

# GREECE MACRO MONITOR

April 17, 2015

## Greek State Budget execution data for Q1 2015 encouraging, despite increase in government arrears

Dr. Platon Monokrousos  
Group Chief Economist  
Deputy General Manager  
[pmonokrousos@eurobank.gr](mailto:pmonokrousos@eurobank.gr)

Greece's finance ministry released earlier today preliminary data on the State Budget execution in the first quarter of 2015. The year-to-March Central Government budget recorded a €500mn deficit, which compares with a targeted shortfall of €2,111mn. In a similar vein, the primary balance (which excludes interest payments) recorded a surplus of €1,735mn, significantly outperforming the €119mn budget target and a surplus of €1,541mn generated in Q1 2014 (see Table).

*In more detail,*

Ordinary Budget net revenue (mainly from taxation and excluding tax returns) amounted to €10,574mn coming broadly unchanged from a year earlier, but underperforming the Budget target for Q1 2015 by €584mn. Over the same period, tax refunds amounted to €796mn, exceeding the respective target by €135mn.

In the Public Investment Budget (PIB), total net revenue in Q1 amounted to €1,448mn outperforming the respective Budget target by €678mn, but coming in c 29% lower from a year earlier. EU transfer to the Greek PIB amounted to €1,397mn in January-March 2015, compared to the €720mn target and a realization slightly higher than €2bn in the first quarter of last year.

On the expenditure side, State Budget expenditure amounted to €12,522mn, undershooting the respective Budget target by €1,516mn (0.85% of GDP). Relative to the first quarter of last year, State Budget expenditure was lower by 2.2%, despite the fact that it included higher outlays for electoral expenditure (€32mn) and agricultural subsidies (€17mn).

All in all, the notable under-execution of budgetary expenditure in Q1 2015 was broadly the result of lower-than-budgeted primary spending (by €1,181mn) and military expenditure (by €130mn). Finally, Q1 public investment expenditure amounted to €542mn, down by €178mn compared to the respective Budget target and by €376mn vs. the same period a year earlier.

### Key takeaway

The highly problematic picture for tax receipts witnessed in the two-month period leading to January 25 general election appears to be gradually normalizing, due to improving tax compliance and a number of recent government initiatives to improve tax collections. Among others, the latter include: a) a special scheme for the settlement of outstanding arrears to the tax authority and the social security system, which expired at the end of March and (reportedly) generated extra revenue of c. €145mn; and b) a new settlement scheme for outstanding tax and social security liabilities (as of 1 March 2015), which incepts today and is expected to bring some €600mn to State coffers this year. Note that, ordinary Budget net receipts in March 2015 were 21.9% higher relative to the Budget target.

April 17, 2015

The outperformance of the respective Budget targets for the Central Government overall balance and the primary balance in Q1 2015 was mainly due to a sharp containment of primary expenditure. In the absence of program funding (since July 2014), this was necessary so as to secure external debt payments as well as domestic expenditure on wages, pensions and the public investment program. The downside of the under-execution of the Central Government Budget in Q1 2015 is the rapid build-up of arrears to third parties *i.e.*, government debts outstanding for more than 3 months. According to the latest available data, the total stock of government arrears rose in February for the second month in a row coming in at €3.245bn, up by €232mn cumulatively since end-December 2014. On a more positive note, the sharp improvement in tax revenues in March (and expectations for another positive outcome this month) portrays an encouraging picture, allaying earlier concerns for a significant slippage of tax revenue this year.

Table: State Budget Execution- 3 Months January-March 2015

	Jan-Mar 2014	Jan-Mar 2015				FY-2014	FY-2015
	Realization (€mn)	Realization (€mn)	Realization YoY%	Budget 2015 Target (€mn)	Deviation (€mn)	Realisation (€mn)	Budget 2015 Target (€mn)
	(1)	(2)		(3)	(4) = (2)-(3)	(6)	(7)
<b>I. Ordinary Budget Balance (A-B)</b>	-1,572	-1,406	-10.6%	-2,160	754	-1,822	1,566
<b>State Budget Net Revenue (A+C1)</b>	12,720	12,022	-5.5%	11,928	95	51,367	55,603
<b>A. Ordinary budget net revenue (A1+A1-A3)</b>	10,678	10,574	-1.0%	11,158	-584	46,650	50,871
A1. Revenue before tax returns	11,381	11,180	-1.8%	11,566	-386	49,636	53,171
A2. Privatisation proceeds	0	190		252	-62	384	577
A3. Tax returns	703	796	13.2%	661	135	3,370	2,877
<b>State Budget Net Expenditure (B+C2)</b>	13,168	12,522	-4.9%	14,038	-1,516	55,063	55,705
<b>B. Ordinary budget expenditure (B1+B2+B3+B4+B5)</b>	12,250	11,980	-2.2%	13,318	-1,338	48,472	49,305
B1. Primary expenditure	9,861	9,343	-5.3%	10,523	-1,180	41,928	41,887
B2. Military procurement (on a cash basis)	5	0		130	-130	345	700
B3. Guarantees called	395	403	2.0%	435	-32	587	818
B4. Net interest payments	1,989	2,235	12.4%	2,230	5	5,569	5,900
B5. Loan disbursement fee to EFSF	0	0		0	0	42	0
<b>II. Public Investment Budget (PIB) (C1-C2)</b>	1,125	906	-19.5%	50	856	-1,875	-1,668
C1. PIB net revenue	2,043	1,448	-29.1%	770	678	4,717	4,732
C2. PIB expenditure	918	542	-41.0%	720	-178	6,592	6,400
<b>III. Central Government Budget Balance (I+II) (+ surplus, - deficit)</b>	-448	-500	11.6%	-2,111	1,611	-3,697	-102
<b>IV. Central Government Primary Balance (III+B4) (+ surplus, - deficit)</b>	1,541	1,735	24.0%	119	1,615	1,872	5,798

Source: Ministry of Finance, Eurobank Economic Analysis and Financial Markets Research