Comments on Quarterly Financial Accounts for 1Q 2009

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

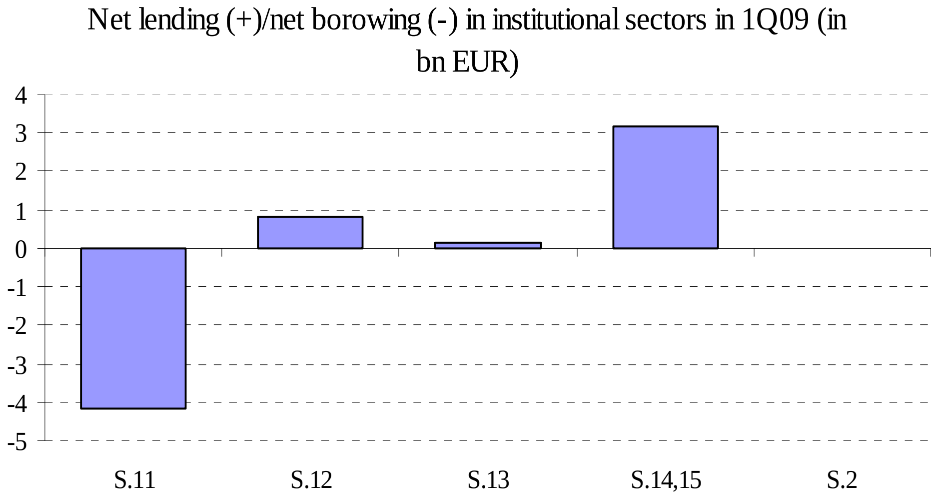
Quarterly Financial Accounts in 1Q 2009

Overall development

Transactions

In the 1Q 2009 the net debtor position of the national economy increased slightly and, at the same time, the net creditor position of the foreign countries sector[3] fell, with net borrowing[4] amounting to EUR 18.625 million. This negative development resulted from an excess of the decrease in financial assets over the decrease in financial liabilities. As regards institutional sectors[5], financial transactions in the non-financial corporations sector (S.11) contributed to the above-mentioned development most significantly, as the difference between the deposit taking and lending was EUR -4.158 bn. On the contrary, the best result in the 1Q 2009 was reached by the households sector and the non-profit institutions serving households sector (S.14, 15), whose creditor position increased by EUR 3.184 bn.

Graph 1

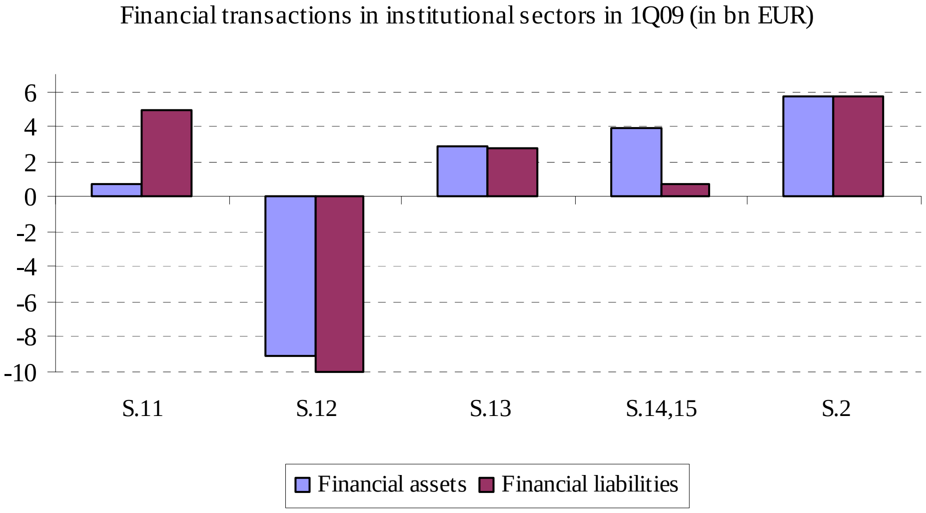


[3] The total of the financial assets and liabilities of the national economy (S.1) and foreign countries (S.2) sectors must equal 0, that is, if the national economy's indebtedness has decreased (or the creditor position has risen), the creditor position of the foreign countries has automatically decreased (or the indebtness has risen) 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 more detailed classification of institutional sectors with assigned codes in compliance with the system of national accounts ESA95 is given on page 2

Graph 2

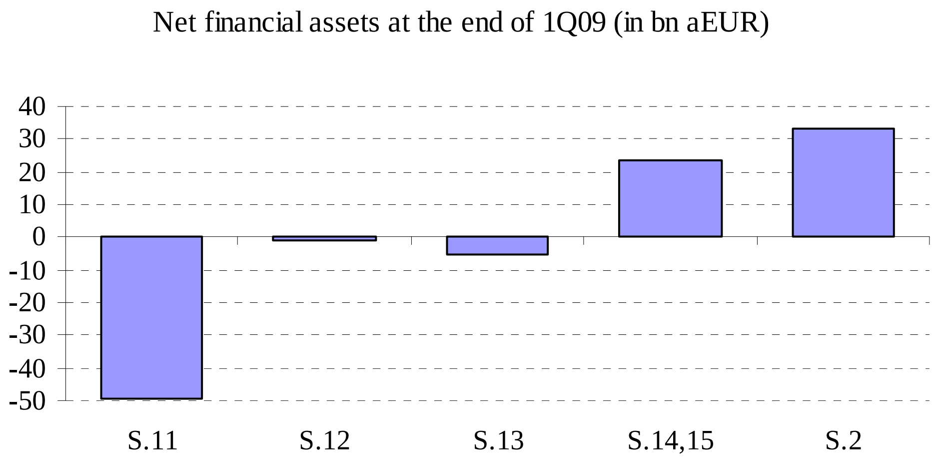


Stocks

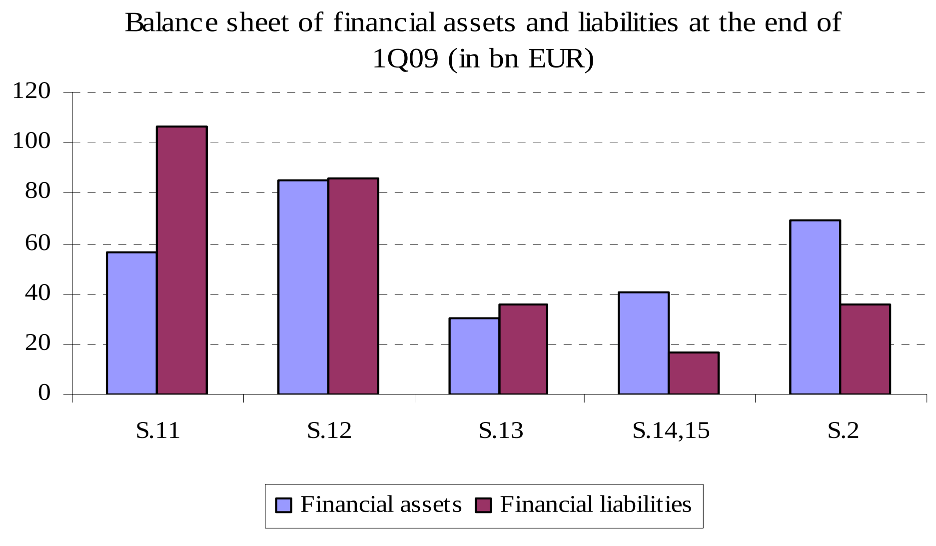
The financial transactions made in the 1Q 2009 contributed to an increase in the overall indebtedness of the national economy, with the stocks amounting to EUR 32.485 bn[6]. as at the end of the quarter. The non-financial institutions are the most indebted sector with a net debt of EUR 49.398 bn. Besides corporations, the general government sector (EUR 5.241 bn.) and the financial institutions sector, whose indebtedness is EUR 1.261 bn., also continue to be indebted. The largest net financial assets within the national economy are available in the households sector (in the amount of EUR 23.416 bn.). The foreign countries sector has recorded a net creditor position for a long time; it was EUR 33.240 bn. as at the end of 1Q 2009[7].

[6]The 4Q 2008 Comments indicated a total indebtedness of EUR 32.637 bn. After a revision of the data for the government sector (S.13), the indebtedness of the national economy is EUR 32.466 bn.
[7] The difference between the net financial debt of the national economy (EUR 32.485 bn) and the net creditor position of the foreign countries (EUR 33.240 bn.) is represented by the item monetary gold and SDRs amounting to EUR 755 bn.

Graph č. 3



Graph č. 4



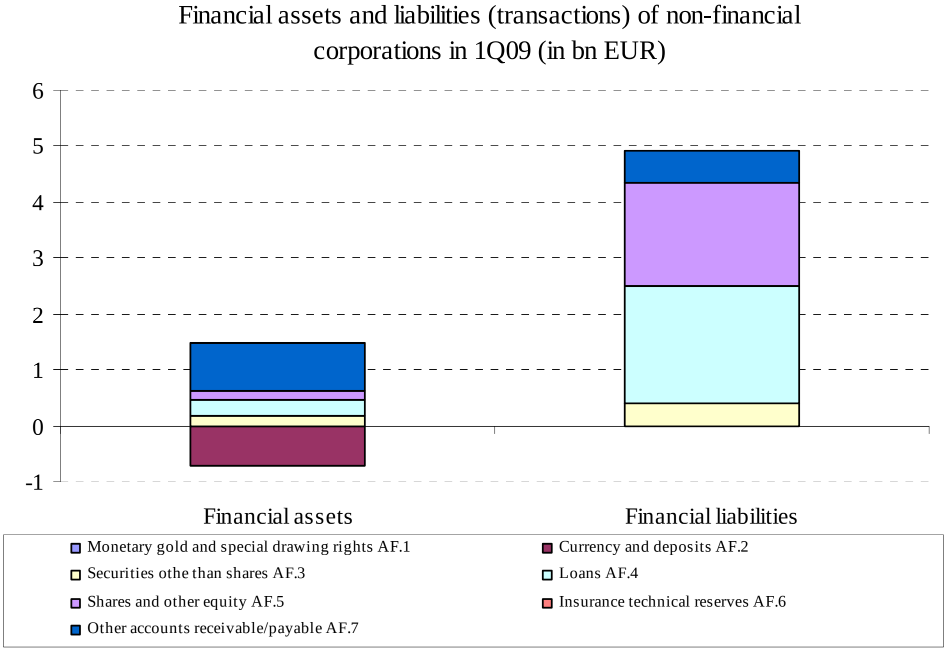
<u>Quarterly financial accounts (transactions) by individual institutional sectors</u>

S.11 Non-financial institutions

Transactions

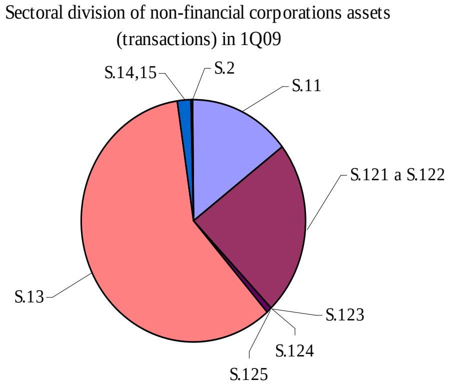
The unfavorable development taking the form of an increase in the non-financial institutions' indebtedness resulted from a more considerable growth of financial liabilities compared to a moderate increase in financial assets, with a dominant role being played by borrowings and equity securities on the liabilities side. This development can be explained by the provision of liquidity within corporations with foreign direct investment. Financial derivatives and other accounts payable also contributed to the increase in liabilities. On the asset side, the corporations increased their accounts receivable resulting primarily from trade relations and from lendings.

Graph 5

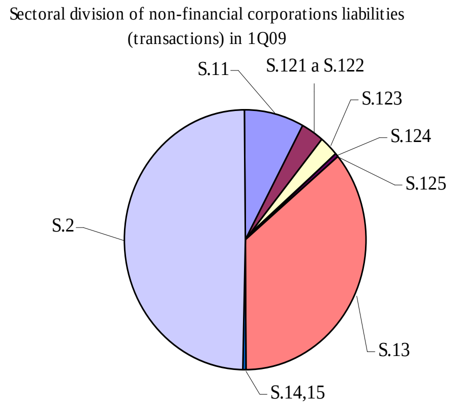


In terms of the sector breakdown, the increase in loans and equity securities became particularly evident among non-financial corporations and their foreign owners. Other accounts payable were increased by corporations primarily towards central government entities. The central government and local government sectors played the most important role in the growth of trade credits to non-financial corporations. Transactions on the assets side were relatively significantly influenced by the central bank and other monetary financial institutions, with corporations increasing their cash holdings while at the same time decreasing their stock of bank deposits.

Graph 6



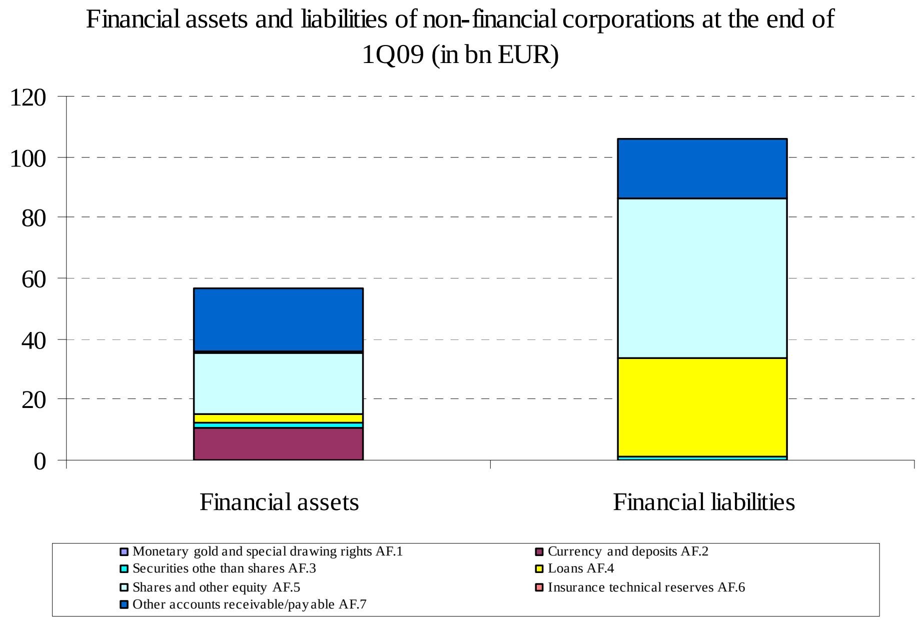
Graph 7



Stocks

The main finance sources of the non-financial corporations have included shares, financial loans, and trade credits. Corporations use the said sources for investments, in particular in other accounts receivable, shares, and deposits.

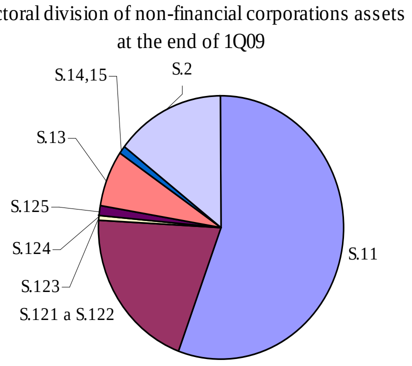
Graph 8



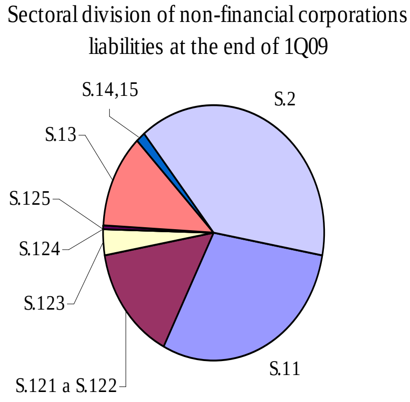
The current stocks of the issued equity securities of non-financial corporations are held, within the national economy, especially in the non-financial corporations sector (36.1%) and by the central government entities (17.1%). 46% of the local corporations' shares are held by foreign entities. Within the loan financing of corporations, loans from Slovak banks and leasing and factoring corporations account for 57%, loans from abroad make up almost 35%.

The main debtors of local corporations in the individual financial instruments are entities in the local non-financial corporations (55.5%), other monetary financial institutions (20.3%) and foreign countries sector (14.4%).

Graph 9



Graph10

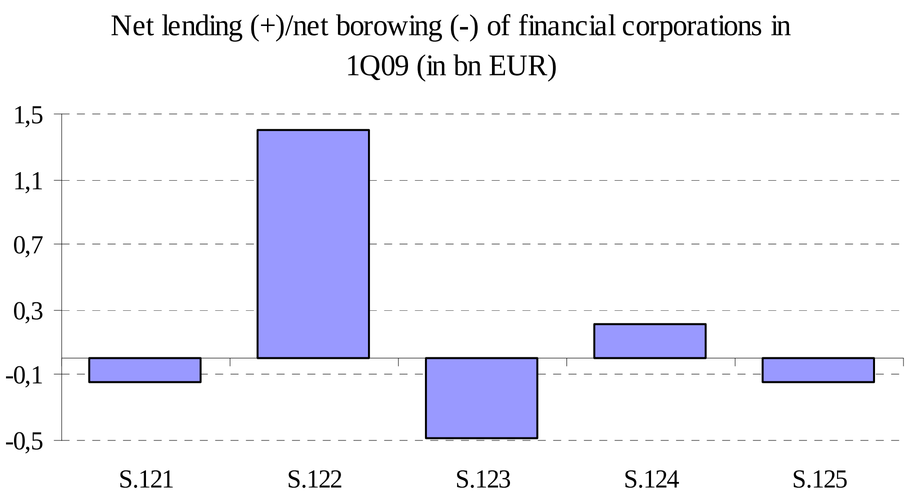


S.12 Financial institutions

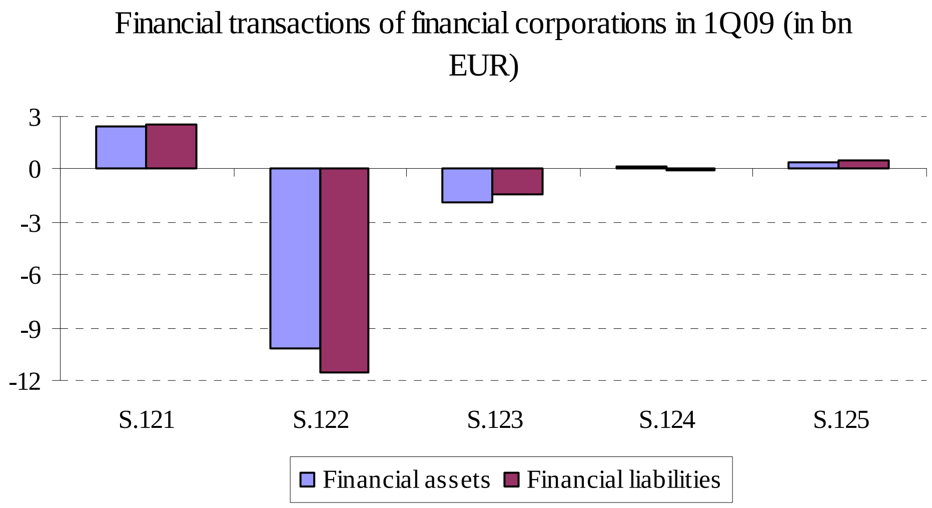
Transactions

Unlike the non-financial corporations, the sector S.12 Financial institutions recorded new lending in the 1Q 2009. This development was primarily the result of an increasing creditor position of sub-sector S.122 Other monetary financial institutions and sub-sector S.124 Financial auxiliaries. Other financial intermediaries (S.123), by contrast, decreased their creditor position.

Graph 11



Graph 12



Financial transactions in other monetary financial institutions had the most significant impact on the development of the financial sector. The liabilities decreased more considerably than the assets within those transactions. The balance sheet total was primarily the result of a considerable decrease in both received and deposited short-term and long-term deposits. In terms of the sector breakdown, deposits received from non-residents and general government entities decreased; on the assets side, the decrease was only in deposits with the central bank. The decrease in liabilities was also influenced by financial derivatives held by non-residents and equities held by the sector of insurance corporations and pension funds and non-residents.

Besides other monetary financial institutions, entities of the sub-sector S.124 Financial auxiliaries also contributed positive financial transaction. Financial auxiliaries increased their creditor position particularly as a result of an increase in financial assets, recording higher deposits with banks and other receivables from the central bank than in the previous quarter. On the liabilities side, they managed to reduce the volume of borrowings and other equity held by banks.

The most significant decrease in the creditor position was achieved by entities of sub-sector S.123 Other financial intermediaries (leasing, factoring, and hire purchase corporations, and long-term open-end mutual funds[8]). The key factor of this negative development was a

[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.

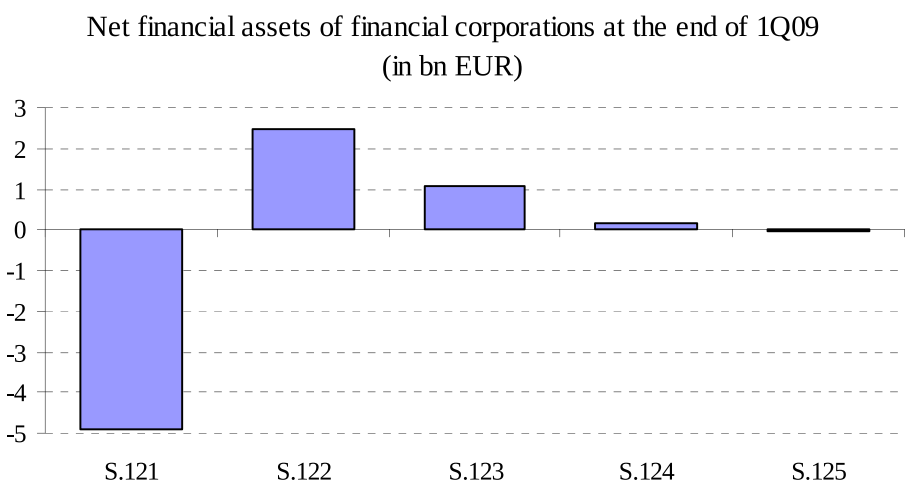
decrease in short-term and long-term loans granted to households. On the other hand, they decreased the volume of issued mutual fund units held by households.

The central bank and insurance corporations and pension funds recorded a slight deterioration of their debtor position. In the case of the central bank, this constituted an increase in a payable due to the Eurosystem within settlement in the TARGET2 payment system, the Insurance corporations and pension funds sector deteriorated its financial balance above all within pension savings of the population.

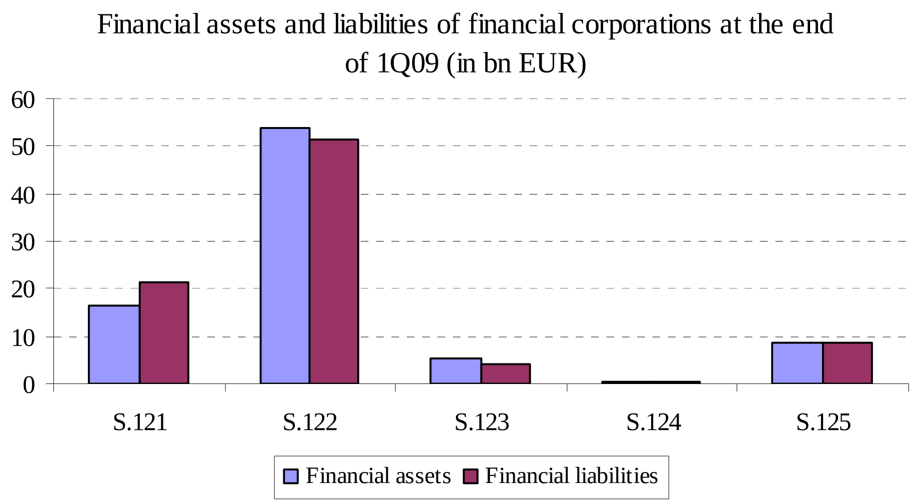
Stocks

Mainly the position of the central bank and partly of the sub-sector S.125 Insurance corporations and pension funds 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.124 Financial auxiliaries recorded a net creditor position as at the end of the quarter.

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 and short-term loans. In addition, a significant portion of the available sources is placed in government bonds and resident and non-resident deposits. Deposits play a dominant role on the liabilities side (almost 80 % of all liabilities). In terms of the sector breakdown, the most important clients of the banks on the assets side include non-financial corporations and central government entities. The foreign countries sector is an important holder of shares and other equity at banks, his percentage in this financial instrument accounting for approximately 56.4%.

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

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 deposits and equity securities.

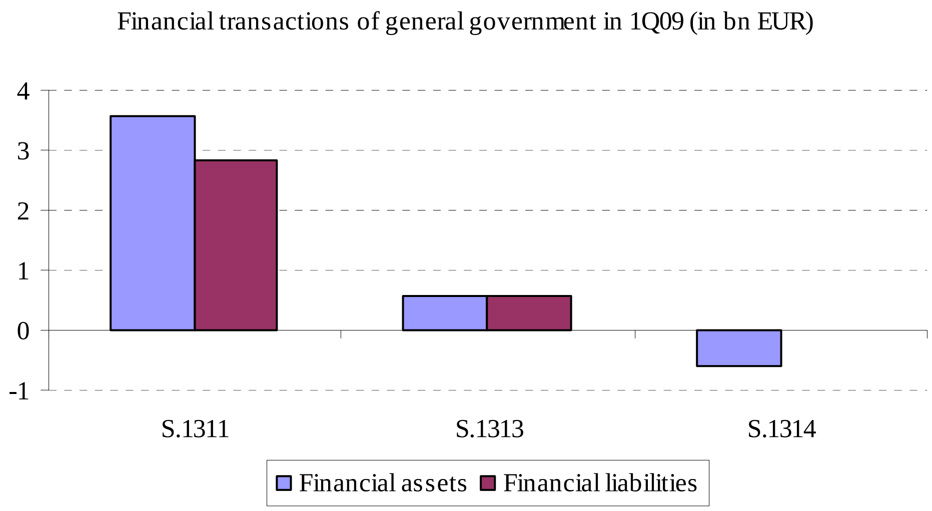
On the contrary, the impact of the sector S.125 Insurance corporations and pension and supplementary pension funds on the financial market has become stronger and stronger. The main creditor of the given sector are the households that invest in life insurance and in the second and third pension pillars.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

S.13 General government

Transactions

The positive financial transactions in sector S.13 General government dampened the increase in total indebtedness of the local economy. Within the individual sub-sectors, the decreasing indebtedness of the sub-sector S.1311 Central government and the increasing creditor position of the sub-sector S.1313 Local government represented the most considerable contribution to this development to the said development. The sub-sector S.1314 Social security funds recorded negative financial transactions.

Graph 15



The main reason of the positive transactions in the central government sub-sector was an excess of the growth of other accounts receivable (taxes, social contributions etc.) from households over the growth of other accounts payable[9]. A similar development in financial assets and liabilities occurred also in local government. The development on the asset side

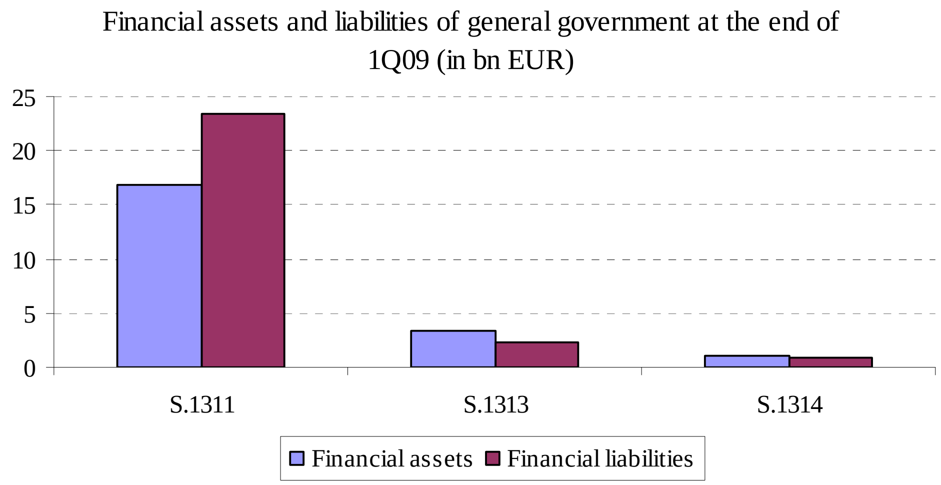
[9] Because there was a more considerable decrease in both other accounts receivable and other accounts payble, a methodological adjustment of the data

differed from that of the central government in that the deposits in banks and holdings of debt securities issued by non-financial corporations increased.

Stocks

The overall debtor position of the general government sector is mainly determined by the 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 as at the end of the 1Q 2009.

Graph 16



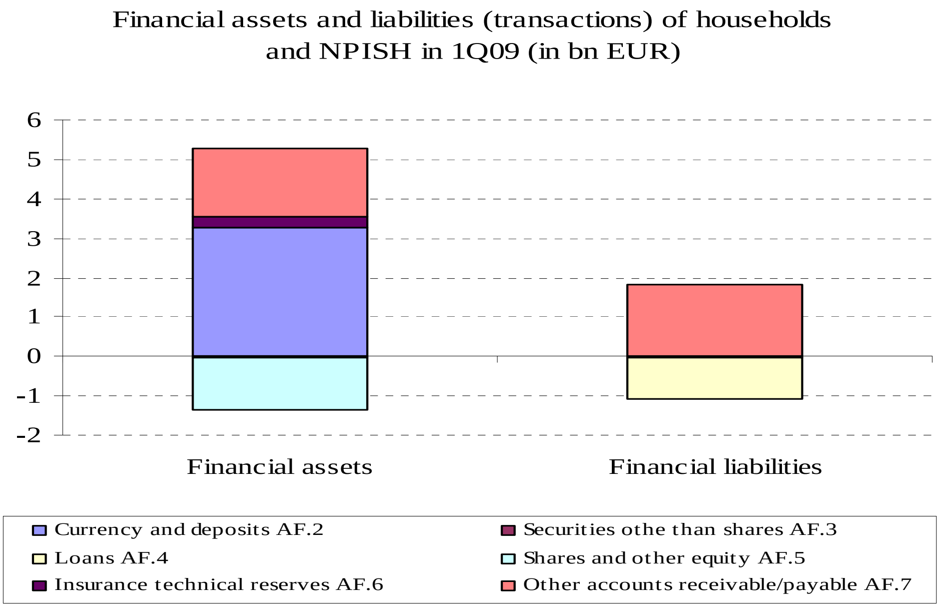
The largest financial asset of the central government entities are shares issued by local non-financial corporations. The central government entities have approximately 26% of their assets in other accounts receivable (taxes, social benefits etc.) from households and 12.2% are invested by the government in other deposits. The central government allocates the majority of the liabilities to long-term debt securities, of which one third is held by foreign owners.

S.14, 15 Households and NPISH

Transactions

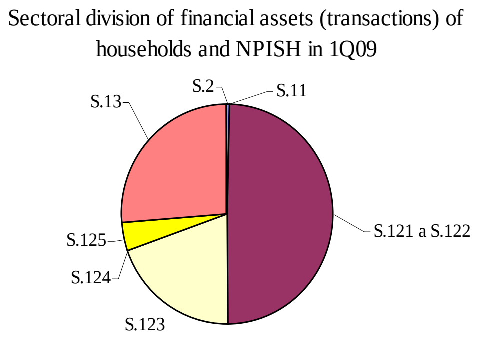
In the 1Q 2009, the households and NPISH sectors increased their overall creditor position as a result of a dynamic growth of financial assets and only a moderate growth of financial liabilities. Within the assets, the amount of currency held by households increased, which is related to the exchange of the Slovak currency for the euro; on the liabilities side, the accounts payable decreased, while the financial loans increased.

Graph 17

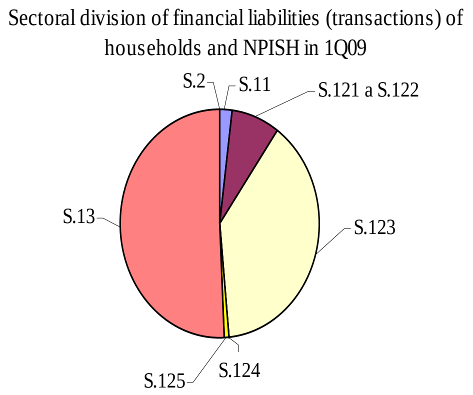


The nature of the financial transactions is also indicative of the sector breakdown of the households and NPISH relationships. The largest share on the assets side was held by transactions with the central government and with other monetary financial institutions. Central government (other accounts payable) and other financial intermediaries played a key role in borrowing operations.

Graph 18



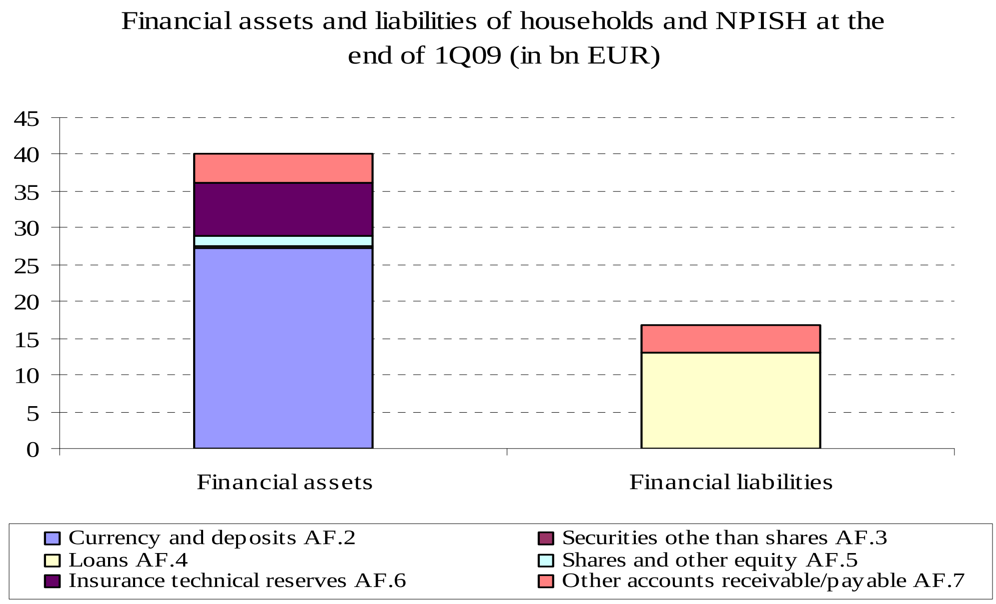
Graph 19



Stocks

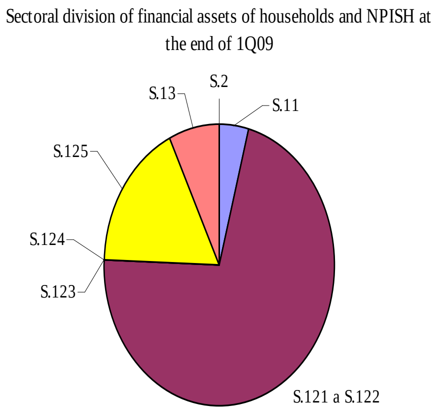
The households and NPISH sector is are the only sectors in the Slovak economy characterized by a net creditor position. About two thirds of the available sources are kept in the form of deposits, and a part - approximately 17% - is invested in the pension system and life insurance. The households invest 3.5% of their assets in mutual funds. Nearly 80 % of all liabilities consist of borrowings, especially of the long-term ones. The remaining portion of the accounts payable comprises other accounts payable, of which the payables due to the central government (taxes, levies, social contributions) account for the largest share.

Graph 20

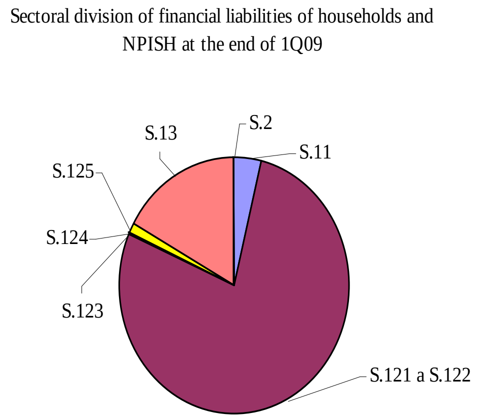


The sector breakdown of the financial receivables and payables has a structure similar to that of the transactions. The most important partner of the households and NPISH is the sector S.121 and S.122 Monetary financial institutions; a significant share has recently started to be held by the sector S.125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

Graph 21



Graph 22



S.2 Foreign countries

Transactions

The overall decrease in the creditor position of the foreign countries sector in respect of the national sectors resulted from a faster growth of assets as compared to the growth of liabilities. Accounts receivable from the central bank within the TARGET2 payment system, as well as loans to non-financial corporations and equity securities issued by non-financial corporations made the primary contribution to the lending operations. As for liabilities, there was above all an increase in the volume of other accounts payable to the central bank in connection with the issue of euro currency and deposits received from commercial banks.

Stocks

The foreign countries sector is the net creditor in respect of the Slovak economy, while approximately 35% of all assets are represented by shares of the local non-financial corporations and a further 16% consist of loans to non-financial corporations. Other accounts receivable from the central bank in connection with the TARGET2[10] payment system and debt securities issued by the central government are an important asset of the foreign countries sector. The most important payables of foreign countries due to the national economy (about 42%) are the debt securities, mainly in the hands of financial institutions, and the trade credits (about 15%) received from non-financial corporations.

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[10] This item was posted in the central bank balance sheet for the first time, meaning that it is questionable whether its share in the total assets of foreign countries will be stable or whether it will change in the following quarters.