

HOUSEHOLD WEALTH IN PORTUGAL: 1980-2004*

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1. INTRODUCTION

Analysis of the composition and developments of household wealth is often regarded in economic literature as important for coming to a better understanding of a number of macro-economic aggregates and, more generally, the performance of an economy. The study of wealth effects is particularly relevant in several areas. Among them are how changes in wealth affect decisions on consumption *vis-à-vis* savings or the influence of household wealth on investment (specifically in housing, as part of that wealth is often used as collateral to set against acquiring a loan). Moreover, the behaviour of household wealth and of its composition influences financial markets, thus affecting developments in the financial system.

This article aims to analyse the composition and evolution of the household wealth of residents in Portugal, from 1980 to 2004 and includes, for the more recent period, some international comparisons. The analysis is based on the estimates of wealth for that period published recently in Cardoso, F. and Cunha, V. (2005). Wealth components covered are financial wealth (financial assets and liabilities) and the housing component of non-financial wealth, which, according to some surveys⁽¹⁾, accounts for a very significant share of household non-financial wealth⁽²⁾. These estimates

will therefore cover a large percentage of total household wealth.

The article is organised as follows: section 2 presents the main concepts and a short description of the methodology adopted in the construction of the estimates for the housing stock and financial wealth⁽³⁾; in section 3 the results for housing, financial assets and liabilities are analysed in terms of developments over the twenty-five years under review, including a comparison with figures for other countries. Section 4 presents the main conclusions.

2. CONCEPTS AND METHODOLOGY

2.1. Concepts

In order to achieve higher consistency with the other aggregates of national accounts and for international comparison purposes, the wealth series were estimated following the concepts and methodology defined by the European System of National and Regional Accounts (ESA 95)⁽⁴⁾. According to ESA 95, for each institutional sector the balance sheet records the value of all its assets and li-

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(1) Household wealth and indebtedness survey, 1994 and 2000, INE.

(2) Also in other countries, housing is usually the most significant component of non-financial wealth, according to OECD (2001).

(3) The methodology adopted in the construction of this series on household wealth is described in detail in Cardoso, F. and Cunha, V. (2005).

(4) Regulation (EC) No 2223/96 of the Council, of 25 June 1996.

abilities, and the balance (i.e. the difference between assets and liabilities) corresponds to **net worth** (often called **net wealth**). Assets entered in balance sheets are economic assets defined by Eurostat (ESA 95) as follows: “**economic assets** are entities functioning as a store of value over which ownership rights are enforced by institutional units, individually or collectively, and from which economic benefits may be derived by their owners by holding them or using them over a period of time.”

Assets comprise financial and non-financial assets (produced and non-produced) and liabilities correspond, by definition, to financial liabilities. **Net financial wealth** is the difference between financial assets and liabilities.

It should be noted that, within the scope of ESA 95, balance sheet entries do not include:

- a) human capital;
- b) natural assets that are not economic assets (e.g. air, river water);
- c) durable goods for consumption;
- d) contingent assets which are not financial assets⁽⁵⁾ (e.g. guarantees of payment by third parties and lines of credit, such as credit ceilings associated with credit cards).

The concept of the institutional sector “households” should also be clarified. ESA 95 defines this sector as all resident households⁽⁶⁾, which mainly covers individuals or groups of individuals as consumers, and also sole proprietorships and partnerships without independent legal status, either as market producers or producers for own final use (S.14). However, in the context of financial accounts, accounts for this sector are presented together with those for the sector “non-profit institutions serving households” (NPISHs) (S.15). The NPISHs sector consists of private non-profit institutions that are separate legal entities, which serve households and which are other non-market producers⁽⁷⁾. In Portugal therefore, as in the rest of Eu-

rope, financial accounts are calculated jointly for sectors S.14 and S.15. This article follows the same procedure, and thus wealth estimates presented refer to households and NPISHs, an aggregate that is usually known as “private individuals”.

2.2. Methodology

The housing component⁽⁸⁾ of wealth was calculated using the perpetual inventory method. This method is used in most OECD countries that have estimates for capital stocks, given that in general there are no annual sources of information allowing a direct estimation. The perpetual inventory method consists in the cumulative sum of Gross Fixed Capital Formation (GFCF) of the capital good concerned (in this case, GFCF in housing) at constant prices of a given year. Thus, a (gross) stock of housing is obtained in terms of volume for each period. Considering that all dwellings purchased at a given moment remain active up to the end of their expected service life (T), and are deducted as a whole from the capital stock at the end of that period⁽⁹⁾, gross capital stock at each year t is simply calculated as the sum of investments in the T periods ending in t .

The net capital stock, which deduces the consumption of fixed capital, is the relevant concept for calculating wealth and was calculated by the linear depreciation method, assuming a service life of 65 years. The linear depreciation method is one of the methods most frequently used in OECD countries for this type of estimates (see OECD (2001)). It consists in assuming that assets (at constant prices) depreciate at a constant amount during their service life. The depreciation corresponds to a fixed proportion of the initial value of the asset, $1/T$, where T is the average service life of the asset.

The calculation of the housing stock as described above required long series (starting in 1915), in terms of value and volume, of GFCF in housing. The series were constructed using the GFCF figures from the INE⁽¹⁰⁾ National Accounts

(5) Contingent assets are only recognised in the system as financial assets if they are under contractual arrangements with market value, as is the case of certain financial derivatives.

(6) According to SNA 93, a household is a small group of persons who share the same living accommodation, who pool some, or all, of their income and wealth and who consume certain types of goods and services collectively, mainly housing and food.

(7) For example, trade unions, professional, learned or religious societies, consumers’ associations, political parties, social, recreational and sports clubs.

(8) Includes the value of land underlying dwellings.

(9) This hypothesis is equivalent to considering that the survival function of these assets is rectangular, i.e. the survival probability is 1 during period t and period $t+T-1$, dropping to zero from $t+T$ onwards.

(10) Portugal’s National Statistical Institute.

according to ESA 95, along with Banco de Portugal estimates. The National Accounts series at current prices resulted from the sum of GFCF in household housing, included in GFCF in construction, with GFCF in services associated with house purchase (margins of real estate companies, property registers and taxes on real estate transactions). Given that the GFCF component in housing is only available in INE National Accounts at current prices, these figures were deflated using the GFCF housing deflator implied in Banco de Portugal macroeconomic estimates. The series thus calculated, at current prices and at 1995 constant prices (and extended into 2004 with Banco de Portugal estimates for GFCF in housing in terms of volume and value), were reprojected using change rates in terms of GFCF value and volume in housing published in the Banco de Portugal "Long time series"⁽¹¹⁾ for 1953-1995. For the period prior to 1953, use was made of rates of change in terms of GFCF value and volume in construction published in the Banco de Portugal "Historical series"⁽¹²⁾.

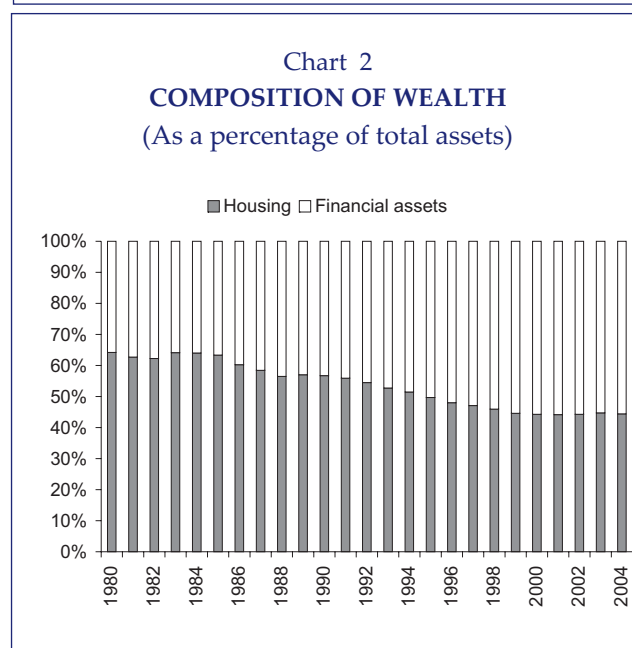
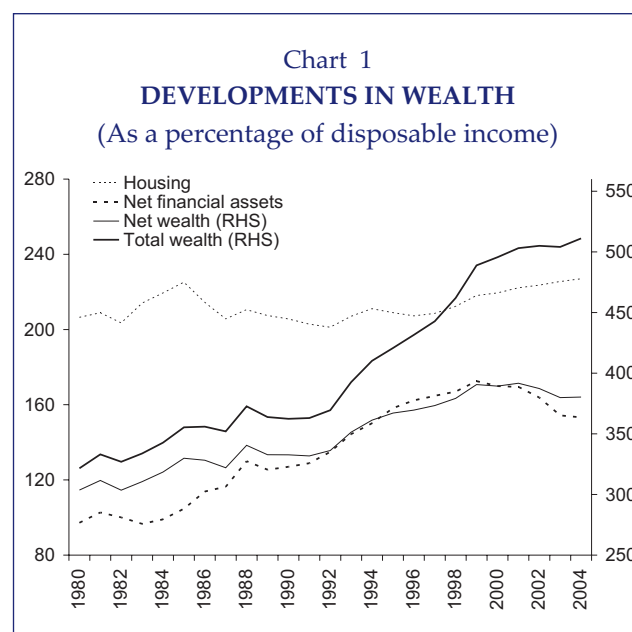
The financial component of household wealth (assets and liabilities) was also estimated on the basis of ESA 95 methodology. As mentioned above, the concept "private individuals" includes households⁽¹³⁾ and non-profit institutions serving households. The main source of information for the period 1995-2003 is the set of financial accounts calculated by the Banco de Portugal. However, for certain components, there are some differences between the current estimates and the financial accounts. In fact, in order to assure homogenous procedures throughout the entire time series, it was not always possible to use the financial accounts methodology for the period 1980-1994, given the lack of primary data. Preliminary estimates were made for 2004, taking into account the information available at the date of compilation of series used in this article⁽¹⁴⁾.

(11) Banco de Portugal (1997a).

(12) Banco de Portugal (1997b).

(13) Including emigrants, whose investments are comparable with investments by residents in the Banco de Portugal statistics.

(14) Series published in Cardoso, F. and Cunha, V. (2005).



3. DEVELOPMENTS IN HOUSEHOLD WEALTH

3.1. Overall results

Over the past twenty-five years, household wealth as a percentage of disposable income presented an upward trend, notably during the 1990s. In parallel, over the period under review there was an increase in the proportion of household financial wealth to total wealth, alongside a fall in the relative weight of the housing component (Charts 1 and 2).

Growth in household wealth was counteracted by a very significant increase in indebtedness, mainly relating to long-term loans for house acquisition. Nevertheless, wealth net of indebted-

ness also evolved positively in the period considered, albeit less than assets, maintaining the rising profile until the end of the 1990s. More recently (as from 2000) household indebtedness decelerated (although it increased further as a percentage of disposable income), as well as assets held by households (mainly financial assets), and the weight of net wealth in disposable income of households stabilised somewhat (Chart 1).

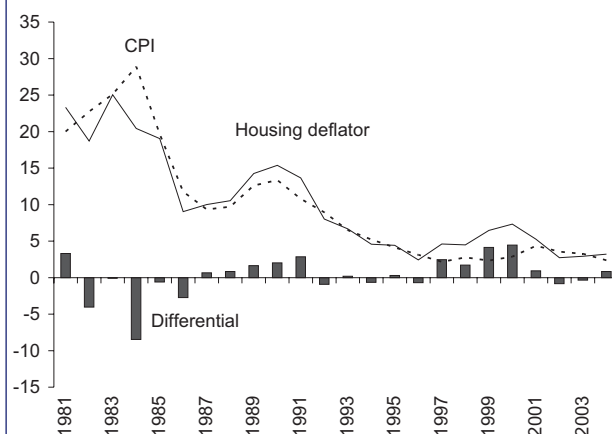
3.2. Housing

The housing stock as a percentage of disposable income increased in the period under review, but not uniformly. Particularly, over the 1990s (mostly over the second half) dynamics in housing market led to an upward trend in housing stock value (as a percentage of disposable income) and stabilised somewhat from 2000 onwards (Chart 1).

In the second half of the 1990s, the increase in the relative value of the housing stock as a percentage of disposable income took place alongside an increase in relative house prices. This, combined with the decline in interest rates, may have encouraged housing investment (Charts 3 and 4). The increase in relative house prices in the 1990s reflected the strong growth in housing demand⁽¹⁵⁾. The latter was stimulated by easier bank credit for house acquisition, associated with both the significant fall in interest rates and higher competition in the banking sector. Indeed, the ratio of mortgage loans for house purchase to housing wealth value shows a significant increase in the 1990s. While this ratio ranged from 4 to 8 per cent from 1980 to 1992, it grew strongly as from 1993, standing at around 39 per cent in 2004 (Chart 5). Thus, non-mortgage housing wealth (as a percentage of disposable income) declined significantly as from the second half of the 1990s. In this context, the number of owner occupied houses grew, as evidenced by the *INE* population and housing census data. In 2001, 76 per cent of the dwellings were occupied by their owners, against 65 per cent in 1991.

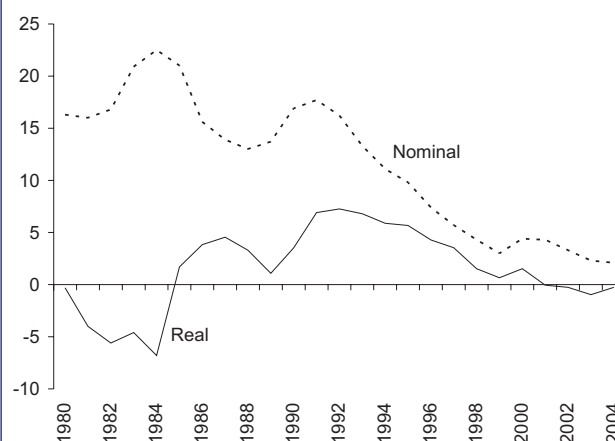
(15) It should be noted that strong growth in demand in the second half of the 1990s did not lead to price increases as it did in other countries. Although these price increases were considerable, they occurred alongside a significant increase in housing supply.

Chart 3
HOUSING PRICES VERSUS CPI



Sources: *INE* and Banco de Portugal.

Chart 4
SHORT-TERM INTEREST RATES



Sources: European Commission and *INE*.

Unlike housing value as a percentage of disposable income (which also reflects developments in relative prices), housing stock per capita at constant prices followed an upward trend over the period under review. In fact, the growth rate in volume of housing stock stood permanently above population growth (Chart 6). This trend reflects two main factors. First, over the past decades the average size of households has dropped: according to the *INE* census data, the average number of persons per household fell from 3.4 in 1981 to 3.1 in 1991 and to 2.8 in 2001, and the number of one person households grew notably from 1991 to 2001, currently accounting for 17 per cent of total households (14 per cent in 1991 and 13 per cent in

Chart 5
LOANS FOR HOUSE PURCHASE
(As a percentage of housing wealth)

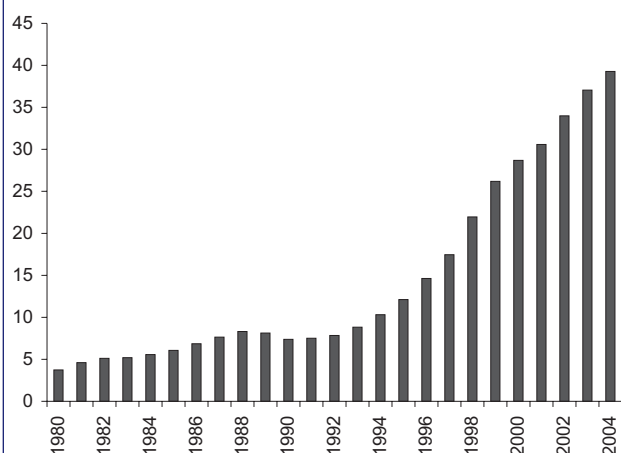
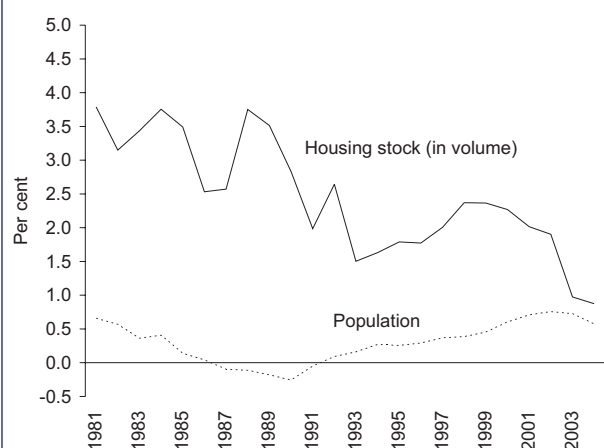


Chart 6
HOUSING IN VOLUME AND POPULATION
(Rates of change)



1981). Second, the expansion of the housing stock also reflects the increase in the number of houses per household (1.4 houses per household in 2001, 1.3 in 1991 and 1.2 in 1981) associated with the growing importance of seasonally occupied houses (which in 2001 corresponded to 18 per cent of total houses compared with 16 per cent in 1991).

3.3. Financial wealth

Financial wealth relative to disposable income followed a clear upward trend both in assets and in assets net of liabilities. This trend, much more marked than in the housing component, became more pronounced as from the early 1990s, which

seems to be associated with the strengthening of the financial system that followed the abolition of credit limits (1990/91) and the liberalisation of capital movements at the end of 1992. However, as liabilities grew in importance, the trend in net financial wealth is less steep than that in assets, albeit maintaining the rising profile until the end of the 1990s. More recently, financial assets as a percentage of disposable income stayed on an upward track, but decelerated more than liabilities did and net financial wealth therefore fell as a percentage of disposable income (Chart 7).

Household financial investments comprise mainly deposits⁽¹⁶⁾. These have been growing in importance in terms of disposable income, although their relative weight has been declining in terms of portfolio composition. In fact, over the period under analysis, a decline in the degree of bank intermediation was observed: in the first half of the 1980s, investments in deposits accounted for around 80 per cent of total financial wealth, but then fell steadily until 2004. Even so, they account for more than 40 per cent of the financial investment (Chart 8).

The evolution of portfolio composition reflected the developments in financial system and its regulatory framework. The liberalisation process started in 1983 with the opening of the banking and insurance sectors to private initiative. European integration was achieved in 1986 and reinforced this process with the subsequent strengthening of the financial system through the emergence of new institutions and financial products. Regulatory changes, involving the liberalisation of interest rates and the abolition of credit limits, as well as the liberalisation of capital flows in the early 1990s and the privatisation process also contributed to the strengthening of capital markets and thereby to the increased diversification of households' financial portfolios.

As a result, the weight of the shares and other equity in households' financial portfolios increased significantly, from around 15 per cent in the first half of the 1980s to more than 30 per cent in 2000, being the second component in terms of weight in the structure of households' financial assets. This value had been declining in the previous

(16) This category comprises bank deposits and savings certificates, which, according to ESA95, are equivalent to deposits.

Chart 7
FINANCIAL ASSETS
(As a percentage of disposable income)

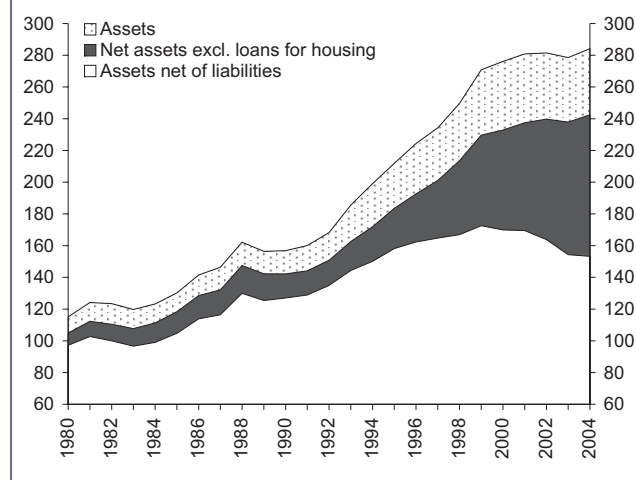
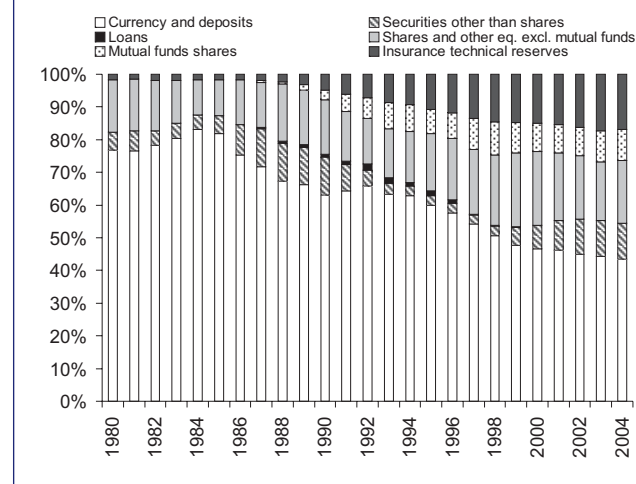


Chart 8
COMPOSITION OF PORTFOLIO
(As a percentage of financial assets)



few years, but in 2004 it recovered slightly (Chart 8). These developments occur both at the level of shares and other equity in corporate capital and in mutual funds shares. The latter emerged in Portugal in 1986 and have been mostly acquired by households, as an alternative to investments in bank deposits. The privatisation process initiated at the end of the 1980s, and with greater incidence in the second half of the 1990s, mainly relating to the banking and insurance sectors, contributed significantly to the increased importance of shares in household portfolios. These operations, associated with investment incentives to small subscribers (notably discounts on the acquisition of shares and the provision of bonus shares) and tax

benefits, led to a rise in household participation in the stock market.

In its turn, net equity of households in insurance technical reserves has followed a continued upward trend since the early 1990s both in terms of disposable income and of weight in the structure of assets. This was the component that increased more significantly over the period in analysis and in the mid-1990s it reached third position in financial investments of households (after deposits and shares) and has been there since then. This trend reflects developments in life insurance and pension funds as private systems complementary to social security schemes. Investments in life insurance and pension funds have also benefited from more favourable tax regimes than more traditional investments, favouring demand for these less liquid products.

Direct investments in securities, mostly in government debt, grew over the 1980s, but they seem to have been replaced by mutual funds shares and insurance technical reserves in the 1990s, a trend that was only reversed in the last years of the period under review (Chart 8).

The share of direct equity issued by non-residents continued to be negligible in the equity portfolio, despite following an upward trend, more marked after Portugal's accession to the euro area. This has also been the case for total direct financial investments abroad (which represent 7 per cent of total). In terms of indirect investments, i.e. via institutional investors (mutual funds, life insurance and pension funds), the share is much higher: the percentage of securities issued by non residents in the portfolio of these investors is estimated to have increased from less than 10 per cent in 1995 to over 60 per cent in 2004.

These developments in household wealth naturally reflect household financial investment choices but they are also influenced by other factors, such as price fluctuations in assets. Charts 9A and 9B show how changes in wealth from 1995 to 2004 resulted from net acquisitions of assets or from other factors. The net acquisitions have been mainly directed to deposits, followed by investments in insurance (specifically life insurance) and pension funds, and, in third place, by acquisitions of securities (other than shares, mutual funds shares and other equity), denoting the preference by households for low-risk assets.

Chart 9A
FINANCIAL INVESTMENTS IN THE PERIOD
1995-2004

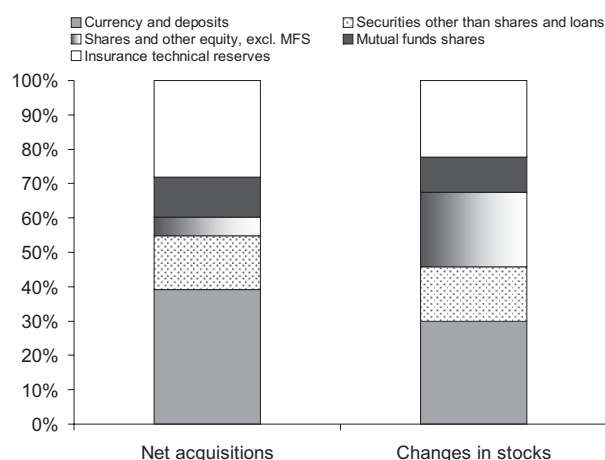
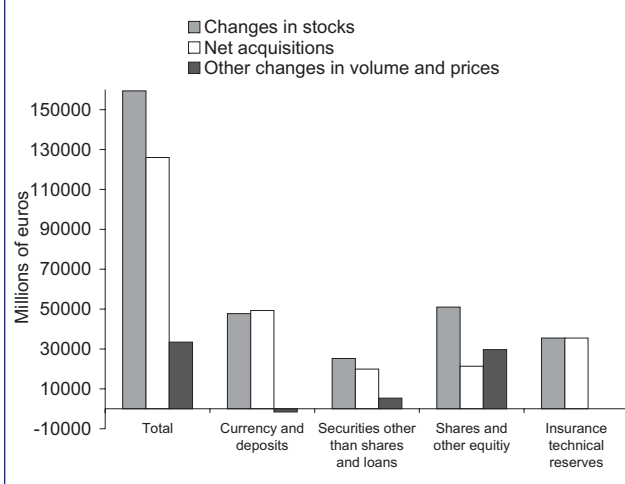


Chart 9B
FINANCIAL INVESTMENTS IN THE PERIOD
1995-2004



Thus, the rise in the stock of household wealth in shares and other equity since 1995 is due to increases in shares prices (which account for around 60 per cent of the change in stock) rather than to net acquisitions. These price effects were stronger until early 2000 but, in the 10 years to the end of 2004, the PSI index had increased by around 140 per cent. In fact, holding gains in shares were the most significant price effects in financial wealth, while net acquisitions of these assets continued to account for a small percentage of household investments. Securities other than shares also recorded some nominal holding gains, albeit relatively small (close to 20 per cent of total change in stock from 1994 to 2004)⁽¹⁷⁾.

Overall, in the period under review, the strengthening of the financial system, the downward path of interest rates and capital gains offered by shares and other equity, as well as developments in social security schemes have conditioned household choices for their financial asset portfolio composition. It became more diversified and less liquid, but still quite “conservative” when compared with other European countries (see section 3.4).

Household indebtedness, in its turn, rose significantly in terms of disposable income, although total wealth net of liabilities maintained an upward path (Chart 1). In terms of breakdown by type of credit, long-term loans are the most relevant item, mainly for house acquisition, which recorded the most significant growth. Short-term loans, including trade credits, are negligible in terms of households’ disposable income over the period under review. In the 1990s, indebtedness evolved in a context of declining interest rates, which encouraged consumption and investment expenditure, mainly in housing, with a corresponding increase in demand for credit. The effect of declining interest rates occurred both in real terms, by reducing the opportunity cost of expenditure, and in nominal terms, by easing households’ liquidity constraints. By the end of the 1990s, strong competition in the banking sector increased the availability, diversification and sophistication of financial products, notably in the housing credit segment, stimulating recourse to this type of credit. A recent study⁽¹⁸⁾ based on micro data shows that developments in the second half of the 1990s resulted from a marked increase in the accessibility of households to the credit market rather than from higher indebtedness and the respective effort rate at the level of individual households. Younger individuals were the main contributors behind the increase in indebtedness in aggregate terms. However, as they have lower levels

(17) It should be noted that income under the form of interest is classified as transaction rather than as a holding gain. According to ESA95, interest is recorded in the income account on an accrual basis. In financial transactions, accrued interest not paid is recorded as transaction together with the financial asset that gave rise to it (as a reinvestment). Therefore, the changes in stocks of deposits and securities, excluding exchange rate fluctuations, correspond mostly to financial transactions.

(18) Farinha, L. (2004).

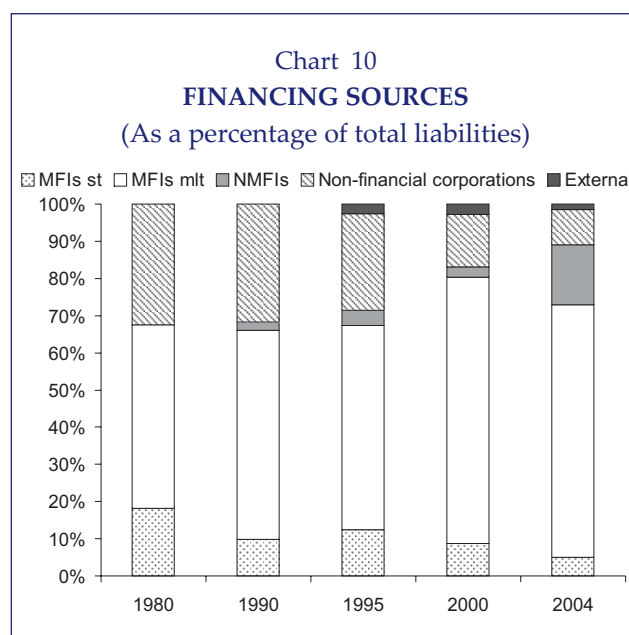
of formal education, they are more vulnerable in situations of higher unemployment and therefore in their ability to fulfil debt commitments. The fact that each economic agent faces an intertemporal budget constraint that does not allow it to sustain an indebtedness trend indefinitely has also contributed to the slowdown in demand for credit.

Households preferably choose to borrow from the resident banking system (around 80 per cent of total financing) (Chart 10). Non-monetary financial institutions appeared in the mid 1980s, but their importance is negligible. It has increased somewhat in the past few years mainly due to the transfer of bank loans to entities specialised in credit securitisation rather than by direct borrowing of households from these institutions. Non residents, in turn, accounted for only 3 per cent of total financing by direct credit. Trade credits have been declining in terms of relative importance, with the widespread recourse to consumer credit and credit for other purposes offered by financial institutions (banks and non banks) under more favourable conditions than those offered by commercial firms. By the end of 2004, they accounted for around 10 per cent of households' total indebtedness.

It is also worth mentioning that these aggregated indicators do not allow an evaluation of the financial wealth of households at a micro level, and one should expect an asymmetric distribution in households' wealth. In fact, according to a recent study⁽¹⁹⁾, wealth distribution, in particular the financial segment is quite concentrated. For instance, the study reveals that, in the sample used, a mere 10 per cent of households in 2000 held almost 74 per cent of financial assets. However, net wealth is positive for most households, as a significant part of their liabilities take the form of loans for house purchase, which have the corresponding asset as guarantee.

3.4. International comparisons

This section briefly compares estimates for Portugal with data for other countries. The comparison is based on data only from 1995 onwards, a period for which there is financial wealth data on a comparable basis. Housing data are even scarcer



and less harmonised and, for this reason, the analysis of this component was made for a smaller group of countries.

Table 1 shows some differences both in the structure of net wealth (weight of housing, financial assets and liabilities) and in its value as a percentage of disposable income. However, with regard to developments from 1995 onwards, there are some movements similar to those observed in other countries. Overall, from 1995 to 2000 there was an increase in household wealth as a percentage of disposable income, in both the housing and the financial component. This increase was more marked in financial wealth, resulting in the housing component losing importance as a proportion of total assets. From 2000 to 2003, the financial assets component declined in most countries considered (in some cases, such as the United Kingdom, even its nominal value decreased) reflecting the devaluation effect of shares in this period, while in some countries the value of dwellings continued to appreciate considerably. This effect was also observed in Portugal, albeit to a lesser extent, partly due to a slight slowdown in the housing market over the period. With regard to the weight of housing in total assets, in the group of European countries considered, Portugal is the country with the lowest share in 2003 (in 1995 and 2000 the United Kingdom was lower than Portugal). In Spain, the housing component has a very significant weight in total assets (above 70 per cent in 2002), reflecting a high percentage of house own-

(19) Farinha, L. and Noorali, S. (2005).

Table 1

INTERNATIONAL COMPARISONS - HOUSEHOLD WEALTH

As a percentage of total assets									
	Housing			Financial assets			Liabilities ^(a)		
	1995	2000	2003	1995	2000	2003	1995	2000	2003
Portugal	49.7	44.3	44.7	50.3	55.7	55.3	12.8	21.4	24.6
Germany.....	55.4	51.8	50.6	44.6	48.2	49.4	19.2	20.1	19.7
Spain.....	65.2	63.4	72.0	34.8	36.6	28.0	10.8	12.4	11.9
France ^(b)	49.0	45.2	52.3	51.0	54.8	47.7	13.5	12.0	12.1
Italy.....	64.9	53.6	60.8	35.1	46.4	39.2	4.3	5.6	5.7
United Kingdom.....	36.6	39.0	49.0	63.4	61.0	51.0	17.9	14.7	18.0
Europe (6).....	53.7	48.6	55.5	46.3	51.4	44.5	13.8	13.6	14.0
USA.....	27.1	25.4	30.9	72.9	74.6	69.1	17.5	16.7	19.8
Japan.....	41.6	37.2	33.7	58.4	62.8	66.3	18.9	17.8	17.7

As a percentage of disposable income									
	Housing			Financial assets			Liabilities ^(a)		
	1995	2000	2003	1995	2000	2003	1995	2000	2003
Portugal	209	219	226	212	276	279	54	106	124
Belgium	-	-	-	362	468	398	63	69	67
Denmark.....	-	-	-	279	356	308	175	225	214
Germany.....	271	276	268	218	256	262	94	107	104
Spain.....	371	437	635	198	252	247	61	86	105
France ^(b)	234	270	318	243	328	290	64	72	74
Italy.....	437	385	477	237	333	308	29	40	44
The Netherlands.....	-	-	-	411	560	465	108	175	201
Austria.....	-	-	-	181	203	210	52	72	75
Finland.....	-	-	-	100	185	177	65	60	70
Sweden.....	-	-	-	211	295	262	95	101	117
United Kingdom.....	218	301	381	378	471	397	107	113	140
Europe (6).....	291	314	378	251	332	303	75	88	95
Europe (12).....	-	-	-	238	308	289	72	87	91
USA.....	146	157	184	391	460	411	94	103	118
Japan ^(c)	262	240	216	367	407	424	119	115	113

Sources: Eurostat, National central banks and European statistical institutes, Observatoire de L'Épargne Européenne, Federal Reserve Bank, Cabinet Office (Government of Japan) and Banco de Portugal.

Notes:

- (a) The concept of liabilities considered here is more general than the one usually commented by Banco de Portugal (which considers only the interest bearing liabilities), the main difference being the inclusion of trade credits. Considering the strict concept, the ratios for Portugal are 38, 91 e 110 per cent of the disposable income in 1995, 2000 and 2003, respectively.
- (b) The value of housing for France, in 2003, was estimated assuming the ratio of that value, as a percentage of disposable income, equal to the one observed in 2002 (last available figure).
- (c) In the case of Japan, housing includes 3/4 of the value indicated in non-financial accounts as land underlying buildings and other constructions of households, as in OECD (2003).

ers (main and secondary houses). On the other hand, the 2000 to 2003 increase in the weight of the housing component in this country (as in the United Kingdom) reflects stronger growth in house prices in this period. In contrast, the weight of housing in the United States and Japan (both as a percentage of disposable income and total assets) is considerably below that observed in the European countries under review.

With regard to liabilities, although the respective values increased in several countries from

1995 to 2003, this trend was much more pronounced in Portugal, which recorded the highest share of liabilities in total assets in 2003, in the group of eight countries for which housing estimates were obtained. Considering a wider group of countries, the indebtedness level in Portugal as a percentage of disposable income is only below Denmark, the Netherlands and the United Kingdom (Table 1).

In 2003, in terms of financial wealth composition, comparing the values in Portugal with the

Table 2

INTERNATIONAL COMPARISONS - STRUCTURE OF FINANCIAL ASSETS ^(a)

As a percentage of total financial assets

Table 2A

COMPOSITION AT THE END OF 2003

	Currency and deposits	Securities other than shares	Shares and other equity	o.w.:mutual funds shares	Insurance technical reserves	o.w.: life ins. and pension funds
Portugal	44	11	27	9	17	16
Belgium	32	19	29	16	19	17
Denmark.....	28	8	17	9	46	44
Germany.....	36	12	22	12	30	28
Spain.....	42	3	39	13	16	15
France.....	31	2	36	10	31	28
Italy.....	27	22	35	17	15	13
The Netherlands.....	25	4	11	4	60	58
Austria.....	56	8	16	10	21	14
Finland.....	35	1	41	5	23	20
Sweden.....	20	3	40	12	37	37
United Kingdom.....	27	1	16	5	56	54
Euro area (9)	33	11	29	11	27	25
European Union (12) ..	31	8	26	9	34	32
USA.....	16	6	48	10	30	30
Japan.....	56	6	11	2	27	27

Table 2B

COMPOSITION AT THE END OF 1995

	Currency and deposits	Securities other than shares	Shares and other equity	o.w.:mutual funds shares	Insurance technical reserves	o.w.: life ins. and pension funds
Portugal	60	3	25	7	11	9
Belgium	30	31	29	9	10	8
Denmark.....	27	15	23	7	34	32
Germany.....	42	13	19	7	26	24
Spain.....	53	4	31	11	10	9
France.....	37	5	35	12	21	19
Italy.....	43	28	20	4	10	9
The Netherlands.....	23	3	20	5	53	52
Austria.....	62	15	6	4	16	12
Finland.....	73	6	5	1	15	10
Sweden.....	29	9	30	7	31	31
United Kingdom.....	25	2	20	4	53	51
Euro area (9)	41	13	24	8	22	20
European Union (12) ..	37	11	23	7	29	27
USA.....	16	9	46	5	29	29
Japan.....	52	8	14	2	26	26

Note:

(a) Luxembourg, Greece and Ireland are not considered in this table, since financial accounts according to ESA 95 are not available for these countries.

euro area average, investments in securities, shares and other equity are identical, but the currency and deposits component is significantly above the average, while net equities in insurance technical reserves continue to have a smaller weight (Table 2A and 2B). In terms of European Union countries, the results of the comparison are similar, with the exception of a larger difference concerning investments in the insurance sector. In-

deed, the latter increased its relative weight with the inclusion of the United Kingdom, where more than half of the financial investments of households is made in this type of assets (among the countries under review, only the Netherlands are higher, standing at almost 60 per cent).

The results of the European countries' average (Monetary Union and others) mask considerable differences between countries when considered on

an individual basis. In the currency and deposits component, for instance, Austria shows the highest value (56 per cent), only comparable with Japan, and followed by Portugal (44 per cent), which is very close to the value recorded in Spain. In most other countries, the currency and deposits component has a smaller weight. In contrast, in the insurance and pension funds segment, Portugal stands (together with Spain, Italy and Belgium) in the group of countries in which investments have the smallest weight in total financial wealth (from 15 to 19 per cent), while most Northern European countries present higher relative importance of these assets. The debt securities and equities components also show wide variability between the countries considered; Portugal stands close to the average.

Compared to 1995, developments in Portugal until 2003 followed the trend observed in most other European countries, with a decline in the relative weight of deposits and an increase in other financial investments. The only exception is securities, which became more important in Portugal but remained below the euro area average. Overall, the structure of households' portfolios in Portugal over the last eight years came closer to the average of European countries, notably euro area countries. These movements contrast with those observed in the United States, where the weight of deposits stabilized, and in Japan, where deposits gained relative importance, reflecting the devaluation of shares. In the United States, the weight of shares and other equity remains above that observed in all the other countries under review. The increase in the weight of insurance technical reserves, in turn, was broadly based across all those countries under review, accounting for around one third of the financial assets of households in the areas considered (European countries, United States and Japan).

4. CONCLUSIONS

Over the past 25 years under review, household wealth as a percentage of disposable income presented an upward trend, notably during the 1990s. In parallel, there was an increase in the share of household financial wealth in total wealth, along-

side a decrease in the relative weight of the housing component.

Growth in household wealth was counteracted by a very significant increase in indebtedness, mainly concerning long-term loans for house acquisition. Nevertheless, wealth net of indebtedness has also evolved positively in the period considered, albeit less than assets, maintaining the rising profile until the end of the 1990s, followed by a relative stabilization in the more recent period.

Over the 1990s, the declining trend of real and nominal interest rates conditioned household choices regarding the composition of their wealth. In the housing component, it allowed a growing number of households to purchase houses by recourse to credit, translated into an increasing trend in values of housing stock as a percentage of disposable income. In terms of financial wealth, the same factor (the declining trend of interest rates), along with the strengthening of the financial system, the capital gains offered by shares and other equity, as well as developments in social security schemes, determined changes in household portfolios of financial assets. Portfolios became more diversified and less liquid, but still quite "conservative" when compared with other European countries.

The 2003 figures effectively show that the weight of currency and deposits in total assets remains significantly higher than the observed average for the euro area whereas the net equity in insurance technical reserves has a smaller weight. In its turn, the weight of investments in securities, shares and other equity is similar in Portugal and in the euro area. When compared with the structure in 1995, developments in the period 1995-2003 in Portugal reveal similar trends to those observed in other European countries, with a decline in the relative weight of deposits and an increase in other financial investments, particularly in life insurance and pension funds. In general, households' portfolio composition in Portugal in this period moved closer to the average observed in European countries, in particular in the euro area countries.

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