Changes in households' asset situation since the beginning of the nineties

In Germany the nineties have been characterised by major curbs in the growth of households' income and assets. Households have been facing increasing burdens, mainly as a result of the need for economic restructuring in eastern Germany and the urgently needed adjustments to the challenges posed by the world economy. The slowdown in growth – which initially set in after the strong expansion following German unification had tailed off – and increasing imbalances in the labour market have left their mark. So, too, have the reduced scope for redistributing income and the necessity to consolidate public budgets on a lasting basis. During this period, the ability of households to save and, in some cases, their willingness to do so, have declined perceptibly. Households are now building up their assets at a more sluggish pace, with purchases of real estate increasingly taking precedence over the formation of monetary assets, a development which may well also reflect the more strongly divergent income and saving trends. This article will cover those trends in more detail, taking up where earlier studies of a similar nature left off. [1]

1 See Deutsche Bundesbank, Households' asset situation in Germany, Monthly Report, October 1993, page 19 ff.; Deutsche Bundesbank, West German households' acquisition of financial assets and capital formation over the past 20 years, Monthly Report, April 1992, page 14 ff.

Private saving ratio in decline

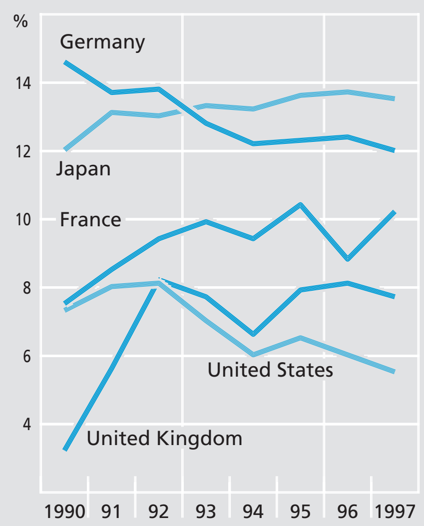
Declining propensity to save

Since the beginning of the nineties, the traditionally high level of German savings, i. e. the foundation of asset formation, has been steadily in decline. At the end of 1994, around 12 % of disposable income, seasonally adjusted, was saved. That was 2 percentage points below the level at the beginning of German unification, and more or less equivalent to the level in western Germany in 1967. The slight increase in the propensity to save which emerged in 1995, however, was short-lived. From mid-1996 saving resumed its decline. At the end of 1997 the saving ratio fell below the 12 % mark and has remained there ever since. The pattern shown here remains largely unchanged if, firstly, private non-profit organisations are excluded and, secondly, the calculation of private saving is extended – as will be the case in this article – to include the acquisition of residential property and the associated wear and tear. According to the extended definition of saving, which allows a broader view of asset-related transactions in households' saving to be taken, the average saving ratio is around 1 percentage point lower.

Contrast to longer-term saving patterns

The declining trend in saving in Germany during the nineties contrasts starkly not only with trends in other countries (such as France and the United Kingdom) but also with the saving patterns that have become identifiable in western Germany since 1970 – and which had often been obscured by special factors. In 1970, 14½ % of disposable income was saved; that meant saving had risen to over three times its level shortly after the 1948 currency reform. Subsequently, the saving ratio tended not to increase any further but instead remained at this high level, albeit with fluctuations.

Private saving ratio in major industrialised countries *



* Households' net saving (including the purchase of owner-occupied accommodation) as a percentage of disposable income according to a standardised method of calculation. — Source: OECD (National Accounts) and national calculations.

Deutsche Bundesbank

Saving depends on income

Trends in households' real income probably have the greatest impact on saving; this income generally shows distinct changes in tempo over the business cycle, and those changes are positively correlated with the saving ratio. The pro-cyclical pattern seems to indicate that households prefer to buy consumer goods as regularly as possible. They know from experience that changes in income growth are often not permanent. Moreover, they tend to adjust only gradually to a new level of income, and changes in the burden of taxes and levies also play a role. These two factors mean that the saving ratio cushions fluctuations in income at least for a time and, in a sense, helps smooth out consumption in due course.

Further influences

The fact that the previous saving pattern was replaced by a continual downward trend in saving at the beginning of the nineties was first and foremost a reflection of a normalisation of the high level reached in 1990. At that time, the introduction of the linearly progressive income tax scale through the third stage of the 1986/88/90 tax reform considerably extended the financial leeway of households in western Germany. Consequentially, as will be shown below, not only cyclical factors but also, and especially, structural factors reduced the tendency to save.

Increasing divergence in saving trends

Divergent trends in incomes

The decline in saving was due to distinct divergences in the incomes of households, and these differences were also seen in the disparate trends in the individual types of income. For instance, the importance of labour income, in particular, decreased continually as a result of protracted downsizing. Wage substitutes were an inadequate counterbalance. Another factor was that, owing to the sharp decline in interest rates since the autumn of 1990, which, in terms of the yield on bonds outstanding, had amounted to 4 percentage points by the end of 1997, property income alone could not complement savings to the same extent as before. It became less and less possible to offset the cumulative negative influences through the relatively higher savings generated by the more strongly expanding entrepreneurial incomes, especially since the burden of taxes and levies likewise increased visibly, which was also caused by larger social security contributions. In addition, the tax authorities made greater inroads into taxpayers' pockets through indirect taxes.

Structural changes

Over the longer term, changes in the structure of households, resulting in households with a lower saving ratio attaining a greater weighting, have decreased saving. This group includes one-person households, the number of which has risen more than twice as fast as that of all other households in western Germany over the past 20 years. The change in spending patterns has also had a similar effect, reflected, for instance, in the advance of credit financing, especially in the purchase of residential property. It is likely that expectations of future inheritances and donations were also a driving force. The volume of inheritances alone probably amounts to between DM 200 billion and DM 250 billion annually; thus, the significance of the transfer of assets from one generation to the next is also increasing.

Regional divergences in saving

A regional divergence in the income situation can also be observed. The increases in incomes during the first few years after German unification – due not least to transfers from western Germany – initially led to the east German saving ratio rapidly approaching that of western Germany; subsequently, growing unemployment has had a considerably negative impact on saving by households in eastern Germany. On the whole, it has been even more difficult to offset the effects of this through other sources of income in

Households' saving *

DM billion

Item	1991	1992	1993	1994	1995	1996	1997
Disposable income	1,834.5	1,963.8	2,029.0	2,097.7	2,181.2	2,244.0	2,282.6
Consumption	1,592.8	1,712.5	1,782.5	1,856.9	1,920.9	1,986.7	2,034.3
Saving	241.7	251.3	246.5	240.8	260.4	257.3	248.3
Memo item							
Saving ratio 1	13.2	12.8	12.1	11.5	11.9	11.5	10.9
Capital transfers							
receivable	4.6	4.6	4.6	4.8	5.2	8.0	10.6
payable	6.9	7.7	8.3	8.9	13.0	9.7	9.7
Investible funds (net)	239.4	248.2	242.8	236.7	252.6	255.6	249.1
Amount used for:							
Fixed asset formation							
Gross investment 2	144.6	168.0	183.0	215.0	219.5	218.5	219.3
Depreciations	66.9	72.9	75.6	85.1	87.3	91.4	95.5
Net investment	77.7	95.1	107.4	129.9	132.2	127.1	123.8
Amount financed internally 3	31.9	22.6	10.8	17.5	31.3	25.9	30.3
Financial asset formation							
with banks	77.4	106.7	149.1	25.1	76.4	84.6	43.8
Cash and sight deposits	13.4	41.3	35.7	16.5	23.0	33.2	19.2
Fixed-term deposits	54.9	46.1	45.6	– 58.3	– 53.9	– 38.8	– 14.5
Savings bonds	7.9	3.1	– 20.4	– 13.2	4.8	– 4.4	1.8
Savings deposits	1.2	16.1	88.1	80.1	102.4	94.7	37.2
with building and loan associations	6.4	6.6	6.8	6.0	3.3	9.9	9.2
with insurance companies	52.0	60.3	69.6	74.6	86.0	87.1	94.8
in securities	89.2	56.5	10.2	116.5	52.4	44.0	66.9
Bonds 4	63.2	8.2	– 27.2	31.0	38.2	17.4	19.3
Investment fund certificates	25.7	50.1	30.8	82.7	17.8	16.3	42.4
Shares	0.3	– 1.9	6.5	2.8	– 3.6	10.3	5.2
in other assets	15.9	18.9	10.2	12.3	15.8	15.8	15.8
Financial asset formation, total	240.8	249.0	245.8	234.3	234.0	241.3	230.4
Borrowing							
Building loans	45.8	72.5	96.6	112.4	100.9	101.2	93.5
Consumer loans	33.3	23.3	13.8	15.1	12.7	11.6	11.6
Borrowing, total	79.1	95.9	110.4	127.5	113.6	112.7	105.1
Memo item							
Net financial asset formation	161.7	153.1	135.4	106.8	120.4	128.5	125.3

* Calculation extended vis-à-vis the one previously used for the national accounts to include the acquisition and the use of residential property, including the associated funding of loans; excluding non-profit organisations. — **1** As a percentage of disposable income. — **2** Expenditure on new residential buildings including the renovation and maintenance of existing buildings and the acquisition of older buildings; excluding transactions involving land. — **3** Difference between net investment and building loans. — **4** Including money market paper.

Deutsche Bundesbank

eastern Germany. This also shows up in the results of household surveys. According to a microcensus, in 1997 nearly one-half of all east German households were made up of unemployed persons and pensioners with a relatively low rate of saving; in 1991, the share of these types of households – as in western Germany – was two-fifths.

East-west adjustment

Even so, owing to the faster growth in incomes in eastern Germany, a remarkable adjustment process has already occurred. The per capita disposable income of east German households in 1997 was approximately 70 % of the comparable figure for western Germany (in nominal terms in each case); in 1991 it was 50 %. An estimated average of DM 200 a month was set aside as savings, i.e. around twice as much as in the first year following unification. This amount was around DM 300 in western Germany, which tended to be slightly lower than at the beginning of the nineties.

Acquisition of residential property increasingly important

Investors' prevailing preferences

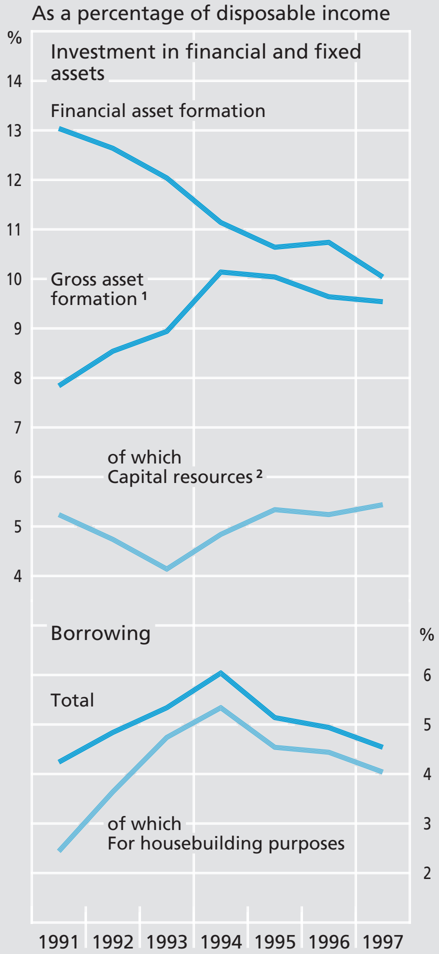
In the nineties investors' preferences were especially affected by the fact that interest-bearing investments were becoming less and less attractive because of the decline in yields. By contrast, the bullish period that suddenly set in on the stock market in 1993, and probably, to some extent, the introduction of the withholding tax on interest income have increased the popularity among investors of forms of saving which offer the prospect of tax-free capital appreciation instead of regular interest payments. At the same time, the increasing housing shortage associated with immigration and the resultant rise in rents have provided a strong incentive to invest in the housing sector, since such a shortage causes the yield spread to shift in favour of fixed assets. This trend has been encouraged by continually falling mortgages and diverse government promotional measures. Not only low-interest promotional loans but also the depreciation allowances under the Promotional Area Act, the purpose of which was to mobilise private capital for investment in eastern Germany, met with a positive reaction that surpassed all expectations. In the light of the misallocations which were soon identified and the level of provision already reached, the relevant regulations have now been gradually scaled down to meet only the essential renovation work and have been converted to a bonus system since 1999.

New residential buildings

The turn towards fixed assets was focused on the purchase of one-family and two-family houses and flats. In western Germany alone, around 1.8 million of these types of dwelling were built between 1991 and 1997. This represents an increase of 320,000 (or just over one-fifth) over the number built during the comparable period of the eighties, which was also characterised by a rather high level of housebuilding. This increase mostly affected flats, which, firstly, offered households a less expensive alternative to houses and, secondly, were often acquired for letting for tax reasons. Private demand for housing construction in western Germany had passed its peak by the end of 1994 when a supply overhang occurred for the more expensive privately

Households' investment and borrowing

As a percentage of disposable income



1 Expenditure on new residential buildings including maintenance and renovation of existing buildings and the acquisition of older buildings; excluding associated land. — 2 Including depreciation.

Deutsche Bundesbank

financed housing, and this put a damper on the rise in rents and the expected return on investment. The acquisition of owner-occupied houses has encountered renewed interest since 1997; this also applies to "emerging" households which can take advantage of not only the favourable lending rates and declining construction prices but also the government owner-occupier promotion scheme, which since 1996 has been converted to a bonus system, as well as the Reconstruction Loan Corporation's programme to encourage home ownership among young families. In eastern Germany, approximately 340,000 housing units have been built by individuals since 1991; flats account for just over two-fifths of these. In terms of population, this exceeded the corresponding figure for western Germany in the past three years. To a large extent, investors who have been taking advantage of the depreciation allowances for new dwellings under the Promotional Area Act have played a role here, too.

Maintenance measures

Housebuilding is accompanied by the maintenance of existing buildings and the acquisition of older buildings. Renovation and modernisation measures are very important, especially in eastern Germany. By contrast, households in eastern Germany have so far been reluctant to take advantage of the privatisation of the housing market, even though some are certainly interested in favourably priced property from the existing housing stock. In the first half of the sale period, which under the Old Debt Aid Act expires in 2003, just under two-thirds of the approximately 340,000 state-owned dwellings to be privatised were sold; of those, only around one-quarter went to tenants and rental associations. In western Germany, there was a fairly significant change in housing stocks, probably in the run-up to the restrictions on the tax-related promotion of the acquisition of older buildings at the beginning of 1994, but on balance this probably had only a minor effect on private fixed asset formation, since these were mostly transfers of ownership between households.

Volume of housebuilding

Overall, households invested some DM 1,370 billion in German residential property (excluding land) between 1991 and 1997. If this figure is extended to include estimated property acquisition abroad, the investment volume then rises to some DM 1,400 billion. As a consequence of the boom in housing construction and governmental promotional and wealth formation policies, an increasingly larger share of the more scarce private investible funds has been diverted to fixed asset formation. Whereas this ratio was just over one-third at the beginning of the nineties, by 1994-5 it had easily reached one-half and has since persisted at that level. In view of this fact, the wear and tear on the stock of existing dwellings has been deducted from the gross investment as "new investment in residential assets"; this is taken into account in the national accounts by appropriately computed depreciation. Only those investments in excess of the funds spent on maintenance are counted as asset formation. Between 1991 and 1997, these amounted to nearly DM 800 billion, or an average of just over 5 % of disposable income. Thus, not only over the course of the nineties but also in a longer-term comparison, private fixed asset formation has gained in significance.

Trends in financial asset formation

Financial asset formation has lost ground

Households invested some DM 1,680 billion in financial assets between 1991 and 1997. Despite this appreciable sum, financial asset formation – in contrast to the accumulation of fixed assets – has lost ground; as a percentage of disposable income, financial asset formation declined between German unification and 1997 from just over 13 % to 10 %.[2] The choice of the form of investment has naturally been strongly influenced by west German savers. It is therefore not surprising that the trends in investors' preferences, which have been entrenched for decades, continued after German unification. At the same time, the east German population has adjusted to west German patterns rather quickly; all the same, the historical differences have not entirely disappeared during the relatively short period since the introduction of the Deutsche Mark in mid-1990.

Financial investment with banks

Financial asset formation, which is on the whole more sluggish, had a particularly negative impact on financial investment with banks. The latter were able to attract an average of only one-third of private "financial" saving in the form of deposits between 1991 and 1997 (in eastern Germany, this figure is estimated to be as much as nearly one-half). This is particularly clear from the fact that, with the gradual normalisation of the initially inverse yield curve, the formerly large inflows of funds to short-term time deposit accounts turned into equally large outflows. In some cases, the funds released were transferred to short-term savings accounts, since these accounts had now become the focus of the banks' special high-interest saving deals. On the whole, during the period between 1991 and 1997 one-quarter of all financial asset formation went into savings accounts, as opposed to only one-sixth in the eighties.

2 The trend may be overstated somewhat owing to the fact that some forms of investment cannot be captured in full.

Breakdown of households' financial assets *

in %

Financial assets	1960/ 1969	1970/ 1979	1980/ 1989	1990/ 1997 1
with banks 2	56.5	53.9	38.5	32.8
Cash and sight deposits	9.6	8.0	6.6	10.3
Fixed-term deposits	1.0	4.9	8.5	1.6
Savings bonds	1.1	7.5	7.8	– 0.2
Saving deposits	44.9	33.5	15.6	21.1
with building and loan associations	8.6	7.4	1.4	2.6
with insurance companies 3	15.9	16.9	27.6	29.5
in securities	13.7	14.6	23.1	28.9
Bonds and notes 4	9.5	13.8	22.3	12.8
Shares 4	4.1	0.8	0.9	1.1
Investment fund certificates	.	.	.	15.0
in other assets 5	5.3	7.2	9.3	6.2
Total	100	100	100	100
Financial assets as a percentage of disposable income	11.1	13.5	11.4	11.6

* Including non-profit organisations. — 1 From 1991 Germany as a whole. — 2 In Germany and abroad. — 3 Including pension funds and occupational pension schemes. — 4 Up to 1990 including purchases through German and foreign investment fund certificates. — 5 Mostly claims arising from company pension commitments.

Deutsche Bundesbank

Acquisition of investment fund certificates

It was especially investment fund certificates, which banks also promoted to keep private savings at least in the hands of their own investment companies, that gained the most ground. Frequent product innovations helped to sharply extend investible funds, and these absorbed around one-sixth of private financial asset formation during the period under review. This percentage share was twice as large as during the eighties, a development which is also attributable to the popularity of investment fund certificates among east German investors. Owing to the sharp rise in share prices since 1993, the focal point of investment has clearly shifted towards share-based funds (especially international ones).

Acquisition of shares

Investors' preference for investment with the potential for capital appreciation has also become apparent in the direct acquisition of shares, which also benefited from the flotation of Deutsche Telekom shares, the introduction of the *Neuer Markt* (new market) and the likelihood of various takeovers. The turbulence in the stock markets in the past two years has not done any lasting damage to the growing preference for shares, especially since the acquisition of equities has now been stabilised through relevant savings schemes. It is estimated that since 1991 shares account for around one-tenth of financial asset formation either directly or indirectly; that is far more than in the previous decade.

Funds invested under non-bank saving schemes

There has also been an increase in funds invested under non-bank saving schemes, as is normally the case in the event of a lower rate of saving. Saving was also encouraged by the fact that the pent-up demand for individual provision for future needs such as an old-age pension motivated east Germans to conclude numerous savings and loan contracts for building purposes and life insurance contracts. Saving through a savings and loan association also received a powerful stimulus from the reorganisation of government assistance for housing and for saving for building purposes. In addition, insurance saving benefited from growing public uncertainty surrounding the future potential of the statutory pension insurance scheme and the relatively high interest rate on new contracts compared with similar longer-term forms of financial investment.

Borrowing

Borrowing increases

Households increased their borrowing by a total of just under DM 750 billion between 1991 and 1997; of this amount, four-fifths went towards financing the acquisition of housing, and one-fifth went primarily towards consumption. In terms of disposable income, households' new borrowing has risen appreciably; at an average of 5 %, it is now roughly at the level of the beginning of the eighties, which also saw extensive private housebuilding. As was the case then, falling interest rates and a government policy promoting borrowing encouraged people to finance private expenditure on fixed assets increasingly from external sources. However, this form of financing probably reached its peak in 1993-4, especially as subsequent shifts of emphasis in housing construction and the scaling-back of special tax allowances favoured a higher level of financing from investors' own sources. Apart from that, in the area of private housing loans, the longer-term trend has shifted towards greater external funding, as mentioned above. By contrast, the decline in interest rates has not perceptibly increased households' propensity to borrow for consumption purposes, on the whole. For one thing, after the unification boom and the turnaround in the west German housing market, the demand for durables went down; in particular, following the wave of buying in 1990-1, registrations of new cars declined for some time. For another thing, it is likely that the increasing risk of unemployment has heightened uncertainty regarding future debt repayments.

Households' fixed assets

Households' property assets

Along with the downturn in households' saving, transaction-related asset acquisition has naturally tended to slow down. The development of wealth as a whole was more dynamic than that of disposable income; that was primarily due to the increase in the value of the assets. This has become evident in the case of households' property assets, which make up the largest asset item in households' financial situation. When valued at their replacement value less depreciation, households' property assets were estimated at over DM 7 trillion at the end of 1997; dwellings accounted for nearly two-thirds of this, and land the rest. The value of housing and land has risen by approximately 40 % since 1990; eastern Germany accounted for nearly one-fifth of this. From a relatively low starting point, the value of private housing assets in eastern Germany more than trebled between 1990 and 1997 as a result of the large volume of new construction, restitution and privatisation. Another factor behind this development was also the sharp increase in land prices during the first few years following unification, which meant, among other things, that land values rose nearly fourfold during this period. At the same time, the larger size of the parcels made land in eastern Germany more valuable than in the west, where private housing assets rose by only one-third between 1990 and 1997. In addition, this trend has been curbed by the fact that over the longer term "consumption of land" has decreased and, in contrast to the situation in the east, the increase in land prices has tailed off. Judging by price trends, investment in

Calculating households' property assets

In this study, property assets consist of privately owned residential buildings including the land they are standing on. They do not include the possession of land without buildings, industrial real estate or dwellings in "other buildings". If those were included, private property ownership would likely be higher.

The asset values of buildings and of land were calculated separately. The building values are based on unpublished figures from the national accounts concerning the net fixed assets tied up in residential buildings at their replacement cost as well as on other relevant data from a study commissioned by the Federal Statistical Office. [1] The latter provided information not only on the structure of residential buildings but also on the land area needed for them, classified by region, type and age of the building, and valued at 1995 prices. By extrapolating the structure of residential buildings, it was possible to superimpose a "land area grid" on to this structure over time. That yielded the amount of underlying land assets at constant prices (1995 = 100), which, with the help of statistics on purchase values, could be converted to the respective real prices.

Households' share of building and land values has been derived from information on ownership from building and housing censuses (or random samples) taken for western Germany by the Federal Statistical Office (1987, 1993) and eastern Germany (1995) and interpolated linearly by type of building.

The calculations have yielded time series on the value of private residential buildings and the land they stand on in western and eastern Germany. At the end of 1997 the total value was DM 7.1 trillion; western Germany accounted for DM 6,550 billion of this, and eastern Germany for DM 550 billion. Ownership of dwellings, however, cannot be exclusively ascribed to individual eastern and western Germans, respectively, as west German households own housing in eastern Germany and vice versa.

1 See B. Bartholmai and S. Bach, *Immobilienvermögen privater Haushalte in Deutschland 1995,* Wiesbaden, August 1998.

Deutsche Bundesbank

land and property has been offering little prospect of major increases in value since the mid-nineties.

Spread of private ownership of housing and land

Owing to post-war socio-political trends, private ownership of housing and land is considerably less widespread in eastern Germany than in western Germany, but the rate of ownership – expressed in terms of both the number of residential buildings and the number of individual dwellings – has now risen significantly. The percentage of eastern German households living in owner-occupied housing has gone up over the past five years from 19 % to 26 %, whereas in western Germany this figure – probably accentuated by the surge of single-person households – has remained virtually unchanged at 44 %. The overall ratio of households living in owner-occupied dwellings in Germany, at 40 %, is well below the figure for other European countries; when making such a comparison, however, one must also take account of different economic structures, population density and the degree of urbanisation.

If the above-mentioned ownership ratios are taken as a basis, home owners each had an average of some DM 470,000 worth of housing and land assets in 1997, a figure which is equivalent to a nominal increase of around one-third since 1990; in eastern Germany, the average value of property has probably doubled. This wealth contrasted with sharply expanded indebtedness for home ownership. In terms of the number of households owning a house, this figure, in purely mathematical terms, averaged DM 95,000 at the end of 1997, two-thirds more than at the beginning

Households' financial position *

End-of-year level

Item	1990	1991	1992	1993	1994	1995	1996	1997
Gross assets	in DM billion							
Property assets								
Building value	3,169.7	3,465.3	3,737.4	3,951.1	4,165.4	4,350.3	4,444.0	4,552.4
Land value	1,912.3	1,948.7	1,985.0	2,104.1	2,242.2	2,378.9	2,522.8	2,539.3
Property assets, total	5,082.1	5,414.1	5,722.3	6,055.2	6,407.6	6,729.2	6,966.8	7,091.7
Financial assets								
with banks	1,349.1	1,427.5	1,528.9	1,665.6	1,692.7	1,783.2	1,867.3	1,916.6
with building and loan associations	125.3	131.7	138.3	145.1	151.1	154.4	164.3	173.6
with insurance companies	644.3	703.7	748.1	822.5	897.6	982.6	1,066.7	1,163.0
in securities	718.5	838.3	882.2	1,007.8	1,113.9	1,267.5	1,369.5	1,578.2
in bonds and notes	428.3	509.8	513.3	534.5	575.0	674.4	690.1	705.7
in investment fund certificates	120.7	150.1	197.3	245.2	315.5	343.6	377.1	445.5
in shares	169.5	178.5	171.6	228.1	223.5	249.5	302.3	427.0
in other assets	239.5	257.1	279.8	292.3	299.3	312.3	327.6	344.1
Financial assets, total	3,076.7	3,358.3	3,577.3	3,933.3	4,154.6	4,500.0	4,795.4	5,175.5
Stock of durables	1,122.5	1,221.2	1,326.8	1,399.1	1,449.3	1,496.6	1,558.3	1,617.9
Gross assets, total	9,281.2	9,993.6	10,626.4	11,387.6	12,011.5	12,725.8	13,320.5	13,885.1
Liabilities								
Building loans	821.5	867.3	921.8	1,018.4	1,130.8	1,231.7	1,332.9	1,426.4
Consumer loans	250.8	287.2	312.0	324.3	335.1	345.8	356.1	366.3
Liabilities, total	1,072.3	1,154.5	1,233.8	1,342.7	1,465.9	1,577.5	1,689.0	1,792.7
Net assets 1	8,208.9	8,839.1	9,392.6	10,044.9	10,545.5	11,148.3	11,631.5	12,092.4
Gross assets	Percentage share 2							
Property assets								
Building value	34.2	34.7	35.2	34.7	34.7	34.2	33.4	32.8
Land value	20.6	19.5	18.7	18.5	18.7	18.7	18.9	18.3
Property assets, total	54.8	54.2	53.8	53.2	53.3	52.9	52.3	51.1
Financial assets								
with banks	14.5	14.3	14.4	14.6	14.1	14.0	14.0	13.8
with building and loan associations	1.4	1.3	1.3	1.3	1.3	1.2	1.2	1.2
with insurance companies	6.9	7.0	7.0	7.2	7.5	7.7	8.0	8.4
in securities	7.7	8.4	8.3	8.9	9.3	10.0	10.3	11.4
in other assets	2.6	2.6	2.6	2.6	2.5	2.5	2.5	2.5
Financial assets, total	33.1	33.6	33.7	34.5	34.6	35.4	36.0	37.3
Stock of durables	12.1	12.2	12.5	12.3	12.1	11.8	11.7	11.7
Gross assets, total	100	100	100	100	100	100	100	100
Liabilities								
Building loans	8.9	8.7	8.7	8.9	9.4	9.7	10.0	10.3
Consumer loans	2.7	2.9	2.9	2.8	2.8	2.7	2.7	2.6
Liabilities, total	11.6	11.6	11.6	11.8	12.2	12.4	12.7	12.9
Net assets 1	88.4	88.4	88.4	88.2	87.8	87.6	87.3	87.1

* Excluding non-profit organisations. — **1** Gross assets, less liabilities. — **2** In terms of gross assets.

Deutsche Bundesbank

Percentage of households with selected consumer goods

Percentage of households with:	Western Germany 1993 1	1998 2	Eastern Germany 1993 1	1998 2
Car	73.9	76.2	66.2	70.6
Fixed-line telephone	97.4	97.3	48.8	94.3
Car phone/ mobile phone	–	11.4	–	10.8
Television set	95.3	95.5	96.2	97.8
Video recorder	48.5	62.7	35.9	61.3
Camera	80.6	86.8	75.0	85.0
Refrigerator	95.4	99.0	95.5	99.3
Freezer	75.1	76.9	66.6	80.0
Microwave oven	40.8	53.0	14.8	41.2
Dishwasher	38.0	49.1	2.7	25.7
Washing machine	88.2	91.2	91.2	94.3

Source: Federal Statistical Office, results of income and consumption samples. — **1** In January 1993; excluding persons living in shared accommodation and excluding households with a net monthly income of DM 35,000 and more. — **2** In January 1998; excluding persons living in shared accommodation and excluding households with a net monthly income of DM 35,000 and more.

Deutsche Bundesbank

of the nineties. If one considers that, as a rule, private housing assets are encumbered with residual debt in only half of all cases, then the amount of credit per indebted household increases by a factor of two, and the credit burden of residential property rises to around two-fifths of the average property value, compared with a ratio of around one-third at the beginning of the nineties. The higher level of borrowing has been encouraged not least by government promotional measures.

Households' stock of durables

Valuable tangible assets other than residential property, used for lengthy periods of time and generally financed through accumulated savings or by borrowing, are also non-negligible components of households' assets. Those assets primarily include durables, such as cars, household furniture and technical appliances; however, one must not ignore valuables such as antiques, works of art and jewellery. According to the findings of income and consumption samples, the number of households that own such goods has continued to rise over the past five years. This applies in particular to east German households, which have not only caught up with west German standards but have in some cases even surpassed them.

The current value of households' stock of durables is estimated to have been around DM 1.6 trillion at the end of 1997. This amounts to just over DM 40,000 per household, or one-third more than at the time of German unification; since then, east Germans' average per capita stock of durables has probably doubled. If those assets are compared with consumer borrowing, then even this perspective clearly indicates that German households are relatively hesitant to indulge in that type of borrowing. At a total of just under DM 370 billion, or approximately DM 10,000 per household, that borrowing represented around one-quarter of the stock of durables at the end of 1997; in eastern Germany, that figure was only one-tenth. However, it must be noted that probably no more than one-quarter of all households has consumption-related debt (excluding credit lines); the average debt burden per borrower is just over DM 30,000, and generally depends on the stage in that person's life and his/her personal income.

A bit higher than p. 43 because here includes NPISH

Bundesbank 1960-1992 has 3005,2 (market value, incl. NPISH)

Households' assets and liabilities in western and eastern Germany *

Item	Germany as a whole 1990	Germany as a whole 1997	Western Germany 1990	Western Germany 1997	Eastern Germany 1990	Eastern Germany 1997
	DM billion					
Gross assets						
Property assets	5,082.0	7,091.7	4,904.5	6,547.1	177.5	544.6
Financial assets	3,198.3	5,358.8	3,061.0	5,006.0	137.3	352.8
Stock of durables	1,122.5	1,617.9	1,008.0	1,395.1	114.5	222.8
Total	9,402.8	14,068.4	8,973.5	12,948.2	429.3	1,120.2
Liabilities						
Building loans	821.7	1,426.7	811.2	1,371.8	10.5	54.9
Consumer loans	274.3	394.8	270.6	373.4	3.7	21.4
Total	1,096.0	1,821.5	1,081.8	1,745.2	14.2	76.3
Net assets	8,306.8	12,246.9	7,891.7	11,203.0	415.1	1,043.9
	DM per household					
Gross assets						
Property assets	145,400	189,300	174,100	213,900	26,200	79,500
Financial assets	91,500	143,100	108,600	163,500	20,300	51,500
Stock of durables	32,100	43,200	35,800	45,600	16,900	32,500
Total	269,100	375,600	318,500	423,000	63,400	163,600
Liabilities						
Building loans	23,500	38,100	28,800	44,800	1,600	8,000
Consumer loans	7,800	10,500	9,600	12,200	500	3,100
Total	31,400	48,600	38,400	57,000	2,100	11,100
Net assets	237,700	327,000	280,100	366,000	61,300	152,400
	DM per inhabitant					
Gross assets						
Property assets	64,000	86,400	77,500	98,200	11,000	35,400
Financial assets	40,300	65,300	48,400	75,100	8,500	22,900
Stock of durables	14,100	19,700	15,900	20,900	7,100	14,500
Total	118,400	171,500	141,900	194,300	26,500	72,700
Liabilities						
Building loans	10,300	17,400	12,800	20,600	600	3,600
Consumer loans	3,500	4,800	4,300	5,600	200	1,400
Total	13,800	22,200	17,100	26,200	900	5,000
Net assets	104,600	149,300	124,800	168,100	25,600	67,800

* Including non-profit organisations.

Deutsche Bundesbank

Households' income from financial assets and debt interest *

Item	1991	1992	1993	1994	1995	1996	1997
Income from financial assets	DM billion						
From banks [1]	66.3	77.6	76.3	65.9	63.3	56.0	54.5
of which							
Fixed-term deposits	18.8	24.9	22.8	17.3	12.0	7.8	6.7
Savings bonds	13.4	15.2	14.5	11.9	12.0	10.2	9.4
Savings deposits	32.7	36.0	37.4	34.9	37.5	35.8	36.1
at three months' notice	19.3	21.0	22.3	21.1	23.3	26.3	27.2
at over three months' notice	13.5	15.0	15.0	13.8	14.1	9.5	8.9
from building and loan associations	3.7	3.9	4.1	4.3	4.4	4.6	4.9
from insurance companies [2]	42.6	47.2	49.0	52.8	55.7	58.7	60.7
from securities	39.3	53.5	64.8	60.8	64.4	70.6	72.9
Bonds and notes [3]	27.5	37.8	42.9	41.6	42.8	45.9	46.6
Investment fund certificates	7.0	10.2	16.2	13.3	15.6	18.0	18.8
Shares	4.8	5.5	5.7	5.9	6.0	6.6	7.6
Income from financial assets, total	151.9	182.2	194.2	183.8	187.9	189.8	192.9
ditto as a percentage of total gross income	6.4	7.1	7.3	6.6	6.5	6.4	6.4
Memo item							
Nominal rate of return [4]	5.5	5.9	5.9	5.2	5.0	4.7	4.5
Real rate of return [5]	1.9	1.9	2.3	2.5	3.3	3.3	2.7
Debt interest							
Building loans	53.0	58.0	61.7	66.6	71.8	75.0	75.8
Consumer loans	30.5	38.0	43.4	45.9	46.8	45.2	43.5
Debt interest, total	83.4	96.0	105.1	112.4	118.6	120.2	119.4
ditto as a percentage of total gross income	3.5	3.7	3.9	4.1	4.1	4.0	3.9
Memo item							
as a percentage of interest-bearing liabilities	7.4	7.9	8.1	7.8	7.6	7.2	6.7
Income from financial assets	Percentage share						
from banks [1]	43.6	42.6	39.3	35.8	33.7	29.5	28.2
from building and loan associations	2.4	2.1	2.1	2.3	2.4	2.4	2.5
from insurance companies [2]	28.1	25.9	25.2	28.7	29.7	30.9	31.5
from securities	25.9	29.4	33.4	33.1	34.3	37.2	37.8
Income from financial assets, total	100	100	100	100	100	100	100

***** Including non-profit organisations. — **1** In Germany and abroad. — **2** Life insurance policies, pension and burial funds, and occupational pension schemes. — **3** Including money market paper. — **4** Income from financial assets as a percentage of income-yielding assets. — **5** Income from financial assets as a percentage of income-yielding assets after taking into account changes in the consumer price index.

Deutsche Bundesbank

Households' financial assets

Overall asset volume

According to the available statistical information, total financial assets held by individuals with banks in Germany or abroad, with financial intermediaries or in securities (including employees' claims on company retirement pensions) were worth DM 5,180 billion at the end of 1997; for 1998 this figure is expected to be just over DM 5,400 billion. However, that figure tends to understate the actual level of households' financial assets, since some forms of investment cannot be captured by the statistics in full.

Significance of rising asset values

Since German unification, households' financial assets have risen by DM 2,100 billion, or two-thirds. The accumulation of savings from current income accounted for four-fifths of this increase in the value of assets. The rest is likely to be due to increases in their value, which means that increases in value have played a much lesser role in financial asset growth during the period under review than in other industrial countries, where value changes actually accounted for the majority of changes in financial assets during the nineties (65 % in the United States and United Kingdom between 1990 and 1996). The increase in the value of shares, investment fund certificates and bonds and notes adds up to an estimated DM 400 billion for the period between 1990 and 1997. As expected, shares, at just under DM 250 billion, accounted for most of this sum. Share prices – as measured by the DAX stock index – have increased threefold since 1990. They rose fastest in 1993 and 1996-7. The share values of private stock portfolios rose by a further two-fifths during the bullish period up to the end of July 1998, but in the wake of the renewed crises in the world capital markets, the distortions that were often associated with those increases have since tailed off.

Financial assets per household

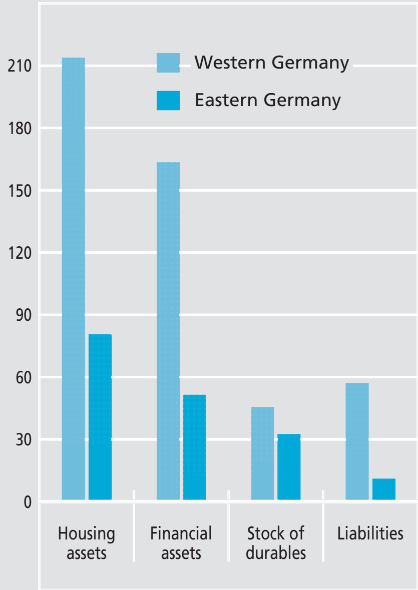
At the end of 1997, each household had an average of around DM 140,000 worth of financial assets. This figure has risen by more than one-half since 1990, with holding gains of just over DM 10,000 having played a role. The differences in incomes have led to an increasing divergence in households' asset formation. This also applies to participation in holding gains; of those holding securities, shareholders profited from holding gains most. The majority of these investors come from the upper income groups, but there is also a considerable number of shareholder employees from the lower income groups. Share price gains amounted to DM 6,500 per household, and just under DM 60,000 when seen in terms of the narrower segment of the just over 4 million households that own shares. Admittedly, the spread is considerable, depending on the size of the individual securities deposits.

East-west comparison

The diverging trends in asset formation are also highlighted by a comparison of eastern and western Germany. At the end of 1997, private financial assets per household in eastern Germany amounted to an estimated DM 50,000, or around one-third of the comparable figure for western Germany. Just after German unification, eastern Germany was behind by a ratio of 1 to 5. Since then, owing to the sharp growth in incomes and to the rise in the saving ratio during the first

Households' assets and liabilities at the end of 1997

in DM thousand per household



Deutsche Bundesbank

few years after unification, private financial assets per household have risen by 160 %, against only 50 % in western Germany. The average results also conceal a marked divergence in the distribution of wealth between eastern and western Germany. Originally east Germans' financial assets, converted into Deutsche Mark – at non-market-related terms, owing to the ideologically motivated incomes policy and the limited opportunities for investment in the former East Germany – were somewhat more equally spread than is the case in western Germany. In the west, asset-holding primarily reflects the longer-term accumulation of wealth since the 1948 currency reform. This accumulation of wealth was left to the will of the saver and market forces and took place against the background of the dynamic statutory system of old-age provision. Even so, private asset distribution will continue to diverge in eastern Germany, too, over the longer term, a trend which is encouraged by individuals independently adding to their financial asset formation through investing capital income and by increases in the value of fixed and financial assets.

Yields on private financial assets

As in the past, four-fifths of private financial assets, including non-interest-bearing financial assets, are invested in a yield-bearing form in Germany. In 1997, households derived an average nominal yield of 4 ½ % from these investments; this was 1 percentage point less than when interest rates reached their peak in 1991. If one takes into account the decline in the general rate of inflation, then savers have been doing better recently – their yield being 2 ¾ % in real terms – than they did in the first year after unification or on a longer-term average. To a certain degree this average yield also reflects savers' increasing tendency to choose higher-yielding forms of investment. The yield has also been improved by capital appreciation of securities portfolios. The share price gains between 1990 and 1997 alone – in terms of all interest-bearing financial assets – result in an increase in the nominal yield which is estimated at 70 basis points as an annual average.

Total return on financial assets

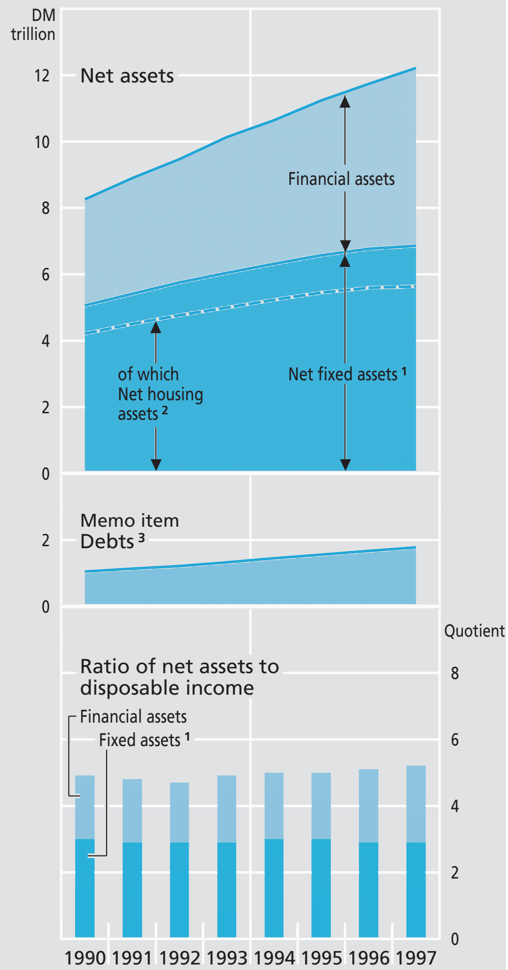
In absolute terms, households received some DM 193 billion in interest payments and dividends in 1997. This amounted to around DM 5,100 per household; thus, the return on financial assets has gone up by an average of one-fifth since 1991, and has probably doubled in eastern Germany, to DM 1,600.

Owing to the normalisation of the yield curve and the prevailing preferences of investors, the return on securities rose the fastest; during the period under review it went up by just over four-fifths. Interest from deposits under building and loan contracts and from saving through insurance enterprises grew by just over 40 %, whereas interest from deposits with banks fell by 20 %. Owing to the increasing diversification of financial assets, it must be assumed that a relatively large group of investors has been benefiting from the increased return on securities.

Interest expenditure and balance of interest income

Households' debt interest went up considerably, particularly as a result of the increase in housing loans, on which two-thirds of the total debt interest had to be paid. Thus, the supporting effect of the balance of interest income on households' incomes and saving has actually decreased somewhat. In absolute terms, net interest income, at around DM 74 billion in 1997, was somewhat higher than in the first year after German unification; however, in terms of income, it has actually gone down to around 2 ½ %, from 3 % in 1991.

Changes in individuals' net assets



1 Housing assets and stock of durables less debts. — 2 Excluding building loans. — 3 For building and consumption purposes.

Deutsche Bundesbank

Households' financial situation

Gross assets

If one combines the changes in households' fixed and financial assets, the outcome is that households in Germany had gross assets of just over DM 14 trillion at the end of 1997. Property (in Germany and abroad) and the stock of durables accounted for 62 %, or just under DM 9 trillion; as a percentage share, this is somewhat less than at the beginning of the nineties. Financial assets accounted for slightly less than two-fifths. Taken together, gross assets were recently around six times greater than annual income. By international standards, this figure is not exceptionally high. It is partly offset by the relatively low level of liabilities. By the end of 1997 households had incurred an estimated DM 1.8 trillion in debt through borrowing for construction and consumption purposes. This is equivalent to a credit ratio of 0.8 annual incomes. In particular, consumer debt, seen in terms of households' incomes in Germany, is only half as high as in comparable countries. Net assets are therefore a better yardstick for measuring households' asset situations.

Net assets

As an indicator of wealth, net assets equalled a little more than DM 12 trillion at the end of 1997; since German unification, they have risen by an annual average of 5½%, compared with nearly 6½% in the eighties. That means they have still grown somewhat faster than disposable incomes (+ 5%), with the result that the ratio of these two aggregates, seen in isolation, has improved slightly. This ratio, at around 5 to 1, is quite similar to that of other countries. However, the positive result is not just due to the accumulation of savings, but is in large part also attributable to value increases in households' property and securities assets. If that factor is left aside, households' net assets have risen by only around 4% as an annual average; due to the stability success achieved during that period, that means that, even if calculated in real terms, considerable actual gains have still been achieved.