Chapter 26 Links to monetary and financial statistics

11.53 The SNA classification of transactions in financial assets and liabilities is presented in table 11.2 above. The same classification is used in the balance sheets for stocks of financial assets and liabilities. This classification scheme is based primarily on two kinds of criteria: the liquidity of the asset and the legal characteristics that describe the form of the underlying creditor/debtor relationship. The concept of liquidity embraces other more specific characteristics - such as negotiability, transferability, marketability or convertibility - and these characteristics play a major role in determining the categories, although they are not separately identified in a systematic way. This classification is designed to facilitate the analysis of transactions of institutional units and is a framework for assessing the sources and uses of financing and degree of liquidity for these units.

11.55 The detail in which the classification is employed depends on the institutional sector to be analysed. The types of financial assets in which households transact are more limited than those for other sectors, and sources of information are generally more limited than those for other sectors. Financial corporations, on the other hand, transact in the full range of instruments, and information on their operations is often the most detailed and timely for any institutional units. Consequently, a detailed breakdown may be developed for financial corporations. It should be noted that the SNA classification scheme is considered to be generally applicable as a framework for classifying financial assets and liabilities and provides a useful basis for international comparison of national data. Presentation of data for individual countries, however, must be tailored to meet their analytical needs and to reflect national practices that include differing institutional arrangements, variety in the extent and nature of national financial markets, varying degrees of complexity of financial assets available, and varying degrees of regulation and other financial control exercised. In all cases, the SNA recommends compiling and presenting data at the first-digit level for asset categories 1 through 5 and 7, and at the two-digit level for categories 6 and ~~7~~ 8 (see table 11.2). A substantial amount of flexibility, particularly with regard to further breakdowns, is therefore required to match the classification scheme to national capabilities, resources, and needs. In particular, further breakdowns of these categories are desirable for many countries to distinguish important types of assets within categories (such as short-term securities included in measures of money).

Money

11.56 In the SNA, there is no concept or measure of money within the classification of financial assets. Money is very important as a financial variable, but the wide range of ways in which money is defined in different countries precludes a simple definition within the SNA. Even measures of narrow money, which generally include currency and transferable deposits, may be difficult to define as the boundary between transferable and non-transferable deposits may not be stable in many countries. For example, certain financial institutions may start to provide partial or full checking facilities or to issue bank or credit cards, for deposit accounts that were previously not transferable. As a result of financial innovation, technological progress in computers and communications, and the force of competition, the distinction between transferable and non-transferable deposits and between the financial institutions that accept these deposits has become both blurred and unstable. In addition, few countries find that a stable relationship exists between narrowly defined money and other target variables. For these reasons, it may be difficult and not very useful analytically, at least in some countries, to try to draw a clear distinction between transferable and non-transferable deposits. Therefore, the SNA does not build this distinction into the classification at the first level. When the financial market is such that a clear distinction can be drawn, the SNA recommends that the distinction should be made, although it comes in at the second level of the classification.

11.57 The composition of broad money aggregates varies even more widely among countries and encompasses many classes of deposits and certain categories of short-term securities, particularly negotiable certificates of deposit. In addition, many countries compile a range of money measures, as well as broader liquidity measures, that include short-term liabilities of non-financial sectors. Even within a single country, innovation, deregulation or technical progress cause definitions of narrow or broad money to shift over time in response to changes in financial instruments and the organization of money markets. It follows that there can be no single concept of money supply implicit in the SNA. However, this does not preclude countries from organizing, either as the primary classification scheme or as a supplementary scheme, their financial classification and accounts around a specific money measure or measures. Such an approach would be very useful in integrating national accounts and monetary analysis.

Maturity

11.58 The classification de-emphasizes maturity as a basic classification criterion. Innovations in financial markets and more aggressive approaches to management of assets and liabilities - rollovers of short-term instruments, borrowing through short-term instruments under long-term facilities such as NIFs, adjustable rates on long-term assets that effectively make them a series of short-term arrangements, and early redemption of callable liabilities - have diminished the usefulness of a simple short-term/long-term distinction. In addition, when maturity analysis is important, such as for analysis of interest rates and asset yields, a breakdown of a range of maturities may be required. For these reasons, maturity distinction is recognized as a secondary classification criterion when relevant and national compilers should determine whether maturity breakdown is necessary. Short-term is defined for the classification as one year or less, with a maximum of two years to accommodate national practices, while long-term is defined as more than one year, or more than two years to accommodate national practices.

Asset/liability symmetry

11.59 All financial claims and the associated liabilities constitute financial assets and liabilities. However, financial assets also include certain assets that cannot properly be described as claims over other designated institutional units when there are no matching liabilities. There are three such types of asset:

(a) Monetary gold, i.e., gold owned by monetary authorities and others subject to the authorities' effective control and held as a financial asset and as a component of foreign reserves;

(b) SDRs, reserve assets issued by the IMF and not considered a liability of the IMF (IMF members, to whom SDRs are allocated, do not have an actual, i.e., unconditional, liability to repay their SDR allocations);

(c) Shares, other corporate equity securities, and capital participation (shares are close substitutes for other financial assets from the point of view of the investor. The SNA treats shares as liabilities by convention. However, these liabilities do not represent fixed redemption values, as is the case for many other assets, but claims on the net worth of the corporation).

Functional categories

11.60 The classification does not contain functional categories, such as direct investment, portfolio investment, and international reserves, that are basic classification criteria for the balance of payments capital account. In view of the importance of these transactions, the classification does provide for a memorandum item for financial account transactions related to direct foreign investment relationships. This topic is treated in greater detail in annex II at the end of this manual.

Reserve assets

11.61 Reserve assets consist of those external assets that are readily available to and controlled by a country's authorities for direct financing of international payments imbalances, for indirect regulation of the magnitude of such imbalances through intervention in foreign exchange markets to affect their currency's exchange rate, and for other purposes. Reserve assets comprise monetary gold, SDRs, reserve position in the IMF, foreign exchange assets (consisting of currency, deposits, and securities), and other claims, such as non-marketable claims arising from arrangements between central banks or governments. Reserves must be claims on non-residents but they may be denominated in the currency of the creditor or debtor. Only the central bank and central government can hold reserves. However, not all financial claims held by the authorities on non-residents are reserves, as reserves must be readily available, i.e., highly liquid.

F. Detailed flow of funds accounts

11.103 The financial account, as presented in table 11.2, records the net acquisition of financial assets and net incurrence of liabilities for all institutional sectors by type of financial asset. For each sector, the financial account shows the financial liabilities that the sector incurs to mobilize financial resources and the financial assets that the sector acquires. The financial account thus presents a two-dimensional view of financial transactions - the financial asset or liability involved in the transaction and whether the transaction involves an asset or a liability. This information is very valuable in identifying the financial assets that net borrowing sectors use to finance their deficits and the assets that net lending sectors use to allocate their surpluses. Although the movement of financial flows can be mapped at this level of recording, the question of who is financing whom is not answered. In table 11.1, it is clear that non-financial corporations incurred liabilities of 140 predominantly in the form of loans (71) and shares and other equities (69). Financial corporations incurred net liabilities of 232 by using the full range of financial instruments. While the instrument by which the liabilities are incurred is clearly presented in this account, it is not possible to identify the sector that is providing the funds. Similarly, the net acquisition of financial assets can be tracked. Households acquired a net of 181 spread across a range of assets, while financial corporations acquired net financial assets of 237, mostly in the form of loans and securities. However, it cannot be determined from this level of recording to which sectors the financing is being provided.

11.104 For a full understanding of financial flows and the role they play in the economy, it is often important to know more detailed financial relationships between sectors and the financial assets by which these relationships are carried out. For example, it is often important for the government to know not just what types of liabilities it is using to finance its deficit but also which sectors (or the rest of the world) are providing the financing. For financial corporations (and those supervising them), it is important to know not only the composition of financial assets (loans and securities) that they have acquired but also which sectors these are claims upon. In addition, it is often necessary to analyse financial flows between subsectors within a sector (central government financial transactions with local governments or central bank financial transactions with depository institutions) and across sector boundaries (changes in depository institutions' claims on public non-financial corporations). Such detailed information is necessary to understand how financing is being carried out and how it is changing over time.

11.105 This more detailed approach is particularly important in spelling out the role that financial intermediaries play in financial transactions. As was previously noted, financial corporations often have very small net lending or borrowing balances in comparison with their volume of transactions in both financial assets and liabilities. This reflects the basic role of financial intermediation of mobilizing financial resources through certain financial transactions and making these financial resources available to other sectors in forms suitable to these sectors through maturity/asset transformation. Thus, financial corporations play a critical role in directing financing flows from net lending sectors to net borrowing sectors and allow lenders to choose their asset instruments and borrowers their forms of indebtedness.

11.106 To facilitate the more detailed financial analysis just described, the SNA contains two tables, tables 11.3a and 11.3b. Table 11.3a records transactions in assets cross-classified by type of asset and by the debtor sector. The sectors transacting in assets are shown horizontally across the top of the table while the type of asset, disaggregated by sector of debtor, is arrayed vertically. Table 11.3b records transactions in liabilities cross-classified by type of liability and by the creditor sector. Since all financial assets other than monetary gold and SDRs have an asset/liability symmetry, it would be conceptually possible to present all debtor/creditor relationships in a single table but this would require a table of very many cells, many of which would be blank. The tables, as presented, are merely examples of the type of detail that a country may wish to develop. They identify the full sectors for households, non-profit institutions, general government, and non-financial corporations. Subsectors are shown for the financial corporations to emphasize the special role these units play in financial transactions. For particular analysis or policy purposes, it may be useful to break down the other sectors into subsectors as well. In many circumstances, it will be necessary, for example, to identify financial transactions of central government or of non-financial public corporations. The sector breakdown under each type of financial asset is suggestive rather than prescriptive. For securities and loans, it is suggested to identify the debtor sectors (in table 11.3a) as follows: non-financial corporations, financial corporations, central government, state and local government, other resident sectors, and the rest of the world. Alternative breakdowns are illustrated for other types of assets.

Table 11.3a. Detailed flow of funds (financial assets)

Table 11.3b. Detailed flow of funds (financial liabilities)

11.107 These more detailed flow of funds tables can be used in at least three important areas related to economic policy. Data from these tables can be used in economic analysis and description of activity and trends in current periods. They can be used as an aid to projections in the context of the production of economic plans or to assess the effect of current economic policies, or changes in them, on the future path of the economy. They can also be used in projects that undertake modelling of the economy to study economic behaviour as an aid to the formulation of economic policy. Such studies, of course, would be complementary to similar work on data from other accounts in the SNA. In particular it is useful,when using the flow of funds accounts to facilitate the operation of the financial system in the economy, to relate these transactions to the behaviour of the non-financial economy. The capital and financial accounts provide these links between the “real” economy and financial activity. Similarly, the flow of funds accounts facilitate study of the saving/investment process, by tracing the channels by which saving reaches ultimate borrowing, after passing through various financial institutions and assets.

11.108 In the policy area, a few examples will illustrate the usefulness of these tables. Common policy problems faced by many nations include questions such as: Will foreign exchange reserves be adequate? How will the central government’s deficit be financed? How will the major non-financial public corporations be financed and by whom? In each of these examples, the provision of answers to the questions requires an impact analysis on various sectors and types of transaction. The articulation of the accounts within the flow of funds table facilitates the analysis and provides a framework in which to assess the answers.

11.109 In the area of financial projects, the use of time-series from relevant parts of the flow of funds tables enables an examination of the implications of parts of an economic plan, including testing for consistency of a number of separately prepared sector or market forecasts, and the implications for future financial transactions of a particular set of assumptions about future events (e.g., interest rates, exchange rates, growth, sector surpluses/deficits).

11.110 Other policy areas where these projections and studies can be of assistance are in considering the long-term development of financial markets and institutions in the economy and assessments of the need for new types of assets to satisfy the potential demand of savers and investors requiring access to reliable liquid assets.

11.111 Tables 11.3a and 11.3b above should be interpreted as a general model, and substantial flexibility should be allowed in specific country circumstances. In many countries, the dimensions of the tables will be severely constrained by data availability. It should also be noted that these tables are extensions of the basic financial account and that adding the third dimension to the analysis can be done on a selective basis by identifying particular assets or sector (or subsector) relationships for which this level of detail would be useful.