



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM



QUARTERLY FINANCIAL ACCOUNTS IN THE SLOVAK REPUBLIC

METHODOLOGY
AND ANALYSIS

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SUMMARY

This paper deals with methodological issues concerning the compilation of quarterly financial accounts (QFA) and with the economic and analytical view on data developments in last years. As a part of methodology, the position of QFA in the European System of Accounts 95 (ESA 95) is described, as well as data coverage, their consistency and the compilation process of QFA in the Slovak Republic. From the analytical point of view, interesting are recent trends in QFA data related to the financial and economic crisis and the euro adoption in Slovakia in 2009. The fi-

nancial behaviour of households, non-financial corporations, general government and financial institutions has changed the way of financing and investing, and the distribution of financial wealth across institutional sectors as well. The euro adoption in the financial crisis environment was reflected in interesting movements in the structure of financial flows between households, non-financial enterprises, financial corporations and the rest of the world, and was accompanied by changes in the amount of cash in circulation, deposits and loans.



1 INTRODUCTION

Quarterly financial accounts (QFA) are an integral part of the European system of national accounts ESA 95 (European System of Accounts 1995). Their main role is to provide comprehensive information about financial flows between individual entities of a national economy and between national and foreign entities, or about the volume (stocks) of financial assets of these economic entities. Based on information thus obtained it is possible to analyze in particular the transmission mechanism of the monetary policy adopted by the central bank and, using the volume and structure of owned financial assets and the volume and structure of financial indebtedness of economic entities, to monitor the level of stability of the country's financial system.

Národná banka Slovenska (NBS) is primarily responsible for compilation and publication of quarterly financial accounts for the entire economy, except for the general government sector, which is managed by the Statistical Office of the Slovak Republic (SOSR). In preparing QFA, NBS closely cooperates with the Ministry of Finance of the Slovak Republic (MFSR) and financial sector entities. NBS obtains data on non-financial entities from reports by the SOSR, from balance of payments statistics prepared by NBS, and from available statistical reports, i.e. from data on counterparts¹ (e.g. details about household deposits with banks are not obtained directly from households, but from statistical reports by banks).

¹ The method of collecting source data for the purpose of preparing QFA is given in chapter "Data sources for QFA compilation" on page 3.

2 QFA IN THE ESA 95 SYSTEM

The ESA 95 system records two basic kinds of information: flows and stocks². Flows refer to transactions and effects of events that took place within a given period of time (e.g. an increase of new household deposits in the given quarter), and stocks refer to positions at a specific point of time (the total volume of all household deposits at the end of the given quarter).

well as from unilateral cancellation of debt and uncompensated seizure of assets;

2) holdings gains and losses are the result of changes in the price of assets, i.e. they can happen with regard to all financial assets and liabilities as a consequence of their holding, without any transformation of them.

2.1 FLOWS OF FINANCIAL ASSETS AND LIABILITIES

Flows reflect the creation, transformation, exchange, transfer or extinction of financial assets or liabilities; two kinds of economic flows exist: a) transactions, and b) other changes in assets.

a) Transactions

Financial transactions represent operations involving financial assets and liabilities conducted between individual economic entities within one country and between national and foreign entities, recorded in a financial account³. They contain information about the actual acquisition or handling of financial assets and liabilities, i.e. financial transactions do not include changes in financial assets and liabilities resulting from a change in price, classification, and structure.

b) Other changes in assets and liabilities

Other changes in assets and liabilities involve changes that are not a result of transactions. They are either 1) other changes in the volume of assets and liabilities, or 2) holdings gains and losses;

1) this category includes changes resulting from reclassification and restructuring of institutional sectors or financial assets and liabilities, as

2.2 STOCKS OF FINANCIAL ASSETS AND LIABILITIES

Stocks are holdings of financial assets and liabilities at a specific point of time; they are recorded at the beginning and end of each accounting period (opening and closing balance sheets). Within its boundaries, the ESA 95 system is comprehensive in respect of both flows and stocks, and, therefore, all changes in stocks can be fully explained by recorded flows.

According to the above-mentioned description of stocks and flows of financial assets, a complete financial account for a national economy for a specific quarter would look like as follows:

the value of financial asset/liability in the opening balance sheet
+
financial transaction: total value of acquired assets/liabilities less total value of sold assets/liabilities in the course of the accounting period
+
other changes in the volume of assets and liabilities
+
holdings gains and losses
=
the value of financial asset/liability in the closing balance sheet

² According to ESA 95, flows and stocks explain economic processes related to all types of economic assets and liabilities, i.e. both in financial and non-financial assets and liabilities.

³ The term "financial account" according to the ESA 95 definition means, within the sequence of national accounts, one of the accumulation accounts for transactions involving financial assets and liabilities (stocks of financial assets and liabilities are referred to as the "balance sheet"). In other words, the QFA as a whole are part of both accumulation accounts (transactions) and balance sheet accounts (stocks).



3 DATA SOURCES FOR QFA COMPILATION

As already mentioned, the main role of QFA is to give a comprehensive picture of financial flows within the national economy as well as in relation to foreign countries. In this regard it is important, in order to create top-quality data and analytical outputs, to provide for maximum possible coverage of available data, and to provide for comparability of such data in time.

database). Data thus obtained are considered to be primary inputs, and the QFA represent the secondary input from the given sources. The overall quality, time availability, and comparability depend to a great extent on such input statistics.

3.2 DATA COVERAGE AND SOURCES FOR QFA COMPILATION

3.1 QFA AS COMPILED STATISTICS

The QFA represent all financial transactions between all entities in the national economy and in relation to foreign countries, and various data sources are used in their compilation. The content of these data sources is either focused on the specific area of business activities (e.g. data from reports for institutional sectors S.121 and S.122 – monetary financial institutions), i.e. they are focused on economic activities and financial instruments related to the specific sector, or it is focused on a specific type of financial instruments (e.g. data on securities obtained from the Central Depository's

The volume of available data for the needs of QFA compilation varies across individual sectors and sub-sectors and also across individual financial instruments. Basically, NBS uses two kinds of source data: internal and external. The most reliable and the most complete are internal sources providing data for sectors S.12 Financial corporations and S.2 Rest of the world. This is because NBS, due to its supervision of financial markets, has long-time experience in collecting data from financial institutions, and because it can address all entities within the given sector and obtain the required data. More specifically, the relevant data sources for ESA 95 sectors and subsectors are as follows:

Sector	Source
S.121+S.122 Monetary financial institutions	Money and banking statistics
S.123 Other financial intermediaries	Statistics of financial intermediaries (leasing companies, factoring companies, and hire purchase companies) and statistics of mutual funds)
S.124 Financial auxiliaries	Statistics of mutual fund management companies, security dealers, stock exchange and central depository, companies managing pension funds and supplementary pension funds
S.125 Insurance corporations and pension funds	Financial balance sheets and statistical data of insurance corporations, pension funds and supplementary pension funds
S.2 Rest of the world	Balance of payments and International investment position



Concerning data from external sources, the most important role is played by the SOSR and MFSR. In cooperation with these institutions, it is possible not only to compile the

QFA, but also to compare them with quarterly non-financial accounts (QNFA) and annual financial accounts (AFAs), for which the SOSR is responsible.

Sector	Source
S.11 Non-financial corporations	Sample survey of selected companies (SOSR)
S.13 General government	Financial balance sheets of general government entities (MFSR) and quarterly financial accounts of the government (SOSR), State final account (MFSR)
S.14,15 Households and NPISH ⁴	Households sample survey (SOSR)

3.3 DATA CONSISTENCY

However, the data referring to specific financial instrument are in many cases available from both sectors and sub-sectors concerned. Despite the fact that both parties report data about the same financial instrument (reported as an asset by one sector and as a liability by the other), it often happens that such data differ from each other. The given discrepancy is not necessarily a problem for the source sectors, but the identification and subsequent elimination of the identified differences is a task of significant importance for the compilation of QFA as a consistent system. The revealed differences do not necessarily result from errors in one of the source statistics; the differences can be caused by several factors. One of the main reasons is a different methodology of data re-

porting in individual sectors. This means, for example, different definition of a financial instrument or valuation of the same in accounting and statistical reports of individual sectors. Another source of differences can be, for example, different period of updating of reported data or different point of time of recording a financial transaction (e.g. acquisition of shares on 30 March can be recorded in the reports of one sector as a transaction in Q1 and in the other as a transaction in Q2). With regard to the fact that account needs to be taken of possible mistakes, stricter requirements are imposed on data users, for they have to provide for reliable control mechanisms of acquired data.

The principle of data consistency is given precedence over all other principles of QFA compilation. It is particularly important in connection

Overview of the valuation of financial instruments in the QFA ⁵	
Financial instrument	Valuation method
Monetary gold and special drawing rights	
Monetary gold	Market price
Special drawing rights	Face value ⁶
Currency and deposits	Face value
Securities other than shares	Face value + market price
Loans	Face value
Quoted shares	Market price
Unquoted shares	Share capital in book value
Other equity	Face value
Mutual funds shares	Market price
Insurance technical reserves	Market price
Other accounts receivable/payable	Book value

⁴ Non-profit institutions serving households.

⁵ Interests on financial assets and liabilities are recorded in QFA within the respective financial instrument, as if they were reinvested.

⁶ Face value is the price of financial instrument shown on the means of payment or the sum in which accounts receivables/payables are denominated.



with the recording of correct values of financial instruments, because the asset holder and the debtor (issuer) can perceive the price of one asset (this mainly refers to debt and equity securities) differently. Generally, the principle of market valuation can only be applied to financial assets that are publicly traded on the market; otherwise it is necessary to choose a different economic concept of the financial asset valuation.

3.4 COUNTERPARTS

The QFA allows monitoring financial flows in an economy using individual financial instruments, while in the case that certain financial instrument is an asset of one sector, it must automatically be displayed as a liability of another sector. The way double-entry recording of financial instruments makes it possible to collect data about one financial transaction both from the entity holding certain financial asset and from the entity that issued the given asset, i.e. from the debtor (in the case of securities, for example, the issuer is a debtor in respect of the security holder). In the case of certain financial instruments, when data is available only from one of the parties to the financial transaction, split by counterparts, the other party to the financial transaction is determined automatically, i.e. from the counterpart. The given system of data collection from counterparts is mainly used in obtaining data about sectors from which it is impossible to collect the exact data (e.g. household sector).

3.5 QFA COMPILATION PROCESS

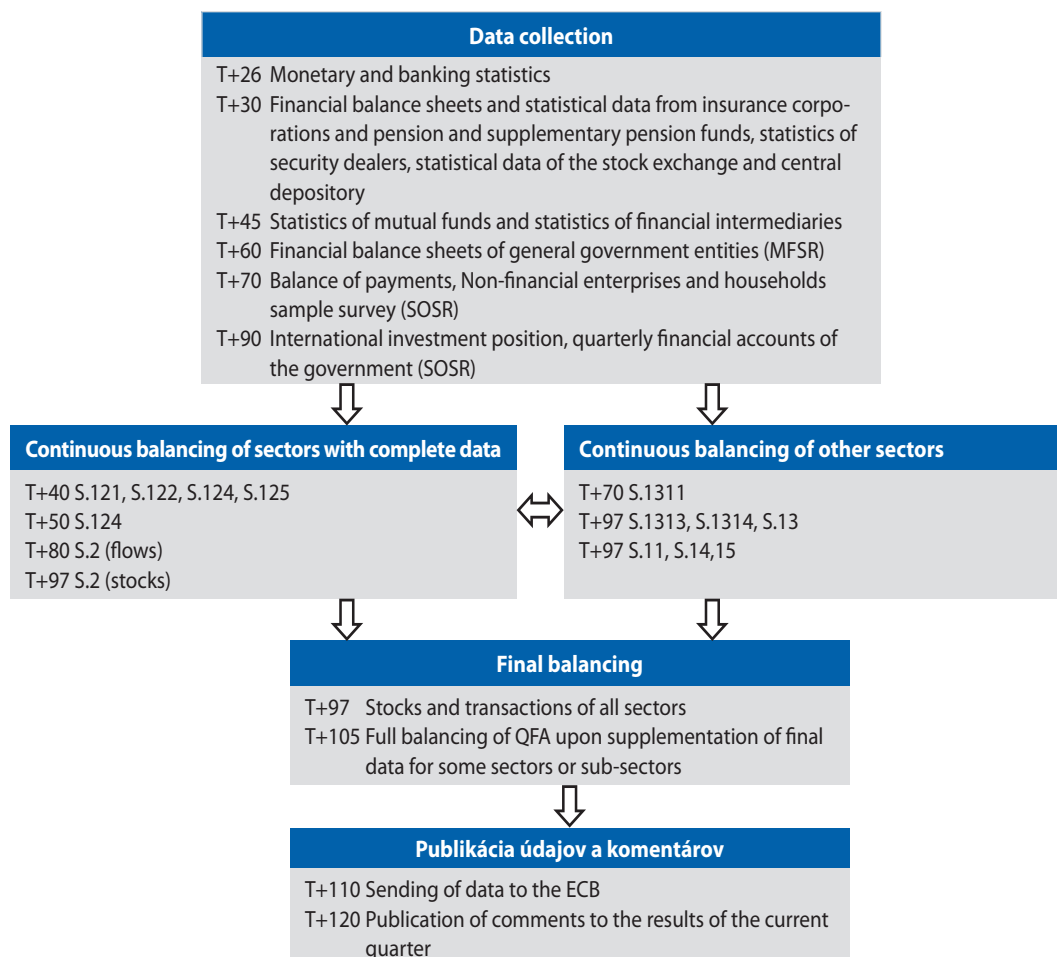
The following factors play a key role in the QFA compilation process: time availability of data, quality within the meaning of methodological requirements, and the required structure of existing data. The “incoming” data need to be evaluated continuously in terms of their completeness, quality, and economic interpretability, and

the asset and liability sides need to be balanced continuously. In the event that different data regarding assets of one sector and liabilities of the other sector are reported between or within the sectors for a financial instrument, possible causes of discrepancies are analyzed and a consensus on “giving preference” to the higher quality data source to be used in equalizing the asset and liability counterparts reached. In certain cases, when it is possible to identify exactly the data source (in the case of the financial market and general government entities), consultations are made with the given entities on the source data regarding the check on the correctness of reported data and the elimination of possible mistakes and inaccuracies.

There exist certain differences in compiling and balancing the stocks and transactions in the QFA. Data concerning the stocks are generally more available and of a higher quality in the majority of institutional sectors. Data concerning transactions are available in full or in part in the majority of sectors, except for sector S.11 – Non-financial institutions and S.14, 15 – Households and non-profit institutions serving households. In the majority of sectors, full or partial availability of data concerning transactions is related to the fact that transaction data can be compiled using two different methods. The first one is the so-called direct method, i.e. the individual sectors disclose data about specific transactions. The second method, the so-called indirect method, means, at the first stage, the collection of data about stocks, revaluations, reclassifications, and exchange rate differences of data for the individual financial instruments, while the transaction data is obtained as a difference of stocks between two quarters less the value of other flows (revaluations, reclassifications, and exchange rate differences). Due to the fact that different types of data are used between and within the individual sectors for calculation of transactions⁷, the transactions are calculated using a combination of both methods.

⁷ Data concerning exclusively transactions exist in certain sectors, and data concerning exclusively other flows exist in the others. There are also sectors in which some entities report data about transactions, while other entities of the same sector report exclusively data about non-transactions. There are also sectors that report no data necessary for the calculation of transactions. In such a case, the calculation of the difference in data about stocks between two consecutive quarters is combined with data obtained from counterparts.

The procedure followed in compiling the QFA



4 ECONOMIC AND FINANCIAL CRISIS ANALYSED IN QUARTERLY FINANCIAL ACCOUNTS

4.1 TRADE CREDITS AND ADVANCES

The development of trade credits and advances is usually in line with the economic and business cycle of the economy. Looking at the history of trade credits and advances (both assets and liabilities) we can see that this refers to Slovakia as well. In the period of robust economic growth between 2006 and 2008, the trade credits and advances reached the peak in their share of total assets and liabilities. Similarly, at the end of 2008 and beginning of 2009, when financial and economic crisis hit Slovakia, those financial accounts items declined rapidly.

As can be seen from the developments of cumulative sums, in first two or three quarters of 2008 the slow growth of trade credits and advances on the assets side continued, in contrast with the move on the liabilities side. One of the reasons for this increasing gap could be that in a time of economic slowdown the payment conditions in purchasing goods are becoming tougher in comparison with conditions in selling them. Another

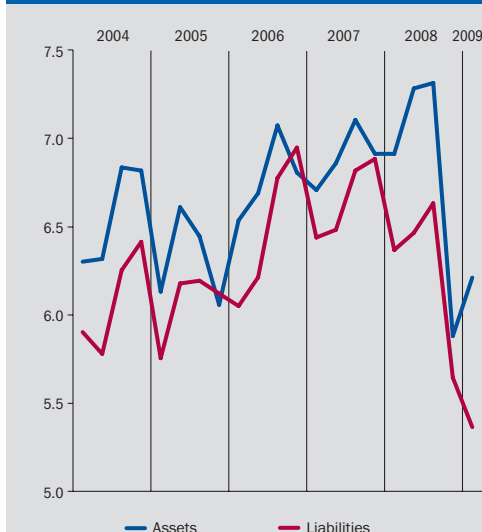
explanation is that in bad times the amount of goods sold sharply decreases, and the sum of money payable declines.

About one third of all trade credits and advances represents the relationship between domestic and foreign enterprises. Between 2007 and 2008, in the period of improving trade balance, the developments in net trade credits and advances seems to be even more favourable. This can be interpreted as that in good times the payment discipline of both domestic and foreign firms is getting better. However, in the period of recession there is an evidence of common pace of decline between trade credits and advances on the one side and exports and imports on the other side.

4.2 NET LENDING/NET BORROWING

The developments in Slovakia's net lending/net borrowing reflect the movements in the current and capital accounts. In the long run, Slovakia

Chart 1 Share of non-financial corporation's trade credits and advances in total assets/liabilities (%)



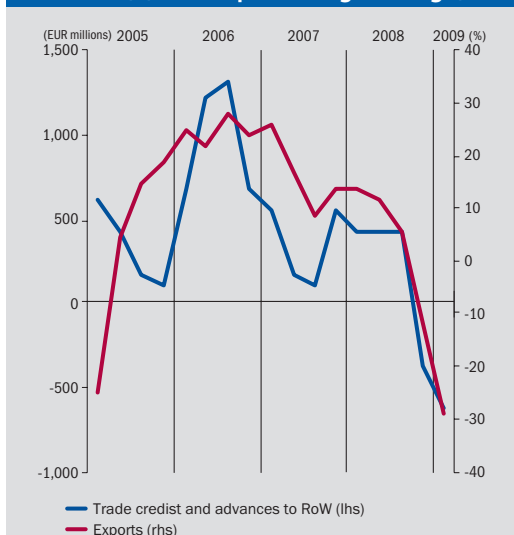
Source: NBS.

Chart 2 Development in non-financial corporations trade credits and advances (4-quarter cumulative sum) (in EUR millions)



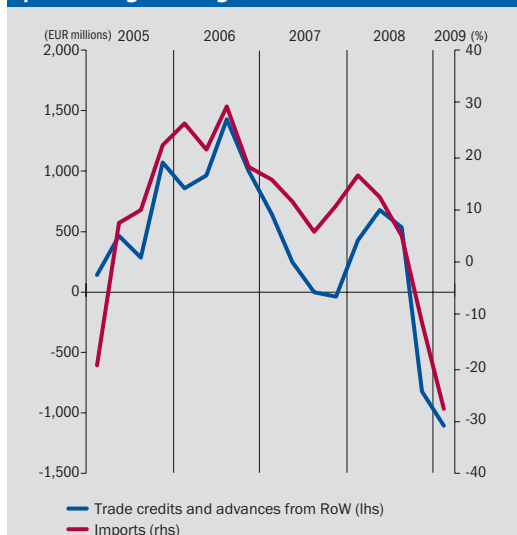
Source: NBS.

Chart 3 Trade credits and advances between non-financial corporations and the rest of the world (4-quarter cumulative sum of trade credits and advances) (annual percentage change)



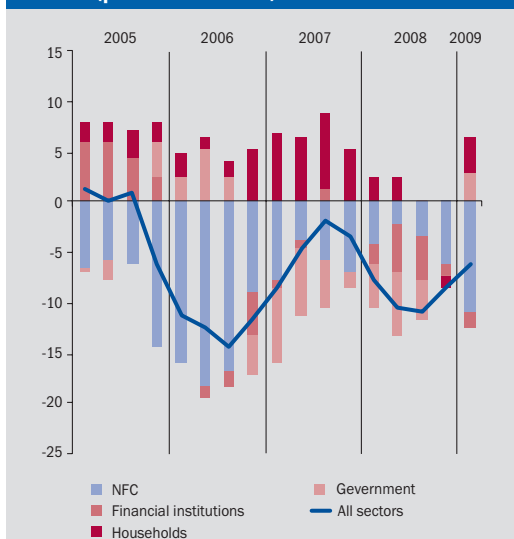
Source: NBS.

Chart 4 Trade credits and advances between non-financial corporations and the rest of the world (4-quarter cumulative sum of trade credits and advances) (annual percentage change)



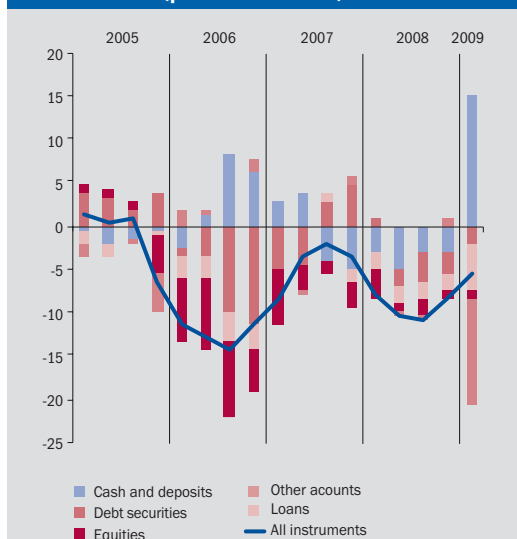
Source: NBS.

Chart 5 Net lending (+)/net borrowing (-) by sector (percent of GDP)



Source: NBS.

Chart 6 Net lending (+)/net borrowing (-) by instruments (percent of GDP)



Source: NBS.

has experienced negative contributions of current and capital accounts to GDP growth and thus the net lending/net borrowing has been deteriorating as well. As can be seen from the following chart, the main contribution to the increase in net borrowing has come from Non-

financial corporations and Government sectors, and the most dampening effect was produced by the financial flows of households.

As regards the financial instruments structure, the main contributor to negative net financial

flows have been equities, loans and debt securities. A specific situation occurred at the end of 2008 and beginning of 2009, when the amount of deposits rocketed and that of other liabilities declined sharply. Both movements were connected with the adoption of common European currency; before the euro changeover mainly households and non-financial corporations deposited their money with banks, and the central bank increased their liabilities in relation to the TARGET payment system.

4.3 OTHERS FORMS OF FINANCING

When comparing two forms of financing of non-financial corporations, trade credits and bank loans, it seems that in contrast with trade credits there was no actual decline in loans granted to non-financial corporations at the end of 2008. There was only a decline in the pace of growth of these two forms. More volatile was the development of loans granted by the rest of the world. Until the 2nd quarter of 2007 the trend in loans granted from the rest of the world had been in line with foreign direct investment to Slovakia. Since then however, the amount of foreign investment started to decline, but the loans inflow had been steeply increasing up to the 3rd quarter of 2008. At the end of 2008, the cumulative

amount of loans from the rest of the world diminished.

One of the main instruments in fighting consequences of financial and economic crisis are large government expenditures. Such a revival trend in government expenditures has been registered in Slovakia during the last four quarters as well; however, flows of government funds to other sectors of the economy were not substantial, in contrast to expectations. One of the reasons for little evidence of support is that the largest government bonds issue was placed in the second quarter of 2009. It is also very difficult to show the structure of government support to the economy. According to available data, the largest amount of government assets refers to other accounts receivables, which means that there has been an increase in government claims on taxes, dividends, social contributions and other items connected with the time delay of expected payments. These data, however, are expected to be revised when the 2nd quarter 2009 data are published, and thus the exact structure of government expenditures will be known as late as October 2009.

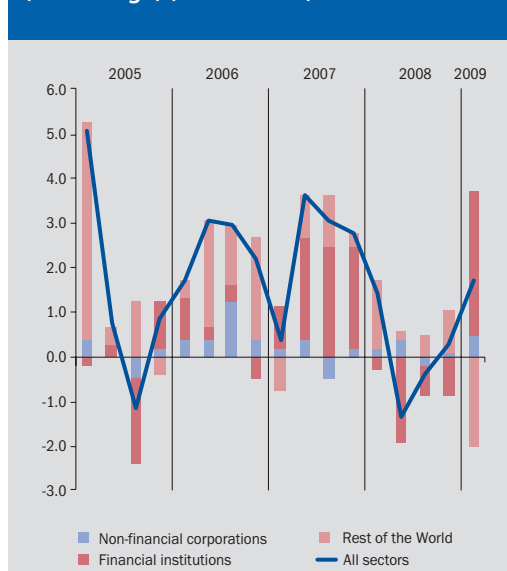
About 88% of households financing in Slovakia consist of loans; most of them are of long-term character and are provided by banks. The in-

Chart 7 Non-financial corporations financing through long-term loans (4-quarter cumulative sum; in EUR millions)



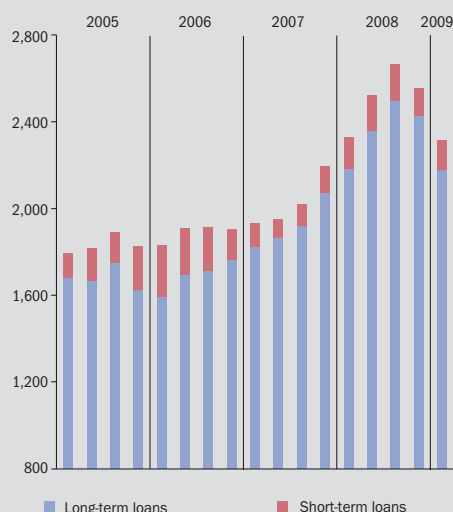
Source: NBS.

Chart 8 Central government bond issues (net change) (in % of GDP)



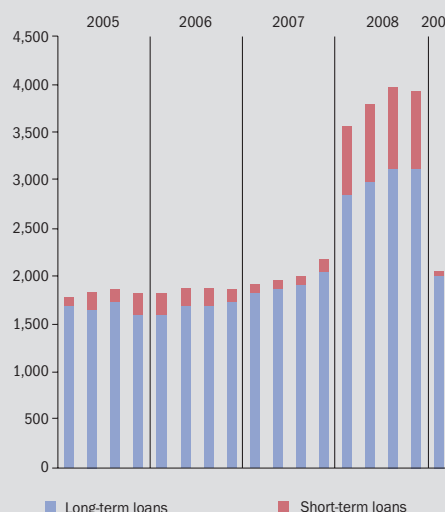
Source: NBS.

Chart 9 Households financing from banks (4-quarter cumulative sum; in EUR millions)



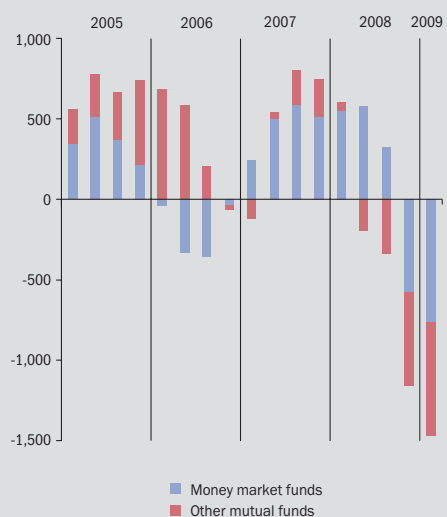
Source: NBS.

Chart 10 Households financing from all financial institutions (4-quarter cumulative sum; in EUR millions)



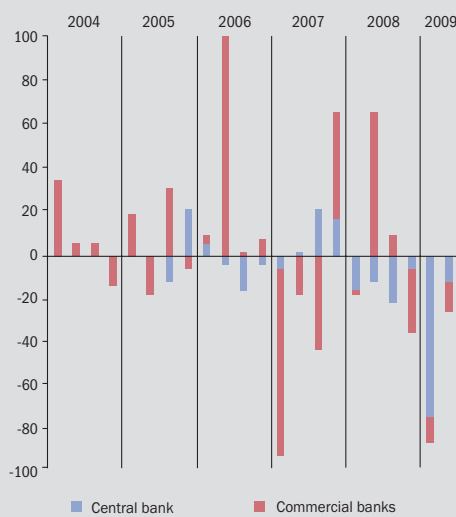
Source: NBS.

Chart 11 Households investments in mutual funds (4-quarter cumulative sum; in EUR millions)



Source: NBS.

Chart 12 Revaluations of financial derivatives (net value; in EUR millions)



Source: NBS.

crease in the amount of long-term loans granted to households became more pronounced in the period of dynamic growth of their purchasing power, increasing real-estate prices and high demand for flats and houses in 2007 and 2008. In that period not only the amount of long-term loans from banks increased, but also the amount

of loans (both long-term and short-term) granted by hire purchase and leasing companies, as can be seen from Chart 10. At the beginning of 2009, the pace of growth of this type of loans returned back to the levels prevailing before 2008. In the case of long-term loans from banks, their contribution to growth started to descend in the

Chart 13 Revaluations of long-term debt securities in the central bank portfolio (in EUR millions)

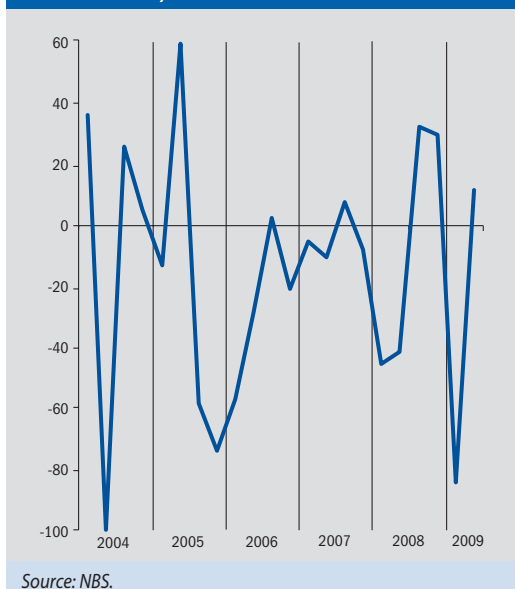
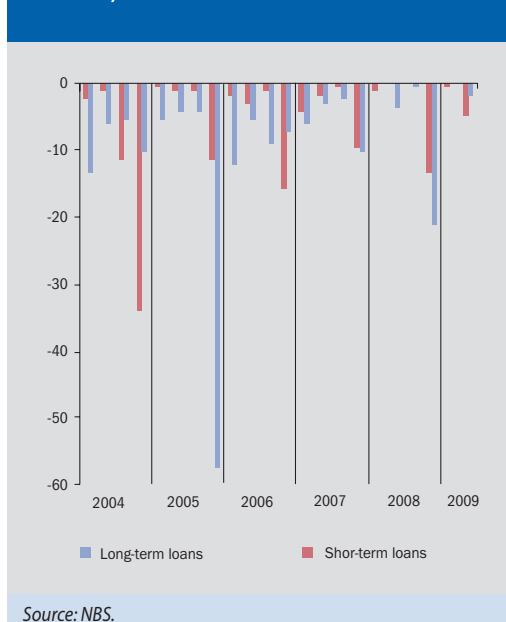


Chart 14 Revaluation of bank loans (in EUR millions)



second half of 2008, and a further continuation of this decline is expected in 2009.

4.4 HOUSEHOLDS INVESTMENTS

The clear evidence of the impact of the crisis on households behaviour in financial markets in Slovakia were excessive redemptions from money market and other mutual funds. The outflow from other mutual funds started as early as the beginning of 2008, and the money markets funds shares have joined the trend in the second half of 2008. The Slovak households have reduced their investment to open-end funds to almost one half of the amount invested until the end of 2007.

4.5 REVALUATIONS

One kind of information that can be extracted from financial accounts is the information on revaluation of financial instruments. The most precise and of high quality are the data on revaluations provided by banks; these data are directly reported by all commercial banks and by the central bank. When looking at the data on revaluations of derivatives, long-term debt securities and loans at the end of 2008 and beginning of 2009, large negative revaluations, mainly of derivatives and long-term debt securities of the central bank were registered. The commercial banks experienced large write-offs and write-downs of their loans at the end of 2008.

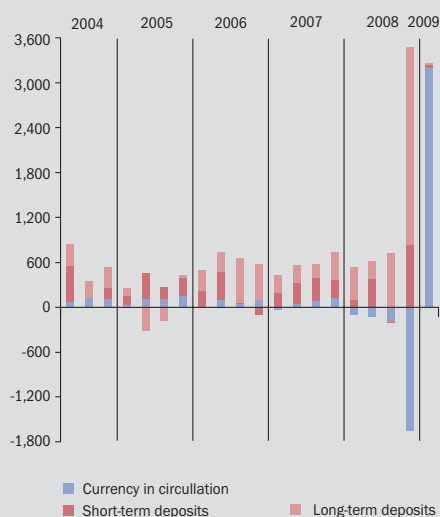


5 EURO ADOPTION IN THE SLOVAK REPUBLIC

On 1 January 2009 the Slovak Republic adopted the common European currency. Before the changeover, the situation in financial markets had been quite hectic. Chart 15 provides evi-

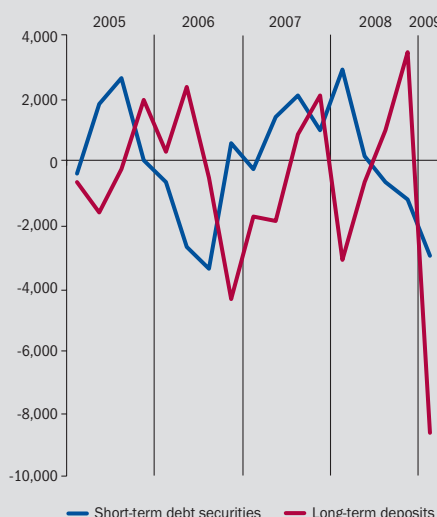
dence of what happened with currency in circulation in hands of households and with their deposits. In order to smoothly change the Slovak koruna for the euro the households started

Chart 15 Currency in circulation and deposits of households (4-quarter cumulative sum; in EUR millions)



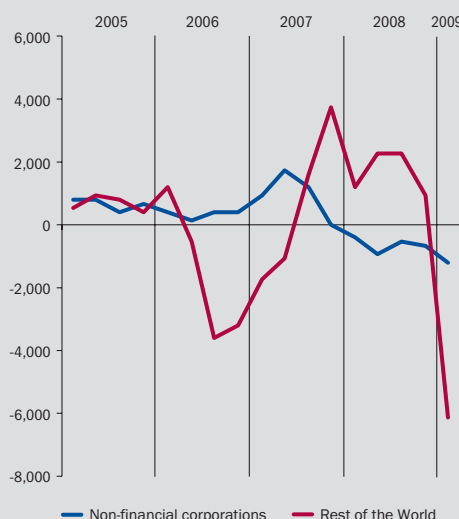
Source: NBS.

Chart 16 Liabilities of central bank vis-à-vis commercial banks (4-quarter cumulative sum; in EUR millions)



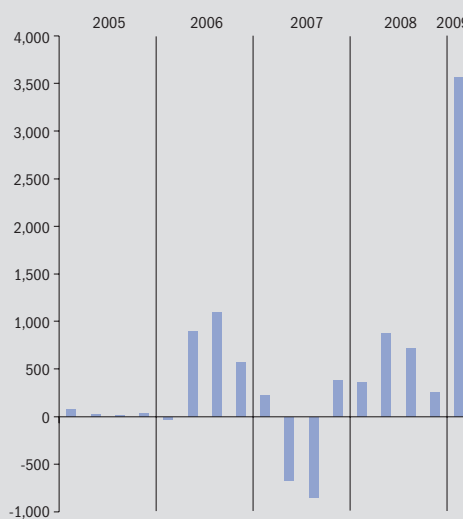
Source: NBS.

Chart 17 Commercial banks' long-term deposits from NFCs and Rest of the World (in EUR millions)



Source: NBS.

Chart 18 Banks long-term deposits in Rest of the World



Source: NBS.



to deposit all their available money with banks. Then, in the 1st quarter of 2009, euro banknotes and coins in the total amount of above EUR 3 billion were put into circulation.

In 2008, the central bank started the process of repayment of all short-term debt securities owned by commercial banks. Besides the short-term debt securities, the main assets of commercial banks at the central bank were deposits related to the withdrawal of ample liquidity in the banking sector by the central bank. In line with the change in the institution responsible for monetary policy implementation in Slovakia, the banks withdrew their funds from their central bank accounts in the amount of about EUR 13 billion.

The banks used a large part of this sum for repayment of deposits of non-financial corporations and entities from the rest of the world. Non-financial corporations have gradually been withdrawing their money since the beginning of 2008. In the case of the rest of the world, a one-off outflow of deposits in the 1st quarter of 2009 was registered; they were withdrawn mainly by parent banks, located mostly in the eurozone.

After all the above mentioned operations had been conducted, the commercial banks retained certain amount of available sources, which were deposited at banks abroad. Almost 95% of them are located in the European Union, and two thirds are located in the EMU countries.

6 CONCLUSION

The main aim of this paper was to give basic information on methodology used in the process of compilation of QFA in Slovakia and their use for analytical purposes.

The QFA are an integral part of balance sheet and accumulation accounts in the European System of Accounts 95 (ESA 95) that provide information on financial stocks and transactions between individual entities of national economy and between national and foreign entities. The financial stocks represent holdings of financial assets and liabilities at a specific point of time, and they are recorded at the beginning and end of each accounting period. Financial transactions represent transactions involving financial assets and liabilities and contain information about the actual acquisition and handling of financial assets and liabilities, i.e. financial transactions do not include changes resulting from changes in prices, classification or structure. These changes are part of other changes in volumes and holdings gains and losses.

NBS uses two kinds of the source data in the process of QFA compilation: internal and external. The internal sources refer to statistics gathered from all entities operating in the financial market and from balance of payment statistics. External sources comprise the SOSR and MFSR data about non-financial corporations, government and households and NPISH. In the QFA compilation process, the main focus is given to time availability, quality and required structure of collected data. The whole process of QFA compilation, transmission to the ECB and presentation on the NBS web site take approximately 120 days. So as to reach a harmony in the dates of publication of GDP data and QFA, NBS plans to shorten the whole process of compilation to T+80 days till the end of 2010.

The analysis of QFA data in this paper was aimed at the changes in financial flows connected with the world financial and economic crisis and with the process of euro adoption in Slovakia. The main conclusion of the analysis is

that in the period of worsened economic and financial conditions the non-financial corporations significantly reduced the amount of trade credits as an important source of financing their domestic and foreign trade operations. Also the amount of loans provided, as another possible source of financing, declined somewhat, but to a lesser extent than trade credits. Connected with the reduction of foreign trade turnover, the net lending/net borrowing of Slovakia continued in deteriorating trend, with slight signs of revival at the beginning of 2009. Besides the non-financial corporations, the entities included in the general government sector contributed to this situation as well, by increasing their long-term indebtedness. Regarding households, the amount of long-term loans, the main source of their financing, started to decline gradually in the second half of 2008, and there are no expectations for a change in this trend in 2009 and 2010. Due to limited possibilities to receive funds from banks and with the aim to keep their living standard unchanged as long as possible, households started to withdraw their investments in money market mutual funds and other mutual funds in 2008.

On 1 January 2009, the Slovak Republic adopted the common European currency. As a part of preparation for the changeover, the households and companies started to deposit their available financial sources to banks in order to make the process of currency changeover as smooth as possible. In the period when the Slovak koruna was in circulation, the domestic banks used to deposit huge amounts of available funds in the central bank. However, with the expected change in the monetary policy implementation system, banks decided to withdraw most of their funds from the central bank and deposit part of them in banks abroad. Subsequently, after the withdrawal of money from central bank by domestic banks, their parent institutions took out their financial sources from their daughter banks in order to partially cover their expenses connected with the crisis and to invest them in different ways.

