

FISCAL RULE STRETCHING DURING FINANCIAL MARKET STRESS AND CRISIS

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ELECTIONS AND FISCAL POLICY

Considerable research has examined how

FISCAL ACCOUNTING IN EUROPE

Stability and Growth Pact (SGP) sets deficit and debt levels.

- Before eurozone debt crisis, focus was on 3% deficit limit

Created an enforceable European government finance accounting regime, with **common rules** (European System of Accounts) and a **common accounting monitoring institution**—Eurostat.

Nonetheless member states have **first mover advantage**.

Debt and deficit figures are **first published by member states themselves**.

Eurostat only **scrutinises and revises published figures post hoc**.

ACCOUNTING POLICY RESPONSES TO FINANCIAL CRISES

HYPOTHESES

EMPIRICS: SETUP

Dependent variable: cumulative revisions made by **Eurostat** to government debt and deficit statistics (% of GDP) over the 3 years from initial publication. Revisions occur bi-annually (April & October).

Revisions to data for 2003-2013.

Cumulative **debt** revisions: $[-1.1, 12.7]$

Cumulative **deficit** revisions: $[-4.5, 1.1]$

Unit of analysis: Eurostat revision for a given year.

- There are typically 7 observations per publication year. The first in October of the publication year + twice a year for the subsequent 3.

Note: Revisions due to GDP revisions are **not included**.

Also:

- Years since publication
- Eurozone membership
- Absolute debt & deficit levels (2015 vintage)
- Country varying intercepts

EMPIRICS: (PRELIMINARY) RESULTS

Figure: Marginal Effect of Election Timing (years to election) at Various Levels of Financial Market Stress on **Debt** Revisions

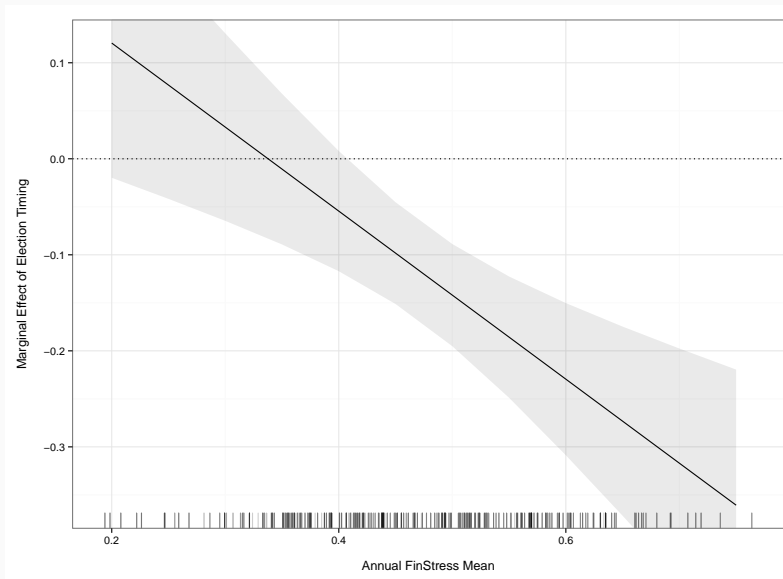


Figure: Marginal Effect of an Endogenous Election at Various Levels of Financial Market Stress on **Debt** Revisions

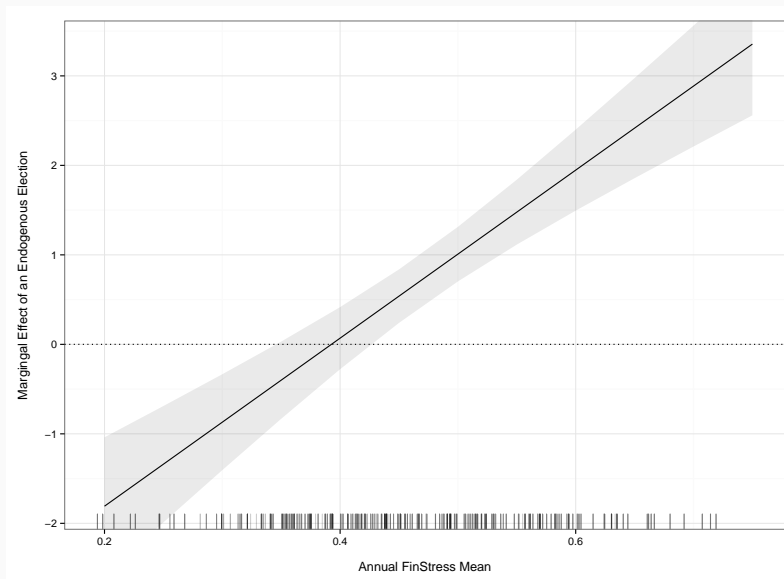


Figure: Predicted **Debt** Revisions in Four Years After Publication for Years with Different Election Types/Non-election Years

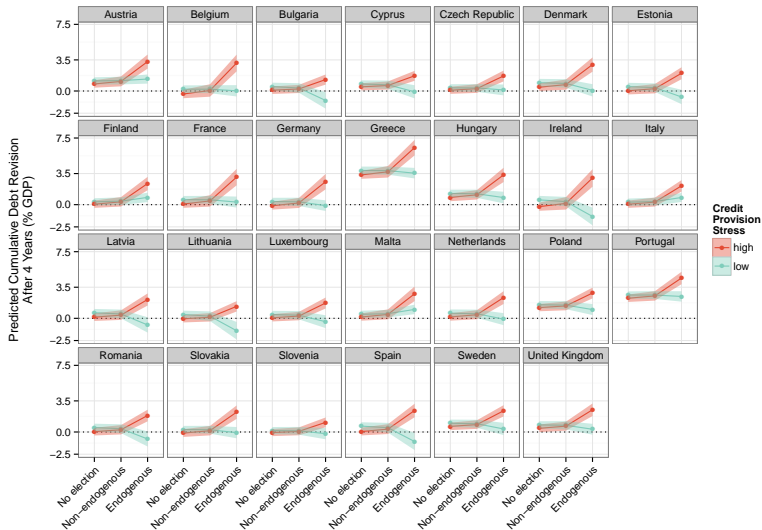
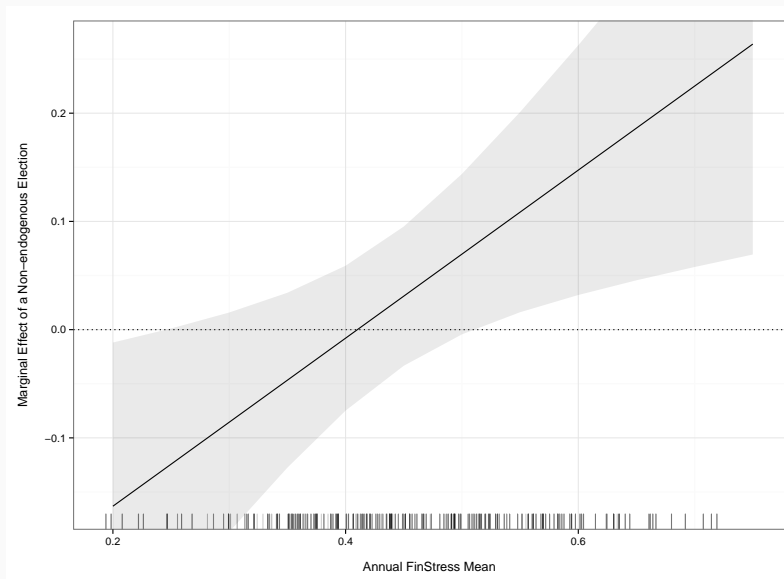


Figure: Marginal Effect of a Non-Endogenous Election at Various Levels of Financial Market Stress on **Deficit** Revisions



CONCLUSION/STILL TO DO

Omitted variables?:

- independence of national accounting agency.
- SGP enforcement actions (not just eurozone membership)
- Others?

Model choice: normal linear regression with many 0s?