Comments on the Quarterly Financial Accounts for Q2 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 (transactions) for Q2 2011

<u>The link between quarterly non-financial (GDP) accounts and financial accounts</u>

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 NPISH)* 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.

<u>Overall development</u>

In the second 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 €2.9 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 *financial corporations* (S.12), where transactions on the liability side exceeded those on the asset side by €3.2 billion. The best result in the second quarter of 2011 was reported by the sector of *households including non-profit institutions serving households* (S.14 and S.15), where the creditor position rose by €0.8 billion.

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[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 1

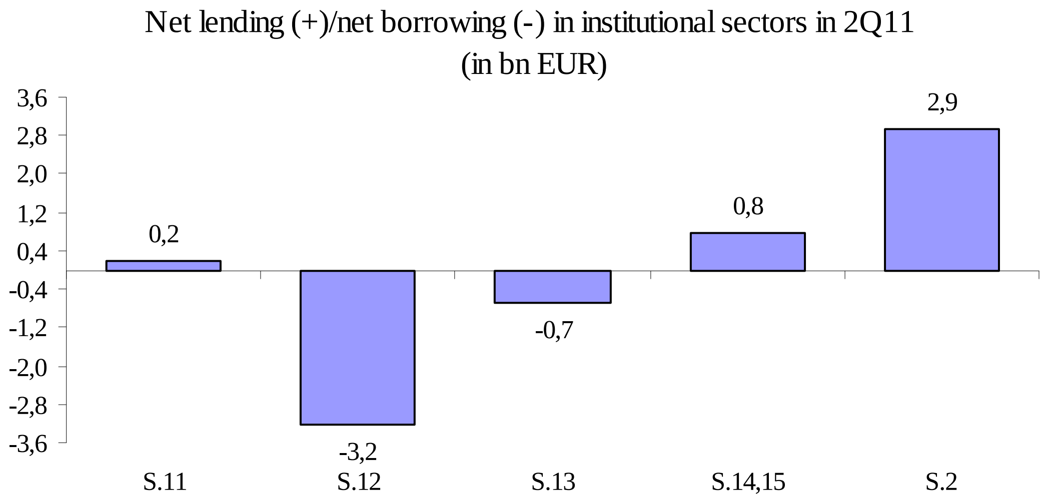
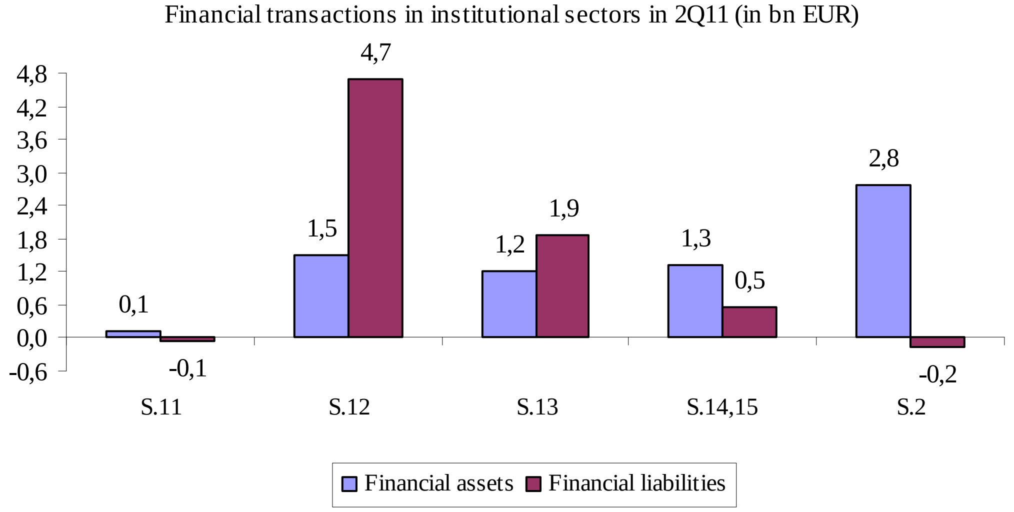
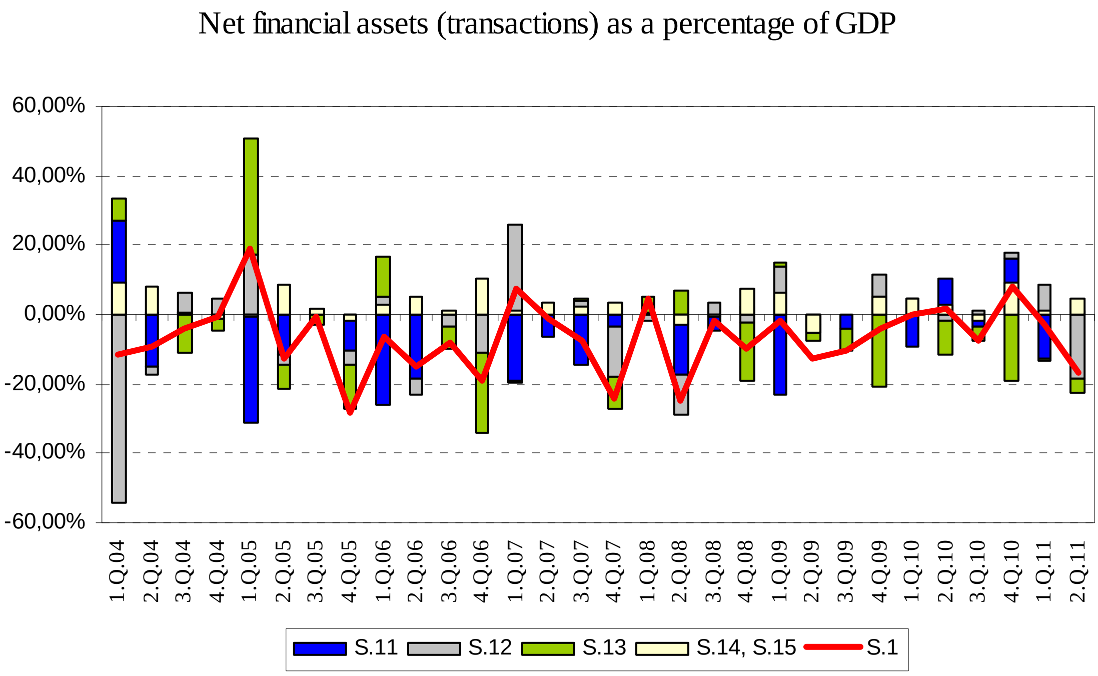


Chart 2



Net financial assets of the national economy at the end of the second quarter of 2011 reported a negative result (-€2.9 billion), which represented 17% of GDP for the respective quarter.

Chart 3

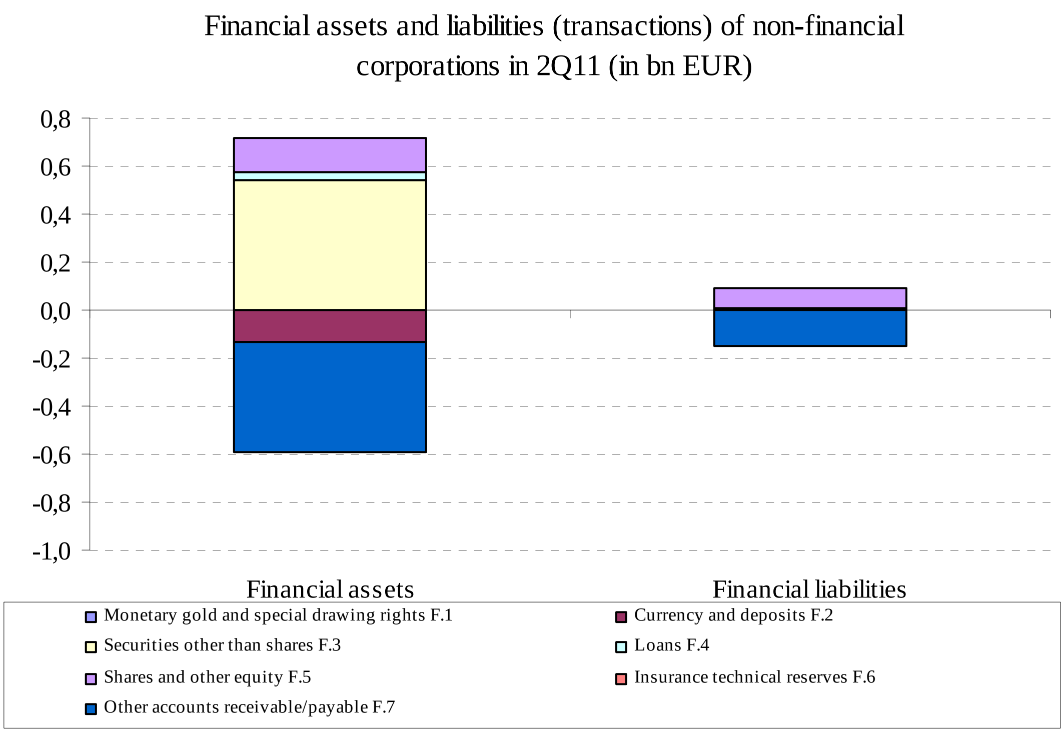


Quarterly financial accounts broken down by institutional sectors

S.11 Non-financial corporations

The indebtedness of non-financial corporations decreased as a result of a rise in financial assets and a decrease in financial liabilities.

Chart 4



As for corporate assets, holdings of domestic government bonds increased by €0.5 billion, while trade credits and advances vis-à-vis non-residents declined by €0.7 billion.

On the liability side of the balance sheet of non-financial corporations, the amount of financial loans received from other financial intermediaries rose by €0.6 billion. By contrast, the amount of short-term intra-sectoral loans declined by €0.5 billion, and intra-sectoral trade credits and advances fell by €0.3 billion.

Chart 5

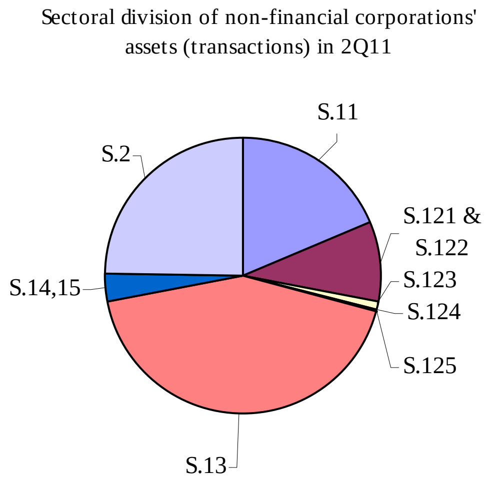
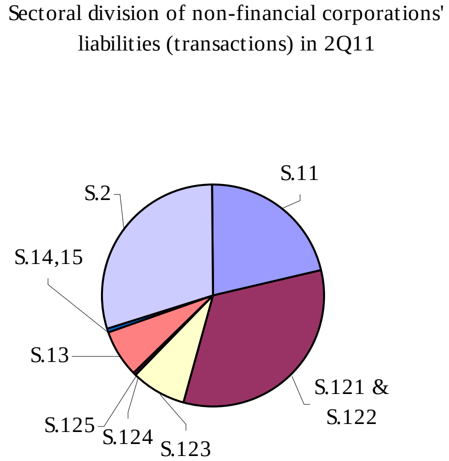


Chart 6



S.12 Financial corporations

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

Chart 7

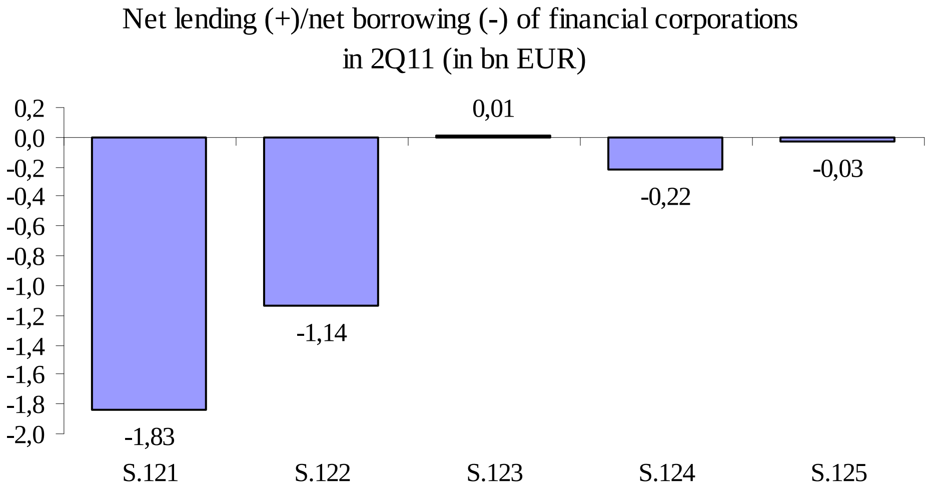
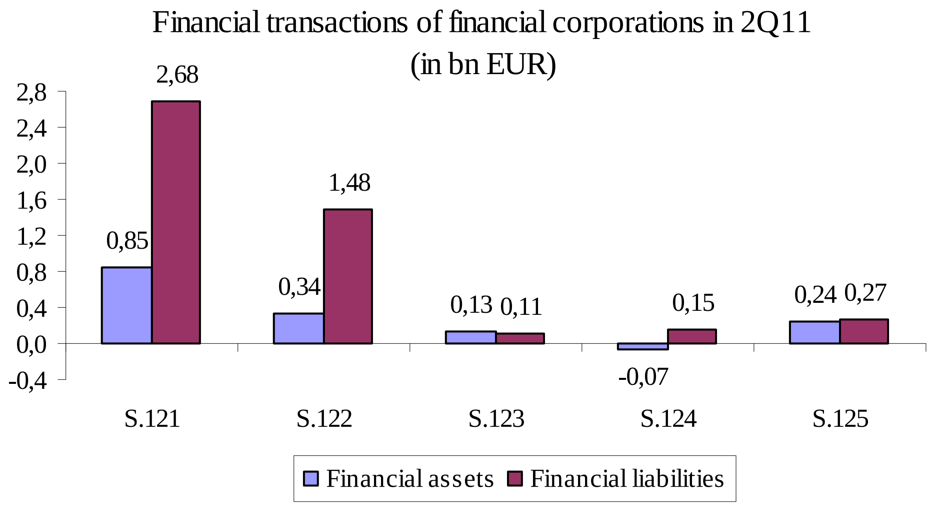


Chart 8



Overall transactions of the *central bank* sub-sector (S.121) were negative in net terms, since the increase in liabilities was larger than in assets. The main factor in the central bank's negative results was the rise in liabilities related to settlements in TARGET2, which went up by €2.4 billion. The largest increase on the asset side was in long-term debt securities issued abroad (€0.8 billion).

In the sub-sector of *other monetary financial institutions* (S.122), net borrowing reached -€1.1 billion, as the increase in liabilities was greater than in assets. The rise in liabilities was mostly attributable to other deposits from central government (€0.5 billion) and non-residents (€0.4 billion). On the asset side, there were increases in long-term bank loans to households (€0.6 billion) and in short-term bank loans to non-financial corporations (€0.5 billion).

In the sub-sector of *other financial intermediaries* (S.123), both assets and liabilities increased. The rise in assets was accounted for mostly by long-term loans to non-financial corporations (€0.2 billion) and other bank deposits (€0.1 billion). Regarding the liability side of the sub-sector of other financial intermediaries, the amount of loans from non-residents rose by €0.1 billion.

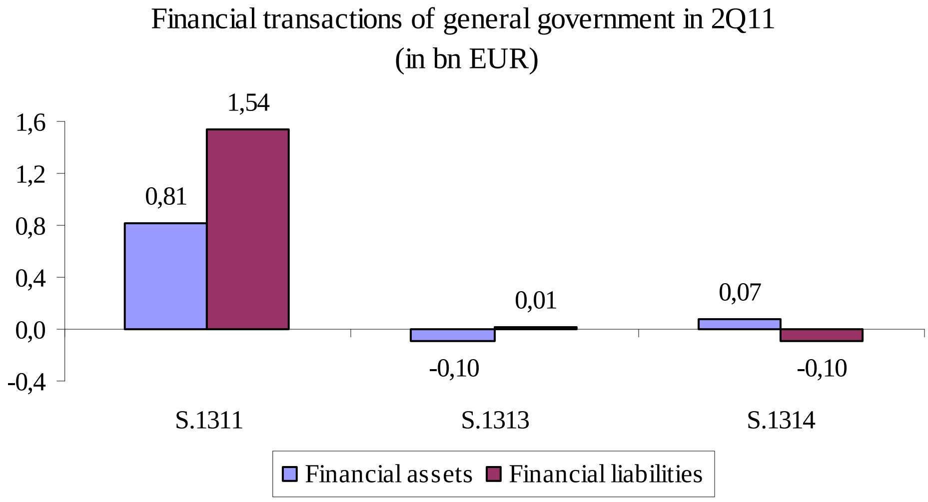
Transactions of *financial auxiliaries* (S.124) ended with a negative result, as assets fell and liabilities rose. The main factor in the S.124 results was the rise in long-term loans from banks, which went up by €0.1 billion.

Another contributor to the worsening balance of financial corporations was the sub-sector of *insurance corporations and pension funds* (S.125), which recorded a greater increase in liabilities than in assets. Funds obtained from households in the form of pension savings (€0.2 billion) and life insurance were invested predominantly in foreign long-term debt securities (€0.2 billion) and other bank deposits (€0.2 billion). On the asset side, holdings of short-term debt securities fell sharply (by €0.2 billion).

S.13 General government

The *general government* sector increased its debtor position by €0.7 billion during the second quarter of 2011. Negative contributions to the position came mainly from the *central government* sub-sector (S.1311), at -€0.7 billion, and to a lesser extent the *local government* sub-sector (S.1313), at -€0.1 billion. The *social security funds* sub-sector (S.1314) reported net lending of €0.2 billion.

Chart 9



The overall result of the *central government* sub-sector was determined mainly by an increase in liabilities stemming mainly from a rise in other liabilities (€0.9 billion), as well as by growth in other deposits on the asset side (€0.5 billion). These transactions were the result of methodological modifications. A traditionally important item on the liability side are issued bonds, which increased by €0.6 billion.

The decline in assets in the *local government* sector was largely concentrated in deposits, unquoted shares and in other claims. On the liability side, other liabilities rose and short-term loans from banks fell.

The sub-sector of *social security funds* ended the period with a positive result, arising mainly from a rise in the central government sub-sector's deposits.

S.14,15 Households (including NPISH)

The sector of *households (including non-profit institutions serving households)* increased its overall creditor position in the second quarter of 2011, owing to a higher rise in financial assets than in financial liabilities.

Households took on more debt in the form of long-term loans from banks (€0.6 billion), which largely contributed to the rise in liabilities. On the asset side there were increases in household deposits with banks (€0.4 billion) and in pension fund savings (€0.2 billion).

Chart 10

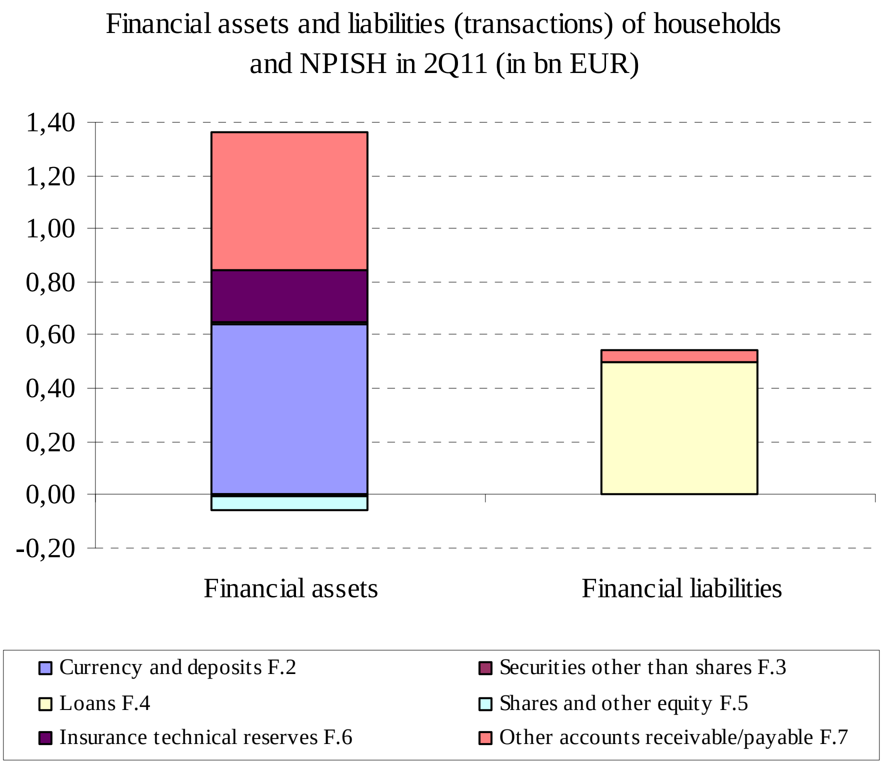


Chart 11

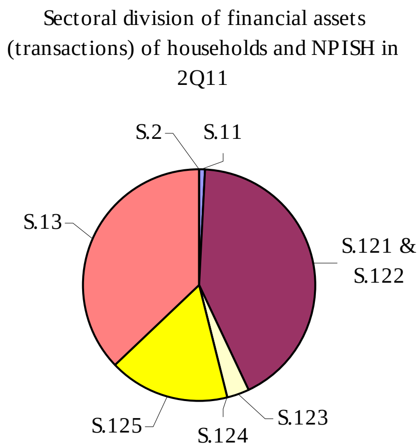
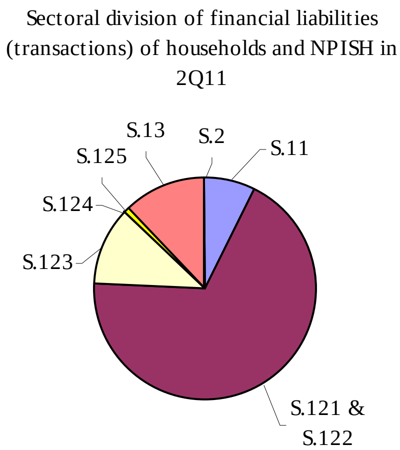


Chart 12



S.2 Rest of the world

The overall creditor position of the *rest of the world* sector in relation to the national sectors increased as a result of a high rise in assets and a slight decline in liabilities.

The result in *rest of the world* sector was determined mainly by a rise in transferable deposits with the central bank (€2.4 billion), as claims related to settlements in TARGET2 went up. Other deposits in banks increased by €0.5 billion.

In the *rest of the world* liabilities, the largest decline (- €0.6 billion in total) was reported in other deposits from financial and non-financial corporations. By contrast, the *rest of the world* debt to national sectors rose in the form of long-term debt securities (€0.9 billion) and short-term borrowing (€0.5 billion).