

Box 3

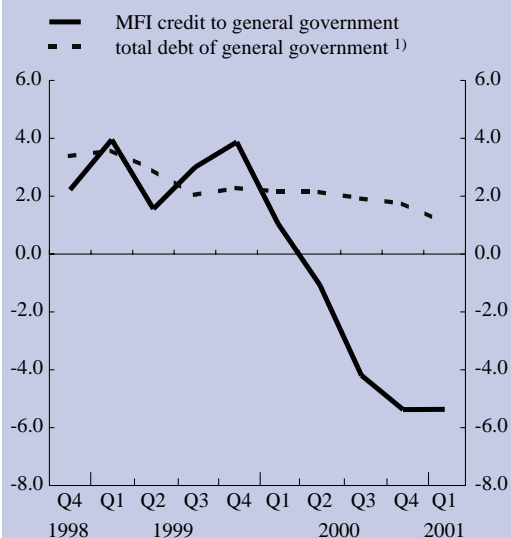
Quarterly Table on Financing and Investment (TFI) of non-financial sectors in the euro area

Quarterly financial accounts data for the euro area non-financial sectors have been released up to the third quarter of 2000.¹ This allows further analysis of developments in the main financing and financial investment components of the non-financial sectors in the euro area.

Regarding the financing side, the annual rate of growth of total financing of the non-financial sectors was 7% in the third quarter of 2000.¹ While the financing to the private sector continued to expand strongly, the financing needs of the general government remained subdued. In this respect it is interesting to note that credit granted by Monetary Financial Institutions (MFIs) to the general government declined far more sharply than the overall financing of this sector (see the chart below). This can be explained to some extent by a declining share of loans in the overall financing of the general government. The main factor was, however, the remarkable decline in the holding of general government securities by MFIs. In 2000 the annual increase in the

Total debt of general government and MFI credit to general government

(annual percentage changes)



Source: ECB.

1) Partly estimated from Q4 2000 onwards.

amount outstanding of securities issued by the general government was around 2%, while the annual rate of change in MFI holdings of such securities was negative (-5½%), implying that MFIs have sold large amounts of government securities to other sectors. This could reflect, in particular, the strong acquisition of government debt securities by non-residents (as suggested by balance of payments data), in a context of more volatile stock markets and a relative shortage of government bonds worldwide.

On the investment side, the deceleration in the growth of total financial investment of the non-financial sectors observed after the second half of 1999 came to an end in the third quarter of 2000 and the annual rate of growth rose to 6.8%, up from 5.8% in the second quarter of 2000 (see the table overleaf).

This increase was mainly due to a significant rise in non-financial sector investment in quoted shares (annual growth rose from 6.6% in the second quarter of 2000 to 11.6% in the third quarter) and, to a lesser extent, in debt securities. This increase in the growth of investment in quoted shares in a period of declining stock prices can be explained partly by significant acquisitions by euro area companies of companies outside the euro area. This is confirmed by information from a private database (Thomson Securities), which shows that quarterly flows of acquisitions of foreign companies reached a maximum in the third quarter of 2000.² By contrast, the continuing decline in the growth rate of non-monetary mutual fund shares (which are largely equity-based) indicated a reluctance on the part of private investors to increase their portfolio investment in quoted shares. For this reason and in an environment of stabilising long-term interest rates, investors increased further their holdings of long-term debt securities. Finally, non-financial sector investment in insurance products remained strong in the third quarter of 2000.

1 For more details see Table 6.1 in the "Euro area statistics" section of this issue of the Monthly Bulletin.

2 In addition, it should be noted that the acquisition of quoted shares has been significantly affected by a one-off transformation of non-quoted shares into quoted shares (without additional financial investment) in a privatisation.

Financial investment of non-financial sectors in the euro area ¹⁾

	Financial investments										Memo item: M3
	Currency, deposits and short- term mar- ketable instru- ments	Currency and deposits ²⁾	Short-term debt securities	Money market fund shares	Long- term market- able instru- ments and insurance technical reserves	Long-term debt securities	Quoted shares	Mutual fund shares other than money market fund shares	Insurance technical reserves		
Annual growth rates											
1998 Q4	6.4	3.3	4.8	-23.5	-4.1	8.8	-5.0	6.8	30.8	8.9	4.8
1999 Q1	7.0	3.5	5.2	-24.7	-7.2	9.4	-0.9	7.3	27.3	8.6	5.5
Q2	7.4	4.1	5.1	-20.3	1.2	9.7	1.3	8.7	23.0	8.6	5.5
Q3	7.6	4.3	5.5	-21.0	-1.8	9.9	1.3	11.3	19.9	8.7	5.9
Q4	7.0	4.0	4.6	-5.4	-1.5	9.1	4.1	8.5	14.6	9.3	6.0
2000 Q1	5.8	4.5	4.6	3.4	2.4	6.6	-0.1	5.5	9.0	9.5	5.9
Q2	5.8	3.6	3.8	14.1	-9.0	7.2	4.8	6.6	6.3	9.3	6.3
Q3	6.8	4.1	3.5	40.6	-4.8	8.5	7.2	11.6	4.4	9.1	5.4
Ratio to total financial investment as at Q3 2000 (amounts outstanding)	100%	35%	33%	1%	1%	65%	10%	20%	12%	22%	34%

Source: ECB.

1) Non-financial sectors comprise general government, non-financial corporations and households including non-profit institutions serving households. Growth rates are based on transactions and are therefore corrected for valuation effects and reclassifications.

2) Excluding central government deposits with MFIs.

As for investment in short-term assets, a striking feature has been the very sharp increase in the annual rate of growth of holdings of short-term securities since the beginning of 2000 (albeit from a very low level), which contrasts with a slight decline in the annual growth of currency and deposits. According to ECB estimates, this rise reflects, in particular, a strong increase in purchases by non-MFIs of securities issued by resident non-banks (i.e. government bills, commercial paper, etc.). The increased attractiveness of short-term securities can be explained by the rise in short-term interest rates since the autumn of 1999.