

Box 9

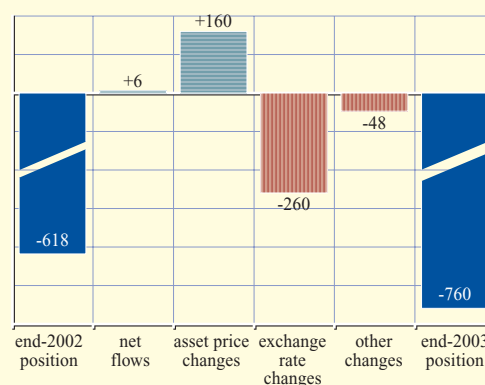
DEVELOPMENTS IN THE INTERNATIONAL INVESTMENT POSITION OF THE EURO AREA IN 2003

This box analyses the impact of the euro appreciation and asset price changes on the euro area's net international investment position in 2003. The international investment position summarises the value and composition of an economy's outstanding claims and liabilities vis-à-vis the rest of the world at a specific date. Changes in the outstanding amounts of claims and liabilities reflect both financial transactions in the balance of payments and other changes, such as financial asset price changes, exchange rate changes, and other adjustments (e.g. write-downs, write-offs or reclassifications).<sup>1</sup>

The international investment position of the euro area recorded net liabilities of €760 billion (10.5% of euro area GDP) at the end of 2003, compared with net liabilities of €618 billion (8.7% of euro area GDP) a year earlier. Despite the euro area current and capital account surplus of €34 billion in 2003, net liabilities thus rose by €142 billion. The change in the net international investment position mainly reflected the negative impact of the revaluation of positions denominated in foreign currency (of €260 billion), which was only partly offset by price revaluations (of €160 billion). Net financial outflows were close to balance (see

Main components of the change in the net international investment position of the euro area in 2003

(EUR billions)



Sources: ECB and ECB calculations.

<sup>1</sup> The ECB publication entitled "European Union balance of payments/international investment position statistical methods" (November 2004) describes the collection and compilation of balance of payments and international investment position statistics in detail.

Table A Developments in the foreign exchange, equity and sovereign debt markets in 2003

(percentage change from end-2002 to end-2003)

Foreign exchange rates		Stock market indices		Sovereign debt price indices	
<b>euro area</b>					
<i>Nominal effective exchange rate (EER-23)</i>	12.2	<i>Dow Jones EUROSTOXX</i>	18.1	<i>1 to 3 years</i>	-1.7
		<i>Dow Jones EUROSTOXX 50</i>	15.7	<i>7 to 10 years</i>	-0.3
<b>United States</b>					
<i>EUR/USD</i>	20.4	<i>S&amp;P 500</i>	26.4	<i>1 to 3 years</i>	-2.1
		<i>Nasdaq 100</i>	48.1	<i>7 to 10 years</i>	-2.7
<b>Japan</b>					
<i>EUR/JPY</i>	8.6	<i>Nikkei 225</i>	24.5	<i>1 to 3 years</i>	-1.8
				<i>7 to 10 years</i>	-3.4
<b>United Kingdom</b>					
<i>EUR/GBP</i>	8.3	<i>FTSE 100</i>	13.6	<i>1 to 3 years</i>	-3.3
				<i>7 to 10 years</i>	-3.1

Sources: ECB, Reuters and Datastream.

chart). The net financial outflows (€6 billion) are not equal to the current and capital account surplus (€34 billion), owing to net errors and omissions.

The 12% appreciation of the nominal effective exchange rate of the euro (see Table A) was a key factor behind the rise in net liabilities in the euro area international investment position in 2003. Usually, an appreciation of the euro exchange rate results in a lower net international investment position for the euro area, as euro area assets abroad are largely denominated in foreign currencies whereas euro area liabilities vis-à-vis the rest of the world are mostly denominated in euro.

Developments in prices of fixed income Treasury securities in 2003 were similar in the euro area and in the other major developed countries. Conversely, equity values rose faster on the US and Japanese stock exchanges than in the euro area. These developments were reflected in an increase in the market value of net euro area equity investment, namely in direct investment and portfolio investment (by €270 billion and €110 billion respectively; see Table B).

**Table B The international investment position of the euro area in 2003**

(EUR billions)

	Outstanding amounts in 2002	Changes in outstanding amounts in 2003						Outstanding amounts in 2003
		Total	Transactions	Other changes				
				Total	Asset prices <sup>1)</sup>	Exchange rates <sup>1)</sup>	Other adjustments <sup>1)</sup>	
<b>Total</b>								
<i>Net</i>	-618	-142	6	-148	160	-260	-48	-760
<i>Assets</i> <sup>2)</sup>	7,113	491	635	-144	350	-580	86	7,604
<i>Liabilities</i>	7,731	633	629	4	190	-320	134	8,364
<b>Direct investment</b>								
<i>Net</i>	204	-125	-5	-119	160	-160	-119	80
<i>Abroad</i>	1,877	233	136	97	270	-180	7	2,110
<i>In the euro area</i>	1,673	358	141	216	110	-20	126	2,031
<b>Portfolio investment</b>								
<i>Net</i>	-879	56	-43	99	10	-80	169	-824
<i>Assets</i>	2,303	305	277	28	90	-210	148	2,607
<i>Equity</i> <sup>3)</sup>	853	201	67	134	110	-80	104	1,055
<i>Debt securities</i>	1,449	103	210	-106	-20	-130	44	1,553
<i>Liabilities</i>	3,182	249	320	-71	80	-130	-21	3,431
<i>Equity</i> <sup>3)</sup>	1,366	150	117	33	100	-60	-7	1,516
<i>Debt securities</i>	1,816	99	203	-104	-20	-70	-14	1,915
<b>Financial derivatives</b>								
<i>Net</i>	-12	5	12	-8	-10	-	2	-7
<b>Other investment</b>								
<i>Net</i>	-297	-18	73	-90	-	20	-110	-315
<i>Assets</i>	2,579	9	240	-231	-	-150	-81	2,587
<i>Liabilities</i>	2,876	26	168	-141	-	-170	29	2,902
<b>Reserve assets</b>	366	-60	-30	-30	-	-40	10	307

Source: ECB.

1) ECB calculations.

2) Net financial derivatives included.

3) Including mutual funds.

Overall, however, the positive effect of the asset price change differentials and the marginal net financial outflows did not offset the negative effect of the appreciation of the euro exchange rate. Thus, the net international investment position deteriorated significantly in 2003.

The international investment position data are available in Section 7.4 of the “Euro area statistics” section of the Monthly Bulletin and on the ECB’s website. This issue of the Monthly Bulletin also includes, for the first time, quarterly statistics on the international investment position of the euro area. While the quarterly international investment position statistics are compiled using the same methodological framework as for the annual international investment position, there are some differences linked to the availability of the data sources. Data for some international investment position items in some euro area countries are not available at an infra-annual frequency, and some data are only available with a delay. Still, preliminary data also show a similar effect of euro exchange rate developments on the net international investment position in 2004 (mainly in the last quarter).