

## **Box 6**

### **The sale of mobile telephone licences: impact on fiscal developments**

Many EU governments are currently organising the sale of UMTS (Universal Mobile Telecommunications System) licences. Most of them are allocating the available licences via multi-unit auctions; only some countries have awarded licences free of charge or for a very modest fee in accordance with technical or other regulatory criteria.

Sales of UMTS licences have already been concluded in Germany, Spain, the Netherlands, Finland and the United Kingdom. The proceeds from the auctions in Germany amounted to 2.5% of GDP and in the United Kingdom to 2.4% of GDP. The auction in the Netherlands raised 0.6% of GDP. The allocation procedures in Finland and Spain involved little or no proceeds. In most other countries, auctions are planned for late 2000 or early 2001. Current estimates of the amounts to be raised in these future auctions range from about 0.5% to 1.5% of GDP, depending on the country and the allocation method.

Eurostat recently adopted a recommendation on how the proceeds of these sales should be recorded in the government accounts of the European System of Accounts 1995 (ESA 95). Generally, the allocation of mobile telephone licences should be recorded as the sale of a non-financial asset by the government to the corporate sector. Revenue is then recorded in the government accounts at the time the licence is awarded, irrespective of the actual payment arrangements. Alternatively, in special cases the licence proceeds may be recorded as rent for the use of the spectrum/frequencies, which implies that the proceeds are booked as regular receipts for the government and are spread out over the lifetime of the contract. This is the case when the licence is not transferable and the contract is for five years or less, or when the full purchasing price is not agreed in advance, but a price is set for a limited period of use only. This alternative procedure is not expected to be followed by many countries, if any at all.

The general treatment of the proceeds recommended by Eurostat highlights the one-off nature of the sale of mobile telephone licences and therefore facilitates their interpretation as one-off windfall receipts. This generally means that government budget balances will show a drastic but only temporary improvement in the year in which the licence is allocated. This procedure discourages the use of these proceeds to increase spending or reduce taxes, since the revenues to finance such plans will not recur in subsequent years.

Information available so far indicates that most countries plan to use these proceeds to reduce government debt or to build up pension reserves. However, some countries intend to use the budgetary latitude created by the reduction in interest payments arising from the lower debt burden to increase primary government spending. The demand impact of UMTS proceeds received by the government is nevertheless expected to be marginal. Most of the money transferred from governments to bond holders via debt redemption is expected to be reinvested in other financial assets, leading only to a portfolio shift, with no major impact on private sector income and demand (see Box 1).