

Box 3

INTEGRATED EURO AREA ACCOUNTS FOR THE FOURTH QUARTER OF 2013¹

The integrated euro area accounts, released on 30 April 2014 and covering data up to the fourth quarter of 2013, offer comprehensive information on the income, spending, financing and portfolio decisions of institutional sectors in the euro area. The euro area external surplus reached a new historical high in the fourth quarter of 2013, reflecting weak internal demand and an overall improvement in domestic sector balances, in particular a reduction in the government deficit. Household nominal income growth recovered further which, in a context of weak price dynamics, also resulted in higher real income. Households increased both consumption and saving, with their saving rate increasing marginally from record lows. The decline in housing investment continued to slow down. Non-financial corporations (NFCs) continued to show a net lending position, since the growth in fixed capital expenditure, which returned to positive territory for the first time since early 2012, was more than offset by a further increase in retained earnings and some destocking. Business margins remained at very low levels. The government deficit declined to 3.0% of GDP from 3.5% in the previous quarter, mainly reflecting the dropping out of capital transfers to banks. Regarding developments in indebtedness, gross debt-to-GDP

¹ Detailed data can be found on the ECB's website (available at <http://sdw.ecb.europa.eu/reports.do?node=1000002343>).

ratios remained at high levels for all euro area sectors, albeit continuing to decline slightly across all private sectors. The financial situation was more favourable according to leverage measures, such as debt-to-assets, capital and net wealth ratios. The debt-to-assets ratio of NFCs continued to decline in the fourth quarter owing to continued net redemptions in corporate loans and holding gains on equity. Financial corporations' capital ratios increased further to high levels. Households' net wealth rose again in year-on-year terms, as net savings and equity gains more than offset the negative impact of falling house prices on wealth. The net external asset position of the euro area continued to improve moderately.

Euro area income and net lending/net borrowing

In the fourth quarter of 2013 the annual growth rate in nominal gross disposable income in the euro area increased anew (to 1.6%, year on year), reflecting the recovery in real GDP growth. This acceleration benefited primarily households' income (see Chart A).

With euro area income growing slightly faster than consumption, euro area gross savings growth accelerated in the fourth quarter of 2013. The household saving ratio rose marginally from a historical low, and NFCs increased their retained earnings. The growth of government sector savings became slightly less negative (on a four-quarter-sum basis). Euro area fixed capital formation stabilised. This reflected a reduction in the pace of the contraction in household fixed investment (to -1.0%) and a return to moderate growth in NFC investment (1.5%) and government investment (0.4%) while the decline in financial corporations' investment accelerated (-17.7%). The small degree of restocking observed in the third quarter turned into moderate destocking in the fourth quarter, implying a negative contribution of inventories to nominal growth.

Chart A Gross disposable income in the euro area and contributions by sector

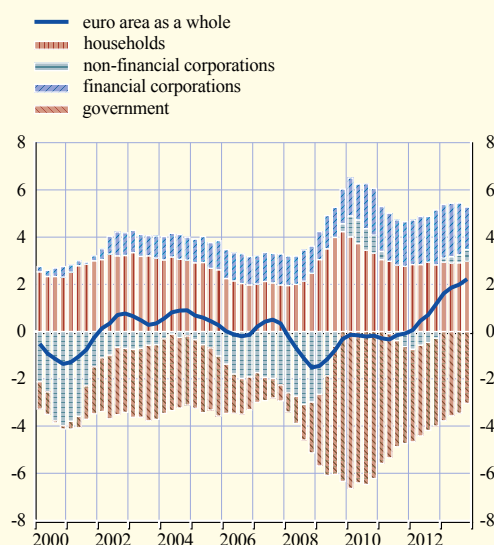
(annual percentage changes; percentage point contributions)



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.

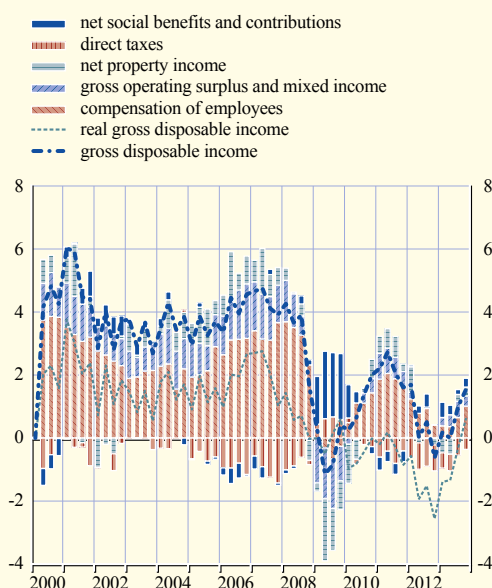
With euro area capital formation remaining unchanged and savings increasing significantly, euro area net lending increased further in the fourth quarter, to 2.2% of GDP on a four-quarter-sum basis, the highest level since the euro was launched. From a sectoral perspective, this improvement was mostly driven by a decline in the government deficit (see Chart B). NFCs continued to show a net lending position. The government deficit declined to 3.0% of GDP (on a four-quarter moving sum basis), mainly reflecting lower capital transfers to banks, which in turn reduced the net lending position of financial corporations. On the financing side, the continued acquisition by non-residents of debt securities and equity issued by euro area residents is indicative of improving sentiment of international investors towards the euro area.

Behaviour of institutional sectors

Households' nominal income growth continued to accelerate in the fourth quarter of 2013 (1.5%, year on year, after 1.0% in the third quarter) as a result of higher positive contributions from compensation of employees and property income, as well as a smaller negative contribution from direct taxes paid and net social benefits received (see Chart C). In a context of weak price dynamics, real income returned to positive growth for the first time since early 2010. With nominal consumption growing at a somewhat slower pace than income, the household saving ratio increased marginally from its record low level to 13.1% in seasonally adjusted terms in the fourth quarter (see Chart D). The pace of the contraction in housing investment moderated again, resulting in an increase, on a four-quarter-sum basis, in households' net lending. Growth in household financing remained at very low levels, as borrowing from banks remained weak. On the assets side, households continued to allocate savings to life insurance and pension products and, to a lesser extent,

Chart C Households' nominal gross disposable income

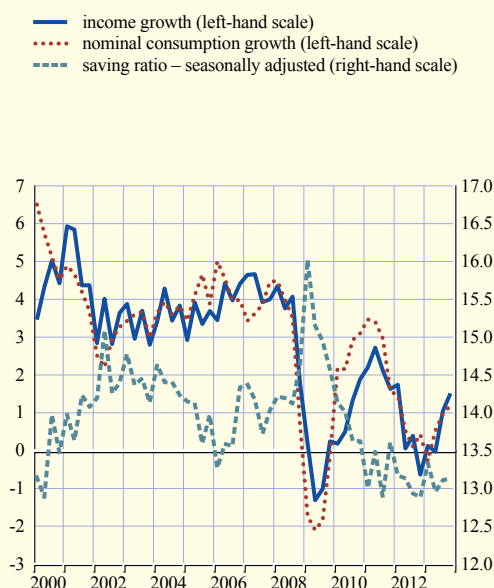
(annual percentage changes; percentage point contributions)



Sources: Eurostat and ECB.

Chart D Households' income, consumption and saving ratio

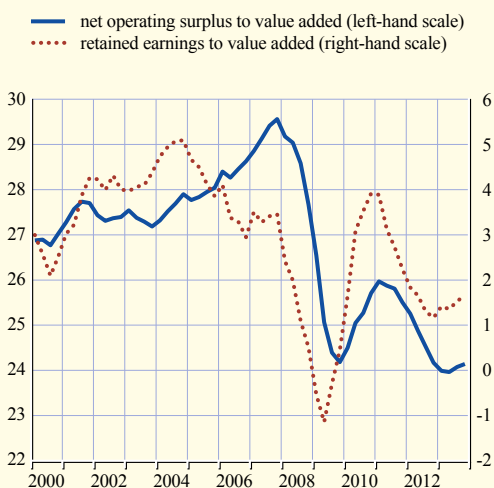
(annual percentage changes; percentages of gross disposable income, seasonally adjusted)



Sources: Eurostat and ECB.

Chart E Non-financial corporations' margins

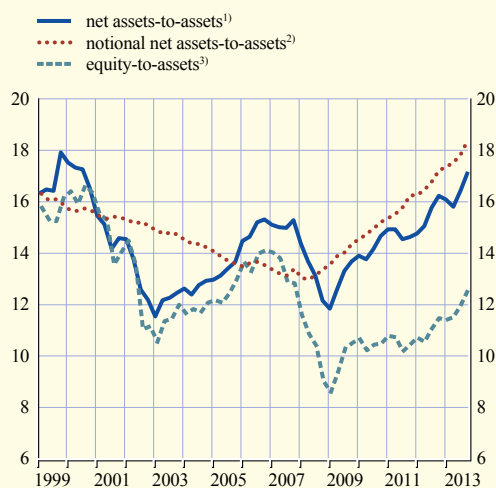
(percentages, four-quarter moving averages)



Sources: Eurostat and ECB.

Chart F Capital ratios of financial institutions excluding mutual funds

(percentages of total assets)



Sources: Eurostat and ECB.

1) Assets and liabilities are valued at market value to calculate the ratio of net assets to assets.

2) The ratio of "notional net assets to assets" is calculated on the basis of cumulated transactions in net assets and assets, i.e. excluding holding gains/losses on (changes in prices of) assets and liabilities.

3) "Equity" comprises here "shares and other equity" other than "mutual fund shares". Interbank deposits and Eurosystem financing are netted out from assets and liabilities in the chart.

to deposits, mutual fund shares, unquoted shares and other assets, away from debt securities and quoted shares. The household debt ratio declined, as did the leverage ratio, as net wealth increased further year on year, reflecting higher net savings and gains on equity holdings that together exceeded holding losses on housing (see Chart H).

The growth of the gross operating surplus of NFCs increased further in the fourth quarter, to 2.7% year on year, as the recovery of value added outpaced that of wages. Business margins, as measured by the net operating surplus (i.e. net of consumption of fixed capital)² in terms of value added, rose slightly from the very low level reached in the first quarter of 2013 (see Chart E). At the same time, a number of factors, including low (and falling) net interest paid and relatively low net dividends paid, continued to push up NFC savings (retained earnings). Fixed capital expenditure growth returned to positive territory in the fourth quarter of 2013 for the first time since early 2012, at 1.5% year on year. At the same time, as a further increase in retained earnings and some destocking more than offset the increase in fixed capital formation, NFCs increased their net lending position somewhat further (see Chart B). Substituting for contracting bank lending (which fell by €126 billion over four quarters, in net terms), NFCs continued to tap the bond market (€83 billion) and the stock market (€30 billion) for financing. Loans from other financial corporations moderated strongly (to €36 billion in the fourth quarter

2 When measuring firms' profitability on the basis of the national accounts data, the focus should be on the net operating surplus, rather than on the gross operating surplus, because consumption of fixed capital (i.e. the amortisation of plant and equipment over several years) should be excluded. Given that consumption of fixed capital represents a fixed cost of business, it tends to move exogenously and steadily throughout the business cycle. As a result, a measure of net profit tends to be more sensitive to the business cycle than a measure of gross profits.

Chart G Sectoral leverage

(percentages of assets)

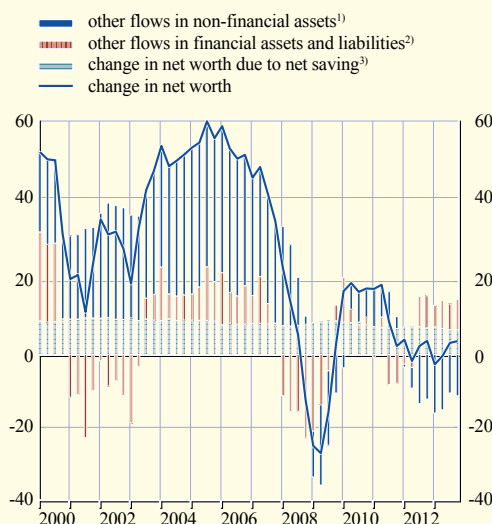


Sources: Eurostat and ECB.

Notes: Calculated as a ratio of total debt liabilities to total assets. Total assets comprise all financial assets and most non-financial assets.

Chart H 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) Mainly holding gains and losses on real estate (including land).
 2) Mainly holding gains and losses on shares and other equity.
 3) This item comprises net saving, net capital transfers received and the discrepancy between the non-financial and the financial accounts.

of 2013 from €113 billion in the third quarter), reflecting a base effect (the dropping out of one-off operations in Spain conducted in the fourth quarter of 2012 from the calculation of annual flows) and possibly weaker corporate bond issuance via NFC conduits resident in some countries. Loans from foreign entities increased strongly in the fourth quarter of 2013 (inflow of €46 billion). Intra-sector lending, comprising loans extended by other NFCs and the bulk of trade credits (which are important for small and medium-sized enterprises that face bank financing constraints), remained subdued in the fourth quarter. NFCs continued to build up their liquidity buffers (which stood at €2.9 trillion). The significant deleveraging process continued, helped by contracting bank loans and valuation gains on equity held by NFCs (see Chart G).

The government deficit declined in the fourth quarter of 2013 to 3.0% of GDP on a four-quarter-sum basis, mainly reflecting lower capital transfers to banks (which had been particularly large in Spain in the fourth quarter of 2012). Growth in receipts moderated but remained positive at 1.7%. Excluding capital transfers to banks, government expenditure grew by 0.7%. Final consumption expenditure grew by 1.5% and investment expenditure edged up slightly after four years of continuous decline. Growth in debt issuance moderated for the fourth consecutive quarter.

In the fourth quarter of 2013 the gross entrepreneurial income of financial corporations recorded positive annual growth (1.8%) for the first time since end-2011, notwithstanding a deceleration in value added growth and operating surplus growth. This improvement was attributable to a smaller contraction of net interest earned and a robust increase in dividends received. Nevertheless, the high net lending position of financial corporations moderated on a four-quarter-

sum basis, reflecting base effects related to the dropping out of large capital transfers received from government in the fourth quarter of 2012. Financial corporations' capital ratios increased substantially further in the fourth quarter of 2013 to stand at elevated levels (see Chart F). These improvements reflect holding gains on securities; sizeable, though decreasing, net retained earnings; and ongoing robust deleveraging dynamics. At the same time, transactions resulting from a large multinational corporate restructuring led to a strong issuance of unquoted equity (€150 billion), representing almost half of the increase in the net assets-to-assets ratio in the fourth quarter (0.3 percentage point of the 0.7 percentage point increase). The market value of financial corporations' net assets increased more than their stock market value. The stock market valuation of the sector remains significantly below the market value of net assets, reflecting continued market distrust. Financial corporations' financial investment growth decelerated further in the fourth quarter of 2013, reaching a new record low on a consolidated basis.

Balance sheet dynamics

As regards developments in indebtedness, gross debt-to-GDP ratios continued to fall albeit very slowly across the private sectors (NFCs, financial corporations and households) in the fourth quarter of 2013, but remained at high levels. By contrast, government indebtedness increased slightly from the previous quarter. The picture is more favourable, however, when leverage measures, such as debt-to-assets and net wealth ratios, are considered. Debt-to-assets ratios (including non-financial assets) fell again in the private sectors, although the pace varied between the sectors. Government sector leverage increased marginally. The international investment position (i.i.p.)³ of the euro area showed a further moderate improvement, to -18.3% of GDP, after -18.7% in the preceding four-quarter period, on account of the positive net lending position which more than offset the valuation losses from the appreciation of the euro.

The debt-to-assets ratio of NFCs continued to decline in the fourth quarter of 2013, owing to net redemptions in corporate loans and holding gains on equity (see Chart G). Households' leverage edged further down from high levels, as the net wealth of households continued to rebound, increasing year on year by the equivalent of 3.7% of their income. The positive impact of net savings (6.8% of households' annual income in 2013) and holding gains (over one year) on their financial portfolios (8.3% of income) more than compensated for the significant holding losses on non-financial assets (on housing: -11.3% of income) (see Chart H). Financial corporations' capital ratios increased again in the fourth quarter to stand at high levels (see Chart F).

³ The i.i.p. measures the net asset position of euro area residents vis-à-vis non-residents, as measured by assets net of liabilities (including equity).