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COMMENTS ON THE FLOW OF FUNDS PAPER BY SALDUA AND SUPERTICIOSO

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I have just a few comments on the paper as it stands. It is a preview of work to be done. It is largely conceptual and I think the presentation is straightforward and uncontroversial.

First, I would like to record my gratitude to the Central Bank and NEDA for launching this undertaking which is arduous but most worthwhile.

I think our thinking about finance is particularly muddled. The economists have a tendency to segregate the real from the financial to predominately focus on what they call the real economy. But real variables—investment, government expenditure—are influenced by financial considerations. This is no where more obvious than in the case of mortgage market. The extent to which the ambition of Filipino families to own their own homes is realizeable is extremely sensitive to interest terms and availability of 25-30 year money. It is not simply a matter of income levels.

The classical economist includes money as a single financial asset in his system. The Keynesian introduces a bond market, an acknowledgement of the store of value motive. In the real world however we observe a host of financial assets differentiated by risk and return features. The flow of funds offers a classifying scheme for sorting out financial transactions into an array useful for monitoring and analysis.

As a potential user of the flow of funds series, I would like to make some suggestion for modifying the sectoring and categories of transactions. The selection of cells is of course a matter of choice and historical construction is constrained by available data and past or existing monitoring schemes. But interesting economic hypotheses and public policy would seem to offer some cogent insights to the most appropriate monitoring and data keeping and therefore a flow of funds framework that will answer interesting questions.

For these considerations, I like to issue a strong plea for the following:

1. Separation of business from the household sector. It may be less damaging to integrate small business or the smallholder farm into the household sector but inclusion of vast non-corporate sector which apparently has quite different objectives and activities from household sector quite inappropriate.
2. Refine the security and loan categories in particular. Securities might be segregated into debt and equity, by issuer (government vs. private) and as between domestic and foreign, primary and secondary. Interesting questions regarding foreign investment growth, expansion of primary issues and long-term lending—all avowed policy targets with respect to developing financial markets—will require that these distinctions be made.

True, these recommendations reflect a search for a more ideal system of accounts than we may presently have. But the flow of funds is just such a potentially useful framework for analysis which perhaps should be used to determine just what information we should be tagging in our financial monitoring.