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Greece: January – September 2016 State Budget Execution, & September 2016 General Government arrears

- According to the final State Budget Execution data for January – September 2016, the budget balance recorded a surplus of ca €0.59 bn, €3.62 bn narrower relatively to the respective 2016 Budget (B16) target (deficit €3.02 bn). The primary balance recorded a surplus of ca €5.44 bn, significantly outperforming the B16 target (primary surplus €1.91bn).
- In more detail, ordinary budget net revenue for January – September 2016 (Fig.1) amounted to ca €35.25 bn, higher by ca €1.48 bn (or 4.4%) and €3.03 bn (or 9.4%) compared with the monthly B16 target and the corresponding 2015 figure, respectively.
- Total tax revenue over-performed by ca €1.07bn (or 3.3%) with respect to the B16 target. On the direct taxes, revenues from the personal income tax (by 3.3%), corporate income tax (by 18.4%) and direct tax arrears (by 16.1%), outperformed the respective B16 targets. Revenue from the other direct taxes and property taxes decreased by ca -8.4% and -4.7% relative to their respective B16 targets. With regard to indirect taxes, VAT revenue increased by 3.0% compared with the B16 target. VAT revenue on fuel decreased by -11.8% (which is mainly due to lower oil prices) compared with the B16 target. VAT revenues from tobacco and all other goods increased by 0.6% and 4.9%, respectively, in comparison with their B16 targets, as a result of: (i) the planned increase on the tobacco products' indirect taxes from January 2017 onwards; (ii) the VAT rate hike decided on May 2016 in the context of the 1st programme review; (iii) the abolition of lower VAT rates on a series of Greek islands; and (iv) the improved use of electronic means of payment. Consumption taxes were almost online with the respective target. Tax refunds grew by -0.8% (or €0.02 bn) relative to the respective B16 target. Non-tax revenue outperformed their B16 target by ca €0.79bn or 28.9%.
- Ordinary budget expenditure (Fig.1) for January-September 2016, amounted to ca €34.55 bn, undershooting the respective B16 target by ca €2.47 bn (or -6.7%), but were ca €0.52 bn (or 1.5%), higher than the respective 2015 figure. Primary spending was lower than the respective B16 target by ca €1.90 bn (or -6.1%). Military spending remained close to zero, undershooting the respective B16 target by €0.37 bn (or -71.7%).
- Public Investment Budget (PIB) total revenue, for January-September 2016 amounted to ca €2.58 bn, lower by ca €0.97 bn (or -27.3%) relative to the respective B16 target but increased by €0.51 bn (or 24.5%) on an annual basis. PIB total expenditure amounted to ca €2.68 bn, ca €0.63 bn (or -19.0%) lower compared with the respective B16 target but higher than the respective 2015 figure by ca €0.51bn (or 23.5%).

Key takeaway

The January-September 2016 adjusted primary balance (ABS) (Fig.2) registered a surplus of €3.29 bn from €1.47 bn in August 2016, as a result of the revenue improving factors discussed above, an encouraging fact for the achievement of a primary surplus of 0.5% of GDP (in programme terms) for 2016. The latter will be also conditional on the success of the fiscal measures agreed in May - June 2016, the ability of the Revenue Agency to deliver in its targets and the taxpayers' ability to meet their tax obligations (direct and indirect taxes obligations of ca €5.29 bn and €6.19 bn). The downward revision of the 2015 primary surplus (Box 1) does not create additional risks for the achievement of the 2016 target.

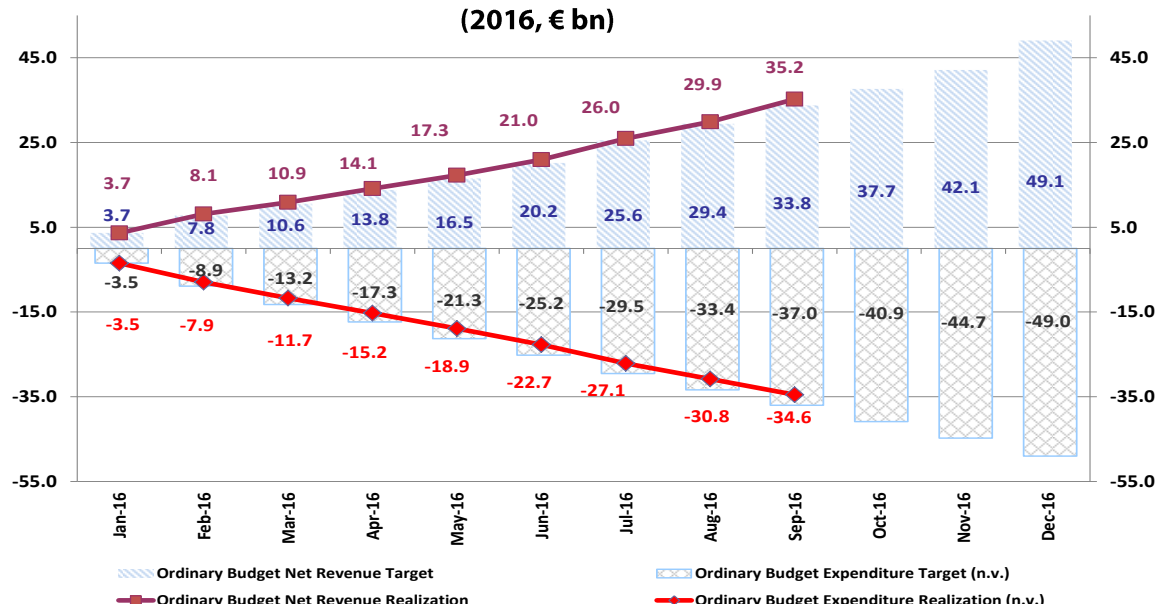
According to the bulletin on General Government (GG) arrears, by the end of August 2016 total funds that were transferred to the various GG entities for arrears (including tax refund arrears) clearance stood at €2.00 bn. The actual payments to the private sector were only at €1.44 bn. As a result total GG arrears at the end of August were at 4.92 bn decreased by 11.1% mom. According to the note prepared by the ESM on the arrears clearance, the actual payments at the end of September were at €1.87 bn. This development together with the disbursement of the 2nd tranche (€1.7 bn) for arrears clearance, will improve significantly the domestic liquidity conditions towards year end.

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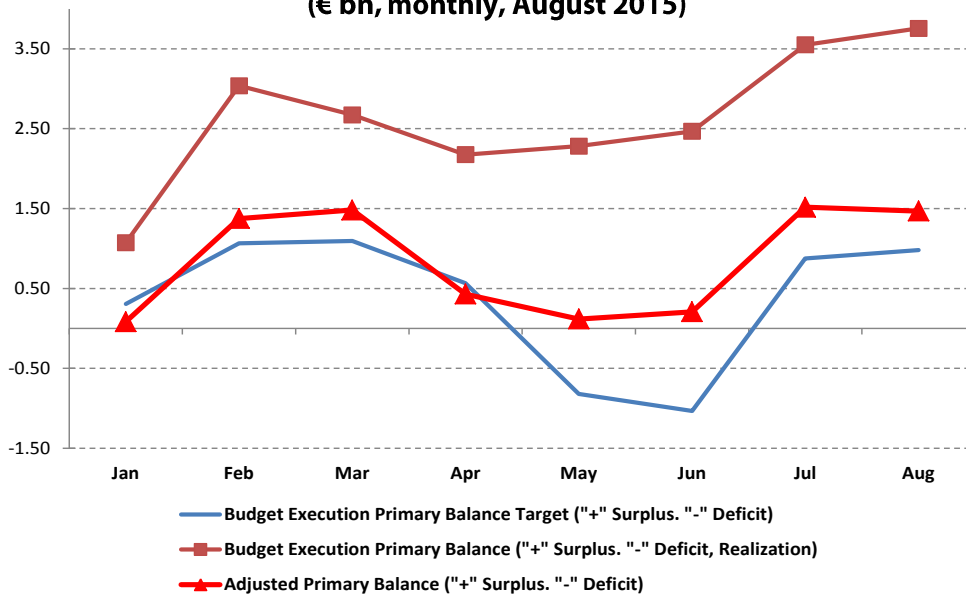
	Jan-September 2015	Jan-September 2016	2016 Budget target Jan-September 2016	%YoY	%target
Primary balance	3.07	5.44	1.91	77.1%	185.3%
Fiscal Balance	-1.90	0.59	-3.02	-131.1%	-119.6%
Ordinary Budget Net Revenue	32.22	35.25	33.77	9.4%	4.4%
Revenue before tax refunds	34.03	37.24	35.79	9.4%	4.0%
Privatizations revenue	0.21	0.07	0.14	-	-
Tax refunds	2.02	2.15	2.17	6.3%	-0.8%
Ordinary Budget Expenditure	34.03	34.55	37.02	1.5%	-6.7%
Primary Expenditure	28.34	29.19	31.10	3.0%	-6.1%
Military equipment procurement payments	0.10	0.15	0.51	46.5%	-71.7%
Guaranties	0.48	0.32	0.42	-33.9%	-23.7%
Guaranties to bodies classified inside GG	0.46	0.29	0.30	-35.9%	-3.0%
Guaranties to bodies classified outside GG	0.02	0.03	0.12	8.3%	-77.4%
Net Interest Expenditure	4.98	4.85	4.93	-2.6%	-1.7%
EFSF fee, etc	0.13	0.05	0.07	-65.6%	-30.8%
Total Public Investment Budget Revenue	2.07	2.58	3.55	24.5%	-27.3%
EU Revenues	1.79	2.43	3.37	35.3%	-27.9%
Own Participation	0.28	0.15	0.18	-46.2%	-16.9%
Total Public Investment Budget Expenditure	2.17	2.68	3.31	23.5%	-19.0%
National Contribution	0.16	0.36	0.29	117.1%	21.9%
Cofinanced part	2.01	2.33	3.02	15.9%	-22.9%

Source: Ministry of Finance

Note: Available at http://www.minfin.gr/sites/default/files/financial_files/STATE_BUDGET_EXECUTION_9_2016_F.pdfFigure 1: State Budget Execution Revenue & Expenditure
(2016, € bn)

Source: Ministry of Finance, Eurobank Research

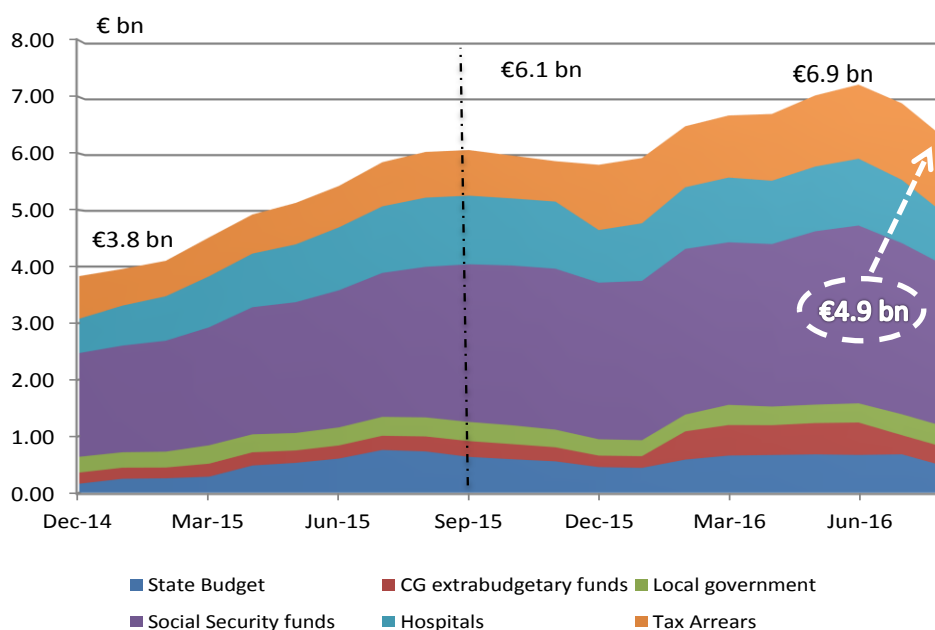
**Figure 2: The Adjusted Primary Balance
(€ bn, monthly, August 2015)**



Source: Eurobank Research

Note: The adjusted primary balance is calculated under the working assumptions that: a) ordinary budget revenue was at its current level, and b) tax refunds, budget expenditure and PIB revenue and expenditure were at their target levels.

**Figure 3: GG Total Arrears including Tax Arrears
(2014-16, monthly basis (September 2016), € bn)**



Source: Ministry of Finance

Box 1: Details on the EDP deficit and debt figures for 2012-2015

ELSTAT (and Eurostat) announced today the Deficit Figures for the period 2012- 2015 according with Eurostat's Excessive Deficit Procedure. According to standard practice, the announcement included the revised deficit and debt figures for the period 2012-2014 and the first estimate for 2015.

Table B.1: GDP, General Government balance, expenditure, revenue and debt (ESA2010, unless noted otherwise)					
		2012	2013	2014	2015
Gross Domestic Product (GDP)	€ bn	191.2	180.7	177.9	175.7
General Government expenditure	€ bn	106.0	112.5	90.0	97.3
	%GDP	55.4	62.3	50.6	55.4
General Government revenue	€ bn	89.1	88.8	83.6	84.1
	%GDP	46.6	49.1	47.0	47.9
General Government balance (deficit (-) / surplus (+))	€ bn	-16.9	-23.8	-6.4	-13.2
	%GDP	-8.8	-13.2	-3.6	-7.5
General Government primary balance (deficit (-) / surplus (+))	€ bn	-7.2	-16.5	0.7	-6.9
	%GDP	-3.7	-9.1	0.4	-3.9
Impact of the support to financial institutions on General Government deficit (deficit (-) / surplus (+))	€ bn	-5.3	-19.4	0.1	-7.2
	%GDP	-2.8	-10.8	0.1	-4.1
General Government primary balance net of the support to financial institutions (deficit (-) / surplus (+))	€ bn	-1.8	3.0	0.8	0.3
	%GDP	-0.9	1.6	0.5	0.147
Adjustments in program terms (2017 Draft Budget + Budgets of previous years) (deficit (-) / surplus (+))	€ bn	1.8	-3.0	-0.8	-0.1
	%GDP	-0.5	0.9	-0.5	0.0
General Government primary balance in programme terms (deficit (-) / surplus (+))	€ bn	0.0	0.0	0.0	0.2
	%GDP	0.0	0.0	0.0	0.1
General Government debt	€ bn	305.1	320.5	319.7	311.7
	%GDP	159.6	177.4	179.7	177.4

Source: ELSTAT, 2017 Draft Budget, Eurobank Research

According to ELSTAT the revisions for the 2013 and 2015 General Government balance and the 2013-2015 General Government Debt figures were due to updated data, to changes in the methodological treatment of specific transactions and to the effect of the revised GDP.

Table B.2: Changes in the data between October 2016 and April 2016					
EDP Notification		2012	2013	2014	2015
October-16					
General Government balance (deficit (-) / surplus (+))	%GDP	-8.8	-13.2	-3.6	-7.5
General Government debt	%GDP	159.6	177.4	179.7	177.4
April-16					
General Government balance (deficit (-) / surplus (+))	%GDP	-8.8	-13.0	-3.6	-7.2
General Government debt	%GDP	159.6	177.7	180.1	176.9
Difference					
General Government balance (deficit (-) / surplus (+))	%GDP	0.0	-0.2	0.0	-0.3
General Government debt	%GDP	0.0	-0.3	-0.4	0.5

Source: ELSTAT

The GG primary balance in ESA 2010 terms for 2015 net of the support to financial institutions is expected at 0.3% of GDP. For the calculation of the primary balance in program (MoU) terms additional adjustments are needed (namely we have to subtract the revenues from the ECB's SMP & ANFA programme, add the cash accrual adjustment for ENFIA, subtract the revenues from the privatization programme and revenues related to the support of the financial institutions and finally add the adjustment for military expenses). **The 2015 primary balance in program (MoU) terms is at ca 0.1% of GDP.** This figure is higher from the respective 2016 Budget figure (-0.2% of GDP) but is lower compared with the respective 2017 Draft Budget figure (0.73%).