11. Size of general government financial assets and liabilities

Like households and corporations, governments hold both financial assets (such as accumulated cash or currency) and liabilities (debt). The amount of government-held financial assets and liabilities broadly correlates to the difference between revenues and expenditures over time: deficits are financed by either depleting savings (spending financial assets) or borrowing money (increasing liabilities). Along with other indicators, the net balance between government-held assets and liabilities can be one key measure of fiscal sustainability. In general, the higher a government's liabilities, the higher the perceived risk by markets on the probability of a government defaulting on loans and therefore the higher risk premium required by the market, which in turn raises the cost of debt.

The share of assets and liabilities held by government in the domestic economy relative to non-government actors (such as corporations and households) can also provide an indication of the government's influence in financial markets as a borrower and a lender. For example, a larger share of assets indicates that the government possesses a major share of financial resources in the economy. On average in OECD countries, governments hold about 7% of financial assets in the economy; the major part of assets are held by households, non-profit institutions and corporations. The large share of assets held by the Norwegian government (27%) represent wealth management funds established with the proceeds from oil sales. In terms of financial assets and liabilities, most governments became smaller between 2000 and 2009. In comparison to financial assets, governments account for a slightly larger share of liabilities in the economy (about 10% on average). Financial liabilities do not include unfunded pension liabilities.

The financial net worth of the government (also known as net financial debt) represents the difference between its financial assets and liabilities, and provides some information about government's capacity to meet its financial obligations. A decrease in the government's financial net worth over time indicates a worsening fiscal position and that a higher share of current spending will be borne by future generations. Financial net worth as a share of GDP improved in 11 OECD countries between 2000 and 2009 – most dramatically in Norway, due to increases in the value of oil revenues. In 2009, only seven OECD countries had a positive financial net worth, meaning that assets exceeded liabilities. The general improvements in net worth experienced by most countries since 2000 were tempered by the global financial and economic crisis. All but two OECD countries (Denmark, Estonia and Norway) saw their net worth drop between 2007-09 due to sharp decreases in the value of assets and increased liabilities from fiscal stimulus packages.

Methodology and definitions

Data are derived from the *OECD National Accounts Statistics*, which are based on the *System of National Accounts* (SNA), a set of internationally agreed concepts, definitions, classifications and rules for national accounting. The SNA classifies financial assets and liabilities in seven major categories of financial instruments: monetary gold and special drawing rights (assets only), currency and deposits, securities other than shares, loans, shares and other equity, insurance technical reserves (net equity of households in life insurance and pension fund reserves), and other accounts receivable (assets)/ payable (liabilities). Financial assets do not include physical assets such as land or buildings.

The valuation of assets and liabilities should be at market prices at the end of the year. Thus, fluctuations in prices can account for year-to-year differences in the levels of assets and liabilities. Data are based on the non-consolidated financial accounts except for Australia and Israel.

Further reading

OECD (2011), *National Accounts at a Glance 2010*, OECD Publishing, Paris.

Robinson, M. (2009), "Accrual Budgeting and Fiscal Policy", *OECD Journal on Budgeting*, Vol. 2009/1, OECD Publishing, Paris.

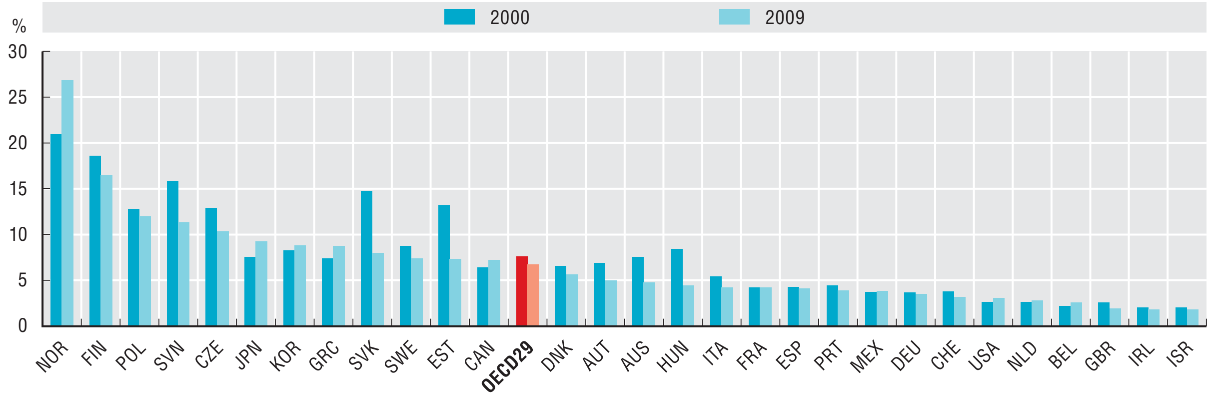
Figure notes

Data for Chile, Iceland, Luxembourg, New Zealand and Turkey are not available. Data for Switzerland are for 2008 rather than 2009. Data for Korea are for 2002 rather than 2000. Data for Israel and Slovenia are for 2001 rather than 2000.

11.1 and 11.2: Data for Ireland are for 2001 rather than 2000.

Information on data for Israel: *http://dx.doi.org/10.1787/888932315602*.

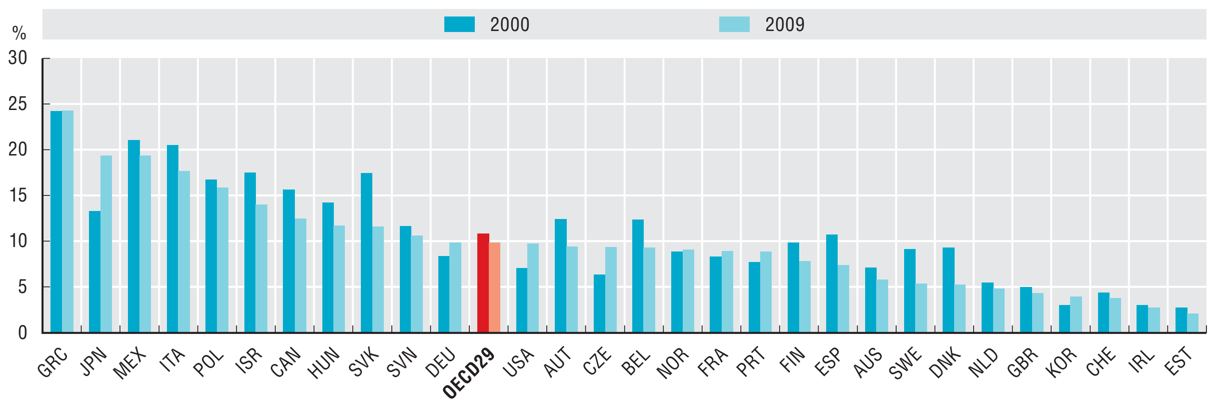
11.1 Share of financial assets in the total economy held by general government (2000 and 2009)



Source: *OECD National Accounts Statistics.*

StatLink http://dx.doi.org/10.1787/888932390139

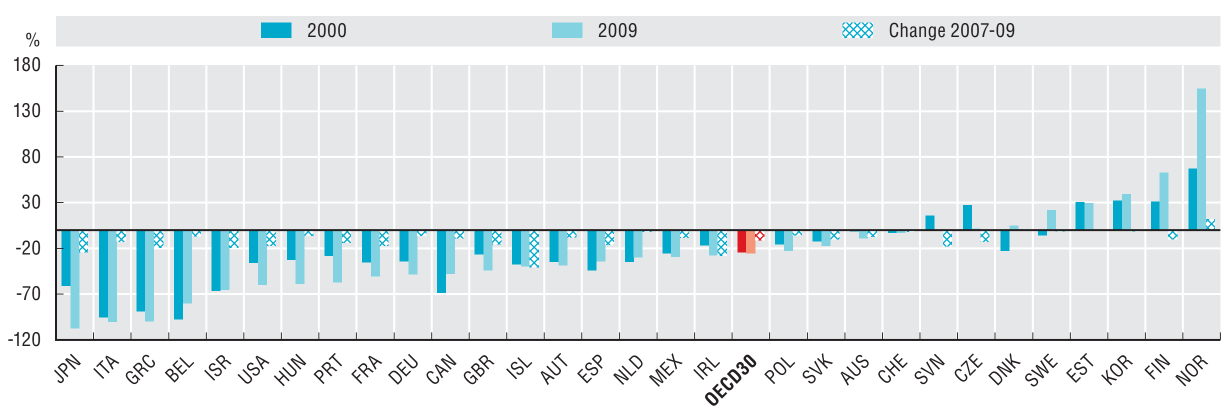
11.2 Share of financial liabilities in the total economy held by general government (2000 and 2009)



Source: *OECD National Accounts Statistics.*

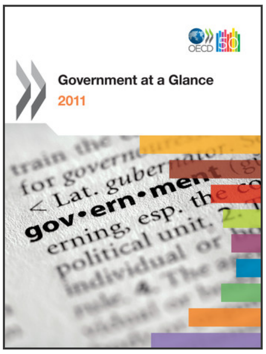
StatLink http://dx.doi.org/10.1787/888932390158

11.3 Financial net worth as a share of GDP (2000, 2009 and change 2007-09)



Source: *OECD National Accounts Statistics.*

StatLink http://dx.doi.org/10.1787/888932390177



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