

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 2014. Aggregate euro area net financial outflows increased in the 12 months to March 2014 compared with the previous 12-month period, reflecting a strong increase in

net other investment outflows which was partially offset by an increase in net inflows in the combined direct and portfolio investment balance (see the table below).

Net inflows in the combined direct and portfolio investment balance increased from €86 billion to €142 billion in the 12 months to March 2014. This increase was driven by a shift in direct investment from recording net outflows to balanced, owing to a decline in direct investment abroad by euro area residents. In line with the ongoing improvement in financial market sentiment towards the euro area, net portfolio investment inflows continued to be sizeable at €142 billion – albeit declining slightly compared with the previous 12-month period – as foreign investors continued to increase their exposure to euro area equity and debt securities. The composition of portfolio investment inflows changed somewhat with foreign investors increasing their net purchases of equity instruments, while the inflows of debt instruments declined. In fact, foreign investors turned into net sellers of euro area money market instruments in the 12-month period to March 2014, while net purchases of bonds and notes continued to be sizeable. Euro area investors slightly increased their net acquisitions of both foreign equity and debt instruments. The composition of net acquisitions of debt instruments changed as euro area investors switched from being net sellers to net purchasers of money market instruments, while net purchases of bonds and notes declined.

Net outflows of other investment rose from €296 billion to €412 billion in the 12 months to March 2014, owing to a switch by euro area MFIs from decreasing to increasing their foreign other investment assets. Non-residents continued to withdraw deposits and loans from euro area MFIs, albeit at a slower pace than in the previous 12 months. There was a substantial shift in the maturity structure of euro area MFIs' other investment assets held abroad as holdings of long-term assets continued to be reduced, while euro area MFIs expanded their net acquisitions

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			2014			2013			2014		
	Assets	Liabilities	Balance	Assets	Liabilities	Balance	Assets	Liabilities	Balance	Assets	Liabilities	Balance
Financial account¹⁾			-95.6			-41.5			-202.7			-265.2
Combined direct and portfolio investment												
Direct investment	-202.2	247.7	45.5	-24.3	62.2	37.9	-542.9	628.7	85.8	-440.1	581.7	141.6
Portfolio investment	-151.9	142.8	-9.1	21.6	-22.0	-0.4	-363.2	286.4	-76.8	-250.3	250.2	-0.1
Equities	-50.4	104.9	54.6	-45.9	84.2	38.3	-179.7	342.3	162.6	-189.8	331.5	141.7
Debt instruments	-39.4	58.4	19.0	-8.8	54.8	46.0	-102.7	183.6	80.9	-108.3	224.3	116.0
Money market instruments	-11.0	46.5	35.6	-37.1	29.3	-7.8	-76.9	158.7	81.7	-81.5	107.2	25.7
Bonds and notes	-12.6	90.4	77.7	-26.2	30.4	4.2	-112.5	128.4	15.9	-70.2	110.4	40.2
Other investment	1.7	-43.8	-42.2	-10.9	-1.0	-11.9	35.5	30.3	65.9	-11.3	-3.2	-14.5
Other investment	20.6	-165.7	-145.1	-146.2	67.5	-78.7	72.6	-369.0	-296.4	-41.6	-370.1	-411.8
<i>Of which: MFIs</i>												
Direct investment	-4.5	2.7	-1.8	-4.3	-1.4	-5.7	2.2	9.8	12.0	-12.1	4.0	-8.0
Portfolio investment	-1.0	-8.2	-9.2	16.4	8.4	24.8	75.5	-57.0	18.5	12.1	-26.8	-14.7
Equities	-5.7	-7.0	-12.7	17.0	14.4	31.4	-14.5	-34.8	-49.3	-9.0	1.7	-7.3
Debt instruments	4.7	-1.2	3.5	-0.7	-5.9	-6.6	90.0	-22.2	67.8	21.1	-28.5	-7.5
Other investment	21.1	-144.2	-123.0	-137.7	47.5	-90.1	144.2	-363.8	-219.6	-57.1	-323.1	-380.3

Source: ECB.

Note: Figures may not add up owing to rounding.

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

of short-term assets. In the 12 months to March 2014 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 net portfolio investment inflows.

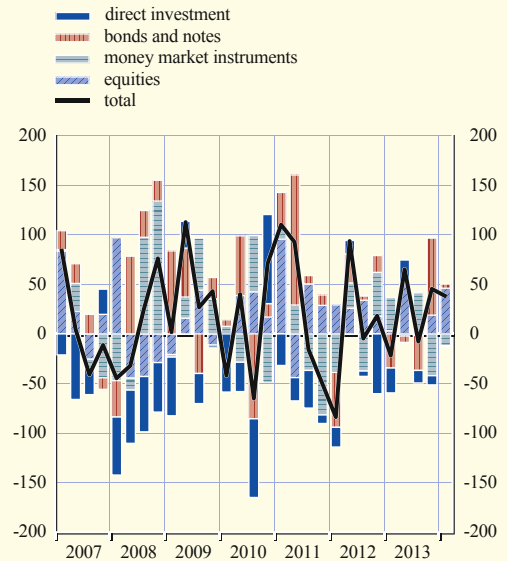
Net inflows of €38 billion were recorded in the combined direct and portfolio investment balance in the first quarter of 2014, compared with net inflows of €46 billion in the fourth quarter of 2013 (see the chart below). The decline was due to lower net inflows of portfolio investment, which were only partly offset by lower net outflows of direct investment. Within portfolio investment,

foreign investors bought less euro area equity and debt instruments than in the previous quarter, while domestic investors reduced their net purchases of foreign equity but increased their net purchases of foreign debt securities. At the same time, there was a substantial decline in net outflows of other investment, which can be partly attributed to seasonal effects.

In the first quarter of 2014, non-euro area residents became net buyers of equity securities issued by euro area MFIs, while they continued to reduce their holdings of debt instruments issued by euro area MFIs. Euro area MFIs, on the other hand, switched from net purchases to net sales of foreign equity securities, while starting to increase their holdings of foreign debt securities. Net external assets of euro area MFIs continued to increase in the first quarter of 2014, owing to 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.

Combined direct and portfolio investment

(EUR billions; quarterly net flows)



Source: ECB.