Globalisation and balance of payments¹

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

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).

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.
1. Challenges for statisticians and analysts

The methodological challenge as a scale-measurement problem

... and the economic reality

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)**.

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.
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
1. Challenges for statisticians and analysts

A quantum effect .... Irish GDP in 2015

Figure 1.1 Growth Rates

Source: CSO Ireland
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
2. Sector/instruments breakdowns and globalisation

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

- A: Foreign control
- B: Foreign control
- C: Direct investors
- D: Foreign control
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
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” = \( \frac{\text{Irish owned NFC debt excluding redomiciled pLCS}}{\text{GNI}^*} \)
Better understanding sources of financing: Austria

Source: OeNB (Financial Accounts)
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</tr>
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<tr>
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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 \textit{subset} of sector accounts from a compilation point of view?

..., plus
- Macro aggregates
- Government statistics
- Financial statistics
- Fiscal data
- Surveys
- Micro data

Sources for BoP are a \textit{subset} of sources for sector accounts

Accounting restrictions in BoP are a \textit{subset} of accounting restrictions in sector accounts

- Trade statistics
- Transaction reporting systems
- Surveys
- Official data
- International organisations
- Micro data
3. The analytical value of integrating financial accounts and b.o.p./i.i.p.

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

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

**Sectoral breakdown of net lending/net borrowing**

<table>
<thead>
<tr>
<th>Year</th>
<th>NFC</th>
<th>HH</th>
<th>Government</th>
<th>Total</th>
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<tr>
<td>2014</td>
<td>-2.0</td>
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**Direct cross-border net flows**

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

... like this...

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**


![Graph](image)

**Figure 5. Influence Coefficient of Assets & Sensitivity Coefficient of Liabilities by GFF**
(as the end of 2016)
Challenges for statisticians and analysts

Sector/instruments breakdowns and globalisation

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

Global Flow of Funds

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

Medium-term strategy: Five Strategic Objectives

- Addressing globalisation challenges
- Increasing serviceability of financial accounts data
- Improving information on non-bank financial intermediation
- Understanding interconnectedness at macro level
- Enhancing household analysis

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

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

- H.4 Foreign controlled NFCs
- M.3 Servicability
- H.9
- H.4
- M.5
- H.5
- H.1
- M.6
- H.6
- H.7 Debt issuing through financing conduits
- H.2/ H.3 OFI sector (including S.127)
- M.2
- M.1
- H.10
- H.8
- H.1 BoP/ RoW consistency
- H.5 Functional split in RoW flows
- M.2 GFF
Challenges for statisticians and analysts

Sector/ instruments breakdowns and globalisation

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

Global Flow of Funds

Globalisation in the ESCB medium-strategy for financial accounts

Thank you for your attention
Questions and comments are welcome

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