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Greece: January – May 2017 State Budget Execution & May 2017 General Government Arrears

- According to the final State Budget Execution data for January – May 2017, the budget balance recorded a deficit of ca €1.24 bn, ca €0.079 bn narrower relatively to the respective medium Term 2018-21 (MTFS) target (deficit €2.03 bn). The primary balance recorded a surplus of ca €1.84 bn, outperforming the MTFS target (primary surplus €1.05 bn). Both direct and indirect taxes over performed their MTFS targets by €0.04 bn and €0.35 bn respectively. However, ordinary expenditure were at €19.17 bn undershooting the respective MTFS target by €0.79 bn.
- In more detail, ordinary budget net revenue for January – May 2017 (Fig.1) amounted to ca €17.27 bn, almost in line with the respective MTFS target and €0.64 bn (or 3.7%) higher than the corresponding 2016 figure.
- Total tax revenue over-performed by ca €0.39 bn (or 2.5%) with respect to the MTFS target. Direct taxes revenue registered an increase of 0.7% relative to the respective MTFS targets, mainly as a result of the over-performance of a) the revenue from the property taxes (7.3%), b) the direct taxes arrears (4.3%), c) the revenue from other direct taxes (1.1%) and d) the revenue from the corporate income tax (11.1%). Personal Income tax revenue was below the respective MTFS target by -2.2%. With respect to indirect taxes, total VAT revenue increased by 4.3% compared with the MTFS target. VAT revenue on fuel increased by 1.9% relative to the MTFS target while VAT revenue from tobacco rose by 0.6% compared to the respective MTFS target. VAT revenue from all other goods increased by 4.8% compared to the respective MTFS target and consumption taxes increased by 1.2% in comparison with the respective MTFS target. Tax refunds were at €0.11 bn (or 7.3%) higher relative to the respective MTFS target. Non-tax revenue outperformed their MTFS target by 1.8% mainly as a result of the higher than expected Bank of Greece dividend (February 2017).
- Ordinary budget expenditure (Fig.1) for January-May 2017 amounted to ca €19.17 bn, undershooting both the respective MTFS target by ca €0.79 (or -4.0%), and the respective 2016 figure by ca €0.40 bn (or -2.1%). Primary spending was lower by -4.7% compared to the respective MTFS target.
- Public Investment Budget (PIB) total revenue for January-May 2017 amounted to ca €0.77 bn, in line with the respective MTFS target but lower by €1.18 bn (or -60.6%) relative to the respective 2016 realization. PIB total expenditure amounted to ca €0.76 bn, in line with the respective MTFS target but lower by €0.36 bn (or -32.28%) compared to the respective 2016 realization.
- According to the Ministry of Finance, total General Government (GG) arrears (including tax arrears of €1.21 bn) at the end of May 2017 stood at €5.05 bn from €4.96 bn in the previous month. All the main categories of GG arrears were lower compared to the previous month with the exception of the CG extra-budgetary funds and the tax arrears that increased by ca €0.02 bn (or 4.6%) and ca €0.16 bn (or 13.1%) respectively on a monthly basis

Key takeaway

The January-May 2017 adjusted primary balance (APB) (Fig.2) registered a surplus of €1.15 bn. Even though it was improved on a monthly basis (€0.20 bn), it was just €0.10 bn higher compared to the MTFS primary balance target (Table 1). According to the latest EC compliance report on Greece's second programme review (June 16, 2017) the GG primary balance targets for 2017 and 2018 were at 1.9% and 3.2% of GDP respectively. Conditional on the smooth budget execution for the remaining of the year and the achievement of a real GDP growth rate at least equal with the current market consensus (at 0.9% of GDP as of July 2017) we consider the 2017 target broadly attainable.

According to the aforementioned compliance report all the remaining GG arrears of ca €6.50 bn are expected to be eliminated by the end of the programme (August 2018) using a combination of Greece's own resources (probably from the GG cash buffer at the Bank of Greece standing at €4.46bn as of end May 2017) and remaining programme financing of €3.1bn dedicated to arrears clearance in the proportion of at least 1:2. The difference between the compliance report's GG arrears figure (€6.50 bn) and the aforementioned GG official figure (€5.05 bn) is attributed mainly to certain unprocessed tax refunds and pension claims for which there was no quantification until the end of 2016. Finally, from the installment approved under the second review a total amount of €1.6 bn (0.8+0.8) will be used for arrears clearance.

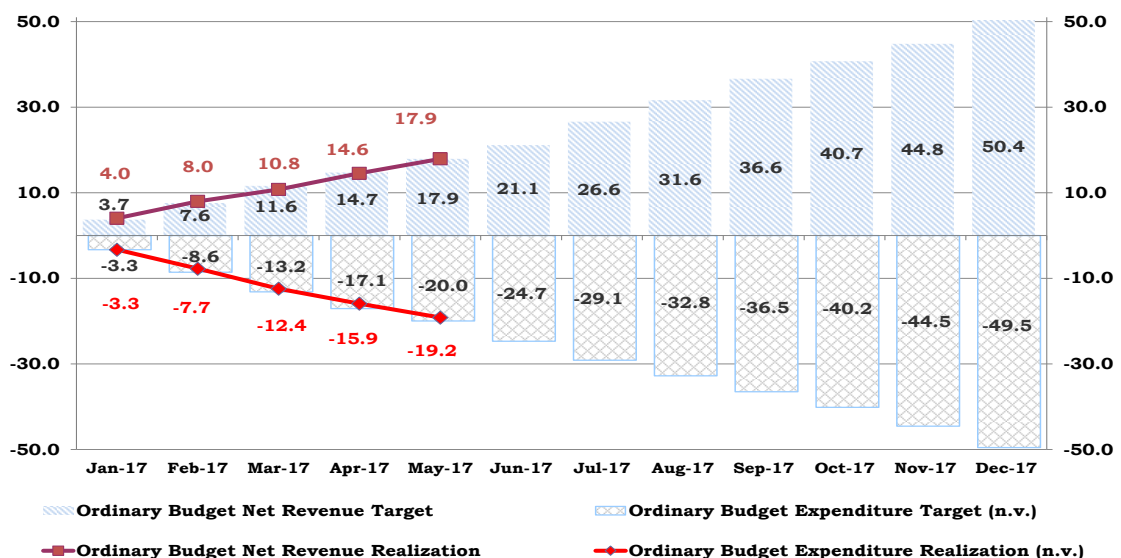
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	Jan-May 2016	Jan-May 2017	MTFS2018-21 target Jan-May 2017	%YoY	%target
Primary balance	1.46	1.84	1.05	26.4%	75.2%
Fiscal Balance	-1.65	-1.24	-2.03	-24.7%	-38.9%
Ordinary Budget Net Revenue	17.27	17.92	17.92	3.7%	0.0%
Revenue before tax refunds	18.42	18.53	18.09	0.5%	2.4%
Privatizations revenue	0.05	0.96	1.30	1683.3%	-26.0%
Tax refunds	1.21	1.57	1.47	30.4%	7.3%
Ordinary Budget Expenditure	19.57	19.17	19.96	-2.1%	-4.0%
Primary Expenditure	16.65	16.09	16.88	-3.4%	-4.7%
Military equipment procurement payments	0.03	0.12	0.12	277.4%	-5.6%
Guaranties	0.59	0.55	0.57	-6.7%	-3.5%
-Guaranties to bodies classified inside GG	0.58	0.55	0.55	-5.7%	0.0%
-Guaranties to bodies classified outside GG	0.02	0.01	0.03	-46.7%	-71.4%
Debt Assumptions of General Government Bodies	0.54	0.19	0.19	-64.7%	0.0%
Disbursement fee to banks, EFSF, and other government debt expenses	0.00	0.00	0.00	0.0%	-33.3%
Public Debt Commission revenue	0.09	0.00	0.00	-100.0%	-
Net Interest Expenditure	3.11	3.08	3.08	-0.7%	0.0%
Total Public Investment Budget Revenue	1.95	0.77	0.76	-60.6%	0.5%
EU Revenues	1.86	0.62	0.62	-66.8%	0.0%
Own Participation	0.09	0.15	0.15	75.3%	2.8%
Total Public Investment Budget Expenditure	1.11	0.76	0.76	-32.2%	0.0%
National Contribution	0.16	0.14	0.14	-11.7%	0.0%
Cofinanced	0.95	0.61	0.61	-35.7%	0.0%

Source: Ministry of Finance

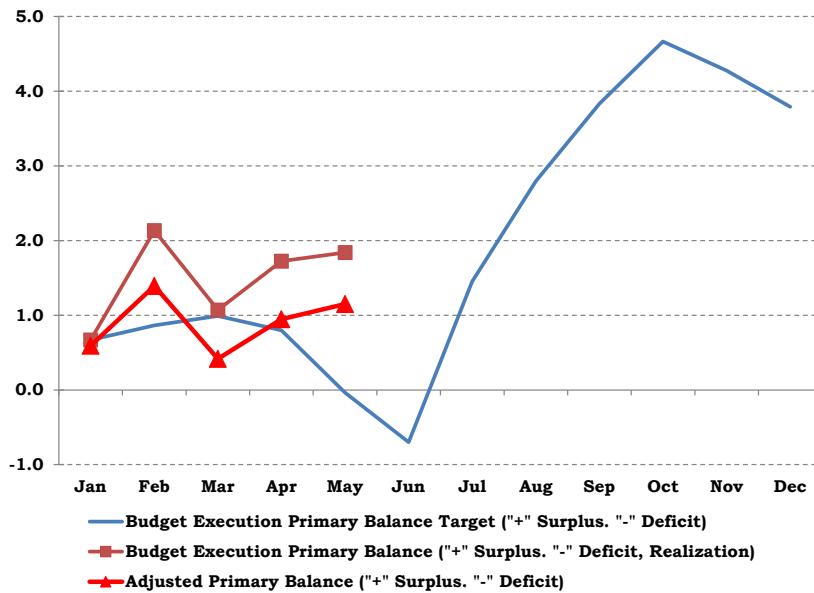
Figure 1: State Budget Execution Revenue & Expenditure
(2017, € bn)



Source: Ministry of Finance, Eurobank Research

Note: (n.v.) stands for negative value. 2017 Budget Targets for Jun.-Dec. 2017. MTSF2018-21 respective targets still not available on a monthly basis.

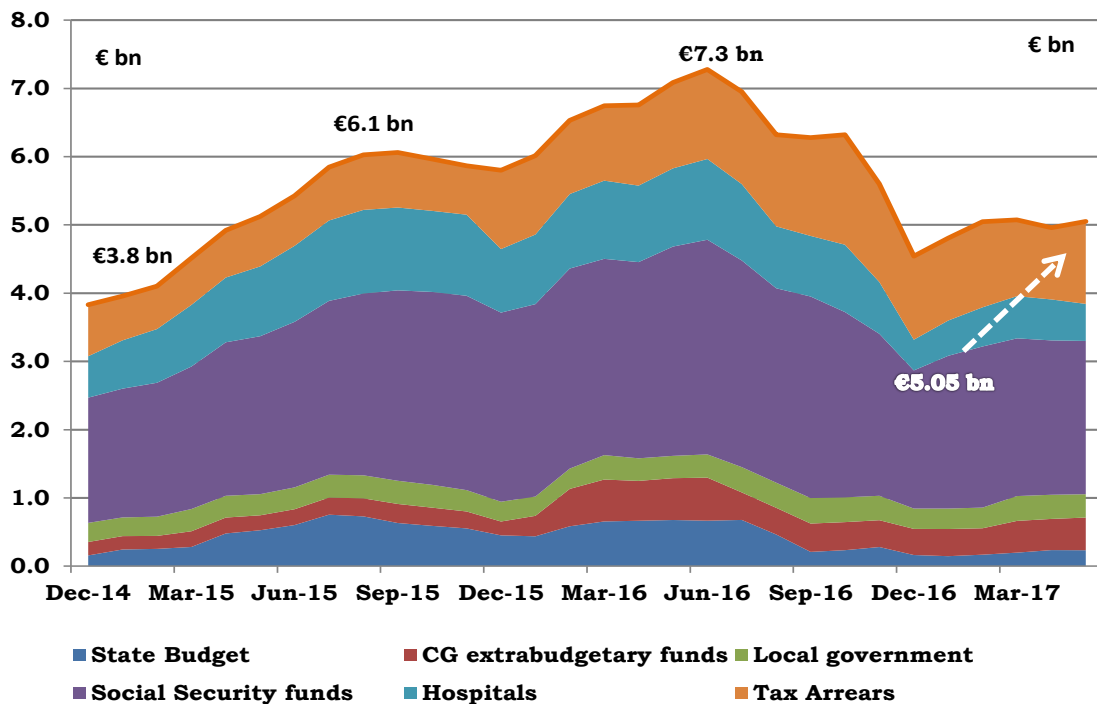
Figure 2: The Adjusted Primary Balance
(€ bn, monthly, May 2017)



Source: Eurobank Research

Note: 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.

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



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