

## Box 2

### RECENT DEVELOPMENTS IN THE FINANCIAL ACCOUNT OF THE EURO AREA BALANCE OF PAYMENTS

This box analyses developments in the financial account of the euro area balance of payments up to the first quarter of 2013. In the 12-month period to March 2013 the combined balance for direct and portfolio investment in the euro area recorded net inflows of €96.0 billion, compared with net outflows of €57.6 billion a year earlier (see table). These inflows were more than offset by outflows in other investment, reflecting a sizeable surplus in the current account of the euro area. After the announcement of the Outright Monetary Transactions (OMTs) in September 2012, financial market conditions started to improve, resulting in an apparent normalisation of the euro area financial flows. Over the last six months foreign investors substantially increased their exposure to euro area equity and debt securities. Furthermore, in the

## Main items in the financial account of the euro area balance of payments

(EUR billions; non-seasonally adjusted data)

	2013		Three-month cumulated figures				12-month cumulated figures	
	Feb.	Mar.	2012			2013	2012	2013
			June	Sep.	Dec.	Mar.	Mar.	Mar.
<b>Financial account<sup>1)</sup></b>	-19.0	-24.6	-19.5	-41.6	-74.2	-42.1	-35.0	-177.4
Combined net direct and portfolio investment	-6.5	-6.1	81.5	-19.7	26.0	8.2	-57.6	96.0
Net direct investment	-2.4	-14.4	-15.2	-4.9	-21.2	-25.1	-99.4	-66.3
Net portfolio investment	-4.1	8.3	96.7	-14.8	47.2	33.2	41.9	162.3
Equities	-3.6	0.1	24.4	17.5	-2.4	5.9	65.7	45.4
Debt instruments	-0.5	8.1	72.2	-32.3	49.6	27.3	-23.8	116.9
Bonds and notes	-11.8	6.3	39.9	10.5	10.4	2.5	95.2	63.3
Money market instruments	11.3	1.8	32.3	-42.8	39.2	24.8	-119.0	53.6
Net other investment	-21.0	-23.5	-84.0	-24.6	-113.3	-65.8	35.9	-287.8
<b>Of which: Non-MFIs</b>								
Net direct investment	-3.1	-15.8	-18.3	-6.9	-21.2	-28.4	-92.9	-74.7
Net portfolio investment	-19.8	41.5	59.5	0.9	47.2	43.5	-10.1	151.1
Equities	-8.9	12.4	28.6	20.6	19.1	20.9	31.1	89.2
Debt instruments	-10.9	29.1	30.8	-19.7	28.2	22.6	-41.2	61.9
Net other investment	-23.1	-34.0	-39.0	9.5	-19.9	-33.4	32.7	-82.8

Source: ECB.

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

1) Figures refer to balances (net flows). A positive (negative) sign indicates a net inflow (outflow).

first quarter of 2013 euro area MFIs were eventually able to raise liquidity in the form of loans and deposits, after having experienced a prolonged period of disinvestment.

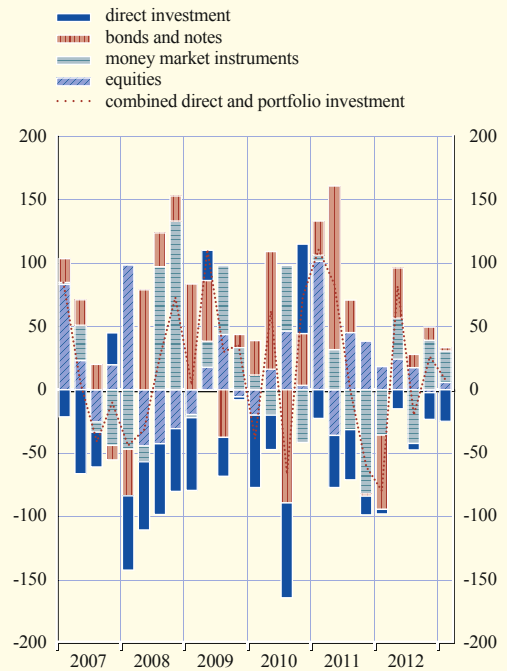
The shift in the combined direct and portfolio investment balance in the euro area over the 12-month period to March 2013 was mainly due to an increase in net inflows in portfolio investment. Since the announcement of OMTs, foreign investors have substantially increased their purchases of euro area securities issued by euro area non-MFIs. At the same time euro area investors also increased their acquisition of foreign securities, albeit to a lesser extent. This increase was mainly driven by the acquisition of foreign equity securities by euro area non-MFIs, whereas euro area MFIs remained net sellers of foreign debt instruments against the backdrop of their balance sheet restructuring. Net other investment turned negative and more than offset portfolio investment inflows against the background of substantial disinvestment of non-residents from euro area MFI deposits and loans in the second half of 2012.

More recently, in the first quarter of 2013, net inflows of €8.2 billion were recorded in the combined direct and portfolio investment balance, a decline from net inflows of €26.0 billion in the fourth quarter of 2012. Although there were no major changes in net foreign direct investment in the first quarter, the net acquisition of cross-border capital increased somewhat, also suggesting an easing of financial market tensions. Net flows of portfolio investment were positive for the second quarter in a row, with both domestic and foreign investors acquiring cross-border equity and debt securities. Foreign investors' acquisition of euro area securities returned to levels not seen since mid-2011. Euro area MFIs' other investment liabilities eventually saw net inflows at the beginning of 2013, following a persistent withdrawal from these instruments by non-residents in the last three quarters of 2012. Consequently, for the first time since March 2012, euro area banks interrupted the sustained sales of other investment assets which, given their funding pressures, had been necessary to mobilise funds.

Net portfolio investment flows were much smaller in the MFI sector than in the non-MFI sector. Euro area MFIs continued to scale down their holdings of foreign debt securities on account of balance sheet restructuring, but kept on purchasing foreign equity securities. Non-residents of the euro area seem to have shifted funds previously invested in bonds and notes issued by euro area MFIs into equity securities and money market instruments of euro area MFIs. Euro area non-MFIs increased their net purchases of foreign money market instruments, while slightly reducing their acquisition of foreign equity securities as well as bonds and notes. Foreign investors' net acquisition of domestic securities issued by euro area non-MFIs was close to levels recorded in the previous quarter, with a doubling of the amounts invested in money market instruments but a decline in the amounts invested in other instruments. Increased holdings of euro area securities may point to an increase in investors' confidence about the economic prospects for the euro area. All in all, positive flows of net portfolio investment in the first quarter contributed to an increase in euro area liquidity, which was partly reflected in the evolution of the broad monetary aggregate M3. As can be seen from the monetary presentation of the balance of payments, transactions by the non-MFI sector were an important determinant of the increase in MFIs' net external asset position in the first quarter of 2013.

### Main items in the financial account

(EUR billions; quarterly net flows)



Source: ECB.