

Using financial accounts to better understand sectoral financial interlinkages



BANCO DE PORTUGAL
EUROSYSTEM

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29-30 September 2015





1. Managing the compilation of financial accounts
2. Flow of funds: development and uses
3. Changes in financial intermediation in a context of financial and sovereign debt crisis
4. Concluding remarks



1. Managing the compilation of financial accounts

Milestones of financial accounts at *Banco de Portugal*

1997: National Financial Accounts Division was set up

1998: Protocol BdP / NSI for the compilation of national accounts

2004: National Financial Accounts and Securities Statistics Division

2005: Beginning of the publication of annual financial accounts

2006: Protocol BdP / NSI / MoF for general government statistics

2007: Beginning of the publication of quarterly financial accounts

2009: Creation of a multidisciplinary team for financial accounts compilation

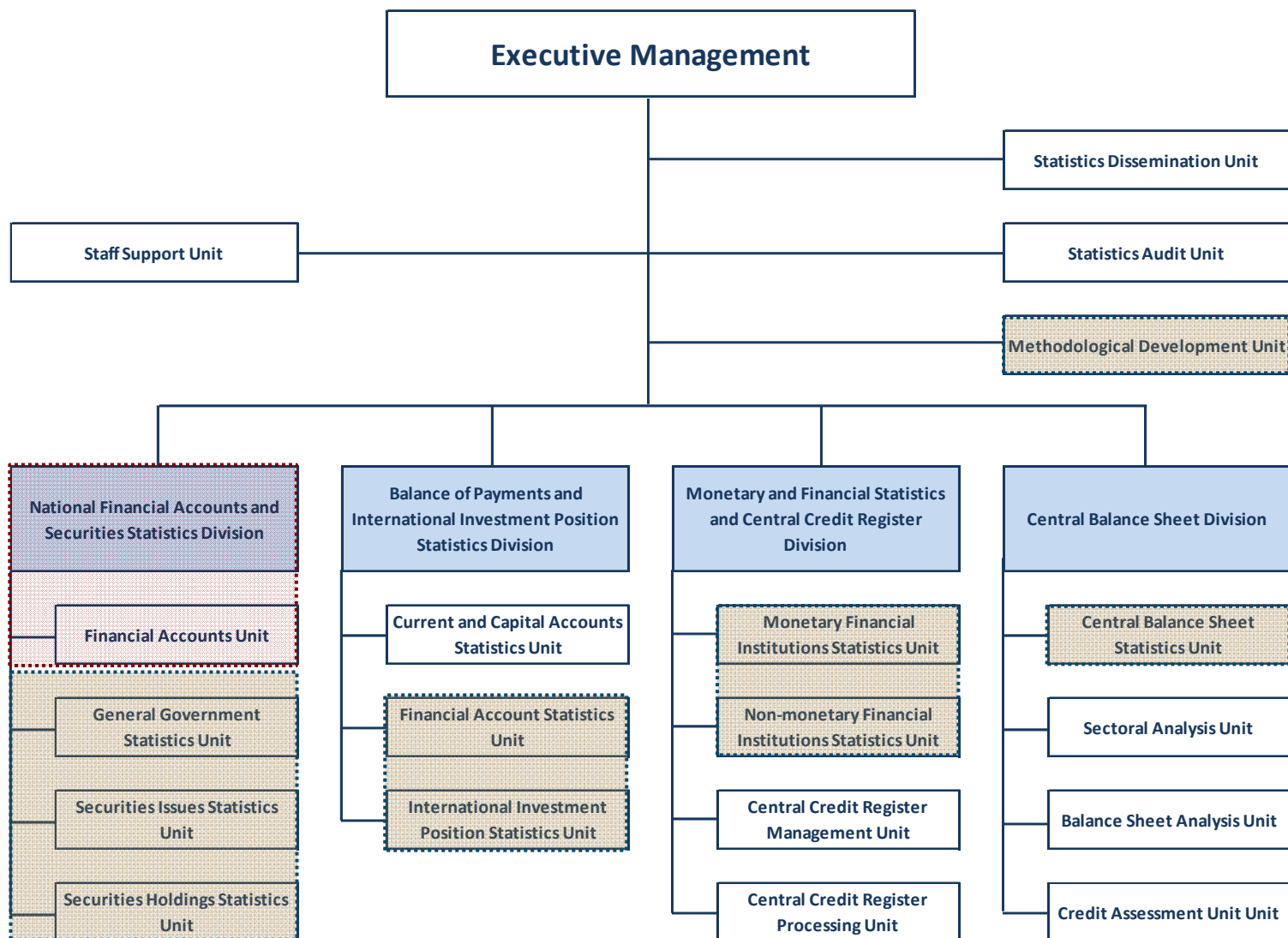
Segregation of General Government Statistics unit



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STATISTICS DEPARTMENT

1. Managing the compilation of financial accounts



29-30 September 2015

Using financial accounts to better understand sectoral financial interlinkages



1. Managing the compilation of financial accounts

Before 2009



MFI statistics



OFIFA statistics



BoP / IIP statistics

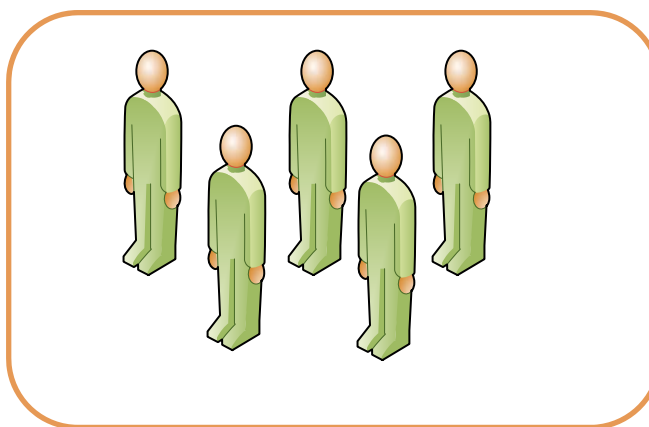


CBS statistics



Securities statistics

Financial accounts





1. Managing the compilation of financial accounts

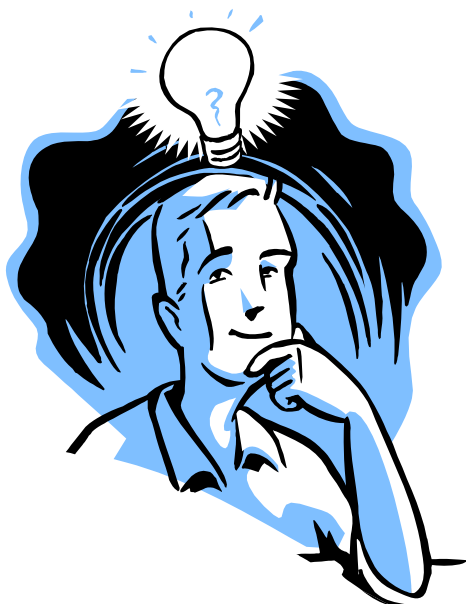
2009

...more could be done regarding financial accounts compilation...

...Segregation of General Government Statistics unit...

Financial Accounts unit

General Government Statistics unit

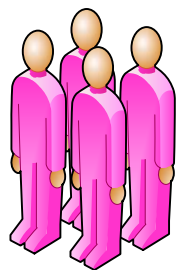


... and a new model was implemented

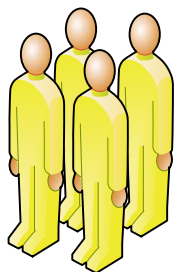


1. Managing the compilation of financial accounts

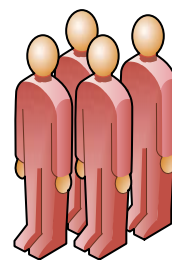
Multidisciplinary team



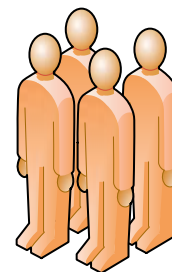
MFI statistics



OFIFA statistics



BoP / IIP statistics

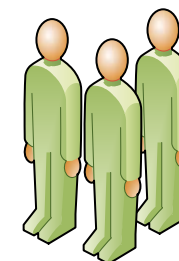


CBS statistics



Securities statistics

Financial accounts



Public finance statistics



1. Managing the compilation of financial accounts



More resources allocated to financial accounts compilation



Shared responsibility within teams

- Other team-members become stakeholders
- Financial accounts no longer a “client”



Quality enhancement

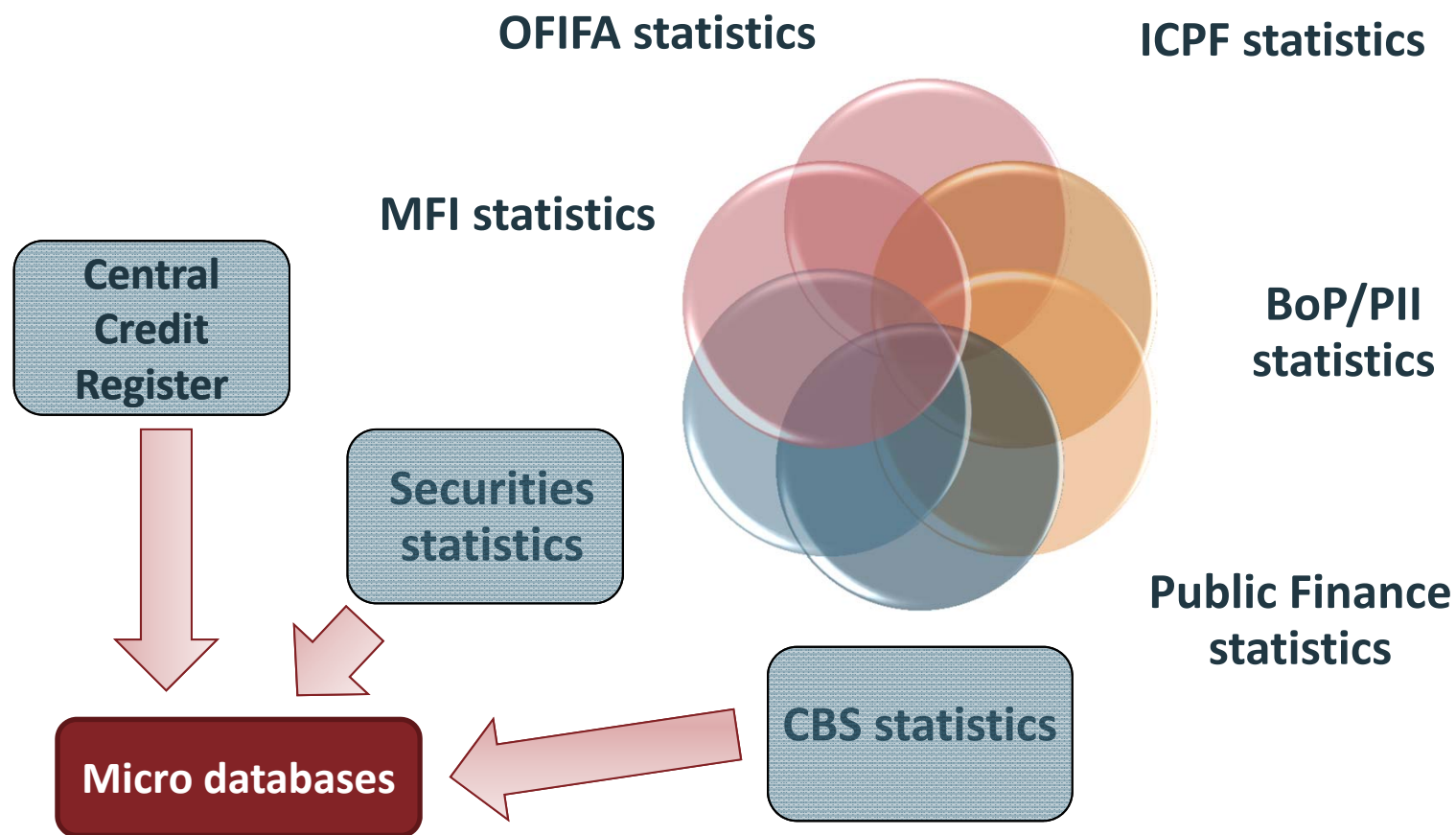
- Across different statistical domains, both upstream and downstream



More demanding coordination/resource management



Data sources





National financial accounts: financial assets and liabilities, by sector and financial instrument

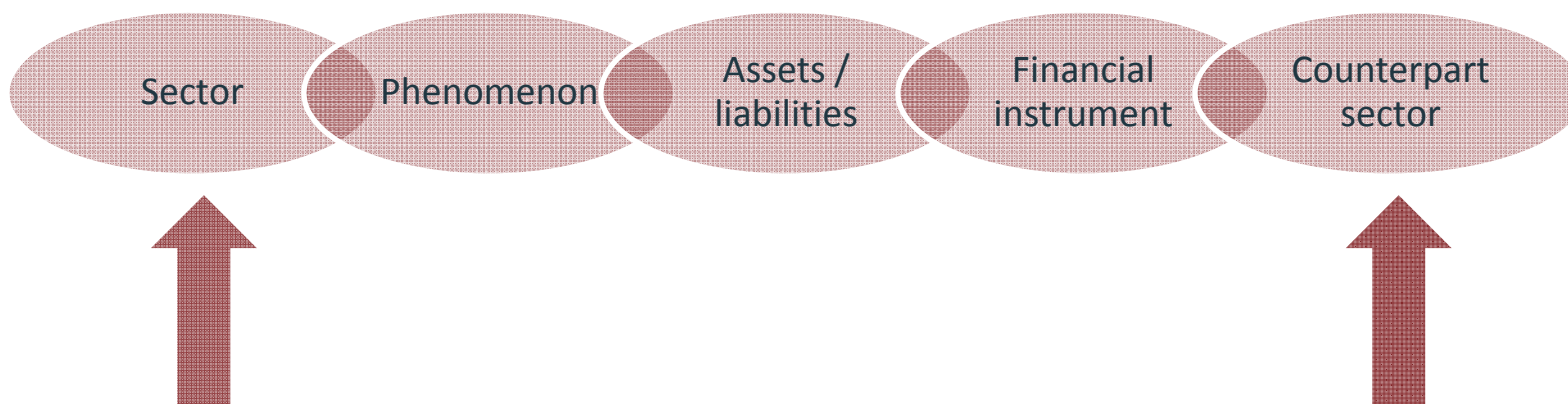
		NFC		FC		GG		HH+NPISH		RoW	
		A	L	A	L	A	L	A	L	A	L
GOAL →	Currency and deposits										
SSIS →	Securities										
CCR →	Loans										
SSIS →	Shares and other equity										
FEASIBLE →	Insurance technical reserves										
	Other accounts										
		↑ CBSD		↑ BSI		↑ FEASIBLE				↑ BOP/IIP	

+ full “who-to-whom” matrices for each financial instrument → flow-of-funds!



2. Flow of funds: development and uses

All data used for financial accounts is inserted in the data compilation tool with the following detail:



Whom-to-whom matrices!



**INTERNATIONAL
MONETARY FUND**

SDDS plus

***9 new categories, of which:
from-Whom-to-Whom Debt Securities***



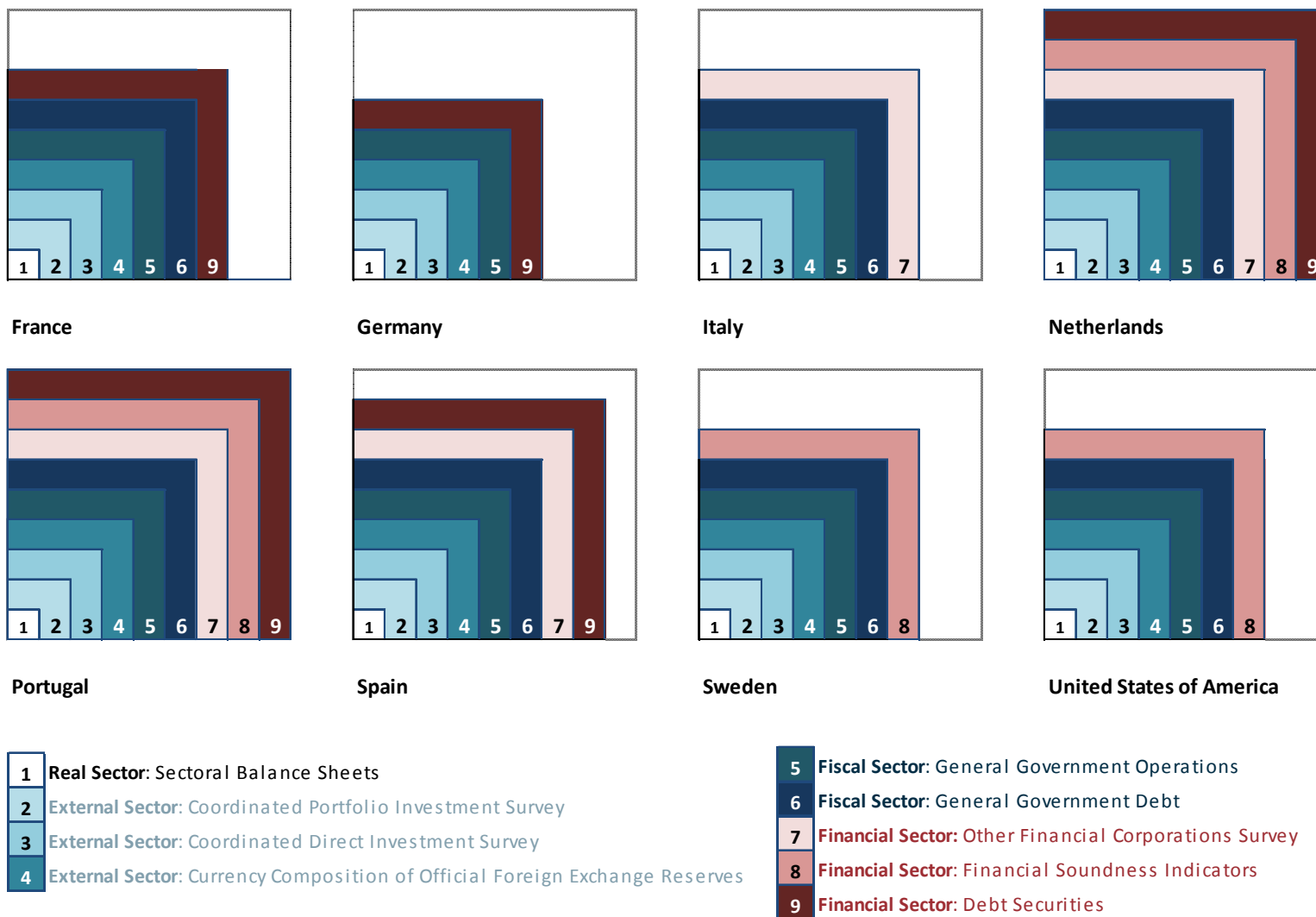
2. Flow of funds: development and uses

“In February 2012, the IMF Executive Board approved the establishment of the SDDS Plus as a third tier of the IMF’s Data Standards Initiatives to address data gaps revealed during the global crisis”

	Portugal	France	Germany	Italy	Netherlands	Spain	Sweden	United States
Real Sector								
Sectoral stocks of financial assets and liabilities	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fiscal Sector								
General Government Operations	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
General government debt	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
Financial Sector								
Other financial corporations survey	Yes	No	No	Yes	Yes	Yes	No	No
Financial soundness indicators	Yes	No	No	No	Yes	No	Yes	Yes
Debt Securities	Yes	Yes	Yes	No	Yes	Yes	No	No
External Sector								
CPIS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
CDIS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
COFER	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes



2. Flow of funds: development and uses





2. Flow of funds: development and uses

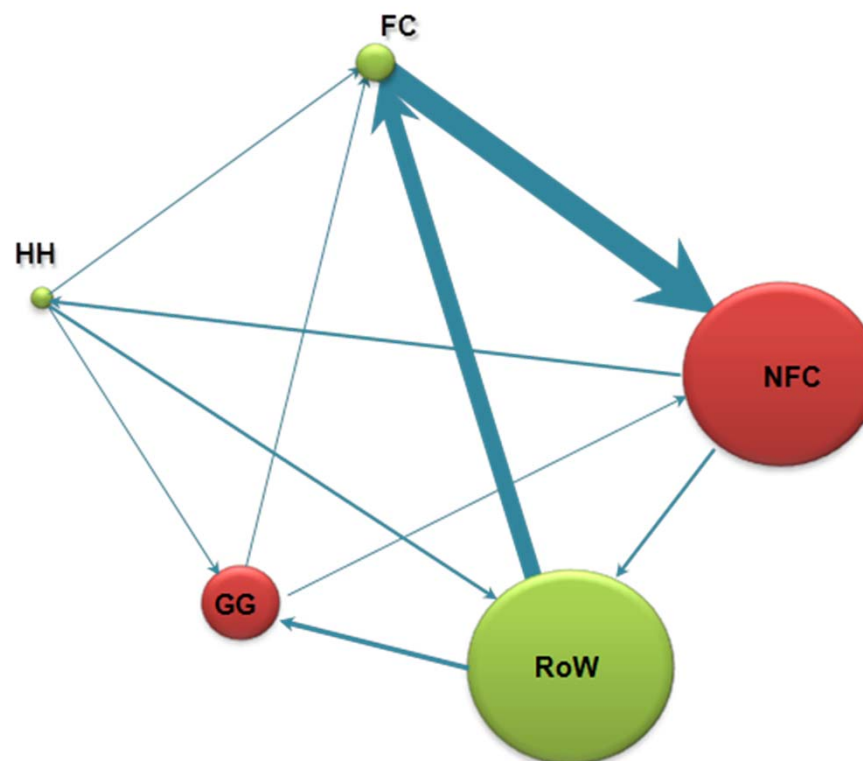
Flow of funds charts

Circles

- ✓ Diameter proportional to net lending/borrowing of each sector
- ✓ Green/red if positive/negative

Arrows

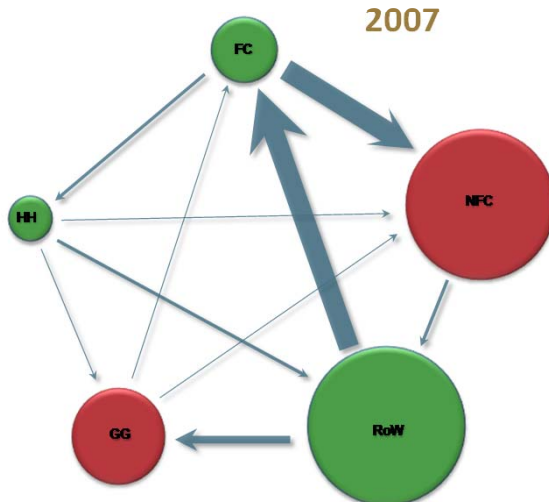
- ✓ Represent net flow
- ✓ Width proportional to magnitude of inter-sectoral relation





2. Flow of funds: development and uses

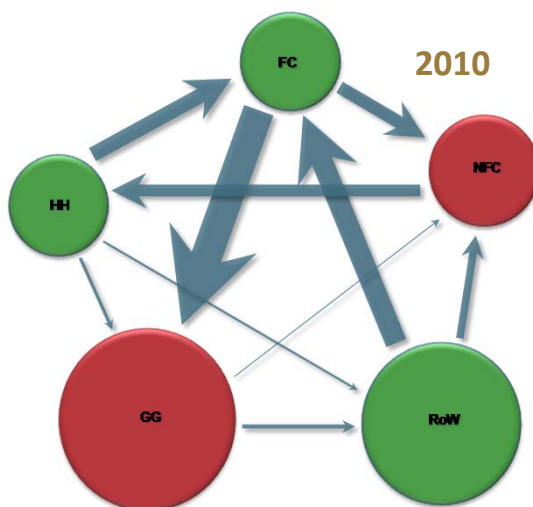
2007



2000 – 2007

- **Financial sector as intermediary**
 - Raising funds from rest of the world
 - Channelling to non-financial corporations
- **Asymmetry between domestic and foreign sources of funding**
 - Domestic clearly insufficient
 - Overall net borrowing position
- **General government**
 - Rather contained funding needs

2010



2008 – 2010

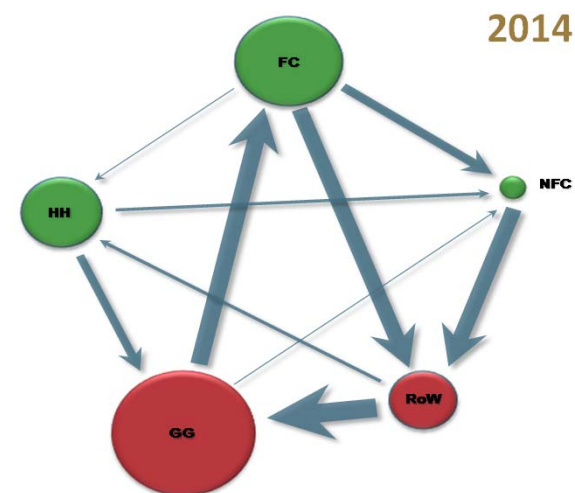
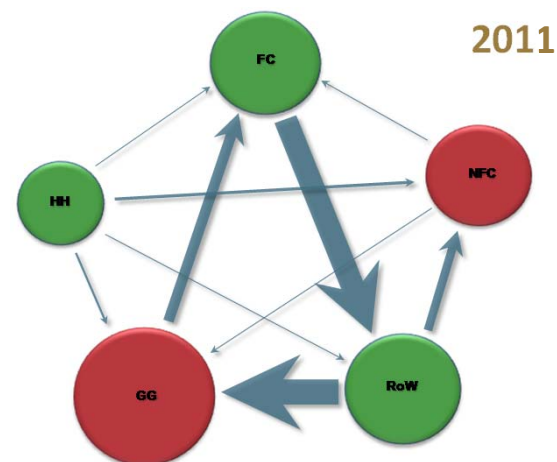
- Financial needs of general government increased
- General government no longer able to raise funding in international financial markets → direct funding from the banking sector (2010)
- Decrease of FC financing of NFC investment



2. Flow of funds: development and uses

2011 – 2014 Financial Assistance Programme

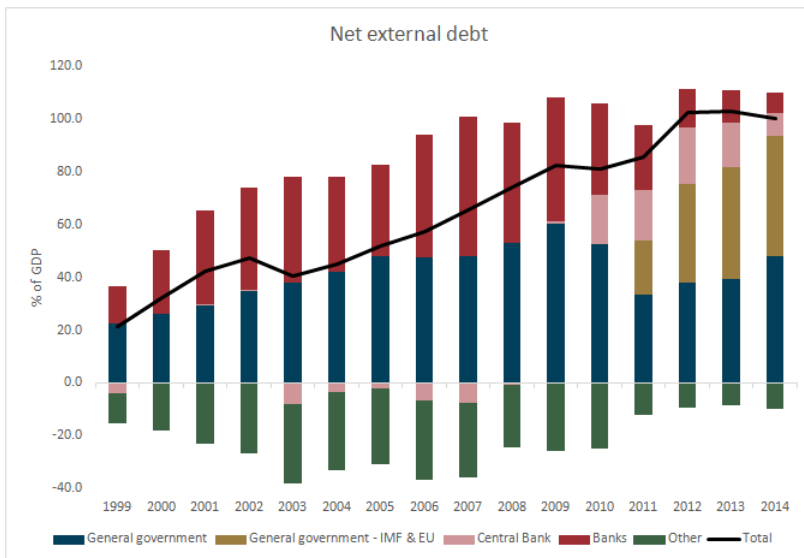
- **Start of the Programme: change in the direction of flows**
 - Net funds channelled directly from rest of the world to general government
 - Financial sector deleveraging vis-a-vis RoW
- **End of the Programme: decreased borrowing needs**
 - Households: higher saving rate, lower consumption
 - NFC: sharp contraction of investment
 - Portuguese economy net lender from 2012 onwards





3. Changes in financial intermediation in a context of financial and sovereign debt crisis

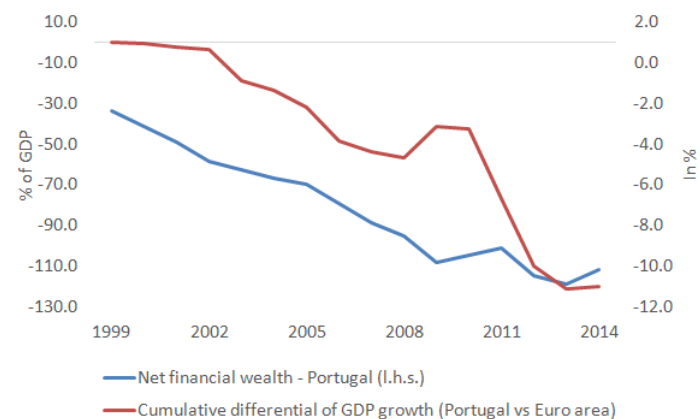
High external indebtedness (public and private)



Portugal became an economy with higher external public and private indebtedness

The GDP growth differential between Portugal and the euro area has increased and is mirrored by the worsening external position

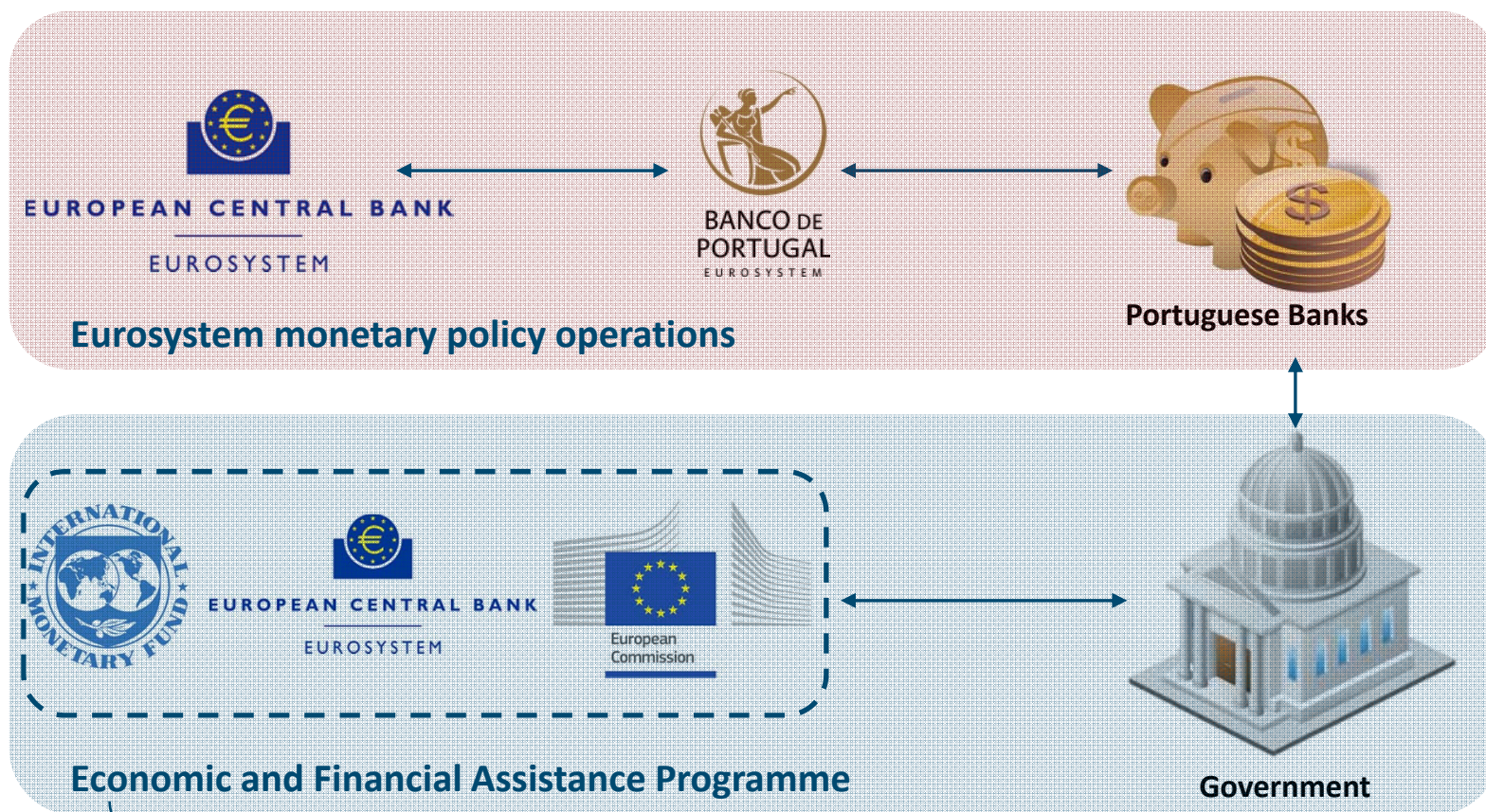
Excessive debt and low growth





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3. Changes in financial intermediation in a context of financial and sovereign debt crisis

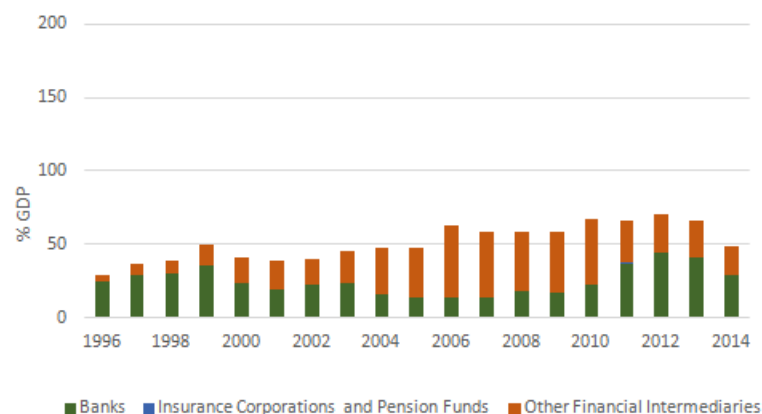
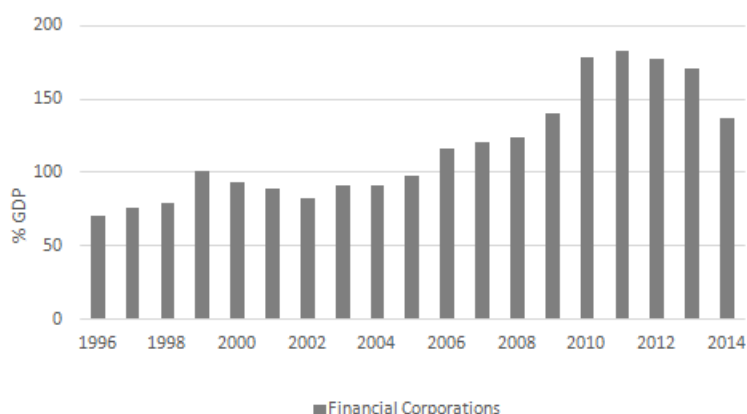


“maintain liquidity and support a balanced and orderly deleveraging in the banking sector”



3. Changes in financial intermediation in a context of financial and sovereign debt crisis

Inter-subsector stocks

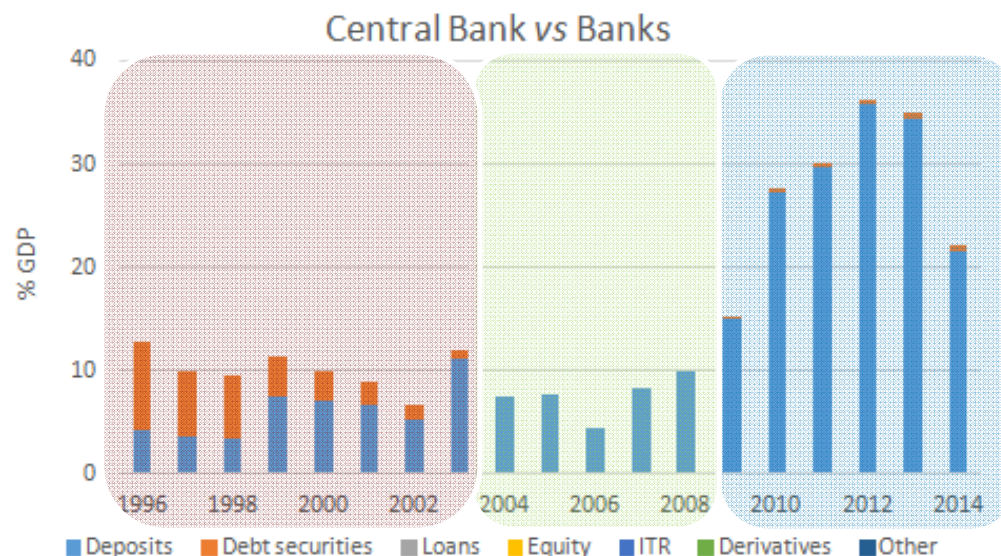


Financial corporations: considerable intra-sector operations and increased since 2010. Significantly larger than the sum of the intra-sector flows of the three main subsectors, denoting significant interlinkages between the different financial corporations' subsectors (e.g. between banks and OFIFA)



3. Changes in financial intermediation in a context of financial and sovereign debt crisis

Inter-subsector stocks



2009-to date: in the aftermath of the international financial crisis, Portuguese banks became highly dependent from the central bank and the Eurosystem intermediation; the central bank purchased some banks' bonds

2004-2008: no debt securities operations were recorded between the two subsectors

1994-2003: liabilities of the central bank could be found in the banks' portfolio (absorption of liquidity)



3. Changes in financial intermediation in a context of financial and sovereign debt crisis

To wrap up...

...in the most recent years the main changes experienced by the **Portuguese financial intermediaries** can be summarized as follows:

- ❖ **The more relevant role of the central bank in terms of monetary policy operations, carried out within the framework of the Eurosystem**, in response to high primary liquidity demand by Portuguese credit institutions, in a context of financial market instability
- ❖ **In the OMFI sector**, previous sources of funding (international financial markets) were replaced by funds provided by the central bank and by an enlarged deposit base
- ❖ **There has been an increase of operations between units of the financial sector**, in particular, between units of different subsectors.

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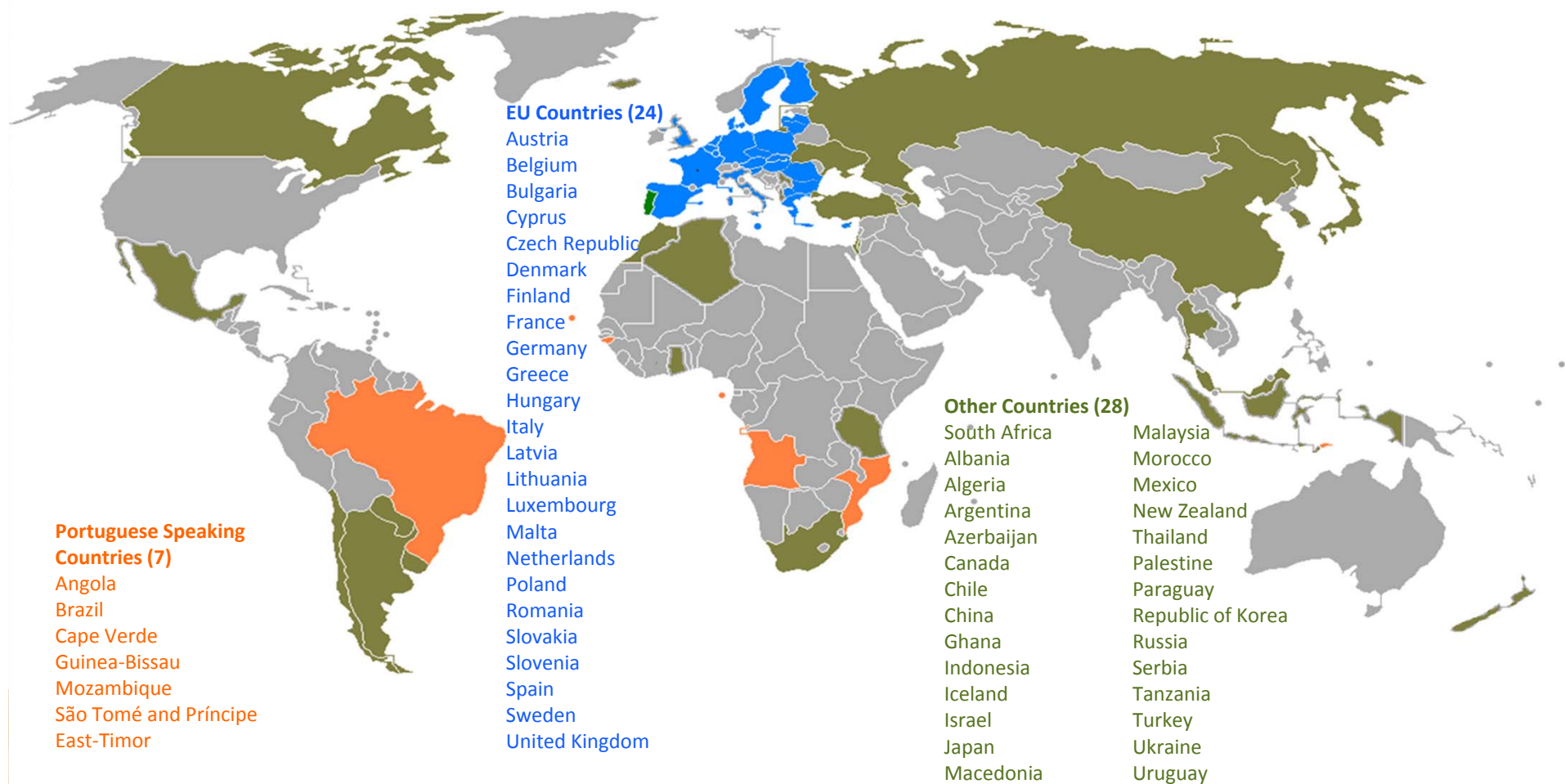


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4. Concluding remarks

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59 Countries, 5 continents





The Future is Now

"I find the great thing in this world is not so much where we stand, as in what direction we are moving – we must sail sometimes with the wind and sometimes against it, but we must sail, and not drift, nor lie at anchor."

Oliver Wendell Holmes, American writer, 1809-1894



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4. Concluding remarks

Thank you for your attention

