

Box 3

INTEGRATED EURO AREA ACCOUNTS FOR THE FIRST QUARTER OF 2012¹

The integrated euro area accounts released on 1 August 2012, covering data up to the first quarter of 2012, offer comprehensive information on the income, spending, financing and portfolio decisions of institutional sectors in the euro area. In the first quarter of 2012, the further weakening of economic activity kept the correction of imbalances that had begun during the recovery phase at a standstill, as was the case in the previous quarter. The household saving ratio stabilised close to historically low levels and household net worth declined, while government deficits decreased only slightly. The net borrowing of non-financial corporations (NFCs) returned to positive territory, but this was due to declining retained earnings, while gross capital formation contracted and inventories were reduced at a higher rate. At the same time, the euro area's external balance remained in surplus for the second consecutive quarter.

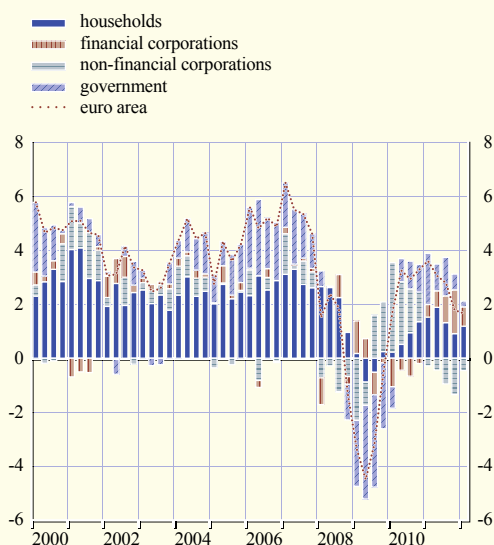
Euro area income and net lending/net borrowing

Annual growth in euro area nominal disposable income fell further in the first quarter of 2012, to 1.7%, after the significant decrease of 1 percentage point, to 1.8%, in the previous quarter (see Chart A). As income growth slowed down, euro area gross saving growth also fell from 3.8% to 1.4% on an annual basis. This was reflected across sectors in a sharp decline in NFCs' retained earnings (savings), a slower growth of financial corporations' retained earnings and, in contrast to what was observed in previous quarters, no further correction of government

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 - contributions by sector

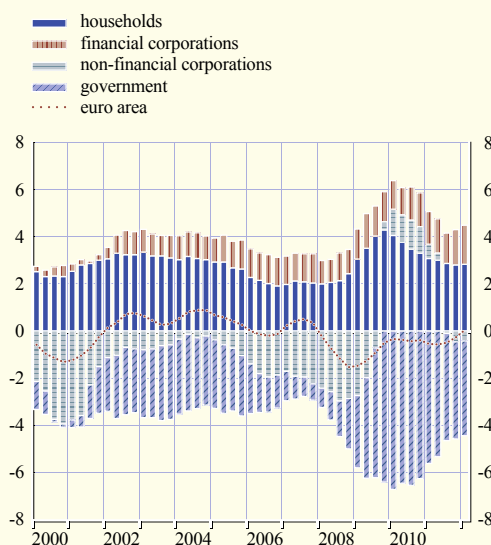
(annual percentage changes; percentage point contributions)



Sources: Eurostat and ECB.

Chart B Euro area net lending/net borrowing

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



Sources: Eurostat and ECB.

dissaving. At the same time, the growth of capital formation in the euro area as a whole and in all non-financial institutional sectors entered negative territory.

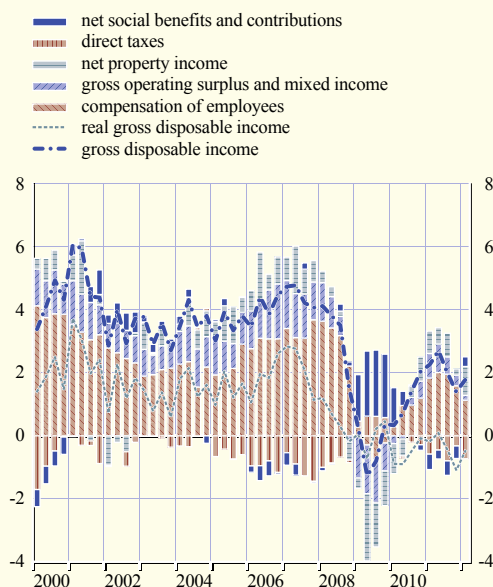
All in all, net lending/net borrowing of the euro area (or the external balance – which can broadly be defined as the difference between savings and capital formation) remained in positive territory for the second consecutive quarter on a seasonally adjusted basis, and returned to positive territory in four-quarter accumulated terms. From a sectoral viewpoint, the improvement in net lending/net borrowing was due in particular to financial corporations, which have made a very positive contribution to overall euro area net lending since the beginning of the crisis. This reflects the increase in the retained earnings of financial corporations as a result of their efforts to improve their capital positions. Moreover, the improvement in the euro area external balance also reflects the slight decrease in the net borrowing of the government sector (see Chart B, in four-quarter sums). On the financial side, the increase in net lending was mainly reflected in lower net inflows in debt securities and, to a lesser extent, in shares and other equity. These were only partly offset by lower net outflows in currency and deposits. Moreover, foreign repatriation flows abated, especially in the form of deposits which declined at a slower pace than in previous quarters.

Behaviour of institutional sectors

After two quarters of decline, the annual growth rate of *households'* nominal gross disposable income increased to 1.8% in the first quarter of 2012, from 1.4% in the previous quarter (see Chart C), despite a significant decrease in employee compensation growth. This development was driven by higher growth in net property income and social benefits, which increased for the first time since the third quarter of 2010. Real disposable income growth remained in negative territory

Chart C Households' nominal gross disposable income

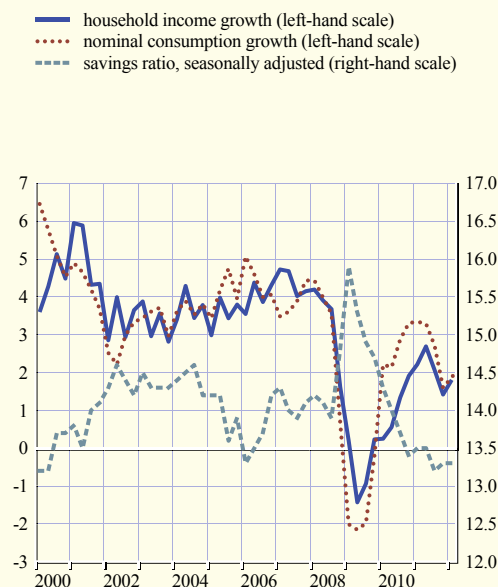
(annual percentage changes; percentage point contributions)



Sources: Eurostat and ECB.

Chart D Household income and consumption growth, and saving ratio

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



Sources: Eurostat and ECB.

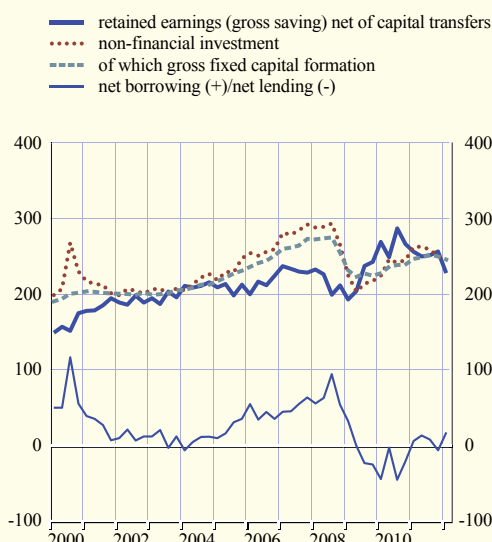
(-0.5%, year on year) for the third consecutive quarter on the back of elevated inflation. As private consumption also increased at a modest rate of 1.9%, year on year, close to that of income, the saving ratio of households stabilised at 13.3% on a seasonally adjusted basis (see Chart D).

With subdued non-financial investment (the annual growth rate of which was negative), households' net lending increased slightly, a development which was also reflected in declining loan growth (1.2%, down by 0.3 percentage point), while the financial investment growth rate remained broadly unchanged at 2.1%. Previous portfolio movements away from M3 components and insurance technical reserves continued, while the contribution to overall financial investment growth made by investment in market instruments, in particular equity, increased. Sales of investment fund shares decelerated.

The gross operating surplus of euro area *non-financial corporations* declined further on a seasonally adjusted basis as value added continued to contract faster than wages. As a result, retained earnings (savings) declined by 3.8% in annual terms. Together with a very marginal increase in gross capital formation (which grew by only 0.2%, compared with 3.5% in the previous quarter) this decrease more than offset an acceleration in destocking, resulting in an increase in their net borrowing position (see Chart E). The annual growth of NFCs' financing and financial investment remained broadly unchanged at 2.1% and 3.2% respectively. The lower contribution of MFI loan financing to total financing growth was again broadly compensated for by larger contributions of unquoted equity and debt securities. Inter-company financing continued to play an important buffering role, its overall contribution remaining broadly stable despite a slight decline in trade credits (see Chart F). The gradual reduction in NFC leverage observed

Chart E Non-financial corporations saving, capital investment and net lending(+)/net borrowing(-)

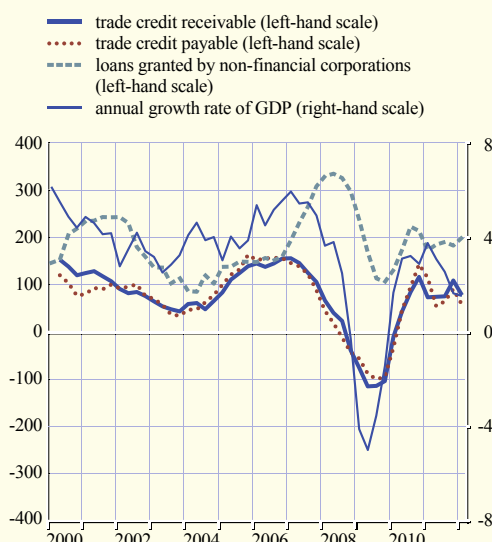
(EUR billions, seasonally adjusted)



Sources: Eurostat and ECB.
Note: Seasonally adjusted by the ECB.

Chart F Loans granted by non-financial corporations and their trade credit receivable and payable

(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.

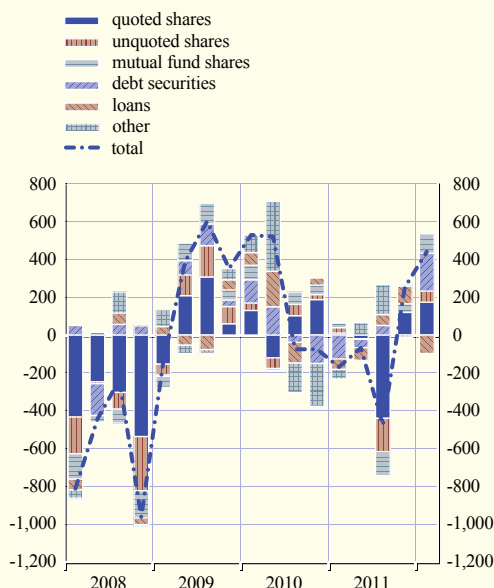
since mid-2009 continued in the first quarter of 2012, but this was mainly due to increases in the valuation of equity holdings.

The budget balance of the *general government* improved only slightly, standing at -4.0% of GDP (four-quarter moving sum) in the first quarter of 2012, compared with -4.1% of GDP in the fourth quarter of 2011. This practically halted the upward trend which had started in the first quarter of 2010, when the budget balance reached its lowest level of -6.7% of GDP. The outcome was due mainly to decreasing revenues in the context of a slowing economy, in particular via direct taxes on NFCs and net social security contributions. The net issuance of government bonds in the first quarter of 2012 was fully absorbed by banks, which took advantage of the three-year LTROs and used the proceeds to buy mainly government bonds. Non-residents, as well as insurance corporations and pension funds, were also net buyers of government bonds in the quarter, both having offloaded government bonds in the previous quarter. However, investment funds accelerated their selling of government bonds, continuing the trend initiated in 2010.

The disposable income of *financial corporations* continued to show a robust increase in the first quarter of 2012, mainly on account of property income earned. Holding gains were registered in debt securities as sovereign yields fell in the countries under stress, while gains on equity were also registered for the second consecutive quarter, as a result of the positive stock market sentiment during the first weeks of the year (see Chart G). Financial institutions continued to increase their capital by large amounts via equity issuance and retained earnings. However, the increase of 0.1 percentage point in the net assets-to-total assets ratio at market value, to 12.6%, observed in the quarter was due rather more to holding gains than to such capital accumulation, as

Chart G Other economic flows in financial corporations' assets

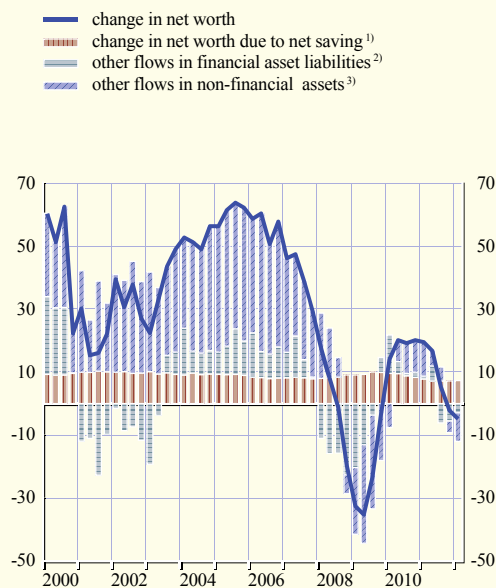
(quarterly flow; EUR billion)



Sources: Eurostat and ECB.
 Note: Total refers to "other economic flows", which mainly relate to (realised and unrealised) holding gains and losses (including loan write-offs).

Chart H Change in net worth of households

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



Sources: Eurostat and ECB.
 Note: data on nonfinancial assets are estimates by the ECB.
 1) This item comprises net saving, net capital transfers received and the discrepancy between the non-financial and the financial accounts.
 2) Mainly holding gains and losses on shares and other equity.
 3) Mainly holding gains and losses on real estate and land.

the aggregated balance sheet still increased faster than capital, largely as a result of the provision of financing via the three-year LTROs.

Household balance sheet dynamics

In the first quarter of 2012, the net worth of households decreased as a result of falling property prices. In four-quarter accumulated terms, the decrease equalled 4.9% of their gross disposable income (see Chart H), due to holding losses in net financial and non-financial assets, which more than outweighed net saving. The losses in non-financial assets were mainly caused by falling property prices over the last two quarters, whereas the losses in net financial assets were mostly related to the market downturn in the third quarter of 2011 (the latter being compensated for to some extent by holding gains as a result of increasing stock prices and falling interest rates in the first quarter of 2012). The household debt-to-assets ratio increased further to reach a historical peak of 14.5% as a result of decreases in the value of non-financial assets and relatively low savings.