Foreign trade and payments

Foreign trade and current account

External trends

Foreign trade continued to be the main engine of economic growth in Germany at the beginning of the year 2000. Supported by the revival in both European and non-European export markets and favoured by the depreciation of the euro against the currencies of competitors outside the euro area, German business again recorded substantial growth in sales and a further rise in export orders in the first quarter of this year. According to the ifo business survey, industry's export expectations therefore showed a further improvement, thus reflecting greater optimism than at any time since 1997 when exports had been growing particularly strongly.

Exports

In terms of value, Germany's exports of goods in the first quarter of 2000 rose by a seasonally adjusted 6½ % compared with the final quarter of 1999 and were therefore just over 19 % above their level in the corresponding quarter of last year. Growth rates were almost equally as strong in real terms, at 5½ % and 16½ %, respectively. The regional distribution of German exports shifted even further in favour of the countries within European monetary union in recent months. In January-February, the last two months for which the relevant data are available, trade with customers in other euro-area countries accounted for more than three-quarters of total export growth whereas in the early phase of the recent export revival, which had set in at the turn of 1998-9, exports to the euro area had still been declining. At that time the expansionary forces were being exerted mainly by the non-European markets in which the earlier sales slump had also orginated.

With the aforementioned shift in export demand towards the euro-area countries, the advantages of more competitive prices resulting from the depreciation of the euro were also modified. While the driving force behind the demand from the other euro-area countries evidently lies in the growth of the markets themselves, the depreciation-related competitive advantages are naturally more pronounced in trade with countries outside the euro area. However, there, too, the trend is being sustained primarily by market growth. This has been particularly clear for some time from Germany's export success in the United States, which in the period under review accounted for 15 % of Germany's total export growth. During the past four years the importance of the dramatically expanding US market for German exporters has risen from 7 ½ % to 10 ½ %. By contrast, Japan's importance as a customer for German goods declined from just over 2 ½ % (1996) to 2 % in the period under review even though the depreciation of the euro against the yen was similar to that of the euro against the US dollar. This downturn was due to the sluggishness of economic growth in Japan, which has persisted for quite some time. Following the previous collapse in connection with the financial crises in East Asia, the shares of the emerging economies in South-East Asia in German exports again grew significantly (to just under 4 %). The same is true of the central and east European countries in transition (10 %). Despite the rapid rise in oil revenue, however, the absorption capacity of

Export trend

Seasonally adjusted, quarterly

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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the developing countries, notably the OPEC countries, remained fairly limited; in the period under review this group of countries had only a weak impact on the growth in German exports.

Imports

Germany's imports of goods were similarly buoyant during the first quarter of 2000. In seasonally adjusted terms the volume of German imports rose by approximately 5 % com-

Current account

€ billion; seasonally adjusted

Item	1999 3rd qtr	1999 4th qtr	2000 1st qtr
1. Foreign trade			
Exports (f.o.b.)	129.1	132.0	140.5
Imports (c.i.f.)	113.7	115.0	124.5
Balance	15.4	17.0	16.0
2. Services (balance)	– 9.5	– 11.8	– 11.2
of which Foreign travel (balance)	– 7.2	– 8.0	– 7.9
3. Factor income (balance)	– 3.5	– 4.3	– 2.4
of which Investment income (balance)	– 3.3	– 4.0	– 2.2
4. Current transfers (balance)	– 6.8	– 7.5	– 5.5
Balance on current account 1	– 5.6	– 7.4	– 4.2

1 Includes supplementary trade items.

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pared with the previous quarter. Owing to the substantially higher import prices obtaining until the spring, however, the rise in terms of value was significantly higher still, at just under 8½%; indeed, the value of imports was actually 21½% above that of the first quarter of 1999. As the year-on-year increase in the prices of imported crude oil was just over 160% in the first quarter of 2000, German import payments to the OPEC countries rose particularly steeply. In the first two months of the year the value of imports from this group of countries was almost twice as high as a year earlier. Imports from the central and east European countries in transition also rose sharply, probably for the same reasons, with the result that their share of German imports in the first two months of the year increased to 11½% compared with 10% in 1998 before the rise in oil prices. Accordingly, the energy imports from Russia played a particularly important role.

Trade balance

The sharp rise in the prices of oil imports and the exchange-rate-related increase in import prices ultimately left their mark on the final outcome of the German balance of trade as well. Despite the continued favourable level of exports, the surplus on trade in goods in the first quarter of 2000 was, at € 16 billion, € 1 billion less, after seasonally adjustment, than in the fourth quarter of 1999 and was therefore the same as it had been a year earlier.

Current account

By contrast, the traditionally large deficits which Germany normally runs on services, cross-border factor income and current transfers fell substantially during the period under review compared with the previous quarter. After the elimination of seasonal factors the total deficit on invisibles declined from € 23½ billion in the fourth quarter of 1999 to € 19 billion in the three-month period of January to March 2000. This was primarily the result of smaller investment income payments to non-residents and smaller net contributions to the EU budget. Consequently, Germany's total current account deficit was reduced to € 4 billion, seasonally adjusted, in the first quarter of this year; in the previous quarter it had amounted to € 7½ billion.

Financial transactions

Trends in financial transactions

A spectacular corporate merger in the telecommunications sector greatly affected the German financial account at the beginning of the year 2000. With a market value of more than € 170 billion the merger involved the largest transaction of its kind that a German enterprise had ever participated in. Given the magnitude of the transaction, all other capital flows in the period under review (January to March 2000) were put in the shade. As is now becoming increasingly customary, the merger took the form of an exchange of shares with the result that in the German balance of payments it was not only the direct investment segment which was affected but also – as a counterentry, as it were – the portfolio investment segment.

Direct investment

The outcome was an influx of more than € 150 billion in foreign equity capital solely as a result of the large transaction mentioned.[1] If the other capital flows between companies belonging to the same groups are included, foreign direct investment in the first quarter amounted to € 169 billion. That was more than the total amount of funds flowing into Germany through inward direct investment during the past 30 years.

When assessing the implications of the recent increase in inward investment for Germany as an industrial location, however, one should not be misled by these extremely large amounts. For the enterprises taken over – especially if the mergers were financed through an exchange of shares – the direct investment shown in the balance of payments does not signify any direct inflows of funds to finance

1 In the course of the said merger an existing direct investment relationship between a non-resident investor and the German enterprise was dissolved. As a result, the inflow of capital shown is less than the above-mentioned market value of the transaction.

Major items of the balance of payments

€ billion

Item	1999 1st qtr	1999 4th qtr	2000 1st qtr
I. Current account			
1. Foreign trade			
Exports (f.o.b.)	118.5	137.9	141.2
Imports (c.i.f.)	103.3	119.5	125.7
Balance	+ 15.2	+ 18.4	+ 15.5
2. Services (balance)	– 9.6	– 9.7	– 10.3
3. Factor income (balance)	– 3.4	– 5.3	– 2.9
4. Current transfers (balance)	– 5.4	– 7.6	– 5.4
Balance on current account 1	– 5.0	– 5.0	– 4.1
II. Balance of capital transfers	+ 0.2	+ 0.6	+ 0.2
III. Financial account 2			
Direct investment	– 10.2	– 8.3	+ 135.6
Portfolio investment	– 42.3	+ 8.3	– 178.7
German investment abroad	– 61.2	– 38.4	– 101.2
Foreign investment in Germany	+ 18.8	+ 46.8	– 77.4
Financial derivatives	+ 1.4	– 4.2	– 3.3
Credit transactions 3	+ 6.1	+ 16.0	+ 70.1
Overall balance on financial account	– 45.0	+ 11.8	+ 23.7
IV. Change in the foreign reserves at transaction values (increase: –) 4	+ 13.3	– 0.1	– 0.8
V. Balance of unclassifiable transactions	+ 36.5	– 7.3	– 19.1

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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Financial transactions

€ billion, net capital exports: –

Item	1999 1st qtr	1999 4th qtr	2000 1st qtr
1. Direct investment	– 10.2	– 8.3	+ 135.6
German investment abroad	– 21.3	– 39.6	– 33.5
Foreign investment in Germany	+ 11.1	+ 31.3	+ 169.1
2. Portfolio investment	– 42.3	+ 8.3	– 178.7
German investment abroad	– 61.2	– 38.4	– 101.2
Shares	– 20.1	– 23.0	– 49.8
Investment fund certificates	– 3.6	– 5.6	– 17.3
Bonds and notes	– 36.5	– 9.5	– 33.0
Money market paper	– 1.0	– 0.3	– 1.1
Foreign investment in Germany	+ 18.8	+ 46.8	– 77.4
Shares	– 17.4	+ 12.0	– 97.4
Investment fund certificates	+ 2.5	+ 3.7	+ 5.1
Bonds and notes	+ 31.9	+ 8.7	+ 7.6
Money market paper	+ 1.8	+ 22.4	+ 7.2
3. Financial derivatives 1	+ 1.4	– 4.2	– 3.3
4. Credit transactions	+ 6.3	+ 16.2	+ 70.4
Credit institutions	+ 22.2	+ 14.2	+ 58.5
Long-term	+ 4.6	– 8.9	+ 6.5
Short-term	+ 17.6	+ 23.1	+ 52.0
Enterprises and individuals	+ 14.7	+ 18.1	– 20.8
Long-term	+ 1.8	– 0.6	– 0.1
Short-term	+ 12.9	+ 18.7	– 20.7
General government	– 1.1	– 2.9	– 0.0
Long-term	– 2.5	– 3.2	– 0.2
Short-term	+ 1.4	+ 0.3	+ 0.1
Bundesbank	– 29.5	– 13.3	+ 32.8
5. Other investment	– 0.2	– 0.2	– 0.3
6. Balance of all statistically recorded capital flows	– 45.0	+ 11.8	+ 23.7
Memo item Change in the foreign reserves at transaction values (increase: –) 2	+ 13.3	– 0.1	– 0.8

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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investment in fixed assets. Nor is it associated with any direct increase in German value added – and, consequently, has no immediate effect on growth and employment. Both require a second step, but even then they are by no means automatic. Nevertheless, mergers of this kind show that German enterprises and certainly the German market, too, in some instances offer opportunities that evidently reward substantial investment. To that extent, the emergence of foreign competitors on the German market place is a welcome development.

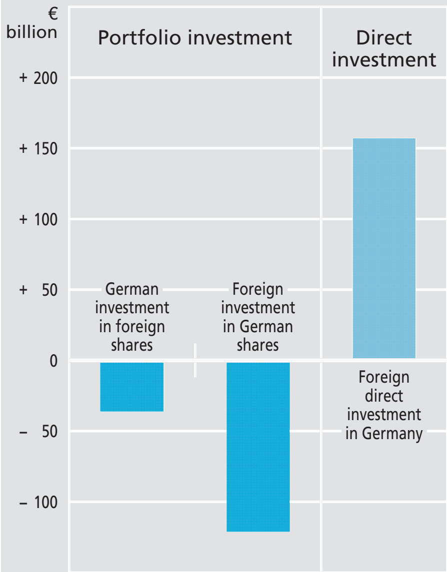
Conversely, German firms also continued to invest fairly heavily abroad (€ 33½ billion) even if they did not repeat the sum invested in the previous quarter (€ 39½ billion) when major mergers and acquisitions had likewise played an important role. It was particularly enterprises in the fields of banking and telecommunications that obviously increased their presence abroad with a view to positioning themselves advantageously in growth markets. The favourite host countries for German direct investment were yet again the United States and the United Kingdom, the economies of which were continuing to expand dynamically. All in all, net capital imports through direct investment therefore amounted to € 135½ billion.

Impact of merger on portfolio investment

These inflows were accompanied by net capital exports of € 178½ billion through portfolio investment. Most of these exports (€ 147 billion) occurred in the field of equities, primarily as a result of the merger. Where the aforementioned exchange of shares affected German investors, it was reflected in the financial account as the acquisition of foreign equity by German residents; together with the "regular" investment of German savers in foreign equity markets, the purchases of foreign equities amounted to € 50 billion between January and March.

However, most of the shares of the acquired German enterprise were already in the hands of foreign investors at the time of the merger. The exchange of shares here means that these portfolio investments were dissolved.[2] If all equity transactions are included, especially after taking account of the large share purchases by non-residents in the run-up to the merger, foreign portfolio investors withdrew the net sum of € 97½ billion from the German equity market in the first quarter.

Presentation of a major merger in the German balance of payments *



* Net capital exports: (–).

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German investment in foreign bonds and notes ...

The other areas of cross-border portfolio investment were marked by the trends which had been observed for some time. German investors again purchased a relatively large volume of foreign bonds and notes (€ 33 billion). Almost 90 % of the debt securities acquired were denominated in euro. Paper issued by the governments of other euro-area countries, whose yield advantage over comparable Federal (German) bonds has now become fairly stable at around 20 basis points, was particularly prized by German investors once more. Paper issued in other euro-area countries accounted for just over 73 % of the long-term debt securities acquired by German residents. By contrast, German investors continued to be very reluctant to buy foreign currency bonds (€ 3½ billion) although these were still offering a much higher interest rate than euro-denominated securities.

... and investment fund certificates

German residents also invested about € 17½ billion in foreign investment fund certificates, which have been growing in popularity again for some time. Presumably part of the sum invested by Germans in foreign equity markets was invested through investment companies domiciled abroad.

Non-residents' portfolio investment in Germany

Non-residents restricted their investment on the German capital market in the first quarter of 2000. Outside the field of equities foreign investible funds amounted to no more than € 20 billion (previous quarter: € 35 billion). Particularly the demand from non-residents for money market paper, which at the end of last year had still been growing remarkably strongly owing, among other things, to the

2 One direct investor has now replaced many portfolio investors with a participation quota of less than 10 %.

year 2000 problem and the increased uncertainty over interest rates, now seems to have levelled off again to some extent (January to March 2000: € 7 billion compared with € 22½ billion in the previous three-month period). Foreign investors' interest in bonds and notes also remained fairly low (€ 7½ billion). Federal bonds in particular continued to suffer from the competition from foreign government paper, which offers somewhat higher yields.

Credit transactions of non-banks ...

The non-securitised credit transactions of German non-banks ran a deficit of € 21 billion in the quarter under review. In the previous quarter, by contrast, there had been substantial inflows of funds (€ 15 billion) owing to the end-of-year management operations of German investors. As usual, these exports of capital occurred almost exclusively in the short-term segment of credit transactions (€ 20½ billion). The main reason for the reversal in capital flows was the customary rebuilding at this time of the year of the deposits which German enterprises and individuals hold at foreign banks.

... and the banks

By contrast, the net external position of the entire banking system (excluding the foreign reserves of the Bundesbank) declined sharply by € 91 billion. This was due almost exclusively to the net capital imports at the short-term end of credit transactions. The commercial banks accounted for about two-thirds of this. In the balancing mechanism of the balance of payments these inflows have to be seen in the first instance as the counterpart of all other statistically recorded transactions in the current and financial accounts. Whether there is more to the expansion in the short-term liabilities of German credit institutions than simply a reflection of the net capital exports observed in the long-term segment of the financial account and whether Germany as a financial centre is therefore taking on the role again of a distribution centre for capital flows from outside the euro area, as it did last year, cannot yet be said on the basis of the figures available so far.

External transactions of the Bundesbank

As a result of the external transactions which are classifiable as credit transactions, the net external assets of the Bundesbank – excluding the foreign reserves – decreased by € 33 billion in the first quarter of 2000. This was mainly due to the fact that the balances which had previously been built up vis-à-vis other EU central banks under the payment system TARGET were reduced discernibly at the beginning of the year.

Foreign reserves

In the first three months of this year the foreign reserves of the Bundesbank rose, as a result of transactions, by just under € 1 billion. At the end of March they were subjected to their regular revaluation at market prices. This resulted in an increase in their value of € 3 billion, mainly because of the trend in the dollar exchange rate. At the end of March Germany's foreign reserves amounted to € 97 billion.