

# Comments on Quarterly Financial Accounts for 2Q 2010

**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) <sup>1</sup>
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 <sup>2</sup>
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

<sup>1</sup> PMC – pension management companies, SPC – supplementary pension companies, SD – security dealers, SE – stock exchange, CD – central depository, MFMC – mutual fund management companies

<sup>2</sup> Stocks and transactions have the AF code and the F code, respectively

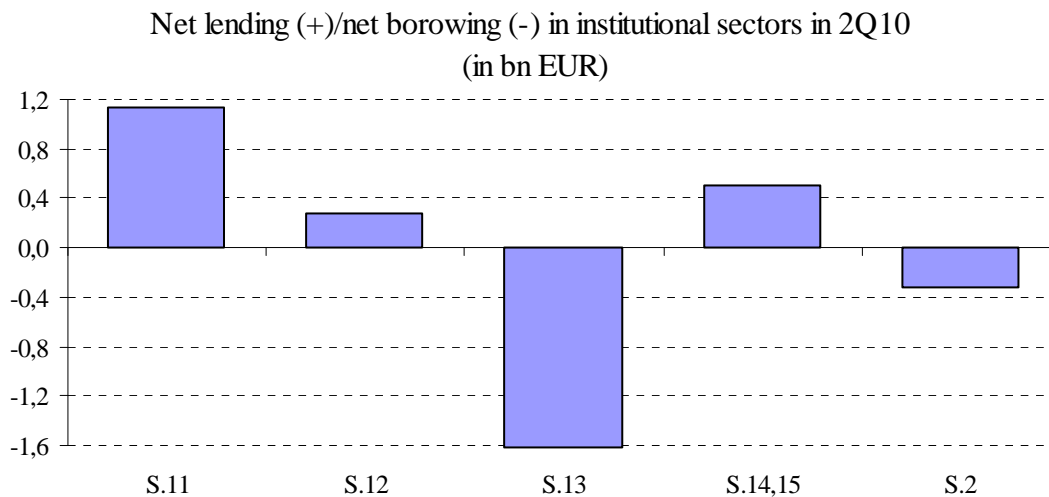
## Quarterly Financial Accounts in 2Q 2010

### Overall development

#### *Transactions*

In the 2Q 2010, there were positive financial transactions of the domestic economy with net lending<sup>3</sup> amounting to EUR 0.3 billion. The given favourable development resulted from a more significant increase in financial assets compared to the increase in financial liabilities. From the point of institutional sectors<sup>4</sup>, the financial transactions of non-financial corporations (S.11) and households and non-profit institutions serving households (S.14,15) contributed most to the stated development when the difference between active and passive transactions achieved EUR 1.1 and 0.5 billion respectively. In contrast, the worst result in the 2<sup>nd</sup> quarter of 2010 was achieved by general government (S.13) where the debt position increased by EUR 1.6 billion.

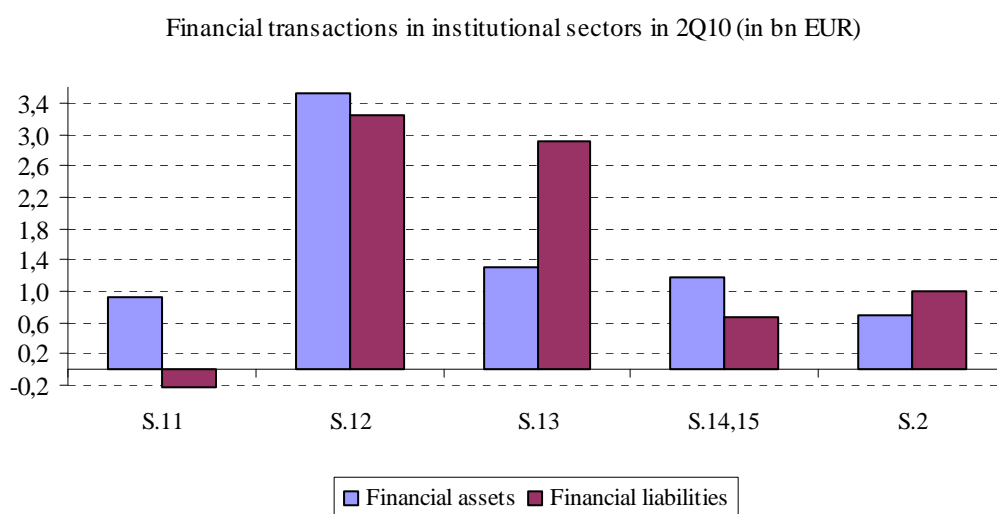
Graph 1



<sup>3</sup> Net lending represents the positive difference between financial assets and financial liabilities. If the difference is negative we speak about net borrowings.

<sup>4</sup> A detailed structure of institutional sectors with codes assigned according to the classification of national accounts ESA95 is stated on page 2.

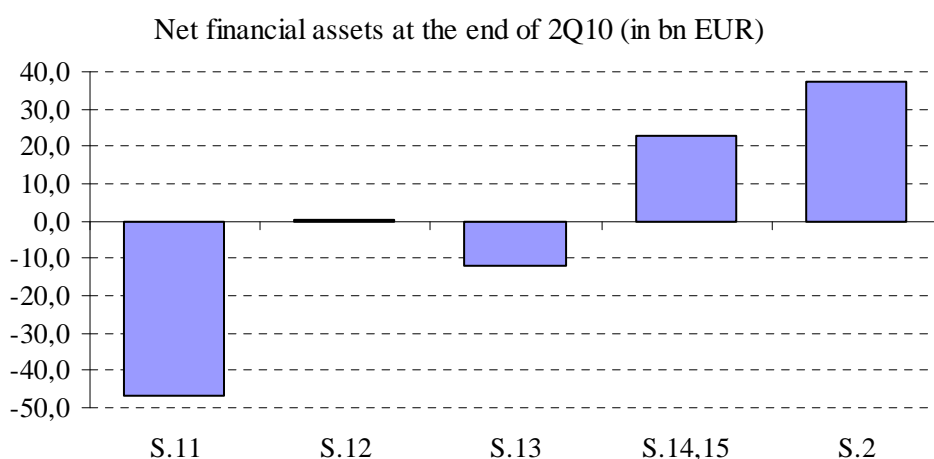
Graph 2



*Stocks*

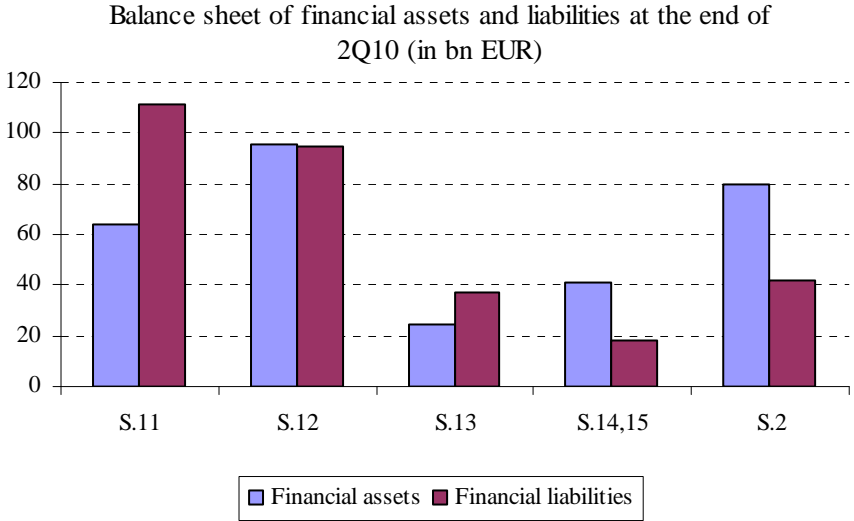
In spite of positive financial transactions in the 2<sup>nd</sup> quarter of 2010 the total debt of the national economy increased, and by the end of the quarter it stood at EUR -35.7 billion. This paradoxical development is linked to the revaluation of financial instruments and different methodology of calculating the stocks and transactions in the source data. The most indebted is the sector of non-financial institutions with a net debt of EUR -47.0 billion. In addition to non-financial corporations, the general government sector is also indebted (EUR -12.2 billion). Within the domestic economy, the household sector has the biggest net financial assets (EUR 23.0 billion). The sector of foreign countries has recorded a net credit position for a long time, representing EUR 37.2 billion by the end of the 2<sup>nd</sup> quarter of 2010.<sup>5</sup>

Graph 3



<sup>5</sup> The difference between the net financial debt of the domestic economy (EUR -35.7 billion) and the net credit position of foreign countries (EUR 37.2 billion) is represented by the item of monetary gold and SDRs in the amount of EUR 1.5 billion). This item is reported on the side of assets of the central bank, but is not reported on the side of liabilities of foreign countries.

Graph 4



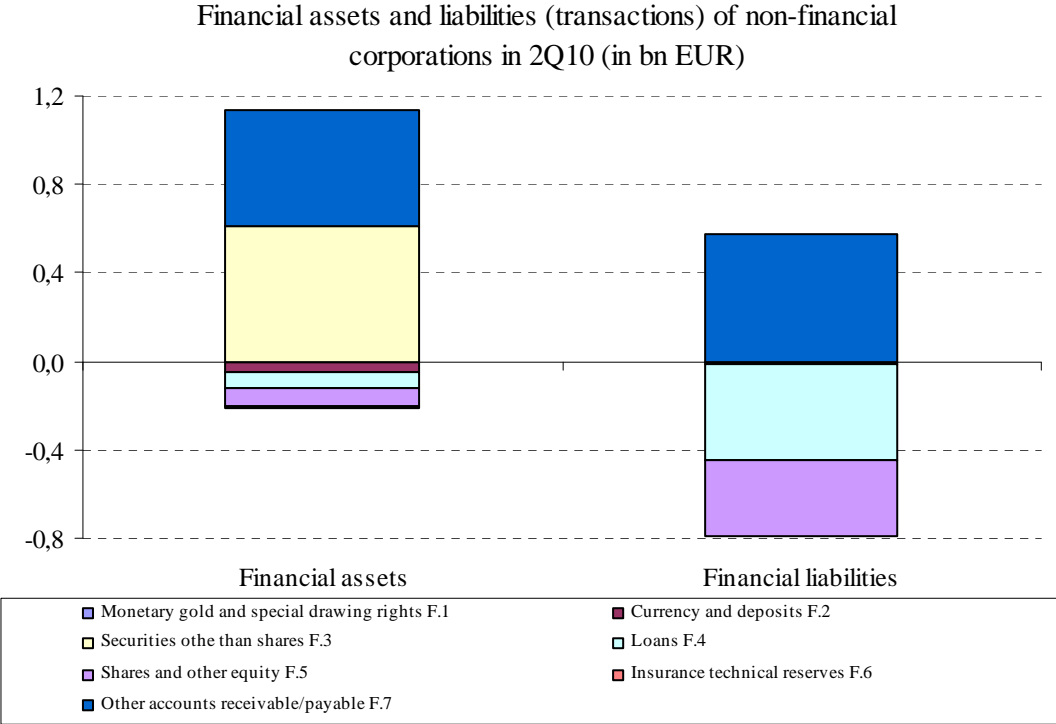
Quarterly financial accounts according to individual institutional sectors

S.11 Non-financial corporations

*Transactions*

A positive development in the form of decreasing the indebtedness of non-financial corporations was caused by the fact that financial assets increased and financial liabilities decreased slightly at the same time.

Graph 5

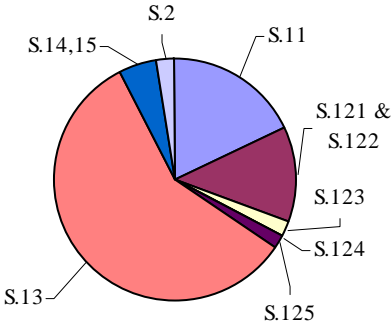


Within assets, the securities other than shares EUR (+0.6 billion) and other accounts receivable (EUR +0.5 billion) increased. The decrease of other deposits abroad in the amount of EUR 0.2 billion is also interesting.

On the side of the liabilities of non-financial corporations, only other accounts payable (EUR +0.6 billion) against foreign countries and against domestic economy increased. On the other hand, short-term loans from domestic leasing companies (EUR -0.3 billion) and non-residents (EUR -0.1 billion) and unquoted shares held by non-residents (EUR -0.3 billion) decreased.

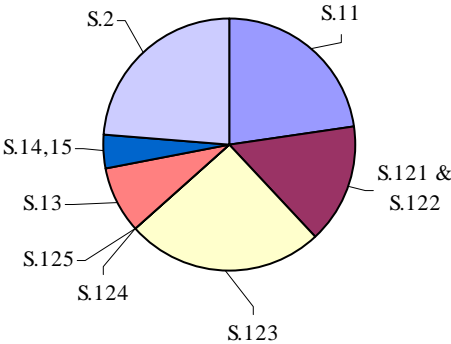
Graph 6

Sectoral division of non-financial corporations assets (transactions) in 2Q10



Graph 7

Sectoral division of non-financial corporations liabilities (transactions) in 2Q10

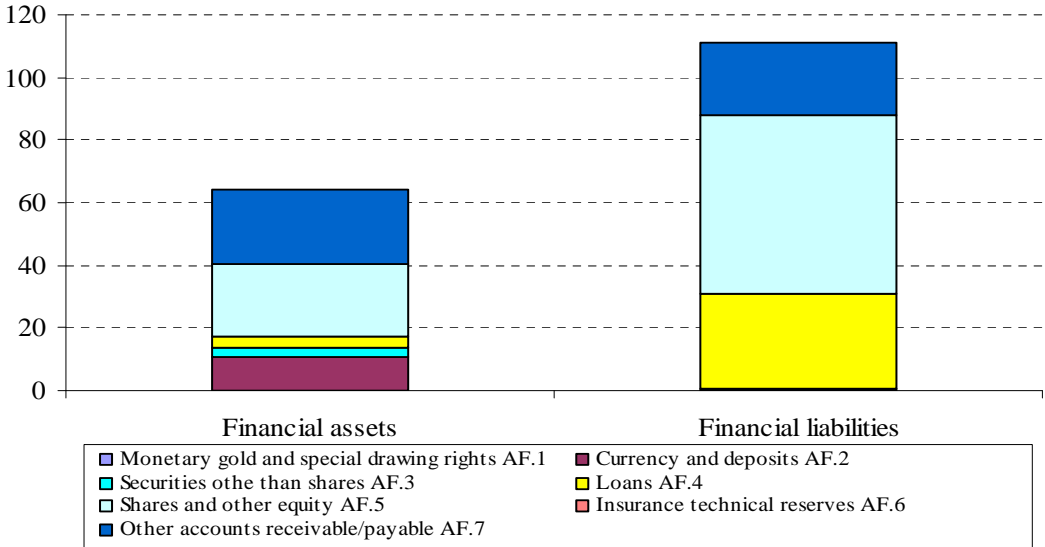


Stocks

On a long-term basis, the main financial resources of non-financial corporations include shares, and financial and trade credits. The stated resources are used by corporations for investments especially to trade credits, shares and deposits.

Graph 8

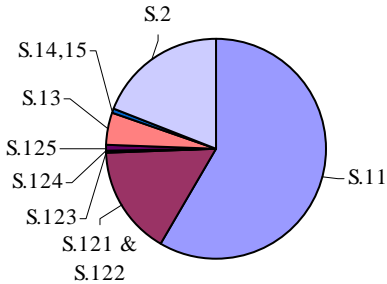
Financial assets and liabilities of non-financial corporations at the end of 2Q10 (in bn EUR)



The current position of issued equity securities of non-financial corporations within the domestic economy is mostly held in the sector of non-financial corporations (36.7%) and entities of general government (17.0%). Foreign entities own 45.8% of the shares of domestic corporations. Within the scope of credit financing of corporations, loans from domestic banks and leasing and factoring companies represent 56.5%, loans from abroad represent 35%. The main debtors of domestic companies in individual financial instruments are entities of non-financial corporations (58.6%), monetary financial institutions (16.4%), and foreign countries (18.5%).

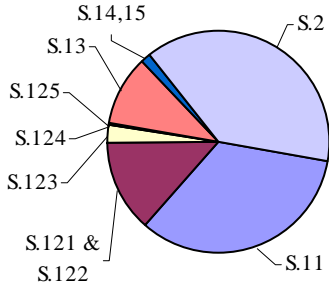
Graph 9

Sectoral division of non-financial corporations assets at the end of 2Q10



Graph 10

Sectoral division of non-financial corporations liabilities at the end of 2Q10



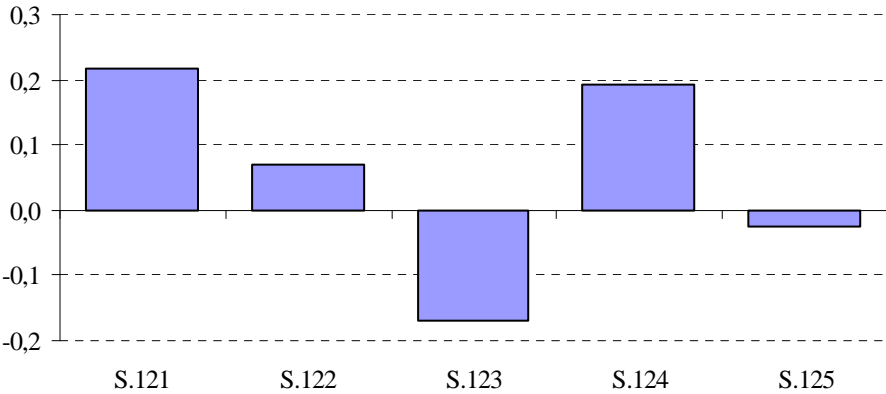
S.12 Financial institutions

Transactions

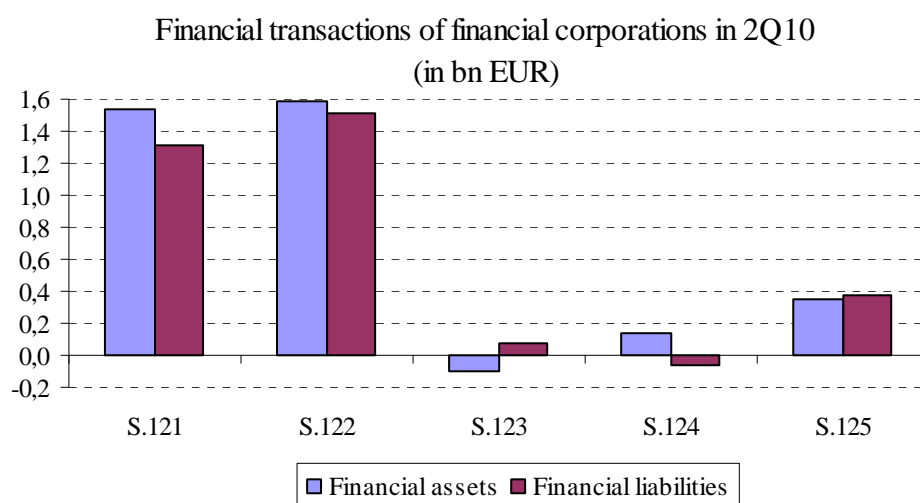
Just like non-financial corporations, the S.12 sector – financial corporations also recorded net lending in the 2<sup>nd</sup> quarter of 2010, this thanks to the sub-sectors S.121 – central bank, S.122 – other monetary financial institutions, and S.124 – financial auxiliaries.

Graph 11

Net lending (+)/net borrowing (-) of financial corporations in 2Q10 (in bn EUR)



Graph 12



A positive development in the financial balance sheet was recorded by the central bank (S.121) when the growth in assets exceeded the growth in liabilities. The central bank was largely purchasing foreign long-term debt securities. Long-term loans provided to domestic banks also increased slightly. The growth in liabilities was the outcome of the growth in transferable deposits from domestic banks and foreign entities.

The total net positive transactions of other monetary financial institutions (S.122) were the result of slightly higher growth in assets compared to the increase in liabilities. Such were long-term debt securities (purchase of domestic government bonds), transferable deposits in the central bank, and long-term loans to households that increased most of all among assets. On the liabilities side, commercial banks received bigger deposits both from households and from central government.

One of two sub-sectors of financial corporations that recorded negative financial transactions in the second quarter of 2010 was also sub-sector S.123 – other financial intermediaries. Within assets it is worth mentioning the decrease in short-term loans provided to non-financial corporations compensated by higher long-term loans, long-term debt securities, and other deposits. The loans received developed contrary to provided loans, when the short-term loans increased mostly from non-residents and long-term loans from domestic banks and non-residents decreased.

In the 2<sup>nd</sup> quarter of 2010, financial auxiliaries (S.124) achieved positive net financial assets thanks to the increase in assets, mainly deposits in banks and in the state treasury, and a decrease in liabilities, especially shares owned by the sector of insurance corporations and pension funds.

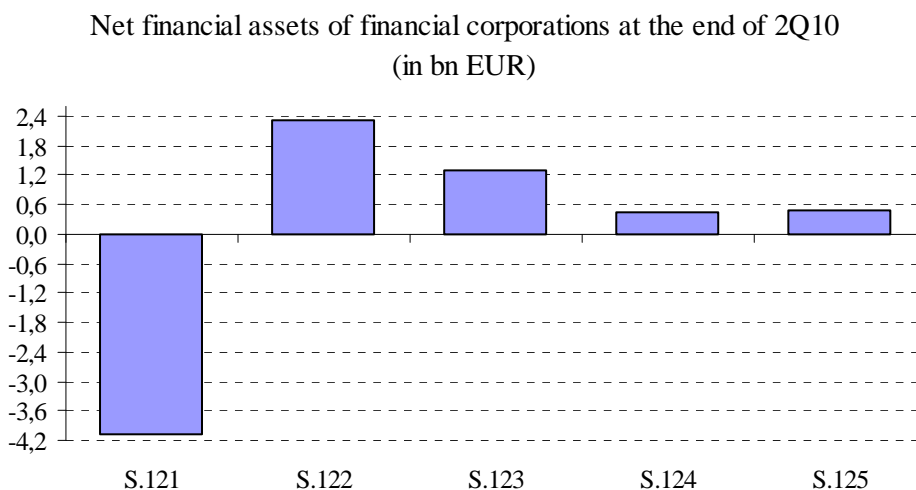
Insurance corporations and pensions funds (S.125) are the second sub-sector of sector S.12 that recorded net borrowings. The increase in household savings in pension and supplementary pension funds especially served for the purchase of domestic government bonds and an increase in deposits in abroad.



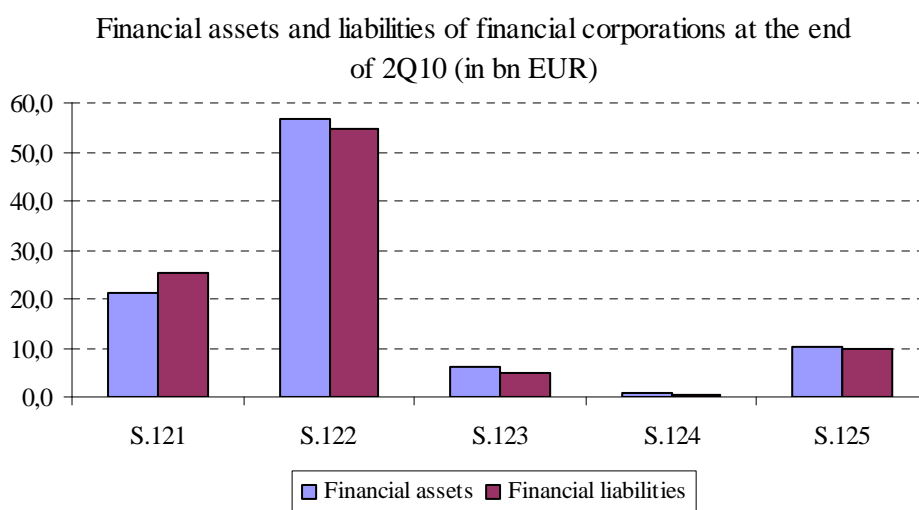
## Stocks

The whole financial sector (S.12) is in a credit position thanks to all the sub-sectors, except for the debt position of the central bank.

Graph 13



Graph 14



In line with its primary mission – to accept deposits and provide loans – other monetary financial institutions invest most of their money into loans. In addition, they invest a major part of available resources into government bonds and resident and non-resident deposits. On the side of liabilities, the major role is played by deposits (almost 80% of all liabilities). From the point of structure by sectors, the key clients of banks on the side of assets are non-financial companies, households, and entities of central government. On the side of liabilities are mainly households, non-financial corporations, and foreign corporations. The sector of foreign countries represents a major owner of shares and other participating interests in banks, as its share on this financial instrument amounts to approximately 92%.

The structure of invested financial instruments and sectors follows the main function of sector S.123, other financial intermediaries, i.e. it focuses on providing credits to non-financial corporations and households, and part of the resources is also invested into deposits in banks, and domestic government and foreign bonds. The main income resource is represented mainly by loans from domestic and foreign banks, and unit certificates in mutual funds held especially by households.

The least impact among financial institutions, as regards assets and liabilities managed by financial institutions, has the sub-sector S.124 financial auxiliaries. The majority of their funds – derived from external and domestic shareholders and loans extended by domestic banks – are invested in deposit accounts.

In contrast, sector S.125 insurance corporations and pension funds record a growing impact on the financial market. The main creditor of the stated sector is represented by households investing into life insurance policies and the second and third pension pillar. Funds obtained in this way are mainly invested into domestic (government bonds) and foreign debt securities, and to deposits in domestic banks and equity securities.

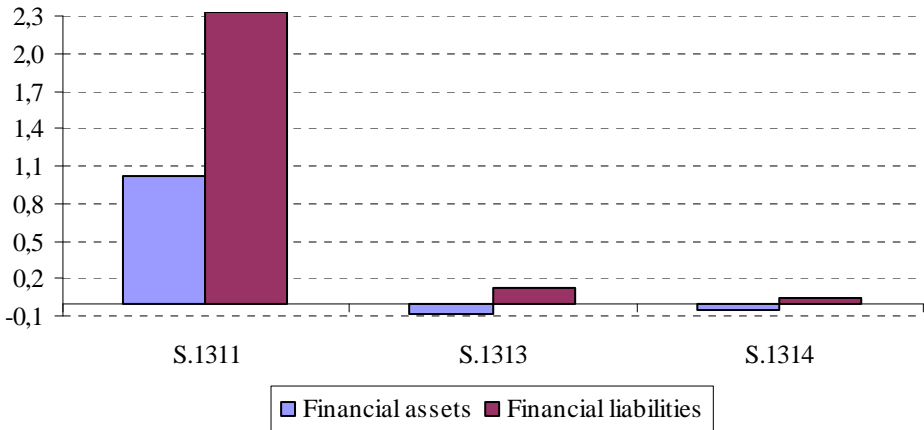
S.13 General Government

*Transactions*

In the second quarter of 2010 the general government increased its debt position by EUR 1.6 billion to which all sub-sectors contributed. The major contributor was sub-sector S.1311 – central government with assets increased by EUR 1.3 less than liabilities. Local government S.1313 and social security funds S.1314 ended with results of EUR– 0.2 billion and EUR -0.1 billion respectively.

Graph 15

Financial transactions of general government in 2Q10 (in bn EUR)



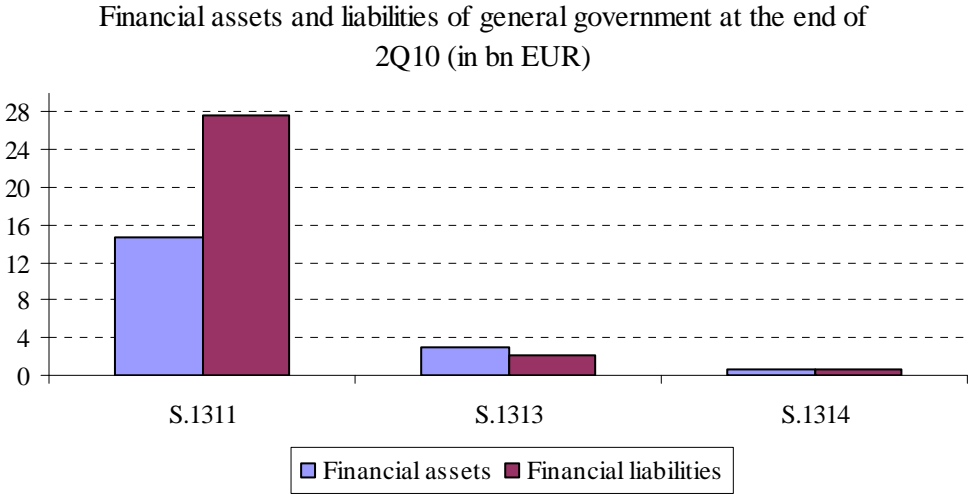
The issuing of bonds and treasury bills in the total amount of EUR 2.2 billion had the biggest impact on the total result of central government. Deposits in banks and other receivables from corporations and households increased on the side of assets.

Deposits and other receivables decreased among the assets of local government. Loans received and other payables increased on the side of liabilities.

*Stocks*

The overall debt position of the general government sector is mostly determined by the development in the sub-sector of central government. The two remaining sub-sectors of general government, S.1313 – local government and S.1314 – social security funds, recorded a net credit position by the end of the 2<sup>nd</sup> quarter of 2010.

Graph 16



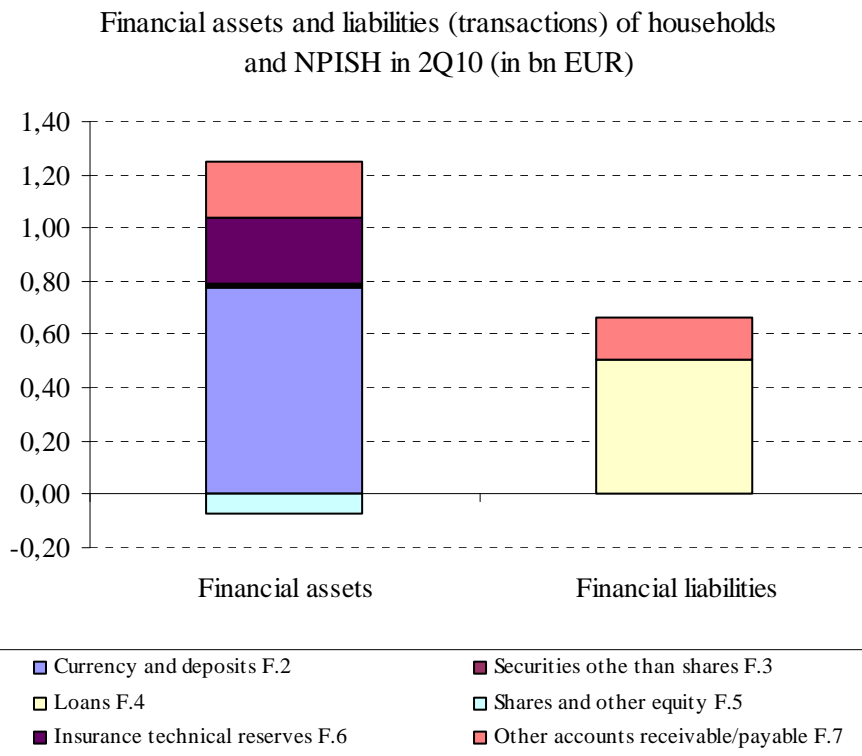
The biggest financial assets of the entities of central government are shares issued by domestic non-financial corporations (about 54% of the sum of all assets). Less than 14% of their assets are reported by central government entities in long-term loans provided to non-financial corporations, local government and foreign entities; and the government has almost 14% of assets in deposits in resident banks. The major part of liabilities of central government is represented by long-term debt securities (about 80%), including 29% owned by foreign owners.

S.14,15 Households and non-profit institutions serving households

*Transactions*

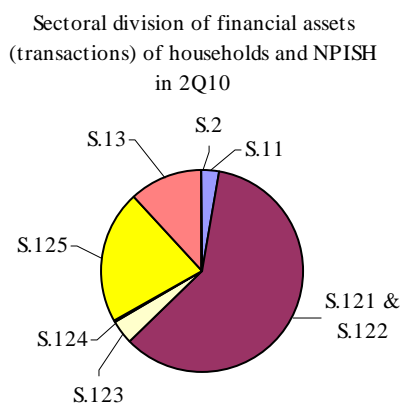
In the second quarter of 2010 the sector of households and non-profit institutions serving households increased overall creditor position by EUR 0.5 billion as a result of faster growth in financial assets compared to the growth of financial liabilities. Within assets, such were mostly higher deposits, currency in circulation, and pension savings. On the side of liabilities, households incurred debts mainly due to long-term loans, and other payables also increased significantly.

Graph 17

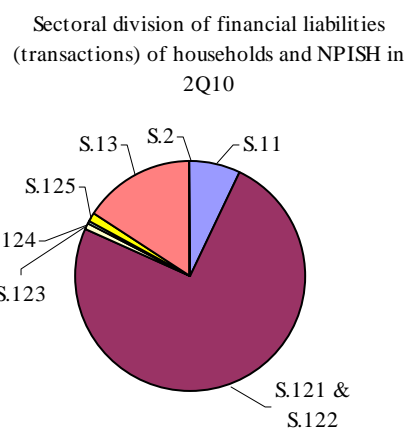


From the point of structure according to sectors as a result of the increase in savings on bank accounts, currency in circulation, and the volume of pension savings, the biggest share on the side of assets was recorded by transactions with banks and insurance corporations, pension and supplementary pension funds. On the side of liabilities, such were mainly transactions with monetary financial institutions and central government that contributed to the negative development.

Graph 18



Graph 19

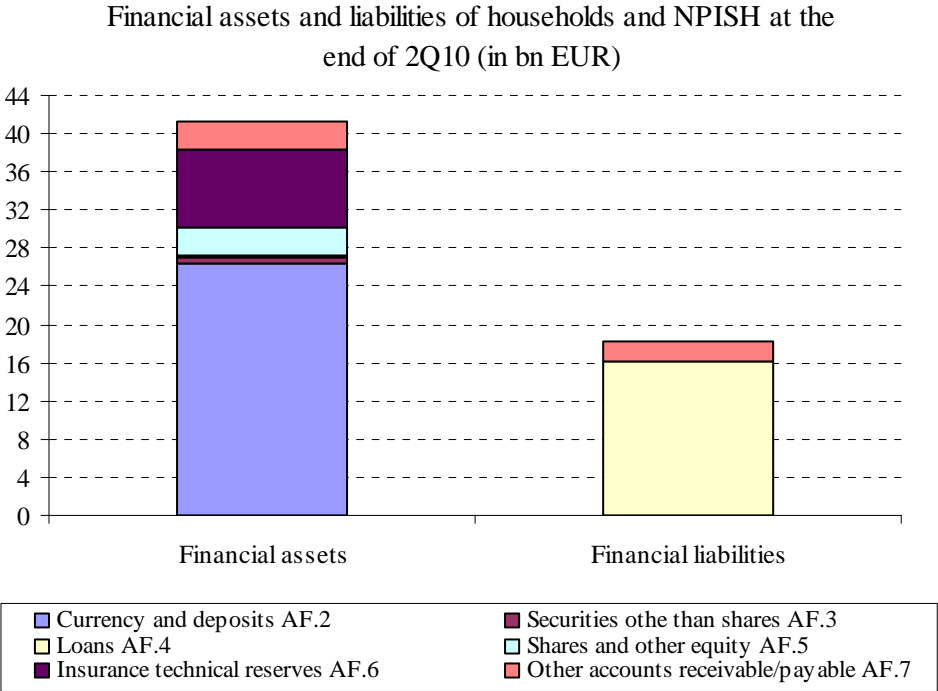


### Stocks

The sector of households and non-profit institutions serving households in the Slovak economy is typical for a big net creditor position. About 56% of available resources are

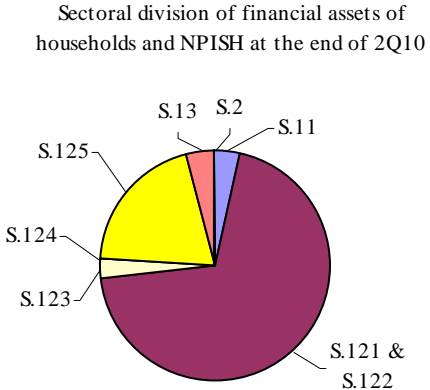
deposited in the form of deposits, and less than 20% are invested in the pension system and life insurance. Households invest almost 6.8% of their assets into mutual funds. More than 88% of all liabilities are represented by loans received, mainly of a long-term nature. The remaining part of liabilities is created by other liabilities with a major share being liabilities against general government (taxes, levies, social contributions).

Graph 20

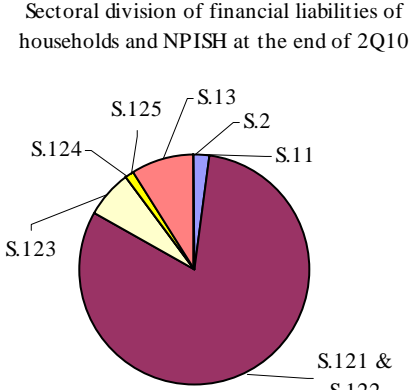


The structure of the investments and financing resources of households by sectors results from the nature of financial instruments in their balance. The major partner of households and non-profit institutions serving households are the sectors S.121 and S.122 monetary financial institutions, in recent years sector S.125 – insurance corporations and pension funds, has been achieving a significant share. On the side of liabilities, a quite important 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 against domestic sectors was the result of the bigger growth in liabilities compared to the growth in assets.

Among liabilities, the growth in long-term debt securities held by the central bank and the increase in trade credits and advances is dominant. Among the items of assets, major growth was recorded by deposits in banks, government bonds and trade credits and advances to corporations.

### *Stocks*

The foreign countries sector is a net creditor against the Slovak economy as almost 33% of all assets are represented by shares of domestic non-financial corporations, and another 20% are receivables against the central bank relating to the TARGET2 payment system. The major assets of foreign countries are loans against non-financial corporations and debt securities issued by central government. Major liabilities of foreign countries against the domestic economy are debt securities (about 52%) mainly in the hands of financial institutions, and trade credits (about 15%) from non-financial corporations.