Comments on Quarterly Financial Accounts for Q3 2010

The ESA 95 system employs the following classification of institutional sectors and sub-sectors:

Non-financial corporations	S.11
Financial corporations	S.12
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 (PFMC, SPMC, IF, SE, CD, MFMC)[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
Rest of the world (non-residents)	S.2
The European Union (EU)	S.21
The member countries of the EU	S.211
European Monetary Union Member States (EMU) and EU institutions	S.212
Third countries and international organisations	S.22

The ESA 95 system employs the following classification of 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, excluding 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 reserves and in 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/payable	(A)F.7
Trade credits and advances	(A)F.71
Other	(A)F.79

[1] PMFC – pension fund management companies, SPMC – supplementary pension fund asset management companies, IF – investment firms, 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 for Q3 2010

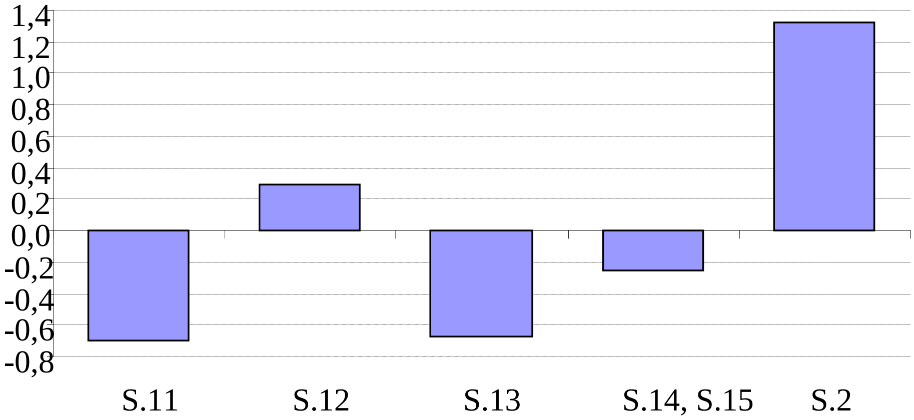
Overall development

Transactions

In the third quarter of 2010, the net debtor position of the Slovak economy increased and therefore so did the net creditor position of the *rest of the world* sector.[3] The result was that net borrowing[4] reached €1.3 billion. This negative development was caused by a decrease in financial assets and an accompanying rise in financial liabilities. Among institutional sectors,[5] the most significant contributions to this result came from financial transactions in the sectors of *general government* (S.13) and *non-financial corporations* (S.11), with each reporting a difference of minus €0.7 billion between its deposits and borrowings. By contrast, the best result in the third quarter of 2010 was reported by *financial corporations* (S.12), with its creditor position increasing by €0.3 billion.

Chart 1

Net lending (+)/net borrowing (-) by sector in Q3 2010
(EUR billions)



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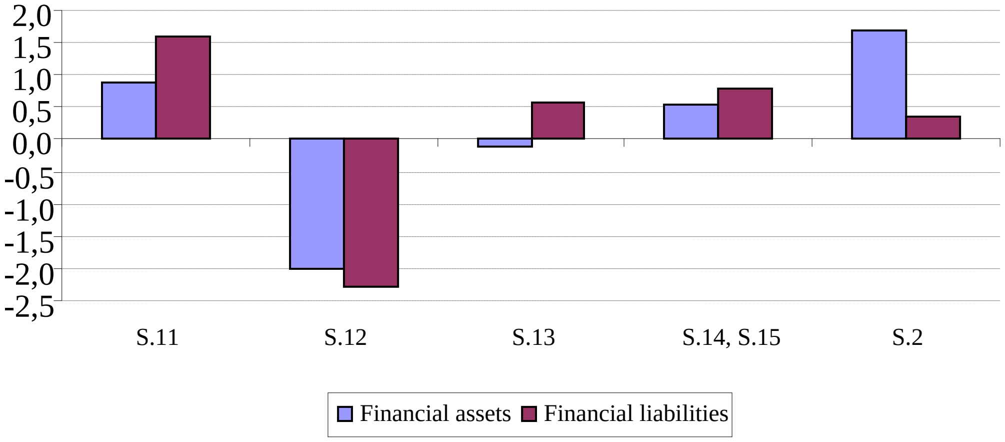
[3] The sum of financial assets and liabilities in sectors *Slovakia* (S.1) and the *rest of the world* (S.2) must equal 0. This means that if the national economy's indebtedness decreases (or its creditor position increases), the rest of the world's creditor position vis-à-vis the national economy will automatically decrease (or its indebtedness will increase). Whether a change occurs in a debtor or creditor position depends on the total amount of net assets, i.e. the outstanding claims and liabilities.

[4] Net borrowing represents a negative difference between financial assets and financial liabilities. A positive difference is an indication of net lending.

[5] The detailed classification of institutional sectors with codes assigned in accordance with the ESA 95 national accounts classification is shown on page 2.

Chart 2

Financial transactions by sector in Q3 2010 (EUR billions)



Stocks

The negative result for financial transactions in the third quarter of 2010 caused an increase in the total debt of the national economy, which ended the fourth quarter at €37 billion. The most indebted sector is *non-financial corporations*, which has a net debt of €47.6 billion. Another sector that remains indebted is *general government*, with an outstanding debt of €12.9 billion. The sector of the national economy that holds the highest amount of assets is *households* (€22.8 billion worth). As for the *rest of the world* sector, its long-standing net creditor position ended the third quarter of 2010 at the level of €38.4 billion.[6]

Chart 3

[6] The difference between the net financial debt of the national economy (€37 billion) and the net creditor position of the rest of the world sector (€38.4 billion) comprises *monetary gold and special drawing rights* amounting to €1.4 billion). This item is reported on the side of *central bank* assets, but it is not reported on the side of *rest of the world* liabilities.

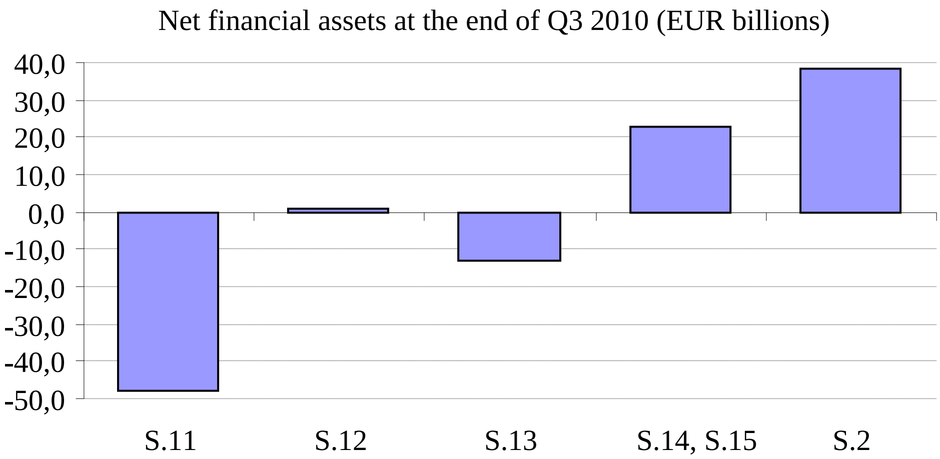
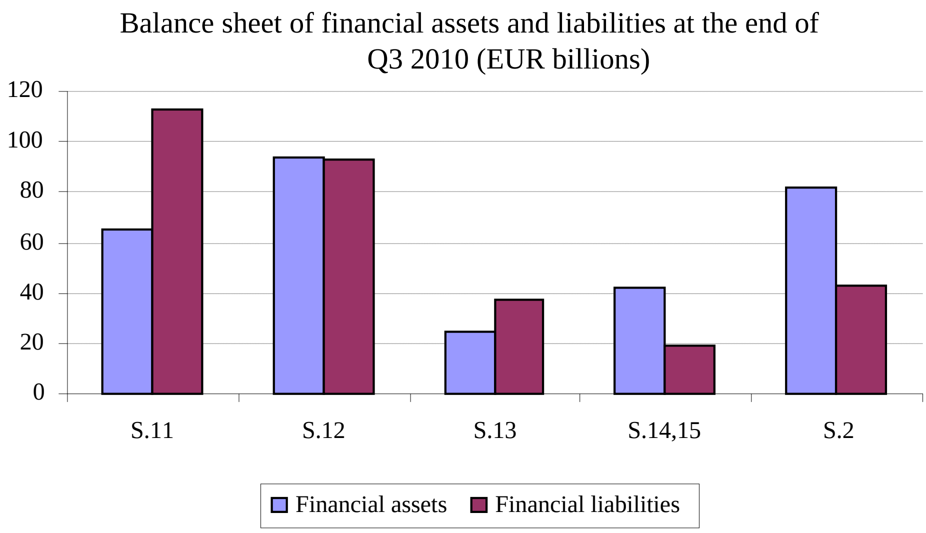


Chart 4



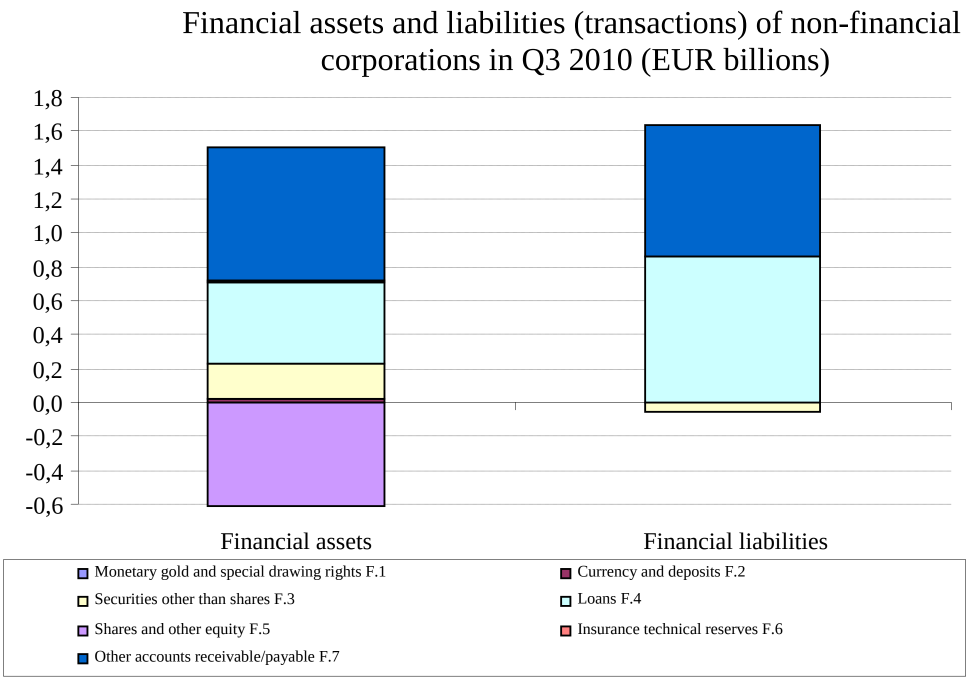
Quarterly financial accounts broken down by institutional sectors

S.11 Non-financial institutions

Transactions

The indebtedness of non-financial corporations increased as a result of financial assets not rising by as much as financial liabilities.

Chart 5



On the liability side, the amount of long-term loans that enterprises received from resident banks rose by €0.2 billion, and their long-term borrowings from the *general government* sector and *rest of the world* sector increased by, respectively, €0.3 billion and €0.2 billion. Other liabilities to resident firms also went up, by €0.5 billion.

The increases in corporate assets were recorded mainly in trade credits and advances extended to resident enterprises and non-residents (a rise of €0.3 billion in each case) and in short-term loans to resident enterprises (€0.2 billion) and to non-residents (€0.1 billion). At the same time, the portfolio of foreign mutual fund shares and unquoted shares of resident enterprises fell in volume.

Chart 6

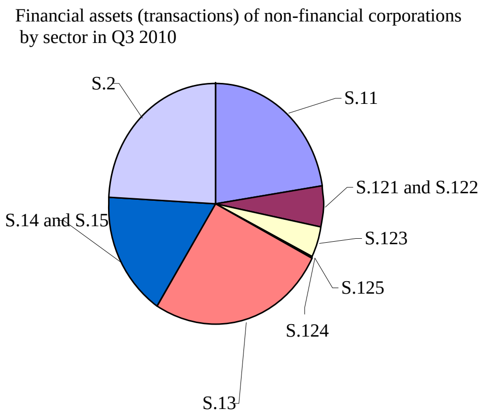
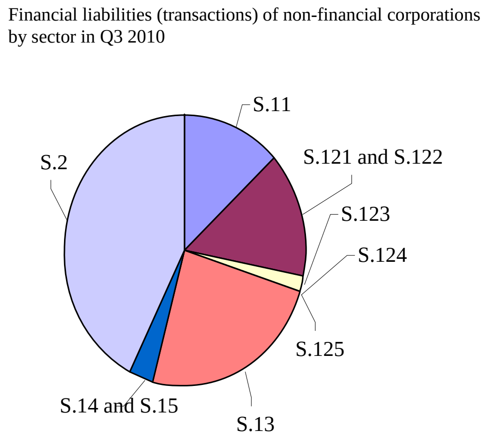


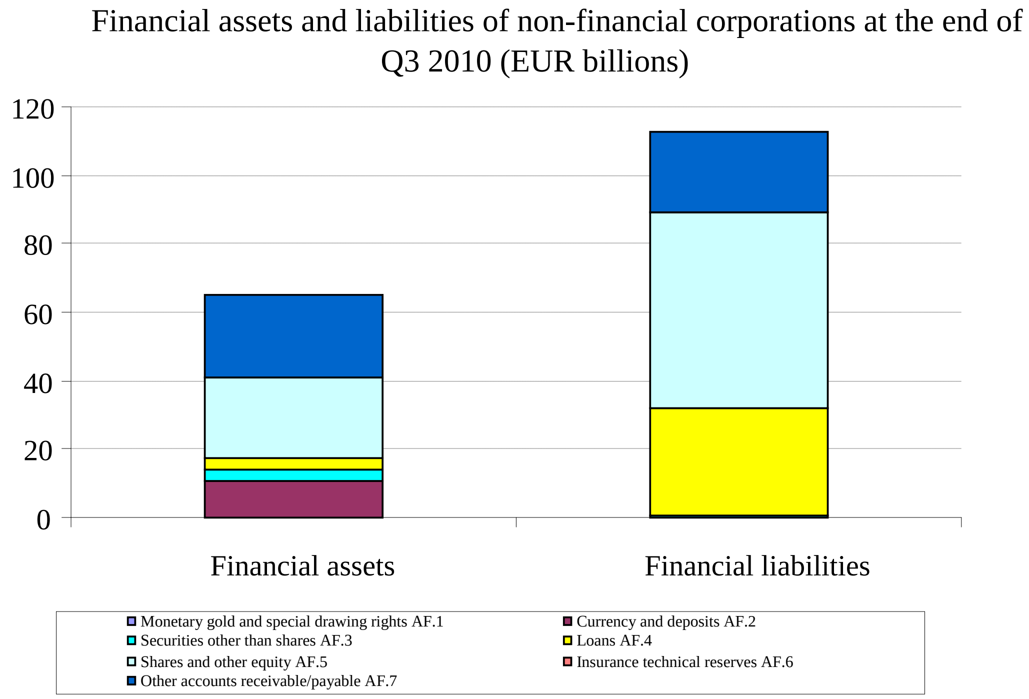
Chart 7



Stocks

The principal financial resources of non-financial corporations have over a long period included equities, financial loans and trade credits. Firms use these resources for investments, mainly in trade credits, equities and deposits.

Chart 8



As regards equity securities issued by resident non-financial corporations, the majority are held in the national economy – mainly in the sectors of *non-financial corporations* (35.4%) and *general government* (16.8%) – while 47.2% of the shares are held in the *rest of the world* sector. Of the total amount of lending to enterprises, loans from resident banks, leasing companies and factoring companies accounted for 55.6% and loans from non-residents for 34.4%. The main debtors of resident firms across different financial instruments are entities from the (sub-)sectors of *non-financial corporations* (57.3%), *monetary financial institutions* (16.0%) and the *rest of the world* (19.8%).

Chart 9

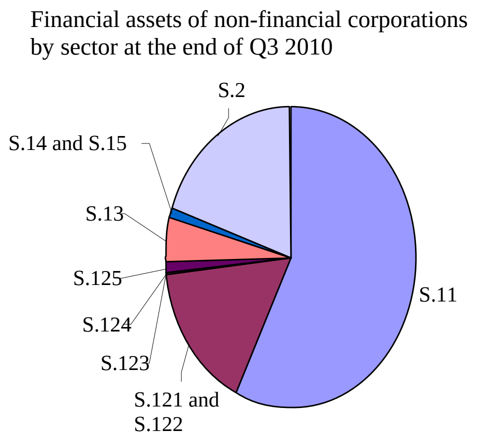
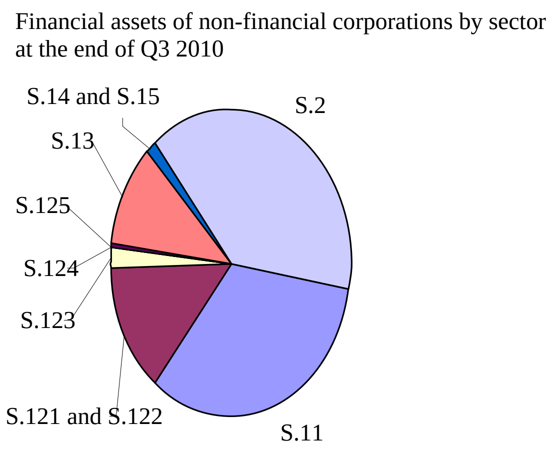


Chart10



S.12 Financial corporations

Transactions

Unlike *non-financial corporations*, the *financial corporations* sector (S.12) recorded net lending in the third quarter of 2010, comprising mostly lending from the sub-sector of *other monetary financial institutions* (S.122) and to a lesser extent from *insurance corporations and pension funds* (S.125). The result was that the S.12 sector increased its overall creditor position.

Chart 11

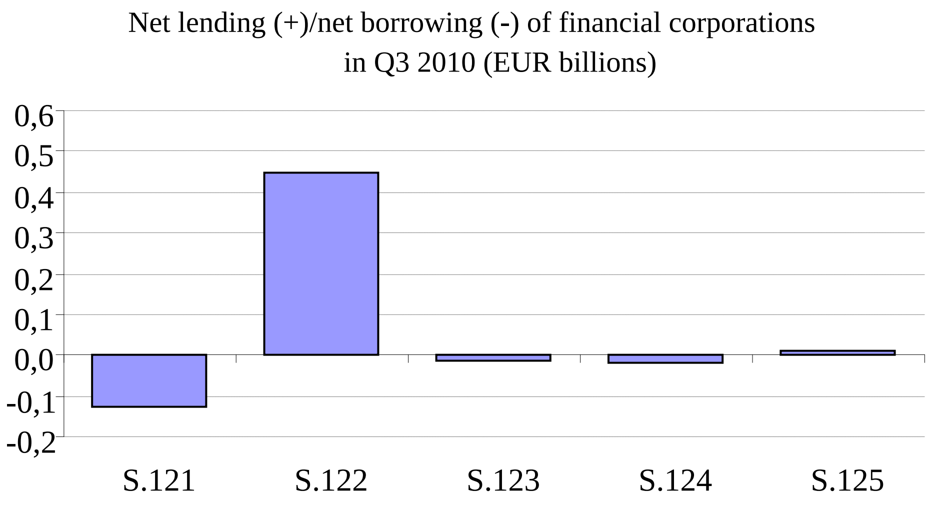
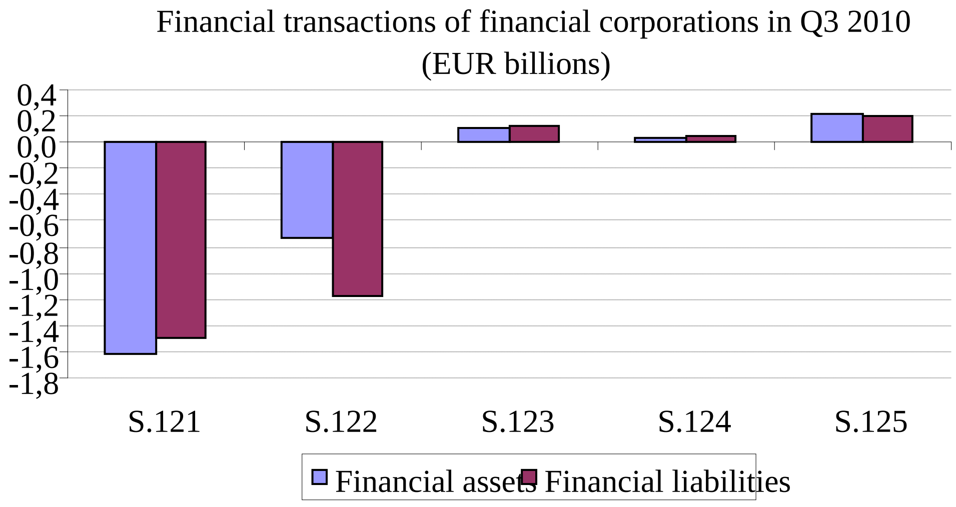


Chart 12



Overall transactions of *monetary financial institutions* (S.122) were positive in net terms owing to a more pronounced decline in liabilities than in assets. On the liability side, the largest falls were recorded by loans received from the central bank (down by €0.9 billion) and central government deposits (€0.8 billion). On the asset side, transferable deposits reported the largest decline (€0.8 billion), followed by short-term debt securities issued by the government (€0.6 billion) and long-tern debt securities issued abroad (€0.2 billion). The most significant increases in assets took place in long-term loans to households (up by €0.5 billion) and loans to non-financial corporations (€0.2 billions).
The other *financial corporations* sub-sector which reported a positive net result on financial transactions was *insurance corporations and pension funds* (S.125). Funds obtained from households in the form of pension savings and life insurance were invested predominantly in foreign mutual funds and foreign long-term debt securities.

Other financial intermediaries (S.123) ended the period under review with a slightly negative net result on overall transactions. A notable development on the asset side was the increase in long-term loans to resident enterprises and in both resident and foreign mutual fund shares.

On the liability side, the most pronounced rise was recorded in mutual fund shares held by households.

Financial auxiliaries (S.124) also made a small negative net result on overall transactions. The largest asset-side transactions in this sub-sector were undertaken with the central government and included a decline in transferable deposits and rise in other deposits. On the liability side, unquoted shares held by insurance corporations and pension funds reported an increase.

Stocks

The overall creditor position of the *financial corporations* sector (S.12) was the result of creditor positions in all but one of the sub-sectors. Only the *central bank* sub-sector reported a debtor position.

Chart 13

Net financial assets of financial corporations at the end of Q3 2010
(EUR billions)

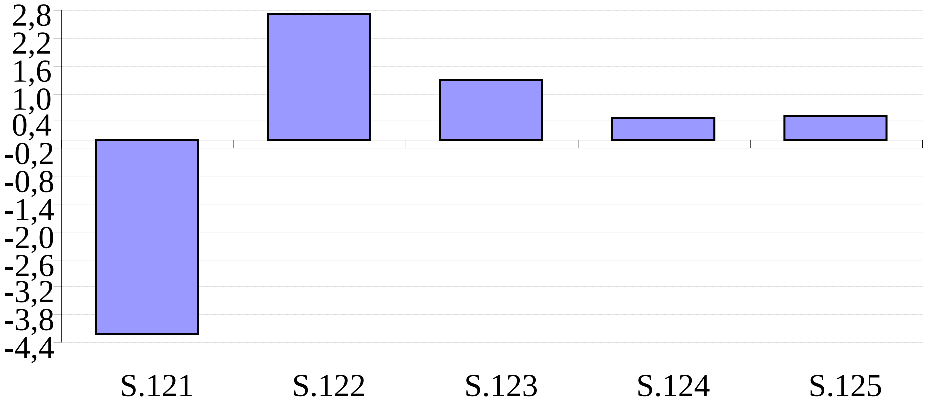
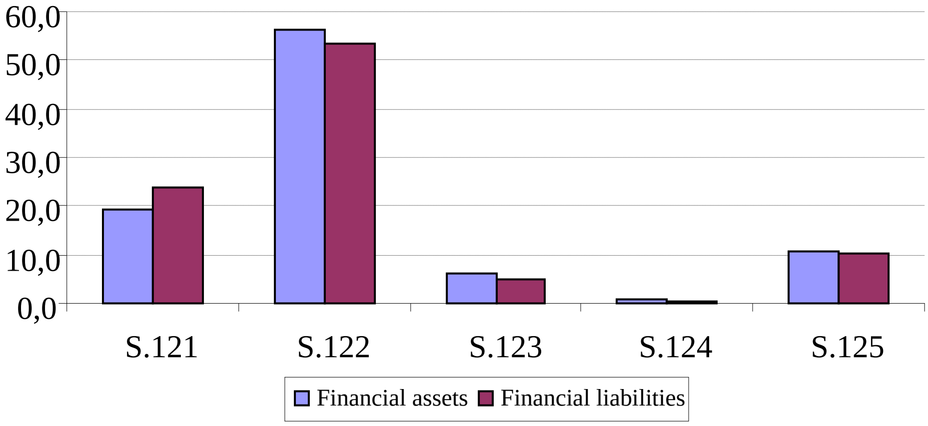


Chart 14

Financial assets and liabilities of financial corporations at the end of Q3 2010 (EUR billions)



In accordance with their primary mission – to take deposits and extend loan – other monetary financial institutions invest most of their available funds in loans (representing 59% of all their assets), followed by government bonds (22%) and residential and non-residential currency and deposits (almost 9%). The most significant item on the liability side is deposits (representing almost 80% of all liabilities). In terms of the sectoral breakdown, the banks' most important clients on the asset side are non-financial corporations, households and central government entities, and on the liability side, households, non-residential entities and non-financial corporations. The *rest of the world* sector is a significant owner of shares and other participating interests in banks, with its share of this portfolio representing approximately 94%.

The structure of the invested financial instruments 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 proportion of the funds are also invested in bank deposits, domestic government bonds, and foreign bond issues. The main sources of income are loans from non-resident and resident banks and mutual fund shares held mainly by households.

Financial auxiliaries (S.124) is the least significant sub-sector of *financial corporations* in terms of assets and liabilities under management. The majority of its available funds acquired from non-resident and resident shareholders and from resident banks in the form loans are invested in deposits.

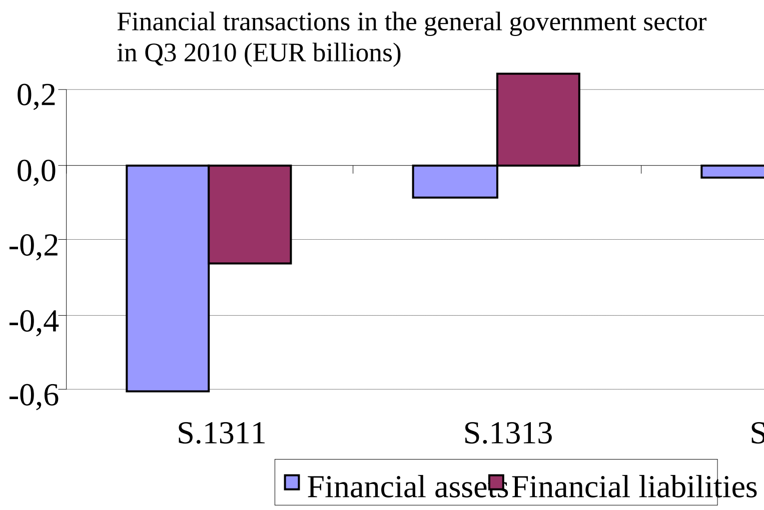
By contrast, the sub-sector of *insurance corporations and pension funds* (S.125) has an increasing influence in the financial market. The main creditor of this sector is *households*, which invest in life insurance and in Pillars II and III of the pension saving system. The funds so acquired are invested mainly in domestic government bonds and foreign debt securities, and to a lesser extent in deposits with resident banks, in domestic equity securities and in foreign mutual funds.

S.13 General government

Transactions

The *general government* sector increased its debtor position by €0.7 billion during the third quarter of 2010. This sub-sectors accounting for the majority of this increase were *central government* (S.1311), where the negative net result on financial transactions came to €0.3 billion, and *local government* (S.1313), which recorded net borrowing also in the amount of €0.3 billion. *Social security funds* (S.1314) ended the period at a level close to zero.

Chart 15



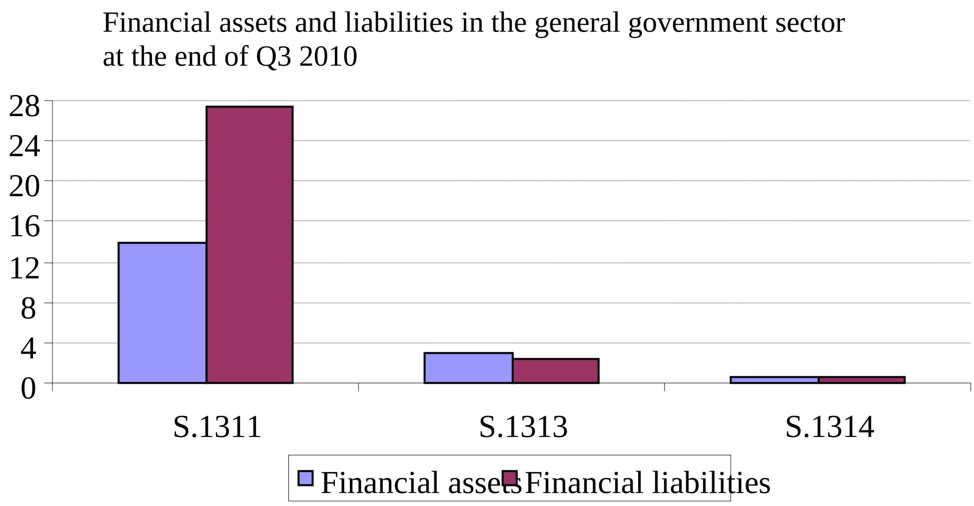
The overall result of the *central government* sub-sector was determined mainly by a decrease in bank deposits of €1.3 billion. On the liability side, short-term securities held by financial institutions recorded the largest fall, of €0.6 billion, while issued bonds held mainly by non-financial corporations and non-residents reported the highest increase, of €0.3 billion.

The *local government* sub-sector recorded a decrease in assets, mainly in other claims on households and non-financial corporations. The increases on the liability side were predominantly in long-term and short-term financial loans from banks and in trade credits received from enterprises.

Stocks

The overall debtor position of the *general government* sector is largely due to developments in the *central government* sub-sector (S.1311). Two other sub-sectors of *general government* – local government (S.1313) and social security funds (S.1314) – reported a net creditor position as at the end of the third quarter of 2010.

Chart 16



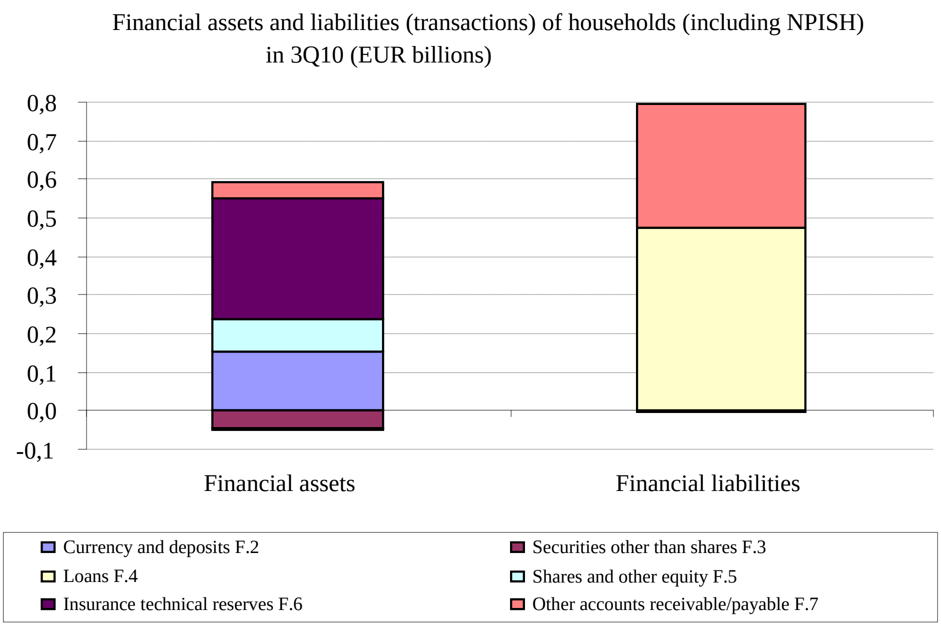
The financial assets of central government entities comprise mainly shares issued by resident non-financial corporations (representing around 56% of the value of total assets), followed by long-term loans to non-financial corporations, local government, and non-resident entities (more than 16%). As for central government liabilities, they largely consist of long-term debt securities (around 83%), of which 29% are held abroad.

S.14 and S.15 Households (including NPISH)

Transactions

The sector of *households (including non-profit institutions serving households)* saw a reduction in its overall creditor position in the third quarter of 2010, owing to a higher increase in financial liabilities than in financial assets. Households took on more debt in the form of long-term bank loans (which increased by €0.5 billion) and other liabilities to the central government (€0.2 billion). On the asset side, households recorded increases mainly in pension savings and in transferable deposits and currency (€0.2 billion in each case), and to a lesser extent in life insurance reserves and in mutual fund shares (€0.1 billion in each case).

Chart 17

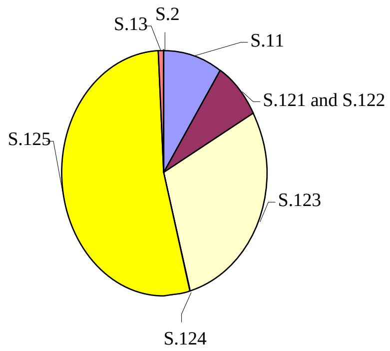


The sectoral breakdown of assets was dominated by transactions with *insurance corporations and pension funds* and with *other financial intermediaries* (other mutual funds). On the liability side, the negative developments stemmed mainly from transactions with *monetary financial institutions*, with *central government* and with *non-financial institutions*.

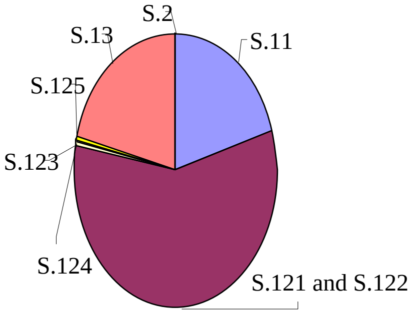
Chart 18

Chart 19

Financial assets (transactions) of households (including NPISH) by sector in Q3 2010



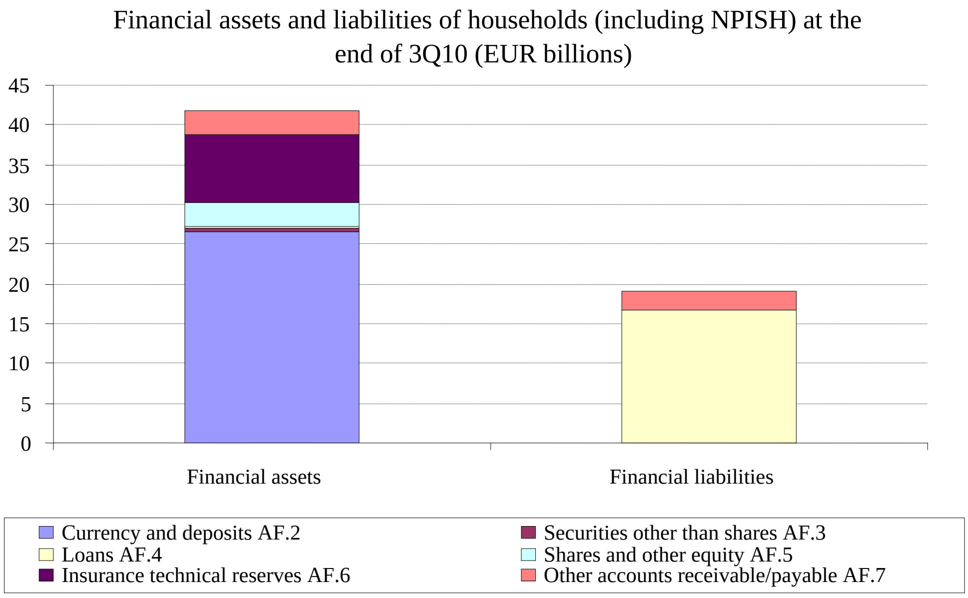
Financial liabilities (transactions) of households (including NPISH) by sector in Q3 2010



Stocks

The sector of *households (including NPISH)* differs from other sectors in the Slovak economy in that it has a large net creditor position. Of the sector's available funds, approximately 55% are invested in deposits, almost 20% in the pension system and in life insurance, and 6.9% in mutual funds. As for the sector's liabilities, loans constitute 87% of the total and these are mainly long-term borrowings. The rest of the liabilities comprise other payables, the majority of which are liabilities to general government (deferred taxes, levies, social contributions).

Chart 20



The sectoral breakdown of households' investments and sources of financing reflects the nature of the financial instruments in their balance sheet. The most important partner of *households (including NPISH)* is the sub-sector S.122 – *other monetary financial institutions*, while the sub-sector of S.125 – *insurance corporations and pension fund* has in recent years had an increasing share in the asset side of the households balance sheet. On the liability side, the general government sector has a relatively significant share.

Chart 21

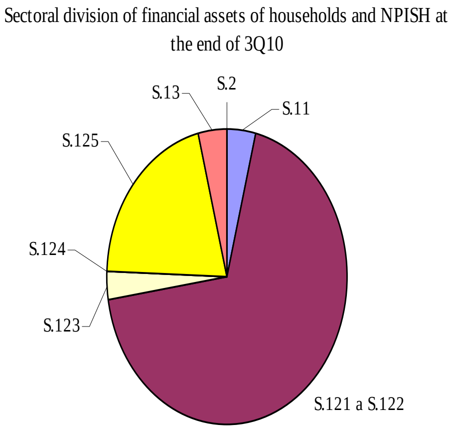
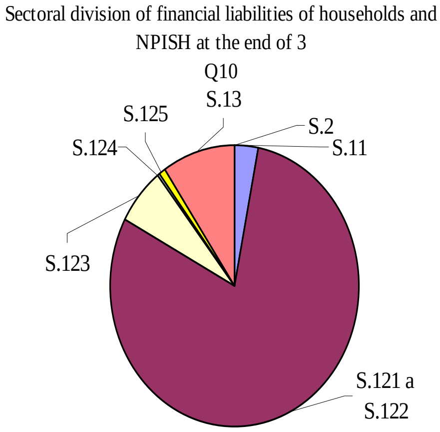


Chart 22



S.2 Rest of the world

Transactions

The overall creditor position of the *rest of the world* sector in relation to the national sectors increased as a result of a higher rise in assets than in liabilities.
The main developments on the asset side were the increases in other bank deposits (up by €1.3 billion) and in unquoted shares held by non-financial corporations and financial institutions (€0.9 billion). On the liability side, the largest increases were recorded for unquoted shares held by non-financial corporations (up by €0.3 billion), trade credits and advances received from non-financial corporations (€0.3 billion) and mutual fund shares held by insurance corporations and insurance funds (€0.3 billion).

Stocks

The *rest of the world* sector is a net creditor to the Slovak economy, with 33% of the sector's total assets comprising shares of resident non-financial corporations and 18% consisting of claims on the central bank in relation to the TARGET2 payment system. Other significant assets of the *rest of the world* sector include loans to non-financial corporations and debt securities issued by the central government. The sector's major liabilities to the national economy are debt securities (representing around 51% of total liabilities), held mainly by financial institutions, and trade credits received from non-financial corporations (around 15%).