



## INFORMATION NOTE ON GREEK FISCAL DATA

15 November 2010

Eurostat published Greek fiscal data in its EDP (Excessive Deficit Procedure) Press Release of 15 November 2010. These data, notified by Greece on 10 November 2010, have been subject to a major revision since the last such data published by Eurostat, under reservation, on 22 April 2010. This note provides background information on the work undertaken and the main elements of the revisions to the published data.

In order to assess the quality of debt and deficit data for Greece and its reporting according to ESA 95, Eurostat carried out a series of EDP methodological visits to Greece during 2010, the latest an extended visit from 11 October 2010 to 9 November 2010 under Article 11b of Council Regulation (EC) No. 479/2009 as amended by Council Regulation (EU) No.679/2010 of 26 July 2010.

The main issues addressed in Eurostat's visits related to the delimitation of the general government sector, the recording of certain government transactions (notably for off-market swaps and social security funds), and the recording of amounts payable.

Eurostat welcomes the co-operation of the Hellenic Statistical Authority (EL.STAT.) over the course of its enquiries, and the assistance provided by other Greek public entities.

Following existing practice, more detailed information on the EDP methodological visits will be published on the Eurostat website in due course.

## Part 1 – Background

### *1. Events of October 2009 to April 2010 (Joint Statistical Action Plan)*

After the October 2009 EDP notification, Eurostat undertook an EDP methodological visit to Greece to examine the problems identified during the notification round. Eurostat published a detailed report analysing the institutional and statistical shortcomings of the Greek EDP reporting:

[http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/COM\\_2010\\_REPORT\\_GREEK/EN/COM\\_2010\\_REPORT\\_GREEK-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/COM_2010_REPORT_GREEK/EN/COM_2010_REPORT_GREEK-EN.PDF)

On 19 January 2010, the ECOFIN Council invited the Commission to support efforts of the Greek authorities to resolve the statistical problems and improve collection and processing of government statistics and to propose measures to bring the Greek statistical system in line with the EU requirements. The Commission was also invited to develop, in cooperation with the Greek statistical authorities, an action plan to tackle statistical, institutional and governance deficiencies. This resulted in the creation of a joint statistical action plan.

#### ***Joint Statistical Action Plan (April 2010)***

The action plan which was finalised in April 2010 consists of three pillars: the first pillar aims at improving the institutional and governance framework of the Greek statistical system in order to align it with the provisions of the new Greek statistical law voted by the Greek Parliament on 9 March 2010. The new law establishes the Hellenic statistical system and the Hellenic Statistical Authority (EL.STAT.) as an independent authority supervised directly by the Greek Parliament. The first pillar sets all the necessary actions for the swift implementation of this new law.

The second pillar aims at enhancing the capacity of the Greek statistical system and consists of all the actions required for dealing with the needs for capacity building and technical assistance. A key element in this respect is the provision to Greece of a high level expert in official statistics, appointed in May 2010. The main tasks of the high level expert include the provision of assistance on management, on the implementation of the new law, on public finance statistics and the coordination of the overall assistance in the short and medium term.

The third pillar of the action plan aims to improve the Greek public finance statistics. In this regard, Eurostat also visited Greece on other occasions in 2010 to review quarterly public finance data and to provide training and technical assistance to EL.STAT. staff. It has maintained a continuous process of dialogue with the Greek statistical authorities, and will continue to do so.

Eurostat continues to provide technical assistance to EL.STAT. on the compilation of public finance statistics, both through its own visits and those of experts of other Member States which have kindly agreed to assist the Greek statistical system.

## **2. Activities on public finance statistics during the period June to September 2010**

Eurostat conducted EDP methodological visits in June and September 2010.

During these visits the following main areas were addressed:

- Statistical classification of public corporations
- Off-market swaps
- Social security funds
- Unaudited budget amounts
- Payables

A detailed account of the data revisions arising from the above issues can be found in Annex I, together with other revisions made in the Greek data published on 15 November 2010.

After the June and September 2010 EDP methodological visits, Eurostat placed the following reservation on Greek fiscal data in its EDP Press Release of 22 October 2010.

"In its [News Release 55/2010 of 22 April 2010](#), Eurostat expressed a reservation on Greek data.

Eurostat is not publishing Greek data in this News Release.

Eurostat has completed its enquiries on statistical compilation of the Greek fiscal data and is now undertaking a process of quality assessment of statistical source data from public accounts, in cooperation with the Greek Statistical Office and the Hellenic Court of Audit. Following this process, and the release of the annual report of the Hellenic Court of Audit at the beginning of November 2010, Greek fiscal data will be published by Eurostat by mid November 2010."

This reflected that, whilst major progress has been made by EL.STAT. on the improved compilation of public finance statistics (reflected in the revisions already introduced), Eurostat was in an ongoing process of final assurance checks on the data sources underlying the statistics, in cooperation with EL.STAT. and the Hellenic Court of Audit. Furthermore, the report of the Hellenic Court of Audit for the financial year 2009 was expected to be available only in early November 2010. The ongoing work reflected the need to prepare for the major revision of Greek data.

## **Part 2 - The EDP Methodological visit 11 October to 9 November 2010**

### **1. Focus of the visit**

After the September 2010 EDP methodological visit – the first with Eurostat's strengthened verification powers under the revised Council Regulation 479/2009 (as amended by Council Regulation (EU) No.679/2010 of 26 July 2010) – Eurostat conducted an extended EDP methodological visit from 11 October until 9 November 2010.

Of primary interest to Eurostat during this visit was to assess whether the upstream data on Greek debt and deficit were complete, exhaustive and reliable.

A particular emphasis was placed on the data for 2009 in order to focus the assessment. In this regard, the four main areas that were reviewed during the visit were:

- A. The coverage of the registry of public bodies and entities supervised by public bodies deemed to belong to the general government sector.
- B. The treatment and reporting of payables recorded by public bodies or supervised entities.
- C. The recording of loans from non-resident banks and thus possibly not recorded in the financial accounts hitherto presented.
- D. The accounting and audit systems in place.

The methodological visit was conducted in as thorough and exhaustive a manner as possible within the time available. In accordance with Art 12 of Council Regulation (EC) No. 479/2009 as amended, EL.STAT. supported Eurostat with the organisation and coordination of the necessary discussions and EL.STAT. participated alongside Eurostat on all visits made. A representative from the Hellenic Court of Audit attended selected visits with the status of observer.

Eurostat visited a selection of public bodies (across central government, local government and social security funds, as defined in ESA 95) and supervised entities thereof. The organisations visited were selected from within a range that accounts for approximately 80% of the Greek public budget and with due consideration for the main areas of interest as listed under A. to D. above.

Eurostat is grateful to EL.STAT., the Hellenic Court of Audit and the representatives of the entities visited for their constructive support in clarifying the issues reviewed.

## **2. Main results of the visit**

The accounting systems used within Greek government institutions over many years have, in some respects, been incomplete (e.g. with respect to payables and public entities) and therefore not fully transparent.

The earlier methodological visits, and in particular this latest methodological visit to Greece and associated work in support of the notification of 2009 data, allowed EL.STAT. and the Greek authorities to carry out a thorough stock-taking exercise to assess the completeness and reliability of the statistical data needed to determine the 2009 debt and deficit data in accordance with ESA95 rules.

The conclusions on the four main issues covered were as follows:

A) Coverage of public bodies and supervised entities: EL.STAT. and the Greek authorities carried out a stock-taking exercise to assess the exhaustiveness of the EL.STAT. registry and the completeness of the information on public bodies and supervised entities. As a result of this exercise, a number of entities were identified and have been reclassified into the general government sector. EL.STAT. is implementing an updated system with the objective of ensuring that the register of all public bodies and supervised entities is kept constantly up-to-date in the future and

that information is provided on each of these public bodies and entities on a regular basis.

B) Treatment and reporting of payables: For the 2009 data, most expenditure and revenue reporting to EL.STAT. has been on a cash basis rather than an accrual basis. EL.STAT. and the Greek authorities carried out a one-off stock-taking exercise to assess the completeness and the time of recording of expenditure and revenue data. For the year 2009, the exercise of collecting payables has been taken into account and adjustments have been made in line with ESA95. Following the Eurostat EDP methodological visits, and in the context of reforming the general government accounting systems mentioned under (D) below, the Greek authorities are working on accounting methods which should report, on a regular basis, both cash data and payables in the future.

C) Recording of loans from non-resident banks: The methodological visit led to the identification, and recording, of a small number of previously unrecorded loans granted to public bodies or supervised entities by non-resident banks.

D) Accounting and audit systems. Overall, the methodological visit to Greece confirmed earlier findings concerning the reporting processes and the accounts which justify the data reported for 2009, in that the process for reporting debt and deficit data was fragmented, in most cases comprising purely cash-based accounting systems and with institutional units applying different accounting systems and rules. The accounting systems which supported the 2009 data are being reformed and redeveloped across the general government sector to ensure that the required data can, in the future, be collected, processed, reported and audited in a regular, reliable, consistent, comprehensive and timely manner.

### **Part 3 - Conclusions**

Taking into account the work carried out, as described in this report, the latest debt and deficit data for Greece now gives, in Eurostat's view, an essentially reliable picture in line with ESA95 requirements. The methodological visits found no evidence of other significant omissions.

All findings from the visits have been used by EL.STAT. to make adjustments for the data series 2006-2009.

Eurostat therefore concludes that the revised data for 2006-2009 are sufficiently reliable for EDP purposes, in line with the quality of the data of other EU Member States. Eurostat has thus lifted its reservation on Greek fiscal data for the years 2006-2009.

## Annex I – Revisions to published data

### 1. Overview of the latest revisions

In this notification the Greek authorities have made substantial revisions to the government deficit and debt figures notified in the April 2010 EDP notification.

% GDP	October 2010		April 2010	
	Deficit	Debt	Deficit	Debt
2006	5.7%	106.1%	3.6%	97.8%
2007	6.4%	105.0%	5.1%	95.7%
2008	9.4%	110.3%	7.7%	99.2%
2009	15.4%	126.8%	13.6%	115.1%

Since April 2010 the recorded 2009 deficit has increased by 1.8 percentage points of GDP. It should however be noted that the level of GDP in 2009 has been revised downwards by 1 percentage point compared to the figure reported in the April 2010 EDP notification. This increased the reported deficit ratio by around 0.16% and the reported debt ratio by just over 1.3%. Thus the sole impact of changes of the deficit and debt data are 1.62% and 10.48%, as shown in the table below.

For the purposes of comparability in calculating ratios, the GDP data reported in the Greek EDP notification include the impacts arising from the reclassification of public corporations to the general government sector. These changes to the Greek GDP data will be incorporated in the full sequence of Greek annual and quarterly national accounts data as soon as possible.

Focusing specifically on 2009 data, the main revisions since April 2010 are as follows:

EUR millions / % GDP <sup>1</sup>	2009 Deficit		2009 Debt	
	Change	% GDP	Change	% GDP
<b>General government</b>	<b>-3808</b>	<b>-1.62</b>	<b>24625</b>	<b>10.48</b>
<b>Central government of which:</b>	<b>-1757</b>	<b>-0.75</b>	<b>24535</b>	<b>10.44</b>
Reclassification of public corporations	-1743	-0.74	18204	7.75
Off-market swaps	58	0.02	5330	2.26
Balance sheet corrections	-370	-0.16	0	0
Payables	-384	-0.16	0	0
Reclassification from Social Security Funds	522	0.22	0	0
Other (updated source data)	160	0.07	1001	0.42

EUR millions / % GDP <sup>1</sup>	2009 Deficit		2009 Debt	
	Change	% GDP	Change	% GDP
<b>Social security funds</b>				
<b>of which:</b>	<b>-1865</b>	<b>-0.79</b>	<b>0</b>	<b>0</b>
Reclassification to Central Government	-522	-0.22	0	0
Payables	-479	-0.20	0	0
Adjustment for capital transfers included in the working balance	-531	-0.23	0	0
Other	-333	-0.14	0	0
<b>Local Government</b>				
<b>of which:</b>	<b>-186</b>	<b>-0.08</b>	<b>90</b>	<b>0.04</b>
Payables	-158	0.07	0	0
Foreign debt of municipalities	0	0	90	0.04
Other	-28	-0.01	0	0
<sup>1</sup> Based on the GDP figure from the November 2010 notification.				

## 2. Descriptions of major revisions

The following sections explain the main sources of revisions in Greek data. A large number of other, more minor, revisions were made largely arising from regular updates of data sources, as for any other country.

### 2.1 Reclassification of public corporations

The relevant national accounting rules (ESA95) define the general government sector as being made up of all institutional units which are other non-market producers. It is therefore important to determine if corporations controlled by government are market or non-market units according to the specific rules of ESA95.

The statistical classification of the largest public corporations was examined after collecting all necessary information. The following public corporations were determined to be non-market units according to ESA95 rules (in addition to some smaller units):

ATTIKO METRO, Thermal bus company (ETHEL), Electric bus company (ILPAP), Athens – Piraeus Electric Railways S.A.(ISAP), TRAM S.A., Hellenic Agricultural Insurances (ELGA), Hellenic Defence Systems S.A. (EAS), Hellenic Railway Organisation S.A. (OSE), Railways operating company S.A. (TRAINOSE), Hellenic Broadcasting Corporation S.A. (ERT), Payments and Control Agency for Guidance and Guarantee Community Aids (OPEKEPE), Electromechanica Kymi Ltd, Centre for Disease Prevention and Control (KEELPNO), Hellenic Tourism Organisation (EOT), Management Organisation Unit of Development Programmes (MOD), Information Society S.A. (KTP) and Special Fund for Implementation of Regulatory and Planning Projects (ETERPS).

These corporations were therefore re-classified to the general government sector; their debt added to government debt and their deficit added to government deficit.

There is as yet no exhaustive register of public units in Greece. Nevertheless, on the basis of the additional checks undertaken by Eurostat in cooperation with EL.STAT. on the information provided by the Greek authorities, it can be concluded that the largest, with market borrowing, are now correctly recorded in the statistics.

## **2.2 Off-market swaps**

Between 2001 and 2007 Greece entered into a series of interest swap agreements which contained off-market elements. The largest such off-market swap agreements were contracted with Goldman Sachs, which subsequently sold its interest to the National Bank of Greece. In the context of extensive discussions between Eurostat and the Greek authorities, the relevant swap contracts and associated documents were analysed in detail.

For statistical purposes the market value of the off-market elements must be introduced into Greek government debt. The impact on the Greek government deficit is to marginally reduce it each year, as the annual flows of settlements on the swap are divided in statistical terms into elements for interest (which affect the deficit) and repayment of loans (which do not).

During its analysis, Eurostat identified that Greece entered into a large number of small short term off-market swaps until 2007. After detailed statistical analysis of these swaps, it was determined that the statistical impact of these swaps is insignificant overall.

For all off-market swaps there were upward impacts on Greek government debt in all years, with an addition at end-2009 of EUR 5.33 billion, and reductions in the deficit, with a reduction of EUR 58 million in 2009.

## **2.3 Recording of social security funds**

Social security funds source data have historically been weak in Greece. EL.STAT. collects questionnaires which in the past have had low response rates and the quality of data has been questionable.

After a significant effort by EL.STAT. and respondents, response rates have now improved significantly and there is now a better quality of data in the questionnaires. In addition, more information is now available about the holdings by Greek social security funds of assets abroad, and the income received from those assets.

Since April 2010, three main corrections have been made to improve social security data:

- To correct the recording for State Budget grants which had already been included as revenues in the EL.STAT. questionnaires, and were therefore double-counted in the compilation of the statistics.
- To correct the receipts of interest from government bonds held by social security funds, which had been over-estimated in the past.
- To introduce the recording of payables regarding the provision of lump sum payments to retiring civil servants.



There was also a reclassification of a major fund to the Central Government sub-sector (see section 2.6 below).

#### **2.4 Balance sheet corrections**

The Greek public accounting system includes holding accounts for which encashment of revenues intended for other bodies is registered and then forwarded to the beneficiary bodies. These cash expenditures and revenues do not enter the reported balance at that time, but only later when the amounts are regularised under the control of the Hellenic Court of Audit.

Nevertheless, ESA95 does not recognise the concept of non-regularised amounts, and therefore the relevant expenditures and revenues must be entered in the appropriate years according to the appropriate ESA95 time of recording (and removed from the years when regularisation is made, and they enter the State Balance).

In general these amounts therefore relate to timing differences between years; the cash movements appear in the State Budget of a later year. However they can have significant effects in individual years (for example, an addition of EUR 370 million to the 2009 deficit).

#### **2.5 Payables**

Payables refer to the unpaid obligations of government. The major part of these unpaid obligations in Greece have related to the purchases by public hospitals and, following identification by Eurostat, were reported in the April 2010 Greek EDP notification.

Following further investigation and data gathering by EL.STAT., payables were identified relating to unpaid obligations of ministries (central government), of social security funds (mainly pension obligations to retiring civil servants) and municipalities (local government).

The impact on the government deficit can be positive or negative in any particular year, depending on whether the stock of unpaid obligations has risen or fallen. There is no impact on the government debt, as the definition of EDP debt excludes this category of financial liabilities.

#### **2.6 Reclassification of a social security fund**

The revised data include the reclassification of the Social Security Fund of Generations Solidarity (AKAGE) from the Social Security Funds sub-sector to the Central Government, following ESA95 classification rules. This has no impact on the overall Greek government deficit.

#### **2.7 Other**

In addition to the above there were a number of other, more minor, revisions made due to newly identified source data or improved methodology.