REPORT BY EUROSTAT ON THE REVISION OF THE GREEK GOVERNMENT DEFICIT AND DEBT FIGURES

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1. Introduction

Recently, the Greek budgetary statistics have undergone a very large revision. The government deficit for 2003, which was initially reported at 1.7% of GDP, stood at 4.6% of GDP after the September 2004 notification. The deficits notified to the Commission for 2000, 2001 and 2002 were also revised upwards by more than two percentage points of GDP. Such substantial increases resulted from earlier actions undertaken by Eurostat as well as initiative taken by the incoming Greek government in spring 2004 to launch a thorough fiscal audit.

Revisions in statistics, and in particular in government deficit data, are not unusual. After the publication of the first outcomes in March by the national statistical institutes, data are often revised because new information comes available, or because errors are detected[1]. However, the recent revision of the Greek budgetary data is exceptional. Figures for 2003 were revised by almost 3 percentage points of GDP. The government debt figures were also significantly revised (by more than 7 percentage points).

Data revisions of such a scale have given rise to questions about the reliability of the Greek statistics on public finances. The ECOFIN Council of 21 October 2004 took note of the Commission's information note on the fiscal notification of Greece, and welcomed the Commission's initiative to present a detailed analysis of Greece's deficit and debt data back to 1997. The present document provides the progress of such analysis, based on the rules applicable at that time.

The reliability of Greek deficit and debt statistics has been the object of particular attention by Eurostat in the past. Statistical issues in this field were debated with the Greek statistical authorities far more frequently than with any other Member State. Eurostat was forced to introduce several times (see Appendix II for further detail) footnotes about reservations on the quality of Greek debt and deficit figures. Decisions and interventions of Eurostat forced in 2002 the Greek statistical authorities, amongst other, to reclassify share convertible bonds and share exchangeable bonds in government debt, to treat some capital injections as capital transfers, to treat debt assumption by government as non financial operations, to classify DEKA (a state-owned company) inside general government, and to launch a new survey on social security funds.

This report is organised as follows. Section 2 shows how the Greek deficit and debt figures have been revised between the March 2004 and the September 2004 notifications. Section 3 concentrates on the years 1997 to 1999. The annexes referred to in this section show in detail each of the accounting issues behind the revisions of the data on the government deficit, explain the accounting rules, and summarise the contacts between Eurostat and the Greek statistical authorities over the course of the last years.

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1 Appendix II presents an overview of the Greek public finance data for 1992-2003 notified over the period 1996-2004.

2. The revision of Greek data from March 2004 to September 2004

The revised data on deficit and debt for the period 2000 – 2003 released by Eurostat on 23 September 2004 showed sizeable variations relative to the previous notifications.

In general terms, this latest revision between the March 2004 and the September 2004 notifications rest on a more faithful application of the ESA 95 and on the availability of new data. More precisely, the principal elements explaining the revision of the Greek deficit between the March 2004 and September 2004 notifications are the under-recording of military expenditure, the over-estimation of the surplus of social security funds, and the downward revision of tax revenue estimates (mainly VAT). These three elements alone explain almost 90% of the total revisions. They have been the object of continuous discussion during Eurostat's missions to Greece.

The table below shows the main differences between the two notifications. The divergences due to the recording of military equipment account for 25 % of the total revisions in 2003, 75% in 2002, 50% in 2001 and 90% in 2000. The Commission informed the ECOFIN Council on 21 October about the main reasons of the revisions. Annex 2 includes the information note presented by the Commission at that time. Annexes 3, 4, and 5 show in detail the accounting issues behind the data revisions for military expenditures, social security and taxes, explain the accounting rules, and sum up the contacts between Eurostat and the Greek authorities over the course of the last years.

Table 1:
Main components of the revision of Greek data between the figures reported in March 2004 and September 2004

Revisions GREECE March 2004 / September 2004

	2000	**2001**	**2002**	**2003**
DEFICIT	% GDP	% GDP	% GDP	% of GDP
March 2004	***-2.0***	***-1.4***	***-1.4***	***-1.7***
Tax revenue				0.9
Payments from the EU				0.3
Reclassification of payments from the Postal Bank				0.2
Military expenditure	1.9	1.2	1.7	0.7
Surplus of Social Security Funds	0.0	1.0	0.4	0.6
Under recording of interest	0.3	0.1	0.1	0.1
September2004	***-4.1***	***-3.7***	***-3.7***	***-4.6***
DEBT				
March 2004	***106.1***	***106.6***	***104.6***	***102.6***
Capitalised Interest	4.5	4.2	3.9	3.4
Consolidating Assets of Social Security	3.2	3.8	3.8	3.7
	0.1	0.1	0.2	0.1
September 2004	***114.0***	***114.7***	***112.5***	***109.9***

3. The accounts for 1997, 1998 and 1999

Following the work of Eurostat during the last years, the recent exchange of correspondence (appendix I), and the final constructive discussion on the 10th November 2004 meeting, Eurostat and the Greek authorities came to the following conclusions:

- The deficit figures for the period 1997-1999 are of the following magnitude[2]

1997: 6,6 % of GDP instead of 4,0 %;
1998: 4,3 % of GDP instead of 2,5 %;
1999: 3,4 % of GDP instead of 1,8 %

- The debt figures for the period 1997-1999 are of the following magnitude:

1997: 114,0 % of GDP instead of 108,2 %;
1998: 112,4 % of GDP instead of 105,8 %;
1999: 112,3 % of GDP instead of 105,2 %

The reasons why these figures differ from the ones provided in previous notifications are essentially as follows:

- Increase of recording for military expenditures of equipment goods (see note 1 page 6).
- Correct recording of capital injections and EU grants (this clarification on the recording of capital injections was necessary due to the transition from ESA 79, which was applicable until the end of 1999, to ESA 95, which came into force for EDP purposes with the notification of March 2000, see notes 4 and 7 page 6). It is also important to underline, however, that in the case of Greece most capital injections in state-owned enterprises were mainly financed by EU grants earmarked for specific purposes, and that as a consequence, even in the context of ESA 79 rules, they should be treated as capital transfers (impacting the deficit) and not as share capital increases (financial transaction without impact on the deficit). The transition from ESA 79 to ESA 95 had therefore only a limited impact on figures for the years 1997 to 1999.

According to the information provided by the Greek authorities, the revision of figures for deficit and debt would be as shown in the table below:

[2] It should be stated however that one minor issue has not been forwarded yet, namely capitalised interest, see page 6.

Figures for deficit and debt revised
according to the information provided by the Greek authorities

	Mio €			*Percentage of GDP*		
	1997	**1998**	**1999**	**1997**	**1998**	**1999**
Government deficit (as it stands now)	3919	2605	1990	**4.03**	**2.46**	**1.77**
Corrections to be imputed in relation to:						
– Military expenditure (1)	149	70	974	0.15	0.07	0.86
– Debt assumptions (2)	124	140	97	0.13	0.13	0.09
– Capitalised interest (3)	990	282	108	1.02	0.27	0.10
– Capital injections (4)	822	1026	825	0.85	0.97	0.73
– Interest on convertible bonds (5)	0	12	38	0.00	0.01	0.03
– DEKA (6)	211	211	113	0.22	0.20	0.10
– EU grants (7)	202	179	-272	0.21	0.17	-0.24
– interest	0	0	0	0.00	0.00	0.00
Revised deficit (incl. the above corrections)	6417	4525	3873	**6.61**	**4.28**	**3.44**
GDP	97235	105773	112683			
	1997	**1998**	**1999**	**1997**	**1998**	**1999**
Government debt (as it stands now)	105186	111924	118583	**108.18**	**105.82**	**105.24**
Corrections to be imputed in relation to:						
– Capitalised interest (8)	4719	5001	5109	4.85	4.73	4.53
– Convertible bonds (9)	0	0	0	0.00	0.00	0.00
Consolidating assets of social security (10)	949	1972	2091	0.98	1.86	1.86
– share exchangeable bonds (11)	0	0	775	0.00	0.00	0.69
Revised debt (incl. the above corrections)	110854	118897	126558	**114.01**	**112.41**	**112.31**

(1) see annex 3
(2) see annex 6
(3) see annex 7
(4) see annex 8
(5) see annex 9
(6) see annex 10
(7) see annex 11
(8) see annex 12
(9) see annex 12
(10) see annex 12
(11) see annex 12

The various elements of the above table can be explained as follows:

For the deficit:

1. Military expenditures: data are as provided by the Greek authorities - on a cash basis in the absence of data on deliveries (Eurostat had demanded to the Greek authorities to provide figures according to the method of deliveries, and the Greek authorities have answered that such data were not available)-. The data have been revised as figures in previous notifications were incomplete. Annex 3 shows in detail the accounting issues behind the data revisions, explains the accounting rules, and summarises the contacts between Eurostat and the Greek authorities over the course of the last years.

2. Debt assumptions: Figures previously notified on debt assumptions were incomplete. Data available at the IMF were higher than the amounts communicated to Eurostat. The Greek authorities explained that differences are partly due to different coverage of the notion of public sector. For further information see annex 6.

3. Capitalised interest: Figures previously notified were incomplete. For a correct assessment of the profile of the evolution of data on capitalised interest, Eurostat has requested to the representative of the General Accounting Office to provide the information (sources of data, common methodology) which are the basis of the series of capitalised interest for the years 1995 to 2000. This information has not been provided due to lack of information from the General Accounting office of Greece. The impact should nevertheless be minor. For further information see annex 7.

4. Capital injections: Data previously notified were incomplete. Data are as provided by the Greek authorities during the meeting on 10.11.04. For further information see annex 8.

5. Interest on convertible bonds: data are as provided by the Greek authorities. Data previously notified were incomplete. For further information see annex 9.

6. DEKA: Eurostat considers that the reclassification of DEKA increases government deficit, at least by the amounts of current transfers within general government undertaken by DEKA. In addition, the Greek authorities have made new enquiries about the nature of share capital increases received by some companies in 1999. Data previously notified were incomplete, but are now complete. For further information on the issue see annex 10.

7. EU grants: data are as provided by the Greek authorities during the meeting on 10.11.04. The amounts correspond to projects co-financed by the European Union. Full explanations are provided in annex 11. Data previously notified were incomplete.

8. Interest: The Greek authorities confirmed on 19.11.04 that interest due to debt increase should not be added to government expenditures as it was already previously incorporated in the Social Security Funds survey.

For the debt:

1. It is recalled that between 2000 and 2003, amounts for approximately 5 bio € per year were not included in government debt due to a wrong consolidation done at general government level of government debt. Eurostat asked the Greek authorities to communicate the amounts to be added for this reason to government debt between 1997 and 1998[3]. The Greek authorities confirmed on 19.11.04 that the amount of debt that

[3] Eurostat has asked the Greek authorities (letters by Mr Vanden Abeele to the National Statistical Service of Greece dated 29 October 2004) "*to know whether the latter adjustments [debt series were revised upwards between 2000 and 2003 because of errors in the consolidation of social security assets and of the non inclusion of the debt of mutual funds as debt of general government] are also relevant for the years before 2000 and the size of the respective corrections, by yea*r". The Greek authorities have replied that "*We believe that the adjustment we made in the EDP Sep mission of 12,13/9/2004 for the years 2000 to 2003 are not relevant for the years before 2000*"

should be added to general government debt for this issue is equal to 949 mio € in 1997 and 1972 mio € in 1998.

2. The debt of share exchangeable bonds which had been wrongly classified outside government by the Greek authorities has been added to government debt, in 1999. In order to correct the figure Eurostat has used information which had already received in previous occasions by the Greek authorities.

For a more detailed description and information on debt, see annex 12.

Annex 1

Legal framework

Article 104 of the Treaty on European Union establishes that Member States shall avoid excessive government deficits, and that the Commission shall monitor the development of the budgetary situation and of the stock of government debt in the Member States with a view to identifying gross errors. In particular it shall examine compliance with budgetary discipline on the basis of two criteria: whether the ratio of the government deficit to gross domestic product exceeds a reference value, and whether the ratio of government debt to gross domestic product also exceeds a reference value.

The reference values are specified in the protocol on the excessive deficit procedure, annexed to the Treaty (3% for the deficit and 60% for the debt). The protocol defines the "deficit" as net borrowing of the general government (that is central government, regional or local government and social security funds). The protocol defines the "debt" as total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government. Moreover, the protocol establishes that the statistical data used for the application of the protocol shall be provided by the Commission.

The detailed rules of this protocol (including the notification procedure) are specified in Council Regulation n° 3605/93. The terms used in the protocol and in the Regulation (such as "government" or "deficit") are defined in accordance with the European system of integrated economic accounts ("ESA 95"), established also by a Council Regulation (2223/96). The SEC 95 is the statistical reference system for the standards, definitions, and accountancy provisions, so the figures of the Member States are comparable.

Notification procedure

Council Regulation 3605/93 organises the notification procedure by the Member States to the Commission of the budgetary figures within a specific and regular time (twice a year, the first time before 1 March of the current year, and the second time before 1 September of the current year). Figures have to cover the current year plus the four previous years. This transmission is made on the basis of a questionnaire drawn up by the Directorate-General for Economic and Financial Affairs (DG ECFIN) of the Commission and transmitted to the national statistical authorities. The answers are also sent to DG ECFIN with copy to Eurostat. The data (concerning the four previous years) are then analysed by Eurostat, and are discussed with the national authorities before their publication in the form of a press release.

In practice, Eurostat organises jointly with DG ECFIN and the European Central Bank follow-up missions in each Member State every two years. In the intermediate period, ad hoc missions may be organised. The missions cover *inter alia* accounting issues concerning the application of the rules of the ESA 95. The conclusions of these missions are co-signed in a mission report approved by the participants, including the national authorities visited (normally representatives of the statistical institutes, the national central bank, and the Ministry of Finance).

ESA 95

ESA 95 is the accounting framework upon which Member States notify deficit and debt figures, since the EDP notification of March 2000 (Member States were previously notifying EDP aggregates according to ESA 79). On the basis of the ESA 95, Eurostat also examines in a regular way with the Member States the accounting treatment of the operations. In certain cases contracts and payments of specific transactions may be analysed. Eurostat can issue recommendations on the accounting treatment of transactions. However, Eurostat does not have audit powers. All these verifications do not lead to genuine audit operations for which a legal basis is lacking.

Even though the ESA 95 is the statistical reference system for the standards, definitions, and accountancy provisions, there are operations which require interpretation. The ESA 95, as a methodological reference handbook, does not give solutions to all questions.

Consultation and decision procedures

Since a few years, a consultation system has been established with the Member States. This involves technical discussions at various levels[4] in order to allow Eurostat to take decisions on the basis of wider expertise. All Member States take part in these consultations.

The Committee for Monetary, Financial, and Balance of payments statistics (CMFB) plays a very important role in the consultation procedure. The CMFB is a high level committee, made up of two representatives by Member State (national statistical office and central bank, at the level of Directors), the European Central Bank and Eurostat. It is chaired by a representative of a Member State. The Committee delivers opinions to the Commission on the accounting treatment of transactions following a consultation launched by its chairman. Eurostat's decisions on the accounting treatment of transactions are taken on the basis of this opinion, and the latter is always annexed to the press release explaining the decision.

Eurostat further develops its decisions in a methodological handbook, which supplements the ESA. This handbook is available on the web site of Eurostat, and was first published in January 2000, after the approval of the Statistical Programme Committee (comprising the Directors General of the national statistical institutes) and the CMFB.

Code of best practice

The Economic and Financial Affairs Council of 18 February 2003 adopted a code of best practice for the compilation, the transmission and publication of data for the purposes of the excessive deficit procedure, in order to clarify the procedures at the level of the Member States and of the Commission. While the protocol on the excessive deficit procedure establishes that the statistical data for its application are provided by the Commission (which plays the role of statistical authority), the Commission does not compile the figures directly. Instead, figures are compiled and transmitted by the Member States.

[4] Task forces (there are currently several in place, to treat the accounting aspects connected with military expenditure, government guarantees, etc.), working groups (national accounts and financial accounts), and the Committee of Monetary, Financial and Balance of Payments statistics (CMFB),

The code specifies the role and mandate of Eurostat, as the statistical authority on behalf of the Commission, with regard to the evaluation of the notified data, their possible modification and their publication.

Member States are responsible for the compilation of the data and for the transmission to the Commission. The code of best practice specifies that the statistical institutes have to act in full scientific independence, with a strict respect of the accounting standards defined in Regulations 3605/93 and ESA 95. The code also describes the obligation of the Member States to communicate to the Commission any revision of the figures as soon as possible, including documentation to explain the revisions.

Eurostat ensures, on behalf of the Commission, the role of statistical authority. But, as the Commission underlined in its Communication of 27 November 2002 on the need and the means of improving the quality of budgetary statistics, the quality of the public accounts involves, initially, each Member State. The verification of the accounts by Eurostat cannot exonerate the Member States from their own responsibility.

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Annex 2

Greek deficit and debt data
Information note (for ECOFIN 21 October 2004)

1. Introduction

The revised data on deficit and debt for the period 2000 – 2003 released by Eurostat on 23 September 2004 show sizeable variations relative to the previous notifications.

Government accounts are compiled by the Member States' statistical authorities and reported to the Commission under Council Regulation (EC) n° 3605/93. Eurostat's role is to check the accounting treatment of the data in the framework of the European system of integrated accounts (ESA 95). Several missions have taken place during the last years, led by Eurostat and including representatives from DG ECFIN and the European Central Bank, in order to discuss the accounting treatment of budgetary transactions. Eurostat has repeatedly expressed concerns on the accounting treatment of some issues, which are reflected in the reports of these missions, agreed with the Greek authorities.

However, Eurostat has no power to audit the data provided by the Member States. Therefore, the quality of statistical data for the excessive deficit procedure depends to a large extent on the administrative ability, good will, good faith and co-operative spirit of Member States.

Eurostat has been instructed to prepare proposals to reinforce its monitoring of the quality of government accounts. These will aim at complementing the existing regulatory framework increasing the operational capacity of Eurostat in this area, and proposing minimum European standards for the institutional set-up of statistical authorities. The Commission is also preparing an infringement procedure against Greece given its inability to provide figures in line with the ESA accounting rules.

2. Brief description of latest revisions

Eurostat has publicly expressed doubts on the debt and deficit figures transmitted by the Greek authorities since 2002 (at the time of the publication of the press releases following the notifications of March 2002 and of September 2002) by the way of "footnotes" or specific comments in the press releases where these figures are published.

The Eurostat press release n° 35/2002 of 21 March 2002 noted a number of doubts[5], which were maintained in the press release of 30 September 2002 (n° 116/2002) [6].

[5] "Eurostat is at present not in a position to certify the figures included in the notification of Greece due, among other reasons, to the lack of information on share convertible bonds … as share convertible bonds and privatisation certificates issued by the Greek State have not been included in the government debt figures, the notified figures of general government gross consolidated debt are to be considered as provisional and likely to be increased.

[6] "Eurostat is at present not in a position to certify the figures included in the notification of Greece, as certain information on government transactions is still pending or incomplete. Therefore, the notified government accounts are to be considered as provisional and likely to be revised. Eurostat intends to settle these outstanding issues as soon as possible in co-operation with the Greek authorities ".

Following these reserves, the Greek authorities transmitted in November 2002 a revised notification for years 2000 and 2001, published by Eurostat in its press release n° 132/2002 of 13 November 2002. This press release referred only to Greece. At the time, the correction led to a deterioration of the Greek deficit by 1.0% of GDP for 2000 and 1.3% for 2001, while public debt increased by 1.5% and 1.9% of GDP respectively. The main causes of the revisions were the treatment, as capital transfers, of debt assumption by the general government, and the re-classification, as capital transfers, of capital injections from the government to state-owned enterprises (which had been previously classified as financial transactions). The main reason for the increase of the public debt was the inclusion of information on share convertible bonds issued by special purpose vehicles in the context of securitisation operations undertaken by government.

Eurostat again maintained reservations on the data notified at the time of the notification of March 2004[7]. Again, and following these reserves, Eurostat published on 7 May 2004 another specific press release on Greece (n° 62/2004), where the deficit for 2003 was corrected from - 1.7% to - 3.2% of GDP and the debt from 102.4% to 103.0% of GDP, following a revised notification. The increase in the Greek deficit was essentially due to a downwards revision of tax revenue estimates (mainly VAT) in public accounts, a downward revision of the payments received from the EU institutions in the context of certain structural fund programs, and the re-classification, as a financial transaction, of a payment from the Saving Postal Bank to government. The change in the debt was due to a revision of GDP (and not to a change in debt in absolute values). Eurostat noted again in this press release that it was not in a position to fully certify the debt and deficit figures for 2003, and asked the Greek authorities to make the necessary efforts to clarify all the outstanding issues[8].

The information provided at the time of Eurostat's mission to Athens at the beginning of September 2004 made it possible to clarify with the Greek authorities some of the outstanding problems. Accordingly, the data transmitted by Greece at the time of the notification of September 2004 and published by Eurostat on 23 September (press release n° 117/2004) made it possible to withdraw some of the reservations previously expressed on certain budgetary data from year 2000 to 2003. The Greek deficit passed, in relation to previously published data, from – 2.0% of GDP to – 4.1% for 2000, from – 1.4% to – 3.7% for both of the years 2001 and 2002, and finally from – 1.7% to – 4.6% for 2003.

Following these latest revisions, which concern data from 2000 to 2003, a mission was sent to Athens on 12 October 2004 to check with the Greek authorities the debt and deficit data for the years before 2000. As this concerns historical data, the Greek authorities could not provide in place data concerning transactions undertaken in the period 1997 - 1999. Therefore Eurostat asked them to provide the relevant information by 18 October. This concerned among other things data on military expenditures, the recording of EU grants, and data on interest expenditures and capitalized interest, as well as methodological explanations on the recording of capital injections. Mr Kontopirakis, Secretary General of the National Statistical

[7] The press release of Eurostat n° 38/2004 of 16 March 2004 notes that *"Due to ongoing discussions with the statistical authorities in Greece, notably on the surplus of social security funds, the notified figures for debt and deficit are to be considered as provisional and could be revised".*

[8] *"The reasons for which Eurostat is not in a position to fully certify the debt and deficit figures for 2003, and possibly for previous years, are the following: under-estimation of government expenditure for the procurement of military equipment; lack of reliable information for recent years, concerning the surplus notified for the sub-sector Social Security Funds."*

Service in Greece, addressed the response to Eurostat on 18 October 2004. This response is not complete and does not fully answer all the questions asked by Eurostat. Eurostat is currently conducting a thorough analysis and it should not be excluded that a new mission is sent to Athens as soon as this analysis is ready, in order to discuss bilaterally with the Greek authorities.

3. Specific issues linked to the September 2004 notification

In general terms, this latest revision rests on a more faithful application of the ESA 95[9] and on the availability of new data. More precisely, the principal elements explaining the revision of the Greek deficit between the March 2004 and September 2004 notifications are the under-recording of military expenditure, the over-estimation of the surplus of social security funds, and the downward revision of tax revenue estimates (mainly VAT). These three elements alone explain almost 90% of the total revisions, and a brief description is provided below. They have been the object of continuous discussion during Eurostat's missions.

The ESA 95 stipulates that military expenditure has to be recorded at the time of the delivery of the equipment ("delivery basis"). The payments made between the moment when the order is made and the delivery takes place should be considered as financial advances. If information on the delivery date is not available, the only possible alternative is to record these expenditures when payments are made ("cash basis"). When data are aggregated over several years, the total of military expenditure should be the same whatever the method of recording. However, the amounts recorded each year can differ according to which method of recording is used.

The Greek authorities opted in 2002, following numerous clarification requests from Eurostat, for a recording based on the delivery date. This choice was validated in 2002 by Eurostat, because on the one hand it is in conformity with the ESA 95, and moreover because the Greek authorities had explicitly stated to have full information on delivery dates.

However, they informed Eurostat in April 2004 that, owing to a lack of information on delivery dates, the method could not be applied and the amounts relating to the purchase of heavy military equipment had not been fully taken into account, and that they would be included in the notification of September on the basis of cash payments. The inclusion of this military capital expenditure explains on its own 26% of the total revision of the Greek deficit in 2003, 74% in 2002, 50% in 2001 and 89% in 2000.

With regard to the surplus of the social security funds, Eurostat has expressed for several years reservations on the amounts of the surplus transmitted by the Greek authorities. The Greek estimates rested on old information sources (the previous survey was conducted in 2000) and fragile estimation hypotheses. Following Eurostat's request, a social security survey was carried out in 2004, concerning the figures of 2002 and 2003, which led the Greek authorities, at the time of the notification in September 2004, to revise downwards the previous estimates of the surplus of the social security funds for the years 2002 to 2003. Eurostat has always recommended carrying out a yearly survey, in order to obtain updated figures, including the whole of the social security funds. It is also to be underlined that the 2001 figure was revised by the Greek authorities due to the fact that, due to delays, the data concerning 2001 according to the results of the old survey had become available only in 2004.

[9] The European System of Accounts (Council Regulation n° 2223/96) is the methodological framework to be used in the context of the transmission of debt and deficit statistics.

Lastly, as regards tax revenue estimates, these had been over-estimated for 2003 at the time of the notification of March 2004, and were also revised at the time of the notification of September 2004.

The revision of public debt data between the March 2004 and September 2004 notifications was mainly due to the under-estimation of outstanding debt, notably in relation to bonds with capitalised interest, and to the over-estimation of consolidated assets of social security.

Annex 3

Expenditure on military equipment

1. Introduction

The accounting difficulties in the recording of military expenditure in Greece concern military durables (*e.g.* battleships, tanks, missiles, fighters, etc). In the report, references to military expenditure should be understood as expenditure in military durables. Expenditure in military wages and consumables (e. g. fuel, office supplies, etc.) has never been identified by Eurostat or the National Statistical Service of Greece as constituting an accounting issue.

2. Accounting rules and practice in other EU Member States

In 2000, the ESA accounting system entered into force for the notification of deficit and debt figures by Member States. This could not lead to any change in figures, as far as the recording of military expenditures is concerned, as no fundamental change was inserted by ESA 95 in respect of the previous rules contained in ESA 79. ESA 95 contains one specific rule for the recording of expenditure in military equipment. According to paragraph 3.70 (e)-3 "*military weapons of destruction and the equipment needed to deliver them*" should not be treated as gross fixed capital formation, but as intermediate consumption. This implies that military expenditure should be recorded according to the rules on intermediate consumption which "*should be recorded and valued at the time they enter the process of production*".

These rules have been interpreted as implying that military equipment should be recorded as government expenditure at the moment of their delivery, irrespective of effective payments, which can take place when the equipment is ordered, during construction, upon delivery or even at a later stage. In case of payments between the order and the delivery – a situation rather common in military procurement – payments are recorded as financial advances with an impact on the gross debt, but not on the deficit. The financial advances are a government asset, and a liability for the military equipment producer. These assets and liabilities will be redeemed when the equipment is delivered, and the respective cost is imputed as deficit-increasing expenditure in the government accounts.

It seems that in a majority of the EU Member States, data on deliveries of military equipments is confidential or is not used in national accounts, and national statistical institutes have difficulties to get the necessary information to draw government accounts which are fully in line with the accounting rules. In these cases, data on deliveries has been proxied by cash figures. This seems notably to be the case, according to information sent by Member States to Eurostat through a questionnaire, in Belgium, the Czech Republic, Estonia, Germany, Greece, France (with some accrual adjustments), Ireland, Hungary, Lithuania, Latvia, Malta, Poland, Slovak Republic, Finland (in part) and the UK. On the contrary, the delivery method is followed in Spain, the Netherlands, Austria, Slovenia, Finland (in part). The cases of Italy, Portugal are to be clarified. The other three countries (Cyprus, Luxembourg and Sweden) not included here have not provided any information on the issue. Over the medium term, data on payments and on deliveries should be the same, but they may differ for each specific year. The difference – which by definition is not known for the Member States where data on deliveries is confidential – depends on the regularity of payments and deliveries.

At the end of 2003, Eurostat decided to set up a task force on military expenditure. The main reason was the multiplication of innovative financing contracts related to military equipment. The task force would be an opportunity to compare the practice followed in different Member States and to check whether the existing accounting rules needed clarification. The aim was not to amend the accounting rules, but to see how they should be applied for some specific contracts. For example, the task force is considering how to record equipment in the case of lease or of long-term trade credits, how to deal with confidentiality issues, or the appropriate time of delivery for particularly complex cases (such as long-term delivery contracts, large equipment built over the years, etc.). In cases where some clarification is needed, Eurostat will define how rules should be interpreted after consulting the CMFB, according to the well established practice mentioned in annex 1. The task force met on 15-16 January 2004, on 19-20 April 2004 and on 12 November 2004.

3. <u>Accounting difficulties in the recording of military expenditure in Greece</u>

The recording of expenditure in military equipment has been in the agenda of contacts between Eurostat and the Greek statistical authorities since 1994, or even before. Data supplied by Greece were apparently inconsistent and information on contracts for military equipment was contradictory.

In 1996,[10] the Greek authorities acknowledged that "*certain important data relating to military expenses and their financing are regarded as secret by the Greek military authorities, and are not communicated to the officials in charge of compiling the national accounts and the public deficit and debt statistics at the Ministry of Economy*". According to the Greek representatives "*a very large part of military debt is under the form of 'long-term* [trade] *credits' granted by the providers of military equipment.*" Since data on deliveries was classified, expenditure was proxied as equal "*the repayments (capital and interest) made during the year in relation with the outstanding military debt.*" Moreover, given the nature of trade credits, the financing of military equipments was not even recorded in government debt. Eurostat considered that the estimate used by Greece was not satisfactory and "*may for given years make estimations of the amount of expenses for military equipment extremely different for actual values and reflect more past levels than the current ones.*"

In 1997[11], the situation had not changed and Eurostat noted that the method adopted by Greece was "*unsatisfactory*". Moreover, Eurostat also expressed doubts whether "*the majority of credits for the supply of military equipment is granted in the form of trade credit to the Greek government and not financed via the (national or international) banking system*".

The situation was also unchanged in 1998[12]. Greece stated that "*military debt stands at 1000 bio GRD [4.2 % of GDP], out of which 200 bio GRD are represented by trade credits.*"[13]

In 1999,[14] the description of the situation by the Greek statistical authorities had slightly changed, as they argued (contrarily to what was stated during the previous years) that: "*the*

[10] Eurostat mission to Greece on 8 and 9 February 1996. The quotations are from the mission minutes which were agreed between Eurostat and the Greek authorities.
[11] Eurostat mission to Greece on 17 and 18 March 1997.
[12] Eurostat mission to Greece on 24 and 25 August 1998.
[13] It should be underlined, nevertheless, that the existence of trade credits for the acquisition of military equipment between 1997 and 1999 has now been denied by the Greek authorities
[14] Eurostat mission to Greece on 13 and 14 May 1999.

military debt exists no more as such, as it was taken over by the Ministry of Finance in 1994. Therefore the military debt is included now in the debt of general government". However the problems of availability of data persisted as "*the execution of the programme for acquiring weapons is secret*" Therefore, expenditure with military equipment was still being estimated on the basis of debt reimbursements ("*capital payments of the armed forces is included in the deficit*").

In 2002,[15] the issue of military expenditures was again discussed. The Greek authorities "*explained the system of military acquisitions through advances made to the producers of military equipment. The advances paid to the suppliers of military goods are treated as financial transactions. When the goods are shipped to Greece, the statistical service receives the information about the delivery of the goods project by project and records in the national accounts these amounts as final consumptions*". According to the Greek statistical authorities, the Ministry of Finance's Accounting Office and the National Statistical Service of Greece had full information on deliveries and no longer had any specific difficulty implementing the ESA 95 rules. According to the explanations provided, Greece was correctly implementing the ESA 95 rules. Therefore, Eurostat considered that the issue was closed.

In April 2004 it was acknowledged – in the reply by the National Statistical Service of Greece to a questionnaire sent by Eurostat to Member States on long-term contracts for military equipment, and apparently in contradiction with the statement of October 2002 – that information on deliveries was confidential. It became then clear that Greece was unable to fully implement the ESA 95 rules.

This was confirmed in the Eurostat mission to Greece of 26 and 27 April 2004, where it was admitted that only a relatively small fraction of deliveries was captured. The Greek authorities "*clearly recognised during the meeting that the recording method in use was at the origin of a possible severe under-estimation of government expenditure and therefore of the government deficit*". It was also learnt that "*government expenditures may not have been recorded at all for the material delivered between 1997 and 2003*". During that meeting, the National Statistical Service of Greece committed to try to get complete information on equipment deliveries from the Ministry of Defence. If this was not possible, then military expenditure would be imputed in the notification due by September 2004 on the basis of known cash payments.

This was in fact the case, and it was acknowledged by the Greek authorities to the Eurostat mission to Greece on 6 and 7 September 2004 that "*although the method for recording expenditures was based on deliveries, in fact no information on deliveries was ever received by the NSSG and the Ministry of Finance since 1997. Therefore most military expenditures covered by borrowing were not recorded since the last 7 years*". As information on deliveries could not be obtained now, *"The Greek authorities have decided to record these amounts on a cash basis".*

The table below compares effective cash payments with the amounts recorded as government expenditure in the Greek government accounts until September 2004, and the correction necessary to ensure that all equipment was recorded as government expenditure.

[15] Eurostat mission to Greece on 23 and 24 October 2002 – mission report not formally agreed by the Greek authorities.

Expenditure in military equipment (million euros and % of GDP)			
	Effective cash payments	Expenditure recorded in government accounts before Sept 2004	Additional expenditure imputed in government accounts in Sept 2004
	(1)	(2)	(3)=(1)-(2)
1997	1,039.6 1.1%	890.9 0.9%	148.7 0.2%
1998	1,288.6 1.2%	1,219.0 1.2%	69.6 0.1%
1999	1,905.4 1.7%	931.6 0.8%	973.8 0.9%
2000	3,165.2 2.6%	827.7 0.7%	2,337.5 1.9%
2001	2,583.6 2.0%	967.0 0.7%	1,616.6 1.2%
2002	3,226.7 2.3%	818.0 0.6%	2,408.7 1.7%
2003	2,116.5 1.4%	987.0 0.6%	1,129.5 0.7%

4. Conclusion on military expenditure

The recent acknowledgement by the Greek statistical authorities of their lack of ability to correctly implement the delivery method, in contradiction with their position in the past, has led now to record expenditure on a cash basis. The shift to cash accounting was not determined by methodological reasons – the accounting rules have not changed – but because of feasibility considerations. Given the confidential nature of data on deliveries in Greece, only cash accounting can guarantee that no expenditure is left unrecorded.

Annex 4

Recording of taxes

1. Accounting difficulties in the recording of taxes in Greece

In November 2002, Eurostat came to the conclusion that the implementation of the formula defined by the Greek statistical authorities in order to record taxes and social contributions in ESA 95, did not seem to be in line with Regulation (EC) n° 2516/2000 of the European Parliament and of the Council, and with Commission Regulation (EC) n° 995/2001.

Regulation (EC) No 2516/2000 of the European Parliament and of the Council of 7 November 2000

The principle of Regulation 2516/2000 is to make sure that taxes and social contributions unlikely to be collected do not impact deficit/surplus of general government. The impact must be only equal to the corresponding amounts actually received.

Taxes and social contributions recorded in the system may be derived from two sources: amounts evidenced by assessment and declarations of cash receipts.

In case assessment and declarations are used, the amounts shall be adjusted by a coefficient reflecting assessed and declared amounts never collected. These coefficients shall be estimated on the basis of past experience and current expectations, and be specific to different types of taxes and social contributions. The determination of these coefficients shall be country specific.

On the contrary, if cash receipts are used, they shall be time adjusted so that the cash is attributed when the activity took place to generate the tax liability (or when the amount of tax is determined, in the case of some income taxes). This adjustment may be based on the average time difference between the activity (or the determination of the amount of tax) and cash receipt.

In practice, most EU Member States use a time-adjusted cash basis for most taxes and social contributions, where the average time difference between the activity and cash receipt is estimated from one to two months.

In particular, Eurostat found out in 2003 that the coefficients used by the Greek statistical authorities to estimate the amounts of taxes and social contributions unlikely to be collected were not calculated correctly. The coefficients were established in Greece on the basis of "cancellations" which corresponded to a sum of single legal decisions by which, sometimes very tardily, government recognised that a tax or social contribution assessed in the past would never be collected.

Eurostat disagreed with this interpretation, as the meaning of Regulation 2516/2000 was that a part of taxes and social contributions assessed in the past should be neutralised in the same year, and not several years later, in order to express reliable expectations of recovery. The

Greek statistical authorities acknowledged that the calculation of coefficients was difficult as the profile of recovery of each particular tax was highly erratic.

As a consequence, Eurostat asked the Greek statistical authorities[16] to record taxes and social contributions using the time-adjusted method, which seemed to be the only reliable method that could be applied in the case of Greece. The Greek statistical authorities complied. The Greek authorities decided to use as average time-adjusted difference for recording taxes, in most cases, a period of two months. Therefore, for the year 2003, for instance, the amount of VAT taxes to be recorded as government revenue were the cash receipts between the months of March 2003 and February 2004.

In April 2004, Eurostat was informed by the Greek statistical authorities that government deficit was due to increase, amongst other, also because of a previous overestimation of VAT receipts for the months of January and February 2004. It was explained by the Greek authorities that at the moment of the first EDP notification (end of February), cash data for the months of January and February are only partially available. Apparently the estimation made by the Greek statistical authorities of such amounts, in the March 2004 notification, had been largely overestimated. As a result, the amount of revenue for government for the year 2003, mainly due to VAT tax, had been overestimated by 1436 mio €, that is, 0.9% of GDP.

2. <u>Conclusion for recording of taxes</u>

The problem of overestimation of VAT taxes seems to have been limited to the year 2003. It was not due to methodological issues or to an imperfect interpretation of national account rules, but to a vastly inflated overestimation of VAT receipts for two months for which cash data were allegedly not yet available.

[16] Letter of Mr Meganck (Director at Eurostat) to Mr Karavitis, on 26 November 2002

Annex 5

Social security

1. Introduction

ESA does not contain any specific accounting rules for the social security sub-sector of general government, as it does not contain any specific rules on any sector. The accounting rules on expenditure and revenue, on the time of recording of transaction or on the differences between financial and non-financial transactions are the same, irrespective of the sector or the units involved. Of course, there are transactions – as payments of pensions or the collection of social contribution – which occur more frequently in some sectors than other, but this does no mean there are any specific rules for any sector.

2. Accounting difficulties in relation to social security and contacts between Eurostat and Greece

The discussions between Eurostat and Greece on the social security accounts started in 1998. The topic was not initially raised by any specific accounting difficulty, but because of the surprise of the magnitude of the social security surplus in comparison to other Member States. Therefore, the debate started from an economic view points rather than from an accounting perspective. The Greek authorities stated that there were two basic reasons for the social security surplus. First some pension schemes had been created relatively recently and had not yet reached maturity; therefore they collected more contributions than they paid in pensions. Moreover, there were every year substantial transfers from the State budget to social security; these transfers contributed to the central government deficit and to the social security surplus, though they cancelled out for the government as whole.

During the EDP mission of 24 and 25 August 1998, Eurostat noted that the social security surplus for 1996 had been considerably revised upwards between the notifications of March and September 1997. The Greek authorities replied that data for 1996 had been revised and became final. Furthermore, they considered that the social security accounts did not raise any specific accounting, but acknowledge that "*the real problem stems from the delay in collecting data, as some of them are communicated only after a two years interval*". Therefore, the first outcomes for social security accounts included in the EDP reporting were based on estimate made on the basis of incomplete information. However, it was also assed that "*in the future, nevertheless the quality of the data should be further improved*".

In the following EDP mission[17] Eurostat requested further information on social security accounts and how the social security surplus was invested, but no satisfactory or useful answer was provided.

During the mission of 15 January 2002, Eurostat also enquired about the "*large discrepancies between the balances of the social security funds estimated by the NSSG and the balance of funds invested by the Bank of Greece on their behalf*". The Bank of Greece representatives informed Eurostat that "*social security funds have been investing a proportion of their surpluses directly with private financial institutions*" and that therefore, the data published by the Bank of Greece could not be interpreted as suggesting the social security was

17 EDP mission in Greece on 13 and 14 May 1999

overestimated. Moreover, Eurostat "*did not feel fully informed about the detail of social security funds surpluses. In particular, it had requested during previous missions a list of funds and their balances but no document had been supplied*". By mid 2002, Eurostat reiterated its request, and asked[18] "*the balance sheet of social security funds, details on how the surplus of social security funds has been invested as well as B9 [deficit/surplus] for each individual fund*". Eurostat asked for this information as it thought that there was a need to compile data with much shorter delays and to get information on the social security assets, so that the social security surplus could be counterchecked by the financial asset side. Eurostat reiterated its demand again a few months later[19]

The issue was raised again during the EDP mission of 1 and 2 September 2003, with Eurostat pointing out at the difficulties to assess the growing surplus of he social security sector. On 4 November 2003, Eurostat wrote[20] to the NSSG regretting once again a situation that was not satisfactory. Eurostat gave therefore to Greece a deadline of September 2004 "*to obtain more reliable figures*". Otherwise, "*Eurostat might find itself in a position in which it will not be possible to certify the figures presented by the Greek authorities in the official EDP notification*".

Data on social security in the March 2004 notification were still those compiled and estimated on the basis of an old survey. However, Eurostat had already been informed that Greece was giving the necessary steps to have more reliable data in time for the September 2004 reporting. It was therefore in this context that Eurostat noted when publishing the press release of 16 March 2004 that "*due to ongoing discussions with the statistical authorities in Greece, notably on the surplus of social security funds, the notified figures for debt and deficit were to be considered as provisional and could be revised*"[21].

Finally, in September 2004, on the basis of the survey requested by Eurostat, the social security surplus was revised downwards (compared to the March 2004 notification) from 3,4 to 2,1 bio € in 2001, from 4,7 to 4,1 bio € in 2002, and from 5,5 to 4,6 bio € in 2003. The new survey covered years 2002 and 2003. Data for 2001 were also revised because new evidence, on the basis of the old survey, became available.

3. <u>Conclusions for social security</u>

Between 2001 and 2003, as it has now been revealed by the new survey, the surplus of the social security funds had been overstated by a total cumulative amount of 2.8 bio €. Eurostat had identified the Greek social security accounts as very fragile already several years ago, and urged Greek authorities to correct a situation that was clearly unsatisfactory. As proposed by Eurostat in October 2002 and finally agreed one year later, Greece has now implemented a new survey and compiles accounts from almost all social security funds with a quarterly

[18] letter of Mr Franchet to Mr Karavitis on 19 June 2002
[19] letter of Mr Glatzel to Ms Kitrina on 4 October 2002
[20] letter by Mr. Vanden Abeele to Mr. Karavitis on 04.11.03
[21] It must be underlined that there were important inconsistencies on this point in the EDP reporting of March 2004. It was reported that social security funds had undertaken acquisition of equities for 3,30 bio € in 2002 and for 3,25 bio € in 2003. In fact, given the lack at that stage of any available information on how surpluses of social security were invested, this figure could simply not have been known. When Eurostat raised the issue again in the following EDP mission in September 2004, expressing surprise that a figure had been reported at all , the Greek authorities agreed that such information could not have been existing, and the representative of the Bank of Greece "admitted that they had no idea where such figures were coming from".

frequency. The NSSG also compile now data on social security assets. Although there are discrepancies between flow and stock accounts, there is evidence that social security does register significant surpluses and invest some of the surpluses in the stock exchange. Given the lack of experience in the compilation of social security accounts in Greece, this topic needs to be monitored over the next years, but there would be no reason for Greece from now on for not compiling high quality social security accounts.

Annex 6

Debt assumptions and cancellations

1. Introduction

Debt assumptions were not among the topics that led to the revision in government accounts in the notification of September 2004. However, the topic was quite relevant during the revision in government accounts of October 2002. Accounting rules on the recording on debt assumptions were not followed until 2002. Government deficit in Greece for the years 1997, 1998 and 1999 will increase due to the non-application in the past of these rules.

2. Accounting rules

ESA95 contains specific rules on the recording of debt assumptions. According to paragraph 4.165(f): "*Other capital transfers include (...) cancellation of debts by agreement between institutional units belonging to different sectors or sub-sector (for example, the cancellation by the government of a debt owed to it by a foreign country; payments in fulfilment of guarantees which free defaulting debtors from their obligations) (...). Likewise, the counterpart transaction of debt assumption is another capital transfer*". However, these rules have three exceptions in the case of "*cancellation of financial claims against and assumption of liabilities from quasi-corporations by the owner of the quasi corporation*" (4.165(f)-1), "*debt cancellation against and debt assumption from a public corporation by government which disappears as an institutional unit in the system*", that is in the case of liquidation (4.165(f)-2), and "*debt cancellation against and debt assumption from a public corporation by government as a part of an ongoing process of privatization to be achieved in a short term perspective*" (4.165(f)-3).[22] In these three cases, the debt assumption and cancellation are recorded as financial transactions without any direct impact on the government deficit.

The Manual on government deficit and debt specifies, in addition, that "*this rule should only be applied when there is enough certainty that the privatisation will occur in the short-term. In any case, the simple existence of a privatisation plan is not sufficient for considering the debt assumption/cancellation as part of an ongoing process of privatisation to be achieved in a short-term perspective*". That is, it would not be enough that the privatisation be announced, but procedures for privatising must had already started and the privatisation has to be completed in the short-term.

3. Accounting difficulties in the recording of debt assumptions in Greece

The first time that the issue of debt assumptions and cancellations seems to have been discussed between Eurostat and Greece was during the Eurostat mission of 8 and 9 February 1996. Eurostat had noticed that the debt assumptions which gave rise to an immediate payment by the government were being recorded as (deficit-increasing) capital transfers, but that no capital transfer increasing the deficit was ever recorded in case the formal assumption of a liability did not give rise to a payment. According to the mission minutes, Eurostat made clear that "*debt assumption/cancellation by the general government of the debt of a unit that is classified in another sector, corresponds not only to an increase of the General*

[22] Concerning the third exception (privatisation), paragraph 5.16 specified that "*privatization means the giving up of control over that public corporation (see paragraph 2.26) by the disposal of shares and other equity*".

Government debt, but also to a worsening of the General government deficit when the debt assumption/cancellation takes place."

Following the mission of February 1996, Mr Franchet (Director General of Eurostat at that time) wrote to Ms Zervou (then Secretary General of the National Statistical Service of Greece) specifying that "*during the mission it became apparent that there are inconsistencies in the interpretation of capital transfers as a counterpart to various items of debt assumptions. In fact the delegation of Eurostat could not agree with the exclusion of the counterpart transaction from the net borrowing requirement of the General Government Sector [government deficit]*".

The Greek authorities apparently agreed with Eurostat. In a letter of 15 March 1996, Ms Zervou answered to Mr Franchet that the Greek authorities "*strongly support your views about the treatment of debt assumptions*" and that "*we have already included the correct treatment of debt assumptions in our final estimates for the years 90, 91 and also in our estimates for the years 92-95 for the sector of General Government*". At this point Eurostat considered the issue settled, and this impression seemed to be confirmed when Greece transmitted a revised EDP reporting on 3 May 1996, which included 231 bio GRD of capital transfers in relation to debt assumptions for 1994, and 8 bio GRD for 1995. The same figures also were included in the September 1996 EDP reporting.

However, in the EDP notification of 1 March 1997, debt assumptions were excluded from the government deficit for previous years, without previously discussing this issue or informing Eurostat, contrarily to what had been agreed in 1996.

Eurostat immediately raised the issue during the mission of 17 and 18 March 1997. The Greek authorities argued that debt assumptions had been excluded from the government deficit because the "*debt assumed was in many cases linked to privatisation*". Therefore, according to the Greek authorities, Greece could benefit from the exception established by paragraph 4.165(f)-3 of ESA95 in the case of privatisation. However, Greece was applying this paragraph even in cases of "*privatisation not pre-announced by the government or was done only gradually*".

Eurostat did not agree with the interpretation of the accounting rules by the Greek authorities. Eurostat noted that the exception of paragraph 4.165(f)-3 of ESA95 was only relevant "*in the case of a privatisation to be achieved in a short-term perspective*" while "*in the cases which were presented by the NSSG, this seems not to be the case*", as "*there was a substantial time lag between the debt assumption and the privatisation*". Therefore, Eurostat insisted that "*the Greek statistics in the excessive deficit procedure have to be corrected correspondingly*" and that "*these corrections should be done immediately*".

In spite of this conclusion, Greece did not revise its figures and did not transmit a revised notification. However, in the September 1997 and March 1998 fiscal notifications, the recommendation of Eurostat was allegedly implemented, and amounts of 30 bio GRD for 1995 and 87 bio GRD for 1996 were recorded as debt assumptions. Nevertheless, nothing for 1997 was imputed. Eurostat inquired into this during its mission to Greece on 24 and 25 August 1998. The Greek authorities replied that "*no debt assumption was recorded because no liability became payable, as none of the guarantees was called*".

In the notification of September 1998, contrarily to what had been stated a few months earlier, an amount of 159 bio GRD for debt assumptions in 1997 was recorded. Nevertheless, in the February 1999 notification, the amount for debt assumptions for 1997 fell from 159 to 97 bio GDR, without any explanation. Questioned on this point during the Eurostat mission of 13 and 14 May 1999, the Greek authorities stated that "this *was due to the fact that in the previous notification 62 bio GRD were earmarked for supporting the Agricultural Bank conditional to approval from the European Commission. Nevertheless such an approval never came and the amount included in the latest notification was therefore reduced*". Also, in the February 1999 EDP notification, an amount of 49 bio GRD was imputed as debt assumption for 1998.

In the <u>notification of March 2000</u>, no debt assumptions were recorded for 1998 and 1999. The amounts recorded in the two EDP notifications of 1999 (97 bio GDR for 1997 and 49 bio GDR for 1998) were not recorded anymore.

In the EDP notifications of 2001, an amount of 13 bio GRD was recorded for 2000, but no debt assumption was imputed in the 1999 accounts. In the EDP notification of March 2002, no debt assumption was recorded for 2001.

In 2002, Eurostat had enough evidence that debt assumptions were not recorded properly in the Greek accounts, and that the amounts recorded in the fiscal notifications were a small fraction of the total. The issue was extensively discussed during the meetings between Eurostat and the Greek statistical authorities on 16 and 17 October 2002 (in Luxembourg) and 23 and 24 October 2002 (in Athens). In the revised EDP notification transmitted on 5 November 2002, the Greek authorities acknowledged that 217 mio € of debt assumptions had taken place in 2000, and 494 mio € in 2001, against the previously reported figures of 38 mio € in 2000 and nil in 2001. The most recent reporting includes debt assumptions of 277 mio € for 2002 and 168 mio € for 2003.

Most recently, Greece informed Eurostat[23] that the 1997, 1998 and 1999 accounts need to be corrected to include 124, 140 and 97 bio € of debt assumptions.

4. <u>Conclusion in relation to debt assumption</u>

The accounting rules on the recording of debt assumptions are well established since at least 1995. Their implementation has been relatively straightforward in most EU Member States. In the case of Greece, this has not been the case. Debt assumptions were one of the most frequently discussed issues between Eurostat and the Greek statistical authorities from 1996 to 2002. Eurostat made clear already from 1996 which were the rules to be followed. However, such rules were not applied in a consistent way and data have frequently changed. It can be concluded that Eurostat's recommendations were not followed.

23 Letters of Mr Kontopirakis to Mr Vanden Abeele of 18 and 27 October 2004.

Annex 7

Capitalised interest

1. Introduction

The issue of capitalised interest was often debated between Eurostat and the Greek statistical authorities between 1996 and 1998. Since then, Eurostat believed that the rules were correctly applied by the Greek statistical authorities. It was only in 2004 that it became clear that it was not the case.

2. Accounting rules

According to ESA95, and in particular paragraph 4.50, "*interest is recorded on an accrual basis: that is, interest is recorded as accruing continuously over time to the creditor on the amount of principal outstanding. The interest accruing in each accounting period must be recorded whether or not it is actually paid or added to the principal outstanding*".

The Manual on government deficit and debt deals quite extensively with this issue, even mentioning specifically the case of instruments with grace period and zero-coupon bonds as cases where interest must be accrued over time.

3. Accounting difficulties in the recording of interest in Greece and contacts between Greek authorities and Eurostat

The recording of interest was discussed between Greece and Eurostat on several occasions since at least 1996. According to the minutes of Eurostat's mission of 8 and 9 February 1996: "*For certain bonds issued by central government (...) interest is not paid at the end of the year but accumulated to the capital amount during a pre-set numbers of years that varies according to the bonds. (...) In the accounts of the Ministry of Finance, no payment is recorded for interest that is capitalised, but the debt is accordingly increased. However, in the notification to the Commission in the framework of EDP, capitalised interest is recorded as interest payment (as if it had been paid) on an accrual basis, according to a previous DG II recommendation*". Therefore, Eurostat concluded, on the basis of the statements by the Greek authorities, that capitalised interest was not an accounting issue and that the ESA rules were being respected.

However, as some doubts persisted, Eurostat wrote to the NSSG on 21 March 1997[24]. The letter stated: "*The following points should be corrected: Capitalised interest should be included as increasing the deficit at the moment they are paid, where paid means credited to the account of the holder of such an instrument*".

The EDP mission report of 1997 stated again that "*It was agreed that the 1997 notification should be corrected for ... capitalised interest*". In that occasion, it had become clear that the Greek government had issued bonds which did not carry any interest during the first years. After that period, the principal was increased and the bond subsequently carried a coupon on the increased capital. In the EDP notifications, capitalised interest was recorded only when the

[24] Letter by Alberto de Michelis (Director at Eurostat) to Mr. Karavitis (General Secretary of the National Statistical Service of Greece)

bond was redeemed, but not when the capital uplift was credited to the holders of the bond. Eurostat argued on the contrary that the capital uplift was the payment of interest of the bond, and that it did not matter that there was no exchange of cash, as the amounts were credited in the accounts. As a consequence, it was decided that the Greek authorities had to work on correction of these data without waiting to receive a formal recommendation by Eurostat.

In 1998, it became again clear that the recommendation of Eurostat had not been followed in the context of the EDP notification of March 1997. It turned out that in that notification capitalised interest was not recorded on an accrual basis during the grace period. The Greek authorities promptly promised to comply. As a result, during the 1998 EDP mission, it was stated as a conclusion in the minutes that: "*The Greek authorities stated that from now onwards it would always be recorded on an accrual basis during the grace period*". As a consequence, Eurostat had reason to believe that there was no accounting difficulty with the correct recording of interest expenditure.

Some small amounts were included under the special heading "capitalised interest" in the following EDP notifications. In particular, 33 bio GDR were recorded for the year 1997 and 27 bio GDR for the year 1998.

It was only in September 2004, however, that the Greek authorities informed Eurostat that capitalised interest had been systematically under-recorded and a correction had to be imputed both for deficit and debt. The Greek statistical authorities have admitted in September 2004 that, starting in 1995, government reached an agreement with some major banks, mostly owned by government. It was decided that interest payment on government bonds could be postponed year after year. In this way, interest was never paid and it was capitalised every year. ESA 95 rules on the recording of capitalised interest were not followed. As a consequence, debt and deficit figures had been underreported since 1995. These have now been corrected.

4. <u>Conclusions for capitalised interest</u>

The rules for recording of capitalised interest were clear. Eurostat made repeatedly explicit during the years 1996 to 1998 that capitalised interest should be properly recorded and accrued over time, deteriorating the deficit/surplus of government in those years in which the amounts had to be recorded. However, this does not seem to have been done by the Greek authorities, or was done only for partial amounts. In spite of explicit assurances given by the Greek authorities pointing to the contrary, the rules on the recording of capitalised interest were not applied. The Greek authorities have now informed Eurostat that capitalised interest for the years 1995 to 2000 is as follows:

1995: 1964 mio €
1996: 1765 mio €
1997: 990 mio €
1998: 282 mio €
1999: 108 mio €
2000: 340 mio €

The Greek authorities have also informed Eurostat that "*the primary goal behind these operations was to smooth out the cash pressures in financing the budget deficit in an environment of high interest rates. These operations were aimed at easier refinancing in the* *subsequent years when the interest rates were expected to be lower. This also explains why these operations displayed a downward trend and were eliminated in the years following 1999*".

Eurostat is not in a position to assess these data. It is recalled that in the March 2000 notification, the amount of capitalised interest was 33 bio GDR for 1997 (106 mio €), 27 bio GDR for 1998 (82 mio €), and nil for 1999. It is also recalled that the Greek authorities have notified in 2004 that in the year 2000 unrecorded capitalised interest amounted to 340 mio €, that is an amount much bigger than the one recorded in 1999. This does not seem to be in line with the assertion done by the Greek authorities that these operations were eliminated in the years following 1999. Eurostat would also expect a much flatter profile (the trend should be continuously downwards), and thinks that the pattern should show a progressive reduction in capitalised interest form 1995 to 2000.
Nevertheless, Eurostat did not receive the information requested in the letter dated 21.10.04, 29.10.04 and 17.11.04. However the impact should be limited.

Annex 8

Capital injections

1. Introduction

Capital injection is a generic, non-technical term[25], that covers a number of quite different situations when government provide some financial support to public enterprises. Capital injections can be recorded above or below the line, that is, with or without any direct impact on government deficit depending on the nature of the transaction. The recording of capital injections is probably the topic that is more frequently discussed between Eurostat and the Member States' statistical authorities.

2. Accounting rules

The accounting rules on capital injections distinguish those that are recorded above the line as capital transfers and increase the deficit, from those that are recorded below the line as financial transactions. The old ESA79 was very rudimentary on this issue, and capital injections were in fact treated according to their legal status. A capital injection that led the government to receive share of the respective enterprise was treated as a financial transactions.

The rules changed when ESA95 became the accounting reference for EDP and Eurostat published the first edition of the Manual on government deficit and debt (MGDD), which provides guidance on the interpretation of ESA95 at the beginning of 2000.

Since January 2000 – that is since the publication of the first outcome for 1999, though Member States had an obligation of retropolating their accounts in line with ESA95 – the basic principles are that "*when the government acting for public policy purpose*[26] *provides funds to a [public] corporation (...) without expecting property income, the capital injection is to be recorded as a capital transfer. When the government, acting as a shareholder, provides funds receiving financial assets and expecting dividends in future, the capital injection is to be recorded as a financial transaction*". The MGDD contains some pragmatic criteria to distinguish the two situations, for example when the public enterprise accumulated losses in the past or losses are expected for future years, or when there is a pattern of repetitive payments.

The rules on capital injections have remained basically unchanged since January 2000, though the pragmatic criteria to distinguish the two kinds of capital injections were further elaborated in 2003 (to take into account other criteria such as the accumulation of net losses by the corporation, or the case of the creation of a new corporation or a new activity. Moreover, an operational guidance for the treatment of capital injections was provided). However, since the further elaboration of the pragmatic criteria does not seem to be relevant in the case of Greece, there is not need to expand on this here.

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[25] The term "capital injections" as such does not feature in ESA

[26] The MGDD clarified that "*acting for public policy purpose*" meant in this context when the "*government does not manage funds to acquire profitable assets (like private shareholders do) but to pursue social or collective policy objectives for which private capital might not be available*"

3. Accounting difficulties in the recording of capital injections in Greece

The recording of capital injections has been discussed between Eurostat and Greece at least since 1998, when the old ESA79 system was still in force. During the mission of 24 and 25 August 1998, Greece replied that all capital injections had been registered as financial transactions below the line without any impact on the government deficit because the beneficiaries of capital injections were "*all quasi-corporations*"[27] and that "*therefore the amount received by them in order to finance infrastructure could be treated as a financial transaction, as stated by ESA 79. This, of course, would not have been possible in the case of corporations*" (that is if the beneficiaries had the legal status of corporations). "*For this reason, the (...) mentioned amount (420 bio GDR) has been excluded by the Greek accountants in the State accounts*". Eurostat stated that "*the reasons according to which these units can be classified as quasi - corporations instead of corporations should be further clarified*".

It quickly became evident that the statements by the Greek authorities were not enough accurate. The units receiving capital injections, such as the Greek Electricity and Telecommunication Company, did have the legal status of corporation and therefore could not be considered by accountants as quasi corporations, and some of the capital injections covered mainly past and consistent losses of state-owned enterprises highly indebted. Moreover, as discussed above, in the meanwhile ESA95 became the accounting reference for EDP and the first edition of the MGDD was published at the very beginning of 2000. Therefore, following the mission of 18 February 2000, Eurostat wrote to Greece on 21 February 2000: "*Following the mission to Athens on 18.02.00 it seems necessary that you reconsider the classification in National Accounts of the so-called 'Capital Injections' paid by the State to some public corporations*". A list of the criteria to be followed, according to the MGDD, was specified in the letter.

However it became clear later that Eurostat request was only partially taken into consideration by Greece, and that the rules had not been applied. It seems, in this respect (although no written record has been found on this point) that Eurostat's senior management accepted that only 50% of the amounts recorded as share capital increases could be reclassified as capital transfers, raising government expenditure, as it was claimed by the Greek authorities that at that stage they did not have enough information to apply exactly ESA 95 rules. The 50% approximation, according to the Greek authorities, was considered at that time as the only possible proxy for estimating the amounts to be reclassified.

In 2002, it became evident that the capital injections that were recorded as deficit-increasing capital transfers were only a fraction of the total. It also became evident that the Greek authorities had kept until then the 50% statistical approximation, for the recording of share-capital increases. In this context[28] Eurostat "*underlined the need for the Greek statistical*

[27] Quasi corporations are institutional units with no independent legal status. In the report of the EDP mission of 1999, it is read "*When asked by Eurostat if these enterprises were to be considered as corporations or quasi-corporations under ESA 79, the Greek delegation replied that they were all quasi-corporations. Therefore the amount received by them in order to finance infrastructure could be treated as a financial transaction, as stated by ESA 79. This of course would not have been possible in the case of corporations. For this reason, the above-mentioned amount (420 bio GDR) has been excluded by the Greek accountants in the State accounts*"

[28] EDP mission to Greece on 15 January 2002

authorities to consider each share capital increase using the recommendations set down in the ESA 95 Manual on government deficit and debt". Eurostat added also that "*it is no longer appropriate to use a 50% apportionement as had been agreed in the past under the ESA 79 regime*". The Greek authorities reassured Eurostat, stressing that "*this type of analysis is undertaken annually and Greece had actually been testing the new recommendations contained in the Manual before they had been formally introduced*" adding that they agreed to "*look again at these transactions*".

It was in this context that Eurostat noted, when publishing the outcome of the September 2002 reporting, that "*Eurostat is at present not in a position to certify the figures included in the notification of Greece, as certain information on government transactions is still pending or incomplete. Therefore, the notified government accounts are to be considered as provisional and likely to be revised*". After meetings in Luxembourg on 16 and 17 October 2002, and Athens on 23 and 24 November 2002, Greece agreed that several capital injections had not been properly recorded. The deficit for 2000 and 2001 was therefore revised upwards by 0.8% of GDP for 2000 and 0.9% for 2001. The reclassification of capital injections concerned a number of companies, notably the railways (OSE) the Athens Metro and EGNATIA, a motorway company.

The Greek authorities seem to have correctly registered capital injections from 2000 onwards. However, the revision in the accounts of October 2002 was not extended back into years before 2000.

In the mission of 12 and 13 October 2004 and in the letters of 21 and 29 October 2004, Eurostat requested the NSSG to provide a list of capital injections undertaken by the Greek government from 1997 to 1999 and of distinguishing those that are to be recorded as capital transfers and as financial transaction according to the accounting rules. Greece has not provided the requested list. However the Greek authorities informed Eurostat that capital injections amounted to 1233 mio € (1,27% of GDP) in 1997 and 1415 mio € (1,34% of GDP) in 1998 and none of them had been registered as deficit increasing. Concerning 1999, Greece informed that capital injections amounted to 1820 mio € (1,61 % of GDP) of which only 411 mio € (or 0,36 % of GDP) were imputed as capital transfers and accordingly increased the deficit.

During the mission of 10 November 2004 the Greek authorities provided information on the amounts of capital injections to be added to the deficit figure between 1997 and 1999. This correction was made according to the same guidelines followed in the reclassification as capital transfers of some amounts previously recorded as share capital increases, in 2002.

4. Conclusion on capital injections

The distinction between the capital injections that are recorded above and below the line was one of the major improvements in the accounting rules when ESA95 became the accounting reference for EDP, and the first edition of the MGDD was published at the beginning of 2000. Since January 2000, there has been no change in the principle governing the recording of capital transfers. The pragmatic criteria for the implementation of the rules were further elaborated in 2003, but such developments do not seem to be relevant in the case of Greece.

Eurostat made clear to Greece what were the rules to be applied. However, it appeared that the statements by the Greek authorities were not always complete and rules were not applied.

Eurostat believed that capital injections of 2000 to 2003 have been correctly recorded in the Greek government accounts. This is at present also the case for the years 1997 to 1999, as a correction has been imputed according to the rules for the treatment of capital injections. It is also to be underlined that data for 1997 and 1998 were originally compiled under ESA79. However, when ESA95 came into force (since the March 2000 notification) all Member States had the obligation of retropolating their accounts on the basis of the new rules. This did not happen for the notifications of 2000 and 2001, when Greece reported data for 1997, 1998 and 1999.

Annex 9

Share convertible bonds

1. Accounting rules

According to Council Regulation (EC) N°3605/93[29], the "*government debt is constituted by the liabilities of general government in the following categories: currency and deposits (AF.2); securities other than shares, excluding financial derivatives (AF.33) and loans (AF.4)*". ESA95 defines each one of these categories. As far as the category "*securities other than shares, excluding financial derivatives*" is concerned, ESA95 specifies in paragraph 5.62(l) that "*sub-position AF.332 [a sub category of AF.33] includes: (...) debentures and loan stock convertible into shares, whether shares of the issuing corporations or shares of another corporation, so long as they have not yet been converted*". Moreover, according to ESA95 paragraphs 4.42 and 4.43(b), interest in relation to all financial liabilities, notably all components of category AF.33, should be recorded as government expenditure.

2. Accounting difficulties in Greece and contacts between Eurostat and Greece in relation to convertible bonds

Eurostat noticed in 2002 that the government debt reported by Greece did not include convertible bonds, which had been issued since 1998. Moreover, the respective interest was not being imputed into the government deficit. The amounts initially small (0.5 bio € or 0,47% of GDP in 1998) had progressively risen to 2,3 bio € (1,76% of GDP) by the end of 2001. As a reaction, Eurostat added the following note to its press release of 21 March 2002: "*Eurostat is at present not in a position to certify the figures included in the notification of Greece, due, among other reasons, to the lack of information on share convertible bonds. Eurostat intends to settle all outstanding issues in time for the 31 August 2002 notification. As share convertible bonds and privatisation certificates issued by the Greek State have not been included in the government debt figures, the notified figures of general government consolidated gross debt are to be considered as provisional and likely to be increased*".

Moreover, Eurostat asked more detailed information and explanations to the Greek authorities[30]. Eurostat recalled the methodological rules included in ESA 95 for the classification of share convertible bonds. Finally, after having received the information requested, on 13 May 2002, Eurostat wrote again to the NSSG and requested share convertible bonds had to be included in the reported government debt.

Share-convertible bonds were finally included into government debt in September 2002 with a retroactive correction since 1998. The interest paid by government was considered as government expenditure. As a consequence, the deficit of government increased by 46 mio € in 2000 and 82 mio € in 2001. However, deficit figures before the year 2000 were not corrected at that time.

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[29] Official Journal L 332, 31/12/1993. Council regulation 3605/93 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community

[30] letter of Mr Franchet to Mr Karavitis on 27 March 2002

The issue was discussed in the 12 and 13 October 2004 EDP mission. According to information provided by Greece on 18 October 2004, the respective interest to be imputed into the government deficit amounts to 12 mio € in 1998 and to 38 mio € in 1999.

3. Conclusions for share convertible bonds

The accounting rules on the accounting of share-convertible bonds and of their respective interest are clear and have been unchanged since long. Eurostat publicly noted that the reported deficit and debt figures were not complying with the accounting rules as soon as the issue emerged and requested Greece to correct the reported accounts. Eurostat believe that share-convertible bonds have been correctly recorded in the accounts.

Annex 10

Classification of DEKA

1. The sectoral classification of the State-owned holding DEKA

In 1997, the Greek government created a State-owned holding known as DEKA. The government moved several enterprises to be privatised to the DEKA balance sheet. DEKA injected capital in some of the enterprises it controlled, sell some of them and paid dividends to government. When DEKA was established, the Greek authorities considered that it should be classified outside government and that the dividends paid to government could be recorded as deficit-reducing property income.

2. Accounting difficulties, relevant accounting rules and contacts between Eurostat and Greece in relation to DEKA

Eurostat expressed doubts on the sector classification of DEKA and on accounting treatment of DEKA transactions shortly after it creation. The Eurostat doubts were founded on two main issues. DEKA seemed to act on behalf and according to instruction of the government. Therefore, Eurostat queried whether it could be considered as an institutional unit with autonomy of decision. According to ESA95 paragraph 2.13(c) "*entities which, while keeping a complete set of accounts, have no autonomy of decision in the exercise of their principal function are combined with the units which control them*". Moreover, Eurostat also noted that according to the accounting rules privatisation gains cannot be recorded as reducing the government deficit, not even in the case of indirect privatisations through State-owned holdings. ESA95, paragraph 4.165(g) states that "*the counterpart transactions of transfers to general government of the proceeds of privatization made indirectly (through a holding company for example) have to be recorded as financial transactions in shares and other equity (F.5) and have therefore no direct impact on the level of net lending/net borrowing of the general government*".

On 29 October 1997, Eurostat presented a paper on the classification of DEKA, at the joint meeting of the working parties on financial accounts (FAWP) and national accounts (NAWP)[31]. Eurostat's conclusion was that DEKA was providing unrequited transfers in the form of subsidies or investment grants to public units. According to ESA rules, subsidies and investment grants are made by general government (or by the EU budget). Therefore, Eurostat argued that DEKA was acting as a government body and should be classified inside the general government sector. Moreover, Eurostat insisted that "*one should have in mind the purpose of setting up DEKA: the idea is to relieve the government deficit. In that sense, DEKA is a unit the economic function of which is to be a substitute for the State for the payment of subsidies or investment grants to public units*".

The NSSG kept considering that DEKA should be classified outside general government. However, the Greek authorities noted during the EDP mission of Eurostat on 24 and 25 August 1998 that "*no financial and non-financial flows which were relevant for the EDP took place in 1997 between DEKA and the general government sector, therefore the data in the EDP for 1997 do not take account of the transactions of DEKA*". This information turned out

[31] The FAWP and NAWP are working parties of Eurostat where national accounts and public finance issues are debated. They are composed of representatives of the Commission, national statistical offices, national central banks, Treasury Ministries, the ECB and other international organisations

later to be inaccurate. Eurostat asked to analyse the accounts of DEKA, but the Greek authorities explained that a first set of accounts and balance sheets of DEKA would be available only in late 1998.

On 19 January 1999 Eurostat wrote to the NSSG and requested to receive copy of the law setting up DEKA and its balance sheet and profit and loss account. Eurostat reminded the NSSG that "*the different activities undertaken by DEKA(...) should be analysed in the framework of national accounts rules*". The NSSG replied on 18 February 1999 and forwarded to Eurostat the DEKA's articles of foundation. However, the NSSG informed Eurostat that the DEKA accounts would not be ready before April 1999. On 12/04/99 Eurostat requested again the balance sheet of DEKA. The examination of the accounts of DEKA finally took place during the Eurostat mission to Athens of 13 and 14 May 1999. Following this Eurostat wrote to the NSSG on 22 June 1999[32] noting that: "*Eurostat is of the opinion that, in the framework of ESA 95, DEKA should be classified inside the general government sector*". Therefore, when preparing the March 2000 notification, the NSSG should classify DEKA inside general government. *"In the framework of ESA 79 [that would be still in force for the notification of September 1999], Eurostat is of the opinion that the following activities, undertaken by DEKA, are carried out on behalf of general government: privatisation, government debt repayments, debt assumption and payment of grants to public companies. Therefore Eurostat's position is that the transactions linked to these activities should be rerouted*[33] *to general government accounts*" Moreover, Eurostat asked the NSSG to prepare a detailed note on the DEKA activities.

On 16 July 1999, the NSSG answered to Eurostat and agreed that "*grants of DEKA to general government*" and "*payments of DEKA on behalf of general government*" had to be reclassified respectively as financial transaction and capital transfers. According to the same letter, this would have a total impact on government deficit of 23,8 bio GRD (0,07% of GDP) in 1997 and 42,4 bio GRD (0,11% of GDP) in 1998.

The recommendation of Eurostat was however only partially followed in the notification of September 1999. In particular, the payments of DEKA on behalf of government were included with wrong signs in the notification, thus decreasing the deficit instead of increasing it. The mistake was rectified in the EDP notification of March 2000, when ESA95 was already the relevant accounting framework.

In the 2000 and 2001 reporting, the NSSG kept classifying DEKA outside government – in contradiction with the above-quoted Eurostat letter of 22 June 1999. In addition, no amount was imputed as transfers and payments of DEKA in the March 2000 notification for the year 1999. Some amounts were later recorded in the following EDP notifications of 2000 and 2001
.
On 15 January 2002[34], Eurostat raised the issue of the classification of DEKA back again and "*asked the Greek authorities to reconsider the classification of DEKA under ESA 95 and in particular to assess the nature of the relationship with the government and also the size of its financial operations relative to its privatisation function*". DEKA was finally reclassified in general government in the September 2002 EDP reporting. In a letter sent by the NSSG to Eurostat of 2 August 2002[35] it was stated that: "*following Eurostat's recommendation on the*

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[32] (letter of Mr. Franchet to Mr. Karavitis)
[33] that is, they should have been considered as carried out directly by a government unit
[34] Minutes of EDP mission
[35] (letter of Ms Kitrina to Mr Meganck)

treatment of DEKA we intend to classify it in the general government sector, starting with the 31.08.02 EDP notification (treatment will be extended backwards)." However, the NSSG argued that "*The new treatment of DEKA will not alter the EDP sizes, given that all its transactions had already been rerouted to general government*".

Eurostat believes that DEKA is now correctly classified in general government and that accounts for years 2002 and following reported since September 2002 are in line with the relevant accounting rules. However, according to the information received from the NSSG on 18 and 27 October and 3 November 2004, the treatment might have been wrong. The NSSG has provided a table which would explain the correction already undertaken for the period 1997-1999. According to the NSSG, the respective correction done already in 2002 raised the deficit of government by €70 mio (0,07% of GDP) for 1997, €123 mio (0,12% of GDP) for 1998 and €53 mio (0,05% of GDP) for 1999. These amounts had been already included in the previous EDP notifications, therefore no correction would have to be imputed now. However, according to the information received[36] by the Greek authorities, the amount of current transfers within general government seems not to have taken into account in the revision of data. In 1999, for instances, DEKA transferred 46 mio € to social security funds (the total amount of current transfers for 1997-98 was a cumulated amount of 119 mio €). This was considered as revenue for the sector general government (D73), decreasing therefore government deficit. However, these amounts, due to the reclassification of DEKA inside government, should have been consolidated, and not appear in government revenue. The Greek authorities had to check whether these amounts had been appropriately recorded in the EDP notifications.

3. <u>Conclusions in relation to DEKA</u>

Eurostat raised the attention of the Greek statistical authorities for the need to correct the sector classification of DEKA and/or the accounting treatment of its transaction immediately after DEKA was founded in 1997. Eurostat recommended again to classify DEKA inside government in 1999. However, the Greek authorities accepted to do so only in 2002.

Eurostat questioned whether the impact of the reclassification of DEKA has been properly assessed by the Greek authorities, for the period from 1997 to 2001. The Greek authorities have confirmed now (letter dated 27.10.04 and followings) that indeed such was not the case. As a result, amounts previously classified as share capital increases equal to 211 mio € both in 1997 and 1998, and of 113 mio € in 1999, have been reclassified as capital transfers increasing the deficit.

[36] Letter of Mr Kontopirakis to Mr Vanden Abeele of 3 November 2004. See Appendice 1 for figures on DEKA operations

<u>Annex 11</u>

Structural funds (EU Grants)

1. <u>Introduction</u>

The accounting treatment of structural funds from the EU, in the case where a government unit is not a final beneficiary does not entail particular accounting problems (except for the time of recording, in case government advances a payment to the final beneficiary in a year different from the one in which it will be reimbursed by the EU– see box below). Already from 1998 it was agreed that structural funds provided by the EU to non government units, should not transit through the non-financial accounts of government. Nevertheless, Eurostat found out in 1999 that payments received from the EU in favour of institutional units outside general government were entering the government accounts as revenue (with an impact on the deficit), without exiting them as expenditures, but as financial transactions (without an impact on the deficit)[37].

In case the final beneficiary is a government unit, EU grants can be recorded as government revenue in the moment in which they enter government accounts, but must be recorded as government expenditures in the moment they are used to finance the activity for which they were earmarked. For instance, in case some EU funds would be allocated to government in order to finance the development of railway infrastructure, they would be considered as government revenue when paid to government, and as government expenditure when disbursed by government (say, in order to pay a non government unit to undertake the necessary work).

In spite of the recommendations of Eurostat on the fact that EU grants entering the government accounts as revenues could not have been subsequently imputed as share capital increases of institutional units outside government, in the EDP notification of September 1999, the Greek authorities kept recording EU grants as revenue for government, even when the government was not the final beneficiary. For this reason, Eurostat reminded again in February 2000[38] the Greek authorities that: *"The following conclusions were reached during the National Accounts Working Party of 1-2 July 1998: The Member States agreed that transfers paid by the Institutions of the EU should be recorded under resources in the accounts of the Institutions of the EU and under resources in the accounts of the sectors to which the beneficiaries belong, without transiting through the non-financial accounts of general government".*

"In addition (Eurostat added)*, there is no rationale to consider that funds provided by the Institutions of the EU are recorded as non-financial resources of the State and then allocated to public corporations as transactions in equity. I trust that you will implement these guidelines for the next deficit and debt notification of 1 March 2000, as referred to during conversation with Mr. De Michelis, and I am looking forward to receiving from you the list of amounts per corporation that you reclassified according to these guidelines".*

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[37] The report of the mission of 13 and 14 May 1999 states that: "Eurostat underlined… the amounts received by the EU must have a negative impact on the deficit, as if they are paid on capital transfers they increase the deficit. For this reason, taking into account this additional factor, explanations were asked again on how could the large positive amount of net capital transfer be explained".

[38] letter of Mr Franchet to Mr Karavitis dated 21 February 2000.

In short, contrarily to national account rules, EU grants were not only transiting through the non-financial accounts of government, but these amounts were entering as non-financial in the government accounts (increasing government revenue) and exiting them as financial transactions, (with no impact on government deficit) in the form of share capital increases to state-owned companies.

Following Eurostat's intervention, a correction was undertaken by the Greek authorities. However, no correction was undertaken for the amounts relating to the years 1998 and 1999, where the whole amount of EU grants earmarked for institutional units outside government was treated as government revenue, improving government deficit/surplus.

The Greek authorities have recently stated[39] (letter dated 18 October 2004 from Mr Kontopirakis to Mr Vanden Abeele) that in the case of EU grants "*data recorded as revenues intended to finance capital expenditures in the EDP March 2000 notification, correctly reflect the final accrued payments received from the EU*". Eurostat disagreed, and recalled how this contradicted what was reported by the Greek delegation to Eurostat during the meeting in Athens on 12-13 October 2004, namely that a correction would have to be imputed for the years 1997 and 1998. Following this, the Greek authorities acknowledged that[40] (letter dated 27 October 2004 from Mr Kontopirakis to Mr Vanden Abeele) "*a negative adjustment in the capital revenues received from the EU is necessary for the years 1997 and 1998, which correspond to 50% of the share capital increases that were funded by the EU revenues. The corresponding amounts are 499 mio € and 558 mio € for the years 1997 and 1998. These amounts need to be subtracted from the revenues side of central government (i.e. increasing the deficit)*", while stating also that "*for the year 1999 the correction for the capital revenues is already included in the EDP March 2000 notification and amounts to 531 mio €.*"

During the Eurostat mission of 10 November 2004, it was ascertained that the NSSG classifies now as capital transfers all amounts relating to projects co-financed by the EU. Therefore the Greek authorities explained that all EU funds are now correctly recorded.

39 letter on 18 October 2004 from Mr Kontopirakis to Mr Vanden Abeele
40 letter on 27 October 2004 from Mr Kontopirakis to Mr Vanden Abeele

The task-force on the treatment of EU grants in national accounts

During the course of 2004, Eurostat has chaired a task-force on the treatment of EU grants in national accounts. The task-force has at present completed its work and a CMFB consultation is currently taking place. The questions upon which the CMFB will provide its opinion to Eurostat, concern mainly the time of recording of EU grants, in case:

- The final beneficiary of a transfer from the EU budget is a unit outside government, and government has advanced a payment to the beneficiary, acting on behalf of the EU Commission

- The final beneficiary of a transfer from the EU is a government unit

The CMFB consultation deals also with the issue of initial payments by the EU in the framework of multi-year programmes. As concern the issue of EU transfers when the final beneficiary is not government, the document of the task-force simply recalls long existing national account rules stating that "*in national accounts, these transfers must be recorded as a direct transaction between the EU (uses or change in liabilities) and the non-government beneficiaries (resource or change in assets)*", before dealing more specifically with the issue of the time of recording of such transfers. The possibility of such accounts transiting through government non financial accounts is simply not envisaged.

2. Conclusions for Structural Funds (EU grants)

On the basis of the information provided by the Greek statistical authorities, the figures for 1997-1999 have now been corrected by the following amounts

1997: 202 mio €
1998: 179 mio €
1999: - 272 mio €

The negative amount of the correction for the year 1999 is explained by the fact that the amounts to be added have been recorded under the item "capital injections" due to national accounts classification practices in Greece.

Finally, it is underlined that as concern structural funds, the deficit figure of 2003 was increased in the notification of September 2004 by an amount of 475 mio € (equal to 0,3% of GDP), compared to the figure reported in the March 2003 notification, due to an error in public accounting (unrelated to the above discussion) relative to the effective payments by EU institutions in 2003.

Annex 12

Further information on debt revisions

Debt data have been revised in several occasions in the past. This was either due to decisions taken by Eurostat, or by revisions undertaken directly by the Greek authorities. The table provided in Appendix II resumes debt data during the years, and the revisions made. Main revisions took place:

- Between March and September 2002, when government debt increased for the years from 1998 to 2001, due to the inclusion of share convertible bonds, previously excluded from government debt (see annex 9 of this report)

- Between September and November 2002, when government debt increased again due to the inclusion of share exchangeable bonds into government debt. These bonds had been issued by a Luxembourg-based special purpose vehicle (SPV). The proceeds were used to buy shares of companies owned by government. Conversely, dividends proceeds from these state-owned companies were used to pay the coupon of the bonds. The Greek government was fully guaranteeing the payments of both interest and principal. Following Eurostat's decision about securitisation operations undertaken by general government, the securities issued by the SPVs were included under the liabilities of the Greek government (and within Maastricht debt of general government). A correction was imputed for the years 2000 and 2001. Nevertheless, the data for the year 1999 (the first year in which one emission of share exchangeable bonds was issued) have not been corrected up to now.

- Finally, between March and September 2004, when debt increased due to the decision to capitalise interest payments, to a wrong consolidation inside general government of social security assets (due, apparently, to the difficulty of obtaining reliable information in the past), and to the non-inclusion of the debt of some mutual funds inside social security.

As far as capitalised interest is concerned, the Greek authorities have explained that from 1997 onwards, government asked some (mainly) state-owned banks to postpone the payment of interest due. According to the Maastricht definition of debt, these amounts should have been recorded in government debt, but this did not happen. The impact on debt of general government due to capitalised interest equals 4,5% of GDP in 2000, 4,2% in 2001, 3,9% in 2002 and 3,4% in 2003.

As far as the figures for debt for the years 1997-1999 are concerned, the Greek authorities have informed Eurostat that the increase of debt due to the non inclusion of the stock of capitalised interest in government debt is as follows: 4719 bio € (1997), 5001 bio € (1998), and 5109 bio € (1999).

The Greek authorities informed Eurostat in September 2004 during the EDP mission that some debt of government was wrongly consolidated inside general government (consolidating assets of social security), and that the debt of some mutual funds was wrongly classified outside government (see section – Debt) in the period 2000-2003. Eurostat asked therefore the Greek authorities to investigate whether debt figures for 1997-1999 should also be increased for the same reasons. As a result of the investigation conducted by the Greek authorities, amounts of around 1 bio € for 1997 and 2 bio € for 1998 and 1999 have now been added to the debt of general government.

<u>Appendix I</u>

Recent correspondence between Eurostat and the Greek statistical authorities

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EUROPEAN COMMISSION
EUROSTAT

The Director General

Luxembourg, 21 October 2004
ESTAT/G-0/MVA/LA/fk D(2004) **30282**

Mr Emmanuel KONTOPIRAKIS
Secretary General
NSSG
14-16 Lycourgou Street
<u>GR – ATHENS 101 66</u>

<u>Subject</u>: Greek deficit and debt figures for years 1997-1999
<u>Ref</u>.: Your note n° C1-1670 dated 18.10.2004.

Dear Mr. Kontopirakis,

Thank you for your note above referenced. We have examined carefully the information which you have sent us. In this context, we would be grateful if you could help us to clarify a certain number of issues and provide additional information for some items.

1. MILITARY EXPENDITURES

We have taken note of the amount of unrecorded military expenditures between 1997 and 1999 which will have now to be added to the deficit figure of the above mentioned years. (149 mio € 1997, 70 mio € in 1998 and 974 mio € in 1999). This is in line with the information Ms Kitrina had already sent by e-mail on 31 August 2004 to Mr Ascoli.

You also inform us that according to information provided by the Ministry of Economy and Finance, there were no trade credit agreements for the procurement of military equipment during the years 1997-1999. This however, seems in contradiction with what was declared to us in previous occasions by the Greek Statistical Authorities. In this context, it is recalled what had been recorded in the minutes of the previous EDP missions of Eurostat in Greece (agreed by the Greek Authorities). More in detail, in the EDP mission of 8-9 February 1996, it was reported that "*(*the Greek representatives*) also said that a very large part of military debt is under the form of "long-term credits" granted by the providers of military equipment*". In the EDP mission of 17-18 March 1997, it was stated that "*There are also some doubts (*by Eurostat*) that the majority of credits for the supply of military equipment is granted in the* *form of trade credit to the Greek government and not financed via the (national or international) banking system*".

Finally, in the minutes of the EDP mission of August 1998, it was written that "*the military debt stands at the moment at 1000 mio GRD, out of which 200 mio GRD are represented by trade credits*"

All these previous statements made between 1996 and 1998 by the Greek Authorities seem to contradict the present assertion that trade credits agreements were not used for the procurement of military equipment between 1997 and 1999. In this context, we would be grateful if you could inform us whether the previous statements formulated by the Greek Authorities on this issue are to be considered as incorrect.

Finally, we would like to know the amount of interest paid on military debt (in the form of trade credits or other) between 1997 and 1999, and whether such amount was recorded in the government deficit during the same period.

2. INTEREST CAPITALISATION

We have taken note that the amounts to be added to the deficit of government for the years 97-99 are respectively equal to 990 mio €, 282 mio € and 108 mio €.

We would be grateful, in this context, if you could inform us about the accrued amount of capitalised interest up to the year 1995 and in 1996. We were surprised to note the steep reduction in capitalised interest from 1997 to 1998 and from 1998 to 1999, followed then by an increase in 2000. We understand that the capitalisation of interest was a continuous process that started in 1995 (as evidenced in previous meetings and mission minutes). Therefore we would expect a flatter profile (or a progressive reduction in capitalised interest from 1995 to 2000). We would be grateful if you could explain the reasons behind the yearly evolution in capitalised interest from 1995 to 2000.

3. INTEREST ON CONVERTIBLE BONDS

We have taken note that the interest on convertible bonds amounted to 12 and 38 mio € for the years 1998 and 1999 respectively. In this context, we would like to know what was the outstanding amount of share-convertible and share exchangeable bonds for the years 1998 and 1999, by emission.

4. CAPITAL INJECTIONS

It is recalled that in 2002, after discussion with Eurostat, Greece reclassified as capital transfers the amount of capital injections undertaken by the Greek government and previously treated as acquisition of shares, for the state-owned companies OSE, METRO and EGNATIA among others. It is our understanding that the same accounting treatment for the above-mentioned transactions was applied by the Greek Statistical Authorities in the course of all following EDP notifications until now, referring in particular to data concerning the years 2002 and 2003.

It is also recalled that Eurostat's decision to reclassify such capital injections as capital transfer was taken after examining the balance sheet and profit and loss accounts of the above-mentioned companies, which showed:

- a repetitive pattern of capital injections year after year by government
- substantial and increasing debt
- consistent losses on a repetitive basis

In this context, we would like to know which are the elements in your possession that would allow you not to record the capital injections undertaken by government during the period 1997-1999, as capital transfers in any company, contrarily to what has been already done by the Greek Statistical Authorities for the period 2000-2003.

In addition, we would like to receive a list of capital injections undertaken by government, between 1997 and 1999, by enterprise and by amount together with a short description of the activity carried out by the recipient and the reasons why these capital injection were treated as share increase or capital transfers.

5. EU GRANTS

We take note of your assertion that, data recorded as revenues intended to finance capital expenditures in the March 2000 EDP notification, reflect correctly the final accrual payments received from the EU.

However, this seems to contradict what was reported by the Greek delegation to Eurostat during the meeting in Athens on 12-13 October 2004, namely that a correction would have to be imputed for the years 1997 and 1998, although not for 1999.

In addition, we would like to know whether it is true that during the period 1997-1998, funds provided by the EU were recorded as non-financial resources of government and then subsequently recorded as financial uses of government, as they had been allocated to public corporations and treated as transactions in equity. Moreover, we would like to know how the totality of EU grants was recorded in 1999, to know the relevant amounts in the period 1997-1999, as well as the relevant amounts broken down by sub-sector of general government.

6. DEBT ASSUMPTIONS

We have taken note that debt assumptions amounted to 285 mio €, 140 mio € and 97 mio € for the years 1997 to 1999. It is recalled that debt assumptions between 2000 and 2003 varied between 217 mio € and 448 mio € per year. In this context, the amounts of 1998 and 1999 seem to be much lower than the amounts for all other years since 1997.

In this context, we would be grateful if you could send us a table relating to the amount of debt assumption by government, by transactions, in the period between 1997 and 2003.

7. DEKA

We have noted that the deficit of government for the years 1998 and 1999, due to the reclassification of DEKA into the general government sector in 2002, needs to be adjusted. The amount of the revision is a decrease of the deficit of government of 60 mio € in 1998, and an increase in the deficit of 53 mio € in 1999. However, it is not clear to us, at this stage, how these results have been reached. In order to see which transactions needs to be reclassified, we would kindly ask you to provide to us the same table which were transmitted to Eurostat on 02.08.2002, about total payments of DEKA for the years 2000, for the years 1997-1999.

This would include a list of transactions (by amount) concerning:

- capital transfers outside the general government sector
- capital transfers by DEKA within the general government sector
- current transfers by DEKA within the general government sector
- debt repayments
- share capital increase
- interest and dividends
- total entrepreneurial income received (profit from the sale of share and withdrawal of entrepreneurial income)

8. DEBT

The examination of figures concerning the years 1997 to 1999 concerns of course, also figures for debt. In this context, we would ask you to indicate to us whether figures for debt concerning the above mentioned period need to be amended, and by which amounts.
I would be grateful if these information could be provided by 29 October 2004.
Finally, I would like to draw your attention on the fact that we do not exclude, at this stage, the possibility of carrying out a further EDP mission in Greece in order to ascertain the figures of debt and deficit in Greece during the period 1997-1999
Yours sincerely,

(signed)

Michel Vanden Abeele

Contact: Luca Ascoli (Tel.: (352) 4301 32707 Luca.Ascoli@cec.eu.int)

CC : Mr. Sideropoulos (Ministry of Economy and Finance)

MINISTRY OF ECONOMY AND FINANCE Athens, 27-10-2004
NATIONAL STATISTICAL SERVICE OF GREECE

THE SECRETARY GENERAL Ref. No.C1-1683

To:

MR.MICHEL VANDEN ABEELE

General Director
STATISTICAL OFFICE
OF THE EUROPEAN
COMMUNITIES
Batiment Jean Monnet,
Rue Alcide de Gasperi
L-2920 Luxembourg-Kirchberg

Subject : Greek deficit and debt figures for years 1997-1999.
(Ref.ESTAT/G-0/MVA/LA/fkD(2004) 30282

Dear Mr.Vanden Abeele,

Thank you for your letter above referenced. We believe we provide all the information requested in your letter and according to the detailed discussions we had in Athens during Eurostat's Mission of 12, 13 October 2004.

1. MILITARY EXPENDITURES

There are no data available indicating the existence of trade credits during the period of 1997 to 2003 (other than 20 mil. euro during the year 2003).

Trade credits do not constitute part of debt but they constitute a deficit component when trade credits are paid out.

With the new notification which is based on the cash approach, all military expenditures were completely recorded since the year 1997 and up to the year 2003, while the relevant data have been transmitted to Eurostat.

Finally interest on military debt for the years 1997, 1998 and 1999 amounted to 231, 239 and 235 mil. euro and were incorporated in the General Government deficit of the respective years.

2. CAPITALIZED INTERESTS

Capitalized interest for the years 1997, 1998 and 1999 amounted to 990, 282 and 108 million euros respectively. These amounts represent interest payments on government bonds, issued during the previous years, which were postponed without impacting the deficit. Therefore, the deficit of the years 1997-1999 should be increased by the above mentioned amounts. For the year 1995 the corresponding amount is 1964 mil. euro and for the year 1996 1765 mil. euro. The sum for the entire period was 5109 mil. euro.

The capitalization of interest payments was not a usual activity taking place on regular intervals. It was not a policy to capitalize a specific portion of the interest payments every year, but operations were decided on an ad-hoc basis during these years.

The primary goal behind these operations was to smooth out the cash pressures in financing the budget deficit in an environment of high interest rates. These operations were aimed at easier refinancing in the subsequent years when the interest rates were expected to be lower. This also explains why these operations displayed a downward trend and were eliminated in the years following 1999 .

3. INTEREST ON CONVERTIBLE BONDS

The outstanding amount of share convertible and share exchangeable bonds for the years 1998 and 1999 are as follows:

	Outstanding amount	
	1998	1999
Issuance Oct 1998	890	583
Issuance Jun 1999	0	896

4. CAPITAL INJECTIONS

For the year 1997, 1998 share capital increases amounted to 1233 mil euro and 1415 mil. euro. These capital increases referred to companies such as EGNATIA, METRO, ΔΕΠΑ etc. Please note that no capital transfers were implemented during these years. For the year 1999 share capital increases amounted to 1409 mil.euro, while 411 mil. euro were recorded as capital transfers. The share capital increases referred to companies such as ΔΕΘ, ΔΕΠΑ (natural gas company), EAB(aero industry), EBO (armory industry), EGNATIA, ETBA, ΕΥΔΑΠ (water company), METRO etc. The decision was based on the fact that most of these companies exhibited profitable prospects. In fact some of the companies (such as ΟΛΠ-Organization of Piraeus Harbor, ΟΛΘ-Salonika Harbor) were privatized in the years following 1999 .

Finally , as the State is the sole share holder for most of the major companies in which the share capital increase took place (for example METRO SA, EGNATIA SA, etc) note that the State became the recipient of substantial dividends in the years following 1999 .

5. EU GRANTS

The amounts for capital transfers received from the EU are recorded in the State Budget (under the code no 8300). The amounts recorded were 2048, 2615 and 2867 mil. euro during the years 1997-1999 respectively. However a negative adjustment in the capital revenues received from the EU is necessary for the years 1997 and 1998, which corresponds to 50% of the share capital increases that were funded by the EU revenues(as discussed during Eurostat's Mission in Athens of 12, 13 October).

The corresponding amounts are 499 mil. euro and 558 mil. euro for the year 1997 and 1998. These amounts need to be subtracted from the revenues side of central government (i.e increasing the deficit).

For the year 1999 the correction for the capital revenues is already included in the EDP March 2000 notification and amounts to 531 mil. euro.

Please note that the funding of the Public Investment Program of the State (through borrowing and capital revenues) is entirely disbursed to public and private investment financing. In this sense the State is the initial beneficiary of the funds provided.

6. DEBT ASSUMPTION

As was explained during the meeting in Athens on 12-13 October , under the line of debt assumptions, there are two kinds of operations. First, it is the case of payments made by the State against obligations arising from guaranteed loans and second it is the case of assumption of third parties debts to Commercial Banks.

In the table below, the relative amounts for every case for the years 1997 up to 2003, are presented, in mil. euro.

	1997	1998	1999	2000	2001	2002	2003
Guarantees	124	140	97	179	286	276	168
Other	161			38	162	1	
Total	285	140	97	217	448	277	168

It is noted that the amount of 161 mil. euro for the year 1997 refers to the assumption of third parties debts to Agricultural Bank of Greece and to the Bank of Macedonia-Thrace. This amount had already been recorded in the deficit of the year 1997. After that, the deficit of the year 1997 should be increased by 124 mil. euro.

7. DEKA S.A

According to DEKA's financial statements of the years 1997 to 1999, the revenues eligible to be recorded as non financial amounted to 45 mil. euro for the years 1997, 1998 (for which a common financial statement was published) and 35 mil. euro for 1999 . The amounts consisted of dividends receipts (21 mil. euro for the years 1997, 1998 and 26 mil. euro for the year 1999) and interest receipts from government bonds and deposits in the banking sector. Please note that the total revenues of DEKA (either classified as financial or non financial transactions) amounted to 2803 mil. euro for the years 1997, 1998 and 4534 mil. euro for the year 1999. Expenditures of DEKA that were classified as non financial amounted to 238 mil. euro for the years 1997 , 1998 and 88 mil. euro for the year 1999.

The following table presents the transactions of DEKA S.A for the years 1997 to 1999.

(in mil. euro)	1997 ,1998	1999
Total revenues	2803	4534
(of which non-financial) (a)	45	35
Expenditures	954	831
(of which non-financial) (b)	238	88
Bonds repurchase	1755	3589
Impact on Deficit (a-b)	-193*	-53

* distributed to –70 and –123 mil. euro for 1997 and 1998 respectively.

8. DEBT

As far as the change in the debt figures is concerned , it is pointed out that the stock of capitalized interest for the years 1997, 1998 and 1999 is 4719, 5001 and 5109 respectively. All these amounts have been included in the debt of 2004 which is 112,1% of GDP.

Sincerely yours,

[*signed*]

Emmanuel Kontopirakis Ph.D.
Secretary General

Cc. Mr.B.Meganck
Director, Directorate C

EUROPEAN COMMISSION
EUROSTAT

The Director General

eurostat

Luxembourg, 29 October 2004
ESTAT/G-0/MVA/LA/fk D(2004) **30291**

Mr Emmanuel KONTOPIRAKIS
Secretary General
NSSG
Pireos 46 & Eponiton str.
GR – 101 66 Athens

Subject: Greek deficit and debt figures for years 1997-1999
Ref.: Our note n. 30282 dated 21.10.04
Your note n. C1-1683 dated 27.10.04

Dear Mr. Kontopirakis,

Thank you for the above mentioned notes above referenced. We have examined them carefully, and our conclusions are as follows:

1. MILITARY EXPENDITURES

We take note of the correction that needs to be imputed into the government deficit of 1997, 1998 and 1999. We also take note that, contrarily to what was stated during previous EDP meetings in 1996, 1997 and 1998, (see the respective minutes), no military acquisitions was financed through trade credits.

2. CAPITALISED INTEREST

We take note of the amounts to be added to government deficit between 1995 and 1999 in relation to capitalised interest. However, we do not yet fully understand how it is possible that the amount of capitalised interest for 2000 was higher then the ones for the years 1998 and 1999. As you stated in your note, "these operations displayed a downward trend and were eliminated in the years following 1999". This does certainly not seem the case for the year 2000.

As you know, the recording of capitalised interest is a particular important issue, not only because of the amounts at stake and the nature of the transaction, but also because of the contradiction in the statements by Greece in the past. Therefore, we would like to receive the detail of the amount of unrecorded capitalised interest by year, instrument and emission, together with some official documents which would show and prove the amounts unrecorded throughout the years and quoted in your two previous notes.

3. INTEREST ON CONVERTIBLE BONDS

We take note of the outstanding amounts of share convertible and share exchangeable bonds for the years 1998 and 1999. We understand that these amounts have to be added to the existing debt figures to get a consistent time series

4. CAPITAL INJECTIONS

We take note of the useful information provided. However, in our letter above referenced we had requested further detailed data. In particular we asked for "to receive a complete list of capital injections undertaken by government, between 1997 and 1999, by enterprise and by amount, together with a short description of the activity carried out by the recipient and the reasons why these capital injections were treated as share increase or capital transfers". We would appreciate, in particular, information about the capital injections into EGNATIA, METRO and OSE.

As you know, the recording of capital injections is a particular important issue, not only because of the amounts at stake, but also for the nature of the transaction and because of the contradiction in the statements by Greece in the past.

In your letter, you refer that capital injections of 1997 and 1998, and a substantial part of capital injections in 1999 were recorded as financial transactions because of the profitable prospects of the respective companies. In this context, we would like to receive information about the profits accumulated and the dividends paid to government by these enterprises. It would be good if such information would be accompanied by an official document.

5. EU GRANTS

We take note of the amounts for capital transfers recorded in the State Budget for the period 1997-1999 (respectively 2048, 2615 and 2867 mio €). We take also note that part of this amount was recorded as share capital increases from 1997 to 1999, and that 50% of this amount was subtracted from the revenue side of government in 1999, but not in 1997 and 1998. We would like to know, in this context, when was the practice of recording as revenue in state accounts EU grants, for which government was not the final beneficiary, discontinued, and whether this statistical approximation of imputing a correction of 50% for the capital revenues, as stated in your note above referenced, was continued also for the years after 1999.

6. DEBT ASSUMPTIONS

We take note of the amounts related to debt assumptions between 1997 and 1999. However, we would insist in receiving the amounts of debt assumption in further detail, between 1997 and 2003. A list of transaction by company will be welcome in this respect.

7. DEKA

We take note of the information provided. However, in our note above referenced we had requested further detailed data. In particular we asked for "a list of transactions (by amount) concerning:

- capital transfers outside the general government sector
- capital transfers by DEKA within the general government sector

- current transfers by DEKA within the general government sector
- debt repayments
- share capital increases
- interest and dividends
- total entrepreneurial income received (profit from the sale of share and withdrawal of entrepreneurial income)"

In short, we would like to receive the same information and table which was provided to Eurostat on 02.08.02 about total payments of DEKA in the year 2000, for the years 1997-1999. Therefore, we consider the information in your letter is insufficient to arrive to definitive conclusions for the issue.

8. DEBT

You have indicated in your note that the amount of government debt for the years 1997-1999 needs to be increased for the amount of unrecorded capitalised interest.

We understand that, as mentioned above, the debt figures should also be revised upwards in relation to convertible bonds.

We understood during the EDP September mission that the debt series for 2000 to 2003 was revised upwards in relation to capitalised interest and because of errors in the consolidation of social security assets and of the non inclusion of the debt of mutual funds as debt of general government. We would like to know, whether the latter adjustments are also relevant for the years before 2000 and the size of the respective corrections, by year.

I would be grateful if the information requested in this letter could be sent to Eurostat by 03.11.04 at the latest.

Yours sincerely,

Michel Vanden Abeele

Contact: Luca Ascoli (Tel.: (352) 4301 32707 Luca.Ascoli@cec.eu.int)

CC : Mr. Sideropoulos (Ministry of Economy and Finance)

MINISTRY OF ECONOMY AND FINANCE Athens 3-11-2004

NATIONAL STATISTICAL SERVICE OF GREECE

THE SECRETARY GENERAL Ref .No C1-1707

To:

MR.MICHEL VANDEN ABEELE

General Director
STATISTICAL OFFICE
OF THE EUROPEAN
COMMUNITIES
Batiment Jean Monnet,
Rue Alcide de Gasperi
L-2920 Luxembourg-Kirchberg

SUBJECT: GREEK DEFICIT AND DEBT FIGURES FOR YEARS 1997-1999

(Ref.ESTAT/G-0/MVA/LA/fkD(2004) 30291

Dear Mr Vanden Abeele

We send you herewith the reply to the subjects mentioned in your letter of the 29st October 2004.

1. MILITARY EXPENDITURES

We agree with your statement.

2. CAPITALISED INTEREST

Referring to capitalized interest we remind you our doc. of 27/10/2004, ref. no C1-1683 where it was stated that "The capitalization of interest payments was not a usual activity taking place on a regular intervals. It was not a policy to capitalize a specific portion of the interest payments every year, but operations were decided on an ad-hoc basis during these years." Therefore, the payments do not follow a precise determined trend.
We repeat also the figures of capitalized interest for the years between 1995 to 1999. These amounts are 1964 mil euro, 1765 mil euro, 990 mil euro, 282 mil euro and 108 mil euro for the years 1995 to 1999 respectively.

3. INTEREST ON CONVERTIBLE BONDS

Referring to interest on convertible bonds and the amounts for the years 1998, 1999 we would like to stress that these amounts have been incorporated and are included in the general government debt.
Specifically the debt of the year 1998 has already increased by 892 mil. Euro (EDP 31/8/2002) and already increased by 583 mil euro and 896 mil euro for the year 1999 (EDP 31/8/2002 and 4/11/2002)

4. CAPITAL INJECTIONS

As you stated the capital injections in enterprises aim to raise the productive investments in order to rise the profitability of the companies in the future. The state participated in the share capital increase of companies such as METRO, EGNATIA, OSE etc and is at the moment the sole owner of the share capital for these companies. Given the extent of the infrastructure required , a reasonable time span is essential for the investment to yield. In this sense share capital increase led to profitability in the years following 1999. Also some of the companies, such as ΟΛΠ (Piraeus Harbor Company , ΟΛΘ (Salonica Harbor Company) in which the state participated in share capital increases, were privatized. Within this framework the capital injections and the related figures that already had been provided to Eurostat were also included in the previous EDP notifications.

5. EU GRANTS

We would like to inform you that the practice of recording as revenue in state accounts E.U grants for which the government was not the final beneficiary was never discontinued . We also confirm that the statistical approximation of imputing a correction of 50% for capital revenues is continued also following the year 1999.

6. DEBT ASSUMPTIONS

With our letter of 27/10/2004 we notified to you the amounts of debt assumption that is available to us for the years 1997 to 2003 classified into two major categories. We remind you that during the previous missions we have provided to Eurostat further analysis for the years 2000 to 2003. For the years before 2000 there is no further analysis available.

7. DEKA

In addition to what we have sent to you in our letter of 27/10/2004, we submit a table which contains more detailed information on DEKA .

8. DEBT

The amounts of capitalized interest for the years 1997 to 1999 are 4719 mil euro, 5001 mil euro and 5109 mil euro respectively. We believe that the adjustment we made in the EDP Sep mission of 12,13/9/2004 for the years 2000 to 2003 are not relevant for the years before 2000.
As mentioned in item 3 we confirm that these amounts of convertible bonds were incorporated in the general government debt.

Sincerely yours,

[*signed*]

Emmanuel Kontopirakis Ph.D.
Secretary General

Cc. Mr.B.Meganck

DEKA*

(in mil.euro)	1997-98	1999	ESA 95
Capital transfers outside general government	**238.1**	**87.9**	**D9**
of which to :			
OAE(Organ/tion for the reconstruction of industry)	17.4		
EOMMEX(small industry support body)	1.9		
OASA-transport company	11.5	43.4	
ELGA(agricultural insurance company)	8.8		
PYRCAL- ammunition company	2.9	17.7	
OSE-transport	23.5	26.8	
HSAP-transport	1.9		
HLPAP-transport	1.6		
ERT SA(television)	2.9		
OSK (construction)	2.9		
OTHER	162.6		
Capital transfers within general government	**0.0**	**0.0**	**D9**
Current transfers within general government	**119.0**	**46.1**	**D73**
to OGA	119.0		
IGME(geological research institute)		0.7	
IKA		5.8	
TAPOTE (social security)		39.6	
Debt repayments	**1755.0**	**3589.0**	**F**
Share capital increases	**597.3**	**697.0**	**F**
To :			
OASTH - transport company	11.2		
EAB-airplane industry	5.6		
OLYMPIC AIRWAYS	102.7		
PYRKAL-ammunition company	8.8	17.7	
SPATA AIRPORT	91.0		
GREEK PETROLEUM	11.7		
OLYMPIC AIRWAYS	54.9		
OTE-communications company	11.7		
GREEK PETROLEUM	4.8		
DEH-electricity board	0.4		
ATE-agricultural bank	0.0	586.9	
OASA-transport	0.0	43.4	
Various companies	294.4	49.0	
Interest and dividents receipts	**45.0**	**35.0**	**D4**
Total enterpreneurial income (gains from shares)	**2758.0**	**4499.0**	**F**
Impact on General Government Deficit (B9)	**-193.1**	**-52.9**	

*annex to letter dated 03.11.04

EUROPEAN COMMISSION
EUROSTAT

Directorate C: Economic and monetary statistics

eurostat

Luxembourg, 17th November 2004
ESTAT/C-0/BM/LA/fk D(2004) **30303**

Mr Emmanuel KONTOPIRAKIS
Secretary General
NSSG
Pireos 46 & Eponiton str.
GR – 101 66 Athens

Subject: Greek deficit and debt figures for years 1997-1999

Ref.: Our notes n. 30282 dated 21.10.04 and n. 30291 dated 29.10.04
Your notes n. C1-1683 dated 27.10.04 and n. C1-1707 dated 3.11.04

Dear Mr. Kontopirakis,

In the context of the recent discussions held at the EFC, it was decided that Eurostat would produce a final report on the revision of the Greek government deficit and debt figures. In this context, we would like to draw your attention on the fact that some information which Eurostat had demanded to the Greek authorities is still missing. Without such information, Eurostat will not be in a position to finalise the report. We would recall you, therefore, to provide us, as stated in the progress report and as promised during the last EDP mission on 10 November 2004, at the latest on 19.11.04 c.o.b., the following information:

Capitalised interest: as pointed out in our note n. 30291 above ref., we would need to receive final data concerning the amount of unrecorded capitalised interest by year, instrument and emission, together with some official documents which would show and prove the amounts unrecorded throughout the years and quoted in your notes above ref.

Debt assumptions: Detail on the amount of debt assumptions between 1997 and 2003, with a list of transactions by company. Final figures should be provided taking into account also information previously provided by the Greek authorities to the IMF.

DEKA: information on capital injections in 1997-1998 under the item " various companies" in the table provided about transactions of DEKA in your note dated 03.11.04. Moreover, some information should be provided on why the same amounts provided by DEKA to PYRCAL (ammunition company) and OASA transport are recorded at the same time under the items "capital transfers outside general government" and "share capital increases".

Consolidating assets of social security: information about the amount of debt (to be added to government debt for the years 1997 and 1998), to be recorded for this item. Information on whether any interest should be recorded as government expenditure for this item or for any other revision concerning debt.
Yours sincerely,

Bart MEGANCK
Director

Contact: Luca Ascoli (Tel.: (352) 4301 32707 Luca.Ascoli@cec.eu.int)

MINISTRY OF ECONOMY AND FINANCE
NATIONAL STATISTICAL SERVICE OF GREECE
NATIONAL ACCOUNTS DIVISION

PIRAEUS, 19-11-2004

Ref. no. C1-1795

46, Piraeus str & Eponiton
18510 Piraeus, Greece
tel: 00302 10 4822674
fax: 00302 10 4852552

To: Mr. Bart Meganck
Director
Eurostat

Subject : Greek deficit and debt figures for years 1997-1999

Ref : Your doc. ESTAT/C-0/BM/LA/fk D(2004) 30303/17-11-2004

Dear Mr. Meganck,

We kindly inform you on the issues mentioned in your letter, of 17th November 2004.

Capitalized interest : as far as the capitalized interest is concerned , please see our notes no.C1-1683 dated 27.10.04 and C1-1707 dated 3.11.04.

Debt assumptions : the report makes reference to data from IMF, where payments from guarantees are higher than those we have reported.
The IMF data refers to payments from guarantees that increased the Central Government Debt. These payments concern units that belong to the General Government as well as units not belonging to the General Government.
Debt assumptions , on the other hand, refer only to units not belonging to General Government.
Consequently, there is a difference in the coverage of the data, which explains the differences between the IMF data and the debt assumptions , in all the respective years from 1997 up to 2002.

DEKA : For the item "Various Companies" we kindly inform you that the respective amount has been reclassified as a capital transfer impacting the deficit by 294,4 mil euro for the years 1997-98 and 49 mil euro for 1999. This change was necessary as information on the specific allocation by company is not available. So in order to be on the safe side of the application of ESA 95 we have decided to reclassify.
Concerning PYRCAL also the respective amounts (8,8 mil euro and 17,7 mil euro for 1997-98 and 1999 respectively) were reclassified as capital transfers, while of OASA the nature of the transactions remains as previous as in our note no.C1-1707 dated 3.11.04.
We herewith send you a revised table concerning DEKA transactions.

Consolidated assets of social security : the amounts of debt that has to be added to the general government debt for the years 1997 and 1998 are 949 and 1972 mill.euro respectively. After that the final data for the outstanding government debt will be 110854 mill.euro for the year 1997 and 118897 mill.euro for the year 1998.
The debt increase will not impact the deficit as interest that is currently recorded is already incorporated in the Social Security Funds survey.

Yours sincerely,

[signed]
Christina Kitrina
National Accounts Director

DEKA*

(in mil.euro)	1997-98	1999	ESA 95
Capital transfers outside general government	**541.3**	**154.6**	**D9**
of which to :			
OAE(Organ/tion for the reconstruction of industry)	17.4		
EOMMEX(small industry support body)	1.9		
OASA-transport company	11.5	43.4	
ELGA(agricultural insurance company)	8.8		
PYRCAL- ammunition company	11.7	35.4	
OSE-transport	23.5	26.8	
HSAP-transport	1.9		
HLPAP-transport	1.6		
ERT SA(television)	2.9		
OSK (construction)	2.9		
Various companies	457.0	49.0	
Capital transfers within general government	**0.0**	**0.0**	**D9**
Current transfers within general government	**119.0**	**46.1**	**D73**
to OGA	119.0		
IGME(geological research institute)		0.7	
IKA		5.8	
TAPOTE (social security)		39.6	
Debt repayments	**1755.0**	**3589.0**	**F**
Share capital increases	**294.1**	**630.3**	**F**
To :			
OASTH - transport company	11.2		
EAB-airplane industry	5.6		
OLYMPIC AIRWAYS	157.6		
SPATA AIRPORT	91.0		
GREEK PETROLEUM	16.5		
OTE-communications company	11.7		
DEH-electricity board	0.4		
ATE-agricultural bank	0.0	586.9	
OASA-transport	0.0	43.4	
Interest and dividents receipts	**45.0**	**35.0**	**D4**
Total enterpreneurial income (gains from shares)	**2758.0**	**4499.0**	**F**

* Annex to letter dated 19.11.04

Appendix II

Table 2:
Deficit and Debt data notified by Greece 1992-2003

GREECE Deficit (% of GDP)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Notification of *												
1996												
March	-11.7	-12.1	-11.4	-8.9	-	-	-	-	-	-	-	-
September	-12.3	-14.2	-12.1	-9.2	-	-	-	-	-	-	-	-
1997												
March	-	-14.1	-12.1	-9.2	-7.4	-	-	-	-	-	-	-
September	-	-13.8	-10.4	-9.8	-7.6	-	-	-	-	-	-	-
1998												
March	-	-	-10.0	-10.3	-7.5	-4.0	-	-	-	-	-	-
September	-	-	-10.0	-10.6	-7.5	-4.0	-	-	-	-	-	-
1999												
March	-	-	-	-10.3	-7.5	-3.9	-2.4	-	-	-	-	-
September	-	-	-	-10.3	-7.5	-4.0	-2.5	-	-	-	-	-
2000												
March *(1)	-	-	-	-	-7.4	-3.9	-2.5	-1.6	-	-	-	-
September *(2)	-	-	-	-	-7.4	-4.0	-2.5	-1.8	-	-	-	-
2001												
March **	-	-	-	-	-	-4.0	-2.5	-1.8	-0.9	-	-	-
March *(3)	-	-	-	-	-	-4.6	-3.2	-1.8	-0.9	-	-	-
September*(4)	-	-	-	-	-	-4.0	-2.4	-1.8	-1.1	-	-	-
2002												
March *(5)	-	-	-	-	-	-	-2.4	-1.7	-0.8	0.1	-	-
September *(6)	-	-	-	-	-	-	-2.5	-1.9	-0.8	0.1	-	-
November *(7)	-	-	-	-	-	-	-	-	-1.8	-1.2	-	-
2003												
March	-	-	-	-	-	-	-	-1.8	-1.9	-1.4	-1.2	-
September	-	-	-	-	-	-	-	-1.8	-1.9	-1.5	-1.2	-
2004												
March *(8)	-	-	-	-	-	-	-	-	-2.0	-1.4	-1.4	-1.7
May *(9)	-	-	-	-	-	-	-	-	-	-	-	-3.2
September *109)	-	-	-	-	-	-	-	-	-4.1	-3.7	-3.7	-4.6

* Data prior March 2000 are notified within ESA 79 framework

** Data for the years 1997-1998 notified by Greek authorities in March 2001 were adjusted by Eurostat (see footnote *(3) below).

GREECE Debt (% of GDP)	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Notification of *												
1996												
March	91.6	114.5	113.0	114.5	-	-	-	-	-	-	-	-
September	89.4	111.3	110.4	111.8								
1997												
March	-	111.8	110.4	111.8	111.8	-	-	-	-	-	-	-
September	-	111.3	110.4	111.8	112.7	-	-	-	-	-	-	-
1998												
March	-	-	109.3	110.1	111.6	108.7	-	-	-	-	-	-
September	-	-	109.3	110.1	112.2	109.5	-	-	-	-	-	-
1999												
March	-	-	-	110.1	112.2	109.4	106.5	-	-	-	-	-
September	-	-	-	110.1	112.3	109.5	106.3	-	-	-	-	-
2000												
March *(1)	-	-	-	-	111.3	108.5	105.4	104.4	-	-	-	-
September *(2)	-	-	-	-	111.3	108.3	105.5	104.6	-	-	-	-
2001												
March **	-	-	-	-	-	108.3	105.5	104.6	103.9	-	-	-
March *(3)	-	-	-	-	-	108.3	105.5	104.6	103.9	-	-	-
September	-	-	-	-	-	108.2	105.0	103.9	102.7	-	-	-
2002												
March *(5)	-	-	-	-	-	-	105.0	103.8	102.8	99.7	-	-
September *(6)	-	-	-	-	-	-	105.8	104.3	104.7	105.1	-	-
November *(7)	-	-	-	-	-	-	-	-	106.2	107.0	-	-
2003												
March	-	-	-	-	-	-	-	105.1	106.2	107.0	104.9	-
September	-	-	-	-	-	-	-	105.2	106.2	106.9	104.7	-
2004												
March *(8)	-	-	-	-	-	-	-	-	106.2	106.9	104.7	102.4
May *(9)	-	-	-	-	-	-	-	-	-	-	-	103.0
September *(10)	-	-	-	-	-	-	-	-	114.0	114.7	112.5	109.9

* Data prior March 2000 are notified within ESA 79 framework

** Data for the years 1997-1998 notified by Greek authorities in March 2001 were adjusted by Eurostat (see footnote *(3) below).

*(1) Data for the years 1996 to 1998 are reported by Greece under ESA79 and are not yet adjusted for ESA95. Eurostat estimates at present that the adjustment would result to government deficit of -7.7% in 1996, -4.5% in 1997 and -3.2% in 1998.

*(2) Data for the years 1996 to 1998 are reported by Greece under ESA79 and are not adjusted for ESA95. Eurostat estimates that the adjustment would result to government deficit of -7.7% in 1996, -4.6% in 1997 and -3.2% in 1998.

*(3) Greece's reported data for 1997 and 1998 have been adjusted by Eurostat to be consistent with ESA95 concepts. As a consequence of this adjustment, the government deficit was increased by 0.6% GDP in 1997 and 0.7% in 1998.

*(4) During the in-depth examination currently being made on the figures 1997-1999 it appeared that, in the press release issued by Eurostat on September 2001, the changes made in the press release of March 2001 have not been kept. As this concerns only 1997 and 1998, it had no effect on the 1999 figures

*(5) Eurostat is at present not in a position to certify the figures included in the notification of Greece, due, among other reasons, to the lack of information on share convertible bonds. Eurostat intends to settle all outstanding issues in time for the 31 August 2002 notification.
As share convertible bonds and privatisation certificates issued by the Greek State have not been included in the government debt figures, the notified figures of general government consolidated gross debt are to be considered as provisional and likely to be increased.

*(6) Eurostat is at present not in a position to certify the figures included in the notification of Greece, as certain information on government transactions is still pending or incomplete. Therefore, the notified government accounts are to be considered as provisional and likely to be revised. Eurostat intends to settle these outstanding issues as soon as possible in co-operation with the Greek authorities.

*(7) The increase in government deficit for 2000 and 2001 was essentially due to:
The treatment, as capital transfers, of debt assumptions by general government;
The reclassification, as capital transfers, of capital injections by general government state-owned enterprises.
These injections were previously classified as financial transactions.
The increase in public debt for the years 2000 and 2001 is due to the inclusion of share-exchangeable bonds issued by Special Purpose Vehicles in the revised debt.

*8) Due to ongoing discussions with the statistical authorities in Greece, notably on the surplus of social security funds, the notified figures for debt and deficit are to be considered as provisional and could be revised.

*(9) At this stage, the increase in government deficit for the year 2003 is essentially due to:
A downward revision of tax revenues estimates (mainly VAT) in public accounts;
A downward revision of payments received from EU institutions in the context of certain structural fund programs;
The reclassification, as a financial transaction, of a payment from the Saving Postal Bank to government.
This revision affects only the deficit for central government. The debt has not changed in absolute values and the change in the debt ratio is only due to a downward revision of GDP for the year 2003.
Moreover, the reasons for which Eurostat did not fully certify the debt and deficit figures for 2003 and possibly for previous years are the following:
Under-estimation of government expenditure for the procurement of military equipment;
Lack of reliable information for recent years, concerning the surplus notified for the sub-sector Social Security Funds.
Eurostat has asked Greek authorities to make necessary efforts to clarify these outstanding issues, so as to be in a position to certify data notified by the Greek authorities in the context of the next September 2004 EDP official notification.

*(10) The revision of data for the deficit between the March and September 2004 notifications was carried out on the basis of new information provided by the Greek authorities, at the request of Eurostat, for the period 2000-2003.
The change in the deficit figure is due mainly to:
Downward revision for 2003 of estimate of tax revenues (mainly VAT) in public accounts;
Downward revision for 2003 of payments received from EU institutions in the context of certain structural fund programmes;
Reclassification for 2003 of a payment from the Postal Saving Bank to government as a financial transaction;
(For these three items see News Release 62/2004 of 7 May 2004)
Under-recording of military expenditures between 2000-2003
Over-estimation of surplus of social security funds between 2001-2003
Under-recording of interest between 2000-2003
The revision of data for the debt between the March and September 2004 notifications was carried out on the basis of new information provided by Greek authorities for the period 2000-2003. The change in the debt figure is due mainly to:
Under-estimation of outstanding debt, notably in relation to bonds with capitalized interest;
Over-estimation of consolidating assets of social security.