Classification of financial sub-sectors

The ISWGNA discussed a proposal to have nine sub-sectors of financial institutions with flexibility on aggregation. It was agreed that the discussion of the sub-sectors would continue to be in chapter 4 but the use of the sub-sectors would be in chapter 25.

The same group of IMF staff who discussed the classification of asset, described above, also discussed this proposal on sectoring. They had only one suggestion, though this was a very strong preference. This was to change the name of the second sub-sector from “other depository corporations” to “other deposit-taking corporations”.

Attached is a note on the proposed sub-sectoring with this amendment included.

Sub-sectoring the Financial Corporations sector

The ISWGNA accepted that sub-sectoring the financial sector by type of financial institutions is only needed for flow of fund (FOF) type analyses and this application should be described in a chapter making the link to monetary and financial statistics (chapter 25) and not in the main chapter (11) on the financial account. Within chapter 25, a degree of flexibility over how much detail to show should be allowed. What needs to be agreed are the common building blocks from which aggregates can be formed.

In all, up to nine sub-sectors could be specified, as detailed below. However, these nine plus the other full sectors of the SNA plus the ROW would give a total of 14 sectors and sub-sectors so due to/due from tables would require 196 cells for each type of instrument which is generally held to be too resource intensive to compile and too confusing to analyse. The MFSM advises that fewer categories are needed for FOF analysis than SNA shows. The latest comment from the ECB (Werner Bier's letter to Rob Edwards) also suggests working with fewer sub-sectors.

By specifying the full nine sub-sectors but suggesting that some aggregation would be useful, flexibility is provided for country specific depending on local conditions. In particular, there would be freedom over whether to include money market funds with depository corporations or with investment funds. The nine sub-sectors are as follows:

1 Central bank, as now

2. Deposit-taking corporations other than Central bank. This corresponds to "other depository corporations" as now and is a change of terminology only. The change is proposed so that the existing term "depository corporation" can be used in an enlarged sense as explained below.. The present split between deposit money corporations and other other depository corporations now seems unnecessary and could be dropped.

3. Money market funds

4 Investment funds, other than MMF

5 Other financial intermediaries except insurance corporations and pension funds (ICPF) Same title as now but excludes investment funds

6. Financial auxiliaries

7. Other financial institutions, except ICPF. This is a new heading. It would include corporate or quasi-corporate money lenders and may include some SPVs and holding companies.

8. Insurance companies (IC)

9 Pension funds (PF)

Suggested possible combinations are as follows

1 +2: Depository corporations

To this could be added some or all of 3. An MMF is organised in a way similar to other investment funds in that both represent a way of offering shares in a basket of financial instruments. However, the instruments differ between MMFs and other investment funds; the instruments held are exclusively short-term securities in the former case and primarily equity (and possibly real estate) in the second. This in turn means that MMF shares may be treated as broad money and when this is so, it makes sense to include them with the central bank and depository corporations so that all units offering instruments include din broad money were grouped together. If MMF shares are not treated as broad money, there is no case to include these with depository corporations. (My supposition is that in making their recommendation, the AEG focussed only on the similarity of organisation of investment funds and MMFs and not on the differing nature of the instruments used and nature of the shares. The voices emphasising these latter are sufficiently strong and well argued that I feel we should allow the flexibility suggested here to accommodate them.)

3 +4 could be combined if 3 is not merged with 1 and 2.

5+6+7 could be combined to show all other financial institutions.

1+2+3+4+5 could be combined to show all financial intermediaries

6+7 could be combined

8+9 could be combined.

Whatever the chosen combination of sub-sectors, probably three (or four if the central bank is treated as a sub-sector on its own) should be sufficient. At the same time, it is probable that household and NPISHs may be combine or possibly including non-financial corporations only so that instead of 14 sectors and sub-sectors there may be only 6 or 7 featuring in the FOF.