II. CONCEPTUAL FRAMEWORK

The organization and presentation of flow of funds accounts and financial statistics, follow a hierarchical approach based on two general data frameworks— sectoral balance sheets and other surveys.

A. Sectoral balance sheets

The purpose of the sectoral balance sheets is to provide a framework for the collection and presentation of data in a format that facilitates the presentation of flow of funds accounts for the whole economy. The data for a sectoral balance sheet are obtained from the individual institutional units with in financial and non-financial corporations sub-sectors and are classified into standard components, in accordance with the sectorization, instrument classification, and accounting principles. In addition, sectoral balance sheets are directly useful for analysis requiring sub-sector data that are more highly disaggregated than the asset and liability categories shown in the corresponding sub-sector surveys. The structure of the flow of funds accounts of financial statistics is given in **Annexure I**. The data required for developing these accounts will be reported through a questionnaire (**Annexure III**).

B. Financial Statistics and Flow of Funds Accounts

Financial statistics consist of a comprehensive set of stock and flow data on the financial assets and liabilities of all sectors of an economy and between these sectors and the rest of the world while flow of funds accounts are the set of stock and flow data on financial assets and liabilities as well as non-financial assets of all sectors. These statistics are developed within the framework of the SNA93, which provides for comprehensive coverage of production, distribution, and all non-financial and financial stocks and flows for the total economy as well as for each its sectors. The broad components of the 1993 SNA are the:

? Current accounts

? Accumulation accounts

- o Capital account
- o Financial account
- o Other changes in assets account
  - ✍ Revaluation account
  - ✍ Other changes in volume account

Balance sheets that together provide an integrated system for measuring economic flows and the resulting stocks of non-financial and financial assets and liabilities are: -

- Opening balance
- Changes in stock positions (net transactions, valuation changes and other changes in volume)
- Closing balance

Flow of funds data, presented in a matrix form showing the financial transactions among all sectors/ sub-sectors of the economy are a particular focus of the financial statistics. Fully articulated flow of funds statements are, in essence, extensions of the financial account into three-dimensional matrices that show the transactions in financial assets and liabilities among sectors/ sub-sectors and non-residents. The components of basic flow of funds account and detailed flow of funds account are provided in **Annexure I.**

C. Sectorization of the economy

Institutional units differ with respect to their economic objectives, functions, behaviour and activities and are grouped into sectors that include units with similar characteristics. The units of the economy are grouped into the following mutually exclusive institutional sectors:

i) Resident Units

Financial Corporations

1. **Depository corporations**
   1. Central bank
   2. Other depository corporations
      a. Deposit money institutions
      b. Other deposits accepting institutions
2. **Other financial intermediaries; except insurance corporations and pension funds**
3. **Insurance corporations and pension funds**
4. **Financial auxiliaries**

Non-financial Corporations

1. Public non-financial corporations;
2. Private non-financial corporation
   a. Foreign controlled non-financial corporations; and
   b. National private non-financial corporations

General Government

1. Central government
    a. Federal government excluding NPIs and public enterprises
    b. Federal government NPIs
2. Provincial and local/ city governments
    a. Provincial & local government excluding NPIs and public enterprises
    b. Provincial & local governments NPIs

Households

1. Employers
2. Employees
3. Own account workers
4. Recipient of property or transfer income

Non-Profit Institutions Serving Households (NPISH)

ii) Non-Resident Units (The Rest of The World)

D. Classification of Assets / Liabilities

Financial assets are financial claims (e.g., currency, deposits, and securities) that have demonstrable value. SNA 93 defines financial assets as a subset of economic assets— entities over which ownership rights are enforced, individually or collectively, by institutional units and from which economic benefits can be derived by holding or using the assets over a period of time. Most financial assets are financial claims arising from contractual relationships entered into when one institutional unit provides funds to another. Despite the absence of a corresponding liability, monetary gold and SDRs are also considered to be financial assets for the central bank. Transactions in non-monetary gold are treated as transactions in non-financial assets under valuables or depending upon the nature of the business of the institution. Major components of financial and non-financial assets/ liabilities are as follows: -

Financial assets (assets / liabilities)

- Monetary gold and SDRs (this is the holding of the central bank)
- Currency and deposits
- Securities other than shares
- Loans
- Shares and other equity
- Insurance technical reserves
- Financial derivatives
- Other accounts receivable / payable

Non-financial assets

- Produced assets
  - Tangible fixed assets
  - Intangible fixed assets
  - Inventories
  - Valuables
- Non-produced assets
  - Tangible non-produced assets
  - Intangible non-produced assets

E. Residency criterion

Residence is particularly important attribute of an institutional unit in the economy because the identification of transactions between residents and non-residents underpins the system. The concept of residence is based on transactor's centre of economic interest. An institutional unit has a centre of economic interest and is a resident unit of a country when from some location, dwelling, place of production, or other premises within the economic territory of country, the unit engages and intends to continue engaging, either indefinitely or over a finite period usually a year, in economic activities and transactions on a significant scale. The one-year period is suggested only as a guideline and not as an inflexible rule.

F. The principle of accrual accounting

Transactions are recorded when economic value is created, transformed, exchanged, transferred, or extinguished. Claims and liabilities arise when there is a change in ownership.