Developments related to the methodological changeover in the financial accounts

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60th World Statistics Congress

Developing and Improving Sectoral Accounts

Outline

- Introduction / Motivation
- Effects of the methodological changeover on the development of financial accounts
- Integration of external data sources and collaboration with the counterpart financial statistics
  - Use of micro level data
- Limitations and possibilities

Introduction / Motivation

- SNA is a widespread comprehensive and consistent macro accounting system:

  - Unified handling of financial categories

  - Ensured temporal and spatial comparability

  - Increasing potential in integrating statistics

  - Synthesizing framework incorporating information with different aggregation level and content

- How to evaluate the effects of changeover on the financial accounts? Where are the limits of financial accounts?
- Where is the right balance among the needs and possibilities regarding granularity, coverage, valuation, consolidation, etc.?

Improvements introduced by the changeover

- More detailed presentation of sectors and instruments:

- instruments, sub-sectors, counterpart and currency breakdown, flow components

- More complete interpretation of financial wealth via integration of new instruments:

- guarantees, insurance and pension reserves, derivatives

- Changes in the content of sectors:

- NFC → FC (HCs, SPEs), NFC → GG, FC → GG reclassification

- Further harmonization with other statistics
- More emphasis on balance sheets (stocks ws flows)

Effects of changeover on Hungarian FA

- Traditionally very detailed statistics (full w-t-w presentation, currency breakdown, detailed sub-sector and instrument breakdown).
- For this reason, no major changes in 2014 due to ESA2010/SNA2008 implementation.
- But two special new rules caused significant changes:

- Different treatment of transfer of pension obligations to the government – huge effect on GG liabilities and HH assets (artificial advances, GDP 10%).
- Reclassification of HCs and SPEs from S.11 to S.12 – huge changes in balance sheets of the sectors (GDP 120%)

- Revisions cover the whole length of time series back to 1990Q1.

Evaluation of the effects of changeover

- No conceptual changes during the last methodological update of the international standards. Most changes are symbolic steps with small effect on financial accounts.However, directions of changes are not unanimous positive.

- Increasing sectoral breakdown and reclassification of units split the financial links and hamper the analysis of corporate groups.
- Inclusion of financial instruments resulting from conditional commitment (guarantees, insurance reserves, derivatives) raise difficulties in handling in FA (valuation, counterparts, symmetry of accounts).
- Lack of unified treatment of pension obligations in national accounts results in hardly interpretable rules when private pension liabilities are transfered to the social security pension system.

Integration of other data sources

- Compilation of financial accounts often uses counterpart or financial intermediary sources (based on the symmetry of accounts, FA=FL).
- In Hungary, BoP/IIP, MFS and SEC statistics are fully in line with FA and are the main sources of FA compilation (harmonized sector and instrument categories, content and breakdown exist).
- More detailed FA cannot be derived from counterpart sources (overburden financial intermediaries). → More reasonable to use direct data sources in case of production detailed accounts.
- Individual direct sources (annual reports, tax returns, household surveys, etc.) are used for further breakdowns (for instance accounts of special institutional groups as public corporations).
- Consistency should be achieved between different sources.

Limitations and possibilities of FA

- Compilers of FA face conflicting user needs:

- FA as part of the integrated national accounts (consistency with non-financial accounts, investment and financing of the sectors in a traditional national accounts framework).

- FA as tool for measuring financial worth and interlinkages of different groups of economy (measuring caracteristics and risks of financial intermediation using appropriate categories, valuation, grouping and consolidation methods).

- Symmetry of accounts (FA=FL) should be maintained → set limits to extended use of FA. (Special risk-related instruments appear asymmetrically in balance sheets of intermediary institutions.)

- Consolidation of resident and non-resident units is limited → at least exclusion of resident SPEs and inclusion of non-resident SPEs should be solved in FA (for instance using BoP/IIP data).

Thank you for your attention!