insight on reading the balance sheet of odcs

The changes in the items of ODCs' analytic balance sheet can be analyzed similarly to the way in which one can analyze the changes in the analytic balance sheet of the central bank. Specifically:

- An increase in deposits and in liabilities to the central bank, and a decrease in NFA, domestic credit, or reserves at the central bank are **sources of financing**. Banks mostly collect money from depositors and use it to extend credit to the private sector, or the government, or to acquire NFA. Part of these deposits is kept as reserves at the central bank. An increase in deposits allows banks to finance other activities. Similarly, a decrease in NFA, domestic credit, or reserves releases financial resources which banks can use, for example, to pay back depositors when they need to withdraw from their deposits. Finally, liabilities to the central bank also constitute a source of financing.

- A decrease in deposits and/or liabilities to the central bank, and an increase in NFA, domestic credit, or reserves at the central bank are **uses of financing**. These are the reverse of the cases explained above.

Changes in deposits, NFA, NDA, and reserves at the central bank can illustrate how banks finance their activities and hence illustrate how banks contribute to the creation of money and credit. The only thing to keep in mind when doing this analysis is that ODCs' have slightly less control of their liabilities than the central bank does. In a way, it is more difficult for banks to voluntarily finance themselves by increasing deposits: it is the private sector that decides how much money to keep as deposits or how much to withdraw from deposits. Banks can offer incentives (for example by cutting transaction fees, or by offering other services associated with deposits, or by paying an interest rate on deposits), but they are not in full control of their liabilities.

The table and text below illustrate how to use this approach to analyze developments in the ODCs' balance sheet.

Analytic Balance Sheet of the ODCs of Monetaria

	2011	2012	Difference: 2012 - 2011
ASSETS			
NFA	**-860**	**-400**	**460**
Domestic credit	**4310**	**4380**	**70**
Net claims on the government	1060	1200	140
Claims on other dom. ec. sect.	3250	3180	-70
Reserves	**550**	**720**	**170**
Reserves at the central bank	500	650	150
Cash in vaults	50	70	20
OIN	**300**	**350**	**50**
LIABILITIES			
Deposits	**3910**	**4585**	**675**
Liabilities to the central bank	**390**	**465**	**75**

Let us consider the analysis of the changes in the balance sheet.

- During 2012 ODCs financed themselves mostly through creating deposits (675) and used financing mostly to improve their NFA position (460), to lend to the government (140) and to build reserves at the central bank (150 -- as will be explained later in the module, an increase in deposits always leads to an increase in reserves, as these constitute a buffer against deposit withdrawals).

The next step is to reconcile these changes with what happened to the rest of the economy.

Following the example that we provide in relation to analysis of the central bank balance sheet, let us suppose that 2012 was a difficult year for the economy. In particular, the economy suffered from a stop of capital flows, and a capital flow reversal in the case of the banking sector. As a result, banks had to pay back part of their liabilities to foreign investors, which caused an increase in NFA and capital losses, evidenced by the increase in OIN (recall that capital enters OIN with a negative sign; a decline in capital manifests itself as an increase in OIN).