

Comments on Quarterly Financial Accounts for 4Q 2008

The ESA95 system distinguishes the following institutional sectors and sub-sectors:

Non-financial corporations	S.11
Financial corporations	S.12
The Central Bank	S.121
Other monetary financial institutions	S.122 (commercial banks and money market mutual funds)
Other financial intermediaries	S.123 (other mutual funds, leasing, factoring, and hire purchase)
Financial auxiliaries	S.124 (DSS, DDS, OCP, BCP, CD, SPF) ¹
Insurance corporations and pension funds	S.125
General government	S.13
Central government	S.1311
Regional government	S.1312
Local government	S.1313
Social security funds	S.1314
Households	S.14
Non-profit institutions serving households (NPISH)	S.15
Foreign countries (non-residents)	S.2
European Union (EU)	S.21
EU Member States	S.211
European Monetary Union Member States (EMU) and EU institutions	S.212
Rest of the World and international organizations	S.22

The ESA95 system distinguishes the following financial instruments:

Monetary gold and special drawing rights	(A)F.1 ²
Monetary gold	(A)F.11
Special drawing rights (SDRs)	(A)F.12
Currency and deposits	(A)F.2
Currency	(A)F.21
Transferable deposits	(A)F.22
Other deposits	(A)F.29
Securities other than shares	(A)F.3
Securities other than shares and financial derivatives	(A)F.33
Short-term	(A)F.331
Long-term	(A)F.332
Financial derivatives	(A)F.34
Loans	(A)F.4
Short-term	(A)F.41
Long-term	(A)F.42
Shares and other equity	(A)F.5
Shares and other equity, excluding mutual funds shares	(A)F.51
Quoted shares	(A)F.511
Unquoted shares	(A)F.512
Other equity	(A)F.513
Mutual funds shares	(A)F.52
Insurance technical reserves	(A)F.6
Net equity of households in life insurance and pension funds reserves	(A)F.61
Net equity of households in life insurance reserves	(A)F.611
Net equity of households in pension funds reserves	(A)F.612
Prepayments of insurance premiums and reserves for outstanding claims	(A)F.62
Other accounts receivable and payable	(A)F.7
Trade credits and advances	(A)F.71
Other	(A)F.79

¹ PMC – pension management companies, SPC – supplementary pension companies, SD – security dealers, SE – stock exchange, CD – central depository, MFMC – mutual fund management companies

² Stocks and transactions have the AF code and the F code, respectively

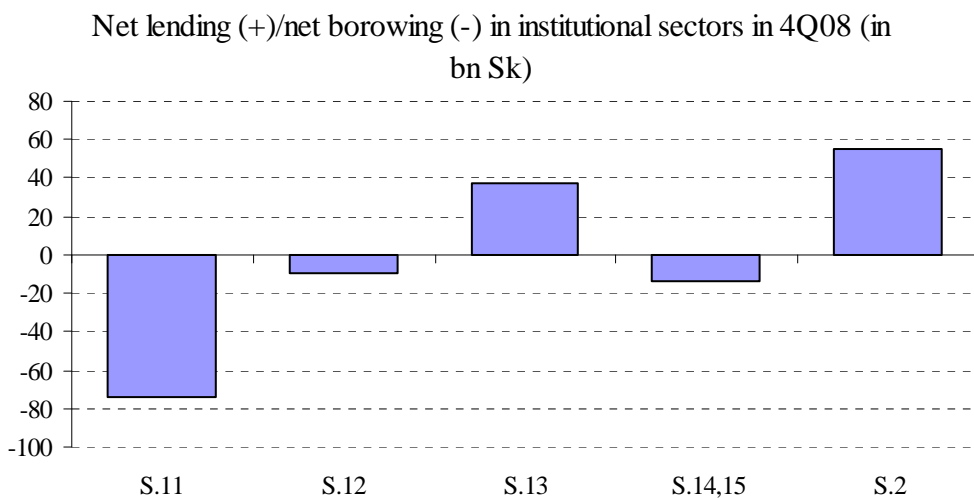
Quarterly Financial Accounts in 4Q 2008

Overall development

Transactions

In the 4Q 2008, the net debtor position of the national economy increased and, at the same time, there was an increase in the net creditor position of the foreign countries sector³, with net borrowings⁴ amounting to SKK 58.8 bn (EUR 1.95 bn). The given unfavourable development resulted from a reduction in financial assets on the one hand, and from the growth of financial liabilities on the other hand. As regards institutional sectors⁵, financial transactions in the non-financial institutions sector (S.11) contributed to the above-mentioned development most significantly, when the difference between the positive and negative transactions was SKK -73.7 bn (EUR -2.45 bn). On the contrary, the best result in the 4Q 2008 was obtained by the general government sector (S.13) whose debtor position decreased by SKK 37.7 bn (EUR 1.25 bn).

Graph 1



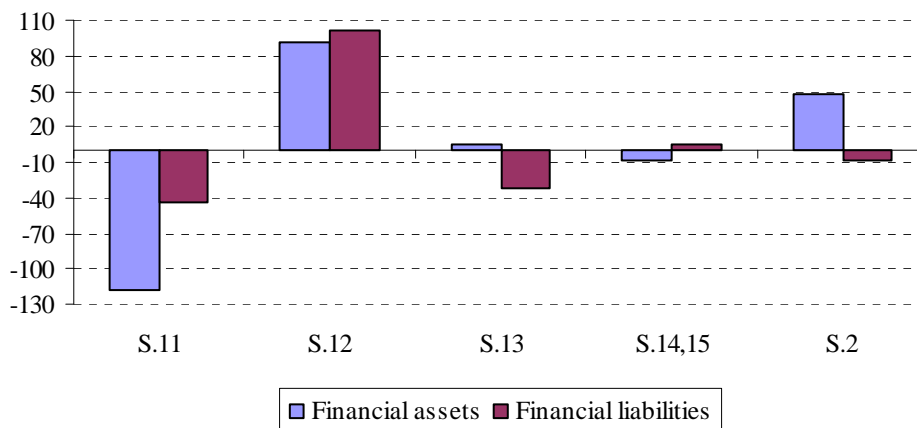
³ The total of the financial assets and liabilities of the national economy (S.1) and foreign countries (S.2) sectors must equal 0, that is, if the national economy's indebtedness has decreased (or the creditor position has risen), the creditor position of the foreign countries has automatically decreased (or the indebtedness has risen) 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

⁴ Net lending represents the negative difference between the financial assets and the financial liabilities. If the difference is positive, 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

⁵ A more detailed classification of institutional sectors with assigned codes in compliance with the system of national accounts ESA95 is given on page 2

Graph 2

Financial transactions in institutional sectors in 4Q08 (in bn Sk)

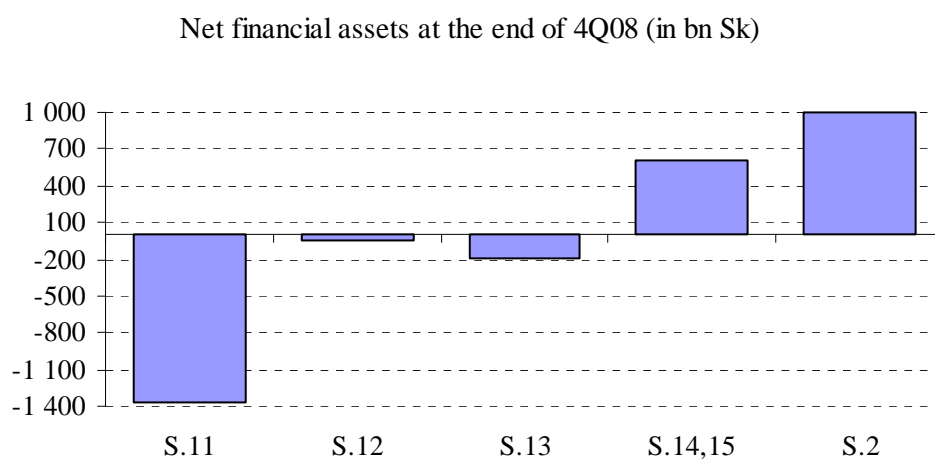


Stocks

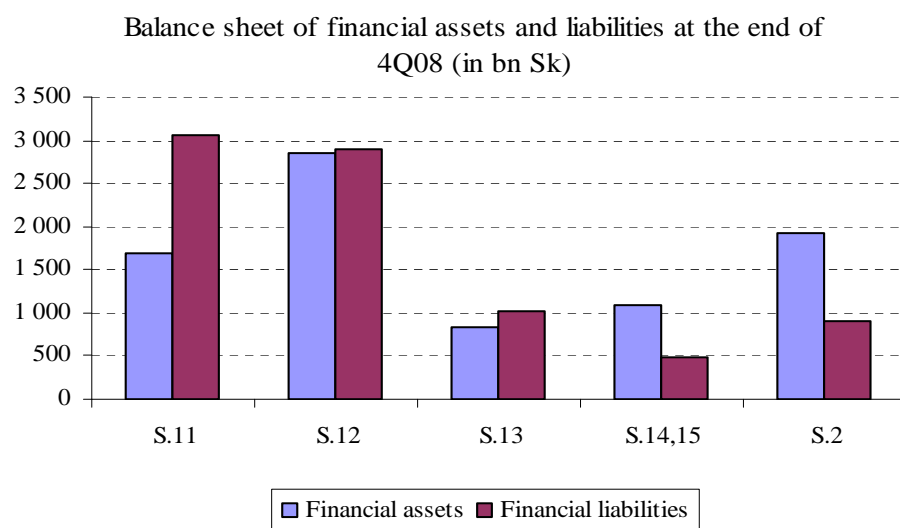
The financial transactions made in the 4Q 2008 contributed to an increase in the overall indebtedness of the national economy, with its volume amounting to SKK 983.2 bn (EUR 32.64 bn) at the end of the quarter. The non-financial institutions sector continue to be the most indebted sector with net debt of SKK 1 359.9 bn (EUR 45.14 bn). Besides corporations, the indebted sectors also include the general government sector (in an amount of SKK 195.4 bn = EUR 6.49 bn) and the financial institutions sector with its indebtedness of SKK 40.9 bn (EUR 1.36 bn). The largest net financial assets within the national economy are available in the households (SKK 613 bn = EUR 20.35 bn). The foreign countries sector has recorded the net creditor position for a long time; it was SKK 1,005.1 bn⁶ (EUR 33.36 bn) as at the end of 4Q 2008.

⁶ The difference between the net financial debt of the national economy (SKK 983.2 bn = EUR 32.64 bn) and the net creditor position of the foreign countries (SKK 1,005.1 bn = EUR 33.36 bn) is represented by the monetary gold and SDRs amounting to SKK 21.9 bn (EUR 726.95 mil)

Graph 3



Graph 4



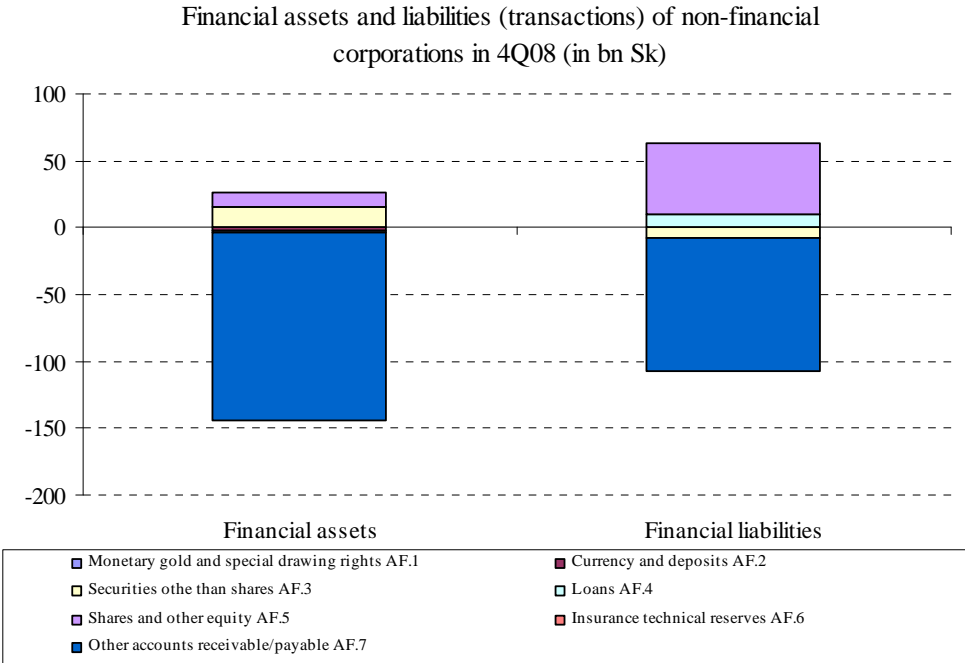
Quarterly financial accounts by individual institutional sectors

S.11 Non-financial institutions

Transactions

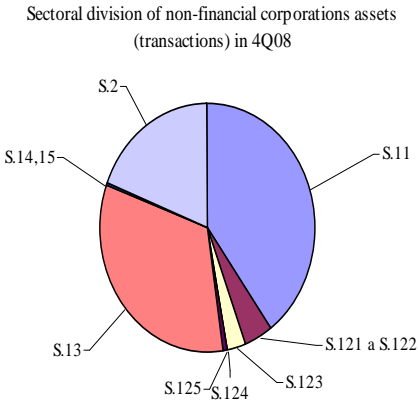
The unfavourable development in the increase of the non-financial institutions' indebtedness resulted, in particular, from a decline of financial assets being ahead of the decline of financial liabilities, when trade credits and advances played a predominant role on both sides of the balance. The said development can be explained by a significant limitation of business relations among companies as the effect of the first negative results of the global economic crisis in Slovakia. Short-term loans, the currency (withdrawal from circulation prior to the euro introduction) and other deposits also contributed to the reduction of assets. On the liabilities side, corporations also decreased their liabilities resulting from the issue of long-term and short-term debt securities.

Graph 5

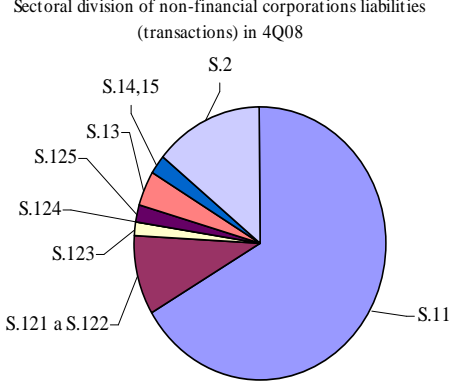


In terms of the sectoral breakdown, the decline of business relations (both active and passive) appeared mainly among non-financial corporations in their mutual relations, and also between corporations and central government entities, and between corporations and foreign entities. The general government and the foreign countries sectors contributed considerably to the growth of liabilities as well (and thus to a slower reduction of total liabilities in comparison with a reduction of assets) of the local corporations resulting from the issue of equity securities.

Graph 6



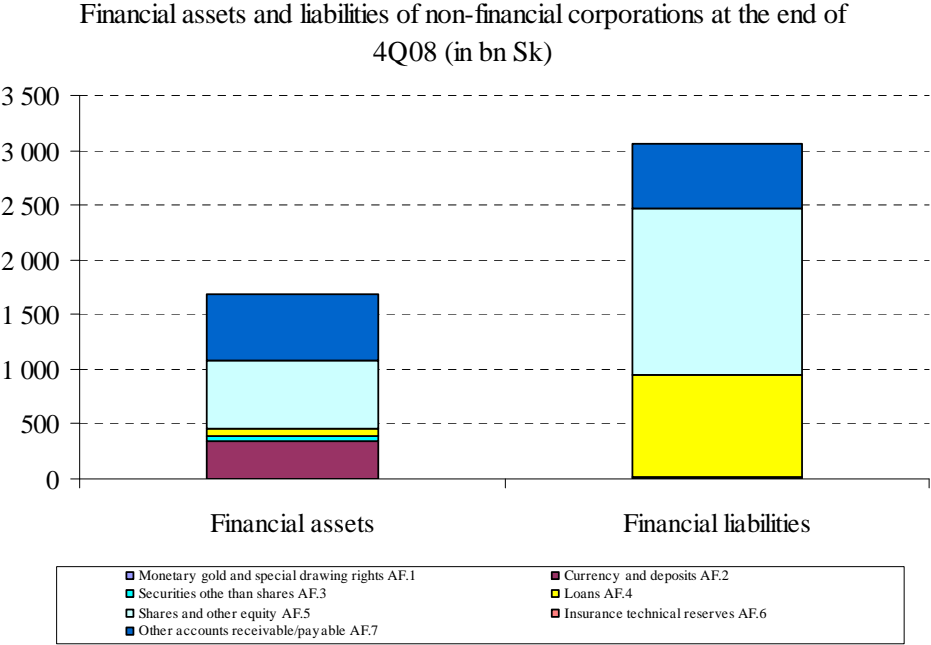
Graph 7



Stocks

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

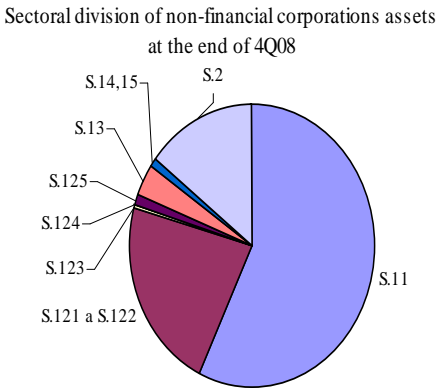
Graph 8



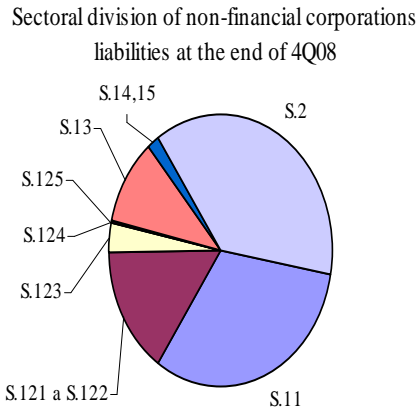
The current stocks of the issued equity securities of the non-financial corporations are held, within the national economy, especially in the non-financial corporations sector (37.3%) and

by the central government entities (17.8%). Nearly 45% of the local corporations' shares are held by foreign entities. Within the loan financing of corporations, loans from the Slovak banks and leasing and factoring corporations account for 60.7%; loans from foreign countries account for almost 33%. The main debtors of the local corporations in individual financial instruments are entities from the non-financial corporations sectors (57%), other monetary financial institutions (21.1%) and foreign countries (14.6%).

Graph 9



Graph10

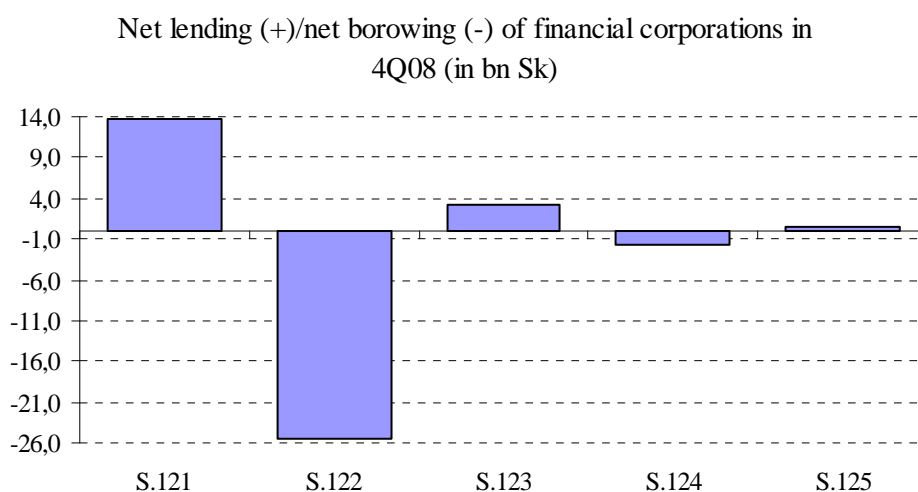


S.12 Financial institutions

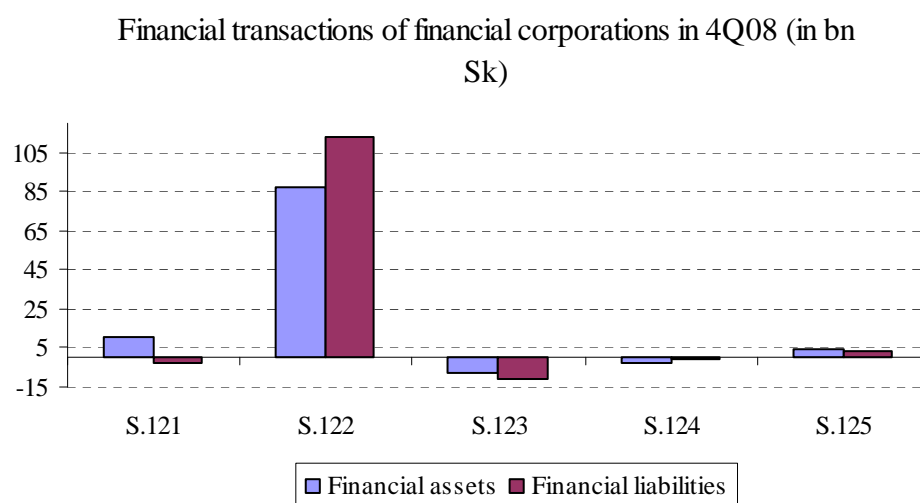
Transactions

Similarly to the non-financial corporations, also the sector S.12 financial institutions recorded net borrowings in the 4Q 2008. The given development resulted mainly from the declining creditor position of subsector S.122 other monetary financial institutions and from the rising indebtedness of subsector S.124 financial auxiliaries. On the contrary, the Central Bank (S.121) decreased its debtor position.

Graph 11



Graph 12



Financial transactions in other financial institutions had the most significant impact on development in the financial sector. A considerable increase of liabilities in comparison with the increase of assets was recorded. On the assets and liabilities side, in relation to withdrawal of the currency from circulation prior to the euro introduction, transferable and other deposits increased most. In addition to this, on the active side there was an increase in the amount of lending. In terms of the sectoral breakdown, the banks accepted deposits mainly from households, non-financial corporations and foreign entities. Time frame of the given deposits differed among the above sectors, as corporations and foreign entities deposited free resources

for a short period, whereas households preferred long-term deposits. Commercial banks deposited a large portion of such obtained financial resources in the Central Bank.

Besides Other monetary financial institutions, also entities of the subsector S.124 Financial auxiliaries contributed to negative financial transactions. The said entities increased their overall indebtedness mainly as a result of a decline in the financial assets, when they recorded deposits with banks and other receivables to the Central Bank lower than in the preceding quarter.

Positive financial transactions and thus a decrease in the overall debtor position was recorded by the Central Bank, as on the assets side they increased the holdings of foreign securities, and on the liabilities side, the volume of issued securities against commercial banks decreased.

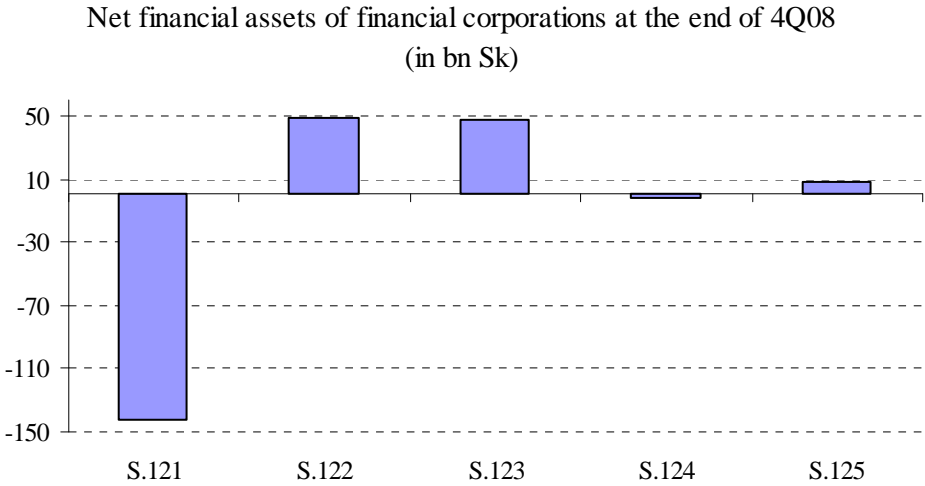
An increase in its creditor position was obtained by entities of the subsector S.123 Other financial intermediaries (leasing, factoring, and hire purchase corporations, and long-term open-end mutual funds⁷) and Insurance corporations and pension funds. The key factor of the above favourable development in the case of Other financial intermediaries was a decline in liabilities to households resulting from the issue of mutual fund units. Insurance and pension management companies improved their overall balance by adding government bonds in the portfolio of debt securities and by the reduction of other liabilities to commercial banks.

Stocks

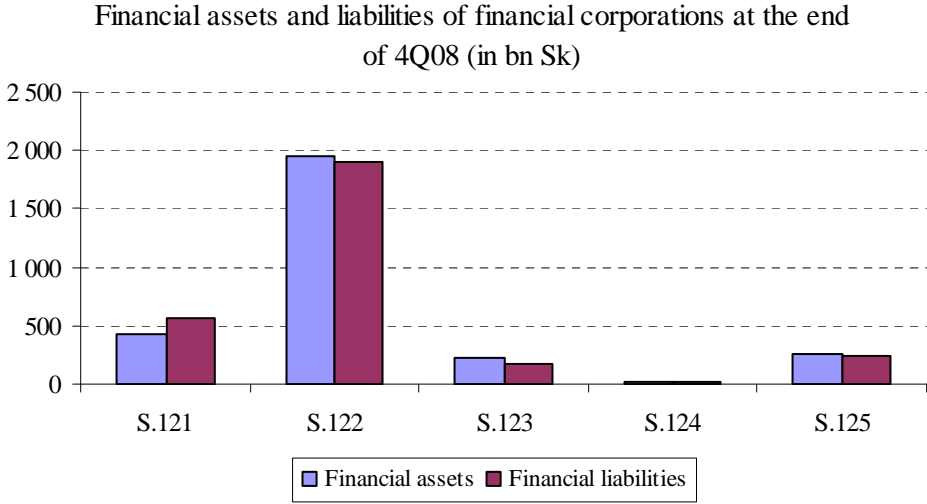
Primarily the Central Bank's position and partially the position of the subsector S.124 Financial auxiliaries contribute to the overall indebtedness of the financial sector. The net creditor position was maintained by subsectors S.122 Other monetary financial institutions, S.123 Other financial intermediaries and S.125 Insurance corporations and pension funds.

⁷ 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 13



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 in the form of repo transactions and government bonds, respectively. Deposits play a predominant role on the liabilities side (nearly 83% of all liabilities). In terms of the sectoral breakdown, the most important clients of the banks, on the assets side, besides financial institutions themselves are also households and non-financial corporations. On the liabilities side, the most important clients are predominantly 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 30%.

The structure of the invested financial instruments and sectors is based on the main function of the 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, the loans from local and foreign banks and mutual fund units and loans.

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 deposits and equity securities.

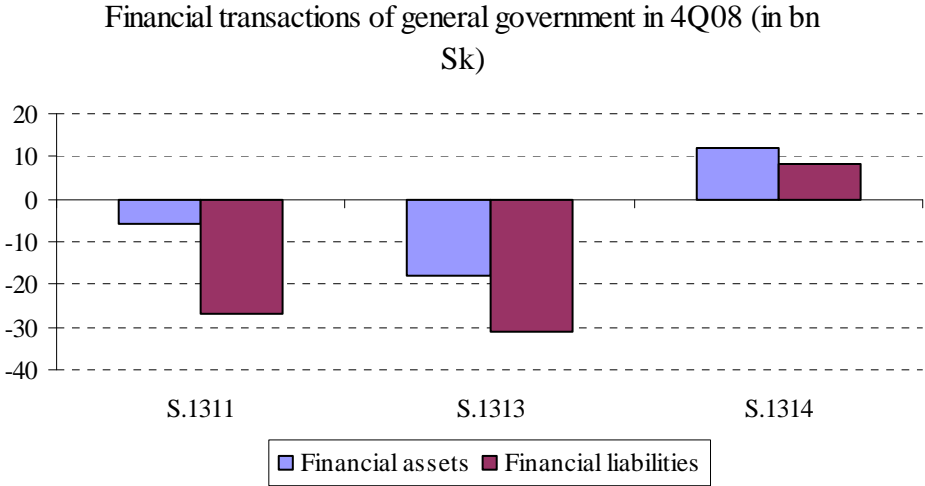
On the contrary, the impact of the sector S.125 Insurance corporations and pension and supplementary pension funds on the financial market has become stronger and stronger. The main creditor of the given sector is the households that invest in life insurance and in the second and third pension pillars.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

S.13 General government

Transactions

Positive financial transactions in the sector S.13 General government dampened an increase in the overall indebtedness of the national economy. Within particular subsectors, decreasing indebtedness of the subsector S.1311 Central government, and the increasing creditor position of the subsectors S.1313 Local government and S.1314 Social security funds contributed most markedly to the above development.

Graph 15

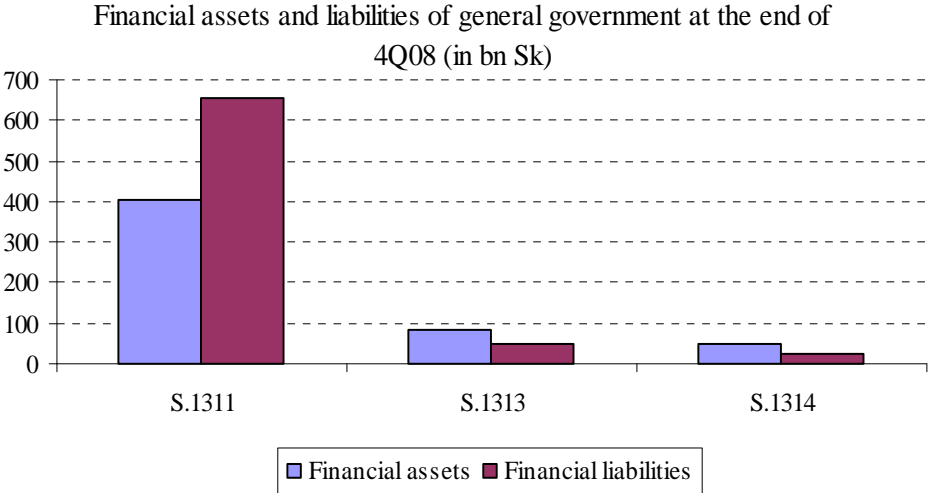


The main reason for positive transactions in the central government subsector was a considerable decline in other liabilities (taxes, social allowances, etc.) to households and non-financial corporations and also of trade credits to corporations. Like the central government, the local government reached a more significant decline in the liabilities in comparison to the decrease in the assets, and trade credits to corporations and other liabilities to households decreased most. The subsector S.1314 Social security funds recorded relatively the lowest net lending, and thus an increase in its credit position.

Stocks

The overall debtor position of the general government sector is affected mainly by developments in the central government subsector. The other two subsectors of the General government, S.1313 Local government and S.1314 Social security funds recorded the net creditor position.

Graph 16



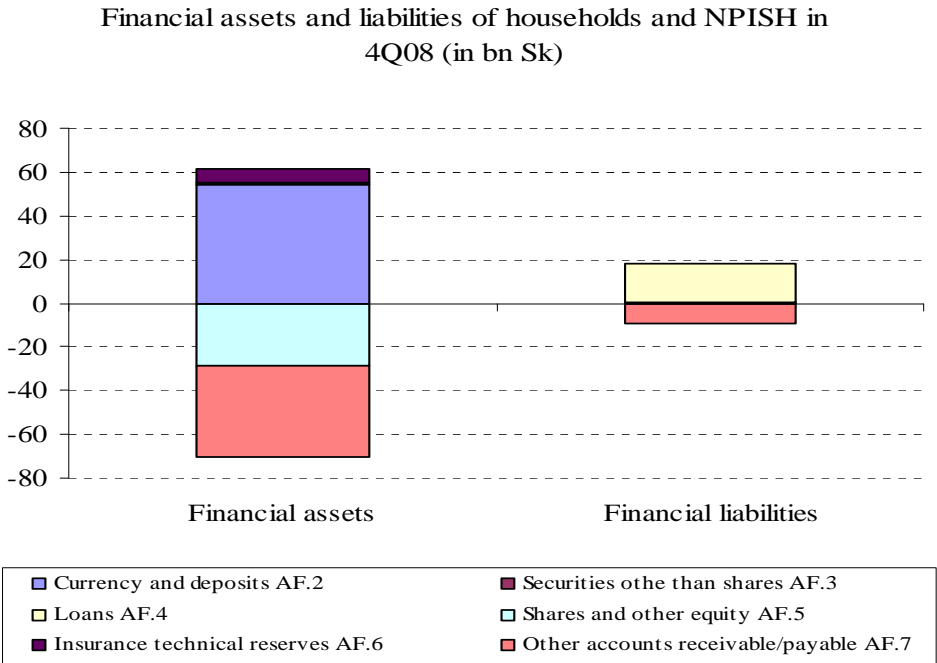
The major financial asset of the central government entities is the shares issued by the local non-financial corporations. The government entities have approximately 21% of their assets deposited with the banks in the form of time deposits and 14.3% are invested by the government in long-term loans. 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

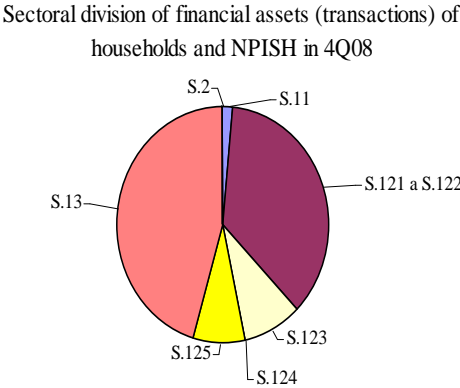
In the 4Q 2008, the households and NPISH sector decreased its overall creditor position as a result of a decline of the financial assets and the growth of financial liabilities. There was a reduction of the assets, in particular, of other accounts receivable, and on the liabilities side, long-term borrowings increased.

Graph 17

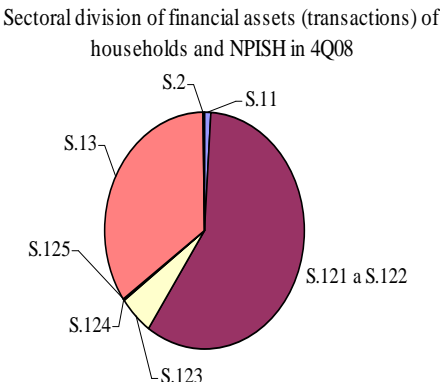


The nature of the financial transactions is also indicative of the sectoral breakdown of the households and NPISH relationships. The largest share on the assets and liabilities sides had transactions with general government entities (a drop of other accounts receivable), banks and other financial intermediaries. In passive operations, commercial banks and the central government played the key role.

Graph 18



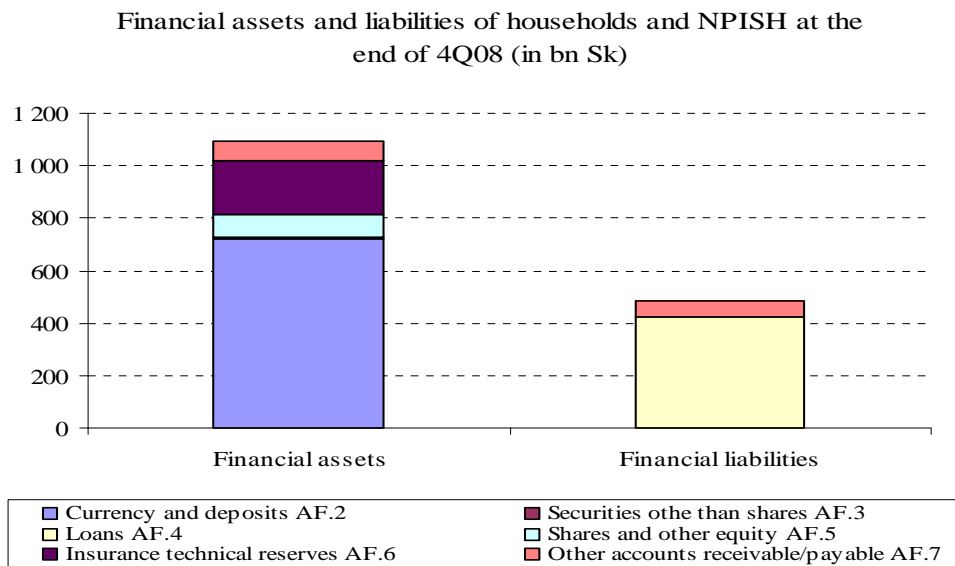
Graph 19



Stocks

The households and NPISH sector is characterized as the only one in the Slovak economy by the net creditor position. Almost two thirds of available sources are kept in the form of deposits, and another part (approx. 17%) is invested in the pension system and life insurance. A 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, levies and social allowances) account for the major share.

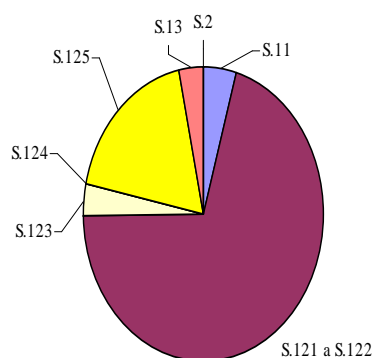
Graph 20



The sectoral 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.

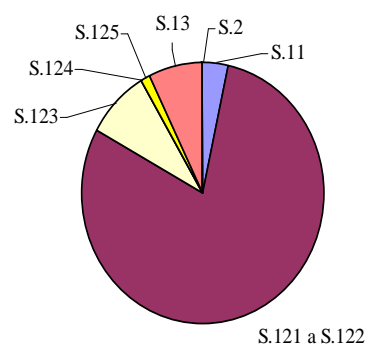
Graph 21

Sectoral division of financial assets of households and NPISH at the end of 4Q08



Graph 22

Sectoral division of financial liabilities of households and NPISH at the end of 4Q08



S.2 Foreign countries

Transactions

The overall increase in the creditor position of the foreign countries sector in respect of the national sectors resulted from an increase in the assets and also in a decline in the liabilities. Deposits with local financial institutions, equity securities issued by non-financial corporations and other funds with banks (equity financing) contributed primarily to the positive operations. A decline in the volume of trade credits to local non-financial institutions was a dampening factor for an increase in the assets. As regards the liabilities side, there was reported mainly a decline in trade credits from corporations, other deposits from the Central Bank and financial loans from commercial banks.

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 16% 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 57%) are the debt securities, mainly in the hands of the financial institutions, and the trade credits (about 17%) received from non-financial corporations.