Introduction
Ferenc Karvalits and Gábor P. Kiss

As a result of the international tendency of a medium-term orientation for monetary policy, fiscal analysis and forecast have become more widespread in central banking. Central banks step up their efforts to evaluate and monitor fiscal policy; however, the analysis of public finances remains an extremely complex task. The economic assessment of statistical deficit figures is made very difficult by the practice of fiscal gimmicks and natural reasons such as cyclical developments. Cooperation within the European System of Central Banks provides good examples for methodological innovations. Workshops are regularly organised by members of the ESCB; in some cases the proceedings are also made available. Other results of this cooperation are published in the working paper series of the European Central Bank.

A working paper on cyclical adjustment was published in 2001, in which ESCB members developed the first practical solution for the composition problem neglected by the standard aggregated methods. Later, these disaggregated and aggregated approaches were integrated by the Magyar Nemzeti Bank. And, as a final achievement, a joint study of the OECD and MNB was prepared. In a more recent ECB working paper, prepared by several members of the ESCB, a disaggregated framework for fiscal analysis was introduced which incorporated the disaggregated approach of cyclical adjustment and the exclusion of identified temporary measures.

Participating in the cooperation, the MNB had decided to organise a workshop on fiscal gimmicks such as off-budget activities and temporary measures.[1] The issue of off-budget operations is usually ignored within the EU – the first mention of loss-making public companies was made in the Commission's latest country report on Portugal. The concept of temporary measures was introduced by the new Stability and Growth Pact. However, their identification may prove very difficult in practice, since there is no common methodology. In fact, capital injections are often claimed to be related to temporary measures, without recognising the underlying causes, namely, the off-budget operations hidden in the corporate sector.

This volume consists of seven papers and three discussions. The contributions cover a wide spectrum of topics, ranging from country experience to methodological issues. Country experiences from France, Germany, Hungary, Italy, Portugal and Spain underline the relevance of both temporary and off-budget operations in the EU, and some of the papers presented attempt to offer an explanation for their existence. Methodological aspects of their identification are discussed in the contributions by Langenus, Manesiotis, Mihajlek, Momigliano and Rizza, and P. Kiss.

Growing uncertainty about the government's true fiscal position seems to be a common problem. As an introduction, Mihajlek's paper reviews how central banks in emerging market countries address two problems of fiscal transparency that have recently gained importance from a central bank perspective: hiding liabilities (off-budget operations) and hiding assets by special fiscal funds. Fiscal gimmicks are of concern both to central banks that set monetary policy on their own, taking fiscal policy as given, and to those that have adopted an institutional framework for coordinating monetary and fiscal policies.

National accounts in the EU, as Manesiotis argues, have been polluted ever since the fiscal balance from this statistical concept became a binding legal obligation. Some of the papers indicated that off-budget operations are a relevant issue not only for Hungary (Corbacho), but also for Spain (Argimon and Marti) and even for Germany (Dr. Hamker). These papers suggest that the magnitude of such operations is different across countries and may also have different time patterns (Dr. Hamker). Temporary measures are identified as another type of fiscal gimmicks. They have made a sizeable impact in France (Paul and Schalck), Italy (Momigliano and Rizza), Portugal (Cunha) and, to a lesser extent, in Germany (Dr. Hamker).

Fiscal gimmicks have different explanations at state, regional and local government levels. For local and regional governments, the sub-national fiscal rules can provide incentives for gimmickry. It is a potential problem in federal states such as Germany or Spain. On the one hand, Dr. Hamker indicates specific measures which were aimed at avoiding breaches of constitutional borrowing limits in Germany. On the other hand, Argimon and Marti illustrate the low enforcement capacity of the rule that mandated a balanced budget or a surplus at the sub national level in

[1] This wokshop was held in Budapest on 22 June 2007.

Spain; two-thirds of the regions ran a deficit in the first year of implementation.

For the central government, according to Momigliano and Rizza, the rationale for circumventing EU fiscal rules could be the motivation of "buying time" when the economic cycle takes an adverse turn. Ex post information, however, reveals that this strategy was wrong in Italy; the use of temporary operations made it possible to postpone permanent measures. It was also the case in other countries, for example, in Portugal (Cunha). In his discussion, Langenus makes an important distinction between self-reversing and purely temporary measures, indicating that only the latter allows governments to buy time, while measures with self-reversing effects can be considered as "stealing time".

There are instances when the motivation of "buying time" is accompanied by the need to privatise companies with special employer schemes. In fact, short and long-term fiscal impacts can be very different in the case of upfront payments in compensation for the transfer to the government of pension liabilities. The paper by Paul and Schalck discusses the effect of such operations in France. During the privatisation of certain public companies, their special employer pension schemes were taken over by the government. Stress tests show that the risks of fiscal losses are limited, especially with the prospect of an increase in the contribution period that will apply to all pension schemes. The paper by Dr. Hamker also presents the fiscal effects of similar transfers of pension liabilities in Germany.

Since the situation of public finances can be examined from many different perspectives, there is no indicator which could answer every question, and therefore, alternative indicators can be desirable. Most of the papers are concerned with the structural deficit, that is, which excludes temporary fiscal impacts. Few papers deal with the fiscal impulse indicator, a measure which helps to assess the impact of a change in fiscal policy on the economy. In fact, fiscal gimmicks can be investigated from two different angles: one can assess either the fiscal or economic impact. As most of the papers address the first aspect, off-budget activities are regarded as a source of medium-term fiscal risks. Short-term economic impacts are rarely considered, although the consequences of off-budget operations must be taken into account in measuring the distribution of wealth and income within the economy. Private-public partnership projects exert the same effects as traditional public fixed investment: they boost domestic demand and cause a deterioration in external equilibrium (P. Kiss).

An alternative solution would be to analyse a broader definition of the government in order to gain further insight into public sector activity (Argimon and Marti). As already mentioned, capital injections (debt assumptions) can often be regarded as a sign of hidden off-budget operations. Such operations are not immediately compensated by the government, and therefore, they can be thought of as special self-reversing measures (Langenus). In fact, in the analysis of structural developments by the Banca d'Italia, the fiscal impact of debt cancellation was spread over the years 2003-2006, matching the observed surge in off-budget investment by the State Railways (Momigliano and Rizza). The MNB employs a similar method, known as augmentation (P. Kiss). The IMF classification of public companies by examining a broad range of aspects such as managerial independence and financial conditions provides an important alternative tool (Corbacho).

Analysing cash-basis deficits is another alternative for the standard accrual-basis indicators. It can be observed that certain EU countries improve the deficit through inconsistent recording in the accrual and cash-basis methods of accounting. In his discussion, Manesiotis highlights several advantages of analysing cash data and makes suggestions for other indicators which can also sound an alarm. Mihajlek also notes that central bankers in emerging countries rely extensively on cash data which are available almost in real time. P. Kiss poses a different question: whether the cash or accrual basis is justified in terms of the economic effect?

Opening the workshop, the chairman of the first session, Ferenc Karvalits premised that there was no simple statistical solution for gimmickry. Although statistics were corrected a couple of years after certain measures had been taken, any evaluation of fiscal policy requires that corrections be made in time, that is, in advance. Country experiences presented in the workshop show that expert judgement can help to solve this problem. Transparency remains a key issue here. According to the best practices suggested by the IMF, the budget documents should include an analysis of quasi-fiscal operations. Closing the workshop the chairman of the second session, Daniele Franco (Banca d'Italia), stressed the importance of the time dimension in fiscal policy. He noted that the papers presented at the Workshop show that policy-makers sometimes take measures that improve the budgetary outlook in the short-term without improving the long-term fiscal position or even at the cost of worsening it. Some presentations had included the expressions "buying time" and "stealing time". He concluded that the variety of new "fiscal animals" invented by creative policy-makers requires a continuous monitoring and a pragmatic approach by fiscal experts and statisticians.