

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 second quarter of 2014. In the 12 months to June 2014 the current account surplus of the euro area was broadly mirrored by aggregate net financial outflows which remained close to €250 billion. These were driven by continued net other investment outflows (mainly deposits and loans), which were partially offset by net inflows in the combined direct and portfolio investment balance (see the table below).

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					
	2014 March			2014 June			2013 June			2014 June		
	Assets	Liabilities	Balance	Assets	Liabilities	Balance	Assets	Liabilities	Balance	Assets	Liabilities	Balance
Financial account¹⁾			-31.8			-64.4			-249.4			-253.6
Combined direct and portfolio investment												
Direct investment	-71.8	111.2	39.4	-184.1	163.4	-20.6	-592.5	649.9	57.4	-614.5	668.2	53.7
Portfolio investment	2.7	-27.1	-24.4	-32.3	32.2	-0.1	-332.3	263.6	-68.8	-268.4	215.0	-53.4
Equities	-74.5	138.3	63.8	-151.7	131.2	-20.5	-260.1	386.3	126.2	-346.1	453.2	107.1
Debt instruments	-23.5	74.4	50.9	-58.4	108.8	50.4	-143.6	251.1	107.5	-167.4	291.2	123.8
Bonds and notes	-51.1	63.9	12.8	-93.4	22.4	-71.0	-116.5	135.2	18.7	-178.7	162.0	-16.7
Money market instruments	-36.3	72.4	36.1	-64.2	43.2	-21.1	-127.4	107.8	-19.6	-133.9	189.0	55.2
Other investment	-14.8	-8.5	-23.3	-29.1	-20.8	-49.9	10.9	27.4	38.3	-44.8	-27.0	-71.8
Other investment	-190.9	121.6	-69.3	-36.0	-13.5	-49.5	142.9	-475.8	-332.9	-121.2	-197.7	-319.0
<i>Of which: MFIs</i>												
Direct investment	-4.1	-1.3	-5.4	-1.1	2.7	1.6	-2.4	9.1	6.8	-10.8	5.7	-5.1
Portfolio investment	1.3	19.5	20.9	-21.9	-4.5	-17.0	24.7	-77.2	-52.4	-33.5	18.9	-5.2
Equities	9.8	13.6	23.4	0.7	15.7	13.0	-27.7	-39.3	-67.0	-11.6	33.3	18.4
Debt instruments	-8.5	5.9	-2.5	-22.6	-20.2	-30.0	52.4	-37.8	14.6	-21.9	-14.4	-23.5
Other investment	-133.4	43.5	-89.9	-47.8	-39.9	-87.7	135.3	-430.7	-295.5	-100.6	-251.7	-352.2

Source: ECB.

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

1) A positive (negative) sign indicates inflows (outflows). Assets (liabilities) refer to net acquisitions by euro area residents (non-euro area residents) of financial instruments issued by non-euro area residents (euro area residents).

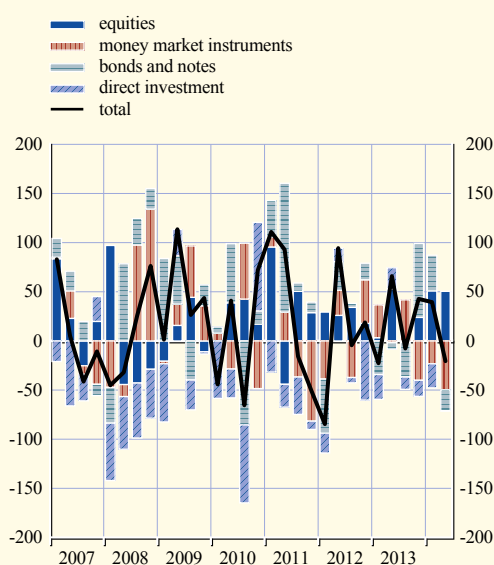
Net inflows in the combined direct and portfolio investment balance decreased slightly from €57 billion in the previous 12-month period to €54 billion in the 12 months to June 2014. Net portfolio investment inflows continued to be sizeable, standing at €107 billion, although they declined in comparison with the previous 12-month period. Net purchases of euro area equity and debt securities by foreign investors rose against the background of favourable investor sentiment, following policy measures and reforms undertaken in the euro area. These inflows were partly offset by increased net acquisitions of foreign equity and debt instruments by euro area investors. Within debt instruments, euro area investors switched from being net sellers to net purchasers of foreign money market instruments. At the same time, foreign investors became net sellers of euro area money market instruments in the 12-month period to June 2014. The resulting net outflows from money markets possibly reflect declining yields in euro area money markets. Net direct investment outflows decreased somewhat in comparison with the previous 12-month period, with both euro area and foreign investors reducing their acquisitions abroad.

Net outflows from other investment declined from €333 billion to €319 billion in the 12 months to June 2014, as foreign residents' withdrawals of deposits and loans from euro area MFIs slowed down significantly. Euro area MFIs stopped their repatriation of foreign other investment assets, switching from decreasing to increasing their foreign deposits and loans. Taken together, this is suggestive of a gradual normalisation of cross-border transactions by euro area MFIs. There was a substantial shift in the maturity structure of euro area MFIs' other investment assets held abroad, since holdings of long-term assets continued to be reduced, while there were substantial net acquisitions of short-term assets. In the 12 months to June 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 the result of transactions by the non-MFI sector that were related to the current account surplus of the euro area, as well as net portfolio investment inflows.

In the second quarter of 2014 the combined direct and portfolio investment balance recorded net outflows of €21 billion, compared with net inflows of €39 billion in the first quarter of 2014 (see the chart). This shift was due to net outflows from portfolio investment, while net outflows from direct investment ceased. Within portfolio investment, net equity inflows remained stable at around €50 billion, as both euro area and foreign investors increased their net purchases. Notably, net flows from foreign investors into euro area equity securities totalled €109 billion in the second quarter of 2014 – the highest quarterly amount since the introduction of the

Combined direct and portfolio investment

(EUR billions; quarterly net flows)



Source: ECB.

euro – against the background of favourable euro area stock market developments. At the same time, net debt outflows of €71 billion were recorded, representing a reversal of the net debt inflows of €13 billion that were observed in the previous quarter. This change was driven both by an increase in net purchases of foreign debt securities by euro area investors and by lower net purchases of euro area bonds and notes, combined with larger net sales of euro area money market instruments on the part of foreign investors. Net outflows from other investment declined further in comparison with the previous quarter, falling to the lowest level recorded since the first quarter of 2013, driven by net inflows in the non-MFI sector.

Non-euro area residents continued to be net purchasers of equity securities issued by euro area MFIs in the second quarter of 2014, providing a further indication of a gradual normalisation in the euro area MFI sector. However, foreign investors reduced their holdings of debt instruments issued by euro area MFIs. Euro area MFIs cut back their net sales of foreign equity securities, but increased their holdings of foreign debt securities. Euro area MFIs also continued to expand their deposits and loans held abroad, while foreign investors reduced their other investment assets in the euro area MFI sector. As a result, the net external assets of euro area MFIs continued to increase in the second quarter of 2014, largely mirroring transactions associated with the current account surplus of the euro area and net inflows of other investment in the euro area non-MFI sector.