

EDP DIALOGUE VISIT TO GREECE

29 September 2006

Final findings

Executive summary

Following up on the Eurostat EDP Methodological visit which took place in Athens from 29 May to 2 June 2006 and from 27 to 29 September 2006, Eurostat undertook an EDP dialogue visit on 29 September 2006. The discussions had two objectives: 1) to study implementation of the recommendations of the methodological visit in the October 2006 EDP notification; 2) implementation of Eurostat's rules on military expenditure.

The NSSG presented to Eurostat the draft EDP Tables that had been compiled taking into account recommendations of the Methodological visit which was organized in the framework of Council Regulation (EC) 2103/2005.

In order to improve the quality and reliability of the reported data, the recommendations of the methodological visit focused on assessing the data sources and methods used for the compilation of the government statistics. The efforts made by the Greek authorities resulted in an increase in general government deficit of 0.55% of GDP¹ a year, and simultaneously a decrease of the discrepancy in 2002, 2004 and 2005. However, a substantial discrepancy remains in the social security sub-sector in 2003, raising some doubts on data sources used for the calculation for this sub-sector.

Major revisions in data undertaken in EDP Table 2A (central government) can be observed in the line "Net borrowing or net lending of other central government bodies". Second, a correction in the data was made for the transfers received by DEKA² from the state budget, not previously recorded as a budget expenditure. These two elements led to the decrease in the surplus of the extra-budgetary funds. Due to the new information received on tax receipts, the item "Other accounts receivable" for 2005 was also subject to revision, but in the opposite direction.

The figures reported in EDP Table 2C (local government) were revised due to new estimates as well as due to the inclusion of accrual adjustments of expenditure of the municipalities (the public corporations belonging to municipalities were included for first time at EDP of April 2006).

Similarly to the revisions made in the data for the extra-budgetary funds, one of the causes of the revisions in social security funds (EDP Table 2D) was a correction for the transfers from the state budget. A second type of revision (only for year 2005) reflects new information with access to survey results: the EDP data reported in October are based on the survey, contrary to the April data, which use the budgeted figures.

As far as EDP Table 3 is concerned, changes were made in EDP Table 3E (transition to the change in debt of social security funds) mostly. The most significant revisions were made in the transactions in "Currency and deposits" and in "Shares and other equity". All these revisions led to a significant improvement of the discrepancy situation, except for the year 2003 (increased and substantial discrepancy).

¹ GDP as reported in April 2006.

² An extra-budgetary fund dealing with privatisation.

A second part of the meeting was devoted to discussing the implementation of the Eurostat decision on the recording of purchases of the military equipment. The official of the Ministry of finance leading the working group dealing with the issue of transition from the cash to the delivery method, was present in the discussion. Greece for the moment does not have sufficiently reliable information on deliveries. Despite the fact that the transitory period indicated in Eurostat's news release on military expenditure has expired, the cash method of recording will be used by Greece for the October 2006 notification for the whole reporting period 2002-2005. The method of recording based on deliveries will be used from the April 2007 notification onwards.

Eurostat expressed overall satisfaction with the implementation of the recommendations of the Methodological visit. The new elements raised by the Greek authorities on the issue of the recording of transfers from EU still needs further reflection by Eurostat.

Introduction

In accordance with article 8d of Council Regulation (EC) No 2103/2005 of 12 December 2005 amending Council Regulation (EC) No 3605/93 as regards the quality of statistical data in the context of the excessive deficit procedure (hereinafter the Regulation) Eurostat carried out an EDP dialogue visit in Greece on 29 September 2006.

The delegation of Eurostat was headed by Mr. Nørlund, director of National and European Accounts. The Directorate general for Economic and Financial affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. The Greek statistical authorities were represented by the National Accounts Department of the National Statistical Services of Greece (NSSG), the Ministry of Economy and Finance (MoE&F), the General Accounting Office (GAO) and the Bank of Greece (BoG).

Eurostat carried out this visit as a back-to-back visit to the second EDP Methodological visit. The discussions had two objectives: 1) to study the implementation of changes of the fiscal data as proposed by Eurostat during the methodological visit, within the draft October 2006 EDP notification; 2) to discuss the implementation of the Eurostat rules on recording of military expenditure released on 9 March 2006.

1. Review of the draft October 2006 EDP notification

Introduction

The aim of this point of the agenda was to examine the implementation of the Eurostat recommendations made during the Methodological visit within the October 2006 EDP notification. The Greek authorities presented draft EDP tables, and explained the changes they have made.

A first group of problems identified by Eurostat during the methodological visit originated from the survey as a main data source for the calculation of B.9 of extra-budgetary funds, social security funds and, for recent years, local government. The replies received, in particular for the extra-budgetary funds for all the reported years and for the social security funds for the year $t-1$, did not have sufficient coverage and timeliness; in addition the surveys had been processed so far without any checks for overall consistency undertaken on the replies and without any systematic exploitation of financial data.

Another problematic field was the recording of intergovernmental transfers which are adjusted for on the revenue side with amounts observed on the expenditure side (the State budget), as well as some instances of transfers which were reported only on the revenue side of the recipient (DEKA) but not on the expenditure side of the provider (the State).

The discussion on Table 3E focused on the amounts reported under currency and deposits, which were changed at the initiative of the Bank of Greece, and under shares and other equity, which the methodological mission had found to be unsubstantiated and implausibly high.

1.1 EDP Table 1

Introduction

The Table below shows the revisions of Net lending (-)/Net borrowing (+) (B.9) in all sub-sectors of general government for years 2002-2005 between the April 2006 notification and the draft October 2006 notification. The substantial revision of the GDP reported in the draft EDP Table 1 was not subject to close examination of this mission³.

Findings and conclusions

Eurostat took note of the noticeable increase in the notified deficit. It pointed out that the revised GDP will have to be carefully examined by Eurostat's services in charge before its validation for the purpose of the October 2006 notification.⁴

1.2 EDP Table 2A

Introduction

Eurostat examined the implementation of the recommendations of the Methodological visit in respect to the improvement in quality of the data of the survey for extra-budgetary funds, the correct recording of intergovernmental transfers and of transfers from the EU. In addition Eurostat further inquired on a revised data for "Other accounts receivable" related to taxes, which was a new element, outside the scope of the Methodological visit.

Discussions and methodological analysis

The most significant changes in Table 2A were made in the line Net borrowing (-)/ net lending (+) (B.9) of other central government bodies, for two reasons:

a) new information from the survey of the extra-budgetary funds (EBF) increased the coverage of the questionnaire, which directly and indirectly improved the accuracy of the results for years 2003, with an impact for all years: 2003-2005.

The problems resulting from the low coverage of the survey of EBF had been pointed out during the methodological visit in June 2006. The NSSG staff made a substantial effort in improving the coverage in particular for the year 2003, notably by liaising with reporting units. This also led to improvements of the extrapolated figures for the years 2004 and 2005.

b) revision of the item "Current transfers within general government" (D.73)

In order to calculate B.9 of the EBF, the NSSG staff used a transition table where they substituted the amounts of intragovernment transfers (D.73) reported in the survey with amounts reported by the state budget, notably, thus changing the balance reported by the Survey. Eurostat suggested adopting a procedure that generally leaves unchanged the Survey's balance. Besides, the revenue from transfers reported in the Survey included injections of the State into DEKA while no counterpart expenditure was recorded in the State's working

³ The GDP as notified in April 2006 is used in this table. In October 2006, the GDP had been revised upward by the Greek authorities by about 25% from the previous notification.

⁴ In its News Release 139/2006 dated 23 October 2006, Eurostat used the GDP as notified in April 2006, making the following comment under **Amendments by Eurostat to reported data**: "Greece: Eurostat is using for the purpose of this EDP notification the GDP figures notified in April 2006, and not the revised GDP data reported by the Greek authorities on 1 October 2006. Given the magnitude and complexity of the revised GDP data (an increase of 25% compared to the old figures), Eurostat will carry out a complete verification of GDP data once Greece has delivered a full inventory of the sources and methods used for the new calculations".

balance (for 600 mio EUR in 2003 and 640 mio EUR in 2004), an anomaly identified in the September methodological visit. This information was also corrected by eliminating those proceeds from DEKA's revenue.

Some revisions relate to the item "Other accounts receivable" (+180 mio EUR in 2005) – accrual recording of taxes. Greece uses the simple time adjusted cash method, with a time lag of two months for some direct taxes. Due to the unavailability of data, the figure in the April notification was based on adjustments for one month only. This was corrected in the October 2006 notification.

Pending clarification of administrative arrangements for the EU transfers features with the EU Commission other Directorate Generals' colleagues, Eurostat accepted the current way of recording of transfers from the EU, whilst noting that the time lag between the actual expenditure and the moment of submission of claims was substantial (often many years). The June Methodological visit had suggested using the time of cash expenditure instead of the moment of claim to record the time of the EU revenue, with noticeable impact on deficit profile in 2000-2005. However it has been indicated by the Greek authorities that a large component of the claimable expenditure was in fact known to be eligible claimed only after the expenditure (and sometimes very long after). Therefore no revision to the April data was made in this respect. An issue should be nonetheless re-examined, for a mistake apparently made in the April 2006 calculation, in particular concerning the years 2002-2003, which was identified during the June Methodological visit. This will be addressed in the bilateral clarification within the October 2006 EDP assessment.

Minor revisions had been made in the item "Other adjustments".

Findings and conclusions

Eurostat took note of the noticeable change in the data for the other central government bodies. The remaining problems of recording of EU transfers will be discussed with the Greek authorities during the October 2006 EDP notification assessment.

1.3 EDP Table 2C

Introduction

The Methodological visit had revealed some weaknesses, and in particular a low coverage of the responses to the survey of local government, and a poor timeliness of the Census. The Census collects detailed information for all municipalities, within an integrated framework, but is available only with four years delay (year 2002 as for October 2006 notification).

Discussions and methodological analysis

As recommended during the methodological visit in June 2006, the Table 2C shows now, in the line "Working balance", the balance resulting from the Census, and all additional adjustments to B.9 are also now reported in the table. This is only a presentational change with no impact on the B.9. Some technical discussions on the appropriate reporting of certain transitional items were carried out.

Transactions in equity were reviewed downwards. In addition accrual adjustment of expenditure was added as a new entry. These two elements lead to the downwards revision of NB/NL of local governments as shown in the table.

Findings and conclusions

The table was accepted by Eurostat as presented after agreed amendments during the meeting.

1.4 EDP Table 2D

Introduction

In the past, Eurostat had questioned at several occasions the high surpluses of the social security funds, and the size of the statistical discrepancies and of some large undocumented transactions in financial assets. The source of data for calculation of B.9 is, for the year t-2, the survey complemented by information on transfers from the State budget for a transition table. The transition table from the results of the survey to the EDP Table 2D had proved deficient, leading to the overestimation of social security funds surpluses. The figures for the year t-1 for the April notification are routinely estimated and then corrected according to the results of the Survey first available for the October notification.

Discussion and methodological analysis

A downwards revision in the net lending / net borrowing of Social security funds for 2002-2005 was made of close to 300 mio EUR a year, due to a change in the transition table. This results from a correction for the amounts of intra-government transfers paid from the State budget to public hospitals (as suggested by the June EDP Methodological visit).

The second cause of revision, impacting only the B.9 of the year 2005, was due to changes of figures for the year t-1. In the April notification, the year t-1 is estimated based on the Social budget of the Ministry of Employment and Social Protection and on the observed transfers from the State budget to the Social security funds. The figure of B.9 in the October notification is calculated from the results of the Survey collected during the year (90% coverage).

Findings and conclusions

The table was accepted by Eurostat after amendments presented during the meeting.

1.5 EDP Table 3B

Introduction

There was no specific issue to be discussed.

Discussion and methodological analysis

The figures were significantly revised only in the item "Other financial assets", due to tax accruals (see section 1.1). The Greek authorities could not provide the detail of privatization proceeds other than those carried out from DEKA.

Findings and conclusions

The table was accepted by Eurostat as presented during the meeting. The Greek authorities would provide the detail of privatization proceeds, also requested in the *questionnaire related to EDP tables* foreseen under Council Regulation 3605/93, as amended.

1.6 EDP Table 3D

Introduction

Eurostat found the data sources and the way the debt of local government is calculated, generally sound.

Discussion and methodological analysis

The revisions made in table 3D can be explained by improved information on the financial side coming from the survey.

Findings and conclusions

The table was accepted by Eurostat as presented during the meeting.

1.7 EDP Table 3E

Introduction

The financial part of the Survey and the money and banking statistics are the data sources for the calculation of table 3E. In previous EDP notifications this table showed substantial unexplained statistical discrepancies. In addition, the transactions in shares and other equity reported implausibly high and undocumented amounts for the year 2002. Bank of Greece had suggested changing source data for the deposits position in order to avoid vertical inconsistencies that can arise because of timing differences ('float') in the recording of deposits by banks and SSFs.

Discussions and methodological analysis

Following up on the suggestions made during the Methodological visit, the Greek authorities changed the way of compiling Table 3E. This resulted into substantial revisions in the items "Currency and deposits" and "Shares and other equity" for 2002-2005. The item "Securities other than shares" was revised to a lesser extent using some supplementary information from the Survey. In addition a new entry was reported for "Loans", using the Survey.

The source data for 'currency' can, according to the Greek authorities, only be the Survey since money and banking statistics provide no information on this item. The Greek authorities felt that the difference between using the two alternative sources is relatively small and should not be overestimated. The BoG was certainly not against the use of money and banking data. However, it was in favour of keeping the Survey source data for currency and deposits in order to avoid constant revisions in the EDP Tables and since, in principle, direct sources are preferable to indirect ones.

All the abovementioned adjustments led to improving the discrepancy situation of Social security funds for the years 2002, 2004 and 2005. However the discrepancy for the year 2003 remains high (even increased) and the reason remains to be investigated during the October 2006 EDP assessment. In addition, the quality of the new data on currency and deposits seemed debatable, as it relies on the old and unchecked results of the Survey.

Findings and conclusions

Eurostat took note of improvements made in some categories of Table 3E. The origin of the substantial discrepancy in 2003 will be investigated by the Greek authorities and discussed during the October 2006 EDP notification assessment. In this context, the Greek authorities will consider whether the new source data for currency and deposits is sufficiently solid for the reporting period 2002-2005.

1.8 Revisions in total discrepancy

Introduction

In the April 2006 notification, the discrepancy reported for general government was over 0.4% GDP on average over 2002-2005. This amount of positive and nonnegligible discrepancy, presumably signalling either underestimation of deficit or wrong calculation of the debt, was not acceptable for Eurostat.

Discussions and methodological analysis

The changes in data made by the Greek authorities based on recommendations of Eurostat led to a reduction of discrepancies to an acceptable level, with the exception of the sub-sector of social security funds for 2003, for which it remains significant.

This table shows the changes in discrepancy after revisions made in Tables 3B-3E:

Findings and conclusions

Eurostat expressed satisfaction with the results reached as far as the discrepancy is concerned. However an effort should be made in order to find the source of discrepancy in social security funds in 2003.

2) Military expenditure

Introduction

According to the Eurostat ruling, countries should report their government deficit using delivery source data, when those are reliable, or proxies thereof. In 2004, Eurostat and Greek authorities agreed that the data currently available were not of sufficient quality. In order to ensure availability of trustworthy information, the Greek authorities apply the transition period foreseen in the Press Release of Eurostat, which allows, but only for contracts with prepayments, the use of cash reporting for year 2004 and before, and requires deliveries or

proxies thereof from 2005 onwards (with apportioning accordingly the latter for expenditure recorded at time of prepayments in earlier years).

Methodological analysis

A working group has been established nationally to work on the problem. The Greek authorities informed Eurostat on the progress made by this working group. A new data division has been established in the Ministry of defence for gathering delivery data. Eurostat was informed that for the moment only accumulated amounts up to the year 2005 for deliveries and for payments for all ongoing contracts are available. The Greek authorities recognized that 50-60 contracts related to big equipment (out of 600 contracts currently existing), where the cash data might be corrected for very big deliveries, could be identified.

The Greek authorities declined providing to the mission an estimation of the amounts accumulated to data on prepayments and on deliveries, as those were deemed too fragile.

The Greek authorities claimed that in the absence of availability of separate figures for deliveries for the year 2005, they are not able to comply with the Eurostat decision for the October 2006 notification. They committed to be in compliance with the rules for the April 2007 for the data starting 2006.

Findings and conclusions

Due to lack of reliable information the Greek authorities will report military expenditures using cash for the October 2006 notification for the whole reporting period 2002-2005. The Eurostat ruling on recording military expenditures will be implemented for the first time for the April 2007 notification for the years starting 2006 onwards.