

## Foreign trade and payments

*Overview*

Following the significant revival in exports last year, external transactions continued to be the main driving force behind economic growth in Germany during the first few months of 1997. In the first quarter of this year German exports again increased substantially. While the value of imported goods rose at a similar rate, this was mainly due, in contrast to the case with exports, to price rises resulting from exchange-rate-related increases in the prices of goods from abroad and from the higher prices of raw materials on world markets. At DM 28½ billion, the seasonally adjusted foreign trade surplus was therefore only slightly larger than in the final quarter of 1996; in real terms, however, there was a further net rise in German exports.

The balance on invisibles moved in the opposite direction; at DM 36½ billion, the seasonally adjusted deficit in this sector was DM 4 billion larger than in the previous quarter. However, special factors played a role in the case of current transfers, which meant that Germany's contributions to the EC budget were relatively large at the beginning of the year. This, incidentally, is also the reason why the deficit on current account as a whole rose during the first quarter of this year, despite the sustained favourable trend in exports, by just under DM 4½ billion, seasonally adjusted, to DM 8½ billion, compared with the previous quarter.

### Current account in detail

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The seasonally adjusted value of exports was 3½ % higher in the first quarter of 1997 than

*Exports*



in the final quarter of 1996. Since the summer of 1996 German exports have grown by more than 7%; this is equivalent to an annual rate of just over 15%. On an average of the first quarter of 1997 exports exceeded their level at the same time last year by almost 12%, after adjustment for working-day variations. All available indicators suggest that the buoyancy in exports will continue – even if future growth rates cease to be in double figures. Orders received by the manufacturing sector from abroad in the first quarter of this year exceeded their level in the fourth quarter of 1996 by 4½%. The ifo business survey also shows that German industry regards its foreign trade as remarkably favourable; the enterprises surveyed, at any rate, assessed their export prospects in the next few months as being more or less as good as they last

were during the export boom of 1994. It is certain that this development is due just as much to the relaxation in the exchange rate pattern as to the recovery in economic growth in most partner countries.

The markets of the member countries of the European Union, which absorb almost three-fifths of German exports, continued to be of particular importance. The growth in German exports has recently accelerated appreciably in this economic area, whereas developments had been tending to stagnate here previously. In the final quarter of last year (more recent data on the regional breakdown of exports are not yet available) German exports to other EU countries rose by just over 6½%, seasonally adjusted, compared with the third quarter. At the same time the markets in non-European industrial countries, notably the United States, the emerging markets of South-East Asia and the central and east European countries in transition, which had hitherto been providing substantial stimuli to growth, became somewhat less important in the short term.

*Regional  
breakdown*

As in the case of exports, there was a sharper rise in the value of imports during the first three months of this year when their seasonally adjusted value was just over 3½% higher than in the fourth quarter of 1996; it was 9% higher compared with the corresponding period a year earlier. However, it is likely that the real increase in imports was distinctly smaller because the prices of imported goods, which had been largely stagnating since the spring of 1995, rose appreciably towards the end of 1996 and at the begin-

*Imports*

ning of this year. In the first quarter of this year alone they rose by a seasonally adjusted 1½%, compared with the previous three-month period, and therefore exceeded their value at the same time a year earlier by just over 2½%. The main contributory factor here was that the prices of raw materials in the period under review increased significantly in Deutsche Mark terms. Moreover, the strength of the dollar in the foreign exchange markets resulted in a general rise in import prices in Deutsche Mark. It may be assumed that, if the imports of raw materials are excluded, the import bill rose significantly more slowly than the overall figure. At all events, this is suggested by the data on the breakdown of German imported goods, though these figures, like those on the regional breakdown, are so far available only up to the end of 1996.

*Regional  
breakdown  
of imports*

According to the data on the regional breakdown so far available, it was mainly the countries of the European Union that benefited from the greater expenditure of the German business sector on imported goods; Germany's imports here rose by just over 6½%, seasonally adjusted, in the fourth quarter of 1996, which means that the level of the corresponding period a year earlier was exceeded by 9%. Owing to the higher import bill for energy (the increase towards the end of last year was mainly due to prices), the value of imports from the United Kingdom, in particular, rose sharply (by a seasonally adjusted 16½%, compared with the previous quarter). Much the same is true of the imports from the OPEC countries. The seasonally adjusted value of these increased by 6½% in

### Regional breakdown of foreign trade

4th quarter of 1996, seasonally adjusted

Group of countries/ Country	Exports		Imports	
	DM billion	Change from previous quarter in %	DM billion	Change from previous quarter in %
Industrial countries	155.7	4.6	136.6	4.7
EU countries	118.0	6.7	100.8	6.7
of which				
Austria	11.8	5.4	6.9	4.5
Belgium/ Luxembourg	13.8	14.0	11.9	9.2
France <sup>1</sup>	21.0	2.4	17.8	4.1
Italy	14.9	1.4	14.9	6.4
Netherlands	15.7	8.3	15.6	4.7
Spain	7.8	13.0	5.8	1.8
United Kingdom	17.3	13.8	13.5	16.4
Other industrial countries	37.7	-1.3	35.7	-0.8
of which				
United States	15.8	0.6	12.6	-3.1
Japan	5.2	-3.7	8.2	1.2
Countries in transition	22.1	2.3	21.0	4.5
of which				
Countries in central and eastern Europe	18.4	-2.6	16.5	5.8
China	3.6	33.3	4.6	-0.0
Developing countries	26.5	0.8	19.8	3.1
of which				
OPEC countries	4.4	0.0	3.4	6.3
Emerging markets in South-East Asia	11.5	0.9	8.7	-2.2
All countries	205.5	3.8	177.4	4.0

<sup>1</sup> Excluding aircraft.

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## Major items of the balance of payments

DM billion

Item	1996 1		1997 1
	1st qtr	4th qtr	1st qtr
<b>I. Current account</b>			
1. Foreign trade <sup>2</sup>			
Exports (f.o.b.)	189.3	211.3	202.4
Imports (c.i.f.)	170.1	182.3	178.2
Balance	+ 19.2	+ 29.0	+ 24.2
Memo item			
Seasonally adjusted			
figures			
Exports (f.o.b.)	190.0	205.5	212.4
Imports (c.i.f.)	168.7	177.4	183.9
2. Supplementary trade items <sup>3</sup>	- 0.5	+ 0.2	- 0.6
3. Services			
Receipts	32.4	35.9	33.6
Expenditure	43.0	48.3	46.9
Balance	- 10.6	- 12.4	- 13.3
4. Factor income (net)	+ 1.8	- 4.0	- 5.4
5. Current transfers			
from non-residents	10.4	5.6	10.9
to non-residents	21.8	20.3	24.5
Balance	- 11.3	- 14.8	- 13.6
Balance on current account	- 1.4	- 1.9	- 8.6
<b>II. Capital transfers</b>			
from non-residents	1.4	0.7	1.5
to non-residents	0.8	0.8	0.6
Balance	+ 0.6	- 0.1	+ 0.9
<b>III. Financial account</b>			
(net capital exports: -)			
Direct investment	- 10.9	- 16.1	- 14.9
German investment			
abroad	- 10.4	- 13.6	- 15.5
Foreign investment in			
Germany	- 0.5	- 2.5	+ 0.6
Portfolio investment <sup>4</sup>	+ 12.7	+ 15.1	+ 0.0
German investment			
abroad	- 21.3	- 16.5	- 43.7
Foreign investment in			
Germany	+ 34.1	+ 31.5	+ 43.7
Credit transactions <sup>4</sup>	+ 13.4	- 21.2	+ 28.9
Credit institutions	+ 32.1	- 21.2	+ 78.3
Long-term	+ 9.3	+ 3.2	+ 13.4
Short-term	+ 22.8	- 24.4	+ 65.0
Enterprises and			
individuals	- 12.5	+ 0.5	- 37.4
Long-term	- 0.8	- 3.6	- 1.0
Short-term	- 11.7	+ 4.1	- 36.4
Public authorities	- 6.3	- 0.5	- 12.0
Long-term	- 3.7	+ 0.7	- 5.4
Short-term	- 2.6	- 1.2	- 6.6
Other investment	- 0.6	- 1.7	- 0.7
Overall balance on financial account	+ 14.6	- 23.9	+ 13.3
<b>IV. Balance of unclassifiable transactions</b>	- 12.7	+ 23.9	- 7.6
<b>V. Change in the Bundesbank's net external assets at transaction values (increase: +) <sup>5</sup></b>			
(I plus II plus III plus IV)	+ 1.0	- 2.0	- 1.9

<sup>1</sup> Figures subject to major uncertainty owing to changes in the method of data collection in foreign trade. — <sup>2</sup> Special trade according to the official foreign trade statistics. — <sup>3</sup> Mainly warehouse transactions for account of residents and deduction of goods returned. — <sup>4</sup> Excluding direct investment. — <sup>5</sup> Excluding allocation of SDRs and changes due to value adjustments.

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the final quarter of 1996; the increase in the fourth quarter was 31% higher than at the same time in the previous year. German imports from the central and east European countries in transition also continued to rise, probably also due to a large extent to the imports of energy and raw materials. By contrast, imports from the United States fell significantly (by a seasonally adjusted 3%, compared with the third quarter of 1996). The strength of the US dollar and the consequent competitive disadvantages of the US business sector probably had a considerable effect on this result.

The deficit on invisible current transactions with non-residents in the form of exports and imports of services as well as factor income (as reflected in the factor income account) and current transfers was greater in the first quarter of 1997 than in the previous quarter. After eliminating seasonal fluctuations, the aggregate deficit rose to DM 36 ½ billion, compared with DM 32 ½ billion in the final quarter of last year. Larger deficits on current transfers connected with the contributions to the EC budget were of particular significance here.

In the first quarter of this year Germany's deficit on services, when viewed in isolation, rose only slightly (by just over DM ½ billion, seasonally adjusted, to just under DM 16 billion). As usual, the deficit was mainly due to net expenditure on foreign travel. In seasonally adjusted terms, however, this expenditure, at just over DM 12 billion in the first quarter of 1997, was slightly below its level in the previous quarter. The disposable income of

*Invisibles*

*Services account*

households, which had risen only slightly, and the persistent risk of unemployment, together with the – in some cases – significant appreciation of the currencies of major countries of destination, probably contributed to the fact that the tendency towards stabilisation of expenditure on foreign travel, which has been observed for some time, continued right up to the end of the period under review, whereas up to about the middle of the nineties steadily rising deficits had characterised the German foreign travel account. According to the data on the regional distribution of German travel expenditure, which are available only up to the end of 1996, however, German holidaymakers have recently appeared to be somewhat more reluctant to undertake journeys, particularly to the United States and to some Mediterranean countries, which became very much more expensive last year as a result of exchange rate movements.

*Factor income*

During the period under review the seasonally adjusted deficit on factor income likewise declined slightly, falling from just under DM 5 billion in the fourth quarter of 1996 to DM 4 billion in the first quarter of 1997. This development was mainly due to the reduction in the investment income payments on German securities held by non-residents, which until the end of 1996 had tended to rise steadily, and to the other German financial assets and participating interests held by foreign investors.

*Current transfers*

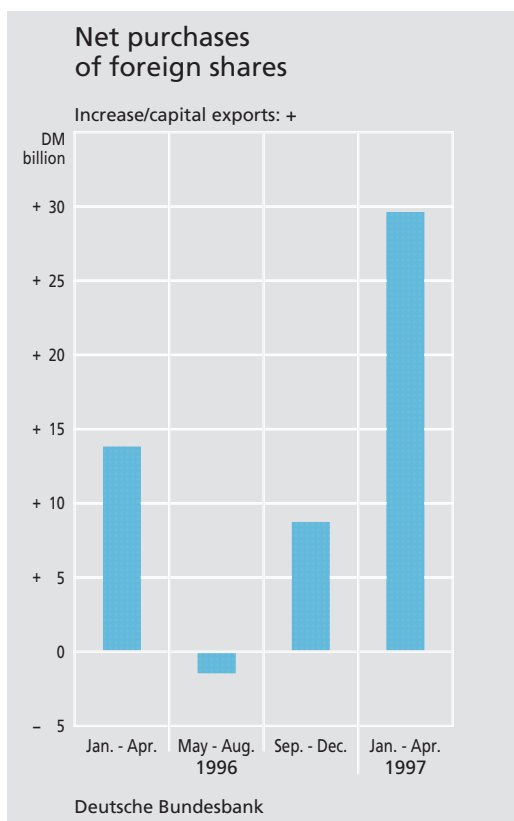
The further deterioration in the German current account in the first quarter of this year was essentially due to the larger deficit on

current transfers. However, special factors were the main reason for this. The increase in the (seasonally adjusted) deficit from DM 12 ½ billion (in the fourth quarter of 1996) to DM 16 ½ billion in the period under review is primarily due to larger payments to the EC budget in January this year. The EC had requested Germany to make these larger contributions in anticipation of the EC's share in German VAT revenue in the coming months. As a result, Germany's net current payments to the EC budget, at just over DM 6 billion, were DM 2 ½ billion more during the entire first quarter of 1997 than they had been during the same period a year earlier. In the case of the other current transfers to non-residents, by contrast, net payments remained within the usual limits. For example, pensions and maintenance payments to non-residents during the first quarter of 1997 amounted to DM 3 billion, while the remittances of foreign workers in Germany to their home countries amounted to just under DM 2 billion.

**Financial transactions and reserve movements**

Events in the international financial markets during the first four months of 1997 were influenced by increasing differences between US interest rates and those elsewhere and by the continuing firmness of the dollar. The consequent portfolio shifts were ultimately reflected in the German capital account as well. The now traditional deficit on direct investment was compounded by net capital outflows in cross-border securities transac-

*Trends in financial transactions*



tions and, above all, in the credit transactions of non-banks. These exports of funds were offset in the account by a discernible reduction in the net external assets of the credit institutions; the net external assets of the Bundesbank also declined slightly.

*Portfolio transactions*

The change in expectations regarding interest and exchange rates was particularly discernible in cross-border securities transactions. Whereas in the last four months of 1996 the interest rate trend, which internationally was on a more or less steep decline, resulted in inflows of just under DM 20 billion (net) to Germany, there were outflows amounting to approximately DM 11½ billion net between January and April 1997. The most noteworthy point here was the sudden increased interest of German investors in foreign secur-

*German investment abroad*

ities. At DM 55 billion during the period under review, the value of German investment abroad was almost as great as it had been throughout 1996 (DM 60½ billion). Demand was greatest for foreign shares (DM 29½ billion), which probably benefited from the generally favourable mood on many foreign exchanges and from a certain dearth of sufficiently attractive investment alternatives in the form of bonds and notes. However, a sizeable portion of the net purchases of foreign shares – approximately DM 13 billion – recorded in Germany's balance of payments at the beginning of the year was also in connection with securities lending transactions which domestic credit institutions, and financing companies regarded as non-banks, are increasingly conducting in Germany. At DM 20 billion, the amount of investable funds flowing out of Germany and into foreign bonds and notes was noticeably smaller than the corresponding funds used to purchase shares. Nevertheless, German credit institutions, in particular, did invest to a remarkable extent. Interest was focused on foreign currency paper, notably dollar assets and – some way behind – lira-denominated issues.

Although non-residents' interest in German securities during the four-month period under review (January to April 1997) was greater – with a value of DM 43½ billion net – than it had been in the final four months of 1996 (DM 38 billion), it declined discernibly as the period progressed. At a time when expectations regarding US interest rates were rising – the US central bank raised the target for the federal funds rate by ¼ percentage point to 5.5% on March 25, 1997 –

*Foreign investment in Germany*

and long-term dollar assets were enjoying a growing interest rate advantage, which promised additional profits in the light of the appreciation of the dollar, non-resident investors in the German market changed in March and April from being net purchasers to being net sellers. This was reflected in the German equity market, in particular, where foreign investors evidently engaged in profit-taking following the sharp price rises at the beginning of the year, with the result that net share purchases by non-residents during the whole of the period under review were DM 6 billion lower.

The reluctance of non-residents was less obvious in the German bond market, by contrast. Here, net inflows of funds from abroad amounted to as much as DM 45 billion. However, two-thirds of these capital imports were recorded in January when interest receipts normally result in a considerable demand for reinvestment. Net foreign purchases of bonds and notes subsequently declined markedly. Foreign funds flowed almost equally into public and private sector paper during the period under review. Foreign investors continued to be particularly interested in two-year Treasury notes (*Schätze*) as well as in Federal bonds and five-year special Federal bonds. As far as bank bonds were concerned, they preferred foreign currency paper, which presumably is tailored to the needs of foreign investors. Once again the dollar was the leading issue currency; the yen, the pound sterling and various other European currencies also accounted for small amounts.

Foreign demand also continued in the case of money market paper during the period under review (January to April: DM 6 billion). At the beginning of the year private issues such as commercial paper and short-dated bank bonds played a somewhat greater role in cross-border financial transactions, as did *Bubills*, whose volume outstanding did not increase any further after the maximum amount planned had been almost fully placed.<sup>1</sup>

As in the case of the net capital outflows in the portfolio area, direct investment also ran a deficit which, at DM 17 ½ billion, was only just below the level in the preceding four-month period. German enterprises increased their international investment further and invested DM 17 ½ billion net abroad. It would appear that at the beginning of the year the United States was a particular investment target, absorbing more than DM 5 billion in direct investment funds during the first three months of 1997.

*Direct  
investment*

By contrast, foreign corporate participating interests in Germany were virtually unchanged during the first four months of this year; in the final four months of 1996 there had been net outflows of funds. However, it is not yet possible to draw any firm conclusions from the direct investment statistics because these are still subject to the planned revisions in connection with the

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<sup>1</sup> An estimated 70 % of the entire *Bubills* issue amounting to just under DM 20 billion had already been placed in foreign safe custody accounts at the end of 1996. This share has risen further as a result of the significant foreign participation in new auctions of paper approaching maturity and through purchases in the secondary market. It is estimated that at the end of April foreign investors probably held almost 90 % of all *Bubills* outstanding.

## Financial transactions

DM billion, net capital exports: –

Item	1996		1997
	Jan.– Apr.	Sep.– Dec.	Jan.– Apr.
1. Direct investment	– 12.8	– 19.0	– 17.4
German investment abroad	– 12.4	– 16.6	– 17.4
Foreign investment in Germany	– 0.4	– 2.4	– 0.0
2. Portfolio investment	+ 3.4	+ 19.8	– 11.6
German investment abroad	– 31.5	– 18.4	– 54.8
Shares	– 13.8	– 8.7	– 29.6
Investment fund certificates	– 3.5	+ 0.6	– 2.8
Bonds and notes	– 11.0	– 5.0	– 20.0
Money market paper	+ 0.6	– 3.1	– 2.7
Financial derivatives 1	– 3.9	– 2.2	+ 0.4
Foreign investment in Germany	+ 34.9	+ 38.2	+ 43.3
Shares	– 1.9	+ 8.3	– 5.8
Investment fund certificates	+ 0.4	– 1.7	+ 1.1
Bonds and notes	+ 27.1	+ 29.7	+ 45.1
Money market paper	+ 5.7	+ 5.6	+ 6.1
Warrants	+ 3.5	– 3.6	– 3.2
3. Credit transactions	+ 40.4	– 18.1	+ 49.1
Credit institutions	+ 64.1	– 24.2	+ 92.7
Long-term	+ 12.5	+ 4.6	+ 18.4
Short-term	+ 51.6	– 28.8	+ 74.3
Enterprises and individuals	– 20.6	+ 5.9	– 33.1
Long-term	– 0.6	– 3.8	– 1.6
Short-term 2	– 20.0	+ 9.7	– 31.4
Public authorities	– 3.1	+ 0.2	– 10.6
Long-term	– 3.6	+ 1.0	– 5.4
Short-term	+ 0.5	– 0.7	– 5.1
4. Other investment	– 0.9	– 2.0	– 1.3
5. Balance of all statistically recorded capital flows	+ 30.1	– 19.3	+ 18.8
Memo item			
Change in the Bundesbank's net external assets at trans- action values (increase: +)	+ 2.1	+ 0.4	– 2.2

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 April 1997, which are not yet known.

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international harmonisation efforts in the field of balance of payments statistics.<sup>2</sup>

There were net outflows of funds through the credit transactions of domestic non-banks with non-residents in the first four months of 1997. Short-term credit operations between affiliated enterprises continued to expand particularly strongly. One purpose of these transactions, which have recently been growing in importance, is to optimise liquidity management within large international groups; another point is that they are carried out in connection with the securities lending transactions mentioned above. Together with the usual return of deposits to the Euro-market at the beginning of the year the short-term financial operations with foreign non-banks contributed substantially to the sharp rise in the net assets of German enterprises and individuals vis-à-vis non-residents. With an increase of DM 33 billion between January and April 1997, the improvement in the balance was substantially greater than normal at the beginning of the year (January to April 1996: DM 20 ½ billion).

The public sector, too, exported capital (DM 10 ½ billion net) during the period under review. The most important transactions here were the Federal Government's reduction in long-term borrowing and net contributions to the EC budget.

The counterpart in the balance of payments to the large capital outflows mentioned is to

*Credit  
transactions of  
enterprises and  
individuals*

*Credit  
transactions  
of the public  
sector*

*Credit  
transactions  
of banks*

<sup>2</sup> See Deutsche Bundesbank, Problems of international comparisons of direct investment flows, Monthly Report, May 1997, page 77 ff.



be found in the credit transactions of the banks. These imported DM 18½ billion net through, *inter alia*, long-term borrowing abroad. As in the past, most of this sum was probably due to the transfer of issuing proceeds, which foreign financing subsidiaries of German credit institutions had achieved from issuing securities.

With respect to the amount involved, however, the short-term funds accruing to the domestic banks from the execution of all cross-border payments were significantly more important. The increase of DM 74½ billion between January and April represents a swing of more than DM 100 billion when compared with the result of the previous four-month period.

*External  
position of the  
Bundesbank*

Calculated at transaction values, the net external assets of the Bundesbank declined by DM 2 billion between January and April 1997. As at the end of 1996, interest income from foreign exchange investments and inflows of dollars from US troops stationed in Germany were more than offset by commercial foreign exchange market transactions. By contrast, there was a slight improvement in the net external position (just under DM 1 billion) in May. Taking the balance sheet rates at the end of 1996 as a basis, the net external assets of the Bundesbank therefore declined from DM 105½ billion at the end of December 1996 to approximately DM 104 billion at the end of May 1997.

## Exchange rate trends

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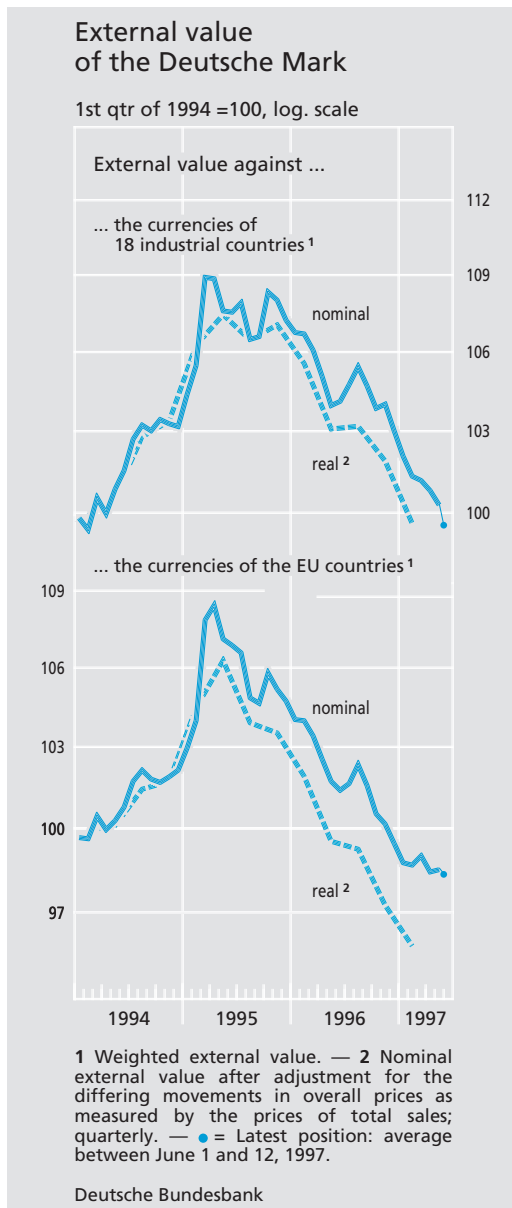
As the exchange rate relationships of major currencies had returned in 1996 to something akin to the current economic fundamentals, only comparatively minor exchange rate movements were observed during the early months of this year.

For example, the US dollar has been moving in a relatively narrow band of approximately DM 1.67 to DM 1.74 since the middle of February after the high level it had reached in the previous few months. However, the market trend oscillated as opinions changed on the future development prospects of the economies concerned and the interest rates which could be expected as a result. Opinions on the outlook for the US economy were particularly changeable: under the impact of the strong growth in the first quarter of this year and, by contrast, the remarkably moderate trends in wages and prices, sentiment fluctuated between mounting expectations about interest rate rises and subsequent periods of relaxation. In addition, there were (at times varying) expectations concerning the realisation of European monetary union. When this Report went to press, the US currency was being quoted at DM 1.73.

*US dollar*

Quotations for the pound sterling against the Deutsche Mark were also influenced up to the beginning of this year by cyclically induced interest rate differences in favour of the British currency. As in the case of the dollar, however, this development seems to have lost momentum for a time later in the spring after sterling had crossed the DM 2.80 mark

*Pound sterling  
and Irish pound*



at the beginning of May, thus reaching its highest level since August 1992. Again, the result of the British general elections may temporarily have led to greater uncertainty about the future monetary and fiscal policies of the new government in London. At all events, the British currency then weakened somewhat against the Deutsche Mark, but by the time this Report went to press, it was again being quoted at DM 2.82. The Irish

pound, by contrast, recently lost ground against the Deutsche Mark. It is likely that, in addition to the Irish government's declared intention to participate in monetary union from the start, the various scenarios regarding the setting of conversion rates during the transition to the single European currency are having a greater influence on investors than hitherto.

The Deutsche Mark's relationship to most of its continental European partner currencies was also extremely stable in the spring. This applies not only to currencies such as the Dutch guilder, the Austrian schilling and the Belgian franc, which are traditionally closely linked to the Deutsche Mark, but also to those of the Mediterranean EU member countries. The French franc was also stable up to the beginning of June though for a time its quotation was somewhat weaker as a result of the parliamentary elections in France.

*Continental  
European  
currencies*

During the period under review the yen again appreciated against the Deutsche Mark though it was subject to fluctuations, which were sometimes fairly pronounced. At the beginning of the year a sharp appreciation of the yen occurred particularly as a result of the acceleration in the growth of Japanese exports and of mounting interest rate expectations. However, this appreciation again declined somewhat for a time and did not firm again until recently. Since the end of last year the Japanese currency has appreciated by approximately 12½% against the Deutsche Mark.

*Yen*

*Weighted  
external value:  
nominal and  
real*

On a weighted average the Deutsche Mark was being quoted approximately 3½% lower against the currencies of 18 industrial countries at the time this Report went to press than it had been at the turn of 1996-7. After elimination of the different rates of price increases between Germany and its partner countries, the real external value was therefore about the same as it had been at

the beginning of the nineties. This means that the burden on German exporters of the excessive appreciation in 1995 has probably been more than cancelled out. From that point of view the necessary conditions to enable them to strengthen further their role as an important motor of economic growth in Germany are more favourable than before.

