

GREECE MACRO MONITOR

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Focus notes: Greece

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Greece: January – September 2018 State Budget Execution and General Government Budget Arrears

- According to the final State Budget Execution data for January – September 2018, the overall fiscal balance registered a surplus of €0.28bn, versus a Medium Term Fiscal Strategy 2019-22 (MTFS) deficit target of €1.84bn. The State Budget Primary Balance registered a surplus of €4.80bn versus a MTFS surplus target of €2.52bn. Again, the primary balance over-performance was mainly driven by: a) the higher than targeted indirect taxes and total non-tax revenue (the former was due to the Bank of Greece dividend), b) lower than targeted ordinary and Public Investment Budget (PIB), and c) lower than targeted tax refunds.
- Ordinary net revenue for January – September 2018 (Fig.1) amounted to ca €35.65bn, overshooting both the respective MTFS target by ca €1.01bn (2.9%) and the performance in the same period last year by ca €0.89bn (2.6%).
- Total tax revenue over-performed by ca €0.23bn (0.7%) with respect to the MTFS target. Direct taxes stood at €13.8bn below the respective MTFS target by €0.38bn (-2.7%). The revenues from the Personal and the Corporate income tax were below the MTFS targets by €0.21bn (-3.3%) and €0.21bn (-10.5%), respectively. Property tax revenue (mainly ENFIA) was also below the respective MTFS target by €0.02bn (-1.2%). Direct tax arrears revenue was above the respective MTFS target by €0.12bn (8.2%). On the indirect taxes, VAT revenue came in at ca €11.9bn, above the respective MTFS target by €0.35bn (3.0%). All categories of VAT revenues were higher than their respective MTFS targets. Tax refunds were below their MTFS target by €0.51bn (-14.7%). This shortfall technically improved the over-performance of ordinary budget revenue.
- Ordinary budget expenditure for January-September 2018 (Fig.1) amounted to ca €35.26bn, below the respective MTFS target by €0.31bn (-0.9%) but above the respective 2017 figure by ca €0.69bn (2.0%). Primary spending was at €30.75bn below the respective MTFS target by €0.46bn (-1.5%) but above the respective 2017 figure by €1.04bn (3.5%). Military spending was lower than the respective MTFS target by €0.19bn (-57.5%).
- In the PIB, total revenue for January-September 2018 amounted to ca €1.57bn, below the respective MTFS target by ca €0.43bn (-21.5%) but above the respective figure of the previous year by €0.30bn (23.5%). PIB total expenditure amounted to ca €1.67bn, below both the respective MTFS target and the respective figure of the previous year by ca €1.24bn (-42.5%) and €0.11bn (-5.9%), respectively.
- According to the Ministry of Finance, the stock of the general government (GG) arrears to the private sector, including tax arrears, at the end of September 2018 was at €2.6bn from €3.0bn at the end of August 2018 (-13.6%). Hospital arrears registered a slight increase of €0.01bn on a monthly basis. GG arrears to the public sector excluding tax arrears were at €1.9bn. Tax arrears, decreased by €0.36bn on a monthly basis.
- According to the European Commission's 2018 Autumn Forecast the 2018 primary surplus is expected at 3.85% of GDP in ESA2010 terms or 3.75% of GDP (Eurobank Research) in ESM programme terms, in line with the respective 2018 Draft Budget figure (3.74%).

Key takeaways

The January-September 2018 Adjusted Primary Balance (APB) (Fig. 3) registered a surplus of ca €3.18bn (1.7% of GDP) improved by ca €1.48bn on a monthly basis, and above the respective MTFS primary surplus target of €0.66 (0.4% of GDP). The difference between the APB and the actual primary balance was mainly due to a) the under-execution of the Ordinary and PIB expenditure, b) the lower than targeted tax refunds. With regards to the GG arrears clearance, according to the 2019 Draft Budget, the GG entities will further reduce their obligations to the private sector until the end of 2018. There is no requirement for the clearance of the GG arrears by the end of 2018 similar to the one included in the last ESM Compliance Report (June 2018).

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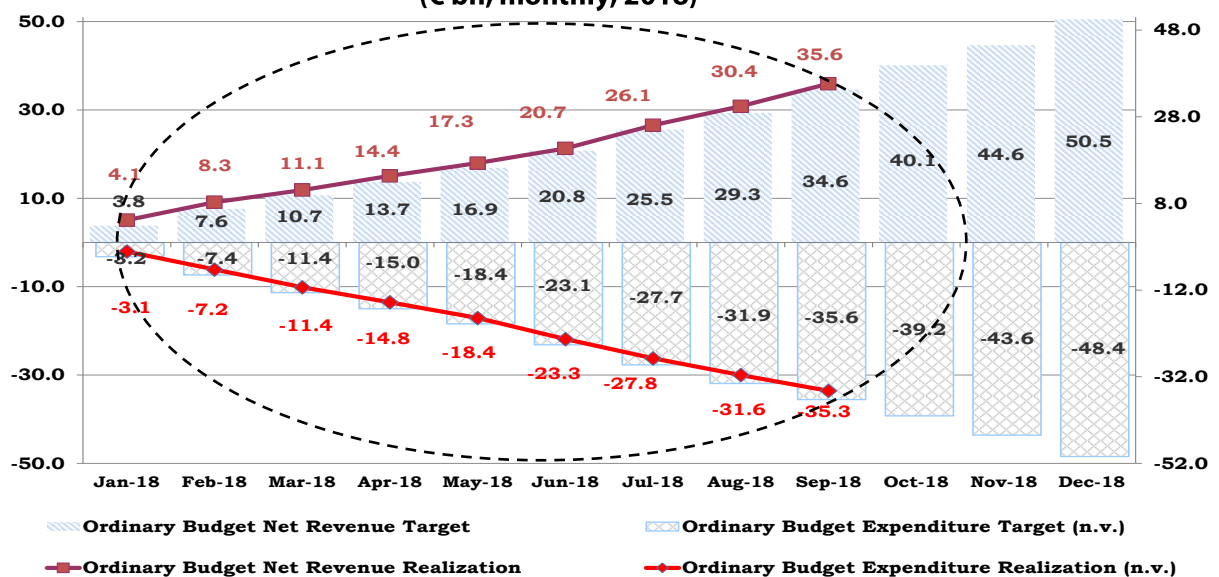
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	Jan-Sept 2017	Jan-Sept 2018	MTFS2019-22 targets Jan-Sept 2018	%YoY	%target
Primary balance	4.54	4.80	2.52	5.6%	90.2%
Fiscal Balance	-0.33	0.28	-1.84	-185.0%	-115.1%
Ordinary Budget Net Revenue	34.76	35.65	34.64	2.6%	2.9%
Revenue before tax refunds	37.57	38.37	37.28	2.1%	2.9%
Privatizations revenue	1.27	0.23	0.27	-81.8%	-14.4%
Tax refunds	4.08	2.95	3.46	-27.6%	-14.7%
Ordinary Budget Expenditure	34.58	35.26	35.57	2.0%	-0.9%
Primary Expenditure	29.71	30.75	31.21	3.5%	-1.5%
-Military equipment procurement payments (cb)*	0.16	0.14	0.32	-16.5%	-57.5%
Guaranties	0.66	0.92	0.93	39.8%	-1.3%
-Guaranties to bodies classified inside GG	0.64	0.89	0.90	39.5%	-0.2%
-Guaranties to bodies classified outside GG	0.02	0.02	0.03	53.3%	-30.3%
Debt Assumptions of General Government Bodies	0.19	0.00	0.00	-100.0%	-
Disbursement fee to banks, EFSF, and othe government debt expenses	0.05	0.13	0.06	173.5%	116.1%
Public Debt Commission revenue	0.00	0.00	0.00	-	-
Net Interest Expenditure	4.87	4.52	4.36	-7.2%	3.6%
Public Investment Budget Net Revenue	1.27	1.57	2.00	23.5%	-21.5%
EU Funds	1.09	1.42	1.86	31.1%	-23.6%
Own Participation	0.19	0.15	0.14	-20.4%	6.5%
Public Investment Budget Expenditure	1.78	1.67	2.91	-5.9%	-42.5%
National Contribution	0.37	0.36	0.33	-3.8%	7.6%
Cofinanced Projects	1.41	1.32	2.58	-6.5%	-49.0%

Source: Ministry of Finance

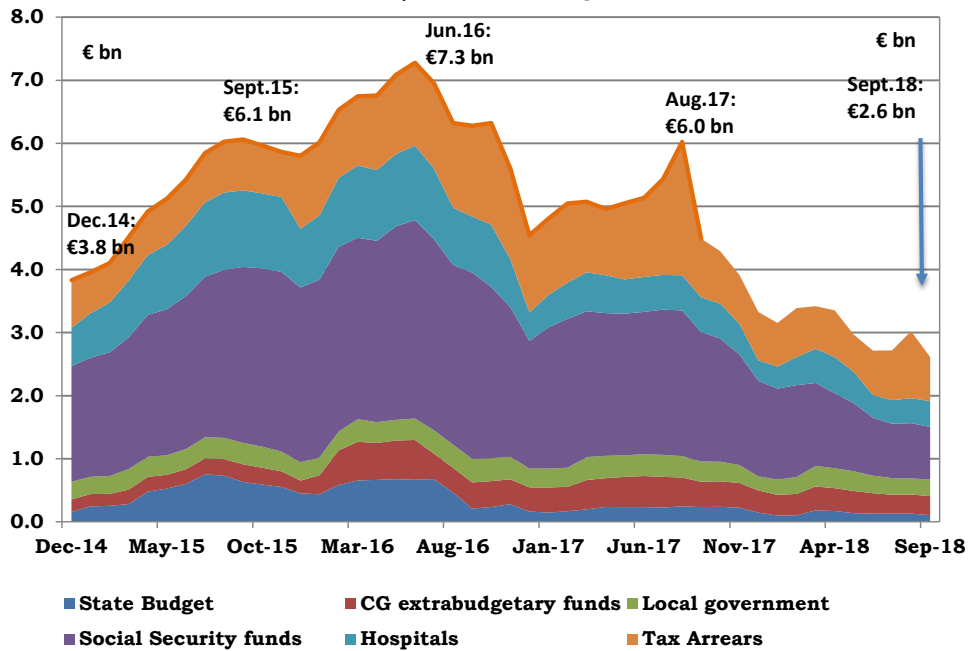
*cb: cash basis

Figure 1: State Budget Execution Revenue & Expenditure
(€ bn, monthly, 2018)



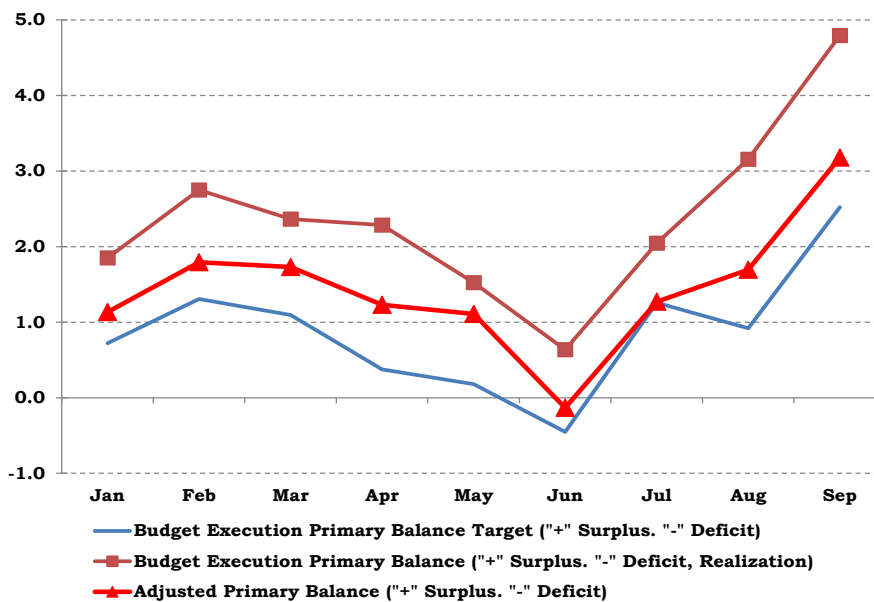
Source: Ministry of Finance

Figure 2: GG Total Arrears including Tax Arrears
(€ bn, monthly, 2014-18 (September))



Source: Ministry of Finance

Figure 3: The Adjusted Primary Balance
(€ bn, monthly, September 2018)



Source: Ministry of Finance, Eurobank Research

Notes:

1. 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
2. MTF52019-22 targets were used for the Budget Execution Primary Balance Target

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