The German balance of payments in 1996

External factors became the main pillar of economic growth in Germany last year. After the sharp appreciation of the Deutsche Mark in the spring of 1995 had been corrected, exports developed favourably, helped by the revival in demand in major markets. Imports, by contrast, hardly kept pace. Although imports rose in value, this partly reflects the higher prices of petroleum and the lower valuation of the Deutsche Mark on foreign exchange markets, which inflated imports in nominal terms. In the end Germany's export surplus rose by DM 12½ billion to DM 97½ billion in 1996. At the same time other current transactions with non-residents incurred virtually no larger deficits than in the previous year, with the result that the total German current account deficit declined distinctly by about DM 12 billion to DM 22 billion in 1996. This was largely counterbalanced on the financing side of the current account by substantial capital inflows into German securities markets from abroad. The following article gives a detailed account of the most important developments in current and financial transactions with the rest of the world.

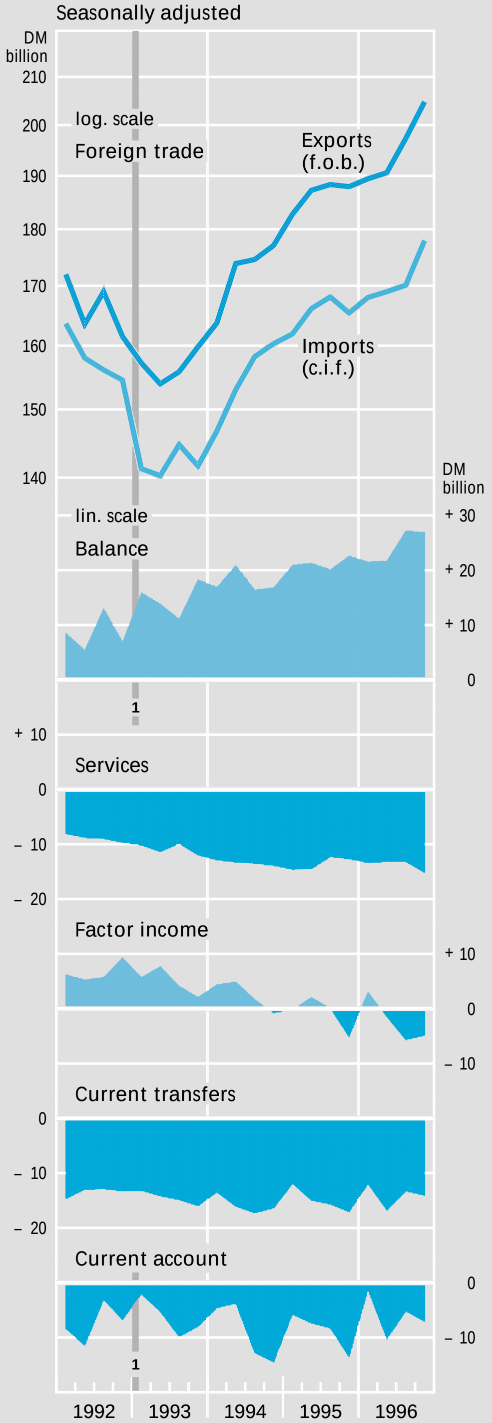
Current account

Foreign trade

Foreign trade in goods recovered significantly in the course of 1996. Exports continued to stagnate initially, but rose vigorously from the

Foreign trade and current account

Seasonally adjusted



1 From January 1993 figures subject to major uncertainty owing to changes in the method of data collection in foreign trade.

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middle of the year; later, imports also grew appreciably in value. At DM 784 billion in 1996 as a whole, exports exceeded the level of the previous year by 4½%, while imports, calculated at current prices, stood at DM 686½ billion, which is equivalent to a rise of 3½% compared with the year before.

In the end Germany's foreign trade ran a surplus of about DM 97½ billion in 1996 compared with one of DM 85½ billion in the previous year, which means a resumption of the high surpluses recorded at the end of the eighties – prior to German reunification. In real terms, the stimulus to growth was even somewhat stronger than the increase in the nominal surplus would suggest. Owing to the rise in import prices in the second half of the year, which was largely due to oil prices, and the resultant deterioration in the terms of trade, however, the leeway for income distribution in the national economy did not grow to the same extent.

Exports

The improvement in Germany's export performance primarily reflects the vigorous market growth in the industrial countries outside Europe, in the Asian-Pacific region and in the countries in transition in central and eastern Europe. The normalisation of foreign exchange rates which had occurred in the meantime facilitated and fostered the revival in exports. However, the improved competitiveness of German products was due not least to the successful restructuring and rationalisation measures taken by German industry and the moderate wage settlements.

Regional breakdown of exports

By contrast, traditional export markets in western Europe tended to have a dampening effect on German exports. According to the data on the regional breakdown of German foreign trade, which are so far available only up to October 1996, German exports in the first ten months of 1996 were only just under 2 % above the corresponding figure in the same period a year earlier. German exports to the industrial countries outside Europe, however, rose at a quite disproportionate rate. In particular, exports to Japan (+ 14 ½ %) and the United States (+ 10 ½ %) increased vigorously, with the highest rates of growth being recorded by the German motor industry.

In addition, the newly industrialising countries in south-east Asia continued to be a major growth region for the German export industry. Germany has for some time been achieving high growth rates in exports to those strongly expanding economies, which comprise an economic area of about 400 million people. When compared with the corresponding growth rate in 1995 (+ 13 %), the rate of increase was somewhat weaker in 1996, at 7 ½ %. Most of this slowdown is due to the moderation in general economic growth, triggered by the restrictive measures taken in those countries to counter emerging signs of overheating.

Germany recorded the highest rates of growth in exports to the countries in transition in central and eastern Europe (+ 18 ½ %). Except in the case of Russia and other CIS countries, where the process of stabilising and restructuring the economy is making only slow progress, German export-

Regional breakdown of foreign trade *

January-October 1996

Group of countries/ country	Exports: DM billion	Exports: Change from previous year in %	Imports: DM billion	Imports: Change from previous year in %
Industrial countries	494.5	3.3	434.2	2.6
EU countries	371.0	1.9	316.9	1.7
of which				
Austria	37.1	8.1	21.6	3.8
Belgium and Luxembourg	40.7	– 2.1	36.6	– 0.9
France	71.9	– 3.2	61.6	0.1
Italy	49.2	3.0	47.5	– 0.3
Netherlands	48.9	3.7	49.1	2.5
Spain	23.3	7.2	18.6	5.6
United Kingdom	52.2	2.0	38.5	6.6
Other industrial countries	123.5	7.6	117.2	5.1
of which				
United States	49.7	10.7	40.7	10.2
Japan	17.6	14.6	28.6	– 1.6
Countries in transition	66.9	15.8	65.9	7.6
of which				
Countries in central and eastern Europe	57.2	18.4	50.6	6.2
China	8.3	– 2.0	14.9	14.1
Developing countries	84.4	4.4	65.4	2.1
of which				
OPEC countries	13.7	0.4	10.2	9.0
Newly industrialising countries in south-east Asia	36.7	7.6	29.6	3.0
All countries	647.6	4.6	567.0	3.1

* The totals for exports in 1995 and imports from January 1995 up to and including July 1996 include revisions which have not yet been broken down by region for the non-EU countries.

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ers were again able to achieve noticeable success in business mainly with countries where the reform process is relatively far advanced. Those countries in transition now absorb almost 9 % of German exports (only 7½ % in 1993), which means that they now account for a higher proportion than the United States, for example (7½ %).

Breakdown of exported goods

As expected, it was sectors of the capital goods industry that benefited most from the growth in foreign demand. In the first ten months of 1996 exports by this industry exceeded the level of the previous year by 7 % and thus by a wider margin than in the case of exports as a whole. The development was especially favourable in mechanical engineering (+ 9½ %) and in the motor industry (+ 8 %). Exports of consumer goods rose by no more than just over 2½ % in the period under review, while exports of products of the basic and producer goods sectors rose by only ½ %.

Imports

The value of German imports of goods rose by 3½ % last year and thus much more slowly than exports. If the ½ % increase in import prices over the year is taken into account, the rise in the volumes of imports was probably only about 3 %. The decisive factor here was ultimately the moderate expansion of domestic demand. The increase in prices on the import side was mostly due to the considerable rise in the prices of imported energy supplies. This was largely attributable to the sharp increase in crude oil prices on world markets. As a result of the appreciation of the dollar, the rise was even higher in

Breakdown of foreign trade by category of goods

in %; January-October 1996

Item	Change from previous year	Share of total exports or total imports
Exports		
Basic and producer goods [1]	0.5	23.0
of which		
Chemical products	2.6	13.2
Capital goods	7.1	55.6
of which		
Mechanical engineering products	9.7	15.2
Road vehicles	7.8	17.3
Electrical engineering products	6.4	12.9
Data processing equipment [2]	3.0	2.1
Consumer goods	2.7	10.9
Food, drink and tobacco [3]	5.7	5.2
Total [4]	4.6	100
Imports		
Sources of energy	26.7	7.5
Basic and producer goods [5] (excluding sources of energy)	– 8.1	19.4
of which		
Chemical products	– 1.0	9.1
Capital goods	6.6	39.3
of which		
Mechanical engineering products	6.9	5.7
Road vehicles	11.4	10.8
Electrical engineering products	3.3	11.3
Data processing equipment [2]	1.4	4.0
Consumer goods	2.4	15.4
Food, drink and tobacco [3]	3.0	10.4
Total [4]	3.1	100

1 Including mining and energy. — **2** Including office machines. — **3** Including agricultural products. — **4** Including estimates not broken down by category of goods. — **5** Including mining.

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terms of the Deutsche Mark than it was in dollars.

Breakdown of imported goods

In the first ten months of last year, import prices of petroleum exceeded the level of the previous year by 21%. The value of petroleum imports therefore rose much more sharply than in the previous year (by 22 % in the first ten months of 1996), although import volumes rose only slightly. In 1996 their share in the value of total imports increased to 3½ %. In the period from January to October 1996 the value of German energy imports, including other sources of energy, notably natural gas, accounted for 7½ % of the value of total imports. By contrast, other imports of goods – as a whole – rose comparatively slowly. Although imports of foreign capital goods increased relatively strongly, sales of foreign consumer goods in the German market grew only moderately in view of the general restraint in private consumer demand. Imports of products by the basic and producer goods sectors actually fell significantly.

Regional breakdown of imports

The shifts in the breakdown of imported goods in nominal terms are also reflected in changes in their regional breakdown. For example, the value of imports from the OPEC countries, in particular, rose to an above-average degree (+ 9 %) last year. Moreover, US companies registered high sales growth in the German market (just over 10 %), but increases in prices due to foreign exchange movements are likely to have played a role here. The value of imports from the countries in transition in central and eastern Europe also rose again to an above-average degree (6 %), whereas the EU countries were able to increase their imports to Germany by only 1½ %.

Invisibles

In contrast to trade in goods the invisible current transactions with non-residents – in the form of exports and imports of services, cross-border factor services and current transfers – incurred large deficits as in previous years. According to the data available, the deficit rose only by DM 2½ billion to DM 118½ billion in 1996. The decisive factor was the further rise in interest payments on non-residents' financial investments in German financial markets, whereas the deficits in services transactions stabilised and those incurred in current transfers actually fell.

Services

Services accounted for almost one-half of the total deficit in invisible current transactions. At DM 55 billion, the deficit incurred in this sector roughly matched the level of the previous year (DM 54 billion). The figure is almost exclusively attributable to Germany's deficit

Foreign travel

on foreign travel. After a lengthy and steep increase in German travel expenditure in the first half of the nineties, the deficit on foreign travel rose by only DM 1 billion to DM 50 billion in 1996. After taking into account the loss in purchasing power owing to inflation and the appreciation of the currencies of major destination countries, demand from German business and holiday travellers for foreign tourist services might even have declined in real terms. The weak income trend combined with greater job insecurity probably contributed substantially to this development.

The tighter budgets of households led to shifts in the pattern of German tourist expenditure abroad at the expense of costly long-haul journeys, expenditure on which did not rise compared with 1995 despite the fact that prices had increased as a result of the appreciation of the dollar. Resorts in the Mediterranean area, which have always been popular, continued to be in demand. Spain and Italy, by far the most popular German holiday destinations in summer, recorded a rise in German tourists' spending of 4½% and 6½%, respectively, while Turkey registered an increase of 13%. On the other hand, the decline in interest in the Alpine countries Switzerland and Austria in the past few years persisted.

Other services

In the other sectors of the services account, where sales likewise achieved significant proportions, receipts more or less matched expenditure. On balance, this area ran a slight deficit of DM 5 billion, which was virtually unchanged from the previous year. Especially in merchanting trade and in transport services as well as in insurance and financial services, there were fairly substantial net inflows into Germany (DM 15 billion). The stationing of foreign troops in Germany resulted in receipts of DM 7½ billion, which means that these have largely stabilised at the level reached in 1995, now that the adjustment in troop numbers to the changed military circumstances in Europe has probably been completed for the time being. As in previous years, however, there were payments to non-residents for "technological" and other services (patents and licences, research and development services, EDP services, engineering

Major items of the balance of payments

DM billion

Item	1994 1	1995 1	1996 1
I. Current account			
1. Foreign trade 2			
Exports (f.o.b.)	694.7	749.5	784.2
Imports (c.i.f.)	622.9	664.2	686.6
Balance	+ 71.8	+ 85.3	+ 97.6
2. Supplementary trade items 3	+ 0.1	– 2.9	– 1.0
3. Services			
Receipts	116.3	127.7	136.5
Expenditure	169.6	181.6	191.7
Balance	– 53.3	– 53.8	– 55.1
4. Factor income (net)	+ 10.0	– 3.7	– 8.5
5. Current transfers			
from non-residents	22.6	24.1	25.9
to non-residents	85.4	82.7	80.7
Balance	– 62.8	– 58.7	– 54.8
Balance on current account	– 34.2	– 33.8	– 22.0
II. Capital transfers			
from non-residents	2.5	2.4	4.1
to non-residents	2.2	3.3	4.1
Balance	+ 0.3	– 0.9	– 0.0
III. Financial account (net capital exports: –)			
Direct investment	– 25.2	– 37.9	– 46.7
German investment abroad	– 27.8	– 55.2	– 41.8
Foreign investment in Germany	+ 2.5	+ 17.2	– 4.9
Portfolio investment 4	– 40.1	+ 56.5	+ 77.9
German investment abroad	– 87.0	– 31.1	– 60.5
Foreign investment in Germany	+ 46.9	+ 87.6	+ 138.4
Credit transactions 4	+ 131.8	+ 60.6	– 9.0
Credit institutions	+ 141.8	+ 43.5	– 4.3
Long-term	+ 15.9	+ 39.9	+ 23.8
Short-term	+ 125.8	+ 3.6	– 28.2
Enterprises and individuals	– 16.8	+ 22.3	– 7.5
Long-term	– 1.7	– 2.3	– 4.9
Short-term	– 15.1	+ 24.6	– 2.6
Public authorities	+ 6.9	– 5.2	+ 2.9
Long-term	– 6.7	– 1.1	– 1.2
Short-term	+ 13.5	– 4.1	+ 4.1
Other investment	– 1.6	– 5.1	– 4.0
Overall balance on financial account	+ 64.9	+ 74.0	+ 18.2
IV. Balance of unclassifiable transactions	– 18.7	– 21.6	+ 2.2
V. Change in the Bundesbank's net external assets at transaction values (increase: +) 5, 6 (I plus II plus III plus IV)	+ 12.2	+ 17.8	– 1.6

1 Figures subject to major uncertainty owing to changes in the method of data collection in foreign trade. — 2 Special trade according to the official foreign trade statistics. — 3 Mainly warehouse transactions for account of residents and deduction of goods returned. — 4 Excluding direct investment. — 5 Excluding allocation of SDRs and changes due to value adjustments. — 6 From March 1993 to March 1995 including the Bundesbank Treasury discount paper held by non-residents during this period.

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and other technical services). In some cases these payments were substantial.

Factor income

As already mentioned, the renewed rise in the deficit on factor income account represented an unexpectedly large burden for the German current account. After a negative balance of DM 3½ billion had been recorded here in the previous year, the deficit was DM 8½ billion in 1996. The decisive factor for this development was the sharp rise in interest payments to non-residents, which, together with other investment income payments to non-residents, rose by DM 4 billion to DM 137 billion in 1996, whereas German investment income from abroad was largely unchanged. The continued current account deficit, which resulted in a further decline in net external assets, had a negative effect on the German investment income account. On the other hand, the turnaround alone in the interest rate spread in favour of the dollar, together with the substantial appreciation of the dollar, probably had a basically favourable effect on net interest income arising from German external assets, since the proportion of German external assets denominated in dollars is much higher than in the case of German external liabilities.

All of this suggests that other structural factors also contributed to developments last year, but these factors are difficult to identify from the statistics available. For example, the longer-term orientation of German external liabilities might have contributed to the fact that lower interest rates on the external liabilities side require a much longer time to take effect than they do on the side of Germany's external assets, which are predominantly at the short end of the market. But this may likewise reflect data collection problems, which make German interest income from abroad, in particular, look too unfavourable.

Current transfers

At DM 55 billion, the deficit on current transfers was much lower in 1996 than in the previous year (DM 58½ billion). This decline was essentially due to developments in net payments to the EC budget, which, at DM 27 billion, were DM 2 billion less than in 1995. By contrast, net current transfers in the private sector were DM 17 billion and thus somewhat higher than in the previous year. They mainly include remittances of foreign workers to their home countries (DM 7½ billion) as well as private pensions and maintenance payments (DM 4½ billion).

Financial account

Trends in financial transactions

German financial transactions with non-residents in 1996 were dominated by events on international financial markets, on the one hand, and by the internationalisation efforts of German and foreign enterprises, on the other. The distinct rise in net capital inflows arising from securities transactions (DM 78 billion) contrasted with a record deficit in direct investment (– DM 46½ billion). In the other areas of financial transactions, however, cross-border capital flows – in net terms – were fairly limited, and the Bundesbank's net external assets remained virtually unchanged.

Securities transactions

Against the background of bullish equity and bond markets and the sharp reduction in international interest rate differentials, the global diversification of portfolio investments seems to be making further progress. Domestic securities likewise benefited from this trend. On balance, foreign investors bought domestic securities worth DM 138½ billion; this was the second-largest inflow in securities transactions after the exceptional year 1993 (DM 235½ billion). At DM 97 billion, the German bond market accounted for the lion's share of funds. Last year foreign investors preferred bank bonds (DM 57 billion), two-thirds of which were denominated in foreign currency. Owing to the changed market environment on the demand side, the dollar was the dominant issue currency. By contrast, the Japanese yen, which had held this position in 1995, lost considerable ground as a result of the continued uncertainties in the Japanese financial system and the yen's weakness on foreign exchange markets. Of the paper denominated in Deutsche Mark *Pfandbriefe* which have also become attractive to international investors in recent years through the increase in issue volumes and a global marketing strategy, saw remarkable growth in international financial transactions. In 1996 foreign investors spent DM 18 billion on the purchase of such paper.

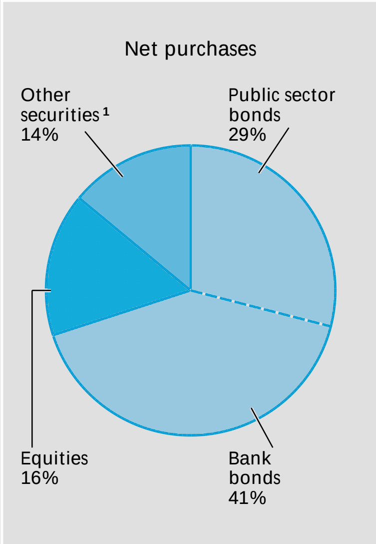
Foreign investment in domestic securities …

… bank bonds

… public sector bonds

Public sector bonds experienced a decline, both when compared with sales of bank bonds abroad and with the year before. Investors' changed currency preferences, the relatively low issue volume in general and alternatives in the form of money market paper issued by public authorities may have contributed to this. Foreign investors bought

Breakdown of non-residents' portfolio investment in Germany in 1996



1 Investment fund certificates, money market paper and warrants.

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public sector bonds worth DM 40½ billion net – against DM 50 billion in 1995. Owing to their high liquidity, Federal Government bonds and five-year special Federal bonds accounted – as usual – for most of the funds raised. But the new two-year Treasury paper, which the Federal Government has been issuing since September 1996 to round off the maturity range, likewise met with a positive response from foreign market players.

… money market paper

Much the same holds true for the second new issue by the Federal Government, the Treasury discount paper with a maturity of less than one year ("Bubills") which is considered as money market paper. On balance, some DM 14 billion of the total issue volume of this paper worth almost DM 20 billion went abroad. Foreign central banks may have figured among the major buyers. In addition, foreign investors bought DM 7½ billion of the money market paper issued by domestic banks and enterprises, with the result that total sales abroad stood at DM 21½ billion. In previous years this paper had been insignificant.

… equities

Large amounts of foreign funds also flowed into the German equity market in 1996; amid high turnover, non-residents invested a net DM 21½ billion in German shares. The flotation of the Deutsche Telekom shares played a major, albeit not the decisive, role in this. The trigger seems to have been that international investors are again anticipating a higher expansion and earnings potential for the German economy, after the appreciation of the Deutsche Mark in the spring of 1995 had been corrected, and are therefore increasing the weighting of German equities in their portfolios. Investors' growing optimism was reflected in sharp share price gains (DAX: + 28 %).

German investment in foreign equities …

The strong inflow of foreign funds was accompanied by a growing outflow of funds through German purchases of foreign securities (DM 60½ billion against DM 31 billion) though this outflow in terms of value was less than half as large. The rise was almost exclusively caused by extensive buying of foreign shares (DM 21 billion), after domestic investors had reduced their exposure in this investment category in 1995, possibly owing to foreign exchange rate and profit-taking considerations. On the other hand, foreign exchange rate trends and the continued rise in share prices in most foreign equity markets

Financial transactions

DM billion, net capital exports: –

Item	1994	1995	1996
1. Direct investment	– 25.2	– 37.9	– 46.7
German investment abroad	– 27.8	– 55.2	– 41.8
Foreign investment in Germany	+ 2.5	+ 17.2	– 4.9
2. Portfolio investment	– 40.1	+ 56.5	+ 77.9
German investment abroad	– 87.0	– 31.1	– 60.5
Equities	– 12.0	+ 1.5	– 21.1
Investment fund certificates	– 22.1	– 1.0	– 5.2
Bonds and notes	– 27.3	– 24.1	– 21.7
Money market paper	– 8.5	+ 0.7	– 5.1
Financial derivatives [1]	– 17.2	– 8.2	– 7.3
Foreign investment in Germany	+ 46.9	+ 87.6	+ 138.4
Equities	+ 1.3	– 1.7	+ 21.5
Investment fund certificates	+ 5.1	– 0.8	– 2.4
Bonds and notes	+ 22.6	+ 86.1	+ 97.2
Money market paper	– 0.3	– 2.7	+ 21.7
Warrants	+ 18.2	+ 6.7	+ 0.3
3. Credit transactions	+ 131.8	+ 60.6	– 9.0
Credit institutions	+ 141.8	+ 43.5	– 4.3
Long-term	+ 15.9	+ 39.9	+ 23.8
Short-term	+ 125.8	+ 3.6	– 28.2
Enterprises and individuals	– 16.8	+ 22.3	– 7.5
Long-term	– 1.7	– 2.3	– 4.9
Short-term	– 15.1	+ 24.6	– 2.6
Public authorities	+ 6.9	– 5.2	+ 2.9
Long-term	– 6.7	– 1.1	– 1.2
Short-term	+ 13.5	– 4.1	+ 4.1
4. Other investment	– 1.6	– 5.1	– 4.0
5. Balance of all statistically recorded capital flows	+ 64.9	+ 74.0	+ 18.2
Memo item Change in the Bundesbank's net external assets at transaction values (increase: +) [2, 3]	+ 12.2	+ 17.8	– 1.6

1 Securitised and unsecuritised options as well as financial futures contracts. — **2** Excluding allocation of SDRs and changes due to value adjustments. — **3** From March 1993 to March 1995 including the Bundesbank Treasury discount paper held by non-residents during this period.

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(with the exception of Japan's) both contributed to the attractiveness of foreign shares last year.

... investment fund certificates

Buying of foreign investment fund certificates recovered somewhat in 1996, but, at DM 5 billion, it continued to be well below the level at the beginning of the nineties. With the abolition of wealth tax, an important reason for purchasing investment fund certificates ceased to exist. Only traditional funds enjoyed inflows of money, whereas foreign money market funds recorded outflows. All in all, no more than approximately DM 12½ billion is likely to have been "parked" here at the end of 1996.

... bonds

Demand for other securitised assets, on the other hand, was much the same in 1995. Domestic investors bought foreign bonds worth DM 21½ billion net (1995: DM 24 billion); as it turned out, however, it was exclusively domestic credit institutions that were the buyers. Most of the outflows of funds were accounted for by foreign currency bonds (DM 14 billion), with dollar bonds being preferred for the aforementioned interest rate and foreign exchange rate reasons. In the second half of the year, some higher-yielding European currencies met with increased demand from German investors when new upside potential emerged in the financial markets, as investors anticipated the success of the respective countries' convergence efforts and their future participation in European monetary union. The search for attractive yields also favoured purchases of foreign DM bonds in the domestic market (DM 7½ billion); however, the higher yield on this paper is often accompanied by a higher credit risk on the part of issuers.

... money market paper

Interest in foreign money market paper also recovered distinctly. DM 5 billion net from domestic sources flowed into this paper. As in the past, demand focused on paper denominated in Deutsche Mark, which was mostly bought by institutional investors. There was also strong demand for US Treasury bills, whereas paper denominated in other currencies was hardly of importance.

Direct investment

The large inflows of funds in securities transactions contrasted with massive outflows of funds through enterprises' participating interests. DM 46½ billion net went abroad through direct investment – an unprecedented amount (1995: DM 38 billion). The renewed rise in the deficit is primarily attributable to the increased restraint shown by foreign enterprises in investing in Germany.

Fall in foreign direct investment in Germany

The statistical reports show that, despite allocating new equity capital, these enterprises withdrew DM 5 billion net from Germany in 1996, after investing DM 17 billion the year before. Here, especially the drawing on retained profits[1] had a very negative effect; this was mainly due to the extraordinarily large annual losses in the balance sheets of some holding companies and to remarkably large dividends paid by other companies, in relation to their reported net earnings. Moreover, foreign enterprises located in Germany repaid, on balance, long-term loans to their foreign owners, a fact which has to be seen

1 This is reflected in the negative value of the reinvested earnings of direct investment enterprises.

in connection with the special financing structure of foreign participating interests in Germany. Loans from affiliated enterprises abroad account for some 50 % of the level of foreign direct investment in Germany. Possibly, the withdrawal of funds from the participating interests of foreign enterprises operating in Germany was triggered by company-specific interest rate and liquidity operations.

Statistical discrepancies

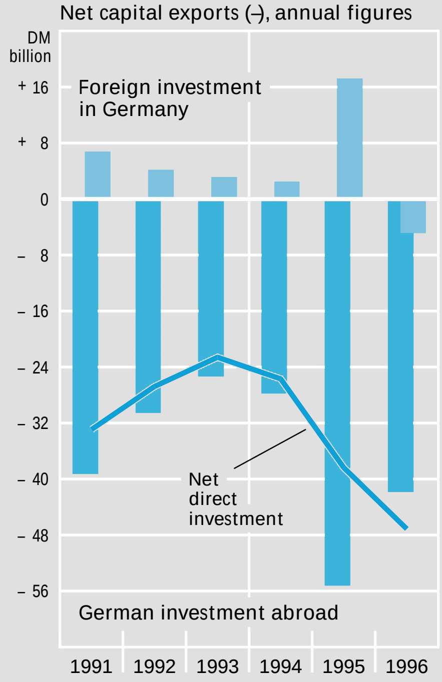
However, particular care must be taken in interpreting the figures on foreign direct investment in Germany, because the statistics vary considerably, depending on the underlying source. In the recent past, for example, the figures on capital inflows computed on the basis of data provided by domestic enterprises have continuously been much lower than the figures provided by the investing countries on their direct investment in Germany. Germany's direct investment statistics possibly understate the volume of funds accruing to this sector because they do not include short-term lending between affiliated enterprises.[2]

Large foreign investment by German enterprises

Discrepancies in the statistics do not seem to be so significant in the case of German direct investment abroad. All in all, domestic enterprises invested DM 42 billion abroad last year. That was DM 13½ billion less than in the record year 1995, but it would be wrong to interpret this decline as a turnaround. In 1995 there had been an accumulation of large investments which did not recur to such an extent last year. The trend in German direct investment abroad therefore reflects the fundamental factors more accurately

Trend in direct investment

Net capital exports (–), annual figures



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again. In this context, the favourable export performance argued in favour of a further rise in investment abroad, whereas the normalisation of foreign exchange rates had a certain dampening effect.

Regional breakdown of direct investment

The shifts in the regional breakdown of direct investment abroad basically confirm that view. The bulk of investment funds continued to flow into the EU countries; however, at 47 %, their share saw a strongly declining tendency in view of the general economic weakness in continental Europe. Towards the

2 One reason for such methodological deviations might be that the individual countries have made varying rates of progress in implementing the IMF recommendations (fifth edition of the Balance of Payments Manual). The Deutsche Bundesbank is currently examining the discrepancies in the field of direct investment statistics as part of a research project.

end of the period under review, German enterprises invested considerably less abroad, particularly in France and the United Kingdom which had benefited from large investments in 1995. Exactly the opposite trend could be observed in the group of other industrial countries, with the United States further expanding its position as the preferred target country of enterprises' participating interests; the robust state of the US economy was probably one reason for this.

In contrast to the general trend, the amount of investment money which the countries in transition and the developing countries attracted from Germany hardly changed in 1996. These two groups of countries now account for almost one-quarter of the outward investment by domestic enterprises. From the point of view of German investors factors arguing in favour of investing in the neighbouring central European countries and the newly industrialising countries in Asia in particular are cost aspects, the momentum of economic growth and the yet untapped market potentials.

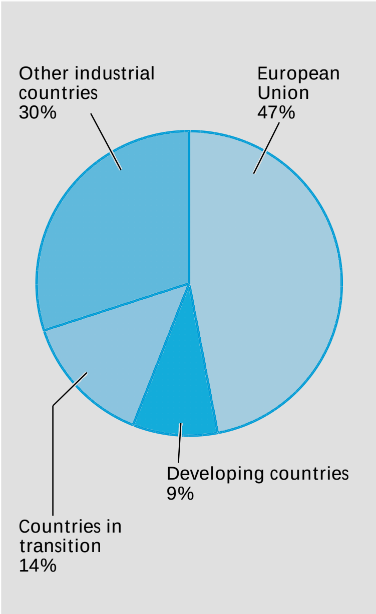
Credit transactions of non-banks

The sizeable, two-way capital flows in securities transactions and in direct investment contrasted with comparatively small deficits in credit transactions in 1996. The statistically recorded credit transactions by non-banks resulted in capital exports of DM 4½ billion last year compared with imports of DM 17 billion in 1995. The decisive factor here was the

Enterprises and individuals

operations of enterprises and individuals, which ultimately resulted in an outflow of funds in 1996. In this respect, the significance of cash collaterals in connection with stock

Breakdown of German direct investment in 1996



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lending and the frequently observed concentration of group liquidity management at the parent company were of decisive importance.

Public authorities

In contrast to enterprises and individuals, public authorities had a small net inflow of funds (+ DM 3 billion compared with – DM 5 billion in the previous year) from credit transactions. This was due to the slight reduction in Euro-deposits and – to a modest degree – to loans raised abroad. However, the international credit transactions of the public sector are only of secondary importance for the financial account as a whole and for the financing of the public-sector deficit; the above-mentioned foreign buying of public-sector bonds and money market paper is of much greater significance in this respect.

Banks' long-term credit transactions

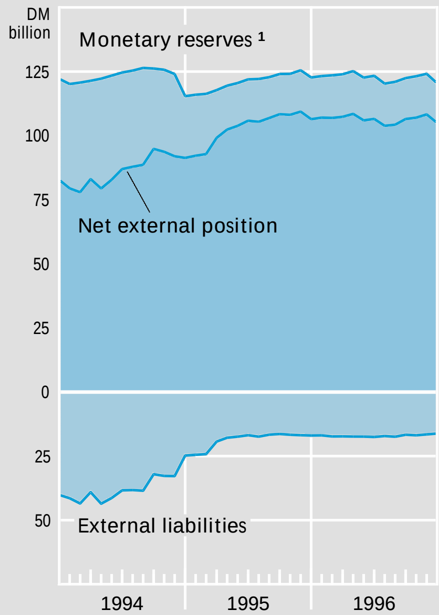
In 1996 the inflow of funds arising from the banks' long-term credit transactions amounted to DM 24 billion net and hence was much lower than in the year before (DM 40 billion). At DM 39 billion, lending abroad in particular declined noticeably compared with 1995 (DM 60½ billion). The background to those transactions is mostly the securities issues of foreign financing subsidiaries of German banks, which pass on the proceeds from their securities issues to their parent companies in Germany by means of credits. These parent companies, in turn, use part of the inflow of funds to grant foreign currency loans abroad and, if there are favourable swap possibilities, also for domestic credit business. It seems that interest rate and foreign exchange rate trends as well as the conditions for swap transactions on international financial markets changed in such a way in 1996 that "financing detours" of this kind have tended to become less profitable.

Banks' short-term credit transactions

A marked turnaround took place last year in the banks' short-term credit transactions, which are basically a reflection of all other cross-border payments in current and financial transactions: after inflows of DM 3½ billion in 1995, short-term funds worth DM 28 billion – in net terms – went abroad in 1996. All things considered, i.e. after taking into account the above-mentioned inflow of funds through the banks' long-term credit transactions, the net (unsecuritised) foreign assets of the credit institutions therefore increased slightly after a distinct decline the year before.

External position
of the Deutsche Bundesbank

End-of-month levels



1 Including other external assets.

Deutsche Bundesbank

The external position of the Bundesbank

The net external position of the Deutsche Bundesbank saw changes in contrary directions in the past two years; at transaction values, the net external assets declined on balance by DM 1½ billion in 1996 – after a rise of DM 18 billion the year before.

External assets of the Bundesbank

The main reason for the slight decline in 1996 was the reduction of DM 2½ billion in external assets. The rise in dollar reserves was more than offset by a distinct decline in ECU-denominated claims on the European Monetary Institute, since foreign partner central banks bought back fairly substantial amounts of reserve ECUs which had been transferred to the Bundesbank in connection with previous intervention operations within the EMS.

These repurchases completely reduced the residual positions of such ECU-denominated claims by the Bundesbank.

External liabilities of the Bundesbank

As in the case of the external assets, the changes in external liabilities were very slight in 1996. On balance, the Bundesbank's external liabilities declined by almost DM 1 billion.

Revaluation of the external position

The customary revaluation of the external position of the Bundesbank at the end of the year resulted in only minimal changes last year; in the end, the net external assets rose by DM 0.1 billion due to value adjustments.[3] At balance sheet rates, they amounted to DM 105½ billion at the end of 1996, which was DM 1½ billion less than at the end of 1995. External assets of DM 121 billion were accompanied by external liabilities of DM 15½ billion.

3 The rise is ultimately attributable to a higher valuation set by the IMF for special drawing rights. Those "value readjustments" are neutralised in the Bundesbank balance sheet by the formation of corresponding reserves; however, these are not included in the calculation of net external assets.