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Greece: January – April 2016 State Budget Execution, & March 2016 arrears

- According to the final State Budget Execution data for January – April 2016, the budget balance recorded a deficit of ca €0.15 bn, improved relative to the respective 2016 Budget (B16) target (deficit €2.28 bn). The primary balance recorded a surplus of ca €2.72 bn, significantly outperforming the B16 target (primary surplus of ca €0.57bn).
- In more detail, ordinary budget net revenue for January – April 2016 (Fig.1) amounted to ca €14.10 bn, higher by ca €0.32 bn (or 2.3%) compared with the respective B16 target and lower by ca €0.19bn (or -1.3%) on an annual basis.
- Ordinary budget net revenue over-performed mainly due to the higher than targeted total non-tax revenue which were at ca € 2.0 bn (increased by ca €0.58 bn (or 40.3%) compared to the respective B16 target). This increase was mainly due to the higher than expected Bank of Greece's dividend (by €0.45 bn) received in February 2016.
- On the other hand, total tax revenue underperformed by ca €0.21 bn (or -1.6%) with respect to the B16 target. Personal & Corporate Income tax revenue decreased by ca -1.0% compared with the respective B16 target. Property tax revenue (mainly ENFIA) decreased by ca -10.0%, compared with its B16 target. On the indirect taxes, VAT revenue decreased by -3.1% compared with the B16 target. VAT revenue on fuel and all other goods decreased by -20.4% (which is mainly due to the drop on the oil prices) and -0.4%, respectively, compared with their B16 targets and despite the increase in various VAT rates implemented in mid-2015. VAT revenue from tobacco increased by ca 0.6%, compared with its B16 target. Tax refunds increased by 6.8% (or €0.06bn) relative to the respective B16 target.
- Ordinary budget expenditure (Fig.1) for January-April 2016 amounted to ca €15.25 bn, undershooting the respective B16 target by ca €2.08 bn (or -12.0%), and the respective 2015 figure by ca €0.25 bn (or -1.6%). Primary spending was lower than the respective B16 target by ca €1.82 bn (or -12.8%). Military spending remained close to zero, lower than the respective B16 target by €0.21 bn (or -88.7%).
- In the Public Investment Budget (PIB), total revenue for January-April 2016 amounted to ca €1.91 bn, lower by ca €0.47 bn (or -19.7%) relative to the respective B16 target and higher by €0.39 bn (or 25.2%) on an annual basis. PIB total expenditure amounted to ca €0.92 bn, lower compared with the respective B16 target by ca €0.20 bn (or -17.9%) but higher than the respective 2015 figure by ca €0.10 bn (or 11.9%).

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Key takeaway

The January-April 2016 the adjusted (Eurobank Research) primary balance figure would have been again positive (primary surplus) but only at ca €0.97 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. This is not an encouraging result. The respective figure for January-March 2016 was at €1.48 bn so we have deterioration of the adjusted primary surplus, not an encouraging fact for the achievement of the full year primary surplus target of 0.5% of GDP (in programme terms).

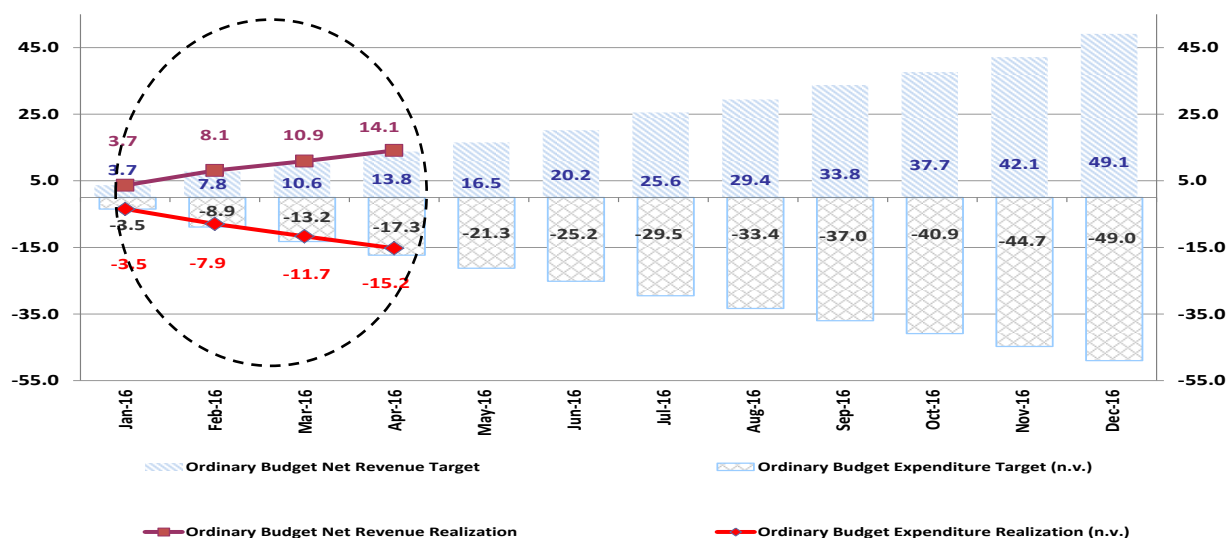
According to the General Government (GG) data, the GG arrears to the private sector increased significantly on a monthly basis in March 2016 (Fig.2). GG arrears were at €5.6 bn at the end of March 2016, increased by ca €0.17 bn or 3.2% on a monthly basis. Tax refund arrears were at €1.10 bn, increased by ca 1.9% on a monthly basis. According to the January-April 2016 state budget execution data, the total budgeted amount for arrears payments is at €5.5 bn. No such payment was made during 2016 and reportedly arrears were on the rise in May 2016. The partial payment of the arrears is expected until autumn 2016 from the 2nd disbursement of the ESM loan according to the staff level agreement reached on May 22 2016 (Box 1). It will contribute significantly on the achievement of the real GDP target for 2016. The European Commission real GDP target is at -0.3% for 2016.

Table 1: State Budget Ececution (€ bn, January - April 2016)					
	Jan-April 2015	Jan-April 2016	2016 Buget target Jan.-April. 2016	%YoY	%target
Primary balance	2.10	2.72	0.57	29.1%	379.7%
Fiscal Balance	-0.51	-0.15	-2.28	-69.8%	-93.3%
Ordinary Budget Net Revenue	14.29	14.10	13.78	-1.3%	2.3%
Revenue before tax refunds	15.04	15.03	14.65	-0.1%	2.6%
Privatizations revenue	0.19	0.05	0.05	-	-
Tax refunds	0.94	0.98	0.92	3.7%	6.8%
Ordinary Budget Expenditure	15.50	15.25	17.33	-1.6%	-12.0%
Primary Expenditure	12.41	12.32	14.14	-0.7%	-12.8%
Military equipment procurement payments	0.01	0.03	0.24	-	-88.7%
Guaranties	0.41	0.03	0.08	-	-61.7%
Guaranties to bodies classified inside GG	0.40	0.03	0.03	-	-
Guaranties to bodies classified outside GG	0.06	0.04	0.05	-	-21.6%
Net Interest Expenditure	2.61	2.87	2.85	9.8%	0.7%
EFSF fee, etc	0.06	0.02	0.02	-	-
Total Public Investment Budget Revenue	1.53	1.91	2.38	25.2%	-19.7%
EU Revenues	1.44	1.85	2.27	28.9%	-18.4%
Own Participation	0.09	0.06	0.11	-34.5%	-47.2%
Total Public Investment Budget Expenditure	0.82	0.92	1.12	11.9%	-17.9%
National Contribution	0.09	0.14	0.08	53.3%	72.0%
Cofinanced part	0.73	0.78	1.04	6.7%	-25.0%

Source: Ministry of Finance

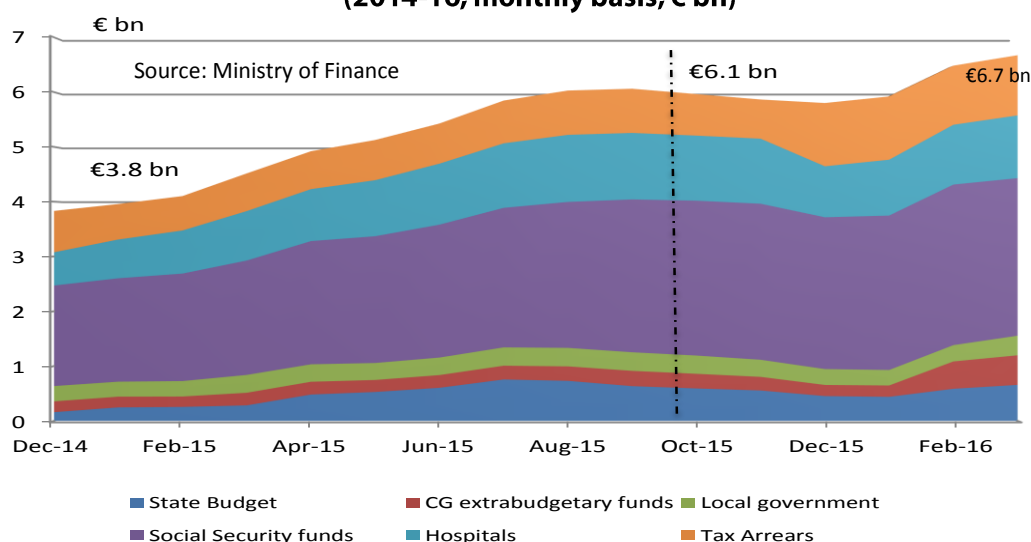
Note: Available at http://www.minfin.gr/sites/default/files/financial_files/STATE_BUDGET_EXECUTION_APR_2016_F.pdf

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, € bn)**



Box 1: Details on the staff level agreement of May 25 2016

1. Eurozone finance ministers – the Eurogroup – welcomed a full staff level agreement between Greece and its creditors in the early hours of May 25 2016. This agreement will permit the disbursement of the next tranche from the 3rd Economic Adjustment Programme for Greece, the implementation of the roadmap regarding the debt relief measures aiming to reduce Greek public debt as well as the expected full participation of the IMF in the programme before the end of 2016.
2. In more detail, on the basis of the two fiscal and reform packages that the Greek Parliament voted in the previous weeks and the results of the previous Eurogroup of May 9th, it was decided that:
 - The second tranche of the 3rd bailout programme totaling €10.30 bn will be disbursed in two sub-tranches. The first one, amounting €7.50 bn, is expected in June and it will cover debt servicing needs (currently estimated at €4.40 bn for June and July) and the partial clearance of the general government arrears (totaling €6.70 bn in March according to the latest available data). The second sub-tranche will be at €2.80 bn, it will be used solely for arrears clearance and is expected to be disbursed in September at the earliest. The disbursement of the first sub-tranche is subject to certain conditionality regarding amendments to the NPLs and the pension reform legislation, the progress on privatizations, bank governance, revenue agency and the energy sector. As of June 2nd 2016 the Government submitted the majority of the required actions for the completion of the review and the disbursement of the sub-tranche. For the remaining prior actions, (namely the transfer to non-banking institutions of the NPLs guaranteed by the state and a number of minor amendments to the pension reform), if there will be no further developments regarding their legislation in the following days, might constitute the required conditionality for the disbursement of the second sub-tranche.
 - For the debt relief a three pillar approach will be used. The short term debt relief measures include the smoothing of the EFSF repayment profile under the current weighted average maturity, the use of the EFSF/ESM tools to reduce interest rate risk and the waiver of the step-up interest rate margin (to be applied in 2017) related to the debt-buy-back tranche of the 2nd Economic Adjustment Programme. The medium term measures will be applied after the end of the current programme, while the long term strategy will include a mechanism for additional debt relief conditional on the achievement of the Stability and Growth Pact targets.

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