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PRESS RELEASE

Pasok coordinators for economic policy Theodore Pangalos and George Florides, together with former ministers of the Economy and Finance Yannis Papantoniou and Nicos Christodoulakis, communicated their views regarding the revisions of debt and deficit figures initiated by the present Greek government and announced by Eurostat last month.

They noted that since the March parliamentary elections the New Democracy government has started a campaign intended to rewrite recent economic history, a period during which under PASOK stewardship the Greek economy satisfied the Maastricht criteria and adopted the Euro, growth rates have been consistently higher than the EU average, and real incomes saw an unprecedented increase.

This campaign by the new government has two aims: to discredit PASOK and its tenure in office, and to create an alibi for abandoning its extravagant pre-election promises that were clearly beyond the fiscal capacity of the economy to sustain. Unfortunately, the main result so far has been a loss of credibility with Greece's European partners, the prospective downgrading of the creditworthiness of the Hellenic Republic, as well as – and most important – real negative repercussions on jobs and growth and on the welfare of citizens.

They stressed that to date, the exact procedure followed for the revisions and the methods used remain unknown, which makes verification very difficult.

The main deviations from previously published data seem to originate from changing the way that military equipment is recorded in the deficit from an accrual to a cash basis, thus departing from a well-established Eurostat rule. According to this rule, payments are

immediately recorded in the debt account, but are recorded in the deficit account only at the time of operational delivery of the military equipment.

Several other sources of possible inconsistencies in the new calculations of deficits were also outlined, showing that they unduly increase burden past deficits, and thus, deserve further clarification.

Specifically the following was noted:

1. In the past years the Greek authorities, in close co-operation with Eurostat, achieved a remarkable improvement of the precision and reliability of the National Accounts. This has been recognized by Eurostat and other international organizations and has led to the admission of Greece to the IMF Statistical Data Dissemination System. All transactions have been recorded with transparency, following the rules and practices that Eurostat has laid down.
2. The few summary tables that the new government released so far show that most of the divergence between the figures previously published and the new estimates is to be found in the recording of military acquisitions, which are vastly inflated and lead to deficits above the 3% threshold. These differences are the result of government's decision to override the present Eurostat rule, which dictates that military spending is recorded on an accrual basis, i.e. at the time of delivery, and not on a cash basis. While there was last year an ongoing cooperation with Eurostat in order to increase the reliability of such data, clearly, any deficit revision from improved delivery reporting would be a lot smaller from suddenly shifting to the cash payments principle.
Although a request for improved delivery reporting was mandated to the government to be answered by June 2004, (see Commission Report, May 2004), the new government arbitrarily changed the rule in its effort to portray a worse fiscal picture of the previous administration and consequently reduce its own deficits in the coming years. This arbitrary reclassification of defense spending from the debt into the deficit account created an artificial worsening of the deficit by 1.9% of GDP in 2000, 1.2% in 2001, 1.7% in 2002, 0.9% in 2003 and 0.8% in 2004.
3. There are many unanswered questions that the new estimates for the non-Central Government agencies and Social Security Funds pose, although the effect on the deficit is a lot smaller. There is no information whatsoever relating either to the transparency of the process or the statistical coverage of the survey. No one knows which years reflect actual data and which mere estimates. For example, one may

wonder why new surplus estimates of SSF differ from previous ones by something around ½% in 2002-2004, are identical in year 2000, and sharply fall in 2001 to rise again next year. Let it be noted that this survey was decided and planned by the PASOK government in early 2003 in cooperation with Eurostat.

4. Regarding 2003, the accounting deficit in 2003 was further inflated by revenues and expenditure manipulations. Assessed VAT revenues were transferred to 2004, while, paradoxically, the related rebates were not. As a result, fiscal year 2003 contains VAT payments for only 11 months, and rebates for 14 months, thus facilitating the revenue story for 2004. Also, inflows from the E.U. Structural Funds were discarded, despite the fact that the related spending had already been realized, thus contradicting relevant Eurostat rules. Moreover the annual profit transfer of the Postal Bank to the Central Government was reclassified on a technicality.
5. For 2004, the actual deficit has widened mainly due to problems of implementation of the current budget since the new government took office. Among these are a dramatic drop of tax revenues, massive spending overshooting and the decision by the government to disburse the full cost of the Olympic projects in the running year, rather than meeting it in the course of the next year as well, according to the official Budget.
6. A few weeks ago, the ECOFIN Council warned that statistics should not be prey to the electoral cycle. In this vein, we believe that Eurostat should demand the full substantiation of the revisions, guarantee the continuation of holding rules and practices and take into account all views. The fiscal history of a country should not be rewritten with political motivations and with the objective to falsely worsen the past and artificially reduce future deficits, so that the new government may lay claim to some kind of effectiveness. Nor should such political maneuvering be allowed to provide to the Government a much needed alibi to renege on its own unrealistic electoral promises for high increases in pensions and social spending.

Enclosed: 3 pages with tables and comments.

Issue 1: Military acquisitions
Old and new data (million €)

	2000	2001	2002	2003
1. Old estimates (accrual basis)	473	585	425	774
2. New estimates (cash basis)	2810	2202	2834	2116
3. Deviation (2-1)	2337	1617	2409	1342
4. Deviation as % GDP	1.9%	1.2%	1.7%	0.9%

Source: Min. Economy and Finance, Sept. 2004

Comment

The above table shows that sums for military procurement were in fact recorded in the deficit for the period 2000 – 03. Higher sums in 2003 indicate that the pace of deliveries was speeding up as sizeable deliveries started recently. An effort to improve reliability and timeliness has been undertaken. The main problem was the time elapsing between arrival of equipment and effective delivery, the latter depending on certifying the functionality and operability of the system. Six to eight months was a reasonable time lag, but for some big programs certification could take years.

No explanation with respect to the new estimates is given about the delivery information demanded by Eurostat from the Government in May 2004, on the warning that shifting to the cash basis would otherwise be deemed inevitable (CEC Report, 19.5.2004).

Issue 2: Social Security Funds

Old and new data (million €)

	2000	2001	2002	2003
1. Old estimates	2.805	3.441	4.671	5.455
2. New estimates	2.805	2.093	4.132	4.595
3. Deviation (1-2)	0	1.348	539	860
4. Deviation as % GDP	0	1.0%	0.4%	0.6%

Source: Min. Economy, Sept. 2004

Comment

There are many questions that can be raised in relation to the method used to compile the new data. The new survey requested by and agreed with Eurostat in 2003 was intended to replace the outdated social accounts survey of 2000. According to the government, the new survey's annual data presumably covered 2003 only; hence it is worth knowing whether figures for 2001 and 2002 reflect actual data or estimates. New estimates for 2001 show a sharp fall in the Social Security surplus, in comparison both to the old estimates and the previous year. There seems to be no reasonable explanation why Insurance Funds should experience such a dramatic decline in their surplus by 25% in 2001 and then surprisingly double next year.

Another issue is whether all funds are fully covered by the new survey. For example, has the register been updated to include agencies that could possibly be classified in the appropriate category, (such as the Mortgage and Loan Fund and perhaps many others)?

Issue 3: Deficit figures for 2003

(million €)

	Augmenting factors	Worst-case revision
VAT revenues for 2003 - Q4	1430	953
VAT rebates for 2003 - Q4		-233
EU inflows	480	
Postal Bank profits	340	
Total	2250	720
as % of GDP	1.5%	0.5%

Comments

1. According to a Law voted in Parliament in November 2003 aiming to help SMEs, October VAT payments could be collected in the early months of 2004. On an accrual basis, revenues for the last quarter of the year were recorded in 2003, and similar treatment applied to VAT rebates to exporters (over 350 million €).

The new Government reversed the mode of recording and kept the whole amount of 1,430 million € as revenues in 2004. At the very least, roughly one third of the amount should be recorded in 2003, otherwise VAT payments would account for only 11 months in 2003. Similarly, roughly 2/3 of the associated rebates (i.e. around 234 million) should be relieved from the expenditure items of 2003 leaving there only the corresponding one third of around 116 million €.

2. EU funds were cashed-in in early 2004, and recorded on an accrual basis in 2003, since they corresponded to CSF financing that took place last year. Similar treatment has been repeatedly approved in the past. According to the accrual basis principle, EU inflows should cover 65% of Public Investment Program (PDE) each year, irrespective of actual cash flows.
3. Inflows from the Postal Bank (TT) were part of the accumulated profits in 2002-03. Since the company was undergoing transformation, the new balance sheet should cover a two year period i.e. 2002-03. As a result, only part of the dividend was paid in 2002 and the remaining dividend of 340 million € was paid in 2003. In the revisions it was recorded as merely a financial transaction. Admittedly, this an ambiguous technical issue and classification could go either way.
4. Summing-up, a revision of the 2003 deficit due to the reclassification of VAT and EU payments should not have exceeded 0.5% of GDP.