

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

Dr Theodoros Stamatiou
Senior Economist
tstamatiou@eurobank.gr

- According to the final State Budget Execution data for January – June 2018, the overall fiscal balance registered a deficit of €2.30 bn, versus a Medium Term Fiscal Strategy 2019-22 (MTFS) targeted deficit of €3.25 bn. The State Budget Primary Balance registered a surplus of €0.64 bn versus a MTFS targeted deficit of €0.47 billion.
- Ordinary net revenue for January – June 2018 amounted to ca €20.73 bn, higher by ca €0.11 bn (0.5%) relative to the respective MTFS target but lower by ca €0.61 bn (-2.8%) on an annual basis. The over-performance relative to the MTFS was the as a result of the higher than targeted a) total non-tax revenue due to the Bank of Greece dividend and b) indirect tax revenue.
- Total tax revenue under-performed by ca €0.02 bn (-0.1%) with respect to the MTFS target. Direct taxes were at €6.5 bn below the respective MTFS target by €0.29 bn (-4.2%). Both the revenue from the Personal and the Corporate income tax were below the MTFS targets by €0.31 bn (-7.2%) and €0.21 bn (-6.1%) respectively. Property tax revenue (mainly ENFIA) and Direct tax arrears revenue were online with their respective MTFS targets at €0.7 bn and 1.2 bn respectively. On the indirect taxes, VAT revenue was at ca €7.5 bn increased compared to the respective MTFS target by €0.12 bn (1.6%). All categories of VAT revenues were in-line with their MTFS targets. Tax refunds increased by ca €0.08 bn (3.6%) relative to the respective MTFS target as a result of the government's effort to lower its obligations to the private sector.
- Ordinary budget expenditure (Fig.1) for January-June 2018 amounted to ca €23.32 bn, below the respective MTFS target by €0.12 bn (-0.5%) but above the respective 2017 figure by ca €0.46 bn (-2.0%). Primary spending was at €23.32 bn below the respective MTFS target by €0.27 bn (-1.3%) but above the respective 2017 figure by €1.06 bn (5.5%). Military spending was lower than the respective MTFS target by €0.08 bn (-44.3%).
- In the Public Investment Budget (PIB), total revenue for January-June 2018 amounted to ca €1.25 bn, higher by ca €0.04 bn (3.7%) relative to the respective MTFS target and by €0.41 bn (49.2%) on an annual basis. PIB total expenditure amounted to ca €0.96 bn, lower compared to the respective MTFS target by ca €0.68 bn (-41.5%) but higher compared to the respective 2017 figure by ca €0.05 bn (5.4%).
- According to the Ministry of Finance, the stock of the general government arrears to the private sector, including tax arrears, at the end of June 2018 was at €2.7 bn from €3.0 bn at the end of May 2018, registering a monthly decrease of -8.6%. All categories of General Government arrears decreased in June 2018 with the exception of tax arrears that registered a monthly increase of 19.9%. The stock of general government arrears to the public sector excluding tax arrears at the end of June 2018 was at €2.0 bn from €2.4 bn in the previous month. Compared to their recent peak in August 2017 (€6.0 bn) general government arrears, including tax arrears, registered a decrease of -54.8%.

Key takeaway

The January-June 2018 Adjusted Primary Balance (APB) (Fig. 3) registered a deficit of ca €0.13 bn (-0.1% of GDP) lower by €1.24 bn on a monthly basis, but still significantly above the respective MTFS targeted deficit of €0.45 bn (-0.3% of GDP). The difference in the APB and the actual primary balance was mainly due to the under-execution of the Public Investment Budget Expenditure and, to a lesser extent, to the improvement of the state budget net (indirect) revenue. With regards to the GG arrears, according to the ESM compliance report (June 2018), their clearance is expected by the end of 2018 (the deadline for full arrears clearance was at the end of the programme (August 2018) in the previous (March 2018) ESM compliance report.*

* For more information on the attainability of the 2018 fiscal targets, the clearance of the GG arrears to the private sector, the growth prospects of the Greek economy and its debt sustainability analysis refer to:

<https://www.eurobank.gr/en/group/economic-research/economic-bulletin/endiamesi-ekthesi-2018>

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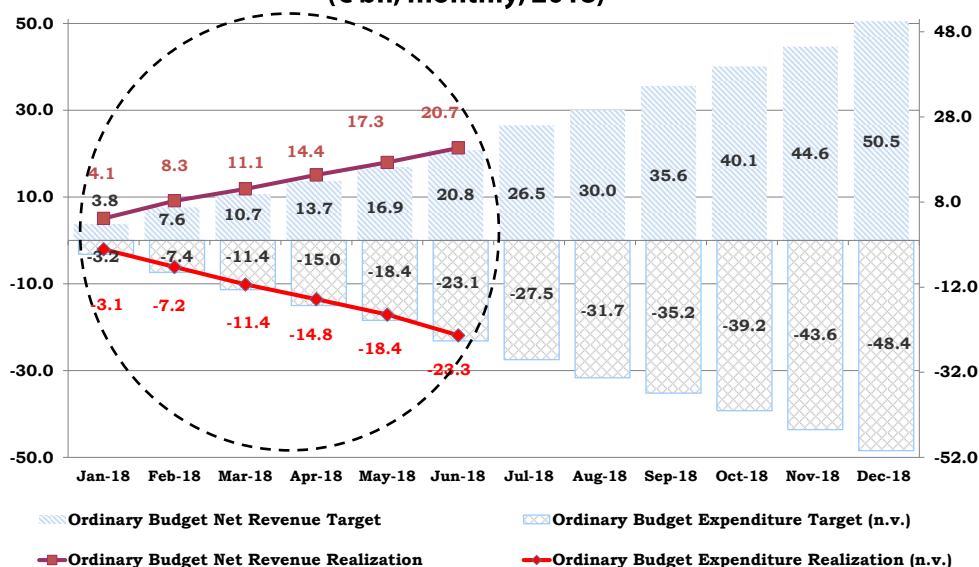
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Table 1: State Budget Ececution (€ bn, January-June 2018)					
	Jan-Jun 2017	Jan-Jun 2018	MTFS2019-22 targets Jan-Jun 2018	%YoY	%target
Primary balance	1.94	0.64	-0.47	-67.2%	-236.6%
Fiscal Balance	-1.60	-2.30	-3.25	44.0%	-29.2%
Ordinary Budget Net Revenue	21.34	20.73	20.63	-2.8%	0.5%
Revenue before tax refunds	22.22	22.74	22.55	2.3%	0.8%
Privatizations revenue	0.96	0.22	0.23	-76.9%	-2.2%
Tax refunds	1.84	2.23	2.15	21.0%	3.6%
Ordinary Budget Expenditure	22.86	23.32	23.44	2.0%	-0.5%
Primary Expenditure	19.33	20.39	20.66	5.5%	-1.3%
-Military equipment procurement payments (cb)*	0.13	0.10	0.19	-18.9%	-44.3%
Guaranties	0.63	0.89	0.90	41.6%	-0.9%
-Guaranties to bodies classified inside GG	0.62	0.87	0.87	41.0%	-0.1%
-Guaranties to bodies classified outside GG	0.01	0.02	0.02	87.5%	-31.8%
Debt Assumptions of General Government Bodies	0.19	0.00	0.00	-100.0%	-
Disbursement fee to banks, EFSF, and other government debt expenses	0.01	0.06	0.03	850.0%	111.1%
Public Debt Commission revenue	0.00	0.00	0.00	-	-
Net Interest Expenditure	3.53	2.94	2.78	-16.9%	5.4%
Public Investment Budget Net Revenue	0.84	1.25	1.20	49.2%	3.7%
EU Funds	0.67	1.14	1.09	69.9%	4.2%
Own Participation	0.17	0.11	0.11	-34.3%	-1.8%
Public Investment Budget Expenditure	0.91	0.96	1.64	5.4%	-41.5%
National Contribution	0.18	0.17	0.21	-7.7%	-18.5%
Cofinanced Projects	0.73	0.79	1.43	8.7%	-44.8%

Source: Ministry of Finance

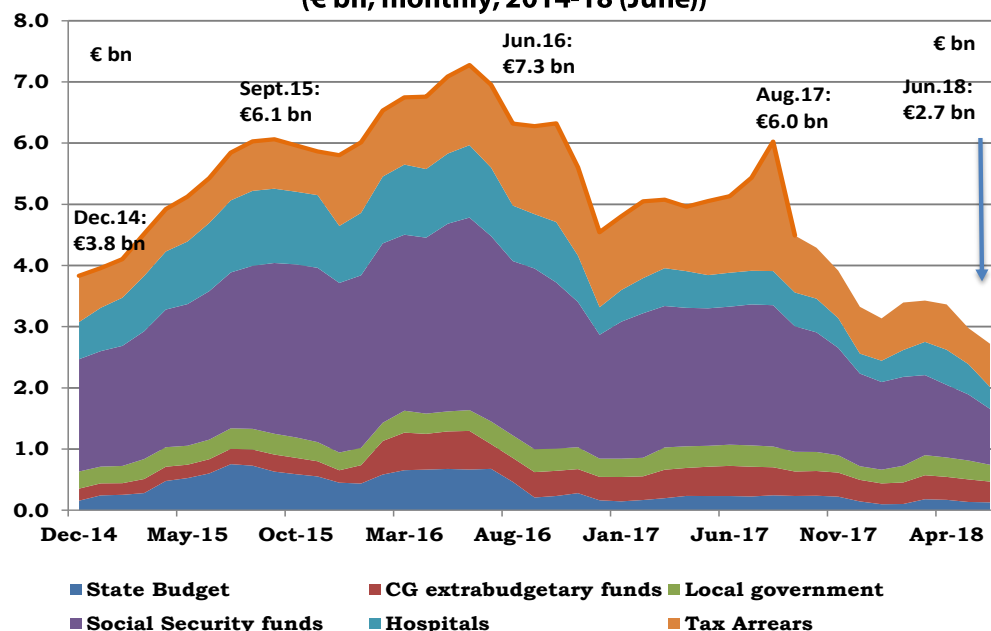
*cb: cash basis

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



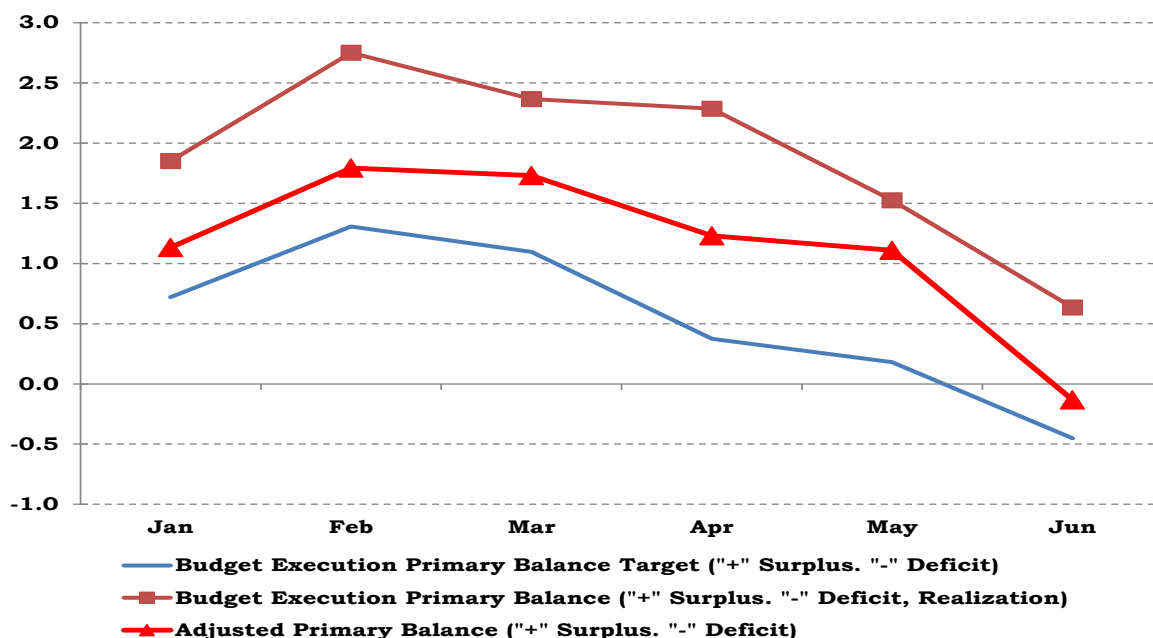
Source: Ministry of Finance

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



Source: Ministry of Finance

**Figure 3: The Adjusted Primary Balance
(€ bn, monthly, June 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. MTFS2019-22 targets were used for the Budget Execution Primary Balance Target

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
 adimitriadou@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

Theodoros Stamatiou: Senior Economist
 tstamatiou@eurobank.gr, +30 210 33 71 228

Elia Tsiampaou: Economic Analyst
 etsiampaou@eurobank.gr, +30 210 33 71 207

Marisa Yiannissi: Administrator
 magiannissi@eurobank.gr +30 210 33 71 242

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

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