



Use of national accounts data in fiscal policy analysis

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Fiscal Policy and SNA

- The needs of the reformed Stability and Growth Pact?
- How to deal with "creative accounting"?



Reformed Stability and Growth Pact

- Increased focus on safeguarding the sustainability of public finances
- Medium-term budgetary objectives (MTO) should take into account fiscal risk to the sustainability of public finances.
- Report endorsed by the March 2005 European Council:
“Implicit liabilities --- should be taken into account as soon as criteria and modalities for doing so are appropriately established and agreed by the Council”.



Government liabilities and SNA – in or out

	Non-contingent liability	Contingent liability
Explicit liability (legal obligation)	<i>Government debt – In</i> <i>Accrued pension rights not backed by a fund</i> – Usually out	<i>Government individual guarantees on public and private entities</i> – In only when called
Implicit liability (no legal basis)	<i>Pension rights which have not matured yet</i> – Out <i>Future welfare payments</i> – Out	<i>Bail out of defaulting entities (Pension and social security funds etc.)</i> – In only when called

Source: Commission services



Unfunded pension liabilities

- Analysing sustainability requires data on unfunded pension liabilities.
- Estimation in principle already possible but highly dependent on several assumptions.
- Economic Policy Committee has produced long-term calculations where public sector implicit liabilities are included based on commonly agreed assumptions.
- Recording should not undermine the reliability of the data in the core accounts $\Rightarrow$ supplementary accounts.
- Possible manipulation of the deficit and debt data.



The aim is to have accurate information on all Member States

- There is a need for clear, complete and consistent rules on the recording.
- Explicit information on model assumptions are important.
- Unfunded employer pension schemes and social security schemes are difficult to distinguish clearly.
- In Europe, many of the public employer pension arrangements are under social security schemes and some of the private sector's defined benefit occupational schemes are in the social security.
- Hence, excluding implicit liabilities in the social security sector would result in very incomplete information.



Other age-related expenditures

- Also other age related expenditures are taken into account in the long-run sustainability assessments of the stability and convergence programmes (projections of future government expenditures).
- In the future, should other age-related expenditures (future health care expenditures etc.) be assessed and included in the supplementary accounts?



Creative accounting with Public-Private Partnerships (PPPs)

- Complex arrangements used
 1. to show a lower deficit
 2. to avoid strict national rules
- Analysing correct treatment requires considerable resources from the statistical authorities.
- Ex ante views on the treatment of PPPs are extremely sensitive.



Appropriate accounting treatment of PPPs

- Focus: Who is the economic owner of the assets?
- To what extent does the private sector finance the project itself?
- How to account for the transfer of ownership at the end of the contract?
- Irrespective of the temporary economic owner, the long-term liability is in most cases in the public sector. The only exception being projects that generate revenue.



IFFIM, International Finance Facility for Immunisation, as a special case of PPPs

- Using a “non-governmental” SPV, ODA financed by borrowing does not create public sector liability.
- What about other public expenditure financed by raising debt through non-governmental, but government controlled SPVs?



Concluding remarks

- To preserve high reliability and international comparability, the core SNA accounts should be based, as far as possible, on directly observable data.
- However, to keep up with reality, SNA should include supplementary or satellite accounts, which may be based on modelling work (implicit liabilities, intangible investments etc.).
- Public sector implicit liabilities (at least unfunded pension liabilities) should be recorded in the supplementary accounts in SNA.
- As a rule, PPP liabilities should be recorded in supplementary accounts, to the extent that the PPP is not ultimately financed by its revenue stream.