Comments on the Quarterly Financial Accounts for Q4 2011

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.

The link between quarterly non-financial (GDP) accounts and financial accounts

Financial accounts are linked to non-financial accounts through the *net lending/borrowing* balancing item. This item provides information about a country's overall debtor or creditor position vis-à-vis the rest of the world. Slovakia has a long-term debtor position (mainly as a result of inflows of foreign direct investment). Any decrease/increase in the Slovak economy's indebtedness is reflected in the amount of net lending/borrowing.

Net lending/borrowing by the domestic economy vis-à-vis the rest of the world is calculated from the amount of gross disposable national income, less final consumption expenditure in the sectors of *households (including NPISH)* and *general government.* The result represents the total savings in the national economy. If savings in a given quarter (adjusted for net capital transfers) are higher (lower) than gross capital formation, it means that the economy has lent (borrowed) funds to/from non-residents and thus reduced (increased) its overall debtor position vis-à-vis the rest of the world. The amount of net lending/borrowing is then entered into the quarterly financial accounts. Its utilisation within the domestic economy is analysed below.

Overall development

Transactions

In the fourth quarter of 2011, 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] reported - €1.0 billion. This negative result was caused by a lower increase in financial assets than in financial liabilities. Among institutional sectors[5], the most significant contribution to this result came from financial transactions in the sector of *general government* (S.13), where transactions on the liability side exceeded those on the asset side by €1.3 billion. By contrast, the best result in the fourth quarter of 2011 was reported by *other monetary financial institutions* (S.122), with their creditor position increasing by €0.7 billion.

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

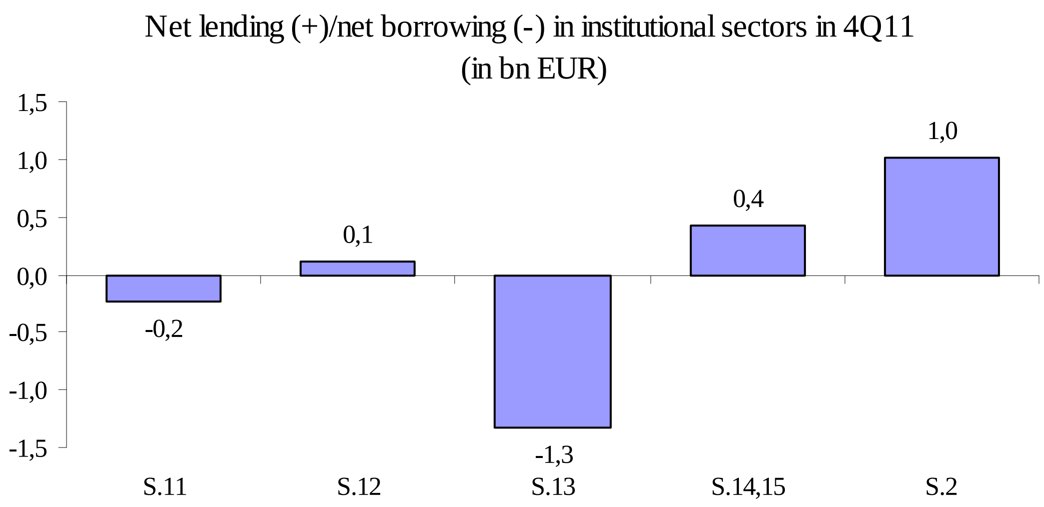
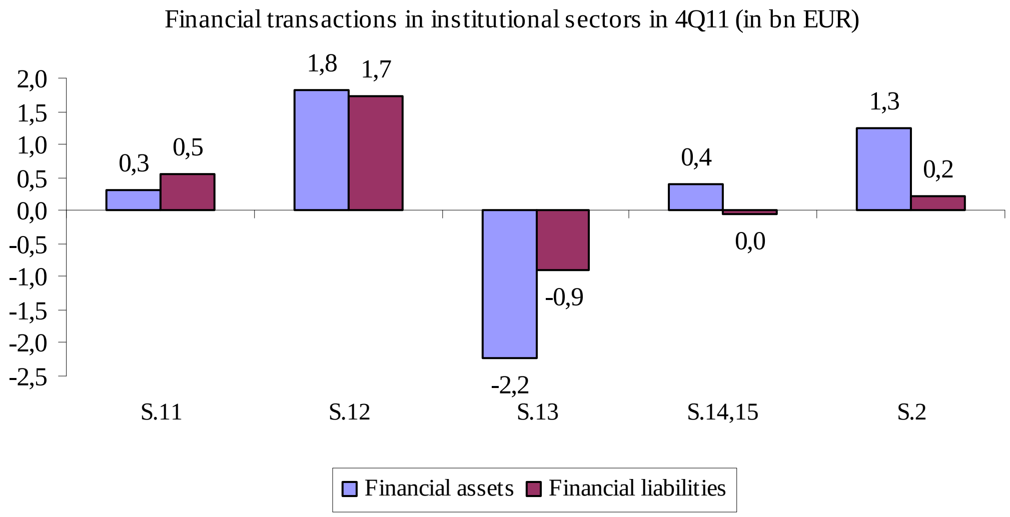
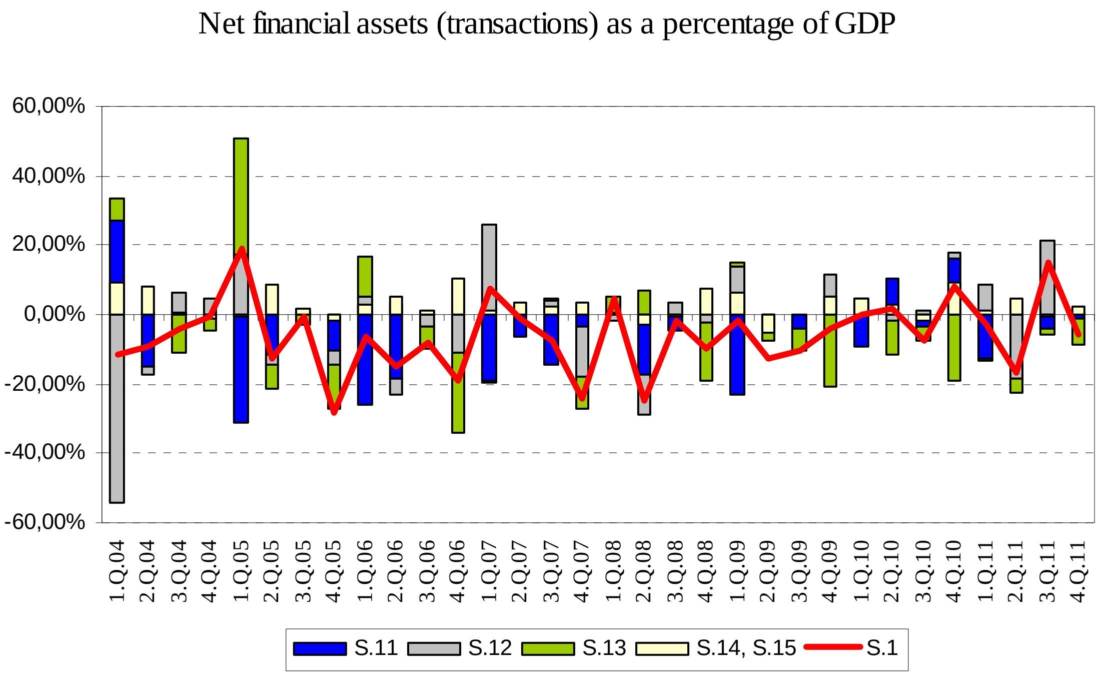


Chart 2



Net financial assets of the national economy at the end of the fourth quarter of 2011 amounted to - €1.0 billion, meaning that the financial position of the economy as a percentage of GDP for the respective quarter deteriorated by - 5.7%.

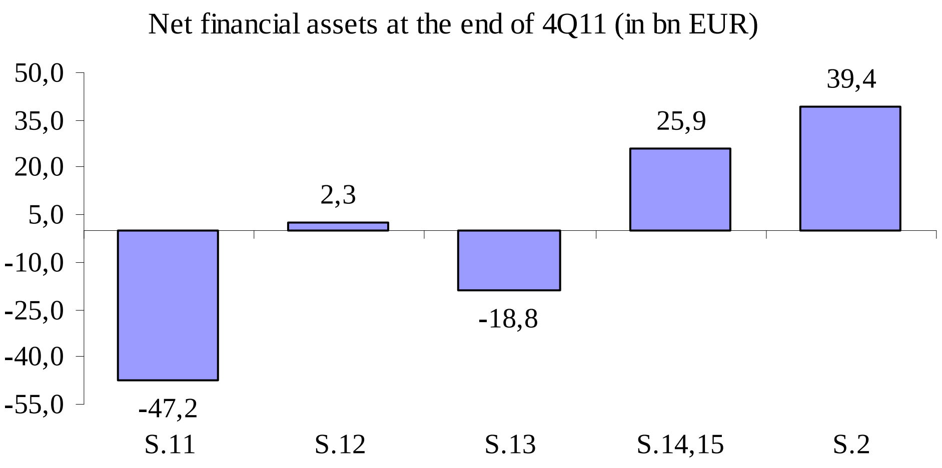
Chart 3



Stocks

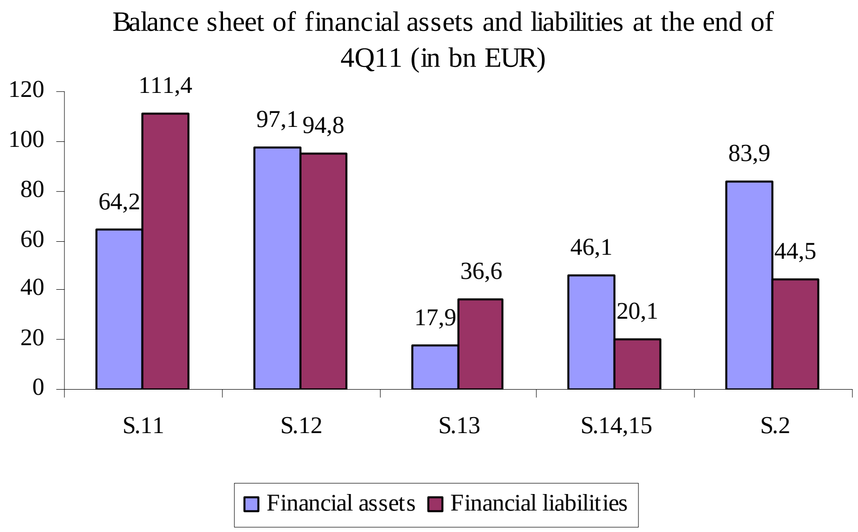
The total debt of the national economy increased in the fourth quarter of 2011 and ended the period at - €37.8 billion.[6]

Chart 4



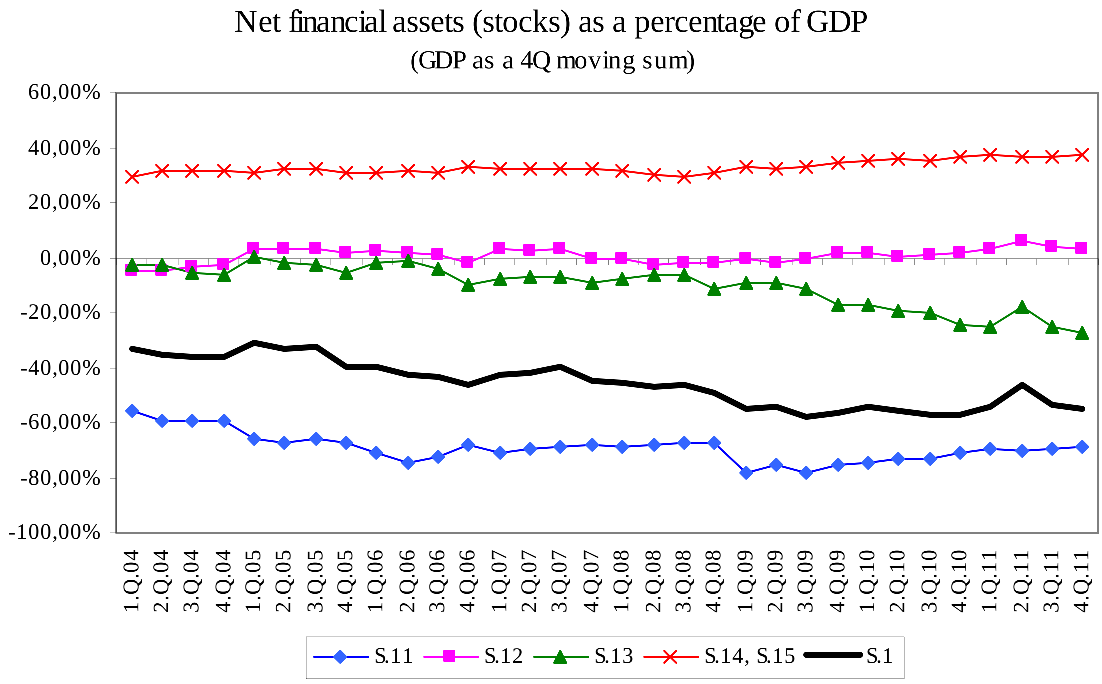
[6] The difference between the net financial debt of the national economy (- €37.8 billion) and the net creditor position of the rest of the world sector (€39.4 billion) comprises *monetary gold and special drawing rights* amounting to €1.6 billion. This item is reported on the side of *central bank* 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) amounted to -€37.8 billion at the end of the fourth quarter of 2011, which means -54.7% of annual GDP for 2011 (the moving total of the last four quarters).

Chart 6



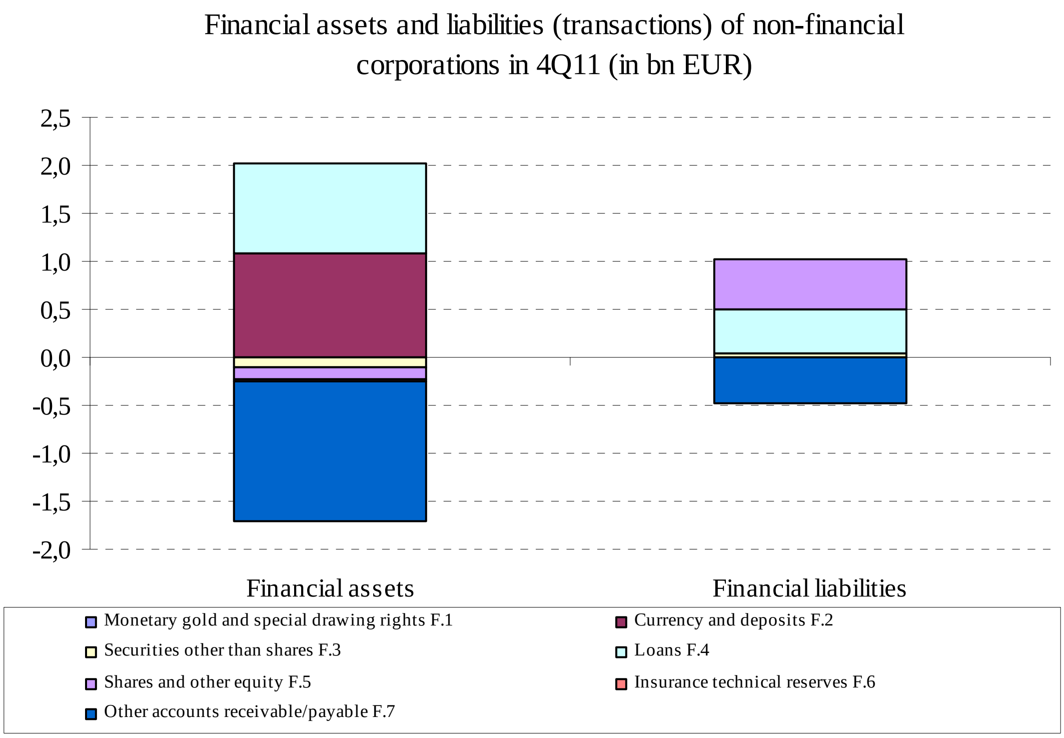
Quarterly financial accounts broken down by institutional sectors

S.11 Non-financial corporations

Transactions

The indebtedness of non-financial corporations increased as a result of a higher rise in financial liabilities than in financial assets.

Chart 7



As for assets, the largest increases were in short-term loans to non-residents (€0.8 billion) and deposits with resident banks (€0.6 billion).
On the liability side of the balance sheet of non-financial corporations, the amount of unquoted shares held by non-residents rose by €0.5 billion.

Chart 8

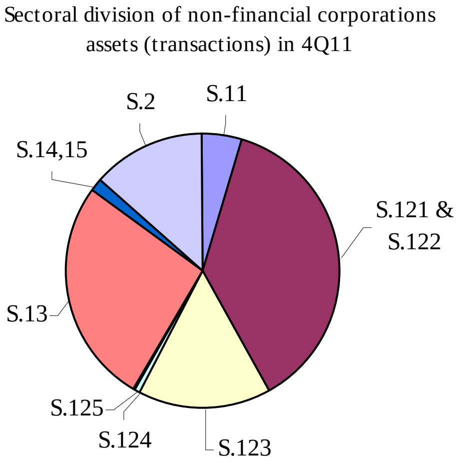
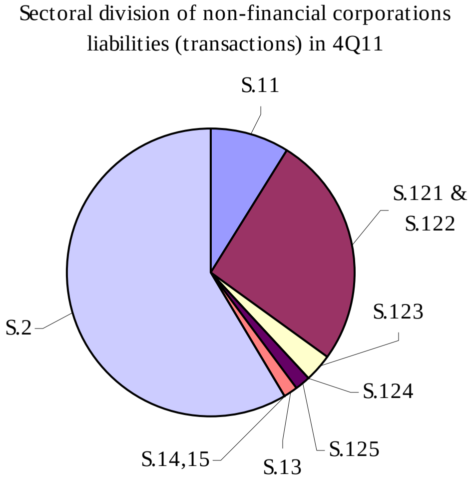


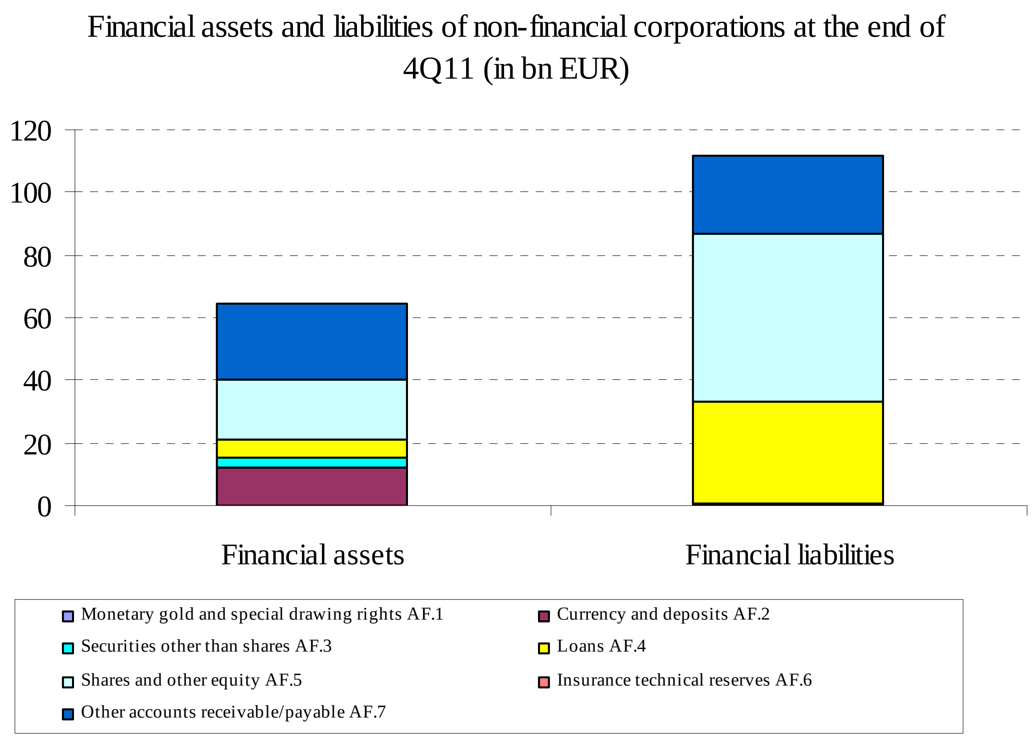
Chart 9



Stocks

The principal financial resources of non-financial corporations have over a long period included issued equities and taken 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* (28.8%) and *general* *government* (17.8%) – while 53% 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 55.5% and loans from non-residents for 35.8%. The main debtors of resident firms across different financial instruments are entities from the (sub-)sectors of *non-financial corporations* (52.9%), *monetary financial institutions* (19.3%) and the *rest of the world* (20.8%).

Chart 11

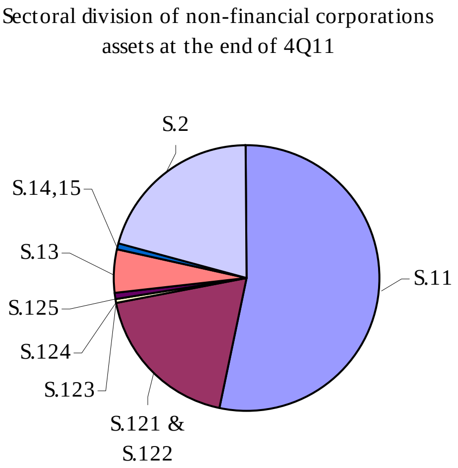
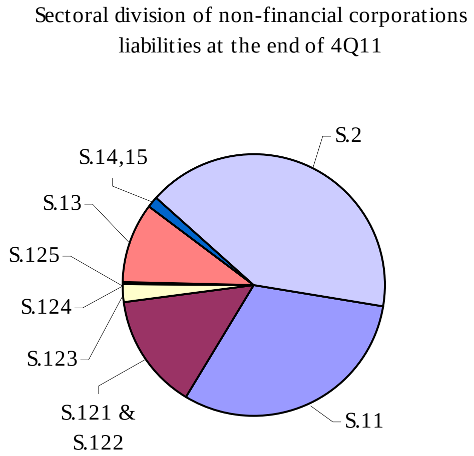


Chart12



S.12 Financial corporations

Transactions

The *financial corporations* sector (S.12) recorded net borrowing in the fourth quarter of 2011, mostly consisting of borrowing from commercial banks.

Chart 13

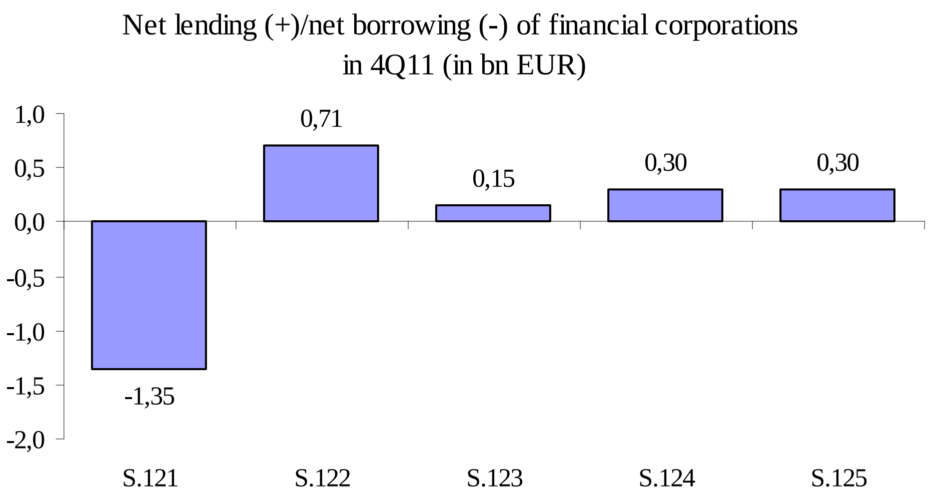
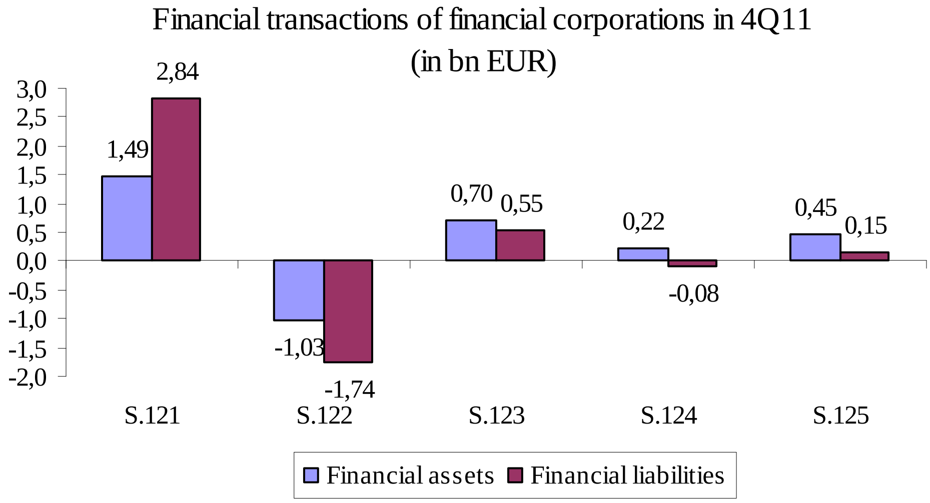


Chart 14



Overall transactions of the *central bank* sub-sector (S.121) were negative in net terms, since the increase in liabilities was larger than in assets. The main factor in the central bank's negative results was the rise in liabilities related to settlements in TARGET2, which went up by €2.6 billion.
The largest increases on the asset side were recorded by long-term loans to commercial banks as part of LTRO (€1.2 billion) and holdings of foreign long-term debt securities (€0.6 billion).

In the sub-sector of *other monetary financial institutions* (S.122), net lending reached €0.7 billion, as the decrease in liabilities was greater than in assets. The decline in liabilities was mostly attributable to total deposits taken (- €1.8 billion) and mutual fund shares held by households (- €1.0 billion), which mainly relates to the reclassification of money market funds.
The largest decrease on banks' asset side was recorded also for deposits (€1.4 billion in total), while the decline of deposits in subsector S.122 recorded €0.8 billion. This was manifested both on the asset and liability sides. Long-term loans to households went up by €0.4 billion.

In the sub-sector of *other financial intermediaries* (S.123), the increase in assets was higher than in liabilities (by €0,1 billion). On the asset side, long-term securities issued by residents and non-residents reported the largest growth (€0.5 billion in total). The rise in liabilities was mostly affected by the reclassification of mutual funds, which led to an increase in liabilities to households (€0.8 billion).

Net transactions of *financial auxiliaries* (S.124) ended with a positive result, as assets went up and liabilities declined. The main factor in this sector's results was the rise in transferable deposits with banks (€0.2 billion) and the fall in the amount of unquoted shares held by non-residents (€0.1 billion).

The balance sheet of *insurance corporations and pension funds* (S.125) also improved as assets increased at a faster pace than liabilities. Funds obtained from households in the form of pension savings (€0.2 billion) were invested predominantly in domestic short-term and long-term debt securities (€0.6 billion in total).

Stocks

The *financial corporations* sector (S.12) reported a creditor position. The central bank and financial auxiliaries reported a debtor position.

Chart 15

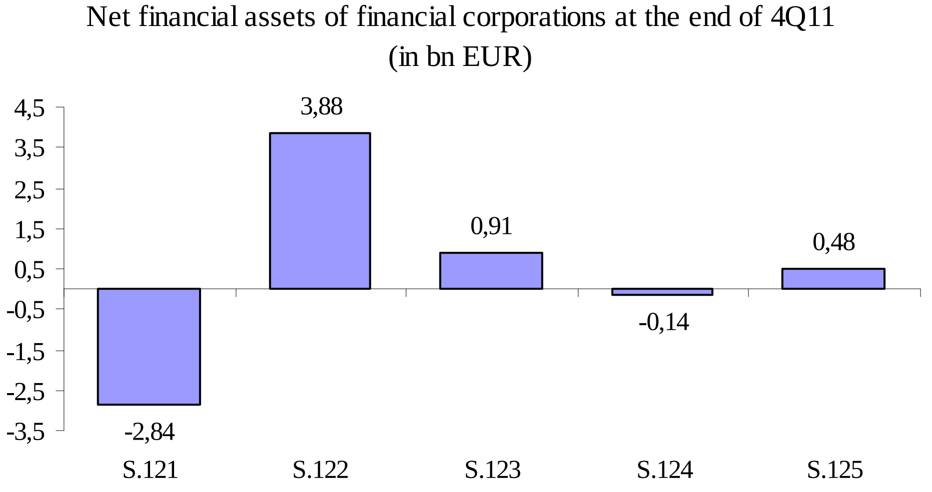
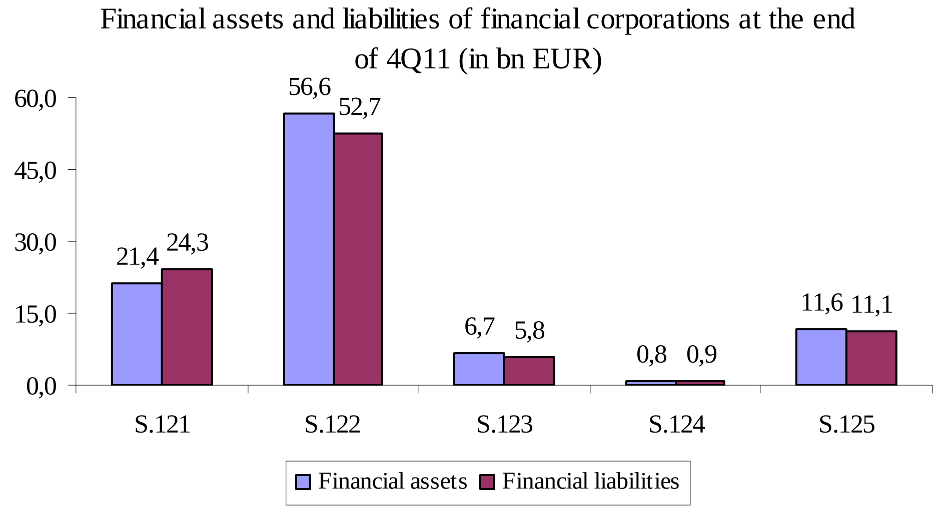


Chart 16



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 64.7% of all their assets), followed by Slovak government bonds (19,3%) and residential and non-residential deposits and currency (7.6%). The most significant item on the liability side is deposits (representing 80.8% of total liabilities). In terms of the sectoral breakdown, the banks' most important clients on the asset side are households, non-financial corporations and central government entities. On the liability side, the banks' most important clients are households, non-financial corporations and non-resident entities. 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 93%.

The structure of invested financial instruments and sectors is based on the core function of the *other financial intermediaries* sector (S.123), i.e. it is focused on the extension of loans to non-financial corporations and households and invests a proportion of its funds also 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 of loans are invested in deposits.

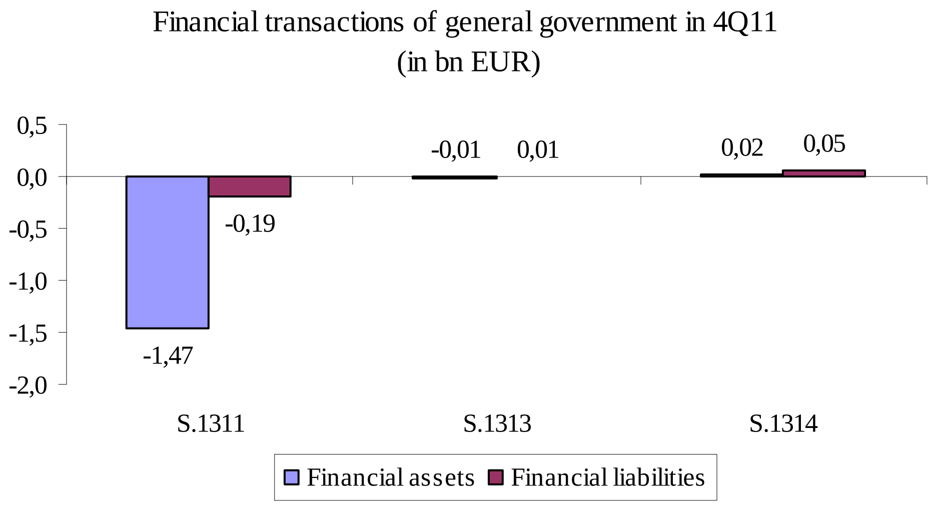
By contrast, the sub-sector of *insurance corporations and pension funds* (S.125) has an increasing influence in the financial market. The main creditor of this sector is *households*, which invest in life insurance and in Pillars II and III of the pension saving system. The funds so acquired are invested mainly in domestic 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 €1.3 billion during the fourth quarter of 2011. The sub-sector of *central government* (S.1311) accounted for the largest part of that rise (- €1.3 billion). The subsectors of *local government* (S.1313) and *social security funds* (S.1314) reported an almost balanced position.

Chart 17



The overall result of the *central government* sub-sector was determined mainly by a fall in deposits with domestic banks (- €1.0 billion), a rise in long-term loans received from non-residents (€0.5 billion) and an increase in issued Treasury bills held by resident financial corporations (€0.6 billion).

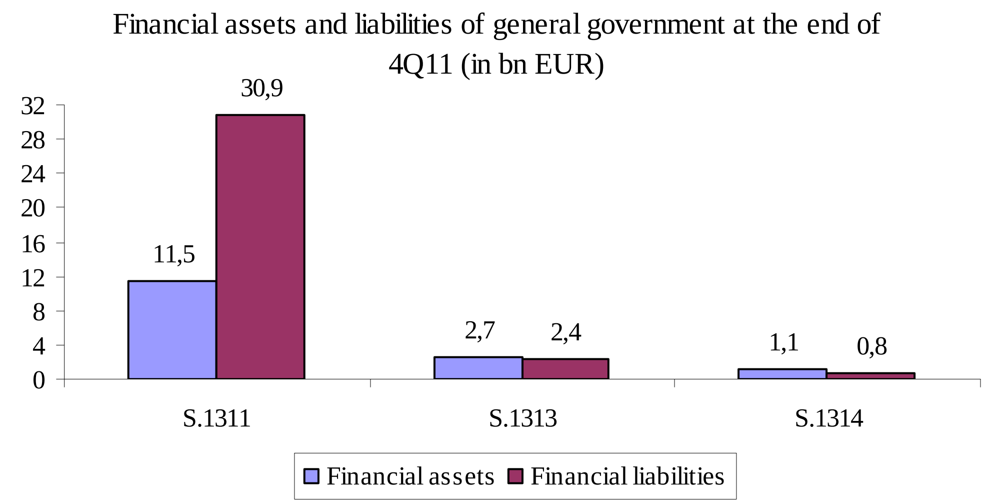
The item mostly affecting the result of the *local government* sector was deposits with the state Treasury which fell by €0.2 billion.

Social security funds (S.1314) reported positive net financial transactions, supported mainly by increasing deposits with the state Treasury (€0.1 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 of - €19.4 billion as at 31 December 2011. The *local government* sub-sector (S.1313) and *social security funds* (S.1314) had a net creditor position of €0.3 billion.

Chart 18



The financial assets of central government entities comprise mainly shares issued by resident non-financial corporation (representing 68.4% of the value of total assets). More than 16% of their assets consist of long-term loans to non-financial corporations, local government and non-resident entities. As for central government liabilities, they largely consist of long-term debt securities (85.3%), of which 34.7% are held abroad.

S.14,15 Households (including NPISH)

Transactions

The sector of *households (including non-profit institutions serving households)* increased its overall creditor position in the fourth quarter of 2010, as a result of rising financial assets and falling financial liabilities.

The rises on the asset side were household deposits with banks (€0.6 billion) and pension fund savings (€0.2 billion). On the other hand, household holdings of mutual fund shares/units declined by €0.1 billion in total.
Households took on more debt in the form of long-term loans from banks which went up by €0.4 billion.

Chart 19

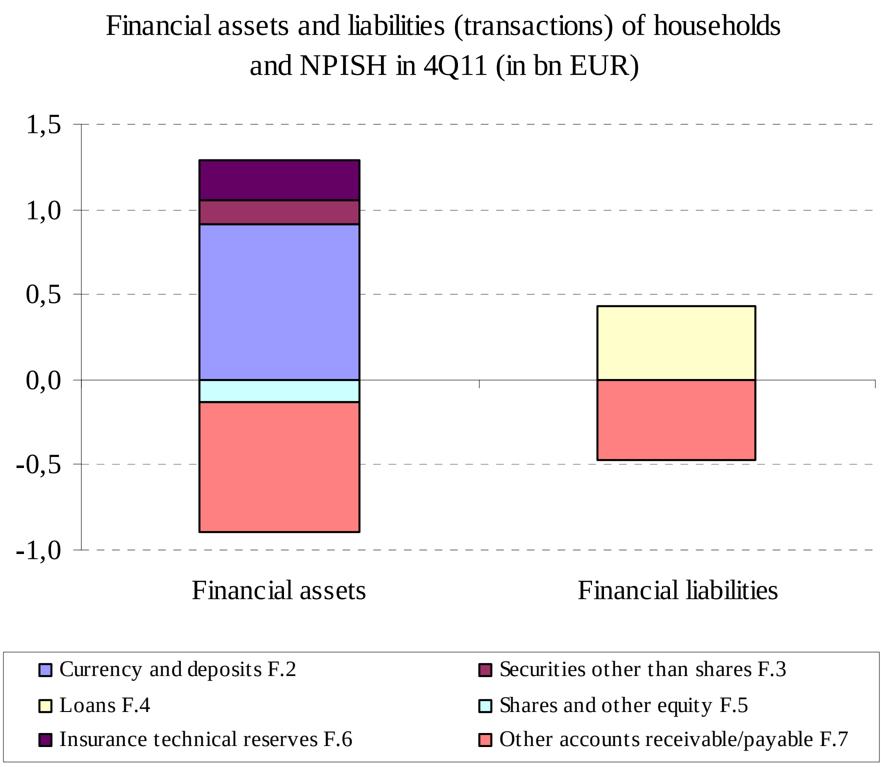


Chart 20

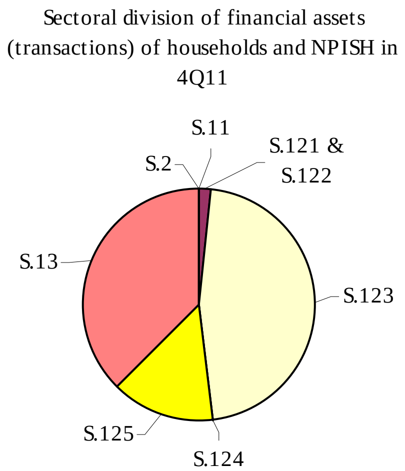
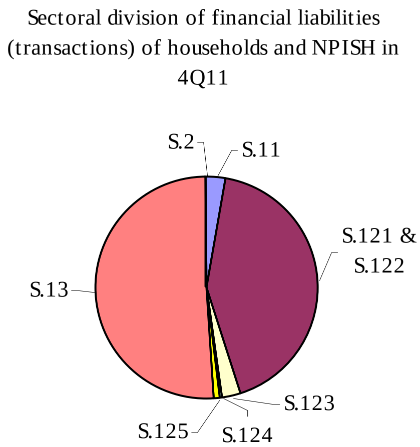


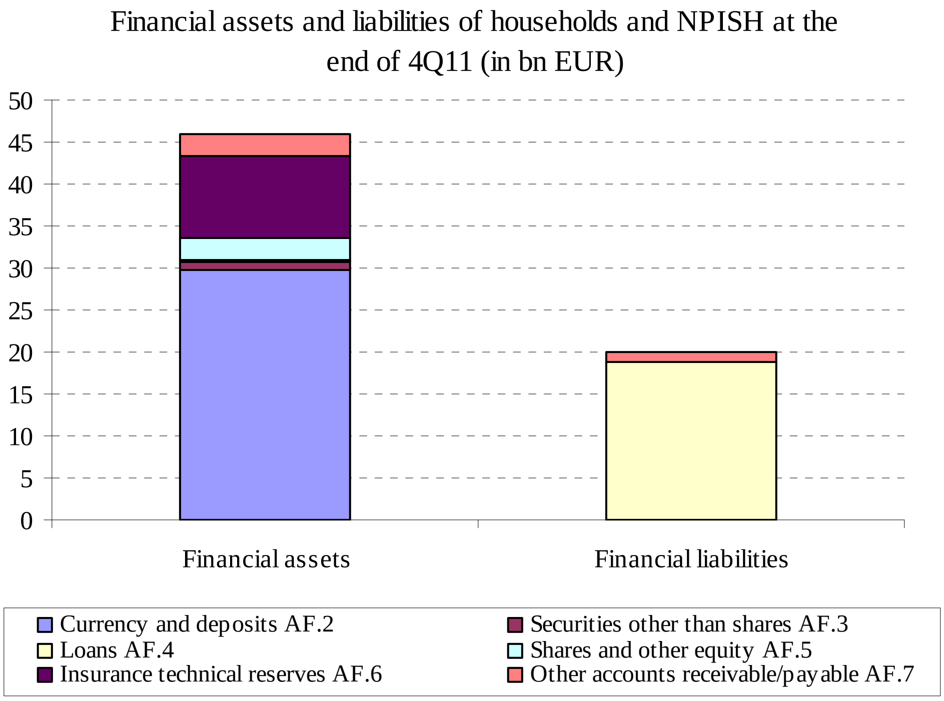
Chart 21



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, 54.9% are invested in deposits, almost 20.2% in the pension system and in life insurance, and 5.5% in mutual funds. As for the sector's liabilities, loans constitute 93.4% 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 of *other monetary financial institutions* (S.122), as well as the sub-sector of *insurance corporations and pension funds* (S.125).

Chart 23

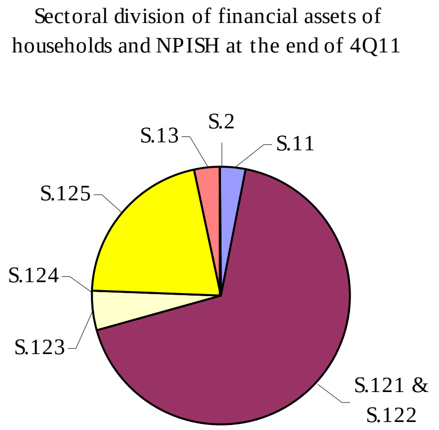
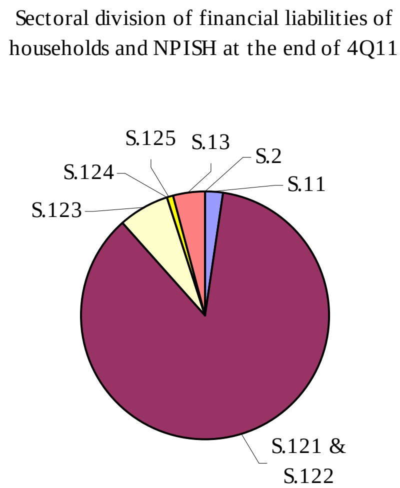


Chart 24



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 factor in the *rest of the world* sector was the rise in transferable deposits with the central bank (€2.6 billion), which included claims related to settlements in TARGET2 (€2.6 billion). Total deposits with commercial banks decreased by €1.7 billion.
In the *rest of the world* liabilities, the largest increase was reported in short-term loans from non-financial corporations (€0.8 billion) and the largest drop was seen in deposits from banks (- €0.5 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 16.2% 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 issued debt securities (representing 51.5% of total liabilities), held mainly by financial institutions, and trade credits received from non-financial corporations (12.1%).