Comments on Quarterly Financial Accounts for 2Q 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

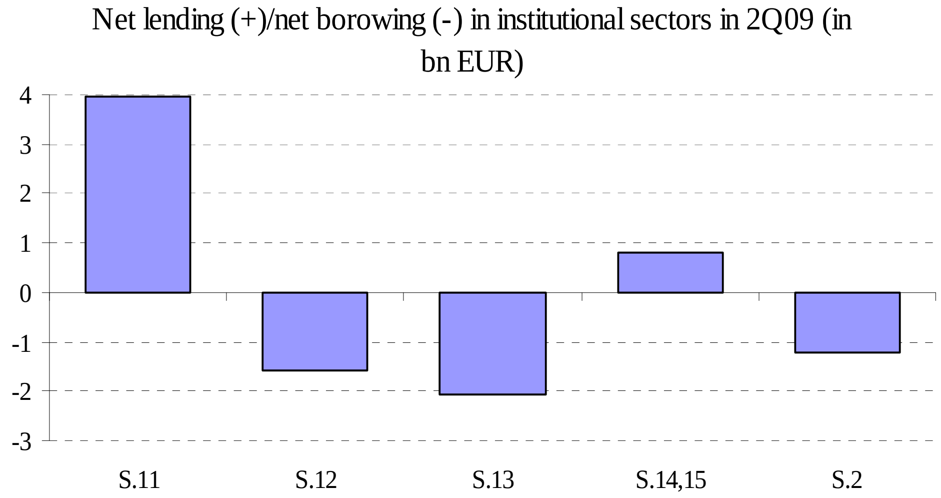
Quarterly Financial Accounts in 2Q 2009

Overall development

Transactions

In the 2Q 2009, the net debtor position of the national economy dropped, and thus there was a decrease in the net creditor position of the foreign countries sector[3], with net lending[4] amounting to EUR 1.1 bn. The given favourable development resulted from a more significant growth of financial assets in comparison with the growth of financial liabilities. 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 EUR 3.9 bn. On the contrary, the worst result in the 2Q 2009 was obtained by the central government sector (S.1311), whose debtor position increased by EUR 2.4 bn.

Graph 1

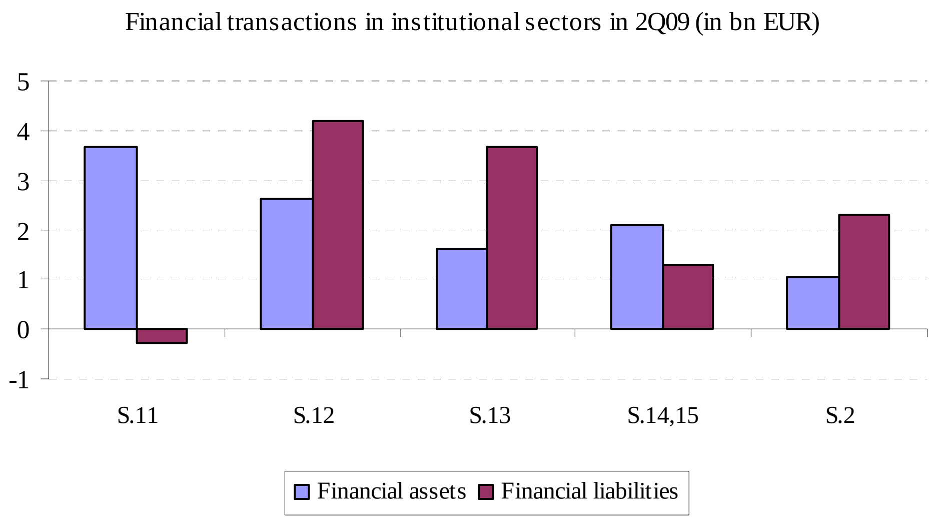


[3] The total of the financial assets and liabilities of the national economy (S.1) and foreign countries (S.2) sector must equal 0, that is, the national economy's indebtedness has decreased (or the creditor position has risen), and the creditor position of the foreign countries has automatically decreased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



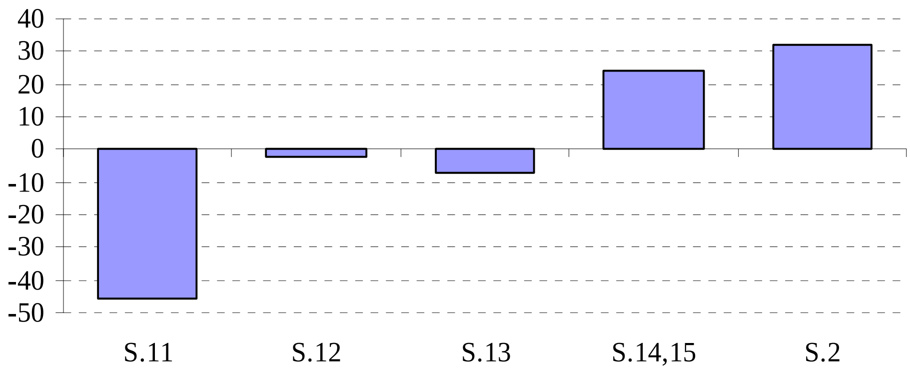
Stocks

The financial transactions made in the 2Q 2009 contributed to a decrease in the overall indebtedness of the national economy, with its volume amounting to EUR 31.4 bn at the end of the quarter. The non-financial institutions sector is the most indebted sector with net debt of EUR 45.9 bn. Besides corporations, the indebted sectors also include the general government sector (in an amount of EUR 7.1 bn) and the financial institutions sector with its indebtedness of EUR 2.5 bn. The largest net financial assets within the national economy are available in the households (EUR 24.1 bn). The foreign countries sector has recorded the net creditor position for a long time; it was EUR 32.1 bn[6] as at the end of 2Q 2009.

[6] The difference between the net financial debt of the national economy (EUR 31.4 bn) and the net creditor position of the foreign countries (EUR 32.1 bn) is represented by the monetary gold and SDRs amounting to EUR 732 mil)

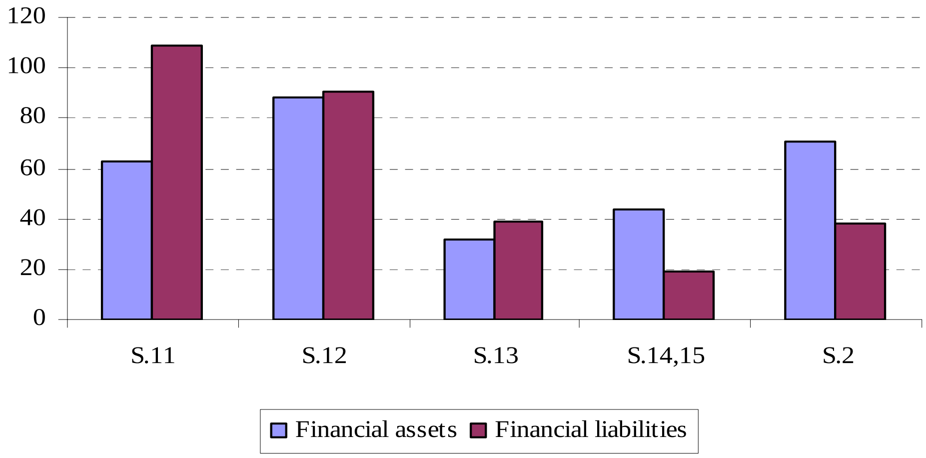
Graph 3

Net financial assets at the end of 2Q09 (in bn aEUR)



Graph 4

Balance sheet of financial assets and liabilities at the end of 2Q09 (in bn EUR)



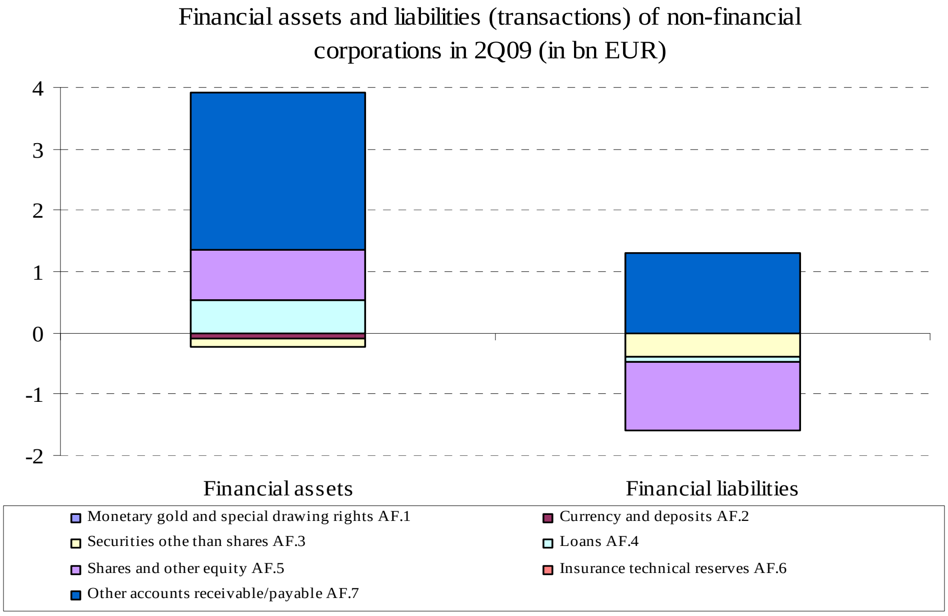
<u>Quarterly financial accounts by individual institutional sectors</u>

S.11 Non-financial institutions

Transactions

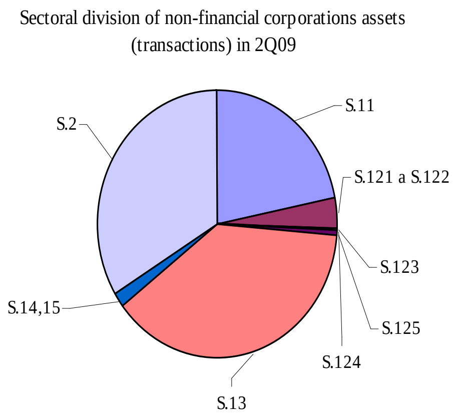
The favourable development in the decrease of the non-financial institutions' indebtedness resulted, in particular, from the growth of financial assets and a decrease in the financial liabilities, when trade credits and quoted shares of foreign corporations played a predominant role on the assets side. On the liabilities side, there was predominantly a drop of issued shares and bonds.

Graph 5

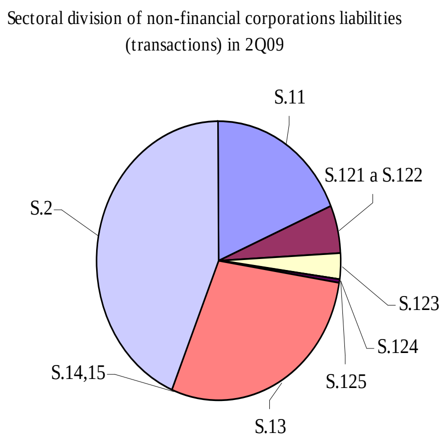


In terms of the sectoral breakdown, the increase in the trade credits appeared mainly among non-financial corporations and also among the government entities and between the corporations mutually. Also other corporations receivables to the government related mainly to a time shift in the payment of indirect taxes and dividends recorded a relatively significant increase. In addition to shares, local corporations increased their receivables to foreign entities also in the lending. On the liabilities side, the volume of shares held by foreign companies and bonds in the government entities portfolio recorded the most significant drop.

Graph 6



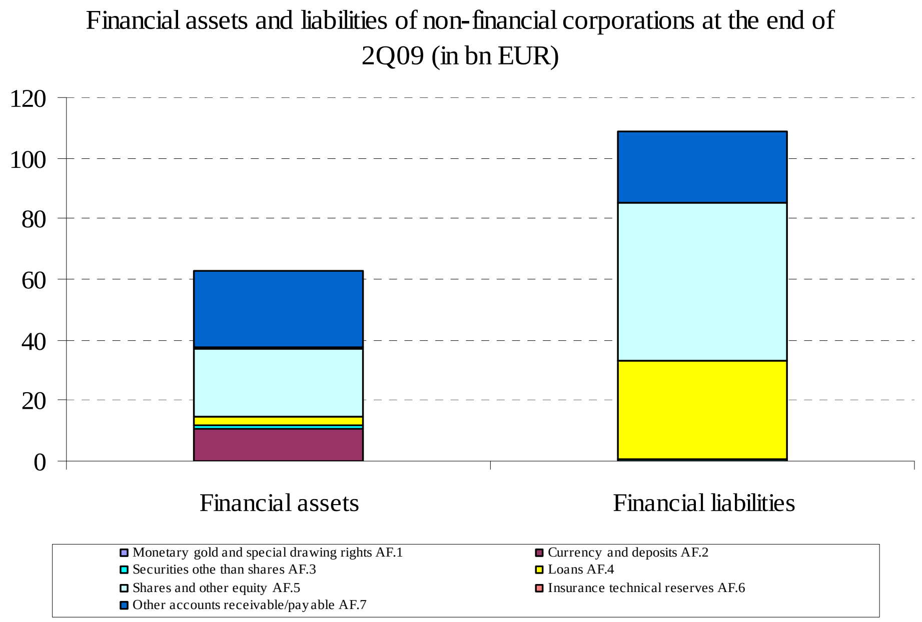
Graph 7



Stocks

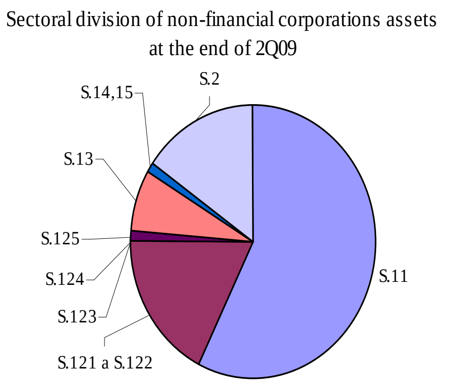
The main finance sources of the non-financial corporations have included the shares, financial loans, and trade credits for a long time. The corporations use the given sources for investments, in particular in other accounts receivable, shares, and deposits.

Graph 8

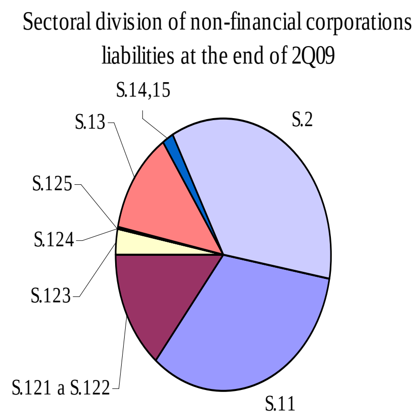


The current stocks of the issued equity securities of the non-financial corporations are held, within the national economy, especially in the non-financial corporations sector (38.6%) and by the central government entities (17.6%). 43.3% of the local corporations' shares are held by foreign entities. Within the loan financing of corporations, loans from the Slovak banks and leasing and factoring corporations account for 56%; loans from foreign countries account for 34.2%. The main debtors of the local corporations in individual financial instruments are entities from the non-financial corporations sectors (57.2%), other monetary financial institutions (17.8%) and foreign countries (15.2%).

Graph 9



Graph10

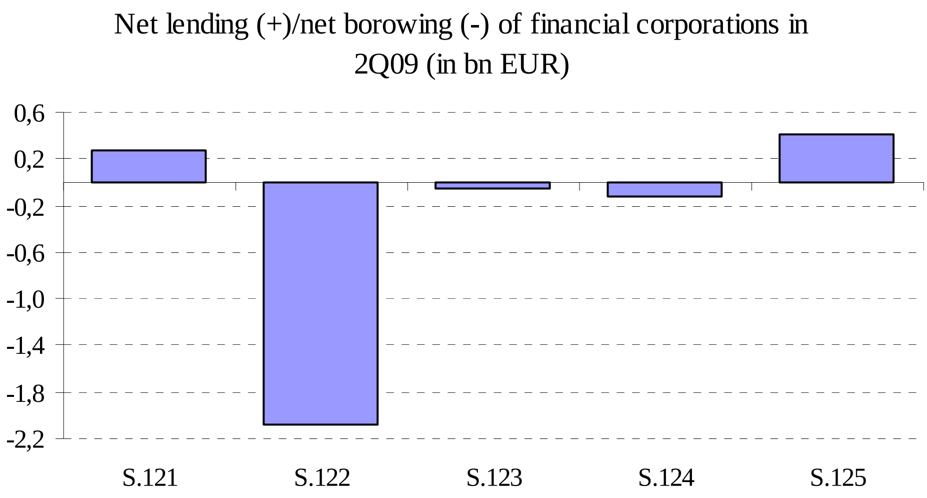


S.12 Financial institutions

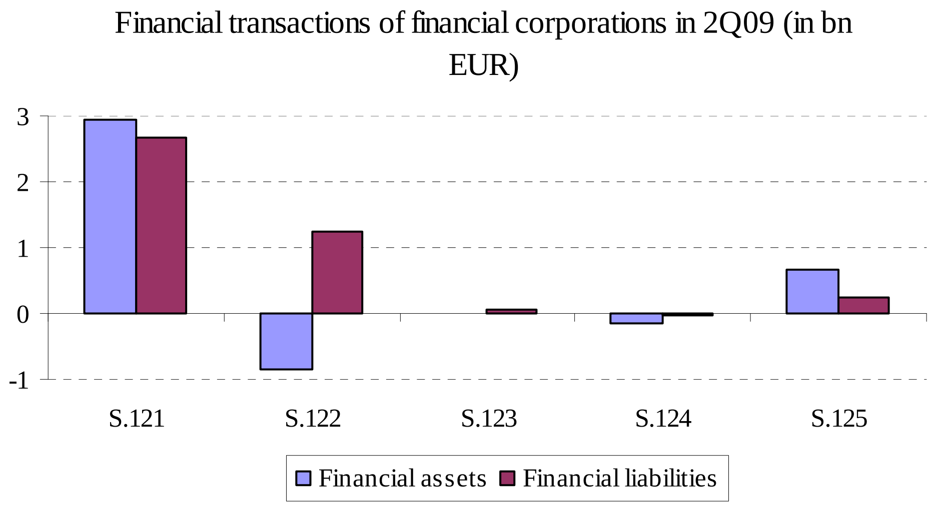
Transactions

Unlike non-financial corporations, the sector S.12 financial institutions recorded net borrowings in the 2Q 2009. The given development resulted mainly from the declining creditor position of subsector S.122 other monetary financial institutions. A slight decrease in its creditor position was recorded also by the subsector S.124 financial auxiliaries and other financial intermediaries (S.123).

Graph 11



Graph 12



Total net negative transactions of banks resulted from a drop of the assets and a relatively significant growth of the liabilities. In lower assets mainly the withdrawal of deposits from foreign banks and from the Central Bank was reflected, and also a lower volume of short-term loans granted to non-financial corporations. The only financial instrument on the liabilities side where commercial banks reported a significant growth was deposits. The maximum increase was in deposits from the Central Bank and pension funds, which was probably related to a conservative investment strategy of pension management companies after legislative changes in the second pillar. Besides financial institutions, also central government entities deposited more money on bank accounts.

Entities of subsector S.123 other financial intermediaries (leasing, factoring and hire purchase companies and long-term mutual funds[7] and financial auxiliaries (S.124) also contributed slightly to the negative financial transactions. In the case of S.123 entities, on the liabilities side there was an increase in the volume of issued mutual fund units, and on the assets side, mainly long-term loans granted to non-financial corporations have dropped. Financial auxiliaries reduced the volume of deposits made with banks, and on the liabilities side, mainly other issued property shares have dropped.

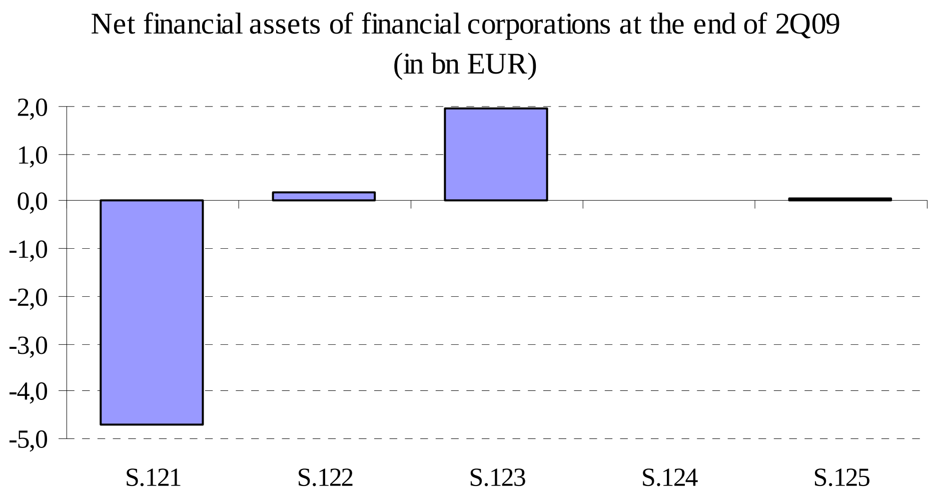
The favourable development in the financial balance sheets was reported by insurance corporations and pension funds (S.125) and by the Central Bank (S.121). Besides increased deposits with banks, in both sectors there was an increase in the holding of short-term and long-term debt securities issued by foreign entities. On the liabilities side of the Central Bank, the volume of other liabilities to the Eurosystem has increased within settlement in the TARGET2 payment system; the Insurance corporations and pension funds sector have charged the liabilities of its financial balance mainly with pension savings of the citizens.

Stocks

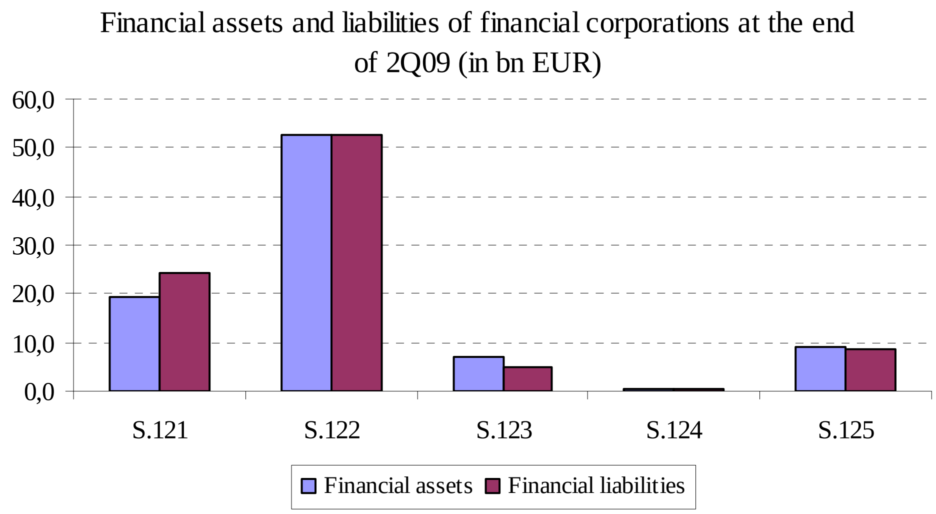
Exclusively the Central Bank‘s position contributes to the overall indebtedness of the financial sector. The net creditor position was recorded by subsectors S.122 Other monetary financial institutions, S.123 Other financial intermediaries, S.124 Financial auxiliaries and S.125 Insurance corporations and pension funds at the end of the quarter.

[7] 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 and short-term loans. In addition, a significant portion of the available sources is deposited in the government bonds and residential and non-residential deposits. Deposits play a predominant role on the liabilities side (nearly 82% of all liabilities). In terms of the sectoral breakdown, the most important clients of the banks, on the assets side, are the non-financial corporations, households and central government entities. On the liabilities side, the most important clients are predominantly households, non-financial corporations and foreign entities. The foreign countries sector represents a significant owner of shares and other property shares with banks, with its share in this financial instrument accounting for approximately 58%.

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 deposits with banks and government bonds. The main source of income is, in particular, the loans from local and foreign banks and mutual fund units held mainly by the households.

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

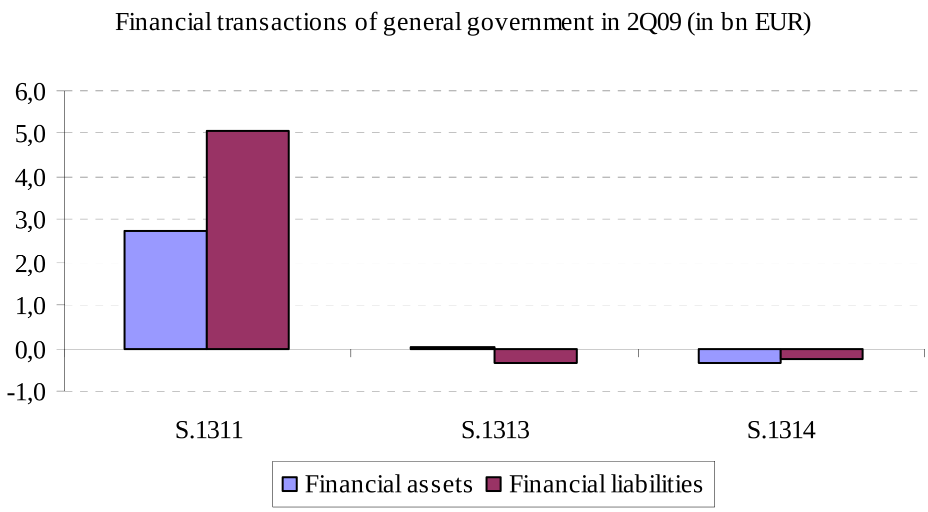
On the contrary, the impact of the sector S.125 Insurance corporations and pension and supplementary pension funds has become stronger and stronger in the financial market. The main creditor of the given sector is the households that invest in life insurance and in the second and third pension pillars.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

S.13 General government

Transactions

Negative financial transactions in the sector S.13 General government dampened an decrease in the overall indebtedness of the national economy. Within particular subsectors, increasing indebtedness of the subsector S.1311 Central government contributed most markedly to the above development. Positive development and thus an increase in their creditor position was reached by entities of the subsector S.1313 Local government.

Graph 15

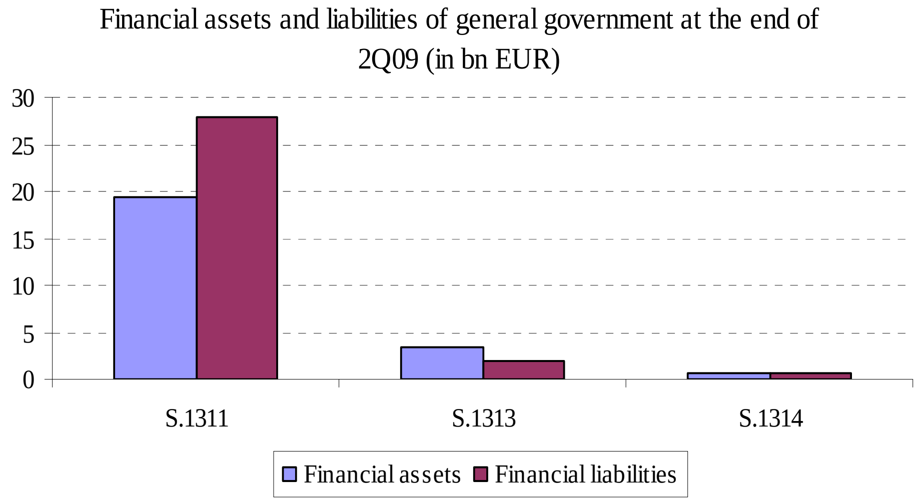


The main reason for the negative transactions in the central government subsector was a considerable growth of the lending. Within it there was an increase in other liabilities to households and corporations (a time shift for the payment of taxes, interest, social allowances) and trade credits to corporations. In the second quarter, there was also the issue of bonds in foreign markets, and thus an increase in the liabilities by EUR 2 bn. The damping factor of the growth of general government's indebtedness was an improvement in the creditor position of the Local government (S.1313) entities mainly thanks to a drop of received credits from banks.

Stocks

The overall debtor position of the general government sector is affected mainly by developments in the central government subsector. The other two subsectors of the General government, S.1313 Local government and S.1314 Social security funds recorded the net creditor position as at the end of 2Q 2009.

Graph 16



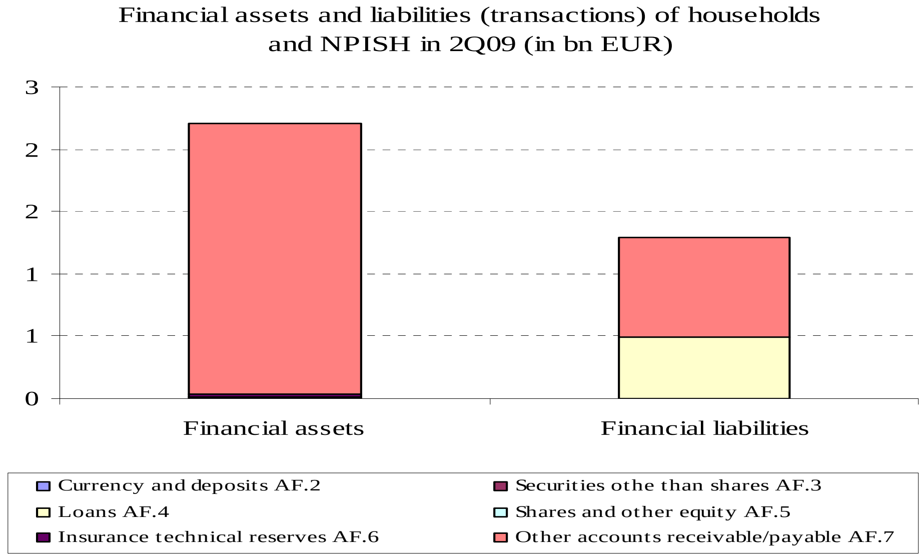
The major financial asset of the central government entities is the shares issued by the local non-financial corporations. The central government entities report approximately 17% of their assets in other receivables (taxes, social allowances, etc.) to households, and the government invests 12.2% in other deposits. The overwhelming majority of liabilities are allocated by the central government in the long-term debt securities, of which almost one-third is owned by foreign owners.

S.14,15 Households and NPISH

Transactions

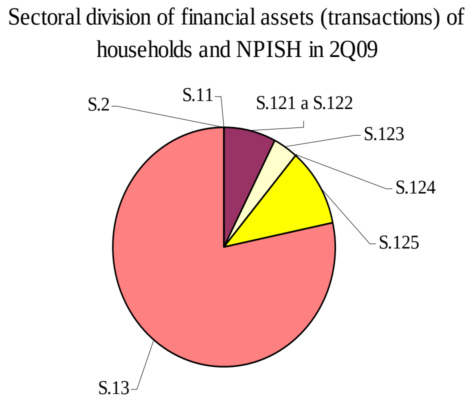
In the 2Q 2009, the households and NPISH sector increased its overall creditor position as a result of more dynamic growth of the financial assets in comparison with the growth of the financial liabilities. Within the assets, mainly other receivables to the Central government increased; on the liabilities side, the households ran into debts through other liabilities and loans.

Graph 17

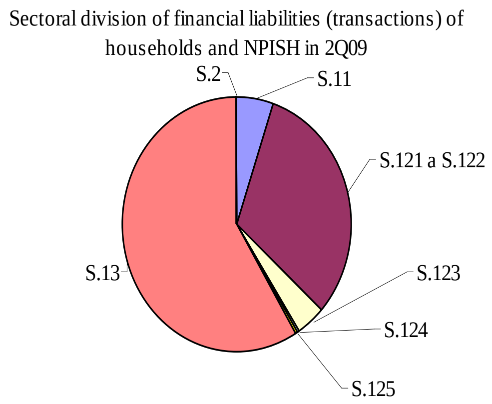


In terms of the sectoral breakdown, transactions with the Central government had the highest share on the assets and liabilities side. On the assets side, also transactions with Insurance corporations and pension funds contributed to the positive development, and in the lending, besides the Government, also monetary financial institutions played a dominant role.

Graph 18



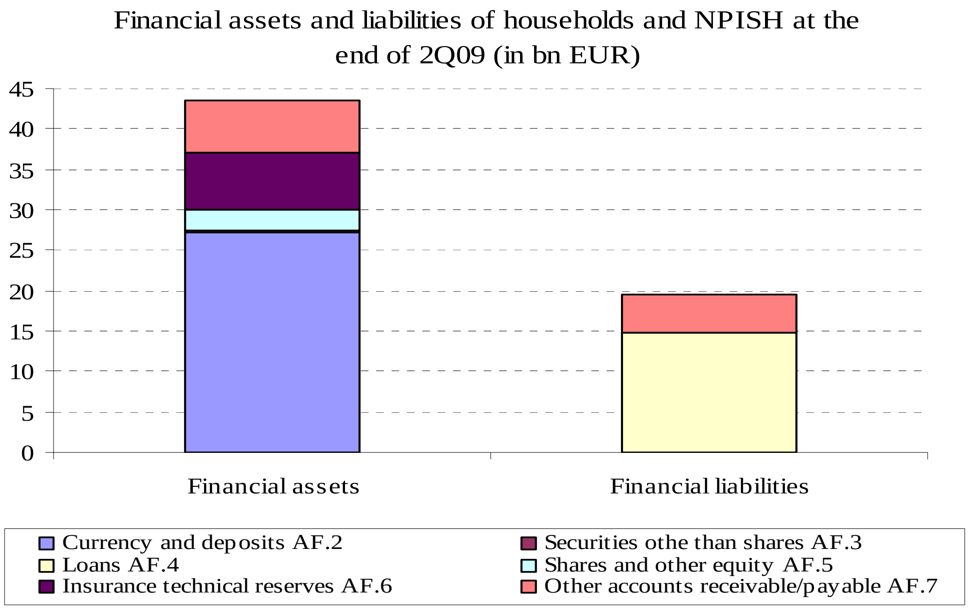
Graph 19



Stocks

The households and NPISH sector is characterized as the only one in the Slovak economy by the net creditor position. Approximately 63% of available sources are kept in the form of deposits, and another part (approx. 17%) is invested in the pension system and life insurance. The households invest 5.3% of their assets in mutual funds. Nearly 76% 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, levies and social allowances) account for the major share.

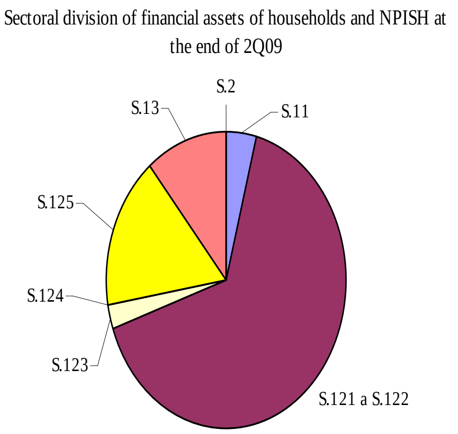
Graph 20

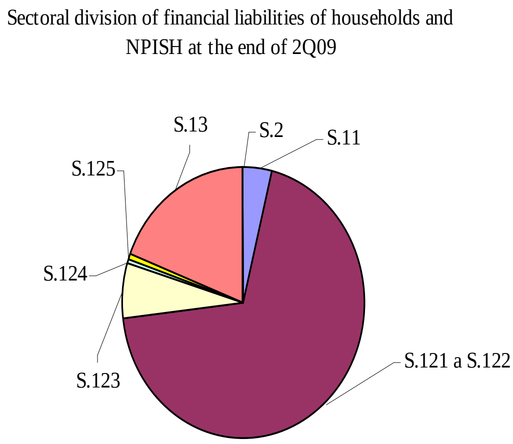


The sectoral breakdown of the investments and financial resources of the households results from the nature of financial instruments in their balance. The most important partner of the households and NPISH is the sector S.121 and S.122 Monetary financial institutions; a significant share has recently started to be acquired by the sector S.125 Insurance corporations and pension and supplementary pension funds. On the liabilities side, a relatively significant share is represented by the Government sector.

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 more dynamic growth of the liabilities in comparison with the growth of the assets. Issued bonds in the Central Bank's portfolio and shares in the non-financial corporations portfolio contributed primarily to the lending. On the assets side, the receivables of non-residents to the Central Bank within the TARGET2 payment system have increased, and the receivables to the Central government in the form of holding of its bonds has increased, too.

Stocks

The foreign countries sector is the net creditor in respect of the Slovak economy, with approximately 32% of all assets represented by shares of the local non-financial corporations and further 16% consisting of loans to non-financial corporations. Other receivables to the Central Bank in relation to the TARGET2 system and debt securities issued by the Central government represent a significant asset of the foreign countries. The most important payables of the foreign countries due to the national economy (about 46%) are the debt securities, mainly in the hands of the financial institutions, and the trade credits (about 15%) received from the non-financial corporations.