

Fiscal reporting and enforcement

Guntram Wolff

Introduction



- Good surveillance requires a good basis for surveillance
- Fiscal reporting standards are important
- However, reporting is not everything, compliance equally important.
- This presentation focuses on
 - possibilities to exploit loopholes
 - possibilities to mis-report and remedies

Creative accounting in the EU

- Despite strong reporting requirements, loop holes in the accounting system were used
- Example: von Hagen and Wolff (2006): stock-flow adjustments
- $B_t = B_{t-1} + D_t$
- Stock flow adjustments matter...

Stock-flow adjustments

Debt and accumulated deficits in percent of GDP

Country	Debt, 1980	Debt, 2003	Sum of deficits	Difference
	A	B	C	B-C
Austria	36	66	52	14
Belgium	79	103	100	3
Denmark	36	43	13	30
Finland	11	45	-19	64
France	20	63	54	9
Germany	31	64	49	15
Greece	25	101	58	43
Ireland	75	33	25	8
Italy	58	106	99	7
Luxembourg	9	5	-24	29
Netherlands	46	55	53	2
Portugal	32	58	53	5
Spain	17	51	47	4
Sweden	40	52	50	2
United Kingdom	53	40	39	1

Source: Ameco, own calculations; The accumulated absolute deficits were added to the initial debt level of 1980 (column A) for all countries, except Greece (1988), Luxembourg and Ireland (1990), Sweden (1993), and Spain (1995) due to data constraints. This cumulative debt measure was divided by GDP of 2003.

Reliability of statistics provided by member states

- Methodological prescriptions and definitions (e.g. in the European System of National Accounts) have to be applied by the Statistical Authorities
- Eurostat is in charge of supervising compliance with European law (application of methods and delivery of statistical data) and of assuring the plausibility of statistical information
- The partners in the ESS are supposed to cooperate in good faith
- Deliberate misreporting or fraud is not foreseen in the regulation.
- Insufficient accounting and book-keeping practices outside the statistical area are not easily detectable by statistical control
- The correctness of data delivered from different national sources and respondents is also outside Eurostat's power of control

Reliability of statistics provided by member states



- The reliability of Greek government deficit and debt statistics has been the subject of continuous attention for several years
- In 2004, Eurostat produced a comprehensive report on the revision of the Greek government deficit and debt figures, showing how the Greek statistical authorities had misreported figures on deficit and debt in the years between 1997 and 2003
- On five occasions since 2004, reservations have been expressed by Eurostat on the Greek data in the biannual press release on deficit and debt data
- When the Greek EDP data have been published without reservations, this has been the result of Eurostat interventions before or during the notification period in order to correct mistakes or inappropriate recording, with the result of increasing the notified deficit
- Other elements of this continuous attention are a high number of visits, including four methodological visits, and an action plan agreed with the Greek authorities, addressing the statistical problems that could be diagnosed by Eurostat
- That action plan was regularly reviewed by Eurostat

Reliability of statistics provided by member states



- Following the 'Greek case' in 2004, and a request by the Council to "strengthen the monitoring of the quality of the reported fiscal data", the Commission proposed amendments to the existing Council Regulation for the quality of EDP data
- Eurostat was granted strengthened control powers, though these powers remained more limited than initially requested by the Commission
- There is no general reference to the obligation of Member States to provide Eurostat with access to "the information" requested for the purposes of the data quality assessment
- Eurostat is restricted to statistical matters in its work; the institutional setting is out of their scope of action "The methodological visits should not go beyond the purely statistical domain", and the interlocutors of Eurostat should be "the services responsible for the excessive deficit procedure reporting".
- This provides Member States with potential arguments for restricting the access to information

Reliability of statistics provided by member states



- Member States are nevertheless responsible for taking "all necessary measures to facilitate the methodological visits" and "making documents available to justify the reported actual deficit and debt data and the underlying government accounts"
- This includes "national authorities which have a functional responsibility for the control of the public accounts" (i.e. national audit offices)
- Eurostat thus has in principle the legal means to secure access to the necessary documents and at least to the auditors of public accounts.
- It is unclear however whether it has the necessary means to enforce the respect of these competences
- In the specific case of Greece, Eurostat has made a quasi-permanent and extensive use of the existing powers to monitor Greek EDP data, devoting far more resources and more missions to the country than to any other EU Member State

Reliability of statistics provided by member states

- in November 2005, ECOFIN concluded that an external body should be established to focus its monitoring of compliance with these standards by Eurostat and the ESS as a whole
- The Commission adopted a global strategy for strengthening the European Union governance of fiscal statistics along three lines of action:
 - building up the legislative framework
 - improving the operational capacities of the relevant Commission services
 - establishing the "European Statistics Code of Practice"
- In 2007, the Commission adopted a proposal for regulation regarding the establishment of an external body to monitor compliance with the Code by national statistical authorities and Eurostat
- The European Statistical Governance Advisory Board (ESGAB) was established by a European Parliament and Council Decision in 2008 to provide an independent overview of the ESS as regards the implementation of the Code

Reliability of statistics provided by member states

- ESGAB started to work in March 2009 and published its first report in November 2009,
- Article 8(1) of Regulation (EC) No 479/2009 sets forth that the Commission (Eurostat) shall regularly assess the quality both of actual data reported by Member States and of the underlying government sector accounts compiled according to ESA 95
 - Quality of actual data means compliance with accounting rules, completeness, reliability, timeliness, and consistency of the statistical data
- Further, according to Article 8(2) of Regulation (EC) No 479/2009, Member States shall provide the Commission (Eurostat), as promptly as possible, with the relevant statistical information requested for the needs of the data quality assessment, without prejudice to the provisions relating to statistical confidentiality

Conclusion

- Statistical reporting is of key importance
- Two sets of problems:
 - loop-holes in the existing system,
 - Deliberate misreporting
- Strong access right to data, information and people by the supranational authority of key importance.
- No bullet-proof reporting system possible, good faith and continuous vigilance are important