

**FISCAL TARGETS. A GUIDE
TO FORECASTERS?**

2015

Joan Paredes, Javier J. Pérez
and Gabriel Pérez-Quirós

**Documentos de Trabajo
N.º 1508**

BANCO DE ESPAÑA
Eurosistema



FISCAL TARGETS. A GUIDE TO FORECASTERS?

FISCAL TARGETS. A GUIDE TO FORECASTERS? (*)

Joan Paredes

EUROPEAN CENTRAL BANK

Javier J. Pérez

BANCO DE ESPAÑA

Gabriel Perez-Quirós

BANCO DE ESPAÑA, AIREF AND CEPR

(*) The views expressed in this paper are the authors' and do not necessarily reflect those of the Banco de España, the Spanish Independent Authority for Fiscal Responsibility (Airef) or the Eurosystem. For their helpful comments we would like to thank a referee of the Banco de España WP series and participants at the XXII Public Economics Meeting (Santander, February 2015), U. Complutense seminar (Madrid, January 2015), Banco de España seminar (Madrid, December 2014), the Econometric Society conference (Gothemburg, August 2013), the International Statistical Association Meeting (Montreal, August 2013), U. Carlos III Department of Econometrics seminar (Madrid, February 2013), and the International Symposium on Forecasting (Prague, June 2012), in particular Toni Espasa, Ignacio Hernando, Miguel-Ángel López-García and Christian Schumacher. Paredes is very grateful to the Forschungszentrum of the Deutsche Bundesbank for hosting him while preparing this paper. Contact details: Paredes (joan.paredes@ecb.europa.eu), Pérez (javierperez@bde.es), Pérez-Quirós (gabriel.perez@airef.es).

The Working Paper Series seeks to disseminate original research in economics and finance. All papers have been anonymously refereed. By publishing these papers, the Banco de España aims to contribute to economic analysis and, in particular, to knowledge of the Spanish economy and its international environment.

The opinions and analyses in the Working Paper Series are the responsibility of the authors and, therefore, do not necessarily coincide with those of the Banco de España or the Eurosystem.

The Banco de España disseminates its main reports and most of its publications via the Internet at the following website: <http://www.bde.es>.

Reproduction for educational and non-commercial purposes is permitted provided that the source is acknowledged.

© BANCO DE ESPAÑA, Madrid, 2015

ISSN: 1579-8666 (on line)

Abstract

Should rational agents take into consideration government policy announcements? A skilled agent (an econometrician) could set up a model to combine the following two pieces of information in order to anticipate the future course of fiscal policy in real-time: (i) the ex-ante path of policy as published/announced by the government; (ii) incoming, observed data on the actual degree of implementation of ongoing plans. We formulate and estimate empirical models for a number of EU countries (Germany, France, Italy and Spain) to show that government (consumption) targets convey useful information about ex-post policy developments when policy changes significantly (even if past credibility is low) and when there is limited information about the implementation of plans (e.g. at the beginning of a fiscal year). In addition, our models are instrumental in unveiling the current course of policy in real time. Our approach complements a well-established branch of the literature that finds politically motivated biases in policy targets.

Keywords: policy credibility, fiscal policy, forecasting.

JEL Classification: C54, H30, H68, E61, E62.

Resumen

¿Debería tomar en consideración un analista en su proceso de toma de decisiones los anuncios del Gobierno sobre las políticas que implementará en el futuro? Para responder a esta pregunta, el analista podría combinar en un modelo la siguiente información: 1) la política/objetivo anunciada por el Gobierno y 2) la información disponible sobre las políticas que de hecho está implementando el Gobierno. Esta es la aproximación que tomamos en el presente trabajo. Formulamos y estimamos modelos empíricos para un conjunto de países de la UE (Alemania, Francia, Italia y España) y mostramos que los objetivos oficiales de gasto (consumo público) proporcionan información útil sobre la política de gasto (consumo público) efectivamente realizada *a posteriori* en situaciones en las cuales se instrumentan cambios significativos en las políticas (incluso cuando el cumplimiento de dichos planes en el pasado fue escaso) y cuando hay información limitada sobre el grado de implementación efectiva de los planes en curso (esto es, a principios del año presupuestario). Nuestros resultados complementan y cualifican una rama muy influyente de la literatura, que tiende a encontrar que los objetivos oficiales incorporan sesgos sistemáticos significativos.

Palabras clave: credibilidad de la política económica, política fiscal, previsión económica.

Códigos JEL: C54, H30, H68, E61, E62.

1 Introduction

Some recent literature convincingly argues that uncertainty about government policies has been detrimental to economic growth over the past few years.¹ In fact, policy-induced uncertainty has increased to record levels since the Great Recession. In addition, uncertainty about the timing and composition of fiscal consolidations may matter for the success of such consolidation (Bi, Leeper and Leith, 2011) and may fundamentally affect medium-term macroeconomic projections and thus policy actions designed in reaction to a given perceived economic situation (Cimadomo, 2012 and Blanchard and Leith, 2013).

The uncertainty about fiscal policies in real-time is closely linked to the issue of the credibility of government plans.² These plans determine specific tax changes and spending programmes, and as such shape decisions and actions³ of economic agents. Nevertheless, the ability of ex-ante budgetary plans to convey information about the ex post course of fiscal policies may be blurred by the presence of political bias and strategic behaviour by governments, as shown by a well-established branch of the literature.⁴ Indeed, a large strand of the literature has analyzed from a theoretical and empirical point of view the potential bias that the political and institutional process might have on government fiscal policy plans and the nature and properties of budgetary deviations from targets. For the case of European Union (EU) governments, this literature tends to find empirical evidence in favour of the existence of systematic political and institutional biases in revenue forecasting, while the evidence for the United States is mixed, depending on the institutional coverage of the analysis (Federal government or States).⁵

In this paper we address the issue of the information content of budgetary plans from a real-time perspective. We adopt the point of view of an agent who wishes to obtain an informed and independent estimate about the future course of fiscal policy during the year. To do so, the agent (econometrician) sets out a model at the quarterly frequency in which all the available information is combined: announced (ex-ante) forward-looking government plans, and high frequency fiscal data on the implementation of current (ongoing) government plans.⁶ ⁷ At each point in time, this approach allows the agent to confront what the government says it will do with what the government is actually doing. In this respect we adopt an ex-ante, real-

1. See e.g. Ayhan and Terrones (2012) or Baker and Davis (2012).

2. Cowan et al. (2000) argue that the credibility of policy is critical to the success of policy in many areas, ranging from monetary policy to patent policy to tax incentives.

3. Even the late publication of budget laws may impinge on the credibility of plans and penalize the financing costs of the government (Andersen, Lassen, and Westh, 2014).

4. The theoretical literature on the characterization and determinants of policy credibility is quite large. An early survey is provided by Persson (1988). On the contribution of bureaucratic effects to policy forecasts see, e.g., Mounts and Sowell (1996).

5. Some empirical papers that look at the properties and determinants government plans (and international organizations' forecasts) are Blackley and DeBoer (1993), Auerbach (1999), Jonung and Larch (2006), Boylan (2008), Dreher et al. (2008), Leal et al. (2008), Beetsma et al. (2009), von Hagen (2010), Holcombe and Rylvkin (2010), Pina and Venes (2011), Frankel (2011), Jong-a-Pin et al. (2012), Frankel and Schreger (2013a, 2013b), Merola and Pérez (2013), Cimadomo (2014), and the references quoted therein.

6. A recent literature in the field of short-term forecasting that has shown that the use of high-frequency fiscal data may improve budget forecasting and monitoring. See, e.g. Silvestrini et al. (2008), Pedregal and Pérez (2010), Asimakopoulou et al. (2013), Pedregal et al. (2014), and the references quoted therein.

7. Lundtofte and Leoni (2014) argue that governments are in most cases better informed about the future of the macroeconomy than the vast majority of private investors. In the framework of monetary policy, Andersen (1989) considers policy announcements from a forward-looking perspective, rather than relying on learning from experience, and states conditions under which policy announcements are credible or non-credible.

time view, compared to the traditional post-mortem exercise in the related literature that dissects the determinants of ex-post budgetary deviations.

In practical terms, we set out state-of-the-art, mixed-frequencies, time-series factor models, along the lines of Camacho and Pérez-Quirós (2010) or Aruoba, Diebold and Scotti (2009, 2010). Mixed-frequencies models provide a natural framework to integrate announced plans, at the annual frequency, with data on the implementation of the plans, at the quarterly frequency. We take government consumption to be the fiscal variable defining policy in our empirical exercises, and focus on euro area economies, namely Germany, France, Italy and Spain, as all these countries have been recently subject to fiscal consolidation processes but with different degrees of intensity.⁸

Following this approach we show that government targets may convey useful information about ex-post policy developments in certain circumstances, in particular when policy changes significantly, even if the track record of government plan's credibility has been poor, and when there is limited information about the implementation of plans (e.g. at the beginning of a fiscal year). This helps qualifying the above-mentioned, well-established results from a related literature that would advise against paying too much attention to policy targets, given that they are found to display politically-motivated biases. In addition, our models are instrumental to unveil the current course of fiscal policy in real-time, which complement a different literature, focused on forecasting, that usually treats government expenses as exogenous in macro scenarios because they are considered erratic and difficult to forecast (see e.g. Grassi et al., 2014).

The rest of the paper is organized as follows. In Section 2, we develop further the main contribution of the paper. In Section 3, we describe the data used. In Section 4, we present the models, and in Section 5 the empirical experiments carried out and the main results. Section 6 provides some conclusions and policy implications.

8. In addition, focusing on EU countries has the advantage that EU fiscal rules prescribe the publication of multi-annual fiscal plans (that encompass the most recent budget) at the same date, and according to comparable statistical standards.

2 Learning about the government plan

At each quarter t of a given year T economic agents observe the government plan $\Delta_T \bar{g}$ for that very year for a given fiscal variable $\Delta_T g$, which denotes the annual rate of growth of government consumption. They can also find from official publications the track record of the government in living up to its past years' plans, i.e they can compute the sequence of budgetary deviations given by

$$\Psi_T = \left\{ \Delta_{T-j} g - \Delta_{T-j} \bar{g} \right\}_{j=T-1}^1 \quad (1)$$

where the index for years is arbitrarily set to run from year 1 (first year for which a fiscal plan is available) to $T-1$. In a stochastic world, a government that has met its commitments in the past would present a sequence Ψ_T with zero mean, no autocorrelation and low variance. It would also be expected that fiscal plans of a government with a poor track record (i.e. Ψ_T being a sequence with a non-zero mean/biased, or in general not efficient) would be assigned a very low weight (historical credibility) by agents when trying to predict the future course of policy.

At the same time, in each quarter t of year T the agent observes the actual historical quarterly time series of government consumption, $\Phi_{i,T} = \{\Delta g_t\}_{t \in I}$ (where I runs at the quarterly frequency over the yearly support 1 to T) and may assess how likely is the annual target for the current year $\Delta_T \bar{g}$ conditional on that quarterly information. To compute an optimal projection of $\Delta_T g$ at each quarter t of year T , one can optimally combine observed data, $\Phi_{i,T}$, with forward-looking information (target), $\Delta_T \bar{g}$, conditional on Ψ_T , and all other relevant available information (indicators), in a general model of the form $F(\Phi_{i,T}; \Delta_T \bar{g} / \Psi_T)$. The need to combine these two sources of information arises from the fact that the ability of the government to force $\Delta_T g$ to be equal to $\Delta_T \bar{g}$ decreases as the quarters within the year go by, in particular if the cumulated sequence of quarterly data $\Phi_{i,T}$ drifts away from the annual target. At the same time, if the cumulated sequence of data is assessed to be consistent with reaching the target, this would make the agent more confident on $\Delta_T \bar{g}$ irrespective of the track record of Ψ_T being good or bad.

Thus, $F(\Phi_{i,T}; \Delta_T \bar{g} / \Psi_T)$ can be deemed as a learning device to help based behavioural decisions. Economic agents can update their whole-year projection every quarter to take into account newly revealed data on the actual implementation of the plan. Given the standard delays in data publication by most national statistical institutes worldwide, updating this learning process might be useful for an analyst even after the calendar year is over, given that the final quarterly and annual figures for macro and fiscal aggregates for a given calendar year are typically published with a delay of two to three months.

With this basic framework in mind, we are interested in three baseline cases. First, a case in which the economic agent estimates the weighting function/"policy rule" $F(\Phi_{i,T}; \Delta_T \bar{g} / \Psi_T)$, to projects $\Delta_T g$. Second, a case in which $\Psi_T = \mathbf{0}_{1 \times T}$ in equation (1); this case could be relevant from a real-time point of view not to penalize a newly appointed government that aims at *starting from scratch* with past policy practices, and

pursues a given policy, credibly committing to it. Finally, a case in which the agent totally disregards the target $\Delta_T \bar{g}$ and projects $\Delta_T g$ only on the basis of observed data on the implementation of the plans.

In the following sections we will be more specific about all aspects of this general setup.

3 Some definitions and data issues

3.1 Government consumption

In the paper g is quarterly government consumption, as defined by the European System of Accounts (ESA 1995). Compared to the prior literature looking at government targets that typically edges on annual fiscal deficits this allows us to integrate a macroeconomic perspective together with the public finance one. Indeed, g is a direct demand component of GDP, which represents about 15%-20% of GDP in advanced economies, and as such tends to receive specific and detailed attention when governments prepare their macroeconomic projections. At the same time, given the core role of GDP in national statistical systems, the availability of quarterly data is much richer than for standard public finance variables, in particular as regards the decomposition of nominal values between volumes and prices, as well as the availability of seasonally-adjusted data. Due to the latter, most studies looking at the macroeconomic effects of “government spending shocks” have mainly paid attention to government consumption.⁹ In addition, g is the only fiscal variable for which EU governments are obliged to publish their yearly target in both real (value) and nominal (volume) terms, in the framework of the publication of annual Stability and Convergence Programme (SP).

3.2 Data issues

The real-time dimension of our study and the quarterly frequency adopted, introduce the need to fine-tune the information set that would have been available to an analysts at each quarter. Available high frequency variables, notwithstanding, are heterogeneous in our case of interest, and tend to be related either to the real part of g , to the price part, or to the interaction of both (nominal terms). This is due to the fact that g covers, among others, spending in goods and services that are provided, broadly speaking, at no cost for the user: defense, judicial system, education, health, etc. In order to find suitable indicators of these activities, it is important to acknowledge that in National Accounts a great deal of these activities is accounted for at the cost of production, i.e. through the wage bill. In general, the distinction between the wage and the non-wage parts of g turned out to be instrumental for the selection of a number of indicators that are related to the real or price parts of g through the respective wage and non-wage parts in each case. As example, the evolution of real g is related to public employment, and the evolution of the deflator of g is linked to public wages per employee. In addition, given the importance of government consumption as a component of overall public spending (some 50% in the average OECD economy), we were able to find a number of timely-available, direct indicators on nominal budgetary execution. Despite the fact that the latter present the problem of being published in non-seasonally adjusted terms, it tends to present the best alternative given that provides a direct measure of g in nominal terms, even though typically for the central government sector, a choice that might not be innocuous for highly fiscally decentralized countries like Germany and Spain.

After the extensive data search, nevertheless, we constraint ourselves in this study to a subset of variables that is available for the four countries under consideration and it is broadly homogeneous for all of them. Specifically, the variables included in our analysis cover the period 1995Q1-2013Q4 and are the following for each one of the considered cases (Germany, France, Italy and Spain): (i) quarterly seasonally-adjusted real government consumption, g^R ; (ii) deflator of quarterly seasonally-adjusted government consumption, g^D ;

⁹ See e.g. Ramey (2011) and the references quoted therein.

(iii) proxy to public employment in national accounts, N^R (quarterly seasonally-adjusted “non-market services”); (iv) wages per public employee in national accounts, W^P (quarterly seasonally-adjusted “non-market services”); (v) Central government consumption expenditure, G^{RP} (monthly nominal, non-seasonally adjusted); (vi) Combined index of HICP Health (prices) and HICP Education (prices), p^P (monthly, non-seasonally adjusted); (vii) Annual planned government consumption from the Stability Programmes in real (g^R) and price (g^{D^P}) terms.

3.3 The information flow

Annual targets taken from the Stability Programmes (SPs) and are assumed to be known in the first quarter of the year. This is a reflection of actual publication dates, on average. Indeed, before 2010 SPs were published at the very end of the year. Since 2010, nonetheless, SPs are published in the course of the first four months of the year, with end of April as the limit, in the framework of the so-called European Semester. As regards variables published at the monthly frequency, in turn, are typically known shortly after the month ends, while quarterly national accounts' data are published with a delay of 90 days.

3.4 Related literature

As mentioned above, the literature on fiscal forecasting offers only limited help to frame our paper. On the one hand, a strand of articles conceptually related to ours, which were quoted in the Introduction, focus on the analysis of the determinants of ex-post budgetary deviations (i.e. the difference between actual values and government forecasts), without entering into the vagaries of the elaboration of the fiscal forecast. On the other hand, the papers on short-term fiscal forecasting, also mentioned above, tend to concentrate on the impact of backward-looking fiscal information on the fiscal projection, and do not internalize the forward-looking targets. Within the literature on short-term macro forecasting few studies deal with individual components of GDP. Indeed, GDP is typically forecasted from an aggregate point of view, see e.g. Camacho and Pérez-Quirós (2010), or Banbura and Runstler (2007), and the references quoted therein. Exceptions are Baffigi et al. (2004), which follow a demand-side approach, Hahn and Skudelny (2008), that follow a supply-side approach, or Foroni and Marcellino (2013), who look at both sides of GDP. In those papers, nevertheless, g and the relevant supply-side counterparts tend to be forecasted by means of univariate methods, or considered to be a residual, exogenous variable difficult to model and forecast, and considered to be erratic (in this latter regard see also Grassi et al., 2014). Another set of papers consider the elaboration of optimal government forecasts with a view to orient the ex-ante design of policies (see, for early contributions, Johansen, 1972, Granger, 1973, Johansen and Hersoug, 1975). Finally, the literature on “restricted forecasting”, as in Gómez and Guerrero (2006), focuses on the question of which is the future path of a given model's forecasts that would lead to achieving a given government target.

3.5 Some stylized facts

In figures 1 and 3 we present real and price government consumption figures at the annual frequency against the corresponding targets for the four countries under study and the period 2006-2013. For g^R (Figure 1) it is apparent that in most of the cases ex-post data (the dotted line) were above initial targets (the solid lines). It happens for Spain in all the years and for France in all but 2006, while for Germany and Italy this is the case in all years with the exception of 2010-2012. Thus, overall, one may say that governments spent more than they initially were committed to, i.e. presented a pro-spending bias. At the same time, though, over time, observed values followed the apparent change in policy in Spain and Italy, countries that moved from positive registers of g^R over 2006-2009/2010 to (strongly) negative rates of

change in 2010-2013. Despite missing the initial targets, it seems that the change in policies had a persistent effect on the conduction of actual policies in those countries.

Interestingly, the overall picture for g^D (Figure 3) is broadly the opposite. Governments predicted higher public wages and purchases' prices than recorded ex-post. This means that in terms of nominal government expenditure consumption the pro-spending bias was somewhat mitigated, leading in some cases to data being in line with initial targets. These observations do not need to be contradictory among them. In times of fiscal stress governments have incentives to report higher GDP real growth than expected, i.e. to present an optimistic bias in their economic forecast, which may be partially achieved by having more g^R , a component that weights some 20% of the total while they do not have any incentives to bias the prices.

One may ask the question of whether despite the fact that g^R targets infra estimated actual values, it could be the case that in a framework of peer pressure to put public finances under control, some policy actions were taken to change an initially spending-loose course of action, once in the public debt-crisis period. This is what we try to answer with the material included in figures 2 and 4. In those figures we present forecasts for g^R and g^D computed on the basis of a purely backward-looking model, a second order autoregressive model, AR(2), that completely disregards any forward-looking elements of policy not incorporated in the inertia of the series themselves. We present forecasts done at the time of the first quarter of each year. Focusing on Spain and Italy, the two countries under more close EU-wide peer pressure, it is clear from figures 2 and 4 that both g^R and g^D tend to present lower growth rates than forecast with the AR(2) in Q1 of each year. This is in line with the change of policy regime (from positive to negative growth rates) taking place over time and the backward-looking model only capturing it with some delay. In that sense, we can conclude that, even though there is systematic bias in the forecast of g^R in some countries, something was done in those countries under pressure to change the dynamics of public expenses ex-post.

4 The modelling approach

4.1 The model

The heterogeneity in the data sources conditions the selection of the modeling approach. As briefly discussed above, to enrich the dataset available for forecasting we have to resort to monthly/quarterly indicators of the real component of government consumption, its deflator component or a mixture of both (nominal). With this in mind we decided to pose a factor model with two factors, one for the real part and one for the price part. The details are as follows. The model is a factor model, written in a general state-space form as

$$\begin{aligned} Y_t &= H \times h_t + w_t \\ h_t &= F \times h_{t-1} + v_t \end{aligned} \quad (2)$$

with $Var(w_t) = R$, and $Var(v_t) = Q$. The vector of observed variables (all demeaned and logged) is

$$Y_t = \left(\Delta g_t^R, \Delta g_t^D, \Delta_4 N_t^R, \Delta_4 W_t^P, \Delta_4 G_t^{RP}, \Delta_4 p_t^P, \Delta_A \bar{g}_t^R, \Delta_A \bar{g}_t^D \right)$$

As can be seen, some of the variables are included in quarterly growth rates (first differences of the logs) and others in quarterly annual growth rates (4 lags differences of the logs of the quarterly series). The transformation chosen depends on the availability of the data. Those released seasonally adjusted are included in first differences, while those released non-seasonally adjusted are included in fourth differences to avoid the ad-hoc choice of a seasonal adjustment procedure. Finally, the two government targets, $\Delta_A \bar{g}_t^R$ and $\Delta_A \bar{g}_t^D$, are included in annual growth rates, referring to variables in annual frequencies.

The variables are decomposed into two common driving factors, the real (ρ) and the price (π) factors and an idiosyncratic component that follows an AR(2) structure with uncorrelated irregulars. The use of two factors is crucial for the integration of nominal variables in the model, and also for the joint use of real and price indicators. It is important to specify carefully which variables are function of the real factor and which are function of the nominal factor. In addition, it is worth mentioning that depending of the transformation of the variables (first differences, fourth differences or annual), the dynamic relation of the observed variable and the underlying factor change. In particular, real government consumption is represented by the real factor and the deflator of government consumption by the price factor in the following way:

$$\Delta g_t^R = \delta_1 \rho_t + u_{g,t}^R \quad (3)$$

$$\Delta g_t^D = \theta_1 \pi_t + u_{g,t}^D \quad (4)$$

This does not mean that a shock to the real factor does not affect the "price" variable (and viceversa) because real and nominal factors are not orthogonal, as it is the case in principal components. As regards public employment, $\Delta_4 N_t^R$, it is a function only of the real factor. The annual growth rate implies that, in a given period t , the relation with the underlying

variable –which represents quarterly activity– is the accumulation of the last four periods. Therefore:

$$\Delta_4 N_t^R = \delta_2 (\rho_t + \rho_{t-1} + \rho_{t-2} + \rho_{t-3}) + u_{N,t}^R \quad (5)$$

In turn, wages of public employees depend only on the price factor:

$$\Delta_4 W_t^P = \theta_2 (\pi_t + \pi_{t-1} + \pi_{t-2} + \pi_{t-3}) + u_{W,t}^P \quad (6)$$

as well as the combination of the health and education price indexes, that only depends on the price factor:

$$\Delta_4 p_t^P = \theta_4 (\pi_t + \pi_{t-1} + \pi_{t-2} + \pi_{t-3}) + u_{p,t}^P \quad (7)$$

Regarding central government consumption expenditure, it is a nominal variable, and therefore it depends on the real and price factors:

$$\Delta_4 G_t^{RP} = \delta_3 (\rho_t + \rho_{t-1} + \rho_{t-2} + \rho_{t-3}) + \theta_3 (\pi_t + \pi_{t-1} + \pi_{t-2} + \pi_{t-3}) + u_{Gt}^{RP} \quad (8)$$

Finally, the two government target variables, annual planned government consumption in real and price terms, are moving average functions of the real and price factors respectively. The assumption is that, once demeaned, ex-ante plans are equal to ex-post data up to a random disturbance, i.e.

$$\Delta_A \bar{g}_t^R = \Delta_A g_t^R + u_t^{Rf} \quad (9)$$

$$\Delta_A \bar{g}_t^D = \Delta_A g_t^D + u_t^{Df} \quad (10)$$

Thus, once both the observed and the target real/price government consumption variables have been computed as deviations from their own means, the historical discrepancies estimated between ex-ante targets and ex-post observed data amount to the moments of the u_t^{Df} and u_t^{Rf} random errors.

Now, given that

$$\Delta_A g_t^R = \left(\frac{1}{4} \Delta g_t^R + \frac{2}{4} \Delta g_{t-1}^R + \frac{3}{4} \Delta g_{t-2}^R + \Delta g_{t-3}^R + \frac{3}{4} \Delta g_{t-4}^R + \frac{2}{4} \Delta g_{t-5}^R + \frac{1}{4} \Delta g_{t-6}^R \right)$$

then, using (3) and (9) yields:

$$\begin{aligned} \Delta_A \bar{g}_t^R = & \delta_1 \left(\frac{1}{4} \rho_t + \frac{2}{4} \rho_{t-1} + \frac{3}{4} \rho_{t-2} + \rho_{t-3} + \frac{3}{4} \rho_{t-4} + \frac{2}{4} \rho_{t-5} + \frac{1}{4} \rho_{t-6} \right) + \\ & + \left(\frac{1}{4} u_{g,t}^R + \frac{2}{4} u_{g,t-1}^R + \frac{3}{4} u_{g,t-2}^R + u_{g,t-3}^R + \frac{3}{4} u_{g,t-4}^R + \frac{2}{4} u_{g,t-5}^R + \frac{1}{4} u_{g,t-6}^R \right) + u_t^{Rf} \end{aligned} \quad (11)$$

and using (4) and (10) allows as to express $\Delta_A \bar{g}_t^D$ as:

$$\Delta_A \bar{g}_t^D = \theta_1 \left(\frac{1}{4} \pi_t + \frac{2}{4} \pi_{t-1} + \frac{3}{4} \pi_{t-2} + \pi_{t-3} + \frac{3}{4} \pi_{t-4} + \frac{2}{4} \pi_{t-5} + \frac{1}{4} \pi_{t-6} \right) + \left(\frac{1}{4} u_{g,t}^D + \frac{2}{4} u_{g,t-1}^D + \frac{3}{4} u_{g,t-2}^D + u_{g,t-3}^D + \frac{3}{4} u_{g,t-4}^D + \frac{2}{4} u_{g,t-5}^D + \frac{1}{4} u_{g,t-6}^D \right) + u_t^{Df} \quad (12)$$

Equations (3) to (12) and the AR(2) structure of the factors and the idiosyncratic shocks configure the structure of the matrices H , F , Q and R in (2). A full description of these matrices can be found in Appendix A. The monthly information of some of the indicators is transformed into quarterly frequency by calculating in each month the quarterly growth rate. The AR(2) structure is assumed to provide the most parsimonious representation of sinusoidal impulse response function, as it is already standard in the literature of factor models.

4.2 Alternative assumptions to model policy targets

Alternative models will differ in the way they approach (1), (9) and (10) above, i.e. in the way the policy targets enter the model. As mentioned above in Section 2, we are interested in three basic experiments, which can be described with different assumptions regarding (9) and (10).

In the first case of interest we set $\Delta_A \bar{g}_t^R = \Delta_A g_t^R$, for all years before the current year T (the same for the deflator equation), which amounts to assuming that governments met their commitments in the past (i.e. $\Psi_{T-1} = \mathbf{0}_{1 \times T-1}$ in equation 1). In this way the model will treat relations (9) and (10) as almost identities, only different because the time series of $\Delta_A \bar{g}_t^R$ used to estimate the model will have at each time one observation more than $\Delta_A g_t^R$, namely the one corresponding to the target for the current year T (assigned to the last quarter of year T). The intuition for this case is the following: at each forecast origin, the target value for year T receives full credibility as if the government had always predicted correctly the actual value in the past. Therefore, any given consumption expenditure proposed will receive full credit in terms of predictive power on the future value of $\Delta_A g_t^R$ (the same applies to the government deflator).

In the second case we do not constraint Ψ_T , i.e. it is composed of the genuine differences between ex-post actual values and ex-ante government targets, and thus the estimation of the parameters in (9) and (10) are allowed to reflect the different historical accuracy/credibility of the government. In this case targets receive as much credibility as the one gained by the government on the basis of its past performance during the sample period.

The third case is one in which equations (9) and (10) are excluded from the model, and thus the forward-looking information provided by the government targets is not taken into consideration. This model reflects the best possible forecast of the next realization of government consumption growth (real and deflator) made by an agent that takes into account all the information available in period t on the actual implementation of government plans and assigns zero weight to government announcements.

4.3 Additional considerations

First, the empirical exercises that follow are of a pseudo real-time nature. This means that we implement counterfactual exercises assuming that the data available today for a past year/quarter/month was available at that time, i.e. we disregard the potential impact of data revisions in shaping the real-time decisions of policy makers. This approach is dictated by the lack of availability of consistent real-time data for our dataset.

Second, we use an AR(2) model as a naïve forecasting alternative to our factor models. This means that as a minimum we are going to check that the proposed models beat this alternative. It is worth mentioning that it is a well-established fact in the relevant forecasting literature that autoregressive models are hard-to-beat alternatives (see e.g. Hess and Iwata, 1997).

Third, we take two standard measures of forecasting performance. The standard Mean Squared Error, to compare the predictability of the relevant variables across countries, as well as the ratio of RMSEs of models to the AR(2) alternative. Diebold and Mariano test is employed, to test for the null hypothesis of no difference in the accuracy of two competing forecasts.

Fourth, all the comparisons are going to be made on the basis of a recursive forecasting exercise over the forecasting window 2006Q1 to 2013Q4.

Finally, the model is estimated by maximum likelihood using the Kalman Filter as expressed in equation (2) where the matrices H, F, Q and R are shown in the Appendix. The procedure to deal with mixed frequencies, ragged ends and missing observations come from Mariano and Murasawa (2003) where missing observations are substituted with draws from a normal distribution and the model is estimated as a model with time varying coefficients in the Kalman filter, depending on the number of missing observations in each period of time, Details of the estimation can be found in Mariano and Murasawa (2003) or Camacho and Pérez-Quirós (2010).

5 Empirical results

The main results of the paper are shown in tables 1 and 2, on the one hand, and figures 5, 6 and 7, on the other.

In Table 1 we present the forecast accuracy statistics: MSE, ratio of RMSE and DM for one quarter-ahead forecasts. The following results are worth highlighting:

- (i) According to the MSEs (first column of results in the table), there are strong differences in the predictability across countries. Countries as France are relatively easy to forecast (e.g. the MSE for real government consumption forecasts for the best model stands at 0.04) because the dynamics are very stable over time, while countries as Spain, subject to strong changes in fiscal policies are difficult to predict (e.g. the MSE for real government consumption forecasts for the best model stands at 2.18).
- (ii) The consideration of the short-term information provided by the selected indicators is useful to infer short-term developments, as clear from the better forecasting performance of Model 3 (no government targets), versus the AR(2), that only uses information on the dynamics of government consumption (see columns "Ratio of RMSE" and "Diebold Mariano test"). This is true for all countries when forecasting real and nominal government growth. The results for the deflator are more erratic and, in general, there is no gain with respect to the AR(2) dynamics. This first result is very important, to the light of the literature mentioned above on the "erraticity" of public spending forecasting. However we show here that there is room for short term modelling using indicators and this result is robust across countries.
- (iii) The inclusion of targets is not helpful to infer the current situation of ongoing plans, as judged by the 1-quarter-ahead forecasting capabilities of the different models; indeed, Model 3 is not beaten by Model 1 or Model 2. This is a strong result. There is no gain in using full-year government plans to infer the implementation of fiscal plans in the current quarter (bear in mind that 1-q-ahead forecasts, given our timing convention, are in fact *backcasts*). The intuition of the results for Model 1 is different than the one for Model 2. In the case of Model 1 (*imperfect past credibility*) the intuition is easy. If there is a succession of government plans for the whole year with different degrees of credibility, that are usually not successful to infer the degree of implementation of the plan in the current quarter, the model endogenously does not take those predictions into consideration, implying a zero weight to those official government forecast, producing forecasts that are non-distinguishable from the "no government targets" specification. More complicated is the intuition of the results of the model Model 2 (*perfect past credibility*). The results are the worst, even though we give full credibility to whole-year government plans. In every period of time, we assume that the forecast of the government is the best possible one. It is as good that we give the maximum credibility assuming that the forecast is the future observation of an annual sequence where the forecast of the government is equal to the realized value. Therefore, our sequence of "past

forecasts” has a very high weight in the future estimated values for the realizations of government consumption real and nominal. The problem is that this maximum weight is misleading because systematically, governments are wrong in one direction or another, implying that the forecasted values are also incorrect for nowcasting (i.e. 1-quarter-ahead, given the information set) forecasts.

Table 2, in turn, presents the results of the forecasts for the whole year, computed from each quarter on a recursive basis. During the first quarter of the year the forecast requires nowcasting and one, two and three periods ahead forecast. The second quarter requires nowcasting and one and two periods ahead, the third quarter requires nowcasting and one period ahead forecast and the fourth quarter is only nowcasting. For whole-year forecasts we have also added an alternative model "Model 4" that simply takes as such the government target for the whole year, i.e. from each forecast origin (quarter) the forecast for the whole year according to this model is always the government target as such.

As in the case of Table 1, there are also marked differences among MSEs between countries, in particular, both the real government consumption and the deflator are more easily predicted in Germany and France, and to a lesser extent Italy for g_t^R , than in the case of Spain. This makes it hard for the different models to beat the benchmark alternative (AR(2) model). However, in the case of countries subject to "fiscal scrutiny", as in the case of Spain, the three modeling alternatives (models 1, 2 and 4 in the table) beat the AR(2) (as shown in the ratios of the second column of results of Table 2 and the DM tests). This initial result reflects the differences among countries in the policy stance. Indeed, in the case of Spain there was a change in policy (from fiscal expansion to fiscal consolidation) that gives some explanatory role to the short-term information but also to the targets. At medium horizon (2-3 quarters) there is some anchoring from the targets, that, even though, as we saw in Table 1, does not necessarily help us to forecast in the nowcasting arena, it gives some idea on the changes in trends that diminish dramatically the estimated errors. Thus, the main result of Table 2 is that policy targets add information beyond the inertia of g , which is valuable at times of policy changes (of particular interest is the case of Spain).

This result is reinforced by Figure 5 in which we dissect forecasts of Δg_t^R by forecast origin, showing forecast errors in this case, making clear how targets are useful especially at the beginning of the year, when little information is known about actual policies. Focusing on the case of Spain again, the "*perfect past credibility*" alternative performs better at forecast origins in Q1 and Q2 (first two panels in each row of the figure), given that the information content on annual changes of observed data quarterly data is quite low, a fact that is clear when inspecting the lines corresponding to Model 3 (*no targets*) in particular in Q1 and for the years 2009-2012. As regards Model 1 projections ("*imperfect past credibility*"), they lie in between the other two alternatives. As the government starts implementing the g plans (at least partially) in the successive quarters, the deviations displayed by the Model 1 and Model 3 alternatives get reduced, while at the same time Model 2 forecasts become less adaptive as they pose a significant weight on annual policy targets. At the end of the year, when the forecast horizon is Q4, forecast of Model 2 almost coincides with the target (for all the countries), even though, according to our timing convention only Q3 figures for g_t^R and the quarterly indicators are known so that the information set is far from being complete.

The latter point appears to be clearer in figures 6 and 7 where we look at the same information from the angle of iterative forecasts, i.e. we show how models learn and adapt throughout the year to new incoming information. In the figure we show the annual rate of growth of real government consumption (solid line), the annual targeted rate of growth (dotted line) and the sequence of forecasts for the whole year (annual growth rate) produced taking as forecast origin each quarter of the year. The “no targets” (Model 3) and “imperfect past credibility” (Model 1) alternatives tend to approach the final outcome in a monotonous way, more quickly in the second case as the target convey useful information on the direction of change of Δg_t^R . On the other hand, as regards the case with “perfect past credibility” (Model 2), the learning process is even faster at the beginning of the year in the cases of the years in which the target is informative, but then as the quarters goes by, it ends up inheriting the “policy bias” of the target.

6 Conclusions

We show that ex-ante government targets may convey useful information about ex-post policy developments in certain circumstances, in particular when policy changes drastically, even when past policy credibility is low, and when there is limited information about the implementation of plans (e.g. at the beginning of a fiscal year). In addition, our models are instrumental to unveil the current course of policy in real-time. Our approach complements and qualifies a well-established branch of the literature that finds politically-motivated biases in policy targets.

REFERENCES

- Andersen, T. M. (1989), "Credibility of policy announcements: the output and inflation costs of disinflationary policies", *European Economic Review*, 33, pp. 13-30.
- Asimakopoulou, S., J. Paredes and T. Warmedinger (2013), "Forecasting fiscal time series using mixed frequency data", Working Paper Series of the European Central Bank 1550.
- Auerbach, A.J. (1999), "On the Performance and Use of Government Revenue Forecasts", *National Tax Journal*, 52, 765-782.
- Ayhan, M. and M. E. Terrones (2012), "How does uncertainty affect economic performance?", 49-53 in *Fiscal Monitor*, International Monetary Fund, October.
- Baffigi A., R. Golinelli, and G. Parigi (2004), "Bridge models to forecast the euro area GDP", *International Journal of Forecasting*, 20, 447-460.
- Baker, S. and S. J. Davis (2012), "Measuring economic policy uncertainty", Stanford University Working Paper.
- Banbura M., Runstler G. (2007), "A look into the model factor black box: publication lags and the role of hard and soft data in forecasting GDP", ECB working paper No. 751.
- Beetsma, R., M. Giuliadori and P. Wiers (2009), "Planning to Cheat: EU Fiscal Policy in Real Time", *Economic Policy*, 24, 753-804.
- Bi, H., E. M. Leeper, and C. Leith (2011), "Uncertain fiscal consolidations", *Economic Journal* 123, F31-F63.
- Blackley, P. R. and L. DeBoer (1993), "Bias in OMB's economic forecasts and budget proposals", *Public Choice*, 76, pp. 215-232.
- Blanchard, O. and C. Leith (2013), "Growth forecast errors and fiscal multipliers", IMF Working Paper WP/13/1.
- Boylan, R. T. (2008), "Political distortions in state forecasts", *Public Choice*, 136, 411-27.
- Camacho, M., and G. Pérez-Quirós (2010), "Introducing the Euro-Sting: Short-Term Indicator of euro area Growth", *Journal of Applied Econometrics*, 25, 663-694.
- Cimadomo, J. (2012), *Fiscal Policy in Real Time*. The Scandinavian Journal of Economics, 114: 440-465.
- Cimadomo, J. (2014), "Real-time data and fiscal policy analysis: a survey of the literature", *Journal of economic Surveys*, 28, 5.
- Cowan, T., A. Glazer and K. Zajc (2000), "Credibility may require discretion, not rules", *Journal of Public Economics*, 76, 295-306.
- Dreher, A., S. Marchesi and J. R. Vreeland (2008), "The political economy of IMF forecasts", *Public Choice*, 137, pp. 145-171.
- Froni C., and M. Marcellino (2013), "A comparison of mixed frequency approaches for nowcasting euro area macroeconomic aggregates", *International Journal of Forecasting*, forthcoming.
- Frankel, J. A. (2011), "Over-optimism in forecasts by official budget agencies and its implications", *Oxford Review of Economic Policy*, 27, 536-562.
- Frankel, J. A. and J. Schreger (2013a), "Over-optimistic official forecasts and fiscal rules in the Eurozone", *Review of World Economics*, forthcoming.
- Frankel, J. A. and Schreger, J. (2013b), "Bias in official fiscal forecasts: can private forecasts help?", mimeo, Harvard University.
- Granger, C. W. J. (1973), "On the properties of forecasts used in optimal economic policy decisions", *Journal of Public Economics*, 2, 347-356.
- Grassi, S., T. Proietti, C. Frale, M. Marcellino and G. Mazzi (2014). "EuroMInd-C: a Disaggregate Monthly Indicator of Economic Activity for the Euro Area and member countries". University of Kent School of Economics Discussion Papers.
- Gómez, N. and V. M. Guerrero (2006), "Restricted forecasting with VAR models: An analysis of a test for joint compatibility between restrictions and forecasts", *International Journal of Forecasting*, 22, pp. 751-770.
- Hess, G and Iwata, S (1997). "Measuring and Comparing Business Cycle Features" *Journal of Business and Economic Statistics*, 15, 4. 432-444
- Hahn E, Skudelny F (2008), "Early estimates of euro area GDP growth: a bottom up approach from the production side", ECB Working Paper 975.
- Hersoug, T. and L. Johansen (1975), "Optimal use of forecasts in economic policy decisions: An empirical test", *Journal of Public Economics*, 4, 297-318.
- Holcombe, R. G. and D. Rytkin (2010), "Policy errors in executive and legislative decision-making", *Public Choice*, 144, pp. 37-51.
- Johansen, L. (1972), "On the optimal use of forecasts in economic policy decisions", *Journal of Public Economics*, 1, 1-24.
- Jong-a-Pin, R. M., Sturm, J. E. and de Haan, J. (2012), "Using Real-Time Data to Test for Political Budget Cycles", Munich CESifo Working Papers, No. 3939.
- Jonung, L., and M. Larch (2006), "Fiscal policy in the EU: are official output forecasts biased?!", *Economic Policy*, July, 491-534.
- Leal, T., Pérez, J.J., Tujula, M. and Vidal J.P. (2008), "Fiscal forecasting: lessons from the literature and challenges", *Fiscal Studies* 29, 347-386.
- Lundtofte, F. and P. Leoni (2014), "Growth forecasts, belief manipulation and capital markets", *European Economic Review*, 70, pp. 108-125.
- Mariano, R., and Murasawa, Y. 2003. A new coincident index of business cycles based on monthly and quarterly series. *Journal of Applied Econometrics* 18: 427-443

- Merola, R. and J. J. Pérez (2013), "Fiscal forecast errors: governments versus independent agencies?", *European Journal of Political Economy*, 23, 285-299.
- Mounts, W. S. Jr. and C. Sowell (1996), "Bureaucracy, altruism, and monetary policy: A note from a forecasting perspective", *Public Choice*, 89, pp. 27-34.
- Pedregal, D. J., J. J. Pérez and A. J. Sánchez-Fuentes (2014), "A toolkit to strengthen government budget surveillance", *Hacienda Pública Española/Review of Public Economics*, *forthcoming*.
- Pedregal, D. J. and Pérez, J. J. (2010), "Should quarterly government finance statistics be used for fiscal surveillance in Europe?", *International Journal of Forecasting* 26, 794-804.
- Persson, T. (1988), "Credibility of macroeconomic policy: An introduction and a broad survey", *European Economic Review*, 32, 519-532.
- Pina, A. and N. Venes (2011), "The political economy of EDP fiscal forecasts: an empirical assessment", *European Journal of Political Economy*, 27, 534-546.
- Ramey, V. (2011), "Can government purchases stimulate the economy?", *Journal of Economic Literature*, 49, 673-685.
- Silvestrini A., Salto M., Moulin L., and Veredas D. (2008), "Monitoring and forecasting annual public finance deficit every month: the case of France". *Empirical Economics*, 34, 493-524.
- von Hagen, J. (2010), "Sticking to fiscal plans: the role of institutions", *Public Choice*, 144, 487-503.

Tables and charts.

Table 1. Unveiling g plans for the current year (T): one-quarter-ahead forecasts

GERMANY

DE	MSE	RATIO OF RMSE TO AR(2)	DIEBOLD MARIANO TEST		
			AR(2)	Model 1	Model 2
REAL GOVERNMENT CONSUMPTION					
Model 1. Imperfect past credibility $(\Delta g_t^{Rf} \neq \Delta g_t^R, \text{ for } t < T) (IP_{IF})$	0.41	0.96	-0.44		
Model 2. Perfect past credibility $(\Delta g_t^{Rf} = \Delta g_t^R, \text{ for } t < T) (PP_{IF})$	2.30	2.27	1.91	1.95	
Model 3. No government targets (NoT)	0.36	0.90	-1.76	-0.77	-1.99
DEFLATOR OF GOVERNMENT CONSUMPTION					
Model 1. Imperfect past credibility $(\Delta g_t^{Rf} \neq \Delta g_t^R, \text{ for } t < T) (IP_{IF})$	0.19	0.97	-0.31		
Model 2. Perfect past credibility $(\Delta g_t^{Rf} = \Delta g_t^R, \text{ for } t < T) (PP_{IF})$	0.93	2.16	2.13	2.19	
Model 3. No government targets (NoT)	0.21	1.03	0.51	0.53	-2.06
NOMINAL GOVERNMENT CONSUMPTION					
Model 1. Imperfect past credibility $(\Delta g_t^{Rf} \neq \Delta g_t^R, \text{ for } t < T) (IP_{IF})$	0.66	0.96	-0.31		
Model 2. Perfect past credibility $(\Delta g_t^{Rf} = \Delta g_t^R, \text{ for } t < T) (PP_{IF})$	1.57	1.49	1.93	2.40	
Model 3. No government targets (NoT)	0.57	0.90	-1.75	-0.69	-2.34

FRANCE

	MSE	RATIO OF RMSE TO AR(2)	DIEBOLD MARIANO TEST		
			AR(2)	Model 1	Model 2
REAL GOVERNMENT CONSUMPTION					
Model 1. Imperfect past credibility $(\Delta g_t^{Rf} \neq \Delta g_t^R, \text{ for } t < T) (IP_{IF})$	0.04	1.01	0.09		
Model 2. Perfect past credibility $(\Delta g_t^{Rf} = \Delta g_t^R, \text{ for } t < T) (PP_{IF})$	2.06	6.94	2.02	2.02	
Model 3. No government targets (NoT)	0.04	0.99	-0.67	-0.15	-2.02
DEFLATOR OF GOVERNMENT CONSUMPTION					
Model 1. Imperfect past credibility $(\Delta g_t^{Rf} \neq \Delta g_t^R, \text{ for } t < T) (IP_{IF})$	0.02	1.26	1.79		
Model 2. Perfect past credibility $(\Delta g_t^{Rf} = \Delta g_t^R, \text{ for } t < T) (PP_{IF})$	0.28	4.58	3.16	3.05	
Model 3. No government targets (NoT)	0.01	0.95	-1.11	-2.38	-3.18
NOMINAL GOVERNMENT CONSUMPTION					
Model 1. Imperfect past credibility $(\Delta g_t^{Rf} \neq \Delta g_t^R, \text{ for } t < T) (IP_{IF})$	0.05	0.95	-0.50		
Model 2. Perfect past credibility $(\Delta g_t^{Rf} = \Delta g_t^R, \text{ for } t < T) (PP_{IF})$	2.02	6.18	2.06	2.07	
Model 3. No government targets (NoT)	0.05	0.96	-1.05	0.20	-2.07

**Table 1 (cont'd). Unveiling g plans for the current year (T):
one-quarter-ahead forecasts**

ITALY

	MSE	RATIO OF RMSE TO AR(2)	DIEBOLD MARIANO TEST		
			AR(2)	Model 1	Model 2
REAL GOVERNMENT CONSUMPTION					
Model 1. Imperfect past credibility $(\Delta \hat{g}_t^{Rf} \neq \Delta \hat{g}_t^R, \text{ for } t < T) (IP_IF)$	0.27	1.04	0.82		
Model 2. Perfect past credibility $(\Delta \hat{g}_t^{Rf} = \Delta \hat{g}_t^R, \text{ for } t < T) (PP_IF)$	3.66	3.83	1.95	1.94	
Model 3. No government targets (NoT)	0.23	0.96	-1.93	-1.58	-1.97
DEFLATOR OF GOVERNMENT CONSUMPTION					
Model 1. Imperfect past credibility $(\Delta \hat{g}_t^{Rf} \neq \Delta \hat{g}_t^R, \text{ for } t < T) (IP_IF)$	7.26	1.45	1.65		
Model 2. Perfect past credibility $(\Delta \hat{g}_t^{Rf} = \Delta \hat{g}_t^R, \text{ for } t < T) (PP_IF)$	15.08	2.09	1.31	1.06	
Model 3. No government targets (NoT)	3.19	0.96	-0.34	-2.18	-1.39
NOMINAL GOVERNMENT CONSUMPTION					
Model 1. Imperfect past credibility $(\Delta \hat{g}_t^{Rf} \neq \Delta \hat{g}_t^R, \text{ for } t < T) (IP_IF)$	7.79	1.38	1.54		
Model 2. Perfect past credibility $(\Delta \hat{g}_t^{Rf} = \Delta \hat{g}_t^R, \text{ for } t < T) (PP_IF)$	22.67	2.36	1.80	1.65	
Model 3. No government targets (NoT)	3.62	0.94	-0.61	-2.13	-1.90

SPAIN

	MSE	RATIO OF RMSE TO AR(2)	DIEBOLD MARIANO TEST		
			AR(2)	Model 1	Model 2
REAL GOVERNMENT CONSUMPTION					
Model 1. Imperfect past credibility $(\Delta \hat{g}_t^{Rf} \neq \Delta \hat{g}_t^R, \text{ for } t < T) (IP_IF)$	2.18	0.88	-1.90		
Model 2. Perfect past credibility $(\Delta \hat{g}_t^{Rf} = \Delta \hat{g}_t^R, \text{ for } t < T) (PP_IF)$	10.20	1.89	1.69	1.82	
Model 3. No government targets (NoT)	2.36	0.91	-1.62	0.83	-1.79
DEFLATOR OF GOVERNMENT CONSUMPTION					
Model 1. Imperfect past credibility $(\Delta \hat{g}_t^{Rf} \neq \Delta \hat{g}_t^R, \text{ for } t < T) (IP_IF)$	2.26	0.97	-0.41		
Model 2. Perfect past credibility $(\Delta \hat{g}_t^{Rf} = \Delta \hat{g}_t^R, \text{ for } t < T) (PP_IF)$	6.24	1.62	1.78	1.75	
Model 3. No government targets (NoT)	2.20	0.96	-0.66	-0.32	-1.75
NOMINAL GOVERNMENT CONSUMPTION					
Model 1. Imperfect past credibility $(\Delta \hat{g}_t^{Rf} \neq \Delta \hat{g}_t^R, \text{ for } t < T) (IP_IF)$	5.20	0.96	-0.57		
Model 2. Perfect past credibility $(\Delta \hat{g}_t^{Rf} = \Delta \hat{g}_t^R, \text{ for } t < T) (PP_IF)$	9.41	1.29	1.54	1.88	
Model 3. No government targets (NoT)	4.88	0.93	-1.42	-0.58	-1.94

Table 2. The role of policy targets and incoming-data in the anticipation of the yearly outcome of real government consumption

GERMANY

	MSE	RATIO OF RMSE TO AR(2)	DIEBOLD MARIANO TEST			
			AR(2)	Model 1	Model 2	Model 3
REAL GOVERNMENT CONSUMPTION						
Model 1. Imperfect past credibility $(\Delta g_t^{RF} \neq \Delta g_t^R, \text{ for } t < T) (IP, IF)$	0.32	0.93	-0.49			
Model 2. Perfect past credibility $(\Delta g_t^{RF} = \Delta g_t^R, \text{ for } t < T) (PP, IF)$	0.71	1.39	3.58	3.25		
Model 3. No government targets (NoT)	0.32	0.93	-1.27	-0.01	-3.59	
Model 4. Government targets (T)	1.19	1.80	4.09	4.20	4.20	4.12
DEFLATOR OF GOVERNMENT CONSUMPTION						
Model 1. Imperfect past credibility $(\Delta g_t^{RF} \neq \Delta g_t^R, \text{ for } t < T) (IP, IF)$	0.16	0.90	-0.58			
Model 2. Perfect past credibility $(\Delta g_t^{RF} = \Delta g_t^R, \text{ for } t < T) (PP, IF)$	0.14	0.86	-0.68	-0.31		
Model 3. No government targets (NoT)	0.25	1.14	2.19	1.21	1.17	
Model 4. Government targets (T)	0.20	1.02	0.12	0.90	2.69	-0.50
NOMINAL GOVERNMENT CONSUMPTION						
Model 1. Imperfect past credibility $(\Delta g_t^{RF} \neq \Delta g_t^R, \text{ for } t < T) (IP, IF)$	0.33	0.75	-1.00			
Model 2. Perfect past credibility $(\Delta g_t^{RF} = \Delta g_t^R, \text{ for } t < T) (PP, IF)$	0.49	0.92	-0.47	1.98		
Model 3. No government targets (NoT)	0.52	0.95	-0.87	0.83	0.17	
Model 4. Government targets (T)	0.75	1.14	0.68	3.92	2.69	0.92

FRANCE

	MSE	RATIO OF RMSE TO AR(2)	DIEBOLD MARIANO TEST			
			AR(2)	Model 1	Model 2	Model 3
REAL GOVERNMENT CONSUMPTION						
Model 1. Imperfect past credibility $(\Delta g_t^{RF} \neq \Delta g_t^R, \text{ for } t < T) (IP, IF)$	0.08	1.11	0.50			
Model 2. Perfect past credibility $(\Delta g_t^{RF} = \Delta g_t^R, \text{ for } t < T) (PP, IF)$	0.48	2.74	3.41	3.83		
Model 3. No government targets (NoT)	0.06	0.98	-1.21	-0.61	-3.42	
Model 4. Government targets (T)	0.50	2.77	3.62	4.04	0.77	3.64
DEFLATOR OF GOVERNMENT CONSUMPTION						
Model 1. Imperfect past credibility $(\Delta g_t^{RF} \neq \Delta g_t^R, \text{ for } t < T) (IP, IF)$	0.05	1.04	0.39			
Model 2. Perfect past credibility $(\Delta g_t^{RF} = \Delta g_t^R, \text{ for } t < T) (PP, IF)$	0.12	1.63	2.24	2.71		
Model 3. No government targets (NoT)	0.04	0.91	-0.91	-2.19	-2.97	
Model 4. Government targets (T)	0.08	1.37	1.55	1.69	-1.98	2.36
NOMINAL GOVERNMENT CONSUMPTION						
Model 1. Imperfect past credibility $(\Delta g_t^{RF} \neq \Delta g_t^R, \text{ for } t < T) (IP, IF)$	0.11	0.94	-0.32			
Model 2. Perfect past credibility $(\Delta g_t^{RF} = \Delta g_t^R, \text{ for } t < T) (PP, IF)$	0.45	1.87	2.56	3.44		
Model 3. No government targets (NoT)	0.11	0.93	-0.90	-0.08	-2.98	
Model 4. Government targets (T)	0.46	1.90	2.58	3.53	0.80	3.01

Table 2 (cont'd). The role of policy targets and incoming-data in the anticipation of the yearly outcome of real government consumption

ITALY

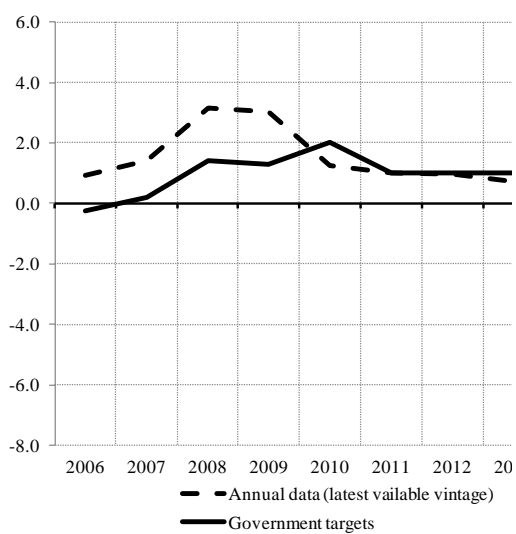
	MSE	RATIO OF RMSE TO AR(2)	DIEBOLD MARIANO TEST			
			AR(2)	Model 1	Model 2	Model 3
REAL GOVERNMENT CONSUMPTION						
Model 1. Imperfect past credibility ($\Delta g_t^{RF} \neq \Delta g_t^R$, for $t < T$) (IP _{JF})	0.54	1.00	0.00			
Model 2. Perfect past credibility ($\Delta g_t^{RF} = \Delta g_t^R$, for $t < T$) (PP _{JF})	1.01	1.37	1.89	1.81		
Model 3. No government targets (NoT)	0.48	0.95	-2.11	-0.44	-2.20	
Model 4. Government targets (T)	1.08	1.42	1.76	1.90	0.69	2.04
DEFLATOR OF GOVERNMENT CONSUMPTION						
Model 1. Imperfect past credibility ($\Delta g_t^{RF} \neq \Delta g_t^R$, for $t < T$) (IP _{JF})	4.77	2.03	1.45			
Model 2. Perfect past credibility ($\Delta g_t^{RF} = \Delta g_t^R$, for $t < T$) (PP _{JF})	1.46	1.13	0.44	-1.35		
Model 3. No government targets (NoT)	1.68	1.21	1.24	-1.47	0.28	
Model 4. Government targets (T)	2.91	1.59	1.63	-0.97	1.79	1.37
NOMINAL GOVERNMENT CONSUMPTION						
Model 1. Imperfect past credibility ($\Delta g_t^{RF} \neq \Delta g_t^R$, for $t < T$) (IP _{JF})	5.71	1.51	1.18			
Model 2. Perfect past credibility ($\Delta g_t^{RF} = \Delta g_t^R$, for $t < T$) (PP _{JF})	3.07	1.11	0.57	-0.96		
Model 3. No government targets (NoT)	2.83	1.06	0.64	-1.26	-0.24	
Model 4. Government targets (T)	5.19	1.44	1.75	-0.24	2.00	1.72

SPAIN

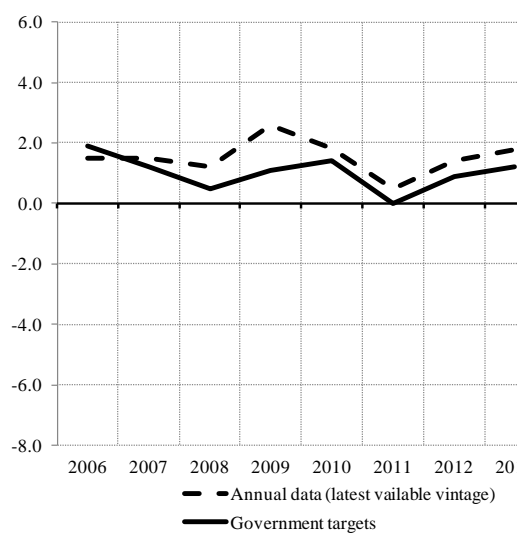
	MSE	RATIO OF RMSE TO AR(2)	DIEBOLD MARIANO TEST			
			AR(2)	Model 1	Model 2	Model 3
REAL GOVERNMENT CONSUMPTION						
Model 1. Imperfect past credibility ($\Delta g_t^{RF} \neq \Delta g_t^R$, for $t < T$) (IP _{JF})	1.18	0.62	-2.05			
Model 2. Perfect past credibility ($\Delta g_t^{RF} = \Delta g_t^R$, for $t < T$) (PP _{JF})	1.23	0.64	-1.47	0.12		
Model 3. No government targets (NoT)	2.23	0.86	-2.11	1.84	1.10	
Model 4. Government targets (T)	2.70	0.94	-0.32	2.39	3.09	0.58
DEFLATOR OF GOVERNMENT CONSUMPTION						
Model 1. Imperfect past credibility ($\Delta g_t^{RF} \neq \Delta g_t^R$, for $t < T$) (IP _{JF})	0.88	0.69	-1.96			
Model 2. Perfect past credibility ($\Delta g_t^{RF} = \Delta g_t^R$, for $t < T$) (PP _{JF})	1.51	0.90	-0.53	2.14		
Model 3. No government targets (NoT)	2.23	1.10	0.53	1.29	0.59	
Model 4. Government targets (T)	1.27	0.83	-0.77	1.08	-1.17	-0.76
NOMINAL GOVERNMENT CONSUMPTION						
Model 1. Imperfect past credibility ($\Delta g_t^{RF} \neq \Delta g_t^R$, for $t < T$) (IP _{JF})	2.62	0.61	-1.91			
Model 2. Perfect past credibility ($\Delta g_t^{RF} = \Delta g_t^R$, for $t < T$) (PP _{JF})	2.34	0.58	-1.63	-0.42		
Model 3. No government targets (NoT)	6.00	0.92	-0.97	1.94	1.63	
Model 4. Government targets (T)	1.62	0.48	-1.62	-0.90	-1.30	-1.63

Figure 1.
Bias in real government consumption targets (% growth rates).

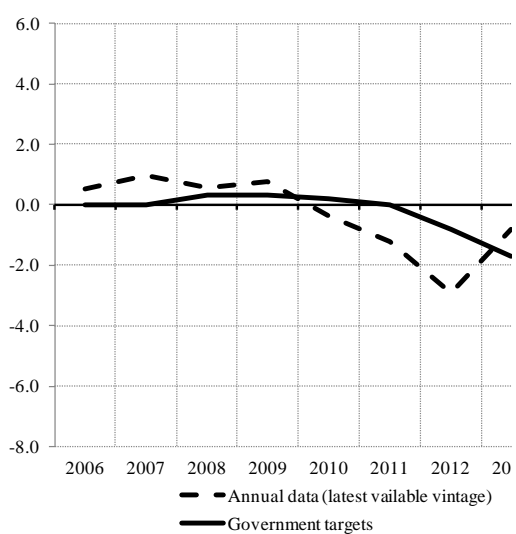
Germany



France



Italy



Spain

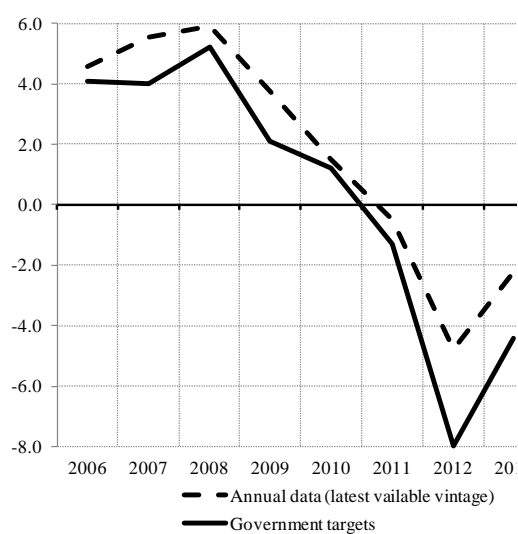
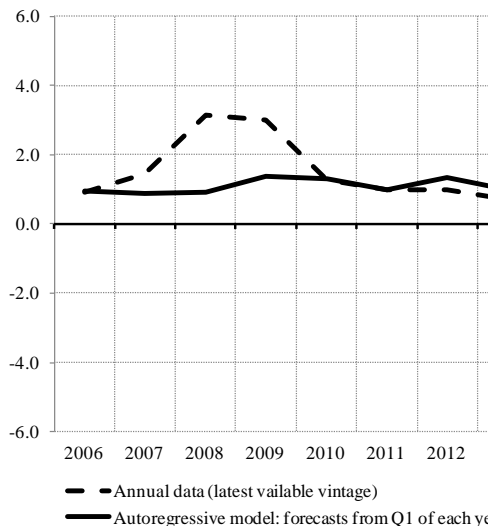
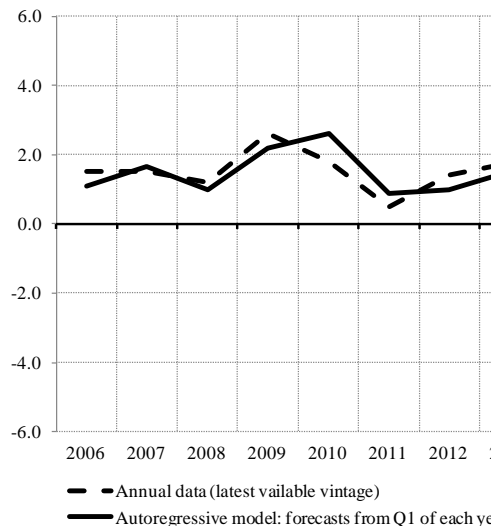


Figure 2.
The predictability of real government consumption: the figure presents forecast produced with the model $g_t = \alpha + \rho_1 g_{t-1} + \rho_2 g_{t-2} + \zeta_t$ estimated with the information available in the first quarter of each year (% growth rates).

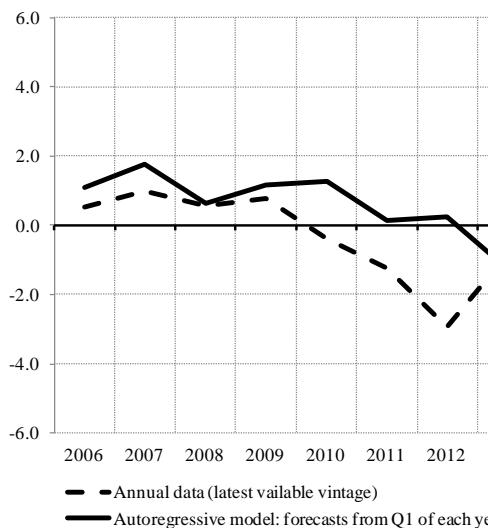
Germany



France



Italy



Spain

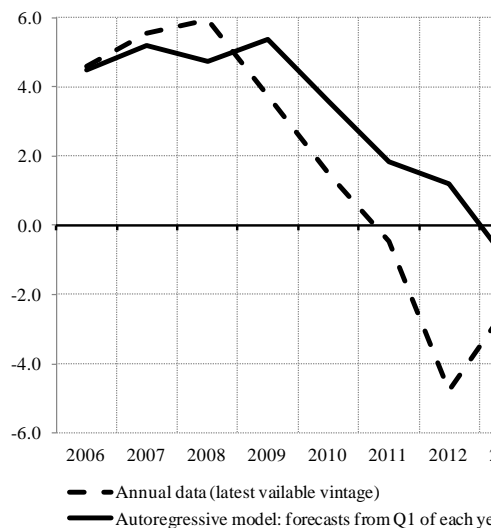
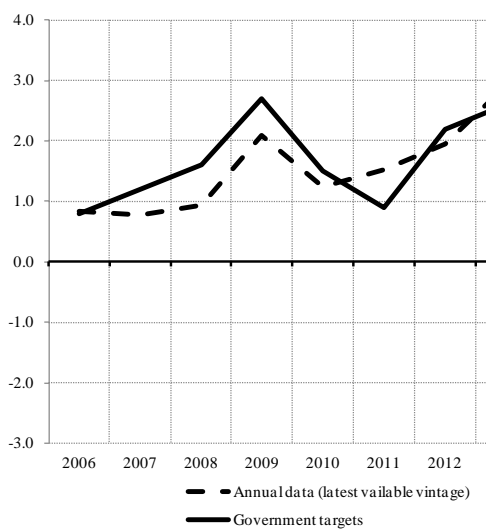


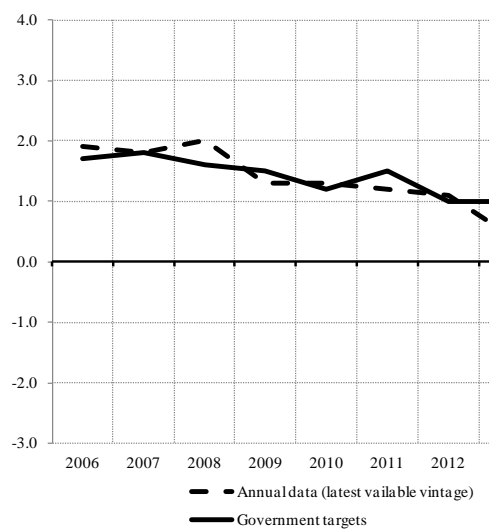
Figure 3.

Bias in the price component of government consumption targets (% growth rates).

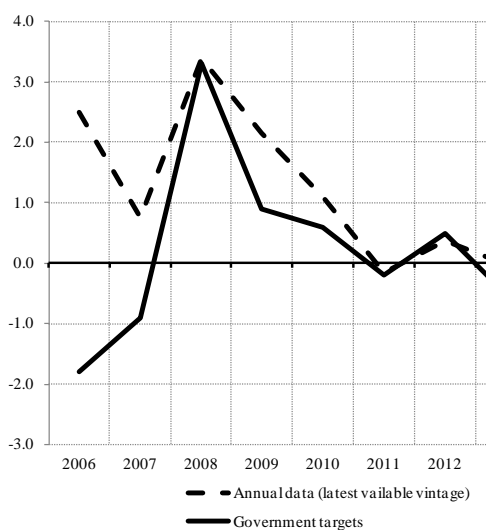
Germany



France



Italy



Spain

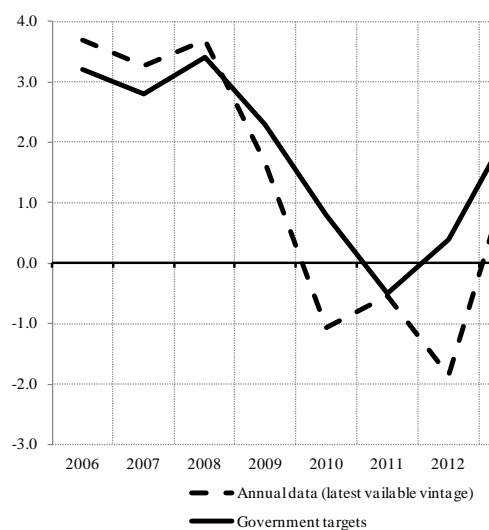
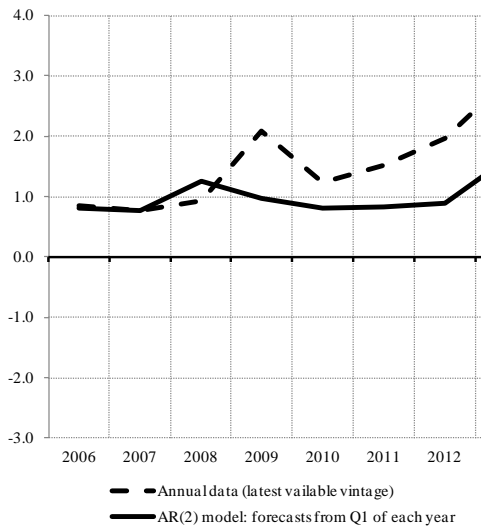
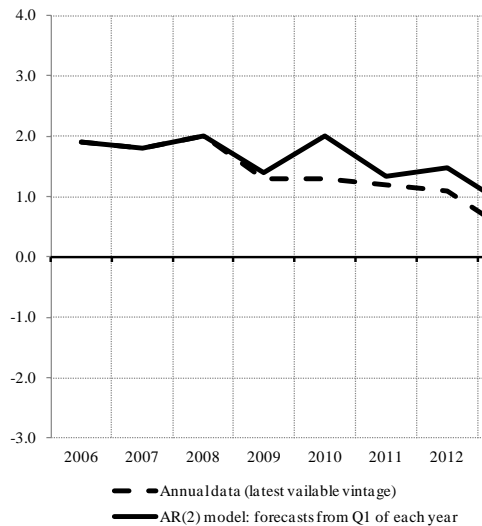


Figure 4.
The predictability of the price component of government consumption: the figure presents forecast produced with the model $g_t = \alpha + \rho_1 g_{t-1} + \rho_2 g_{t-2} + \zeta_t$ estimated with the information available in the first quarter of each year (% growth rates).

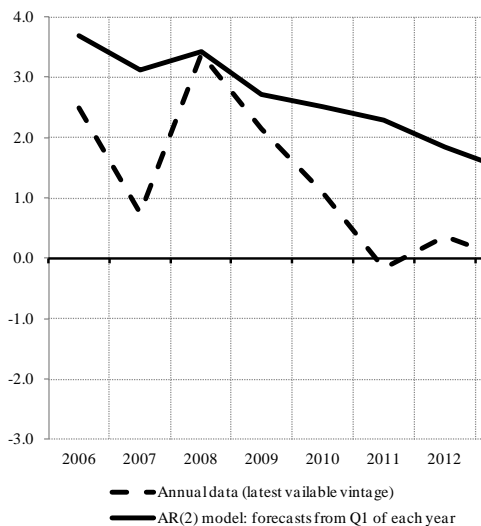
Germany



France



Italy



Spain

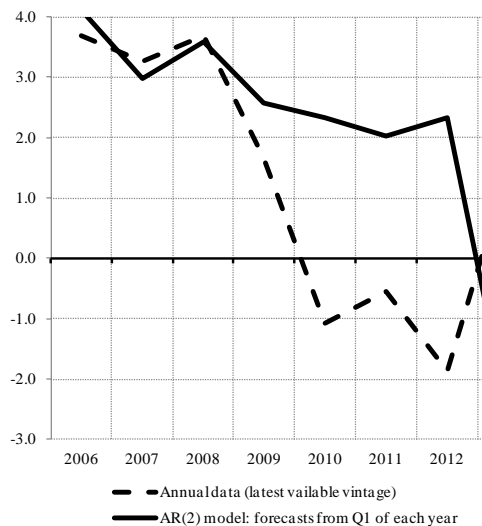
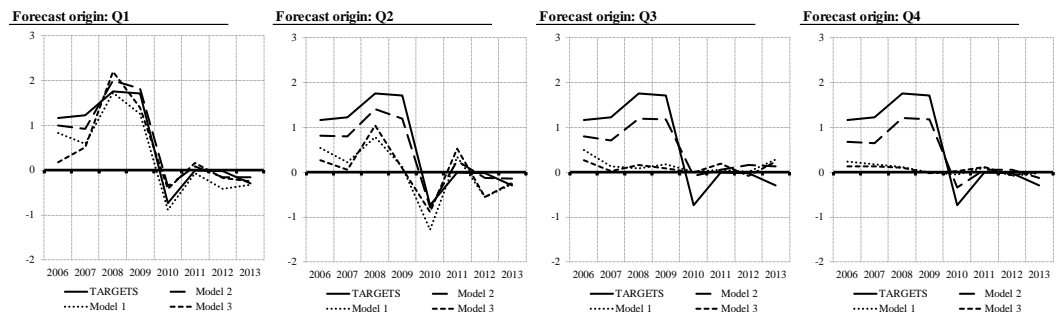


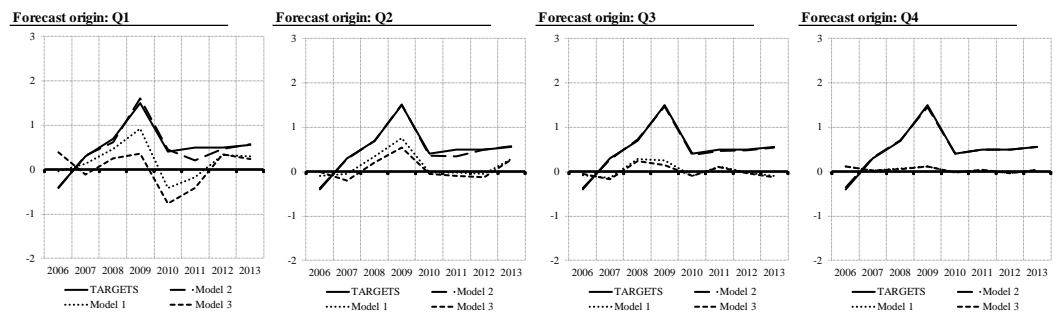
Figure 5.

The role of the budgetary target in model projections of real government consumption: the figure presents forecast errors committed by each model from each forecast origin (Q1, Q2, Q3, Q4) (% growth rates).

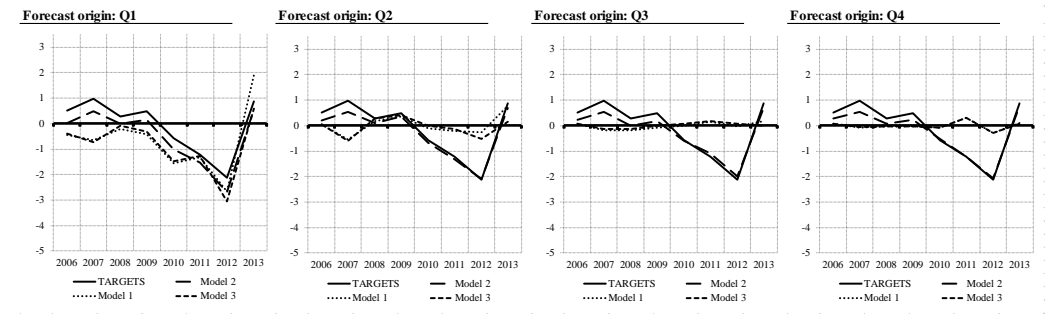
Germany



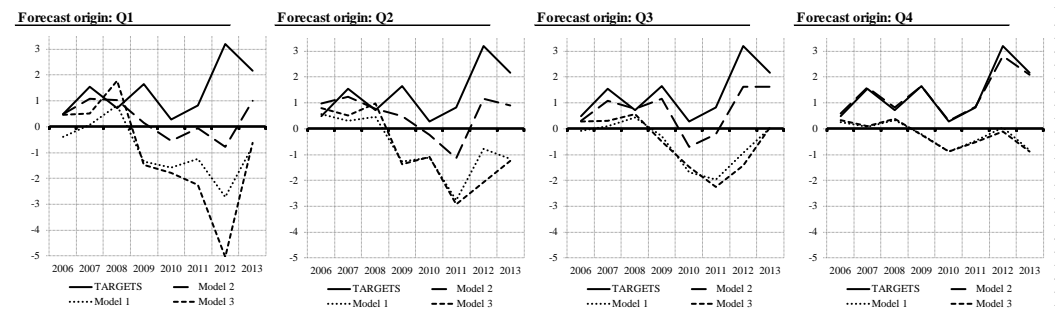
France



Italy



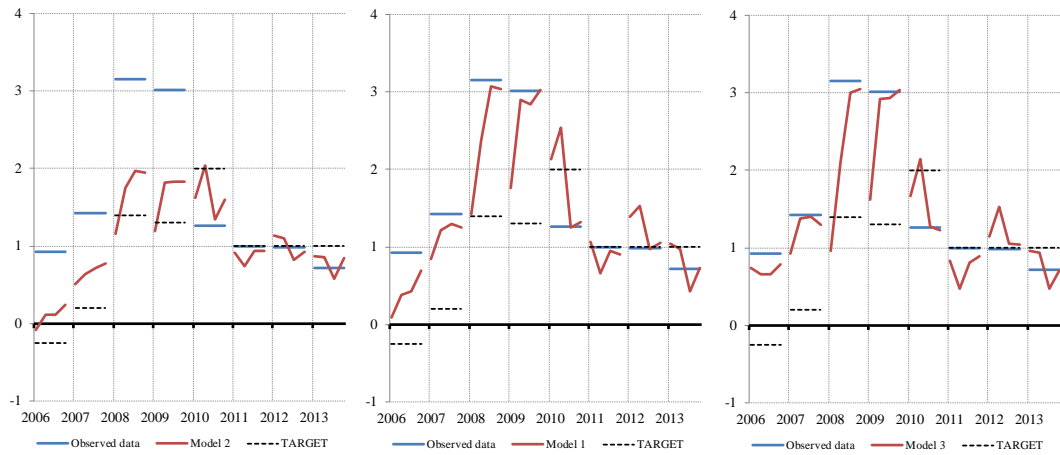
Spain



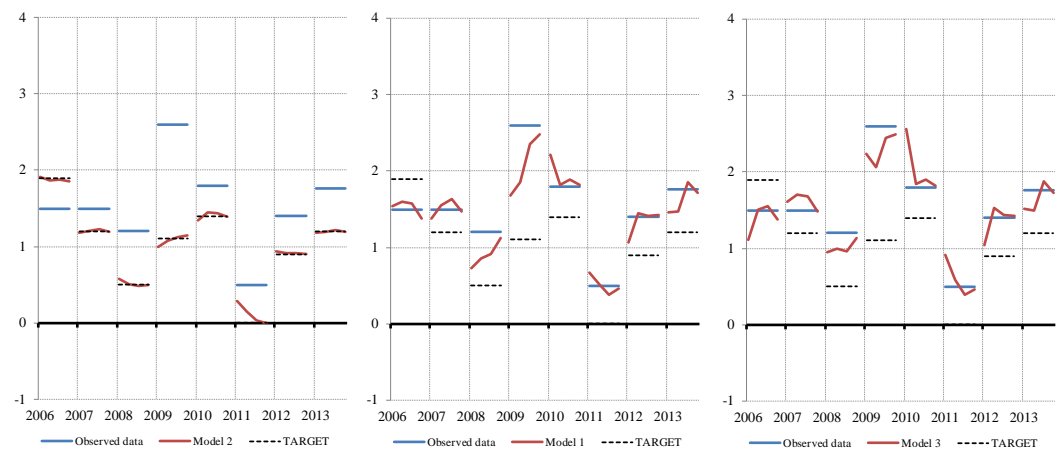
Notes. Model 1: Imperfect past credibility; Model 2: Perfect past credibility; Model 3: No government targets.

Figure 6.
The evolution of the iterative real government consumption forecasts during the year
(“learning”): Germany and France (% growth rates).

Germany



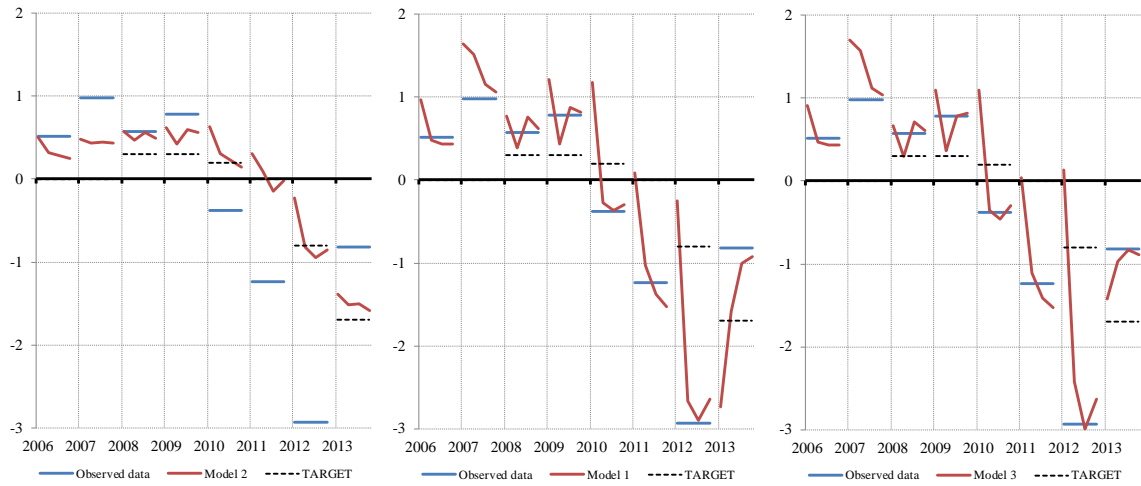
France



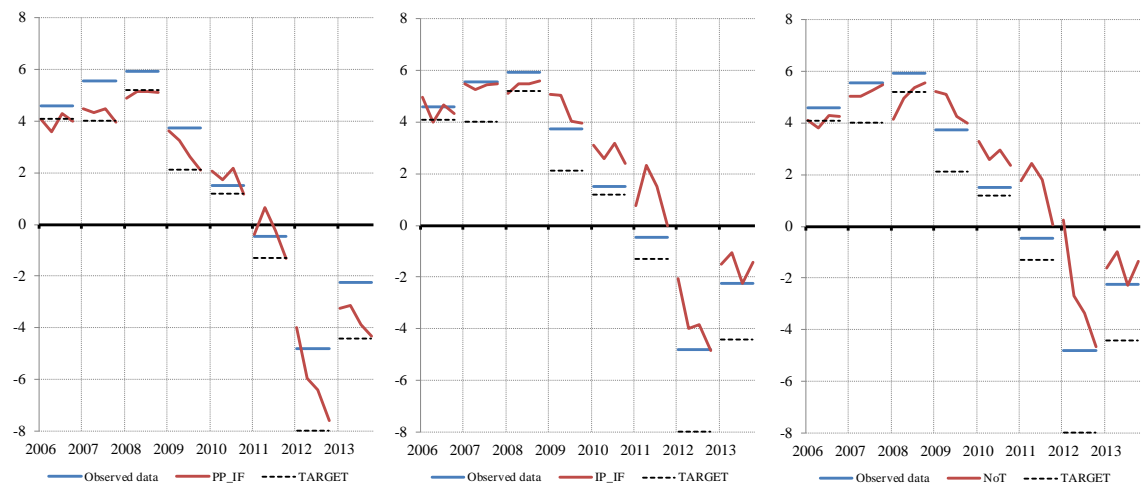
Notes. Model 1: Imperfect past credibility; Model 2: Perfect past credibility; Model 3: No government targets.

Figure 7.
The evolution of the iterative real government consumption forecasts during the year
(“learning”): Italy and Spain (% growth rates).

Italy



Spain



Notes. Model 1: Imperfect past credibility; Model 2: Perfect past credibility; Model 3: No government targets.

APPENDIX A. Full Description of the Kalman Filter Matrices

$$Y_t = H \times h_t + w_t$$

$$h_t = F \times h_{t-1} + v_t$$

$$Y_t = \left(\Delta g_t^R, \Delta g_t^D, \Delta_4 N_t^R, \Delta_4 W_t^P, \Delta_4 G_t^{RP}, \Delta_4 p_t^P, \Delta_A \bar{g}_t^R, \Delta_A \bar{g}_t^D \right),$$

$$Y_t = H \times h_t + w_t$$

$$h_t = F \times h_{t-1} + v_t$$

$$\text{Var}(w_t) = R$$

$$\text{Var}(v_t) = Q$$

$$h_t = \left(\begin{array}{l} \rho_t, \rho_{t-1}, \rho_{t-2}, \rho_{t-3}, \rho_{t-4}, \rho_{t-5}, \rho_{t-6}, \pi_t, \pi_{t-1}, \pi_{t-2}, \pi_{t-3}, \pi_{t-4}, \pi_{t-5}, \pi_{t-6}, \dots \\ \dots u_{g,t}^R, u_{g,t-1}^R, u_{g,t-2}^R, u_{g,t-3}^R, u_{g,t-4}^R, u_{g,t-5}^R, u_{g,t-6}^R, u_{g,t}^D, u_{g,t-1}^D, u_{g,t-2}^D, u_{g,t-3}^D, \dots \\ \dots u_{g,t-4}^D, u_{g,t-5}^D, u_{g,t-6}^D, u_{N,t}^R, u_{N,t-1}^R, u_{W,t}^P, u_{W,t-1}^P, u_{p,t}^P, u_{p,t-1}^P, u_{G,t}^{RP}, u_{G,t-1}^{RP}, u_t^{Rf}, u_t^{Df} \end{array} \right)$$

$$H = (H_1, H_2, H_3, H_4, H_5)$$

$$H_1 = \left(\begin{array}{ccccccc} \delta_1 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ \delta_2 & \delta_2 & \delta_2 & \delta_2 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ \delta_3 & \delta_3 & \delta_3 & \delta_3 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 1/4\delta_1 & 2/4\delta_1 & 3/4\delta_1 & \delta_1 & 3/4\delta_1 & 2/4\delta_1 & 1/4\delta_1 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 \end{array} \right)$$

$$H_2 = \left(\begin{array}{ccccccc} 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ \theta_1 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ \theta_2 & \theta_2 & \theta_2 & \theta_2 & 0 & 0 & 0 \\ \theta_3 & \theta_3 & \theta_3 & \theta_3 & 0 & 0 & 0 \\ \theta_4 & \theta_4 & \theta_4 & \theta_4 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 1/4\theta_1 & 2/4\theta_1 & 3/4\theta_1 & \theta_1 & 3/4\theta_1 & 2/4\theta_1 & 1/4\theta_1 \end{array} \right)$$

$$H_3 = \begin{pmatrix} 1 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 1/4 & 2/4 & 3/4 & 1 & 3/4 & 2/4 & 1/4 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 \end{pmatrix}$$

$$H_4 = \begin{pmatrix} 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 1 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 1/4 & 2/4 & 3/4 & 1 & 3/4 & 2/4 & 1/4 \end{pmatrix}$$

$$H_5 = \begin{pmatrix} 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 1 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 1 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 1 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 1 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 1 \end{pmatrix}$$

$$R = \begin{pmatrix} 0 & \dots & 0 \\ \dots & \dots & \dots \\ 0 & \dots & 0 \end{pmatrix}$$

$$F = \begin{pmatrix} F_1 & 0_{7 \times 7} & 0_{7 \times 7} & 0_{7 \times 7} & 0_{7 \times 10} \\ 0_{7 \times 7} & F_2 & 0_{7 \times 7} & 0_{7 \times 7} & 0_{7 \times 10} \\ 0_{7 \times 7} & 0_{7 \times 7} & F_3 & 0_{7 \times 7} & 0_{7 \times 10} \\ 0_{7 \times 7} & 0_{7 \times 7} & 0_{7 \times 7} & F_4 & 0_{7 \times 10} \\ 0_{10 \times 7} & 0_{10 \times 7} & 0_{10 \times 7} & 0_{10 \times 7} & F_5 \end{pmatrix}$$

$$F_1 = \begin{pmatrix} \phi_1 & \phi_2 & 0 & 0 & 0 & 0 & 0 \\ 1 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 1 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 1 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 1 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 1 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 1 & 0 \end{pmatrix} \quad F_2 = \begin{pmatrix} \phi_3 & \phi_4 & 0 & 0 & 0 & 0 & 0 \\ 1 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 1 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 1 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 1 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 1 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 1 & 0 \end{pmatrix}$$

$$F_3 = \begin{pmatrix} \phi_5 & \phi_6 & 0 & 0 & 0 & 0 & 0 \\ 1 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 1 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 1 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 1 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 1 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 1 & 0 \end{pmatrix} \quad F_4 = \begin{pmatrix} \phi_7 & \phi_8 & 0 & 0 & 0 & 0 & 0 \\ 1 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 1 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 1 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 1 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 1 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 1 & 0 \end{pmatrix}$$

$$F_5 = \begin{pmatrix} \phi_9 & \phi_{10} & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 1 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & \phi_{11} & \phi_{12} & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 1 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & \phi_{13} & \phi_{14} & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 1 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & \phi_{15} & \phi_{16} & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 1 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \end{pmatrix}$$

$$Q = \text{Diagonal}(\varpi)$$

$$\varpi = \left(1, 0, 0, 0, 0, 0, 0, 1, 0, 0, 0, 0, 0, 0, \sigma_1^2, 0, 0, 0, 0, 0, 0, \sigma_2^2, 0, 0, 0, 0, 0, 0, \sigma_3^2, 0, \sigma_4^2, 0, \sigma_5^2, 0, \sigma_6^2, 0, \sigma_7^2, \sigma_8^2 \right)$$

BANCO DE ESPAÑA PUBLICATIONS

WORKING PAPERS

- 1301 JAMES COSTAIN and ANTON NAKOV: Logit price dynamics.
- 1302 MIGUEL GARCÍA-POSADA: Insolvency institutions and efficiency: the Spanish case.
- 1303 MIGUEL GARCÍA-POSADA and JUAN S. MORA-SANGUINETTI: Firm size and judicial efficacy: evidence for the new civil procedures in Spain.
- 1304 MAXIMO CAMACHO and GABRIEL PEREZ-QUIROS: Commodity prices and the business cycle in Latin America: living and dying by commodities?
- 1305 CARLOS PÉREZ MONTES: Estimation of regulatory credit risk models.
- 1306 FERNANDO LÓPEZ VICENTE: The effect of foreclosure regulation: evidence for the US mortgage market at state level.
- 1307 ENRIQUE MORAL-BENITO and LUIS SERVEN: Testing weak exogeneity in cointegrated panels.
- 1308 EMMA BERENQUER, RICARDO GIMENO and JUAN M. NAVE: Term structure estimation, liquidity-induced heteroskedasticity and the price of liquidity risk.
- 1309 PABLO HERNÁNDEZ DE COS and ENRIQUE MORAL-BENITO: Fiscal multipliers in turbulent times: the case of Spain.
- 1310 SAMUEL HURTADO: DSGE models and the Lucas critique.
- 1311 HENRIQUE S. BASSO and JAMES COSTAIN: Fiscal delegation in a monetary union with decentralized public spending.
- 1312 MAITE BLÁZQUEZ CUESTA and SANTIAGO BUDRÍA: Does income deprivation affect people's mental well-being?
- 1313 ENRIQUE ALBEROLA, ÁNGEL ESTRADA and DANIEL SANTABÁRBARA: Growth beyond imbalances. Sustainable growth rates and output gap reassessment.
- 1314 CARMEN BROTO and GABRIEL PEREZ-QUIROS: Disentangling contagion among sovereign CDS spreads during the European debt crisis.
- 1315 MIGUEL GARCÍA-POSADA and JUAN S. MORA-SANGUINETTI: Are there alternatives to bankruptcy? A study of small business distress in Spain.
- 1316 ROBERTO RAMOS and ENRIQUE MORAL-BENITO: Agglomeration matters for trade.
- 1317 LAURA HOSPIDO and GEMA ZAMARRO: Retirement patterns of couples in Europe.
- 1318 MAXIMO CAMACHO, GABRIEL PEREZ-QUIROS and PILAR PONCELA: Short-term forecasting for empirical economists. A survey of the recently proposed algorithms.
- 1319 CARLOS PÉREZ MONTES: The impact of interbank and public debt markets on the competition for bank deposits.
- 1320 OLYMPIA BOVER, JOSE MARIA CASADO, SONIA COSTA, PHILIP DU CAJU, YVONNE MCCARTHY, EVA SIERMINSKA, PANAGIOTA TZAMOURANI, ERNESTO VILLANUEVA and TIBOR ZAVADIL: The distribution of debt across euro area countries: the role of Individual characteristics, institutions and credit conditions.
- 1321 BRINDUSA ANGHIEL, SARA DE LA RICA and AITOR LACUESTA: Employment polarisation in Spain over the course of the 1997-2012 cycle.
- 1322 RODOLFO G. CAMPOS and ILIANA REGGIO: Measurement error in imputation procedures.
- 1323 PABLO BURRIEL and MARÍA ISABEL GARCÍA-BELMONTE: Meeting our D€STINY. A Disaggregated €uro area Short Term Indicator model to forecast GDP (Y) growth.
- 1401 TERESA SASTRE and FRANCESCA VIANI: Countries' safety and competitiveness, and the estimation of current account misalignments.
- 1402 FERNANDO BRONER, ALBERTO MARTIN, AITOR ERCE and JAUME VENTURA: Sovereign debt markets in turbulent times: creditor discrimination and crowding-out effects.
- 1403 JAVIER J. PÉREZ and ROCÍO PRIETO: The structure of sub-national public debt: liquidity vs credit risks.
- 1404 BING XU, ADRIAN VAN RIXTEL and MICHIEL VAN LEUVENSTEIJN: Measuring bank competition in China: a comparison of new versus conventional approaches applied to loan markets.
- 1405 MIGUEL GARCÍA-POSADA and JUAN S. MORA-SANGUINETTI: Entrepreneurship and enforcement institutions: disaggregated evidence for Spain.
- 1406 MARIYA HAKE, FERNANDO LÓPEZ-VICENTE and LUIS MOLINA: Do the drivers of loan dollarisation differ between CESEE and Latin America? A meta-analysis.
- 1407 JOSÉ MANUEL MONTERO and ALBERTO URTASUN: Price-cost mark-ups in the Spanish economy: a microeconomic perspective.
- 1408 FRANCISCO DE CASTRO, FRANCISCO MARTÍ, ANTONIO MONTESINOS, JAVIER J. PÉREZ and A. JESÚS SÁNCHEZ-FUENTES: Fiscal policies in Spain: main stylised facts revisited.

- 1409 MARÍA J. NIETO: Third-country relations in the Directive establishing a framework for the recovery and resolution of credit institutions.
- 1410 ÓSCAR ARCE and SERGIO MAYORDOMO: Short-sale constraints and financial stability: evidence from the Spanish market.
- 1411 RODOLFO G. CAMPOS and ILIANA REGGIO: Consumption in the shadow of unemployment.
- 1412 PAUL EHLING and DAVID HAUSHALTER: When does cash matter? Evidence for private firms.
- 1413 PAUL EHLING and CHRISTIAN HEYERDAHL-LARSEN: Correlations.
- 1414 IRINA BALTEANU and AITOR ERCE: Banking crises and sovereign defaults in emerging markets: exploring the links.
- 1415 ÁNGEL ESTRADA, DANIEL GARROTE, EVA VALDEOLIVAS and JAVIER VALLÉS: Household debt and uncertainty: private consumption after the Great Recession.
- 1416 DIEGO J. PEDREGAL, JAVIER J. PÉREZ and A. JESÚS SÁNCHEZ-FUENTES: A toolkit to strengthen government budget surveillance.
- 1417 J. IGNACIO CONDE-RUIZ, and CLARA I. GONZÁLEZ: From Bismarck to Beveridge: the other pension reform in Spain.
- 1418 PABLO HERNÁNDEZ DE COS, GERRIT B. KOESTER, ENRIQUE MORAL-BENITO and CHRISTIANE NICKEL: Signalling fiscal stress in the euro area: a country-specific early warning system.
- 1419 MIGUEL ALMUNIA and DAVID LÓPEZ-RODRÍGUEZ: Heterogeneous responses to effective tax enforcement: evidence from Spanish firms.
- 1420 ALFONSO R. SÁNCHEZ: The automatic adjustment of pension expenditures in Spain: an evaluation of the 2013 pension reform.
- 1421 JAVIER ANDRÉS, ÓSCAR ARCE and CARLOS THOMAS: Structural reforms in a debt overhang.
- 1422 LAURA HOSPIDO and ENRIQUE MORAL-BENITO: The public sector wage premium in Spain: evidence from longitudinal administrative data.
- 1423 MARÍA DOLORES GADEA-RIVAS, ANA GÓMEZ-LOSCOS and GABRIEL PÉREZ-QUIRÓS: The Two Greatest. Great Recession vs. Great Moderation.
- 1424 ENRIQUE MORAL-BENITO and OLIVER ROEHN: The impact of financial (de)regulation on current account balances.
- 1425 MÁXIMO CAMACHO and JAIME MARTÍNEZ-MARTÍN: Real-time forecasting US GDP from small-scale factor models.
- 1426 ALFREDO MARTÍN OLIVER, SONIA RUANO PARDO and VICENTE SALAS FUMÁS: Productivity and welfare: an application to the Spanish banking industry.
- 1427 JAVIER ANDRÉS and PABLO BURRIEL: Inflation dynamics in a model with firm entry and (some) heterogeneity.
- 1428 CARMEN BROTO and LUIS MOLINA: Sovereign ratings and their asymmetric response to fundamentals.
- 1429 JUAN ÁNGEL GARCÍA and RICARDO GIMENO: Flight-to-liquidity flows in the euro area sovereign debt crisis.
- 1430 ANDRÉ LEMELIN, FERNANDO RUBIERA-MOROLLÓN and ANA GÓMEZ-LOSCOS: Measuring urban agglomeration. A refoundation of the mean city-population size index.
- 1431 LUIS DíEZ-CATALÁN and ERNESTO VILLANUEVA: Contract staggering and unemployment during the Great Recession: evidence from Spain.
- 1501 LAURA HOSPIDO and EVA MORENO-GALBIS: The Spanish productivity puzzle in the Great Recession.
- 1502 LAURA HOSPIDO, ERNESTO VILLANUEVA and GEMA ZAMARRO: *Finance for all*: the impact of financial literacy training in compulsory secondary education in Spain.
- 1503 MARIO IZQUIERDO, JUAN F. JIMENO and AITOR LACUESTA: Spain: from immigration to emigration?
- 1504 PAULINO FONT, MARIO IZQUIERDO and SERGIO PUENTE: Real wage responsiveness to unemployment in Spain: asymmetries along the business cycle.
- 1505 JUAN S. MORA-SANGUINETTI and NUNO GAROUPA: Litigation in Spain 2001-2010: Exploring the market for legal services.
- 1506 ANDRES ALMAZAN, ALFREDO MARTÍN-OLIVER and JESÚS SAURINA: Securitization and banks' capital structure.
- 1507 JUAN F. JIMENO, MARTA MARTÍNEZ-MATUTE and JUAN S. MORA-SANGUINETTI: Employment protection legislation and labor court activity in Spain.
- 1508 JOAN PAREDES, JAVIER J. PÉREZ and GABRIEL PEREZ-QUIRÓS: Fiscal targets. A guide to forecasters?