

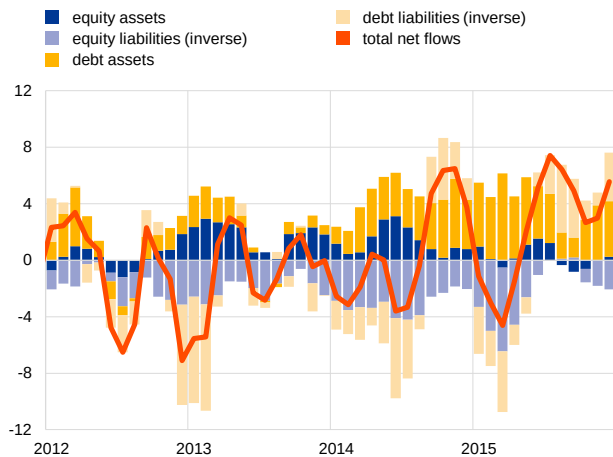
Box 4

Rebalancing in euro area portfolio investment flows

This box describes recent developments in the portfolio investment flows of the euro area financial account. During 2015 the euro area's current account surplus was mainly mirrored by net portfolio investment outflows in the financial account of the balance of payments.

Chart A
Breakdown of euro area portfolio investment flows

(as a percentage of GDP; three-month moving averages)



Sources: ECB and Eurostat.

Notes: For assets, a positive (negative) number indicates net purchases (sales) of foreign securities by euro area investors. For liabilities, a positive (negative) number indicates net sales (purchases) of euro area securities by foreign investors. For net flows, a positive (negative) number indicates net outflows (inflows) from (into) the euro area. The latest observation is for December 2015.

In 2015 the euro area recorded net outflows in portfolio investment largely due to a rebalancing towards foreign debt securities (see Chart A). Euro area investors significantly stepped up their purchases of foreign debt securities from mid-2014 – when the ECB embarked on comprehensive credit easing measures – to levels not seen since the outbreak of the global financial crisis. Since mid-2014, euro area residents have been persistent net buyers of foreign debt securities, largely in the form of long-term bonds. In the first quarter of 2015, when the ECB's public sector purchase programme was launched, foreign investors partly offset these outflows with substantial net purchases of euro area debt securities. Subsequently, however, non-residents have broadly disinvested from euro area debt securities. The rebalancing towards foreign debt securities is in line with the euro area's persistently negative interest rate differentials vis-à-vis other advanced economies. Foreign investors' net purchases of euro area equities – which have been substantial in recent years – peaked in

the first quarter of 2015. Thereafter, foreign investment inflows to euro area equities abated, thereby contributing to the rebalancing towards net portfolio investment outflows from the euro area. Net purchases of foreign equities by euro area investors declined to low levels in 2015 and thus did not contribute significantly to overall developments in portfolio investment flows.

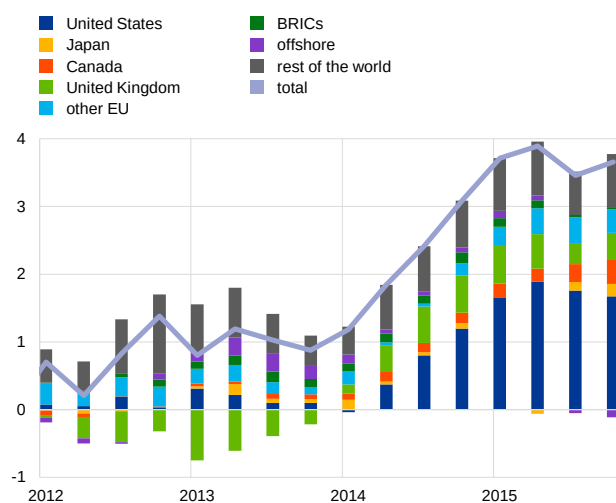
Rising euro area portfolio debt investment abroad largely targeted other advanced economies in 2015 (see Chart B). Around 45% of euro area investors' net purchases of foreign debt securities in 2015 were directed towards the United States, followed by the United Kingdom (11%), other EU Member States (10%), Canada (10%) and Japan (5%). Net purchases by euro area residents of debt securities issued by Brazil, China, India and Russia largely dried up during 2015, concomitant with waning investor confidence in these markets. As information on the source countries of foreign inflows to the euro area is not available, indicative

evidence is derived from changes in foreign investment positions vis-à-vis the euro area as reported in the International Monetary Fund's Coordinated Portfolio Investment Survey (CPIS). These data show that, in particular, investors from Japan, the United Kingdom and Denmark reduced their holdings of euro area portfolio debt securities in the first half of 2015.¹

Chart B

Geographic breakdown of euro area investors' net purchases of foreign portfolio debt securities

(percentages of euro area GDP, four-quarter averages)



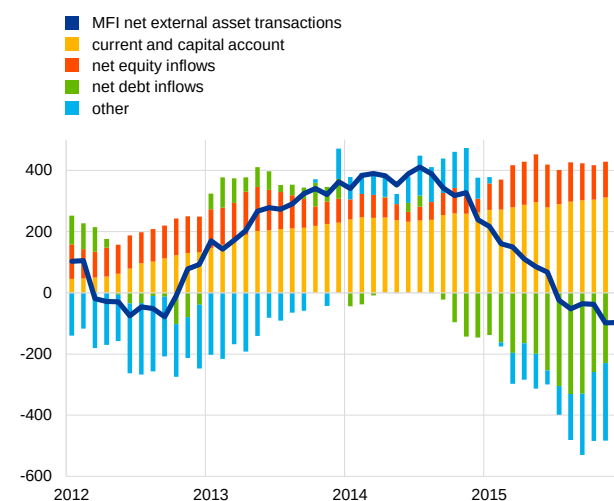
Sources: ECB and Eurostat.

Notes: The BRIC aggregate comprises Brazil, China, India and Russia; "other EU" includes EU Member States outside the euro area, excluding the United Kingdom. The latest observation is for the fourth quarter of 2015.

Chart C

Monetary presentation of the balance of payments

(12-month moving sums of monthly flows in EUR billions)



Source: ECB.

Notes: A positive number refers to a net inflow/increase in MFIs' net external assets. All transactions refer to the money-holding sector. "Other" includes: net inflows in FDI and other investments, financial derivative transactions and discrepancies between balance of payments and monetary statistics, as well as errors and omissions. The latest observation is for December 2015.

In the non-MFI sector, portfolio rebalancing away from euro area debt securities increasingly dragged on the euro area MFI net external asset position in 2015 (see Chart C). The net external asset position of MFIs mirrors

transactions resulting from trade and financial flows of the money-holding sector. As can be seen from the monetary presentation of the balance of payments, net portfolio debt outflows of the money-holding sector had a negative impact on annual M3 growth in the euro area in 2015. Conversely, MFI net external assets continued to be supported by non-MFI transactions related to the euro area's current account surplus and, to a lesser extent, to net equity inflows.

¹ The latest available data in the CPIS refer to the second quarter of 2015.