

THE USE OF FLOW OF FUNDS ACCOUNTS IN ECONOMIC PLANNING IN CARIBBEAN ECONOMIES*

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The recent interest in Flow of Funds accounts in the Caribbean¹ in the face of its limited popularity and development within economies with complex financial structures, as well as its failure to take root in developing countries² prompts an exploration of the utility of such accounts. This paper examines the potential use of the accounts in the planning process in open, developing market economies. It is argued firstly that Flow of Funds accounts can serve as models for tracing the impact of changes in non-financial claims on the financial sector. Secondly, Flow of Funds accounts help to identify the specific nature and sectoral location of financial surpluses or deficits, thereby enabling the reconciliation of expenditure plans with financial availabilities. Empirical references are made to Jamaica.

The structure of the paper is as follows. Section I of the paper contains a formal treatment of planning applications of Flow of Funds accounts. Section II provides a practical example of the use of Flow of Funds accounts in the reconciliation of expenditure plans and financial flows. Section III identifies some salient features of open, developing market economies and comments on their possible implications for the design of Flow of Funds planning models. Section IV discusses changes in the financial structure over short periods of time.

I. Theoretical Outline of Uses in Economic Planning

The fundamental premise of this paper is that the volume and composition of finance matters to the secular and shortrun behaviour of real expenditure and prices. It is from this postulate that interest centres on the performance of the financial sector.

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¹The Bank of Jamaica has recently produced a set of Flow of Funds Accounts (7); The Bank of Guyana is exploring the possibility; and the Central Statistical Office in Trinidad and Tobago has started compiling some accounts.

²The main development in complex financial structures has taken place in the U.S.A. and the U.K. In the developing economies, India had a fairly intensive period of development; and some early interest was displayed in Trinidad and Tobago, and Jamaica (Rampersaud (4) and Shaw (5)).

Given the premise of the paper, our attention naturally turns to the specific interests of economic policymakers in financial behaviour and financial structure. The monetary authorities have a vested interest in the performance of the financial system. They are statutorily entrusted with the task of ensuring that financial developments do not cause harmful disturbances in productive sectors, and with promoting the growth-facilitatory role of finance. The discharge of those obligations requires the monetary authority to monitor and to attempt to manipulate the volume, allocation, and price of credit. It also requires them to maintain the solvency and to improve the efficiency of financial institutions. An unhealthy financial superstructure is anathema to the monetary authorities.

However, efficient regulatory policies can only be based upon solid knowledge of at least three facets of the economic order. Firstly, the nature and strength of the mechanisms relating financial terms, i.e. the quantum and price of finance (including internally generated financial flows) to money expenditures. Secondly, the nature and strengths of the mechanisms relating regulatory instruments to financial flows. Thirdly, the nature and degree of financial interdependence in the economy. Though the first two facets are fully appreciated, the third generally receives scant attention. Yet recent changes in the financial structure dramatize the dangers of ignoring financial interdependencies. For example, one outcome of voluntary and policy restraints on commercial bank finance of consumer expenditures has been the emergence of substitute institutions such as finance houses and merchant banks. As another example, suppose that one type of financial institution, say commercial banks, specializes in large loans. And suppose further that another type of financial institution, say private rural credit agencies specialize in small loans but are major debtors of the commercial banks. Then conceivably a blanket restriction on commercial bank credit could result in diminished liabilities and assets of the rural credit agencies. Evidently, therefore, financial policy can be enhanced by explicit attention to financial interdependencies.

A major advantage of Flow of Funds accounts is that by setting out explicitly the financial flows among different sectors in the economy, they reveal the extent of linkages within the financial sector. Tables pertaining to a given year provide a static picture of the linkages; tables pertaining to a series of years provide a comparative static picture in the sense of tracing the shifts of those interdependencies over time. This informational aspect of the Flow of Funds accounts has much utility in that it allows analytical insights in the financial superstructure.

The Flow of Funds accounts may also serve a predictive purpose. Stone and Row (6) show that Flow of Funds matrices can be employed in a manner analogous to a Leontief-type input-output matrix. It is assumed that the percentage distribution of a sector's total liabilities is constant, and that the percentage distribution of any given financial asset over sectors is constant. On these assumptions one can trace the multiplier impact of an exogenous change in a tangible asset on the levels of financial claims and liabilities.

The model can be set out formally.³ Let A_{ij} be the $n \times m$ matrix of the n sectors incremental holdings of the m financial instruments as assets. Then the coefficient matrix of the proportionate distribution of m assets over n sectors is given by:

$$(1) \quad A_{ij}^* = A_{ij} a_j^{-1}$$

where a_j is an $m \times m$ diagonal matrix of the j asset totals.

Further let L_{ji} be the $m \times n$ matrix of the holdings of the m financial liabilities in the i th sector's total liability. Then the coefficient matrix of the proportionate distribution of the m liabilities over the n sectors total liability is given by:

$$(2) \quad L_{ji}^* = L_{ji} x_j^{-1}$$

where x_j is the $n \times n$ diagonal matrix of total liabilities of the n sectors.

Now let W_i be the incremental total assets of the i th sector, R_i be the incremental tangible assets, and f_j be the i sectors' incremental total holdings of the j th financial instrument as a liability. Definitionally total wealth is equal to the sum of financial and tangible assets. Thus,

$$(3) \quad W_i = A_{ij} a_j + R_i$$

More over, since the system is closed, the total holdings of the j th financial instrument as a liability by all sectors must be the same as the sum of its distribution over those sectors. Thus,

$$(4) \quad f_j = L_{ji}^* x_i$$

For the i th sector, the balance sheet identity must hold i.e.,

$$(5) \quad W_i = X_i$$

Further, the change in the j th financial asset must equal the change in the j th financial liability:

³The exposition which follows is based upon Bain (1).

$$(6) \quad a_j = f_i$$

Combining equations (1) to (6),

$$(7) \quad W_i = (I_{ii} - A_{ij}^* L_{ji}^*)^{-1} R_i \quad \text{and}$$

$$(8) \quad f_j = L_{ji}^* (I_{jj} - A_{ij}^* L_{ji}^*)^{-1} R_i$$

Where I is the identity matrix.

Equation (7) enables the evaluation of the impact of a change in tangible assets (say, real investment) by a sector on the sector's total assets portfolio. Equation (8) enables the evaluation of the impact of the change in the sector's tangible assets on the stock of the different liabilities in existence.

From an inspection of equations (7) and (8), it is evident that constancy over time in the coefficient matrices A_{ij}^* and L_{ji}^* is critical for the implementation of the financial input-output multiplier model. In Section IV, we suggest reasons why they may not be stable in a developing market economy, and provide some evidence for Jamaica over the past decade.

Economic planners outside of the financial sector can profit from close attention to the structure of financial assets and liabilities. In a market economy, plan realisation depends upon the autonomous decisions of private individuals, private firms, and the government sector. In a monetary exchange economy financial flows play an instrumental role in the realisation of planned expenditures by the several transactors in the market for goods and services. Moreover, financial disequilibrium will undoubtedly manifest itself in real sector disequilibrium. Likewise budgetary shortfalls will manifest themselves in the divergence between planned expenditures and realised expenditures. Therefore economic planners need to recognise financial constraint on the realisation of expenditure plans.

Flow of Funds accounts provide a basis for checking on the a priori consistency of expenditure plans with financial flows. By identifying the specific nature and location of financial shortfalls they also suggest the areas towards which financial policy action should be directed.⁴ The essential chain of reasoning is as follows. The distribution of any quantum in savings among the several "saving sectors" influences the pattern of financial asset accumulation and the extent of indirect external financing

⁴Bhatt provides a pioneering and useful discussion of this aspect of Flow of Funds Models in the context of the Indian economy. Our discussion formalizes mathematically, his basic approach and applies it to the Caribbean economies.

since some sectors are more prone to self-financing of expenditures and to certain types of financial assets than others. Furthermore, financial intermediaries specialise in terms of the types of loans they grant as well as in terms of the maturity structure of their asset portfolios. Thus the sectoral sources of savings influence the institutional structure of financial savings which in turn influences the disposition of financial resources to deficit spending units. The maturity structure and the sectoral composition of credit themselves impinge importantly upon actual expenditure, and hence upon the feasibility or infeasibility of global and sectoral expenditure plans. As a consequence it is vital to be able to trace the financing pattern engendered by a given change in the value of national savings. The Flow of Funds accounts help us to do this.

Formally one may proceed as follows. Let the projected vector of sector incomes be Y_i (where Y is a $1 \times n$ row vector); and let $(1-t)$ be a $n \times n$ diagonal matrix of coefficients of income net of taxes to total incomes. So that disposable income y is given by:

$$(9) \quad y = Y(1-t), \quad y \text{ being } 1 \times n$$

Assuming that the savings propensities are given by an n th element diagonal matrix, s , then we can calculate the distribution of savings by savings sectors:

$$(10) \quad S = ys \quad S \text{ being } 1 \times n$$

The savings vector S can then be used together with an n th element square coefficient matrix of the financial institutional (or instrument) sector dispersion of savings to obtain the dispersion of savings over the different financial sector. Denote the typical element b_{ji} where b_{ji} is savings sector i 's investment in financial institution j as a proportion of its total savings. Then the institutional dispersion of savings (i.e. allocation of savings to the j financial institutions) is given by:

$$(11) \quad A = bS, \text{ where } A \text{ is } n \times n$$

From the institutional savings dispersion matrix and knowledge of the dispersion matrix of loans to the n sectors, we can derive the sectoral allocation of loanable funds. Define the "dispersion coefficient matrix" of loans by C with typical element c_{ji} , where c_{ji} is leading sector j 's loans to borrowing sector i as a proportion of total loans by sector j . Note further

that, sector j 's total loans must be equal to the sum of its total financial liabilities to all savings sectors. The loans allocation matrix is given by:

$$(12) \quad L = cA$$

with typical element $c_{ji} A_j$

The column sum of equation (12) plus any exogenously given external provision of finance plus S (as given in equation (10)) measures the total financial resources of the i sectors. The row sum of equation (12) measures the total lending of each lending sector.

Subtracting the total lending from total aggregate resources gives the net capital formation of each sector. A comparison of the net sectoral capital formation so derived with the planned capital formation provides information on the financial feasibility of the plan given unchanged financial linkages and patterns. It can thus serve as a signal to policy action. It is worth stressing that the analysis of financial patterns could have been equally well conducted, if desirable, in terms of the maturity structure of sectoral savings, and in terms of maturity structure of credit. Finally, the critical role of the different coefficient matrices is evident.

II. Illustrative Application of the Financial Constraint Approach

In this section, we illustrate the use of the Flow of Funds model in appraising the consistency of planned capital formation with the allocation of financial resources. The example is based on gross income for 1975 as projected in the Jamaica Central Planning Unit's Second Five Year Plan 1970-75. The Central Planning Unit's estimates of Rest of the World Financial inflow are also utilised. The gross income of corporate enterprises is not given in the above document, and is estimated here by multiplying the projected tax receipts by the current corporate tax rate presently obtaining. Financial coefficient vectors or matrices are based upon the 1974 Flow of Funds accounts.

Table 1 present the estimates of financial and non-financial savings for the Household, Corporate Non-Financial, Government and the Rest of the World sectors. Row 2 is derived by applying the vector of disposable income coefficients to Row 1. Row 3 is then derived by multiplying Row 2 by the vector of savings propensities. Rows 4 and 5 are derived by multiplying Row 3 by the vector of coefficients which govern the distribution of savings between financial and non-financial forms. We see as a result of these calculations, the gross financial "savings" of the community originating in the four sectors.

The next step is to trace the dispersion of the financial savings over the several issuers of financial liabilities. This is done in Table II. The Rows of Table II identify the receiving sector (i.e. the issuer of the financial claim) while the columns identify the source of savings. Note that the sum of Column 5 in Table II = the sum of Row 11 in Table II = sum of Row 4 in Table 1. The value distribution recorded in Table II were derived by multiplying Row 4 in Table 1 by the matrix of distribution coefficients, a , as defined in Section I.

The third step derives the loans matrix. It tells us how the savings are allocated by the issuers of financial liabilities to the borrowing sectors. It is derived by multiplying Row 5, Table 2 by the matrix of sectoral lending coefficients. These projected loans are recorded in Table III.

The fourth step in the illustration is the derivation of capital formation. This is done by adding the "own" savings of the investing sectors to their borrowings to obtain estimates of their aggregate resources. We then subtract their total lendings (i.e. their financial savings) from their estimated aggregate resources to obtain their capital formation. The final step in the analysis is to compare the derived capital formation (Row 7) of Table IV with the planned levels of sectoral investment (Row 8).

As we indicated in Section I, the projection of capital formation on the basis of the volume and distribution of financial and non-financial savings is subject to the temporal stability of the several coefficient matrices.

TABLE I. PROJECTED SAVINGS (WITH A GIVEN INCOME FORECAST) 1975
J\$ mn.

Savings Sectors	1 H	2 C	3 G	4 ROW	5 Total
1. Gross Income ...	1,106.9	133.0	389.6	—	
2. Income Net of Taxes ...	1,012.5	83.1	389.6	—	
3. Gross Savings ...	162.7	102.2	66.3	126.5	457.7
4. Financial Savings ...	135.0	7.5	15.2	126.5	284.2
5. Non-Financial Savings ...	27.7	94.7	51.1	0	173.5

TABLE II. PROJECTED INSTITUTIONAL DISTRIBUTION
OF FINANCIAL SAVINGS 1975

Savings Sectors	J\$ mn.					
	1 H	2 C	3 G	4 ROW	5 Total	
1. Households ...	0	1.5	3.7	0	5.2	
2. Corporate Enterprises ...	10	0	4.8	84.6	99.4	
3. Government ...	.3	.2	0	24.4	24.9	
4. Rest of the World ...	0	.6	.6	0	1.2	
5. Central Bank ...	13	.2	1.3	1.7	16.2	
6. Commercial Banks ...	59	3.7	1.4	7.3	71.4	
7. Insurance Companies ...	18	0	0	.1	18.1	
8. Building Societies ...	12	.3	0	0	12.3	
9. National Insurance Fund ...	14	0	0	0	14.0	
10. Other Financial Institutions ...	8.7	1.0	3.4	8.4	21.5	
11. Total Savings in Financial Assets	13.5	7.5	15.2	126.5	284.2	

TABLE III. PROJECTED SECTOR LOANS GENERATED OUT
OF FINANCIAL SAVINGS 1975

Lending Sectors	J\$ mn.						
	H	C	G	ROW	Comm. Banks	Other F.I.	Total
1. Household ...	0	.36	.01	.32	.46	4.05	5.2
2. Corporate Enterprises ...	20.00	0	2.05	8.55	2.71	65.99	99.4
3. Government ...	6.11	7.92	0	1.01	7.65	2.21	24.9
4. Rest of the World ...	0	.80	.23	0	.02	.15	1.2
5. Total Lending to:	26.11	9.08	2.29	9.88	10.84	72.4	130.7
6. Central Bank ...	.04	0	2.68	12.93	0	.54	16.2
7. Commercial Banks ...	14.99	34.98	7.00	3.84	8.75	1.83	71.4
8. Insurance Companies ...	5.81	2.31	2.51	.32	.01	7.13	18.1
9. Building Societies ...	7.62	1.90	.09	0	.02	2.64	12.3
10. National Insurance Fund	0	0	13.22	0	.02	.76	14.0
11. Other Financial Institutions ...	4.46	9.78	1.77	.17	.00	5.38	21.5
12. Total Lending to:	32.92	48.97	27.27	17.26	8.8	18.28	153.5
13. Aggr. Lending Out of Financial Savings to:	59.03	58.05	29.56	27.14	19.64	90.68	284.2

TABLE IV. PROJECTED CAPITAL FORMATION AND ITS FINANCING

				J\$ mn.			
Source of Finance				H	C	G	ROW
1.	Own Savings	...	...	162.7	102.2	66.3	126.5
2.	Borrowing from Local Financial Institutions			32.9	49.0	27.3	17.3
3.	Borrowing from Local Non-Financial Sources	...	...	26.1	8.3	2.1	9.9
4.	Borrowing from Rest of the World	...		0	.8	.2	.0
5.	Aggregate Resources (5 = 1 + 2 + 3 + 4)			221.7	160.3	95.9	153.7
6.	Aggregate Lending by Investing Sectors (i.e. H. C. G. ROW)	...	...	135	7.5	15.2	126.5
7.	Projected Capital Formation	...	...	86.7	152.8	80.7	27.2
8.	Planned Net Capital Formation	...		TO BE GIVEN BY PLAN			

III. Specific Features of Caribbean Economies and the Design of Flow of Funds Accounts

In the design of Flow of Funds accounts for planning applications in Caribbean economies, careful attention will have to be focussed on the peculiar features of the institutional environment since these will affect the classificatory schemes adopted as well as the degree of disaggregation to be pursued. To be meaningful, the models should reflect the structure of the economies as well as highlight the financial features which constrain the development process.

An important characteristic of Caribbean economies is the high degree of concentration and imperfection in domestic product markets. Concentration is also pervasive in the distribution sector. Stemming from market imperfections are high levels of profits for a few large and longer-established firms. A large proportion of profits are usually re-invested, resulting in heavy reliance on internally generated funds. In contrast, new productive firms are likely to be heavily reliant on the financial sector for the financing of working and fixed capital since their profit levels are likely to be relatively low. Given the potentially important role new productive enterprises are likely to play in the process of economic development, it is essential that the Flow of Funds accounts be appropriately designed to reveal the linkages between financial intermediaries and the newer productive sectors.

A second feature of Caribbean economies is the tendency towards family ownership of businesses, especially among the longer established firms. Family ownership has militated against the use of equity finance and results in greater reliance on short-term credit, mainly in the form of commercial bank overdrafts. The Flow of Funds accounts should therefore highlight the predominance of short-term lending institutions. Correspondingly, the development of a private securities sector in the accounts is of secondary importance.

Thirdly, Caribbean economies are heavily dependent on foreign capital inflows to the mining, manufacturing, financial and government sectors. This suggests a relatively full disaggregation of the Rest of the World sector to facilitate analyses of the economic involvement of the outside world in Caribbean economies.

Fourthly, despite the evolution of the financial system into a wider array of institutions, the monetary sub-system is still predominant. In these circumstances there is no great need for full disaggregation of all sub-sectors of the financial system. Correspondingly, disaggregation of the monetary sub-sector should be more complete. In the latter context, one should pay special attention to the likely discordance between the maturity structure of loans preferred by lending institutions and those preferred by borrowers. It would be worthwhile to disaggregate loans and other forms of credit by maturity structure so that changes in the term structure of loans can be easily identified.

IV. Changes in the Financial Structure over Short Periods of Time

The efficiency of the Flow of Funds accounts in *ex ante* predictions hinges on the stability of the financial structure over time, since constancy of the coefficient matrices is critical. It might be thought that in a developing economy, constancy of the financial structure is unlikely because the process of economic development may involve the appearance of new institutions and the relative demise of others, as well as changes in the asset preferences of the community.

Using Jamaica as a prototype, we employ Flow of Funds accounts for the years 1966, 1970 and 1974 to examine the structure of assets over time. Tables 1 to 4 details the shares of various financial assets in the portfolios of the household, rest of the world, corporate, and government sectors.

The data show quite clearly that some shifts have been occurring in the financial sector. Dealing firstly with the household sector's asset portfolio, it can be observed that corporate enterprises have experienced a

considerable decline in their share of the sector's financial assets. Slight tendencies for increasing shares are noticeable for insurance companies, building societies, and monetary liabilities of the central bank. In contrast, the share of commercial banks has remained roughly stable. The relatively large percentage share of the National Insurance Fund is a striking evidence of the impact of governmental regulations on the financial structure. Commercial banks and life insurance companies are seen to be the main recipients of household savings during 1970 to 1974.

For the "Rest of the World" sector, Table 2 reveals considerable shifts in the structure of financial assets. Particularly noteworthy is the growth in the percentage share of corporate enterprises from 1966 to 1970, and the decline by 1974. The proportionate share of commercial banks has been declining throughout the period. On the other hand, those of other financial institutions have risen quite rapidly – a trend which no doubt reflects the establishment of merchant banking subsidiaries of overseas firms. Table 2 also shows that corporate enterprises and the government sector despite relatively slower growths in their receipts, are still the largest recipients of capital transfers from overseas.

Apart from the characteristic of instability, the main factors of interest in Table 3 are the rapid increase in the proportionate investment of corporate enterprises in commercial banks (mainly in the form of time deposits), the decline in their holdings of the household sector's, the government's, and the Rest of the World's liabilities. In Table 4, we note the decline in the shares of the Rest of the World, the Central Bank, and the commercial banks in the Government sector's asset portfolio, and the increase in the shares of the household and corporate enterprise sectors.

We now examine the distribution of assets of the financial sector (Table 5) for the years 1966, 1970 and 1974. It can be observed that there were significant changes in the ratios over time, even for specialist institutions like Building Societies. One cannot therefore assume medium-term constancy in the sectoral lending patterns of the financial sector. In terms of the informational use of Flow of Funds accounts it should be recognised that while the household sector's and the Rest of the World sector's shares of commercial bank loans have been increasing on average, the corporate sector remains the largest recipient of bank funds with its share being quite stable over the period. Households were the second largest borrowers in 1974. The only pronounced trends in the life insurance companies' portfolio are a relative disinvestment in government liabilities, and an increasing share of loans to financial institutions. The major borrowers from life insurance companies are shown to be households and

financial institutions. For Building Societies, the asset portfolio remained concentrated on household mortgages. A significant development however, has been the growth in the share of loans to other financial institutions from 3.0% in 1966 to 21.5% in 1974. There seems to have been an increase in intra-financial sector transactions, apart from these involving commercial banks.

The data and discussion in this section demonstrate the usefulness of Flow of Funds accounts in identifying changes in the pattern of financial operations in the economy. It is clearly shown that important structural shifts take place over relatively short periods of time in a developing economy. The rapidity of these changes suggest the need to frequently revise the Flow of Funds accounts not only for purposes of studying financial developments, but also to improve the efficiency of *ex ante* predictions and analyses based on Flow of Funds matrices.

TABLE 1. DISTRIBUTION OF HOUSEHOLDS FINANCIAL ASSETS -
PERCENTAGES

Receiving Sectors	1966	1970	1974
1. Households	0	0	0
2. Corporate Enterprises	20.98	13.01	7.31
3. Government	0.43	0.12	0.19
4. Rest of the World	0	0	0
5. Central Bank	7.68	7.58	9.44
6. Commercial Banks	44.25	45.22	43.55
7. Insurance Companies	11.78	14.52	13.41
8. Building Societies	7.87	7.65	8.95
9. National Insurance Fund	0	6.58	10.36
10. Other Financial Institutions	7.01	5.32	6.79
11. Total	100	100	100

TABLE 2. DISTRIBUTION OF REST OF THE WORLD FINANCIAL ASSETS
PERCENTAGES

Sectors				1966	1970	1974
1.	Households	...	...	0	0	0
2.	Corporate Enterprises	...	...	70.02	77.39	66.87
3.	Government	...	...	21.36	13.74	19.32
4.	Rest of the World	...	...	0	0	0
5.	Central Bank	...	...	0.04	1.27	1.34
6.	Commercial Banks	...	...	7.56	6.19	5.81
7.	Insurance Companies	...	...	0.32	0.16	0.09
8.	Building Societies	...	...	0	0	0
9.	National Insurance Fund	...	...	0	0	0
10.	Other Financial Institutions	...	...	0.71	1.25	6.57
11.	Total	...	...	100	100	100

TABLE 3. DISTRIBUTION OF CORPORATE SECTOR FINANCIAL ASSETS
PERCENTAGES

Sectors				1966	1970	1974
1.	Households	...	...	37.86	23.70	20.14
2.	Corporate Enterprises	...	...	0	0	0
3.	Government	...	...	4.04	2.59	2.07
4.	Rest of the World	...	...	33.61	11.15	8.60
5.	Central Bank	...	...	3.02	2.34	2.74
6.	Commercial Banks	...	...	14.58	51.92	49.59
7.	Insurance Companies	...	...	0	0	0
8.	Building Societies	...	...	2.41	3.88	4.41
9.	National Insurance Fund	...	...	0	0	0
10.	Other Financial Institutions	...	...	4.48	4.44	12.45
11.	Total	...	...	100	100	100

TABLE 4. DISTRIBUTION OF GOVERNMENT FINANCIAL ASSETS
PERCENTAGES

Sectors				1966	1970	1974
1. Households	...	...	...	5.68	13.73	24.56
2. Corporate Enterprises	...	...	...	8.39	13.6	31.81
3. Government	...	...	...	0	0	0
4. Rest of the World	...	...	...	40.58	23.25	4.04
5. Central Banks	...	...	...	16.65	26.0	8.87
6. Commercial Banks	...	...	...	19.31	7.81	9.5
7. Insurance Companies	...	...	...	0	0	0
8. Building Societies	...	...	...	0	0	0
9. National Insurance Fund	...	...	...	0	0	0
10. Other Financial Institutions	...	...	...	9.39	15.6	21.28
11. Total	...	...	...	100	100	100

TABLE 5. DISTRIBUTIONS OF FINANCIAL ASSETS (LENDINGS)
OF THE FINANCIAL INSTITUTIONS
PERCENTAGES

Claims of	Claims on		Year	H/H	Corp.	Govt.	ROW	Finan.	B.O.J.	Total
								
1. Bank of Jamaica	1966	0.03	0	11.4	88.34	0	0	100
	1970	0.03	0	5.09	89.6	5.28	0	100
	1974	0.24	0	16.03	77.24	3.25	0	100
2. Commercial Banks	1966	17.94	46.45	8.26	4.16	2.5	10.35	100
	1970	12.74	44.67	9.27	3.97	21.77	7.58	100
	1974	20.99	48.99	0	10.33	2.57	12.25	100
3. Insurance Companies	1966	34.43	13.08	36.5	3.99	11.76	0.12	100
	1970	40.64	17.23	21.13	4.46	16.46	0.08	100
	1974	32.10	12.80	13.87	1.78	39.38	0.07	100
4. National Insurance Fund	1966	0	0	99.72	0	0	0.28	100
	1970	0	0	94.68	2.44	0.82	2.06	100
	1974	0	0	94.42	0	5.4	0.18	100
5. Building Societies	1966	79.92	11.54	3.28	1.22	3.9	0.15	100
	1970	77.94	18.91	10.79	0.21	6.25	0.24	100
	1974	61.99	1.55	0.92	0	21.48	0.16	100
6. Other Financial Institutions	1966	28.79	18.08	40.46	5.93	6.6	0.14	100
	1970	20.98	23.39	40.4	1.45	8.2	3.58	100
	1974	22.79	47.89	5.02	0.5	23.75	0.05	100

SUMMARY

The paper attempted to outline some potential uses of Flow of Funds accounts in the planning process in Caribbean economies. It was shown that Flow of Funds accounts can serve as the basis for evaluating the effects of a change in expenditures on non-financial assets on the financial sector, and in particular assists in tracing the distribution of those effects on the several financial asset and liabilities categories. The accounts are also quite important for assessing the consistency of expenditure plans with financial flows and for identifying specific locations of financial surpluses and deficits. To underscore this role a numerical example based on the 1974 Flow of Funds accounts and on the Second Five Year Plan for Jamaica, was worked out.

The paper identified specific features of Caribbean economies, notably the bias towards short-term credit, the predominance of monetary institutions, and the heavy dependence on foreign capital inflows, and discussed their implications for the design of planning-oriented Flow of Funds accounts. Finally, accounts for Jamaica for the years 1966, 1970 and 1974 were utilised to evaluate the likelihood of temporal stability in the financial structures of Caribbean economies. The results demonstrate that significant structural changes occur within relatively short periods of time. Flow of Accounts need to be frequently revised in order to be of informational value as well as to maintain predictive efficiency.

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