Developing distributional balance sheets

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European Central Bank
9th IFC Conference on
“Are post-crisis statistical initiatives completed?”
Introduction

- Increasing interest in wellbeing and increasing importance of (financial) wealth
- Importance of distributional data on household income, consumption and wealth
  - Stiglitz, Sen and Fitoussi (2009)
  - Vienna Memorandum (2016)
  - Importance for monetary policy / central banking (Draghi, Bernanke)
- Practical work on distributional national accounts indicators
  - International level: OECD (income and consumption)
  - US, Canada, Australia (including wealth), France
- Expert Group on Linking Macro and Micro Statistics on Household Wealth (EG-LMM), 2016->
  - ECB initiative, several micro and macro experts from EU (NCB + NSI)
  - First mandate completed in April 2017 and the group continued its work (second mandate)
The linkage, different concepts and comparison

**Most important generic and HFCS/FA-specific differences:**

- **Valuation**
  - Self-assessment vs. ESA valuation concepts
  - Accuracy of self-assessment if prices change rapidly or are difficult to know?
  - Accuracy of ESA valuation if no observed market prices?

- **Measurement**
  - Unit and item non-response, underreporting in HFCS
  - Counterparty sector reporting, variety of data sources, estimates & balancing adjustments in FA

- **Conceptual issues**
  - Instrument-specific comparability
  - Delineation of the household sector

- **Population definition and reference periods**
  - Impact limited and can (to a large extent) be identified and/or adjusted for
The linkage, different concepts and comparison

Conceptual comparability of financial instruments

<table>
<thead>
<tr>
<th>NA/FA (ESA 2010)</th>
<th>HFCS</th>
<th>Conceptual comparability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FINANCIAL ASSETS (+)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F21 Currency</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>F22+F29 Deposits</td>
<td>Deposits</td>
<td>High</td>
</tr>
<tr>
<td>F3 Debt Securities</td>
<td>Bonds and other debt securities</td>
<td>High</td>
</tr>
<tr>
<td>F4 Loans</td>
<td>Money owed to household</td>
<td>High</td>
</tr>
<tr>
<td>F5 Equity and investment fund shares</td>
<td>Shares, publicly traded</td>
<td>Medium to High</td>
</tr>
<tr>
<td></td>
<td>Investment in non-self-employed business</td>
<td></td>
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<tr>
<td></td>
<td>Investment in self-employed business</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mutual Funds</td>
<td></td>
</tr>
<tr>
<td>F6 Insurance, pension and standardised guarantee schemes</td>
<td>Voluntary pension/whole life insurance schemes</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>Occupational Pension Plans</td>
<td>Low</td>
</tr>
<tr>
<td>F7 Financial derivatives and employee stock options</td>
<td>Other financial assets</td>
<td>Low</td>
</tr>
<tr>
<td>F8 Other accounts receivable</td>
<td>Managed Accounts</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>LIABILITIES (-)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F4 Loans</td>
<td>Mortgages and loans</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Outstanding debts on credit cards, credit lines and overdraft balances</td>
<td></td>
</tr>
<tr>
<td>F8 Other accounts payable</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**FINANCIAL NET WORTH**

The linkage, different concepts and comparison

- First: adjust for differences in the household definition and align reference periods

- Similar approach than adopted by Detlling et. al:
  - **Naïve concept**: financial wealth as it is in each source
  - **Narrow concept**: Deposits + Mutual Funds + Bonds + Quoted shares (good conceptual comparability)
  - **Medium concept**: Narrow + Voluntary pensions and whole life insurance
  - **Broad concept**: Medium + Comparable business wealth*

* Incorporated businesses + quasi-corporations
Follow-up topics in the medium term

- First to the distributional measures as well as possible with the given the data the increasing comparability is a longer process…

- Main conceptual issues identified:
  - Business wealth: (1.) valuation of unlisted shares/other equity and (2.) delineation and classification of different corporations (hh vs. nfc)
  - Treatment of the rent deposits (HFCS)
  - Missing rich in the FA: (1.) How are treated – different property arrangement; (2.) where are located – legal and not-legal tax planning; how well non-financial assets abroad are captured? ---> WG-ES/WG-FA workshop on this topic
  - The impact of estimated Pareto tail above with different thresholds to the coverage of broad concept:

<table>
<thead>
<tr>
<th></th>
<th>&gt;2 mil threshold</th>
<th>&gt;1 mil threshold</th>
<th>&gt;500 000 threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>+12%</td>
<td>+7%</td>
<td>+5%</td>
</tr>
<tr>
<td>Germany</td>
<td>+14%</td>
<td>+14%</td>
<td>+18%</td>
</tr>
<tr>
<td>Spain</td>
<td>+3%</td>
<td>+6%</td>
<td>+3%</td>
</tr>
<tr>
<td>Finland</td>
<td>+4%</td>
<td>+4%</td>
<td>+1%</td>
</tr>
<tr>
<td>France</td>
<td>+4%</td>
<td>+4%</td>
<td>+1%</td>
</tr>
</tbody>
</table>
The ongoing work of the EG is divided into two work streams:

• The tasks of the first work stream are:
  – Assess generic and instrument-specific differences on HFCS-FA coverage ratios;
  – Recommendations for improving the link;
  – Assess the availability of administrative sources.

• The tasks of the second work stream are:
  – Define a set of distributional indicator, with focus on items “medium” and “high”;
  – Calculate experimental results for 2010 and 2014 and assess the feasibility of deriving estimates at annual frequency;
  – Extend the comparison to the non-financial assets;
  – Seek the views/priorities of potential ECB/ESCB users.

• Open issues identified in the final report (first mandate), 4 specific task teams
The second mandate and distributional indicators – task teams

- Distributional indicators and user requirements:
  - Useful indicators and a selection process to pick up most relevant indicators;
  - Stock-taking will be followed by user consultations.

- Business wealth:
  - Comparability issues to be solved - HFCS business wealth identify separately:
    (1.) items comparable with FA unlisted shares and other equity;
    (2.) producer household assets;

- Methods for integrating macro and micro sources:
  - Stock-taking exercises and reviewed existing experiments;
  - In particular decreasing the gap, response and sampling biases

- Non-financial assets:
  - Include non-financial wealth in the analysis
  - Compare housing wealth and business wealth separately;

- Pension wealth:
  - Currently included only the pensions included in the national accounts main tables
Future work and epilogue

• This work will be completed by spring 2019 and the report delivered to the STC
• This work is only start – how will be continued?
• Several issues to be tackled: improve linkage/comparability, time series aspect etc.
• This is only the first step but it is necessary – the credibility of statistics requires that we are able to explain the differences and improve the results!
References:


