

## **CMFB Workshop on the Classification of Development Banks Frankfurt am Main, 13 November 2018**

### **Final Remarks and Conclusions by the CMFB Chair**

1. Developments Banks (DBs), also known as National Promotional Banks, cover a range of financial institutions active on domestic or foreign markets to finance and support economic development (e.g. financing SMEs, “green” policy or projects in developing countries). Their business has been gaining importance thanks to renewed EU-wide projects. Their population includes newly created units as well as long-lived institutions that have received additional tasks. Their current statistical classification ranges from MFIs to government sector. While the EU law explicitly links them to the **correction of a market failure** (inefficient level of investment), the implementation of their policy **may largely involve private tools and profit making**. This results in a mixture of financial intermediation and government services (with banks acting as agents), combined in different degrees and with **business models varying widely across Member States**. Classification of financial units in such complex cases may have considerable impact in the system of national accounts and European statistics, and calls for proper **reconciliation across statistical domains**.

2. The statistical classification of DBs falls within the remit of **the CMFB in its capacity of advisory committee**, owing to its complex nature and general interest as well as its relationship with financial statistics. The co-sponsored initiative of Eurostat and the European Central Bank for a CMFB workshop on the classification of development banks was very much welcome in a context where two thirds of the recent CMFB consultations were about the separating line between the government and financial sectors. The **starting point was a situation of disagreement**, with heterogeneous positions among institutions and unacceptable differences in data reporting for the same units across different statistical domains. Significantly, two requests were advanced in the last months to the CMFB concerning development banks and captive financial institutions. **This workshop has helped to shed light on these complex issues but has not provided definite solutions**.

3. On the **positive side**, the workshop identified important areas of convergence:

- Investigation across domains of concepts such as “deposit taking”, “other repayable funds”, “from the public”, “granting credit”, “for its own account” – which play an important role in Eurostat’s criteria as well as in authorisation and supervision processes carried out by the ECB – shows a **high degree of correspondence at technical level**.

- In comparison to the past, there appears to be a shift from once-and-for-all sector reclassification to **rearranging of single transactions or programmes**. Country presentations provided further insights and suggested criteria in the area of rearranging of transactions.
- Eurostat clarified that financial institutions actually financed through **deposits from the general public** should not be subject to reclassification into government. Support to government policy to invest in a specific sector or region is not by itself a sufficient reason for reclassification. A different matter is the case **when government instructs the DB to provide funds to a particular entity**, which may be regarded as violating the autonomy of decision of the bank.
- Finally, all speakers and participants seemed to agree on the general need to proceed on a **case-by-case** basis.

4. On the **problematic side** the following points deserve specific attention:

- While rearrangement/rerouting of transactions clearly emerged as an often preferable alternative to reclassification of the unit, the presentations and discussions highlighted a number of practical issues, including **cumbersome investigation** processes and **discretionary elements in the split of balance sheets** that may produce inconsistent and non-harmonised outcomes across countries. In addition, Eurostat pointed out issues of availability of relevant information. In this light, a conceivable **statistical strategy** should be based on a **standardisation of data and indicators** to be collected and exchanged, providing an **adequate platform** for decision.
- While agreeing on the generally sufficient nature of some criteria (e.g. when business is based on genuine deposit taking), participants **clearly disagreed on the relative weight of other criteria**. For example, disagreement emerged on whether absence of both funding and instructions by government is a sufficient criterion to prevent rerouting/rearrangement of transactions. In addition, little guidance exists on what to do when government is strictly instructing the DB on the list of borrowers, but is not taking over risks and rewards; or when government is routinely requesting individual operations through formalised procedures, in absence of other forms of involvement.
- While the case-by-case analysis is rightly seen as a pragmatic way forward, it should take place within clear boundaries. It is important to identify a small set of clear general rules rather than listing a large number of potentially ambiguous sufficient and indicative criteria. In this respect, a **limiting factor for the case-by-case analysis** on DBs is currently seen in the **very narrow set of existing provisions**. Applicable criteria can be retrieved from ESA 2010 chapter 2 (units and grouping), reinterpreted in few parts of the MGDD 2016 (e.g. Chapter I.5 on units engaged in financial activities and Chapter I.6 on specific public entities).
- Due to their **general nature**, such provisions do not take into account operational criteria and quantitative information that could help standardising the analysis: e.g. portfolio analysis; measures for risks and rewards; business model and operations management; assessment of constraints on assets and liabilities; capital requirements and return on equity. A summary guidance, bridging general ESA 2010 and SNA 2008 provisions with “stylised facts” and operational indicators built on the specific assessment of captive

financial institutions and DBs, would be **necessary to support consistent case-by-case analysis**.

5. The outcome of this workshop has highlighted the heterogeneity of views due to **structured and motivated disagreement**, even if the set of **controversial issues seems to be narrower than in the past**. As typical in the CMFB activity, all structured and documented views are to be taken into account in order to make sure that all issues are properly addressed and to provide a balanced account of the arguments, including documented minority views. The CMFB may further reflect on some additional steps:

- Foster **standardisation and access to the information needed to support the analysis**, with specific reference to the need to identify eligible transactions for rerouting and rearrangement. From this information, explore the value of creating “of which accounts for DBs” in the financial and government sectors to provide a holistic statistical overview of the activity of DBs in Europe.
- While recognising the need for a **case-by-case analysis**, encourage the **development of stylised cases and standardisation of methods and procedures for rearrangement of transactions**, by sharing further expertise on DBs through other workshops or related initiatives.
- Consider the case for developing a **dedicated MGDD chapter on DBs (or amending guidelines)** from existing scattered references, linking more general ESA 2010 and MGDD rules with more specific practical guidance, that accounts for the specific financial activity of DBs.
- Evaluate possible interventions to inform the wider statistical community, in the context of the **SNA update**, about European findings in the analysis of captive financial institutions.

6. In brief, the CMFB plans to continue its work on this complex topic by taking concrete steps to foster coordination of national institutions with Eurostat and the European Central Bank and to promote consistency of monetary and financial statistics with government finance figures, in line with a shared interpretation of the ESA 2010.