

## Box 2

### THE SECTORAL BREAKDOWN OF THE PRIVATE SECTOR SECURITIES HELD BY MONETARY FINANCIAL INSTITUTIONS

Part of the total credit that MFIs grant to the private sector takes the form of debt securities (i.e. securities other than shares) or of shares and other equity. MFIs purchase securities issued by non-financial corporations and financial intermediaries (other than MFIs). The recent developments in this type of credit compared with those in loans were discussed in the April 2007 issue of the Monthly Bulletin.<sup>1</sup> This box focuses more narrowly on the sectoral composition of securities issued by the private sector and held by euro area MFIs.

#### The sectoral dimension in the structure of MFI credit

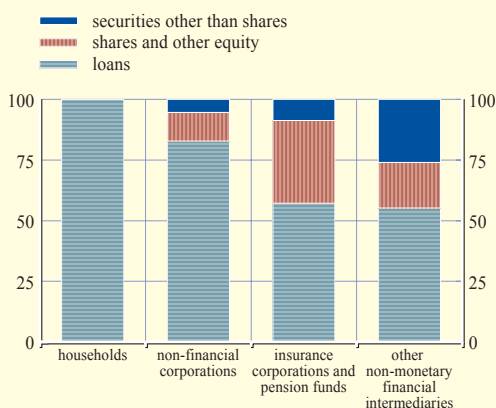
In the period 2003 to 2006, for which detailed sectoral credit data is available, credit granted by MFIs to households consisted almost entirely of loans.<sup>2</sup> In the case of non-financial corporations, around 10% of credit was provided in the form of purchased shares and 5% in the form of purchased debt securities (see Chart A). For other financial intermediaries (OFIs) and insurance

1 See the box entitled "Recent changes in the composition of growth in credit to euro area residents" in the April 2007 issue of the Monthly Bulletin.

2 Securities issued by the "household sector" include instruments issued by sole proprietary enterprises categorised within the "household and non-profit organisations serving households" sector.

#### Chart A Components of credit to the individual private sectors

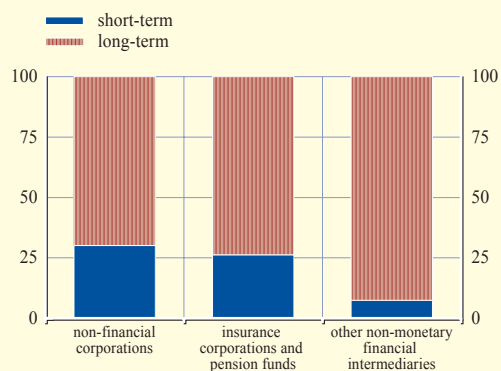
(as a percentage of total credit to the respective sector; average 2003-2006)



Source: ECB.

#### Chart B Maturity breakdown of MFI holdings of private sector debt securities

(as a percentage of MFI debt security holdings of the respective sector; average 2003-2006)



Source: ECB.

Note: Short-term debt securities include debt securities with a maturity of up to one year, while long-term debt securities include those with a maturity of over one year.

corporations and pension funds (ICPFs), the proportion of credit provided through MFIs' holdings of their securities was much larger, amounting to 45% in each case. However, there are also differences between these two financial intermediary sectors: while in the case of ICPFs, the share of debt securities is much lower than that of shares and other equity, the opposite holds true in the case of OFIs. When looking at these shares, it must of course be noted that the absolute amounts of credit provided to the individual sectors differ considerably. In December 2006, for example, total MFI credit to non-financial corporations was €4,607 billion, while that to OFIs was €1,364 billion. This means that although MFIs' holdings of shares and other equity account for only 12% of credit to non-financial corporations but 19% of credit to OFIs, MFIs' holdings of shares issued by non-financial corporations are still larger, in absolute terms, than those of shares issued by OFIs.

Looking more closely at the debt securities that MFIs purchase from the individual sectors, it appears that the bulk of these securities have a maturity of more than one year, irrespective of the issuance sector (see Chart B).

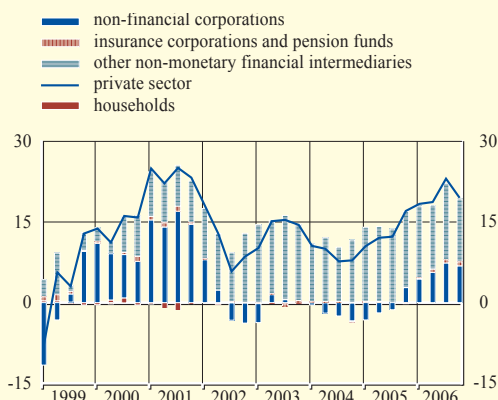
### The sectoral dimension in the development of MFIs' holdings of securities

Over the period since 1999, purchases by euro area MFIs of private sector securities have displayed a clear cyclical pattern, with a strengthening recorded, in particular, in 1999-2000 and again since 2005. For the full period since 1999, a sectoral breakdown is only available for MFIs' purchases of debt securities, while in the case of MFIs' purchases of shares and other equity, sectoral data are only available for the period since 2003.

Looking first at MFIs' purchases of debt securities, Chart C suggests that the cyclical pattern of the growth of this type of credit is determined by purchases of non-financial corporations' debt securities. In December 2006 these instruments accounted for 6.9 percentage points of the annual growth rate of 20% in MFIs' holdings of debt securities, following a steady increase

**Chart C Contributions to the growth of MFI holdings of private sector debt securities**

(annual percentage changes; contributions in percentage points)

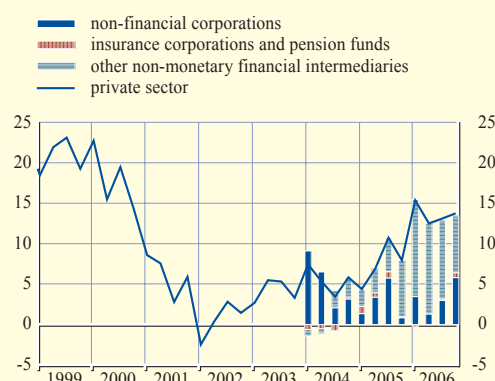


Source: ECB.

Note: Securities issued by the "household sector" include instruments issued by sole proprietary enterprises categorised within the "household and non-profit organisations serving households" sector.

**Chart D Contributions to the growth of MFI holdings of private sector shares and other equity**

(annual percentage changes; contributions in percentage points)



Source: ECB.

from the negative contributions in 2005. A similar strengthening was observed in 1999-2000, at the time explaining almost all of the developments in the growth rate of MFIs' holdings of private sector debt securities. In the meantime, purchases of debt securities issued by OFIs play a larger role, although they display a less cyclical pattern: the contribution increased steadily up to 2003 and then remained broadly stable at a high level, adding 11.7 percentage points to the annual growth rate of MFIs' holdings of private sector debt securities in December 2006. This strong contribution may reflect the importance of loan securitisation activity in the euro area, where, for instance, MFIs in one euro area country may use the purchase of instruments securitising mortgage loans granted in other euro area countries as a substitute for directly investing in these housing markets.

Turning to MFIs' purchases of shares and other equity, the strengthening of the annual growth rate since 2005 reflects higher contributions from, in particular, purchases of shares issued by the OFI sector, while the contribution from purchases of shares issued by non-financial corporations has been fluctuating at a more subdued level (see Chart D). This could be related to a greater inclination on the part of MFIs to hold equity investments through specialised asset management entities rather than directly investing in these instruments.

Given the current size of MFIs' purchases of securities issued by ICPFs, these have, on average, an only marginal impact on developments in MFIs' overall holdings of securities. Individual transactions, however, can be large and vary significantly over time.

To sum up, the breakdown of euro area MFIs' holdings of private sector securities indicates that the overwhelming share of instruments is of a long-term nature. Furthermore, the sectoral decomposition of MFIs' purchases of securities indicates a growing importance of debt securities and shares issued by the OFI sector. More specifically, the substantial purchases of OFIs' debt securities may reflect the growing importance of securitisation as a form of redistributing risks among MFIs, while the rise in holdings of OFIs' shares may indicate an increasing inclination on the part of MFIs to hold equity investments through specialised asset management entities.