

Box 2**Financial investment of the non-financial sectors in the euro area in the second quarter of 2002**

The euro area financial accounts, which are available up to the second quarter of 2002, allow an analysis of the development of the financial investment of the non-financial sectors (households, non-financial corporations and general government) and of the value of their financial assets. These data provide some evidence of the portfolio allocation decisions of the non-financial sectors as well as of the development of their financial wealth.

Financial investment of euro area non-financial sectors

	Outstanding amount as a percentage of financial investment ¹⁾	Annual growth rates ²⁾									
		2000		2000		2001		2001		2002	
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Financial investment	100	5.4	6.4	6.9	8.1	7.9	6.9	5.3	5.1	5.1	.
<i>of which: short-term financial investment</i> ³⁾	40.6	4.5	4.9	3.8	5.4	5.6	6.1	6.2	5.1	5.5	.
<i>of which: long-term financial investment</i> ⁴⁾	58.4	5.7	7.1	8.7	9.7	9.2	7.7	5.1	5.2	5.0	.
Currency and deposits	35.8	3.7	3.6	3.3	3.5	4.3	4.3	4.4	4.7	4.8	.
Securities other than shares	13.4	9.2	14.9	10.0	17.8	13.8	10.4	8.4	6.0	6.8	.
<i>of which: short-term</i>	1.7	54.2	88.6	34.7	64.5	38.8	23.8	11.5	-6.0	-6.2	.
<i>of which: long-term</i>	11.7	5.1	8.9	7.2	11.6	10.5	8.6	7.9	8.3	8.9	.
Mutual fund shares	11.6	4.2	2.4	6.1	5.3	4.7	5.6	5.0	5.4	5.8	.
<i>of which: mutual fund shares, excluding money market fund shares</i>	9.7	5.0	3.1	7.1	5.5	3.9	3.6	2.1	2.2	3.0	.
<i>of which: money market fund shares</i>	1.9	-1.9	-2.7	-1.6	4.0	11.9	22.8	28.8	28.1	25.6	.
Quoted shares	16.6	2.4	5.9	9.9	12.6	12.7	9.6	3.0	2.5	1.5	.
Insurance technical reserves	22.6	9.5	9.3	8.6	7.6	7.5	7.3	7.4	7.6	7.3	.
M3 ⁵⁾		4.7	4.4	4.1	3.7	5.5	6.8	8.0	7.2	7.1	7.3

Source: ECB.

Note: Most of the liability and financial asset categories in the ESA 95 are covered by the quarterly data on financing and financial investment of the non-financial sectors in the euro area. Financial derivatives, loans granted by general government and non-financial corporations, unquoted shares, other equity, and other receivables and payables are not yet included. This also applies to deposits with banks abroad and loans taken from banks abroad.

1) As at the end of the second quarter of 2002.

2) Annual growth rates are calculated as the ratio of the cumulative amount of financial investment in the last four quarters to the initial stock.

3) Short-term financial investment includes currency and deposits (excluding central government deposits), short-term debt securities and money market fund shares. Due to the exclusion of central government deposits, short-term and long-term financial investment do not add up to 100%. When interpreting these figures, it should be kept in mind that both short-term and long-term deposits are included in short-term investment as no maturity breakdown is available so far.

4) Long-term financial investment includes long-term debt securities, mutual fund shares excluding money market fund shares, quoted shares and insurance and pension products.

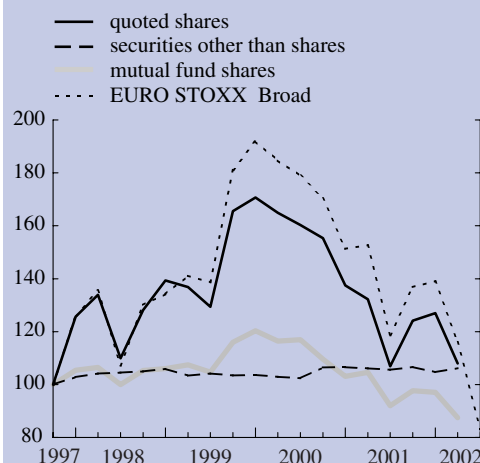
5) End of quarter. The monetary aggregate M3 includes monetary instruments held by euro area non-MFIs (i.e. the non-financial sector and non-monetary financial institutions) with euro area MFIs.

In the second quarter of 2002, the annual growth of the financial investment of the non-financial sectors remained unchanged from the previous quarter, at 5.1% (see table). It had been broadly stable at this level since the fourth quarter of 2001 – despite a decline in the annual growth of disposable income of households during this period – reflecting a slight increase in the households' savings ratio. At the same time, the non-financial sectors experienced further holding losses in their stock of financial assets, mainly owing to the continued decline in stock prices in the second quarter of 2002 (see Chart A).

In that context, investors seem to have shifted funds from shares into both bonds and short-term assets in the second quarter of 2002. The annual growth of short-term financial investment rose to 5.5%, from 5.1% in the first quarter (see Chart B). Among the components of short-term financial investment, the annual growth of investment in money market fund shares remained especially high. By contrast, the overall annual growth of

Chart A: Holding gains and losses on securities

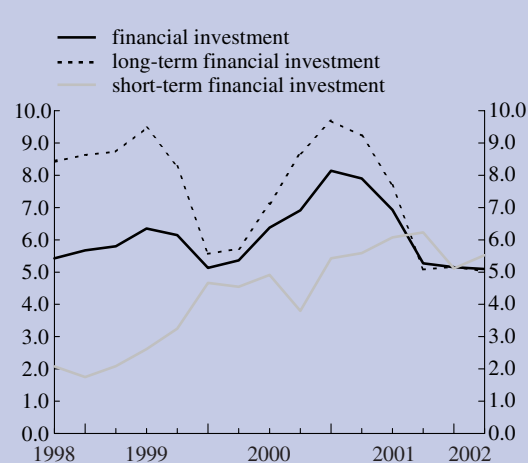
(1997 Q4 = 100)



Source: ECB.

Chart B: Short-term and long-term financial investment of non-financial sectors

(annual percentage changes)



Source: ECB.

Note: For details, see the table in this box.

long-term financial investment of the non-financial sectors remained broadly unchanged in the second quarter compared with the two previous quarters, at around 5%. However, the development of its components varied considerably. The annual growth of investment in long-term debt securities rose to 8.9%, from 8.3% in the first quarter of 2002. By contrast, the annual growth of investment in quoted shares declined further, to 1.5% in the second quarter from 2.5% in the first. Investment in long-term debt securities probably also profited from the steepening of the yield curve after the autumn of 2001. This was also reflected in the rise in the annual growth of longer-term financial liabilities of MFIs, i.e. the higher holdings of MFI debt securities by non-MFIs, in the second quarter of 2002.

These developments support the assessment that the strong M3 growth during the second quarter of 2002 reflected in part a preference of the non-financial sectors for secure and liquid assets. In addition, they give an indication of the size of the losses in financial wealth of the non-financial sectors following the decline in stock prices, a factor which may have dampened somewhat domestic demand.