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

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Abstract

The general government gross debt, according to the methodology followed by international organizations such as the International Monetary Fund, includes all securities issued by the government. In Brazil, the current institutional framework involving the Central Bank and the National Treasury raises some questions regarding the adequacy of the methodology in measuring the general government's actual liabilities. The Central Bank is forbidden to issue its own securities as well as to finance the National Treasure, but utilizes federal securities solely in liquidity control operations. The National Treasury can issue federal securities directly to the Central Bank's portfolio, without any financial counterpart, either to reallocate the securities portfolio to an adequate level in order to carry out monetary policy, or to compensate the negative result of the Central Bank operations. In this circumstances, the inclusion of the nonearmarked Central Bank portfolio (overall portfolio minus repo operations) in the general government gross debt may not reflect the government's financing needs, because it is not actually a claim on the government. The paper addresses these issues, analyzing whether the international methodology fits well the Brazilian case.

Keywords: Monetary policy; government solvency; financing needs.