

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 in 2013. Aggregate euro area net financial outflows increased in 2013 compared with 2012, reflecting a decline in net inflows in the combined balance on direct and portfolio investment and a strong increase in net other investment outflows (see the table below). Following on from the ECB Governing Council's announcement regarding Outright Monetary Transactions (OMTs) in September 2012, financial market conditions continued to improve in 2013 and foreign investors substantially increased their exposure to euro area equity and debt securities throughout the year. However, these portfolio investment inflows were more than offset by net outflows of €281 billion for other investment. These outflows contributed to an increase in euro area MFIs' net external assets against the background of an increase in the euro area current account surplus.

The decline in the combined direct and portfolio investment balance in the euro area over 2013 reflected an increase in net outflows of direct investment. This more than offset the increase in net inflows of portfolio investment. Since the announcement on OMTs, foreign investors have substantially increased their purchases of equity and debt securities issued by

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		
	September		December		December		December		December		December	
	Assets	Liabilities	Balance	Assets	Liabilities	Balance	Assets	Liabilities	Balance	Assets	Liabilities	Balance
Financial account¹⁾			-58.3			-104.3			-140.9			-246.5
Combined direct and portfolio investment												
Direct investment	-95.2	71.3	-23.9	-80.9	126.2	45.3	-516.2	585.0	68.8	-421.1	446.6	25.5
Portfolio investment	-31.8	4.0	-27.8	-47.8	38.5	-9.4	-329.9	326.3	-3.6	-198.3	81.6	-116.7
Equities	-63.4	67.3	3.9	-33.1	87.8	54.7	-186.4	258.7	72.3	-222.7	365.0	142.2
Debt instruments	-42.9	45.4	2.5	-17.0	60.4	43.4	-57.6	144.1	86.5	-136.5	247.1	110.6
Bonds and notes	-20.5	21.9	1.4	-16.1	27.3	11.3	-128.8	114.6	-14.2	-86.3	117.9	31.6
Money market instruments	-18.3	-17.1	-35.4	-7.0	80.0	72.9	-126.5	119.3	-7.2	-68.6	95.4	26.8
Other investment	-2.2	39.0	36.8	-9.0	-52.6	-61.6	-2.3	-4.7	-7.0	-17.7	22.5	4.8
Direct investment	108.9	-146.0	-37.1	-0.3	-149.1	-149.5	4.8	-204.0	-199.2	117.1	-398.3	-281.2
Portfolio investment												
Equities												
Debt instruments												
Other investment												
<i>Of which: MFIs</i>												
Direct investment	-2.6	1.7	-0.9	-4.1	3.1	-1.0	2.0	8.3	10.2	-8.7	10.0	1.3
Portfolio investment	-11.6	13.1	1.5	-8.9	-10.2	-19.1	53.9	-68.2	-14.3	-13.2	-32.6	-45.7
Equities	-16.4	11.5	-4.9	-7.4	-1.5	-8.9	-3.0	-18.1	-21.1	-41.3	-16.4	-57.7
Debt instruments	4.8	1.6	6.4	-1.6	-8.7	-10.3	56.9	-50.1	6.8	28.2	-16.2	12.0
Other investment	65.7	-117.8	-52.1	26.5	-144.7	-118.2	117.2	-215.5	-98.4	86.0	-410.4	-324.3

Source: ECB.

Note: Figures may not add up owing to rounding.

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

euro area non-MFIs. At times during the second and fourth quarters of 2013, net purchases of equity instruments by foreign investors were rather high, which may have been related to investor uncertainty over the tapering-off of quantitative easing by the United States. Euro area investors also increased their acquisition of foreign securities, albeit to a lesser extent, driven by purchases of foreign equity securities by both euro area MFIs and non-MFIs. This more than offset the moderate decline in purchases of foreign debt securities 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 foreign debt instruments.

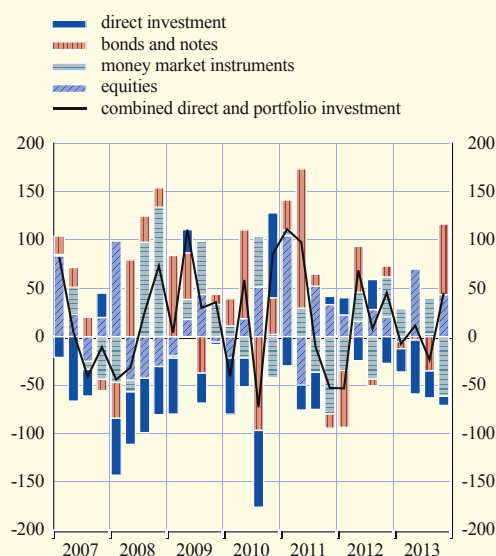
Net outflows of other investment primarily reflected the fact that non-residents continued to reduce their exposure to deposits and loans (particularly at short-term maturity) from euro area MFIs. This was partly offset by a reduction in the foreign deposits and loans of euro area non-MFIs. There was a substantial shift in the maturity structure of foreign other investment assets held by euro area MFIs over the course of 2013 as holdings of long-term assets were reduced. At the same time, euro area MFIs switched from being net sellers of short-term other investment assets in 2012 to net buyers of these assets in 2013. In the 12 months to December 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 was mainly a result of transactions by the non-MFI sector related to the current account surplus of the euro area, as well as of net inflows of portfolio investment.

As regards the fourth quarter of 2013, while net outflows of other investment continued, net inflows of €45 billion were recorded in the combined balance on direct and portfolio investment, compared with net outflows of €24 billion in the third quarter of 2013 (see the chart below). There was an increase in net inflows of portfolio investment in the fourth quarter compared with the third, and a decline in net outflows of direct investment. Within portfolio investment, domestic investors reduced their purchases of foreign equity and debt securities in the fourth quarter, whereas foreign investors bought more euro area equity securities and debt instruments than in the third quarter.

In the fourth quarter of 2013 the net purchases of foreign bonds and notes by the euro area non-MFI sector, while lower than in the previous quarter, were partly offset by euro area MFIs reducing their exposure to foreign bonds and notes. Both the MFI and non-MFI sectors in the euro area remained net purchasers of foreign equity securities in the fourth quarter of 2013, but less so than in the previous quarter. Euro area MFIs were net sellers of foreign other investment assets in the fourth quarter of 2013, albeit to a lesser extent than in the third. Non-euro area residents

Main items in the financial account

(EUR billions; quarterly net flows)



Source: ECB.

remained net purchasers of euro area non-MFI equity assets, whereas net purchases of domestic MFI equity assets by foreign investors were slightly negative. At the same time, foreign investors also made net acquisitions of euro area bonds and notes, but reduced their exposure to euro area money market instruments issued by MFIs. Foreign investors acquired more domestic bonds and notes issued by euro area non-MFIs in net terms than in the previous quarter. Euro area non-MFIs remained net sellers of foreign money market instruments in the fourth quarter of 2013, while foreign investors became net sellers of domestic money market instruments. As a result, net money market outflows were recorded in the fourth quarter. However, there were net inflows of combined direct and portfolio investment as net money market outflows were outweighed by net inflows in the case of equities and of bonds and notes, while net direct investment outflows declined. Net inflows of portfolio investment in the euro area non-MFI sector and the transactions of the money-holding sector associated with the current account surplus of the euro area had a positive impact on the net external assets of euro area MFIs, which continued to increase in the fourth quarter of 2013.