Box 6

DEVELOPMENTS IN THE EURO AREA BALANCE OF PAYMENTS TO MARCH 2011

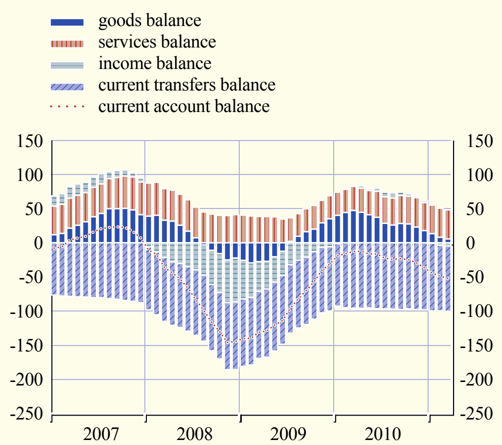
This box analyses developments in the euro area balance of payments in the first quarter of 2011. In the 12-month period to March 2011, the current account deficit of the euro area increased markedly in comparison with the corresponding period a year earlier, standing at €52.2 billion (i.e. around 0.6% of euro area GDP). In the financial account, combined direct and portfolio investment recorded cumulated net inflows of €219.0 billion, up from €133.1 billion in the preceding 12-month period.

The current account deficit increased in the 12-month period to March 2011

After moderating in the second half of 2010, extra-euro area trade in goods and services increased strongly in the first quarter of 2011. This reflected, in particular, a further acceleration of growth in both exports and imports of goods that continued to be supported by the ongoing robust expansion in economic activity at both the global and the euro area level. Price developments also contributed to the increase in export and import goods values. In recent months, the rise in the prices of imports used in the production of euro area exports seems to have pushed up export prices. On the services side, export and import values remained subdued (see main text on external trade).

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)

	2011 Feb.	2011 Mar.	Three-month cumulated figures 2010 June	2010 Sep.	2010 Dec.	2011 Mar.	12-month cumulated figures 2010 Mar.	2011 Mar.
			EUR billions					
Current account	-6.5	-4.7	-11.2	-8.2	-16.0	-16.8	-13.0	-52.2
Goods balance	-1.9	0.8	3.3	5.2	0.0	-2.9	47.4	5.6
Exports	146.9	146.2	388.1	395.6	408.8	436.5	1,341.6	1,629.0
Imports	148.8	145.4	384.8	390.3	408.8	439.4	1,294.2	1,623.4
Services balance	3.6	3.8	9.6	11.0	10.3	11.5	35.2	42.5
Exports	42.9	44.1	128.8	129.7	130.8	131.8	477.4	521.1
Imports	39.4	40.3	119.1	118.7	120.4	120.3	442.2	478.6
Income balance	-0.1	-0.3	1.0	-0.6	-4.1	-1.1	0.2	-4.7
Current transfers balance	-8.0	-8.9	-25.1	-23.9	-22.3	-24.3	-95.7	-95.6
Financial account [1]	7.4	2.6	25.4	3.9	-10.9	28.3	-14.6	46.6
Combined net direct and portfolio investment	75.3	70.4	63.9	-47.8	68.9	134.0	133.1	219.0
Net direct investment	-22.0	-6.6	-29.8	-30.8	27.2	-22.2	-94.8	-55.6
Net portfolio investment	97.3	77.0	93.7	-17.1	41.6	156.2	227.9	274.5
Equities	32.2	29.1	26.7	29.1	34.3	76.5	58.9	166.6
Debt instruments	65.1	47.9	67.0	-46.1	7.4	79.8	168.9	107.9
Bonds and notes	28.1	41.1	75.9	-97.1	33.1	32.7	24.9	44.6
Money market instruments	37.0	6.8	-8.9	50.9	-25.8	47.1	144.1	63.3
Net other investment	-66.6	-62.5	-41.4	54.3	-79.2	-90.7	-169.8	-157.0
			Percentage changes from previous period					
Goods and services								
Exports	0.8	0.3	5.9	1.6	2.7	5.3	-9.4	18.2
Imports	1.2	-1.3	7.5	1.0	4.0	5.8	-13.0	21.1
Goods								
Exports	2.4	-0.5	6.7	1.9	3.3	6.8	-10.6	21.4
Imports	2.4	-2.3	8.6	1.4	4.7	7.5	-15.3	25.4
Services								
Exports	-4.2	2.7	3.6	0.7	0.8	0.8	-5.7	9.2
Imports	-3.0	2.5	4.1	-0.4	1.5	-0.1	-5.4	8.2

Source: ECB.
Notes: Figures may not add up, owing to rounding.
1) Figures refer to balances (net flows). A positive (negative) sign indicates a net inflow (outflow). Not seasonally adjusted.

In the 12-month period to March 2011, the current account deficit increased to €52.2 billion (around 0.6% of euro area GDP), from €13.0 billion in the corresponding period a year earlier (see the table and Chart A). This was the result of a deterioration in the goods balance and, to a lesser extent, in the income balance, partly compensated for by an improvement in the services balance. The current transfers balance remained unchanged. In particular, the lower goods surplus was partly due to the increase in oil prices experienced during the year, which contributed to a widening of the oil trade deficit to €190.6 billion in the 12-month period to February 2011, well above the level of €143.1 billion registered a year earlier. Finally, the services surplus continued to increase during the 12-month period to March 2011, with the growth rates of both imports and exports turning positive compared with a year earlier, mirroring developments in world trade and the robust economic recovery that occurred over that period.

Net inflows resumed in the financial account in the first quarter of 2011

The financial account balance recorded net inflows in the first quarter of 2011, as opposed to net outflows in the previous quarter, mostly reflecting a marked increase in the net inflows in portfolio investment (see the table).

In the first quarter of 2011, the main driver of developments in portfolio investment was the increase in net inflows in debt instruments, specifically in money market instruments. In fact, investment by non-euro area residents in money market instruments issued by euro area residents rebounded significantly in this quarter. The rebound was particularly evident for the euro area banking sector, which is in line with the overall increase in the issuance of money market instruments by euro area banks in this quarter and suggests that funding conditions may have been somewhat more favourable. At the same time, the outflows in money market instruments of the non-bank sectors, as registered in the last quarter of 2010, came to a halt.

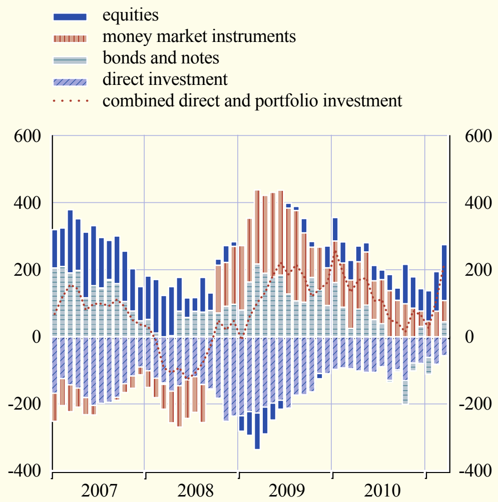
Focusing on equity, net inflows also increased in the first quarter of 2011. In particular, euro area investors reduced their investment in foreign equity securities slightly, probably as a result of episodes of heightened uncertainty and volatility in global equity markets. On the liability side, investment by foreign investors in euro area equity securities remained broadly stable. In particular, inflows into equity securities issued by euro area banks were registered in the first quarter of 2011, as opposed to outflows in the last quarter of 2010, possibly reflecting the efforts of euro area banks to raise capital and reinforce their balance sheets.

Net outflows in foreign direct investment resumed in the first quarter of 2011, driven primarily by an increase in investment by euro area investors in equity capital abroad. This was possibly related to better long-term investment prospects on the back of profit announcements that exceeded expectations and a more favourable global economic outlook.

Turning to longer-term developments, combined net direct and portfolio inflows increased considerably to €219.0 billion in the 12-month period to March 2011, up from €133.1 billion in the previous year. The main driver of this increase was net inflows in portfolio investment and, more specifically, equity securities (see the table and Chart B). The higher net inflows into equity in this period were the result of the fact not only that foreign investors increased their investment in euro area equities, but also that investment by euro area investors in foreign equities was rather subdued. The latter reflects the aforementioned developments in the first quarter of 2011 and the process of repatriation of funds by euro area investors in the second quarter of 2010, amid falling and volatile stock market prices. At the same time, net inflows in debt instruments declined in the 12-month period to

Chart B Main items of the financial account

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



Source: ECB.

March 2011, mainly on account of smaller purchases of euro area money market instruments by foreign investors. Looking at other investment, which mainly comprises deposits and loans, the net outflows remained broadly unchanged. A more detailed look at developments reveals that the net outflows were the result both of investment by euro area residents in foreign assets and of disinvestment by foreigners in euro area assets. Foreign investors reduced their deposits in euro area banks and loans to the non-bank sectors, with the exception of the general government.