

Eurostat podcast: Stats in a wrap

Deep dive into government finance statistics

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SPEAKERS

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Jonathan Elliott

Stats in a wrap. The new podcast series from Eurostat.

Jonathan Elliott

Welcome to another episode of Stats in a wrap, the podcast series from Eurostat, the statistical office of the European Union. If you've been listening to our podcasts, you will know that we think data are delicious. And we like nothing better than to slice, dice and wrap them into bite-sized morsels whilst enjoying the intriguing stories, the fascinating conversations and startling truths about the everyday and not so everyday stats that surround us.

Well, today we're going to be looking at a highly sensitive and political aspect of stats and official figures because they are often in the news and the subject of contentious public debate. These are government finances, how much governments spend and on what, how much they are borrowing to pay for it, and how the numbers all stack up. Multiply that all by 27 and you have quite a job to do. It is Eurostat's job and it does it by publishing quarterly and annual figures for all 27 member states. And they have to make sure that these all mean something in relation to each other. So when a Swedish person looks at her government's spending last year, she can compare it meaningfully to her friends in Portugal or Poland, who are asking the same questions about their governments. To help us through all of this we have four people from Eurostat whose job it is to scrutinize, analyse, sift, check and publish official public finance statistics from all 27 member states and also to make sure they can be meaningfully compared with each other. Our guests are Vassil Georgiev, who is at the excessive deficit procedure unit and he's joined by Leonor Zubimendi, Floris Jansen and Laura Wahrig who are all at the government finance statistics section.

Jonathan Elliott

Welcome all. Great to have you in the wrap cafe today.

All Guests

Great to be here. Hello.

Jonathan Elliott

Now, our group are a little unusual because they're not only statisticians, but they wear a number of different hats, in addition. Into their offices flow data on everything from spending on schools to taxes

on beer. And all of this must be scrutinized in detail. In preparing for today's podcasts we asked the contributors to describe themselves. If they're not statisticians, what are they? Vassil, I have to ask you, when you have to say what you do at social events, it must be quite a long description, because it's, it's quite complicated, isn't it?

Vassil Georgiev

Jonathan, whenever I get asked this question, I reply to them, 'Anything but a lawyer'. Although sometimes we're being equally hated as lawyers. But joking aside, we do wear many different hats at our work. Most of the time, as you already mentioned, we are accountants. Quite often we are also auditors, because we are required to check the data that we receive. And sometimes, believe it or not, we're also statisticians. For example, when we do organize surveys ourselves to try to get data from more than one different data sources. Then we analyse these data and try to decide if one set is more representative than the other. If significant data discrepancies exist among different data sources, we then try to analyse further to reconcile those discrepancies. So, we do all this in order to make sure that data are well checked and verified before publication.

Jonathan Elliott

Now one thing I have to ask is how you found yourselves working at Eurostat. And what made you decide to pursue this particular career. Leonor, have you always dreamed of working at Eurostat? Was it something you longed to do as a teenager? Or did the enthusiasm come later?

Leonor Zubimendi

As a teenager, I was not having Eurostat in my thoughts. But as I became acquainted with national accounts working at the Central Bank of Spain, then Eurostat became like a dream place to be, because it's an important player in the field, an interesting place to work for and I was very happy when I was able to do the move.

Jonathan Elliott

And Floris, you started your career, just as the world's finances were in meltdown, 2008 and the global financial crisis. That must have been a busy time for you and your colleagues? And an interesting one?

Floris Jansen

Yes, yes, indeed, yes. It's a bit strange. But as statisticians or national accountants, crises actually make the work more interesting. So in 2008, it was really the start of the financial crisis, and such financial crisis really triggers some interesting questions that you need to be asking as a statistician or national accountant. For example, there were some loans to financial institutions like banks that you need to consider - whether these are really loans or maybe government expenditure. Or there was the setup of defeasance structures with all kinds of assets that needed to be unwound. And we needed to investigate how government was involved in these institutions.

Jonathan Elliott

I guess once you've been through something as exciting as that the world and your work is never quite the same again. In fact, possibly, I'm guessing maybe a little dull, or don't you see it like that?

Floris Jansen

Well, to be frank, I don't think it's ever been boring after, because the consequences of the financial crisis are clearly still visible in the government finance statistics. So, in this sense, it's still not over.

Jonathan Elliott

Laura, your area of work can often be sensitive and close to the political processes of the member states. This makes it important to be impartial. And part of that is through harmonisation, making sure all the national accounts are treated identically. Can you explain to us why this is so important?

Laura Wahrig

It's important to harmonise it in order to ensure that the same thing is recorded in the same way across all the 27 EU member states and indeed, also through the EFTA countries, which we also validate. Why is it important to measure this accurately? Well, because what governments do affects people's lives. Governments typically raise revenue through taxes and social contributions in the main part, and then distribute those funds to other parts of the economy, back to households to avoid things such as extreme poverty, etc. When we make sure that this is correctly captured, it also gives an accurate picture of how sustainable is the fiscal policy in terms of raising taxes and social contributions. And the expenditure that governments make: how far will it affect future generations? In Europe we are in quite a fortunate situation, because we have very strong legislation. So EU law, underpinning the methodology, according to which European economic area countries need to record all of the operations that governments undertake. The citizens have a very precise overview what government does in monetary terms, not only how it raises revenue, but also how it finances itself. Does it dispose of its assets? Does it raise debt? To what extent does it raise debt? What is the average interest burden on the government debt? To all of these questions, we can give a comprehensive answer in Europe. If you look at the situation across the world, this is not something that is a given.

Person on street

When it comes to financial literacy, I think it's best to listen to older people that you know, people who've been handling and using money their whole lives and have bought houses or have run businesses before, or managers of large businesses, because money is such a key part of their living, like they need the money to keep their business going. They knew all the tax codes too, they know where to spend money, and also very, very rich people, because I feel like they drip feed, like small bits of information that the general public don't get to know about money.

Jonathan Elliott

Now Vassil, you work in a very particular part of Eurostat that handles the evaluation of national debt and that's closely related to but not the same as national deficit? Can you just set out for our listeners, the differences between government debt and government deficit? And why monitoring these are so important?

Vassil Georgiev

Well, first of all, in technical terms, debt and deficit are two different things. Debt is a stock and deficit is a flow. Deficit or equally surplus, is measured over a period of time, while debt is measured, typically at a given point of time. So you can say, for example, at the beginning of 2019, country XYZ had a public

debt of 50% of GDP. And during the year the government realised 2% deficit. So at the year-end in December 2019, the government had a debt of 52% of GDP. Debt and deficit are intricately related to one another. The simplest explanation for deficit is basically the resulting item, your revenue minus your expenditure. And I always like to give examples with my children. If I give 15 euros to my daughter in the beginning of the day, and she uses these 15 euros to buy a six euro lunch, and maybe another six euros spent on a book, she actually ends up with having three euros at the end of the day. So, this is her surplus. However, if she also decides to go to see a movie to go to the cinema, and spend another six euros on a movie ticket, she actually doesn't have those six euro. So, she borrows those six euros from a friend. She's going to actually end up with three minus six, basically owing three euros to someone. This is the probably the simplest framework to put debt and deficit in.

Jonathan Elliott

Floris, it's fair to say, isn't it that you and your team's work is truly unique? Because you're able to scrutinize the national accounts of all the member states, and have a central perspective, it's a bit like a spider in a web. There are few other organizations that have that kind of overview are there?

Floris Jansen

Yes, well, Eurostat is really uniquely placed to look at government finance statistics, because it is really the only international institution that receives every quarter data on government expenditure, revenue and financial transactions and balance sheets, as just discussed, and it's really the only institution that enters into a dialogue with its members, being the EU and the EFTA countries, every quarter on this data. So to ask questions on, why do you classify this institution inside or outside government? Why do you consider this expenditure and other financial transactions? Such questions we ask every quarter to our data suppliers, being the member states.

Jonathan Elliott

So the professional world that you operate in, you say is accountancy, it's more like being a tax man, all our listeners will be familiar with filling in their tax returns. So, you're the people who examine the figures of the different member states. But Floris unpack that a bit for us, if you can, I always thought Eurostat, you know, the clue is in the name, it's a statistics organization. What are accountants doing in a statistics organization?

Floris Jansen

Well, certainly we are working with or making statistics as national accountants, so accountancy is in our professional name. As a national accountant, you indeed, are very similar to what you might consider a normal accountant or a business accountant. So, we try to make a balance sheet. And we try to make accounts that are fairly similar to profit and loss statements. So, this is fairly similar to what normal accountants are doing. And as you hear, in the word, accountant, the key word is for me 'count'. Every statistics is basically counting stuff. So, in our case, the main question is, what do you consider government?

Jonathan Elliott

Perhaps you could just talk a little bit about how you guys all work together, because we've got the EDP, the excessive debt procedure team, and the GFS, the government finance statistics team. So just

a quick word, Leonor, perhaps you could explain this for us. How do these two teams fit together and work together?

Leonor Zubimendi

We are in two teams. The government finances statistics team, we deal more with quarterly data. This more high frequency makes that we scrutinize things a little bit less than Vassil, who does the annual data twice per year with more detail, but they are complementary, because we get the quarters before. And we start analysing and validating and cleaning the path for the big audit that comes with the EDP exercise.

Laura Wahrig

In essence, we look at the same data from different points of view, we try to validate and publish data that is used for the fiscal analysis. While the colleagues really verify, in EDP, they really verify in great depth that the two headline indicators, which is the deficit or surplus, and debt, the General Government gross debt, is really accurate and up to scratch. So, we try to make on our side, in the GFS, in the government finance statistics team, we try to make data that fit for fiscal forecasting, for example, and analysis of how government spends its money. While the colleagues really have an institutional mandate to verify or audit those excessive deficit procedure statistics data. The data is published by Eurostat, this is Eurostat's data, even though supplied by the member states. Whereas for the government finance statistics data, we get data from member states, it remains their data in a sense, and only the EU and Euro area aggregates are ours.

Jonathan Elliott

Vassil, I'm going to ask you to give us a lay persons guide to government debt and deficit but also explain why you always express the amounts in terms of percentages and not absolute amounts, not total figures, can you just sort of talk us through that.

Vassil Georgiev

When we talk about government finance statistics, we very much like to avoid talking about absolute amounts, we always kind of try to present things into perspective. As Laura said earlier, we try to standardise and harmonise data. And you cannot do this when you talk in terms of absolute amounts. This is why we always try to present numbers in terms of percentages of GDP. Take 150 million euro of debt, for example. I mean, this 150 million euro represent 1% or approximately 1% of the GDP of Malta, but these same 150 million euro represent 0.004% of GDP of Germany, or an even smaller amount if you take the GDP of a larger economy like the United States. When we present data, we always try to present the proverbial apples to apples comparison and not apples to oranges. So, this is always why we try to present data in terms of percentages of GDP.

Jonathan Elliott

And this is really important to say that one of your critical roles is to do this harmonisation, comparability so that a person from Malta and a person from Germany can speak the same language, they can understand each other's economies, their relative performances because you have to operate in those ways because of these huge disparities.

Person on street

Well, it depends on the government, first of all, the country itself. A lot of countries spend a lot of money in the army and protection from whoever they feel that there may be a threat. Unnecessary if you think, in my opinion.

Jonathan Elliott

Floris, we've made the point about Eurostat's ability to be, to have a kind of central scrutiny role, a bit like a spider in a web, this idea that you can, I've sometimes used, I don't think it's that good analogy, but it's the air traffic controller who can see all the planes landing and taking off. It does give you a uniquely interesting perspective, doesn't it? Because you can see what's going on right across the 27 member states: you have a flight deck. Can you just sort of explain a little bit about what that's like?

Floris Jansen

Yes, you're right. I mean, this is what the purpose of Eurostat is, is to make sure that statistics all across Europe, so the EU and the EFTA countries, are made in a similar fashion, so abiding the rules that are embedded actually in EU law on how to compile your national accounts. And indeed, since we receive from all across Europe the data we are in a perfect position to compare Iceland with Lithuania. And to make sure that if there are similar operations in Lithuania, that we record it similarly as in Iceland.

Jonathan Elliott

Now, Leonor, we talked about data suppliers, right, I'm used to hearing suppliers in terms of manufacturing, in terms of retail, you know, you have some stuff that comes in, and then you have stuff that goes out. But it's not like that with data. And it's not like that with Eurostat and the member states. So perhaps you could explain to us the process, what happens, what comes in, what goes out, and what happens in between.

Leonor Zubimendi

We receive government finance statistics data from EU member states, EFTA countries and EU candidates. This data comes in, then we load it in a temporary database, and is a temporary database, because we are going to check the data. And in order to check the data, we are going to run automatic checks, to check the completeness and also the mathematical consistency of the numbers. And once that is done, we are then going to check the plausibility of the data with the current economic developments. And this process of checking, is done with the member states that are providing the data, because we are going to ask them questions, correct errors, have retransmissions. And when data is considered of good quality, then is going to move out to the external database. And the moving out in the external database will be done in the publication date, accompanied with a press release, articles and so on. And the calendar for that is published on the Eurostat website.

Jonathan Elliott

And this happens every quarter, right? So, every three months you go through this process.

Leonor Zubimendi

Quarterly work, yes.

Jonathan Elliott

I mean, the thought that comes to me when you're explaining this is, doesn't this just get terribly repetitive as a process? Are you not just doing the same thing again, and again?

Leonor Zubimendi

I think we wish it was repetitive, but each quarter surprises us with new things. And it keeps us excited and interested in the work. There is always new operations to be analysed. I think we're always hoping for a boring quarter and it never happens.

Person on street

I think the government of Greece spends the most money, spent a lot of money on defence, military equipment. And there are reasons for this, maybe good reasons, maybe overreacting sometimes. But you can see on the news, there's a lot of guns.

Jonathan Elliott

We should take a little bit of time now to look at the detail about what each one of the 27 governments spends its money on. Eurostat breaks it all down into categories, as laid out by something called COFOG, the classification of functions of government. And there are a great number of them ranging from education to social care, infrastructure, administration, and many others. And you can see this all laid out in a very beautiful infographic section on the Eurostat website, but Floris, I mean, why does it do that? Why does it break it all down into all these different categories?

Floris Jansen

Yes, Jonathan, indeed, the COFOG it is part of national accounts actually. So, part of the system of national accounts, and it asks this question, "Where does government spend its money on?" And this is truly the most intuitively relevant question, I would say, for government finance statistics is. Is it on defence? Or is it on education? Or social protection, for example. What you see in Europe is that by far the biggest chunk is on social protection. So, this is, for example, state pension schemes or unemployment schemes. And what we actually see is this statistic that is made only once a year, it is the most detailed statistics that we provide in government finance statistics, but it is used quite a lot by journalists because of this intuitively, questions that everyone involved in government finance statistics should ask - where does government spend its money on?

Jonathan Elliott

The other question I had, Leonor, perhaps you could take, pick this up? Because this is of interest to you? What does it tell us? Different economies, different governments to spend on different things. Do we learn anything about national cultures, about priorities, about political initiatives, about what that country is focused on? Whether it's taking care of its more vulnerable members, maybe it has a demographic that requires that or maybe it's trying to invest on, you know, greater economic productivity? What do you learn when you see these breakdowns and you study these different classifications?

Leonor Zubimendi

Of course, expenditure is going to reflect the policy of a country, because that's a decision. There is certain unity in the European countries about which are the main categories for expenditure, like social protection or health. But of course, if you go into detail, to the categories, you may see differences between countries who may have to put money on fire protection, because they have fire problems. Each country will have its needs for expenditure. And of course, it will also reflect the political choices of the governments that are in place. As a big picture I will say that social protection and health are the big chapters in the European countries and it says good things about our welfare state and society.

Person on street

I think if anything they should be spending more on, like education, on health care, back home health care as a disaster.

Person on street

The government of my country should definitely spend more money and invest more money in education and culture.

Jonathan Elliott

Government has a strange, can have a strange meaning. Vassil, can you unpack this? To many people it seems that there's an obvious answer, but it's not always obvious. Who is government? Who isn't government? When you're looking at your data suppliers? You're looking at the information coming in? Just tell me a bit about that? Because I think government's government, it's obvious, but it isn't always, is it?

Vassil Georgiev

Exactly what you said, Jonathan, I mean, to many people the answer may seem too obvious. But I mean, you take a company, let's say, a cargo railway company, which is 100% owned by the government. And since it's 100% owned by the government, the company's debt is considered the debt of the government, right? But most people will actually be wrong to assume this because this railway company may operate exactly like other market-based companies. Take for example, a purely private operator of trucks or lorries in British English. The two companies operate in a very similar way: they invest into vehicles, they hire employees, they carry cargo. And for this, they expect to get paid. And they do this with the general purpose of being profitable. So, when deciding whether or not the debt of a public corporation, such as the example I gave you of a cargo railway company, counts as government debt, we make an analysis to decide to what extent this company behaves like a market operator. And in deciding this, we look at both qualitative and quantitative factors. Just to give you an example, one of the quantitative factors that we look at is the ability of the company to cover certain percent of its operating costs from sales and other types of market revenue over a prolonged period of time, over several years.

Jonathan Elliott

One theme that we very often come back to in Stats in a wrap is the Coronavirus pandemic, many weird things that COVID did to statistics. It did lots of weird and horrible things, of course, and it never stopped surprising me how much they showed up in the stats. And official government statistics are no

exception. Laura, can you just talk us through how the pandemic impacted and showed up in your area of work?

Laura Wahrig

The pandemic, unlike the financial crisis that Floris was talking about earlier, it came very quickly and very suddenly. Governments in themselves and in their policy decisions, they reacted very quickly. So, for example, what was only done by very few member states in the economic and financial crisis - to furlough workers, so to provide government measures to continue paying employees, even when they are not able to do their job because of the lockdowns - that was done in nearly all of the member states. A lot of the member states' governments allowed people in order to ensure the liquidity of corporations specifically, but also of households, to pay their taxes later than normal. So basically, they gave an extension to deadlines, this was another very widespread measure. There's a lot of others. But just for these two, you have these very big measures, and you need to come up with harmonised ways of recording them correctly, the impact on the deficit, in a very quick way. We published a new version of the Manual on Government Deficit and Debt and you can see a lot of additional guidance in response to these numerous new measures. We have new sections on how to deal with tax deferrals, how to deal with furlough schemes, and so on.

Person on street

I think the government's plan for fixing debt is that there is no plan, I think it's just the same it's been for years, just keep getting further and further into debt, and just leave it for the next person to solve.

Jonathan Elliott

Floris, you and your colleagues sometimes have to challenge the governments of the member states and flag up doubts, and even publish figures that are inconvenient for some politicians, it is a sensitive area, and it's not your job, of course, to be everyone's friend, you have to be quite independent minded and quite resilient. But at the same time, you have to have a lot of dialogue, you have to have a relationship with your colleagues around Europe, and you can't just see them as adversaries or people to be distrusted. Can you tell us a bit about that balancing act of working with your data suppliers?

Floris Jansen

Yes, you're quite right. I mean, just like a normal accountant, we are basically trying to get an accurate picture of the situation of governments, this is our job to be as accurate as possible. And this indeed involves making judgment calls on, as Vassil explained, what is government, what is government expenditure, what is only a balance sheet phenomenon. Indeed, we try to make this judgment as transparent as possible, and in good dialogue with the compilers, which is good to understand that the compilers of the actual statistics are most often national statistical offices and central banks that provide the data to us. And indeed, if we are in a dialogue with these national statistical offices and central banks, we can come to a conclusion that might not always be the same conclusion that, for example, the Ministry of Finance had in mind. And this is indeed part of the job to make this judgment and to make it as accurate and objective as possible.

Jonathan Elliott

Laura, can you just comment on that? Because I know that from your point of view, there is a sort of ... you want to avoid the appearance of having an adversarial relationship with national governments, you are in the business of cooperating with them and working with them? And can you just talk about how you manage good relationships with your data suppliers.

Laura Wahrig

It's very easy to have adult conversations because people are professionals. In the European Statistical System, we have a commitment to statistical independence, which comprises that we should not influence our statistical recording decisions, both on a national level and at Eurostat level, on what is politically expedient. Most people take that very seriously. The data is provided to us by national statistical institutes or by central banks, meaning that they do the hard job of translating the data from public accounts data to harmonise national accounts data, so to be the first in the line to apply the rules.

Jonathan Elliott

Vassil, you frequently bump into grey areas where not is all that it seems. And you have to do a bit of detective work you have to probe, question, dig around a bit, to find out if for example, if a loan is really a loan or company is really an arm of government, just tell us a bit more about that.

Vassil Georgiev

Grey areas always exist in our work and they will continue to exist in the future in a type of never-ending cycle. And as the saying goes, interesting questions beget interesting answers. And this is actually one of the things I find so fascinating about our job is that we get a lot of very interesting questions. The way we go about answering those questions is that we dedicate the necessary resources, we analyse the legal basis for those questions, and we come up with an analysis. And we do not shy from controversial questions either. Maybe just to give you a quick example, one of the areas I have been encountered with is the carbon taxation in Europe. This happens in the form of the EU emission trading system, where governments actually sell allowances to pollute, to issue harmful emissions in an international commodity exchange. So, the question is, how do you treat those allowance sales, from the terms of government finance statistics. I mean, they can be treated as carbon taxes, which is the way we actually say they should be treated. But alternative look at those emission permits is that they can also be treated as renting of the atmosphere. So, we get asked many, many such questions. And as I said, we try to dedicate a lot of resources. We brainstorm, we consult the legal basis. And we do have very strong legal basis, as my colleague said earlier, mostly in the form of the ESA2010. This is the "European system of accounts" but also in the form of the Manual on Government deficit and debt. And we always try to update these manuals and also, we have a special dedicated section on the Eurostat website, where we also aim at radical transparency, we publish a lot of interesting questions asked by member states. And we also, of course, publish our answers and analysis.

Jonathan Elliott

Well, we are sadly out of time, and must say goodbye to our guests, it only remains for me to say to Vassil to Laura to Floris and Leonor, a sincere thank you all for explaining your work and telling us how rich and varied it can be. Thank you. Thank you all very much for coming to the Wrap Cafe today.

All Guests

Our pleasure. Thank you very much. Thank you very much, Jonathan.

Jonathan Elliott

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