German balance of payments in 2000

The rapid growth in the world economy and the short-term competitive advantages arising from the depreciation of the euro meant that exports were again the main driving force behind economic growth in Germany last year. Owing to the high degree of international integration in modern industrial production, however, imports also increased sharply. At the same time, the rise in oil prices and the depreciation-related increase in the cost of other imported goods inflated Germany's import bill to such an extent that for the first time in nine years the trade surplus, despite unprecedented export levels, was lower than in the previous year. Consequently, the deficit on the German current account increased by € 6 billion to € 23 billion. In financial transactions, by contrast, Germany recorded large net inflows of funds through direct investment for the first time in more than 25 years. However, these inflows were mainly the result of a large merger in the telecommunications sector and were offset by the substantial outflows in cross-border portfolio transactions associated with the merger. These developments are discussed in detail below.

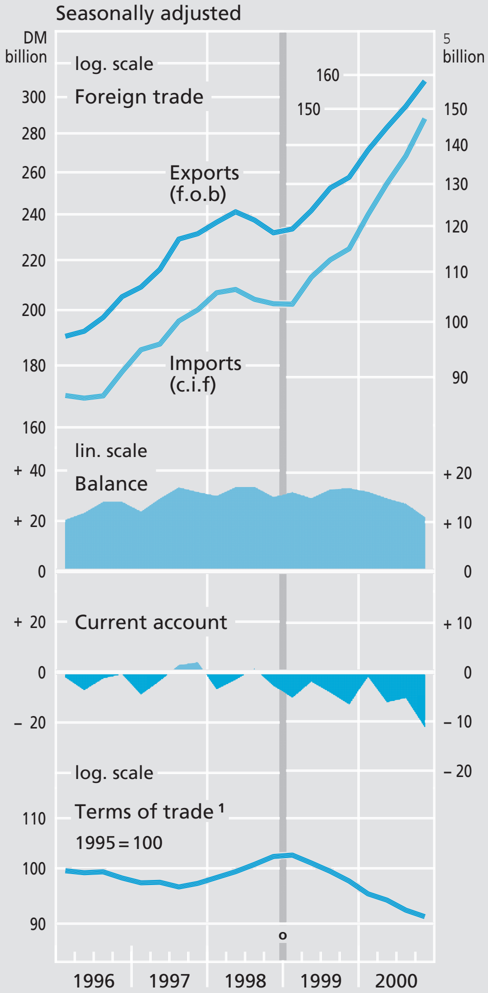
Current account

Exports

Exports rose by 17 % in value in 2000. They increased very sharply, at 13½ %, in real terms, too, i.e. when calculated at constant

Foreign trade and current account

Seasonally adjusted



o From 1999 data in euro. — **1** Export price index as a percentage of the import price index.

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prices. Export prices went up by an average of 3.5 %, which was significantly faster than the rise in domestic prices. This indicates that enterprises took advantage of the favourable export trend to improve their profits as well.

Regional breakdown

Last year exports received an important boost from the 15½ % rise in demand from other euro-area countries, which thereby accounted for about two-fifths of the growth in German export turnover. However, there was also a particularly sharp increase in German exports to countries outside the euro area which had experienced a rapid expansion in domestic demand. For example, there was an above-average rise of 22 % in exports to the central and east European countries in transition. In the emerging markets of South-East Asia German exporters achieved even higher growth rates (of 28 %). In terms of value, exports to the United States, which had already risen particularly fast in 1999, also showed an above-average increase (of 19 %). There was quite a lag before the considerable improvement which the higher oil prices had made in the income of the members of the Organization of the Petroleum Exporting Countries (OPEC) was eventually reflected in any corresponding rise in demand from them. Even so, at 18 %, the increase in exports to these countries last year was also substantial. Overall, German exporters were able to expand their market shares substantially last year.

Breakdown of goods

Capital goods are one of the traditional core components of German exports, accounting for approximately 40 % of exports during the past few years.[1] Inputs, whose latest share

1 The data on the breakdown of goods in this section and in the table on page 66 relate to the output of goods statistics as listed in the 1995 edition (GP95). This edition uses a radically different system for classifying goods from the 1989 edition. In the GP95 attention is focused on the subsequent use of the goods. For example, machinery is not necessarily classified as capital goods but in some cases as durable or non-durable goods. It is therefore no longer possible to allocate the categories of goods (e.g. chemical products, machinery and road vehicles) under the main classifications (e.g. inputs, capital goods and consumer goods). Despite what in some cases are identical category descriptions, there have occasionally been fairly large discrepancies depending on the system applied. In 2000, for example, capital goods accounted for just under 60 % of German exports according to GP89 but approximately 40 % if calculated in line with GP95.

was just over 35 %, come second. Last year, however, shares shifted in favour of the last-mentioned category of goods, which, with a growth rate of 18½ %, contributed most to the German growth in exports whereas growth in the exports of capital goods, at 14 %, was below average. The striking change in the breakdown of German export sales is probably largely due to the above-average rise in the prices of inputs which entail a relatively large proportion of raw materials and energy.

Substantial sales growth in IT sector

Remarkable shifts in weighting also occurred within the major product categories. This applies in particular to capital goods which have traditionally included substantial sales of machinery and motor vehicles. In the past two years, however, enterprises in the information and communications technology sector have been attaining greater importance. For example, products from this sector accounted for 23 % of the total growth in German exports in 2000 when exports by this industrial sector rose by 24 % compared with the previous year. The communications technology segment achieved particularly sharp growth rates of nearly 40 %. The fact that these economic sectors are also playing an increasingly important role on the imports side with a share of almost one-fifth illustrates, at the same time, the high degree of international integration which characterises these, like most other, modern industrial producing sectors and which is reflected in a largely parallel trend in exports and imports.

Imports

With an increase of approximately 10½ % in real terms, German imports also rose appre-

Regional breakdown of foreign trade

2000

Group of countries/ Country	Exports € billion	Exports Change from previous year in %	Imports € billion	Imports Change from previous year in %
Industrial countries	459.6	16.1	396.7	19.2
EU countries	337.4	15.0	281.9	17.6
EMU countries	260.3	15.3	223.4	16.7
Austria	31.7	12.1	20.8	13.5
Belgium/ Luxembourg	32.8	13.7	27.7	21.2
Finland	6.9	19.1	5.5	16.9
France	68.2	16.4	52.0	14.2
Ireland	3.6	24.8	11.0	– 2.7
Italy	45.2	17.9	36.2	9.5
Netherlands	38.5	12.0	47.9	32.8
Portugal	6.3	7.7	5.8	21.4
Spain	27.1	19.4	16.4	12.0
Other EU countries	77.1	13.9	58.5	21.2
Denmark	9.3	5.9	8.6	16.0
Greece	4.6	10.5	1.6	– 6.9
Sweden	13.6	16.6	10.3	24.1
United Kingdom	49.6	15.1	37.9	23.3
Other industrial countries	122.2	19.3	114.8	23.1
of which				
United States	61.2	19.1	46.5	26.4
Japan	13.2	27.3	26.6	22.1
Countries in transition	70.3	23.9	82.4	31.8
of which				
Countries in central and eastern Europe	59.9	22.2	62.5	31.0
China [1]	9.4	35.3	18.4	33.3
Developing countries	65.3	15.9	64.3	31.7
of which				
OPEC countries	10.8	17.8	10.2	58.9
Emerging markets in South-East Asia	24.0	28.0	30.2	33.8
All countries [2]	596.9	17.0	541.0	21.6

1 Excluding Hong Kong. — **2** The import totals for “All countries” include revisions for the period from January to November 2000 which are not yet available in a regional breakdown.

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Foreign trade by selected category of goods and sector

2000

Item	Change from previous year in %	Share of export or import growth in %	Share of total exports or imports in %
Exports			
Inputs	18.5	39.6	36.9
Capital goods	14.2	34.8	40.7
Durable and non-durable goods	5.6	4.8	13.3
Memo item			
Chemical products	13.1	9.9	12.4
Machinery	10.3	9.1	14.2
Motor vehicles, trailers and semi-trailers	12.8	13.7	17.5
Information and communications technology 1	23.9	23.0	17.3
of which			
Data processing equipment 2	29.5	4.7	3.0
Communications 3	39.3	10.7	5.5
Total	17.0	.	.
Imports			
Inputs	26.7	45.9	39.7
Capital goods	14.0	18.3	27.1
Durable and non-durable goods	5.0	4.7	18.1
Memo item			
Chemical products	11.3	5.1	9.1
Machinery	10.1	3.3	6.7
Motor vehicles, trailers and semi-trailers	2.9	1.3	8.7
Information and communications technology 1	24.1	20.2	19.0
of which			
Data processing equipment 2	11.8	3.2	5.5
Communications 3	41.7	10.4	6.4
Sources of energy	81.3	21.3	8.7
Total 4	21.6	.	.

1 Electrical machinery and apparatus, medical, precision and optical instruments, watches and clocks as well as data processing equipment and communications. — **2** Office machinery and computers. — **3** Including radio, television and electronic apparatus. — **4** The item "Total" includes revisions for the period from January to November 2000 for which a breakdown by category of goods is not yet available.

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ciably more rapidly last year than domestic demand alone would have suggested. Owing to the sharper rise in import prices, imports actually grew even more rapidly in nominal terms (+ 21½%). The value of imports of petroleum, gas and other sources of energy alone went up by more than 80% last year. Even so, the increase in the energy bill was almost solely determined by the rise in prices; the volumes imported remained virtually unchanged.

Regional breakdown

The sharp increase in the prices of energy imports and the depreciation-related price increases in the case of imports from countries outside the euro area also affected the regional breakdown of import trends. For example, imports from the OPEC countries were just under 60% more in terms of value in 2000 than in 1999. At approximately 2%, however, these imports continued to account for only a small share of Germany's total imports. The sharp rise (of 31%) in German imports from the central and east European countries in transition likewise reflects oil-related price increases to a large degree. Imports from the central and east European countries in transition accounted, overall, for 11½% of total imports. The appreciation of the US dollar was probably a contributory factor in the 26½% increase in the value of goods imported from the United States last year. Relatively large growth (34%) was recorded in trade with the emerging markets in South-East Asia, which play an important role as suppliers of electrical engineering inputs and as producers of consumer goods from that sector. By contrast, there was only a comparatively modest rise, at 16½%, in nominal imports from the euro area.

Trade balance and current account

The sharp rise in Germany's import bill appreciably exceeded the growth in income from exports with the result that the export surplus at current prices declined by € 9½ billion to € 56 billion last year.[2] On the other hand, the remaining segments of the cross-border current account, i.e. services, factor income and current transfers, whose growing deficits had long been a burden on the external balance sheet, tended to have a positive effect, on the whole; at € 72½ billion, net expenditure on invisible current transactions was € 2½ billion less than in the previous year. Consequently, the German current account ran a deficit of € 23 billion in 2000. That means it was approximately € 6 billion greater than in 1999 and was essentially a reflection of the deterioration in price relationships in foreign trade.

Services account

Service transactions with non-residents traditionally account for most of the deficit on invisibles. Last year the deficit amounted to € 44½ billion and was therefore approximately € 3½ billion above the level in the previous year. An increase in net expenditure on foreign travel and a significant rise in the deficit on other services were the main reasons for this. These other services include a sizeable group of miscellaneous transactions such as expenditure on commercial services, publicity and international trade fairs and patents and licences. It also includes expenditure on international film production, services provided in the telecommunications sector and post and courier services. German firms also spent more on engineering and other technical services than they received from supplying these same services. As a result, the deficit on other services amounted to € 22½ billion. That was € 3½ billion more than in the previous year. By contrast, German suppliers achieved a total net surplus of € 10 billion in remaining service segments such as transport and merchanting services as well as in insurance and financial services.

Foreign travel

Germany's foreign travel account ran a deficit of € 32 billion (1999: € 30 billion). The comparatively modest deterioration in the foreign travel balance, the pronounced downturn in which had long had an especially detrimental effect on the external balance, was largely the result of a sharp rise of 11% in income in 2000. (Even so, income was still considerably less than expenditure.) US, Dutch and Swiss travellers contributed most to the increase in German income from travel. Expenditure on foreign travel by German business travellers and tourists rose by 8½% in 2000. Other euro-area countries benefited from 44½% of this increase. The central and east European countries in transition as well as Turkey also benefited from a large share of the increased expenditure by German travellers. By contrast, less was spent on trips to the United States, evidently as a result of that country's slight fall in popularity owing to the rise in travel costs incurred by travellers calculating in euro.

Factor income

The deficit on cross-border factor income declined by € 7 billion to somewhat more than

2 Supplementary trade items ran a deficit of € 6½ billion.

Major items of the balance of payments

€ billion

Item	1998	1999	2000
I. Current account			
1. Foreign trade			
Exports (f.o.b.)	488.4	510.0	596.9
Imports (c.i.f.)	423.5	444.8	541.0
Balance	+ 64.9	+ 65.2	+ 55.9
2. Services (balance)	– 34.1	– 41.1	– 44.3
3. Factor income (balance)	– 6.5	– 8.2	– 1.2
4. Current transfers (balance)	– 27.3	– 25.8	– 27.0
Balance on current account 1	– 6.1	– 16.8	– 23.0
II. Balance of capital transfers 2	+ 0.7	– 0.2	+ 15.3
III. Financial account 3			
Direct investment	– 57.9	– 50.6	+ 138.4
Portfolio investment	+ 4.5	– 13.6	– 164.2
German investment abroad	– 131.0	– 178.2	– 210.3
Foreign investment in Germany	+ 135.5	+ 164.6	+ 46.1
Financial derivatives	– 6.9	– 1.1	– 3.8
Credit transactions 4	+ 76.7	+ 29.9	+ 39.7
Overall balance on financial account	+ 16.4	– 35.3	+ 10.0
IV. Change in the foreign reserves at transaction values (increase: –) 5	– 3.6	+ 12.5	+ 5.8
V. Balance of unclassifiable transactions	– 7.4	+ 39.8	– 8.1

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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€ 1 billion last year. The main plus was in the rise in investment income from German external assets in 2000. Firstly, Germans investing abroad benefited from the strength of the US dollar; secondly, equity dividends on foreign shares rose markedly.

Transfers

Net current transfers to non-residents amounted to € 27 billion in 2000. This means that, as in 1999, approximately 1.3 % of GDP was used to make unrequited payments to non-residents. The bulk of this, € 19 billion, was spent on public transfers such as the regular net contributions to the EU budget, which in 2000 came to € 15 billion and were therefore just over € 1½ billion more than in 1999. In the case of private transfers – pensions and other maintenance payments as well as the remittances made by foreign workers to their home countries – the deficit, at just under € 8 billion, was somewhat smaller than in 1999 (€ 8½ billion).

Another factor was that last year disposals of non-produced non-financial assets played a more extensive role. Essentially, this involved the settlement of UMTS licences which foreign telecommunications companies had also bought at the auction. These transactions are shown together with the capital transfers (resulting in a total plus of € 15½ billion). The associated cross-border financing transactions are recorded in the financial account.

Financial transactions

Financial transactions with non-residents were again marked last year by the rapid ad-

Trends in financial transactions

vance in globalisation. As a result, capital flows to and from Germany attained extraordinarily large dimensions. Both the financial operations of German and foreign investors and the strategic decisions of enterprises are evidently being affected more than ever in the international context by global economic developments. The most notable developments last year were the sharp decline in share prices, especially those of high-tech enterprises, the rise and fall of the euro and the downturn in capital market interest rates on both sides of the Atlantic. The world-wide wave of mergers and acquisitions also reached a new high; German enterprises – whether as the investing companies or the "investment objects" – were major participants in these events last year. The outcome was that in 2000 Germany recorded net capital imports of € 138½ billion through direct investment and € 41½ billion through non-securitised credit transactions; by contrast, portfolio investment resulted in net outflows of € 164 billion.

Direct investment ...

The trend towards globalisation was most striking in the corporate field. Here, the market value of corporate mergers involving internationally registered multi-nationals is estimated to be more than US $ 1,000 billion for the year 2000. The largest transaction

... in Germany

concerned a German enterprise which was taken over by a foreign investor.[3] This acquisition resulted in a record influx of foreign capital. Last year foreign enterprises invested a total of € 191 billion in Germany; that was about one-third more than in all of the previous 30 years put together. The provision of funds in connection with the purchase of UMTS licences also played a major role. Enterprises belonging to foreign proprietors bought some of the transmission rights at the auction. One of the ways in which the purchase price was financed in these cases was through borrowing from the (foreign) parent company.

Effects of direct investment

The large influx of funds arising from inward investment in the year 2000 will probably have positive real economic implications in the medium and long term rather than in the short term. As is normally the case with such large transactions, the aforementioned corporate acquisition took place in the form of an exchange of shares. Consequently, there was no direct improvement in the financial standing of the enterprise acquired. As in the inward investment involved in the UMTS licences, however, it is expected that in the longer term this acquisition will lead to an increase in (real) investment in Germany because the move is concerned with strategic positioning on the German market.

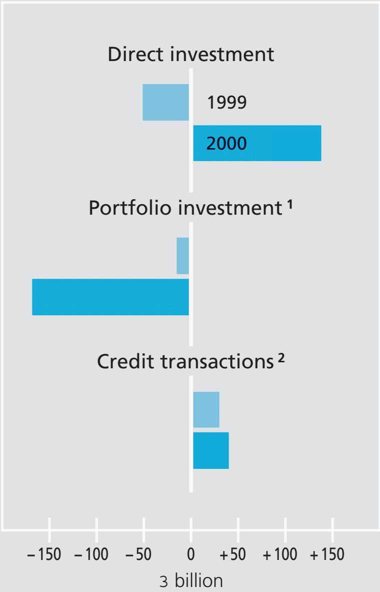
German direct investment abroad

When compared with the unusually high level of foreign direct investment in Germany in 2000, the outward investment of German enterprises, though still strong, appears less significant. At € 52½ billion, it amounted to only about one-quarter of the sum invested in Germany. In net terms, therefore, Germany recorded capital imports through direct in-

3 See Deutsche Bundesbank, The economic scene in Germany in spring 2000, Monthly Report, May 2000, page 44 ff. After the acquisition the concern underwent major restructuring, which included the selling of foreign subsidiaries that had previously been owned by German companies. This meant that the strategic reorientation affected not only foreign direct investment in Germany but also German direct investment abroad.

Breakdown of capital flows

Net capital export: –



1 Including financial derivatives. — 2 Including other financial transactions.

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vestment for the first time since 1974. Although German direct investment abroad last year might likewise seem low when compared with the level of its outward investment in 1999 (€ 103 billion), the sales of participating interests abroad in connection with the aforementioned group restructuring sharply reduced German acquisitions of participating interests abroad. Furthermore, there were large borrowings by German enterprises from their foreign subsidiaries, and these must be seen as "reverse flows" in the case of German direct investment abroad (2000: € 39½ billion; 1999: € 26½ billion). Of considerable importance in this connection are the financing subsidiaries of German enterprises which are domiciled abroad and which specialise in the issuing of international bonds. These corporations pass on the proceeds of the issues as credits to their parent companies. Evidently the outsourcing of financing functions, be it the issuing of securities or the managing of group liquidity, has advantages for major groups. Such tendencies, which were already apparent before the start of EMU, seem to be gathering momentum in the integrating euro-area financial market. Consequently, particular care has to be taken when analysing direct investment.

Regional breakdown of direct investment

The aforementioned corporate acquisition and restructuring as well as the reverse flows, also mentioned above, also had a serious distorting effect on the regional breakdown of German direct investment with the result that it is virtually impossible to draw any economic conclusions from the events. As the domicile of the large investor, the United Kingdom, with a share of more than 60 %, played the dominant role in respect of the direct investment flowing into Germany. At the same time, inward investment by the other euro-area countries increased sharply in terms of value and accounted for a share of about one-third. Conversely, the United States, with a share of approximately 50 %, continued to be the most important host country for German outward investment whereas the United Kingdom, traditionally a significant investment target for German enterprises, and the other euro-area countries lost ground in view of the special events already mentioned.

Portfolio investment

The financing transactions in connection with the large mergers and acquisitions also had a mirror-image effect, as it were, on the net result of portfolio investment, namely net outflows of € 164 billion – more than ten times

Germany's financial transactions within the euro area and with non-euro-area countries

In 1999, the first year of monetary union, a remarkable pattern emerged in Germany's financial transactions: large amounts of funds flowed into Germany from non-euro-area countries (€ 113 billion)[1] whereas transactions with partner countries within the euro area produced large net capital exports (€ 136 billion). This "turntable" function which Germany as a financial centre was fulfilling can be shown to exist in a similar way for the year 2000 as well. The net capital imports arising from transactions with non-euro-area countries amounted to € 175 billion last year. These imports were counterbalanced by exports of funds which amounted to € 160 billion net and which arose from transactions with the other euro-area countries (see the chart on page 72). This structure can be seen in all segments of the financial account with the exception of direct investment. In that segment the large volume of loans which enterprises domiciled in Germany obtained from group-affiliated companies in other euro-area countries ultimately results in net capital imports just as intra-group financial transactions with companies in non-euro-area countries do.

To some extent Germany's large net capital imports from non-euro-area countries are at odds with the almost squared financial account for the euro area (plus € 2½ billion). Evidently Germany's large net capital imports through transactions with non-euro-area countries were almost fully offset by corresponding net exports by other euro-area countries.[2] The notion that the other euro-area countries invested more heavily than Germany outside the single currency area is supported by an analysis of the gross financial flows of the euro area. This analysis shows that German economic agents have not been developing the formation of assets in non-euro-area countries so enthusiastically as investors in other euro-area countries. Germany accounts for only 13 % of the euro area's direct investment in non-euro-area countries and for 23 % of securities acquisitions. Both ratios are appreciably lower than would be consistent with Germany's economic weight within the euro area. German creditors, especially the banks, participated to a somewhat greater extent (32 %) in the euro area's unsecuritised lending to non-euro-area countries; in terms of the outflows of funds in connection with portfolio investment and direct investment, however, these transactions played no more than a minor role. Conversely, however, there were fairly substantial inflows of funds into Germany from non-euro-area countries – as far as this can be captured statistically. For example, Germany accounted for 42 % of inward direct investment in the euro area and for 31 % of the loans raised and deposits held in non-euro-area countries.

Germany's share of euro-area financial transactions in 2000

Selected items	Euro area (€ billion)	German financial transactions with non-euro-area countries (€ billion)	German financial transactions with non-euro-area countries (Share)
Direct investment			
outside the euro area	– 326.1	– 42.6	13.1 %
in the euro area/ in Germany	+ 303.1	+ 125.8	41.5 %
Securities			
Assets	– 413.0	– 95.0	23.0 %
Equities	– 287.9	– 81.3	28.2 %
Debt instruments	– 125.1	– 13.7	11.0 %
Credit transactions 3			
Assets	– 203.1	– 64.2	31.6 %
of which			
MFIs	– 129.8	– 71.8	55.3 %
Other sectors 4	– 57.4	+ 1.3	.
Liabilities	+ 334.7	+ 105.2	31.4 %
of which			
MFIs	+ 271.7	+ 100.2	36.9 %
Other sectors 4	+ 51.4	+ 3.8	7.4 %

1 Including changes in foreign reserves. — **2** The statistical problems arising in connection with the regional breakdown of securities transactions has been discussed elsewhere; see Deutsche Bundesbank, German balance of payments in 1999, Monthly Report, March 2000, page 62. — **3** Including "Other financial transactions". — **4** Enterprises and individuals, including "Other financial transactions".

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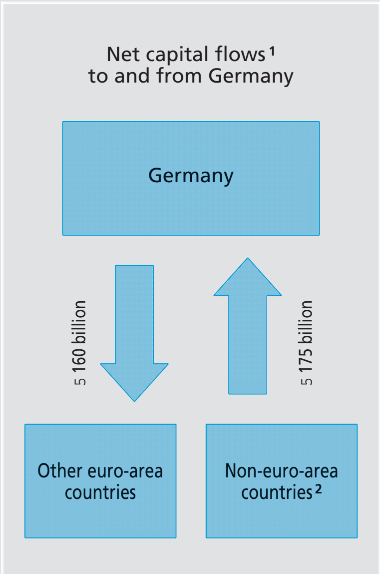
Germany as a financial turntable



1 Including changes in foreign reserves. — 2 Including "Countries not identified".

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as much as in 1999. There were two factors at play: firstly, the acquisition of foreign shares by German investors, leading to a sharp rise in German capital exports through foreign securities, and, secondly, the – in purely arithmetic terms – reduced investment by non-residents in German securities as a result of the liquidation of portfolio investments in connection with the large merger described. As the new direct investor took over the (portfolio) shares of the German enterprise that had already been held by non-residents, a direct investment relationship arose in place of the portfolio investments.

Foreign securities investment in Germany

As a result of this, foreign investors acquired German securities worth no more than € 46 billion net compared with € 164½ billion in 1999. However, the decline is due solely to the single transaction mentioned. Non-residents' purchases of German shares were particularly affected by this. The outcome was that the figures published (minus € 37½ billion in 2000 compared with plus € 22½ billion) gave a very distorted picture of the actual trend. If the special factor mentioned is eliminated, foreign investors actually purchased discernibly more German shares last year than in 1999. This was *inter alia* the result of the initial public offering of the Deutsche Post shares and the placing of a further lot of Deutsche Telekom shares; non-residents took both into their portfolios. The fact that foreign turnover in German shares more or less doubled in 2000 is ultimately a sign of the ever increasing interest shown by non-residents in German equities.

Shares

Bonds and notes

Foreign interest in the German bond market declined markedly, by contrast. Non-resident investors purchased German debt securities worth € 69 billion net compared with € 98 billion a year earlier. € 22 billion of this went into Federal bonds – that was the smallest amount since the bond market turbulence in 1994. This development also shows how important German Federal Government bonds were as international investment instruments prior to monetary union. Since the introduction of the euro German paper shares this role with the paper issued by other euro-area countries. Particularly yield-oriented investors, who are not so interested in the liquidity advantages offered by Federal bonds as a benchmark instrument, evidently tend to decide sometimes in favour of bonds issued by other euro-area countries as these regularly provide a small interest advantage.

Foreign demand for German bank debt securities also declined last year whereas in the first year of monetary union it had risen sharply (€ 47 billion in 2000 compared with € 65 billion in 1999). Similarly, the outstanding volume of debt securities issued by private borrowers in Germany did not rise quite so rapidly as it had done in previous years. It must be remembered in this connection that some of the issues intended for the international market are issued abroad through financing subsidiaries. These issues affect Germany's financial account only indirectly – only when, as mentioned in the section on direct investment above, the financing subsidiaries pass on the proceeds of the issues to their parent companies in Germany in the form of credits.

Money market paper

Foreign interest in German money market paper likewise declined considerably last year. In 1999 non-residents had invested € 38 billion in German short-dated paper, but in 2000 their purchases amounted to no more than € 3½ billion. Part of the decline in demand was probably due to the fact that paper acquired by non-residents at the end of 1999 in the light of the year 2000 problem matured in the course of last year. At the same time, however, the timing of purchases and sales also indicates a marked reluctance on the part of foreign investors at the end of last year when money market interest rates in Germany fell significantly. Presumably money market paper at that time seemed less attractive than longer-term assets.

In contrast to foreign investors, German investors increased the international orientation

Financial transactions

€ billion, net capital exports: –

Item	1998	1999	2000
1. Direct investment	– 57.9	– 50.6	+ 138.4
German investment abroad	– 79.7	– 103.1	– 52.7
Foreign investment in Germany	+ 21.8	+ 52.5	+ 191.1
2. Portfolio investment	+ 4.5	– 13.6	– 164.2
German investment abroad	– 131.0	– 178.2	– 210.3
Equities	– 61.9	– 67.9	– 107.7
Investment fund certificates	– 9.1	– 14.1	– 31.9
Bonds and notes	– 56.6	– 94.7	– 72.4
Money market paper	– 3.4	– 1.5	+ 1.7
Foreign investment in Germany	+ 135.5	+ 164.6	+ 46.1
Equities	+ 51.8	+ 22.7	– 37.3
Investment fund certificates	– 1.4	+ 5.8	+ 10.8
Bonds and notes	+ 78.8	+ 97.9	+ 69.0
Money market paper	+ 6.4	+ 38.2	+ 3.5
3. Financial derivatives 1	– 6.9	– 1.1	– 3.8
4. Credit transactions	+ 80.8	+ 32.0	+ 41.7
Credit institutions	+ 73.6	+ 52.3	+ 17.1
Long-term	– 0.1	– 7.5	– 21.2
Short-term	+ 73.7	+ 59.8	+ 38.3
Enterprises and individuals	+ 6.2	+ 32.9	+ 1.5
Long-term	+ 6.5	+ 2.0	+ 0.8
Short-term	– 0.3	+ 30.9	+ 0.8
General government	– 0.7	– 3.6	– 19.3
Long-term	– 5.1	– 8.7	– 1.4
Short-term	+ 4.4	+ 5.1	– 17.9
Bundesbank	+ 1.8	– 49.5	+ 42.4
5. Other investment	– 4.2	– 2.1	– 2.0
6. Balance of all statistically recorded capital flows	+ 16.4	– 35.3	+ 10.0
Memo item Change in the foreign reserves at transaction values (increase: –) 2	– 3.6	+ 12.5	+ 5.8

1 Securitised and unsecuritised options as well as financial futures contracts. — **2** Excluding allocation of SDRs and changes due to value adjustments.

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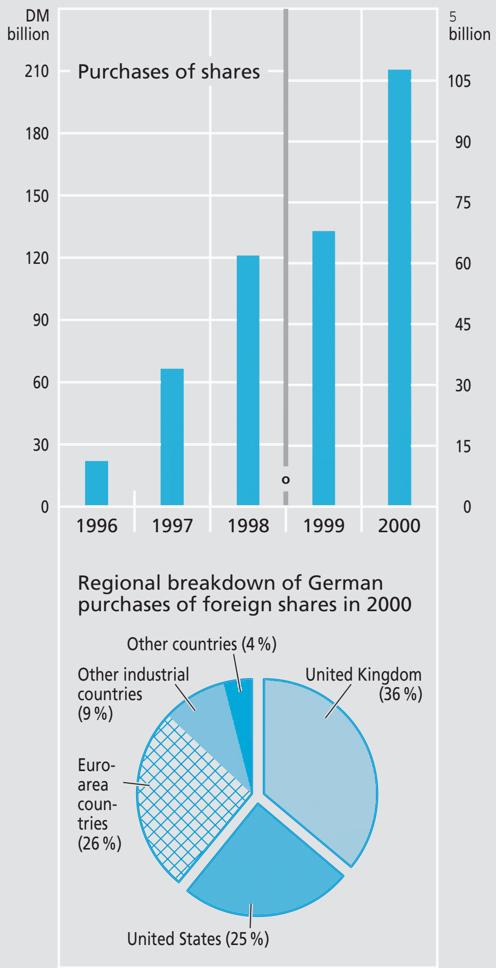
Investment
by German residents
in foreign shares



o From 1999 data in euro.

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German portfolio investment abroad

Shares

of their portfolios last year, with purchases of foreign securities worth € 210½ billion net compared with € 178 billion in 1999. About one-half of this sum (€ 107½ billion) flowed into foreign shares, which, despite the turbulence on the international shares markets, were evidently considered to be very attractive. Owing to the exchange of shares in connection with the aforementioned corporate acquisition in the spring of 2000, however, the figures were somewhat distorted upwards. It was also a result of this transaction that German residents invested mostly in countries outside the euro area last year, notably in the United Kingdom and the United States, whereas in 1999 they had favoured participating interests in enterprises in other euro-area countries.

Investment fund certificates

It was not only these direct purchases of foreign shares that were important last year. Indirect purchases through foreign investment companies were important, too. German savers invested € 32 billion in the certificates of investment funds domiciled abroad; it is likely that part of this sum also flowed into the international stock exchanges in the end.

Bonds and notes

Some of the large equity purchases were presumably at the expense of investment in foreign bonds and notes. At all events, German residents invested € 72½ billion in these bonds and notes in 2000, which was less than in 1999 (€ 94½ billion). At that time, however, the purchases of foreign bonds and notes had risen unusually fast as a result of portfolio shifts at the start of EMU. As in 1999, investors again avoided exchange rate risks in 2000 and showed a preference for euro paper. For the first time in more than 20 years there were net sales in the case of foreign currency bonds. German banks were the main net purchasers of foreign bonds and notes; they accounted for more than one-half of the total volume invested, at just over € 40 billion.

Credit transactions of non-banks

In non-securitised credit transactions the capital flows of banks and non-banks moved in opposite directions. General government, in particular, invested heavily abroad (€ 19½ billion net) as the Federal Government invested part of the proceeds from the auction of mobile telephone licences with foreign banks and did not recall these funds until the end of the year. By contrast, the operations of enterprises and individuals resulted in net capital imports of € 1½ billion. Enterprises and individuals were making further reductions in the deposits they hold with foreign banks, and this was shown in the balance of payments statistics as capital imports. The latter were partly offset by the granting of trade credits to foreign enterprises and repayments on financial credits previously taken up abroad.

Credit transactions of the banking sector

Unlike the non-banks, German banks (including the Bundesbank) recorded extensive inflows of funds. € 17 billion net accrued to the credit institutions as a result. Last year German banks greatly expanded both their lending business and, even more so, their deposit business. A further € 42½ billion (excluding the foreign reserves) accrued to the Bundesbank. This was essentially due to the fact that the substantial positive balance which the Bundesbank had built up in connection with the payment system TARGET in 1999 changed into a negative balance last year.

Change in foreign reserves

The foreign reserves of the Bundesbank declined at transaction values by just under € 6 billion last year. However, the decline was offset by higher valuations of the gold and currency holdings with the result that the foreign reserves at the end of December 2000 amounted to € 94 billion. This means that the balance-sheet value was almost the same as at the start of monetary union and just under € 1 billion higher than at the end of 1999.