Comments on the Quarterly Financial Accounts for Q2 2012

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 (PFMCs, SPMCs, IFs, SE, CD, MFMCs)[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 (NPISHs)	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] PMFCs – pension funds management companies, SPMCs – supplementary pension management companies, IFs – investment firms, SE – stock exchange, CD – central depository, MFMCs – mutual funds management companies.
[2] Stocks and transactions have the AF code and the F code, respectively.

Quarterly Financial Accounts (transactions) for Q2 2012

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 NPISHs)* and *general government.* The result represents the total savings in the domestic 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 second quarter of 2012, the net debtor position of the Slovak economy declined and therefore so did the net creditor position of the *rest of the world* sector[3]. Net lending[4] amounted to €0.5 billion, due to the increase in financial assets exceeding the increase in financial liabilities. Among institutional sectors[5], the most significant contribution to this result came from financial transactions in the sector of *financial corporations* (S.12), where transactions on the asset side exceeded those on the liability side by €1.3 billion. By contrast, the worst result in the second quarter was reported by *general government* (S.13), as the debtor position of this sector rose by €0.9 billion.

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

[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

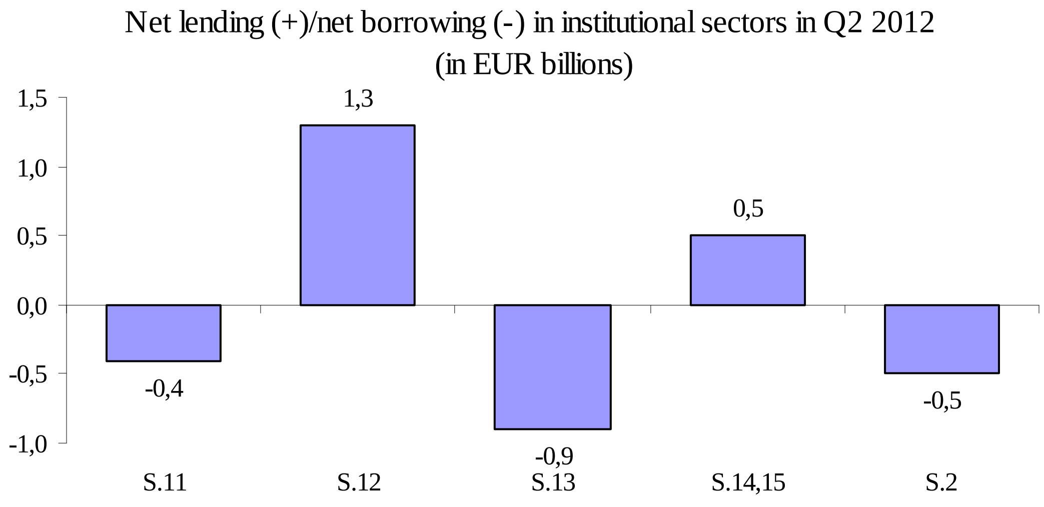
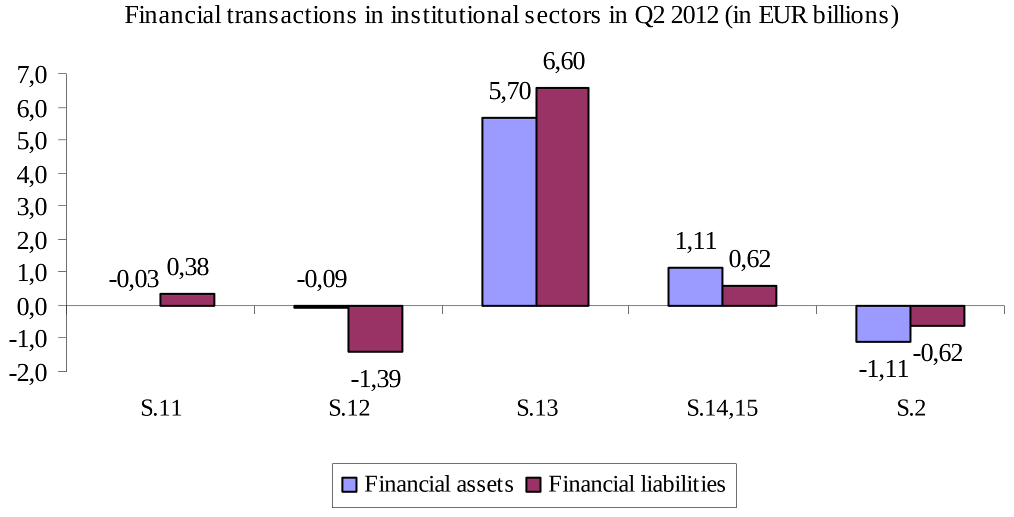
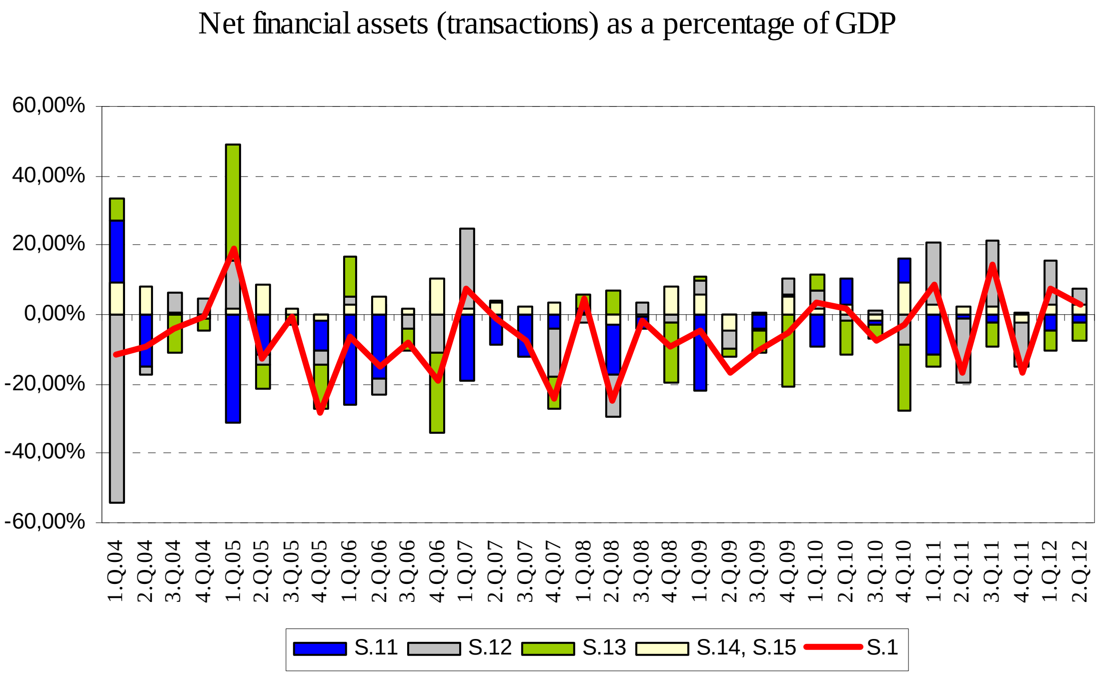


Chart 2



Net financial assets of the domestic economy at the end of the second quarter of 2012 amounted to €0.5 billion, meaning that the financial position of the economy as a percentage of GDP for the respective quarter improved by 2.75%.

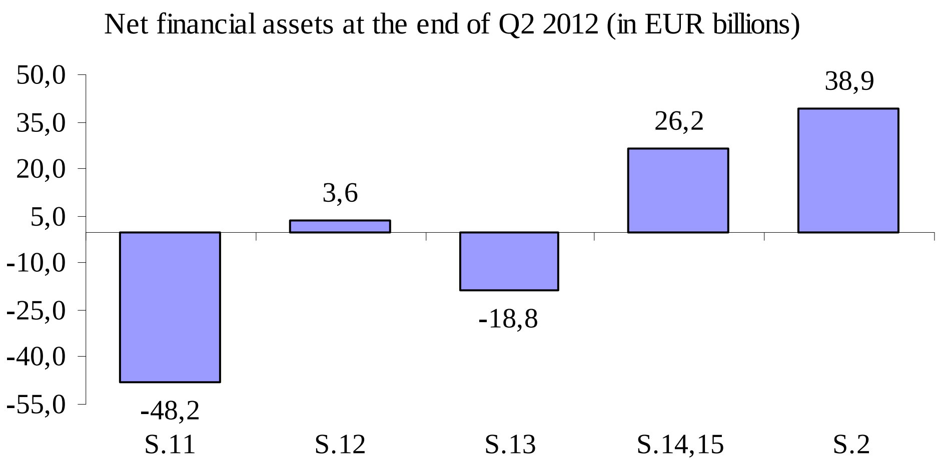
Chart 3



Stocks

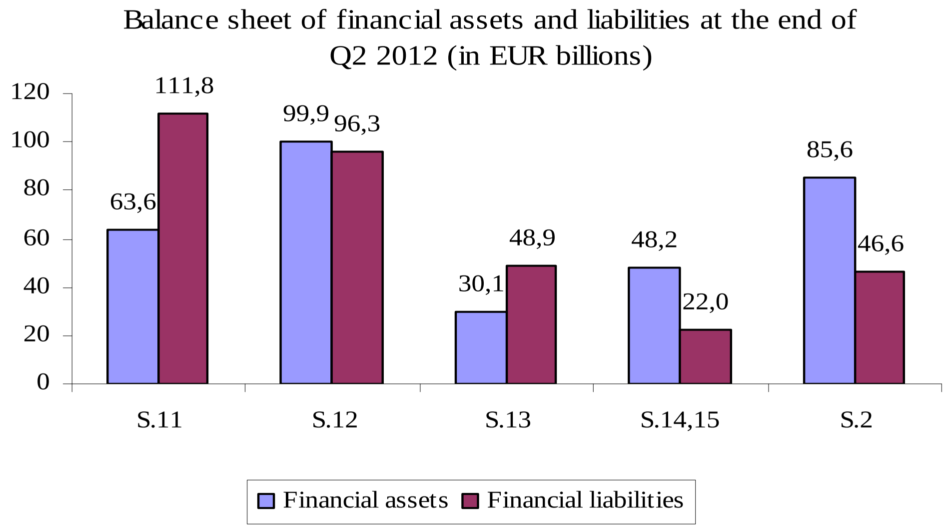
The total debt of the domestic economy declined in the second quarter of 2012 and ended the period under review at - €37.6 billion.[6]

Chart 4



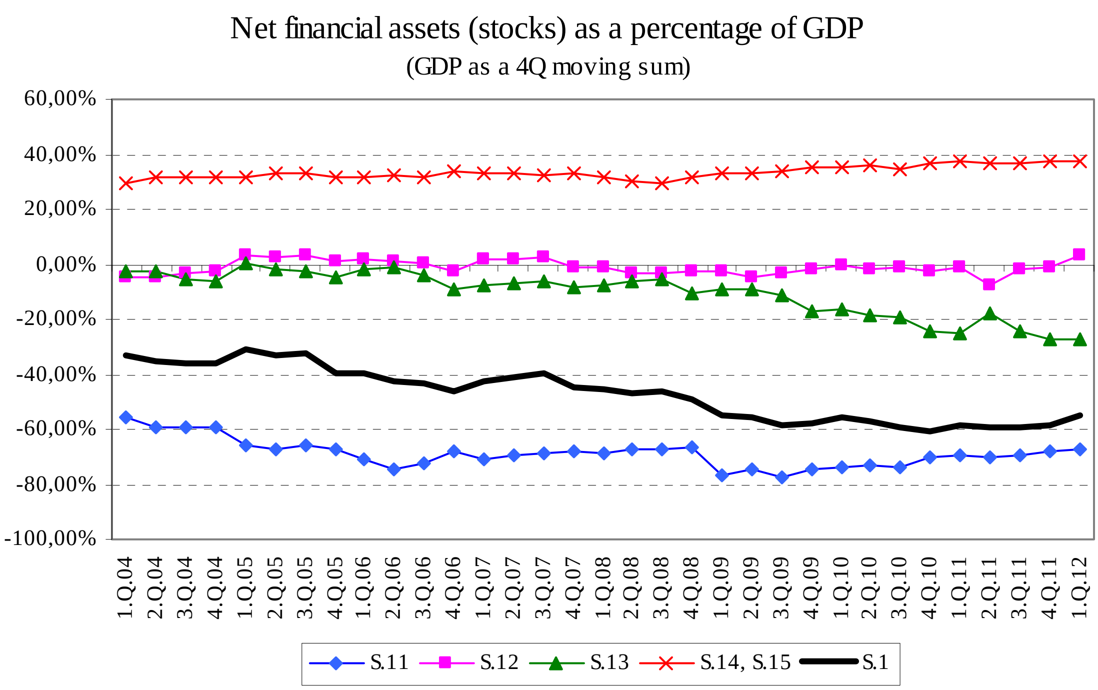
[6] The difference between the net financial debt of the *domestic* economy (- €37.2 billion) and the net creditor position of the *rest of the world* sector (€38.9 billion) comprises *monetary gold and special drawing rights* amounting to €1.7 billion. This item is reported on the *central bank* asset side, but it is not reported on the *rest of the world* liability side.

Chart 5



The net financial wealth of the domestic economy (stock of net borrowing) amounted to - €37.2 billion at the end of the second quarter of 2012, or -52.9% of annual GDP for 2012 (the moving total of the last four quarters).

Chart 6



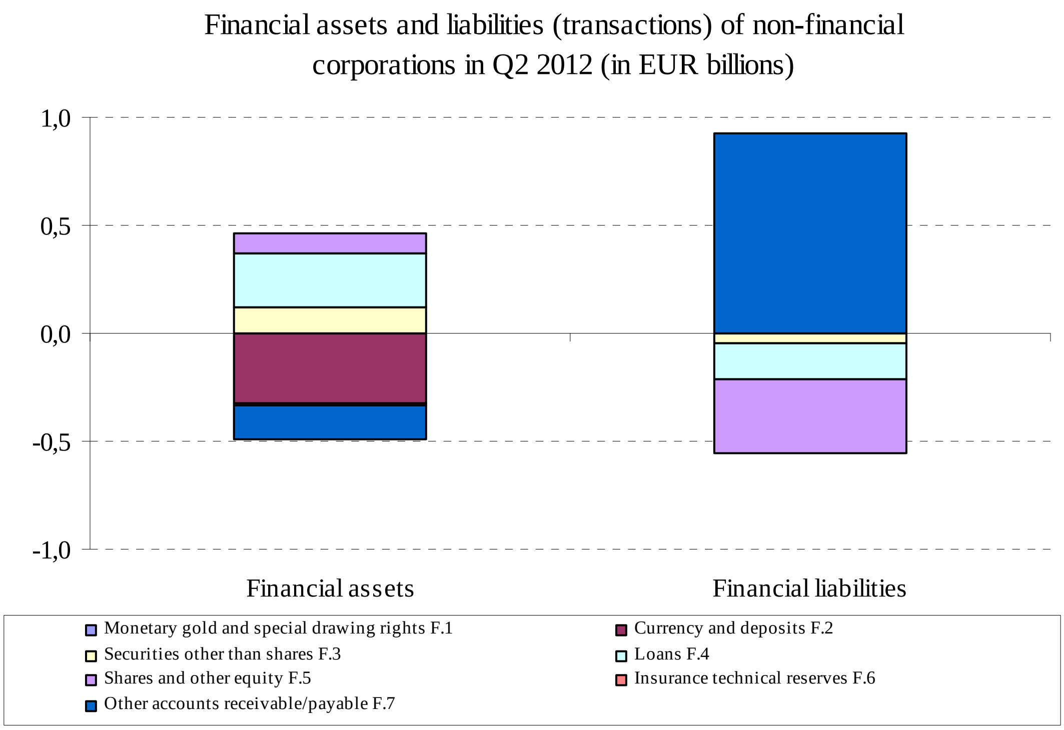
<u>Quarterly financial accounts broken down by institutional sector</u>

S.11 Non-financial corporations

Transactions

The indebtedness of non-financial corporations increased as a result of a rise in financial liabilities and a slight decrease in financial assets.

Chart 7



On the liability side of the S.11 sector balance sheet, the largest increase was in other payables (€0.9 billion) which included trade credits and advances. Short-term loans from non-residents also surged (€0.5 billion).
On the asset side, trade credits of enterprises to non-residents fell significantly by €0.7 billion and bank deposits declined by €0.4 billion.

Chart 8

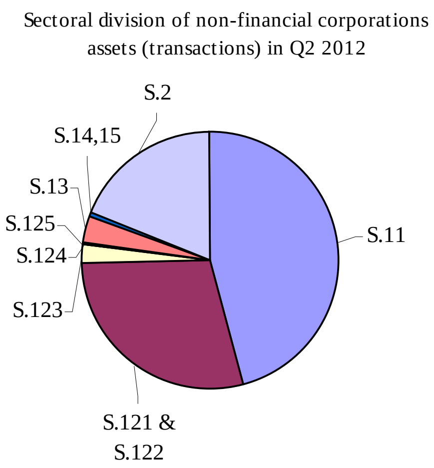
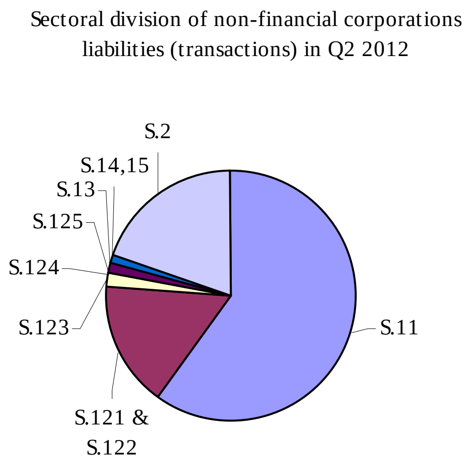


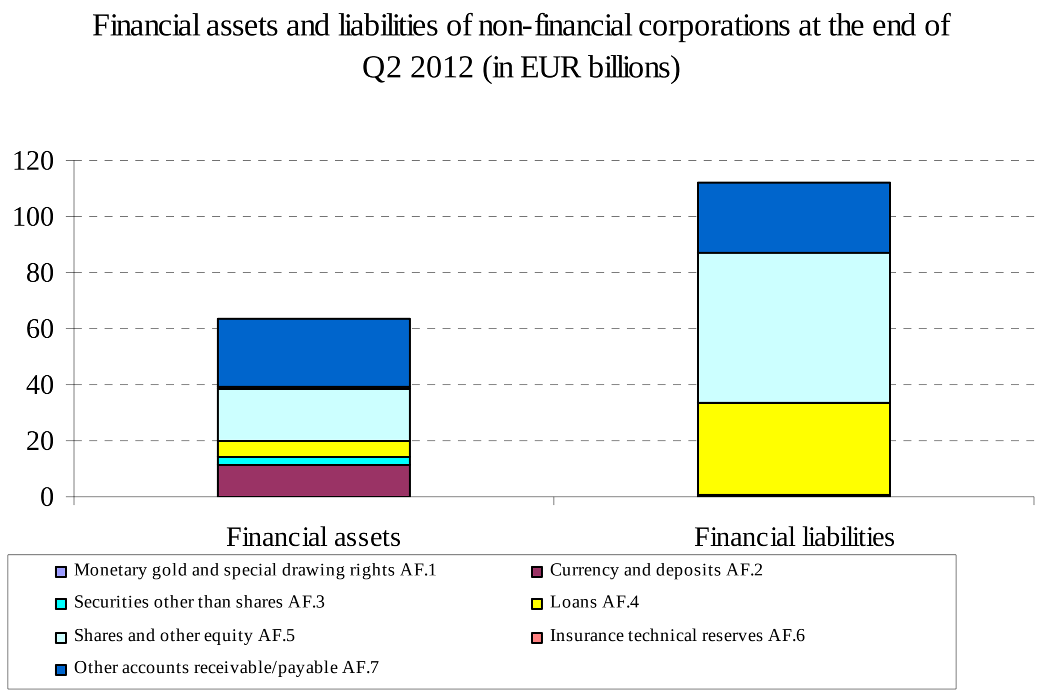
Chart 9



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, their majority is held by residents – in the sectors of *non-financial corporations* (28.7%) and *general government* (17.4%) – while 53.5% 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 55.2% and loans from non-residents for 37.3%. The main debtors of resident firms across different financial instruments are entities from the (sub-)sectors of *non-financial corporations* (52.3%), *monetary financial institutions* (18.0%) and the *rest of the world* (22.3%).

Chart 11

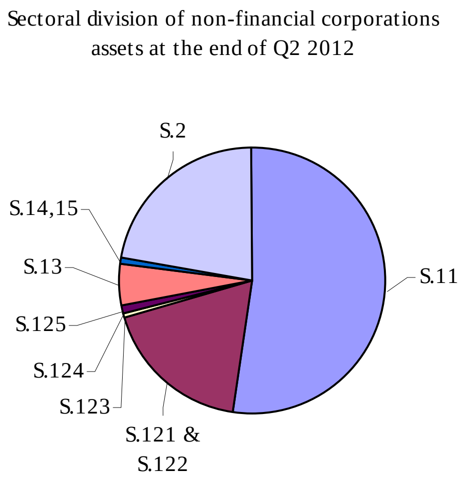
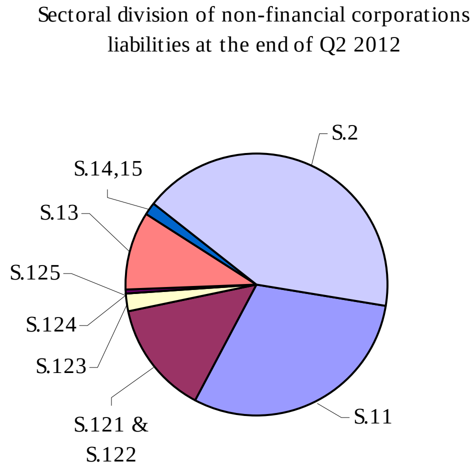


Chart12



S.12 Financial corporations

Transactions

In the second quarter of 2012, the *financial corporations* sector (S.12) recorded net lending, mostly consisting of lending by commercial banks.

Chart 13

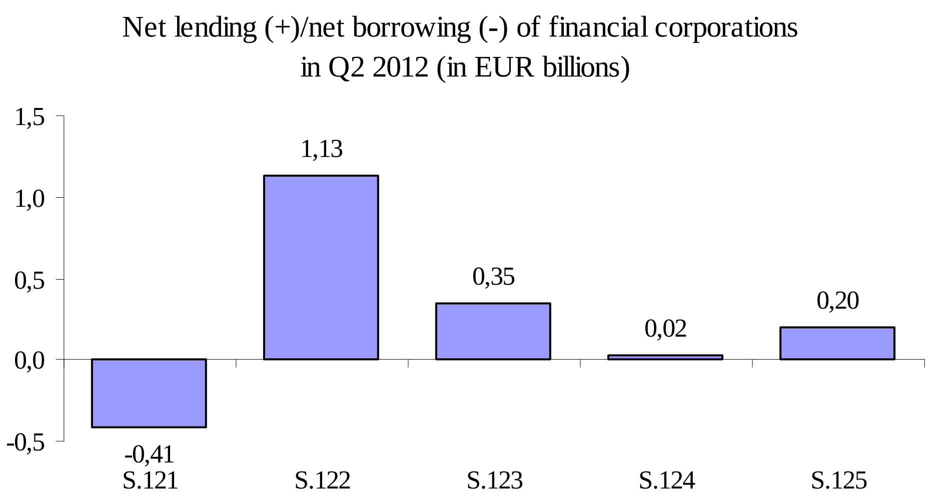
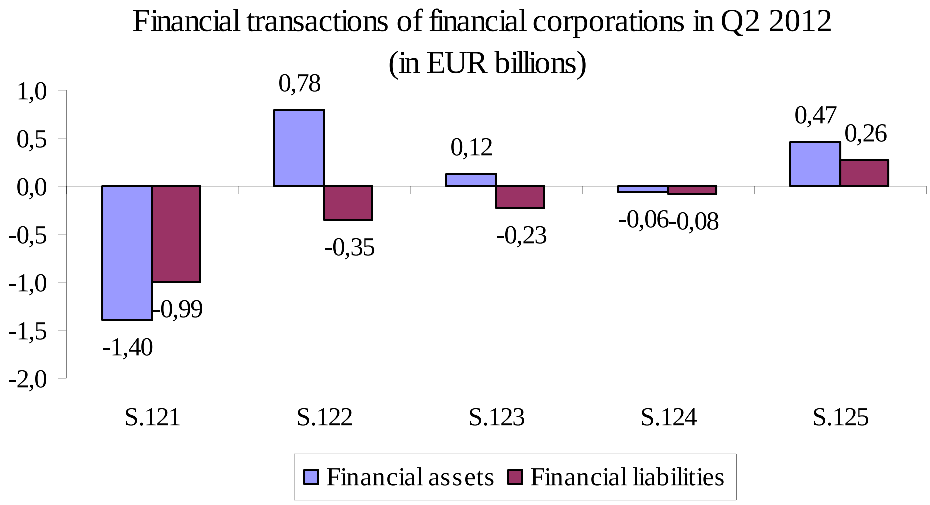


Chart 14



Overall transactions of the *central bank* sub-sector (S.121) were negative in net terms, since the decline in assets was larger than the decline in liabilities. The overall result of the central bank was determined mainly by declining holdings of long-term debt securities issued by non-residents (€1.6 billion) and by a fall in transferable deposits from non-residents (€2.8 billion). On the liability side, other deposits from central government increased to €1.5 billion.

In the sub-sector of *other monetary financial institutions* (S.122), net lending reached €1.1 billion as assets increased and liabilities declined. The asset growth was mostly attributable to an increase in holdings of long-term debt securities issued by the Slovak government (€0.8 billion), in long-term loans to households (€0.5 billion) and in holdings of domestic Treasury bills (€0.3 billion).
The declines on the liability side of the banking sector balance sheet were predominantly in deposits from non-residents (€0.8 billion).

In the sub-sector of *other financial intermediaries* (S.123), assets increased and liabilities declined. The largest rises on the asset side were in deposits held with domestic banks (up by €0.2 billion in total). On the liability side, loans from non-residents recorded the most pronounced decline (€0.3 billion).

Net transactions of the *financial auxiliaries* sub-sector (S.124) achieved a positive balance due to a larger decline in liabilities than in assets. The result in the S.124 sub-sector was determined mainly by unquoted shares held by domestic banks, which fell by €0.05 billion.

The balance sheet of the *insurance corporations and pension funds* sub-sector (S.125) improved as the increase in assets exceeded the increase in liabilities. The largest liability item in this sub-sector was pension savings obtained from households, which amounted to €0.2 billion. The largest increase on the asset side was in domestic government bond holdings (€0.5 billion) and foreign bond holdings (€0.2 billion).

Stocks

The *financial corporations* sector (S.12) reported a creditor position. Only the *central bank* sub-sector reported a debtor position.

Chart 15

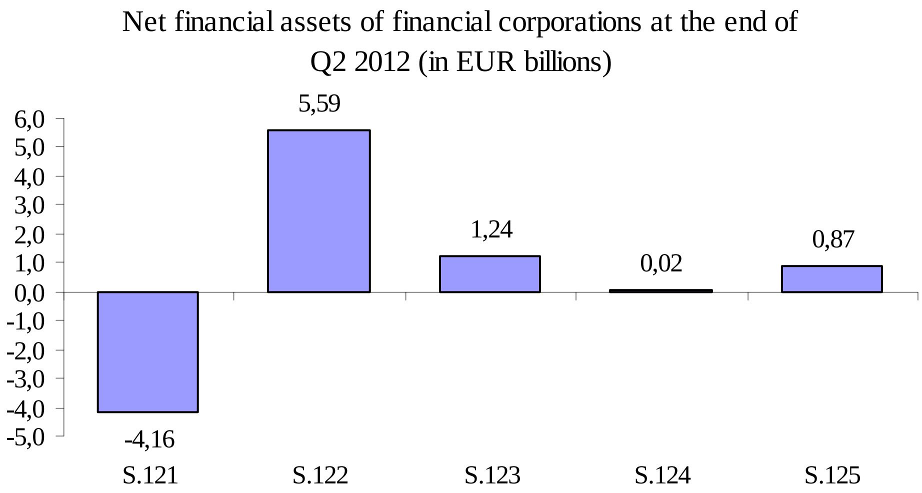
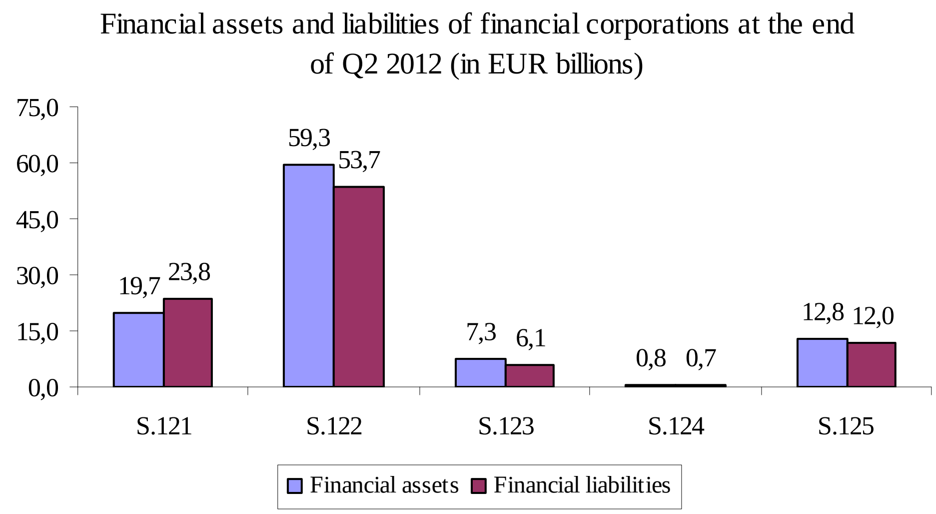


Chart 16



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 62.5% of all their assets), followed by domestic government bonds (20.3%) and resident and non-resident deposits and currency (8.3%). The most significant item on the liability side is deposits (representing 78.2% of total liabilities). In terms of the sectoral breakdown, the banks' most important customers on the asset side are households, non-financial corporations and central government entities. On the liability side, the banks' most important customers are households, non-financial corporations and non-resident entities. The *rest of the world* sector is a significant owner of shares and other equity in banks, with its share of this portfolio representing 93.4%.

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 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 is invested in deposits.

The main creditor of the sub-sector of *insurance corporations and pension funds* (S.125) 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 as well as in deposits with resident banks and in foreign mutual funds.

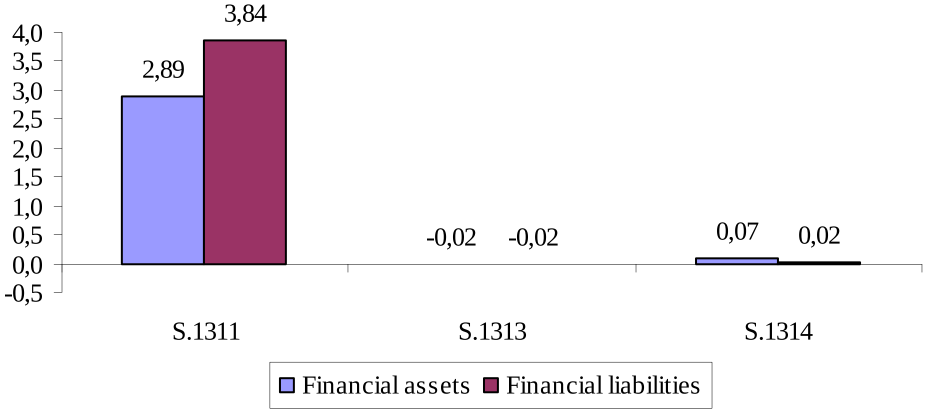
S.13 General government

Transactions

The *general government* sector (S.13) increased its debtor position by €0.9 billion during the second quarter of 2012, to which the sub-sector of *central government* (S.1311) made the largest negative contribution (€1.0 billion). Two other sub-sectors of *local government* (S.1313) and *social security funds* (S.1314) reported an almost balanced position.

Chart 17

Financial transactions of general government in Q2 2012
(in EUR billions)



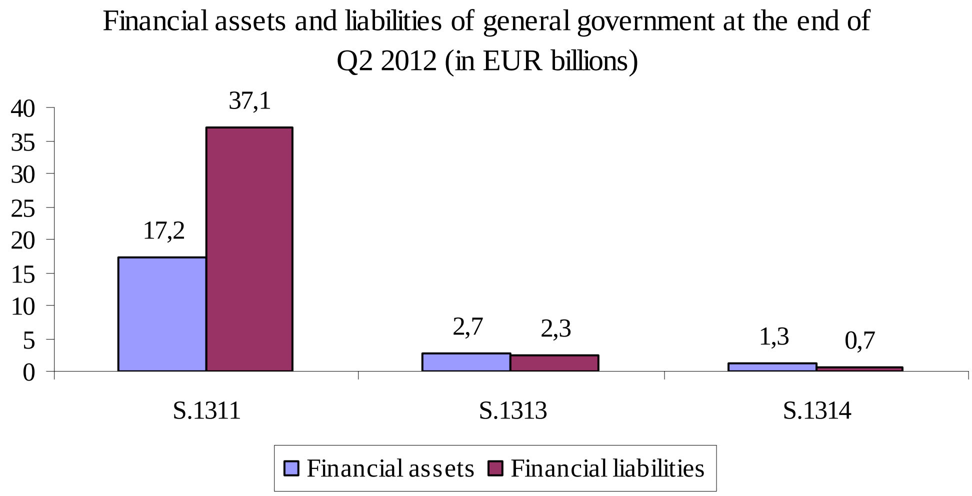
The overall result of the *central government* sub-sector was determined mainly by a rise in debt securities issued (bonds of €2.2 billion and Treasury bills of €0.3 billion).
The asset item in the S.1311 sub-sector that recorded the highest growth was deposits with central bank (€1.5 billion).

The balanced position of the *local government* sector resulted from a decline in assets and liabilities, both at around the same level (€0.02 billion). The largest movements in the second quarter were recorded in loans from banks and deposits with the state Treasury that declined and in loans from central government and deposits with banks that, by contrast, rose.

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 30 June 2012 of - €19.8 billion. The *local government* sub-sector (S.1313) and the *social security funds* sub-sector (S.1314) ended with a net creditor position of €0.4 billion and €0.6 billion, respectively.

Chart 18



The financial assets of central government entities comprise mainly shares issued by resident non-financial corporations (representing 44.4% 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 (79.7%), of which 37.7% is held abroad.

S.14,15 Households (including NPISHs)

Transactions

The sector of *households (including non-profit institutions serving households)* increased its overall creditor position in the second quarter of 2012 as the rise in its financial assets exceeded the rise in its financial liabilities.
The increase on the asset side was accounted for by rises in deposits with banks (€0.5 billion) and pension fund savings (€0.2 billion).
The rise in liabilities resulted mostly from households taking on more debt in the form of long-term loans from banks (€0.5 billion).

Chart 19

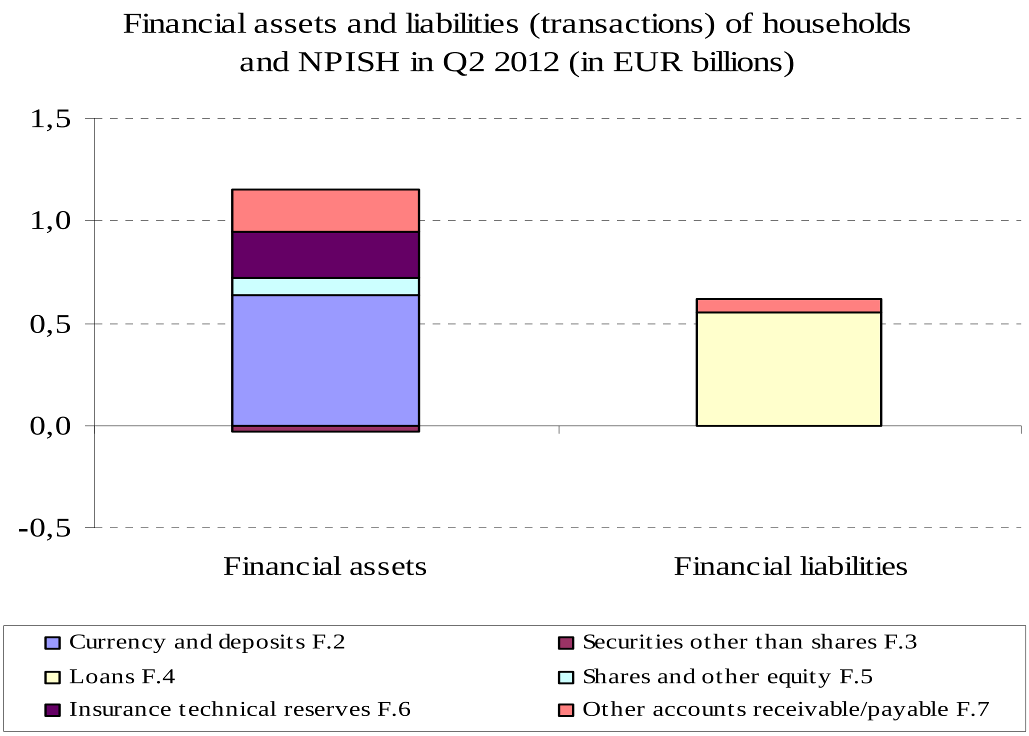


Chart 20

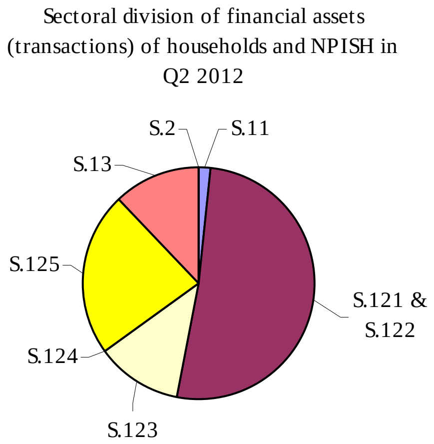
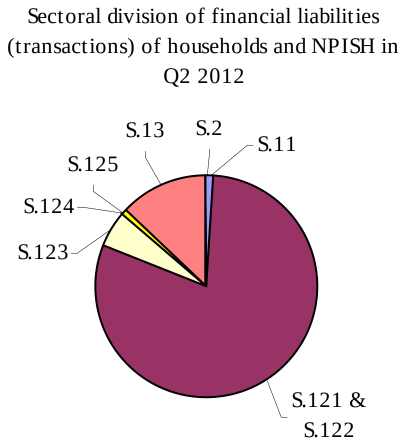


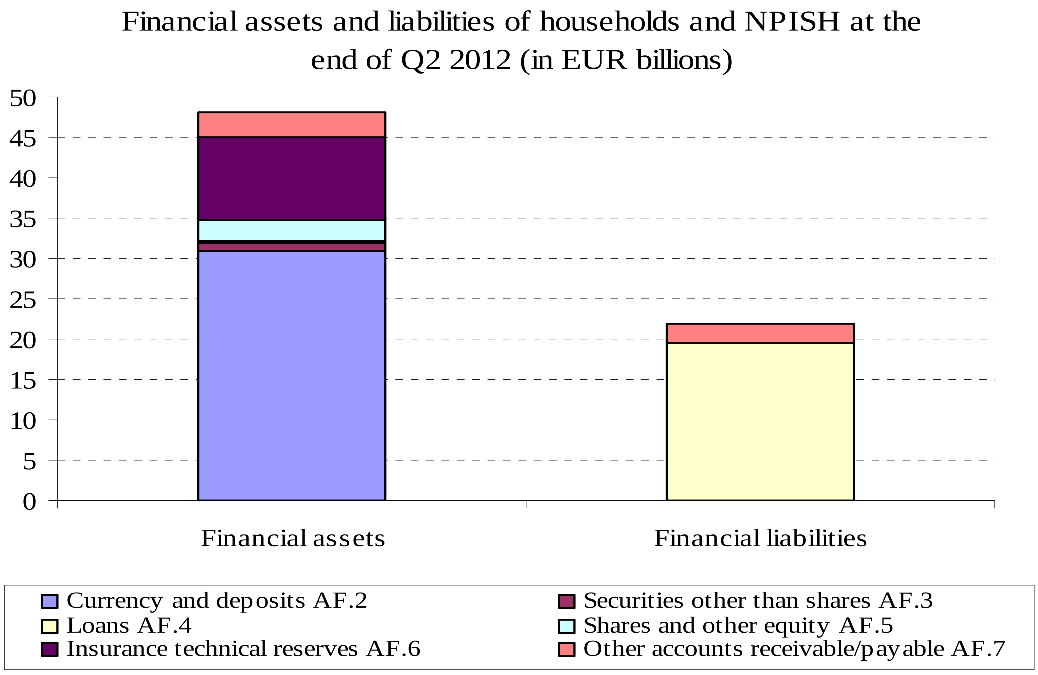
Chart 21



Stocks

The sector of *households (including NPISHs)* differs from other sectors in the Slovak economy in that it has a large net creditor position. Of the sector's available funds, 54.3% are invested in deposits, almost 20.5% in the pension system and in life insurance, and 5.3% in mutual funds. As for the sector's liabilities, loans constitute 88.5% of the total and these are mainly long-term borrowings. The rest of the liabilities comprise other payables, the majority of which are payables to the general government.

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 NPISHs)* 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

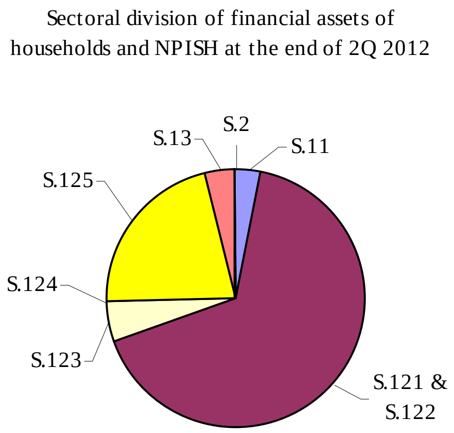
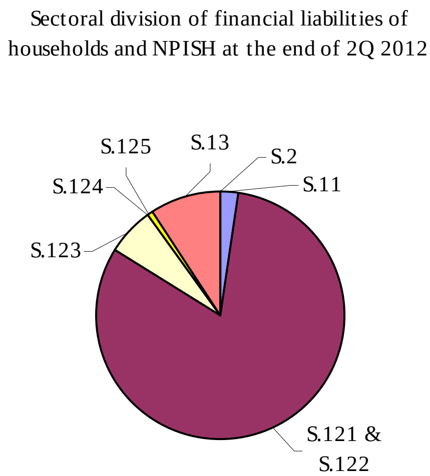


Chart 24



S.2 Rest of the world

Transactions

The overall creditor position of the *rest of the world* sector in relation to the domestic sectors decreased as a result of a larger fall in assets than in liabilities.
The main factor in the *rest of the world* sector assets development was the fall in deposits held with banks (€2.9 billion), largely owing to a decrease in settlement claims in the TARGET2 system (€2.8 billion). On the liability side, long-term debt securities held by banks recorded the largest decline (€1.8 billion).

Stocks

The *rest of the world* sector is a net creditor to the Slovak economy. The sector's total assets include shares of resident non-financial corporations (33.5%), loans to non-financial corporations (14.2%) and debt securities issued by the central government (13.7%). The sector's major liabilities to the domestic economy are issued debt securities (representing 43.3% of total liabilities), held mainly by financial institutions, and trade credits received from non-financial corporations (12.3%).