Discussion of “Intermediation Services” and “Financial Sub-sectoring in the IMAs”

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Intermediation Services

- Extend “reference rate” approach more broadly in financial sector: Savings institutions, credit unions, & shadow banks.
  - Carol Corrado, Kyle Hood, and Marshall Reinsdorf “How do you Complete the Picture of Credit Intermediation?”
Savings Institutions and Credit Unions

- Implicit services to both depositors and borrowers
- Shifts services from final demand to intermediate input
- GDP (2011) $\downarrow \approx 0.2$ percent
- Well developed
- Planned for 2018
- Great piece of work
NDFI: Non-depository Financial Institutions (Shadow Banks)

- Use reference rate approach for shadow banks
- Adding GDP not currently measured
  - GDP (2011) ↑anio 0.5 percent
- In progress, still experimental; planned for 2018
- Great piece of work
Implicit Svcs: Shadow Banks

- Focus on borrower services
  - Also, depositor (funder) services in Corrado, Hood, & Reinsdorf

- Borrower Svcs from Shadow Banks:
  - Big enough to matter
  - Very volatile around financial crisis
Big Enough to Matter

The chart shows the percent of GDP for different entities over the years 1995 to 2010. The entities are:
- Total, depository institutions
- Borrower services, depository institutions
- Borrower services, nondepository credit intermediaries

The graph indicates a decline in the percent of GDP for the total, depository institutions, with a notable peak around 2005. The borrower services, depository institutions, show a steady increase until a peak around 2005, followed by a decline. The nondepository credit intermediaries show a steady increase with a significant peak in the early 2000s, followed by a decline.
Borrower Svcs Volatile! Around Financial Crisis

![Graph showing billions of current dollars from 1994 to 2012 for different sectors: Other institutional sectors, GSEs, ABS issuers, and Finance companies. The graph peaks around 2007 and shows a significant drop during the financial crisis.]
Methodology

• Implicit services to borrowers depend on user cost:
  
  \[ \rho^L = (r^L - \delta) - r^R \]

• \( r^L \) = loan rate
• \( \delta \) = expected default
• \( r^R \) = reference rate
Two Issues

• Expositional:
  • Possible to decompose swings in different periods into components from movements in quantities and different pieces of the user cost?

• Conceptual
  • For period like the financial crisis, any adjustments needed to usual methodology?
    • Financial markets seized up
    • Large movements in interest rates and expected defaults
    • Do these big swings imply corresponding changes in svc flow?
Financial Sub-Sectoring in IMAs

- Develop detail for subsectors of the Financial Sector (including shadow banking)
- Very nicely done.
Financial Sub-sectoring

- Excellent review of data sources and uses sound methodology
- Develops sub-sectors:
  - Depository Institutions
  - Federal Reserve Banks
  - Insurance (property, casualty, life)
  - Pension Funds
  - All other financial institutions (incl. shadow banks)
Financial Sub-sectoring

- Results for Depository Institutions, Federal Reserve Banks, Insurance, and Pension Funds look sensible
  - Agree with classifying Federal Reserve Banks as non-market producer rather than in for-profit sector
- Highlights differences across sub-sectors
Financial Sub-sectoring

• But,
  • Statistical discrepancies can be large (difference between net lending or borrowing from the capital account and from the financial account)
  • Highlights areas for further investigation.
### Other Financial Institutions (Shadow Banking)

- Other Financial Institutions calculated as **residual**
  - Will generate considerable interest (shadow banks!)
  - Volatile around financial crisis
  - Stronger recovery than other sectors
Other (Shadow Banking)

Figure 4: Major Aggregates for the Financial Subsectors (Billions of Dollars)
Other (Shadow Banking)

- Paper notes that boundaries of this sub-sector are imperfectly estimated.
- Did not report statistical discrepancy, but I’m guessing it’s large.
- Are these issues consequential enough to get in the way of interpreting results for this sector?
Connections

- **Corrado, Hood, Reinsdorf**: estimates of unmeasured outputs for shadow banks

- **Kornfeld, Lynn, and Yamashita**: detail for shadow banks in financial accounts (though as residual)

- Different exercises, but gains from trade?
Conclusion

• Excellent work, tackling timely and important questions

• Makes me want to know more about measures of shadow banking