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Private-sector economic developments in the euro area in 2016

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This article describes the economic situation of the non-financial private sector in the euro area during 2016, on the basis of sectoral accounts. In the case of households, employment creation and low inflation provided for an increase in purchasing power which, along with the rise in wealth, was reflected in the strength of consumption, against a background in which the increase in nominal wages continue to be modest. The pace of economic recovery enabled firms to improve their profits and investment, although the investment drive was still moderate, while the sector continued to evidence a net lending capacity. The greater dynamism of lending both for households and firms was compatible with further increases in the ongoing correction of indebtedness, though such increases were uneven from one country to another. In the case of large corporations, the shift in the liabilities mix towards financing based on fixed-income securities continued, driven in 2016 by the Eurosystem's monetary policy measures.

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Introduction

The financial position of euro area households and firms in 2016 trended favourably, against the background of the firming economic recovery and asset revaluation. Notwithstanding, non-financial private-sector debt remained at high levels, standing at slightly below 140% of GDP, in consolidated sectoral terms, which is slightly down on the peak of 147% of GDP recorded in 2009.¹

Underpinned by an extraordinarily accommodative monetary policy, the economic expansion remained robust in the face of the uncertainty that emerged following the U.K.'s decision to exit the European Union and the change in US economic policies as a result of the November 2016 US presidential election. Euro area GDP increased by 1.7% over the year as a whole², supported by lax financial conditions, by the improvement in the labour market and in confidence, and by the relatively low level of oil prices, especially at the start of the year. These factors boosted domestic demand, while the fragility of the external sector eased in the second half of the year.

In a setting of weak inflation, the ECB kept its monetary policy extraordinarily expansionary in 2016. In addition to lowering policy interest rates³, the ECB extended its Asset Purchase Programme over time (currently, to December 2017 at least), while further raising the pace of net monthly purchases to €80 billion, broadening the category of eligible assets to encompass corporate bonds, among others. The period from June 2016 to March 2017 saw the four targeted long-term refinancing operations (TLTRO II) implemented, providing funds to credit institutions under very favourable conditions, contributing to reducing the cost of loans to the private sector and sustaining the recovery in credit.

Against this background, the euro area private sector's economic situation improved in 2016, enabling – in the case of households – the pick-up in consumption to continue. The improvement in income – largely underpinned by employment creation – and in wealth fuelled an expansion in spending, meaning that the household saving rate held relatively stable at low levels, at around 12% of disposable income. For the seventh year running, the sector continued to make headway in the gradual correction of its debt, which was consistent with a recovery in loan flows. However, the countries in which households have a relatively high level of debt tended to evidence negative net loan flows, indicating that this factor has continued conditioning the expansion in spending in some economies.

The firming of the recovery in economic activity also provided for an improvement in corporate billing and profits, but at more moderate rates than in 2015. While corporate investment activity improved in 2016, there are still signs of weakness, reflected in a

¹ For greater details see ECB (2017b).

² This increase in GDP marks a slowdown on the 2% increase in 2015, which is explained by the significant revision to the level of Irish GDP, which grew by more than 26% that year. Euro area growth excluding Ireland was 1.6% in 2016, compared with 1.5% in 2015. The revision of Irish GDP reflects the globalised nature of this economy, magnified in that period by the way in which aircraft acquisitions were recorded by leasing companies operating in Ireland, and by a rise in the relocation in Ireland of intangible assets (intellectual property).

³ In March 2016, the rate on the main refinancing operations was set at 0%, and those on the deposit facility and the marginal lending facility at -0.4% and 0.25%, respectively.

surplus position on their accounts. The absence of greater investment dynamism at the current juncture of the cycle, despite the notable easing in financing conditions, reveals the moderate nature of the economic recovery and the uncertainty over future growth, as well, in some cases, as the need for certain companies to shore up their balance sheets. The sector's surplus financial position was, however, compatible with an increase in borrowed funds, in the form both of bank loans and of bond issues. The dynamism of bonds intensified the process under way since 2008 of bank disintermediation in respect of business financing, although the weight of bonds in companies' debt is still some way off that in those economies with a greater historic weight in financing raised on the capital markets.

The rest of the article is organised as follows. The second section focuses on the household sector, describing the behaviour of income, consumption and saving at the aggregate level of the sector, along with household financial transactions and the changes in their financial situation. The third section offers a similar analysis for non-financial corporations, paying particular attention to the investment effort and the process of disintermediation in financing.

Households

INCOME

Last year the recovery in euro area household income stepped up. Gross disposable income (GDI⁴) grew at a year-on-year rate of 2.2%, compared with 1.8% in 2015 (see Chart 1.1). The nominal increase in income translated into improved purchasing power for the sector, since the average inflation rate for the year was close to 0%. There has thus been an increase in real GDI for the third year running, meaning that households have almost offset the loss in purchasing power that took place in the 2009-2013 period (around 5%).

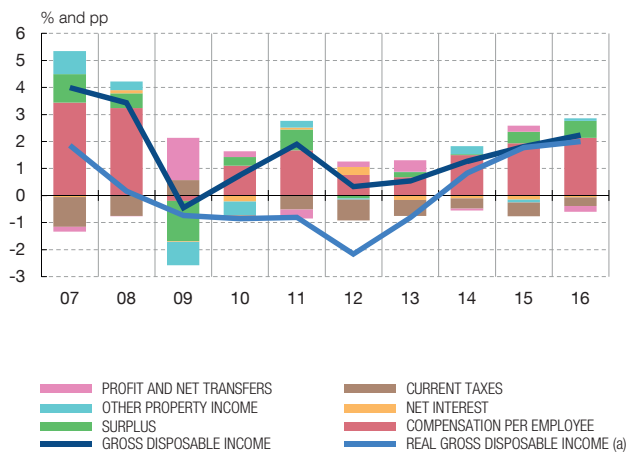
As has been the case since the start of the recovery, the growth in household income was essentially underpinned by employment generation. On National Accounts data, the increase in employment averaged 1.3% for the year, compared with 1% in 2015. The acceleration in employment was across the board for the euro area countries, with growth sharpest in Spain and Ireland (2.7% in both countries). Nonetheless, despite this improvement, the area as a whole continued to evidence an underutilisation of available resources. The unemployment rate stood below 10% at end-2016, a figure still higher than the pre-crisis level (around 7% in early 2008; see Chart 1.2). If broader measures of unemployment are taken, considering "other potential labour force"⁵ and part-time employees wishing to increase their working day, an improvement is also observed, although the levels stood at over 18%, compared with a figure of 15% in early 2008 [see ECB (2017a) and Banco de España (2017a/b)]. Cross-country heterogeneity is high, although labour market slack affects the euro area countries across the board, with the exception of Germany.

Real wage growth also contributed, along with employment, to reinvigorating household purchasing power, despite the fact that nominal wage increases were modest: averaging 1.3% for the year, a very similar figure to that in 2015. Country by country, wage increases

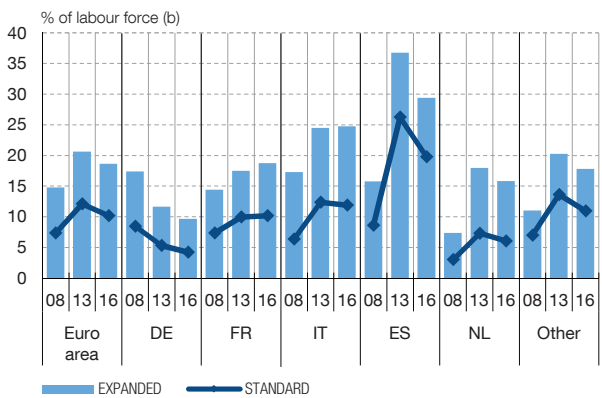
4 The household sector include sole proprietorships without legal personality and not-for-profit institutions. GDI encompasses employee compensation (including employers' Social Security contributions), mixed income (generated by the self-employed), the gross operating surplus (arising from family businesses and from income assigned to owner-occupied dwellings), net income from property (essentially interest and dividends received less interest paid) and transfers to and from the public sector (Social Security benefits less contributions and payment of taxes). In the article, GDI is adjusted for the net change in pension fund assets.

5 "Potential labour force" includes those that are not seeking employment but are available (discouraged workers) and those actively seeking employment but who are not available to commence working within two weeks.

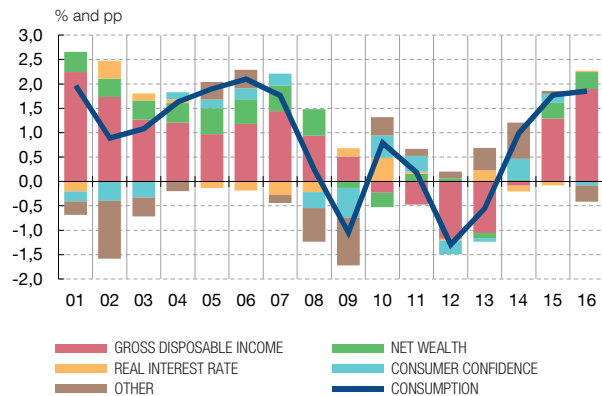
1 GROSS DISPOSABLE INCOME AND COMPONENTS
Contributions to year-on-year growth



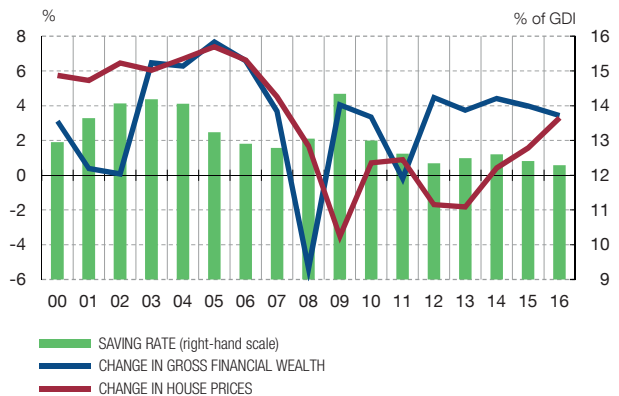
2 UNEMPLOYMENT RATE



3 CONSUMPTION AND DETERMINANTS (c)



4 SAVING, WEALTH AND HOUSE PRICES



SOURCES: Eurostat and ECB.

- a Deflated by the average growth of the HICP.
- b For the expanded unemployment rate use is made of the labour force plus those who are available but are not seeking employment and those who are seeking employment but are not available.
- c See Casado et al (2014) for greater details on the equation specification.

were generally moderate, especially in Italy and in Spain. Germany was an exception, with compensation per employee growing by more than 2% over the year as a whole, the rate at which it has been growing since 2010. The containment in wage dynamics continued to reflect the slack persisting in labour markets, and low inflation is also heading off higher increases in nominal wages insofar as most collective bargaining rests on past increases in prices. Taking the average inflation rate for the year (which stood at levels close to 0%), the increase in compensation per employee in real terms was 1.1%, a high figure from a historical perspective. However, the upward trajectory of inflation over the year has placed real wage growth at low levels: 0.4% in the last quarter of the year.

Both employment generation and wage increases exerted an upward effect on the main source of household income, namely employment income, which is reflected in the aggregate of employee compensation, which provides 75% of income and which grew by 2.8%, compared with 2.6% in 2015. The economic improvement was also felt in income from business activity, included in the operating surplus and mixed income caption. This is the second most important component of gross household income, generating close to

24% thereof, and it includes the income generated by the self-employed (mixed income) and non-wage income from family businesses and from income assigned to owner-occupied dwellings. This component, referred to as “surplus” in Chart 1.1, grew by 2.6%, compared with 1.8% in 2015. As to the rest of the household income components, both interest paid and received in terms of the return on saving continued to fall, reaching new lows for the period since 1999. In net terms, households received interest for an amount equivalent to 0.8% of their GDI, a figure slightly down on that of the previous years. Tax payments increased once more (posting figures close to 16% of GDI, up on the historical average of 14% since 2000), while net general government transfers declined.

CONSUMPTION, SAVING AND INVESTMENT

The growth in income and in wealth boosted household consumption, which grew in line with its fundamentals⁶, at a rate of 1.9% in real terms, slightly up on 2015 (see Chart 1.3). The increase in spending was more pronounced in the countries with sharper labour market improvements, such as Spain, Ireland and Portugal.

The gross euro area household saving rate held stable at the low levels attained in 2011: around 12% of GDI (see Chart 1.4). Country by country, the saving rate held low compared with its historical average (with the exception of Germany, where it stands at a high 17%, slightly above its historical average). The low saving rates observed in most countries in the area might be reflecting the effect of low interest rates – which reduce the return on saving and encourage the bringing forward of consumption plans – and the diminished need for precautionary saving given the improvements in the economy and in the labour market, the increase in wealth and the easing in the degree of uncertainty.

Household wealth increased once again in 2016, by close to 4% (against 3% the previous year), with the contribution both of financial assets (which rose by 3.4%) and, above all, of real estate assets, with an increase of close to 5% (see Table 1). The revaluation of property in 2016 as a whole was practically across the board: all the countries posted positive growth rates in house prices, with the exception of Cyprus, Greece and Italy. In the latter three countries, following a long adjustment process, prices continued falling, albeit at an increasingly slower pace, and in Italy’s case slightly positive rates were even recorded at the end of the year. The buoyancy of prices was more intense in the small countries. Among the bigger economies, the highest growth was in Germany, the Netherlands, Portugal and Ireland, with a nominal increase of over 6% in 2016 as a whole, followed by Spain and by Austria, with a 4.6% increase in both cases. In most of these countries, property prices stood below their long-term fundamentals, and for the area as a whole house prices are in line with their fundamentals [see ECB (2017c) and ESRB (2016)]. Nonetheless, the expansion of the real estate market in some regions, along with the behaviour of household credit and debt, has necessitated the activation of macroprudential measures in some countries and led the European Systemic Risk Board (ESRB) to identify vulnerabilities in the residential market in some countries.⁷

Against this background of high house prices there was also a recovery in household investment in non-financial assets. In particular, non-financial investment (mainly residential) grew by more than 4% in 2016 in nominal terms (almost double that in 2015), which entails an expansion greater than that in GDI for the first time since 2007. In any

⁶ Results of the equation based on Casado *et al.* (2014).

⁷ In December 2016, the ESRB warned about the presence of medium-term vulnerabilities in the residential real estate market of eight countries, among which Austria, Belgium, Luxembourg, Finland and the Netherlands in the euro area. In the latter two countries, the vulnerabilities are more closely related to high household debt.

	Outstanding balances (€bn)		Financial transactions (% of GDP)					
	2016	2010	2011	2012	2013	2014	2015	2016
FINANCIAL ASSETS	23,034	4.5	3.3	3.0	2.1	3.7	4.3	4.2
Currency and deposits	7,687	1.8	1.6	2.3	1.8	1.7	1.9	2.8
Fixed-income securities	777	-0.4	1.0	-0.9	-1.8	-1.9	-1.5	-0.9
Shares and other equity	6,181	0.2	-0.3	0.7	0.8	1.4	2.0	0.6
<i>Of which:</i>								
<i>Listed shares</i>	981	0.2	0.2	0.1	-0.3	0.1	-0.2	-0.1
<i>Unlisted shares and other equity</i>	3,140	0.8	0.3	0.7	0.7	0.0	0.4	0.0
<i>Investment funds</i>	2,060	-0.7	-0.8	0.0	0.4	1.3	1.7	0.8
Insurance technical reserves and pension funds	7,272	...	...	...	1.6	2.3	1.8	1.8
Other	1,117	...	...	...	-0.2	0.2	0.1	-0.1
LIABILITIES	7,075	1.8	0.9	0.4	-0.4	0.4	1.0	1.4
Loans	6,294	1.2	0.9	0.2	-0.3	0.1	0.8	1.2
<i>Of which:</i>								
<i>Loans from resident credit institutions (a)</i>	5,732	1.3	0.7	0.1	-0.2	0.0	0.7	1.0
<i>Other loans</i>	562	-0.1	0.2	0.1	-0.1	0.0	0.1	0.1
Other	781	0.6	0.1	0.2	0.0	0.3	0.2	0.2

	Outstanding balances (€bn)		Year-on-year growth (%), unless otherwise indicated					
	2016	2010	2011	2012	2013	2014	2015	2016
FINANCIAL POSITION								
Gross disposable income	...	0.8	1.9	0.3	0.5	1.3	1.8	2.2
Gross saving (% of GDI)	...	13.0	12.6	12.3	12.5	12.6	12.4	12.3
Net lending (+)/borrowing (-) (% of GDI) (b)	...	4.0	3.6	3.8	4.4	4.5	4.2	3.6
Net lending (+)/borrowing (-) (% of GDP) (b)	...	2.6	2.3	2.5	2.8	2.9	2.6	2.3
Financing (total liabilities)	7,075	2.7	1.4	0.5	-0.5	0.6	1.6	2.2
Total gross wealth	54,972	2.8	-0.2	-0.1	0.8	2.4	3.0	4.0
Gross financial wealth	23,034	3.3	-0.2	4.5	3.7	4.4	4.0	3.4
Non-financial wealth	31,938	2.5	-0.2	-3.0	-1.2	1.0	2.3	4.4
Real estate wealth	30,119	2.6	-0.4	-3.2	-1.5	1.0	2.7	4.9
Total net wealth (c)	47,897	2.8	-0.6	-0.2	1.0	2.6	3.3	4.4
Debt burden (% of GDI)	...	2.1	2.4	2.1	1.6	1.4	1.1	0.9
Indebtedness (% of GDI)	...	97.8	97.4	96.9	95.6	94.7	94.0	93.5
Indebtedness (% of GDP)	...	63.6	62.9	62.5	61.4	60.4	59.2	58.6
Indebtedness (% of total financial assets)	...	32.0	32.6	31.1	29.7	28.6	27.8	27.3

SOURCES: Eurostat and ECB.

- a** Adjusted for securitisation and other transfers.
b Outstanding balance of non-financial accounts.
c Gross wealth less liabilities.

event, the funds saved by households – plus net capital transfers – exceeded their spending on non-financial investment, which means, as is traditional in this sector, that households acted as suppliers of funds to the other institutional sectors of the euro area. Household net lending stood at 3.6% of GDI in 2016, compared with 4.2% in 2015.

THE ACQUISITION OF ASSETS AND FINANCING

As regards financial assets, the flow of investment from the household sector stood at 4% of GDP, a very similar level to 2015 (see Table 1). The placement of funds in liquid instruments – cash and deposits – increased significantly (by 2.8% of GDP), which may be associated with the improvements in household spending and the low opportunity cost of keeping saving in these instruments as opposed to other liquid and low-risk assets, in a setting of very low interest rates. Nonetheless, portfolio shifts towards instruments with a higher return and risk continued, mainly through net subscriptions of investment fund units and to the detriment of fixed-income securities placements.

The net flow of financing directed at households continued to increase in 2016 in a sustained fashion, but the pace of the increase in credit was relatively moderate compared with the expansion in nominal GDP (see Chart 2.1). The firming of the economic recovery and low interest rates (see Chart 2.2) continued to boost the demand for credit, in a setting of few changes in bank lending standards. Specifically, bank loans to households grew by close to 2% at end-2016, against 1.4% in 2015, an acceleration that has continued to date in 2017. Underpinning this improvement were loans earmarked for house purchase, which grew by 2.7% in the year as a whole, although the dynamism of loans for consumption was also high (4%). Among the bigger economies, the rate of increase in bank loans to households was higher in Belgium and in France (above 4%), while in the economies undergoing debt adjustment – such as Spain, Greece, Portugal, Ireland and Cyprus – the bank loan portfolio continued to contract, albeit at an increasingly lower pace.

Significantly, new house purchase loan transactions were signed in the main under stable long-term interest rate references (see Chart 2.3). For the euro area as a whole, more than 50% of new transactions were arranged at a fixed interest rate at a term of over 10 years, whereas the related pre-crisis percentage was around 20%. As can be seen in Chart 2.2, these loans became cheaper and their interest rates fell below 2% at end-2016, similar to the cost of variable-rate loans. This greater preference for fixed interest rate contracts was common both to the countries with a greater tradition for this type of loan (Germany, France, the Netherlands and Belgium) and to countries where variable rate loans are typically arranged. Thus, for instance, in Spain's case more than 26% of new loans for house purchase were signed with a fixed interest rate for a term of over 10 years, whereas the pre-crisis percentage was 1%. In Ireland, the prevalence of variable-rate interest rates with a fixation period equal to or less than one year has also fallen back, although these continued to account for 65% of operations in 2016, with the highest growth evident in contracts setting the interest rate at between one and five years.

In any event, the buoyancy of lending to households remained restricted by the deleveraging needs in some countries. For the euro area as a whole, the flow of net positive financing was compatible with additional headway in correcting the level of indebtedness in terms of GDP (see Chart 2.4). Household debt stood at 59% of GDP at end-2016, a slightly lower level than before the crisis, with high cross-country heterogeneity, Cyprus and the Netherlands being the economies with the highest household debt (over 100% of GDP). As illustrated in Chart 2.5, which shows the rate of increase in loans to households and of real GDP in 2016, the countries with a level of debt higher than that of the euro area tended to post lower growth rates – or declines – in loans, with the exception of Belgium and Finland.

Non-financial corporations

INTERNAL FINANCING AND INVESTMENT

The expansion in productive activity in 2016 translated into an increase in euro area⁸ companies' gross value added (GVA) of 3%, a rate slightly down on that for 2015. Growth was underpinned by the strength of domestic demand, as exports slowed notably, against a background of greater global uncertainty in which the positive effects of the past appreciation of the euro tailed off. The gross operating surplus (GOS)⁹ increased by 3% – against 3.8% the previous year (see Table 2) – and the decline in income received – in particular, property income – prompted a moderation in pre-tax

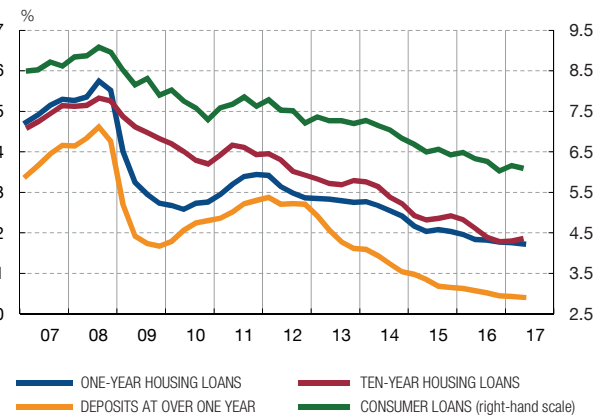
⁸ Throughout this section the euro area aggregate excludes Ireland owing to National Accounts revisions (see footnote 1). For example, Ireland's GVA grew by over 50% in 2015.

⁹ The GOS is the gross value added generated in production, net of compensation per employee minus/plus the taxes/subsidies linked to production.

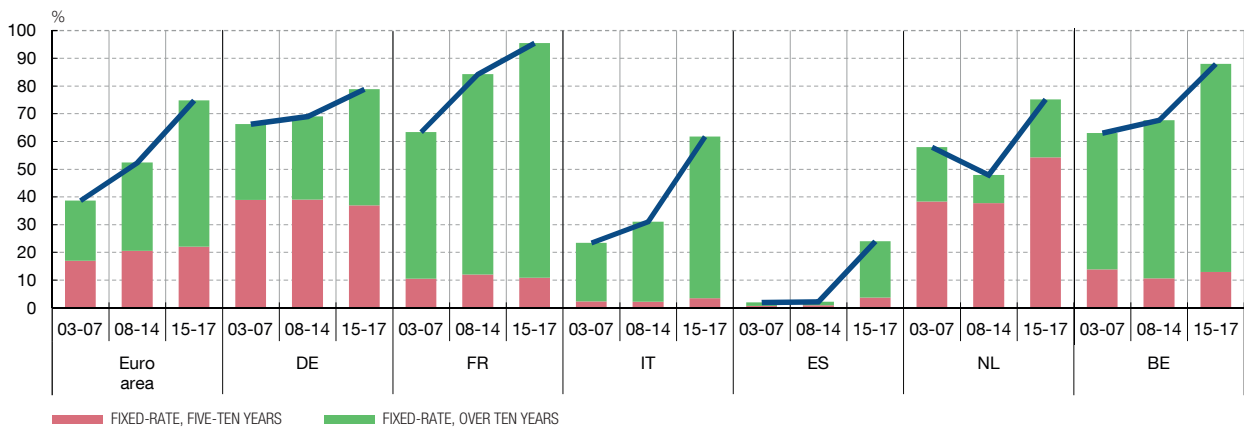
1 HOUSEHOLDS: BANK LOANS AND GDP



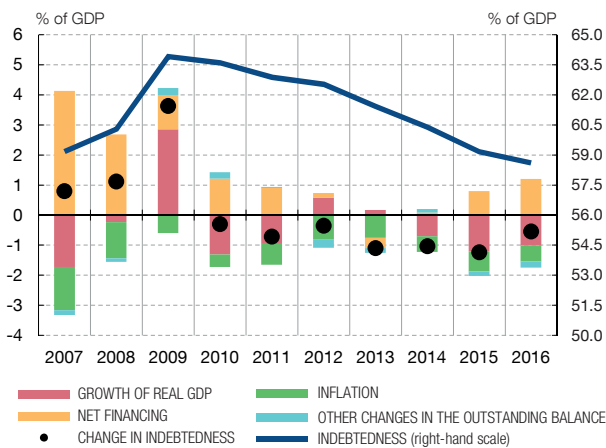
2 BANK INTEREST RATES
New business



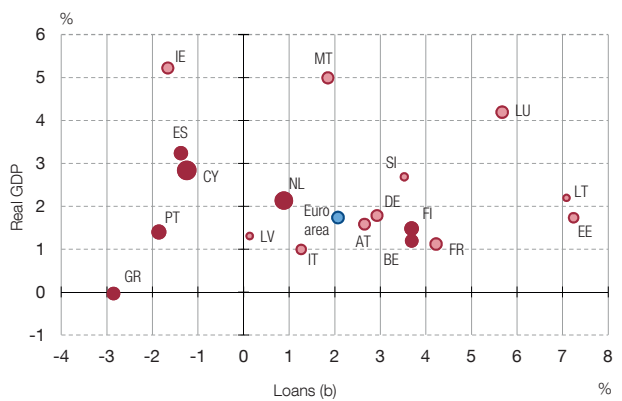
3 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE
Weight of fixed-rate loans (for over five years) relative to total new business



4 HOUSEHOLDS: INDEBTEDNESS



5 HOUSEHOLDS: GROWTH OF TOTAL LOANS AND GDP IN 2016



SOURCES: Eurostat and ECB.

- a Loans adjusted for securitisation and other transfers.
- b Loans based on financial accounts. Rates calculated with financial flows. The size of the circle indicates the relative indebtedness of the sector as a percentage of GDP in each country, with those showing higher indebtedness than that of the euro area being shaded. Luxembourg, Slovakia and Latvia are excluded so as not to distort the chart.

	Outstanding balances (€bn)		Financial transactions (% of GDP)					
	2016	2010	2011	2012	2013	2014	2015	2016
FINANCIAL ASSETS	20,872	7.6	5.2	2.6	3.5	4.1	5.3	6.4
Currency and deposits	2,362	1.0	1.0	0.8	1.0	0.3	1.0	1.5
Shares and other equity	10,317	2.1	2.6	1.3	1.0	2.6	3.3	3.8
Loans	3,899	2.0	0.8	1.3	0.1	1.0	0.8	0.7
Other	4,293	2.5	0.9	-0.8	1.4	0.3	0.3	0.4
LIABILITIES	29,626	7.2	5.4	2.7	1.7	3.3	4.2	4.8
Fixed-income securities	1,339	0.7	0.5	1.2	0.9	0.4	0.6	0.8
Loans	9,213	1.7	1.6	-0.3	-0.9	1.6	1.4	1.6
<i>Of which:</i>								
<i>Non-financial corporations</i>	2,458	1.4	0.3	0.6	-0.2	0.6	0.4	0.0
<i>Loans from resident credit institutions (b)</i>	4,249	0.3	0.5	-0.7	-1.4	-0.6	0.3	0.9
Trade loans and advances	2,569	...	...	...	-0.2	-0.4	0.3	0.9
Shares and other equity	15,515	2.6	2.4	1.5	1.9	2.0	2.2	1.7
Other	991	2.2	1.0	0.3	0.0	-0.4	-0.4	-0.2

	Year-on-year growth (%), unless otherwise indicated						
	2010	2011	2012	2013	2014	2015	2016
Gross operating surplus	5.0	2.9	-2.5	1.9	3.3	3.8	3.0
Net business income	7.3	6.6	-11.5	7.4	3.9	7.7	0.9
Gross saving	12.9	3.0	-6.9	12.3	4.3	8.8	4.4
Internal financing (c)	10.8	3.1	-6.9	11.4	5.3	7.6	3.7
External financing (total liabilities)	2.8	2.1	1.1	0.6	1.2	1.5	1.7
External/internal financing ratio (%)	59	45	24	13	25	31	35
Debt burden (% of GOS)	12.2	13.4	12.5	10.5	9.5	7.7	6.7
Indebtedness (% of GOS) (d)	383	372	380	368	370	368	369
Indebtedness (% of GDP) (d)	79.2	77.3	76.7	74.9	76.3	76.6	77.2
Net lending (+) / net borrowing (-) (% of GOS) (e)	4.2	0.3	0.3	6.7	6.6	9.6	10.1
Net lending (+) / net borrowing (-) (% of GDP) (e)	0.9	0.1	0.1	1.4	1.4	2.0	2.1

SOURCES: Eurostat and ECB.

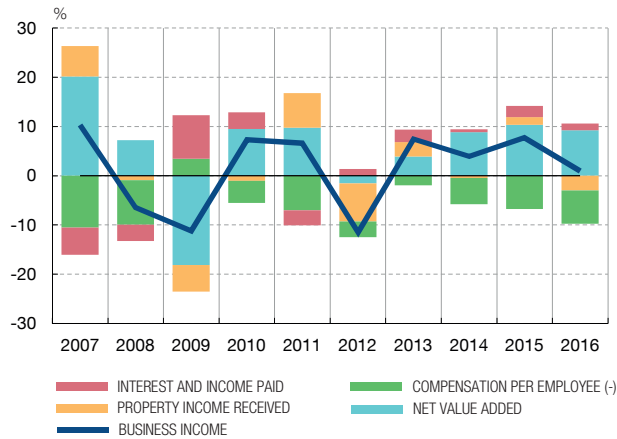
- a The euro area aggregate excludes Ireland.
- b Adjusted for securitisation and other transfers.
- c Gross saving and net capital transfers.
- d Consolidated data. Trade credit and pensions funds not included.
- e Outstanding balance of non-financial accounts.

profits (i.e. net business income¹⁰), which increased by almost 1% (see Chart 3.1). Accordingly, gross business margins at the aggregate level – proxied by the GOS/GVA ratio – held stable (see Chart 3.2).

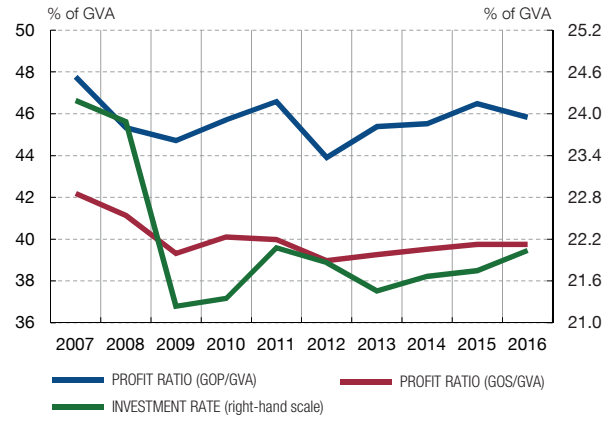
In terms of company size, and according to the qualitative information from the survey on the access to finance of enterprises in the euro area (SAFE), the improvement in sales was across the board, although their impact on profits remained limited, particularly at SMEs. Since the autumn of 2014, SMEs have been signalling the growth of costs as a factor preventing an improvement in profits. In the latest survey, the proportion of SMEs highlighting a fall-off in profits is equal to that indicating an increase. In the case of the large corporations, by contrast, the increase in profits is growing.

¹⁰ Net business income is calculated as the GOS less fixed capital consumption, plus interest and net property income (including undistributed dividends and retained profits arising from foreign direct investment).

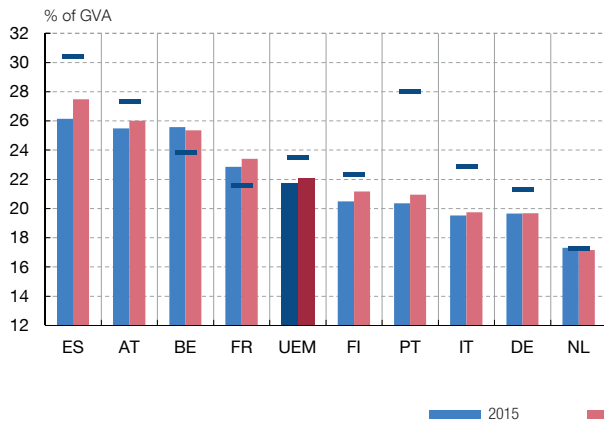
1 NET BUSINESS INCOME AND COMPONENTS
Contributions to year-on-year growth



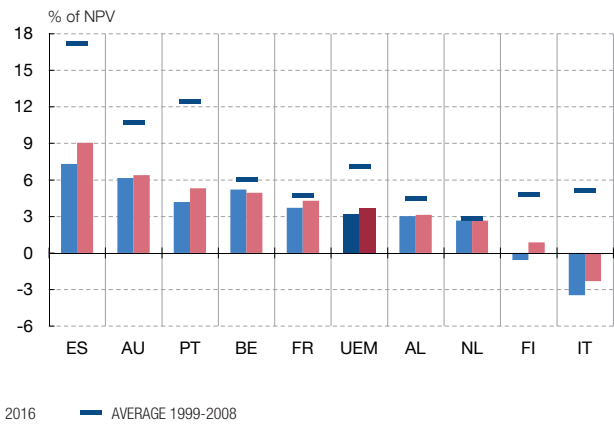
2 PROFIT RATIO AND INVESTMENT RATE



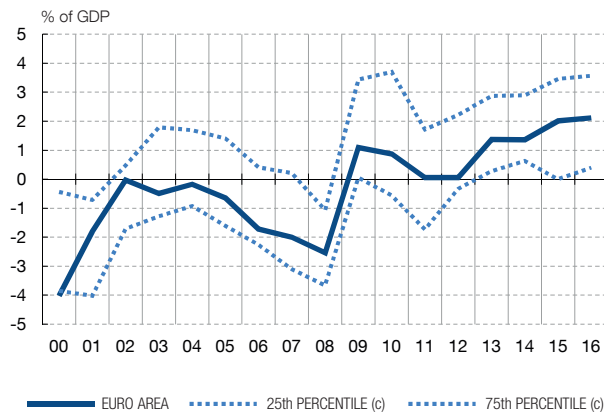
3 GROSS INVESTMENT RATE



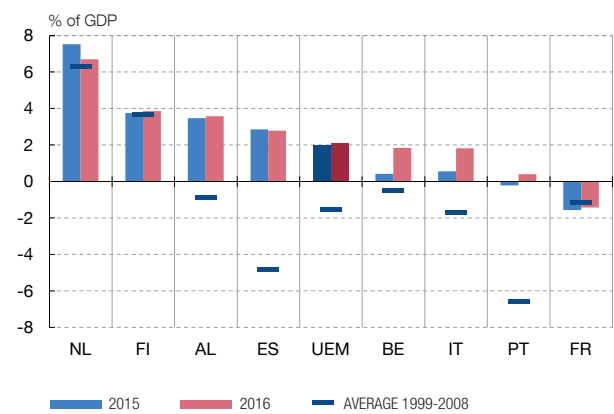
4 NET INVESTMENT RATE (b)



5 NET LENDING/BORROWING OF THE EURO AREA



6 NET LENDING/BORROWING



SOURCES: OECD, Eurostat and ECB.

- a The euro area aggregate excludes Ireland (see footnote 6).
- b GFCF and GVA adjusted for fixed capital consumption.
- c Calculated taking nine euro area countries.

The firming of the economic recovery and the capacity to generate profits in a setting of favourable financial conditions enabled companies – including SMEs – to increase their investment (as is inferred from the SAFE). The gross capital formation of non-financial corporations increased at a year-on-year rate of 3.5% at constant prices¹¹, compared with 2.9% in 2015. In terms of the investment effort, measured as the investment/GVA ratio, there was also an improvement to 22%, a still-low-level from a historical perspective (see Chart 3.2). This improvement was generalised across the different countries, as illustrated in Chart 3.3, although the weakness of investment is a common strand, with the exception of France, the Netherlands and Belgium. If fixed capital consumption (i.e. spending earmarked for covering the depreciation of capital stock and replacing obsolete stock) is discounted, the investment effort for increasing productive capacity would also be some distance off the pre-crisis averages, the Netherlands being the only country with similar rates (see Chart 3.4). The lack of greater investment buoyancy at the current cyclical juncture, despite the notable easing of financing conditions, reflects the moderate nature of the economic recovery and the uncertainty over future growth, as well as the need for certain companies to strengthen their balance sheets.

Low investment levels, particularly in certain areas [see European Investment Bank (2016)], prompted the launch in 2015 of the Investment Plan for Europe, also known as the “Juncker Plan”. The plan entailed the creation of the European Fund for Strategic Investment (EFSI), to support projects with a risk profile and of a more innovative nature than those traditionally promoted by the European Investment Bank (EIB). Through the mobilisation of private capital, the plan originated with the aim of achieving an overall volume of investment of €315 billion over three years, in strategic investments targeted on priority areas such as infrastructure, education, research and innovation, and on venture capital for SMEs. In addition to financial support, investment is boosted with measures to enhance the investment environment in Europe¹², and through the visibility and technical assistance the project received. The financial support offered to May 2017 has overall investment potential of €194 billion, more than 60% of the target set to mid-2018. Although there is still no estimate of the macroeconomic impact of the plan, the Commission deems it necessary to further the investment drive and, in September, it presented a legislative proposal to extend the EFSI to 2020, with the aim of mobilising an investment volume of €500 billion. This latter proposal also includes other improvements to the plan [see European Commission (2016)].

Despite the growth in investment, companies continued to post financing capacity for a relatively high amount, in excess of 2% of GDP in 2016 for the euro area as a whole (see Chart 3.5). As Chart 3.6 illustrates, this saving capacity runs counter to the sector’s traditional financing needs in most countries. While the accumulation of internal resources may be a symptom of the need to reduce the sector’s indebtedness in some countries, the fact that an institutional sector key to economies’ accumulation of productive capital has financing capacity may also be a sign of the moderate nature of investment. As Chart 3.6 shows, only French companies evidenced financing needs in 2016.

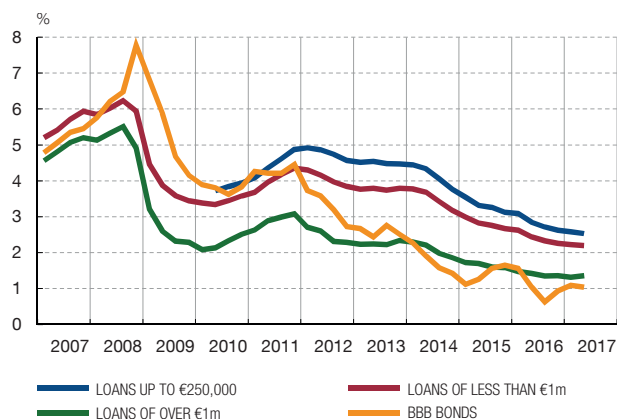
EXTERNAL RESOURCES

The surplus of the non-financial corporations sector was compatible with an increase in borrowed funds. As Table 2 shows, companies’ liabilities increased by 4.8% of GDP, through the issuance of shares (1.7% of GDP) and greater external financing (equivalent to 2.4% of GDP). In the case of debt instruments, there was an increase both in bank loans and in bond issues, against a background of interest rates at historical lows (see Charts 4.1 and 4.2).

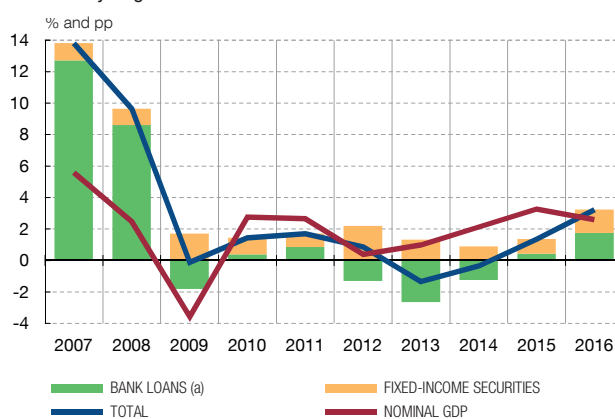
¹¹ Taking the National Accounts gross fixed capital deflator.

¹² Through, for example, the simplification and harmonisation of regulations or improved access to financing.

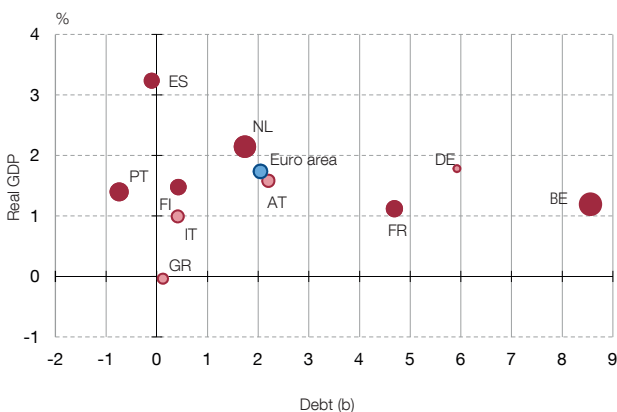
1 COST OF FINANCING



2 FINANCING AND GDP
Year-on-year growth and contributions



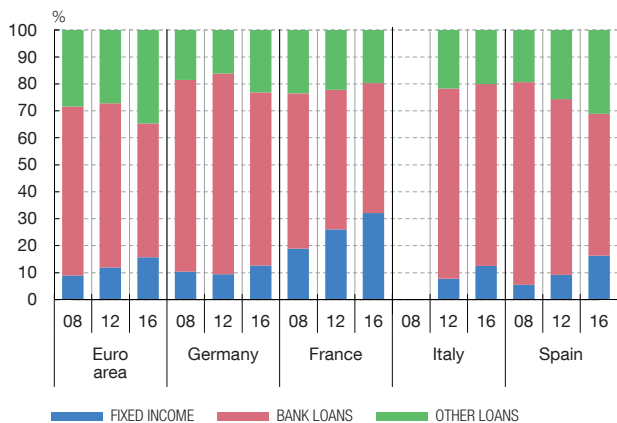
3 DEBT AND GDP BY COUNTRY
Growth in 2016



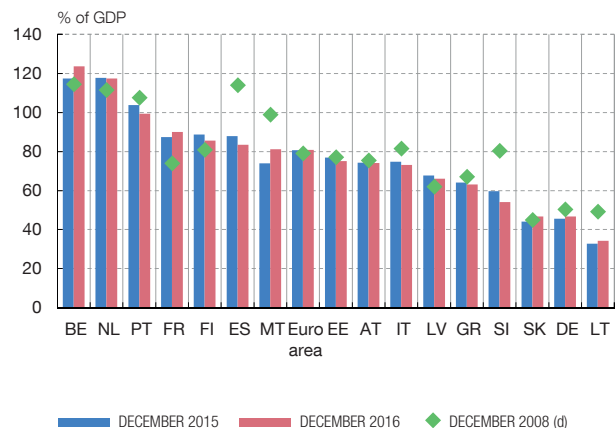
4 BANK LOANS AND GROSS FIXED-INCOME ISSUES



5 DEBT COMPOSITION BY TYPE OF INSTRUMENT (c)
Consolidated sectoral accounts



6 DEBT RATIO
Consolidated sectoral accounts



SOURCES: Eurostat and ECB.

- a Loans adjusted for securitisation and other transfers.
- b Consolidated loans and fixed-income securities obtained from the financial accounts. The size of the circle indicates the relative indebtedness of the sector as a percentage of GDP in each country, with those showing higher indebtedness than that of the euro area being shaded.
- c Bank loans are adjusted for securitisation and other transfers. "Other loans" include foreign loans. In Spain's case, information from the Banco de España is used to include among fixed-income issues those issues through resident and non-resident subsidiaries; this adjustment is made by reducing the "other loans" item, so as not to distort the level of debt.
- d As the data are not available, the figures for the Netherlands, Estonia, Italy, Greece, Slovakia and Cyprus refer to 2012.

Country by country, there were wide divergences in the growth rate of financing, with higher figures in Germany, France and Belgium (see Chart 4.3). In countries with higher economic growth, such as Spain and the Netherlands, the more moderate increases in financing reflected the ongoing adjustment by certain companies of their balance sheets. In other economies such as Italy and Greece, low economic growth and uncertainty would account for the lack of momentum in corporate debt.

Despite the pick-up in bank loans, the process of disintermediation in the financing of companies that began in 2008 continued.¹³ In 2016 this process was bolstered by the Eurosystem's Corporate Sector Purchase Programme (CSPP¹⁴), announced in March last year. Eurosystem purchases, which began on 8 June 2016, rose to a cumulative volume of over €90 billion in the year following their launch, with a favourable impact on the primary market [see Mayordomo (2016) for the case of Spain] and on the cost of bond financing, which stood at very low levels, even below the interest rates applied to new large-value bank lending business (see Chart 4.1). Indeed, the dynamism of issues might explain, at least in part, the slowdown in large-value (over €1 million) bank loans (see Chart 4.4). However, if large corporations shift their financing decisions to the fixed-income markets, the introduction of the CSPP may also be expected to have a positive collateral effect on the supply of bank loans available for smaller companies.¹⁵

As Chart 4.5 shows, disintermediation has prompted shifts in the composition of companies' debt, although the weight of fixed-income is still some way off that of economies with a greater market tradition, such as the United States.¹⁶ Liabilities in the form of fixed-income securities accounted for 16% of total debts at end-2016, compared with figures below 10% at the beginning of 2008. Bank loans, by contrast, which in 2008 accounted for more than 60%, have seen a reduction in their weight of more than 10 pp. This phenomenon has been widespread across the euro area countries, although the weight of fixed-income is notably higher in France. Although the process of disintermediation in the financing of companies since 2008 has partly been in response to conjunctural factors (such as the contraction in the supply of bank credit during the crisis or, more recently, the CSPP), the development of capital markets and their integration within the European Union will also be boosted by the initiatives in the Capital Markets Union project. Generally, euro area companies' indebtedness held at high levels. The combination of moderate growth in nominal GDP and the increase in liabilities meant that the debt ratio held stable in the euro area as a whole at close to 81% of GDP¹⁷ (see Chart 4.6). Country by country, however, debt continued declining for a significant number of economies, such as Spain, but not so for the larger countries, such as Germany and France.

25.7.2017.

¹³ See Orellana and del Río (2015).

¹⁴ Through the CSPP, the Eurosystem acquires corporate sector bonds (euro-denominated securities with an investment-grade rating issued by non-bank companies located in the euro area). To be eligible, the remaining maturity on the securities should be between six months and 30 years, with no minimum-volume requirement for the issue.

¹⁵ Arce, Gimeno and Mayordomo (2017) provide evidence for the Spanish case that confirms the presence of this type of positive collateral effect on the volume of credit directed at companies which are not issuers of eligible securities under the CSPP and which, normally, are smaller than those whose debt does actually meet the requirements of this programme.

¹⁶ See Banco de España (2017b), chapter 2, for greater details of this process in the case of Spanish corporations.

¹⁷ In consolidated sectoral terms.

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