Foreign trade and payments

Foreign trade and current account

Trends in foreign trade

Foreign trade continued to be the main engine of growth during the summer and autumn. Although the steep rise in mineral oil prices and the associated fall in real incomes tended to have a detrimental effect on demand in Germany and other oil importing countries, the positive stimuli provided by the continued success of German exports determined the trend. For example, export orders received by German industry rose by a seasonally adjusted 4½% in the third quarter compared with the second quarter, when they had already increased by more than 6½% over the first quarter. In the third quarter they therefore exceeded their level in the corresponding period of 1999 by 16%. Seen in that light, it is hardly surprising that the export expectations of the firms surveyed by the ifo institute remained favourable.

Exports

While German deliveries of goods abroad did not quite keep pace with the dynamic rise in demand, the value of exports also increased sharply again in the third quarter. In seasonally adjusted terms, it rose by just under 4% compared with the previous quarter and was therefore 15½% higher than in the same period a year earlier. However, part of this rise in value is due to price increases through which German exporters have been passing on to their customers abroad the higher prices they are paying for input goods as a result of the oil price and the weakness of the euro or have been expanding their profit margins in non-euro-area countries by virtue of the favourable selling conditions there and the price advantages afforded by the depreciating euro. At all events, export prices in the third quarter were 4 % higher than in the same period last year; after adjustment for price changes, however, real German exports of goods still increased by approximately 11 % compared with the same period a year earlier.

Regional breakdown of exports

In the past year the weight of foreign demand has shifted from the industrialised non-euro-area countries to the euro-area countries, with the result that the latter are now determining the overall trend. At least as far as the data on the regional breakdown of German foreign trade are concerned (these are available up to the end of August), Germany's exports of goods to the EMU member countries, which accounted for almost 45 % of the country's exports, exceeded in the months of July and August the comparable value for the previous two months by just under 2 ½ % in seasonally adjusted terms. By contrast, the exports to the industrial countries outside the euro area, which had exerted particularly strong growth stimuli last year, grew much more slowly, at 1 %. Exports to the United States, for example, have now largely stabilised at a high level. The gradual weakening in the US economy, especially in the demand from the motor industry, is consistent with this picture. Exports to the United Kingdom, the third most important customer country for German products, actually declined in the summer months. Both examples clearly show that the advantage gained from price competitiveness can be easily overstated as a reason for the rapid growth in exports over a period of almost two years now. The trend would hardly have been conceivable if

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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there had not been corresponding growth in the export markets concerned.

Demand continued to be heavy from the developing countries and emerging markets, on the other hand. This was particularly true of the emerging markets in South-East Asia and the countries in transition in central and eastern Europe and was probably due not least to the greater income that some of these countries have been earning from their energy exports. That also applies to Germany's exports to the OPEC countries, which recently expanded their imports from Germany somewhat more sharply after initial hesitance.

Imports

Imports, in terms of value, actually grew at an even faster pace than export sales during the summer. They increased by a seasonally adjusted 5½% in the third quarter compared with the previous three-month period, when they had been just over 6% up on the first quarter. The total value of imports in the period under review was 22% above the level a year earlier. In contrast to what happened on the export side, however, price increases, especially as a result of the higher oil prices and the depreciation of the euro, accounted for by far the largest share of the growth in turnover. Import prices rose in the third quarter by an average of 3¼% (seasonally adjusted) compared with the previous period and by 12% compared with the same period a year earlier. If the data are adjusted for the year-on-year increase in prices, real imports of goods therefore rose somewhat less steeply than real exports.

Energy imports

It was energy imports that contributed most to the strong nominal rise in imports. In terms of value imports of petroleum and mineral oil products more than doubled in the July–August 2000 period compared with the same two months a year earlier. However, in the case of natural gas, imports of which had become much cheaper on an annual average in 1999, a similarly sharp rise in turnover was also recorded recently because the rise in natural gas prices had been shadowing that of mineral oil with a certain time lag. Consequently, Germany's total bill for imported energy, including other sources of energy, doubled in the first eight months of the year to € 28½ billion although real energy imports hardly rose, according to estimates. After taking into consideration the year-on-year rise in German energy exports from approximately € 3 billion to € 5 billion, Germany's total net energy balance with the rest of the world ran a deficit of just under € 23½ billion in the period between January and August 2000 compared with € 11½ billion in the same period of 1999. These figures clearly illustrate the considerable "first round effect" that has arisen as a result of more expensive energy.

Trade balance

Owing to the inflated value of German imports as a result of the oil price and the exchange rate, the trade surplus also declined further in the third quarter. Despite the sustained sales success of German exporters, the seasonally adjusted export surplus fell to just over € 12 billion in the third quarter of 2000 compared with just under € 14 billion in the previous quarter.

Current account

Even so, the German current account did not deteriorate to the same extent because the traditional deficit on invisible current transactions with non-residents was smaller, at € 18½ billion, in the period under review than in the previous period (€ 21½ billion). The decline is due to a sharp fall in net expenditure on service transactions with non-residents; at € 9½ billion, the deficit here was almost € 3 billion less than in the previous quarter. Both lower expenditure on foreign travel and larger net income in insurance services and merchanting trade contributed to this result. The deficit on current transfers abroad also declined by € 1 billion to just over € 6 billion in the period under review. Factor income, by contrast, incurred a larger deficit (€ 3 billion compared with just under € 2 billion in the previous quarter). This means that in the third quarter the current account as a whole ran a seasonally adjusted deficit of € 7 ½ billion compared with one of just under € 8 ½ billion in the previous quarter.

Capital transfers

Cross-border transfers of assets which are not shown in the current account balance were also recorded to an unusually large extent in the third quarter. Such transfers of assets outside the field of regular current transactions resulted in inflows of funds amounting to just over € 16 billion in the period under review compared with a virtually balanced outcome in the previous period. The rise is in connection with the auction of the UMTS licences in Germany. The purchase of a licence by a non-resident is recorded as the disposal of a non-produced non-financial asset under this item in the balance of payments.

Financial transactions

Trends in financial transactions

Events on the international financial markets during the summer were characterised by increasing uncertainty and restraint, especially on the part of foreign investors, and by renewed weakness in the euro. The fact that the funding of UMTS licences resulted in significant capital movements in the fields of direct investment and credit transactions was also important from Germany's point of view.

Current account

€ billion; seasonally adjusted

Item	2000 1st qtr	2000 2nd qtr	2000 3rd qtr
1. Foreign trade			
Exports (f.o.b.)	140.2	145.7	151.3
Imports (c.i.f.)	124.3	131.8	139.1
Balance	15.9	13.9	12.2
2. Services (balance)	– 10.7	– 12.2	– 9.4
of which Foreign travel (balance)	– 7.9	– 8.2	– 7.2
3. Factor income (balance)	– 1.2	– 1.8	– 3.0
of which Investment income (balance)	– 1.0	– 1.6	– 2.7
4. Current transfers (balance)	– 5.5	– 7.3	– 6.2
Balance on current account 1	– 2.6	– 8.3	– 7.5

1 Includes supplementary trade items.

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The upshot was that net outflows of funds arose through the portfolio investments and unsecuritised credit transactions of non-banks while net capital imports resulted from direct investment.

Portfolio investment

Foreign investment in ...

Whereas securities transactions led to net inflows of € 40 billion between April and June, they resulted in net capital outflows of € 28 ½ billion in the following three-month period. This significant turnaround was due, in particular, to the investment behaviour of non-residents, who in the third quarter invested substantially less, at € 29 ½ billion, in the German market than they had in the previous quarter (€ 77 ½ billion). The decline in foreign interest was manifest in all categories of securities.

Major items of the balance of payments

€ billion

Item	1999 3rd qtr	2000 2nd qtr	2000 3rd qtr
I. Current account			
1. Foreign trade			
Exports (f.o.b.)	126.5	146.9	146.0
Imports (c.i.f.)	110.5	132.4	134.7
Balance	+ 15.9	+ 14.6	+ 11.3
2. Services (balance)	– 12.1	– 12.1	– 12.3
3. Factor income (balance)	– 3.9	+ 0.2	– 3.2
4. Current transfers (balance)	– 7.6	– 6.5	– 7.1
Balance on current account 1	– 8.9	– 4.8	– 12.4
II. Balance of capital transfers 2	– 0.8	+ 0.0	+ 16.2
III. Financial account 3			
Direct investment	– 2.8	– 0.6	+ 25.2
Portfolio investment	+ 10.6	+ 40.0	– 28.6
German investment abroad	– 38.7	– 37.6	– 57.8
Foreign investment in Germany	+ 49.3	+ 77.6	+ 29.3
Financial derivatives	+ 4.6	+ 3.8	– 0.7
Credit transactions 4	– 14.9	– 35.2	– 29.0
Overall balance on financial account	– 2.4	+ 8.0	– 33.2
IV. Change in the foreign reserves at transaction values (increase: –) 5	– 0.4	+ 2.4	+ 2.2
V. Balance of unclassifiable transactions	+ 12.6	– 5.6	+ 27.2

1 Includes supplementary trade items. — **2** Including the acquisition/disposal of non-produced non-financial assets. — **3** Net capital exports: –. — **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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... domestic shares

Foreign investor restraint was most discernible in connection with German shares, which had previously been in fairly great demand from non-residents. In the third quarter these investors spent € 7 billion net on this paper compared with € 40 billion in the second quarter. It was principally the changed appraisal of future developments in the IT sector that led to the greater reluctance to invest in the German market. However, another possible reason was that, given the deterioration in the terms of trade as a result of the persistently high oil prices, the future growth prospects for Germany no longer looked as favourable in the summer as they had done in the spring. At all events, German shares lost some ground in the course of the third quarter (DAX: – 2 ½ %) even if they did not fare quite so badly as other European stocks (Euro STOXX: – 4 ½ %).

... domestic money market paper

Non-residents' investment in interest-bearing paper also declined in the third quarter. This was particularly so in the case of German money market paper (€ 4 billion compared with € 15 billion between April and June), the amount of which outstanding continued to level off following the period of rapid growth at the end of last year. Evidently, the banks, the most important group of issuers in this segment, have not been using this financing instrument quite so intensively in their funding operations since the ECB raised interest rates. At € 17 billion net, demand for fixed-interest securities was also somewhat weaker in the period under review than in the previous period (€ 20 ½ billion). Bank bonds, which at the long end of the market were continuing to offer a fairly large interest-rate

... domestic bonds and notes

advantage – of 62 basis points on a quarterly average – over comparable Federal bonds, accounted for about two-thirds of the bonds and notes placed abroad.

German investment in ...

... foreign shares

While non-residents were reluctant to invest in the German market, German residents invested more heavily in foreign securities during the period from July to September than they had done before. They purchased foreign paper worth a total of € 58 billion compared with € 37½ billion in the previous three-month period. Approximately one-half of the total amount invested (€ 28½ billion) flowed directly into foreign equities, with investors showing a preference for shares issued in other euro-area countries – in contrast to the first half of the year 2000. They also spent € 8 billion in the purchase of certificates of foreign investment funds, which presumably, in turn, invested some of the money accruing to them in foreign shares.

... foreign bonds and notes

German investor interest in foreign bonds and notes likewise increased appreciably in the third quarter (€ 21½ billion compared with € 9 billion in the quarter earlier). Demand was almost entirely confined to euro-denominated debt securities, most of which stemmed from other euro-area countries. In the case of long-term government bonds this paper had a yield advantage over equivalent German Federal Government bonds of approximately 25 basis points on average; that was somewhat more than in the comparable period between April and June. At the same time, the spread between government bonds emanating from the dollar area and those issued in the euro area narrowed. Among the

Financial transactions

€ billion, net capital exports: –

Item	1999 3rd qtr	2000 2nd qtr	2000 3rd qtr
1. Direct investment	– 2.8	– 0.6	+ 25.2
German investment abroad	+ 3.7	– 33.7	+ 12.6
Foreign investment in Germany	– 6.5	+ 33.1	+ 12.6
2. Portfolio investment	+ 10.6	+ 40.0	– 28.6
German investment abroad	– 38.7	– 37.6	– 57.8
Shares	– 16.7	– 18.0	– 28.4
Investment fund certificates	– 2.6	– 9.7	– 8.2
Bonds and notes	– 17.9	– 9.2	– 21.5
Money market paper	– 1.6	– 0.7	+ 0.3
Foreign investment in Germany	+ 49.3	+ 77.6	+ 29.3
Shares	+ 10.8	+ 40.2	+ 6.8
Investment fund certificates	+ 0.6	+ 1.9	+ 1.5
Bonds and notes	+ 24.2	+ 20.3	+ 17.1
Money market paper	+ 13.8	+ 15.1	+ 4.0
3. Financial derivatives 1	+ 4.6	+ 3.8	– 0.7
4. Credit transactions	– 14.4	– 34.6	– 28.6
Credit institutions	– 0.7	– 1.1	– 28.4
Long-term	+ 1.4	– 5.0	– 11.8
Short-term	– 2.2	+ 3.9	– 16.5
Enterprises and individuals	+ 0.3	– 3.4	– 5.7
Long-term	– 0.7	– 0.8	– 0.6
Short-term	+ 1.1	– 2.7	– 5.2
General government	+ 0.3	– 4.3	– 14.9
Long-term	– 1.8	– 0.3	– 1.0
Short-term	+ 2.1	– 4.0	– 13.9
Bundesbank	– 14.3	– 25.8	+ 20.4
5. Other investment	– 0.5	– 0.5	– 0.4
6. Balance of all statistically recorded capital flows	– 2.4	+ 8.0	– 33.2
Memo item Change in the foreign reserves at transaction values (increase: –) 2	– 0.4	+ 2.4	+ 2.2

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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purchasers of foreign debt securities were German credit institutions, which, it has been estimated, acquired just under one-half of the total amount.

Direct investment amid ...

Net capital imports of € 25 billion arose from direct investment during the period under review; in the previous three months there had been a (small) net outflow of € ½ billion. This trend was essentially due to the cross-border financial flows which occurred in connection with the payment of the UMTS licences.

... the acquisition of the UMTS licences

Where the successful bidders were German firms with non-resident shareholders, their foreign parent companies provided them in some cases with funds to purchase the licences. Other German firms issued securities on the international capital market through, for example, financing companies resident abroad and received the proceeds in the form of intra-group transferred credits. Both types of transaction were shown in the balance of payments as direct investment.

Significance of the telecommunications sector

Consequently, direct investment flows were once again determined by the telecommunications sector. For some time now this dramatically growing economic sector has been striving hard to form global alliances whose aim is to achieve typical economies of scale in the case of networks and to advance the development and introduction of new technologies. German firms – at least in Europe – are evidently at the centre of mergers and acquisitions, both as investors and as direct investment targets. So far this year inward direct investment has clearly predominated. Since the beginning of the year net inflows have amounted to an estimated € 180 billion in the telecommunications sector alone.[1]

Foreign direct investment in Germany

All in all, foreign enterprises invested approximately € 12½ billion in their German bases during the period under review. This, however, was appreciably less than in the previous quarter (€ 33 billion) when unusually large short-term credits between affiliated enterprises had determined direct investment flows. The granting of proprietor credits has again been the dominant factor in the current quarter.

German direct investment abroad

By contrast, German firms withdrew investible funds from abroad on balance (€ 12½ billion) whereas in the previous quarter the international investment of German enterprises had still been very pronounced (€ 33½ billion). If, however, consideration is given only to the changes in equity financing (that is to say, if reinvested earnings and the credits granted to affiliated enterprises are excluded), it emerges that they had continued to expand their investment in this area in the period under review, too (€ 17 billion compared with € 14 billion between April and June); the aforementioned credits taken up by German telecommunications providers with affiliated enterprises abroad ("reverse flows") and their recourse to existing external assets more than offset the capital exports arising from participations.

Unsecuritised credit transactions of non-banks ...

The financial operations of enterprises and individuals between July and September resulted in net capital outflows of € 5½ billion in

1 Not all direct investment in the telecommunications sector is statistically classified under this economic sector as customarily defined; this is particularly true where – hitherto – an enterprise's activities had been focused outside this sector.

unsecuritised credit transactions. This occurred against the background of strong flows in each of these months as a result of the "parking" of liquidity with foreign banks in the run-up to the UMTS auction. In the previous quarter German investors had already transferred sums of a similar magnitude abroad. By contrast, the exports of funds by the public sector were substantially greater (€ 15 billion net compared with € 4½ billion in the previous quarter). Evidently the Federal Government temporarily invested some of the proceeds from the auction of mobile telephone licences with foreign credit institutions.

... and the banks

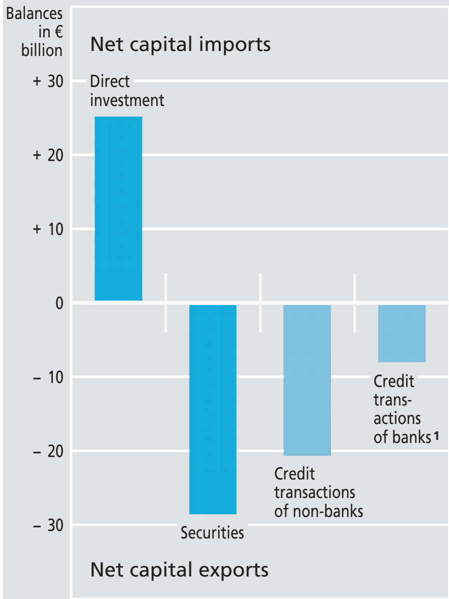
At € 8 billion, the net external position of the entire banking system (excluding the foreign reserves of the Bundesbank) rose less sharply in the third quarter of 2000 than in the three-month period earlier (€ 27 billion). Developments at the Bundesbank differed from those at the commercial banks between July and September. While the net external assets of the Bundesbank (excluding foreign reserves) declined by € 20½ billion, primarily as a result of deficit balances in connection with the payment system TARGET, German credit institutions recorded outflows of funds (amounting to € 28½ billion).

Foreign reserves of the Bundesbank

In the third quarter of 2000 the foreign reserves of the Bundesbank declined by just over € 2 billion, partly as a result of the channelling of interest income into the foreign exchange market. As the reserves were routinely revalued on September 30, 2000, however, this decline was countered by a value increase of € 7 billion. The write-up of gold and foreign exchange holdings was mainly due to the higher exchange rate of the US dollar and the resultant increase in gold prices in terms of the euro. The outcome was that German foreign reserves amounted to just under € 101 billion at the end of September. This means that they represented approximately one-quarter of the € 408 billion in foreign reserves of the Eurosystem.

Breakdown of financial transactions

Third quarter 2000



1 Including Bundesbank.

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