Comments on
«Risk Exposures in International and Sectoral Balance Sheets»

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DISCUSSANT NOTES IN RELATION TO PAPER « RISK EXPOSURES IN INTERNATIONAL AND SECTORAL BALANCE SHEETS » BY PHILIP R. LANE


Peter van de Ven
Head of National Accounts, OECD
Introduction

Perspective of statistician (National Accountant)

• “There are three kinds of lies: lies, damned lies, and statistics” (Benjamin Disraeli)
Introduction

Perspective of statistician (National Accountant)

• “There are three kinds of lies: lies, damned lies, and statistics” (Benjamin Disraeli)

• “An unsophisticated forecaster uses statistics as a drunken man uses lamp-posts - for support rather than for illumination” (Andrew Lang)
Foreign Assets and Liabilities

- $\Delta$ NIIP = Current Account + Net Capital Transfers + Holding Gains and Losses + Other Changes
- $\Delta$ NIIP = Financial Transactions + Holding Gains and Losses + Other Changes
- Financial Transactions = Current Account + Net Capital Transfers
- Statistical Discrepancies!!!
- Lots of focus on transaction identity, less so on arriving at budget identity => Improved balancing needed for analysis
• Favour second equation: \( \Delta \text{NIIP} = \text{Financial Transactions} + \text{Holding Gains and Losses} + \text{Other Changes} \)
  – Probably data on balance sheets and financial transactions better aligned and more consistent
  – Allows for an analysis by financial instrument
  – In System of National Accounts, part of the statistical discrepancies may have been addressed
International Currency Exposures

- Hardly data available on positions by currency
- For me, it raises a more general question on accounting for risk exposures, as many positions will be covered by derivatives, options, swaps, etc.
- How could additional, more detailed data support this type of risk analysis?
Philip Lane’s paper clearly shows some of the data needs for analysis:

- More granular information by subsectors of financial corporations
- Distinction between foreign-owned and domestically owned banks
- More detailed counterparty information:
  - “geographic and industrial composition of its loan book and bond holdings”
  - more generally, breakdown of the rest of the world
- Ultimate beneficial ownership

Sectoral Analysis
Sectoral Analysis

• Need for very granular information by subsector and by counterparties of financial assets and liabilities

• G20 DGI, recommendation 15:
  – develop a strategy to promote the compilation and dissemination of the balance sheet approach (BSA), flow of funds, and sectoral data more generally
  – data on non-bank financial institutions should be a particular priority
### Template: Minimum and Encouraged Sectors for Quarterly Financial Account and Positions

<table>
<thead>
<tr>
<th>Sector Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-financial corporations (S11)</strong></td>
<td>Of which: Public non-financial corporations</td>
</tr>
<tr>
<td><strong>Financial corporations (S12)</strong></td>
<td>Monetary financial institutions (S121+S122+S123)</td>
</tr>
<tr>
<td></td>
<td>Central bank (S121)</td>
</tr>
<tr>
<td></td>
<td>Other depository-taking corporations (S122)</td>
</tr>
<tr>
<td></td>
<td>Money-market funds (S123)</td>
</tr>
<tr>
<td></td>
<td>Insurance corp. and pension funds (S128+S129)</td>
</tr>
<tr>
<td></td>
<td>Insurance corp. (S128)</td>
</tr>
<tr>
<td></td>
<td>Pension funds (S129)</td>
</tr>
<tr>
<td></td>
<td>Other financial corporations (S124+S125+S126+S127)</td>
</tr>
<tr>
<td></td>
<td>Of which: Non-money market investment funds (S124)</td>
</tr>
<tr>
<td></td>
<td>Of which: Other financial intermediaries except insurance and pensions (S125)</td>
</tr>
<tr>
<td></td>
<td>Of which: Financial Auxiliaries (S126)</td>
</tr>
<tr>
<td></td>
<td>Of which: Captive financial institutions and money lenders (S127)</td>
</tr>
<tr>
<td></td>
<td>Of which: Public financial corporations</td>
</tr>
<tr>
<td><strong>General government (S13)</strong></td>
<td>Of which: General Government Social Security (S1314)</td>
</tr>
<tr>
<td><strong>Households and NPISHs (S14+S15)</strong></td>
<td>Households (S14)</td>
</tr>
<tr>
<td></td>
<td>NPISH (S15)</td>
</tr>
<tr>
<td><strong>Rest of the World (S2)</strong></td>
<td>Minimum</td>
</tr>
<tr>
<td></td>
<td>Encouraged</td>
</tr>
</tbody>
</table>
A lot of information needs to be (further) developed => need to set clear priorities:

- Full set of financial transactions and balance sheets for main sectors, as much as possible balanced with non-financial accounts
- More granular information for financial corporations
- From-whom-to-whom tables for main sectors, with a focus on the distinction between financial corporations and other sectors
- Full-fledged system of from-whom-to-whom tables for main sectors => Note: make it an implicit part of the compilation of balance sheets
- Need for compilation of databases with very granular information (e.g. securities database)
- Need to establish improved link between macro-data and more detailed source data and databases => more flexibility
Some other remarks

- **Households:** more detailed data by household group
  - Macro-data may not show underlying vulnerabilities
  - More generally, distributional issues matter for well-being and social cohesion
  - G20 DGI, recommendation 16

- **Government:** analysis based on gross government debt flawed
  - More attention needed for net (financial) debt levels
  - More data on (unfunded) pension liabilities
  - More information on guarantees and contingent liabilities

- **More general:** clear conceptual framework to account for risk exposure would help to define data needs
Thank you for your attention!