

**Economic and Social Council**Distr.: General  
30 March 2010

Original: English

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**Economic Commission for Europe**

## Conference of European Statisticians

**Fifty-eighth plenary session**

Paris, 8–10 June 2010

Item 7 of the provisional agenda

**Impact of global crises on statistical systems****Public finance and the financial crisis: what roles should the statisticians and the national statistical offices play?****Note by Statistics Norway***Summary*

The last couple of years have been dominated by turmoil in the financial sector. To counteract the consequences of this crisis, governments throughout the world have been compelled to take action in terms of stimuli packages. This paper aims to describe some of these financial measures and briefly discuss their statistical implication within the framework of National Accounts and Government Finance Statistics. The paper emphasizes the importance of quality and comparability in official statistics. In this respect, the paper will focus on the use of GFS in the *monitoring* of financial performance.

## I. Introduction

1. In this paper we will emphasise the importance of quality and comparability in official statistics, with special focus on Government Finance Statistics (GFS). In this respect we will focus on the use of GFS in the *monitoring* of financial performance.
2. The last couple of years have been dominated by turmoil in the financial sector. To counteract the consequences of this crisis, governments throughout the world have been compelled to take action in terms of stimuli packages. This paper aims to describe some of these financial measures and briefly discuss their statistical implication within the framework of National Accounts and GFS.
3. In the final part of this paper we will discuss some strategies to achieve quality and credibility in official statistics.

## II. International statistical systems

4. Transactions between different participants in the economy and other economic events can be captured and analysed in statistical systems such as the National Accounts.

### A. National Accounts — definition of the Organisation for Economic Co-operation and Development

5. National accounts are a coherent, consistent and integrated set of macroeconomic accounts; balance sheets and tables based on a set of internationally agreed concepts, definitions, classifications and accounting rules. National accounts provide a comprehensive accounting framework within which economic data can be compiled and presented in a format that is designed for purposes of economic analysis, decision-taking and policy-making.

### B. European System of Accounts and the System of National Accounts

6. *The System of National Accounts 1993* (1993 SNA) gives international guidelines on how to model the National Accounts. The European Union (EU) has published a corresponding framework for National Accounts, European System of Accounts 95 (ESA95), which also applies as a text of law in Norway due to the European Economic Area (EEA) agreement. ESA95 is based on 1993 SNA, but is rather more adjusted to the European economy.
7. Based on principles and definitions in these national accounts standards, a more detailed statistical system for general government has been developed. GFS integrates non-financial accounts (internal accounts) and balance sheets (balance accounts) for consolidated general government (GG). The purpose of presenting consolidated figures is to describe GG as one institutional unit. This means that all transactions and debt/asset relationships between central and local government will be eliminated. As a fundamental principle, all transactions shall be booked according to the accrued principle and all balance sheet items shall be valued at market value. The principle concerning the application of market value is a contrast to the EU deficit and debt order (EDP) where debt should be valued at nominal value. The EDP report will be explained further in the following paragraphs.

## **C. Challenges in the compilation of Government Finance Statistics**

8. When compiling National Accounts and GFS it is fundamental that the accounting treatment of operations should reflect economic reality and not the legal or administrative framework in which these operations are carried out. This may lead to the need to record operations in the National Accounts in a different way from which they are recorded in other accounting frameworks, for example as set out in ESA 95 (paragraphs 1.38 to 1.41), which refer to re-routing, partitioning and recognising the principal party in transactions.

### **1. Collection of source data**

9. One of the challenges faced by national statistical offices (NSOs) is the complexity and scope of the general government sector. There are a considerable number of institutional entities that constitute the general government sector. Hence, collecting fiscal information for all of those entities can be a resource-demanding exercise.

### **2. Accounting rules within the government sector**

10. Financial reports from the government units and the accounting rules they are based on seem to vary considerably within the government sector. When compiling GFS/National Accounts statistics, it is important to bear in mind that the accounting standards serve a different purpose and are not necessarily in line with the key principles of the National Accounts standards. One example is the cash-based financial report used by many countries for the budgetary central government sector. Cash-based accounts have been an important tool for the active counter-cyclical financial policy through controlling government spending. Cash-based accounting differs largely from the accounting principles in GFS, which is based on accrual recording. Accrual recording means that flows are recorded when the economic value is created or extinguished.

## **III. The importance of standardised Government Finance Statistics**

11. The range of use of GFS is extensive and includes macroeconomic analysis (i.e. as input in macroeconomic models), policymaking, international comparisons and economic monitoring. As countries enter binding economic cooperation, GFS data plays an important role in monitoring the financial performance of the government sector in the member states. It is of vital importance that the methods and principles used to compile GFS are similar across nations. One such example is the monetary union in the EU.

12. Today there are 16 EU countries who are joint members of the monetary union. A common monetary policy is administered by the European Central Bank (ECB) and the national central banks in the member states. The mandate of the ECB is to keep inflation low and stable. The benchmark is 1.5 per cent measured by the 12 month Harmonised Index of Consumer Prices (HICP). When the euro zone was established, there was a fear that some countries would get round the tough monetary policy of the ECB by increasing government spending and running large budget deficits. Hence, there was an agreement between the initial members of the union to limit the budget deficit to 3 per cent of GDP and that the gross government debt should not exceed 60 per cent of GDP. The regulations and rules of the monetary union are known as the Maastricht treaty (stability pact).

## A. Excessive Deficit Procedure

13. The Excessive Deficit Procedure (EDP) notification has two main purposes. First of all, the EDP notification aims to indicate the state of government finance in terms of deficit and debt for all the 27 EU members. Another important purpose of the EDP notification (and the recent questionnaire related to the EDP notification) is to show the transition from the public accounts to definitions and key figures of National Accounts and GFS standards. In the EDP notification, the countries are asked to show, in detail, the adjustments made in the budgetary accounts to arrive at the surplus/deficit of the national accounts. In light of the recent Greek case, where the EDP notification was faulty, this transparency of sources and methods is crucial to the verification of GFS statistics.

14. The EDP notification for 2009 is not yet released from Eurostat, but estimates published by the Organisation for Economic Co-operation and Development (OECD) — Economic Outlook 2009 — provide information about the performance of government finance in 2009 for a selection of countries. The figures below show that several countries in the monetary union violate the boundaries set in the Maastricht treaty. Figure 1 shows the general government net lending/borrowing as percentage of GDP. The OECD data shows that 12 of the EU countries listed have an estimated deficit in excess of the 3 per cent rule. Figure 2 show that 11 EU countries have incurred a government debt in excess of 60 per cent of GDP.

Figure 1

### General government net lending as percentage of Gross Domestic Product Organisation for Economic Co-operation and Development estimates for 2009

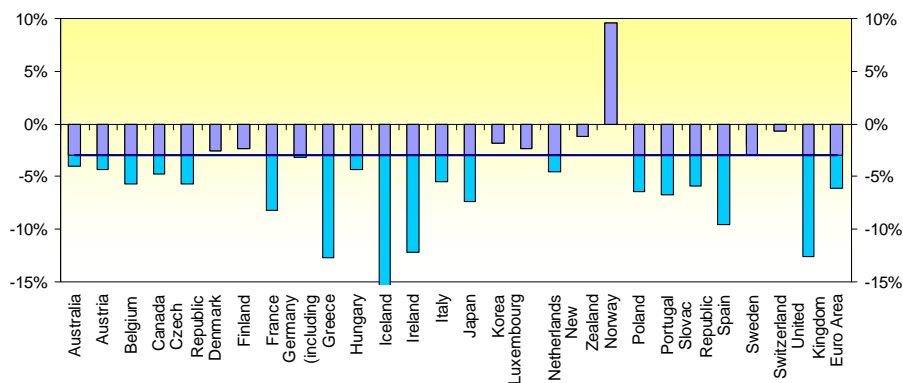
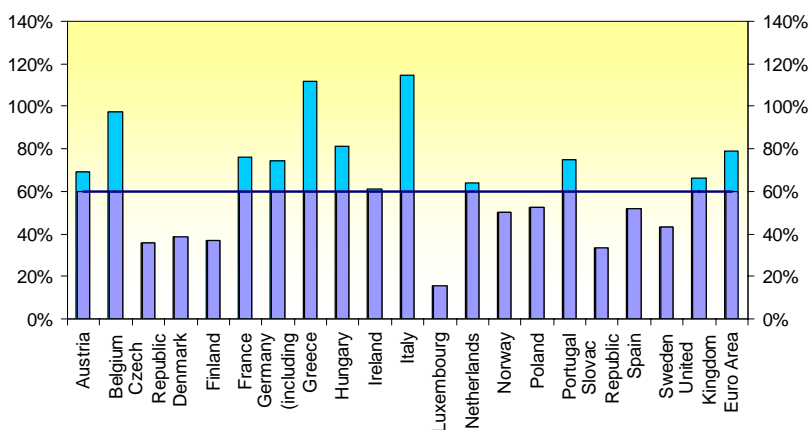


Figure 2  
**General government debt as percentage of Gross Domestic Product**  
**Organisation for Economic Co-operation and Development estimates for 2009**



15. There are no direct sanctions from the European Commission in cases where the member states fail to keep their deficit and debt within the boundaries set in the stability pact. However, countries that do not comply with these criteria will be subject to significant pressure from the Commission to bring the government finance back to a sustainable course. In the case of excessive deficit or debt, the European Commission will put pressure on national authorities to raise taxes or to reduce government spending.

16. Regarding the recent focus on the Greek EDP notification and the significant revisions made to the figures, an important question is whether GFS compiled by national statistical authorities are reliable and not subject to interference from the political and financial authorities.

#### IV. Measures to meet the consequences of the financial crisis

17. Due to the financial crisis, some countries have also used creative methods to reduce their government debt. How do these measures impact some countries government deficit and debt?

WHAT	IMPACT	
	Government deficit	Government debt
Government guarantees	No	No
Government buys bad assets	Yes *)	Yes
Government defeasance structure, SPV	Yes *)	Yes

\*) In the case of loans there will be an impact on government deficit when loans are deemed irrevocable.

18. The table shows various methods in which the general government can intervene in order to influence the financial market. Due to the financial crisis, extensive measures were implemented to improve the functioning of the financial market.

## **A. Government guarantees**

19. Many countries introduced government guarantees, where the government gives guarantees to the financial institutions. The guarantees are called when the institutions make losses on the bad assets. These guarantees have no impact on government deficit or debt unless they are called.

20. Furthermore, the table shows two types of financial defeasance where the government intervenes when financial institutions face difficulties because of their involvement in bad assets. The government can either buy the bad assets directly from the financial institutions or create units such as Special Purpose Vehicles (SPV) within which the assets are put (see below).

## **B. Government buys bad assets**

21. Assuming a bank has a package of bad loans, the government can decide to buy these. This type of intervention will increase the government debt given that these acquisitions are financed by emission of bonds. To what extent the financial deficit will be affected depends on the revocability of the loans. If the government has reliable information that the loans are irrevocable, then loans will be removed from the banks balance before the capital transfer from the government occurs. In this case, the Government de facto covers the loss by the capital transaction and the transaction will affect the government deficit for the full amount. If the loans at the time of the transaction are deemed revocable, but later contribute to losses, then the government shall record the loss as other changes in volume (revaluations). In this case there will be no effect on the government deficit.

## **C. Government defeasance structure (Special Purpose Vehicles)**

22. The government can buy a package of bad loans and transfer them to a SPV. By using a SPV, the government can both purchase bad assets from the financial institutions and at the same time hide the debt increase related to these acquisitions. Technically, this implies that the government resells the bad assets to the SPV and receives a cash flow in return. The SPV finance their purchase from the government by emission of bonds. The cash received by the government can be used to either pay off the initial debt or increase their level of activity.

23. Since the SPVs are not subject to inspection, some countries have managed to hide their increase in debt by creating these institutions. Lately the accounting rules have been stricter in order to reduce improper use of SPVs. As GFS should reflect economic reality rather than legal technicalities, the existence of SPVs should in our opinion be irrelevant to the recorded deficit and debt. Hence, the SPVs should in cases discussed here be recorded as part of the consolidated general government.

### **1. Measures in Norway**

24. During the financial crisis Norway introduced a measure not mentioned in the section above. This measure is a swap arrangement where banks and mortgage companies can exchange covered bonds (OMF) with government securities. The general government lends securities to the banks, and takes covered bonds as a security for the loan. Government securities are easier to market so that the banks can increase their liquidity.

25. The government thus lends securities to the banks for a time-limited period in exchange for covered bonds. The banks can decide to keep the securities and receive a

payment from the government when security expires, or sell the securities in the market. At the expiration of the swap arrangement, the banks are committed to buy the covered bonds again at the same price as they sold them for. The Central Bank administrates the auctions where banks bid. Since the government has no loss on the covered bonds, they actually gain on this arrangement due to a positive interest margin. It is important to point out that the government has made no attempt to hide the debt increase when this measure was put into effect. The securities issued by the government were recorded as part of the government gross debt in the balance sheet.

## **V. Strategies to achieve quality and confidence in Government Finance Statistics**

26. The countries in the EU area seem to agree that even the extraordinary transactions involving the government sector should be put into the National Accounts according to ESA95, regardless of the transactions' impact on "net lending" or "debt".

27. As mentioned above, there is a strong motivation for the Commission to monitor the financial policies of the member states in order to ensure confidence in the monetary union and the euro. The latest disclosure of "fake statistics" with the intention of hiding large budget deficits calls for a strengthened control and validation process of the data from the member states.

28. The role of Eurostat is to assess whether the compilation of the NSOs is in line with the accounting rules of ESA95. In terms of the EDP notification, the role would be to assess if the transactions in the public accounts should have an impact on the government deficit and debt. In cases where transactions are incorrectly entered into the National Accounts statistics, it is the responsibility of Eurostat to point these out to the NSOs. However, Eurostat's ability to succeed in this work is highly dependent on the transparency of the sources and methods used in the individual countries and by NSOs to compile government finance statistics.

### **A. The role of the national statistical offices**

29. The European Statistics Code of Practice constitutes a set of principles, to which the governing and statistical authorities in the European Union commit themselves in order to ensure quality and credibility in the production of official statistics. The principles cover:

- (a) Institutional environment;
- (b) Statistical process;
- (c) Statistical output.

30. Institutional and organisational factors have a significant influence on the effectiveness and credibility of a statistical authority producing and disseminating European statistics. The relevant issues are professional independence, mandate for data collection, adequacy of resources, quality commitment, statistical confidentiality, impartiality and objectivity.

31. European and other international standards, guidelines and good practices must be fully observed in the processes used by the statistical authorities to organise, collect, process and disseminate official statistics. The credibility of the statistics is enhanced by a reputation for good management and efficiency. The relevant aspects are sound methodology, appropriate statistical procedures, non-excessive burden on respondents and cost effectiveness.

32. Available statistics must meet users' needs. Statistics comply with European quality standards and serve the needs of European institutions, governments, research institutions, businesses and the general public. The important issues concern the extent to which the statistics are relevant, accurate and reliable, timely, coherent, comparable across regions and countries, and readily accessible by users.

33. The need for high quality and internationally comparable GFS is well accounted for. However, what role should the statisticians and the NSOs play in order to achieve this goal? Two possibilities arise:

(a) One possible strategy for the NSOs to achieve this goal might be to influence the financial management systems used by the national government agencies to fit the principles and definitions of ESA95;

(b) Another strategy is to adapt the information from the public accounts to the framework of the National Accounts. Hence, the role of the NSO and the statisticians would be to explain the transition between the national definitions of government balance and the deficit/surplus in ESA95.

34. Along with the importance of comparability and compliance with ESA95 in the compilation of GFS, it is also important to recognise that government agencies have different needs for information when setting up their chart of accounts. Is it within the mandate of the NSOs to impose a new set of principles in the financial management systems of these agencies for statistical purposes alone? An important consideration is also "cost effectiveness" and "non-excessive burden to the respondents". These principles in the Code of Practice might suggest that the role of the NSO should be to focus on the "shortcomings" of public accounts as source data in GFS and provide the appropriate adjustments to bring the statistics in line with ESA95. To make these necessary adjustments, we believe it is within the mandate of the NSOs to express the need for notes and specifications to the government accounts.

35. Regardless of the strategies, it is important for the quality of GFS that the NSOs have a strong mandate for data collection because this is vital to the data coverage of the general government sector. Equally important is the professional independence of the NSOs from political and regulatory bodies when compiling and disseminating statistics. To increase trust in and credibility of official statistics, we believe the key to achieving this lies with securing independence for the NSOs. There should, for instance, be no ministerial access to the figures before publication. In addition, the statisticians should be highly skilled and experienced technically, and should operate with integrity.

36. However, we also feel that statistics, NSOs and statisticians are expected to do more than they are actually capable of. Firstly, the principles relating to professional independence for data collection, adequacy of resources, etc, cannot be addressed in a comprehensive way by an NSO alone. The government or ministries must be called upon to implement the Code by ensuring that the statistical service is professionally organised and resourced. Secondly, there has been a steady increase in the use of official statistics for budgetary purposes, and for direct input into major political decisions (for instance, in the calculation of the member states' contribution to the EU budget). Statistics are, however, not facts, but are nevertheless the best estimate at the time, and they cannot be better than the available data sources, for instance, the public accounts. Strengthening the accounting system for all levels of government activity and more transparent and open budget processes may therefore be just as important as increasing the resources in the NSO or securing the independence of the NSO.

37. To summarise, Statistics Norway believes that transparency in government operations and the quality of GFS is dependent on reliable fiscal information from the government agencies and that the responsibility for providing such information lies



primarily with the financial authorities. Given a strong mandate for data collection and sufficient resources (i.e funding and skilled personnel), it should be the role and the responsibility of the NOSs to compile GFS according to internationally agreed principles.

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