Introduction

Sector accounts present a coherent overview of all economic processes and the roles played by the various sectors. Each economic process is described in a separate account. Here the Financial Institutional Accounts for the Financial Corporations sector are presented on a subsector by subsector basis and the commentary emphasises the time series behaviour across these subsectors.

Financial Balance Sheet (non-consolidated)

This account shows the stock at the end of each year of the financial assets and liabilities of the sector. A change in balance sheet position from year to year can be explained in part by the net transactions during that year. In addition, valuation changes, exchange rate changes and reclassifications can impact on the balance sheet position. Note however that estimates are not available of the stock of non-financial assets (property, equipment, valuables, intangible non-financial assets) and it is not therefore possible to estimate the net worth of each sector or of the total economy.

Institutional sectors in the financial accounts

Institutional units are economic entities that are capable of owning goods and assets, of incurring liabilities and of engaging in economic activities and transactions with other units in their own right.

The classification system is that of the European System of Accounts 2010 (ESA2010). The sectors and subsectors distinguished in the Assets and Liabilities of the Financial Sector publication are as follows:

S.12 Financial Corporations are corporate bodies producing financial services on a commercial basis. They can take various legal forms, with a range of ownership arrangements. The following subsectors of S.12 are available to view in StatBank.

S.121 consists of the Central Bank of Ireland.

S.122 + S.123 Monetary Financial Institutions consists of credit institutions such as banks, building societies, and credit unions (S.122) and Money Market Funds (S.123).

S.124 Investment Funds consists of all collective investment schemes except those classified in the money market subsector. Their business is to issue investment fund shares or units which are not close substitutes for deposits and, on their own account, to make investments primarily in financial assets other than short-term financial assets and in non-financial assets such as real estate.

S.125 + S.126 + S.127 Other Financial Intermediaries (S.125), Financial Auxiliaries (S.126) and Captive Financial Institutions and Money Lenders (S.127). S.125 includes companies engaged in leasing and consumer and other lending, securitisation vehicles, derivative and security dealers, treasury companies, and a range of other companies engaged in financial intermediation. S.126 covers companies which provide auxiliary financial services and other financial advisory and consultancy services. They are companies which are principally engaged in activities closely related to financial intermediation but which are not financial intermediaries themselves. S.127 consists of all financial corporations and quasicorporations which are neither engaged in financial intermediation nor in providing financial auxiliary services. These include trusts, holding companies, special purpose entities, money lenders, and certain types of sovereign wealth funds.

S.128 + S.129 Insurance Corporations (S.128) and Pension Funds (S.129). S.128 consists of life and non-life insurance corporations and of reinsurance corporations. S.129 consists of pension funds.

Explanation of the variables in the financial accounts

Financial instrument classes

The scope of the tables is restricted to financial assets and liabilities: in other words, fixed assets and intangibles are not included, except when they are held by residents abroad or by non-residents in Ireland (see AF.5 below). The financial instrument classes distinguished are as follows:

AF.1 Monetary Gold and Special Drawing Rights (SDRs). Monetary gold (AF.11) includes all gold which is not intended for industrial purposes and not held in the form of valuables. Special drawing rights (SDRs) (AF.12) consist of the international reserve assets created by the IMF. Together these instruments form part of the official external reserves held by the Central Bank of Ireland. In the financial accounts statistics gold is recorded only on the assets side of the table, as it is not considered to be the liability of any sector.

AF.2 Currency and Deposits. This category includes currency (AF.21), consisting of notes and coins in circulation which are commonly used to make payments. As a liability, this item only exists for general government (issuing of coins), monetary financial institutions (Central Bank of Ireland issuing of bank notes), and the rest of the world (foreign currency). The asset is shown in the sector which is the holder of the currency.

The category also includes transferable deposits (AF.22), i.e. deposits that are immediately convertible into currency or transferable without restriction; and all other deposits (AF.29). Both are shown as an asset of the holder and the liability only exists for the deposit-taking sectors - mainly monetary financial institutions, but also the rest of the world and general government in respect of small savings schemes.

AF.3 Debt Securities. This category covers Debt Securities other than Equities which includes both Short-Term (AF.31) and Long-Term (AF.32). Short-term Debt Securities are all securities with a maximum term of one year.

AF.4 Loans. This category covers all credits which do not have the characteristics of deposits. Loans granted to monetary financial institutions are, by definition, included in the deposit category (AF.2). Short-term Loans (AF.41) have an original maturity of up to one year or are repayable on demand. Long-term Loans (AF.42), i.e. loans with an original maturity of more than one year, mainly include mortgage loans and long-term consumer credit.

AF.5 Shares and Other Equity. These are claims which are fully or partly entitled to a share in profits of a corporation or to a share in net assets in the event of liquidation. The category includes shares (AF.51), both listed (AF.511) and unlisted (AF.512), and other forms of equity (AF.519). Other forms of equity include cross-border investments in unincorporated businesses (branch operations) or fixed assets (such as property). Shares and Other Equity also include shares in mutual funds and similar types of collective investment scheme (AF.52).

AF.6 Insurance, Pension and Standardised Guarantee Schemes includes non-life insurance technical reserves (AF.61), life insurance and annuity entitlements (AF.62), pension entitlements (AF.63), claims of pension funds on pension managers (AF.64), entitlements to non-pension benefits (AF.65) and provisions for calls under standardised guarantees (AF.66).

AF.7 Financial Derivatives and Employee Stock Options covers derivatives (AF.71) and employee stock options (AF.72). Employee stock options are agreements under which an employee has a right to purchase shares of their employer's stock at a stated price under an agreed timeframe.

AF.8 Other Accounts Receivable/Payable. This covers trade receivables and payables (AF.81) and all other financial assets and liabilities (AF.89).

Interpreting the balance sheets of the financial sectors

The significant involvement of Irish companies, such as banks and other financial companies, in international financial transactions (sectors S.124 and S.125 + S.126 + S.127 in particular) tends to result in those entities having very large foreign assets and liabilities relative to other measures of the economy, such as GDP. (This is in contrast to other economies which engage less heavily in international financial transactions.) In most cases the foreign liabilities of a given sector are, to a large extent, offset by foreign assets, so that the net foreign position of that sector is not out of line with corresponding sectors in a similar economy.

Valuation principles in the financial accounts

In general, balance sheet positions are reported at end-year market value where they are available or can be estimated. Transactions are reported at the actual value of the transaction. This applies in particular to marketable securities (AF.3 and part of AF.5) on both the assets and liabilities sides. However, unquoted equity assets and liabilities (part of AF.5) are in general reported at book value. Foreign assets and liabilities are reported in general on the same basis as in the CSO's International Investment Position statistics. The liabilities under Insurance Technical Reserves of life insurance companies and, especially, pension funds (and the corresponding assets of policy holders and fund members) are estimated primarily from the values of the assets of the companies and the funds, and are not based on the actuarial liabilities to policy holders and fund members.

The values reported for the net financial assets of each sector must be assessed in the light of these differences in valuation practice. Firstly, the absence of estimates of the nonfinancial assets, such as property, means that the net financial assets cannot be taken as an estimate of the net worth of the sector. For the household sector, for example, the net worth will clearly be much larger than the (positive) net financial assets, as much of the wealth of households is invested in property and durable goods. This is also true, but to a proportionately lesser extent, for the corporate sectors, especially for the non-financial corporate sector. In general, for these corporate sectors, the net financial assets are typically negative, partly for this reason, but an additional factor must also be taken into account. The net financial assets of a company as reported in these results will be negative to the extent that the market value of its shares, if this is what is used in the account, exceeds the net asset value as reported in its balance sheet. For the majority of indigenous non-quoted companies the equity liability is captured essentially on the basis of their net asset value as reported in their balance sheet.

Consolidation

Tables 1a and 1b are given on a non-consolidated basis for each subsector. In other words, a liability of a unit in a sector to another unit in the same sector or subsector (such as a deposit received by a bank from another bank) is reported in the liabilities table for the sector of the reporting unit and in the assets table for the lending subsector and sector (in this example, in the tables for S.122 + S.123 and S.12). A consequence of this is that the aggregate sector S.12 (financial corporations) and the groupings of subsectors within S.12 (S.122 + S.123, and S.125 + S.126 + S.127) are also not consolidated.

Data sources and compilation of the financial accounts statistics

Financial Accounts statistics are in general compiled by assembling and combining statistics drawn from other primary published and unpublished sources. The main sources currently used are the CSO Balance of Payments and International Investment Position statistics including the underlying surveys, and published Central Bank statistics, primarily money and banking statistics. Other sources used include government administrative and statistical records, including those of state-owned companies and accounts filed with the Companies Registration Office and the statistical reports of representative bodies.

The first phase of compilation involves assembling from these sources the asset and liability positions of each sector for each instrument class at the end of each year and, as far as possible, the net transactions in the year. In the early stages of the work, the positions and transactions are then further allocated to the extent possible to counterpart sectors, based on original information or on preliminary allocation proportions. For many cells in the tables this process yields two estimates, one from each side, for example deposits of government with resident banks, reported as claims on banks in the government statistics and as liabilities to government in the banking statistics. Almost invariably the two estimates differ to some extent because of differences in such factors as coverage, valuation, and timing. Furthermore, for many other cells, only a single-sided estimate is available. This is the case in particular for the Household Sector, for which no direct or primary data are available, and which must be compiled entirely on the basis of counterpart data and estimations.

In the second phase, discrepancies are identified and the tables are balanced. This is done by a mixture of mechanical and judgemental processes to bring about compliance with several accounting identities and conventions. A key requirement is that the sum of all holdings by residents and non-residents of financial assets of a given class should be equal to the sum of all liabilities of that class (also by residents and non-residents). In this operation, priority is given to retaining, as far as possible, consistency with other well-based statistics such as official banking and International Investment Position and Balance of Payments statistics, and Government Financial Statistics. Therefore, some of the imbalances that come to the surface inevitably get allocated to sectors or instruments for which the primary statistics are less well based, particularly S.125 + S.126 + S.127 (other financial intermediaries) due to its relatively large size.

Annual financial accounts, published by the CSO, and quarterly financial accounts published by the Central Bank, show differences across the sectors of the economy. These differences arise from the classification and revision practices adopted by each institution following the introduction of ESA 2010. Both institutions are working closely to ensure a consistent approach in future publications.