

Part VI

Resources

1. Glossary

Accession countries Countries that will become members of the EU in May 2004 and include Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

Automatic stabilisers Various features of the tax and spending regime which react automatically to the economic cycle and reduce its fluctuations. As a result, the budget balance tends to improve in years of high growth, and deteriorate during economic slowdowns.

Broad economic policy guidelines (BEPGs) Annual guidelines for the economic and budgetary policies of the Member States. They are prepared by the Commission and adopted by the Council of Ministers responsible for Economic and Financial Affairs (Ecofin).

Budget balance The balance between total public expenditure and revenue in a specific year, with a positive balance indicating a surplus and a negative balance indicating a deficit. For the monitoring of Member State budgetary positions, the EU uses *general government aggregates*. See also *structural budget balance*, *primary budget balance* and *primary structural balance*.

Budgetary rules Rules and procedures through which policy-makers decide on the size and the allocation of public expenditure as well as on its financing through taxation and borrowing.

Budgetary sensitivity The variation in the budget balance in percentage of GDP brought about by a change in the output gap. In the EU, it is estimated to be 0.5 on average.

Candidate countries Countries that wish to accede to the EU. Besides the *accession countries*, they include Bulgaria, Romania and Turkey.

Close-to-balance requirement A requirement contained in the *Stability and Growth Pact*, according to

which Member States should, over the medium term, achieve an overall *budget balance* close to balance or in surplus.

Code of conduct on the format and content of the stability and convergence programmes Policy document endorsed by the Ecofin Council in July 2001 setting down the information requirements and key definitions to be followed by Member States in preparing their stability or convergence programmes.

Convergence programmes Medium-term budgetary and monetary strategies presented by each of those Member States that have not yet adopted the euro. They are updated annually, according to the provisions of the *Stability and Growth Pact*. Prior to the third phase of EMU, convergence programmes were issued on a voluntary basis and used by the Commission in its assessment of the progress made in preparing for the euro. See also *stability programmes*.

Crowding-out effects Offsetting effects on output due to changes in interest rates and exchange rates triggered by a loosening or tightening of fiscal policy.

Cyclical component of budget balance That part of the change in the *budget balance* that follows automatically from the cyclical conditions of the economy, due to the reaction of public revenue and expenditure to changes in the *output gap*. See *automatic stabilisers*, *tax smoothing* and *structural budget balance*.

Cyclically adjusted budget balance See *structural budget balance*.

Demand and supply shocks Disturbances that affect the economy on the demand side (e.g. changes in private consumption or exports) or on the supply side (e.g. changes in commodity prices or technological innovations). They can impact on the economy either on a temporary or permanent basis.

Dependency ratio A measure of the ratio of people who receive government transfers, especially pensions, relative to those who are available to provide the revenue to pay for those transfers.

Direct taxes Taxes that are levied directly on personal or corporate incomes and property.

Discretionary fiscal policy Change in the *budget balance* and in its components under the control of government aiming at stabilising the economy. It is usually measured as the residual of the change in the balance after the exclusion of the budgetary impact of *automatic stabilisers*. See also *fiscal stance*.

Early-warning mechanism Part of the preventive elements of the SGP, activated when there is significant divergence from the budgetary targets set down in a stability or convergence programme.

Economic and Financial Committee (EFC) Formerly the Monetary Committee, renamed the Economic and Financial Committee as of January 1999. Its main task is to prepare and discuss (Ecofin) Council decisions with regard to economic and financial matters.

Economic Policy Committee (EPC) Group of senior officials whose main task is to prepare discussions of the (Ecofin) Council on structural policies. It plays a large role in the preparation of the BEPGs, and it is active on policies related to labour markets, methods to calculate cyclically adjusted budget balances and ageing populations.

Effective tax rate The ratio of broad categories of tax revenue (labour income, capital income, consumption) to their respective tax bases.

ESA 95/ESA 79 European accounting standards for the reporting of economic data by the Member States to the EU. As of 2000, ESA 95 has replaced the earlier ESA 79 standard with regard to the comparison and analysis of national public finance data.

Excessive deficit procedure (EDP) A procedure according to which the Commission and the Council monitor the development of national *budget balances* and *public debt* in order to assess the risk of an excessive deficit in each Member State. Its application has been further clarified in the *Stability and Growth Pact*. See

also *stability programmes* and *Stability and Growth Pact*.

Expenditure rules A subset of *fiscal rules* that target (a subset of) public expenditure.

Fiscal consolidation A continuous improvement in the *budget balance*, either specified by the amount of the improvement or the period over which the improvement continues.

Fiscal decentralisation The transfer of authority and responsibility for public functions from the central government to intermediate and local governments or to the market.

Fiscal federalism A subfield of public finance that investigates the fiscal relations across levels of government.

Fiscal impulse The estimated effect of fiscal policy on GDP. It is not a model-free measure and it is usually calculated by simulating an econometric model. The estimates presented in the present report are obtained by using the Commission services' model *QUEST*.

Fiscal rule A permanent constraint on fiscal policy, expressed in terms of a summary indicator of fiscal performance, such as the government budget deficit, borrowing, debt, or a major component thereof. See also *budgetary rule*, *expenditure rules*.

Fiscal stance A measure of the discretionary fiscal policy component. In this report, it is defined as the change in the *primary structural budget balance* relative to the preceding period. When the change is positive (negative) the fiscal stance is said to be expansionary (restrictive).

General government As used by the EU in its process of budgetary surveillance under the *Stability and Growth Pact* and the *excessive deficit procedure*, the general government sector covers national government, regional and local government, as well as social security funds. Public enterprises are excluded, as are transfers to and from the EU budget.

Government budget constraint A basic condition applying to the public finances, according to which total public expenditure in any one year must be financed by taxation, government borrowing, or changes in the monetary base. In the context of EMU, the ability of govern-

ments to finance spending through money issuance is prohibited. See also *stock-flow adjustment, sustainability*.

Government contingent liabilities Obligations for the government that are subject to the realisation of specific uncertain and discrete future events. For instance, the guarantees granted by governments to the debt of private corporations bonds issued by enterprise are contingent liabilities, since the government obligation to pay depends on the non-ability of the original debtor to honour its own obligations.

Government implicit liabilities Government obligations that are very likely to arise in the future in spite of the absence of backing contracts or law. The government may have a potential future obligation as a result of legitimate expectations generated by past practice or as a result of the pressure by interest groups. Most implicit liabilities are contingent, i.e. depend upon the occurrence of uncertain future events.

Hodrick-Prescott (HP) filter A statistical technique used to calculate trend GDP and *output gaps* by filtering actual GDP.

Indirect taxation Taxes that are levied during the production stage, and not on the income and property arising from economic production processes. Prominent examples of indirect taxation are value added tax (VAT), excise duties, import levies, energy and other environmental taxes.

Interest burden *General government* interest payments on public debt as a share of GDP.

Maastricht reference values for public debt and deficits Respectively, a 60 % *general government* debt/GDP ratio and a 3 % *general government* deficit/GDP ratio. These thresholds are defined in a protocol to the Maastricht Treaty on European Union. See also *excessive deficit procedure*.

Maturity structure of public debt The profile of total debt in terms of when it is due to be paid back. Interest rate changes affect the budget balance directly to the extent that the *general government* sector has debt with a relatively short maturity structure. Long maturities reduce the sensitivity of the *budget balance* to changes in the prevailing interest rate. See also *public debt*.

Minimal benchmarks Values indicating a budgetary position that would provide a cyclical safety margin for the *automatic stabilisers* to operate freely during economic slowdowns without leading to excessive deficits. The minimal benchmarks are estimated by the European Commission. They do not cater for other risks such as unexpected budgetary developments and interest rate shocks and should not be confused with the '*close-to-balance or in surplus*' medium-term requirement of the Pact.

Monetary conditions index (MCI) An indicator combining the change in real short-term interest rate and in the real effective exchange rate to gauge the degree of easing or tightening of monetary policy.

Mundell-Fleming model Macroeconomic model of an open economy which embodies the main Keynesian hypotheses (price rigidity, liquidity preference). In spite of its shortcomings, it remains useful in short-term economic policy analysis.

NAIRU Non-accelerating inflation rate of unemployment.

Non-Keynesian effects Supply-side and expectations effects which reverse the sign of traditional Keynesian multipliers. Hence, if non-Keynesian effects dominate, fiscal consolidation would be expansionary.

Old-age dependency ratio Population aged over 65 as a percentage of working age population (usually defined as persons aged between 15 and 64).

One-off measure Transitory budget effects resulting directly from a policy initiative. A temporary measure implies an improvement/deterioration of the budget that does not lead to a reliable improvement/deterioration in the intertemporal budgetary position.

Output gap The difference between actual output and estimated potential output at any particular point in time. See also *cyclical component of budget balance*.

Pay-as-you-go pension system (PAYG) Pension system in which current pension expenditures are financed by the contributions of current employees.

Pre-accession economic programmes (PEPs) Annual programmes submitted by candidate countries which set the framework for economic policies. The PEPs consist

of a review of recent economic developments, a detailed macroeconomic framework, a discussion of public finance issues and an outline of the structural reform agenda.

Pre-accession fiscal surveillance framework (PFSF) Provides the framework for budgetary surveillance of candidate countries in the run up to accession. It closely approximates the policy coordination and surveillance mechanisms at EU level.

Policy-mix The overall stance of fiscal and monetary policy. The policy-mix may consist of various combinations of expansionary and restrictive policies, with a given *fiscal stance* being either supported or offset by monetary policy.

Primary budget balance The *budget balance* net of interest payments on *general government* debt.

Primary structural budget balance The *structural (or cyclically adjusted) budget balance* net of interest payments.

Pro-cyclical fiscal policy A *fiscal stance* which amplifies the economic cycle by increasing the *structural primary deficit* during an economic upturn, or by decreasing it in a downturn. It can be contrasted with (discretionary) counter-cyclical policy that has the opposite effects. A neutral fiscal policy keeps the *cyclically adjusted budget balance* unchanged over the economic cycle but lets the *automatic stabilisers* work. See also *tax-smoothing*.

Production function approach A means to estimate the potential level of output of an economy on taking inputs on labour and capital as well as trend factor productivity into account. This is used to estimate the *output gap* that is a key input in the estimation of cyclical budget component.

Public debt Consolidated gross debt for the *general government* sector. It includes the total nominal value of all debt owed by public institutions in the Member State, except that part of the debt which is owed to other public institutions in the same Member State.

Public goods Those goods and services that are consumed jointly by several economic agents and for which there is no effective pricing mechanism that would allow private provision through the market.

Public investment The component of total public expenditure through which governments increase and improve the stock of capital employed in the production of the goods and services they provide.

Public-private partnerships (PPP) Agreements that transfer to the private sector investment projects that traditionally have been executed or financed by the public sector. To qualify as a PPP, the project should concern a public function, involve the general government as the principal purchaser, be financed from non-public sources and engage a corporation outside the general government as the principal operator that provides significant inputs in the design and conception of the project and bears a relevant amount of the risk.

Quality of public finances The part of the EU fiscal framework that relates to the allocation of resources and the efficient and effective use of those resources in relation to identified strategic priorities.

Quasi-fiscal activities Activities promoting public policy goals carried out by non-government units.

QUEST The Economic and Financial Affairs DG's macroeconomic model of the EU Member States plus the United States and Japan.

Ricardian equivalence Under fairly restrictive theoretical assumptions on the consumer's behaviour (*inter alia* infinite horizon for decision-making), the impact of fiscal policy does not depend on whether it is financed by tax increases or by a widening deficit. The basic reasoning behind this statement dates back to Ricardo and was revisited by Robert Barro in the 1970s.

Securitisation Borrowing (issuing of bonds) with the intention of paying interest and capital out of the proceeds derived from assets (use or sale of) or from future revenue flows.

Sensitivity analysis An econometric or statistical simulation designed to test the robustness of an estimated economic relationship or projection, given various changes in the underlying assumptions.

Significant divergence A sizeable excess of budget balance over the targets in the stability or convergence programmes, that triggers the *early warning mechanism* of the *SGP*.

‘Snowball’ effect The self-reinforcing effect of public debt accumulation or decumulation arising from a positive or negative differential between the interest rate paid on public debt and the growth rate of the national economy. See also *government budget constraint*.

Social security contributions (SSC) Mandatory contributions paid by employers and employees to a social insurance scheme to cover for pension, healthcare and other welfare provisions.

Stability and Growth Pact (SGP) Approved in 1997, the SGP clarifies the provisions of the Maastricht Treaty regarding the surveillance of Member State budgetary policies and the monitoring of budget deficits during the third phase of EMU. The SGP consists of two Council regulations setting out legally binding provisions to be followed by the European institutions and the Member States and two resolutions of the European Council in Amsterdam (June 1997). See also *excessive deficit procedure*.

Stability programmes Medium-term budgetary strategies presented by those Member States that have already adopted the euro. They are updated annually, according to the provisions of the *Stability and Growth Pact*. See also *convergence programmes*.

Stock-flow adjustment The stock-flow adjustment (also known as the debt-deficit adjustment) ensures consistency between the net borrowing (flow) and the variation in the stock of gross debt. It includes the accumulation of financial assets, changes in the value of debt denominated in foreign currency and remaining statistical adjustments.

Structural budget balance The actual *budget balance* adjusted for its *cyclical component*. The structural bal-

ance gives a measure of the underlying trend in the budget balance, when taking into account the automatic effect on the budget of the economic cycle. It is referred to also as the *cyclically adjusted budget balance*. See also *primary structural budget balance*.

Sustainability A combination of budget deficits and debt that ensure that the latter does not grow without bound. While conceptually intuitive, an agreed operational definition of sustainability has proven difficult to achieve.

Tax gaps Measure used in the assessment of the *sustainability* of public finances. They measure the difference between the current tax ratio and the constant tax ratio over a given projection period to achieve a predetermined level of debt at the end of that projection period.

Tax smoothing The idea that tax rates should be kept stable in order to minimise the distortionary effects of taxation, while leaving it for the *automatic stabilisers* to smooth the economic cycle. It is also referred to as neutral *discretionary fiscal policy*. See also *cyclical component of fiscal policy*.

UMTS Third generation of technical support for mobile phone communications. Sale of UMTS licences gave rise to sizeable one-off receipts in 2001.

Wagner’s law Theory according to which public spending — since it comprises ‘luxury goods’ with high elasticity to income — would tend to rise as a share of GDP as per capita income increases.

Welfare state Range of policies designed to provide insurance against unemployment, sickness and risks associated with old age.

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European Commission	europa.eu.int/comm
Directorate-General for Economic and Financial Affairs	europa.eu.int/comm/dgs/economy_finance/index_en.htm
European Council	ue.eu.int/
European Parliament	www.europarl.eu.int/

Economics and Finance Ministries

Belgium	treasury.fgov.be/interthes	Ministère des Finances/Ministerie van Financien
Denmark	www.fm.dk	Ministry of Finance
Germany	www.bundesfinanzministerium.de	Bundesministerium der Finanzen
Spain	www.mineco.es/	Ministerio de Economía y Hacienda
France	www.finances.gouv.fr	Ministère Économie, Finances et l'Industrie
Ireland	www.irlgov.ie/finance	Department of Finance
Italy	www.tesoro.it	Ministero dell'Economia e delle Finanze
Luxembourg	www.etat.lu/FI	Ministère des Finances
Netherlands	www.minfin.nl	Ministerie van Financiën
Austria	www.bmf.gv.at	Bundesministerium für Finanzen
Portugal	www.min-financas.pt	Ministério das Finanças
Finland	www.vn.fi/vm	Ministry of Finance
Sweden	finans.regeringen.se	Finansdepartementet
United Kingdom	www.hm-treasury.gov.uk	Her Majesty's Treasury
Bulgaria	www.minfin.bg	Ministry of Finance
Cyprus	www.mof.gov.cy	Ministry of Finance
Czech Republic	www.mfcr.cz	Ministry of Finance
Estonia	www.fin.ee	Ministry of Finance
Hungary	www.p-m.hu	Ministry of Finance
Latvia	www.fm.gov.lv	Ministry of Finance
Lithuania	www.finmin.lt	Ministry of Finance
Malta	mfea.gov.mt	Ministry of Finance and Economic Affairs
Poland	www.mofnet.gov.pl	Ministry of Finance
Romania	www.mfinante.ro	Ministry of Finance
Slovakia	www.finance.gov.sk	Ministry of Finance
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Turkey	www.maliye.gov.tr	Ministry of Finance

Japan	www.mof.go.jp	Ministry of Finance
United States	www.ustreas.gov	Department of the Treasury
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Ireland	www.centralbank.ie	Central Bank of Ireland
Italy	www.bancaditalia.it	Banca d'Italia
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Netherlands	www.dnb.nl	De Nederlandsche Bank
Austria	www.oenb.co.at	Oestereichische Nationalbank
Portugal	www.bportugal.pt	Banco de Portugal
Finland	www.bof.fi	Suomen Pankki
Sweden	www.riksbank.com	Sveriges Riksbank
United Kingdom	www.bankofengland.co.uk	Bank of England
Bulgaria	www.bnb.bg	Bulgarian National Bank
Cyprus	www.centralbank.gov.cy	Central bank of Cyprus
Czech Republic	www.cnb.cz	Czech National Bank
Estonia	www.eestipank.info	Eesti Pank
Hungary	www.mnb.hu	National Bank of Hungary
Latvia	www.bank.lv	Bank of Latvia
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Malta	www.centralbankmalta.com	Central Bank of Malta
Poland	www.nbp.pl	Narodowy Bank Polski
Romania	www.bnro.ro	National Bank of Romania
Slovakia	www.nbs.sk	National Bank of Slovakia
Slovenia	www.bsi.si	Bank of Slovenia
Turkey	www.tcmb.gov.tr	Central Bank of the Republic of Turkey
Japan	www.boj.or.jp	Bank of Japan
United States	www.federalreserve.gov	Board of Governors of the Federal Reserve System
Statistical Offices		
European Union	europa.eu.int/comm/eurostat	Eurostat
Belgium	www.bnb.be	National Bank of Belgium
Denmark	www.dst.dk	Danmarks Statistik
Germany	www.statistik-bund.de	Statistisches Bundesamt Deutschland
Greece	www.statistics.gr	National Statistical Service of Greece

Spain	www.ine.es	Instituto Nacional de Estadística
France	www.insee.fr	Institut National de la Statistique et des Etudes Economiques
Ireland	www.cso.ie	Central Statistics Office
Italy	petra.istat.it	Istituto nazionale di statistica
Luxembourg	statec.gouvernement.lu	Service Central de la Statistique et des Etudes Economiques
Netherlands	www.cbs.nl	Centraal Bureau voor de Statistiek
Austria	www.oestat.gv.at	Österreichisches Statistisches Zentralamt
Portugal	www.ine.pt	Instituto Nacional de Estatística
Finland	www.stat.fi	Tilastokeskus/Statistics Finland
Sweden	www.scb.se	Statistiska Centralbyrån/Statistics Sweden
United Kingdom	www.statistics.gov.uk	Office for National Statistics
Bulgaria	www.nsi.bg	National Statistical Institute
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Latvia	www.csb.lv	Central Statistical Bureau
Lithuania	www.std.lt	Statistics Lithuania
Malta	www.nso.gov.mt	National Statistics Office
Poland	www.stat.gov.pl	Polish Official Statistics
Romania	www.insse.ro	National Institute of Statistics
Slovakia	www.statistics.sk	Statistical Office
Slovenia	www.sigov.si/zrs	Statistical Office
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International organisations

Bank for International Settlements	www.bis.org
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