

Box 2

Definitions of monetary aggregates for the euro area

In the course of Stage Two of Economic and Monetary Union (EMU) the national central banks, the European Monetary Institute (EMI) and, subsequently, the ECB have devoted considerable effort to developing harmonised euro area monetary statistics. This has resulted in the compilation of a consolidated balance sheet of the Monetary Financial Institutions sector (MFI sector), on the basis of which the monetary aggregates for the euro area are derived. The MFI sector comprises those institutions whose liabilities may be of a monetary nature: they include the national central banks, the ECB, credit institutions and other financial institutions, mainly money market funds (MMFs). The MFIs resident in the euro area are collectively defined as the “money-issuing” sector in the euro area.

For the purpose of defining monetary aggregates, the “money-holding” sector comprises all non-MFI euro area residents, excluding central government. This sector principally includes households, non-financial corporations, insurance corporations and pension funds and other non-MFIs located in the euro area, as well as state and local government authorities and social security funds in the euro area. Central governments are considered to be a “money-neutral” sector, with one exception: central government deposit liabilities with a monetary character (post office accounts, national savings accounts and treasury accounts) are included in the definition of the monetary aggregates of the Eurosystem.

Different types of MFI liabilities are included in the monetary aggregates for the euro area. Currency in circulation and overnight deposits are the most liquid instruments and form the narrow definition of money, referred to as M1. Adding other short-term deposits to M1 (namely deposits with an agreed maturity of up to two years and deposits redeemable at notice of up to three months) gives the monetary aggregate M2. Finally, the broad monetary aggregate M3 is obtained by summing M2 with specific marketable liabilities of the MFI sector (repurchase agreements, money market fund shares/units and money market paper, together with debt securities issued with an original maturity of less than two years).

In quantitative terms, M1 accounted for around 39% of M3 in November 1998, with currency representing 7% and overnight deposits 32%. Deposits redeemable at notice of up to three months and deposits with an agreed maturity of up to two years accounted for around 27% and 20% respectively; thus the aggregate M2 accounted for 86% of M3. Marketable instruments accounted for the remaining 14% (with money market fund shares/units and money market paper at 7%, repurchase agreements at 5% and debt securities issued with an original maturity of up to two years at 2%).

Data on the consolidated balance sheet of the MFI sector and the monetary aggregates for the euro area (covering all 11 euro area countries) have been compiled as from September 1997. This has made it possible to obtain 12-month growth rates for all balance sheet items from September 1998 onwards. For monetary aggregates, however, longer-term series have been estimated. Statistics on month-to-month flows representing actual financial transactions are not available as yet; consequently, growth rates are calculated on the basis of statistics for stocks. This method of calculation may neglect the influence of distorting factors, such as the variation of market prices (for securities included in M3 for which there is a secondary market), exchange rate movements and reclassifications. Furthermore, the data are to some extent still based on estimates as some changes to the reporting systems in individual euro area countries have yet to be completed. However, at this point in time these data represent the most comprehensive and reliable source of monetary information in the euro area. This notwithstanding, some caution should be exercised when evaluating monetary statistics for monetary policy purposes.

Conceptual and empirical aspects of the euro area monetary aggregates will be discussed in more detail in an article which is to appear in the February 1999 Monthly Bulletin.