



Fiscal Targets

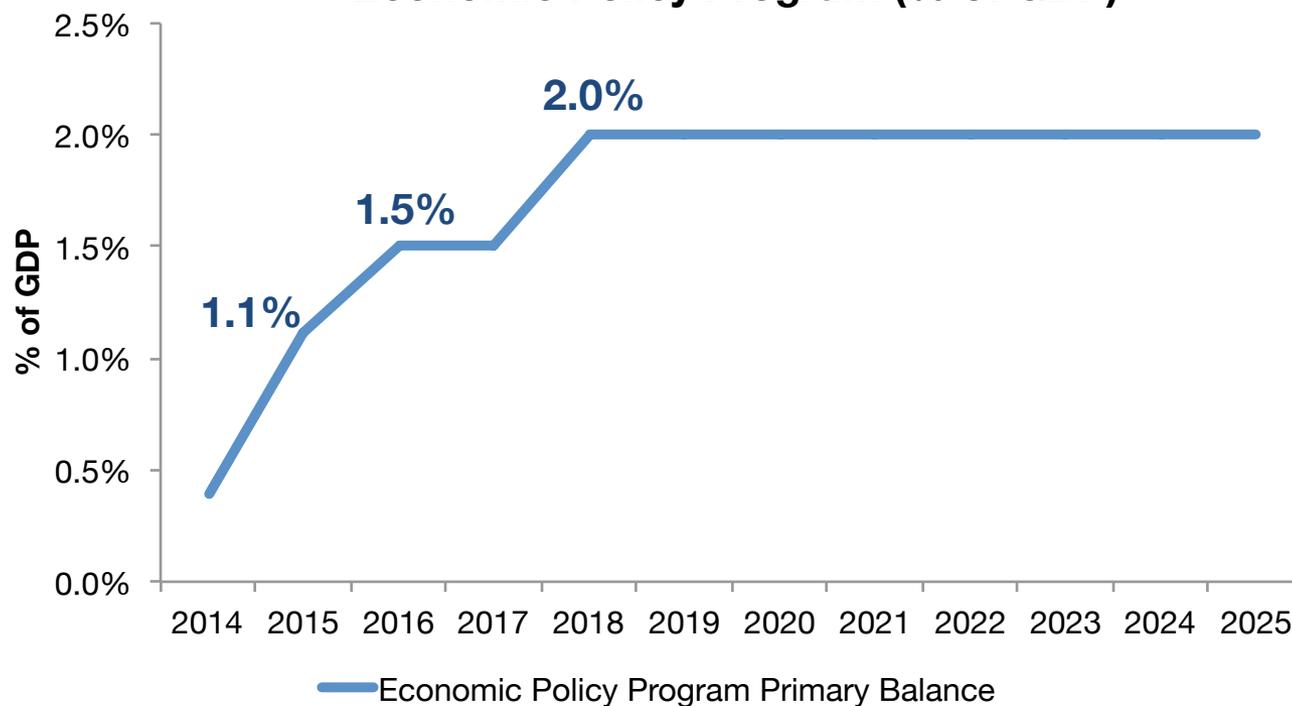
Analysis of Structure of General Government (ESA 95)

Primary Balance Target



ΕΛΛΗΝΙΚΗ ΔΗΜΟΚΡΑΤΙΑ
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General Government Primary Balance Economic Policy Program (% of GDP)



Assumptions:

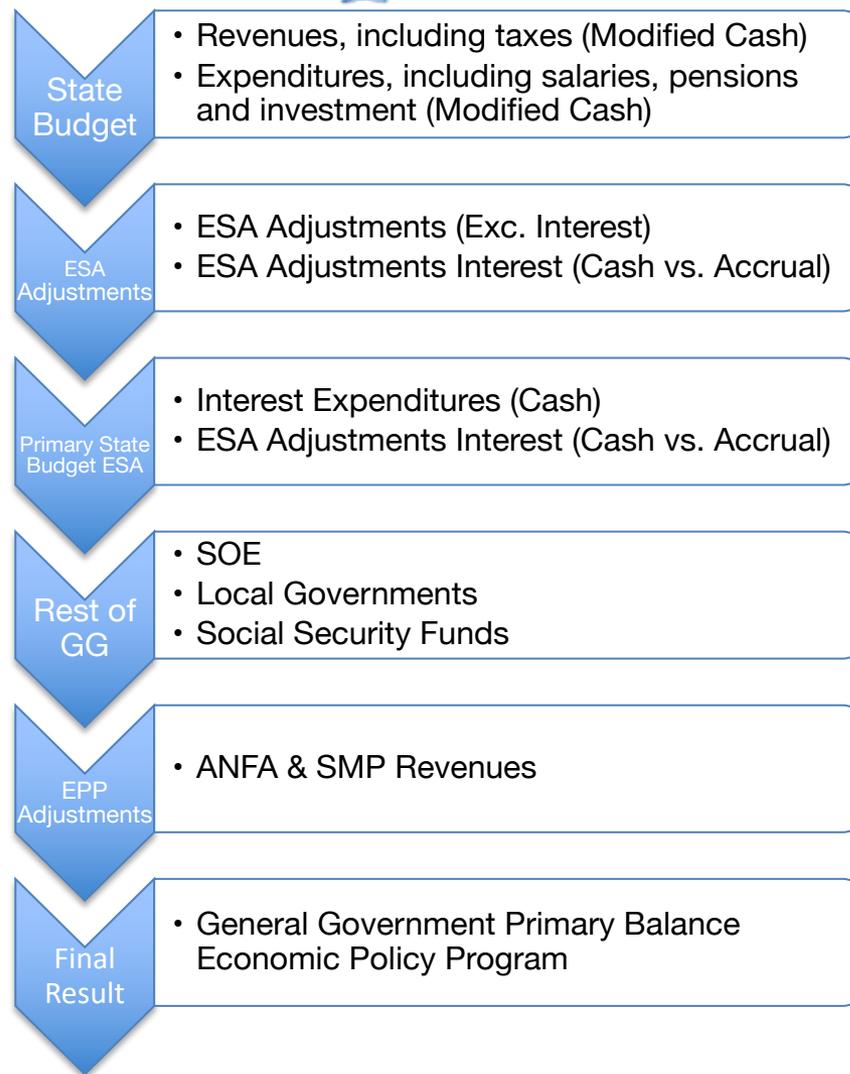
- Rate of GDP growth of average scenario.
- Baseline projections of revenue from MTFS 2015 - 2018
- Adjusted projections of expenditure (2016 – 2025)
- Unit elasticity of revenues to nominal GDP (2019 – 2025)
- Unit elasticity of expenditures to real GDP (2016 – 2025)
- Accrual basis

Key Issues with Government Finance Statistics in Greece



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- Finance statistics are revised backwards to ensure compliance with ESA 95 standards (availability of data since 2012 at the level of General Government).
- But, planning going forward is still done on a modified cash basis and adjusted afterwards.
- This creates a series of issues in terms of establishing the composition of the General Government Primary Balance in terms of the Economic Policy Program by level of government and accounting basis.
- **Most of the focus is on the State Budget (Modified Cash) but biggest contributions to fiscal target come from adjustments and rest of GG**

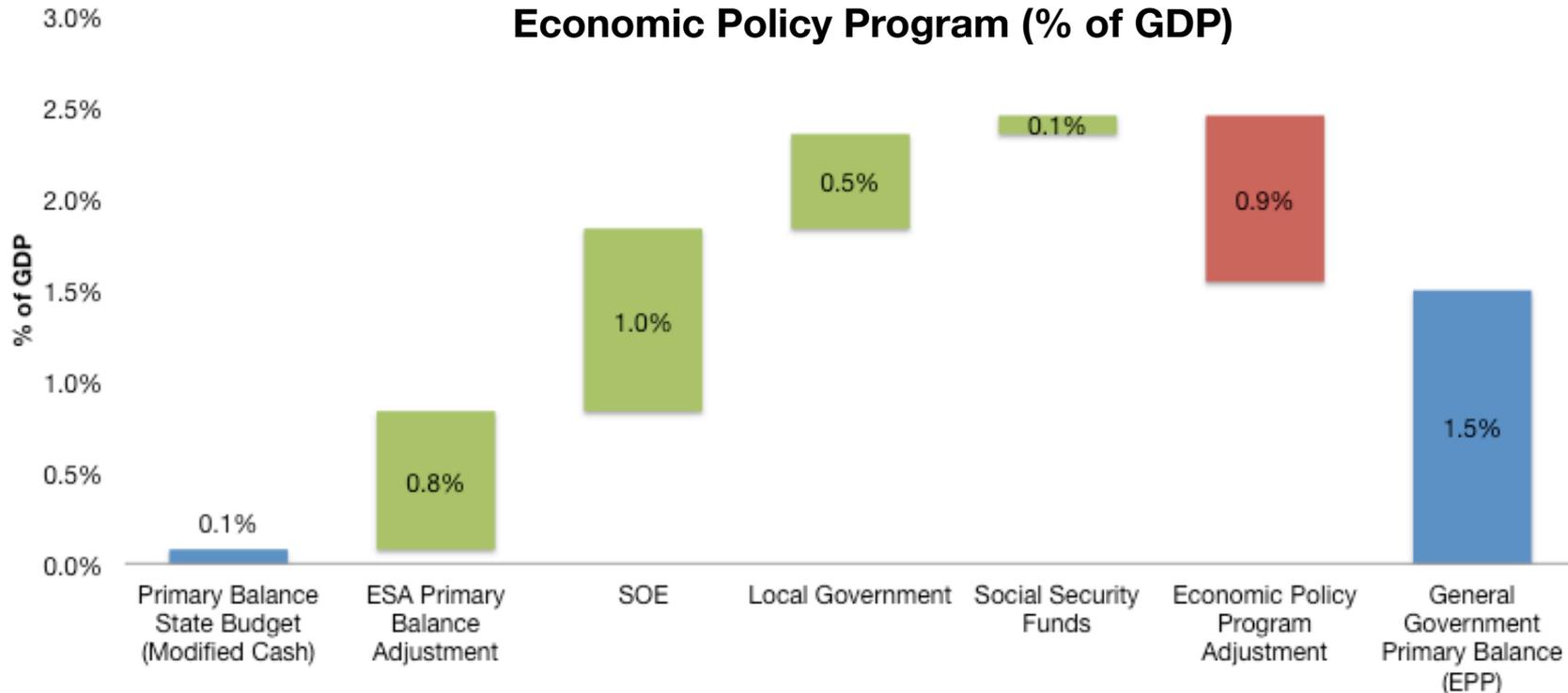


An Example for 2016



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Aggregation of General Government Primary Balance Economic Policy Program (% of GDP)



- Primary balance of State Budget plays a small role in achieving the General Government Primary Balance (EPP).
- Burden of adjustment falls on SOE and Local Governments
- ESA 95 accrual adjustments are compensated by Economic Policy Program adjustments.
- This is a pattern that holds throughout the medium term

ESA and EPP Adjustments



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ESA and EPP Adjustments

Millions of Euros	2016	2017	2018
ESA Adjustment Revenues	1,002	444	411
Tax Revenues	153	155	155
EU Structural Funds	900	340	300
Other	(51)	(51)	(44)

% of GDP	2016	2017	2018
ESA Adjustment Revenues	0.5%	0.2%	0.2%
Tax Revenues	0.1%	0.1%	0.1%
EU Structural Funds	0.5%	0.2%	0.2%
Other	0.0%	0.0%	0.0%

ESA Adjustment Expenditures*	2,405	3,313	3,224
Interest (accrued vs paid)	2,800	3,700	3,700
Other	(395)	(387)	(476)

ESA Adjustment Expenditures*	1.3%	1.7%	1.6%
Interest (accrued vs paid)	1.5%	1.9%	1.9%
Other	-0.2%	-0.2%	-0.2%

EPP Adjustment	(1,683)	(1,338)	(1,076)
Revenues Transfer ANFA & SMP	(1,683)	(1,338)	(1,076)

EPP Adjustment	-0.9%	-0.7%	-0.5%
Revenues Transfer ANFA & SMP	-0.9%	-0.7%	-0.5%

* In the case of expenditures, positive sign denotes a negative impact on primary balance

Source: MTFS 2015 - 2018

- As planning is still done on a modified cash basis, adjustments play a significant role in determining the primary balance.
- In the case of expenditures, biggest difference is related to the deferral of interest payments on ESFS bonds until 2023.
- In the case of EPP adjustments, key factor is the revenues from ANFA & SMP.

Composition of MTFS



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Υπουργείο Οικονομικών

Aggregation of General Government Primary Balance Economic Policy Program (% of GDP)

% of GDP (V 1.2)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Revenues State Budget (Modified Cash)	30.6%	29.0%	29.3%	28.8%	28.7%	28.5%	28.2%	28.2%	28.2%	28.2%	28.2%
Primary Expenditures State Budget (Modified Cash)	29.2%	28.9%	29.3%	28.0%	28.2%	28.2%	28.2%	28.2%	28.2%	28.2%	28.2%
Primary Balance State Budget (Modified Cash)	1.3%	0.1%	0.0%	0.7%	0.4%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Revenues	-0.4%	0.5%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Expenditures (Ex. Interest)	-0.3%	-0.2%	-0.2%	-0.2%	-0.3%	-0.3%	-0.3%	-0.3%	-0.4%	-0.4%	-0.4%
ESA 95 Primary Balance Adjustments	-0.1%	0.8%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Primary Balance State Budget ESA 95	1.2%	0.8%	0.4%	1.2%	1.0%	0.8%	0.5%	0.5%	0.5%	0.5%	0.5%
Public Entities Balance & SOE	1.1%	1.0%	1.3%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Local Government	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Social Security Funds	-0.6%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Rest of General Government	1.0%	1.6%	1.8%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
General Government Primary Balance	2.3%	2.4%	2.2%	2.5%	2.4%	2.3%	2.0%	2.0%	2.0%	2.0%	2.0%
Economic Policy Program Adjustment	-1.2%	-0.9%	-0.7%	-0.5%	-0.4%	-0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Economic Policy Program Primary Balance	1.1%	1.5%	1.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

Important to note that an increase in privatization receipts might clash with a consistent surplus at the SOE level as defined in the MTFS 2015-2018 document

Achieving primary surplus targets rest on the assumption of a balanced state budget (modified cash basis) and continuous surplus from SOE and Local Governments

Composition of MTFS



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- The model takes as a given balances of SOE, Local Governments and Social Security Funds. Furthermore, it assumes (as in the MTFS 2015 – 2018) that inter-government transfers have been netted out.
- In this context, the model uses projected revenues and expenditures at the State Budget level (modified cash) as the adjustment variables to achieve the desired General Government Primary Balance (EPP).
- This creates issues of consistency between the different levels of government.
 - From a practical perspective, abrupt changes in levels of expenditure at the State Budget level to accommodate for variations in either ESA / EPP adjustments or balances of SOE, Local Government and Social Security.
 - From a planning perspective, need to ensure proper and consistent planning between different levels of Government.
- Going forward:
 - Need to model SOE, Local Governments and Social Security independently.
 - Need to develop a more refined DSA which allows a more precise calculation of the cash/accrual component of interest payments.
 - Need to switch elaboration of State Budget to accrual basis. This eliminates current incentives to create arrears as a way to achieve targets on a cash basis.