Comments on Quarterly Financial Accounts for 2Q 2008

The ESA95 system distinguishes the following institutional sectors and sub-sectors:

Non-financial corporations	S.11
Financial corporations	S.12
The 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
Regional 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 and 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 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 2Q 2008

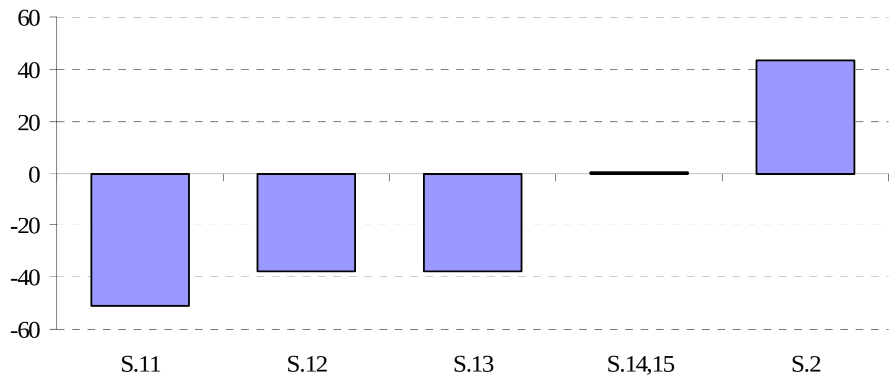
Overall development

Transactions

In the 2Q 2008 the net debtor position of the national economy increased and, at the same time, there was an increase in the net creditor position of the foreign countries sector[3], with net borrowing[4] amounting to SKK 126.1 bn. The given unfavourable development resulted from a considerable increase in financial liabilities that was more noticeable than that of financial assets. As regards institutional sectors[5], financial transactions in the non-financial institutions sector (S.11) contributed to the above-mentioned development most significantly, when the difference between the deposit taking and lending was SKK -50.8 bn. On the contrary, the best result in the 2Q 2008 was reached by the households sector and non-profit institutions serving households (NPISH) sector whose creditor position grew slightly (by SKK 465 million).

Graph 1

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

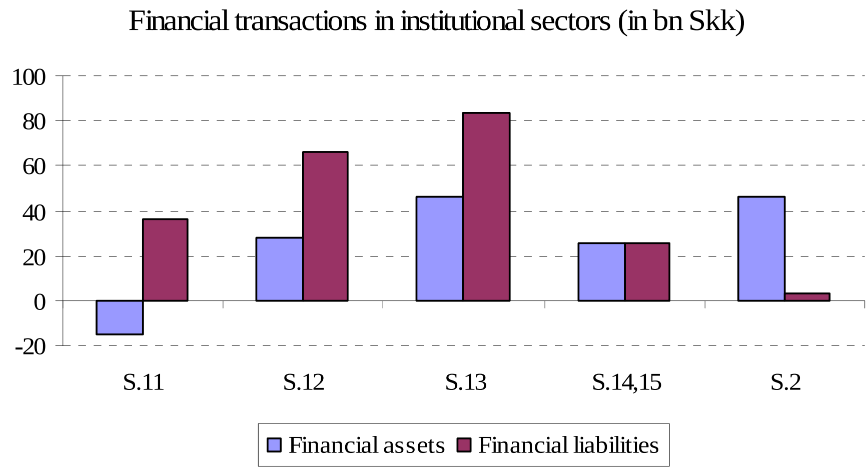


[3] The total of the financial assets and liabilities of the national economy (S.1) and foreign countries (S.2) sectors must equal 0, that is, the national economy's indebtedness has decreased (or the creditor position has risen), and the indebtedness of the foreign countries has automatically increased (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 accounts receivables and payables.

[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] A detailed breakdown of the institutional sectors with the assigned codes in line with the ESA95 national accounts classification is shown on the page 2

Graph 2

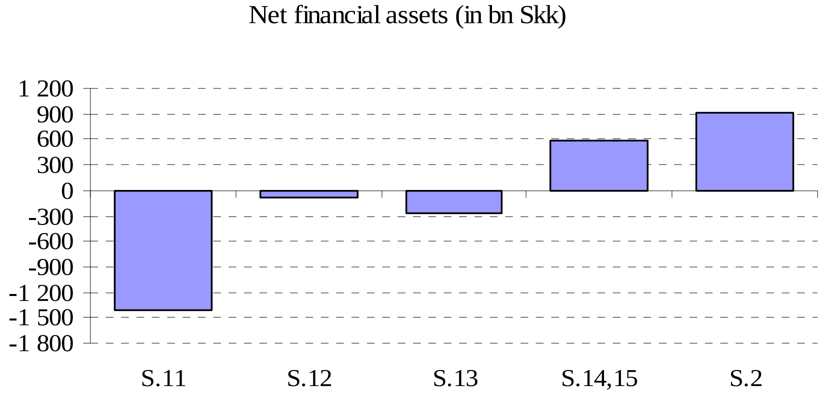


Stocks

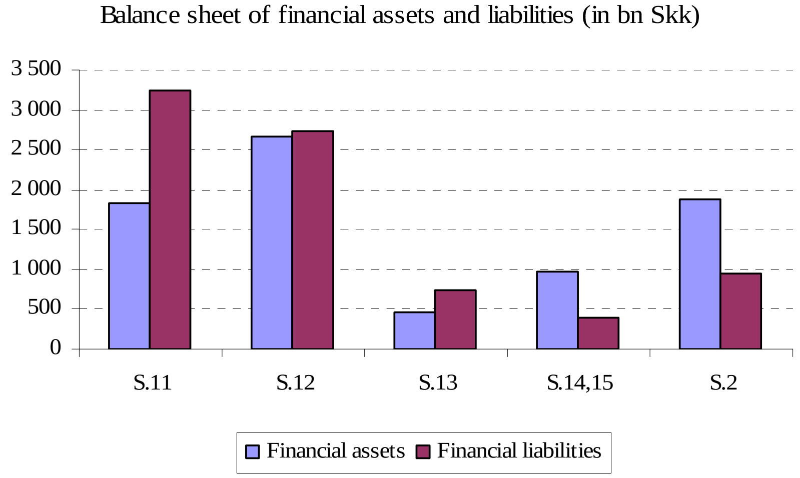
The financial transactions made in the 2Q 2008 contributed to an increase in the overall indebtedness of the national economy, with the stocks amounting to SKK 1,171.4 bn as at the end of the quarter. The non-financial institutions continue to be the most indebted sector with net debt of nearly SKK 1,409.2 bn. Besides corporations, the indebted sectors also include the general government sector (SKK 230 bn.) and the financial institutions sector, whose indebtedness recorded a value of SKK 78.9 bn. The largest net financial assets within the national economy are available in the households (in the amount of SKK 588.7 bn). The foreign countries sector has recorded a net creditor position for a long time; it was SKK 915.6 bn as at the end of 2Q 2008[6].

[6] The difference between the net financial debt of the national economy (SKK 1,171.4 bn) and the net creditor position of the foreign countries (SKK 915.6 bn) is represented by the monetary gold and SDRs amounting to SKK 23.2 bn and, in addtion, by the difference resulting from inomplete data on the sector breakdown of the financial instrument F.7 Other accounts receivable and payable

Graph 3



Graph 4



Quarterly financial accounts by individual institutional sectors

S.11 Non-financial institutions

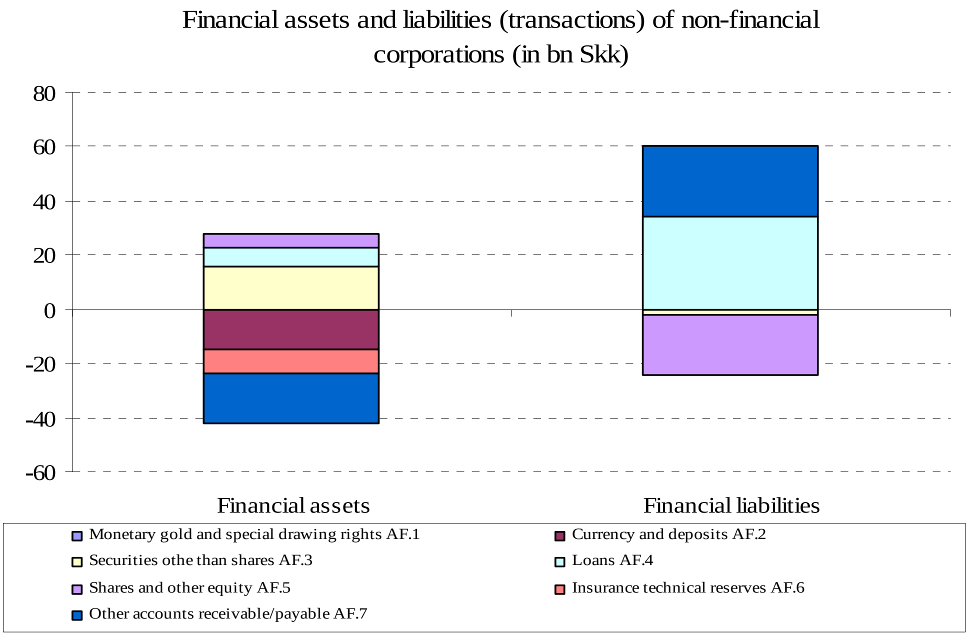
Transactions

The unfavourable development taking the form of an increase in the non-financial institutions' indebtedness resulted, in particular, from a growth of the financial liabilities, while the major increase was recorded with long-term loans and other accounts payables[7]

[7] Other accounts payables 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.

(postponement in the payment of, for example, taxes, wages, rent, dividends, interest, etc). The decrease in the amount of shares issued to non-residents had a dampening effect on the growth in the accounts payables. The growth of net borrowings was also due to a decline in the financial assets, the most significant decrease having been reported in deposits in resident banks, insurance technical reserves and in other account receivables.

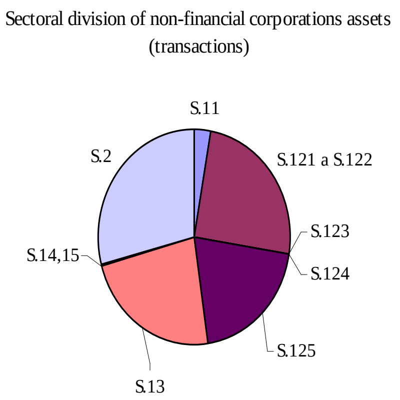
Graph 5

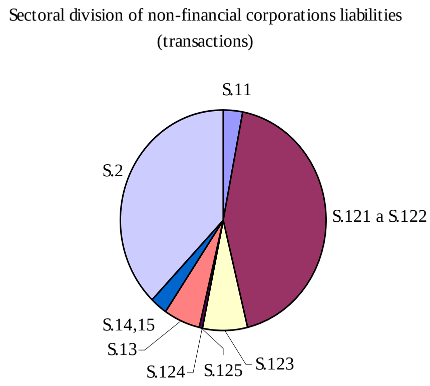


In terms of the sector breakdown, the non-financial institutions recorded a different structure of financial transactions on the assets side as compared to financial transactions on the liabilities side. On the assets side, the volume of transactions was distributed relatively evenly between monetary financial institutions, the government, insurance companies and pension funds and the foreign countries sector. However, those transactions had opposite signs, because the increase in assets was in assets to the government and foreign countries, while the corporations recorded a decline towards financial institutions. On the liabilities side, financial transactions with entities of monetary financial institutions and foreign countries played the most important role.

Graph 6

Graph 7

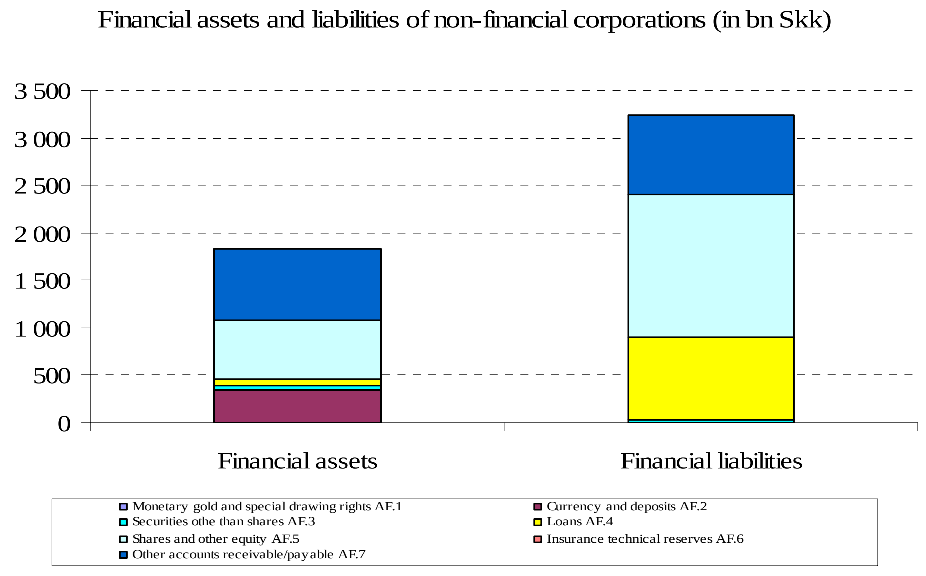




Stocks

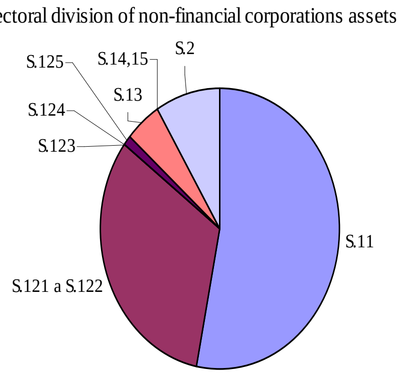
The main finance sources of the non-financial corporations include the shares, financial loans, and other accounts payable for a long time. The corporations use the given sources for investments, in particular in other accounts receivable, shares, and deposits.

Graph 8

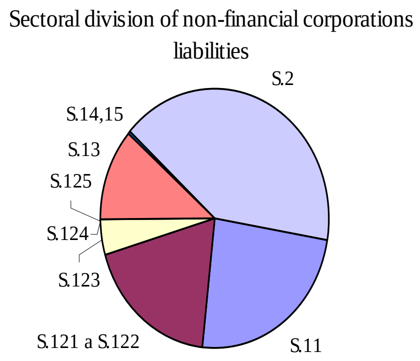


The current stocks of the issued equity securities of the non-financial corporations are held, within the national economy, especially in the non-financial corporations sector (37%) and by the central government entities (17%). Nearly 46% of the local corporations' shares are held by foreign entities. Within the loan financing of corporations, loans from the Slovak banks and leasing and factoring corporations account for 62 %, loans from abroad make up almost 34%. The main debtors of the local corporations in the individual financial instruments are entities in the the local non-financial corporations (55%), financial institutions (21%) and foreign countries sector (15%).

Graph 9



Graph10

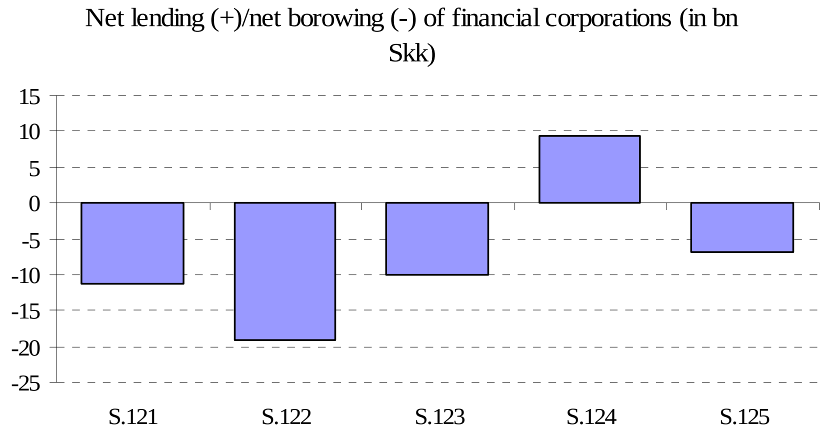


S.12 Financial institutions

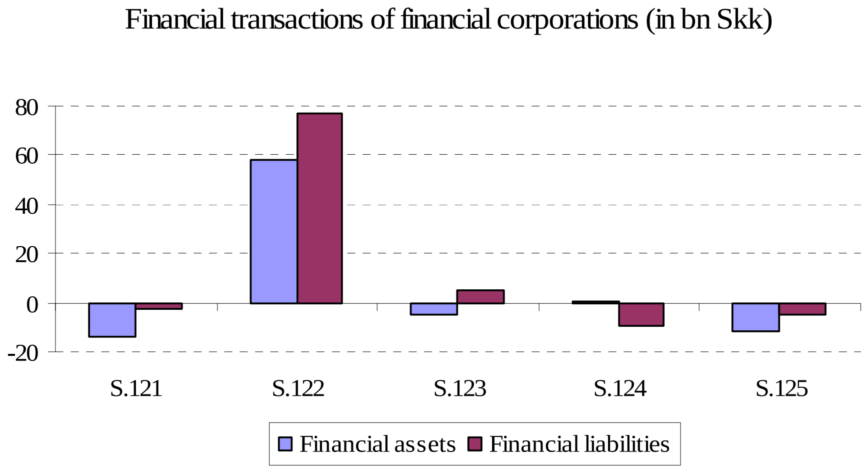
Transactions

Similarly to the non-financial corporations, also the sector S.12 Financial institutions recorded net borrowing in the 2Q 2008. This development was above all the result of increasing indebtedness of other monetary financial institutions (S.122), the central bank (S.121) and other financial intermediaries (S.123).

Graph11



Graph 12



Financial transactions in the commercial banks (S.122) had the most significant impact on development in the financial sector. A significant increase in liabilities as compared to a growth of assets was recorded. As regards the liabilities, the major increase was observed in deposits and partly also in issued debt and equity securities; the development on the assets side was exclusively influenced by deposits and extended loans. In terms of the sector breakdown of the transactions, the banks received deposits mostly from foreign entities, the local central bank and other local commercial banks within borrowing operations. As regards the assets side, the financial transactions of the banks were distributed evenly among the local non-financial corporations, the central bank and foreign countries.

Besides the banks, it was the central bank, the entities of the sector S.123 Other financial intermediaries (leasing, factoring, and hire purchase corporations, and long-term open-end mutual funds[8]) and the sector S.125 Insurance corporations and pension funds that contributed to negative financial transactions. In the case of negative transactions of the central bank and insurance companies and pension funds the decrease in assets exceeded the decrease in liabilities, because the central bank decreased non-resident debt securities holdings and the insurance companies decreased above all the volume of reinsurance in foreign companies. The reduction of lending transactions of other financial intermediaries was associated with lower debt securities holdings by local monetary financial institutions; in the case of liabilities, the amount of loans from non-residents increased.

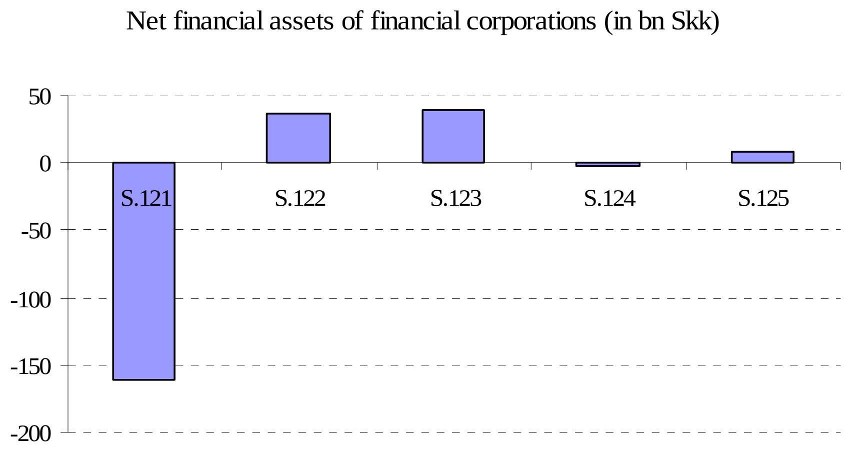
The entities of the sector S.124 Financial auxiliaries recorded positive financial transactions and thus a decline in their debtor position in the 2Q 2008. The repayment of a part of short-term loans to monetary financial institutions was the key factor of the said positive development.

Stocks

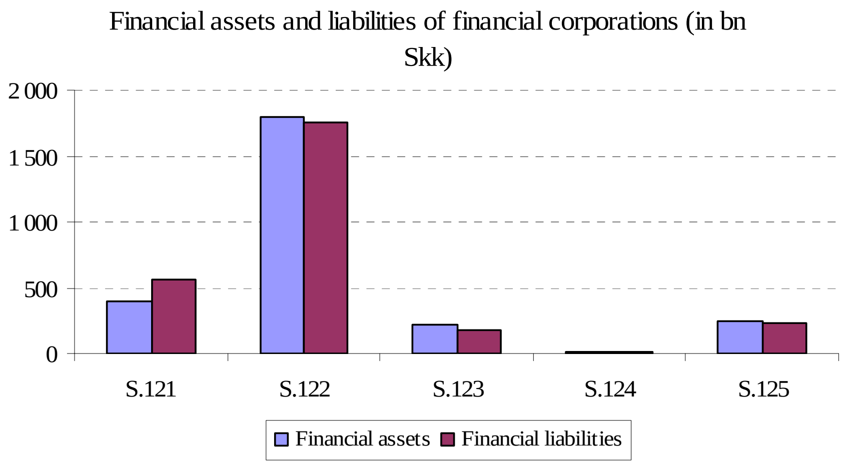
Mainly the position of the central bank and partly of the sub-sector S.124 Financial auxiliaries contributed to the overall indebtedness of the financial sector. The sub-sectors S.122 Other monetary financial institutions, S.123 Other financial intermediaries and S.125 Insurance corporations and pension funds preserved the net creditor position.

[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.

Graph 13



Graph 14



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 (almost 81 % of all liabilities). In terms of the sector breakdown, the most important clients of the banks – in addition to the financial institutions themselves - on the assets side include households and non-financial corporations. On the liabilities side, these are mostly the households, foreign entities 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 22 %.

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 local banks in the form of loans and from foreign holders of shares is invested in debt and equity securities.

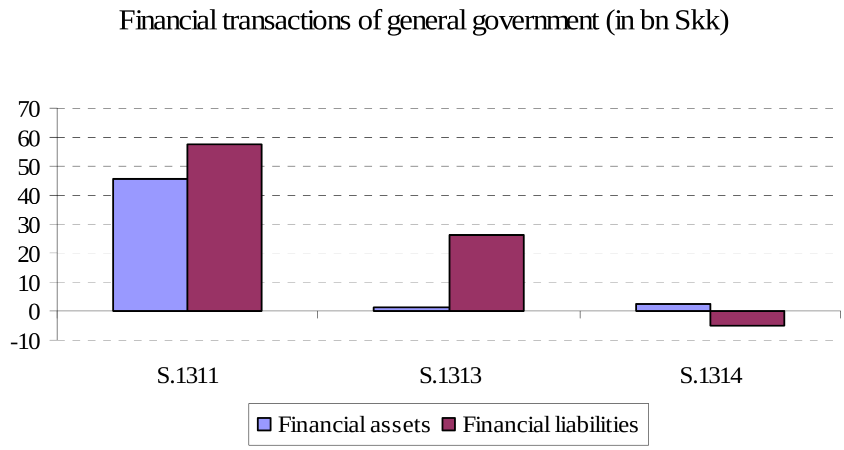
On the contrary, the impact of the sector S.125 Insurance corporations and pension and supplementary pension funds on the financial market has become stronger and stronger. The main creditor of the given sector is the households that invest in life insurance and in the second and third pension pillars.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

S.13 General government

Transactions

The general government sector S.13 contributed to the overall indebtedness of the local economy by approximately the same amount as the financial institutions. Within the individual sub-sectors, the increasing indebtedness of the sub-sectors S.1313 Local government and S.1311 Central government represented the most considerable contribution to this development.

Graph 15

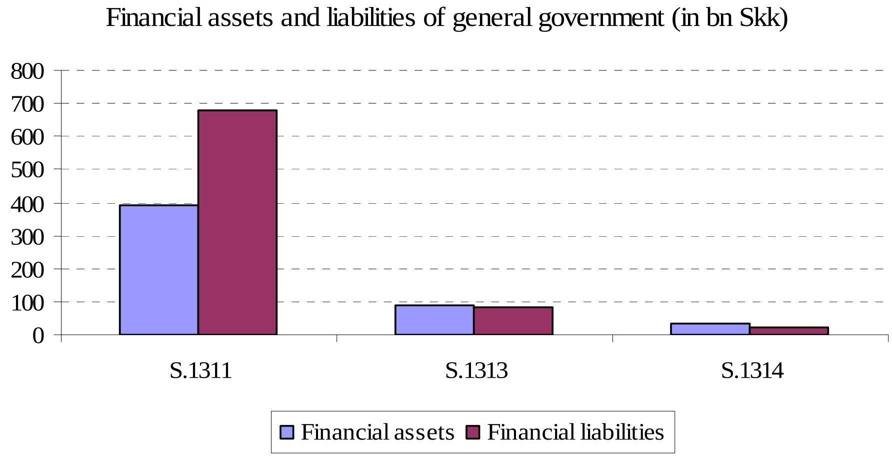


The main reason of the growth borrowing transactions exceeding the growth of lending transactions in the central governement sub-sector was the incurring of debts in the financial instrument other accounts payable and issued long-term debt securities. The central government issued new bonds to the portfolio of non-financial corporations and foreign entities. On the assets side, the most important role was played by higher other acccounts receivables and by an increase in the deposits in local financial institutions. The only central government subsector that reached net lending and thereby increased its total creditor position was the sub-sector S.1314 Social security funds.

Stocks

The overall debtor position of the general government sector is mainly determined by development in the central government sub-sector. The other two general government sub-sectors S.1313 Local government and S.1314 Social security funds recorded a net creditor position.

Graph 16



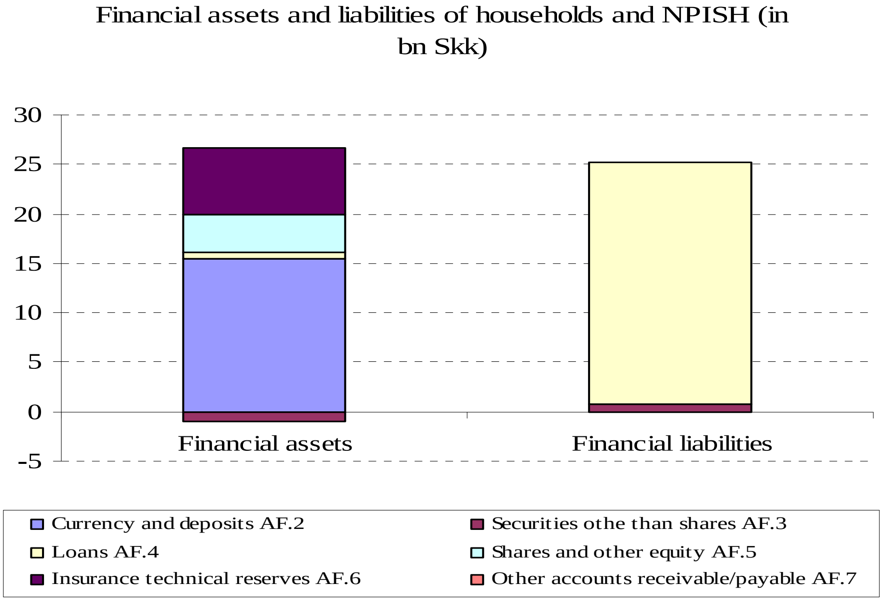
The major financial asset of the central government entities is the shares issued by the local non-financial corporations. The government entities have approximately 15 % of their assets deposited with the banks in the form of time deposits and 13 % are deposited in the form of other accounts receivables. 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

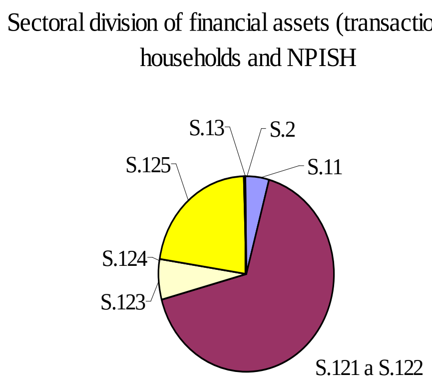
In the 2Q 2008, the households and NPISH sector slightly strengthened its overall creditor position, while the growth of the financial assets was more significant than that of the financial liabilities. The greatest share in the asset growth was held by the deposits of citizens and savings on pension savings accounts and life insurance accounts. Moreover, there was an increase in the volume of 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 received increased and accounts payables resulting from the operations of households and NPISH with financial derivatives increased moderately.

Graph 17

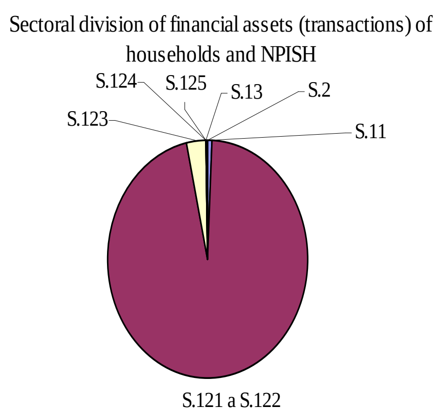


The nature of the financial transactions is also indicative of the sector breakdown of the households and NPISH relationships. The largest share on the assets and liabilities sides was held by the sector S.121 and S.122 Monetary financial institutions (deposits and loans). As regards the assets side,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

Graph 18



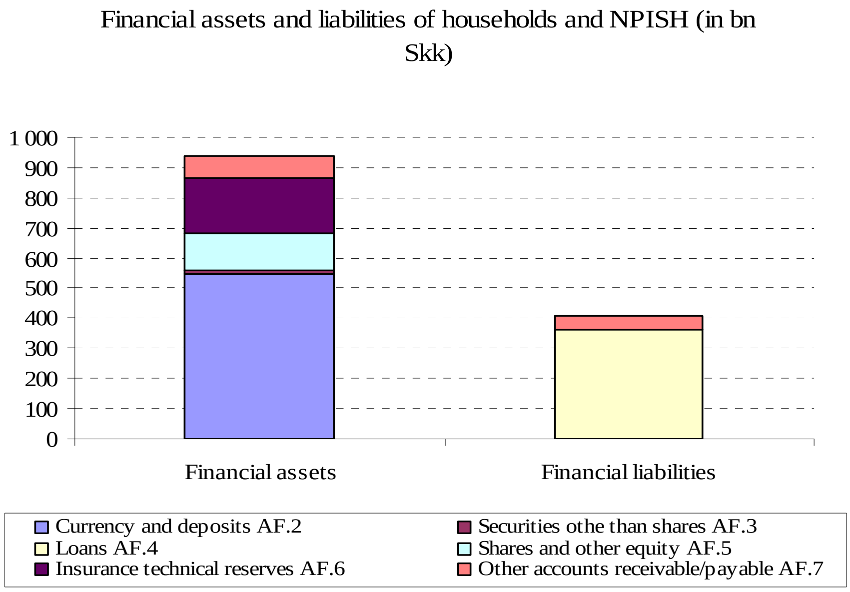
Graph 19



Stocks

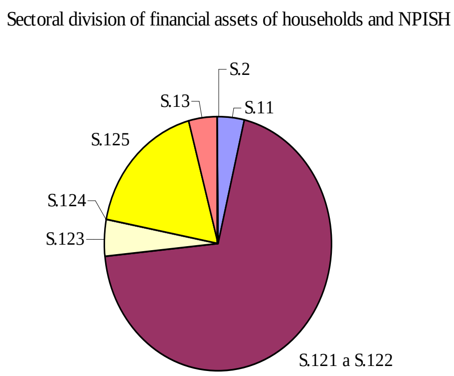
The households and NPISH sector is are the only sectors in the Slovak economy characterized by a net creditor position. Almost two thirds of the available sources are kept in the form of deposits, and a part (approximately 20%) is invested in the pension system and life insurance. Another relatively 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 the accounts payables comprises other accounts payables, of which the payables due to the central government (taxes and levies) account for the major share.

Graph 20

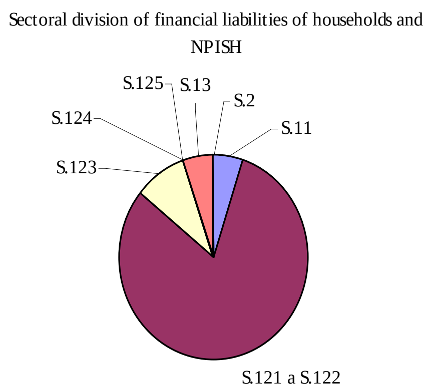


The sector breakdown of the financial receivables and payables has a structure similar to that of the transactions. The most important partner of the households and NPISH is the sector S.121 and S.122 Monetary financial institutions; a significant share has recently started to be held by the sector S.125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

Graph 21



Graph 22



S.2 Foreign countries

Transactions

The overall increase in the creditor position of the foreign countries sector in respect of the national sectors resulted from the fact that the increase in assets exceeded the increase in liabilities. The deposits in local financial institutions and debt securities issued by central government and financial institutions made the primary contribution to the lending operations. The decrease in the volume of equity securities issued by local non-financial institutions had a dampening effect on the increase in assets. As for liabilities, there has been above all an inflow of new funds in the form of deposits and long-term loans from local financial institutions.

Stocks

The foreign countries sector is the net creditor in respect of the Slovak economy, while approximately 37% 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 payables of the foreign countries due to the national economy (about 49%) are the debt securities, mainly in the hands of the financial institutions, and the trade credits (about 15%) extended to non-financial corporations.