



IFC Satellite meeting at the ISI Regional Statistics Conference on *"Is the household sector in Asia overleveraged: what do the data say?"*

Kuala Lumpur, Malaysia, 15 November 2014

Assessing balance sheets - some remarks from Basel¹

Bruno Tissot, Bank for International Settlements

¹ Discussion of the presentation *"How to quantitatively capture the state of the household sector in Asia?"* by Sayako Konno and Masahiro Higo, Bank of Japan. The views expressed are those of the author and do not necessarily reflect the views of the BIS or the central banks and other institutions represented at the meeting.



Assessing balance sheets - some remarks from Basel

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Satellite meeting of the IFC at the ISI Asian Regional Conference on *"Is the household sector in Asia overleveraged: what do the data say?"* - Session 1 on *"How good are data on household balance sheets?"*

Sasana Kijang, Kuala Lumpur, Saturday 15 November 2014



Presentation by Sayako Konno and Masahiro Higo (BoJ) - Highlights


1. Importance of the household sector in Asia
2. Significant but imperfect development of statistics in Asia
3. Need to develop financial accounts



(1) Importance of the household sector in Asia

Main points:

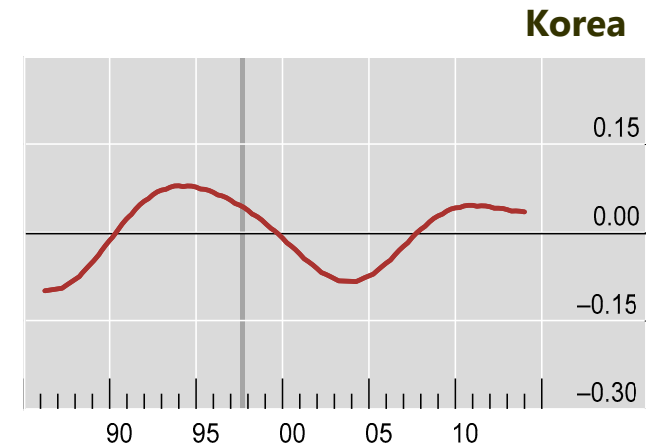
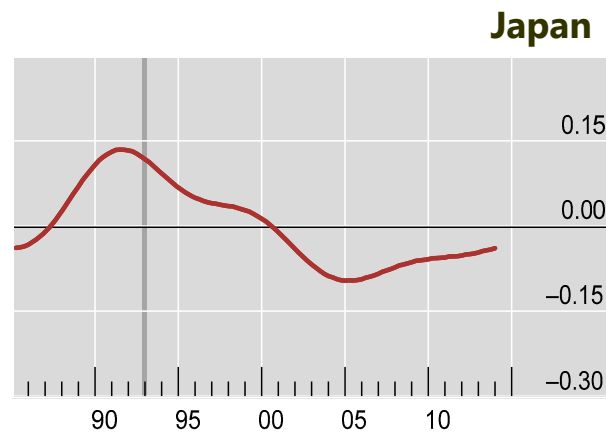
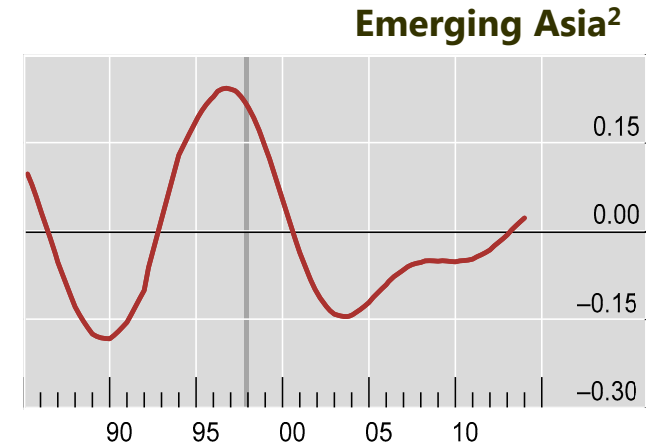
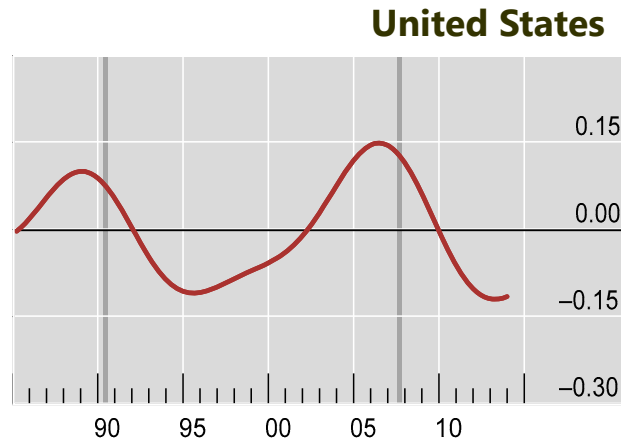
- Shift towards household demand after the Asian crisis
- Higher household debt
- Financial stability risks if asset prices correct
- Emphasis on macro prudential measures

 *A few BIS views on financial cycles, asset prices and macro prudential tools*



→ Financial cycles: peaks tend to coincide with crises¹

- *Financial cycle : self-reinforcing interactions between perceptions of risk, risk-taking and financing constraints.*
- *Booms and busts span ordinary business cycles.*



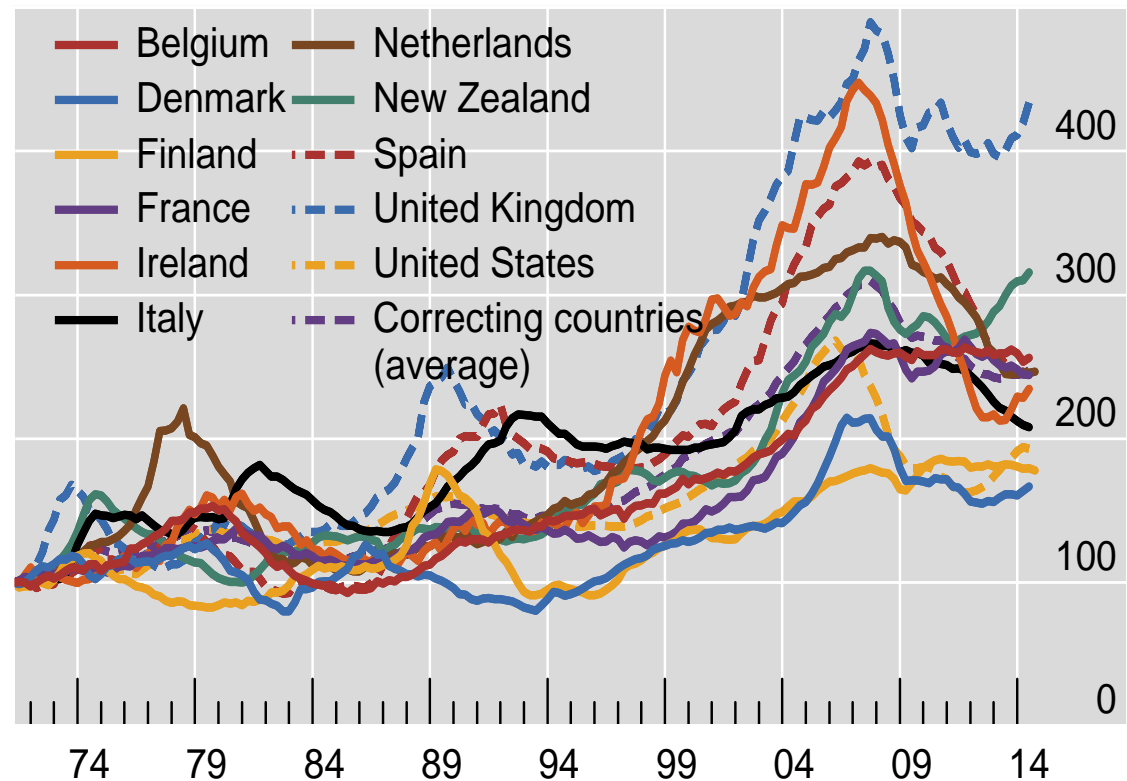
¹The financial cycle as measured by frequency-based (bandpass) filters capturing medium-term cycles in real credit, the credit-to-GDP ratio and real house prices. Vertical lines indicate financial crises emerging from domestic vulnerabilities. ² Indonesia, Hong Kong SAR and Singapore. Sources: National data; BIS; BIS calculations.



→ Role of asset prices

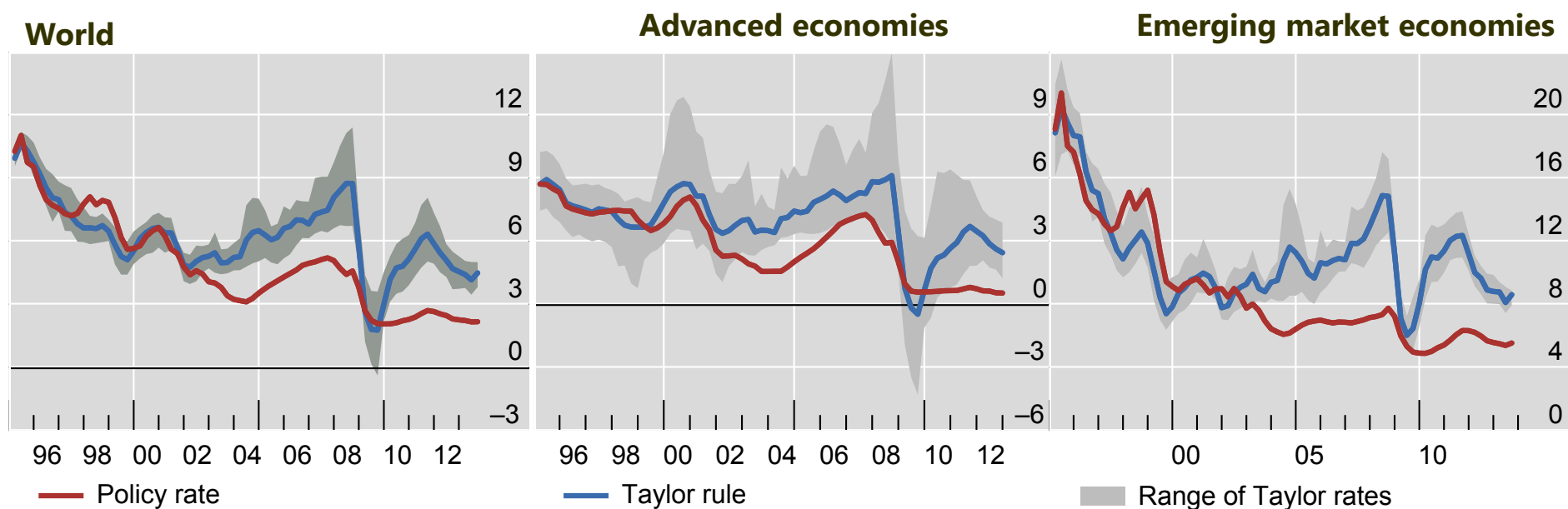
- *Property prices play a role in determining the value of collateral mobilised by agents to access finance.*
- *Can have a self-reinforcing effect and is typically an important driver of financial bubbles.*

Countries where house prices corrected downwards after the 2007/08 crisis (1971 = 100, real terms)



→ Are macro prudential measures sufficient?

- *BIS advocates a macro prudential approach to banking supervision and regulation to lessen procyclicality and mitigate systemic risk.*
- *Can be a complement to, rather than a substitute of, other economy policy actions during financial booms.*




Sources: *BIS Quarterly Review*, September 2012, pp 37–49.



(2) Significant but imperfect development of statistics in Asia

Main points:

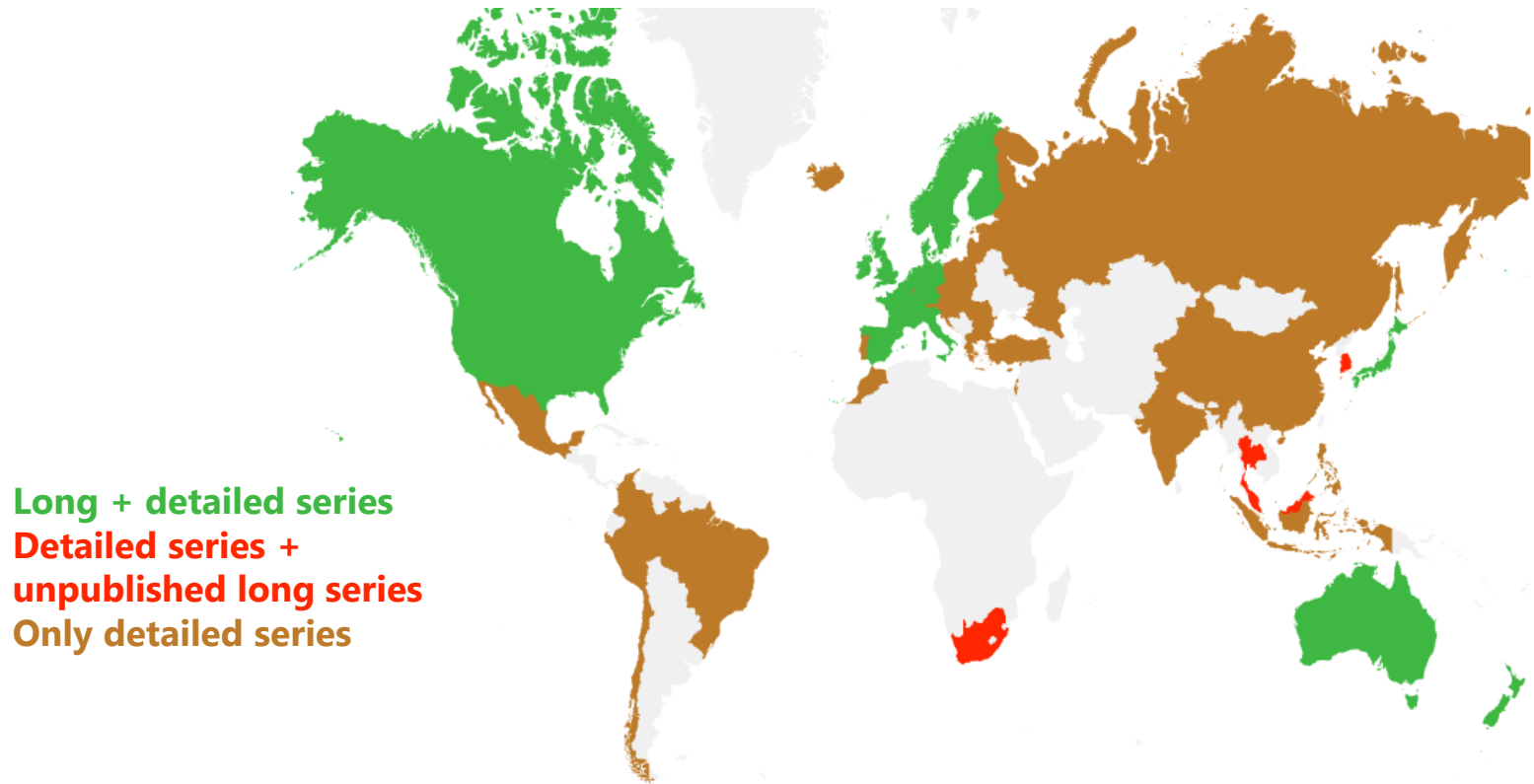
- Insufficient data available
- Too much focus on bank credit
- Role & limitations of house prices
- Pros (distribution information) and cons (macro consistency) of survey/micro data

 *Recent BIS statistical initiatives (house prices, total credit, global liquidity)*



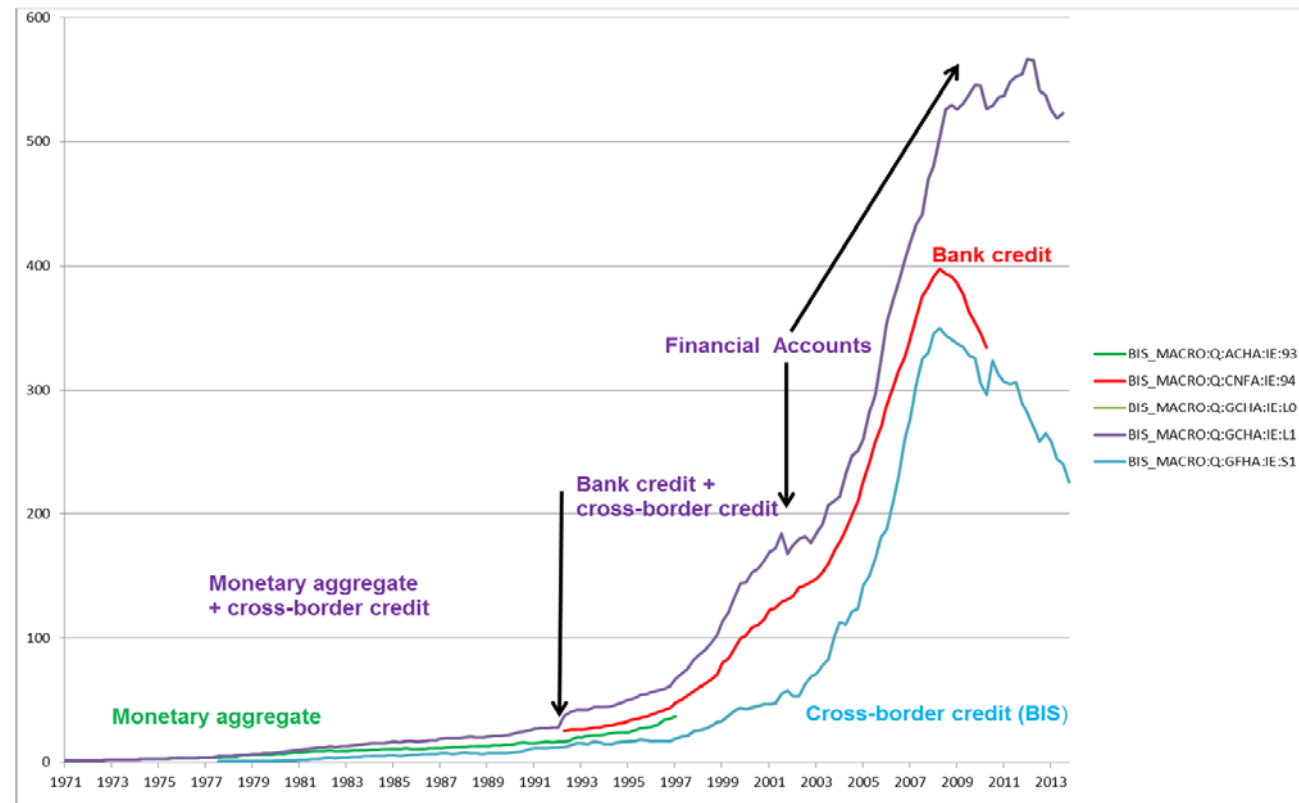
→ BIS dissemination work on house prices

- *19th Data Gaps Initiative (DGI) recommendation to improve the availability and dissemination of country data on property prices.*
- *BIS long-term data set to support financial stability analyses.*



→ Credit to the private sector

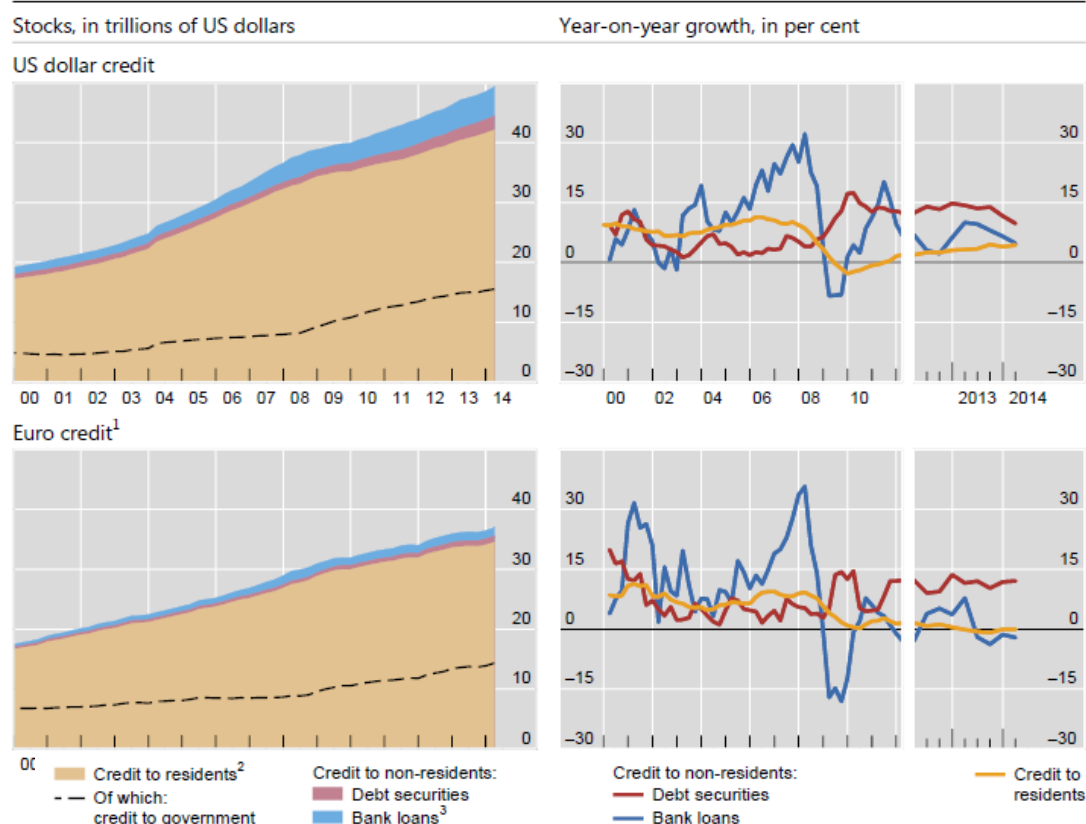
- *BIS total credit to private non-financial sector: all loans, foreign & domestic, plus corporate debt securities.*
- *Extension of total credit series using domestic bank credit and BIS cross-border bank credit.*



→ The importance of global liquidity

- *BIS Global Liquidity Indicators.*
- *Residence-based “national accounts views” miss the impact of bank credit to non-residents as well as of international debt issuance - the second phase of global liquidity.*

Global credit in US dollars, euro and Japanese yen to the non-financial sector



¹ At constant end-Q1 2014 exchange rates. ² Credit to the non-financial sector in the United States/euro area/Japan from national flow of funds, excluding identified credit to borrowers in non-domestic currencies (ie cross-border and locally-extended loans and outstanding international bonds in non-domestic currencies). ³ Cross-border and locally extended loans to non-banks outside the United States/euro area/Japan. For China and Hong Kong SAR, locally extended loans are derived from national data on total local lending in foreign currencies on the assumption that 80% are denominated in US dollars. For other non-BIS reporting countries, local US dollar/euro/Japanese yen loans to non-banks are proxied by all BIS reporting banks' gross cross-border US dollar/euro/Japanese yen loans to banks in the country, on the assumption that these funds are then extended to non-banks.


Sources: IMF, *International Financial Statistics*; Datastream; BIS international debt statistics and locational banking statistics by residence.



(3) Need to develop financial accounts

Main points:

- Key for compiling households balance sheet
- Stock / flow consistency of the Flow of funds
- Approach by sector (vertical) / by instrument (horizontal)
- The new SNA – treatment of corporate pension funds

 *Ongoing improvements*



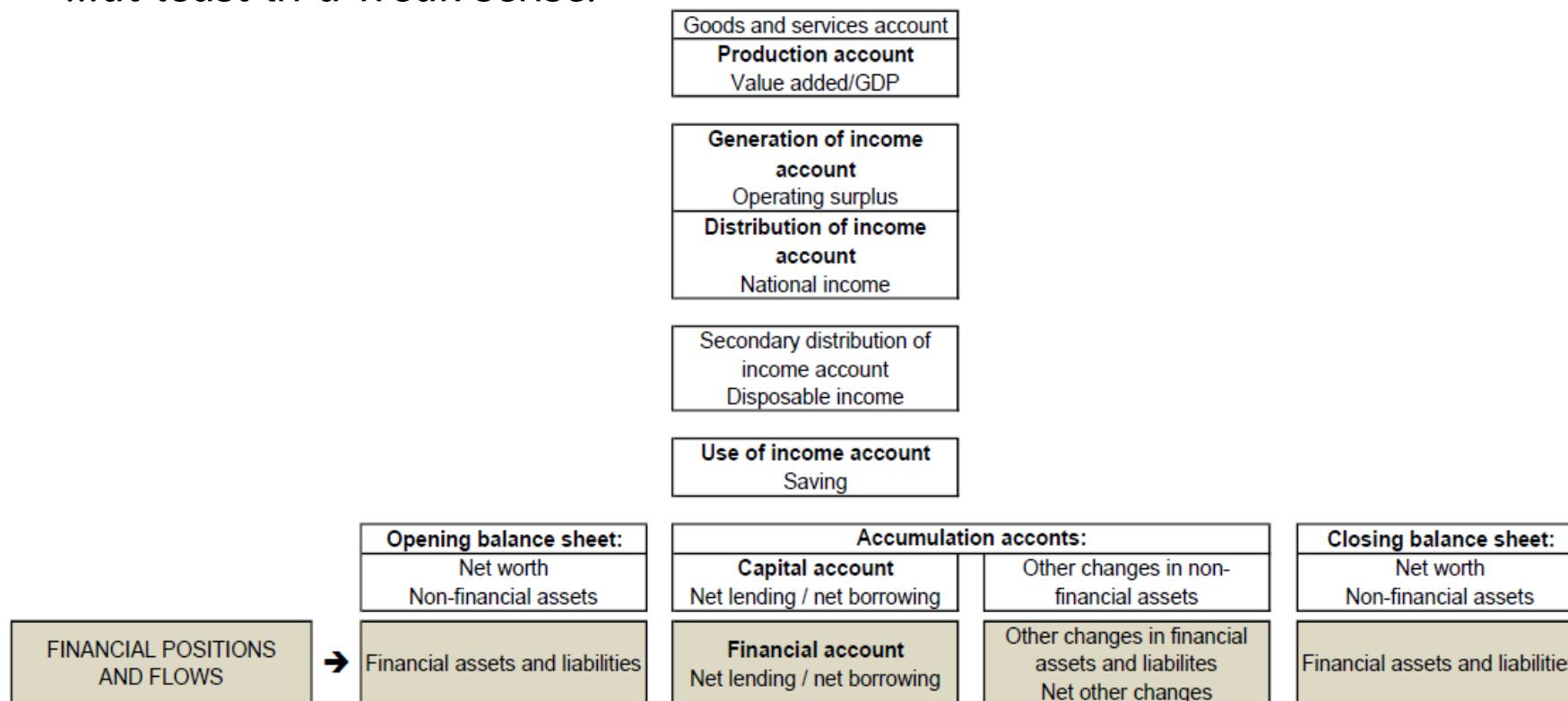
→ International initiatives on financial accounts

- G20 DGI recommendation # 15: *"... to promote the compilation and dissemination of the balance-sheet approach, flow-of-funds, and sectoral data more generally ... data on nonbank financial institutions should be a particular priority."*
- *Irving Fisher Committee on Central Bank Statistics (IFC), the forum of central bank economists and statisticians: regional workshops on financial accounts.*



→ Consistency with the SNA framework

- *Matrix showing financial flows and positions (assets & liabilities) within the economy.*
- *Financial accounts consistent with the national accounts framework...*
- *...at least in a weak sense.*



→ From-whom-to-whom accounts

- *Financial assets and liabilities of institutional sectors broken down by counterparty sector: who is financing whom, for how much, and with which instrument?*
- *Integrated sectoral financial accounts with three-dimension tables: by type of asset-liability / creditor sector / debtor sector.*

Lending sector	Financial corporations		Non-financial corporations		Households		Government		Rest of world	
	A	L	A	L	A	L	A	L	A	L
Borrowing sector										
Financial corporations - Instruments										
Non-financial corporations - Instruments										
Households - Instruments										
Government - Instruments										
Rest of world - Instruments										



→ Remaining issues from a BIS perspective

- *Decomposing the “Rest Of the World ” – cf insights of the BIS international banking statistics*
- *Cross-border operations controlled by home country entities (eg corporate group, consolidated bank)*
- *Using data reported by non-resident entities*

