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Annex 6

Annex 6 – Infringement procedure

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

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

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

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

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

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

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

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

(4) The recording of military expenditure

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

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

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

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