



EUROPEAN COMMISSION  
EUROSTAT

Directorate C: National and European Accounts  
**Unit C-3: Public finance**



**REPORT ON THE EDP FOLLOW-UP METHODOLOGICAL  
VISIT TO GREECE**

**15–19 September 2008**

## List of acronyms

Acronym	Meaning
BOG	Bank of Greece
CSF	Community Support Framework
DEKA	Public Enterprise for Liquid Assets
EDP	Excessive Deficit Procedure
ESA 95	European System of Accounts 1995
GAO	General Accounting Office
G-SPA	Greek Single Payment Authority
MEF	Ministry of Economy and Finance
NAD	National Accounts Department of the NSSG
NPDD	Legal units of general government
NSSG	National Statistical Service of Greece
PIP	Public Investment Programme
STA	Single Treasury Account
TSA	Treasury Single Account

# **Eurostat Follow-up methodological visit to Greece, 15-19 September 2008**

## **Main conclusions and action points**

### **Background**

In the News release of Eurostat on the provision of government deficit and debt no 54/2008 of 18 April 2008, reservations were expressed with respect to the notified deficit by Greece in the following terms: "*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.*"

On 2-3 June 2008, Eurostat conducted a visit to Athens with a view to address these issues. Progress was made notably with respect to a better understanding of the source data used for the recording of EU grants which led to an upward revision in the deficit of 681 million euro in 2007. The June 2008 visit also concluded that the 2007 figure notified in April 2008 was based on insufficiently complete source data and that a large discrepancy had appeared in the accounts of central government (budgetary central government and extra budgetary funds), which required more detailed investigation. More details can be found in the Main Findings of the June 2008 EDP visit.

It is recalled that an EDP Methodological Visit to Greece was conducted in 2006, following the expression of reservations in the News release on the provision of government deficit and debt of April 2006, which led to a detailed Action Plan that was accepted by the Greek Statistical Authorities. Eurostat wished to monitor progress with respect to the implementation of the Action Plan. It is also recalled that progress made in the second semester of 2006 led to the removal of the reservations to the Greek data on the occasion of the October 2006 notification.

The new reservations expressed in April 2008 concerned certain issues that had not been the focus of the 2006 investigations: methods for recording EU flows, and the accounts of budgetary central government.

### **Objective of the visit**

The general objective of this visit was to review the progress made by the Greek authorities with respect to the recommendations from the EDP methodological visit undertaken in 2006 as well as from the EDP visit undertaken in June 2008, with the view to solve all outstanding issues before the October 2008 EDP notification.

The main focus of the visit was to agree on the appropriate corrections 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.

## **Main findings**

The Eurostat delegation was headed by Mr. Luca Ascoli (Head of unit C3, Eurostat) and included Mr. Jean-Pierre Dupuis (C3, Eurostat), Mr. Stylianos Pantazidis (Eurostat) and Mr. Philippe de Rougemont (Banque de France). Eurostat held discussions with the National Accounts Department (NAD)<sup>1</sup> of the National Statistical Service of Greece (NSSG), the Ministry of Economy and Finance (MEF) (General Accounting Office – GAO – and Greek Single Paying Agency – G-SPA) and the Bank of Greece (BOG). Eurostat appreciated the high level of cooperation from the Greek statistical authorities, particularly a quick and broad access to source data.

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.

Eurostat also reviewed the source data for the compilation of the extra-budgetary funds and social security funds, and found insufficient progress with respect to a more comprehensive exploitation of the results of the Survey.

### **Agreed short and medium term actions for the Greek authorities**

#### ***(A) Short term actions (for the October 2008 EDP notification)***

- (1) Upward revision of the government deficit by €300 mill due to updated data sources for extra-budgetary funds and social security funds.
- (2) Correction of the recording of taxes paid by DEKA which should appear as expenditure of extra-budgetary funds, raising the government deficit by €326 mill in 2006 and €122 mill in 2007.
- (3) Reduction of the annual surplus of the social security sub-sector by €150 mill over the period 2004-2007 related to a debt assumption operation undertaken by government in 2001 for trade credit liabilities of public hospitals.
- (4) Correction of the recording in Table 3B of the accrual indexation relating to inflation indexed bonds for the period 2004-2006 resulting in a reduction of the statistical discrepancy for central government.
- (5) Inclusion in the financial accounts of two Treasury accounts relating to the EU flows (account 242174 in debt and account 4071 in payables).
- (6) Clarification of the statistical treatment of the balances of the remaining accounts. The General Accounting Office (GAO) decided after the visit to include half of the remaining extra-budgetary accounts in the deficit and the other half in the financial accounts

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<sup>1</sup> See page 2 for the acronyms used in this report.

(7) A clarification of the reporting by the public hospitals of State payments related to the 2001 trade credit liability operation.

(8) A report to Eurostat with monthly cash information on taxes for the period 2006-2008.

***(B) Medium term actions***

(1) The Greek statistical authorities will 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)

(2) The Greek Statistical authorities will examine the classification of various entities of government within Money and Banking statistics (for the April 2009 notification)

(3) The NSSG will make a fuller exploitation of the results of the Survey and resend systematically imbalanced questionnaires, giving priority to the imbalanced questionnaires of big units. The NSSG will intensify its efforts in order to improve coverage for social security funds in October (for the October 2009 notification) and to ensure a satisfactory minimum coverage in April (for the April 2009 notification)

(4) The Greek statistical authorities will correct the figures for the period 1998-2001 by including tax refunds that did not enter the working balance (for the April 2009 notification).

The above table is a summary of actions. More detailed findings and actions are presented below.

Furthermore, a matrix including all the recommendations made to the Greek statistical authorities by Eurostat during the EDP dialogue and Methodological visits of May – June and September 2006 (Report) as well as during the Follow-up Methodological visits of June and September 2008, is attached to this report. Eurostat requested the NSSG to fill out the matrix (enclosed), as well as to update the July 2008 NSSG Progress Report to Eurostat before April 2009 notification.

**A. Findings agreed with the NSSG:**

A.1. **Updates in source data** will lead to a reduction in the notified surpluses for year 2007 by around 200 million euro compared to April 2008 for **Extra-budgetary funds (EBF)** and by around 100 million euro for **social security**.

The coverage as of 15 September 2008 concerning EBF is satisfactory, at this stage, for the year 2007 but is insufficient for year 2006. Coverage concerning the social security fund is somewhat insufficient, reaching 88% of revenue but only 70% of the surplus.

A.2. An anomaly has been identified with **taxes paid by DEKA**, which were not reported as expenditure in the EBF, leading to a revision worsening the deficit by -326 million in 2006 and by -122 million in 2007.

A.3. Concerning a debt assumption **operation conducted in 2001** by central government for **trade credit liabilities of public hospitals**, Eurostat noted that flows of payables/receivables had not been included in central government and social security accounts, leading to a reallocation of the discrepancy between government sub-sectors, by about 200 million euro a year over 2004-2007. Further NSSG investigations after the visit showed that  $\frac{3}{4}$  of hospitals reported as "revenue" the central government debt service payments, which is inappropriate. This leads to a reduction in the annual social security surplus of around 150 million euro.

A.4. Eurostat agreed with the Greek statistical authorities that the accrual indexation pertaining to **inflation indexed bonds** had been erroneously entered in Table 3B for years 2004-2006, which leads to a reduction of the discrepancy of central government by 100-200 million Euros a year.

A.5. With respect to **Treasury accounts**, Eurostat agreed that:

A.5.1 two Treasury accounts relating to EU flows should be entered in the financial accounts: one in debt (account 242174) and one in payables (account 4071), with a scope to reduce the discrepancy (account 4071 had already been introduced for 2007 following the June 2007 visit).

A.5.2 the remaining Extra-budgetary Treasury accounts may also be entered in EDP table 2A or 3B, with a reduction in the discrepancy, pending an investigation on the likely 2007 impact.

#### **B. Actions agreed in time for the October 2008 notification:**

B.1 The General Accounting Office (GAO) and Eurostat will **clarify the likely impact for the 2007 accounts of the inclusion of the extra budgetary accounts**, and will decide the way forward, and notably the extent of the inclusion of these accounts in Table 2A, with an impact on the deficit.

*After the visit, the GAO decided to include all the remaining accounts in EDP tables,  $\frac{1}{2}$  in the deficit and  $\frac{1}{2}$  in the financial accounts, leading to an upward impact of +/- 100 million euro a year on the deficit and +/- 200 million euro a year reduction in the discrepancy.*

B.2 The NSSG will clarify **whether and how hospitals report, in the Survey, the State payments covering the debt service related to the 2001 trade credit liability operation.**

*After the visit, it turned out that  $\frac{3}{4}$  of hospitals report these payments in their deficit, which would lead to a reduction of about 150 million euro a year in the 2004-2007 social security surpluses as well as in the discrepancy.*

B.3 The NSSG will report to Eurostat monthly **cash information on taxes** covering 2006-2008, both from the tax directorate and the GAO (Budget).

#### **C. Actions agreed for the medium term:**

C.1 The Greek Statistical Authorities need to **classify each of the Extra budgetary accounts**, to decide where to report them: in EDP table 2A (adjustment to the deficit) or Table 3B (in debt or in payables). This requires the full support of the BoG and should be completed by April 2009.

C.2 The Greek Statistical Authorities need to **examine more carefully the classification within money and banking statistics of various entities of government**. This should be completed by April 2009.

C.3 Concerning the **Survey**, the NSSG needs to:

C.3.1. exploit more fully the results of the Survey balance sheet.

C.3.2. resend systematically imbalanced questionnaires, starting from the biggest ones.

C.3.3. improve coverage for social security in October (for October 2009) and ensure a minimum coverage in April (for April 2009).

C.4 The Greek Statistical Authorities need to **correct the years prior to 2002 for tax refunds** that were not entered in the working balance (for a total of 5 billion euro, mostly over 1998-2001). This is without effect on the 2002-2007 accounts.

### The impact on the deficit

The impact on the notified deficits of the finding above (as of 25 September 2008) was expected to be close to the following (pending further investigation by the Greek authorities and further provision of data to the Greek statistical office): the deficit is revised upward by around 1460 million euro in 2007 (or +0.6% of GDP) from 2.85% to 3.48%, by 355 million euro in 2006, 46 million euro in 2005 and 298 million euro in 2004

The origin of the revision by 1460 million euro of the 2007 deficit results from:

- Updated source data for 430 million (taxes, EBF and social security)
- Corrections in compilation relating to the EU for 681 million
- Corrections for the recording of certain operations on hospital debt and DEKA taxes for 266 million and
- New methods to capture Extra-budgetary accounts for 83 million

	2004	2005	2006	2007	2004-2007
<b>Deficit April 2008</b>	<b>-13672</b>	<b>-10204</b>	<b>-5646</b>	<b>-6514</b>	<b>-36036</b>
GDP	185225	198609	213985	228949	
%	<b>-7.4</b>	<b>-5.1</b>	<b>-2.64</b>	<b>-2.85</b>	
EU			231	-231	0
EU				-290	-290
EU				-160	-160
Taxes				-130	-130
EBF				-200	-200
SS				-100	-100
DEKKA			-326	-122	-448
Extrabudgetary accounts	-145	104	-114	-83	-237
Hospitals	-153	-149	-146	-144	-593
Sum of corrections	-298	-46	-355	-1460	-2158
<b>Deficit 25 September 2008</b>	<b>-13970</b>	<b>-10250</b>	<b>-6001</b>	<b>-7974</b>	<b>-38194</b>
%	<b>-7.5</b>	<b>-5.2</b>	<b>-2.80</b>	<b>-3.48</b>	
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## The impact on the discrepancy

The impact on the notified discrepancy of the findings above (as of 25 September 2008) would be as follows: the discrepancy is revised downwards by 1074 million euro in 2007, 1100 million in 2006 and 483 million in 2004, and upwards by 184 million in 2005.

The origin of the revisions by -1074 million euro in the 2007 discrepancy results from:

- Updated source data for -300 million euro (EBF, social security);
- Corrections for the recording of certain operations on hospital debt and DEKA taxes for -266 million euro; and
- New methods to capture Extra-budgetary accounts for -526 million euro.

The revision in discrepancy can also be described as follows:

- An increase in the deficit of 649 million euro (the remaining 811 million euro, out of the total 1461 million euro revision, being neutral for the deficit, also reducing financial flows);
- A lower increase in debt for 357 million euro; and
- An increase in the flow of payable/receivable for 69 million euro.

	2004	2005	2006	2007	2004-2007
<b>Discrepancy Central government April 2008</b>	<b>-474</b>	<b>81</b>	<b>456</b>	<b>1251</b>	1314
EBF source data				-200	-200
DEKA taxes			-326	-122	
Hospitals	-204	-199	-195	-192	-790
Index securities	-77	-107	-126		-310
EU account 242174	153	216	-295	-357	-283
EU account 4071	-117	17	20	417	337
EU account 4071				-403	
Other accounts	-289	207	-227	-165	-474
<b>Discrepancy Central government 25 September 2008</b>	<b>-1008</b>	<b>215</b>	<b>-693</b>	<b>229</b>	-1257
<b>Discrepancy Local government</b>	<b>34</b>	<b>-392</b>	<b>-42</b>	<b>-256</b>	-656
<b>Discrepancy social security April 2008</b>	<b>44</b>	<b>-81</b>	<b>148</b>	<b>299</b>	410
SS deficit change				-100	-100
Hospitals	51	50	49	48	198
<b>Discrepancy social security 25 September 2008</b>	<b>95</b>	<b>-31</b>	<b>197</b>	<b>247</b>	508
<b>Discrepancy General Government April 2008</b>	<b>-396</b>	<b>-392</b>	<b>562</b>	<b>1294</b>	1068
<b>Discrepancy General Government 22 September 2008</b>	<b>-879</b>	<b>-208</b>	<b>-538</b>	<b>220</b>	-1405.5
Difference	<b>-483</b>	<b>184</b>	<b>-1100</b>	<b>-1074</b>	-2473.5
Impact deficit	-298	-46	-586	-649	-1577.5
Impact debt	153	216	-295	-357	-283
Impact F.7 or other	-339	14	-220	-69	-613
Control	0	0	0	0	0
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# Main Report

## 1. Budgetary Central Government – source data and methods

Eurostat recalled that preliminary indications provided by the Greek statistical authorities suggested that a large discrepancy existed in the accounts of budgetary central government. Eurostat thus aimed at documenting to the largest extent possible the source data available and exploited as well as the methods used.

### *1.1 Access to source data by the NSSG*

Eurostat noted that there was a practice where the NSSG was not provided with any database on the budget execution and/or other relevant document in time for the first notification (April) or for the second notification (October). The Greek authorities indicated that budget expenditure is recorded in the Budget Outturn only after “validation” by the Court of Auditors (until April of the following year) and that the Budget Outturn was finalised only in October. The NSSG staff had a practice of taking delivery of the key data necessary for the compilation of the EDP and ESA table 2 by routine visits to the GAO.

Eurostat noted that it would be appropriate that the NSSG receives a full database by electronic means, even through exchange of spreadsheets, to ensure that the NSSG can monitor and if necessary question the recording of transactions in the budget. Eurostat noted that it was common practice in Europe that the national institute receives comprehensive databases from the MOF, sometimes covering local government, as soon as February/March T+1.

Upon request by Eurostat, Division 20 of the GAO provided Eurostat with provisional budget execution data by main headline.

**Conclusions and recommendation: Eurostat found the arrangement concerning source data transmission to the NSSG as insufficient, and recommended that a comprehensive database be provided by the GAO to the NSSG by electronic means in March and September T+1. It was well understood that data would be provisional, until the third notification.**

### *1.2 Description of key source data for budgetary central government*

Eurostat reviewed some of the key source data available, examining the broad ways these source data function: the budget outturn, and the way the working balance is drawn; the so-called treasury balance sheet (TBS); the sub accounts of the Single Treasury Accounts.

#### *The budget outturn*

The budget outturn 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.

Cash expenditure in the Greek budget are validated with a delay of a few months, with a large part validated in the 4 months of the following year. There exists a complementary period

during which certification leads to the recording in the budget of the expenditure concerned. If validation takes place after April of the following year, the expenditure is accounted in the following year and not in the year of payment. Meanwhile, cash expenditure is accounted for as an "asset" on the TBS.

Eurostat wondered whether this practice may lead to some underreporting of expenditure (due to a delay in recording). The GAO indicated that the non-validation of cash spending was either concerning negligible amounts, or concerning specific transactions that were subject to *ad hoc* treatments.

However, Eurostat noted that the TBS at end-2004 showed entries that implied non validated Public Investment Program (PIP) spending pertaining to previous years: 81 mio euro for 2003; 107 mio euro for 2002; 20 mio euro for 2001; 1 mio euro for 2000; 1 mio euro for 1999; 0.1 mio euro for 1998; 1 mio euro for 1997; 60 mio euro for 1996; 7 mio euro for 1995; 0.2 mio euro for 1994; 2.3 mio euro for 1992; 1 mio euro for 1991. Eurostat requested to be informed of the amounts pertaining to 2004-2007

The budget outturn shows inflows and outflows in balance, as borrowings are accounted for in inflows (account 5000) and repayments in outflows (account 6200 mostly), but also because the net result of the year is entered within inflows or outflows in a manner to obtain balanced inflows and outflows. Eurostat verified that these latter balancing entries are not considered in the working balance: as an example, the "deficit" of 2006 (of the State deficit on an inflow/outflow basis) of 3406 million enters the accounts 5113, 5191 and 9112, which are excluded from the revenue/inflow considered in the working balance – as is appropriate.

The inflows show budget tax revenue and other revenue, as budgeted and as realised, including on a gross and net basis, as well as assessed amounts, amounts written off, and amount assessed and not yet collected. Until 2001, tax refunds were accounted as expenditure, and non validated tax refunds would appear on the TBS rather than in the budget – see below. Since 2002, most tax refunds are netted from revenue in the Budget Outturn presentation. It should be noted that Greece uses a time adjusted cash method for recording ESA taxes – see below.

#### *The Treasury Balance Sheet (TBS)*

The Treasury Balance Sheet is a document that results from the accounting actions of the various public accountants across Greece. In essence this document is very different from a balance sheet in the usual terms, in business accounting or in national accounts: it does not purport to show all assets and liabilities. As an example, the Treasury bank account at the central bank would not necessarily be observable there, and if it were, it would not necessarily be in accordance with BoG reporting; this is because the TBS would reflect an accumulation of entries since 1927 that would not be reconcilable with the observed bank accounts, at least in levels. The GAO indicated that reconciliation exercises were routinely conducted for internal purposes, but only for flows, and not for stocks.

Eurostat had nonetheless recommended during the 2006 methodological visit that the TBS be studied, as some valuable information might exist for the compilation of the financial accounts, notably with respect to third party relationships.

In addition, the monitoring of the TBS belongs to a broader monitoring of fiscal operations, and of the realised budget, although requiring a specific expertise.

In the TBS presentation, expenditure spent in a year but not validated by 31 December will show on the TBS as an asset, with a consequence that large amounts appear on the TBS.

The TBS shows on the balance sheet the tax returns actually paid but not yet validated (see below), within the position “cashier”, which also includes currency at hand in cashiers offices but not deposits at the BoG.

The debt appears on the liability side, together with the account that is used to reach an accounting balance of the budget, among others.

**Eurostat took note of the architecture of the Budget and of the TBS in Greece and encouraged the NSSG and the GAO to explore further to what extent the monitoring of the TBS might add value to the EDP monitoring process.**

**Eurostat took note that the GAO considers that non-validated spending concern negligible amounts or specific transactions that are subject to specific treatments. The GAO is to provide the amounts of non validated cash PIP spending pertaining to 2005, 2006 and 2007, and for 2003-2007: the stock of non-validated spending for previous years, the flow of non validated spending, and the flow of spending of previous years validated in a given year.**

#### *The Special Treasury Accounts*

The Greek government maintains a Treasury Single Account (TSA) (Account 28) at the BoG that comprises a number of sub-accounts, which is important for the resolution of the existing discrepancy in the EDP notifications.

#### *Types of accounts*

Account 28 is composed of account 200 as well as 11 families of other accounts, that have a character of extra-budgetary accounts.

Account 200 (as well as the account related to NATO within 234) captures all transactions that transit via, or that are reported in, the budget: cash transactions in revenue, expenditure, borrowing, debt redemption etc. As indicated above, account 200 will be impacted by cash expenditure not yet validated and thus not reported in the budget as they will be added as an asset to the TBS.

In contrast, the other sub-accounts (203, 209, 231, 232, 234, 240, 242, 4071, 611451, 651/1) 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, as in the case of the suspense account of the Greek Single Payment Authority (G-SPA) dealing with the EU flows. Some have a nature of correspondent accounts: deposits held by third parties at the Treasury.

These classes of sub-accounts encompass hundred or thousands of individual accounts, and the GAO could not be sure at the time of the visit of the exact composition of each class, although the predominant activity was often identified.

Account 231 contains money held for investment projects financed by the PIP that benefit non state entities (project funds that benefit the State are sub-accounts of account 200). Account 232 contains petty cash from ministries or other moneys managed by “responsible officers”, when deposited at the central bank. Receipts of accounts 231 and 232 originate from the budget, and there was a question as to whether the time of recording of the expenditure (when recorded in the budget, instead of when spent out of accounts 231 and 232) was appropriate.

Account 234 contains special accounts such as for guarantees, for airports (fees), for coinage etc. Account 242 comprises suspense accounts created by the BoG for practical purposes, notably with respect to PIP spending. Account 240 includes accounts for Eurocontrol, public lottery, EU funds and dividends from the Credit and Loans Corporation.

Account 4071 notably contains the G-SPA suspense account, with a large jump of more than 400 million euro mostly related to the advance on the 2007-2013 Programme received from the EU but not yet entered in the budget 2007. Eurostat recommended recording a payable in EDP table 3B in 2007 for this amount (403 million), which led to an increase in the discrepancy.

The GAO staff indicated that the account 242174 seemed to be an account controlled by the EU, where the Greek government deposits its EU contributions and from which the EU commission makes transfers (i.e. for agricultural subsidies, or even transfers abroad). Eurostat agreed that this 242174 account should be included in Maastricht debt, under currency and deposits.

Account 611451 reflects a tax collected on bank transactions, whilst expenditure, originally for subsidizing export insurance, are limited, with the effect that the account has large annual surpluses.

### *Analysis*

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, the biggest being account 611451.

Eurostat noted that neglecting any of these accounts was a certain cause of discrepancy. This is because the financial accounts report the whole account 28 as government deposits, and thus its change during an accounting period scores as financing, while the matching expenditure is on a realised budget basis. In total there was a time of recording issue of expenditure. It remained to be seen if some revenue or some expenditure could remain permanently excluded, although the GAO staff did not think so.

By the same token, some accounts with a financing nature were not included in the financial account as they should, thus also leading to a discrepancy.

Eurostat noted that in concept the whole of these accounts (their annual change) should enter either Table 2A or Table 3B:

- When the time of recording of the budget expenditure or revenue is inappropriate in national accounts, an adjustment is to be entered in Table 2A, leading to either a higher or a lower deficit, and an impact on the discrepancy;
- When the account can be interpreted as a third party account, an amount should be reported in change in debt (liabilities in deposits), with an impact on the discrepancy;
- In other cases, an entry in payable/receivable would be appropriate. In the case of the G-SPA accounts the payable recorded is simply in application of the Eurostat decision on EU flows (cash advances are not revenue, but a liability to the EU, pending actual EU financed expenditure). In the case of a suspense account relating to expenditure, the interpretation is that the beneficiary of the expenditure has acquired a claim when the cash leaves account 200, whereas he has received no cash: these would be conceived as similar to the issue of a cheque.

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 it may not be prudent to change the deficit at this stage. It suggested that these accounts be reported in the financial accounts, pending further investigation.

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 reasoned that the whole account should be in EDP Table 2A or Table 3B. It did not feel that corrections should be made only for the two EU related accounts. Eurostat felt that three alternatives were possible at this stage:

- Option a. Put in the EDP tables, aside from the two EU accounts, everything into EDP Table 2A – with an impact on the deficit.
- Option b. Aside from the two EU accounts, record everything in EDP Table 3B – with no impact on the deficit (GAO proposal).
- Option c. Aside from the two EU accounts, record half in EDP Table 2A and the remainder in EDP Table 3B – with an impact on the deficit, but half the size of option a.

The EU delegation felt that this third option would be generally more prudent, and would most certainly limit the size of revisions once detailed information is eventually available.

During the visit, some uncertainty existed as to the impact on the year 2007. The meeting concluded that clarification of the impact for 2007 would need to be made shortly after the visit.

### *Amounts*

This section describes the amounts in million euro of a selected number of Treasury sub-accounts of account 28, as of end of each year.

The comparison between the change in these accounts, except accounts 200, 4071, and 242174, and the amounts reported in EDP table 2A under the item “extra budgetary accounts” leads to a potential impact on EDP table 2A (on the deficit) or Table 3B (outside the deficit).

Account 200 enters negatively, because it is technically in overdraft position. This is without effect given that the BoG considers the TSA in its entirety.

The reduction (or increase in 2005) in the discrepancy results from the previous amount, plus the impact of the two EU related accounts, minus the removal of the entry already existing for 2007 with respect to one of the EU accounts (4071).

In 2006 and 2007, the impact on the deficit could be around 200 million euro a year or 0.1% of GDP. The reduction in discrepancy achieved is of the order of 0.5 billion euro a year or more than 0.2% of GDP.

	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07
Account 28	55	472	823	401	670
Account 200	-3974	-3485	-3830	-4166	-4444
Account 4071	145	28	45	65	482
Account 242174	302	455	671	376	19
Total net	3582	3474	3937	4126	4613
		2004	2005	2006	2007
Total net		-108	463	189	487
Accounted in EDP table 2A		181	256	416	652
<b>Impact on EDP T2A or 3B*</b>		<b>-289</b>	<b>207</b>	<b>-227</b>	<b>-165</b>

\* Potential impact on the deficit (-)

#### Impact on the discrepancy

Impact on EDP T2A or 3B*	-289	207	-227	-165
Impact on debt	153	216	-295	-357
Impact on payable / EU	-117	17	20	417
Payable EU already accounted				-400
Total*	-253	440	-502	-505

\*\* a minus reduces a positive discrepancy

Memo

Discrepancy in April notification  
After taking account EBA

-474	81	456	1251
-727	521	-46	746

**Eurostat concluded that the exclusion of many sub-accounts of the TSA from the EDP notification had been a cause of discrepancy, for substantial amounts. It recommended that the Greek statistical authorities make an effort to take these account into consideration.**

- **In the middle term: the BoG should provide the detailed list of these accounts to Directorate D49, which will then return to BoG a classification (suspense account to enter the deficit, deposits of third parties – possibly by subsectors, accounts to enter as payable or receivables etc..). BoG will then provide to the GAO a regular compilation of these sub-accounts according to the agreed classification.**
- **In the short term: (1) the two EU related accounts are to be reported in the financial accounts (2) clarification is to be made of the eventual impact for year 2007 and (3) all the remaining accounts should enter the EDP tables according to one of the options above (a, b, or c), after consultation of Eurostat.**

### *1.3 Expenditure process*

The GAO recalled that there exist 300 taxes and paying offices (TPA) in Greece, spread over the territory, including one cashier. The cashier executes expenditure and collects revenue. A cashier at the GAO is in charge of debt operations as well as other special operations (i.e. EU-related transactions).

Each line ministry hosts a team of GAO staff, the fiscal audit office that vets spending against ministerial decisions, in accordance with the appropriation, and, after various checks, issues a payment order that is transmitted to the relevant TPA.

Each TPA reports a monthly statement of operations to the GAO, via the Centre of Informatics of the Ministry of Finance (KEPYO). Directorate D24 verifies and conducts the aggregation of these statements.

There is a practice where responsible officers are appointed to carry out expenditure, which leads to the opening of accounts in which cash is deposited, within account 200, or alternatively in extra budgetary accounts or even in commercial banks, and sometimes in banks abroad. For investments (PIP), a similar procedure exists with accounts opened in the names of projects. Cash for PIP investment projects benefiting the State remains within account 200 (blocked amounts); cash of projects benefiting other entities is maintained outside account 200.

When sub-accounts are opened within account 200, the practice is without impact on the EDP tables. When accounts are opened as extra budgetary accounts, a discrepancy occurs unless these accounts are fully captured within EDP tables. When accounts are opened in commercial banks, a discrepancy may arise to the extent that money and banking statistics capture the movement of these accounts. When accounts are opened abroad, the situation is more complex.

The GAO noted that there is a practice where unspent funds are returned to the budget, which would mitigate the extent of the problem, although there are extensions and exceptions to this rule.

**Eurostat took note of the reporting arrangement with respect to expenditure and of the practice in Greece of responsible officers keeping deposit accounts. It encouraged the Greek statistical authorities to investigate whether deposits held in commercial banks may be a noticeable cause of discrepancy and, accordingly, whether a specific reporting should be envisaged to track the appropriate amounts.**

### *1.4 Various units involved and the expenditure chain*

The GAO of the Ministry of Finance (MOF) has a leading role in establishing the accounts of the State in Greece, notably the General Directorate of Treasury and Budget, with its directorates D20, D23, D24, D25 and D.49.

Directorate D24 (State Accounts) acts as the centralising accountant, exploiting the monthly returns provided by the various reporting entities stored by the KEPYO. D24 carries out consolidation and verification of the accounts. It produces the Budget Outturn and the TBS, which leads to two crucial MOF publications. D.24 acts as a middle and back office for debt

management, whilst front office activities are conducted by the Public Debt Management Office.

Directorate D49 (Financial planning) follows the cash flow of the State, monitoring all inflows and outflows, and makes projections (1 day to 2 months). D49 may place excess cash in commercial banks, overnight or up to 1 month. While repos have been used in the past, 6 years ago, this is not currently the case.

Directorate D23 (Public Debt) is in charge of debt operations: borrowing, and debt service. It issues payment instructions directly to the BoG, outside usual procedures, and a reconciliation payment order is issued ex-post; BoG then notifies D23 and D24 of the operation conducted. Reconciliation is conducted between D23 and D24. D23 maintains a debt database, as well as information on derivatives.

Directorate D20 (Budget) is in charge of the budget, and coordinates the drafting of the Budget Report, that introduces the proposed budget, a first estimate of current year and a preliminary outturn of the previous year. D20 takes the lead in the compilation of the working balance of Table 2A, which is also a key policy measure featured in the Budget Report.

Directorate D25 is in charge of guarantees.

## **Eurostat took note of the various responsibilities within the GAO.**

### ***1.4 Content of the working balances***

Eurostat verified the content of the “working balance”, an item that is the subject of a core reporting in the Budget Report of the MOF.

It excludes from the Budget Outturn **inflows** of the accounts 5000 (proceeds of ordinary budget loans) and 9000 (proceeds of PIP loans).

It excludes from the Budget Outturn **outflows** of various accounts:

- 6200: amortization
- 5282: amortization related to securitization operations conducted in 2001
- 2435 part: grants to schools (extra-budgetary funds) that are partly amortization
- 6629: payments related to hospitals arrears, paid out in 2001 by banks on the basis of a central government commitment to pay the amounts due over 2003-2007. The amounts transit via the accounts of hospitals.
- 6900: cash payment for military expenditure. It is noted that the deliveries are then added as a negative adjustment item to the working balance in EDP Table 2A.
- 6800: transfer to social security of bonds – in 2006 to the farmers' social security funds. This item is added as a negative adjustment item to the working balance in EDP Table 2A.
- 3100 part: reflects the late validation by the court of auditors of tax refunds paid out a long time ago and in the main in 1998-2001, which did not enter the working balances at that time, but instead were entered in the TBS pending the court of auditors' validation.



## *Tax refunds*

The GAO recalled that, until 2001, tax refunds were accounted as expenditure – entering account 3100, unless these refunds were not be validated by the Court of Auditors: non validated tax refunds would appear on the TBS rather than in the budget. Since 2002, most tax refunds are netted from revenue in the Budget Outturn presentation. For some reasons, large amounts of refunds were not validated by the Court of Auditors, specially in the years 1998-2001, so that a considerable amounts appeared in the TBS at end-2001: 5.0 billion euro (an increase of +0.6 billion in 1998), +0.6 billion in 1999, +1.4 billion in 2000 and +1.2 billion in 2001.

Since 2002, refunds are mostly netted from revenue, and at the same time, the non-validated amounts are progressively amortized or written off, leading to non cash budget outflows in account 3100. These amortizations and write-offs are excluded from ESA 1995 expenditure as well as from the working balance (EDP Table 2A), as is appropriate.

The GAO provided Eurostat with an extract of account 3100 and of the stock of non validated tax returns over the period 1990-2006.

Eurostat agreed that the amounts related to these write offs (e.g. 1.98 billion euro in 2006) should not score in the deficit at time of write-off (e.g. in 2006). It however noted that these amounts should have entered the government balance for the years prior to 2001. The NSSG staff thought that this had not been the case. Eurostat noted that this would explain a significant proportion of the discrepancy in those years. Eurostat recommended that this issue be one of the priority topics of the task force established for the revision in historical data related to government accounts (1990-2001).

**Eurostat concluded that the exclusion from the deficit of the non cash amortization of non-validated tax refunds was appropriate for the period until 2001. It recommended that ESA tax revenue prior to 2002 be revised to account for all cash refunds (even if not validated), with an increase in deficits, notably over 1998-2001, of up to 1.3 billion euro a year, and for a cumulated total of 5.0 billion euro.**

## *Hospitals*

Account 6629 is related to budget payments with respect to hospital arrears, paid out in 2001 by banks. Central government committed to pay back, over 2003-2007, the amounts due. The amounts transit via the accounts of hospitals.

The amounts of arrears assumed by government was 989 million euro and should have led to a capital transfer from central government to social security at that time, with the incurrence of a payable by the former and a receivable by the latter. The accounts payable/receivable were redeemed in five instalments over 2003-2007: 199 million euro in 2003, 204 million in 2004, 199 million in 2005, 195 million in 2006 and 192 million in 2006.

Eurostat noted that it was appropriate that the repayments by the budget should be excluded from the working balance and from ESA expenditure, but that a redemption in payables was missing in the financial accounts of central government (and symmetrically in receivables in social security). As a consequence, an element of the discrepancy should be displaced from central government to social security.

The consequence on general government itself would depend on recording practices in social security and in the survey..

**Eurostat recommended that the Greek authorities recognise flows of payables pertaining to the debt of hospitals, thereby reduce the discrepancy in budgetary central government by 200 million euro a year over 2003-2007.**

### *1.5 Reform of the State budgeting and accounting*

The General Director of the Treasury and Budget briefed Eurostat on the progress with respect to State budgeting and accounting in Greece.

He recalled that there was an ongoing reform of the budgeting and accounting of the State, towards Programme Budgeting and Accrual Accounting, which was expected to facilitate the quality of EDP reporting, and was in the context of new legislation emphasizing the transparency of the data. This widespread reform, initiated in 2005, would be subject to a staged implementation over 2009-2012. In 2009, a budget by programme will be presented in parallel to the usual budget. New accounting will be enforced in 2009-2010. A pilot project was carried out involving the Culture ministry.

He indicated that there was an intention to have an all-inclusive approach in terms of coverage, with the merger of the PIP and the ordinary budget, and with on-budget recording of the extra budgetary accounts. Eurostat asked whether all suspense accounts would be included and whether there was an intention to cover other public entities, such as extra-budgetary funds or even local government and social security funds. The General Director indicated that the all inclusive approach would be phased in by stages.

He indicated that various subgroups had been established since 2005, to work on various issues, and notably to liaise with 3 contractors – with EU financing. Hardware has been purchased and a new computer room established at the GAO.

He indicated that the project received advice from the IMF in 2005 and was subject to a rather positive 2007 OECD review (2008 Report).

A new Committee, composed of the GAO, National Court of Auditors, academics and legal experts, will be established soon to advise on the required changes in legislation, notably the organic budget law.

The new arrangement foresees to have a comprehensive financial statement, with profit and loss, balance sheet and cash flow. With the reform, all State units, including the NSSG, will have access to budget information.

This progress should not be confused with progress made towards accrual accounting concerning local government and social security funds, where an advisory Committee had been established in early 2008.

**Eurostat took note of the ongoing progress of a 2005 initiative with respect to the reform of State budgeting and accounting. The change in budgeting and accounting is to be carried out in stages, over 2009-2012. It hoped that the new reform would facilitate the**

**EDP and ESA reporting with respect to central government, and encouraged the NSSG to stay apprised of developments.**

## **2. Extrabudgetary funds**

Extra-budgetary funds (EBF) are not to be confused with Extra-budgetary accounts (EBA). The former have the legal personality, keep their cash outside the Treasury accounts (with a few exceptions), are deemed to have autonomy of decision, and their surplus/deficit is reported under the line "other central government bodies" of EDP table 2A. The latter do not have the legal personality, generally keep their cash at the Treasury, are not deemed to have autonomy of decision, and their surplus/deficit is reported under other adjustments in EDP Table 2A.

The source information for EBF, comprising 385 units, is the Survey.

### **2.1 Timeliness, coverage, and reduction in balance**

As of mid September 2008, the NSSG had survey responses from 365 units for 2005 – which is deemed definitive – 319 units for 2006 and 283 units for 2007. The NSSG considers that the biggest units are included for 2007. Eurostat observed that the growth rate in unadjusted expenditure from 2006 to 2007 was +3%, despite 12% less reporting units.

Eurostat took note of the satisfactory level of coverage, considering some practical difficulties met by staff in charge of this compilation, and encouraged further progress in 2009. It noted the considerable progress made compared to the situation existing in 2006 and prior years.

Responses to the survey	2002	2003	2004	2005	2006	2007
<b>Extra budgetary funds (385 units)</b>						
September 2006	286/385	348/385	240/385	0/385		
March 2007		348/385	247/385	281/385	0/385	
June 2007		348/385	306/385	311/385	233/385	
September 2007		348/385	376/385	318/385	269/385	
March 2008		348/385	376/385	321/385	292/385	154/386
September 2008*				365/385	319/385	283/386

\* 15 September 2008

The NSSG staff reported a preliminary reduction in the expected surplus for 2007 of -200 million euro from 465 million euro in April 2008 to 254 million euro. It is recalled that the April estimate was based on an extrapolation of quarterly results covering 3 quarters only.

The NSSG recalled that the technique used is to start from 2005, which is considered final, and use the annual results of common units between 2005 and 2006 and between 2006 and 2007 to extrapolate the 2005 result, based on an extrapolation of each individual component of the survey.

It was recalled that the Disaster Fund, created in 2007, received 160 million euro in revenue but had no expense, which is masking a noticeable deterioration of the surplus of other EBF from 2006 to 2007 – this is also observable in the gross results (see below).

**Eurostat took note of the reduction in the estimated surplus of the EBF, with the consequence of reducing the discrepancy by a same amount. Eurostat welcomed the**

level of coverage reached, compared to the situation existing in 2006 and prior years, and agreed with the compilation approach.

## 2.2 Exploitation of the survey

The NSSG staff indicated that a new programme had been set up giving online access for the national accounts directorate to the Survey database.

### Limited financial transactions activity

The results of the survey indicated limited financial activity. Apart from DEKA, financial transactions reach a few million euro only, in aggregate, on the asset side for loans granted or repaid, and purchases or sales of bonds or of equity. Accordingly, the balance sheet items are often empty / set to zero.

Similarly, the borrowing (net of repayments) reported is limited to +30 million euro in 2006 and +101 million euro in 2007.

It remains to be seen if this situation reflects some misreporting by EBF, given the remaining imbalance.

### Imbalances

Eurostat noted that the survey still exhibits noticeable imbalances, between inflows and outflows and change in cash, both on an aggregated level and unit by unit.

The aggregate imbalance reached -171 million euro in 2007 and +84 million euro in 2006.

### In euro

		Revenue	Financial inflows	Expenditure	Financial outflows	Net survey	Change in cash	imbalance	Surplus/deficit
2007	283 units	2,343,799,649	153,492,198	2,305,978,945	51,980,361	139,332,541	310,864,369	-171,531,818	37,820,704
2006	319 unit	2,410,304,205	74,337,434	2,235,819,714	54,159,263	194,662,662	110,625,514	84,037,148	174,484,491
	23/09/2008 23:10								

Eurostat noted that few units had zero or negligible imbalances and that a large number had noticeable imbalances (more than 0.5 million euro or 1% of total expenditure plus revenue), a significant number had large imbalances (5 million euro and more), and a number of units very large imbalances (20 million or more).

### Number of EBF units with imbalances in the Survey for year 2006 and 2007

	Total number of units	Imbalance of more than +/- 0.5 million	Imbalance of +/-0.5 to +/-5 million	Imbalance of +/- 5 to +/-20 million	Imbalance of more than +/-20 million
2007	282	50	39	6	5
2006	319	77	55	18	4

Eurostat recalled that the database on government units' results needed to be arithmetically balanced. It indicated that a policy of resending the questionnaire to respondents would need to be followed, starting with cases of large imbalances. The NSSG staff reported having resent 12 questionnaires for the year 2006.

Eurostat noted that this work would be facilitated if the responsibility of contacting the respondent was more fully entrusted with the national account directorate of the NSSG, instead of the survey directorate of the NSSG, as seems currently the case. Questionnaire respondents should be accustomed to answer to queries by national account directorate staff. Eurostat also suggested that whereas calling respondents was a time consuming exercise, it was likely that respondents would gradually learn how to properly complete the Survey and that cases of mistakes would fall over time.

### *Use of balance sheets*

Eurostat observed that balance sheets was not sufficiently studied – even though they tend to be rudimentary in the EBF.

It recalled that monitoring horizontal checks (the link between the change in stocks and the associated flows) was an essential quality step – these were often more useful for plausibility checks than rigorous checks. By way of illustration, Eurostat identified a unit that had reported a noticeable increase in debt, without reporting an associated flow. It recalled the checks proposed by the 2006 Methodological Report (page 63).

Eurostat suggested verifying whether respondents were confusing stocks and flows of cash by comparing account 31+32 and 60. It suggested comparing the borrowing minus repayments with the change in debt position.

To facilitate this work, Eurostat suggested an appropriate presentation of the database. In the absence of an automatic extraction, during the visit NSSG staff conducted, a time consuming manual preparation of these data.

**Eurostat welcomed the situation whereby the national accounts directorate of the NSSG now has online access to the results of the Survey. It encouraged further development towards more user-friendly downloads of balance sheet data and pointed to useful horizontal-checks and plausibility checks. Eurostat reiterated the need to systematically resend imbalanced questionnaires and the need for the NSSG to ensure full ownership of the survey, with a complete monitoring of both above and below the line items, and balance sheets.**

### **2.3 DEKA**

Eurostat enquired about an apparent anomaly where the Survey reported a net surplus of about 20/30 million in 2006 and in 2007, whilst privatisation proceeds concerning the Commercial Bank of Greece were deemed to have been received for 336 million euro in 2006 and recorded in the books of DEKA. Nonetheless, DEKA had reported a fall in deposits in 2006. Eurostat recalled that the financial statements of DEKA showed a similar picture.

Eurostat reasoned that those anomalies might explain a large part of the positive discrepancy observed in 2006 in EBF, and accordingly asked the Greek statistical authorities to clarify the matter. In particular, Eurostat drew the attention of the Greek statistical authorities to the fact that the financial statements of DEKA showed substantial tax expenses, which would need to be accounted for.

The GAO reported that in 2006 DEKA repaid 124 million euro of exchangeable bonds (as described in the 2006 Methodological Report). Eurostat asked the Greek statistical authorities to verify if the change in debt reported in Table 3B and Table 3B1 included this repayment. In 2007, DEKA purchased a participation in Piraeus Bank for 36 million euro, recorded as an addition to equity.

The GAO reported that 326 million euro in taxes had been paid in 2006 by DEKA, and 122 million euro in 2007 (74 million euro accruing on 2006 income, and 48 million euro accruing on 2007 income). Eurostat noted that these tax payments were not reported in the Survey, and should be addressed by an entry in the adjustment lines between the Survey balance and the ESA deficit/surplus. This would lead to an increase in the deficit of 326 million euro in 2006 and 122 million euro in 2007.

Eurostat noted that the Survey did not foresee payment of taxes – notably income tax - which is generally not applicable to public entities. DEKA, being an incorporated entity, is liable to pay income tax, which may be largely due to the holding gains generated at time of privatization proceeds. Eurostat suggested that the Survey be complemented with an entry for tax, or that guidance be provided to compilers where to record taxes paid by EBF.

**To conclude, Eurostat recommended that taxes paid by DEKA should be taken into account, decreasing the EBF surplus (increasing the general government deficit) by 326 million euro in 2006 and by 122 million euro in 2007, reducing the discrepancy by the same amount. Eurostat noted that this correction almost led to the elimination of the statistical discrepancy for EBF for 2006 and a reduction in the discrepancy for 2007. BoG will verify that DEKA debt redemption is appropriately reported in Table 3B as well as Table 3B1.**

**Eurostat recommended to amend the Survey, or to provide guidance, for tax paid by units.**

### **3. Social security funds**

#### ***3.1 Timeliness, coverage, and reduction in balance***

As of mid September 2008, the NSSG had survey responses for social security covering 95 units out of 126. The 31 missing units were however generally small units – except for TAPOTE (telecommunication), for which results were expected to arrive soon –representing 11% of total revenue, although a much bigger share of the reported surplus (about 30%).

The 95 units reported a surplus of 1325 million euro, against a nearly 1900 million euro surplus estimated for the 126 social security funds (TAPOTE's surplus was 99 million euro in 2006).

Eurostat took note of the level of coverage. It welcomed the considerable progress made compared to the situation in 2006 and prior years. Nevertheless it was concerned by some slippage in coverage compared to the year 2007, reflecting practical difficulties with turnover of staff in charge of this compilation, and encouraged further progress for next year.

The preliminary results showed a slight revision downwards of the surplus, by 100 million euro compared to the April 2008 notification. It is recalled that the April 2008 figure was based on the incomplete results of 3 quarters of 2007.

Given the existence of a large discrepancy, particularly in 2007, Eurostat asked about the possibility to speed up the collect of missing survey responses, notably that of TAPOTE. The results of TAPOTE were received on the last day of the visit, showing a small fall in surplus compared to first estimates, and they were expected not to noticeably change the 2007 estimate.

Social security funds (SSF + hospitals)	2002	2003	2004	2005	2006	2007
September 2006	283/283	283/283	283/283	0/283		
of which SSF (149)	149/149	149/149	149/149	0/149		
April 2007		283/283	283/283	283/283	0/262	
of which SSF (2003-2005:149; 2006:128)		149/149	149/149	149/149	0/128	
June 2007		283/283	283/283	283/283	179/262	
of which SSF (2003-2005:149; 2006:128)		149/149	149/149	149/149	97/128	
September 2007		283/283	283/283	283/283	210/262	
of which SSF (2003-2005:149; 2006:128)		149/149	149/149	149/149	111/128	
March 2008		283/283	283/283	283/283	262/262	133/260
of which SSF (2003-2005:149; 2006:128; 2007:126)		149/149	149/149	149/149	128/128	44/126
September 2008*		283/283	283/283	283/283	262/262	XXX/260
of which SSF (2003-2005:149; 2006:128; 2007:126)		149/149	149/149	149/149	128/128	95/126

\* as of 15 September 2008

**Eurostat took note of the limited reduction in the estimated surplus of the social security funds, with the consequence of reducing the discrepancy by the same amount. Eurostat noted the progress in coverage compared to the situation in 2006 and prior years but indicated that by September the survey responses for all social security funds should be available.**

### 3.2 Exploitation of the survey

The NSSG staff recalled that a new program had been set up, giving online access for the national accounts directorate to the Survey database.

#### Imbalances

Eurostat noted that the survey still exhibits noticeable imbalance, between inflows and outflows and changes in cash, both on an aggregated level and unit by unit.

The imbalance reached +355 million euro in 2007.

#### Survey results for 2007 (95 units)

In million euro

revenue	financial inflow	expenditure	financial outflow	net	imbalance	surplus/deficit
38440.6	1019.0	37115.4	663.8	1680.4	355.1	1325.3
24/09/2008 17:53						

Eurostat noted that less than half of the units had zero or negligible imbalances and that a large number had noticeable imbalances (more than 2 million euro or 1% of total expenditure plus revenue), a significant amount had large imbalances (10 million euro and more) and a number of units had very large imbalances (50 million or more).

A third of units report an imbalance below 1% of total revenue plus expenditure.

**Number of social security funds with imbalances in the Survey for year 2007**

	Total number of units	Imbalance of more than +/-2 million	Imbalance of +/-2 to +/-10 million	Imbalance of +/-10 to +/-50 million	Imbalance of more than +/-50 million
2007	95	36	19	11	6

Eurostat recalled that the database of government unit results needed to be arithmetically balanced. It indicated that a policy of resending the questionnaire to respondents would need to be followed, starting with cases of large imbalances. Eurostat noted that this work would be facilitated if the responsibility of contacting the respondent was more fully entrusted to the national account directorate of the NSSG, instead of the survey directorate of the NSSG, as seems the case today.

It also suggested that whereas calling respondents was a time consuming exercise, it was likely that respondents would gradually learn how to respond properly to the Survey and cases of mistakes would be fall over time.

*Use of balance sheets*

Eurostat thought that the balance sheet data were not sufficiently studied. The NSSG noted that the reported stock of payables of hospitals was used to estimate trade credit liabilities to suppliers and thus the corrections to intermediate consumption (P2) and to the deficit that the NSSG carries out.

It recalled that monitoring horizontal checks (the link between the change in stocks and the associated flows) was an essential quality step – these were often more useful as plausibility than rigorous checks. It recalled the checks proposed by the 2006 Methodological Report (page 63).

To facilitate this work, Eurostat suggested an appropriate presentation of the database. In the absence of an automatic extraction, during the visit NSSG staff conducted a time consuming manual preparation of these data.

**Eurostat welcomed the situation whereby the national accounts directorate of the NSSG now has an online access to the results of the Survey. It encouraged further development towards more user-friendly downloads of balance sheet data and pointed to useful horizontal-checks or plausibility checks.**

**Eurostat felt that the situation with respect to imbalanced questionnaires was still not satisfactory, with noticeable imbalances remaining. Eurostat reiterated the need to more systematically resend imbalanced questionnaires and the need for the NSSG to ensure full ownership of the survey, with a complete monitoring of both above and below the line items and balance sheets.**



### ***3.3 Debt of hospitals***

As described above, Eurostat asked about the accounting impact of the debt assumption by the State benefiting hospitals in 2001. In 2001, banks settled debts of hospitals to their suppliers for about 1 billion euro, based on a commitment by the State to pay back the banks.

According to the NSSG, the hospitals' liability to suppliers had already been accounted for as expenditure, entering the deficit in previous years, via a correction to intermediate consumption made on the basis of payables. Thus the event was without impact on the general government deficit, either in 2001 or later on. However the event has an impact on the general government debt levels because of the composition of government liabilities. In 2001, the government debt increases matched by a redemption of payables. In 2003-2007, the debt levels fall back, matched by cash outflows.

According to the BoG, banks recorded a claim against social security in 2001, instead of against central government, which is observable in money and banking statistics. The national accounts followed this presentation, with the effect that, in 2001, central government incurred a liability in payables against social security, and not a debt liability against banks. Social security acquired a receivable as a counterpart entry of the debt incurrence vis-à-vis the banking sector. In 2003-2007, those receivable/payables gradually unwound by about 200 million euro.

Eurostat observed that central government accounts did not report any redemption of payables over 2003-2007, leading to a positive discrepancy. Symmetrically, social security did not report any disposal of receivables, leading to a negative discrepancy.

**Eurostat recommended to record flows of payables and receivables over 2003-2007 related to the hospital debt assumption operation of 2001, with the effect of reducing the discrepancy of central government and increasing the discrepancy of social security.**

Eurostat expressed concern that the discrepancy of social security had risen to 400 million in 2007, and for a cumulated 1100 million over 2004-2007, against a more manageable 410 million over 2004-2007 reported in April 2008.

Eurostat asked how the Survey respondents accounted the cash flows coming from the Treasury and passed over to banks: whether they were outside the Survey, accounted for as revenue and expense, or recorded as revenue and redemption of a liability.

In the latter case, the bridge from the Survey to the ESA deficit/surplus should be corrected for the amounts received, with the consequence of reducing the social security surpluses (and increasing the general government deficit).

**The NSSG will verify how the cash flows pertaining to the 2001 hospital debt assumption, received from the State and passed over to banks, are recorded in the survey, and assess if a correction to the social security funds surpluses would be required.<sup>2</sup>**

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<sup>2</sup> After an enquiry by the NSSG in the week following the visit, the NSSG considers that the percentage of the hospitals that report the cash received from central government as revenue in the survey is about 3/4 (usually under the code 1210 and 1310 of the questionnaire). This implies reducing the surplus of social security funds by 3/4 of 200 million, or about 150 million a year – reducing by the same amount the discrepancy.

**Eurostat expressed its concern over the possible re-emergence of a discrepancy in the social security sector.**

#### **4. Reconciliation with money and banking sources**

Eurostat emphasized that one of the key reasons for any discrepancy existing in the accounts in Greece lies in the difference between the information available in indirect source data, such as money and banking statistics, and information provided directly by each government unit. It was thus important to clarify the type of information being used and their potential weaknesses and biases.

##### ***4.1 Composition of the deposits of government***

Eurostat was informed that the deposits of government comprise:

1. The MOF deposit at the BoG
2. The MOF deposits in commercial banks (for liquidity management purposes)
3. The MOF deposits abroad (notably to service some obligations)
  
4. The deposits of other State entities at the BoG
5. The deposits of other State entities in commercial banks
6. The deposits abroad of other State entities (notably to service some obligations)
  
7. The deposits of EBF at the BoG, if any
8. The deposits of EBF in commercial banks
9. The EBF deposits abroad, if any
  
10. The deposits of local government and social security funds at the BoG
11. The deposits of local government and social security funds in commercial banks
12. The deposits of local government and social security funds abroad, if any

Information on 1, 2, 3 and 4 is consistent between money and banking statistics and GAO.

The BoG noted that information on 5 comprised the agricultural ministries' deposits within the Agricultural Bank, and the Ministry of the Interior at the Deposit and Loan Fund. Eurostat noted that it would have expected to see some amounts relating to other ministries as well as to responsible officers. Eurostat suggested that the BoG investigate the issue further.

Information on 8 in money and banking statistic shows noticeably higher figures than in the Survey. The BoG felt that there might be misclassification of clients by banks, between social security funds and extra budgetary funds. This would be neutral from the point of view of the general government discrepancy but would shift discrepancies between these two sub-sectors. The BoG also found it plausible that some misclassification occurs between EBF and Church deposits (the latter being classified outside general government).

Eurostat noted that the size of the imbalance of the EBF Survey and the insufficient balance sheet / transaction plausibility checks carried out meant that the information on deposits reported by the Survey could not be seen as superior to indirect information. However,

Eurostat thought that the size of the remaining discrepancy in some years suggested that there existed non-negligible classification issues in money and banking statistics.

Eurostat wondered whether banks may have difficulties in appropriately classifying between 5 and 8, thus potentially explaining the structure of the discrepancy between budgetary central government and Extra-budgetary funds. The BoG thought this generally not very likely.

Item 6 encompasses deposits abroad, notably by the defence ministry, the foreign affairs ministry and the education ministry. Item 6, 9 and 12 are not appropriately captured, which may cause some discrepancies, but probably to a limited extent.

It should be noted that the Survey provides some information for items 7 to 12, which are particularly relevant for 8-9 and 11-12.

As customary for the October notification, the NSSG and the BoG used the results of the Survey to amend some of the flows in Table 3E, covering deposits in commercial banks as well as the net purchase of nongovernment bonds (where the information is not available in April).

**Eurostat took note of the coverage implied in the relevant deposits statistics and in EDP tables, and requested that the statistical authorities examine ways to collect comprehensive information with respect to deposits - notably in commercial banks and abroad – by entities other than the MOF.**

**Eurostat suggested that the BOG enquire on the deposits of the State entities in commercial banks and on EBF deposits in commercial banks.**

#### ***4.2 Borrowing***

Eurostat noted that the loan liabilities as reported by money and banking statistics showed different amounts than in the Survey. Differences in flows amount to about 100 million euro for each of the years 2006 and 2007 for EBF. The Survey includes (and separately reports) borrowing from abroad, which may explain this result. Eurostat recommended downloading systematically the breakdown of borrowing by type of lender existing in the Survey, and examining if this information could be considered for the compilation of the financial accounts.

Eurostat noted that the insufficient balance sheet / transaction plausibility checks prevented establishing a preference for the use of Survey data directly in the EDP tables, at least for the time being.

#### ***4.3 Cooperation***

Eurostat reemphasized that the BoG and the NSSG (as well as the GAO) should more actively cooperate with respect to the survey results, on the financial side. It was noted for instance that the BoG had not received results of the Quarterly Survey, and had just received the results for annual data in the week prior the mission.

**Eurostat recommended reinforcing cooperation between NSSG, BoG and GAO with respect to the exploitation of the financial side of the Survey.**

## 5. Other methodological issues

### 5.1 EU grants

#### *Follow-up methodological visit, June 2008*

One of the major issues discussed during the June 2008 follow-up methodological visit to Greece was the correct recording of EU flows. The discussions on this particular issue led to an agreement on increasing the general government deficit by 0.3% of GDP in 2007 and reducing it by 0.1% of GDP in 2006 due to:

- (a) The withdrawal and resubmission of claims amounting to 231 million euro that were first introduced in 2006, withdrawn and then resubmitted in 2007. It was agreed that this amount (equal to 0.1% of GDP) initially recorded, for the April 2008 notification, as 2007 government revenue, should be moved back from 2007 to 2006.
- (b) Some double counting identified by Eurostat of an amount of 160 million euro (or 0.07% of GDP) of receivables from the Cohesion Fund that was responsible for apparent inconsistencies with DG REGIO data (relating to Cohesion Fund flows).
- (c) The cancellation of an amount of 290 million euro (equal to 0.13% of GDP) reducing payables in 2007, corresponding to internal estimates of amounts claimable but not actually claimed.

#### *Methodological visit, September 2008*

After reviewing the agreement reached during the June 2008 visit, G-SPA informed Eurostat that on 15 September 2008 it had received a positive answer from DG REGIO regarding the possibility of sending to the Commission claims to be defrayed from advance payments, after the 88% limit of the financing of the project from the EU sources has been reached – a point made by Eurostat during previous exchange but which was contrary to the previous understanding of the Greek authorities.

Eurostat pointed out in the previous visit that internal reports of expenditure to be defrayed from the advance payment, for projects that have already reached the EU financing limit of 88% and therefore are not reimbursable, should not be recorded as a revenue and reduction in payables. However, after the confirmation by DG REGIO of its agreement to receive claims, the G-SPA asked Eurostat how these claims should be recorded. Eurostat indicated that submitted claims should be recorded as government revenue, and as a reduction in payables.

The G-SPA welcomed this proposal and informed Eurostat that in 2008 a reduction in payables of € 700 million would be recorded as a result of claims submitted against the remaining advance payments from the Community Support Framework (CSF) made by the Commission in 2001 (amounting to 1550 mill euro in total). Furthermore, the G-SPA informed Eurostat that from the 650 million euro of total advance payments made by the Cohesion Fund, claims equal to 300 million euro would be submitted to the Commission within 2008. Thus, in total, claims amounting to 1 billion euro are expected to be submitted to the Commission and recorded as a revenue and as a reduction in payables in 2008.

Eurostat noted that the actual impact on the 2008 deficit would however depend on the net impact of the flow of receivables and of payables. Given that one is drawing close to the termination of the 2001-2006 programme, Eurostat reasoned that the stock of receivables was

likely to fall noticeably and possibly sharply in 2008, leading to negative adjustment entries in EDP Table 2A – thus compensating in some measure the positive adjustment amount of 1 billion expected under payables, mentioned above.

## ***5.2 Swaps correction and interest measurements***

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 billion a year), as well as for the high level in net liabilities in derivatives that reached 8.6 billion euro at end-2007 – and is growing rapidly by more than 1 billion euro a year.

### *MOF practice with derivatives*

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 types of derivatives in which the State engage are: plain vanilla interest rate swaps, Quanto interest rate swaps (few), cross currency swaps (related to large hedging operations on foreign currency debt, prior to entry into the euro area), inflation swaps (after 2004), and swaps involving embedded options with no upfront premium settlement.

The State does not engage in options, forwards, futures or FOREX swaps, nor in off market swaps (swaps with non-zero market value at inception). The GAO indicated that the State does generally not engage in non-standard swaps with non-linear cases or varying fixed leg or spreads; those existing were very marginal in amounts.

No margin calls exist on these swaps, and the State manages the credit risk by setting exposure limits towards the 22 primary dealers involved.

The notional value of derivatives contracted has reached 50 billion euro, with a practice of being long: receiving the fix rate and paying the floating. Eurostat reasoned that this may explain the large cash inflows recorded, given the observed yield curve during the period. There also exist substantial price index derivatives (close to 4 billion euro 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 has been rapidly diminishing, after being predominant at the end of the 90s, when the Greek State had a practice of hedging most of the exposure related to foreign currency bonds: as an example, in 2001, the foreign currency exposure before swaps was 20% of debt issued, and after swaps only 1%. 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. It therefore wondered why the swap correction in EDP table 1, i.e. the difference between EDP interest and ESA interest, was relatively small.

**Eurostat took note of the current practice in Greece, with respect to use of derivatives. The GAO is 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. Eurostat congratulated the GAO for setting such a high standard. The GAO felt that the figures for both the swap correction and for the stock outstanding were accurate.

Eurostat reasoned that given that the swaps position was generating about 600 million euro 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 million 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 EDP correction for swaps and the stock in derivatives

In million euro

	2004	2005	2006	2007
EDP D41	9192	8702	8740	9288
ESA D.41	8986	9020	9304	9938
Swap correction	-206	318	564	650
Market value of derivatives liabilities	5058	5512	6445	7512
Change in market value	454	933	1067	1092
of which transaction	-26	369	564	650
of which revaluation*	480	564	503	442

memo: cancellations (+cash received)

180 51

\* a positive revaluation in liabilities is a loss

*MOF source data*

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 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 conducted a reconciliation exercise between the budget amounts and the amounts reported under EDP, that seemed broadly satisfactory. Eurostat noted that the amounts of consolidated interest seemed implausibly low (these are 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 billion euro) by Social security would presumably be on government bonds. One of the complicating factors is that some FISIM adjustment is compiled by the NSSG services (item 9 of the table below).

Reconciliation of the budget interest expenditure and the notified interest

*In million euro*

		2006	2007
<b>ESA D.41 – S13</b>	<b>1</b>	<b>9304</b>	<b>9938</b>
Swaps	2	-564	-650
<b>EDP D41 – S13</b>	<b>3=1+2</b>	<b>8740</b>	<b>9288</b>
Local government debt interest	4	-61	-67
EBF debt interest	5	-30	-25
Social security debt	6	-19	-11
Consolidation of interest	7	329	373
Budgetary central government	8=3+4+5+6+7	8978	9569
FISIM	9	364	411
accrual adjustment (Table 2A)	10	190	-300
Implicit Budget / cash after swap	11=8+9+10	9532	9680
<b>Budget</b>	<b>12=13+14=11</b>	<b>9532</b>	<b>9680</b>
Interest 6100	13	9441	9602
securitisation 5281	14	91	78

**Eurostat suggested that the GAO provides for main categories of derivatives, in the format the easiest possible to 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 staff will enquire if this is possible.**

**Eurostat suggested that the NSSG revise the consolidation of interest.**

*Recording in EDP tables*

The GAO thought that the EDP correction for swaps were in EDP Table 3 neither under the item *Net incurrence (-) of liabilities in financial derivatives (F.34)* or *Securities other than shares (F.3)* nor under *Difference between interest (EDP D.41) accrued(-) and paid(4)(+)*. Eurostat noted that this was one way to present those figures.

The GAO indicated that the item *Difference between interest paid (+) and accrued (EDP D.41) (-)* of table 2A deviated from item *Difference between interest (EDP D.41) accrued(-) and paid(4)(+)* of Table 3B mainly because of the uptick in indexed bonds that score in Table 2A (being an expenditure) and not in Table 3. The GAO noted that this cause justifies the difference for 2007, and indicated that for the years 2004 to 2006 differences of about 77 million euro, 107 million euro and 126 million euro had been omitted.

**Eurostat recommended that corrections for indexed securities, which have been omitted for 2004-2006, be entered in table 3B, with an impact towards the reduction in the discrepancy, of about 77 million euro, 107 million euro and 126 million euro over 2004 to 2006.**

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.

### *Swaps cancellation*

The GAO observed that two entries for swap cancellations of -180 million euro (9 years remaining maturity) and -51 million euro (17 years) appear in Table 3B. The cash received was accounted for as financial transactions at time of cancellation.

However the recent guidance note by Eurostat on accounting for the swap correction dated 7 March 2008 suggests that these lump sums should enter the EDP deficit/surplus spread over the original period of the swap.

The Greek authorities indicated a willingness to apply the Eurostat Guidance note, with the effect of slightly improving the government balance by about 20 million euro a year.

### **5.3 Military expenditure**

Following a considerable source data collection and compilation effort, Greece started compiling military equipment expenditure on a delivery basis from 2006 onwards. Greece uses the transitional period foreseen in the Eurostat Press release, where prepayment already recorded as ESA expenditure can be deducted from actual deliveries, so to avoid counting expenditure twice.

The transitional period leads to the recording of "artificial flows of accounts receivables" designed to eventually reach the real stock of receivables at the end of the transitional period, starting from a zero stock at the beginning. In the case of Greece, the transitional period adds 350 million euro and 620 million euro to the flow of receivables in 2006 and 2007 respectively (improving the deficit by this amount).

In order to monitor the accounting entries related to military equipment expenditure in EDP tables, the GAO routinely provides a confidential note to Eurostat. During the June visit, Eurostat requested that the note provides a split in the flow of receivables, as well as amends the last paragraph, which the GAO implemented.

**Eurostat took note of the sound recording of the military equipment expenditure in Greece and of the transparent manner in which the authorities report the impact of the transitional period. Eurostat thanked the GAO for the amendment to the note.**

Currently, the GAO deducts from each delivery the prepayment made at time of delivery. Eurostat wondered to what extent this may lead to some volatility in the ESA expenditure measure, and whether a linear amortisation would not be preferable. The GAO was open to considering the subject for future years and would wait for an opinion of Eurostat. The GAO indicated that the impact of the transitional period was difficult to estimate for 2008 because some deliveries may be delayed.

**Eurostat will reflect on the better way to apportion the prepayment on deliveries.**



## **5.4 Taxes**

The NSSG indicated that they were planning to report an accrual adjustment to tax receipts, in EDP table 2A, of 520 million euro in 2007, revised downwards from the 650 million initially reported in April 2008. This implied a correction of 130 million euro, increasing the deficit.

After some explanations of the NSSG, it seemed that the monthly figures used, which are budgetary figures, were not yet final, and that the accrual adjustment was based on a percentage of tax collectable in January and February and on estimated tax collections in 2008.

Eurostat expressed a concern that in October 2008 the accrual adjustment for taxes based on a time adjusted cash basis would still be based on estimates. It wondered if the tax directorate general could assist the NSSG in this matter. Eurostat noted that Greece subscribes to the SDDS and disseminates some monthly tax data within one month. Eurostat wondered why this information could not be used.

The NSSG staff provided some information relating to income tax on a monthly basis originating from the GAO, which did not seem to be fully conclusive.

**Eurostat requested to receive data on monthly cash tax receipts, by main categories, for 2006-2008, based on information from the tax directorate general separately from information of the GAO.**

## **6. Follow up to the Recommendations**

Eurostat recalled that the 2006 Methodological visit had incorporated a detailed action plan. In June 2008, Eurostat conducted a follow up visit that led to an assessment of progress as well as to some additional recommendations or to some precisions with respect to previous recommendation. In July 2008, the NSSG provided Eurostat with an update of the progress on this action plan.

Prior the September 2008 visit, Eurostat circulated to the NSSG a matrix (annexed) showing the recommendations of the 2006 visit, as well as of June 2008 visit, indicating (1) an assessment by Eurostat of progress and (2) actions to undertake. There is a column, left empty, for the NSSG to provide its own assessment of progress.

**Eurostat requested the NSSG to fill out the matrix (enclosed), as well as to update the July 2008 NSSG Progress Report to Eurostat before April 2009 notification.**