

CONFERENCE OF EUROPEAN STATISTICIANS

For discussion and  
recommendations

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Agenda

## GLOBAL PRODUCTION AND FINANCIAL MARKETS<sup>1</sup>

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*The document presents recent developments in measuring global production focusing on financial statistics. Global production and financial markets is one of the areas on the research agenda of the Guide to Measuring Global Production, endorsed in 2015. The Bureau discussed the need for further work in the area, and considered the establishment of a small group to take stock of initiatives and current work on the financial behaviour of multinational companies and global producers, as suggested in Section III of this paper.*

### I. INTRODUCTION

1. Globalization has created new opportunities and competitive challenges driving producers to seek more efficient ways to manufacture their products. However, in recent years recording the globalized production arrangements in national statistics has become very challenging and this has driven statisticians to review their data sources and methods for measuring global production in order to produce high-quality statistics meeting users' needs.

2. In response to these challenges, the CES plenary session in June 2015 endorsed the *Guide to Measuring Global Production*.

3. The Guide provides comprehensive guidance to compilers of national accounts, balance of payments and related economic statistics, as well as to data users, on the challenges in collection, production and analysis of data related to global production arrangements. The Guide accordingly:

- Provides practical support on the implementation of the new statistical standards – the 2008 SNA and BPM6, in respect of global production arrangements.
- Includes examples and recommendations that aim to enhance understanding of global value chains and international comparability of related statistics.
- Reviews some unresolved conceptual challenges and emerging globalization phenomena not well addressed in the international statistical standards and proposes possible solutions and further research.
- Presents the experience of different countries in producing statistics on global production.

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<sup>1</sup> Disclaimer: for this note, various texts have been copied from the websites of international organisations.

4. The Guide also includes a set of conclusions and recommendations for future work. The work and further implementation is overseen by the UNECE Steering Group for National Accounts.

5. In the May 2016 meeting of the UNECE/Eurostat/OECD Group of Experts on National Accounts, a session was organised to discuss country experiences with implementation of the Guide. Good progress has been made, but one of the conclusions by a few participants was also that the work so far seems to be mainly focussed on goods, services and Intellectual Property Products (IPPs).

6. Global production arrangements and multinational companies do however affect a much broader range of economic statistics, both at macro level as well as business statistics. One of them being the (macro) financial statistics, such as the financial accounts, monetary statistics, statistics on macro-economic stability, etc.

7. This paper presents a number of international initiatives related to collection and monitoring of financial statistics that could potentially be affected by global production arrangements and where it might be beneficial to combine available experiences, knowledge and information with the UNECE work on Global Production. It then briefly justifies the need of further work on global production and concludes by a proposal to set up a small group (task force) that could continue the work.

## II. EXAMPLES OF INITIATIVES IN FINANCIAL STATISTICS

8. There are a number of initiatives with a (possible) link between UNECE Global Production work and compilation of financial statistics in an increasingly globalised world. In this section a few examples are mentioned.

### A. G20 Data Gaps initiative

9. The **G20 Data Gaps initiative** is a set of 20 recommendations on the enhancement of economic and financial statistics. The programme was launched in order to improve the availability and comparability of economic and financial data, as the turmoil that hit the markets - when the financial crisis broke out in 2007-2008 - highlighted the need of broader datasets for policy makers and supervisors to better assess the evolution of the economy, as well as the intervention required.

10. The burst of the financial crisis highlighted the degree of interconnection and integration of the economies and the markets worldwide. While the crisis was not the result of a lack of proper economic and financial statistics, it nonetheless caught supervisors, policy makers and investors unprepared by areas poorly covered by existing datasets.

11. On the one hand, as policy makers and supervisors soon realised, the information gaps identified at the time didn't lie in the quality of economics and financial statistics, already very high, but in their availability and comparability across countries. In particular, due to the interconnections amongst economies and financial institutions, information gaps emerged from exposures taken through complex instruments and off-balance entities, and from the cross-border linkages of financial institutions.

12. On the other hand, market players and investors were unsettled by uncertainty and lack of reliable information, with consequent negative repercussions on the stability of financial markets.

13. In April 2009, the G20 Finance Ministers and Central Bank Governors called on the International Monetary Fund (IMF) and the Financial Stability Board (FSB) to identify major financial and economic information gaps that needed to be filled and provide appropriate proposals for strengthening data collection'. As a result, a few months later, in September, IMF and the FSB presented the report that would launch the Data Gaps Initiative (DGI), along with the set of recommendations to be implemented in the years to come.

14. One of DGI leading initiatives is the Principal Global Indicators (PGI) website, which collects and disseminates comparable data for the G20 economies.

15. The Report, and the detailed action plan that followed, identified all the issues that need to be addressed and divided them into 20 recommendations, organised in four categories, which are currently being implemented. (The first recommendation, R1, being the implementation of a concrete action plan).

- *Monitoring risk in the financial sector (R2-R7)*. The need to better capture the build-up of risk in the financial sector is to be achieved through the following path: by strengthening the international reporting of current financial health and soundness of financial institutions (so-called Financial Soundness Indicators), especially by expanding the number of reporting countries; by developing measures of aggregate leverage and maturity mismatches in the financial system; and by improving coverage of risk transfer instruments, including data on the credit default swap markets.
- *International network connections (R8-R14)*. Data collection on international financial network connections is to be achieved by enhancing information on financial linkages of systematically important global financial institutions; and strengthening data gathering initiatives on cross-border banking flows, investment positions, and exposures, in particular, to identify activities of nonbank financial institutions.
- *Sectoral and other financial and economic datasets (R15-R19)*. The third group of recommendations is focussed on monitoring the vulnerability of domestic economies to shocks through: strengthening the sectoral coverage of national balance sheet and flow of funds data; promoting timely and cross-country standardised and comparable finance statistics; and working to disseminate more comparable data on real estate prices.
- *Communication in official statistics (R20)*. Amongst its recommendations to the G20, IMF and FSB pointed out the need for an enhanced communication in official statistics, as in some instances users were not fully aware of the available data series to address critical policy issues. A further step was required after the major improvements in the harmonisation and availability in economic and financial statistics, that had already been achieved as a consequence of the Mexican crisis first and the Asian crisis later.

16. More specifically the second group of recommendations International network connections (R8-R14 - see the figure below) has a direct link with global production issues and the related effects of the operations of multinationals that are discussed in the UNECE Guide.

International Network Connections	
<b>R8</b>	<p><b>Global Network Connections</b></p> <p>The FSB to investigate the possibility of improved collection and sharing of information on linkages between individual financial institutions, including through supervisory college arrangements and the information exchange being considered for crisis management planning. This work must take due account of the important confidentiality and legal issues that are raised, and existing information sharing arrangements among supervisors.</p>
<b>R9</b>	<p><b>Systematically important Global Financial Institutions</b></p> <p>The FSB, in close consultation with the IMF, to convene relevant central banks, national supervisors, and other international financial institutions, to develop by end 2010 a common draft template for systemically important global financial institutions for the purpose of better understanding the exposures of these institutions to different financial sectors and national markets. This work should be undertaken in concert with related work on the systemic importance of financial institutions. Widespread consultation would be needed, and due account taken of confidentiality rules, before any reporting framework can be implemented.</p>
<b>R10</b>	<p><b>Portfolio Investment Survey – International Banking Statistics</b></p> <p>All G20 economies are encouraged to participate in the IMF's Coordinated Portfolio Investment Survey (CPIS) and in the BIS's International Banking Statistics (IBS). The IMF and the BIS are encouraged to continue their work to improve the coverage of significant financial centers in the CPIS and IBS, respectively.</p>
<b>R11</b>	<p><b>Non-bank Financial Institutions – Funding patterns in the International Financial System</b></p> <p>The BIS and the CGFS to consider, amongst other improvements, the separate identification of nonbank financial institutions in the consolidated banking data, as well as information required to track funding patterns in the international financial system. The IMF, in consultation with the IMF's Committee on Balance of Payments Statistics, to strive to enhance the frequency and timeliness of the CPIS data, and consider other possible enhancements, such as the institutional sector of the foreign debtor.</p>
<b>R12</b>	<p><b>International investment Position</b></p> <p>The IMF to continue to work with countries to increase the number of International Investment Position (IIP) reporting countries, as well as the quarterly reporting of IIP data. The <i>Balance of Payments and International Investment Position Manual</i>, sixth edition (BPM6) enhancements to the IIP should be adopted by G20 economies as soon as feasible.</p>
<b>R13</b>	<p><b>Cross-border Exposures</b></p> <p>The Interagency Group on Economic and Financial Statistics (IAG) to investigate the issue of monitoring and measuring cross-border, including foreign exchange derivative, exposures of nonfinancial, and financial, corporations with the intention of promoting reporting guidance and the dissemination of data.</p>
<b>R14</b>	<p><b>International Exposures of Large Non-bank Institutions</b></p> <p>The IAG, consulting with the FSB, to revisit the recommendation of the G20 to examine the feasibility of developing a standardized template covering the international exposures of large nonbank financial institutions, drawing on the experience with the BIS's IBS data, other existing and prospective data sources, and consulting with relevant stakeholders.</p>

## B. Macroeconomic Imbalance Procedure

17. Another international initiative is the Macroeconomic Imbalance Procedure (MIP). This is an EU surveillance mechanism to detect and address economic trends that may adversely affect the proper functioning of a Member State, the euro area, or the EU. It aims to identify potential risks early on, prevent the emergence of harmful macroeconomic imbalances and correct the imbalances that are already in place.

18. The annual starting point of MIP is the Alert Mechanism Report (AMR). Based on a scoreboard of indicators, AMR identifies countries for which a closer analysis (in-depth review) is deemed necessary. The outcome of these in-depth reviews forms the basis for further steps under MIP whereby a graduated approach is followed reflecting the gravity of imbalances. The Commission may propose that the Council issues recommendations to countries identified with imbalances. Countries for which imbalances are considered excessive would be subject to an enhanced process of specific monitoring or could enter the Excessive Imbalance Procedure, which can eventually lead to sanctions for euro area Member States in case of reiterated lack of compliance with obligations.

19. With two of the headline indicators related to the financial statistics for the private sector (private sector debt (consolidated) in % of GDP with a threshold of 133% and private sector credit flow in % of GDP with a threshold of 14%) one can also envisage in this procedure the (potential disruptive) influence of global production and financial arrangement of large multinational enterprises and related measurement issues.

### C. European Central Bank Databases

20. To get a better grip on financial interconnectedness, the European Central Bank launched work on the establishment of databases with more granular data. Similar work is also done at other central banks (systems) and international organisations such as the BIS. We mention two initiatives, purely as an example.

21. The *AnaCredit initiative* by the European System of Central Banks (ESCB), will be a new dataset with detailed information on individual bank loans in the euro area. The name stands for “analytical credit datasets”. ECB launched the project in 2011 together with the euro area and some non-euro area national central banks. It will use new data and existing national credit registers to achieve a harmonised database that supports several central banking functions, such as decision-making in monetary policy and macroprudential supervision.

22. The main driver for the work is that crisis has shown that different economic sectors, as well as individual corporations and households in the different euro area countries, reacted in very different ways to economic shocks. ECB – for its policy purposes – has to be aware of, understand and monitor these developments.

23. ECB and the national central banks and authorities of the euro area have taken on new tasks in terms of macroprudential supervision. New tasks require new instruments and knowledge. Initially, AnaCredit is designed to deliver the necessary additional information for monetary policy and financial stability tasks. At a later stage, additional needs for banking supervision may be considered as well.

24. AnaCredit will be based on harmonised concepts and definitions and on a complete coverage for (at least) all euro area member states, ensuring more comparability. Therefore, it will improve the statistical information basis for the Eurosystem in a significant way.

25. A second example, the *Centralised Securities Database (CSDB)* is a single information technology infrastructure, which is operated jointly by the members of ESCB, including national central banks (NCBs) of non-euro area Member States where such NCBs voluntarily participate in the operation of CSDB. CSDB stores item-by-item data, in particular, data on securities, their issuers and prices.

26. The aim of the Centralised Securities Database (CSDB) is to hold complete, accurate, consistent and up-to-date information on all individual securities relevant for the statistical purposes of the European System of Central Banks (ESCB). This means securities issued by EU residents; securities likely to be held and transacted in by EU residents; and securities denominated in euro, whoever the issuer is and wherever they are held. CSDB contains information on over five million debt securities, equities and mutual fund shares/units issued by residents of EU Member States or by others.

27. The development of a single reference securities database in the ESCB – the Centralised Securities Database (CSDB) – is the cornerstone of the transition to security-by-security based securities statistics in Europe. Therefore, the project has the highest strategic priority for ESCB. CSDB aims to cover all debt securities (including those with a hybrid structure), shares and mutual fund shares issued or held by euro area residents, as well as all instruments denominated in euro. It currently contains around 4 million individual securities, for which the aim is to store up to around 300 attributes related to the instruments and the issuers; holder information may be added at a later development stage. It is currently sourced

by five commercial data providers, 14 EU central banks (NCBs) and internal sources of the European Central Bank (ECB), such as the Financial Markets Database.

### **III. NEW WORK TO BE CONSIDERED IN THE AREA OF GLOBAL PRODUCTION AND FINANCIAL MARKETS**

28. All the mentioned initiatives are potentially strongly influenced by the behaviour of global producers and multinational companies, both in the non-financial as well as in the financial sector. Certainly when disruptive events happen, such as the recent Irish GDP case shows, they have a major impact on a broad range on macro-economic and business statistics, such as national accounts, Balance of Payments, financial statistics, turnover statistics, Foreign Affiliate Trade Statistics, Foreign Direct Investment, etc.

29. Global production arrangements should be evaluated in an integrated manner, looking at all the statistics affected and not only at the production accounts, imports/exports and international investment position. There is a need to link with the financial statistics. **The UNECE work on global production can (and needs) to be broadened in this respect e.g. by looking at the effects on the financial accounts and balance sheets or the financial statistics produced by central banks.**

30. Another reason for this is that the financial behaviour of global producers and multinational companies is even more volatile. While it takes certain time to physically relocate a factory or (part of the) company's value chain from one country to another, the financial structure of the companies can and will indeed change overnight. This will make it even more challenging to produce statistics in the future and keep our statistics relevant.

31. Further international cooperation to address the above issues is needed. The work should also involve the central banks and the related international bodies. Their knowledge and expertise will help national statistical offices to even better understand globalisation issues.

32. **A way forward may be to set up a small group under the CES Bureau, to take stock of initiatives, to enhance the knowledge of the work of central banks and related international bodies on the financial behaviour of multinational companies and global producers and prepare a roadmap/proposal for future research.**

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