Comments on the Quarterly Financial Accounts for Q4 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 European Monetary Union (EMU)	S.211
Member States 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 fund shares	(A)F.51
Quoted shares	(A)F.511
Unquoted shares	(A)F.512
Other equity	(A)F.513
Mutual fund 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 payments 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 Q4 2010

<u>Overall development</u>

Transactions

In the fourth quarter of 2010, the net debtor position of the Slovak economy decreased and therefore so did the net creditor position of the *rest of the world* sector.[3] The result was that net borrowing[4] reached €1.4 billion

Chart 1

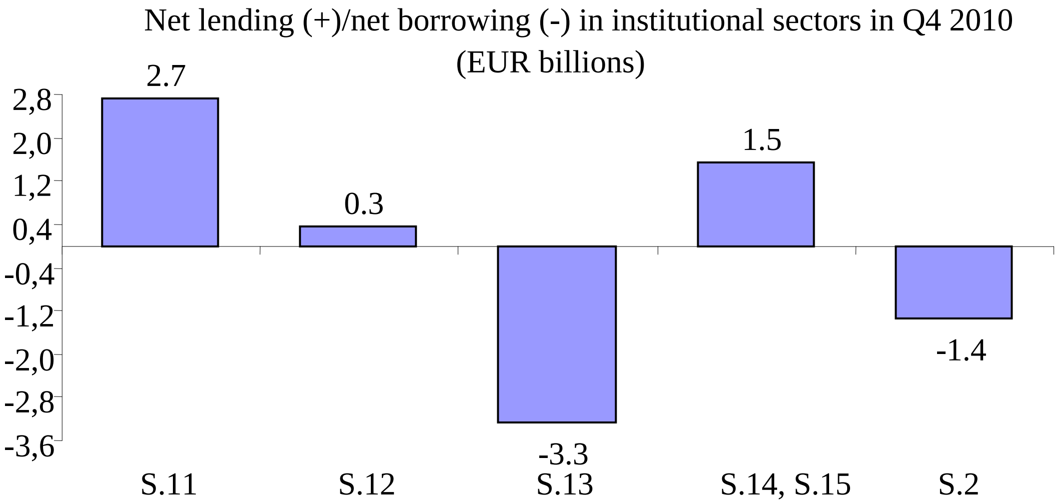
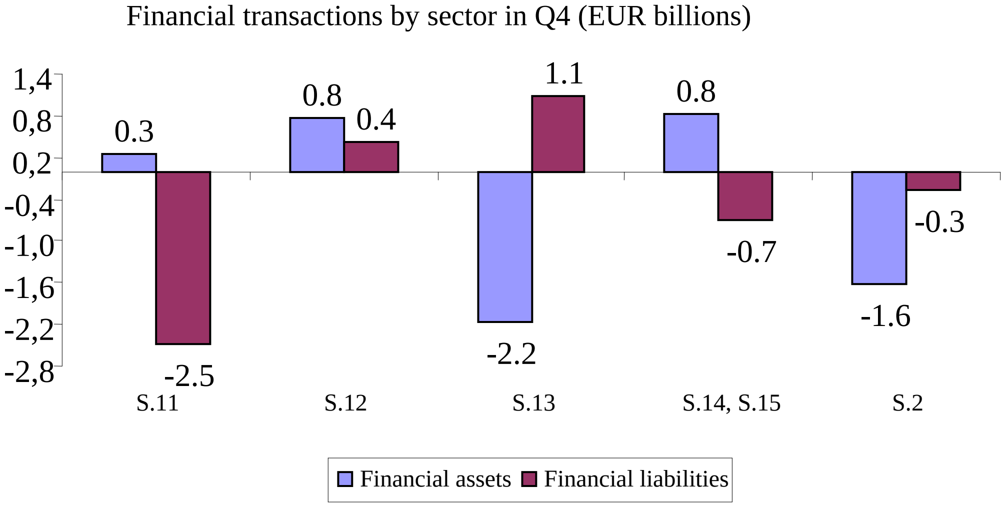


Chart 2



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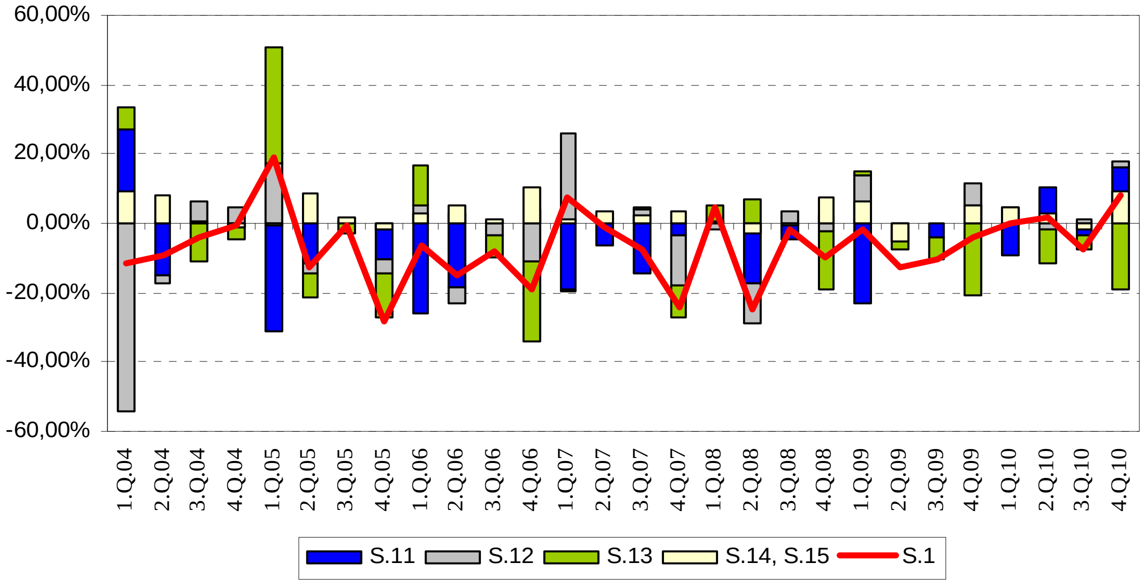
[3] The sum of financial assets and liabilities in the sectors *Slovakia* (S.1) and the *rest of the world* (S.2) must equal 0. This means that if the national economy's indebtedness decreases (or its creditor position increases), the rest of the world's creditor position vis-à-vis the national economy 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 positive difference between financial assets and financial liabilities. A negative difference is an indication of net lending.

Net financial assets at the end of the fourth quarter of 2010 amounted to €1.4 billion, meaning that the financial position of the economy as a percentage of GDP for the respective quarter improved by 8%.

Chart 3

Net financial assets (transactions) as percentage of GDP



Stocks

The positive result for financial transactions in the fourth quarter of 2010 caused a decline in the total debt of the national economy, which ended the fourth quarter at €37.6 billion.[5]

Chart 4

[5] The difference between the net financial debt of the national economy (€37.6 billion) and the net creditor position of the rest of the world sector (€39.1 billion) comprises *monetary gold and special drawing rights* amounting to €1.5 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

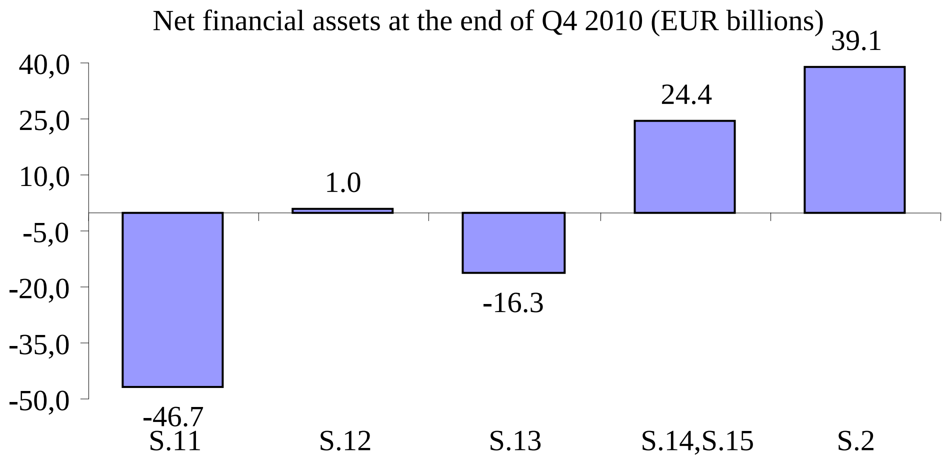
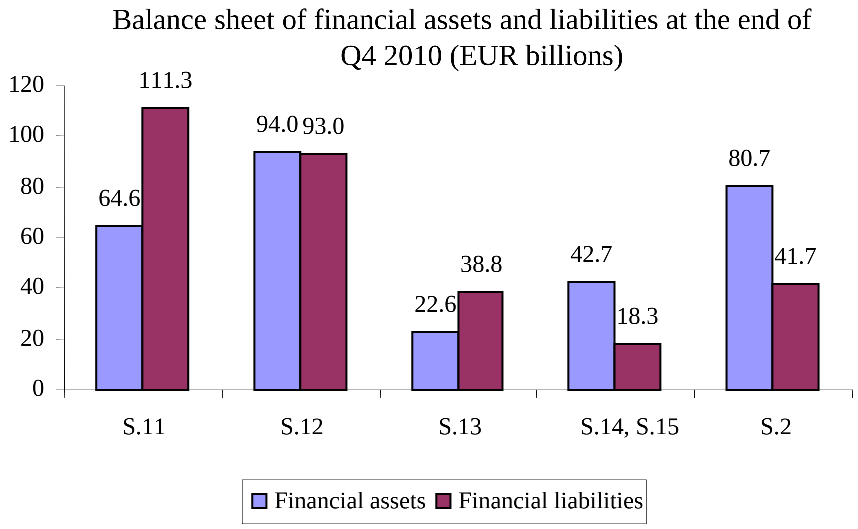


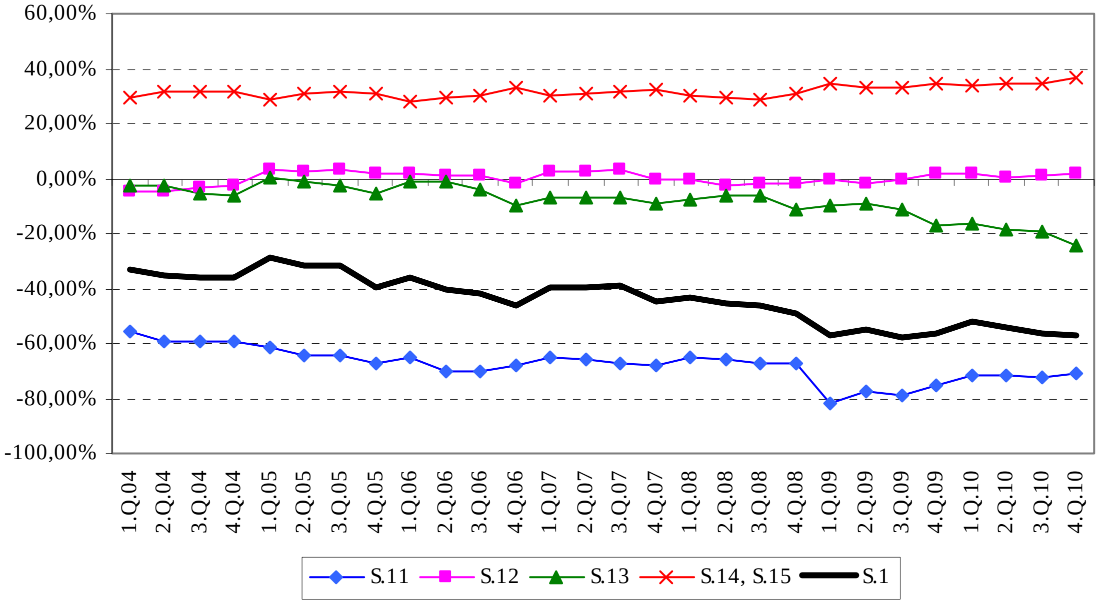
Chart 5



The net financial wealth of the national economy (stock of net borrowing) at the end of the fourth quarter of 2010 amounted to -€37.6 billion, or -57% of GDP for 2010.

Chart 6

Net financial wealth (stocks) as percentage of GDP



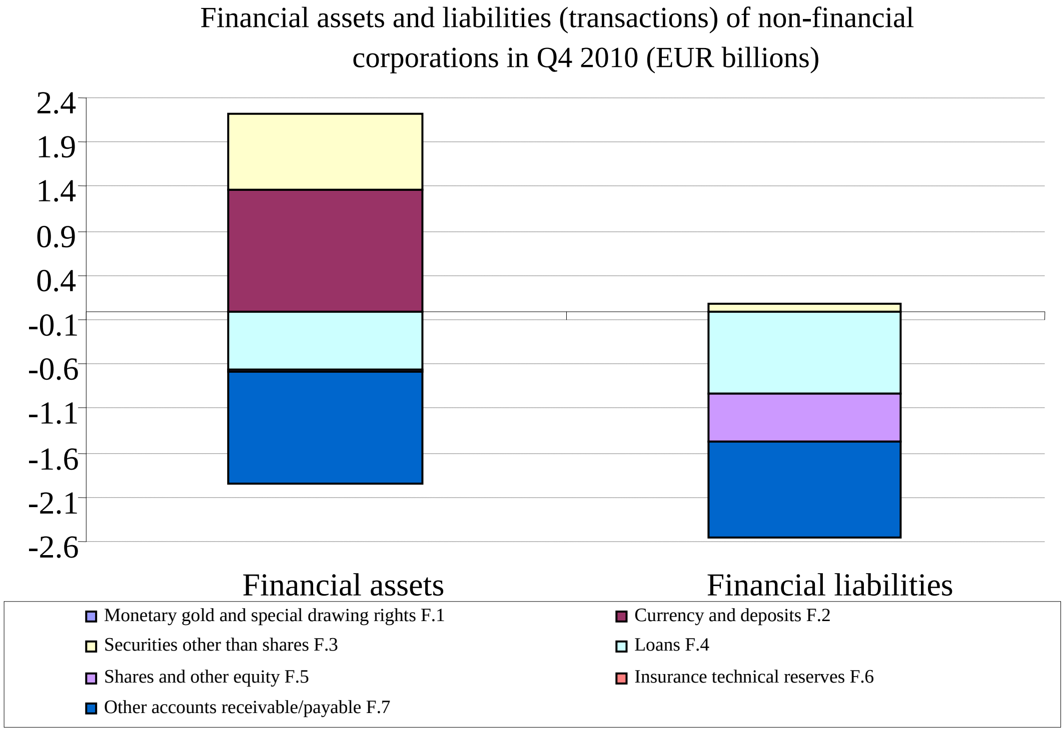
<u>Quarterly financial accounts broken down by institutional sectors</u>

S.11 Non-financial corporations

Transactions

The indebtedness of non-financial corporations decreased as a result of financial assets rising and financial liabilities declining.

Chart 7



On the liability side of the balance sheet of non-financial corporations, the amount of unquoted shares held by non-residents fell by €0.5 billion. There were also declines in loans incurred and in other liabilities to government.

As for assets in the sector, the largest rises were recorded in bank deposits (€0.9 billion) and in holdings of domestic government bonds (€0.9 billion). On the other hand, short-term loans to non-residents declined by €0.4 billion).

Chart 8

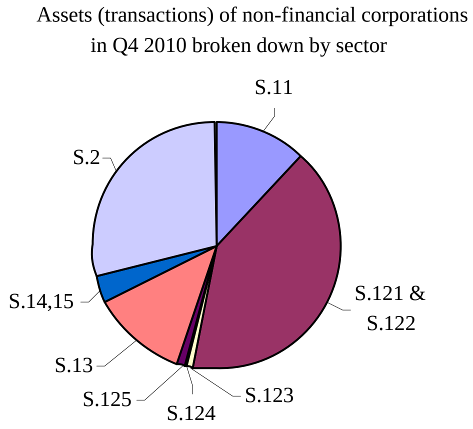
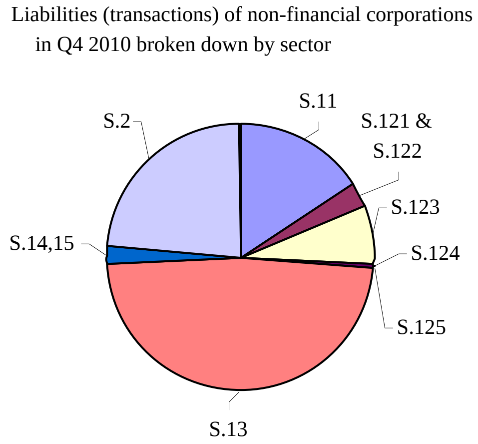


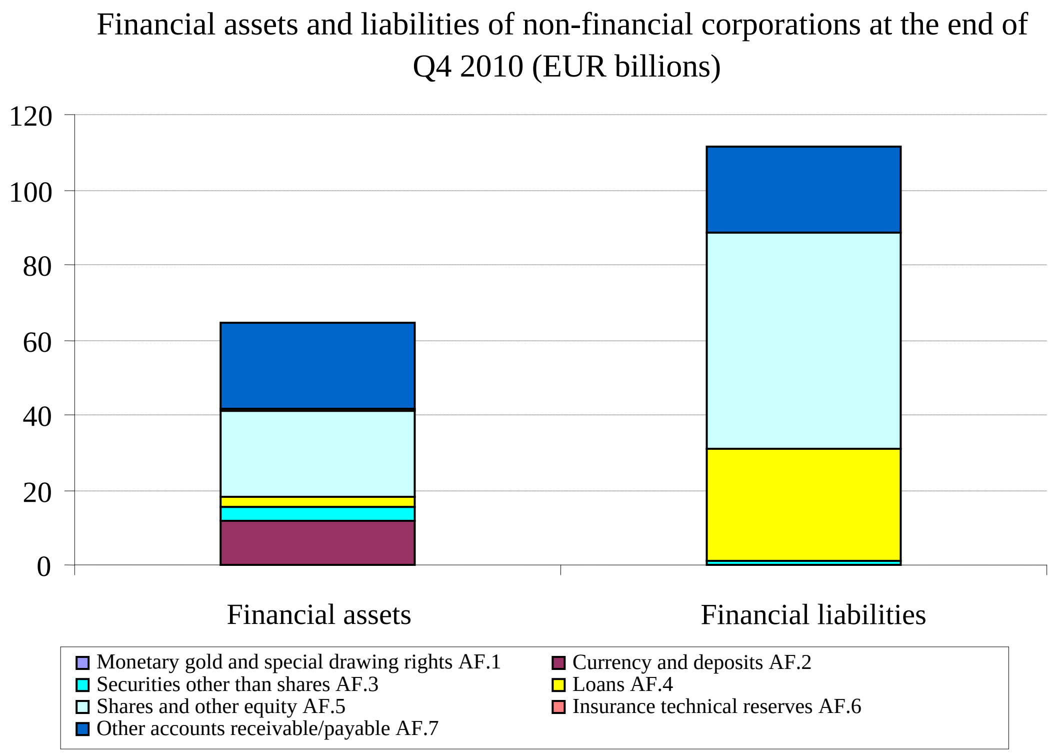
Chart 9



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 10



As regards equity securities issued by resident non-financial corporations, the majority are held by residents – in the sectors of *non-financial corporations* (35.2%) and *general government* (16.6%) – while 47.6% 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 56.4% and loans from non-residents for 35.9%. The main debtors of resident firms across different financial instruments are entities from the (sub-)sectors of *non-financial corporations* (57.4%), *monetary financial institutions* (18.2%) and the *rest of the world* (16.9%).

Chart 11

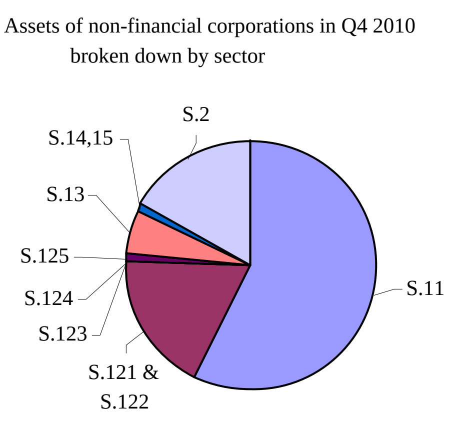
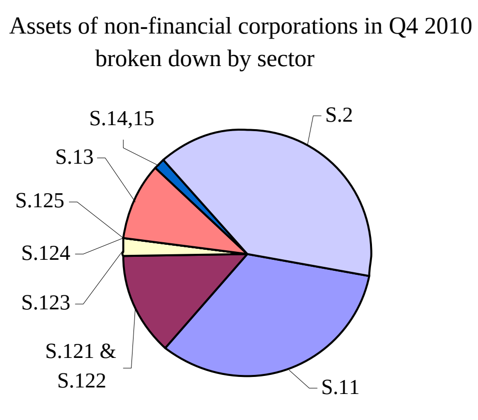


Chart 12



S.12 Financial corporations

Transactions

The *financial corporations* sector (S.12) also recorded net borrowing in the fourth quarter of 2010, accounted for by results in the *central bank* sub-sector.

Chart 13

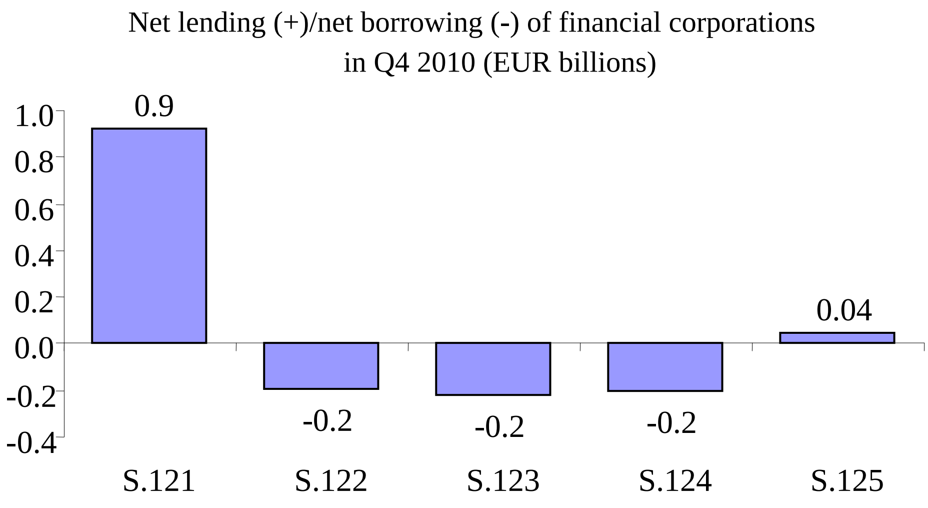
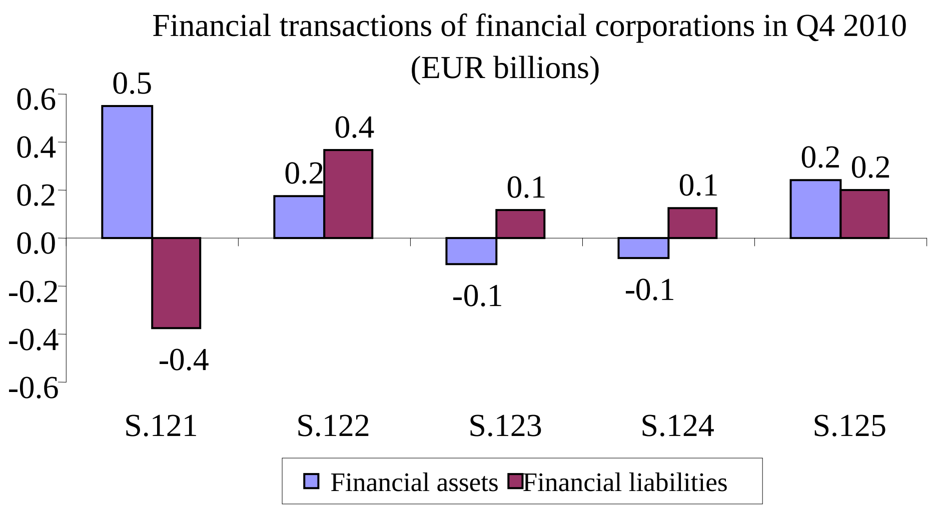


Chart 14



Overall transactions in the *central bank* sub-sector (S.122) were positive in net terms, owing to an increase in assets and decline in liabilities. The largest rise on the asset side occurred in foreign long-term debt securities (€0.8 billion). On the liability side, transferable deposits from non-residents recorded the largest decline (-€1.1 billion).

In the sub-sector of *other monetary financial institutions* (S.122), liabilities reported a higher increase than assets. The rise in liabilities was mostly accounted for by increases in transferable deposits from non-financial corporations (€0.9 billion) and in other deposits from central government (€0.5 billion). On the other hand, commercial banks increased their long-

term lending to households by almost half a billion euro and their deposits with the central bank by approximately the same amount.
Other financial intermediaries (S.123) recorded a rise in liabilities and a fall in assets. In the case of liabilities, most of the increase represented households' purchases of mutual fund shares. The asset figures were notable for an increase in short-term loans and a decline in long-term loans to non-financial corporations and partially also to households.

Transactions of *financial auxiliaries* (S.124) also ended the period with a net negative value, as assets fell and liabilities rose. This included, on the asset side, a decline of €0.1 billion in other deposits and, on the liability side, a rise of €0.1 billion in shares held in the sub-sector of *insurance corporation and pension funds* (S.125).

The balance sheet of *insurance corporations and pension funds* (S.125) improved in the fourth quarter of 2010, as assets increased at a slightly faster pace than liabilities. Funds obtained from households in the form of pension savings (up by €0.2 billion) and life insurance were invested predominantly in domestic and foreign long-term debt securities, in an overall amount of €0.4 billion.

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 15

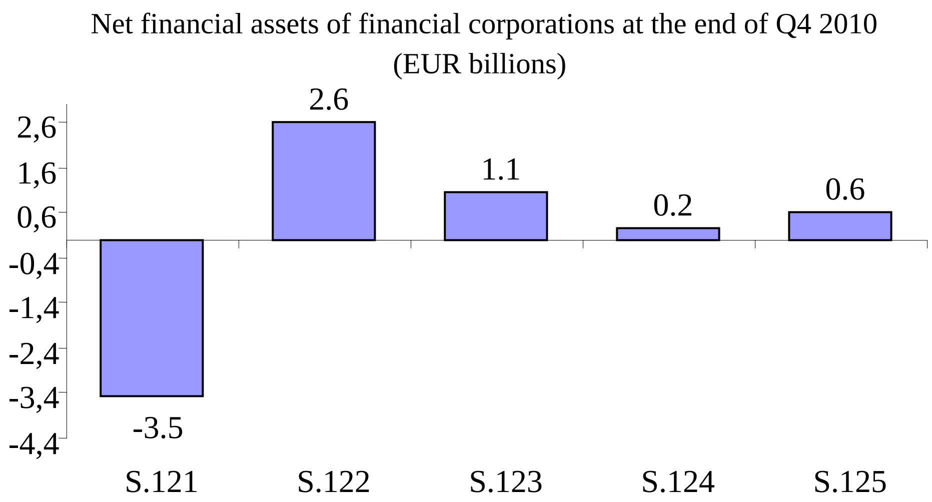
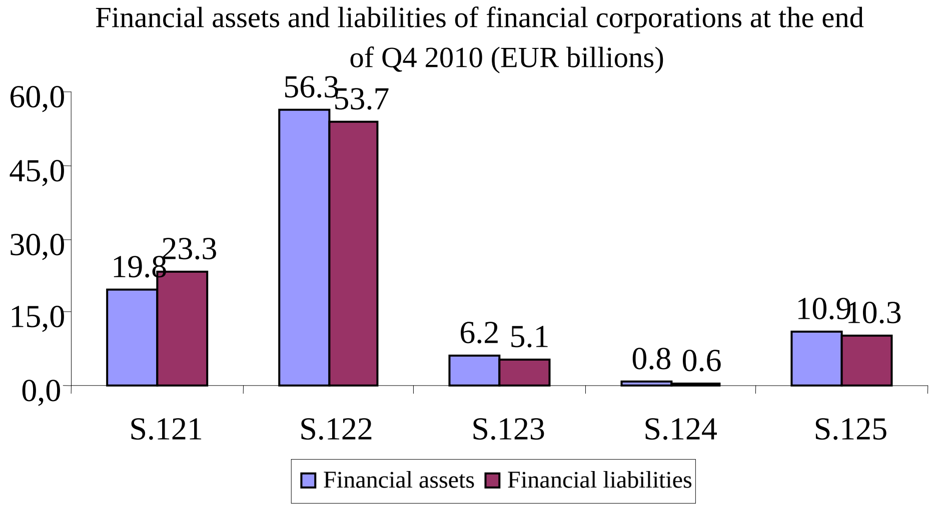


Chart 16



In accordance with their primary mission – to take deposits and extend loans – other monetary financial institutions invest most of their available funds in loans (representing 59.8% of all their assets), followed by government bonds (20%) and residential and non-residential currency and deposits (almost 10%). The principal item on the liability side is deposits (accounting for 81.8% of all liabilities). In terms of the sectoral breakdown, the banks' most important clients are, on the asset side, 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 standing at approximately 93%.

The structure of the invested financial instruments and sectors is based on the core function of the sub-sector *other financial intermediaries* (S.123), 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 bonds. 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.

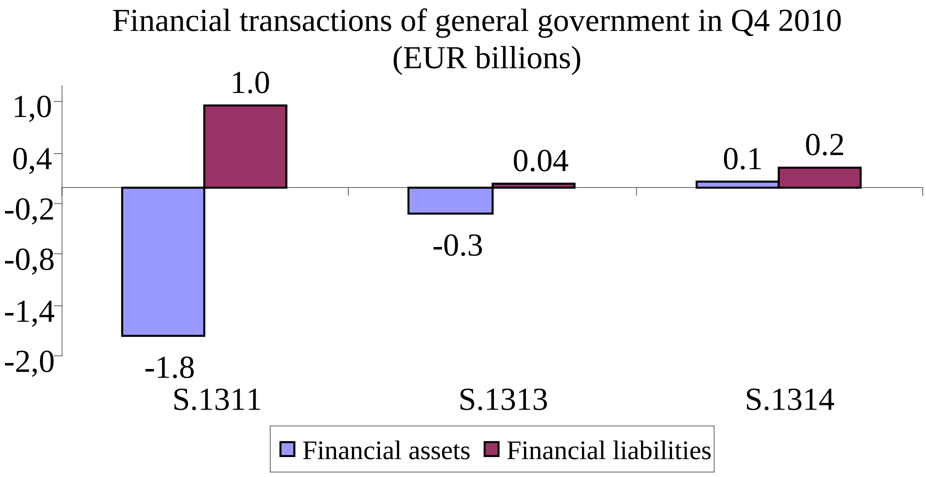
S.13 General government

Transactions

In the fourth quarter of 2010, the *general government* sector increased its debtor position by €3.2 billion. Negative net results were reported for all sub-sectors: central government/S.1311

(-€2.7 billion), local government/S.1313 (-€0.4 billion), and social security funds/S.1314 (-€0.2 billion).

Chart 17



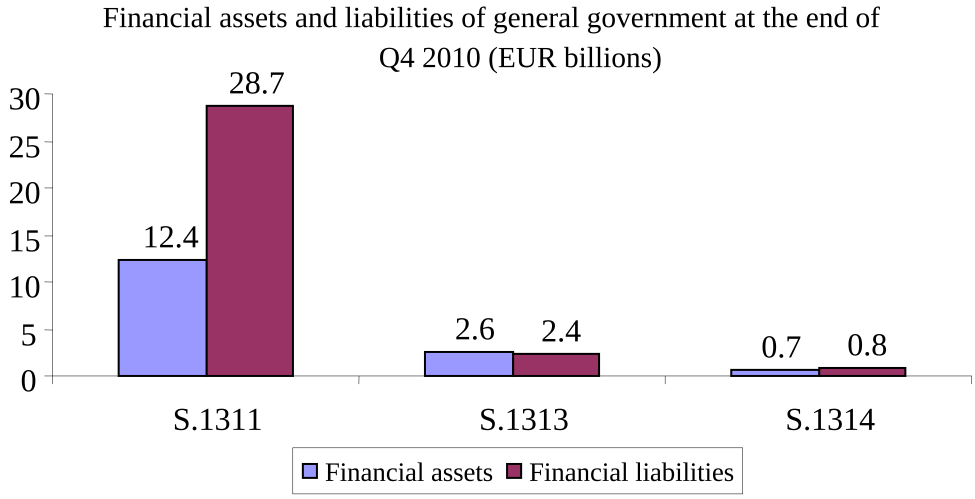
The overall result of the *central government* sub-sector was determined mainly by the change in the amount of bonds issued, which rose by €2.3 billion. Most of the new bonds are held by non-residents and by resident non-financial corporations.
On the asset side, bank deposits increased significantly (by €0.5 billion), but since other claims fell by as much as €1.8 billion, the S.1311 sub-sector recorded an overall decline in assets.

In the *local government* sub-sector, the decline in assets was largely due to a decrease in bank deposits and in other claims on households and non-financial corporations.
The increase in liabilities comprised mainly a rise in long-term loans from financial and non-financial corporations.
Social security funds ended the period with a negative net result, since other liabilities to households increased by €0.2 billion.

Stocks

The overall debtor position of the *general government* sector is largely due to developments in the *central government* sub-sector (S.1311), which reported net financial assets as at 31 December 2011 of -€16.4 billion. The *local government* sub-sector had a net creditor position of €0.3 billion, while the *social security funds* sub-sector ended with a net debtor position of -€0.1 billion.

Chart 18



The financial assets of central government entities comprise mainly shares issued by resident non-financial corporations (representing around 63.6% of the value of total assets), followed by long-term loans to non-financial corporations, local government, and non-residents (more than 14%). As for central government liabilities, they largely consist of long-term debt securities (around 88%), of which 32% are held abroad.

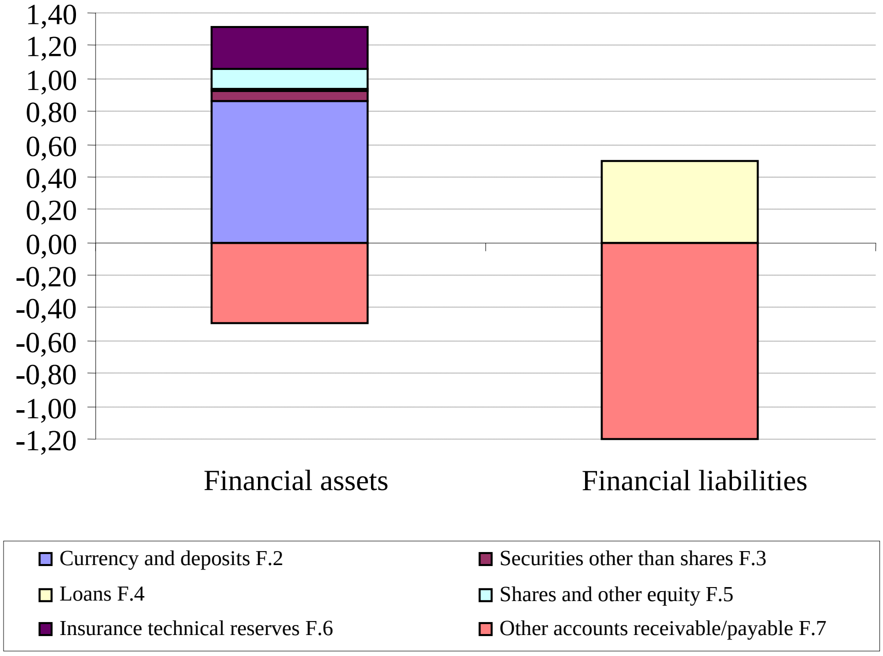
S.14 and S.15 Households (including NPISH)

Transactions

The sector of *households (including non-profit institutions serving households)* saw an increase in its overall creditor position in the fourth quarter of 2010, owing to a rise in financial assets and fall in financial liabilities. The main increases on the asset side were in deposits and currency (€0.9 billion), pension savings (€0.2 billion), and mutual fund shares (€0.1 billion). On the liability side, the sector's other liabilities to general government fell by €1.1 billion, but at the same time households took on more debt in the form of long-term bank loans (which increased by €0.5 billion).

Chart 19

Financial assets and liabilities (transactions) of households
and NPISH in Q4 2010 (EUR billions)



The sectoral breakdown of assets was dominated by transactions with *banks, general government, and insurance corporations and pension funds*. The main transactions on the liability side were with *central government and monetary financial institutions*.

Chart 20

Financial assets (transactions) of households and NPISH
in Q4 2010 broken down by sector

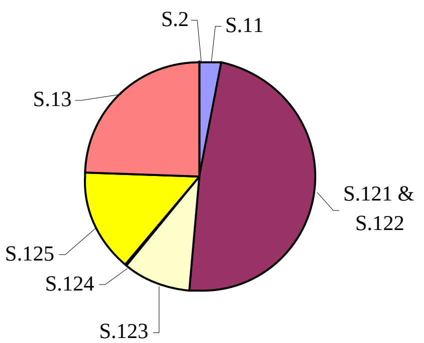
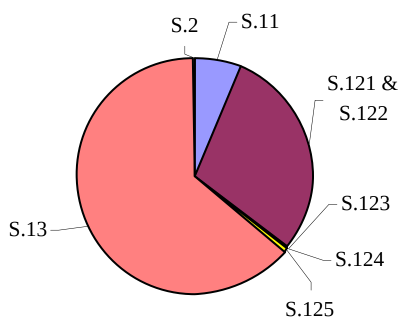


Chart 21

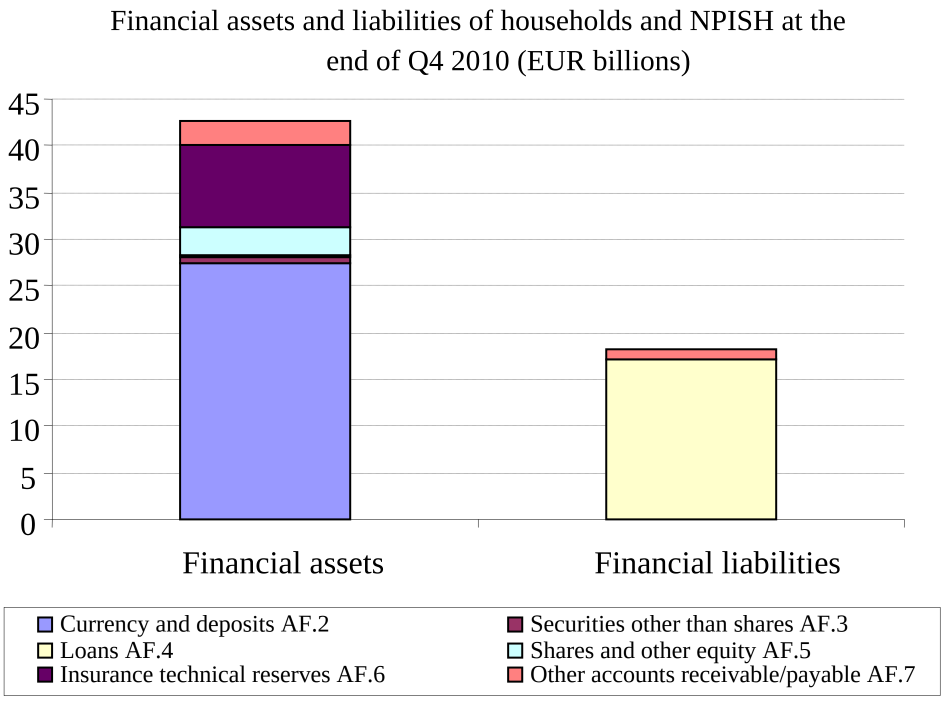
Financial liabilities (transactions) of households and NPISH
in Q4 2010 broken down by sector



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 assets, approximately 55% are in the form of deposits, almost 20% are invested in the pension system and in life insurance, and 7.0% are invested in mutual funds. As for the sector's liabilities, loans constitute 93.1% 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 22



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.

Chart 23

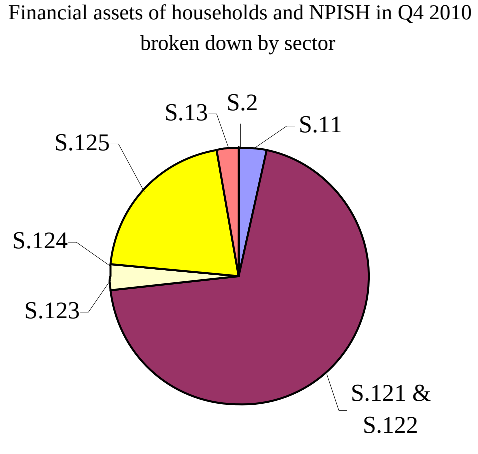
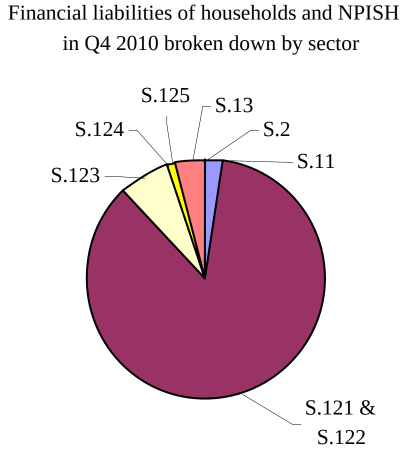


Chart 24



S.2 Rest of the world

Transactions

The overall creditor position of the *rest of the world* sector vis-à-vis the national sectors fell as a result of assets declining at a faster pace than liabilities.
In the main developments on the asset side, bank deposits fell by €2.0 billion and holdings of unquoted shares decreased by €0.9 billion (holdings of non-financial corporations and financial corporations fell by €0.5 billion and €0.4 billion, respectively). On the liability side, trade credits fell by €0.8 billion and short-term financial loans from non-financial corporations dropped by €0.4 billion.

Stocks

The *rest of the world* sector is a net creditor to the Slovak economy, with 33.8% of the sector's total assets comprising shares of resident non-financial corporations and 16.5% 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 50.7% of total liabilities and held mainly by financial institutions), and trade credits received from non-financial corporations (around 14.1%).