

Non-financial corporations in the opening phase of the financial crisis

This Statistics in Focus analyses the financial behaviour of non-financial corporations in the European Union up to 2008. Taking into account the important changes in financial markets that occurred in this year, it is important to analyze how these changes affected net financial wealth of non financial corporations (including both assets and liabilities) and if the beginning of the crisis has had an impact on the credit access of companies. As it will be seen, both variables were affected by the crisis.

Non-financial corporations' stocks of net financial assets

Net financial assets (that is net financial wealth) is defined as total financial assets minus total liabilities. One striking consequence of the opening phase of the financial crisis was the increase of net financial wealth of non-financial corporations, due to the decrease of financial liabilities of companies. However, as will be seen, this decrease has a clear and straightforward explanation in the fall in the value of shares and other equity. A more expected consequence of the downturn has been the reduction of the access to credit by non financial corporations.

Figure 1: Net financial assets of non-financial corporations as a percentage of GDP



Source: Eurostat ([fina_st](#)).

As Figure 1 shows, the stocks of net financial assets held by non-financial corporations as a percentage of GDP varied, in 2008, from -179% for

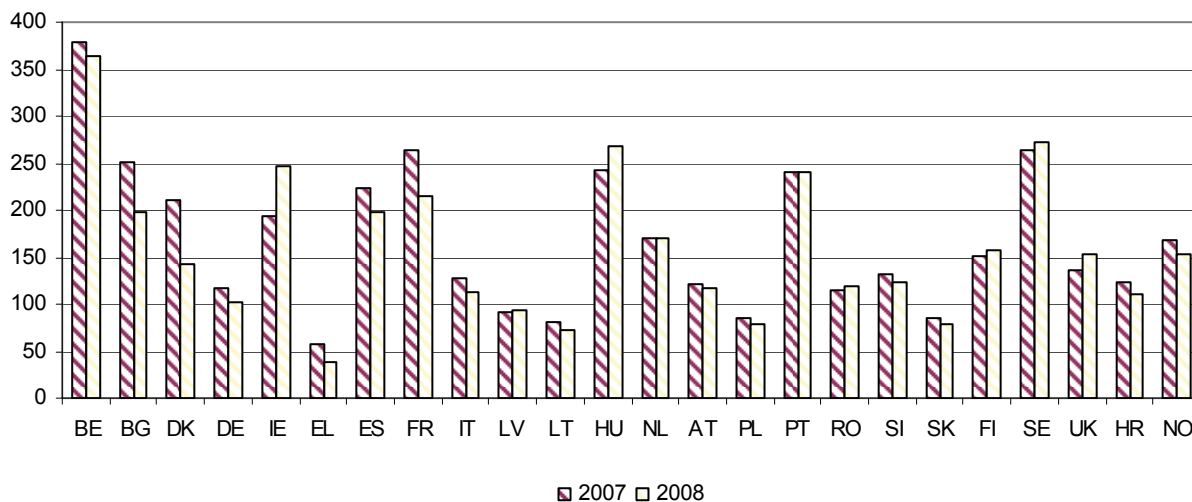
Bulgaria to -48% in the Netherlands. Net financial assets of non-financial companies are negative for all countries and all years, what means that the

stock of liabilities is bigger than the stock of financial assets. In 2008, the stock of net financial assets increased, that is, was less negative than in 2007 for almost all countries, the exceptions being

Ireland and Croatia. In order to explain this, the next two graphs show the stock of financial assets and liabilities in years 2007 and 2008.

Development of financial assets and liabilities

Figure 2: Non-financial corporations' stock of financial assets as percentage of GDP

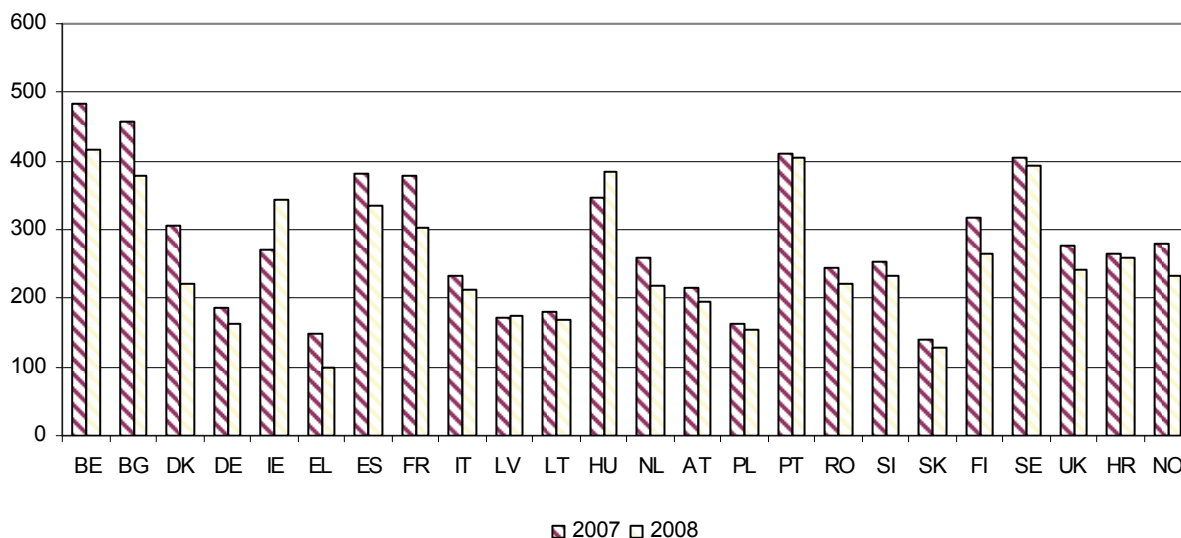


Source: Eurostat ([fina_st](#)).

Figure 2 shows non-financial corporations' stock of financial assets as percentage of GDP. As can be seen, there is no a clear pattern among countries in the evolution of this ratio. However, it is quite evident that the increase in net assets (i.e., decrease

in net financial debt) did not consistently arise from the change in assets, since net assets decreased in some countries where net financial assets of non-financial corporations increased.

Figure 3: Non-Financial Corporations' stock of financial liabilities as percentage of GDP



Source: Eurostat ([fina_st](#)).

As shown in figure 3, the pattern in the evolution of liabilities to GDP ratio in European countries is

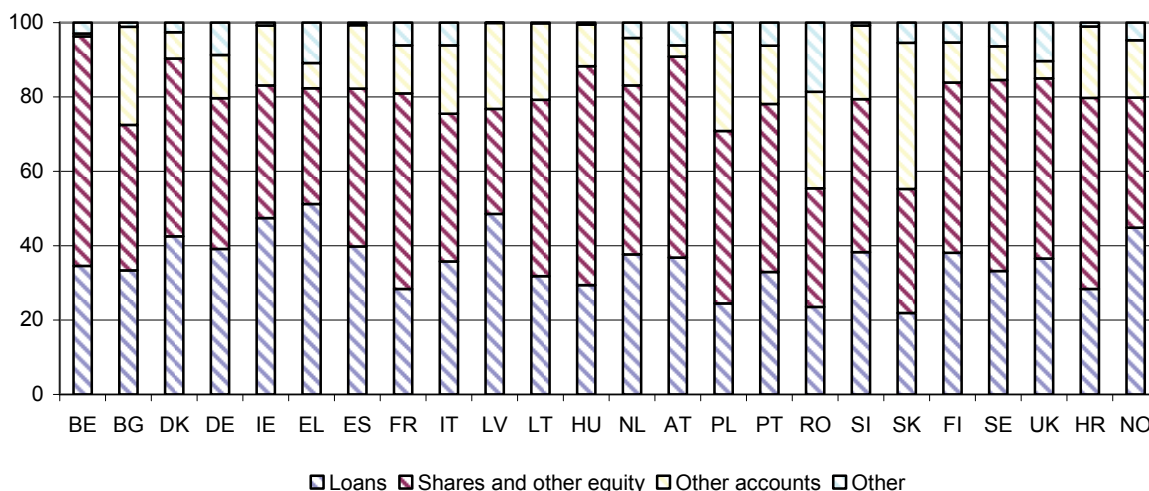
clearer than the one for stock of assets: with the exception of Ireland and Hungary, the analyzed

ratio fell in all countries between 2007 and 2008. The question remains why this happened. The next

figure shows the main financial instruments in liabilities.

Structure of non-financial corporations' liabilities

Figure 4: Non-financial corporations' liabilities by instrument as a percentage of total liabilities. 2008

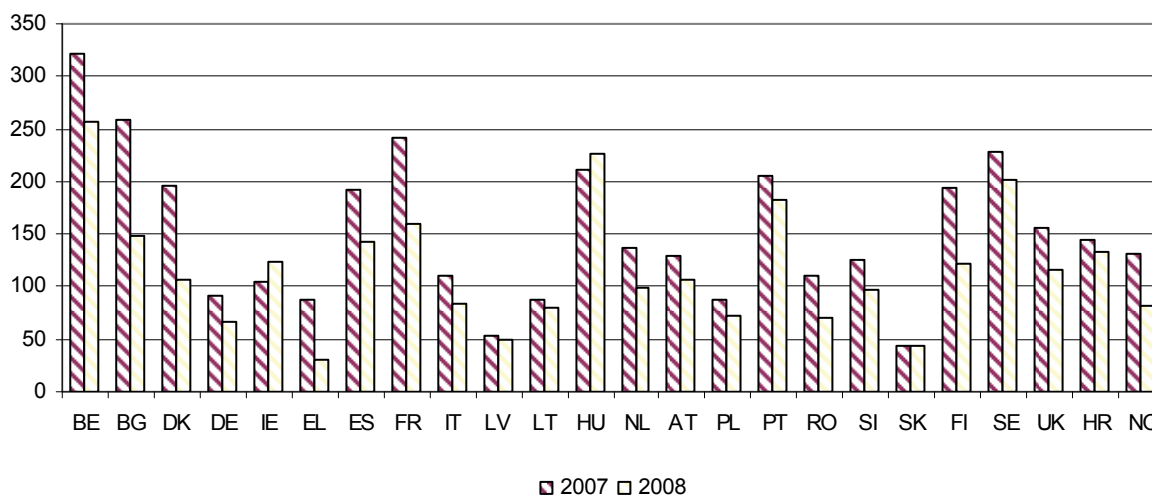


Source: Eurostat ([fina_st](#)).

From figure 4, it is clear that loans and, above all, shares and other equity are the main instruments in liabilities, although it has to be said that other accounts payable (mainly trade credits) are also significant. Securities other than shares are not

included for the sake of clarity since their proportion is small for almost all countries. Owing to their importance in company financing, it is interesting to analyze what happened to shares and other equity in 2008.

Figure 5: Non-financial corporations stock of liabilities in shares and other equity as percentage of GDP



Source: Eurostat ([fina_st](#)).

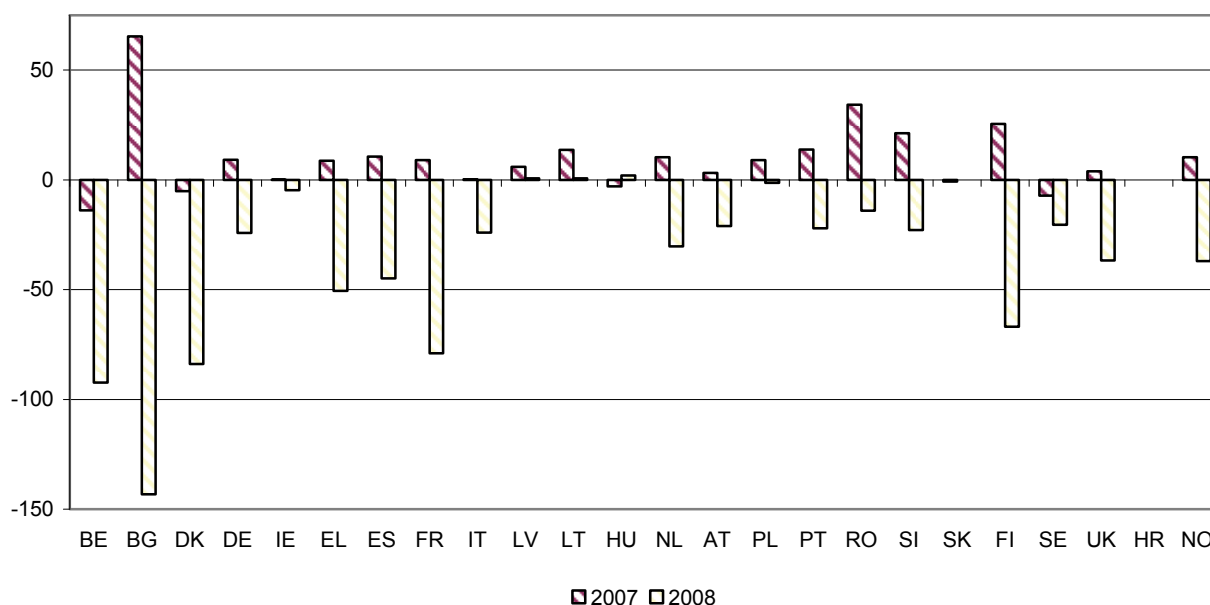
As figure 5 shows, non-financial corporations' stock of liabilities in shares and other equity fell in almost all countries between 2007 and 2008, with again the exception of Ireland and Hungary (it is important to recall that shares and other equity are valued at market value). Moreover, this decrease

was significant in some countries. From this figure we have the explanation of the increase in the stock of net financial assets in most countries: due to the evolution of financial markets in 2008, the value of shares and other equity decreased. Finally, figure 6 shows that, effectively, the big decrease in the

stock of liabilities is explained by other economic flows, which includes other changes in volume and

nominal holding gains and losses (changes in the price of financial assets).

Figure 6: Other economic flows in shares and other equity, liabilities, for non-financial corporations as a percentage of GDP



Source: Eurostat ([fina_of](#)).

Various patterns inside financial transactions

It is also interesting to analyze what happened to financial transactions in 2008. Tables 1 and 2 show

the incurrence of liabilities, via loans and shares and other equity, by non-financial corporations.

Table 1: Non-financial corporations. Transactions in liabilities, loans. Millions of euros.

	2006	2007	2008		2006	2007	2008
BE	44,110	51,466	6,633	NL	24,931	17,962	13,869
BG	3,396	10,141	10,673	AT	6,687	14,075	11,604
DK	26,699	15,647	20,652	PL	13,829	18,623	24,322
DE	84,541	51,727	70,276	PT	12,042	21,202	22,491
IE	33,303	13,519	67,555	RO	9,563	15,330	17,719
EL	8,438	12,611	13,890	SI	3,033	6,223	5,721
ES	227,368	181,007	94,867	SK	1,483	2,146	3,421
FR	148,387	149,196	161,163	FI	10,681	17,896	34,320
IT	82,533	125,281	104,714	SE	7,096	37,334	30,367
LV	3,581	4,638	2,737	UK	210,984	205,437	155,783
LT	2,497	5,048	1,694	HR	4,786	4,985	7,207
HU	11,761	17,526	25,122	NO	29,382	38,408	43,484

Source: Eurostat ([fina_tr](#)).

Table 2: Non-financial corporations. Transactions in liabilities, shares and other equity. Millions of euros.

	2006	2007	2008		2006	2007	2008
BE	31,375	92,891	126,622	NL	4,947	10,894	-4,887
BG	8,117	16,047	24,709	AT	8,301	37,762	9,996
DK	1,458	13,682	-2,430	PL	7,701	14,273	-27,017
DE	38,669	33,471	17,155	PT	16,107	9,744	6,638
IE	-11,556	15,495	35,285	RO	3,561	5,977	-7,414
EL	4,735	3,068	364	SI	355	444	917
ES	28,334	55,343	25,565	SK	3,814	1,766	16,621
FR	81,652	109,504	67,462	FI	2,529	1,084	-8
IT	22,512	19,529	6,929	SE	8,942	4,835	2,234
LV	1,034	1,183	142	UK	19,056	93,426	38,959
LT	131	502	613	HR	8,981	15,864	436
HU	10,963	41,557	22,881	NO	17,018	6,551	2,413

Source: Eurostat (fina.tr).

As it can be seen in both tables, there is no clear pattern among countries in transactions in liabilities. In some cases, a big decrease in the net-incurrence of loan liabilities is observed, such as in Belgium, Spain and the United Kingdom.

However, this was not a common trend. Regarding the net issuance of shares and other equity, there is

again no obvious pattern, although there is an important drop in Spain, France, Austria, Poland and the United Kingdom, among others.

It is also interesting to analyze what happened to other accounts payable, that is, instruments such as trade credits, which represent another way for corporations to access credit.

Table 3: Non-financial Corporations. Transactions in liabilities, other accounts payable. Millions of euros.

	2006	2007	2008		2006	2007	2008
BE	1,595	-1,512	-93	NL	9,452	5,235	-2,819
BG	1,898	5,296	12,033	AT	452	1,581	1,038
DK	18,637	-8,156	312	PL	5,952	9,539	15,236
DE	-2,664	13,617	-5,478	PT	2,132	9,338	4,576
IE	18,186	5,892	-7,624	RO	17,763	11,419	2,435
EL	-339	2,448	4,157	SI	1,478	2,456	549
ES	65,531	33,333	-792	SK	2,814	3,210	-4,121
FR	60,708	-7,267	14,767	FI	5,653	3,625	3,170
IT	9,992	28,467	-2,936	SE	2,944	-1,131	-1,327
LV	1,615	1,978	622	UK	8,028	4,382	-5,172
LT	774	2,250	708	HR	2,347	2,267	183
HU	3,832	2,822	1,425	NO	12,432	20,840	-15,679

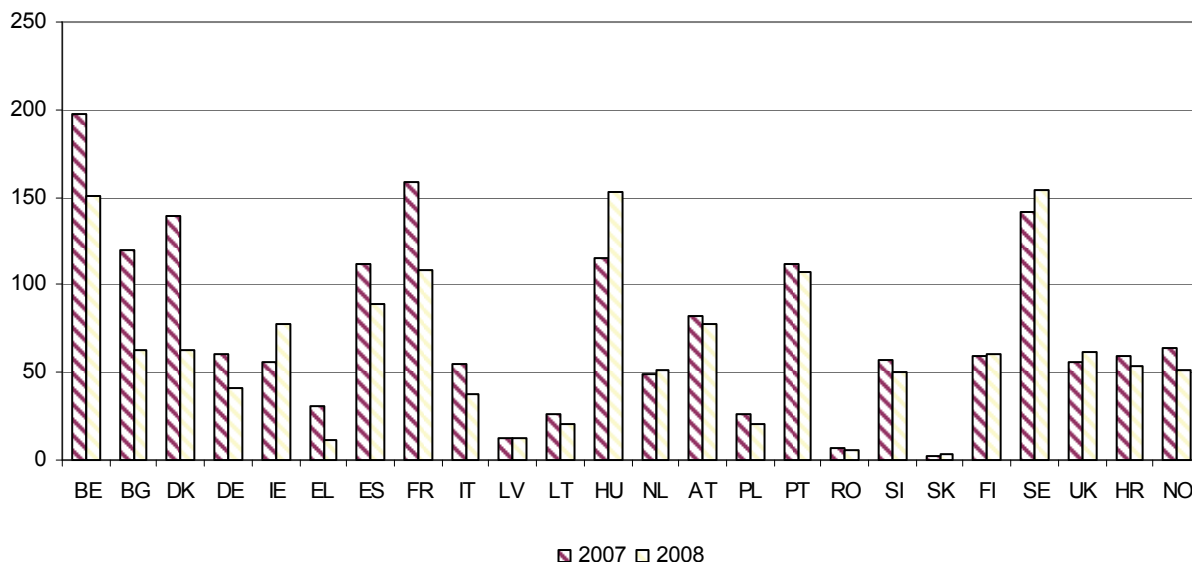
Source: Eurostat (fina.tr).

As seen in table 3, although with exceptions, there was a general decrease of this item in 2008. In other words, credit constraints observed in some countries came not only from a decrease of loan

transactions, but also from a fall in instruments such as trade credits. Regarding the assets side, the largest changes were observed for shares and other equity.

Impact on stock of shares and other equity

Figure 7: Stock of assets in shares and other equity for non-financial corporations as percentage of GDP

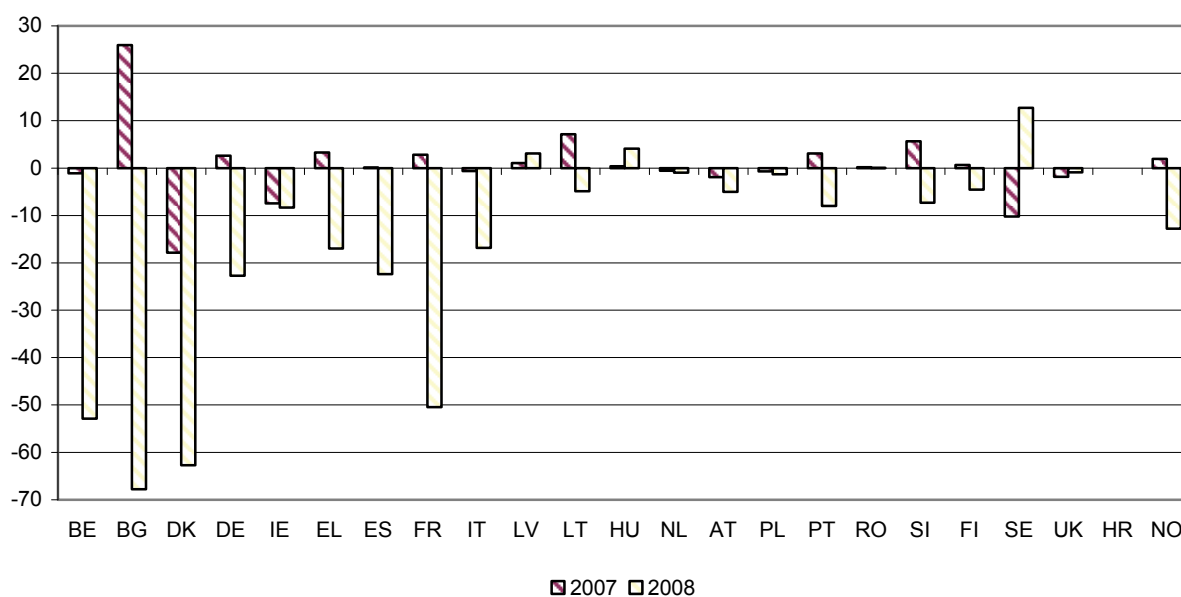


Source: Eurostat ([fina_st](#)).

For almost all countries, with the exception of Ireland, Latvia, Hungary, Sweden and the United Kingdom, the stock of shares and other equity held as assets by non-financial corporations decreased

between 2007 and 2008. Most of this decrease is explained by the changes in valuation of shares, as shown in figure 8.

Figure 8: Other economic flows in shares and other equity, assets, for non-financial corporations as percentage of GDP



Source: Eurostat ([fina_of](#)).

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.

Non-financial corporations (S.11): The sector non-financial corporations consists of institutional units whose distributive and financial transactions are distinct from those of their owners and which are market producers, whose principal activity is the production of goods and non-financial services. The sector non-financial corporations also includes non-financial quasi-corporations.

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), DE (Germany), DK (Denmark), 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), HR (Croatia), NO (Norway).

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"

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

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