Comments on the Quarterly Financial Accounts for Q1 2011

The ESA 95 system employs the following classification of institutional sectors and sub-sectors:

Non-financial corporations	S.11
Financial corporations	S.12
Central Bank	S.121
Other monetary financial institutions	S.122 (commercial banks and money market mutual funds)
Other financial intermediaries	S.123 (other mutual funds, leasing, factoring, and hire purchase)
Financial auxiliaries	S.124 (PFMC, SPMC, IF, 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
Rest of the world (non-residents)	S.2
The European Union (EU)	S.21
The member countries of the EU European Monetary Union (EMU)	S.211
Member States and EU Institutions	S.212
Third countries and international organisations	S.22

The ESA 95 system employs the following classification of financial instruments:

Monetary gold and special drawing rights	(A)F.1[2]
Monetary gold	(A)F.11
Special drawing rights (SDRs)	(A)F.12
Currency and deposits	(A)F.2
Currency	(A)F.21
Transferable deposits	(A)F.22
Other deposits	(A)F.29
Securities other than shares	(A)F.3
Securities other than shares, excluding financial derivatives	(A)F.33
Short-term	(A)F.331
Long-term	(A)F.332
Financial derivatives	(A)F.34
Loans	(A)F.4
Short-term	(A)F.41
Long-term	(A)F.42
Shares and other equity	(A)F.5
Shares and other equity, excluding mutual fund shares	(A)F.51
Quoted shares	(A)F.511
Unquoted shares	(A)F.512
Other equity	(A)F.513
Mutual fund shares	(A)F.52
Insurance technical reserves	(A)F.6
Net equity of households in life insurance reserves and in pension funds reserves	(A)F.61
Net equity of households in life insurance reserves	(A)F.611
Net equity of households in pension funds reserves	(A)F.612
Prepayments of insurance payments and reserves for outstanding claims	(A)F.62
Other accounts receivable/payable	(A)F.7
Trade credits and advances	(A)F.71
Other	(A)F.79

[1] PMFC – pension fund management companies, SPMC – supplementary pension fund asset management companies, IF – investment firms, SE – stock exchange, CD – central depository, MFMC – mutual fund management companies.
[2] Stocks and transactions have the AF code and the F code, respectively.

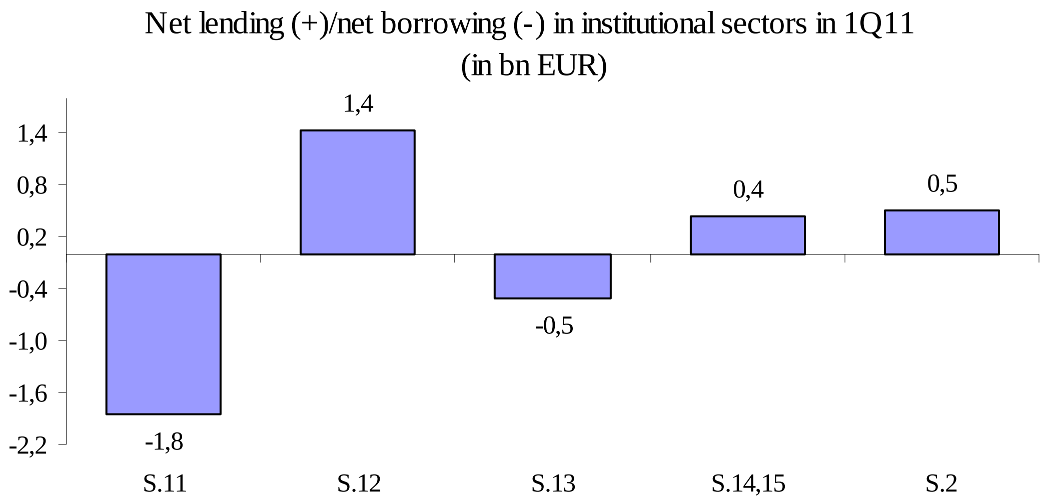
Quarterly Financial Accounts for Q1 2011

Overall development

Transactions

In the first quarter of 2011, the net debtor position of the Slovak economy increased and therefore so did the net creditor position of the *rest of the world* sector[3]. The result was that net borrowing[4] reached €0.5 billion. This negative result was caused by a higher increase in financial liabilities than in financial assets. Among institutional sectors[5], the most significant contribution to this result came from financial transactions in the sector of *non-financial corporations* (S.11), where transactions on the liability sided exceeded those on the asset side by €1.8 billion. By contrast, the best result in the first quarter of 2011 was reported by *financial corporations* (S.12), with its creditor position increasing by €1.4 billion.

Chart 1

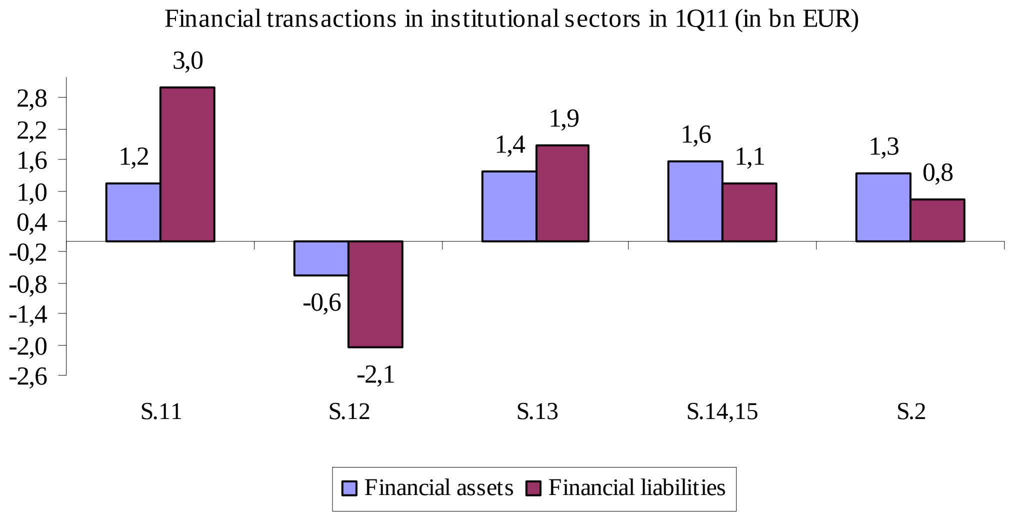


[3] The sum of financial assets and liabilities in the sectors *Slovakia* (S.1) and the *rest of the world* (S.2) must equal 0. This means that if the national economy's indebtedness decreases (or its creditor position increases), the rest of the world's creditor position vis-à-vis the national economy will automatically decrease (or its indebtedness will increase). Whether a change occurs in a debtor or creditor position depends on the total amount of net assets, i.e. the outstanding claims and liabilities.

[4] Net borrowing represents a negative difference between financial assets and financial liabilities. A positive difference is an indication of net lending.

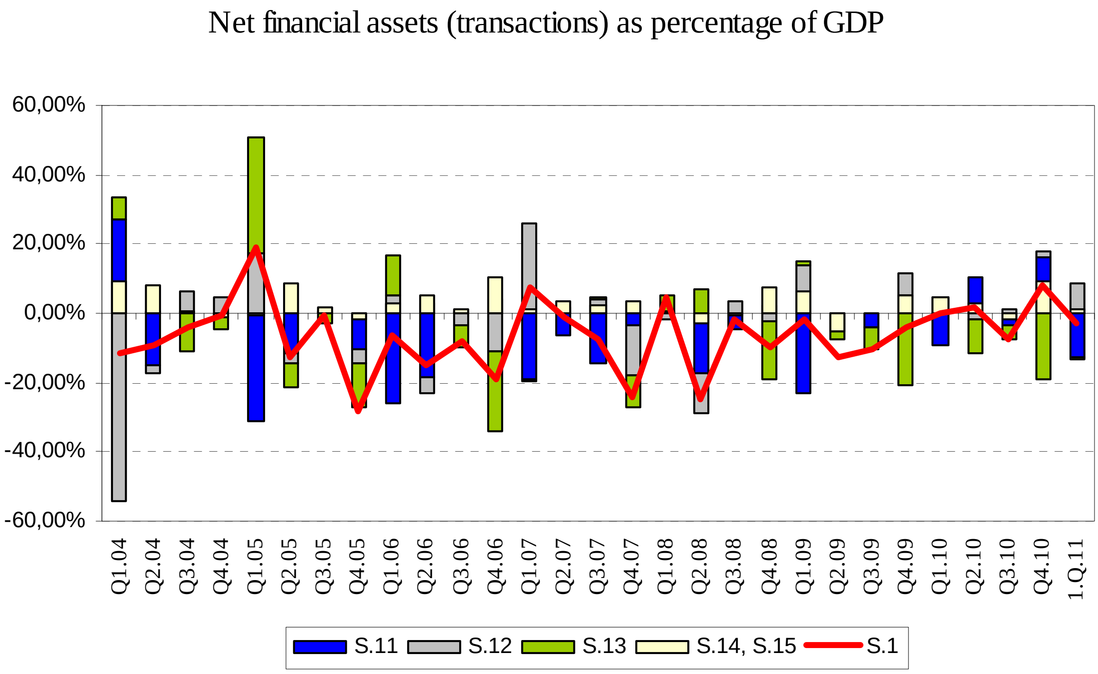
[5] The detailed classification of institutional sectors with codes assigned in accordance with the ESA 95 national accounts classification is shown on page 2.

Chart 2



Net financial assets at the end of the first quarter of 2011 amounted to -€0.5 billion, meaning that the financial position of the economy as a percentage of GDP for the respective quarter deteriorated by 3.2%.

Chart 3



Stocks

The total debt of the national economy declined in the first quarter of 2011 and ended the period under review at €37.6 billion.[6]

[6] The difference between the net financial debt of the national economy (€36.2 billion) and the net creditor position of the rest of the world sector (€37.6 billion) comprises *monetary gold and special drawing rights*

Chart 4

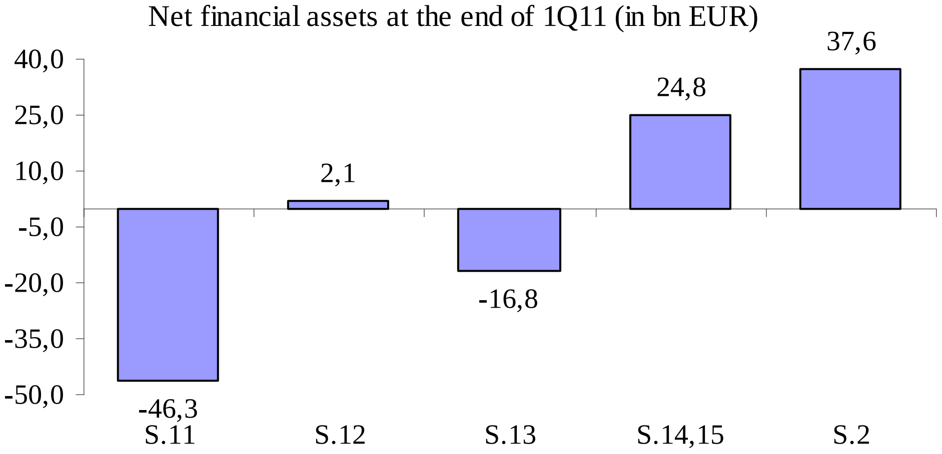
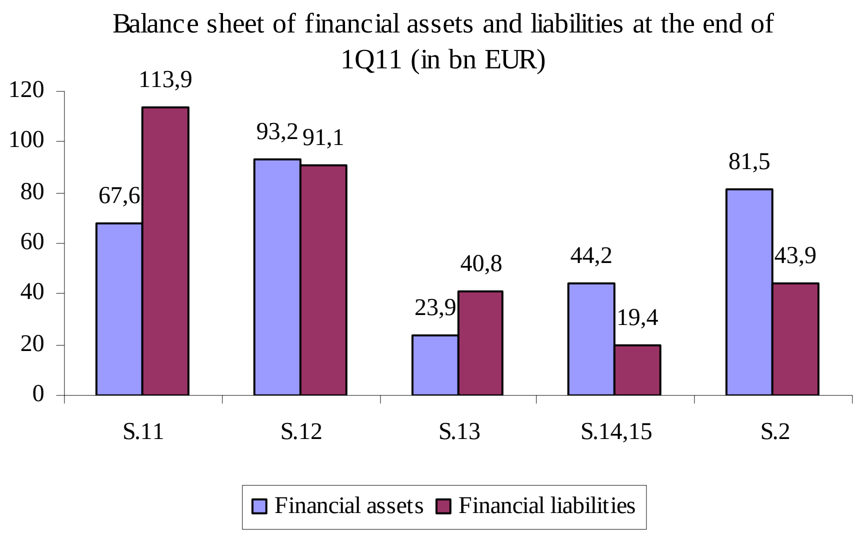


Chart 5



The net financial wealth of the national economy (stock of net borrowing) at the end of the first quarter of 2011 amounted to -€36.2 billion, or -54.3% of annual GDP (the sum of last four quarters).

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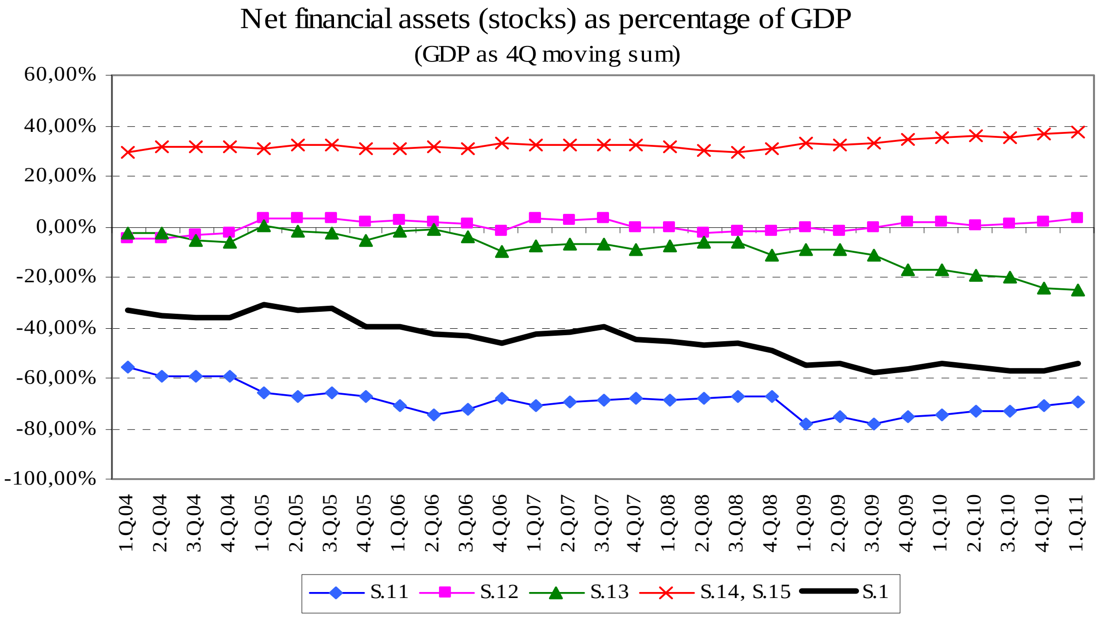
amounting to €1.4 billion. This item is reported on the side of *central bank* assets, but it is not reported on the side of *rest of the world* liabilities.

Chart 6



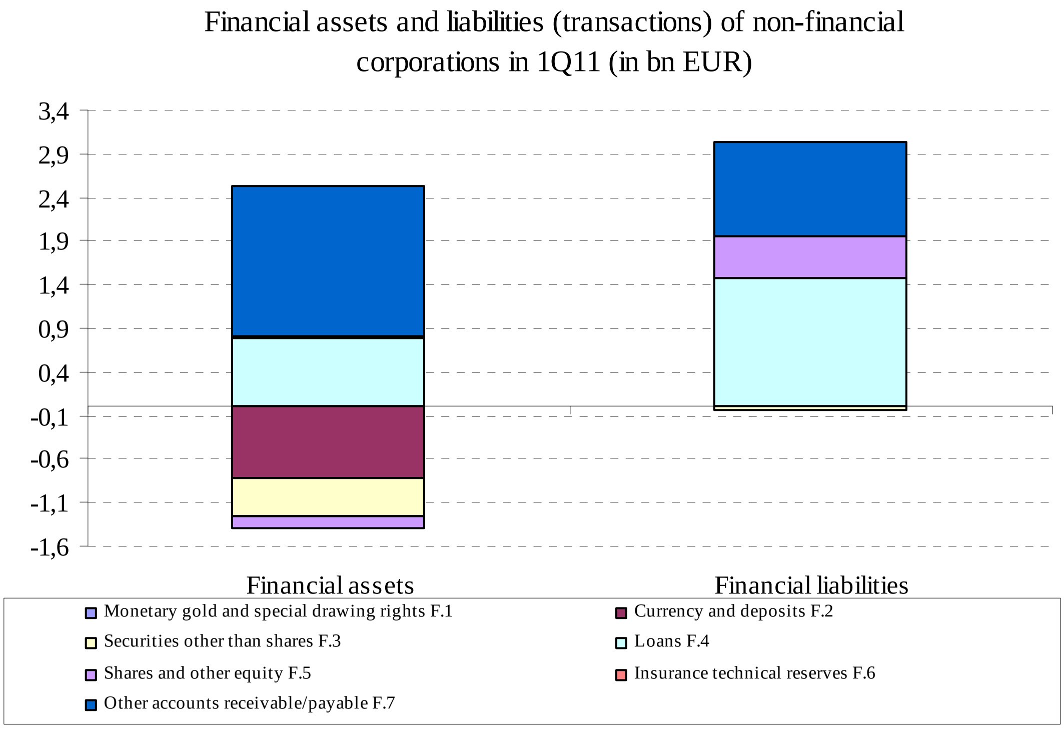
Quarterly financial accounts broken down by institutional sectors

S.11 Non-financial corporations

Transactions

The indebtedness of non-financial corporations increased due to the rise in financial liabilities being far larger than the increase in financial assets.

Chart 7



On the liability side of the balance sheet of non-financial corporations, the amount of trade credits received from non-residents and from domestic non-financial corporations increased in each case by €0.5 billion. The outstanding amount of financial loans also rose sharply, by €1.5 billion overall. These were funds that enterprises borrowed from banks, non-financial corporations, central government and non-residents.

On the asset side, it was again loans (commercial and financial) that recorded the largest increase. The main drivers of this growth were trade credits to non-residents, which rose by €0.8 billion, and to domestic enterprises (€0.5 billion). By contrast, bank deposits and domestic government bond holdings of non-financial corporations fell sharply, by, respectively €1.0 billion and €0.4 billion.

Chart 8

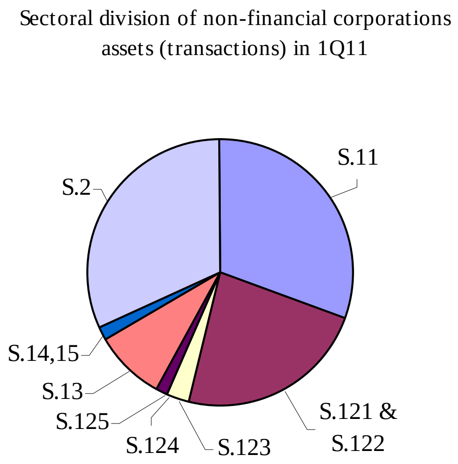
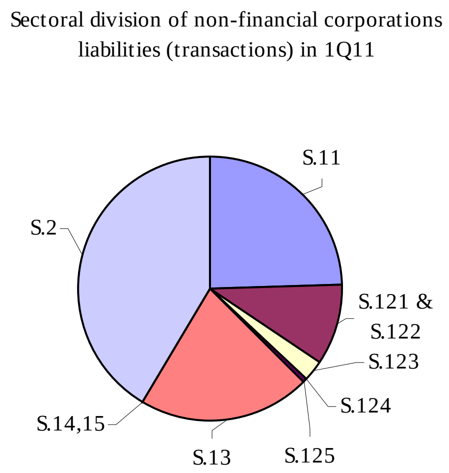


Chart 9

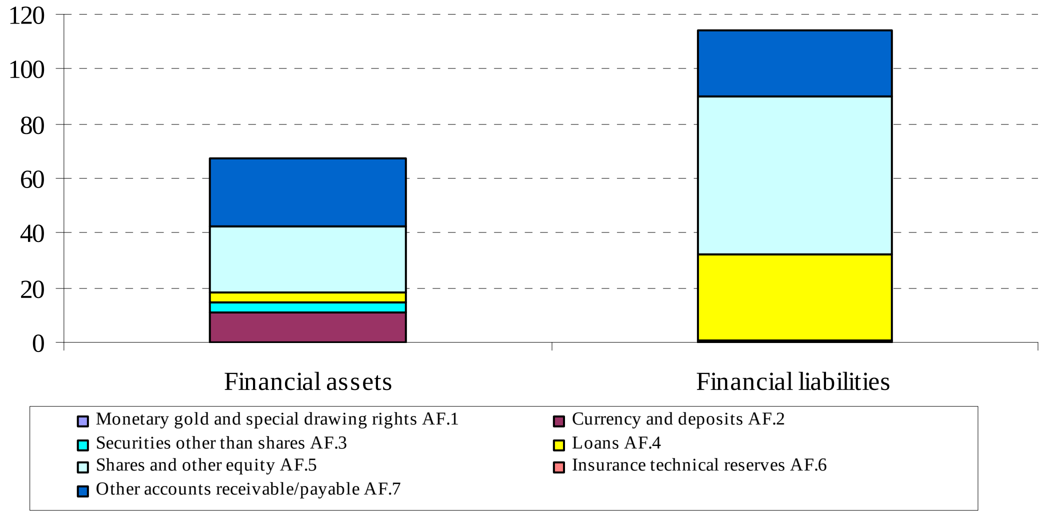


Stocks

The principal financial resources of non-financial corporations have over a long period included equities, financial loans and trade credits. Firms use these resources for investments, mainly in trade credits, equities and deposits.

Chart 10

Financial assets and liabilities of non-financial corporations at the end of 1Q11 (in bn EUR)



As regards equity securities issued by resident non-financial corporations, the majority are held by residents – in the sectors of *non-financial corporations* (35.3%) and *general government* (16.2%) – while 48% of the shares are held in the *rest of the world* sector. Of the total amount of lending to enterprises, loans from resident banks, leasing companies and factoring companies accounted for 55.1% and loans from non-residents for 35.1%. The main debtors of resident firms across different financial instruments are entities from the (sub-)sectors of *non-financial corporations* (56.0%), *monetary financial institutions* (16.6%) and the *rest of the world* (19.6%).

Chart 11

Sectoral division of non-financial corporations assets at the end of 1Q11

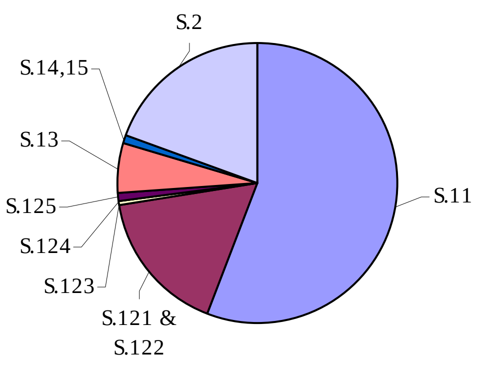
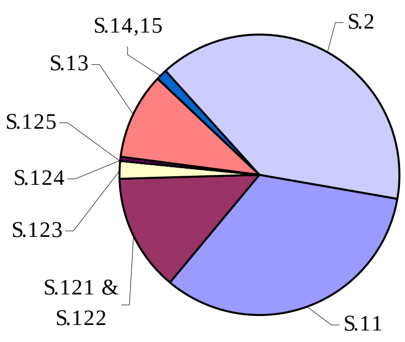


Chart 12

Sectoral division of non-financial corporations liabilities at the end of 1Q11



S.12 Financial corporations

Transactions

The *financial corporations* sector (S.12) recorded net borrowing in the first quarter of 2011, mostly consisting of borrowing from the central bank.

Chart 13

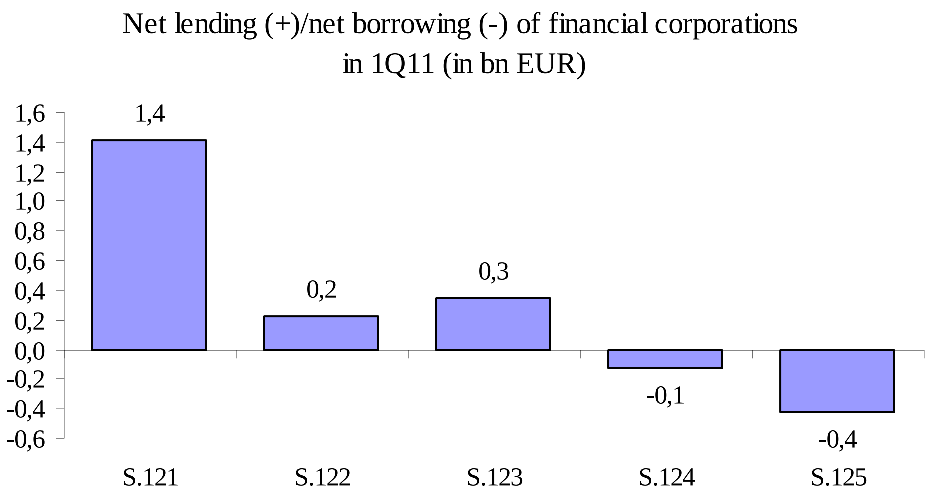
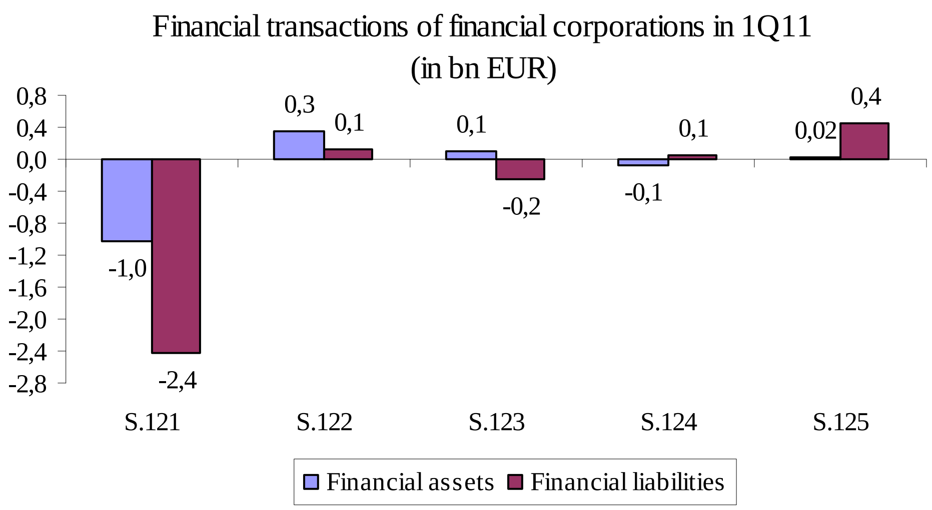


Chart 14



Overall transactions of the *central bank* sub-sector (S.121) were positive in net terms, since the decline in liabilities was larger than in assets. The main factor in the central bank's positive results was the improvement in liabilities related to settlements in TARGET2, which fell by €1.5 billion. The largest decreases on the asset side were recorded for loans with commercial banks (-€0.8 billion) and deposits held abroad (-€0.4 billion).

The sub-sector of *other monetary financial institutions* (S.122) also ended the period with a positive result, as the increase in assets was greater than in liabilities. The largest increases on the asset side were recorded by long-term loans to households (+€0.3 billion) and to non-

financial corporations (+€0.2 billion). The rise in liabilities was mostly attributable to other deposits from households and non-residents (+€0.5 billion each) and from non-financial corporations (+€0.3 billion).
In the sub-sector of o*ther financial intermediaries* (S.123), assets increased and liabilities declined. The rise in assets was accounted for mostly by long-term loans to households (€0.1 billion). On the liabilities side, the stock of short-term loans from commercial banks fell by €0.1 billion and long-term debt securities held by insurance corporations and pension funds also declined by €0.1 billion.

Transactions of *financial auxiliaries* (S.124) ended with a negative result, as assets fell and liabilities rose. On the liability side, unquoted shares held by commercial banks recorded a relatively sharp rise. As for assets, there was a decline in transferable deposits.

Another contributor to the worsening balance was the sub-sector of *insurance corporations and pension funds* (S.125), which recorded the increase in liabilities greater than in assets. Funds obtained from households in the form of pension savings (up by €0.2 billion) and life insurance were invested predominantly in domestic and foreign long-term debt securities, in an overall amount of €0.3 billion. On the asset side, holdings of short-term debt securities fell sharply (by €0.2 billion), as did the amount of other deposits held with domestic banks (by €0.1 billion).

Stocks

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

Chart 15

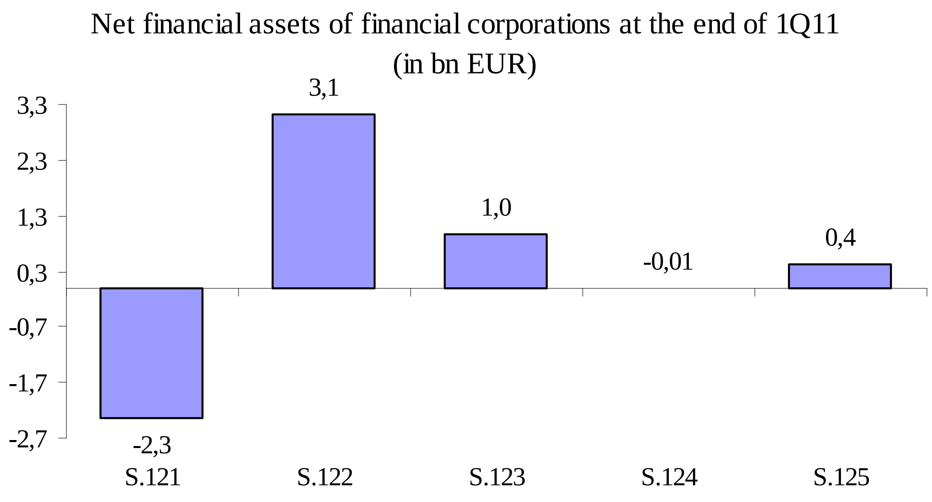
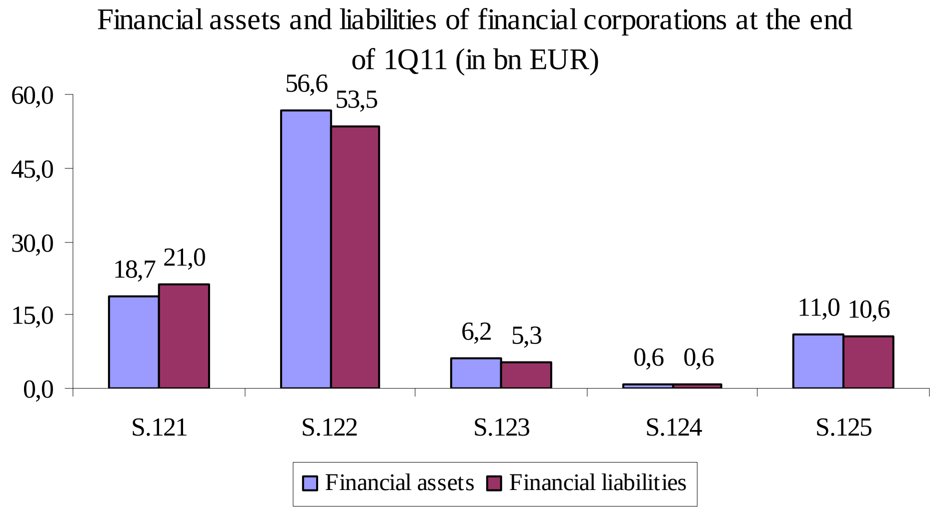


Chart 16



In accordance with their primary mission – to take deposits and extend loans – other monetary financial institutions invest most of their available funds in loans (representing 60.2% of all their assets), followed by government bonds (20.2%) and residential and non-residential currency and deposits (9.6%). The most significant item on the liability side is deposits (representing 81.6% of all liabilities). In terms of the sectoral breakdown, the banks' most important clients on the asset side are non-financial corporations, households and central government entities, and on the liability side, households, non-residential entities and non-financial corporations. The *rest of the world* sector is a significant owner of shares and other participating interests in banks, with its share of this portfolio representing approximately 91.3%.

The structure of the invested financial instruments and sectors is based on the core function of the S.123 sector – *other financial intermediaries*, i.e. it is focused on the extension of loans to non-financial corporations and households and a proportion of the funds are also invested in bank deposits, domestic government bonds, and foreign bond issues. The main sources of income are loans from non-resident and resident banks and mutual fund shares held mainly by households.

Financial auxiliaries (S.124) is the least significant sub-sector of *financial corporations* in terms of assets and liabilities under management. The majority of its available funds acquired from non-resident and resident shareholders and from resident banks in the form loans are invested in deposits.

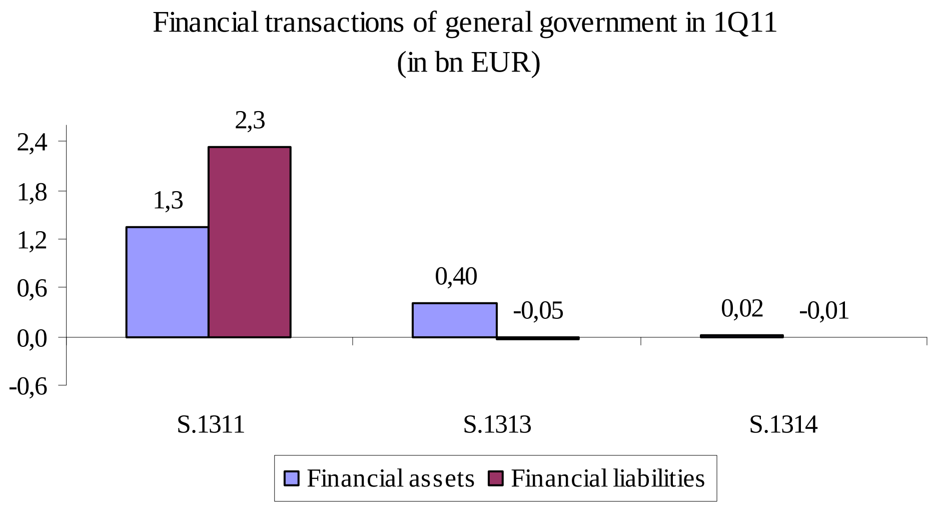
By contrast, the sub-sector of *insurance corporations and pension funds* (S.125) has an increasing influence in the financial market. The main creditor of this sector is *households*, which invest in life insurance and in Pillars II and III of the pension saving system. The funds so acquired are invested mainly in domestic government bonds and foreign debt securities, and to a lesser extent in deposits with resident banks, in domestic equity securities and in foreign mutual funds.

S.13 General government

Transactions

The *general government* sector increased its debtor position by €0.5 billion during the first quarter of 2011. The sub-sector accounting for this rise was *central government* (S.1311) with -€1.0 billion, while the sub-sectors of *local government* (S.1313) and *social security funds* (S.1314) reported net borrowings of €0.5 billion and €0.03 billion respectively.

Chart 17



The overall result of the *central government* sub-sector was determined mainly by the amount of outstanding bonds (issued bonds less redemptions), which increased by €1.3 billion. New bonds were subscribed mainly by non-residents and by domestic insurance corporations and pension funds. By contrast, the amount of outstanding Treasury bills fell by €0.4 billion. As for assets, long-term loans to enterprises rose by €0.4 billion and bank deposits increased by (€0.2 billions).

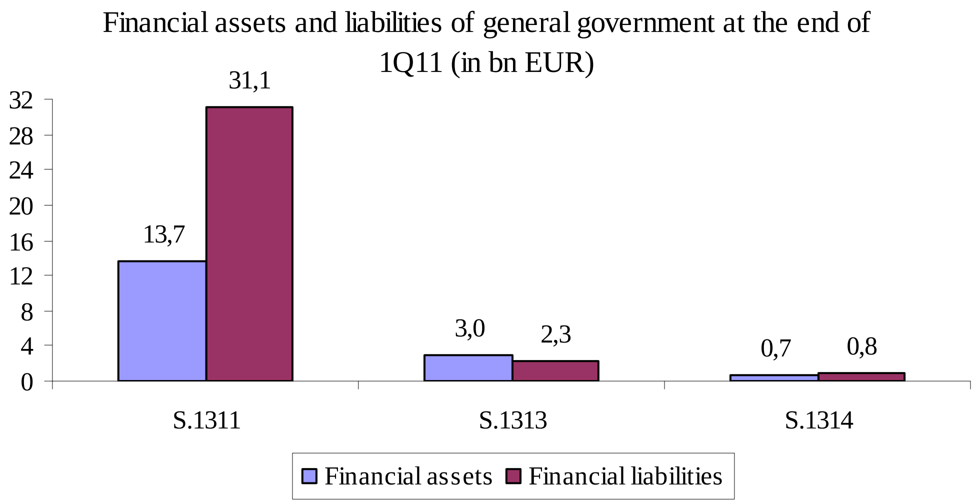
The rise in assets in the *local government* sector was largely concentrated in bank deposits and in other claims on households and non-financial corporations. On the liability side, long-term loans from banks accounted for the most of the decline.

The sub-sector of *social security funds* ended the period with a marginally positive result, arising mainly from a rise in other claims and a fall in other liabilities.

Stocks

The overall debtor position of the *general government* sector is largely due to developments in the *central government* sub-sector (S.1311), which reported net financial assets as at 31.03.2011 of -€17.4 billion. The *local government* sub-sector (S.1313) had a net creditor position of €0.7 billion, while the *social security funds* sub-sector (S.1314) ended with a net debtor position of -€0.1 billion.

Chart 18



The financial assets of central government entities comprise mainly shares issued by resident non-financial corporations (representing 56.2% of the value of total assets), followed by long-term loans to non-financial corporations, local government, and non-resident entities (more than 16%). As for central government liabilities, they largely consist of long-term debt securities (85.7%), of which 35.9% are held abroad.

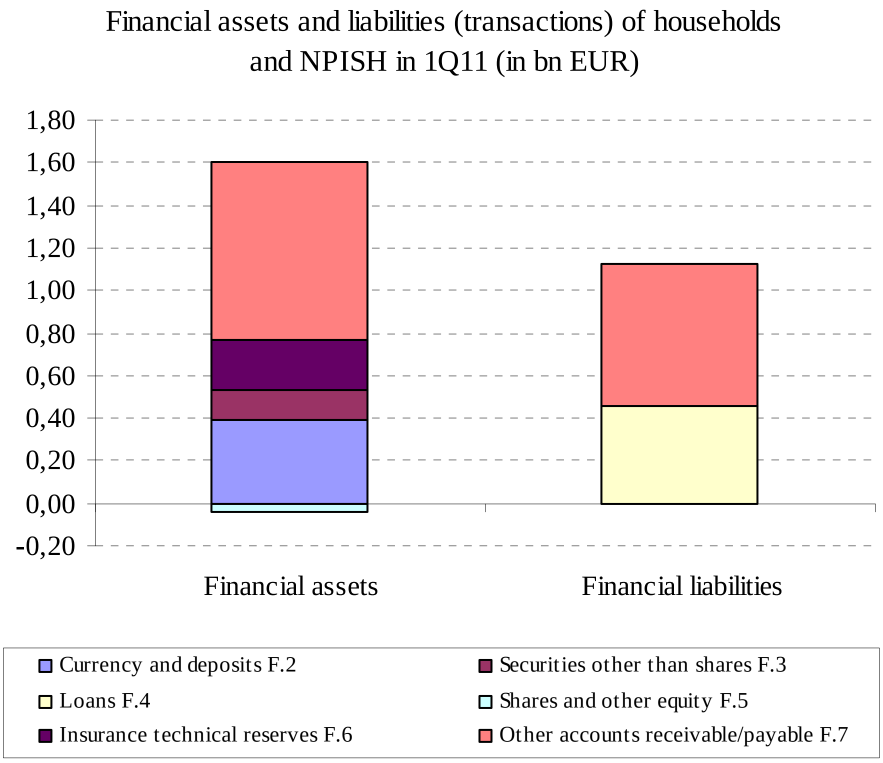
S.14,15 Households (including NPISH)

Transactions

The sector of *households (including non-profit institutions serving households)* increased its overall creditor position in the first quarter of 2011, owing to a higher rise in financial assets than in financial liabilities. The increase in assets (€0.8 billion) and liabilities (€0.6 billion) stemmed mainly from financial transactions under other claims and liabilities to general government entities. These transactions were the result of methodological modifications. The overall effect on financial transactions of households vis-à-vis general government was insignificant, with a net result of +€0.2 billion.

On the asset side of the household balance sheet, increases were recorded in other bank deposits (€0.5 billion), pension fund savings (€0.2 billion) and long-term debt securities (€0.1 billion). Households took on more debt in the form of long-term loans from banks (which increased by €0.3 billion) and other financial intermediaries (+€0.1 billion).

Chart 19



The sectoral breakdown of assets was dominated by transactions with *general government*, *banks*, and *insurance corporations and pension funds*. The liabilities side involved mainly transactions with *central government* and *monetary financial institutions*.

Chart 20

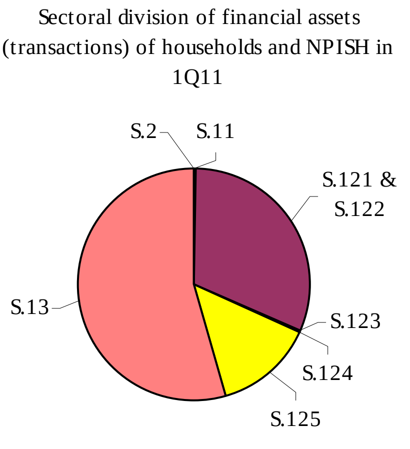
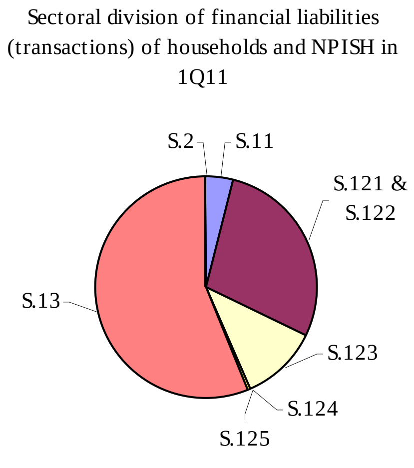


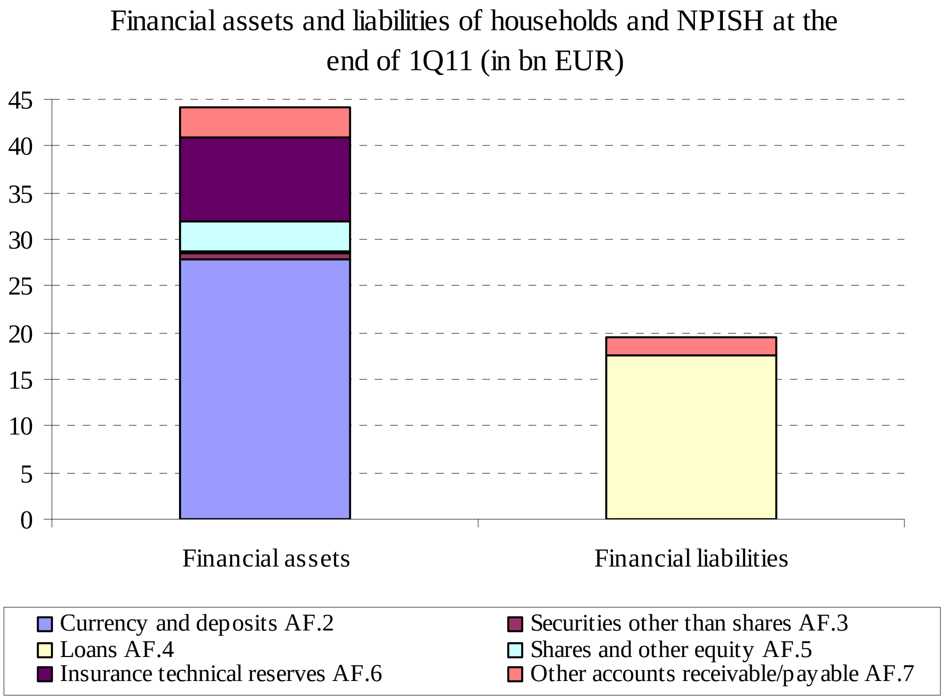
Chart 21



Stocks

The sector of *households (including NPISH)* differs from other sectors in the Slovak economy in that it has a large net creditor position. Of the sector's available funds, almost 55% are invested in deposits, up to 20% in the pension system and in life insurance, and 7% in mutual funds. As for the sector's liabilities, loans constitute 90% of the total and these are mainly long-term borrowings. The rest of the liabilities comprise other payables, the majority of which are liabilities to general government (deferred taxes, levies, social contributions).

Chart 22



The sectoral breakdown of households' investments and sources of financing reflects the nature of the financial instruments in their balance sheet. The most important partner of *households (including NPISH)* is the sub-sector S.122 – *other monetary financial institutions,* as well as the sub-sector of S.125 – *insurance corporations and pension fund.*

Chart 23

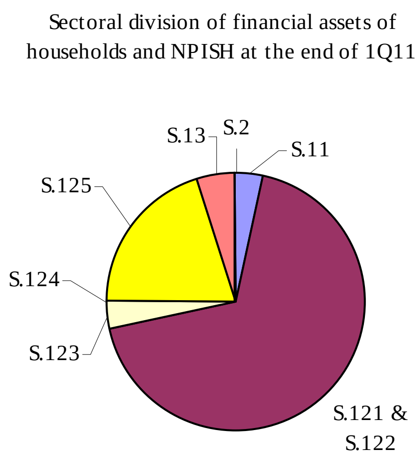
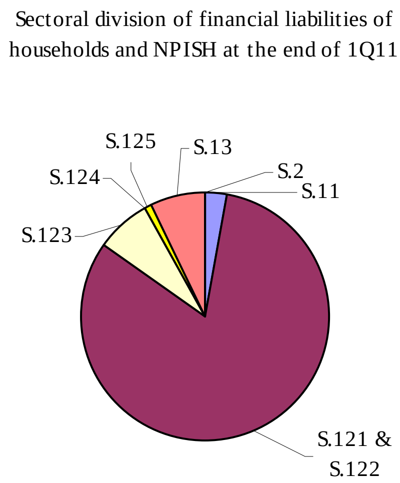


Chart 24



S.2 Rest of the world

Transactions

The overall creditor position of the *rest of the world* sector in relation to the national sectors increased as a result of a higher rise in assets than in liabilities.
Non-residents purchased Slovak government bonds in the amount of €1.5 billion and increased their holdings of unquoted shares of non-financial corporations by €0.5 billion. The same increase (€0.5 billion) was recorded by other bank deposits and trade credits and advances to enterprises. For the rest of the world sector, transferable deposits with the central bank fell by €1.5 billion, as claims related to settlements in TARGET2.
The main changes on the liability side were in trade credits and advances from non-financial corporations, which increased by €0.8 billion, and in the issuance of long-term debt securities, which rose by €0.6 billion and were purchased by domestic banks and by insurance corporations and pension funds.

Stocks

The *rest of the world* sector is a net creditor to the Slovak economy, with 34% of the sector's total assets comprising shares of resident non-financial corporations and 14.5% consisting of claims on the central bank in relation to the TARGET2 payment system. Other significant assets of the *rest of the world* sector include loans to non-financial corporations and debt securities issued by the central government. The sector's major liabilities to the national economy are debt securities (representing around 49.5% of total liabilities), held mainly by financial institutions, and trade credits received from non-financial corporations (around 15.1%).