



Measuring the Rapidly Changing Economy: International Aspects

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Roadmap

Will focus on financial side

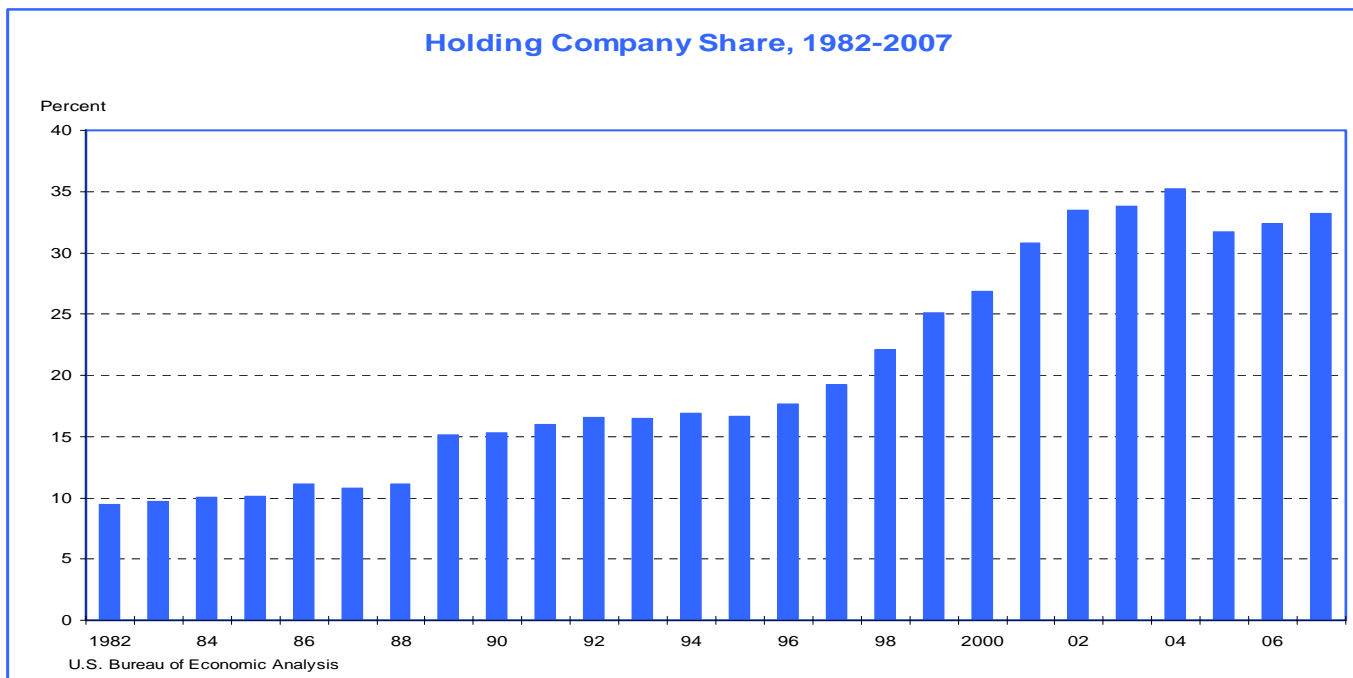
- Tracking investments – sources and destinations
- Maturity
- Detail
- Currency
- Instrument
- Improving measurement
- Measuring “imbalances”

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)

Tracking Investments – Direct Investment

- Outward investment
 - Holding companies are an issue
 - Account for one-third of US direct investment position abroad in 2007



Tracking Investments – Direct Investment

- 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 \approx 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

Inward FDI – Identifying Ultimate Sources

- 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

Tracking Investments – Portfolio Investment

- 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

Detail

- 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

Instrument

- 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

Improving Measurement

- 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

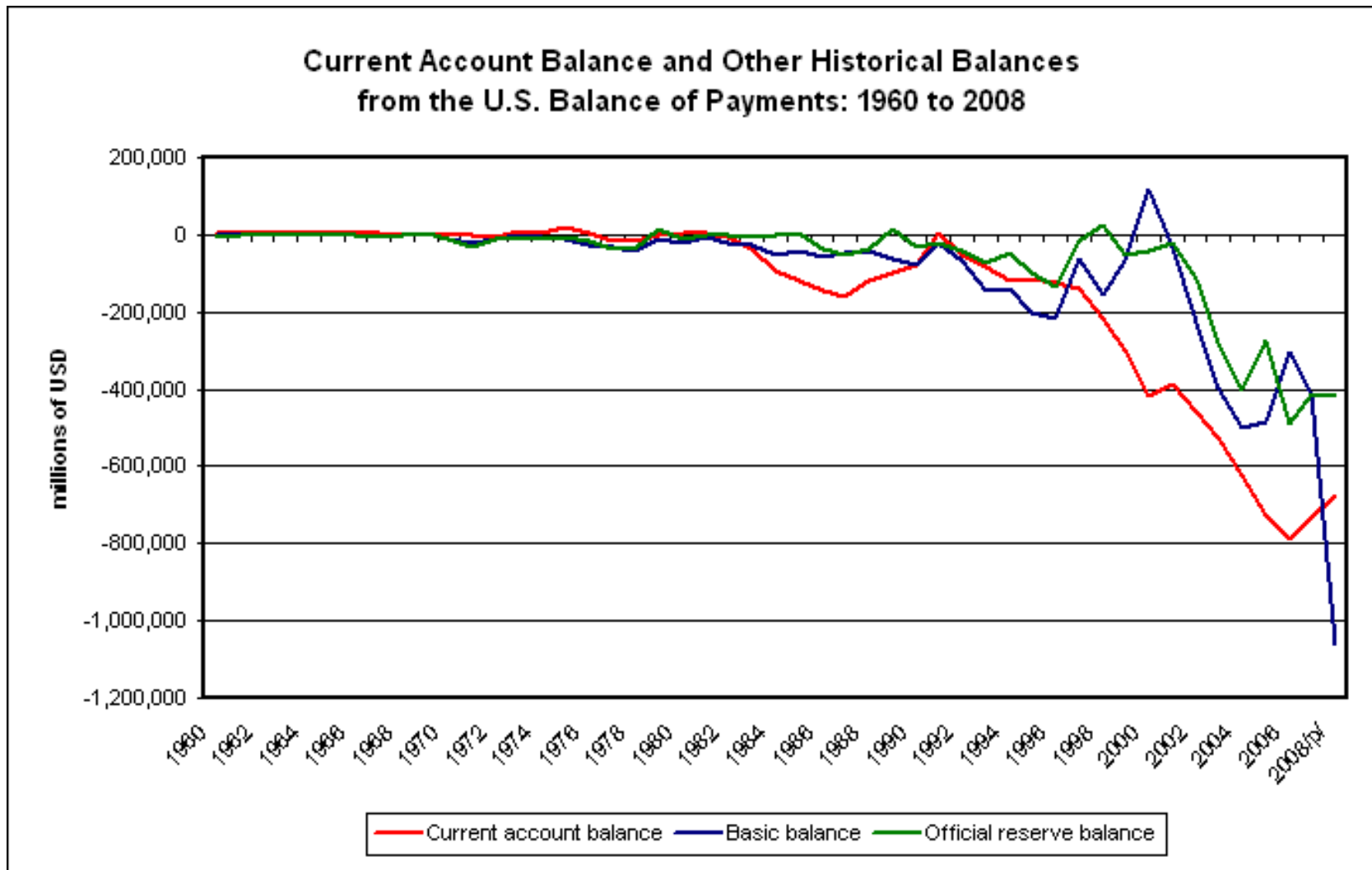
Improving Measurement (Cont'd)

- Exploring borderline between direct investment and portfolio investment
 - Examples: Hedge funds, private equity firms, SPEs
 - Interagency data sharing may help identify gaps and overlaps

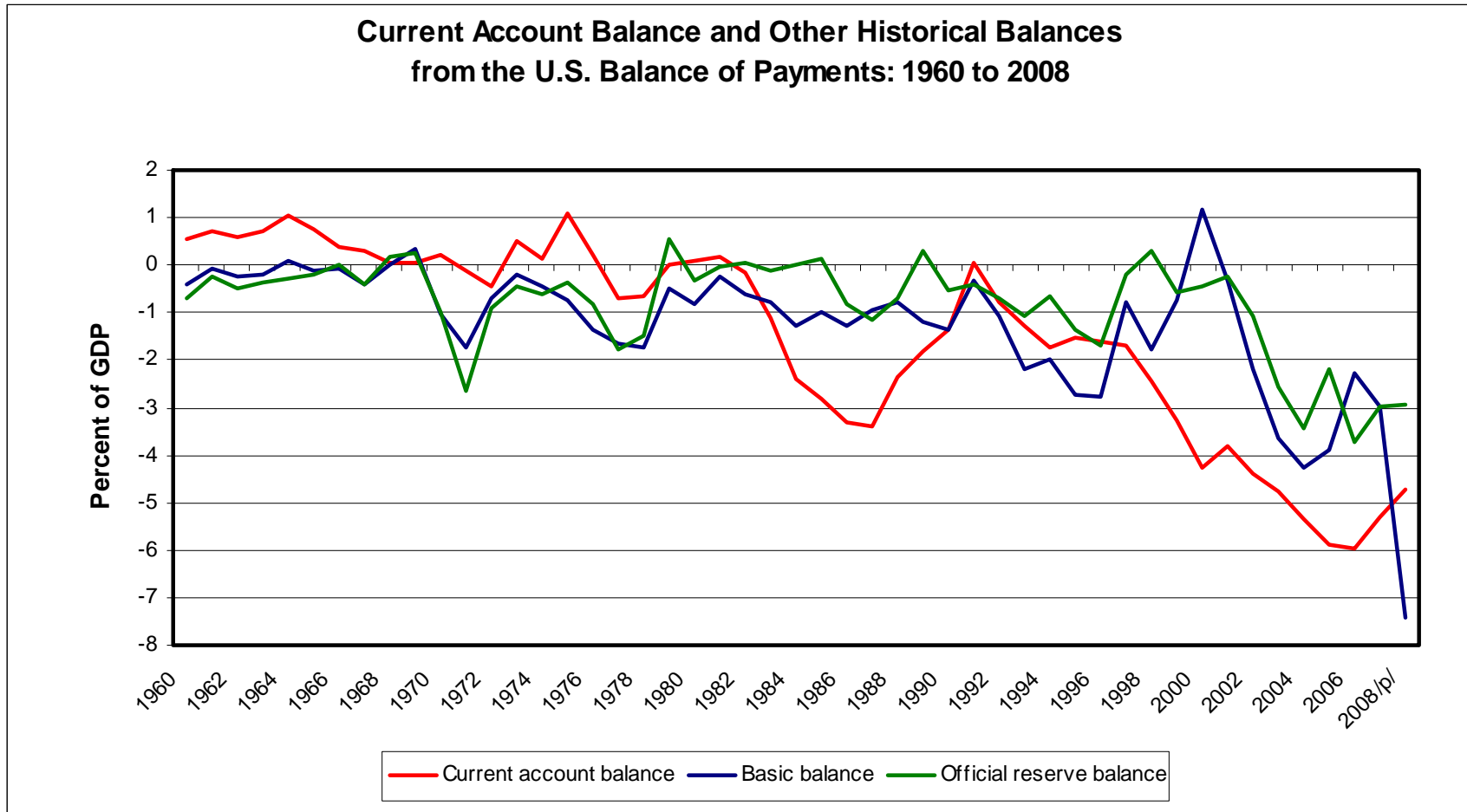
Measuring Global Imbalances

- “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 and Other “Balance” Measures, 1960-2008



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.