What Lies Beneath

Claudia Dziobek
Chief
Government Finance Division
Statistics Department, IMF

Presented at the
the IMF/FSB Global Conference on the G-20 Data Gaps Initiative
Washington, D.C.
June 26, 2013

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What Lies Beneath: The Statistical Definition of Public Sector Debt
An Overview of the Coverage of Public Sector Debt for 61 Countries

Robert Dippelsman, Claudia Dziobek, and Carlos A. Gutiérrez Mangas (July 2012)
http://www.imdb.com/title/tt0161081/combined
http://www.youtube.com/watch?v=Vm4Fw2QEIA4
Plot Summary

The wife of a university research scientist believes that her lakeside Vermont home is *haunted by a ghost* - or that she's *losing her mind*. 
The wife of a university research scientist believes that her lakeside Vermont home is *haunted by a ghost* - or that she's *losing her mind*.

— **Hidden liabilities are like ghosts haunting the economy.**

— **Conflicting figures can make analysts feel like they are their losing their minds.**
Outline

• Beneath the **calm surface** of existing public sector debt statistics, lie **horrifying** inconsistencies and gaps:
  
  – 1. Institutional coverage
  – 2. Instrument coverage
  – 3. Valuation
  – 4. Consolidation
  – 5. Gross/net
1. Institutional Coverage

- Many countries report only **budgetary central government**.
- Some report **central government** (adding social security funds and other extrabudgetary agencies).
- **General government** is more comprehensive (add state and local governments).
- Fiscal risks may also come from **PUBLIC CORPORATIONS** - financial or nonfinancial.
- So, **PUBLIC SECTOR** would give the widest picture (general government + corporations).
2. Instrument Coverage

- Narrowest coverage is **debt securities and loans** only.
- **C&D and SDRs** are also debt.
- **Other accounts payable** can be important, not available from cash accounting systems, not the role of debt management office.
- **Insurance, pensions, and standardized guarantee schemes (IPSGS)** are not widely measured but can be a major source of hidden burden for governments
  - especially government employee pension obligations.
  - also mortgages, student loans, deposit guarantees
Classification of Instrument and Sectoral Coverage

- Financial public corporations
- Nonfinancial public corporations
- State governments
- Local governments
- Social security funds
- Extra-budgetary units
- Budgetary central government

Debt Instruments

- Addition of debt instruments

* Insurance, pension, and standardized guarantee schemes
A Unified Approach?

• Many developing countries only report D1 (responsibility of debt management office).

• Maastricht uses D2 (important omissions).
  – Eurostat requires wider measures, but not in Maastricht definition.
  – Maastricht is at face value.

• D3 requires accrual system (adds other accounts payable).
  – But crucial to monitor.
  – Other accounts payable is not the same as arrears.

• Only a few statistically advanced countries report values of D4.
  – Many report IPSGS as zero, but may mean “no data” not “no liabilities.”
Does it Matter?

• Is Canadian government gross debt 38% of GDP?

• Is Canadian government gross debt 104% of GDP?
Does it Matter?

• Is Canadian government gross debt 38% of GDP?
  • YES!

• Is Canadian government gross debt 104% of GDP?
  • YES!
Does it Matter?

• Is Canadian government gross debt 38% of GDP?
  • YES! (GL1/D1)

• Is Canadian government gross debt 104% of GDP?
  • YES! (GL3/D4)
The Range of Gross Debt in Canada

<table>
<thead>
<tr>
<th>2010</th>
<th>GL1 – Budgetary Central Government</th>
<th>GL2 – Consolidated Central Government</th>
<th>GL3 – Consolidated General Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>D1</td>
<td>38.2</td>
<td>38.3</td>
<td>66.8</td>
</tr>
<tr>
<td>D2</td>
<td>38.6</td>
<td>38.6</td>
<td>67.2</td>
</tr>
<tr>
<td>D3</td>
<td>43.4</td>
<td>43.5</td>
<td>90.6</td>
</tr>
<tr>
<td>D4</td>
<td>52.5</td>
<td>52.6</td>
<td>104.2</td>
</tr>
</tbody>
</table>

1 Currently not included in GFSY.

Source: GFSY
Source: GFSY
Source: GFSY
Magnitude Difference between General and Central Government Gross Debt

Difference between $GL3\ D1$ and $GL2\ D1$ (percent of GDP)

3. Valuation


<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt at market value</td>
<td>297</td>
<td>332</td>
<td>298</td>
</tr>
<tr>
<td>Debt at face value</td>
<td>300</td>
<td>337</td>
<td>368</td>
</tr>
<tr>
<td>Debt at nominal value</td>
<td>287</td>
<td>323</td>
<td>354</td>
</tr>
</tbody>
</table>

Source: GFSY
## 4. Consolidation

### Intergovernmental Debt and Consolidation (2010)
(as % of GDP)

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>Canada</th>
<th>Austria</th>
<th>Colombia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum of central, state and local</td>
<td>65%</td>
<td>110%</td>
<td>83%</td>
<td>77%</td>
</tr>
<tr>
<td><strong>Less</strong> intergovernmental debt</td>
<td>12%</td>
<td>6%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Equal</strong> consolidated general government</td>
<td>53%</td>
<td>104%</td>
<td>78%</td>
<td>72%</td>
</tr>
</tbody>
</table>

Source: GFSY
5. Gross debt/net debt

• Net = Gross *minus* Debt instrument assets
• Another potential source of confusion if data are not correctly specified
• Relative asset holdings vary
Net debt/gross debt (%)

GL3, 2010

Source: GFSY. These data may not be fully comparable across countries.
6. Non Debt Liabilities: other potential fiscal burdens

• Financial derivatives
  – Instruments that transfer risk
    • not an instrument to obtain and return resources, so not debt, but may be a non-debt liability
  – Behavior is quite different to debt
    • Large changes in value can occur without transactions
    • Can change from asset to liability
    • Current value does not indicate risk exposure
  – May be hedging (offset existing risks in assets or liabilities) or speculative (acquire additional risk)
6. Non Debt Liabilities: other potential fiscal burdens

- **Contingent liabilities:**
  - Obligations that arise from a particular, discrete event(s) that may or may not occur.
  - One or more conditions or events must be fulfilled before a financial transaction takes place.
  - Can be *explicit* or *implicit*.
  - Are **not** recognized as financial assets or liabilities prior to the condition(s) being fulfilled (see *BPM6*, paragraph 5.10).

*Note* An exception is made for standardized guarantees where, although each individual arrangement involves a contingent liability, the number of similar guarantees is such that an actual liability is established for the proportion of guarantees likely to be called (see *2008 SNA*, paragraph 3.40).
CONCLUSIONS

• “Debt” ≠ “Debt”
• Beneath the calm surface of existing public sector debt statistics, lie horrifying inconsistencies and gaps:
  – 1. Institutional coverage
  – 2. Instrument coverage
  – 3. Valuation
  – 4. Consolidation
  – 5. Gross/net
CONCLUSIONS

• Recognize that data availability situation is messy
  – More transparency by statisticians
  – More awareness by policy-makers and analysts
  – Proposed terminology highlights differences in institutional/instrument coverage
    • short, catchy, shows hierarchy of coverage
CONCLUSIONS

• Goals:
  – D4 and components
  – GL3 and components, or wider
  – Market and nominal value
  – Consolidated
  – Quarterly
ACTIONS

http://www.tffs.org/PSDStoc.htm
www.worldbank.org/qpsd
ACTIONS

– Regional training courses
– Debt issues in updated GFSM
– Country contacts to improve reporting
  • Often different staff to usual GFS reporters
• Thank you