

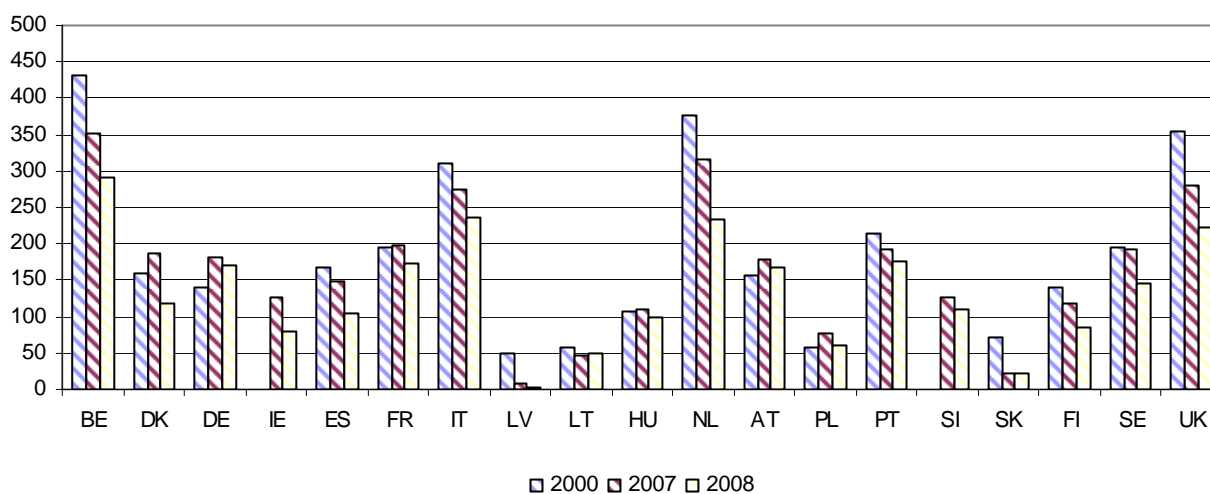
Net financial wealth of households fell during the opening phase of the financial crisis in the EU

This Statistics in Focus analyses the financial behaviour of the household sector (together with non-profit institutions serving households) in the European Union up to 2008. Among the interesting conclusions that emerge from the analysis, it is noticeable that net financial assets (that is, net financial wealth) of households decreased in most EU countries in 2007-2008.

Households' stocks of net financial assets at lower level in 2008 than in 2000

Figure 1 shows the total stock of net financial assets (that is, total financial assets minus total financial liabilities) held by the household sector and non-profit institutions serving households as a percentage of household disposable income.

Figure 1: Net financial assets of households as percentage of household disposable income



Household Disposable Income includes the adjustment for the change in net equity of households in pension funds reserves.

Source: Eurostat ([fina_st](#))

In almost all countries the first year of the financial crisis led to the reduction of stocks of net household financial assets as a percentage of their disposable income. As will be seen later, a significant part of this decrease was due to the downturn of financial markets.

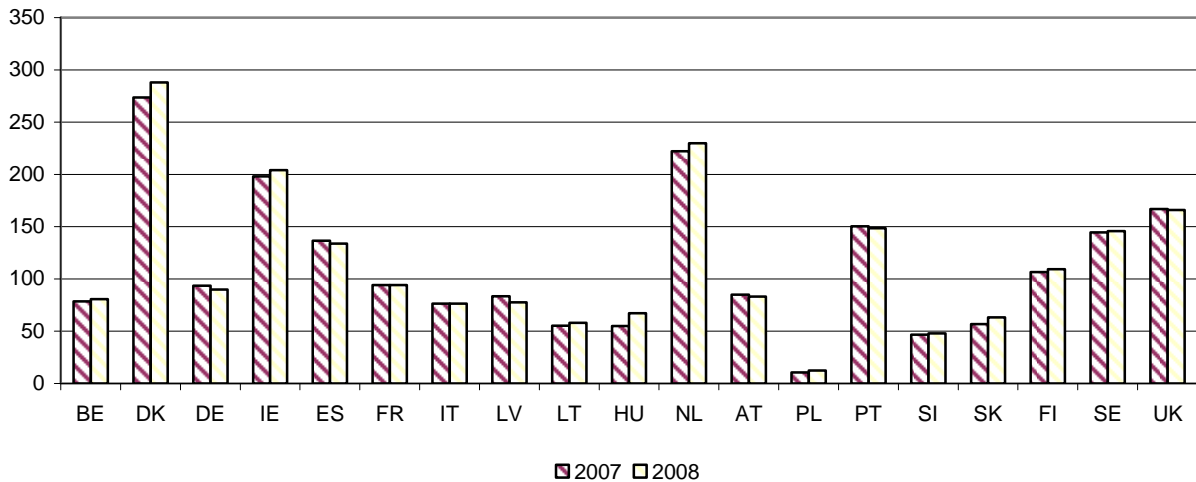
As figure 1 shows, the stocks of net financial assets held by the household sector as a percentage of

household disposable income varied, in 2008, from 1% for Latvia to 291% in Belgium. In other words, while in Latvia net financial assets of households were equivalent to around three days of disposable income, this were close to three years in Belgium. One important issue highlighted by Figure 1 is that net financial wealth was smaller in 2008 than in 2000 for most countries present in the analysis. It is

also noticeable that in countries with lower levels of GDP the stock of net financial assets as a percentage of GDP is smaller, which would indicate a correlation between the size of net stocks and GDP (it is clear that other variables such as development of financial markets should be taken into account for a deeper analysis).

The decrease in net financial assets can be explained either by an increase in liabilities or by a decrease in assets. The following figures show the evolution of these variables.

Figure 2: Households' stock of financial liabilities as percentage of household disposable income



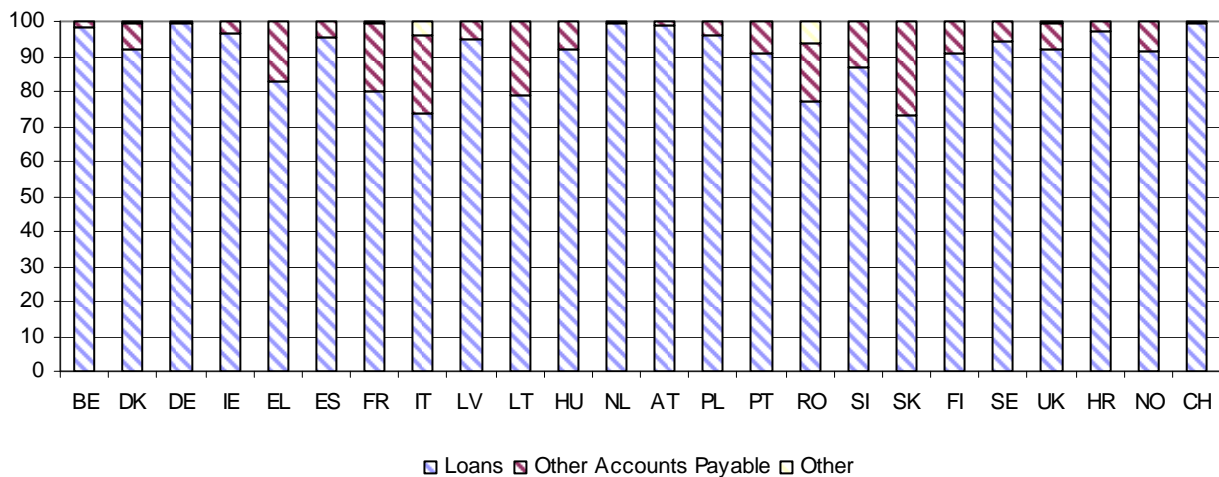
Household Disposable Income includes the adjustment for the change in net equity of households in pension funds reserves.

Source: Eurostat ([fina_st](#))

Figure 2 shows households' stock of financial liabilities as a percentage of disposable income. As can be seen, the ratio of liabilities to disposable income increased in some countries between 2007 and 2008, the exceptions being Germany, Spain, Latvia, Austria, Portugal and the United Kingdom. This increase implies that households would need more years to pay back their liabilities. On the other hand, it also partly explains the decrease of net financial stocks. Changes in the stock of

financial assets and liabilities can be due to either transactions during the year or to other economic flows such as nominal holdings gains and losses and other changes in volume. To understand why the stock of financial liabilities increased, it is interesting to recall that, as shown in figure 3, most household liabilities are loans, although for some countries other accounts payable are also important (other accounts payable refers to instruments such as trade credits).

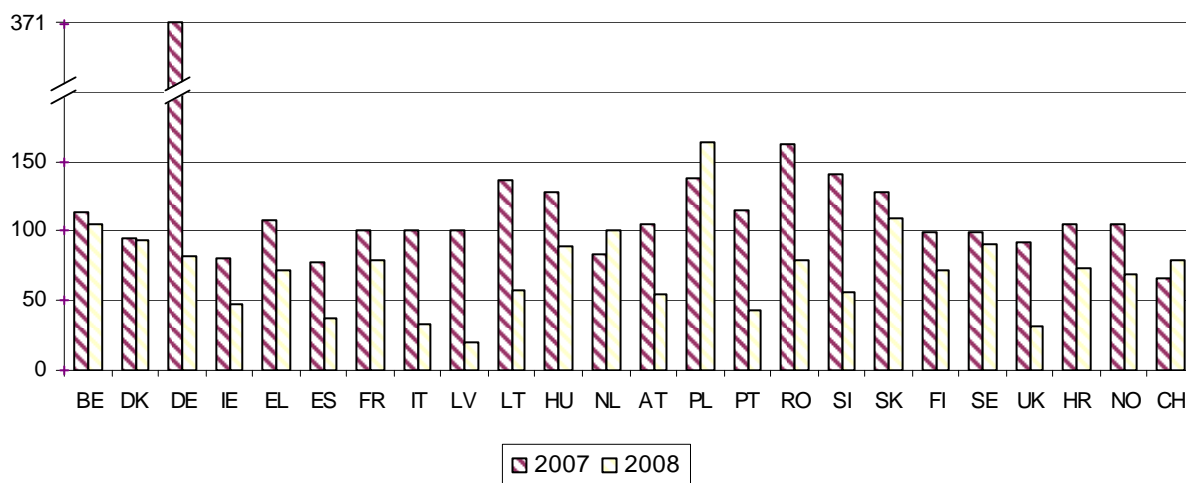
Figure 3: Households' liabilities by instrument as a percentage of total liabilities. 2008



Source: Eurostat ([fina_st](#))

Figure 4 shows the evolution of liabilities transactions in loans for households in the period 2006-2008.

Figure 4: Households' transactions in liabilities, loans. 2006=100

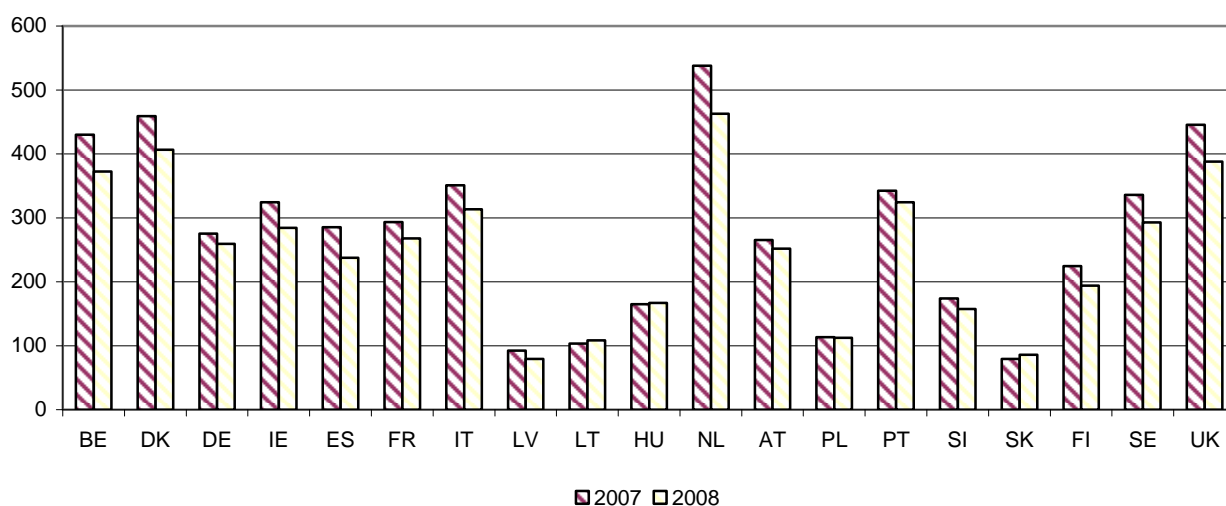


Source: Eurostat ([fina_tr](#))

As figure 4 shows, the incurrence of liabilities via loans by households decreased in 2008 compared with 2007 in almost all countries (the exceptions being the Netherlands, Poland and Switzerland). This implies two things: on the one hand, it is a clear indicator of the reduction of credit availability

in 2008. On the other hand, without this effect, net financial assets of households would have decreased even more. Turning to the assets side, figure 5 shows the stock of financial assets as a percentage of household disposable income.

Figure 5: Households' stock of financial assets as percentage of household disposable income

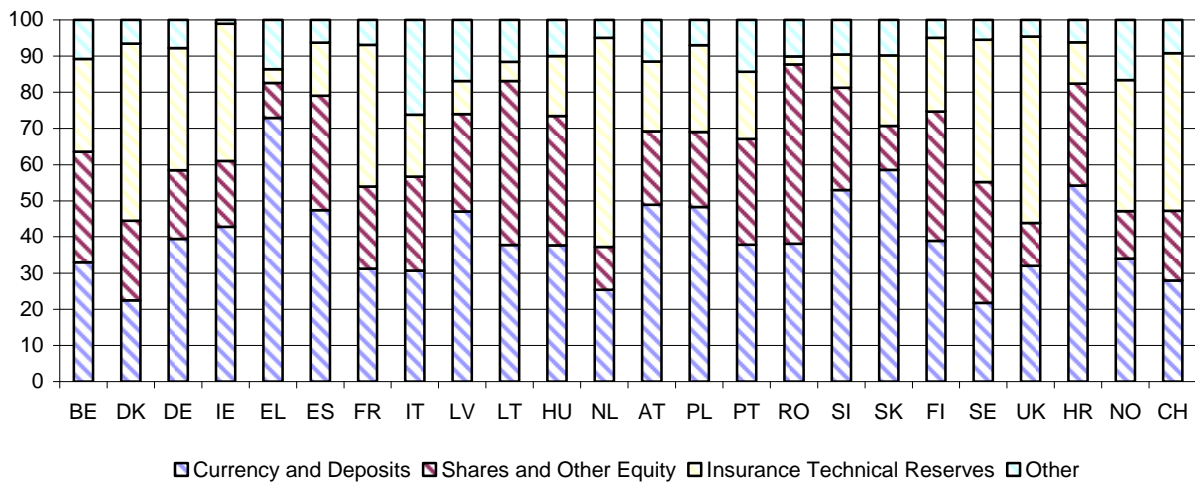


Source: Eurostat ([fina_st](#))

As mentioned before, part of the drop in the stock of net financial assets is explained by the increase of financial liabilities. The other part is due to the decrease in the stock of financial assets, as shown in figure 5. In all countries, except Lithuania,

Hungary and Slovakia, the stock of financial assets as percentage of disposable income fell between 2007 and 2008. Regarding the type of financial assets, in figure 6 the financial instruments preferred by households can be clearly seen.

Figure 6: Households' assets by instrument as a percentage of total assets. 2008

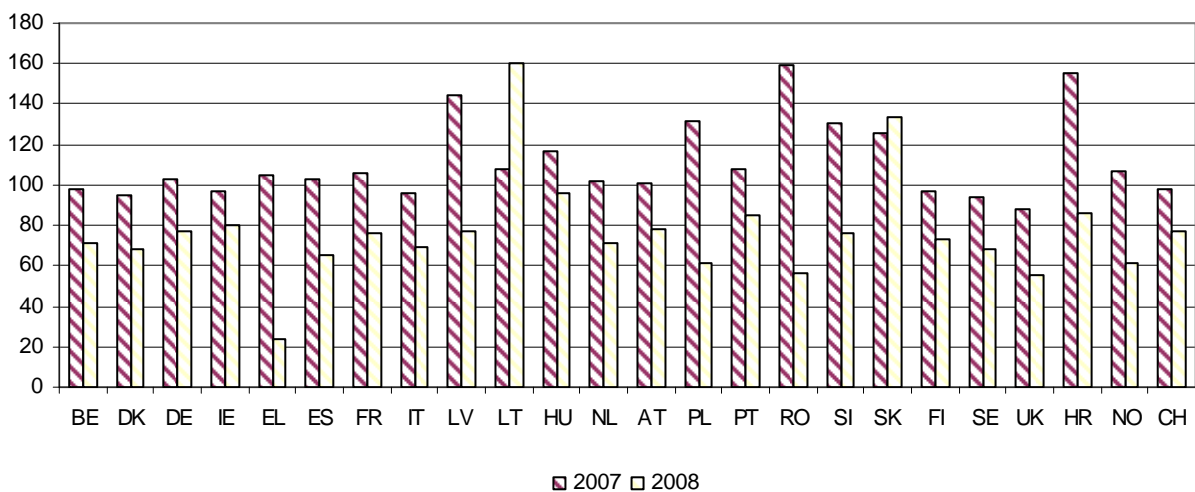


Source: Eurostat ([fina_st](#))

There is more diversification between instruments on the assets side than for liabilities (in fact, for some countries assets held in securities other than shares by households are also important, although they are not included in the figure for the sake of clarity). There is no common pattern regarding the preferred instrument by

households in the different countries, although from the figure above it can be seen that shares and other equity is an important instrument in many countries. For this reason, the analysis can be extended to examine this instrument as an example of how the beginning of the financial crisis has affected households.

Figure 7: Households' stock of financial assets in shares and other equity. 2006=100



Source: Eurostat ([fina_st](#))

In figure 7 it can be seen that there has been a significant decrease in the stock of financial assets in shares and other equity held by households in all countries, except in Lithuania and Slovakia where there is an increase mainly due to positive other economic flows. In fact, as shown in the formula, the decrease in the stock can be due to transactions, other economic flows or to a combination of both factors.

$$\begin{aligned}
 & \text{STOCKS}_T \\
 & = \\
 & \text{STOCKS}_{T-1} \\
 & + \\
 & \text{TRANSACTIONS}_T \\
 & + \\
 & \text{OEF}_T
 \end{aligned}$$

Table 1 shows transactions in shares and other equity between 2006 and 2008

Table 1: Households' transactions in financial assets in shares and other equity. Million of euro.

	2006	2007	2008		2006	2007	2008
BE	5,385	2,549	-5,630	AT	4,435	-327	-2,836
DK	5,629	186	5,180	PL	6,007	7,832	-5,397
DE	-8,517	11,249	-36,850	PT	3,352	-1,664	-11,655
IE	-2,686	-1,522	675	RO	-689	480	-7,574
EL	-1,440	4,551	-6,848	SI	333	616	-235
ES	-8,594	-6,083	-37,136	SK	82	575	-1,112
FR	4,728	6,901	-11,535	FI	3,158	-2,006	-5,544
IT	-23,651	-12,776	-55,643	SE	-4,519	-6,260	-12
LV	300	362	-97	UK	-18,827	-91,188	-118,953
LT	-14	-241	133	HR	1,631	5,148	-2,021
HU	1,773	2,321	-587	NO	-1,650	-341	-2,479
NL	-2,375	-10,560	-4,230	CH	1,049	8,257	2,254

Source: Eurostat ([fina_tr](#))

As can be seen in table 1, transactions in assets of shares and other equity decreased between 2006 and 2008 for almost all countries and, more importantly, they were negative in 2008 for all except Denmark, Ireland, Lithuania and

Switzerland. This means that households sold more equity and other shares than they bought. However, this fact does not explain completely the change in the stock of this instrument in 2008. Table 2 helps to complete the picture.

Table 2: Households' other economic flows of financial assets in shares and other equity. Million of euro.

	2006	2007	2008		2006	2007	2008
BE	39,203	-8,808	-93,338	AT	13,243	1,756	-22,729
DK	25,591	-7,993	-55,646	PL	10,464	9,717	-22,967
DE	30,292	16,181	-214,530	PT	6,754	11,693	-7,989
IE	9,176	-408	-13,746	RO	12,244	23,128	-20,062
EL	11,573	705	-77,989	SI	1,516	2,589	-3,109
ES	140,215	27,447	-244,742	SK	228	67	2,179
FR	143,240	54,872	-244,116	FI	9,574	-804	-20,104
IT	47,680	-42,999	-339,554	SE	41,166	-8,370	-70,286
LV	-80	862	-793	UK	84,694	-20,368	-240,356
LT	769	678	3,651	HR	16	29	-12
HU	3,027	2,951	-968	NO	6,616	3,814	-17,724
NL	13,532	14,653	-65,825	CH	22,623	-13,230	-68,507

Source: Eurostat ([fina_of](#))

Table 2 shows that other economic flows were negative in all countries, except Lithuania and

Slovakia, and even larger than the transactions. Other economic flows can be decomposed into nominal holding gains and losses (changes in

prices) and other changes in volume. Taking into account the evolution of financial markets during 2008, it is highly likely that most of other economic flows are explained by changes in prices (nominal holding gains and losses). For example, for Denmark, Spain and France the reduction of households' financial assets in shares and other equity are mainly due to holding losses (reductions in asset prices), while the increase of this stock in

Lithuania is explained by nominal holding gains. However, unfortunately this can be confirmed only for some countries since the reporting of the split of other economic flows is not available for all countries.

The decrease of the value of household' financial assets via other economic flows not only comes from shares and other equity, as can be seen in table 3.

Table 3: Households' other economic flows of financial assets. Million of euro.

	2006	2007	2008		2006	2007	2008
BE	34,961	-12,795	-98,837	AT	19,153	2,423	-24,136
DK	26,295	-14,103	-59,861	PL	17,100	20,973	-55,839
DE	55,264	43,524	-258,961	PT	7,734	11,290	-11,134
IE	25,813	-9,779	-34,960	RO	13,514	21,553	-23,275
EL	8,151	-3,196	-85,849	SI	1,630	2,654	-3,057
ES	148,588	25,800	-267,365	SK	-1,923	583	5,087
FR	154,613	62,705	-300,118	FI	10,578	-1,041	-23,668
IT	27,466	-54,681	-368,471	SE	46,089	-45,160	-141,756
LV	437	805	-573	UK	361,658	-380,719	-1,720,394
LT	706	622	3,597	HR	69	101	-162
HU	3,516	2,305	-7,118	NO	4,107	13,709	-69,444
NL	45,078	32,071	-231,752	CH	3,612	-42,801	-38,048

Source: Eurostat ([fina_of](#))

As shown in table 3, there was a decrease in the value of household financial assets via other economic flows in all countries, except Lithuania and Slovakia, this decrease being very

significant in most countries. In other words, the situation of financial markets in 2008 had a serious impact on households, reducing their stock of financial assets.

METHODOLOGICAL NOTES

This box gives some background explanations. More exhaustive information and data can be found on [Eurostat's homepage](#) in the section dedicated to [Government finance statistics](#).

European System of Accounts (ESA 95): The European System of Accounts constitutes a coherent, consistent and integrated system of national accounts designed to show economic processes and which distinguishes between the headings production, distribution/use of income and capital formation. The accounts also include balance sheets to describe the stocks of assets and liabilities at the beginning and at the end of the accounting period. The financial accounts form part of the national accounts system. They deal with financial flows and stock positions between institutional sectors.

Households (S.14): This sector covers individuals or groups of individuals as consumers and as entrepreneurs (market producers) provided that, in the latter case, the activities are not those of separate entities treated as quasi-corporations. It also includes individuals or groups of individuals as producers for exclusively own final use. The financial accounts data presented here are non-consolidated and include sector S.15 (non-profit institutions serving households).

Non-Profit Institutions Serving Households (S.15): The sector non-profit institutions serving households (NPISHs) (S.15) consists of non-profit institutions which are separate legal entities, which serve households and which are private other non-market producers.

A **balance sheet** is a statement, drawn up at a particular point in time, of the values of assets owned and of liabilities outstanding. The balancing item is called net worth (BF.90). Balance Sheets items are classified as AF.1 to AF.7. The stock of the assets and liabilities recorded in the balance sheet is valued at the market prices prevailing on the date to which the balance sheet relates, except loans, which are recorded at the value contractually agreed by creditors and debtors.

Currency and Deposits (AF.2) consists of all stocks in notes and coins in circulation, transferable deposits and other deposits.

Securities Other than Shares (AF.3) are financial assets and liabilities which are bearer instruments

and usually negotiable and traded on secondary markets or can be offset in the market, and do not grant the holder any ownership rights in the institutional unit issuing them.

Loans (AF.4) are financial assets and liabilities created when creditors lend funds to debtors either directly or through brokers which are evidenced by non-negotiable instruments or not evidenced by documents.

Shares and Other Equity (AF.5) are financial assets and liabilities which represent property rights on corporations. They generally entitle the holders to a share in the profits of the corporations and to a share in their net assets in the event of liquidation.

Insurance Technical Reserves (AF.6) consists of assets and liabilities in the technical provisions of insurance corporation and pension funds against policy holders or beneficiaries.

Other Accounts Receivable/Payable (AF.7) consists of financial claims created as the counterpart of a transaction in cases where there is a timing difference between such transaction and the corresponding payment.

The financial balance sheet (of a sector or the rest of the world) shows on its left side financial assets and on its right side liabilities. The balancing item of the financial balance sheet is net financial assets (BF.90).

Consolidation: Consolidation refers to the elimination, from both uses and resources, of transactions which occur between units when the latter are grouped, and to the elimination of reciprocal financial assets and liabilities. All data in this Sif are non-consolidated.

Country Codes

BE (Belgium), BG (Bulgaria), CZ (Czech Republic), DE (Germany), DK (Denmark), EE (Estonia), EL (Greece), ES (Spain), FR (France), IE (Ireland), IT (Italy), LV (Latvia), LT (Lithuania), HU (Hungary), NL (the Netherlands), AT (Austria), PL (Poland), PT (Portugal), RO (Romania), SI (Slovenia), SK (Slovakia), SE (Sweden), FI (Finland), UK (the United Kingdom), NO (Norway), CH (Switzerland).

Further information

Eurostat Website: <http://ec.europa.eu/eurostat>

Data on "Economy and Finance, Financial Accounts"

http://epp.eurostat.ec.europa.eu/portal/page/portal/financial_accounts/data/database

More information about "Financial accounts"

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Journalists can contact the media support service:

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