Comments on the Quarterly Financial Accounts for Q4 2012

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 (PFMCs, SPMCs, IFs, SE, CD, MFMCs)[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 (NPISHs)	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] PMFCs – pension funds management companies, SPMCs – supplementary pension management companies, IFs – investment firms, SE – stock exchange, CD – central depository, MFMCs – mutual funds management companies.
[2] Stocks and transactions have the AF code and the F code, respectively.

Quarterly Financial Accounts (transactions) for Q4 2012

The link between quarterly non-financial (GDP) accounts and financial accounts

Financial accounts are linked to non-financial accounts through the *net lending/borrowing* balancing item. This item provides information about a country's overall debtor or creditor position vis-à-vis the rest of the world. Slovakia has a long-term debtor position (mainly as a result of inflows of foreign direct investment). Any decrease/increase in the Slovak economy's indebtedness is reflected in the amount of net lending/borrowing.

Net lending/borrowing by the domestic economy vis-à-vis the rest of the world is calculated from the amount of gross disposable national income, less final consumption expenditure in the sectors of households (including NPISHs) and general government. The result represents the total savings in the national economy. If savings in a given quarter (adjusted for net capital transfers) are higher (lower) than gross capital formation, it means that the economy has lent (borrowed) funds to/from non-residents and thus reduced (increased) its overall debtor position vis-à-vis the rest of the world. The amount of net lending/borrowing is then entered into the quarterly financial accounts. Its utilisation within the domestic economy is analysed below.

Overall development

In the fourth quarter of 2012, the net debtor position of the Slovak economy declined and therefore so did the net creditor position of the *rest of the world* sector[3]. Net lending[4] amounted to €0.5 billion, due to a higher increase in financial assets than in financial liabilities. Among institutional sectors,[5] the most significant contribution to this result came from financial transactions in the financial corporations sector (S.12), where the amount of asset transactions exceeded that of liability transactions by €0.9 billion. By contrast, the worst result in the fourth quarter was reported by general government (S.13), as the debtor position of this sector rose by €1.1 billion.

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[3] The sum of financial assets and liabilities in the sectors of domestic economy (S.1) and rest of the world (S.2) must equal 0. This means that if the domestic economy's indebtedness decreases (or its creditor position increases), the rest of the world's creditor position vis-à-vis the domestic 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 amounts of claims and liabilities.

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

[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 1

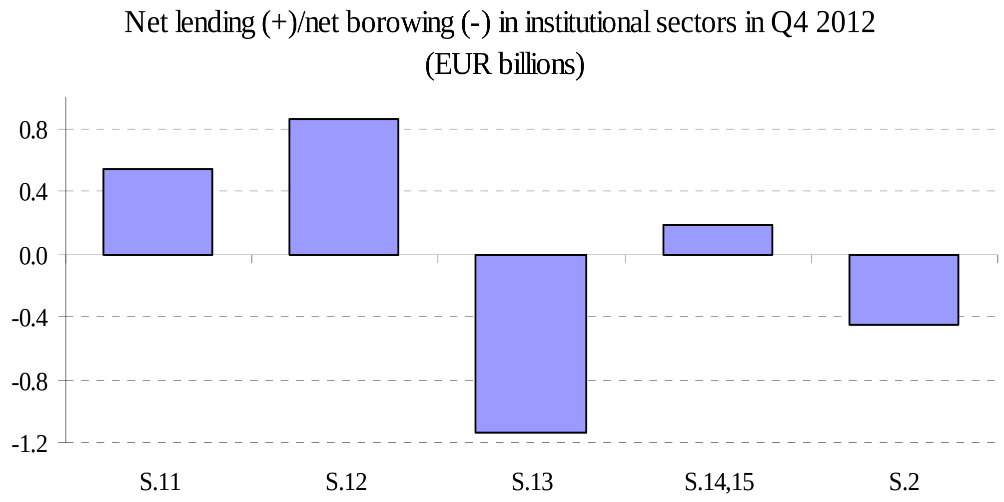
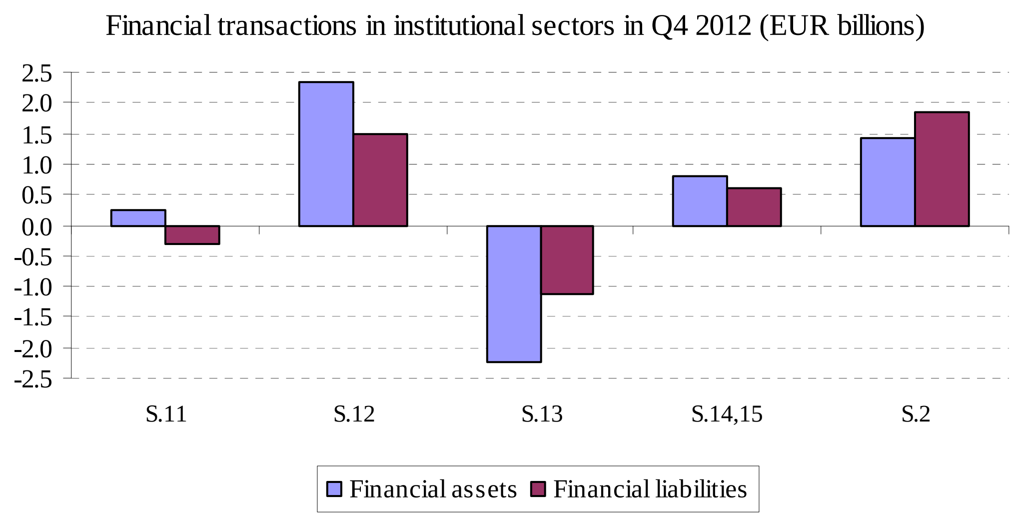


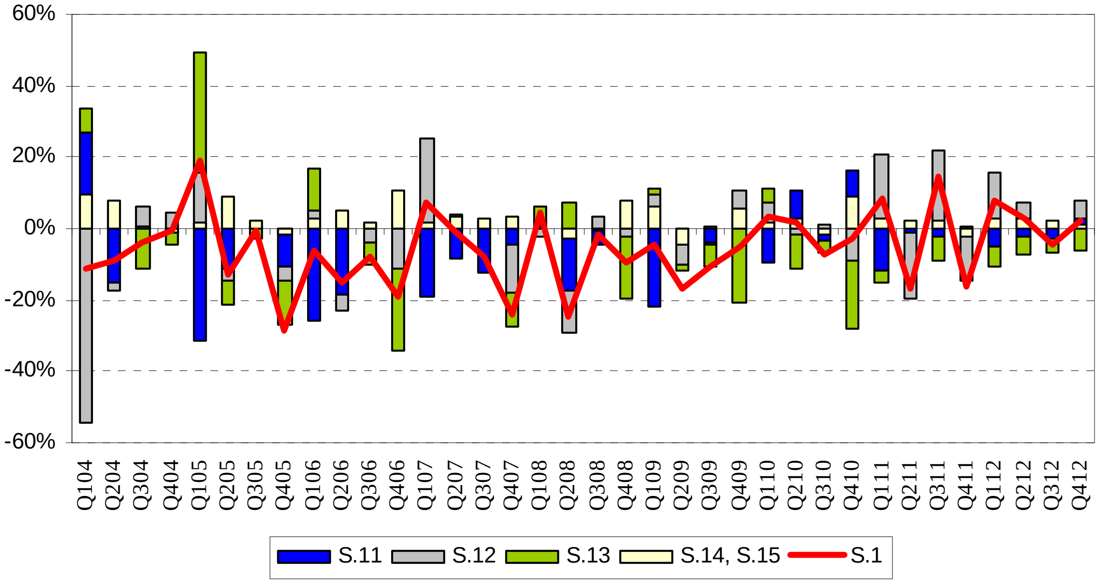
Chart 2



For the fourth quarter of 2012, net financial assets of the domestic economy stood at €0.5 billion, meaning that the financial position of the economy as a percentage of GDP improved by 2.5%.

Chart 3

Net financial assets (transactions) as a percentage of GDP



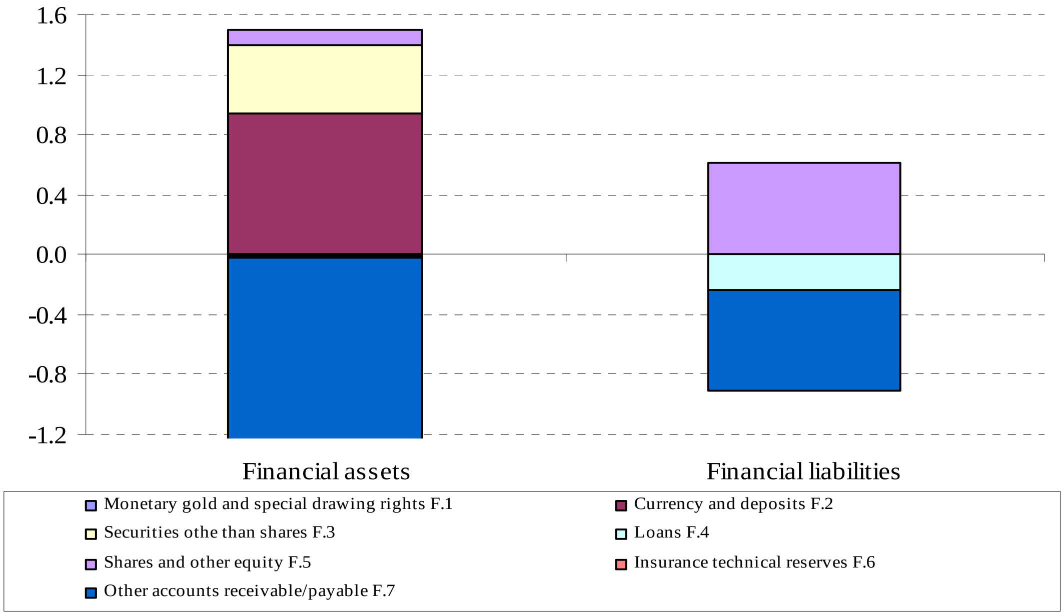
<u>Quarterly financial accounts broken down by institutional sector</u>

S.11 Non-financial corporations

The indebtedness of non-financial corporations decreased, as the sector's financial liabilities declined and its financial assets increased.

Chart 4

Financial assets and liabilities (transactions) of non-financial corporations in Q4 2012 (EUR billions)



The gap between assets and liabilities was mostly accounted for by long-term financial loans from domestic financial corporations and from non-residents, which in total declined by €0.2 billion. In addition, the amount of trade credits from residents and non-residents fell by €0.3 billion, but since €0.2 billion of that amount comprised trade credits between domestic non-financial corporations, this amount was also recorded as a decline on the asset side of the sector's balance sheet and therefore did not affect the net financial balance.
On the asset side, deposits held with domestic banks increased markedly (by €0.9 billion), as did holdings of government bonds (by €0.4 billion). On the other hand, trade credits to non-residents fell sharply (by €0.9 billion), probably due to the shortening of the collection period for claims on strategic trading partners in Europe.

Chart 5

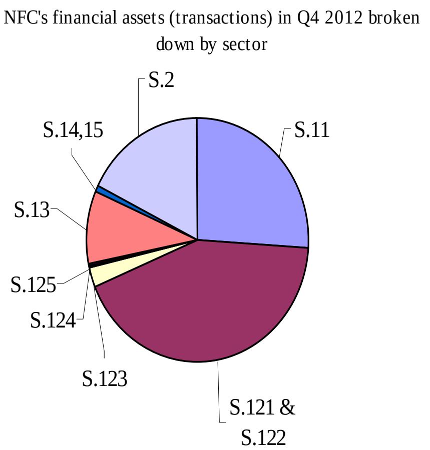
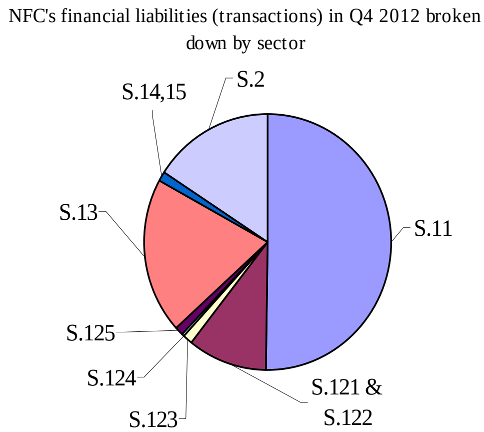


Chart 6



S.12 Financial corporations

The financial corporations sector (S.12) recorded net lending in the fourth quarter of 2012, owing mainly to the positive balance sheet of the other financial institutions sub-sector (S.122).

Chart 7

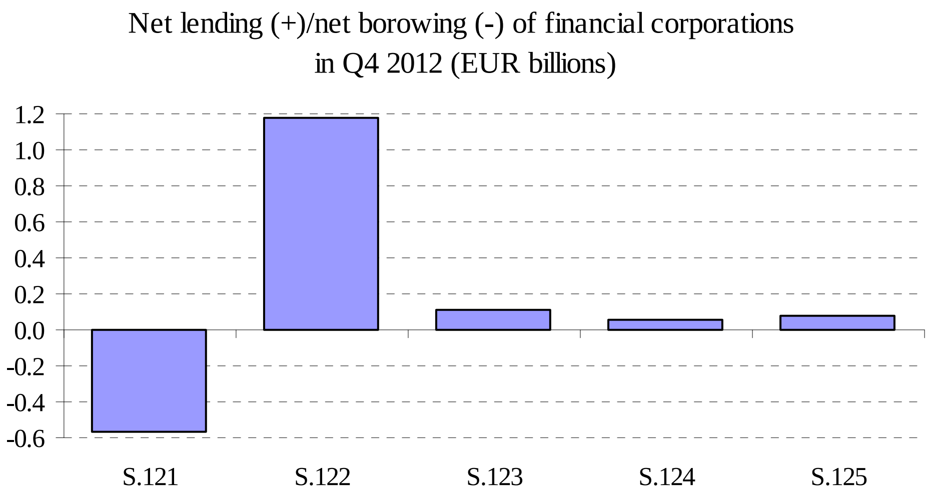
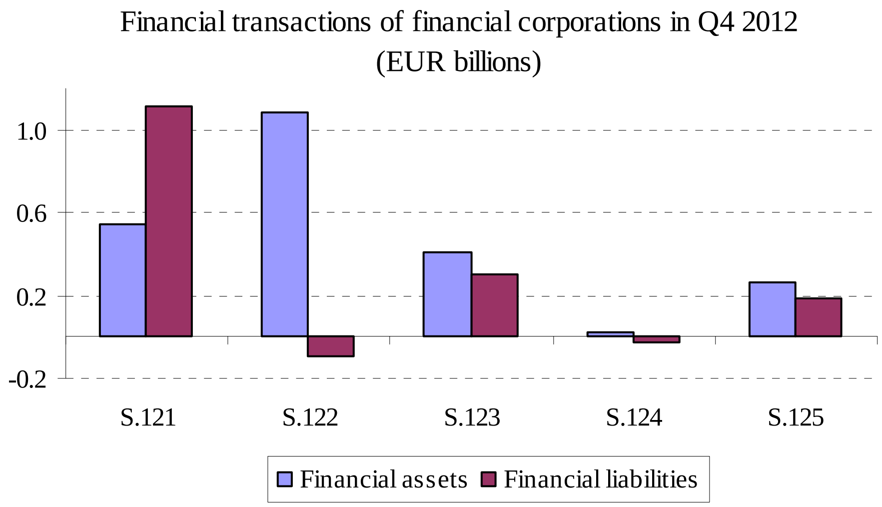


Chart 8



The sub-sector of other monetary financial institutions (S.122) reported net lending (€0.5 billion), with an increase in financial assets and a slight decline in financial liabilities. The rise in assets was largely attributable to short-term loans to non-residents, which increased by €0.9 billion, and to deposits held with the central bank, which rose by €0.4 billion. On the liability side, non-residents' holdings of bonds issued by resident financial corporations fell by €0.2 billion, and the amount of non-residents' equity interests in these corporations also declined by €0.2 billion.

In the sub-sector of other financial intermediaries (S.123), the net creditor position rose moderately due to a higher increase in financial assets than in liabilities. Looking at assets of the S.123 sub-sector, bank deposits held with domestic banks increased by €0.3 billion and the amount of long-term loans to households increased by €0.1 billion. On the liability side, mutual fund shares for the household portfolio were issued in the amount of €0.2 billion, while financial loans received from non-resident financial corporations amounted to €0.1 billion.

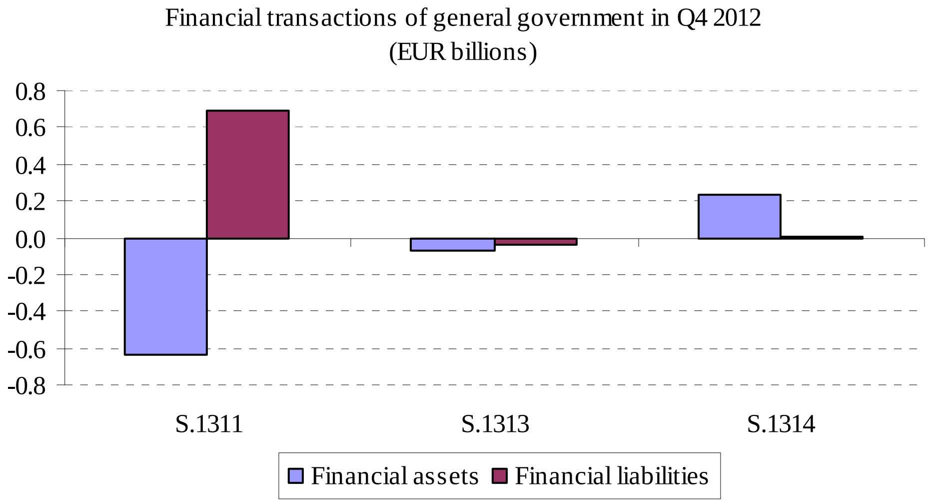
The balance sheet of insurance corporations and pension funds (S.125) also improved, due to a higher increase in financial assets than in liabilities. The growth in financial assets reflected, on the one hand, increases in holdings of foreign bonds (+€0.2 billion) and in mutual funds (+€0.1 billion) and, on the other hand, a decline deposits held with domestic banks (-€0.2 billion). The liability item that recorded the highest increase was pension savings obtained from households by pension funds management companies and supplementary pension management companies, which totalled €0.2 billion.

Overall transactions of the central bank (S.121) were negative in net terms, due to a higher increase in liabilities than in assets. The overall result of the central bank sub-sector was determined mainly by deposits received from non-residents, which increased by €1.6 billion, and by deposits received from domestic banks, which rose by €0.5 billion. Net deposit transactions of the central bank vis-à-vis non-residents were in the end compensated by an increase in central bank's deposits with non-residents (+€0.7 billion). Thus, the net amount of deposit transactions stood at -€0.9 billion (the difference between €1.6 billion in liabilities and +€0.7 billion in assets). On the other hand, public authorities withdrew a relatively large share (€1.2 billion) of their deposits held with the central bank.

S.13 General government

The general government sector increased its debtor position by €1.1 billion during the fourth quarter of 2012. The central government sub-sector (S.1311) made the largest negative contribution with its debt rising by €1.3 billion.

Chart 9



The overall result of the central government sub-sector was based mainly on an increase in government bonds issued (+€1.3 billion), including increases in the amounts held by resident financial corporations (+€0.4 billion), resident non-financial corporations (+€0.4 billion) and non-residents (+€0.5 billion). The increase in the general government sector's total debt also reflected a marked decline in deposits held with the central bank (-€1.2 billion). The government debt was partly lessened by equity interests in non-financial corporations, which increased by €0.2 billion.

S.14, 15 Households (including NPISHs)

The sector of households (including non-profit institutions serving households) increased its overall creditor position in the fourth quarter of 2012, owing to a higher increase in financial assets than in financial liabilities.
On the asset side of the balance sheet, households' investments in bank deposits, mutual funds, and pension funds increased, respectively, by €0.5 billion, €0.2 billion, and €0.2 billion.
The rise in liabilities was mostly accounted for by the outstanding amount of long-term loans from banks, which increased by €0.5 billion, and long-term loans from other financial intermediaries, which grew by €0.1 billion.

Chart 10

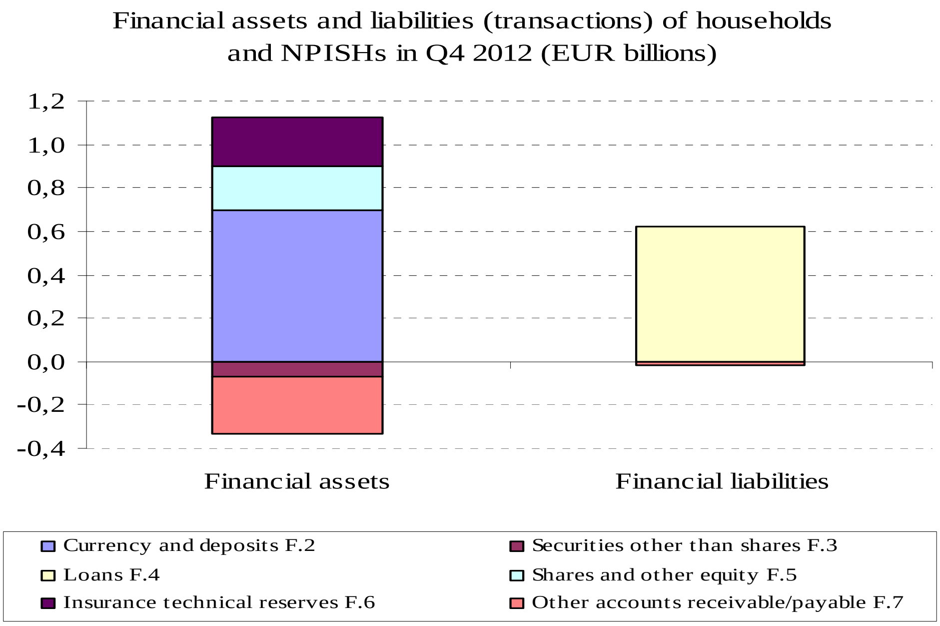


Chart 11

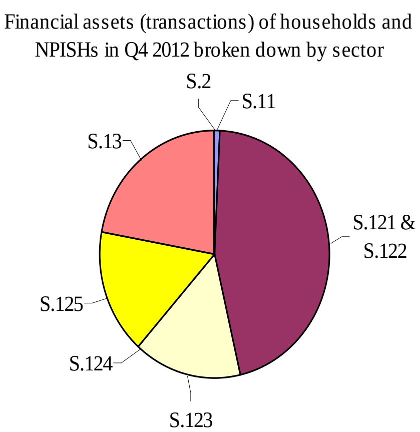
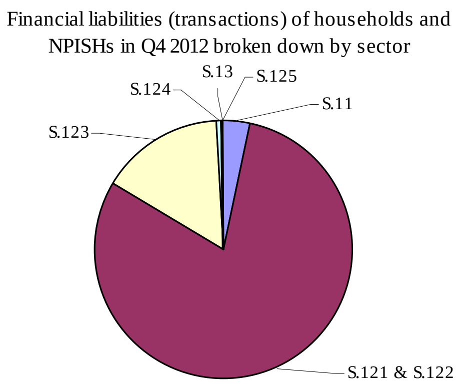


Chart 12



S.2 Rest of the world

The overall creditor position of the rest of the world sector in relation to the national sectors decreased as a result of a significantly higher increase in liabilities than in assets.

The main movements on the liability side of the balance sheet were an increase in short-term loans received from Slovak commercial banks (+€0.9 billion) and an increase in resident non-financial corporations' holdings of equity interests in non-resident corporations (+€0.2 billion). On the asset side, non-residents' deposits with the Slovak central bank increased by €0.9 billion and their holdings of Slovak government bonds grew by €0.5 billion. On the other hand, their deposits with resident commercial banks declined by €0.5 billion and their holdings of bonds issued by resident banks fell by €0.2 billion.