Consistency and Balancing

STATISTICS

Workshop on Financial Accounts
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Constraints and identities

Balancing the financial account: main identity, at category level

Changes in financial assets	=	Changes in liabilities

*for **each** category*

Category	Sectors	
Mortgage Assets	Households	137
	Non-financial corporations	231
	Financial corporations	19,156
	General governments	190
	Total all sectors	**19,714**
Mortgage Liabilities	Households	13,867
	Non-profit institutions serving households	64
	Non-financial corporations	5,610
	Financial corporations	158
	General governments	15
	Total all sectors	**19,714**

Balancing the financial account: financial assets and liabilities transactions by sector

Transactions in financial assets	=	Transactions in liabilities

*across **all** sectors* | Net financial investment = 0 |

Category	Sectors	
Transactions in financial assets	Households	8,731
	Non-profit institutions serving households	1,689
	Non-financial corporations	30,952
	Financial corporations	117,109
	General governments	15,628
	Non residents	110,327
	Total all sectors	**284,436**
Transactions in financial liabilities	Households	23,463
	Non-profit institutions serving households	642
	Non-financial corporations	39,334
	Financial corporations	98,896
	General governments	26,369
	Non residents	95,732
	Total all sectors	**284,436**

The main identity connecting the National Accounts and the Financial Accounts

Categories	$ 000
Net Lending	-15,417
Net financial investment	-14,732
Discrepancy	-685
Net transactions in financial assets	**8,731**
Deposits	14,915
Debt securities	1,417
Mortgages	137
Total Shares	-4,735
Foreign Equity	-2,108
Life Insurance and Pensions	7,004
Other Assets	-7,899
Net transactions in financial liabilities	**23,463**
Consumer Credit	8,719
Non-mortgage loans	634
Mortgages	13,867
Trade Accounts Payables	243

Transactions in financial assets

less

Transactions in liabilities

equals

Net lending/borrowing
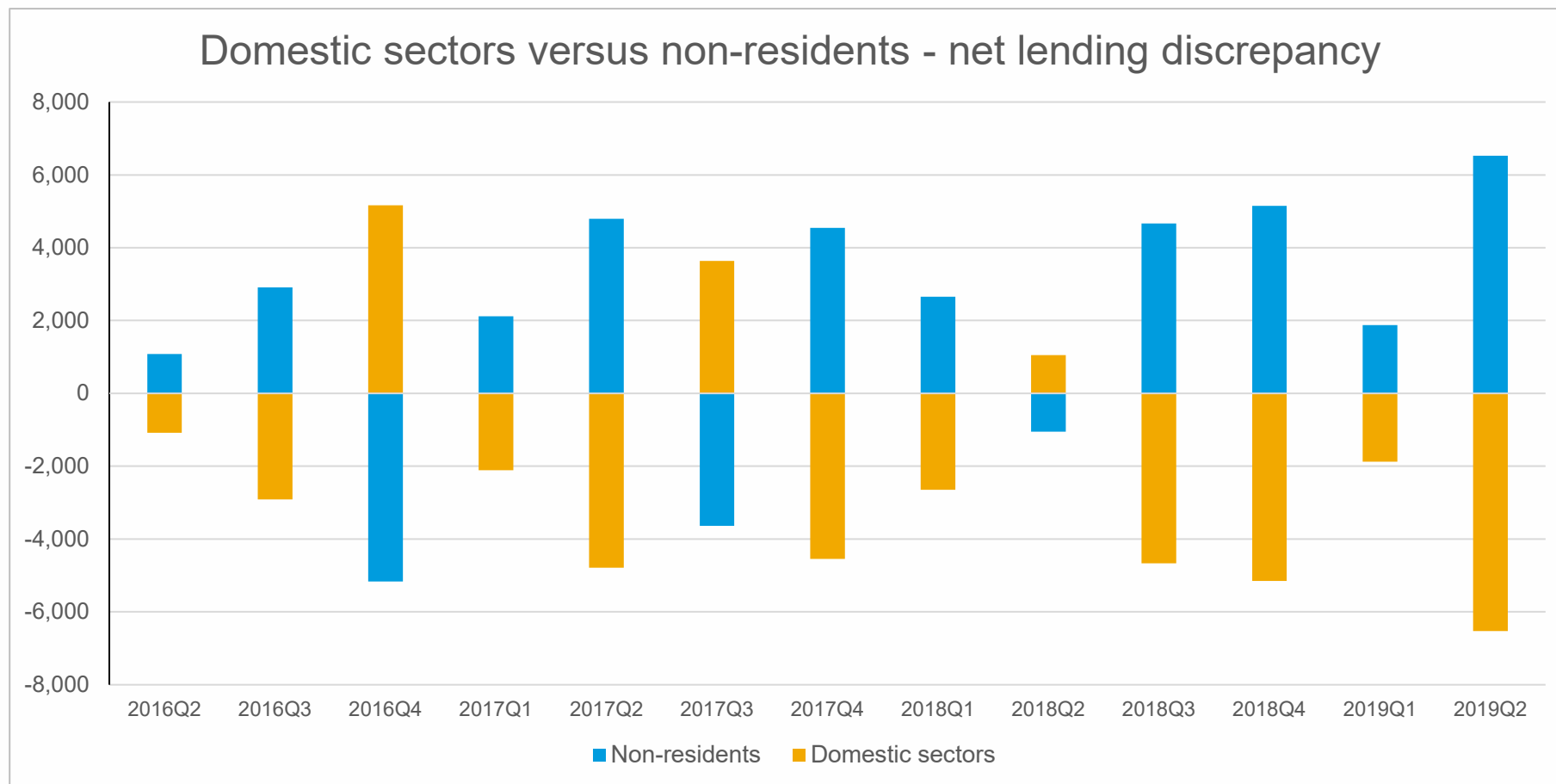(net financial investment)

Current and Capital accounts

Net lending/borrowing

Statistical discrepancy (net lending/borrowing)

The main identity connecting the National Accounts and the Financial Account

The sum of net lending/net borrowing across the domestic sectors (households, NPISH, corporations, governments) represents the amount of funds the domestic economy needs to borrow from non-residents or the amount of funds they can lend to non-residents.

Domestic sectors versus non-residents - net lending discrepancy

Legend: ■ Non-residents ■ Domestic sectors

Categories (x-axis): 2016Q2, 2016Q3, 2016Q4, 2017Q1, 2017Q2, 2017Q3, 2017Q4, 2018Q1, 2018Q2, 2018Q3, 2018Q4, 2019Q1, 2019Q2

Balancing between Current/Capital and Financial Accounts in matrix format

Sectors/ categories	Sector 1	Sector 2	Sector 2	Sector 4	Economy	NRES	Error	Matrix total
SAVING	14	13	13	-3	37	5	0	42
NFCA	12	15	8	7	42	0	0	42
NLB_1	2	-2	5	-10	-5	5	0	0
NLB_2	3	-3	5	-11	-6	6		0
NAFA	17	10	15	2	44	8		52
NIL	14	13	10	13	50	2		52
DISCR	-1	1	0	1	1	-1	0	0

- NFA/NFCA – Non-financial assets / Non-financial capital acquisition
- FA/NAFA – Financial assets / Net acquisition of financial assets
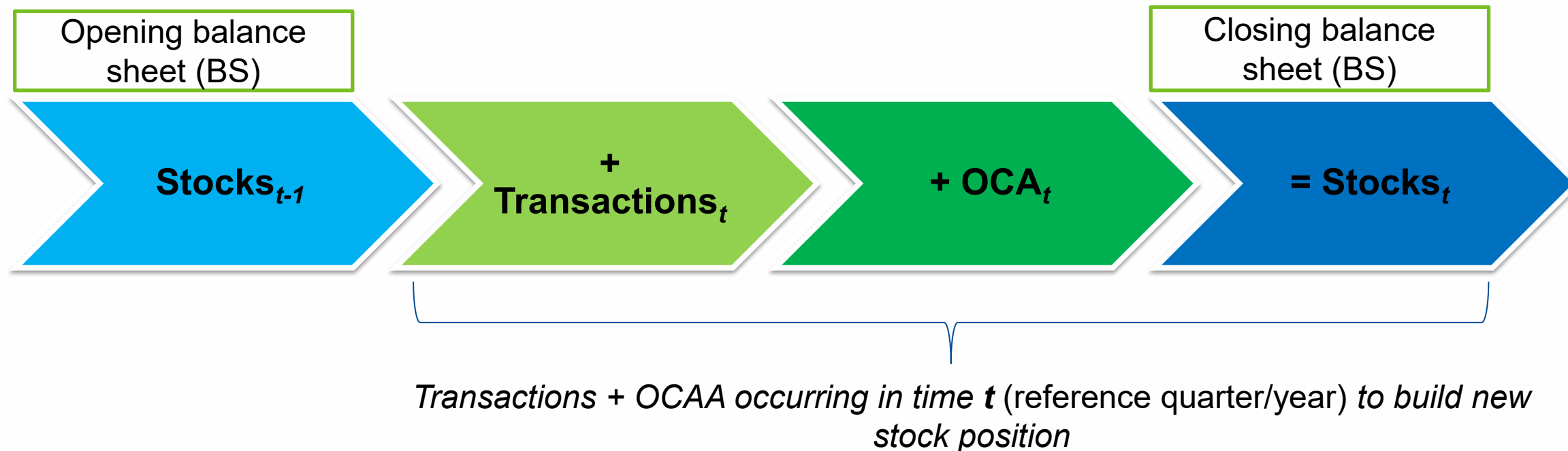- L/NIL – Liabilities / Net incurrence of liabilities

Data challenges

- Timing (both sides of a transaction)

- Coverage (response in the current period)

- Sector detail (+/-)

- Different sources of data (direct versus indirect)

- Conceptual differences between source data and needs

- Lack of survey (lags)

- Calculation of flows (errors)

- Classification issues

- Statistical discrepancies in national accounts and balance of payments

- Assumptions

Balance Sheet

Relationship between accounts

Opening balance sheet (BS)

Closing balance sheet (BS)

Stocks_{t-1} → $+\ \text{Transactions}_t$ → $+\ \text{OCA}_t$ → $=\ \text{Stocks}_t$

Transactions + OCAA occurring in time t (reference quarter/year) to build new stock position

Stocks = Balance Sheet (BS)

Transactions = Financial Account (FA)

OCA A = Other Change in Assets Accounts (OCAA)

Compiling the balance sheet

The national balance sheet accounts share the category and sector profile of all the financial and wealth accounts

The balancing item of a balance sheet is called net worth

The main identities for the national balance sheet accounts:

Financial assets, by category = **Liabilities, by category**

for the economy as a whole

Assets *less* **Liabilities** = **Net worth**

for each sector

Balancing in the Balance Sheet Account

- Balance sheet balancing
  - ► *Same basic principles: total financial assets for economy (including ROW) must equal total liabilities for the economy (including ROW)*
  - ► *Within sectors, if no nonfinancial assets, not possible to have a complete balance of assets and liabilities and therefore no sector net worth. In this case, the difference between financial assets and liabilities is generally referred to as net financial worth, and alternatively as net financial assets or net debt. It is the stock equivalent (including other changes in assets) to net lending or net borrowing.*

Reconciling opening and closing balance sheets for any given sector

Accounts/categories	Closing Balance Sheet	Opening Balance Sheet	Change in Balance Sheet	Capital and Financial Account Transactions	Revaluation Account	OCVA	Residual
NFA/NFCA	100	80	20	10	10	0	0
FA/NAFA	100	70	30	15	15	0	0
L/NIL	100	80	20	10	10	0	0
Discrepancy				-2			-2
Net Worth	100	70	30	13	15	0	2

- NFA/NFCA – Non-financial assets / Non-financial capital acquisition

- FA/NAFA – Financial assets / Net acquisition of financial assets

- L/NIL – Liabilities / Net incurrence of liabilities

Questions?

Thank you for your participation!