Measuring the Rapidly Changing Economy: International Aspects

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Roadmap

Will focus on financial side

- Tracking investments – sources and destinations
- Maturity
- Detail
- Currency
- Instrument
- Improving measurement
- Measuring “imbalances”
Tracking Investments

- Two basic questions
  - Where does the money come from?
  - Where does it go?
- Direct investment
  - Indirect ownership obscures sources and destinations
- Portfolio investment
  - Sometimes only country of transactor is known (not ultimate creditor/debtor)
• **Outward investment**
  • **Holding companies are an issue**
  • **Account for one-third of US direct investment position abroad in 2007**
Other intermediate affiliates also work to obscure ultimate destination

- Large MNCs often have “regional headquarters” that own other affiliates in the region

- Due to indirect ownership combined with local financing, direct investment position often only a fraction of assets controlled

- Example of Russia (Assets : position ≈ 5:1)
 Allocation Schemes – Outward FDI

- No internationally agreed method for allocating to ultimate host country
- BEA has done some work on proration using ownership shares and foreign affiliate assets
- Experimental estimates show different patterns (shares in US equity position (1999))
  - Netherlands: 11% => 7%
  - UK: 15% => 20%
- Further work needed at BEA & internationally
Immediate parent often is just the first link in chain leading to ultimate investor

BEA provides alternative breakdown of FDI position in US by ultimate beneficial owner (UBO)

Patterns differ markedly in some cases

Example: Middle East (2007)
- As immediate investor: $13 billion
- As ultimate investor: $47 billion
- We would like to know country of ultimate creditor or debtor
- But for some investments we know only the country with which there was a transaction
  - Example: U.S. securities held in custody abroad
- Data for some categories may reflect a mixture of methods
- BEA does not disaggregate IIP geographically
- But it does disaggregate certain components
Maturity

- 1976 Advisory Committee discounted usefulness
  - Short-term debt is often rolled over indefinitely
  - Long-term debt may often be sold or paid off early
- BEA dropped distinction in main BOP presentation
- However, maturity can relate to risk and exposure, and in financial crisis “maturity mismatch” is often cited as a problem.
- IMF guidelines suggest breakdowns based on maturity
- Treasury publishes some data according to maturity
- An issue for BEA to consider as it responds to new international standards and user needs
Aggregation across sectors can mask vulnerability within subsectors
- Palumbo/Parker example – High- and low-leverage components of the financial sector
- Overall leverage seemed normal, but dangerously high in certain subsectors

In recent months, several large nonbank financial firms have become bank holding companies
- May report on different forms or be consolidated differently for reporting purposes
- Reports for “banks” may reflect a wide range of financial activities, not only traditional commercial banking activity
Currency

- Relatively little information in U.S. statistics on currency
- BOP distinguishes dollar-denominated from foreign-currency-denominated for some components of portfolio investment
- Treasury publishes additional information by currency for selected currencies
Financial account disaggregation gives priority to type of transactor
- Follows a recommendation of 1976 Advisory Committee
- IMF guidelines suggests giving priority to type of financial instrument
- BEA will consider, in consultation with users, alternative breakdowns as it aligns its accounts with the new standards
Structured investment vehicles

- Shell companies set up in the US to issue commercial paper in the US
- Proceeds loaned to foreign parent
- In recent periods, transactions have become large and volatile
- In principle, could involve direct investment or portfolio reports
- In practice, not well captured and BEA must augment direct investment (BEA) and portfolio investment (Treasury/Fed) reports with information from private databases
Exploring borderline between direct investment and portfolio investment

- Examples: Hedge funds, private equity firms, SPEs
- Interagency data sharing may help identify gaps and overlaps
• “Global imbalances” – 504,000 Google hits
• But what are they?
• Nowadays, most often measured in terms of trade or current account surpluses/deficits
• Current account “balance” requires zero or offsetting balances on trade, income, and current transfers
• US has had large and generally growing deficit
Current Account and Other “Balance” Measures, 1960-2008

Current Account Balance and Other Historical Balances from the U.S. Balance of Payments: 1960 to 2008

- Current account balance
- Basic balance
- Official reserve balance
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from the U.S. Balance of Payments: 1960 to 2008

-8 -7 -6 -5 -4 -3 -2 -1 0 1 2
Percent of GDP


- Current account balance
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Interpreting “Imbalances”

- Difficulty in distinguishing causes from effects
  - Do we have financial inflows because we import more than we export?
  - Or do we import more than we export because foreigners want to invest in the US?

- Not really possible to draw distinction between transactions undertaken for own sake (“autonomous”) and those that occur to make up for imbalances in other transactions (“accommodating”)

- Measures attempting this were dropped in 1976, following Advisory Committee recommendation.