

WHY DO CENTRAL BANKS NEED AN IN-HOUSE CENTRAL BALANCE SHEET OFFICE?



BANCO DE PORTUGAL
EUROSYSTEM

Luís Teles Dias • Deputy Director | Statistics Department

October 2017

III Meeting of the Financial Information Forum
of Latin American and Caribbean Central Banks



01

WHAT kind of information is collected?

- Framework
- Core characteristics

02

HOW does it work?

- The Portuguese case

03

WHY the need of a Central Balance Sheet Office?

- Potential uses and advantages
- Examples taken from Banco de Portugal experience

AGENDA

WHAT

kind of information is collected?

01

FRAMEWORK

- The Central Balance Sheet Office (CBSO) is an **economic and financial** database on **non-financial corporations** in Portugal
- **Annual information based on accounting data** (Balance-sheet and Income statement)



CORE CHARACTERISTICS



+400 thousand
corporations



+3,000
indicators



Granular
individual data

Quality
control checks



Dissemination
of individual and aggregated
information



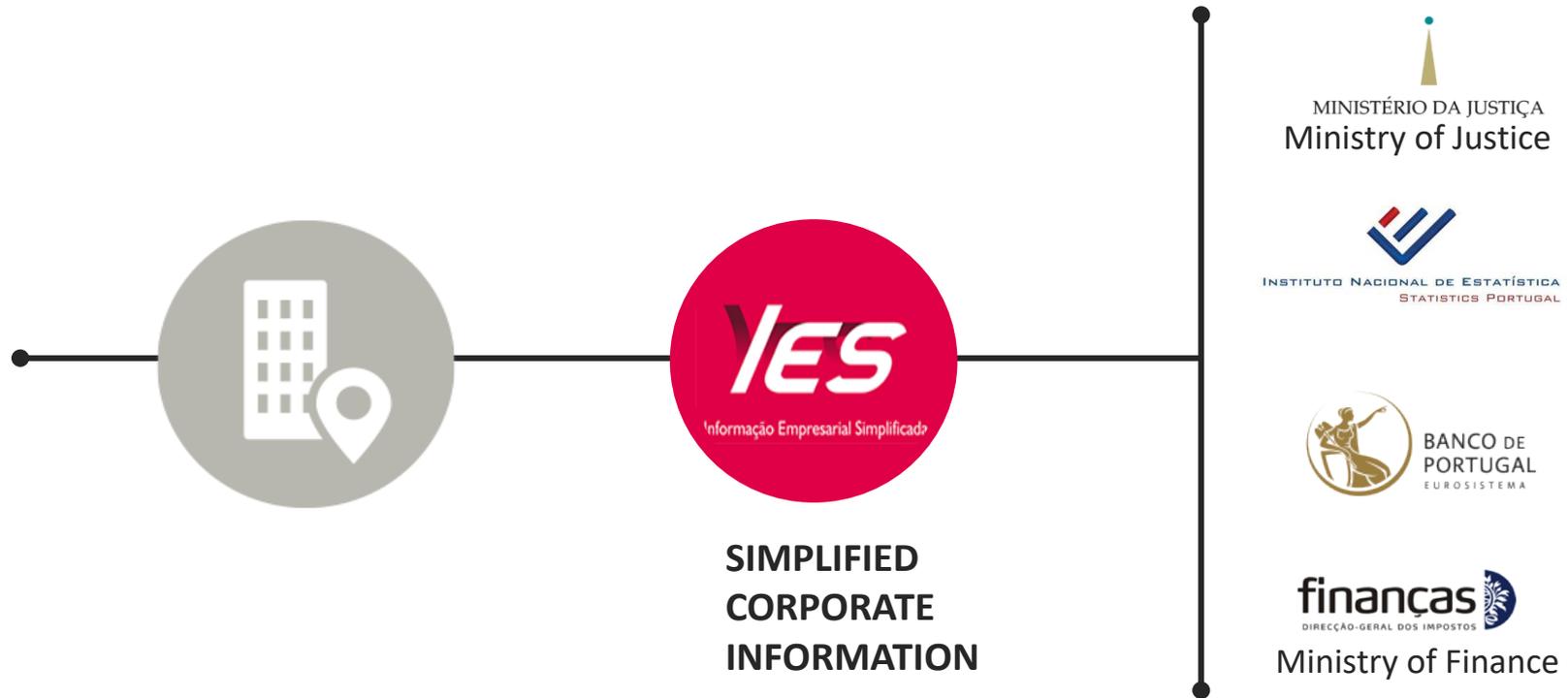
100% level of coverage

HOW

does it work?

02

THE PORTUGUESE CASE



one single reporting serving multiple purposes



KEY SUCCESS FACTORS

Political commitment and high level steering

Data sharing protocols between the partners

Financial support

Early involvement and close cooperation among all players

Initiative, persistence and flexibility to change and to think globally

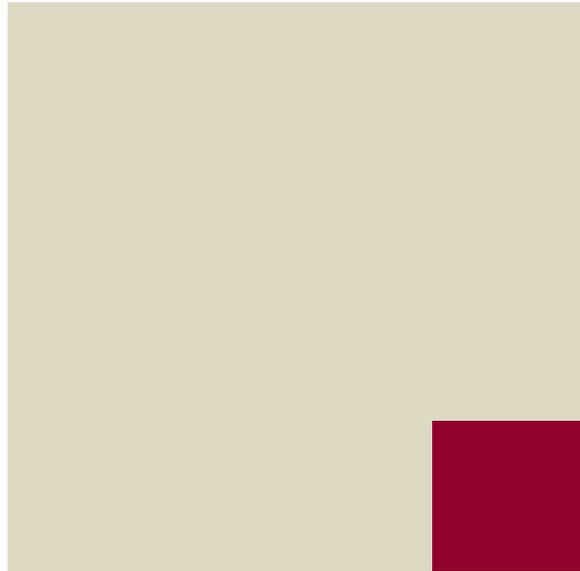
Extensive use of administrative data

Electronic submission

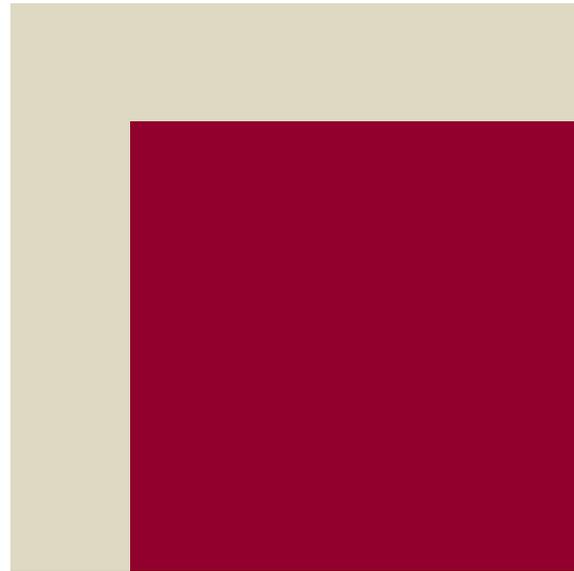
Golden rule: no reporting overlaps



Number of corporations



Gross Value Added



A “quantum leap”
for the CBSO

● Coverage before IES

● Coverage after IES

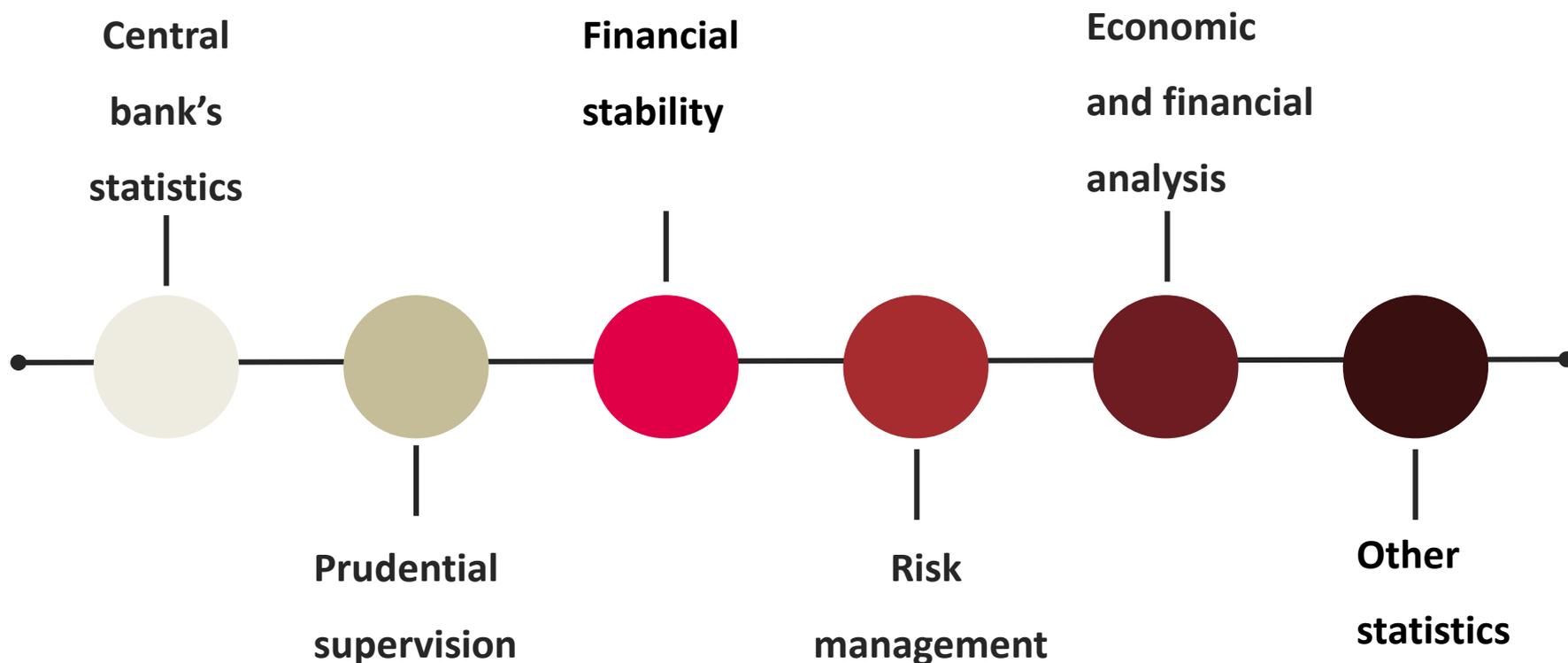
Vast increase in the quantity and detail of available data ⇒ boosting statistics to a higher level of quality and coverage

WHY

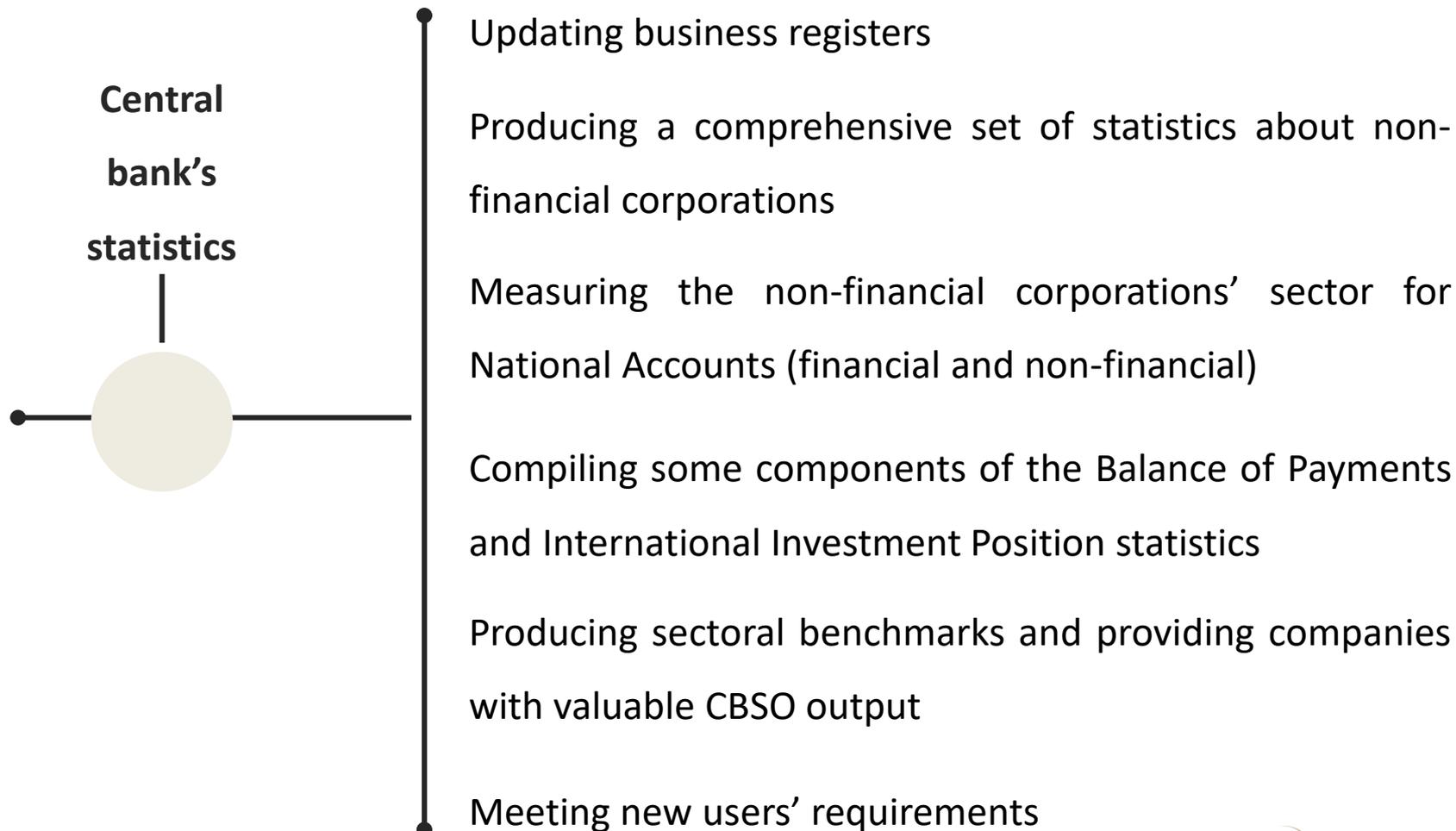
the need of a Central
Balance Sheet Office?

03

POTENTIAL (INTERNAL) USES ...

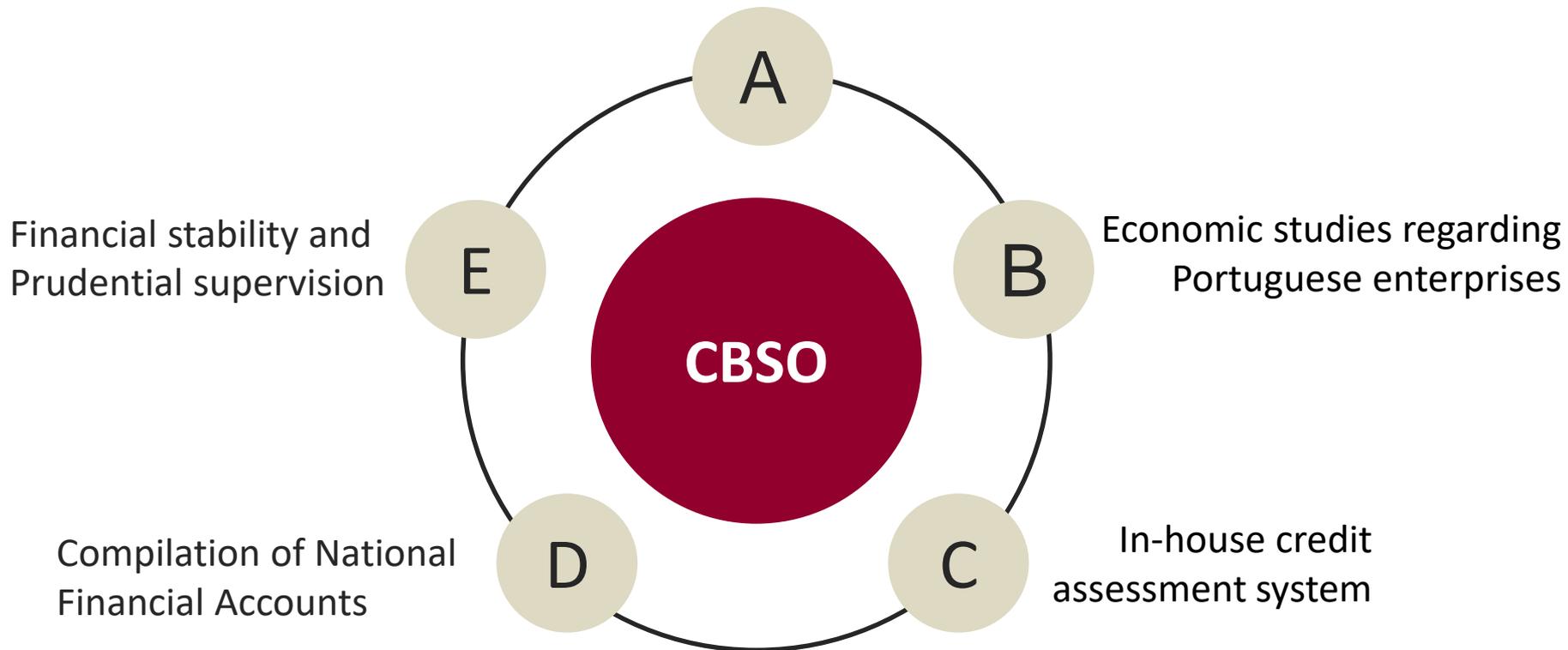


... AND ADVANTAGES



BANCO DE PORTUGAL EXPERIENCE

Serving the corporate sector



A

Serving the corporate sector

(Two long-standing products of the CBSO)

How do I
compare with
my competitors?

1 Sector tables



General public



a **sector** is an aggregation of firms of the same sector of activity and of the same size class (micro, small, medium, large and total)

- **Characteristics of the sector:** No. of firms, representativeness, ...
- **BS, P&L items and cash flows:** Distribution indicators (averages, trimmed averages and quartiles)
- **Economic and financial ratios:** averages and quartiles
- **European economic and financial ratios (BACH Database):** averages and quartiles

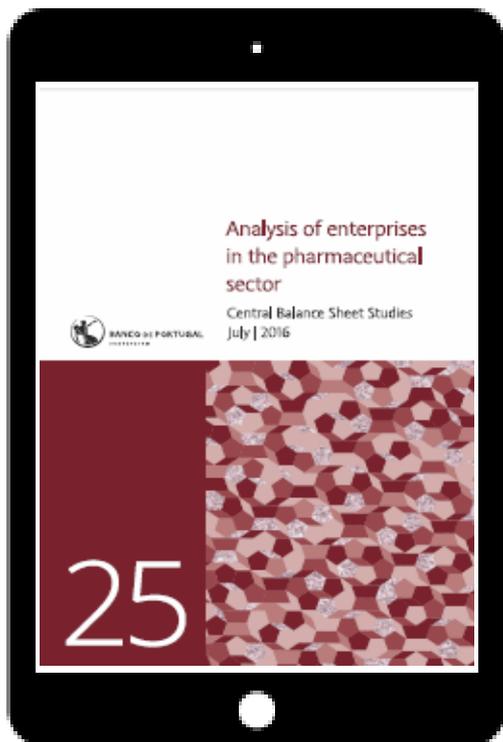
2 Enterprise & sector tables



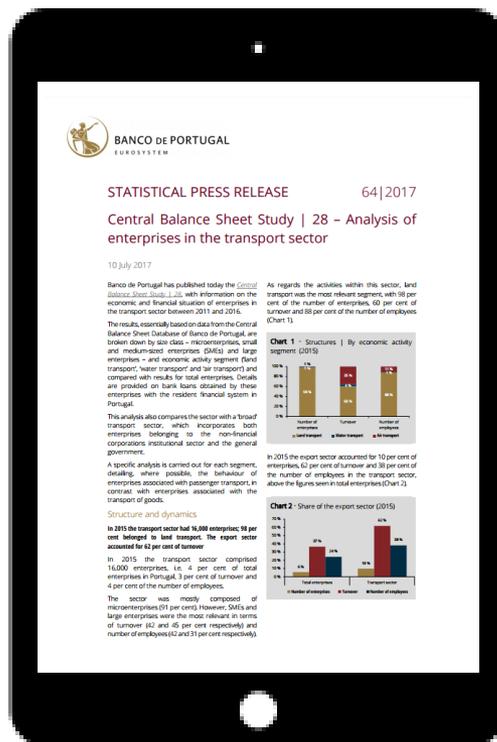
One for each firm of the CBSO

- The same set of indicators of the “sector tables” calculated for each firm and presented side-by-side with the ones of the respective sector

B Economic studies regarding Portuguese enterprises



Central Balance Sheet studies



Regular statistical press releases



Proximity with business associations and with the real economy

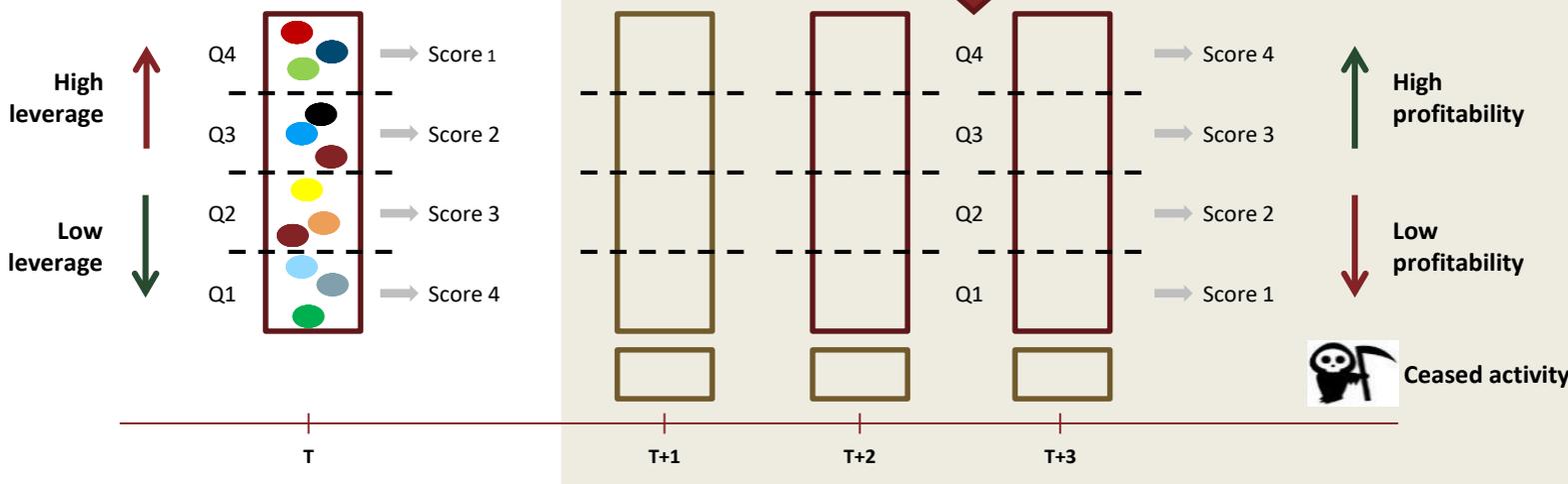
B

Economic studies regarding Portuguese enterprises

(e.g. small and medium-sized companies' performance and financial soundness)

Granular data allows to dig deeper...

The indebtedness of Portuguese SMEs and the impact of leverage on their performance



- More companies ceasing activity amongst those with high leverage levels
- Profitability is inversely related to indebtedness
- A significant share of Portuguese SMEs seems to be indebted (carrying non-profitable debt) rather than leveraged
- The share of SMEs with lower profitability levels among companies with the highest indebtedness levels is higher in the most recent period under analysis

C In-house credit assessment system

1

Quantitative assessment

Statistical approach

Rating assigned automatically by the statistical model.

2

Qualitative assessment

Expert model

Performed by analysts in order to assign the final rating.

3

Masterscale (CoCAS)		Credit Quality Step (Eurosystem)	
Rating Class	PD	Rating Class	PD
1	0.004%		
2+	0.010%		
2	0.016%		
2-	0.025%	1&2	0.10%
3+	0.040%		
3	0.063%		
3-	0.100%		
4+	0.159%		
4	0.250%	3	0.40%
4-	0.394%		
5+	0.615%		
5	0.951%	4	1%
5-	1.457%		
6+	2.204%	5	1.5%
6	3.284%	6	3%
6-	4.814%		
7+	6.923%	7	5%
7	9.750%		
7-	13.422%	8	>5%
8	100%		

4

Strategic placement

Monetary policy

Financial stability

Economic analysis

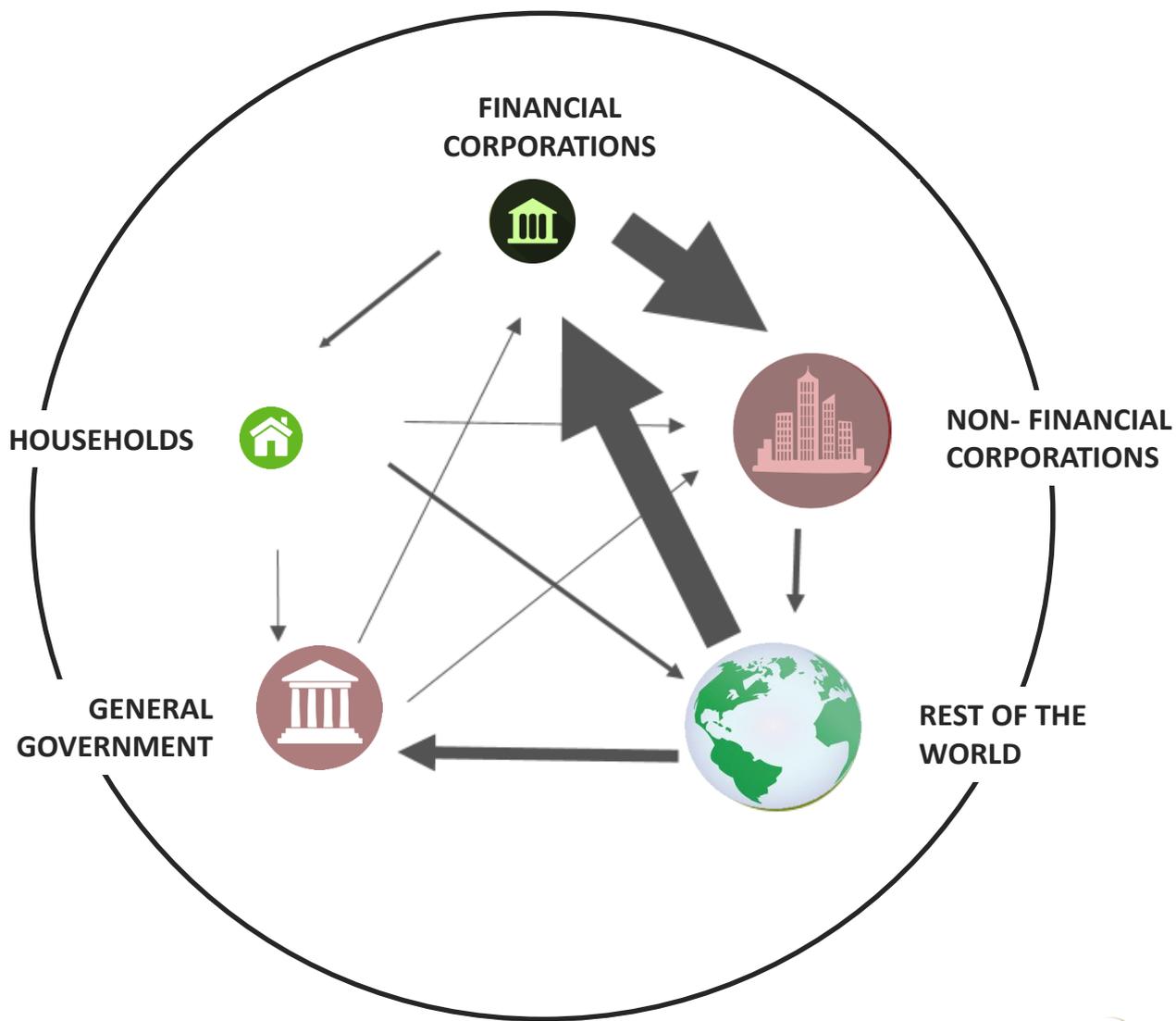
Supervision

Statistics



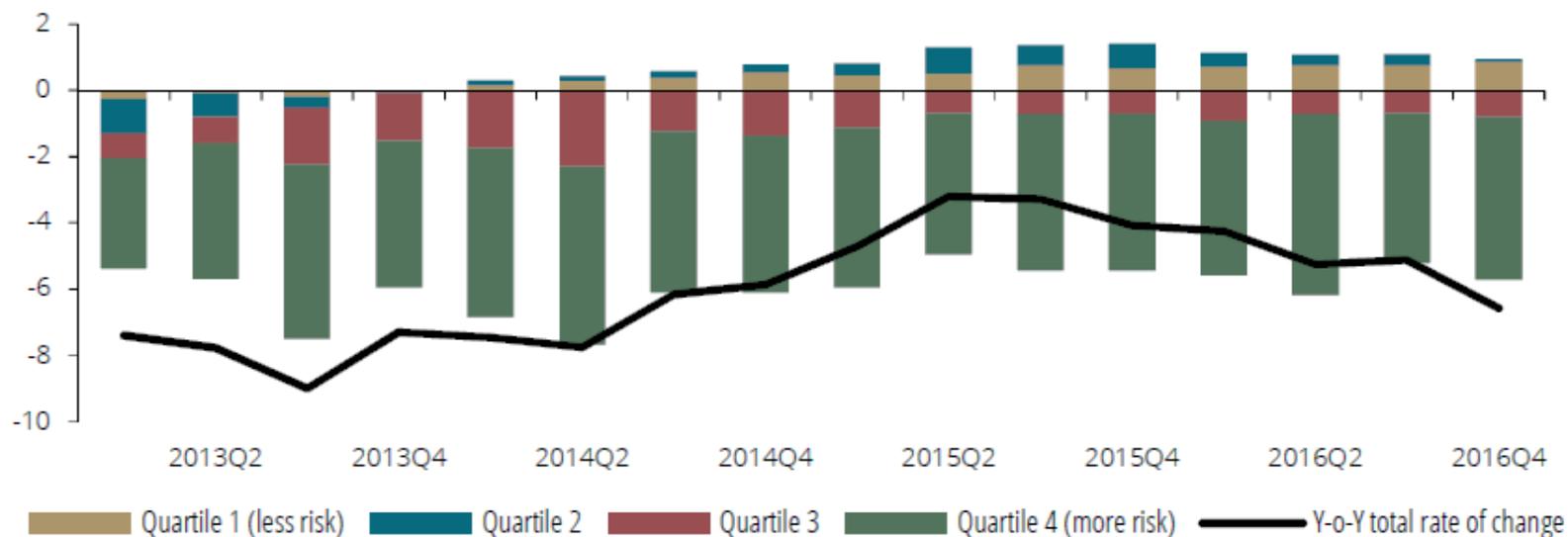
D

Compilation of financial accounts



E Financial stability and prudential supervision

Contributions to the year-on-year rate of change in the stock of loans to private non-financial corporations, **by risk quartile** (*z score based on accounting data*)



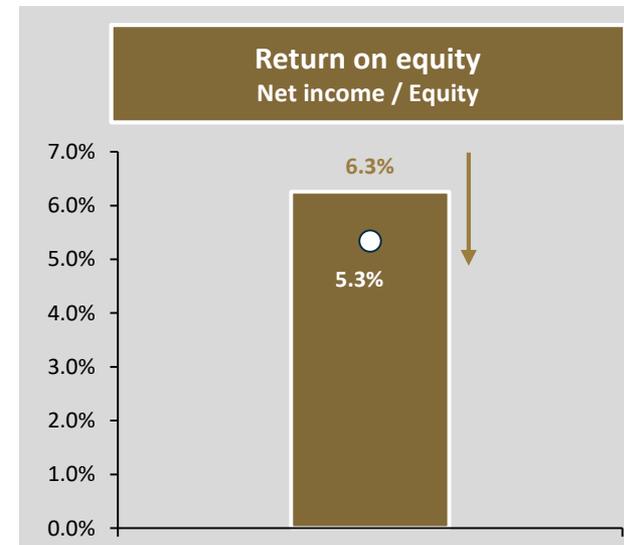
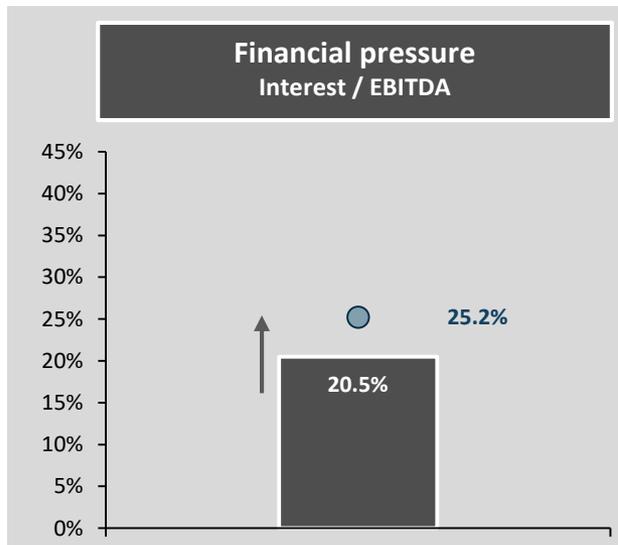
Financial Stability Report – June 2017

Granular data regarding NFCs allows the Central Bank to have a more solid knowledge about the economy as a whole

E

Financial stability and prudential supervision

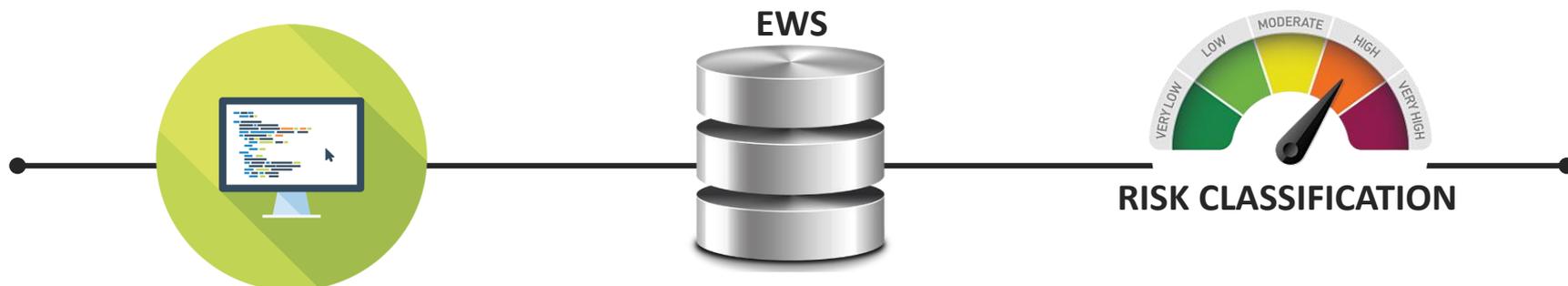
The impact of interest rate changes on non-financial corporations' performance
(1 p.p. interest rate increase)



A 1 p.p. interest rate increase would lead to a 5 p.p. raise in companies' financial pressure and a 1 p.p. decrease in NFCs' return on equity

E Financial stability and prudential supervision

Early Warning System – Supervisory Task



- Indebtedness analysis in order to identify corporations with high default probability
- Pretends to encourage credit institutions to be more proactive in identifying and creating adequate solutions to corporations with high default risk

Can a central bank live without a CBSO?

Yes, but it would not be the same...

THANK YOU

for your attention

Luís Teles Dias (ldias@bportugal.pt)



BANCO DE PORTUGAL
EUROSYSTEM