

GREECE MACRO MONITOR

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Focus notes: Greece

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Greece: January – October 2018 State Budget Execution & General Government Budget Arrears

- According to the final State Budget Execution data for January – October 2018, the overall fiscal balance registered a surplus of €1.6bn, against a targeted deficit of €0.1bn in the 2019 Budget (B19) and a surplus of €1.4bn in the respective period of 2017. The State Budget Primary Balance recorded a surplus of €6.4bn, against a targeted B19 primary surplus of €4.8bn. The primary balance over-performance was mainly driven by: a) slightly higher than projected revenue before tax refunds, and b) lower than targeted ordinary and Public Investment Budget (PIB) expenditure.
- Ordinary net revenue for January – October 2018 (Fig.1) amounted to ca €40.73bn, overshooting both the respective B19 target by ca €0.07bn (0.2%) and the respective figure of the same period last year by ca €1.48bn (3.8%).
- Total tax revenue was almost in line with the respective B19 target. Direct taxes stood at €16.1bn in line with the respective B19 target. The revenues from the Personal and the Corporate income tax were above their respective B19 target by €0.06bn (0.6%). Property tax revenue (mainly ENFIA) was also above the respective B19 target by €0.02bn (0.8%). Direct tax arrears revenue was below the respective B19 target by €0.06bn (-3.9%). On the indirect taxes, VAT revenue came in at ca €13.6bn, below the respective B19 target by €0.01bn (-0.1%) mainly as a result of the lower than targeted VAT revenue on goods other than tobacco and fuel that registered a shortfall of €0.02bn (-0.2%). Tax refunds were in line with their B19 target mainly due to the readjustment of the respective B19 target.
- Ordinary budget expenditure for January–October 2018 (Fig.1) amounted to ca €38.70bn, below the respective B19 target by €0.30bn (-0.8%) but above the respective 2017 figure by ca €0.25bn (0.6%). Primary spending was at €33.89bn below the respective B19 target by €0.30bn (-0.9%) but above the respective 2017 figure by €0.62bn (1.9%). Military spending was lower than the respective B19 target by €0.23bn (-62.7%).
- In the PIB, total revenue for January–October 2018 amounted to ca €1.69bn, in line with the respective B19 target and above the respective figure of the previous year by €0.36bn (26.9%). PIB total expenditure amounted to ca €2.09bn, below the respective B19 target by ca €1.32bn (-38.7%) and above the respective figure of the previous year by €0.11bn (5.6%).
- According to the Ministry of Finance, the stock of the General Government (GG) arrears to the private sector, including tax arrears, was at €2.6 bn at the end of October 2018, unchanged on a monthly basis. The stock of GG arrears to the public sector excluding tax arrears was at €2.0 bn over the same period from €1.9 bn a month earlier. Tax arrears on the other hand, decreased by €0.07bn on a monthly basis. Compared to their recent peak in August 2017 (€6.0 bn) GG arrears, including tax arrears, registered a decrease of -56.5%.
- According to B19 the primary surplus for 2018 is expected at €7.38bn or 3.98% of GDP in Third Economic Programme Adjustment Terms above the respective Medium Term Fiscal Strategy 2019-2021 (MTFS) target of €6.52bn or 3.56% of GDP.

Key takeaways

The January–October 2018 Adjusted Primary Balance (APB) (Fig. 3) registered a surplus of ca €4.45bn (2.4% of GDP) improved by ca €1.28bn on a monthly basis, and above the respective MTFS primary surplus target of €0.30 (0.2% of GDP). The difference between the APB and the actual primary balance was mainly due to the under-execution of the Ordinary and PIB expenditure. The B19 PIB expenditure target (State Budget) for 2018 is expected at €6.75bn in line with the respective B18 target but lower by €0.55bn compared to the respective MTFS target (€7.30bn) as a result of the abolishment of the growth friendly measures that were abolished along with the cut in pensions initially scheduled for January 2019. With regards to the GG arrears clearance, according to the B19, the GG entities will further reduce their obligations to the private sector until the end of 2018. The arrears clearance delays observed from mid-2018 onwards might be due to legal or other administrative rigidities.

DISCLAIMER

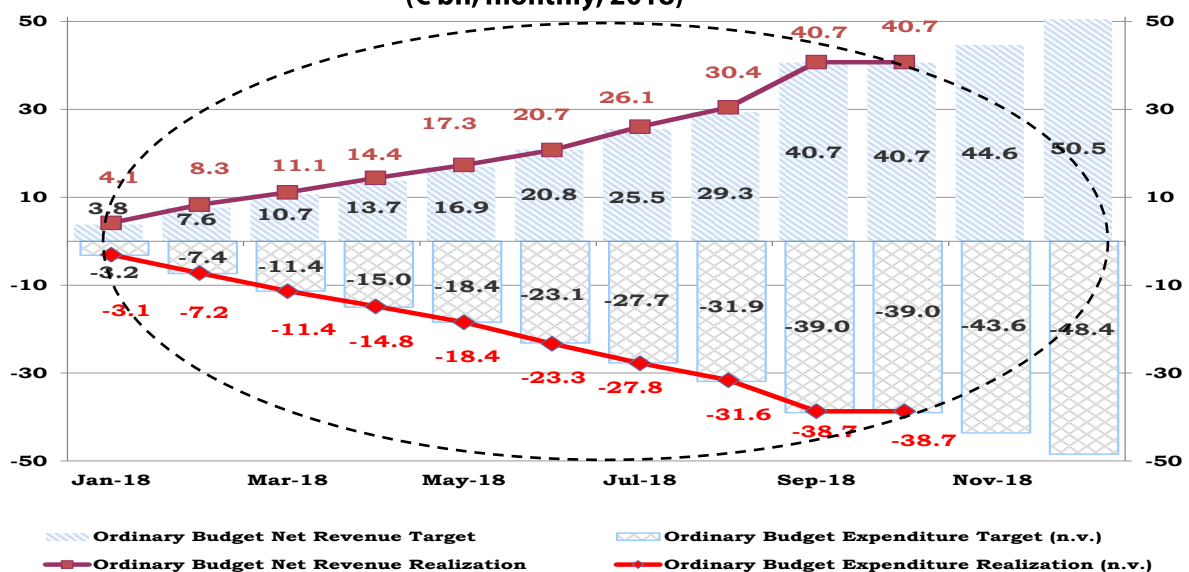
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| | Jan-Oct 2017 | Jan-Oct 2018 | 2019 Budget targets Jan-Oct 2018 | %YoY | %target |
|--|--------------|--------------|-------------------------------------|---------|----------|
| Primary balance | 5.33 | 6.44 | 4.75 | 20.7% | 35.5% |
| Fiscal Balance | 0.14 | 1.63 | -0.06 | 1028.5% | -2721.0% |
| Ordinary Budget Net Revenue | 39.24 | 40.73 | 40.66 | 3.8% | 0.2% |
| Revenue before tax refunds | 42.47 | 43.59 | 43.53 | 2.7% | 0.2% |
| Privatizations revenue | 1.27 | 0.23 | 0.23 | -81.8% | 0.0% |
| Tax refunds | 4.49 | 3.10 | 3.10 | -31.1% | 0.0% |
| Ordinary Budget Expenditure | 38.45 | 38.70 | 39.00 | 0.6% | -0.8% |
| Primary Expenditure | 33.26 | 33.89 | 34.19 | 1.9% | -0.9% |
| -Military equipment procurement payments (cb)* | 0.17 | 0.14 | 0.37 | -19.7% | -62.7% |
| Guaranties | 0.67 | 0.92 | 0.93 | 36.1% | -1.6% |
| -Guaranties to bodies classified inside GG | 0.65 | 0.89 | 0.90 | 37.4% | -0.2% |
| -Guaranties to bodies classified outside GG | 0.02 | 0.02 | 0.04 | -4.2% | -36.1% |
| Debt Assumptions of General Government Bodies | 0.19 | 0.00 | 0.00 | -100.0% | - |
| Disbursement fee to banks, EFSF, and othe government debt expenses | 0.50 | 0.14 | 0.14 | -73.0% | 0.0% |
| Public Debt Commission revenue | 0.00 | 0.00 | 0.00 | - | - |
| Net Interest Expenditure | 5.19 | 4.81 | 4.81 | -7.3% | 0.0% |
| Public Investment Budget Net Revenue | 1.33 | 1.69 | 1.69 | 26.9% | 0.0% |
| EU Funds | 1.09 | 1.49 | 1.49 | 36.0% | 0.0% |
| Own Participation | 0.24 | 0.20 | 0.20 | -15.7% | 0.0% |
| Public Investment Budget Expenditure | 1.98 | 2.09 | 3.41 | 5.6% | -38.7% |
| National Contribution | 0.42 | 0.43 | 0.39 | 4.6% | 11.3% |
| Cofinanced Projects | 1.56 | 1.66 | 3.02 | 5.9% | -45.2% |

Source: Ministry of Finance

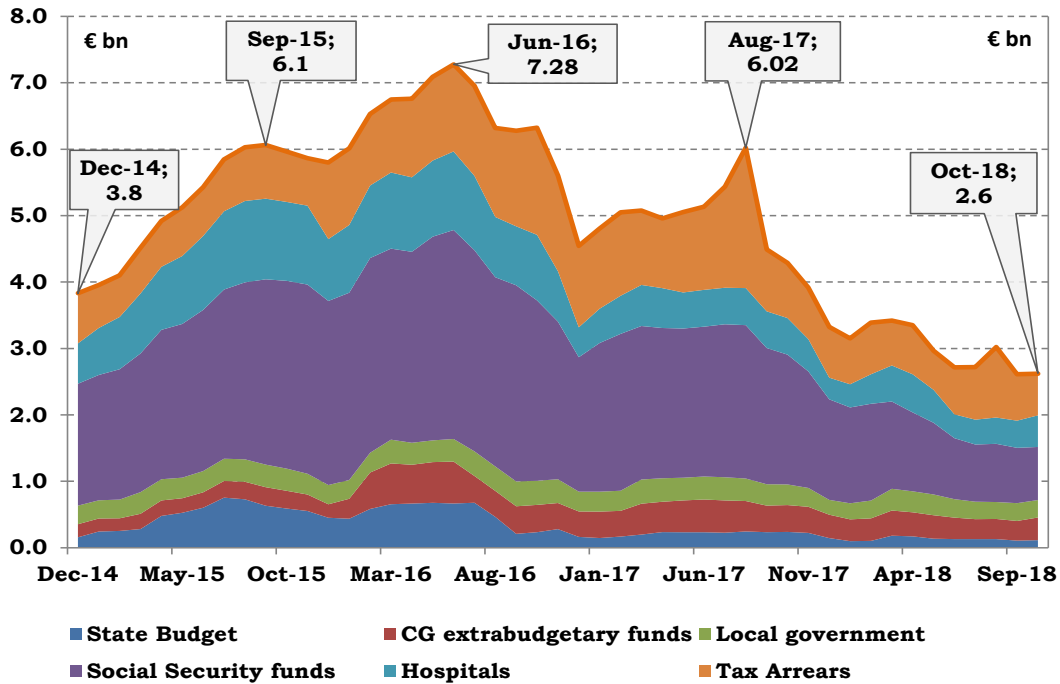
*cb: cash basis

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



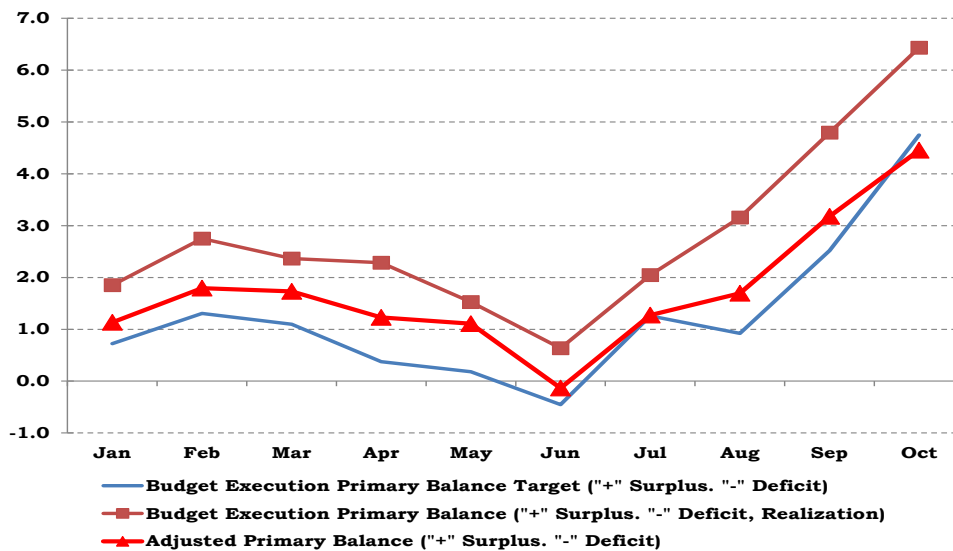
Source: Ministry of Finance

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



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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