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**"Strengthening public sector accounting for sound
fiscal policies in Europe"**

**Keynote speech by
President of the European Council
Herman Van Rompuy**

**at the Conference "Towards implementing
European Public Sector Accounting Standards"**

It's a pleasure to join you today, for the opening of your conference on European public sector accounting standards.

Over the past three years overcoming the crisis has been the European Council's overriding concern. And already in 2010, improving the quality of statistical data was seen as a key part of this response. It featured prominently in the Report of the European Council's Taskforce on economic governance, which I chaired at the time, exactly three years ago. Your conference today is part of this agenda, part of our overall response to the crisis. In order to build sound policies, solid statistics are fundamental. And improving them is part of our work to strengthen economic governance in the European Union.

Getting Europe out of the crisis remains our top priority. We're engaged in a race against time, and in too many countries, too many people without a job – in particular young people – remind us that the battle is not yet won, and further efforts are needed. Yet there are also positive developments to report. Financial stability has been restored. Fiscal consolidation is ongoing. Competitiveness is improving in many countries and exports are picking up in weak economies.

P R E S S

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One has to look back and see the progress made throughout these difficult years to measure our determination as Europeans to tackle the root causes of the crisis. Our strategy to combat the crisis was reaffirmed by all Heads of State and Governments at the March European Council. The strategy has four fundamentals:

- First, to preserve financial stability;
- Second, to make our economies more resilient, through sound public finances, focussed on structural efforts, and through improved competitiveness;
- Third, to take immediate measures for jobs and growth. This is a very serious challenge, the magnitude of which is clearly revealed by growth and unemployment statistics. This is why I will present proposal for further action, notably aimed at reducing youth unemployment, at the June European Council.
- And fourth and finally, to complete the architecture of our economic and monetary union. As I underlined in a series of reports to the European Council, a genuine economic and monetary union goes far beyond just sharing banknotes and coins. It requires to bring our banking, economic and fiscal policies closer, and to look at the implications in terms of accountability and political legitimacy too. The priority today is the creation of a banking union with a single supervisor for all euro area banks and a single resolution mechanism for failing banks. Such a banking union will help break the negative feedback loop between banks and sovereigns that has been one of the main propagation channels of the crisis in the euro area. It will also minimise the risk of tax payers having to bail-out failed financial institutions.

As a result of our determined actions, the existential threat to the euro area has been defeated. It's a central achievement. The euro remains a strong global currency. Unlike many other major economies or currency zones, the euro area has a firmly balanced current account: this means we are not feeding into global imbalances and it shows a solid basis for our overall economic performance. Yet we will only be able to exploit this solid basis in full if we continue to make progress towards European integration.

Our strategy entails strengthening the eurozone, moving towards a genuine economic and monetary union. Our strategy aims to ensure that all European citizens benefit from good economic, fiscal and financial policies. Our strategy aims to return to strong and sustainable growth and job creation.

There is one indispensable condition for the delivery of good policies which I would like to stress here today: the existence of a good statistical framework providing reliable, timely and comparable data. In our social market economies, where public sector policies play a key role in shaping our economic landscape, the quality of government finance statistics is absolutely crucial – perhaps more than anywhere else in the world.

There are no sound fiscal policies without good government finance statistics based on good public accounting. To put it bluntly: where to go is an elusive question if you don't know where you are! The responsibility of statisticians is to tell policymakers where they are, to give them an accurate picture of the situation of public finances.

In Europe, our discussions about fiscal policy largely revolve around two key indicators of fiscal sustainability, deficit and debt. These indicators are so pivotal to our European fiscal framework that we enshrined their definition in a protocol on the Excessive Deficit Procedure annexed to the Treaty. The fact that statistical issues feature prominently in the Treaty, so have in a sense a constitutional status, shows the importance that we collectively give to public sector accounting.

The importance of the reliability of government accounts has been illustrated by some dramatic episodes of inaccurate reporting of deficits and debts in the run-up to the sovereign debt crisis. There is one lesson to draw from such episodes: statistics are a mirror image of the real world, they are not the real world. Misreporting fiscal data, either on purpose or due to lack of diligence in the production of reliable statistics, is never a solution to fiscal problems. Not only you don't change the temperature in the room by playing with the thermometer, but you actually make things worse. Inaccurate accounting contributes to ill-founded policy decisions, insufficient consolidation efforts when deficits and debts are underestimated, and eventually to a total collapse of confidence leading to refinancing problems. This unfortunately is what we experienced in Europe. Europe has had its day of reckoning for inaccurate reporting of government accounts, and we have learnt the lesson. Today's conference testifies to our continued efforts to improve the statistical basis of our Union's policies.

I have never worked directly in the field of statistics, but I have had a long professional experience with public accounts, including as budget minister and as member of parliament here in Belgium. I can safely say that I am a user, even a professional user of consolidated government accounts, and that I fully appreciate the importance of your work to ensure the production of accounts that provide a reliable and complete picture of the financial position and economic performance of governments.

This brings me to another important aspect of government finance statistics in Europe: their comparability. Comparability of public sector statistics requires an effort of harmonisation, which is the topic of your conference. Today I would argue that such harmonisation efforts are warranted for at least three key reasons.

First, the crisis has taught us the high degree of interdependence between Member States. What happens in one country can affect all the others. The deeper economic and financial integration of the Union calls for further harmonisation of public sector statistics. Our revised fiscal framework, the reinforced Stability and Growth Pact and the "two-pack", provides for closer monitoring of the public finances of Member States. Such enhanced fiscal surveillance needs adequate accounting underpinnings, where country monitoring takes place on a level playing field, where there is no room to shun responsibility through budgetary gimmicky. The reliability and timeliness of fiscal statistics is essential for the smooth functioning of a rules-based budgetary framework that includes recommendations and even sanctions to member states in breach of the rules. Your conference today will contribute to defining the appropriate public sector accounting framework that can provide high-quality financial and statistical reporting of the performance and position of governments in Europe, taking into account our European specificities, procedures and institutional set-up.

Second reason, the quality of policy decision-making largely hinges upon the quality of statistics. In times of budgetary retrenchment, when major policy decisions have to be taken, high quality statistics are more important than ever. Hard budgetary decisions, expenditure cuts and tax increases affecting directly our citizens, have to be taken on the basis of data that are as hard as possible. As we continue on our road towards deeper European integration, towards a genuine economic and monetary union, we will increasingly need fully comparable public sector accounts covering all sub-levels of general government. In a Union consisting of member states with a wide range of internal budgetary arrangements, from federations to centralised states, ensuring such comparability is essential to the pursuit of sound fiscal policies. As I said, it is even indispensable for the smooth functioning of the new elements of governance we put in place with the "two-pack". *Ex ante* coordination of annual budgets in the euro area, to be fully effective, should be based on an harmonised set of public sector accounts.

Third reason, transparency and democratic accountability. Transparent public accounts are the cornerstone of the accountability of governments to their citizens and their elected representatives. Reliable, timely and complete public sector accounts contribute to high quality budgetary debate in our lively democracies. Harmonised public sector accounting would help strengthen the discussions on budgetary matters between all stakeholders, at national level and at the European level.

Harmonising public sector accounts, moving towards harmonised public sector accounting standards in European member states: no doubt this is easier said than done. Today my message is: we need harmonised public sector accounts in Europe. I have no doubt that you will contribute to defining best public sector accounting standards for Europe looking forward. By doing so, you will make a significant contribution towards European integration. Laying the ground for fully effective surveillance of fiscal policies in Europe. Allowing direct comparability of public accounts across countries. Feeding informed policy debates on budgetary matters throughout Europe, and thereby helping improve the quality of policy decision-making. Harmonised public sector statistics are a common language and the basis for sound fiscal policy-making both nationally and Union-wide. I wish you a very fruitful conference.
