

Box 2

Recent improvements in securities issues statistics

In this issue of the Monthly Bulletin, the ECB is publishing monthly statistics on quoted shares for the first time (see Table 3.8 in the “Euro area statistics” section). In addition, new data are published which improve the way in which the growth in the stocks of debt securities is measured (see Table 3.7).¹ This box presents the new statistics on quoted shares and the improvements made to the existing debt securities issues statistics.

Publication of monthly statistics on quoted shares

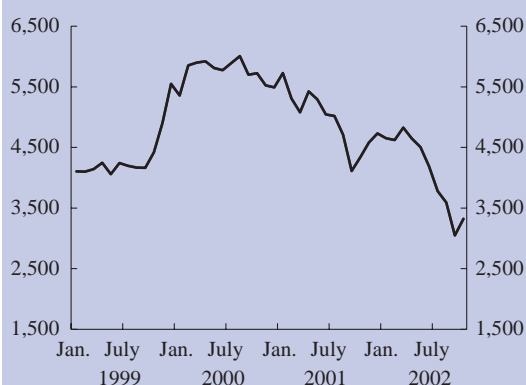
The new statistics on the amounts outstanding of quoted shares issued by residents of the euro area provide an overview of the size of the stock market in the euro area. From a monetary policy perspective, it is of interest to monitor these statistics given the links that exist between stock market developments and, for example, aggregate supply and demand and the transmission mechanism of monetary policy.²

According to the standards set out in the European System of Accounts (ESA 95), shares comprise all financial assets that represent property rights on corporations. These financial assets generally entitle holders to a share in the profits of corporations and to a share in their net assets in the event of liquidation. The category of quoted (listed) shares covers all shares with prices quoted on a recognised stock exchange or other forms of regulated markets. Quoted shares include capital shares and dividend shares issued by limited liability companies, redeemed shares in limited liability companies and preferred (preference) stocks or shares.

The quoted shares statistics are broken down by sector of the issuer, distinguishing between non-financial corporations, monetary financial institutions (MFIs) and non-monetary financial corporations. The time-series start in January 1999 and are reported at market value. Future enhancements may include the calculation of transactions data.

Chart A: Amounts outstanding of quoted shares issued by euro area residents from January 1999 to October 2002

(EUR billions; end-of-period stocks; market values)



Source: ECB.

Chart A illustrates that since January 1999, large fluctuations have occurred in the value of the outstanding quoted shares issued by euro area residents. In the period between January 1999 and March 2000, this value rose by 44%, largely as a result of the substantial increases in euro area stock prices during that period. However, from March 2000 the stock market experienced an even more substantial decline, with the amount outstanding of quoted shares issued by euro area residents declining from €5,841 billion in March 2000 to €3,262 billion in October 2002. Of the amount outstanding in October 2002 (see Chart B), more than three-quarters (76%) was issued by non-financial corporations. The remaining amount was issued by MFIs (14%) and non-monetary financial corporations (10%). The latter category comprises insurance corporations and pension funds as well as other financial intermediaries (OFIs).

¹ Securities issues statistics are produced by the Eurosystem on a monthly basis and the complete datasets are presented in Part 3 of the “Euro area statistics” section of the Monthly Bulletin as well as on the ECB’s website.

² For a discussion of the role of the stock market in the economy and in the ECB’s monetary policy strategy, see the article entitled “The stock market and monetary policy” in the February 2002 issue of the Monthly Bulletin.

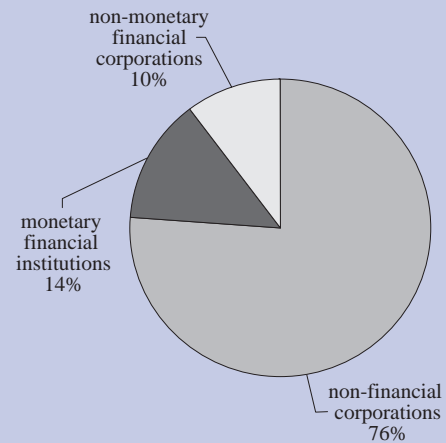
Improved method for the calculation of growth rates for debt securities

Growth rates for debt securities are no longer calculated on the basis of changes in the stocks outstanding. The new method for calculating growth rates is based on an accumulation of actual flows, using available information on gross issues and redemptions. Therefore it reflects financial transactions that occur when an institutional unit acquires or disposes of financial assets and incurs or repays liabilities. This new approach yields more accurate and consistent annual growth rates for securities issues statistics and avoids distortions due to reclassifications, revaluations, exchange rate variations and any other changes that do not arise from transactions. The annual growth rates for debt securities are now calculated on the basis of an “index of notional stocks” as described in the “Technical notes” of the “Euro area statistics” section.

Chart C illustrates the difference between the calculation of the annual growth rates using an index

of notional stocks based on financial transactions (thick line) and the calculation using stocks that have not been adjusted (thin line). For total debt securities in all currencies, the differences between the adjusted and the non-adjusted annual growth rates averaged 0.7 percentage point during the period from January 1999 to October 2002, and reached a peak of 1.4 percentage points in October 2000. The main factor accounting for this difference, which was particularly pronounced in the first two years of Stage Three of EMU, was the exchange rate effect on debt securities issued by euro area residents in foreign currencies, related to the depreciation of the euro during this period. Indeed, for debt securities that had previously been issued in foreign currencies, the value of these liabilities expressed in euro increased as the euro depreciated, thereby giving rise to a higher growth rate of the series which did not correct for valuation changes.

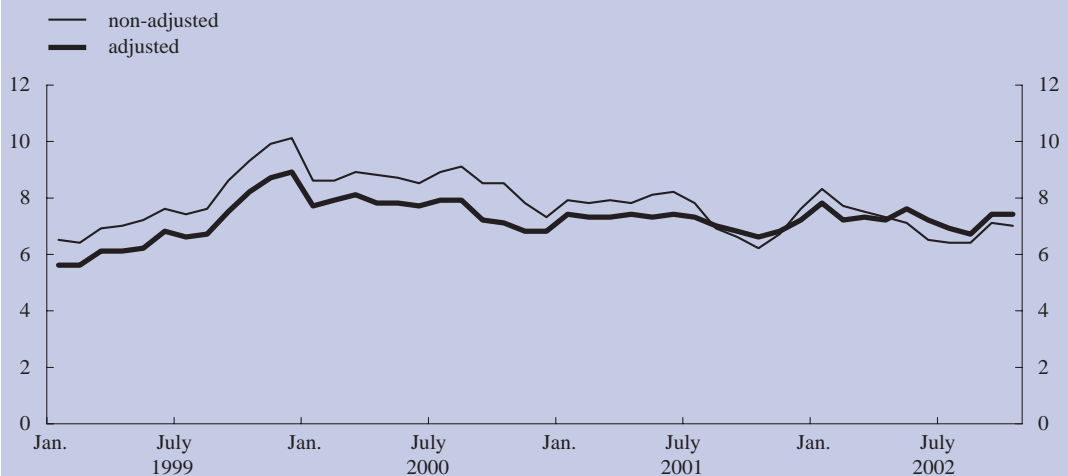
Chart B: Sectoral breakdown of quoted shares issued by euro area residents based on amounts outstanding at end-October 2002
(percentage)



Source: ECB.

Chart C: Annual growth of debt securities issued by residents of the euro area (all currencies combined) from January 1999 to October 2002

(percentage changes)

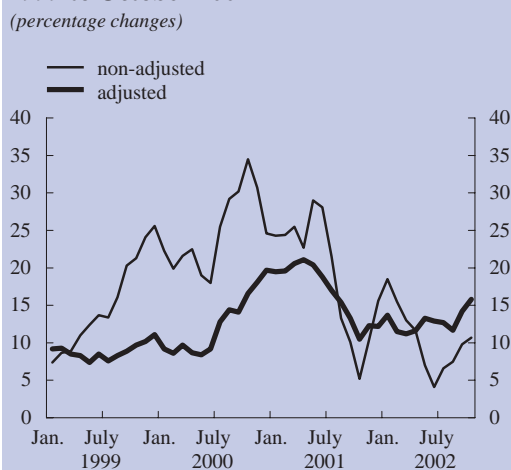


Source: ECB.

The new data show strong issuance of foreign currency-denominated debt securities by euro area residents

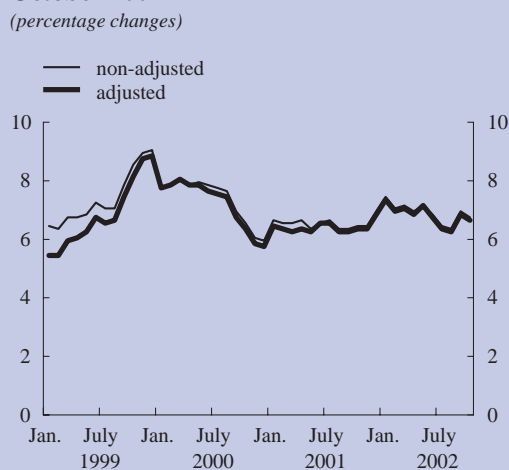
By adjusting the data to take into account these valuation changes related to currency movements, it is possible to measure more accurately the changes in the stock of foreign currency-denominated debt that reflect currency denomination decisions by issuers of debt securities. On average, for foreign currency-denominated debt securities issued by euro area residents the difference between the new, adjusted annual growth rates and the non-adjusted ones amounted to 7.2 percentage points, between January 1999 and October 2002, with a peak of 17.9 percentage points in October 2000 (see Chart D).

Chart D: Annual growth of foreign currency-denominated debt securities issued by euro area residents from January 1999 to October 2002
(percentage changes)



Source: ECB.

Chart E: Annual growth of euro-denominated debt securities issued by euro area residents from January 1999 to October 2002
(percentage changes)



Source: ECB.

Looking at the adjusted growth rates in the period from early 1999 until early 2000, the stock of debt securities issued in foreign currencies grew at a fairly steady annual pace of around 10%. However, around mid-2000, the pace of foreign currency debt security issuance by euro area residents began to accelerate, bringing annual growth rates above 20%. Thereafter, growth rates fell back to levels close to 10% again in 2001 and 2002 but remained constantly above the growth rates recorded for issues in domestic currency.

The significant rise in the issuance of foreign currency-denominated debt in the course of 2000 may have been due in part to hedging activities related to the considerable foreign direct investment (FDI) of euro area corporations in the United States (see Box 5 on page 39 of the October 2002 issue of the Monthly Bulletin entitled "Developments in the net financial flows between the euro area and the United States"). Other things being equal, this strong FDI activity increased the sensitivity of euro area corporations' balance sheets and net cash flows to swings in the value of the euro vis-à-vis the US dollar. In order to mitigate such risks, some euro area corporations may have been encouraged to hedge their foreign currency exposures by issuing more foreign currency-denominated debt. It is notable that as FDI activity tailed off in the course of 2001, so did foreign currency-denominated debt security issuance activity by euro area residents.

In addition to hedging considerations, it cannot be excluded that euro area issuers took speculative views on the likely future direction of the euro during 2000 with a view to lowering debt servicing costs in the longer term. Indeed, in the course of 2000, the euro depreciated further vis-à-vis the US dollar. If issuers in need of funds took the view that the euro would ultimately appreciate, thereby lowering the euro value of foreign currency-denominated debt and the concomitant servicing costs, they may have opted to issue debt in foreign currency rather than in euro.

Notwithstanding the aforementioned considerations relating to hedging and speculation, the growth in foreign currency debt securities issued by euro area residents has been systematically higher than the growth in euro-denominated issues since the start of Stage Three of EMU. This may be linked to the growing internationalisation of the capital markets, which has encouraged increased currency diversification by euro area debt securities issuers.

Turning to debt securities issued in domestic currency, the difference between growth rates calculated on an adjusted and on an unadjusted basis was small between January 1999 and October 2002 (see Chart E). On average, the difference was only 0.2 percentage point, with a peak of 1.0 percentage point in January 1999.

All in all, the enhancement made to the measurement of growth rates may allow a better understanding of the trends in debt security issuance and in particular that denominated in foreign currencies.