

The UK Flow of Funds Project: Improvements to the Sector and Financial Accounts

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Executive summary

This article details 3 improvements to the Sector and Financial Accounts that have been recently added to the scope of the 2016 Blue and Pink Books.

In late 2014, ONS began working in partnership with the Bank of England to improve the coverage, quality and granularity of flow of funds statistics for the UK. In November 2015, ONS and the Bank jointly published the most [comprehensive review of financial statistics](#) for some years. The review highlighted strengths in the current estimates, but also areas where the quality of current statistics could be improved or undergo further review.

ONS has taken forward additional work since this review and consequently will be making 3 improvements to the Sector and Financial Accounts in June 2016 to ensure that the UK National Accounts continue to provide the best possible framework for analysing the UK economy and for comparing it with those of other countries.

The 3 planned improvements are:

1. Estimation of deposits with monetary financial institutions;
2. Levels of UK listed shares and mutual funds;
3. Levels of UK bonds.

It is important to note that these changes do not impact on Gross Domestic Product (GDP).

Due to the consistency and integration of the UK's National Accounts and Balance of Payments, where an improvement directly impacts on the Rest of the World (RoW) sector, it will also have an impact on the Balance of Payments and International Investment Position.

It is highly likely that as the UK Flow of Funds project progresses further areas of improvement to the Sector and Financial Accounts will be identified. These improvements will be implemented on an incremental basis as part of future Blue and Pink Books.

1 Introduction

This article is part of a series describing [changes to National Accounts](#), detailing the improvements which will be made in June 2016 to ensure that the UK National Accounts continue to provide the best possible framework for analysing the UK economy and for comparing it with those of other countries.

This article details 3 improvements to the Sector and Financial Accounts planned for June 2016. It is important to note that these changes do not impact on Gross Domestic Product (GDP).

The 3 planned improvements are:

1. Estimation of deposits with monetary financial institutions;
2. Levels of UK listed shares and mutual funds;
3. Levels of UK bonds.

This article provides a high-level summary of the 3 improvements being implemented in Blue Book 2016. The full impact of these improvements, which is not currently known, will be described in the following articles (Table 1):

Table 1 - Provisional publication schedule for related impact articles

Content of Article	Provisional date of publication
Detailed assessment of changes to Sector and Financial Accounts 1997 to 2011	Tuesday 26 April 2016
Detailed assessment of changes to Balance of Payments and International Investment Position, 1997 to 2011	Tuesday 26 April 2016
Detailed assessment of changes to Sector and Financial Accounts 2012 to 2014	Tuesday 7 June 2016
Detailed assessment of changes to Balance of Payments and International Investment Position, 2012 to 2014	Tuesday 7 June 2016

Source: Office for National Statistics

2 The UK Flow of Funds Project

In late 2014, ONS began working in partnership with the Bank of England (the Bank) to improve the coverage, quality and granularity of flow of funds statistics for the UK. An [article](#) introducing the project and presenting initial findings was published in July 2015.

In November 2015, ONS and the Bank jointly published "[Comprehensive review of the UK financial accounts](#)". This article represented the completion of the first stage of the project by presenting an assessment of the currently available 'from-whom-to-whom' statistics and the quality of these new estimates.

Investigating the availability of from-whom-to-whom statistics led to the most comprehensive review of the financial accounts for some years. The review not only identified where counterparty information was available, but also provided an assessment of the quality of the estimates currently published in the accounts. The article and accompanying explanatory notes therefore highlighted both the strengths in the current estimates, but also areas where the quality of current statistics could be improved or undergo further review.

Since November, ONS has focussed attention on 3 areas of the financial account which were identified as having the potential to benefit from further review.

1. Estimation of deposits with monetary financial institutions;
2. Levels of UK listed shares and mutual funds;
3. Levels of UK bonds.

Investigatory work has reached the stage where it is possible to implement improvements to the National Accounts.

3 Improvements to the Sector and Financial Accounts

This section looks at each of the 3 areas in more detail.

3.1 Estimation of deposits with monetary financial institutions

During the [review of the financial accounts](#), a discrepancy was found between the estimates of balance sheet levels of transferable deposits¹ with monetary financial institutions²

¹ Transferable deposits are deposits exchangeable for currency on demand, for example, deposits in personal current accounts with banks or building societies.

² Monetary financial institutions include the Central Bank and other deposit-taking institutions.

published as part of the National Accounts and the source data from the Bank of England. This issue impacts the time series from 2004 onwards. It affects both assets and liabilities equally. As such, there will be no change to the net financial worth of monetary financial institutions, or the UK economy as a whole. There is no impact on income measures.

3.2 Levels of UK listed shares and mutual funds

An issue was identified between the levels of UK listed shares and mutual funds reported in the National Accounts and by the London Stock Exchange. ONS has subsequently identified that some UK listed shares and mutual funds were not captured during processing of the data, and others were being double-counted. The net effect is that, from 2011 onwards, these securities were under-reported in most periods in the National Accounts. Although all sectors may be subject to change, the largest impacts are likely to be on the Other Financial Intermediaries, Private Non-Financial Corporations, Households and Rest of the World sectors.

The method of improvement for UK listed shares will be to benchmark to the total market value of shares listed on the London Stock Exchange. However, there are differences in definition (for example, the treatment of countries incorporated outside the United Kingdom) that will result in differences correctly remaining between the 2 sources.

The changes in value to UK-listed shares will also have an impact on the estimated value of unlisted UK shares in the National Accounts.

Further work is taking place over 2016 to review the estimation methodology for shares. As such, further revisions to these series should be anticipated.

3.3 Levels of UK bonds

The Sector and Financial Accounts present the level of bonds in the UK economy as well as how these bonds are distributed across institutional sectors. ONS processes bonds and shares within the same system and consequently, when an issue was identified with the processing of shares, estimates of bonds were reviewed for due diligence. Investigatory analysis confirmed that some UK bonds were also not captured during the processing of the data. As a result, UK bonds have also been under-recorded in the National Accounts from 2011 onwards.

Amending the overall level of bonds will change the distribution of bond interest payments between institutional sectors. Although all sectors may be subject to change, the largest impacts are likely to be on the Other Financial Intermediaries, Private Non-Financial Corporations and Rest of the World sectors. Of particular note, increasing the level of UK bonds going to the Rest of the World will impact the Balance of Payments and International Investment Position.

Further work is taking place over 2016 to review the estimation methodology for bonds. As such, further revisions to these series should be anticipated.

4 Plans for future updates

This article is part a series ahead of the Quarterly National Accounts and Balance of Payments consistent with Blue Book and Pink Book 2016 publication on 30 June 2016.

Table 2 presents a draft schedule for the remaining articles leading up to the publication of Blue Book and Pink Book 2016 on 29 July 2016. Final dates will be announced at least 1 month before each publication.

Table 2 - Provisional publication schedule for UK Blue Book and Pink Book 2016

Content of Article	Provisional date of publication
Impact on GDP Chained Volume Measure annual estimates 1997-2011	Wednesday 23 March 2016
Detailed assessment of changes to Sector and Financial Accounts 1997 to 2011	Tuesday 26 April 2016
Detailed assessment of changes to Balance of Payments and International Investment Position, 1997 to 2011	Tuesday 26 April 2016
Impact on GDP Current Price and Chained Volume Measure quarterly and annual estimates 1997 to 2014	Friday 20 May 2016
Detailed assessment of changes to Sector and Financial Accounts 2012 to 2014	Tuesday 7 June 2016
Detailed assessment of changes to Balance of Payments and International Investment Position, 2012 to 2014	Tuesday 7 June 2016
Classification Changes to National Accounts for Blue Book 2016	Tuesday 7 June 2016
Quarterly National Accounts Quarter 1 (Jan to Mar) 2016 (consistent with Blue Book 2016)	Thursday 30 June 2016
Balance of Payments Quarter 1 (Jan to Mar) 2016 (consistent with Pink Book 2016)	Thursday 30 June 2016
Impact of changes in the national accounts and economic commentary for 2016 Quarter 1 (Jan to Mar) 2016	Thursday 30 June 2016
Blue Book 2016	Friday 29 July 2016
Pink Book 2016	Friday 29 July 2016

Source: Office for National Statistics

The [UK Flow of Funds Project](#) continues to make good progress. It is highly likely that, as the project progresses, further areas of improvement to the Sector and Financial Accounts will be identified. ONS plans to improve the Sector and Financial Accounts incrementally over the next five years. Wherever possible, these improvements will be implemented in future annual Blue and Pink Book publications. However, on occasions, improvements may be made outside of this cycle.

The UK Flow of Funds Project will continue to publish improved estimates of the financial accounts, including [whom-to-whom matrices](#) on an experimental basis.

5 Contact

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6 Background notes

1. A list of those given pre-publication access to the contents of this article is published as part of this release.
2. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

7 References

Adams S, Bowers, L and Foster R (2015) "Comprehensive review of the UK financial accounts". Available at: <http://www.ons.gov.uk/ons/rel/naa1-rd/national-accounts-articles/the-uk-flow-of-funds-project--comprehensive-review-of-the-uk-financial-accounts/index.html>

Foster, R and Bowers, L (2015) "The UK Flow of Funds Project: introduction, progress and future work". Available at: http://www.ons.gov.uk/ons/dcp171766_410713.pdf

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