What Lies Beneath

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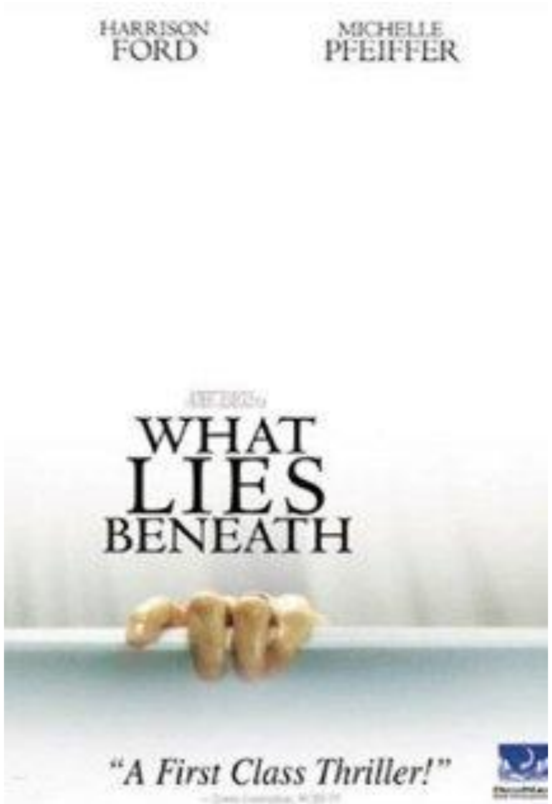
Staff Discussion Note (SDN)

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=Vm4Fw2QElA4

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*.

It’s metaphorical

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

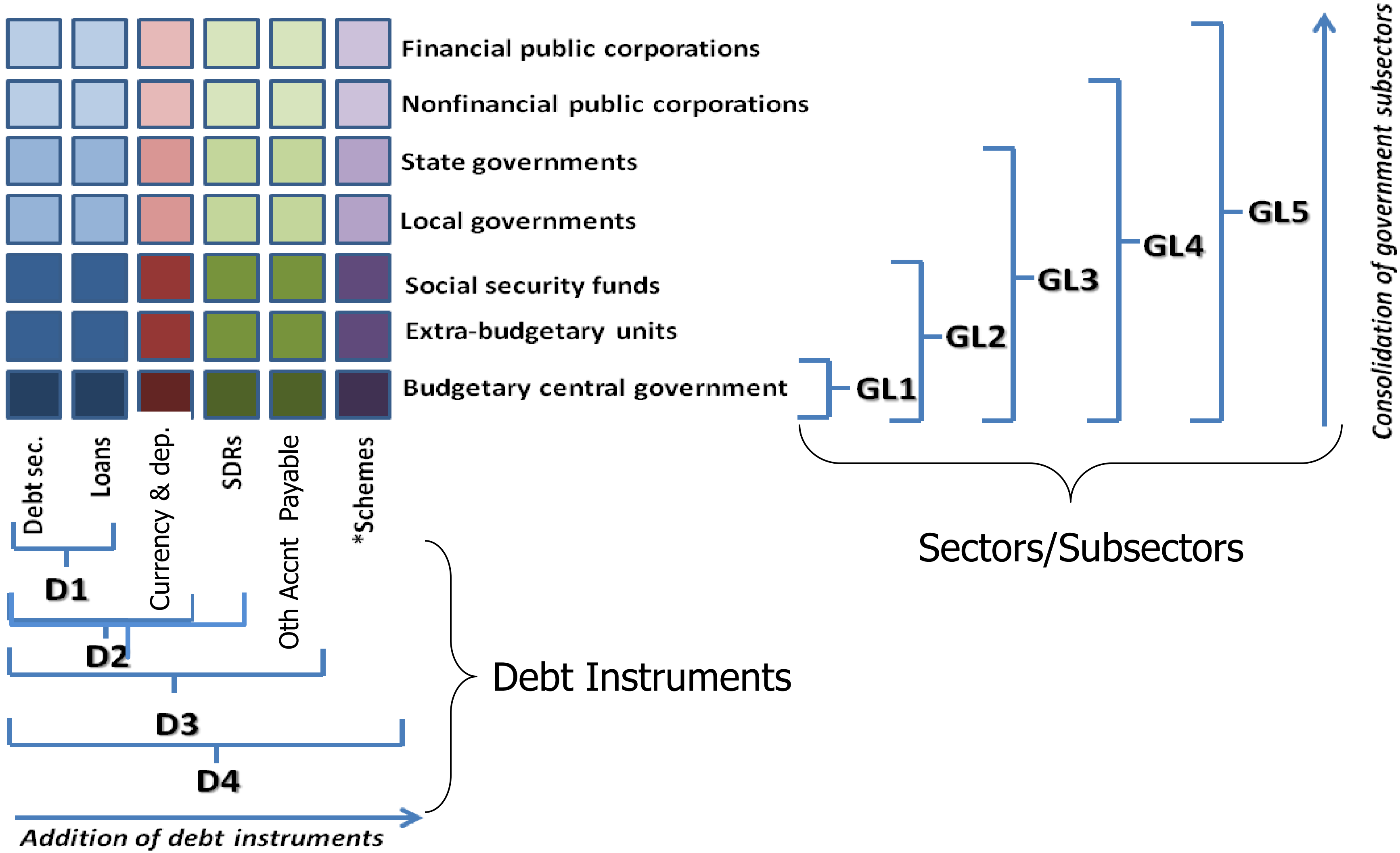
1. Institutional Coverage

- 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



* 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!

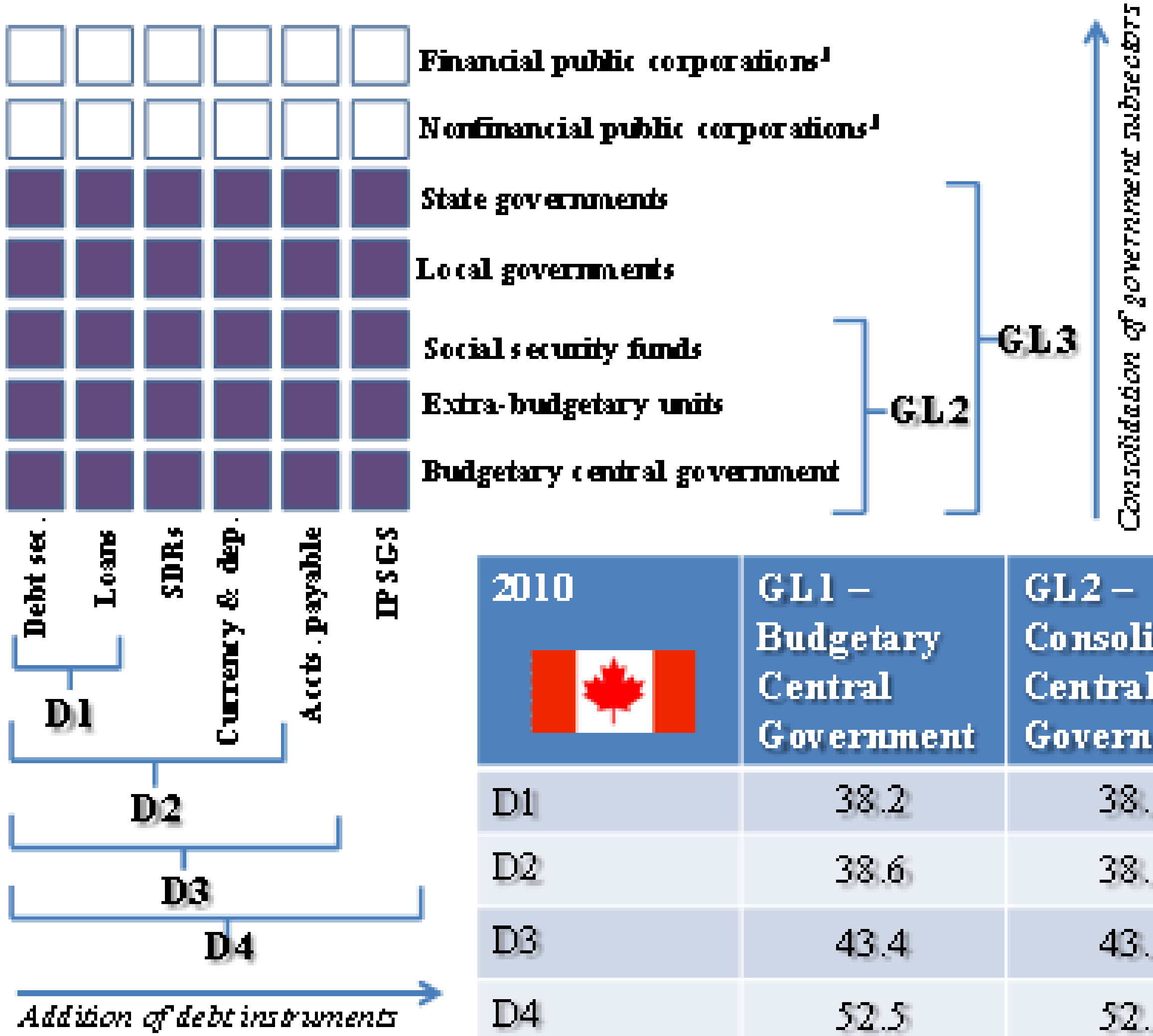
- **Is Canadian government gross debt 104% of GDP?**
- YES!

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)

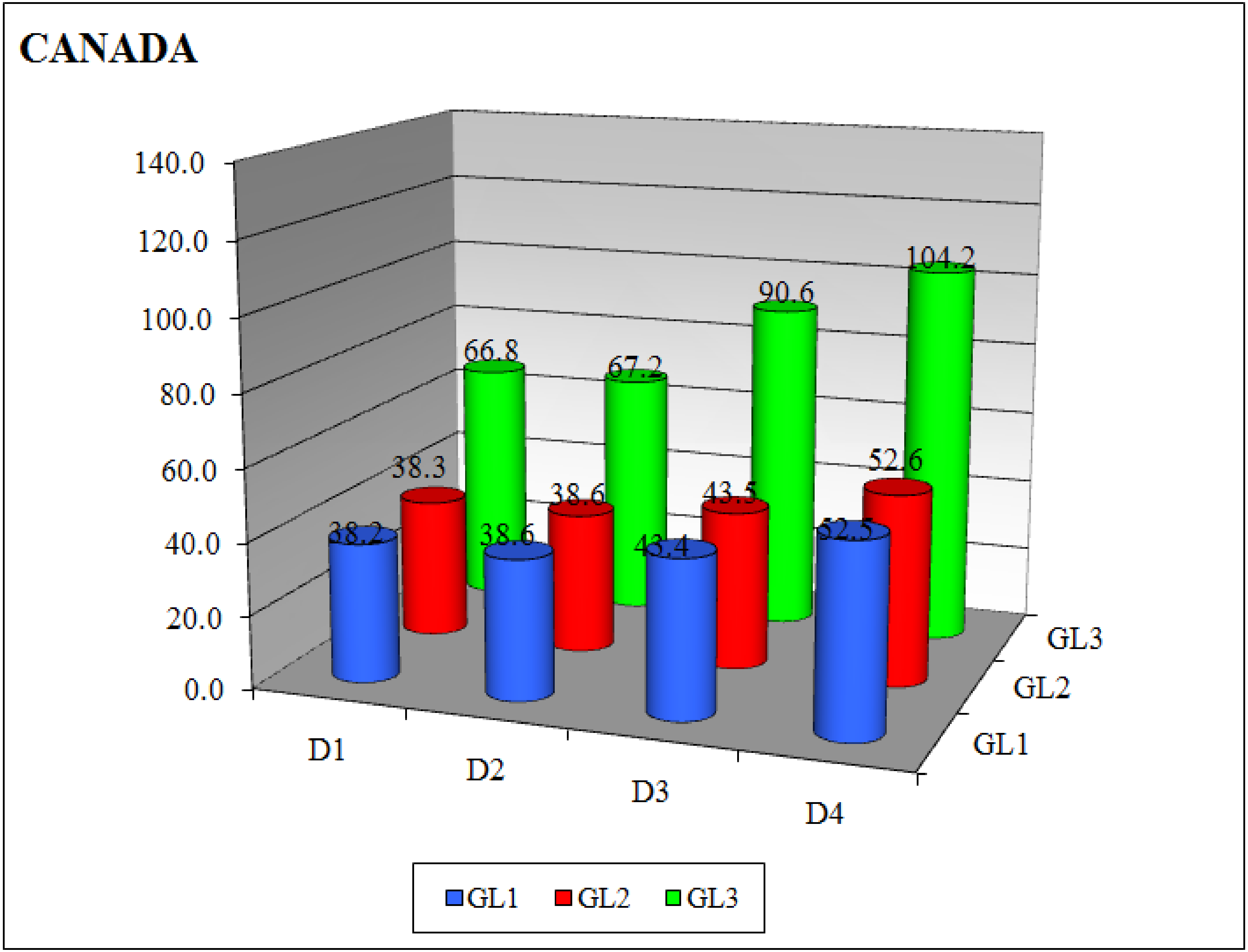
The Range of Gross Debt in Canada



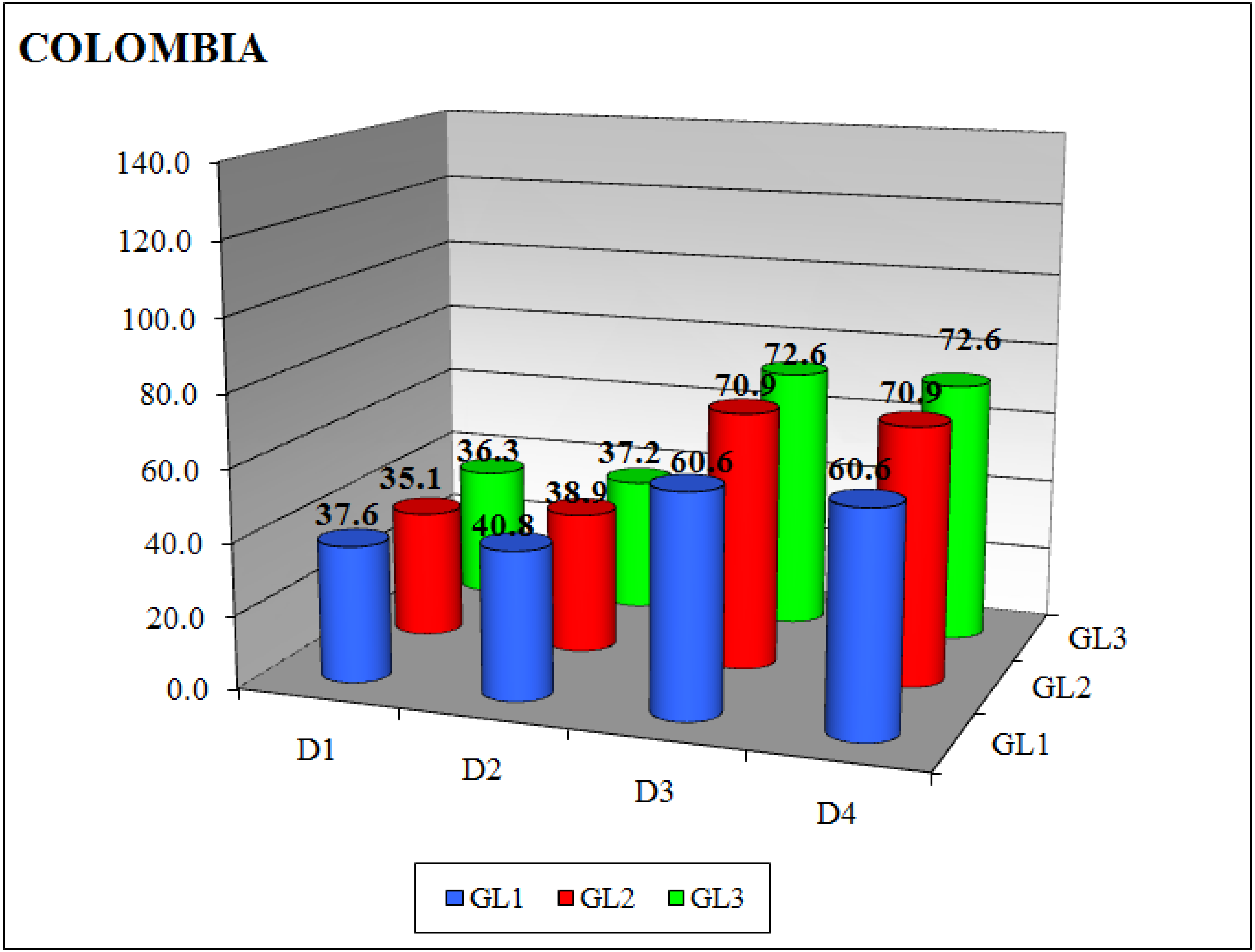
2010	GL1 – Budgetary Central Government	GL2 – Consolidated Central Government	GL3 – Consolidated General Government
D1	38.2	38.3	66.8
D2	38.6	38.6	67.2
D3	43.4	43.5	90.6
D4	52.5	52.6	104.2

[1] **Currently not included in *GFSY*.**

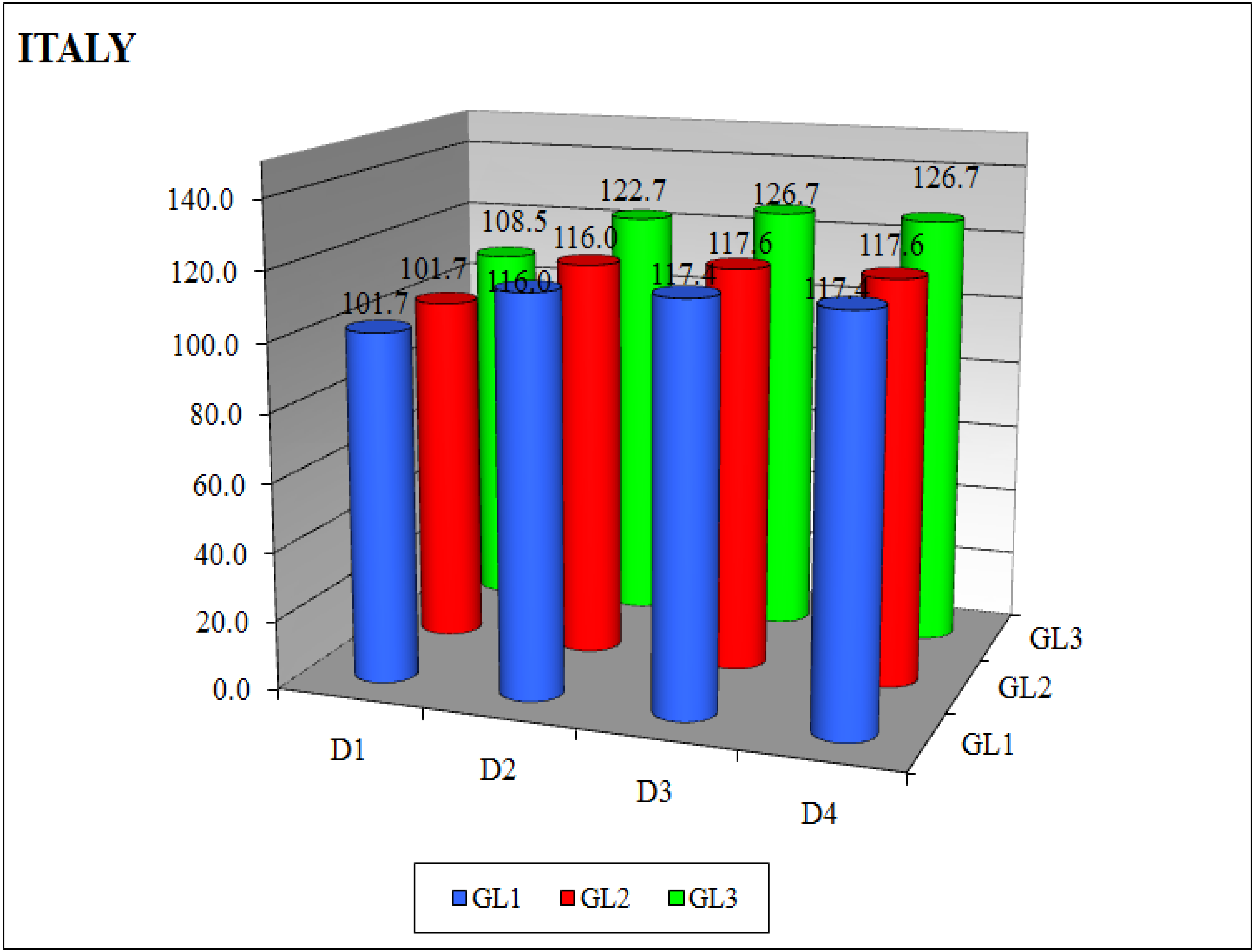
Source: Government Finance Statistics Yearbook (GFSY) 2011.
International Financial Statistics (IFS) June 2011.


CANADA
140.0
120.0
100.0
80.0
60.0
40.0
20.0
0.0
38.2
38.3
66.8
38.6
38.6
67.2
43.4
43.5
90.6
52.5
52.6
104.2
D1
D2
D3
D4
GL1
GL2
GL3
GL1 GL2 GL3

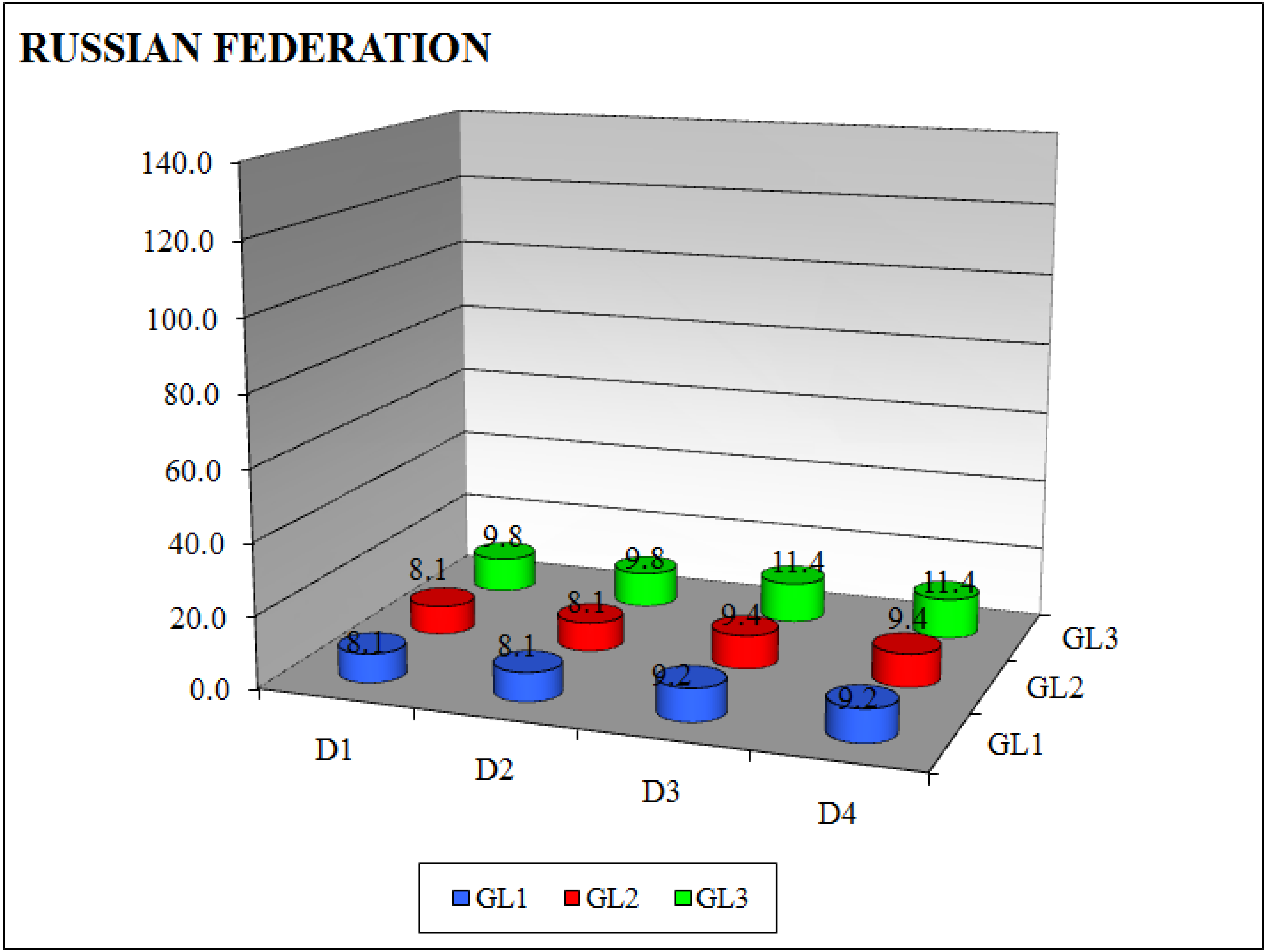
Source: *GFSY*


COLOMBIA
140.0
120.0
100.0
80.0
60.0
40.0
20.0
0.0
37.6
35.1
36.3
40.8
38.9
37.2
60.6
70.9
72.6
60.6
70.9
72.6
D1
D2
D3
D4
GL1
GL2
GL3
GL1 GL2 GL3

Source: ***GFSY***


ITALY
140.0
120.0
100.0
80.0
60.0
40.0
20.0
0.0
101.7
101.7
108.5
116.0
116.0
122.7
117.4
117.6
126.7
117.4
117.6
126.7
D1
D2
D3
D4
GL1
GL2
GL3
GL1 GL2 GL3

Source: *GFSY*

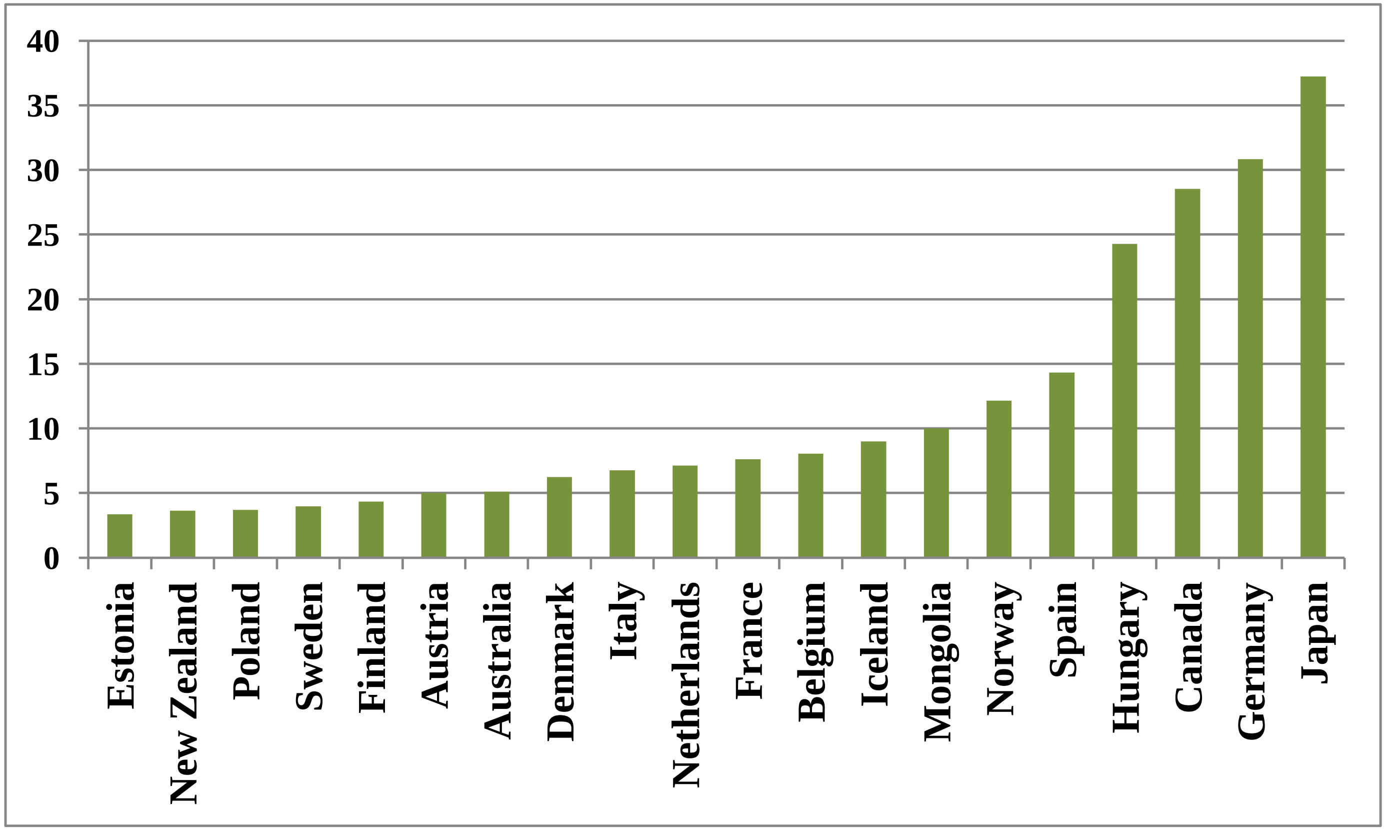


RUSSIAN FEDERATION
140.0
120.0
100.0
80.0
60.0
40.0
20.0
0.0
9.8
8.1
9.8
11.4
8.1
11.4
9.4
9.4
8.1
8.1
9.2
9.2
D1
D2
D3
D4
GL3
GL2
GL1
GL1 GL2 GL3

Source: *GFSY*

Magnitude Difference between General and Central Government Gross Debt

Difference between ***GL3 D1*** and ***GL2 D1*** (percent of GDP)



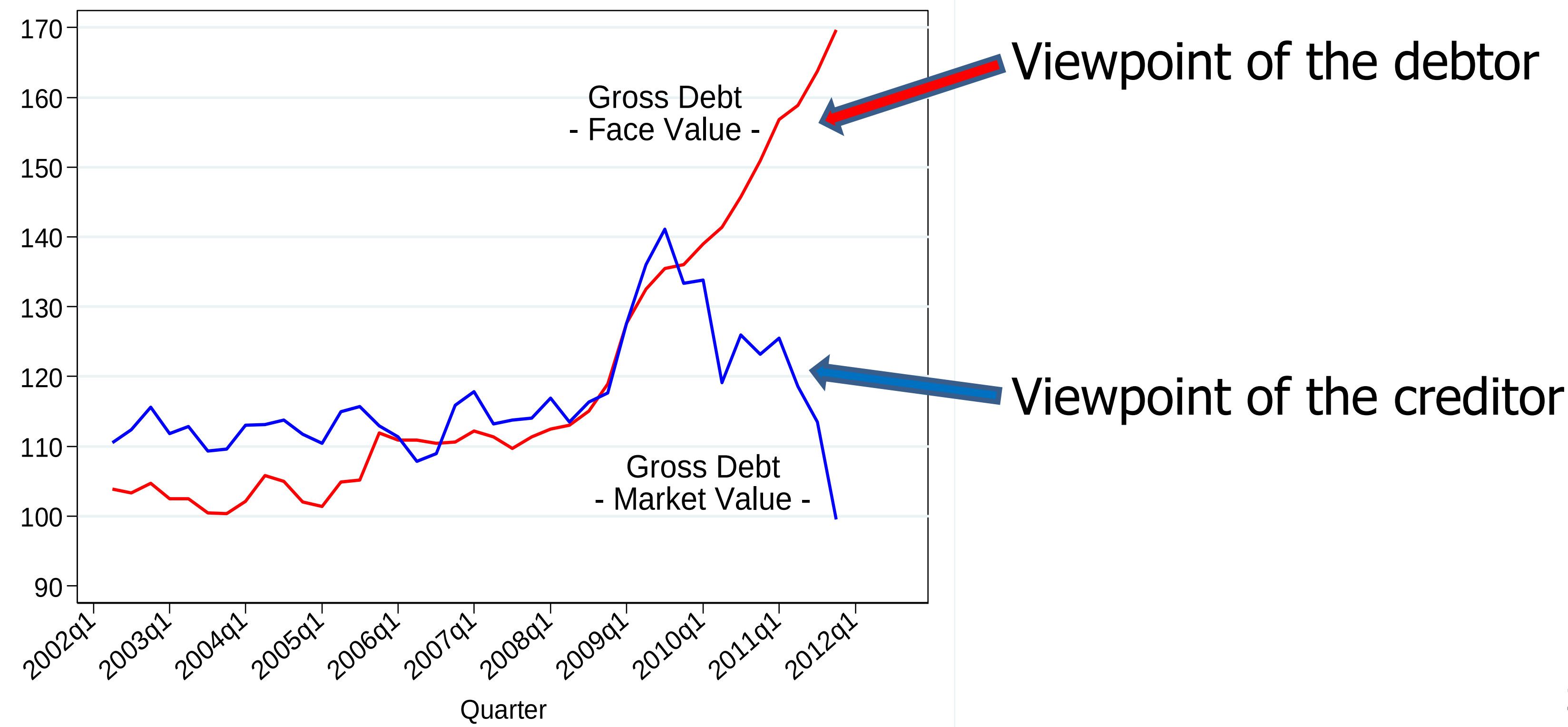
Source: ***IMF Government Finance Statistics Yearbook 2011, IMF World Economic Outlook October 2011***

3. Valuation

Greece: Valuation of Gross Debt of the General Government (***GL3/D2***), billions of euros.

	2008	2009	2010
Debt at market value	297	332	298
Debt at face value	300	337	368
Debt at nominal value	287	323	354

Source: *GFSY*



4. Consolidation

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

	Brazil	*Canada*	*Austria*	*Colombia*
Sum of central, state and local	65%	110%	83%	77%
Less intergovernmental debt	12%	6%	5%	5%
Equal consolidated general government	53%	104%	78%	72%

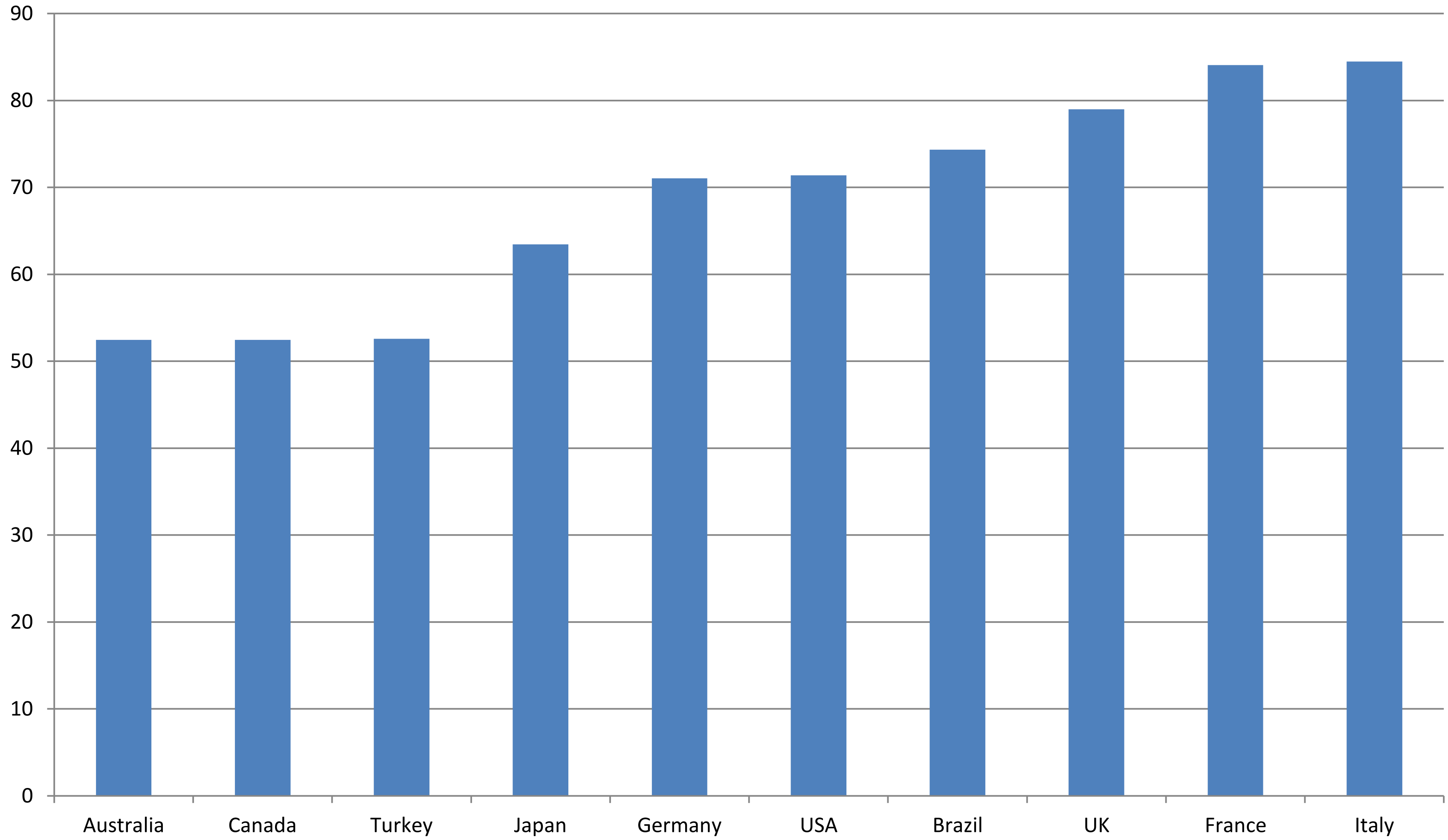
Source: ***GFSY***

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

ACTIONS

www.worldbank.org/qpsd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World Bank Public Sector Debt Statistics

The Public Sector Debt Statistics (PSD) database, jointly developed by the World Bank and the International Monetary Fund, brings together detailed quarterly public sector debt data of selected countries, initially mainly developing /emerging market economies. The main purpose of the PSD database is to facilitate timely dissemination in standard formats of public sector debt data. By bringing such data and metadata together in one central location, the database supports macroeconomic analysis and cross-country comparison.

The participation of countries in this centralized database is voluntary. Currently, 62 countries have agreed to participate and 34 provided data to the PSD database. Other countries will be asked to participate on the centralized database at a later stage. The database is updated quarterly and within one month of the end of a quarter. These databases aim to support countries' efforts toward improving the coverage and availability of public sector debt data.

The PSD database includes country and cross-country tables, and enables users to query and extract data, by country, group of countries, and specific public debt components. The PSD database is linked to the Public Sector Debt Guide produced by the IMF.

Please see data release calendar here.

****2011 Q3 data are now available****

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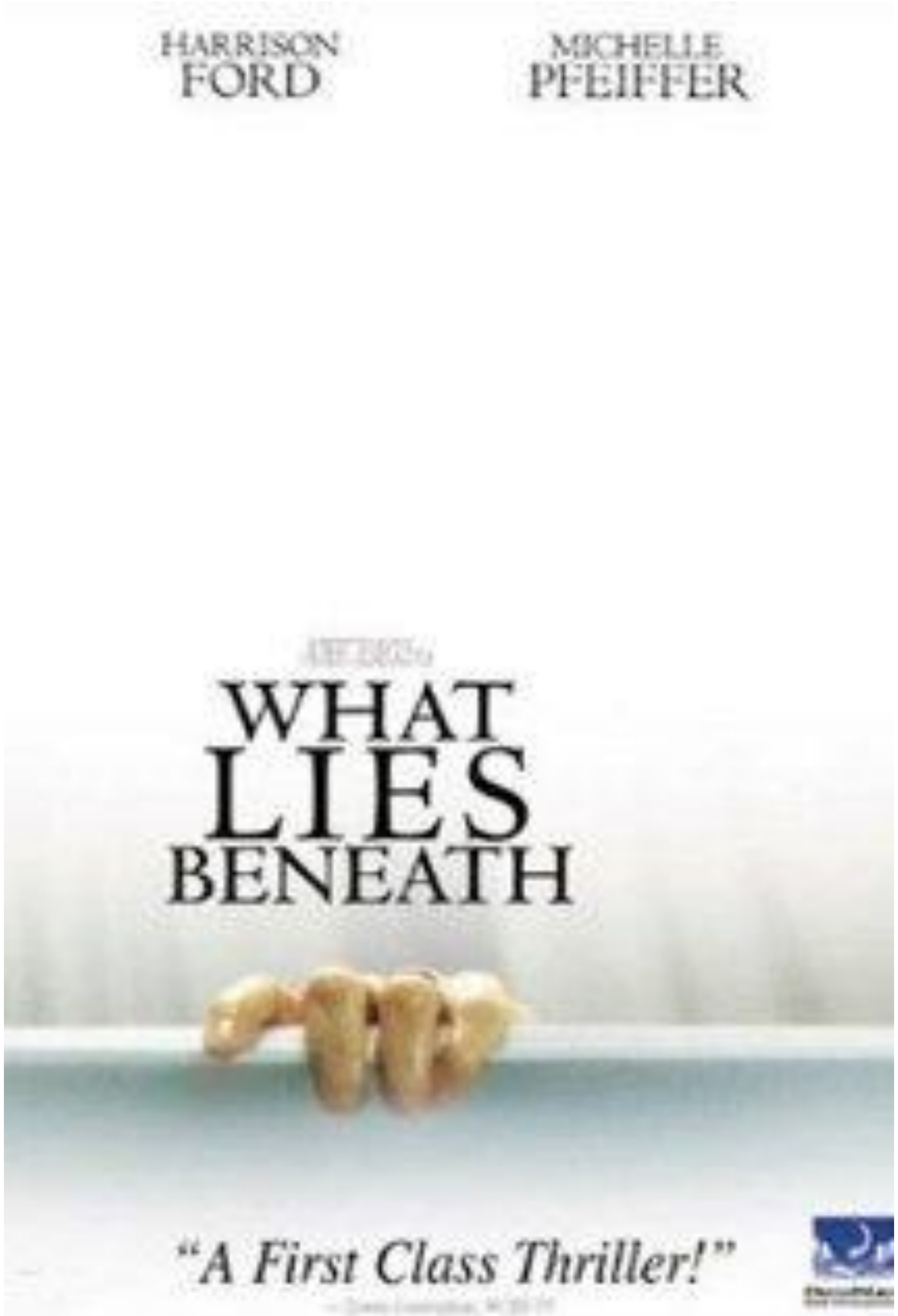
ACTIONS

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

- Thank you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LIES
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