

Comments on Quarterly Financial Accounts for 1Q 2008

The ESA95 system distinguishes the following 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 (PMC, SPC, SD, SE, CD, MFMC) ¹
Insurance corporations and pension funds		S.125
General government		S.13
Central government		S.1311
State 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 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 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

¹ PMC – pension management companies, SPC – supplementary pension companies, SD – security dealers, 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 in 1Q 2008

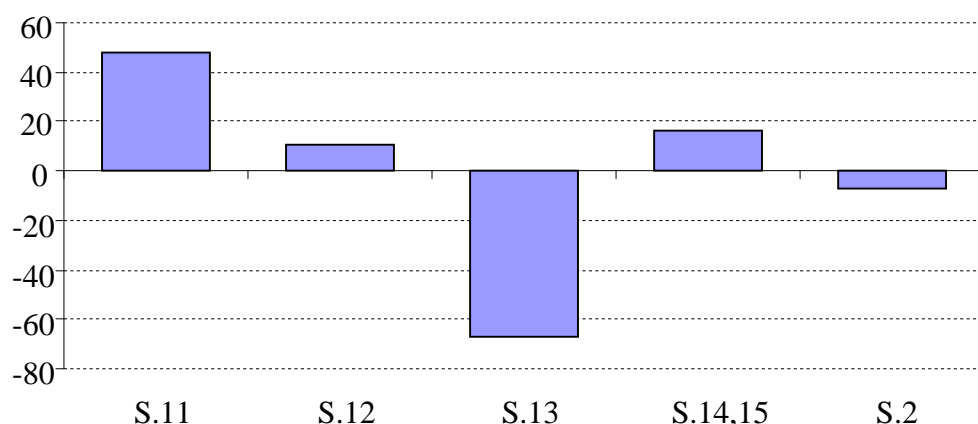
Overall development

Transactions

In the 1Q 2008 the net debtor position of the national economy decreased and, at the same time, there was a decline in the net creditor position of the foreign countries sector³, with net lending⁴ amounting to SKK 7.7 bn. The given favourable development resulted from a reduction in financial liabilities that was more noticeable than that of financial assets. As regards institutional sectors⁵, financial transactions in the non-financial institutions sector (S.11) contributed to the above-mentioned favourable development most significantly, when the difference between the deposit taking and lending was SKK 47.8 bn. On the contrary, the worst result in the 1Q 2008 was obtained by the general government sector whose indebtedness grew by SKK 67.2 bn.

Graph 1

Net lending (+)/net borrowing (-) by institutional sectors (in bn Skk)

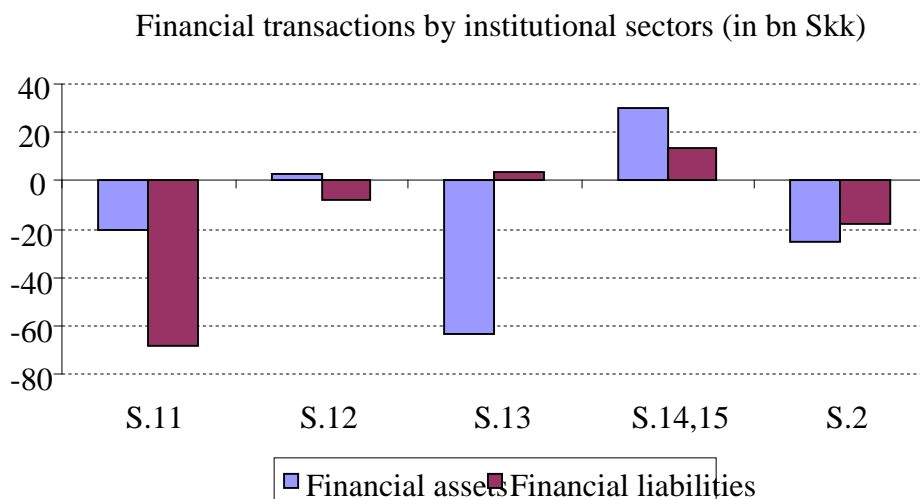


³ The total of the financial assets and liabilities of the national economy (S.1) and foreign countries (S.2) sectors must equal 0, that is, the national economy's indebtedness has decreased (or the creditor position has risen), and the indebtedness of the foreign countries has automatically increased (or the creditor position has decreased) vis-à-vis the national economy. The given relation is only applicable if we disregard the development in the financial instrument "Monetary gold and SDRs – AF.1", which has been the only instrument reported on the assets side of the national economy only. The distinction between the movement in the indebtedness and the movement in the creditor position depends on the total volume of net equity, i.e. on the development in the stocks of assets and liabilities.

⁴ Net lending represents the positive difference between the financial assets and the financial liabilities. If the difference is negative, we talk about net borrowings. In the case of data concerning stocks, the difference between the financial assets and liabilities is defined as net financial assets (or net financial equity) which can be either positive or negative.

⁵ Full sectoral breakdown of institutional sectors in accordance with ESA 95 with its codes is listed on the page 2.

Graph 2

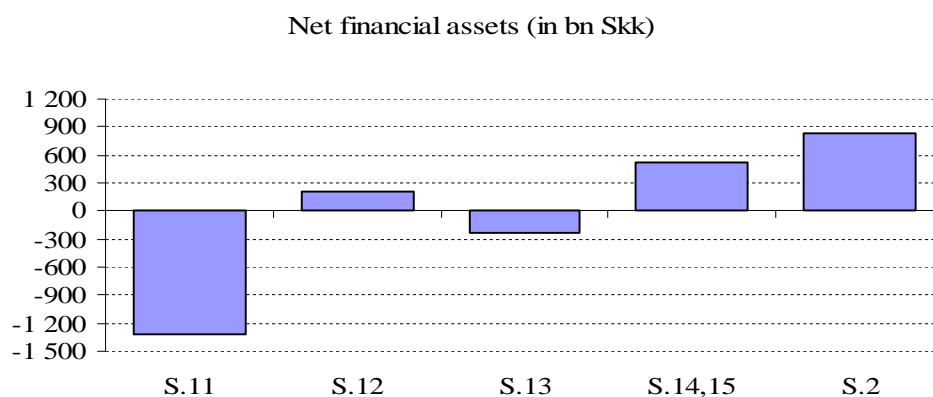


Stocks

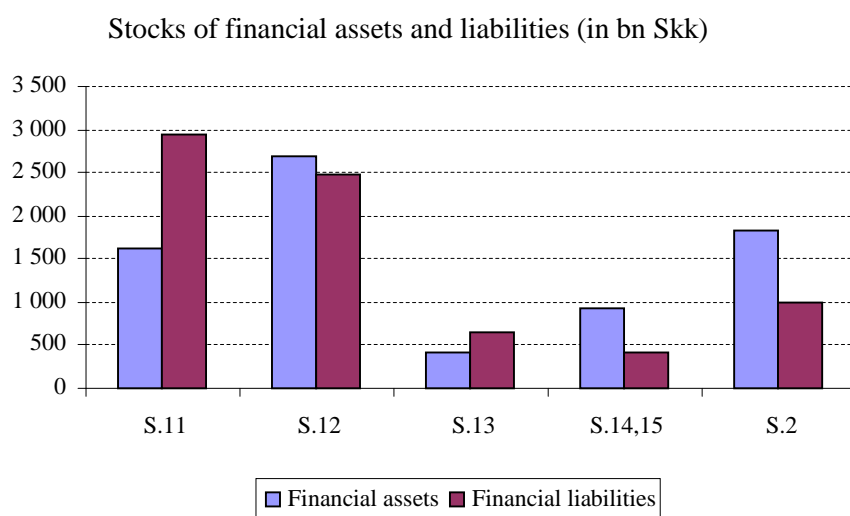
The financial transactions made in the 1Q 2008 contributed to a slight decrease in the overall indebtedness of the national economy, with the stocks amounting to SKK 812 bn as at the end of the quarter . The non-financial institutions continue to be the most indebted sector with net debt of nearly SKK 1,319 bn. Besides corporations, the indebted sectors also include the general government sector whose net financial assets recorded a negative value of SKK 230 bn. The largest net financial assets within the national economy are available in the households (SKK 528 bn) and financial institutions (SKK 208 bn) sectors. The foreign countries sector has recorded the net creditor position for a long time; it was SKK 837 bn as at the end of 1Q 2008⁶.

⁶ The difference between the net financial debt of the national economy (SKK 812 bn) and the net creditor position of the foreign countries (SKK 837 bn) is represented by the monetary gold and SDRs amounting to SKK 25 bn .

Graph 3



Graph 4



Quarterly financial accounts by individual institutional sectors

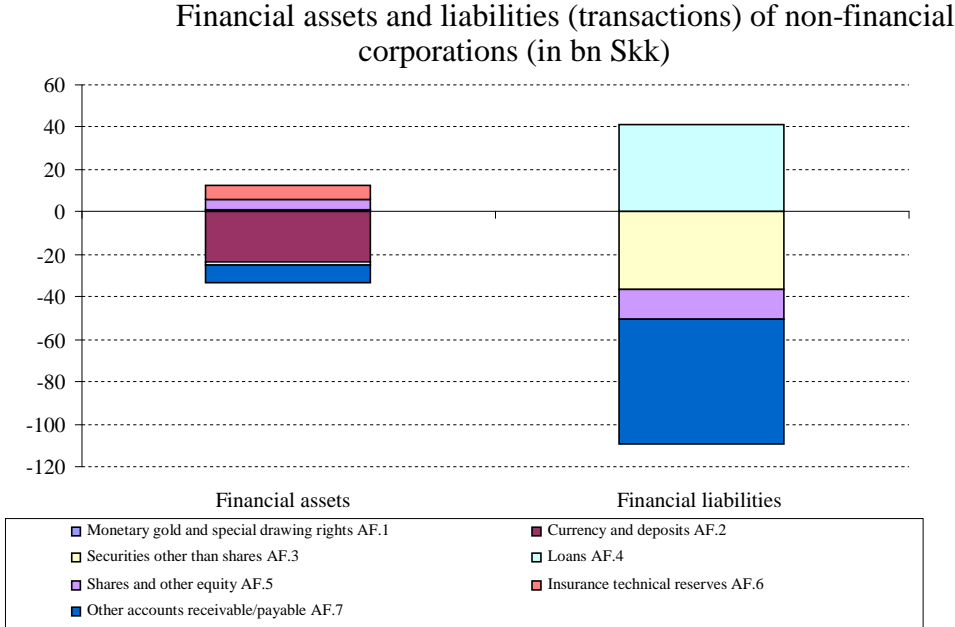
S.11 Non-financial institutions

Transactions

The favourable development in the reduction of the non-financial institutions' indebtedness resulted, in particular, from a decline in the financial liabilities, while the major decrease was

recorded with other accounts payable⁷ (postponement in the payment of, for example, taxes, wages, rent, dividends, interest, etc), liabilities arising from the issue of debt and equity securities. The increase in the financial loans had a dampening effect on the decline in the accounts payable, while money was owed, almost to the same ratio, to the banks on the one hand and to the leasing and factoring corporations on the other hand. A decline was also recorded in the financial assets, while the most significant decrease was reported in deposits.

Graph 5

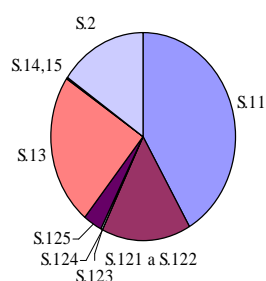


In terms of the sector breakdown, the non-financial institutions recorded a decline in other accounts payable, especially within the sector, implying that a payment of rent, dividends, and interest due to non-financial institutions was probably made. As regards debt securities, the non-financial institutions settled a part of their liabilities due to the general government (due to the central government and local government approximately to the same ratio). Net repayment of the equity securities issues was the result of a controversial development between the national and foreign economy, when the corporations issued new shares of SKK 22.7 bn in respect of the local government and repaid the existing issues of SKK 45.6 bn in respect of the foreign countries.

⁷ Other accounts payable originate as a counterpart of financial or non-financial transactions in the case when there is a time shift between the transaction and the corresponding payment. They include trade credits AF.71 and other accounts payable AF.79.

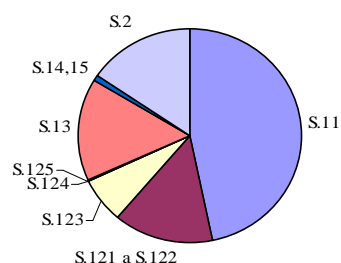
Graph 6

Sectoral division of non-financial corporations assets (transactions)



Graph 7

Sectoral division of non-financial corporations liabilities (transactions)

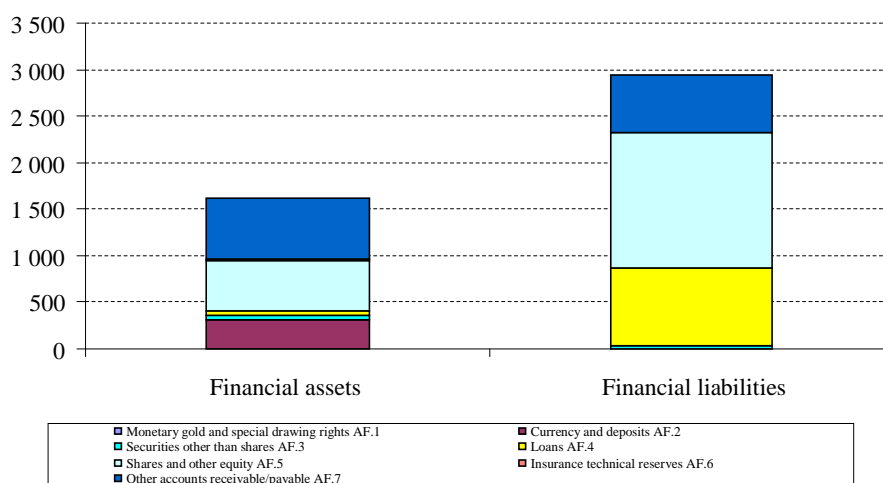


Stocks

The main finance sources of the non-financial corporations have included the shares, loans, and other accounts payable for a long time. The corporations use the given sources for investments, in particular in other accounts receivable, shares, and deposits.

Graph 8

Financial assets and liabilities of non-financial corporations (in bn Skk)



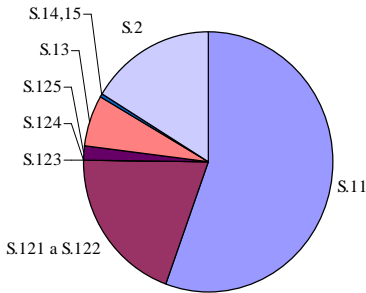
The current stocks of the issued equity securities of the non-financial corporations are held, within the national economy, especially in the non-financial corporations sector and by the central government entities. Nearly 43 % of the local corporations' shares are held by foreign entities. Within the loan financing of corporations, loans from the domestic banks and leasing and factoring corporations account for 81 % and the rest is financed from abroad. The main

creditor of the local corporations in the other accounts payable instrument (85 % of them are represented by trade credits AF.71) is the local non-financial corporations and foreign countries sector.

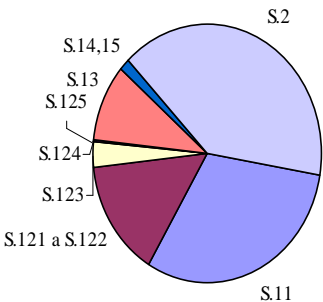
Graph 9

Graph 10

Sectoral division of non-financial corporations assets



Sectoral division of non-financial corporations liabilities



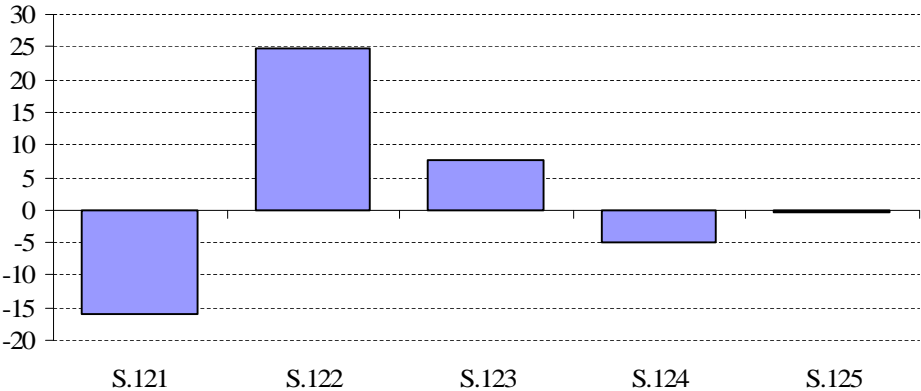
S.12 Financial institutions

Transactions

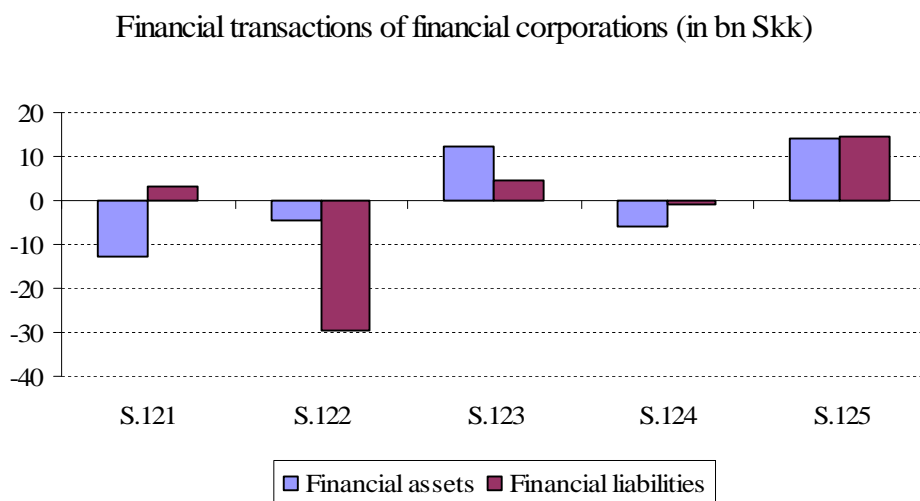
Similarly to the non-financial corporations, also the sector S.12 Financial institutions recorded net lending in the 1Q 2008. However, contrary to the corporations, the given development contributed to the strengthening of the overall net creditor position of the financial institutions, while a favourable development for the entire sector S.12 was recorded on the side of both the assets and liabilities (increase in assets and decrease in liabilities).

Graph 11

Net lending (+)/net borrowing (-) of financial corporations (in bn Skk)



Graph 12



Financial transactions in the commercial banks (S.122) had the most significant impact on development in the financial sector. A decrease was recorded on the side of both the assets and liabilities. As regards the assets, the major decline was observed in bank deposits and debt securities; the development on the liabilities side was exclusively influenced by deposits. In terms of the sector breakdown of the bank transactions, there was reported a decrease, on the assets side, in the debt securities issued by the central government and, at the same time, a reduction in deposits with foreign banks. As regards the liabilities side, the financial transactions of the banks were distributed evenly among the local non-financial corporations, central government, and foreign countries.

Besides the banks, it was the entities of the sector S.123 Other financial intermediaries (leasing, factoring, financial corporation engaged in lending, and long-term open-end mutual funds⁸) that contributed to positive financial transactions. The financial transactions of the above-mentioned entities brought about a more dynamic growth of the assets compared with the liabilities. The main financial instrument within the transactions of deposit taking and lending was the loans that were mainly extended to the non-financial corporations and received from the domestic and foreign financial institutions.

⁸ According to the money and banking statistics methodology, mutual funds are broken down into the money market mutual funds (short-term) which are included in the sector S.122 Other monetary financial institutions, and into the mutual funds other than money market funds (long-term) which are included in the sector S.123 Other financial intermediaries.

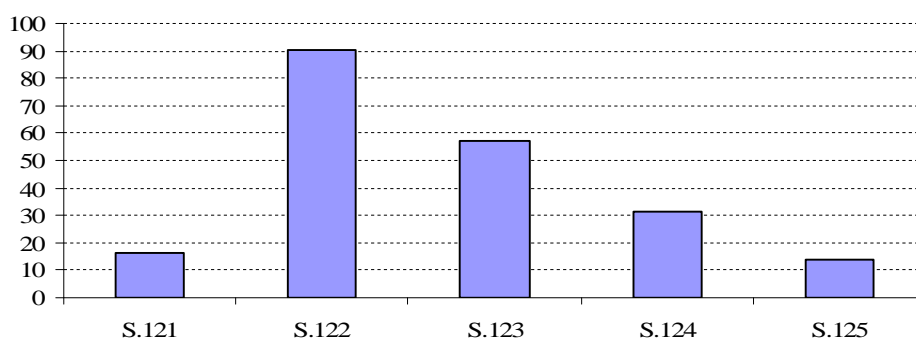
All other sub-sectors of the financial institutions recorded negative financial flows in the 1Q 2008, while the major increases were observed in net borrowings of the National Bank of Slovakia and a decrease in the holdings of equity securities of both the local and foreign issuers was reported in the sector S.124 Financial auxiliaries. Insurance corporations and pension and supplementary pension funds acquired new financial assets, but the rise in liabilities was more significant with an increasing amount of new sources on the pension savings accounts.

Stocks

All sub-sectors of the sector S.12 recorded the net creditor position as at the end of 1Q 2008, while the largest contribution as well as the largest amount of the financial assets and liabilities was reported in the sub-sector S.122 Other monetary financial institutions.

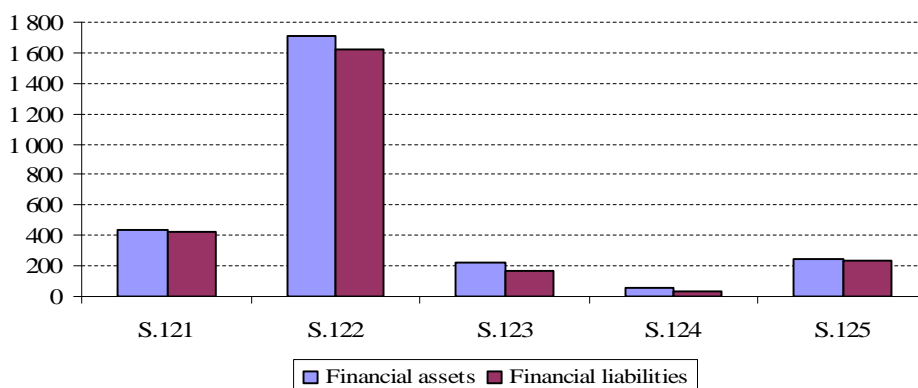
Graph 13

Net financial assets of financial corporations (in bn Skk)



Graph 14

Financial assets and liabilities of financial corporations (in bn Skk)



Following their primary mission – to receive deposits and extend loans – other monetary financial institutions invest most of their money in long-term loans. In addition, a significant portion of the available sources is deposited with the NBS and other commercial banks in the form of repo transactions and deposits, respectively. Deposits play a predominant role on the liabilities side (82 % of all liabilities). In terms of the sector breakdown, the most important clients of the banks, on the side of both the assets and the liabilities, include households and non-financial corporations. The general government sector is mainly represented in the lending operations of the banks relating to government bonds. The foreign countries sector makes use especially of the possibility of opening time accounts with banks, while its share in this financial instrument accounts for approximately 20 %.

The structure of the invested financial instruments and sectors is based on the main function of the sector S.123 Other financial intermediaries; it implies that it is focused on the extension of loans to non-financial corporations and households, and a part of the resources is also invested in the government bonds. The main source of income is, in particular, the mutual fund units and loans from local and foreign banks.

The sector S.124 Financial auxiliaries has the lowest impact within the financial institutions in terms of the managed assets and liabilities. The majority of its available financial resources received from domestic banks in the form of loans and from foreign holders of shares is invested in debt and equity securities of the foreign issuers.

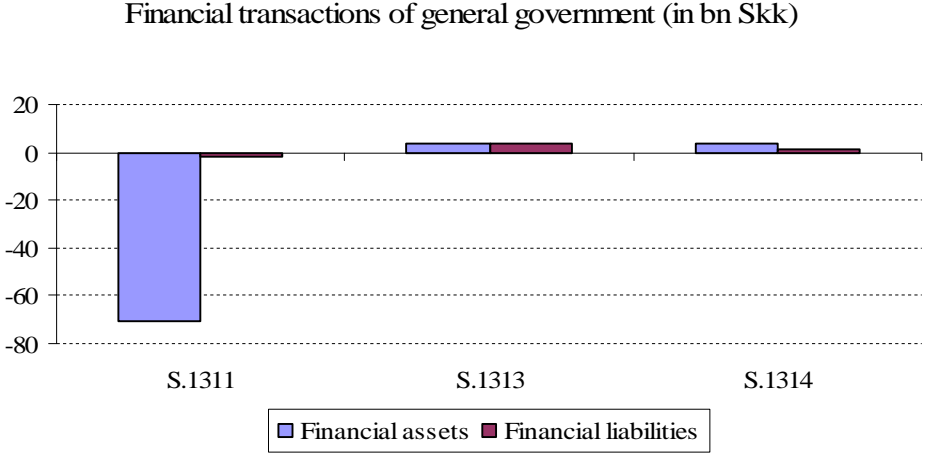
On the contrary, the impact of the sector S.125 Insurance corporations and pension and supplementary pension funds on the financial market has become stronger and stronger. The main creditor of the given sector is the households that invest in life insurance and in the second and third pension pillars. The money thus obtained are invested in national and foreign debt and equity securities and mutual funds.

S.13 General government

Transactions

The general government sector, including S.1311 Central government, is the only sector within the national economy which recorded negative net financial transactions, deepening in this way its debtor position.

Graph 15

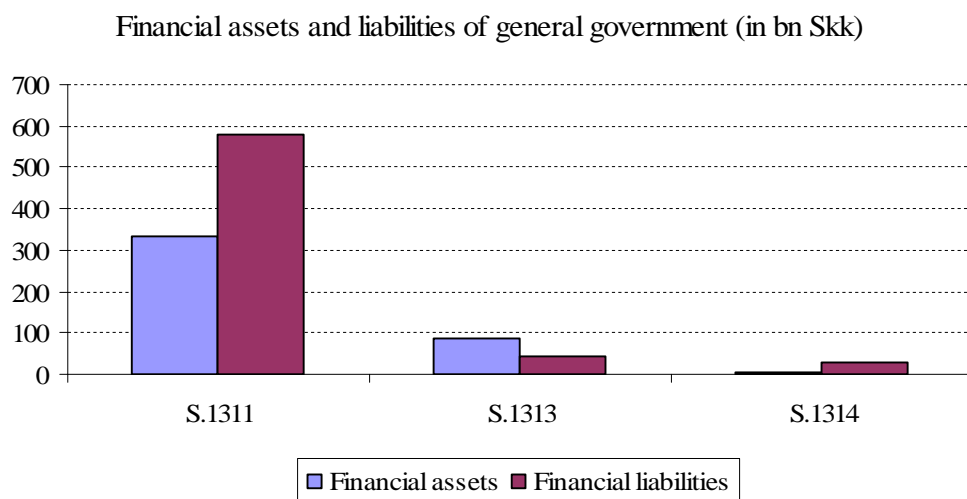


The main reason for decrease in the financial assets of the central government entities was the withdrawal of money from time deposits with banks and the reduction of the portfolio of debt securities issued by the local non-financial corporations. In addition, the corporations settled a part of their financial loans received from the central government. On the other hand, the central government entities strengthened their active position in respect of the local non-financial corporations through the acquisition of their unquoted shares. As regards the liabilities side, the predominant role in the relations with the central government was played by the banks and corporations; on the one hand, a part of the bonds in the banks’ portfolio was repaid and, on the other hand, the government increased the volume of trade credits in respect of the corporations.

Stocks

The overall debtor position of the general government sector is mainly determined by development in the central government sub-sector. The contribution of the sub-sector S.1314 Social security funds to the given position is slightly negative, too.

Graph 16



The major financial asset of the central government entities is the shares issued by the local non-financial corporations. The government entities have approximately 15 % of their assets deposited with the banks in the form of time deposits and 10 % are deposited in the form of other accounts receivable. The central government allocates the majority of the liabilities to the long-term debt securities, of which one third is held by foreign owners.

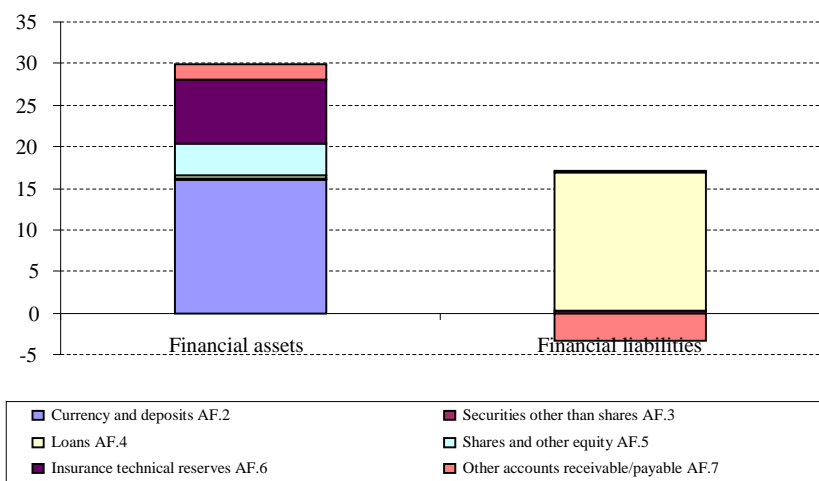
S.14, 15 Households and NPISH

Transactions

In the 1Q 2008, the households and NPISH sector strengthened its overall creditor position by nearly SKK 17 bn, while the growth of the financial assets was more significant than that of the financial liabilities. The most important share in the asset growth was held by the deposits of citizens and savings on pension savings accounts. Moreover, there was an increase in the financial resources invested in mutual funds. As regards the liabilities side, there was a change in two financial instruments - the volume of long-term loans increased and the other accounts payables of the households and NPISH due to the general government decreased.

Graph 17

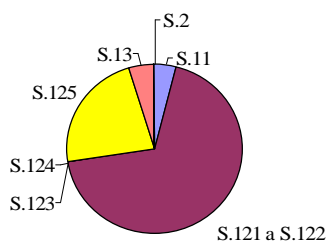
Financial assets and liabilities of households and NPISH (in bn Skk)



The nature of the financial transactions is also indicative of the sector breakdown of the households and NPISH relationships. The largest share on the assets and liabilities sides was held by the sector S.121 and S.122 Monetary financial institutions (deposits and loans). As regards the assets side, a relatively considerable share was held by the sector S.125 Insurance corporations and pension and supplementary pension funds.

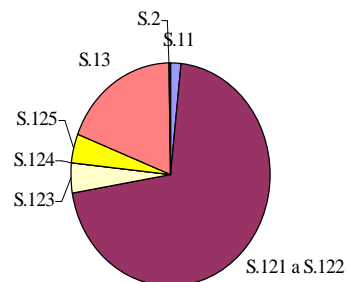
Graph 18

Sectoral division of financial assets (transactions) of households and NPISH



Graph 19

Sectoral division of financial assets (transactions) of households and NPISH

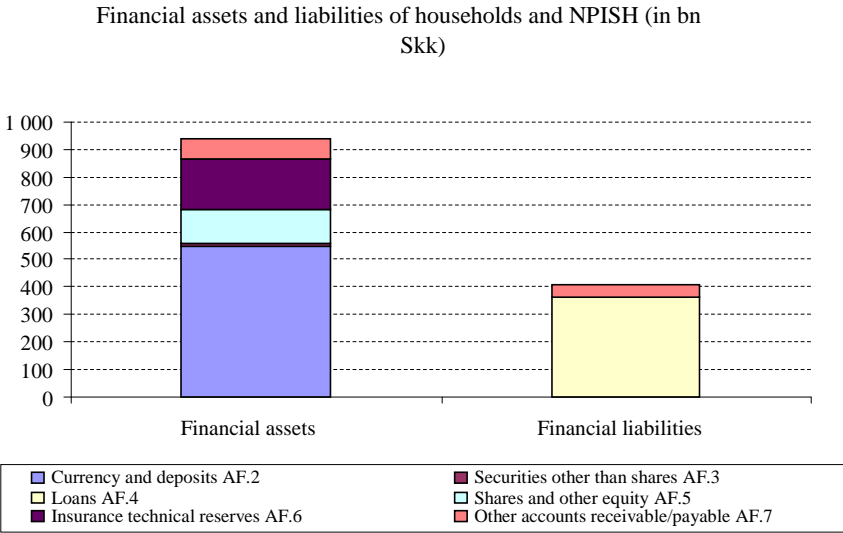


Stocks

The households and NPISH sector is characterized in the Slovak economy by the highest net creditor position. More than a half of the available sources are kept in the form of deposits,

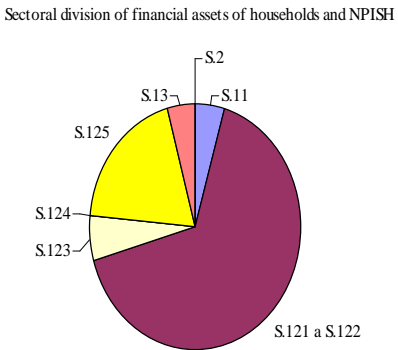
and a part (approximately 1/5) is invested in the pension system and life insurance. A relatively significant share is represented by investments in mutual funds. Nearly 90 % of all liabilities consist of the borrowings, especially of the long-term ones. The remaining portion of financial liabilities comprises other accounts payable, of which liabilities due to the central government (taxes and levies) account for the major share.

Graph 20

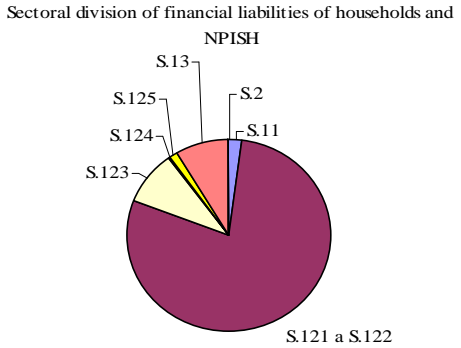


The sector breakdown of the financial assets and liabilities has a structure similar to that of the transactions. The most important partner of the households and NPISH is the sector S.121 and S.122 Monetary financial institutions; a significant share has recently started to be held by the sector S.125 Insurance corporations and pension and supplementary pension funds.

Graph 21



Graph 22



S.2 Foreign countries

Transactions

The overall decline in the creditor position of the foreign countries sector in respect of the domestic sectors resulted from a decrease in the assets which preceded a decrease in the liabilities. The quoted shares issued by the local non-financial corporations and the time accounts kept with the Slovak financial institutions made the primary contribution to the decline in the assets. On the other hand, the given decrease in the assets was slowed down by the newly extended loans in respect of the local non-financial corporations. As regards the liabilities side, there was reported an outflow of the domestic banks' deposits in foreign banks abroad and the settlement of a part of the liabilities arising from the issue of quoted shares (held by the sub-sectors S.123 and S.124) and mutual funds shares (in the hands of the sub-sectors S.123 and S.125). The increase in the trade credits in respect of the local corporations had a dampening effect on the decline in the assets.

Stocks

The foreign countries sector is the net creditor in respect of the Slovak economy, while approximately 43 % of all assets are represented by shares of the local non-financial corporations and a further 15 % consist of loans to non-financial corporations. Deposits made with the Slovak banks and debt securities issued by the central government are an important asset of the foreign countries sector. The most important liabilities of the foreign countries due to the national economy (about 45 %) are the debt securities, mainly in the hands of the financial institutions, and the trade credits (about 19 %) extended to non-financial corporations.