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GFS in Latin America, General Government Versus Nonfinancial Public Sector and Coverage of Central Banks

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Defining GFS coverage

• General Government is the scope consistent with 2008 SNA.
• However, “GFS should cover all entities that materially affect fiscal policies” (GFSM 2014, para. 2.1), which leads to analysis of quasi-fiscal activities performed by public corporations.
• Two methodological options whether quasi-fiscal operations and separable and measurable:
  – Yes ➔ added to the respective level of government.
  – No ➔ expansion of the GFS coverage.
Problems applying the coverage definition in Latin America

• Coverage issues at the level of General Government and even Central Government.

• Entities that claim some degree of autonomy from the executive branch:
  – Formulate budgets independently.
  – Not required to report the execution of their budgets.

• Problems with data collection from local governments:
  – Lack of human and technological resources.
  – Lack of estimation methodologies.
Problems applying the coverage definition in Latin America

- Compiling problems are reflected in IMF’s publications:
  - *GFSY*: Of 20 countries, only 13 reported annual 2012 data.
  - *IFS*: Only 11 countries report high frequency data.
  - Coverage is not the same across countries.

- WHD uses its own definitions of coverage which is different for each country.
General Government versus Nonfinancial Public Sector

• Quasi-fiscal activity in Latin America is relatively important. Many transfers to private sector are channeled through public corporations:
  – Subsidies to small producers.
  – General or targeted price reductions in utilities sector.
  – Underpriced financial services.

• Large public corporations involved in strategic productive sectors generate significant revenue for general government.
General Government versus Nonfinancial Public Sector

• Legal framework: Scarce or non-existing barriers to public corporations for engaging in quasi-fiscal activity.

• Law, or restrictive interpretation of statutes, leads to problems in collecting data from public corporations and compiling comprehensive GFS. There are problems with:
  – Periodicity.
  – Timeliness.
  – Detail of transactions.
  – Legal exemptions.
General Government versus Nonfinancial Public Sector

• Although, experience advises expanding the institutional coverage to NFPS, at least, a final decision must be based on an assessment of the relevance of compiling GFS for this coverage definition in every country.

• The assessment is specially important for countries with fiscal rules whose compliance is facilitated excluding some public corporations from the rule scope.
The case of the Central Banks

• Latin American countries have been implementing institutional arrangements granting independence to Central Banks.
• However, the degree of independence varies from absolute to none; so does the involvement of Central Banks in quasi-fiscal activity.
• Even Central Banks with absolute independence may be burdened by the effects of their involvement in past financial bailouts and being performing some quasi-fiscal activity.
The case of the Central Banks

• Including the Central Banks within the GFS coverage must be assessed on a country by country analysis.

• Although the Central Banks case is akin with the one of nonfinancial public corporations, the decision is more complicated due the institutional implicancies.
Some proposals to address the issues

- The state of play is different in each Latin American country, but we can say that:
  - The coverage within general and central government still has to be improved.
  - Public corporations are significant fiscal policy agents.
  - Exclusion from PS of some public corporations may be aimed to facilitate the fiscal rules compliance.
  - Central Banks independence varies greatly.
  - Independent Central Banks can be still engaged in indirect quasi-fiscal activity.
Some proposals to address the issues

• Although, there is no an unrestricted recommendation for modifying the GFS coverage, expansion to NFPS is more feasible, but must be supported by the improving of institutional coverage of general government.

• Actions proposed:
  – Coordination within STA
  – Coordination with other IMF departments
  – Coordination with other international organizations
  – Transmitting the issue to the fiscal authorities