

Box 3

RECENT DEVELOPMENTS IN THE FINANCIAL ACCOUNT OF THE EURO AREA BALANCE OF PAYMENTS

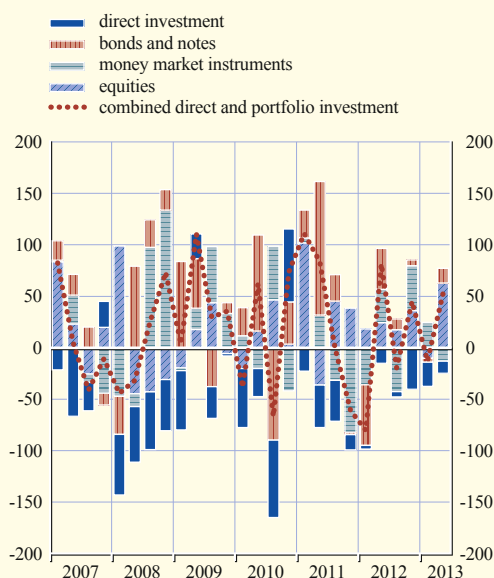
This box analyses developments in the financial account of the euro area balance of payments up to the second quarter of 2013. In the 12-month period to June 2013, the combined balance for direct and portfolio investment in the euro area recorded net inflows of €64.5 billion, compared with net outflows of €60.0 billion a year earlier (see table). These inflows were more

than offset by net outflows of €324.5 billion in other investment, against the background of a sizeable surplus in the current account of the euro area. After the announcement of the Outright Monetary Transactions (OMTs) in September 2012, financial market conditions improved and foreign investors substantially increased their exposure to euro area equity and debt securities.

The shift in the combined balance for direct and portfolio investment in the euro area over the 12-month period to June 2013 was due to an increase in net inflows in portfolio investment. Since the announcement of OMTs, foreign investors have substantially increased their purchases of securities issued by euro area non-MFIs. At the same time, euro area investors also increased their acquisition of foreign securities, albeit to a lesser extent. This increase was mainly due to the purchase by euro area non-MFIs of both foreign equity and debt securities, whereas euro area MFIs remained net sellers of foreign debt instruments against the backdrop of their balance sheet restructuring. Net other investment turned negative and more than offset portfolio investment inflows, reflecting a substantial withdrawal of deposits and loans from euro area MFIs by non-euro area residents.

Main items in the financial account

(EUR billions; quarterly net flows)



Source: ECB.

Main items in the financial account of the euro area balance of payments

(EUR billions; non-seasonally adjusted data)

	2013		Three-month cumulated figures				12-month cumulated figures	
	May	June	2012 Sep.	2012 Dec.	2013 Mar.	2013 June	2012 June	2013 June
Financial account ¹⁾	-9.8	-24.8	-41.6	-87.8	-37.8	-53.1	-68.9	-220.2
Combined net direct and portfolio investment	39.5	18.1	-19.7	44.9	-13.0	52.3	-60.0	64.5
Net direct investment	0.2	-5.1	-4.9	-40.4	-23.6	-11.7	-73.3	-80.6
Net portfolio investment	39.2	23.2	-14.8	85.3	10.7	64.0	13.3	145.1
Equities	41.9	26.7	17.5	36.0	-10.3	62.9	126.4	106.1
Debt instruments	-2.7	-3.5	-32.3	49.3	20.9	1.1	-113.1	39.0
Bonds and notes	-2.6	-5.4	10.5	5.5	-3.7	14.2	5.2	26.5
Money market instruments	-0.1	1.9	-42.8	43.8	24.7	-13.1	-118.3	12.5
Net other investment	-41.5	-56.5	-24.6	-158.0	-34.1	-107.8	40.3	-324.5
Of which: non-MFIs ²⁾								
Net direct investment	-0.6	-3.2	-6.9	-41.3	-27.4	-11.2	-77.9	-86.8
Net portfolio investment	43.3	23.2	0.9	89.2	8.8	65.2	-5.7	164.1
Equities	44.5	40.4	20.6	56.5	11.4	80.6	88.3	169.1
Debt instruments	-1.2	-17.1	-19.7	32.7	-2.7	-15.3	-94.0	-5.0
Net other investment	21.5	-4.4	9.5	-50.2	3.4	15.6	8.9	-21.6

Source: ECB.

Note: Figures may not add up, owing to rounding.

1) Figures refer to balances (net flows). A positive (negative) sign indicates a net inflow (outflow).

2) General government and other sectors of the balance of payments.

In the second quarter of 2013, net inflows of €52.3 billion were recorded in the combined balance for direct and portfolio investment, compared with net outflows of €13.0 billion in the first quarter of 2013. Flows in portfolio investment were lower in the second quarter, with both domestic and foreign investors being net buyers of cross-border equity and debt securities. In June 2013 – the latest month for which data are available – euro area investors made net sales of foreign equity securities, while foreign investors were net purchasers of euro area equity securities. Foreign investors reduced their holdings of euro area debt securities in the same month, however, with this reduction being partly counterbalanced by euro area investors' net sales of foreign bonds and notes. Euro area MFIs' other investment liabilities recorded net outflows in the second quarter of 2013, following small net inflows in the first quarter of 2013. Furthermore, euro area MFIs expanded their purchases of foreign other investment assets in the second quarter of 2013, but became net sellers in June 2013. The change in direction observed for some of the flows in June 2013, compared to the headline quarterly numbers, might have been driven by investor uncertainty about the tapering-off of quantitative easing in the United States.

Euro area MFIs continued to scale down their holdings of foreign debt securities on account of balance sheet restructuring in the second quarter of 2013, but still purchased foreign equity securities. Non-euro area residents seem to have partly shifted funds previously invested in equity securities and bonds and notes issued by euro area MFIs into money market instruments of euro area MFIs, resulting in net sales of securities issued by euro area MFIs. Euro area non-MFIs slightly increased their net purchases of foreign money market instruments, while considerably reducing their acquisition of foreign equity securities as well as bonds and notes. Foreign investors' net acquisition of domestic securities issued by euro area non-MFIs remained on a high level, but declined compared to the previous quarter, despite an increase in investment in equity securities, owing to lower investment in bonds and notes and net outflows in money market instruments.

All in all, net inflows in portfolio investment in the second quarter contributed to an increase in euro area liquidity, which was partly reflected in the developments in the broad monetary aggregate M3. As can be seen from the monetary presentation of the balance of payments, transactions by the non-MFI sector were an important determinant of the increase in MFIs' net external asset position in the second quarter of 2013.