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**COMMUNICATION FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

on the need and the means to upgrade the quality of budgetary statistics

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1. INTRODUCTION

The excessive deficit procedure (EDP) was introduced in the Maastricht Treaty of 1992 and has been in operation since 1994, with the beginning of the second stage for achieving economic and monetary union, after adoption of secondary legislation (Council Regulation (EC) No 3605/93¹). Its procedural steps and quantitative criteria are described in Article 104 (ex Article 104c) of the Treaty and in the Protocol on the excessive deficit procedure annexed to the Treaty.

In 1997, the EDP was clarified and reinforced by Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure², which is one of the two regulations that, together with the European Council Resolution of 17 June 1997³, constitute the Stability and Growth Pact (SGP). **The EDP and the SGP have given a major impetus to improving EU governments' budgetary positions, and are essential elements in the co-ordination of budgetary policies in the EU and EMU.**

In the EU economic policy framework, compliance with budgetary discipline is examined on the basis of two quantitative criteria for the government deficit and debt. Therefore, **the quality of statistical data is crucial to ensure adequate implementation of the agreed budgetary surveillance framework and effective co-ordination of budgetary policies.** The drafters of the Maastricht Treaty were already mindful of the issue of statistical data. Indeed, as established by the Protocol, statistical data are compiled by Member States according to objective rules – “*deficit means net borrowing as defined in the European System of Integrated Economic Accounts*”⁴ – and “*shall be provided by the Commission*”. In this way, the Treaty drafters wanted to ensure that budgetary statistical data are of high quality and comparable across countries.

The provision of statistical data by the Commission implies that, beyond other responsibilities in the surveillance of budgetary situations in Member States and in the co-ordination of budgetary policies, **the Commission acts as the statistical authority** in this domain. However, given that the Commission does not directly compile data in each Member State, Council Regulation (EC) No 3605/93 set up a reporting procedure according to which each country transmits its deficit and debt levels, and other associated data, twice a year to the Commission. The quality of these data, in particular the compliance with the accounting rules, is then assessed by the Commission before official publication.

Considerable progress has been achieved by Member States in the compilation and reporting of budgetary statistics, and by the Commission itself in harmonising and clarifying the

¹ OJ L 332, 31.12.1993, p.7.

² OJ L 209, 2.8.1997, p.6.

³ OJ C 236, 2.8.1997, p.1.

⁴ In the meantime, the European System of Integrated Economic Accounts has been replaced by the European System of National and Regional Accounts ESA95.

accounting rules and in checking their application in the Member States. In spite of such progress, the system can be improved, as experience has revealed some weaknesses in terms of reliability, transparency and timeliness of the budgetary statistics. These weaknesses may have detrimental consequences on the EU economic policy framework. **At a time when the economic policy co-ordination mechanisms are reinforced⁵, there is also a need to introduce adaptations leading to an improvement in the quality of budgetary statistics.**

The practices followed by the Commission, and by Eurostat on behalf of the Commission, in interpreting the accounting rules and checking their implementation also need to be clarified, streamlined and better explained to all interested parties.

The Commission considers that a strong commitment of all parties (Member States and Commission) to a code of best practice will constitute a valuable step in upgrading the quality, reliability and transparency of budgetary data. The code of best practice should cover (i) the compilation and reporting of data by Member States – including strong commitments to comply strictly with the accounting rules, to ensure the consistency of the reported figures with other data and to guarantee transparency in the reporting; (ii) the procedure to resolve technical difficulties and (iii) the assessment of the reported figures and the provision of data by the Commission. The Commission proposes such a code and urges the Council to endorse it as soon as possible.

2. CONTINUOUS PROGRESS SINCE MAASTRICHT

The EDP and the SGP have been strong catalysts to upgrade the relevance of government accounts, in the political debate in the Member States and in the EU, and to raise the quality of the government accounts. The budgetary policy debate in all Member States is now focused on the ESA95 government accounts, whereas attention was formerly centred on other deficit definitions that have a narrower scope, are less relevant for economic analysis and are not harmonised across countries.

A major step has been taken with the adoption by all Member States of ESA95 as the national accounting framework, to replace the former ESA79 system. ESA 95 became the accounting framework for the budgetary surveillance at the EU level in 2000. ESA95 is a modern system of national accounts, which has a strong legal basis in the form of a legally binding regulation⁶, while the previous accounting system was simply an administrative document.

Moreover, secondary legislation has recently been adopted on the compilation of quarterly government accounts⁷. Although the formal implementation of the excessive deficit procedure is based on annual data, quarterly government accounts will be a valuable tool to monitor budgetary developments in Member States and in the EU and EMU.

The government budgetary statistics, which are the foundation on which budgetary surveillance is built, are now more reliable, complete, transparent and detailed, and are published in a more timely fashion than when the Maastricht Treaty was drafted and

⁵ See the Communication from the Commission to the European Parliament and the Council: Reinforcing the co-ordination of budgetary policies, COM (2002) 668 final of 27.11.2002.

⁶ Council Regulation (EC) No 2223 (OJ L 310, 30.11.1996, p. 1).

⁷ The compilation of quarterly government accounts is regulated by the Commission Regulation (EC) No 264/2000 on short-term public finance statistics (OJ L 29, 4.2.2000, p. 4) and by the Regulation (EC) No 1221/2002 of the European Parliament and of the Council on quarterly non-financial accounts for general government (OJ L 179, 9.7.2002, p. 1).

signed. Moreover, thanks to efforts co-ordinated by Eurostat in harmonising accounting rules and checking the respective implementation, the government accounts of Member States are more comparable than before.

3. CONCERNS ABOUT THE QUALITY AND TIMELINESS OF BUDGETARY STATISTICS

Despite continuous progress over almost a decade, several weaknesses can be still identified in the procedures followed in the compilation and reporting of government accounts by the Member States. These weaknesses may hinder the timely and effective implementation of the budgetary surveillance mechanisms.

In several countries, the government accounts are not yet as reliable as they should be and are subject to large revisions. More recently, the late identification in 2002 of an excessive deficit in Portugal for 2001 and the large upward revisions in the government deficit and debt levels of other Member States are cases in point. **Non reliable statistics may lead to wrong policy decision at national and European level, to an inefficient co-ordination of economic policies, and put the credibility of procedures and institutions at stake.**

Furthermore, **the government accounts of several countries are not transparent enough.** For example, for several countries, the government deficit and the change in the debt level are not easily reconcilable with other indicators, for example the cash-based balances of the government subsectors. Moreover, the information on the transition between the government deficit and the debt levels transmitted by the Member States is not detailed enough. The non-transparency of accounts is an obstacle for a proper technical assessment of the compliance of the reported figures with the accounting rules. In addition, **there have been repeated problems in the transmission of government data by some Member States, notably in terms of timeliness**⁸ and even completeness of the reporting tables.

These concerns are also amplified with the perspective of enlargement. Acceding countries have in general less developed statistical systems than current Member States. Although improvements have recently been made by acceding countries in terms of budgetary statistics, significant further efforts are still required.

Notwithstanding the Commission's role as statistical authority, **the quality of the government accounts depends primarily on each Member State.** In this context, it should be noted that some national statistical institutes have scarce resources to compile the government accounts and are not immune from political pressures. Moreover, in some countries, the reporting tables are prepared by the respective Ministry of Finance and the national statistical institute has a relatively minor role in the process. This might raise concerns, as the statistics produced are the basis to assess the budgetary performance of each country.

Experience has also revealed that the planned data for the current year reported by several countries are frequently outdated forecasts. As a result, they are not good predictors of the budgetary outcome and have relatively low value for budgetary surveillance.

⁸ For example, while most Member States satisfactorily adhered to the deadline of 1 September for the second reporting for 2002, France and Ireland were around ten days late, Germany was 24 days late and Luxembourg 37 days late.

4. THE COMMISSION ROLE AS STATISTICAL AUTHORITY

The Commission fulfils the role of statistical authority as far as the EDP and the SGP are concerned. It provides the statistical data to be used in the implementation of the EDP and the SGP, after assessing the quality of the data reported by Member States. Moreover, it must interpret the accounting rules whenever there are doubts on the classification of government transactions, and how such transactions affect the government deficit and debt levels.

In the internal organisation of the Commission, the tasks of scrutinising the reported accounts and of interpreting the accounting rules are carried out by Eurostat. By delegating this task to Eurostat, the Commission wishes that the accounting and statistical issues are treated independently, by an impartial and technically competent body, according to objective criteria. Moreover, this independence and technical competence is reinforced by the assistance of the Committee of Monetary, Financial and Balance of Payment Statistics, which gathers statisticians and national accountants from the national statistical institutes and national central banks of all Member States, as well as Commission and ECB representatives.

The Commission's role as statistical authority has been implemented smoothly since 1994 and experience has been accumulated over the years. However, there is still scope to clarify, streamline and, in particular, to accelerate the procedure in order to increase the effectiveness, expediency and transparency of action. Furthermore, it is important to spell out the various steps leading to the resolution of accounting difficulties and to clarify the Commission auditing powers. Finally, it is also of the utmost importance that the Commission role as statistical authority and the procedures put in place to implement this task, are known and understood by Member States and by the public in general.

5. CONCLUSION

Since 1994, there has been considerable progress in the budgetary statistics, thanks to the efforts of Member States and the Commission. The ESA95 government accounts are now more reliable, complete, transparent and detailed, and are published in a more timely fashion than when the excessive deficit procedure was set up. However, there are still some important weaknesses in the budgetary statistics that are the basic foundation for budgetary surveillance mechanisms at the European level. These weaknesses may have detrimental consequences on the EU economic policy framework. At the time the economic policy co-ordination mechanisms are being reinforced, there is also a need to upgrade the quality of budgetary statistics.

An improvement in the quality of budgetary statistics requires effort and strong commitments from all parties. The Commission believes that the reliability of statistics would profit from a clarification and streamlining of procedures followed both by the Member States and by the Commission. This clarification and streamlining should take the form of a code of best practice that all concerned parties commit themselves to implement.

As an annex to this Communication, the Commission proposes such a code and urges the Ecofin Council to endorse it, at the earliest convenience, before the next EDP reporting of 1 March 2003.

ANNEX

Code of best practice on the compilation and reporting of data by Member States and the provision of data by the Commission within the context of the excessive deficit procedure

1. OBJECTIVES

This code presents **best practice** on the compilation and reporting of general government deficit and debt levels by the Member States, and for the provision of data by the Commission, within the context of the excessive deficit procedure (EDP).

The **code of best practice** clarifies and streamlines rules and procedures used for data processing in the context of the excessive deficit procedure. **It does not change the definitions, deadlines or obligations established by the legal acts in force.**

2. LEGAL BASIS AND PROCEDURE

The Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community stipulates in Article 4 that *“The statistical data to be used for the application of this Protocol shall be provided by the Commission”*. As a result, **the Commission fulfils the role of statistical authority.**

Since the Commission does not directly compile government data in the Member States, it has to rely on data which are compiled and reported by the national authorities. The reporting procedure is governed by Regulation 3605/93¹, as amended².

The reporting by the Member States to the Commission of government data consists of the transmission of a set of reporting tables twice a year, before 1 March and before 1 September. These tables cover the current year (planned data) and the previous four years (actual data).

For the provision of data, the Commission assesses the quality of the reported deficit and debt data, certifies or amends the reported figures and publishes actual data. **Eurostat, the Statistical Office of the European Communities, is the Commission service in charge of assessing data quality and of providing the actual statistical data to be used for the implementation of the excessive deficit procedure**, on behalf of the Commission. The Commission also publishes its own economic forecasts on the government deficit and debt level for the current and future years.

3. COMPILATION AND REPORTING OF GOVERNMENT DATA

The reporting of government deficits and debt levels and associated data is the responsibility of each Member State. Following the principle of subsidiarity, Member States are responsible for arranging their internal procedures for the transmission of data to the Commission.

¹ OJ L 332, 31.12.1993, p.7.

² Council Regulation (EC) No 475/2000 (OJ L 58, 3.3.2000, p. 1), and Commission Regulation (EC) No 351/2002 (OJ L 55, 26.2.2002, p. 23).

Although institutional arrangements differ among Member States, **the best practice is that actual data are compiled by the national statistical institutes (NSIs)**. The national central banks (NCBs) have also been involved in this process, in particular, in the compilation of the actual government debt levels, given their experience in financial accounts.

To compile the government accounts, NSIs rely on primary data received from the ministries of Finance and other government departments, from regional and local governments and social security. Governments shall provide the necessary resources, data and all other information required for a proper classification of transactions and a timely compilation of government accounts.

For the purpose of data quality assessment by the Commission, **NSIs shall provide the Commission with a detailed inventory of the procedures and basic statistics used for the compilation of actual data**. The inventory shall be regularly updated.

Planned data for the current year reported by the Member States are, in general, established by the ministries of Finance, taking into account the most recent budgetary decisions and the economic developments and prospects. **The best practice is that planned data are established shortly before the reporting deadline, thus avoiding the transmission of outdated forecasts**. The planned data must be established on the same methodological basis as actual data, without breaks in series.

The reporting deadlines (before 1 March and before 1 September each year) must be strictly respected by Member States. Should a country be unable to comply with these deadlines, because of exceptional and unforeseen reasons, it should promptly inform the Commission of the reason for the delay and announce an expected reporting date.

Member States should inform the Commission which national institutions are responsible for the EDP reporting. The reporting tables should be signed by these institutions. In principle, the national interlocutor for the Commission in accounting and methodological matters should be the respective NSI.

4. COMPLIANCE WITH THE ACCOUNTING RULES, CONSISTENCY WITH OTHER DATA AND REVISIONS OF DATA

The Treaty Protocol on the excessive deficit procedure establishes that the statistical data to be used for the application of the excessive deficit procedure are compiled according to the European System of Integrated Economic Accounts. The version of the accounting system currently in force is the European System of National and Regional Accounts (ESA95)³.

The NSIs have compiled national accounts, including government accounts, for many years. They possess the necessary expertise for a correct application of the national accounting rules. Therefore, they have become the guardians of the ESA95 accounting rules in the Member States. NCBs have also been involved in the compilation of financial accounts.

When compiling and reporting government statistics, the national statistical authorities should act in **full scientific independence, in strict respect of the accounting rules**. The accounting rules are defined in Regulation 3605/93, as amended, Regulation 2223/96 (the ESA95

³ Council Regulation (EC) No 2223/96 (OJ L 310, 30.11.1996, p. 1).

regulation), as amended⁴, and in the ESA95 Manual on Government Deficit and Debt, which gathers together the Eurostat interpretation of the accounting rules.

The reported data should be consistent with other statistical data transmitted to the Commission (Eurostat) in other contexts⁵. These other statistics include in particular the data transmitted under the ESA95 transmission programme (Annex B of Council Regulation 2223/96), taking into account the rules that are specific for the excessive deficit procedure⁶. Debt data should be in line with the government financial balance sheets, compiled by Member States and transmitted under the ESA95 transmission programme, taking into account the specific definition and valuation rules established by Regulation 3605/93.

Each EDP reporting should always contain the most recent data. Should the government accounts (actual data or planned data) be substantially revised after the transmission of the reporting tables, the best practice is that the national authorities submit a revised reporting to the Commission.⁷

5. TRANSPARENCY IN THE REPORTING

To ensure consistency and transparency, Regulation 3605/93 requires Member States to provide the data which explain the transition between the State balance according to the public accounts definition of deficit – typically a cash-based balance – and the ESA95 government deficit/surplus, and between the government deficit/surplus and the change in the government debt level (the so-called stock-flow adjustment).

In practice, most countries have transmitted information on the transition between the public accounts definition of deficit and the ESA95 deficit/surplus for central government only. The stock-flow adjustment has been provided for the general government sector as a whole.

Experience has shown that more detailed tables are needed for a proper monitoring and analysis of the reported data. The best practice is that Member States provide the data which explain the transition between the cash-based balances and the ESA95 government deficit for all government subsectors, for each of the years covered by the reporting. Moreover, the stock-flow adjustment should also be broken down by subsector and accompanied by supplementary information on the most relevant transactions, such as privatisation, capital injections into public enterprises, debt assumptions, tax arrears, etc., for each of the past years covered by the reporting. For this end, the Commission will present revised reporting tables.

⁴ Council Regulation (EC) No 2223/96 has been amended at several occasions. The amendments that are more relevant for general government data are Commission Regulation (EC) No 1500/2000 on general government expenditure and revenue (OJ L 172, 12.7.2000, p. 3), Regulation (EC) No 2516/2000 of the European Parliament and of the Council (OJ L 290, 17.11.2000, p. 1) and Commission Regulation (EC) No 995/2001 (OJ L 139, 23.5.2001, p. 3) on taxes and social contributions and Regulation (EC) No 2558/2001 of the European Parliament and of the Council on the reclassification of settlements under swaps arrangements and forward rate agreements (OJ L 344, 28.12.2001, p. 1).

⁵ In case government accounts published in another context are different from those notified to the Commission, the difference should be explained.

⁶ Annex V of ESA95, which was added to the accounting system by Regulation 2558/2001, establishes that swap-related flows are treated differently in the context of the excessive deficit procedure.

⁷ On 22 November 1993, at the occasion of the adoption of Regulation 3605/93, the EU Council stated (statement 8): “*In the interval between the reporting referred in Article 4(1) [i.e., the 1 March and 1 September reporting], the Member States undertake to inform the Commission of any major changes in the deficit and debt figures already reported.*”

Substantial revisions in actual data reported in prior notifications should be documented. These revisions can be due to better information, changes in the classification of units or transactions, improvements in data sources, changes in methods of estimation, or any other reason. If necessary, the inventory of procedures and basic statistics will be revised.

6. PROCEDURE TO RESOLVE TECHNICAL DIFFICULTIES

The ESA95 rules do not always provide precise guidance on the recording of government transactions. This owes to the specificity of each country, as the same accounting system is applied by countries with different institutional arrangements, to the diversity and multitude of operations performed by the governments each year and to the increasing sophistication of government transactions. In cases of doubt on the correct accounting treatment of a specific government transaction, guidance is provided by the general principles of the national accounting system.

When a government plans a specific measure or transaction for which there are doubts as regards the accounting treatment and the impact on the government deficit and debt, it should seek advice from the respective NSI. The statistical department of the respective NCB may also be asked for its views. **The best practice is the organisation of formal and regular consultations at the national level** – e.g. by establishing a tripartite expert committee –, which would facilitate a constructive dialogue between statisticians and policy makers. **To avoid ambiguities in the political process, these consultations should occur before the measure is adopted or implemented.**

In cases where the NSIs are not in a position to settle the issue, they should formally ask for Eurostat to rule on the matter. Eurostat will liaise with other Commission departments, if necessary with the ECB's Directorate General Statistics and with other experts and will give prompt advice about the recording in the ESA95 accounts of the budgetary transaction in question. **The best practice is that the formal request for an Eurostat ruling should be made in due time to ensure that no accounting issue is left pending at the time of the notifications due before 1 March and 1 September.** Member States requesting a official Eurostat decision must provide all information necessary for a decision to be made in a timely manner.

In cases which are particularly complex, or are of general interest, Eurostat may consult the Committee on Monetary, Financial and Balance of Payment Statistics (CMFB⁸) before deciding⁹. When seeking the Eurostat interpretation of accounting rules, Member States may request that the CMFB be consulted before Eurostat decides. All Member States must provide Eurostat and the CMFB with the information that is necessary to decide on accounting issues of general interest.

⁸ The CMFB was created by the Council Decision 91/115/EEC (OJ L 59, 6.3.1991, p.19), amended by Council Decision 96/174/EC (OJ L 51, 1.3.1996, p. 48). The CMFB has adopted internal rules of procedure to deal with consultations for EDP purposes.

⁹ On 28 February 2000, at the occasion of the adoption of Regulation 475/2000 amending Regulation 3605/93 on the application of the Protocol on the excessive deficit procedure, the EU Council stated (statement 11/00): *“The Council welcomes the extensive work done during recent years by Eurostat in co-operation with national authorities – according to a procedure involving the Committee on Monetary, Financial and Balance of Payment Statistics (CMFB) and other advisory groups – to resolve methodological issues for the comparability of public finance data used in the context of the excessive deficit procedure. The Council urges Eurostat to pursue such work, together with national authorities, to deal with any technical difficulties which may be raised by the amendment of Regulation No 3605/93 and the switchover to ESA95”.*

The CMFB is a consultative committee and, therefore, its opinion is not binding for Eurostat. However, Eurostat takes the utmost account of the opinions expressed by the CMFB. The CMFB members and, in particular, Eurostat guide their opinions by the highest standards of integrity and scientific independence, according to purely technical criteria.

The final Eurostat decision – including if necessary the CMFB opinion - should be given as promptly as possible, as a rule within six weeks after a Member State has requested it.

Eurostat can also consult the CMFB and take decisions on the accounting of government transactions on its own initiative. The CMFB may also express opinions on its own initiative.

All Eurostat opinions and accounting decisions given to the Member States shall be communicated to the CMFB. Moreover, decisions on cases of general interest are made public¹⁰ and collected in the ESA95 Manual on Government Deficit and Debt¹¹, thus becoming part of the commonly agreed interpretation of ESA95. **Member States commit themselves to respect the Eurostat decisions in order to ensure comparability of data.**

On the occasion of the Eurostat decisions, Member States may be requested to retroactively revise their government deficit and debt series, whenever such a revision is necessary to ensure the comparability of data among countries and across time.

7. PROVISION OF DATA FOR THE EXCESSIVE DEFICIT PROCEDURE BY THE COMMISSION

Eurostat, the Statistical Office of the European Communities, is the Commission service in charge of providing the actual statistical data to be used for the implementation of the excessive deficit procedure, on behalf of the Commission, after assessing the quality of the reported data. **Eurostat acts in accordance with the principles of impartiality, reliability, scientific independence and transparency¹².**

The assessment of the reported data by Eurostat consists in checking compliance with the accounting rules, completeness, plausibility and consistency of data. The assessment is based on the tables reported to the Commission, other information accompanying the reporting, any other data, on the inventory of procedures and basic statistics, and on regular contacts with the NSIs. **Member States should promptly give Eurostat access to all information required for the purpose of this assessment.**

Eurostat publishes the actual deficit and debt data of Member States within a fortnight after the official reporting date. Delays in the reporting by any Member State do not constitute a motive for Eurostat to delay its publication. Eurostat may also publish the reporting tables for past years¹³.

The Commission does not make public the reported planned data for the current year, since it prepares its own forecasts. However, the Commission informs the Economic and Financial Committee (EFC) of the main results of the reporting, including planned data for the current

¹⁰ The CMFB opinions are also made public simultaneously.

¹¹ This manual is regularly updated.

¹² See Article 285(2) of the Treaty and Article 10 of Council Regulation (EC) No 322/97 on Community Statistics (OJ L 52, 22.2.1997, p. 1).

¹³ In duly justified cases, Member States may ask the Commission to keep confidential data or other information transmitted in the context of the reporting, assessment and certification procedures, as well as during the consultation on the recording of specific transactions.

year. Moreover, the Commission circulates copies of the reporting tables of all Member States to the institutions that are responsible for the reporting at national level.

Eurostat may publicly express reservations on the reported data. As a rule, such reservations will be made public when Eurostat publishes the reported deficit and debt levels. If necessary and possible, **Eurostat may amend the reported data.** In these cases, Eurostat will inform in advance the Member State concerned and the EFC President about the reasons for its reservation and how it wishes to communicate the issue to the public. If the issue is subsequently resolved, Eurostat will make public the withdrawal of its reservation.

Eurostat is entitled to audit thoroughly the ESA95 government accounts of each Member State, on a regular basis. Such audits concern actual data only. Eurostat may request other Commission departments, the ECB's Directorate General Statistics and CMFB representatives to assist in these audits. These audits will concern both the implementation of the accounting rules, and the compilation and estimation of basic data. The audit conclusions are communicated to the CMFB and made public.