

## **Greece: January – August 2016 State Budget Execution, and July 2016 General Government arrears**

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- According to the final State Budget Execution data for January – August 2016, the budget balance recorded a deficit of ca €1.04 bn, €2.84 bn narrower relatively to the respective 2016 Budget (B16) target (deficit €3.88 bn). The primary balance recorded a surplus of ca €3.75 bn, significantly outperforming the B16 target (primary deficit €0.98 bn).
- In more detail, ordinary budget net revenue for January – August 2016 (Fig.1) amounted to ca €29.88 bn, higher by ca €0.46 bn (or 1.6%) and €1.18 bn (or 4.1%) compared with the monthly B16 target and the corresponding 2015 figure, respectively.
- Total tax revenue over-performed by ca €0.36bn (or 1.3%) with respect to the B16 target. On the direct taxes, revenues from the corporate income tax (by 14.1%), direct tax arrears (by 14.1%), and other direct taxes (by 4.3%) outperformed the respective B16 targets. Revenue from the personal income and property taxes decreased by ca -0.4% and -34.6% relative to their respective B16 targets. With regard to indirect taxes, VAT revenue increased by 3.0% compared with the B16 target. VAT revenue on fuel decreased by -13.5% (which is mainly due to lower oil prices) compared with the B16 target. VAT revenues from tobacco and all other goods increased by 0.6% and 4.9%, respectively, in comparison with their B16 targets, as a result of: (i) the planned increase on the tobacco products' indirect taxes from January 2017 onwards; (ii) the VAT rate hike decided on May 2016 in the context of the 1<sup>st</sup> programme review; (iii), the abolition of lower VAT rates on a series of Greek islands; and (iv) the improved use of electronic means of payment. Consumption taxes rose by €2.15 bn, as a result of a 9.2% increase in other excise taxes (mainly tobacco) Tax refunds grew by 5.4% (or €0.10 bn) relative to the respective B16 target. Non-tax revenue also outperformed their B16 target by ca €0.58bn.
- Ordinary budget expenditure (Fig.1) for January-August 2016, amounted to ca €30.81bn, undershooting the respective B16 target by ca €2.55 bn (or -7.6%), but were ca €0.51 bn (or 1.7%), higher than the respective 2015 figure. Primary spending was lower than the respective B16 target by ca €2.00 bn (or -7.3%). Military spending remained close to zero, undershooting the respective B16 target by €0.37 bn (or -81.7%).
- Public Investment Budget (PIB) total revenue, for January-August 2016 amounted to ca €2.07 bn, lower by ca €1.05 bn (or -33.6%) relative to the respective B16 target and stable on an annual basis. PIB total expenditure amounted to ca €2.17 bn, ca €0.88 bn (or -28.9%) lower compared with the respective B16 target but higher than the respective 2015 figure by ca €0.61bn (or 39.9%).

### **Key takeaway**

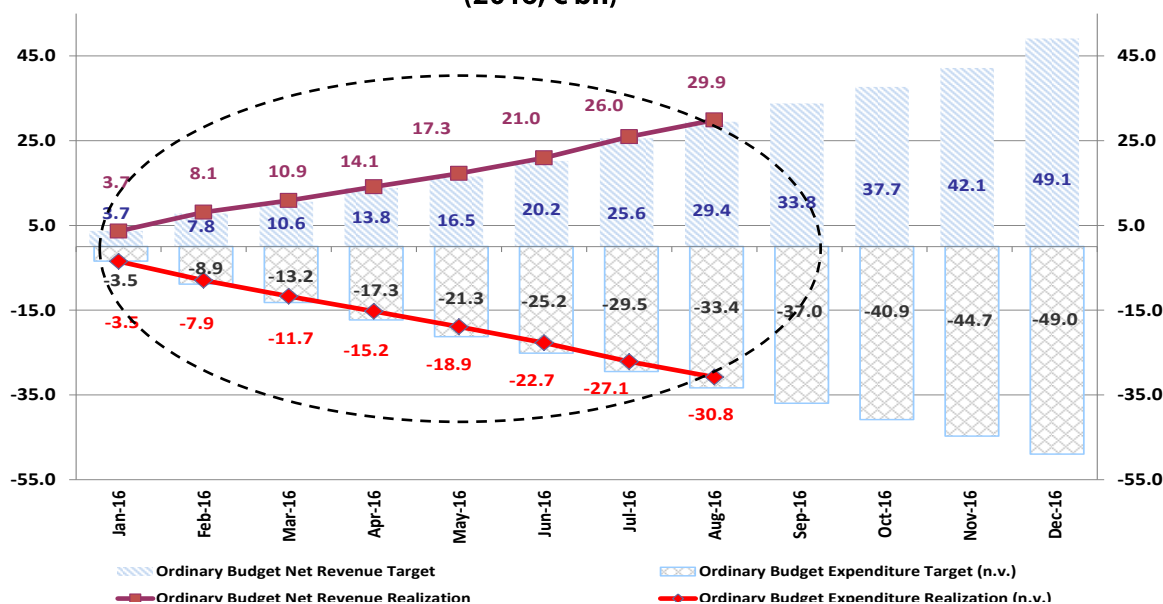
The January-August 2016 adjusted primary balance (ABS), (Fig.2) remained in positive territory marking a surplus of €1.47 bn from €1.52 bn in July 2016 and significantly higher compared with the €0.12 bn May 2016 figure, as a result of the revenue improving factors discussed above. The ABS is calculated 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. 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 and the taxpayers' ability to meet their tax obligations (fiscal burden of ca €8.26 bn and €8.49 bn in direct and indirect taxes has to be collected by (fiscal) year-end). According to the General Government (GG) arrears new bulletin, by the end of July 2016 total funds that were transferred to the various general government entities for arrears (including tax refund arrears) clearance stood at at €1.71 bn in line with the respective target of the ESM Compliance Report (June 2016). However, the actual payments of arrears to the private sector were only at €0.49 bn. As a result, the GG arrears (including tax refund arrears) to the private sector decreased on a monthly basis in July 2016 (Fig.3) by €0.33 bn or -4.6% on a monthly basis.

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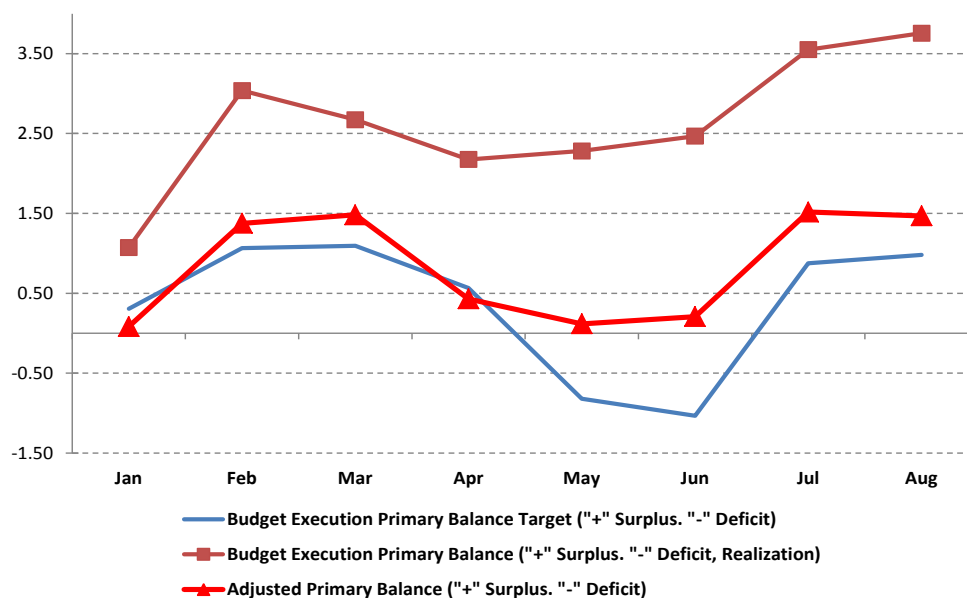
Table 1: State Budget Ececution (€ bn, January - August 2016)					
	Jan-August 2015	Jan-August 2016	2016 Buget target Jan-August 2016	%YoY	%target
Primary balance	3.80	3.75	0.98	-1.2%	282.8%
Fiscal Balance	-1.10	-1.04	-3.88	-5.8%	-73.2%
Ordinary Budget Net Revenue	28.70	29.88	29.42	4.1%	1.6%
Revenue before tax refunds	30.26	31.73	31.09	4.9%	2.1%
Privatizations revenue	0.21	0.06	0.14	-	-
Tax refunds	1.77	1.91	1.81	7.6%	5.4%
Ordinary Budget Expenditure	30.31	30.81	33.36	1.7%	-7.6%
Primary Expenditure	24.72	25.58	27.59	3.5%	-7.3%
Military equipment procurement payments	0.08	0.08	0.46	0.0%	-81.7%
Guaranties	0.47	0.31	0.40	-33.5%	-22.2%
Guaranties to bodies classified inside GG	0.46	0.29	0.30	-35.9%	-3.0%
Guaranties to bodies classified outside GG	0.01	0.02	0.10	58.3%	-80.8%
Net Interest Expenditure	4.90	4.79	4.86	-2.3%	-1.4%
EFSF fee, etc	0.13	0.05	0.06	-65.6%	-18.2%
Total Public Investment Budget Revenue	2.07	2.07	3.12	0.0%	-33.6%
EU Revenues	1.79	1.92	2.96	7.2%	-35.0%
Own Participation	0.28	0.15	0.16	-46.9%	-7.6%
Total Public Investment Budget Expenditure	1.56	2.17	3.06	39.0%	-28.9%
National Contribution	0.13	0.31	0.27	129.9%	15.4%
Cofinanced part	1.43	1.87	2.79	30.5%	-33.1%

Source: Ministry of Finance

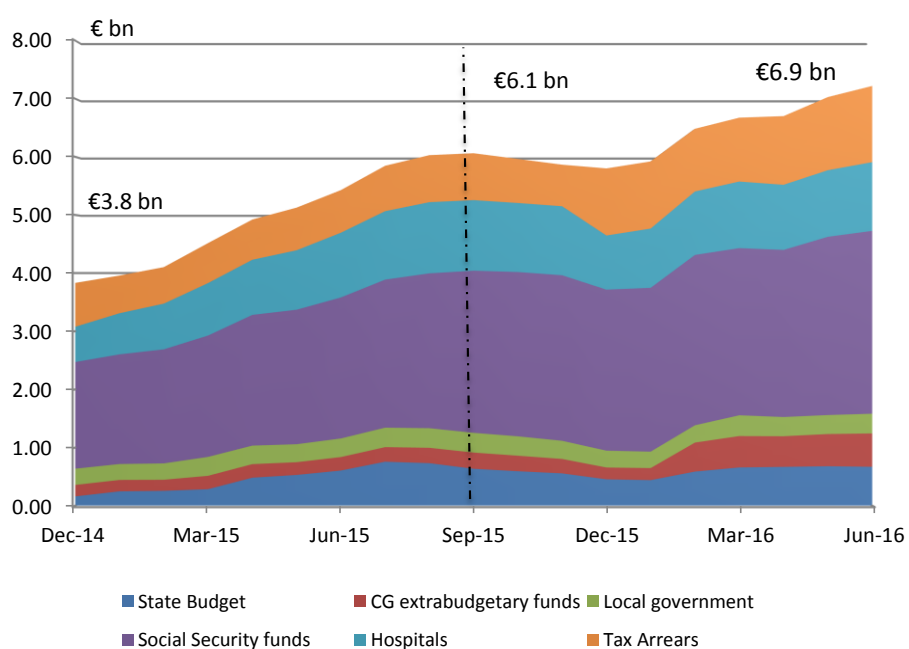
Note: Available at [http://www.minfin.gr/sites/default/files/financial\\_files/STATE\\_BUDGET\\_EXECUTION\\_BULLETIN\\_AUGUST\\_2016\\_FINAL.pdf](http://www.minfin.gr/sites/default/files/financial_files/STATE_BUDGET_EXECUTION_BULLETIN_AUGUST_2016_FINAL.pdf)Figure 1: State Budget Execution Revenue & Expenditure  
(2016, € bn)

Source: Ministry of Finance, Eurobank Research

**Figure 2: The Adjusted Primary Balance**  
(€ bn, monthly, August 2015)



**Figure 3: GG Total Arrears including Tax Arrears**  
(2014-16, monthly basis (June 2016), € bn)



Source: Ministry of Finance

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