IFC Workshop on the use of financial accounts, co-organised with the Central Bank of the Republic of Turkey

18-20 March 2019, Istanbul, Turkey

Globalisation and balance of payments[1]

Celestino Giron,

European Central Bank

[1] This presentation was prepared for the meeting. The views expressed are those of the author and do not necessarily reflect the views of the BIS, the IFC or the central banks and other institutions represented at the meeting.

EUROPEAN CENTRAL BANK

EUROSYSTEM

Celestino Girón *)
European Central Bank **)

Globalisation and Balance of Payments

Session I

Workshop on the Use of Financial Accounts
Istanbul, 18-20 March 2019

*) input from the ECB financial accounts training seminar and WG FA discussions acknowledged

**) Views should not be attributed to the ECB

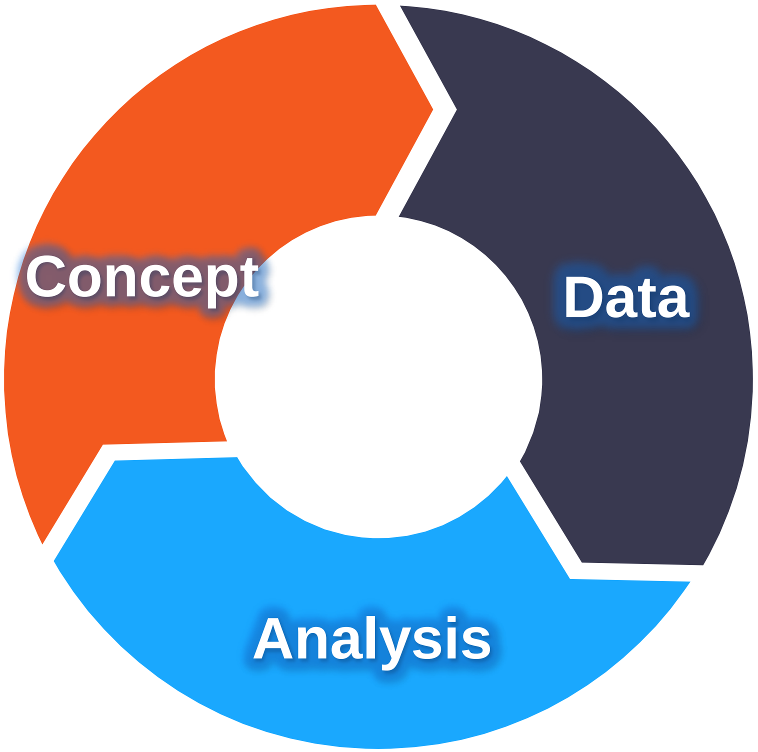
Overview

1. Challenges for statisticians and analysts
2. Sector/ instruments breakdowns and globalisation
3. The analytical value of integrating financial accounts and b.o.p./i.i.p.
4. Global Flow of Funds
5. Globalisation in the ESCB medium-strategy for financial accounts

1. Challenges for statisticians and analysts
2. Sector/ instruments breakdowns and globalisation
3. The analytical value of integrating financial accounts and b.o.p./i.i.p.
4. Global Flow of Funds
5. Globalisation in the ESCB medium-strategy for financial accounts

1. Challenges for statisticians and analysts

Globalisation poses challenges on..



Methodology

How to solve the problems of interpretability for standard macro indicators

Sources

How to get relevant information on global events; how to ensure consistency in the statistical treatment across countries

Tools

How to understand globalization itself and implications for flow of funds, spillovers, interconnectedness, contagion …

1. Challenges for statisticians and analysts

The methodological challenge as a scale-measurement problem

Drawing an analogy between the physical reality …

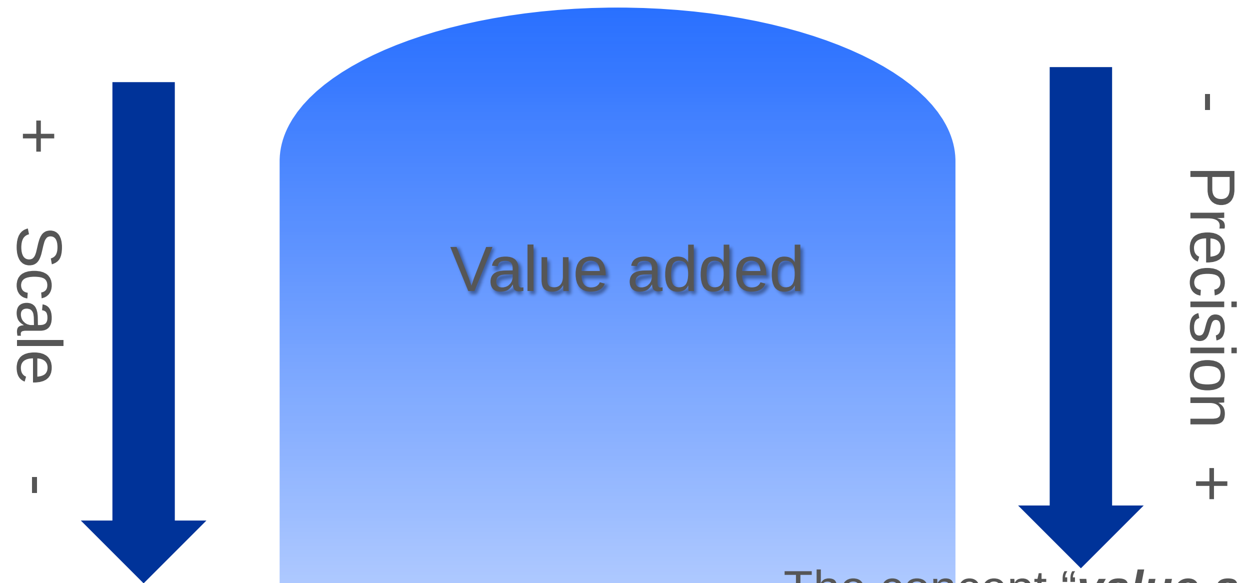
The concept “***mass***” is applicable to all scales of measurement… but the more down you go on scale the more precise your measurement tools need to be

At a sufficiently low scale (quantum), the problem is not any longer not having sufficient measurement precision, but not having a meaningful concept at that scale (***mass***)

1. Challenges for statisticians and analysts

The methodological challenge as a scale-measurement problem

… and the economic reality



The concept "***value added***" is applicable to all scales of measurement… but the more down you go on scale the more precise your measurement tools need to be

At a sufficiently low scale ("quantum"), the problem is not any longer not having sufficient measurement precision, but not having a meaningful concept at that scale (***value added)***

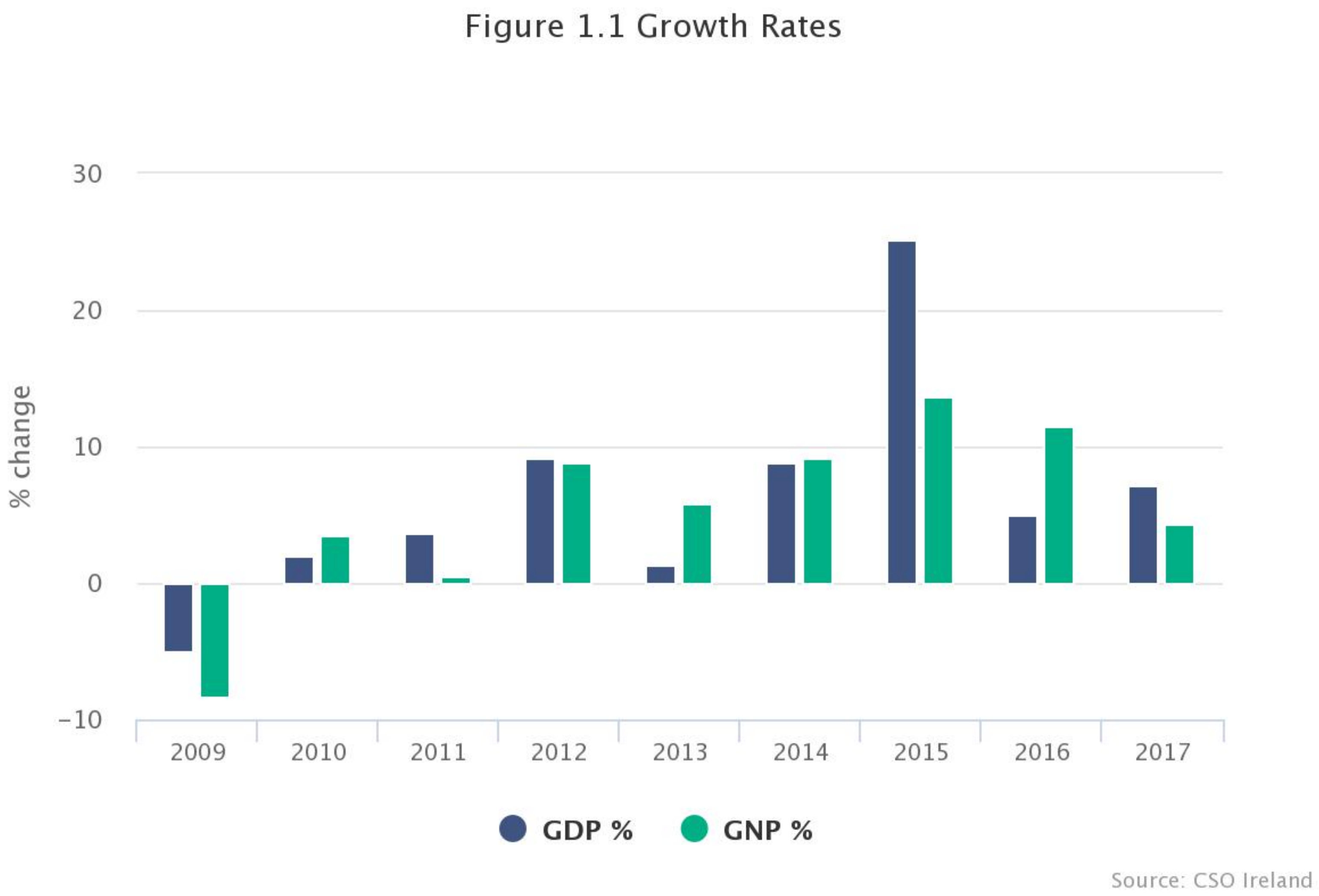
1. Challenges for statisticians and analysts

The methodological challenge as a scale-measurement problem

Drawing an analogy between the physical reality and the economic reality

- ✓ There is a *"quantum level"* for national account concepts: region, town, neighbourhood, street…?
- ✓ Globalisation is making larger the scale at which *"quantum effects"* manifest themselves

A quantum effect …. Irish GDP in 2015



1 Challenges for statisticians and analysts

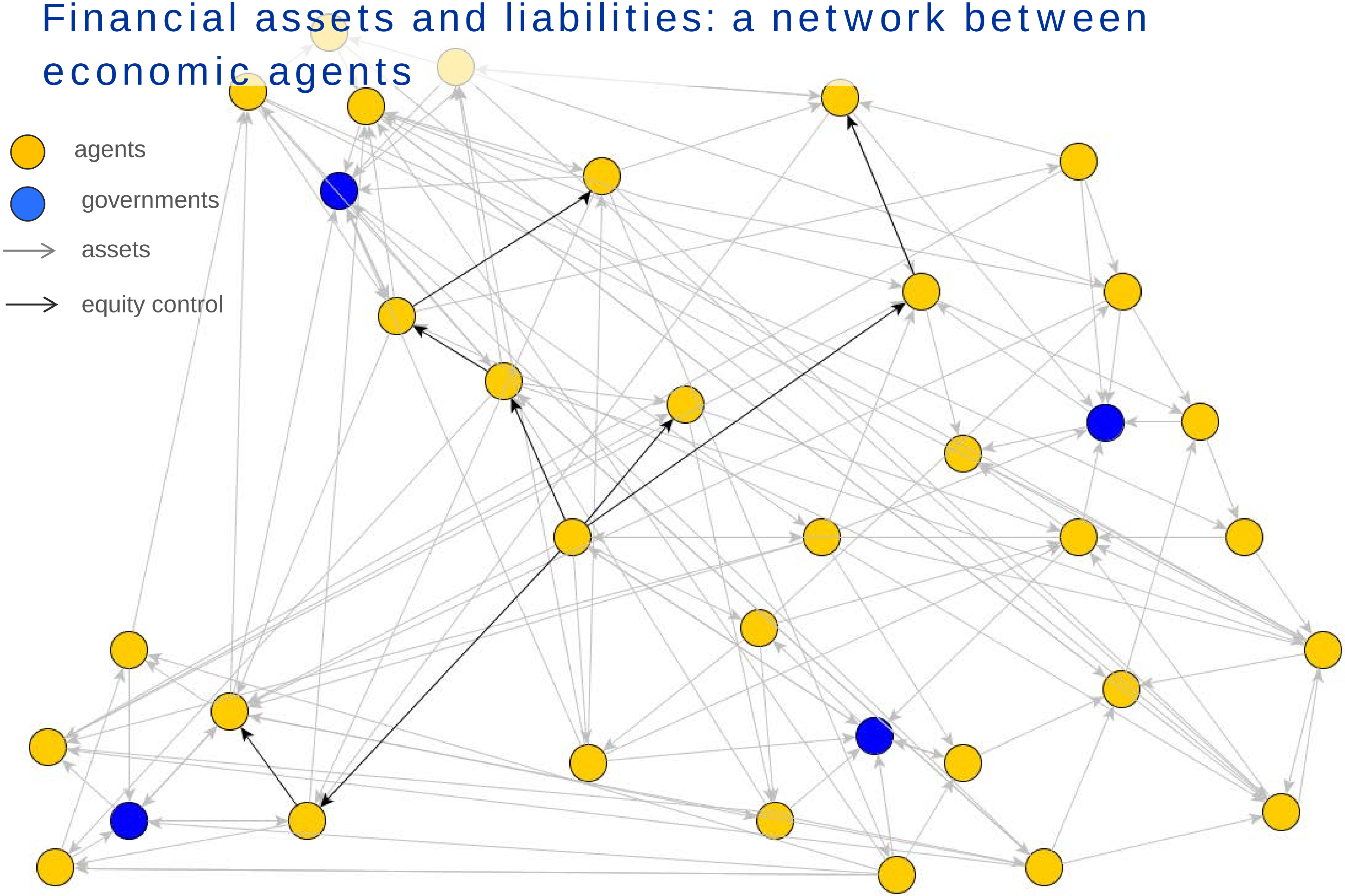
2 Sector/instruments breakdowns and globalisation

3 The analytical value of integrating financial accounts and b.o.p./i.i.p.

4 Global Flow of Funds

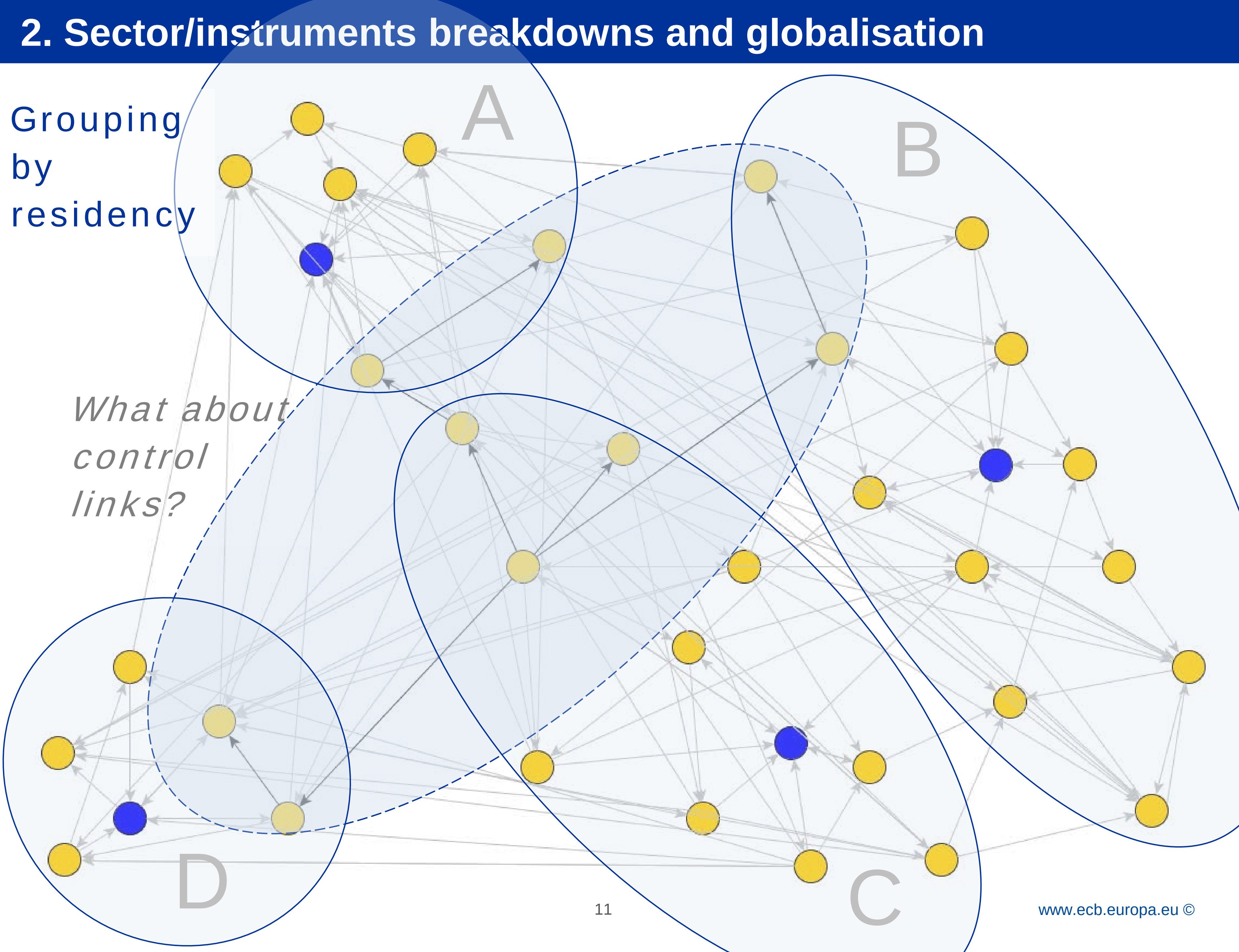
5 Globalisation in the ESCB medium-strategy for financial accounts

Financial assets and liabilities: a network between economic agents



2. Sector/instruments breakdowns and globalisation

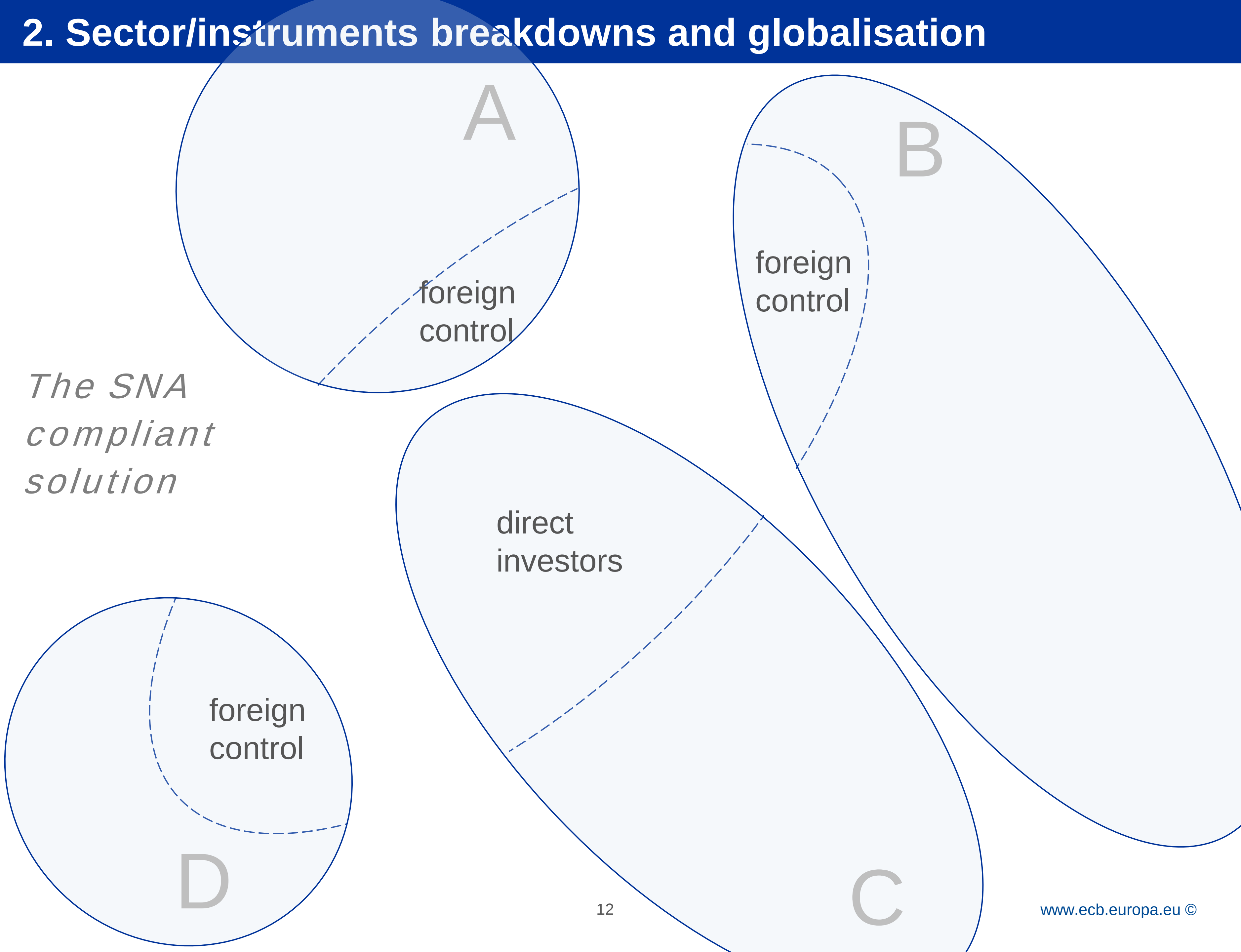
Grouping by residency



What about control links?

2. Sector/instruments breakdowns and globalisation

The SNA compliant solution



2. Sector/instruments breakdowns and globalisation

What for?

Separate financial analysis of MNEs

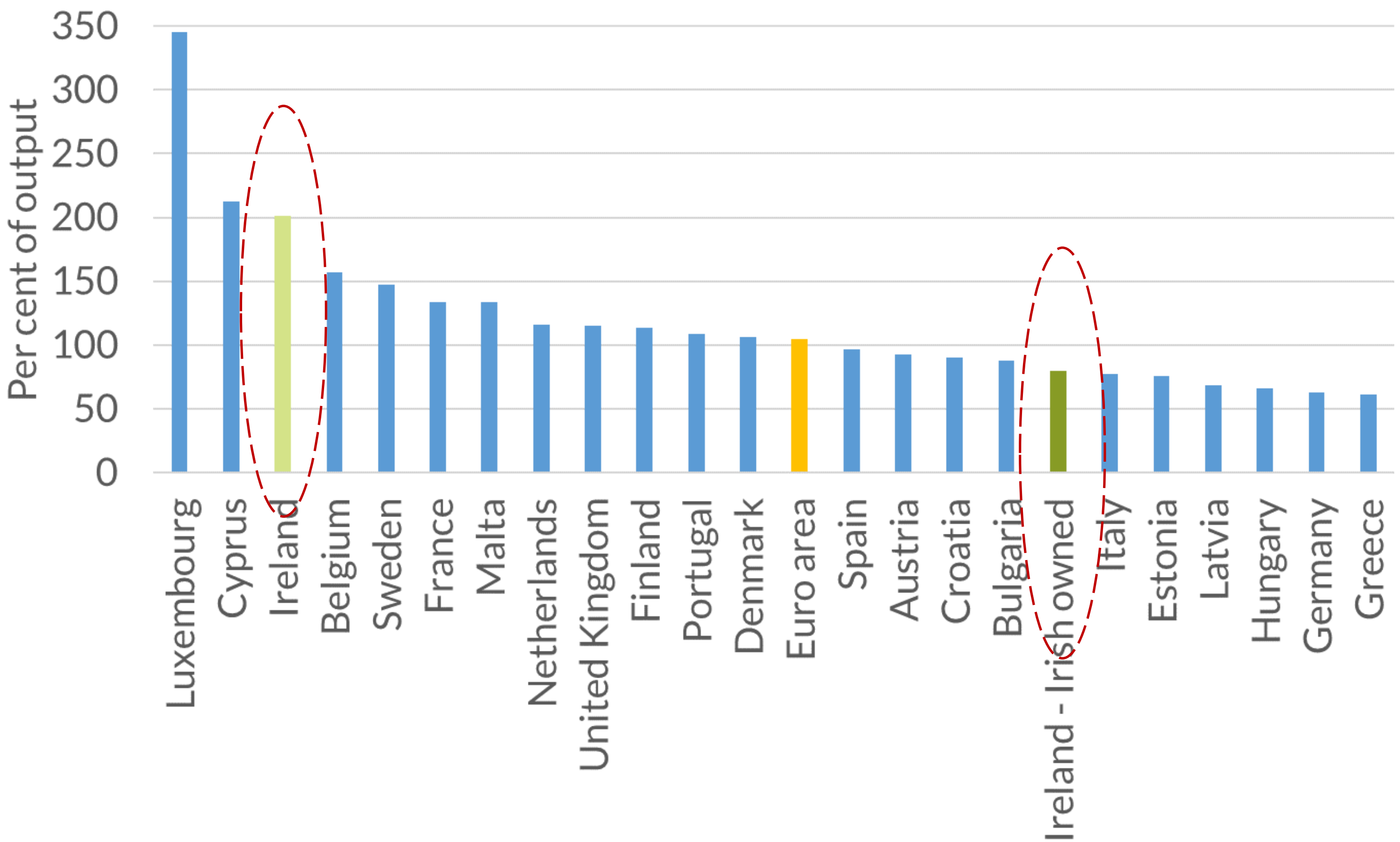
Single out sources for “distortions“ in traditional financial indicators and in metrics of macroeconomic risk

More granular monitoring of financial risks, on the basis of international exposures

Flow of funds, interconnectedness, spill overs, contagion, propagation … having MNEs as a separate investment/ financing channel

2. Sector/instruments breakdowns and globalisation

The distortion problem: *NFC debt in* ***Ireland***

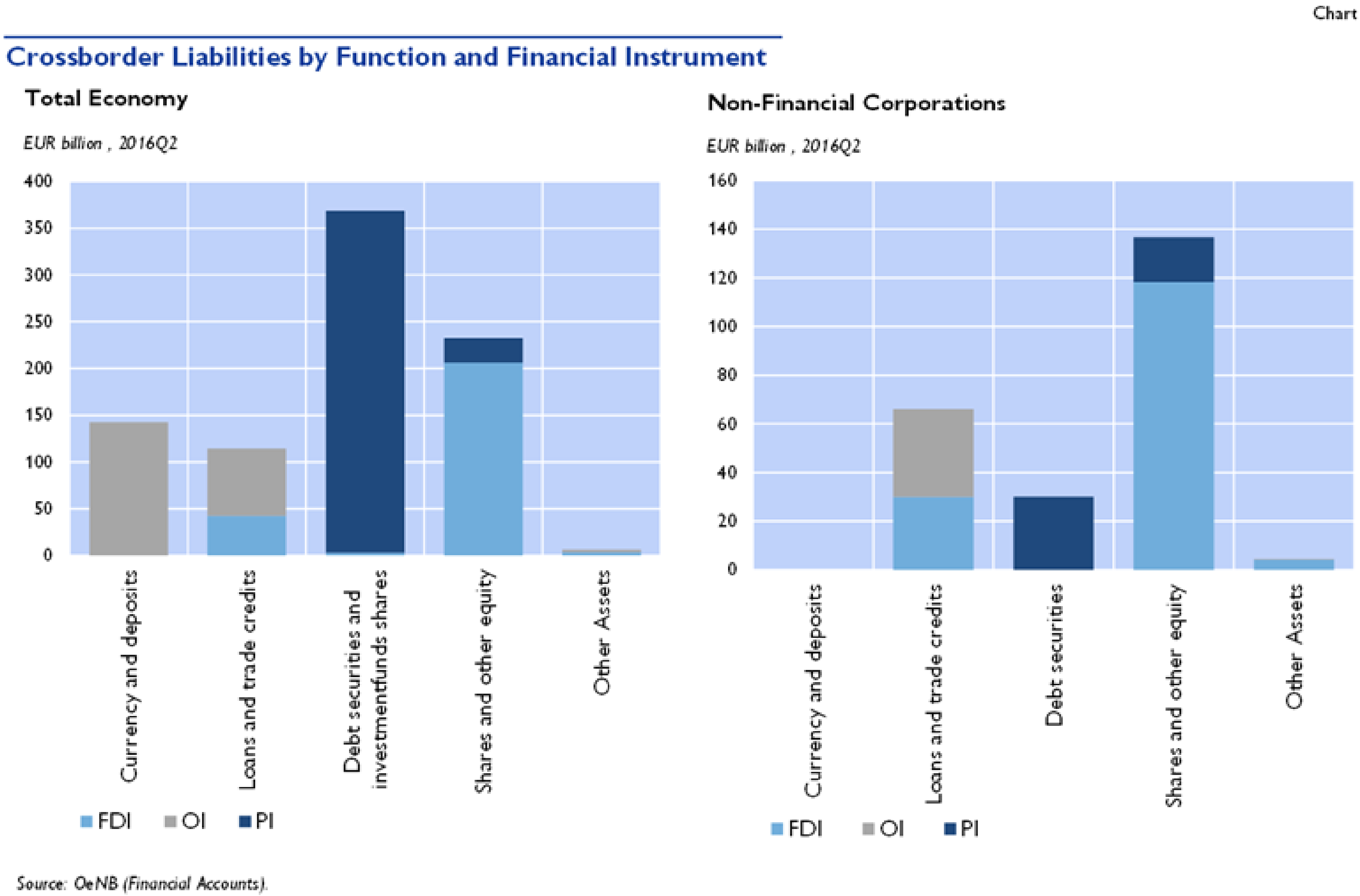


Source: Central Bank of Ireland, Central Statistics Office and European Central Bank.

Notes: end 2016; "Irish owned debt"= $\frac{Irish\ owned\ NFC\ debt\ excluding\ redomicled\ plcs}{GNI*}$

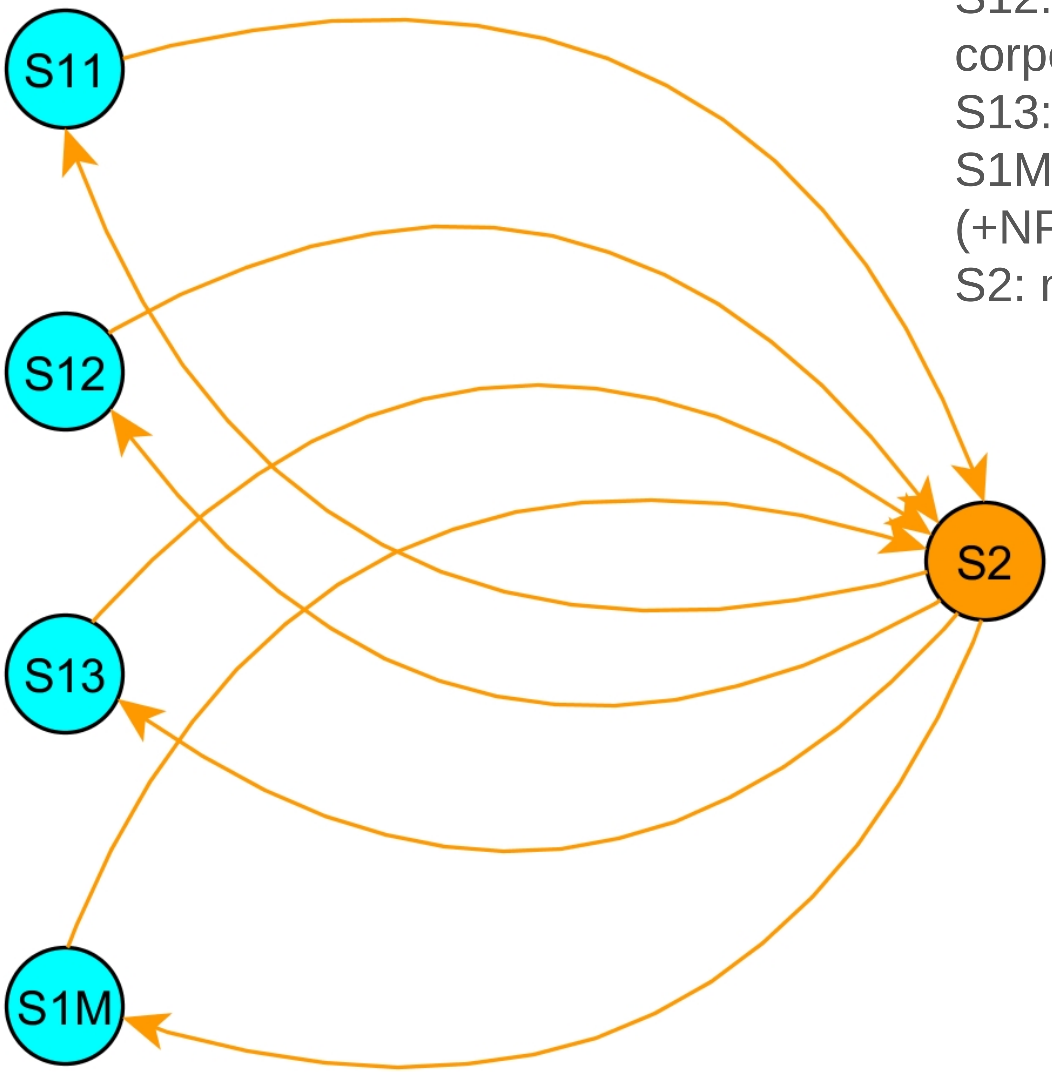
.

Better understanding **sources of financing**: ***Austria***



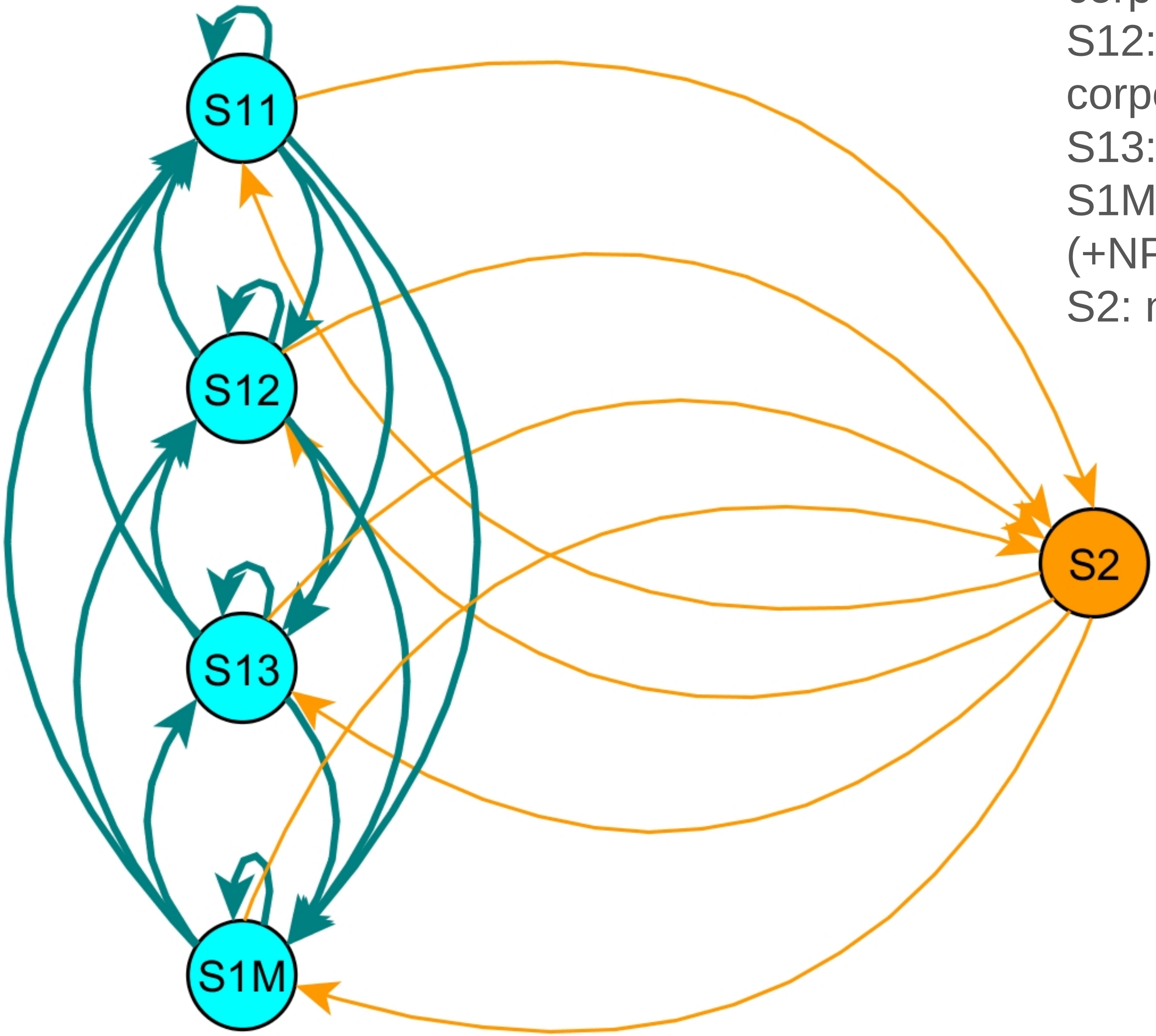
1. Challenges for statisticians and analysts
2. Sector/instruments breakdowns and globalisation
3. **The analytical value of integrating financial accounts and b.o.p./i.i.p.**
4. Global Flow of Funds
5. Globalisation in the ESCB medium-strategy for financial accounts

What is b.o.p./ i.i.p. about?



S11: non-financial corporations
S12: financial corporations
S13: government
S1M: Households (+NPISHs)
S2: non-residents

What are sector accounts about?



S11: non-financial corporations
S12: financial corporations
S13: government
S1M: Households (+NPISHs)
S2: non-residents

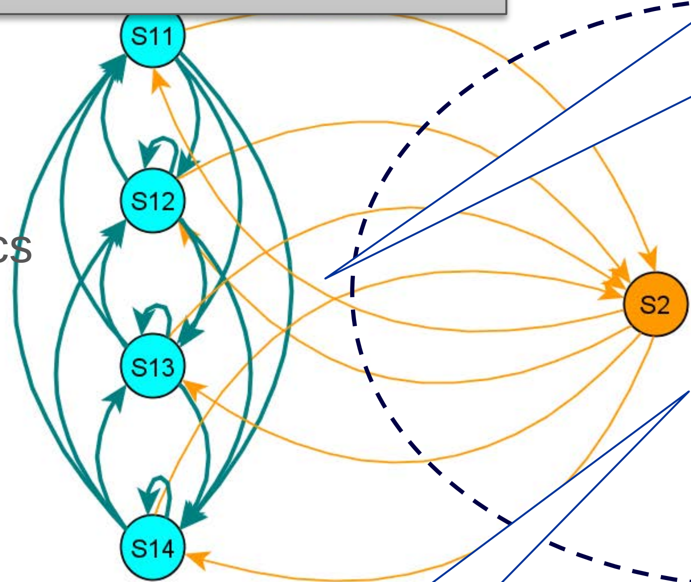
The compilation challenge …

Why not considering BoP as a **subset** of sector accounts from a compilation point of view?

Accounting restrictions in BoP are a **subset** of accounting restrictions in sector accounts

…. , plus

- Macro aggregates
- Government statistics
- Financial statistics
- Fiscal data
- Surveys
- Micro data



- Trade statistics
- Transaction reporting systems
- Surveys
- Official data
- Intrenational organisations
- Micro data

Sources for BoP are a **subset** of sources for sector accounts

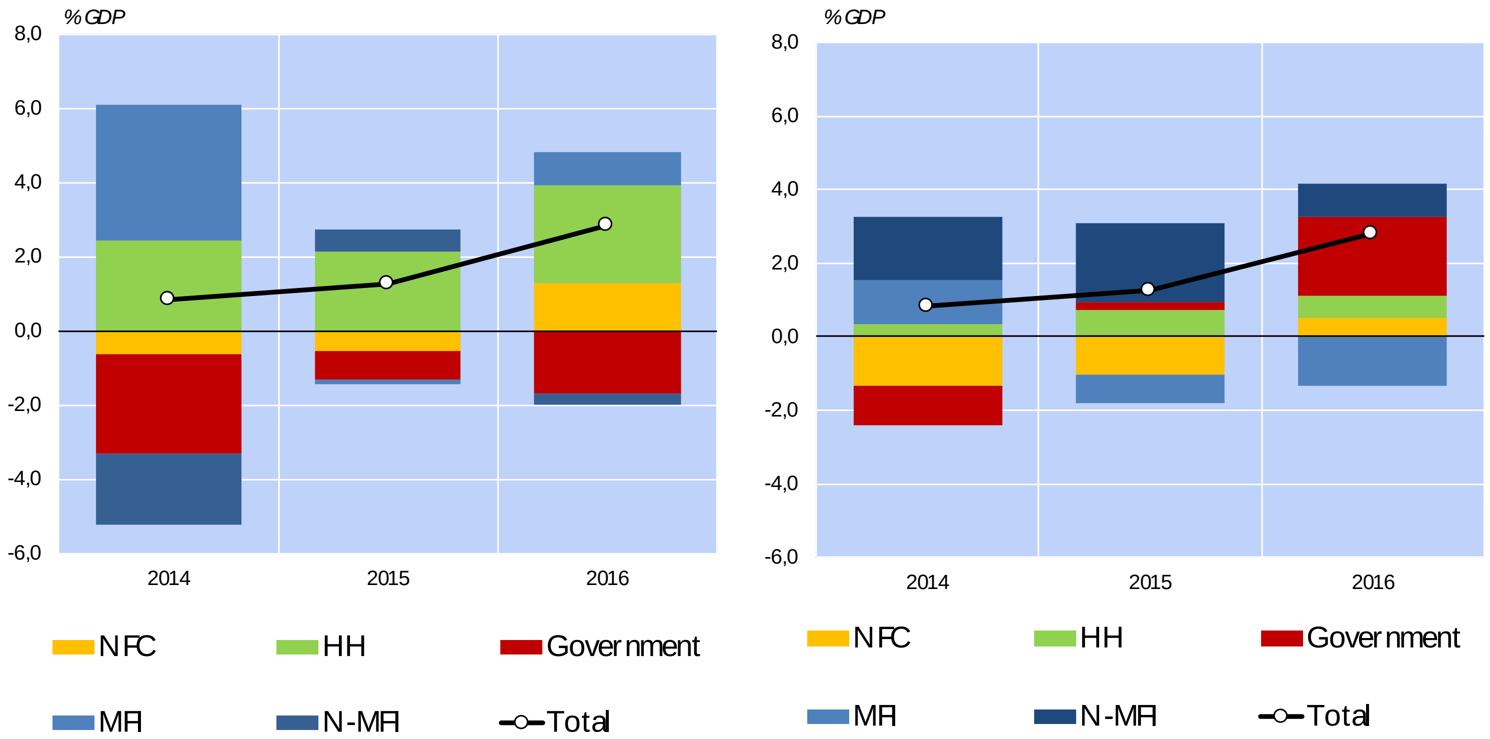
The analytical benefit: ***Austria***’*s sector net lending to non-residents from different perspectives*

Chart 1

Net lending/net borrowing vis a vis the rest of the world

Sectoral breakdown of net lending/net borrowing

Direct cross-border net flows



Source: OeNB.

1 Challenges for statisticians and analysts

2 Sector/instruments breakdowns and globalisation

3 The analytical value of integrating financial accounts and b.o.p./i.i.p.

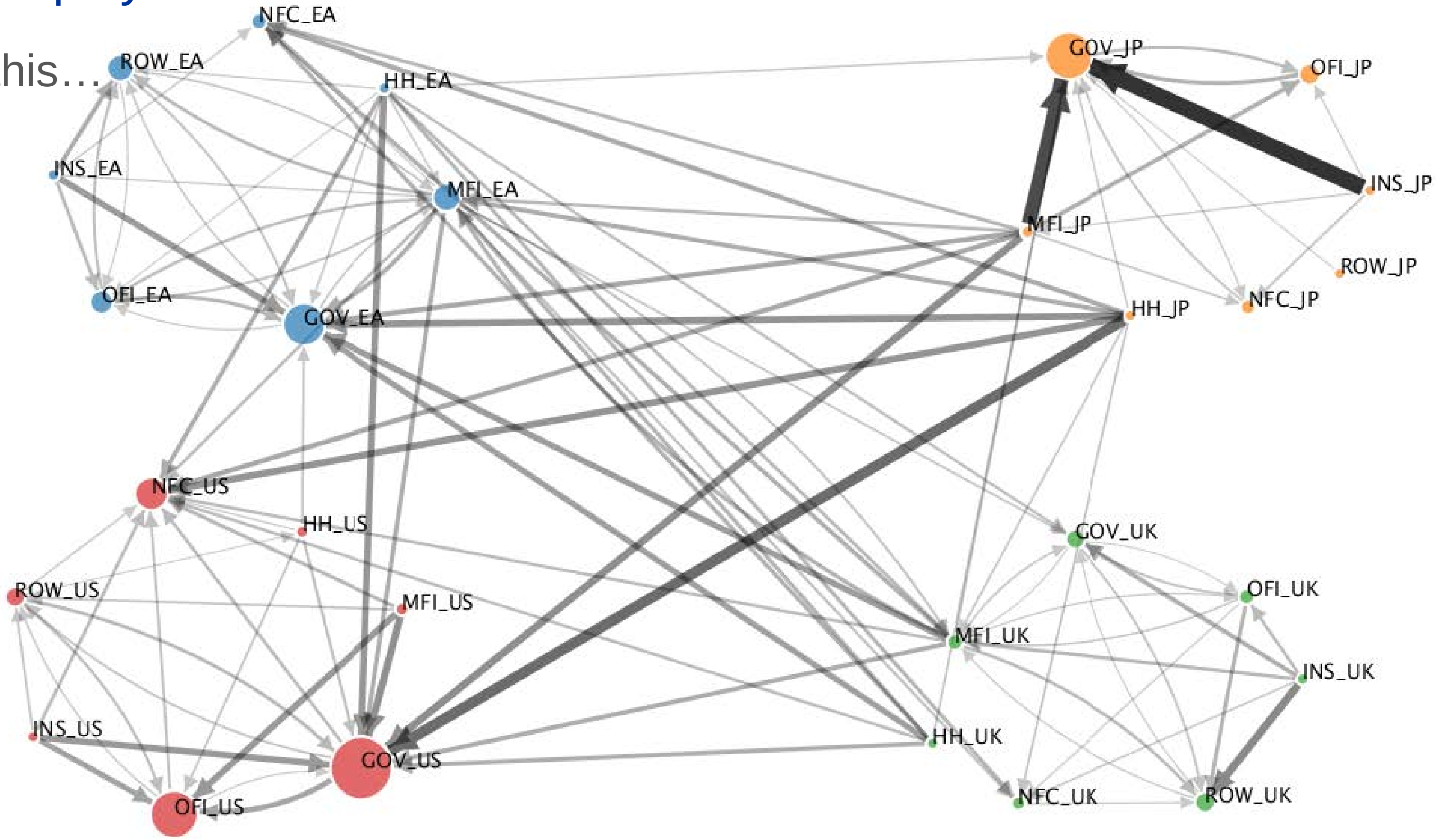
4 Global Flow of Funds

5 Globalisation in the ESCB medium-strategy for financial accounts

4. Global Flow of Funds

What is it?: w-t-w matrices (networks) merging sector and geography

... like this…



Antoun de Almeida, L. (2015), “A Network Analysis of Sectoral Accounts: Identifying Sectoral Interlinkages in G-4 Economies” IMF Working Papers WP/15/111

4. Global Flow of Funds

What for?

Enhanced flow-of-flow analysis

Monitoring global financial integration

More granular monitoring of financial risks, on the basis of international exposures

Interconnectedness, spill overs, contagion, propagation … with a sector-to-sector , country-to-country cross-classification

Ideally, combine GFF with the inclusion of MNE-related subsector and financial instrument breakdowns

4. Global Flow of Funds

Enriching information on **interconnectedness** with **a global perspective**

e.g. Zhang, N and Zhao, X (2018) “Measuring Global Flow of Funds: A Case Study on China, Japan and the United States ”. Paper prepared for the 35th IARIW General Conference

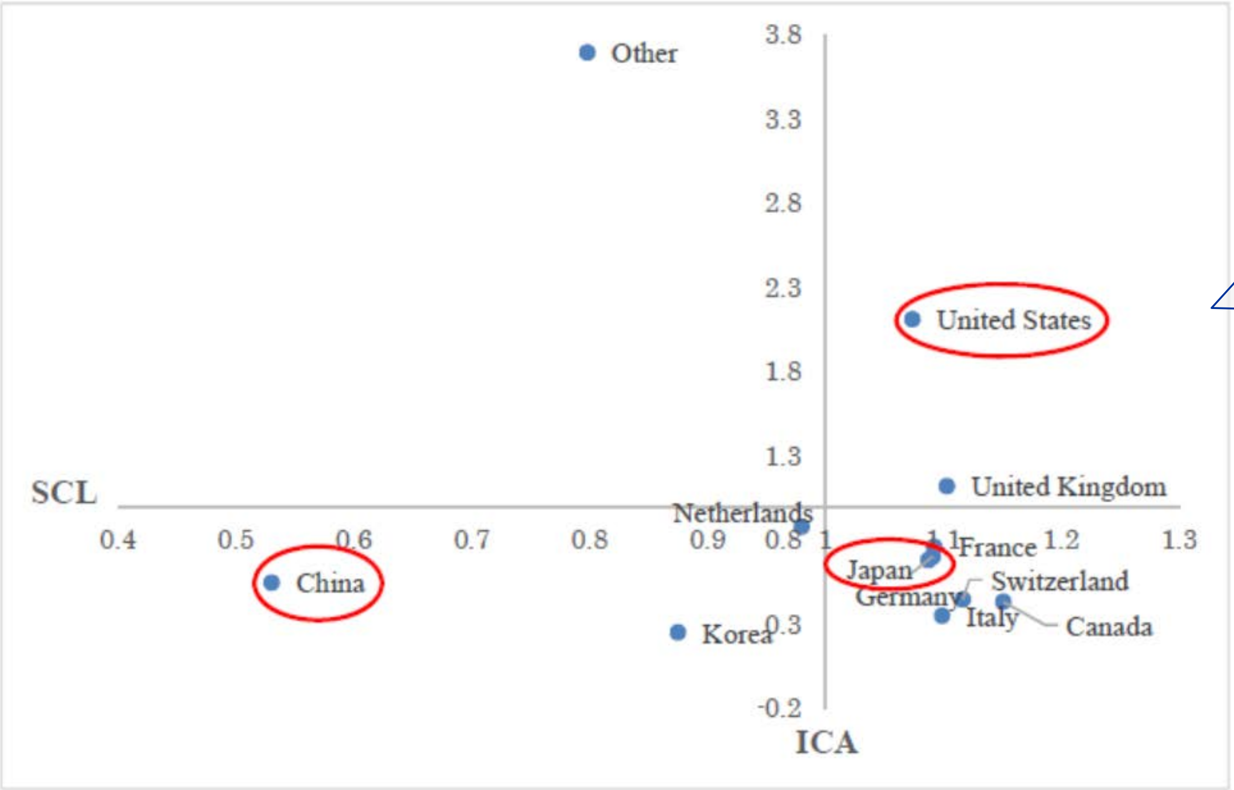
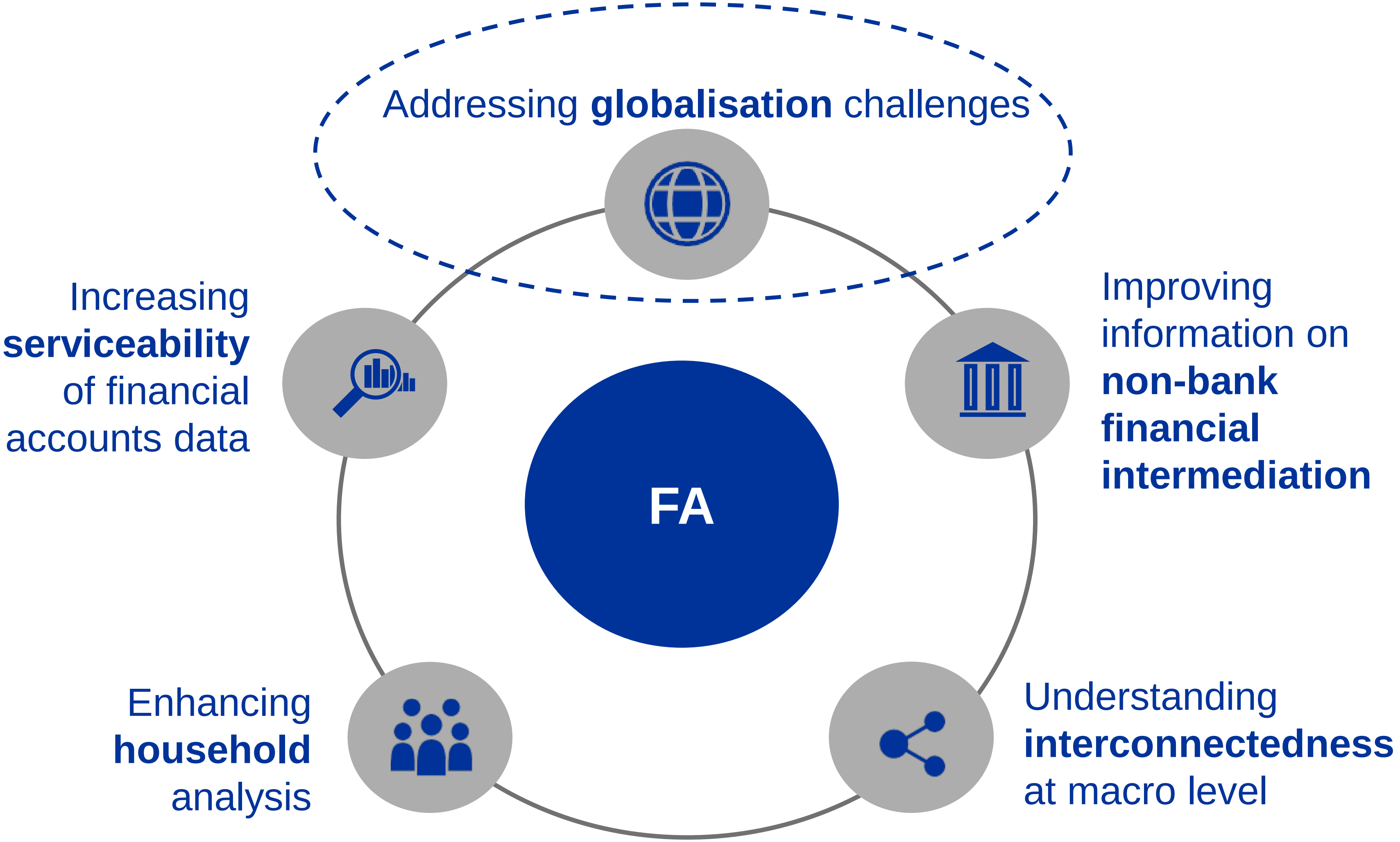


Figure 5. Influence Coefficient of Assets & Sensitivity Coefficient of Liabilities by GFF (as the end of 2016)

Measuring influence (ICA) and sensitivity (SCL) on a global scale by using indicators constructed from a GFF

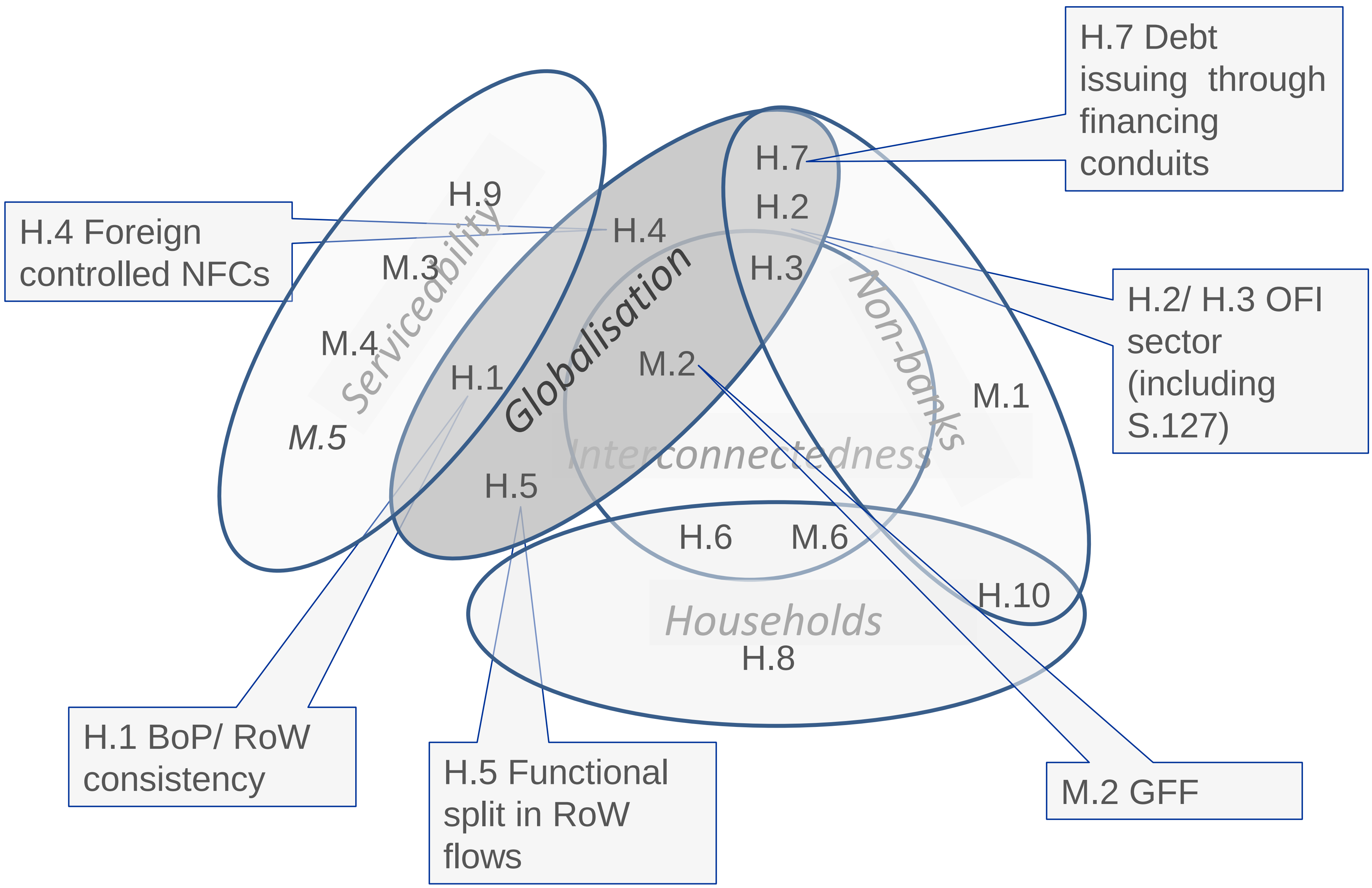
Medium-term strategy: Five Strategic Objectives



Objectives addressed through work streams that are…

- selected considering trade-off cost /effort vs serviceability
- prioritised and allocated to broad time ranges
- to be developed in close cooperation with the primary statistics compilers (BoP, MFS, SEC, etc.) and NSIs/ EUROSTAT
- conditional on developments in raw data and reference metadata
- inspired/ consistent with Recommendation #8 DGI-2

5. Globalisation in the ESCB medium-strategy for financial accounts



1 Challenges for statisticians and analysts

2 Sector/ instruments breakdowns and globalisation

3 The analytical value of integrating financial accounts and b.o.p./i.i.p.

4 Global Flow of Funds

5 Globalisation in the ESCB medium-strategy for financial accounts

Thank you for your attention

Questions and comments are welcome

Mail to: celestino.giron@ecb.int