

Box 1**Financial investment of the non-financial sectors in the euro area up to the third quarter of 2002**

The annual growth of the overall financial investment of the non-financial sectors (i.e. households, non-financial corporations and general government) remained relatively stable between the fourth quarter of 2001 and the third quarter of 2002 (see table below), at a level of around 5%. Over the same period, the non-financial sectors experienced considerable losses in their financial wealth due to the further fall in stock prices.

With regard to financial investment, as a result of financial market uncertainty and the further decline in stock prices, investors continued to prefer investments in relatively secure financial assets such as short-term assets, bonds and insurance and pension products. In this respect, the annual growth of short-term financial investment rose to 5.5% in the third quarter of 2002. This was mainly due to a recovery in investment in short-term debt securities. Moreover, investment in deposits and money market fund shares/units remained relatively strong. In addition to short-term assets, investors preferred secure long-term assets. The annual growth of investment in long-term debt securities declined somewhat, to 7.1%, probably reflecting lower bond yield levels as well as a rise in bond market volatility in the third quarter. Moreover, the annual growth of investment in insurance and pension products has continued to be relatively high, at somewhat above 7%, for a number of quarters (see Box 2).

By contrast, investment in quoted shares by the non-financial sectors remained very subdued in the third quarter, at an annual growth rate of around 1%. This is likely to be related to falling stock prices and a renewed rise in implied stock market volatility, as well as to reduced equity issuance during this period. As indicated by balance of payments data, euro area non-MFIs in net terms repatriated equity portfolio investment from abroad in the third quarter of 2002, after having continued to purchase foreign equity in previous quarters, although on a reduced scale. By contrast, non-residents of the euro area were net buyers of equity issued by

Financial investment of euro area non-financial sectors

	Outstanding amount as a percentage of financial investment ¹⁾	Annual growth rates									
		2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4
Financial investment	100	6.0	6.3	7.4	7.3	6.5	5.2	5.1	5.0	5.2	.
of which: short-term financial investment ²⁾	43.0	4.9	3.8	5.4	5.5	5.8	6.0	4.7	5.0	5.5	.
of which: long-term financial investment ³⁾	56.0	6.5	7.6	8.6	8.3	7.2	5.1	5.3	5.1	5.2	.
Currency and deposits	37.7	3.6	3.3	3.5	4.3	4.3	4.4	4.7	4.8	4.9	.
Securities other than shares	14.5	14.9	10.0	17.6	14.4	11.1	9.3	5.7	5.7	6.2	.
of which: short-term	1.9	88.5	34.4	65.9	39.3	23.7	11.5	-8.4	-10.4	0.3	.
of which: long-term	12.6	8.9	7.2	11.3	11.1	9.4	8.9	8.5	8.3	7.1	.
Mutual fund shares	11.8	2.3	6.0	5.7	5.0	6.0	5.5	5.4	6.0	6.5	.
of which: mutual fund shares, excluding money market fund shares/units	9.7	3.1	6.7	6.0	4.4	4.7	3.6	3.3	4.3	4.9	.
of which: money market fund shares/units	2.1	-3.7	-0.1	3.8	9.3	16.8	21.1	20.7	17.7	16.1	.
Quoted shares	12.2	3.7	7.1	9.3	9.5	7.1	1.7	2.1	1.1	1.1	.
Insurance technical reserves	23.8	9.5	8.5	7.6	7.5	7.2	7.4	7.6	7.3	7.3	.
M3 ⁴⁾		4.4	4.1	3.9	5.6	7.0	8.1	7.4	7.3	7.2	6.8

Source: ECB.

Note: For details, see footnote in Table 6.1 in the 'Euro area statistics' section of the Monthly Bulletin.

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

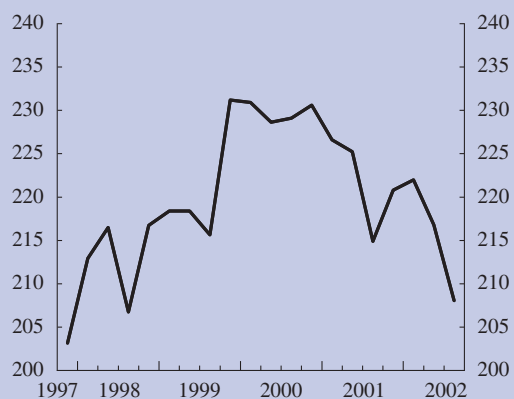
2) Short-term financial investment includes currency and deposits (excluding central government deposits), short-term debt securities and money market fund shares/units. Due to the exclusion of central government deposits, short-term and long-term financial investment do not add up to 100%. When interpreting 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.

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

4) 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.

Financial wealth developments of the euro area non-financial sectors

(financial assets expressed as a percentage of GDP)



Source: ECB.

euro area corporations in the third quarter, in line with previous quarters. The amounts received from the sales of equity by euro area non-MFIs (to non-residents or to euro area MFIs) contributed to fuelling monetary growth in the euro area during that period.

The valuation losses stemming from declining stock prices have adversely affected the financial wealth of the non-financial sectors of the euro area, as indicated by the fall in the ratio of financial assets to GDP of these sectors since the start of 2000 (see chart). The ratio of financial assets of the non-financial sectors to GDP stood at a similar level in the third quarter of 2002 as at the end of 1997. All other things being equal, these negative financial wealth effects have led to a deterioration in the financial positions of the non-financial sectors of the euro area since 2000.

However, the decline in the value of financial assets has been partly compensated for by rising property prices and, in turn, a rise in residential property wealth in a number of euro area countries. While the overall economic implications of the loss in financial wealth are difficult to assess, for some sectors of the euro area economy there is reason to believe that the significant fall in stock prices worldwide and the relatively high level of debt (see Chart 12) were factors contributing to weak fixed capital formation over the last two years.