NATIONAL BANK
OF GREECE

GREECE Macro Flash

Fiscal trends in 2021 and prospects for 2022

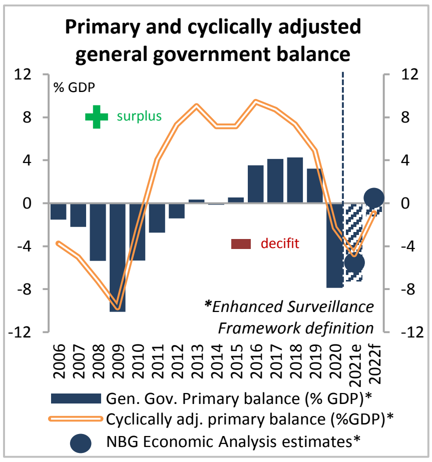
February 2022

General Government primary deficit in 2021 is expected to outperform the Budget targets by 1.5% to 2.0% of GDP, which should lead to a marked reduction in the debt-to-GDP ratio to near 183% in 2022 from 206% in 2020

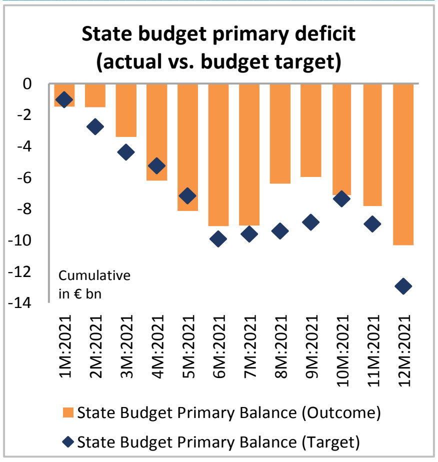
- The latest data on the implementation of General Government Budget in 12M:2021 suggest that the overperformance has been even more pronounced than previously thought due to the overperformance of the economy's activity.
- Indeed, General Government primary deficit (on a modified cash basis) contracted by almost 40% y-o-y (or by €4.6 bn) to 4.2% of GDP in 2021 compared with 7.3% of GDP in 2020.
- Fiscal trends improved rapidly in H2:2021 – following almost 1½ year of substantial fiscal expansion – supported by the strong improvement in cyclical conditions in the economy, with the General Government primary deficit (modified cash basis) turning to a surplus of €1.5 bn (0.8% of GDP) in H2:2021 from a deficit of about 5% of GDP (€9.0 bn) in H1:2021.
- A €4.9 bn increase in tax revenue (+11.4% y-o-y), 0.7% of GDP above the 2022 Budget target, lowered the primary deficit by 0.5% of GDP on an annual basis.
- Specifically, the strength of economic recovery led to a stronger-than-expected rebound in VAT revenue – up by 16.1% y-o-y – accounting for nearly half of the estimated increase in total tax revenue in 2021.
- The largest surprise came from corporate income tax (CIT) revenue that increased by an impressive 43% y-o-y (€1.0 bn higher than in 2020 and €0.3 bn above the target for 2021), reflecting a sharp improvement in business activity.
- On the expenditure side, the gradual unwinding of support measures in the second half of 2021 and favorable cyclical conditions led to better-than-expected outturn in primary expenditure that declined by 3.2% of GDP, on an annual basis, remaining broadly flat in nominal terms.
- NBG estimates that the General Government primary deficit in 2021, according to the Enhanced Surveillance definition that applies additional adjustments to the cash data, will decrease to 5.5-6.0% of GDP compared with 7.9% in 2020.
- Most importantly, the more favorable starting point is expected to bolster the fiscal adjustment effort in 2022, with the primary government budget returning to a broadly balanced position in 2022 – compared with a deficit of 1.2% of GDP estimated in the Budget – assuming a gradual easing of fiscal pressure related to the energy crisis over the course of the year. This estimate takes into account the already announced additional measures to cushion the impact of the ongoing, energy-driven, upsurge in inflation in early 2022 and the recent reduction in real estate taxation (ENFIA).
- General government debt is projected to fall to 192% of GDP in 2021 (from 206% in 2020) and to below 183% in 2022; significantly lower than the Budget 2022 estimates of 197% and 190% respectively, due to the fiscal overperformance in 2021 and highly supportive cyclical conditions. This performance is expected to support the effort to regain the investment grade status while bolstering credibility in a period of increasing sovereign yields, due to the gradual normalization of monetary policy.

NBG | Economic Analysis Division
Greece Macro Analysis Team
86 Eolou Str., 105 59 Athens, Greece

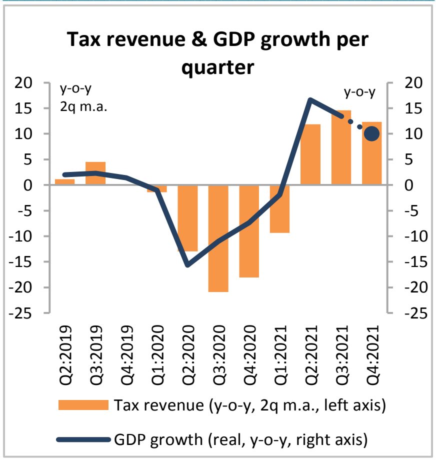
General Government primary deficit, on a modified cash basis, contracted by c. 40% y-o-y (or by €4.6 bn) to 4.2% of GDP, presaging a faster than budgeted fiscal rebalancing



The fiscal position improved drastically in H2:2021



A strong cyclical turnaround in revenue since mid-2021, bolstered by better-than-expected GDP growth



The lower-than-expected primary deficit in 2021 leads to a better starting point for 2022, speeding up the fiscal adjustment and cushioning fiscal risks

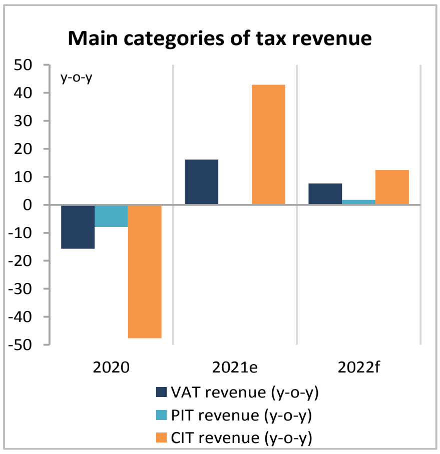
General Government Budget data for 12M:2021 suggest that the overperformance against the respective Budget 2022 target has been even more pronounced than previously thought (see NBG - Greece Macro Flash December 17, 2021). Indeed, General Government primary deficit (on a modified cash basis) contracted by almost 40% y-o-y (or by €4.6 bn) to 4.2% of GDP in 2021 compared with 7.3% of GDP in 2020. Although the available data are not fully aligned with the ESA 2010 standard, the substantial decrease in the cash deficit presages a significant improvement in the primary balance according to the Enhanced Surveillance definition. In fact, on this definition the y-o-y drop in the primary deficit is estimated at about 2.0% of GDP, to 5.5%-6.0% of GDP in 2021, when applying the main adjustments related to the Enhanced Surveillance Definition (mostly comprising the exclusion of the SMP/ANFA revenue). Most importantly, this overperformance in 2021 sets a more favorable starting point for 2022 and points to a further significant improvement in 2022.

Indeed, the fiscal trends rapidly reversed course in H2:2021 – following about 1½ year of substantial fiscal expansion – supported by the strong improvement in cyclical conditions, with the General Government primary deficit (modified cash basis) turning to a surplus of €1.5 bn (0.8% of GDP) in H2:2021 from a deficit of about 5% of GDP (€9.0 bn) in H1:2021. The real GDP growth forecast of 6.9% y-o-y for 2021, included in the Budget 2022, has been exceeded by a wide margin, with the estimated increase in GDP now being around 9.5% y-o-y in FY:2021.

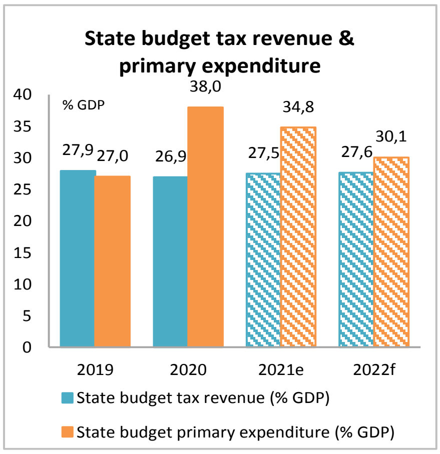
Importantly, this performance implies even stronger positive base effects for government revenue in 2022, when GDP is expected to grow by a solid 4.4% y-o-y. Furthermore, increased inflation in Q4 (+4.5% y-o-y compared with 0.2% in 9M:2021) supported tax revenue, bolstering the size of the tax base in nominal terms, in a period when domestic demand, in real terms, remained robust, due to the continuing rise in real

***Sources**: ELSTAT, Greek Ministry of Finance, IMF, NBG Econ. Analysis estimates*

The significant improvement in State budget tax revenue (11.4% y-o-y in 2021) reflects the buoyancy of VAT and CIT revenue



The gradual unwinding of support measures in the second half of 2021 and favorable cyclical conditions led to better-than-expected outturn in primary expenditure (y-o-y decline of 3.2% of GDP in 2021)



The improved fiscal outcome in 2021 sets a more favorable starting point for 2022 bolstering the fiscal adjustment

Budget 2022 figures adjusted for the latest information	2020	2021e	2022f
		% GDP	
State budget balance (ESA 2010)	-12,8	-7,7	-2,6
Net revenue	28,7	30,1	30,3
of which tax revenue	*26,9*	*27,5*	*27,6*
Primary expenditure	38,0	34,8	30,1
Other Gen.Gov. Entities balance & nat.account adjustments (ESA 2010 approximation)	2,7	0,2	0,4
General government balance (ESA 2010)	**-10,1**	**-7,5**	**-2,2**
Interest payments	3,0	2,6	2,5
Enhanced Surv. adjustments	-0,8	-0,7	0,2
General government primary balance	**-7,9**	**-5,5**	**0,5**

Sources: Greek Ministry of Finance & NBG Econ. Analysis calculations

disposable income in 9M (estimated at +12.0% y-o-y) and buoyant economic sentiment.

A €4.9 bn increase in tax revenue (+11.4% y-o-y) – compared with an estimated nominal GDP growth of 9.8% – 0.7% of GDP above the 2022 Budget target, lowered the primary deficit by 0.5% of GDP on an annual basis. Specifically, the strength of economic recovery led to a stronger-than-expected rebound in VAT revenue – up by 16.1% y-o-y (or €2.4 bn) in FY:2021 and €0.4 bn above the annual target – accounting for nearly half of the estimated overperformance in total tax revenue in 2021.

However, the largest surprise came from corporate income tax (CIT) revenue that increased by an impressive 43% y-o-y (€1.0 bn higher than in 2020 and €0.3 bn above the target for 2021), reflecting the sharp improvement in business activity. Indeed, business profits (as approximated by the gross operating surplus) rose by 14.8% y-o-y in 9M:2021 and appeared to remain on a steep upward trend through Q4:2021, with business turnover up by 21% y-o-y in FY:2021, exceeding by 4.9% its pre-pandemic level in FY:2019.

The strong turnaround in economic activity and better than expected labor market developments led PIT and excise tax revenue €0.5 bn and €0.1 bn higher than the respective budget targets. Nonetheless this improvement has been outpaced by nominal GDP growth, with their share in GDP declining by 0.7% on an annual basis.

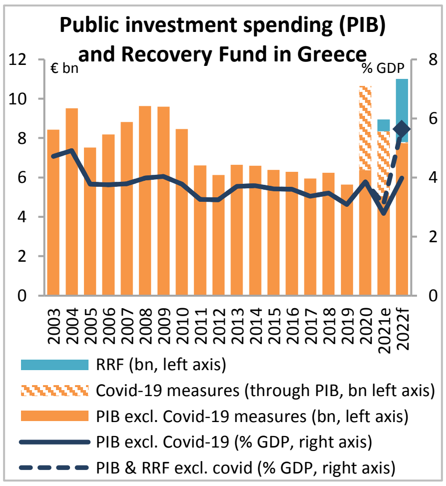
On the expenditure side, the gradual unwinding of support measures in the second half of the year and favorable cyclical conditions led to better-than-expected outturn in primary expenditure, that declined by 3.2 pps of GDP on an annual basis (€1.8 bn lower than the Budget target) in 2021, despite the continued fiscal support related to Covid-19, and the compensation for damages from natural disasters (floods, wildfires) and energy-related subsidies.

The surplus in social security funds increased slightly to 0.6% of GDP in 2021 from 0.5% of GDP in 2020, supported by increasing employment especially in H2:2021, partly offsetting the 0.2 pp decline in the surplus of local governments as per cent of GDP.

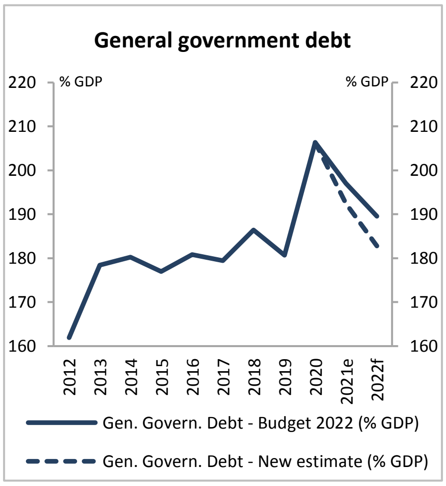
In view of the above developments, NBG estimates that the General Government primary deficit in 2021, according to the

Sources: *Greek Ministry of Finance, NBG Econ. Analysis estimates*

A strong increase in public investment, including RRF spending, to an 18-year high in 2022 cements the economic recovery



The Covid-related impact on public debt-to-GDP ratio is estimated to be fully reversed in 2022, much earlier than initially expected



Enhanced Surveillance definition, will decrease to about 5.5-6.0% of GDP, compared with the 2022 Budget estimate of 7.3% and 7.9% in 2020. Most importantly, the more favorable starting point is expected to bolster the fiscal adjustment effort in 2022, with the primary government budget returning to a broadly balanced position in 2022, compared with a deficit of 1.2% of GDP estimated in the Budget assuming a gradual easing of the fiscal pressures related to the energy crisis over the course of 2021. This estimate takes into account the activation of new measures in early 2022 to cushion the impact of the ongoing energy-driven upsurge in inflation, the targeted support to firms and households still affected by the pandemic and the recently announced reduction in real estate taxation (ENFIA) with an additional fiscal cost of about 0.2% of GDP. Nonetheless the intensification of the energy crisis could pose additional fiscal challenges in 2022.

This outcome is expected to be combined with, a substantial increase in public investment as indicated by Budget targets for 2022 (including expenditure financed by the RRF). PIB spending is planned to increase by 23% y-o-y to €11 bn in 2022 with the share of public investment in GDP climbing to an 18-year high of about 5.7%, supporting economic growth and giving rise to positive second-round effects on activity, given the high multiplier effect of public investment on GDP.

The above estimates are derived by applying prudent Budget assumptions, regarding the annual changes of all key budgetary components in 2022, to the seemingly stronger fiscal outcomes in FY:2021 and taking also into account the additional fiscal cost of measures announced in early 2022. In cyclically adjusted terms, the primary deficit is estimated in the vicinity of 3.0% of GDP in 2021 and is expected to return to a broadly balanced position in 2022, in conjunction with the sharp shrinkage in the output gap.

General government debt is projected to fall to 192% of GDP in 2021 (from 206% in 2020) and to below 183% in 2022; significantly lower than the respective Budget 2022 estimates of 197% and 190% respectively, due to the fiscal overperformance in 2021 and highly supportive cyclical conditions.

Sources*: Greek Ministry of Finance, European Commission, NBG Econ. Analysis estimates*

National Bank of Greece | Economic Analysis Division

Nikos S. Magginas, PhD | *Chief Economist, Head of NBG Economic Analysis Division*
e-mail: nimagi@nbg.gr

NBG Greece Macro Analysis Team

Effrosyni Alevizopoulou, PhD
(+30210) 334 1620
e-mail: alevizopoulou.e@nbg.gr

Katerina Gouveli, MSc
(+30210) 334 2359
e-mail: gouveli.aikaterini@nbg.gr

Eleni Balikou, MSc
(+30210) 334 1198
e-mail: balikou.eleni@nbg.gr

Eleftherios Athanasiou, MSc
(+30210) 334 1453
e-mail: athanasiou.eleftherios@nbg.gr

Sofia Tsaroucha, MSc
(+30210) 334 1626
e-mail: tsaroucha.sofia@nbg.gr

The analysis is based on data up to February 17, 2022, unless otherwise indicated