

Box 2**Financing and financial investment of the non-financial sectors in the euro area during the first quarter of 2001**

The release of quarterly financial accounts data for the non-financial sectors of the euro area for the period up to the first quarter of 2001¹ permits an analysis of the financing and financial investment decisions of the non-financial sectors. An overview of these developments is contained in Tables A and B.

Table A: Financing of non-financial sectors in the euro area¹⁾

	Financing												
	Financing of general government						Financing of non-financial corporations					Financing of households ³⁾	
	Loans	Securities other than shares		Held by euro area MFIs		Loans	Securities other than shares		Quoted shares	Loans taken from euro area MFIs ³⁾			
		Taken from euro area MFIs					Taken from euro area MFIs						
Annual growth rates (end of period)²⁾													
1998 Q4	6.0	3.3	-1.1	-0.4	4.5	3.2	7.0	8.8	8.5	8.6	5.0	8.9	9.1
1999 Q1	5.9	3.5	-0.1	0.9	4.4	3.2	5.6	6.8	7.4	9.4	4.0	10.5	10.9
Q2	5.9	3.0	0.0	0.7	3.8	-0.8	6.1	8.3	8.1	11.3	3.6	10.5	10.9
Q3	6.0	2.1	-1.9	-0.3	3.1	1.8	7.0	7.9	7.5	14.3	5.3	11.0	11.2
Q4	6.0	2.4	-1.2	0.4	3.1	2.4	6.8	8.2	7.0	14.7	4.7	10.4	10.7
2000 Q1	5.9	2.2	-1.3	0.0	3.1	-0.9	7.0	11.4	9.4	10.0	2.8	9.6	9.7
Q2	5.7	2.2	-1.6	-0.3	2.9	-4.6	6.9	11.5	9.3	12.8	2.4	8.6	8.7
Q3	6.3	2.0	-1.8	-1.2	2.7	-7.9	8.6	14.2	11.1	14.1	3.5	7.8	8.0
Q4	6.1	1.9	-1.4	-0.9	2.7	-10.6	8.2	14.4	10.8	19.4	3.0	7.3	7.4
2001 Q1	6.0	1.4	-1.1	-0.4	1.8	-11.9	8.7	13.0	10.0	25.3	4.6	6.4	6.6
Ratio to total financing as at Q1 2001 (amounts outstanding)	100%	31%	6%	5%	24%	8%	48%	21%	18%	3%	22%	21%	19%

Source: ECB.

- 1) Non-financial sectors comprise general government, non-financial corporations and households including non-profit institutions serving households. Financing consists of loans, securities other than shares, quoted shares, pension fund reserves of non-financial corporations and deposit liabilities of central government.
- 2) Annual growth rates are based on non-seasonally adjusted transactions and therefore do not include valuation effects and reclassifications.
- 3) Including non-profit institutions serving households.

This box reviews the development in total indebtedness of the non-financial sectors up to the first quarter of 2001. In addition, it focuses on the evidence of a rise in the growth of investment in securities other than shares by non-financial sectors and possible shifts from non-monetary mutual fund shares to liquid financial assets in the first quarter of 2001.

Developments in total debt of the euro area non-financial sectors

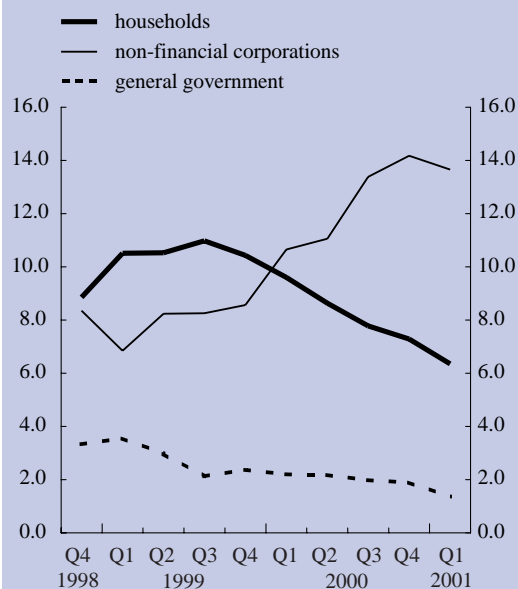
In the first quarter of 2001, the annual growth rate of total financing of the euro area non-financial sectors remained broadly stable, at 6.0%, after 6.1% in the previous quarter (see Table A). At the same time, the total indebtedness of the non-financial sector (deducting from total financing the issuance of quoted shares) continued its declining trend, with an annual growth rate of 6.6% in the first quarter of 2001, down from 7.2% in the fourth quarter of 2000. In particular, the annual rate of growth of total debt of households fell further, to 6.4%, down from 7.3% in the fourth quarter of 2000 (see chart overleaf). The annual growth of total debt of non-financial corporations, while remaining high, declined slightly from 14.2% in the fourth quarter of 2000 to 13.7% in the first quarter of 2001.

The build-up of debt by non-financial corporations over recent years has been associated with the intense merger and acquisition activity observed over the past few years and the financing of UMTS licences in 2000. In addition, non-financial corporations may have been inclined to increase their indebtedness against the background of favourable financing conditions and very optimistic expectations about future profits in some sectors of the economy. The financing of the exceptional transactions referred to above has probably been the main cause of the very strong annual rate of growth of short-term debt of non-financial corporations (the stock

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

Debt of euro area non-financial sectors

(annual percentage changes)



Source: ECB.

Note: Debt includes loans granted by euro area MFIs and other financial intermediaries, securities other than shares, pension fund reserves of non-financial corporations and deposit liabilities of central government.

of which accounted for 33% of total debt of non-financial corporations in the first quarter of 2001) in the second half of 2000 and in the first quarter of 2001. Finally, growth of total debt of general government remained relatively subdued. The annual rate of growth fell to 1.4% in the first quarter of 2001, from 1.9% in the fourth quarter of 2000. Provisional data for the period up to the third quarter of 2001 suggest that the annual rate of growth of total debt of the non-financial sector continued to decline in the course of 2001, driven by a moderation in the growth of debt of non-financial corporations and of households.

Financial investment of the non-financial sectors

The annual growth rate of financial investment by the euro area non-financial sectors increased to 8.1% in the first quarter of 2001, up from 7.1% in the fourth quarter of 2000 (see Table B). In relation to GDP, total financial investment increased to 17.9% in the first quarter of 2001, from 10.4% a year earlier.

In the first quarter of 2001, euro area non-financial sectors considerably increased their investment in securities other than shares. The annual growth rate of the investment in securities other than shares by the non-financial sectors broadly doubled, to 14.2% in the first quarter of 2001, from 7.0% in the fourth quarter of 2000. Investment by the non-financial sectors both in short-term securities and in long-term securities other than shares increased considerably. The rise in the acquisition of debt securities by the non-financial sectors

Table B: Financial investment of non-financial sectors in the euro area¹⁾

	Financial investment										Memo item: M3
	Currency, deposits and short-term marketable instruments	Currency and deposits ³⁾	Short-term securities other than shares	Money market fund shares	Long-term marketable instruments and insurance technical reserves	Long-term securities other than shares	Quoted shares	Mutual fund shares other than money market fund shares	Insurance technical reserves		
Annual growth rates (end of period)²⁾											
1998 Q4	5.6	1.9	3.2	-22.7	-4.2	8.6	-4.9	6.3	31.2	8.7	4.9
1999 Q1	5.9	1.6	3.2	-26.0	-8.0	9.0	-0.8	5.6	27.7	8.6	5.5
1999 Q2	6.2	1.9	2.8	-21.7	1.0	9.2	0.6	6.9	23.6	8.7	5.3
1999 Q3	6.7	2.5	3.5	-22.5	-0.7	9.7	0.5	10.5	19.8	9.0	5.5
1999 Q4	6.3	2.6	2.8	-5.4	3.1	8.8	3.3	7.8	14.1	9.7	5.5
2000 Q1	5.2	3.5	3.3	6.1	5.4	6.2	-1.1	5.1	8.2	9.9	5.5
2000 Q2	5.2	3.1	3.4	14.7	-9.5	6.5	4.2	5.3	4.8	9.7	5.5
2000 Q3	6.1	3.5	3.2	38.8	-8.0	7.6	7.6	8.8	2.9	9.3	4.5
2000 Q4	7.1	3.1	2.9	18.8	-4.1	9.4	5.7	12.7	8.3	8.5	4.2
2001 Q1	8.1	4.4	3.1	48.0	4.1	10.1	10.7	13.7	8.1	7.6	3.8
Ratio to total financial investment as at Q1 2001 (amounts outstanding)											
	100%	37%	34%	1%	2%	62%	11%	19%	11%	22%	34%

Source: ECB.

1) Non-financial sectors comprise general government, non-financial corporations and households including non-profit institutions serving households.

2) Growth rates of financial investment are based on non-seasonally adjusted transactions and therefore do not include valuation effects and reclassifications. The growth rate of M3 is a quarterly average annual growth rate adjusted for seasonal and calendar effects.

3) Excluding central government deposits with MFIs.

may have been fuelled by a reallocation of portfolios from shares (mainly equity-linked mutual fund shares) to securities other than shares or liquid assets, owing to the continuing weakness in global stock markets at that time. In addition, over the past few quarters, large non-financial corporations may have used short-term securities as a way of temporarily holding liquidity with a view to financing large transactions (mergers and acquisitions or the acquisition of UMTS licences).

The annual growth rate of investment by non-financial sectors in mutual fund shares excluding money market fund shares dropped slightly, to 8.1% in the first quarter of 2001, from 8.3% in the previous quarter. It is likely that in particular investment in equity-linked mutual fund shares declined strongly owing to the weakness of global stock markets. Compared with the high annual growth rates up to the end of 1999, in a favourable stock market environment, investment in mutual fund shares excluding money market fund shares was much lower following the weakening of stock markets from the end of the first quarter of 2000 onwards.

The decline in growth of investment in mutual fund shares excluding money market fund shares was, however, accompanied by a continuously strong increase in the annual rate of growth of investment in quoted shares, to 13.7% in the first quarter of 2001, from 12.7% in the previous quarter. This high annual growth rate over the past few quarters mainly reflects the effect of the considerable increase in the holdings of quoted shares by non-financial corporations owing to strong merger and acquisition activity. In addition, the slight rise in the annual growth rate of quoted shares in the first quarter of 2001 partly reflects base effects resulting from a reduction of the holdings of quoted shares in the first quarter of 2000. At the same time, households seem to have moderated their investment in quoted shares and non-monetary mutual fund shares in favour of more secure and liquid financial assets during the first quarter of 2001.

In line with an increased preference of the euro area non-financial sectors for secure and liquid assets, the annual growth rate of investment in money market fund shares by non-financial sectors rose to 4.1% in the first quarter of 2001, from -4.1% in the fourth quarter of 2000.