Comments on the Quarterly Financial Accounts for Q1 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 Q1 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 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.

Overall development

In the first 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 €1.3 billion due to the increase in financial assets exceeding the increase in financial liabilities. 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 asset side exceeded those on the liability side by €2.6 billion. By contrast, the worst result in the first quarter was reported by *general government* (S.13), as the debtor position of this sector rose by €0.9 billion.

[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 increases (or its creditor position decreases), the rest of the world's creditor position vis-à-vis the domestic economy will automatically increase (or its indebtedness will decrease). 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

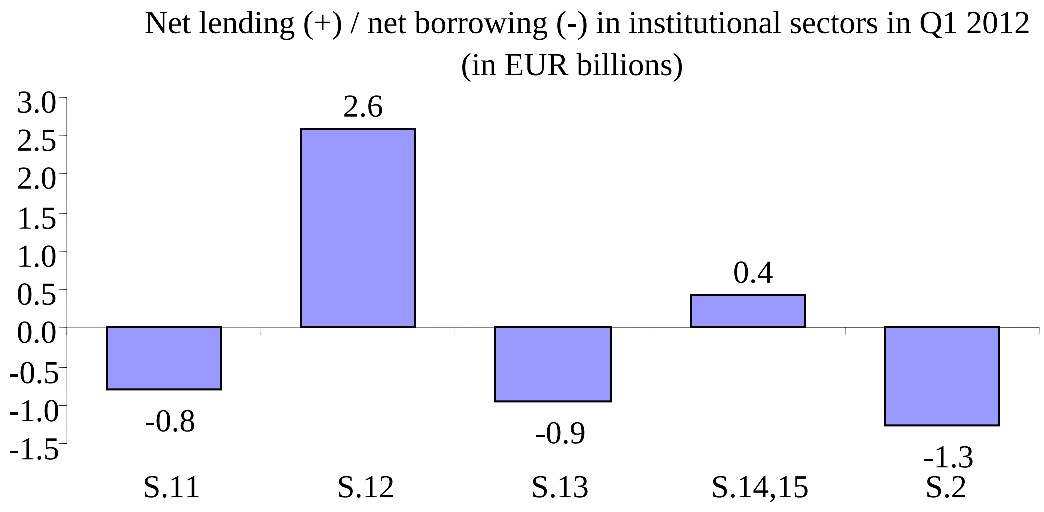
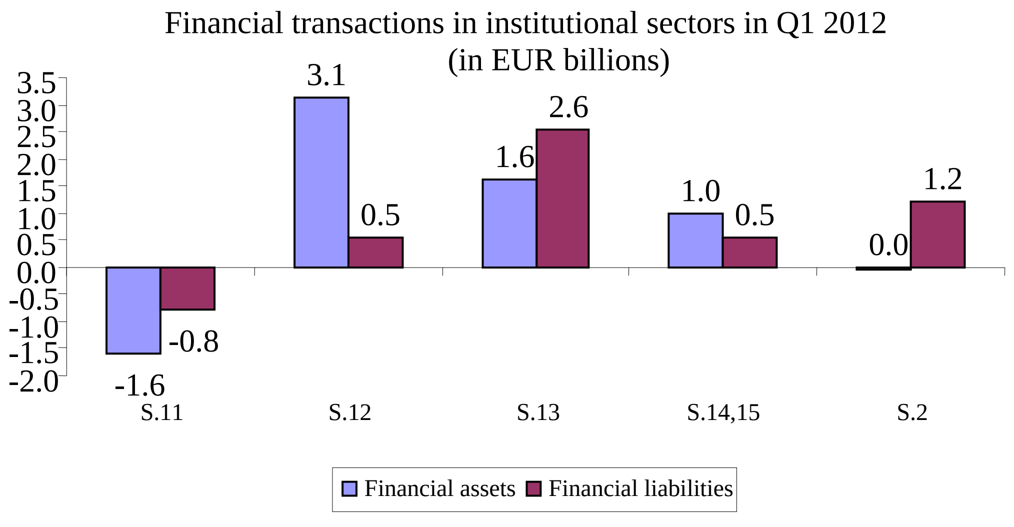


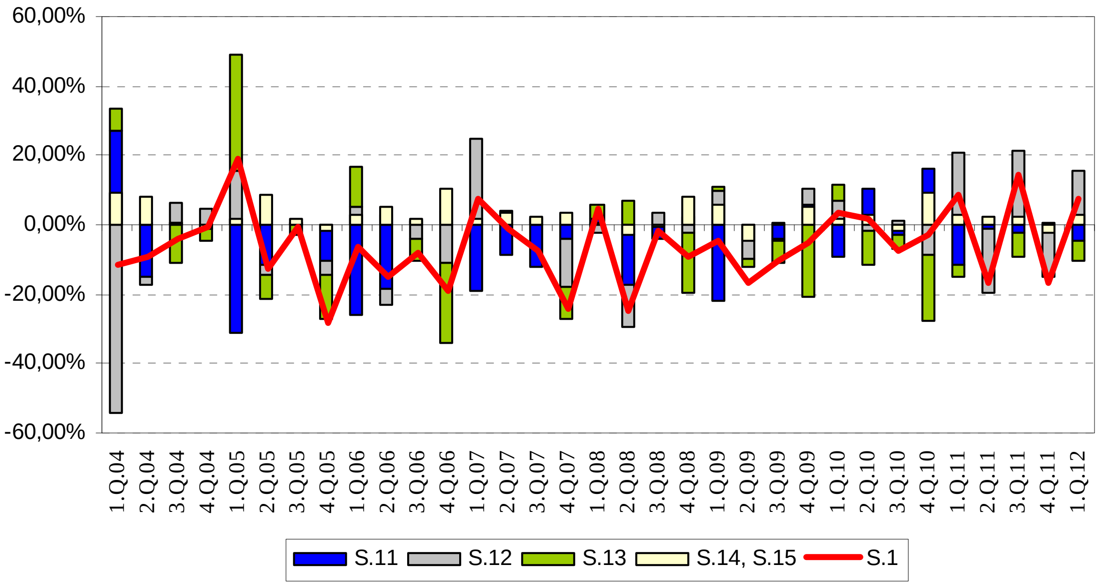
Chart 2



Net financial assets of the domestic economy at the end of the first quarter of 2012 amounted to €1.3 billion, meaning that the financial position of the economy as a percentage of GDP for the respective quarter improved by 7.6%.

Chart 3

Net financial assets (transactions) as a percentage of GDP

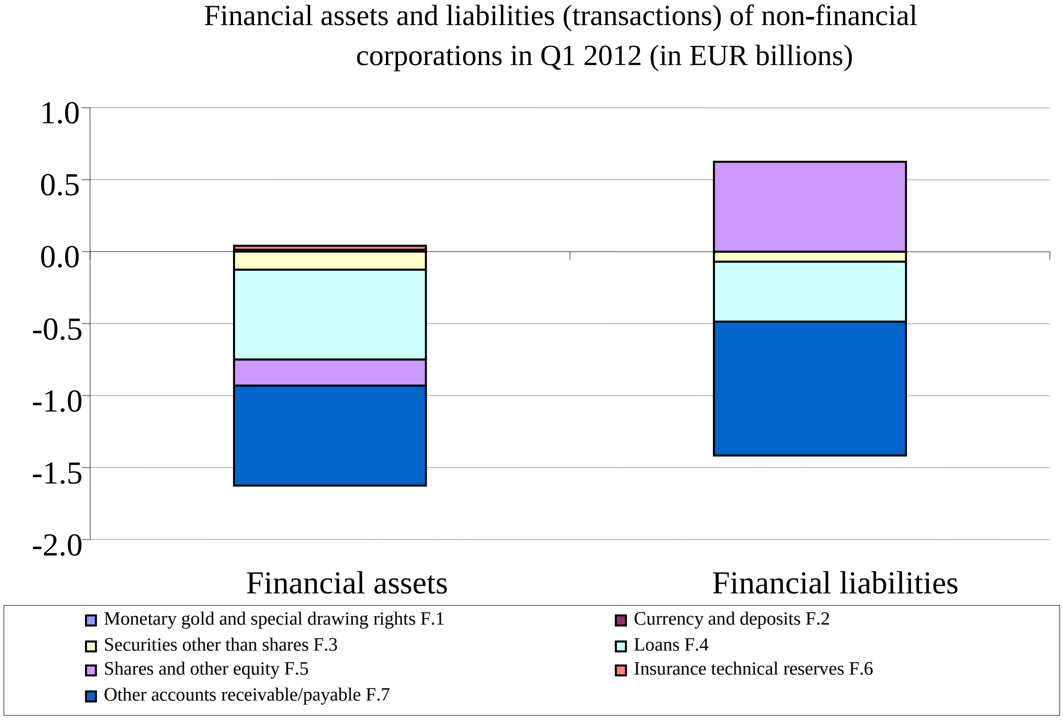


<u>Quarterly financial accounts broken down by institutional sector</u>

S.11 Non-financial corporations

The indebtedness of non-financial corporations increased, as the decline in the sector's financial assets exceeded the decline in its financial liabilities.

Chart 4



On the asset side of the S.11 balance sheet the largest decline was in other accounts receivable (including trade credits and advances), which decreased by €1.4 billion. Short-term loans to non-residents also fell sharply (by €0.4 billion).
On the liability side, not only did other payables decline markedly, but so did short-term loans received from non-residents (by €0.5 billion).

Chart 5

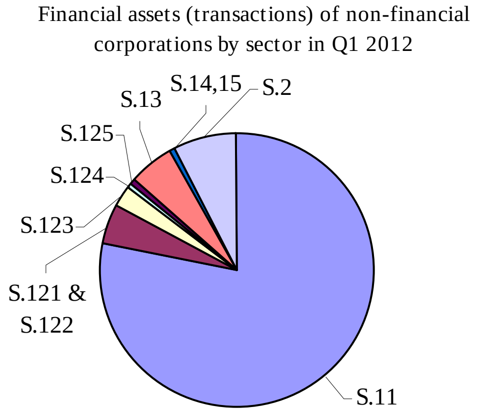
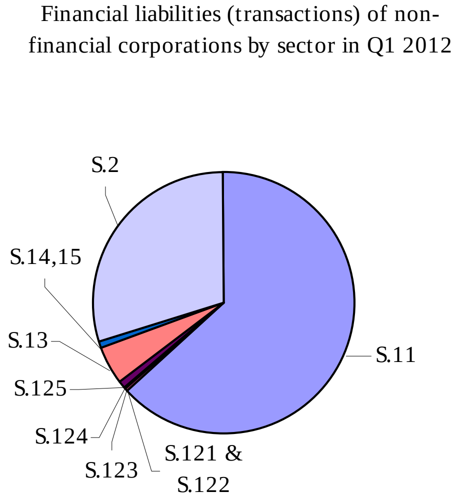


Chart 6



S.12 Financial corporations

The *financial corporations* sector (S.12) recorded net lending in the first quarter of 2012, mostly consisting of lending by commercial banks.

Chart 7

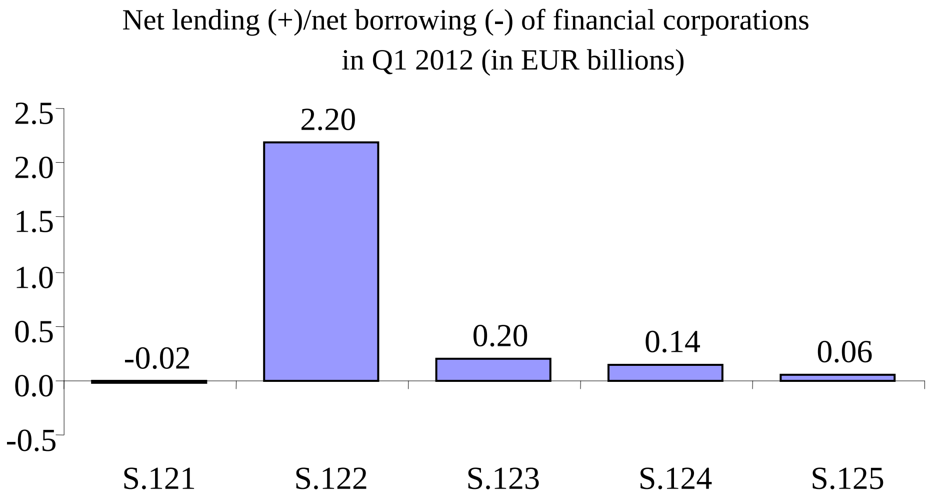
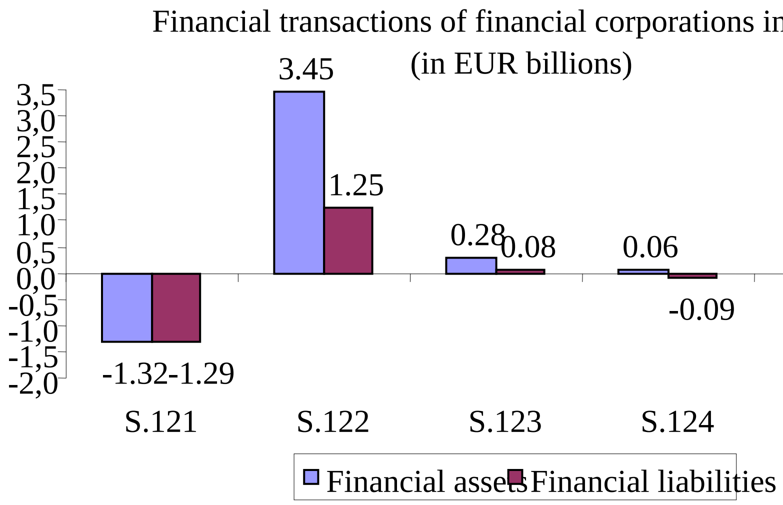


Chart 8



Overall transactions of the *central bank* sub-sector (S.121) were negative in net terms, since the decline in assets was larger than the decline in liabilities. The overall result of the central bank was determined mainly by a decrease of €1.6 billion in holdings of long-term debt securities issued by non-residents and by an increase of €4.6 billion in other deposits received, including repo borrowings.

In the sub-sector of *other monetary financial institutions* (S.122) net lending reached €2.2 billion, with the increase in assets exceeding the rise in liabilities. The asset growth was mostly attributable to other deposits held with non-residents and with the central bank (which rose respectively by €1.4 billion and €0.6 billion) and to holdings of long-term debt securities issued by the Slovak government (which increased by €0.8 billion). Long-term loans to households went up by €0.3 billion.
The increases on the liability side of the banking sector's balance sheet were predominantly in long-term loans from the central bank (€0.7 billion) and in deposits from households (€0.6 billion).

In the sub-sector of *other financial intermediaries* (S.123), the increase in assets exceeded the increase in liabilities by €0.2 billion. The largest rises on the asset side were in deposits held with domestic banks (up by €0.1 billion in total) and in shares and other equity issued by non-residents (€0.1 billion). On the liability side, mutual fund shares recorded the most pronounced increase (€0.1 billion).

Net transactions of *financial auxiliaries* (S.124) achieved a positive result as assets increased and liabilities declined. The result in the S.124 sub-sector was determined mainly by other accounts payable, which increased by €0.2 billion, and by unquoted shares held by non-residents, which fell by €0.1 billion.

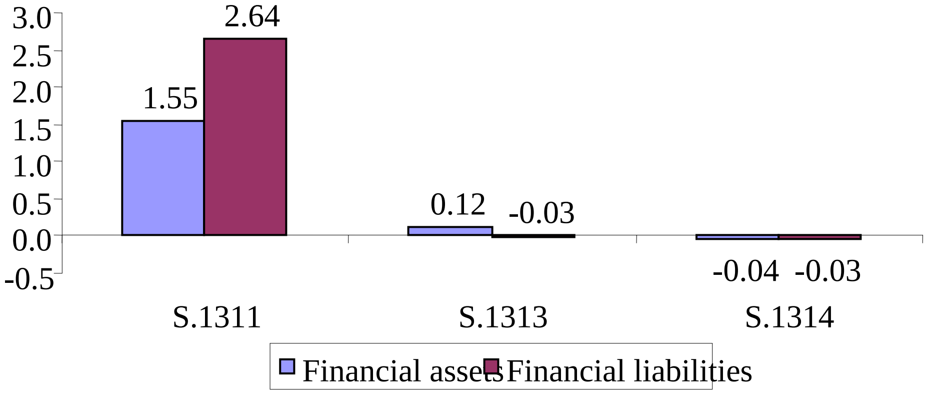
The balance sheet of *insurance corporations and pension funds* (S.125) improved as the increase in assets exceeded the increase in liabilities. The largest liability item in this sub-sector was pension savings obtained from households, which amounted to €0.3 billion. The funds obtained were invested in domestic Treasury bills (in the amount of €0.2 billion), in deposits with resident banks (€0.2 billion) and in mutual fund shares issued by non-residents (€0.1 billion).

S.13 General government

The *general government* sector increased its debtor position by €1.0 billion during the first quarter of 2012. The sub-sector of *central government* (S.1311) made the largest negative contribution (-€1.0 billion) and the sub-sector of *social security funds* (S.1314) made a negligible negative contribution. The *local government* sub-sector (S.1313) reported net lending of €0.2 billion.

Chart 9

Financial transactions of general government in Q1 2012
(in EUR billions)



The overall result of the *central government* sub-sector was determined mainly by debt securities issued, which recorded a rise of €2.0 billion, and by long-term loans received from non-residents (€0.4 billion) as an obligation of Slovakia arising from its participation in the European Financial Stability Facility (EFSF).The loan that Slovakia provided to the EFSF (amounting to €0.4 billion) is also recorded on the asset side of the financial accounts and hence has no effect on the net financial assets of the central government or on the budget deficit; on the other hand, it increases the total debt of Slovakia.
The asset item in the S.1311 sub-sector that recorded the highest growth was other deposits held with non-residents, with an increase of €1.1 billion.

Net financial transactions of the *local government* sector were moderately positive, at €0.2 billion, largely due to an increase in deposits with banks and with the State Treasury (which in total rose by €0.1 billion).

S.14,15 Households (including NPISH)

The sector of *households (including non-profit institutions serving households)* increased its overall creditor position in the first quarter of 2012 as the rise in its financial assets exceeded the rise in its financial liabilities.
The increase on the asset side was accounted for by rises in deposits with banks (€0.6 billion) and pension fund savings (€0.3 billion). On the other hand, holdings of mutual fund shares declined by €0.1 billion.
The rise in liabilities was mostly accounted for by long-term loans from banks, which increased by €0.3 billion, and by other payables to the central government, which grew by €0.2 billion.

Chart 10

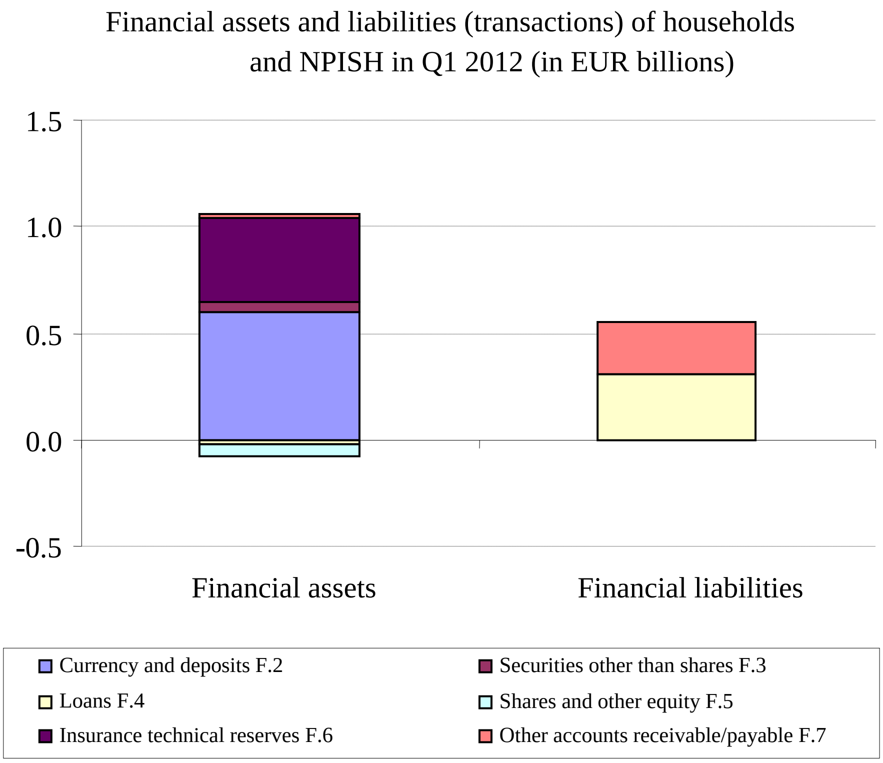


Chart 11

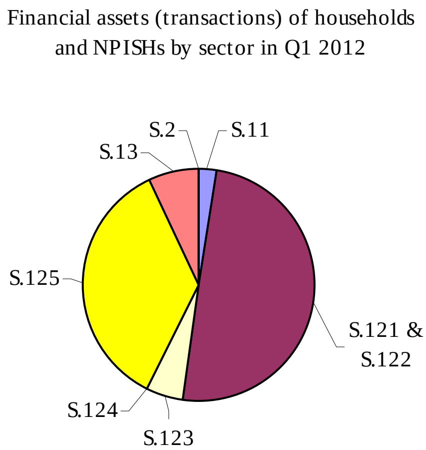
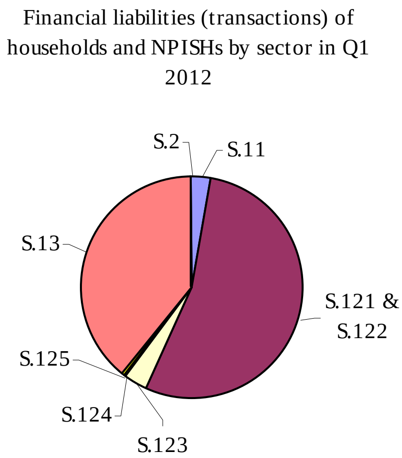


Chart 12



S.2 Rest of the world

The overall creditor position of the *rest of the world* sector in relation to the national sectors decreased due to the fact that assets declined while liabilities increased.

The result in the *rest of the world* sector was determined largely by deposits held with banks, which declined by €2.1 billion due to settlement claims in the TARGET2 system falling by €5.6 billion and to deposits with the central bank rising by €4.0 billion (through central bank repurchase operations).

The rise in liabilities was mostly attributable to deposits from commercial banks and from the central government, which increased respectively by €1.5 billion and €1.0 billion. Trade credits received from non-financial corporations also rose sharply, by €0.7 billion.