

Box 1

NEW EURO AREA HISTORICAL SERIES ON HOLDINGS OF M3 DEPOSITS BY SECTOR

When extracting information from monetary developments relevant for the outlook for inflation over the medium to longer term, the ECB assesses headline M3 growth from various perspectives in an attempt to understand the factors determining monetary trends. As described in the article entitled “Sectoral money holdings: determinants and recent developments” in this issue of the Monthly Bulletin, one important aspect of this general approach is to analyse monetary developments in holdings by sector.

The broadest aggregation of M3 components for which euro area MFIs provide a detailed breakdown in holdings by sector consists of short-term deposits (overnight deposits, deposits with an agreed original maturity of up to and including two years, deposits redeemable at notice of up to and including three months) and repurchase agreements. This box aims to provide information on the new euro area quarterly historical series on holdings of M3 deposits by sector dating back to the first quarter of 1991. Holdings of such M3 deposits account for over 80% of the total stock of euro area M3.

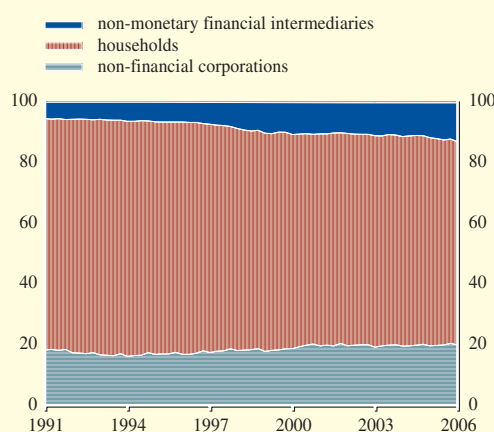
Construction of the time series on sectoral holdings of M3 deposits

In accordance with Regulation ECB/2001/13, MFIs resident in the euro area have reported a breakdown of their deposit liabilities by sector on a monthly basis since January 2003. For the period from September 1997 to December 2002, MFIs reported sectoral deposit data on a quarterly basis. However, owing to the reporting scheme in place at the time, it was not possible to distinguish time deposits (deposits with an agreed maturity) and savings deposits (deposits redeemable at a period of notice) included in M3 from those that, on the basis of their longer maturity, had not been included. In order to enhance the data available for monetary analysis, longer historical time series on sectoral deposit holdings in M3 have now been produced by the ECB.

To this end, the national central banks of the Eurosystem have made available an extensive dataset of existing national series for historical periods not covered by Regulation ECB/2001/13. The definitions of these national series were, in some cases, provided on the basis of instrument, maturity and sectoral breakdowns which were not exactly in line with those of series covered under the Regulation and thus did not correspond to the Eurosystem's definition of M3. The information provided was used to construct sectoral deposit aggregates for the euro area covering the period from the first quarter of 1991 to the fourth quarter of 2002, applying, as far as possible, the definitions and breakdowns laid down in Regulation ECB/2001/13 and having recourse to estimations and assumptions where necessary. Within the usual limitations of any such exercise, these euro area aggregates can be considered a reliable retrospective extension of the data series reported since 2003.¹

Chart A Breakdown by sector of M3 deposits

(in percentages of private sector holdings of M3 deposits)



Source: ECB estimates.

The decomposition of M3 deposits by sector

With approximately two-thirds of the outstanding amounts in the first quarter of 2006, the household sector constitutes the largest holder of private sector deposits included in M3. The newly available time series indicate that this share has declined somewhat since 1991 (see Chart A). The second largest deposit-holding sector is non-financial corporations. They currently hold slightly less than one-fifth of short-term deposits, and this share has been broadly stable since the early 1990s. Holdings of non-monetary financial intermediaries² accounted for 13% of private sector holdings of M3 deposits in the first quarter of 2006. Their share has increased gradually, but steadily, from around 5% in 1991. The rising share of non-monetary financial intermediaries' holdings in total M3 deposits has thus come at the expense of a lower share of the household sector, reflecting the growing importance of such intermediaries in households' asset management.

The breakdown of sectoral M3 deposits by component

Chart B shows the decomposition of sectoral M3 deposits by instrument. A number of points are noteworthy. First, comparing the composition of deposit holdings in 1991 with that in 2005

1 In addition to the monetary liabilities of MFIs, the broad monetary aggregate M3 comprises deposits of non-MFIs with central government entities (post office and Treasury). The sectoral breakdown used in this box refers to deposits included in M3 held with MFIs and central government entities (post office and Treasury). By contrast, Table 2.5 in the euro area statistics section of the Monthly Bulletin presents the sectoral breakdown of deposits held with MFIs (excluding the Eurosystem), as reported in accordance with Regulation ECB/2001/13.

2 Although the "other non-monetary financial intermediaries" sector and "insurance corporations and pension funds" sector comprise a large variety of entities with different business models, for the purpose of this box they are analysed together as "non-monetary financial intermediaries", as the entities are predominantly involved in asset management for households.

demonstrates that all sectors increased the share of overnight deposits in their respective holdings of M3 deposits, while the share of short-term time deposits (with an agreed original maturity up to and including two years) declined.

Second, only households hold sizeable amounts of their M3 deposits in the form of short-term savings deposits (redeemable at notice of up to and including three months), supporting the view that, for euro area households, money holdings are an important savings vehicle. The share of short-term savings deposits in households' holdings of M3 deposits changed little between 1991 and 2005. The shares of overnight deposits and short-term time deposits in households' M3 deposits are smaller than is the case for non-monetary financial intermediaries and non-financial corporations. Holdings of repurchase agreements account for only a very small part of the M3 deposits of households.

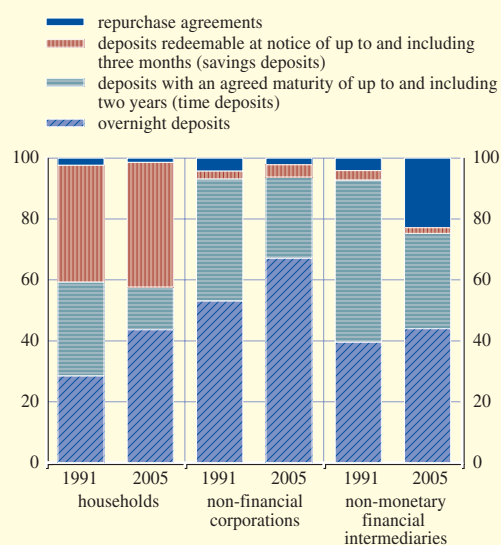
Third, non-financial corporations hold the largest part of their M3 deposits in the form of overnight deposits, which supports the view that the need to carry out transactions is an important motive for demand by this sector. The non-financial corporate sector also holds a fair share of its M3 deposits in the form of short-term time deposits, which, however, tend to be of a very liquid nature and are, in general, of a shorter maturity than the time deposits held by households.

Fourth, the structure of M3 deposits held by financial intermediaries takes an intermediate position between households and firms. In one respect, however, financial intermediaries differ from the other sectors. In 2005 they were the only sector to have held a sizeable share (around a quarter) of their M3 deposits in repurchase agreements. This share has risen significantly since 1991. Greater holdings of repurchase agreements can be seen as a reflection of the close link between non-monetary financial intermediaries and capital markets. Many strategies in modern financial engineering employed by institutional investors rely on repurchase agreements.

Overall, the new historical data on sectoral holdings of M3 deposits reveal significant differences in the evolution of money holding behaviour across the household, non-financial corporation and non-monetary financial intermediaries sectors, which can provide useful additional information with regard to the analysis and assessment of aggregate monetary trends.

Chart B Breakdown of deposit holdings by component

(in percentages of the sector's M3 deposits)



Source: ECB estimates.