The euro area foreign sector in the red

The euro area economy avoided – only just – a decline in GDP in Q4 2022, and the first indicators of 2023 suggest that Q1 of this year will be better than expected. Much of this improvement is due to the level of gas reserves, which reached almost 100% of capacity before winter, which itself was also milder than usual. Having overcome the most delicate period for energy needs in the northern hemisphere, reserve levels remain above the average for this time of year.

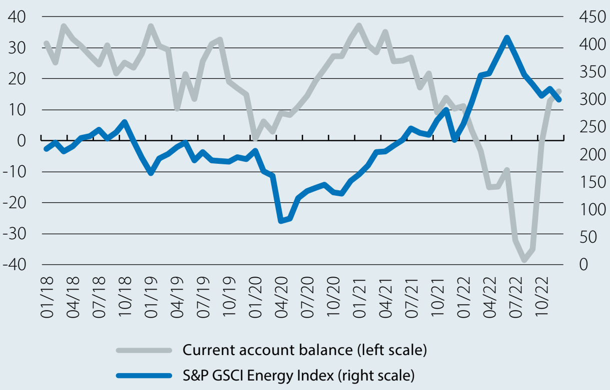
However, this effort to «fill the tanks» has led to a high price to pay for gas, which peaked in the summer (at almost €340/MWh), a period when Europe makes purchases to stock up ahead of winter. This high energy cost led to a deterioration in the terms of trade,[1] with a detrimental impact on trade balances, especially in the summer. As a result, for 2022 as a whole the euro area's trade balance in goods registered a deficit of around 60 billion euros (–0.5% of GDP vs. +2.3% in 2021), and this was entirely due to the widening of the deficit in the energy balance, which doubled during the year (exceeding 500 billion euros, or around 4.5% of GDP). This deterioration in the balance of goods caused the current account balance to fall into a deficit of 0.8% of GDP in 2022 as a whole, after almost a decade of uninterrupted surpluses (2.3% of GDP on average since 2012). From a savings and investment perspective,[2] this adjustment has occurred primarily due to a revival of investment (26% vs. 24% of GDP), in a context in which gross savings are in slight decline, albeit still high (25% vs. 26.4% of GDP).

This pattern in current account flows is replicated in the four major European economies, albeit with nuances. Indeed, Germany and Italy, the economies most exposed to Russian gas and, therefore, to the rise in gas and energy prices, showed the most pronounced deterioration. At the other end of the spectrum, Spain held up rather well, having benefited from the strong revival of international tourism, a warmer winter than usual and the possibility of re-exporting energy thanks to its high refining capacity.

In particular, in Germany the current account surplus fell by almost 50% in 2022, by far the most pronounced correction since German reunification. In fact, it went from an average of 7.5% of GDP in the previous decade to 4.0% (its lowest level since 2005), marking the first time since 2010 that it has fallen below the 6.0% threshold set by the European Commission in order to be considered a macro imbalance subject to surveillance. In Italy, the current account balance recorded its first deficit in a decade: –0.7% of GDP in 2022, having stood at +3.0% in 2021. France has already been registering a current account deficit since 2007, but the blow suffered in 2022 pushed the current account deficit to 2.0% of GDP (+0.4% in 2021), the biggest deficit since 1982. As for Spain, the country's current account balance faired better, with its surplus remaining practically unchanged (0.9% of GDP in 2022, after 1.0% in 2021) thanks to tourism revenues more than doubling compared to the previous year.

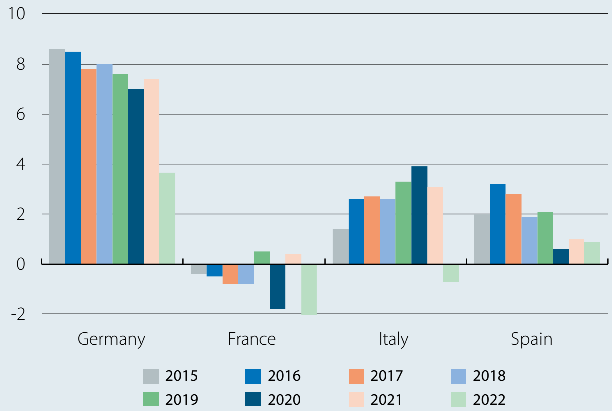
1. Ratio between a country's export prices and its import prices. An increase in this ratio indicates an improvement in trade relations, as exports are sold at a higher price than imports, enabling an improvement in trade balances. On the contrary, a reduction indicates that a higher price is being paid for imports than is received for exports, which tends to deteriorate the trade position.
2. In an open economy, GDP = private consumption + private investment + public spending + trade balance. Since saving = GDP – (private consumption + public spending); the trade balance = savings – private investment.

Euro area: current account balance and energy price
(EUR millions) *(Level)*



Source: *CaixaBank Research, based on data from Refinitiv.*

Current account balance
(% of GDP)



Source: *CaixaBank Research, based on data from Refinitiv.*

As a result, the deterioration in the current account balances has affected European economies' lending capacity or funding needs in 2022.[3] In this regard, we can analyse how each country's various sectors (households, non-financial firms and governments) have contributed to this adjustment.[4] Broadly speaking, the correction is concentrated in the private sector, including both non-financial firms and households, after a couple of years in which their financial situation improved substantially thanks to the exceptional conditions created in the aftermath of the pandemic. This reduced lending capacity in the private sector has been partially offset by a public sector which has significantly reduced its funding needs, having skyrocketed during 2020-2021 as a result of measures implemented to limit the impact of the pandemic on the economy. However, this adjustment has been slowed by the new round of measures introduced in response to the cost of living crisis triggered by the war in Ukraine.

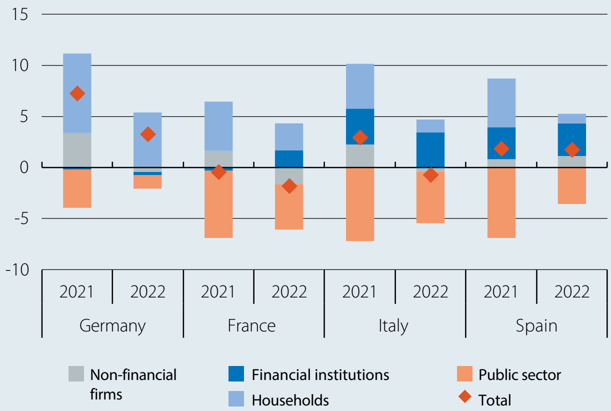
In the case of Germany, our analysis suggests that non-financial firms have seen a significant reduction in their lending capacity from the 3.4% of GDP obtained in 2021, returning to a situation similar to that of 2008 (when they had modest funding needs). Households, meanwhile, looks set to have a lending capacity well below the 7.8% of GDP registered in 2021, but still above the pre-COVID average. The government, for its part, appears to have reduced its funding needs from 3.7% of GDP to 1.5%-2.0% of GDP, giving it one of the lowest ratios in the entire euro area.

In Italy, our analysis indicates that households have reduced their lending capacity from around 4.5% of GDP in 2021 to levels closer to their pre-pandemic average in 2022 (1.5% of GDP), while businesses have seen their lending capacity severely eroded. As for the government, its debt position has been substantially reduced, but its funding needs still exceed the pre-pandemic average.

In France, the most pronounced adjustment occurred in the business sector (both in terms of the international comparison and with respect to other sectors within the country). Households, meanwhile, have seen their lending capacity cut in 2022 to below the average for the decade prior to the pandemic. The good news came from the public sector, which reduced its funding needs to 4.7% of GDP (6.5% in 2021), below the 5.0% budgeted by the government.

Lending capacity (+)/funding needs (–)*

(% of GDP)



Note: ** Cumulative figures for Q4 2021 to Q3 2022, as an estimate for the 2022 total.*
Source: *CaixaBank Research, based on data from Eurostat and the ECB.*

Finally, in Spain, the business sector showed great stability during 2022, while households suffered a significant loss in their lending capacity, being the most pronounced reduction in this measure among the four major economies. On the upside, the public sector registered a reduction of 2.1 pps of GDP in its funding needs, bringing the figure to 4.8% of GDP.

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3. i.e. the sum of the current account balance and the capital balance.
4. Eurostat publishes annual data on the financial position by sector only up to 2021. As an estimate for 2022, we use the cumulative balance of the heading corresponding to each sector of the ECB's financial accounts between Q4 2021 and Q3 2022 (the latest available data). Therefore, the results and conclusions are provisional and are only intended to provide an indication of the trends over the past year.