

Greece: January – July 2016 State Budget Execution, and July 2016 arrears

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- According to the final State Budget Execution data for January – July 2016, the budget balance recorded a deficit of ca €0.83 bn, improved by €2.65 bn relatively to the respective 2016 Budget (B16) target (deficit €3.49 bn). The primary balance recorded a surplus of ca €3.55 bn, again significantly outperforming the B16 target (primary deficit of ca €0.87 bn).
- In more detail, ordinary budget net revenue for January – July 2016 (Fig.1) amounted to ca €25.95 bn, higher by ca €0.40 bn (or 1.6%) and €1.11bn (or 4.5%) compared with the respective B16 target and the corresponding 2015 figure, respectively.
- Total tax revenue over-performed by ca €0.53bn (or 2.3%) with respect to the B16 target as a result of the overperformance compared with the respective B16 targets of the corporate income tax (by 2.4%), direct tax arrears (by 12.1%), property taxes (by 2.4%) and other direct taxes (by 4.3%). Personal Income tax revenue decreased by ca 2.8% compared with the respective B16 target. On the indirect taxes, VAT revenue increased by 2.0% compared with the B16 target. VAT revenue on fuel decreased by -15.6% (which is mainly due to the drop of the oil prices) compared with the B16 target. VAT in tobacco and all other goods increased by 0.6% and 3.6%, respectively, compared with their B16 targets mainly as a result of the VAT rate hike decided on May 2016 and the abolition the VAT lower rates for a series of Greek islands. Tax refunds increased by 14.7% (or €0.22bn) relative to the respective B16 target. Non-tax revenue over performed too by ca €0.4bn relative to their B16 target.
- Ordinary budget expenditure (Fig.1) for January-July 2016 amounted to ca €27.13 bn, undershooting the respective B16 target by ca €2.40 bn (or -8.1%), but higher compared to the respective 2015 figure by ca €0.61 bn (or 2.3%). Primary spending was lower than the respective B16 target by ca €2.00 bn (or -8.2%). Military spending remained close to zero, lower than the respective B16 target by €0.33 bn (or -80.9%).
- In the Public Investment Budget (PIB), total revenue for January-July 2016 amounted to ca €2.05 bn, lower by ca €1.04 bn (or -33.8%) relative to the respective B16 target and higher by €0.01 bn (or 0.6%) on an annual basis. PIB total expenditure amounted to ca €1.71 bn, lower compared with the respective B16 target by ca €0.90 bn (or -34.5%) but higher than the respective 2015 figure by ca €0.51bn (or 42.3%).

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Key takeaway

The January-July 2016 adjusted (Eurobank Research) primary balance figure would have been again positive (primary surplus) but only at ca €1.52 bn 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. The respective figure for January-June 2016 was for at -€0.06 bn, so we have a significant improvement of the adjusted primary balance. The achievement of a primary surplus of 0.5% of GDP (in programme terms) for 2016 will be conditional on the success of the new fiscal measures agreed in May and June 2016, the ability of the Revenue Agency to deliver in its targets (tackle tax evasion, etc) and the fiscal burden (ca €10.09 bn and €10.49 bn in direct and indirect taxes have to be collected by(fiscal) year-end).

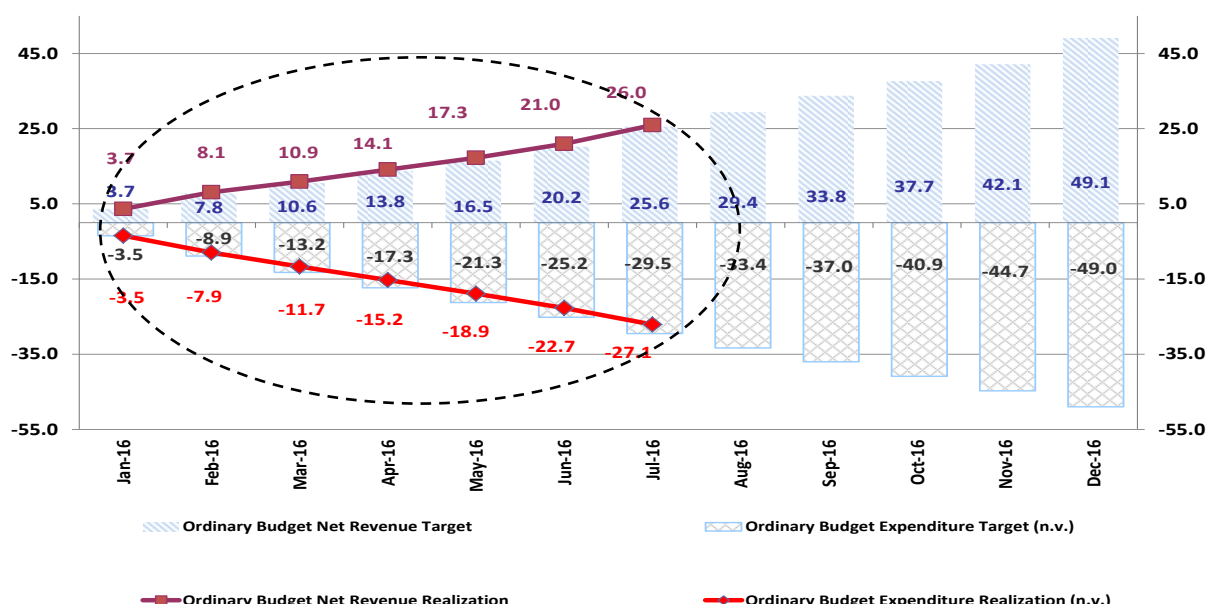
According to the General Government (GG) data, the GG arrears to the private sector increased on a monthly basis in June 2016 (Fig.2). GG arrears were at €5.91 bn at the end of June 2016, increased by 2.4% on a monthly basis. Tax refund arrears were at €1.31 bn, increased by ca 4.1% on a monthly basis. According to the January-July 2016 state budget execution data, the total budgeted amount for arrears payments is at €5.5 bn and ca €0.97 bn were disbursed to the private sector, the first encouraging news for a long time. We expect that this process will continue in the following period with the disbursement of additional €2.6 bn so as to achieve the target of €3.5 bn by the end of 2016 (ESM Compliance Report for the 3rd Economic Adjustment Programme (June 2016)) conditional on the fulfillment of the prior actions attached to it.

Table 1: State Budget Ececution (€ bn, January - July 2016)					
	Jan-July 2015	Jan-July 2016	2016 Buget target Jan-July 2016	%YoY	%target
Primary balance	3.71	3.55	0.87	-4.4%	306.2%
Fiscal Balance	-0.84	-0.83	-3.49	-1.0%	-76.1%
Ordinary Budget Net Revenue	24.84	25.95	25.55	4.5%	1.6%
Revenue before tax refunds	26.17	27.62	26.91	5.5%	2.6%
Privatizations revenue	0.21	0.06	0.14	-	-
Tax refunds	1.55	1.72	1.50	11.3%	14.7%
Ordinary Budget Expenditure	26.52	27.13	29.52	2.3%	-8.1%
Primary Expenditure	21.43	22.32	24.32	4.1%	-8.2%
Military equipment procurement payments	0.03	0.08	0.41	143.8%	-80.9%
Guaranties	0.43	0.31	0.39	-29.6%	-20.8%
Guaranties to bodies classified inside GG	0.42	0.29	0.30	-31.6%	-3.0%
Guaranties to bodies classified outside GG	0.01	0.02	0.09	63.6%	-79.3%
Net Interest Expenditure	4.55	4.38	4.36	-3.8%	0.5%
EFSF fee, etc	0.07	0.05	0.05	-30.8%	-10.0%
Total Public Investment Budget Revenue	2.04	2.05	3.09	0.6%	-33.8%
EU Revenues	1.77	1.90	2.94	7.8%	-35.2%
Own Participation	0.27	0.14	0.15	-47.0%	-6.5%
Total Public Investment Budget Expenditure	1.20	1.71	2.61	42.3%	-34.5%
National Contribution	0.12	0.26	0.17	119.7%	49.4%
Cofinanced part	1.08	1.45	2.43	34.0%	-40.5%

Source: Ministry of Finance

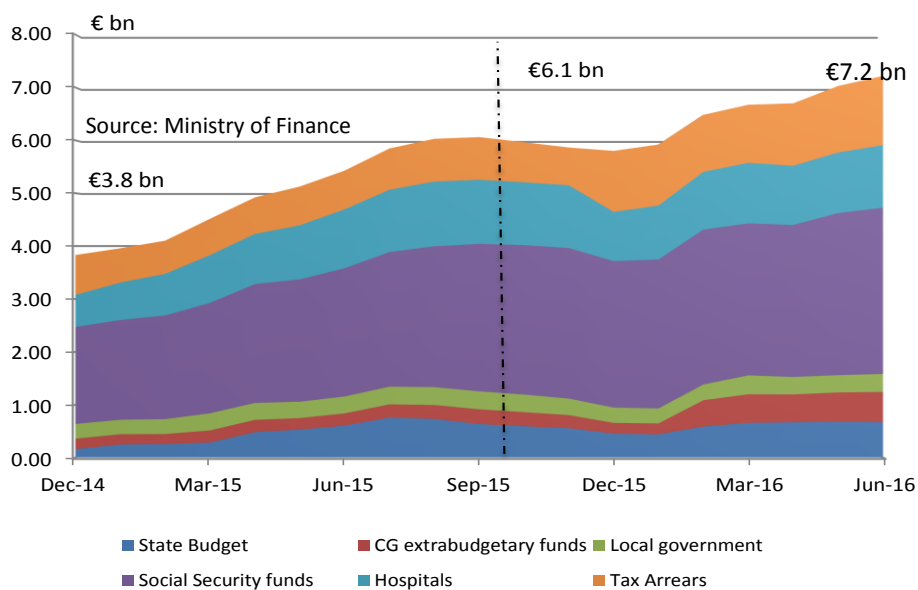
Note: Available at http://www.minfin.gr/sites/default/files/financial_files/STATE_BUDGET_EXECUTION_JULY_2016_FINAL.pdf

**Figure 1: State Budget Execution Revenue & Expenditure
(2016, € bn)**



Source: Ministry of Finance, Eurobank Research

**Figure 2: GG Total Arrears including Tax Arrears
(2014-16, monthly basis (June 2016), € bn)**



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