General Government Gross Debt in Brazil: Methodological Issues Regarding Government Securities Held by the Central Bank

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GGGD - International methodology

- GGGD indicator is based upon the concepts of institutional units and liabilities;
- Institutional sectors:
  - General government sector ;
  - Financial corporations sector (central banks)
- All transactions between the central bank and the general government are expected to be recorded by general government debt indicators.

GGGD - International methodology

- Liabilities: “a debt instrument is defined as a financial claim that requires payment(s) of interest and/or principal by the debtor to the creditor” (IMF - *Public Sector Debt Statistics - Guide for Compilers and Users*);
- International guidelines: government securities held by the central banks should be recorded as a financial claim on the governments:
  - They generate the right to receive funds or other resources

The relationship between the Central Bank and the General Government in Brazil

- Central Bank of Brazil (CBB) holds the classic function of treasury banker;
- CBB cannot grant loans to any unit other than a financial institution;
- CBB can buy government (National Treasury - NT) securities only in the secondary market, for monetary policy management purposes.

The relationship between the Central Bank and the General Government in Brazil

- The result of the CBB is transferred to the NT:
  - If positive, the result is transferred by means of credit in the Treasury Single Account (TSA);
  - If negative, the NT issues securities directly to the CBB's portfolio as compensation, without any financial counterpart.
- Transfers from the CBB to the NT, by means of credit in the TSA can only be used by the NT for redemption of federal securities, preferably those in the CBB’s portfolio.

The relationship between the Central Bank and the General Government in Brazil

- Fiscal Responsibility Law – FRL:
  - Promulgated in 2000;
  - Prohibited the issuance of securities by the CBB;
  - CBB’s securities on the market were redeemed according to the maturity structure, and by 2006 they were fully extinguished;

The relationship between the Central Bank and the General Government in Brazil

- Fiscal Responsibility Law – FRL:
  - As the CBB can no longer issue securities, it has employed exclusively securities issued by the NT in repo operations;
    - NT can issue securities directly to the CBB's portfolio, without any financial compensation
  - The new arrangement led to a revaluation of the GGGD concept by the country.

GGGD - National methodology

- By 2007, all NT securities in the CBB's portfolio were included in the GGGD;
  - There was a certain distinction between securities issued for coverage of budget deficits and securities issued for monetary policy implementation purposes (conservative approach recommended to include all securities)
- In 2008, the GGGD concept changed:
  - Nonearmarked securities portfolio (overall securities portfolio minus repo operations) excluded;
  - Repo operations included
- Thereby, National GGGD includes the entire securities debt held by the market.

GGGD - National methodology

Why nonearmarked securities are not included?

- NT could limit the issuances to the CBB's portfolio to an amount close to that of repo operations.
  - This measure would take the national indicator to the same level as registered by the international indicator
- Nonearmarked securities in the CBB's portfolio do not represent any kind of funding to NT;
  - Only available to the CBB for the management of monetary policy;
  - They could be cancelled.
- Whichever may be the amount of nonearmarked securities in the CBB's portfolio, the conditions in which NT securities are traded in the market remain the same.
- The rollover of the NT securities in the CBB's portfolio is automatic in practice, and does not induce market pressure.

Data Evolution

General government gross debt

% GDP

	2006	2007	2008	2009	2010	2011	2012	2013	2014
GGGD - National methodology (A)	**55.5**	**56.8**	**56.0**	**59.3**	**51.8**	**51.3**	**54.8**	**53.3**	**58.9**
Internal gross debt	49.2	52.5	51.4	55.9	48.9	48.8	52.1	50.4	55.5
Federal securities debt market	44.6	44.3	39.8	41.1	40.4	39.9	39.7	38.6	38.8
CBB repo operations (B)	3.2	6.9	10.5	13.7	7.4	7.8	11.1	10.3	14.7
Other	1.5	1.3	1.1	1.1	1.1	1.1	1.3	1.5	2.0
Foreign debt	6.2	4.3	4.7	3.3	2.8	2.5	2.7	2.9	3.4
Memo									
Nonearmarked securities in CBB's portfolio (C)	9.1	6.3	5.4	5.5	10.7	9.4	8.1	8.3	5.6
Total securities in the CBB porfolio (D=B+C)	12.3	13.2	15.9	19.2	18.1	17.2	19.2	18.6	20.2
GDDD - International methodology (E=A+C)	**64.6**	**63.1**	**61.5**	**64.8**	**62.4**	**60.7**	**62.9**	**61.6**	**64.5**

Source: Central Bank of Brazil

Data Evolution

The growth of international reserves is one of the facts that has contributed to the growth of repo operations

International reserves: From US$ 86 billion in 2006 to US$ 374 billion in 2014

Conclusion

- International standards may leave out important specificities which may in turn undermine comparability;
- Part of government debt may not reflect its actual financing needs when government securities in central bank's portfolio are not an actual "claim" on the government;
- In the Brazilian case, the national debt concept should be considered along with traditional debt concept.