



EUROPEAN CENTRAL BANK

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PRESS RELEASE

EURO AREA BALANCE OF PAYMENTS (monthly developments in July 1999)

The current account surplus of the euro area in July 1999 was EUR 8.2 billion, which is EUR 4.1 billion lower than the surplus recorded for the same month last year. The decline was largely due to a smaller surplus for trade in goods and services combined with an increase in the deficit for current transfers. The current account surplus of the euro area for the first seven months of 1999 was EUR 34.6 billion, EUR 7.5 billion lower than the same period last year.

The goods balance of the euro area recorded a surplus of EUR 13.3 billion in July, compared with ECU 15.3 billion for the same month a year ago. During the first seven months of 1999 the trade surplus in goods decreased to EUR 58.9 billion, compared with the ECU 70.1 billion recorded for the first seven months of last year. The value of both exports and imports of goods fell during the first seven months of this year compared with the same period last year, with exports falling by EUR 20.5 billion and imports by EUR 9.2 billion. However, for each of the three months between May and July this year, imports increased relative to the same period last year, while exports in June and July were only marginally lower compared with the same months in 1998. In July 1999 the surplus on services declined by around EUR 0.7 billion compared with the same month a year ago. For the first seven months of this year, the balance on services registered a deficit of EUR 4.1 billion as opposed to a surplus of ECU 2.6 billion for the same period last year.

The deficit for current transfers increased to EUR 4.4 billion in July, compared with the ECU 2.3 billion deficit recorded for the same month a year ago. By contrast, the income account registered a

slightly smaller deficit of EUR 1.5 billion compared with the ECU 2.3 billion for July of last year. During the first seven months of this year, the deficits on the current transfers and income accounts both declined relative to the corresponding period in 1998, falling by EUR 3.5 billion and EUR 7 billion respectively.

The capital account showed a surplus of EUR 0.7 billion in July 1999, compared with ECU 1 billion a year ago, and the surplus of EUR 5.8 billion for the first seven months of this year was also slightly lower than the ECU 6.9 billion for the same period last year.

In the financial account, the total net outflow in direct and portfolio investment was substantially lower in July than in previous months (EUR 2.7 billion, compared with EUR 28.9 billion in June and EUR 44.6 billion in May). In the first seven months of 1999 cumulated net outflows were nevertheless more than double the outflows reported for the same period last year, i.e. EUR 157.9 billion as compared with ECU 76.2 billion in 1998.

Direct investment net outflows amounted to EUR 5.7 billion in July, significantly below the level of around EUR 17 billion reached in both June and May. Euro area residents marginally reduced their holdings of foreign direct investments. This is in sharp contrast to June and May, when outflows reached EUR 23.4 billion and EUR 25.4 billion, respectively. Similarly, foreign investors reduced their direct investment position in the euro area in July, i.e. showing an outflow from the euro area amounting to EUR 5.8 billion. In the previous months of the year, by contrast, inflows of the magnitude of EUR 6 billion to EUR 8 billion were observed. This unusual pattern of direct investment is related to large short-term financial transactions between affiliated companies.

Portfolio investment recorded net inflows of EUR 3.0 billion in July, in sharp contrast to the substantial outflows reported in May (EUR 27.6 billion), June (EUR 11.6 billion) and for the year to July (EUR 88.5 billion). In particular, euro area residents invested less abroad in July than they did in June, i.e. EUR 19.0 billion as compared to EUR 28.9 billion. At the same time, non-residents increased purchases of euro area securities to EUR 22.1 billion, up from EUR 17.3 billion in June. This observation coincides with a strengthening of the euro vis-à-vis the USD in July and a decline in the yield differential between euro area and US long-term government bonds. However, foreign

portfolio investment in the euro area, although higher than in previous months, remained moderate in July as compared with average monthly inflows observed last year.

Regarding the other items of the financial account, net inflows in financial derivatives reached EUR 1.8 billion, "other investment" showed net outflows of EUR 1.8 billion in July – a reversal of the experience of most earlier months this year, when large net inflows occurred, mainly through increases in MFIs' external liabilities. Reserve assets increased by EUR 0.7 billion in July.

Errors and omissions reached minus EUR 5.5 billion in July and minus EUR 3.1 billion for the first seven months of 1999.

The table attached to this press release contains statistics produced by the Eurosystem in respect of the b.o.p. of the euro area; the methodology has been set up in close co-operation with the European Commission (Eurostat) which publishes the b.o.p. for the European Union. The ECB compiles these statistics on the basis of data on extra-euro area transactions reported by euro area countries. The results for July 1999 will also be published in the October issue of the ECB Monthly Bulletin. A detailed methodological note on euro area b.o.p. statistics is available on the ECB's Web site.

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BALANCE OF PAYMENTS OF THE EURO AREA⁽¹⁾

(EUR billions; ECU billions to end-1998)

	1998						1999					
	Jul.			Jan.-Jul.			Jul.			Jan.-Jul.		
	<i>Credit</i>	<i>Debit</i>	<i>Net</i>	<i>Credit</i>	<i>Debit</i>	<i>Net</i>	<i>Credit</i>	<i>Debit</i>	<i>Net</i>	<i>Credit</i>	<i>Debit</i>	<i>Net</i>
CURRENT ACCOUNT	116.0	103.7	12.3	759.3	717.3	42.1	111.9	103.7	8.2	727.7	693.1	34.6
<i>Goods</i>	70.6	55.3	15.3	460.5	390.4	70.1	69.4	56.0	13.3	440.0	381.2	58.9
<i>Services</i>	24.1	22.6	1.5	144.5	141.9	2.6	22.7	21.9	0.8	129.8	133.9	-4.1
<i>Income</i>	16.2	18.5	-2.3	113.5	121.9	-8.4	15.4	16.9	-1.5	115.4	116.8	-1.4
<i>Current transfers</i>	5.0	7.3	-2.3	40.8	63.0	-22.2	4.4	8.8	-4.4	42.5	61.2	-18.7
CAPITAL ACCOUNT	1.4	0.4	1.0	9.7	2.8	6.9	1.3	0.6	0.7	9.9	4.0	5.8
	<i>Assets⁽²⁾</i>	<i>Liab.⁽²⁾</i>	<i>Balance</i>	<i>Assets⁽²⁾</i>	<i>Liab.⁽²⁾</i>	<i>Balance</i>	<i>Assets⁽²⁾</i>	<i>Liab.⁽²⁾</i>	<i>Balance</i>	<i>Assets⁽²⁾</i>	<i>Liab.⁽²⁾</i>	<i>Balance</i>
FINANCIAL ACCOUNT⁽²⁾			23.8			26.3			-3.4			-37.3
DIRECT INVESTMENT			-8.6			-34.5			-5.7			-69.4
<i>Abroad</i>			-2.8			-88.8			0.1			-107.3
<i>In the euro area</i>			-5.8			54.3			-5.8			38.0
PORTFOLIO INVESTMENT⁽³⁾	-23.0	37.6	14.6	-220.3	178.6	-41.7	-19.0	22.1	3.0	-152.7	64.2	-88.5
<i>Equity</i>	-3.2	9.1	5.9	-58.4	48.7	-9.7	-5.2	9.5	4.3	-54.5	25.5	-29.1
<i>Debt instruments</i>	-19.8	28.6	8.8	-161.9	129.8	-32.1	-13.9	12.6	-1.3	-98.2	38.8	-59.4
<i>Bonds and notes</i>	-20.9	17.0	-3.9	-151.0	101.2	-49.8	-13.3	0.7	-12.6	-101.3	-11.6	-112.8
<i>Money market instruments</i>	1.1	11.6	12.7	-10.9	28.6	17.7	-0.5	11.9	11.4	3.1	50.3	53.4
FINANCIAL DERIVATIVES⁽³⁾			-1.4			-5.2			1.8			1.3
OTHER INVESTMENT⁽³⁾⁽⁴⁾	-3.2	20.9	17.8	-35.9	143.5	107.7	-16.6	14.8	-1.8	-19.4	124.1	104.7
<i>Eurosystem</i>	0.2	-0.1	0.1	-0.3	0.3	0.0	0.6	0.0	0.6	7.3	0.0	7.3
<i>General government</i>	0.3	-3.4	-3.1	-4.6	-6.8	-11.4	-1.4	-1.7	-3.1	-0.4	-9.1	-9.5
<i>MFI (excluding the Eurosystem)</i>	6.4	21.9	28.3	-5.0	131.4	126.4	-8.3	16.7	8.4	4.2	108.6	112.8
<i>Long-term</i>	-3.3	0.9	-2.5	-24.6	19.6	-5.0	-2.3	2.3	0.0	-32.5	24.4	-8.1
<i>Short-term</i>	9.7	21.1	30.8	19.7	111.8	131.4	-6.0	14.4	8.4	36.7	84.2	120.9
<i>Other sectors</i>	-10.0	2.5	-7.5	-26.0	18.7	-7.3	-7.5	-0.2	-7.7	-30.5	24.7	-5.9
RESERVE ASSETS⁽³⁾⁽⁵⁾			1.3			0.1			-0.7			14.5
ERRORS AND OMISSIONS⁽³⁾			-37.1			-75.3			-5.5			-3.1

Source: ECB.

(1) Discrepancies may arise from rounding.

(2) Inflows (+); Outflows (-).

(3) Series for which data from January 1999 are not closely comparable with earlier observations.

(4) Flows before January 1999 include estimations.

(5) Increase in reserve assets (-), decrease in reserve assets (+).