ISSN: 1791-35 35

Eurobank Research
www.eurobank.gr/research
research@eurobank.gr

GLOBAL ECONOMIC & MARKET OUTLOOK
May 8, 2018
Eurobank
FOCUS NOTES

Greece: January – March 2018 State Budget Execution, General Government Budget Arrears & 2017 Primary Balance

Dr Theodoros Stamatiou
Senior Economist
tstamatiou@eurobank.gr

- According to the final State Budget Execution data for January – March 2018, the overall fiscal balance registered a surplus of €0.45 bn, versus a 2018 Budget (B18) targeted deficit of €0.82 bn for the respective period. The State Budget Primary Balance recorded a surplus of €2.37 bn compared to a B18 targeted surplus of €1.10 bn.
- Ordinary net revenue for January – March 2018 amounted to ca €11.10 bn, higher by ca €0.41bn (3.8%) compared with the respective B18 target and by ca €0.33 bn (3.1%) on an annual basis as a result of the higher than targeted a) total non-tax revenue by ca €0.49 bn (37.3%) as a result of the Bank of Greece dividend and b) tax revenue.
- Total tax revenue over-performed by just ca €0.12 bn (1.2%) with respect to the B18 target. Direct taxes stood at €2.0 bn, in line with the respective B18 targets. Property tax revenue (mainly ENFIA) increased by ca €0.08 bn (17.9%), compared to the respective B18 target. With regard to indirect taxation, VAT revenue was at ca €1.5 bn, in line with the respective B18 target., VAT revenue on fuel (mainly as a result of mild weather conditions) and all other goods decreased by -3.0% and -0.2%, respectively, compared to their B18 targets. VAT revenue from tobacco increased by ca 0.6%, compared to its B18 target. Tax refunds rose by ca €0.23 bn (26.6%) relative to the respective B18 target and as a result of the government's effort to limit its obligations to the private sector.
- Ordinary budget expenditure (Fig.1) for January-March 2018 amounted to ca €11.36 bn, in line with the respective B18 target and lower compared to the respective 2016 figure by ca €1.06 bn (-8.5%). Primary spending was in line with the respective B18 at €9.45 bn. Military spending was lower than the respective B18 target by €0.01 bn (-46.2%).
- In the Public Investment Budget (PIB), total revenue for January-March 2018 amounted to ca €1.06 bn, higher by ca €0.53 bn (99.6%) relative to the respective B18 target and higher by €0.41 bn (62.8%) on an annual basis. PIB total expenditure amounted to ca €0.35 bn, lower compared to the respective B18 target by ca €0.33 bn (-48.8%) and the respective 2015 reading by ca €0.02 bn (-6.1%).
- According to the Ministry of Finance, total General Government (GG) arrears at the end of March 2018 (including tax arrears of €0.68 bn) stood at €3.41 bn unchanged compared to the previous month (Fig. 2). Excluding tax arrears, GG arrears increased by €0.11 bn (4.4%) on a monthly basis as a result of an increase in all the GG arrears items (State Budget, CG extra-budgetary funds, Local Government, Hospitals) with the exception of Social Security funds arrears that dropped by €0.14 bn (-9.9%) on a monthly basis.
- According to ELSTAT/ Eurostat data, the overall GG fiscal balance registered a surplus of €1.45 bn or 0.8% of GDP and the GG primary balance recorded a surplus of €7.08 bn or 4.0% of GDP in ESA 2010 terms. In Third Economic Adjustment Programme terms the 2017 GG primary surplus came in at 4.2% of GDP (Box 1). The 2017 GG gross debt stood at €317.41 bn or 178.6% of GDP.

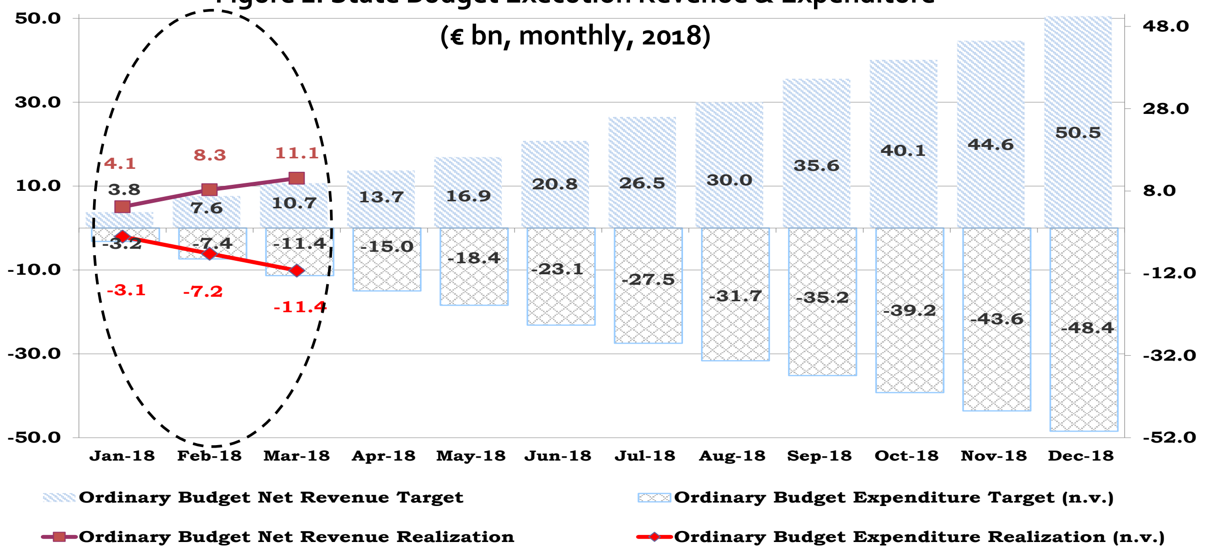
Key takeaway

The January-March 2018 Adjusted Primary Balance (APB) (Fig. 3) registered a surplus of ca €1.73 bn (1.0% of GDP), €0.06 bn lower on a monthly basis but significantly above the respective 2018 Budget target of €1.1 bn (0.6% of GDP). The difference in the APB and the actual primary balance is mainly attributed to: (i) the higher than budgeted tax returns, clearly a positive signal for the real economy; and (ii) the lower than budgeted PIB expenditure that might be of a transient nature (otherwise there will be a negative effect on the real economy). Note that both the European Commission and the IMF recently lowered their 2018 real GDP forecasts to 1.9% from 2.5% previously (EC, May 2018) and to 2.0% from 2.6% previously (IMF, April 2018), respectively, while the programme primary surplus target for 2018 remained at 3.5% of GDP (3.82% of GDP in the 2018 Budget). With regards to the GG arrears, according to the ESM compliance report (March 2018), their clearance is expected by July 2018. Upcoming developments could potentially entail a risk not only for the full clearance of arrears but also for the disbursement of the remaining amount (€1.0 bn) in the context of the 3rd programme review (March 2018).

Table 1: State Budget Ececution (€ bn, March 2018)					
	March 2017	March 2018	2018 Budget target Jan 2018	%YoY	%target
Primary balance	1.07	2.37	1.10	121.1%	115.9%
Fiscal Balance	-1.36	0.46	-0.82	-133.4%	-155.8%
Ordinary Budget Net Revenue	10.77	11.10	10.69	3.1%	3.8%
Revenue before tax refunds	11.72	12.15	11.51	3.7%	5.6%
Privatizations revenue	0.06	0.03	0.04	-49.2%	-15.8%
Tax refunds	1.01	1.08	0.85	6.4%	26.6%
Ordinary Budget Expenditure	12.42	11.36	11.36	-8.5%	0.0%
Primary Expenditure	9.98	9.45	9.45	-5.4%	0.0%
*-Military equipment procurement payments (cb)**	*0.09*	*0.06*	*0.06*	*-34.9%*	*-11.1%*
Guaranties	0.47	0.01	0.01	-98.5%	-46.2%
-Guaranties to bodies classified inside GG	*0.47*	*0.01*	*0.01*	*-98.5%*	*-30.0%*
-Guaranties to bodies classified outside GG	*0.00*	*0.00*	*0.00*	*-100.0%*	*-100.0%*
Debt Assumptions of General Government Bodies	*0.19*	*0.00*	*0.00*	-100.0%	-
Disbursement fee to banks, EFSF, and othe government debt expenses	*0.00*	*0.04*	*0.01*	4100.0%	250.0%
Public Debt Commission revenue	*0.00*	*0.00*	*0.00*	-	-
Net Interest Expenditure	2.43	1.91	1.91	-21.5%	-0.1%
Public Investment Budget Net Revenue	0.65	1.06	0.53	62.8%	99.6%
EU Funds	*0.58*	*0.97*	*0.50*	*67.8%*	93.0%
Own Participation	*0.08*	*0.10*	*0.03*	*26.7%*	206.5%
Public Investment Budget Expenditure	0.37	0.35	0.68	-4.9%	-48.8%
National Contribution	*0.07*	*0.07*	*0.10*	0.0%	-31.0%
Cofinanced Projects	*0.30*	*0.28*	*0.58*	-6.1%	-51.9%

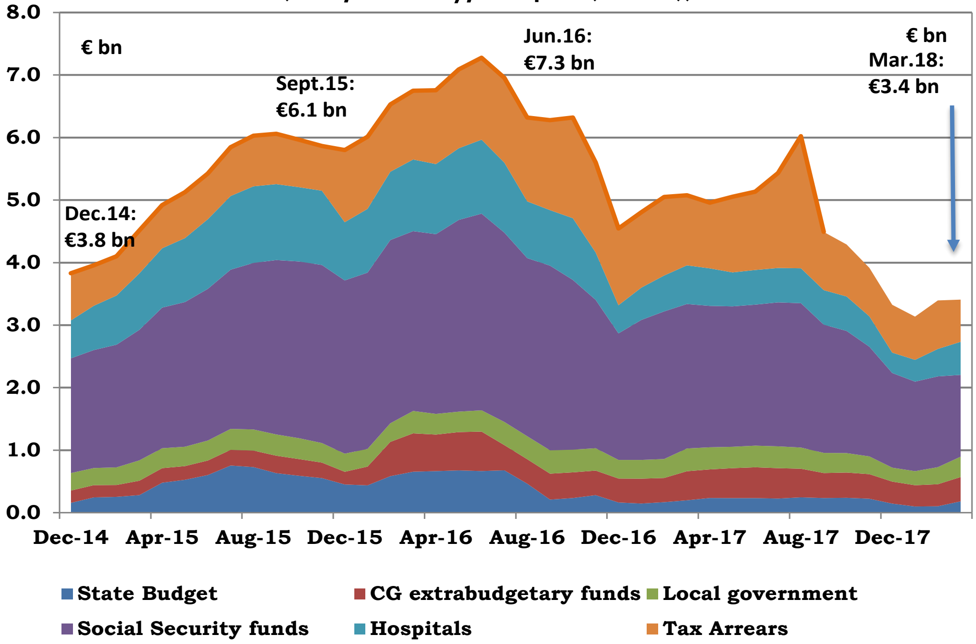
Source: Ministry of Finance
*cb: cash basis

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



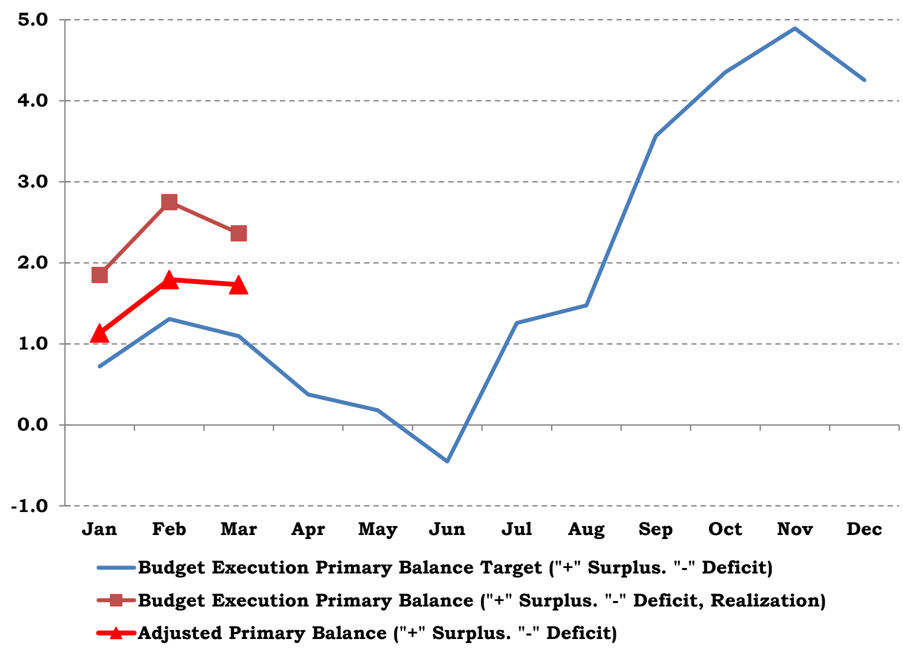
Source: Ministry of Finance

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



Source: Ministry of Finance

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



Source: Ministry of Finance, Eurobank Research

Note:
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. 2018 Budget Targets were used for the Budget Execution Primary Balance Target

Box 1: Details on the EDP deficit and debt figures for 2014-2017

ELSTAT (and Eurostat) announced on April 23 2018 the fiscal data for the 2014-2017 period in the context of Eurostat's Excessive Deficit Procedure. According to standard practice, the announcement included the revised deficit and debt figures for the period 2014-2016 and the first estimate for 2017.

Table B.1: GDP, General Government balance, expenditure, revenue and debt (ESA2010)

		2014	2015	2016	2017
Gross Domestic Product (GDP)	€ bn	178.7	176.3	174.2	177.7
General Government balance (deficit (-) / surplus (+))	€ bn	-6.5	-10.0	1.1	1.5
	%GDP	-3.6%	-5.7%	0.6%	0.8%
General Government primary balance (deficit (-) / surplus (+))	€ bn	0.6	-3.7	6.7	7.1
	%GDP	0.4%	-2.1%	3.9%	4.0%
Impact of the support to financial institutions on General Government deficit (minus sign denotes an increase in the deficit)	€ bn	0.1	-4.8	0.4	0.1
	%GDP	0.1%	-2.7%	0.2%	0.0%
General Government primary balance net of the support to financial institutions (-) / surplus (+)	€ bn	0.5	1.1	6.4	7.0
	%GDP	0.3%	0.6%	3.6%	4.0%
General Government expenditure	€ bn	89.8	94.9	86.3	85.3
	%GDP	50.2%	53.8%	49.5%	48.0%
General Government revenue	€ bn	83.3	84.9	87.4	86.8
	%GDP	46.6%	48.2%	50.2%	48.8%
General Government debt	€ bn	319.6	311.7	315.0	317.4
	%GDP	178.9%	176.8%	180.8%	178.6%

Source: ELSTAT

The GG primary balance in **ESA 2010 terms** for 2017 net of the support to financial institutions is expected at 4.0% of GDP. This figure is significantly higher compared to the respective 2018 Budget figure of 2.6% of GDP. For the calculation of the primary balance in Third Economic Adjustment Programme terms additional adjustments are needed. Namely, and based on Ministry of Finance data, from the GG balance in ESA2010 terms (€7.1 bn) we have **to subtract the (one-off) revenues from** the bank recapitalization (€0.17 bn), the privatization programme (0.01 bn), the ECB's SMP &ANFA programme (€0.35 bn), and **add the (one-off) expenditure** for the refugee crisis (€0.08 bn) and the tax refunds above the level included in the 2018 Budget for 2017 (€0.89 bn). In other words, the GG primary balance in Third Economic Adjustment Programme terms is: 7.1-0.17-0.01-0.35+0.08+0.89=7.53. **The primary balance in in Third Economic Adjustment Programme terms is at ca 4.2% of GDP**. This figure is significantly higher compared to the respective 2018 Budget figure (2.44% of GDP) but also from the respective IMF figure 3.8% of GDP (WEO, April 2018) and the Third Economic Adjustment Programme Target of 1.75% of GDP. According to the Third Economic Adjustment Programme there is no relation between the primary balance over-performance for the years 2016, 2017 and 2018 (expected) and the implementation of the measures agreed in the context of the 2nd review of the Third Economic Adjustment Programme for 2019 (pension cuts, 1.0% of GDP) and 2020 (abolishment of the tax threshold, 1.0% of GDP) and aim at net savings of 2.0% of GDP.

Eurobank Economic Analysis and Financial Markets Research

Dr. Tasos Anastasatos: *Group Chief Economist*
tanastasatos@eurobank.gr, + 30 210 33 71 178

Research Team

Anna Dimitriadou: *Economic Analyst*
andimitriadou@eurobank.gr, + 30 210 3718 793

Ioannis Gkionis: *Senior Economist*
igkionis@eurobank.gr + 30 210 33 71 225

Stylianos Gogos: *Economic Analyst*
sgogos@eurobank.gr + 30 210 33 71 226

Olga Kosma: *Research Economist*
okosma@eurobank.gr + 30 210 33 71 227

Paraskevi Petropoulou: *Senior Economist*
ppetropoulou@eurobank.gr, + 30 210 37 18 991

Galatia Phoka: *Research Economist*
gphoka@eurobank.gr, + 30 210 37 18 922

Theodoros Stamatiou: *Senior Economist*
tstamatiou@eurobank.gr, + 30 210 3371228

Elia Tsiampaou: *Economic Analyst*
etsiampaou@eurobank.gr, +30 210 3371207

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: Research@eurobank.gr

Eurobank Economic Analysis and Financial Markets Research

More research available at https://www.eurobank.gr/en/group/economic-research

7 Ημέρες Οικονομία: Weekly review of the Greek economy

Greece Macro Monitor - Focus Notes: Periodic publication on the latest economic & market developments in Greece

Economy & Markets: Analysis & research on the Greek and international economy

Regional Economics & Market Strategy Monthly: Monthly edition on economic & market developments in the region

Emerging Markets Special Focus Reports: Periodic publication on specific EM economy and markets developments

Daily Overview of Global markets & the SEE Region: Daily overview of key macro & market developments in Greece, regional economies & global markets

Global Macro Themes & Market Implications for the EA Periphery and the CESEE: Monthly review of the international economy and financial markets

Global Markets Special Focus Reports: Periodic publication on specific global economy and markets developments

Subscribe electronically at https://www.eurobank.gr/el/omilos/oikonomikes-analuseis