INTEGRATED FINANCIAL AND NON-FINANCIAL ACCOUNTS FOR THE INSTITUTIONAL SECTORS IN THE EURO AREA

In May 2006 the ECB published for the first time a set of annual integrated non-financial and financial accounts, including financial balance sheets, for the institutional sectors of the euro area.[1] *Such comprehensive data on the different non-financial and financial activities of euro area households, non-financial corporations, financial corporations and government are important for a number of analyses, for instance with regard to the monetary transmission mechanism. This article explains the concept and methodologies underlying the new data set and highlights a few results for households and non-financial corporations.*

1 INTRODUCTION

Detailed and consistent statistics relating to the activities and balance sheet positions of the different institutional sectors of the economy are important for the economic and monetary analyses of the European Central Bank (ECB). One prominent example is the analysis of the complex chain of causes and effects along what is known as the monetary transmission mechanism, which tends to be more comprehensible when referring to activities of entities such as households or corporations.

Compared to previous official statistics for the euro area, the newly compiled, comprehensive and consistent set of non-financial and financial accounts by institutional sector, henceforth referred to as the "euro area accounts", increases the number of breakdowns of non-financial and financial activities by institutional sector, and provides a level of detail similar to the official statistics of other major economic areas.[2] In addition, the statistical methodology adopted in the compilation of the new set of accounts guarantees consistency between the accounts of the various sectors. These enhancements thus contribute to closing a gap in the economic and financial statistics for the euro area which underpin the ECB's monetary policy. The compilation of the euro area accounts is a joint project of the ECB and the European Commission (Eurostat), in close cooperation with the national central banks and the national statistical institutes of the European Union. For the time being, the euro area accounts are available on an annual basis for 1999-2004, but, from spring 2007 onwards, they will be followed by the regular publication of quarterly data.

This article sets out the main features of the euro area accounts. It starts by explaining the components of the integrated euro area accounts and the underlying concepts. It then presents the characteristics of the euro area as a whole, as well as specific features of the household and non-financial corporation sectors as the main institutional sectors. Subsequently, an analysis is made of some of the more important developments in recent years, with a particular focus on households and non-financial corporations.

2 MAIN FEATURES AND CONCEPTS OF THE EURO AREA ACCOUNTS

The euro area accounts enable the analysis of economic developments in the different institutional sectors (households, corporations and government) of the euro area, their interrelationships, and their relationships with the rest of the world. Macroeconomic developments, such as economic growth and inflation, are driven by the actions of the individual agents in an economy, while the economic behaviour of these agents varies quite substantially, depending on the institutional sector to which they belong. The newly compiled

1 See the press release of 31 May 2006 – First release of euro area accounts for institutional sectors (1999-2004) – and the joint ECB and Eurostat background note entitled "Euro area and European Union accounts for institutional sectors", which includes a comprehensive set of tables using both a cross-sectoral and a time-series presentation (http.www.ecb.int).

2 The usefulness of a sectoral perspective in economic and monetary analyses has been highlighted in a number of articles in the ECB's Monthly Bulletin. See, for instance, the article in the August 2002 Bulletin entitled "Saving, financing and investment in the euro area" and the article in the August 2006 Bulletin entitled "Sectoral money holdings: Determinants and recent developments".

euro area accounts present a complete, consistent set of economic indicators for all of these sectors. They also establish, for the first time, consistency between financial and non-financial statistics, thereby allowing an integrated analysis of non-financial economic activities (such as consumption and gross fixed capital formation) and financial transactions (such as the issuance of debt securities and investment abroad). Finally, the accounts also contain consistent financial balance sheets, with the result that annual changes in the financial wealth of each euro area sector can now be investigated in depth.

The euro area accounts are generally presented on a non-consolidated basis. This means, for example, that a government unit's holdings of debt securities issued by another government unit of the same Member State are not netted out when compiling the financial balance sheet for the government sector. Transfers between government units are not removed in the non-financial accounts either.[3] The sequence of interlinked euro area accounts has been compiled in accordance with the methodology of the European System of Accounts 1995.

2.1 INSTITUTIONAL SECTORS

Each institutional sector brings together institutional units with a broadly similar behaviour: financial corporations, non-financial corporations, general government, households and non-profit institutions serving households (NPISHs). Transactions with non-residents and the financial claims of residents on non-residents, or vice versa, are recorded in the "rest of the world" account. The sector accounts thus show the interactions among the different sectors of the euro area economy and between the euro area economy and the rest of the world.[4]

The household sector comprises all households, as consumers of goods and services, as well as resident unincorporated enterprises, with the latter category covering sole proprietorships and most partnerships that do not have an independent legal status. The household sector therefore also generates output and entrepreneurial income. In the euro area accounts, NPISHs (charitable organisations, trade unions, etc.) are grouped together with households, and their economic weight is relatively limited. The non-financial corporation sector comprises all private and public corporate enterprises that produce goods for and provide non-financial services to the market. Accordingly, the general government sector excludes such public enterprises and comprises central, state (regional) and local government and social security funds. Thus the general government sector differs from what is generally referred to as the public sector.

For the first time, a complete and consistent rest of the world account for the euro area has been compiled. This means that cross-border transactions and financial claims between euro area Member States have been removed from the euro area rest of the world account and that, in this process, the asymmetries in the bilateral trade statistics have been eliminated.[5] Consequently, imports and exports are much smaller than they would have been if simple aggregation of the national data had been used, given that about one-half of the external trade of the individual Member States is within the euro area.

2.2 FROM PRODUCTION TO BORROWING AND LENDING

Euro area accounts record, in principle, every transaction between economic agents during a certain period and show the opening and closing stocks of financial assets and liabilities in financial balance sheets. These transactions are grouped into a sequence of accounts, each of which covers a specific economic process,

3 This treatment differs from the government finance statistics shown in Tables 6.1, 6.2 and 6.3 of the "Euro area statistics" section of the Monthly Bulletin, since these data are presented on a consolidated basis.
4 This means that the euro area accounts incorporate (a slight transformation of) the euro area balance of payments and international investment position statistics.
5 As a result, there has been a very small downward adjustment (by less than 1%) of nominal euro area GDP.

ranging from production, income generation and income (re)distribution, through the use of income for consumption and investment, to financial transactions such as borrowing and lending. Each transaction is recorded as an increase in the "resources" of a certain sector and an increase in the "uses" of another sector. For instance, the resources side of the "interest" transaction category records the amounts of interest receivable by the different sectors of the economy, whereas the uses side shows interest payable. For each type of transaction, total resources of all sectors and the rest of the world equals total uses.[6] Each account leads to a meaningful balancing item, the value of which equals total resources minus total uses or total changes in financial assets minus total changes in liabilities. Typically, such balancing items, such as GDP or saving, are important economic indicators. They are carried over to the next account. Table 3 at the end of this article shows an abbreviated presentation of the euro area accounts.

The production account, for example, records the output of goods and services as its main resource, to which taxes less subsidies on products are added to obtain total resources. The main use in the production account is "intermediate consumption" – i.e. the consumption of goods and services within another production process. The difference between resources and uses is the balancing item "gross value added". This gross value added is then carried over as a resource into the next account, the distribution of income account, which yields "gross disposable income" as a balancing item. This conceptual and numerical interlinkage of the accounts ensures the consistent derivation of key economic indicators. The link between the non-financial accounts and the financial accounts is established by the balancing item "net lending/net borrowing", which can be derived both from the last of the non-financial accounts (capital account) and from the financial transactions account. "Net lending/net borrowing" is derived from the capital account by comparing "gross capital formation" (mainly investment in capital goods) plus the net acquisition of "non-produced, non-financial assets" (such as land or licences) with "gross saving" plus net "capital transfers". If saving plus net capital transfers received exceed non-financial investments, a sector has a surplus of funds and becomes a net lender to other sectors. In the financial transactions account, this means that the sector acquires more financial assets than liabilities.[7]

2.3 NET FINANCIAL WEALTH AND REVALUATIONS

The financial balance sheets show the financial position of the sectors, broken down into categories of financial assets and liabilities (such as deposits, loans and shares), and how that financial position has changed during the reference period. The financial assets and liabilities are valued at market prices. The financial balance sheets change as a result not only of the accumulated financial transactions but also of other changes in assets. Although the latter category mainly reflects revaluations due to changes in the market prices of financial instruments, it also covers other concepts, such as debt cancellations. The consistent derivation of holding gains and losses by holding sector and by financial instrument allows comprehensive analyses to be made, e.g. of the effects of these changes on the economic behaviour of households and non-financial corporations.

The external financial assets and liabilities account shows the financial position of the euro area vis-à-vis the rest of the world. Naturally,

6 For transactions in assets, such as the incurrence of loans or the purchase of shares, a distinction is made between "changes in liabilities" and "changes in assets", rather than between resources and uses. The rest-of-the-world account views cross-border transactions and positions from the perspective of the rest of the world. It therefore follows that euro area imports are recorded as resources and exports as uses.

7 The euro area financial and non-financial accounts and balance sheets have been compiled in a single process. Concomitantly, full consistency between the financial and non-financial accounts has been achieved for the government and financial corporation sectors and for the rest of the world (so there is no category "errors and omissions"). There are still discrepancies, equal in amount but opposite in sign, for the household and non-financial corporation sectors, but these are relatively small compared to a simple aggregation of the non-integrated national non-financial and financial accounts data.

price changes resulting from exchange rate developments largely determine the other changes in the rest of the world account.

3 CONTRIBUTIONS OF SECTORS TO MACROECONOMIC AGGREGATES

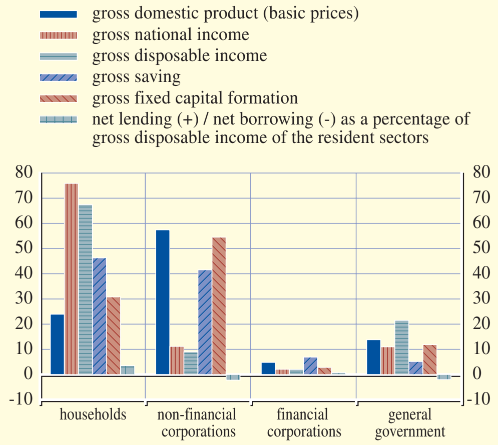
The euro area accounts comprise key economic indicators, both for the various sectors and for the euro area economy as a whole. This section presents some of the salient economic characteristics of the individual sectors in the euro area and their contribution to the development of important macroeconomic aggregates.

Most value added in the euro area (on average 58% in the period 1999-2004) is created in non-financial corporations, while slightly less than one-quarter is generated by household production activities in unincorporated enterprises and from owner-occupied dwellings (see Chart 1). General government accounts for slightly more than 10%. Most value added created in the corporate and government sectors is passed on to households in the form of wages or salaries and employers' social contributions. The vast majority of gross national income thus accrues to the household sector. Subsequently, it is somewhat reduced through the redistribution of income by means of taxes, net social insurance payments and other transfers, which are largely paid to the government (cf. the distribution of gross national income and gross disposable income in Chart 1).

Disposable income is available for consumption or saving. Over the period under review, non-financial investment by non-financial corporations exceeded saving (plus net capital transfers received), meaning that this sector was a net borrower. The general government sector also had a deficit, by contrast with households, whose saving largely exceeded their non-financial investments (e.g. in new housing and in unincorporated enterprises), although their fixed capital formation still

Chart 1 Share of resident sectors in key economic aggregates in the euro area 1999-2004

(period average; as a percentage of the total, unless specified otherwise)



Sources: ECB and Eurostat.

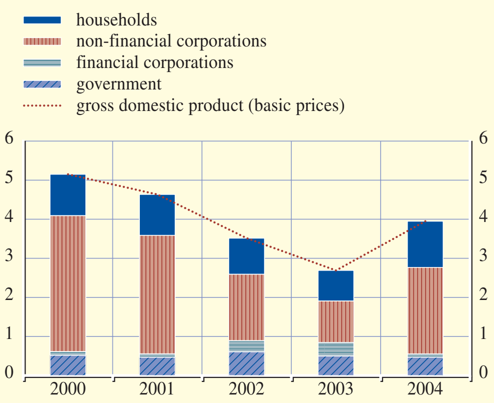
comprised more than 30% of the euro area total. Households thus provided financing to the other resident sectors and to the rest of the world, mostly through financial corporations. These institutions mainly act as financial intermediaries and typically also have a (relatively small) financial surplus.

The net lending and net borrowing of the resident sectors largely offset each other, which means that the euro area economy finances most of its (non-financial) investments through domestic savings. On balance, the euro area was a modest net borrower from 1999 to 2001 and a net lender from 2002 to 2004. The financial transactions account of the rest of the world shows these developments broken down by financial instrument.

Turning to the contribution of the sectors to the development of key macroeconomic aggregates, Charts 2 and 3 show the contribution of each sector to the annual nominal growth rates of euro area GDP and gross capital formation from 2000 to 2004 respectively. From Chart 2 it is clear that the fluctuations in the GDP growth rates predominantly stem from changes in the contribution of non-financial corporations. The

Chart 2 Contributions of sectors to the nominal growth rate of euro area GDP

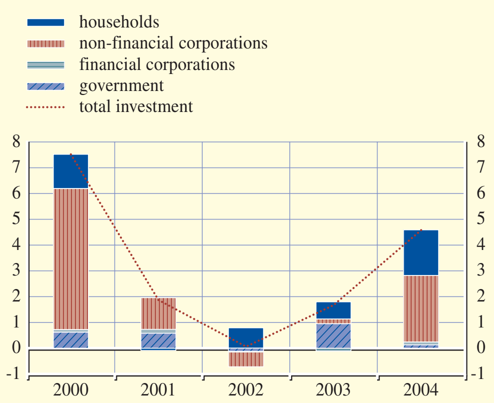
(annual growth rate and percentage point contributions)



Sources: ECB and Eurostat.

Chart 3 Contributions of sectors to the nominal growth rate of gross fixed capital formation in the euro area

(annual growth rate and percentage point contributions)



Sources: ECB and Eurostat.

contribution to growth of value added generated in the household sector is more stable.

As expected, the growth of capital formation (in current prices) is fairly volatile. In the period 2000-02 it fell to zero, before subsequently increasing again (see Chart 3). The fluctuations in investment by non-financial corporations were even larger. The contribution by the household sector was relatively large in 2004.

4 ANALYSIS OF SECTOR ACCOUNTS FOR HOUSEHOLDS AND NON-FINANCIAL CORPORATIONS BETWEEN 1999 AND 2004

This section discusses the main features of the non-financial and financial accounts of households and non-financial corporations. To a large degree, interactions between these two sectors determine overall economic developments.

4.1 HOUSEHOLDS

As shown in Table 1, compensation of employees is the most important component of households' gross disposable income, with an average share of 74% in the period 1999-2004. Mixed income accruing to self-employed households and gross operating surplus from owner-occupied dwellings accounted for 24%, while net property income represented 16%. A large component of property income receivable is interest income on deposits and debt securities held by households, which clearly exceeds the interest payable by households on loans; net interest receipts amounted, on average, to 2% of gross disposable income in the period 1999-2004. Since direct taxes and social contributions collected by the government exceeded the various transfers to households over this period, the net effect of these redistribution transactions on household disposable income has been negative, amounting on average to -13% of gross disposable income.

The annual growth rate of nominal gross disposable income increased in 2004, after declining substantially over the previous three years (see Chart 4). The increase in 2004 was largely related to a higher contribution of mixed income and operating surplus, while the preceding decline in income growth had largely been due to lower growth in the compensation of employees. The redistribution transactions had only a limited impact on the pattern of income growth in the years under review.

Table 1 Households: from primary income to financial transactions

(EUR billions, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004	1999-2004 % of GDI[1)2)]
Compensation of employees	3,128	3,294	3,443	3,559	3,648	3,747	74
+ Gross mixed income + gross operating surplus	1,012	1,056	1,111	1,155	1,191	1,254	24
+ Property income (receivable – payable)	687	732	760	737	744	762	16
of which: Interest (receivable – payable)	126	129	128	108	106	99	2
Primary income	**4,828**	**5,082**	**5,314**	**5,450**	**5,583**	**5,762**	**113**
- Current taxes on income, wealth, etc.	634	672	687	697	700	708	15
- Social contributions (payable – receivable)	1,194	1,247	1,289	1,334	1,386	1,428	28
+ Social benefits other than social transfers in kind (receivable – payable)	1,181	1,217	1,271	1,342	1,395	1,438	28
+ Other current transfers (receivable – payable)	49	54	58	64	67	64	1
Gross disposable income	**4,230**	**4,436**	**4,668**	**4,824**	**4,959**	**5,129**	**100**
+ Adjustment for the change in net equity of households in pension funds reserves	45	46	49	51	56	61	1
- Final consumption expenditure	3,666	3,870	4,040	4,156	4,279	4,428	87
Gross saving	**609**	**612**	**676**	**719**	**736**	**762**	**15**
+ Capital transfers (receivable – payable)	25	26	18	7	13	16	0
- Gross capital formation	434	451	446	457	469	496	10
- Acquisition less disposal of non-financial non-produced assets	-2	-4	-3	-4	0	-2	0
Net lending (+) / net borrowing (-)	**202**	**191**	**251**	**272**	**281**	**283**	**5**
= Transactions in financial assets	511	462	485	491	517	578	11
- Transactions in liabilities	305	273	221	203	218	308	5
+ Statistical discrepancy	-4	2	-13	-17	-19	14	0

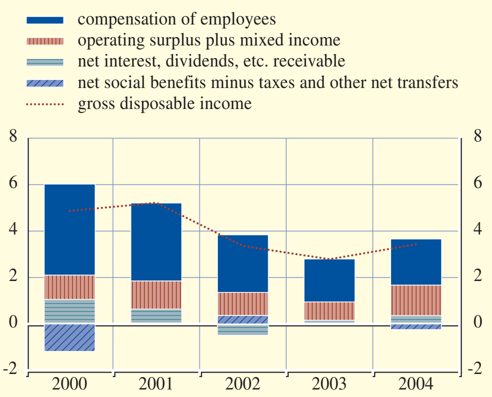
Sources: Eurostat and ECB.
1) Share of gross disposable income of households and NPISHs; average for 1999-2004.
2) Components may not add up due to rounding.

Gross disposable income may be either consumed or saved. Saving includes the change in households' net equity in pension fund reserves, which mainly reflects payments made by employers into pension schemes. This relatively small component (see Table 1) is obviously not available for immediate consumption. Euro area households' gross saving (as a ratio to household gross disposable income) declined in 2000, but subsequently increased and remained broadly stable at levels close to 15% during 2004 (see Chart 5). This pattern was influenced by a number of factors. For instance, as a result of the strong growth in labour income and the positive income expectations prevailing at the end of the 1990s, households may have absorbed the concomitant rise in tax and social contribution liabilities by lowering their saving ratio. Moreover, the increase in financial and non-financial wealth at the end of the 1990s, in a context of rising equity and house prices, may have increased households' propensity to consume, thus leading to a reduction in the saving rate. The return to a somewhat higher saving ratio in the period 2002-04 is likely to reflect both the protracted period of economic and financial uncertainty following the end of the "new economy" boom and concerns in a number of euro area countries related to the sustainability of social security systems.

Households invest their savings in either financial or non-financial assets; the latter type of investment mainly reflects the purchase of new housing and fixed investment by unincorporated enterprises. Households typically finance part of these investments by incurring debt in the form of loans. Through their decisions on saving, investment in assets and financing, households are able to transfer part of their income over time and thus to spread their spending over their life cycle. Households' net incurrence of debt as a proportion of their gross disposable income declined between 1999 and 2002, but rose again subsequently, to

Chart 4 Gross disposable income of households

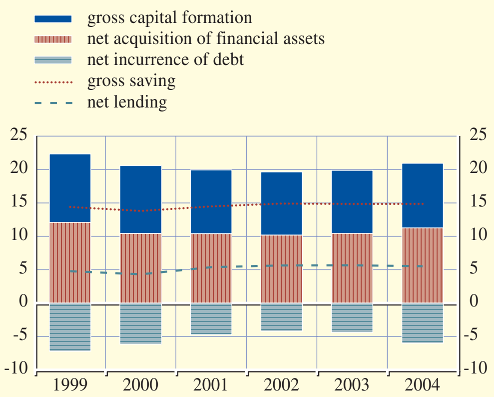
(annual growth rate and percentage point contributions)



Sources: ECB and Eurostat.

Chart 5 Saving, investment and lending of households

(as a percentage of gross disposable income)



Sources: ECB and Eurostat.

somewhat more than 5% in 2004. At the same time, households' gross capital formation remained robust over the whole period (accounting, on average, for 10% of gross disposable income), owing mainly to low mortgage interest rates and anticipated further rises in house prices. Through the incurrence of debt and the accumulation of financial and non-financial assets, households can accommodate changes in their incomes, whether expected (e.g. on retirement) or unexpected (e.g. on becoming unemployed). Between 1999 and 2004, euro area households' investment in assets amounted, on average, to somewhat more than 20% of their gross disposable income, with a slightly lower share in the case of non-financial assets than in the case of financial assets (see Chart 5).

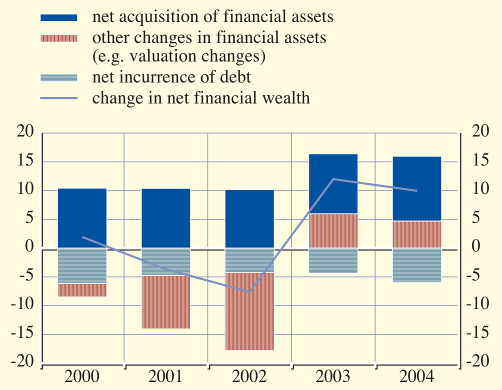
The net lending position of households was relatively stable over the period 1999-2004, at an average of 5% of their gross disposable income. This position of the household sector as a net lender has, in recent years, been compatible with an increase in the net incurrence of debt, because higher borrowing has been accompanied by a broadly similar increase in net financial investment. Of course, these general trends conceal varying developments within the household sector.

Looking at the information provided by the financial accounts, changes in the net financial wealth of households reflect the net acquisition of financial assets, changes in the prices of financial assets and borrowing net of repayments of outstanding debt. Chart 6 shows that the changes in net financial wealth of euro area households over the period 2000-04 are largely attributable to changes in the market prices of financial instruments (mainly shares and other equity), while the net acquisition of financial assets as a percentage of gross disposable income remained fairly stable. It is interesting to note that the incurrence of new debts decreased at the time of high economic and financial uncertainty (particularly in 2001 and 2002) and has subsequently increased again in an environment of low levels of interest rates.

Over the period under analysis, developments in households' financial investment can be divided in two episodes. In 1999 and 2000 households invested heavily in shares and mutual fund shares, in an environment of strong rises in equity prices. From 2001 onwards, households increased the proportion of their investment in currency and deposits, reflecting a general preference for safe and liquid assets. Investment in life insurance and pension funds is by nature more stable and represented almost

Chart 6 Changes in financial assets, debt and net financial wealth of households

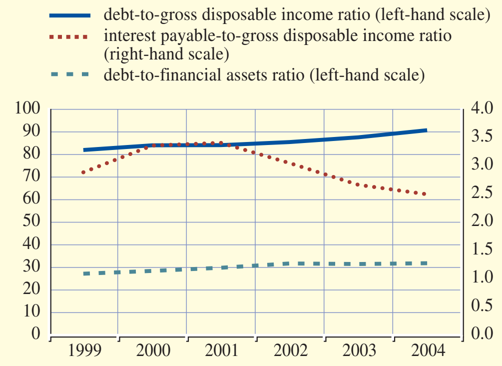
(as a percentage of gross disposable income)



Sources: ECB and Eurostat.

Chart 7 Debt of households

(percentages)



Sources: ECB and Eurostat.

40% of the total financial investment of households.

One development in the balance sheet position of the household sector that has received much attention in the period since the end of the 1990s, owing to its potential implications for the monetary policy transmission process, is the increase in household indebtedness. The expansionary financing behaviour of households, along with partly subdued income growth, has led to further rises in the sector's aggregate ratio of debt to gross disposable income. At the end of 2004, this ratio stood at a little over 90% (up from 82% in the late 1990s) (see Chart 7). At the same time, the debt-to-financial assets ratio also increased, from 27% in 1999 to 32% in 2004. The ratio of debt to total assets may have increased less strongly, as, in an environment of strong house price rises, households' non-financial wealth may have increased faster than their financial wealth. Another important factor in the assessment of this rising debt-to-income ratio is the development of interest payable by households. As interest rates have generally been declining since 2000, interest payable as a percentage of gross disposable income decreased over this period, despite the higher levels of outstanding debt.

4.2 NON-FINANCIAL CORPORATIONS

Entrepreneurial income is a core indicator for corporations.[8] It is an income concept that is comparable to current profits in business accounting (after net interest payments but before the payment of dividends and taxes). Table 2 shows that gross entrepreneurial income is derived as gross value added minus compensation of employees and taxes on production and imports, plus subsidies minus interest and rents payable, plus property income receivable from financial assets owned by non-financial corporations (including dividends and retained earnings from foreign direct investment).

The growth of the gross entrepreneurial income of euro area non-financial corporations increased in 2004, following decreases in the preceding years (see Chart 8). This pattern was due not only to developments in gross value added and the compensation of employees, but also to developments in non-financial corporations' property income receivable from financial assets – mainly dividends on their investments in other

8 Entrepreneurial income can be measured in net or gross terms. The latter includes consumption of fixed capital (depreciation).

Table 2 Non-financial corporations: from value added to entrepreneurial income

(EUR billions)

	1999	2000	2001	2002	2003	2004
Gross value added	3,247	3,449	3,642	3,751	3,817	3,962
- Compensation of employees	1,958	2,074	2,178	2,243	2,289	2,348
- Taxes on production and imports	100	103	105	107	108	115
+ Subsidies	51	49	50	50	50	51
Gross operating surplus	1,239	1,320	1,410	1,452	1,471	1,549
+ Property income receivable	211	300	331	308	295	315
- Interest payable	175	235	266	239	222	221
- Rent payable 1)	6	7	8	8	9	9
Gross entrepreneurial income	1,270	1,378	1,466	1,513	1,535	1,635
- Consumption of fixed capital	489	524	555	577	592	614
Net entrepreneurial income	780	854	912	936	943	1,021

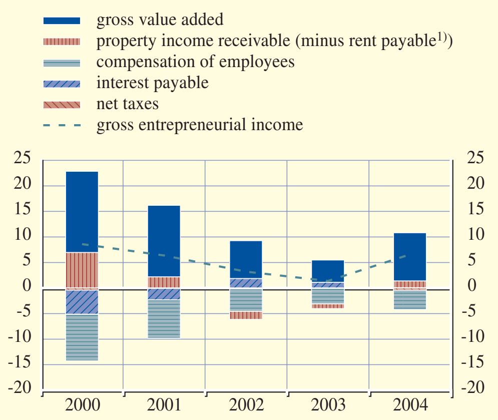
Sources: Eurostat and ECB.
1) On land, licences and other non-produced assets.

corporations. The fall in profit growth in 2002 and 2003 was to some extent mitigated by declining interest payments, in an environment of falling interest rates. The decrease in profitability between 2000 and 2003 is broadly in line with profitability developments based on aggregated firm-level data from annual financial statements for listed non-financial corporations.[9] In an environment of favourable financing conditions, corporate balance sheet restructuring and continued wage moderation, profit growth picked up strongly in 2004 and almost returned to the level prevailing in 2000. Moreover, despite the high debt ratio of the non-financial corporate sector, net interest expenditures did not act as a drag on profit growth in 2004.

9 See Box 5 entitled "Profitability and leverage developments of listed non-financial corporations in the euro area" in the June 2006 issue of the Monthly Bulletin.

Chart 8 Gross entrepreneurial income of non-financial corporations

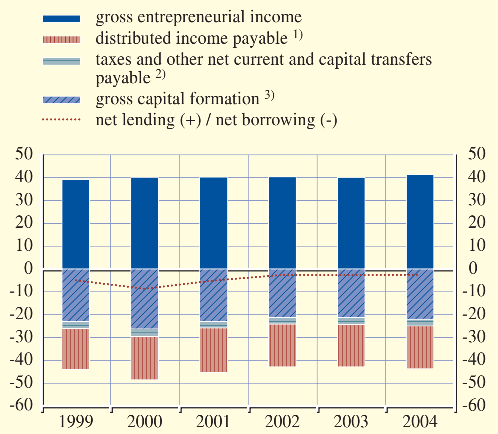
(annual growth rate and percentage point contributions)



Sources: ECB and Eurostat.
1) On land, licences and other non-produced assets.

Chart 9 Distributed income and investment of non-financial corporations

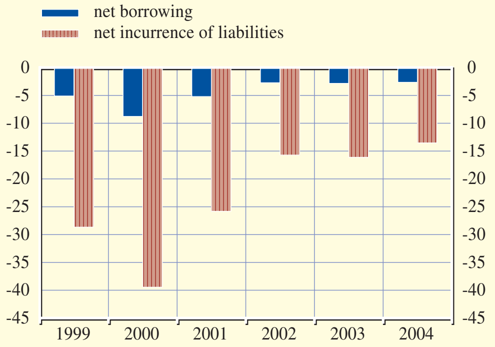
(as a percentage of gross value added)



Sources: ECB and Eurostat.
1) Plus reinvested earnings on direct foreign investment.
2) Plus adjustment for the change in net equity of households in pension fund reserves.
3) Plus acquisitions less disposals of non-produced, non-financial assets.

Chart 10 Borrowing by non-financial corporations

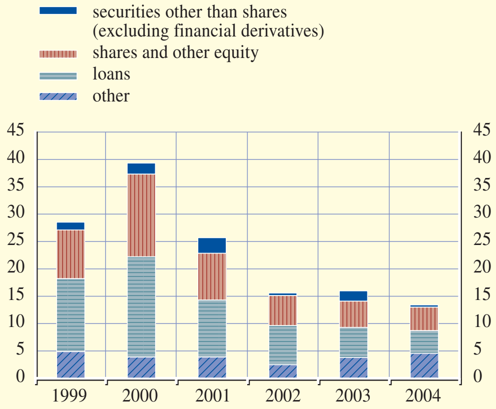
(as a percentage of gross value added)



Sources: ECB and Eurostat.

Chart 11 External financing of non-financial corporations

(as a percentage of gross value added)



Sources: ECB and Eurostat.
Note: "Other" includes net equity of households in life insurance reserves and in pension fund reserves, other accounts payable and financial derivatives.

Non-financial corporations have to pay taxes and other current transfers and can distribute the remaining entrepreneurial income plus net capital transfers received to their owners, or retain it for investment in fixed capital and in financial assets.[10] Chart 9 illustrates that the sum of taxes and net transfers payable, dividends payable and gross capital formation typically exceeds entrepreneurial income, so that non-financial corporations are net borrowers. This was particularly the case in 1999-2000. At the same time, this period was characterised by a substantial net acquisition of financial assets, predominantly in the form of shares and other equity, reflecting corporate mergers and acquisitions.[11] Consequently, the net incurrence of liabilities was also quite high in 1999 and 2000 (Chart 10). The subsequent subdued economic growth has contributed to a substantial relative decrease in the borrowing of non-financial corporations. In 2004 the growth of gross entrepreneurial income picked up again (see Chart 8), but so did growth of fixed capital formation (see Chart 3), which led to a broadly unchanged net borrowing position as compared with 2003.[12]

The net incurrence of liabilities by non-financial corporations is broken down by type of liability in Chart 11. This chart shows that the dampening of borrowing needs after the investment boom of 1999 and 2000 resulted in a decline in the external funds raised through debt financing (loans and debt securities issued) and equity financing.

5 CONCLUSION

Euro area accounts, comprising integrated non-financial and financial accounts and financial balance sheets for the institutional sectors in the euro area, were released for the first time in May 2006. Euro area accounts provide a consistent framework for the analysis of economic and financial developments by

10 For a recent review of corporate finance in the euro area, see the article entitled "Developments in corporate finance in the euro area" in the November 2005 issue of the Monthly Bulletin, and the references therein.
11 See Box 4 entitled "Merger and acquisition activity and the composition of the financial account of the euro area balance of payments" in the August 2002 issue of the Monthly Bulletin and Box 4 entitled "Recent trends in merger and acquisition activity in the euro area" in the July 2006 issue of the Monthly Bulletin.
12 For a recent review of investment growth in the euro area in 2004, see Box 7 entitled "Latest developments in investment by type of product" in the May 2005 issue of the Monthly Bulletin.

institutional sector. They provide comprehensive information not only on the economic activities of euro area households, non-financial corporations, financial corporations and government, but also on the economic interaction between the euro area economy and the outside world by means of a complete rest-of-the-world account for the euro area. The consistency of these new statistics represents a major improvement, which, in the context of monetary and economic analysis at the ECB, enables a more accurate understanding of the production, income distribution, saving, investment and financing behaviour of economic agents in general and of the household and non-financial corporation sectors in particular.

The annual euro area accounts will be followed, from spring 2007 onwards, by the regular publication of quarterly sector accounts. Such a timely availability of a consistent set of non-financial and financial statistics will allow a more detailed assessment of the monetary transmission mechanism, for example by providing consistent data on income and wealth effects on household consumption and gross capital formation.

Table 3 Euro area accounts for 2004: abbreviated presentation

(EUR billions; current prices)

Uses: House-holds and NPISHs	Uses: General govern-ment	Uses: Financial corpo-rations	Uses: Non-financial corpo-rations	Uses: Total economy	Uses: Rest of the world	Uses: Sum of the sectors	Non-financial accounts	Resources: Sum of the sectors	Resources: Rest of the world	Resources: Total economy	Resources: Non-financial corpo-rations	Resources: Financial govern-ment	Resources: General govern-ment	Resources: House-holds and NPISHs
							EXTERNAL ACCOUNT							
					1,490		Exports of goods and services							
							Imports of goods and services		1,362					
							PRODUCTION ACCOUNT							
							Output	14,229		14,229	9,539	676	1,342	2,672
992	384	341	5,577	7,294		7,294	Intermediate consumption							
							Taxes less subsidies on products[1]	793		793				
1,680	958	335	3,962	7,728		7,728	Gross value added/ GDP[2]							
							DISTRIBUTION OF INCOME ACCOUNT							
							Gross value added/ GDP[2]	7,728		7,728	3,962	335	958	1,680
394	807	189	2,348	3,739	15	3,754	Compensation of employees	3,754	7	3,747				3,747
45	18	13	115	1,052		1,052	Taxes on production and imports[1]	1,052	24	1,028			1,028	
	100			100	37	137	Subsidies[1]	137		137	51	1	4	12
136	243	1,030	977	2,385	245	2,631	Property income	2,631	303	2,327	315	1,054	60	898
708	1	44	126	880	4	884	Current taxes on income, wealth, etc.	884	1	882			882	
1,432				1,432	2	1,435	Social contributions	1,435	4	1,431	73	144	1,210	4
5	1,287	98	62	1,451	3	1,454	Social benefits other than social transfers in kind	1,454	11	1,443				1,443
254	154	184	86	677	33	710	Other current transfers	710	105	606	39	184	65	318
5,129	1,598	160	727	7,613		7,613	Gross disposable income							
							USE OF DISPOSABLE INCOME ACCOUNT							
							Gross disposable income	7,613		7,613	727	160	1,598	5,129
4,428	1,576			6,004		6,004	Final consumption expenditure							
1	0	49	12	62	0	62	Adjustment for the change in net equity of households in pension funds reserves	62	1	61				61
762	21	111	715	1,608		1,608	Gross saving							
							CAPITAL ACCOUNT							
							Gross saving/ current external balance	1,596	-13	1,608	715	111	21	762
38	101	11	10	160	24	184	Capital transfers	184	8	177	65	4	54	54
496	189	42	868	1,596		1,596	Gross capital formation							
-2	0	0	1	0	0	0	Acquisitions less disposals of non-produced non-financial assets							
283	-216	61	-99	29	-29	0	Net lending (+)/ net borrowing (-)							

Sources: ECB and Eurostat.
1) Data relating to taxes on products (e.g. VAT) and subsidies on products are not available by sector. The sum of the resident sectors therefore differs from that of the total economy.
2) Gross domestic product is equal to gross value added of all domestic sectors plus taxes less subsidies on products. The sum of the resident sectors therefore differs from that of the total economy.

Table 3 Euro area accounts for 2004: abbreviated presentation (continued)

(EUR billions; current prices)

(Changes in) financial assets							Financial accounts[3]	(Changes in) liabilities and net financial assets						
Households and NPISHs	General government	Financial corporations	Non-financial corporations	Total economy	Rest of the world	Sum of the sectors		Sum of the sectors	Rest of the world	Total economy	Non-financial corporations	Financial corporations	General government	Households and NPISHs
							FINANCIAL TRANSACTIONS ACCOUNT							
							Net lending (+)/net borrowing (-) (from capital accounts)	0	-29	29	-99	61	-216	283
							Statistical discrepancy	0	0	0	-14	0	0	14
							Net lending (+)/net borrowing (-) from financial accounts	0	-29	29	-85	61	-216	269
578	43	3,205	446	4,271	808	5,079	Total changes in financial assets/liabilities	5,079	837	4,242	530	3,144	259	308
		-2		-2	2	0	Monetary gold and special drawing rights (SDRs)							
237	17	669	83	1,007	257	1,265	Currency and deposits	1,265	144	1,121	0	1,100	21	
63	19	614	-49	647	262	909	Debt securities, excluding financial derivatives	909	224	685	17	435	233	
-3	12	617	85	711	16	726	Loans	726	178	548	166	52	15	316
19	-4	340	165	520	255	776	Shares and other equity	776	269	507	171	336		0
246	0	4	7	258	3	261	Insurance technical reserves	261	1	259	13	244		2
15	-1	962	153	1,130	14	1,143	Other accounts (receivable/payable) and financial derivatives	1,143	21	1,122	164	977	-9	-10
							OTHER CHANGES IN FINANCIAL ASSETS AND LIABILITIES ACCOUNT							
							Other changes in net worth		142	-146	-324	-36	-26	240
241	51	-525	194	-39	75	36	Total changes in financial assets/liabilities[4]	40	-66	106	518	-490	77	0
							CLOSING FINANCIAL BALANCE SHEET							
							Net financial assets (+)/liabilities (-)[4]		1,182	-1,053	-6,701	-49	-4,268	9,965
14,620	2,112	32,121	10,906	59,759	9,691	69,449	Total financial assets/total liabilities[4]	69,321	8,509	60,812	17,607	32,170	6,381	4,655
		129		129		129	Monetary gold and special drawing rights (SDRs)[4]							
4,863	440	6,969	1,254	13,527	2,501	16,027	Currency and deposits	16,027	1,691	14,336	0	14,033	304	
1,482	190	7,310	327	9,308	2,251	11,559	Debt securities, excluding financial derivatives	11,559	1,839	9,719	629	4,360	4,730	
25	347	10,361	1,535	12,268	1,021	13,290	Loans	13,290	1,382	11,908	5,357	1,217	1,017	4,317
3,905	698	5,936	5,337	15,876	3,425	19,301	Shares and other equity	19,301	3,065	16,236	9,011	7,220		5
4,040	3	115	118	4,275	112	4,387	Insurance technical reserves	4,387	5	4,382	301	4,051		30
304	434	1,302	2,335	4,376	381	4,757	Other accounts (receivable/payable) and financial derivatives	4,757	526	4,231	2,309	1,289	330	303

3) Non-consolidated data.
4) Monetary gold and SDRs are financial assets without compensating liabilities.