



EUROPEAN COMMISSION
EUROSTAT

Directorate D: Government Finance Statistics
Unit D-3: Excessive Deficit Procedure 2

- FINAL FINDINGS -

EDP dialogue visit to Greece

26-27 September 2011

Executive summary

Eurostat conducted an EDP dialogue visit to Greece on 26-27 September 2011 with the aim to review statistical organisation issues, to analyse the EDP notification tables, and to examine methodological issues relating to the recording of specific government transactions. Owing to a general strike on 27 September, the meeting with the Greek authorities took place only on 26 September.

Eurostat was informed that there have been no major changes in the institutional responsibilities and that all memoranda of understanding with Ministries supplying source data to ELSTAT have been signed.

The discussion on data sources focused mainly on the work on the updating of the general government register. ELSTAT reported on the ongoing work on register and explained that due to the need for a detailed analysis of units, the register will not be completed in October 2011. Some bodies will be marked as “provisionally classified” in the register, pending completion of investigations. Issues relating to the registry of Social Security Funds, the classification of municipal enterprises, as well as the classification of some other specific public bodies were analysed.

Concerning accounts payable, ELSTAT summarised the results of its survey of payables of Ministries. It was agreed that ELSTAT will clarify the issues of payables of EGNATIA ODOS, the invoices of construction companies and the retroactive salary payments to judicial personnel with the competent ministries.

The discussions on EDP tables focused on a series of issues relating mainly to the central government extra-budgetary funds, military equipment contracts, the use of financial derivatives, the EU budget flows and the presentation of guarantees provided by government in the EDP Questionnaire tables. In addition, Eurostat was informed of a series of new tax measures and provisionally discussed with the Greek statistical authorities the appropriate statistical treatment of these new taxes.

Eurostat was informed on the request of the General Accounting Office (GAO) for advice on recording of the collateral envisaged for the implementation of the 21 July package for Greece. It was agreed that Eurostat will analyse the request of GAO and provide its advice to ELSTAT in due course.

Introduction

In accordance with the Council Regulation (EC) No 479/2009 as amended by Council Regulation (EU) No 679/2010 as regards the quality of statistical data in the context of the excessive deficit procedure, Eurostat carried out an EDP dialogue visit to Greece on 26-27 October 2011. Owing to a general strike on 27 September, the meeting with the Greek authorities took place only on 26 September.

Eurostat was represented by Mr. John Verrinder, Mr. Alexandre Makaronidis, Ms. Rasa Jurkoniene and Mr. Stelios Pantazidis. A representative of European Central Bank (ECB) participated in the meeting as observer. The Greek statistical authorities were represented by the National Statistical Institute (ELSTAT), and the Central Bank of Greece (BoG).

The main purpose of the visit was to review the ongoing preparation of the EDP Notification Tables to be reported before 1st October 2011. Eurostat extensively discussed the tables under preparation, and their underlying data sources, taking note that in each subsector there remained some information to be received and/or checked.

Eurostat thanked the Greek authorities for their good cooperation and provision of relevant background material.

1. Statistical organisation issues

1.1 Institutional responsibilities

Introduction

The Hellenic Statistical Authority (ELSTAT) is responsible for the collection of data and compilation of non-financial and financial transactions of the subsectors S.1313 (Local Government, LG) and S.1314 (Social Security Funds, SSF) as well as of extra budgetary funds (EBF) and the reclassified public corporations. In the compilation of EDP tables for financial transactions of the subsectors S.1313 and S.1314, ELSTAT also uses information provided by the Bank of Greece (BoG).

Regarding the subsector S.1311 (the State), the main source of information is the General Accounting Office (GAO) both for non-financial and financial transactions (for EDP Tables 2A and 3B). ELSTAT is responsible for integrating the source data from the GAO, and other sources, together with its data on extra-budgetary funds and reclassified public corporations, to compile data for the subsector S.1311 (Central Government, CG).

Planned data on deficit and debt are provided by the GAO, with input from the Public Debt Management Agency (PDMA) and the Macroeconomic Policy Department of the Ministry of Finance.

Discussion

There have been no major changes in the institutional responsibilities since Eurostat's last EDP visit. The tasks for EDP data collection and compilation are shared by the National Statistical Institute (ELSTAT), the General Accounting Office (GAO), and the Bank of

Greece in the framework of the Memorandum of Understanding signed among the three Institutions.

According to ELSTAT the coordination committee of the three institutions involved in the EDP reporting is up and running.¹

All memoranda of understanding with Ministries supplying source data to ELSTAT have been signed and were reported to be functioning well. ELSTAT indicated that it would try its utmost to transmit the EDP notification tables by the deadline, despite disruptive strikes, however this was not assured². There were likely to be delays in transmission of quarterly GFS data.

1.2 Data sources

Introduction

The general government sector comprises (a) Central government (S.1311), (b) Local government (S.1313) and (c) Social Security Funds (S.1314). The subsector State Government (S1312) is not applicable for Greece.

The subsector S.1311 consists of the main unit "The State", extra budgetary accounts and the recently reclassified public enterprises.

Budget reporting is the main data source for compiling the accounts of the **State**. The data reported in the State Budget and the Budget Report are on a cash basis. The main data source for the compilation of the accounts of the extra-budgetary funds and reclassified public corporations are annual and quarterly questionnaires managed by the ELSTAT. The data are collected mainly on a cash basis. There is now a new web-based system of collection of questionnaires managed by ELSTAT. A network of statistical correspondents trained by ELSTAT has been established to cover public bodies.

Information on the net lending/net borrowing of the **Local Government** was previously obtained from a survey conducted by ELSTAT. For the first time information on the transactions of municipalities and municipal enterprises was obtained, for 2010, from a new database developed by the Ministry of Interior.

The on-line system of questionnaires of ELSTAT also covers the sub-sector of **Social Security Funds (SSFs)**.

Discussion

ELSTAT reported on the continuing register work, explaining that the need for detailed analysis of bodies means that it will not be completed in October 2011; some bodies will be marked as "provisionally classified" in the register, pending completion of investigations. 166 bodies are being classified to general government, with data included in the October 2011 notification. There are 91 government-controlled bodies for which only 2009 data are available to test their market/non-market nature; these will be provisionally classified according to the "50% rule" results in 2009, and their final classification determined when further data are available.

¹ ELSTAT has confirmed that in 2011 the committee met three times (March, April and September) while there have been contacts for dealing with various issues

² In the event, ELSTAT transmitted its EDP notification tables on 7th October 2011.

For social security funds, the Bank of Greece requested to see the ELSTAT analysis for the funds reclassified out of the general government sector. It noted that the funds are obliged to invest a high proportion of their surpluses in government bonds through the Bank of Greece. The reclassification of such funds outside government would increase consolidated government gross debt by up to EUR 900m. Eurostat noted that the decision on statistical classification of units rests with ELSTAT³.

For Local Government, there has been an analysis of “pre-Kallikratis” municipal enterprises to determine their statistical classification. An initial analysis of the new “post-Kallikratis” municipal enterprises will be carried out by end-March 2012, based on data entered into the Ministry of the Interior database. Eurostat advised to use existing information as much as possible to help classification, for example if a new enterprise had been formed out of non-market enterprises, the new enterprise could be considered initially as non-market. In addition, the Ministry of the Interior database had allowed the identification of other municipal enterprises of public law at local level, together with their results.

On specific bodies:

- TEKE is the body that operates the Greek deposit guarantee scheme and is majority owned by the Bank of Greece. Banks are required to participate in the scheme. Eurostat explained that such bodies are – in almost all Member States – classified as financial auxiliaries (i.e. not in the general government sector), as is currently the case in Greece.
- Egnatia Odos SA is a road construction company founded in 1995 which is responsible for the construction of the motorway EGNATIA in Northern Greece, through directly commissioning construction or through managing concession contracts. Whereas it was intended that Egnatia Odos would charge tolls on the roads, this started in September 2010. The enterprise was currently classified as a non-financial corporation (outside of the general government sector). Eurostat noted the importance of analysing the statistical classification of the corporation.
- There are some bodies which construct public buildings (e.g. schools) and recover costs from the government. Eurostat explained that the source of customer income is not the important issue in ESA95 (this becomes important in ESA 2010), but rather the nature of market sales. If government just pays invoices and other costs, this cannot be considered as market sales for the purposes of the market/non-market test.

³ Subsequent to the visit, Eurostat confirmed its view that the reclassifications proposed by ELSTAT were appropriate. This view was based on the information collected and presented to Eurostat by ELSTAT. According to this information the identified funds are supplementary funds for specific groups of employees, with managerial autonomy (commonly boards elected by members, or decisions ratified by a general assembly of members). Furthermore, the participation to the reclassified funds is not obligatory.

Findings and conclusions

ELSTAT will inform Eurostat of the deficits and debts of (i) units in the old register which still have provisional (under investigation) status, and (ii) the units for which only 2009 data are available, and which may be provisionally classified to the GG register. **(Action point 1)**⁴

ELSTAT will obtain from Egnatia Odis SA any relevant documents (e.g. business cases, directors' reports, etc) to allow it to analyse the statistical classification of the body, and provide its analysis to Eurostat by end-November 2011, so that a final classification decision may be taken well before the April 2012 EDP notification. **(Action point 2)**

1.4 Accounts payable

Discussion

Eurostat took note that the previous difficulties encountered with the data of the Ministry of Rural Development had been resolved satisfactorily. There were however questions over the payables of the Ministry of Infrastructure, due to recording of its payables to Egnatia Odos SA. Eurostat advised ELSTAT not to use the accounts of Egnatia (except for cross-checking) but to obtain direct data from the Ministry.

ELSTAT had made comparisons with GAO data on payables, and found that the data were close, though ELSTAT's figures were higher. This appeared to relate to a difference in approach, notably for investment expenditure. Whereas the GAO data were based on invoices, the ELSTAT data were based on the principle of delivery of goods and services. Eurostat confirmed the appropriateness of the approach, whilst underlining that such a delivery approach must be based on documentation, such as delivery notes or acceptance of construction stages.

Eurostat took note that some invoices are disputed by suppliers and therefore there is some doubt over whether or not these should be included in payables data. Eurostat recommended a prudent approach to the recording of these disputed invoices, by including them in payables data.

Eurostat recalled that a payable of EUR 130 million had been introduced in 2008 for retroactive salary payments to judicial personnel, and underlined the importance of tracking these payables as they were settled. Eurostat generally encouraged ELSTAT to ensure that Ministries would record such payables in their data returns, rather than continuing to make adjustments themselves.

Findings and conclusions

ELSTAT will re-contact the Ministry of Infrastructure to obtain information on payables relating to Egnatia Odos SA. **(Action point 3)**⁵

⁴ Completed in November 2011.

⁵ This action was completed during the October 2011 EDP notification.

ELSTAT will contact the Ministry of Finance to clarify the issue of invoices not issued by the construction companies. (**Action point 4**)

ELSTAT to check that the EUR 130 million payable for retroactive salary payments to judicial personnel is being reduced over time as settlement occurs. (**Action point 5**)⁶

2. EDP reporting – analysis of EDP notification tables

2.1 EDP Tables

2.1.1 EDP Table 2A

The information contained in EDP table 2A on central government transactions is predominantly produced by the GAO. The working balance is the balance of State Budget on a cash basis excluding a series of both expenditure and revenue items (mainly of a financial nature). The GAO provides information to ELSTAT on the items excluded from both revenue and expenditure.

Discussion

ELSTAT explained that the 2010 State budget outcome was not yet audited – this was expected in October 2011.

ELSTAT presented its view that a previously included adjustment for settlement of Ministry of Defence fuels payables should not be included in EDP Table 2A, since it was already included in payables data. Given this confirmation, Eurostat agreed with the proposal.

Regarding the central government *extra-budgetary funds*, there are revisions due to updated sources, and additional work on reconciling the accounts of OSE and EDT. However data for two enterprises (ETERPS and EAS) were still provisional, to be confirmed, and the Hellenic Financial Stability Fund had still not reported to ELSTAT, despite reminders.

Eurostat congratulated ELSTAT on its efforts to reduce the statistical discrepancy for reclassified state-owned enterprises, notably OSE. It was explained that a substantial part of the improvement was due to the identification of certain balance sheet liabilities which should not be included in national accounts.

With regard to *military expenditure*, there had been some reasonably small revisions to Ministry of Defence data for 2010. However, ELSTAT explained that it has been considering the recording of recent amendments to military equipment contracts, and believed that the expenditure relating to deliveries from the amendments should be recorded at time of delivery and not according to the method used for contracts involving prepayments signed before 2005. Eurostat agreed with this approach, which could lead to some revisions in data for recent years.

⁶ This action was completed during the October 2011 EDP notification, and it was agreed that – owing to revisions in the amounts involved – government expenditure would be recorded as it is settled.

Eurostat enquired about the latest position with regard to use of *financial derivatives* by the Greek government. According to information provided to Eurostat during the 21-23 March 2011 EDP dialogue visit, the Greek government was intending to close all of its off-market swaps, except for those originally contracted with Goldman Sachs, by end-2011 and not to enter into any new off-market swaps. Eurostat asked for confirmation of this.

Eurostat noted that cash flows relating to lump sums on swap cancellations are being neutralised through a specific row in EDP Table 2A. However the spreading of such flows over time – in line with the relevant Eurostat guidance – was not transparent, as it was included in the interest accruals adjustment row.

ELSTAT explained that from the 2012 notifications adjustments for off-market swaps will not appear under "loans repayments" in table 2A, as the calculation of the working balance will be changed and these flows will be excluded.

With regard to *EU flows*, Eurostat had confirmed the transfer of information from the tables provided by the Single Payment Authority to the EDP table 2A. Eurostat thanked ELSTAT for its note on the recording of JEREMIE and JESSICA, and confirmed that separate adjustment lines were not needed for these programmes. ELSTAT explained that the suspense account mentioned for EU flows was an account for advances.

Eurostat confirmed with ELSTAT that the *guarantees* provided by government on loans taken by banks should be included in EDP Questionnaire Table 9.1.

ELSTAT explained that it was continuing its compilation of *EDP Table 3B*, in cooperation with GAO and the Bank of Greece. The data on movements in currency and deposits was obtained from the Bank of Greece, but a specific adjustment was introduced to bring the data in line with GAO records, as an investigation had shown that the differences in cash balances between GAO and Bank of Greece was mainly caused by payment orders not yet executed.

Eurostat advised ELSTAT to send the draft Table 3B (for the State) to GAO, indicating which rows should be checked to ensure they were up to date and appropriate.

Eurostat also reminded ELSTAT of the need to take care when compiling EDP Table 3A, to ensure that any consolidating items were correctly recorded.

Findings and conclusions

A new statistical correspondent will be appointed for EOT. ELSTAT will ask for a copy of accounts and audit statement of EOT (**Action point 6**)⁷

ELSTAT will provide to Eurostat an analysis of cash accruals differences between the old and the new questionnaires (**Action point 7**)⁸

ELSTAT will inform Eurostat of the total size of recent amendments to military equipment contracts. . (**Action point 8**)

⁷ This action was completed during the October 2011 EDP notification.

⁸ This action was completed during the October 2011 EDP notification

ELSTAT will request the relevant Greek authorities to provide a document providing an update of the situation with regard to off-market swaps. (**Action point 9**)⁹

ELSTAT will request the General Accounting Office to provide a breakdown of the interest accruals adjustment (between instruments and swap cancellations) for all quarters from Q1/2009 to Q2/2011 as soon as possible, and forward the information to Eurostat. (**Action point 10**)¹⁰

ELSTAT will confirm that the EU suspense account is included in calculation of movements in currency and deposits in EDP table 3B. (**Action point 11**)¹¹

2.1.1.1 New tax measures

Discussion

Eurostat was informed on the details regarding the *property tax* to be levied through electricity bills based on the property situation in a specific year. Given the situation described (which needed to be confirmed), in principle cash receipts relating to year n, even if received in year n+1, would be allocated to year n. This would need a set of tax accounts by year.

For *taxes on income*, including self-employed, the existing adjustments could suffice, depending on the details to be confirmed. For tobacco tax – advancing payment to one month delay – a one month time delay would need to be introduced in the cash timing adjustment, which requires careful analysis at the year end.

Findings and conclusions

ELSTAT to write on proposed tax changes, to seek Eurostat views on their statistical recording. (**Action point 12**)¹²

2.1.2 EDP Table 2C

Discussion

Overall coverage was reportedly very good for Local Government, as the Ministry of the Interior database had improved reporting, including for the first time data on other public bodies at local level (which showed surpluses due to income from external sources).

It was agreed that no revisions would be introduced pre-2009 (beyond the reach of new data sources), particularly as the estimations made for enterprise/public body surpluses in previous years were close to the actual figures being reported for recent years.

⁹ This action was completed during the October 2011 EDP notification.

¹⁰ This information was provided to Eurostat during the October 2011 EDP notification, and will be followed up under technical assistance.

¹¹ This action was completed during the October 2011 EDP notification

¹² Action completed

EETAA had undertaken an ad-hoc survey (as required in the law for the post-Kallikratis situation) which had revealed a stock of payables of EUR 1.3 billion at end-2010, some EUR 250 million higher than reported through the Ministry of the Interior database. ELSTAT proposed to adjust previous end-year stocks of payables figures by the same percentage increase. Eurostat commented that before such a step, the reasons for the increase should be investigated.

Eurostat was informed that data on transactions of municipal enterprises of the municipality of Thessaloniki are not included in the database.

Eurostat underlined that the Ministry of the Interior database should include data on depreciation for municipal enterprises, so that the 50% rule can be correctly applied. Given that depreciation is usually based on historic cost, and may therefore underestimate consumption of fixed capital, it was agreed that units with a ratio just above 50% will also be included in the general government sector.

Findings and conclusions

Thessaloniki municipality will be directly contacted by Elstat to obtain the required information. (**Action point 13**)¹³

ELSTAT will ask the Ministry of the Interior to collect data on depreciation of municipal enterprises in order to apply the 50% rule. (**Action point 14**)¹⁴

ELSTAT will identify which municipalities have increased their reported stock of payables and seek explanations for this change, liaising with EETAA, to be reported in a note to Eurostat. If the increases represent previously unidentified payables, ELSTAT will make appropriate adjustments to data of past years. (**Action point 15**)

2.1.3 EDP Table 2D

Discussion

Some relatively minor revisions were noted arising from new data sources (mainly offset in the balance of the State, due to revised transfers of bonds to hospitals). The coverage reached for questionnaires was very high (100% for social security funds, including reporting from one new fund). ELSTAT and Bank of Greece continue to cooperate on measurement of interest received (ELSTAT are using Bank of Greece figures, with adjustments to distinguish between interest and dividends); thus the “Task Force” is of a continuous nature. There are still no separate data for interest received from investments outside the Bank of Greece.

The statistical discrepancy remains relatively low, ELSTAT explained that they had taken action for unbalanced questionnaires, but Eurostat underlined the importance of continuing to work to close the discrepancies (it received an analysis of the discrepancies in the questionnaires by fund).

¹³ The action was completed during the October 2011 EDP notification.

¹⁴ The action was completed in 2 November 2011 in a meeting of ELSTAT with EETAA.

Eurostat and ELSTAT discussed the statistical recording of the retroactive reductions of lump sum payments for retiring civil servants. Eurostat explained that such a reduction should be recorded as an "other change in volume" in the stock of payables (at the time of the decision in 2011). ELSTAT took note that was not the same approach as that taken by the relevant social security fund (TPDY), however the amounts involved were anyway relatively small for 2010.

Findings and conclusions

ELSTAT to contact social security funds where interest reported in the questionnaire is significantly different from data from the Bank of Greece. (**Action point 16**)¹⁵

ELSTAT will prepare a short note on the calculation of interest. The note will be available to Eurostat with the explanatory note attached to the October 2011 notification (**Action point 17**)¹⁶

2.1.4 EDP Table 3 (A-E)

Discussion

ELSTAT explained that it was continuing its compilation of **EDP Table 3B**, in cooperation with GAO and the Bank of Greece. The data on movements in currency and deposits was obtained from the Bank of Greece, but a specific adjustment was introduced to bring the data in line with GAO records, as an investigation had shown that the differences in cash balances between GAO and Bank of Greece was mainly caused by payment orders not yet executed.

Eurostat advised ELSTAT to send the draft Table 3B (for the State) to GAO, indicating which rows should be checked to ensure they were up to date and appropriate.

Eurostat also reminded ELSTAT of the need to take care when compiling EDP Table 3A, to ensure that any consolidating items were correctly recorded.

3. Other issues

Recording of collateral for the 21 July 2011 package to Greece

Discussion

ELSTAT provided a letter from GAO asking for advice on recording of collateral envisaged for implementing 21st July 2011 package for Greece. Eurostat pointed to the general principle of gross recording of government debt.

¹⁵ The action was completed during the October 2011 EDP notification.

¹⁶ This action was completed during the October 2011 EDP notification.

Findings and conclusions

Eurostat will analyse the GAO letter on recording of collateral and discuss further with ELSTAT. (**Action point 18**)