Foreign trade and payments

Foreign trade and current account

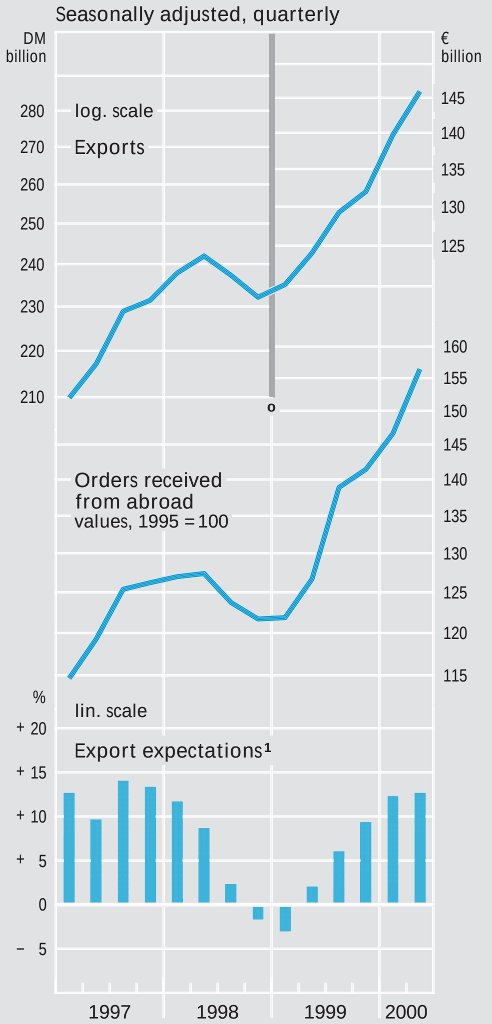
Foreign trade trends

The rapid upswing in German exports which had begun in the spring of 1999 continued virtually unabated up to the end of the period under review. The rate of growth in foreign demand for German products has now been in double figures for a year. In the second quarter of 2000, for example, the export orders received by German industry exceeded their level in the same period last year by 22 % – a larger rate of increase than in the previous export upswing in 1997. There is hardly a sign of a downturn at the current end of the series either. New export orders rose by a seasonally adjusted 6½ % in the second quarter of the year compared with the first quarter, which is equivalent to an annualised growth rate of almost 30 %.

Exports

Export deliveries also rose sharply as a result of the strong demand, albeit with a certain time lag; however, they were unable to keep pace with the flood of incoming orders. The value of German exports rose by a seasonally adjusted 4½ % in the second quarter compared with the first quarter of the year, which means that between April and June they exceeded their performance in the corresponding period last year by 16½ %. In the light of all these figures it is not surprising that, according to surveys by the ifo institute, German industry is expecting the very buoyant export business to continue. At any event, export expectations for the coming three months were still rising in seasonally adjusted terms when this Report went to press and have now almost reached the record levels quoted in the corresponding corporate

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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reports in the boom years of 1997 and 1994. It is possible that shortages of capacity in some sectors of German industry are already limiting the export trend. The sharper rise in export prices since the beginning of this year could be a sign of this. Enterprises are evidently using the favourable market conditions to pass on cost increases resulting from higher oil prices and depreciation-related increases in the price of other imported inputs in their selling prices. In the second quarter seasonally adjusted export prices rose by more than 1% compared with the first quarter and were therefore 3 ½ % above the level a year earlier. Owing to the considerable depreciation of the euro, this is hardly likely to be resulting in a deterioration in Germany's price competitiveness – at least, not in relation to competitors in non-euro-area countries. Even so, the rise in export prices must be carefully monitored. This is true not least for the eventuality that the euro firms again on the foreign exchange markets.

Regional focal points

The centre of German export growth had already been shifting increasingly to the euro area during the previous few months whereas in the initial period of the export revival it was the demand from non-euro-area countries that had been providing the momentum. The depreciation of the euro that has now set in has therefore gradually become somewhat less important for the German export trade. Admittedly, the main driving force behind Germany's export performance had long been the growth of foreign markets, and this growth shifted more sharply in favour of the European markets as a result of the economic recovery in the euro area.

In the last three months for which the relevant regional data are available (March to May) Germany's exports of goods to the euro area, which absorbs 45 % of the country's total exports, rose by just over 8 %, seasonally adusted, compared with the previous three-month period; this means that they were 19 ½ % above their level in the corresponding period a year earlier. Although German exports to countries outside the euro area also continued to grow significantly at the same time, the rates of growth in sales here were less vigorous, at approximately 6 % in seasonally adjusted terms. Exports to customers in the United States, in particular, recently rose less sharply in seasonally adjusted terms when compared with the substantial rates of growth in the course of last year. By contrast, German exports to the developing countries and the emerging economies as well as to the countries in transition in central and eastern Europe again proved to be fairly buoyant. Sales to South-East Asia, for example, grew in double figures on a year-on-year comparison. However, exports to the OPEC countries also rose appreciably on a similar comparison whereas the demand from those countries had hardly increased at first despite the considerable growth in revenue from oil sales.

Imports

German imports have likewise been growing sharply in line with the economic recovery in Germany; with a growth rate of 3 ½ %, the – real – growth in imports was equivalent to that of exports. On a year-on-year comparison, however, import growth, at 7 ½ %, was significantly lower than on the exports side (12 ½ %). However, import prices rose sharply at the same time (11% in the second quarter compared with the same period last year and approximately 2 ½ %, seasonally adjusted, compared with the first quarter of this year) with the result that nominal imports grew much more strongly than real imports. At just over 5 ½ % compared with the previous quarter and 19 ½ % compared with the second quarter of 1999, payments for imported goods were therefore considerably greater than the additional proceeds from exports.

Breakdown of imported goods

Expenditure on energy imports increased particularly sharply following the steep rise in oil prices until March; it rose by a seasonally adjusted 23 % between March and May compared with the previous three-month period. Compared with the same period in 1999, expenditure on energy imports actually more than doubled although German crude oil imports alone rose by only 7 ½ % by volume on a year-on-year comparison.

Even if sources of energy are excluded, however, the value of industrial imports rose significantly on a year-on-year comparison. This is not least the result of the substantial year-on-year rise (36 %) in the nominal imports of raw materials and semi-finished goods. Large two-digit price increases likewise played a role here, especially in the case of non-ferrous metals, iron and steel products and basic chemicals. These goods were affected not only by the weakness of the euro but also by the discernible upward pressure on prices on world markets. By contrast, the rise in the imports of finished products, which, at just under 18 % year on year, was likewise considerable, was probably due more to an expansion in the real purchases of goods in connection with the high export demand and the associated intensification of interindustrial trade between the various production locations both in and outside Europe. At all events, similarly sharp rates of growth in imports were previously observed in this sector during earlier export-driven periods of economic revival.

Current account

€ billion; seasonally adjusted

Item	1999 4th qtr	2000 1st qtr	2nd qtr
1. Foreign trade			
Exports (f.o.b.)	132.4	140.2	146.4
Imports (c.i.f.)	115.4	124.3	131.4
Balance	17.0	15.8	15.0
2. Services (balance)	– 12.1	– 10.7	– 12.3
of which Foreign travel (balance)	– 8.0	– 7.9	– 8.2
3. Factor income (balance)	– 4.3	– 1.4	– 1.5
of which Investment income (balance)	– 4.0	– 1.2	– 1.3
4. Current transfers (balance)	– 7.5	– 5.5	– 7.2
Balance on current account 1	– 7.8	– 2.9	– 6.9

1 Includes supplementary trade items.

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Trade balance

Despite the sustained buoyancy in exports, Germany's trade surplus declined somewhat as a result of higher import prices in the second quarter; it declined from almost € 16 billion (seasonally adjusted) in the first quarter to € 15 billion in the quarter under review.

Current account

Furthermore, the traditionally large deficit on invisible transactions with non-residents had a detrimental effect on the German current account, the seasonally adjusted deficit here rising from € 17½ billion in the first quarter to € 21 billion in the second. The deficit on services rose by € 1½ billion to just under € 12½ billion. However, the increase did not so much affect foreign travel, which accounts for by far the largest deficit on the German services account, as the other services such as engineering and other technical services as well as communications. Net payments of factor income to beneficiaries abroad remained unchanged at € 1½ billion during the month under review. Current transfers ran a larger deficit (just over € 7 billion) than in the first quarter (€ 5½ billion). This was mainly due to larger net payments by Germany to the EU budget. All in all, the German current account therefore showed a seasonally adjusted deficit of € 7 billion in the second quarter compared with one of € 3 billion in the first quarter of this year.

Financial transactions

Trends in financial transactions

During the past few months the international financial markets have experienced several changes in direction. After a bullish period on major equity markets a somewhat more realistic appraisal of the future profitability of the New Economy initially set in during the spring and gave rise to a perceptible change in course. The bond markets benefited from this in particular. The euro firmed for a time on the foreign exchange markets but lost most of the ground it had gained later in the summer. Overall, the interest rate and exchange rate trends appear to have boosted the funds accruing to the German market in the second quarter while the global sharp fall in the prices of technological company shares left barely a mark on German financial transactions. At all events, € 39 billion net flowed into Germany as a result of securities transactions between April and June 2000. By contrast, there were net capital outflows through credit transactions while direct investment was virtually in balance. This means that the volume of capital flows to and from Germany and their structure normalised again in the second quarter of 2000 whereas at the beginning of the year the take-over of a major German enterprise by a foreign investor had resulted in significant distortions in the data on both direct investment and portfolio investment.

Portfolio investment

Foreign investment in German ...

The relatively large net capital imports through portfolio investment were the result of the considerable interest on the part of foreign investors in German securities and the fairly low demand from German investors for foreign paper. Non-resident investors acquired German securities worth € 77 billion during the period under review; in the corresponding three-month period of 1999 the figure had been € 47 billion.[1] Just over one-half of these funds – € 40 billion – were invested in the German equity market, a development which is certainly also to be seen in connection with the sale of part of the Reconstruction Loan Corporation's holdings of Federal Government shares in Deutsche Telekom. At all events, the placing of this tranche in the market also generated an enormous response from non-residents. The fact that in June foreign investors exercised a substantial amount of the forward contracts of German corporate shares that they had concluded in the previous quarter apparently also played a role.

... shares

1 The comparision with the period from January to March 2000 is distorted by the corporate takeover which was mentioned above and which initially resulted in foreigners purchasing shares in Germany but subsequently to the replacement of portfolio investment by direct investment. If these special developments are eliminated by way of approximation, foreign interest in the German market in the period under review turns out to be much greater than in the first quarter of 2000 as well.

Major items of the balance of payments

€ billion

Item	1999 2nd qtr	2000 1st qtr	2000 2nd qtr
I. Current account			
1. Foreign trade			
Exports (f.o.b.)	126.5	140.6	147.7
Imports (c.i.f.)	110.9	125.8	132.4
Balance	+ 15.6	+ 14.8	+ 15.2
2. Services (balance)	– 9.4	– 9.8	– 12.2
3. Factor income (balance)	+ 0.6	– 1.8	+ 0.2
4. Current transfers (balance)	– 5.1	– 5.4	– 6.5
Balance on current account 1	+ 0.7	– 3.3	– 4.2
II. Balance of capital transfers	– 0.1	+ 0.2	+ 0.0
III. Financial account 2			
Direct investment	– 22.3	+ 137.6	+ 0.1
Portfolio investment	+ 8.8	– 186.9	+ 38.8
German investment abroad	– 38.0	– 100.4	– 38.2
Foreign investment in Germany 3	+ 46.8	– 86.5	+ 77.1
Financial derivatives	+ 0.1	– 1.2	+ 3.5
Credit transactions 4	+ 25.9	+ 79.2	– 36.8
Overall balance on financial account	+ 12.4	+ 28.8	+ 5.6
IV. Change in the foreign reserves at transaction values (increase: –) 5	– 0.3	– 0.8	+ 2.4
V. Balance of unclassifiable transactions	– 12.7	– 24.9	– 3.8

1 Includes supplementary trade items. — 2 Net capital exports: –. — 3 The figures for money market paper have been revised for the period from September 1999 to May 2000. — 4 Including Bundesbank investment and other public and private investment. — 5 Excluding allocation of SDRs and changes due to value adjustments.

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Financial transactions

€ billion, net capital exports: –

Item	1999 2nd qtr	2000 1st qtr	2000 2nd qtr
1. Direct investment	– 22.3	+137.6	+ 0.1
German investment abroad	– 35.7	– 33.3	– 31.7
Foreign investment in Germany	+ 13.3	+171.0	+ 31.8
2. Portfolio investment	+ 8.8	–186.9	+ 38.8
German investment abroad	– 38.0	–100.4	– 38.2
Shares	– 6.9	– 49.1	– 17.6
Investment fund certificates	– 2.2	– 17.3	– 10.2
Bonds and notes	– 28.9	– 32.9	– 9.3
Money market paper	– 0.1	– 1.1	– 1.2
Foreign investment in Germany	+ 46.8	– 86.5	+ 77.1
Shares	+ 22.2	– 96.6	+ 40.2
Investment fund certificates	– 1.1	+ 5.1	+ 1.9
Bonds and notes	+ 19.5	+ 6.9	+ 19.8
Money market paper 1	+ 6.3	– 1.8	+ 15.1
3. Financial derivatives 2	+ 0.1	– 1.2	+ 3.5
4. Credit transactions	+ 26.3	+ 79.8	– 36.3
Credit institutions	+ 14.5	+ 58.5	– 1.1
Long-term	– 5.6	+ 6.5	– 5.0
Short-term	+ 20.1	+ 52.0	+ 3.9
Enterprises and individuals	+ 4.0	– 11.4	– 5.1
Long-term	– 0.9	+ 0.0	– 0.8
Short-term	+ 4.8	– 11.5	– 4.3
General government	+ 0.2	+ 0.0	– 4.3
Long-term	– 1.2	– 0.1	– 0.3
Short-term	+ 1.3	+ 0.1	– 4.0
Bundesbank	+ 7.6	+ 32.8	– 25.8
5. Other investment	– 0.4	– 0.6	– 0.5
6. Balance of all statistically recorded capital flows	+ 12.4	+ 28.8	+ 5.6
Memo item Change in the foreign reserves at transaction values (increase: –) 3	– 0.3	– 0.8	+ 2.4

1 The figures for money market paper have been revised for the period from September 1999 to May 2000. — **2** Securitised and non-securitised options and financial futures contracts. — **3** Excluding allocation of SDRs and changes due to value adjustments.

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... bonds and notes

Non-resident investors again showed greater interest in German bonds and notes during the period under review, investing € 20 billion net in this paper, which was almost three times as much as in the previous period. Since the start of monetary union non-residents had been focusing their attention on bank bonds, but in the period from April to June public bonds were in greater demand, at € 11½ billion, than bank issues (€ 8½ billion). This shift could be a sign that market players are expecting a lower demand for funding from the Federal Government in the second half of the year – partly as a result of the revenue from the auction of mobile phone licences – and had already met their requirements with very liquid Federal bonds during the run-up to the auction. This assumption is partly supported by interest rate developments on the bond market where the interest rate spread has widened perceptibly between bank bonds and Federal bonds (see also page 22).

... money market paper

In the light of rising short-term interest rates in the euro area non-residents also added greater amounts of German money market paper to their portfolios again (€ 15 billion) whereas in the previous quarter they had sold this type of paper on balance (minus € 2 billion).[2] It is likely that, in addition to the interest rate uncertainty and the increased inflation risk in the euro area, the trend towards securitising money market operations played a major role here. However, considering the total amount of bank bonds outstanding that German credit institutions have issued with a maturity of up to and including one year, the

2 The figures for money market paper have been revised for the period from September 1999 to May 2000.

expansion of this market segment appears to have slowed down somewhat recently from the rapid rates of growth in the second half of 1999.

German investment in foreign ...

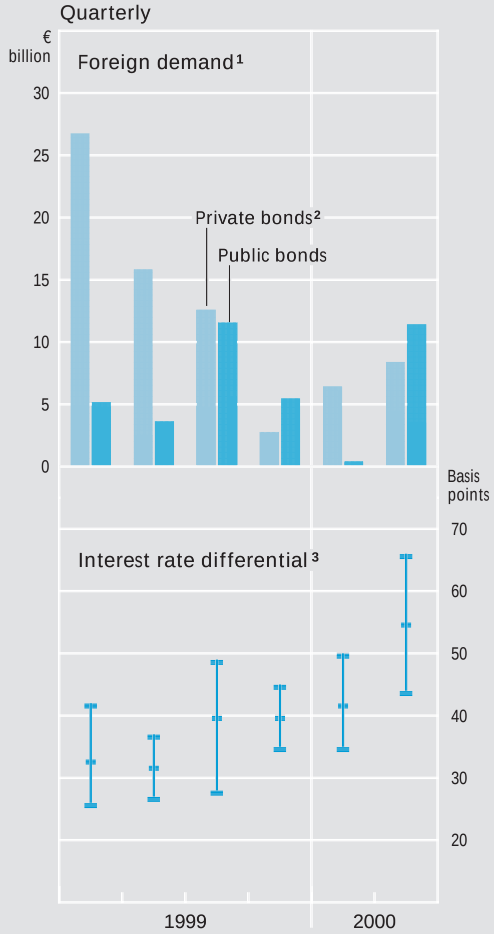
In contrast to foreign investment in Germany, German investment in foreign securities in the second quarter of 2000 was little more, at € 38 billion, than a year earlier.[3] The main reason for the relatively modest demand for foreign securities was that German residents purchased bonds and notes abroad for no more than € 9½ billion compared with € 29 billion in the corresponding period last year and € 33 billion in the first quarter of 2000. Furthermore, the securities concerned were exclusively euro-denominated paper that, for the most part, had been issued by residents in other euro-area countries; by contrast, there were net sales in the case of foreign currency bonds. Evidently, residents, including credit institutions and capital investment companies, recently invested less in foreign bank bonds than they had done at the beginning of the year. This may have been partly due to the fact that the return on certificates held with German investment funds declined in the second quarter of the year. This same reluctance on the part of German savers is also seen in the purchases of certificates issued by foreign funds. While these had amounted to € 17½ billion between January and March, they amounted to only € 10 billion in the following three-month period.

... shares

In contrast to how they reacted in the other market segments, German residents invested fairly heavily in foreign equity markets in the period under review. At € 17½ billion, they

Foreign demand and interest rates on the bond market

Quarterly



1 German bonds and notes. — 2 Predominantly bank bonds. — 3 Interest rate differential between ten-year bank bonds and the equivalent Federal bonds (benchmark); highest and lowest daily differential as well as the quarterly average in each case.

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invested more than twice as much in foreign shares as they had done in the second quarter of 1999 (€ 7 billion). If the transactions in connection with the aforementioned corporated takeover had been excluded, there would have been a small increase over the

3 Compared with the first quarter of 2000 and after adjustment for the transactions arising in connection with the aforementioned corporate takeover, there was an estimated decline of approximately 40 % in capital outflows.

first quarter of 2000. The sharp decline in prices on many foreign exchanges in March evidently did not lead to any permanent uncertainty on the part of German investors, especially as the economic environment is still very friendly and most markets have quickly recovered. In contrast to what happened in the case of bonds and notes, German inverstors acquired participations in enterprises that for the most part are domiciled outside the euro area.

Direct investment

In the field of direct investment cross-border acquisitions of participating interests normalised following the statistical recording of the aforementioned corporate takeover in the first quarter. With the decline in the gross variables direct investment was almost in balance after the substantial inflows between January and March 2000.

German direct investment abroad

In the period under review German enterprises invested € 31½ billion abroad and thereby strengthened their position outside the euro area in particular. The target countries preferred by German direct investors were the United Kingdom and the United States, which is continuing to expand dynamically. This process was fostered by the increasing international positioning of German enterprises, not least from the financial and telecommunications sectors as well as from the entertainment and tourism sectors. If these enterprises are to be able to offer a globally oriented clientele a broad range of services worldwide, a local presence is often essential. The global orientation of German firms seems to be particularly pronounced when compared with that of enterprises in other euro-area countries. In the first five months of this year – more recent data on the euro-area balance of payments are not yet available – German shareholders accounted for almost 40 % of the equity capital invested by euro-area enterprises in non-euro-area countries. The ratio is therefore larger than, for example, Germany's share (of almost one-third) of the euro-area GDP.

Foreign direct investment in Germany

The same trend is also apparent in the inward direct investment in the euro area from non-euro-area countries: with a share of 85 %, German enterprises have received the lion's share of these investible funds so far this year – although the aforementioned major investment in the first quarter of the year played a decisive role here. Foreign enterprises invested € 32 billion in Germany between April and June. This foreign investment was clearly dominated by short-term financial transactions between affiliated enterprises. € 30½ billion alone flowed into Germany through this financial instrument during the quarter while only € 1 billion in the form of equity capital was made available to the subsidiaries of foreign enterprises domiciled in Germany. When assessing the various types of financing from the point of view of locational policy, however, it should be remembered that the revolving provision of short-term loans may not signify less interest in an economic territory than the establishment of longer-term participating interests of a more formal nature. This is especially true if tax considerations have a substantial influence on the financing structure.

Credit transactions ...

As in other segments of the financial account, non-securitised credit flows as a whole were also significantly weaker than in the previous three-month period. For example, the transactions of the non-banks resulted in comparatively small net capital exports (of € 9½ billion) whereas at the beginning of the year there had been outflows of € 11½ billion. In contrast to the situation in the previous quarter, when German enterprises and individuals had again built up their deposits considerably with foreign banks after the customary withdrawals towards the end of the year, the outflows here were largely the result of extensive redemptions of short-term liabilities vis-à-vis non-residents. Public authorities also exported capital (€ 4½ billion net). In the light of the favourable liquidity situation the Federal Government stocked up its balances with foreign banks discernibly.

... of non-banks

... of banks

As a reflection, as it were, of the statistically recorded inflows in the other areas of payment transactions with non-residents, the net external position of the entire banking system (excluding the foreign reserves of the Bundesbank) increased by € 27 billion after declining by € 91 billion in the previous period. The increase was mainly due to the balances in the Bundesbank's foreign payment transactions (€ 26 billion) which are classified as credit transactions and which arise essentially in connection with the payment system TARGET. There were only minor outflows of funds (€ 1 billion) as a result of the non-securitised external operations of the credit institutions. These occurred exclusively at the long end of the market while there was a small influx of funds through short-term advances.

Foreign reserves of the Bundesbank

The foreign reserves of the Bundesbank declined by € 2½ billion at transaction values between April and June. Just under € 1 billion of this sum was due to the reduction of the reserve position (including the special drawing rights) at the IMF, which, in turn, was the result of the repayments of euro-denominated loans to the IMF by an emerging economy. By contrast, the foreign reserves grew by € 1½ billion as result of the regular revaluation at market prices which takes place at the end of each quarter. Book profits arising from the continuing recovery in the gold price played the major role here. At the end of June 2000 the foreign reserves stood at € 96 billion compared with € 93 billion at the end of 1999.