Foreign trade and payments

Foreign trade and current account

External trends

As a result of the deterioration in the world economic outlook and the consequent slowdown in market growth, Germany's export business lost momentum in the first quarter of 2001. Although German exports remained at a relatively high level at the beginning of the year, the pace of exports became discernibly more sluggish later in the first quarter. This applied, in particular, to the flow of new business. Indeed, export orders received by German industry in the first quarter of the year showed a continual decline for the first time since 1998. According to the ifo business survey, the export expectations of the manufacturing sector also became less optimistic during this period even if reports on future prospects for exports were still predominantly positive.

Exports

In the first quarter of 2001 German exports rose in seasonally adjusted terms by no more than just under ½ % over their level in the final quarter of last year; however, this means that they were still as much as 13 ½ % up on a year-on-year comparison. A similar picture emerges in real terms, too, as the change in export prices was only slight.

Regional breakdown of exports

The euro-area countries were again Germany's most important trading partners in the first quarter of 2001. In the period of December-February (a regional breakdown of the foreign trade figures for March is still not available) this group of countries accounted for just over 44 % of total German export sales. However, the rise in exports to other euro-area countries was only slight (1 %)

compared with the previous three months (September-November). By contrast, German exports to the United States increased at an above-average rate (+ 8½ %). Although this is understandable in the light of the exchange-rate-related competitive advantages enjoyed by German and other exporters in the euro area, it is still surprising in view of the pronounced cyclical downturn in the United States. Another possible factor may be the completion and dispatch of orders previously placed. These, after all, may not reflect the actual business situation. Exports to the OPEC countries also increased (+ 7 %). This is probably an after-effect of the sharp increase in income that these countries obtained from oil sales. Owing to the minor role that these countries play in Germany's export business, however, these exports had little impact on the overall result. It seems remarkable that the OPEC countries were very slow in converting their improved balance of payments situation into an increase in imports – in contrast to what they had done at the time of previous oil price shocks. Exports to the central and east European countries in transition rose slightly (+ 1 %) compared with the previous period. German exports to Asia, which has been affected to a much greater degree by the slowdown in the US economy than the euro area has been, declined sharply. The problems of the Japanese economy have also had a detrimental effect. Sales of German goods to Japan fell by 9½ % compared with the final quarter of last year.

Imports

Imports declined even more strongly than exports during the first quarter of the current year, their seasonally adjusted value being

Export trend

Seasonally adjusted, quarterly

1 Monthly figures converted into quarterly values. — **2** Results of the ifo business survey; balances of positive and negative company reports. — **o** From 1999 all data in euro.

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just under 6 % below the corresponding level in the fourth quarter of the year 2000. They were substantially lower at constant prices, too (just under 4 %). However, the decline in imports was also due to oil prices, which were lower in the first quarter of the year than in the autumn of last year. For example, the value of imports from the OPEC countries in the last three months for which figures are available (December-February) fell sharply,

Regional breakdown of imports

Current account

€ billion; seasonally adjusted

Item	2000 3rd qtr	2000 4th qtr	2001 1st qtr
1. Foreign trade			
Exports (f.o.b.)	151.5	159.4	159.8
Imports (c.i.f.)	138.0	148.1	139.4
Balance	13.5	11.3	20.4
2. Services (balance)	– 9.3	– 12.8	– 14.3
of which Foreign travel (balance)	– 7.9	– 8.2	– 8.2
3. Factor income (balance)	– 1.3	– 0.1	– 1.5
of which Investment income (balance)	– 1.0	0.1	– 1.3
4. Current transfers (balance)	– 6.4	– 7.0	– 6.0
Balance on current account 1	– 5.1	– 10.7	– 3.0

1 Includes supplementary trade items.

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as expected, i.e. 11 %, compared with the previous period, in response to the lower oil prices. By contrast, imports from the euro-area countries declined only slightly (¼ %). Similarly, German imports from non-euro-area countries also went down only slightly (by ½ %). Imports from the United States and from the central and east European countries in transition actually grew sharply (by 5 ½ % and 7 %, respectively).

Trade balance

Owing to the substantially smaller import bill, the export surplus rose significantly in the first quarter of 2001 after falling continually in the year 2000. In seasonally adjusted terms the export surplus in the first three months of the current year was € 9 billion greater, at € 20 ½ billion, than in the previous quarter.

Current account

The other current transactions with non-residents had a slightly negative influence, on balance, on the external position in the first quarter of 2001. After seasonal adjustment the combined outcome of services, factor income and current transfers was a further € 2 billion down on the previous quarter and therefore amounted to minus € 22 billion. Only the current transfers abroad were more favourable. The seasonally adjusted deficit here was € 6 billion in the period under review compared with one of € 7 billion in the final quarter of last year. By contrast, the deficit on the service account was greater (€ 14 ½ billion compared with € 13 billion in the previous quarter). There was net expenditure (of € 1½ billion) in the case of factor income whereas in the previous quarter the account had been almost in balance. Consequently, the current account ran a deficit of € 3 billion compared with one of € 10 ½ billion in the final quarter of last year.

Financial transactions

Trends in financial transactions

The slowdown in the world economy and the interest rate reductions in the United States had an impact on the international financial markets at the beginning of 2001. Owing to uncertainty about the future economic trend, especially in the United States, international investors shifted from shares into bonds and notes, whose yields declined discernibly as a result. At first the euro continued on the upward course it had set in the autumn of last year but later in the first quarter of 2001 it lost some of the ground it had regained. These general trends are largely reflected in

Germany's financial transaction with non-residents. However, specifically national factors came into play at the beginning of the year with the result that Germany ultimately recorded net capital exports through portfolio transactions and direct investment between January and March 2001 whereas funds were imported in the field of statistically recorded credit transactions.

Portfolio investment

Foreign investment in ...

... German money market paper

The net capital exports arising from portfolio investment amounted to € 47 billion in the period under review, which meant that they exceeded the figure in the final quarter of 2000 (€ 11 billion) fairly substantially. The main reason for the increased outflow of capital was the reduced investment of non-residents, who withdrew € 4½ billion net from the German capital market. Particularly in the case of German money market paper, which had been in strong demand from foreign investors right into the summer of last year, redemptions predominated in the first three months of 2001 (€ 15½ billion), as in the previous quarter. Evidently short-dated paper did not appear to be sufficiently attractive in the light of the changed interest rate situation to induce foreign holders of the paper to reinvest in it.

... German bonds and notes

Part of the funds that became available could have flowed into longer-dated debt securities owing to the expected holding gains. At all events, non-resident investors purchased private-sector bonds worth € 19½ billion between January and March; that was € 5 billion more than in the previous three-month period. The positive sentiment in the bank debt securities market also brought a slight

Major items of the balance of payments

€ billion

Item	2000 1st qtr	2000 4th qtr	2001 1st qtr
I. Current account			
1. Foreign trade			
Exports (f.o.b.)	140.6	163.5	159.7
Imports (c.i.f.)	124.9	151.1	140.0
Balance	+ 15.8	+ 12.4	+ 19.7
2. Services (balance)	– 9.8	– 10.4	– 13.4
3. Factor income (balance)	+ 0.4	– 1.4	– 1.9
4. Current transfers (balance)	– 5.4	– 8.0	– 5.3
Balance on current account 1	– 0.4	– 9.6	– 2.4
II. Balance of capital transfers 2	+ 0.2	– 0.4	+ 0.6
III. Financial account 3			
Direct investment	+ 134.3	– 24.2	– 13.8
Portfolio investment	– 175.5	– 11.1	– 47.0
German investment abroad	– 90.2	– 30.3	– 42.3
Foreign investment in Germany	– 85.4	+ 19.3	– 4.7
Financial derivatives	– 2.3	– 2.4	+ 1.5
Credit transactions 4	+ 77.6	+ 14.6	+ 49.2
Overall balance on financial account	+ 34.1	– 23.0	– 10.1
IV. Change in the foreign reserves at transaction values (increase: –) 5	– 0.8	+ 2.1	+ 4.1
V. Balance of unclassifiable transactions	– 33.1	+ 31.0	+ 7,9

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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Financial transactions

€ billion, net capital exports: –

Item	2000 1st qtr	2000 4th qtr	2001 1st qtr
1. Direct investment	+ 134.3	– 24.2	– 13.8
German investment abroad	– 34.5	+ 12.4	– 10.3
Foreign investment in Germany	+ 168.8	– 36.6	– 3.5
2. Portfolio investment	– 175.5	– 11.1	– 47.0
German investment abroad	– 90.2	– 30.3	– 42.3
Shares	– 46.1	– 13.1	– 4.1
Investment fund certificates	– 14.8	– 4.0	– 6.2
Bonds and notes	– 31.0	– 10.2	– 31.7
Money market paper	+ 1.7	– 3.1	– 0.4
Foreign investment in Germany	– 85.4	+ 19.3	– 4.7
Shares	– 96.3	+ 9.3	+ 4.5
Investment fund certificates	+ 5.1	+ 2.1	– 1.8
Bonds and notes	+ 8.9	+ 14.4	+ 8.3
Money market paper	– 3.1	– 6.5	– 15.7
3. Financial derivatives 1	– 2.3	– 2.4	+ 1.5
4. Credit transactions	+ 78.3	+ 14.6	+ 49.4
Credit institutions	+ 56.9	– 12.4	+ 61.1
Long-term	+ 6.6	– 11.6	– 10.2
Short-term	+ 50.3	– 0.9	+ 71.3
Enterprises and individuals	– 11.4	+ 11.9	– 13.9
Long-term	+ 0.8	+ 1.8	+ 4.1
Short-term	– 12.2	+ 10.1	– 18.0
General government	– 0.0	+ 0.0	+ 18.0
Long-term	– 0.1	+ 0.2	– 0.4
Short-term	+ 0.1	– 0.2	+ 18.4
Bundesbank	+ 32.8	+ 15.1	– 15.8
5. Other investment	– 0.7	+ 0.0	– 0.2
6. Balance of all statistically recorded capital flows	+ 34.1	– 23.0	– 10.1
Memo item Change in the foreign reserves at transaction values (increase: –) 2	– 0.8	+ 2.1	+ 4.1

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

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reduction in the interest rate premium which these securities traditionally carry over German public bonds for the first time since the start of monetary union. On a quarterly average, the premium fell from 61 to 51 basis points in the case of nine-year to ten-year paper.

In the case of public bonds, by contrast, non-residents' redemptions and sales predominated, as in the previous quarter. All in all, these amounted to € 11 billion between January and March compared with € ½ billion in the previous period. During the period under review it was not only the relatively weak interest of foreign investors in Federal bonds, which has been observed for some time, but also the early settlement of liabilities of the Currency Conversion Equalisation Fund that played an important role; debt securities held by non-residents and worth just under € 5 billion were affected by this. The Federal Government used part of the proceeds from the auction of UMTS licences for the redemption which it had announced in advance. If public and private bonds are taken together, capital imports in the period under review amounted to € 8½ billion compared with € 14½ billion in the final quarter of last year.

... German shares

Foreign funds amounting to no more than € 4½ billion flowed into the German share markets between January and March. That was less than one-half of the amount in the previous period (€ 9½ billion). Evidently the less favourable economic outlook, especially in the United States, had a detrimental effect on the business expectations of many of the enterprises operating there. In view of the close integration of the financial markets world-wide and the presence of German and other European firms in the United States, German shares could not escape this trend either even though the economic prospects for the euro area are by no means poor.

German investment in ...

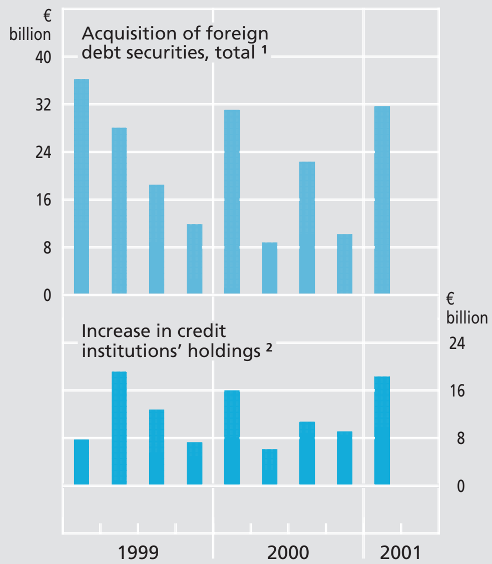
The general reluctance to invest in shares in the first three months of 2001 can also be clearly seen in the foreign investment of German residents. While the latter bought securities issued by non-resident borrowers worth a total of € 42 ½ billion, shares accounted for only € 4 billion of this amount. Last year German residents invested about € 27 billion on a quarterly average in foreign equities. It was not only the general desire to limit risk that played an important role in this sluggish development; the fact that individual investors who are known to carry out complex spot transactions, futures contracts and lending agreements with foreign shares sold fairly extensive amounts of such paper in the period under review was also important.

... foreign shares

... foreign bonds and notes

The weak demand for foreign shares could ultimately have benefited the bonds and notes issued by foreign borrowers. German investors acquired foreign bonds worth a total of € 31½ billion between January and March compared with € 10 billion in the quarter earlier. As usual since the start of monetary union, they preferred euro-denominated paper and sold foreign currency bonds for a net total of € 2 ½ billion. German banks were the most important group of investors here. They stocked up their holdings of foreign debt securities by € 18½ billion. German investment companies also acquired foreign bonds. Evidently institutional investors, in particular, are taking advantage of the (small) interest rate differences within the euro area to improve their earnings without having to run additional exchange rate risks.

Participation of credit institutions in the acquisition of foreign debt securities



1 Bonds and notes. — **2** Adjusted for statistics-related changes.

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... foreign investment fund certificates

However, German savers do not use only German financial intermediaries when investing. They take advantage of foreign services, too, and in the period under review purchased certificates of foreign investment funds worth € 6 billion. Although that was about € 2 billion more than in the final quarter of 2000, it was just under one-half of the sum they had invested in the first quarter of last year. At that time, of course, foreign investment funds had been recording an unusually large inflow of capital from Germany owing to the euphoria on the international share markets.

Direct investment

There were outflows of funds from Germany outside the field of portfolio investment, too, in the first quarter of 2001. Direct investment resulted in net capital exports of just under € 14 billion compared with € 24 billion in the previous three-month period. German enterprises invested a total of € 10½ billion in their foreign subsidiaries between January and March 2001 whereas in the last two quarters of 2000 they had withdrawn funds from them on account of various special developments. It was mainly credits that German firms were now making available to their subsidiaries abroad; by contrast, the volume of investment was checked owing *inter alia* to the selling of affiliated enterprises as part of group restructuring.

In the case of inward direct investment intragroup funding flowed in the opposite direction, resulting in net capital exports of € 3½ billion. It is true that, owing to corporate acquisitions (for example, in the telecommunications sector, which was already at the centre of cross-border mergers), about € 17 billion in equity capital flowed into Germany in the period under review. Of greater importance, however, was the fact that the foreign subsidiaries domiciled in Germany provided their proprietors with substantial amounts of short-term credit, which were statistically recorded as reverse flows.

Credit transactions ...

... of non-banks

Statistically recorded non-securitised credit transactions resulted in the influx of funds at the beginning of this year. However, some of the transactions of non-banks cancelled each other out. As usual at the beginning of the year, German enterprises and individuals exported capital in net terms (€ 14 billion) because they were now rapidly replenishing the balances which they hold with banks abroad and which they had reduced for balance sheet purposes at the end of last year. By contrast, there were net imports of funds (€ 18 billion) in the case of general government. The main reason for this was that, in connection with the aforementioned repayment of debt certificates of the Currency Conversion Equalisation Fund, the Federal Government temporarily took recourse to bank deposits "parked" abroad.

... of banks

Consequently, the net capital imports in non-securitised credit transactions are ultimately reflected in the change in the external position of the entire banking system, which usually represents the counterpart of the other transactions recorded in the balance of payments. However, it was solely the German credit institutions which recorded imports of funds (€ 61 billion) whereas the external transactions booked through the accounts held by the Bundesbank (and excluding the change in foreign reserves) resulted in exports of funds amounting to € 16 billion. As usual, these were largely due to changes in TARGET balances.

Foreign reserves of the Bundesbank

During the first three months of this year the foreign reserves of the Bundesbank declined – at transaction values – by € 4 billion, which was a somewhat sharper fall than in the final quarter of last year. The previously announced channelling of currency reserves on to the market was the decisive factor here. By contrast, the revaluation of the foreign reserves at current market prices and exchange rates resulted in a substantial rise in value with the result that the market value of the foreign reserves at the end of March 2001 – € 93 billion – was only slightly more than € ½ billion below the level at the end of December 2000.