

# Quasi-Fiscal Operations of Public Financial Institutions

G. A. Mackenzie and Peter Stella



INTERNATIONAL MONETARY FUND

Washington DC

October 1996

VB TU Darmstadt



51641647

# Contents

	<b>Page</b>
<b>Glossary</b>	<b>v</b>
<b>Preface</b>	<b>vii</b>
<b>I Overview</b>	<b>1</b>
Basic Features of QFAs	1
Policy Toward QFAs	2
<b>II Basic Issues</b>	<b>3</b>
Why QFAs Are a Matter of Concern	3
General Issues	4
Institutional and Regulatory Sources of QFAs	4
Motives and Rationale for QFAs	5
Problems of Quantification	5
<b>III Varieties and Economic Effects of Quasi-Fiscal Activities</b>	<b>7</b>
QFAs Associated with the Exchange System	7
MER Practices	7
Exchange Rate Guarantees and Assumption of Exchange Rate Risk	8
QFAs Associated with the Financial System	9
Subsidized Lending	9
Reserve Requirements and Credit Ceilings	10
Rescue Operations	11
Sterilization Operations	12
<b>IV Implications for Policy</b>	<b>14</b>
Traditional Approaches	14
More Sophisticated Approaches	14
Structural Reform	15
<b>Appendices</b>	
<b>I Measurement and Accounting Issues</b>	<b>17</b>
Definitional Issues	17
Problems Resulting from the Use of Cash Versus Accrual Accounting	18
Particular Problems Resulting from Foreign Exchange Transactions and MER Systems	19
Reserve Requirements	20
Contingent Liabilities	22
Inflation Adjustment	22

# CONTENTS

<b>II</b>	<b>Varieties of Country Experience</b>	<b>24</b>
	MER Practices	24
	Exchange Rate Guarantees and Assumption of Exchange Rate Risk	25
	Subsidized Lending	26
	Selective Reserve Requirements and Credit Ceilings	26
	Rescue Operations	27
<b>III</b>	<b>Five Country Case Studies</b>	<b>28</b>
	Uruguay	28
	Jamaica	28
	Ghana	30
	Poland	31
	Romania	32
	<b>References</b>	<b>35</b>
	<b>Boxes</b>	
	<b>Section</b>	
<b>IV</b>	1. Calculating the Value of Quasi-Fiscal Activities: Two Examples	15
	2. The Treatment of Quasi-Fiscal Activity in a Common Currency Area	16
	<b>Tables</b>	
	<b>Section</b>	
<b>II</b>	1. A Schematic Typology of Quasi-Fiscal Activities	4
	<b>Appendix</b>	
<b>I</b>	2. Impact of an MER System on the Central Bank's Balance Sheet: With No Change in Reserves	20
	3. Impact of an MER System on the Central Bank's Balance Sheet: With Change in Reserves	21
<b>III</b>	4. Uruguay: Operating Losses of the Public Financial Sector	29
	5. Jamaica: Operating Balance of the Bank of Jamaica	30
	6. Ghana: Quasi-Fiscal Operations of the Bank of Ghana	31
	7. Poland: Transfer of Profits by PFIs to the State Budget	32