



EUROPEAN CENTRAL BANK

The use of national/financial accounts for monetary policy

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ECB perspective

- **Monetary policy.** Focus on relevance of SNA for economic and monetary analysis as basis for ECB strategy. Leave aside other important uses:
- **Financial stability and financial integration.** Monitoring of ongoing changes in Euro Area financial system.
- **Fiscal policy and structural reforms.** Monitoring of SGP and sustainability of public finances. Impact on monetary policy transmission.

Outline – SNA use for monetary policy

1. Requirements, trade-offs and challenges for monetary policy use.
2. Examples from economic analysis.
3. Examples from monetary analysis.

Data requirements for policy use

- **Comparability.** Important for economic analysis a) within euro area and b) for international comparisons and the external environment.
- **Reliability.** Monetary policy requires an accepted yardstick for its goal variable and reliable statistical systems.
- **Timeliness.** Monetary policy making in real time requires good understanding of current economic situation as a basis for forward-looking decisions.

Possible trade-offs in data provision

- **Reliability vs. timeliness.** The role of data revisions and the use of preliminary data for policy in real time.
- **Statistical innovation vs. length of time series.** Interest in avoiding too many breaks in data series (for analytical purposes).
- **Consistency and cross-checking.** Value of consistent accounting framework to identify and reconcile discrepancies. Value of different perspectives when looking at broad range of data.

Key challenges for SNA

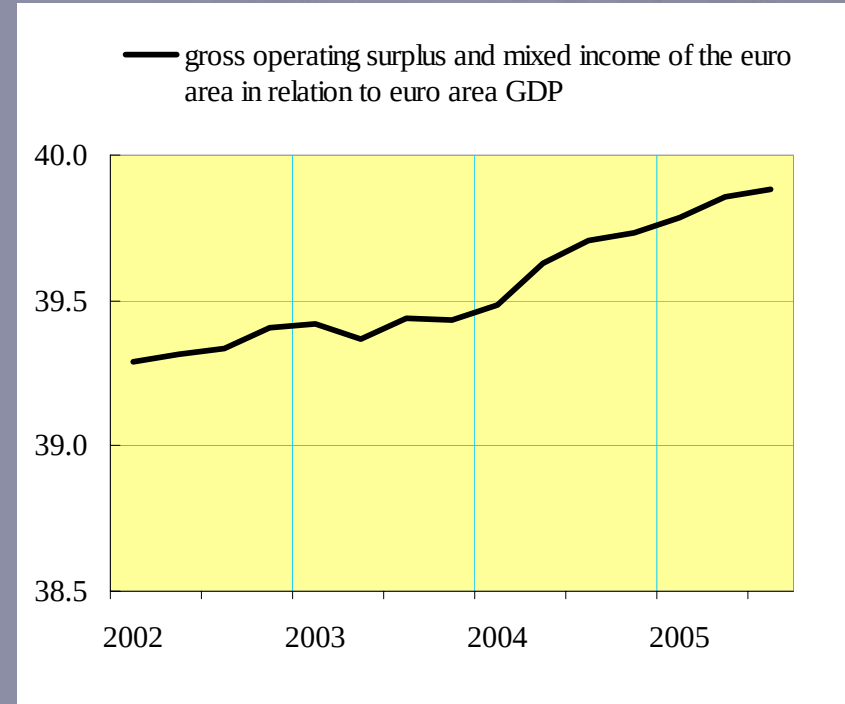
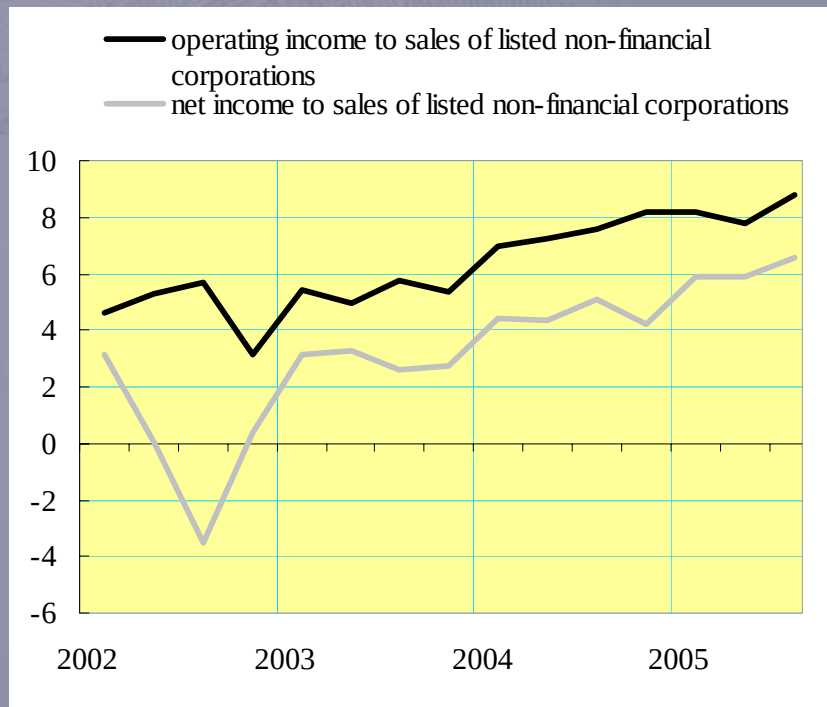
- **Innovation and structural change** both in real economy (e.g. role of service sector) and in financial landscape. Need to capture new financial institutions and instruments.
- **Globalisation.** Need to identify and account for global inter-company transactions (multinational corporations, off-shore financial centres, special purpose vehicles...)
- **Wealth accumulation.** Accounting for changes in holdings and valuations of assets and liabilities. Increasing relevance for macroeconomic developments.

Ensuring adequate links between national accounts and business accounting

A close link between national and business accounting supports a detailed and consistent analysis of the corporate sector.

- **Business accounts** are an important source for compiling national and financial account statistics for non-financial corporations
- **Aggregate company financial statements** can serve as a complement to national accounts, for instance for the analysis of corporate profitability (see chart).
- They can fill some **gaps in the corporate analysis**, as regards the reporting lag, additional economic indicators, breakdowns into sectors and firm sizes.

Broadly similar evidence on profitability based on business and national accounts *(profit ratios in percentages)*



Sources: Eurostat, Thomson Financial DataStream and ECB calculations.

Notes: The calculation of the business accounting items is based on aggregated quarterly financial statements of listed non-financial corporations in the euro area. The sample has been cleaned from outliers. Compared with the operating income, which is defined as sales minus operating expenses, the net income refers to operating and non-operating income, after taxation, depreciation and extraordinary items.

Examples from economic analysis (I)

- **High-tech goods and elaborate services.** A larger share of GDP is associated with such items, however, their measurement represents a challenge.
- **Short-term indicators for services.** The data and indicators available to monitor short-term developments in the euro area services activity are much less developed than for industry.

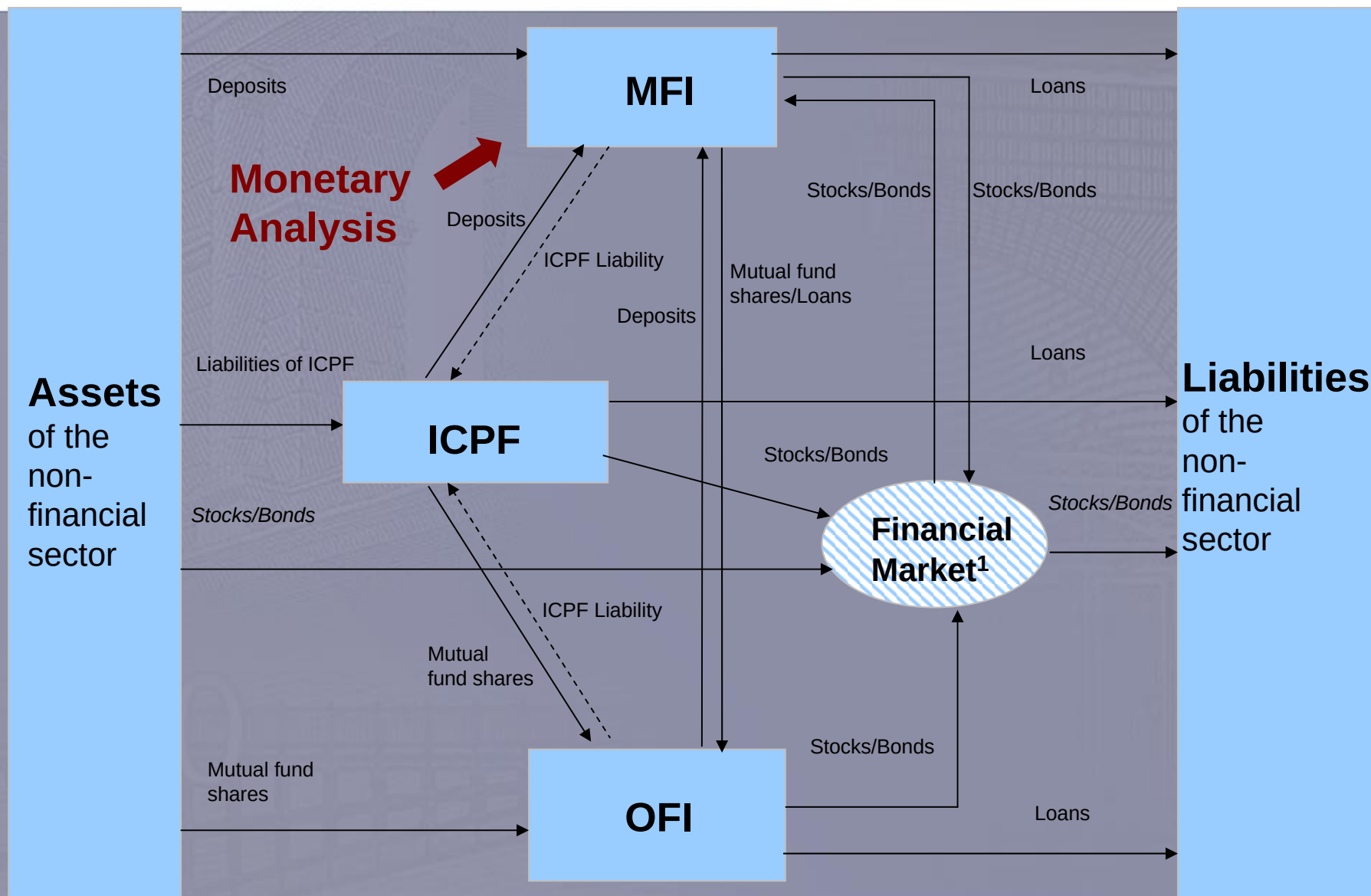
Examples from economic analysis (II)

- **Treatment of Intangible Assets.** A country's GDP is more and more associated with the value of ideas than simply with physical capital and labour costs.
- **Quality Adjustment.** Has there been progress in harmonizing quality adjustment practices across countries?
- **Aggregation problems.** Lack of euro area quarterly indicators on household disposable income, hours worked and the absence of a proper delineation of euro area exports and imports.

Relevance for monetary analysis (I)

- **Role and definition of money.** Money important element of policy transmission but financial innovation leads to increasingly complex intersections between money and other assets.
- **Changing role of the banking sector in financial intermediation.** Increasing importance of other financial intermediaries (ICPFs, OFIs). Impact of securitisation and disintermediation.
- **Financial innovation impacts the flow of funds.** Debt securities, financial derivatives, equity, investment fund shares/units

Monetary analysis, intermediation and flow of funds (simplified w/out ROW)



Monetary analysis and the flow of funds (II)

- **MFI balance sheet.** Focus of monetary analysis (money and counterparts). Interaction with other financial intermediaries:
- **Insurance corporations and pension funds (ICPF).** ICPFs may substitute for household money holdings. Invest strongly in fixed income assets (effects on low bond yields?). Impact of pension reforms. [See MB June 2005]
- **OFls (esp. investment funds and SPVs).** Separate classification of investment funds in SNA welcome. Better information on SPVs important in context of loan securitisation. [see MB September 2005]

Annex: Examples from fiscal policy (I)

- **Sustainable fiscal policies** promote price stability, growth and cohesion in the euro area
- **Fiscal surveillance**, based on timely and reliable government finance statistics, is key for the enforcement of the EU fiscal rules
- **Revised public accounts** should focus on improving the statistical framework for the assessment of long-term sustainability and budgetary risks

Annex: Examples from fiscal policy (II)

- **Three important (potential) SNA revisions of public accounts are:**
- Assessing off-balance sheet items (employers' pension schemes; activation of guarantees)
- Better reporting of government output (cost of capital of own assets; measurement of non-market output in volume)
- Better monitoring of government income and deficit (treatment of super-dividends, capital injections of public corporations)