Comments on Quarterly Financial Accounts for 3Q 2008

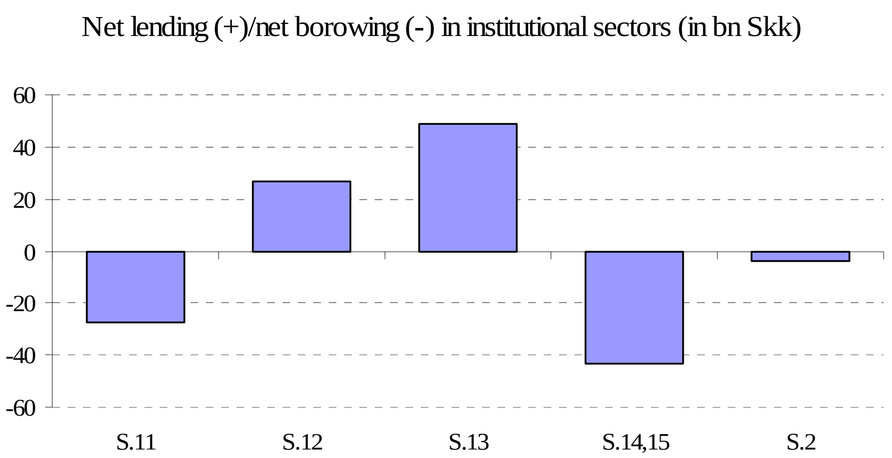
Quarterly Financial Accounts in 3Q 2008

Overall development

Transactions

In the 3Q 2008 the net debtor position of the national economy decreased and, at the same time, the net creditor position of the foreign countries sector[1] fell, with net lending[2] amounting to SKK 5.2 bn (EUR 172.61 bn.). The given favorable development resulted from a considerable increase in financial assets, which was more noticeable than that of financial liabilities. As regards institutional sectors[3], financial transactions in the general government sector (S.13) contributed to the above-mentioned development most significantly, when the difference between the deposit taking and lending was SKK 48.9 bn. (EUR 1.62 bn.). On the contrary, the worst result in the 3Q 2008 was reached by the households sector and non-profit institutions serving households (NPISH) sector, whose creditor position decreased slightly by SKK 43 bn. (by EUR 1.43 bn).

Graph 1



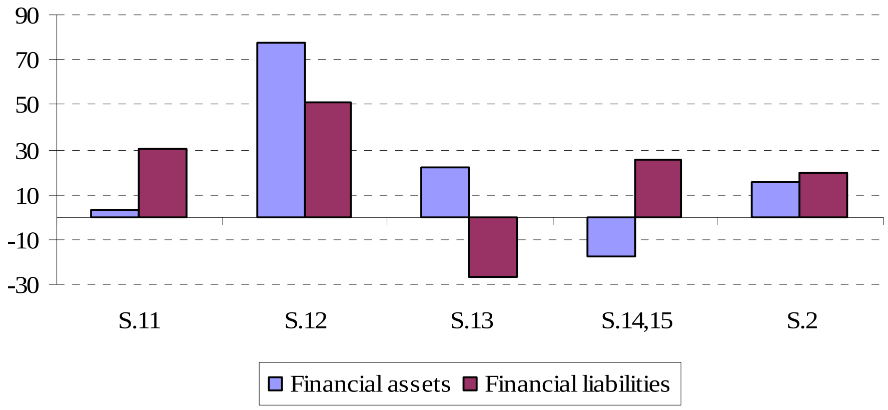
[1] The total of the financial assets and liabilities of the national economy (S.1) and foreign countries (S.2) sectors must equal 0, that is, the national economy's indebtedness has decreased (or the creditor position has risen), and the indebtedness of the foreign countries has automatically increased (or the creditor position has decreased) vis-à-vis the national economy. The given relation is only applicable if we disregard the development in the financial instrument "Monetary gold and SDRs – AF.1", which has been the only instrument reported on the assets side of the national economy only. The distinction between the movement in the indebtedness and the movement in the creditor position depends on the total volume of net equity, i.e. on the development in the stocks of accounts receivables and payables.

[2] Net lending represents the positive difference between the financial assets and the financial liabilities. If the difference is negative, we talk about net borrowings. In the case of data concerning stocks, the difference between the financial assets and liabilities is defined as net financial assets (or net financial equity) which can be either positive or negative.

[3] A detailed breakdown of the institutional sectors with the assigned codes in line with the ESA95 national accounts classification is shown on the page 2

Graph č.2

Financial transactions in institutional sectors (in bn Skk)



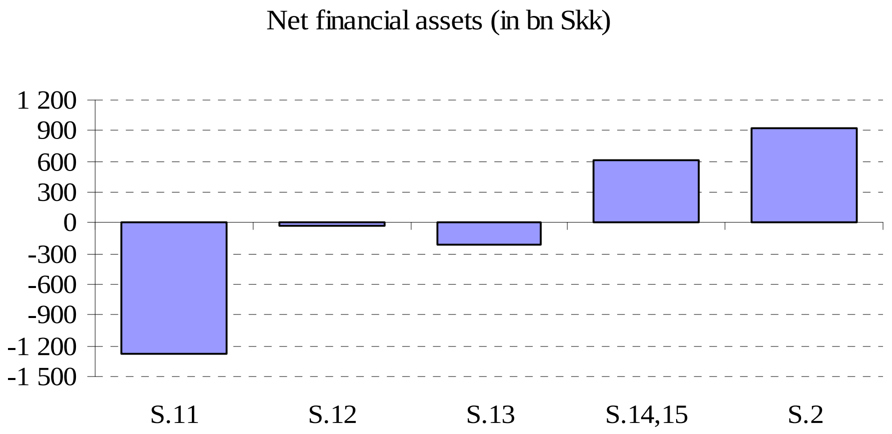
Stocks

The financial transactions made in the 3Q 2008 contributed to an increase in the overall indebtedness of the national economy, with the stocks amounting to SKK 909.1 bn.[4] (EUR 30.18 bn.) as at the end of the quarter. The non-financial institutions continue to be the most indebted sector with net debt of nearly SKK 1,275.4 bn (EUR 42.34 bn.). Besides corporations, the indebted sectors also include the general government sector (SKK 217.5 bn. = EUR 7.22 bn.) and the financial institutions sector, whose indebtedness recorded a value of SKK 29.8 bn. (EUR 989.18 million). The largest net financial assets within the national economy are available in the households (in the amount of SKK 613.7 bn. = EUR 20.37 bn.). The foreign countries sector has recorded a net creditor position for a long time; it was SKK 933.6 bn. (EUR 30.99 bn.) as at the end of 3Q 2008[5].

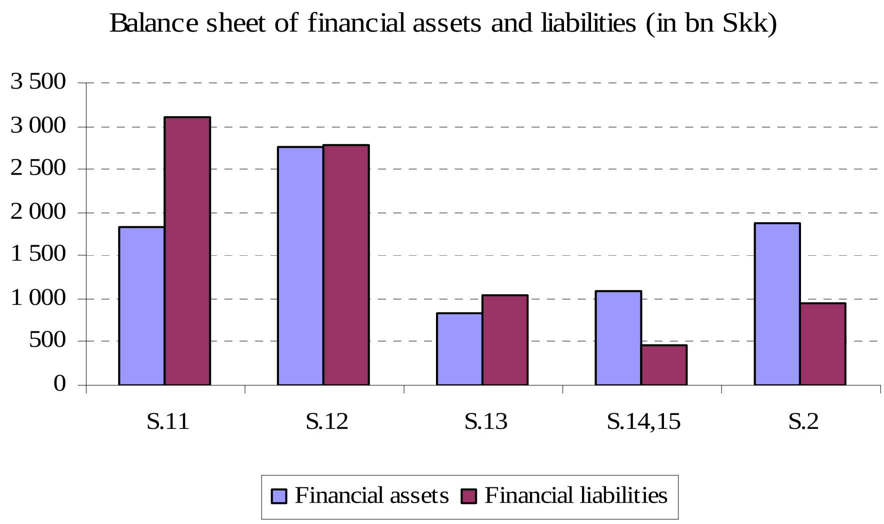
[4] The said total indebtedness of the national economy is considerably lower compared to the data published in the comments on quarterly financial accounts for the 2Q 2008. In January 2009, data for the 2Q 2008 were revised downwards (due to new estimates of the sector breakdown of the financial instrument F.7 Other accounts receivable and payable) and thus the indebtedness was reduced considerably.

[5] The difference between the net financial debt of the national economy (SKK 909.1 bn) and the net creditor position of the foreign countries (SKK 933.6 bn = EUR 30.99) is represented by the item monetary gold and SDRs amounting to SKK 24.5 bn (EUR 813.25 bn.).

Graph č. 3



Graph č. 4



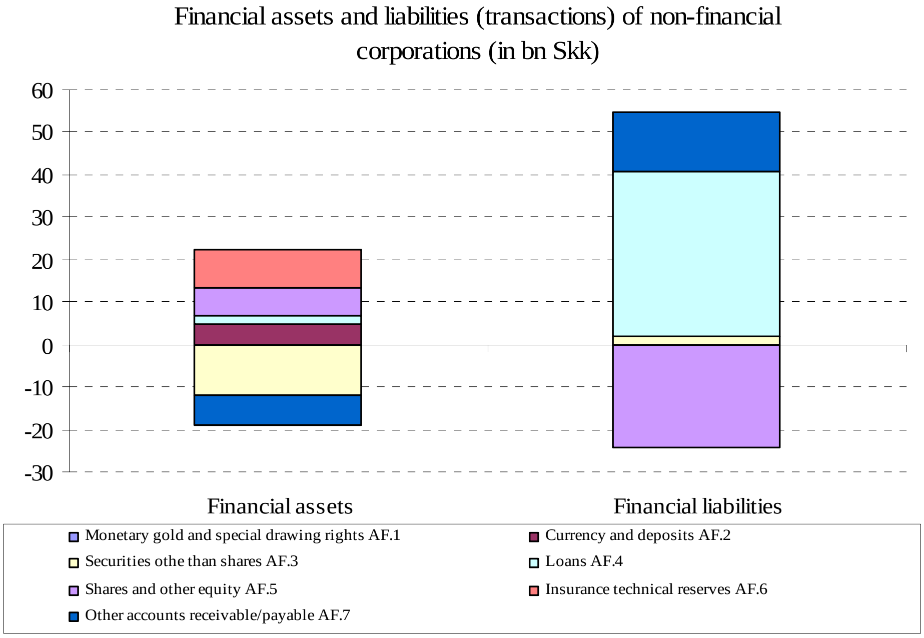
Quarterly financial accounts (transactions) by individual institutional sectors

S.11 Non-financial institutions

Transactions

The unfavorable development taking the form of an increase in the non-financial institutions' indebtedness resulted, in particular, from a growth of financial liabilities, with the major increase having been recorded with long-term loans and trade credits and advances. The decrease in the amount of shares issued to non-residents had a dampening effect on the growth in the accounts payables. The growth of net borrowings was also due to a slower growth of financial assets as compared to the growth of financial liabilities, which was primarily due to a decrease in long-term debt securities owned and other accounts receivable.

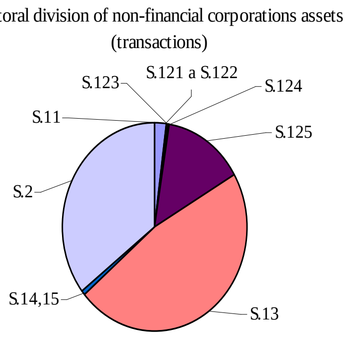
Graph 5

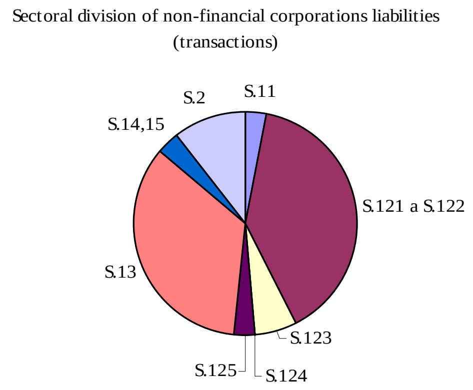


In terms of the sector breakdown, the non-financial institutions recorded a different structure of financial transactions on the assets side as compared to financial transactions on the liabilities side. On the assets side, the general government and foreign countries sector has the largest share. However, those transactions had opposite signs, because there was a considerable decrease in assets towards the general government, while the assets (particularly shares issued by non-residents) increased towards foreign countries. On the liabilities side, financial transactions with entities of monetary financial institutions and general government played the most important role.

Graph 6

Graph 7

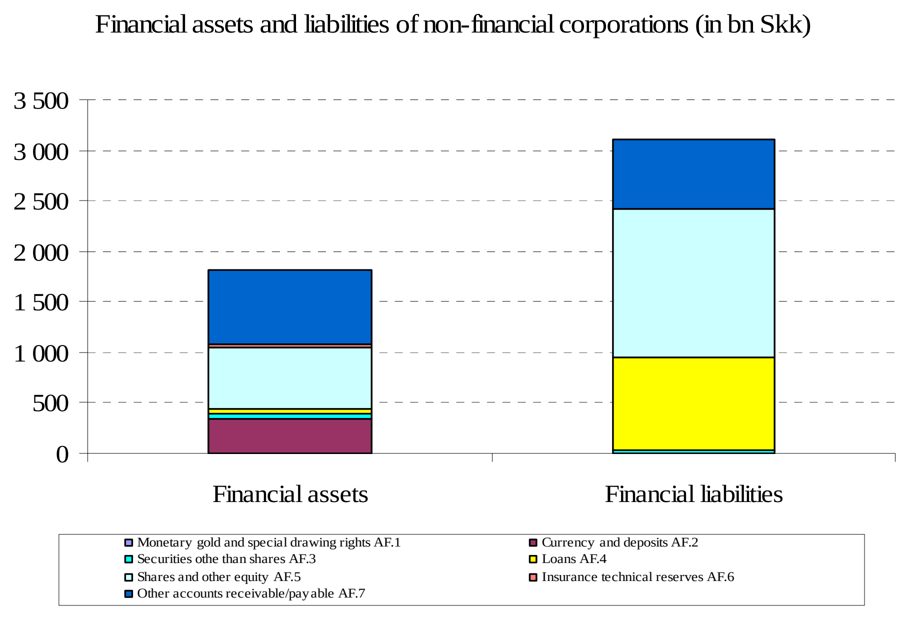




Stocks

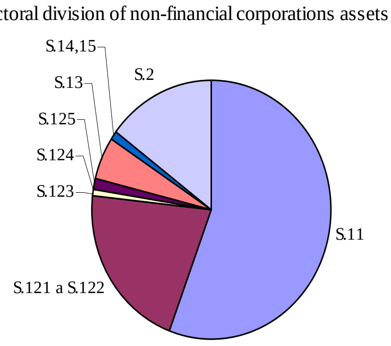
The main finance sources of the non-financial corporations have included shares, financial loans, and other accounts payable for a long time. The corporations use the said sources for investments, in particular in other accounts receivable, shares, and deposits.

Graph 8

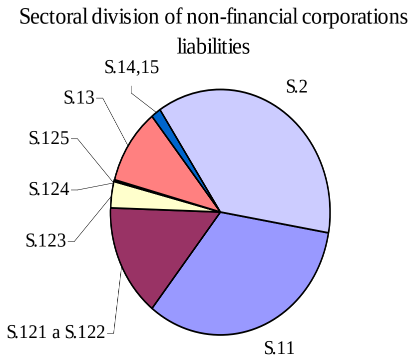


The current stocks of the issued equity securities of the non-financial corporations are held, within the national economy, especially in the non-financial corporations sector (38.3%) and by the central government entities (13.6%). Nearly 45% of the local corporations' shares are held by foreign entities. Within the loan financing of corporations, loans from Slovak banks and leasing and factoring corporations account for 60.8 %, loans from abroad make up almost 34%. The main debtors of local corporations in the individual financial instruments are entities in the local non-financial corporations (55.4%), financial institutions (20.8%) and foreign countries sector (14.7%).

Graph 9



Graph10

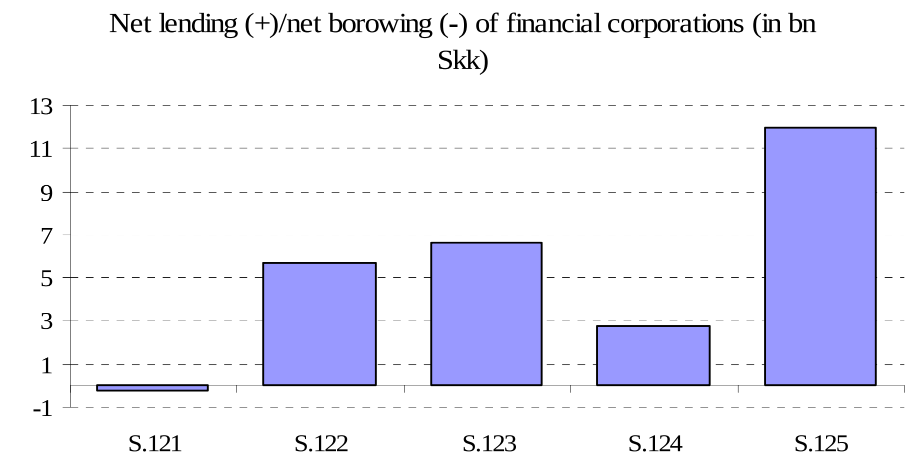


S.12 Financial institutions

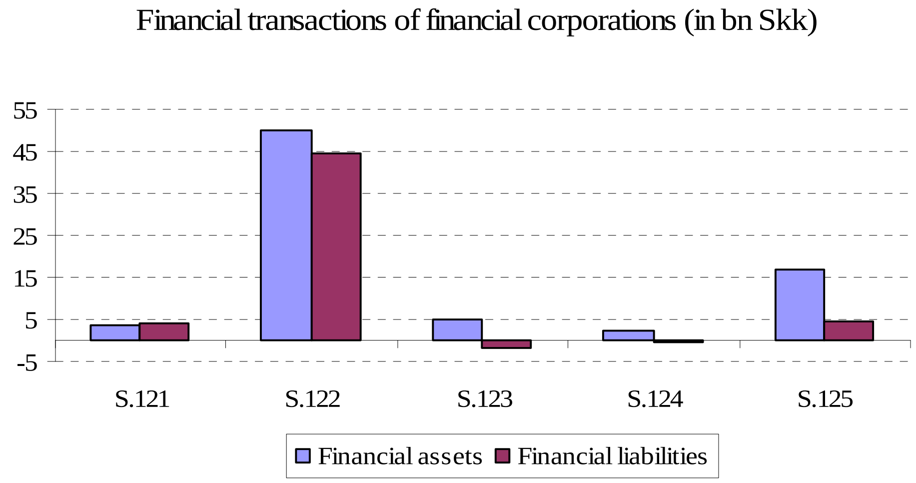
Transactions

Unlike the non-financial corporations, the sector S.12 Financial institutions recorded new lending in the 3Q 2008. This development was the result of decreasing indebtedness of all sub-sectors of financial institutions, particularly the sub-sector S.125 Insurance corporations and pension funds, except The central bank (S.121).

Graph 11



Graph 12



Financial transactions in insurance corporations and pension funds had the most significant impact on the development of the financial sector. The most significant increase in assets as compared to the increase in liabilities occurred within those transactions. On the assets side, long-term debt securities and insurance technical reserves increased the most. On the liabilities side, the development was influenced particularly by the insurance technical reserves, within which accounts payable in life insurance fell and liabilities in the item Prepayments of insurance premiums and reserves for outstanding claims increased. In terms of the sector breakdown of transactions, insurance corporations and pension funds bought government bonds as well as foreign debt securities within lending operations. Within the insurance technical reserves, insurance corporations increased the stock of reinsurance in foreign corporations. On the liabilities side, the financial transactions were subdivided primarily between non-financial corporations, households and monetary financial institutions.

Besides the insurance corporations and pensions funds, the entities of sector S.123 Other financial intermediaries (leasing, factoring, and hire purchase corporations, and long-term open-end mutual funds[6]) and sector S.122 Other monetary financial institutions and sector S.124 Financial auxiliaries contributed to positive financial transactions. In the case of positive transactions of other financial intermediaries (OFI) and financial auxiliaries, the assets increased and the liabilities decreased at the same time, because OFI granted new short-term loans to corporations and households and financial intermediaries increased particularly their deposits with banks. The Other monetary financial institutions increased their assets more considerably than their liabilities, the lending operations having been dominated by loans to households, corporations and foreign countries. As for the liabilities, deposits from households and central government were the item to increase the most.

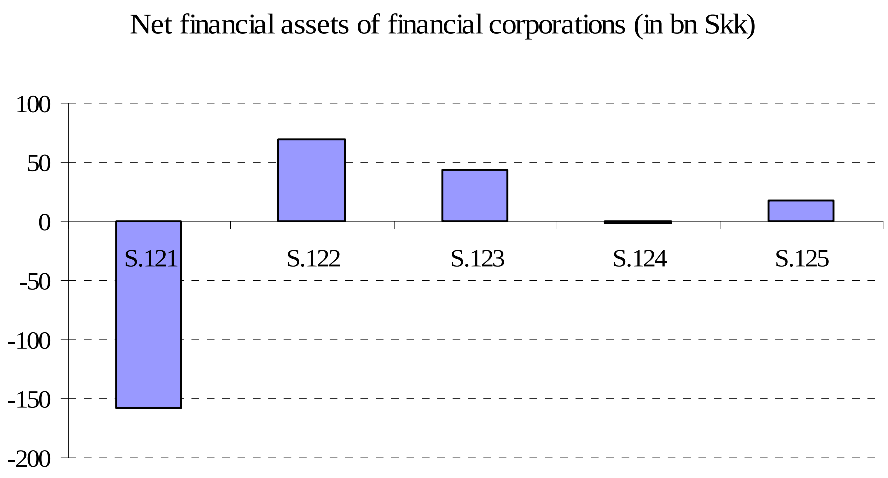
The central bank recorded negative financial transactions, and hence an increase in its debtor position. The key factor of the said negative development was an increase in deposits from commercial banks. Deposits and loans represented the most important transaction on the assets side, the deposits and loans having recorded a decline.

Stocks

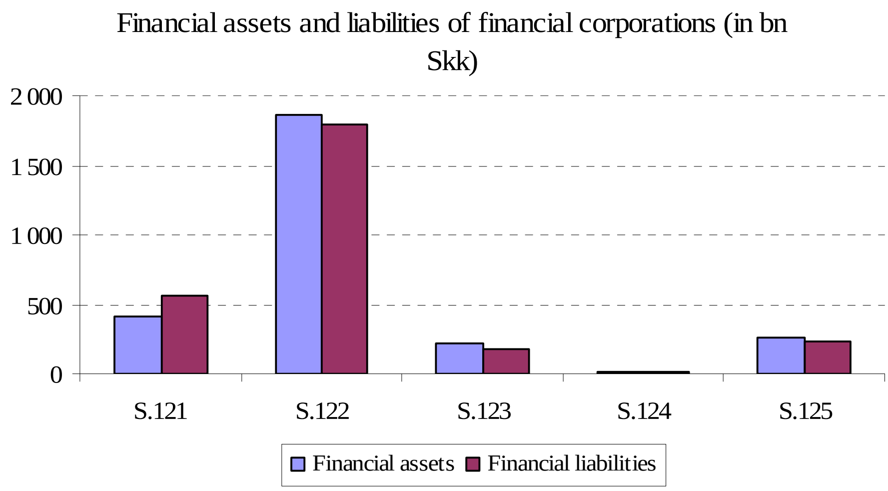
Mainly the position of the central bank and partly of the sub-sector S.124 Financial auxiliaries contributed to the overall indebtedness of the financial sector. The sub-sectors S.122 Other monetary financial institutions, S.123 Other financial intermediaries and S.125 Insurance corporations and pension funds preserved the net creditor position

Graph 13

[6] According to the money and banking statistics methodology, mutual funds are broken down into the money market mutual funds (short-term) which are included in the sector S.122 Other monetary financial institutions, and into the mutual funds other than money market funds (long-term) which are included in the sector S.123 Other financial intermediaries.



Graph 14



Following their primary mission – to receive deposits and extend loans – other monetary financial institutions invest most of their money in long-term loans. In addition, a significant portion of the available sources is deposited with the NBS and other commercial banks in the form of repo transactions and deposits, respectively. Deposits play a predominant role on the liabilities side (almost 81 % of all liabilities). In terms of the sector breakdown, the most important clients of the banks – in addition to the financial institutions themselves - on the assets side include households and non-financial corporations. On the liabilities side, these are mostly the households, foreign entities and non-financial corporations. The general government sector is mainly represented in the lending operations of the banks relating to government bonds. The foreign countries sector makes use especially of the possibility of opening time accounts with banks, while its share in this financial instrument accounts for approximately 21 %.

The structure of the invested financial instruments and sectors is based on the main function of sector S.123 Other financial intermediaries; it implies that it is focused on the extension of loans to non-financial corporations and households, and a part of the resources is also invested in the government bonds. The main source of income is, in particular, loans from local and foreign banks and mutual fund units.

The sector S.124 Financial auxiliaries has the lowest impact within the financial institutions in terms of the managed assets and liabilities. The majority of its available financial resources received from local banks in the form of loans and from foreign holders of shares is invested in debt and equity securities.

On the contrary, the impact of the sector S.125 Insurance corporations and pension and supplementary pension funds on the financial market has become stronger and stronger. The main creditor of the given sector is the households that invest in life insurance and in the second and third pension pillars. The money thus obtained is invested in national and foreign debt, as well as in deposits in local banks.

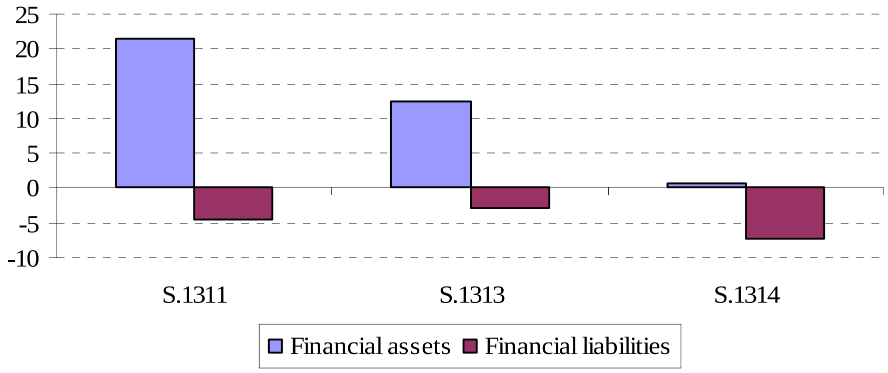
S.13 General government

Transactions

The general government sector S.13 contributed most to the decrease of the overall indebtedness of the local economy. Within the individual sub-sectors, the decreasing indebtedness of the sub-sectors S.1311 Central government and S.1313 Local government represented the most considerable contribution to this development.

Graph 15

Financial transactions of general government (in bn Skk)

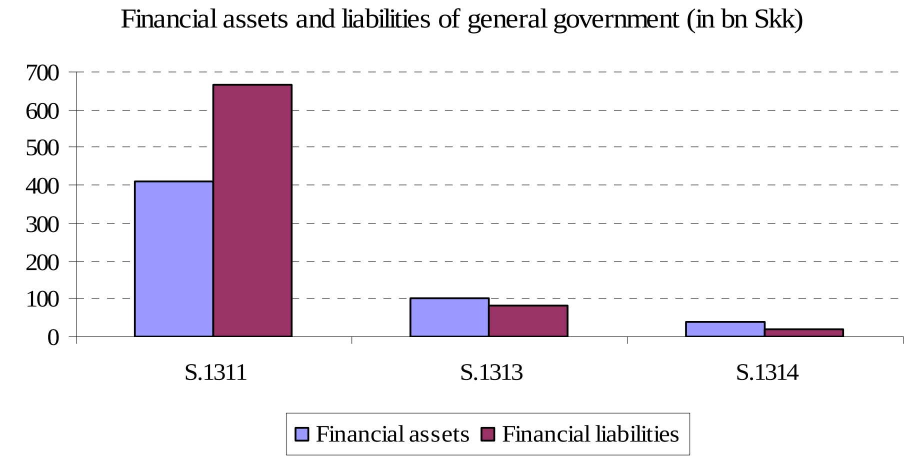


The main reason of the growth of lending transactions in the central government sub-sector were new deposits with local commercial banks and short-term loans granted to non-financial corporations. On the liabilities side, there was above all a decrease in other financial liabilities of the government to households and corporations. The local government recorded an increase in lending transactions in other accounts receivable to corporations and households and a decrease in liabilities resulting from trade credits to corporations. The sub-sector S. 1314 Social security funds recorded the relatively lowest net lending and thereby an increase in its overall creditor position.

Stocks

The overall debtor position of the general government sector is mainly determined by the development in the central government sub-sector. The other two general government sub-sectors S.1313 Local government and S.1314 Social security funds recorded a net creditor position.

Graph 16



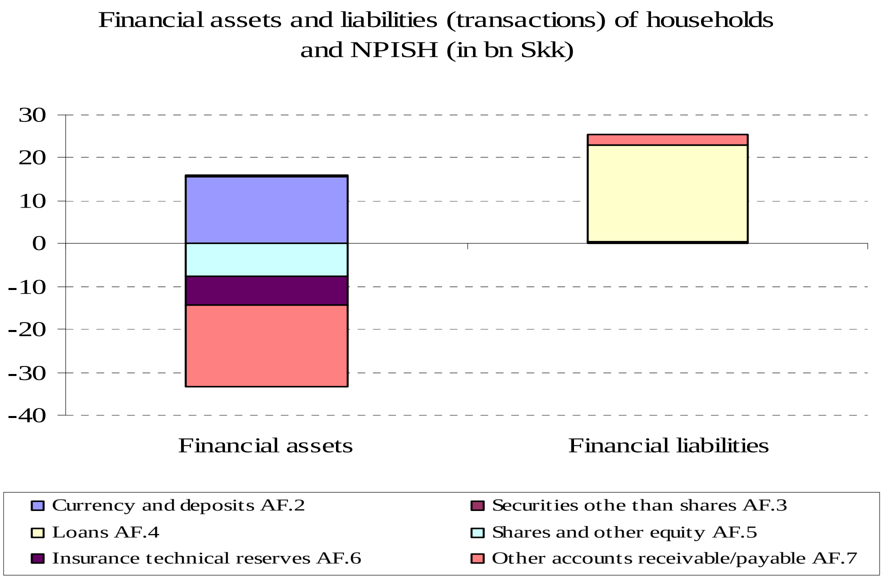
The major financial asset of the central government entities is the shares issued by the local non-financial corporations. The government entities have approximately 20% of their assets deposited with the banks in the form of time deposits and 13 % are deposited in the form of other accounts receivables. The central government allocates the majority of the liabilities to the long-term debt securities, of which one third is held by foreign owners.

S.14, 15 Households and NPISH

Transactions

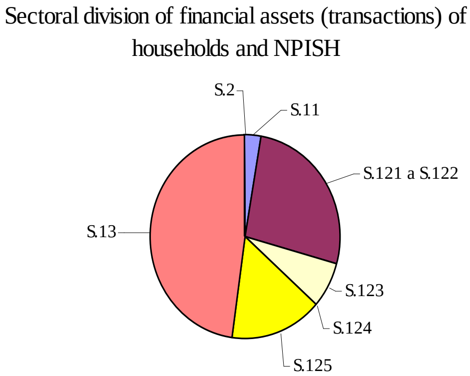
In the 3Q 2008, the households and NPISH sectors considerably decreased their overall creditor position in that the stock of their financial assets decreased and their financial liabilities increased at the same time. The greatest share in the asset decline was held by other accounts receivable of citizens and savings in mutual funds and in life insurance. On the liabilities side, the stock of long-term loans received increased and accounts payable resulting from operations of households and NPISH with financial derivatives also increased moderately.

Graph 17

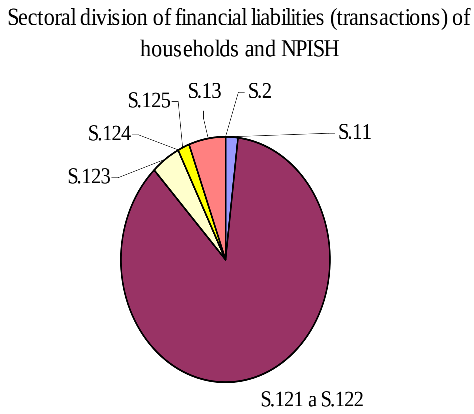


The nature of the financial transactions is also indicative of the sector breakdown of the households and NPISH relationships. The largest share on the assets side was held by transactions with general government entities and with other monetary financial institutions. Commercial banks have traditionally played a key role in borrowing operations.

Graph 18



Graph 19

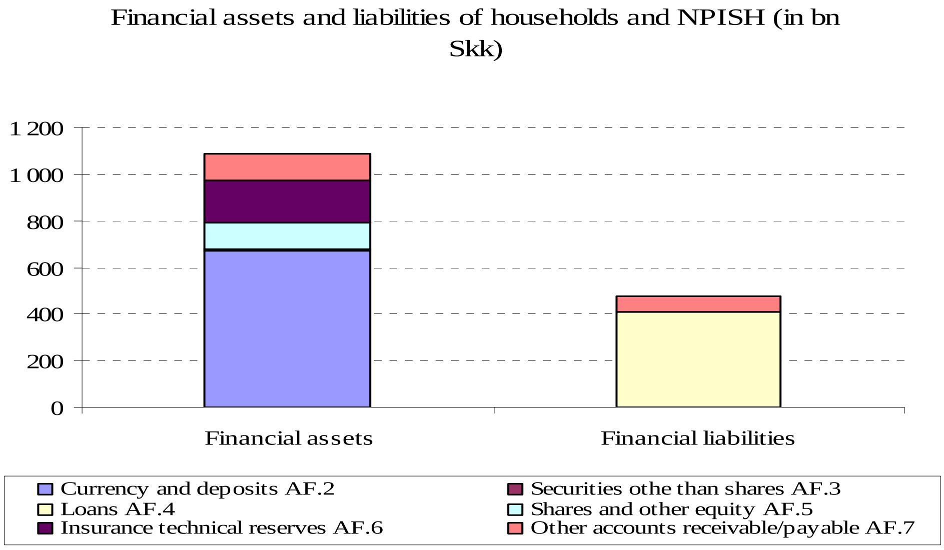


Stocks

The households and NPISH sector is are the only sectors in the Slovak economy characterized by a net creditor position. Almost two thirds of the available sources are kept in the form of deposits, and a part (approximately 17%) is invested in the pension system and life insurance. Another relatively significant share is represented by investments in mutual funds. Nearly 90

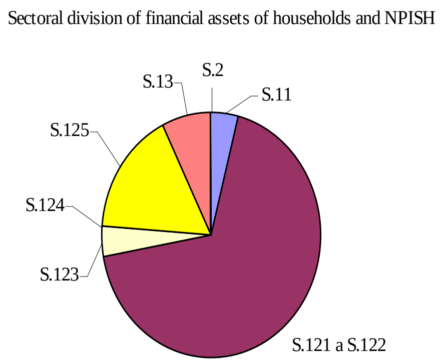
% of all liabilities consist of the borrowings, especially of the long-term ones. The remaining portion of the accounts payables comprises other accounts payables, of which the payables due to the central government (taxes and levies) account for the major share.

Graph 20

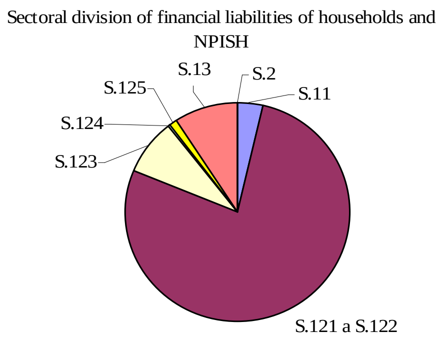


The sector breakdown of the financial receivables and payables has a structure similar to that of the transactions. The most important partner of the households and NPISH is the sector S.121 and S.122 Monetary financial institutions; a significant share has recently started to be held by the sector S.125 Insurance corporations and pension and supplementary pension funds.

Graph 21



Graph 22



S.2 Foreign countries

Transactions

The overall decrease in the creditor position of the foreign countries sector in respect of the national sectors resulted from the fact that the increase in liabilities exceeded the increase in assets. Deposits from local financial institutions and equity securities held by non-financial corporations made the primary contribution to the borrowing operations.

The decrease in the volume of issued short-term debt securities held by local financial institutions had a dampening effect on the increase in liabilities. As for assets, there has been above all an increase in the volume of financial and trade credits to non-financial corporations, as well as long-term debt securities issued by local financial institutions.

Stocks

The foreign countries sector is the net creditor in respect of the Slovak economy, while approximately 35% of all assets are represented by shares of the local non-financial corporations and a further 15% consist of loans to non-financial corporations. Deposits made with the Slovak banks and debt securities issued by the central government are an important asset of the foreign countries sector. The most important payables of the foreign countries due to the national economy (about 52%) are the debt securities, mainly in the hands of the financial institutions, and the trade credits (about 20%) extended to non-financial corporations.