# CHART OF THE WEEK

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## THE EUROZONE IS EXPORTING ITS SAVINGS. BUT IS IT INVESTING THEM ADVANTAGEOUSLY?

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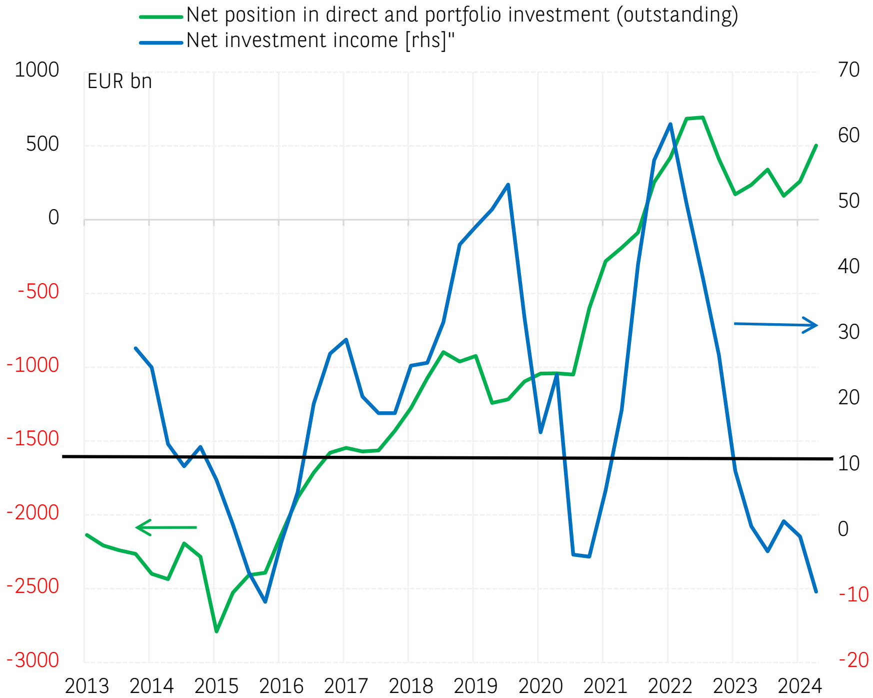
**Financial investment between the euro area and the rest of the world: outgoing income exceeds inward income in 2023 and 2024**




Source: ECB, BoP, BNP Paribas

The eurozone's net international investment position in terms of direct and portfolio investment recovered significantly between 2015 and 2022, becoming positive from 2021 onwards, meaning that the eurozone has become a net creditor to the rest of the world. However, the income it receives from these assets is lower than the income it pays to non-resident investors. What are the reasons for this?

The relative choices of savers and investors from outside the eurozone and non-resident investors within the eurozone have an impact on the flow of investment income into and out of the eurozone.

The change in the eurozone's net international investment position is due to the recovery in the net balance of debt assets. Since 2019, eurozone investors have held more debt issued by non-residents than non-residents hold of eurozone issuers, and the gap has widened since then. Conversely, the net position in equities[1] and fund units remains negative, and is moving in a horizontal tunnel: non-resident investors consistently hold more equities and fund units issued in the eurozone (including private equity) than eurozone investors hold outside the eurozone.[2] This means that, structurally, European savers investing abroad have a lower risk appetite than non-resident savers investing in Europe.

Notwithstanding the relative stability of the net international investment position in terms of direct and portfolio investment since 2022, the balance of investment income has fallen sharply, from a year-to-date peak of +EUR 62 billion in the first quarter of 2022 to -EUR 9 billion in the second quarter of 2024.The balance has even become slightly negative in cumulative terms over the entire period (-EUR 1.8 billion).

1 From the start of the series published by the ECB (2013).
2 However, the eurozone is a net holder of equities through direct investment by companies, while it is a net issuer of equities and fund units held by the rest of the world through portfolio investment.

While the balance of interest income from debt instruments, which was largely positive, continued to grow, the balance of equity income (dividends and reinvested earnings), which was already negative, deteriorated sharply. Firstly, the net position in eurozone equities[3] and fund units fell from -EUR 498 billion in Q1 2022 to -EUR 791 billion in Q2 2024. Secondly, non-resident investors have enjoyed a higher return (income excluding capital gains) from their investments in eurozone equities and fund units than eurozone investors outside the eurozone, and above all the gap has widened.

Compared with non-resident investors in the eurozone, eurozone investors outside the eurozone therefore hold more debt instruments - which are less risky and less remunerative than equity instruments - and fewer shares and fund units. Moreover, the equities and fund units they hold provide them with a lower dividend yield, on average, than that enjoyed by non-resident investors on their equities issued in the eurozone. This hierarchy of returns is consistent with the differences that can be observed between European and American indices. For example, while the S&P 500 index has a significantly higher total return than the Eurostoxx 200 (13.9% vs. 8.7% annual average 2010-2023), it offers a lower annual dividend yield than the European index (1.9% and 2.9% respectively on average over the same period).

These developments should be seen in the context of the Letta and Draghi reports published this year, both of which stress the need to finance additional productive investment by mobilising more European savings. The challenge is not only to encourage the financing of the additional investment needed for the ecological and digital transitions, but also to close part of the investment and productivity gap with the United States. However, European savers' appetite for risk will have to increase, otherwise risk transformation mechanisms will have an essential role to play.

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3 Portfolio investment and direct investment combined.

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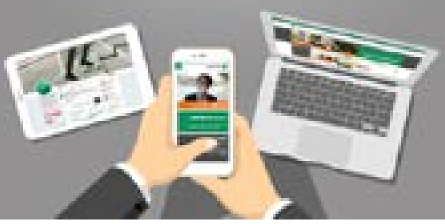

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