Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development

18-Sep-2007

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English - Or. English

STATISTICS DIRECTORATE
DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS

REVALUATIONS AND OTHER CHANGES IN VOLUME FOR THE NORWEGIAN FINANCIAL ACCOUNT:
METHODS AND SOURCES

To be held on 2-3 October 2007
Tour Europe, Paris la Défense
Beginning at 9:30 a.m. on the first day

This document has been prepared by Torbjorn Cock Ronning, Statistics Norway and will be presented under item 3 of the draft agenda

JT03232171

REVALUATIONS AND OTHER CHANGES IN VOLUME FOR THE NORWEGIAN FINANCIAL ACCOUNT

METHODS AND SOURCES

Introduction

1.   Statistics Norway releases quarterly financial accounts for all sectors from 1995 with a time lag of about 3 months. The accounts are compiled in the database system FINSE (FINancial SEctor accounts). In FINSE the institutional sectors are defined according to ESA95. In the end of the compilation process all asset/debt relationships are given a creditor sector, a debtor sector and a stock value. The changes in stocks are decomposed into three main categories: transactions, revaluations and other changes in volume (OCV). The data sources for calculating transactions, revaluations and OCV are more incomplete than the sources for the stock figures. In the calculation process transactions, revaluations and OCV are thus to a higher extent than stocks based on assumptions and calculations. Statistics Norway has nevertheless chosen to report complete financial accounts, even though the quality for some parts of the accounts is not perfect.

Compilation method in FINSE - stocks

2.   There is a two step process in the compiling process in FINSE. Stocks are first balanced. More than one source may be available for some stock variables. A selection among the various series is made for each asset relationship according to the judgement of the quality of the sources. When all stocks are balanced and given a creditor and a debtor sector, changes in stocks from one period to the next are calculated for each asset/debt relationship.

Compilation method in FINSE – transactions, revaluations and OCV

3.   Transactions, revaluations and OCV are calculated in the second step. The data sources for this process are incomplete in FINSE. For each asset/debt relationship, these variables are calculated by using changes in the balanced stocks from one period to the next, combined with the available input for transactions, revaluations and OCV. The residual[1] in this calculation is put on either transactions, revaluations or OCV based on a judgement for each asset relationship. For some asset relationships, the input for all types of flows is complete and the residual becomes zero. One example of this extremity is the households' holdings of quoted domestic securities. The other extremity is when there is no information available about the flow. Then the change in stocks equals the residual and is put on just one of the three types of flows based on a judgement for each asset relationship. One example of this extremity is the households' holdings of domestic non-quoted shares. In this case the residual (change in stocks) is put on transactions.

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[1] Residual = changes in stock - input on transaction - input on revaluation – input on OCV

Data sources on revaluation and OCV

Revaluations

4.   Foreign assets/liabilities in foreign currency are revalued for net nominal holding gains arising from changes in exchange rates and price changes of securities. The financial sector reports deposits and loans broken down by main currencies and sectors which allows quarterly calculations of the revaluation for these instruments. In addition transactions in securities are reported directly thus making possible residual calculation of all kinds of revaluation and other changes put together. The revaluations of non-financial corporations' foreign assets/liabilities are mostly calculated in a more rough way. The vast majority of the corporations report only stocks in NOK on a quarterly basis. An annual survey gives information on stocks broken down by currency. This information combined with data on exchange rates is used to calculate quarterly revaluations. A few corporations report the revaluations directly. Portfolio investments in listed shares as foreign debt are calculated at market values using individual price information from OBX which allows data for revaluation. A weakness in this system is that revaluations arising from fluctuations in market prices on other foreign securities than portfolio shares on the debt side are residually put on OCV or transactions.

5.   The Norwegian Government Pension Fund, which is a part of the central government, dominates totally the sector relationship between the central government and the rest of the world. The fund (through the Central Bank) reports quarterly balance data, revaluations and other changes in volume split down by instrument. The Central Bank also reports these accounts for the stock of international reserves.

6.   Regarding domestic positions in foreign currency, revaluations are calculated for deposits (AF.2) and loans (AF.4). Revaluations on deposits in foreign currency are calculated by using a weighted average exchange rate index in which the weights are calculated from the banks' total stock of foreign currency *liabilities* (as reported to the Bank for International Settlements (BIS) broken down on currency). Similarly, revaluations on loans in foreign currency are calculated by using a weighted average exchange rate index in which the weights are calculated from the banks' total stock of foreign currency *assets* (as reported to BIS).

7.   Revaluations on the households' life insurance claims are calculated by using the life insurance companies' income and loss accounts. 85 per cent of realised holding gains/losses and 75 per cent of the change in the reserve fund for loss on securities are regarded as revaluations.

8.   Revaluations on domestic quoted securities are indirectly reported by The Norwegian Central Securities Depository (VPS). The VPS reports balances, transactions and other changes in volume for quoted shares and securities other than shares. Revaluations are therefore reported indirectly (residual). The reports include information about both issuer and holder.

9.   Unquoted shares not registered in the VPS are in FINSE calculated at face value and changes in the stocks in face value are normally regarded as transactions, and revaluations are usually not calculated.

10.   Revaluations for mutual fund holdings are calculated residually since only balance and transactions data are available.

11.   Local and central government report annual balance sheets including revaluations for some instruments. Counterpart information is only partly available and some of the revaluations have to be divided on counterpart by assumption.

Other changes in volume

12.   The financial sector is reporting write-offs of bad debt every month, most of it including counterpart information.

13.   Local and central government report annual balance sheets including domestic OCV for some instruments. Counterpart information is only partly available and some of the data has to be divided on counterpart by assumption.

14.   Changes in classification and structure are incorporated into the system on an ad hoc basis. One example is when a financial corporation has a shift in sector belonging. The increase in the balance of the new sector has to be dealt with as a positive OCV. The decrease in the other sector has to be dealt with as a negative OCV.

15.   Inconsistencies arising when bringing together changes in stocks, transactions and revaluation data in the BOP system are brought to consistency by OCV.

16.   The Norwegian Central Securities Depository reports balances, transactions and other changes in volume for quoted shares and securities other than shares.

17.   The Norwegian Government Pension Fund reports quarterly OCV split down by instrument. The Central Bank also reports this account for the stock of international reserves.

Summary

18.   There is a two step process in the compiling process in FINSE. Stocks are first balanced. Transactions, revaluations and OCV are calculated in the second step, based on the changes in stocks. The available input for transactions, revaluations and OCV are put into the equation:

Residual = changes in stock - input on transaction - input on revaluation – input on OCV

19.   The residual in this calculation is put on either transactions, revaluations or OCV based on a judgement for each asset relationship.

20.   The input on stocks is more complete than input on transactions, revaluation and OCV, which is more based on assumptions and calculations. The different sources differ in quality. Revaluation and OCV data from The Norwegian Central Securities Depository and The Norwegian Government Pension Fund are reliable and give information about all accounts. Data on revaluation and OCV on domestic unquoted shares are not available and the stocks are recorded at face value. Changes in these stocks equal transactions.

Figure A. The FINSE database system. Stocks.

Quarterly statistics	Estimated input data	Annual statistics
Government tax accounts (monthly) Survey on foreign asset and liabilities (BOP-statistics)	**Other accounts receivable/ payable (**tax claims/ liabilities (db))	Accrued taxes (Inst. Sector Accounts, Statistics Norway) Survey on foreign asset and liabilities and tax return account statistics Norwegian Business Register (issued share capital)
ORBOF-db (banking and insurance statistics) **VPS-db** (Securities markets) **Mutual funds (db)**	**URbal-db** (Assets and liabilities to the rest of the world) **Unquoted shares** (not registered in the VPS)	**Pension funds (db)** **General government (db)** **Public owned non-financial corporation (db)**

SAMBA (input database)
Data structure:
asset sector * liability sector * instrument

Reconciliation process
Selection of data series according to predetermined rules

FINSE
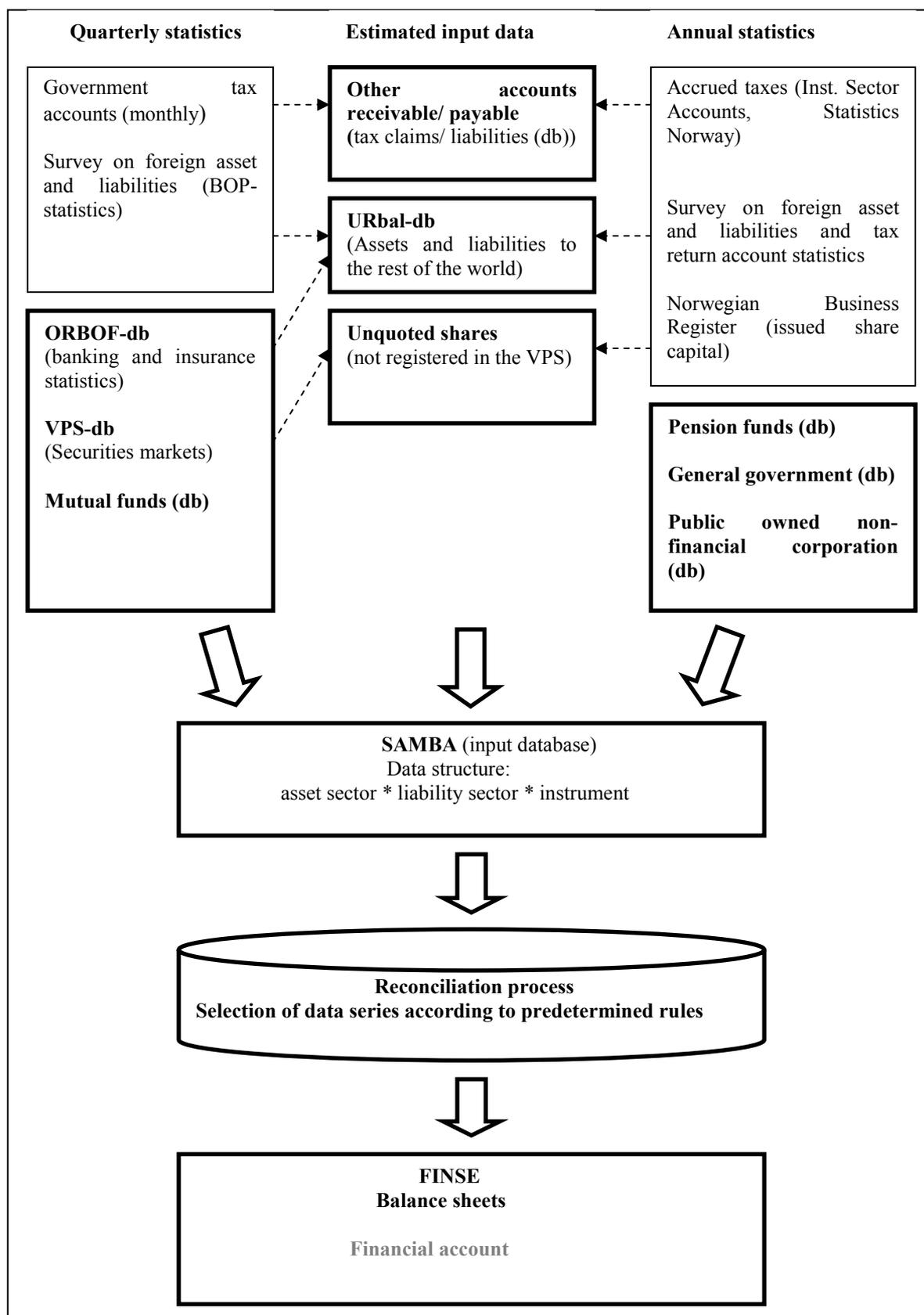**Balance sheets**

Financial account

Figure B. The FINSE database system. Transactions and other changes in assets.

Transactions	Other changes in assets	
	Revaluations	**Other changes in volume**

URbal-db
- BOP-statistics

VPS-db
- shares in the VPS
- bonds (short and long)
- primary capital certificates

Mutual fund shares

Central government fiscal account (general gov. db)
- information on assets (loans, shares, other equity)

Foreign exchange rate indices

ORBOF-db
- deposits and loans in foreign currency
- insurance technical reserves

URbal-db
- mainly changes in exchange rates

ORBOF-db
- bad debt
- changes in structure / classification

URbal-db
- inconsistencies between BOP and survey of foreign assets and liabilities

FINTRANS (input database)
Data structure:
asset sector * liability sector * instrument

Reconciliation process

Changes in stocks

(Method 1) Transactions = changes in stocks – other changes in assets
(Method 2) Other changes in assets = changes in stocks - transactions

FINSE
Balance sheet

Financial account
Other changes in assets account