CMFB

COMMITTEE ON MONETARY, FINANCIAL AND BALANCE OF PAYMENTS STATISTICS

CMFB workshop on the classification of development banks
Frankfurt, 13 November 2018

OPENING AND ADOPTION OF THE AGENDA (CHAIR)

(1) On behalf of ECB DG-S, Ms Caroline Willeke, and on behalf of the CMFB, Mr Andrea Brandolini welcomed participants and delivered opening remarks. Both recognised the statistical challenges resulting from the increased activity of the European development banks in the harmonisation treatment across statistical domains and country statistical outputs. In this context the advisory role of the CMFB was mentioned as a contribution for the ongoing statistical discussion.

1. SESSION I: INSTITUTIONAL FRAMEWORK (CHAIRED BY ALFREDO CRISTOBAL)

(2) The session provided an overview regarding the setup of development banks in the EU and statistical representation of their activities.

1.1. Mr Thomas Bömoser and Mr Erik Boudewijn Smid, SSM (ECB), The institutional framework for the activity and supervision of development banks

A. PRESENTATION

(3) Mr Bömoser introduced the legal definitions of development banks as well as a colloquial definition, the institutional legal framework and business models of development banks operating in the EU. He provided a statistical overview regarding which Member States (MSs) have the largest development banks in terms of balance sheet size in euros and as percentage of GDP.

(4) Mr Boudewijn Smid explained the elements of the EU community law definition of credit institutions (such as “undertaking”, “business”, “deposit taking”, “deposit”, “other repayable funds”, “from the public”, “granting credit”, “for its own account”) in relation to the authorisation process carried out by the ECB.

B. DISCUSSION

(5) It was clarified that the definition used “for its own account” is substantive (in the sense of excluding ’agent’ activities) and not legalistic. Concerning the consistency between the statistics presented and the – somewhat numerous – definitions of development banks, the presenters explained that the definition was the list of institutions directly or indirectly supervised as promotional bank by the ECB.

(6) A participant asked whether meeting the outlined criteria (some of which were not of economic nature) justified the classification of the banks inside the government or that they were just used to exclude the entities from the CRR / SSM supervision. The presenter responded the SSM mandate starts when the entities (credit institutions) meet the significance criteria, otherwise they are nationally supervised. He further agreed that the outlined criteria were just to indicate whether the entity is included or excluded from the CRR / SMM supervision.

(7) Upon a question from the audience, the presenter clarified that some criteria in the presentation might seem contradictory due to their different purposes (eg exempting institutions from the application of the CRR versus helping commercial banks to correctly calculate the leverage

ratio). Furthermore concerning the draft proposed amendment to the EU community law on the definitions of development banks, the issue was in the trilogue phase and the corresponding slide presented the ECON (criteria based) versus Council (name by name) proposals.

(8) Participant enquired that if an institutional guarantee is provided for the liability side, could the institution be considered as acting on own account? The presenters explained that this would be the case. However, as regards asset guarantees no clear-cut answer could be provided.

1.2. Mr Miguel Alonso, Eurostat, The Excessive Deficit Procedure framework

A. PRESENTATION

(9) Mr Alonso described the EDP framework and highlighted ongoing methodological discussions. Activities of development banks were a challenging area for government statistics, as they were strongly oriented towards some of the essential qualities describing government. Methodological work was progressing to harmonise national accounting practices of MSs.

B. DISCUSSION

(10) A participant asked why the Eurostat D Directorate seemed to be dealing exclusively with this issue, considering its complexity. Eurostat responded that indeed other Directorates had been also involved and there was no disagreement among them as regards the treatment of such banks.

(11) A question requested an explanation on what are the essential qualities describing governments. Eurostat responded that, in the framework of promotional banks, this was related to the existence of market failures, i.e. inadequate market-based financing replaced or complemented by a government policy (i.e. if development banks enter to cover a market failure and there exists a public interest, they may be seen as agents of the government, providing governmental services).

(12) A participant suggested clarifying the exact impact of development banks lending to local government on deficit and debt and sector classification. Eurostat explained that the effect was mainly due to the classification of entities inside or outside government (hence impacting the Maastricht debt), and especially borrowing conditions may be different for government and non-government entities. If development banks borrow from the market and lend to local governments, there may be a substantial difference in interest rates.

1.3. Ms Anna Michalek, DG-S ECB, The monetary and financial statistics framework

A. PRESENTATION

(13) Ms Michalek introduced the legal and statistical framework for MFI statistics, aiming to provide the ECB with a comprehensive statistical picture of monetary developments in the euro area, also touching upon the role of these statistics in the analytical framework of the ECB.

2. SESSION II: CONCEPTUAL AND NATIONAL CHALLENGES FOR THE STATISTICAL CLASSIFICATION (CHAIRED BY LUCA ASCOLI)

(14) The session reviewed the challenges statisticians face when classifying development banks.

2.1. Mr Thomas Forster, Eurostat, Development banks – statistical classification and rearranged transactions

A. PRESENTATION

(15) Mr Forster described the main issues, in the context of the excessive deficit procedure (EDP) that may play a role when deciding whether to classify a particular development bank into the

general government or into the financial sector. The essential question is whether a development bank can be regarded as a financial intermediary and should therefore be classified in the financial corporations sector, or whether it is a public captive financial institution to be classified in the government sector. It was further explained that, even if a development bank is considered to be a financial intermediary, it is possible that some of its transactions or programmes, in some circumstances (explained under item 5.1), have to be rearranged to the government sector.

B. DISCUSSION

(16) With regard to the question of whether a development bank should be regarded as a captive financial institution, a participant asked whether all criteria presented had to be considered in conjunction or one or more were sufficient conditions for considering a development bank as a captive financial institution and therefore classifying it into the general government sector. Eurostat responded that there may be both sufficient and necessary conditions (i.e., some that need to hold together). Government influence on both the asset and liability side is necessary for the classification as public captive financial institution.

(17) A comment highlighted that the definition of captive financial institutions was different in the ESA2010 and MGDD (the latter constraints on both the asset and liability sides and the former only one). The borderline seems to be pushed rather than being clarified by this definition. The chair of the session mentioned that the corresponding MGDD chapter was approved by a large majority of MSs and it is, accordingly, the current interpretation of ESA 2010 on public captive financial units. With regard to the constraints on the asset side, he also explained that this concerns situations where the government tells the development bank to whom they can lend (i.e., the characteristics of the beneficiaries) and according to which conditions. He referred that this only occurs in very few cases and several developments banks are indeed classified outside the government (e.g. 16 out of 17 in Germany). Eurostat further added that the constrained asset side was not characteristic to all development banks, but only to those which are captive as well.

(18) A participant recalled that the return on equity (ROE) criteria was important and its dynamics compared to other banks may also be an important indicator. As developments banks are normally subject to a lighter set of supervisory rules this may as well be reflected among the classification criteria.

(19) Another participant enquired about rearranging transactions in the context of risks and rewards, noting that development banks would not have zero risks and zero rewards, and the applicability of the 50% market/non-market test. Eurostat responded that risks and rewards were fundamental classification criteria of assets and liabilities in national accounts. When governments clearly influence certain transactions the risks and rewards analysis need to be complemented. Concerning the 50% test, Eurostat added that there was a problem here with the application of this kind of test for financial entities having income mainly from interests and not from services. For such entities, the output (the sales) is indirectly measured in national accounts via the FISIM produced. The compilation of the FISIM produced is usually carried out on an aggregated level and not on an individual level (i.e., entity by entity) as required for the 50% test. While it was not possible to apply this test on an entity level at the time, there were ongoing discussions about possibilities to extend it to these cases.

2.2. Mr Dimitrios Laskos, DG-S ECB, Stock taking of development banks in the EU

A. PRESENTATION

(20) Mr Laskos recalled the initial results of the fact-finding on the classification of public development banks (ie the statistical treatment of certain credit institutions with a public policy objective). Substantial heterogeneity prevailed in the number and size of development banks across the EU MSs. EU development banks amounted appx. €2.2 trillion in total assets and mainly serve financing of infrastructure projects, promoting SMEs and regional development.

The vast majority of them are classified as MFIs and most of them are CRR/CRD authorized credit institutions. More than half receive deposits, also from the general government.

B. DISCUSSION

(21) A participant asked if a distinction was made in deposit taking between private and public corporations as public corporation may be mandated by government to deposit funds with public development banks. The presenter responded that such a distinction was not made but may be considered as a next step. Another question was asked about the handling of not-authorised but also not exempted institutions in Austria. The presenter clarified that they had a limited banking license for deposits and loans.

(22) In response to a question the presenter also clarified that information on the number of institutions subject to minimum reserves and eligible counterparties was not requested. However, euro area MFIs which are subject to minimum reserves (i.e. credit institutions) are listed in the ECB website.

(23) Eurostat was of the view that the MFI list (banking license) may occasionally have units that are not fully aligned with the ESA definition of deposit-taking corporations (as some of them do not transact with the general public). Government deposits with some developments banks may only be 'settlement accounts' that are related to a specific purpose and cannot be considered 'real' accounts. There are no institutions classified in general government that take deposits from the general public. The deposit issue was very important, but also quite complex and occasionally it was demanding to strike a proper balance among all factors that influence the classification process.

2.3. **Ms Filipa Lima, Banco de Portugal, MFI statistical reporting and EDP statistics**

A. PRESENTATION

(24) Ms Lima summarized the Banco de Portugal's role in the compilation of EDP statistics, its MFI statistical reporting (as a source for the compilation of EDP statistics) and the publicly available list of entities provided for the harmonised classification of units.

B. DISCUSSION

(25) A question enquired about the classification of a particular development bank. The presenter responded that following the analysis (internal organisation, the composition of the board, autonomy of decision, their funding, etc.) all development banks were classified into the S13 sector. Eurostat complemented that nevertheless, the number of hybrid cases had been increasing, for examples hybrids consisting of development banks and sovereign funds.

3. SESSION III: NEEDS FOR POLICY-MAKING (CHAIRED BY CAROLINE WILLEKE)

(26) The session aimed at taking stock of user needs on the classification of development banks.

3.1. **Ms Ingrid Toming, DG-ECFIN, Development banks: fiscal surveillance perspective**

A. PRESENTATION

(27) Ms Toming described the preventive and corrective arms of the Stability and Growth Pact, including the debt criterion, built-in safeguards to address statistical methodology, debt and deficit-based proceedings. The potential impact of reclassifying development banks or rearranging some of their transactions on government deficit and debt were discussed as well.

B. DISCUSSION

(28) A participant addressed a question concerning the built-in safeguards. While changes in the rules could be neutralised in the first year, the option of including all development banks in general government still did not seem viable and efforts should be made to separate one kind of development banks from others. The presenter responded that there may be indeed a preference for a certain approach, but the statistical independence is respected.

(29) A question enquired about the current quality of GFS statistics, which DG ECFIN regarded very highly since they were used for fiscal surveillance. Eurostat added that the quality indeed improved over the past few years.

(30) The economic reasoning of the gross concept for EDP debt was questioned as well as development banks bring quality assets with their liabilities. DG ECFIN responded that very liquid assets may be deducted but the Treaty provides very clear rules, which call for the application of gross concept.

(31) A further comment reminded that statistical domains may become inconsistent with the unilateral reclassification of development banks, while rearrangements have less of a disturbing effect. DG ECFIN agreed to this reasoning, pending a case-by-case assessment.

(32) A participant asked if the reclassification of development banks influenced the level of GDP. Eurostat added that this was a relevant question for all entities, but entities had to be classified correctly prior to the calculation of GDP according to ESA2010 criteria, regardless of any subsequent effect on the level of GDP.

(33) Eurostat noted, in addition, that the discussion was mainly geared towards the classification of development banks, while the main issue for the future would likely be the rearrangement of transactions. There were still many MSs where statistical authorities had not a clear view of the tasks of certain development banks. Once enough information became available, the rearrangement of particular operations could become a feasible option.

3.2. Mr Ramon Adalid (DG-E), Mr Simon Keller (DG-M) and Mr Philipp Kuss (DG-M), ECB, The analysis of monetary developments, monetary policy operations and development banks

A. PRESENTATION

(34) The first presentation introduced the eligibility criteria for monetary policy operations and collateral framework. There were no specific criteria as regards the eligibility of developments banks to participate in operations. However, collateral issued by agencies received more favourable treatment in terms of haircuts.

(35) Mr Adalid focused on monetary analysis, explaining its prominent role for the ECB's monetary policy strategy and introducing the role of the consolidated balance sheet of euro area MFIs. It further presented the policy relevance of the key variables of the monetary analysis, concluding with a comparison of the balance sheet structure of development banks and other MFIs in the euro area.

B. DISCUSSION

(36) A participant asked if a development bank classified inside general government by Eurostat can participate in monetary policy operations without violating Treaty article 123. The presenters responded that case-by-case consideration was needed. Eurostat added that its classification served EDP purposes and should not pose a violation to the above-mentioned article (as evidenced by past practice as well). The session chair added that the issue deserved further analysis.

(37) Eurostat underlined that while monetary policy considerations were understandable, for the classification applicable European law (ESA2010, Stability and Growth Pact) must be adhered to, irrespective of the size of the entities and the user's convenience. The presenters

complemented that institutions with access to monetary policy operation classified outside the MFI sector are, from a conceptual point of view, somehow strange.

4. SESSION IV: CASE STUDIES (CHAIRED BY VILLE VERTANEN)

(38) This session exemplifies the main business models of development banks and best-practices implemented in the monitoring of government intervention.

4.1. Mr Ulrich Burgtorf (Deutsche Bundesbank) and Mr Jens Grütz (Destatis), Development and promotional banks model in Germany and the need for dedicated statistical survey

A. PRESENTATION

(39) Mr Burgtorf depicted the promotional banks' landscape in Germany. After a general introduction about the definition, purpose, governance and institutional framework, he presented the typical forms of government support to promotional banks and the EU Commission requirements for state-aid compliance. The discussion continued with a distinction between entities (federal level versus state level) and within business areas and it ended with a presentation of the balance sheet volumes, structures and the sector classification.

(40) Mr Grütz focused on the need for a dedicated rerouting survey. Based on an analysis of three rerouting cases, a decision tree scheme was drawn up. The last part provided the survey questionnaire, programmes and results on government deficit and debt.

B. DISCUSSION

(41) A participant asked if all risks and rewards are with government, a rearrangement should follow. Destatis responded that in these cases, in principle, the recording should already have been made in government. A request for clarification about the impact on government deficit was made. Mr Grütz confirmed that there is a positive net revenue impact, leading to an overall decrease in the deficit from rearrangement.

(42) Concerning the exact type of rearrangement normally used in the decision tree, the presenters responded that, among the several options, exact treatment really depends on the particular type of transaction. They also added that the original financial instrument (typically a loan) does not change with rerouting and also its valuation remains the same.

(43) Regarding confidentiality issues and the difference between a unit acting as "agent" of the government versus the government assuming all risks and rewards, the presenters explained that no individual data from any bank has been published. Mr Grütz further specified that the precise role of agent-like entities should also be carefully examined, even if the government substantially takes all risks and rewards.

4.2. **Mr François Mouriaux (Banque de France) and Mr Étienne Debauche (INSEE), The Agence Française de Développement**

A. PRESENTATION

(44) The presentation described the Agence Française de Développement (AFD), including an overview of its activities, functioning and main figures. AFD's characteristics as an institutional unit were highlighted and raised the question whether the public interaction could preclude the AFD's decision-making autonomy. Following a report on the nature of AFD's assets, liabilities and resources, the presentation discussed if there was a case for its special treatment in national accounts.

B. DISCUSSION

(45) A participant enquired about the rerouting of sovereign loans and the reservation that Eurostat expressed regarding the quality of ADF data, which however was subsequently withdrawn. The presenter clarified that the sovereign loans had not been rerouted through the government account. Concerning the reservation, contrary to the previous "borderline" situation, the majority of non-public administration representatives in the board of directors had alleviated concerns.

(46) A final question was made as regards the definition and role of the RCS. The presenter answered that it is a loan from the Treasury at favourable terms, treated as a financial resource for AFD.

5. SESSION V: OUTLOOK AND EXPECTED OUTCOMES (CHAIRED BY ANDREA BRANDOLINI)

(47) The session offered possibilities for the work ahead.

5.1. Ms Malgorzata Szczesna, Eurostat, Next steps in the statistical framework – rearranged transactions

A. PRESENTATION

(48) Ms Szczesna described the on-going methodological work on rearrangement of transactions, undertaken by non-government entities, to government accounts. In particular, it specified that rearrangement should be considered in case of: (a) a specific government request, or (b) a framework instruction and sharing of risks and rewards, or (c) potentially loss-making character of a transaction. For each of the above, a number of indicators were specified in order to detect the need for rearrangement.

B. DISCUSSION

(49) A participant emphasized that regarding the application of the sufficient and the indicative criteria, a number of questions still remain open. The presenter explained that indicative and/or sufficient indicators are still subject to methodological discussions and will be further consulted in order to account for the heterogeneity of cases and national circumstances observed.

(50) Another participant challenged the non-market conditions when considering interest rates below market instead of analysing the pricing setting done by development banks which can include some subsidies on products. Eurostat acknowledged that transactions below the usual market terms do not have to be always related to government interventions and they are often observable in the context of business targets. However, if there is no economic justification behind such transactions proving that the unit acts as a market producer, the rearrangement should be applied.

(51) While a general rule would seem desirable, cases from various MSs often show considerable heterogeneity that brings to different treatments.

5.2. Mr Jorge Diz Dias, DG-S ECB, Issues for the work ahead

A. PRESENTATION

(52) Mr Diz Dias summarized the issues for the work ahead recalling the importance, but also the difficulties, of sector classification of public development banks and the establishment of ESA 2010 consistent decision criteria. The issue of rearranging some transactions and the following classification problems were also discussed, as well as the possible creation of which accounts for public development banks within S.12 and S.13.

B. DISCUSSION

(53) A participant enquired about the role of the limited autonomy of the bank's decisions behind rerouting of assets when the bank has the freedom to finance through liabilities of its choice. The presenter replied that the presentation focused on the financing of operations and there could be situations with no direct funding from the government. The central point was that rerouting should be avoided when the government link could not be sufficiently demonstrated and evidenced.

(54) Eurostat appreciated the overview, however at the same time, expressed some discontent with certain elements of the outlined draft classification proposal that required further discussion.

6. FINAL REMARKS AND CONCLUSIONS

6.1. Mr Andrea Brandolini, CMFB Acting Chairperson, Banca d'Italia

(55) Mr Brandolini recalled the substantial complexity of the classification of development banks. However, reclassifications are only meaningful for users if the consistency of time series is preserved over time. Tools were already available to capture the complexity (rerouting, rearrangement, partitioning) but these required transaction-by-transaction analysis that may be overly time consuming and complex. While case-by-case analysis is clearly necessary, ensuring its consistency across MSs and statistical domains remains a challenge.

(56) The CMFB, involved in its role of advisory committee, will take interventions according to the following lines of action: (a) publish today's presentations, with the presenters' consent, in a dedicated page of its website; (b) prepare a brief document summarising the main findings and conclusions, as it was the case with the recent CMFB Workshop on Globalisation (Vienna, 4-5 July 2018); (c) schedule at the January 2019 CMFB plenary meeting a dedicated session for the analysis of selected topics of the draft revision of MGDD; (d) evaluate possible interventions in the context of the SNA update.

6.2. Mr Luca Ascoli, Acting Director of Government finance statistics and quality, Eurostat

(57) Concerning the classification of entities, the analysis is now relatively mature, notwithstanding the creation of new entities or modifications in the mandate of existing ones. A greater challenge is perceived in the area of rerouting and rearranging specific transactions. In this context, it is very important that the National Statistical Offices obtain access to the information needed in order to identify eligible transactions.

(58) Regarding the discussions held around the MFI list, it is worth noting that in Eurostat's view within this list there are few entities that do not fulfil the criteria defined in ESA2010 to be classified as monetary financial institutions. This does not represent a problem by itself, as long as the MFI list does not define the classification of entities, i.e. that no government unit is classified outside the government sector only because it is included in the MFI list.

(59) Mr Ascoli ended by indicating that Eurostat has not reclassified into government any development or promotional bank just because they supported a government policy to invest in a specific sector or region. A different matter is when government instructs the bank to provide funds to a particular entity, as an example of excessive interference in the autonomy of decision of the bank.

6.3. Ms Caroline Willeke, Deputy Director General Statistics, European Central Bank

(60) Ms Willeke thanked all contributors for making the workshop possible. She recalled that the topic clearly deserved further reflections to address the needs and concerns of a number of user groups. In this respect, it could be beneficial working on a definition of development banks and on the possible creation of 'of which accounts' for a typology of financial entities (including development banks).

(61) The particular needs of fiscal surveillance, monetary policy operations, micro- and macro-prudential supervision seem to be best served along a consistent approach: allocating those parts of the business of a development bank that are market-based financial intermediation to the financial corporation sector and those parts that may be "government controlled" to the government sector. This points more in the direction of rearranging as opposed to reclassification. A case-by-case analysis is obviously needed, but can only add value if performed along clear criteria to get the harmonisation across EU MSs to the extent possible.