Flow of Funds Accounts of Pakistan

In Pakistan, the Flow of Funds Accounts is prepared by the Statistics Department of State Bank of Pakistan since 1987. The flow of funds accounts analysis was initiated in 1982 by SBP in collaboration with Federal Bureau of Statistics and Planning Commission of Pakistan. Flow of funds accounts analysis includes sector classification, transaction categories and compilation procedure on the basis of guidelines of SNA 1968[1], which is approved by the Standing Committee comprising of representatives from SBP, PC[2], Ministry of Finance and Ministry of Production.

Flow of funds accounts provides a full picture of the financial interrelations among all economic sectors by linking their transaction accounts and balance sheet accounts. It shows all the transactions that take place in an economy whether involving purchases or sales of goods and services or exchanges of assets and liabilities. These transactions generate flows of funds from one agent to another and from one sector to another. National flow of funds accounts, provide a record of these flows for the whole economy. The flow of funds accounts mainly consist of two parts viz., non-financial flows, and financial flows:

(a) **Non-Financial Flows:** Non-financial flows relate to the flow of current income and expenditure, saving and investment. As per SNA 1968, income and outlay account of a sector relates to the incoming of factor incomes and outgoing of consumption expenditure. Saving is transferred from the income and outlay account to the capital finance account and is used for investment purposes. The surplus/deficit in the non-financial flows represents the saving-investment gap.

(b) **Financial Flows:** The financial flows account is an extension of capital finance account, and describes lending and borrowing operations of the different sectors in the economy. Sectors borrow by issuing claims on themselves or lend to others by accepting claims on them. A sector may carry out both of these activities in varying degrees. A sector is classified as a *'deficit sector'* when the claims issued are more than the claims accepted, and a *'surplus sector'* for vice versa. The borrowing transactions take the form of increase in liabilities, sale of financial assets or reduction of money balances. The lending operations comprise acquisition of financial assets, increase in money balances or repayment of past debts.

Sectoral Classification:

A very significant element in the preparation of flow of funds accounts is the appropriate grouping of commonly identifiable economic units into sectors. A sector refers to a subdivision of the economy, in particular to a group of decision-making units within the economy that are more or less homogeneous in certain respects. Pakistan's economy is divided into following economic sectors:

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[1] SNA 1968 – System of National Accounts 1968

[2] PC – Planning Commission

(i) **Federal Government:** This sector includes all departments, offices, establishments and other bodies, which are instruments of the Federal Government (other than financial institutions and non-financial public enterprises).

(ii) **Provincial and Local Governments:** This sector includes all departments, offices, establishments and bodies, which are instruments of provincial governments and local governments' institutions.

(iii) **Public Enterprises (Non-Financial):** This sector covers enterprises principally engaged in non-financial activities and owned or controlled by public authorities, e.g., Pakistan Railways, Pakistan Post Office and the publicly owned non-financial units which are financially integrated with the Federal Government.

(iv) **Other Public Institutions:** This sector includes non-profit institutions, which primarily serve households or business enterprises and are wholly or mainly financed and controlled by public authorities and bodies.

(v) **State Bank of Pakistan:** This sector covers the transactions carried out by the Issue and Banking Departments of the State Bank of Pakistan.

(vi) **Scheduled and Co-operative Banks:** This sector comprises scheduled banks and co-operative banks. In other words, this sector includes all institutions licensed as banks and carrying out regular banking business.

(vii) **Non-Bank Financial Institutions (NBFIs):** All entities other than those which are primarily engaged in financial transactions in the market, consisting of both incurring liabilities and acquiring financial claims on others. These comprise development finance institutions (DFIs) except those which are scheduled bank, leasing companies, investment banks, modarabas, housing finance companies, discount houses etc.

(viii) **Insurance:** This sector includes insurance companies (both private and public) consisting of organizations providing life, accident, sickness, fire, casualty or other forms of insurance.

(ix) **Private Corporate Business:** This sector includes privately owned and/or controlled enterprises primarily engaged in non-financial activities.

(x) **Non-Corporate and Households:** This sector purports to cover the transactions of persons, private unincorporated enterprises (not included in other sectors) in agriculture, trade and industry and private non-profit making trusts serving households. In essence, it comprises all domestic units not covered in other sectors.

(xi) **Rest of the World:** This sector covers Pakistan's transactions with the rest of the world.

Classification of Transactions:

The various items of liabilities and assets have been classified into the following non-financial/financial instruments for the compilation of Flow of Funds accounts:

(a) Non-Financial Transactions:

(i) **Gross Fixed Capital:** It includes the outlays (purchases and own account production) of industries, producers of government services and private non-profit services to households, in additions to their stock of fixed assets less the net scrapped goods.

(ii) **Inventories:** It represents the stock of raw materials, finished goods, and work-in-process. It also includes stores and spares.

(iii) **Gross Savings:** Savings are the balancing item on the income and outlay account of domestic sectors considering all current receipts and disbursements.

(b) Financial Transactions:

(i) **Currency:** Currency includes notes and coins in circulation excluding holdings of the State Bank of Pakistan and the Federal government.

(ii) **Deposits:** Deposits include amounts held in bank accounts as demand, time, savings, or call deposits. It also includes deposits with post offices, deposits held with NBFIs, deposits with insurance companies, deposits held abroad by the SBP and authorized dealers in FOREX.

(iii) **Bonds and Debentures:** A bond is a security that gives the holder the unconditional right to a fixed money income. With the exception of perpetual bonds, a bond also gives the holder an unconditional right to a capital payment on a specified date or dates. Both short-term and long-term bonds and government bonds including Prize Bonds are included in this category.

(iv) **Treasury Bills:** This covers treasury bills issued by the Federal Government including government treasury deposit receipts.

(v) **Small Savings:** This comprises national savings schemes launched by the Federal Government, e.g., Defence Savings certificates, Special Savings certificates, and Savings Accounts etc.

(vi) **Stocks and Shares:** Corporate equity securities include capital participation. These are instruments and records acknowledging claims to the residual value and residual income of incorporated enterprises after claims of all creditors

have been met. Equity securities do not provide the right to a predetermined income or to a fixed sum on dissolution of the incorporated enterprises. Ownership of equity is usually evidenced by shares, stocks, participation, or similar documents. Preference stocks or shares and certificates are also included here. NIT units and mutual fund certificates also form part of it.

(vii) **Loans and Advances:** This transaction includes commercial bills, mortgage loans, bank overdrafts and other bank loans, government loans and foreign loans, both guaranteed and non-guaranteed.

(viii) **Life Fund:** This covers reserves held against life assurance policies by life insurance business.

(ix) **Provident Fund:** This includes the assets of employees, provident funds in both public and private sectors.

(x) **Monetary Gold:** It covers changes in monetary gold held by SBP, which is a part of a country's international reserves.

(xi) **Other Receivables and Payables:** Financial items other than those described above are grouped under this head.

Aggregate Balance Sheet:

The aggregate balance sheet of a particular sector, which depicts a complete picture of its liabilities and assets, is the fundamental basis for compilation of the flow of funds accounts. The assets appearing therein are divided into physical and financial assets while liabilities are classified as net worth and other financial liabilities. Increase in physical and financial assets of the balance sheet represents investment and lending on the uses side of the flow of funds accounts; whereas increase in reserves and liabilities appear as saving and borrowing on the resources side. As total assets are equal to total liabilities in the balance sheet, the resources match with the uses in the flow of funds accounts. That is, the sum of investment and lending is equal to the sum of saving and borrowing. It may, however, be mentioned that though saving-investment gap exists at the sector level, saving equals investment at the aggregate level for the economy as a whole. Similarly, total financial resources equal total financial uses for the aggregate economy. The following are the balance sheet items:

(a) **Fixed Assets at Cost:** Fixed assets consist of items which are not readily convertible into cash during the course of normal operations of an institution...They are of a fairly permanent nature and are not normally liquidated or intended to be turned into cash except in the form of depreciation which is add to the cost of goods sold. The following items are included in fixed assets:

(i) Real estate (e.g., freehold & lease hold land, factory and office building, residential buildings and capital projects in progress at cost);
(ii) Plants and machinery and rolling stock;

(iii)Furniture, Fixture, Fitting and allied equipments etc.

(b) **Stock in Trade:** Stock in trade is the stock of finish, unfinished goods, and raw materials.

(c) **Stores and Repairs:** Consist raw material other than stock in trade; loose tools etc are taken from company's annual balance sheet.

(d) **Cash in Hand:** Cash in hand includes local currency in hands. Cheques, bank drafts etc are not included in the category.

(e) **Federal Government Securities:** Comprises investment in Federal government loans, income tax bonds, Federal investment bonds, Pakistan investment bonds etc.

(f) **Provincial Government Securities:** Consist investments in various loans floated by the provincial governments and bonds issued by local and provincial governments.

(g) **Coins:** These are the rupee and subsidiary coins issued by the Federal Government with various quantity of currency, apprehended with State Bank of Pakistan.

(h) **Deposits held Abroad:** Deposit accounts and other placements with central banks of other countries are the total of cash components of the balances sheet items of State Bank of Pakistan captioned approved foreign exchange and balances held outside Pakistan.

(i) **Foreign Securities:** Are the aggregate balance sheet items of State Bank of Pakistan, scheduled and co-operative banks & Insurance sectors, comprises investment of these sectors in foreign securities and shares.

(j) **Other Securities:** This item appeared in the aggregate balance sheet of scheduled and co-operative banks, comprises debentures and participation term certificates (PTCs) an interest free instrument for meeting the term finance needs of the corporate sector. Also included are other investments not specified elsewhere.

(k) **Bill Purchased and Discounted:** Advances extended through discounting or purchasing of trade bills – import/export or inland bills, presented in the balance sheets of scheduled and co-operative banks.

(l) **Other Assets:** Other assets are the balance sheet items not covered elsewhere such as sundry debtors, accounts receivable, prepayments, suspense accounts, dead accounts etc.

(m) Surplus: Arrives at by aggregating all types of reserves excepting depreciation reserve and reserve for bad & doubtful debts plus the balance of profit & loss account and staff gratuity and subtracting there from intangible or fictitious assets e.g. goodwill, preliminary expenses, patents, trade marks, prospecting expenditure, other deferred costs, adverse balance of profit & loss account etc. Surplus also includes balance of amount received from consumers as contributions towards the cost of supplying and laying service lines and mains, deferred interest on debentures and other deferred liabilities.

(n) Depreciation: Is the reduction in the currant market value of machinery, equipment or a fixed asset over a defined period of time through usage or obsolescence; it is the amount allocated to cover the depreciable cost of an asset over the accounting period during the asset's useful life.

(o) Paid-up Capital: Paid-up capital (share capital) is amount rose through sale of stocks. It includes shares fully paid in cash, issued as bonus shares and shares issued for consideration other than cash. Preferred stocks or shares, which also provide for participation in the distribution of the residual value on dissolution of an incorporated enterprise (preferred in distribution over ordinary shareholders), are included.

(p) Special Drawing Rights (SDRs): The instruments for financing international trade after Second World War were predominantly reserve currencies, such as dollar, sterling and gold. J.M. Keynes had put forward the idea of an international currency, to be called 'Bancor', regulated by a central institution. This idea was turned down then for fear that the creation of liquidity would generate inflation. In 1969, the 'group of ten' agreed to establish SDRs, which are similar in principle to Keynes' original idea, and their agreement was ratified by the IMF. The SDR was linked to gold and equivalent to US $1 at the gold rate of exchange of $35 per oz. Since then the SDR has slowly become more acceptable, and now commercial banks accept SDR. It is a composite currency based on a standard basket of currencies, used by the IMF in determining country quotas, purchase and repurchases, standby facilities, and other assistance facilities available to the member country. Amount owed by Pakistan is recorded in the annual account of State Bank of Pakistan.

(q) Notes in Circulation: These are promissory notes issued by the State Bank of Pakistan with the promise to pay the said quantity (face value) in Rupee when called for payment. These are issued with the guarantee of the Government of Pakistan.

(r) Head Office Accounts: Represents the foreign insurers' balances with their branch offices in Pakistan as recorded in the balance sheets of insurance sector.

(s) Other Liabilities: Other liabilities are the balance sheet items not covered elsewhere such as sundry creditors, worker profit participation funds, provision

for taxation, unpaid dividend, other accounts payable, contingencies funds, and consumer securities deposits etc.

Pakistan: Flow of Funds Account 2003-04

(Million Rs.)

Transactions / Sectors	Overall Domestic Sectors	General Government	Private Sector	Banking	Rest of the World
Gross national disposable income (GNDI)	**5,578,625**	**564,872**	**5,013,753**		
Final consumption	4,515,363	462,462	4,052,901		
Gross investment	864,701	267,110	597,591		
Change in stock	94,294		94,294		
Export of goods and non-factor services					-869,547
Import of goods and non-factor services					1,018,953
Net factor income and private transfers					-224,253
Official transfers					-29,421
Non-financial balances (S – I) = CAB	**104,267**	**-164,780**	**268,967**	**0**	**-104,267**
Foreign financing		**28,800**	**-88,102**	**-43,526**	**102,828**
Non-monetary	-59,302	28,800	-88,102		59,302
Direct investment (FDI)	54,753		54,753		-54,753
Net foreign borrowing	-114,055	28,800	-142,855		114,055
Monetary	-43,526			-43,526	43,526
Change in net foreign assets	-43,526			-43,526	43,526
Of which: Valuation changes				-3,649	3,649
Domestic financing		135,900	-172,817	36,917	
Monetary		63,700	-100,617	36,917	
Domestic credit		63,700	307,234	-370,934	
Broad money			-407,851	407,851	
Non-monetary		72,200	-72,200		
Non-bank		72,200	-72,200		
Net error and omissions	-1,440		-8,049	6,609	1,440

Source: SBP Annual Report, Pakistan Economic Survey and Balance of Payments statement.