

## Box 1

### 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 third quarter of 2014. The underlying data have been compiled in accordance with the new guidelines introduced in the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6). In October 2014 the ECB started publishing data compiled

in line with the BPM6 on the euro area balance of payments and international investment position, covering the period from January 2013.<sup>1</sup> In the first three quarters of 2014 the current account surplus of the euro area was mirrored by aggregate net financial outflows of around €200 billion. These outflows were largely accounted for by net outflows from other investment (mainly deposits and loans) of €177 billion and net outflows from financial derivatives of €25 billion, while the combined direct and portfolio investment balance was close to zero (see the table).

The combined direct and portfolio investment balance switched from net outflows of €49 billion in the first three quarters of 2013 to a net inflow of €1 billion in the first three quarters of 2014. This was driven by portfolio investment flows, which turned from net outflows of €27 billion to net inflows of €63 billion. In the first three quarters of 2014 foreign investors showed strong interest in euro area equity and investment fund shares, with net purchases of €236 billion compared with net purchases of €128 billion over the same period in 2013. At the same time, investment by euro area residents in foreign equity and investment funds declined from €125 billion to €97 billion. Euro area cross-border investment activity in debt securities increased substantially, on both the asset and the liability side. Euro area investors expanded their net purchases of foreign debt instruments from €82 billion in the first three quarters of 2013 to €217 billion in the first three quarters of 2014, while foreign investors' net purchases of euro area debt securities rose from €52 billion to €142 billion driven by net acquisitions of euro area long-term debt securities.

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

(EUR billions; non-seasonally adjusted data)

	Three-month cumulated figures						Nine-month cumulated figures					
	2014			2014			2013			2014		
	Assets	Liabilities	Balance	Assets	Liabilities	Balance	Assets	Liabilities	Balance	Assets	Liabilities	Balance
<b>Financial account<sup>1)</sup></b>			82.8			37.5			283.3			202.4
Combined direct and portfolio investment												
Direct investment	127.7	162.6	-34.9	136.1	83.7	52.4	510.8	462.1	48.7	341.7	342.6	-1.0
Portfolio investment	-24.9	-29.1	4.2	43.3	24.2	19.1	303.7	281.7	21.9	27.2	-34.9	62.0
Equity and investment fund shares	152.6	191.7	-39.1	92.8	59.5	33.3	207.2	180.4	26.8	314.5	377.5	-63.0
Debt securities	65.0	110.4	-45.3	14.1	63.1	-49.0	124.9	128.1	-3.2	97.3	235.8	-138.5
Long-term	87.5	81.3	6.3	78.7	-3.7	82.3	82.3	52.3	30.0	217.2	141.7	75.5
Short-term	71.5	60.8	10.7	53.5	16.6	36.8	74.6	-0.2	74.8	163.4	137.8	25.7
Other investment	16.0	20.4	-4.4	25.2	-20.3	45.5	7.7	52.5	-44.8	53.8	3.9	49.8
Net financial derivatives	47.7	-54.0	101.7	11.1	28.2	-17.2	-6.0	-215.1	209.1	299.0	121.8	177.2
Reserve assets			15.6			3.4			21.1			24.9
Of which: MFIs	0.3			-1.2			4.4			1.3		
Direct investment	4.3	2.3	2.1	3.6	1.1	2.5	-2.0	6.1	-8.1	13.7	1.9	11.8
Portfolio investment	9.5	29.6	-20.1	39.7	38.7	1.0	-19.6	-33.7	14.0	39.4	95.7	-56.3
Equity and investment fund shares	-6.2	20.3	-26.5	8.3	20.5	-12.2	35.5	-12.2	47.7	-12.9	55.5	-68.5
Debt securities	15.7	9.3	6.4	31.4	18.2	13.2	-55.1	-21.5	-33.7	52.3	40.1	12.2
Other investment	58.1	-22.5	80.6	11.1	43.0	-31.9	-51.6	-197.9	146.4	213.1	91.5	121.6

Source: ECB.

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

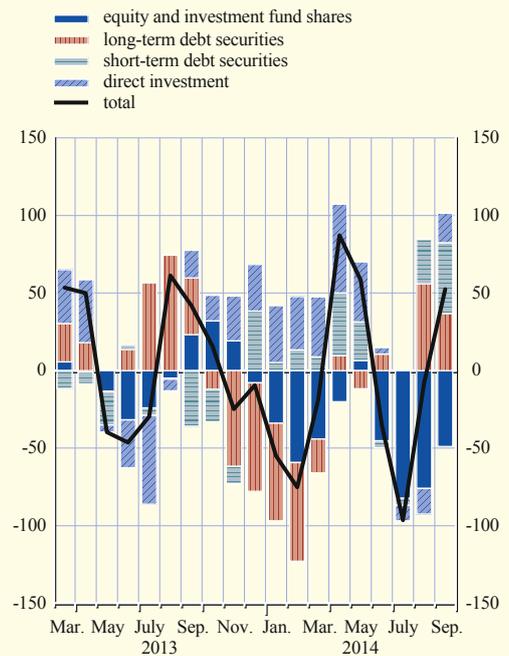
1) Positive values of assets (liabilities) flows refer to net acquisitions by euro area residents (non-euro area residents) of financial instruments issued by non-euro area residents (euro area residents). Balance refers to asset flows minus liability flows.

1 See <http://www.ecb.europa.eu/stats/external/bpm6/html/index.en.html> for further details.

Net outflows from other investment declined from €209 billion in the first three quarters of 2013 to €177 billion in the first three quarters of 2014. The direction of flows changed on both the asset and the liability side, indicating that euro area and foreign MFIs stopped the repatriation of foreign and euro area other investment holdings respectively and instead expanded their cross-border positions substantially. This is suggestive of a continued normalisation of cross-border transactions in the euro area MFI sector. In the first three quarters of 2014 the increase in the net external asset position of euro area MFIs had a positive impact on euro area liquidity and was reflected in part in the evolution of the broad monetary aggregate M3. As can be observed in the monetary presentation of the balance of payments, the increase in MFIs' net external asset position over this period was mainly the result of transactions by the non-MFI sector related to the current account surplus of the euro area, while net portfolio investment flows of the non-MFI sector were close to balanced.

### Combined direct and portfolio investment

(EUR billions; three-month sums of net flows)



Source: ECB.  
Note: Net flows refer to asset flows minus liability flows.

The combined direct and portfolio investment balance recorded net outflows of €52 billion in the third quarter of 2014, compared with net inflows of €35 billion in the previous quarter (see the chart). This shift was driven by portfolio investment turning into net outflows and an increase in net outflows from direct investment. Within portfolio investment, net inflows into equity and investment fund shares increased slightly, rising from €45 billion to €49 billion. However, both euro area and foreign investors reduced their cross-border net purchases of equity securities in the third quarter. At the same time, net outflows from debt securities increased substantially, to €82 billion (from €6 billion in the second quarter), as foreign investors became net sellers of euro area short-term debt securities and substantially slowed the pace of their net acquisitions of long-term debt instruments. Euro area investors expanded their net purchases of short-term debt securities abroad from €16 billion to €25 billion, while reducing their net acquisitions of long-term debt instruments abroad from €72 billion to €54 billion. The resulting net outflows from short-term debt instruments possibly reflect declining yields in euro area money markets.

In the third quarter of 2014 non-euro area residents increased their net purchases of equity and debt securities issued by euro area MFIs to €39 billion, while euro area MFIs expanded their net acquisitions of foreign securities, providing a further indication of a gradual normalisation in the euro area MFI sector. Other investment flows switched to net inflows in the third quarter, as euro area MFIs slowed the pace of their expansion of holdings abroad and foreign investors increased their holdings of deposits and loans with euro area MFIs.