

Timeliness and Reliability of the Financial Statements in the Banking Sector : The impact for macroeconomic data

Rudi Acx

National Bank of Belgium and Catholic University of Brussels (KU Brussel)

boulevard de Berlaimont 14

1000 Brussels

E-mail : rudi.acx@nbb.be

1. Introduction

The European Central Bank (ECB) discusses in the January issue of its Monthly Bulletin¹ the policy-making under uncertainty. One of the elements contributing to uncertainty is related to the trade-off between timeliness and reliability in statistical data. Due to the pressure exerted by the private and official users of the statistics, the timeliness occupies a central place in the production of statistics. As the users require more and more fixed release dates for statistics, the reliability in terms of stable statistics, not prone to large and frequent revisions, forms a major challenge for the producers. In this paper the revisions of data communicated in the financial statements, which must be remitted within a fixed period, by the credit institutions in Belgium are analyzed. Before representing the results, the scope of the analysis is described.

2. The Scope of the Analysis

The monthly reporting according to the new instructions started from the January 1st, 1999 on, the day of the creation of the Euro area. The paper considers two distinct periods in the analysis. A first period covers April 1999-August 1999, which can be considered to coincide with the steepest part of the learning curve - without taken into account all potential errors inherent to the first months of a new reporting system. A second period deals with July 2000 - November 2000, which must be considered as a period in which the credit institutions are adapted to the reporting. In between the two periods an ECB-Regulation came into effect. This Regulation monitors and sanctions credit institutions which do not comply with the prescriptions on timeliness and quality, among others, of the reported data.

The analysis of the Belgian data is limited to those credit institutions which have to report within 10 bank working days after the end of the reference month (the so-called "quick reporters"). The group of quick reporters, which is de facto very stable in terms of composition, covers at least 95 pct. of the total balance sheet of the credit institutions resident in Belgium. The group is composed of 40 credit institutions out of the 120. The individual data reported by the credit institutions have to be aggregated, according to harmonized definitions, into national aggregates by the National Bank of Belgium. These aggregates are sent by the 15th bank working day following the end of the reference month to the ECB, which is in charge of the compilation of the euro aggregates. The monthly reporting to the ECB may, as part of the normal procedure, contain also revisions in the national aggregates related to the month preceding the reference month. The analysis centers on the comparison between the data in the initial reporting and the data in the reporting one month later. Revisions on periods earlier than those covered in the normal procedure are rare.

3. The Revisions by the Individual Credit Institutions

The comparison of the two periods reveals substantial improvements for the second over the first period. The number of credit institutions reporting revisions during the second period came down to 3, which represents only one sixth of the number during the first period. Even more impressive is the decrease in the number of revised data cells. The monthly average during the second period represents only 5 pct. of the

¹ European Central Bank, Monthly Bulletin, Monetary policy-making under uncertainty, January 2001, pp. 43-55.

monthly revised data cells during the first period. About 0.5 pct of the potential data cells were subject to revisions in the concerned period of 2000, while during the first period over 10 pct. were revised.

Not only the number of credit institutions implied in revisions decreased, the degree of concentration within the group of institutions reporting revisions increased considerably. Over the last period concerned, one single institution was responsible for over 80 pct. of the total revisions. The close monitoring of weak performing institutions, in terms of reporting, helps to detect potential errors, in an early stage, which contributes to a higher quality of the released data. As a consequence the uncertainty in the macroeconomic data compiled with these data can be remedied. However the reduced number of credit institutions reporting revisions in the second period, are still reporting large amount revisions. The spread of the magnitude of the revisions has not shown a significant improvement.

Table 1 Revisions by individual credit institutions

| Variables | April 1999 - August 1999 | July 2000 - November 2000 |
|--|--------------------------|---------------------------|
| Number of credit institutions reporting revisions (monthly average) | 18 | 3 |
| Number of revised data-cells (monthly average) | 276 | 15 |
| Number of revisions as pct. of the potential number of data cells (period average) | 10,26 | 0,57 |
| Number of different credit institutions responsible for revisions (period figure) | | |
| for 50 pct. | 7 | 0 |
| for 80 pct. | 16 | 1 |
| for 90 pct. | 20 | 2 |
| for 100 pct. of cumulative revisions | 32 | 9 |
| Spread of the revisions in data cells (period figure) | | |
| 0 - 1 mln euro (absolute value) | 40,6 | 43,4 |
| 1 - 10 mln euro (absolute value) | 26,0 | 23,7 |
| over 10 mln euro (absolute value) | 33,4 | 32,9 |

These prevailing large revisions, do not prevent that the global revisions on the national monetary aggregates, and more specifically M3, have been smaller over the second period.

Table 2 Impact of the revisions on the aggregated national data (averages of monthly absolute values)

| | Percentage change of the level | | | Revision of the monthly growth rate | | |
|---------------------------|--------------------------------|------|------|-------------------------------------|--------|--------|
| | M1 | M2 | M3 | M1 | M2 | M3 |
| April 1999 - August 1999 | 0,96 | 0,43 | 0,38 | 0,0100 | 0,0039 | 0,0043 |
| July 2000 - November 2000 | 0,85 | 0,32 | 0,18 | 0,0101 | 0,0038 | 0,0022 |

The data revision by the Belgian credit institutions may have an impact on the revision of the M3-growth rate for the Euro area as a whole. During the second period under review, the Belgian data influenced twice an upward and three times a downward revision of the M3-annual growth rate for the Euro area. In all cases, as Belgium represents only 5 pct. of the M3-aggregate of the Euro area, the impact was limited.

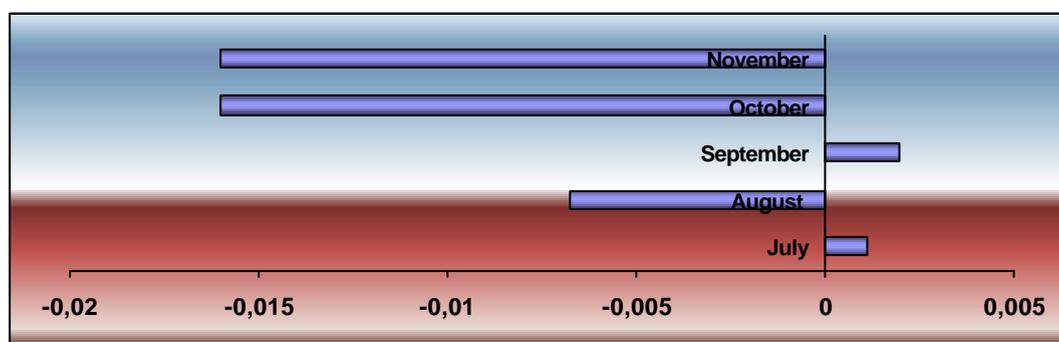


Figure 1 Impact of the Belgian revisions on the annual growth rate of M3 for the Euro area (July 2000-November 2000)

RESUME

The survey on the financial data used for the compilation of monetary aggregates proves that revisions are of minor importance. The initial release of a growth figure is only marginally influenced.