



EUROPEAN CENTRAL BANK

EUROSYSTEM

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PRESS RELEASE

EURO AREA BALANCE OF PAYMENTS

(geographical breakdown for the third quarter of 2008)

AND

INTERNATIONAL INVESTMENT POSITION

(at the end of the third quarter of 2008)

The current account of the euro area balance of payments recorded a deficit of EUR 12.7 billion in the third quarter of 2008 (non-seasonally adjusted data). The largest bilateral current account deficits were observed with the group of “other countries” (i.e. non-G10 countries outside the European Union (EU)), the EU institutions and Japan. The largest surpluses were recorded with the United Kingdom and with the countries that joined the EU in 2004 and 2007.

In the financial account, combined direct and portfolio investment recorded net inflows of EUR 67 billion. Net outflows in direct investment amounted to EUR 43 billion and were mainly directed towards the United States and the United Kingdom. Portfolio investment recorded net inflows of EUR 110 billion, as a result of net sales of foreign securities by euro area investors (EUR 64 billion) and net purchases of euro area securities by non-residents (EUR 46 billion). The foreign securities sold by euro area residents were predominantly issued in the United States and in the group of “other countries”.

At the end of the third quarter of 2008, the international investment position of the euro area recorded net liabilities of EUR 1.2 trillion with the rest of the world (13% of euro area GDP). This represented an increase in net liabilities of EUR 33 billion in comparison with the revised figures for the end of the second quarter of 2008.

Geographical breakdown of the euro area balance of payments for the third quarter of 2008

Current and capital accounts

The non-seasonally adjusted *current account* of the euro area balance of payments (b.o.p.) recorded a deficit of EUR 12.7 billion in the third quarter of 2008 (see Table 1a). This was the result of deficits in *current transfers* (EUR 23.5 billion) and *goods* (EUR 6.7 billion), which were only partly offset by surpluses in *services* (EUR 15.3 billion) and *income* (EUR 2.3 billion). The *capital account* recorded a surplus of EUR 1.9 billion.

The largest deficits in *goods* were with mainland China (EUR 32.1 billion) and Russia (EUR 9.5 billion). These deficits were partly counterbalanced by surpluses with the United Kingdom (EUR 15.2 billion), the countries that have joined the EU since 2004 (EUR 14.0 billion) and the United States (EUR 13.0 billion).

The surplus in *services* was mainly vis-à-vis the United Kingdom (EUR 10.3 billion).

The surplus in *income* reflected surpluses with the group of “other countries” (EUR 11.1 billion) and with the countries that have joined the EU since 2004 (EUR 4.5 billion). These were partly offset by deficits with Japan (EUR 6.2 billion), the United Kingdom (EUR 4.2 billion) and Switzerland (EUR 3.3 billion).

The deficit in *current transfers* was predominantly vis-à-vis the EU institutions (EUR 12.9 billion) and the group of “other countries” (EUR 10.0 billion). The surplus in the *capital account* predominantly reflected a surplus vis-à-vis the EU institutions (EUR 3.8 billion).

The four-quarter cumulated *current account* of the euro area up to the third quarter of 2008 showed a deficit of EUR 35.9 billion (around 0.4% of GDP), compared with a surplus of EUR 49.1 billion a year earlier (see Table 1b). This development predominantly reflected (i) a decrease in the *goods* surplus (from EUR 64.2 billion to EUR 10.0 billion), which mainly resulted from a larger deficit with the group of “other countries”, in particular Russia, and a smaller surplus vis-à-vis the United States, (ii) a switch in the *income* account from surplus (EUR 15.1 billion) to deficit (EUR 10.5 billion), which was mainly driven by a larger deficit with the United Kingdom, the United States and Japan, and (iii) an increase in the *current transfers* deficit (from EUR 80.6 billion to EUR 87.9 billion), in particular with the EU institutions.

By contrast, the services surplus increased from EUR 50.5 billion to EUR 52.5 billion, mainly as a result of larger net exports to the group of “other countries”, in particular mainland China.

Financial account

In the b.o.p. *financial account*, combined *direct and portfolio investment* recorded net inflows of EUR 67 billion in the third quarter of 2008, as net inflows in *portfolio investment* exceeded net outflows in *direct investment* (see Table 1a).

Net outflows in *direct investment* (EUR 43 billion) were mainly directed towards the United States (EUR 26 billion) and the United Kingdom (EUR 20 billion).

Portfolio investment recorded net inflows of EUR 110 billion, mainly as a result of net sales of foreign securities by euro area investors (EUR 64 billion), in particular equity securities (EUR 51 billion), and net purchases of euro area debt securities by non-residents (EUR 138 billion) which were not fully offset by non-residents’ net sales of equity securities (EUR 93 billion). The foreign securities sold by euro area residents were predominantly issued in the United States (EUR 53 billion) and in the group of “other countries” (EUR 24 billion).

Financial derivatives recorded net outflows of EUR 9 billion.

Other investment recorded net outflows of EUR 26 billion, which were mainly the result of net outflows to the offshore financial centres (EUR 45 billion), the United States (EUR 26 billion) and the countries that have joined the EU since 2004 (EUR 18 billion). These net outflows were partly offset by net inflows, mainly from the United Kingdom (EUR 40 billion).

The four-quarter cumulated *combined direct and portfolio investment* up to the third quarter of 2008 showed net outflows of EUR 25 billion, compared with net inflows of EUR 166 billion a year earlier (see Table 1b). This switch largely resulted from a decrease in net inflows in *portfolio investment* (from EUR 342 billion to EUR 151 billion), reflecting a reduction in the net purchases of euro area securities by non-residents, which were partly counterbalanced by a reduction in the net purchases of foreign securities by euro area investors. The reduction in net purchases by euro area residents predominantly reflected lower net purchases of securities issued in the United States, in the offshore financial centres and in the group of “other countries”.

International investment position at the end of the third quarter of 2008

At the end of the third quarter of 2008, the international investment position (i.i.p.) of the euro area recorded net liabilities of EUR 1,158 billion with the rest of the world (around 13% of euro area GDP). This represented an increase in net liabilities of EUR 33 billion in comparison with the revised data for the end of the second quarter of 2008 (see Table 2). This increase mainly reflected net transactions during the third quarter of 2008 rather than “other changes”.

The change in the net i.i.p. was the result of an increase in the net liability position in *portfolio investment* (from EUR 1,609 billion to EUR 1,762 billion), which was partially compensated for by increases in the net asset positions in *direct investment* (from EUR 563 billion to EUR 640 billion) and in *reserve assets* (from EUR 354 billion to EUR 371 billion), and a switch in *financial derivatives* from net liabilities of EUR 4 billion to net assets of EUR 25 billion. While the changes in the net position in *direct and portfolio investment* were primarily driven by transactions, the changes in the *reserve assets* and *financial derivatives* positions were mainly driven by “other changes” (primarily revaluations on account of exchange rate and asset price changes).

Data revisions

This press release incorporates revisions of the b.o.p. and the i.i.p. for the second quarter of 2008, as well as revisions of the b.o.p. for the preliminary data on the third quarter of 2008. The revisions of the b.o.p. for the second quarter of 2008 mainly concern the *other investment* inflows, which have been revised downwards by EUR 6 billion, and the *portfolio investment* inflows, which have been revised upwards by EUR 6 billion. The revisions of the b.o.p. for the preliminary data on the third quarter of 2008 mainly relate to *portfolio investment* inflows, which have been revised upwards by EUR 92 billion, and, to a lesser extent, to both *financial derivatives* and *other investment* outflows, which have been revised downwards by EUR 8 billion and EUR 7 billion respectively. The current account deficit has been revised downwards by EUR 4 billion.

The net liabilities in the i.i.p. at the end of the second quarter of 2008 have been revised upwards by EUR 78 billion (from EUR 1,048 billion to EUR 1,125 billion). The revisions mostly affect the positions in *direct investment* and *portfolio investment*.

Additional information on the euro area balance of payments and international investment position

A geographical breakdown of the quarterly b.o.p. of the euro area is not available for the items “portfolio investment liabilities”, “financial derivatives” or “reserve assets”. In addition, separate data are not provided for investment income payable to Brazil, mainland China, India and Russia. A geographical breakdown of the i.i.p. is available only on an annual basis.

The ECB and the Statistical Office of the European Communities (Eurostat) each issue a press release on the quarterly b.o.p. for the euro area and the EU (see Eurostat’s “Euro-Indicators” news releases). In line with the agreed allocation of responsibilities, the ECB compiles and disseminates monthly and quarterly b.o.p. statistics for the euro area, whereas Eurostat focuses on quarterly and annual aggregates for the EU. These data comply with international standards, particularly those set out in the IMF’s Balance of Payments Manual (fifth edition). The aggregates for the euro area and the EU are compiled consistently on the basis of Member States’ transactions and positions with residents of countries outside the euro area and the EU respectively.

A complete set of updated euro area b.o.p. and i.i.p. data is available on the ECB’s website in the “Statistics” section under the headings [“Data services”/“Latest monetary, financial markets and balance of payments statistics”](#). These data, as well as the historical euro area b.o.p. and i.i.p. time series, can be downloaded using the [ECB’s Statistical Data Warehouse \(SDW\)](#). The data will be published in the February 2009 issues of the ECB’s Monthly Bulletin and Statistics Pocket Book. [A detailed methodological note](#) is available on the ECB’s website. The next quarterly press release on the euro area b.o.p. (including a geographical breakdown) and i.i.p. will also cover Slovakia and will be published on 20 April 2009.

Annexes

Table 1a: Quarterly balance of payments of the euro area with a geographical breakdown (Q3 2008)

Table 1b: Quarterly balance of payments of the euro area with a geographical breakdown (four-quarter cumulated transactions ending in Q3 2007 and in Q3 2008)

Table 2: Quarterly balance of payments and international investment position of the euro area

European Central Bank

Directorate Communications, Press and Information Division

Kaiserstrasse 29, D-60311 Frankfurt am Main

Tel.: +49 69 1344 7455, Fax: +49 69 1344 7404

Internet: <http://www.ecb.europa.eu>

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