Developments related to the methodological changeover in the financial accounts

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Developing and Improving Sectoral Accounts
Outline

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• 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 vs 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 transferred 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 characteristics 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!