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**“PRELIMINARY RESULTS OF THE CHILEAN PROJECT ON INSTITUTIONAL QUARTERLY ACCOUNTS, WITH A SPECIAL EMPHASIS ON THE EFFECTS OF THE RECENT CRISIS”
PRELIMINARY DRAFT**

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TABLE OF CONTENTS

1. Introduction.....	3
2. Progress status of the project and preliminary results.....	4
3. Upcoming activities.....	9
Annex: Categories of sectors and instruments.....	10

**“PRELIMINARY RESULTS OF THE CHILEAN PROJECT ON INSTITUTIONAL
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PRELIMINARY DRAFT

(DOCUMENT IN PROGRESS; DO NOT CITE)

1. Introduction

An initiative to develop measurement of institutional accounts on a quarterly basis has been underway since 2008. This initiative is based on the experience gained with the annual measurements performed by the Department of National Accounts, and has benefited from the methods and sources of information used by the Bank of Spain for computing financial accounts.

Pursuant to the definitions and conceptual framework of the System of National Accounts 1993 (SNA93), the Institutional Quarterly Accounts (IQAs) offer comprehensive data on financial and non-financial transactions performed by households, the government, financial institutions and corporations, and between these and the rest of the world.

The IQAs provide a complete picture of the activity cycle of a sector, from production to generation and use of income for consumption or saving, equity transactions and, finally, acquisitions of financial assets and liabilities, broken down by financial instrument and counterparty sector. Likewise, IQAs offer financial balance sheets disclosing stocks of assets and liabilities, and accounts reconciling transactions with in balance sheet changes.

The results of the IQAs, particularly those of the corporate and household sectors, are highly useful for performing projections and economic analysis. The exercise of reconciling in a single consistent structure all of the available economic and financial information compiled within the SNA93 framework enhances the validity and homogeneity of the data, as well as its usefulness for monetary policy analysis. Additionally, IQAs may also be used to analyze issues related with financial stability. It is thus very important to have information on transactions and balances of the financial statements of each economic sector.

Finally, it should be mentioned that the IQAs offer a framework that allows for assessing the consistency of available data with similar or higher frequency, particularly with relation to monetary statistics, balance of payments, issuance of debt securities, and public finances.

The purpose of this document is to portray the progress status of the project and to share the first results, which are still being assessed and analyzed, with relation to balance sheet structure and financial transactions.

2. Progress status of the project and preliminary results

a) *Progress status of the project*

In executing the work schedule of the project, methods, processes and a work team have been created, for the purpose of developing the quarterly compilation of the accounts of the institutional sectors.

- **Methodologies.** Based on the methods used for performing annual compilations, which have been developed and published by the Department of National Accounts since the early nineties, a quarterly frequency has been implemented, with the same level of detail by sectors and instruments¹ (see annex 1), and using complete individual financial statements as the only source of information.
- **Processes.** Processes have been developed for managing basic information and for linking it with the method of structuring of accounts. Additionally, an IT platform was implemented (relational database), which gathers and standardizes the accounts related to each sector, and then proceeds to their synthesis, compatibilization and diffusion.
- **Work Team.** A work team was created and granted specific responsibilities within each sector (Government, Finances, Corporations), and in relation with financial instruments (securities market).

At present, preliminary progress has been made on Institutional Quarterly Accounts which, as to its financial aspect, covers the 2008q1–2009q4 period. This includes quarterly balance sheets by institutional sector, as well as a breakdown of the difference in balances among transactions, revaluations, and other flows. Additionally, from a non-financial perspective, a series of quarterly accounts has been developed for the General Government and Household sectors.

b) *Preliminary results.*

Balance sheets at institutional sector level.

For the **Household**² institutional sector, the preliminary results of the IQA project show that its main assets are the technical reserves of life insurances and pensions. Also worth singling out are its holdings of deposits, shares, and interests in investment funds.

Based on an international comparison³, Figure 1 shows that the asset composition of the financial balance sheet of Chilean Households is quite similar⁴ to that of other countries such as Denmark, Holland, Sweden, United Kingdom, Switzerland, Ireland, and France, all of which have a high share of pension and insurance reserves in their total financial assets. However, similarity is minimum when comparing the balance sheet structure of Chilean households with that of other countries, such as Austria, Czech Republic, Slovenia, Greece, etc., which show a significant share of cash and deposits in their asset portfolios.

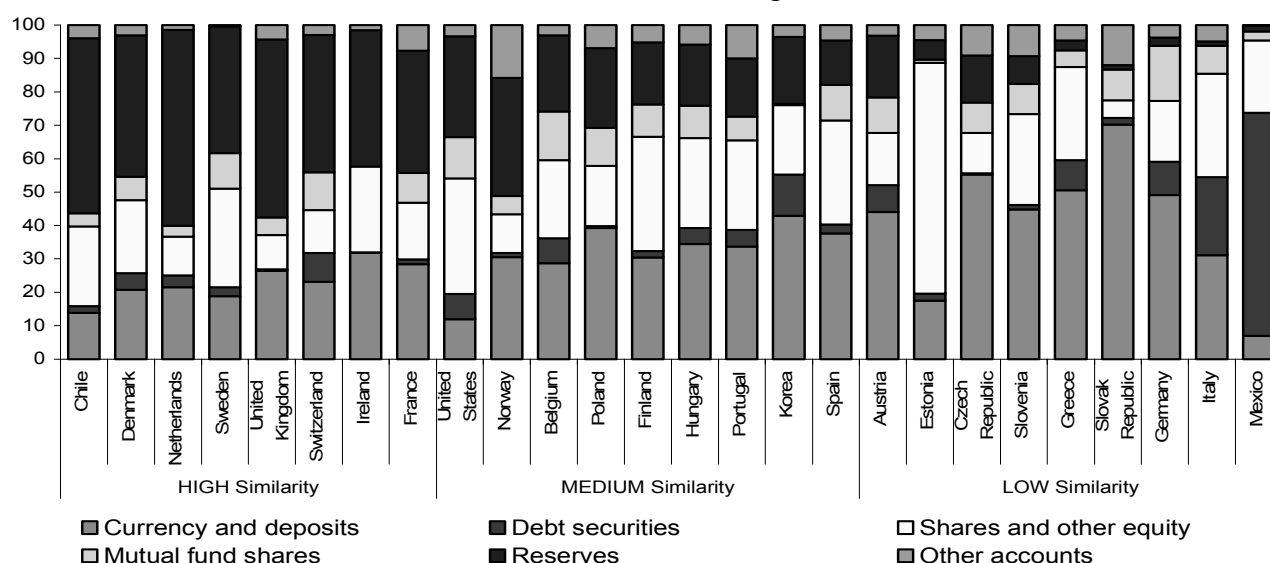
¹ Compilation of pre-reconciled sectorial accounts applies the same breakdown level by sectors and instruments as that used for annual frequency accounts. However, the quarterly synthesis process is done at a lower breakdown level.

² It includes non-profit private institutions serving households (NPISHs).

³ Source of data: http://stats.oecd.org/Index.aspx?DatasetCode=SNA_TABLE710

⁴ The similarity degree was determined by correlating percentage structures present in the asset portfolio of each country with respect to that of Chilean households.

Figure 1. Comparison of Household sector balance sheets of OECD countries.
Detailed financial assets. Percentage structure.

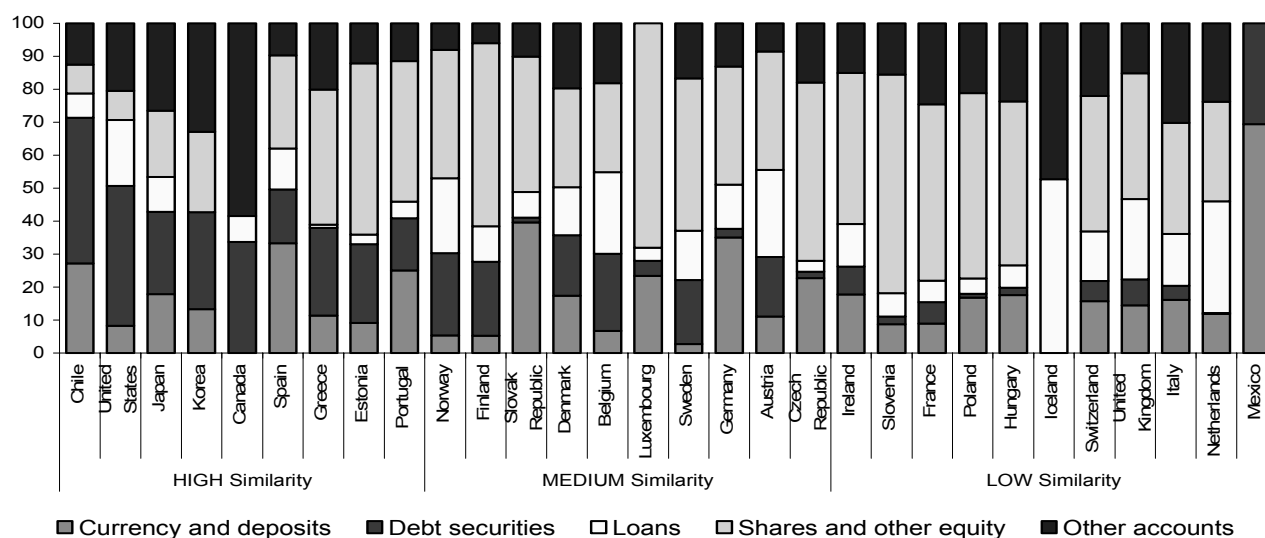


Source: Own calculations based on data obtained from the OECD and the Central Bank of Chile.

The Chilean **General Government** sector balance sheet shows a significant holding of securities and deposits, consistent with the information available on sovereign funds held abroad, which are disclosed within the International Investment Position of Chile.

As compared with the OECD countries, the financial asset composition of the general Government sector is similar to that of countries such as the United States, Japan, and South Korea. In general, the rest of the OECD countries show a higher share of the “shares and other equity” in their assets, which is probably due to the higher contribution of the general Government to productive activities via the ownership of public companies.

Figure 2. Comparison of general Government sector balance sheet of OECD countries.
Detailed financial assets. Percentage structure.

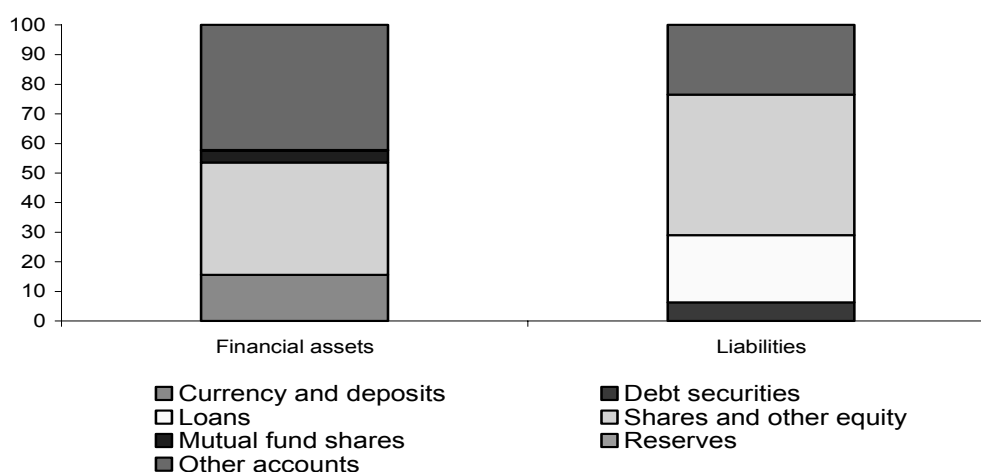


Source: Own calculations based on data obtained from the OECD and the Central Bank of Chile.

In turn, general Government liabilities show a higher financing level through the issuance of securities other than shares, than through loan contracting. All in all, the most remarkable feature of the debt of the Chilean general Government sector is its low share in GDP, which amounted to just 15% in 2008.

Regarding asset composition of the non-financial corporations sector, commercial loans (“Other Accounts” in Figure 3) and holdings of shares and other equity jointly represent 80% of the total financial assets. On the liabilities side, the main components of this sector are: financial net worth (47% of liabilities), accounts payable (24%), and financing mainly by loan-taking (23%).

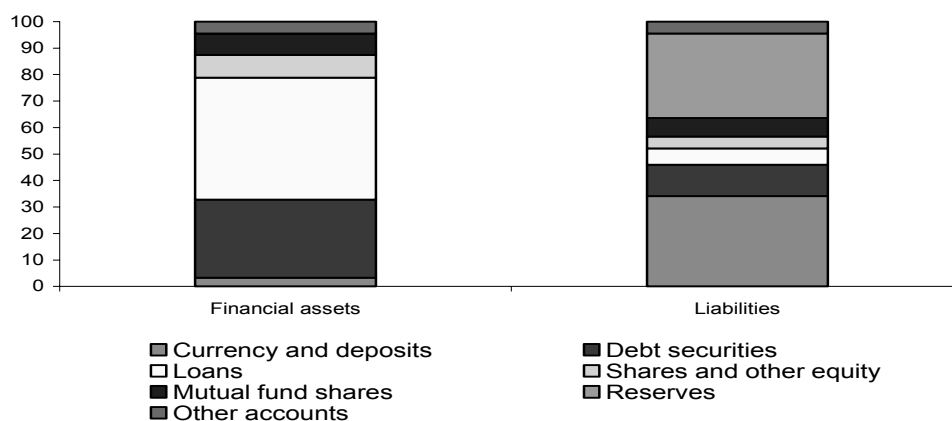
Figure 3. Balance sheet of the Chilean Non-financial Corporations sector.
Detailed assets and liabilities. Percentage structure.



Source: Own calculations based on data obtained from the Central Bank of Chile.

For the **Financial Corporations** sector, balance sheet statistics of the Central Bank, Financial Intermediaries, Auxiliaries, Insurance Corporations, and Pension Funds subsectors offer data used for estimating currency and deposits holdings, and financial investments in securities and shares and other equity. The preliminary results of the IQA project show that the financial sector holds an asset portfolio mainly focused on loans (46%) and securities other than shares (29%); within liabilities, it is worth noting the relative importance of currency and deposits and insurance reserves.

Figure 4. Balance sheet of the Chilean Financial Corporations sector.
Detailed assets and liabilities. Percentage structure.



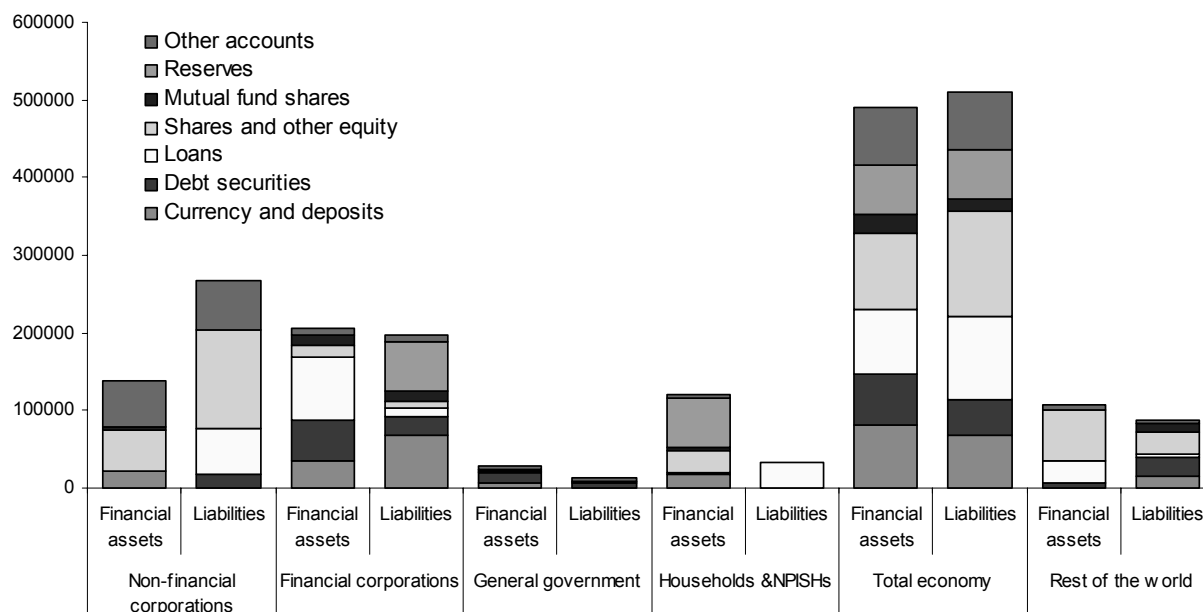
Source: Own calculations based on data obtained from the Central Bank of Chile.

The horizontal summation of asset and liability positions of each of the resident institutional sectors evidences an unconsolidated order of magnitude equal to 5.5 and 5.7 times the GDP in assets and liabilities, respectively. The difference is consistent with the estimated amount of the net International Investment Position as of December 2008.

Figure 5 shows a summary by institutional sector of the composition of financial assets and liabilities.

Figure 5. Financial balance sheet by institutional sector, as of 31 December 2008.

Billions of pesos.



Source: Own calculations based on data obtained from the Central Bank of Chile.

Preliminary evidence of the financial and economic crisis in the accounts of the Chilean institutional sectors.

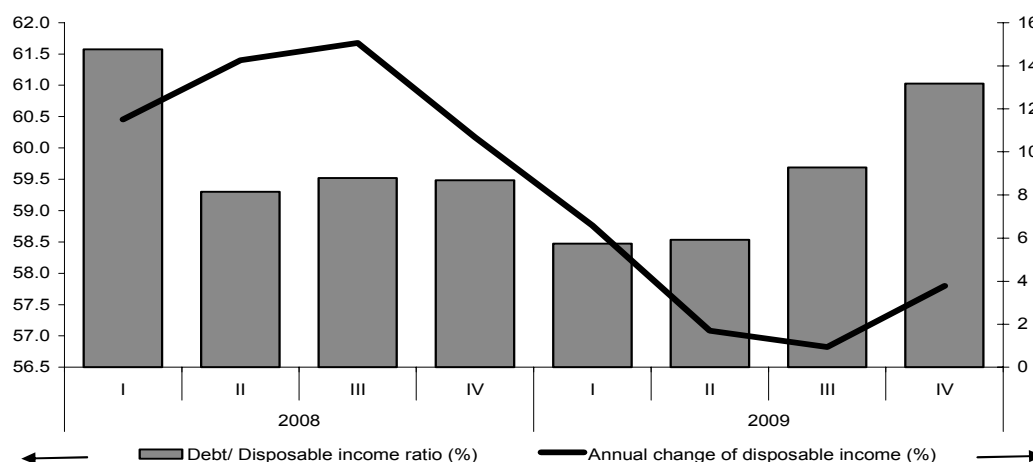
Since the onset of the financial crisis in late 2007 and the more severe disaster caused by the *Lehman Brothers* bankruptcy and the credit market collapse in the second half of 2008, interest in the Chilean financial and economic performance has grown increasingly.

In this context, the availability of timely and current information on income, expenditure and savings of each sector, as well as the wide range of data contained in balance sheets, financial flows, and international investments, will broaden the potential for analysis based on macroeconomic aggregates organized under an accounting system structure. Additionally, the combination of financial and non-financial data will allow analysts to know the financing capacity, the flow of loans, and the net worth of the different sectors.

The example below shows how, based on the preliminary results of the financial and non-financial IQAs, it is possible to identify impacts of the financial crisis in the Households sector.

The financial balance sheet of Households changed remarkably during the crisis. The indebtedness of this sector shrunk from a 62% of the disposable income by early 2008, to a 58% during the most severe part of the crisis (Figure 6). This took place in a context where the disposable income of households grew at a pace that was, comparatively, the lowest one in the past 5 years.

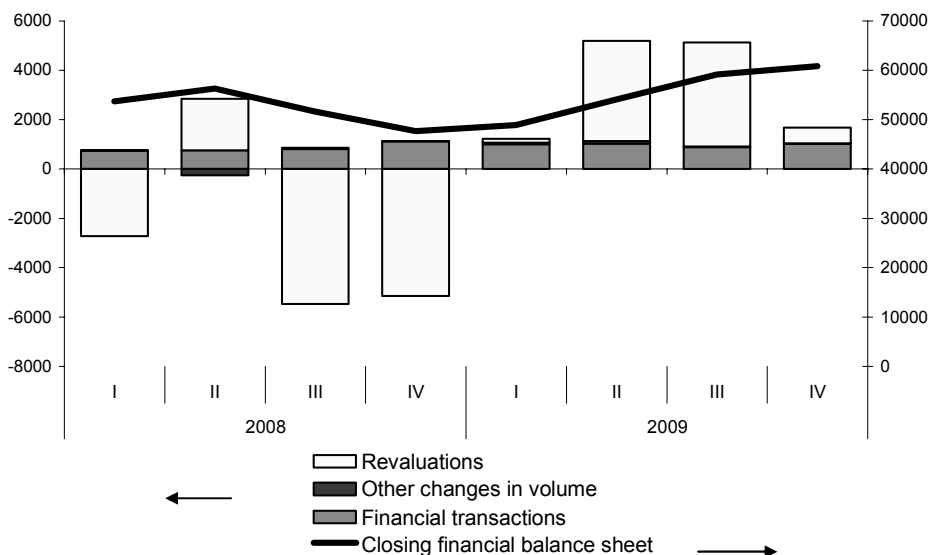
Figure 6. Debt/Income ratios of households and changes in disposable income.
Percentage.



Source: Own calculations based on data obtained from the Central Bank of Chile.

Additionally, from an asset point of view, Chilean households were affected by the financial markets' turmoil, particularly in their main asset: Pension fund reserves. As shown in Figure 7, pension funds losses from revaluations amounted to the equivalent of 13% of GDP during 2008. Although during 2009 there was a recovery in the value of investments representing said funds, this recovery could not make up for the loss carried forward from the prior year.

Figure 7. Changes in pension fund reserves.
Billions of pesos.



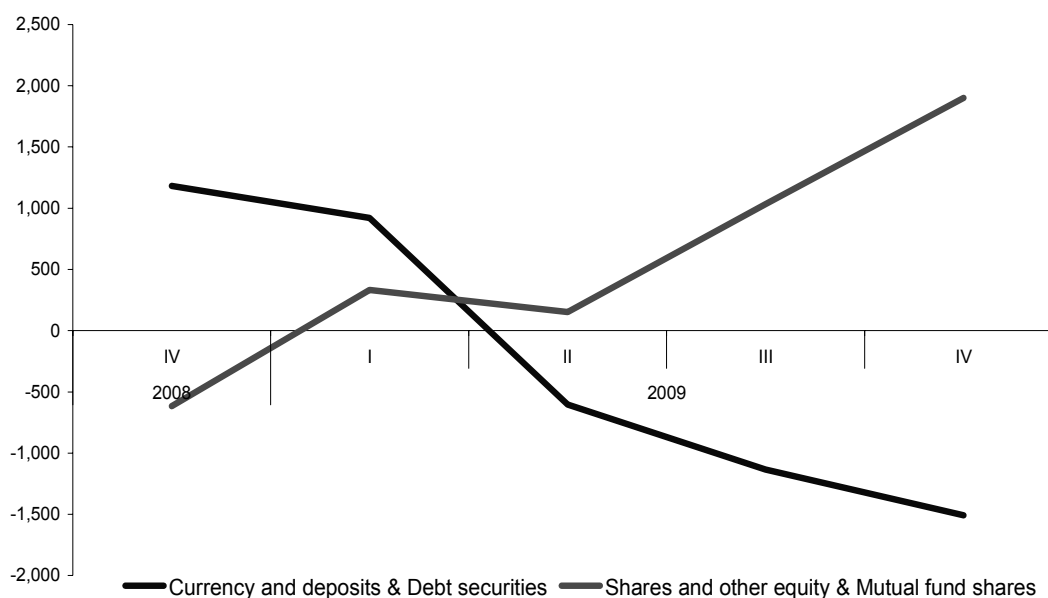
Source: Own calculations based on data obtained from the Central Bank of Chile.

Regarding the financial behavior of households, a gradual return has been noted towards investments offering a higher return, to the detriment of securities and deposits holdings.

In fact, by late 2008, net investments in securities and deposits had reached \$1,184 billion pesos, while those pertinent to stocks and investment fund shares decreased by \$618. In turn, by late 2009, the

situation was completely the opposite: deposits and securities dropped by \$1,510 billion pesos, and holdings of stocks and fund shares rose by \$1,901 billion (Figure 8).

Figure 8. Financial transactions of Households.
Billions of pesos.



Source: Own calculations based on data obtained from the Central Bank of Chile.

3. Upcoming activities

During the coming months, work will go on in determining sectorial counterparts for financial instruments, bonds, shares, and commercial loans. As to bonds, a new administrative record will be used, originated in the custody of securities carried out by the Central Securities Depository in Chile⁵.

Also, within the framework of the IQA statistical overall closing, a comprehensive assessment will be carried out to check the consistency of financial and non-financial accounts, mainly for the Household and non-financial Corporations sectors.

Simultaneously with the above activities, progress will continue to be done as to the extension of available time series, to cover the period ranging from the first quarter of 2005 to the second quarter of this year.

Finally, publication of this new statistic is projected for the second quarter of next year. Before that, several activities are being planned for both internal and external dissemination, aiming at validating consistency of results, as well as the performance of a second consulting procedure by an international expert.

⁵ The Central Securities Depository (CSD) is a Corporation organized as per Law 18,876 and related regulatory provisions and directions issued by the Superintendency of Securities and Insurance (SSI). The CSD is empowered to receive deposits of publicly traded securities, thereby making it easier to transfer said securities among depositors, as per procedures stipulated by the above mentioned Law.

Annex: Categories of sectors and instruments

Comparison between the current annual breakdown and the projected quarterly breakdown

Institutional sectors

Quarterly breakdown		Annual breakdown	
S.121	Central Bank	31	Central Bank
S.122	Banks and Credit Unions	321	Commercial Banks
		322	Savings and Credit Cooperatives
S.123	Other financial intermediaries (OFIs)	33	Other financial intermediaries (OFIs)
S.126	Pension fund	34	Pension funds
S.125	Insurance corporations	35	Insurance corporations
S.124	Financial auxiliaries	36	Financial auxiliaries
S.13	General government	4	General government
S.11	Non-financial corporations	5101	Public companies and quasi-companies
		51021	Quoted companies
		53	Rest of the economy
S.14	Households and NPISHs		
S.2	Rest of the world	6	External Sector

Financial instruments

Quarterly breakdown		Annual breakdown	
AF.1	Monetary gold and SDR	1	Gold and SDR
AF.21	Legal currency	211	Banknotes and coins. Domestic currency.
		212	Banknotes and coins. Foreign currency.
AF.22	Deposits	221	Deposits in checking accounts. Domestic currency
		222	Deposits in checking accounts. Foreign currency.
AF.29	Other deposits	231	Other deposits. Domestic currency.
		233	Other deposits. Foreign currency.
AF.31	Securities other than shares. Short-term	311	Securities. Short-term. Domestic currency.
		321	Securities. Short-term. Foreign currency.
AF.32	Securities other than shares. Long-term	322	Securities. Long-term. Domestic currency.
		323	Securities. Long-term. Foreign currency.
AF.41	Short-term loans.	411	Short-term loans. Among financial institutions. Domestic currency.
		413	Short-term loans. Among financial institutions. Foreign currency.
		421	Short-term loans. Among other institutional units. Domestic currency.
		423	Short-term loans. Among other institutional units. Foreign currency.
AF.42	Long-term loans.	511	Long-term loans. Among financial institutions. Domestic currency
		513	Long-term loans. Among financial institutions. Foreign currency.
		521	Long-term loans. Among other institutional units. Domestic currency.
		522	Long-term loans. Among other institutional units. Foreign currency.
AF.5	Shares and other equity, excl. AF.521	61	Shares and other equity, excl. 24
AF.521	Mutual fund shares	24	Mutual fund shares
AF.612	Reserve of pension funds	72	Reserve of pension funds
AF.611	Reserves of life insurance	81	Insurance technical reserves
AF.612	Reserves for premiums and claims		
AF.7	Trade credit	911	Trade Credit and advance payments. Domestic currency
		913	Trade Credit and advance payments. Foreign currency.
			Adjustments and inconsistencies. Errors and omissions. Financial derivatives.
AF.34	Financial derivatives	111	
AF.71	Statistical adjustment		
AF.9	Errors and omissions		