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Developing a Sovereign Balance Sheet: Outstanding Issues

Marco Cangiano

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Outline

- The fiscal challenge: where are we?
- A new wave of fiscal stratagems
- Does size matter?
- Developing a sovereign balance sheet
 - Definition
 - Key Issues
- Conclusions



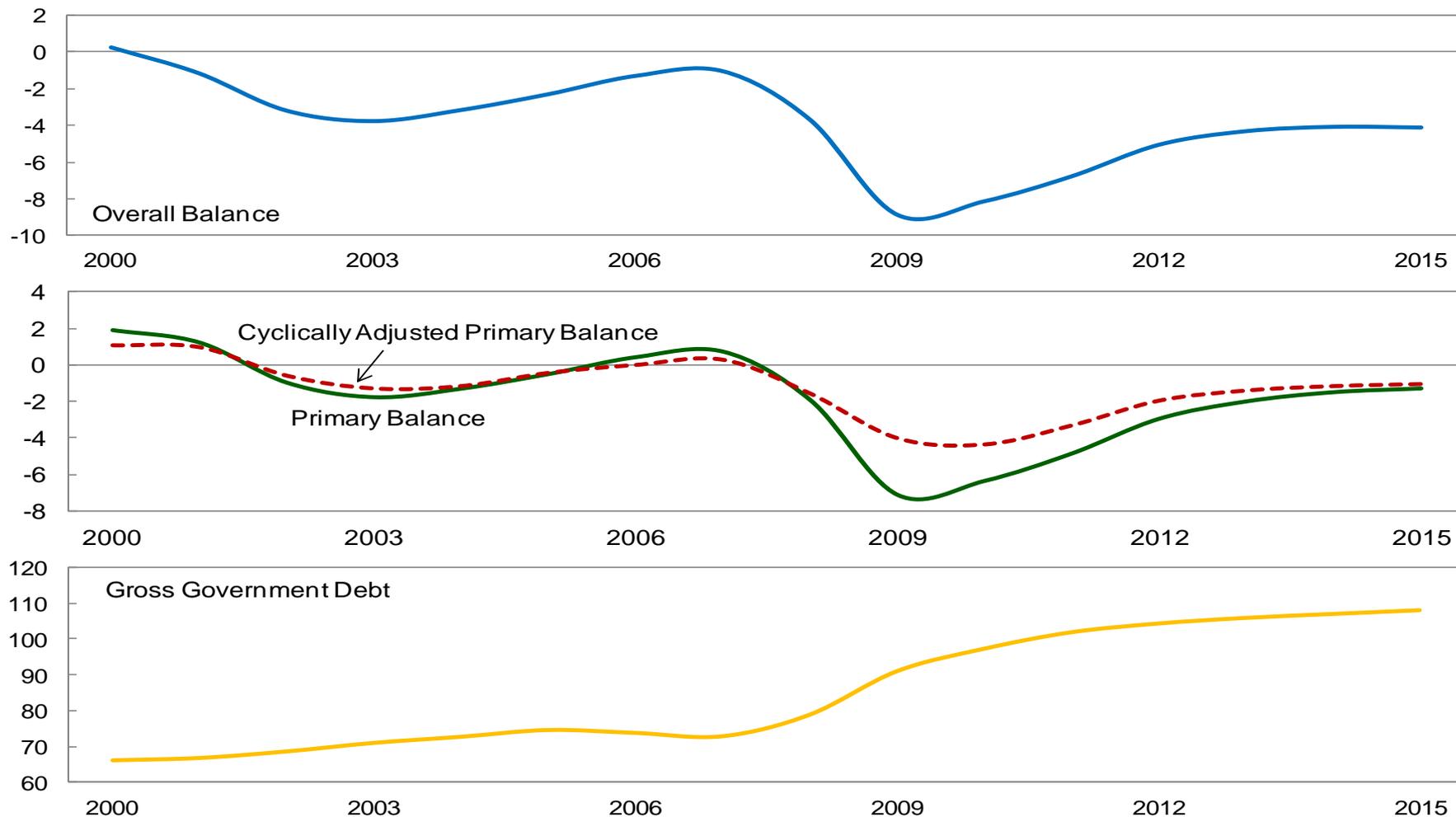
Fiscal Challenge: Where are we?

- Not much better, but there are good news
- A better appreciation of the size of the problem
- More attention to fiscal risks and long-term fiscal challenges—as highlighted in the November (and in the upcoming) IMF Fiscal Monitor
- With the exception of Ireland, net cost of supporting financial institution less than expected

Fiscal Outlook in Advanced Countries

November 2010 Fiscal Monitor

(all variables in percent of GDP)



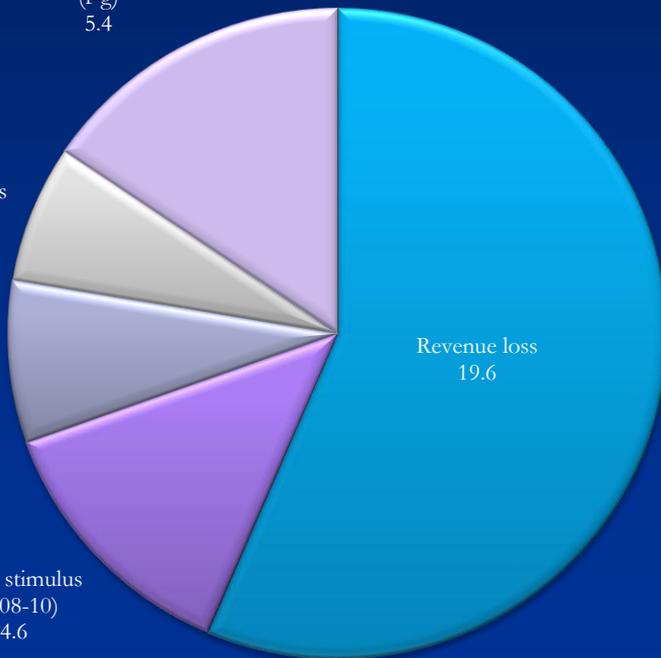


Change in debt-to-GDP Ratios: Advanced G20 Economies 2007 - 2015

(Total debt increase: 38 percent of GDP; 2009 PPP GDP weighted)

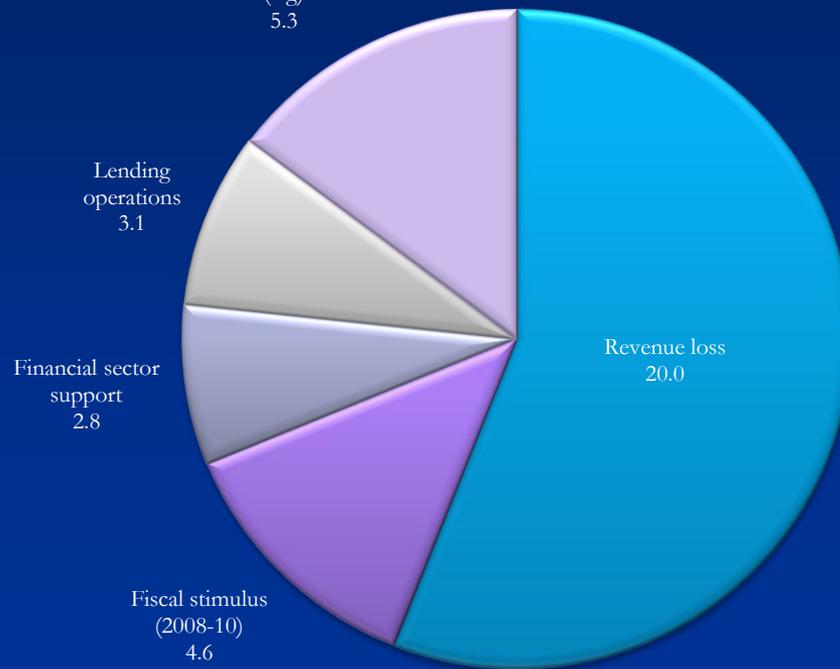
One year ago

2008-14 Interest-growth dynamics (r-g) 5.4



January 2011

2008-15 Interest-growth dynamics (r-g) 5.3





A new wave of fiscal tricks

Is transparency under pressure?

- Yes...Existing standards are struggling
- Focusing on single indicators does not help
- An updated taxonomy—see forthcoming FM:
 - Hidden borrowing: loan proceeds, sale and lease-back, asymmetric treatment of pension assets and liabilities
 - Deferred spending: operational vs. financial lease, PPPs
 - Disinvestment: Selling of assets, but no reflection of future (+/-) flows, securitization
 - Special purpose vehicles and operations or disappearing government

Four main categories of fiscal stratagems



	<i>More spending later</i>	<i>Less revenue later</i>
<i>More revenue now</i>	Hidden borrowing (no rise in debt shown)	Asset sales (no fall in assets shown)
<i>Less spending now</i>	Deferred spending (no rise in debt shown)	Foregone investment (no rise in assets shown in case in which investment is made)

Note: “Revenue” and “spending” mean *reported* revenue and spending.



The size of the problem

- Data are scarce—a clear symptom—but growing evidence...
-largely thanks to countries that abide by high financial reporting standards (e.g., US)
- Only large operations usually detected, often thanks to better scrutiny on the part of civil society
- While there is some evidence that markets reward transparency....
-there seem to be stronger evidence that markets do no seem to forget past tricks



The size of the problem: the US

- In 1995–2010, the budget deficit underestimated long-run costs by an average of 2 percent of GDP a year....
- mainly because the cash cost of veterans' compensation and civilian and military health and pension benefits was less than the accrued cost.....
- ...as shown in the next slide.



The size of the problem: the US

Cash and Accrual Measures of the U.S. Federal Deficit

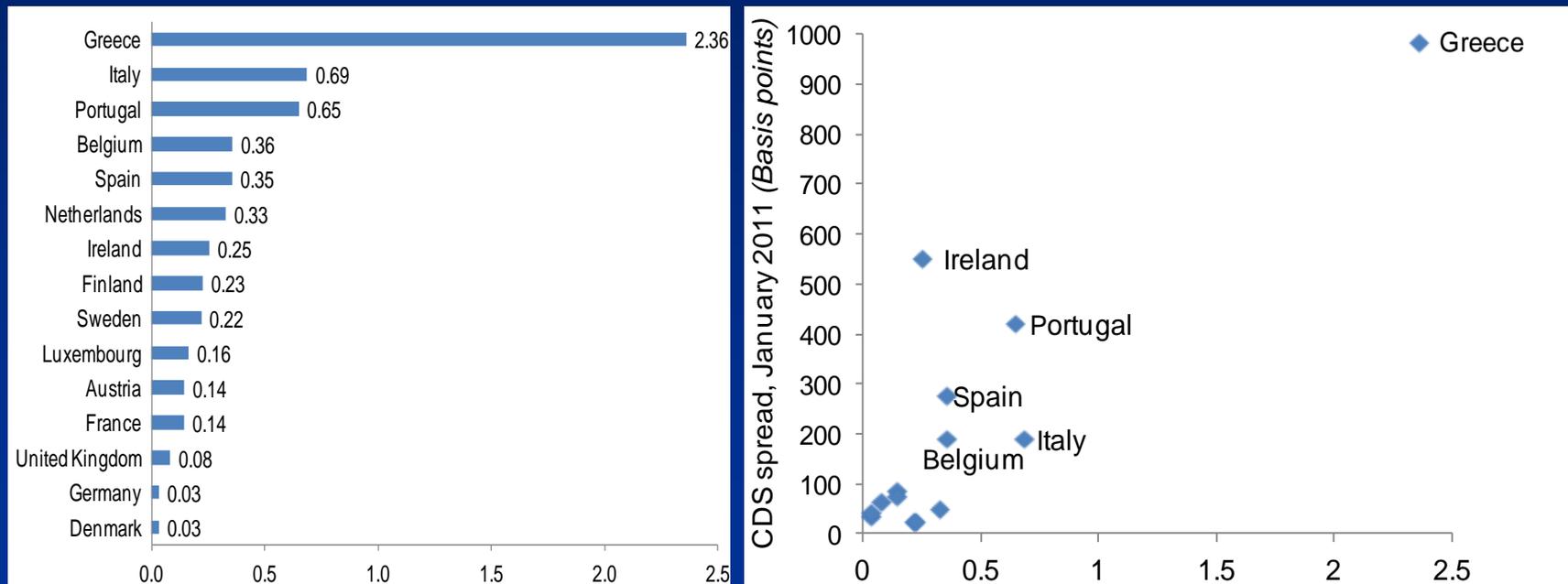
(Billions of US dollars)

	2008	2009	2010
Budget surplus	-455	-1417	-1294
Veterans' compensation	-339	149	-224
Military and civilian employee benefits	-211	-114	-279
Troubled asset relief program (TARP)	0	110	-86
Government sponsored entities	0	0	-268
Other	-5	18	71
Net operating surplus	-1009	-1254	-2080

Source: U.S. Treasury, annual financial reports of the U.S. government, 2009 and 2010

Markets do not seem to forget

Average Annual Impact of “Fiscal Gimmicks and One-off Measures” in Europe (1993–2003; Percent of GDP), and relationship to CDS Spreads in January 2011



Sovereign Balance Sheet: Can it solve the problem?



- Possibly...but many issues remain to be addressed
- The concept is not particularly new—see earlier IMF work on BSA, *GFSM 2001* framework, SWF, more recently BPM 6.....
-and is easy to grasp—less so to implement:
Comprehensive information of all public assets and liabilities as analytical tool to assist governments managing their resources while taking into account their combined implications

Sovereign Balance Sheet: Institutional Coverage



Non-Financial		Financial		Total	Net Worth
A	L	A	L	A	L
					(A-L)

Non-Financial		Financial		Total	Net Worth
A	L	A	L	A	L
					(A-L)

Sovereign/Whole-of-Government

General government
Central government

Including:

Budgetary central government
Other central government agencies
e.g., Social security institutions

Subnational governments

Public enterprises 1/

Financial

e.g., Central bank
Deposit insurance fund
SWF
AMC

Non-financial

1/ If market producers.



Issues I

- Coverage and control: tension between accounting and reporting?
- IPSASB ED: avoid use of word “control” in defining coverage of financial statements

Consolidate all entities government

has capacity to direct....

but what about lower levels of government....

and financial institutions such as central banks...



Issues II

- To what extent can a sovereign balance sheet be used for policy making? Who manages what?
- How can central governments integrate analysis of the assets and liabilities sovereign balance sheet that belong to other legal entities?
- Will balance sheet ever coincide with coverage of financial statement?
- Is there a parallel here with financial statements based on accruals accounting and budgets, still largely approved on cash concepts?



Issues III

- Sovereign balance sheet helps identify central government's risk exposure to components not strictly controlled by it....
- ...but if central governments manages it....
- ...there may conflicts of interest.....
- Could then this be the role of an independent authority?
- Existing fiscal councils would have to be redesigned so that their authority expanded.



Conclusions

- No doubts that sovereign balance sheet concept has become part of the economist's toolkit...
-but issues such as coverage/control should addressed to the extent possible....
- ...to avoid widening rather than bridging the gap.

Thank you



Selected IMF References

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