

#### Box 4

### INTEGRATED EURO AREA ACCOUNTS FOR THE THIRD QUARTER OF 2012<sup>1</sup>

The integrated euro area accounts released on 29 January 2013, covering data up to the third quarter of 2012, offer comprehensive information on the income, spending, financing and portfolio decisions of institutional sectors in the euro area. The euro area external balance further improved (due mainly to dynamic net trade and net property income earned). Despite rebounding somewhat, the profit margins of non-financial corporations (NFCs) remained at low levels. Nonetheless, low net interest paid, together with stronger earnings abroad, contributed to NFCs' increasingly high savings. Cuts in fixed investment and destocking resulted in NFCs increasing further their net lending position, instead of returning to a more traditional net borrowing position. In contrast, households' saving ratio remained at record lows as consumers sought to cushion the impact on consumption of the sharp decline in real incomes, and government deficit reduction came to a standstill. From a balance sheet point of view, households' net wealth declined again, while NFCs' deleveraging resumed. Financial corporations' (FCs) capital ratios increased significantly in the quarter through recapitalisation, high retained earnings and holding gains.

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

### Euro area income and net lending/net borrowing

The annual growth rate of euro area nominal gross disposable income rebounded somewhat in the third quarter of 2012 (to 1.2%, following its abrupt deceleration to 0.5% in the previous quarter), notably owing to strong property income earned (foreign direct investment). This rebound in disposable income primarily benefited corporates but also households (see Chart A).

With euro area consumption growing less rapidly than income, overall euro area gross saving expanded year on year. Retained earnings (i.e. savings) of both NFCs and FCs increased year on year. In contrast, households kept their saving ratio at a historical low and governments reduced dissaving only moderately. Euro area fixed capital formation declined by 3.7% year on year in the third quarter of 2012. The decline was broad-based, particularly for government and FCs. Fixed investment by households and NFCs declined by 2.3% and 3.9% respectively. The destocking of inventories continued in the third quarter (5 billion euro per quarter, seasonally adjusted), compared with restocking a year earlier. As a result, gross capital formation fell more markedly in year-on-year terms than gross fixed capital formation.

As euro area savings increased and gross capital formation decreased, the net lending position of the euro area further improved, accounted for by an increasing current account surplus (owing to net trade and earnings on foreign direct investment), to 1% of GDP on a four-quarter sum basis (up from 0.4% in the second quarter). From a sectoral viewpoint, this improvement mostly reflects increased net lending by FCs and NFCs. The reduction of government deficits stalled (on a four-quarter sum basis), while households' net lending was stable (Chart B). On the

**Chart A Gross disposable income in the euro area – contribution by sector**

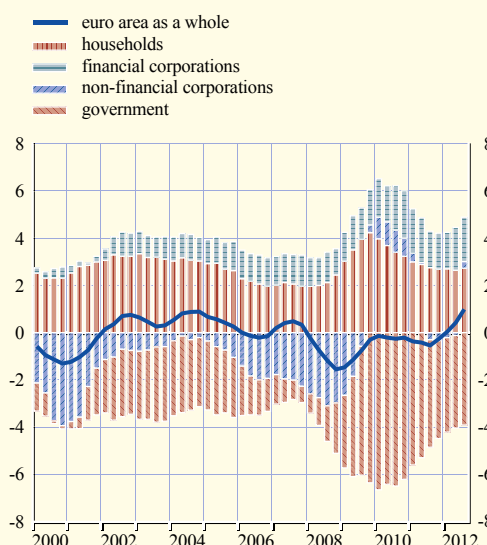
(annual percentage changes; percentage point contributions)



Sources: Eurostat and ECB.

**Chart B Net lending/net borrowing of the euro area**

(percentages of GDP; four-quarter moving sums)



Sources: Eurostat and ECB.

financing side, cross-border flows tended to be subdued, although non-residents were large investors in euro area government debt securities in the third quarter of 2012.

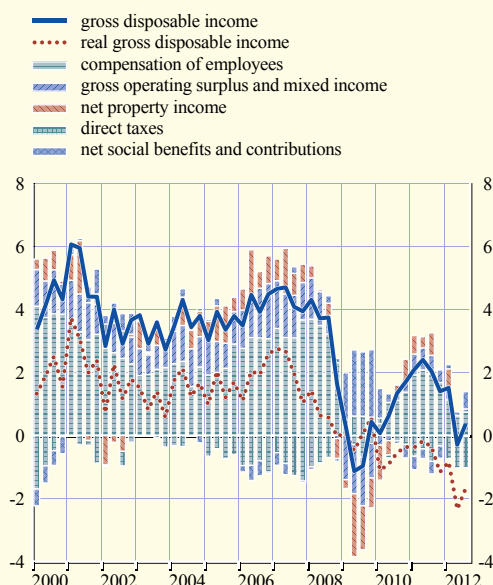
### Behaviour of institutional sectors

Households' nominal income increased slightly year on year (0.4% in the third quarter of 2012, after -0.3% in the second quarter), a rebound driven by a reduction in fiscal drag (household net transfers vis-à-vis government), owing to higher social benefits. Growth in compensation of employees remained subdued, while property income paid and earned declined (see Chart C). Households' income declined markedly again in real terms, by -1.6% year on year. To cushion the adverse impact on consumption, households continued tapping into their savings. The saving ratio remained at record lows in the third quarter (13%, on a seasonally adjusted basis) (see Chart D). Housing investment contracted on a year-on-year basis and, accordingly, households' net lending increased somewhat year on year. Growth in both financing and financial assets continued to edge down, with ongoing portfolio shifts away from insurance technical reserves and into bank deposits. Households' net wealth fell significantly year on year, since their holding losses on housing exceeded their net saving and gains on equity (see Chart G). Hence, leverage ratios (debt to assets) increased further.

The year-on-year fall in the gross operating surplus of NFCs (wages still growing faster than value added) slowed somewhat in the third quarter and NFCs' seasonally adjusted profit margins rebounded from low levels. Nonetheless, savings (i.e. retained earnings) increased year on year, owing to lower net interest paid, subdued taxes reflecting weak activity and strong earnings

**Chart C Households' nominal gross disposable income**

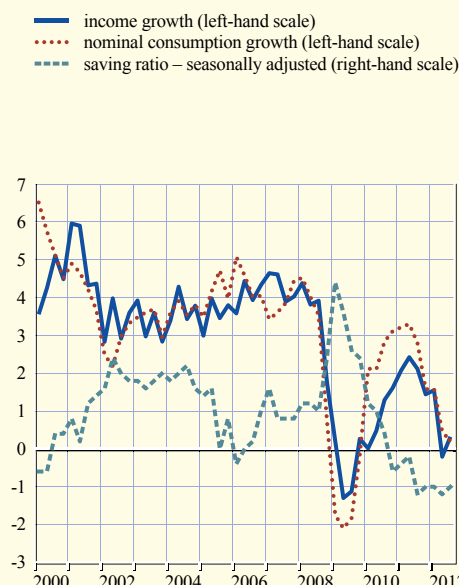
(annual percentage changes; percentage point contributions)



Sources: Eurostat and ECB.

**Chart D Households' income, consumption and saving ratio**

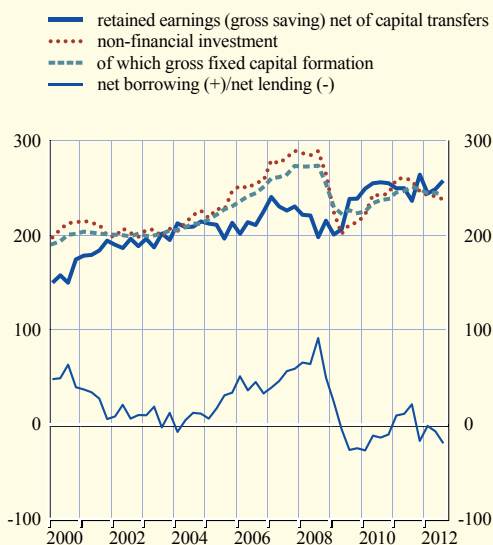
(annual percentage changes; percentage of gross disposable income, four-quarter moving sum)



Sources: Eurostat and ECB.

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

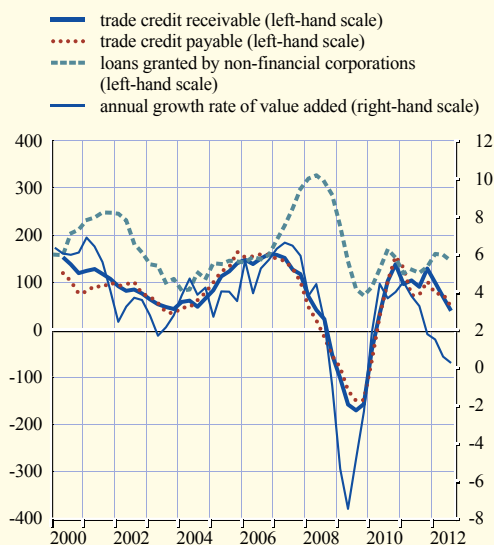
(EUR billions, seasonally adjusted)



Sources: Eurostat and ECB.  
Note: Seasonal adjustment by the ECB.

**Chart F Loans granted by non-financial corporations and their trade credit receivables and payables**

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



Sources: Eurostat and ECB.  
Note: Trade credit receivable and payable are estimated by the ECB, on the basis of partial information.

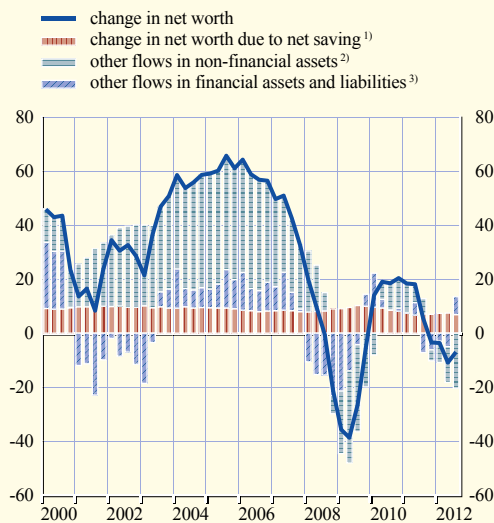
on foreign direct investment. Given that fixed capital expenditure fell again markedly and that destocking continued, NFC's unusual net lending position increased further (see Chart E). NFCs' financing favoured bond issuance (€95 billion over the last three quarters), substituting for bank loans (contracting by €40 billion). Moreover, intra-sector lending (e.g. trade credits and loans granted by NFCs) remained resilient, again providing a buffer against bank financing constraints, particularly in the case of small and medium-sized enterprises (see Chart F). NFCs continued adding to their ample liquidity buffers (€2.8 trillion) and resumed deleveraging, helped also by the favourable impact of higher equity prices.

The reduction in the government deficit came to a halt, standing at 3.9% of GDP on a four-quarter sum basis in the third quarter of 2012, owing to higher net capital transfers paid, to declining government revenue growth in a contracting economy (except for strong tax receipts from households) and to an uptick in social benefits. Growth in total expenditure remained contained overall, below 1% year on year in nominal terms (excluding capital transfers), reflecting ongoing consolidation measures (e.g. the stagnant compensation of employees). In addition to covering the deficit, debt issuance funded significant increases in financial assets. Debt securities issued were absorbed by non-resident investors and banks.

The retained earnings (i.e. disposable income) of FCs increased further, as strong net dividends earned more than compensated for falling value added and net interest earned. With sizeable net retained earnings (€40 billion in the third quarter of 2012), continued equity issuance and holding gains on assets, FCs' net assets at market value (a euro area accounts measure of capital ratio) rose strongly (see Chart H). In a context of continued deleveraging pressures, additions to FCs' balance sheets remained subdued on a consolidated basis.

**Chart G Change in the net worth of households**

(four-quarter moving sums; percentages of gross disposable income)



Sources: Eurostat and ECB.

Notes: Data on non-financial assets are estimates by the ECB.

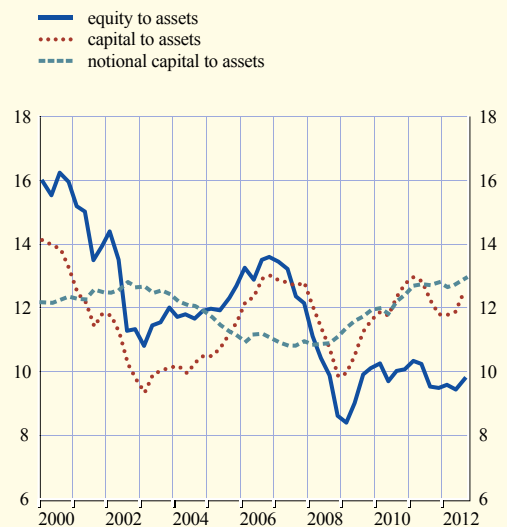
1) This item comprises net saving, net capital transfers received and the discrepancy between the non-financial and the financial accounts.

2) Mainly holding gains and losses on real estate and land.

3) Mainly holding gains and losses on shares and other equity.

**Chart H Capital ratios of financial institutions excluding mutual funds**

(percentage of total assets)



Sources: ECB.

Note: "Equity" comprises here shares and other equity other than mutual fund shares. "Capital" is defined as the difference between financial assets and liabilities other than equity. All assets and liabilities are valued at market value. The "notional capital to assets" ratio is calculated on the basis of cumulated transactions in capital and assets, i.e. excluding changes in prices of assets and liabilities.

### Balance sheet dynamics

In the third quarter of 2012, the net worth of households again fell markedly year on year by the equivalent of 7% of income (as opposed to increases in 2010, when it had peaked at 20.4% in the fourth quarter). The positive impact of net saving (6.9% of income) and holding gains on their financial asset portfolio (6.6% of income) was more than compensated for by holding losses on non-financial assets (housing), which amounted to 20.4% of income (see Chart G).

Financial corporations posted significant holding gains on their financial assets in the third quarter of 2012, with holding gains both on equity held (quoted shares, unquoted shares and mutual funds, in a context of recovering stockmarkets) and on debt securities held (as bond yields fell). This contributed to the strong increase in the FCs' capital ratio as measured in the national accounts (net assets at market value) (see Chart H).