Financial accounts and balance sheets as a co-ordinating framework for monitoring financial developments

Peter van de Ven,

OECD

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1 This presentation was prepared for the meeting. The views expressed are those of the author and do not necessarily reflect the views of the BIS, the IFC or the central banks and other institutions represented at the meeting.
FINANCIAL ACCOUNTS AND BALANCE SHEETS AS A CO-ORDINATING FRAMEWORK FOR MONITORING FINANCIAL DEVELOPMENTS

Workshop on the Use of Financial Accounts
Istanbul, March 18 – 20, 2019

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Head of National Accounts, OECD
Introduction
Overview

- Advantages and disadvantages of using sector accounts
- Sector accounts as an organising framework
- Some examples on the use of financial accounts and balance sheets
- An extra???
An expression of love and admiration

I ❤ National Accounts
She is beautiful, she is elegant, she is ...
Advantages (and Disadvantages) of Institutional Sector Accounts
Why Having Sector Accounts?

- Provides a **macro-economic overview** of financial developments:
  - for the **whole economy**
  - **all economic transactions and positions**
  - according to a conceptual framework with a **consistent set of definitions**

- Advantages from a **producer’s perspective**:
  - **exhaustiveness** of estimates, detection of gaps
  - **rigour** of a system’s approach, using identities to improve statistics, and to arrive at a **consistent set of information**:
    - **Budget identity** for each (sub)sector: balance of non-financial transactions = balance of financial transactions
    - **Transaction identity** for each transaction: sum of receipts = sum of payments
    - **Balance sheet identity**: Stocks at end of period = stocks at the start of the period + transactions + revaluations + other changes
Why Having Sector Accounts?

• Advantages from a user’s perspective:
  • consistent set of information
  • international comparability
  • comparability over time (consistent time series)
  • analysis of links between sectors
  • analysis of links between production, income and finance

• However …
  • viewpoints of economic agents may differ (e.g. pensions)
  • alternative perspectives (e.g. nationality point of view)
  • growing demand for granularity (e.g. distributional data, shadow banking, corporations by ownership, etc., etc.) => micro-macro linkage becoming more and more important
Institutional Sector Accounts as an Organising Framework
Sector Accounts as an Organising Framework: the G-20 Data Gaps Initiative

I. Monitoring risk in the financial sector

Financial Instruments & Markets
- Financial Derivatives (R. II.6)
- Securities (R. II.7)
- Shadow Banking (R. II.5)

Financial Institutions
- FSIs (R. II.2)
- CDMs (R. II.3)
- Data for O-SIFIs (R. II.4)

II. Vulnerabilities, Interconnections, and Spillovers

Sectoral Accounts and Balance Sheets

Non-financial Assets
- RPPPI (R. II.17)
- CPPI (R. II.18)

Fiscal Data
- GFS (R. II.15)

Non-bank financial institutions
- Sectoral accounts (R. II.8)
- Shadow banking (R. II.5)

Non financial corporations
- Sectoral accounts (R. II.8)
- Cross-border exposures (R. II.12)

External Sector
- IIP (R. II.10)
- CPIS (R. II.12)
- CDIS (R. II.13)
Linking Micro and Macro

• **User demands**
  - Quickly evolving
  - More specific
  - More granular data
  - More integrated
  - More timely

• Need to quickly adapt => only possible in the case of a **flexible system**, in which statistics are either consistent, or closely linked to each other

• **Typical changes to original source data:**
  - Adjustments to **definitions** (including population)
    - Note BPM6 and GFSM2012 (almost) consistent with SNA 2008/ESA 2010
  - Adjustments for **exhaustiveness**
  - Adjustments for **discontinuity**
  - **Balancing** adjustments

• **Process tables** may enhance linkages, also for users
Some Examples on the Use of Financial Accounts and Balance Sheets
Developments within financial corporations

Monetary Financial Institutions (MFIs) versus Other Financial Intermediaries (OFIs) in the USA, 1990-2017
Internal sources (gross saving) and external sources (change in liabilities) of funds of non-financial corporations in Germany and USA, 1999 – 2015
Liquid assets of non-financial corporations

Liquid assets of Canadian non-financial corporations, 2000 – 2016

- Liquid assets to total assets
- Liquid assets to total financial assets

Graph shows the percentage of liquid assets to total assets and total financial assets from 2000 to 2016, with an upward trend over the years.
Tobin’s q for the non-financial corporations’ sector in Canada, 1990 – 2016
Level and composition of households’ financial assets
Debt and debt service ratios of households (% of disposable income) in OECD countries, 2016

- Debt to GDI Ratio
- Debt Service Ratio
Dwellings versus mortgage debt of households

Dwellings (including underlying land) versus mortgage loans, 2003 – 2015

[Graphs showing the relationship between dwellings, mortgage liabilities, and share mortgage debt for Australia, France, Germany, and the United States over the years 2003 to 2015.]
Future needs: distributional data

Figure 8.6. Wealth inequalities/indebtedness across household groups
Percentage of household disposable income

Netherlands, 2012

Australia, 2014-2015
Government debt: beware of the definition!

Table 6.3. Consolidated gross government debt for Canada at nominal value, 31 December 2016

<table>
<thead>
<tr>
<th></th>
<th>Percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Central government</td>
</tr>
<tr>
<td>Narrow*</td>
<td>35.1</td>
</tr>
<tr>
<td>Wide excl. IPSGS*</td>
<td>39.0</td>
</tr>
<tr>
<td>Wide*</td>
<td>47.1</td>
</tr>
</tbody>
</table>

* The narrow definition covers only currency and deposits, loans, and debt securities. The wide definition includes all debt instruments recognised by the 2008 SNA, excluding financial derivatives. The wide measure excluding IPSGS refers to the wide measure excluding insurance, pensions, and standardised guarantee schemes.
Debt and net (financial) worth of general government

**Government Balance Sheets, 2015**

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Australia</th>
<th>France</th>
<th>Germany</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Australian</td>
<td>Euro, billions</td>
<td>Euro, billions</td>
<td>US dollar,</td>
</tr>
<tr>
<td></td>
<td>dollar, billions</td>
<td>Percentage of GDP</td>
<td>Percentage of GDP</td>
<td>billions,</td>
</tr>
<tr>
<td>Total fixed assets</td>
<td>655</td>
<td>1,156</td>
<td>1,338</td>
<td>12,340</td>
</tr>
<tr>
<td>Dwellings</td>
<td>11</td>
<td>60</td>
<td>28</td>
<td>399</td>
</tr>
<tr>
<td>Non-residential buildings</td>
<td>516</td>
<td>328</td>
<td>1,139</td>
<td>5,404</td>
</tr>
<tr>
<td>Other structures *</td>
<td>n.a.</td>
<td>612</td>
<td>1,397</td>
<td>4,425</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>100</td>
<td>68</td>
<td>93</td>
<td>972</td>
</tr>
<tr>
<td>Intellectual property products</td>
<td>29</td>
<td>88</td>
<td>78</td>
<td>1,140</td>
</tr>
<tr>
<td>Land</td>
<td>322</td>
<td>726</td>
<td>454</td>
<td>n.a.</td>
</tr>
<tr>
<td>Other non-produced assets</td>
<td>1,035</td>
<td>12</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Including pension liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross government debt</td>
<td>1,127</td>
<td>2,639</td>
<td>2,365</td>
<td>23,698</td>
</tr>
<tr>
<td>Net financial worth</td>
<td>-167</td>
<td>-1,659</td>
<td>-1,296</td>
<td>-18,190</td>
</tr>
<tr>
<td>Net worth (excluding non-produced assets)</td>
<td>488</td>
<td>-503</td>
<td>42</td>
<td>-5,850</td>
</tr>
<tr>
<td>Excluding pension liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td>722</td>
<td>2,639</td>
<td>2,365</td>
<td>19,729</td>
</tr>
<tr>
<td>Net financial worth</td>
<td>238</td>
<td>-1,659</td>
<td>-1,296</td>
<td>-14,221</td>
</tr>
<tr>
<td>Net worth (excluding non-produced assets)</td>
<td>893</td>
<td>-503</td>
<td>42</td>
<td>-1,881</td>
</tr>
</tbody>
</table>

* For Australia and Germany, other structures are included in non-residential buildings.
Development of US external position

Warning!!!
Advertisement Block
Understanding Financial Accounts

• Understanding National Accounts
  • 1st edition: 2006
  • 2nd edition: 2014
  • Translated in Chinese and Spanish

• Understanding Economic Statistics (2008)

• Understanding Financial Accounts

• https://mdequeljoe.github.io/statsday/
Thank you for your attention!