

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

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- According to the final State Budget Execution data for January – March 2016, the budget balance recorded a surplus of ca €0.22 bn, improved relative to the respective 2016 Budget (B16) target (deficit €1.34 bn). The primary balance recorded a surplus of ca €2.67 bn, significantly outperforming the B16 target (primary surplus of ca €1.10bn).
- In more detail, ordinary net revenue for January – March 2016 amounted to ca €10.94 bn, higher by ca €0.37bn (or 3.5%) compared with the respective B16 target and by ca €0.37 bn (or 3.5%) on an annual basis.
- Ordinary budget revenue (Fig.1) over-performed mainly due to the higher than targeted total non-tax revenue by ca €0.45 bn (or 44.1%) on the higher than expected dividend received by the Bank of Greece in February 2016.
- On the other hand, total tax revenue underperformed by ca €0.23 bn (or -2.4%) with respect to the B16 target. Personal & Corporate Income tax revenue decreased by ca -5.8% compared with the respective B16 target. Property tax revenue (mainly ENFIA) decreased by ca -14.7%, compared with its B16 target. On the indirect taxes, VAT revenue decreased by -4.4% compared with the B16 target. VAT revenue on fuel and all other goods decreased by -21.5 (which is mainly due to the drop on the oil prices) and -2.1%, 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 decreased by -1.4% (or €0.01 bn) relative with the respective B16 target.
- Ordinary budget expenditure (Fig.1) for January-March 2016 amounted to ca €11.70 bn, undershooting the respective B16 target by ca €1.55 bn (or -11.7%), and the respective 2015 figure by ca €0.28 bn (or -2.3%). Primary spending was lower than the respective B16 target by ca €1.34 bn (or -12.7%). Military spending remained close to zero, lower than the respective B16 target by €0.18 bn (or -92.2%).
- In the Public Investment Budget (PIB), total revenue for January-March 2016 amounted to ca €1.55 bn, lower by ca €0.45 bn (or -22.3%) relative to the respective B16 target and higher by €0.11 bn (or 7.2%) on an annual basis. PIB total expenditure amounted to ca €0.58 bn, lower compared with the respective B16 target by ca €0.08 bn (or -12.1%) but higher than the respective 2015 figure by ca €0.08 bn (or 7.0%).

Key takeaway

The January-March 2016 primary balance figure would have been again positive (primary surplus) but only at ca €1.5 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 in view of the ongoing discussions over the 2016-18 fiscal gap and despite the better than expected fiscal outcome for 2015 (Box 1).

According to the General Government (GG) data, the GG arrears to the private sector increased significantly on a monthly basis in February 2016 (Fig.2). GG arrears were at €5.4 bn at the end of February 2016, increased by ca €0.6 bn or 13.3% on a monthly basis. This was mainly due to an increase in: a) State Budget Arrears by €0.1 bn, b) CG Extra-budgetary funds Arrears by €0.3 bn, c) Social Security Funds Arrears by ca €0.1 bn and d) Hospitals' Arrears by ca €0.1 bn. Tax refund arrears were in February 2016 at €0.66 bn, decreased by ca -6.8% on a monthly basis. According to the January-February 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 March 2016. Payment of total arrears is conditional on the successful conclusion of the 1st review of the 3rd Economic Adjustment Programme. It will contribute significantly on the achievement of the real GDP target for 2016. The European Commission real GDP target is at -0.6 while the respective Eurobank Research target is at -1.0% of GDP.

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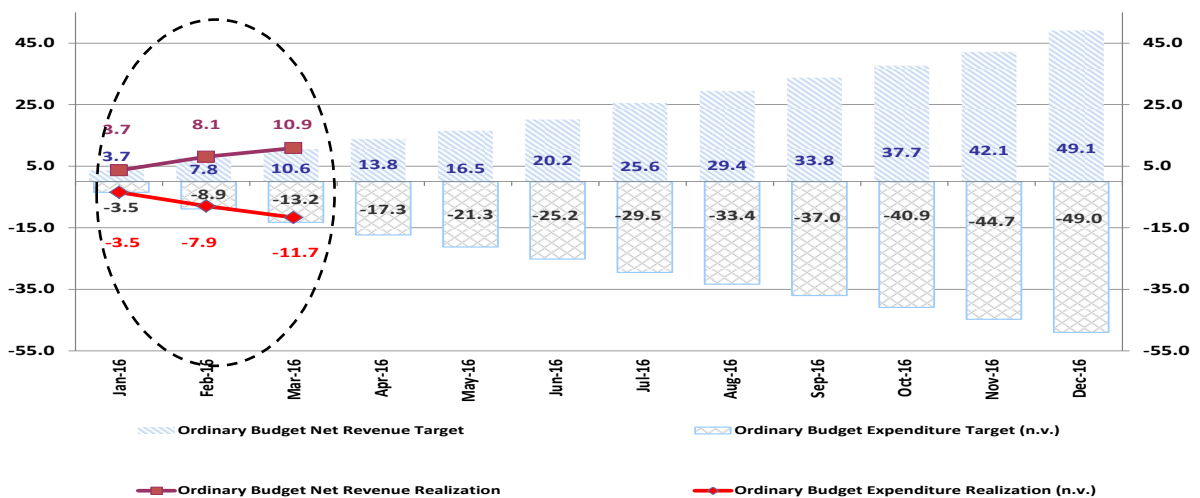
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	Jan-Feb 2015	Jan-Feb 2016	2016 Budget target Jan.-Feb. 2016	%YoY	%target
Primary balance	1.73	2.67	1.10	54.3%	144.0%
Fiscal Balance	-0.50	0.22	-1.34	-142.7%	-116.1%
Ordinary Budget Net Revenue	10.57	10.94	10.57	3.5%	3.5%
Revenue before tax refunds	11.18	11.66	11.30	4.3%	3.2%
Privatizations revenue	0.19	0.04	0.05	-	-
Tax refunds	0.80	0.76	0.77	-4.3%	-1.4%
Total Ordinary Budget Expenditure	11.98	11.70	13.25	-2.3%	-11.7%
Ordinary Budget Primary Expenditure	9.34	9.20	10.55	-1.5%	-12.7%
Military equipment procurement payments	0.00	0.02	0.19	-	-92.2%
Guaranties	0.40	0.03	0.06	-	-58.7%
Guaranties to bodies classified inside GG	0.40	0.02	0.02	-	-
Guaranties to bodies classified outside GG	0.06	0.03	0.04	-	-23.1%
Net Interest Expenditure	2.24	2.46	2.43	9.9%	1.1%
EFSF fee, etc	0.00	0.01	0.02	-	-
Total Public Investment Budget Revenue	1.45	1.55	2.00	7.2%	-22.3%
EU Revenues	1.40	1.51	1.96	7.7%	-23.1%
Own Participation	0.05	0.05	0.04	-2.0%	13.6%
Total Public Investment Budget Expenditure	0.54	0.58	0.66	7.0%	-12.1%
National Contribution	0.08	0.09	0.05	10.3%	83.0%
Cofinanced part	0.46	0.49	0.61	6.5%	-19.4%

Source: Ministry of Finance

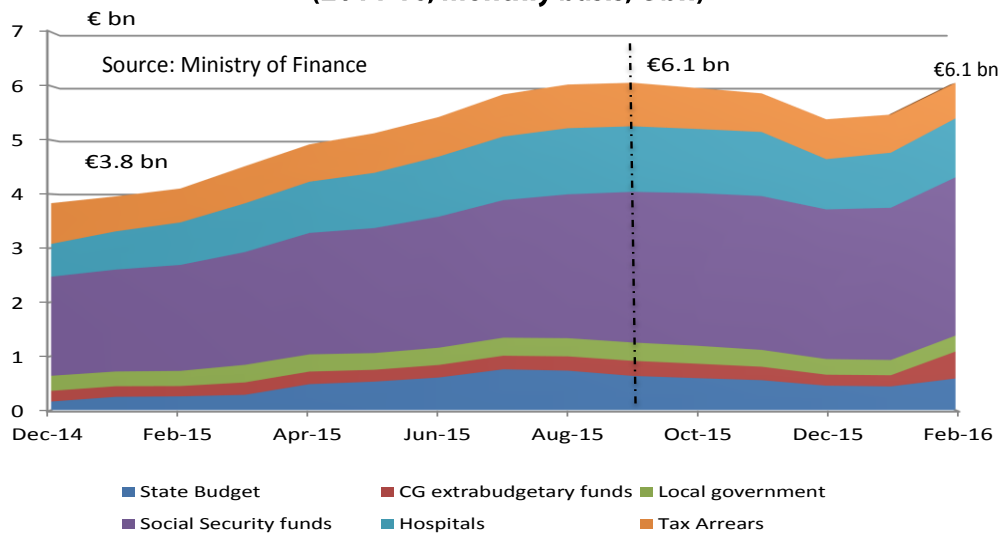
Note: Available at http://www.minfin.gr/sites/default/files/financial_files/BULLETTIN_3_2016.pdf

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 EDP deficit and debt figures for 2012-2015

ELSTAT (and Eurostat) announced today the Deficit Figures for the period 2012- 2015 according with Eurostat's Excessive Deficit Procedure. According to standard practice, the announcement included the revised deficit and debt figures for the period 2012-2014 and the first estimate for 2015.

		2012	2013	2014	2015
Gross Domestic Product (GDP)	€ bn	191.2	180.4	177.6	176.0
General Government balance deficit (-) / surplus (+)	€ bn	-16.9	-23.5	-6.5	-12.8
	%GDP	-8.8	-13.0	-3.6	-7.2
General Government primary balance (-) / surplus (+)	€ bn	-7.1	-16.2	0.7	-6.1
	%GDP	-3.7	-9.0	0.4	-3.4
Impact of the support to financial institutions on General Government deficit (minus sign denotes an	€ bn	-5.3	-19.2	0.1	-7.2
	%GDP	-2.8	-10.6	0.1	-4.1
General Government primary balance net of the support to financial institutions (-) / surplus (+)	€ bn	-1.9	2.9	0.6	1.1
	%GDP	-0.9	1.6	0.3	0.7
General Government expenditure	€ bn	105.7	112.1	89.9	97.4
	%GDP	55.3	62.1	50.7	55.3
General Government revenue	€ bn	88.8	88.6	83.5	84.7
	%GDP	46.5	49.1	47.0	48.1
General Government debt	€ bn	305.9	320.5	319.7	311.5
	%GDP	159.6	177.7	180.1	176.9

Source: ELSTAT

The figure for the 2013 **General Government balance** has been revised upwards by -0.6% of GDP (from -13.0% in October 2015 to -12.4% of GDP in April 2016) due to the change in the statistical treatment of concession projects for the construction of motorways, recorded on government balance following an amendment of the concession contracts.

The 2013 and 2014 General Government debt figures (2013: GG debt from 177.0% in October 2015 to 177.7% of GDP in April 2016, 2014: GG debt from 178.6% in October 2015 to 180.1% of GDP in April 2016) have been revised due to the change in the statistical treatment of concession projects for the construction of motorways, recorded on government balance following an amendment of the concession contracts. Moreover for the year 2014 the classification of entities in the register of general government had impact.

The GG primary balance in ESA 2010 terms for 2015 net of the support to financial institutions is expected at 0.7% of GDP. This figure is in line with the respective figure in the 2016 Budget for the 2015 GG balance. **Note that all the above calculations are in ESA 2010 terms.** For the calculation of the primary balance in MoU terms additional adjustments are needed (namely we have to subtract the revenues from the ECB's SMP & ANFA programme, add the cash accrual adjustment for ENFIA, subtract the revenues from the privatization programme and revenues related to the support of the financial institutions and finally add the adjustment for military expenses). **The primary balance in MoU terms is at ca 0.7% of GDP** (calculations available upon request). **This figure is significantly higher from the respective 2016 Budget figure (-0.2% of GDP) but also from the respective IMF figure -0.6% of GDP (WEO, April 2016).** This difference of ca 1% of GDP between prompted the government to ask for the reduction of the already agreed fiscal measures (3% of GDP or €5.4 bn) or the contingency fiscal measures of (1.5% of GDP or €3.5 bn). Positive answer from the institutions to such request seems unlikely.

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