

Box 7

RECENT DEVELOPMENTS IN THE EURO AREA BALANCE OF PAYMENTS

This box analyses developments in the euro area balance of payments in the fourth quarter of 2010 and in 2010 as a whole. Overall in 2010, the current account deficit of the euro area increased slightly, compared with 2009, standing at €56.4 billion (around 0.6% of euro area GDP). In the financial account, net inflows in combined direct and portfolio investment declined markedly, to €111.2 billion in 2010.

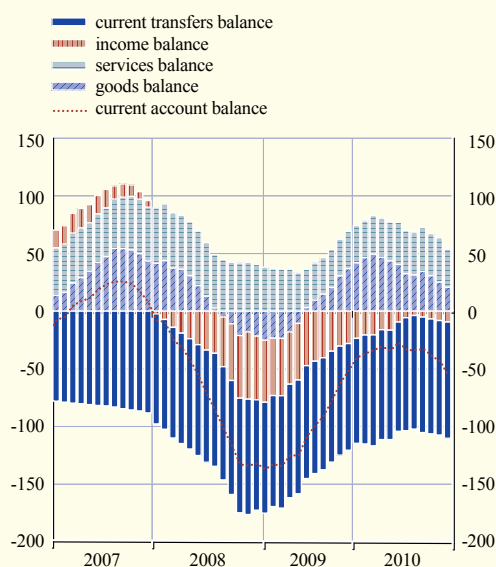
Slight increase in the current account deficit in 2010

According to euro area balance of payments data, growth in extra-euro area trade in goods and services increased in the fourth quarter of 2010. On a quarter-on-quarter basis, the values of exports and imports of goods and services rose by 1.8% and 5.0% respectively, compared with 1.1% and 1.3% in the previous quarter (see the table). Regarding trade in goods, exports and imports also rose at a higher rate in the fourth quarter than in the third. The increase in export growth reflects the rebound in global trade towards the end of 2010 as global growth momentum strengthened again. Even so, the growth in extra-euro area exports was lower than in the first half of the year as global economic activity slowed. The export growth rate for services was negative, standing at -0.9% in the fourth quarter, whereas import values increased by 2.9%. The overall export growth in the fourth quarter can be mainly attributed to developments in volumes, as export prices remained contained. By contrast, the growth in import values was strongly influenced by import prices, which rose by 1.3% in the fourth quarter, owing in particular to the rise in commodity prices.

For the year 2010 as a whole, the current account deficit recorded a slight increase (see the table and Chart A), standing at €56.4 billion (around 0.6% of euro area GDP), up from €51.4 billion in 2009. This is the result of a worsening in the goods and current transfer balances, partly compensated by an improvement in the income balance. In particular, the lower goods surplus was

Chart A Main items of the current account

(EUR billions; 12-month cumulated flows; monthly data; working day and seasonally adjusted)



Source: ECB.

Main items of the euro area balance of payments

(seasonally adjusted data, unless otherwise indicated)

	2010		Three-month cumulated figures 2010				12-month cumulated figures	
	Nov.	Dec.	Q1	Q2	Q3	Q4	2009 Q4	2010 Q4
<i>EUR billions</i>								
Current account	-10.5	-13.3	-1.9	-6.7	-14.4	-33.4	-51.4	-56.4
Goods balance	-4.1	0.4	15.3	6.1	5.5	-6.1	37.0	20.8
Exports	136.3	134.5	365.0	388.4	393.7	404.2	1,288.7	1,551.3
Imports	140.4	134.1	349.7	382.3	388.2	410.3	1,251.7	1,530.5
Services balance	4.4	-1.1	8.5	9.9	9.6	4.9	32.2	32.9
Exports	44.9	41.1	121.9	128.6	128.7	127.5	469.1	506.7
Imports	40.5	42.2	113.4	118.7	119.1	122.6	436.9	473.8
Income balance	-4.3	-4.4	2.3	0.4	-1.5	-10.6	-28.0	-9.4
Current transfers balance	-6.5	-8.2	-28.1	-23.1	-27.9	-21.7	-92.6	-100.7
Financial account¹⁾	11.3	9.3	22.1	27.4	-7.9	26.1	31.0	67.8
Combined net direct and portfolio investment	48.9	56.5	-23.7	72.3	-51.4	113.9	190.3	111.2
Net direct investment	23.4	19.0	-40.3	-38.4	-37.4	30.3	-74.5	-85.9
Net portfolio investment	25.6	37.5	16.6	110.7	-13.9	83.7	264.8	197.1
Equities	-9.2	-8.5	-36.0	19.0	40.0	19.2	37.2	42.3
Debt instruments	34.8	46.0	52.7	91.7	-54.0	64.4	227.6	154.8
Bonds and notes	28.1	48.0	23.9	93.6	-99.9	64.1	117.1	81.8
Money market instruments	6.6	-2.0	28.8	-1.9	45.9	0.3	110.6	73.0
Net other investment	-38.2	-48.5	46.5	-47.8	48.2	-82.1	-215.4	-35.2
<i>Percentage changes from previous period</i>								
Goods and services								
Exports	3.6	-3.1	7.8	6.2	1.1	1.8	-15.9	17.1
Imports	3.0	-2.6	6.7	8.2	1.3	5.0	-18.2	18.7
Goods								
Exports	2.1	-1.3	9.4	6.4	1.4	2.7	-18.3	20.4
Imports	3.4	-4.5	7.2	9.3	1.6	5.7	-21.5	22.3
Services								
Exports	8.3	-8.5	3.3	5.4	0.1	-0.9	-8.5	8.0
Imports	1.7	4.2	4.9	4.6	0.4	2.9	-7.1	8.4

Source: ECB.

Note: Figures may not add up, due to rounding.

1) Figures refer to balances (net flows). A positive (negative) sign indicates a net inflow (outflow). Not seasonally adjusted.

partly due to the increase in oil prices seen throughout the year, which contributed to a widening of the oil trade deficit to €169.6 billion in the 12 months to November 2010, well above the level of €132.1 billion registered a year earlier. The deterioration in the current transfers balance reflects a reduction in transfers being paid to the euro area from other governments and non-governmental institutions, as well as higher workers' remittances from the euro area to non-euro area countries. The improvement in the income account balance was the result of a higher level of compensation received by euro area residents from working abroad and lower investment income being paid to non-euro area residents on dividends and interest from their investments in the euro area, thus reflecting the stronger economic developments outside the euro area. Finally, the services surplus remained broadly stable during 2010, while the growth rates of both imports and exports turned positive again following the global economic recovery.

Net inflows resumed in the financial account in the fourth quarter

The financial account balance – in terms of quarterly figures – was broadly stable throughout 2010 with the exception of the third quarter. Specifically, in the fourth quarter of 2010, combined direct and portfolio investment shifted from net outflows to net inflows, which were only partially counterbalanced by net outflows in other investment. A closer look at more detailed investment categories suggests that portfolio investment was the main driver of these developments (see the table).

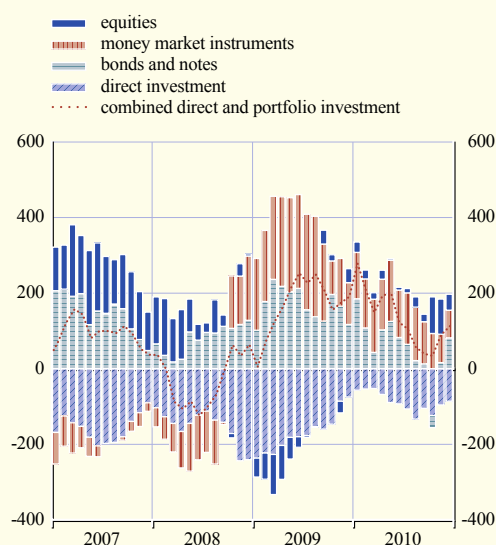
Looking at portfolio investment developments in more detail, the balance shifted from net outflows to net inflows in the fourth quarter of 2010, mainly due to the evolution of bonds and notes. While non-residents had sold euro area bonds in the third quarter of 2010 amid market concerns related to the sustainability of the sovereign debt of some euro area countries,¹ they resumed their purchases in the fourth quarter as tensions eased.

Turning to equity, net inflows declined in the fourth quarter. Overall, in an environment of increasing stock market prices and declining market volatility, cross-border purchases of equity by both euro area residents and non-euro area residents accelerated in the second half of the year, rebounding from the drop observed in first half of the year.

For the year 2010 as a whole, the net inflows in combined direct and portfolio investment declined considerably, standing at €111.2 billion, down from €190.3 billion in 2009. The decrease was mainly due to a significant reduction in portfolio investment inflows, which dropped from €264.8 billion in 2009 to €197.1 billion in 2010 (see the table and Chart B). This reduction was mainly driven by developments in investment in debt instruments. Specifically, non-residents decreased their purchases of euro area debt instruments while, at the same time, euro area residents increased their purchases of debt instruments abroad to a certain extent. As in 2009, the euro area banking sector sold foreign debt securities in 2010. This was probably related to the process of deleveraging by euro area banks. Contrary to the developments in debt instruments, net inflows of equity instruments increased marginally in 2010. As regards other investment, which mainly comprises loans and deposits, net outflows decreased sharply from €215.4 billion in 2009 to €35.2 billion in 2010. This net decrease masks a process of normalisation in the development of other investment in the first half of 2010, as euro area residents resumed investing abroad and non-residents resumed investing in the euro area. However, this process seems to have lost some momentum in the second half of the year.

Chart B Main items of the financial account

(EUR billions; 12-month cumulated net flows; monthly data)



Source: ECB.

¹ It should be noted that the previous period that registered sales of those securities was the fourth quarter of 2007.