

Box I

Breakdown of MFI deposit liabilities by sector and instrument type as at the end of 1999

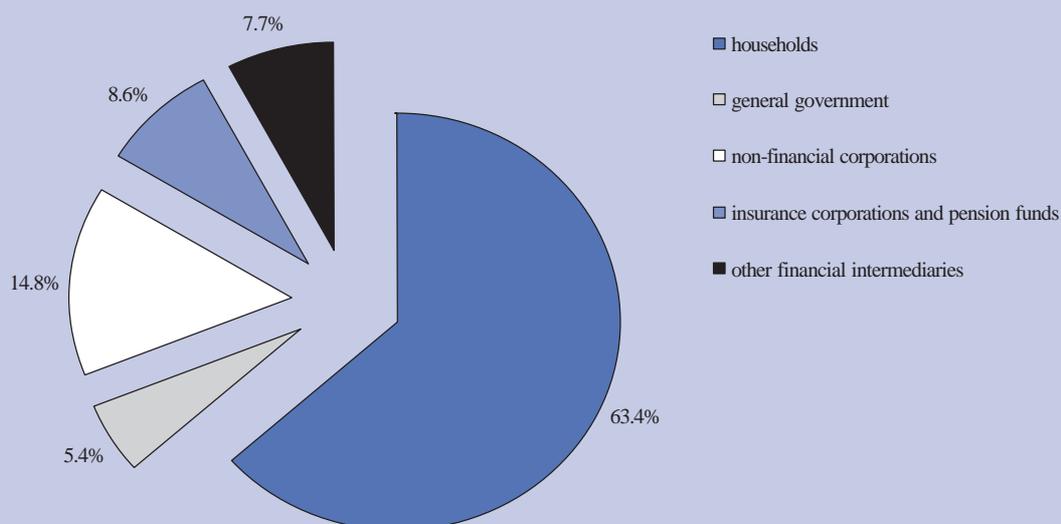
The first set of quarterly data on the breakdown of MFI deposit liabilities by type of instrument and counterpart sector has recently become available. The data are drawn from the consolidated balance sheet of the MFI sector, i.e. they exclude inter-MFI positions (for a detailed description of the balance sheet of the MFI sector, see the article in the August 1999 issue of the ECB Monthly Bulletin entitled “The balance sheets of the Monetary Financial Institutions of the euro area in early 1999”). The availability of these data is important for analytical purposes, as they may contribute to a deeper understanding of the structure, and of the development over time, of deposits held with euro area MFIs, which represent a major proportion of M3 in the euro area. For instance, these data may provide interesting information on whether deposits are held mainly for spending or saving purposes, depending on the holding sector. This information may in turn have a bearing on the assessment of the overall liquidity situation in the euro area.

The data are reported for the first time in Tables 2.6 and 2.7 of the “Euro area statistics” section of this issue of the ECB Monthly Bulletin and are available from the first quarter of 1998 to the last quarter of 1999. Only outstanding amounts are currently available. Owing to reclassifications which occurred at the start of Stage Three of Economic and Monetary Union, the calculation of growth rates is problematical for the time being. In addition, no detailed maturity breakdown is envisaged in this quarterly reporting scheme, which does not allow for a breakdown of all deposit components of M3 by holding sector.

At the end of 1999 euro area residents held 74.1% of total deposits, while non-euro area residents held the remaining 25.9%. Among euro area residents, households held the bulk of deposits with euro area MFIs at the end of 1999, with a share of 63.4% (see the chart below). Non-financial firms held 14.8% of these deposits, insurance and pension funds 8.6%, other financial intermediaries 7.7% and, finally, general government held 5.4%, around half of which was accounted for by central government.

Total outstanding deposits held by euro area residents against MFIs by counterpart

(fourth quarter of 1999; end of period shares as percentages of the total)



With regard to deposits held by households, 26.3% were overnight deposits, 33.3% were deposits with an agreed maturity, 39.2% were deposits redeemable at notice and only 1.2% were repurchase agreements. Deposits redeemable at notice do not normally provide the same liquidity services as overnight deposits, and yet are remunerated at a lower rate than that on deposits with an agreed maturity or marketable instruments. They appear attractive to households presumably mainly on account of the ease with which they can be held,

since they do not, for instance, need to be renewed at maturity and their remuneration is normally automatically (albeit imperfectly) adjusted following changes in market interest rates. Developments seen in the course of 1999 indicate that the attractiveness of deposits redeemable at a period of notice of over three months declined considerably. This can be seen as a consequence of the fact that these instruments are relatively unsophisticated. By contrast, there was a strong demand, especially in the first part of 1999, for deposits redeemable at a period of notice of up to three months, which presumably reflected the low level of the spread between short-term market interest rates and the rate of return on these instruments prevailing at that time.

While total deposits held by households declined between the end of 1998 and the end of 1999, a rapid increase in their holdings of overnight deposits took place in the course of last year. This is consistent with the view that the strong rate of growth of overnight deposits in the euro area in the course of 1999 may have been related to the lack of incentives for households to invest their funds in other financial instruments in an environment of low interest rates in the euro area.

Deposits held by non-financial corporations tended to increase in the course of 1999. At the end of last year the share of overnight deposits held by non-financial corporations – probably used mainly for transaction purposes – was significantly larger than for households (57.5%). The share of deposits with an agreed maturity (which are possibly regarded as a safe means of investment) amounted to 36.5%, whereas the shares of deposits redeemable at notice and repurchase agreements were very small.

With regard to deposits held by insurance corporations and pension funds, the bulk of these were deposits with an agreed maturity, with a share of 88.8% at the end of 1999. These deposits are presumably held by these financial intermediaries – which by their very nature are geared to investing in medium-term to long-term instruments – for investment purposes. Conversely, other financial intermediaries (mainly mutual funds) held a substantial proportion of total deposits (around one-third) in the form of overnight deposits. It is plausible that the demand for such instruments by these intermediaries may reflect a buffer motive. These financial intermediaries also held a significant share (17.3%) of total deposits in the form of repurchase agreements.

Finally, no breakdown by type of instrument is available for deposits held by central government. Deposits held by other parts of general government (i.e. state government, local authorities and social security funds) mainly consisted of overnight deposits and deposits with an agreed maturity.

With regard to deposits held by non-euro area residents with euro area MFIs (excluding the Eurosystem), these were mainly in the hands of banks (72.1%) and a smaller, but still significant, proportion was held by non-euro area residents other than banks, including general government (27.9%). From the fourth quarter of 1998 to the first quarter of 1999 there was a large increase in deposits held by non-euro area residents with euro area MFIs. This may, at least in part, have been the result of greater interest on the part of international investors in financial instruments denominated in euro at the time of the launch of the new currency.