

Box 3

New ECB statistics on euro area investment funds

For the first time, this issue of the Monthly Bulletin includes the ECB euro area aggregate statistics on investment funds resident¹ in the euro area (see Tables 2.9, 2.10 and 2.11 in the section entitled “Euro area statistics”). These investment funds constitute the most important category within the financial corporations sub-sector headed “Other financial intermediaries, except insurance corporations and pension funds” (OFIs) in the European System of Accounts (ESA 95), accounting for approximately four-fifths of the total OFI assets. These new statistics on investment funds do not cover the money market funds forming part of the population of the monetary financial institutions (MFIs).

A key difference between OFIs and MFIs is that OFIs have no deposits made by non-MFIs on the liabilities side of their balance sheets. The ESA 95 defines OFIs as “all financial corporations and quasi-corporations which are principally engaged in financial intermediation by incurring liabilities in forms other than currency, deposits and/or close substitutes for deposits from institutional units other than monetary financial institutions, or insurance technical reserves”. In addition to investment funds, the OFI category also comprises securities and derivatives dealers and financial corporations engaged in lending. Typically, the liabilities of investment funds are shares issued.

OFI data in general, and investment fund data in particular, are important for monetary and financial analyses in several respects. First, changes in investment funds’ asset value are transmitted, through the valuation of their shares, to households and firms, indirectly generating wealth effects. Second, since investment funds are large professional investors, their portfolio choices may be indicative of more general trends in portfolio diversification, which is useful for explaining developments in M3, for example. Third, investment fund data provide insight into the euro area financial structure, in particular vis-à-vis the MFI sector.

Main features of the newly published investment fund data

The newly released quarterly euro area investment fund data are compiled by the ECB, drawing on existing data available in the Eurosystem. The data are not yet fully harmonised within the euro area. The basic definitions used in these investment fund statistics conform with European standards as set out in the ESA 95, wherever possible and appropriate.

Published data refer to end-of-quarter stocks. No data on flows (transactions) are available thus far. Therefore, it follows that only pseudo-growth rates, based on changes in stocks, can be calculated. Owing to a lack of data

1 The term “resident” refers to institutions located in the euro area, including subsidiaries of parent companies located outside the euro area, and resident branches of institutions which have their head office outside the euro area.

for Ireland, the euro area aggregates currently cover 11 euro area countries only. This data will be published with a time lag of around four months, with the series starting at the end of 1999.

Euro area aggregates are compiled for (i) all investment funds; (ii) investment funds broken down by investment policy; and (iii) investment funds broken down by restrictions, if any, on the purchase of the funds' shares. With regard to category (ii), i.e. the type of investment policy, five categories have been identified: equity funds; bond funds; mixed funds; real estate funds; and other investment funds. This classification indicates the type of asset in which the fund primarily invests (e.g. if the fund primarily invests in shares and other equity, then it is allocated to the equity funds category). Funds investing in both equity and bonds, whereby neither of the two prevails a priori, are allocated to the "mixed funds" category. Where it is impossible to classify funds under either equity, bond, mixed or real estate funds, they are included in the residual category headed "other funds". With regard to (iii), i.e. access to the fund, a distinction is drawn between general public funds and specialised funds. The latter restricts the purchase of the shares to certain types of investor (e.g. institutional investors).

Euro area investment fund data are available in the section entitled "Statistics" on the ECB's website (<http://www.ecb.int>), together with some methodological notes.

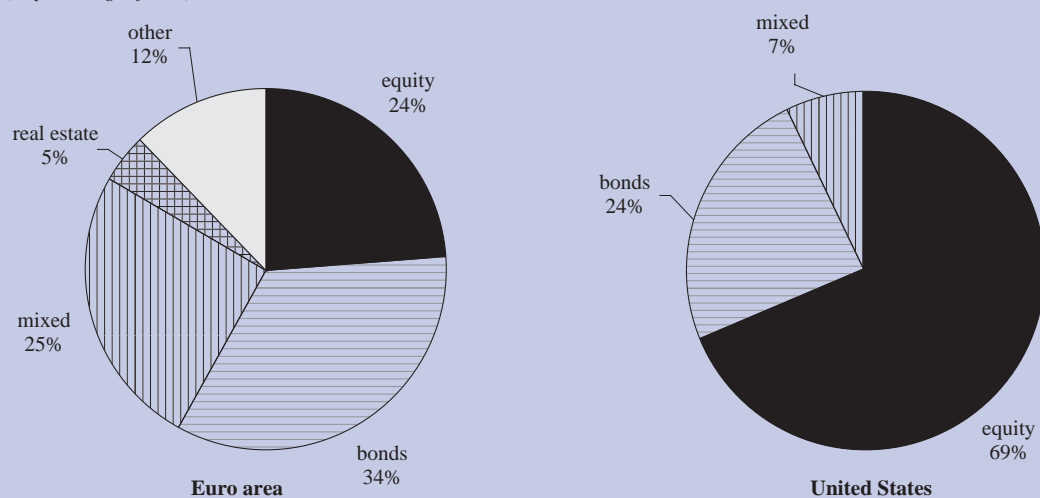
Some characteristics of the euro area investment fund industry

The total assets of the investment funds in the euro area (excluding Ireland) amounted to €3,038 billion at the end of the second quarter of 2002. With reference to this period, investment fund activity is strongest in Luxembourg, Germany and France, which have a market share of 26%, 25% and 21% respectively. They are followed by Italy, which has a share of 11%. The total assets of euro area investment funds amounted to 45% of GDP in the second quarter of 2002, which is the same percentage as that of the United States. The total assets of the euro area MFI sector (excluding the Eurosystem) amounted to 266% of GDP in the second quarter of 2002.

A decomposition of euro area investment fund assets by investment policy shows that bond funds are the most important, accounting for around one-third of total investment fund assets in the second quarter of 2002 (see chart). Equity and mixed funds each accounted for around one-quarter of investment fund assets. It is

Composition of investment fund assets by investment policy in the second quarter of 2002

(as percentage of total)



Sources: ECB and Investment Company Institute.

Notes: Euro area total assets excluding Ireland. United States net assets of mutual funds excluding money market funds, including closed-end funds, exchange-traded funds and unit investment trust sponsors.

worth noting that in the United States around two-thirds of all investment fund assets are equity fund assets. Consequently, holders of investment fund shares in the euro area may be more sensitive to bond yield variations and less sensitive to stock price changes than those in the United States.

With regard to the breakdown by type of investor, the investment fund industry in both the euro area and the United States predominantly consists of general public funds. However, specialised investor funds are far more important in the euro area (accounting for around 25% of investment fund industry assets) than in the United States (accounting for around 2%).

Over recent years, the importance of bonds in the total asset value of euro area investment funds has increased, whereas the importance of equity has declined (see table below, where bonds are indicated as “securities other than shares”). To a large extent, however, these diverging trends reflect mostly valuation changes to funds which invest in equity.

Asset decomposition of total investment funds in the euro area

(as percentage of total assets)

| | end-1999 | end-2000 | end-2001 | 2002 Q1 | 2002 Q2 |
|--|----------|----------|----------|---------|---------|
| Deposits | 7.5 | 7.0 | 7.7 | 7.8 | 8.0 |
| Securities other than shares | 42.1 | 38.7 | 41.1 | 40.2 | 43.2 |
| <i>of which:</i> | | | | | |
| Securities other than shares up to one year | 2.7 | 1.8 | 2.0 | 2.2 | 2.5 |
| Securities other than shares over one year | 39.4 | 36.9 | 39.1 | 38.0 | 40.7 |
| Shares and other equity | 40.9 | 42.8 | 38.2 | 38.8 | 34.8 |
| Investment fund shares | 4.1 | 5.7 | 6.6 | 6.9 | 7.2 |
| Fixed assets | 2.6 | 3.0 | 3.4 | 3.4 | 3.6 |
| Other assets (including financial derivatives) | 2.8 | 2.8 | 3.1 | 3.0 | 3.3 |
| Total assets | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| <i>Memo item:</i> total assets in EUR billions | 2,969 | 3,256 | 3,189 | 3,259 | 3,038 |

Source: ECB.