

# HARMONIZED MONETARY AND BANKING STATISTICS OF THE NATIONAL BANK OF SLOVAKIA

## BALANCE SHEET STATISTICS OF MONETARY FINANCIAL INSTITUTIONS AS A BASIS FOR CALCULATING MONETARY AGGREGATES UNDER THE METHODOLOGY OF THE EUROPEAN CENTRAL BANK

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*The primary objective of the Eurosystem<sup>1</sup> is to maintain price stability. Developments in the quantity of money that a central bank puts into circulation, as well as the amount represented by precisely defined liability items on the balance sheets of monetary financial institutions, can provide useful information about future price developments. In analysing monetary, financial and economic development, the European Central Bank attaches a particularly significant role to the M3 monetary aggregate<sup>2</sup> and announces a reference value for its year-on-year rate of growth.*

*The evaluation of monetary development under the European System of Central Banks (ESCB) requires a correct and accurate statistical system. That is why the statistical data reported in the national balance sheet of monetary financial institutions have an important role and assist the evaluation of developments in both the banking sector and the financial sector as a whole. The harmonization of reported data of monetary and banking statistics therefore represents a process of presenting, and the ability to present, national data under the ESCB on the basis of a single methodology.*

*The aim of this article is to present the methodology with which the aggregated and consolidated balance sheet is created for the sector of monetary financial institutions, and to show their importance as a source of information for the compilation and calculation of monetary aggregates in accordance with the requirements of the European Central Bank.*

### 1. Obligations pertaining to the monetary and banking statistics of the National Bank of Slovakia following EU accession. Standardized statistics

In general, the responsibility and usage of particular types of statistic at the European level is shared between the European Central Bank (ECB) and the European Commission.<sup>3</sup> As regards monetary and banking statistics, the ECB's responsibility arises from its objectives and conduct of monetary policy. In accordance with the provisions of Article 107(6) of the Treaty establishing the European Community<sup>4</sup> and with the conditions laid down in Article 5 (Collection of statistical data) of the Statute<sup>5</sup> of the ESCB and ECB (hereinafter the "Statute"), the ECB makes regulations to the extent necessary to implement the ESCB's tasks.<sup>6</sup> The ECB therefore works together with national central banks in the creation of particular statistical methodologies as well as in the drafting of legal regulations. The meaningfulness of data aggregated for the euro area or compared within the European Union (EU) must be ensured by harmonization, i.e. the use of single methodology at the level of the Member States.

Although it is recognized that ECB regulations approved under Article 34.1<sup>7</sup> do not confer any rights, nor impose any obligations, on non-party Member States,

Article 5 of the Statute applies to both participating and non-participating Member States.

This fact, along with Article 5 of the Treaty, represents an obligation on non-party Member States to draft and

<sup>1</sup> The Eurosystem is composed of the ECB and the 12 national central banks of the Member States that have adopted the euro (BE, GE, GR, ES, FR, IE, IT, LU, NL, AT, PT, FI).

<sup>2</sup> In December 1998, based on a decision of the ECB Governing Council, the reference value for the growth rate of the monetary aggregate M3 (year-on-year) was selected as a stable and reliable indicator of inflation in the medium term.

<sup>3</sup> There is a joint division of responsibility for statistics of the balance of payments, international investment position, and financial and non-financial accounts. The areas of responsibility with agreements on cooperation are set out in a Memorandum of Understanding of March 2003.

<sup>4</sup> Article 34.1 – Legal Acts: In accordance with Article 108a of the Treaty establishing the European Community, the ECB shall: make regulations to the extent necessary to implement the tasks defined in Article 3.1, and in cases which shall be laid down in acts of the Council referred to in Article 42; take decisions necessary for carrying out the tasks entrusted to the ESCB under this Treaty and this Statute; and make recommendations and deliver opinions.

<sup>5</sup> The Statute of the European System of Central Banks and of the European Central Bank is a Protocol attached to the Treaty on the European Union, signed in Maastricht in February 1992.

<sup>6</sup> The ESCB is composed of the ECB and the national central banks of all the EU Member States.

<sup>7</sup> Council Regulation (EC) No 2533/98 of 23 November 1998 concerning the collection of statistical information by the ECB.



implement at the national level any measures they deem appropriate for carrying out the collection of statistical information needed to meet the ECB's requirements on statistical reporting and for ensuring timely preparation in the statistics field that will enable them to become participating Member States. Member States outside the euro area provide a quantity of statistical data that is used to monitor their economies and assess their preparedness for introducing the euro.

The creation of harmonized statistics for the purpose of conducting a single monetary policy was previously a competence of the ECB's predecessor – the European Monetary Institute.<sup>8</sup> The need to standardize statistical data at the level of Member States was important even before the emergence of the single currency, which explains why Alexandre Lamfalussy, as EMI president, said, "Nothing is more important for monetary policy than good statistics," adding that statistical information was necessary for deciding which measures to take, for explaining them to the public, and for evaluating their effects. If policy was not substantiated and explained, he said, it would not be understood, and the institution implementing it would lose trust and its very purpose could be undermined.

In 2002, the Statistics Department of the NBS began systematically to work on the introduction of a new methodology and on reporting required information to the ECB in the field of monetary and banking statistics for the euro area.<sup>9</sup> The harmonized data for Slovakia are regularly published on the NBS website.<sup>10</sup> National harmonized data for Member States outside the euro area<sup>11</sup> are submitted on a monthly basis to the ECB Executive Board, and they are published in the ECB's "Green Book" and on its website. Ahead of Slovakia's entry into the euro area, the preparation process and status of harmonization in individual fields of statistics is regularly evaluated in reports for the ECB Governing Council.

## 2. Definition of monetary aggregates according to the ECB

The definition of monetary aggregates of the euro area is based on:

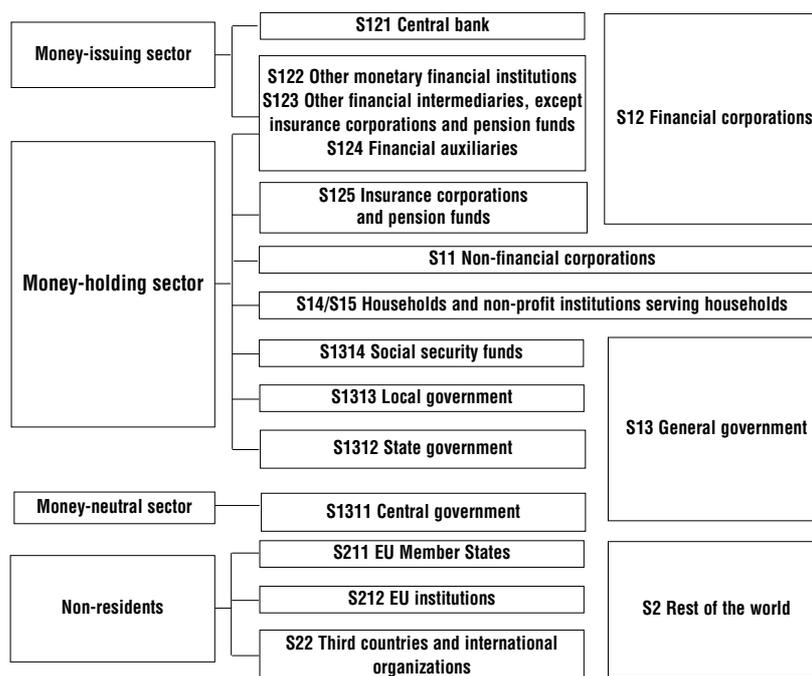
- harmonized definitions of individual liability categories in the consolidated balance sheets of monetary financial institutions;<sup>12</sup>
- definitions of the following resident<sup>13</sup> sectors: the money-issuing sector, money-holding sector and money-neutral sector.

The money-issuing sector includes resident institutions designated as monetary financial institutions (MFIs), whose issued liabilities<sup>14</sup> feature a high degree of liquidity.

The money-holding sector covers all resident non-monetary financial institutions, while the money-neutral sector includes the institutional sector S.1311 – central government. Exempted from this are central government liabilities of a monetary character,<sup>15</sup> which constitute a special item in the definition of monetary aggregates.

The names and designations of the entities within the said sectors are, for the purposes of reporting moneta-

Table 1



<sup>8</sup> Preparatory work of the EMI, under Article 109f (3) of the Maastricht Treaty as preparation for Stage III, which began in 1999 (3rd stage).

<sup>9</sup> NBS Decrees 14/2002, 10/2003, 3/2003, 11/2004 and 10/2005 on the submission of reports by banks and the branches of foreign banks for statistical purposes, and NBS Decrees 9/2003, 10/2004 and 9/2005 on the submission of reports of mutual funds by asset management companies for statistical purposes.

<sup>10</sup> [www.nbs.sk/Bankový sektor/Harmonizovaná menová a banková štatistika](http://www.nbs.sk/Bankový_sektor/Harmonizovaná_menová_a_banková_štatistika)

<sup>11</sup> CZ, DK, EE, CY, LV, LT, HU, MT, PL, SI (until 1 January 2007), SK, SE, UK

<sup>12</sup> Under the definition, for statistical purposes, they include: central banks (S.121), credit institutions and other financial institutions (S.122).

<sup>13</sup> A resident is understood to mean: a legal person which has its registered office in Slovakia, a foreign entity which has an enterprise, or an organizational unit thereof, situated in Slovakia and is registered in the Commercial Register, or a natural person with permanent or long-term residence in Slovakia.

<sup>14</sup> Currency in circulation, money market fund shares/units, and debt securities with an original maturity up to 2 years.

<sup>15</sup> Overnight deposits, deposits, received loans with in an original maturity up to 2 years, and deposits redeemable at a period of notice up to 3 months.



ry and banking statistics, defined in accordance with the statistical standard that is the European system of national and regional accounts (ESA 95).<sup>16</sup> Further details about these institutional sectors are given in Table 1.

In the methodology applied in the euro area, monetary aggregates are compiled from specific liabilities of MFIs and the central government (S1311)<sup>17</sup> – including, for example, the State Treasury – which these institutions have towards residents other than the central government and MFIs. Balance sheet items used in calculating the money supply include data in all currencies (at the national level of Slovakia, the items are broken down into SKK, euro and another foreign currency). The maturity period of the respective items is reported as the original maturity.

Table 2 shows the definition of euro area monetary aggregates broken down into individual liabilities<sup>18</sup> of the consolidated balance sheet of the MFI sector:

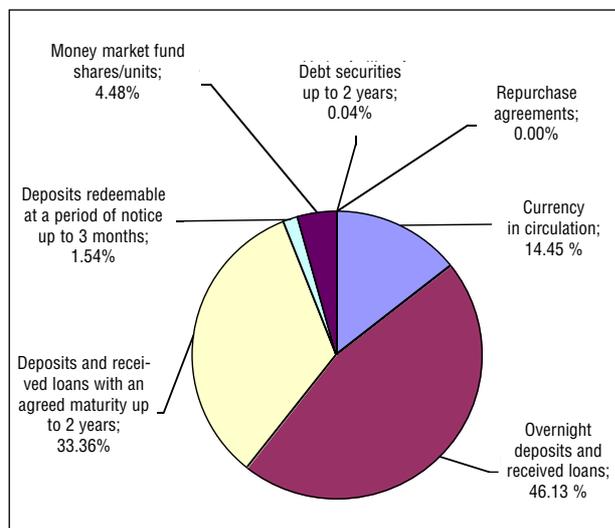
Monetary aggregates and their counterparty assets

**Table 2**

Liabilities	M1	M2	M3
Currency in circulation	X	X	X
Overnight deposits	X	X	X
Deposits with agreed maturity up to 2 years		X	X
Deposits redeemable at a period of notice up to 3 months		X	X
Repurchase agreements			X
Money market fund shares/units <sup>19</sup>			X
Debt securities with a maturity up to 2 years			X

are not simply compiled as balances at the end of the respective reference month. After adjusting for changes related to the reclassification and revaluation of the relevant items (so-called "non-transactions"), their year-on-

**Chart 1 Percentage share of M3 aggregate components, June 2006**



year rate of growth is worked out using the calculation of net transactions (flows) and then published.

### 3. Monetary financial institutions

As mentioned above, monetary financial institutions are resident legal entities, representing the so-called money-issuing sector.

They also represent a current reporting group for which, in accordance with the legal framework of the NBS and ECB,<sup>20</sup> monthly and quarterly balance<sup>21</sup> and flow<sup>22</sup> data are compiled. The priority statistics compiled for the monetary financial institutions sector include the consolidated balance sheet, derivation of net flows (transactions) for the respective reporting period, compilation of monetary aggregates and counterparty assets, and the calculation of their year-on-year growth rate.

Besides defining items and the methodology of their reporting, stability in the reporting of balance sheet statistics is based on a complete and homogenous monetary financial sector, a summary of which is defined, for statistical purposes, by the "List of MFIs". Central banks of the Eurosystem are required to update and publish<sup>23</sup> this list on a regular basis. In accordance with ESA 95, the list comprises two groups of financial intermediaries, identified as sectors S121 and S122 (see Table 1).

The concept of monetary financial institutions was established in cooperation with national central banks of the euro area. It includes three main institutional groups:

The first comprises the national central banks. The second represents resident credit institutions,<sup>24</sup> defined as entities whose business is to receive deposits or other repayable funds from the public and to grant credits for their own account. The third group takes in all other resident financial institutions which receive deposits from entities other than MFIs for their own account,

<sup>16</sup> Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community.

<sup>17</sup> In some countries, this includes not only the State Treasury but also post office accounts.

<sup>18</sup> Liability items reported in the consolidated balance sheet of the money-issuing sector: MFIs and central government sector towards the money-holding sector (households, non-financial corporations, other financial intermediaries and so on).

<sup>19</sup> Data on money market fund shares/units has been reported to the NBS since 2004.

<sup>20</sup> Guideline of the ECB No 2003/2, as amended, Regulation of the ECB No 2001/13, and Regulation of the ECB 2001/18.

<sup>21</sup> The balance of individual asset and liability items as at the end of the respective reference month.

<sup>22</sup> Information needed to derive the transactions.

<sup>23</sup> See the ECB website at <http://www.ecb.int/stats/money/mfi/general/html/index.en.html>, and the NBS website at [www.nbs.sk/BANKY/HMBS/MET/INDEX.HTM](http://www.nbs.sk/BANKY/HMBS/MET/INDEX.HTM).

<sup>24</sup> Directive 2000/12/EC of the European Parliament and of the Council relating to the taking up and pursuit of the business of credit institutions.



provide credits or invest in securities. This group includes mainly open-end money market funds (MMFs).

Whether an institution is identified and classified within the third group (other MFIs) is determined by the substitutability of the financial instruments issued by them with deposits<sup>25</sup> in credit institutions. This group includes mainly open-end money market funds. The substitutability of the issued financial instruments, or the specification of their close substitutability with deposits related to financial instruments, is determined on the basis of the following criteria: liquidity – shares/units may be repurchased, redeemed or sold at limited cost; transferability – it is possible to mobilize funds invested in a financial instrument by payment instruments such as cheques, transfer orders, direct debits etc.; convertibility – financial instruments (MMF shares/units) may be converted into currency in circulation or convertible deposits; certainty in value – the precise capital value of the financial instrument may be known in advance in terms of the national currency and marketability (a security is deemed marketable if it is regularly listed and traded on an organized market.)<sup>26</sup>

Money market funds are defined<sup>27</sup> as collective investment undertakings, whose shares/units feature close substitutability for deposits in terms of liquidity, and which invest primarily<sup>28</sup> in money market financial instruments,<sup>29</sup> money market fund shares/units, other transferable debt instruments with a residual maturity up to one year, and bank deposits, or which achieve a yield approaching the interest rates of money market instruments.

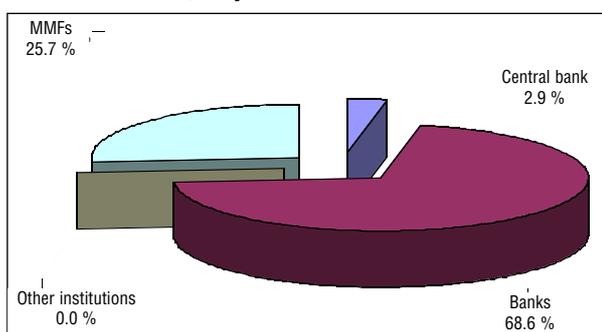
Table 3 and Chart 4 show the number and structure of financial corporations reported in the List of MFIs as at May 2006 and compare them between the EU, euro area and Slovakia.

**To be continued in Issue 10/2006**

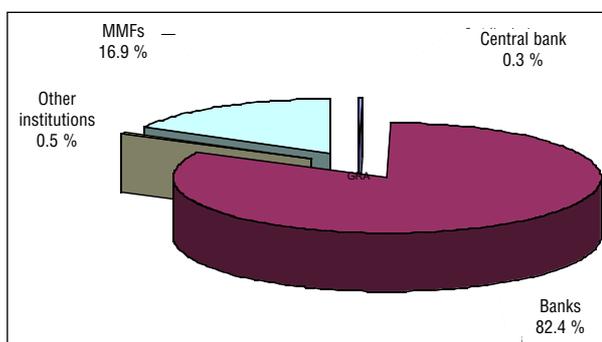
**Table 3**

July 2006	MFIs	Category						
		Central Banks	Banks		MMFs		Other institutions	
			No.	% share in MFI	No.	% share in MFI	No.	% share in MFI
Euro area	7 816	13	6 182	79.1 %	1 618	20.7 %	3	0.0 %
Other EU countries	2 522	13	2 335	92.6 %	130	5.2 %	44	1.7 %
of which: SR	35	1	24	68.6 %	9	25.7 %	0	0.0 %
EU total	10 338	26	8 517	82.4 %	1 748	16.9 %	47	0.5 %

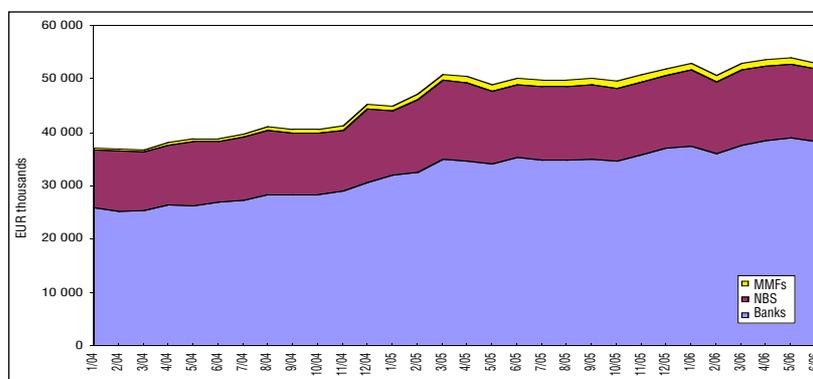
**Chart 2 Structure of monetary financial institutions in Slovakia, July 2006**



**Chart 3 Structure of monetary financial institutions in the EU, July 2006**



**Chart 4 Contribution to the total assets of the MFI sector**



<sup>25</sup> Shares/units issued by an asset management company in accordance with Act no. 594/2003 Coll. on collective investment and with consequential amendments.

<sup>26</sup> A market for shares/units in open-end funds of collective investment undertakings does not exist in the usual sense. Investors

nevertheless know the daily quotation of the shares and may raise funds at this price.

<sup>27</sup> Annex I of Regulation of the ECB No 2001/13.

<sup>28</sup> At least 85% of the investment portfolio.

<sup>29</sup> Section 5(e) of Act No. 483/2001 Coll. on banks and with consequential amendments.