

Investment and financing in 2006

After several years of fairly low investment, fixed asset formation increased considerably in 2006, particularly on the part of enterprises. At the same time, profitability improved significantly, something which was reflected in a sharp increase in corporate sector savings in the macroeconomic accounts. This has also contributed to an improvement in the financial situation of German enterprises, despite the renewed increase in borrowing. The financial situation of households also continued to change for the better last year. The financial and non-financial assets of this sector rose to just over €9 trillion in 2006, not least as a result of increased investment in housing construction, whereas debt practically stagnated, at €1½ trillion. This contrasts to a certain extent with developments in some of the other western industrial countries, where households' liabilities, particularly those resulting from housing loans, have increased sharply in recent years.

This article gives an overview of the latest national accounts and flow-of-funds account statistics for 2006. The detailed figures are printed in the appended tables.

Aggregate fixed asset formation and saving

Significant increase in real investment ...

Aggregate fixed asset formation increased significantly in 2006. According to the latest revised figures of the Federal Statistical Office's national accounts, the net investment of all sectors went up by €26 billion to €76 billion. As a result, the aggregate investment ratio showed its first rise for some time, going up from 2.7% to 3.9% of disposable income. At just under one-tenth of income, the ratio had been much higher on average during the 1990s, however.

Non-financial corporations¹ alone accounted for net investment of €43 ½ billion in 2006, which was over €15 billion more than in the previous year. At the same time, households invested €38 ½ billion net, around €9 billion more than a year earlier. The rise can be attributed primarily to an increase in construction activity. By contrast, the non-financial assets of the general government sector showed a further decrease. Although its gross investment expenditure went up slightly for the first time since 2004 to just over €32 billion, this was more than offset by depreciation of around €36 billion.

... and substantial aggregate savings

For some years now, saving in the domestic sectors has been considerably higher than real investment. Saving went up by around €55 billion to €200 billion, or just over 10% of disposable income, in 2006, matching the previous record set in 1991. The large domestic saving surplus over net investment, which has shown a marked rise but is still much lower, gives rise to the German economy's

positive current account balance, which, according to national accounts data, stood at €124 billion last year. As usual, households accounted for the largest part of domestic saving, although, at €160 billion, there was only a below-average increase (of €2 ½ billion) in private saving. Households' saving ratio therefore remained unchanged in 2006, at 10.6% of their disposable income.

Consequently, developments in the other sectors of the German economy were the main reason for the marked rise in overall saving, especially the strong growth in corporate profits and the successful reduction in deficits in the area of public finances. For example, enterprises were able to retain profits amounting to €34 billion in 2006, exceeding the already high figure of the previous year by almost €20 billion.² At the same time, sharply rising tax receipts and a moderate growth in government consumption expenditure led to the "savings deficit" (including net capital transfers made) in the public sector almost halving on the year to €42 ½ billion. Despite the improvement, this still means that general government consumption expenditure is, to a considerable extent, being financed via the capital market. The resulting increasing strain on future generations can be cut back to a reasonable level only by

¹ Under the European System of Accounts 1995 (ESA 95), these include non-financial corporations and partnerships, whereas sole proprietorships are assigned to the household sector.

² According to the information available, corporate profits for 2005 are likely to be adjusted upwards in the next revision of the national accounts in August this year, with the result that last year's jump in profits will be considerably smaller.

Aggregate acquisition of non-financial assets, saving and net lending/net borrowing

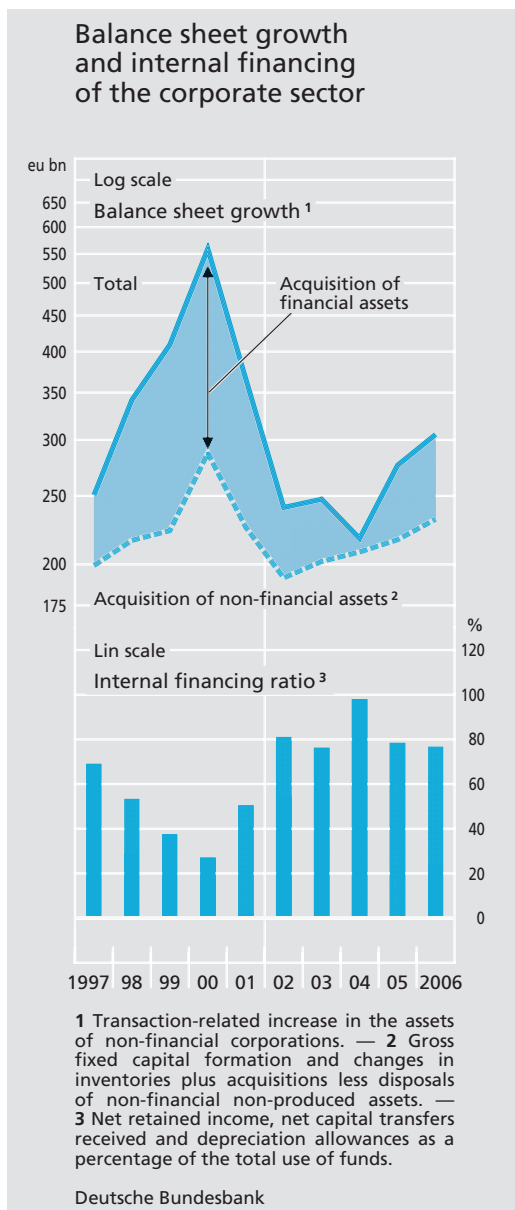
€ billion

Item	1999	2000	2001	2002	2003	2004	2005	2006
Acquisition of non-financial assets								
Net investment ¹								
Households ²	70.1	62.9	44.7	37.9	36.6	32.8	29.6	38.5
Non-financial corporations	58.8	73.7	48.3	9.7	20.1	24.8	28.0	43.5
Fixed assets	56.3	67.1	55.0	31.1	27.4	30.8	31.2	45.6
Inventories	2.5	6.7	- 6.7	- 21.3	- 7.2	- 6.0	- 3.2	- 2.1
Financial sectors	3.1	2.7	0.7	- 0.0	- 1.1	- 2.1	- 2.0	- 1.8
General government	3.3	1.4	1.7	0.7	- 1.4	- 4.0	- 5.6	- 4.1
Total	135.3	140.7	95.4	48.3	54.2	51.4	50.0	76.1
<i>Memo item</i>								
Net investment ³	8.1	8.2	5.4	2.7	3.0	2.8	2.7	3.9
Acquisitions less disposals of non-financial non-produced assets								
Households ²	1.4	1.0	0.9	0.9	1.0	1.0	1.0	1.0
Non-financial corporations	0.6	42.9	0.4	0.5	0.5	0.5	0.5	0.5
General government	- 1.9	- 52.2	- 1.3	- 1.4	- 1.4	- 1.4	- 1.4	- 1.4
Total	0.0	- 8.4	0.0	0.0	0.0	0.0	0.0	0.0
Saving ⁴								
Households ²	140.9	139.2	142.9	140.1	162.7	167.1	171.7	173.7
Non-financial corporations ⁵	- 11.0	- 20.5	7.4	13.6	7.3	30.3	28.6	46.1
Financial sectors	9.3	10.7	3.5	19.6	17.9	27.0	24.1	23.1
General government ⁵	- 27.9	- 23.8	- 59.2	- 79.0	- 89.8	- 87.9	- 79.6	- 42.5
Total	111.3	105.6	94.5	94.2	98.1	136.5	144.8	200.4
<i>Memo item</i>								
Saving ^{3,6}	6.7	6.3	5.4	5.3	5.4	7.4	7.7	10.2
Net lending/net borrowing								
Households ²	69.4	75.4	97.3	101.3	125.1	133.4	141.2	134.3
Non-financial corporations ⁵	- 70.3	- 137.1	- 41.4	3.4	- 13.3	5.0	0.1	2.1
Financial sectors	6.2	8.0	2.8	19.6	19.1	29.2	26.1	24.9
General government ⁵	- 29.3	27.1	- 59.6	- 78.3	- 87.0	- 82.5	- 72.6	- 37.0
Total	- 24.0	- 26.7	- 0.9	45.9	43.9	85.1	94.8	124.3
<i>Memo item</i>								
Net lending/net borrowing ³								
Households ²	4.1	4.4	5.5	5.7	7.0	7.2	7.5	6.9
Non-financial corporations ⁵	- 4.2	- 8.0	- 2.4	0.2	- 0.7	0.3	0.0	0.1
Financial sectors	0.4	0.5	0.2	1.1	1.1	1.6	1.4	1.3
General government ⁵	- 1.8	1.6	- 3.4	- 4.4	- 4.8	- 4.4	- 3.9	- 1.9
Total	- 1.4	- 1.6	- 0.1	2.6	2.4	4.6	5.0	6.3

Sources: Federal Statistical Office and Bundesbank calculations. — ¹ Net capital formation in the form of fixed assets and changes in inventories. — ² Including non-profit institutions serving households. — ³ As a percentage of aggregate disposable income. — ⁴ Including capital transfers (net). —

⁵ In 2000 including the sales of UMTS licences (so-called non-financial non-produced assets) by general government to non-financial corporations. — ⁶ Excluding capital transfers (net).

Deutsche Bundesbank



systematically persevering with the process of consolidating public finances.

Investment and financing behaviour of enterprises

In contrast to non-financial enterprises' increased real investment, their financial investment, at just over €70 billion, was up only

Shifts in financial investment pattern

€14 billion on the year. According to the figures of the flow-of-funds account, however, there were significant shifts in the pattern of financial assets. Loans granted increased the strongest. At just over €60 billion, they were almost twice as high as in 2005 and were shaped mainly by short-term suppliers' credits to foreign firms associated with the buoyant demand for exports. Producing enterprises invested around €25 billion with banks, which was noticeably less than in 2005. At €9 billion, however, there were strong inflows to longer-term bank deposits. In addition, equity acquisitions were quite buoyant in 2006; foreign equity investment, in particular, increased sharply last year.

On the financing side, the large share of internal financing in the uses of funds is especially notable. Owing to the marked improvement in profitability, the resources generated by enterprises themselves, which include depreciation, achieved, at almost €240 billion, an internal financing ratio which was roughly as high as in 2005 (around 80%), despite the noticeably more buoyant investment activity. For the first time in several years, however, the external financing of non-financial corporations also showed a marked rise in 2006; it came to just over €80 billion in the year under review, compared with €20 billion in 2005. After the years of consolidation, enterprises increased their borrowing from domestic and foreign banks in 2006 to the amount of €15 billion. Bank loans were obtained, on balance, especially in the longer-term maturity segment, whereas short-term loans were marginally redeemed in net terms. This means that the marked shift in the maturity

Internal financing again accounts for a large share ...

... and substantial external financing again for the first time

Non-financial corporations' investment and financing

€ billion

Item	1999	2000	2001	2002	2003	2004	2005	2006
Investment								
Gross capital formation	224.5	246.8	227.1	192.5	203.1	209.4	218.0	233.1
Gross fixed capital formation	222.0	240.2	233.7	213.8	210.4	215.4	221.2	235.2
Changes in inventories	2.5	6.7	- 6.7	- 21.3	- 7.2	- 6.0	- 3.2	- 2.1
Acquisitions less disposals of non-financial non-produced assets	0.6	42.9	0.4	0.5	0.5	0.5	0.5	0.5
Acquisition of financial assets with banks ¹	187.4	273.9	141.5	49.7	45.7	9.5	60.0	74.3
Short-term	- 5.6	5.2	35.4	- 10.4	32.2	27.1	38.8	24.3
Longer-term	- 8.4	6.4	35.5	- 9.4	31.2	26.3	37.6	15.1
in securities ²	2.8	- 1.2	- 0.1	- 1.0	1.0	0.8	1.2	9.2
in equities ³	49.6	59.9	28.7	- 49.2	- 26.2	- 41.1	0.5	- 26.5
in Germany	110.9	181.9	29.8	67.9	8.5	24.5	- 15.8	13.8
abroad	35.7	138.3	- 28.5	19.9	- 21.1	21.8	- 45.8	- 27.8
Loans ⁴	75.3	43.6	58.3	48.1	29.6	2.7	30.0	41.6
to residents	31.2	26.6	46.0	40.3	30.6	- 2.5	34.8	61.2
to non-residents	- 6.1	- 22.6	36.9	65.0	18.7	- 11.4	- 29.0	38.6
Short-term	37.2	49.2	9.1	- 24.7	11.9	8.8	63.9	22.7
Longer-term	31.6	42.9	3.4	- 32.0	7.8	2.5	54.0	20.9
with insurance corporations	5.7	6.2	5.7	7.3	4.1	6.3	9.9	1.8
with insurance corporations	1.2	0.4	1.7	1.1	0.6	1.5	1.7	1.5
Total	412.4	563.6	369.0	242.7	249.3	219.4	278.5	307.8
Financing								
Internal financing	154.7	152.5	186.1	196.3	190.3	214.9	218.6	235.7
Net retained income ⁵	- 11.0	- 20.5	7.4	13.6	7.3	30.3	28.6	46.1
Depreciation allowances	165.7	173.1	178.7	182.7	183.0	184.7	190.0	189.5
<i>Memo item</i>								
Internal financing ratio ⁶	37.5	27.1	50.4	80.9	76.3	98.0	78.5	76.6
External financing	234.7	416.5	176.5	63.2	47.7	- 24.6	19.1	82.7
via banks	66.5	46.8	33.6	- 22.6	- 40.9	- 31.9	- 4.2	15.4
Short-term	10.3	13.2	2.1	- 27.7	- 25.4	- 32.5	- 15.8	- 3.3
in Germany	- 5.3	19.0	6.7	- 24.5	- 24.8	- 27.6	- 15.1	- 11.4
abroad	15.5	- 5.7	- 4.6	- 3.2	- 0.6	- 4.9	- 0.7	8.1
Longer-term	56.2	33.6	31.6	5.2	- 15.6	0.5	11.6	18.7
in Germany	53.5	32.1	19.8	3.1	- 13.5	- 1.4	1.7	3.3
abroad	2.7	1.4	11.8	2.1	- 2.0	1.9	9.9	15.4
via other lenders ⁴	84.9	161.0	60.8	43.5	19.8	- 34.0	10.3	21.0
in Germany	17.8	2.9	7.2	18.8	5.6	4.3	- 18.4	- 24.6
Short-term	2.6	5.9	1.5	6.5	8.6	3.2	2.2	- 1.3
Longer-term	15.2	- 3.0	5.6	12.3	- 2.9	1.1	- 20.6	- 23.3
abroad	67.1	158.1	53.6	24.7	14.1	- 38.2	28.7	45.5
Short-term	39.7	82.5	6.5	- 17.0	12.7	- 2.1	25.9	39.0
Longer-term	27.4	75.6	47.1	41.7	1.5	- 36.2	2.8	6.6
in the securities market ⁷	1.3	9.6	9.8	6.0	27.0	2.1	3.1	17.4
in the form of equities ³	75.8	190.8	64.1	27.5	34.0	32.6	4.4	23.4
in Germany	57.1	81.0	51.7	0.1	- 9.8	- 1.0	- 0.1	2.7
abroad	18.6	109.9	12.4	27.4	43.8	33.6	4.5	20.7
Pension provisions	6.3	8.2	8.2	8.7	7.9	6.6	5.5	5.5
Total	389.4	569.0	362.6	259.5	237.9	190.4	237.7	318.3
Net acquisition of financial assets ⁸	- 47.4	- 142.5	- 35.0	- 13.4	- 2.0	34.1	40.9	- 8.4
Statistical discrepancy ⁹	22.9	- 5.4	6.4	- 16.8	11.4	29.0	40.7	- 10.5
Net lending/net borrowing ¹⁰	- 70.3	- 137.1	- 41.4	3.4	- 13.3	5.0	0.1	2.1

1 In Germany and abroad. — 2 Money market paper, bonds, financial derivatives and mutual fund shares. — 3 Shares and other equity. — 4 Including other claims or liabilities. — 5 Including net capital transfers received. — 6 Internal financing as a percentage of total asset formation. — 7 Through the sale of money market paper and bonds. — 8 Acquisition of financial assets less external

financing. — 9 Corresponds to the balancing item in the financial account with the rest of the world owing to statistically unclassifiable payment transactions with non-residents. — 10 Internal financing less gross capital formation and acquisitions less disposals of non-financial non-produced assets.

structure of enterprises' borrowing in favour of longer-term loans, which has been observable for some time, persisted last year.

In addition, there was an increase in financial liabilities to other sectors, such as general government, insurance corporations, and foreign enterprises on roughly the same scale as bank loans as a whole. Of particular significance were short-term cross-border transactions, which, in addition to trade credits and financial loans, include advance payments for construction orders, which were especially high in 2006. Furthermore, producing enterprises borrowed extensively in the capital market. The sum of €15 ½ billion was raised from the placing of bonds, and €4 ½ billion from share issues. Proceeds from cash contributions amounting to €9 billion – with listed companies benefiting from over one-half of this – were offset, not least, by a matching amount of capital reductions and changes in legal form. However, inflows of own resources from unsecuritised investment transactions were of greater significance, with roughly €19 billion being received from them. In the main, these funds were acquired from abroad.

Further improvement in the financial position of enterprises

As a result of the continued increase in the take-up of equity capital in 2006 and persistently strong profitability, there was a further improvement in the financial position of enterprises in 2006 – much as in 2005. Including valuation-related increases, the equity capital of domestic non-financial enterprises had risen by some €250 billion by the end of 2006 to a total value of almost €2 trillion.³ Owing to the renewed increased use of debt

capital, there was a simultaneous rise in corporate debt as well, which overshot the €2 trillion mark for the first time. Nevertheless, corporate sector debt showed a further marked fall in relation to equity.

As a result of increased borrowing and higher market interest rates in 2006, the interest paid by enterprises went up by around 1 percentage point to just under one-fifth of the operating surplus. Ultimately, however, this is unlikely to have put a strain on the producing enterprises' overall result, as financial assets generated higher interest to match. At 7% of the operating surplus, the net interest burden was considerably lower than the corresponding gross figure.

Slight rise in interest expenditure

Within the debt structure of the corporate sector, financial credits dominated at almost two-thirds, followed by other liabilities at one-fifth. Bank loans, which have been losing ground compared with other financial credits for some time, had a share of just over two-fifths of debt capital in 2006. In return, other lenders, especially those from abroad, which had tended to play a rather minor role as recently as the 1990s, have firmly established themselves as "financiers" since the year 2000 at just over one-fifth on average. This is true primarily of enterprises belonging to a group. Although receipts from corporate bond issues were relatively high in 2006 and,

Debt structure of enterprises

³ As a result of the market-based valuation method, higher equity capital is usually shown in the flow-of-funds account when prices have increased than in the Bundesbank's corporate balance sheet statistics. For detailed information on the methodological differences between the two sets of statistics, see Deutsche Bundesbank, German enterprises' profitability and financing in 2004, Monthly Report, June 2006, pp 55-77.

in some cases, in the preceding years, the share of all debt accounted for by this form of financing remained very small, at 6%.

Households' investment behaviour

Increased real investment at the expense of financial investment

As mentioned above, households – much like enterprises – also significantly increased their spending on real investment in 2006. They essentially did so at the expense of their acquisition of financial assets, which, at €128 billion, was almost €10 billion lower than in the previous year. Regarding the various forms of financial investment, however, there were considerable shifts in 2006. The winner was direct investment in the securities markets. At just over €80 billion, or around three-fifths of financial savings, however, banks and other financial intermediaries continued to account for the bulk of households' financial investment. As in 2005, just over €40 billion was invested with banks. While fewer resources flowed into transferable deposits than in 2005 and traditional savings deposits were, in fact, reduced sharply, time deposits, the remuneration of which showed a marked rise, were built up substantially by households. There was also increased demand for saving certificates. At just over €50 billion, however, private investment in insurance corporations and pension funds in 2006 was somewhat down on 2005, although it was still in line with the long-term average.

Net outflows of shares and mutual funds shares

There were markedly smaller inflows of resources to domestic mutual funds from private saving in 2006. By contrast, foreign mutual funds shares were purchased on a con-

siderable scale. Households withdrew €8½ billion net from mutual funds, after building up financial investments substantially in 2005. The outflows concerned mainly open-end real estate funds and share-based funds. The caution in the case of share-based funds is also reflected in direct share purchases. Despite the very positive share price developments in the stock market, households once again sold shares in net terms to the value of €5 billion. By contrast, there was very heavy demand for longer-term debt securities. However, traditional bonds benefited from this less than certificates issued by banks, of which there are now many different forms and which are often similar in character to derivatives. In total, households purchased debt securities to the amount of €37 billion in 2006, €28 billion more than a year earlier.

Households' financial assets and indebtedness

Overall, households' financial assets went up by €225 billion, or 5%, to somewhat over €4½ trillion in 2006. This quite considerable increase mainly resulted from the ongoing saving process, although two-fifths can be attributed to valuation gains, particularly in the case of equity and mutual fund investments, whose combined share of the portfolio amounted to around 20% at the end of the period under review. Nominal financial assets per household have therefore roughly doubled since the early 1990s from just under €60,000 to €115,000. If property and other non-financial assets, which stood at roughly €4.8 trillion at the end of 2006, are

Marked increase in financial assets ...

Households' saving and asset acquisition *

€ billion

Item	1999	2000	2001	2002	2003	2004	2005	2006
Sources of funds								
Disposable income	1,297.7	1,337.4	1,389.5	1,402.8	1,429.1	1,454.8	1,477.9	1,508.2
Household final consumption expenditure	1,175.0	1,214.2	1,258.6	1,263.5	1,281.8	1,302.9	1,321.1	1,348.7
Saving	122.7	123.2	130.9	139.3	147.4	151.9	156.9	159.5
<i>Memo item</i>								
Saving ratio ¹	9.5	9.2	9.4	9.9	10.3	10.4	10.6	10.6
Net capital transfers received	18.1	15.9	11.9	0.8	15.3	15.3	14.9	14.2
Own investable funds	140.9	139.2	142.9	140.1	162.7	167.1	171.7	173.7
Incurrence of liabilities ²	83.6	43.5	21.4	15.7	17.6	1.1	- 6.0	- 6.8
Total	224.5	182.6	164.2	155.8	180.3	168.2	165.8	167.0
Uses of funds								
Net capital formation ³	70.1	62.9	44.7	37.9	36.6	32.8	29.6	38.5
Acquisitions less disposals of non-financial non-produced assets	1.4	1.0	0.9	0.9	1.0	1.0	1.0	1.0
Acquisition of financial assets	153.1	118.8	118.7	117.0	142.7	134.5	135.2	127.5
with banks ⁴	10.7	- 31.1	27.3	87.5	57.8	48.9	42.4	42.4
Transferable deposits ⁵	30.4	2.2	8.8	92.0	65.0	44.3	48.7	19.5
Time deposits ⁶	- 5.5	8.8	17.4	- 5.2	- 17.6	- 5.9	- 0.7	31.9
Savings deposits ⁶	- 4.3	- 39.7	2.5	0.9	14.7	12.2	- 1.0	- 16.0
Savings certificates	- 9.9	- 2.4	- 1.4	- 0.2	- 4.4	- 1.7	- 4.6	7.0
<i>of which</i>								
with building and loan associations	3.6	0.7	1.2	4.2	6.0	6.4	6.9	3.7
with mutual funds	44.0	54.7	52.8	38.0	27.5	- 6.2	22.6	- 8.4
with insurance corporations ^{7,8}	68.2	57.3	48.3	35.9	44.8	50.2	54.8	50.7
<i>of which</i>								
with life insurance companies	44.2	36.9	30.9	18.3	20.1	23.1	25.9	25.4
with health insurance schemes	7.6	7.8	7.7	7.1	8.6	9.8	10.6	9.9
with pension funds	13.0	11.5	6.7	8.1	14.3	14.6	15.5	12.5
Claims arising from company pension commitments	6.8	9.9	9.9	10.7	10.2	9.3	7.3	7.9
in securities	23.4	28.0	- 19.6	- 55.1	2.4	32.2	8.1	34.9
Bonds ⁹	- 3.9	3.5	5.7	12.7	19.2	35.6	9.2	37.0
Shares	21.4	20.4	- 28.7	- 71.0	- 20.0	- 6.5	- 4.0	- 5.0
Other equity	5.9	4.1	3.5	3.2	3.1	3.2	3.0	2.9
Total	224.5	182.6	164.2	155.8	180.3	168.2	165.8	167.0

* Including non-profit institutions serving households. —
 1 As a percentage of households' disposable income. —
 2 Including other liabilities. — 3 Including acquisitions less disposals of valuables. — 4 Domestic and foreign banks. —
 5 Including currency and other assets. — 6 Up to 1998, deposits with building and loan associations are included

under savings deposits and, from 1999 (in accordance with the banking statistics), under time deposits. — 7 Including private pension funds, occupational pension schemes and supplementary pension funds. — 8 Including accumulated interest-bearing surplus shares with insurance corporations. — 9 Including money market paper.

also taken into consideration, gross private assets reached just over €9 trillion on aggregate, which – statistically – works out at €240,000 per household. This average does not, of course, reflect the distribution of the assets across the population. However, it is known from the Federal Statistical Office's household survey that there is a considerable dispersion in Germany, as in other industrialised countries.

*... and slight fall
in debt*

Last year, households again reduced their indebtedness to a minor extent, as they were able to finance non-financial and financial asset formation from their own resources. Their accumulated liabilities therefore fell to just under €1,570 billion. Whereas households stepped up their outstanding building loans with banks and insurance corporations in the wake of the recent further pick-up in housebuilding activity, consumer loans and, in particular, commercial loans were redeemed in net terms. Overall, growth in the household sector's net financial assets was even more favourable than the gross figure suggests. They stood at almost €3 trillion in 2006, which is equivalent to an increase of around €230 billion. Average net worth, ie total financial and non-financial assets after deducting liabilities, came to roughly €200,000 per household at the end of 2006.

*International
comparison of
debt levels*

Even though German household indebtedness has fallen slightly in the past three years, it still exceeded the comparable figure for the mid-1990s by €400 billion, or just under two-fifths. However, there was a much larger rise in some of the other euro-area countries, as well as in the United Kingdom and the United

States. Within the euro area, there was a very large increase in debt particularly in Spain, where it increased almost fivefold between 1995 and 2006. The rise was considerably more moderate in the Netherlands and Italy, where households' liabilities trebled. In the United Kingdom and the United States, liabilities rose by approximately 160% in each case. At a rate of around 80%, lending to French and Austrian households was noticeably slower, but still more marked than in Germany. In all of these countries, the sharp increase in household debt was due to strong growth in housing loans. This, in turn, was due to very buoyant demand for property in many countries, accompanied by a rapid increase in property prices. There was a much smaller increase in commercial loans to sole proprietors and in consumer credit in most cases. Consumer loans played a major role especially in the case of UK and US households, accounting for around one-fifth of all outstanding liabilities, which is likely to be attributable, not least, to the widespread use of credit cards.

In this international comparison, it should, however, be noted that the levels of debt, measured by disposable income, differed very widely at the beginning of the period under review, and still do.⁴ At just under 30%, Italian households had by far the lowest level of debt in 1995; it had reached half of their income level in 2006. At 50%, Spain, too, was

*Notable
differences
in the degree
of debt*

⁴ The causes of such differences are usually country-specific factors, such as differing preferences from country to country with regard to owner-occupied housing, the level of building costs and property prices, the amount of household equity demanded by banks, as well as tax-related factors.

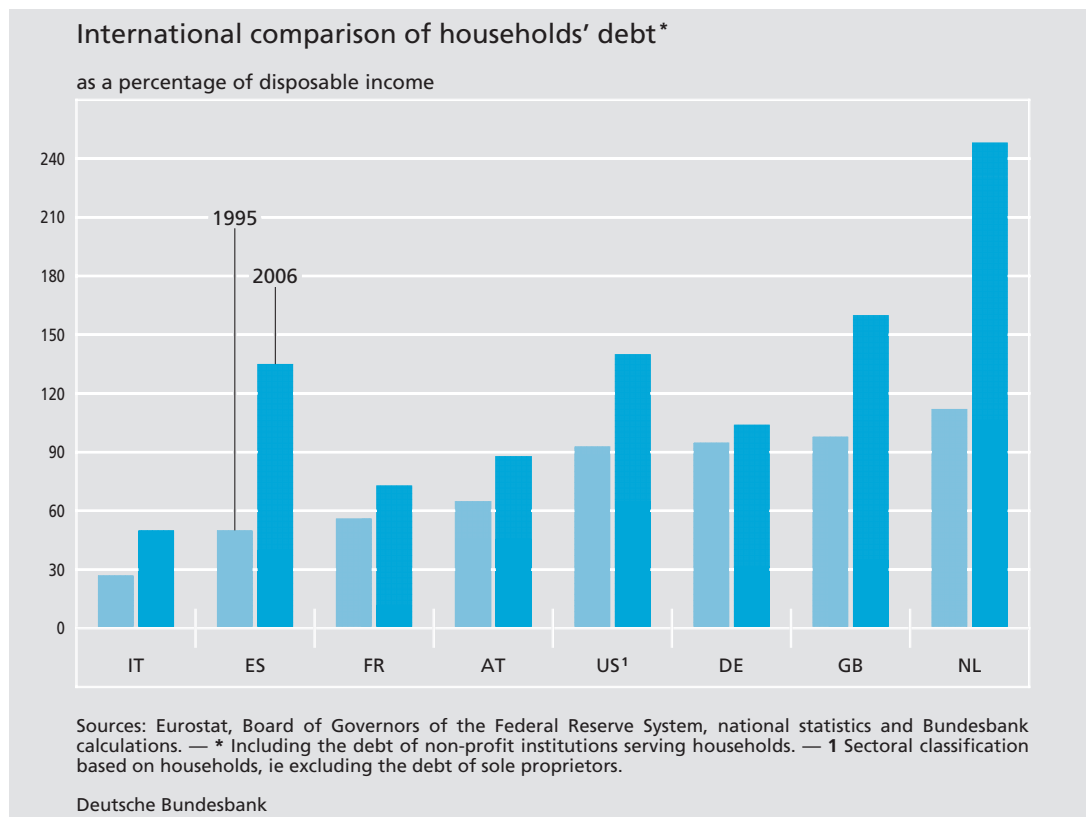
Households' financial assets and liabilities *

Item	1999	2000	2001	2002	2003	2004	2005	2006
	in € billion							
Financial assets								
with banks 1,2	1,266	1,235	1,262	1,349	1,407	1,456	1,499	1,541
Short-term	963	921	957	1,049	1,119	1,164	1,211	1,228
Longer-term	303	314	305	300	288	292	288	313
of which								
with building and loan associations	93	94	95	99	105	112	119	123
with mutual funds	362	409	436	425	465	461	519	525
with insurance corporations 3,4	808	866	914	950	995	1,044	1,099	1,148
Short-term	64	65	68	70	72	75	78	81
Longer-term	744	801	846	880	922	969	1,021	1,068
of which								
with life insurance companies	516	553	584	603	623	645	671	695
with health insurance schemes	60	68	76	83	91	101	112	122
with pension funds	168	179	186	194	208	223	238	251
arising from company pension commitments	183	193	203	214	224	233	241	248
in securities	920	905	891	738	817	892	949	1,066
Bonds 5	331	326	351	370	387	428	423	482
Shares	477	447	364	203	263	276	320	372
Other equity	112	133	176	165	167	188	205	212
Total	3,539	3,608	3,706	3,676	3,907	4,087	4,305	4,529
Liabilities								
Loans	1,453	1,501	1,522	1,538	1,554	1,558	1,556	1,556
Short-term	112	114	110	107	99	90	86	80
Longer-term	1,341	1,387	1,412	1,432	1,455	1,467	1,470	1,476
Other liabilities	14	13	13	14	14	16	13	10
Total	1,467	1,514	1,535	1,552	1,568	1,574	1,569	1,566
of which								
Consumer loans	199	207	206	204	201	206	206	203
Mortgage loans	913	947	978	1,002	1,020	1,030	1,039	1,057
Entrepreneurial loans	341	346	338	333	332	321	311	296
Net financial assets	2,072	2,094	2,171	2,124	2,339	2,513	2,736	2,963
of which								
Non-profit institutions serving households								
Financial assets								
with banks	41	43	45	45	45	46	47	47
with mutual funds	38	38	40	34	35	37	39	41
in securities	41	39	37	34	38	40	42	44
Bonds	28	27	26	27	28	30	31	33
Shares	13	12	11	8	10	10	11	12
Total	119	120	122	113	118	123	128	132
Liabilities	15	16	16	16	15	15	16	16
Memo item	in € per household							
Financial assets	93,600	94,600	96,400	94,900	100,300	104,500	109,900	115,400
Liabilities	38,800	39,700	39,900	40,100	40,300	40,200	40,000	39,900
Net financial assets	54,800	54,900	56,500	54,800	60,000	64,300	69,900	75,500
	as a percentage of disposable income							
Financial assets	272.7	269.8	266.7	262.0	273.4	280.9	291.3	300.3
Liabilities	113.1	113.2	110.5	110.6	109.7	108.2	106.1	103.8
Net financial assets	159.6	156.6	156.2	151.4	163.7	172.7	185.2	196.4

* Including non-profit institutions serving households. — 1 In Germany and abroad. — 2 Including cash and other claims. — 3 Including private pension funds as well as occupational pension schemes and supplementary pension

funds. — 4 Including accumulated interest-bearing surplus shares with insurance corporations. — 5 Including money market paper.

Deutsche Bundesbank



at the lower end of the spectrum in 1995. The very strong expansion in borrowing there led to a rate of over 130% one decade later. In Austria and France, indebtedness was likewise fairly low at first, at over half of disposable income. By the end of last year, the level of debt had risen by roughly 20 percentage points in both countries. At the beginning of the period under review, German as well as UK and US household debt amounted to almost 100% of income. Some ten years later, debt in the United Kingdom and the United States had increased to 160% and 140%, respectively, whereas in Germany, outstanding loans exceeded the income level only marginally overall. Households in the Netherlands had a slightly higher level than Germany in 1995, but had reached a debt ratio which, ac-

ording to the data available, came to nearly 250% of disposable income most recently.

Although, in some cases, there has been a very rapid increase in household debt in the countries analysed here, the fact that the cost of borrowing has been moving in the opposite direction has meant that, since 1995, there has mostly been a trend fall in their interest rate burden, which has latterly been at an historically low level. In the Netherlands, the decline did not start until after 2000, when the pace of credit growth eased somewhat. However, there was then quite a marked fall in the interest rate burden of households, from 10% to around 7½% of disposable income. In the other euro-area countries, the ratio was considerably lower, owing to the smaller amount of cumulative

*Trend fall in
interest burden*

debt. In Germany, for example, households' interest expenditure in 2006 remained unchanged on the year, at 4% of disposable income; in 1995, the comparable figure was 6%. In the United Kingdom, where floating-rate loans are widespread and the central bank has been raising interest rates since the end of 2003, the interest rate burden has gone up by 2 percentage points in the interim to almost one-tenth of income. US house-

holds have also had to spend somewhat more on servicing loans of late. However, the indicator published in the United States measures the total debt service burden, ie including redemptions, which, strictly speaking, should be assigned to saving, and the amount of which may be considerable. In 2006, US households' average debt service burden stood at just over 14% of disposable income.

The tables accompanying this article appear on the following pages. The complete flow-of-funds account figures for 1991 to 1996 are published in Special Statistical Publication 4, July 2007 (available only as a download).

Capital and financial accounts of the sectors in 2006

€ billion

Item	Domestic non-financial sectors					
	Households and non-profit institutions serving households	Non-financial corporations	General government			Total
			Total	Central, state and local government	Social security funds	
Acquisition of non-financial assets and saving						
Net capital formation	38.48	43.53	- 4.07	- 3.85	- 0.22	77.94
Gross capital formation	139.23	233.07	32.37	31.72	0.65	404.67
Consumption of fixed capital	100.75	189.54	36.44	35.57	0.87	326.73
Acquisitions less disposals of non-financial non-produced assets	0.96	0.47	- 1.43	- 1.43	0.00	0.00
Saving and capital transfers	173.74	46.11	-42.50	-46.05	3.55	177.35
Saving	159.54	33.73	-21.17	-24.81	3.64	172.10
Capital transfers (net)	14.20	12.38	-21.33	-21.24	- 0.09	5.25
Net lending/net borrowing ³	134.30	2.11	- 37.00	- 40.77	3.77	99.41
Statistical discrepancy ⁴	.	- 10.54	.	.	.	- 10.54
Acquisition of financial assets						
Monetary gold and special drawing rights (SDRs)	.	.	.	.	.	.
Currency and deposits	42.53	24.30	33.16	9.50	23.65	99.99
Currency and transferable deposits	19.65	11.12	5.73	2.11	3.62	36.49
Time deposits ⁵	31.86	13.41	27.74	7.61	20.13	73.01
Savings deposits	- 16.02	- 0.41	- 0.37	- 0.29	- 0.07	- 16.80
Savings certificates	7.04	0.18	0.06	0.08	- 0.02	7.28
Money market paper	0.98	7.64	- 0.37	- 0.37	.	8.26
Bonds	36.00	-27.50	- 0.91	0.00	- 0.91	7.59
Financial derivatives	.	1.42	- 0.30	- 0.30	.	1.11
Shares	- 5.00	-17.41	- 0.80	- 0.90	0.10	-23.20
Other equity	2.95	31.16	- 0.82	- 0.82	.	33.29
Mutual funds shares	- 8.37	- 8.06	1.25	0.90	0.35	- 15.18
Loans	.	16.63	0	- 5.69	- 0.08	10.86
Short-term loans	.	10.91	- 0.04	- 0.04	.	10.88
Longer-term loans	.	5.72	0	- 5.66	- 0.08	- 0.02
Claims on insurance corporations ²	55.44	1.47	0.02	0.02	.	56.93
Short-term claims	2.96	1.47	0.02	0.02	.	4.45
Longer-term claims	52.48	.	.	.	.	52.48
Claims arising from company pension commitments	7.90	.	.	.	.	7.90
Other claims	- 4.89	44.60	- 16.16	4.12	- 20.28	23.55
Total	127.54	74.25	0	9.29	6.47	211.09
External financing						
Currency and deposits	.	.	0.50	0.50	.	0.50
Currency and transferable deposits	.	.	0.50	0.50	.	0.50
Time deposits ⁵	.	.	.	.	.	.
Savings deposits	.	.	.	.	.	.
Savings certificates	.	.	.	.	.	.
Money market paper	.	1.83	0.81	0.81	.	2.63
Bonds	.	15.58	52.26	52.26	.	67.84
Financial derivatives	.	.	.	.	.	.
Shares	.	4.69	.	.	.	4.69
Other equity	.	18.71	.	.	.	18.71
Mutual funds shares	.	.	.	.	.	.
Loans	- 7.18	39.09	0	- 6.93	- 0.94	24.04
Short-term loans	- 5.44	20.91	5.08	6.01	- 0.93	20.54
Longer-term loans	- 1.74	18.19	0	- 12.94	- 0.01	3.50
Claims on insurance corporations ²	.	.	.	.	.	.
Short-term claims	.	.	.	.	.	.
Longer-term claims	.	.	.	.	.	.
Claims arising from company pension commitments	.	5.53	.	.	.	5.53
Other liabilities	0.42	- 2.74	0.60	0.60	.	- 1.72
Total	- 6.76	82.69	0	46.29	47.24	122.22
Net acquisition of financial assets ⁶	134.30	- 8.44	- 37.00	- 40.77	3.77	88.86

1 Credit institutions including the Deutsche Bundesbank, building and loan associations and money market funds. — 2 Including private pension funds as well as occupational pension schemes and supplementary pension funds. — 3 Saving and capital transfers (net) less net capital formation and acquisitions less disposals of non-financial non-

ary pension funds. — 3 Saving and capital transfers (net) less net capital formation and acquisitions less disposals of non-financial non-

Domestic financial sectors				Rest of the world	All sectors	Item
Monetary financial institutions (MFIs) ¹	Other financial intermediaries	Insurance corporations ²	Total			
- 1.20	0.08	- 0.72	- 1.84	.	76.10	Acquisition of non-financial assets and saving
3.96	0.15	1.69	5.80	.	410.47	Net capital formation
5.16	0.07	2.41	7.64	.	334.37	Gross investment
						Consumption of fixed capital
-	-	-	-	0.00	-	Acquisitions less disposals of non-financial non-produced assets
21.94	0.09	1.05	23.08	- 124.33	76.10	Saving and capital transfers
21.94	0.09	5.95	27.98	- 123.98	76.10	Saving
0.00	-	- 4.90	- 4.90	- 0.35	-	Capital transfers (net)
23.14	0.01	1.77	24.92	- 124.33	-	Net lending/net borrowing ³
.	.	.	.	10.54	-	Statistical discrepancy ⁴
						Acquisition of financial assets
0.10	.	.	0.10	- 0.10	-	Monetary gold and special drawing rights (SDRs)
148.53	16.16	36.78	201.47	60.05	361.50	Currency and deposits
50.24	8.93	3.07	62.24	94.68	193.41	Currency and transferable deposits
98.29	7.29	34.67	140.25	- 34.61	178.65	Time deposits ⁵
.	- 0.03	- 0.01	- 0.04	- 0.18	- 17.02	Savings deposits
.	- 0.03	- 0.95	- 0.98	0.16	6.46	Savings certificates
8.05	0.56	.	8.61	- 1.27	15.59	Money market paper
63.42	20.89	8.73	93.04	125.05	225.68	Bonds
3.13	2.02	.	5.14	.	6.26	Financial derivatives
18.83	- 12.47	3.85	10.21	35.37	22.37	Shares
4.30	- 4.39	10.24	10.15	15.15	58.59	Other equity
14.68	11.66	23.46	49.80	9.35	43.96	Mutual funds shares
- 2.99	- 7.45	2.78	- 7.66	55.32	58.52	Loans
- 5.31	1.73	- 2.65	- 6.24	30.45	35.09	Short-term loans
2.32	- 9.18	5.43	- 1.42	24.87	23.43	Longer-term loans
.	.	.	.	22.60	79.53	Claims on insurance corporations ²
.	.	.	.	22.68	27.13	Short-term claims
.	.	.	.	- 0.08	52.40	Longer-term claims
.	.	.	.	.	7.90	Claims arising from company pension commitments
28.32	0.03	0.46	28.82	12.35	64.72	Other claims
286.35	27.01	86.30	399.67	333.86	944.61	Total
						External financing
190.39	0.75	.	191.14	169.86	361.50	Currency and deposits
142.01	0.66	.	142.67	50.24	193.41	Currency and transferable deposits
58.94	0.09	.	59.02	119.63	178.65	Time deposits ⁵
- 17.02	.	.	- 17.02	.	- 17.02	Savings deposits
6.46	.	.	6.46	.	6.46	Savings certificates
6.18	0.00	.	6.18	6.78	15.59	Money market paper
22.05	0.02	0.06	22.14	135.70	225.68	Bonds
.	-	.	-	6.26	6.26	Financial derivatives
1.54	0.00	- 0.13	1.41	16.27	22.37	Shares
- 0.03	0.24	.	0.22	39.66	58.59	Other equity
0.13	19.40	.	19.53	24.43	43.96	Mutual funds shares
.	6.34	3.21	9.55	24.93	58.52	Loans
.	4.08	0.79	4.86	9.69	35.09	Short-term loans
.	2.26	2.42	4.69	15.24	23.43	Longer-term loans
.	.	78.74	78.74	0.79	79.53	Claims on insurance corporations ²
.	.	27.13	27.13	.	27.13	Short-term claims
.	.	51.61	51.61	0.79	52.40	Longer-term claims
.	.	.	.	.	7.90	Claims arising from company pension commitments
1.85	- 0.01	0.53	2.37	.	64.72	Other liabilities
41.09	0.25	2.12	43.47	22.97		
263.21	27.00	84.53	374.74	447.65	944.61	Total
23.14	0.01	1.77	24.92	- 113.79	-	Net acquisition of financial assets ⁶

produced assets. — ⁴ Net acquisition of financial assets less net lending. — ⁵ Including deposits with building and loan associations. —

⁶ Acquisition of financial assets less external financing. — ^o Sum-totals do not include intra-sectoral flows.

Financial assets and liabilities of the sectors in 2006

€ billion, year-end data

Item	Domestic non-financial sectors					
	Households and non-profit institutions serving households	Non-financial corporations	General government			Total
			Total	Central, state and local government	Social security funds	
Financial assets						
Monetary gold and special drawing rights (SDRs)	.	.	.	.	.	.
Currency and deposits	1,534.8	438.7	184.5	137.9	46.6	2,158.0
Currency and transferable deposits	611.2	228.9	27.1	19.3	7.8	867.2
Time deposits ³	271.3	199.7	153.8	115.5	38.2	624.7
Savings deposits	580.0	4.1	2.1	1.9	0.2	586.1
Savings certificates	72.4	6.0	1.6	1.2	0.4	80.0
Money market paper	2.0	28.4	0.2	0.2	.	30.6
Bonds	480.0	13.0	8.4	7.3	1.1	501.4
Financial derivatives	.	.	2.7	2.7	.	2.7
Shares	372.3	948.9	49.4	49.2	0.2	1,370.6
Other equity	211.8	292.9	82.5	82.5	.	587.3
Mutual funds shares	524.7	99.9	22.5	3.3	19.2	647.1
Loans	.	146.6	48.8	48.8	0.5	195.5
Short-term loans	.	107.3	1.6	1.6	.	108.9
Longer-term loans	.	39.3	47.2	47.2	0.5	86.6
Claims on insurance corporations ²	1,107.8	42.8	0.7	0.7	.	1,151.3
Short-term claims	80.6	42.8	0.7	0.7	.	124.1
Longer-term claims	1,027.2	.	.	.	.	1,027.2
Claims arising from company pension commitments	248.4	.	.	.	.	248.4
Other claims	46.7	426.3	75.8	73.6	2.3	548.9
Total	4,528.6	2,437.6	475.5	406.1	69.8	7,441.7
Liabilities						
Currency and deposits	.	.	6.4	6.4	.	6.4
Currency and transferable deposits	.	.	6.4	6.4	.	6.4
Time deposits ³	.	.	.	.	.	.
Savings deposits	.	.	.	.	.	.
Savings certificates	.	.	.	.	.	.
Money market paper	.	18.9	37.4	37.4	.	56.3
Bonds	.	93.7	1,114.7	1,114.7	.	1,208.5
Financial derivatives	.	.	.	.	.	.
Shares	.	1,359.8	.	.	.	1,359.8
Other equity	.	616.2	.	.	.	616.2
Mutual funds shares	.	.	.	.	.	.
Loans	1,556.1	1,325.1	447.0	445.8	1.7	3,328.3
Short-term loans	80.2	358.7	51.6	50.8	0.8	490.5
Longer-term loans	1,475.9	966.4	395.4	394.9	1.0	2,837.8
Claims on insurance corporations ²	.	.	.	.	.	.
Short-term claims	.	.	.	.	.	.
Longer-term claims	.	.	.	.	.	.
Claims arising from company pension commitments	.	211.6	.	.	.	211.6
Other liabilities	9.7	388.1	3.7	3.7	.	401.5
Total	1,565.9	4,013.5	1,609.2	1,608.0	1.7	7,188.6
Net financial assets ⁴	2,962.7	-1,575.9	-1,133.7	-1,201.8	68.1	253.2

1 Credit institutions including the Deutsche Bundesbank, building and loan associations and money market funds. — 2 Including private

pension funds as well as occupational pension schemes and supplementary pension funds. — 3 Including deposits with building and loan

Deutsche Bundesbank

Domestic financial sectors				Rest of the world	All sectors	Item
Monetary financial institutions (MFIs) ¹	Other financial intermediaries	Insurance corporations ²	Total			
						Financial assets
53.3	.	.	53.3	.	53.3	Monetary gold and special drawing rights (SDRs)
1,016.0	76.1	524.9	1,617.1	1,069.1	4,844.2	Currency and deposits
182.3	54.0	15.9	252.2	317.7	1,437.0	Currency and transferable deposits
833.8	20.9	495.7	1,350.3	732.3	2,707.4	Time deposits ³
.	0.1	0.4	0.5	8.3	594.9	Savings deposits
.	1.1	13.0	14.1	10.8	104.9	Savings certificates
35.7	1.8	.	37.5	84.7	152.8	Money market paper
1,354.4	471.2	168.9	1,994.5	1,362.9	3,858.9	Bonds
.	4.6	.	4.6	.	7.3	Financial derivatives
288.0	344.6	112.4	745.1	551.7	2,667.4	Shares
89.6	98.9	115.5	304.0	267.2	1,158.5	Other equity
194.4	39.0	358.6	591.9	33.6	1,272.6	Mutual funds shares
3,134.9	17.9	181.6	3,334.5	515.8	4,045.7	Loans
479.4	8.6	16.1	504.1	216.6	829.6	Short-term loans
2,655.5	9.3	165.5	2,830.4	299.2	3,216.1	Longer-term loans
.	.	.	.	108.7	1,260.0	Claims on insurance corporations ²
.	.	.	.	108.7	232.8	Short-term claims
.	.	.	.	.	1,027.2	Longer-term claims
.	.	.	.	.	248.4	Claims arising from company pension commitments
173.1	1.6	101.6	276.3	120.9	946.1	Other claims
6,339.4	1,055.8	1,563.5	8,958.7	4,114.7	20,515.2	Total
						Liabilities
3,678.6	3.4	.	3,682.0	1,155.8	4,844.2	Currency and deposits
1,245.9	2.4	.	1,248.3	182.3	1,437.0	Currency and transferable deposits
1,733.0	0.9	.	1,733.9	973.5	2,707.4	Time deposits ³
594.9	.	.	594.9	.	594.9	Savings deposits
104.9	.	.	104.9	.	104.9	Savings certificates
68.8	0.0	.	68.8	27.8	152.8	Money market paper
1,640.3	0.4	1.0	1,641.7	1,008.7	3,858.9	Bonds
.	-	.	-	7.3	7.3	Financial derivatives
280.5	15.1	210.0	505.6	801.9	2,667.4	Shares
179.2	2.1	.	181.3	361.0	1,158.5	Other equity
33.1	994.2	.	1,027.3	245.3	1,272.6	Mutual funds shares
.	52.5	22.9	75.4	642.0	4,045.7	Loans
.	19.8	9.2	29.0	310.1	829.6	Short-term loans
.	32.7	13.6	46.4	331.9	3,216.1	Longer-term loans
.	.	1,260.0	1,260.0	.	1,260.0	Claims on insurance corporations ²
.	.	232.8	232.8	.	232.8	Short-term claims
.	.	1,027.2	1,027.2	.	1,027.2	Longer-term claims
24.5	0.0	12.4	36.9	.	248.4	Claims arising from company pension commitments
227.0	2.4	101.6	331.0	213.5	946.1	Other liabilities
6,131.9	1,070.1	1,607.9	8,810.0	4,463.4	20,461.9	Total
207.6	- 14.3	- 44.5	148.8	- 348.7	53.2	Net financial assets ⁴

associations. — ⁴ Financial assets less liabilities. — o Sum-totals do not include intra-sectoral flows.