

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 third quarter of 2013. In the 12-month period to September 2013 the combined balance on direct and portfolio investment in the euro area recorded net inflows of €17.4 billion, compared with net outflows of €29.5 billion a year earlier (see the table). After the announcement of Outright Monetary Transactions (OMTs) in September 2012, financial market conditions improved and foreign investors substantially increased their exposure to euro area equity and debt securities. These inflows were more than offset by net outflows of €299.4 billion in other investment. The latter contributed to the increase in euro area MFIs' net external assets, against the background of a surplus in the current account of the euro area.

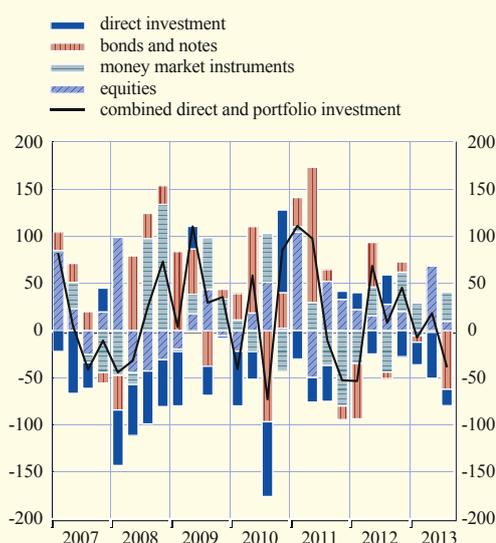
The shift from net outflows to net inflows in the combined balance on direct and portfolio investment in the euro area over the 12-month period to September 2013 mirrors similar developments in portfolio investment. Conversely, direct investment turned from net inflows to net outflows over the same period. Since the announcement of OMTs, foreign investors have considerably increased their purchases of equity and debt securities issued by euro area non-MFIs. At the same time, euro area investors have increased their acquisition of foreign securities, albeit to a lesser extent. The latter increase was driven by the purchase of foreign equity securities by both euro area MFIs and non-MFIs. Purchases of foreign debt securities remained largely unchanged compared with the previous 12-month period, with euro area non-MFIs slightly reducing their purchases of foreign debt instruments and euro area MFIs reducing their net sales of these instruments. Net outflows in other investment primarily reflected a substantial withdrawal of deposits and loans from euro area MFIs by non-residents and, to a lesser extent, a reduction in euro area MFIs' holdings of foreign deposits and loans. In the 12-month period to September 2013, the increase in the net external asset position of euro area MFIs had a positive impact on euro area liquidity and 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, the increase in MFIs' net external asset position over this period mainly arose from transactions by the non-MFI sector related to the current account surplus of the euro area, as well as from net inflows in portfolio investment.

In the third quarter of 2013 net outflows of €38.9 billion were recorded in the combined balance on direct and portfolio investment, compared with net inflows of €18.4 billion in the second quarter (see the chart). The shift in portfolio investment from net inflows in the second quarter to net outflows in the third quarter was partly offset by lower net outflows of direct investment. Within portfolio investment, domestic investors expanded their purchases of foreign equity and debt securities in the third quarter, whereas foreign investors bought smaller amounts of euro area equity securities than in the second quarter and slightly reduced their holdings of euro area debt instruments.

Euro area MFIs continued to scale down their holdings of foreign debt securities – albeit only marginally – in the third quarter of 2013, but remained net purchasers of foreign equity securities. For the first time since the second quarter of 2012 non-euro area residents were net buyers of equity securities issued by euro area MFIs. At the same time, foreign investors also increased their holdings of debt instruments issued by euro area MFIs, which became net sellers of foreign other investment assets,

Main items in the financial account

(EUR billions; quarterly net flows)



Source: ECB.

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

(EUR billions; non-seasonally adjusted data)

	Three-month cumulated figures						12-month cumulated figures					
	2013						2012			2013		
	June		September		September		September		September		September	
	Assets	Liabilities	Balance	Assets	Liabilities	Balance	Assets	Liabilities	Balance	Assets	Liabilities	Balance
Financial account¹⁾			-56.3			-61.7			-76.0			-243.3
Combined direct and portfolio investment			18.4	-106.1	67.2	-38.9	-445.1	415.7	-29.5	-545.7	563.2	17.4
Direct investment	-84.1	102.5	18.4	-106.1	67.2	-38.9	-445.1	415.7	-29.5	-545.7	563.2	17.4
Portfolio investment	-63.1	14.4	-48.7	-48.8	31.5	-17.3	-389.8	422.3	32.5	-281.4	163.8	-117.6
Equities	-12.7	81.5	68.8	-31.8	41.8	9.9	38.6	60.8	99.4	-167.7	261.4	93.7
Debt instruments	-8.3	6.6	-1.7	-25.5	-6.0	-31.5	-93.9	-67.4	-161.4	-96.6	137.9	41.3
Bonds and notes	-9.2	7.4	-1.8	-19.6	-42.8	-62.3	-57.3	24.3	-33.0	-102.9	42.8	-60.1
Money market instruments	0.9	-0.7	0.1	-5.9	36.7	30.8	-36.7	-91.7	-128.4	6.4	95.1	101.5
Other investment	55.2	-131.1	-75.9	78.3	-107.7	-29.4	33.4	-29.0	4.4	208.8	-508.2	-299.4
Of which: MFIs												
Direct investment	-1.9	1.2	-0.6	-1.9	1.2	-0.7	1.6	10.8	12.4	-3.8	7.1	3.3
Portfolio investment	8.7	-29.0	-20.3	-9.7	9.0	-0.7	67.8	-64.3	3.4	1.3	-17.8	-16.4
Equities	-3.8	-17.0	-20.8	-10.1	7.1	-3.0	14.7	20.8	35.5	-37.6	-28.7	-66.4
Debt instruments	12.5	-12.0	0.5	0.4	1.9	2.3	53.1	-85.1	-32.1	39.0	11.0	49.9
Other investment	-1.4	-115.0	-116.4	70.1	-112.0	-41.9	170.2	-134.0	36.2	172.9	-475.2	-302.3

Source: ECB.

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

1) A positive (negative) sign indicates inflows (outflows).

following two quarters of net purchases. Euro area non-MFIs increased their net purchases of foreign equity securities, as well as those of bonds and notes, while becoming net sellers of foreign money market instruments. Despite rising net purchases of money market instruments, foreign investors' net acquisition of domestic securities issued by euro area non-MFIs declined compared with the previous quarter owing to lower net investment in equity securities and net outflows from bonds and notes. Even though there were net outflows of portfolio investment in the euro area non-MFI sector, net external assets of euro area MFIs continued to increase in the third quarter of 2013, reflecting transactions of the money-holding sector associated with the current account surplus of the euro area.