

Box 2

NEW ECB STATISTICS ON QUOTED SHARE TRANSACTIONS

This issue of the Monthly Bulletin includes for the first time statistics on monthly transactions in quoted shares issued by euro area residents starting with the reference period January 1999 (see Table 4.4 in the “Euro area statistics” section). They complement the statistics already published on the amounts outstanding by providing information on new issues and redemptions of quoted shares. The main benefit of the new statistics is that they provide accurate measures of the funds raised through quoted share issuance. These measures differ from those based on comparisons of amounts outstanding as they do not include revaluations, reclassifications and other non-transactional changes. From a monetary policy perspective, it is interesting to monitor share issuance given its importance as a source of financing. Direct access to funds on the equity markets is an alternative to reliance on debt securities markets or financial intermediaries, such as banks. Over time, shifts between forms of financing may also affect the monetary policy transmission mechanism. This box describes the new statistics and highlights a number of their main features, including the fluctuations in quoted share issuance over recent years.

Description of the new statistics

Shares comprise all financial assets which represent property rights on corporations. These financial assets generally entitle holders to a share in the corporation’s profits and, in the event of liquidation, in its net assets. In most cases, they also entitle holders to vote at the corporation’s general meetings. Shares generally provide holders with a part in the ownership of the corporation whereas, in the case of debt securities, holders are creditors. The category “quoted shares” covers all shares with prices quoted on a recognised stock exchange or other forms of regulated market.¹

The statistics on quoted shares distinguish between issues by non-financial corporations, monetary financial institutions and non-monetary financial corporations.

¹ See also the box entitled “Recent improvements in securities issues statistics” in the January 2003 issue of the ECB’s Monthly Bulletin.

Transaction data on quoted shares provide information about the amount of funds raised by the issuer. Transactions refer to issues of quoted shares where the issuer sells securities for cash (gross issues) or all repurchases of quoted shares by the issuer where the investor receives cash for the securities (redemptions). Gross issues include transactions where shares of corporations become listed on a stock exchange for the first time (e.g. initial public offerings) and increases in equity capital (e.g. secondary offerings). An example of a redemption is a share buyback by a company that leads to a reduction in capital. Net issues refer to the difference between gross issues and redemptions.

The transactions and amounts outstanding of quoted shares are reported at market value. For transactions, this means that gross issues and redemptions are valued at the price at which the transactions took place. For amounts outstanding, the market value is calculated by multiplying the number of shares outstanding at the end of the reference period by the last price quotation for that reference period. This implies that the reported amounts outstanding are revalued each month with the latest price quotation.

However, for the purpose of measuring issuance activity in terms of growth rates, intertemporal comparisons of amounts outstanding at market prices are not suitable since their information content would be distorted by non-transactional changes such as movements in stock prices. To avoid this, the newly released data on quoted share transactions are combined with the amounts outstanding to produce an “index” of notional stocks to calculate the annual growth rates for quoted shares, as is already done for debt securities and for monetary aggregates and their counterparts in the MFI balance sheet.

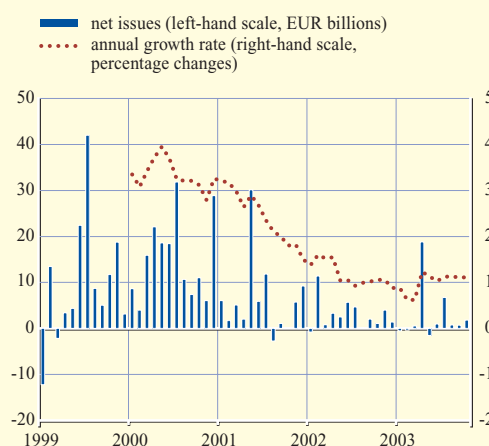
Recent developments in the issuance of quoted shares

A firm’s decision to issue securities is primarily driven by its need for funding, and its choice of instruments reflects, to a large extent, relative prices of the instruments and considerations relating to taxes, bankruptcy costs, agency costs and asymmetric information.

Quoted share issuance by euro area residents has been subject to some fluctuations over recent years.² The annual growth rate of quoted shares issued by euro area residents was around 3.0% during the first half of 2000 before stock prices started to fall (see Chart A). Thereafter, the annual growth rate experienced a substantial and prolonged decline, falling to 0.6% in March 2003. More recently, issuance has recovered somewhat and, since April 2003, the annual growth rate has stood slightly above 1.0%.

Chart A Net issues and annual growth rate of quoted shares issued by euro area residents

(monthly data)



Source: ECB.

² See also the box entitled “Recent trends in equity issuance in the euro area” in the March 2003 issue of the ECB’s Monthly Bulletin.

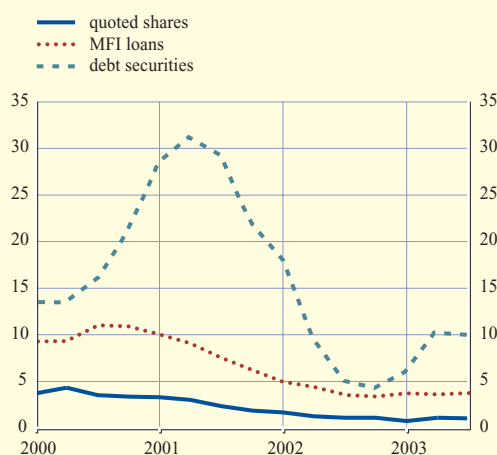
The subdued economic activity in 2001 and 2002 and the bursting of the technology bubble are likely to have contributed to the decrease in issuance activity in the equity markets. Over the same period, the significant decline in stock prices, high stock market volatility and most likely an increasing equity risk premium, together with low levels of interest rates, resulted in a relatively high cost of equity and also reduced many companies' interest in obtaining finance via public stock markets. Conversely, the pick-up in stock prices since the last trough in March 2003 has helped to lower the cost of equity issuance, which together with the improvement in the general economic situation was one of the main reasons for the increase in the annual growth rate of quoted shares issued by euro area residents in 2003.

Total quoted share issuance is mostly driven by the issuance activity of non-financial corporations (see Chart 6 in the main text). This sector accounted for three-quarters of the total amounts outstanding at the end of October 2003 and is therefore by far the largest segment of the quoted share market.

The use of quoted shares by euro area non-financial corporations has however declined relative to other external funding methods. Chart B shows that, for non-financial corporations, the annual growth rate of quoted shares issued has been consistently lower than the corresponding annual growth rates for debt securities issued and MFI loans since 2000. Moreover, annual transaction data from the financial accounts indicate that the ratio of quoted shares issued to unquoted shares and other equity also fell between 1999 and 2002. In terms of the overall financing structure of non-financial corporations in the euro area, the amount outstanding of quoted shares at the end of 2002 represented only 17% of the liabilities of the non-financial corporate sector (see Chart C). It is noteworthy that unquoted shares and other forms of equity were nearly twice as important as quoted shares.

Chart B Financing of non-financial corporations via quoted shares compared with debt securities and MFI loans

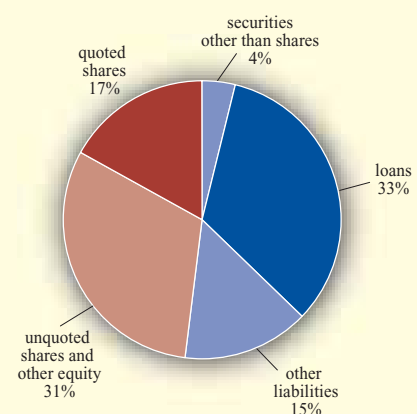
(annual percentage changes, quarterly data¹⁾)



Source: ECB.
1) Quarterly average of monthly annual growth rates for quoted shares and debt securities.

Chart C Financing structure of non-financial corporations

(percentage of total liabilities at end-2002)



Source: ECB.
Note: Other liabilities include trade credits and advance payments received.