



STATISTICS

Financial Accounts Workshop

ROLES AND USES OF THE FINANCIAL ACCOUNTS

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Outline

- Overview of the Benefits/Uses
- Financial Risk
- Nonfinancial Assets
- Harmonizing and Improving Macroeconomic Statistics

Overview of the Benefits

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Role and Uses of Balance Sheet & Accumulation Accounts

Demand for new economic and financial data to address key issues such as:

- Is there too much debt being incurred to acquire assets (financial or nonfinancial)?
- Are the existing (and new) borrowings being used to improve the economy's productive capital or are these debts being run up to pay for consumption – government or households?
- Are such borrowings in domestic or foreign currency?
- Are financial derivatives used for hedging or speculative purposes?
- Is there too little household income to sustain consumption or sufficient saving to fund investment in the rest of the economy (particularly, the nonfinancial sector)? Or is there too much household saving that is not absorbed by the rest of the economy and prompting an excessively large current account surplus?

All these issues, and many more, are pertinent for understanding an economy's overall health, in the same way they would be for an enterprise.

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Role and uses of Balance Sheets and accumulation accounts

To be able to address these questions, analysis should focus as much on the sectors as on the total economy. An economy is not a monolithic whole, national accountants have identified five domestic sectors, each performing different functions. These are: nonfinancial corporations, financial corporations, general government, households, and NPISHs. In broad terms, the sectors perform the following functions:

- *nonfinancial corporations* are the major producing sector of the economy, principally engaged in the production of market goods and nonfinancial services.
- *financial corporations* primarily act as financial intermediaries, channeling funds from one part of the economy to another and produce financial services.
- *general government*, in addition to fulfilling political responsibilities and economic regulation, produce services (and some goods) for individual or collective consumption, mainly on a nonmarket basis, and redistribute income and wealth.
- *households* supply labor, undertake final consumption, and, as entrepreneurs (that do not qualify as nonfinancial (or financial) corporations), produce market goods and nonfinancial (and some financial) services.
- *NPISHs* are principally engaged in the production of nonmarket services for households or the community at large, and whose main resources are voluntary contributions.

Financial Risk Analyses

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Role and Uses of Balance Sheet & Accumulation Accounts

- Understanding financial markets and how creditors and debtors are using them is essential for understanding the overall health of an economy.
- The “to-whom/from-whom” presentation of the financial instruments by sector is an analytically insightful lens through which economic activity can be analyzed.
- Understanding the counterparties and the inter-connected structure of the economy helps to identify vulnerabilities in the system.
- A more detailed and integrated view of the financial sector’s assets and liabilities provide policymakers with critical information to manage financial risks/vulnerabilities.

Analysis of Nonfinancial Assets and the Capital Stock

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Role and Uses of Balance Sheet & Accumulation Accounts

- An important addition to financial instruments on an economy's and its sectors' balance sheets is the inclusion of nonfinancial assets. Any analysis of a balance sheet is incomplete without the full set of assets.
- The primary assets of nonfinancial corporations are nonfinancial, after all.
- Similarly, for households and general government. Increased borrowing that leads to an increase in an economy's/sector's productive capacity through investment in nonfinancial assets is not necessarily a cause of concern, and only looking at debt-to-income or debt-to-GDP ratios leads to a one-eyed view.
- Furthermore, nonproduced nonfinancial assets are of especial importance in analyzing an economy's/the nonfinancial sectors' health.
- For households, the inclusion of land has a particular importance because the value of land is often volatile, and household purchases of land are often financed through mortgages.
- Equally, for nonfinancial corporations, subsoil assets, in resource-intensive industries/economies, are particularly prone to boom-and-bust prices, which is likely to have ramifications for the creditors of these industries/economies

Harmonizing & Improving Macroeconomic Statistics

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Role and Uses of Balance Sheet & Accumulation Accounts

- A much-overlooked benefit of sector accounts is the statistical rigor they help impose on the construction of all macroeconomic statistics. Because of their integrated nature, they expose statistical shortcomings.
- For example, the balance of the capital account (taking into account the current accounts that feed into it) is conceptually equal to the balance of the financial account.
- As the data sources for the capital (and current) accounts are usually different from those in the financial account, statistical discrepancies can be expected.
- Thus, if the data from these sources produce a large divergence, there would be no means of knowing that either (or both) are incorrect without the counterpart balance in the other accounts. Further investigation is required of all data sources.
- Similarly, if the changes in balance sheet positions are not equal to transactions in the balance sheet components *plus* the OCAA, the problem may be that OCAA is incorrectly calculated -- ***the OCAA should not be regarded as a residual*** -- as well as other possible causes, such as comprehensiveness of data, or different data sources, for either or both transactions or positions.

Thank you for your participation!