



## **Reinforced Quality Assurance of Government Finance / Excessive Deficit Procedure Statistics**

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### **Abstract**

Article 338 of the Treaty on the Functioning of the European Union and Regulation 223 of 2009 constitute the legal framework of the production of European statistics. The European Statistics Code of Practice sets the standards for developing, producing and disseminating European statistics; it covers the institutional environment, the statistical production processes and the output of statistics. The Principles of the Code of Practice together with the general quality management principles represent the common quality framework of the European Statistical System. The Code aims at improving trust and confidence in the independence, integrity and accountability of the statistical authorities as well as in the credibility and overall quality of the statistics they develop, produce and disseminate. Through the 15 Principles and their 82 Indicators it defines the first and second level of quality assurance of the European statistics.

The Quality Assurance Framework of the European Statistical System assists the implementation of the Code of Practice by identifying possible activities, methods and tools for the operationalisation of the different Indicators – it therefore can be regarded as the supporting document of the Code of Practice. Through the different quality assurance methods and tools it defines the third level of quality assurance of the European statistics.

In addition, statistical domains often develop their own, domain-specific quality assurance methods and tools which then constitute a fourth level of quality assurance. The paper describes the different elements and components of the reinforced quality assurance mechanism of Government Finance Statistics, and more specifically, of the statistics used for the Excessive Deficit Procedure. The paper also explains how this quality assurance mechanism guarantees the high quality of these statistics which is of utmost importance considering that they have an impact on Member States and the European Union through their direct application in the implementation of European economic policies.

**Keywords:** European statistics, Code of Practice, Quality Assurance Framework, quality framework, quality assurance, Government Finance Statistics, Excessive Deficit Procedure, reinforced / increased verification, dialogue and methodological visits, country visits, audit-like approach, in-depth review of upstream data sources, inventories of sources and methods



## 1. Introduction, background

In its long-term strategic Vision called ESS Vision 2020, adopted in May 2014, the European Statistical System (ESS) defined itself as "the statistical conscience" of the knowledge-driven society which guides its actors through the information overload. In this function quality plays a key role by being one of the key assets and competitive advantages, by distinguishing these statistics from the growing trend of "instant" and other type of information which often lacks the necessary proof of quality.

By identifying quality as one of the five key areas of the ESS Vision 2020, the ESS recognised that a strong emphasis on quality remains a pre-condition for preserving public trust in official statistics. Users of the statistics are at the centre of all quality considerations – their needs have to be clearly understood and fulfilled, with due consideration of resource constraints, and this ultimate goal is even more prominent and evident when official statistics are directly used for economic policy decisions as it is the case of the Excessive Deficit Procedure statistics, presented in this paper.

The paper first describes how the quality framework of the ESS is set up and which role the statistics of the Excessive Deficit Procedure play in the economic governance of the European Union (EU). It then explains how the corresponding quality assurance of these statistics has been progressively reinforced in order to respond to the growing challenges faced. At the end the paper concludes that such reinforcement is a costly and lengthy process.

## 2. The quality framework of the ESS

The quality of statistics is defined along 3 lines in the ESS: the institutional environment, the statistical processes and statistical outputs. These lines are governed by 15 Principles which describe the standards for developing, producing and disseminating European statistics – these 15 Principles, together with their underlying Indicators, constitute the basic / core quality framework of the ESS: the European Statistics Code of Practice<sup>(2)</sup>.

The Code of Practice is a self-regulatory instrument to which all producers of European statistics (statistical authorities, i.e. Eurostat, the National Statistical Institutes as well as other national authorities of the Member States which produce European statistics) are committed. The implementation of the Code is monitored through ESS-wide Peer reviews in which producers of European statistics fill in a self-assessment questionnaire which is then analysed by a group of independent experts. Following this, an official Peer review visit is organised in each Member State where the main stakeholders, together with staff of the National Statistical Institute and some other national authorities are interviewed. At the end of the exercise a Peer review report is written by the experts with recommendations for action which can be commented by the National Statistical Institute in question. The actions identified are then monitored and reported upon on an annual basis. The first round of ESS peer reviews took place in 2006-2008<sup>(3)</sup> and the second round is now on-going<sup>(4)</sup>.

The Code of Practice is complemented by the Quality Assurance Framework of the ESS<sup>(5)</sup> which provides methods and tools for implementation at institutional and process level for the indicators of the Code of Practice as well as links to relevant reference documentation. Therefore, it provides clear guidance to compliance assessors and was used for the elaboration of the self-assessment questionnaire of the above-mentioned Peer review exercise.

In addition to Regulation (EC) No 223/2009 on European statistics<sup>(6)</sup>, quality is also a consideration in other Regulations adopted by the European Council and the Parliament creating the legal basis for the provision of European statistics in various domains. EU Regulations can themselves be considered as



quality assurance mechanisms which often set specific quality requirements and methodological standards.

Finally, general (applicable to all statistical domains) and specific (domain-specific) quality standards and guidelines complete the construction of the ESS quality framework. Statistical domains often develop their own quality assurance methods and tools which correspond to their specific needs, while respecting the general framework. One of these domain-specific quality assurance mechanisms is the reinforced quality assurance of the Excessive Deficit Procedure statistics which is described in chapter 4 below.

All the quality instruments and mechanisms described above contribute to maintaining the high quality of the products and services provided by the ESS and, therefore, to upholding public trust in our official statistics.

### **3. Excessive Deficit Procedure statistics – a key role in economic governance**

The Excessive Deficit Procedure (EDP) is one of the pillars of the EU's multilateral fiscal surveillance system which was established with the creation of Euro as common currency in the EU. The Procedure, included in Protocol 12 of the Treaty on the Functioning of the European Union (TFEU)<sup>(7)</sup>, sets out schedules and deadlines for the European Council, following reports from and on the basis of opinions by the European Commission and the Economic and Financial Committee, on how to judge whether the situation of an excessive deficit exists in an EU Member State by using the reference values of 3% for the ratio of government deficit to GDP and 60% for the ratio of government debt to GDP.

The EDP is the "corrective arm" of the Stability and Growth Pack (included in Articles 121 and 126 of the TFEU) which is a set of rules designed to ensure that countries in the European Union pursue sound public finances and coordinate their fiscal policies. On the other hand, the rules of the Stability and Growth Pack's "preventive arm" bind EU governments to their commitments towards sound fiscal policies and coordination by setting each one a budgetary target, known as a "Medium-Term Budgetary Objective".

Council Regulation (EC) No 479/2009<sup>(8)</sup>, as amended by Council Regulation (EU) No 679/2010<sup>(9)</sup> and Commission Regulation (EU) No 220/2014<sup>(10)</sup>, requires that EU Member States report EDP-related statistics to Eurostat twice per year, at end-March and end-September. Data are reported in harmonised tables, the so-called EDP Notification Tables. The European Commission's reports and opinions are based on a technical assessment provided by the European Commission's Directorate General Economic and Financial Affairs, using data assessed and published by Eurostat, the Statistical Office of the EU. In addition, Eurostat has sole competence within the EU for the statistical methodological basis on which the data for the EDP are compiled. Eurostat also has the right to express a reservation on the quality of the statistics reported by the Members States and can also amend the data.

### **4. Reinforced quality assurance of EDP statistics – a progressive evolution**

With the appearance of the economic, financial and sovereign debt crisis, statistics of these areas – and mainly the Excessive Deficit Procedure statistics – have gained in importance in the EU economic policy decisions and their role has been clearly underlined. Accordingly, the quality assurance mechanism of these statistics has been gradually reinforced over the past years in order to reply to the increased quality expectations of the users of these statistics.

This reinforcement process started in 2004 when the Commission adopted the Communication "Towards a European Governance Strategy for Fiscal Statistics"<sup>(11)</sup> in which a consistent strategy was proposed for strengthening the EU's governance of fiscal statistics along the following three lines of



action: building up the legislative framework, improving the operational capacities of the relevant Commission services, and establishing European standards on the independence of the national and Community statistical authorities.

In 2005 the European Commission issued a Communication and Recommendation<sup>(12)</sup> on the independence, integrity and accountability of the national and Community statistical authorities as a reply to the third line of action of the 2004 Communication and introduced the European Statistics Code of Practice as a guiding quality framework which was then officially adopted in 2005. The first round of ESS peer reviews was subsequently launched in 2006.

However, few years later in 2009 further reforms and changes were introduced in the fiscal surveillance system. As a consequence, the legal basis was reinforced with the adoption of the Council Regulation (EC) No 479/2009. According to this Regulation, Eurostat has to carry out regular dialogue visits concerning the EDP statistics in all Member States and can also conduct methodological visits where significant risks or problems with respect to the quality of the data have been clearly identified. In 2010 more details and precisions were added to the rules, and the powers granted to Eurostat were further extended allowing for an in-depth review of the upstream EDP data sources (specific, audit-like powers) with the adoption of Council Regulation (EU) No 679/2010.

During the dialogue visits reported data are reviewed, methodological issues are examined, statistical processes and sources, as described in the inventories, are discussed and compliance with the accounting rules are assessed. The dialogue visits also aim at identifying risks or potential problems with respect to the quality of the data reported. On the other hand, the methodological visits are designed to monitor the processes and verify the accounts which justify the data as well as to draw detailed conclusions as to the quality of the reported data.

In 2011 the European Commission adopted a new Communication called "Towards robust quality management for European statistics"<sup>(13)</sup> and the so-called "Six Pack" legislation<sup>(14)</sup> also entered into force. The 5 Regulations and 1 Directive of this package cover both fiscal and macroeconomic surveillance – in the fiscal field, it strengthens the Stability and Growth Pact, by for example including the possibility of imposing financial sanctions for Euro-area Member States in case of failing to abide by either the "preventive" or the "corrective" rules of the Pact.

As a result of these successive reforms of the EU's rules, new surveillance systems for budgetary and economic policies and a new budgetary timeline were introduced. The recent rules (the Six Pack, the Two Pack<sup>(15)</sup> and the Treaty on Stability, Coordination and Governance<sup>(16)</sup>) are grounded in the European Semester, the EU's policy-making calendar. This integrated system ensures that there are clearer rules, better coordination of national policies throughout the year, regular follow-up and swifter sanctions for breaching the rules. This helps Member States to deliver on their budgetary and reform commitments while making the Economic and Monetary Union as a whole more robust.

In addition to the evolution of the legal context and instruments, as described above, there are other important elements and factors, sometimes also of legal nature and/or origin, which contribute to the reinforced quality assurance mechanism of the Excessive Deficit Procedure statistics.

- There is a strong legal basis for producing the underlying national account statistics, the European System of National and Regional Accounts (ESA 2010)<sup>(17)</sup> which is the new internationally compatible EU accounting framework, and there is also a Manual on Government Deficit and Debt (MGDD)<sup>(18)</sup> which explains further the implementation of ESA 2010;



- Methodological discussions take place on a regular basis with the Member States, the producers of the EDP statistics in the framework of various Working Group, Task Force or Expert Group meetings as well as conferences;
- Dialogue and methodological visits, as described above, take place in the Member States as appropriate and give the opportunity to discuss and clarify specific questions and issues;
- The notification exercise during which Member States report the requested statistical information to Eurostat takes place twice a year;
- Member States often seek ex-ante advice from Eurostat and ask for opinion and guidance on specific issues and transactions before they take place;
- There is an established risk assessment mechanism for the statistics of the Excessive Deficit Procedure;
- Together with the data from the national accounts and the EDP notification tables, Member States also submit Inventories<sup>(19)</sup> to Eurostat in which they describe the methods, procedures and sources they used for the compilation of the deficit and debt data and the underlying government accounts;
- There is a regular comparison of the ESA tables; there are standard validation and cross-checking rules used.

## 5. Conclusions

Quality is and remains a strategically key area for the European Statistical System. European statistics are developed, produced and disseminated in a well-established quality framework which is based and built around the European Statistics Code of Practice.

The paper described how a specific statistical domain, the statistics for Excessive Deficit Procedure, can strengthen further the underlying basic quality and quality assurance mechanisms and rules if the use of the statistics requires it – statistics then remain fit for their use / purpose and their quality assurance becomes differentiated, here reinforced, in line with the respective needs of the users of the statistics. However, it has to be underlined that this is a lengthy and costly process due to the amount of resources that is involved and to the changes that need to be introduced in the corresponding legal framework of the statistics.



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