Discussion on *"Financial accounts and monetary and economic analysis at the ECB"*
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Bank of Italy Conference: How financial systems work - evidence from financial accounts

Rome, 30 November – 1 December 2017

Overview

- Three lessons highlighting the usefulness of financial accounts
  - Forecasts
  - Diagnosis
  - Vulnerabilities

- But is the SNA framework sufficient in today's world?

1. Lesson 1: Financial accounts and economic forecasts

- Financial positions implied by ECB projections
  - ➢ Story-telling exercises
  - ➢ Consistency check of the projections

- Difficulties
  - ➢ What is the impact of real variables on financial variables (eg shares issued by NFC)
  - ➢ Even if the impact is known, uncertainty related to the macro forecast itself (eg impact of interest rates on debt service)

1. Lesson 1 (cont'd): Financial accounts and economic forecasts

- No direct feedback effects

  - Difficult to capture

  - Yet a few real-side equations could be highlighted: investment (Tobin's Q) / wealth effects forconsumption

- Risks to the forecasts

  - Qualitative assessments

  - Yet risks have a medium-term nature that is difficult to reconcile with standard, short-term quarterly projections

2. Lesson 2: Financial accounts and economic diagnosis

- A wealth of useful information, presented in a structured way
  - Interrelations between sectors
  - Overall indicators: debt, leverage, wealth
- Enhanced sectoral balance sheet analysis
  - NFC liquid assets
  - Financing of NFCs: external / domestic
- Enhanced understanding of the financial system's functioning
  - Non-MFIs' role in financial intermediation
  - Banks / non-banks

3. Lesson 3: Spotting vulnerabilities

- Deviations from «normal» patterns
  - ➢ Historical deviations
  - ➢ Thresholds
  - ➢ Error-correction models
  - ➢ VAR techniques

- Yet financial stability issues
  - ➢ Difficult to model structural changes (eg non-bank funding)
  - ➢ Complex techniques vs story-telling

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4. But is it enough?...

- Importance of (detailed) balance sheet issues
  - ➢ maturity transformation
  - ➢ currency mismatches (eg external vs foreign currency debt)
- New financial intermediation:
  - ➢ Market-based financing
  - ➢ shadow banks (cf hedge funds in the SNA)
- Feedback loops & impact of evolving financial regulation
- Issues are global

4. (cont'd) … especially given financial globalisation?

- Increased role played by global companies / but international comparisons still rely on the residency-based SNA framework

- Usual country statistics do not integrate the impact of the activities of national groups outside domestic boundaries

- Particularly important for balance sheet data:

- Especially for the financial sector:
  - Role of affiliates: foreign branches / subsidiaries
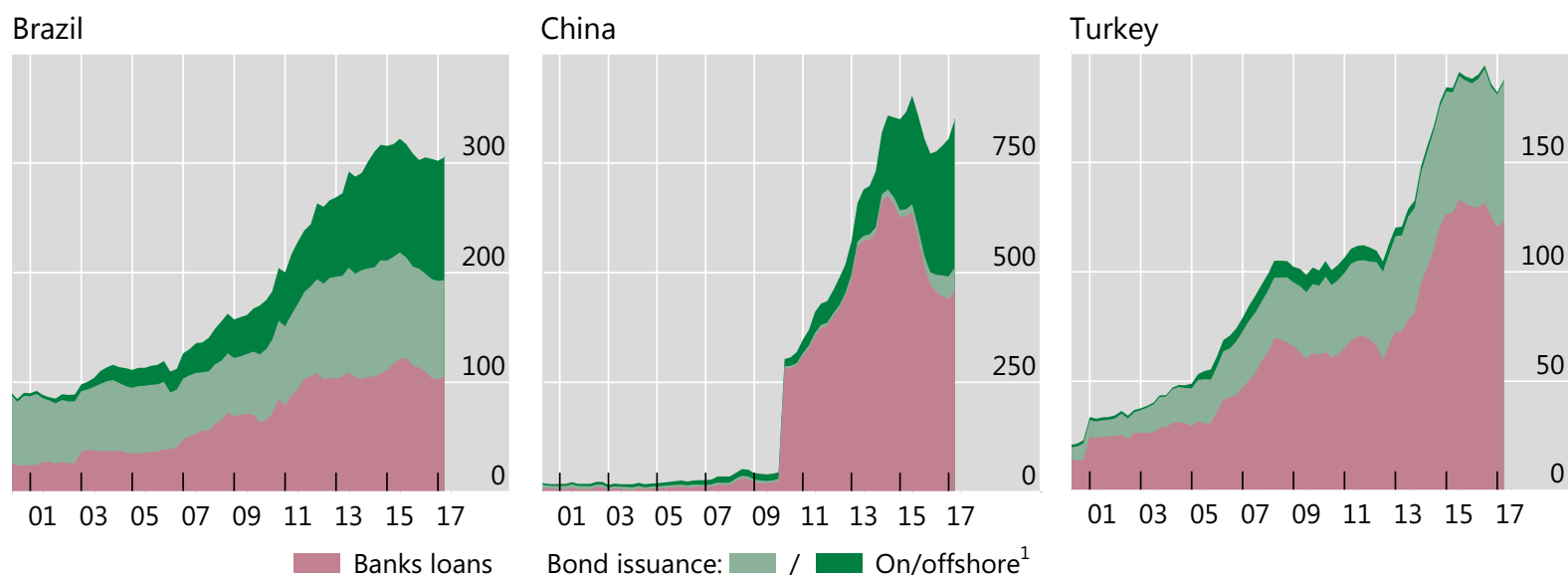 - Cross-border claims / local claims

4. (cont'd) cf challenges in assessing debt issued by domestic firms

- **Debt issuance: the 2nd phase of global liquidity**

- **Issuance by (non-resident) affiliates can be large**

US dollar-denominated credit to non-banks, including offshore issuance

In billions of US dollars

Brazil / China / Turkey

Banks loans   Bond issuance: / On/offshore[1]

For definitions and sources, see www.bis.org/statistics/gli.htm. Breaks in series occur in the period in which data on LLFX become available for the respective country: for Brazil, Q4 2002; for China, Q1 2010; for Turkey, Q4 2000.

[1] Offshore bond issuance is defined as the outstanding US dollar-denominated bonds issued offshore (ie outside the country listed in the panel title) by non-banks with the nationality listed in the panel title.

Source: BIS global liquidity indicators.

Thank you!!

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