



EUROPEAN CENTRAL BANK

EUROSYSTEM

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# **The importance of high quality public sector accounting for the ECB**

**Eurostat Conference: Towards  
implementing European Public  
Sector Accounting Standards**

**Brussels, 29 May 2013**

**The views expressed are those of the author and not necessarily those of the ECB**

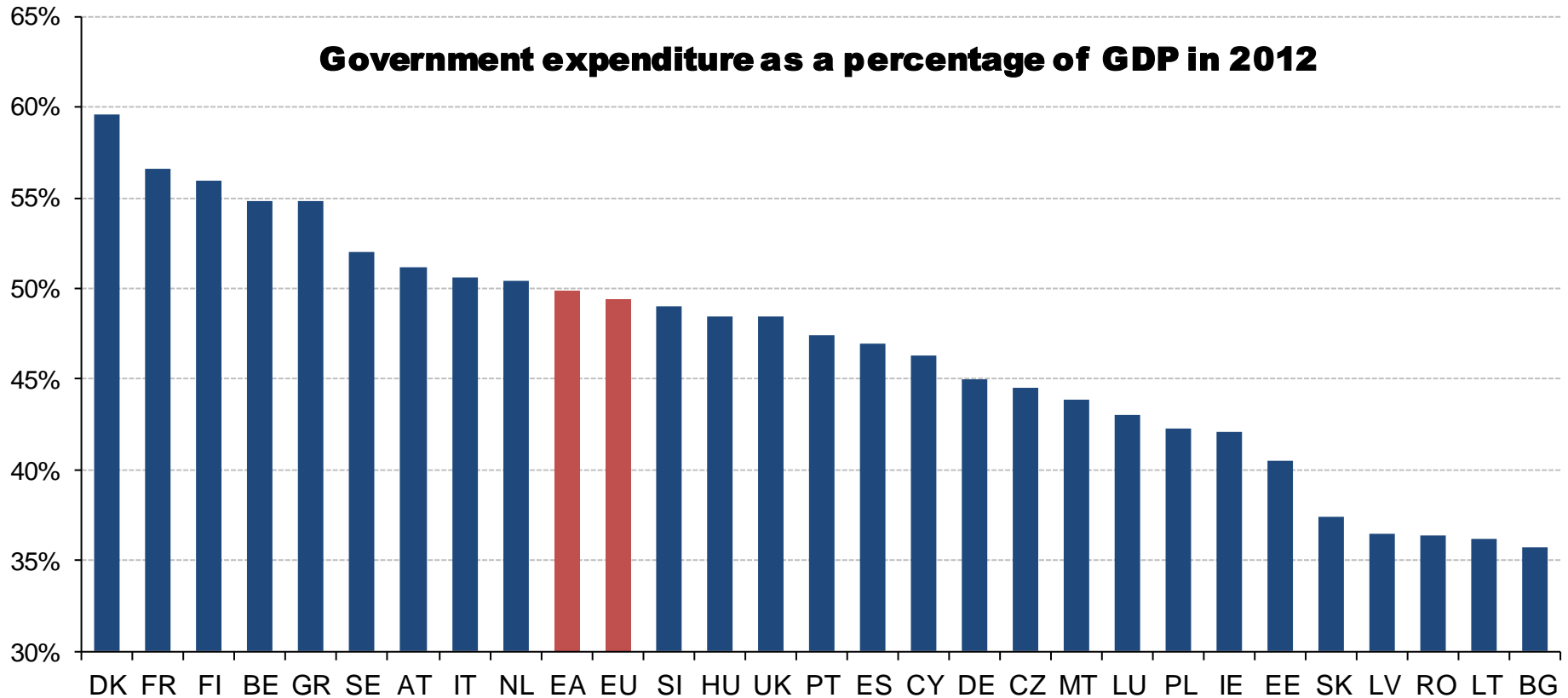
# Overview

- 1 The importance of the government sector in the economy
- 2 Why the ECB needs to be interested in fiscal data?
- 3 Introducing European Public Sector Accounting Standards (EPSAS)

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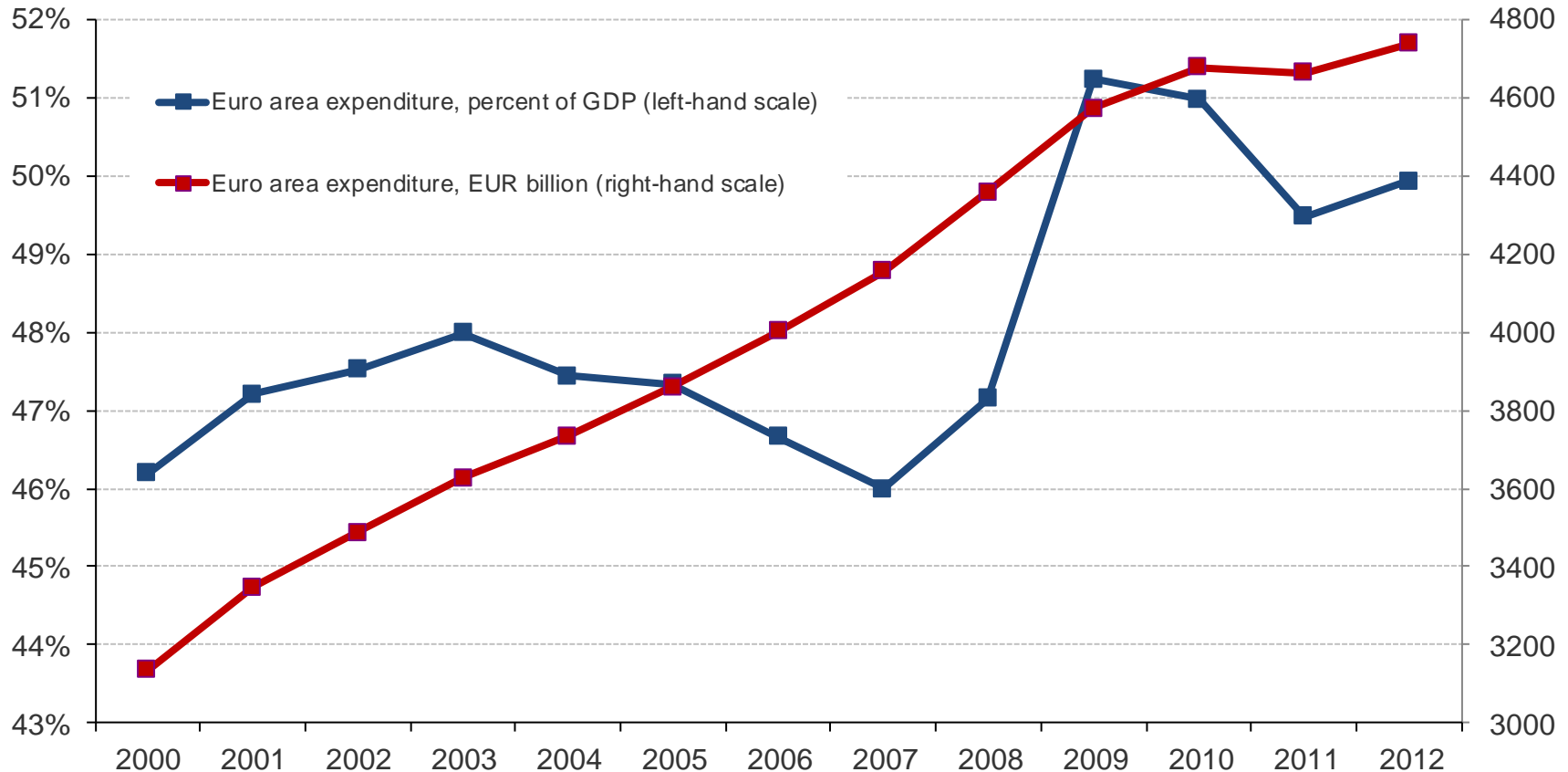
## Government expenditure in euro area about 50% of GDP..



Source: Eurostat

- EU Government expenditure amounted to **EUR 4.7 trillion in 2012** – government actions and policies have a large impact on the total economy.

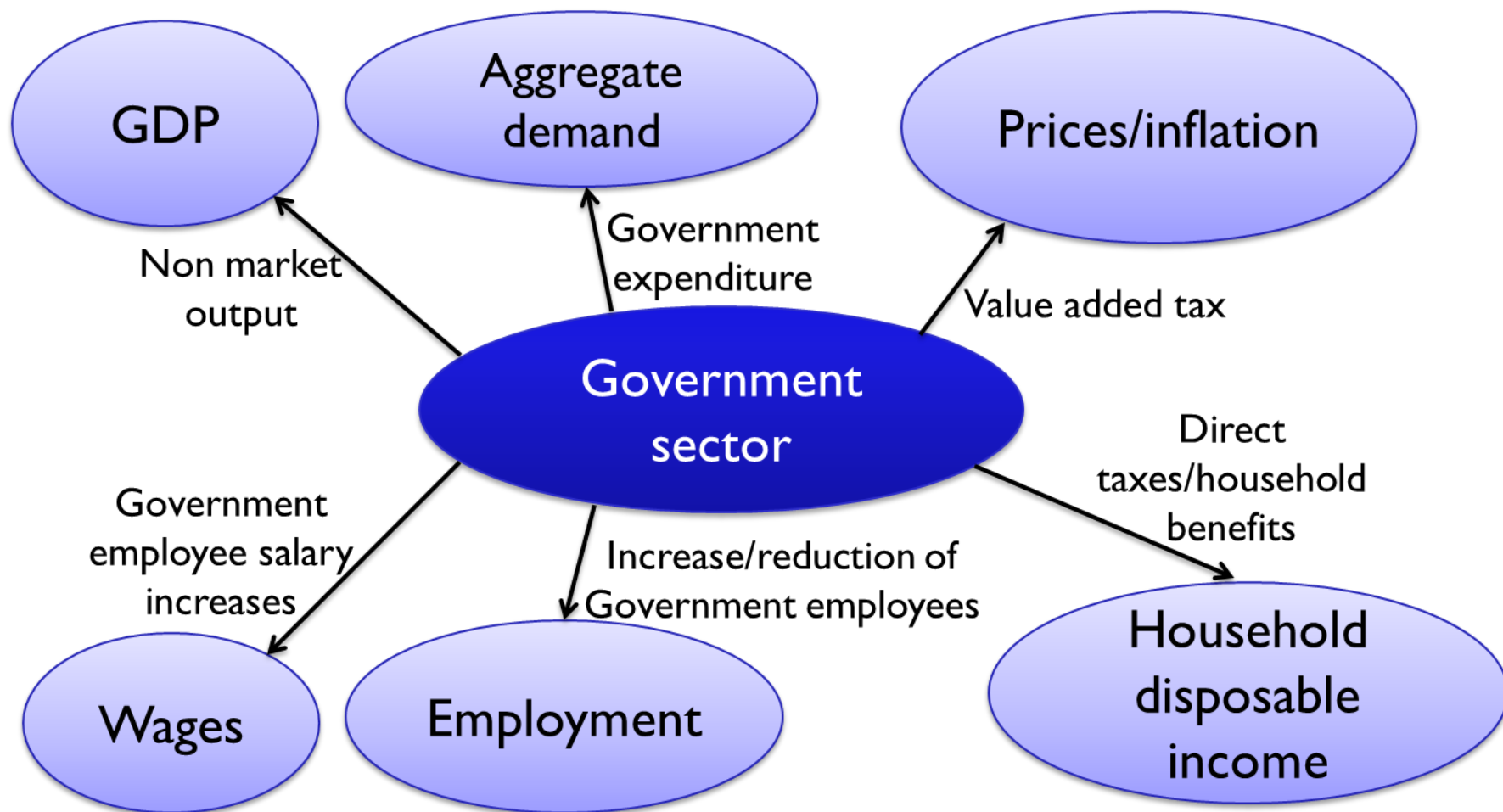
## .. and rising



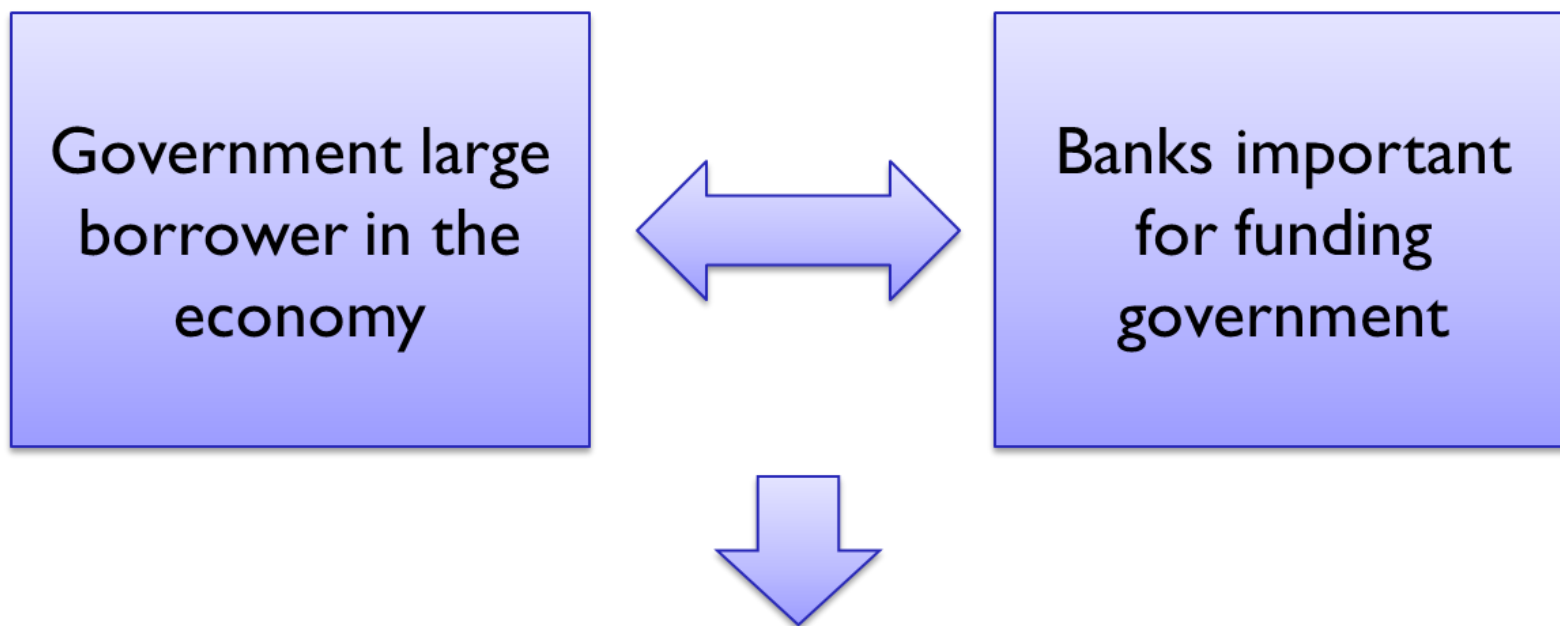
Source: ECB

- Despite "austerity" during the last years government expenditure is on the rise again

## Developments in the government sector affect the total economy:

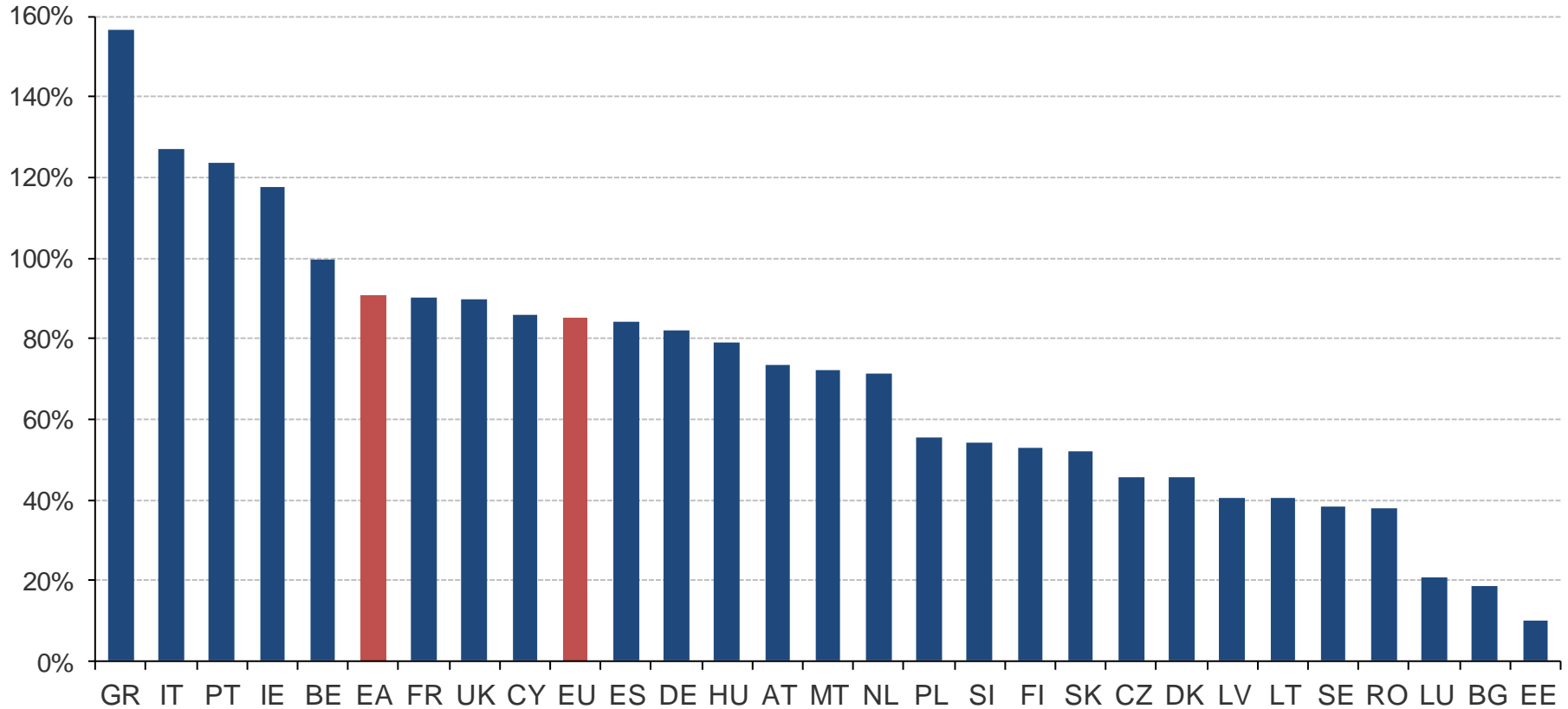


## **Strong and rising link government – banking sector**



Due to crisis – governments became large shareholders in financial institutions

## Large government debt needs continuous refinancing..

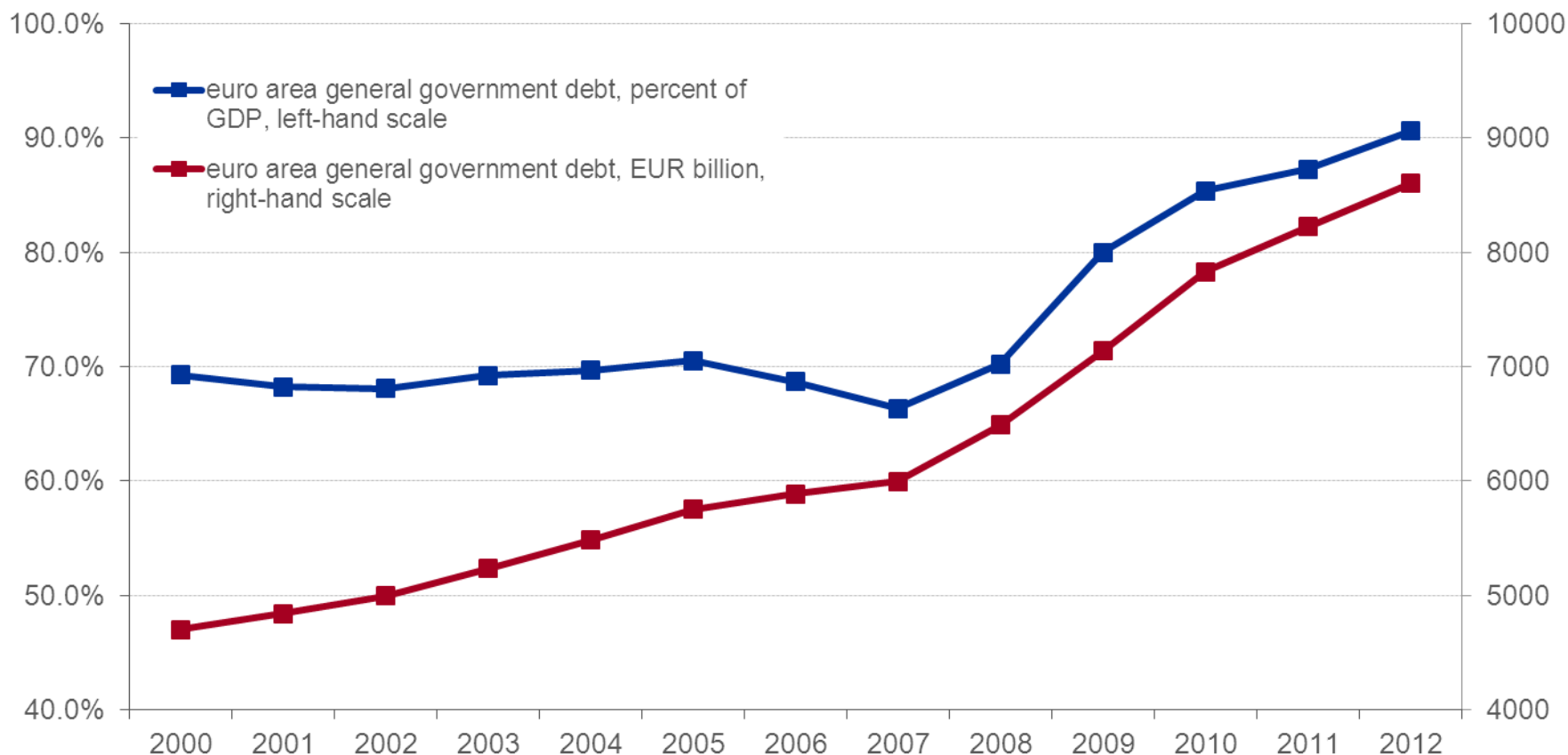


Source: Eurostat

- Euro area general government debt end 2012; EUR 8.6 trillion or 90.6% of GDP of which about a quarter with a residual maturity less than 1 year → financing of debt and deficit is important



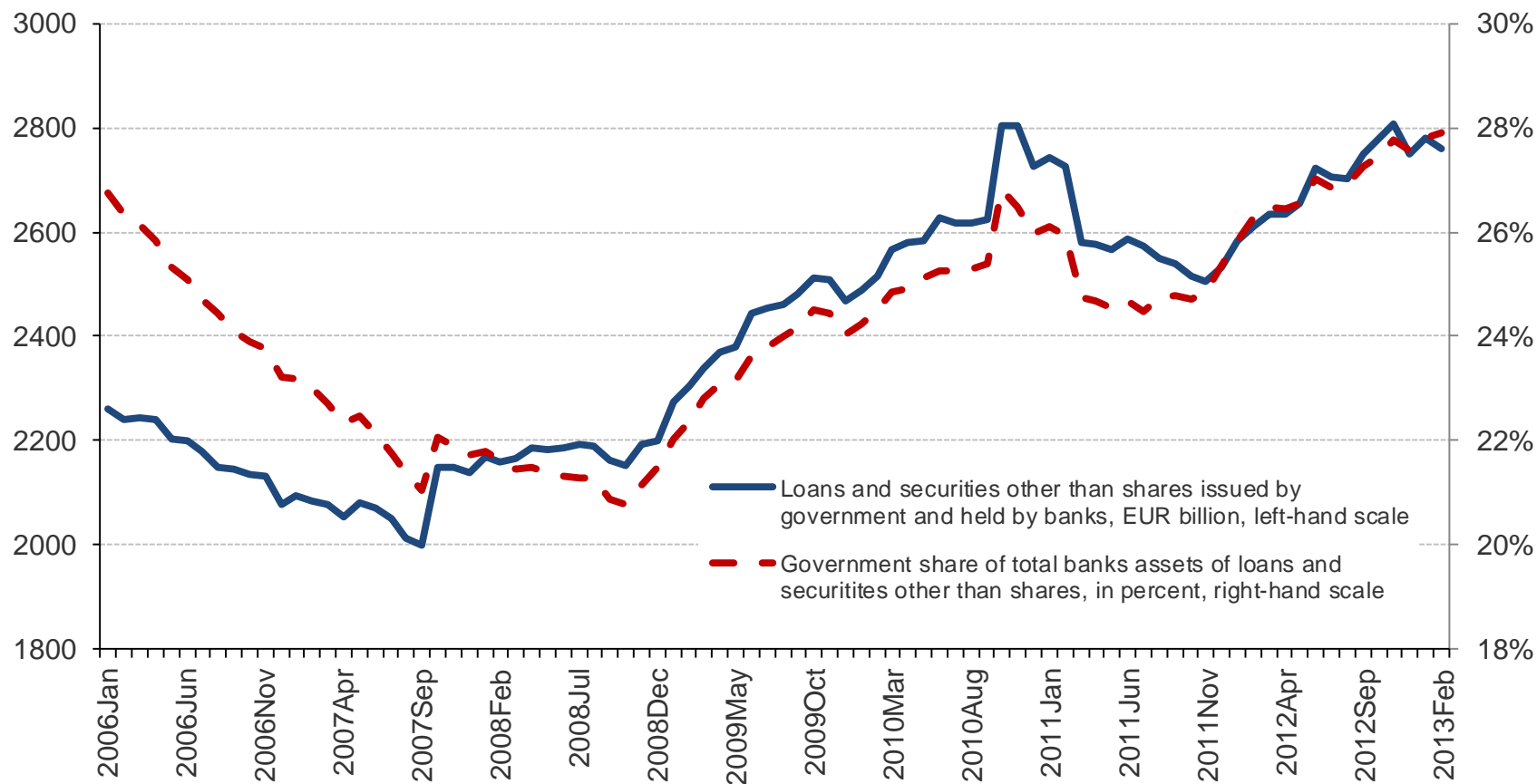
## .. and is rising



Source: ECB

- Faster growing debt after the financial crisis  $\Rightarrow$  more efforts required to refinance the debt

## Growing linkage between banks and government



Source: ECB

- Euro area banks' lending to government and bank holdings of government securities have increased in absolute terms as well as a share of total banks holdings since the beginning of the financial crisis

## Government help to banks increases government debt even further

Country	Total impact on government debt in 2008-2012	Country	Total impact on government debt in 2008-2012
Belgium	6.3	Luxembourg	5.6
Germany	10.8	Malta	0.0
Estonia	0.0	Netherlands	7.0
Ireland	30.3	Austria	3.2
Greece	14.8	Portugal	10.8
Spain	5.2	Slovenia	4.1
France	0.2	Slovakia	0.0
Italy	0.2	Finland	0.0
Cyprus	10.0	<b>Euro area</b>	<b>5.5</b>

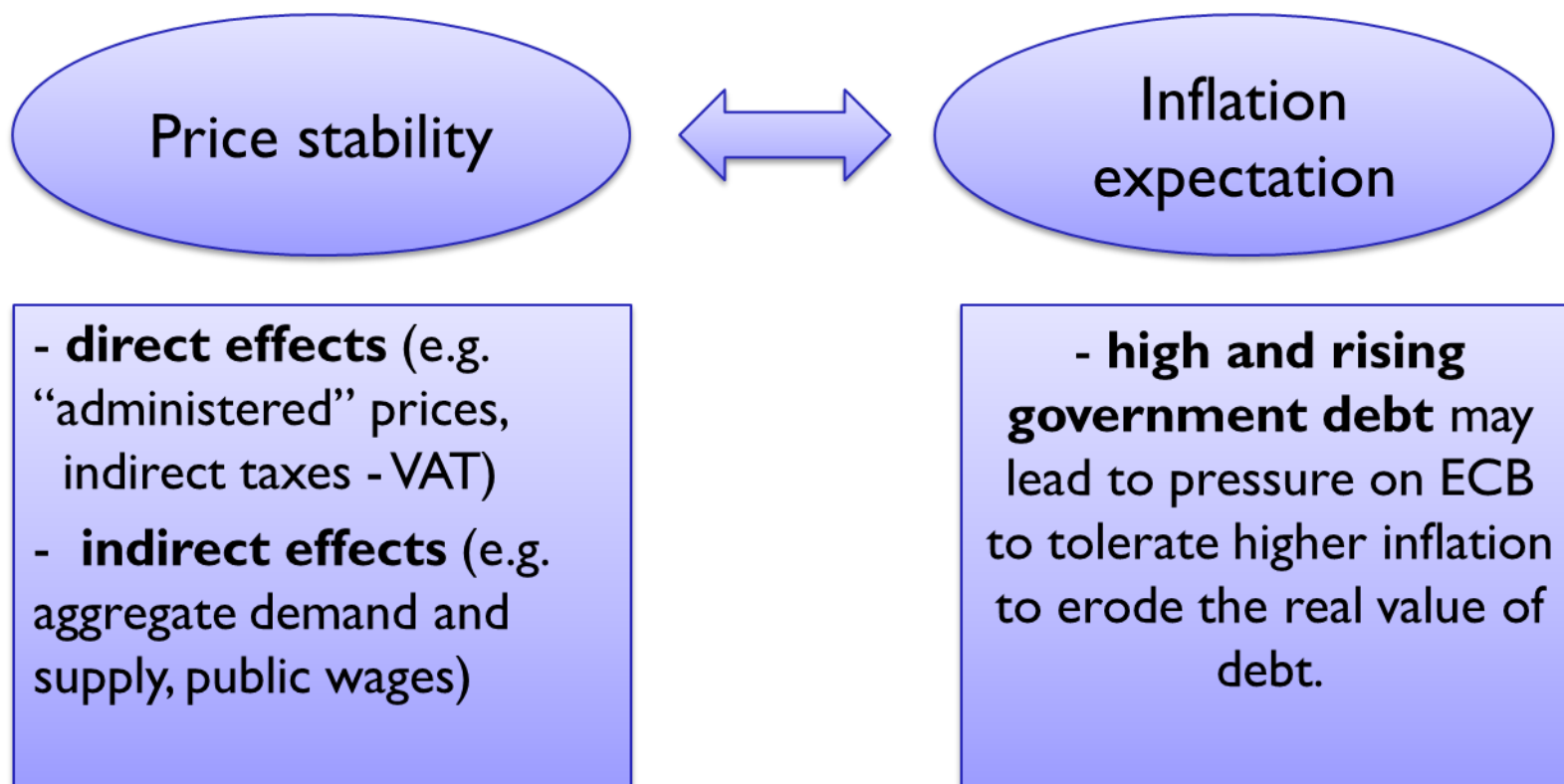
Source: ECSB

- Government support to financial institutions impacting government debt (as a percentage of GDP)

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# Government actions affect prices and inflation expectations



### Financial markets link government and Central banks



**the single currency reduces exchange rate risk premia** and makes it cheaper to borrow on international capital markets.



**but: creates spill-over effects** as interest rates on government debt in one country are a function of other countries deficits and debts.

- The Eurosystem uses government bonds as **collateral** for liquidity provision and even may **buy** bonds directly – the credit quality of the bonds is important for the management of the Eurosystem's risk profile

# Specific situation of the ECB

- **Member of the Troika:** fiscal analysis and knowledge needed to support the Troika missions
- **Member of the EFC** dealing with EDP and stability and convergence programmes
- **ECB as a large holder of government bonds** via the Securities Market Programme
- **Micro Banking Supervisor:** the role of the ECB in a future EU banking union (SSM)
- **Convergence Reports** on EU Member States not yet having the euro
- **EDP visits** (as an observer) in Eurostat EDP visits to EU Member States
- **Producer of European statistics** : the government sector as part of many statistics

# The Eurosystem is a large holder of securities

### Eurosystem's holdings of securities acquired under the Securities Market Programme (SMP) on 31 December 2012

Issuer country	Outstanding amounts		Average remaining maturity (in years)
	Nominal amount (EUR billion)	Book value 1) (EUR billion)	
Ireland	14.2	13.6	4.6
Greece	33.9	30.8	3.6
Spain	44.3	43.7	4.1
Italy	102.8	99.0	4.5
Portugal	22.8	21.6	3.9
<b>Total</b>	<b>218.0</b>	<b>208.7</b>	<b>4.3</b>

1) The SMP holdings are classified as held-to-maturity and consequently valued at amortized cost.



### **ECB President Mario Draghi 26 July 2012**

“Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough.”

### **ECB Decision on Outright Monetary Transactions in secondary sovereign bond markets (6 Sept 2012)**

- **Possibility of the Eurosystem to buy bonds of a euro area countries**
- Will be considered for euro area countries in EU programme or macroeconomic adjustment programme
- **No quantitative limits**
- Acquisitions focused on the shorter part of the yield curve, 1-3 years

# **This strong involvement of the ECB requires prudent analysis**

- **Working Group on Government Finance Statistics** with representatives from the National Central Banks of the EU Member States
- **Working Group Fiscal Policies**
- **GFS Guideline** for collecting annual fiscal data
- **ECB as an observer in Eurostat EDP visits to EU Member States**
- **Frequent articles in the Monthly Bulletin on fiscal matters**
- **Involvement of ECB in methodological work and CMFB consultations on statistical issues**
  - *CMFB – Committee on Monetary, Financial and Balance of Payment Statistics*

# The crisis increased the need for high frequency data

- The focus of the EDP is on annual data
- The ECB collects annual fiscal data via the National Central Banks
- The ECB receives quarterly fiscal data from Eurostat, the National Central Banks and National Statistical Institutes
- Quarterly fiscal data are used to assess the plausibility of the **forecasts** for the current year  
→ **Timeliness and reliability of quarterly fiscal data are essential!**

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## **Reliability and comparability are crucial**

- Timely, reliable and comparable Government Finance Statistics are of vital importance for the credibility of the budgetary surveillance under the Stability and Growth Pact.
- The international macroeconomic accounting framework (ESA/SNA) must be respected and is crucial for comparability between countries.

## **ECB supports the enhancement of government finance statistics**

- “the ECB favours an increase in the timeliness and reliability of the annual and quarterly government accounts reported to the Commission..”
- “The directive may contribute to simultaneous enhancement of the timeliness and reliability of general government accounts by supporting the implementation of public accounting systems on an accrual basis that are interconnected with ESA 95 based national accounts. The accounting systems should be based on internationally accepted public sector accounting standards to ensure the harmonised recognition and measurement of government transactions.”

*ECB Opinion on the Six-Pack 16 Feb 2011*

## **Introducing EPSAS is promising, also for data users..**

Appealing features of EPSAS:

- **Accrual basis and consistency with ESA principles**  
→ easier to translate public sector accounts into ESA compliant fiscal data
- **Harmonised for *all* countries for *all* government entities**  
→ improve the reliability of data for local and regional governments



## **.. and therefore**

- **Creating and implementing EPSAS would be** a major milestone for public sector management (“better government”), expected to increase the timeliness and reliability of fiscal data
- **Successful introduction of EPSAS would mean**
  - Harmonisation of public sector accounting standards across Member States as well as subsectors of government within an MS
  - Alignment of EPSAS to ESA recording rules making it easier to use accounting data as input into GFS

# Conclusions

- **The government sector is a large part of the total economy**
- **Government finances have a strong effect on financial stability**
- **Governments need to compete for capital in international financial markets**

## **→ Reliable government statistics are of vital importance to the ECB**

- **as government developments influence other areas of the economy and key variables**
- **for price stability**
- **for financial stability**
- **as a holder of government bonds**
- **as a member of the Troika, for EDP visits, for CMFB consultations**
- **for its Convergence Reports**

**Consistency → Comparability →  
Credibility → Confidence**

**Thank you!**