

Sixth year of contraction in European private credit markets, despite a stabilisation on the housing market

Robin Sainsot, 3 September 2015

Summary

The *ECRI Statistical Package 2015* reveals that at the end-of 2014, the outstanding amount of the European non-financial private debt decreased in real terms for the sixth consecutive year, both in the European Union as a whole and in the euro area. However, this does not mean that all EU countries recorded a contraction in non-financial private debt over the same period. While the EU15 countries registered a decrease for the sixth consecutive year in 2014, non-financial private debt in the so-called new member states (NMS countries) contracted only twice over the same period.

In 2014, the total amount of household debt outstanding in the EU28 expanded slightly in real terms for the first time since 2011. However, different patterns can be observed at a more granular level, between the EU15 countries and the NMS countries. Also, real household debt of the countries that were worst hit by the economic crisis continued to shrink in 2014 (Ireland, Spain, Portugal, Greece and Italy). Finally, when comparing different ratios that apply to total household debt, three facts stand out:

- On average, EU28 households were more indebted over the period 2008–14 than from 2001 to 2007
- On average, EU15 countries are a lot more indebted than NMS13 countries.
- There may be a convergence between the NMS countries and the EU15 countries regarding their relative debt, the former catching up the latter.

Considering consumer credit, the growth rate in real terms stabilised in 2014. Nevertheless, this apparent stability does not reflect the big disparities across the EU, in contrast to the housing credit market, where the stabilisation recorded at the aggregate level was distributed more evenly across countries.

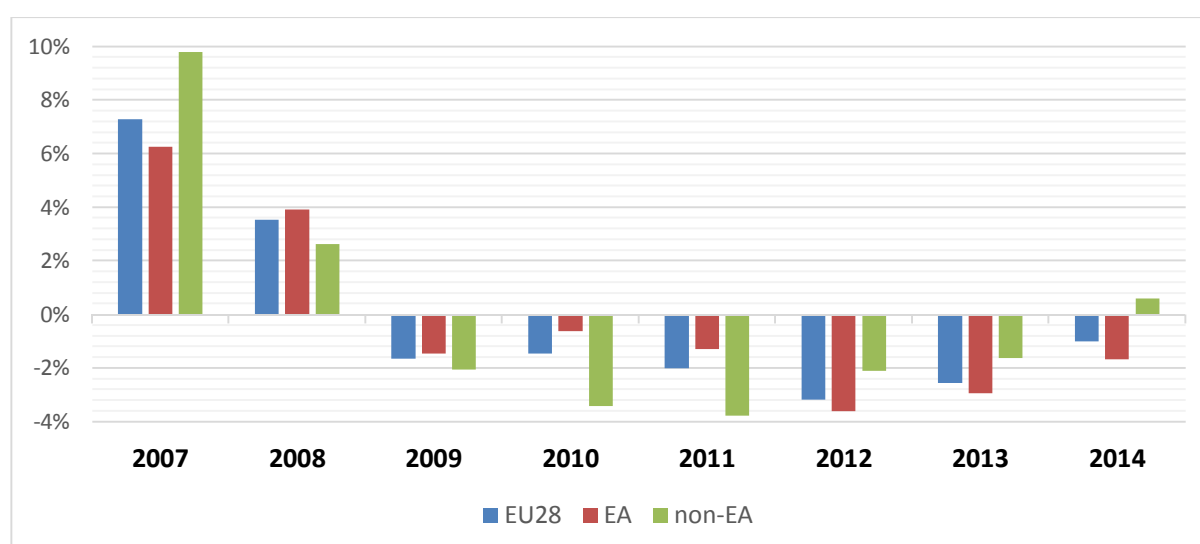
Regarding non-financial corporation (NFC), in 2014, the total credit distributed in real terms in the EU contracted for the sixth consecutive year. Also, among the countries that have been the most damaged by the crisis (Greece, Spain, Ireland, Italy and Portugal), it is noteworthy that their courses differed substantially in 2014 whereas they had been similar until then. Turning to the two largest economies of the euro area, France and Germany, the outlook for commercial lending is better to some extent than it has been in recent years, while the UK situation remains problematic.

1) Sixth consecutive year of contraction of EU281 non-financial private real debt

At the end-of 2014, the outstanding amount of the European non-financial private debt decreased in real terms for the sixth consecutive year, both in the European Union as a whole (-1.0% compared with the end-of 2013, as measured in euros) and in the euro area² (-1.7% compared with a year-earlier) (cf. Chart 1). As a result, the cumulative contraction in non-financial private debt over the period 2008-14 amounted to -11.3% in the EU.

This overall credit contraction in the EU derives from some persistent depressive effects of the financial meltdown of 2008-09. In addition, the European sovereign debt crisis, which has been going on since 2010, still made for an uncertain global economic environment in 2014. Taking out credit necessitates that the prospective lender and borrower come to terms on a schedule and means of repayment. In the case of credit used to finance an investment, it also requires them to forecast returns on this investment. Therefore, the contraction of non-financial private credit at the European level mirrors the economic agents' anxiety regarding the uncertainty of the European economic environment.

Chart 1:³ Total outstanding non-financial private debt in the EU, 2007-14
(in constant euros, annual variation, in %)



Source: Statistical Package of the European Credit Research Institute 2015

However, this does not mean that all EU countries recorded a contraction in non-financial private debt over the same period. While the EU15 countries⁴ registered a decrease for the sixth

¹ EU28, European Union or EU: There are the 28 member states of the European Union as of 1 January 2014. Except when stated otherwise, the EU28 are: Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

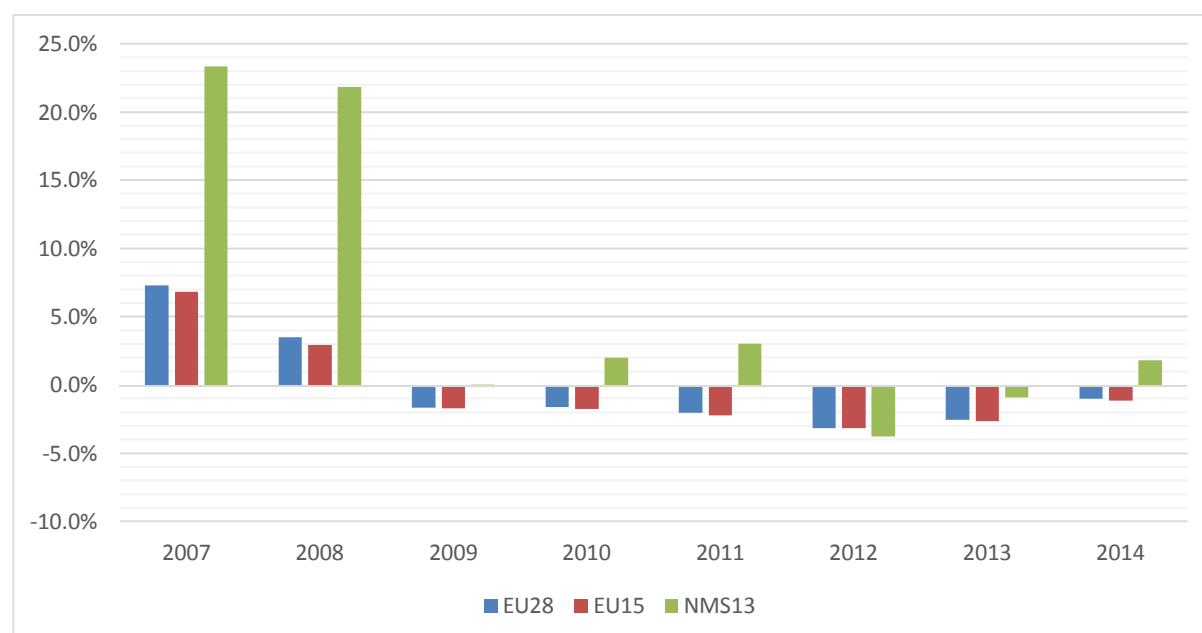
² Euro area, Eurozone or EA: There are 18 member states of the euro area (EA) as of 1 January 2014. Except when stated otherwise, they are: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.

³ Latvia is excluded from the EU28 and the EA owing to a lack of data.

⁴ The EU15 countries are those that were member states of the EU before the 2004 enlargement. Except when stated otherwise, they are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom.

consecutive year in 2014, non-financial private debt in the so-called new member states (the NMS13 countries)⁵ contracted only twice over the same period, in 2012 and 2013. Non-financial private debt in these countries increased by 1.8% in real terms in 2014 compared with 2013 (cf. Chart 2; Latvia excluded).

Chart 2:⁶ Total outstanding non-financial private debt in the EU15 and the NMS13 countries, 2007-14
(in constant euros, annual variation, in %)



Source: Statistical Package of the European Credit Research Institute 2015.

This phenomenon can be easily explained. Most of the NMS13 countries are either former members of the Eastern bloc or former constituent parts of Yugoslavia (only Malta and Cyprus are not). They liberalized their economies only during the 1990s and are still catching up with the rest of Europe, owing to a convergence tendency⁷. From 1996 to 2014, the NMS13 countries collectively achieved an average annual real GDP growth rate of +2.9%⁸, whereas the EU15 countries posted an average annual growth of just +1.4% over the same period.⁹ The same convergence tendency can be observed in the European credit markets. Indeed, on average, the NMS13 countries are less indebted (see part 2), which goes a long way toward explaining why the growth rate of their total non-financial private debt outstanding has remained positive for four years out of the past six.

These trends result from the dynamic at work between the two components of the non-financial private debt, which are credit to households and credit to non-financial corporations (NFCs).

⁵ The NMS13 countries are the 13 member states that joined the EU either as part of the 2004 enlargement or subsequently. Except when stated otherwise, they are: Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovenia and Slovakia.

⁶ Latvia is excluded owing to a lack of data.

⁷ Convergence refers to a process in which the lower the GDP per capita at some initial point of time for a given country, the higher its rate of growth is likely to be. As a result, countries with low GDP per capita should catch up with countries with high GDPs per capita in the long run.

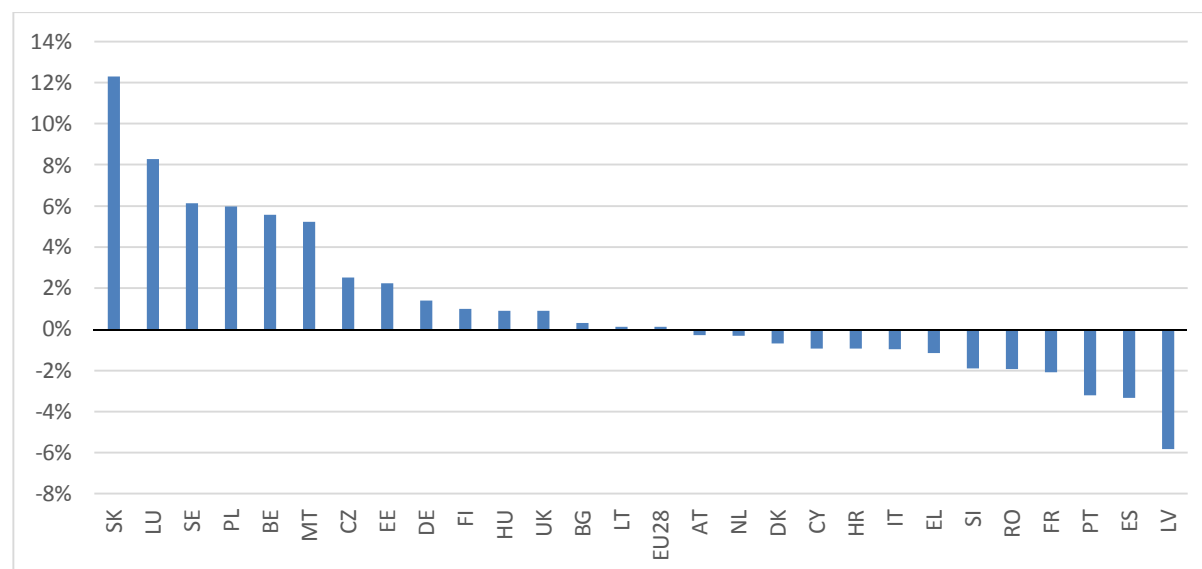
⁸ Lithuania is excluded owing to a lack of data.

⁹ Geometric averages computed using the sum of all national annual real GDPs, in euros. These figures should be interpreted carefully since they depend on the exchange rates of the various currencies in the EU.

2) A convergence tendency on the household credit market between the EU15 and the NMS

Representing 62.2% of EU non-financial private debt in real terms in 2014, total household credit was the major cause of its fluctuations.

**Chart 3:¹⁰ Total outstanding household real debt in 2014
(in domestic currency, annual variation, in %)**



Source: Statistical Package of the European Credit Research Institute 2015.

In 2014, the total amount of household debt outstanding in the EU28 expanded slightly in real terms for the first time since 2011, with a growth rate of +0.1% compared with 2013. However, different patterns can be observed at a more granular level. The tenuous increase in 2014 is mainly attributable to the NMS13 countries, whose total household credit increased by +3.4%. That figure points up the imbalance between the NMS13 and the EU15: an increase of +3.4% in the NMS13 managed to drive EU28 overall growth by only +0.1% despite the EU15 countries' stabilisation. This can be explained by noting that NMS13 total household debt in 2014 represented just 3.9% of EU28 total household debt in real terms.

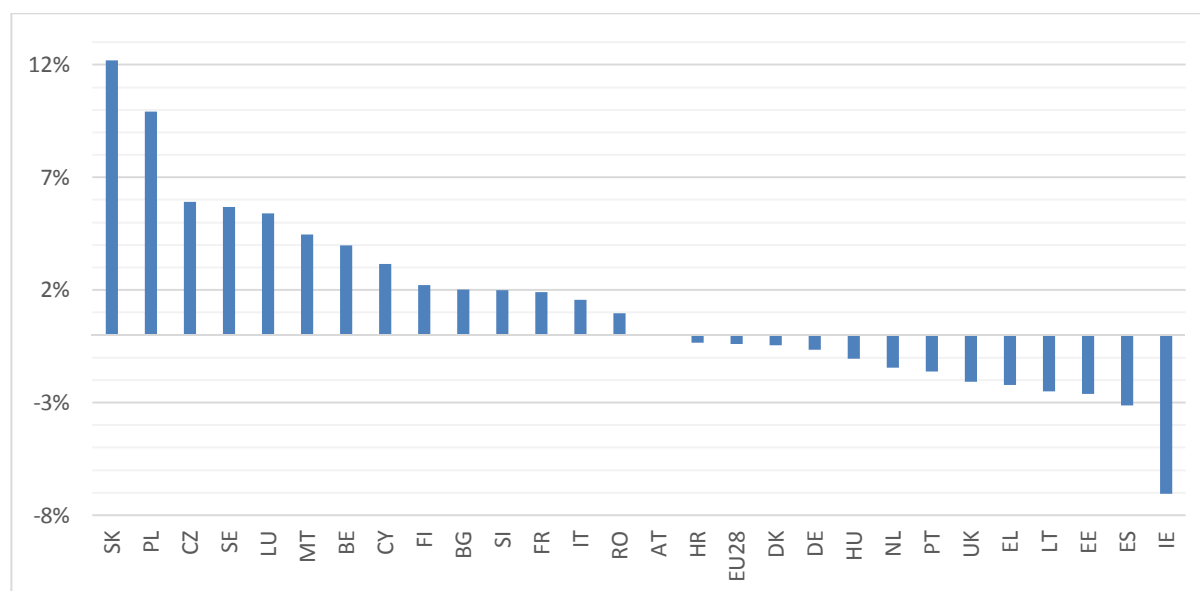
Household debt in real terms of the countries that were worst hit by the economic crisis continued to shrink in 2014: Ireland (-10.2%), Spain (-3.3%), Portugal (-3.2%), Greece (-1.1%) and Italy (-1.0%). Put in historical context, 2014 was the sixth consecutive year of decline for Greece, and the comparison between the periods before and after the crisis is unambiguous: between 2003 and 2008, the average annual growth rate of total household real debt in euros was 20.8%, whereas it was -4.2% between 2009 and 2014¹¹. Concerning Ireland, 2014 was the seventh consecutive year of contraction, and the average annual growth rate of total household real debt stood at -7.0%

¹⁰ Abbreviations: AT: Austria, BE: Belgium, BG: Bulgaria, CY: Cyprus, CZ: the Czech Republic, DE: Germany, DK: Denmark, EE: Estonia, EL: Greece, ES: Spain, FI: Finland, FR: France, HR: Croatia, HU: Hungary, IE: Ireland, IT: Italy, LU: Luxembourg, LV: Latvia, MT: Malta, NL: the Netherlands, PL: Poland, PT: Portugal, RO: Romania, SE: Sweden, SI: Slovenia, SK: Slovakia, UK: the United Kingdom.

¹¹ Geometric average computed using total credit to households, in the domestic currency.

between 2008 and 2014, in contrast to a stunning annual average of +17.4% between 2001 and 2007.¹²

Chart 4:6 Total outstanding household real debt, 2008-14
(in domestic currency, average annual growth rate, in %)



Source: Statistical Package of the European Credit Research Institute 2015.

It is also worth mentioning that 8 countries out of the 14 with a positive average annual growth rate over the period 2008–14 were NMS13 countries, and 9 countries out of the 13 with a negative average annual growth rate were EU15 countries (cf. Chart 4; Latvia excluded). Since the beginning of the economic crisis, total household credit has been less severely affected in the eastern part of Europe, home to most of the NMS13. The convergence tendency observed in these countries had a protective effect on their credit markets (see Part 1).

Looking at the different ratios that apply to total household debt helps elaborate on this point (cf. Chart 5). Indeed, when comparing the total-household-debt-to-household-disposable-income ratio (DIR), the total-debt-to-GDP ratio (GDR) and the total-household-debt-to-final-consumption-expenditure ratio (FCR) between the periods 2001–07 and 2008–14 (unweighted averages), three facts stand out:

- On average, EU28 households were more indebted over the period 2008–14 than from 2001 to 2007. This holds for each of the three ratios mentioned above and for both the EU15 and the NMS13 countries. For example, over the first seven years of the new millennium, the GDR grew on average by +3.1pps¹³ per year but only by +0.3pps over the following seven.¹⁴ In other words, the GDR has been increasing over the period 2001–14, but it abruptly slowed down over the second half of that period. The same conclusion can be drawn for the DIR and the FCR.
- On average, EU15 countries are a lot more indebted than NMS13 countries. This statement also is valid for the three ratios above across the broader time period under scrutiny.

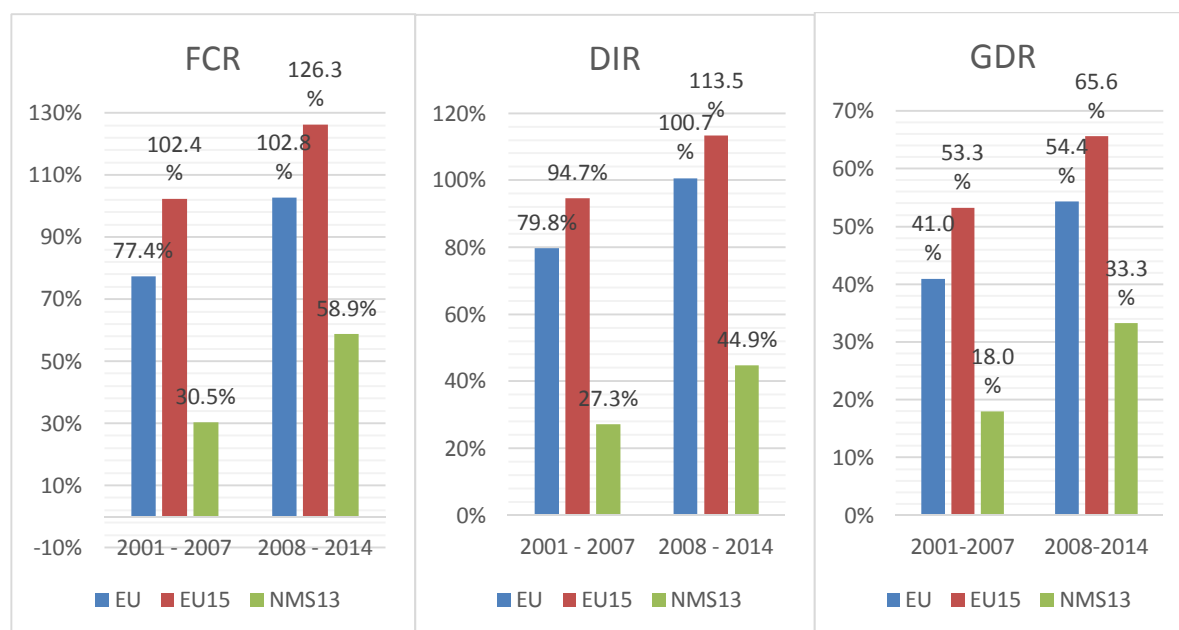
¹² Geometric average computed using the annual real growth of the total credit to households.

¹³ pps: percentage points.

¹⁴ Geometric average computed using the GDR annual unweighted arithmetic average.

- On average, the difference between the two groups of countries over the first and second half of the fourteen-year span narrows for the GDR and the FCR (diminishing, respectively, by -3.0 pps and -4.5 pps), indicating a potential convergence. This is in line with the *Key Findings* from 2014,¹⁵ in which Bouyon and Boeri noticed a convergence for the GDR between 2007 and 2013. This nonetheless ought to be interpreted carefully since the difference for the DIR increased by a modest +1.2 pps between the two periods.

Chart 5:¹⁶ Average annual household disposable income ratio (DIR), average annual total-household-debt-to-final-consumption-expenditure ratio (FCR) and total-debt-to-GDP ratio (GDR) over the periods 2001–07 and 2008–14
(in euros, annual unweighted average, in %)



Source: Statistical Package of the European Credit Research Institute 2015.

Total EU household debt is an aggregate of several types of loans that household can take out. The two primary ones are consumer credit and housing credit, representing 11.6% and 77.2%, respectively, of EU household debt in nominal terms in 2014.

Regarding consumer credit, the growth rate in real terms stabilized in 2014. After five consecutive years of intense contractions (minimum: -3.7% in 2013; maximum: -6.1% in 2011), it decreased by only -0.1% in 2014. Nevertheless, this apparent stability does not reflect the big disparities across the EU. While the euro area recorded a decrease of -2.4%, the rest of the EU expanded its consumer credit by +4.3%, even if the United Kingdom's contribution alone accounts for 3.8 pps out of those +4.3%. The importance of the United Kingdom is not surprising since Britain remains by far the largest economy among the non-euro-area¹⁷ countries (81.6% of the non-EA total GDP) in 2014. That

¹⁵ S. Bouyon, and F. Boeri, *Another Contraction in European Household Credit Markets: Key Findings from the ECRI Statistical Package*. CEPS, Brussels, 12 August 2014,

¹⁶ - DIR: Bulgaria, Cyprus, Latvia, Lithuania, Slovakia, Slovenia, Luxembourg, Croatia, Malta and Romania are excluded, owing to a lack of data.

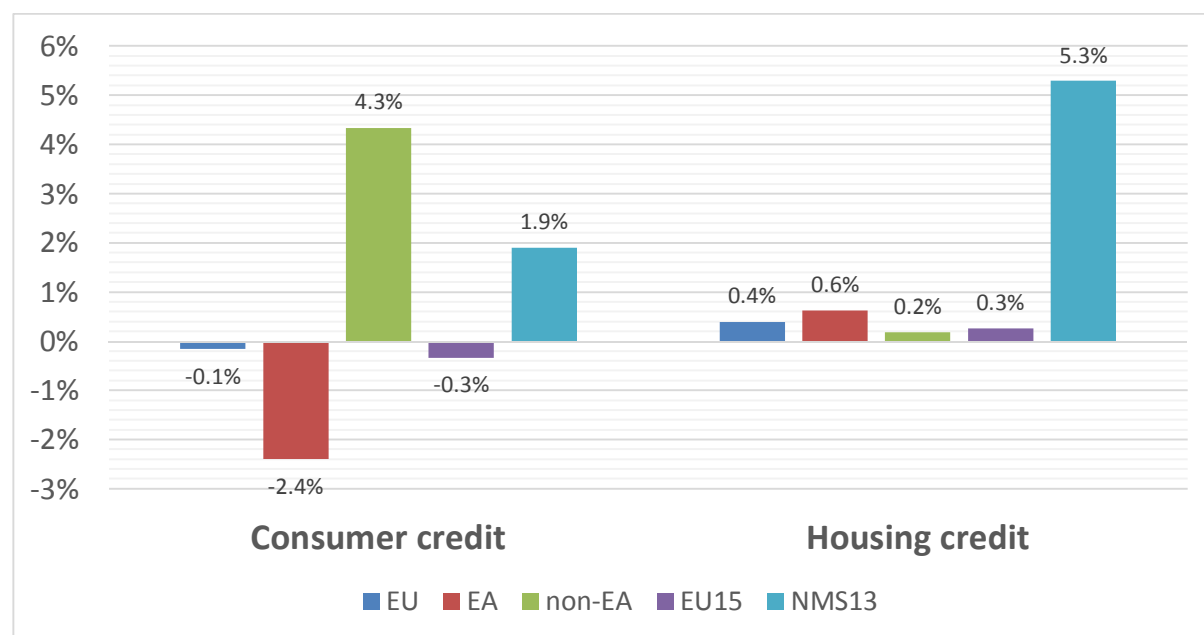
- FCR and GDR: Cyprus, Latvia, Lithuania, Slovakia and Slovenia are excluded, owing to a lack of data.

¹⁷ Non-euro-area countries are 10 nations that are members of the EU but not in the euro area as of 1 January 2014.

same year, the United Kingdom's consumer credit represented 68.8% of the non-EA countries' total consumer credit.

Moreover, a gap persists between the EU15 and the NMS13 countries. While the NMS13 countries saw their total consumer credit grow by +1.9%, the EU15's total consumer credit decreased by -0.3% in 2014, compared with 2013.

Chart 6: Household consumer credit and housing credit, 2014
(in constant euros, annual variation, in %)



Source: Statistical Package of the European Credit Research Institute 2015.

The salient observation concerning housing loans is the reversal of trends in 2014 in the EU28 compared to previous years. Housing credit experienced a slight expansion, of +0.4%, for the first time since 2011 in the EU28. The euro area specifically reported an increase of 0.6%, and the rest of the EU, an increase of 0.2%.

Also, for the first time since 2010, the EU15 countries registered a slight expansion of total housing loans, by +0.3%, compared with 2013. At the same time, NMS13 total housing credit expanded by +5.3%, second consecutive annual expansion.

3) Different dynamics in the breakdown by maturity for the consumer credit market and the housing credit market

The European consumer credit market and the housing credit market are of distinctly different character when broken down by maturity for analysis over the 2007–14 time frame. While the housing credit market is concentrated on long-term maturities (97.7% average over the period 2007–14), the household consumer credit market has a more balanced distribution (cf. Table 1).

Table 1: Average breakdown by maturity¹⁸ in the consumer credit market and housing credit market in the EU¹⁹ over the period 2007-14

	Consumer credit		Housing credit	
Maturity	Distribution	Range ²⁰	Distribution	Range
≤ 1 year	22.5 %	21.0 %-23.6 %	0.4 %	0.4 %-0.5 %
1-5 years	29.7 %	28.6 %-32.1 %	1.8 %	1.6 %-2.4 %
>5 years	47.8 %	44.3 %-48.9 %	97.7 %	97.1 %-98.0 %

Source: Statistical Package of the European Credit Research Institute 2015

Moreover, the changes in the distribution of credit by maturity developed very differently as well. Looking at the consumer credit market, only short-term and medium-term funding decreased during the first years of the crisis, while long-term funding kept growing until 2011 before decreasing. Indeed, as Bouyon and Boeri noted about non-financial corporations' credit in the *Key Findings 2014*, "short-term funding is typically more sensitive towards the economic cycle than long-term loans".

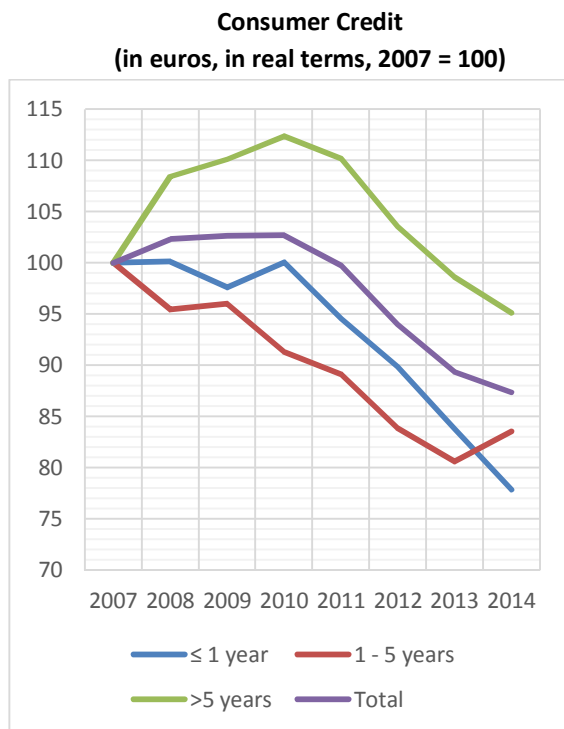
The housing credit market, presents a contrasting picture. In this case, long-term funding kept growing, by +6.3% between 2007 and 2014 without decreasing once, while medium-term and short-term funding decreased by -28.0% and -25.7%, respectively, over the same period. Nevertheless, because the housing credit market is composed almost entirely (97.7% on average between 2007 and 2014) of loans with lengthy maturities, its trend follows closely the expansionary trajectory dictated by demand for long-term funding (cf. Chart 7).

¹⁸ Unweighted arithmetic average using the percentage distribution of the breakdown by maturity over the period 2007–14.

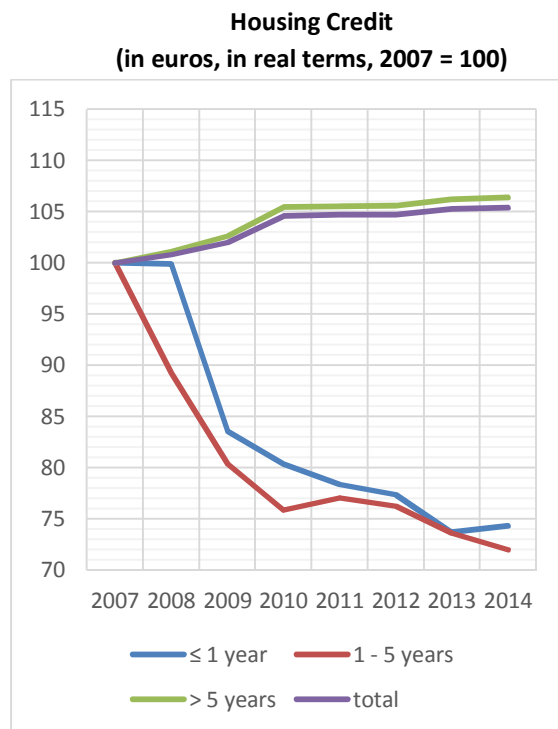
¹⁹ Belgium, Cyprus, Spain, Croatia, Latvia, Poland, Romania, Sweden and the United Kingdom are excluded, owing to lack of data.

²⁰ The range is bounded by the minimum value and the maximum value of the distribution of a given maturity reached over the period 2007–14.

Chart 7: Household credit in the EU28,19 by maturity



Source: Statistical Package of the European Credit Research Institute 2015

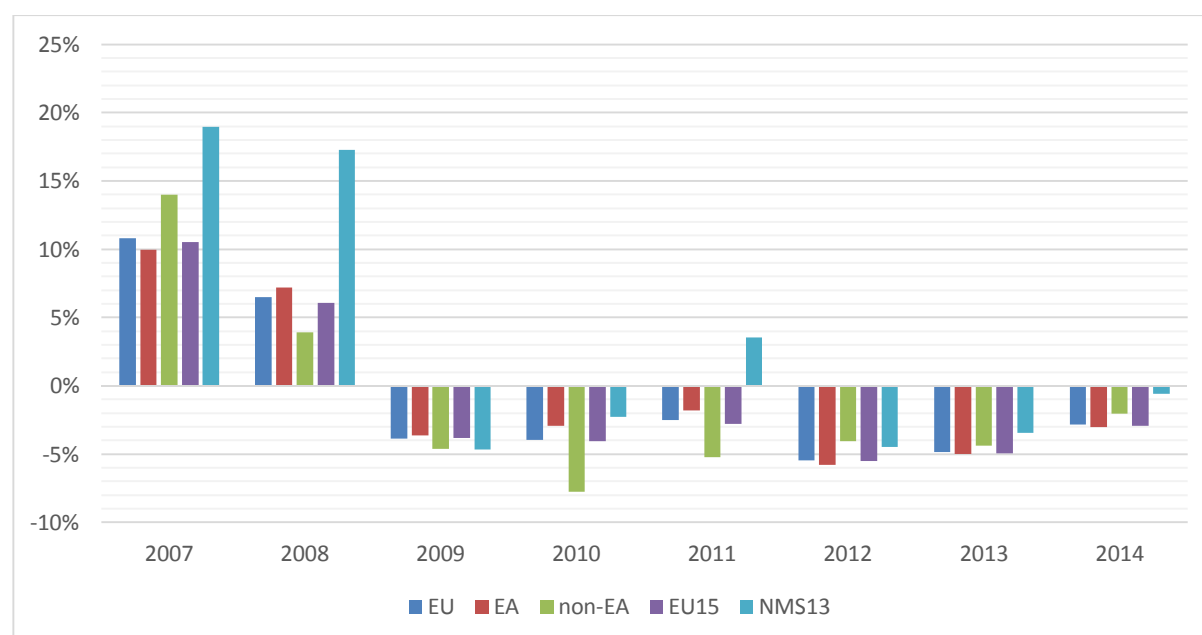


Source: Statistical Package of the European Credit Research Institute 2015

4) Disparities on the European non-financial corporations credit market.

In 2014, the total credit distributed to non-financial corporations (NFCs) in real terms in the EU contracted for the sixth consecutive year (by -2.8%, compared with 2013). Paralleling the squeeze on total credit available to households, this development is in line with the conclusions drawn in Part 1: the ongoing sovereign debt crisis greatly contributes to an uncertain economic environment, and European NFCs remain risk-averse as long as the continent's GDP growth remains low. This grim situation prevails for all country groupings (EA, non-EA, EU15 and NMS13) except in the instance of the NMS13 in 2011, when there was growth in total credit dispensed to NFCs (cf. Chart 8).

Chart 8: Credit to NFCs in the EU, 2007-14
(in constant euros, annual variation, in %)



Source: Statistical Package of the European Credit Research Institute 2015.

Among the countries that have been the most damaged by the crisis (Greece, Spain, Ireland, Italy and Portugal), it is noteworthy that their courses differed substantially in 2014 (cf. Chart 9), whereas they had been similar until then.

Two of them, Greece and Italy, improved their situations by stabilizing their total credit to NFCs in 2014, compared with the previous years.

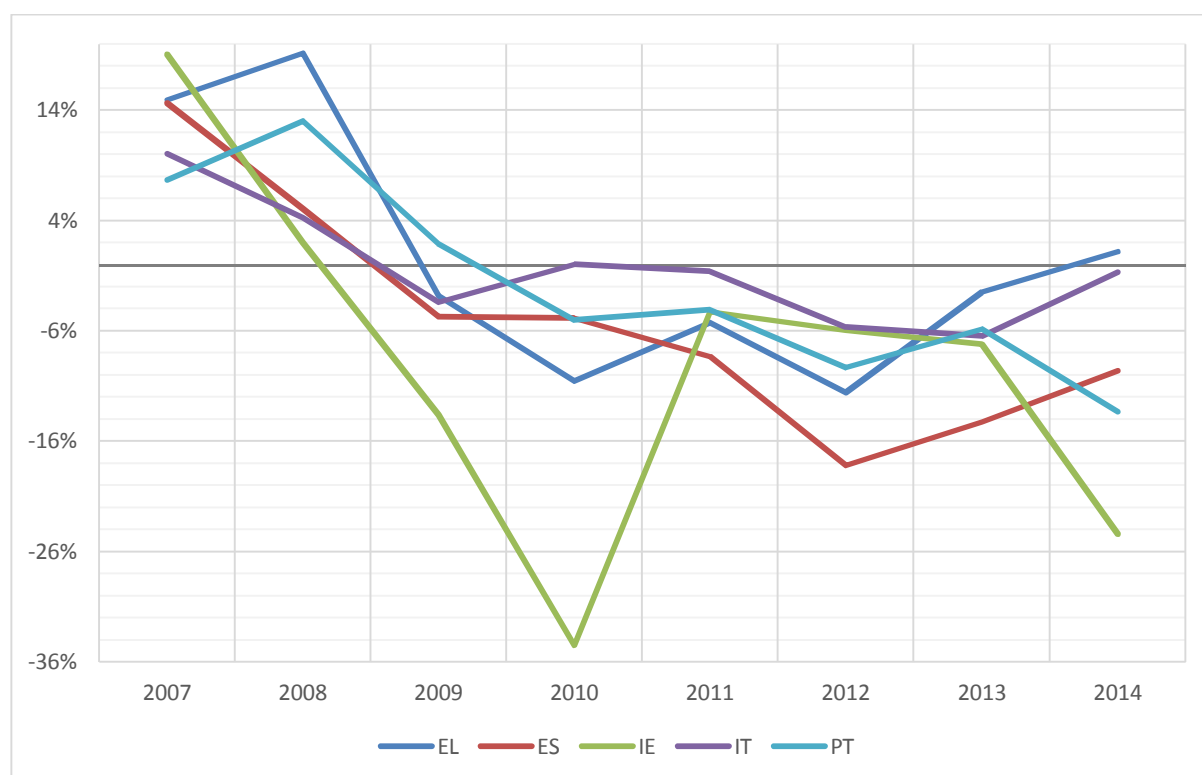
- After five years of contraction, total credit to Greek NFCs in real terms inched up by +1.2% in 2014, year on year.
- In Italy, total credit to NFCs in real terms contracted for the fourth consecutive year in 2014, but the decrease of -0.6% represents the slightest decrease since 2011 (2012: -5.7%; 2013: -6.5%).

The three other countries—Portugal, Ireland and Spain—either continued down the contractionary path or even accelerated the spiral of tightening business credit.

- As in Italy, lending to Spanish NFCs also attained the slightest contraction in total credit in real terms over the past three years in 2014. Nevertheless, this contraction of -9.6% remains particularly strong and cannot be taken as an improvement per se.

- Over the period covered by the ECRI Statistical Package (1995–2014), Portugal suffered the worst-ever contraction of its credit directed toward NFCs in 2014. In addition, this decrease of -13.3 % constitutes the fifth consecutive year of contraction.
- Among the five countries in question, the Irish situation is the most worrisome. A drop of -17.2pps in lending to Ireland's NFCs was registered in 2014, from a contraction of -7.2% in 2013 year on year to a whopping -24.4%.

Chart 9: Total outstanding NFC real debt, 2007-14
(in euros, annual variation, in %)

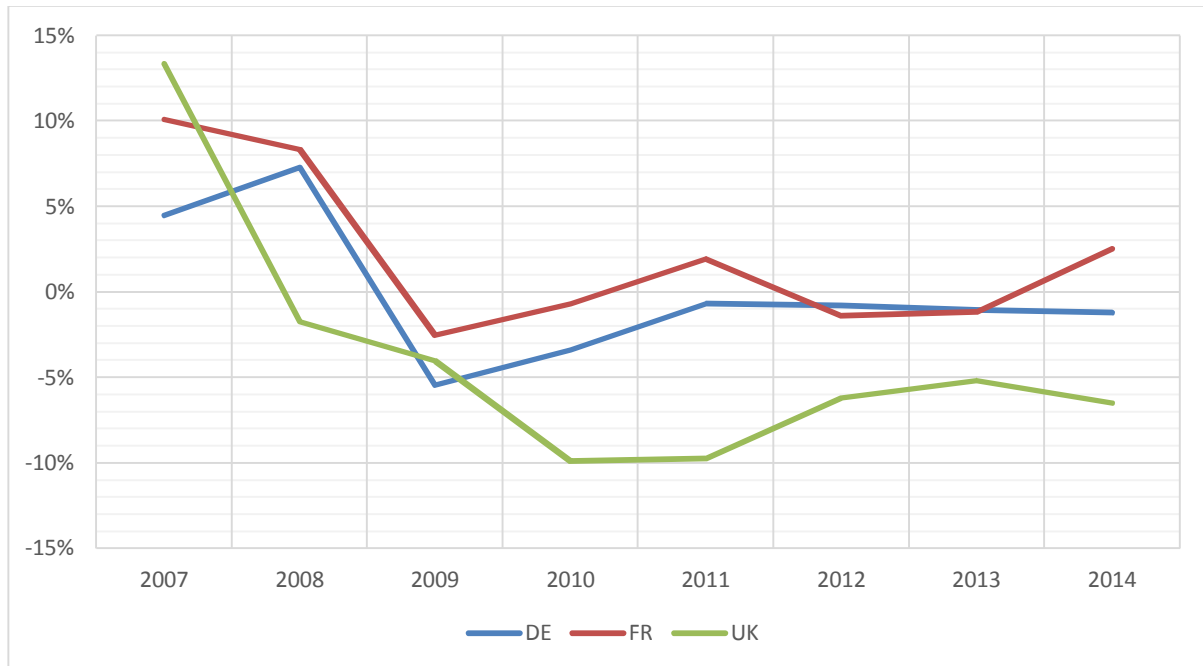


Source: Statistical Package of the European Credit Research Institute 2015.

Turning to the two largest economies of the euro area, France and Germany, the outlook for commercial lending is better to some extent than it has been in recent years, while the UK situation remains problematic (cf. Chart 10).

- Although the Germans recorded a sixth consecutive annual contraction in total credit going to NFCs, they succeeded in limiting the severity of this contraction since 2011, to a range between -0.7% in 2011 and -1.2% in 2014.
- Total credit available to French NFCs expanded for the second time since 2009 (having achieved a positive +1.9% in 2011), with a growth rate of +2.5% in 2014, year on year. This represents by far the best outcome among the five biggest European economies (Germany, France, the United Kingdom, Spain and Italy).
- In 2014, the United Kingdom reported a decrease of -6.5% in total credit to NFCs in real terms. This constitutes the seventh consecutive year of retreat and the fifth consecutive year with a contraction greater than -5.2% (recorded in 2013).

Chart 10: Total outstanding NFC real debt, 2007–14
(in domestic currency, annual variation, in %)



Source: Statistical Package of the European Credit Research Institute 2015.

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ECRI Statistical Package

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