Box 4

INTEGRATED EURO AREA ACCOUNTS FOR THE SECOND QUARTER OF 2009[1]

The integrated euro area accounts for the second quarter of 2009 released on 29 October 2009 offer comprehensive and consistent information on the income, spending, financing and portfolio decisions of all sectors of the euro area economy.

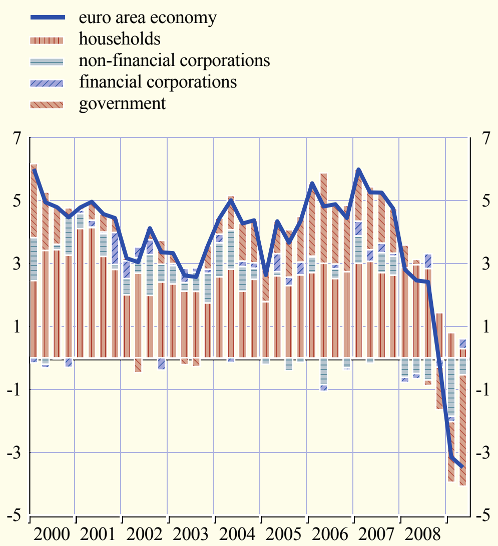
Euro area income and net lending/net borrowing

In the second quarter, the yearly growth rate in nominal disposable income continued deteriorating, with government income and to some extent households' income bearing most of

1 Detailed data can be found on the ECB's website at http://sdw.ecb.europa.eu/browse.do?node=2019181.

Chart A Euro area gross disposable income – contribution by sectors

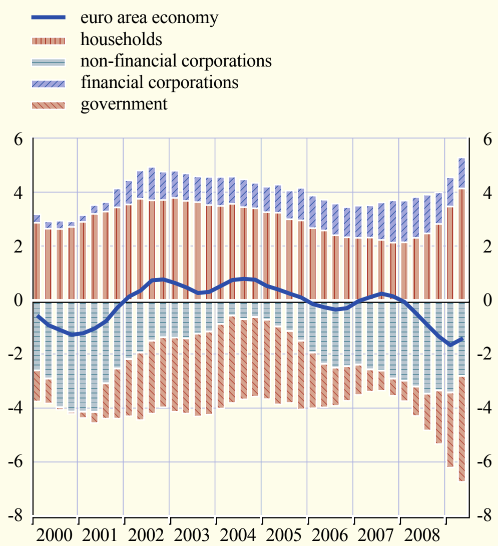
(annual percentage changes; percentage point contributions)



Sources: Eurostat and ECB.

Chart B Euro area net lending/net borrowing

(as a percentage of GDP; four-quarter moving sum)



Sources: Eurostat and ECB.

the brunt. Gross disposable income in the euro area fell by 3.5% year on year in nominal terms in the second quarter of 2009 (after -3.2% in the first quarter and -0.2% in the fourth quarter of 2008) (see Chart A).

The decline in gross saving for the euro area as a whole decelerated somewhat in the second quarter of 2009, to -14.8% year on year. Gross capital formation contracted more rapidly in the second quarter of 2009, by a sizeable -17.7% year on year. Reflecting these developments, net lending/net borrowing of the euro area improved slightly, to a deficit of 1.5% of GDP in the second quarter of 2009 on a four-quarter moving sum basis.[2] From a sectoral viewpoint, the improvement in euro area net lending/net borrowing reflects the sharp increase in net lending of households and financial corporations, which – together with a substantial contraction in the net borrowing of non-financial corporations (NFCs) – exceeded the massive increase in government net borrowing (see Chart B).

This slight reduction in the euro area net borrowing is also the mirror image of a reduced euro area current and capital account deficit, which resulted from a lower property income deficit as well as from a higher trade surplus. The euro area as a whole thus continued to exhibit a net financing requirement in the year to the second quarter of 2009. The fallout from the global financial crisis continued to dampen gross cross-border transactions, with large redemptions of cross-border deposits. The vanishing net inflows in deposits (which even turned into net outflows in the year to the second quarter of 2009) were compensated for by accelerated annual net inflows in debt securities. In addition, euro area annual net outflows in loans fell markedly in the second quarter of 2009.

2 The net lending/net borrowing of a sector is the balance of its capital account, i.e. measuring the excess of saving and net capital transfers received over capital investments (net lending) or the reverse (net borrowing). It is also the balance of the financial accounts, measuring the difference between transactions in financial assets and transactions in liabilities.

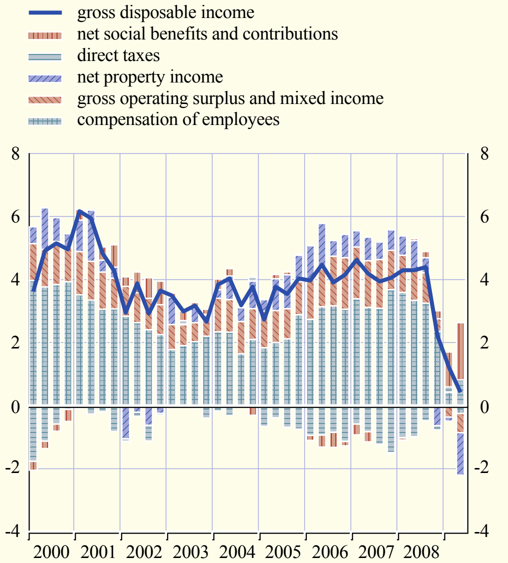
Behaviour of institutional sectors

In the second quarter of 2009, *household* nominal income growth slowed to a standstill. Declining compensation of employees in a context of deteriorating labour markets and reduced self-employment income, together with a steep fall in dividends earned, exceeded the increasingly supportive impact of net social transfers received and of reduced taxes paid (see Chart C). Real disposable income growth continued to be supported by favourable disinflation dynamics and real consumption recovered somewhat from the deeper retrenchment of previous quarters (to -0.9% year on year in the second quarter of 2009). In a context of worsening employment prospects, continued housing market weakness and accumulated past losses on shares, savings continued increasing, though at a slower pace. The household saving ratio increased again to 15.4% in the second quarter of 2009 (on a four-quarter moving sum basis), 1.3 percentage points up on the year before, thereby passing the peak seen in 2002-03. Coupled with falling household investment (mainly housing), this resulted in a further large rise in net lending, in conjunction with continued loan borrowing moderation. On the asset side, the preference for liquidity abated somewhat with a resumption of equity purchases and a stabilisation of acquisitions of insurance technical reserves, as confidence and asset markets started to recover (see Chart D).

As a result of the sharp downturn in activity and of pressures on margins, the year-on-year contraction in nominal value added of *non-financial corporations* increased. The gross operating surplus fell even more strongly, as NFCs could not reduce as fast compensation of employees. However, income and saving recovered on the back of considerably lower net interest and taxes paid as well as distributed dividends. Against the backdrop of weak global demand, low capacity utilisation and tight though easing financial conditions, the annual growth of NFCs' fixed capital formation contracted further by 17.1%, and extensive

Chart C Households' nominal gross disposable income

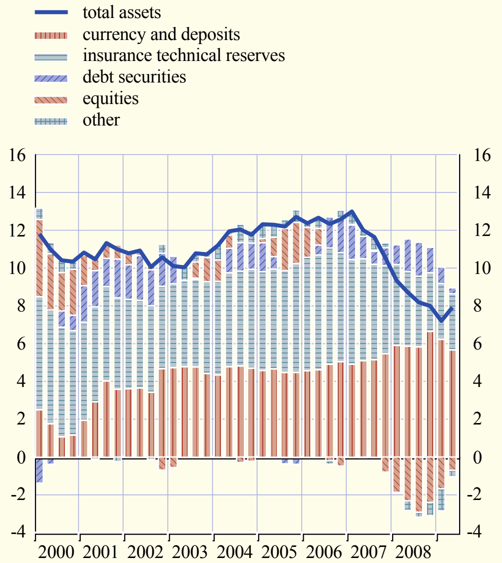
(annual percentage changes; percentage point contributions)



Sources: Eurostat and ECB.

Chart D Households' financial investment

(four-quarter moving sum; percentage of gross disposable income)



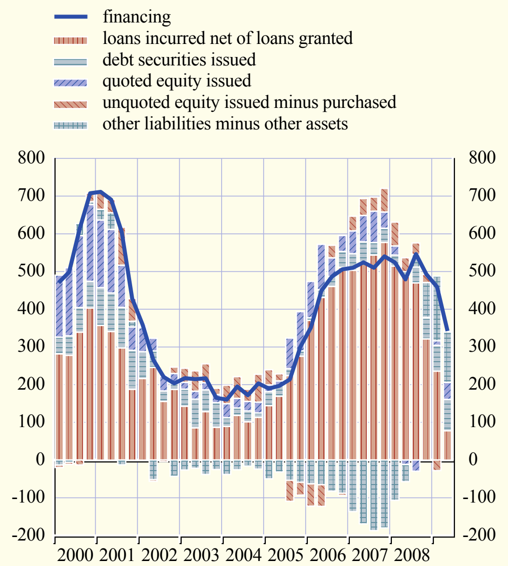
Sources: Eurostat and ECB.

destocking took place (-€15 billion in the first half of 2009, against stocking of €18 billion a year earlier). As a result, NFCs' net borrowing declined substantially in the second quarter of 2009. The annual growth rate of external financing of NFCs slowed further, and its composition continued showing deep changes driven by substitution effects, with market financing exceeding MFI financing. Net additions to loan financing shrank to a very small amount in the second quarter of 2009 (notably due to contracting short-term MFI loans on the back of lower working capital needs, arising notably from destocking), while issuance of market instruments (debt securities as well as quoted shares) accelerated further (see Chart E). Separately, trade credit receivables and loans granted by NFCs (which are mostly intra sector), though decelerating, remained relatively resilient compared with nominal GDP, suggesting a buffering role that alleviates the adverse impact of restrained bank financing (see Chart F). NFCs reduced again their purchases of quoted equity in the second quarter of 2009, while continuing to draw down their liquidity buffers overall (with some rebalancing towards deposits).

The further deterioration of *general government* accounts largely reflected the impact of automatic stabilisers, but also some additional stimulus measures, with a further increase in social benefits expenditure growth, a decline in social contributions growth (which turned negative), falling indirect taxes, and substantial contractions in direct taxes. Treasuries continued stepping up debt issuance considerably in the second quarter of 2009, to finance actual deficits and large purchases of financial assets (loans, debt securities and unquoted equity) in the context of financial rescues, as well as to fund extensive cash accumulation. The increasing net debt securities issuance was again absorbed by additional MFI purchases,

Chart E NFCs' external financing by source of funds

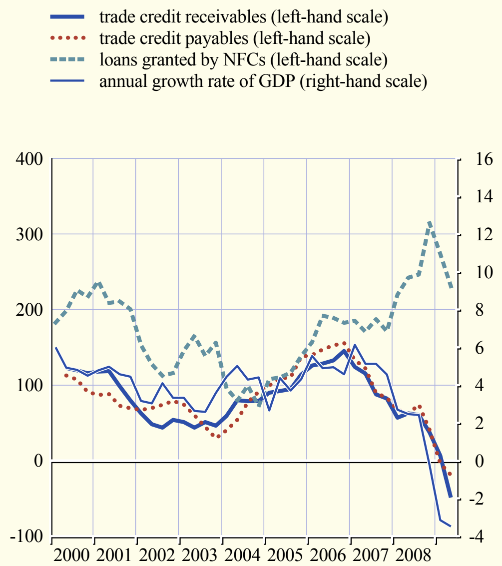
(four-quarter moving sum; EUR billions)



Source: ECB.
Note: For presentational purposes, some transactions in assets are netted from financing, as they are predominantly internal to the sector (loans granted by NFCs, unquoted equity, other accounts receivable/payable).

Chart F NFCs' loans granted and trade credit receivables and payables

(four-quarter moving sum in EUR billions; annual percentage changes)



Sources: Eurostat and ECB.
Note: Trade credit receivables and payables are estimated by the ECB based on partial information.

seeking safe placements and benefiting from profitable "carry trades", alongside larger purchases by non-residents.

The disposable income of *financial corporations* rebounded despite reduced net interest earned, on the back of a solid gross operating surplus (the latter reflecting increased bank margins and falling compensation of employees) and deep cuts in dividends paid. Despite ongoing pressures to deleverage, their balance sheets continued to expand though at a subdued rate (at less than €100 billion per quarter since the fourth quarter of 2008, against up to €1 trillion during the preceding leverage boom). This was accompanied by a marked shift towards safer assets, with financial corporations acquiring in particular government securities, while shedding cross-border exposures and limiting loan origination.

Financing of non-financial sectors and the financial markets

Growth in total financing of the non-financial sectors stabilised, as dynamic market financing compensated for restrained bank financing, amidst massive government debt securities issuance and strong recourse to market funding by NFCs.

Viewed in terms of individual instruments, the market for debt securities saw a further significant increase in net issuance by governments. MFIs were large net purchasers of debt securities, notably from government, while their (consolidated) net issuance remained negative. The rest of the world continued their large net purchases, while the purchases of households and insurance corporations and pension funds slowed. In the market for mutual funds, net issuance of non-money market mutual fund shares resumed, as insurers became large buyers. In the market for quoted shares, net issuance by NFCs and financial corporations accelerated. NFCs slowed down again their purchases, while households resumed purchases and MFIs' disposals slowed.

Balance sheet dynamics

The rebound in global equity prices attenuated the negative impact on the net financial wealth of households of previous losses, to a still elevated €0.6 trillion of cumulated losses in the year to the second quarter of 2009. Valuation changes (and other elements of other flows) constitute the most volatile component of the change in household net financial worth, amounting to 12.3% of their annual disposable income in the year to the second quarter of 2009. At the same time, the increase in prices of government bonds translated into substantial holding gains, which helped offset the holding losses on the "toxic" assets held by financial corporations.[3]

3 It should be noted that, in the case of loans, which are valued at nominal value in the euro area accounts, impairment has only an impact on the financial wealth of creditors at the time when they are actually written off, i.e. with a considerable delay.