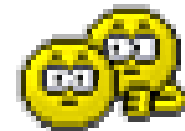


# Fiscal gimmickry in Europe: One-Off Measures and Creative Accounting

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## A retired statistician's confession:

**“Even in the case of overwhelming technical arguments in favour of the proposed solution, we were discussing a trick and we all knew it. Of course, it was not the first trick in the field of complying with the convergence criteria, and other tricks would follow.”**



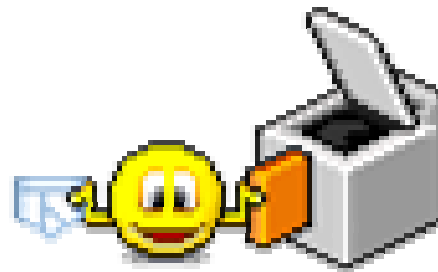
# We only look at the tip of the iceberg



## Exclusions

- Undisclosed tricks (no example can decently be quoted)
- Would-have-been gimmicks (e.g. Buba's gold in 1997)
- "Smallish" measures (although they do add up in some cases)
- Bitter pills (e.g. Irish pension transfer in 1999)
- Changes in the calendar for tax payments
- Spending freezes and more generally discretionary spending measures

# Eurostat's laundry list:



<b>Distortion</b>	<b>Eurostat news release</b>
<i>Treatment of interest associated with various types of bonds</i>	10/97
<i>Above-the-line treatment of payments stemming from gold sales by central banks</i>	10/97, 05/98
<i>Below-the-line treatment of export credit insurance</i>	33/97
<i>Above-the-line treatment of central bank payments to the State on account of forex reserve revaluation, sales of forex reserves or interventions</i>	88/97
<i>Treatment of extra tax receipts when due dates are brought forward</i>	88/97
<i>Above-the-line treatment of taxes on capital gains realised by a public holding company in the context of privatisation</i>	82/98
<i>Impact of UMTS licence receipts</i>	81/2000
<i>Exclusion from accrued taxes and social contributions of that part which is unlikely to be collected</i>	.. <sup>1</sup>
<i>Above-the-line treatment of securitised future receipts</i>	80/2002
<i>Above-the-line treatment of gains from non-returned banknotes or coins in the context of the cash changeover to the euro</i>	88/2002
<i>Capital injections into public enterprises treated as financial transactions instead of capital transfers</i>	98/2003
<i>One-time compensation paid by public corporations when transferring unfunded pension liabilities to the State</i>	120/2003 26/2004
<i>Treatment of public-private partnerships</i>	18/2004
<i>Incomplete accounting of certain outlays</i>	62/2004
<i>Overstatement of certain receipts</i>	62/2004

## One-offs, “creative accounting” operations and reclassifications affecting the fiscal balance, in per cent of GDP

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Austria	0.1	0.5	0.5		0.1			0.3			
Belgium	0.4	0.2		0.9					0.3	0.2	1.9
Finland		1.3		0.3	0.3			0.3			
France		0.2		0.3	0.5		0.1				
Germany					0.2						
Greece	3.7	0.5	1.7	1.3	0.2	0.2		1.2	0.3	1.2	2.8
Ireland	0.4			0.5	0.4			0.4	0.4	0.7	
Italy	0.9	0.6	0.7	0.4	1.4				0.7	0.9	1.7
Luxembourg									1.8		
Netherlands	1.1	1.1	0.9	0.4	0.1						
Portugal		0.7	1.0		0.5	0.2			0.6	1.7	2.3
Spain	1.3		0.4	0.4	0.4						0.3
Denmark			0.1		0.2						
Sweden	0.2	0.2	0.5		0.6	0.9					
United Kingdom					0.6	0.3					

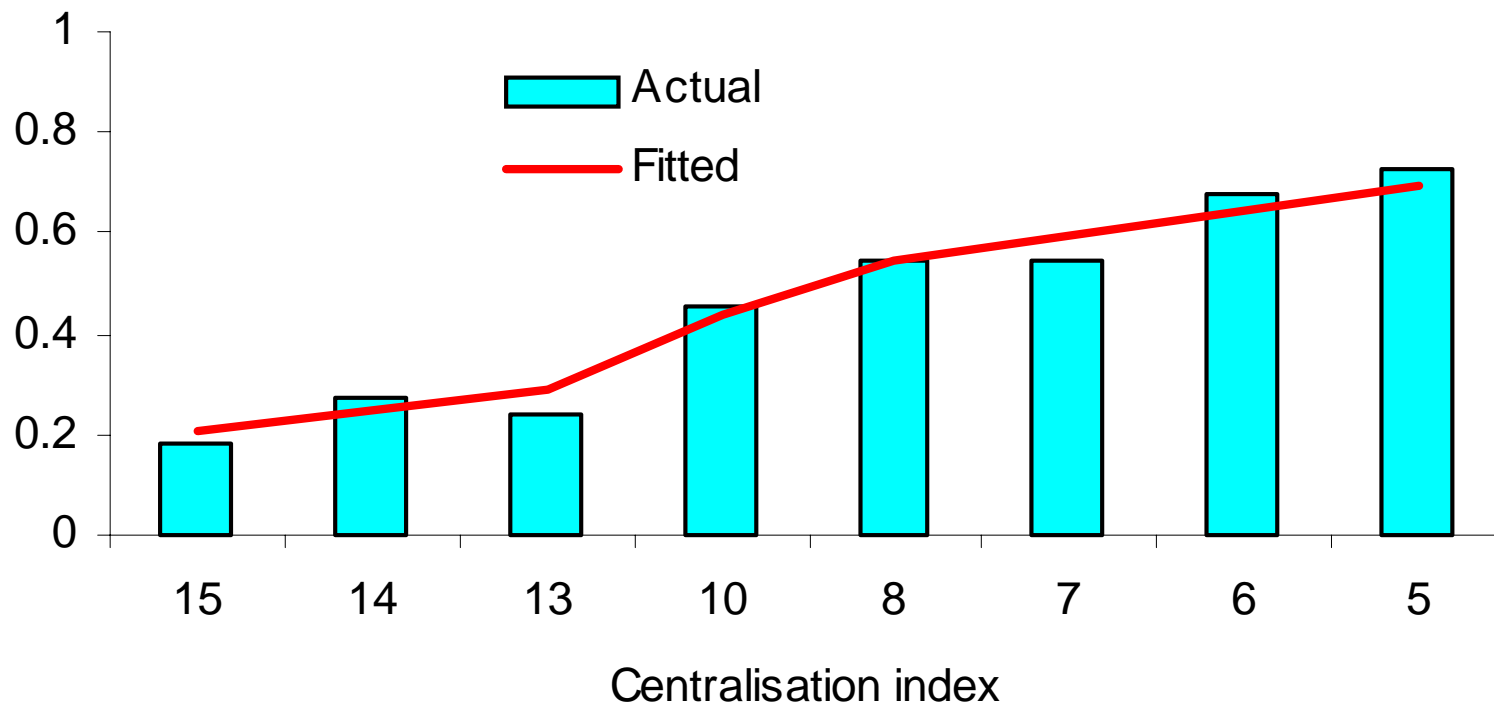


# Budget centralisation and gimmickry

	Centralisation index <sup>1</sup>								Total
	15	14	13	10	8	7	6	5	
Number of observations by centralisation score ( $N_j$ )	11	33	33	11	22	22	22	11	165
Incidence of gimmicks ( $F_j$ )	2	9	8	5	12	12	15	8	71
Odds of gimmickry ( $F_j/N_j$ )	0.18	0.27	0.24	0.45	0.55	0.55	0.68	0.73	0.43

1. The following index values are observed for the various countries: 15 (United Kingdom), 14 (France, Luxembourg, Finland), 13 (Denmark, Germany, the Netherlands), 10 (Austria), 8 (Portugal, Spain), 7 (Ireland, Belgium), 6 (Greece, Sweden) and 5 (Italy).

# The odds of gimmickry as a function of centralisation





# Budget centralisation and gimmickry: breakdown by bare deficit

	Centralisation index <sup>1</sup>								Total
	15	14	13	10	8	7	6	5	
	Bare deficit < 3% of GDP								
Number of observations by centralisation score (N)	6	23	22	7	10	18	12	4	102
Incidence of gimmicks (F <sub>j</sub> )	2	5	5	2	3	9	6	1	33
Odds of gimmickry (F <sub>j</sub> /N)	0.33	0.22	0.23	0.29	0.30	0.50	0.50	0.25	0.32
	Bare deficit > 3% of GDP								
Number of observations by centralisation score (N)	5	10	11	4	12	4	10	7	63
Incidence of gimmicks (F <sub>j</sub> )	0	4	3	3	9	3	9	7	38
Odds of gimmickry (F <sub>j</sub> /N)	0.00	0.40	0.27	0.75	0.75	0.75	0.90	1.00	0.60

# The odds of gimmickry as a function of centralisation and the bare deficit

