

Box 3

SAVING, FINANCING AND INVESTMENT OF EURO AREA HOUSEHOLDS AND NON-FINANCIAL CORPORATIONS IN 2003

Euro area financial account data for 2003 have recently become available,¹ enabling a thorough analysis of the financial development of euro area sectors to be made. On this basis, this box analyses developments in saving, financing and financial investment of households and non-financial corporations in 2003.

Overall, households had a large net lending position, while non-financial corporations maintained a net borrowing position (see Chart A). The combined net balance of the domestic sectors vis-à-vis the rest of the world (also taking into account the general government fiscal deficit) remained positive in 2003, although it declined slightly.

Households

The broadly unchanged net lending of households in 2003 corresponded to broad stability in household saving and gross capital expenditure (mainly the net acquisition of housing property) in relation to GDP.

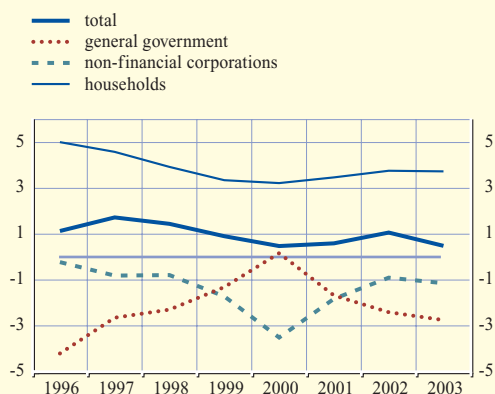
In 2003 households further increased their demand for loans to finance housing acquisitions,² causing household debt as a ratio to disposable income to continue to rise (see Chart B). However, the indebtedness of households in the euro area as a percentage of disposable income

1 See Section 3.4 of the “Euro area statistics” section of this issue of the Monthly Bulletin. Euro area financial account data are based on national financial accounts compiled by Eurostat, and by the ECB.

2 It should be noted that a large part of housing transactions financed by loans do not translate into an increase in net capital formation (which has been subdued or negative since the mid-1990s) because it takes place on the secondary market, mainly as transactions between households.

Chart A Net lending/net borrowing of sectors¹⁾

(as a percentage of GDP)

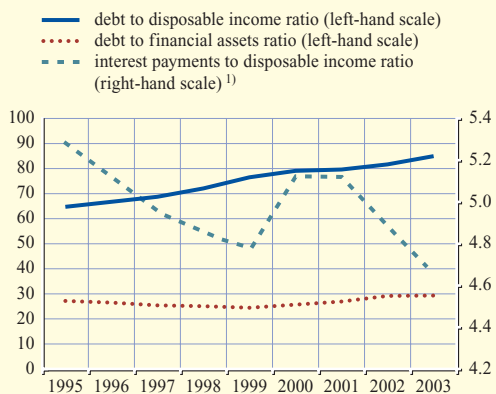


Sources: ECB, Eurostat.

1) Net lending/net borrowing is defined as the difference between gross saving and net capital transfers received minus gross capital formation and net acquisition of valuables.

Chart B Debt and interest payment burden of households

(percentages)

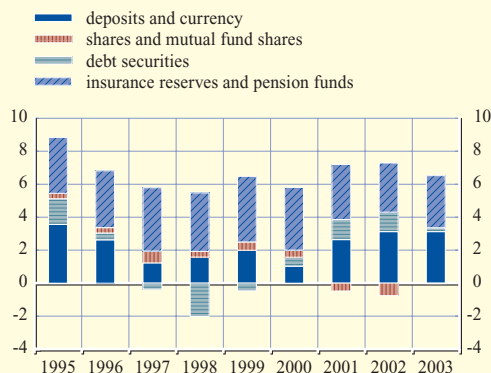


Sources: ECB, Eurostat.

1) Interest payments for 2003 are an ECB estimation.

Chart C Financial investment of households

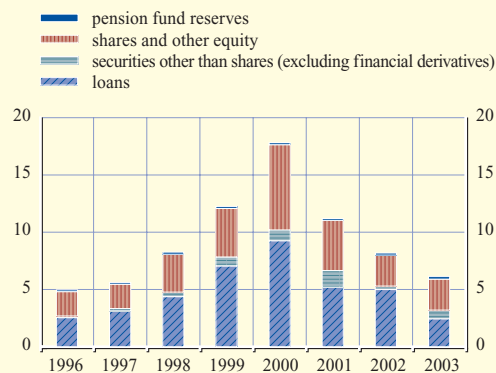
(as a percentage of GDP)



Sources: ECB, Eurostat.

Chart D Financing by non-financial corporations

(as a percentage of GDP)¹⁾



Sources: ECB, Eurostat.

1) Excluding financial derivatives and other accounts payable.

remained far below that in other industrialised countries such as the United States, the United Kingdom or Japan. Moreover, the debt-to-financial assets ratio stabilised, as the value of securities held by households (especially shares) increased. Also, the rise in mortgage debt has been accompanied by a rise in house prices since 1999. Despite the rise in indebtedness, the overall interest payment burden on euro area households decreased further in 2003 in a context of low interest rates.

The financial investment of households increased slightly in 2003 (see Chart C). Flows into deposits and currency remained broadly stable. Investment in insurance reserves and pension funds, which has tended to stand at a relatively high level over the previous years, increased slightly in 2003. One noteworthy development was a renewal of interest among households in the purchase of shares and mutual fund shares (mainly equity-linked funds) for the first time since 2000. This partly came at the expense of bond acquisitions, which declined in 2003.

Non-financial corporations

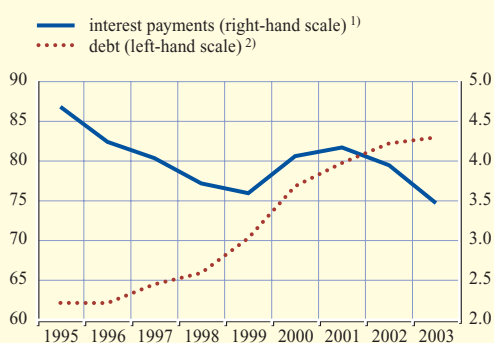
The broadly unchanged net borrowing of non-financial corporations in 2003, at -1.1% of GDP, reflected a slight decline in both corporate internal funds and real investment.

The slight decline in internal funds was mainly due to a reduction in net capital transfers received, while gross saving remained broadly stable in relation to GDP. This may indicate that, at the aggregate level, corporate profitability did not increase significantly in 2003, although one should note that gross saving does not include capital losses on the holding of securities.³ Real

³ The broad stability of gross saving in national accounts contrasts with the increase in corporate profit derived from market data in 2003 (for instance derived from earnings per share data). This may be due to the fact that gross savings do not include capital losses (which appear to have dampened corporate profits in 2002, resulting in significant growth in 2003). Another reason is that the measure of corporate earnings derived from price-earnings ratios only concerns (large) listed companies and may not reflect the average situation of euro area corporations. (See also the article entitled "Measuring and analysing profit developments in the euro area", in the January 2004 issue of the Monthly Bulletin).

Chart E Debt and interest payments of non-financial corporations

(as a percentage of GDP)



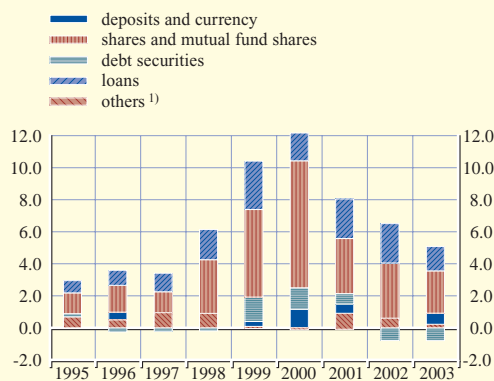
Sources: ECB, Eurostat.

1) Interest payments for 2003 are an ECB estimation.

2) Debt includes loans, securities other than shares (excluding financial derivatives) and pension fund reserves.

Chart F Financial investment of non-financial corporations

(as a percentage of GDP)



Sources: ECB, Eurostat.

1) Others: net other accounts receivable; net financial derivatives and insurance technical reserves.

investment in relation to GDP declined somewhat further in 2003, partly reflecting the only gradual recovery of economic activity.

Overall, the financing gap increased only slightly in 2003. Despite this rise, there was a decline in the net incurrence of liabilities from 8.2% of GDP in 2002 to 6.1% in 2003. This provides some evidence that non-financial corporations have reduced their reliance on external financing in order to stabilise their debt.

The decrease in the net incurrence of liabilities primarily reflects a decline in the volume of new loans to non-financial corporations (see Chart D), mainly attributable to MFI loans. Loans granted by non-MFIs and inter-company loans remained stable. By contrast, non-financial corporations increased their net issuance of debt securities in 2003. The overall issuance of shares was broadly stable in 2003. Among these, the issuance of non-quoted shares predominated, while that of quoted shares remained very low.

The debt-to-GDP ratio for non-financial corporations remained broadly stable in 2003 (see Chart E). The gross interest payment burden is estimated to have declined further owing to the relatively low level of interest rates.

Financial investment fell further in 2003, thereby continuing the downward trend observed since the peak in 2000 (see Chart F). In particular, the growth of inter-company loans declined further while that of shares and other equity remained stable, developments which reflected the continued subdued mergers and acquisitions activity in 2003. Also, non-financial corporations were net sellers of bonds. By contrast, their holdings of currency and deposits increased strongly, the demand for overnight deposits being supported by the very low opportunity cost of holding these liquid instruments.