

## **8. Features of Compilation of Other Items Net**

Other items net (OIN) of any sub-sector of the financial sector of economy are the difference between other assets and other liabilities<sup>40</sup>. Thus, OIN include those accounts that are not typical for the given sub-sector.

When observing a balance sheet of any sector of economy, all accounts are broken down by residency. Accounts related to nonresidents are summarized in net foreign assets. Accounts related to residents are summarized in net domestic assets (NDA). These assets consist of accounts summarizing interrelations between the given sector and other resident sectors and other items net. Thus, narrowing the definition of OIN, they can be classified as a component of NDA, which include those accounts that are not typical to principle activities of the given sector.

Observation of the OIN of the CBA, commercial banks, the banking system, credit institutions and the financial system is given below.

### **8.1. Central Bank's Other Items Net**

As it has been already mentioned, owing to its unique objectives the Central Bank represents the separate sub-sector of depository institutions. Features of the CBA practices are:

- The government's bank,
- Lending to commercial banks and maintaining their required reserves,
- Issuing the Armenian currency,
- Acquisition of some deposits from nonbank sector,
- Holding and managing of international reserves,
- Receipts of international loans.

Thus, apart from the accounts related to above-stated transactions, all others are included in OIN. The principal types of OIN are presented below.

#### *Assets*

- Lending to the real sector of economy. Normally, the CBA does not lend to the real sector, but it can extend credits to the CBA employees, nondepository financial institutions out of the CBA regulation and supervision, which are claims on real sector.
- Nonfinancial assets; including buildings, structures, other fixed assets, furniture, etc. Non-standard gold bullions, standard and non-standard bullions of other precious metals, commemorative coins, museum items, banknotes and coins<sup>41</sup> in vaults, not yet in circulation, can also be considered nonfinancial assets.
- Claims due to foreign currency swap with commercial banks (foreign currency receivable).
- Short-term claims due to purchase of goods and services by the CBA, i.e. prepayments, debtors and other accounts receivable.

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<sup>40</sup> Term "liabilities" here includes liabilities and capital accounts.

<sup>41</sup> These notes and coins are calculated based on their cost.

- Intermediate accounts due to money transfers and similar transactions.

When compiling indicators for programming and implementing of monetary policy those foreign assets denominated in non-convertible foreign currency and in the Armenian dram are also included in OIN of the CBA, since foreign reserve assets include only foreign assets in convertible currencies. Thus, in the sectoral balance sheet of the CBA foreign assets in non-convertible currency and in the Armenian dram are conditionally included in OIN.

#### *Liabilities and Capital*

- Non-reserve accounts of commercial banks in the CBA, which are mainly intermediate accounts related to formation and expansion of banks' statutory fund.
- Capital accounts of the CBA: statutory fund, general, revaluation, asset and other loss reserves, and profit.
- Short-term liabilities due to purchase of goods and services by the CBA: creditors and other accounts payable.
- Liabilities due to foreign currency swap with commercial banks (foreign currency payable).
- Intermediate accounts, i. e. liabilities related to transfers and similar transactions.
- Account of Guarantee Fund of individuals' deposits with the CBA.

As in the case of "other assets", foreign liabilities in non-convertible currencies are included in OIN.

In the framework of the IMF credit programs, when calculating the indicators for monetary policy program, net foreign assets are calculated in program (fixed) exchange rates. This feature also has its influence on OIN of the CBA. All foreign currencies and gold included in NFA are recorded in program exchange rates against the dram and the US dollar. The difference between program and market exchange rates sometimes can be significant due to changes in market rates of currencies. Thus, in order to preserve the equilibrium of the Central Bank survey the difference of NFA calculated in actual and program exchange rates are also included into OIN, which in some cases may have significant influence on OIN (Appendix 7.5).

### **8.2. Commercial banks' Other Items Net**

Commercial banks consist a separate sub-sector of the Armenian banking system. Typical functions of activities of the commercial banks considerably differ from those of the CBA. For this reason, the principles of organizing the balance sheet of commercial banks and the OIN differ from the principles of organizing the CBA's accounts. Accounts typical for commercial banks activity reflect:

- Loans to the economy
- Dram and foreign currency deposits from residents
- Relations with nonresidents (external world),
- Relations with the government,
- Relations with the CBA.

Accounts related to interbank transactions are also typical to activities of commercial banks, though when consolidating the balance

sheet of the sub-sector of commercial banks, these accounts are netted against each other as they are intrasectoral claims and liabilities. From this point of view intrasectoral accounts do not characterize interrelations of the given sector with other sectors and are not included in commercial banks' survey as a separate component.

Thus, the following accounts are considered as residual for commercial banks and they are included into OIN.

#### *Assets*

- Investments in shares or other equity.
- Short-term claims due to purchase of goods and services by commercial banks, i. e. prepayments, receivables and other accounts receivable.
- Financial derivatives at real value. The basic derivative instruments used are forwards, options and swaps.
- Frozen accounts.
- Nonfinancial assets including buildings, structures, other fixed assets, and furniture. There are certain differences between nonfinancial assets of the CBA and those of commercial banks: (i) standard gold bullions in commercial banks are considered nonfinancial assets, (ii) Notes and coins of the Armenian dram in commercial banks' vault are considered financial assets (claims on the CBA), whereas they are nonfinancial assets for the CBA.

The NFA of commercial banks include assets only in convertible currency, as is the case for those of the CBA. As is the case of the CBA the foreign assets of commercial banks denominated in non-convertible currency and dram are conditionally included into the OIN.

#### *Liabilities and Capital*

- Capital accounts including statutory fund, general, revaluation, asset and other loss reserves, and profit.
- Short-term liabilities due to buying of goods and services by commercial banks, i. e. creditors and other accounts payable.
- Intermediate accounts, i. e. liabilities related to transfers and similar transactions.

Foreign liabilities of commercial banks denominated in non-convertible foreign currencies are also conditionally included into OIN, as is the case for the CBA.

The OIN of commercial banks also include net inter-bank claims, i.e. the difference between inter-bank claims and liabilities in consolidated balance sheet of commercial banks. Theoretically, total inter-bank claims of commercial banks must be equal to total inter-bank liabilities, as the claim of one bank is a liability for another. Nevertheless, in practice, there can be a lag in recording of inter-bank transactions by parties. The same transaction between two banks is sometimes recorded on different days, which arises differences between inter-bank claims and inter-bank liabilities. Thus, net inter-bank claims are rarely equal to zero. Actually, this item of OIN is an "accounting error". Equally, the difference between intra-bank claims and liabilities is also included in OIN, i.e. the mutual claims of the bank and its branch. As a rule, in the consolidated balance sheet of the bank the net difference of such claims

is zero. But in case when Armenian resident banks have claims on their nonresident branches the net claims will not amount to zero in the consolidated balance sheet. The reason for this is that the accounts of nonresident branches are not included in the commercial banks' survey of Armenia.

### **8.3. Other Items Net of the Banking System**

The banking system of Armenia includes the Central Bank and commercial banks. Other items net of the banking system are the sum of OIN of the CBA and commercial banks. But, unlike other indicators of the banking system (say NFA or deposits), it is impossible to compile OIN as a simple sum of OIN of the CBA and banks. Each NFA of the CBA and commercial banks are net claims of these two sub-sectors on nonresidents, and external sector (nonresidents) is "external" both for commercial banks and the CBA. In other words, the claim of the CBA on nonresidents cannot be a claim on any resident bank. The same can be said on the claims on resident economy or deposits attracted from them. In such cases, when in the consolidated accounts of two sub-sectors the accounts of the whole system become the simple sum of the same accounts of the sectors.

The situation is quite different when calculating OIN. There are mutual claims and liabilities reflected in the sub-sectoral balance sheets of the CBA and commercial banks (e.g. claims of the CBA on commercial banks and required reserves - in the summary balance sheet of the CBA, claims and liabilities of commercial banks on/to the CBA - in the balance sheet of commercial banks). These accounts are "external" both for the CBA and commercial banks taken separately, though when consolidating balance sheets of these two sub-sectors, the mentioned claims and liabilities become the intrasectoral in the context of the banking system. Thus, the required reserves of the commercial banks in the CBA become inter-bank claims in the balance sheet of the banking system and similar to the case of commercial banks must be included into OIN. Here also some deviations may take place, which shall be included into OIN as is the case of the inter-bank mutual claims.

Besides these peculiarities of OIN of the banking system, the remaining elements of OIN embody the sum of OIN above-stated elements of the CBA and commercial banks.

### **8.4. Other items net of credit institutions and financial system**

Credit institutions make a separate subsector of Armenian financial system. Among typical operations, performed by credit institutions, are:

- Lending to economy;
- Attracting borrowings from residents of economy (except from non-participant individuals)
- Relations with nonresidents (the rest of the world);
- Relations with the Government.

Main accounts, included in OIN of credit institutions are:

### *Assets*

- Investments in shares or other equity;
- Frozen accounts
- Nonfinancial assets: buildings, structures, fixed assets, furniture, non-durable goods of small value.

NFA of credit institutions, as well as those of the CBA and commercial banks, include only assets in convertible currency, that is why foreign assets in non-convertible currency and dram are conventionally included in OIN.

### *Liabilities and Capital*

- Capital accounts: statutory fund, general, revaluation, asset and other loss reserves, and profit.
- Grants
- Short-term liabilities, i.e. accounts payable, due to sale of goods and services by credit institutions, as well as due to other operations.

Foreign liabilities of credit institutions, as well as those of the CBA and commercial banks, in non-convertible currency are also conventionally included in OIN.

OIN of credit institutions, as well as those of commercial banks, also include net claims between credit institutions (difference between claims and liabilities) and difference of net claims between credit institutions and their branches.

Armenian banking system and credit institutions form Armenia's financial system. Other items net of the financial system represent the sum of OIN of the banking system and credit institutions. As claims and liabilities of commercial banks to credit institutions are taken from the balance sheet of credit institutions, no deviation shall occur as a result of netting the mutual claims and liabilities between banks and credit institutions, as opposed to the case with the CBA and commercial banks.

### *References*

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