# Foreign trade and payments

*Overview*

In the last few months of 1996, too, the strongest contributions to domestic economic growth were made by export business. In the autumn months of October and November, export expansion continued to gain momentum, and the high level of turnover of the preceding two-month period was once again exceeded by a considerable margin. Although at the same time imports, which had virtually stagnated during the summer months, improved somewhat, they remained rather weak in real terms. Cross-border transactions in goods showed a large surplus of DM 19 billion over the two-month period of October-November, after elimination of seasonal influences; that was some DM 1½ billion more than in August-September and nearly DM 5 billion above the two-month average of the first half of 1996.

However, during the period under review the aggregate deficit on invisible current transactions rose from just over DM 19 billion in August-September, seasonally adjusted, to about DM 25 billion in October-November. A role was played by the fact, however, that in September the deficit on current transfers was particularly low due to a special movement. Therefore, despite the strong increase in exports during the period under review, Germany's current account deficit ended up somewhat higher, at DM 6 billion, seasonally adjusted, than in the preceding two months.

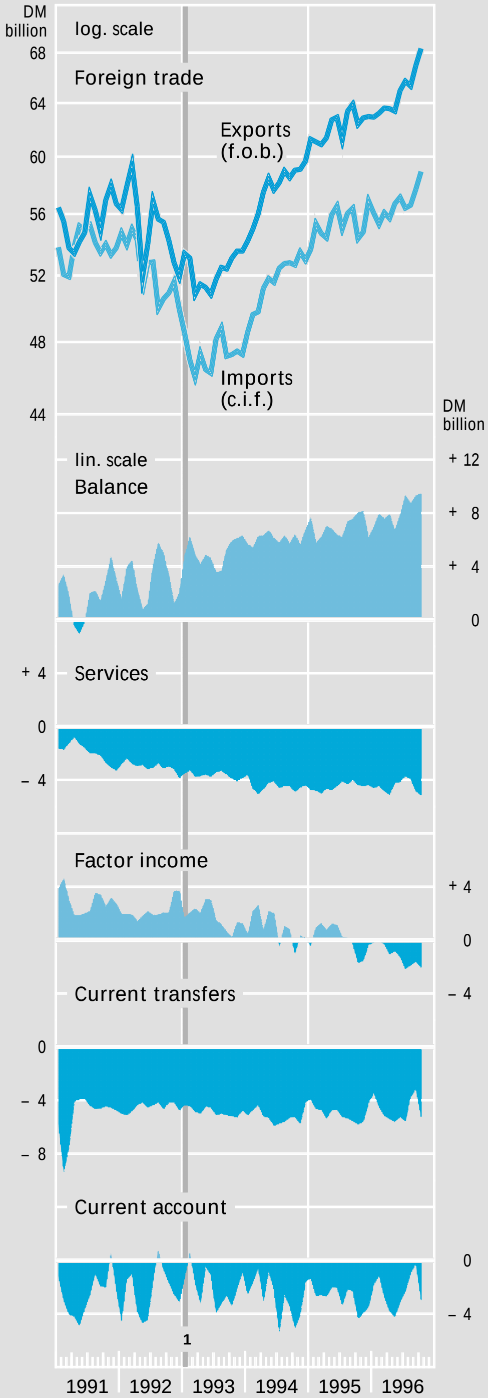
## Current account in detail

*Exports*

Exports, which had soared towards the middle of the year, continued their upward

Foreign trade and current account

Seasonally adjusted, two-month moving averages




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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movement at an accelerated pace in the autumn months. During the two-month period of October-November 1996, seasonally adjusted exports exceeded the comparable figure of the previous two months of August-September by just over 4½%; they thus rose by 9½% over the preceding year (after elimination of working-day variations), compared with a year-on-year rate of almost 5% in the third quarter. Accordingly, exports have reacted with a marked lag to the increase in foreign demand since the turn of 1995-6. However, the resulting gap between orders from abroad and export deliveries, lasting well into the third quarter, narrowed perceptibly during the following period due to accelerated export growth.

Not only the continuing strong stimuli to demand but also export expectations of German industry (which were recently more favourable than in the summer months, according to the ifo business survey) indicate the permanency of export revival. Measured by those standards, German industry probably assessed its external business almost as positively at the end of last year as in the autumn of 1994. Favourable factors in this were the correction of the exaggerated DM appreciation of 1995 and the consequential improvement in the price competitiveness of German suppliers, not just in the "dollar area" but also vis-à-vis major trading partners in the European Union. In addition, it was mainly the adjustment and rationalisation measures recently carried out by German industry as well as the more moderate wage settlements which have strengthened the competitive position of German industry.

After all, besides constantly improving the range of goods on offer, this is the only reliable way in which enterprises and employees can participate in world trade growth in the future, too.

*Regional breakdown of exports*

According to the information on the regional breakdown of German exports (which is only available up to September), the strongest stimuli to growth in German exports came from countries outside the European Union. The value of exports to the other EU countries, which account for nearly 60 % of German exports, remained virtually unchanged, seasonally adjusted, in the third quarter of 1996 compared with the preceding quarter. By contrast, during the corresponding period, deliveries of goods to other industrial countries rose by 3½ %, after eliminating seasonal fluctuations. Exports to the United States alone increased by almost 7 % in value in the third quarter; apparently, German suppliers were able to derive long-term benefits from sales opportunities on the expanding US market due to exchange-rate-related price advantages. In addition, seasonally adjusted exports to the central and east European countries in transition (10½ %) as well as to developing countries (5 %) maintained their upward trend.

*Breakdown of exported goods*

In the German export industry, there was lively demand particularly for German capital goods. According to information on exported goods, which is as yet only available up to September, exports of German capital goods rose in the third quarter of 1996 by a seasonally adjusted 4½ % over the previous quarter, exceeding the corresponding level of the preceding year by 7½ % (after adjustment for

## Regional breakdown of foreign trade *

3rd qtr of 1996, seasonally adjusted

| Group of countries/ Country | Exports: DM billion | Exports: Change from previous quarter in % | Imports: DM billion | Imports: Change from previous quarter in % |
|---|---|---|---|---|
| Industrial countries | 149.1 | + 0.9 | 130.5 | + 1.2 |
| EU countries | 110.8 | 0.0 | 94.5 | + 0.5 |
| of which | | | | |
| Austria | 11.1 | + 2.8 | 6.6 | + 4.7 |
| Belgium/Luxembourg | 12.1 | – 0.8 | 10.9 | + 5.8 |
| France 1 | 20.5 | + 2.0 | 17.1 | – 1.7 |
| Italy | 14.7 | + 2.8 | 14.0 | – 2.1 |
| Netherlands | 14.5 | – 0.7 | 14.9 | 0.0 |
| Spain | 6.9 | + 1.5 | 5.6 | 0.0 |
| United Kingdom | 15.2 | – 0.7 | 11.6 | + 3.6 |
| Other industrial countries | 38.2 | + 3.5 | 36.0 | + 2.6 |
| of which | | | | |
| United States | 15.7 | + 6.8 | 13.1 | + 9.2 |
| Japan | 5.4 | – 1.8 | 8.1 | – 9.0 |
| Countries in transition | 21.6 | + 6.4 | 20.1 | – 1.0 |
| of which | | | | |
| Countries in central and eastern Europe | 18.9 | + 10.5 | 15.6 | – 1.9 |
| China | 2.7 | + 12.5 | 4.6 | 0.0 |
| Developing countries | 26.3 | + 5.2 | 19.2 | – 2.5 |
| of which | | | | |
| OPEC countries | 4.4 | + 4.8 | 3.1 | – 6.1 |
| Newly industrialising countries in south-east Asia | 11.3 | + 3.7 | 8.7 | – 4.4 |
| All countries | 197.9 | + 3.5 | 170.0 | – 0.1 |

***** The totals for imports up to July 1996 include revisions which have not yet been broken down by region for the non-EU countries. – **1** Excluding aircraft.

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working-day variations). The largest increases were in exports of road vehicles (of 16 % over the previous year), which are statistically recorded completely as capital goods. At the same time, however, automobile imports rose sharply as well (12 %). This not least shows the growing international integration in the automobile sector and the regional diversification of production sites. But also for capital goods in the narrower sense, such as mechanical engineering and electrical engineering products, annual growth rates in the third quarter of 1996 were relatively high (7½ % and 6 %, respectively). By contrast, the manufacturers of consumer goods, raw materials and producer goods only recorded relatively modest sales successes in foreign business.

*Imports*

During the autumn months, the muted domestic demand in Germany, in the wake of which real imports remained comparatively weak, likewise contributed to the rise in the foreign trade surplus. Although the value of imports went up by a seasonally adjusted 4 % in the two-month period of October-November vis-à-vis August-September after a relatively long period of stagnation, imports exceeded the corresponding level of the previous year by 8½ % (after adjustment for working-day variations), compared with an annual rate of increase of 9½ % on the export side. However, the nominal rise is probably largely attributable to price-related cost increases of energy imports; at all events, according to information available only up to September, imports of sources of energy rose in the third quarter of 1996 against the previous year's level by no less than 34 %. The

## Major items of the balance of payments

DM billion

| Item | 1995 [1] Oct.–Nov. | 1996 [1] Aug.–Sep. | 1996 [1] Oct.–Nov. |
|---|---|---|---|
| I. Current account | | | |
| 1. Foreign trade [2] | | | |
| Exports (f.o.b.) | 132.6 | 122.2 | 145.5 |
| Imports (c.i.f.) | 114.9 | 105.3 | 124.6 |
| Balance | + 17.7 | + 16.8 | + 20.9 |
| Memo item Seasonally adjusted figures | | | |
| Exports (f.o.b.) | 125.2 | 131.1 | 137.2 |
| Imports (c.i.f.) | 109.1 | 113.6 | 118.3 |
| 2. Supplementary trade items [3] | – 0.9 | – 0.1 | 0.2 |
| 3. Services | | | |
| Receipts | 21.3 | 23.1 | 23.7 |
| Expenditure | 28.6 | 34.7 | 32.2 |
| Balance | – 7.3 | – 11.6 | – 8.5 |
| 4. Factor income (net) | – 3.3 | – 3.7 | – 4.2 |
| 5. Current transfers | | | |
| from non-residents | 3.3 | 3.1 | 3.8 |
| to non-residents | 13.7 | 10.2 | 13.2 |
| Balance | – 10.4 | – 7.1 | – 9.4 |
| Balance on current account | – 4.3 | – 5.7 | – 1.0 |
| II. Capital transfers | | | |
| from non-residents | 0.4 | 0.3 | 0.7 |
| to non-residents | 0.2 | 0.2 | 0.2 |
| Balance | + 0.2 | + 0.1 | + 0.5 |
| III. Financial account (net capital exports: –) | | | |
| Direct investment | – 2.0 | – 3.9 | – 9.3 |
| German investment abroad | – 5.1 | – 6.1 | – 8.6 |
| Foreign investment in Germany | + 3.2 | + 2.2 | – 0.8 |
| Portfolio investment [4] | + 10.9 | + 22.7 | + 21.7 |
| German investment abroad | – 6.6 | – 3.4 | – 5.7 |
| Foreign investment in Germany | + 17.6 | + 26.1 | + 27.4 |
| Credit transactions [4] | – 0.4 | + 1.6 | – 1.8 |
| Credit institutions | – 2.1 | – 14.2 | + 11.3 |
| Long-term | + 6.3 | + 1.7 | + 2.1 |
| Short-term | – 8.3 | – 15.9 | + 9.2 |
| Enterprises and individuals | + 5.2 | + 12.5 | – 14.7 |
| Long-term | + 0.3 | – 0.3 | – 3.4 |
| Short-term | + 4.9 | + 12.8 | – 11.3 |
| Public authorities | – 3.5 | + 3.3 | + 1.6 |
| Long-term | – 3.0 | + 1.5 | + 0.1 |
| Short-term | – 0.4 | + 1.8 | + 1.5 |
| Other investment | – 1.4 | – 0.5 | – 0.8 |
| Overall balance on financial account | + 7.2 | + 20.0 | + 9.9 |
| IV. Balance of unclassifiable transactions | – 2.0 | – 11.5 | – 7.4 |
| V. Change in the Bundesbank's net external assets at transaction values (increase: + ) [5] (I plus II plus III plus IV) | + 1.1 | + 2.9 | + 2.0 |

**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.

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main reason for this increase was the fact that import prices for petroleum had risen by just over 28½% over the past year. The sharp increase in the value of imports from the United States (of a seasonally adjusted 9%) in the third quarter can be attributed largely to higher DM import prices resulting from the appreciation of the dollar. On average, import prices in the two months of October and November rose by 1% vis-à-vis the preceding two-month period; they were thus 1½% higher than at the same time of the previous year. The growth in the (real) import volume was therefore distinctly smaller, particularly recently, than the rise in nominal import values may have suggested.

*Invisibles*

The deficit on invisible current transactions with non-residents in the form of exports and imports of services as well as factor income and current transfers increased once again in October and November after special influences caused the comparable figure for the two preceding months temporarily to end up considerably lower in September. Although, at DM 25 billion, the seasonally adjusted deficit was therefore just over DM 5½ billion higher than in August-September, it was in a range similar to that in the corresponding period of the previous year (DM 24 billion).

*Services account*

Nearly half of the deficit is attributable to that on services (DM 10½ billion), which rose by DM 2½ billion, after seasonal adjustment, in October and November compared with the preceding two months. The main contributory factor was foreign travel, which closed with (seasonally adjusted) net expenditure of DM 9 billion in October and November, or almost DM 1 billion more than in the preceding two-month period. This could primarily be a reflection of the increase in the prices of foreign travel resulting from the appreciation of the national currencies of important destinations for German business travellers and tourists. Although there is no information available for the period under review on the regional breakdown of German tourist expenditure abroad which could buttress this assumption, the traditionally great weight of German travel expenditure in the Mediterranean countries as well as the increasing popularity of long-haul trips indicate that such influences have played a role.

*Factor income*

In October-November, at DM 4 billion, the deficit on factor income remained at the level of the two preceding months, after elimination of seasonal fluctuations. This consists mainly of the balance of investment income receipts and payments, which has fallen slightly further since the summer of last year, especially due to higher payments. Apparently the higher net investment income receipts, on account of the increased interest rate advantage for the dollar and its appreciation in the foreign exchange markets, were unable to offset the burden on the investment income account from the decline in German net external assets. However, it is also possible that the remarkable interest rate convergence between major partner currencies in Europe and the Deutsche Mark contributed to this, although the percentage of German foreign currency claims not denominated in dollars on non-residents will probably only be relatively slight.

*Current transfers*

The deficit on transfer payments, which has returned to "normal" dimensions after the temporary decrease in September, totalled DM 10½ billion in October and November (after seasonal adjustment), compared with DM 7½ billion during the two previous months. The difference of DM 3 billion is due to the aforementioned refunds from the EC supplementary budget in September. These caused German net payments to the EU in the previous period to fall below the usual levels. The remaining current transfers, by contrast, were largely unchanged. Pensions and maintenance payments to non-residents amounted to some DM 2 billion (net), and just over DM 1 billion flowed abroad in the form of remittances of foreign workers to their home countries.

## Financial transactions and reserve movements

*Foreign investment in German securities*

Against the background of sustained shifts in the pattern of international interest and exchange rates, German capital markets recorded a distinctly lower net inflow of funds from abroad in the last quarter of 1996 than between July and September. However, German securities were able to hold their own comparatively well in the competition for international investment capital, since favourable underlying factors caused holding gains to be expected here, too. Although non-residents, at DM 31 billion net, invested some DM 10 billion less in domestic paper during the period under review than in the preceding quarter, this decline is almost exclusively attributable to a special development in warrants.[1] By contrast, after a period of muted activity, non-residents appeared increasingly as purchasers in the German equity market; on balance, between October and December they bought domestic shares worth DM 6 billion. The much greater percentage of the funds will likely have gone to the flotation of the Telekom shares, which was surely in part at the expense of other equities. Especially fixed-interest securities of domestic issuers continued to be in demand abroad. International investors replenished their German bond portfolios during the period under review by DM 27½ billion and thus nearly as much as in the preceding quarter (DM 28½ billion).

Net purchases went primarily to bank bonds. Among the bonds issued by domestic banks, particularly foreign currency bonds met with great international interest (DM 12½ billion); to some degree, this paper is "tailored" to the needs of foreign investors. Among the issue currencies, the dollar and the French franc recently played the most significant role. In the area of government securities, besides Federal bonds and five-year special Federal bonds, the two-year Treasury notes *("Schätze")* which were offered for the first time in September have been able to conquer a market abroad, too.

In contrast to longer-term bonds, non-residents invested almost DM 6 billion in money

1 Owing to the apparently unexpected price movements on many international stock exchanges, domestic issuers of warrants had to make large margin payments to non-residents. These are recorded in the German balance of payments as redemptions of domestic warrants by non-residents since a parallel flow of payments is headed abroad.

## Financial transactions

DM billion, net capital exports: –

| Item | 1995 4th qtr | 1996 3rd qtr | 1996 4th qtr |
|---|---|---|---|
| 1. Direct investment | – 9.9 | – 7.6 | – 14.9 |
| German investment abroad | – 13.5 | – 11.5 | – 13.5 |
| Foreign investment in Germany | + 3.6 | + 3.8 | – 1.4 |
| 2. Portfolio investment | + 5.3 | + 27.3 | + 12.6 |
| German investment abroad | – 15.8 | – 13.6 | – 18.3 |
| Shares | + 0.0 | – 0.7 | – 9.8 |
| Investment fund certificates | – 3.5 | – 0.5 | – 0.1 |
| Bonds and notes | – 5.1 | – 5.6 | – 5.2 |
| Money market paper | – 4.7 | – 2.6 | – 4.1 |
| Financial derivatives 1 | – 2.5 | – 4.2 | + 0.9 |
| Foreign investment in Germany | + 21.1 | + 40.9 | + 30.9 |
| Shares | – 3.9 | – 0.1 | + 5.9 |
| Investment fund certificates | – 0.2 | – 0.4 | – 1.8 |
| Bonds and notes | + 25.2 | + 28.6 | + 27.3 |
| Money market paper | – 2.3 | + 10.2 | + 5.8 |
| Warrants | + 2.3 | + 2.8 | – 6.3 |
| 3. Credit transactions | + 10.4 | + 1.4 | – 18.0 |
| Credit institutions | – 11.0 | – 20.3 | – 21.2 |
| Long-term | + 6.3 | + 5.8 | + 3.2 |
| Short-term | – 17.3 | – 26.2 | – 24.4 |
| Enterprises and individuals | + 20.7 | + 12.9 | + 1.6 |
| Long-term | + 0.4 | – 0.7 | – 3.4 |
| Short-term 2 | + 20.2 | + 13.6 | + 5.0 |
| Public authorities | + 0.7 | + 8.8 | + 1.6 |
| Long-term | + 1.6 | + 2.0 | + 0.6 |
| Short-term | – 0.9 | + 6.8 | + 1.0 |
| 4. Other investment | – 1.8 | – 1.0 | – 1.3 |
| 5. Balance of all statistically recorded capital flows | + 4.0 | + 20.1 | – 21.5 |
| Memo item Change in the Bundesbank's net external assets at transaction values (increase: +) 3 | + 0.6 | + 0.2 | – 2.0 |

**1** Securitised and non-securitised options as well as financial futures contracts. — **2** Excluding the changes in financial operations with foreign non-banks and in the trade credits for December 1996, which are not yet known. — **3** Excluding allocation of SDRs and changes due to value adjustments.

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market paper, or only just over half as much as in the period from July to September. Besides interest rate and currency speculation motives, the fact that the second tranche of the *"Bubills"* issued in October was smaller than the first one in July will probably have played a role.[2] At that time, non-resident investors (including foreign central banks) bought large amounts of this paper. All in all, at the end of 1996, an estimated 70 % of the total issue was in the portfolios of foreign investors.

*German portfolio investment abroad*

As DM interest rates continued to drop and exchange rate risks were apparently assessed to be lower, the interest of domestic investors in foreign securities most recently underwent a noticeable revival. The amount of foreign securities they purchased, worth DM 18½ billion, was about DM 4½ billion up on the preceding quarter, with credit institutions also entering the scene as purchasers. In the light of positive market developments on many foreign stock exchanges – with the exception of Japan, where the Nikkei index plummeted around the end of the year – equities were in particular demand (DM 10 billion), but foreign money market paper (DM 4 billion), too, gained some ground compared with the previous period. By contrast, net purchases of bonds and notes underwent hardly any change (DM 5 billion). Overall, paper denominated in foreign currency was also dominant among the interest-bearing forms of investment. In the light of the forthcoming monet-

2 The total volume of these Federal Treasury notes running for less than one year is limited to a maximum of DM 20 billion each for 1996 and 1997; the allotment volume of the first tranche was DM 11 billion, that of the second tranche DM 8½ billion.

ary union, potential participating currencies were high on the lists of domestic investors besides the dollar; given massive "convergence trading", they promised considerable capital gains in the short term. On the other hand, despite the increased interest rate advantage of sterling bonds, no exceptionally great demand for such paper from Germany could be discerned, which does not exclude the possibility that non-residents invested increasing amounts in the British currency.

In contrast to the previous years, in which somewhat more comprehensive purchasing of foreign investment fund certificates took place near the end of the year for tax reasons, the purchases and sales of such certificates in the last quarter of 1996, as in the preceding three months, were practically balanced. Now that the (virtual) abolition of the tax on wealth has been adopted, a decisive motivation to invest in such paper seems to be gone.

Overall, the securities transactions between residents and non-residents in the last quarter of 1996 totalled DM 12½ billion; that was less than half as much as in the preceding quarter. These capital imports were accompanied by large outflows in the remaining sectors of financial transactions. The direct investment deficit rose quite perceptibly to DM 15 billion net. A decisive contribution was made by the fact that foreign firms withdrew funds from their local subsidiaries between October and December on balance (– DM 1½ billion), after having invested nearly DM 4 billion in Germany in the preceding three-month period; as a result, particularly the long-term borrowing of local subsidiaries from their parent companies abroad was curtailed. By contrast, at DM 13½ billion, German firms spent slightly more on purchases of foreign participating interests than in the third quarter. This rise, however, reflects the usual seasonal trends in direct investment towards the end of the year.

*Direct investment*

Portfolio transactions


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*Credit transactions of non-banks*

The statistically recorded credit transactions of non-banks, at DM 3 billion, showed much lower inflows than in the previous quarter (DM 21½ billion): cross-border credit and investment decisions of public authorities, despite their borrowings abroad, only led to a small net surplus of DM 1½ billion, since the social security funds noticeably augmented their balances in the Euro-market at the end of the year. By contrast, enterprises and individuals withdrew fairly sizeable balances from foreign banks as part of their end-of-year operations (as in earlier years, too) after having enlarged them considerably, especially in October. In part, these short-term imports of funds represent the counterpart of developments in Germany, where particularly sight deposits of private non-banks rose markedly towards the end of the year. All in all, borrowed funds worth DM 1½ billion accrued to enterprises and individuals in the final quarter of 1996.

*Credit transactions of banks*

In banks' credit transactions, the decline in the inflow of long-term funds which could be observed since the beginning of the year continued; on balance, only DM 3 billion accrued in the last quarter of 1996. That meant that in this sector of financial transactions, once again short-term movements of funds predominated, the balance of which is largely to be interpreted as the counterpart of the remaining current and financial transactions. As a result, the short-term net external assets of banks rose by DM 24½ billion between October and December and thus almost as sharply as in the preceding quarter.

An overall view of the balance of payments shows that the situation is different because the remaining cross-border transactions in the previous quarter led to a net surplus; the counterpart in the balance sheet was a rise in the short-term external position of the banks. By contrast, according to the information available so far, a deficit is to be expected in the current and financial transactions of non-banks in the quarter under review; this, together with the large deficit in the banks' credit transactions, implies a very high positive balance of unclassifiable transactions as a "contra-entry" in the balance of payments. After the negative balance of unclassifiable transactions in the preceding quarters, this could point to temporal classification and definition problems which have apparently rendered it particularly difficult of late to record all cross-border current and financial transactions in full and in the appropriate periods.

*External position of the Bundesbank*

In contrast to the external position of the credit institutions, the net external assets of the Deutsche Bundesbank declined slightly towards the end of the year; on balance, they decreased by DM 2 billion between October and December. A key factor in this was sales of foreign exchange which had flowed in from outside the market and which was not to remain permanently in the stock of monetary reserves. Calculated at transaction values, the external assets of the Bundesbank fell by DM 2½ billion in the quarter under review, and the external liabilities by DM ½ billion. Taking the balance sheet rates of the end of 1995 as a basis, the net external assets amounted to DM 105 billion, compared with DM 107 billion at the end of 1995. In January 1997, for which data are already available, the net external position of the Bundesbank changed only little (– DM ½ billion).

## Exchange rate trends

Trends in the foreign exchange markets were characterised during the winter months by a progressing relaxation and normalisation. Especially the partner currencies which came under heavy pressure in the spring of 1995 have since regained considerable ground.

*US dollar*

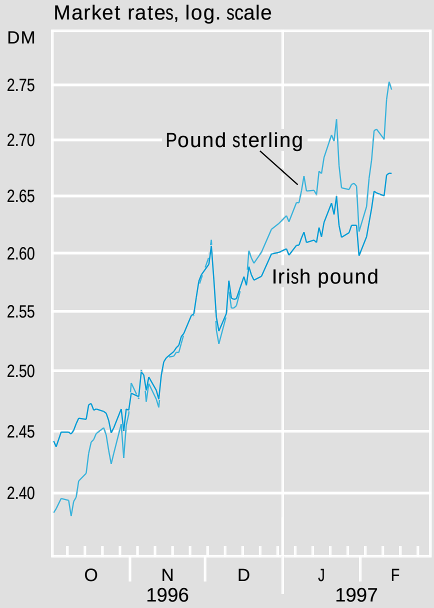
The centre of interest was, naturally, the further recovery of the US dollar, which at the end of the year passed the DM 1.55 mark for the first time again and was able to gain in strength in the following period. The continued rather robust economic trend in the United States promoted this positive basic mood for the US currency as much as the growing interest rate differential in favour of the dollar since the beginning of December of last year. Structural factors putting a burden on the US currency, such as the still unresolved deficit problems besetting the US current account, as well as the internal savings imbalance reflected therein, seem to have receded into the background in the light of the necessary consolidation tasks in Germany and Europe. When this Report went to press, the US dollar was quoted at around DM 1.68; in real terms, this corresponds to the level last reached by the dollar at the beginning of 1994.

*European currencies …*

Some European partner currencies, too, were able to make a lasting recovery against the Deutsche Mark. The high level of the pound sterling since the middle of last year is conspicuous. During the period under review alone, the British currency appreciated by over pfennig 30 against the Deutsche Mark. At DM 2.73, it recently almost reached the level of autumn 1992. The sustained strong growth of the British economy and the associated interest rate expectations seem to have contributed to these changed portfolio preferences in favour of the pound sterling. Moreover, some investors increasingly seem to see an alternative to the Swiss franc in the pound sterling for investments outside the future euro area. In any case, the Swiss currency has noticeably lost ground against the Deutsche Mark over the past few months after having been in a firm state up to then.

Exchange rate trend of the pound sterling and the Irish pound

Market rates, log. scale




Latest position: February 13, 1997.

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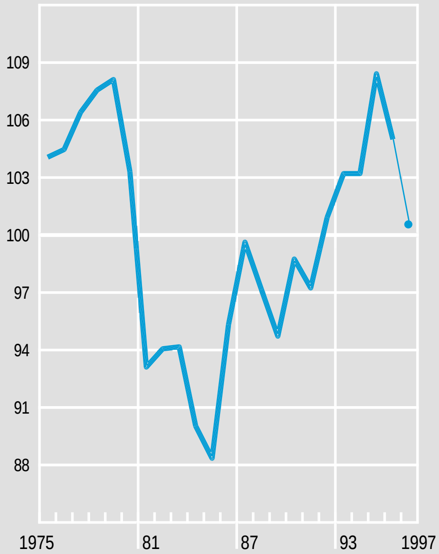
Weighted real external value of the Deutsche Mark *

1975-1996 =100




* External value adjusted for the different overall price trends, relative to the prices of total sales. — ● = Latest position: February 13, 1997.

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*... especially EMS currencies*

The trend of the Deutsche Mark against most of the currencies participating in the EMS exchange rate mechanism was largely calm during the winter months – although there have recently been slight gains by the Italian lira and the Portuguese escudo. During the months under review, owing to close integration with the British economy, only the Irish currency was able, in the wake of the pound sterling, to post lasting exchange rate gains of around 9 %. Hence, the Irish pound continued to be the highest valued currency in the European exchange rate mechanism. Against the French franc, which remained largely stable in the period under review, it even recorded an exchange rate lead (compared with the central rate) of around 11% at the end of the period under review.

*Japanese yen*

The exchange rate trend against the Japanese yen has been characterised by extreme uncertainty and corresponding fluctuations in both directions for some time now. During the winter months, this trend continued. Besides the persistent structural pressures, the unclear prospects concerning future economic developments also play a role, all the more so as a consolidation of Japanese public finance seems more urgent than before following last year's record overall budget deficit of nearly 7 % of GDP and a current debt-to-GDP ratio of nearly 90 %. On balance, the Japanese currency has fluctuated in a range of DM 1.32 to DM 1.38 since the beginning of October. At its most recent quotation of DM 1.36, it was somewhat firmer then at the beginning of October.

*External value of the Deutsche Mark*

On a weighted average, the Deutsche Mark was valued just over 2 ½ % lower vis-à-vis the currencies of 18 industrial countries when this Report went to press than at the beginning of October 1996. Taking account of the different price and/or cost trends both in Germany and abroad, the weighted external value – in real terms – is in a range corresponding roughly to the average of the past 20 years.