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Financial accounts and economic analysis at the ECB – a few examples

Financial Accounts Workshop
Brussels
14 November 2022
Presentation outline

1. Financial projections in the context of the Eurosystem forecasting exercise
2. NFC leverage and financing
3. Vulnerability of household sector
4. Financial intermediation
<table>
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<th>Financial projections in the context of the Eurosystem forecasting exercise</th>
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<td>2</td>
<td>NFC leverage and financing</td>
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<td>4</td>
<td>Financial intermediation</td>
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Part of the ESCB/ECB projection exercises since mid-2003

Projections cover now:
- all new transactions (net) occurring between the non-financial corporate (NFC) and household sectors vis-à-vis other sectors of the economy (Monetary Financial Institutions, Other Financial Institutions, Insurance Corporations and Pension Funds, General Government and Rest-of-the-World);
- balance sheet positions of the NFC and household sectors for each instrument for which data exist in the euro area accounts;
- both on the assets and liabilities sides.

Full set of financial projections produced for the euro area as a whole (based on quarterly data).

Financial projections derived conditional on growth and price projections as well as forecast technical assumptions.
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NFC leverage and financing

Extract from the ECB’s Financial Stability Review (Nov. 2022)

a) Composite indicator of corporate vulnerabilities and contributing factors

(Q1 2004-Q1 2024E, z-scores)

- Debt servicing capacity
- Leverage/indebtedness
- Financing/rollover
- Profitability
- Activity
- Composite

b) Ratio of sales and EBIT to total assets for euro area non-financial corporations

(Q1 2000-Q4 2021, percentages)
An important analytical tool for this analysis is the who-to-whom tables:

### EURO AREA
Who-to-whom detail

#### 4.1.6 Listed shares by counterpart sector
*(EUR billions, current prices)*

<table>
<thead>
<tr>
<th>INVESTMENT</th>
<th>FINANCING</th>
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<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>2022 Q1</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>-22.5</td>
</tr>
<tr>
<td>Non-financial corporations</td>
<td>43.8</td>
</tr>
<tr>
<td>MFIs</td>
<td>-6.6</td>
</tr>
<tr>
<td>Non-MMF investment funds</td>
<td>-81.5</td>
</tr>
<tr>
<td>Other financial institutions</td>
<td>17.6</td>
</tr>
<tr>
<td>Insurance corporations and pension funds</td>
<td>-1.0</td>
</tr>
<tr>
<td>General government</td>
<td>-1.7</td>
</tr>
<tr>
<td>Households</td>
<td>12.8</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>-5.8</td>
</tr>
</tbody>
</table>
Example: role of financing providing sectors in the external financing of euro area NFCs

By type of financial instrument (left panel) and as a share in total euro area NFC liabilities (right panel)

(percent; annual data; 2013 to 2019)
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Vulnerability of household sector

a) Debt- and gross interest-to-gross disposable income ratios

(Q1 2003-Q4 2021, percentages)

- Debt-to-gross disposable income ratio
- Gross interest payments-to-income (right-hand scale)

b) Inflation and consumer confidence

(Jan. 2019-Apr. 2022, left-hand scale: percentages, right-hand scale: index)

- HICP
- Consumer confidence (right-hand scale)
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The role of euro area non-MFIs in financial intermediation

- **Financial crisis:** increased focus on non-bank financial institutions
  - => G20 Data Gaps Initiative
  - => New and enhanced ECB reporting for Investment Funds, Insurance Corporations, Pension Funds, Systemic investment firms (large Securities and Derivative Dealers), Financial Vehicle Corporations

- However, a gap has increased over time regarding Other Financial Institutions:

![Financial corporations by sub-sector](chart.png)
The role of euro area non-MFIs in financial intermediation

ECB press release 28 October 2022:
As of October 2022, the quarterly financial accounts published by the European Central Bank provide a more detailed breakdown of other financial institutions (OFIs), which, after monetary financial institutions (MFIs – i.e. banks and money market funds), constitutes the second largest financial sector in the euro area.
The new breakdown distinguishes other financial intermediaries, financial auxiliaries, and captive financial institutions and money lenders.
• **Financial projections:** focusing on key sectors and indicators sufficient => typically some additional variables included in more encompassing models.

• **Balance sheet analysis:** needs to rely on a number of indicators and models to complement the assessment of the state of the economy.

• **Households vulnerability and other real-financial linkages:** VAR (and structural) models can help to quantify potential impacts / best to integrate to main projection models.

• **The rising role of non-MFIs:** to be assessed for its possible repercussions on monetary policy transmission.