How financial systems work: Evidence from financial accounts

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**The business and national accounting:
an analysis on the missing links – and beyond**

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Storyboard

Paper:

- Holding gains/ losses and provisions as examples for different treatments in national accounts and business accounts including proposed solutions

Comments on the relevance in the context of ….

- Framework of national accounts

- Compilation procedure
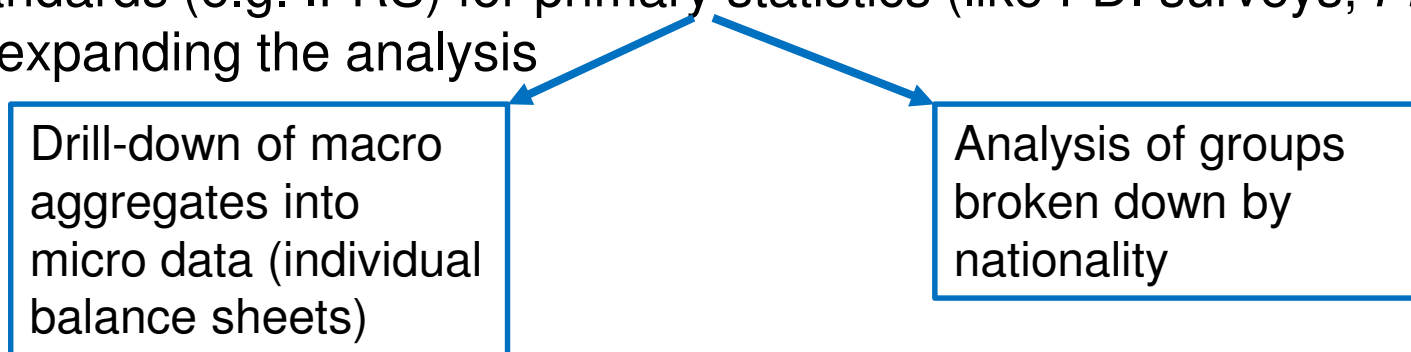
Reference to ESA 2010 / SNA 2008

Chapter 21:

*   Links between business accounts and national accounts and measurement of corporate activity:

Reference (also in the paper) is made to:

*   Double entry vs. quadruple entry:
    Booking keeping from the (isolated) view of an individual company with <u>all</u> elements of the profit and loss account and balance sheet account (including provisions) – used for direct reporting
    vs.
    World-wide standardised recording of transactions and stocks (but no full coverage) <u>simultaneously both</u> from the viewpoint of the creditor and the debtor (especially, if they are located in different countries and consequently highlighting the importance of covering all aspects of globalisation) - used for counterpart reporting

Questions for further investigation

- Driving force: national accounts framework or business accounts as priority for harmonisation / alignment:
  - Income: Imputed oriented ("FISIM") vs. market oriented using "yield" taking into account holding gains/losses (less "surprised")
  - (Financial) liabilities: counterpart oriented vs. full liability side including provisions

- Do we have a choice of separating the information (taking into consideration)?
  a) growing importance of individual balance sheets using harmonised standards (e.g. IFRS) for primary statistics (like FDI surveys, *FRIBS*)
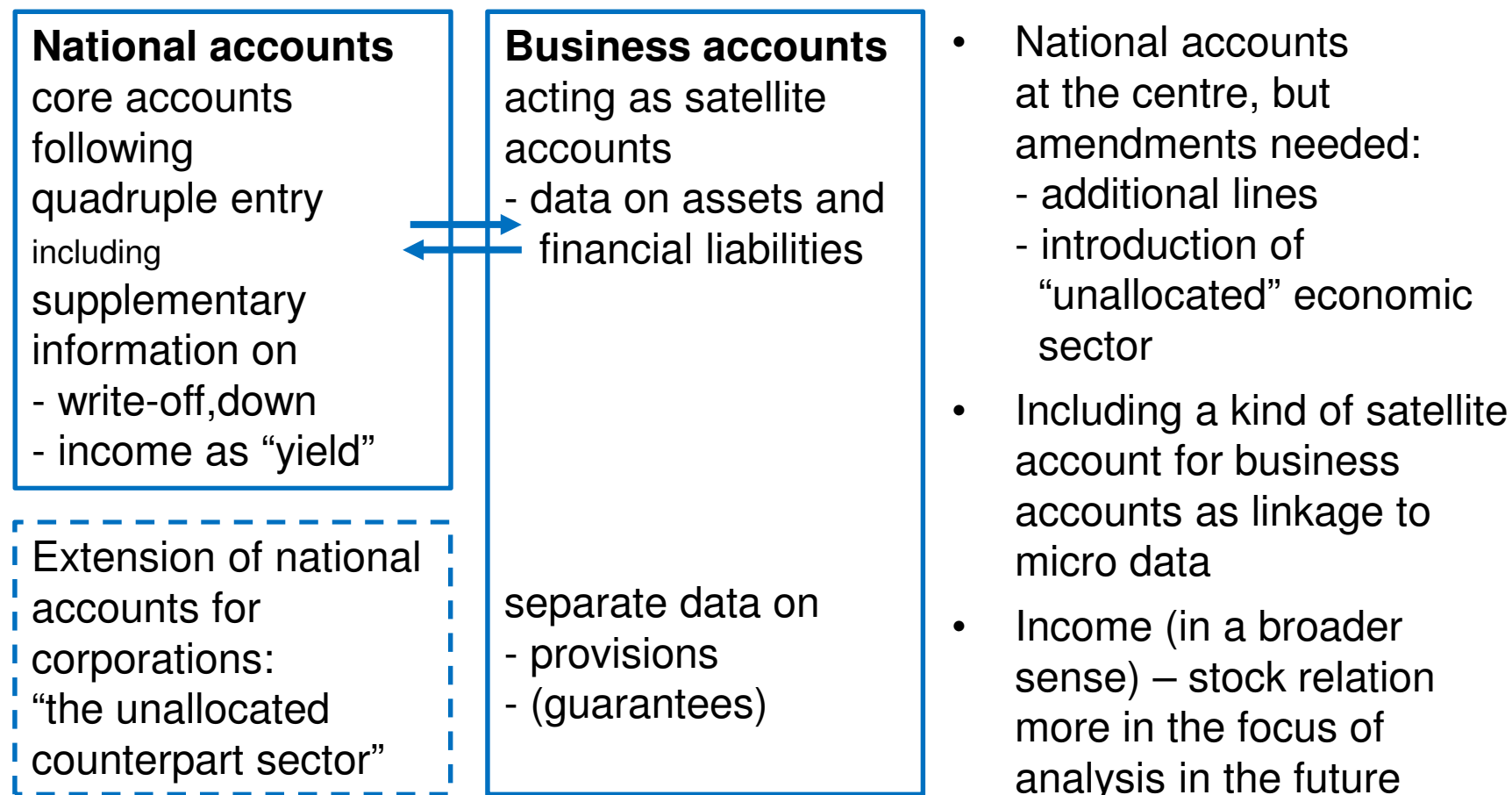 b) expanding the analysis

| Drill-down of macro aggregates into micro data (individual balance sheets) | Analysis of groups broken down by nationality |

Questions for further investigation, 2

- What are the effects on net lending/net borrowing (and net position) and macro-economic key figures?

$$B9_{NFC} + B9_{FC} + B9_{Gov} + B9_{HH} = B9_{Total\ vis\ a\ vis\ RoW}$$
$$= BOP\ /\ Current + Capital\ Account$$
$$= BOP\ /\ Financial\ Account$$

- Within the existing balancing rules
  - Adjustments on holding gains/losses as part of "income":
    -> different size of transactions (-> GNI)
  - Recording of write-downs/off as transactions/stocks:
    -> different time and probably size/direction of transactions (-> MIP)

- Expansion of existing balance rules
  - Inclusion of provisions:
    -> increasing liabilities which are neither debt nor equity (-> ratios)
    -> (partially) unallocated counterpart (domestic/foreign) sector due to the change of the $B9/Net\ Position_{Total}$ with probably difficulties to incorporate these effects in BOP (for foreign counterpart).

Proposed solutions – feasible?

National accounts
core accounts following quadruple entry
including
supplementary information on
- write-off,down
- income as "yield"

Extension of national accounts for corporations:
"the unallocated counterpart sector"

Business accounts
acting as satellite accounts
- data on assets and financial liabilities

separate data on
- provisions
- (guarantees)

- National accounts at the centre, but amendments needed:
  - additional lines
  - introduction of "unallocated" economic sector

- Including a kind of satellite account for business accounts as linkage to micro data

- Income (in a broader sense) – stock relation more in the focus of analysis in the future

Thank you for your attention

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