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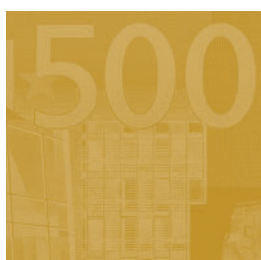
**SHOULD QUARTERLY
GOVERNMENT FINANCE
STATISTICS BE USED FOR
FISCAL SURVEILLANCE
IN EUROPE?**

by Diego J. Pedregal
and Javier J. Pérez



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In 2008 all ECB publications feature a motif taken from the €10 banknote.

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Abstract

We use a newly available dataset of euro area quarterly national accounts fiscal data and construct multivariate, state-space mixed-frequencies models for the government deficit, revenue and expenditure in order to assess its information content and its potential use for fiscal forecasting and monitoring purposes. The models are estimated with annual and quarterly national accounts fiscal data, but also incorporate monthly information taken from the cash accounts of the governments. The results show the usefulness of our approach for real-time fiscal policy surveillance in Europe, given the current policy framework in which the relevant official figures are expressed in annual terms.

JEL Classification: C53; E6; H6.

Keywords: Fiscal policies; Mixed frequency data; Forecasting; Unobserved Components Models; State Space; Kalman Filter.

Non-technical summary

The issue addressed in this paper is how to obtain timely estimates of annual government deficits. The operation of the fiscal policy coordination device in the European Union (EU), i.e. the Stability and Growth Pact, is directly related to an annual multilateral assessment of EU countries' latest budgetary figures and fiscal plans, including targets and projections for subsequent years. The relevant official figures used for this assessment are expressed in annual terms, using as conceptual reference method the European System of Integrated Economic Accounts (ESA95). The first estimates of annual figures of year $t-1$ are made available by Spring of year t , in line with standard National Accounts compilation practices, while the second estimate is due by Autumn of year t , and is sometimes subject to further revisions in subsequent years (see Bier, Mink & Rodriguez-Vives, 2004, Gordo and Nogueira-Martins, 2007).

The fact that the multilateral EU system is solely based on annual fiscal data might limit the ability to early detect departures from fiscal rules, and hinder the ability of private sector agents and the monetary authority to timely internalize fiscal policy shocks. Thus a number of EU regulations have developed the mandate to compile quarterly ESA95 fiscal data. Following these regulations Eurostat started to disseminate quarterly budget balance figures for the EU aggregates and for most member countries in April 2006, while the European Central Bank (ECB) has been publishing euro area aggregates since August 2004 (see ECB, 2004). Quarterly general government accounts present some shortcomings in terms of coverage of revenue and expenditure items, sample size (period starting in 1999Q1 with some exceptions), and timeliness (at least with 90 days delay). In addition, there is still some heterogeneity as regards country availability. For example, Germany and France only publish quarterly figures for the four quarters of a given year in conjunction with the release calendar of the annual accounts of that year. Nevertheless, the euro area aggregate is timely published following a regular quarterly publication calendar.

Even considering all these caveats, it is fair to say that the ESA95 quarterly accounts for the general government, as currently disseminated by Eurostat, represent an important improvement in the matter of timeliness with respect to only using annual ESA95 accounts. Thus the aim of this paper is to analyze in how far using this new set of information might help improving monitoring and forecasting annual ESA95 figures within the current year.

We construct multivariate, state-space mixed-frequencies models for the euro area aggregate fiscal deficit, revenue and expenditure, based on annual and quarterly ESA95 figures, and on

monthly information taken from the cash accounts of governments. Our approach is closely related to Harvey and Chung (2000), Moauro and Savio (2005), and Proietti and Moauro (2006). These papers use a temporal aggregation method that relies on the information contained on related indicators observed at the desired higher frequency. In our case this approach allows the estimation of a monthly model using annual, quarterly and monthly observations, and permit changes over time arising from an increase in sample size.

We move beyond the relevant literature in the following respects: (i) we focus on forecasting while the motivation of most studies is the estimation of unobserved measurements of certain variables based on measured data, with little interest in forecasting performance; (ii) we make extensive use of a three frequencies setup: annual, quarterly and monthly data; (iii) we always model and estimate models with non seasonally-adjusted data. The analysis focuses on forecasting quarterly ESA95 general government deficit, total revenue and total expenditure for the euro area aggregate, as published in the Monthly Bulletin of the European Central Bank (based on Eurostat data). The focus on the euro area aggregate stems from data availability in real time (following a quarterly calendar of releases) while country data as such in some cases is only available with a much longer delay.

Our results unambiguously show the potential gains that would be derived from using quarterly ESA95 figures for fiscal surveillance in Europe.

A valuable by-product of our analysis is that we provide interpolated monthly series of annual fiscal variables based only on intra-annual *fiscal information*. This is a relevant point for further research devoted to the integration of intra-annual fiscal variables in more general macroeconomic studies. A clear advantage of using only intra-annual fiscal data to interpolate annual fiscal variables versus an approach based on quarterly GDP and other macroeconomic variables lies in the circularity that the latter approach might induce in case the so interpolated fiscal series were used with GDP or other macro variables to assess the intra-annual impact of fiscal policies (GDP used to generate intra-annual dynamics in fiscal variables and then the so-generated fiscal variables used in turn to assess the intra-annual impact of fiscal policies). An approach like the one presented in our paper which is solely based on intra-annual fiscal information is free from this caveat.

1 Introduction

The issue addressed in this paper is how to obtain timely estimates of annual government deficits. The operation of the fiscal policy coordination device in the European Union (EU), i.e. the Stability and Growth Pact, is directly related to an annual multilateral assessment of EU countries' latest budgetary figures and fiscal plans, including targets and projections for subsequent years. The relevant official figures used for this assessment are expressed in annual terms, using as conceptual reference method the European System of Integrated Economic Accounts (ESA95). The first estimates of annual figures of year $t-1$ are made available by Spring of year t , in line with standard National Accounts compilation practices, while the second estimate is due by Autumn of year t , and is sometimes subject to further revisions in subsequent years (see Bier, Mink & Rodriguez-Vives, 2004, Gordo and Nogueira-Martins, 2007).

The fact that the multilateral EU system is solely based on annual fiscal data might limit the ability to early detect departures from fiscal rules, and hinder the ability of private sector agents and the monetary authority to timely internalize fiscal policy shocks. Thus a number of EU regulations have developed the mandate to compile quarterly ESA95 fiscal data.¹ Following these regulations Eurostat started to disseminate quarterly budget balance figures for the EU aggregates and for most member countries in April 2006, while the European Central Bank (ECB) has been publishing euro area aggregates since August 2004 (see ECB, 2004). Quarterly general government accounts present some shortcomings in terms of coverage of revenue and expenditure items, sample size (period starting in 1999Q1 with some exceptions), and timeliness (at least with 90 days delay). In addition, there is still some heterogeneity as regards country availability. For example, Germany and France only publish quarterly figures for the four quarters of a given year in conjunction with the release calendar of the annual accounts of that year.² Nevertheless, the euro area aggregate is timely published following a regular quarterly publication calendar.

Even considering all these caveats, it is fair to say that the ESA95 quarterly accounts for the general government, as currently disseminated by Eurostat, represent an important improvement in the matter of timeliness with respect to only using annual ESA95 accounts. Thus the aim of this paper is to analyze in how far using this new set of information might help improving monitoring and forecasting annual ESA95 figures within the current year. Figure 1 (left panel) shows the annual ESA95 euro area government deficit path over the past 20 years, together with the four-quarter moving sum of quarterly ESA95 figures for the period 1999Q4-2006Q4 (the period for which

the quarterly figures are available). The reduction in the sampling interval from 1999 onwards is evident by simple visual inspection.

Figure 1 (right panel, solid line) also displays another measure of euro area fiscal deficit, based on monthly cash accounts of governments³ that traces the profile of annual/quarterly ESA95 figures over the same period of time. Monthly and quarterly revenue and expenditure cash data on central government and other sub-sectors of the general government have been recently shown to contain valuable information for monitoring and forecasting euro area annual ESA95 fiscal deficits (Pérez, 2007, Onorante *et al.*, 2008), are available with a delay of one to three months, and typically cover long periods of the recent history (i.e. it is possible to find deficit series going back to the 1980s or even the 1970s). We add this set of information to the analysis for three reasons. Firstly, to overcome the short sample problem associated with quarterly ESA95 figures (backcasting). Secondly, to assess its potential use for nowcasting quarterly ESA95 figures. Finally, to assess whether including quarterly ESA95 figures would improve the estimation of annual deficit figures within the year compared to an approach solely based on intra-annual monthly cash data.

An optimal way to use these data is to build a single model that relates data at all frequencies. In this paper we construct multivariate, state-space mixed-frequencies models for the euro area aggregate fiscal deficit, revenue and expenditure, based on annual and quarterly ESA95 figures, and on monthly information taken from the cash accounts of governments. Our approach is closely related to Harvey and Chung (2000), Moauro and Savio (2005), and Proietti and Moauro (2006).⁴ These papers use a temporal aggregation method that relies on the information contained on related indicators observed at the desired higher frequency. The statistical treatment of structural time series models is based on the state space form and the Kalman Filter (see Harvey, 1989). In our case this approach allows the estimation of a monthly model using annual, quarterly and monthly observations, and permit changes over time arising from an increase in sample size.

We move beyond the relevant literature in the following respects: (i) we focus on forecasting while the motivation of most studies is the estimation of unobserved measurements of certain variables based on measured data, with little interest in forecasting performance⁵; (ii) we make extensive use of a three frequencies setup: annual, quarterly and monthly data; (iii) we always model and estimate models with non seasonally-adjusted data.

The analysis focuses on forecasting quarterly ESA95 general government deficit, total revenue and total expenditure for the euro area aggregate, as published in the Monthly Bulletin of the European Central Bank (based on Eurostat data). The focus on the euro area aggregate stems

from its availability in real time (following a quarterly calendar of releases) while country data as such in some cases is only available with a much longer delay, most noticeably in the above-mentioned cases of Germany and France. Monthly public accounts data for Belgium, Germany, Greece, Spain, France, Italy, the Netherlands, Ireland, Austria, Portugal and Finland are used as well. The results unambiguously show the potential gains that would be derived from using quarterly ESA95 figures for fiscal surveillance in Europe.

With a focus on forecasting the annual government deficit we also evaluate the comparative behaviour of approaches that directly forecast the government deficit versus approaches that forecast government revenues and government expenditures and then compute forecasts for the deficit as a residual variable (revenue minus expenditure).

A valuable by-product of our analysis is that we provide interpolated monthly series of annual fiscal variables based only on intra-annual *fiscal information*. This is a relevant point for further research devoted to the integration of intra-annual fiscal variables in more general macroeconomic studies. A clear advantage of using only intra-annual fiscal data to interpolate annual fiscal variables versus an approach based on quarterly GDP and other macroeconomic variables lies in the circularity that the latter approach might induce in case the so interpolated fiscal series were used with GDP or other macro variables to assess the intra-annual impact of fiscal policies (GDP used to generate intra-annual dynamics in fiscal variables and then the so-generated fiscal variables used in turn to assess the intra-annual impact of fiscal policies).⁶ An approach like the one presented in our paper which is solely based on intra-annual fiscal information is free from this caveat.

The paper is organized as follows. Section 2 presents the data employed and the timing convention used for the main empirical exercise. Section 3 presents our methodological approach. Section 4 describes a thorough forecasting exercise to test alternative models and presents also a comparison with the projections of annual fiscal data produced by the European Commission (EC henceforth). Section 5 shows some additional empirical results (value added of quarterly figures vs an approach solely based on intra-annual monthly information, interpolation, real-time considerations), while Section 6 concludes.

2 Data description and timing

2.1 Data sources

Data covers the period 1984-2006. Annual ESA95 data and monthly cash accounts are available for the whole period, while quarterly ESA95 figures are only available for the period 1999Q1-2006Q4. Quarterly and annual ESA95 data have been taken from Eurostat and/or the Monthly Bulletin of the ECB. The impact of one-off proceeds from the allocation of mobile licenses (UMTS) that sizeably distort some years was removed from the relevant series (deficit and expenditure).

The monthly cash data have been taken from different national sources that are mostly available from the internet.⁷ In some instances it was necessary to use more than one source of cash information. In the case of Germany the monthly time series available for the Federal Government (deficit, total revenue, total expenditure) were used to nowcast quarterly budgetary figures available for the General Government, thus constructing monthly time series. In the case of Austria and Ireland (central government deficit series) the fact that part of the sample was available at the quarterly frequency (1984-1987, and 1984-1995 respectively for Austria and Ireland) and the rest at the monthly frequency also forced the estimation of a mixed-frequency model) to generate monthly cash series.⁸ For a deep analysis of the detailed accounting rules and conventions involved in the compilation of the Net Borrowing/Net Lending of the General Government, and the differences between National Accounts and Public Accounts, the interested reader can consult Eurostat (1996, 2002b) for National Accounts-related matters, and <http://dsbb.imf.org> for Public Accounts specific features.

2.2 Transformations of the variables

The mixture of frequencies, and the estimation of models at the monthly frequency, implies combining variables that at the monthly frequency can be considered as stocks (the annual and quarterly variables) with those being pure flows (the monthly variables). An annual ESA95 series cast into the monthly frequency is a set of missing observations for the first months of the year (January to November) and the observed value assigned to the last month of each year (December). Theoretically the annual ESA95 series would be obtained from a monthly ESA95 series by summation of the 12 months of a year (January to December) had they been available. In the same fashion, a quarterly ESA95 series cast at the monthly frequency encompasses missing observations for the first and the second month of each quarter, while the quarterly observation would be assigned to

the last month of each quarter. Theoretically the quarterly ESA95 series would be obtained from a monthly ESA95 series by summation of the 3 months of each quarter had they been available.

Given this fact, we are interested in two kinds of combinations of variables. On the one hand, the baseline mixed-frequencies models would comprise variables that are included as they come from the official statistics. The annual ESA95 figure for a given year is assigned to December of this very year, the quarterly figure for a given quarter is assigned to the third month of that quarter. Then the model takes care of guaranteeing the accounting constraints between annual, quarterly and monthly data.

The second alternative is to transform monthly and quarterly variables so that they can be considered as "annual stocks". For a given ESA95 variable z_t we shall denote Z_t at each t as the rolling (moving) sum of monthly observations over the previous 12 months. Thus when the subindex t equals December of a given year Z_t represents the yearly result. In the same fashion, for a given budgetary (cash) variable u_t we shall denote U_t as the rolling (moving) sum of monthly observations over the previous 12 months.

Thus, we estimate models for the general government budget balance, and general government total revenue and total expenditure, while at the same time exploring two types of data input: (i) input variables expressed as 12-month moving sums; (ii) input variables expressed as originally obtained. The latter distinction is relevant from a practitioner's viewpoint as the sum of four consecutive quarters / 12 consecutive months generates the annual variable, which is the objective in the current policy framework, and thus rolling summation is a widely used measure in practitioner's circles.

At the same time we will explore two sets of monthly cash information for each data approach: (i) country monthly cash series for the big 5 euro area countries (Germany, France, Italy, Spain, Netherlands) and an aggregate of smaller countries (Austria, Greece, Ireland, Portugal, Finland); (ii) an aggregate of country indicators.

With all these case, we will cover a quite rich set of alternatives in our empirical exercises.

2.3 Timing rules

In order to replicate the real-time constraints faced by real-time fiscal policy analysts, we adopt the timing rules displayed in Table 1, following the standard dates of dissemination of data at the different frequencies. In the table we show the available information in each quarter of a given year. Annual ESA95 figures for year $t - 1$ are first released by Eurostat in March/April of year t



but the validation processes by Eurostat of figures reported by national statistical agencies render April/May as the actual date in which usable/reliable figures are available to an outside analyst. Thus, from a quarterly observation perspective, it is fair to assume that the annual figure for year $t - 1$ is only available in the second quarter of year t . In a related fashion, the quarterly ESA95 figures for the fourth quarter of year $t - 1$ are only available in the course of the second quarter of year t . Regarding monthly cash accounts, we follow the assumption of availability with a lag of two months. We deem this convention also as a fair heuristic representation of reality.

3 The models

The basic model will be a multivariate Unobserved Components Model known as the Basic Structural Model (Harvey 1989) that decomposes a set of time series in unobserved components but meaningful from an economic point of view (trend, \mathbf{T}_t , seasonal, \mathbf{S}_t , and irregular, \mathbf{e}_t). A general form is given in equation (1), where t is a time sub-index measured in months (thus models are cast at the monthly frequency), \mathbf{z}_t denotes the variable in ESA95 terms expressed at an annual and quarterly sampling interval (depending on availability) for the deficit (scalar) or revenue and expenditure (vector), and \mathbf{u}_t represents the vector of monthly cash indicators.

$$\begin{bmatrix} \mathbf{z}_t \\ \mathbf{u}_t \end{bmatrix} = \mathbf{T}_t + \mathbf{S}_t + \mathbf{e}_t \quad (1)$$

The general consensus about this type of models is to allow the components of the same type to interact among them for different time series, but to be independent of any of the components of different types. For example, trends are related among them, but are independent of the seasonal components. A model for each of the components has to be set up in a State Space framework, and a full model may be built by block concatenation of the individual components. The full model is a standard BSM that may be written in its State Space form as in equations (2) to (5) (see Harvey, 1989)

$$\mathbf{x}_t = \mathbf{\Phi}\mathbf{x}_{t-1} + \mathbf{E}\mathbf{w}_t \quad (2)$$

$$\begin{bmatrix} \mathbf{z}_t \\ \mathbf{u}_t \end{bmatrix} = \begin{bmatrix} \mathbf{H} \\ \mathbf{H}^u \end{bmatrix} \mathbf{x}_t + \begin{bmatrix} \boldsymbol{\epsilon}_t \\ \mathbf{v}_t \end{bmatrix} \quad (3)$$

where

$$\epsilon_t \sim N(0, \Sigma_\epsilon) \quad (4)$$

$$\mathbf{v}_t \sim N(0, \Sigma_{\mathbf{v}_t}) \quad (5)$$

The system matrices Φ , \mathbf{E} , \mathbf{H} and \mathbf{H}^u in equations (2)-(3) include the particular definitions of the Components and all the vector noises have the usual Gaussian properties with zero mean and constant covariance matrices (ϵ_t and \mathbf{v}_t are correlated among them, but both are independent of \mathbf{w}_t). The particular structure of the covariance matrices of the observed and transition noises defines the structures of correlations among the components across output variables.

An additional modelling difficulty in our case arises from the different sampling intervals of the time series involved. In particular, the annual-quarterly ESA95 data in the moving-sum models are the sum of 12 monthly observations in the time span where only ESA95 annual data are available and 3 monthly observations in the period where ESA95 quarterly data are available. This temporal aggregation problem will be dealt with differently depending on the nature of \mathbf{z}_t and \mathbf{u}_t , i.e. depending on whether these variables are defined as moving sums or flows. It is well-known that, given the structure of system (2) and the information available, the Kalman Filter and Fixed Interval Smoother algorithms provide an optimal estimation of the states \mathbf{x}_t . Maximum Likelihood in the time domain provides optimal estimates of the unknown system matrices, that in the present context, are just the covariance matrices of all the vector noises involved in the model. See details e.g. in Harvey (1989) or Pedregal and Young (2002).

3.1 Models for the variables expressed as moving sums

The basic model described by (2) and (3) is suitable as such for rolling sums. As \mathbf{z}_t and \mathbf{u}_t are rolling sums of the original data, the seasonal component is not included, since the summation operation washes out the seasonality in the data.

Four versions of the model are estimated:

- **Model MS1:** bivariate version in which $\mathbf{z}_t = Z_t$ refers to euro area deficit in ESA95 terms (annual data for 1984-1998, quarterly data for 1999-2006) expressed as moving sums of four previous quarters, and $\mathbf{u}_t = \sum_{i=1}^6 U_{it}$, $\forall t$, is an aggregate of cash deficit series (monthly data for 1984-2006, expressed as moving sums of twelve previous months) of the following countries U_{1t} : Germany, U_{2t} : France, U_{3t} : Italy, U_{4t} : Spain, U_{5t} : the Netherlands, U_{6t} : sum of Belgium, Greece, Ireland, Austria, Finland, Portugal.

- **Model MS2:** multivariate version in which \mathbf{z}_t is defined as in MS1, and $\mathbf{u}_t = [U_{1t}, U_{2t}, \dots, U_{6t}]$ are cash deficit series (monthly data for 1984-2006, expressed as moving sums of twelve previous months) of the following countries U_{1t} : Germany, U_{2t} : France, U_{3t} : Italy, U_{4t} : Spain, U_{5t} : the Netherlands, U_{6t} : sum of Belgium, Greece, Ireland, Austria, Finland, Portugal.
- **Model MS3:** multivariate version for total revenue and total expenditure. In this case $\mathbf{z}_t = [Z_{1t}, Z_{2t}]^T$ where Z_{1t} and Z_{2t} refer to euro area total revenue and total expenditure respectively, both in ESA95 terms (annual data for 1984-1998, quarterly data for 1999-2006). Regarding cash variables $\mathbf{u}_t = [\mathbf{u}_{1t}, \mathbf{u}_{2t}]^T$ where $\mathbf{u}_{1t} = \sum_{i=1}^5 U_{it}^1, \forall t$, is an aggregate of total revenue indicators in cash terms (monthly data for the period 1984-2006), and $\mathbf{u}_{2t} = \sum_{i=1}^5 U_{it}^2, \forall t$, is an aggregate of total expenditure indicators in cash terms (monthly data for the period 1984-2006). In both cases, the big five euro area countries are covered: Germany (U_{1t}^j), France (U_{2t}^j), Italy (U_{3t}^j), Spain (U_{4t}^j) and the Netherlands (U_{5t}^j), $\forall j = 1, 2$.
- **Model MS4:** multivariate version for total revenue and total expenditure. In this case \mathbf{z}_t is defined as in MS3. Regarding cash variables $\mathbf{u}_t = [\mathbf{u}_{1t}, \mathbf{u}_{2t}]^T$ where $\mathbf{u}_{1t} = [U_{1t}^1 \dots U_{5t}^1]^T$ refer to total revenue in cash terms (monthly data for 1984-2006) and $\mathbf{u}_{2t} = [U_{1t}^2 \dots U_{5t}^2]^T$ refer to total expenditure in cash terms (monthly data for 1984-2006). In both cases, the big five euro area countries are covered: Germany (U_{1t}^j), France (U_{2t}^j), Italy (U_{3t}^j), Spain (U_{4t}^j) and the Netherlands (U_{5t}^j), $\forall j = 1, 2$.

3.2 Flow models

There are several additional steps to carry out when the original flow variables are to be used, in order to address the time aggregation problem. If the original data is used, then the seasonal component is compulsory and in our particular case such component is considered independent across countries as it is assumed to reflect country-specific institutional arrangements.⁹ In order to set up a model in which the temporal aggregation is taken into account explicitly a cumulator variable has to be defined.

A first step is setting up model (2)-(3) including the first observation equation into the state vector. The second step consist of adding a cumulator variable to this model to guarantee accounting consistency within the year. This cumulator variable is defined as:

$$C_t = \begin{cases} 0, & t = \text{every January (Monthly data) / first quarter (Quarterly data)} \\ 1, & \text{otherwise} \end{cases} \quad (6)$$

Thus the model turns out to be:

$$\begin{bmatrix} \mathbf{z}_t \\ \mathbf{x}_t \end{bmatrix} = \begin{bmatrix} C_t \otimes \mathbf{I} & \mathbf{H}\Phi \\ \mathbf{0} & \Phi \end{bmatrix} \begin{bmatrix} \mathbf{z}_{t-1} \\ \mathbf{x}_{t-1} \end{bmatrix} + \begin{bmatrix} 1 & \mathbf{H} \\ \mathbf{0} & \mathbf{E} \end{bmatrix} \begin{bmatrix} \epsilon_t \\ \mathbf{w}_t \end{bmatrix} \quad (7)$$

$$\begin{bmatrix} \mathbf{z}_t \\ \mathbf{u}_t \end{bmatrix} = \begin{bmatrix} \mathbf{I} & \mathbf{0} \\ \mathbf{0} & \mathbf{H}^u \end{bmatrix} \begin{bmatrix} \mathbf{z}_t \\ \mathbf{x}_t \end{bmatrix} + \begin{bmatrix} \mathbf{0} \\ \mathbf{I} \end{bmatrix} \mathbf{v}_t \quad (8)$$

It is worth noticing that this model has one time varying system matrix due to the introduction of the cumulator variable. Once more, four versions of the model are estimated.

- **Model F1:** bivariate version in which $\mathbf{z}_t = z_t$ refers to euro area flow deficit in ESA95 terms (annual data for 1984-1998, quarterly data for 1999-2006), and $\mathbf{u}_t = u_t = \sum_{i=1}^6 u_{it}$, $\forall t$ is an aggregate of cash deficit series (monthly data for 1984-2006) for the following countries u_{1t} : Germany, u_{2t} : France, u_{3t} : Italy, u_{4t} : Spain, u_{5t} : the Netherlands, u_{6t} : sum of Belgium, Greece, Ireland, Austria, Finland, Portugal.
- **Model F2:** multivariate version for total revenue and total expenditure. In this case $\mathbf{z}_t = [z_{1t} \ z_{2t}]^T$ where z_{1t} and z_{2t} refer to euro area total revenue and total expenditure respectively, both in ESA95 terms (annual data for 1984-1998, quarterly data for 1999-2006) and as originally reported by Eurostat (i.e. flows). Regarding cash variables $\mathbf{u}_t = [\mathbf{u}_{1t}, \mathbf{u}_{2t}]^T$ where $\mathbf{u}_{1t} = \sum_{i=1}^6 u_{it}^1$ is an aggregate of total revenue cash series (monthly data for 1984-2006) and $\mathbf{u}_{2t} = \sum_{i=1}^6 u_{it}^2$ is an aggregate of total expenditure cash series (monthly data for 1984-2006). In both cases, the big five euro area countries are covered: Germany (u_{1t}^j), France (u_{2t}^j), Italy (u_{3t}^j), Spain (u_{4t}^j) and the Netherlands (u_{5t}^j), $\forall j = 1, 2$.
- **Model F3:** multivariate version in which \mathbf{z}_t is defined as in F1, and $\mathbf{u}_t = [u_{1t}, u_{2t}, \dots, u_{6t}]$ are cash deficit series (monthly data for 1984-2006) for the following countries u_{1t} : Germany, u_{2t} : France, u_{3t} : Italy, u_{4t} : Spain, u_{5t} : the Netherlands, u_{6t} : sum of Belgium, Greece, Ireland, Austria, Finland, Portugal.
- **Model F4:** multivariate version for total revenue and total expenditure. In this case \mathbf{z}_t is defined as in F2. Regarding cash variables $\mathbf{u}_t = [\mathbf{u}_{1t}, \mathbf{u}_{2t}]^T$ where $\mathbf{u}_{1t} = [u_{1t}^1 \dots u_{5t}^1]^T$ refer to total revenue in cash terms (monthly data for 1984-2006) and $\mathbf{u}_{2t} = [u_{1t}^2 \dots u_{5t}^2]^T$ refer to total expenditure in cash terms (monthly data for 1984-2006). In both cases, the big five euro area countries are covered: Germany (u_{1t}^j), France (u_{2t}^j), Italy (u_{3t}^j), Spain (u_{4t}^j) and the Netherlands (u_{5t}^j), $\forall j = 1, 2$.

4 Comparison of alternative models

4.1 Forecasting exercise

With this forecasting exercise we want to test:

1. The information content of the quarterly data,
2. The comparative behaviour of models that use variables expressed as moving sums versus the use of flows,
3. The forecast record of models that use intra-annual information versus a random walk solely based on annual data,
4. The comparative performance of approaches that directly forecast the government deficit versus approaches that forecast government revenues and government expenditures and then compute forecasts for the deficit as a residual variable (revenue minus expenditure).
5. The nowcasting properties of different models (one-quarter-ahead forecasts).

In order to achieve these goals we add to the list of models described in the previous section the following models: (i) Quarterly random walk (QRW henceforth); (ii) annual random walk (ARW henceforth); (iii) EC forecasts. The QRW alternative allows to test against an alternative purely based on quarterly ESA95 information. The ARW alternative is the standard naive benchmark. Finally, as shown in Artis and Marcelino (2001) and Keereman (1999), the forecast record of the EC is among the best of international organizations producing regular forecasts of GDP, inflation and government deficits for European countries. The EC forecasts tend to make use of all available information at the time the forecasts is done (rationality), and are based on a bottom-up approach, not forecasting directly the deficit/surplus but rather computing it as the difference between revenues and expenditures. In addition, EC fiscal forecasts use both macroeconomic models and expert judgement. That is why checking the performance of the mixed-frequency models against EC forecasts should be a quite demanding criterion.¹⁰

Then we perform a rolling forecasting exercise in which the selection of the forecast origin and the information set available at each date are carefully controlled for. In particular we evaluate the forecasts generated from four forecast origins per year from March 2001 to December 2006 (this makes up to 24 projections at each forecast horizon). The first forecast origin is March 2001,

and following the timing convention outlined before (see Table 1) the annual information available covers up to the year 1999, the quarterly information up to 2000:Q3, and the monthly information up to January 2001. The second forecast origin is June 2001, with annual information up to 2000, quarterly up to 2000:Q4 and monthly up to January-April 2001. Then we move the forecast origin to September 2001 and so on and so forth until December 2006.¹¹

Finally, we present two standard, quantitative measures of forecasting performance. Firstly, the ratio of the Root Mean Squared Errors (RMSE) of the different alternative models with respect to the ARW and/or QRW alternatives. Secondly, we also look at the Diebold and Mariano test (Diebold and Mariano, 1995), and test for the null hypothesis of no difference in the accuracy of two competing forecasts. The Diebold-Mariano test could be biased when parameter uncertainty is taken into account (see for example Clark and McCracken, 2001). The fact that we check the forecasting performance of the mixed-frequency models against EC forecasts (taken from published reports), makes it not possible to assess the parameter uncertainty associated to the latter set of projections. We make sure that a reasonable proportion of the sample is employed when the first out-of-sample forecast is computed to reduce the bias generated by ignoring parameter uncertainty (the forecasting exercise is performed on the moving window 2001-2006, while the full sample covers 1984-2006).

We focus on the forecast performance at two horizons: (i) annual projections (forecasts generated from each forecast origin for the end of the current year); (ii) one-quarter-ahead forecasts (forecasts for the next quarter).

4.2 Results

Table 2 shows the results for the end-of-the-year forecasts performed using the alternative models. It shows the RMSE ratios of the different alternative models to the ARW alternative, and the Diebold-Mariano tests of equal forecast accuracy for each pair of models. As regards the RMSE ratios the results clearly show that all alternatives with intra-annual update (mixed-frequency models, QRW and EC) beat the ARW. The ratios range from 0.40 of model MS2 to the 0.86 of EC. As regards the ratios between pairs of the other alternatives except ARW, all mixed-frequency models beat QRW, that in turn beats EC. The RMSE of the mixed frequency models to QRW lie in the interval (0.55, 0.96), with a median of 0.79. Regarding the results of the Diebold-Mariano test, there is a raise in mixed-frequency models that present a better performance record than QRW (models MS1, MS2, MS3, F1, F2). QRW beat MS4, F3 and F4. At the same time models

MS1 to MS4, F1 to F4, and QRW beat ARW, which shows a similar predictive loss than the EC alternative. Model MS2 (7-variables model of deficit series expressed as moving sums) is the one that presents the best forecasting properties.

Table 3 shows the forecasting record for the one-quarter-ahead horizon. According to the RMSE criterion all mixed-frequency alternatives beat the QRW alternative (all ratios below 1). The RMSE ratio to the QRW lies in the interval (0.59, 0.93) with the median at 0.69. Except in the cases of model MS2 and MS4 the relative performance mixed-frequencies models / QRW improves with respect to the full year projections discussed in the previous paragraph. According to the DM criterion models MS1, MS2, MS3, F1 and F2 beat the QRW, but the latter is less costly in terms of forecast loss than three mixed-frequency alternatives (MS4, F3, F4); the latter are the models with more estimated parameters.

The main lessons to be drawn from tables 2 and 3 are: (i) all models with intra-annual update beat ARW; (ii) mixed-frequency models and QRW beat EC; (iii) mixed-frequency models tend to beat QRW, although in some cases (models MS4, F3, F4) they are indifferent (according to the DM); (iv) overall, all mixed-frequency models tend to give relatively similar results, which hints to a proper use of the available information by all the estimated models; (v) thus, models that use variables expressed as moving sums tend to give similar results as more complicated and computer-intensive models that incorporate variables expressed as flows.

5 Real time and other considerations

5.1 The use of quarterly ESA95 fiscal data vs an approach solely based on monthly cash data

We have shown in the previous section that the estimated mixed-frequency models tend to outperform simple alternatives (ARW, QRW) but also more elaborated alternatives (EC projections). On the intra-annual information front the models incorporate quarterly ESA95 information and monthly cash information. A question that cannot be clarified with the previous results is which is the contribution of the quarterly information as compared to the monthly information. Thus, given the aim of the paper a question worth checking is the following: would an approach solely based on monthly cash data be enough? i.e. does the incorporation of quarterly ESA95 figures in the estimation of the mixed-frequency models improve the forecast performance of the models? Table 4 provides some valuable results to support an affirmative answer to these questions.

In Panel A of the table we show the ratio of the RMSE of some selected mixed-frequency models estimated with annual, quarterly and monthly information over the RMSE of the same models estimated only with annual and monthly information. Given the results obtained in the previous section, and for the sake of brevity, we select 3 out of 8 mixed-frequency models for the exercise. The ratio is always below the unity in all the selected cases. The improvement is more clear for the full-year projections, and the RMSE ratio is lower for disaggregated models (deficit computed as revenue minus expenditure) than for deficit models. The most complicated of the selected models (MS2, 7-variables, deficit) shows less gain from using quarterly information (most likely none in statistical terms for the one-quarter-ahead case).

The exercise shown in Panel B addresses a related though different question. We play with the timing to see whether the addition of one additional quarterly point, conditional on the same amount of monthly information, would improve the forecasting performance of the selected models. The main result from Panel B is that the quarterly random walk is the method that most improves its forecasting performance. Regarding annual projections the RMSE ratio moves from 0.73 to 0.68 with the inclusion of one additional quarter, while for the other model-based alternatives there is a marginal worsening. Regarding the one-quarter-ahead projections, models MS1 and MS3 lose some forecasting power vis-a-vis the QRW alternative, while model MS2 improves marginally. This latter observation is consistent with the results in Panel A whereby for model MS2 monthly information proved to be an important ingredient.

5.2 Interpolation of annual fiscal variables

As signalled in the Introduction, a valuable by-product of our analysis is that the mixed-frequencies models under test produce interpolated monthly series out of the annual fiscal variables based only on intra-annual fiscal information. This subsection briefly illustrates this point.

Figure 2 provides a second test for the usefulness of the quarterly ESA95 data versus an approach solely based on intra-annual monthly cash. The bars in the figures represent actual annual and quarterly ESA95 figures. In addition, we show the interpolated euro area monthly deficit series estimated using a group of mixed-frequency models. The figure in the left shows the interpolated profiles using the sample 1984-2000, while the figure in the right shows the estimation of the models with the full sample (1984-2006).

It is apparent by simple visual inspection that the volatility across methods of the interpolated euro area monthly deficit series is much higher for the subsample were only monthly and annual

information is available (1984-1999) than for the latter part of the sample (2000-2007) that incorporates actual quarterly figures. In fact, with few exceptions, most estimated mixed-frequencies models estimated the exact same profile for the euro area monthly deficit series in the part of the sample in which there is quarterly information available. Thus, quarterly ESA95 series are a key ingredient for the production of interpolated annual ESA95 balances, either at the monthly (as in the figure) or the quarterly frequency.

5.3 A (pseudo) real time exercise

In a final exercise we look at the qualitative indications that from a real-time perspective one would have drawn from using intra-annual information explicitly. We look at two episodes in which the euro area government deficit experienced a turning point. We compare the indications from a real time perspective with the signals that an independent observer would have derived from looking at the EC projections at the time.

Of course, the exercise has some counter-factual features in that data revisions might have affected the lessons drawn from mixed-frequencies models at the time of the episode in relation to a today's re-creation. As signalled by the EC (EC, 2007) the revision of quarterly ESA95 figures might be an issue for the real-time usefulness of these figures. For our exercise it is not possible to fully re-create the real-time nominal fiscal series that would have been available at the time, given that the quarterly ESA95 data started to be published for the euro area aggregate only in August 2004. We provide an idea of the size and direction of the revisions to quarterly figures in Figure 3. There we show the different vintages of the euro area quarterly ESA95 deficit as published in the Monthly Bulletin of the European Central Bank. In this way we can get a glimpse of the size of revisions. We show the figures as percentage of nominal GDP because this is the way the information is published in the ECB Monthly Bulletin (this is another caveat linked to the real-time re-creation). Revisions as a percent of GDP were not sizeable in general, even though there were some exceptions as witnessed in the chart. In any case, revisions to quarterly figures were linked to revisions of annual data (EC, 2007) and revisions to quarterly GDP. Given the limited number of vintages available for the quarterly fiscal figures a more thorough analysis of the impact of data revisions on the real-time use of quarterly fiscal figures is not possible. In order to minimize the impact of data revisions on our (pseudo) real-time exercise we do the only feasible alternative: we adjust EC annual projections for the effect of ex-post revisions of annual data by applying projected changes in the deficit to actual base years.

In figures 4 and 5 we show the two selected counter-factual exercises to highlight the usefulness of intra-annual information in anticipating turning points. We present the forecasts generated by the ARW model, a mixed-frequency alternative (model MS2, that showed the best forecast performance in the exercise of the previous section) and the EC, at the time of the two turning points displayed by our sample in the part for which there is quarterly data (2001 and 2004). The model forecasts follow the real-time timing convention adopted throughout the paper, as explained in the figures. We plot the projections together with the actual deficit outcome. To the left of the vertical dotted lines the information would have been available to a real-time forecaster at that time, while the points/lines to the right are forecasts and ex-post outcomes (not known at the time of the forecasts).

Figure 4 re-creates the episode of fiscal loosening that occurred in 2000/2001. Since 1995, and following the fiscal adjustments implemented in many euro area countries to meet EMU accession criteria, the euro area deficit had been falling substantially. In March 2001, based on the available annual fiscal information and a general assessment of the available indicators, the EC was forecasting a continuation of the consolidation process (see "March 2001" panel) in 2000 (that was not known yet at that time) and 2001; had the quarterly figures been available at the time, the mixed-frequency model would have already captured a slightly more moderate deficit figure in 2000, and a further flattening of the deficit path in 2001. With information available up to the second half of the year (panel "June 2001") the Spring 2001 EC forecasts already signalled a stabilization of the euro area deficit in nominal terms, while the mixed-frequency model would have signalled a deterioration path. This is fully confirmed in the subsequent panels.

The euro area fiscal deficit suffered a deterioration until 2003, and then started to improve again around 2003/2004. This turning point is illustrated in Figure 5. With the information set available in March 2004 (including the annual figure for 2002 but not the preliminary 2003 outcome) the EC was forecasting a further worsening of the deficit for 2004; the mixed-frequency model would have signalled a similar, albeit slightly more positive figure for 2004, while it would have now-casted quite accurately the 2003 outcome. The EC Spring 2004 issue (panel "June 2004") left almost unchanged the path for the euro area nominal deficit, while the Autumn 2004 EC projections (panel "December 2004") showed an additional worsening in nominal terms; the intra-annual information, had it been available in "June 2004", would have already captured at that time the improvement in the deficit figures, which is subsequently fully confirmed in the updated projections shown in the "September 2004" panel, and further in the "December 2004" panel.

6 Conclusions

In this paper we construct multivariate, state-space mixed-frequencies models for the euro area aggregate fiscal deficit, total revenue and total expenditure, based on annual and quarterly ESA95 figures, and on monthly cash government country data. The three frequencies structure of the models allows us to highlight the advantages of using quarterly ESA95 figures as a source of intra-year information, and also to explore their properties in conjunction with monthly cash fiscal figures.

In particular, we can summarize the main points highlighted in the paper as follows: (i) the mixed-frequency models present a reasonable forecasting record versus simple alternatives (annual random walk, quarterly random walk) but also against more elaborated alternatives (EC fiscal projections); (ii) the three frequency structure of the model allows us to now-cast quarterly figures using monthly fiscal figures, and in turn to use quarterly and monthly figures to now-cast annual fiscal variables; (iii) approaches that directly forecast the government deficit versus approaches that forecast government revenues and government expenditures and then compute forecasts for the deficit as a residual variable are not significantly different; (iv) we provide models to interpolate (back-cast) annual fiscal variables by means of only intra-annual fiscal information, with quarterly figures playing a key role; (v) quarterly ESA95 contain valuable information that is not fully covered by available monthly cash data; (vi) intra-annual fiscal information provides valuable insights for turning point detection in real-time.

These results confirm the unambiguous potential gains that would be derived from using quarterly ESA95 figures for real-time fiscal surveillance in Europe.

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Notes

¹European regulations (EC) N° 264/2000, 1500/2000, 1221/2002, 501/2004, and 1222/2004.

²For details on cross-country coverage and availability see European Commission (2007).

³Comprising monthly cash deficit of Belgium, Germany, Spain, France, Italy, the Netherlands, Austria, Ireland, Portugal and Finland. The sum of cash indicators has been done for illustrative purposes, as cross-country definitions are only approximately comparable. For definitions and further details see the next section of the paper.

⁴Other approaches for modeling data at different sampling intervals are the methods based on regression techniques (Chow and Lin, 1971, Guerrero, 2003), the MIDAS (MIXed DATA Sampling) approach (see Ghysels, Santa-Clara & Valkanov, 2004, Clements and Galvão, 2007), the state space approaches of Liu and Hall (2001) and Mariano and Murusawa (2003), or the ARMA model model with missing observations of Hyung and Granger (2008).

⁵Nevertheless, the models presented here may also be used for the reconstruction of annual fiscal variables in ESA95 terms towards the beginning of the sample at a shorter sampling interval.

⁶Camba-Mendez and Lamo (2004) use the latter approach to provide estimates for quarterly budget balances for Germany and Italy, on the basis of annual general government deficits and quarterly GDP, focusing on the study of structural deficits. For the use of fiscal indicators on a cash basis to interpolate annual ESA95 data see Estrada *et al.* (2004) for the Spanish economy and Onorante *et al.* (2008) for a number of euro area countries.

⁷ Quarterly general government cash deficit figures for Germany were obtained from the Web page of the Deutsche Bundesbank, while Federal Government deficit series were taken from the Ministry of Finance. In the case of France and the Netherlands, the central government series were obtained from the Ministry of Finance, while in the case of Spain were obtained from the National Statistical Institute, and in the case of Italy from Banca d'Italia. For a deep description of Public Accounts data and sources of the cash indicators used in our paper see Pérez (2007) and Onorante *et al.* (2008).

⁸The models used are in the vein of Harvey (1989) and are described in detail in the main methodological section of the paper.

⁹Empirical tests performed confirm this hypothesis. The results are available from the authors upon request.

¹⁰Of course, the comparison of the mixed-frequency models versus the EC is just a pseudo real-time recreation as the information available at the time of each EC set of forecasts cannot be used. To minimize the impact of this fact, EC projections are adjusted for the effect of ex-post revisions of annual data. We will come back to the issue of quarterly ESA95 data revisions in a subsequent section of the paper.

¹¹For EC projections we adopt the following convention: for forecasts with origin March of year t we take the Autumn $t - 1$ Issue of EC forecasts, for forecasts with origin in June we take the Spring t Issue, for forecasts with origin in September we take again the Spring Issue, and for forecasts with origin in December we take the Autumn t Issue. This is broadly in line with the information that would have been available to an outside forecaster using published EC forecast reports as source of information, over the period 2001-2006.

FIGURES AND TABLES

Figure 1: Euro area deficit (+) / surplus (-), billions of euro: ESA95 annual and quarterly figures (bars, quarterly shown as 4-quarter moving sum) and monthly cash deficit (solid line in right panel, 12-month moving sum).

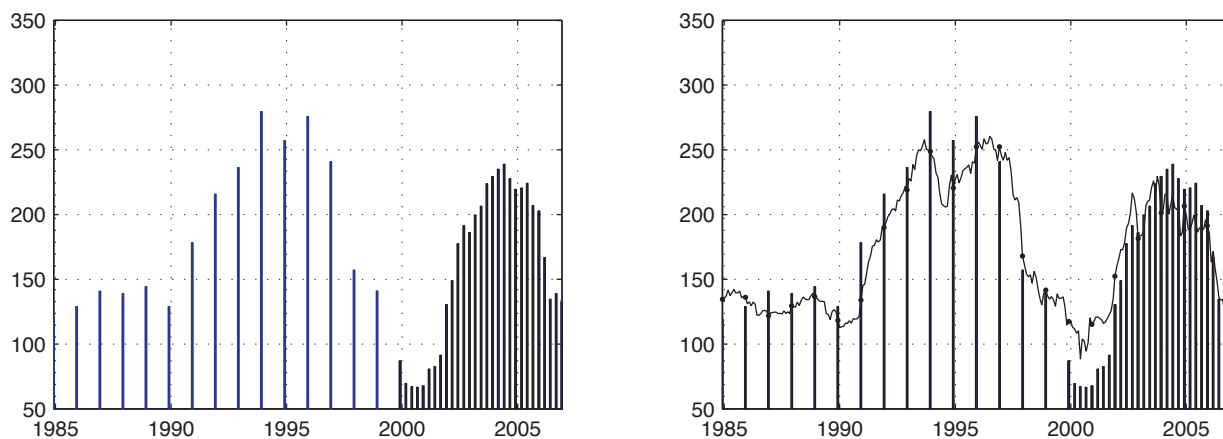


Figure 2: Euro area deficit (+) / surplus (-), billions of euro: ESA95 annual and quarterly figures (bars, quarterly shown as 4-quarter moving sum) and monthly interpolation using mixed-frequencies models models (solid lines). Left panel: 1984:1-2000:12 sample; right panel: 1984:1-2006:12 sample.

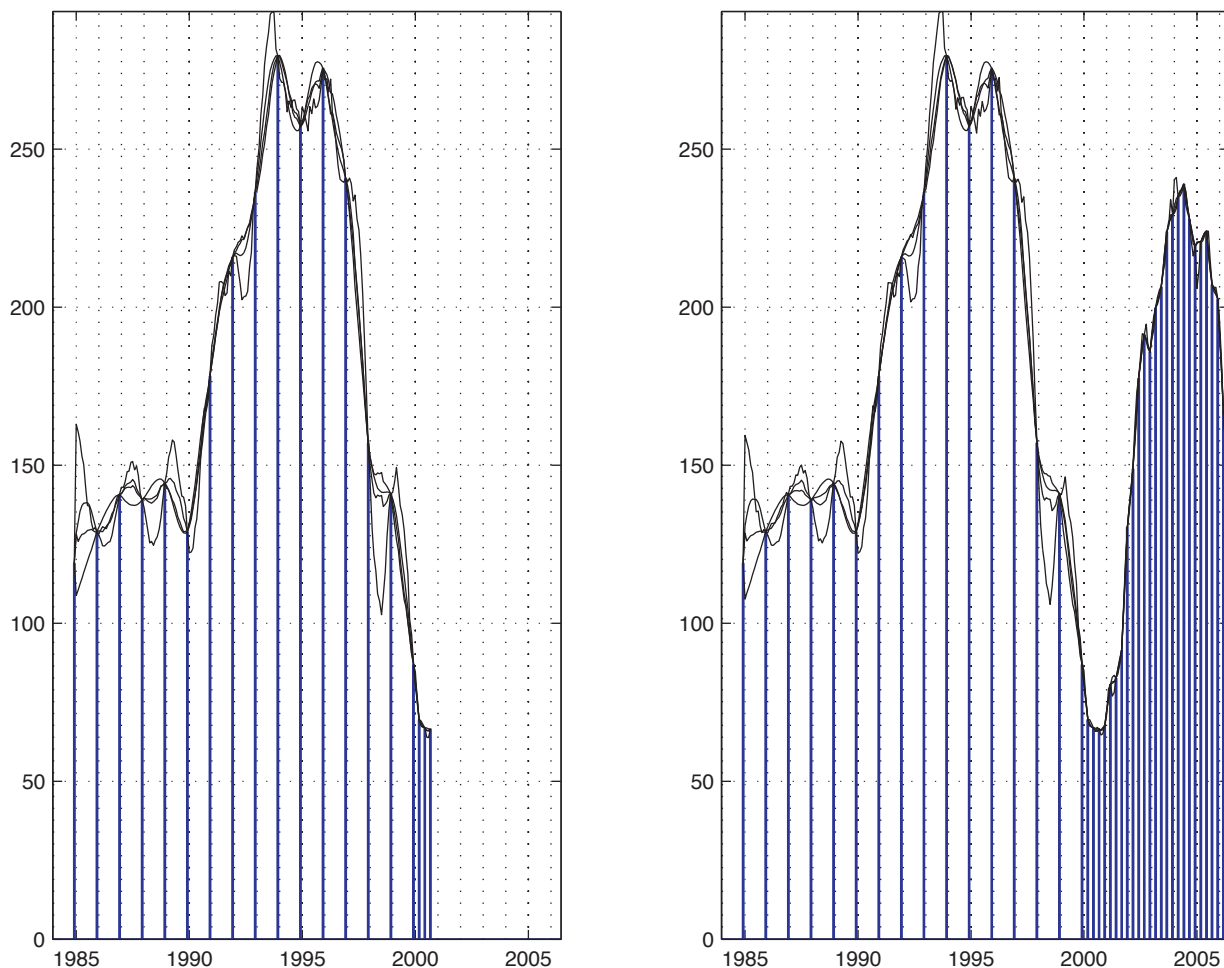


Figure 3: Euro area deficit (+) / surplus (-), percent of nominal GDP: vintages of ESA95 quarterly figures as published in real-time in the different issues of the ECB Monthly Bulletin.

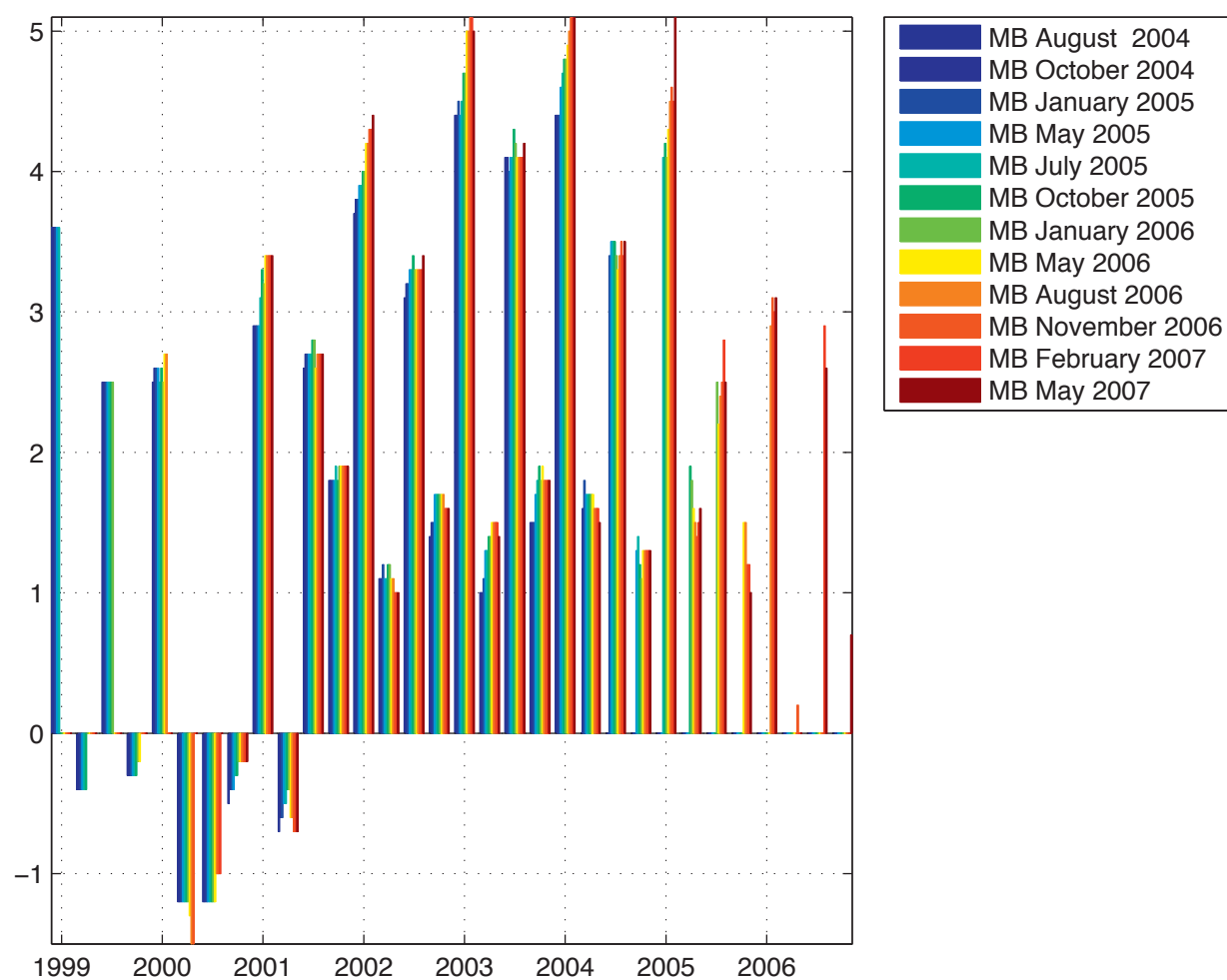


Figure 4: Euro area deficit (+) / surplus (-), billions of euro: anticipation of the fiscal loosening that started in 2001. Alternative methods: annual random walk (ARW), mixed-frequency model MS2 and EC. Quarterly figures and projections shown as 4-quarter moving sums.

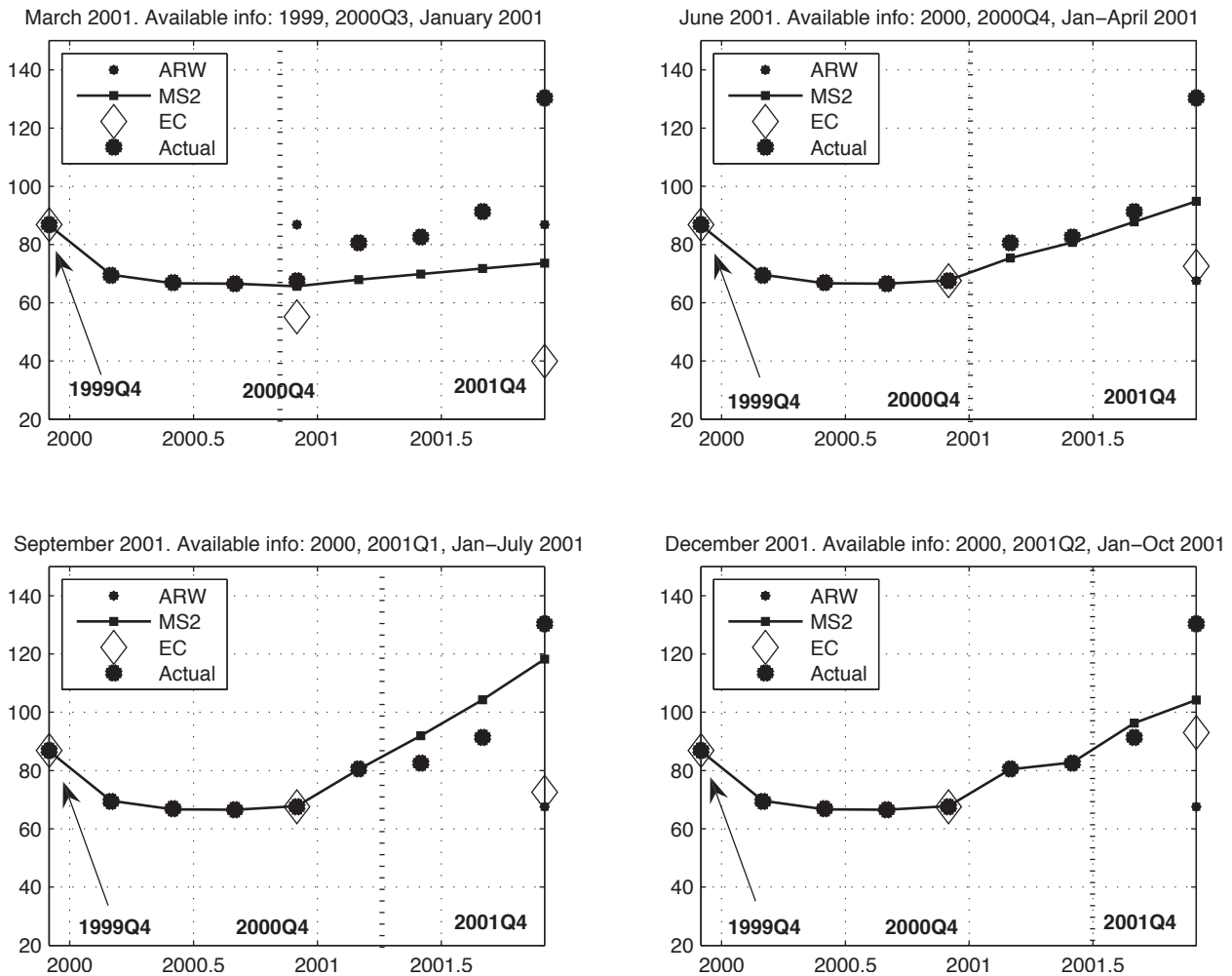


Figure 5: Euro area deficit (+) / surplus (-), billions of euro: anticipation of the fiscal recovery that started in 2004. Alternative methods: annual random walk (ARW), mixed-frequency model MS2 and EC. Quarterly figures and projections shown as 4-quarter moving sums.

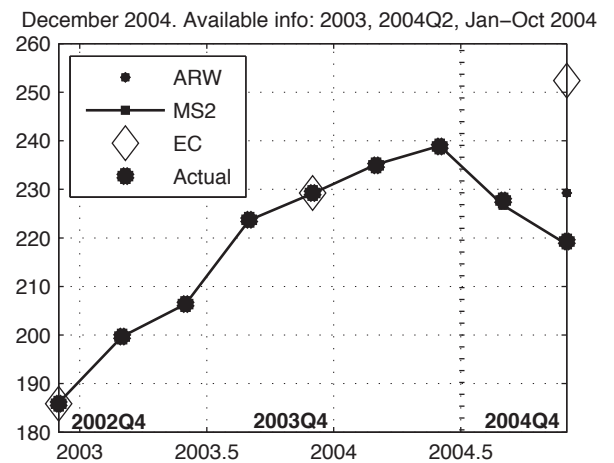
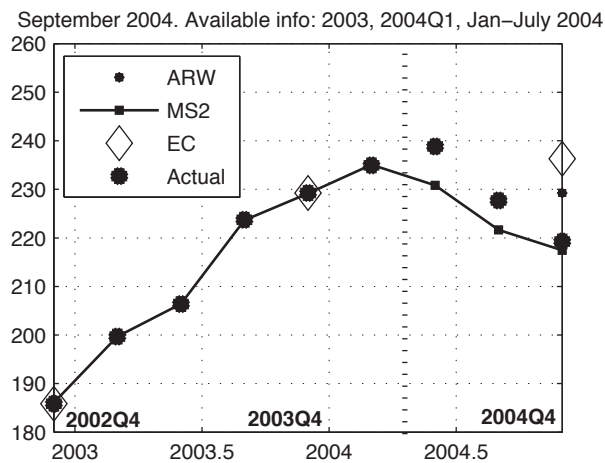
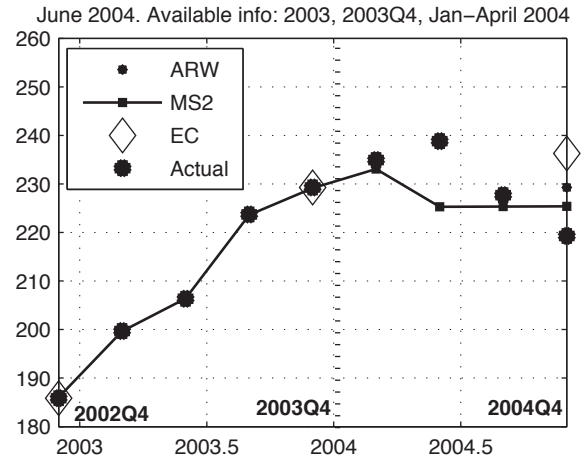
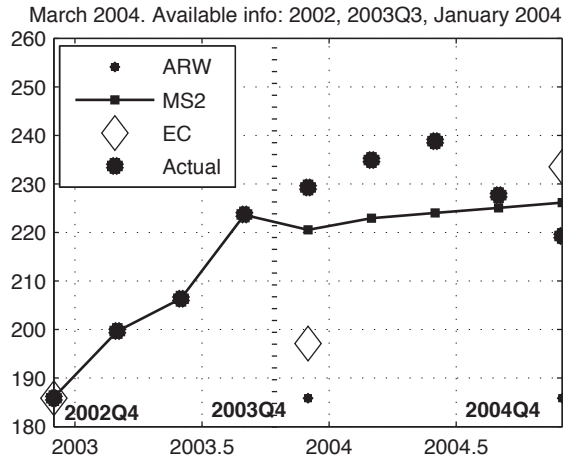


Table 1: Timing rules.

	Q1 year t (March)	Q2 year t (June)	Q3 year t (September)	Q4 year t (December)
Available annual (A)	$A\ t - 2$ (March)	$A\ t - 1$ (April)	$A\ t - 1$	$A\ t - 1$
Available quarterly (Q)	$Q3\ t - 1$	$Q4\ t - 1$ (April)	$Q1\ t$	$Q2\ t$
Available monthly (M)	Jan. t	Jan-April t	Jan-July t	Jan-October t

Table 2: Current-year forecasts (full year forecasts): forecasting quarterly ESA95 figures with the different models. RMSE ratios to annual random walk and Diebold-Mariano tests.

RMSE ratio of model to annual random walk										
	QRW	Model MS1	Model MS2	Model MS3	Model MS4	Model F1	Model F2	Model F3	Model F4	Model EC
	0.73	0.58	0.40	0.57	0.61	0.50	0.58	0.70	0.65	0.86
Diebold Mariano test										
	ARW	QRW	MS1	MS2	MS3	MS4	F1	F2	F3	F4
QRW	-3.22***	—	—	—	—	—	—	—	—	—
MS1	-3.29***	-1.81*	—	—	—	—	—	—	—	—
MS2	-4.11***	-3.31***	-2.58***	—	—	—	—	—	—	—
MS3	-3.24***	-1.80*	-0.21	2.84***	—	—	—	—	—	—
MS4	-3.80***	-1.24	0.25	2.32**	0.33	—	—	—	—	—
F1	-4.07***	-2.94***	-1.26	2.11**	-1.07	-1.33	—	—	—	—
F2	-3.78***	-2.79***	-0.01	2.68***	0.11	-0.30	2.17**	—	—	—
F3	-2.47**	-0.32	1.98**	2.92***	1.64	0.86	2.09**	1.48	—	—
F4	-2.60***	-0.64	0.72	2.26**	0.90	0.43	1.32	0.63	-0.47	—
EC	-1.42	1.72*	2.75***	3.43***	2.78***	1.90*	2.88***	2.66***	1.53	1.60***

Models:

Model MS1: 2-variables (annual-quarterly ESA95 deficit, monthly deficit cash). Moving sums.

Model MS2: 7-variables (annual-quarterly ESA95 deficit, 6 countries monthly deficit cash). Moving sums.

Model MS3: 4-variables (annual-quarterly ESA95 rev and exp, monthly revenue and expenditure cash). Moving sums.

Model MS4: 12-variables (annual-quarterly rev and exp ESA95, 5 revenue cash, 5 expenditure cash.). Moving sums.

Model F1: 2-variables (annual-quarterly ESA95 deficit, monthly deficit cash). Flows.

Model F2: 4-variables (annual-quarterly ESA95 rev and expenditure, monthly revenue and expenditure cash). Flows.

Model F3: 7-variables (annual-quarterly ESA95 deficit, 6 countries monthly deficit cash). Flows.

Model F4: 12-variables (annual-quarterly rev and exp ESA95, 5 revenue cash, 5 expenditure cash). Flows.

Notes:

Diebold Mariano test for the null hypothesis of equal forecast accuracy of two forecast methods. A

squared loss function is used. The number in each cell represents the loss differential of the method in its horizontal line as compared to the method in the vertical column. The Diebold Mariano statistic follows a N (0,1) distribution.

A single (double) [triple] asterisk denotes rejection of the null hypothesis at the 10% (5%) [1%] significance level.

Table 3: One-quarter-ahead forecasts: forecasting quarterly ESA95 figures with the different models. RMSE ratios to quarterly random walk and Diebold-Mariano tests.

RMSE ratio of mixed-frequency model to quarterly random walk								
	Model MS1	Model MS2	Model MS3	Model MS4	Model F1	Model F2	Model F3	Model F4
	0.68	0.65	0.71	0.93	0.59	0.65	0.85	0.83
Diebold Mariano test								
	QRW	Model MS1	Model MS2	Model MS3	Model MS4	Model F1	Model F2	Model F3
Model MS1	-2.06**	—	—	—	—	—	—	—
Model MS2	-2.40**	-0.49	—	—	—	—	—	—
Model MS3	-2.02**	0.53	0.65	—	—	—	—	—
Model MS4	-0.39	2.05**	2.26**	1.80*	—	—	—	—
Model F1	-2.52**	-1.44	-0.86	-1.57	-2.35**	—	—	—
Model F2	-2.34**	-0.42	0.04	-0.88	-1.81*	1.17	—	—
Model F3	-0.99	2.14**	1.96**	2.00**	-0.61	2.43**	1.91*	—
Model F4	-1.00	1.40	1.38	1.40	-0.84	1.73*	1.34	-0.24

Notes:

See footnotes in Table 2

Table 4: The value of intra-annual quarterly ESA95 figures vs an approach solely based on monthly cash-based government figures.

Panel A. Mixed-frequencies models estimated with annual ESA95, quarterly ESA95 and monthly government data.

Ratio of the RMSE of the model estimated with annual, quarterly and monthly over the RMSE of the model estimated with annual/monthly

	Annual projections	One-quarter-ahead projections
Model MS1	0.84	0.76
Model MS2	0.87	0.99
Model MS3	0.78	0.68

Panel B. Impact of changing the baseline timing convention to incorporate more quarterly information.

	Annual projections (RMSE ratio to ARW)		One-quarter-ahead projections (RMSE ratio to QRW)	
	Real-time timing	One-lag on quarterly	Real-time timing	One-lag on quarterly
	Q: 2-q lag, M: 2-m lag	Q: 1-q lag, M: 2-m lag	Q: 2-q lag, M: 2-m lag	Q: 1-q lag, M: 2-m lag
QRW	0.73	0.68	1.00	1.00
Model MS1	0.58	0.60	0.68	0.82
Model MS2	0.40	0.41	0.65	0.62
Model MS3	0.57	0.61	0.71	0.81

Notes:

QRW: quarterly random walk model.

Model MS1: moving sums, bivariate model, deficits.

Model MS2: moving sums, 7-vars model, deficits.

Model MS3: moving sums, 4-vars model, revenues and expenditures.

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