Government finance statistics and financial accounting: strangers or brothers?

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Brothers in a large family

- Accruals principle is a common denominator for GFS and financial accounting
- Fit respectively into national accounts and accounting framework
- Provide a complementary view on the state of public finances, with positive spillovers between the two
- There are more brothers and sisters in that family...
A bit of history: evolution of the Stability and Growth Pact before 2011

- Maastricht Treaty signed in 1992 and set 3% deficit and 60% debt thresholds for excessive deficit (protocol 12)
  - Ratios based on nominal values as defined in national accounts
- Secondary legislation (preventive and corrective arm) adopted in 1997
  - Preventive arm: close to balance or in surplus
- 2005 reform of the SGP:
  - Country-specific objective in structural terms (preventive arm)
  - Concept of effective action and adverse economic circumstances (corrective arm)
2011 reform of the Stability and Growth Pact (1)

- "Second pillar" added to the preventive arm
  - Expenditure benchmark (checks evolution of expenditure)
- Corrective arm strengthened
  - Debt reduction benchmark operationalised
- Enforcement mechanism
  - Sanctions for euro area MSs
2011 reform of the Stability and Growth Pact (2)

- **Directive 2011/85/EU on budgetary frameworks**
  - Requirements for systems of public accounting (article 3(1))
  - Commission to assess suitability of IPSAS (article 16(3))
  - Publication of information on tax expenditure and contingent liabilities (articles 14(2) and (3))
  - Publication of cash-based data and reconciliation tables (article 3(2))

- **Further SGP reform in 2013**
  - Enhanced monitoring for EA Member States
What lies behind this history?

- Government finance (EDP) statistics remain a cornerstone of fiscal surveillance
  - Treaty-based
  - Practical: forecast is done for the whole economy using national accounts concepts
- However, nominal national accounts indicators are not sufficient to get the full picture of the state of public finances
- Reliability of government finance statistics requires that infrastructure to ensure quality of data is in place
The benefits of EPSAS project

- Reinforces the accrual principle
- Provides an alternative view on public finances
- Strengthens micro-level accounting for the benefit of macro data
  - Reliability of data
- Can improve timeliness of data
- Improves transparency and comparability of input data
  - Facilitates control
- Facilitates better decision-making through:
  - Long-term view
  - Better overview of assets and liabilities
  - Improved financial and accounting literacy
Thank you!

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http://ec.europa.eu/economy_finance/index_en.htm