

SNA 2008 Recommendations on Central Bank Output – Unresolved Issues for Emerging Markets and Developing Economies

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Output of Central Bank (CB henceforth) is identified as one among the new issues arising from SNA 2008 [UN (2012)]. Evolving nature of CB role has made measurement of its output quite complex. Primary responsibility of a CB in many countries lies in its role as monetary policy authority through key commitments such as interest rates management, reserve requirement, issue and management of currency, and acting as a lender of last resort to the banking sector, one of the classic functions of a CB. A typical function of a CB in many emerging market and developing economies (EMDE) is also to supervise commercial banks. A very critical issue is that CB role continues to evolve while responding to several global crises creating persistent policy problems. CBs are now identified as complex institutions and the objective behind all its evolving functions are for the economic interests of the nation, consistent with government economic policy [BIS (2009)]. Price stability has become the CB objective in many economies needing fine tuning to nurture financial stability with unfolding of the global financial and the euro area debt crises later. All these crises generated stronger school of thought to widen the mandate of CBs [RBI (2012)]. In addition to these, CBs in EMDE take major initiatives to promote economic development and thus follow multiple objectives. All these have made the measurement of CB output challenging since its determinants are difficult to measure or estimate.

The System of National Accounts (SNA) 2008 has set out a specific approach to quantify output of a CB as differentiated from financial services rendered by entities other than CBs and made different recommendations for measurement of CB output from that in SNA 1993. SNA 2008 endorsed non-market view of CBs' output as against non-prescriptive assumption in its 1993 version that presumed that all output of CB as market production. SNA 1993 thus recommended use of fees, commissions, and financial intermediation services indirectly measured approach. SNA 2008 recommends classification of the CB output into market and non-market for measurement purpose. If market and non-market output are not separable, the suggestion is to include whole of the output of the CB under non-market category and measure the same as sum of costs. Measurement of CB output has thus assumed complexities due to changed guidelines in the SNA 2008, as some of the CBs may predominantly produce non-market services. So far as

output metric is concerned, it needs to be viewed within the economic framework of cost, profit, production and a measurable contour of efficiency scale. However, the uniqueness of some of the activities of central banking renders it difficult to measure some of the outputs, and the complicated and multiple objectives pursued by CBs makes application of the SNA 2008 recommendation quite challenging. Although countries are now adopting the SNA 2008 approach for official estimates of output of their CBs, methods followed are however not uniform. This has raised an issue on incomparability of data on gross domestic product (GDP) and government final consumption across countries [UN (2013)].

Central Statistics Office in Government of India compiles the output of the Indian economy including that of Reserve Bank of India (RBI), the CB of India. Major change is made to compile RBI output in the new series of GDP with 2011-12 as base following SNA 2008. Earlier, output of RBI was partly treated as market and partly non market. In the new series of GDP with 2011-12 as base, entire output of RBI is treated as non-market and sum of cost approach is followed to compute the same [GoI (2015)]. Output of RBI witnessed downward revision of around 87 per cent as per the new method. A detailed discussion in this regard was made earlier by Bhuyan (2016).

The proposed paper deliberates on methodological issues relating to the measurement of CB output in EMDE. The most important aspect raised by the proposed paper is that whether sum of costs would well represent the output of CBs in EMDE like India. Specific recommendations in SNA 2008 on CB output although have addressed quite a few issues to a great extent, the subject on measurement of the output still appears to remain open for the CBs in EMDE. In such countries, CBs play a very critical role and are entrusted with wide gamut of activities having long term perspective with a direct bearing on nation building process. Use of cost approach could severely under estimate the output as has been observed for RBI.

The proposed paper argues that a more discerning method is required to measure the output of CBs in EMDE and makes an attempt to propose an alternative method to measure the output of CB in such countries. The observation could possibly be applicable to other CBs as well.

References

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