

Comments on Quarterly Financial Accounts for 4Q 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

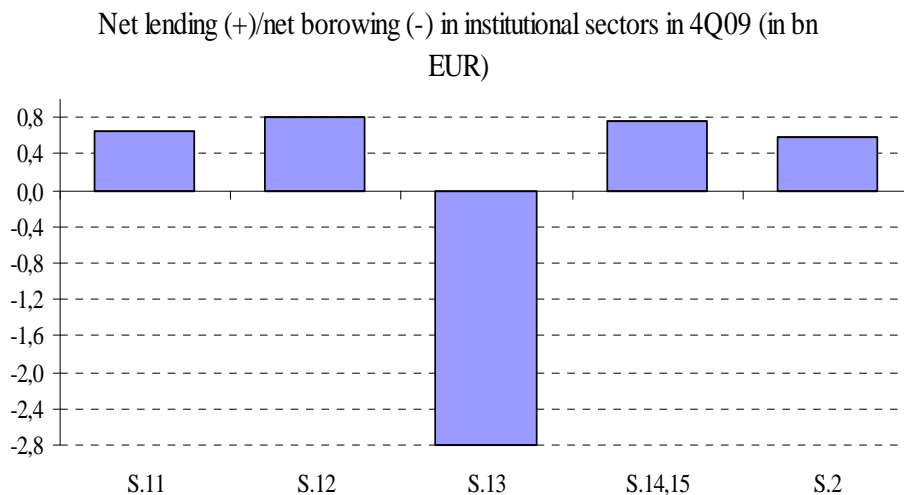
Quarterly Financial Accounts in 4Q 2009

Overall Development

Transactions

In the 4Q 2009, the net debtor position of the national economy increased and thus there was an increase of net creditor position of the foreign countries sector³, with net lending⁴ amounting to EUR 0.6 billion. This negative development resulted from the more significant decrease in financial assets compared to the decrease in financial liabilities. As regards institutional sectors⁵ financial transactions in Central government (S.1311) and the Central Bank (S.121) sectors contributed most significantly to the aforementioned development, when the difference between the deposits and lending was EUR -2.1 billion, and EUR -0.7 billion, respectively. On the contrary, the best result in 4Q 2009 were achieved by other monetary financial institutions (S.122), whose creditor position increased by EUR 2.1 billion.

Graph 1

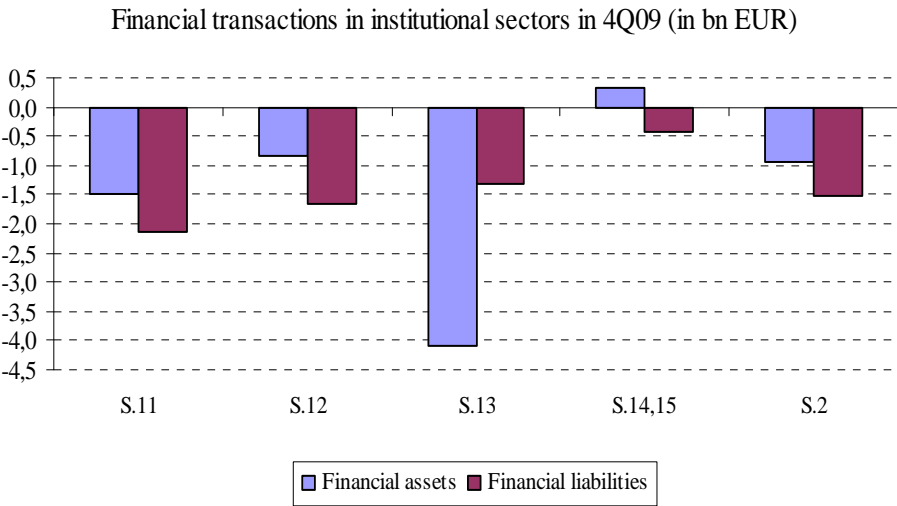


³ The total of financial assets and liabilities of the national economy (S.1) and foreign countries (S.2) must equal 0; that is, if national economy's indebtedness has decreased (and/or the creditor position has increased), there is an automatic drop in the creditor position (and/or growth in indebtedness) of the foreign countries compared to national economy. The distinction between the movement in the indebtedness or in the creditor position depends on the total volume of net equity, i.e. on the development in the accounts receivable and payable balances.

⁴ Net borrowing represents the negative difference between financial assets and financial liabilities. If the difference is positive, we refer to it as net lending. In case of data concerning balances, the difference between 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 ESA95 system of national accounts is on page 2.

Graph 2

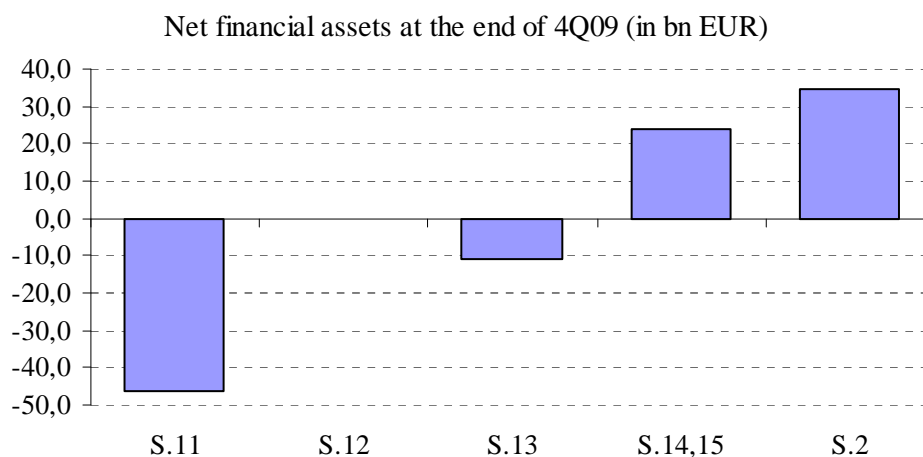


Stocks

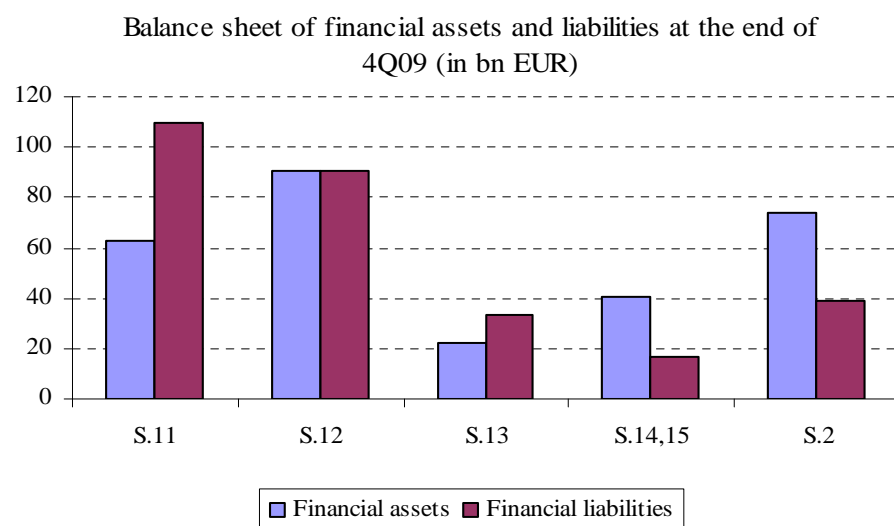
Despite negative financial transactions in 4Q 2009, the overall indebtedness of the national economy slightly decreased, with its volume amounting to EUR -33.5 billion at the end of the quarter. This paradox in development refers to the revision of data concerning stocks in a number of sectors in the entire time line. The non-financial institutions sector is the most heavily indebted sector, with net debt amounting to EUR -46.4 billion. Besides corporations, the indebted sectors also include the general government sector (EUR -10.8 billion) and the financial institutions sector, with its indebtedness of EUR -0.1 billion. The largest net financial assets within the national economy are available in the households (EUR 23.8 billion). The foreign countries sector has recorded the net creditor position for a long time; it was EUR 34.8 billion.⁶

⁶ The difference between the net financial debt of the national economy (EUR -33.5 billion) and the net creditor position of the foreign countries (EUR 34.8 billion) is the monetary gold and SDRs amounting to EUR 1.2 billion). This item is recognised on the assets side of the Central Bank, however, it is not recognised on the liabilities side of the foreign countries.

Graph 3



Graph 4



Quarterly financial accounts by individual institutional sectors

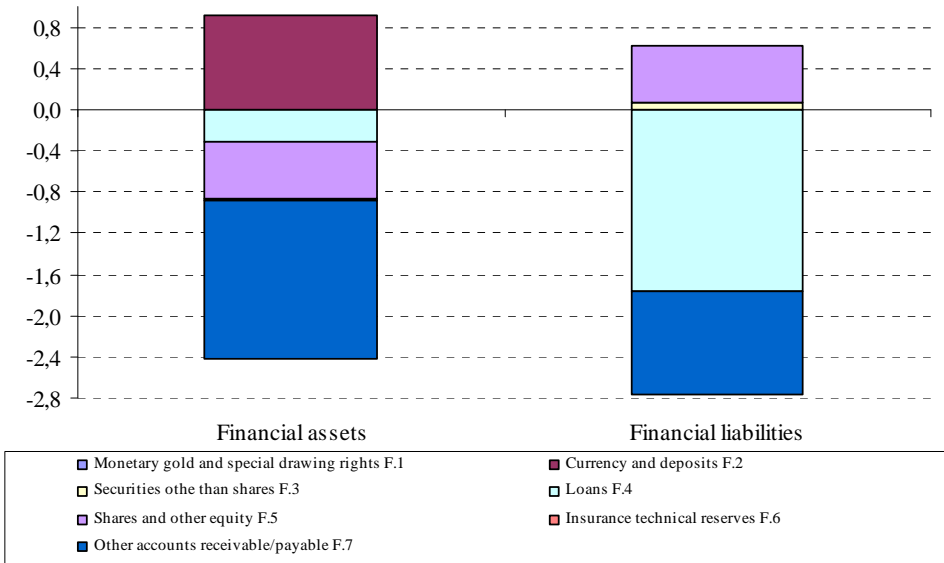
S.11 Non-financial institutions

Transactions

The favourable development in the decrease of the non-financial institutions' indebtedness resulted from the decrease in financial liabilities which was much sharper than the decrease in financial assets. Corporations reduced their liabilities by settlement of a part of their short-term and long-term loans and by decrease in other liabilities. A somewhat milder decrease in financial assets resulted from decrease in trade credits, other receivables and equity securities held.

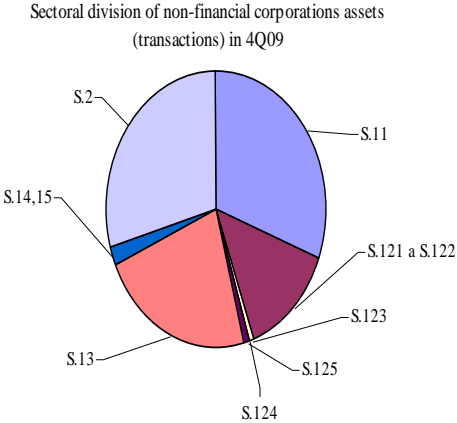
Graph 5

Financial assets and liabilities (transactions) of non-financial corporations in 4Q09 (in bn EUR)

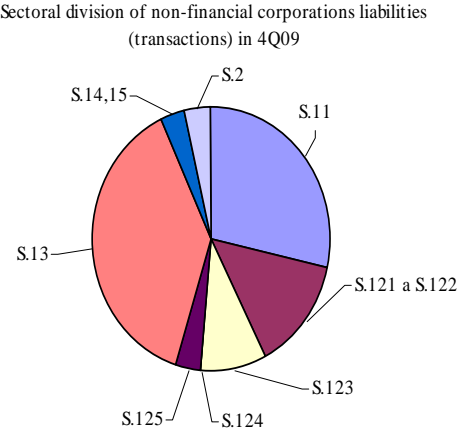


In terms of the sectoral breakdown, corporations settled their short-term loans from monetary financial institutions (S.122) and long-term loans from the central government (S.1311) and foreign financial institutions (S.2). On both sides of the balance, significant impact was made again by intercompany financial transactions as the total amount of trade credits decreased considerably. On the assets side, corporations decreased their other receivables from banks and from the central government (S.1311) and the holding of equity securities issued by non-residents.

Graph 6



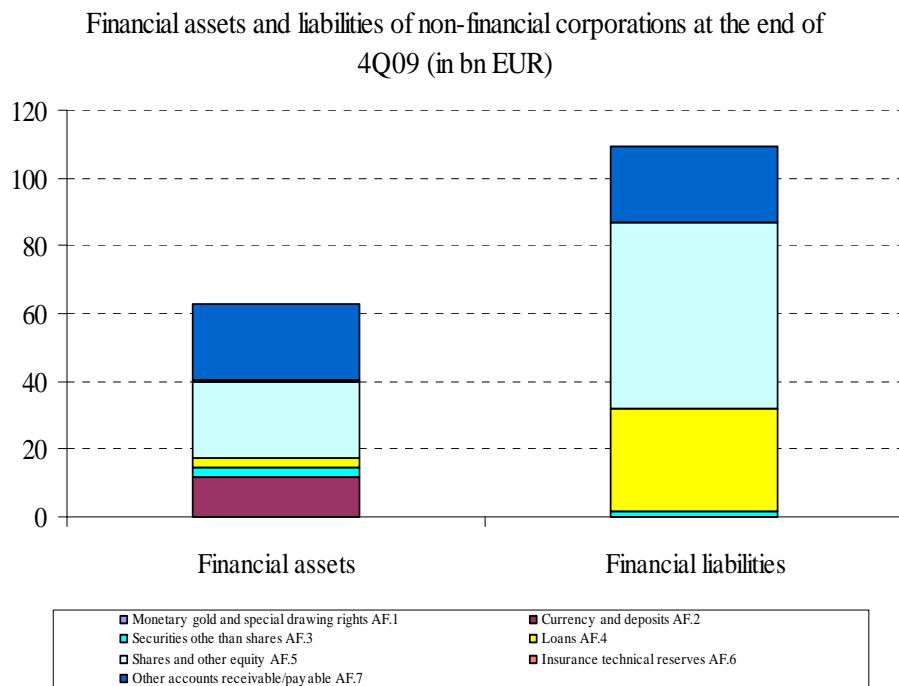
Graph 7



Stocks

The main finance sources of the non-financial corporations have included shares, financial loans and trade credits. The corporations use the aforementioned funds for investments mainly to trade credits, shares and deposits.

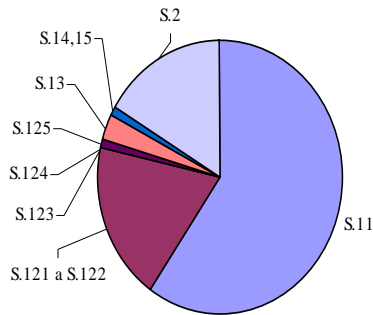
Graph 8



The current stocks of the issued equity securities of non-financial corporations are held within the national economy mainly in the non-financial corporations sector (37.1%) and the general government sector (16.7%). A total of 45.6% 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 58.1%, loans from foreign countries account for 34.9%. The main debtors of the local corporations in individual financial instruments are entities from the non-financial corporations sector (59.3%), other monetary financial institutions (19.1%) and foreign countries (16.5%).

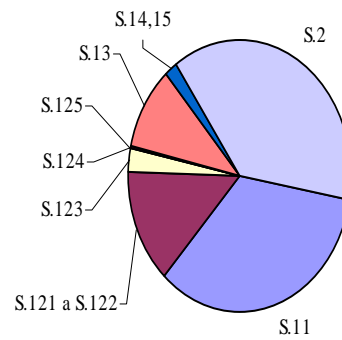
Graph 9

Sectoral division of non-financial corporations assets at the end of 4Q09



Graph10

Sectoral division of non-financial corporations liabilities at the end of 4Q09



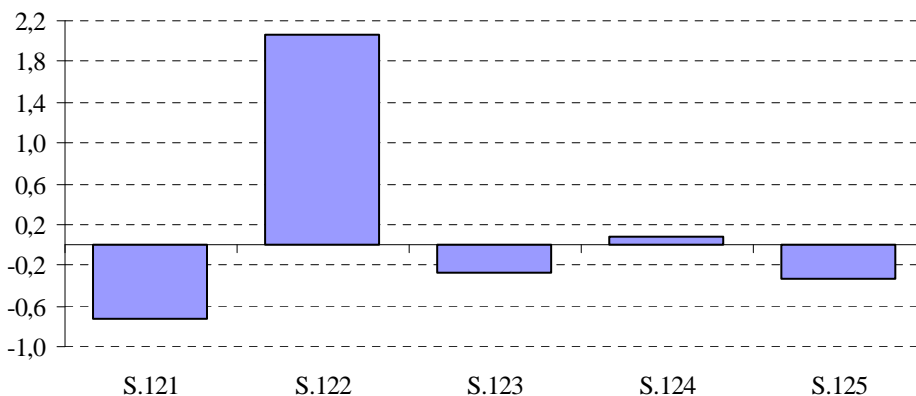
S.12 Financial institutions

Transactions

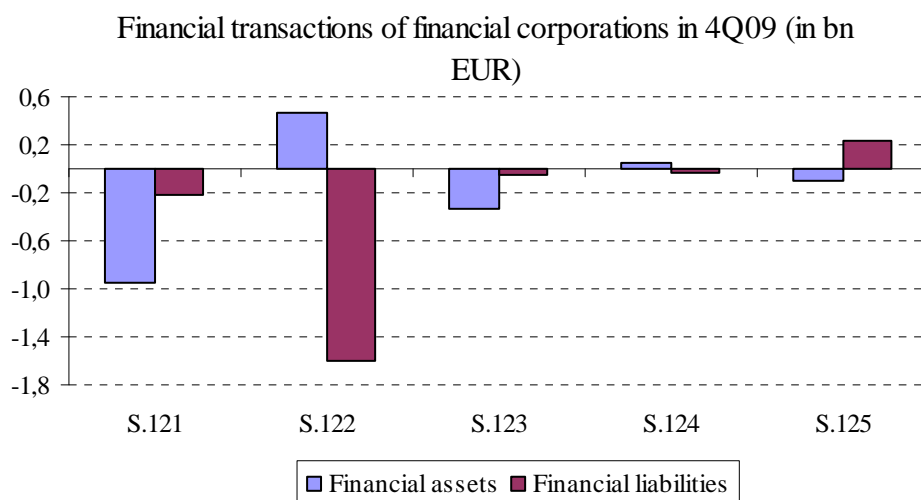
Similar to non-financial corporations, in the 4Q 2009, the S.12 sector – financial corporations reported net lending. The aforementioned development resulted mainly from the increase in net creditor position of the S.122 subsector – other monetary financial institutions and partly from the mild increase in the net receivables of entities in the S.124 subsector – financial auxiliaries. On the other side, negative financial transactions were reported by the following subsectors: S.121 – the Central Bank, S.123 – other financial intermediaries and S.125 – insurance corporations and pension funds.

Graph 11

Net lending (+)/net borrowing (-) of financial corporations in 4Q09 (in bn EUR)



Graph 12



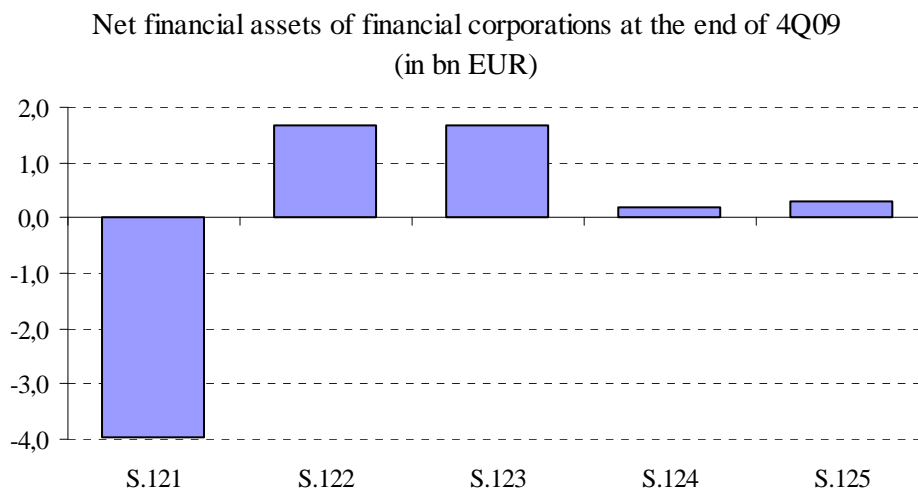
Total net positive transactions of commercial banks resulted mainly from the significant drop in liabilities and increase in assets. The lower liabilities reflected withdrawals of long-term deposits by non-financial corporations, general government sector and households. Additionally, banks settled to the Central Bank a part of their borrowings and reduced the amount of issued equity securities to foreign entities. On the assets side, banks deposited their free financial funds in the form of deposits to the Central Bank, increased the amount of held state bonds, and granted new long-term loans to households and to local authorities.

A negative development in the financial balance sheet was reported by the Central Bank (S.121), where the decrease in assets exceeded the decrease in liabilities. Lower assets resulted mainly from sale of foreign debt securities and settlement of loans by commercial banks. A decrease was also seen in other liabilities to foreign entities.

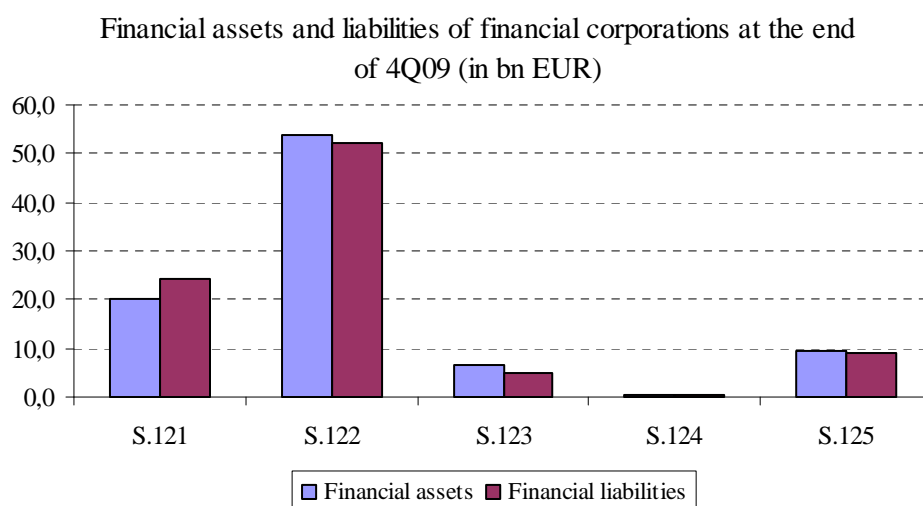
In the 4Q 2009 negative financial transactions were also reported by other financial intermediaries (S.123) and by insurance corporations and pension funds (S.125). Similar to the Central Bank, in other financial intermediaries the decrease in assets exceeded the decrease in liabilities, when non-financial corporations repaid to them a part of their loans and, at the same time, a part of savings was withdrawn from local banks. Insurance corporations and pension funds impaired their balances owing to an increase in liabilities, mainly the increase in the amount of net assets of households in pension funds and supplementary pension funds.

Exclusively, the Central Bank's position contributes to the overall mild indebtedness of the financial sector. All other subsectors, i.e. S.122 other monetary financial institutions, S.123 other financial intermediaries, S.124 financial auxiliaries and S.125 insurance corporations and pension funds reported net creditor position.

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 available funds is invested in the government bonds and

residential and non-residential deposits. Deposits play a predominant role on the liabilities side (almost 82% of total 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 mainly households, non-financial corporations, and foreign entities. The foreign countries sector is a significant owner of shares and other capital participations in banks, with its share in this financial instrument accounting for approximately 91%.

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 extension of loans to non-financial corporations and households and a part of the funds is also invested in deposits with banks, government and foreign bonds. The main source of income is, in particular, the loans from local and foreign banks and shares funds unit certificates held mainly by households.

S.124 sector – financial auxiliaries has the lowest impact within the financial institutions in terms of 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 government bonds.

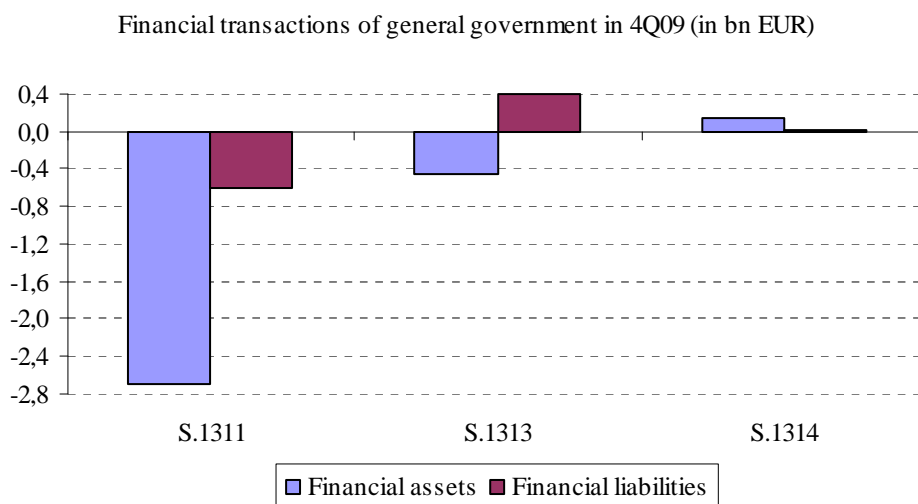
On the contrary, the impact of the sector S.125 - insurance corporations and pension funds and supplementary pension funds has become stronger in the financial market. Households are the main creditor of the aforementioned sector; they invest in life insurance and in the second and third pension pillars. The funds earned that way are invested in national (government bonds) and foreign debt securities and in deposits with local banks.

S.13 General government

Transactions

Negative financial transactions in the sector S.13 – general government significantly contributed to the increase in the overall indebtedness of the national economy. Within particular subsectors, the increasing indebtedness of the subsector S.1311 – central government contributed most markedly to the above mentioned development. Similar negative development and thus decrease in the creditor position reported also entities of the subsector S.1313 – local government. On the contrary, social security funds (S.1314) improved their creditor position.

Graph 15

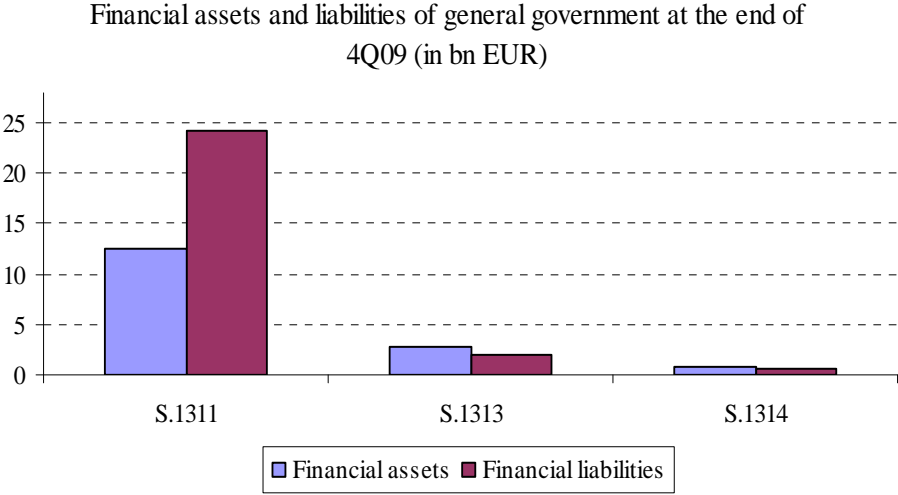


The main reason for the negative transactions in the central government subsector (S.1311) was a considerable decrease in deposits. This included mainly withdrawals of deposits from local banks and decrease in other receivables (receivables resulting from delayed payments of taxes and payments, it means that the payment discipline has most probably improved) from non-financial corporations and households. Local government (S.1313) entities reported an impaired balance as the decrease in assets exceeded decrease in liabilities, owing to withdrawals of savings from banks, decrease in the amount of loans to non-financial corporations and drop in other receivables from households and non-financial corporations.

Stocks

The overall debtor position of the general government sector is affected mainly by development in the central government subsector. The other two subsectors of the general government, S.1313 local government and S.1314 social security funds reported net creditor position as at the end of 4Q 2009.

Graph 16



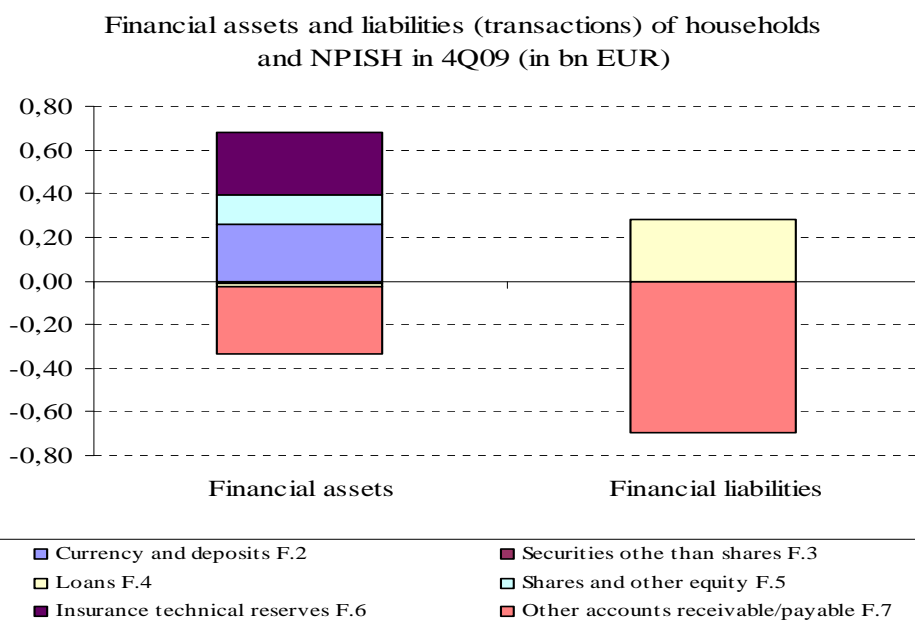
The major financial asset of the central government entities is the shares issued by local non-financial corporations. The central government entities report approximately 15% of their assets in long-term loans to non-financial corporations, local government and foreign entities and approximately the same amount of assets is invested by the government in deposits with banks. A bulk of liabilities is allocated by the central government in long-term debt securities, of which almost 30% is held by foreign owners.

S.14,15 Households and NISD

Transactions

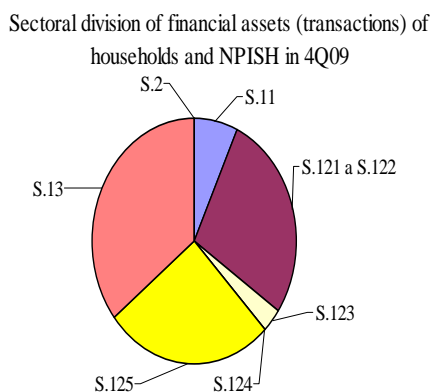
In the 4Q 2009, households and NPISH sector increased its overall creditor position as a result of growth in financial assets and drop on financial liabilities. On the assets side, the increase was reported mainly in deposits and pension savings; on the liabilities side, households decreased their indebtedness through other liabilities.

Graph 17

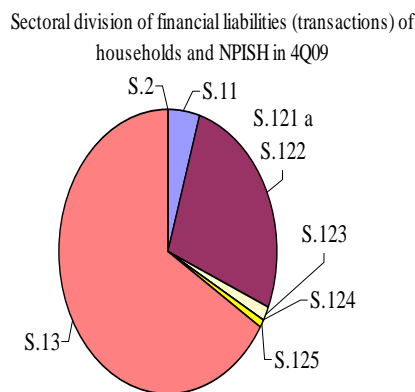


In terms of sectoral breakdown, transactions with central government entities had the largest share on the assets side owing to the decrease in the amount of other liabilities. Additionally, as a result of increase in pension saving and savings at bank accounts, households also reported significant transactions with pension funds, supplementary pension funds and banks. On the liabilities side, transactions with monetary financial institutions and non/financial corporations contributed to the negative development.

Graph 18



Graph 19

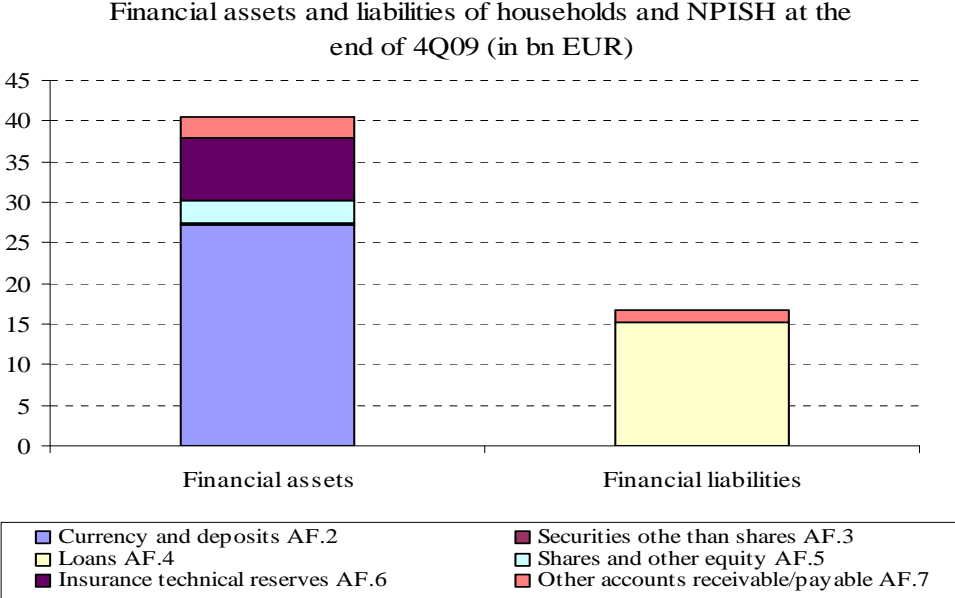


Stocks

The households and NPISH sector is characterised as the only one in the Slovak economy by net creditor position. Approximately 67% of available funds are kept in the form of deposits, and another part, approximately 18%, is invested in the pension system and in the life insurance. Households invest 6.7% of their assets in mutual funds. Almost 91% of total liabilities are borrowings, mainly long-term ones. The remaining part of liabilities is other

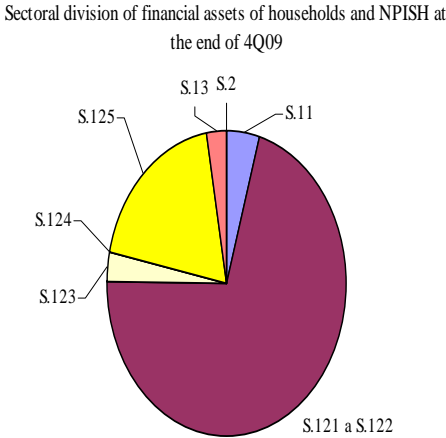
liabilities, of which payables to the central government (taxes, levies, social allowances) account for the major share.

Graph 20

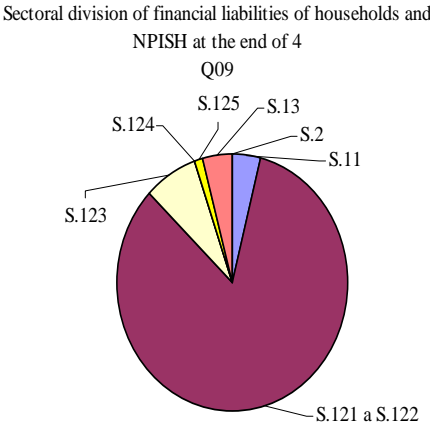


The sectoral division of the investments and financial funds of the households results from the nature of financial instruments in their balance. The most important partners of the households and NPISH are sectors S.121 and S.122 monetary financial institutions; a significant share has recently started to be acquired by sector S.125 - insurance corporations, pension funds 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 increase in the creditor position of the foreign countries sector in respect of the national sectors resulted from a more dynamic decrease in liabilities in comparison with the decrease in assets. Non-residents' liabilities resulting from issued long-term debt securities held by the Central Bank (S.121) and liabilities from issued non-listed shares owned by non-financial corporations (S.11) contributed primarily to the negative lending. On the assets side, a decrease was reported mainly in receivables from the Central Bank under TARGET2 payment system and loans to other financial intermediaries (S.123) and non-financial corporations (S.11).

Stocks

The foreign countries sector is a net creditor to the Slovak economy, as approximately 34% of the sector's total assets are represented by shares of local non-financial corporations and another 20% consisting of deposits to the Central Bank in respect of the TARGET2 payment system. Further major assets of the foreign countries are loans to non-financial corporations and debt securities issued by the central government. The most important payables of the foreign countries to the national economy (approximately 50%) are debt securities mainly held by the financial institutions and trade credits (approximately 14%) received from non-financial corporations.