Practices and Challenges In Compiling FOF

(financial transaction)

In China

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1. Development of FOF tables in China

China started to compile flow-of –fund (FOF) tables from 1992, of which the physical transaction tables are compiled by the National Bureau of Statistics (NBS), and the financial transactions are compiled by the People's Bank of China (PBC). Up to now, PBC has compiled over 19year FOF tables (in financial transaction) from 1992 to 2010. Presently, the time lag of releasing FOF tables (in financial transaction) is 1 year. The classification is similar to general international standard. We use the 1993SNA accounting methods. Most of the data come from acceptable, stable and creditable source.

The flow-of-funds at the PBC has been developed through these years, with development and refinement, reflecting the relatively recent creation of the new institution and financial instrument.

2. Institutional sector classification

FOF tables in China classify all resident institutional units into five sectors. They are non-financial corporations sector, financial corporations sector, general government sector, households sector, and the rest of the world. Of which, the former four units are called domestic institutional sectors. As the operating funds of non-profit institutions serving households in China (including trade unions, consumer associations, charity and relief organizations and so on) mainly come from the various levels of government. China categorizes the non-profit institutions serving households into the general government sector in line with the classification principles of 1993 SNA on such kind of non-profit institutions. Therefore, differing from the 1993 SNA, non-profit institutions serving households sector is not a separate institutional sector in Chinese national accounts as that of SNA.

3. Financial instruments

Financial instruments have been added during the past 19years. Now, It included Currency, Deposits, Loans, Bonds, Shares, Securities investment fund share, Insurance Technical Reserves, Inter-financial Institutions Accounts, Required and Excessive Reserves, Cash in vault, Central bank loans, Miscellaneous (net), Foreign direct investment, Other foreign Assets and liabilities, Reserve Assets, errors and Missions.

4.Data sources

The main data sources of compiling FOF tables in China cover the statistical data of PBC; Ministry of Human resources and Social Security of People's Republic of China; and related ministries of the State Council.

Half of the data is from banking statistics. It has a uniform criterion to characterize sector and transaction instrument. The accounting method, evaluation and consolation approach are consistent with 1993 SNA. It gives us not only financial data of financial companies, but also counterpart data of financial companies which may be households, non-financial companies, government and the rest of the world.

The rest of the world accounts data come from data of the balance of payment. The balance of payment accounting methods is consistent with 1993 SNA alike banking statistics.

Other data include bonds, shares, insurance and investment funds. Which are data from China Securities Regulatory Commission; China Insurance Regulatory Commission; China Central Depository &Clearing Co., Ltd. (CCDC). Compiler will use these data to fill in the different sector accounts tables according to the flow of funds principles. However, Some

of these data is not always have definite sector or counterpart sector, so we have to use indirect estimation, these estimation will be support by other data sources.

Some special surveys also provide us important data sources. These surveys are not designed for financial accounts, but they play an important role in compiling FOF tables. Firstly, they give us proof in decompounding data. Secondly, they give us proof in revising data.

5. The compiling methods of FOF tables

In general, the compiling methods followed the 1993SNA. Data is obtained from level data and flow data. To get flow data, we use minus method to put level data into flow data.

Sector data are sum up by sub-sector data. Instrument data are sum up by sub-instrument data. In combination of sector, we have taken out the internal transaction within the same sector. The sector combination data reflect the sector transaction with other sectors.

An exceptional data is financial company. It consists of central bank, other depository corporations, insurance company, and other financial corporations. The homogeneity of this institution is not so high. so, internal transaction within the sub-sector are deducted. While, transactions between these sub-sectors are not deducted. However, some

financial instruments are designed for certain financial company, for instance, Required and Excessive Reserves, Cash in vault, Central bank loans, and so on.

6. Sector accounts, transaction accounts, matrix accounts

The PBC publish FOF table in matrix accounts. In practice, complier will compile sector accounts, transaction accounts separately, and then combine them into matrix accounts。

Sector accounts: it implies sectors sources and uses. Including households, government, non-financial companies, and financial companies.

Transaction accounts: it implies sectors participation in certain transactions, which come into beings of assets and debts. It includes loans, deposits, bonds, and so on.

Matrix accounts: it implies accounts of all national sectors and all financial transactions. If we decompose the matrix accounts according to sector and transaction, we can get the sector accounts and transaction accounts.

Matrix accounts have high comprehensive character, it offer an approach to verify the data's equilibrium. In the light of economic relation, sector data should fulfill relations below:

Net financial investment = summation of financial use - summation of financial sources

Transaction data should fulfill relations below:

Financial instrument uses= Financial instrument sources + Errors

Sum of All kinds of instrument uses = Sum of All kinds of instrument sources + Errors

The compiler will use these equations to verify the accounting method and the exactness or credibility of database. If there are no problems in accounting method, there will be an Errors and omissions item, we put the errors in the miscellaneous (net) now.

7. Challenges

The main challenges in compiling FOF tables in China cover the following aspects: (i) Time lags, As a consequence of the comprehensiveness and accounting homogeneity of flow-of-funds statistics, compiling, combining and processing information takes time and the data are only available with 1 year lag, As different data supplier have different release timetable, so there are different time lags. (ii) Sector concern, With the reform of government from central planning to marketing economics, some institutional units should be reclassified as enterprises, then, they are difficult to distinguish from banking database. (iii) Innovation of financial instruments, Due to the innovation of financial instruments, items in off-balance sheets are growing fast, how to incorporate these items into the FOF is a challenge. (iv)   Different

supervisor standard and different accounting standard, Different government institutions are responsible for different financial institutions, so it is difficult to unified the classification of financial items. And with the system of business accounting changing to comply with international standards, the breakdown of assets and liabilities is also changing, the data have to be consistent with years before.