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Issues for the work ahead

CMFB Workshop on the classification of
development banks

Frankfurt am Main, 13 November 2018

1. Sector classification of public development banks
2. Rearranging transactions and classification
3. Analytical possibilities
4. Summary

1. **Sector classification of public development banks**
2. Rearranging transactions and classification
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4. Summary

Public development banks: co-existing behaviours?



Financial intermediation

- Transmission of monetary policy
- Commercial risk taking

+



Non-market activities

- Fiscal policies
- Transfer of economic benefits
- Risk sharing

=



Hybrid

Services of **general economic interest** in the financial sector (S.12)

or

Services of **commercial interest** in the government sector (S.13)



Explore a **definition** of public development banks

What is the principal function of a dev. bank?

S.12

S.13

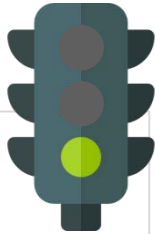
Financial intermediation

50% | 50%

Non-market output

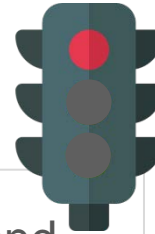
S.12

Residual non-market output:
Rearranging transactions is effective



Relevant primary and secondary activities – what to do?

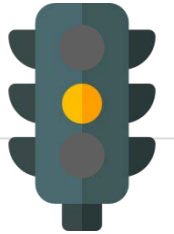
- Rearrange?
- Partitioning?



S.13

Residual financial intermediation – what to do?

- Nothing?
- Rearrange?
- Classification S.12?



What is the principal function of a dev. bank?

S.12

S.?

S.13

Financial intermediation

50% | 50%

Non-market production

- Difficult to measure and compare
- Partitioning of the entity (quasi-corporation) not always feasible and desirable
- Use of 'indirect' indicators (risks and rewards/business model, operations, management)
- Public captive financial units: dependent vs independent



Explore an ESA 2010 **consistent decision criteria** that are generally accepted and integrated.

Sector classification of dev. banks

Sector delimitation

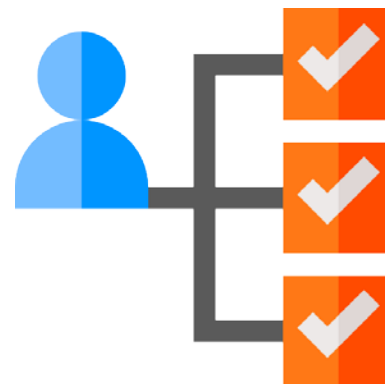
Most of the cases straightforward – some need consideration

Robust and guarantees single sector outcome

Counterparty statistics consistency



Need for discussion among all affected statistical compilers to find common solution



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Rearranging of transactions, substantive risks and rewards and retained control

Specific transactions
executed by the dev.
bank “intermediation”

Funded by government (gov.)?

At the
request of
gov.?

	Yes	No
Yes	Recognising principal party	? Case A
No	? Case B	No gov. transaction

Case A: Rearranging of transactions, substantive risks and rewards and retained control

Specific transactions executed by the dev. bank “intermediation”

- **At the request of gov.? Yes**
- **Funded by government (gov.)? No**

Substantive risks and rewards and retained control with:



Government

- Gov. recognised as principal party
- Dev. bank like a pass-through tool

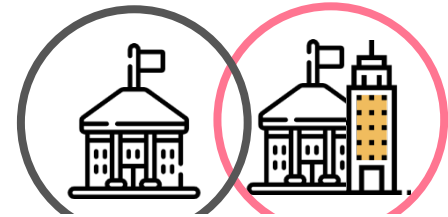
or



Dev. bank

- Gov. records no transaction
- Dev. bank transaction

or



Both units

- Gov. rerouting
- Dev. bank transaction

Case B: Rearranging of transactions, substantive risks and rewards and retained control

Specific transactions executed by the dev. bank “intermediation”

- **At the request of gov.? No**
- **Funded by government (gov.)? Yes**

Substantive risks and rewards and retained control with:



Government

- Gov. recognised as principal party
- Dev. bank records no transactions

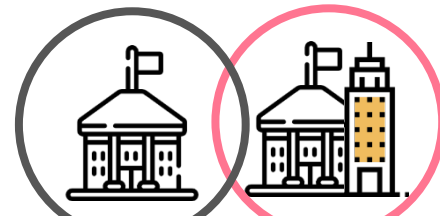
or



Dev. bank

- Gov. records its transactions (financing)
- Dev. bank transactions

or



Both units

- Gov. transactions and rerouting
- Dev. bank transaction

Rearranging of transactions, substantive risks and rewards and retained control

- Substantive risks and rewards and retained control analysis does encompass many particular and isolated circumstances
 - It offers a generic approach
- Some inspiration can be found in the IFRS 9 – derecognition of financial instruments



Elaborate guidance on risks and rewards and retained control - establish a **de/recognition guidance**

Rearranging of transactions and sector classification

- Rerouting of transactions does not impact the classification of dev. bank **except**:
 - if the dev. bank is a **dependent captive financial** unit lacking autonomy of decision
- Recognising principal party does not impact the classification of dev. bank **except**:
 - if there is **no other business left** in the dev. bank (government agent)

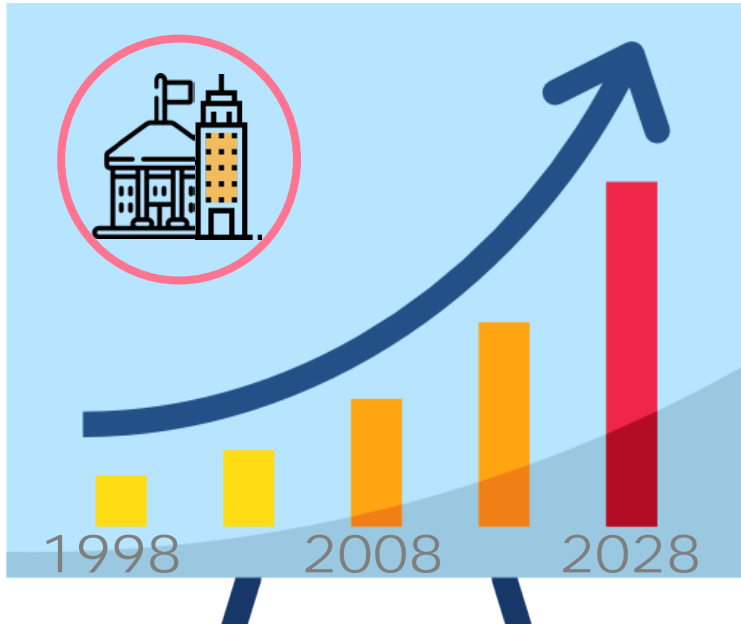


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Improve guidance on public **captive financial institutions.**

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Add analytical value to ESA 2010 breakdowns

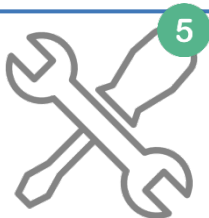


Activities of development banks to continue increasing

Use ESA 2010 (1.38) flexibility

- of which accounts for dev. banks in S.12 and S.13

Possibility to extend it for a selection of public credit institutions (typology)



Explore the **creation of which accounts** for public development banks within S.12 and S.13

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Summary



1. Explore a **definition** of public development banks.
2. Explore an ESA 2010 **consistent decision criteria** that are generally accepted and integrated.
3. Elaborate guidance on risks and rewards and retained control - establish a **de/recognition guidance**.
4. Improve guidance on public **captive financial institutions**.
5. Explore the **creation of which accounts** for public development banks within S.12 and S.13.

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Thank you for your time!

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