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

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AGENDA

WHAT kind of information is collected?
- Framework
- Core characteristics

HOW does it work?
- The Portuguese case

WHY the need of a Central Balance Sheet Office?
- Potential uses and advantages
- Examples taken from Banco de Portugal experience
WHAT kind of information is collected?
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)

- Simplified, integrated and fully electronic
- Annual census data on the corporation’s financial statements
- Data sharing among the relevant stakeholders
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?
THE PORTUGUESE CASE

one single reporting serving multiple purposes
<table>
<thead>
<tr>
<th>Political commitment and high level steering</th>
<th>Data sharing protocols between the partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial support</td>
<td>Early involvement and close cooperation among all players</td>
</tr>
<tr>
<td>Initiative, persistence and flexibility to change and to think globally</td>
<td>Extensive use of administrative data</td>
</tr>
<tr>
<td>Electronic submission</td>
<td>Golden rule: no reporting overlaps</td>
</tr>
</tbody>
</table>
A “quantum leap” for the CBSO

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?
POTENTIAL (INTERNAL) USES …

- Central bank’s statistics
- Financial stability
- Economic and financial analysis
- Prudential supervision
- Risk management
- Other statistics
***AND ADVANTAGES***

Central bank’s statistics

- Updating business registers
- Producing a comprehensive set of statistics about non-financial corporations
- Measuring the non-financial corporations’ sector for National Accounts (financial and non-financial)
- Compiling some components of the Balance of Payments and International Investment Position statistics
- Producing sectoral benchmarks and providing companies with valuable CBSO output
- Meeting new users’ requirements
Economic studies regarding Portuguese enterprises

In-house credit assessment system

Compilation of National Financial Accounts

Financial stability and Prudential supervision

Serving the corporate sector

BANCO DE PORTUGAL EXPERIENCE
Serving the corporate sector
(Two long-standing products of the CBSO)

1 Sector tables ➔ General public

- 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
Granular data allows to dig deeper…

- 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

The indebtedness of Portuguese SMEs and the impact of leverage on their performance
In-house credit assessment system

Quantitative assessment

Statistical approach
Rating assigned automatically by the statistical model.

Qualitative assessment

Expert model
Performed by analysts in order to assign the final rating.

<table>
<thead>
<tr>
<th>Masterscale (CoCAS)</th>
<th>Credit Quality Step (Eurosystem)</th>
</tr>
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<tbody>
<tr>
<td>Rating Class</td>
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</table>

Strategic placement | Monetary policy | Financial stability
Economic analysis | Supervision | Statistics
Compilation of financial accounts
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)*

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

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