



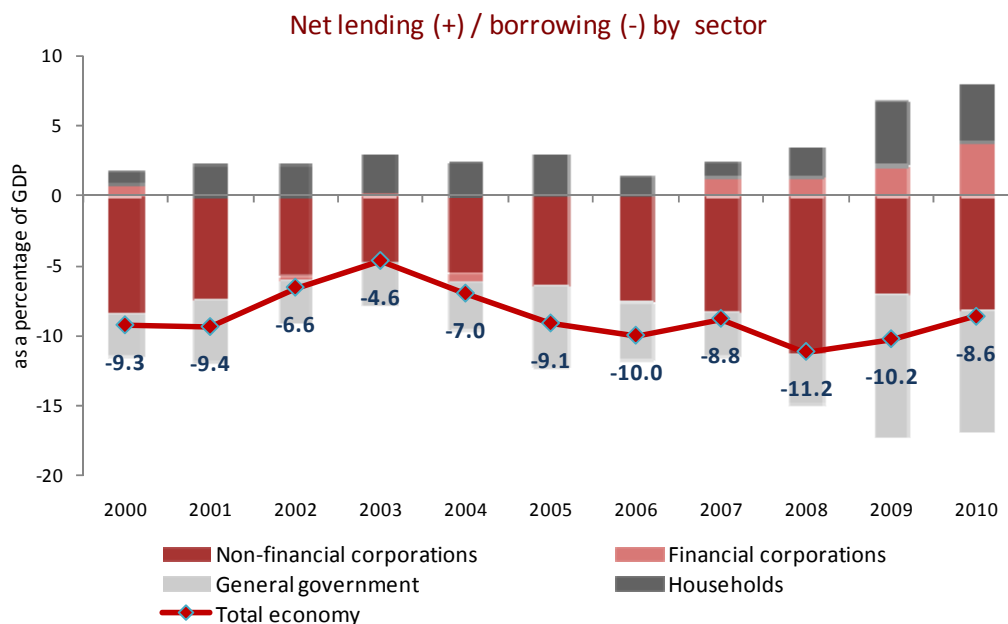
Banco de Portugal publishes the national financial accounts for 2010

Banco de Portugal publishes today in the Statistical Bulletin and in the BPstat |Statistics Online the national financial accounts for 2010¹.

Evolution of the financial saving by institutional sector

The borrowing needs of the Portuguese economy, i.e., the inflow of external financial saving amounted, in 2010, to 8.6 per cent of gross domestic product (GDP), which compares to 10.2 per cent in the previous year (Chart 1). Those needs of external financing resulted from the fact that the positive financial saving of the Households and the Financial corporations (respectively 4.1 and 4.0 per cent of GDP) was insufficient to satisfy the borrowing needs of the General government and the Non-financial corporations (respectively -8.7 and -8.0 per cent of GDP).

Chart 1



¹ Both consolidated and non-consolidated data are available. Consolidation means cancelling out transactions between entities from the same institutional sector or sub-sector, both in terms of flows and stocks. The financial saving of each sector, obtained from non-consolidated data, does not change when the data is presented on a consolidated basis. Consolidated accounts present the way financing is carried out in the economy between sectors that are either net creditors or net debtors. This statistical press release refers to consolidated data. For definitions and additional methodological issues, see the Technical note and references at the end of this document.

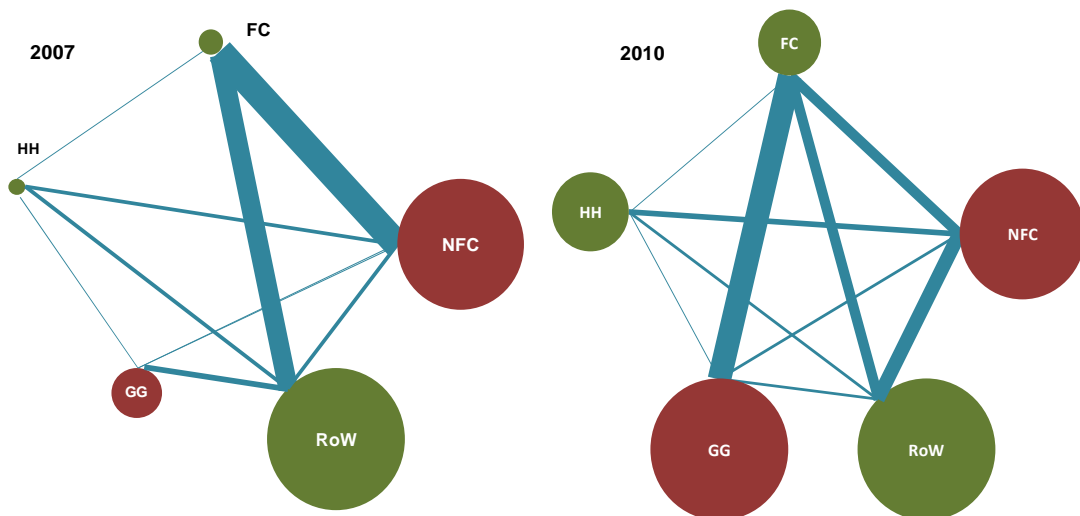
Flow of funds: 2007 and 2010

The chart displayed below aims at illustrating the flow of funds (net) observed between the various institutional sectors, comparing the year 2007 with 2010. The diameter of the circle is proportional to the financial saving of each sector (filled in green if positive and red if negative). The dashes' width is proportional to the inter-sector relations.

In 2007, the large inter-sector flows were registered in the financing provided by the Rest of the world to the Financial corporations, which channeled those funds to the Non-financial corporations. In 2010, contrarily to what had happened in 2007, the inter-sector flows revealed a strong involvement of the Financial corporations, in particular the banking sector, in financing the General government. In this period, the Rest of the world financing was mainly directed to the Non-financial corporations and the Financial corporations.

Chart 2

Flow of Funds, 2007 and 2010

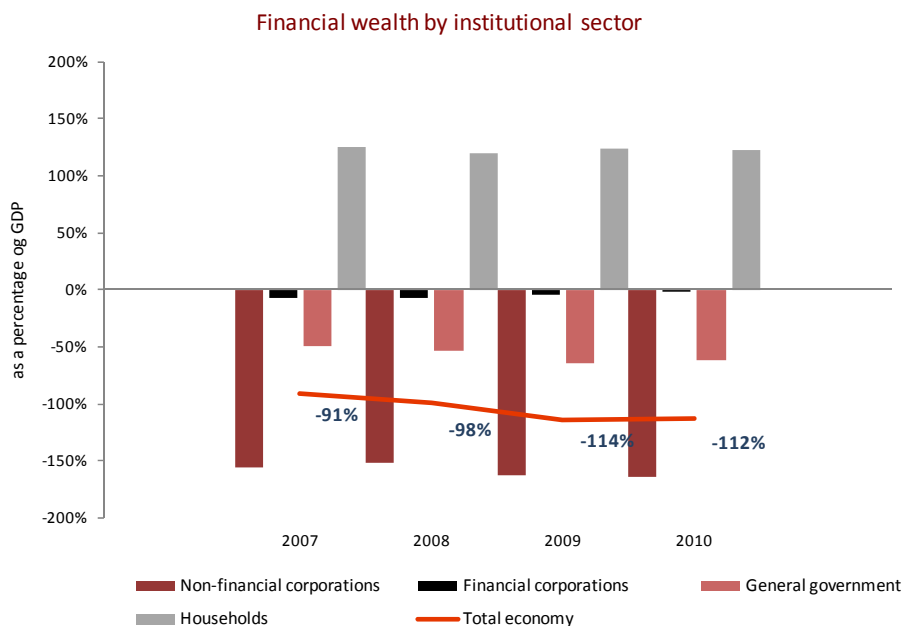


Legend: NFC – Non-financial corporations; FC – Financial corporations; GG – General government; HH – Households; RoW – Rest of the world

Evolution of financial wealth by institutional sector and respective contributions

The financial wealth of the sectors remained barely unchanged (Chart 3), reflecting the evolution of the financial saving of each sector combined with valuation effects. These results confirm the Households and the Rest of the world as the sectors with positive net financial assets (as a result of being also the financing sectors of the economy), with the Non-financial corporations and, to a smaller extent, the General government, the sectors that exhibit negative net financial assets. The Financial corporations, intermediaries by nature of the financial flows in the economy, have a small net financial position.

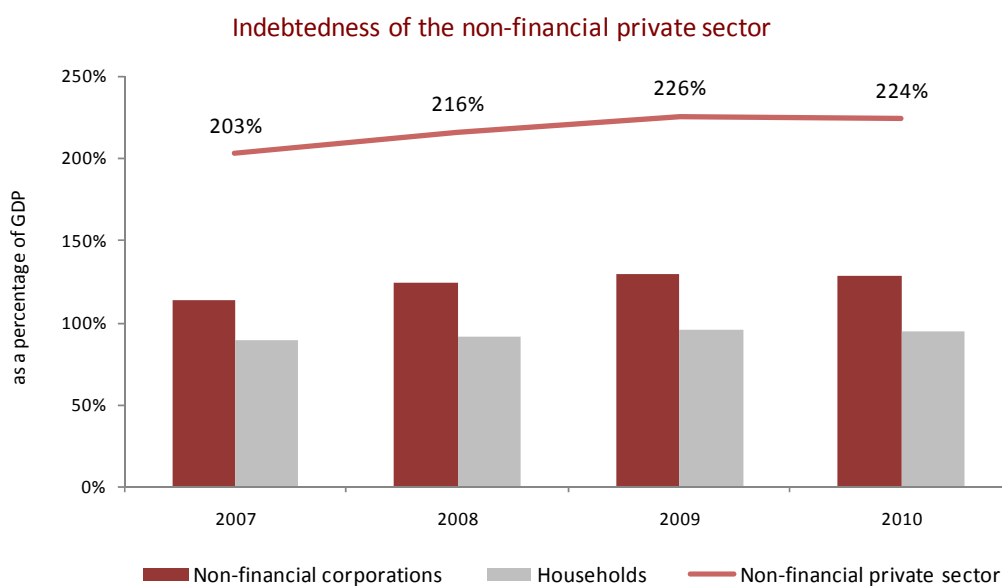
Chart 3



Indebtedness of the non-financial private sector

The indebtedness of the non-financial private sector amounted to 224 per cent of GDP in 2010, with a slight reduction comparing with the previous year (Chart 4). The Non-financial corporations presented a value of 129 per cent of GDP and the Households 95 per cent of GDP.

Chart 4

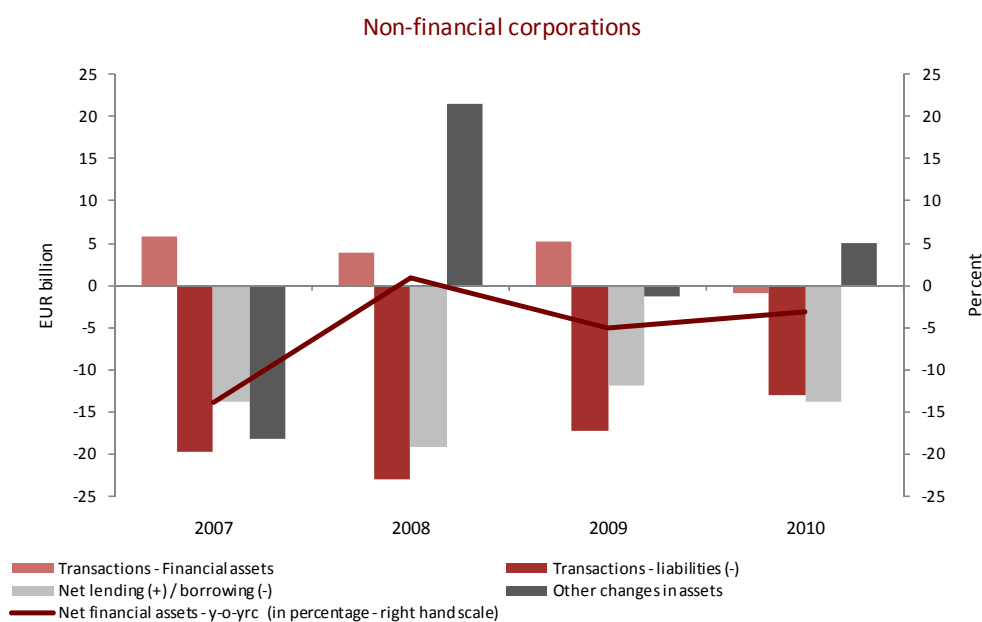


Non-financial corporations

The net borrowing of Non-financial corporations was, in 2010, 8.0 per cent of GDP (7.1 per cent in the previous year). On the assets side, it was recorded a disinvestment in shares with the sale of the participation of Portugal Telecom in VIVO, compensated by the increase in deposits coming mostly from the results of that operation. On the liabilities side, the transfer of pension funds of group Portugal Telecom to the State was preceded by their incorporation in the Non-financial corporations' sector, affecting negatively the borrowing needs of this sector in 2010 (Chart 6).

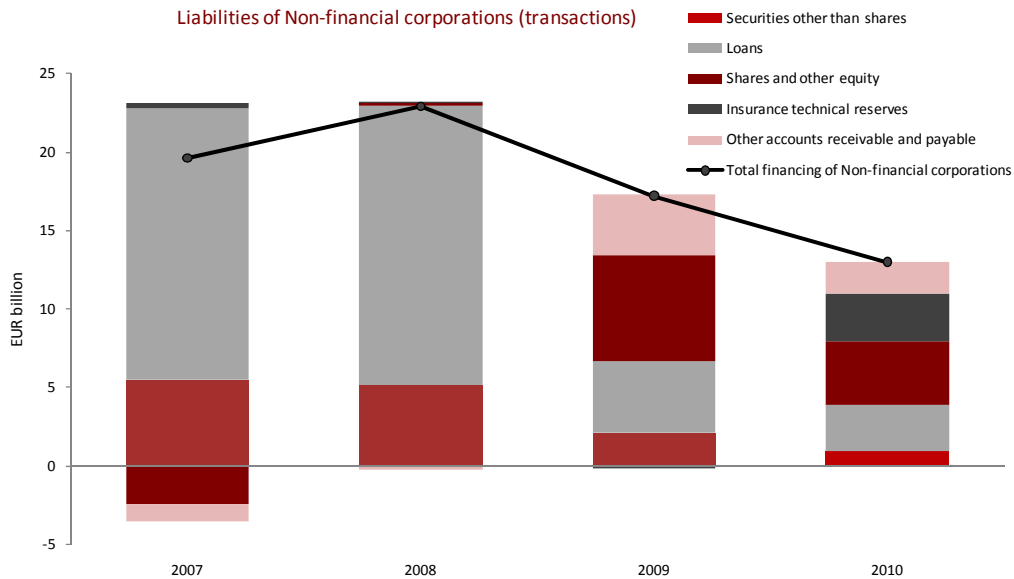
The net financial assets of Non-financial corporations remained barely unchanged between the end of 2009 and the end of 2010, at -163.0 per cent of GDP and -164.4, respectively. The revaluation of financial assets above liabilities allowed for a partial compensation of the negative effect of the borrowing needs on the financial wealth of the Non-financial corporations (Chart 5).

Chart 5



The structure of financing of Non-financial corporations in 2009 and 2010 contrasts significantly with that of the two previous years, particularly in terms of the sharp reduction in loans and in the issuing of securities other than shares (Chart 6).

Chart 6

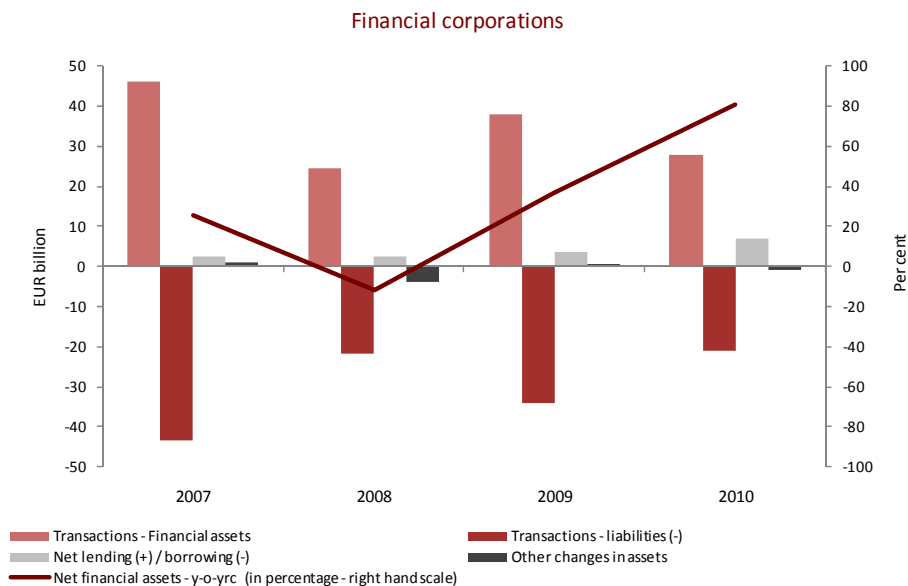


Financial corporations

The net lending of Financial corporations was 4.0 per cent of GDP in 2010, significantly above the previous year (2.2 per cent of GDP). The financing structure of this sector changed substantially in 2010, with an increase in the use of liquidity provisions by the Eurosystem, which compensated the reduction in the debt issued and the redemption of investment funds' shares/units. On the assets side, it is worth noting essentially the acquisition of public debt securities and the smaller granting of loans, particularly to the Non-financial corporations.

The net financial assets at the end of 2010 (-0.8 per cent of GDP) improved significantly with respect to the end of 2009 (-4.5 per cent of GDP). This evolution results from the net lending of the sector towards the other sectors (Chart 7).

Chart 7

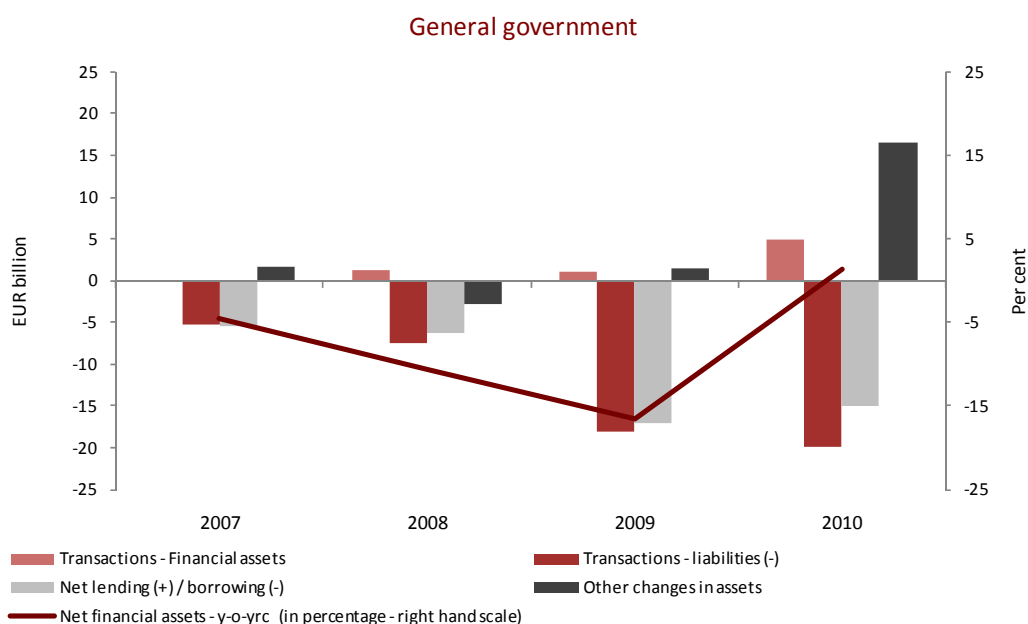


General government

The net borrowing of the General government amounted to 8.7 per cent of GDP in 2010 (10.1 per cent in the previous year). This figure is influenced by several one-off effects with significant impact, such as the transfer of assets of pension funds of the group Portugal Telecom to the State, and, with opposite sign, operations with the resident financial sector, the loan granted to Greece, in the context of the financial support programme to this country, and the acquisition of military equipment. The increase in liabilities was determined by the increase in debt securities issued and loans. This increase was, nonetheless, partially compensated by an increase in financial assets, particularly loans and shares and other equity, as a result of the transfer of assets from financial institutions to the General government.

The net financial assets of this sector corresponded to -61.9 per cent of GDP at the end of 2010, which compares to -64.2 at the end 2009. This improvement illustrates that the borrowing needs of the sector are compensated by the positive effect of the revaluation of the financial wealth in net terms, namely as a result of the strong devaluation of the government debt securities on the liabilities side (Chart 8). It should be noted that this devaluation occurs in the financial account of the General government, measured at market value, but not in terms of the Maastricht government debt, measured at nominal value, which increased from 82.9 per cent of GDP at the end of 2009 to 92.4 per cent of GDP at the end of 2010.

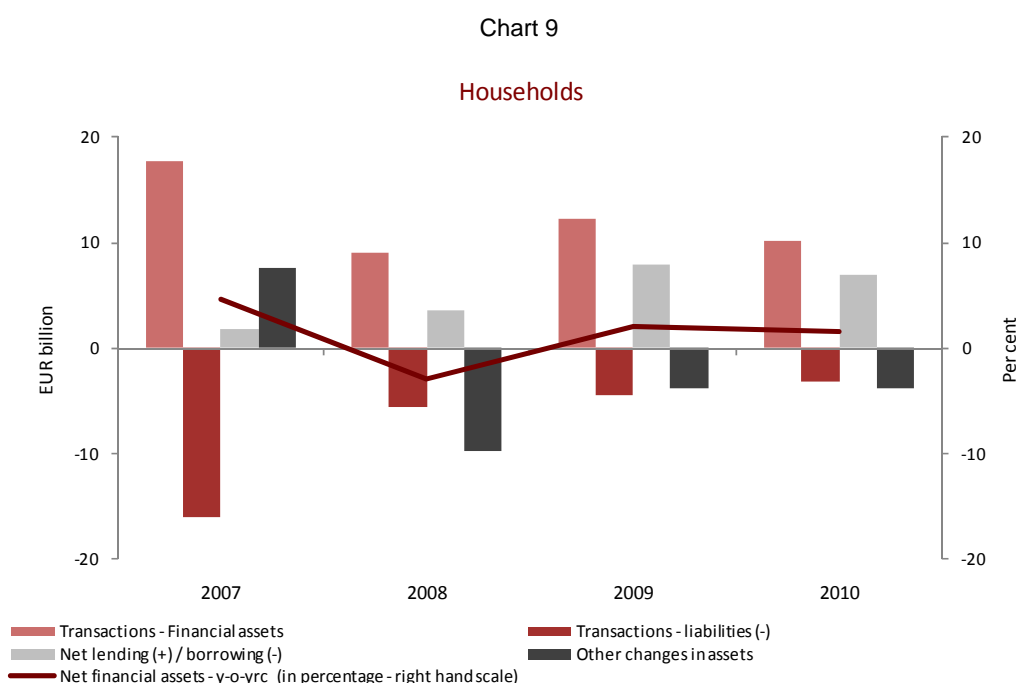
Chart 8



Households

The Households' sector presented, in 2010, a net lending of 4.1 per cent of GDP, which compares to 4.6 per cent in 2009 and as a result of the reduction in the savings' rate (from 10.9% to 9.8%²). This change was caused, essentially, by a slowdown in the financial assets' transactions. Additionally, there was a substitution of investments in shares and other equity, especially investment funds' shares/units, by bonds and deposits. On the liabilities side, the level of loans taken remained close to that of last year.

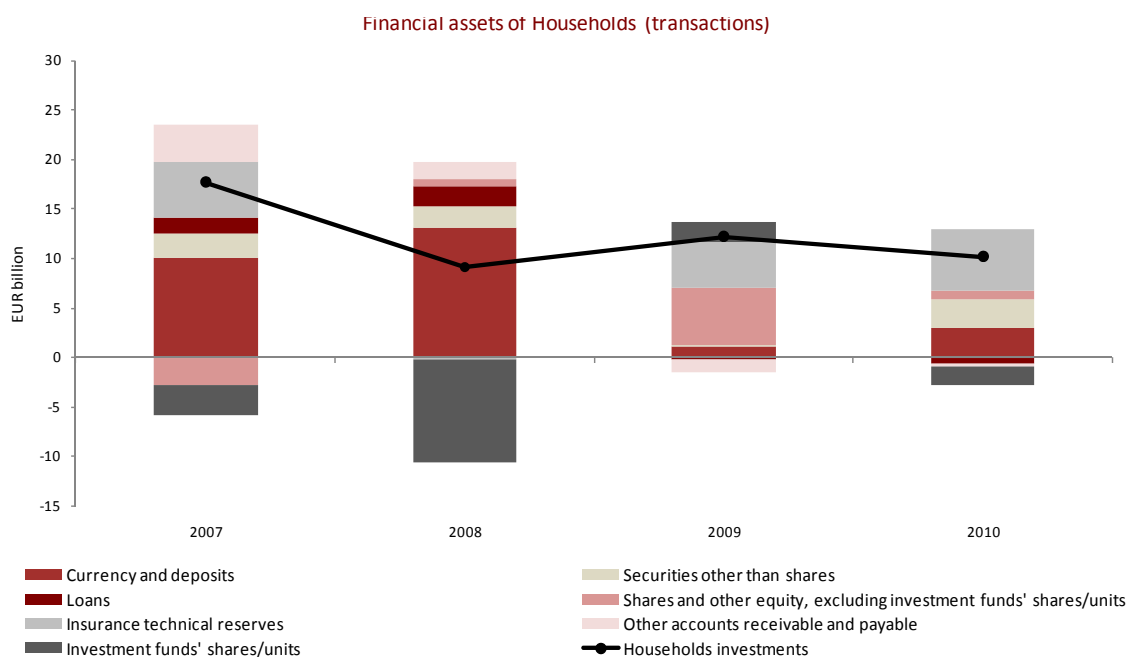
At the end of 2010 the net financial assets of Households amounted to 122.9 per cent of GDP (123.9 per cent at the end of 2009). However, in nominal terms, it was recorded an increase from 209.0 EUR billions to 212.1 EUR billions (Chart 9).



In the financial assets' transactions of Households, in 2010, it is noted a recovery of deposits (Chart 10). Additionally, there is a significant growth in investment funds' shares/units, contrary to the increase registered in 2009. Similarly to what has been registered since the third quarter of 2009, insurance technical reserves constitute a significant part of the financial investment of these economic agents.

² Source: Instituto Nacional de Estatística.

Chart 10



Rest of the world

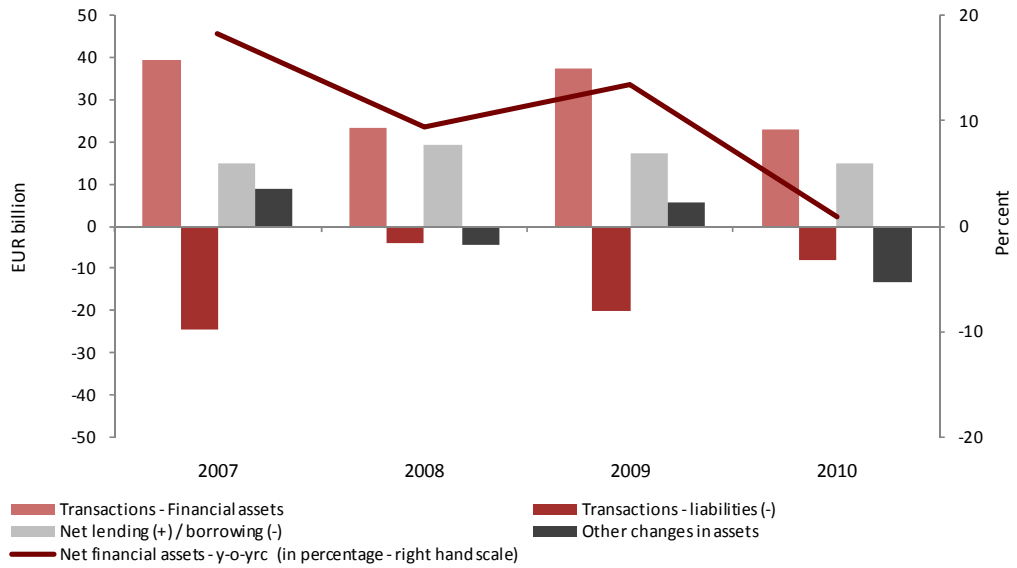
The external financing of the Portuguese economy amounted to 8.6 per cent of GDP (10.2 per cent in the previous year). The decrease of the borrowing needs can be observed in the reductions both of financial investments of non residents in the domestic economy and of Portuguese investment abroad, although to a greater extent in the former. Within the financial investments of non residents in the domestic economy, it is noteworthy the strong slowdown in terms of bonds of the financial sector and government debt, outweighed by liquidity provisions by the Eurosystem. In terms of the Portuguese investment abroad, the reduction in debt securities and equity was compensated by loans and deposits. The reduction in the borrowing needs of the economy results from the improvement of the external current and capital account, mostly the goods account, the services account and the income account.

The net financial assets of the Rest of the world³ vis-à-vis the Portuguese economy amounted, at the end of 2010, to 112.2 per cent of GDP (113.9 in the previous year). Despite the borrowing needs of the Portuguese economy, the effect in the financial wealth was almost cancelled by revaluations, namely due to the depreciation of government debt securities held by non residents (Chart 11).

³ The net financial assets of the Rest of the world correspond to the symmetric of the International Investment Position adjusted of the assets of the economy in monetary gold and special drawing rights and other methodological differences.

Chart 11

Rest of the world



Technical note

The methodological framework of the Financial Accounts is the European System of Accounts 1995 (ESA95) which sets up a closed integrated system of representative economic statistics broken down into institutional sectors and financial instruments. Economic agents are classified in five institutional sectors (Non-financial corporations, Financial corporations, General government, Households - covering Households in the strict sense and Non-profit institutions serving households - and the Rest of the world⁴), and the financial transactions carried out in the economy are grouped in seven financial instruments (Monetary gold and Special drawing rights, Currency and deposits, Securities other than shares, Loans, Shares and other equity, Insurance technical reserves, and Other accounts receivable and payable).

One of the main purposes of Financial Accounts is to ascertain financial saving (“below the line”) in different sectors of the economy; in other words, to calculate the difference between investments in financial assets in a given period and liabilities taken on in the same period. Non-financial Accounts, in their turn, ascertain the lending capacity or the borrowing requirement (“above the line”) for each institutional sector. This is reached by finding the difference between sources and uses. The acquisition of financial assets and the issuing of financial liabilities in any given sector for any given period are the counterpart to the lending capacity or the borrowing requirement that stems from the economic activity in the same sector during the same period.

ESA95 stipulates two kinds of information for the National Accounts, flows and stocks. Flows cover the creation, transformation, exchange, transfer or extinction of an economic value over a period of time. Flows can derive from transactions or from other changes in assets. They are recorded in “Transaction accounts” and in “Other changes in volume and revaluation accounts,” respectively. “Financial transactions” refer to the net acquisition of financial assets or the net increase in liabilities through various types of financial instruments. Financial transactions are defined as the relationship between resident institutional bodies or between these and the Rest of the world, where there is mutual agreement on the creation, settlement or change in ownership of financial assets and/or liabilities.

“Other changes in assets” record the changes in stocks that are not generated by transactions. They include, among other things, “Other changes in volume” and “Holding gains and losses.” “Other changes in volume” include the appearance or disappearance of assets (such as gold that becomes monetary gold or access to previously non-exploited resources), the changes in assets and liabilities due to extraordinary events (such as natural disasters, wars or the unilateral writing-off of debt), and changes in the classification or in the structure of institutional bodies or instruments (such as the reclassification of a financial holding company as a non-financial corporation or the merger of institutions originally classified in different sub-sectors of the financial corporation sector). “Holding gains and losses” result from the mere ownership of assets and liabilities and this stems from price movements that cause changes in share values or from exchange rate fluctuations when the instruments are denominated in a foreign currency. Stocks correspond to assets and/or liabilities held at any one moment in time. They are recorded at the start and end of each accounting period and include all types of assets and/or liabilities, as long as they are used in business and could give rise to ownership rights. The National Accounts system is exhaustive, so all changes in stocks should be explained by flows recorded in the system.

⁴ Financial corporations are sub-divided in Banco de Portugal, Other monetary financial institutions, Other financial intermediaries and financial auxiliaries and Insurance corporations and pension funds. The General government is composed by the Central government, Regional and local governments and Social security funds. The Non-financial corporations and the Households form the non-financial private sector.

ESA95 stipulates a sequence of accounts that covers the economic cycle from income generation, distribution and redistribution to accumulation as non-financial and financial assets. In this way, the sequence displays the information that is most relevant for a whole array of economic analysis.

Therefore ESA95 establishes an interconnected National Accounts sequence, made up of current accounts, accumulation accounts and balance-sheet accounts (or stock accounts). Current accounts cover output as well as the generation, distribution and redistribution of income and its use in final consumption. The current account balance represents what is generated as current saving, i.e., what is available for real and financial investment. Accumulation accounts cover the changes in assets and liabilities and the changes in net worth. There must be a reason for the differences between the initial and final stocks (the grey area in the following table). Balance-sheet accounts record the stocks of assets and liabilities and therefore net worth (net financial assets). Each of the accounts shows transactions that balance out, either because of the definitions used or because a balance is carried forward to the next account. Accounts detailing financial transactions describe the financial placements of various sectors and their form of indebtedness. The financial saving is therefore ascertained as a balance. The related net financial wealth can therefore be ascertained from the difference between financial assets and financial liabilities, which result in balance-sheet net worth.

Initial stock	Transactions	Other changes in assets	Final stock
	Current accounts Balance = Current saving		
Balance-sheets accounts (initial)		Other changes in assets accounts:	Balance-sheets accounts (final)
Non-financial assets	Capital account Balance = Lending capacity/ Borrowing requirement	<ul style="list-style-type: none"> • Other changes in volume account 	Non-financial assets
Financial assets and liabilities Balance = Net financial assets	Financial account Balance = Net financial transactions	<ul style="list-style-type: none"> • Revaluation account 	Financial assets and liabilities Balance = Net financial assets
	Changes in assets and liabilities accounts or Accumulation accounts		

References

Methodological document: "[National Financial Accounts](#)", available in section Quality, methodologies and statistical nomenclatures in the page on statistics at the Banco de Portugal website (only in Portuguese).

European System of National and Regional Accounts – ESA 95 (Council Regulation no. 2223/96, June 25th), with the amendments introduced by Regulation no. 1392/2007 of the Parliament and the Council, November 13th.

Supplement [2/2005](#) to the Statistical Bulletin, "National Financial Accounts for the Portuguese Economy. Methodological Notes and Statistical Results for 2000-2004".

Supplement [3/2005](#) to the Statistical Bulletin, "National Financial Accounts for the Portuguese Economy. Statistics on Financial Assets and Liabilities for 1999 - 2004".