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THE NEW IRISH BANKING STATISTICS A REVIEW OF CONCEPTUAL ISSUES AND MONETARY AGGREGATES

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INTRODUCTION

New series of monthly banking statistics were included in the Central Bank of Ireland, Annual Report, Spring 1983 (1) The Bank marked the occasion with a background explanatory article entitled "New Banking Statistics and their Implications for Monetary Aggregates" 1 and with a major revision of the Statistical Appendix to the Report It was indicated in the article that the statistics being launched were compiled from a new standardised monthly return which had been introduced following a complete review of the Bank's requirements in respect of monthly statistics from the licensed banks2 and of the concepts and definitions applicable to these statistics The review, of course, benefited greatly from detailed discussions with the lincensed banks and from their cooperation in compiling new returns on an experimental basis, alongside their old monthly returns, for a period prior to the changeover to the new return.

This paper sets out the objectives and features of the new monthly reporting system for the licensed banks against the background of the previous reporting system. It then examines in detail the important conceptual issues which were considered during the review. Finally, the flexibility of the new reporting system is highlighted in a discussion on the derivation and use of the wide range of monetary aggregates which can be compiled from the new statistics.

PART I: OBJECTIVES AND FEATURES OF THE NEW REPORTING SYSTEM

Banking statistics are required by the Central Bank to meet a wide variety of users' needs:

(i) in formulating, implementing and making continuous assessments of monetary and exchange-rate policies and in assessing external reserves' adequacy;

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(ii) in conducting monetary research, including the development of monetary sectors of economic models,

(iii) in administering and monitoring compliance with credit policy and liquidity and prudential ratio requirements,

(iv) for the compilation of consolidated data to meet the statistical reporting requirements of the International Monetary Fund, the Committee of Governors of EEC Central Banks, various other EEC bodies and the Bank for International Settlements, and

(v) in meeting the needs of other domestic users of banking statistics, including the Government, the Central Statistics Office, the banks themselves, other financial institutions and the general public

In attempting to satisfy these needs, the information available from the monthly returns had been augmented over the years with the introduction of new reporting forms dealing with licensed banks' foreign exchange and Eurocurrency activities [3] While adjustments to the old monthly returns, together with the use of appendices to those returns, enabled the Central Bank to deal with its changing requirements, it was recognised for some time that the old returns were becoming less adequate

The most significant deficiency in the old monthly returns was the lack of uniformity in the method of allocating assets and liabilities to "within the State" and "elsewhere" From the time the old monthly bank return for the Associated Banks was introduced in 1932, the data supplied in respect of those "within-the-State" assets and liabilities used in the compilation of monetary aggregates had been determined largely by reference to the location of their branches and, as a result, included accounts of both residents and non-residents [4] In deriving certain monetary aggregates (for example, the old wide money supply series, M3), data from the Associated Banks compiled on a location-of-branch basis were aggregated with data from non-Associated banks which were compiled on a residency-of-customer basis This meant that the old monetary aggregates, such as M3, included accounts held by non-residents at within-the-State offices of the Associated banks but excluded such accounts at within-the-State offices of non-Associated banks.
If significant fluctuations, unrelated to Irish economic activity, occurred in the non-resident elements of the aggregates, misleading signals could be given by such aggregates Ireland's participation in the European Monetary System (EMS) and the subsequent break in the link with sterling focussed attention on both the need for, and the possibility of, a greater role for monetary policy in Ireland. In such circumstances, it became even more important to ensure that monetary aggregates being used for policy purposes would not be capable of providing such misleading signals

Over time, the usefulness of the old monthly returns had been impaired also by the use of non-uniform accounting practices by the licensed banks, by different interpretations of concepts and by historical practices. These factors impinged on the measurement of various statistical series, such as the various credit series which reflected different conventions used by the licensed banks in accounting for bad and

doubtful debts, as well as their practice of recording certain credit agreements gross of unearned interest and charges

The new return was designed with a view to overcoming the shortcomings in the old reporting system and to facilitating the compilation of banking statistics, including a wide range of monetary aggregates, balance-of-payments data and licenced banks' external positions, in line with international convention 5 A major objective of the new return was to satisfy the developing requirements of the Central Bank in monitoring banks' prudential ratios, a number of which are computed monthly for each bank. The derivation of these ratios in the past had been complicated by the use of non-uniform returns with inadequate information and by the lack of a consolidated return from certain Irish licensed banks which had both resident and non-resident offices 6

A major effort was also made in introducing the new monthly reporting system to improve the quality and consistency of data provided by licensed banks To facilitate these objectives, by ensuring, where possible, that uniform concepts, definitions and valuation procedures were applied, a detailed set of instructions was issued with the new return Endeavouring to satisfy a multiplicity of user needs from a single monthly bank return presented a significant challenge in designing the return However, the alternative, i e , the use of a number of different returns, would have tended to place a very heavy reporting burden on the banks. The approach adopted was to use a single uniform return for all licensed banks, irrespective of whether they were Associated or non-Associated, or whether they were incorporated within the State or operated on a branch basis It was recognised that the placing of all banks on a uniform reporting basis would assist the Central Bank in its endeavours to ensure equity of treatment of banks in implementing credit policy and liquidity and prudential requirements It was also appreciated that the adoption of a uniform return and the avoidance of complicated appendices would facilitate data processing within the Central Bank

The new monthly return consists of a basic balance sheet which, *inter alia*, identifies separately, and in some detail, licensed banks' claims on and liabilities to other banks, the Central Bank and Government and non-Government sectors 7 Each liability and asset item is subdivided into "resident" and "non-resident" and each of these column headings is further subdivided into "Irish pounds" and the "Irish-pound equivalent of foreign currencies"· a total column is also included, i e , five columns in all Even with this amount of detail in the balance sheet proper, it was still necessary to collect additional information (in Supplement 1) in order to identify separately inter-institutional items, such as licensed banks' liabilities to and claims on State-sponsored financial institutions, other State-sponsored bodies, building societies, etc , and other supplementary data needed for prudential and other purposes

Banks are required to compile the monthly bank return in respect of the activities of their within-the-State offices In addition, those Irish licenced banks with non-resident offices complete a consolidated return, in the same format as the return in respect of resident offices, covering the activities of both their within-the-State and

elsewhere offices A number of additional supplements, linked into the monthly balance sheet, are used to enable statistics of particular interest for policy purposes to be compiled, these include credit subject to monetary-policy control, and a number of liquidity and prudential ratios

The adoption of the new monthly bank return has also laid the foundation for the establishment of an integrated framework designed to meet the needs of a wide range of users of banking and, indeed, other financial statistics In addition to the interlinking of monthly supplements to the monthly bank return proper, the process has begun of interlinking other returns such as the quarterly sectoral distribution of advances, Eurocurrency statistics and international exposure statistics to the monthly return This interlinking process involves the provision of more detailed analyses of particular balance-sheet items at, say, quarterly or half-yearly intervals The collection of such supplementary information in such an integrated framework helps to avoid confusion caused by the use of different definitions of items and facilitates the compilation and processing of consistent statistics In order to achieve these objectives, while at the same time improving the quality of data collected, a number of conceptual issues were examined in some detail in preparation for the adoption of the new monthly return

PART II: CONCEPTUAL ISSUES

The most significant conceptual issue was the need to establish the most appropriate method of allocating assets and liabilities on a uniform residency basis In addition, reporting practices needed to be harmonised and problems caused by the use of different accounting conventions needed to be resolved in areas such as interest debiting and crediting, accounting for instalment-credit loans, provisions for bad and doubtful debts, offsets, items in transit, leasing agreements and acceptances, and the valuation of foreign-currency assets and liabilities

1 Residency

The distinction between residents and non-residents in the new monthly bank return is based on the residency of the customer and not, as formerly in the case of the Associated banks, on the location of the branch in which the account is maintained A person is considered to be a resident if he is currently living in the State and has been so living for at least one year A person who is newly arrived in the State is considered to be an Irish resident if he intends to live here for an indefinite period or for a period of not less than one year Any business operating in the State is regarded as an Irish resident irrespective of whether it is owned or controlled by Irish residents or by non-residents Residents of the Republic of Ireland ("the State") compromise the Government, individuals, private non-profit-making bodies and enterprises

(i) Government entities that are residents of Ireland include all Departments, establishments and bodies of the Government located in the State and embassies, consulates and other entities of the Government located outside the State,

(ii) resident individuals comprise all persons who consume goods and services, participate in production (including farming), or engage in other economic activity in the State (other than on a temporary basis) - residents of the State commuting each day to work in Northern Ireland, or employed as seasonal workers outside the State, are considered to be residents (however, individuals in the State for less than one year, such as tourists, commerical travellers, etc , are excluded),

(iii) private non-profit-making bodies, such as schools, churches and charities, which are located or conduct their affairs in the State are considered to be residents, and

(iv) resident enterprises are those that operate within the State, i e , those enterprises located within the State that engage in the production of goods and services (including banking), or engage in transactions in land, leases, rights, concessions, patents, copyrights and similar non-financial intangible assets - such enterprises may be either private or public

Enterprises which are single legal entities, for example, a parent company and its unincorporated branch, are, where necessary, divided into two or more separate enterprises with each of these enterprises regarded as a resident of the State on the territory of which its operations are actually carried out. Thus, for example, a loan to an Irish subsidiary of a foreign company is regarded as a loan to a resident entity, even if such a loan is guaranteed by the non-resident parent

In allocating capital and reserves on a residency basis, it is necessary to make a distinction between direct investment and portfolio investment 9 In the case of all banks that are not publicly-quoted Irish companies, capital and reserves are treated as direct investment and are allocated on the basis of the residency of the shareholders For example, if 25 per cent of a bank's shares are held by residents and 75 per cent by non-residents that bank allocates 25 per cent of its share capital and 25 per cent of all its reserves to residents, with the remainder of these items shown as attributable to non-residents On the other hand, banks which are publicly-quoted Irish companies allocate all capital and reserves to residents The latter, however, are required to furnish to the Central Bank a residency breakdown of shareholdings on a regular basis, in order to facilitate the compilation of balance-of-payments statistics on portfolio investments

The residency status of subordinated loan stock, including floating rate notes, is determined separately on the basis of the residency of the holders of the stock and not on the basis of the currency in which the loan stock is denominated

In view of the fact that the monthly bank return was being designed with a view to satisfying a wide variety of user needs, it was important for this residency-of-customer basis to be in line with international convention. The adoption of the residency-of-customer basis for the new return meant that those items which in the past were allocated to "within the State" (on a location-of-branch basis) by the Associated Banks were now subdivided between residents and non-residents. This meant that all licensed banks were now allocating balance-sheet items on a similar residency basis

2. Interest-Debiting/Crediting Practices and Accounting for Instalment Credit

Interest-debiting/crediting practices of banks can have significant effects on monetary aggregates, particularly when nominal interest rates are relatively high and where significant amounts of interest are debited or credited to accounts at particular times during the year Also, the practice of recording instalment-credit agreements gross of unearned interest and charges is inconsistent with the accounting treatment for other loans extended by banks and tends to distort balance sheets and credit aggregates In view of these problems it was decided that in the new monthly bank return accrued interest receivable and payable would be identified separately and that instalment-credit agreements would be recorded net of unearned interest and charges

Interest-debiting/crediting practices vary significantly among the banks The Associated Banks debit interest twice yearly on overdrafts and term loans· the two larger Associated Banks in March and September (reflected in the data for bank-return dates at end-March and end-September), the two smaller banks at end-May and end-November, reflected in the data for bank-return dates at end-June and end-December The bulk of the interest received by these banks is reflected in these twice-yearly debits which create significant upward adjustments in recorded "non-Government lending" of these banks Interest-debiting periods in the case of the non-Associated banks vary significantly and tend to depend more on the type of facility being provided, rather than on any major differences in accounting practices The main problem created in recorded lending data for these banks arises in the case of the Industrial Banks and any other banks involved to any significant extent in hire-purchase, credit-sale and other instalment-credit agreements. The normal accounting practices used in recording these items in balance sheets reflect a significant deviation from the practice used in the case of banks' other loans and advances. In view of this, it was considered that these types of loan agreements warranted special consideration in compiling the new monthly bank return

Interest-crediting practices also differ significantly among licensed banks. The Associated Banks normally credit interest to their customer accounts once a year; Allied Irish Banks at end-October, Bank of Ireland at end-March, Northern Bank at end-October and Ulster Bank at mid-November The non-Associated banks generally credit interest either quarterly or half-yearly, however, because a large proportion of their deposits are short term, a significant amount of their interest crediting takes place at maturity dates of deposit rather than at normal crediting dates

2.1 *Accrued Interest Receivable:* The extent to which accrued interest receivable builds up in the returns of a licensed bank, under a system of accrual accounting, depends on the length of its normal interest accounting period for loans and on the degree of utilisation of the different lending facilities provided by that bank In the case of the non-Associated banks, while interest debiting may take place monthly, quarterly or half-yearly, depending upon a bank's own accounting practice, many of

the loans are, like deposits, of short duration, for example, one month, three months, or six months, or, in the case of longer-term loans, are rolled over at fairly frequent intervals, say, quarterly or half-yearly: at such times interest is debited to customers' accounts In many cases the interest period is chosen by the customer, with such periods varying up to six months However, even where the interest is debited quarterly or half-yearly, the amount of any build-up of accrued interest receivable is often quite small due to the large number of rolled-over loans and other loans of very short duration

The twice-yearly interest-debiting practices of the Associated Banks tend to have a much more significant effect on their recorded non-Government credit in view of the large amount of lending for which these interest-debiting periods are relevant The bulk of interest earned by the Associated Banks is reflected in the twice-yearly debits due to the fact that over 80 per cent of their credit is extended by way of overdrafts, loans up to one year and term loans In view of the fact that around 56 per cent. of all licensed banks' non-Government credit is at present accounted for by the Associated Banks, their interest-debiting practices create significant upward adjustments in that aggregate at end-March and end-September

One method of dealing with the difficulties created by these interest-debiting practices of the Associated Banks is to take into account interest accruals on advances. In the new monthly bank return accrued interest receivable is identified separately for interbank, Central Bank, Government and non-Government items Like all other items on the balance sheet it is broken down between Irish pounds and the Irish-pound equivalent of foreign currency This method of dealing with the problem has the advantage that it enables the principal and interest accrual components of customers' indebtedness to a bank to be identified separately This procedure gives maximum scope to users in choosing the composition of particular monetary aggregates.

The private-sector credit series adopted by the Bank since the implementation of the new monthly bank return includes accrued interest receivable which means that accrued interest receivable on non-Government credit is regarded as equivalent to an extension of credit to that sector by the banks This means that the private-sector credit series adopted by the Bank is no longer affected by the internal accounting practices of the banks, for example, with respect to the timing or frequency of interest debiting by the Associated Banks This series is also isolated from effects, both between banks and within banks, of loan switching between the different credit facilities which are governed by different accounting practices for interest debiting

The old private-sector series tended to understate the extent of customers' indebtedness to a particular bank over a significant part of the period between the debiting of interest. As a result of this, the actual debiting of the interest at the end of the interest-debiting interval distorted the trend in the series and created problems for banks in complying with monetary-policy guidelines. The inclusion of accrued interest receivable in the new series helps to alleviate these problems

2 2 *Unearned Interest and Charges:* In the case of hire-purchase, credit-sale and other instalment-credit agreements, the normal practice for financial institutions is to take future interest into account when the loan is issued This means that the nominal or face value of the loans include principal plus all interest payable over the period of the loan agreement This practice is at variance with the normal accounting principles used to record other financial assets in financial institutions' balance sheets. When these loans are entered at their face value on the asset side of the balance sheet, the interest to be earned over the life of the loan is entered as a deferred credit on the liability side This deferred credit acount is then debited periodically and taken into the profit and loss account as and when specific accounting rules recognise a portion of the deferred credit as income Equivalence, on an accrual accounting basis, between ordinary loans and instalment-credit loans is obtained by taking the face value of a normal loan plus accrued interest receivable thereon and comparing this with the face value of the instalment-type loan less the unearned interest and charges applicable to that loan

Because the standard procedures for recording instalment-type loans tend to inflate balance sheets by taking into account future income over the life of the loans, it was decided that instalment loans should be recorded on the new monthly bank return net of unearned interest and charges The exclusion of unearned interest and charges from the private-sector credit series published by the Bank means that the series is no longer distorted by the significant changes in unearned interest and charges the individual banks' credit figures reflect more accurately the 'true' amount of credit extended [10]

2 3 *Accrued Interest Payable:* Interest crediting practices of licensed banks, like their interest-debiting practices, also have implications for monetary aggregates In the case of the Associated Banks a very large part of the interest is credited only once a year The quarterly or half-yearly interest-crediting practices of the non-Associated banks do not have as significant an effect on money supply series because a large proportion of the deposits are short term, with the result that a significant amount of their interest crediting takes place at maturity dates of deposits rather than at normal crediting dates

In the new monthly bank return accrued interest payable in respect of deposit liabilities to both residents and non-residents is identified separately and broken down into Irish pounds and the Irish-pound equivalent of foreign currency The case for including accrued interest-payable in any relevant money supply series is similar to that presented above for including accrued interest receivable in any credit series. At any particular time during the year the amount of funds due to a customer includes not only the amount on his deposit statement but also any amount of interest payable to him. When an account is closed at any time during the year and the funds withdrawn, the bank repays not only the deposit but also any interest due on the account. The inclusion of accrued interest payable in money supply series helps to isolate such series from the effect of changes in banks' accounting practices For example, if the Associated Banks decided to credit interest to customers' accounts on a monthly basis, such a decision would have a significant effect on

recorded money supply series (apart from M1) which exclude interest payable In addition, where significant amounts of deposits are switched either among Associated Banks or between these banks and non-Associated banks, monetary aggregates which exclude interest payable could be distorted because of differences in banks' interest-crediting practices

3 *Provisions for Bad and Doubtful Debts*

Accounting conventions for recognising that certain debts may be bad or doubtful differ between financial institutions These different conventions have implications for the compilation of banking statistics and monetary aggregates In compiling the new monthly bank returns, banks are required to define provisions for bad and doubtful debts according to proceedures agreed with the Central Bank and to deduct these provisions from relevant risk items on the balance sheet

Provisions for bad and doubtful debts can be divided into three categories

(i) *Specific Provisions* - covering credit outstanding which a bank has identified positively as bad and doubtful at the bank-return date,

(ii) *General Provisions* - created in recognition of the fact that it is usually not possible to identify positively all bad and doubtful loans and intended to provide for possible defaults on credit outstanding which are not covered by specific provisions (general provisions do not attract tax relief), and

(iii) *Interest Suspense Accounts* - instead of increasing the provisions proper for that portion of interest-debited to customers' accounts - which is considered to be bad or doubtful, an interest suspense account (a separate liability account) may be credited (this account could be quite significant since it would apply in cases where even a specific provision against a loan might not be in operation - for example, this would arise where the loan itself is adequately secured but the security is not sufficient to cover interest debited to the account).

The *Companies Act, 1963* (Schedule 6) defines a provision as

"Any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy."

The Schedule also states that any amount in excess of that which in the opinion of the directors is reasonably necessary for the purpose for which the provision is being created, shall be treated as a reserve and not as a provision

It is generally accepted that specific provisions for bad and doubtful loans fall within the above definition, but there has been considerable disagreement as to whether general provisions so qualify. It seems reasonable to assume that in many cases a bank would not be in a position to identify specifically all bad and doubtful debts. Consequently, there is a need to make general provisions, as distinct from specific provisions, for the purpose of giving the best estimate of the diminution that has taken place in the value of a bank's assets.

Instead of relying only on the use of specific and general provisions to deal with the problem of bad and doubtful debts, interest suspense accounts may also be used. This is simply a method of differentiating the unpaid interest on a debt from the

capital sum outstanding. The separate interest suspense account is a liability account which performs the same function as the provisions for bad and doubtful debts account, i e , it is a method of providing for a known diminution in that portion of the value of the asset that is attributable to interest charged but not received on a loan

Consequently, it was decided that, in the new monthly bank return, specific and general provisions and interest suspense accounts would be accorded the same treatment, with bank credit measured either

(i) on a basis gross of specific and general provisions and interest suspense accounts, with the related data for general and specific provisions and interest suspense accounts recorded as a separate item on the liability side of the return, or

(iii) net of all such provisions and interest suspense accounts

3 1 *The Measurement of Bank Credit:* If a bank extends credit by making a loan to a company, when does that loan cease to be bank credit? In the normal course of events, it does so through the repayment of the loan together with interest thereon If the loan is not repaid, then not only does the original amount of credit remain outstanding but also, to the extent that interest continued to be earned on the loan, additional credit is considered to be extended This raises the question of how bank credit should be measured and in particular how provisions for bad debts, and even bad debts themselves, should be treated in the measurement of credit

3 2 *The Accounting Approach to the Measurement of Bank Credit:* Since bank credit statistics are derived from banks' balance sheets, these are the logical starting point from which to examine the concept of credit A bank would only write-off a loan considered to be irrecoverable, so at the time of write-off presumably the client is regarded as being unable to meet the repayment of the loan When a loan is no longer considered to be an asset of the bank which extended the loan, there would appear to be a case for not treating such a loan as credit

The alternative approach, i.e , to treat bad debts as continuing to form part of credit outstanding, would imply that banks' balance sheets could continue to regard as assets, those loans (and presumably up-to-date interest thereon) which were no longer recoverable. Since this would make nonsense of accounting principles, it is clear that, from an accounting point of view, the measurement of credit on the basis of banks' balance sheets would have to exclude bad debts.

This argument for excluding bad debts from credit can also be extended to exclude from credit that portion of it for which provisions for bad and doubtful debts have been made It was shown above - in line with the relevant definition in the *Companies Act, 1963* - that banks' provisions for bad and doubtful debts should be the best estimate of the diminution that has taken place in the value of their assets If provisions comply with this requirement, then since, like bad debts written-off, provisions reflect reductions in assets that are believed to have taken place, consistency of treatment would require credit to be measured net of provisions (including interest suspense accounts) for bad and doubtful debts

3 3 *The Economic Approach to the Measurement of Bank Credit* The problem may also be looked at from an economic, as distinct from an accounting, point of view It could be argued that the measurement of credit gross or net of provisions for bad and doubtful debts does not have significant implications as far as the level of economic activity is concerned Accordingly, one should, perhaps, be indifferent between the gross and net measurement concepts, as long as the same concepts are consistently applied However, where there was an increase in the level of provisions, perhaps in a recession its impact on credit measured on a gross basis would not be reflected unless and until the debts to which the increased provisions related were eventually written-off However, under a system where credit is measured on a net basis, such an increase in the level of provisions would be immediately reflected in the credit aggregate 11

The amount of new loans extended by banks in any particular year depends upon repayments of existing loans together with any net increase in their lending However, a greater incidence of bad and doubtful debts can be expected to be associated with a reduction in repayments on outstanding loans Thus, developments in a credit aggregate, measured on a basis gross of provisions for bad and doubtful debts, would tend to be a poor guide to the amount of new loans which banks had extended in a particular period due to the fact that repayments would tend to fluctuate during various phases of the economic cycle

A further problem is created by differences in the timing of the write-off of bad debts by banks Where a bank opts to write-off bad debts immediately they are considered to be irreoverable, the size of its provisions' figure would be at a relatively low level compared with that of a bank which delays writing-off debts Where credit is measured gross of provisions, the amount of recorded credit outstanding is affected by banks' decisions on the timing of write-offs Banks' practices in this regard vary considerably and, in view of the fact that interest continues to be considered to be earned on accounts where write-offs are delayed, the effect of these practices on recorded credit should be significant However, where credit is measured on a basis net of provisions for bad and doubtful debts, it is immune from the effects of banks' policies in this regard Where a bank delays writing-off bad debts under this procedure, the loan accounts continue to be inflated but there is a corresponding increase in the provisions' figure which, when deducted from gross lending, produces a more realistic recorded credit figure In view of these considerations, and in line with the accounting approach to the measurement of bank credit, it was decided to measure credit net of provisions for bad and doubtful debts

3 4 *The Allocation of Provisions on a Resident/Non-Resident Basis:* In opting for a net basis for recording credit, it was necessary for a proper residency breakdown to be provided for specific and general provisions and interest suspense accounts 12 It was decided to allocate specific provisions and interest suspense accounts on the basis of the residency of the borrower of the specific loans to which they refer However, where general provisions are not available on a residency basis they are allocated according to the ratio of resident to non-resident lending to which such provisions apply

3 5 *The Need for Provisions' Data to Reflect 'True' Provisions Only:* The adoption of the net basis for the measurement of credit meant, however, that provisions had to reflect accurately only the diminution in the value of a bank's assets that had already taken place To the extent that any portion of amounts recorded as provisions was really of the nature of a reserve, the proposed treatment of provisions would not lead to an accurate measurement of credit Provisions would be overstated to the extent that they represented amounts set aside to cover future losses, i e , losses which may arise, in respect of loans outstanding at the balance-sheet date, from events occurring thereafter and losses on loans extended after the balance-sheet date. Although it could be considered prudent to provide for such future losses, the proper way to do so is through contingency reserves, disclosed in the balance sheet as part of shareholders' funds

4 *Offsets*

A bank, in compiling its balance sheet, may, in respect of certain related accounts, set off a debit balance against a credit balance In compiling monthly bank returns, such practices have implications for monetary aggregates and for liquidity and prudential ratio requirements In view of this, it was necessary for the Central Bank to lay down strict conditions which had to be satisfied before offsetting could take place in the new monthly bank return

4 1 *Offsetting Current Accounts and Overdrafts* The practice of offsetting between current accounts and overdrafts could take place where a legal right of setoff for principal exists This practice arises where a customer holds two (or more) accounts, say, a Number 1 account with a debit balance and a Number 2 account with a credit balance [13] These accounts are normally referred to as "same name and same title" and may also set off interest [14] Such accounts could arise in a large number of circumstances, in particular in the case of companies and self-employed individuals. For example, a company may have a separate wages account, a shop-keeper may have separate accounts for, say, two or more shops, or a dentist may hold a separate account for social security receipts and payments Reasons for holding separate accounts would be administrative convenience or ease of reconciliation on the part of the customer

4 2 *Offsetting Deposit Accounts and Overdrafts or Term Loans:* Offsetting between deposit accounts and overdrafts or term loans could arise between small savings accounts and loans, or where a customer provided the bank with a "letter of lien" which would allow the bank to offset an overdraft or term loan against the deposit account [15] Such arrangements could arise where a customer was reluctant to break a large deposit when a need for short-term funding arose, or where a company, wishing to facilitate an employee, places a sum on deposit with a bank on the basis of which the bank would then make a loan to the employee In such cases maturities on debit balances eligible for offset must, by definition, always coincide with maturity dates of customers' liabilities In the case of term deposits, the term of the loan and

the deposit should be the same, while in the case of ordinary deposits, the normal rules of withdrawal would not apply since the deposit would have to be retained in support of the loan in both cases the bank could refuse to pay out the deposit concerned by virtue of the fact that it was offset for principal

4 3 *Implications of Offsetting on Monthly Bank Return* Offsetting reduces current or deposit accounts on the liabilities' side of the return, with the corresponding adjustment reducing the relevant asset item, i e , overdrafts or term loans The result of offsetting on the liabilities' side of the monthly return is a reduction in a bank's Relevant Resources, thereby leading to a reduction in primary and secondary liquidity requirements in the aggregate, such offsetting also reduces money supply data The effect of offsetting on the assets' side of the return is a reduction in an individual bank's private-sector credit and in aggregate credit series At mid-April 1971, offsetting by within-the-State offices of Irish licensed banks amounted to about £70 million or 5 per cent of total liabilities (6 per cent of the wide money supply, M3, old series), but by end-December 1983 the figure had increased to £860 million, or 6 per cent of total liabilities (11 per cent of M3, new series)

4 4 *Conditions Governing Offsetting:* In view of the significance of offsetting and of its implications for liquidity and prudential requirements and monetary aggregates, the Central Bank has laid down strict conditions which must be satisfied before offsetting can take place. The only logical justification for offsetting related debit and credit balances is that they are not of normal deposit/loan nature Transactions on those related accounts are, essentially, of a non-bank deposit-taking/lending nature, in that the bank (at the instigation of its customer) is merely acting as a 'clearing house' for that party's own funds For example, in the case of a company with a number of accounts in the same bank for operating different aspects of its business, the bank is merely facilitating the customer in the management of its own funds by allowing debit and credit balances to build-up on different, but related, accounts. In arriving at the customer's net position vis-a-vis the bank, it is necessary to amalgamate the accounts. Likewise, in compiling the bank's own financial statistics, these debit and credit balances need to be amalgamated in order to avoid inflating the balance sheet.

In compiling monthly bank returns, offsetting may be applied to both principal and interest and may exist between.

(i) current accounts and overdrafts,
(ii) deposit accounts and overdrafts, and
(iii) deposit accounts and other loans.

However, the following eight conditions must be satisfied before offsetting is permitted.

(i) the related debit and credit balances are not of a normal deposit/loan nature - the transactions on these related accounts are, essentially, of a non-bank deposit-taking/lending nature, in that the bank (at the instigation of an outside party) is merely acting as a 'clearing house' for that party's own funds,

(ii) the bank considers that it is not, in consequence of the offsetting deposit, exposed to any risk in respect of the loan,
(iii) the loan is conditional upon the deposit,
(iv) both the loan and the deposit are in the same currency (or are otherwise protected from the effect of currency fluctuations),
(v) both the loan and the deposit have identical maturities,
(vi) the loan and the deposit relate to the same group of companies or individuals,
(vii) a legal right of 'offset' is embodied in the loan/deposit agreement; and
(viii) both the loan and the deposit must be located in the customer's country of residence.

5 *Items in Transit*

Cheques in the course of collection constitute the bulk of items in transit. The normal practice in banking is to credit a customer's account upon presentation of a cheque, instead of waiting until that cheque is being debited to another customer's account. Consequently, in order to avoid double counting in aggregating banks' balance sheets and compiling monetary aggregates, it is necessary to make an adjustment to take account of the effects of items in transit In the new monthly reporting system, as indicated below, this adjustment is carried out by deducting 60 per cent of net debit items in transit from current accounts and adding the remaining 40 per cent to overdrafts Since the adjustment is now carried out by the banks in their monthly returns, no further adjustment is required in compiling monetary aggregates.

An adjustment for the effects of items in transit is necessary because of the inherent timing problem that arises in the aggregation of balance-sheet items maintained by individual banks. The timing problem arises, for example, when the customer of, say, Bank A receives credit to his account upon presentation of a cheque drawn on Bank B, rather than after the cheque has passed through the clearing system. The payee's bank, A, will record the cheque among its assets in transit. In view of the fact that Bank B, the drawee's bank, is made aware of the cheque only after it has passed through the clearing system, its customer's account will not at that stage have recorded the pending debit entry. Assuming that only current accounts in credit were affected by this transaction, the simple addition of the current-account liabilities reported by the two banks in question would imply that both payee and drawee hold value for the cheque. In such a case a more meaningful measure of current accounts would be obtained by deducting items in transit from recorded current accounts, thus eliminating the inherent 'double counting'. In practice, of course, in this country the problem of items in transit is further complicated by the fact that cheques may be drawn on current accounts in credit or in debit, due to the wide use of the overdraft facility

Ideally, it would be desirable to distinguish between in-transit items that would affect current accounts and those that would affect overdrafts In theory, net debit items in transit and applicable to current accounts should be used to reduce current-account liabilities at the bank-return date, while net debit items in transit and applicable to overdraft accounts should be used to increase a bank's overdrafts at the bank-return date. In practice, it is impossible to subdivide in-transit items in this manner at each bank-return date Such a division would presuppose an advance

knowledge of the state of the account which is yet to be debited to take account of the item in transit Indeed, in some cases one particular item in transit could affect a current and an overdraft account where it had the effect of putting a current account into the 'red' Thus, while an exact division of in-transit items between those that affect current accounts and those that affect overdrafts is not feasible, attempts are made to ensure that the adjustments undertaken adequately reflect the way in which items in transit are likely to affect current accounts and overdrafts when they reach their destination

The objective of carrying out an adjustment in respect of items in transit is to reflect the true position of accounts affected by these in-transit items at the bank-return date In some cases the most appropriate effect of an adjustment for an in-transit item would be to reverse the transaction that has begun, while in other cases the most appropriate effect of the adjustment would be to treat the item in transit as if it had reached its destination Ideally, the adjustment should attempt to have the effect of reversing transactions for which value has not been received by the bank with the in-transit item For example, where a customer's account in Bank A is credited by the amount of a cheque drawn on Bank B, the adjustment should attempt to reverse the transaction since Bank A would not have obtained value for the cheque at the bank-return date On the other hand, where a customer lodges cash in Bank A for credit to his own account at Bank B and this item is in transit at the bank-return date, the adjustment should ideally have the effect of carrying through the transaction

In Appendix A an attempt is made to assess the extent to which the system of adjusting for both debit and credit items in transit achieves these objectives The examination indicates that in general the adjustment for items in transit has the effect of reversing transactions for which value had not been received by the bank with the in-transit item, while in other cases, i.e , where value has been received by the bank holding the in-transit item the effect of the adjustment is to treat the item as if it had reached its destination

5 1 *The Allocation of In-Transit Items between Current Accounts and Overdrafts:* In compiling monetary aggregates from the old monthly bank returns, items in transit were allocated to current accounts and overdrafts in accordance with the relative size of these two items Adjusting on this basis implied that a current account and an overdraft were essentially the same type of accounts, i e., they existed primarily to enable a customer to carry out current account-type transactions. However, intuitively one might expect greater activity on a current account than on an overdraft, since the main reason for holding the former would be to enable such transactions to take place The overdraft, on the other hand, is normally the cheapest source of credit (apart from tax-based or other subsidised lending facilities) from licensed banks and, therefore, in addition to its use for carrying out current account-type transactions, one would expect to see such a facility used as a source of credit *per se*. During periods of relatively high interest rates, retaining funds on current accounts in credit becomes a relatively inefficient method of handling one's resources It is also quite likely that, in recent years with interest rates relatively high, customers have been attempting to minimise current-account

balances by transferring funds to them as and when needed to meet payments and other obligations.[16] Such considerations led to a questioning of the appropriateness of the procedure for allocating in-transit items between current accounts and overdrafts. accounts and overdrafts.

Discussions with the banks and evidence from surveys carried out by them in relation to the cost of the money transmission system indicated that items in transit were more likely to affect indicated accounts than overdrafts and that it would be better to allocate items in transit on a percentage basis between current accounts and overdrafts The evidence from surveys indicated that items in transit should be allocated between current accounts and overdrafts on a 60:40 basis, i.e., 60 per centl of net debit items in transit should be deducted from current accounts and 40 per cent added to overdrafts. It was decided that this adjustment for items in transit should be reflected in the new monthly bank return proper and not simply used for compiling certain monetary aggregates This helps to avoid 'double counting' in aggregating banks' balance sheets and improve consistency between statistical tables and series produced by the Central Bank.

Any system of adjusting for items in transit should not be considered to be an exact science. A small amount of items in transit is likely to affect deposit accounts and Government accounts. However, the breakdown of in-transit items is not adequate to take account of these minor problems. It is also possible that the destination of items in transit may vary somewhat between mid-month bank-return dates and end-quarter dates. In due course, however, technological developments will help to reduce substantially or even eliminate the in-transit problem. The process, known as "truncation", whereby customers' accounts are simultaneously debited and credited for money transfers appears likely to become a reality within a few years. The first step in this process, i.e., cheque retention, has begun on a trial basis. While this may not be welcome news for those who like to write the odd cheque or two in advance of salary lodgement, from a financial statistics' standpoint it would be a welcome development. At end-December 1983, net debit items in transit amounted to £382 million and the adjustment carried out had the effect of reducing current accounts by 19 per cent., while increasing overdrafts by 11 per cent.

6. *Other Considerations*

The quality of monetary aggregates compiled from the new monthly bank return should also be significantly improved by the efforts that are being made to ensure that returns are compiled on a consistent and uniform basis. In an attempt to achieve this objective the banks were provided with detailed notes on compiling the returns. In addition to dealing with the issues discussed above, the notes also provide detailed instructions of what should be included under each sub-heading in the returns. These instructions will help to eliminate non-uniform procedures, especially in areas such as recording of acceptances and valuation of certain assets and liabilities.

For example, uniform procedures have been adopted for recording acceptances and related bills, leasing agreements are valued net of grants and accumulated depreciation, with the latter computed over the primary leasing period. In the case of assets and liabilities denominated in foreign currencies, the Bank provides the licensed banks with the mid-spot rates to be used in converting foreign currencies into Irish pounds for inclusion in the bank return. These measures should help to

ensure that, as far as possible, source data used in compiling monetary aggregates are prepared on a proper and consistent basis

PART III MONETARY AGGREGATES A DISCUSSION

There is no unique definition of a monetary aggregate Indeed, the prevailing institutional and regulatory environment, and even the use to which it is being applied, may determine how a monetary aggregate should be compiled. In view of this, it is important that a financial reporting system should be designed to be as flexible as possible in permitting the derivation of a wide range of measures of monetary aggregates The new monthly reporting system for licensed banks has gone a long way towards achieving this objective

In a small open economy, with a fixed exchange rate, it is argued that since money is demand determined, the authorities should concern themselves with controlling the counterparts of money, i e , the credit of all domestic credit-creating financial institutions, so that, given a stable demand for money, the domestic money creation process is not permitted to undermine the self-correcting effects of external inflows/outflows For example, in such an economy it would be important to prevent credit creation from offsetting the drain on the money stock resulting from, say, a loss of official external reserves While this analysis of small open economies under fixed exchange-rate regimes may have been generally applicable to Ireland prior to its entry into the EMS, its relevance, in its pure form, to the prevailing Irish situation is questionable

Since EMS a higher proportion of Ireland's external trade is now expressed in currencies that fluctuate against the Irish pound In addition, exchange-control regulations limit residents' dealings in foreign-currency assets and liabilities and there are restrictions on banks' exposure positions in foreign currencies. These developments have enabled the Central Bank to have a greater influence on domestic liquidity and thereby have a more important role in influencing monetary conditions Accordingly, it may be more useful in future to focus not only on credit aggregates, but also on money and other liquidity aggregates.

Such considerations highlighted the need for a wide range of monetary aggregates to be available, so that those most suitable for analytical and policy purposes can be identified While a definitive discussion on the merits of different series is not possible until sufficient data are available to enable the required statistical tests to be made, it may, however, be useful, in discussing different aggregates, to isolate some of the factors which might, on an *a priori* basis, suggest the use of particular series. A number of money and credit series, compiled from the new monthly reporting system, together with descriptions of the various components are presented in Appendix B However, for illustrative purposes, the components of the aggregates are indicated in Tables 1, 2 and 3

The discussion of monetary aggregates presented below is mainly confined to the

liabilities and assets of the licensed banks However, there are other financial institutions that are in direct competition with the licensed banks. Some who advocate the use of wider monetary aggregates would contend that the relevant liability and asset items of all competing institutions should also be taken into account in compiling certain money supply and credit series [17] In Ireland such institutions would include the building societies, the State-sponsored financial institutions, the Post Office Savings Bank and Trustee Savings Banks and other financial institutions, such as, perhaps, companies operating under Moneylenders Exemption Orders, including hire-purchase finance companies [18] In order to facilitate the derivation of wider monetary aggregates, the relevant inter-institutional items have been identified separately in Supplement 1 of the licensed banks' new monthly bank return. However, to get involved in the implication or relevance of such wider aggregates is beyond the scope of this paper.

1 *Residency -v- Currency Approach in Compiling Money Supply Series*

It is possible to opt for either a residency or a currency definition of the money supply. The residency approach tends to be more widely used and the components of different aggregates compiled on that basis are illustrated in Table 1. To the extent that the stability of the demand for money is determined by reference to its relationship to a number of domestic economic variables, such as the level of GNP, the price level, the return on interest-earning money balances and alternative rates of return, it would probably be more useful to focus on a residency definition of the money supply such variables would have little or no effect on the level of money balances held by non-residents, which would be determined by external factors. In most countries, money supply series include residents' foreign-currency deposits at within-the-State branches of domestic banks. Their inclusion or exclusion would depend to some extent on the reasons why such balances are held, and the regulations, if any, governing such balances [19] In Ireland, residents' holdings of foreign-currency balances are limited because of exchange-control requirements. Such balances are permitted mainly to facilitate receipts and payments in connection with international trade and to facilitate subsidiaries of international companies holding surplus income pending repatriation abroad. Funds held for trading purposes appear likely to reflect domestic economic activity, but funds held pending repatriation may, at times, be quite susceptible to international factors.

Residents' deposits at banks abroad are not normally considered suitable for inclusion in domestic monetary aggregates, because it is difficult to obtain comprehensive and timely information on such deposits. It is also argued that such holdings are likely to be more responsive to international factors which are unrelated to domestic economic activity. In the case of Irish residents, such holdings are also limited by exchange-control requirements.

The components of money supply series compiled on a currency basis are illustrated in Table 2. Resident Irish-pound series are, obviously, relevant to domestic economic activity. In view of exchange-control restrictions on holdings of foreign currency by residents, currency substitution is unlikely to be significant

However, it is possible that such series might prove unsatisfactory if there were significant fluctuations in the extent to which resident foreign-currency deposits were affecting domestic economic activity [20]

Table 1 Components of Residency Measures of the Money Supply

	Measures.				
Components	*M1*	*M2*	*M3*	*M2**	*M3**
Central Bank					
1 Currency outstanding[a]					
- Irish pound	X	X	X	X	X
Licensed Banks					
Non-Government deposits					
2 Current accounts					
- Irish pound	X	X	X	X	X
- Foreign currency	X	X	X	X	X
3 Demand deposit accounts					
- Irish pound		X	X	X	X
- Foreign currency		X	X	X	X
5 Accrued interest on demand deposit accounts					
- Irish pound		X	X		
- Foreign currency		X	X		
6 Accrued interest on term deposit accounts					
- Irish pound			X		
- Foreign currency			X		

* These series exclude accrued interest.
a Net of licensed banks' holdings of notes and coin

Non-resident Irish-pound deposits at within-the-State offices of Irish licensed banks are, by and large, used to fund Irish-pound lending to residents. Thus, it could be argued that since such deposits are funding domestic credit they should be reflected in any money supply series used for analytical and policy purposes. However, a money supply series which includes non-resident domestic currency deposits could also be significantly affected by conversion of such balances into foreign currency deposits by holders, or changes in factors influencing the holding of such accounts at within-the-State offices of Irish licensed banks Non-resident foreign-currency deposits would not normally be considered suitable for inclusion in domestic money supply series, in view of the fact that such deposits would, to a significant extent, reflect international Eurocurrency activities of domestic licensed banks rather than domestic economic activity

Table 2 Components of Currency Measures of the Money Supply

Components	Resident Measures					Resident and Non-Resident Measures				
	M1	M2	M3	M2*	M3*	M1	M2	M3	M2*	M3*
Central Bank										
1. Currency outstanding[a]										
- Resident Irish pound	X	X	X	X	X	X	X	X	X	X
Licensed Banks										
Non-Government deposits										
2. Current accounts										
- Resident Irish pound	X	X	X	X	X	X	X	X	X	X
- Non-resident Irish pound						X	X	X	X	X
3 Demand deposit accounts										
- Resident Irish pound		X	X	X	X		X	X	X	X
- Non-resident Irish pound							X	X	X	X
4. Term deposit accounts.										
- Resident Irish pound			X		X			X		X
- Non-resident Irish pound								X		X
5. Accrued interest on demand deposit accounts										
- Resident Irish pound		X	X				X	X		
- Non-resident Irish pound							X	X		
6 Accrued interest on term deposit accounts.										
- Resident Irish pound			X					X		
- Non-resident Irish pound								X		

* These series exclude accrued interest.
a Net of licensed banks' holdings of notes and coins.

2. *Narrow -v- Wide Money Supply Series*

Initially, those who favoured a transactions demand for money approach tended to concentrate on a narrow definition of money. Thus, the M1 money supply series is restricted to currency outstanding in the hands of the public plus current-account liabilities to the non-Government sector. Trends in this narrow monetary aggregate, which concentrates on deposits transferable by cheque, may, at times, give misleading indications of monetary conditions. In particular, M1 tends to be affected unduly during periods of very high nominal interest rates, since current accounts normally do not attract interest. Such accounts can also be significantly affected by new technology which facilitates the greater utilisation of non-current account balances for transactions purposes, as noted above in Part II.

The M2 series extends the narrowly-defined M1 series to include deposits withdrawable on demand, overnight, or at call. In theory, such a series should not be as susceptible to interest-rate movements as M1, while at the same time being

restricted to accounts which, more likely, would be used for transactions purposes In practice, however, such deposits may include significant amounts of mobile funds which are actively invested in different types of accounts with a view to maximising income. The rates on demand deposits at the Associated Banks - which account for the bulk of these deposits included in the series - may, at times, differ somewhat from rates offered for deposits by non-Associated banks If, as a result of this, or because of financial innovation, funds shifted between demand-deposit and term-deposit accounts, the M2 series could be significantly affected

The wide money supply series, M3, extends M2 to include term deposit accounts In view of this it should help to avoid some of the difficulties inherent in the M2 series However, for those who favour a transactions approach it is defective since it includes substantial funds held for investment purposes [21] On the other hand, those who favour an asset demand for money function would argue that the definition of money should be widened to include other domestic financial assets held by the non-bank public [22] In this regard, it is worth noting that M3, and to some extent M2, can also be affected by changes in the asset preferences of the public between licensed banks, non-licensed banks, other financial institutions and Government investments Thus, on *a priori* grounds, it is difficult to decide whether the use of an M1, M2 or M3 series, or a wider series, is more likely to produce more stable relationships with measures of domestic economic activity [23]

3 *Domestic Credit Series*

The components of selected domestic credit series are illustrated in Table 3. The discussion above on various money supply series, in relation to residency -v- currency and narrow -v- wider aggregates are also generally applicable to consideration of credit series. However, while in defining money supply series non-resident accounts warrant consideration, in compiling credit series, lending to non-residents would not normally warrant serious consideration

Resident Irish-pound private-sector credit and resident Irish-pound and foreign-currency private-sector credit series are illustrated in Table 3. In general, it probably would be more relevant to concentrate on a measure of private-sector credit that embraces the Irish-pound value of credit extended, irrespective of the currency in which it is lent, but it may be useful at times to analyse changes in the trends between the two series. However, these more traditional measures of credit fail to take account of the fact that the financing of the Government may have a significant impact on the magnitude of domestic credit aggregates. A way of recognising this development is to focus on domestic credit expansion (DCE). In addition to taking account of changes in non-Government credit, this concept also embraces Government financing from the domestic banking system and from abroad DCE is a useful way of measuring the aggregate effect of both the public and private sectors' contribution to the increase in domestic money holdings.

Table 3 Components of Measures of Domestic Credit

	Measures					
	Resident IR£ private sector credit	*Resident IR£ and FX private-sector credit*	*DCE IR£ private-sector credit**	*Resident IR£ and FX private-sector credit**	*Resident*	*DCE**
Components						
Licensed Banks						
1 Non-Government Credit						
Irish pound	X	X	□X	X	X	□
Foreign currency		X	□X		X	□X
2 Accrued interest on non-Government credit						
Irish pound	X	X	□X			
Foreign current		X	□X			
3 Government credit						
Irish pound			□X			□X
Central Bank						
4 Government credit						
Irish pound			□X			□X
5 Government deposits (-)						
- Irish pound			□X			□X
6 Non-Government credit (Intervention Agency financing)						
Irish pound	X	X	□X	X	X	□X
Other						
7 Direct net external Government borrowing from base date						
- Foreign currency			X			X
8 Uptake of Government securities by non residents from base date						
Irish pound			X			X

* These series exclude accrued interest

4. *Inclusion -v- Exclusion of Accruals*

The case for including accruals in monetary aggregates has already been presented above in Part II. The main advantage of including accruals in a series is that there will be a smoother evolution of the series due to the fact that it is isolated from the effects of the interest-crediting practices of individual banks. Where year-on-year comparisons are being made the inclusion of accruals in a series should not make a significant difference, unless there have been very significant changes in the level of interest rates between the two years.

It should be pointed out, however, that at the international level monetary aggregates do not normally include accrued interest receivable or payable In many countries the information would not be readily available, since monthly bank returns are compiled on a cash rather than an accrual basis The interest debiting/crediting practices of banks would, of course, be unlikely to have major

effects on monetary aggregates in countries with a large number of banks and where interest-debiting/crediting intervals are more randomly distributed throughout the year.

Conceptually, the treatment of accrued interest receivable and accrued interest payable as financial assets and liabilities, respectively, is equivalent to assuming that additional financial assets and liabilites are created between bank-return dates in respect of the net increase in such accruals In effect, one is assuming that additional loans have been extended equivalent to the amount of accrued interest receivable at any particular bank-return date and that deposits have been increased to take account of accrued interest payable It seems reasonable to assume that most customers would be aware that the effect of monthly repayments in reducing their net borrowings from a bank is overstated when interest accruing is not taken into account and that, in the case of deposit accounts, customers are aware of the effect of the build-up of accrued interest payable on their accounts and that this influences their decisions about spending and saving

5 *Conclusion*

This paper has described the features and objectives of the new monthly bank reporting system, against the background of the previous reporting system for licensed banks. It examined some of the key conceptual issues involved in the compilation of monetary aggregates and argued that such aggregates should be compiled on a residency-of-customer basis It also argued that where interest-crediting/debiting practices of banks cause distortions to monetary aggregates, the best solution was to include accrued interest receivable/payable in monetary aggregates and to net off unearned interest and charges The case was also made for the netting off of provisions for bad and doubtful debts and offsets - as long as these items were strictly defined-and for allocating items in transit between current accounts and overdrafts on a 60 : 40 basis.

The flexibility of the new reporting system in facilitating the derivation of a wide range of monetary aggregates was demonstrated and factors influencing the use of different aggregates were highlighted. However, it was pointed out that these different series would need to be available for some time before statistical testing could be carried out.

FOOTNOTES

1 *Central Bank of Ireland, Annual Report,* Spring 1983(1), pp 52-61

2 A list of licensed banks, subdivided into Associated Banks and various categories of non-Associated banks, is included in the Statistical Appendix to the *Central Bank of Ireland, Annual Report,* various issues

3 See Tables C4 and C5 in the *Central Bank of Ireland Annual Report,* Spring 1984(1), and Grimes, T A, "The International Business of Irish Banks An Overview of Recent Trends", *Central Bank of Ireland, Quarterly Bulletin,* Winter 1983(4), pp 67-83

4 See "Note on Method of Territorial Segregation of Items in Bank Balance Sheets", Appendix No 11 to Majority Report of *Commission of Inquiry into Banking, Currency and Credit, 1938· Reports,* The Stationery Office, P 460

5 See *Balance of Payments Manual,* International Monetary Fund, 4th Edition, 1977

6 A non-resident office is defined as a non-resident branch or wholly-owned banking subsidiary of the reporting bank and, in the case of the Associated Banks, their non-resident head office.

7 The format is similar to (but in somewhat greater detail than) Table C3, "All Licensed Banks: Aggregate Balance Sheet", *Central Bank of Ireland, Quaterly Bulletin,* Winter 1983(4), Statistical Appendix

8 See *Balance of Payments Manual, op. cit.,* Ch. 3.

9 See *Balance of Payments Manual, op. cit.,* Chs 18 and 19.

10. In the past, the inclusion of unearned interest and charges in credit subject to the guideline presented difficulties for banks engaged in instalment lending When high interest rates prevailed, a large amount of these banks' permitted extension of credit was absorbed by unearned interest on any new loans extended Moreover, when interest rates had increased significantly over, say, the previous couple of years, an additional problem was created for these banks During such a period the amount of unearned interest applicable to new loans could be significantly in excess of the amount of unearned interest applicable to the loans being replaced In implementing credit guidelines it became necessary to make an adjustment to take account of any increase/ decrease in unearned interest and charges However, the adoption of the new accounting procedures in the new monthly bank return for recording instalment credit has eliminated this problem

11. In the case of banks which delay writing-off bad debts the measurement of credit on a gross basis would mean that recorded credit would continue to reflect not only debts which other banks would have written-off but would also reflect interest debited to such loan accounts: under a credit guideline system, this would have the effect of using up such banks' credit limits. However, the measurement of credit on a net basis would allow banks there and then to extend additional credit equivalent to the increased provisions Provisions would be made not only in respect of loan repayments in arrears but also in respect of that portion of loans, considered to be bad and doubtful, for which repayments would be due in the future Accordingly, under a guideline system, the net basis would be more likely to permit banks to extend additional loans somewhat in line with what they would have been able to do if the loans had been repaid on schedule the gross basis would curb banks' ability in this regard until bad debts were written-off

12 If a fully accurate measure of the net external liability of banks is to be computed, a proper residency breakdown of provisions for bad and doubtful debts would need to be made no matter how provisions for bad and doubtful debts and interest suspense accounts are treated in measuring credit.

13 Where a customer had a debit balance of, say, £1,000 on his Number 1 account and a credit balance of £500 on his Number 2 account, 1 per cent might be charged on £500 of the debit balance but the full rate of interest would be charged on the remaining £500, no additional abatement allowance would apply to the "contra balance", that is, the credit balance of £500 on current account

14 Offsetting of interest only would normally apply in cases where funds were held in a trust capacity No legal right of offset would apply but arrangements would be made to have the interest on funds held by a customer or a client setoff against the customer's office account Such arrangements would arise in the case of solicitors, auctioneers, executors and administrators and company receivers, who hold client accounts in a trust capacity· the principal in such cases would not be available for offsetting purposes

15. For example, the practice is for a loan to be extended at an interest rate 1 or 2 per cent over the deposit rate where a customer also maintains adequate funds in a deposit account no offsetting of interest takes place, instead the deposit account continues to earn interest at the rate applicable to such deposits

16. This practice has also been taking place in other countries For example, in the United States in recent years there has been a growing use of deposit "sweeping" arrangements which enable excess funds on transactions accounts to be invested in highly liquid market instruments until they are required for transactions purposes. Depending upon the terms of agreements, these arrangements may be carried out either by the customer or by the bank. See, for example, Larkins, David J , "The Monetary Aggregates. An Introduction to Definitional Issues", *Survey of Current Business,* Vol. 63(1), January 1983, p. 43

17 See, for example, the pioneering work in this area by Gurley, J G , and E.S. Shaw "Financial Aspects of Economic Development", *American Economic Review,* September 1955, pp. 515-538 and a recent article on the issue by Friedman, Benjamin M., "The Roles of Money and Credit in Marcoeconomic Analysis", *Bank of Israel Economic Review,* 55, 1983, pp. 1-7

18 The relevant liability and asset items of these institutions are as follows

Resident Deposit liabilities

£ million	December 1982		December 1983		Change December 1982/December 1983	
	Amount	% of M3	Amount	% of M3	Amount	%
Building societies	1,681 2	23 1	1,998 9	26 0	«317 7	«18 9
State-sponsored Financial institutions	351 5	4 8	377 9	4 9	« 26 4	« 7 5
POSB and TSBs	676 6	9 3	768 3	10 0	« 91 7	«13 6

a Resident Irish-pound and foreign-currency series - See Appendix B

21 It is also possible to aggregate components of wider money supply series in a way which attempts to reflect the degree of 'moneyness' of particular components See Honohan, P and D Lynch, "Aggregating Components of the Money Supply" in the forthcoming *Central Bank of Ireland, Annual Report,* Spring 1984(1)

22 This, of course, does not prevent different components of such a broad money stock from being analysed separately

23 The results of empirical tests on the old money supply series support the use of wider aggregates, but the applicability of these results to the new aggregates would need to be confirmed See, Browne, F X and T O'Connell, "The Demand for Money Function in Ireland Estimation and Stability", *Economic and Social Review,* Vol 9, No 3, pp 227-247 and various internal Central Bank estimates of the demand for money

APPENDIX A:
Assessing The Appropriateness of Adjusting For Items in Transit

In this Appendix an attempt is made to assess the extent to which adjusting for items in transit achieves the objective of effecting a reversal of transactions in the case of those items in transit for which the reporting bank has not received value, while at the same time, treating those items for which it has received value as if they had reached their destination. A breakdown of in-transit items provided by one of the Associated Banks (Bank A) is used and the effects of the adjustment on these components of in-transit items are examined.

The main contents of cheques in transit as reported in Bank A's monthly return are as follows:

1. cheques or other debits on other Bank A branches in transit from collecting branch to clearing department;
2. cheques or other debits on Bank A branches in transit from clearing department to drawee branch;
3. cheques or other debits on other banks in transit from collecting branch to clearing department of Bank A;

   Less;

4. credits for other Bank A branches in transit from collecting branch to clearing department;
5. credit for Bank A branches in transit from clearing department to account-holding branch; and
6. credits for other banks in transit from collecting branch to clearing department of Bank A.

In the following examples let us assume that X and Y are customers of Bank A but hold their accounts at different branches and that Z is a customer of Bank B (another Associated Bank).

Example 1: X lodges Y's cheque for £100 in this Bank A branch - X's account is credited. At the bank-return date this cheque is in transit to the clearing department with the result that there is an adjustment to Y's overdraft or current account pending. The adjustment will have the effect of increasing Y's overdraft or reducing his current account and it has the effect of treating the in-transit item as if it had reached its destination.

Example 2: X lodges Y's cheque for £100 in his Bank A branch - X's account is credited. At the bank-return date the cheque is in transit to the drawee's branch, where it will have the effect of increasing Y's overdraft or reducing his current account. The adjustment used at present has the effect of treating this transaction as if it reached its destination. Thus, from an accounting standpoint, Examples 1 and 2 are treated in a similar manner.

Example 3 X lodges Z's cheque for £100 in his Bank A branch - X's account is credited This cheque is in transit to the clearing department and the adjustment used at present has the effect of cancelling the crediting which has already taken place to X's account It, therefore, tends to reverse or cancel the earlier transaction In this case the transaction could not be treated as if it had reached its destination, since the pending adjustment is to Z's current account or overdraft at Bank B (Bank A would not have such cheques in transit from the clearing department to the drawee branch, since at that stage the cheques would be held by Bank B)

Example 4 X deposits £100 in a Cork branch of Bank A for credit to his account in the Dublin branch - cash debited At the bank-return date the item is in transit to the clearing department of Bank A The pending credit would be to X's account, either reducing his overdraft or increasing his current account. The adjustment used at present would have the effect of treating the in-transit item as if it had reached its destination

Example 5. X deposits £100 in a Cork branch of Bank A for credit to his account in the Dublin branch - cash debited In this case the item is in transit from the clearing department to the payee's branch There is a credit to X's account pending, which will have the effect of reducing his overdraft or increasing his current account. As in the case in Example 4, the adjustment used at present has the effect of treating the in-transit item as if it had reached its destination (It is also worth noting that other examples of credits in transit from the clearing department to the account-holding branch would include sums deposited in other banks for credit to X's account in his Dublin branch of Bank A)

Example 6. X transfers £100 from his own account at Bank A to Z's account at Bank B - X's account is debited At the bank-return date the item is in transit to the clearing department The adjustment at present attempts to reverse the initial transaction, i e , reducing X's overdraft or increasing his current account. In this case it is not possible for the transaction to be carried forward to its destination, since the credit is to Z's account, that is, reducing his overdraft or increasing his current account, at Bank B

From Bank A's standpoint, Examples 1 and 2 refer to internal transfers. Accordingly, it makes little difference whether the transactions were reversed or carried to their destination by the adjustment for items in transit. In the case of Example 3, Bank A has not received credit for the cheque. a reversal of the transaction is, therefore, the most appropriate adjustment. In Examples 4 and 5, Bank A has already received the benefit of the deposits at the bank-return date. Accordingly, treating the items in transit as if they had reached their destination would appear to be the most appropriate adjustment The adjustment in the case of Example 6 appears to be the most questionable Here, a customer of Bank A would already have his account debited, or have deposited funds in the relevant branch In effect, Bank A has a liability to Bank B in respect of the item in transit, but the adjustment has the effect of reversing the transaction However, in some sense it

could be argued that in the case of Example 3, Bank A would have claims on other banks in the clearing The netting out of items 3 and 6 would reflect Bank A's net claim on other banks in the clearing system. However, in this case the net claims would be on other banks' customers rather than on the banks themselves.

APPENDIX B:
New Monetary Aggregates: Components and Series

The components of the money supply series are set out in Table B1 and the series are presented in Table B2. The components are defined as follows:

Central Banks

1. currency outstanding;
2. holdings of notes and coins - Irish currency held in the tills of Irish licensed banks;
3. non-Government current accounts - demand deposits transferable by cheque and suspense accounts with the banks (these data are net of the adjustment in respect of items in transit);
4. non-Government demand deposit accounts - deposits, placed with the licensed banks, whether interest bearing or not, which are not transferable by cheque but are withdrawable on demand without interest penalty (or interest indemnity) and non-bank money-market deposits which are overnight or at call;
5. non-Government term deposit accounts - all other non-Government deposits, including non-bank money-market deposits which are not overnight or at call,
6. accrued interest on non-Government deposits - all interest earned on non-Government deposits with the banks, which has not yet been credited to relevant accounts; and
7. accrued interest on non-Government demand accounts - that portion of accrued interest payable on non-Government deposits with licensed banks, which is considered to be attributable to demand deposits (this term is not separately identified on the return - it has been estimated on the basis of the ratio of non-Government demand deposits to all non-Government deposits).

The components of Irish domestic credit series are set out in Table B3 and a number of Irish domestic credit series are presented in Table B4. In compiling domestic credit expansion (DCE), the change in components 1 to 6, from the beginning of the year, are used and not the amounts outstanding. The components are defined as follows:

Licensed Banks

1. non-Government credit - all forms of leading by licensed banks to entities other than licensed banks, the Central Bank and the central Government (such

lending is measured net of provisions for bad and doubtful debts and of unearned interest and charges),

2. accrued interest receivable on non-Government credit - all interest earned on non-Government credit which has not been debited to relevant accounts,
3 Government credit - Irish-pound lending by the licensed banks to the Government (foreign-currency lending to the Government is excluded here),

Central Bank

4 Government credit - lending by the Central Bank to the Government,
5 Government deposits - Government deposits held at the Central Bank, the bulk of which are available for Exchequer financing,
6. non-Government credit - Central Bank's holdings of Agricultural Commodities Intervention Bills;

Other

7. direct net external Government borrowing - the net increase, from the beginning of the year, in external Government borrowing, including any participation therein by Irish licensed banks;
8 uptake of Government securities by non-residents - the net uptake, from the beginning of the year, of Irish-pound Government securities by non-residents (it excludes any such uptake of Irish Government foreign-currency securities which are included under Item 7)

TABLE B1: COMPONENTS OF MONEY SUPPLY SERIES - (a) RESIDENT

IR£ million

Bank-return dates	Central Bank	Licensed Banks. Within-the-State Offices										
	Currency out-standing	Holdings of notes and coin	Non-Government current accounts		Non-Government demand deposit accounts		Non-Government term deposit accounts		Accrued interest on non-Government deposits		of which. Apportionable to demand deposit accounts	
	1	2	3		4		5		6		7	
	IR£	IR£	IR£	FX (IR£ equivalent)	IR£	FX (IR£ equivalent)	IR£	FX (IR£ equivalent)	IR£	FX (IR£ equivalent)	IR£	FX (IR£ equivalent
1982												
December	879.0	68.1	855.0	38.7	3,657.2	116.5	1,399.3	183.3	225 4	5.7	184.1	2.1
1983												
January	814 9	59.1	836.0	48.0	3,723.2	132.3	1,385.3	163.8	221.1	3.9	186.1	2.0
February	813.9	54.0	812.8	36.8	3,677.4	148.5	1,463.2	179.3	231 5	4.7	199 2	2.4
March	861.2	34.4	794.3	37.4	3,699.4	152.6	1,429.3	148.4	135 7	5.2	101.6	2 6
April	839.1	57.2	825.5	35.8	3,725.5	149.9	1,400.6	159.1	148.2	3.4	118.8	1.7
May	849.2	57.8	836.3	36.9	3,725.6	159.9	1,521.8	129.2	172.9	4.8	140.9	2.6
June	880.7	49.2	813.9	30.6	3,717.4	165.9	1,448.6	129.1	202.7	5.7	170.2	3.4
July	896.6	63.9	833.4	33.7	3,712.4	165.1	1,477.8	129.4	205 8	3.0	180.9	1.8
August	899.3	61.5	824.1	36.0	3,756.8	172.7	1,377.2	130.5	227 0	4.0	200.8	2.3
September	896.4	34.6	839.8	32.5	3,745.7	177.6	1,388.3	132.8	256 1	5.0	228.4	3 0
October	881.4	54.7	864.1	37.5	3,775.5	167.1	1,356.9	128.8	264.7	3.1	237.9	1.8
November	888.0	54.5	871.9	33.4	3,925.8	184.7	1,466.4	129.9	157.1	3 9	127 0	2.4
December	984.8	78.7	909.7	35.4	3,909.3	172.7	1,478.0	104.9	176.9	4.4	149.6	2 8
1984												
January	901 0	61.4	923.3	50.7	3,941.1	215.4	1,544.1	124.1	183.1	3.6	159.7	2.6

TABLE B1 COMPONENTS OF MONLY SUPPLY SERIES - (b) NON-RESIDENT

IR£ million

Bank-return dates	Central Bank	Licensed Banks Within-the-State Offices					
	Currency out-standing	Holdings of notes and coin	Non-Government current accounts	Non-Government demand deposit accounts	Non-Government term deposit accounts	Accrued interest on non-Government deposits	of which. Apportionable to demand deposit accounts
	1	2	3	4	5	6	7
	IR£	IR£	IR£	IR£	IR£	IR£	IR£
1982							
December	-	-	23 3	852.3	327 9	41.2	30.8
1983							
January	-	-	22.7	838.8	324.2	48.7	40 2
February	-	-	22.8	837 6	323.5	51.4	43.0
March	-	-	22.4	857 8	312.8	29.9	22.3
April	-	-	23.5	865 9	310 9	34.0	26 7
May	-	-	24.3	869.8	292.5	40 2	32.4
June	-	-	25.0	906.8	324.4	49.2	41.5
July	-	-	25.5	918.5	332.8	51.8	45.2
August	-	-	26.9	936.1	339.9	57.9	50.9
September	-	-	25.2	964 5	356.6	66.5	59 5
October	-	-	25.0	968.1	361.3	69.2	61.9
November	-	-	26.4	1,017.7	368.9	33.7	26.3
December	-	-	26.1	1,029.3	374.0	41.3	34.0
1984							
January	-	-	26.8	1,040.1	375.5	43.8	37.2

TABLE B2: MONEY SUPPLY SERIES: (a) RESIDENT IRISH POUND

IR£ million

Bank-return dates	M1		M2		M3		M2*		M3*	
	Components (1+3-2)		Components (1+3+4+7-2)		Components (1+3+4+5+6-2)		Components (1+3+4-2)		Components (1+3+4+5-2)	
	IR£	% change from previous December	IR£	% change from previous December	IR£	% change from previous December	IR£	% change from previous December	IR£	% change from previous December
1982										
December	1,665.9	..	5,507.2	..	6,947.7	..	5,323.1	..	6,722.3	..
1983										
January	1,591.8	- 4.4	5,501.1	- 0.1	6,921.5	- 0.4	5,315.0	- 0.2	6,700.3	- 0.4
February	1,572.7	- 5.6	5,449.3	- 1.1	6,944.7	-	5,250.1	- 1.4	6,713.2	- 0.1
March	1,621.1	- 2.7	5,422.1	- 1.5	6,885.6	- 0.9	5,320.6	-	6,749.9	+ 0.4
April	1,607.4	- 3.5	5,351.7	- 1.0	6,881.7	- 0.9	5,332.9	+ 0.2	6,733.5	+ 0.2
May	1,627.8	- 2.3	5,494.3	- 0.2	7,048.1	+ 1.4	5,353.4	+ 0.6	6,875.2	+ 2.3
June	1,645.5	- 1.2	5,533.1	+ 0.5	7,014.2	+ 1.0	5,362.9	+ 0.7	6,811.4	+ 1.3
July	1,666.1	-	5,559.4	+ 0.9	7,062.1	+ 1.6	5,378.5	+ 1.0	6,856.3	+ 2.0
August	1,662.0	- 0.2	5,619.6	+ 2.0	7,023.0	+ 1.1	5,418.8	+ 1.8	6,796.0	+ 1.1
September	1,701.6	+ 2.1	5,675.6	+ 3.1	7,091.7	+ 2.0	5,447.3	+ 2.3	6,835.6	+ 1.7
October	1,690.9	+ 1.5	5,704.3	+ 3.6	7,088.0	+ 2.0	5,466.4	+ 2.7	6,823.4	+ 1.5
November	1,705.5	+ 2.4	5,758.3	+ 4.6	7,254.7	+ 4.4	5,631.3	+ 5.8	7,097.6	+ 5.6
December	1,815.8	+ 9.0	5,874.6	+ 6.7	7,380.0	+ 6.2	5,725.0	+ 7.6	7,203.1	+ 7.2
1984										
January	1,762.9	- 2.9	5,863.7	- 0.2	7,431.3	+ 0.7	5,704.0	- 0.4	7,248.2	+ 0.6

* These series exclude accrued interest.

Note. The sum of the relevant components shown in Table B1 may differ slightly from the figures in this table due to rounding.

TABLE B2. MONEY SUPPLY SERIES (b) RESIDENT IRISH POUND AND FOREIGN CURRENCY

IR£ million

Bank-return dates	M1		M2		M3		M2*		M3*	
	Components (1+3-2)		Components (1+3+4+7-2)		Components (1+3+4+5+6-2)		Components (1+3+4-2)		Components (1+3+4+5-2)	
	IR£	% change from previous December	IR£	% change from previous December	IR£	% change from previous December	IR£	% change from previous December	IR£	% change from previous December
1982										
December	1,704.7	..	5,664.5	..	7,291.9		5,478.3	..	7,060.9	..
1983										
January	1,639.8	- 3.8	5,683.5	+ 0.3	7,269.5	- 0.3	5,495 4	+ 0.3	7,044.4	- 0.2
February	1,609.4	- 5.6	5,636.9	- 0.5	7,313.8	+ 0.3	5,435 3	- 0 8	7,077.7	+ 0 2
March	1,658.5	- 2.7	5,614.7	- 0.9	7,229.1	- 0 9	5,510 6	+ 0 6	7,088.3	+ 0.4
April	1,643.2	- 3 6	5,639.0	- 0.5	7,229.8	- 0.9	5,518 6	+ 0 7	7,078.3	+ 0 2
May	1,664.7	- 2.3	5,693.6	+ 0.5	7,378.9	+ 1 2	5,550.2	+ 1.3	7,201.2	+ 2.0
June	1,676.1	- 1.7	5,733.0	+ 1.2	7,345.6	+ 0.7	5,559.4	+ 1.5	7,137.1	+ 1.1
July	1,699.7	- 0.3	5,760.0	+ 1.7	7,393.4	+ 1.4	5,577.3	+ 1.8	7,184.6	+ 1.8
August	1,698.0	- 0.4	5,830.7	+ 2.9	7,366.2	+ 1.0	5,627.5	+ 2.7	7,135.2	+ 1.1
September	1,734.1	+ 1.7	5,888.8	+ 4.0	7,439.6	+ 2.0	5,657.4	+ 3.3	7,178.5	+ 1.7
October	1,728.4	+ 1.4	5,910.7	+ 4.3	7,424.5	+ 1.8	5,671 0	+ 3 5	7,156.8	+ 1.4
November	1,738.9	+ 2.0	5,978 8	+ 5.5	7,606.7	+ 4.3	5,849.4	+ 6.8	7,445.7	+ 5.4
December	1,851.1	+ 8.6	6,085.6	+ 7.4	7,697.3	+ 5 6	5,933.1	+ 8.3	7,516.0	+ 6.4
1984										
January	1,813.6	- 2.0	6,132.4	+ 0.8	7,825.1	+ 1.7	5,970.1	+ 0.6	7,638.4	+ 1.6

* These series exclude accrued interest.

Note: The sums of the relevant components shown in Table B1 may differ slightly from the figures in this table due to rounding.

TABLE B2 MONEY SUPPLY SERIES (c) RESIDENT AND NON-REISDENT IRISH POUND

IR£ million

Bank-return dates	M1		M2		M3		M2*		M3*	
	Components (1+3-2)		Components (1+3+4+7-2)		Components (1+3+4+5+6-2)		Components (1+3+4-2)		Components (1+3+4+5-2)	
	IR£	% change from previous December	IR£	% change from previous December	IR£	% change from previous December	IR£	% change from previous December	IR£	% change from previous December
1982										
December	1,689.2	..	6,413.6	..	8,192.4	..	6,198 7	.	7,925.9	.
1983										
January	1,614.5	- 4.4	6,402.7	- 0.2	8,155.8	- 0.4	6,176.5	- 0 4	7,886.0	- 0.5
February	1,595.5	- 5.5	6,352.7	- 0.9	8,180.0	- 0.2	6,110.4	- 1.4	7,897.1	- 0.4
March	1,643.5	- 2.7	6,324 6	- 1.4	8,108.5	- 1.0	6,200.8	-	7,943 0	+ 0.2
April	1,630.9	- 3 5	6,367 8	- 0.7	8,116.0	- 0 9	6,222 3	+ 0 4	7,933.8	+ 0 1
May	1,652.0	- 2.2	6,420 7	+ 0.1	8,274.9	+ 1 0	6,247.5	+ 0.8	8,061.7	+ 1 7
June	1,670 5	- 1.1	6,506.3	+ 1.4	8,319.5	+ 1.6	6,294.7	+ 1.5	8,067.6	+ 1 8
July	1,691.6	+ 0.1	6,548.6	+ 2.1	8,390.7	+ 2.4	6,322.5	+ 2 0	8,133.1	+ 2 6
August	1,688.8	-	6,633.5	+ 3.4	8,383.7	+ 2.3	6,381.7	+ 3.0	8,098.8	+ 2.2
September	1,726.8	+ 2.2	6,724.8	+ 4.9	8,504.5	+ 3.8	6,437.0	+ 3 8	8,181.9	+ 3.2
October	1,715.9	+ 1.6	6,759.3	+ 5.4	8,511.6	+ 3.9	6,456.0	+ 4.2	8,177.8	+ 3.2
November	1,731.9	+ 2.5	6,828 7	+ 6.5	8,701.4	+ 6.2	6,675 3	+ 7.7	8,510.6	+ 7 4
December	1,841 8	+ 9 0	6,964 1	+ 8.6	8,850.6	+ 8 0	6,780.4	+ 9.4	8,632.5	+ 8 9
1984										
January	1,789 7	- 2.8	6,967 8	+ 0.1	8,917.5	+ 0 8	6,770 9	- 0.1	8,690.6	+ 0 7

* These series exclude accrued interest.

Note: The sums of the relevant components shown in Table B1 may differ slightly from the figures in this table due to rounding.

TABLE B3 COMPONENTS OF DOMESTIC CREDIT SERIES RESIDENT

IR£ million

Bank-return dates	Licensed Banks					Central Bank			Other	
	Non-Government credit		Accrued interest receivable on non-Government credit		Government credit	Government credit	Government deposits	Non-Government credit (Intervention Agency financing)	Direct net external Government borrowing from 1 January	Uptake of Government securities by non-residents from 1 January
	1		2		3	4	5	6	7	8
	IR£ (a)	FX (b)	IR£ (a)	FX (b)	IR£	IR£	IR£	IR£	IR£	IR£
1982										
December	5,787.8	867 3	185 1	17.5	1,554.8	389.1	187.1	54 6	1,148.2	-18.0
1983										
January	5,689.7	848.4	201 7	19.9	1,546.7	396.4	63 3	53.0	57.2	- 0.5
February	5,827 6	883.1	240.2	17.8	1,607 8	490.8	71 0	22 3	134 4	- 8 5
March	6,014 4	873.8	67.2	12.4	1,499 9	649 3	36 9	57 5	365.0	- 7.5
April	5,916 4	892 7	100 7	11 0	1,534 3	663 0	64 5	67 1	434.8	-12.6
May	5,930 5	944.2	143 8	13.3	1,596.2	756 9	71.2	61 3	462.2	- 9.0
June	5,943.4	961.4	188 3	14 8	1,638 4	493 3	52 2	41 2	515.0	- 9.0
July	5,923 0	955 8	213.4	15 4	1,637 5	373 3	79.1	24 6	715 5	- 6.0
August	5,905 1	994 0	246.2	16.4	1,709.3	308 5	79 2	26 5	701 1	- 5.0
September	6,265 4	1,036 7	71.4	13.7	1,749.7	244 8	213 8	8 0	835 0	+ 3 2
October	6,230.8	1,015.0	95.4	14.1	1,700 0	309.9	168 8	17 1	850 9	+10.0
November	6,374 9	1,006 2	132.1	15.7	1,718.3	388 5	94 7	0 3	819.1	+30.0
December	6,482.3	1,011 5	174.2	17.7	1,775.6	402.5	223.2	0 2	794.0	+34 7
1984										
January	6,378.3	1,023 9	193 0	19 2	1,834.3	238 6	330 5	10 9	336 1	+ 4.6

TABLE B4 DOMESTIC CREDIT SERIES RESIDENT

IR£ million

Bank-return dates	Resident Irish-pound private-sector credit		Resident Irish-pound and foreign-currency private-sector credit		Domestic credit expansion (DCE)		Resident Irish-pound private-sector credit*		Resident Irish-pound and foreign-currency private-sector credit*		Domestic credit expansion (DCE*)	
	Components (1a+2a+6)		Components (1+2+6)		(Δ in components 1+2+3+4-5+6+ components 7+8)		Components (1a+6)		Components (1+6)		(Δ in components 1+3+4-5+6+ components 7+8)	
	IR£	% change from previous December	IR£	% change from previous December	IR£	as % of M3 at previous December	IR£	% change from previous December	IR£	% change from previous December	IR£	as % of M3* at previous December
1982												
December	6,027 5		6,912.3	.	..	.	5,842 4	.	6,709 7			.
1983												
January	5,944 4	- 1 4	6,812 7	- 1 4	+ 80 1	+ 1 1	5,742 7	- 1 7	6,591 1	- 1 8	+ 61 1	+ 0 9
February	6,090 2	+ 1 0	6,991 1	+ 1 1	+ 475 4	+ 6 5	5,849 9	+ 0 1	6,733 0	+ 0 3	+ 419 9	+ 5 9
March	6,139 2	+ 1 9	7,025 4	+ 1 6	+ 826 2	+11 3	6,072 0	+ 3.9	6,945 8	+ 3 5	+ 949 1	+13 4
April	6,084 1	+ 0.9	6,987 7	+ 1 1	+ 873 6	+12 0	5,983 4	+ 2.4	6,876 1	+ 2 5	+ 964 6	+13 7
May	6,135 7	+ 1 8	7,093 3	+ 2.6	+1,159 3	+15 9	5,991 8	+ 2 6	6,936.1	+ 3 4	+1,204 7	+17 1
June	6,172 9	+ 2.4	7,149 1	+ 3.4	+1,065 6	+14.6	5,984.6	+ 2 4	6,946.0	+ 3 5	+1,065.0	+15 1
July	6,161 1	+ 2.2	7,132 3	+ 3.2	+1,104 4	+15 1	5,947.6	+ 1.8	6,903 4	+ 2 9	+1,078 1	+15 3
August	6,177 9	+ 2 5	7,188 3	+ 4.0	+1,153 9	+15.8	5,931.6	+ 1 5	6,925.7	+ 3 2	+1,093.9	+15 5
September	6,344 8	+ 5 3	7,395 3	+ 7 0	+1,345.0	+18 4	6,273 4	+ 7 4	7,310 2	+ 8 9	+1,462 4	+20 7
October	6,343 3	+ 5 2	7,372 4	+ 6 7	+1,405 2	+19 3	6,247 9	+ 6 9	7,262 9	+ 8 2	+1,498 3	+21 2
November	6,507 3	+ 8 0	7,529 2	+ 8 9	+1,721 3	+23.6	6,375 2	+ 9 1	7,381 4	+10 0	+1,776 1	+25 2
December	6,656.7	+10 4	7,685 9	+11.2	+1,800 4	+24 7	6,482 5	+11.0	7,494 0	+11.7	+1,811 1	+25 6
1984												
January	6,582.3	- 1.1	7,625 5	- 0.8	+ 67.8	+ 0.9	6,389.3	- 1.4	7,413.2	- 1.1	+ 47 4	+ 0 6

* These series exclude accrued interest.

Note: The sums of the relevant components shown in Table B3 may differ slightly from the figures in this table due to rounding.

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DISCUSSION

Michael Walsh I would like to propose the vote of thanks to Mr McEvoy for his very excellent presentation on the thought processes and work that went into compiling the new Irish Banking Statistics by the Central Bank

I think we will all agree that the statistics are a major improvement on those previously available Some important inconsistencies have been removed In particular the removal of the previously conflicting bases for compilation of residency requirements between Associated and non-Associated Banks In the former case residency was determined by the branch location, whereas in the latter it was determined by residency of the depositor

The revised treatment of accrued interest is of benefit in trying to remove distortions caused by the differing methods and dates for debiting or crediting interest by the different institutions

Other changes which again are designed to help consistency include attempts to eliminate the effects of varying accounting treatments (a) for the provisions against bad debts by the different banks, and (b) for hire purchase and instalment credit, relative to other loans In addition there is the almost impossible task of catering for items in transit This latter item will presumably become less relevant as the float period diminishes with greater computerisation

We must however not spend too much time admiring the figures but instead turn to the more relevant issue of their usefulness

The major emphasis in the figures is the compilation of a better money supply figure One must be concerned about an excessive emphasis on narrow definitions of money supply such as M3 It is increasingly difficult to define exactly what money supply is The concept of money supply is breaking down in the U S and the U K. in the sense that the definition of money supply is continually widening If we concentrate all our efforts on getting a narrow definition correct then we are left with the problem of missing out on much of the relevant data

To be useful money suply figures should be supplemented with data which includes all the financial institutions This is an almost impossible task for the Central Bank at present The Central Bank does not have the power to gather such information rapidly, particularly from those financial institutions which do not come under its control

Money supply figures may be less useful than flow of funds analysis An attempt to measure the flow of funds between the different sectors to all the financial institutions including e g banks, insurance companies, building societies, credit unions etc , would probably give a more complete picture of activity within the economy As an indicator of the level of activity in the economy the new money supply figures may have less value than the old In particular the exclusion from money supply of non-resident accounts greatly distorts the picture In recent periods deposit levels at the banks have grown at twice the rate of money-supply This is reflected in the growth in non-resident accounts In other words the relevant figure for looking at activity is now the aggregate of money supply and non-resident accounts

The report of the National Planning Board recommended (No 91) using Domestic Credit Expansion, appropriately adjusted for official external borrowing for production purposes and the increase in net non-deposit liabilities of the banking system Because of the lack of both speed and frequency in the compilation of the public sector component of this, these data cannot currently be compiled on a monthly basis

For the statistics to be more useful a much greater effort should be made to compile and disseminate them on a more rapid basis The most recent figures for money supply relate to February and were released on March 29th - 4 weeks after the data were due to be submitted to the Central Bank Some of the data, involving those institutions not under direct Central Bank control, are now 8 months in arrears This problem may be less serious for the banks than for the non-bank financial institutions Non-bank institutions - particularly those dealing in the Gilt market - are effectively having to wait an unnecessary period before they know how the funds are flowing within the economy In a market where the previous week is almost ancient history the delay in publishing data is unacceptable The delay has largely arisen because of linking the statistics to the quarterly reports - when they could more usefully be released on their own as soon as they have been compiled Equally there is no reason why one should wait for final figures Preliminary indications could easily be provided as in the case of the Bank of England statistics, and key figures could be provided very frequently

A final point on the compilation of these statistics must be the reporting dates As you know these are currently the 3rd Wednesday of each of the first two months of the quarter, followed by the last business day of the final month The intent of the 3rd Wednesday is to find the day closest to the mid-month figures The net effect of these reporting dates is that data are collected at approximate intervals of 2 weeks, 4 weeks, and 6 weeks - not a very consistent pattern Concern is expressed that end of month figures are distorted, however, so that a series compiled in the current fashion must also rely on a substantial amount of adjustment to be useful

Another important use of the data is for market share analysis This is made difficult by not having all the institutions reporting to the Central Bank It would also be useful if we could separate out the Post Office from the Trustee Savings Banks - particularly in the light of the changing role of the P O S B The low level of data on the building societies - with their large share of personal business - is a serious omission, especially if we contrast the Irish data with the data actually supplied by the building societies in the U K

A similar problem exists with the growth in single premium bonds in the insurance industry a totally unmonitored item Equally no figures are available for the lending activities in the ACC/ICC and deposit data for these are only quarterly

It would be useful to have better data on the distribution of deposits by size to enable better target marketing to take place In addition, while putting accrued interest into a separate category alleviates some seasonality problems in compiling money supply figures, it makes it more difficult to analyse the actual amounts in the different deposit categories

There are just a few remaining points From the statistician's point of view the change in statistics may make time series analyses more difficult in the short term - but this is a price worth paying as it will diminish over time and the series are improved In general the information is a substantial improvement over the older

statistics One should be cognisant, however, of the increasing computerisation of the banking system and the opportunity that this provides for gathering additional useful data at minimal cost In an era where bank failures are at their highest level for nearly 50 years any additional data requirements, of a prudential nature, would almost certainly be welcomed by the major banks An area of immediate interest and value would be much more detailed information on the sectoral lending by banks

One must regret that the Central Bank's authority over the financial system is becoming increasingly diminished with the rapid growth in suppliers of financial services over whom it has no control, and the implications this may have for the availability of information necessary to ensure the soundness of the efficient operation of the financial system Finally, perhaps the most important issue of all, given the volatility of the financial markets, is not to emphasise 100% accuracy, but instead to emphasise speed in producing best estimates

Again may I thank Mr McEvoy for a very interesting and well presented paper

Brendan R. Dowling: I am pleased to second the vote of thanks on behalf of the Society to Noel McEvoy for his interesting paper on the new Irish banking statistics The topic, which is one of statistical methodology and clarification, is rarely addressed and difficult to make both entertaining and illuminating Mr McEvoy has carried out the task admirably

If it is difficult to write a paper on the topic of data sources and definitions, it is even more difficult to comment on such a paper However, Mr McEvoy's paper provoked a number of questions which I think are worth examining

The first is - why do we need statistics? In a Society such as this, that might seem to be a question needing no answering However, in a world of scarce resources we cannot collect statistics on everything even if computerization has reduced the cost of data capture We have to choose which statistics we collect and which we ignore

Tonight's paper takes it for granted that we need comprehensive banking statistics Two major reasons are advanced First, to allow the authorities i.e. the Central Bank to monitor and where possible influence and/or control the monetary aggregates, and second to ensure that existing regulations were being complied with There is little emphasis in the paper on the need for monetary and banking statistics as a source of information to the public at large on the market trends and pressures in the financial area

My view is that the monthly banking statistics are not an adequate method of ensuring adherence to the prudential and other ratios required by the Central Bank Unless they are subject to audit, banks in breach of regulation may decide to distort or withhold information concerning such breaches

This may be a rare occurrence but it can happen The role of the Central Bank as regulatory authority charged with ensuring the solvency of individual banks should be separate from the role of policy maker and data gatherer

If one takes the view, as I do, that the purpose of collecting statistics is wider than informing the Central Bank as to the status of money and credit markets, then some of the conceptual issues raised by Mr McEvoy are of little relevance whereas others, little discussed by him, are important. I will return to these issues in a moment

Before that, however, I should like to discuss the second, but related, question which Mr. McEvoy's paper provokes. This is: who are the users of money and banking statistics? The paper lists five categories of user needs. The first three refer mainly to Central Bank (and possibly academic) users, the fourth to international reporting obligations and the fifth to both official and private sector users

If the order set out by Mr. McEvoy is any indication, it is clear that a low priority is given to those seeking information about domestic financial markets in order to evaluate pressures on such markets and the public and private responses to such pressures Not surprisingly this is the perception of those of us who are non-official users of data

The introduction of new banking statistics has increased the amount of information on the Irish banking system, especially on the split between Irish pound and foreign currency assets and liabilities. It has, by changing certain definitions of residency, thrown the whole calculation of the balance of payments into doubt. It appears to have provoked the CSO into a major re-examination of its methodology for calculating both capital outflows and factor payment flows.

In making the change, however, the Bank has affected the development of consistent series of monetary aggregates. By and large, we will have to wait some years before sufficient data are available on the new basis to perform reliable econometric work. That is a pity although it is a comment more on past data collection than on present.

The consideration in Mr. McEvoy's paper on the measurement of bank credit is, I think, a good guide to the interests of the target user of the new statistics - the Central Bank. Most of the methodological refinements discussed - including allowances for accrual, capitalized future interest, bad debts and transit items - are of interest because they affect the measurement of private credit and affect the ability of the Central Bank to control such credit aggregates.

If banking statistics were viewed as market information for all entitities in the financial sector, there would be less concern over the precise measurement of the credit aggregate and more concern over other banking data, including data not yet provided.

Such a view of the likely users would also provoke the question when should statistics be available? Clearly each provider of information is privy to information on his own activities Where there are many providers of small size the value of information held by one provider is insignificant The value of the aggregate figure is, however, considerable both to information providers and others Thus data on US monetary aggregates are valuable to Bank of America as well as the First Bank of Baton Rouge

In Ireland however, two major banking groups are providers of data and would have about 35 per cent plus of the market each Given their wide geographic and business spread each individual group might expect that its returns were a reasonable sample of the system as a whole In such cases they are privy to information from which other small providers and financial concerns are excluded

That can create distortions in financial markets If the larger banking groups know that credit demand is weak, resource inflows large etc , they can take positions in the gilt market on the basis of such information and so outperform other banks and financial institutions This problem will become more acute in 1986 when banks will be able to act, at no direct cost, as market makers in Government securities.

In other countries the value of market-sensitive information has been recognised and fixed release data have been set for monetary aggregates As soon as the data are available they are published While the Central Bank has, through its statistical supplements, been far more aware of the need for timely data than the CSO there is a reluctance to publish statistics on a regular monthly basis Data on the first quarter of 1984 are currently unavailable because of delays in publishing the Spring 1984 Bulletin Mr McEvoy strains our patience somewhat with his footnotes on p.3, p 37 and p 42 which urge us to see the Spring 1984 Bulletin This is something I have been unable to do for the past two months

Apart from timeliness what other aspects of the banking statistics are important for non-official users? I would include the following.-

Bank Resource Growth The present split between resident and non-resident deposits in Irish pounds is clearly nonsensical It runs counter to all the other movements in financial markets Non-resident Irish pound deposits are mainly a tax avoidance aggregate and the behaviour of M3, excluding such deposits, in 1983 shows that Commonsense and a nose for what is happening on the ground might have prevented the Bank from introducing a new monetary aggregate which is unsatisfactory both from a policy and market standpoint

Components of Bank Resource Growth: It is a pity that the Bank did not avail itself of the opportunity to collect (or publish) data on the sectoral distribution of bank deposits distinguishing between personal, industrial and commerical, agricultural and financial sectors Such data would allow the construction of a flows of funds table as well as provide information on savings behaviour

Components of Bank Credit: A similar classification of bank credit, replacing the detailed but not very usable present classification, would have been useful More important, perhaps, a clear distinction between private sector and State sector borrowing is vital The increasing tendency to shunt Exchequer borrowing into the Semi-state area (and thus to private credit) makes nonsense of the private-sector guidelines As no-one seriously believes that DCE is likely to be anything more than an interesting statistic to the Central Bank and the Department of Finance, 'private' credit will still be an important focus of attention

Consistency of Bank and Exchequer data: Perhaps the biggest problem arising from an attempt to analyse Irish monetary data and integrate it into other financial data is the lack of concordance between the composition of borrowing as announced by the Exchequer and the composition evident from banks' balance sheets The different treatment of the price of low coupon stock may account for some of the problem It would be useful if some form of flow data on bank purchases could be obtained to help make the two aggregates more consistent

Extent of Policy Intervention in Market: This paper has dealt with the new banking statistics It has not dealt with the new policy environment In particular the use of foreign exchange swaps and repos by the Central Bank has grown considerably There is no information on the former except concealed in a net foreign liability aggregate Certainly there is no information on the scale of activity in repos between banking return dates Even when data are available - for example on bank deposits with the Central Bank - there is a reluctance to provide information on the return on such deposits (and on the cost of lending) This affects any meaningful analysis of bank portfolio behaviour

In a perfect world we would have access to all statistics as they were produced That world is some way off While I think the Central Bank could do better I acknowledge that relative to other institutions they have done well. Mr McEvoy's paper is a tribute to the efforts to improve statistical coverage I hope my remarks are seen as an attempt to ensure that the Bank does not rest on its laurels Once again may I express the Society's thanks to Mr McEvoy for his paper this evening

Louis P.F. Smith: I would like to congratulate Mr McEvoy on his paper The paper recognises the problem of defining money and banks. However, it is not possible to shrug off £2 billion deposited with building societies by individuals and companies Such deposits are as liquid as those with banks and, because of lower reserve requirements, have more impact The sum involved is larger than M_1 and growing 20 per cent over many years. It seems as if the criterion adopted was administration control by the Central Bank, since the ACC, ICC, building societies, as well as assurance and credit unions are not adequately covered This is understandable but inadequate in logic and merely recognises anomalies

The more effective Central Bank control of money (however defined) becomes, the less meaningful will that definition be Other intermediaries will expand, even

reaching the Greek position of disintermediation.

Credit cards are not yet of crucial importance. The total of credit limits is a large liquid resource in the hands of the public. Is a sum settled within the credit period, involving up to 6 weeks free credit, treated as a loan? If settled one week later is it registered as one week's credit?

With rapidly changing methods of credit, payments and deposits, such as questions

With rapidly changing methods of credit, payments and deposits, such questions will be important in the future

Patrick Honohan: Previous speakers have stressed the importance of using monetary aggregates as short-term indicators of fincancial market conditions. I would like to mention also the role of high quality data in allowing us to check our ideas on how monetary aggregates affect the economy In this connection it has been suggested that we should be moving towards vroader aggregates That is correct, so far as the relationship between money and real expenditure in the economy is concerned, as recent research, using the wider aggregate M2H which includes building society deposits and other liquid assets, has shown. The usefulness of credit aggregates has probably also been underestimated.

But there is also a function for narrow definitions, narrower than in the paper, for examining the long-term influence of money on prices It was a surprise to find no reference to this link in the paper; after all, the quantity theory of money is the oldest of economic theories and still has relevance today.

For the study of quantity theory relations, a currency-based rather than residence-based definition is appropriate, since the price level is denominated in the national currency. Fortunately, the new monetary statistics are presented in a way which allows a Do-It-Yourself approach to creating alternative aggregates

Reply by Noel McEvoy: I would first of all like to express my appreciation to Professor Walsh, Mr. Dowling, and other participants for their kind remarks and, in particular, for their contributions to the discussion. I do not propose to attempt to respond to all the comments that have been made but I would like to comment on some of the more important issues raised by participants in the discussion

1. Coverage of Statistics: This issue was raised by a number of participants in the discussion. I think the important point to bear in mind is that this paper was restricted, for the most part, to issues which arose in the recent review of the monthly reporting system for licensed banks. This review of the monthly reporting monthly reporting system for licensed banks. This review was not considered to be an end in itself but the first, and possibly the most important, part of a review of

statistical reporting by institutions to the Bank. The new reporting system permits for the first time, the compilation of a number of different monetary aggregates on a proper conceptual basis In addition, by identifying inter-institutional items separately, it facilitates the derivation of wider monetary aggregates While a definitive series of such aggregates must await the extension of the basis of the new reporting system to other financial institutions, the availability of inter-institutional items permits the computation of more accurate series such as M2H. In fact the Bank's forthcoming Annual Report includes a wider monetary aggregate which extends M3 to include deposits at other financial institutions. In my role as a financial statistician, I consider it important to facilitate the derivation of as wide a range of monetary aggregates as possible While the Bank has had to opt for particular aggregates for policy purposes, this will be subject to review, especially when sufficient observations are available to facilitate statistical tests

The exclusion of non-resident deposits from the series at present adopted by the Bank has been raised There has been some speculation regarding the authenticity of some of those deposits, but no hard evidence has been forthcoming Our statistics and enquiries indicate that the countries of origin of these deposits have extensive expatriate Irish communities and that the extent of lodgements from abroad is supported to some extent by the number of cheques/drafts passing through the banks' clearing systems. The currency composition of non-resident deposits, and the extent of Irish-pound deposits, in particular, has been instanced in the media as evidence that such deposits must be bogus However, unlike the situation in other countries, it is not possible for non residents to open foreign-currency accounts at branches of Associated Banks throughout the country, such facilities are available only at head offices or so-called "foreign or international branches" in Dublin The number of Irish people, relative to the size of the population of the Republic, either living or working periodically abroad, is significant, so we should not be surprised at the existence of a large amount of non-resident deposits Incidentally, the growth of such deposits is not a recent phenomenon. Supplementary data available in the Bank indicates that the growth was also significant at times during the 1970s We must be careful not to draw too many conclusions from developments in a series for which published data are available for only a few years

The separate identification of inter-institutional items in a Supplement to the new Monthly Bank Return will be of assistance in the compilation of flow-of-funds data The proposed change to the basis on which other financial institutions report data to the Bank to make them comparable with the new monthly reporting system for licensed banks should also facilitate the compilation of such data flows. A new quarterly sectoral distribution return, covering both deposits and lending, is also under consideration within the Bank.

2 Continuity of Series: Any developmental work on statistics raises a continuity issue. However, I doubt if there is anyone here who would consider continuity of data series more important than the relevance of the data themselves Nevertheless, for those concerned with continuity, it is proposed to continue to update for some time, and make available on request, the old money supply and credit series. It is

also hoped, using data from certain supplementary returns in the Bank, to compile historical series on a basis broadly comparable to some of the series produced in this paper.

3. Satisfaction of User Needs: The order in which user needs are set out in the paper is purely incidental and should not be interpreted as reflecting the Bank's perceived order of importance of the various users of banking statistics. The Bank is very conscious of the market sensitivity of data it publishes and attempts, as far as possible, to place all users on an equal footing In line with the development of financial markets, it has also attempted to increase the timeliness of the publication of its data. For example, the frequency of publication of the Statistical Supplements to the Quarterly Bulletins (including Annual Report) is being increased this year from four to eight per year.

The monthly bank returns, i.e., the basic balance sheets together with their supplements, are designed to satisfy a multiplicity of user needs. This helps to improve the consistency of data, increases the degree of cross checking of data which, in turn, can be enhanced further by the interlinking of supplementary returns, and helps to eliminate duplication of effort both within the banks and the Central Bank. They are not considered to be an end in themselves, especially for supervisory purposes. At best, they are an integral part of a monitoring and early warning system and thereby contribute to the exercise by the Bank of its supervisory responsibilities for licensed banks

4. Bank Reporting Dates: The Bank itself has been aware for some time of certain shortcomings inherent in its existing bank-reporting dates. During discussions with the banks in the course of the introduction of the new monthly bank return, the issue was raised on an informal basis. Because of the difficulties, through lack of computerisation, that would have been encountered by a number of banks, it was postponed. However, I would expect progress on that issue within the next few years.