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## Greece: January – August 2017 State Budget Execution, General Government Arrears & 2018 Draft Budget

- According to the final State Budget Execution data for January – August 2017, the budget balance recorded a deficit of ca €1.27 bn, ca €0.04 bn lower relatively to the respective Medium Term 2018-21 (MTFS) target (deficit of €1.23 bn). The primary balance recorded a surplus of ca €3.54 bn, underperforming the MTFS target by €0.03 bn (primary surplus of €3.57 bn). Ordinary Budget net revenue and direct taxes under-performed their MTFS targets by €1.77 bn, and €1.39 bn respectively. Indirect taxes over-performed their MTFS targets by €0.32 bn. Ordinary expenditure stood at €31.12 bn, undershooting the respective MTFS target by €1.44 bn.
- In more detail, ordinary budget net revenue for January – August 2017 (Fig.1) amounted to ca €30.24 bn, lower by €1.77 bn (or -5.5%) compared to the respective MTFS target but €0.26 bn (or 0.9%) above the corresponding 2016 figure.
- Total tax revenue under-performed by ca €1.12 bn (or -3.9%) the respective MTFS target. Direct taxes revenue fell short by -11.3% of the respective MTFS target, mainly on the back of the under-performance of revenue from the personal (-8.5%) and corporate taxes (-7.4%) and revenue from other income taxes (-4.0%) and other direct taxes (-8.7%), compared to the respective MTFS targets. Revenue from property taxes fell short of the respective MTFS target as by - 4.4% of GDP mainly as a result of the change in due date for the first installment of the ENFIA at the end of September from end of August previously. On the other hand, revenue direct tax arrears exceeded the MTFS target by 10.9%. Regarding indirect taxes, total VAT revenue exceeded the MTFS target by 2.2%. On a similar positive note, VAT revenue from tobacco and VAT revenue from all other goods exceeded the respective MTFS target by 0.6% and 3.1%. On the flip side, VAT revenue on fuel and consumption taxes revenue were 1.0% and 1.3% lower relative to the respective MTFS target. Privatization revenues came in at €0.97 bn, lower by €0.35 bn (or 26.3%) compared to the respective MTFS target. Tax refunds stood at €2.57 bn (or 22.4%) higher relative to the respective MTFS target. Non-tax revenue outperformed their MTFS target by 2.3% mainly as a result of the higher than expected Bank of Greece dividend.
- Ordinary budget expenditure (Fig.1) for January-August 2017 amounted to ca €31.12 bn, undershooting both the respective MTFS target by ca €1.18 (or -3.7%), and the respective 2016 figure by ca €1.44 bn (or -4.4%). Primary spending was lower by -4.4% compared to the respective MTFS target.
- Public Investment Budget (PIB) total revenue for January-August 2017 amounted to ca €1.19 bn, €0.02 bn higher (or 1.4%) compared to the respective MTFS target but lower by €0.88 bn (or -42.4%) relative to the respective 2016 realization. PIB total expenditure amounted to ca €1.58 bn, lower compared to both the respective MTFS target (by €0.52 bn or -24.7%) and the respective 2016 realization (by €0.59 bn or -27.1%).
- According to the Ministry of Finance, total General Government (GG) arrears at the end of August 2017 (including tax arrears of €2.11 bn) stood at €6.03 bn up from €5.44 bn in the previous month, recording a monthly increase of 10.9%. This increase was mainly due to the increase of tax refund arrears by €0.59 bn. The remaining categories of tax arrears remained almost unchanged on a monthly basis.

### Key takeaway

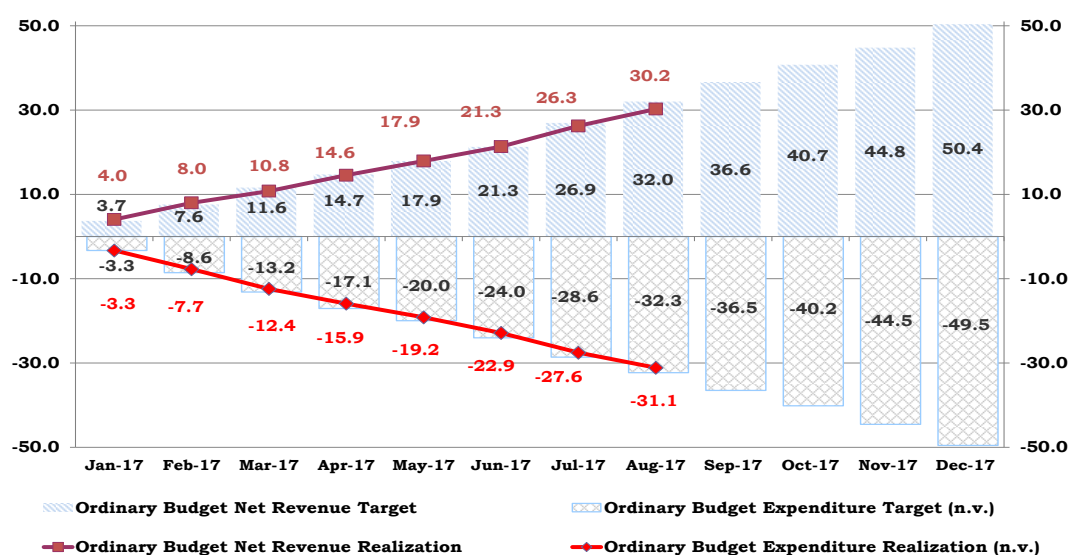
The January-August 2017 adjusted primary balance (APB) (Fig.2) registered a surplus of just €2.80 bn increased by €0.50 bn on a monthly basis and €1.28 bn higher compared to the MTFS primary balance target (Table 1). We expect that tax revenues over the next few months will contribute to the achievement of the GG primary balance programme target for 2017 which according to the Draft 2018 Budget was revised upwards to 2.2% of GDP (from 1.75% of GDP earlier). However, the delay in the clearance of GG arrears creates a risk for the timely disbursement of the next sub-tranche (€0.80 bn) from the loan tranche under the 2<sup>nd</sup> review of the 3<sup>rd</sup> Economic Adjustment Programme (June 2017). If this is not done by October 31 2017, then the €0.80 bn earmarked for the second sub-tranche will be returned to the general ESM programme budget and the ESM Board Members will need to convene anew to approve their release. According to the 2018 Draft Budget, the primary surplus for 2017 and 2018 is expected at 2.2% and 3.6% (vs 3<sup>rd</sup> programme targets of 1.75 and 3.5% of GDP). Ordinary budget revenue for 2017 and 2018 was revised downwards by €1.86 bn and €0.58 bn respectively compared to the corresponding MTFS targets (Box 1) as a result of the lower than previously expected direct taxes revenue. Ordinary budget expenditure for 2018 and 2019 was revised downwards by €0.59 bn and €0.50 bn respectively. On the general government level, the revised upwards revenue from the newly funded Single Security Fund for Professionals and Freelancers (EFKA) – is expected to contribute significantly to the achievement of the 2017 and 2018 primary surplus targets (increase of €0.02 bn and €1.36 bn for 2017 and 2018 compared to the respective MTFS targets). On the negative side, the 2018 Draft Budget assumes real GDP growth rates of 1.8% and 2.4% for 2017 and 2017 while the current market consensus for the aforementioned variables is at 1.1% and 1.9% (Focus Economics, October 2017) respectively.

Table 1: State Budget Ececution (€ bn, January - August 2017)					
	Jan-Aug. 2016	Jan-Aug. 2017	MTFS2018-21 target Jan-Aug. 2017	%YoY	%target
Primary balance	2.18	3.54	3.57	62.8%	-0.8%
Fiscal Balance	-2.68	-1.27	-1.23	-52.6%	3.7%
Ordinary Budget Net Revenue	29.98	30.24	32.01	0.9%	-5.5%
Revenue before tax refunds	31.83	31.84	32.79	0.0%	-2.9%
Privatizations revenue	0.06	0.97	1.32	1572.4%	-26.3%
Tax refunds	1.91	2.57	2.10	34.5%	22.4%
Ordinary Budget Expenditure	32.56	31.12	32.30	-4.4%	-3.7%
Primary Expenditure	27.76	26.31	27.51	-5.2%	-4.4%
-Military equipment procurement payments (cb)*	0.08	0.15	0.18	83.3%	-16.3%
Guaranties	1.50	0.65	0.70	-56.6%	-7.1%
-Guaranties to bodies classified inside GG	1.49	0.64	0.64	-56.9%	0.0%
-Guaranties to bodies classified outside GG	0.02	0.01	0.06	-36.8%	-80.6%
Debt Assumptions of General Government Bodies	0.55	0.19	0.19	-65.3%	0.0%
Disbursement fee to banks, EFSF, and other government debt expenses	0.05	0.05	0.03	6.7%	45.5%
Public Debt Commission revenue	0.01	0.00	0.00	-100.0%	-
Net Interest Expenditure	4.80	4.82	4.80	0.3%	0.4%
Total Public Investment Budget Revenue	2.07	1.19	1.17	-42.4%	1.4%
EU Revenues	1.92	1.01	1.01	-47.4%	-0.2%
Own Participation	0.15	0.18	0.16	23.3%	12.5%
Total Public Investment Budget Expenditure	2.17	1.58	2.10	-27.1%	-24.7%
National Contribution	0.31	0.32	0.36	5.2%	-9.0%
Cofinanced	1.87	1.26	1.75	-32.5%	-27.9%

Source: Ministry of Finance

\*cb: cash basis

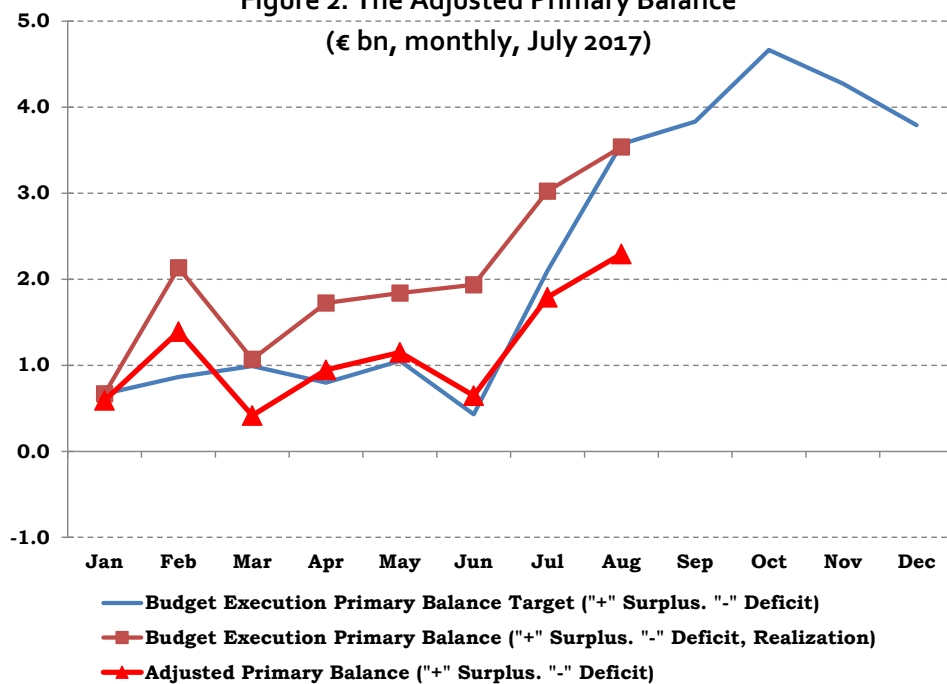
Figure 1: State Budget Execution MTFS2018-21  
(2017, € bn)



Source: Ministry of Finance, Eurobank Research

Note: (n.v.) stands for negative value. 2017 Budget Targets for Sept.-Dec. 2017. MTFS2018-21 respective targets still not available on a monthly basis.

**Figure 2: The Adjusted Primary Balance**  
(€ bn, monthly, July 2017)

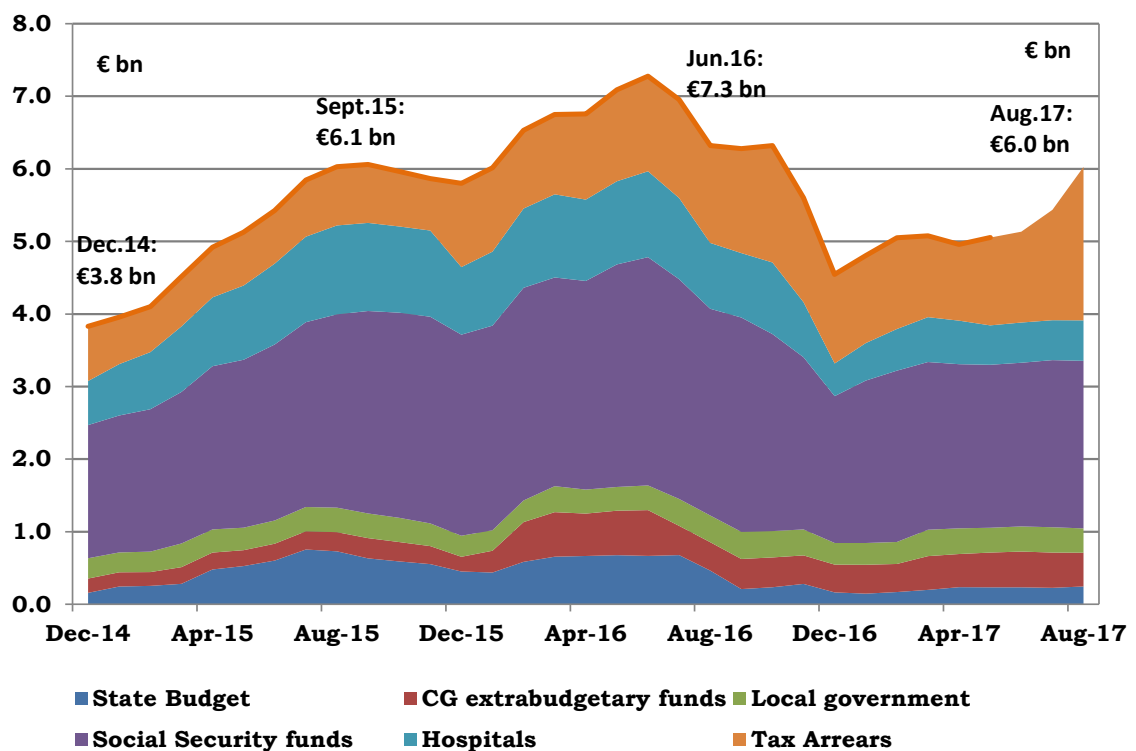


Source: Eurobank Research

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. 2017 Budget Targets for Sept.-Dec. 2017. MTSF2018-21 respective targets still not available on a monthly basis.

**Figure 3: GG Total Arrears including Tax Arrears**  
(€ bn, monthly, July 2017)



Source: Ministry of Finance

Box 1: 2018 Draft Budget: General Government main fiscal aggregates (ESA2010; €bn)						
		2016	2017		2018	
			MTFS 2018-21	2018 Budget Forecast	MTFS 2018-21	2018 Budget forecasts
I.	Central government revenue (a+b+c+d+e+f)	53.14	55.28	53.23	55.01	54.43
a.	Ordinary budget net revenue	48.96	51.66	49.80	51.27	50.69
a.1.	Recurring Revenue	52.34	52.73	52.22	52.94	52.50
a.1.1	Direct taxes	21.84	21.53	20.37	21.45	20.78
a.1.2	Indirect taxes	25.68	26.72	27.10	27.50	27.65
a.1.3	Drawings from EU	0.42	0.51	0.51	0.32	0.32
a.1.4	Non-Tax revenue	4.40	3.98	4.24	3.66	3.66
b.	Non-recurring Revenue	0.43	0.31	0.36	0.28	0.30
c.	Tax refunds	3.26	3.32	4.69	3.38	3.57
d.	Privatization Proceeds	0.11	1.61	1.57	1.12	1.15
e.	ANFA&SMP Revenue	0.38	0.35	0.35	0.31	0.31
f.	Public Investment Budget (PIB) revenue	4.18	3.62	3.43	3.74	3.74
II.	Central government expenditure (a+b)	59.80	56.59	56.00	56.10	55.61
a.	Ordinary budget expenditure	53.51	49.84	49.25	49.35	48.86
a.1.	Primary expenditure	47.92	44.19	43.60	43.35	43.16
a.2.	Net interest payments	5.59	5.65	5.65	5.90	5.70
b.	Public Investment Budget (PIB) outlays	6.29	6.75	6.75	6.75	6.75
III.	State Budget Balance- Modified cash basis	-6.66	-1.31	-2.77	-1.10	-1.18
	% GDP	-3.8%	-0.7%	-1.5%	-0.6%	-0.6%
	State Budget Primary Balance-Modified cash basis	-1.07	4.34	2.88	4.80	4.52
	% GDP	-0.6%	2.4%	1.6%	2.6%	2.4%
IV.	National accounts adjustments	0.13	-2.66	-1.96	-0.78	-1.48
	National accounts adjustments - Revenue	-1.12	-2.00	-0.67	-0.35	-0.44
	National accounts adjustments - Expenditure	1.26	-0.66	-1.29	-0.43	-1.04
IV.	State Budget Revenue - ESA 2010	52.01	53.29	52.56	54.66	53.99
	State Budget Expenditure - ESA 2010	58.54	57.26	57.29	56.54	56.65
V.	State Budget Balance- ESA 2010	-6.53	-3.97	-4.73	-1.88	-2.66
	% GDP	-3.7%	-2.2%	-2.6%	-1.0%	-1.4%
	State Budget Primary Balance-ESA 2010	-0.21	2.58	1.77	5.12	4.34
	% GDP	-0.1%	1.4%	1.0%	2.7%	2.3%
VI.	Central Government Balance - ESA 2010	-1.33	-1.46	-2.01	0.40	-0.50
VII.	General Government Balance- ESA 2010	1.29	-2.20	-1.50	0.97	1.19
	% GDP	0.7%	-0.8%	-0.8%	0.5%	0.6%
VIII.	General Government Interest payments	5.65	6.02	5.79	6.45	6.30
	% GDP	3.2%	3.3%	3.2%	3.4%	3.4%
IX.	General Government Primary Balance-ESA 2010	6.94	3.81	4.29	7.42	7.49
	% GDP	3.9%	2.1%	2.4%	4.0%	4.0%
X.	Primary balance adjustments - Programme terms	0.42	-0.37	-0.31	-0.80	-0.82
XI.	General Government Primary Balance-Programme terms	7.36	3.69	3.98	6.62	6.67
	% GDP	4.2%	2.0%	2.2%	3.5%	3.6%
XII.	Public Debt	314.90		318.70		327.90
	% GDP	179.0%		176.8%		175.6%
	GDP	175.89	181.20	180.24	187.75	186.74

Source: Ministry of Finance

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