

# Comments on Quarterly Financial Accounts for 1Q 2010

**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 (PMC, SPC, SD, SE, CD, MFMC) <sup>1</sup>
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 <sup>2</sup>
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

<sup>1</sup> PMC – pension management companies, SPC – supplementary pension companies, SD – securities dealers, SE – stock exchange, CD – central depository, MFMC – mutual fund management companies

<sup>2</sup> Stocks and transactions bear codes AF and F, respectively

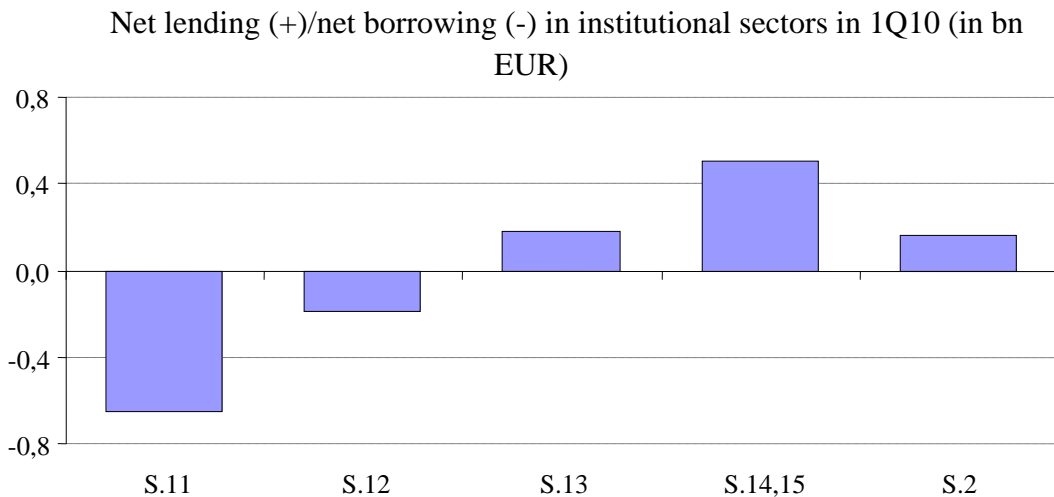
# Quarterly Financial Accounts in 1Q 2010

## Overall Development

### *Transactions*

In 1Q 2010, the net debtor position of the national economy increased; thus there was an increase in the net creditor position of the foreign countries sector <sup>3</sup>, with net lending <sup>4</sup> amounting to EUR -0.2 billion. This negative development resulted from a greater increase in financial liabilities compared to the increase in financial assets. As regards institutional sectors<sup>5</sup>, financial transactions in non-financial institutions (S.11) and financial corporations (S.12) contributed most significantly to the aforementioned development, where the difference between deposits and lending was EUR -0.6 billion, or EUR -0.2 billion, respectively. By contrast, the best results in 1Q 2010 were achieved by households and non-profit institutions serving households (S.14, S.15), whose creditor position increased by EUR 0.5 billion, and general government (S.13), whose debtor position decreased by EUR 0.2 billion.

Graph 1

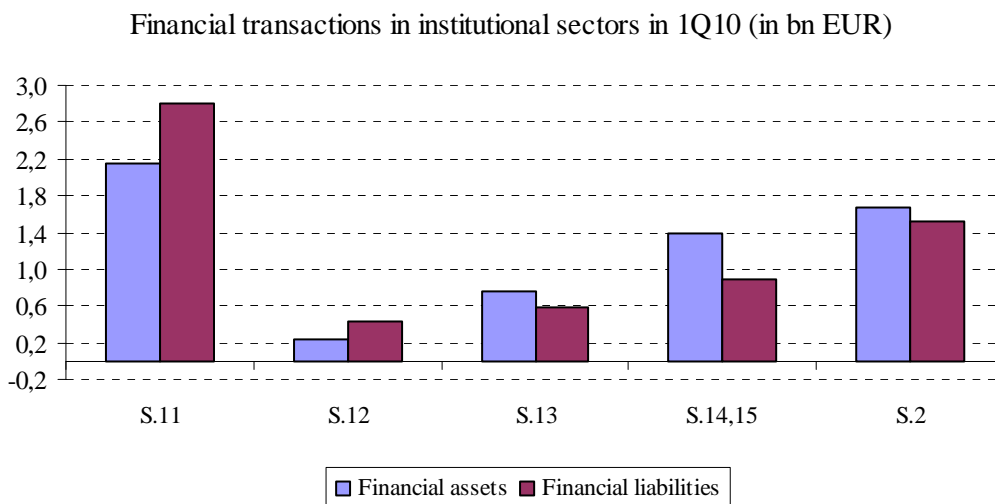


<sup>3</sup> The total of financial assets and liabilities of the national economy (S.1) and foreign countries (S.2) must equal 0; that is, if the national economy's indebtedness has decreased (and/or the creditor position has increased), there is an automatic drop in the creditor position (and/or growth in indebtedness) of foreign countries compared to the national economy. The distinction between the movement in indebtedness or in the creditor position depends on the total volume of net equity, i.e. on the development in accounts receivable and payable balances

<sup>4</sup> Net borrowing represents the negative difference between financial assets and financial liabilities. If the difference is positive, we refer to it as net lending.

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

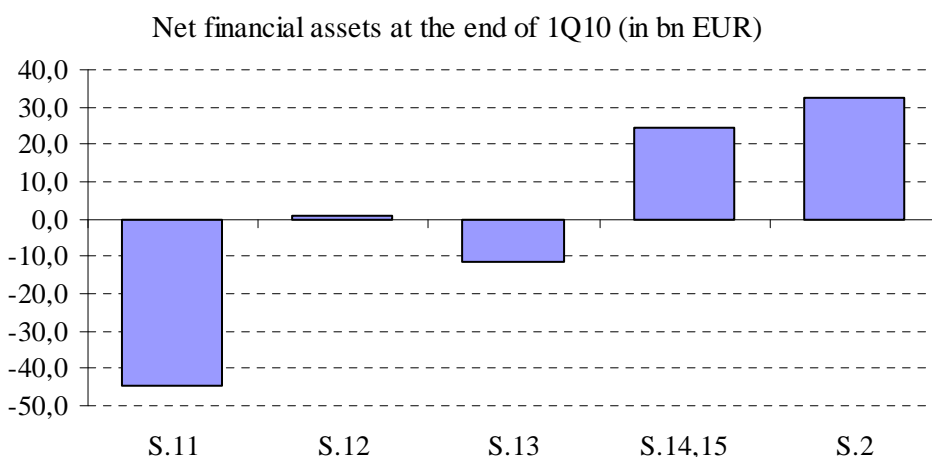
Graph 2



### Stocks

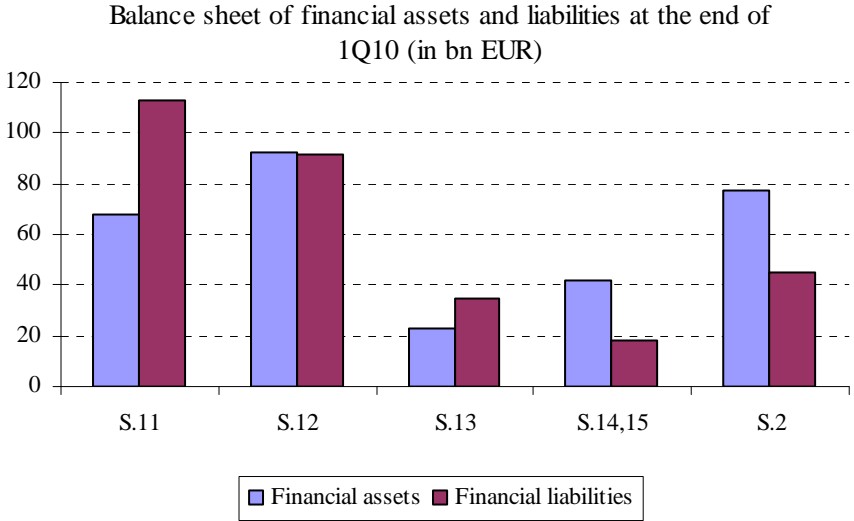
Despite negative financial transactions in 1Q 2010, the overall indebtedness of the national economy decreased slightly, with its volume amounting to EUR -31.2 billion at the end of the quarter. This paradoxical development refers to the revision of data concerning stocks in a number of sectors across the entire time-line. The non-financial corporations sector is the most heavily indebted sector with net debt amounting to EUR -44.8 billion. Besides corporations, indebted sectors also include the general government sector (EUR -11.2 billion). The largest net financial assets within the national economy are available in households (EUR 24.2 billion). The foreign countries sector has recorded a net creditor position for a long time; at the end of 1Q 2010 it stood at EUR 32.4 billion.<sup>6</sup>

Graph 3



<sup>6</sup> The difference between the net financial debt of the national economy (EUR -31.2 billion) and the net creditor position of the foreign countries (EUR 32.4 billion) is monetary gold and SDRs amounting to EUR 1.2 billion). This item is recognised on the assets side of the Central Bank, but it is not recognised on the liabilities side of the foreign countries.

Graph 4



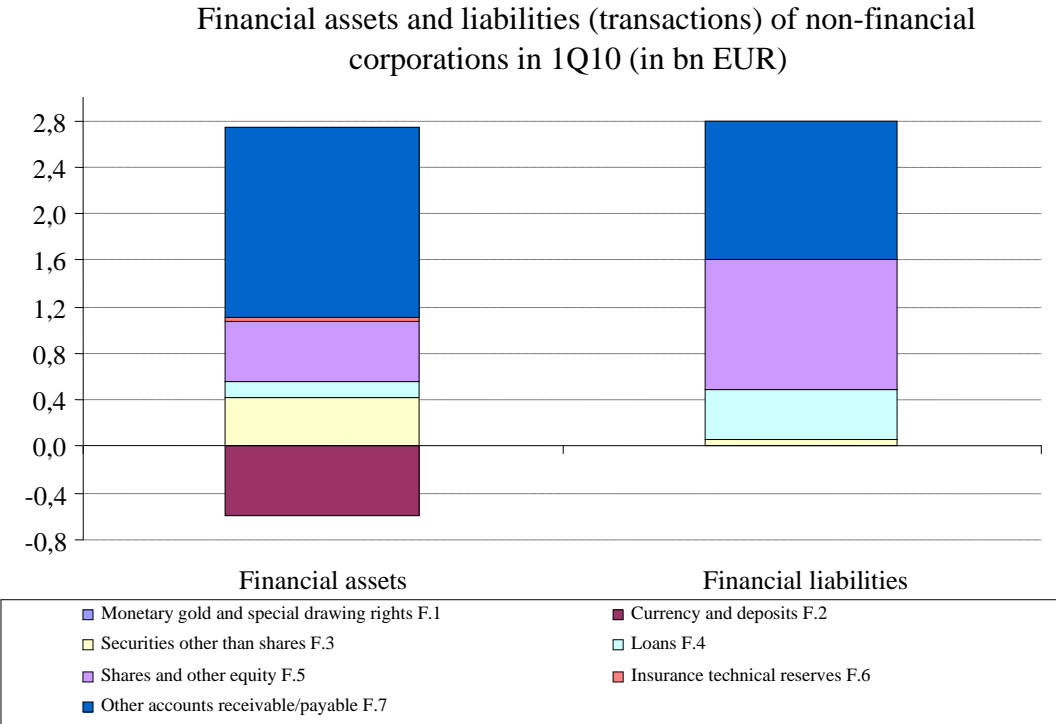
Quarterly financial accounts by individual institutional sectors

S.11 Non-financial institutions

*Transactions*

The adverse development in the increase of the non-financial corporations' indebtedness resulted from the increase in financial liabilities, which was much greater than the increase in financial assets. On the liabilities side, the sharpest increase was recorded in other liabilities and in shares and other equity. On the assets side, the largest increase was recorded in other accounts receivable and in equity and debt securities held.

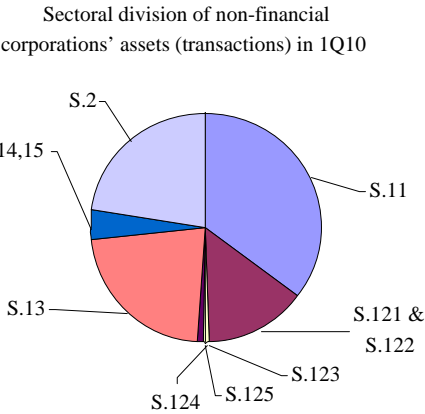
Graph 5



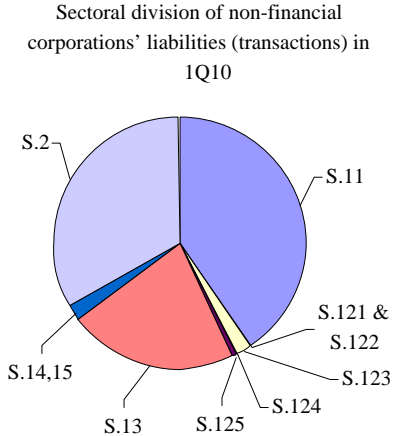
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In terms of sectoral breakdown, corporations' liabilities to the general government (S.13) increased. The profits reinvested in corporations with foreign capital participations resulted in an increase in shares and other equity on the liabilities side in residential non-financial corporations compared to foreign countries (S.2). By contrast, on the assets side, corporations reported an increase in credits and advances made to foreign countries. The amount of debt securities held increased owing to purchases of central government (S.1311) emissions. Again, major roles on both sides of the balance sheet were played by inter-company financial transactions. This refers to other accounts receivable/payable and equity securities.

Graph 6



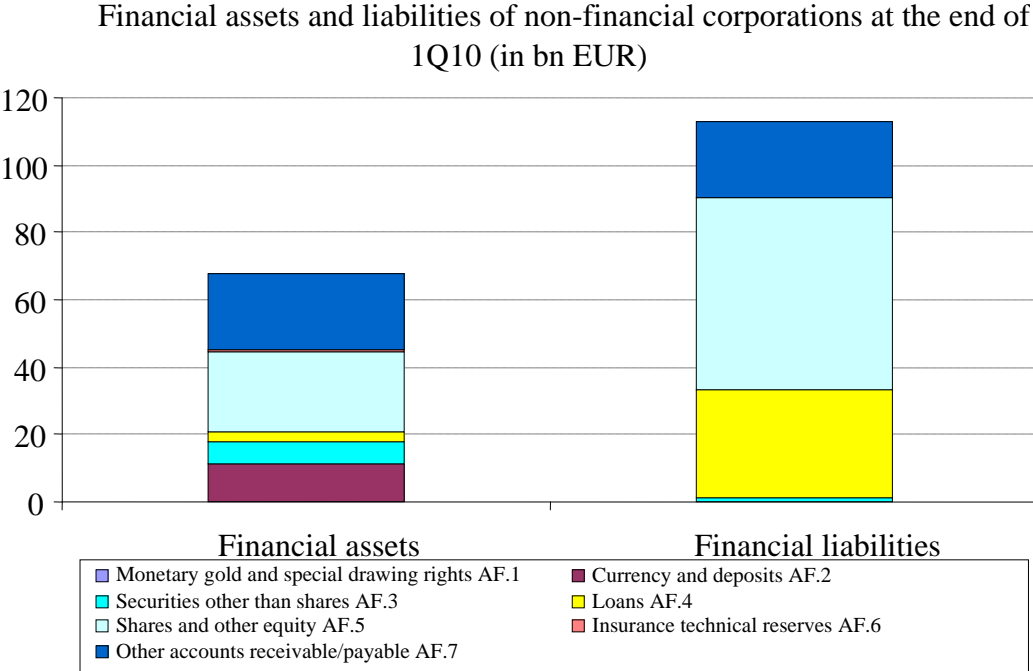
Graph 7



*Stocks*

The main finance sources of non-financial corporations in a long-term perspective include shares, financial loans and trade credits. The corporations use the aforementioned funds for investments mainly in trade credits, shares and deposits.

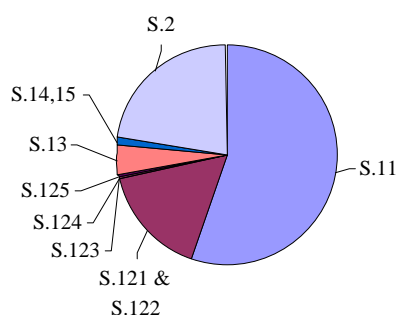
Graph 8



Current stocks of equity securities issued by non-financial corporations are held within the national economy mainly in the non-financial corporations sector (36.8%) and the general government sector (16.4%). 46.2% 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 53.7%, loans from foreign countries account for 38%. In individual financial instruments, the main debtors of the local corporations are entities from the non-financial corporations (55%), other monetary financial institutions (16.3%) and foreign countries (22.7%) sectors.

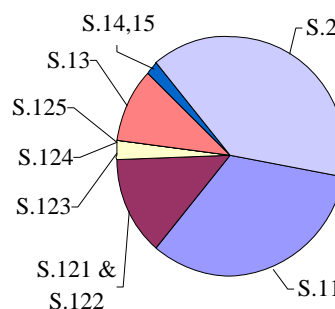
Graph 9

Sectoral division of non-financial corporations' assets at end of 1Q10



Graph 10

Sectoral division of non-financial corporations' liabilities at end of 1Q10



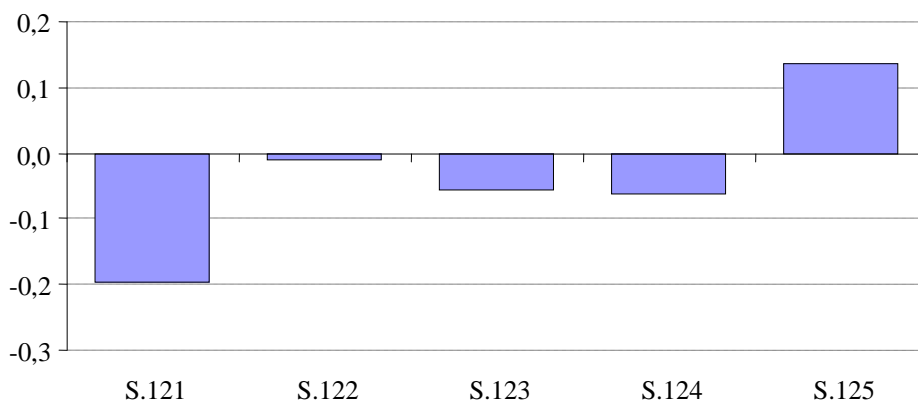
## S.12 Financial corporations

### Transactions

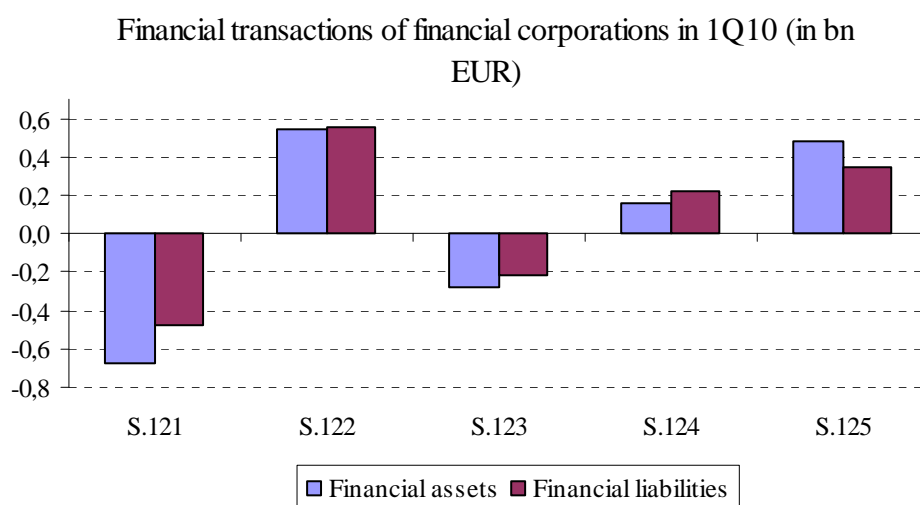
As with non-financial corporations, in 1Q 2010 the S.12 sector – financial corporations reported net borrowing, to which all subsectors contributed except for insurance corporations and pension funds (S.125).

Graph 11

Net lending (+)/net borrowing (-) of financial corporations in 1Q10 (in bn EUR)



Graph 12



Total net negative transactions of commercial banks resulted from the greater increase in liabilities compared to the increase in assets. Banks recorded a sharp increase in long-term loans and other liabilities. On the assets side, the largest increase was reported in the Central Government treasury bills held.

A negative development in the financial balance sheet was also reported by the Central Bank (S.121), where the decrease in assets exceeded the decrease in liabilities. On the assets side, the greatest decrease was reported in deposits with banks (S.122), other receivables from foreign countries (S.2) and in foreign long-term debt securities. Lower liabilities resulted mainly from the decrease in deposits from other monetary financial institutions (S.122).

In 1Q 2010, negative financial transactions were also reported by other financial intermediaries (S.123) and by financial auxiliaries (S.124). As was the case with the Central Bank, in other financial intermediaries the decrease in assets exceeded the decrease in liabilities, where non-financial corporations repaid them a part of their long-term borrowings and, at the same time, a part of savings was withdrawn from local banks. The financial auxiliaries impaired their balances owing to the increase in liabilities, chiefly the increase in long-term loans from local banks.

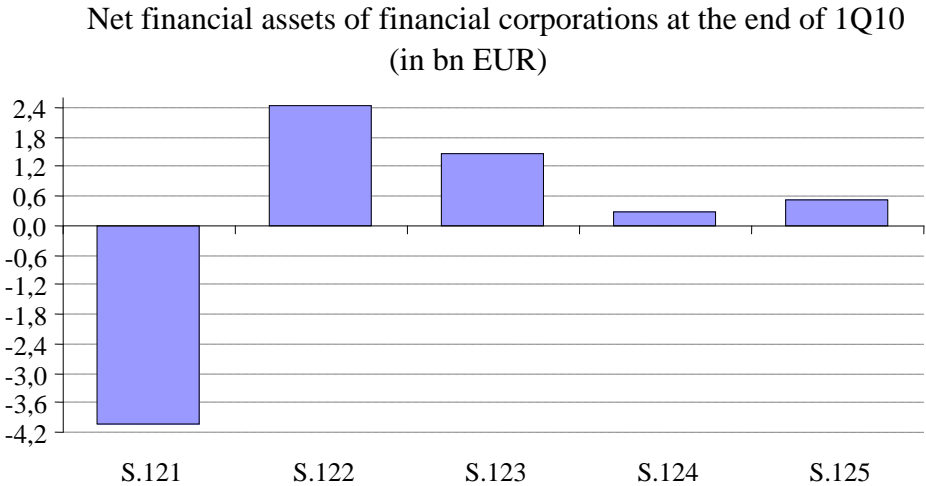
Within the S.12 sector, insurance corporations and pension funds (S.125) represent the only subsector that reported net lending. The increase in households' savings in pension and supplementary pension funds was used for the purchase of state treasury bills from the S.1311 subsector and for purchase of shares and investment funds.

### *Stocks*

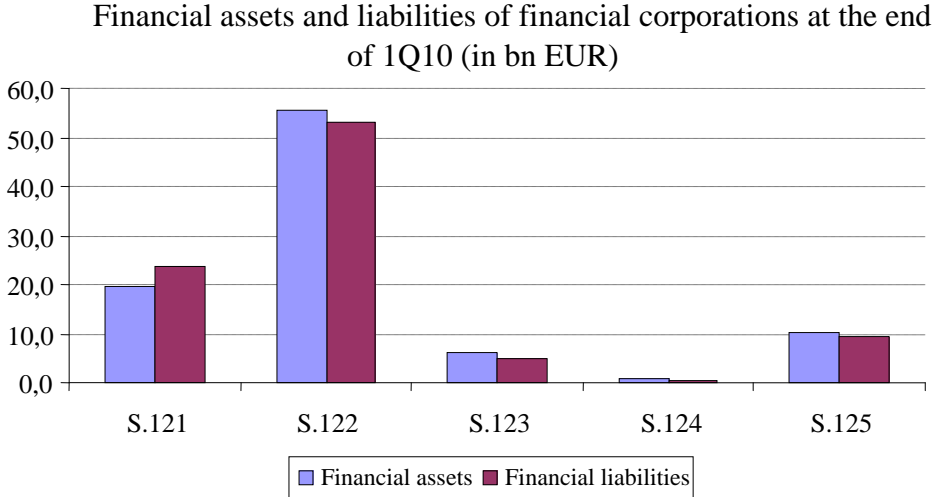
All financial corporations (S.12) are in a mild creditor position, owing to the creditor position of all subsectors except for the Central bank being in a debtor position.



Graph 13



Graph 14



Following their primary mission – to receive deposits and provide loans – other monetary financial institutions invest most of their money in long-term and short-term loans. In addition, a significant portion of available funds is invested in government bonds and residential and non-residential deposits. Deposits play a predominant role on the liabilities side (almost 80% of total liabilities). In terms of the sectoral breakdown, the most important bank clients on the assets side are the non-financial corporations, households and central government entities. On the liabilities side, the most important clients are mainly households, non-financial corporations and foreign entities. The foreign countries sector is a significant owner of shares and other capital participations in banks, with its share in this financial instrument accounting for approximately 91%.

The structure of financial instruments invested and sectors is based on the core function of the S.123 sector – other financial intermediaries, i.e. it is focused on the extension of loans to non-financial corporations and households and a part of the funds is also invested in deposits with banks, government and foreign bonds. The main source of income is, in particular, loans from local and foreign banks and share funds unit certificates held mainly by households.

The S.124 sector – financial auxiliaries - has the lowest impact within financial institutions in terms of managed assets and liabilities. The greater part of its available financial funds received from foreign and local holders of shares and from local banks in the form of loans is invested in deposits and government bonds.

By contrast, the impact of sector S.125 - insurance corporations and pension funds and supplementary pension funds - has become stronger on the financial market. Households are the main creditor of the above sector; they invest in life insurance and in the second and third pension pillars. Funds earned in that way are invested mainly in national (government bonds) and in foreign debt securities, deposits with local banks and in equity securities.

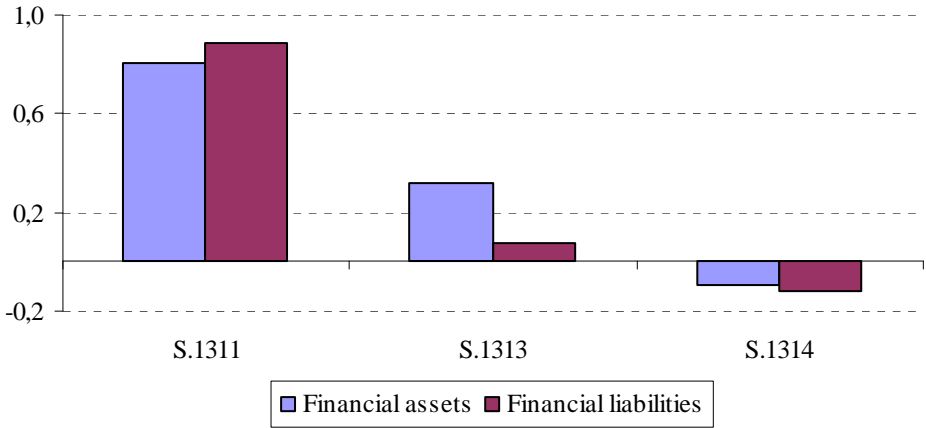
S.13 General government

*Transactions*

In 1Q 2010, the general government reduced its debtor position by EUR 0.2 billion. Within particular subsectors, the decreasing indebtedness of subsector S.1313 – local government (EUR 0.2 billion) contributed most markedly to the above development. Positive results were also reported by subsector S.1314 – social security funds (EUR 0.02 billion). Entities of subsector S.1311 – central government impaired their debtor positions by EUR 0.08 billion.

Graph 15

Financial transactions of general government in 1Q10 (in bn EUR)



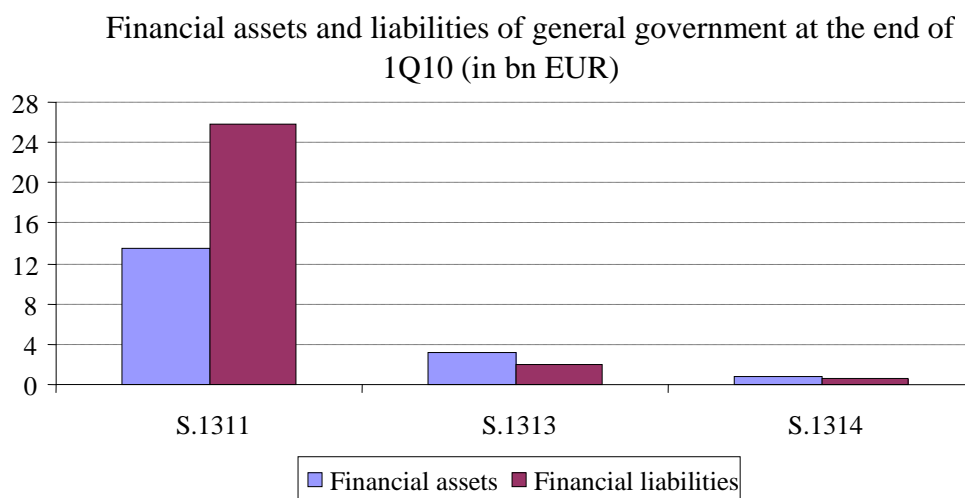
Total results of central government (S.1311) were largely affected by the increase in other accounts receivable (from households and non-financial institutions) and loans (to non-financial institutions) on the assets side and by the increase in short-term debt securities (held by financial corporations) and other liabilities (to households and non-financial corporations) on the liabilities side.

Local government (S.1313) improved its position largely owing to the increase in other receivables from non-financial institutions and households and owing to the increase in deposits with banks.

## Stocks

The overall debtor position of the general government sector is largely determined 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, reported net creditor positions as at the end of 1Q 2010.

Graph 16



The major financial asset of central government entities is the shares issued by local non-financial corporations (more than 50% of total assets). Central government entities report approximately 15% of their assets in long-term loans to non-financial corporations, local government and foreign entities and approximately 10% of assets is held by the government as deposits with banks. The bulk of central government's liabilities is debt securities (approximately 80%), of which almost 30% is held by foreign owners.

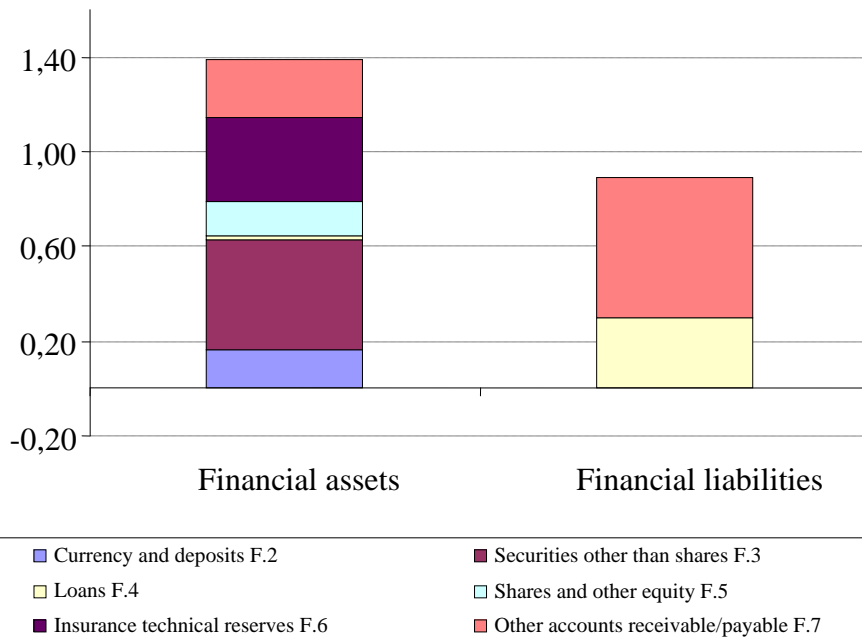
## S.14,15 Households and NPISH

### Transactions

In 1Q 2010, the households and NPISH sector increased its overall creditor position as a result of the growth in financial assets, which was faster than the growth in financial liabilities. On the assets side, the increase was mainly reported in deposits, securities and pension savings. On the liabilities side, households increased indebtedness due to long-term loans from banks; other liabilities to the general government also increased substantially.

Graph 17

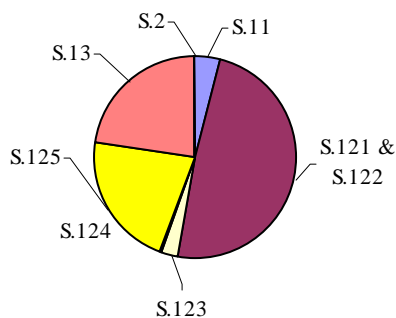
Financial assets and liabilities (transactions) of households and NPISH in 1Q10 (in bn EUR)



In terms of sectoral breakdown, transactions with banks and with pension and supplementary pension funds had the largest share on the assets side; owing to the increase in bank bonds (mortgage bonds), savings on bank accounts and the amount of pension savings had the largest share on the assets side. On the liabilities side, the major contribution to the negative development was made mainly by transactions with central government (tax-related liabilities) and with banks (long-term loans received).

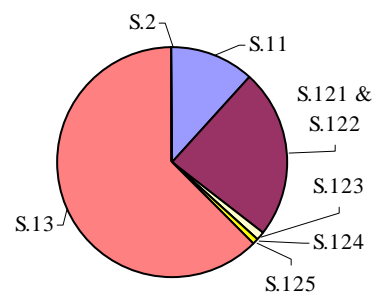
Graph 18

Sectoral division of financial assets (transactions) of households and NPISH in 1Q10



Graph 19

Sectoral division of financial liabilities (transactions) of households and NPISH in 1Q10

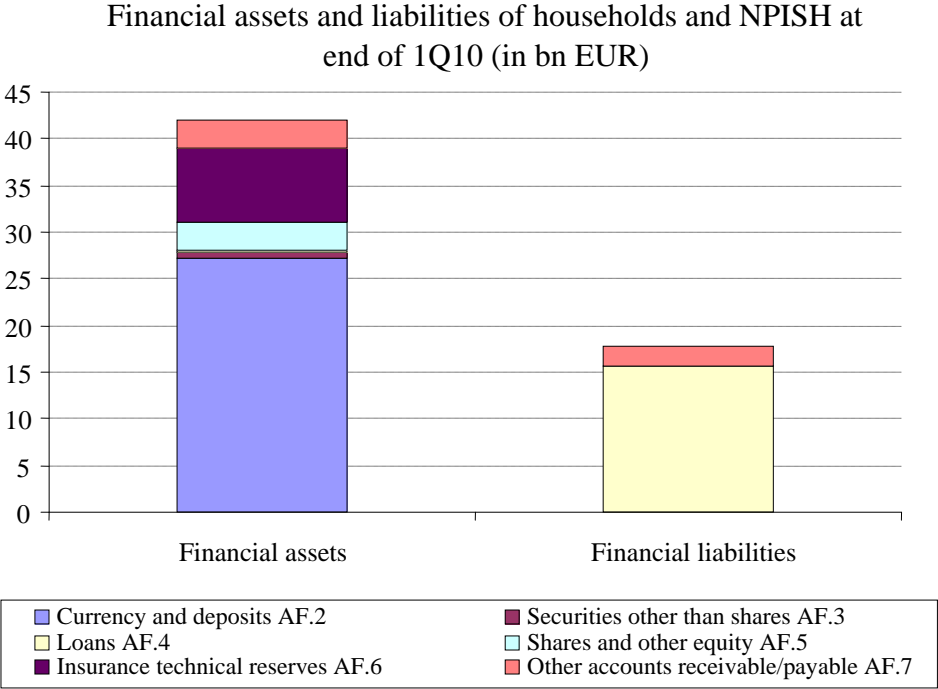


### Stocks

The households and NPISH sector is characterised as the only one in the Slovak economy in a net creditor position. Approximately 54% of available funds is held in the form of deposits,

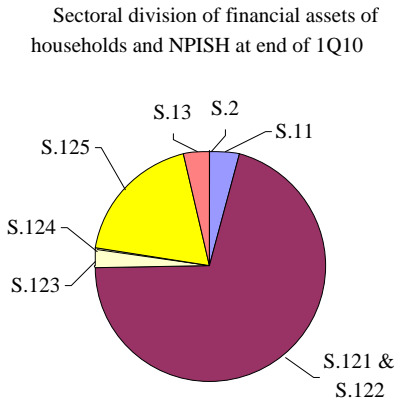
and another part, approximately 18%, is invested in the pension system and in life insurance. Households invest 6.8% of their assets in mutual funds. Almost 88% of total liabilities is loans received, predominantly long-term loans. The remaining part of liabilities is other liabilities, of which payables to central government (taxes, levies, social allowances) account for the major share.

Graph 20

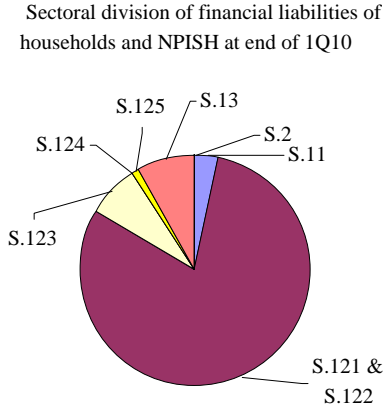


The sectoral breakdown of investments and financial funds of households results from the nature of the financial instruments in their balance. The most important partners of households and NPISH are sectors S.121 and S.122 - monetary financial institutions; a significant share has recently been acquired by sector S.125 - insurance corporations, pension funds and supplementary pension funds. On the liabilities side, a relatively significant share is represented by the government sector.

Graph 21



Graph 22



## S.2 Foreign countries

### *Transactions*

The overall increase in the creditor position of the foreign countries sector in respect of national sectors resulted from a more dynamic increase in assets in comparison with the increase in liabilities.

On the assets side, a major increase was recorded in unquoted shares issued by non-financial corporations and banks, trade credits and advances to non-financial institutions, long-term debt securities of central government, long-term loans to corporations and deposits with banks. On the liabilities side, an increase was reported chiefly in trade credits and advances to non-financial institutions and in long-term debt securities purchased by local banks, insurance corporations and pension funds.

### *Stocks*

The foreign countries sector is a net creditor to the Slovak economy, as approximately 34% of total assets represents shares of local non-financial institutions and a further 20% consists of receivables from the Central Bank in respect of the TARGET2 payment system. Further major assets of foreign countries are loans to non-financial institutions and debt securities issued by central government. The most important payables of the foreign countries to the national economy (approximately 53%) are debt securities largely held by the financial institutions and trade credits (approximately 14%) received from non-financial institutions.