

## Box I

### Monetary presentation of the euro area balance of payments

A monetary presentation of the euro area balance of payments is published for the first time in this issue of the Monthly Bulletin (see Table 8.7 of the “Euro area statistics” section).

External transactions by euro area resident non-MFIs have a direct impact on the external assets and liabilities of the MFI sector, to the extent that they are settled via resident banks.<sup>1</sup> For instance, the purchase of a bond by a euro area non-MFI resident from a non-resident can translate into an increase in the external liabilities of a euro area bank if the seller of the bond holds the proceeds in an account with this bank. For this reason, the resulting changes in the net external asset position of the MFI sector as a whole are associated with the external transactions of the resident non-MFI sector.

The monetary presentation therefore aims to distinguish, in the balance of payments, the external transactions of the MFI sector from those of the non-MFI sector. The following table summarises this approach.

#### Monetary presentation of the euro area balance of payments

	Current account
+	Capital account
+	Balance of financial transactions by the non-MFI sector
+	Errors and omissions
=	Balance of payments of the non-MFI sector
=	– Balance of payments of the MFI sector <sup>1)</sup>
=	Change in the net external assets of the MFI sector

*1) External transactions of the MFI sector recorded in the current account or the capital account, or errors and omissions corresponding to the external transactions of this sector, may be comparatively small.*

Moreover, the monetary aggregate M3 is linked by an accounting identity to its counterparts in the MFI balance sheet, as shown by the following relationship:

$M3 \equiv \text{credit to euro area residents} + \text{net external assets of euro area MFIs} - \text{longer-term financial liabilities} + \text{other counterparts.}$

Therefore, monitoring the net external assets of MFIs contributes (together with the monitoring of other domestic counterparts) to an understanding of monetary developments. The monetary presentation of the balance of payments in turn is an appropriate tool for identifying the sources of change in the external counterpart of M3.

In practice, a perfect identity between the balance of payments and the corresponding flows derived from the consolidated MFI balance sheet is not always observed, owing to differences in both compilation systems and methodology. For instance, the b.o.p. data for the MFI sector are, in some countries, directly reported by the MFIs on the basis of *transactions*, while monetary statistics transactions are derived indirectly from the differences in *stock* data through adjustments for reclassifications, foreign exchange changes and price revaluations. The methodological frameworks for the monetary statistics and b.o.p. statistics also differ in respect of their reliance on business accounting rules. In addition, the item “errors and omissions” represents some “non-explained” b.o.p. transactions. Notwithstanding these qualifications, the monetary presentation provides useful information to analyse the changes in the external counterpart of M3.

During recent years, external transactions have played a major role in the monetary dynamics of the euro area. The significant rise in M3 growth since the second quarter of 2001 has been associated with a sizeable

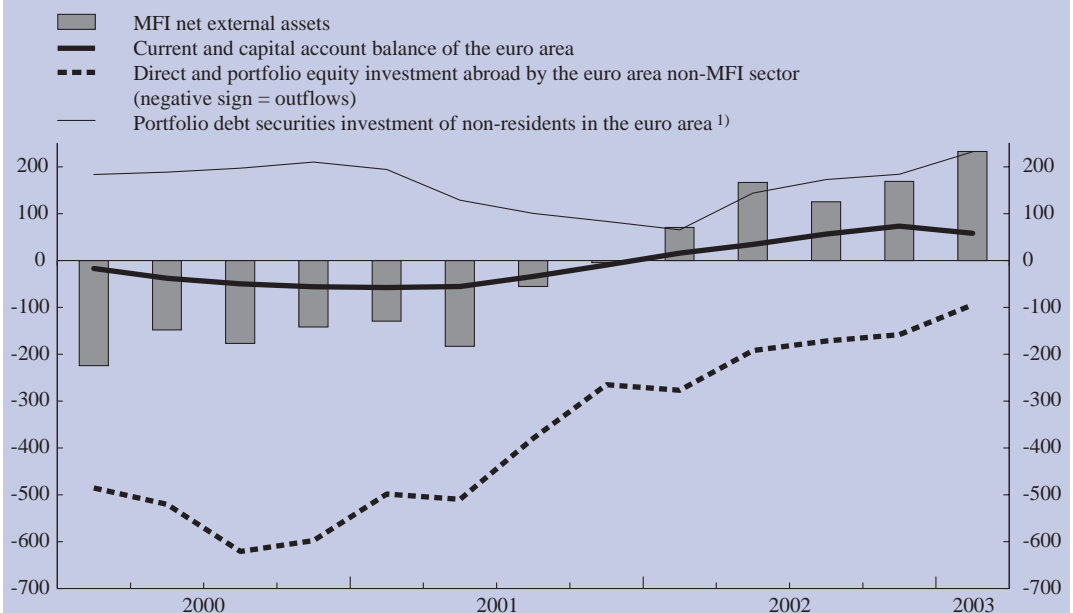
*1 See the article “The balance sheets of the MFIs of the euro area in early 1999” in the August 1999 issue of the ECB’s Monthly Bulletin.*

increase in the net external assets of the MFI sector. The monetary presentation of the balance of payments shows that in 2001 this development was mainly related to a decline in the net acquisition of foreign equities by euro area non-MFIs, reflecting shifts by euro area investors out of foreign equity into liquid assets in the euro area<sup>2</sup> (see the chart below). In addition, since the second quarter of 2002, the external counterpart of M3 has been bolstered by a significant increase in the purchases of euro area debt securities by non-residents (by far exceeding the purchase of foreign debt securities by non-MFI euro area residents). Furthermore, the current and capital account balance has improved, implying a further increase in domestic liquidity derived from external transactions.

<sup>2</sup> See also the box entitled “Estimating the size of portfolio shifts from equity to money” on pages 11 to 14 of the May 2003 issue of the ECB’s Monthly Bulletin.

### Main external transactions underlying the changes in MFI net external assets

(annual flows, end of period; EUR billions)



Source: ECB.

1) Excluding debt securities with a maturity of up to two years and issued by MFIs.