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Households' financial assets and liabilities in Europe

Reactions to uncertainty since 2000

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In the last quarter of 2000 a long and lasting decline in the prices of shares quoted on stock markets began. This was followed by a period of protracted uncertainty and a slowdown in economic activity. Reductions in interest rates were then aimed at stimulating demand.

This report will explore the impact that the general developments in the economy had on households' financial assets and liabilities in the period from 2000 to 2002. It will examine firstly the evolution in the size of stocks. Then it will focus on the redirection of acquisitions of financial instruments, towards financial instruments better adapted to the new environment. Lastly it will examine the overall impact on the relative shares of the main financial instruments in households' portfolios.

Outstanding amounts of financial assets and liabilities

When examining households' total financial assets in the EU, one notices a contraction of about 8 per cent in stocks from 2000 (18,958 billion euro) to 2002 (17,462 billion euro). This overall figure is the combined result of devaluations in the stock of some financial instruments, notably shares, and of the continuing of acquisitions of financial assets in 2001 and 2002.[1]

If we compare the stock of households' financial assets to current Gross Domestic Product, we notice that for the EU the ratio of financial assets to GDP declines from 228% in 2000 to 197% in 2002. For the euro-zone the decline is more modest, from 208% in 2000 to 187% in 2002.

[1] *Within the provisions of Council Regulation (EC) No. 2223/96 on the European System of National and Regional Accounts (ESA 95), Eurostat maintains a dataset on Financial Accounts. This dataset contains information of the full set of institutional sectors and financial instruments. Ireland, Luxembourg and Greece are under derogation until 2005. Hence, in this text, the values for the EU and the euro-zone do not contain the amounts for these three countries. The households sector includes non-profit institutions serving households.*

Country or area	Financial assets in 2000		Financial assets in 2002	
	Stocks (billion euro)	Proportion of GDP (%)	Stocks (billion euro)	Proportion of GDP (%)
Belgium	742	299	666	256
Germany	3636	179	3731	177
Spain	1088	178	1131	162
France	3087	217	2888	190
Italy	2773	238	2494	198
Netherlands	1204	299	1100	247
Austria	274	132	288	132
Portugal	224	194	258	199
Finland	144	111	143	102
euro-zone	**13172**	**208**	**12698**	**187**
Denmark	299	175	279	152
Sweden	416	160	393	154
United Kingdom	5071	325	4092	247
EU	**18958**	**228**	**17462**	**197**
Norway	159	88	198	98

Table 1: Household's financial assets in 2000 and 2002

Country or area	Financial liabilities in 2000		Financial liabilities in 2002	
	Stocks (billion euro)	Proportion of GDP (%)	Stocks (billion euro)	Proportion of GDP (%)
Belgium	107	43	109	42
Germany	1495	74	1535	73
Spain	353	58	446	64
France	659	46	769	51
Italy	352	30	399	32
Netherlands	369	92	454	102
Austria	82	40	89	41
Portugal	91	79	110	85
Finland	43	33	51	37
euro-zone	**3550**	**56**	**3962**	**58**
Denmark	187	109	213	116
Sweden	131	50	148	58
United Kingdom	1188	76	1413	85
EU	**5056**	**61**	**5736**	**65**
Norway	111	61	152	75

Table 2: Household's financial liabilities in 2000 and 2002

Considering individual Member States, we notice that the reduction in households' financial assets was very sizeable in only a few Member States: the United Kingdom (325% of GDP in 2000, 247% in 2002), the Netherlands (299% in 2000, 247% in 2002) and Belgium (299% in 2000, 256% in 2002).

On the other hand, the ratio of households' stock of financial assets to GDP increased in Portugal (from 194% in 2000 to 199% in 2002). Outside the EU, this also happened in Norway (from 88% in 2000 to 98% in 2002). In Austria there was no change (132% in both years) and in Germany the decrease was very modest (179% in 2000, 177% in 2002).

The prevailing contraction in financial assets was accompanied by a generalised increase of households' financial liabilities in the EU (from 61% of GDP in 2000 to 65% in 2002) as well as in the euro-zone (from 56% in 2000 to 58% in 2002).[1]

[1] *The generalised deterioration in households' net financial wealth may have been compensated, in some countries, by an increase in non-financial wealth due to the increase in the prices of houses.*

Country or area	a Net acquisition of financial assets			b Net incurrence of financial liabilities			c = a - b Financial surplus		
	2000	**2001**	**2002**	**2000**	**2001**	**2002**	**2000**	**2001**	**2002**
Belgium	20	19	25	2	-2	3	18	21	22
Germany	117	121	133	41	22	17	75	99	117
Spain	54	49	63	47	42	53	6	7	10
France	79	142	123	26	81	36	53	61	87
Italy	119	123	97	37	20	32	82	103	64
Netherlands	42	42	50	45	39	47	-3	3	3
Austria	14	11	12	5	4	4	9	7	8
Portugal	15	17	13	13	14	9	1	4	4
Finland	3	6	5	3	3	5	0	3	0
euro-zone	**461**	**531**	**522**	**219**	**223**	**207**	**242**	**308**	**315**
Denmark	8	12	12	16	16	14	-8	-4	-2
Sweden	15	17	23	12	10	11	3	7	12
United Kingdom	99	123	148	110	126	171	-11	-3	-23
EU	**584**	**683**	**704**	**356**	**375**	**402**	**227**	**308**	**302**
Norway	13	12	15	10	12	14	3	0	2

Table 3: Financial surplus or deficit of households from 2000 to 2002 (transactions; billion euro)

The increase in the stock of financial liabilities was stronger in certain Member States. Large increases often took place in the same Member States that had high levels of debt in 2000. There was a large increase in debt level in Denmark (from 109% of GDP in 2000 to 116% in 2002) and in the Netherlands (from 92% in 2000 to 102% in 2002). A significant increase also took place in the United Kingdom (76% in 2000, 85% in 2002). On the other hand, there was a decrease, although very modest, in the ratio of financial liabilities to GDP in Germany, from 74% in 2000 to 73% in 2002.

Transactions in financial assets and liabilities

Households in the EU acquired financial assets in 2001 and 2002 for larger amounts than they had done in 2000 (583 billion euro in 2000, 683 billion euro in 2001 and 704 billion euro in 2002). A similar trend took place in the euro-zone.

The incurrence of financial liabilities by households showed an increasing trend in the EU (from 356 billion euro in 2000 to 402 billion euro in 2002). There was, however, a modest reduction in financial liabilities in the euro-zone (from 219 billion euro in 2000 to 207 billion euro in 2002). Overall the financial surplus of the sector improved in 2001 and 2002 with respect to 2000, both in the EU and in the euro-zone (see Table 3).

When analysing the data of each Member State, we note the sizeable increase in households' acquisitions of financial assets in the United Kingdom (from 99 billion euro in 2000 to 148 billion euro in 2002). A very large increase took place in France between 2000 and 2001 (from 79 billion euro to 142 billion euro); in 2002 there was a contraction (down to 123 billion euro). In Italy acquisitions had similar values in 2000 and 2001 (at around 120 billion euro), then there was a sizeable decrease in 2002 (down to 97 billion euro).

When we consider the net incurrence of financial liabilities, a large part of which was devoted to housing financing, we note the very large, and regular, increase in financial liabilities in the United Kingdom, from 110 billion euro in 2000 to 171 billion euro in 2002. An upward trend was also seen in other Member States, for example France (from 26 billion euro in 2000 to 36 billion euro in 2002, with an exceptionally high level of 81 billion euro in 2001). This contrasts with the sharp decrease in net new loans in Germany from 2000 to 2001 (from 41 billion euro in 2000 to 22 billion euro in 2001) and Italy (from 37 billion euro in 2000 to 20 billion euro in 2001). In 2002 there was a further contraction in Germany (down to 17 billion euro), but an increase in Italy (up to 32 billion euro).

Country or area	Net acquisition of deposits		
	2000	**2001**	**2002**
Belgium	8	11	10
Germany	-31	27	79
Spain	43	29	38
France	4	23	27
Italy	17	31	23
Netherlands	10	16	27
Austria	2	4	7
Portugal	8	7	3
Finland	1	2	2
euro-zone	**61**	**150**	**216**
Denmark	-1	4	6
Sweden	-1	5	4
United Kingdom	59	77	82
EU	**119**	**236**	**307**
Norway	4	4	6

Table 4: Financial surplus of households in deposits from 2000 to 2002
(transactions: billion euro)

When considering the financial surplus, the household sector in two Member States was in deficit for the entire period: the United Kingdom and Denmark. This happened only sporadically in other Member States: in the Netherlands in 2000; in Finland in 2002. The values were however always modest (the largest financial deficit was 23 billion euro in the United Kingdom in 2002).

German households, on the other hand, had a regular increase in their financial surplus over the period (75 billion euro in 2000, 99 billion euro in 2001 and finally 117 billion euro in 2002). In France as well households had an increase in financial surplus (from 53 billion euro in 2000 to 87 billion euro in 2002). An increase in households' financial surplus took place also in other Member States, for example Belgium, Spain, the Netherlands and Sweden. In Italy there was a different pattern: at first an increase in 2001 and then a considerable decrease in 2002 (82 billion euro in 2000, 103 billion euro in 2001 and 64 billion euro in 2002).

Acquisitions by financial instrument

In this section we explore in more detail households' financial choices in each year, by describing the net acquisitions of each of the main financial instruments. By delving into this type of detail, we may note that, in a situation characterised by uncertainty, there was an increase in the attractiveness of the more liquid and less risky financial assets. So there was a considerable increase in deposits. In the EU the net acquisitions of deposits went from 119 billion euro in 2000 up to 236 billion euro in 2001, and up again to 307 billion euro in 2002. A similar development took place in the euro-zone (from 61 billion euro in 2000 to 216 billion euro in 2002).[1]

When considering individual Member States, we note that the general pattern of an increase in deposits took place in Germany as well. However in this country the shift was particularly dramatic. In 2000 German households disinvested high volumes from deposits (31 billion euro disinvested). German households went then back to investment in deposits in 2001, and in 2002 (27 billion euro in 2001, 79 billion euro in 2002). Something similar also happened in Sweden, although disinvestments in deposits in 2000 were on a much smaller scale (just 1 billion euro).

Deposits were a very important form of financial investment by households in Spain in 2000 (43 billion euro), and they remained a very important financial investment in following years, although at a lower levels.

Deposits became a preferred choice in most other countries, for example: France (from 4 billion euro in 2000 to 27 billion euro in 2002) and the Netherlands (from 10 billion euro in 2000 to 27 billion euro in 2002).

[1] *To simplify the text, we will shorten the technical names of the financial instruments. So deposits corresponds to 'currency and other deposits'; bonds correspond to 'securities other than shares'; shares correspond to 'shares and other equity'; insurance reserves correspond to 'insurance technical reserves'.*

Country or area	Net acquisition of shares		
	2000	2001	2002
Belgium	12	11	7
Germany	75	25	-23
Spain	-17	2	7
France	11	20	16
Italy	27	-2	0
Netherlands	2	-7	-16
Austria	6	4	1
Portugal	1	3	1
Finland	0	0	2
euro-zone	**115**	**57**	**-4**
Denmark	2	-1	-1
Sweden	4	3	3
United Kingdom	-24	-19	9
EU	**96**	**40**	**8**
Norway	2	1	3

Table 5: Financial surplus of households in shares from 2000 to 2002 (transactions; billion euro)

When looking at bonds, we notice that bonds were not an important form of financial investment in the period. For households in the EU there were net acquisitions of bonds of 37 billion euro in 2000 and 53 billion euro in 2002. These are modest volumes when compared to investment in the other financial instruments. Only in Italy were bonds a very important form of financial investment (36 billion euro in 2000, 64 billion euro in 2001 and 46 billion euro in 2002). Acquisition of bonds became more important in the Netherlands in 2002 (from 3 billion euro in 2000 up to 12 billion euro in 2002).

On the other hand, in 2002 there was disinvestment in bonds in some Member States: Belgium (4 billion euro), Denmark (2 billion euro) and the United Kingdom (7 billion euro).

Acquisitions of shares by households in the EU were important in 2000 (96 billion euro) but then, after the decline in stock markets, shrank considerably in 2001 (down to 40 billion euro) and shrank again in 2002 to a very low value (8 billion euro). However, the attitude toward investment in shares differed considerably between Member States. Households in Spain and the United Kingdom sold shares in 2000 (17 billion euro and 24 billion euro respectively) and became net buyers of shares in 2002 (7 billion euro and 9 billion euro respectively). On the other hand, households in Germany were the largest buyers in 2000 (75 billion euro) and 2001 (25 billion euro); they became the largest sellers in 2002 (sales of 23 billion euro). Yet another type of behaviour prevailed in the Netherlands, with modest acquisitions in 2000 (2 billion euro) and sales both in 2001 (7 billion euro) and in 2002 (16 billion euro).

In the EU, insurance reserves were the financial instrument with the largest new acquisitions. The acquisitions were high in each year: 319 billion euro in 2000, 300 billion euro in 2001 and 305 billion euro in 2002. Although there was a slight decline in the period, this type of contract tends to involve similar amounts over consecutive years, so the amounts in each Member State were fairly stable. However there were some exceptions. In Italy the acquisitions of insurance contracts declined over the period, from 41 billion in 2000 to 26 billion in 2002. Acquisitions increased in the United Kingdom, from 56 billion euro in 2000 to 67 billion euro in 2002.

Country or area	Deposits	Bonds	Shares	Insurance reserves
Belgium	25	22	37	13
Germany	34	10	27	28
Spain	38	2	43	13
France	27	2	43	24
Italy	24	19	44	12
Netherlands	19	2	22	55
Austria	55	8	16	21
Portugal	46	5	32	15
Finland	31	1	47	18
euro-zone	**29**	**9**	**36**	**24**
Denmark	23	9	30	37
Sweden	14	3	41	33
United Kingdom	20	1	22	53
EU	**27**	**7**	**32**	**32**
Norway	34	1	18	36

Table 6: Households' main categories of financial assets in 2000
(Stocks; percentage share on total financial assets)

Country or area	Deposits	Bonds	Shares	Insurance reserves
Belgium	30	24	28	17
Germany	36	11	21	30
Spain	42	2	37	15
France	32	2	33	29
Italy	29	25	30	16
Netherlands	24	4	12	57
Austria	56	8	14	22
Portugal	44	9	28	17
Finland	34	1	39	21
euro-zone	**34**	**11**	**27**	**27**
Denmark	27	9	19	44
Sweden	18	3	30	40
United Kingdom	28	1	16	52
EU	**32**	**8**	**24**	**33**
Norway	37	2	15	35

Table 7: Household's main categories of financial assets in 2002
(Stocks; percentage share on total financial assets)

Composition of stocks by financial instrument

In this section we comment on the changes in the composition of households' stocks of financial assets by financial instrument. We will do so by analysing the percentage share of each of the main financial instruments in the portfolio of households. The changes in the data on stocks in 2002 in comparison to 2000 are the result of two components: the net acquisitions by type of financial instruments in 2001 and 2002, which we commented above; and changes in valuations, of which those for quoted shares were the most relevant.

The main differences between 2002 and 2000 in the percentage shares in the portfolio of households in the EU were the following: (1) a contraction of shares (from 32% of stocks in 2000 to 24% in 2002); (2) a significant increase in deposits (from 27% in 2000 to 32% in 2002). In the portfolio of EU households shares and insurance reserves were the most important financial instruments in 2000 (both at 32%); insurance reserves and deposits became the two most important financial instruments in 2002 (respectively 33% and 32%).

However, behind the general trends in the period many differences remain in national preferences for financial instruments. In 2002 insurance reserves represented more than half of the stock of total financial assets in the Netherlands (57%) and in the United Kingdom (52%), and they were also very important in Denmark (44%) and in Sweden (40%).

Deposits, on the other hand, were more than half of households' financial assets in Austria (56%). They were also the main asset in Portugal (44%) and Spain (42%).

Notwithstanding the decline in valuations, shares remain a very important financial instrument in many Member States: Finland (39%), Spain (37%), France (33%), Italy and Sweden (both at 30%).

We may also notice that whilst in most Member States just two financial instruments absorb around three quarters of total allocations, in a few Member States there is little polarisation of allocations. A lack of polarisation is evident in Belgium (30% deposits, 24% bonds, 28% shares and 17% insurance reserves), Italy (29% deposits, 25% bonds, 30% shares and 16% insurance reserves) and Germany (36% deposits, 11% bonds, 21% shares and 30% insurance reserves). A modest polarisation can be seen in France (32% deposits, 33% shares and 29% insurance reserves).

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