

**Economist conference in Athens, Greece, 9/12/2010:
“Keeping the euro alive and Greece’s economic recovery”**

Speech of the President of the Hellenic Statistical Authority, Andreas Georgiou

with subject

“Statistics as a pillar of a stronger Euro zone”

Ladies and Gentlemen,

It is clear that the Eurozone is at a crossroad. The present difficulties point to the need to supplement and buttress the currency union with strengthened economic governance. Policy makers are currently debating, proposing, and crafting this. The point that I want to propose to you is that any and all attempts towards enhanced economic governance need to have the area of statistics as one of the pillars. In effect, the goal of meeting the requirements of a stronger Eurozone cannot be achieved without a sound base in statistics. The statistics need to be appropriately defined, reliable, timely, and fully comparable across all member countries in the Eurozone and the broader Union. Anything less than that would be like building castles in the sand.

There are several approaches that are currently being discussed regarding enhanced economic governance for the Eurozone. One of them is the Report of the Task Force

to the European Council on Strengthening Economic Governance in the EU. To make my point regarding the importance of statistics, I will use this report as my point of reference.

The Task Force report outlines recommendations in several areas with a view to achieving more effective economic governance in the EU and the euro area

The first one discussed is the need for greater fiscal discipline:

The report recognizes that that the budgetary surveillance framework currently in place, defined in the Stability and Growth Pact, remains broadly valid. However, it points out that it needs to be applied in a better and more consistent way, noting the importance of greater focus on debt and fiscal sustainability, to reinforce compliance and to ensure that national fiscal frameworks reflect the EU's fiscal rules.

Here, it needs to be kept firmly in mind that applying the budgetary surveillance framework implies that government finance statistics produced by the member states are reliable and fully comparable. In addition, any increased emphasis on debt and fiscal sustainability would need to be based on, among other things, reliable and comparable data on general government debt and its components, data on implicit or contingent liabilities, as well as data about the detailed flow accounts of the general government—expenditures and revenues.

Absence of this statistical “conditionality” would lead to the budgetary surveillance framework not working properly. Real fiscal vulnerabilities in member states would

not be identified in time but only when it is too late. By that time, the markets themselves would have identified the vulnerabilities and reacted to them, maybe violently and excessively, cutting off the access of countries to market funding—irrespective of whether these are the countries with the newly identified vulnerabilities or others that are vulnerable to contagion. At that point there would also be a loss of credibility of the budgetary surveillance framework and of the statistics on which it relies. I would argue that such loss of credibility is something that one recovers more slowly from than for example fiscal imbalances.

Second, the Task Force report proposes that a new macroeconomic surveillance mechanism be adopted alongside the budget-focused Stability and Growth Pact. It calls for an annual assessment of the risk of macroeconomic imbalances and vulnerabilities, using an alert mechanism based on a limited number of indicators.

The proper statistical definition of these indicators and equally importantly the timely and fully comparable production of these statistics are necessary elements of such an enhanced macroeconomic surveillance of member states. The appropriate indicators might include statistics that help in identifying persistent losses in competitiveness, emerging financial asset quality problems, asset price bubbles, as well as other major vulnerabilities in the financial sector and the macroeconomy. Important work would need to be done to standardize the definitions of certain statistics, such as those used in measuring real estate prices.

It should be noted that under these first two recommendations the Task Force report also includes a wide range of sanctions and measures, of both financial and reputational/political nature, that would be applied progressively. It is clear that for any such sanctions to be accepted by member states as fair, there cannot be any doubts about the definition, reliability, and the comparability of the statistics that are being used to assess the need for sanctions. It is highly likely that the legitimacy of such enforcement frameworks would be challenged if there were doubts about their statistical basis.

The third recommendation of the Task Force Report calls for deeper and broader policy coordination via the 'European Semester' whereby each spring, the process will allow a simultaneous assessment of both budgetary measures and structural reforms fostering growth and employment. It goes without saying that any evaluation of budgetary measures and structural reforms would have to be carried out and presented in the context of a proper assessment of the macroeconomic and financial policy environment. That can only be done on the basis of appropriately defined, reliable, timely, and fully comparable statistics.

The fourth recommendation of the report concerns the strengthening of the framework for crisis management. The framework would inter alia be based on a strengthening of incentives for member states to pursue sound fiscal and overall macroeconomic policies and for financial market participants to lend responsibly. Again for these incentives to function properly, they require that the appropriate statistics be available to member states, to the EU institutions, and to the markets.

I should note that the report itself explicitly recognizes that stronger surveillance and enforcement mechanisms must rest on transparent, reliable and timely statistics. It also points to the importance of reinforcing the audit powers of Eurostat, of being able to impose sanctions for repeated statistical problems, and of strengthening further the professional independence of the European Statistical System, including by making binding the “European statistics code of practice.”

In the debate regarding the nature of the enhanced economic governance that will strengthen the Eurozone, there are many voices which point to actions that are not included in the European Council Task Force report. For example, for some economists and analysts, economic governance would need to evolve beyond the coordinated but decentralized fiscal policies of the present form of the EMU architecture and reach the stage of a common federal fiscal policy. This would require that a number of items which are currently parts of budgets of individual member states —such as defense expenditure, unemployment compensation mechanisms, etc—would be part of a federal budget. In addition, according to the same line of thinking, such an enhanced fiscal union might involve the possibility of transfers to member states that may be excessively affected by asymmetric shocks, while requiring that member states maintain a high degree of fiscal discipline in their local/national budgets.

It is not my intention to discuss the pros and cons of such different proposals that come under the heading of enhanced economic governance. However, it is my belief

that Eurozone statistics should be ready to be a pillar for any of these various proposals. The reason for this is that in order to keep the Eurozone robust, the form of its economic governance may need to evolve even more and faster than the current plans envisage. It is evident that any of the enhanced economic governance scenarios require statistics that are reliable, timely, and fully comparable across member countries of the Eurozone, and potentially also new statistics that would permit the functioning of a Eurozone federal budget along the lines indicated above. While it may be decided at the political level that it will never be necessary or appropriate to move to a fiscal union, it should definitely not be the case that the absence of appropriate statistics at EU level has contributed to the abortion of such an evolution in economic governance.

Up to now I have taken the perspective of the Eurozone policy makers to discuss the need for appropriate statistics. But one can also take the perspective of the markets to see immediately the need for appropriate, reliable, timely, and fully comparable statistics across the Eurozone. At times, such as the present, when markets focus on the magnitude of fiscal imbalances and of the fiscal adjustments that are being carried out, the need for fully harmonized statistics in the area of government finance is especially pressing. And one cannot afford any doubts about the reliability and comparability of such statistics to compound the markets' apprehension. In addition, the production of high quality and coherent statistics at the EU level constitutes an additional clear signal to the markets that the Euro—and the European Union more broadly—are here to stay, and that integration—and not disintegration—is the future.

It is important to recognize, that in times of fiscal trouble there may be pressures to modify the numbers to reduce the perceived need for fiscal adjustment. But the fiscal reality is inescapable; it cannot be wished away and will assert itself sooner or later. However, as this reality is described by statistics they can become the object of pressure and manipulation to postpone the inevitable political and social reckoning. Such an approach, which sees statistics as an instrument to change the perception of the magnitude of fiscal imbalances, is not only misguided on account of its incapacity to recognize that underestimating the fiscal deficit does not actually reduce the deficit and its very real effects on the economy; it is also extremely damaging as it undermines the credibility of statistics on the basis of which economic agents—the markets—make their decisions, such as to lend and invest in a given country. The uncertainty that this de-legitimization of statistics creates in the minds of economic agents—both resident and nonresident in the country—is extremely damaging to the country as it makes any recession deeper and any recovery more elusive and more distant than otherwise would be the case.

These are important reasons for buttressing and strengthening the institutions and processes that are responsible for the production of reliable and comparable statistics. This implies that one should welcome any initiative which strengthens the independence of national statistical authorities from all forms and sources of political pressure, and reinforces their obligation to adhere to the Code of Practice of European Statistics and other international codes and frameworks for producing and disseminating sound statistics. These are guarantees for the reliability and comparability of the statistics the country produces, which in turn are essential for the

economic strength and stability for both the country itself and the Eurozone. For these same reasons, one should also welcome and support any initiative that enhances the role of Eurostat in auditing and certifying the reliability and comparability of statistics provided by the national authorities. Such a role, however, should definitely not provide an excuse for the countries not to support, improve and assume full responsibility for its own official statistics.

It is a fact that the lack of comparable and reliable Eurozone and EU statistics can create conditions for instability. The Greek case of not having reliable and comparable deficit/debt figures contributed to the build-up of untenable imbalances in this country and then to the withdrawal of market access and to contagion. Any continuing lack of reliability and comparability of the statistics can only mean continuing lack of confidence in the efforts for a stronger Eurozone—that is why in our work in the new Hellenic Statistical Authority we work together with Eurostat and follow to the letter the regulations and common standards of the EU.

Thank you for your attention.