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REPORT

ON GREEK GOVERNMENT

DEFICIT AND DEBT STATISTICS

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Executive Summary

This report responds to the ECOFIN Council conclusion of 10 November 2009 which invited the Commission to prepare a report on the 'renewed problems in the Greek fiscal statistics.' The Council also invited the Commission 'to propose the appropriate measures to be taken in this situation'. The Commission will respond to this latter invitation in the context of the recommendation for a Council decision under Article 126(9) TFEU and an action plan to tackle the Greek statistical problems, including governance.

On 2 and 21 October 2009, the Greek authorities transmitted two different sets of complete Excessive Deficit Procedure (EDP) notification tables to Eurostat, covering the government deficit and debt data for 2005-2008, and a forecast for 2009. In the 21 October notification, the Greek government deficit for 2008 was revised from 5.0% of GDP (the ratio reported by Greece, and published and validated by Eurostat in April 2009) to 7.7% of GDP. At the same time, the Greek authorities also revised the planned deficit ratio for 2009 from 3.7% of GDP (the figure reported in spring) to 12.5% of GDP, reflecting a number of factors (the impact of the economic crisis, budgetary slippages in an electoral year and accounting decisions). According to the appropriate regulations and practices, this report deals with estimates of past data only.¹

Revisions of this magnitude in the estimated past government deficit ratios have been extremely rare in other EU Member States, but have taken place for Greece on several occasions. These most recent revisions are an illustration of the lack of quality of the Greek fiscal statistics (and of macroeconomic statistics in general) and show that the progress in the compilation of fiscal statistics in Greece, and the intense scrutiny of the Greek fiscal data by Eurostat since 2004 (including 10 EDP visits and 5 reservations on the notified data), have not sufficed to bring the quality of Greek fiscal data to the level reached by other EU Member States.

Where the EDP notification of 21 October 2009 is concerned, the data have not been validated by Eurostat and a substantial number of un-answered questions and pending issues still remain in some key areas, such as social security funds, hospital arrears, and transactions between government and public enterprises. These questions will need to be resolved, and it cannot be excluded that this will lead to further revisions of Greek government deficit and debt data particularly for 2008, but possibly also for previous years.

¹ According to the appropriate regulations and practices, the planned deficit and debt data reported by Member States are not scrutinised by Eurostat or any other Commission service, and the Commission publishes its own macroeconomic forecasts. Hence, although there is an intrinsic link between the quality of statistics (i.e. data for a past year) and the reliability of planned data (i.e. estimates or forecasts for an ongoing or future period), this report does not elaborate on the technical procedures or institutional issues related to the preparation and dissemination of planned data.

As the report shows, the revision in the Greek government deficit statistics are due to two different but in some instances linked sets of problems: problems related to statistical weaknesses and problems related to failures of the relevant Greek institutions in a broad sense. The first set of problems concerns methodological weaknesses and unsatisfactory technical procedures in the Greek statistical institute (NSSG) and in the several other services that provide data and information to the NSSG, in particular the General Accounting Office (GAO) and the Ministry of Finance (MOF). The second set of problems results from inappropriate governance, with poor cooperation and lack of clear responsibilities between several Greek institutions and services responsible for the EDP notifications, diffuse personal responsibilities, ambiguous empowerment of officials, absence of written instruction and documentation, which leave the quality of fiscal statistics subject to political pressures and electoral cycles.

In particular, the report has found evidence of:

- Severe irregularities in the EDP notifications of April and October 2009, including submission of incorrect data, and non-respect of accounting rules and of the timing of the notification;
- Poor cooperation between the national services involved in the compilation of EDP figures, as well as lack of independence of the NSSG and the GAO from the Ministry of Finance;
- An institutional setting and a public accounting system inappropriate for a correct reporting of EDP statistics, especially non-transparent or improperly documented bookkeeping, which has led to several, and in some cases significant, revisions of data by the Greek authorities over an extended period of time;
- Lack of accountability in the individual provision of figures used in EDP notifications, (e.g. absence of written documentation or certification in some cases, exchange of data by phone);
- Unclear responsibility and/or lack of responsibility of the national services providing source data or compiling statistical data, combined with ambiguous empowerment of officials responsible for the data.

These findings indicate that, on top of the serious problems observed in the functioning of other areas involved in the management of Greek public revenues and expenditures, that are not the object of this report, the current set-up does not guarantee the independence, integrity and accountability of the national statistical authorities. In particular the professional independence of the NSSG from the Ministry of Finance is not assured, which has allowed the reporting of EDP data to be influenced by factors other than the regulatory and legally binding principles for the production of high quality European statistics.

Monitoring instruments available to Eurostat with respect to increasing the transparency of the EDP-related statistics, controlling the quality of data under the quality assurance system and the governance structure, have shown to be subject to shortcomings and limitations of particular relevance in the case

of Greece. The problems faced in Greece go well beyond what can be tackled using only the statistical monitoring tools available to the Commission, which according to the Council Regulation 479/2009 does not have audit powers. In spite of the concerted and consistent efforts carried out by Eurostat services since 2004 to ensure respect of the applicable rules and methods, the situation can only be corrected by decisive action of the Greek government.

The Greek authorities need to tackle resolutely not only the outstanding methodological issues, but also and crucially they need to put in place transparent and reliable working practices between the national services concerned, and to revise the institutional setting in order to guarantee the professional independence and full accountability of the NSSG and of the other services involved in the domain of EDP data. Unless the institutional weaknesses identified in this report are addressed and proper checks and balances introduced, the reliability of Greek deficit and debt data will remain in question.

The Commission is fully committed to continue cooperating with the Greek authorities with a view to supporting their efforts to improve the collection and processing of government statistics in order to address the existing shortcomings and restore confidence in Greek statistics.

1 Introduction

On 22 October 2009, Eurostat published its biannual press release on government deficit and debt data for the Member States, euro area (EA16) and EU27, covering 2005-2008 data. In it, it expressed a reservation (in line with Council Regulation 479/2009 on the application of the Protocol on the excessive deficit procedure) on the quality of the Greek data "due to significant uncertainties over the figures notified by the Greek statistical authorities".

The reservation concerned mainly 2008 data, due to the considerable revision (compared to average revisions in EU Member States) of the deficit figure made between the April 2009 and October 2009 EDP notifications. In fact, the Greek authorities reported twice in October: on 2 October and 21 October, with data in the second notification including a significant revision. Because of this late reporting, the notification could not be analysed in detail. In addition, Eurostat had significant doubts about the quality of the figures provided.

The October reporting by the Greek authorities is exceptional in terms of procedure, but it is neither without precedents nor an isolated episode:

- Following evidence of widespread misreporting of deficit and debt data by the Greek authorities during the previous years, in November 2004 a Report on the revision of Greek government deficit and debt figures was released by Eurostat, which showed that figures had been misreported in the years preceding 2004 involving no less than 11 separate issues.
- On five occasions between 2005 and 2009 Eurostat expressed reservations on the Greek data in the biannual press release on deficit and debt data.
- Over the last eight years, whenever the Greek EDP data have been published without reservations, this was very often the result of Eurostat interventions before or during the notification period in order to correct mistakes or inappropriate recording.

In its conclusions of 10 November 2009, the Economic and Financial Affairs (ECOFIN) Council expressed regret² for the renewed problems with the figures reported by the Greek Government and called on it to restore confidence in Greek statistical information and the related institutional setting. Furthermore, the ECOFIN Council also invited the Commission to produce a report and propose the appropriate measures to be taken in this situation.

As the quality problems of Greek statistical information are not only linked to public finance data - National Accounts (GDP) figures have also been significantly revised in the past - and as the events of October 2009 cannot be deemed as exceptional, the report will not deal only with statistical methodological issues. Rather, an analysis of the governance and institutional framework of the Greek system for the production of statistical information is also necessary.

The report is organized as follows: section 2 provides information on the institutional framework of Greek statistics. Section 3 provides a chronology of the main events concerning Greek EDP statistics from 2004 to 2009. Section 4 summarizes the methodological issues which led to revisions of data between 2005 and 2009 and in particular between April 2009 and October 2009. Finally, section 5 provides the conclusions of this report.

² The Council REGRETS the renewed problems in the Greek fiscal statistics. The Council CALLS ON the Greek government to urgently take measures to restore the confidence of the European Union in Greek statistical information and the related institutional setting. The Council INVITES the Commission to produce a report before the end of 2009. Moreover, the Council INVITES the Commission to propose the appropriate measures to be taken in this situation. In this context, the Council WELCOMES the commitment by the Government to address this issue swiftly and seriously and CONSIDERS the measures announced recently, such as those aiming to make the National Statistical Service fully independent, to be steps in the right direction.

2 Institutional framework

2.1 European Statistical System and quality assurance

Official Statistics in Europe are organised in the "European Statistical System (ESS)", a partnership between the statistical authority of the European Union, which is the Commission (Eurostat), and the national statistical institutes (NSIs) and other national authorities responsible in each Member State for the development, production and dissemination of European statistics. Member States collect data and compile statistics for national and EU purposes. The ESS functions as a network in which Eurostat's role is to lead the way in the harmonization of statistics in close cooperation with the national statistical authorities.

Quality assurance in the ESS has emerged from developments over many years in the field of statistics. There is a balance to be found between the objectives of supervision and control by Eurostat and the constraints arising from the principle of subsidiarity and the autonomy of Member States in the way they organise and produce Official Statistics. Although the responsibility for monitoring statistical data is vested in the Commission (and in the case of the Excessive Deficit Procedure the Commission "provides" the data), the Commission does not directly compile statistics or control their production in the Member States. In this respect, it depends largely on the data compiled and reported by the Member States, as well as the administrative ability, good will and loyal co-operation of the respective national authorities. Appropriate institutional frameworks ("governance"), respect of principles, compliance with production methods, and plausibility checks for transmitted data are the available tools for quality assurance in European statistics.

- Member States are bound to cooperate in good faith and in conformity with the statistical principles set out in Regulation 223/2009³. These principles require that statistics are produced in an independent manner, free from any pressures from political or interest groups, and also in a systematic, reliable and unbiased manner using professional and ethical standards. Scientific criteria must be used for the selection of sources, methods and procedures. As a result, it is a primary obligation on the Member States to provide statistical data in accordance with such principles and minimum standards for the independence, integrity and accountability of national statistical authorities and to take all necessary measures to ensure that their institutional and organizational set-up respects the rule of law.
- Member States must organise the governance in the National Statistical System and specify the corresponding roles of the institutions involved in a precise manner, determining which authority is in charge of coordination, which institutions belong to the group of producers and which institutions are outside the remit of Official Statistics.
- Methodological prescriptions and definitions (e.g. in the European System of National Accounts) have to be applied by the Statistical Authorities.
- Eurostat is in charge of supervising compliance with European law (application of methods and delivery of statistical data) and of assuring the plausibility of statistical information.

This quality assurance system and its features is however based on assumptions which have shown to be subject to shortcomings and limitations, of particular relevance in the case of Greece:

- The partners in the ESS are supposed to cooperate in good faith. Deliberate misreporting or fraud is not foreseen in the regulation.
- The governance structure has to be implemented in accordance with the administrative environment of a Member State; there is no single model for the purpose of ensuring "good" governance.

³ Prior to that Regulation (EC) 322/97 stressed the principles of impartiality, reliability, relevance, cost-effectiveness, statistical confidentiality and transparency

- Compliance with the methodological procedures of European Statistics is only binding for institutions which are considered as Statistical Producers (defined in Regulation 223/09); insufficient accounting and bookkeeping practices outside the statistical area are not easily detectable by statistical control.
- The correctness of data delivered from different national sources and respondents is also outside Eurostat's power of control. Hence, powers granted to Eurostat by Regulation 223/2009 with respect to the governance structure and to control the quality of data outside the narrow limits of "statistical producers" are almost nil.

2.2 European Statistics Code of Practice

After the Greek misreporting of the EDP data in 2004, the ECOFIN requested the establishment of minimum standards for independence, integrity and accountability of national statistical authorities; however in 2005 the focus was shifted to the independence of Eurostat. A compromise was reached in November 2005, when the ECOFIN concluded that an external body should be established to focus its monitoring of compliance with these standards by Eurostat and the ESS as a whole.

The Commission adopted a global strategy for strengthening the European Union governance of fiscal statistics along three lines of action: building up the legislative framework; improving the operational capacities of the relevant Commission services, and establishing the "European Statistics Code of Practice"⁴. The Code has a self-regulatory character.

In 2007 the Commission adopted a proposal for regulation regarding the establishment of an external body to monitor compliance with the Code by national statistical authorities and Eurostat. The European Statistical Governance Advisory Board (ESGAB) was established by a European Parliament and Council Decision in 2008 to provide an independent overview of the ESS as regards the implementation of the Code. ESGAB started to work in March 2009 and published its first report in November 2009, which includes some general recommendations regarding the institutional set up in reaction to the first information about the new Greek case: "An appropriate institutional framework is crucial in order to safeguard the professional independence of statistical authorities. Suspicions of interventions affecting the data produced need to be further investigated. Moreover, the procedures for the appointment and dismissal of Heads of National Statistical Institutes (NSIs) should be transparent and kept separate from political mandates." The report also stresses that "a stronger commitment from top management in the statistical offices and a stronger adherence to common quality standards at the level of the ESS will be of essence".

2.3 Institutional and legal aspects of EDP reporting

Article 126 of the Treaty on the Functioning of the European Union (TFEU) specifies that Member States shall avoid excessive government deficits. Under Protocol (No 12) on the excessive deficit procedure, the Member States regularly report to the Commission their actual and planned deficit and debt levels; the data are "provided" by the Commission. Pursuant to Article 6(2) of Regulation (EC) No 223/2009, the Commission (Eurostat) shall ensure the production of European statistics according to established rules and statistical principles. In this respect, it shall have the responsibility for deciding on processes, statistical methods, standards and procedures. Under Regulation (EC) No 479/2009, the Commission is also entrusted a task to ensure compliance with the required budgetary discipline by monitoring the development of the budgetary situation and of the stock of government debt in the Member States. Coherence and comparability of data in the fiscal statistics framework rely on the correct implementation by the Member States of the legal acts relevant in the context of the EDP, such

⁴ Communication from the Commission to the European Parliament and to the Council on the independence, integrity and accountability of the national and Community statistical authorities (COM 2005 217 of 25.5.2005).

as Council Regulation (EC) No 2223/96⁵ (ESA 95) and Council Regulation (EC) No 479/2009⁶ establishing the statistical reference system for standards, definitions and accountancy provisions.

Article 8(1) of Regulation (EC) No 479/2009 sets forth that the Commission (Eurostat) shall regularly assess the quality both of actual data reported by Member States and of the underlying government sector accounts compiled according to ESA 95 (hereinafter referred to as government accounts). Quality of actual data means compliance with accounting rules, completeness, reliability, timeliness, and consistency of the statistical data. Further, according to Article 8(2) of Regulation (EC) No 479/2009, Member States shall provide the Commission (Eurostat), as promptly as possible, with the relevant statistical information requested for the needs of the data quality assessment, without prejudice to the provisions relating to statistical confidentiality.

Following the 'Greek case' in 2004, and a request by the Council to "strengthen the monitoring of the quality of the reported fiscal data", the Commission proposed amendments to the existing Council Regulation for the quality of EDP data (Regulation 3605/93).⁷ Council Regulation 2103/2005⁸ granted Eurostat strengthened control powers, though more limited than initially requested by the Commission. These powers work within strict constraints, notably:

- Methodological visits are exceptional ("should only be undertaken in cases where the Commission (Eurostat) identifies substantial risks or potential problems with the quality of the data, especially where it relates to the methods, concepts and classifications applied to the data, which Member States are obliged to report"). In contrast, the Commission proposal foresaw such visits in a systematic way to all Member States.
- Even more importantly, also in contrast with the Commission proposal, there is no general reference to the obligation of Member States to provide Eurostat with access to "the information" requested for the purposes of the data quality assessment.
- Crucially, Eurostat is restricted to statistical matters in its work; the institutional setting is out of their scope of action "The methodological visits should not go beyond the purely statistical domain", and that the interlocutors of Eurostat should be "the services responsible for the excessive deficit procedure reporting". This provides Member States with potential arguments for restricting the access to information.

Member States are nevertheless responsible for taking "all necessary measures to facilitate the methodological visits" and "making documents available to justify the reported actual deficit and debt data and the underlying government accounts." This includes "national authorities which have a functional responsibility for the control of the public accounts" (i.e. national audit offices). Thus, within the constraints identified above (and allowing for some potential contradiction between different parts of the Regulation), Eurostat in principle has the legal means to secure access to the necessary documents and at least to the auditors of public accounts. The question remains, however, whether it has the necessary means to enforce the respect of these competences.

⁵ Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community (OJ L 310, 30.11.1996, p. 1).

⁶ Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (Codified version) (OJ L 145, 10.6.2009, p. 1).

⁷ The proposed amendments in COM(2005)71 sought to increase the transparency of the EDP-related statistics, and to strengthen the powers of Eurostat with respect to data quality. In particular, the Commission sought to establish "in-depth monitoring visits". Coupled with a general requirement for Member States to promptly provide the Commission (Eurostat) with access to the information required for the purposes of the data quality assessment, this would have given Eurostat 'audit-like' powers.

See http://www.cc.cec/sg_vista/cgi-bin/repository/getdoc/COMM_PDF_COM_2005_0071_F_EN_ACTE.pdf

⁸ See <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2005:337:0001:0006:EN:PDF>

In the specific case of Greece, Eurostat has made a quasi-permanent and extensive use of the existing powers to monitor Greek EDP data, devoting far more resources and more missions to the country than to any other EU Member State. It is the only Member State that has received methodological visits. Following these visits, extensive action plans have been put in place based on an analysis of all information made available by the Greek authorities. However even this activity was unable to fully detect the degree of interference in the Greek EDP data.

All in all, although Council Regulation 2103/2005 fell short of what was proposed by the Commission, enlarged powers would only have contributed to reducing the risk that a country could report incorrect data, not to eliminating it.

2.4 Governance and institutional framework for EDP reporting in Greece

The institutions in Greece responsible in the reporting for each table in the EDP notification, are those reported by the Greek authorities in the April 2009 EDP notification: the National Statistical Service of Greece (NSSG), the Ministry of Finance (MOF, through the General Accounting Office, GAO), the Single Payment Authority (which is also part of the Ministry of Finance) and the Bank of Greece (BOG). Specifically, the NSSG is responsible, together with the MOF, for the deficit reporting, while the MOF is fully responsible for the debt figures.

The Ministry of Finance is responsible for the compilation of the tables for central government, while the National Statistical Service of Greece is responsible for the data concerning local government and the social security sector. The SPA is responsible for providing data on EU grants. The Bank of Greece is responsible for the compilation of a full set of financial accounts and financial balance sheets for the whole economy⁹. This means that it is also responsible for the correctness of the EDP data, notably for the compilation of financial transactions and balance sheets for the general government sector. This division of responsibilities is not uncommon in the EU.

The overall governance structure and institutional framework has nevertheless remained unclear.¹⁰ The government has nominated only the NSSG and the BOG as Statistical Authorities working under the umbrella of the European Statistical Law¹¹, but not the MOF (i.e. General Accounting Office) or the SPA (Single payment Authority), which are however major actors in the compilation of EDP data. The revision of the statistical law was repeatedly postponed. Moreover, contrary to the commitment of the Greek statistical authorities to Eurostat in September 2008 (see section 3.3), a statistical council has not been set up yet.

During the EDP methodological mission of November 2009, as a direct consequence of the reservation introduced on Greek EDP data, the shortcomings of the institutional setting were again addressed. All participants at the meeting, including the Greek authorities (NSSG and the GAO), concluded that the present institutional setting could not guarantee that EDP notification figures would be fully free from political interference. Moreover, a worrying lack of accountability and unclear responsibilities of the entities involved in compiling EDP statistics was identified, a problem of potential political/external interference with the EDP figures to be transmitted to the Commission.

⁹ The Bank also has a reporting responsibility to the ECB under the ECB Guideline of 31 July 2009 on government finance statistics (GFS) with the data to be used for economic and monetary analysis. The GFS required by the ECB cover the following information for general government: (i) revenue and expenditure including deficit/surplus by subsectors (central, local, social security), selected data on EU flows and some aggregates, (ii) deficit-debt adjustments statistics and (iii) debt statistics. The data must comply with the principles and definitions of ESA95. Explanations of the reasons of the revisions of a significant magnitude should be provided to the ECB by the responsible institution (which is the BOG in Greece). See ECB/2009/200; 2009/627/EC.

¹⁰ In October 2007, a peer review on the statistics in general was carried out in Greece as part of the first wave of peer reviews in all NSIs / Eurostat. The review recommended the National Statistical Service of Greece (NSSG) to substantially strengthen the institutional set up; improvement action was agreed with the NSSG top management.

¹¹ http://epp.eurostat.ec.europa.eu/portal/pls/portal/!PORTAL.wwwpob_page.show?_docname=1758246.PDF

To address this issue:

- The responsibilities of the different entities involved need to be clarified. Co-operation between agencies needs to be formalised, possibly through a memorandum of understanding, and it must be clarified which agency is responsible for which data in EDP notifications.
- Responsibilities need to be personalised. Senior officials should be responsible for the data produced under their responsibility.
- In this context, figures should only be reported if the agency providing the raw data for compiling the cell in EDP assures the reliability of that figure through a process of certification and signature.
- The provisions included in the Code of Practice must be respected.

Furthermore, making the NSSG independent, through the revision of the current law on statistics, will be a necessary, but not a sufficient condition to ensure the principles above.

In addition to these aspects and with reference to the findings of the Peer Review in 2007 co-operation and professional knowledge transfer between Greek statistics and the partners in the European Statistical System should be intensified.

3 Chronology of main events

The reliability of Greek government deficit and debt statistics has been the subject to continuous attention for several years. The Greek general government data reported by the authorities have been persistently contested by Eurostat, far more frequently than for any other Member State. As a result of the observed poor quality of the Greek general government data, reservations on the reported debt and deficit figures were repeatedly expressed in the bi-annual Press Releases (see Annex 3 for the list and text of reservations since March 2005).

The following subsections provide an account of the revisions of the data and actions undertaken to help the Greek authorities improve the quality of government statistics and to comply with the existing rules and guidelines.

3.1 The 2004 methodological report

3.1.1 Exceptional revisions in the September 2004 EDP notifications

In March 2004 Eurostat expressed a reservation on the quality of the Greek figures¹². In September 2004¹³ the Greek general government deficit and debt data were significantly revised for the whole reporting period 2000-2003. In the subsequent press release on government deficit and debt in the EU and in the euro-zone, Eurostat explained in detail why it had considerably revised the data for the previous years (from 1997 onwards)¹⁴. In particular, the revision of the data notified for the year 2003 between the March 2004 and September 2004 notifications reached almost three percentage points of GDP for the deficit and more than seven percentage points of GDP for the debt. The deficits notified for the years 2000, 2001 and 2002 were also revised upwards by more than two percentage points of GDP. These significant upward revisions were the result of earlier actions undertaken by Eurostat as well as of the initiative of the Greek government in spring 2004 to launch a thorough fiscal audit.

Table 1 shows the extent of the revision of the Greek figures from March to September 2004, split between the main components of the revision.

¹² Greece: Due to ongoing discussions with the statistical authorities in Greece, notably on the surplus of social security funds, the notified figures for debt and deficit are to be considered as provisional and could be revised.

¹³ The Council Regulation 3605/93 provided for EDP notifications before 1 March and 1 September.

¹⁴ Greece:

The revision of data for the deficit between the March and September 2004 notifications was carried out on the basis of new information provided by the Greek Authorities, at the request of Eurostat, for the period 2000-2003. The change in the deficit figure is due mainly to:

- Downward revision for 2003 of estimate of tax revenues (mainly VAT) in public accounts;
- Downward revision for 2003 of payments received from EU institutions in the context of certain structural fund programmes;
- Reclassification for 2003 of a payment from the postal savings bank to government as a financial transaction; (for these first three items see News Release 62/2004 of 7 May 2004)
- Under-recording of military expenditures between 2000 and 2003;
- Over-estimation of surplus of social security funds between 2001 and 2003;
- Under-recording of interest between 2000 and 2003.

The revision of data for the debt between the March and September 2004 notifications was carried out on the basis of new information provided by the Greek Authorities for the period 2000-2003. The change in the debt figure is due mainly to:

- Under-estimation of outstanding debt, notably in relation to bonds with capitalised interest;
- Over-estimation of consolidating assets of social security.

Table 1. Main components of the revision of Greek data between March and September 2004

	2000	2001	2002	2003
DEFICIT	% GDP	% GDP	% GDP	% of GDP
March 2004	-2.0	-1.4	-1.4	-1.7
Tax revenue				0.9
Payments from the EU				0.3
Reclassification of payments from the Postal Bank				0.2
Military expenditure	1.9	1.2	1.7	0.7
Surplus of Social Security Funds	0.0	1.0	0.4	0.6
Under recording of interest	0.3	0.1	0.1	0.1
September 2004	-4.1	-3.7	-3.7	-4.6
DEBT				
March 2004	106.1	106.6	104.6	102.6
Capitalised Interest	4.5	4.2	3.9	3.4
Consolidating Assets of Social Security	3.2	3.8	3.8	3.7
	0.1	0.1	0.2	0.1
September 2004	114.0	114.7	112.5	109.9

3.1.2 The 2004 methodological report and the infringement procedure

On 22 November 2004, Eurostat published a comprehensive report on the revision of the Greek government deficit and debt figures. The report showed that, in the years preceding 2004, the Greek authorities had misreported deficit figures to the Commission by not following ESA 95 rules. The misreporting involved no less than eleven separate issues.

In this context, an infringement procedure was opened by the Commission in 2004 against Greece concerning EDP reporting, due to methodological problems in the recording of taxes and social contributions, the surplus of social security funds and hospitals and the recording of debt assumptions and military expenditures. The procedure was closed only in 2007 (see Box 2 and Annex 6 of this report).

In 2005 Eurostat conducted three dialogue visits in Greece in order to verify the compliance of the Greek deficit and debt data with the existing methodological requirements. These dealt mainly with hospital liabilities, debt assumptions, EU grants and swaps, alongside many other issues.

3.2 Greek reporting between the EDP methodological visit of 29 May-2 June 2006 and 27-29 September 2006, the action plan and follow-up actions (up to 17 July 2008)

Following the notification by the Greek authorities in spring 2006 (see Table 2 for the successive revisions of notified data), in April 2006 Eurostat again expressed a reservation on the Greek government finance statistics data. This was followed by two methodological visits in May and September 2006 and by a methodological report prepared by Eurostat, agreed with the Greek authorities and published on the Eurostat website. The report contains a detailed list of short, medium and long term recommendations, aimed at ensuring a better quality and reliability of data on the balances of social security

funds, local government and extra-budgetary funds, as well as the recording of the transactions with the EU budget according to the existing rules.

Table 2 – Government deficit and debt data notified by Greece between 2005 and 2009

GREECE Deficit (% of GDP)	2001	2002	2003	2004	2005	2006	2007	2008
Notification of								
2005								
March *	-3.6	-4.1	-5.2	-6.1	-	-	-	-
September *	-6.1	-4.9	-5.7	-6.6	-	-	-	-
2006								
April	-	-4.9	-5.8	-6.9	-4.5	-	-	-
October	-	-5.2	-6.1	-7.8	-5.2	-	-	-
2007								
April	-	-	-6.2	-7.9	-5.5	-2.6	-	-
October	-	-	-5.6	-7.3	-5.1	-2.5	-	-
2008								
April	-	-	-	-7.4	-5.1	-2.6	-2.8	-
October	-	-	-	-7.5	-5.1	-2.8	-3.5	-
2009								
April	-	-	-	-	-5.1	-2.8	-3.6	-5.0
October	-	-	-	-	-5.2	-2.9	-3.7	-7.7

GREECE Debt (% of GDP)	2001	2002	2003	2004	2005	2006	2007	2008
Notification of								
2005								
March *	114.8	112.2	109.3	110.5	-	-	-	-
September *	114.4	111.6	108.8	109.3	-	-	-	-
2006								
April	-	110.7	107.8	108.5	107.5	-	-	-
October	-	110.7	107.8	108.5	107.5	-	-	-
2007								
April	-	-	107.8	108.5	107.5	104.6	-	-
October	-	-	97.9	98.6	98.0	95.3	-	-
2008								
April	-	-	-	98.6	98.0	95.3	94.5	-
October	-	-	-	98.6	98.8	95.9	94.8	-
2009								
April	-	-	-	-	98.8	95.9	94.8	97.6
October	-	-	-	-	100.0	97.1	95.6	99.2

* Regulation 3605/93 requested transmission of data before 1 March and 1 September.

In this context, agreement was reached with the Greek authorities on an action plan for the implementation of the Eurostat recommendations (Box 1 and Annex 4). It was also agreed that the effective monitoring of the implementation of the action plan would require the regular submission of a formal progress report by the Greek authorities to Eurostat.

Box 1. The Action Plan

As a follow up on the reservation expressed on Greece's fiscal data by Eurostat on 24 April 2006, which highlighted the persistence of issues of a structural and systemic nature affecting the Greek government accounts¹, an EDP methodological visit took place to Athens from 29 May to 2 June 2006 and from 27 to 29 September 2006. The findings of the June 2006 methodological visit to Greece were the basis for an action plan, agreed in detail between Eurostat and the Greek authorities.

The initial action plan involved actions to address the provision of appropriate data on social security funds, local government and extra-budgetary funds, and on transactions with the EU budget. was subsequently enlarged during the methodological visits undertaken in 2008 to cover the appropriate corrections to be imputed with respect to EU flows and to solve the problem of the discrepancy existing in central government for 2006 and 2007: this implied reviewing in detail the compilation of budgetary central government statistics, and investigating a more complete use of the Survey for the compilation of extra budgetary funds statistics (see Annex 4).

Eurostat has closely monitored the implementation of the action plan.

At the time of the EDP notification of April 2007, some of the actions had started to be implemented and some partial results were obtained, mainly relating to consistency checks for the largest units inside the Survey for extra-budgetary central government, local government and social security funds, improving the coverage of the Survey, amending the transitional items in the table showing the conversion of the Survey results into national accounts concepts, changing the calculation of receivables relating to transactions with the EU budget.

Further exchanges with the Greek authorities in summer 2007 raised Eurostat concerns about the implementation of specific actions of the action plan, in particular on the recording of taxes and social contributions and on the income and expenditure of social security funds of hospitals.

Exchanges and missions up until the methodological visit undertaken by Eurostat to Athens on 16-18 November 2009 had led to an updated list of actions which was provided by the Greek authorities. Although a number of actions which should have been already implemented are still in progress or in an incipient phase (in particular in the area of improving timeliness and coverage of the survey of social security funds and hospitals, verifying internal consistency of each questionnaire and requiring the correction and resending of systematically unbalanced questionnaires) the majority of the actions to be undertaken by the Greek authorities in the context of the action plan have been implemented. Some of the remaining actions are outside the scope of the NSSG and will require political willingness from Government, specifically the implementation of existing legal acts and reinforcement of existing legislation for social security funds and local authorities, and the introduction of balance-sheet reporting and accrual based accounting in public bodies. Nevertheless, even full compliance by the Greek authorities with the action plan (which foresaw actions to be taken only at a technical-statistical level), would not have prevented the deliberate misreporting of figures by the Greek authorities in 2009.

¹ The reservation also referred to Eurostat Press Release 120/2005 of 26 September 2005, which included the following reservation on the Greek data: "Some pending issues remain for the recording of EU transactions, the accounts of social security and the amounts of other receivables and payables for the years 2002-2004".

In May 2007, the infringement procedure was closed (Box 2).

Box 2. The closure of the infringement procedure in 2007

The infringement procedure, which had been opened in 2004, was closed in 2007 following the conclusion that in view of the measures undertaken by the Greek authorities the specific grounds for the infringement procedure no longer existed (see Annex 6). In addition, the following general considerations were taken into account by the Commission when adopting the decision:

- The letter of formal notice indicated that there were persistent systemic problems in the relevant departments of the Greek administration.
- Concrete measures had been taken by the Greek authorities in order to try solving these issues. Their implementation was to be followed by Eurostat.
- Despite the recent improvement in the statistical processes and good co-operation between Eurostat and the national statistical authorities of Greece, issues of a structural and systemic nature related to the Greek government accounts remained.
- Eurostat noted that improvements had been made in the compilation of government finance statistics. Eurostat would finalize and publish its report including an action plan with a timetable for the implementation of the remaining issues.

The fact that the strict conditions on the basis of which the infringement procedure had been launched no longer applied/existed, did not therefore signify that Greek data were compliant with all the applicable rules and procedures, as far as their quality was concerned. It only implied that that particular legal instrument could no longer be applied, which raises some questions about the effectiveness of the instrument in addressing complex issues combining methodological and institutional aspects and points to the need to take account of this complexity in the future. In fact, between 2005 and 2009, in over 10 EDP notifications, Eurostat introduced reservations on the quality of the data submitted by the Greek authorities no less than five times, far more than for any other Member State. In the specific case of Greece, Eurostat has had a quasi-permanent and extensive use of the existing powers to monitor Greek EDP data. Greece is the only Member State which has received methodological visits so far. Following these visits, extensive action plans have been put in place based on the analysis of all information made available by the Greek authorities. However even this activity was unable to detect the level of (hidden) interference in the Greek EDP data.

In particular, after the closure of the infringement procedure at the end of 2007, Eurostat issued a reservation on the quality of the Greek data in the April 2008 notification and validated the notifications of October 2008 and April 2009 only after it intervened before and during the notification period to correct mistakes or inappropriate recording, with the result of increasing the notified deficit in both instances. As an example, Eurostat's methodological missions in 2008 resulted in an increase of the 2007 deficit figure notified by the Greek authorities, from 2.8% to 3.5% of GDP. The list of reservations introduced by Eurostat between 2005 and 2009, and the text of those reservations, can be found in Annex 3.

According to the agreed action plan and commitments of the Greek authorities, Eurostat requested, in a letter of 27 June 2007, the Greek authorities to provide a report on the progress made with respect to the recommendations listed in the report of the EDP methodological visit. The answer of the Greek authorities (3 July 2007) outlined the main steps taken by the Greek authorities for the implementation of the action plan, but only in respect of the long-term recommendations. Therefore in a letter of 13 July 2007 a more detailed overview of the situation regarding the short and medium-term actions was requested. In addition, the Greek authorities were also asked to provide detailed information on timeliness-coverage of their annual Survey by subsector.

In reaction to the further response of the Greek authorities (31 July 2007), in a letter of 7 September 2007 Eurostat expressed the view that despite the progress reported by the Greek authorities, some key recommendations mainly relating to internal consistency checks (for the Survey) remained pending and it invited the Greek authorities to send an exhaustive progress report by the end of January 2008. Furthermore it requested the Greek authorities to attach a report on the issue of internal consistency of the October 2007 EDP notification.

After this exchange of letters, some information on the progress made with respect to the timeliness, coverage and internal consistency of the Survey was provided during the October 2007 EDP notifications and a more exhaustive progress report was finally sent on 17 July 2008.

3.3 Greek reporting in 2008: the follow-up EDP methodological visit of 2-3 June 2008 and second EDP methodological visit of 15-19 September 2008

Following the notification of the Greek authorities in April 2008, Eurostat once again expressed reservations on the notified Greek deficit, in particular with respect to issues relating to the recording of EU grants in 2006 and 2007, the existence of a substantial statistical discrepancy in 2007 of 0.6% of GDP and the insufficient coverage of source data for extra-budgetary funds, local government and social security funds achieved for the first estimate of the 2007 balance.

This led to another methodological visit to Greece on 2-3 June 2008, the main aim of which was to clarify the issues on which a reservation had been issued. The visit led to a published report ("Main conclusions and action points")¹⁵ sent by Eurostat to the Greek authorities on 8 July 2008 containing the agreed recommendations and implementation actions. Such actions were integrated in the action plan.

On 11 September 2008, in the follow-up of the 2007 Peer Report, a Eurostat high-level mission discussed actions aimed at further improving the quality of data provided in the EDP framework, as well as at implementing the improvements in the institutional setting of the Greek Statistical System as foreseen in the recommendations of the 2007 Peer Review. The Minister of Finance and the Head of the NSSG explicitly committed to consolidate the institutional arrangements in Greece in line with recommendations made in the Code of Practice Peer Review of Greece. In particular, the Minister of Finance and Economy and Secretary General of NSSG stressed their commitment to fulfil their obligation to provide reliable EDP figures, and to co-operate without restrictions and in full transparency with the objective to fully address the remaining open questions. In particular, the revision of the Greek statistical law and the constitution of a user council were said to be in a late stage of realisation. Eurostat underlined that full compliance with the Code of Practice is a precondition for the trust in Greek statistics and consequently in the statistics of the ESS.

On 15-19 September 2008 a new methodological visit to Greece took place. The aim of the visit was more specifically to agree on the appropriate corrections with respect to EU flows which had not come to a satisfactory conclusion in the previous methodological visit and to solve the problem of the sizeable statistical discrepancy existing in central government data for 2006 and 2007. The agreed findings and short and medium term actions are included in the published Eurostat Report on this methodological visit to Greece¹⁶. The discussions led to a considerable increase in the deficit estimate for 2007 notified by Greece (from 2.8% notified in April to 3.5% of GDP) and consequently to the lifting of the reservations on Greek EDP data that had been made in April.

3.4 Greek government deficit and debt figures: revisions April 2009 – October 2009

In April 2009 Eurostat validated the data notified by the Greek authorities, which reported a deficit for 2008 of 5% of GDP (the figure initially notified by Greece was 4.8% of GDP). With hindsight, this decision does not appear to have been appropriate; it was based, however, on the knowledge available at the time and took place after the Greek authorities, under advice from Eurostat, which had raised doubts on the surplus of the social security sector, reduced by half the positive statistical discrepancy of social security, imputing the difference to a reduction of the surplus of the sector (raising the deficit of general government by slightly more than 0.2% of GDP).

¹⁵ On Eurostat Website: [Reports of methodological visit to Greece in 2008](#)

¹⁶ On Eurostat Website: [Reports of methodological visit to Greece in 2008](#)

After the April notification and before the press release was issued, Eurostat contacted the Greek authorities to clarify an issue relating to the recording of debts of public hospitals to their suppliers. In response, the Greek authorities sent official documents of the Ministry of Health certifying that the amounts reported in the notification were those recognised by the Greek government (Annex 5).

In the context of the April 2009 EDP notification, Eurostat again drew the attention of the Greek authorities to the actions agreed in the context of the action plan. Although in their reply the Greek authorities pointed to elements of improvement (notably regarding the survey coverage of the social security funds), many issues remained unresolved (such as the classification of extra budgetary accounts and the classification of government units).

On 27 April 2009, the Council recommended ("Council Recommendation of 27 April 2009 to Greece with a view to bringing an end to the situation of an excessive government deficit, in accordance with Article 104(7) of the Treaty for Greece") that: "The Greek authorities should continue efforts to improve the collection and processing of statistical data and in particular general government data, notably by enhancing the mechanisms that ensure the prompt and correct supply of the general government data required by the existing legal framework".

When the Greek authorities submitted 2 October 2009 notification, which presented a large revision compared to the April notification, Eurostat asked the Greek authorities to clarify the observed discrepancy with the quarterly financial accounts of general government. It also asked for additional information on the revision to accrued EU revenue in 2008, missing details in the "other accounts payable" in 2007 and 2008, and noted that the classification of the extra budgetary accounts had not yet been completed.¹⁷

The Greek authorities did not reply to the second request for clarification and asked for an extension of the deadline set by Eurostat on 13 October 2009. An incomplete answer was finally received on 21 October, and additional information on 22 October, after the publication of EDP data by Eurostat.

Particular characteristics of the October 2009 notification were:

- A revised EDP notification was received by Eurostat on 21 October, the afternoon before the publication of its press release;
- Questions from Eurostat went unanswered for no less than 9 days, an abnormally long period, between 12 and 21 October;
- In the period between 16 and 21 October, the General Secretary of the NSSG repeatedly contacted Eurostat claiming political interference over the provision of figures and with the sending of a revised notification¹⁸.

More specifically, with regard to compilation issues, the investigation of Eurostat has revealed weaknesses in the national services principally responsible for EDP data: the National Statistical Service of Greece (NSSG), the General Accounting Office (GAO) and the Ministry of Finance (MOF). In the context of the April, 2 October 2 and 21 October 2009 EDP notifications transmitted by the Greek authorities, there is evidence that the NSSG modified the figures for the correction on EU grants communicated by the Single Payment Authority and modified the results of the survey on revenues/expenditures of hospitals, decreasing the amount of outstanding liabilities resulting from the sur-

¹⁷ Eurostat was informed that the balances of some of these accounts appeared both in the accounts of the Ministries and the balance sheets of the public entities "through which the different projects are carried out". Eurostat asked the Greek authorities whether this might imply a double counting of these accounts in the previous notifications.

¹⁸ In his correspondence with Eurostat, the General Secretary of the NSSG claimed to have initially received from the GAO new figures for the EDP notification, on the basis of which the deficit for 2008 was 6.7% of GDP; to have been subsequently instructed not to send the new EDP notification to Eurostat until after a meeting of the GAO with the Minister; and finally to have received instructions, on 21 October, to send a new EDP notification to Eurostat to replace the one sent on 2 October, whatever the objections the NSSG could have about the new figures.

vey and reducing government deficit in 2007 and 2008. The GAO (itself an entity part of the Ministry of Finance) transmitted to the NSSG wrong data on swaps cancellation, on extra-budgetary accounts and on accrued interest as an expenditure of government, reducing government deficit in April and on 2 October 2009. The MOF took in October 2009 decisions on the recording of transactions which had taken place in 2008 involving government, changing the recording of operations ex-post even if the transactions had resulted from decisions taken in 2008. Moreover the MOF instructed the NSSG to record in the year 2008 a liability for hospitals equal to €2.5 bn in the EDP notification of 21 October 2009, although no evidence and no justification for the time of the recording of the transaction was provided.

The revisions introduced from the April 2009 to 2 October 2009 and 21 October 2009 EDP notifications are shown in Table 3.

Greece - Explanation of revisions of net lending (+)/net borrowing (-) for 2008 between October 2009 and April 2009

	From April to 2 October 2009		From 2 October to 21 October		Total revisions	
	revision amounts	% GDP	revision amounts	% GDP	Total revisions	% GDP
Total revisions	-1274	-0.53	-5038	-2.11	-6312	-2.64
Working balance social security funds and local	-600	-0.25	0	0.00	-600	-0.25
Taxes	-650	-0.27	0	0.00	-650	-0.27
EU grants	186	0.08	-216	-0.09	-30	-0.01
Working balance of state budget	0	0	-710	-0.30	-710	-0.30
Hospital liabilities	-100	-0.04	-2500	-1.05	-2600	-1.09
Swap write-offs	0	0.00	-210	-0.09	-210	-0.09
Revenue extra-budgetary write-offs	0	0.00	-300	-0.13	-300	-0.13
Capital transfer DEKA	0	0.00	-230	-0.10	-230	-0.10
Adjustment of interest payments	0	0.00	-450	-0.19	-450	-0.19
Revision Treasury Accounts	0	0.00	-192	-0.08	-192	-0.08
Debt assumption	0	0.00	-218	-0.09	-218	-0.09
Other revisions	-110	-0.05	-12	-0.01	-122	-0.05
GDP 2008						239141

Greece - Net lending (+)/net borrowing (-) for 2005 to 2008 between October 2009 and April 2009

	2005	2006	2007	2008
Deficit reported in April 2009 in EURO	-10056	-5987	-8272	-12195
Deficit reported in April 2009 in % of GDP	-5.1	-2.8	-3.6	-5.0
Deficit reported on 2 October 2009 in EURO	-10056	-6064	-8263	-13469
Deficit reported on 2 October 2009 in % of GDP	-5.1	-2.9	-3.6	-5.6
Deficit reported on 21 October 2009 in EURO	-10068	-6110	-8287	-18507
Deficit reported on 21 October 2009 in % of GDP	-5.1	-2.9	-3.7	-7.7

Note: the net lending/net borrowing figures for 2005 - 2008 as reported by the Greek statistical authorities and not validated by Eurostat

4 Summary of methodological issues

This chapter summarises the main methodological issues discussed in this report, pointing out whether such issues had also been discussed in the past (in particular in the Report by Eurostat on the revision of the Greek government deficit and debt figures, hence forth the “2004 Eurostat report”) and providing information on the provisional conclusions reached on each issue. Additional information for each of the issues detailed in each chapter is provided in Annex 1 of this report.

As far as a possible parallel between the 2004 and 2009 situations is concerned, as can be deduced from the following paragraphs, there are some common methodological features between the 2004 and 2009 episodes. In both cases, in the aftermath of political elections, substantial revisions took place revealing a practice of widespread misreporting, in an environment in which checks and balances appear absent, information opaque and distorted, and institutions weak and poorly coordinated. The frequent missions conducted by Eurostat in the interval between these episodes, the high number of methodological visits, the numerous reservations to the notifications of the Greek authorities, on top of the non-compliance with Eurostat recommendations despite assurances to the contrary, provide additional evidence that the problems are only partly of a methodological nature and would largely lie beyond the statistical sphere.

The five reservations expressed between 2005 and 2008 on the quality of Greek EDP data, were motivated by the inappropriate recording of EU grants (twice), the existence of a non-negligible statistical discrepancy, the accounts of social security, doubts on the recording of the amounts of other receivables and payables and the insufficient coverage of source data for extra-budgetary funds, local government and social security funds achieved for the first estimate in the context of the EDP notification of April. All these issues were subsequently clarified between Eurostat and the Greek authorities and closed accordingly. However, some of these issues (the recording of EU grants, the accounts of social security and the liabilities of hospitals) resurfaced in 2009:

Nevertheless, in the case of EU grants, there is a significant difference between the situation in 2005–2008 and the one in 2009. Between 2005 and 2008, the revision of data undertaken by Eurostat was due mainly to methodological reasons, while on 2 October 2009 there seems to have been no methodological issue at stake but simply misreporting of the data communicated by the Greek authorities. In the case of social security, the revisions in 2005–2008 were also due mainly to methodological issues. On the contrary it is not yet clear, whether the inflated surplus of social security reported in the April 2009 notification was only the result of methodological uncertainties.

In the case of hospitals liabilities, the issue in 2005 referred to past expenditures of hospitals that had never been recorded. Now, it appears that around €1 bn of hospitals liabilities, reported in the survey on hospitals, were ignored by the Greek authorities in the April and 2 October 2009 notifications, although the misreporting had actually started, for smaller amounts, already in 2007.

4.1 Working balance of the state budget

The issue of the recording of inflows and outflows of the State budget and their link with the working balance was not included in the 2004 Eurostat report, although it was intensively discussed during the 2006 and 2008 EDP methodological missions.

In the EDP notification dated 21 October 2009, the working balance of the government budget was increased by € 722 mn for the year 2008 by the GAO (from around – €13.9 to – 14.6 bn). According to the explanations received by the Greek authorities during the EDP methodological visit of Eurostat held on 16–18 November 2009 (henceforth the November 2009 methodological visit), the revision was due almost in its entirety to the inclusion of a previously neglected expenditure (for an amount of €710 mn) equal to the transfer from the State budget to the social security fund of a state-owned company, OEP-DEH.

Following the subsequent submission of information requested by Eurostat to the Greek authorities, it is still not clear (the NSSG and the GAO having provided mutually contradictory information on the issue):

- whether privatisation proceeds have or have not been included in the working balances of the previous years;
- whether the transfer to OEP-DEH has been recorded as a government expenditure or not (whether it was the object of consolidation of intra-government flows);
- whether other intra-government flows have been properly consolidated in the past.

Notwithstanding the above, Eurostat currently has major doubts on this revision undertaken by the GAO in the 21 October notification.

4.2 Revision of Treasury Accounts

In the EDP notification of 21 October 2009, the amount of other accounts payable of the Greek central government increased by €192 mn in 2008 and by minor amounts for the years 2005 to 2007, increasing government deficit for all years. This resulted from the revision of the Treasury Accounts which exist in Greece to support specific operations which do not transit via the budget, such as for military expenditures or payments on guarantees called.

Although the issue was never discussed in detail before 2004 and was not included in the 2004 Eurostat report, the recording of flows in Treasury Accounts was discussed in detail during the following years and particularly in 2008. These accounts have been a source of statistical discrepancy in the past, due to the fact that many sub-accounts of the Treasury Single Account have been excluded from the EDP notification. Eurostat requested in 2008 that the Greek statistical authorities decide on the final classification of such accounts (determining whether they were owned by government units or not). Although on 10 October 2009 the GAO informed Eurostat that it would not be possible to conclude the task of investigating and identifying each account before the end of the year, by 16 October 2009 the task had been already completed, apparently due to the fact that the new political authorities had instructed the GAO to complete the examination of the Treasury Accounts as soon as possible.

Given the above, Eurostat is not in a position at present to assess whether each individual extra-budgetary account has been correctly classified and whether the correction undertaken for government accounts is correct. Although the issue seems to be of a methodological nature, it is surprising that in spite of the information provided previously by the GAO in October about the impossibility to conclude the work before the end of the year, it was seemingly possible to undertake it in only a few days after the change of government. In this context, the modalities and the precise amount of the revision will have to be ascertained by Eurostat.

4.3 Revenues from abolished extra-budgetary accounts

This issue was not among those included in the 2004 report.

In the EDP notification of 21 October 2009, the government deficit of 2008 increased by €300 mn due to the exclusion from revenue of written-off extra-budgetary accounts. These are accounts owned by government which are not included in the working balance. The origin of the correction was that, in 2008, the government decided to abolish some of these accounts and to transfer the outstanding amounts of funds into the State budget. Such amounts were included by the GAO incorrectly, in the April and 2 October EDP notifications, as revenue in the working balance of table 2A. Since this flow involved only government entities, it should have been consolidated inside government and the amount should either not have been included in the working balance of central government or, if included, a corresponding adjustment with the opposite sign should have been imputed in table 2A, which was not the case.

Although the exclusion of these amounts from government revenue in the 21 October EDP notification seems correct, it remains to be checked whether a corresponding outflow was recorded (in order to neutralise the flow) or not recorded, in the adjustment item reflecting the balance of extra-budgetary accounts. Moreover, it remains to be seen how and whether flows resulting from similar operations have been recorded in the past.

This is to be considered as a case of deliberate misreporting of figures by the GAO in the April and 2 October 2009 EDP notifications.

4.4 Swaps write-offs

The issue of swaps write-offs was not among those included in the 2004 report. During the years 2005 to 2008, on the contrary, the issue of the cancellation of swaps and of the treatment of their remaining stream of interest was discussed between Eurostat and the Greek authorities.

In the 21 October 2009 EDP notification, figures were revised by €210 mn for the year 2008, increasing the government deficit, due to a swap cancellation. This, however, was simply an issue of misreporting of figures by the GAO in the April and 2 October 2009 EDP notifications, rather than a methodological issue or the introduction of a mistake.

In short, in the context of swaps cancellations, lump sums received by government should not be considered in national accounts as government revenue. As such amounts were included in the working balance of the government, a negative adjustment should have been included in the EDP tables for the same amount. There is evidence that the GAO knew already in April 2009 both the amount of the correction to impute and how it should have been neutralised, but did so only on 21 October, underestimating as a consequence government deficit in the April and in the 2 October EDP notifications.

This is to be considered as a case of deliberate misreporting of figures by the GAO in the April and 2 October 2009 EDP notifications.

4.5 Adjustment for interest payments

The recording of interest was one of the issues included in the Eurostat 2004 report. However, at the time the issue was a methodological one and dealt with the recording of capitalised interest in those cases in which the Greek government had been issuing bonds which did not carry any interest during the first years.

On the contrary, the issue in 2009 related simply to the fact that figures on accrued interest which constituted government expenditure, although correctly calculated since March 2009 by the Public Debt Division of the GAO, using its instrument by instrument debt database, were misreported by the GAO in the April and 2 October EDP notifications, where only a negative amount of €45 mn was included in the EDP tables sent from the GAO to the NSSG, instead of the correct figure of €495 mn, with the effect of reducing incorrectly the Greek government by €450 mn. The correct figure was finally introduced in the 21 October EDP notification.

This is to be considered as a case of deliberate misreporting of figures by the GAO in the April and 2 October 2009 EDP notifications.

4.6 Debt assumptions and guarantees

Debt assumptions by government linked to the call on guarantees was one of the issues most discussed before 2004 and constituted one of the topics which were the object of the Eurostat 2004 report. At that time, it became clear that rules on debt assumptions had not been followed in the years before 2004, with the effect of incorrectly reducing deficit and debt of government.

On 21 October 2009, the Greek authorities provided Eurostat with revised deficit figures, due to previous misreporting of transactions in debt assumptions originating from calls on guarantees between 2005 and 2008, for amounts of around €200 mn both in 2007 and 2008 and for much smaller amounts in 2005 and 2006.

In the November 2009 methodological visit, the problem seemed due to additional flows associated to guarantees previously unknown which had been identified as a result of thorough examination of the Treasury Accounts (see paragraph 4.2 above). Nevertheless, although the identification of such flows constitutes an improvement, there are still reasons for concern:

- Noticeable amounts of outstanding guaranteed debt under repeated calls have been identified for the whole EDP reporting period (2005-2008). This might imply that part of this debt, if not all, should be treated as government debt following ESA 95 rules.
- The GAO informed Eurostat on 30 November 2009 that in the event of a call of a guarantee, if it was assumed that a guarantee would be repaid by the beneficiary, nothing was ever recorded in EDP tables, while according to ESA 95 rules in such cases a government expenditure should have been imputed, while if later on a repayment (partial or total) had occurred, government revenue could have been imputed.

In summary, it seems that from 1996 onwards, in spite of repeated assurances provided by the Greek authorities of the contrary, rules were not fully applied in this respect. A full analysis on the amounts of debt assumed by government in the context of guarantee calls might imply a revision of government deficit and debt for past years.

This is to be considered as a case of unwillingness by the GAO to comply with methodological rules in the case of recording of guarantees in the April and 2 October 2009 EDP notifications as well as in the past.

4.7 Capital injections

Capital injections in public corporations were one of the issues discussed in the 2004 Eurostat report, as it appeared that in the years before 2004 the rules on capital injections were not applied, with the result that many capital injections which according to rules should have been considered as capital transfers (increasing the deficit of the Greek government) had been considered as financial transactions with no impact on the deficit.

At present, the issue under discussion still concerns, as in 2004 and in previous years, whether capital injections in public enterprises should be considered as financial or non-financial transactions. During the November 2009 methodological visit, it was discovered that some capital injections undertaken in 2008 and in previous years in the public corporations Themis and Tram, up to then considered by the Greek authorities as acquisition of shares without any impact on the deficit, should have been considered as capital transfers, due to the lack of profitability of the two units in question. Moreover, it was also stated by the NSSG that some capital injections undertaken in the past in other corporations, previously considered as acquisition of shares, will also be reclassified as capital transfers, although (unlike in 2004 and in previous years) this time the amount of the revision was not expected to be substantial.

Currently Eurostat does not have any specific information on which will be the corporations involved in the reclassification of capital injections and on the exact amounts involved.

It is likely that the wrong treatment of capital injections, allegedly for small amounts, in the 2009 notifications, but possibly also in past notifications, is due to a lack of information on capital injections and/or on the profitability of enterprises, available to the Greek authorities.

4.8 Social security funds

The issue of the continuous considerable surplus of the social security sector figured prominently in the 2004 Eurostat report, where it was described how the data presented by the Greek authorities in the past were unreliable as they were obtained on the basis of an old survey through a number of fragile estimation hypotheses. As a consequence, the surplus of the social security sector had been overestimated by the Greek authorities by 2.8 bn € between 2001 and 2003.

After 2004, the issue of the estimation and compilation of social security data was continuously discussed between Eurostat and the Greek authorities. New more reliable annual and quarterly surveys were put in place.

On 2 October 2009, the surplus of social security was revised downwards by €600 mn¹⁹. The considerable decrease of the surplus between the April and 2 October notifications (in previous years such revisions had been smaller) in 2009 led to questions from Eurostat, given the fact that the coverage of social security funds (in terms of revenue and expenditure) in April had been, according to the Greek authorities, already very good at 90% of the total.

The revision, according to the Greek authorities, was due to new questionnaires received between April and October (although the coverage increased only marginally, from 90 to 92% of the total), to incomplete exploitation of the quarterly questionnaires and to the process of unification of some social security funds which seems to have complicated the reporting of data by the surveyed public units.

Eurostat does not find these explanations sufficient and will carry out in the coming months a thorough investigation of the process of calculation by the Greek authorities of the surplus/deficit of the social security sector.

4.9 Local government sub-sector

The estimation of deficit/surplus of the local government sub-sector was not among the issues included in the 2004 Eurostat report, although it had been discussed on some occasions before 2004. Until 2005, information on municipalities was gathered via an exhaustive annual questionnaire called the “census”, the results of which were available for EDP notifications only after 3 or 4 years. During recent years, nevertheless, the Greek authorities had also complemented the census via a quarterly survey, which proved useful to increase the reliability of data for local government.

During the November 2009 methodological visit, however, Eurostat was informed that the Greek authorities had decided to stop, or were considering suspending, the quarterly survey, to be replaced by an exhaustive annual questionnaire. As the establishment of a quarterly survey had been decided and agreed in the context of methodological missions, Eurostat strongly advised against such a move before all the statistical and accounting implications of the decision had been properly assessed and a prior discussion with Eurostat had taken place.

There is no open methodological issue at present concerning the recording of deficit/surplus of local government.

4.10 Expenditure on military equipment

Expenditure for military equipment by government had been widely underestimated in the years between 1997 and 2003. This was due to the fact that the Greek authorities had stated that they had full information on the value of military equipment delivered, while in reality this was not the case, as information on deliveries was confidential and as a result only a small part of the military equipment delivered was recorded as government expenditure. Following this, it was decided to use cash data for recording expenditures on military equipment, on a temporary basis, to make sure that no expenditure would be left unrecorded.

¹⁹ the revision would in fact have been bigger if Eurostat had not advised the Greek authorities to allocate half of the positive discrepancy of the social security to the reduction of the surplus of the sector

Starting from the 2007 EDP notification, the Greek authorities are able to comply with ESA 95 rules, recording military expenditure as intermediate consumption at the moment in which the equipment is delivered, as full information on deliveries is now, according to the Greek authorities, available. Data on military expenditures were not revised between the April and the October notifications.

There is no open methodological issue at present concerning the recording of deficit/surplus of military expenditures.

4.11 Recording of tax revenues

The recording of taxes was discussed several times with the Greek authorities in the years before 2004 and the issue was included in the 2004 Eurostat report. In particular, up to 2003, the Greek authorities used a system based on assessments and declarations, where the amounts recorded should have been adjusted by a coefficient reflecting amounts unlikely to be collected. Nevertheless, in 2003, Eurostat found out that the coefficients used by the Greek authorities were unrealistically low, and as a consequence the amounts of taxes recorded as revenue for the Greek government had been constantly overestimated. As a result, Eurostat asked the Greek authorities to switch to a method based on time adjusted cash²⁰.

In the 2 October 2009 notification, data on tax revenue were revised downwards by €650 mn. In the discussion on the issue during the November 2009 methodological visit, it became clear that, contrary to what had been stated by the Greek authorities during the missions undertaken by Eurostat between 2005 and 2008, at the end of March (the time of the first EDP notification of the year), data on direct and indirect tax revenues for the months of January and February of year *n* (to be imputed as revenue for the year *n-1*) are simply not available and not known and have therefore to be fully (and not partly) estimated, on the basis of data contained in the Budget Introductory reports of year *n* and of the annual accrual figures for taxes included in the Stability and Growth Programme prepared by the Macroeconomic Policy Division of the Ministry of Finance. Even though the NSSG had ultimately used more conservative rates of growth for tax revenue compared to the two above mentioned sources, the estimate still proved to be rather optimistic for the months of January and February 2009, leading therefore to a downward revision of tax revenue in 2008.

It is to be underlined, nevertheless, that according to the Greek authorities the issue will be solved in the near future, as all future April EDP notifications, from April 2010 onwards, will be based on full information of tax revenues of the months of January and February.

It is likely that the overestimation of tax revenues in the April 2009 notification is due to methodological errors by the NSSG in the estimation of tax revenues of the months January and February 2009.

4.12 Extra-budgetary funds and DEKA

The issue of the deficit/surplus of the 385 existing extra-budgetary funds in Greece, was not one of the objects of the 2004 Eurostat report. However, discussions were often held between Eurostat and the Greek authorities concerning the coverage and reliability of the survey which is the source of information on extra-budgetary funds as well as on DEKA, a unit created in 1997 with the purpose of dealing with enterprises to be privatised, which was reclassified (under instruction from Eurostat) in 2003 as a government unit and the accounts of which have since been included among the extra-budgetary funds. The report of 2004 discussed the issues of the classification of DEKA, of the transactions between DEKA and government units (some of which had been incorrectly treated at the time as revenue of government) and of the capital injections of government in DEKA (incorrectly treated as increases of shares).

²⁰ Tax revenues for year *n* are calculated taking into account tax revenues obtained from March of year *n* until February of year *n+1*.

In the EDP notification of 21 October 2009, one of the revised items for 2008 compared to the April notification related to an amount received from government by DEKA, as a cash facility to pay its obligations. According to the information received by Eurostat during the November 2009 methodological visit, the revision took place because the new government decided to cancel the loan, treating it instead as government expenditure. Eurostat pointed out that as the government decided to assume the loan in 2009, and not in 2008, the revision of data increasing government deficit should be recorded in 2009 and not in 2008, increasing government deficit in 2009.

However, Eurostat also pointed out that as DEKA is classified since 2003 inside the general government, the transaction had also to be consolidated at the level of general government, and hence the debt cancellation of government should not have had any impact at all. Nevertheless, it also appeared that the amount received by DEKA in 2008 by government might have been incorrectly treated as a financial transaction for government but as revenue for DEKA. Therefore, the correction of 230 mn € increasing government deficit in 2008 may have been correct after all, although for reasons which are different from those on which the Greek authorities based the revision.

It is likely that the wrong recording of flows between government and DEKA in the past is due to methodological errors by the GAO. The issue will have nevertheless to be thoroughly investigated by Eurostat, also in order to make sure that transactions between government and DEKA had been correctly recorded in the years before 2008.

4.13 EU grants

The issue of EU grants was prominent in the 2004 Eurostat report. Eurostat had discovered at the time that payments received from the EU in favour of institutional units outside government, when transiting government accounts, were entering them as revenue for government (with a positive impact on government deficit) and exiting them not as expenditure (as would have been appropriate) but as financial transactions, without any impact on the deficit. Following Eurostat's intervention, a correction was undertaken by the Greek authorities, increasing the government deficit. Other irregularities and mistakes were found in the period between 2005 and 2008, and a reservation was expressed in the April 2008 notification due to "the recording of EU grants in 2006 and 2007".

In the 2 October 2009 notification Eurostat observed a downward revision to the accrual adjustment of EU grants in table 2A for 2008 compared to the April notification (from €1636 mn to €1450 mn), decreasing government deficit, and investigated the reasons for this revision. The Greek authorities (the NSSG) answered that the revision was due to new information on the applications submitted for EU grants. In fact, in the 21 October notification the figure was revised up again to €1666 mn (increasing the deficit of 2008) and it appeared that the correction made by the Greek authorities on 2 October should have never been introduced as the data on applications submitted never changed between the April and October notifications, as stated by the Single Payment Authority.

This is to be considered as a case of deliberate misreporting of figures by the NSSG in the 2 October 2009 EDP notification.

4.14 Hospital liabilities

There was no particular issue with respect to public hospitals before 2004 and in the 2004 Eurostat report. The issue of hospitals liabilities started to be discussed in 2005, when it became apparent that considerable amounts related to past expenditures of hospitals (€1.3 bn), for the years 2002 to 2004, had in fact never been recorded. It was then decided to record these liabilities in the year in which they had been incurred. At the time the Greek authorities assured Eurostat that the delayed recording of expenditures would not be repeated in the future.

Nevertheless, upon examination of the October notifications, two problems became apparent:

- the NSSG, in spite of a total amount of around €3.3 bn of unpaid expenditures of hospitals (which should have impacted government deficit) for the period from 2005 to 2008 being re-

ported in the survey on hospitals, recorded only around €2.3 bn of liabilities in the April and 2 October EDP notifications, incorrectly decreasing the government deficit (compared to the result of the survey) for a minor amount in 2006 and for bigger amounts in the years 2007 and 2008. This is to be considered as a case of deliberate misreporting of figures in the 2007, 2008 and 2 October 2009 EDP notification.

- In the 21 October 2009 notification, an amount of €2.5 bn was added to the government deficit of 2008 on top of the €2.3 bn. This was done according to the Greek authorities under a direct instruction from the Ministry of Finance, in spite of the fact that the real total amount of hospital liabilities is still unknown, that there was no justification to impute this amount only in 2008 and not in previous years as well, and that the NSSG had voiced its dissent on the issue to the GAO and to the MOF. This is to be considered as a wrong methodological decision taken by the GAO.

In summary, despite the assurances of the Greek authorities in 2005 that the issue of unrecorded hospitals liabilities in past years (with the consequent ex-post recording of considerable amounts of expenditures in the past) would not have incurred again, the same situation, and possibly for even higher amounts than in 2005, has occurred again in 2009. Beyond the misreporting by the statistical reporting authorities, it emerges that the liabilities of hospital expenditure are not properly recorded by the hospitals themselves, casting severe doubts on the capacity of the Greek authorities to respect accounting rules and on the accountability of Greek institutional framework.

5 Conclusions

This report responds to the ECOFIN Council conclusion of 10 November 2009 inviting the Commission to prepare a report on the 'renewed problems in the Greek fiscal statistics.'

The reliability of Greek government deficit and debt statistics has been the subject of continuous and unique attention for several years. In 2004, Eurostat produced a comprehensive report on the revision of the Greek government deficit and debt figures, showing how the Greek statistical authorities had misreported figures on deficit and debt in the years between 1997 and 2003. On five occasions since 2004 reservations have been expressed by Eurostat on the Greek data in the biannual press release on deficit and debt data. When the Greek EDP data have been published without reservations, this has been the result of Eurostat interventions before or during the notification period in order to correct mistakes or inappropriate recording, with the result of increasing the notified deficit. Other elements of this continuous attention are a high number of visits, including four methodological visits, and an action plan agreed with the Greek authorities, addressing the statistical problems that could be diagnosed by Eurostat. That action plan was regularly reviewed by Eurostat. Though eventually an overall level of completion was achieved, given that Eurostat is restricted to statistical matters in its work the measures foreseen in the action plan were mainly of a methodological nature, and did not address the issues of institutional settings, accountability, responsibility and political interference.

The 2004 events led to amendments of the EU legal framework for fiscal data in order to strengthen that framework and to improve the monitoring by the Commission of data provided by Member States in the context of the EDP notifications exercises. The existing legal framework and the governance system for government deficit and debt data at EU level are in general functioning well and produce fiscal data of a generally high quality. It is important to acknowledge the overall efficient and loyal cooperation between national authorities and the Commission that characterises this governance system. The events which have occurred in Greece, as described in this report, are therefore not considered as systemic and relate to individual, country-specific problems.

The most recent revisions are an illustration of the lack of quality of the Greek fiscal statistics (and of Greek macroeconomic statistics in general) and show that the progress in the compilation of fiscal statistics in the country, and the intense scrutiny by Eurostat since 2004, have not sufficed to bring the quality of Greek fiscal data to the level reached by other EU Member States. Even if the existing governance framework for fiscal statistics at EU level functions satisfactorily and enables improvements of a statistical and methodological nature, it cannot prevent deliberate misreporting of data.

The situation described in this report, and in particular what emerged in general from the information gathered by Eurostat during the November 2009 methodological visit and from the ensuing correspondence with the Greek authorities, can be summarised as follows:

- 1) Regarding government deficit and debt data for Greece: for the time being, in view of the described size and nature of the data revisions, the lack of reliability and the shortage of evidence supporting the deficit figures reported, Eurostat is at present not in a position to validate figures which are of acceptable statistical quality.
- 2) Regarding institutional issues, actors and procedures, the present institutional setting, which has showed its weakness, inefficiency and permeability to political interference throughout the years, does not guarantee the professional independence and full accountability of the NSSG and of the other services involved in the domain of EDP data.
- 3) The following findings should be mentioned:
 - Severe irregularities in the EDP notifications of April and October 2009, including unreliability of data, non-respect of accounting rules, and timing of the notification;
 - Poor cooperation between the national services involved in the compilation of EDP figures and lack of independence of the NSSG and the GAO;

- An institutional setting and a public accounting system inappropriate for a correct reporting of EDP statistics, notably non-transparent or improperly documented bookkeeping;
- Lack of accountability in the individual provision of figures used in EDP notification, such as, in some cases, absence of written documentation or certification.
- Unclear responsibility and/or lack of responsibility of the national services providing source data or compiling statistical data, with inappropriate adjustments to data, combined with unclear empowerment of officials responsible for the data.

More specifically, with regard to compilation issues, the investigation of Eurostat has revealed significant weaknesses in the national services principally responsible for EDP data: the National Statistical Service of Greece (NSSG), the General Accounting Office (GAO) and the Ministry of Finance (MOF).

From a more general perspective, although the responsibility for monitoring the fiscal data is vested in the Commission, it does not directly compile government data for the Member States. The Commission depends greatly on the data compiled and reported by Member States, as well as on the administrative ability, good will and co-operation of the respective national authorities; moreover, it does not possess audit powers.

In this context, the shortcomings in the operational and administrative capacity of some of the institutions involved in the production of EDP statistics in Greece, referred to in this report, will have to be decisively addressed by the Greek authorities without further delay. Unless the institutional weaknesses uncovered during the investigation of the irregularities underlying the 2009 notifications of data are corrected and proper checks and balances introduced, the reliability of Greek deficit and debt data will remain in question.

The Commission is fully committed to continue cooperating with the Greek authorities with a view to supporting their efforts to improve the collection and processing of government statistics in order to address the recurrent shortcomings and restore the confidence in Greek statistics.

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Annex 1

Annex 1 – Methodological issues

1. Working balance of the State budget

Introduction

It is recalled that in most Member States, data on the working balance for the state budget for the previous year (n-1) are quite stable, even if some revisions regularly occur in the second reporting of the year in October, since data on the budgetary execution for the year n-1 reported in April are not finalised at that time. Similarly, the Greek budget outturn seems to be approved by Parliament in late autumn and some revisions of data in October for n-1 originally notified in April could be expected. However, it appeared that in the case of the Greek data, also the content of individual items impacting the working balance might be changed upon a political decision and thus might differ from one year to another.

Situation before 2004

It is recalled that the issue of the central government accounts and compilation of EDP table 2 for central government had been on the agenda of each EDP mission to Greece. However, the issue of the recording of inflows and outflows of the state budget, and their link with the working balance, was more intensively discussed in 2006 and 2008.

Situation after 2004

It is recalled that the issue of the recording of intra-government transfers from the State budget to other government bodies was intensively discussed during the mission in 2006, since an asymmetrical and incorrect recording, implying an underestimation of the government deficit, was observed. The budget outturn and its link with the working balance of the State budget was analysed in depth by Eurostat during the mission in 2008.

As clarified during the missions in 2006 and 2008, the budget outturn of the state budget describes all the inflows and outflows authorized by the budget, with two fundamental characteristics: (1) total inflows equal total outflows and (2) the basis of accounting is cash if and only if validated by the court of auditors. The starting line of EDP table 2A (the "working balance" of the state budget), which should show the budget execution reported to Parliament or as audited, is compiled using a selection of budget nomenclature codes. Financial transactions such as loans granted/repaid and privatisation proceeds seemed not to be included in the working balance for the state budget, as reported in EDP table 2A.

It is also recalled that one of the issues relating to the working balance for the state budget was the issue of the reporting of intra-government transfers, as discussed in the 2006 mission. Improper accounting of intra-government transfers had been identified as one cause of the discrepancy for the social security funds and also for central government (notably transfers with DEKA). Eurostat discovered a practice of changing government net lending/net borrowing using counterpart information from the general budget. Regarding the issue with DEKA¹ (see item 4.12 of this report), it was discovered that transfers from the state budget to DEKA were not reported in the working balance of the state budget, while these were included in the revenues of DEKA in 2003 and 2004. This reporting implied an underestimation of the central (and general) government deficit. Eurostat requested the Greek authorities to ensure a symmetrical recording of intra-governmental flows and to revise the figures. Eurostat continued to monitor the flows between DEKA and the state budget at the occasion of the requests for clarification sent in the context of the submission of EDP notification tables by the Greek authorities.

Revision on 21st October 2009

One of the reasons for the revision of EDP data notified by the Greek authorities on 21st October 2009 was the revision of the working balance of the state budget by 722 mill for 2008 (increase of the deficit) compared to 2nd October 2009. The Greek authorities explained during the EDP methodological visit in November 2009² and in the report provided by the GAO after the mission that the revision reflected mainly the inclusion of previously neglected expenditure (710 mn €) - transfer from the state budget to the social security fund, originally established by DEH³ (OEP-DEH). In the past, the deficit of this social security fund had been financed through privatization receipts collected by central government. It was stated by the Greek authorities that for 2008 the total amount of transfer was 710 mn € however since the privatization receipts were only 500 mn € it was decided that the remaining 210 mn € should be financed through the ordinary budget expenditure. Eurostat stated that the change in recording of this transaction associated to a political decision taken in the following year made no sense, as in any case the amount provided by central government to this social security fund should have been treated as expenditure whatever the source of revenue for government. Moreover, the new government could not possibly change, by administrative decision, in October 2009, ex-post, the recording of expenditure which had taken place in 2008.

According to the explanations of the Greek authorities provided during the November 2009 methodological visit, it was not clear whether the revision of the working balance reflecting transfers to OEP-DEH was appropriate and moreover, additional uncertainties had arisen in the meantime on the recording of the transfers from the state budget to the social security funds and the related privatization proceeds in the previous period. Therefore Eurostat asked the Greek statistical authorities to produce a report on the issue, indicating the amounts included in the working balance for privatization proceeds and for transfers to this social security fund, as well as the reason for the revision between the 2nd and the 21st October 2009.

Eurostat received two separate replies from the NSSG and the GAO. The replies of these two institutions contradict each other and the answer of the GAO is also internally inconsistent:

- Privatisation receipts included in the working balance

The following explanation was provided by the NSSG: "Since the year 2002 the treatment in the NAD was to record both the revenue and the expenditure side as financial transactions in the subsector of the state. Please note that nor the revenue nor the expenditure from DEH was included in the cash balance

¹ DEKA is classified inside general government

² Eurostat undertook a methodological visit in Greece between the 16th and 18th November 2009. The mission was headed by Luca Ascoli, head of unit C3, Public Finance, Eurostat. Statistics Netherlands, DG ECFIN and the ECB also participated to the mission.

³ DEH is a partially privatized electricity company

of the GAO and this might have contributed in the decision to classify both revenue and expenditure of DEH as a financial transaction in the EDP tables." "... privatisation proceeds have not been included in the working balance in EDP T2A , as reported by the NSSG according to ESA95 treatment."

However, according to the GAO, significant amounts of privatisation receipts are included in the working balance for 2002-2007: "...As a result, the amounts of privatisation proceeds recorded in the working balance (3 b) ii + 3 b) v) are the following: 2002= 275,9 million; 2003= 288,3million; 2004=300,0 million; 2005=370,0 million; 2006= 857,5 million; 2007=745,0 million; 2008= 0,0 million". If this were the case, the deficit would be at present underestimated in each reporting period, since those privatisation receipts have not been excluded when calculating the ESA95 based deficit.

- Transfer to OEP-DEH (social security fund), included in the working balance

According to the answer provided by the NSSG, it is not clear whether the transfer to OEP-DEH from the state budget has been recorded in national accounts as government expenditure or not. Indeed, this transfer has not been the subject of consolidation of intra-governmental flows. It seems that the NSSG does not acknowledge the transfer expenditure being in the working balance for the whole reporting period, since it assumes that the counterpart revenue of OEP-DEH is not recorded, thus having a neutral impact on the deficit.

On the contrary, according to the GAO, the transfer from the state budget to OEP-DEH is equal to 710 mn for 2008, as reported in EDP tables on 21st October 2009. This corresponds to the amount of the revised working balance between the 2nd and 21st October 2009. However, as reported by the GAO in the table provided on 11 December 2009, the amount of 500 mn € has already been recorded in the working balance in EDP tables reported on 2nd October 2009. Consequently, if this was true, the revision of the working balance between the 2nd and 21st October 2009 would be only 210 mn € and not 710 mn €. In addition, according to the GAO, it seems that the transfers from the state budget to OEP-DEH were recorded as expenditure in the working balance during the whole reporting period, which contradicts the statement of the NSSG.

Conclusion

The explanations provided by the NSSG and the GAO contradict each other and the issue would require further investigations, which might have implications for the recording of government deficit for 2008, but also for the previous years. Doubts about the correctness of the revision implemented on 21st October 2009 are also supported by the fact that the statistical discrepancy changed from positive to a strong negative on 21st October 2009.

Finally, it is recalled that, as required by Council Regulation (EC) 479/2009, the working balance should refer to the measure most commonly used in the country public accounts or in the budget presentation. For the central government sub-sector it should correspond to the public accounts outcome usually presented to the national parliament, and should be ideally also independently audited. It is to be considered as worrying that in Greece the content of the working balance might be changed by a political decision on an ex-post basis.

2 Revision of Treasury accounts

Introduction

It is recalled that accounting difficulties in the recording of extra-budgetary accounts of the state budget have been observed in several Member States, since evidence and book-keeping records on flows passing through such accounts and not entering the working balance are in most cases insufficient or even not available at all. The main problem with the recording of extra-budgetary accounts in EDP tables and national accounts relates to the fact that extra-budgetary accounts include

not only non-financial transactions impacting the deficit, but also financial transactions not impacting the deficit. The non-availability of details on individual transactions entering the extra-budgetary accounts introduces a risk of misreporting deficit/surplus figures and might lead to discrepancies between non-financial and financial accounts.

Extra-budgetary accounts should not be confused with Extra-budgetary bodies, which are institutional units in ESA95 terms. On the contrary, extra-budgetary accounts have no autonomy of decision and are therefore considered within the State (i.e. budgetary central government) even though off-budget. In Greece, the Single Treasury Account consists of numerous extra-budgetary accounts.

Situation before 2004

The issue of the recording of extra-budgetary accounts in the Greek national accounts and EDP tables was not discussed in detail before 2004. Nonetheless, the adjustment item "extra-budgetary balances" has been reported in the EDP table 2A, impacting the deficit of central government, and has been assessed by Eurostat. However, the recording of the Treasury accounts was analysed in depth only in later years, particularly in 2008.

Situation after 2004

During the mission in September 2005, Eurostat enquired about the noticeable "Extra budgetary balances" reported in EDP table 2A, implying a positive impact on the central government deficit. Those reflected off-budget activities of state entities that transited via dedicated "bank accounts". Surpluses of those accounts hence corresponded to the change in on the balances of these bank accounts. At Eurostat's request, the MOF provided information on the bank balances, estimated at 1.2 bn € at the end of 2004.

The issue of the Treasury accounts was also discussed during the mission in 2006. It was clarified that the Treasury accounts exist to support specific operations that do not transit via the budget, via other central bodies or via extra-budgetary accounts, such as for military expenditure or for payments on guarantees. These are reported in EDP Table 2A (also under "other adjustments"). According to the 2006 mission findings, most of the other operations in these other Treasury accounts are financial in nature.

Eurostat conducted a detailed investigation of the main source data for budgetary central government: the budget outturn, the so-called Treasury Balance sheet and the extra budgetary accounts, during the methodological mission in 2008.

According to the findings from the mission, the Greek government maintains a Treasury Single Account (TSA) (Account 28) at the BOG that comprises a large number of sub-accounts.

Some flows recorded in the TSA transit via the budget: cash transactions in revenue, expenditure, borrowing, debt redemption etc. In contrast, the other sub-accounts of account 28 report cash inflows that do not lead to direct entries in the Budget Outturn. Many have a suspense account nature: deposits of "responsible officers" who received funds from the budget but have not spent them; deposits reflecting revenues not yet passed on to the budget; accounts dedicated to the EU grants and contributions to the EU. Some have a nature of correspondent accounts: deposits held by third parties at the Treasury. These classes of sub-accounts encompass hundreds or thousands of individual accounts, and the GAO could not be sure at the time of the 2008 methodological visit by Eurostat about the exact composition of each class, although the predominant activity was often identified.

Eurostat noted that the EDP table 2A reported amounts for extra budgetary accounts, as a (positive) adjustment to the deficit, but this adjustment only encompassed one subset of all these extra budgetary accounts, which was a cause for statistical discrepancy. This is because the financial accounts report

the whole account 28 as government deposits, while counterpart non-financial and financial transactions recorded in the TSA were not reported in the EDP tables.

The GAO observed that the relative heterogeneity of the accounts, even within a single class, meant that there was uncertainty as to the type of correction required for each class of accounts, and felt that it might not have been prudent to change the deficit at that stage. It suggested that these accounts be reported in the financial accounts, pending further investigation. However, the EU delegation noted that some of these accounts would necessarily enter the deficit, and that a non negligible negative adjustment was observable for 2006 and 2007.

Eurostat concluded that the exclusion of many sub-accounts of the TSA from the EDP notification had been a cause for statistical discrepancy, for substantial amounts. It recommended that the Greek statistical authorities make an effort to take these accounts into consideration in the EDP reporting. The whole TSA account should be in EDP Table 2A or Table 3B and corrections should be made not only for the two EU related accounts, but for all sub-accounts. Eurostat proposed that, as a temporary solution, the most prudent option for the proper recording of extra-budgetary accounts would be to record, aside from the two EU accounts, half of the amounts in EDP table 2A impacting the central government deficit and the remainder in EDP table 3B. It was assumed that this approach would most certainly limit the size of revisions once detailed information would be eventually available.

Finally, the following short term and medium term actions were agreed in this context to be undertaken by the Greek authorities:

A) Short term actions (for the October 2008 EDP notification) - Clarification of the statistical treatment of the balances of the remaining accounts. The General Accounting Office (GAO) decided after the visit to follow the option recommended by Eurostat and to include half of the remaining extra-budgetary accounts in the government deficit and the other half in the financial accounts.

B) Medium term actions - the Greek statistical authorities were requested to decide on the final classification of the extra-budgetary accounts and report accordingly their balances either in EDP Table 2A or in Table 3B (for the April 2009 EDP notification).

As a result, the Greek authorities started reporting half of the extra-budgetary accounts in the deficit and the other half in the financial accounts. However, the final classification of the extra-budgetary accounts was concluded just before 21st October 2009.

Revision on 21st October 2009

One of the revisions reported by the Greek authorities on 21st October 2009 was the revision of "other accounts payable" implying an increase of the central government deficit, due to the revision of the Treasury accounts. The revision was noticeable for 2008 (-192 mill) and minor for the years 2005-2007. A note describing some elements of the revision was provided to Eurostat on 26 October 2009. According to the note, the accounts were divided into three general categories: (i) accounts through which financial transactions are carried without impact the deficit, (ii) accounts impacting the deficit and (iii) accounts impacting the level of debt.

During the methodological visit to Greece in November 2009, Eurostat enquired further on the revision of the Treasury accounts between 2nd and 21st October 2009. The GAO informed Eurostat that it had concluded before the 21st of October the examination of the balances of the extra budgetary accounts and that as a result it had imputed a correction, as was requested by Eurostat during the 2008 EDP mission. This was surprising, given the fact that on 10th October 2009 the GAO had written that "the task of investigating and identifying each account is estimated to have been concluded by the end of the year"; the task had nonetheless been completed only a few days later. The GAO informed Eurostat that this was due to the fact that the new political authorities had instructed the GAO to

complete the examination of the Treasury accounts as soon as possible, and that as a result extra resources were devoted to clarifying the issue during the days before October 21st.

Conclusion

The revision of the Treasury accounts between the 2nd and the 21st October 2009 seemed to follow the Eurostat's recommendation from the 2008 EDP methodological visit. However, there is a need to discuss with the Greek authorities further details on the classification of individual extra-budgetary accounts and to analyse their impact on the deficit.

3 Revenues from abolished extra-budgetary accounts

Introduction

It is recalled that in most Member States, transactions realised by the state budget are recorded in different accounts, and some of those accounts (so called "off- budget", or "extra-budgetary" accounts) are not included in the working balance of the central government sector. In many cases, inflows and outflows recorded in extra-budgetary accounts do not have any link with budgetary accounts, and thus do not enter the working balance. There are however many cases when funds are transferred from budgetary to extra-budgetary accounts (or vice versa). Such transfers should be consolidated and thus the impact on deficit should be neutralised. Accordingly, appropriate adjustments should appear in EDP table 2A, when transiting from the working balance to deficit/surplus, as defined by ESA95.

It was observed in many Member States that the outstanding amount of funds on the government bank accounts might enter the working balance, implying a positive impact on the balance based on public accounts (the working balance). However, such positive entry in the working balance should not impact the deficit as defined by ESA95, since this entry refers to the accumulated surplus on the bank account resulting from various transactions undertaken in the past (including inflows from borrowing) and does not refer to government revenue. Therefore, if such an entry appears in the working balance, the relating amount is to be eliminated when calculating deficit/surplus according to ESA95. Usually, such an inflow impacting the working balance is clearly marked according to the budgetary classification of inflows and outflows and thus is easily identifiable.

A similar situation seemed to take place in Greece, when the outstanding amounts of funds from the abolished extra-budgetary accounts were recorded as revenue in the working balance for 2008.

Situation before 2009

In Greece, the transactions undertaken by the state budget, transit via thousands of different accounts (see above in section 2). The issue of the recording of extra-budgetary accounts was discussed during the EDP missions in 2005 and 2006, but mainly in 2008. During the mission in 2008, a very detailed investigation of the main source data for budgetary central government - the budget outturn, the so-called Treasury Balance sheet and the extra budgetary accounts - was conducted by Eurostat. The composition of the state budget working balance was also discussed in detail during the EDP methodological missions in 2006 and 2008 (see part 4.3 of this report).

However, there was no past case in Greece in which the outstanding amounts of funds from extra-budgetary accounts were recorded as revenue in the working balance, and a relating adjustment has never been recorded in EDP table 2A.

Revision on 21st October 2009

It appears that the Greek authorities increased the deficit for 2008 by 300 mn € due to the exclusion of the "revenues from written-off extra-budgetary accounts" from the working balance of the state budget. The revised figures have been submitted to Eurostat on 21st October 2009.

During the methodological visit to Greece in November 2009, Eurostat enquired further on this revision. It was confirmed by the Greek authorities that the government decided in 2008 to abolish some extra-budgetary accounts. The outstanding amounts of funds from the extra-budgetary accounts were transferred to the government as revenue in the working balance. As explained by the Greek authorities, since this constituted a financial transaction, an adjustment should have been recorded in EDP table 2A. Nevertheless, it was discovered during the meeting that this information in fact never reached the NSSG, which could not therefore introduce the corresponding correction. The GAO stated that the information was already available in April 2009, but it appeared that it was withheld at the level of the GAO and it was not sent by the hierarchy of the GAO to the NSSG.

In this respect, additional uncertainties arise about the correctness of the recordings in the past, since, as was explained by the GAO during the mission in November 2009, every year some extra-budgetary accounts are abolished. However, appropriate adjustments have never been recorded in the Greek EDP tables.

Eurostat asked the Greek statistical authorities to report on the issue as a follow-up to the 2009 mission. The replies were provided separately by the NSSG and by the GAO.

The GAO communicated on 30th November 2009 to Eurostat the following explanation about the revision: "The EDP figures communicated by GAO in this way were the correct ones. Given this practice, GAO is not in a position to know how or under what circumstances wrong figures for swaps, extra-budgetary accounts and interest accrued were recorded in the EDP tables of April 1st and October 2nd."

According to the reply provided by the NSSG on 11th December 2009: "...we record all the figures as received from the GAO during the EDP Notifications of April, 2 October and 21 October 2009. The NSSG received the figures as transmitted by the GAO, reported them in the relevant cells of Table 2A of the EDP and in no case proceeded in any kind of changes, concerning swaps, extra budgetary accounts, accrued interest adjustment or on any other data received from the GAO". The fact, contrary to the statement by the GAO, that the information was not communicated by the GAO to the NSSG in April 2009 and on October 2nd 2009, was confirmed on 11th December 2009, when the NSSG provided Eurostat with e-mails from the GAO (dated March 2009), including attached EDP tables, where those amounts on abolished extra-budgetary accounts were not excluded from the working balance while calculating the deficit. It appears therefore that the GAO has deliberately misreported figures related to extra-budgetary accounts in the April and 2nd October EDP notifications.

Conclusion

Although the exclusion of the inflow from the abolished extra-budgetary accounts from the state budget revenues seems to be appropriate, the correctness of the revision between 2nd and 21st October 2009, implying a negative impact on the deficit for 2008, should be further analysed. It should be checked whether a corresponding outflow was recorded in the adjustment item reflecting the balance of extra-budgetary accounts, as reported in EDP table 2A. If such an outflow was recorded, the revision implemented on 21st October 2009 would be incorrect, since flows between different accounts should be neutralised (consolidated). Doubts about the correctness of the revision implemented on 21st October 2009 are also supported by the fact that the statistical discrepancy increased considerably on 21st October 2009. In addition, it should be verified whether and how such flows have been recorded in the past, which might have implications for the level of the deficit of previous years.

This issue also closely relates to the revision of treasury accounts (see part 4.2 of the report) and also of the working balance (see part 4.1 of the report).

4 Swaps write-offs

Introduction

The recording of financial derivatives according to ESA95, and related methodological manuals and guidance notes, has been discussed by Eurostat with the Greek statistical authorities both during the EDP missions at least from 2005 onwards, or in the context of the requests for clarifications in the April and October EDP notifications, following the provision of deficit and debt data by Greek statistical authorities. However, the revision of swap write-offs recorded between April and October 2009 is simply an issue about misreporting of figures rather than a methodological issue. During the methodological mission undertaken by Eurostat in November 2009 it was stressed by the Public Debt Division that normally there should have been no revision at all of figures between April 2009 and October 2009 as there was no change in the calculation of swap write-offs.

Situation after 2005

It is recalled that the issue of the cancellation of a swap and the treatment of its remaining streams of future interest payments was discussed in the 2005 September EDP mission and was the subject of a request by the Greek authorities for Eurostat advice on the appropriate accounting treatment for EDP purposes. Following the description of the issue provided by the Greek statistical authorities, Eurostat recommended the recording of such swaps cancellations as financial transactions, with no impact on the deficit/surplus.

It is recalled that in May 2008, after publishing the Guidance notes for the recording of financial derivatives (dated 7 March 2008), Eurostat launched a questionnaire, through which Member States described the practice of recording of main financial derivatives (swaps) and provided the figures of financial derivatives transactions over the period 2003-2007.

It is also recalled that during the Eurostat methodological visit of September 2008, the issues of swap correction and interest measurement were discussed. Eurostat asked about the exact reasons for the very large EDP correction for swaps, the highest in Europe as a % of GDP in 2006 and 2007 (around 0.6 bn € a year), as well as for the high level in net liabilities in derivatives that reached 8.6 bn € at end-2007, and which was also growing rapidly by more than 1 bn € a year.

The GAO informed Eurostat that, by law, government units could not enter into "fictitious derivative transactions" and could only engage in derivatives in the context of hedges.

The GAO indicated that the State generally does not engage in non-standard swaps with non-linear cases or varying fixed leg or spreads, and that those existing were very marginal in amounts.

The notional value of derivatives contracted had reached 50 bn € with a practice of being "long": receiving the fix rate and paying the floating rate. Eurostat reasoned that this may explain the large cash inflows recorded, given the observed yield curve during the period. There also existed substantial price index derivatives (close to 4 bn € in notional value) designed to swap a large share of the exposure related to the indexed bonds issued by the Greek State since 2004.

The GAO noted that the importance of cross currency swaps had been rapidly diminishing, after being predominant at the end of the 90s, when the Greek State had a practice of hedging most of its exposure related to foreign currency bonds: as an example, in 2001, the foreign currency exposure before swaps was 20% of the debt issued, and after swaps only 1%. The entry into the euro area, and the gradual redemption of foreign currency debt, led to a rapid decline in the relative importance of these derivatives. Eurostat thought that, given the interest rate structure existing at that time, these currency swaps should have been paying noticeable amounts of cash, whereas the swap correction in EDP table

1, i.e. the difference between EDP interest and ESA interest, was relatively small. The GAO was asked to enquire on the swap correction in the years 1998-2003.

Eurostat noted that Greece was amongst the few countries that compile a comprehensive market value position of its derivatives, notably in the context of the quarterly financial accounts for general government regulated by Council and Parliament Regulation 501/2004. The GAO felt that the figures for both the swap correction and for the outstanding stock were accurate.

Eurostat reasoned that, given that the swaps position was generating about 600 mn € net cash inflows in 2005 and 2006, and given that the stock position of the net liability was increasing faster by around 1 billion euro, a net holding loss of 400 mn € a year had been incurred. These losses reflect changes in market value that were not expected at inception, are often volatile and are easily reversed into gains.

The GAO Directorate D23 indicated that it maintained an instrument by instrument debt database, which included both the underlying instrument and the accompanying derivative, if any. Accrued interest expenditure was calculated from this database, and can be calculated before swaps and after swaps. In addition the database can provide the cash interest before and after swaps. The accrued interest before swaps is communicated to the NSSG for national accounts purposes.

In contrast, the budget presentation presents interest expenditure after swaps only, without distinguishing the swap impact.

Eurostat suggested that the GAO should provide, for main categories of derivatives, in the easiest possible format for the MOF, the flow of interest on a cash basis and on an accrual basis, both before and after swaps – over 2004-2007.

Concerning the swap cancellation, the Greek statistical authorities expressed their willingness to apply the Eurostat Guidance note on the issue, with the effect of slightly improving the government balance by about 20 million euro a year.

The discussion during the Eurostat methodological visit on 16-18 November 2009 focussed on the reasons of the revision of swap write-off figures by 210 mn € between April (and 2 October) and 21 October 2009.

The amount resulted from swap cancellations which took place in 2008. The lump sums received by government should not have been considered in national accounts as government revenue, according to rules. As such amounts entered the government working balance, a negative adjustment should have been imputed in the EDP notification for the same amount. Nevertheless, this was not the case neither in April nor on October 2nd 2009, but only on October 21st. It was revealed during the November methodological visit that the Public Debt Directorate of the GAO transmitted the correct information to the hierarchy of the GAO, but it seems that this information was withheld by the hierarchy of the GAO and did not reach the NSSG. As a consequence government deficit was underestimated in 2008 in April and on 2 October 2009.

Eurostat asked the Greek statistical authorities to report on the issue as a follow-up to the 2009 mission. The replies were provided separately by the NSSG and by the GAO. Surprisingly, the GAO communicated on 30th November 2009 to Eurostat the following explanation on the revision: "The EDP figures communicated by GAO in this way were the correct ones. Given this practice, GAO is not in a position to know how or under what circumstances wrong figures for swaps, extra-budgetary accounts and interest accrued were recorded in the EDP tables of April 1st and October 2nd."

According to the reply provided by the NSSG on 11th December 2009: "...we record all the figures as received from the GAO during the EDP Notifications of April, 2 October and 21 October 2009. The NSSG received the figures as transmitted by the GAO, reported them in the relevant cells of Table 2A of the EDP and in no case proceeded in any kind of changes, concerning swaps, extra budgetary

accounts, accrued interest adjustment or on any other data received from the GAO". The fact, contrary to what stated by the GAO, that the information has not been communicated to the NSSG in April 2009 and on October 2nd 2009 was confirmed on 11th December 2009, when the NSSG provided Eurostat with e-mails from the GAO (dated March 2009), including attached EDP tables, where a correction for swaps cancellations had been originally imputed by GAO in the table but then neutralised by the GAO by a corresponding amount with the opposite sign.

Conclusion

The revision of swap write-off recorded between April and October 2009 was due to the misreporting of figures by GAO, both in April and on 2 October 2009, while the figure reported on 21 October seems to be the correct one, as previously calculated by the Public Debt Directorate of GAO. The GAO transmitted wrong figures in this respect to the NSSG in April and on 2nd October 2009.

5 Adjustment for interest payments

Introduction

The recording of interest according to ESA95 and to related methodological manuals has been discussed by Eurostat with the Greek statistical authorities in several occasions, either during the EDP missions at least from 1996 onwards, or in the context of the requests for clarifications in April and October EDP notifications, following the provision of deficit and debt data by Greek statistical authorities. However, the revision of interest recorded between April and October 2009 turned out being a case of misreporting of a figure rather than a methodological issue. Indeed, during the methodological mission undertaken by Eurostat in November 2009 it was stressed that normally there should have been no revision of figures at all between April 2009 and October 2009 as there is no change in the calculation of interest after March of each year.

Situation before 2004

It is recalled that the recording of interest was discussed between the Greek authorities and Eurostat on several occasions since at least 1996. According to the minutes of Eurostat's mission of 8 and 9 February 1996, Eurostat concluded, on the basis of the statements by the Greek authorities, that capitalised interest was not an accounting issue and that the ESA rules were being respected. However, as some doubts persisted, Eurostat wrote to the NSSG on 21 March 1997⁴. The letter stated: "The following points should be corrected: Capitalised interest should be included as increasing the deficit at the moment they are paid, where paid means credited to the account of the holder of such an instrument".

The EDP mission report of 1997 stated again that "It was agreed that the 1997 notification should be corrected for ... capitalised interest". In that occasion, it had become clear that the Greek government had issued bonds which did not carry any interest during the first years. After that period, the principal was increased and the bond subsequently carried a coupon on the increased capital. In the EDP notifications, capitalised interest was recorded only when the bond was redeemed, but not when the capital uplift was credited to the holders of the bond. As a consequence, it was decided that the Greek authorities had to work on correction of these data.

In 1998, it became clear again that the recommendation of Eurostat had not been followed in the context of the EDP notification of March 1997. It turned out that in that notification capitalised interest was not recorded on an accrual basis during the grace period. The Greek authorities promptly promised again to comply. As a result, during the 1998 EDP mission, it was stated as a conclusion in the minutes that: "The Greek authorities stated that from now onwards it (capitalised interest) would

⁴ Letter by Alberto de Michelis (Director at Eurostat) to Mr. Karavitis (General Secretary of the National Statistical Service of Greece)

always be recorded on an accrual basis during the grace period". As a consequence, Eurostat had reason to believe that there was no accounting difficulty from that moment onwards with the correct recording of interest expenditure.

It was only in September 2004, however, that the Greek authorities informed Eurostat that capitalised interest had been systematically under-recorded during the preceding years and a correction had therefore to be imputed both for deficit and debt. The Greek statistical authorities admitted in September 2004 that, starting in 1995, government reached an agreement with some major banks, mostly owned by government. It was decided that interest payment on government bonds could be postponed year after year. In this way, interest was never paid and it was capitalised every year. ESA 95 rules on the recording of capitalised interest were not followed. As a consequence, debt and deficit figures had been underreported since 1995. These have since then been corrected.

Situation after 2004

It is recalled that the recording of capitalised interest and the difference between the interest accrued and paid was discussed with the Greek statistical authorities during the Eurostat EDP missions to Greece in 2005 and in the context of follow up letters between Eurostat and NSSG in the same year.

It is recalled that during the Eurostat methodological mission of September 2008, the GAO Directorate D23 indicated that it maintained an instrument by instrument debt database, which included both the underlying instrument and the accompanying derivative, if any. Accrued interest expenditure is calculated from this database and can be obtained before and after the recording of swaps. In addition, the database can also provide the cash interest before and after swaps. The accrued interest before swaps is communicated to the NSSG for national accounts purposes. In contrast, the budget presentation presents interest expenditure after swaps only, without identifying the swap impact.

Eurostat conducted a reconciliation exercise between the budget amounts and the amounts reported under EDP tables, which seemed broadly satisfactory. Eurostat noted that the amounts of consolidated interest seemed implausibly low (these were related to social security holdings in Treasury bonds/bills) and encouraged the NSSG to amend the reported data, although with no impact on the reported deficit (reducing both consolidated interest revenue and expenditure). Eurostat noted that the largest share of the interest received (more than 1 bn €) by social security would presumably be on government bonds.

Eurostat suggested that the GAO provide for main categories of derivatives, in the easiest possible format for the MoF, the flow of interest on a cash basis and on an accrual basis, both before and after swaps – over 2004-2007.

The GAO reasoned that the accrual adjustment for interest did not exhibit systematic negative amounts despite a consistently growing debt, because the overall interest rate bill had tended to be stable over the period, owing to a gradual fall in implicit interest rate on the debt, due to the influence of the roll-over of debt at lower interest rates. The discussions on recording of interest led to the conclusion that there was no major problem relating to this issue in the Greek national accounts.

However, during its methodological visit to Greece in November 2009, Eurostat enquired on the revision of the figure for accrued interest between April (and 2 October) and 21 October 2009. A negative adjustment for accrued interest in EDP tables, was revised to 495 mn € from a previous recorded amount of only 45 mn €, as reported in the April and October 2nd notifications. It was revealed during the meeting that the Public Debt Directorate of the GAO communicated already in April 2009 the correct figure to its hierarchy, but that for some reasons the figure communicated to the NSSG was changed by the hierarchy of the GAO to 45 mn € from 495 mn € reducing the deficit for 2008. It seems that the NSSG was not aware of the issue.

Eurostat asked the Greek statistical authorities to report on the issue as a follow-up to the 2009 mission. The replies were provided separately by the NSSG and by the GAO. The same explanation as for swaps issue was given by the GAO on 30th November 2009 "The EDP figures communicated by GAO in this way were the correct ones. Given this practice, GAO is not in a position to know how or under what circumstances wrong figures for swaps, extra-budgetary accounts and interest accrued were recorded in the EDP tables of April 1st and October 2nd."

According to the reply provided by the NSSG on 11th December 2009: "...we record all the figures as received from the GAO during the EDP Notifications of April, 2 October and 21 October 2009. The NSSG received the figures as transmitted by the GAO, reported them in the relevant cells of Table 2A of the EDP and in no case proceeded in any kind of changes, concerning swaps, extra budgetary accounts, accrued interest adjustment or on any other data received from the GAO". The fact, contrary to that stated by the GAO, that the information has not been communicated to the NSSG in April 2009 and on October 2nd 2009 was confirmed on 11th December 2009, when the NSSG provided Eurostat with e-mails from the GAO (dated March 2009), including attached EDP tables, where the amount of the accrued interest adjustment had been misreported and reduced only to 45 mn € instead of 495 mn €

Conclusions

The revision of interest recorded between April and October 2009 was due to the misreporting of figures by the GAO, both in April and on 2 October 2009, while the figure reported on 21 October seems being the correct one, as calculated already since March 2009 by the Public Debt Directorate of GAO.

6 Debt assumptions and guarantees

Introduction

It is recalled that ESA95 contains specific rules on the recording of debt assumptions. According to paragraph 4.165(f): "Other capital transfers include (...) cancellation of debts by agreement between institutional units belonging to different sectors or sub-sector (for example, the cancellation by the government of a debt owed to it by a foreign country; payments in fulfilment of guarantees which free defaulting debtors from their obligations) (...). Likewise, the counterpart transaction of debt assumption is another capital transfer".

Accordingly, the basic general accounting rules on the recording of debt assumptions are well established since at least 1995. Their implementation has been relatively straightforward in most EU Member States. In the case of Greece, this has not been the case.

Situation before 2004

Debt assumptions were one of the most frequently discussed issues between Eurostat and the Greek statistical authorities from 1996 to 2002. Eurostat made clear already from 1996 which were the rules to be followed. However, such rules were not applied in a consistent way in Greece and data have frequently changed between 1996 and 2002. It was concluded in the 2004 mission report, that Eurostat's recommendations had not been followed.

Situation after 2004

After 2004, Eurostat regularly insisted in receiving further details on transactions relating to guarantee calls and on the stock of guaranteed debt that was under call by company for 1997-2003⁵.

⁵ Eurostat letters of 29/10/2004 and 17/11/2004

During the EDP mission in March 2005, the Greek authorities claimed that there were no cases when it is clear from the beginning that the state will have to reimburse the debt for a company, since the state takes measures to force companies to pay their debts. The issue of the recording of guarantees was discussed also in the EDP mission in September 2005. As claimed by the Greece authorities, no flows related to guarantees transit via working balances. A correction entry appears in table 2A and captures cash payments on calls on guarantees, net of occasional repayments by the debtor and other receipts such as fees. However, Eurostat noted that no debt assumption is carried out even when these cash calls are repeatedly made.

Very intensive communication between Eurostat and the Greek authorities took place as a follow-up to the September 2005 EDP mission⁶.

The issue on guarantees recording was further analysed by Eurostat during the EDP mission in November 2005. Discussion was focused on the analysis of stocks of guarantees (8% GDP for 2004). Following the mission, a letter was sent by Eurostat to the Greek authorities⁷ asking for detailed information on guarantees in order to assess whether the recording was correct in the past. The following information had been requested for 2001-2005: total stock of guaranteed debt by company and by year; calls on guarantees (government payments) and reimbursements made to the state budget, by company; financial statements for the selected companies benefiting from guarantees.

Information on the total stock of debt under repeated call has been provided by the Greek authorities for the first time in the questionnaire relating to the notification tables in April 2007. Related questions have been regularly raised by Eurostat in the occasion of request for clarification when assessing EDP notification tables.

Revision on 21st October 2009

The Greek authorities provided Eurostat on 21st October 2009 with the revised deficit figures due to transactions in debt assumptions for 2005-2008. As stated in the explanatory note provided by the Greek authorities on 21st October 2009, "Debt assumptions are revised due to guarantees that became claimable..." The impact of the revision on the deficit for 2005-2008 is as follows: -218 mn (2008), -190 mn (2007), -40 mn (2006) and +4 mn (2005) € respectively.

The revision seems to relate to the revision of the recording of transactions reported in the Single treasury account⁸. As was further explained during the methodological visit to Greece on 16-18 November 2009, the revision of treasury accounts showed that in addition to the previously reported adjustments in EDP tables due to transaction in guarantees (payments from the state budget and repayments by the original debtors), additional flows in guarantees have been identified in the treasury accounts. As claimed by the GAO, since the revision of the Treasury accounts was concluded just before 21st October 2009, the amounts on debt assumptions transiting via the Treasury accounts could not be included in EDP tables before.

Eurostat pointed out that noticeable amounts of outstanding guaranteed debt under repeated call are reported in the questionnaire relating to the EDP notification tables for the whole reporting period. Eurostat also enquired further why this debt has not been assumed in national accounts, as recommended by Eurostat and done by other Member States. It was agreed that a report on guarantees will be provided to Eurostat explaining (i) what happened in the April and 2 October EDP notifications and on the revision of data on 21 October 2009 as far as the calling of guarantees is concerned, which rules were applied in the past concerning the calling of guarantees and which rules will be applied in the future. (ii) why Eurostat's rules on the recording and calling of guarantees were

⁶ Eurostat letters of 12 and 19 September 2005 and 6 October 2005 ; the NSSG letters of 14 and 20 September 2005 and 19 October 2005

⁷ Eurostat letter of 16 December 2005

⁸ The revision of Treasury accounts was requested by Eurostat in the September 2008 EDP mission.

still not applied. (iii) A list of companies benefitting from government guarantees, by amount, by year and by amount of guarantees called. (iv) A list of repayments by company, by amount and by year and the recording in national accounts.

The reply provided by the GAO on 30 November 2009 has brought additional uncertainties about the recording of transactions in guarantees in the Greek national accounts and EDP tables in the past. According to their reply, it seems that in case it was assumed that a guarantee called would be repaid by a beneficiary, nothing would be recorded in EDP tables, "...When there is strong evidence that the company having benefited from the guarantee will repay the amount, then such assessment (and of course the recording of the guarantee called) is delayed. In such a case when the amount is actually repaid, no recording takes place. This treatment used to create statistical discrepancies in the stock-flow adjustment..."

According to the explanation provided by the GAO, it seems that the wrong recording applied in the past has been corrected in the EDP of October 21st 2009 as "payments and repayments show the actual amounts paid and repaid within the calendar year, and not the amounts assessed in the Tax Offices because of guarantees called". Also the NSSG confirmed in the report of 11 December 2009 that the amount revised for 2008 on 21st October 2009 should be recorded as expenditure. However, The NSSG also stated that "...data are provided by the GAO, while the NSSG did not omit to include any information received by the GAO and in any case the relevant code number of the Budget and Budget Outturn for the years prior to 2008 was always included in Table 2A as any other expenditure". This statement might however evoke some doubts on possible double counting by the GAO relating to the recent revision of the past data, since "...the relevant code number of the Budget and Budget Outturn for the years prior to 2008 was always included in Table 2A as any other expenditure".

Conclusion

The appropriate recording of guarantees is verified by Eurostat during each EDP notification in April and October by way of exchange of Request for clarification and by way of analysing Table 9 of the Questionnaire relating to the EDP notification. The issue of the revision for 2005-2008 due to guarantee cash calls on 21st October 2009 still needs to be investigated further. In addition, the issue of debt under repeated calls should be further analysed. The result of this analysis might imply a revision of the deficit and debt of government.

It is surprising that in the past, guarantee calls and repayments have been recorded in EDP tables only partially, since it is assumed that the related information on guarantees provided by the state budget would be dealt by one responsible unit at the MOF having complete information on all guarantees provided and related transactions. ESA 95 rules concerning the recording of guarantees do not seem to have been implemented in this respect in the past by the GAO.

7 Capital injections

Introduction

It is recalled that the recording of capital injections (as a capital expenditure, "above the line", having an impact on deficit/surplus, or as an equity injection, "below the line", without an impact on government deficit/surplus) is tackled by Eurostat regularly in its bilateral discussions with Member States. This has been an issue of disagreement with the Greek statistical authorities in several occasions and at least since 1998.

Situation before 2004

It is recalled that in its 2002 EDP Mission, Eurostat⁹ “underlined the need for the Greek statistical authorities to consider each share capital increase using the recommendations set down in the ESA 95 Manual on government deficit and debt”. The Greek authorities reassured Eurostat, stressing that “this type of analysis is undertaken annually and Greece had actually been testing the new recommendations contained in the Manual before they had been formally introduced” adding that they agreed to “look again at these transactions”.

In the mission of 12 and 13 October 2004 and in the letters of 21 and 29 October 2004, Eurostat requested the NSSG to provide a list of capital injections undertaken by the Greek government from 1997 to 1999 and distinguishing those that are to be recorded as capital transfers and as financial transactions according to the accounting rules.

During the mission of 10 November 2004 the Greek authorities provided information on the amounts of capital injections to be added to the deficit figure between 1997 and 1999. This correction was made according to the same guidelines followed in the reclassification as capital transfers of some amounts previously recorded as share capital increases, in 2002.

On several occasions Eurostat made clear to Greece the rules to be applied. However, it appeared that the statements by the Greek authorities were not always complete and rules were not always applied.

Situation after 2004

Eurostat continuously monitored the recording of capital injections and made clear to Greek authorities what the rules to be applied in this context were. In February 2005 Eurostat launched the second questionnaire on capital injections and dividends, to which the NSSG provided the figures of capital injections for the period 2000-2004.

During the EDP mission of March 2005, Eurostat questioned the recording of capital injection into the company ATHOC, as capital expenditure, with an impact on the government deficit and asked the NSSG to check on whether these were correctly recorded.

Since April 2008, the NSSG provided some of the requested information on the capital injections (as capital transfer and as equity injection) in table V (since October 2009 called table 10) of the Questionnaire relating to EDP notification tables. Since then Eurostat always asked the NSSG to provide more accurate detail of capital transfers and equity injections into public corporations and other units.

In April 2009, an amount of 50 mn € recorded as equity injections with no impact on the deficit were reported for Themis S.A. and Tram S.A. At that time it was explained by the Greek statistical authorities that the recording followed the Manual on Government Deficit and Debt rules. At the request of Eurostat on whether the two companies were profitable and if their investment yield a market rate of return, the Greek statistical authorities answered: "The accounts show a profit and indicate a market yield of return".

However, during the methodological visit to Greece on 16-18 November 2009 Eurostat inquired again on those capital injections and the answer from the Greek statistical authorities this time was different. The NSSG confirmed in the meeting that some capital injections in the public companies Themis and Tram had been incorrectly recorded as financial transactions instead of capital transfers. It was revealed that in fact those two companies were not profitable at all and the Greek statistical authorities confirmed that a capital transfer would be recorded in the accounts of government having as a result an increase of the deficit for 2008, as well as possibly for previous years. Moreover, in a short answer to the "List of reports to be provided by the Greek statistical authorities" asked by Eurostat as a follow up of the methodological visit, it was again confirmed that some capital injections will be reclassified as

⁹ EDP mission to Greece on 15 January 2002

expenditure for year 2008 and probably for previous years, not only for the above mentioned companies, but also for other companies, without specifying the amounts, but stating that the amount of revision was not substantial. Eurostat did not receive neither any information about which are the other companies, if confirmed, for which a capital transfer from the government will be recorded, nor on any amount possibly concerned.

Conclusion

The figures of deficit for the year 2008 and possibly for previous years will still be revised with the amounts of capital injections into Themis and Tram, and possibly for other companies, however the amount, contrary to 2004, is not expected this time to be very significant, according to the NSSG. This issue is regularly monitored by Eurostat mainly through the Questionnaire relating to EDP notifications due twice a year, before April and before October, as well as through the rounds of request for clarifications for the assessment of deficit and debt figures.

8 Social security funds

Introduction

The sub-sector of social security funds (SSF) is particularly important in the case of Greece as the surpluses of this sub-sector have constantly been the main contributor to the reduction of the deficit generated by the central government sub-sector. The reliability of the reported data on net lending/net borrowing of SSF has been constantly challenged by Eurostat.

It is recalled that Eurostat has expressed for several years reservations on the amounts of the surplus transmitted by the Greek authorities. As it is mentioned in the Eurostat 2004 report, the Greek estimates of the net lending/net borrowing of SSF rested on old information sources (the previous survey was conducted in 2000) and fragile estimation hypotheses.

Situation before 2004

The discussions between Eurostat and Greece on the social security accounts started in 1998. The topic was not initially raised by any specific accounting problem, but because of the surprise of the magnitude of the social security surplus in comparison to other Member States.

During the EDP mission of 24 and 25 August 1998, Eurostat noted that the social security surplus for 1996 had been considerably revised upwards between the notifications of March and September 1997. The Greek authorities considered that the social security accounts did not raise any specific accounting issue, but acknowledge that “the real problem stems from the delay in collecting data, as some of them are communicated only after a two years interval”. Therefore, the first outcomes for social security accounts included in the EDP reporting were based on estimates made on the basis of incomplete information. However, it was also asessed that “in the future, nevertheless the quality of the data should be further improved”.

Situation after 2004

Data on social security in the March 2004 notification were still those compiled and estimated on the basis of an old survey. However, Eurostat had already been informed that Greece was undertaking the necessary steps to have more reliable data in time for the September 2004 reporting. It was therefore in this context that Eurostat noted when publishing the press release of 16 March 2004 that “due to ongoing discussions with the statistical authorities in Greece, notably on the surplus of social security funds, the notified figures for debt and deficit were to be considered as provisional and could be revised”

On 6 September 2005, Eurostat sent to the Greek statistical authorities a "list of main findings and action points" of the EDP visit of 3-5 March 2005 raising questions among others on issues relating to SSF. Nevertheless the information received by Eurostat lacked any quantitative data.

Eurostat underlined the importance of exploiting the survey as a whole as well as the "assessment of the consistency of the revenue/expenses with financial information, both at the aggregated level and at the unit level". Eurostat asked the NSSG to indicate "if this work is done and by whom".

Eurostat indicated several weaknesses in the financial part of the survey: (i). noticeably low apparent yields on its bond portfolio, (ii) the apparent yield on equity seemed implausibly high, (iii) the dividend income falls which sat ill with alleged massive equity purchases. Thus, Eurostat expressed its concerns regarding the consistency of the data provided by the survey.

The Greek statistical authorities sent to Eurostat explanations on 14 September 2005. Eurostat, in its reply to this letter (16 September 2005), concluded its observations on the SSF issues as follows:

"On the basis of the above, the accounts of social security do not seem fully trustworthy. We suggest that more reasonable equity flows be recorded, although noticeably higher than those reported in the social security survey, and that action to be taken to reduce the flow of unexplained receivables and discrepancy. This would seem to require a revision in net lending/net borrowing, pending a more comprehensive inquiry on consistency of the social security survey."

In 2006, Eurostat undertook two methodological visits to Greece (on 29/5-2/6 and 27-29/9). One of the aims of these missions was to clarify the issues relating to the accounts of SSF. In fact, one clearly identified cause for reservations expressed on the reliability of the Greek EDP data was social security fund accounts. Although a new Survey had been commissioned, Eurostat still observed a persistently high discrepancy.

Eurostat found a systemic failure in the use of the Survey and shortcomings in its design¹⁰. Eurostat observed a clear lack of ownership on the part of the NSSG, which did not feel responsible for the internal consistency of the Survey. Consistency checks carried out by Eurostat mainly at the aggregate level exhibited large inconsistencies between inflows and outflows on the one hand and between stocks and flows on the other hand (the "vertical" and "horizontal" checks, respectively). Eurostat nonetheless observed that those large inconsistencies tended to offset each other to some extent. Eurostat requested the NSSG to carry out internal checks, unit by unit.

Eurostat also concluded that the current use of Surveys could be acceptable on condition that they provided sufficient coverage of units and were sufficiently timely. The NSSG was asked to take overall responsibility for the results from both the non-financial and financial parts. In the long term, the law had to be amended to ensure that public units would provide accrual financial statements to their supervisory body or to the NSSG and publish them.

In the Report on the Methodological missions of 2006, Eurostat made 7 recommendations for the improvement of the quality of data on the transactions of the SSF subsector. In four cases the requested actions were fully completed. In two cases, actions were almost completed while one was still in progress (see Annex 5).

Situation after the 2006 methodological visit

In the April 2007 EDP notification rounds of requests for clarification, Eurostat asked the NSSG to explain the observed discrepancy in the EDP table 3E (social security sub-sector). The NSSG explained that the discrepancy was due to "the provisional nature of the data for social security funds

¹⁰ Following Eurostat's observations, the survey was amended and some of the shortcomings were eliminated.

since the coverage of the questionnaire is at this stage incomplete. We expect an improved qualitative result, taking into account the changes in the questionnaire with the addition of the control tables."

In the April 2008 EDP notification rounds of requests for clarification, Eurostat pointed out the low coverage of social security for year n-1 as of the first Notification, given the commitment of the NSSG following the Methodological visit to accelerate the process and ensure full or nearly full coverage of Social Security Funds.

On 2-3 June 2008, Eurostat undertook an EDP mission to Greece. During the meeting the issue of timeliness of the information contained in the Survey was discussed among other issues. Eurostat was informed that in 2008, the Greek statistical authorities sent the annual Survey to all public units in January (on 11 January) for the first time, and would continue to do so in future (the sending in 2007 was done only in April due to printing delays of the new survey). Whereas the deadline had been set for the 20th of February, a significant number of units did not answer, including some of the biggest units of social security.

In the same context, the Greek statistical authorities indicated that the new law reforming the social security funds system was expected to facilitate the reporting, as it foresaw a reduction of social security funds from 126 to 13. Annual data for these 13 units were first expected for 2009, to be reported during the first notification of 2010.

The Greek statistical authorities mentioned that, with a law that was expected to pass by the end of the year, public units would be obliged to properly and timely fill in the survey questionnaires.

Eurostat expressed its concerns that the annual n-1 data had been based on 3 quarters of survey results, for both the 2006 data and the 2007 data whereas the understanding at Eurostat was that the annual survey would be available in time for April. Eurostat noted that the methodological mission (of 2006) had not envisaged such an outcome and had reasoned all along on the basis of the annual survey: the annual survey questionnaire was supposed to be sent early enough and processed speedily enough for at least the biggest units, so to ensure a good estimate in April. In fact, Eurostat recalled that the Methodological report had reported on an intention stated by the Greek Authorities to discontinue the quarterly survey, on which Eurostat had cautioned against.

The NSSG indicated that many social security funds closed their accounts between April and October, which may create difficulties for respondents to answer.

In this context, Eurostat recommended setting up an arrangement where results of annual surveys would be used as a priority, supplemented by quarterly results, in order to estimate the most recent developments. This however called for an effort at the NSSG to ensure prompt loading of these annual data. Eurostat, furthermore, recommended that the BOG be more proactive in assessing and exploiting all the survey results on the financing side and at balance sheet level.

On 15-19 September 2008, Eurostat conducted another methodological visit to Greece. During the mission Eurostat, among other issues, reviewed the source data for the compilation of the accounts of social security funds, and found insufficient progress with respect to a more comprehensive exploitation of the results of the Survey.

In the April 2009 EDP notification rounds of requests for clarification, the Greek statistical authorities were reminded of the agreement of the September 2008 mission on the action that had to be taken regarding the fuller exploitation of the results of the Survey. The NSSG replied as follows: "Unbalanced (or problematic in general) questionnaires are being resent. The coverage for the year 2008 is better than the corresponding coverage for year 2007 of April 2008 EDP Notification. For the first time annual data are used (see below for methodology, percentage of replies, coverage etc)."

Revision of 21st October 2009

On 16-18 November 2009, in the context of its EDP methodological mission to Greece, Eurostat discussed the downwards revision of the SSF surplus for 2008 by 600 mill euro between the April and the EDP October 2009 notifications. In fact, Eurostat expressed surprise for the size of this reduction given the fact that it was reported by the NSSG in April 2009 that “all big SSF and hospitals have been collected for the year 2008”. Given the above, and the fact that the coverage of SSF (in terms of total of revenues and expenditures) was already 90% in April, it was clear, Eurostat concluded, that there was something wrong, given also the fact that without the correction imposed by Eurostat in April, in order to decrease the discrepancy of the Social security sector, the difference would not have been equal to around 600 mn € but to almost 1.1 bn €. It was surprising therefore that with such a large coverage already achieved in April 2009, the data could change so much between April and October only due to the new answers received by social security funds during this time. Given the situation and the doubts on the explanations provided by the NSSG, Eurostat asked the NSSG to produce a report on the issue providing details on how the deficit/surplus (B.9) of SSF and hospitals was calculated, in April and in October 2nd 2009.

In the report sent by the NSSG to Eurostat on 30 November 2009, the revision was attributed mainly to (a) updated data (new questionnaires received between April and October 2009, increasing the coverage of financial and non-financial revenue and expenditure by about 2%), (b) the fact that quarterly questionnaires on which estimates for April are based on are not exploited as thoroughly as the annual affecting thus the quality of the estimates reported in the April notification, and (c) the process of the unification of the SSFs which seems to have complicated the reporting of data by the surveyed public units.

In a second report sent to Eurostat by the NSSG on 11 December 2009, it appears that for the SSF, 85 questionnaires were received (out of 126 units in total) up to the October 2009 EDP reporting. 3 of these were returned (apparently because of serious imbalances) and 60 were corrected via telephone and fax.

Conclusion

The SSF is a particularly important sub-sector of general government in the case of Greece as it is continuously generating a surplus partially covering the sizeable deficits constantly generated by the central government sub-sector. The basic data source for compiling the accounts of the SSF is the annual and the quarterly survey conducted by the NSSG covering both the financial and non-financial transactions of the SSF. In addition, information on financial transactions is also provided via the Money and Banking statistics compiled by the Bank of Greece.

As outlined above, Eurostat undertook many initiatives for ensuring the quality and reliability of the information on the accounts of SSF. In fact, Eurostat has contributed substantially by providing its advices on the design of the Surveys, indicating furthermore methods for checking and controlling the internal consistency of the information contained in the questionnaires. Eurostat also made suggestions on issues relating to the administration of the Survey.

In spite of these efforts, Eurostat encountered significant problems with respect to the quality of the SSF data reflected repeatedly in the statistical discrepancy in the EDP table 3E (social security sector) in the April EDP notifications. The main reason for the reappearance of discrepancies (usually positive indicating overestimation of the reported surplus) seems to have been the incompleteness of information derived from the questionnaires during the first notification due to the fact that a significant number of SSF do not respond timely. As a result the working balance (WB) of the SSF was significantly revised downwards in the October 2009 EDP notification and for lower amounts, also in previous years.

It appears that the coverage of the survey, despite the improvement made over the years, remains not satisfactory while at the same time the imbalances (difference between inflows and outflows and the

reported change in cash) in the filled questionnaires remain substantial. The NSSG in the context of the April notifications receives incomplete information and reports figures for SSF based on estimations.

9 Local government sub-sector

Introduction

It is recalled that in many Member States, compilation of the local government accounts according to ESA95 is a difficult exercise and is a weak point in general for most Member States. Administrative data are available at the NSIs rather late, and/or the quality is not always good and therefore statistical surveys are used by some Member States, either to fully replace administrative data or in order to check their quality.

Situation before 2004

It is recalled that the issue of the local government accounts had been on the agenda of EDP missions between Eurostat and the Greek authorities since at least 2002, although more focus was put on the compilation of these figures since June 2006.

Situation after 2004

It is recalled that there are 1 033 municipalities and about 1 000 public corporations belonging to local government in Greece. Information on municipalities is gathered via an exhaustive annual questionnaire, called the "census", after a long delay (however improved from four to three years delay). For recent years the Greek authorities use extrapolation techniques, based on the annual Surveys and on the results of specific quarterly administrative return to the GAO. Local government units have a specific chart of accounts. Accounting results are not centralised by the relevant supervisory ministry. Budget outturns are sent to the Ministry of Internal Affairs only after approval by the local government councils. Under Law 3463/2006 local councils must approve the budget outturn and balance sheet (for year t-1) by the end of September at the latest. After they have given their approval, the budget outturns and balance sheets are submitted to the audit council in October at the latest.

The Survey was changed in 2005, to adapt to the new classification system applicable to local government accounts. The Survey was adapted to local government circumstances and deviates from the questionnaire applicable to other public entities. The questionnaire is used to provide indicators for projecting the results of the census data available to date.

It is recalled that during the methodological visit undertaken by Eurostat to Greece in June 2006, the compilation practice for local government accounts was discussed. In this context, the "Questionnaire on quarterly and annual survey of general government body"¹¹ (called "the Survey") built up by NSSG in order to obtain necessary information from all public units, including local government units, was discussed in detail.

The Survey provided incomplete coverage, with fewer than half of the units replying. To the extent that the biggest units have replied, the coverage by total expenditure was somewhat higher.

Following the discussions, the NSSG committed to validate the Survey results after the individual consistency and plausibility checks are completed and to contact the largest municipalities showing substantial inconsistencies, initially for the questionnaires for 2005 and thereafter also for the other years. Moreover, the NSSG committed to undertake a unit-by-unit comparison of the Census and the

¹¹ The annual questionnaire (Survey) is mostly used.

Survey, at least for the largest municipalities, to assess the quality of the Survey and the link with the Census. Moreover, such a comparison was to be done with data collected by Division 39 of the GAO. Eurostat recommended shortening the delays for replying to the Survey.

Since the methodological visit in 2006, Eurostat recommended improving the coverage of the Survey and also the use of the budget reports provided to the Ministry of Internal Affairs for cross-checking with the Survey and Census, however, the Greek authorities considered that cross-checking with data from the Ministry of Internal Affairs "was not feasible."

Extrapolation techniques were used for calculating recent years, based on the Survey as well as on special reporting to the GAO. Eurostat made some recommendations on these techniques.

Concerning the coverage of the survey, Eurostat found that this was quite incomplete and did not recommend using a sampling procedure in the future, as planned by the NSSG.

Eurostat observed differences between the results of the census/Survey and money and banking statistics. Eurostat suggested that the BOG should make some concrete comparisons, if possible, similar to the work done for social security funds. The BOG however considered that this was a rather difficult exercise, given the large number of these institutions and the fact that their deposits were widely spread over commercial banks.

As an outcome of the methodological visits in 2006, Eurostat and the NSSG agreed on a number of actions to be implemented by the Greek statistical authorities, with the aim, among others, to improve the compilation of local government sub-sector accounts. The actions are listed in Annex 5.

For the October 2006 deficit and debt notification, the NSSG confirmed having checked the net lending/net borrowing extrapolation, based on broad indicators and decided to keep the current procedure, which produced a more conservative result. Also since the October 2006 notification the NSSG submits an EDP table 2C showing the steps for the transition from the working balance in the Census to net lending/net borrowing.

Since 2007, in the occasions of the requests for clarifications relating to April and October deficit and debt notifications, the Greek statistical authorities were asked often to provide to Eurostat information on: aggregated results of the survey (inflows, outflows, and change in cash), the coverage ratios of the survey, the reasons for increases in working balances of local government, etc.

During the Eurostat methodological visit to Greece in November 2009, the discussion about data obtained from the survey on local government, did not relate so much with the revision of figures for the year 2008 between April and October (a limited amount of 50 mn €) 2009 notifications, but on the fact that the management of the NSSG apparently decided in August to stop, or was at present considering to stop, the quarterly survey. This survey allows a reasonable estimation of the surplus/deficit of local government for year n-1, to be available at the end of March of year n. Instead of running both a quarterly and an annual survey, it was decided, or considered, to merge the two and to have an annual survey earlier on in the year. Eurostat expressed its disagreement with such a decision because:

- such a decision should never have been considered as the survey had been agreed as one of the main conclusions of the methodological visit in 2006, as part of the measures needed to obtain reliable statistical data for local government;
- if considered, the decision should have been discussed with Eurostat beforehand;
- if taken and not discussed previously with Eurostat, Eurostat should have been at least informed about the issue.

On 11 December 2009, the NSSG gave some explanations relating to the new survey. However, the answers were not very satisfactory, and Eurostat will continue inquiring on the issue. According to the NSSG, the data on municipalities at present "is gathered via an exhaustive annual questionnaire, called the "census", after a long delay (only data for 2006 were available for the October 2009 notification)". The proposed new deadline for transmitting the questionnaires by the concerned units will be mid-February of year n for data of year n-1. If the financial assessment of the responding municipalities has not been completed until the submission deadline, "provisional data will be sent under the obligation of the corresponding units to send follow up final questionnaires as they become available. The Greek authorities intend to send a preliminary pilot survey to the largest local authorities, which will facilitate to evaluate the response rate and the timeliness of the responses."

A better timeliness is supposed to be achieved by the electronic implementation of the survey. According to the NSSG, "concerning the March 2010 deficit and debt notification, only the short survey will be used, encouraging the municipalities to send answers till mid-February". The new questionnaire will not be used for the March 2010 EDP notification. As regards the short survey, the corresponding questionnaire will be tagged provisional if the corresponding municipality has not finalized the balance sheet (which may happen in most of the cases). The concerned reporting unit will be obliged to send the final data as soon as its budgetary outturn is finalized.

Conclusion

The appropriate recording of the local government accounts is verified by Eurostat during each EDP notification in April and October through the Requests for clarification. Before the November 2009 methodological visit, Eurostat was never informed about the intention of the NSSG to change the data source for the local government sub-sector. It is very disappointing that such a decision is taken or envisaged without taking into consideration all the shortcomings that this might create.

Eurostat will now analyse if the new questionnaire covers all the information needed to compile reliable data for local government and if such a change would really lead to improvement in coverage and timeliness as argued by the NSSG. However, it can be expected that an annual detailed questionnaire can not provide in March of year n reliable data for year n-1 and instead compilation of quarterly accounts for local government might be difficult using the new survey.

10 Expenditure on military equipment

Introduction

It is recalled that, in the past, the accounting difficulties in the recording of military expenditure in Greece concerned military durables (e.g. battleships, tanks, missiles, fighters, etc.). This issue had been on the agenda of discussions between Eurostat and the Greek authorities since at least 1994.

The ESA 95 paragraph 3.70 (e)-3 implies that military expenditure should be recorded according to the rules on intermediate consumption which "should be recorded and valued at the time they enter the process of production" (according to so called "delivery method"). In case of unavailability of data on deliveries, cash data were to be used as the best proxy. Despite of lack of reliable data, the Greek authorities had been using the delivery method and therefore severely underestimated reporting on expenditure on military equipment between 1997 and 2003.

Situation before 2004

Starting in 1996 the Greek authorities were providing Eurostat with contradictory information and inconsistent data on the purchases of military equipment and stated in 2002 that the General Accounting Office and the NSSG had full information on deliveries and that they did not have any specific difficulties in complying with the ESA95 rules and implementing the delivery method. Nevertheless, and in contradiction to the statement of 2002, in the reply to the Eurostat Questionnaire

on long-term contracts for military equipment in April 2004, the Greek authorities acknowledged that the information on deliveries was confidential. It became then clear that the ESA95 rules relating to this issue had not and could not be correctly and fully implemented.

Situation after 2004

After the thorough analysis of the situation in 2004, Eurostat allowed to the Greek authorities to use the cash data (on a temporary basis) in order to guarantee that no expenditure were left unrecorded. At the same time, a task force was established at the national level, in order to improve the data availability for the transition from pure cash to the delivery method. Eurostat was asking about the progress report in each of its dialogue visits.

On 9 March 2006, Eurostat published its decision on Recording of military equipment expenditure¹². This decision aimed at specifying the time of recording of government expenditure, and thus the impact on the government deficit, for borderline cases of military equipment under long-term contracts, notably in cases of leased equipment, complex systems or heavy equipment built over many years. The decision provided for a transition period, allowing using cash as a proxy in case of difficulties to obtain reliable data on deliveries. The Greek authorities profited of this transition period and provided the data on deliveries (starting from the year 2006) in the April 2007 EDP notification for the first time.

In May 2006, the Greek authorities addressed to Eurostat a request for advice with respect to the long-term contracts for purchases of military equipment in a non-euro currency. The analysis and reply of Eurostat can be found on its website¹³.

In April 2007 the Greek authorities transmitted to Eurostat, along with the EDP notification tables, a confidential note with details about the transition from the cash recording to the delivery method applied on the data for 2006. This note and the supplementary information provided in the Requests for clarification explained that expenditures for purchases of military equipment are recorded under the item "Military expenditure" in the so called EDP Table 2A¹⁴. The amounts shown under the abovementioned line do not transit via the State budget, but contribute to the level of the notified deficit as "Other adjustments". The Greek authorities also confirmed that the special borrowing used for financing of purchases of military equipment are included in the government debt as appropriate.

Conclusion

The appropriate recording of the military expenditure is verified by Eurostat during each EDP notification in April and October by way of exchange of Request for clarification and Table 7 of the Questionnaire related to the EDP notification. In addition, with every EDP transmission, the Greek authorities provide a note detailing the calculations and adjustments made from the source data for the appropriate reporting period.

11 Recording of tax revenues

Introduction

The Greek statistical authorities used coefficients to estimate the amounts of taxes and social contributions unlikely to be collected. These coefficients were established on the basis of "cancellations" which corresponded to a sum of legal decisions by which, sometimes very tardily, government recognised that a tax or social contribution assessed in the past would never be collected.

¹² http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/DEFICIT_DEBT_2006/EN/DEFICIT_DEBT_2006-EN.PDF

¹³ http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/eurostat_advice

¹⁴ This table shows the adjustments from the public account balance (e.g. State budget balance) to the "EDP B.9 net lending/net borrowing" (deficit in the ESA95 concept).

Eurostat disagreed with this practice, as the meaning of Regulation 2516/2000 was that a part of taxes and social contributions assessed in the past should be neutralised in the same year, and not several years later, in order to express a reliable expectations of recovery.

Situation before 2004

It is recalled that in the 2004 Eurostat's Report on the revision of the Greek government deficit and debt figures there is a detailed analysis of the accounting difficulties in the recording of taxes in Greece.

In particular, as is mentioned in the Report 2004: " In November 2002, Eurostat came to the conclusion that the implementation of the formula defined by the Greek statistical authorities in order to record taxes and social contributions in ESA 95, did not seem to be in line with Regulation (EC) n° 2516/2000 of the European Parliament and of the Council, and with Commission Regulation (EC) n° 995/2001."

As a consequence, Eurostat asked the Greek statistical authorities¹⁵ to record taxes and social contributions using the time-adjusted method, which seemed to be the only reliable method that could be applied in the case of Greece. The Greek statistical authorities complied. The Greek authorities decided to use as average time-adjusted difference for recording taxes, in most cases, a period of two months.

Situation after 2004

On 6 December 2004, the European Commission transmitted to the Greek authorities a letter of formal notice because of their failure to provide the Commission with statistical data in accordance with Article 3 of the Protocol on the Excessive Deficit Procedure annexed to the Treaty, Council Regulation (EC) No 3605/93 on the application of the said Protocol and Council Regulation (EC) No 2223/96 on the European system of national and regional accounts in the Community (ESA 95), as well as Article 10 of the Treaty. The letter expressed concerns on the manifest over-estimation of the amounts of taxes collected as well as the insufficient system of recording.

On 18 May 2005, Eurostat sent a letter to the Permanent Representative of Greece to the EU with the aim to clarify certain aspects of the information submitted by the Greek authorities in order to allow the Commission to take a decision on the follow up of the procedure. Eurostat expressed its concerns as the application of the time adjusted cash method adopted by the Greek authorities had produced unreliable figures, as proven by the large over-estimation of receipts for the first months of 2004. It was concluded that to the Commission's knowledge no remedial actions had been taken in order to ensure that the provisions of ESA 95 will be complied with in the future.

Eurostat recalled that in the reply to the letter of formal notice, Minister Alogoskoufis mentioned that in February 2003 Greece brought itself into line with the rules for recording taxes and social contributions set out in Article 3 of Regulation (EC) 2516/2000, and it chose option (b) (time-adjusted) as being most appropriate.

Eurostat took note that the Law 3220/2004 has been repealed and asked about the specific measures that have been taken in order to ensure that the method mentioned above provides reliable figures.

In the mission on 3-4 March 2005, Eurostat discussed the issue of recording tax revenues with the Greek statistical authorities. In particular, Eurostat reviewed the Questionnaire on recording taxes and social contributions and the Greek statistical authorities confirmed that they used the time adjusted cash for recording taxes.

¹⁵ Letter of Eurostat to the General Secretary of the National Statistical Service of Greece , on 26 November 2002

In the April 2008 EDP notification rounds of requests for clarifications on the reported data, Eurostat observed that tax revenue was reported to have grown at a rate of around 8% in the last 3 years without accelerating in 2007. However, in 2007 the stock of receivables increased by 14%. Eurostat asked the Greek statistical authorities to justify the size of this accrual adjustment. The Greek statistical authorities replied that these adjustments were justified by the normal increase in tax revenue due to the growth rate of the economy and the intensified tax audits.

Eurostat asked the Greek statistical authorities to clarify whether the January 2008 cash data were estimates as it was thought that only the February 2008 cash data were estimates. The Greek statistical authorities replied that the January cash data were provisional data received from the General Accounting Office while the February cash data were estimates.

On 2-3 June 2008, Eurostat conducted a follow up methodological mission to Greece. During the meeting Eurostat recalled that the accrual adjustment in EDP table 2A made for tax revenue in the April 2008 notification which implied an increase of 14% in the stock of receivables, though not implausible, was considered quite optimistic compared to the growth of taxes over the past three years (around 8%). Eurostat recommended that the MOF provides in time the data needed on cash tax receipts (with a minimum level of detail) by the third week following the month.

On 15-19 September 2008, Eurostat conducted a second Methodological visit to Greece. The issue of accrual adjustments for taxes was again discussed and Eurostat drew the attention of the Greek statistical authorities to the importance of using correctly the cash time adjusted method for recording taxes. In the same context, Eurostat recalled its recommendation to the Greek statistical authorities made in the previous methodological visit to Greece.

After some explanations provided by the Greek statistical authorities, it seemed that the monthly figures used, which were budgetary figures, were not yet final, and that the accrual adjustment was based on a percentage of tax collected in January and February and on estimated tax collections in 2008.

Eurostat expressed concerns that in the October 2008 EDP notification the accrual adjustment for taxes would still be based on estimates. The NSSG staff provided in reply some information relating to income tax on a monthly basis originating from the General Accounting Office.

In the April 2009 notification rounds of requests for clarification, Eurostat asked the Greek statistical authorities to confirm that the time adjusted cash method was still used for the accrual adjustment for tax revenue. Eurostat asked also for explanations on the reported big increase in D.5 (current taxes on income, wealth, etc.). The Greek statistical authorities confirmed that they continued using the same method and that for the recording of D.5 the accrual basis was applied by using provisional and estimated cash data for January and February 2009.

In the October 2009 notification, data on tax revenue were revised downwards by 650 mn €. The issue was discussed thoroughly during the methodological visit to Greece on 16-18 November 2009.

During the discussions it became clear that the cash time adjusted method cannot in reality be used in a reliable way for the April EDP notifications. In fact, at the end of March, contrarily to what had been indicated before by the Greek authorities, the data on direct and indirect tax revenue of January and February are simply not known, and even the ones for December are still provisional.

Eurostat asked the National Statistical Service of Greece and the General Accounting Office of the Ministry of Finance to report on the issue.

The National Statistical Service of Greece in its reply for the accrual adjustment, described the calculation made by the National Accounts Division (NAD) for arriving to the reported figures for tax

revenues in 2008. The main sources for the calculation of accruals adjustments according to the report of NAD, are the cash data contained in the Budget Introductory Reports of 2009 as well as annual accrual figures for taxes included in Table 6 of the Stability and Growth Program prepared by the Macroeconomic Policy Division of the Ministry of Finance. As mentioned above, the NAD has used more conservative rates of growth for tax revenue compared to the other two above mentioned sources for estimating taxes collectable in January-February 2009. However, even these estimates proved to have been rather optimistic leading thus to a downwards revision of tax revenue in 2008.

Conclusion

From 2003 onwards, the Greek statistical authorities changed the method for calculating tax revenue for government from the method of assessments and declarations (using coefficients for determining the amount of unpaid taxes) to time adjusted cash following the advice of Eurostat (2002). They have adopted a time adjustment period of two months for calculating tax revenue on an accrual basis. The method used complies with the provisions of the Regulation (EC) No 2516/2000 of the European Parliament and of the Council of 7 November 2000.

However, due to administrative constraints related to the lack of timely information on cash tax revenue for the first two months of year t, the reported figures for taxes in year t-1 in the April notifications tend to overestimate tax revenues of year t-1 with revisions in the October notifications. Although the revision are usually not very big between April and October for year n-1, this time the revision for 2008 was unusually big and equal to 650 mn €. According to the Greek authorities, the problem will be solved from the April 2010 notification onwards, as by that time cash data on tax revenues for the months of January and February of the same year will always be available.

12 Extra-budgetary funds (DEKA)

General aspects of extra-budgetary funds

Introduction

It is recalled that there are approximately 385 extra-budgetary funds included in the sector of general government.

Situation after 2004

The source of information for EBF is the Survey. As it had been suspected for several years, the coverage of the results from the survey was rather weak to provide a real picture of the deficit/surplus of EBFs. During its methodological visit in 2006 Eurostat discovered that in the very first Survey conducted in 2004, only 290 units responded on the data for 2003 and 197 units for 2004. Despite of the arguments of the Greek authorities that the largest units were covered, Eurostat considered this coverage as very low and unsatisfactory. After an effort made by the Greek authorities between the two methodological visits of Eurostat in 2006, the coverage for 2003 and 2004 was increased to 348 units for 2003 and 240 for 2004. Besides coverage, the timeliness of receiving the Survey returns was not satisfactory as the results remained preliminary for several years (e.g. results for 2003 could be considered final only at the end of 2006) and therefore in each EDP reporting the figures for "net borrowing net lending" relating to the extra-budgetary funds needed to be revised, and the results for the year t-1 had to be extrapolated. In addition to this, after the examination of the available results, Eurostat found some imbalances and therefore advised that thorough consistency and plausibility checks should be carried out on a unit by unit basis before summarizing them.

During the methodological visits in 2006 Eurostat requested the Greek authorities to provide, along the regular EDP reporting tables also Table 3B1 showing the stock-flow adjustment only relating to EBF resulting from the financial part of the survey results. This table helps detecting possible mistakes or misreporting and therefore detecting possible source of a part of the discrepancy in the central

government sector. The table was submitted by the Greek authorities for the April 2007 EDP notification for the first time and since then has been provided on a regular basis to Eurostat.

Between 2006 and 2008 Eurostat, by a way of Requests for clarification during the examination of the EDP notification and a Progress report after the first methodological visit, monitored the coverage of the survey returns.

In September 2008 Eurostat concluded that an improvement had been made in the coverage as the NSSG had received responses from 365 units for 2005, 319 for 2006 and 283 for 2007. On the other hand Eurostat detected again imbalances between inflows and outflows and change in cash on an aggregated level and unit by unit. Eurostat also observed that the balance sheets information was not sufficiently used and that the horizontal checks might suggest that in some cases the respondents confuse the stock and flow information. The recent progress report received from the Greek authorities on 29 November 2009 states that the fulfilment of the recommendation given by Eurostat on this issue is "in progress".

It could be argued that the Survey is not a proper source of data for such entities and that direct sources should rather be used. However, in normal circumstances, a well built questionnaire with a good guidance on how to fill it and strict deadlines for return followed by detailed verification of responses on the side of Statistical institutes could serve well as a reliable source of data. During its methodological visits Eurostat discussed and advised on both the questionnaire itself as well as on its processing. The two Reports from the methodological visits (2006 and 2008) published on the Eurostat website mention several recommendations to be fulfilled in order to improve the quality of the questionnaire, the rate of response as well as the quality of responses returned from the entities. Eurostat suggested several improvements to the questionnaire so that all the necessary information on financial and non-financial transaction would be correctly captured in order to be properly reported in the EDP Tables. Eurostat also insisted on the consistency checks to be done on individual returns received from the entities before further processing of the questionnaire by the NSSG. In addition Eurostat regularly requested to be informed on the timeliness and coverage of the Survey of the EBF.

Conclusion

The management of surveys in general remains in the hands of the countries and relies on their competence and statistical experience.. The Greek authorities are expected to make further progress with respect to improvements of the timeliness, coverage and also in verifying the responses for elementary plausibility and consistency checks before their further use for compilation of the EDP tables. Eurostat advised repeatedly the Greek statistical authorities on the designing of the questionnaires, the collecting of returns and their processing. In addition, Eurostat also underlined the importance of crosschecking the information for the biggest EBF through their financial statements and by other possible sources (money and banking statistics, state budget).

DEKA

Introduction

DEKA is a unit created by the Greek government in 1997 with the purpose to deal with enterprises to be privatised. The government moved those enterprises in the balance sheet of DEKA. Consequently DEKA injected capital in some of them and paid dividends to government. Eurostat had had long discussions with the Greek authorities between 1997 and 2002 on the correct classification of this entity, when it insisted that DEKA, as it was an entity acting as a government body, should therefore be classified inside the government sector. The Greek authorities opposed this argumentation and only in 1999 accepted a partial solution – to reclassify "grants of DEKA to general government" and "payments of DEKA on behalf of general government" as requested by Eurostat, keeping DEKA outside general government.

Situation before 2004

In 2000 and 2001 DEKA remained classified outside the government sector; in addition no amounts were imputed as transfers and payments of DEKA in the March 2000 notification for 1999. Some amounts were later recorded in the following EDP notifications in 2000 and 2001. In 2002 Eurostat requested again that the classification of DEKA be reconsidered and finally the Greek authorities accepted and reclassified DEKA inside the government sector from the September 2002 EDP reporting.

In 2004 Eurostat questioned the Greek authorities whether the impact of the reclassification of DEKA inside the government sector was properly recorded for the period from 1997 to 2001. This happened not to be the case. Eurostat detected that some amounts previously classified as share capital increases should have been rather treated as capital transfers, with an impact on the deficit for that period. In addition Eurostat requested to verify that the intra-government transfers (e.g. between DEKA and social security funds) were properly reported and appropriately consolidated.

Situation after 2004

During the methodological visits in Greece in 2006, Eurostat discussed the reporting of DEKA in the context of the discussions on Extra Budgetary Funds (EBF) and undertook a detailed examination of DEKA's balance sheets and profit and loss accounts for 2002-2005. Although these seemed consistent with DEKA's reporting in the survey, Eurostat detected an asymmetry in the reporting on intra-government transfers between DEKA and the state budget, when a transfer from the state budget was reported in the survey as revenue to DEKA but did not affect the working balance of the central government as an expenditure in 2003 and 2004 (for 763 mn € and 640 mn €EUR respectively). This asymmetry was subsequently corrected by the Greek authorities in their reporting. In addition Eurostat spotted that very large outflows classified as share acquisitions (partly financed by inflows from disposals of shares) were reported in the EBF Survey but not in the EDP tables. These operations concerned DEKA and it was clarified by the Greek authorities that those amounts were reimbursements of convertible bonds issued by DEKA during 1999-2001 and matured in 2003 and 2004. In DEKA's accounting books, such bonds were treated as disposals of shares at the time of issue and as acquisition of shares at the time of redemption. According to ESA95 these should have been treated as debt and in the EDP tables they should have been reported as reimbursement of bonds and not as acquisition of shares. In September 2006 during the EDP methodological visit of Eurostat, the Bank of Greece confirmed that the bonds were included in the Maastricht debt. Eurostat questioned why those bonds were not reported in the draft EDP Table 3B2 and also investigated about the recording of the privatisation proceeds of DEKA in Tables 3B.

Between 2006 and 2008, Eurostat regularly asked information on DEKA during the April and October EDP notifications assessment.

During the methodological visit in Greece in 2008 three issues were discussed: 1) the fall in deposits in 2006 reported by DEKA; 2) the financial statements of DEKA showing substantial tax expenses while those were not captured in the survey; 3) the correct recording in Table 3B of the redemption of the convertible bonds in 2006. The Greek authorities clarified that 326 million of taxes, not reported in the Survey, had been paid in 2006 by DEKA. This clarification led also to the decreasing of the EBF surplus (thus almost to the elimination of the discrepancy) and consequently to the increase of the government deficit in 2006. As regards point 3), the Bank of Greece was to verify whether the convertible bonds had been correctly recorded.

In the EDP notification provided by the Greek authorities on 21 October 2009, one of the revised items was related to an amount received from government by DEKA (230 mn €), as cash facility to pay its obligations. According to the explanations provided by the GAO during the methodological visit of 16-18 November 2009, the new Minister of Finance decided to record this amount not as a loan but as expenditure of government, writing off the claim from DEKA (it should be noted that the

NSSG stated not to be aware at all of this issue). Eurostat noted that if such was the case, then the amount should have been recorded in 2009, at the moment of the decision of assuming the loan, and not in 2008. Furthermore Eurostat also pointed out that DEKA is classified inside general government, therefore the transaction had to be consolidated at the level of the general government sector and no revision should have been imputed at all. However, due also to the uncertainties of the recording of flows between government and DEKA, Eurostat requested a note on this issue to verify and clarify also what had been recorded in past years. Moreover, Eurostat asked to be informed on the reasons for submitting incorrect figures in April 2009 and 2 October 2009 EDP notifications. The reply of the Greek authorities on this issue provided on 29 November 2009 was assessed by Eurostat as insufficient and further details were sent by the Greek statistical authorities at Eurostat request, on 11 December 2009.

The problems occurring with DEKA follow the problems arising with the processing of the EBF survey listed above. Even if DEKA could be considered as one of the good respondents in terms of timeliness, it seems that imbalances and anomalies in its Survey returns happen very often. One possible solution to overcome this problem would be to devote more resources from the NSSG to check 1) the plausibility of the figures reported in the questionnaire; 2) the vertical checks for sum of items; 3) the crosschecking of the figures reported in the questionnaire with the financial reports of DEKA; 4) the crosschecking of the information from the questionnaire with other sources of information (such as state budget and social security funds for intra-government transfers; money and banking statistics for relevant financial transactions).

Conclusion

According to the explanations given by the Greek statistical authorities on 11 of December 2009, it seems that the revised recording was correct, leading to an increase of the deficit for 2008, not because, as stated by the Greek authorities, government decided in 2009 to assume the loan in 2008, but because flows between DEKA and government are to be consolidated as DEKA belongs to the general government sector. Nevertheless the issue of what has been recorded in previous years due to transactions between government and DEKA still remains open.

13 EU grants

Transactions with the EU budget

Introduction

The problem with transactions with the EU budget concerns the appropriate time of recording of the transactions. The Eurostat decision¹⁶ on the recording of EU grants requires that transactions with the EU budget (payments from national Treasuries in advance of the EU or, conversely, payments received from the EU prior to the national expenditure) should have no impact on the government deficit, with cash flows recorded as financial transactions.

Given the size of the structural funds for Greece, it is important to monitor whether the rule is being followed properly. Greece follows generally the practice of issuing claims for expenditure made from the state budget for projects co-financed by the EU, in order to record EU grants.

Situation before 2004

It is recalled that already from 1998 it was agreed that structural funds provided by the EU to non government units, should not transit through the non-financial accounts of government. Nevertheless, in 1999 Eurostat found out that payments received from the EU in favour of institutional units outside

¹⁶ News Release 22/2005 of 15 February 2005: The treatment of transfers from the EU budget to the Member States.

general government were entering the government accounts as revenue (with an impact on the deficit), without exiting them as expenditures, but as financial transactions (without an impact on the deficit)¹⁷.

In case the final beneficiary is a government unit, EU grants can be recorded as government revenue at the moment in which they enter government accounts, but must be recorded as government expenditures in the moment they are used to finance the activity for which they were earmarked.

In spite of the recommendations of Eurostat on the fact that EU grants entering the government accounts as revenues could not have been subsequently imputed as share capital increases of institutional units outside government, in the EDP notification of September 1999, the Greek authorities kept recording EU grants as revenue for government, even when the government was not the final beneficiary.

Contrarily to national account rules and Eurostat's recommendations¹⁸ EU grants were not only transiting through the non-financial accounts of government, but these amounts were entering as non-financial in the government accounts (increasing government revenue) and exiting them as financial transactions, (with no impact on government deficit) in the form of share capital increases to state-owned companies.

Following Eurostat's intervention, a correction was undertaken by the Greek authorities. However, no correction was made for the amounts relating to the years 1998 and 1999, where the whole amount of EU grants earmarked for institutional units outside government was treated as government revenue, improving government deficit/surplus.

Situation after 2004

The Greek authorities in a letter sent to Eurostat on 18 October 2004 stated that in the case of EU grants "data recorded as revenues intended to finance capital expenditures in the EDP March 2000 notification, correctly reflect the final accrued payments received from the EU". Eurostat disagreed, and recalled how this contradicted what had been reported by the Greek delegation to Eurostat during the meeting in Athens on 12-13 October 2004, namely that a correction would have to be imputed for the years 1997 and 1998.

During the Eurostat mission of 10 November 2004, it was ascertained that the NSSG classified now as capital transfers all amounts relating to projects co-financed by the EU. Therefore the Greek authorities explained that all EU funds were now correctly recorded.

On 3-4 March 2005, Eurostat carried out an EDP mission to Greece. During the discussion, Eurostat delegation reminded of the Eurostat Press Release on the recording of EU grants and asked whether the its decision had been respected already in the past. The Greek statistical authorities confirmed that Greece complied with the decision and that delays in payments were recorded as F.7. However, figures for adjustments reported in the breakdown for "Other financial assets" showed an increasing trend that raised doubts.

Eurostat underlined that figures for F.7 as they were recorded, were only correct if amounts reimbursed were deducted in some other item. In that case it would be necessary to make a proper adjustment. The Greek statistical authorities promised to re-examine the figures and to send an answer on the issue.

¹⁷ The report of the mission of 13 and 14 May 1999 states that: "Eurostat underlined that... the amounts received by the EU must have a negative impact on the deficit, as if they are paid on capital transfers they increase the deficit. For this reason, taking into account this additional factor, explanations were asked again on how the large positive amount of net capital transfer could be explained".

¹⁸ Letter of Eurostat to the NSSG on 21 February 2000.

Eurostat reminded that already in March 2004 the Greek notification was not validated due to overestimated figures for EU Transfers, and it seemed that the NSSG was still solving problems from the past. In Eurostat's view the whole system of recording was wrong. The NSSG however, was convinced that flows were recorded correctly and perhaps subtractions of amounts reimbursed were made in some other places.

On 26 April 2005, Eurostat replied to a letter sent by the NSSG (on 31 March 2005) on the issue of the treatment of EU prepayments. Eurostat mentioned the following:

"According to Eurostat's decision on the treatment of transfers from the EU budget to the Member States (see news release No. 22/2005 dated 15.2.05), in the case of prepayments by the Commission to Member States at the beginning of a multi-year programme, these initial payments are always to be treated as financial advances. This liability remains unchanged until the total payments (excluding the prepayment from the EU) have reached 79% (in case the prepayment was 16%) or 88% (in case the prepayment was 7%) of the total amount agreed by the EU Commission on all the multi-year period (as the EU Commission keeps 5% of the total amount agreed and pays 95% of the total value during the programme period.)"

In the EDP follow up mission to Greece on 1-2 September 2005, the Greek statistical authorities informed Eurostat on the changes in the notified deficit between March 2005 and September 2005. One of the two reasons referred to the corrections for the EU transactions. Concluding the discussion of the issue, "Eurostat found difficult to assess whether the Greek accounts followed, in the main, the Press release decision on EU transfers from the EU budget to the Member States". Eurostat agreed with the NSSG on two actions: (a) the NSSG would investigate what was the amount of EU related expenditure actually impacting the working balance in 2001, and (b) the NSSG would report to Eurostat the stock of certified claims existing at the end of each year for the period 2000-2004 as well as the flow of new claims in 2001-2004. The NSSG would report an updated table.

On 9 September 2005, the NSSG replied to Eurostat's letter of 6 September 2005 providing information on the EU transaction related issues mentioned in the previous paragraph.

Eurostat replied to the NSSG on 12 September 2005. Eurostat noted that it was understood "from contacts between our services that those answers correspond to preliminary answers that need to be refined and complemented."

The Greek statistical authorities replied on 14 September 2005. They provided a table on EU funds "with the methodological treatment as suggested by Eurostat on 9 September 2005."

On 16 September 2005, Eurostat sent a letter to the NSSG expressing its concerns regarding a series of statistical treatment of EU transactions proposed by the Greek statistical authorities for the period 2001-2004. Moreover, in the summary list of actions attached to this letter, from a list of 5 pending issues, Eurostat considered that only one had been completed, the "justification of the profile of receivable followed".

To follow up on the reservation expressed on Greece's fiscal data in the Eurostat News Release on government deficit and debt of 24 April 2006, a Eurostat EDP methodological visit took place in Athens from 29 May to 2 June 2006 and from 27 to 29 September 2006.

Overall, during the mission, Eurostat observed that transactions with the EU budget in connection with the Community Support Framework were having a noticeable impact on government accounts from one year to the next on an order of magnitude of about 1 bn €. Although over the long term the impact of these transactions was neutralised correctly, the timing of recording seemed questionable.

During the September visit, after the explanations given by the G-SPA, Eurostat felt that even though the impact of the EU transactions was clearly not neutral and for very large amounts, with the implied

impact expected to increase further over the next couple of years, there seemed to be no reasonably solid source data for estimating sound accrual-revenue recording. On this point it therefore felt that measuring the revenue at the time the claim is submitted to the Commission was the appropriate second-best solution.

In the Action Plan four recommendations were made on the issues relating to the transactions with the EU budget (see annex 5, part on EU transactions).

In the October 2006 EDP notification rounds of request for clarification, Eurostat observed some mistakes in the recording of EU Transactions. The Greek statistical authorities agreed with these observations and asked to submit a new notification "corrected for the items a), b) and c)".

In the April 2008 EDP notification, there has been a long exchange of questions and answers regarding the treatment of a series of transactions with the EU budget and in particular the statistical treatment of EU advances. However, the issues were not completely clarified and uncertainties about the correct recording of these transactions remained. Thus, in April 2008, Eurostat expressed reservation on reported EDP data from Greece due to "the recording of EU grants in 2006 and 2007", among other issues.

On 2-3 June 2008, Eurostat carried out an EDP methodological visit to Greece. The recording of the EU flows was one of the aims of the mission. Following the discussions Eurostat requested the NSSG to correct a series of EU transactions. Moreover, Eurostat explained that there were only two options for the Greek authorities. Either they would apply the expenditure basis for all the transactions or they would continue applying the claims basis of recording, but consistently for all transactions. The Greek authorities confirmed that they would continue to apply the claim basis time of recording.

In the April 2009 EDP notification, Eurostat asked the NSSG to clarify the amount recorded under other accounts receivable for the accrual EU revenue. The NSSG provided data on cash received from the EU budget and on the claims submitted verifying the reported receivables. In the second round of request for clarification, Eurostat asked for additional information contained in tables that the Greek statistical authorities compile for the transactions with the EU budget as requested by Eurostat. The tables were submitted and the information seemed to support the reported data in the EDP tables.

In the October 2009 EDP notification, Eurostat observed a downward revision to the accrual EU revenues in 2008 (from 1636 mn € in April to 1450 mn € in October). Eurostat asked the NSSG to explain this revision. The NSSG explained that the revision was "due to the narrowing of the difference between applications submitted to the EU and cash receipts".

In the second request for clarification, a few days later, Eurostat asked for further explanations for this revision and asked the following questions (and received the following answers):

(1) We understand that in fact fewer applications were submitted in 2008 than you thought in April 2009 or that in the meantime it was found that more cash from the EU was received. Could you please explain?

The Greek authorities answered that "the amounts are due to new information on applications submitted".

(2) Please provide us with the relevant detailed table on claims submitted and cash received

The answer was that "claims submitted for the year 2008 amounted to 3149 mil. euro compared with cash received of 4599 mil.euro , giving an accruals adjustment of -1450 mil.euro".

It should be noted that the requested table in question 2 was never sent but that figures (not detailed) were provided in the answer.

On 16-18 November 2009, Eurostat carried out an EDP methodological visit to Greece. During the discussion on the issue of the EU transactions, it was revealed that there has been no change at all in the data on applications submitted between April and October. The Single Payment Authority (GAO) confirmed that the figures communicated in October to the NSSG had been the same as in April. Apparently, as it was revealed during the meeting, the decision to revise the figures in October (improving the deficit by approximately 200 mn €), had been taken by the NSSG.

The Greek statistical authorities were subsequently asked to report on EU flows describing the reasons for revisions and the recording of EAGGF flows in EDP tables.

In the report received on 30 November 2009 from G-SPA, it was explicitly stated:

"In 2009, Single Paying Authority submitted to the NSSG two triangle tables, one in April and one in September. In both tables the amount of applications submitted for the year 2008, arrived at 2.933 million euro."

The NSSG, in its report refers to the complexity of the issue recalling the conclusions of the previous discussions. However, the NSSG does not explain why it took the initiative to change the data on claims submitted in October (effectively improving the deficit by about 200 mn €) while in the triangle table provided by the G-SPA in September there has not been such a change as the G-SPA confirmed.

Conclusion

The issue of the correct recording of the transactions with the EU budget in the EDP tables was considered to have been solved after all the actions taken and the advices given by Eurostat over the last five years. The Greek statistical authorities, as they declared in the June 2008 EDP mission, chose to use the submission of claims as the basis of recording. An entry in receivables was made resulting from the difference between the cash receipts from the EU budget and the claims submitted. EU advance payments (prepayments) were considered as financial advances which when (or if) entered the working balance (as revenue) had to be neutralized by recording a payable (liability of Greece towards the EU).

Regarding the institutional arrangements, the G-SPA is the main provider of required data on transactions with the EU. The G-SPA provides the NSSG with all the information on claims submitted to EU, cash receipts for the EU and advance payments made at the beginning of EU co-financed programmes. The G-SPA also compiles all the tables used as supporting material for checking the reporting of EU transactions in the EDP tables.

The revision to EU related receivables between the April and 2nd October 2009 notification was not in line with ESA 95 rules. It turned out that this revision was decided by the NSSG for unexplained reasons given that, according to the G-SPA, there has been no change in the EU related data transmitted to the NSSG in April and October 2009.

14 Hospitals liabilities

Introduction

It is recalled that in Greece all public hospitals (134 units) are classified in the social security sub-sector which is a part of the government sector. The source of data for hospitals is the same survey as that for the social security funds.

Situation before 2004

There was no particular issue raised with respect to the public hospitals before 2004 and in the Eurostat Report of 2004. Hospitals were dealt with as a part of reporting for the social security sub-sector.

Situation after 2004

In the March 2005 EDP notification, Eurostat observed a substantial revision of other account payable of hospitals, increasing the government deficit in 2002-2003 comparing to the September 2004 EDP notification. During the Eurostat dialogue visit in Greece on 3-4 March 2005 it was explained by the Greek authorities (MOF) that this revision was due to a new Law obliging government to pay old obligations of public hospitals to manufacturing companies (providing hospitals with medicaments and other supplies). An estimated amount (500 mn € in 2002, 500 mn € in 2003 and 300 mn € in 2004) were recorded as accounts payable (trade credits) of government, affecting the deficit in the relevant years but having no impact on debt. It was specified by the Greek authorities (MoF) that the law did not define an exact amount, therefore a revision of these figures for the September 2005 EDP notification was expected. Nevertheless it was estimated that a final amount to be redeemed would be around 2 bn €. After a question of Eurostat, the Greek authorities stated that the issue was not a new assumption of a liability and that it related only to repayment of old liabilities. During the discussion the Greek authorities stated that the MOF confirmed that this delayed recording of expenditure would not be repeated in future and that the issue had also been referred to Parliament. A new accounting system for hospitals, along with an improved quarterly survey, would help the NSSG to collect better information on hospitals.

The issue was discussed again during Eurostat visits on 1-2 September 2005. When explaining the revisions made in the deficit data comparing with March 2005 EDP notification, the Greek authorities explained that a figure relating to the old debt of hospitals was included for 2001 (360 mn €) and that the figures were revised for 2002-2004. At the same time it was stated by the Greek authorities that final figures would be known only for the March 2006 EDP notification, although only minor changes were expected.

In the period between April 2009 and October 2009 EDP notifications, Eurostat contacted the Greek authorities to clarify an issue relating to the recording of debts of public hospitals to their suppliers. More specifically, Eurostat asked the Greek statistical authorities to certify that the reported information on the hospitals debts to suppliers in EDP tables was not underestimating the actual amount. The Greek authorities provided Eurostat with two official letters signed by the Ministry of Health (see annex 5) certifying that the reported amounts were those recognized by the Greek government.

Nevertheless, in the EDP notification of 21 October 2009 the Greek authorities suddenly added 2500 million EUR to government deficit in 2008 due to hospitals liabilities originating from hospitals debts to pharmaceutical and medical procurement companies in past years.

During the Methodological visit of 16-18 November 2009 two facts emerged:

- 1) The NSSG had in the past misreported the amounts obtained from the surveys. More precisely, it turned out that the figures reported for hospital liabilities obtained through the survey, were much higher than those reported in EDP tables. In 2006, 2007 and 2008, hospital liabilities increased respectively by 630, 936 and 1152 mn € instead of by 575, 603 and 535 mn € as reported in EDP Tables. Hospital liabilities appear therefore to have been underestimated by almost 1 billion EURO between 2006 and 2008, resulting in an under-estimation of the general government deficit for those years.
- 2) It was revealed that the figure of 2500 million EURO added to government deficit in 2008 was introduced after a direct instruction from the MOF. Although the new government has stated that it will repay all illegal past hospital liabilities (a Law approved in May 2009 provides for this

possibility, however does not specify any amount), this amount should not be recorded in 2008, due to the following reasons: 1) the amount of 2500 mn € is doubtful and the real figure is not known; the NSSG revealed during the meeting that it had explicitly told the MOF that this 2500 mn € figure was not reliable; 2) as the unrecorded amount refer to several previous years, the decision on the repayment was taken in 2009 and the cash flow will take place in 2010, there is no justification to record it all in 2008 and the correct time of recording remains to be decided after further analysis of the issue by Eurostat; 3) the NSSG voiced its objections to the GAO and MOF on the issue before the 21 October 2009 EDP notification to Eurostat.

Following the methodological visit, Eurostat asked for a report describing how the figures for hospitals were derived as well as for a note on actions to be taken from now on to solve the problem of underestimation of hospital liabilities.

The reply received from the Greek authorities on 29 November 2009 was assessed by Eurostat as insufficient and the Greek authorities were requested to provide more relevant information relating to the issue. More precisely, Eurostat requested information on the actual amounts coming from the results of the survey, on the background for modifying amounts and on the accounting basis for taking a decision to report 2500 million EURO in 2008 as well as for the determination of responsibility for reporting the amounts in EDP Tables in the 21st October 2009 EDP notifications. A more detailed reply was received on 11 December 2009.

In this context, the NSSG provided the following information on the figures of the debts of hospitals resulting from the survey and on the figures finally used for the EDP notification of 2 October 2009:

Liabilities Reported in EDP tables

	2005	2006	2007	2008	Total
Liabilities	563	575	603	535	2.277

Million euros

The values resulting from the survey are

Liabilities derived from the Survey

	2005	2006	2007	2008	Total
Liabilities	563	629	937	1153	3.282

Million euros

The NSSG further explained that it relies more on the nonfinancial side of the survey, than on the financial side. Based on this judgment the NSSG had concluded that the amount of liabilities deriving from the survey was overestimated and therefore it reported lower figures in the EDP notifications. The NSSG reply of 11 December 2009 also stated that: “In the April of 2009 an official letter from the Ministry of Health was sent to NSGG reporting an outstanding debt of the hospitals to providers of the magnitude of 2,2 billion € therefore by that time this decision seemed correct. Nonetheless, that was not a National Accounts Division (NAD) decision”, implying that the final decision was taken at a different decision-making level.

The NSSG also admitted that it did not agree with the time of recording of the “newly recognized” debt and that it intended to proceed similarly as in 2005 (see above) when the amounts of the debts (trade credits) were appropriately distributed into the years they were supposed to relate to. The amount, however, is not known yet and a committee consisting of the representatives of MOF and the Ministry of health are investigating the issue.

Conclusion

The problem of using survey as the main source of information is similar as to that for EBF. Greece is not the only Member State using surveys for compiling data for the social security sub-sector. In some

countries the survey serves as a complementary data source. A good survey processing and systematic crosschecking information provided by the survey with other sources – financial statements at least for the biggest units, state budget, money and banking statistics - could ensure the reliability of the data. Eurostat's role remains limited in the verification of the source data as, for example as in the issue of unreported debt of hospitals, it would go beyond its competences and powers. In this case there is evidence that the results of the survey were modified without informing Eurostat.

In addition the decision taken by government of recording 2500 bn € of hospitals liabilities in 2008 is incorrect, both from the point of view of the total amount imputed and from the one of the year in which it is to be recorded.



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Annex 2

Annex 2 – Quarterly non-financial and financial government statistics

Introduction

European Parliament and the Council Regulation (EC) no 1221/2002 and Commission Regulation (EC) no 264/2000 form the legal basis for the collection and transmission of quarterly non-financial accounts for the general government.

Regulation (EC) no 1221/2002, which covers all ESA 95 transactions except taxes and social payments (which are covered by the Commission Regulation 264/2000 requesting data on taxes and social payments be based 90% on direct information), specifies that quarterly data shall be based as far as possible on direct information from basic sources, with the objective of minimising, for each quarter, differences between the initial estimate and the final figures, when relevant. Commission Regulation 264/2000 requests that data on taxes and social payments is based 90% on direct information.

Transmission of quarterly general government non-financial data in September 2009

Government data for the second quarter of the year are transmitted to Eurostat by the end of September. Greece transmitted the data on the quarterly non-financial accounts for general government (QNFAGG) on 5 October 2009. These data covered the period up to the second quarter 2009 (2009Q2). For the years 2005-2008 the data were fully consistent with EDP net lending/net borrowing.

Further to the revision of the EDP notifications data of Greece made on 21 October 2009, a new QNFAGG dataset was sent by Greece to Eurostat on 27 October 2009. Again, for the years 2005-2008 the data was fully consistent with the revised EDP net lending/net borrowing. This new dataset contained large revisions in the data previously received on 5 October 2009, including the data covering the first two quarters of 2009. As a consequence, Eurostat sent a message to the National Statistical Service of Greece, requesting an explanation for the revisions observed in the data, particularly in the data of the first two quarters of 2009.

On 4 November 2009, the Greek National Statistical Service sent a reply to Eurostat, explaining that the large revisions observed in the data in the first two quarters of 2009 were due to the fact that the annual deficit of general government for the year 2009 was forecast to 12.48% of GDP and, that the revised QNFAGG data for the first two quarters of 2009 transmitted on 27 October 2009 had been estimated from the forecasts of annual accounts, instead of being based on direct data sources. The net lending/net borrowing figures for general government reported by the NSSG for the first quarter of 2009 were revised from – 2680 mn euro to -7460 mn euro and for the second quarter from -3480 mn

euro to -12400 mn euro. On 27 October 2009 the deficit ratio for the first quarter of 2009 was 13.2% of GDP and for the second quarter of 2009 was 20.2% of GDP.

From the explanations provided by the Greek statistical authorities, it appears that the NSSG - instead of using information from basic sources (as provided for by the Regulation (EC) no 1221/2002 and Commission Regulation 264/2000) - had resorted to simply allocating the new annual forecast for the 2009 general government deficit of the Ministry of Finance to the first two quarters of 2009.

Transmission of quarterly general government financial data in October 2009

The responsibility for the quarterly financial data is with the Bank of Greece. The figures of financial accounts transmitted on 3 October and 29 October 2009 for the years 2005-2008 were in line with the corresponding quarterly and annual non-financial accounts provided by the NSSG transmissions of quarterly figures for financial accounts. Only a few inconsistencies were observed in both transmissions.



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Annex 3

Annex 3 – Reservations on the quality of the Greek data expressed by Eurostat between 2005 and 2009

March 2005

Eurostat is not in a position to validate the figures for Greece. This is mainly due to a newly communicated inconsistency in the recording of flows between Greece and the EU budget. In addition, data for government deficit for the years 2002 and 2003 have also been revised by the Greek authorities in their March 2005 notification. These revisions were mainly due to the fact that a new law concerning the repayment of debt of hospitals was adopted at the end of 2004 by the Greek government. This revealed that unpaid expenditure by hospitals for the past years had not been properly booked when expenditure was incurred. Moreover, data on expenditure arrears of hospitals and on government expenditure for the Olympic Games are not yet final. This could lead to a further upward revision in the deficit figures.

September 2005

Some pending issues remain for the recording of EU transactions, the accounts of social security and the amounts of other receivables and payables for the years 2002-2004.

April 2006

Despite the recent improvement in the statistical processes and good co-operation between Eurostat and the national statistical authorities of Greece, issues remain related to the Greek government accounts of a structural and systemic nature. Eurostat will undertake a methodological visit in the coming weeks in order to clarify the pending issues (see also Eurostat News Release 120/2005 of 26 September 2005).

October 2006

Eurostat has withdrawn the reservation on reported data of the September 2005 notification and April 2006 notification concerning Greece. This is due to clarification of the issues concerning the recording of transactions with the EU budget, the accounts of social security and the amounts of other receivables and payables for the years 2002-2005 (see below "Other issues").

April 2008

Greece: Eurostat is in the process of clarifying, in close co-operation with the Greek statistical authorities, some issues relating to the recording of EU grants in 2006 and 2007, the existence of a substantial statistical discrepancy in 2007 of 0.6% of GDP and the insufficient coverage of source data for extra-budgetary funds, local government and social security funds achieved for the first estimate of the 2007 balance.

October 2008

Eurostat has withdrawn the reservation on the data reported by Greece in the April 2008 notification (News Release 54/2008 of 18 April 2008 on the provision of data for the excessive deficit procedure). Issues clarified since April 2008 concern the recording of EU grants (in 2006 and 2007), statistical discrepancies (for 2007 data) and the coverage of source data for extra-budgetary funds, local government and social security funds. The Greek authorities have agreed with Eurostat a list of medium-term actions to be implemented.

October 2009

Eurostat has expressed a reservation on the data reported by Greece due to significant uncertainties over the figures notified by the Greek statistical authorities.



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Annex 4

Annex 4 – Action plan/list of recommendations as implemented by December 2009

Nr	Reference	SHORT AND MEDIUM TERM ACTIONS	NSSG actions
		<i>Data sources</i>	
1.1.1.	Reports methodological visits 2006	To verify the internal consistency of each individual response of the survey before processing (+returning questionnaires)	IN PROGRESS
	June 2008 mission 1.1.1 bullet 2	To systematically resend unbalanced questionnaires	IN PROGRESS
	June 2008 mission 1.1.1 bullet 2	To indicate the number of resent unbalanced questionnaires	IN PROGRESS
	June 2008 mission 1.1.1 bullet 2	Processing arrangements to be streamlined	CHECKS HAVE BEEN INCORPORATED IN QUESTIONNAIRES
1.1.2.	Reports methodological visits 2006	Implementation of the consistency checks in the existing database (correcting inconsistencies in the survey for years starting from 2005)	DONE
1.1.3.	Reports methodological visits 2006	Correcting the inconsistencies in the design of the survey (stock vs flows)	DONE
1.1.4.	Reports methodological visits 2006	Ensuring that the updated Survey contains complete information on nonfinancial and financial part and all in flows and outflows - bridge table	DONE
1.1.4.1.	Reports methodological visits 2006	Exhaustive instructions in the explanatory notes on the Survey	DONE
1.1.5	Reports methodological visits 2006	To improve timeliness and coverage of the Survey by a way of administrative tools.	PARTIALLY DONE
	June 2008 mission 1.1.1 bullet 3	To improve timeliness particularly for April	PARTIALLY DONE
	June 2008 mission 1.1.1 bullet 3	To provide the list of the 5 biggest social security units that have not answered by March 2008	DONE
	June 2008 mission 1.1.1 bullet 3	To privilege annual survey and blend it with quarterly survey only if necessary	DONE (FOR SSF)
	Report // June 2008 1.1.1 bullet 2	Reinforce NSSG staff in GFS	NOT STARTED YET

1.1.6.	Reports methodological visits 2006	Earlier running and processing the Survey for the April EDP notifications.	PARTIALLY DONE
1.1.7.	Reports methodological visits 2006	Full ownership of the survey by the NSSG	DONE
	June 2008 mission 1.1.1 bullet 4	Enhance exploitation of the financing side of the Survey in consultation with Bank of Greece	STARTING
	September 2008 mission	The NSSG should ensure a minimum coverage in the Survey for social security funds	DONE
	September 2008 mission	The NSSG should improve coverage for social security funds in October notifications	DONE
		<i>Budgetary central government</i>	
1.2.1.	Reports methodological visits 2006	To provide reporting Table 3B1	DONE
1.2.2.	Reports methodological visits 2006	Use the "Treasury balance sheet" information for compilation of data	IN PROGRESS
1.2.3.	Reports methodological visits 2006	The detail of privatization proceeds be provided	DONE
	June 2008 mission 2.1.4	To use actual source data for the estimate of taxes in April (two month adjustment to cash)	APRIL 2010
	June 2008 mission 2.1.3	To amend the confidential note on recording and to provide an estimate of the split between old and new receivables	DONE
	June 2008 mission 2.2.2.	To reduce the discrepancy pertaining to budgetary central government in 2006 and 2007	DONE
	June 2008 mission 2.2.2.	To verify the compilation of budgetary central government statistics	DONE
	September 2008 mission	The GAO will clarify the impact of including extra-budgetary accounts in Table 2A and 3B	DONE
	September 2008 mission	The NSSG will clarify whether and how hospitals report in the Survey the State payments for the debt service related to the 2001 trade credit liability operation	DONE
	September 2008 mission	The NSSG will report to Eurostat monthly cash information on taxes for the period 2006-2008 (data from tax directorate and the GAO)	DONE
	September 2008 mission	The Greek statistical authorities will decide on classifying the extra-budgetary accounts (T2A or T3B)	DONE
	September 2008 mission	The Greek statistical authorities will carefully examine the classification of various entities of government within Money and Banking statistics	STARTED
	September 2008 mission	THE Greek statistical authorities will correct the data on tax refunds not entered the WB in the period 1998-2001	STARTED
		<i>Extra-budgetary central government</i>	
1.3.1.	Reports methodological visits 2006	Individual consistency and plausibility checks of the Survey returns (+returning questionnaires)	IN PROGRESS
	June 2008 mission 2.1.5	To exploit the full Survey and compare with Money and Banking	NOT STARTED
	June 2008 mission 2.1.5	To promote the reporting and the use of provisional data	DONE

1.3.2.	Reports methodological visits 2006	Verification of DEKA operations (transfers from the government in 2003 and 2004)	DONE
1.3.3.	Reports methodological visits 2006	When information from the State budget replaces information from the Survey, NB/NL do not change.	DONE
1.3.4.	Reports methodological visits 2006	Improvement in grossing up when most of information for EBF is not available.	DONE
1.3.4.1.	Reports methodological visits 2006	Large EBF (eg DEKA) to be treated separately when grossing-up	DONE
1.3.5.	Reports methodological visits 2006	To report Table 3B2	DONE
1.3.6.	Reports methodological visits 2006	Improvement of coverage (full coverage) and timeliness of the Survey	DONE
1.3.7.	Reports methodological visits 2006	Re-examination of the sectorisation of EBFs	IN PROGRESS
1.3.8.	Reports methodological visits 2006	To provide a list of EBF for the EDP inventory	APRIL 2010
	June 2008 mission 2.2.2	To reduce the discrepancy pertaining to extra budgetary funds in 2006 and 2007	IN PROGRESS
		<i>Transactions with the EU budget</i>	
1.4.1.	Reports methodological visits 2006	Using the date of submission of the claim for calculation of receivables relating to the EU transfers.	DONE
1.4.2.	Reports methodological visits 2006	Treatment of the 2nd CSF as financial transaction	DONE
1.4.3.	Reports methodological visits 2006	Correction of anomalies in calculation of receivables	DONE
1.4.4.	Reports methodological visits 2006	G-SPA to provide the end-of-year position of the STA sub-account	DONE
	June 2008 mission 3.4	Reconcile the STA sub account with the difference between account 8300 and EDP table 2A	ALMOST DONE
	June 2008 mission 3.1	Appropriately account for so called withdrawn claims : correct 2006 and 2007 figures (231 million)	DONE
	June 2008 mission 3.1	Check the December 2007 submission that did not include amounts for withdrawn claims	DONE
	June 2008 mission 3.1	To enforce the consistency of presentation across documents	DONE
	June 2008 mission 3.1	Consistency with DG Employment data	
	June 2008 mission 3.2	Double counting Cohesion fund to be eliminated (160 million)	DONE
	June 2008 mission 3.3	Properly accounting for the reduction in payable (290 million)	DONE
	June 2008 mission 3.3	Moving 26 million from receivable to payable (Cohesion fund)	DONE
	June 2008 mission 2.2.1	Report the suspense accounts of the Treasury as payables	ALMOST DONE

		<i>Local government</i>	
1.5.1.	Reports methodological visits 2006	To improve the way the Survey is run, in respect to existing inconsistencies (+returning questionnaires)	IN PROGRESS
1.5.2.	Reports methodological visits 2006	A unit-by-unit comparison of the Census and the Survey, at least for the largest municipalities + with Division 39 of GAO	DONE FOR 2003 - IN PROGRESS FOR 2004
1.5.3.	Reports methodological visits 2006	Checking the method of extrapolation of results of the Survey	DONE
1.5.4.	Reports methodological visits 2006	The balance of the Census to be "working balance" of EDP Table 2C and to show the transition to NL/NB	DONE
1.5.5.	Reports methodological visits 2006	Exclusion of the item "transactions in shares and other equity" if not substantiated	DONE
1.5.6.	Reports methodological visits 2006	Investigating the recording of petty cash	DONE
1.5.7.	Reports methodological visits 2006	To improve the coverage of the Survey	DONE
1.5.8.	Reports methodological visits 2006	To improve timeliness of the Survey	DONE
		<i>Social security funds</i>	
1.6.1.	Reports methodological visits 2006	Implementation of individual consistency and plausibility checks (+ returning questionnaires)	IN PROGRESS
1.6.2.	Reports methodological visits 2006	Amendment of the transitional table from the Survey to national accounts	DONE
1.6.3.	Reports methodological visits 2006	Verification of the treatment of transfers of bonds	DONE
1.6.4.	Reports methodological visits 2006	Data sources and methods for individual items of Table 3E	ALMOST DONE
1.6.5.	Reports methodological visits 2006	Providing greater guidance on guaranteed borrowing in the explanatory notes to the Survey	DONE
1.6.6.	Report methodological visits 2006 / June 2008 mission	Considering re-running the questionnaires for 2002-2004 to ensure the highest quality	ALMOST DONE
1.6.7.	Reports methodological visits 2006	Listing social security funds in an annex to the EDP inventories	DONE
		LONG-TERM ACTIONS	
		<i>Transparency</i>	

2.1.1.1	Reports methodological visits 2006	In relation to social security funds, to seek implementation of a legal act in 2007, with effect from 2008	TO BE DONE
2.1.1.2	Reports methodological visits 2006	In relation to local government, to seek reinforcement of the existing legislation, if necessary by means of legal acts in 2007, with effect from 2008	TO BE DONE
2.1.1.3	Reports methodological visits 2006	In relation to extra-budgetary funds, in the next few months to examine, with the Ministry of Finance, the best way of auditing and publishing the accounts of the 385 units involved	TO BE DONE
		Centralisation	
2.2.1	Reports methodological visits 2006	The audited accounting reports of extra-budgetary bodies should be centralised by a government agency, presumably a Directorate in the MEF, by means of legislative action if necessary. The NSSG will approach the MEF to ensure that budget outturns sent to supervisory ministries are copied to a central unit in the MEF, which may then ensure publication	TO BE DONE
2.2.2	Reports methodological visits 2006	The audited accounting reports of municipalities to be centralised by a government agency, by means of legislative action if necessary	TO BE DONE
		Accounting standards	
		Accrual accounting	
2.3.1.1	Reports methodological visits 2006	To introduce balance-sheet reporting as well as accrual-based accounting in public bodies. In the long run, the accounting principles required from the public units should be compatible with recognised accounting standards, such as international accounting standards. Over a transition period, this might be implemented step by step, following experience in various other countries.	TO BE DONE
2.3.1.2	Reports methodological visits 2006	To phase in such reporting in line with an agreed timetable, giving priority to balance-sheet information, followed, successively, by staged introduction of accrual-based financial statements and, later, accrual budgeting.	TO BE DONE
	June 2008 mission 1.2. bullet 1	Law 3460/2006 concerning Local government	TO BE DONE
		Public Accounting Committee	
2.3.2.1	Reports methodological visits 2006	Setting up a formal working group (Public Accounting Committee) to advise on a strategy on accounting reforms and to design the appropriate financial statements and budget reporting. The NSSG sees a need for any such working group to be sufficiently focused and have enough political backing.	NOT DONE
2.3.2.2	Reports methodological visits 2006	In the forthcoming months the Public Accounting Committee should examine the experience gained by other countries, notably with a view to examining alternative phasing-in period options.	NOT DONE
2.3.2.3	Reports methodological visits 2006	The Public Accounting Committee will submit a report on proposed financial statements and budget reporting, along with a timetable for implementation. Implementation of the new reporting would be staged by priority, depending on the documents and units	NOT DONE

		<i>Monitoring the implementation of the Action Plan</i>	
3.1	Reports methodological visits 2006	Eurostat should be kept regularly informed of the steps taken in respect of the above-mentioned recommendations	YEARLY
3.2	Reports methodological visits 2006	The NSSG to provide Eurostat with a formal progress report by the end of June 2007, as volunteered by the NSSG	YEARLY
	June 2008 mission 1.1.1 bullet 1	To send a formal progress report	PARTIALLY DONE

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MINISTRY OF HEALTH & SOCIAL SOLIDARITY
General Administrative Director

Wednesday, the 15th of April 2009
Ref.: 51216

To: Mr. Emmanouil Kontopyrakis
Secretary General of the National
Statistical Service of Greece

Re.: Debt of public hospitals of Greek National Healthcare System

Dear Mr. Secretary General of the National Statistical Service of Greece,

We have been duly informed by the competent authorities of the Ministry of Health & Social Solidarity that the outstanding debt of the public hospitals of the Greek National Healthcare System (ESY) as of December 31st of 2008 is amounting approximately to 2.2 billion euros

Yours Sincerely,



Alexandra Papadia
General Administrative Director



**HELLENIC REPUBLIC
MINISTRY OF HEALTH & SOCIAL SOLIDARITY
SECRETARY GENERAL**

Athens, June 29th, 2009
Ref.: G.G. 1437/29-06-09

Dr. Emmanouil Kontopyrakis
Secretary General
National Statistical Service of Greece

Dear Dr. Secretary General of the National Statistical Service of Greece,

As we have already informed you, by the letter of our services, on the 15th of April 2009, the outstanding debt of the public hospitals of the Greek National Healthcare System (ESY) as of December 31st 2008 is approximately 2.2 billion euros.

Regarding the written statement by Deputy Minister of Health & Social Solidarity Mr. G. Papageorgiou on the 14th of April 2009, as well as the table submitted, besides the above debt of the public hospitals it also includes claims, by pharmaceutical companies, to social security services, something which is clearly stated on Mr. G. Papageorgiou's letter.

These claims for various reasons, such as deliveries under dispute, faulty deliveries, deliveries not abiding by the existing legal framework, are under investigation and the matter is expected to be settled by the end of the year.

Sincerely yours,


Aristidis Calogeropoulos - Stratis
Secretary General

17, Aristotelous str., 10187 Athens -GR, Tel. +30 210 5202570, Fax. +30 210 5202075, e-mail: ggh@yyka.gov.gr



Brussels, 8.1.2010
COM(2010) 1 final
Annex 6

Annex 6 – Infringement procedure

A letter of formal notice was notified to the Greek authorities on 6 December 2004 as a first step of the infringement procedure initiated by the Commission under Article 226 of the EC Treaty. The issues included in the formal notice, as well as the reasons for closing the procedure in 2007 are summarised below.

(1) The manifest over-estimation of the amounts of taxes collected, as well as the insufficient system of recording.

- The letter of formal notice stated that, because of the inability of the Greek statistical authorities to determine coefficients to estimate the amounts of taxes and social contributions unlikely to be collected, an alternative time-adjusted cash method was adopted. The application of the coefficient method by the Greek authorities had produced unreliable figures, as proven by the large over-estimation of receipts for the first months of 2004.
- In the reply to the letter of formal notice, the Greek authorities noted that Greece had now brought itself into line with the rules by aligning to a method suggested by Eurostat and by repealing a piece of national legislation.
- Subsequently, Eurostat requested information from the Greek authorities on which specific measures they had taken in order to ensure that the method chosen provides reliable figures and that ESA95 provisions are complied with in the future.
- In reply to this request the Greek authorities confirmed that Greece complied with the rules after an adjustment made and after abolishing a practice which had been considered as non-compliant, and that structural legislative changes would lead to improving the reliability of present and future data. Moreover, an interaction between concerned authorities would be established in order to ensure close monitoring of any discrepancy between annual and monthly data, leading to a continuous flow of real results and reliable data.
- Eurostat concluded on the basis of this information that Greece applied the required accounting rules concerning taxes and social contributions and this part of the complaint was closed.

(2) The incomplete coverage of expenditure and revenue relating to social security funds and hospitals in NSSG surveys, resulting in insufficient information available for a proper assessment of the deficit/surplus of general government.

- The letter of formal notice stated the continuous and serious problems related to the availability, reliability, and collection of data concerning social security funds and hospitals. It was stated that the new survey would prove to be inadequate as it did not cover all social security funds and hospitals, so the surplus had still to be estimated on the basis of incomplete information.
- In the reply to the letter of formal notice the Greek authorities noted that the new survey being conducted covered all insurance bodies and public hospitals in Greece.

- Subsequently, Eurostat requested information from the Greek authorities on which measures they had taken in order to ensure that accounts of hospitals are recorded in the future on an accrual basis, in accordance with ESA95. There was also a question concerning the significant amounts of expenditure incurred by hospitals in the past which still seemed to be unrecorded.
- In reply to this request, the Greek statistical authorities explained features of the accounts of public hospitals and stated that the NSSG had collected the requested information via a new questionnaire and analysed closely the category of liabilities in this questionnaire. It was also said that the application of new national legislation, as of 1 January 2006, would permanently resolve the above problems and provide analytical information for the establishment and account keeping of public hospitals according to ESA95.
- Eurostat took the view that serious problems relating to the available source data persisted in the area of social security funds as well as in the area of local government and extra-budgetary funds.
- A subsequent methodological visit examined the modalities of the survey for social security funds, extra-budgetary funds as well as for local government. The mission identified main problems in conducting and processing these surveys and made several recommendations in order to improve coverage and quality of the results of the survey. It identified serious mistakes in the transition tables between the survey results and the national accounts concepts that underestimated the government deficit.
- The Greek authorities recognised and corrected these mistakes, and implemented or agreed to implement most of the Eurostat recommendations.
- Eurostat considered that structural problems related to the survey of extra-budgetary funds, social security funds and local government had been eliminated in such a way that the risk of systematic underestimation of the government balance had been removed for 2002-2005. As regards compliance with statistical requirements for accurate fiscal data on social security funds and central government sub-sectors, this would be assessed on the basis of the implementation of the action plan.
- The implementation of the action plan was not satisfactory for the year 2006.
- Eurostat concluded that noticeable progress could be noted as regards coverage and consistency of the survey, while further progress was expected, in particular with respect to the timeliness of the survey returns and also for consistency checks and coverage. This part of the complaint was closed.

(3) The insufficient system of information on debt of sub-sectors of government

- The letter of formal notice stated that the implementation of the accounting rules on the recording of debt assumptions had been unsatisfactory in Greece, that rules had not been applied by Greece in a consistent way, and that data had frequently been changed.
- In the reply to the letter of formal notice, the Greek authorities mentioned that Greece had applied the accounting rules on the recording of debt assumptions as early as the EDP mission in November 2002.
- After subsequent exchanges of letters, Eurostat confirmed that debt assumptions are compiled by the Greek authorities following the accounting rules and this part of the complaint was closed.

(4) The recording of military expenditure

- The letter of formal notice described the accounting difficulties in Greece in the recording of military expenditure. The letter concluded that most military expenditure covered by borrowing had not been recorded for at least seven years, and that this was not in line with the requirements of the ESA95 rules.
- The reply to the letter of formal notice acknowledged these difficulties and described the current situation in Greece and how it was intended to correct the shortcomings.

- Subsequently Eurostat requested information from the Greek authorities on what practical steps had been taken to improve the existing mechanisms for collecting data.
- In their reply to this request, the Greek authorities noted that the working group established to deal with this issue had made some suggestions.
- The correct recording of military expenditure was subject to further investigation, also in the light of Eurostat's decision of 9.2.2006 concerning "the recording of military equipment expenditure".
- During the EDP dialogue visit on 29.9.2006 the Greek authorities confirmed that the Eurostat ruling on recording of purchases of military equipment will not be applied for the October 2006 EDP notification. According to the Greek authorities the rules will be applied for the April 2007 EDP notification for years starting 2006 onwards. Eurostat pointed out this specific issue in its News Release of 23 October 2006.
- The fiscal data notified by Greece in April and in October 2007 were for the main part considered compliant with Eurostat rules and this part of the complaint was subsequently closed.

The reasons for closing, in December 2007, the infringement procedure against Greece as regards each specific complaint have been indicated above. In addition, the following general considerations were taken into account by the Commission when taking that decision:

- The letter of formal notice indicated that there were persistent systemic problems in the relevant departments of the Greek administration.
- Concrete measures had been taken by the Greek authorities in order to try solving these issues. Their implementation was to be followed by Eurostat.
- Despite the recent improvement in the statistical processes and good co-operation between Eurostat and the national statistical authorities of Greece, issues of a structural and systemic nature related to the Greek government accounts remained.
- Eurostat noted that improvements had been made in the compilation of government finance statistics. Eurostat would finalise and publish its report including an action plan with a timetable for the implementation of the remaining issues.
- Published Spring economic forecasts had showed continuous improvements of the Greek public finances. The Greek Spring economic forecasts were accepted by the EcoFin Council of June 2007