

HARMONISED ECB STATISTICS ON EURO AREA INVESTMENT FUNDS AND THEIR ANALYTICAL USE FOR MONETARY POLICY PURPOSES

ARTICLES

Harmonised ECB statistics on euro area investment funds and their analytical use for monetary policy purposes

The ECB published harmonised statistics on the assets and liabilities of investment funds resident in the euro area for the first time in December 2009.¹ High-quality statistics on the activities of euro area investment funds are important to enhance monetary, financial and economic analyses. This article sets out the main features and concepts of the new statistics and provides an overview of the euro area investment fund industry. In this context, it also presents supplementary statistics on euro area money market funds. It further shows how the new statistics can be used by the ECB to analyse portfolio shifts, sectoral contributions to M3 developments, funding of the economy and the impact of changes in net wealth on saving and consumption, also in combination with other euro area statistics.

I INTRODUCTION

The availability of reliable and timely information on the balance sheets of investment funds is important for the ECB's monetary, financial and economic analyses. Together with other monetary and financial statistics for the euro area,² the new investment fund (IF) statistics can give indications regarding changes in investors' confidence and risk appetite and help in detecting and quantifying portfolio reallocations between monetary assets and longer-term asset classes in a timely manner. The new IF statistics will also be used to support the financial stability analysis carried out by the ECB. Investment fund activity is central to financial stability surveillance for identifying investment behaviour and its implications for financial sector developments. This article, however, focuses on the analytical use of these data for monetary policy purposes only.

The ECB has been publishing quarterly euro area IF balance sheet statistics since 2003. Until 2009 these statistics were neither fully harmonised nor complete. At the end of 2009 new harmonised ECB statistics on euro area investment funds were released. These provide a comparable and complete picture of the IF industry within the euro area, as well as detailed information on the assets held and liabilities incurred by the investment funds.³ The statistical reporting requirements are contained in Regulation ECB/2007/8 (hereafter the "Regulation"),⁴ which is addressed to investment funds resident in the euro area.

This article presents the new data and explains how they are used to enhance monetary, financial and economic analyses. Section 2 defines investment funds and their role in financial intermediation. It also provides a general overview of the IF industry in the euro area and an insight into the specific national features of the countries with the largest IF sectors. Section 3 provides a description of the IF statistics published by the ECB and also includes information on quarterly data published on euro area money market funds (MMFs; see box). Section 4 shows how the statistics are used for regular analyses.

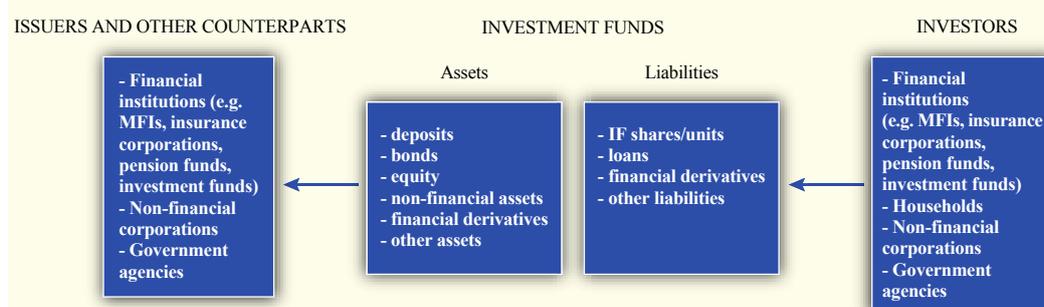
2 THE INVESTMENT FUND INDUSTRY IN THE EURO AREA

ACTIVITIES OF INVESTMENT FUNDS

Investment funds are financial investment vehicles which raise capital from private and institutional investors by issuing shares and/or units and which invest the proceeds in financial and non-financial assets. As financial intermediaries, investment funds perform two main functions. Firstly, they offer investors

- 1 These new statistics do not include the assets and liabilities of money market funds, which are included instead in the statistics on the MFI sector.
- 2 In particular, the MFI balance sheet and euro area accounts statistics in parts 2 and 3 of the "Euro area statistics" section of the Monthly Bulletin.
- 3 The main improvements of the new statistics were presented in Box 2 of the January 2010 issue of the Monthly Bulletin.
- 4 Regulation (EC) No 958/2007 of the European Central Bank of 27 July 2007 concerning statistics on the assets and liabilities of investment funds (ECB/2007/8).

Chart 1 Role of investment funds in financial intermediation



Source: ECB.

opportunities to invest in a diversified pool of assets with a single purchase of shares/units issued by an investment fund. Secondly, investment funds provide a source of funding to other sectors, such as monetary financial institutions (MFIs), non-financial corporations or government agencies. This is primarily carried out through purchases of debt or equity securities issued by these sectors. Investment funds may also invest in assets other than securities, such as bank deposits, real estate, commodities or financial derivatives. Chart 1 illustrates the role of investment funds in financial intermediation.

INVESTMENT FUNDS IN THE EURO AREA FINANCIAL SECTOR

In the euro area, investment funds represent around 10% of the financial sector in terms of total assets and are, together with further intermediaries, included in a sub-sector entitled “other financial intermediaries” (OFIs) (see Table 1). The largest financial sub-sector is the MFI sector, which accounts for about two-thirds. This sub-sector mainly consists

of credit institutions and also includes MMFs. The OFI sector accounts for about one-fourth of total assets and includes, alongside investment funds, institutions such as securitisation vehicles and security and derivative dealers. Insurance corporations and pension funds (ICPFs) account for 12% of the financial sector’s total assets.

The euro area IF sector has grown significantly over the last decade. As shown in Chart 2, the outstanding amount of IF shares/units issued stood at the end of 1998 at slightly over €2 trillion. It reached almost €6 trillion at its peak in 2007 before the financial crisis started to unfold. The value of IF shares/units then tumbled to around €4 trillion in early 2009, before recovering to the current level above €5 trillion. This evolution reflects both the net sales of shares/units by investment funds to their investors and valuation effects, since in particular changes in stock market valuations have a strong influence on the value of IF shares/units. Chart 2 also shows how the outstanding amount of IF shares/units issued would have evolved

Table 1 Comparison of euro area financial intermediaries

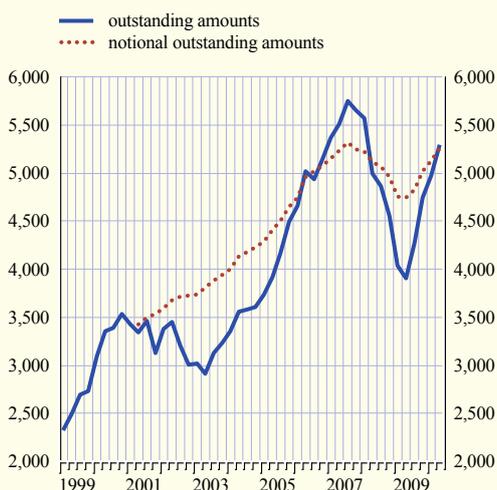
(data as at Q4 2009)

	Total	MFIs		ICPFs ¹⁾	OFIs	
		Total	Of which MMFs		Total ¹⁾	Of which IFs
Total assets (EUR billions)	52,784	33,535	1,233	6,421	12,828	5,371
As a percentage of total	100	64	2	12	24	10

Source: ECB.
1) Total financial assets.

Chart 2 Shares/units issued by euro area investment funds

(EUR billions)



Source: ECB.

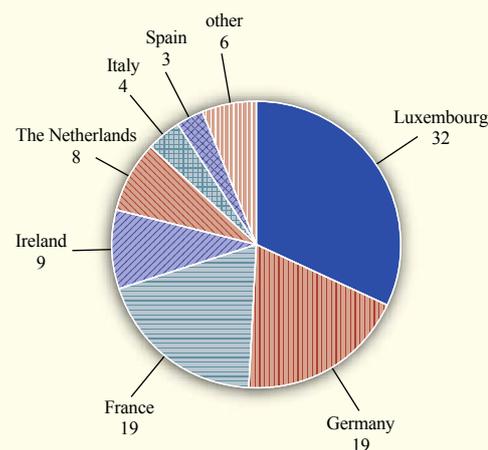
Notes: Notional outstanding amounts are derived using the outstanding amount as at the fourth quarter of 2000 and adding the subsequent cumulative quarterly transactions (available since the first quarter of 2001).

since the first quarter of 2001 if the effect of price revaluations on the outstanding amount were not taken into account. As an example, the net sales were positive between the first quarter of 2001 and the first quarter of 2003, while the outstanding amount of IF shares/units actually declined due to falling asset prices during that period.

The cornerstone of the EU regulatory framework for investment funds is the Directive on Undertakings for Collective Investment in Transferable Securities (UCITS Directive).⁵ The UCITS Directive, originally adopted in 1985 and subsequently amended, triggered strong growth in the European IF industry. Investment funds conforming to the UCITS Directive can be marketed in all EU Member States based on an authorisation by a single Member State. This has allowed companies to establish investment funds in the jurisdiction they consider the most suitable, regardless of the residency of the targeted investor base.

Chart 3 Total assets of euro area investment funds, broken down by country

(percentages; as at Q1 2010)



Source: ECB.

THE INVESTMENT FUND INDUSTRY IN SELECTED EURO AREA COUNTRIES

The countries with the largest IF sectors in the euro area,⁶ in terms of total assets, are Luxembourg, Germany and France, which together accounted for 70% of the euro area total at the end of the first quarter of 2010 (see Chart 3). They are followed by Ireland and the Netherlands, which bring the largest five countries to 87% of the euro area total. The specific features of the IF sectors in these countries are highlighted in the following paragraphs.

⁵ Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (recast).

⁶ The IF sector covers the investment funds resident in a certain country. The managers of these funds may or may not be resident in this country.



An important reason for the size of the IF sector in Luxembourg has been the early incorporation of the UCITS Directive in national legislation. Luxembourg was the first EU Member State to implement the first UCITS Directive in 1988. Due to its infrastructure for establishing and administering funds, as well as favourable fiscal and regulatory conditions, many companies have found in Luxembourg a suitable jurisdiction to establish investment funds. Consequently, the country's IF sector has grown to be the largest in the euro area, and globally second after the United States.⁷

The German IF sector is dominated by funds targeted at institutional investors ("Spezialfonds"), which represented roughly 70% of the investment funds resident in Germany at the end of the first quarter of 2010 in terms of total assets.⁸ At the same time, the relatively small number of German resident investment funds targeting the general public also mirrors the success of the retail fund industry in Luxembourg. As at end-2008 the amount outstanding of IF shares/units issued abroad but sold in Germany was higher than the outstanding amount of IF shares/units issued by UCITS funds resident in Germany.⁹ Indeed, some of the largest German IF providers predominantly operate by using so-called "round-trip funds" established in Luxembourg.¹⁰ Round-trip funds are investment funds which are established abroad, but sold to domestic investors.

The IF sector in France is comparable in size to that of Germany. The large majority of investment funds are primarily targeted at domestic investors, while the use of round-trip funds by French IF providers is relatively small.¹¹

Like Luxembourg, Ireland has also emerged as an international IF centre. One aspect that contributed to this position is the foundation of the International Financial Services Centre (IFSC) in 1987 with the objective to support

the local economy by increasing activity in the financial sector. Furthermore, the UCITS Directive was incorporated in the national legislation in 1989, which also facilitated the establishment of the round-trip funds and other cross-border funds.¹²

The size of the IF sector in the Netherlands increased sharply in 2009 as large pension funds sold equity and debt securities holdings and purchased IF shares/units instead. These asset transfers roughly doubled the size of the IF sector in the Netherlands.¹³

3 FEATURES OF THE NEW EURO AREA INVESTMENT FUND STATISTICS

This section presents the harmonised statistics on euro area investment funds which the ECB released for the first time in December 2009. These statistics replace the non-harmonised euro area IF statistics that were previously published by the ECB on a quarterly basis.

REPORTING INVESTMENT FUNDS

The new IF statistics cover all investment funds resident in the euro area that comply with the statistical definition provided by the Regulation. All these funds are registered by the ECB in a list, which is also published.¹⁴ At the end of the first quarter of 2010, over 47 thousand investment funds were resident in the euro area. In accordance with European statistical

7 See "EFAMA Fact Book – Trends in the European investment funds", 7th edition.

8 See "Kapitalmarktstatistik", Deutsche Bundesbank, May 2010.

9 See footnote 7.

10 See "BVI-Investmentstatistik", Bundesverband Investment und Asset Management e.V., 28 February 2010.

11 See footnote 7.

12 "The investment fund industry in Ireland – A statistical overview", Central Bank and Financial Services Authority of Ireland, January 2010.

13 See statistical news release by De Nederlandsche Bank, "Continued rise of Dutch investment fund assets" (<http://www.dnb.nl/en/news-and-publications/news-and-archive/statistische-nieuwsberichten/dnb224751.jsp>), dated 17 November 2009.

14 <http://www.ecb.europa.eu/stats/money/mfi/funds/html/index.en.html>

standards,¹⁵ the statistics do not cover MMFs, which form part of the MFI sector (see box), nor pension funds, which form part of the ICPF sector.¹⁶ Investment funds conforming to the UCITS Directive, as well as non-UCITS funds (i.e. all non-harmonised funds whether subject to national regulation or not), are covered. The criterion for inclusion in the statistics refers to the residency of the fund itself and not that of its manager. It follows that while the statistics cover investment funds resident in the euro area which are managed from outside the euro area, they do not cover investment funds established outside the euro area, even if they are operated by management companies located in the euro area.

SUB-CATEGORIES OF INVESTMENT FUNDS

Euro area aggregates are available for total investment funds and for six sub-categories according to investment policy: equity funds, bond funds, mixed funds, real estate funds, hedge funds and other funds. Each sub-category is further broken down into open-end and closed-end funds. Broadly speaking, the shares/units of open-end funds can be redeemed out of the fund's assets. Closed-end funds are funds with a fixed number of issued shares/units. In the euro area, the latter category mainly consists of real estate funds.

The classification by investment policy is, in principle, done on the basis of the type of asset in which the investment fund primarily invests, where "primarily" should be understood as "more than 50%". For example, if an investment fund primarily invests in shares and other equity, then it should be classified in the equity funds category. Funds of funds, i.e. investment funds investing in shares/units issued by other investment funds, are classified in the category of funds in which they primarily invest. The classification is based on national regulatory provisions, if they exist, or alternatively on what has been declared in the investment funds' prospectuses.

In the absence of a generally accepted definition of hedge funds, a definition for statistical

purposes was developed. In line with this definition, hedge funds cover in particular funds with relatively unconstrained investment strategies, including the use of leverage and the taking of short positions, as well as few restrictions on the types of financial asset in which they may invest.

ASSET AND LIABILITY CATEGORIES OF INVESTMENT FUNDS

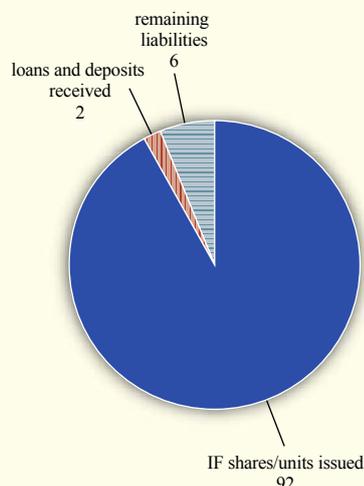
The statistics contain various categories of assets held and liabilities incurred by investment funds. The liabilities of investment funds mainly consist of the shares or units they issue (see Chart 4). These indicate the net assets of the investment funds and represent the value of the investors' holdings (also referred to as the net asset value). Information on the residency of the investors in investment funds (euro area/non-euro area) is also available.

15 The European Statistical Standards are set out in the "European system of national and regional accounts in the Community" (the ESA 95).

16 New statistics on the assets and liabilities of euro area insurance corporations and pension funds are being developed and are scheduled to be published in 2011 (see Box 15 in the ECB Financial Stability Review, June 2010).

Chart 4 Liabilities of euro area investment funds

(percentages; Q1 2010)



Source: ECB.

The investment portfolio of investment funds is broken down into six categories (see Chart 5), where the share in total assets of each category may vary considerably depending on market conditions. The assets of investment funds also include shares/units issued by other investment funds. This is the primary asset class of the funds of funds.

For a number of asset categories, the statistics show the geographical location and the economic sector of the issuer of the assets. This makes it possible, for example, to identify to what extent euro area investment funds are investing in debt issued by euro area governments, non-financial corporations and financial institutions or the rest of the world (see Section 4). In the case of bonds held by investment funds, a further breakdown by original maturity is also available, as well as an indication of the currency in which the bonds issued by MFIs are denominated.

An important feature of the new statistics is the reporting by investment funds on a security-by-security (s-b-s) basis. This means that the

investment funds report a list of individual securities held, together with their publicly available identification codes (e.g. ISIN codes) and the corresponding amounts. This is in contrast to the more traditional “aggregated reporting” of data, which would require the reporter to aggregate its holdings by type of instrument (e.g. bond, share), maturity, currency, geographical location and sector of the issuer. In the case of s-b-s reporting, the national central banks, as opposed to the reporters, compile the required statistical aggregates by mapping the individual securities to the information available in a common securities reference database. The s-b-s reporting approach is cost-effective for the investment funds since information on individual securities is in general readily available to them. Furthermore, the s-b-s reporting provides more flexibility to the statistical compilers who may produce new aggregates when additional requirements for analytical purposes emerge, without the need to issue new reporting requirements to the investment funds.¹⁷

OUTSTANDING AMOUNTS AND TRANSACTIONS

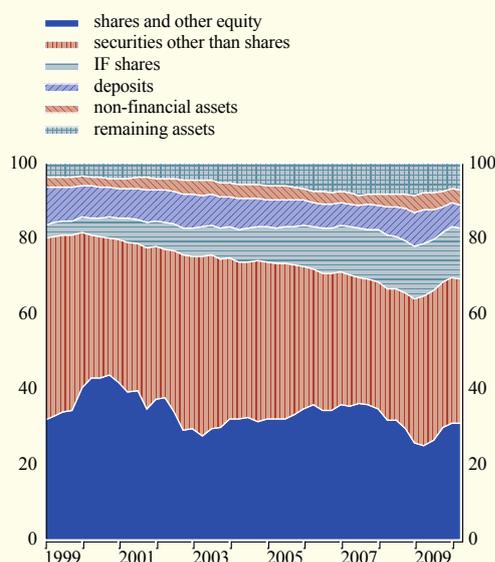
The data cover key variables at a monthly frequency, while more detailed data are quarterly. The quarterly data contain, in addition to outstanding amounts (i.e. the value at the end of the period), financial transactions for each item. Financial transactions refer to the net acquisition of a given type of asset during the period, or the net incurrence of a liability. The monthly dataset mainly consists of outstanding amounts; monthly transactions are currently available only for the shares/units issued by investment funds. The latter provide an approximation of the investment funds’ net sales of shares to investors during a given reference period.

Table 2 summarises the euro area aggregates that are published.

¹⁷ Details concerning the securities reference database and security-by-security reporting are available in the ECB booklet entitled “The ‘Centralised Securities Database’ in brief”, available online at <http://www.ecb.europa.eu/pub/pdf/other/centralisedsecuritiesdatabase201002en.pdf>.

Chart 5 Assets of euro area investment funds

(percentages)



Source: ECB.

Table 2 Summary of published euro area aggregates for IF statistics

	Total	Further breakdowns			
		Geographical location of the counterpart ¹⁾	Sector of the counterpart ²⁾	Maturity ³⁾	Currency ⁴⁾
ASSETS					
Deposit and loan claims	Q and M	Q	Q		
Securities other than shares	Q and M	Q and M	Q and M	Q and M	Q and M
Shares and other equity	Q and M	Q	Q		
o/w quoted shares	Q	Q	Q		
o/w IF and MMF shares/units	Q and M	Q and M	Q and M		
Non-financial assets	Q and M	Q			
Remaining assets	Q and M				
LIABILITIES					
IF shares/units	M*	Q and M			
Loans and deposits received	Q and M				
Remaining liabilities	Q and M				

Source: ECB.

Notes: Q: quarterly outstanding amounts and transactions; M: monthly outstanding amounts; * including transactions.

1) Euro area; rest of the world (in the case of securities, further broken down into issuers resident in non-euro area EU Member States, the United States and Japan).

2) For euro area counterparts: MFIs, general government, other financial intermediaries, insurance corporations and pension funds, non-financial corporations, and households.

3) Up to one year, one to two years, over two years.

4) Euro; total foreign currencies.

TIMELINESS AND BACKDATA

The statistics are published around one and a half months after the end of the reference period. The new harmonised time series date back to the reference period December 2008. The ECB has estimated longer historical time series derived mainly from the previously published non-harmonised data. These estimates are also used in this article and are

not fully comparable with data starting from December 2008.

SUPPLEMENTARY STATISTICS ON MONEY MARKET FUNDS

In order to provide a comprehensive picture of the euro area fund industry, the ECB also publishes statistics on the MMF sector. The background to that is explained in the box below.

Box**HARMONISED ECB STATISTICS ON MONEY MARKET FUNDS**

Money market funds (MMFs) are collective investment undertakings which primarily invest in short-term transferable debt instruments and/or in bank deposits. MMFs incur liabilities by issuing shares or units. For investors, MMF shares/units are close substitutes for bank deposits in terms of their liquidity. Therefore, for monetary analysis purposes, MMFs are included in the money-issuing sector and classified in the ECB's statistics together with credit institutions in the MFI sector. Consequently, monthly statistical data on shares/units issued by MMFs have always been published by the ECB as a contribution to the consolidated balance sheet of the MFI sector. As a complement to this, since December 2009, new quarterly statistics on the assets and liabilities of euro area MMFs are separately published starting with the reference quarter Q1 2006. The reporting obligations for MMFs, however, remained unchanged.

Main features of the euro area money market fund statistics

The MMF statistics provide: (i) full coverage across the euro area; (ii) breakdowns of assets and liabilities consistent with the MFI and IF statistics; and (iii) key information on a monthly basis and more detailed information on a quarterly basis. MMF statistics are published in the monthly ECB press release on investment fund statistics, providing a comprehensive picture of the euro area fund industry.

MMF statistics are available as outstanding amounts and transactions. The statistics on MMF assets include breakdowns by euro area/non-euro area and sector of the counterparts, by original maturity and by currency of denomination. For holders of MMF shares/units, a distinction between euro area and non-euro area residents is made.

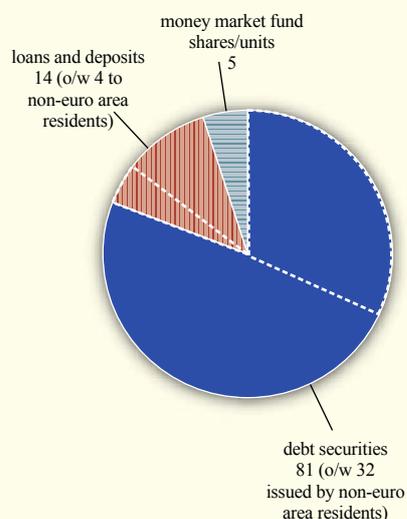
Some characteristics of the euro area money market fund industry

At the end of the first quarter of 2010 the approximately 1,500 MMFs resident in the euro area held assets of around €1.2 trillion, compared with €5.8 trillion for other euro area investment funds. The countries with the largest MMF sectors in the euro area, in terms of total assets, are France, Luxembourg and Ireland, which together accounted for 92% of the euro area total.

As shown in Chart A, more than three-quarters of MMFs' portfolio consists of debt securities. MMFs are also buying shares/units from other MMFs in the euro area, as well as placing deposits in banks. The euro area MFI sector is the main counterpart of MMFs, with 47% of total assets (see Chart B); at the same time, MMFs hold a substantial portfolio of external assets, amounting to 35% of total assets, which are mainly debt securities denominated in US dollars and pounds

Chart A MMF assets by instrument

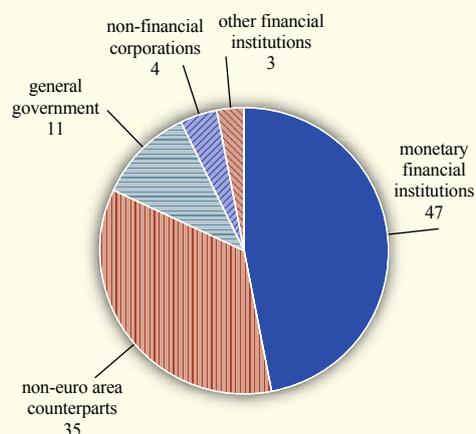
(percentages; Q1 2010)



Source: ECB.

Chart B MMF assets by counterpart

(percentages; Q1 2010)



Source: ECB.

sterling issued by non-euro area banks. The high share of external assets matches similar levels of external liabilities, mostly shares/units sold to non-euro area investors; this is more evident for MMFs based in Ireland and Luxembourg, which are mostly serving non-euro area residents. Finally, exposure to other euro area sectors is more limited and accounts in total for around 18% of all MMF assets.

4 THE USE OF EURO AREA INVESTMENT FUND STATISTICS FOR MONETARY POLICY PURPOSES

The greater comprehensiveness and timeliness considerably increases the scope to apply the harmonised euro area IF statistics in the monetary, financial and economic analyses that are regularly conducted as part of the monetary policy decision-making process at the ECB. In this respect, it is important to note that this increased scope not only refers to the IF statistics themselves, but also to the mutually enhancing way in which these statistics can be linked with other statistics regularly used in the analyses. This section provides some examples of the type of issues and questions that can be addressed with the new statistics in the different types of analyses.

MONETARY ANALYSIS: CHANGES IN THE PORTFOLIO INVESTMENT BEHAVIOUR OF MONEY-HOLDING SECTORS

A key challenge in the ECB's monetary analysis is to analyse in real time the underlying pace of monetary expansion that provides the relevant signal for risks to price stability in the medium term. In this context, the identification of a stronger liquidity preference in the demand for money and the possible exclusion of such influences from headline M3 growth is a major issue. The identification and quantification of portfolio shifts from non-monetary assets – including those held in investment funds – into M3, and the construction of a measure of M3 corrected for portfolio shifts, is a good example of this.

Previously, the analysis and quantification of these shifts in real time had to rely solely on the MFI balance sheet and balance of payments (BOP) statistics.¹⁸ The monthly MFI balance

sheet data are published after 19 working days following the reference month, while the BOP data are published after around 35 working days. By contrast, the more detailed annual financial accounts data and more recently the quarterly euro area sectoral accounts data only become available with a longer time-lag and are thus mainly used for retrospective checking of the real-time estimates.¹⁹ The fact that the new IF statistics become available very shortly after the MFI statistics will significantly improve the real-time analysis of portfolio shifts.

The general framework of the enhanced analysis is shown in Charts 6 and 7. In general, portfolio shifts between monetary assets and other asset classes are explained by differences in the rates of return offered by various asset types and changes in the risk appetite of investors. The yield curve and economic confidence are convenient but inevitably not fully encompassing indicators for such effects.

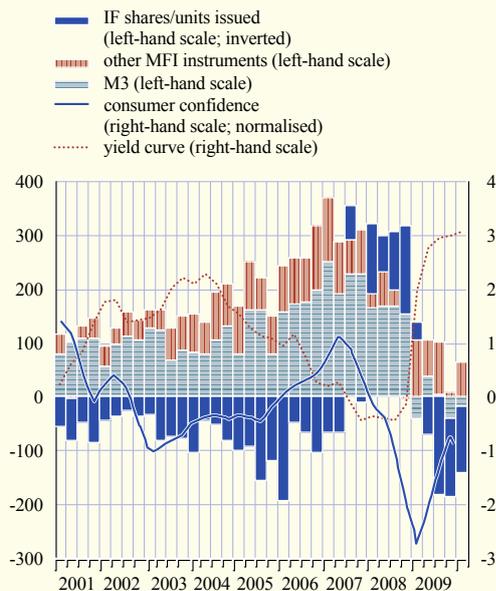
Inflows to M3 were strong in the euro area during the period from early 2001 until mid-2003 (see Chart 6). These inflows occurred in an environment in which consumer confidence deteriorated markedly following the emergence of substantial economic and financial uncertainty. The strong impact of this deterioration on portfolio shifts into M3 assets is visible inter alia in the fact that these shifts occurred when the yield curve was steepening, which should in principle have increased the relative attractiveness of longer-term assets

¹⁸ See the box entitled “Estimating the size of portfolio shifts from equity to money” in the May 2003 issue of the Monthly Bulletin and the article entitled “Monetary analysis in real time” in the October 2004 issue of the Monthly Bulletin.

¹⁹ See the article entitled “The introduction of quarterly sectoral accounts statistics for the euro area” in the November 2007 issue of the Monthly Bulletin.

Chart 6 M3, other MFI instruments and IF shares/units issued by euro area investment funds

(quarterly transactions in EUR billions, seasonally adjusted; percentages per annum; percentage balances)



Source: ECB.
Notes: The yield curve is calculated as the difference between nominal long-term bond yields and short-term market interest rates. IF shares/units are displayed against an inverted scale in order to allow a better visualisation of shifts in the allocation between the selected financial instrument classes.

outside M3. Transactions in IF shares/units issued by euro area investment funds decreased noticeably in this period, although they still remained positive.

Sizeable portfolio reallocations also took place between the second quarter of 2007 and the second quarter of 2009. In this period, the transactions in IF shares/units issued not only declined, but actually became negative, implying net withdrawals by investors. The outflows reflected the combination of a flat yield curve and a sharp deterioration in the world growth outlook, downward revisions of corporate profitability expectations and increased concerns regarding the sustainability of the global financial system. All these factors dented substantially the confidence and the risk appetite of investors and influenced also the relative asset returns. Euro area investors appear to have mostly

parked the proceeds from selling IF shares/units in monetary assets and government bonds in this period. Monetary assets benefited particularly from the inverted shape of the yield curve, and from the government measures taken to restore confidence in credit institutions (e.g. the extension of deposit guarantee schemes).

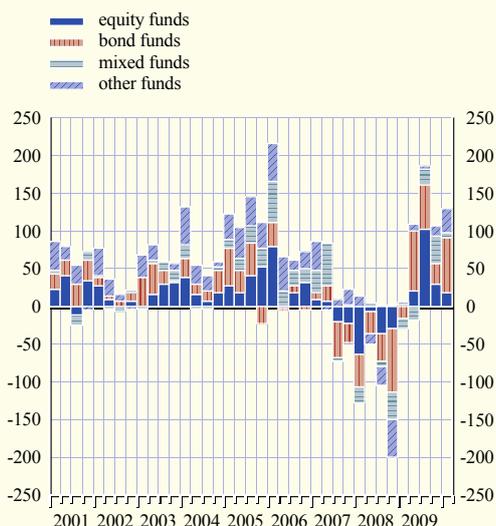
However, developments since the second quarter of 2009 suggest a strong recovery in the net issuance of IF shares/units and a gradual rebalancing of financial investment portfolios by investors. This was consistent with the improved financial market sentiment until early 2010 and the marked steepening of the yield curve observed in 2009. Both factors fostered shifts back into riskier and longer-term assets from monetary assets.

Valuable information for analysing changes in the portfolio investment behaviour of money-holding sectors is also contained in the data for issuance of IF shares/units broken down by investment policy. Indeed, the individual fund types have different risk profiles and they offer varying returns on investment. It is therefore interesting to look at whether portfolio shifts take place, for instance, more from equity than bond funds to other types of assets or whether all types of investment fund are similarly affected. Moreover, portfolio shifts do not necessarily have to be limited to the reallocation of assets between investment funds and other asset classes, but may also take place between different types of investment fund as the relative returns change.

Chart 7 shows that net withdrawals took place from all types of investment fund in the period between the second quarter of 2007 and the second quarter of 2009. Nevertheless, both in absolute and relative terms, the outflows were the most pronounced from bond funds, amounting to €281 billion in this period, or 15% of their outstanding amount in the second quarter of 2007. The net withdrawals were much smaller from equity funds, summing up to €176 billion or 10% of their outstanding amount.

Chart 7 IF shares/units issued by euro area investment funds

(quarterly transactions in EUR billions; not adjusted for seasonal effects)



Source: ECB.

Note: "Other funds" includes all funds other than equity, bond and mixed funds.

The particularly strong outflows from bond funds could reflect two factors. First, bond funds and monetary assets are both interest-bearing financial instruments and, in normal times, close substitutes due to their "safety". Given that the slope of the yield curve was very flat during the period, investors may have preferred to switch from longer to shorter maturities and, thus, have shifted their investments from bond funds to monetary assets. Second, investors might also have wanted to reduce the weight of bond funds in their investment portfolios, due to the strains in the asset-backed securities markets and the high uncertainty about the extent to which various bond funds were holding such instruments.

The new IF statistics can also enhance the regular monetary analysis through additional information on sectoral contributions to M3. Information on the asset side of the IF statistics and the liability side of MFI statistics shows that investment funds accounted for about 30% of total OFI M3 deposit holdings and some 5% of total M3 holdings in the first quarter of 2010.

This implies that money holdings of investment funds influence M3 growth, especially if there is more volatility in the deposit holdings of investment funds than in other parts of the OFI sector and the money-holding sector more generally. Such volatility may for instance stem from investment funds' use of monetary assets as a way of parking funds or building up liquidity buffers.

FINANCIAL ANALYSIS: CAPITAL MARKET FUNDING OF THE ECONOMY

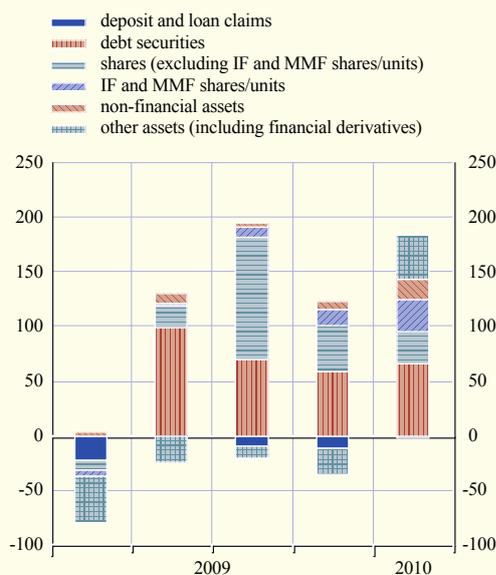
A key issue in the regular financial analysis is to assess the funding situation that different sectors face in the financial market. Investment funds are large institutional investors and, in this capacity, purchase shares and debt securities issued by non-financial corporations, financial corporations or government. This provides direct market-based funding to the sectors concerned and also indirectly influences the quantity of bank-based financing. Through their net purchases of securities, investment funds also influence the levels of stock prices and bond yields (directly), as well as bank lending rates (indirectly). Together with the MFI balance sheet and securities issuance statistics and market prices, the new IF statistics provide timely information on changes in the overall financing conditions of individual institutional sectors in the euro area.

The data on the assets side show that euro area investment funds mainly invested in debt securities and in shares and other equity in 2009 and the first quarter of 2010 (see Chart 8). They also modestly purchased other assets, while at the same time reducing their liquidity (mostly deposit) holdings. These developments mirror closely the issuance and purchases of IF shares/units by policy type on the liabilities side of investment funds' balance sheet, since different investment funds are obliged mostly to invest in their respective asset classes.

The new statistics include also fairly detailed geographical and sectoral breakdowns of investment funds' net purchases of securities other than shares and of shares and other

Chart 8 Net purchases of assets by euro area investment funds

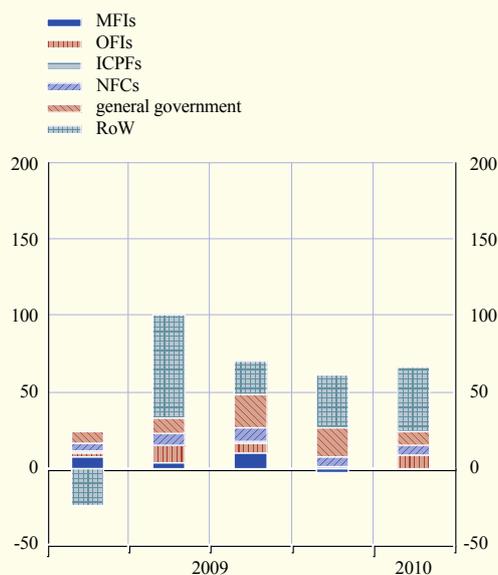
(quarterly flows; EUR billions, not adjusted for seasonal effects)



Source: ECB.

Chart 9 Net purchases of securities other than shares by euro area investment funds broken down by issuing sector

(quarterly flows; EUR billions, not adjusted for seasonal effects)



Source: ECB.

equity.²⁰ Such information can be particularly helpful during economic or financial crises. For instance, the purchases and shedding by investment funds of asset-backed securities would be visible as changes in the net purchases of securities other than shares. In this respect, the data suggest that in 2009 and the first quarter of 2010 euro area investment funds were mainly acquiring debt securities issued by euro area governments and by the rest of the world (see Chart 9).²¹ By contrast, their purchases of bonds issued by MFIs and non-financial corporations resident in the euro area were fairly muted over this period.

Euro area investment funds seem to have increased their foreign equity holdings significantly more than their domestic ones in the past quarters (see Chart 10). This might reflect differences in expected asset returns between the rest of the world and the euro area, but in the context of the financial turmoil it may also reflect some reversal of a home bias that might have been operating in the early phases of the crisis.

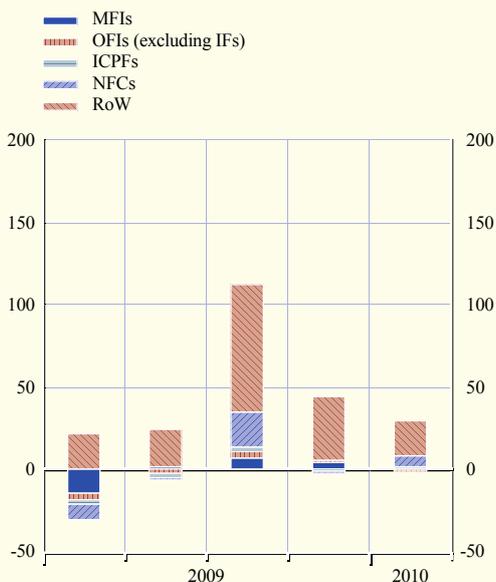
Based on the total outstanding amount of debt securities in the euro area accounts, the new IF statistics imply that investment funds were holding in the fourth quarter of 2009 about 10% and 15% of the bonds issued by euro area MFIs and non-financial corporations, respectively, and around 15% of the total amount of quoted shares issued by these sectors (based on the data from the euro area accounts and the new IF statistics). Similarly, they were holding some 10% of the total outstanding amount of bonds issued by governments in the euro area. This shows that investment funds have a

²⁰ Previously, this more detailed information was only partially available from the MFI balance sheet and balance of payments statistics. The former contains a disaggregation of MFI holdings and net purchases of shares and debt securities issued originally by MFIs, general government and euro area private sectors, while the latter include a split of holdings and net purchases of different financing instruments by MFIs, non-MFI private sectors and general government vis-à-vis the rest of the world.

²¹ The apparent selling of direct bond and equity holdings and purchasing of IF shares/units instead by the Dutch pension funds also explain a significant part of the rise in the foreign securities holdings of investment funds in the second and third quarters of 2009.

Chart 10 Net purchases of shares and other equity by euro area investment funds broken down by issuing sector

(quarterly flows; EUR billions, not adjusted for seasonal effects)



Source: ECB.

relatively important, albeit not a dominant role in intermediating financing to banks, firms and governments.

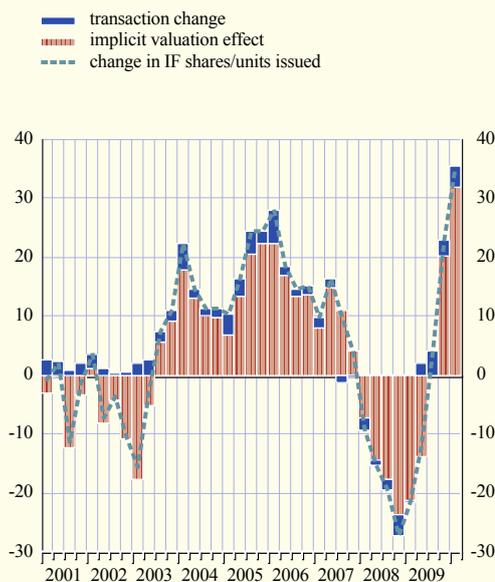
ECONOMIC ANALYSIS: THE IMPACT OF FINANCIAL WEALTH ON SPENDING

The new IF statistics can also be used to support economic analysis, for instance to assess the impact of changes in net worth on saving and consumption. First, the total outstanding amounts of IF shares/units issued (on the liabilities side of the IF balance sheet) provide information on the level of wealth that euro area residents and non-residents hold in euro area investment funds. Second, the data on IF shares issued by policy type and on asset holdings of investment funds by asset type offer information on the type of asset price changes to which investors may be exposed through their investment in investment funds.

This kind of information is particularly helpful to assess the effects that the size and structure of wealth holdings could have on the propensity to consume and invest, and on the saving behaviour

Chart 11 Changes in outstanding shares/units issued by euro area investment funds

(annual rates of growth; percentage point contributions)



Source: ECB.

of different institutional sectors. In this respect, changes in the value of the assets held by investment funds are transmitted through the valuation of their shares/units issued to the net worth of households, non-financial corporations, insurance corporations and pension funds and ultimately to spending and saving decisions.

Sustained valuation effects may make the holders of IF shares/units – in particular households – feel richer and could prompt them to reduce saving and increase spending.²² Chart 11 shows that in the case of euro area investment funds, changes in outstanding shares/units issued have on balance been driven more by changes in prices than by transactions. This impact was particularly strong in the period between the second quarter of 2003 and the first quarter of 2008 due to favourable stock price developments after the earlier decline in asset

²² Based on the data in the euro area accounts and the new IF statistics, households' direct mutual fund share holdings accounted for around 40% of total mutual fund shares held by euro area residents in the fourth quarter of 2009 (net of those held by investment funds).

prices following the bursting of the dotcom bubble. In this period, the rate of return on IF share holdings exceeded by a sizeable margin the returns offered by alternative financial instruments such as monetary assets.

At the moment, the IF statistics only provide counterpart information on the liabilities side of the IF balance sheet in terms of a breakdown into euro area residents and non-residents. The envisaged further breakdown in terms of resident sectors will help to understand how shocks to asset prices change the value of IF asset holdings and IF shares/units issued and thus the wealth of the various domestic sectors.

5 CONCLUSION

Harmonised statistics on the assets and liabilities of investment funds resident in the euro area have been published by the ECB since December 2009. These data significantly improve the euro area's statistical framework with regard to financial intermediaries other than MFIs and act as an important complement to MFI statistics. They facilitate more detailed analysis of the changes in the investment behaviour of the money-holding sector, the funding situation in the economy, and the potential impact on consumption through changes in the financial wealth of economic agents.