allocation of additional funds was implemented with the passing of two supplementary budgets.

These discrepancies resulted in an increased estimate for the Primary State Budget deficit, according to the ESA, at 5.5 billion euros (2.6% of GDP), increased by 882 million euros or 19.1% compared to its 2022 Budget forecast, while it is half of the primary deficit of 2021, i.e., reduced by 6.4 billion euros or 53.7%. Accordingly, the estimated figures of the State Budget Balance according to the ESA of 2022 are expected to reach 11.5 billion euros (5.5% of GDP) and show a discrepancy of 1.3 billion euros or 13.1% and -5.9

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

	2021		2022		2023	
	DYE April 2022	Budget forecast 2022	MTFS 2022-2025	Preliminary Draft Budget Estimate 2023	MTFS 2022-2025	Preliminary Draft Budget forecast 2023
State Budget						
Net revenue	53,280	55,425	54,822	60,962	56,639	61,488
Taxes	48,243	50,055	49,433	54,608	53,057	56,190
From which:						
VAT	17,294	18,755	18,797	21,326	19,668	21,889
Excise taxes	6,686	7,067	7,009	7,113	7,122	7,143
Property taxes	2,645	2,503	2,578	2,381	2,541	2,380
Personal income tax	10,340	10,352	10,157	11,138	11,437	11,180
Business income tax	3,571	3,794	3,211	4,118	4,411	4,714
Other current taxes	2,169	2,213	2,404	2,345	2,465	2,402
Social contributions	55	55	55	55	55	55
Transfers	7,052	7,567	7,164	9,065	6,458	6,644
Sales of goods and services	598	665	726	819	828	936
Other current revenue	2,297	2,027	2,289	2,222	3,107	3,528
Sales of fixed assets	-1	13	26	19	183	16
Tax refunds	4,966	4,957	4,290	5,827	4,320	5,881

TABLE 2.1.1 (continued)

	2021		2022		2023	
	DYE	Budget forecast	MTFS	Preliminary Draft Budget	MTFS	Preliminary Draft
	April 2022	2022	2022-2025	Estimate 2023	2022-2025	Budget forecast 2023
Expenditure¹	70,661	65,594	62,994	72,464	62,571	69,411
Compensation of employees	13,494	13,599	13,468	13,659	13,997	13,672
Social benefits	269	221	198	446	184	398
Transfers	37,743	29,825	29,548	32,711	29,424	31,433
Purchases of goods and services	2,322	1,136	1,202	2,266	1,057	1,430
Subsidies	361	80	80	412	80	80
Interest payments (gross basis)	5,498	5,550	5,600	6,000	5,600	7,000
Other current expenditure	420	101	51	91	51	81
Non-allocated expenditure (without PIB)	8,916	13,922	11,665	15,259	11,565	15,110
Purchase of fixed assets	1,638	1,160	632	1,620	613	207
Public Investment Program (PIP)²						
Revenue	4,693	4,490	4,290	4,932	4,320	4,436
Expenditure	8,694	7,800	7,250	8,800	7,000	8,300
Recovery and Resilience Fund³	307	3,199	3,199	3,199	3,199	3,466
State Budget Primary Balance by ESA⁴	-11,884	-4,620	-2,572	-5,502	3,068	-938
% GDP	-6.5%	-2.5%	-1.4%	-2.6%	1.6%	-0.4%
State Budget Balance by ESA⁴	-17,382	-10,170	-8,172	-11,502	-3,932	-7,923
% GDP	-9.5%	-5.4%	-4.4%	-5.5%	-2.0%	-3.6%
GDP	182,830	187,278	184,658	209,943	194,564	220,974

Source: Preliminary Draft State Budget 2023, Ministry of Finance, State Budget Introductory Report 2022, Ministry of Finance, Medium-Term Fiscal Strategy 2022-2025, Ministry of Finance.

Notes:

1. The expenses of the central administration are analyzed according to the major categories of the p.d. 54/2018 (A' 103).
2. PIP revenues are included in transfers and other current revenues, while PIP expenses are included in appropriations under allocation.
3. The revenues of the Recovery and Resilience Fund are included in the transfers, while the corresponding expenses are included in the appropriations under allocation.
4. Deficit (-)/Surplus (+).

billion euros or -33.8%, respectively. It is important to mention that the expenditures of the Public Investment Program (PIP) have also increased by 1 billion euros or 12.8% compared to the Budget forecast and 106 million euros or 1.2% in relation to the expenditures for the 2021 PIP, but mainly because a disbursement from the Recovery and Resilience Fund of 3.20 billion euros or 1.5% of GDP is expected, which demonstrates that there is an investment orientation.

Preliminary Draft Budget 2023

Regarding the 2023 Preliminary Draft Budget, the macroeconomic forecast for the country's GDP growth rate is 2.1%, lower than 2022, though the Greek economy will continue to grow, due both to the increase in economic activity and to investment spending due to the resources flow into the Greek economy from the PIP and the Recovery and Resilience Fund (RRF). However, this forecast is higher than the Eurozone average (1.4% according to the spring forecasts and 0.9% according to the ECB's September 2022 forecasts). The lower expected growth of the Greek economy is due to the increased risks that arise mainly from the geopolitical developments and the development of the war in Ukraine both in terms of its duration and the sanctions imposed, as well as the conditions for supplying Europe with natural gas.

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 2022. The State Budget's primary result, according to the ESA, will be restricted to a deficit of 939 million euros (0.4% of GDP), while the total result will be 7.9 billion euros (3.6% of GDP), reduced by 4.6 billion euros or 83% and 3.6 billion euros or 31.1%, respectively.

More specifically, net revenues, expected to reach 61.5 billion euros (27.8% of GDP), are increased by 526 million euros or 0.9%. The increase in revenue is projected to come from an increase in VAT and Income tax collectability, mainly from businesses (563 million euros or 2.6% and 596 million euros or 14.5%, respectively), increases which, again, will come from the collection of indirect and direct taxes due to the increase in inflation from the energy and geopolitical crises. Expenditures will reach 69.5 billion (31.4% of GDP), reduced by 3.1 billion euros or 4.2% compared to the 2022 estimates from the 2023 State Budget Draft and will arise from Transfers (1.3 billion euros or 3.8% more than in 2022)

and, secondly, from Purchases of goods and services (836 million euros or 36.9%). In addition, 3.5 billion euros are expected from the Recovery and Resilience Fund, which will be used for the implementation of actions included in the National Recovery and Resilience Plan "Greece 2.0", as well as 8.3 billion euros from the PIP, mainly through the execution of programs that are part of the new NSRF 2021-2027.

2.2. The evolution of Greek public debt, second quarter 2022

According to the latest data available from the General Accounting Office,¹ for the second quarter of 2022, the Central Government's debt amounted to 394.18 billion euros, showing a decrease of 364 million euros (0.1%) compared to the previous quarter, while increased by 5.9 billion euros (1.5%) in relation to end of the year 2021 and 6.8 billion euros (1.8%) compared to the corresponding quarter of 2021. In addition, cash deposits decreased by 1.8 billion euros (9.5%) compared to the previous quarter, by 170 million euros (1.0%) compared to the end of 2021 and by 1.4 billion euros (7.7%) compared to the corresponding quarter of 2021.

The composition of Central Government debt in the second quarter of 2022 is presented in Table 2.2.1. The Central Government's debt is in fixed interest rate. There is a change in the composition of the debt in favor of fixed interest, both compared to the previous quarter (99.1% and 0.9%) and compared to the corresponding quarter of 2021 (98.5% and 3.5%, respectively). There is a corresponding change in favor of tradable debt over non-tradeable, which is 24.9% and 75.1%, respectively, during the period under review. Finally, the Central Administration's debt is entirely in euros, while in the previous period, it also had 0.5% in foreign currency. Finally, guarantees of the Greek State, amounting to 30.2 billion euros, showed a very small drop (350 million euros or 1.1%) compared to the previous quarter, after the significant increase in the previous period, while in comparison to the corresponding quarter of 2021 are approximately 40% more.

The distribution of the debt, based on its remaining duration in the first half of 2022, is reflected in Table 2.2.2. Short-term Greek government securities (with a maturity of less than one year) of the Greek State represent 16.4% of the total, against 10.3% from the medium-term securities (with a maturity of one to five years), and 73.3% from long-term issues (maturity after

1. Public Debt Bulletin, June 2022, General Accounting Office, Ministry of Finance.

TABLE 2.2.1 Central Government debt¹ (in million €)*

Period	2021 (B' quar.)	2021 (D' quar.)	2022 (A' quar.)	2022 (B' quar.)
Outstanding Central Government debt	387,328.87	388,337.41	394,547.18	394,182.48
Debt by type of interest rate				
Fixed rate ²	381,518.94	384,065.70	390,996.26	394,182.48
Floating rate ^{2,3}	5,809.93	4,271.74	3,550.92	0
Debt by way of trading				
Tradable	92,571.60	94,754.33	95,480.42	98,151.44
Non-Tradable	294,757.27	295,136.43	299,066.76	296,031.04
Debt by currency				
Eurozone	386,554.21	387,560.74	392,574.44	394,182.48
Non-eurozone currencies	774.66	1,165.01	1,972.74	0
Cash deposits of the H.R.⁴	18,484.40	17,230.10	18,856.30	17,059.4
Debt guaranteed by the Central Government	21,540.33	22,888.15	30,503.35	30,153.53

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. Including balance of dedicated cash buffer account, 15,697.3 million euros on 31/3/2021 & 30/6/2021.

* Estimates.

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

Period	2021 (B' quar.)	2021 (D' quar.)	2022 (A' quar.)	2022 (B' quar.)
Total volume	387,328.87	388,337.41	394,547.18	394,182.48
Short-term (up to 1 year)	53,053.05	56,742.38	66,872.07	64,742.23
Medium-term (1 to 5 years)	43,327.99	42,084.97	37,280.81	40,446.51
Long-term (more than 5 years)	290,947.83	289,510.06	290,394.30	288,993.75

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

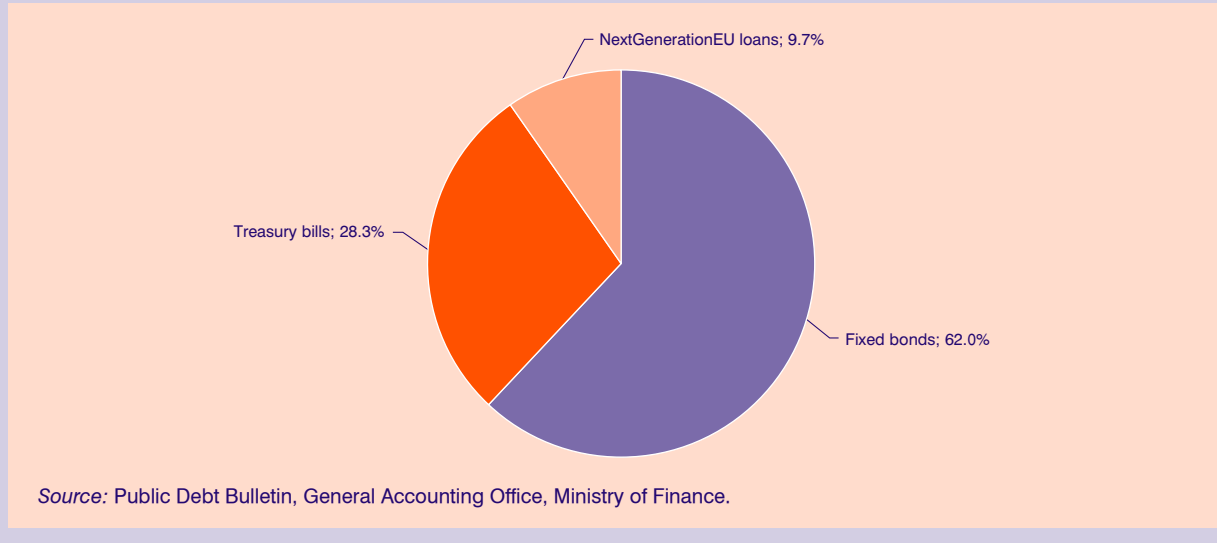
* It concerns the volume of bonds, treasury bills and short-term securities and not the total debt of the Central Administration.

five years) from 16.9%, 9.4% and 73.6%, respectively, which were in the previous quarter of 2022. Compared to the corresponding quarter of 2021, an increase in the share of short-term and medium-term securities and a corresponding reduction in long-term securities is exhibited.

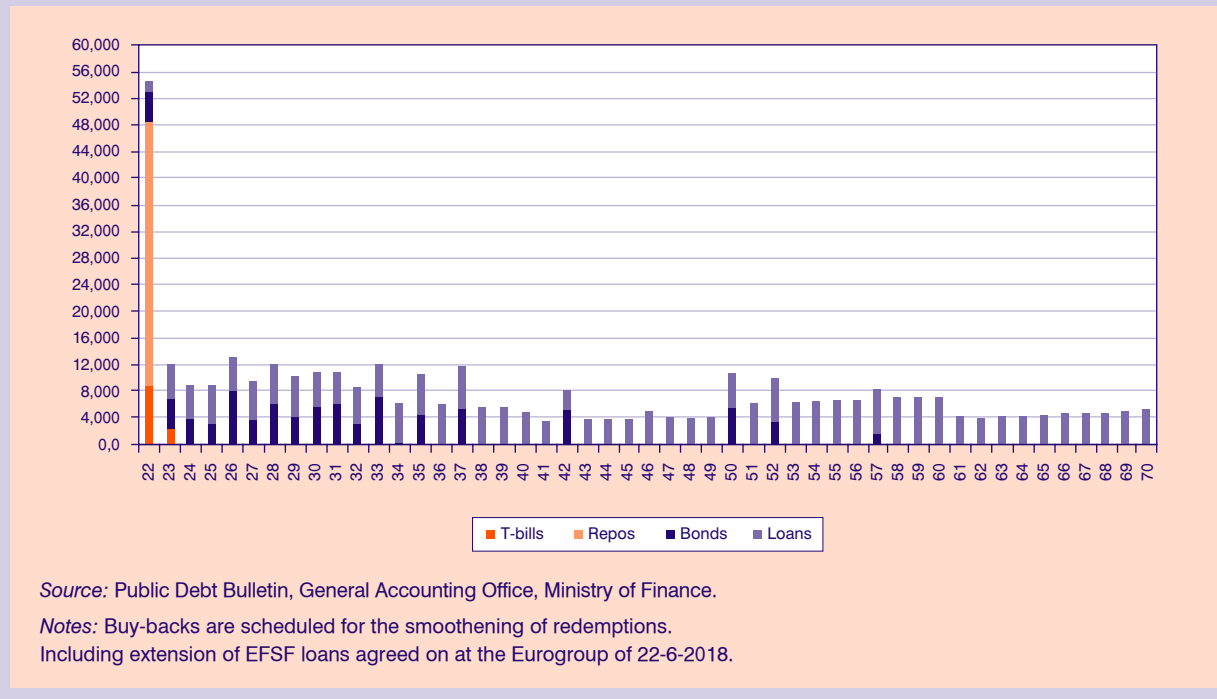
The average residual maturity of the total Central Government debt stood at 18.17 years, slightly decreased

from that of 18.98 years in the corresponding quarter of 2021. It should be noted that the average residual maturity of the total Central Government debt has tripled since the country's entry into 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 4.90 years, almost

GRAPH 2.2.1
Composition of new borrowing, A' Semester 2022



GRAPH 2.2.2
Redemption schedule of Budgetary Central Government Debt on 30/6/2022 (amounts in million euro)



half of that of 2021, which was 9.80 years, very close to the level of 4.05 years at which it had formed at the end of 2019.

The new borrowing for the first half of 2022 decomposes to 62% of treasury bills, 28.3% of fixed bonds and only 9.7% comes from the European recovery instrument NextGenerationEU (NGEU) (Graph 2.2.1).

Graph 2.2.2 shows the redemption schedule of the Central Government debt based on the latest published data. From the display of newer data, it seems that apart from the current year (2022), the dispersion of the burden of redemption of public debt has now leveled, with few exceptions, at less than 12 billion euros per year until 2070.

2.3. Fiscal figures perspectives

The Draft State Budget of 2023 was drawn up under high uncertainty conditions, both in terms of geopolitical developments at the global level and the maintenance of fiscal balance. In this context, solutions are being sought regarding the challenges arising from the energy crisis, the inflationary pressure on households and businesses, the health crisis which, even if it has subsided, continues to burden the costs of the health system, as well as the increased costs for the necessary defense armor of the country.

The forecast for growth in 2023 at 2.1%, although very moderate compared to 2022 (5.3%), can be considered particularly optimistic because it is based on assumptions whose realization is doubtful. Key conditions are the weakening of inflationary pressures, the maintenance of demand, the promotion of significant investments through the Public Investment Program and the Recovery and Resilience Fund, as well as a partial normalization of the energy markets.

If, on the contrary, geopolitical challenges and the development of the war in Ukraine lead to further problems in the supply of natural gas to Europe, or perhaps even to a complete and prolonged interruption of the distribution of natural gas from Russia, it will signal higher natural gas prices in Europe for a longer period of time, the possibility of which could lead, in the absence of sufficient supply, to the European economy falling into recessionary conditions. That will result in increased energy and fuel prices, and, consequently, an even greater increase in inflation. This increase will slow down a series of indicators that are considered essential for the growth of the economy.

In this case, the resources of the Recovery and Resilience Fund and the investments of the PIP will not be enough to cover the difference. In addition, the decisions of the Eurogroup referring to targeted and not generalized actions to support the economy should be considered, which deprives many households and businesses of income to sustain demand and jobs, an attitude which leads the debate to a possible recession in the EU.

For fiscal figures, a tighter policy is foreseen, with increased revenues and cuts in expenditures, a forecast which is subject to the same assumptions as those of the macroeconomic forecasts. An increase in energy prices (natural gas, oil, electricity) will have to be subsidized by the country's budget if there is no unified energy policy from the EU. Correspondingly, a more general increase in inflationary pressures, with a further increase in the prices of necessities, as well as business inputs, will lead to an even greater increase in spending.

As for public debt, it is expected to increase slightly in nominal terms in 2023, but to decrease in debt-to-GDP terms, given the expected growth of the economy. However, this forecast also follows the assumptions about the growth of the economy.