2. Public finance

KEPE, *Greek Economic Outlook,* issue 36, 2018, pp. 26-27

2.1. State Budget execution, first quarter 2018

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According to the most recent data retrieved from the General Accounting Office,[1] on a modified base, the execution of the State Budget in the first quarter 2018 shows an improvement compared to the corresponding period of 2017, as well as from the monthly targets set. These were reflected in the executive summary of the State Budget for the fiscal year 2018, as higher revenues were expected, as well as higher public expenditures.

According to the data shown in Table 2.1.1, the State Budget had a surplus in the balance amounting to 193 million euros in the period January-April 2018, against a deficit of 1.14 billion euros in the corresponding period of 2017, and a target for deficit of 1.76 billion euros. The State Budget Primary Balance had a surplus of 2.33 billion euros in comparison to a primary surplus of 1.73 billion euros for the same period in 2017 and a primary surplus target of 374 million euros.

More specifically, net revenues amounted to 15.52 billion euros, showing an increase of 215 million euros or 1.41% compared to the revenues of the first quarter of 2017 and 1.21 billion euros or 8.42% against the targets set by the 2018 Budget. The Ordinary Budget revenues amounted to 14.42 billion euros and are reduced by 135 million euros or 0.93% in comparison to last year's corresponding period, while they are higher by 689 million euros or 5.02% compared to the targets. Public Investment Program (PIP) revenues reached 1.09 billion euros, showing an increase compared both to the corresponding period of 2017 (350 million euros or 47.17%) and the budget target (516 million euros or 89.58%). It should be noted here that EU inflows increased compared to the budget target by 496 million euros or 99.20%, which means that less than budgeted revenue will flow in the remainder of the year.

On the opposite side, the State Budget expenditures decreased by 1.12 million euros or 6.81% compared to the corresponding period of 2017, showing a smaller reduction against the target set by the 2018 State Budget. This reduction can be attributed both to the restriction of the Ordinary Budget expenditures (6.84% compared to the corresponding period in 2017 and 1.29% against the Budget's target) as well as the interest payments (25.35% compared to the corresponding period of the previous year) and the PIB (5.79% and 52.45%, respectively), as the Government expenditures did not reach half of what was budgeted. In particular, the Ordinary Budget expenditures amounted to 14.82 billion euros, showing a decrease of 1.09 billion euros over the expenditures of the corresponding quarter of 2017 and 194 million euros against the target, while the primary expenditures that amounted 12.68 billion euros show a reduction of 361 million or 2.77% and 198 million euros or 1.54%, respectively. Finally, the Public Investment Budget shows a deficit of 556 million euros against a deficit target of 1.06 billion euros.

In sum, the execution of the State Budget in the first quarter of 2018 was clearly better than expected, due to increased revenues. Though part of these revenues, i.e. EU inflows in PIP and revenue refunds, have already been budgeted for the year. Moreover, the increased surplus also contributed to the reduced expenditures, and in particular the under-execution of the PIP, which is not enhancing the country's development effort.

On the other hand, in the ongoing assessment, which is expected to be the most difficult of all, an effort to close all the remaining prior actions of the third program will be made, but also decisions should be made on the final amount that Greece will be disbursing from the overall package of the third memorandum, as well as on the characteristics of the following day on debt and primary surpluses, as well as on the supervision framework with or without the IMF, to ensure that

1. Based on preliminary data published in the State Budget Execution Monthly Bulletin: General Accounting Office, May 2018.

TABLE 2.1.1 State Budget execution first quarter 2018, million euros

	Jan.-Apr. 2017	Jan.-Apr. 2018		2017	2018
	Outcome	Outcome	Targets[1]	Outcome[2]	Budget[3]
State Budget					
Net Revenue	15,300	15,515	14,310	51,422	54,244
Expenditures	16,442	15,322	16,073	55,690	55,188
Ordinary Budget					
Net Revenue	14,558	14,423	13,734	48,973	50,509
Expenditures	15,907	14,819	15,013	49,740	48,438
- Primary expenditure	13,039	12,678	12,876	43,532	43,238
- Interest payments (on a cash basis)	2,868	2,141	2,137	6,208	5,200
Public Investment Program (PIP)					
Revenue	742	1,092	576	2,444	3,735
Expenditures	535	504	1,060	5,950	6,750
State Budget Primary Balance[4]	1,724	2,334	374	1,940	4,257
State Budget Balance	-1,142	193	-1,763	-4,268	-943

Source: General Accounting Office, Greek Ministry of Finance.

Notes:

1. Targets as they were reflected in the Executive Summary of the State Budget for the fiscal year 2018.
2. The total revenue and expenditure outcome is preliminary and will be finalized after the vote of the 2017 annual Budget report (for both revenue and expenditure).
3. Annual estimates as depicted in the Executive Summary of 2018 Budget.
4. + surplus, - deficit.

Greece can cover its financing needs from the markets after the end of the program.

It is worth noting that the key decisions concern the budget, i.e. whether the agreed primary surpluses will be achieved and whether additional measures will be needed from 2019, such as the reduction of the tax-free threshold. Other important issues for which decisions should be taken are: real estate property values, the non-performing or so called “red” loans and the abolition of the protection of the first home (Katseli’s law). In addition, there should be agreement on the activation of the “compensatory” measures that the government wants to institutionalize so as to enhance social protection, such as rent subsidies, creation of new child care centers, further expansion of the school meal program and the creation of active employment programs through the OAED, but also to invest in energy infrastructure and the primary sector.

In addition, there should be an agreement upon the package of medium-term debt relief measures, which will probably be linked to Greece’s specific commitments to achieve the agreed budgetary targets, but also to the completion of the agreed reforms, if new measures are not required.

Finally, in addition to the assessment and agreement with the creditors, it is important to implement a development plan for the country, which although it has been presented to the institutions, it is not known in the country, except in its guidelines. If this project can change the country’s productive model, attract new investment (both foreign and domestic), take advantage of the country’s comparative advantages, boost economic efficiency and undertake major reforms (not only for public administration, tax, and insurance and banking systems, but also for the privatization program and the competitiveness of the markets), then there will be a revival of the economy, an increase in GDP and, consequently, the achievement of the fiscal targets in particular, the agreed surpluses and, therefore, returning the economy to regularity without additional fiscal measures.