Foreign trade and payments

Foreign trade and current account

External trends

Exports remained one of the main economic driving forces in Germany during the fourth quarter of 1999. Orders received by German industry from abroad grew sharply in the last few months of the year. At the same time exporters' business expectations improved dramatically whereas in the first six months of 1999 pessimism only gradually gave way to a more positive outlook. Evidently the recovery in Germany's traditional export markets in the partner countries of the euro area and in the other EU countries contributed most to the more optimistic sentiment that returned to German enterprises at the turn of the year. True, the competitive advantages associated with the depreciation of the euro against the currencies of non-euro-area countries likewise improved exporters' sales opportunities and to that extent helped to foster the recovery process; however, currency factors are unlikely to have been the crucial source of stimuli given the great importance of intra-European trade and the frequently voiced view that exchange-rate advantages were probably only a temporary influence.

Exports

Although the seasonally adjusted value of exports rose by only ½ % throughout the fourth quarter of 1999 compared with the third quarter last year, it exceeded the level in the fourth quarter of 1998 by 10 %. What is more, the momentum behind this growth is even greater than this figure suggests because export sales in the first half of last year were below the level in the corresponding period of the previous year. In real terms, too, i.e. after eliminating the rise in export prices, the increase of approximately 9 % compared with the previous year is considerable. If account is also taken of the fact that the orders received by German industry grew much more strongly at the same time, namely by 16 ½ % in value and just over 16 % in real terms, vigorous export growth can be expected to continue in the near future, too.

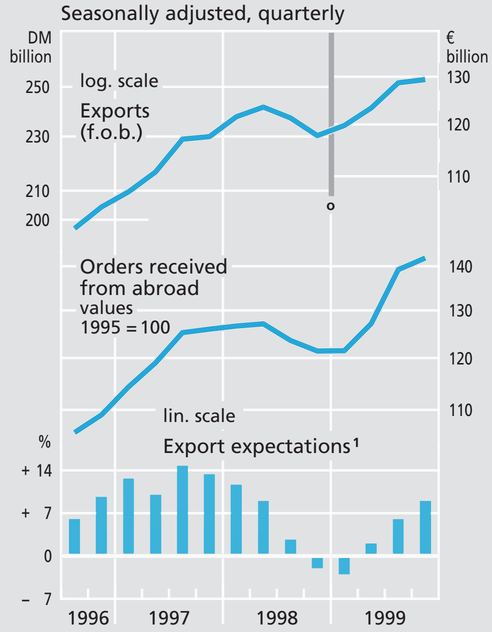
Exports to euro-area countries ...

Expansionary demand stimuli from abroad came from virtually all of the market sectors that are important for German exporters. This underlines the fact that the upward trend had gained momentum both in regional terms and in terms of the breakdown of goods. German exports to the other euro-area countries had been rising particularly sharply since the end of last summer. In the four months from August to November (regional figures for December 1999 are not yet available) exports to customers in the euro area grew by almost 5 ½ %, seasonally adjusted, compared with the earlier period (April to July).

... and to non-euro-area countries

German exports of goods to non-euro-area countries increased somewhat more slowly during the same period (by 3 ½ %). However, trade with some countries expanded remarkably fast. This applies in particular to the United Kingdom (15 ½ %) where growth had recovered relatively quickly after the earlier weakness and where German and other suppliers from the euro area found favourable competitive conditions owing to the appreciation of the pound. In the former crisis countries in South-East Asia, too, German exporters again encountered greater demand; exports to the region increased by 5 ½ % in the four months under review. Furthermore, the greater oil revenue of the OPEC countries is evidently now beginning to be reflected in a corresponding increase in import demand (just over 2 ½ %) whereas these countries' powers to absorb were considerably restricted during the Asian crisis. By contrast, exports to the United States, where German suppliers had been participating intensively in the dynamic market growth for some time, did not rise any further during the period under review. Exports to Japan continued to decline (– 1½ %) despite the considerable appreciation of the yen against the euro; up to the end of the year the Japanese economy was undermined by a lack of consumer and investor confidence.

Export trend



1 Results of the ifo business survey; balances of positive and negative company reports. — o From 1999 on all data in euro.

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Regional breakdown of foreign trade

August–November 1999, seasonally adjusted

Group of countries/ Country	Exports € billion	Exports Change from April – July 1999 in %	Imports € billion	Imports Change from April – July 1999 in %
Industrial countries	134.5	+ 4.9	112.5	+ 4.3
EU countries	100.2	+ 6.8	81.4	+ 5.0
EMU countries	10.1	+ 11.9	8.2	+ 10.2
Austria	9.5	+ 6.1	6.1	+ 7.0
Belgium/ Luxembourg	6.8	+ 4.9	4.5	+ 3.2
Finland	2.1	+ 12.8	1.6	+ 3.3
France	16.8	+ 4.7	14.7	+ 6.5
Ireland	1.0	+ 6.3	2.8	+ 4.0
Italy	13.2	+ 6.0	11.1	+ 4.8
Netherlands	11.4	+ 3.9	12.9	+ 11.3
Portugal	2.1	+ 15.8	1.7	+ 7.5
Spain	7.9	+ 6.0	4.6	– 5.6
Other EU countries				
Denmark	2.9	+ 2.5	2.5	+ 13.6
Greece	1.4	+ 20.0	0.7	+ 26.9
Sweden	3.9	+ 1.0	2.7	– 1.9
United Kingdom	15.4	+ 15.7	10.9	+ 3.8
Other industrial countries	34.2	– 0.2	31.1	+ 2.5
of which				
United States	17.3	– 1.5	12.3	+ 0.7
Japan	3.5	– 1.4	7.1	+ 1.0
Countries in transition	19.0	+ 2.0	21.8	+ 8.9
of which				
Countries in central and eastern Europe	16.7	+ 4.7	16.5	+ 7.1
China 1	2.0	– 22.4	4.9	+ 12.6
Developing countries	19.2	+ 3.6	16.6	+ 4.8
of which				
OPEC countries	3.0	+ 2.7	2.5	+ 19.5
Emerging markets in South-East Asia	6.4	+ 5.4	7.7	+ 4.5
All countries 2	174.2	+ 4.2	154.1	+ 5.9

1 Excluding Hong Kong. — 2 The totals include revisions which are not yet available in a regional breakdown.

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Imports

Real imports of goods by Germany did not keep pace with export growth during the last quarter of 1999. Although the seasonally adjusted value of imports rose by just over 1% compared with the previous three-month period, the prices of imported goods increased by just under 3% in the final quarter owing to the sharp rise in the price of energy imports and the depreciation of the euro, with the result that real imports declined slightly in the last few months of 1999. With a rise of 4½% in the fourth quarter of last year, however, they were significantly above the level in the corresponding quarter of 1998. This means that, compared with the growth in gross domestic product, which, according to provisional calculations, was 2¼% greater in the fourth quarter of 1999 than a year earlier, German import demand remained within the longer-term average.

Breakdown of imports

By contrast, the trend in nominal imports and the breakdown of these imports have been strongly influenced by oil price rises for some time. German import turnover with the major countries supplying petroleum, mineral oil products and natural gas has risen accordingly. For example, the value of imports from OPEC countries, which recently supplied 28% of Germany's oil imports, increased by a seasonally adjusted 19½% in the four months from August to November. The rise in imports from the countries in transition in central and eastern Europe (7%) is also due primarily to the increase in mineral oil and natural gas imported from Russia. The equally sharp rise (of just over 5%) in German imports of goods from the other euro-area countries is particularly remarkable against this background because this rise is not so much a result of the price effects mentioned as a reflection of the cyclical upturn and the close economic interdependence of the euro area. By contrast, imports from the United States (despite the exchange-rate-related price rises) increased only slightly, at ½%. Apparently the strength of the US dollar is increasingly having a curbing effect on real US exports to the euro area.

Trade balance

The shifts in the price constellation in foreign trade in favour of the oil producing countries and the trading partners with appreciating currencies ultimately prevented Germany's trade surplus from rising any further in the last quarter of 1999. After the elimination of seasonal factors the surplus amounted to € 15 billion in the fourth quarter compared with just over € 15½ billion in the third quarter.

Current account

The somewhat smaller trade surplus, however, was accompanied by a significantly larger deficit in the invisible current transactions with non-residents. The seasonally adjusted deficit on services, factor income and current transfers rose from € 19½ billion in the third quarter of last year to € 24 billion in the final quarter. The main reason for this result was the larger deficit on service transactions with non-residents. However, a further rise in deficits was to be found in other invisible segments, too; this applies both to the balance on factor income and – to a lesser extent – current transfers to non-residents. Consequently, the German current account ran a total seasonally adjusted deficit of almost € 10 billion in the final quarter of 1999 compared with one of just under € 4½ billion in the third quarter.

Current account

€ billion; seasonally adjusted

Item	1999 2nd qtr	1999 3rd qtr	1999 4th qtr
1. Foreign trade			
Exports (f.o.b.)	124.0	129.4	130.1
Imports (c.i.f.)	108.8	113.7	115.0
Balance	15.2	15.7	15.0
2. Services (balance)	– 8.9	– 8.9	– 11.5
of which Foreign travel (balance)	– 7.4	– 6.8	– 8.1
3. Factor income (balance)	– 1.0	– 3.5	– 4.8
of which Investment income (balance)	– 0.7	– 3.2	– 4.6
4. Current transfers (balance)	– 6.0	– 7.0	– 7.7
Balance on current account 1	– 1.5	– 4.3	– 9.8

1 Includes supplementary trade items.

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Financial transactions

Trends in financial transactions

Germany's international financial transactions during the final quarter of 1999 were characterised by special flows and the end-of-year investment decisions of internationally oriented operators. Several large corporate mergers took place in the period under review. Direct investment flows, especially those recorded in the balance of payments, swelled significantly as a result, and portfolio transactions were also affected to some extent. However, the millennium change and uncertainty about future interest-rate and exchange-rate developments appear to have resulted in shifts into

Major items of the balance of payments

€ billion

Item	1998 4th qtr	1999 3rd qtr	1999 4th qtr
I. Current account			
1. Foreign trade			
Exports (f.o.b.)	124.4	r 125.9	136.9
Imports (c.i.f.)	107.9	r 110.2	119.6
Balance	+ 16.5	+ 15.8	+ 17.3
2. Services (balance)	– 6.3	– 11.6	– 9.1
3. Factor income (balance)	– 2.5	– 4.4	– 4.9
4. Current transfers (balance)	– 7.0	– 7.8	– 7.7
Balance on current account 1	+ 0.8	– 8.6	– 5.4
II. Balance of capital transfers	– 0.0	– 0.8	+ 0.5
III. Financial account 2			
Direct investment	– 38.5	– 9.7	– 6.2
Portfolio investment	– 6.3	+ 8.8	+ 6.2
German investment abroad	– 33.2	– 42.1	– 40.5
Foreign investment in Germany	+ 26.9	+ 50.9	+ 46.8
Financial derivatives	– 2.2	+ 2.4	– 4.0
Credit transactions 3	+ 33.2	– 15.0	+ 15.4
Overall balance on financial account	– 13.9	– 13.5	+ 11.4
IV. Change in the monetary reserves at transaction values (increase: –) 4	– 0.6	– 0.4	– 0.1
V. Balance of unclassifiable transactions	+ 13.7	+ 23.3	– 6.4

1 Includes supplementary trade items. — 2 Net capital exports: –. — 3 Including Bundesbank investment and other public and private investment. — 4 Excluding allocation of SDRs and changes due to value adjustments.

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shorter-term types of investment. All in all, there were net capital exports through direct investment but capital imports through portfolio transactions.

Portfolio transactions

If the balance of the securities transactions is considered, there was little change from the third quarter. While net capital imports of € 9 billion were recorded between July and September, these amounted to € 6 billion in the subsequent three-month period. Overall, however, there was also a slight decline in cross-border securities flows (gross).

Foreign investment in German ...

... bonds and notes

Non-residents, in particular, invested less in the German market in the period under review than in the previous period (approximately € 4 billion less at € 47 billion). Given the see-sawing of long-term interest rates, foreign demand for German bonds and notes declined particularly sharply. € 8½ billion in foreign funds flowed into the German bond market between October and December compared with € 24½ billion in the three months earlier. The sum invested was more or less equally divided between public securities and bank bonds.

... money market paper

The weak demand for German bonds and notes was presumably connected with foreign investors' growing preference for liquidity. At all events, they acquired German money market paper worth € 23½ billion net (previous quarter: € 16 billion), notably commercial paper and securitised issues by credit institutions with maturities of up to one year. The volume of this paper in circulation has increased sharply since about mid-1999, and virtually all of the new issues have been placed abroad. Uncertainty in connection with the year 2000 problem, the oscillation in long-term interest rates (albeit with a distinct upward trend), speculation about an interest rate rise by the ECB and the ability of German banks to offer more attractive terms in short-term deposit business since the introduction of remuneration for minimum reserves in the Eurosystem probably encouraged increased foreign investment in German money market paper. It must also be remembered, however, that the securitised money market had been less well developed in Germany than in other countries and that a process of catching up had possibly emerged in Germany as a result of monetary union. At all events, some of the transactions recorded appear to be due to interbank operations within the euro area.

... shares

Foreign interest in German shares also increased slightly again towards the end of the year (€ 11 billion in the fourth quarter compared with € 10 billion in the previous one). The improved economic outlook in Germany and the announcement of changes in tax legislation which, among other things, are designed to make it easier to sell enterprises' participating interests and, in the case of corporations, to exempt the resultant profits from tax led to a proper "end-of-year rally" in the equity market and presumably attracted foreign investors as well. The DAX rose by approximately 35 % in the final quarter of 1999 and recorded its annual peak.

German investment in foreign ...

Owing to the aforementioned distinct restraint of foreign investors on the German bond market, however, their overall investment in the German securities markets re-

Financial transactions

€ billion, net capital exports: –

Item	1998 4th qtr	1999 3rd qtr	1999 4th qtr
1. Direct investment	– 38.5	– 9.7	– 6.2
German investment abroad	– 35.8	– 2.4	– 38.8
Foreign investment in Germany	– 2.7	– 7.3	+ 32.6
2. Portfolio investment	– 6.3	+ 8.8	+ 6.2
German investment abroad	– 33.2	– 42.1	– 40.5
Shares	– 9.9	– 17.6	– 23.6
Investment fund certificates	– 1.4	– 3.5	– 6.3
Bonds and notes	– 18.7	– 18.3	– 10.3
Money market paper	– 3.2	– 2.7	– 0.3
Foreign investment in Germany	+ 26.9	+ 50.9	+ 46.8
Shares	+ 19.4	+ 10.0	+ 11.2
Investment fund certificates	– 0.7	+ 0.6	+ 3.7
Bonds and notes	+ 11.0	+ 24.4	+ 8.4
Money market paper	– 2.8	+ 15.9	+ 23.4
3. Financial derivatives 1	– 2.2	+ 2.4	– 4.0
4. Credit transactions	+ 33.8	– 14.4	+ 15.5
Credit institutions	+ 14.1	– 0.4	+ 14.4
Long-term	+ 0.8	+ 1.3	– 8.8
Short-term	+ 13.4	– 1.7	+ 23.1
Enterprises and individuals	+ 16.7	– 0.2	+ 17.2
Long-term	+ 0.4	+ 0.3	– 0.8
Short-term	+ 16.4	– 0.4	+ 18.1
General government	+ 1.4	+ 0.5	– 2.8
Long-term	– 2.9	– 1.7	– 3.2
Short-term	+ 4.3	+ 2.2	+ 0.4
Bundesbank	+ 1.5	– 14.3	– 13.3
5. Other investment	– 0.6	– 0.6	– 0.1
6. Balance of all statistically recorded capital flows	– 13.9	– 13.5	+ 11.4
Memo item Change in the monetary reserves at transaction values (increase: –) 2	– 0.6	– 0.4	– 0.1

1 Securitised and non-securitised options and financial futures contracts. — **2** Excluding allocation of SDRs and changes due to value adjustments.

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mained below the level in the previous quarter. German investment in foreign securities markets also declined somewhat during the quarter under review even if it did not do so quite as sharply as foreign investment in German securities. Overall, German investors purchased foreign securities worth € 40½ billion between October and December compared with € 42 billion in the previous three-month period. More than one-half of this sum was invested in foreign shares (€ 23½ billion), approximately € 10 billion of it resulting from a single direct investment transaction.[1] It is obvious, however, that German savers, too, continued to regard the macroeconomic environment in the investment countries as fairly favourable and concentrated their investments on the purchase of fund units in foreign shares. However, it was not only the funds accruing to German investment companies that rose again sharply; sales of share certificates issued by foreign investment funds also strengthened somewhat (€ 6½ billion) in the final quarter of 1999. The products offered by these funds evidently corresponded to the preferences of some customers even better than those of German institutional investors.

... shares

... bonds and notes

In contrast to their dealings in shares and investment fund certificates German residents' investment in foreign bonds and notes was decidedly modest – as was the case with non-residents' investment in the German market. Between October and December German residents invested no more than € 10½ billion in this paper compared with € 18½ billion in the previous quarter. Evidently uncertainty over interest rates had kept German investors from investing more heavily in paper that is responsive to interest rate changes. Exchange rate risks were also avoided: as has been the case since the beginning of last year, more than 90 % of the foreign bonds and notes purchased were denominated in euro and by far the majority were issued in other euro-area countries. The average interest rate advantage of ten-year government bonds issued by other euro-area countries over Federal German bonds was little changed at approximately 20 basis points.

Direct investment

In contrast to what happened in portfolio transactions, there were net capital outflows through direct investment in the period under review. At € 6 billion, however, this was somewhat less pronounced than in the three months earlier (€ 9½ billion). The direct investment flows in both directions were essentially the result of several large corporate mergers. German enterprises in the telecommunications sector, in particular, added substan-

1 If corporate mergers are settled on the basis of an exchange of equity, bookings of portfolio transactions may arise in addition to direct investment flows. This happens if shareholders with participating interests of less than 10 % are involved; in the case of participating interests of 10 % and above the transactions count as direct investment. In the case of the transaction concerned here the former German shareholders received, in the course of the merger, shares of the newly established foreign public limited company in compensation for the transfer of their old shares.
In the quarter under review two further mergers had an impact on the cross-border transactions with German shares. In the one case the former (foreign) shareholders of the (foreign) enterprise taken over received shares issued by the (German) company carrying out the takeover; a purchase of German shares by non-residents had therefore to be recorded in the balance of payments. In the other case some of the shares of a German enterprise were already held by non-residents. These shares were transferred to the German credit institutions commissioned to implement the merger and were recorded in the balance of payments statistics as the sale of German shares by non-residents. Both transactions were similar in size with the result that they cancelled out.

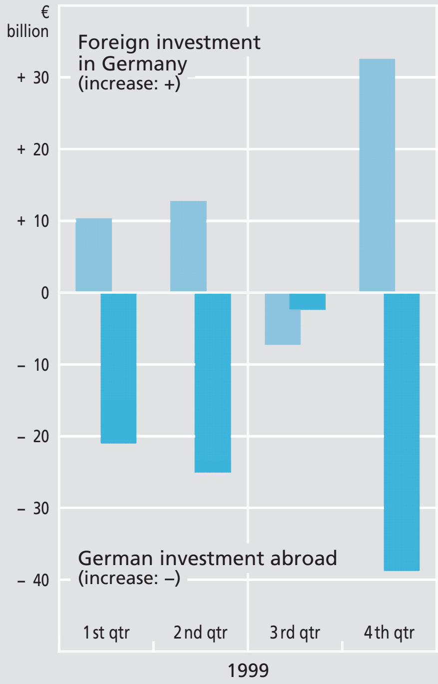
tially to their participations abroad. In this rapidly expanding economic sector there have repeatedly been cross-border alliances between major market players for some years – since the opening-up of the previously protected national markets. The rapid technological advances and the efforts made by firms to be able to offer a wide selection of services in as many countries as possible are fostering the merger process. All in all, German enterprises invested just under € 39 billion abroad between October and December 1999.

Conversely, a larger volume of funds (€ 32 ½ billion) flowed into Germany through direct investment in the fourth quarter of 1999 than in the first nine months of last year as a whole. The fourth-quarter result was primarily affected by a merger in the chemical industry, during the course of which the newly established parent company set up its registered head office abroad. It took over the shares of the local enterprise, whose shareholders received shares in the new public limited company in compensation – as described above. Although the short-term financial transactions between affiliated enterprises that had dominated the area of direct investment in earlier months increased the level of capital inflows, for the first time in the course of 1999 these did not play a decisive role in the period under review owing to the volume of transactions involved in the mergers.

Credit transactions …

By contrast, unsecuritised credit flows resulted in net capital imports during the period under review. This applies in particular to the

Trend in direct investment



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… of non-banks

transactions of non-banks. German enterprises and individuals received € 17 billion net from non-residents. This sum included further repatriations of bank balances and the raising of short-term loans abroad. On the other hand, public authorities exported a small amount of capital (€ 3 billion net), mainly in connection with the repayment of loans previously taken up abroad.

… of the banks

The cross-border credit flows in the banking sector, which in gross terms were quite substantial, largely cancelled out. Foreign funds totalling € 14 ½ billion net accrued to German credit institutions in the process. The inflows were exclusively at the short end of the market while net capital outflows resulted from long-term lending.

... of the Bundesbank

The changes in TARGET balances, which arise from the settlement of large-value payments within the EU and are recorded in the net external position of the Bundesbank, countered the bank transactions. If monetary reserves are excluded, the external position increased by € 13½ billion in the final quarter of 1999; this appears in the balance of payments as a net capital export.

Monetary reserves of the Bundesbank

The monetary reserves of the Bundesbank rose by approximately € 3½ billion to € 93 billion during the same period. The increase was almost exclusively the result of the revaluation of the reserves, which is routinely undertaken at the end of the quarter. This led to book profits, especially as a result of the higher dollar rate and the recovery in the gold price. The transaction-related changes in the monetary reserves entered in the balance of payments amounted to € 0.1 billion in the period under review.