



Buenas Prácticas en la Gestión de Deuda Pública

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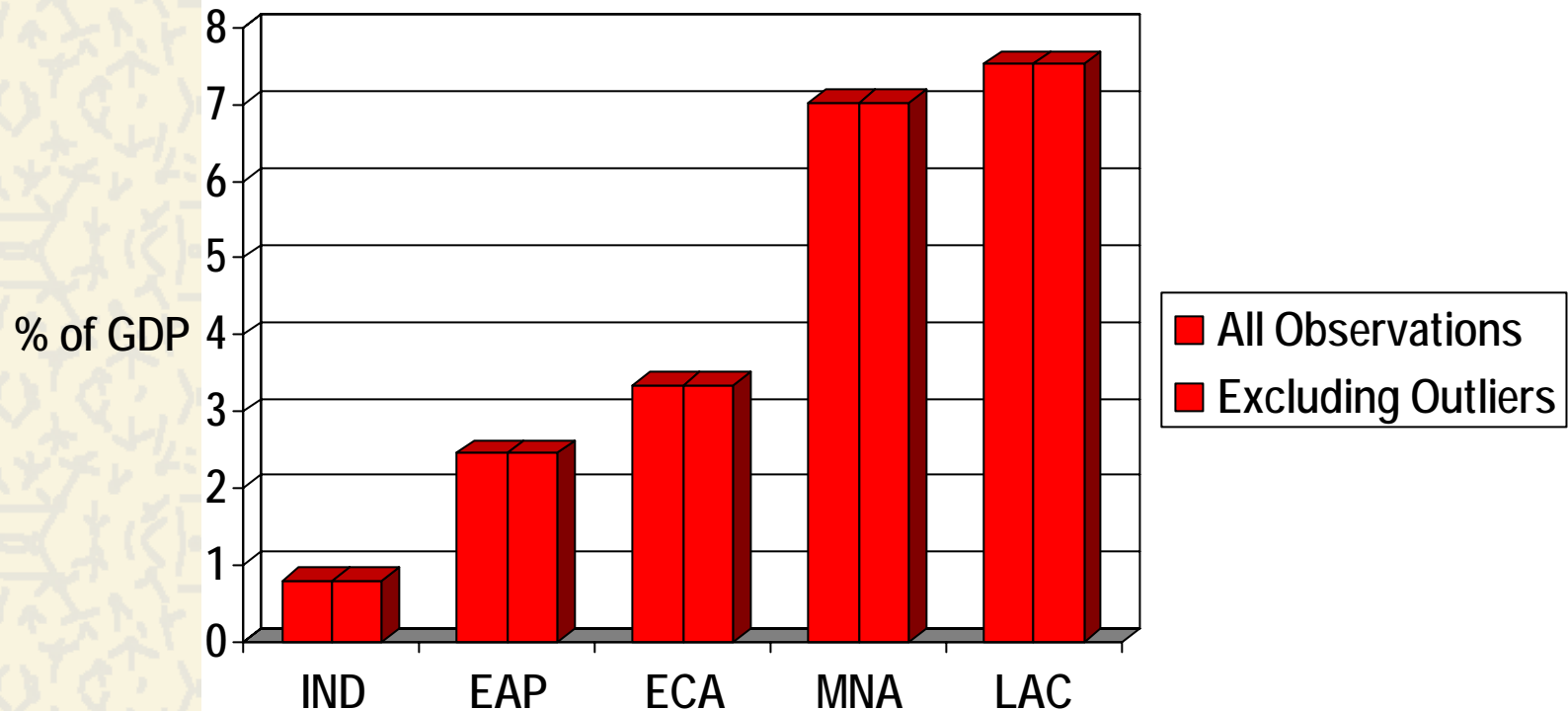
Introduction

- ✦ The paper is an excellent discussion of the fiscal rule in Chile
- ✦ I was intrigued by the the reasons why the Chilean fiscal rule aims at a structural surplus
- ✦ One of these reasons is the need to accumulate surplus to face contingent liabilities

Contingent liabilities are key to debt explosions

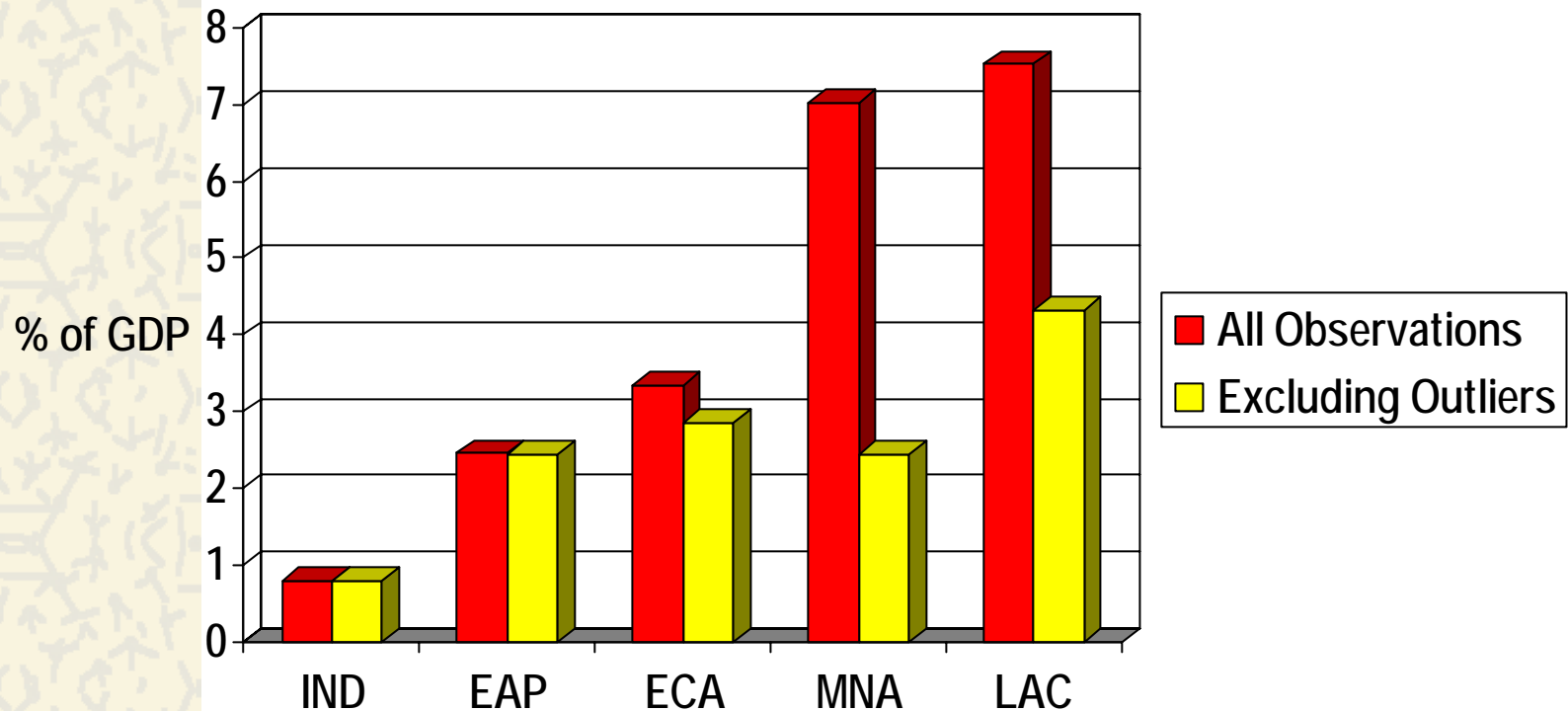
- ✦ The economics 101 debt accumulation equation states that:
 - $DEBT(t) - DEBT(t-1) = DEFICIT(t)$
- ✦ Practitioners know that the real equation is:
 - $DEBT(t) - DEBT(t-1) = DEFICIT(t) + SF(t)$
- ✦ But Stock-Flow reconciliation is often considered a residual entity of small importance

The Stock-Flow Reconciliation



Source: Campos, Jaimovich, and Panizza (2006)

The Stock-Flow Reconciliation

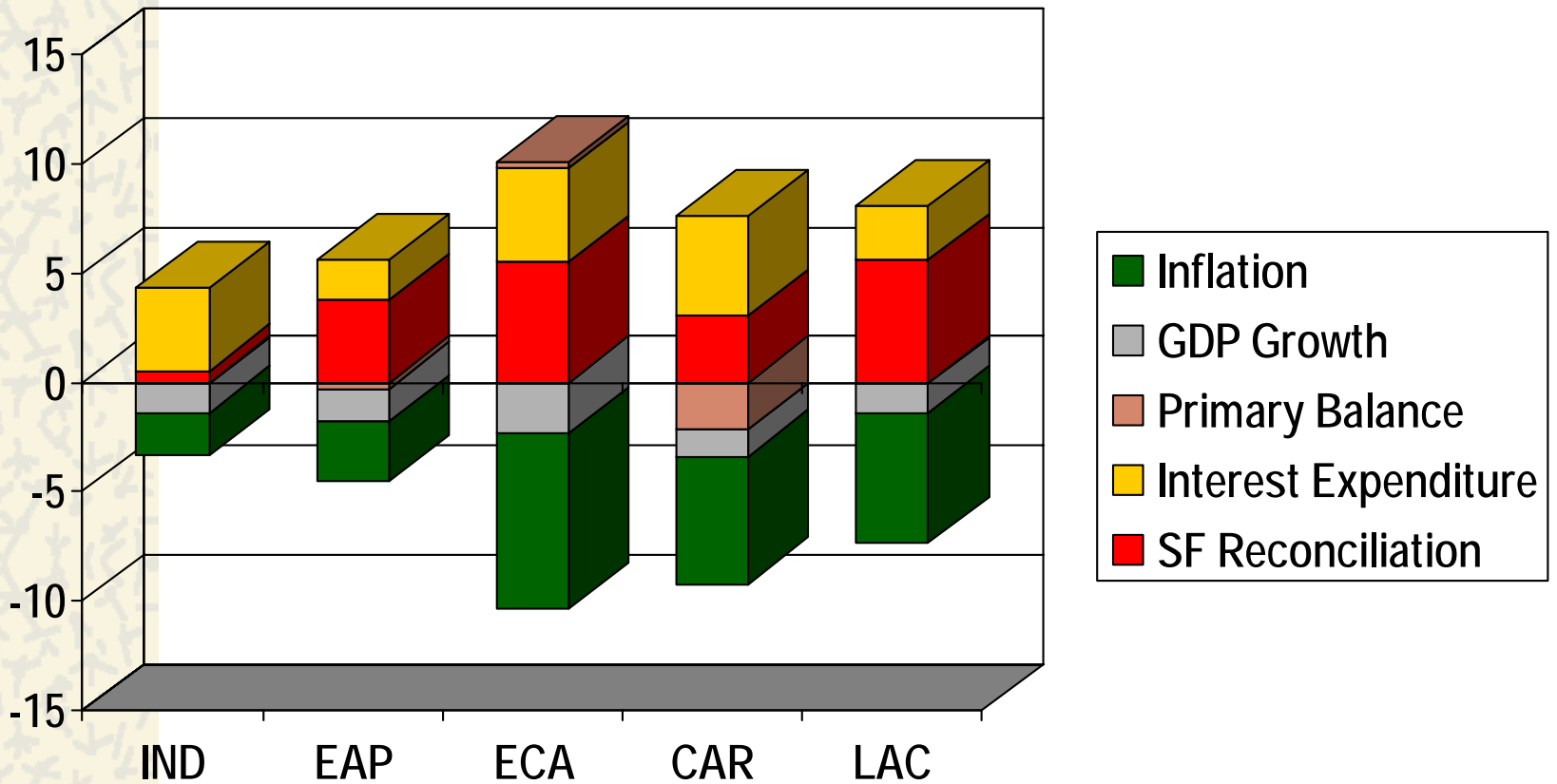


Source: Campos, Jaimovich, and Panizza (2006)

A Fancier Decomposition...

$$\begin{aligned} & \frac{DEBT_t}{Y_t} - \frac{DEBT_{t-1}}{Y_{t-1}} = \\ & \frac{PD_t}{Y_t} + i \frac{DEBT_{t-1}}{Y_{t-1}(1+g)} + \\ & - gr \frac{DEBT_{t-1}}{Y_{t-1}(1+g)} - \pi \frac{DEBT_{t-1}}{Y_{t-1}(1+g)} \\ & + \frac{SF_t}{Y_t} \end{aligned}$$

...yield similar results

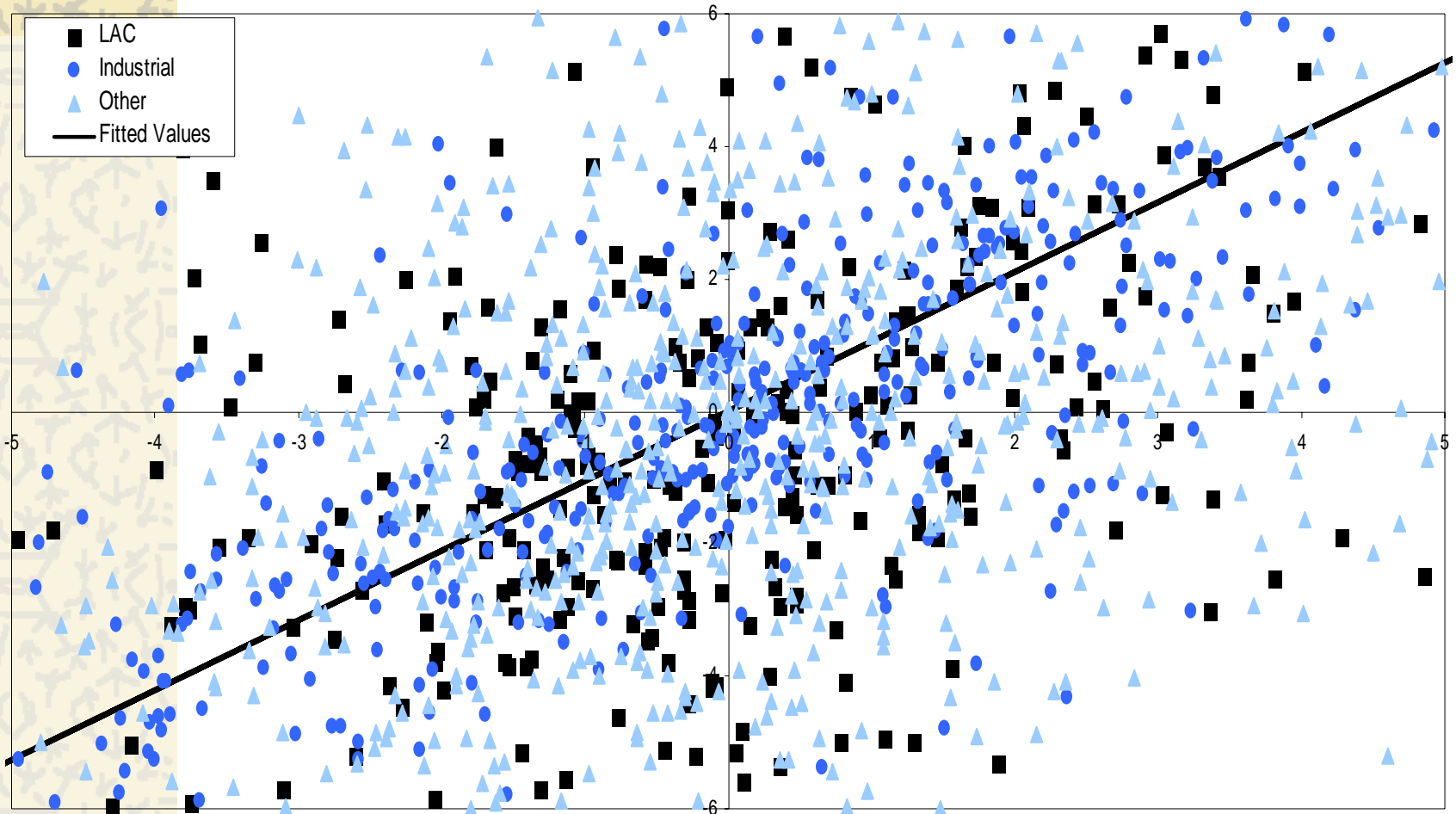


Source: Campos, Jaimovich, and Panizza (2006)

Back to our simple model

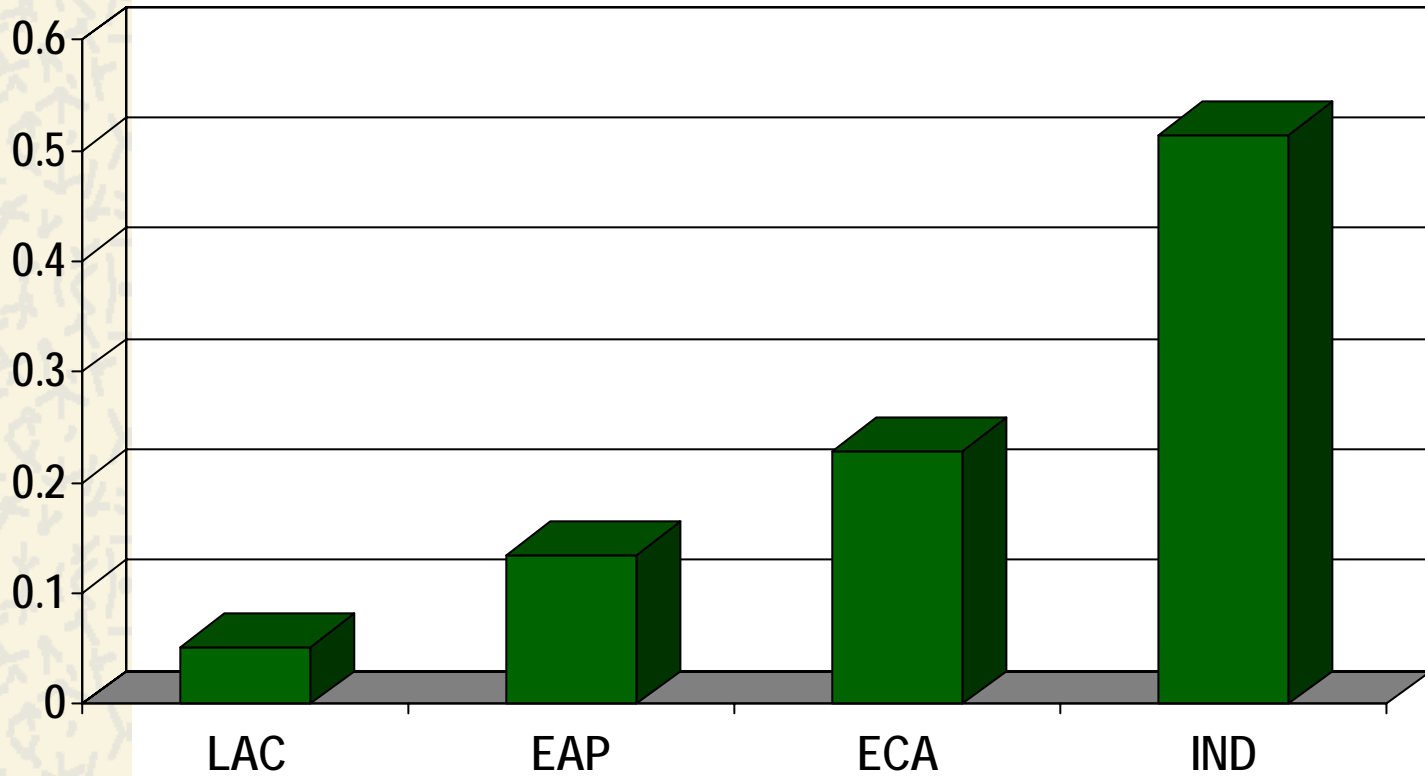
- ✦ $DEBT(t) - DEBT(t-1) = DEFICIT(t) + SF(t)$
- ✦ Divide everything by GDP at time t...and then regress the change in debt over the deficit
- ✦ $d(t) - d(t-1) = deficit + \varepsilon(t)$
- ✦ The "error" of the regression is an estimate of the Stock-Flow Reconciliation

The Errors are Huge...



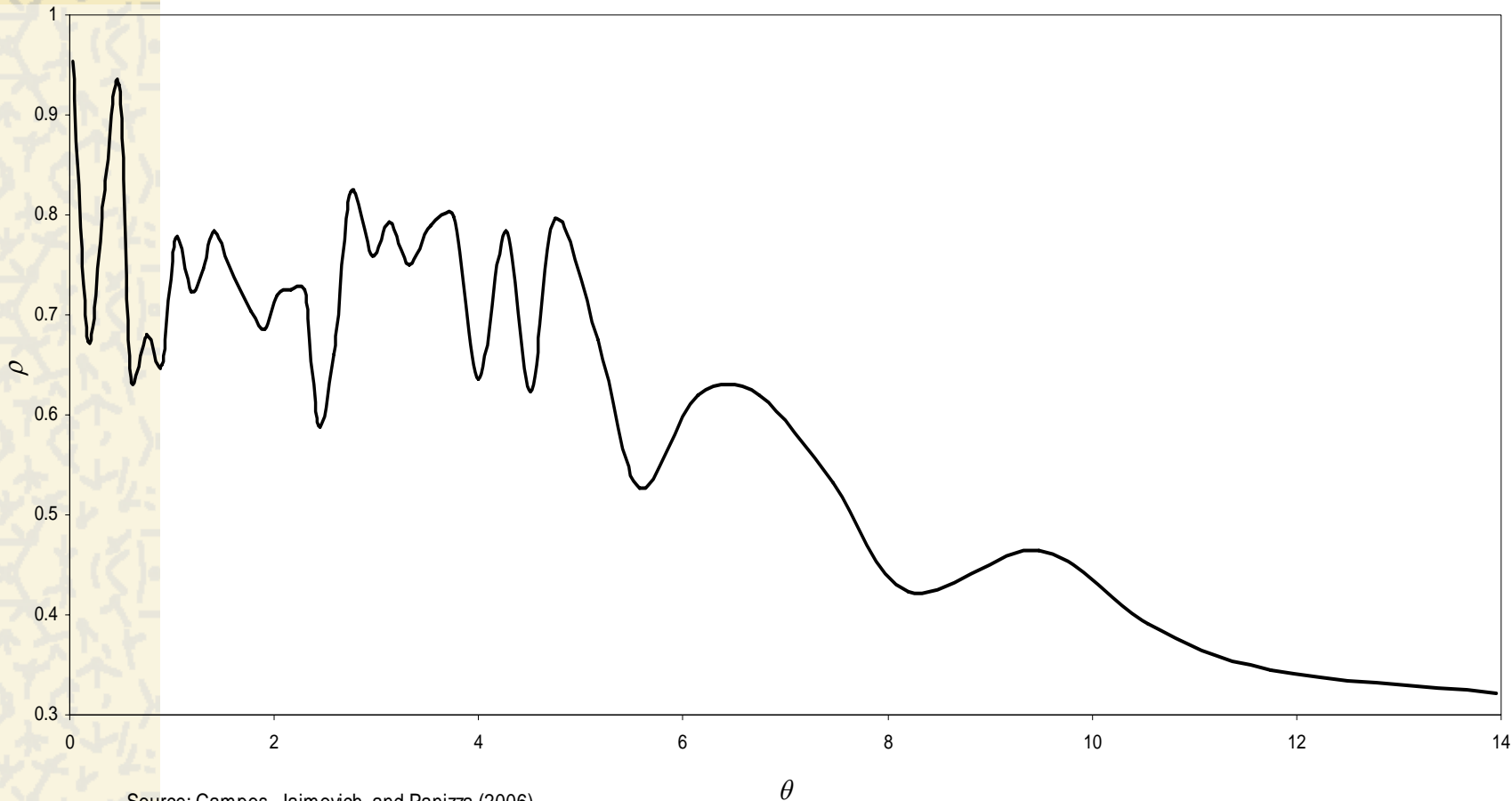
Source: Jaimovich and Panizza (2006)

...and the R2s are tiny



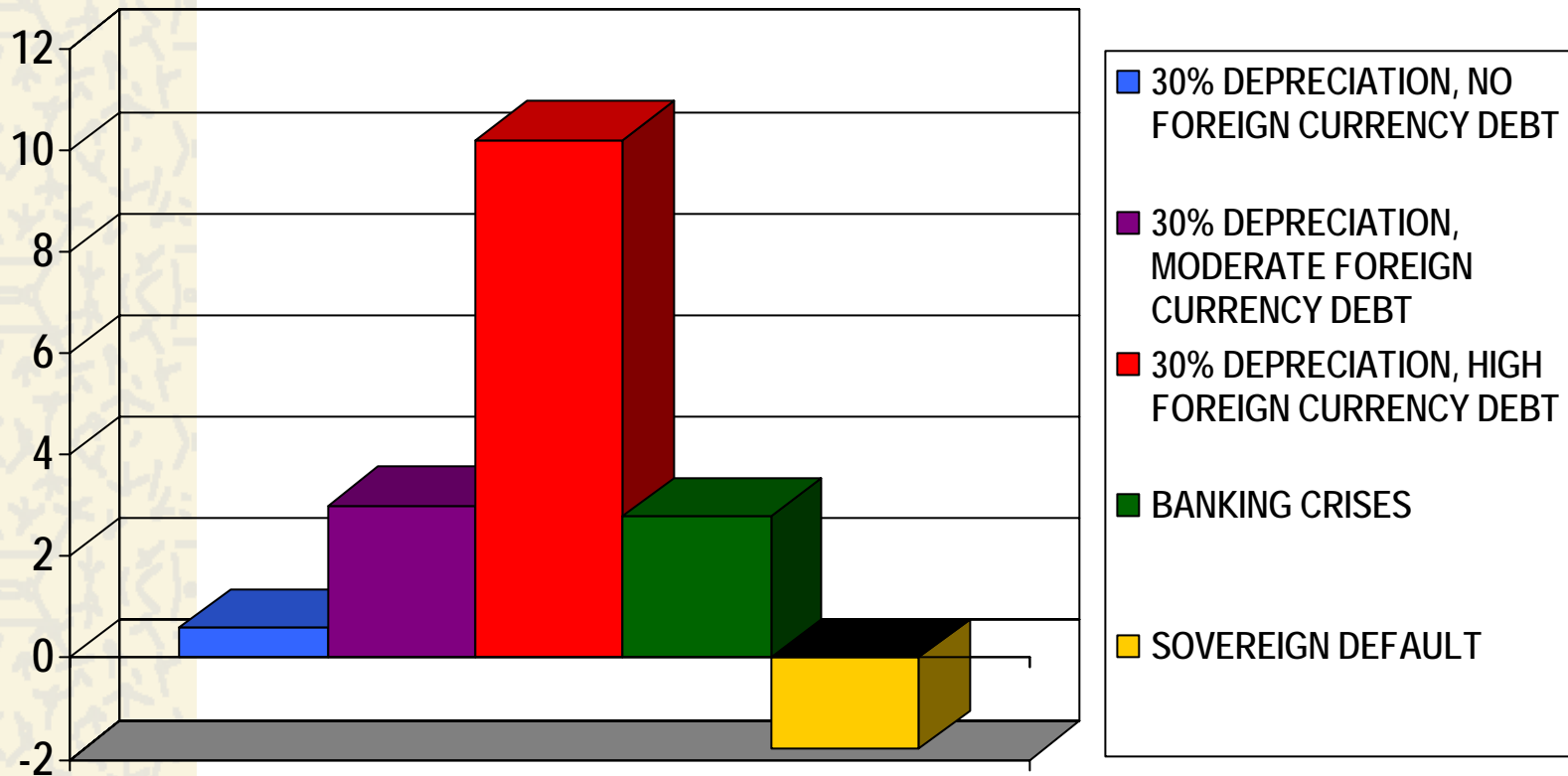


Debt Explosions and Stock-Flow Reconciliation



Source: Campos, Jaimovich, and Panizza (2006)

The Determinants of Stock-Flow Reconciliations



Summing Up

- ✚ Having good deficit rules is cool
 - But recorded deficits explain a very small share of debt growth
- ✚ Policy implications:
 - I. Better accounting: Avoid “skeletons” by recording liabilities when they appear
 - II. Mind your debt structure: “Cheap” debt may become expensive in bad times
 - III. Always think about contingent liabilities (banking crises, borrowing by subnationals, unfunded pension systems)
 - IV. What about the role of courts...



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