



# **Government finance statistics and financial accounting: strangers or brothers?**

**Ingrid TOMING, DG ECFIN**

## 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!*

*DG Economic and Financial Affairs:*

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