

Foreign trade and payments

Foreign trade and current account

Germany again achieved record exports in the autumn of 2000 with the result that these continued to be one of the main driving forces behind economic growth. At all events, the current dynamism in export business has so far shown little sign of flagging. Orders received by German industry from abroad rose by just under 5% in the fourth quarter compared with the third and were therefore more than 21% up on the same period a year earlier. The export expectations of entrepreneurs interviewed by the ifo institute as part of its business survey were favourable up to the time this Report went to press even though they were no longer quite so optimistic as in the late summer but, instead, signalled a certain normalisation in the prospects for exports.

External trends

German exports rose by a seasonally adjusted 5% in the fourth quarter of 2000 compared with the previous quarter and by just over 18% compared with the fourth period of 1999; this means that they were running almost neck and neck with the simultaneous inflows of new orders. However, a not insignificant proportion of the growth in export turnover is due to price increases (of 3.9% on a year-on-year comparison). In the light of the unusually brisk demand for exports, German exporters evidently used the weakness in the euro that had persisted right into the autumn to pass on to foreign customers the higher costs they had to bear as a result of the increased prices for energy and imported inputs and to improve profitability in the light of a growing shortage of capacity. However, scope for further price rises is probably limit-

Exports



ed now that the euro has firmed on the foreign exchange markets and the world economy is facing a downturn. Furthermore, cost pressure from the import side will decline, especially as world market prices for crude oil have fallen from last autumn's record levels. The fact that seasonally adjusted export prices fell (by 0.4 %) in December 2000 compared with the previous month for the first time in a while is consistent with this picture.

Data on the regional breakdown of German exports in the final quarter of last year are still not complete. However, the data currently available up to the end of November suggest that German export growth was again largely determined in the fourth quarter by demand from euro-area partner countries. On an average of October and November, taken together, deliveries by German firms to the other euro-area countries accounted for just over 45 % of total export growth. This means that the significance of "internal trade" within the euro area for Germany increased compared with the previous quarter. German suppliers also had relatively high rates of growth in sales to the other EU countries outside the euro area. In October and November these countries accounted for about 20 % of the growth in German exports. Despite the substantial downturn in the US economy, German firms also achieved sharp rates of growth in exports again in the US market, which has offered favourable sales conditions during the past two years. In the months under review the United States accounted for 10 % of the rise in Germany's total export turnover. However, the growth in importance of exports to the central and east European countries in transition have taken on a particular significance. Demand from these countries for German products rose exceptionally steeply in the course of last year with the result that they accounted for almost 12½ % of German export growth. There is no doubt that the improved balance of payments situation in countries such as Russia which benefited from the sharp increase in crude oil prices encouraged this development. It is therefore somewhat surprising that

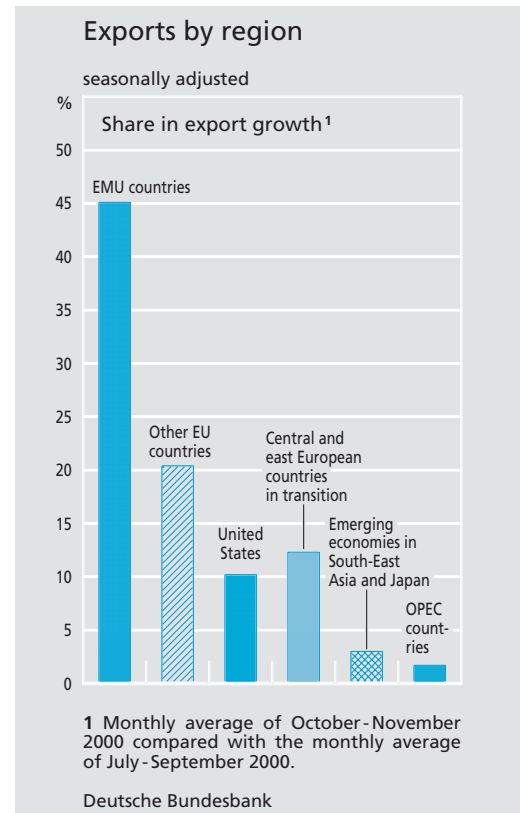
*Regional
breakdown of
exports*

German exports to the OPEC countries increased by no more than an average rate given the sales successes in the previous two quarters. Yet, at less than 2%, the OPEC countries' share in German exports is so small that the changes are hardly discernible when measured against the overall result.

Below-average growth in German exporters' sales was recorded in Japan and the emerging economies of South-East Asia in particular. Taken together, these countries accounted for no more than 3% of German export growth during the months under review. According to the available data, demand from the developing countries (excluding OPEC) played a similarly minor role in the final quarter of last year.

Imports

German imports also rose steeply in the fourth quarter of 2000, their seasonally adjusted value increasing by 7 ½% over the previous quarter and by just over 26% compared with the final quarter of 1999. Although much of this unusually rapid rate of growth in turnover is due to the year-on-year rise of 11.3% in import prices, largely as a result of the higher crude oil prices and the substantial depreciation of the euro, the impact of these factors declined towards the end of the year because oil prices had reached their peak in the autumn and the euro had tended to firm again on the foreign exchange markets. Even so, import prices were 2.1% higher on an average of the last three months of the year than they had been in the third quarter with the result that the rise in real imports was somewhat greater than the simultaneous growth in exports.



As in the case of exports, the euro-area countries are the most important for Germany when it comes to imports. However, their share of import growth in the period under review fell sharply compared with the previous quarter. According to the data available up to the end of November, suppliers in the "internal market" of the euro area accounted for only 31% of the growth in German imports; however, their share of almost two-thirds in the previous quarter had been unusually large. By contrast, US suppliers recorded substantial gains, increasing their third-quarter average share of 4% to an average share of 15 ½% in October and November, taken together. US firms benefited from the demand from Germany for modern data processing and office equipment as well as the corresponding electronic components which

Breakdown of imports

Current account

€ billion; seasonally adjusted

Item	2000		
	2nd qtr	3rd qtr	4th qtr
1. Foreign trade			
Exports (f.o.b.)	145.7	151.1	158.8
Imports (c.i.f.)	r 130.9	r 138.0	148.3
Balance	r 14.8	r 13.1	10.5
2. Services (balance)	- 12.2	- 9.6	- 13.0
of which			
Foreign travel (balance)	- 8.2	- 7.2	- 8.7
3. Factor income (balance)	- 2.0	- 3.3	- 2.0
of which			
Investment income (balance)	- 1.8	- 3.1	- 1.7
4. Current transfers (balance)	- 7.4	- 6.5	- 7.4
Balance on current account 1	r- 7.7	r- 7.3	- 13.3

1 Includes supplementary trade items.

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had been rising disproportionately fast for some time. The above-average growth in German imports from the emerging economies in South-East Asia, which accounted for 11 % of the rise in German imports during the months under review, can probably also be explained in this context. By contrast, imports from the OPEC countries declined slightly while those from the central and east European countries in transition increased at a below-average rate in the period under review. The share of this latter group of countries in Germany's import growth was only 3 % in the final quarter of 2000 compared with more than 10 % in the previous period.

Trade balance

Owing to the sharp rise in German imports and, despite the fall in oil prices and the firming of the euro on an average of the last

three months of 2000, the further deterioration in the terms of trade, Germany's trade surplus declined further in the fourth quarter of the year. Despite German exporters' record sales, the export surplus declined to € 10½ billion (seasonally adjusted) compared with just over € 13 billion in the previous period.

The combined balance of transactions in the field of international trade in services, cross-border factor payments and current transfers deteriorated in the fourth quarter. The seasonally adjusted deficit on current invisible transactions rose by € 3 billion in the period under review to € 22½ billion with the result that the overall seasonally adjusted deficit on current account in the final quarter of last year was almost € 13½ billion (compared with a deficit of just under € 7½ billion in the third quarter). Larger net payments to non-residents were recorded above all in services and current transfers while factor income on a seasonally adjusted basis was somewhat more favourable in the last quarter.

Current account

Financial transactions

Uncertainty over the trend in the world economy and financial restructuring in the German corporate sector were the factors determining Germany's financial transactions in the final quarter of last year. The increasingly apparent weakness in the US economy resulted in sharp fluctuations in the international financial markets. With the exchange rate of the euro reaching a new low in October before making a strong recovery, yields on government bonds on both sides of the Atlantic

Trends in financial transactions

declined discernibly up to the end of the year. The outcome was that the rise in volatility led to a downturn in the flow of securities to and from Germany. However, a different picture emerged in the case of direct investment where there was a change of direction in net capital flows and gross amounts rose appreciably. This was essentially due to the reorganisation of participatory relationships of firms domiciled in Germany. In the quarter under review this reorganisation led to capital flows of unusual proportions. All in all, there were net capital exports of € 20 billion through portfolio investment and of € 22 billion through direct investment between October and December 2000. By contrast, there were net inflows of foreign funds as a result of credit transactions.

Portfolio investment

The balance in portfolio investment (minus € 20 billion) has to be seen against the background of the spreading reluctance to invest in cross-border securities during the period under review. For example, German investors acquired foreign securities worth € 37 billion between October and December 2000, but that was about € 20 billion less than in the previous three-month period. Interest in foreign paper, whether equities or interest-bearing securities, has declined. Swayed by the emerging downturn in the world economy and the less optimistic corporate earnings prospects, especially in the United States, German residents invested no more than € 16 billion in foreign shares in the final quarter of 2000 compared with € 28½ billion in the quarter before. The € 6½ billion that flowed out of Germany and into investment funds domiciled abroad in the last three months of

German investment in ...

... foreign shares and investment fund certificates

Major items of the balance of payments

€ billion			
Item	1999	2000	
	4th qtr	3rd qtr	4th qtr
I. Current account			
1. Foreign trade			
Exports (f.o.b.)	138.4	145.8	163.6
Imports (c.i.f.)	119.9	133.6	151.3
Balance	+ 18.5	+ 12.2	+ 12.2
2. Services (balance)	- 9.7	- 12.4	- 10.3
3. Factor income (balance)	- 5.3	- 3.4	- 3.6
4. Current transfers (balance)	- 7.6	- 7.1	- 8.2
Balance on current account 1	- 5.0	- 11.9	- 11.3
II. Balance of capital transfers 2	+ 0.6	+ 16.0	- 0.3
III. Financial account 3			
Direct investment	- 8.3	+ 27.0	- 21.9
Portfolio investment	+ 2.4	- 29.5	- 20.0
German investment abroad	- 38.5	- 58.2	- 37.1
Foreign investment in Germany	+ 40.8	+ 28.7	+ 17.1
Financial derivatives	- 4.2	- 0.6	- 2.0
Credit transactions 4	+ 16.0	- 29.3	+ 12.5
Overall balance on financial account	+ 5.8	- 32.4	- 31.4
IV. Change in the foreign reserves at transaction values (increase: -) 5	- 0.1	+ 2.2	+ 2.1
V. Balance of unclassifiable transactions	- 1.3	+ 26.2	+ 41.0

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	1999			2000		
	4th qtr	3rd qtr	4th qtr	3rd qtr	4th qtr	4th qtr
1. Direct investment	– 8.3	+ 27.0	– 21.9			
German investment abroad	– 39.6	+ 8.5	+ 12.7			
Foreign investment in Germany	+ 31.3	+ 18.5	– 34.6			
2. Portfolio investment	+ 2.4	– 29.5	– 20.0			
German investment abroad	– 38.5	– 58.2	– 37.1			
Shares	– 23.0	– 28.4	– 16.1			
Investment fund certificates	– 5.6	– 8.2	– 6.5			
Bonds and notes	– 9.5	– 21.9	– 10.2			
Money market paper	– 0.3	+ 0.3	– 4.4			
Foreign investment in Germany	+ 40.8	+ 28.7	+ 17.1			
Shares	+ 11.8	+ 6.8	+ 12.6			
Investment fund certificates	+ 3.7	+ 1.5	+ 2.1			
Bonds and notes	+ 8.3	+ 16.5	+ 11.3			
Money market paper	+ 17.0	+ 4.0	– 8.9			
3. Financial derivatives ¹	– 4.2	– 0.6	– 2.0			
4. Credit transactions	+ 16.2	– 28.5	+ 12.4			
Credit institutions	+ 14.2	– 27.9	– 13.4			
Long-term	– 8.9	– 11.4	– 11.8			
Short-term	+ 23.1	– 16.5	– 1.7			
Enterprises and individuals	+ 18.1	– 6.0	+ 11.3			
Long-term	– 0.6	– 0.8	+ 1.5			
Short-term	+ 18.7	– 5.3	+ 9.8			
General government	– 2.9	– 15.0	– 0.5			
Long-term	– 3.2	– 1.1	+ 0.2			
Short-term	+ 0.3	– 13.9	– 0.7			
Bundesbank	– 13.3	+ 20.4	+ 15.1			
5. Other investment	– 0.2	– 0.8	+ 0.1			
6. Balance of all statistically recorded capital flows	+ 5.8	– 32.4	– 31.4			
Memo item						
Change in the foreign reserves at transaction values (increase: –) ²	– 0.1	+ 2.2	+ 2.1			

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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the year was also less than before. A large proportion of this money is likewise invested in the international share markets.

This reluctance vis-à-vis foreign shares did not result in increased investment in foreign debt certificates. Instead, German investors purchased discernibly fewer foreign bonds in the last three months of 2000 than they had done during the summer (€ 10 billion compared with € 22 billion), and this was despite the predominantly favourable sentiment in the international bond markets.¹ For example, the yields on ten-year government bonds both in the euro area and the United States declined markedly in the final quarter of 2000. The yield advantage of US paper over corresponding German paper diminished substantially – at the end of the year it amounted (for a time) to no more than 31 basis points. In view of the improved outlook for the exchange rate of the euro, this was obviously not enough to entice German residents to put their savings into dollar assets. At all events, German investors sold foreign currency bonds worth € 2 ½ billion net in the final quarter of the year. However, purchases of euro-denominated paper also declined, falling from € 22 ½ billion in the third quarter to € 12 ½ billion in the following three-month period. The waning interest in bonds and notes might also be partly attributable to a shortening of maturities. In contrast to what had happened in previous quarters, foreign

... foreign
bonds and
notes

¹ The situation varied to some extent from one country or market segment to the next. In the United States, for example, the spreads between private and public paper widened in the final quarter of 2000 and for a time did so discernibly. However, German residents' purchases of privately issued paper played a secondary role in German financial transactions.

money market paper, in other words paper with a maturity of up to a year, was in somewhat greater demand towards the end of 2000 (€ 4 ½ billion).

Foreign investment in ...

Like the German residents, non-residents were reluctant investors in Germany in the autumn of last year. At € 17 billion, approximately € 10 billion less in foreign funds flowed into the German capital markets than in the previous quarter. However, the financial transactions of non-residents differed from those of residents in that it was sales and redemptions (€ 9 billion) that predominated in the case of non-residents money market operations during the period under review whereas, since the start of EMU, foreign investors had been purchasing substantial amounts of short-dated paper. Foreign interest in bonds and notes issued in Germany was also fairly low recently; this applies in particular to Federal bonds, which offer liquidity advantages over government bonds issued in other euro-area countries but, consequently, also carry an "interest-rate disadvantage". Non-residents' net sales of public bonds amounted to € 1 ½ billion; at the same time, foreign investors spent € 13 billion in purchasing German bank debt certificates, whose yield advantage over Federal bonds increased slightly again in the final quarter of last year.

... German money market paper

... German bonds and notes

... German shares

A certain countermovement to the aforementioned trends was discernible in the German share market where foreign investment rose from € 7 billion in the third quarter to € 12 ½ billion in the fourth quarter of 2000. However, this increase was due solely to special

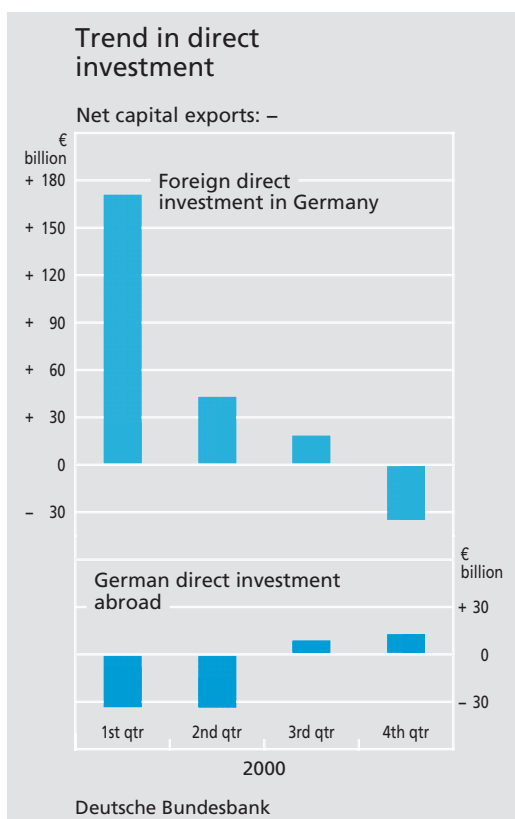
factors such as the initial public offering of post office shares, which also aroused interest abroad, and a stock swap operation in connection with a merger in the financial sector. In the latter case a German credit institution took over a foreign bank and "compensated" that bank's former shareholders by issuing them with shares of its own.

It was not the aforementioned merger that determined direct investment flows in the period under review, however. It was a restructuring operation within a group. In view of the sharp increase in the international integration of German business, restructuring programmes of this kind can have profound effects on the financial account and make it more difficult to interpret capital flow statistics even when in the aggregate the relevant transactions ultimately cancel out.

In one incident recorded during the period under review a foreign proprietor established a new firm in Germany (new direct investment in Germany) and amalgamated a direct investment enterprise already domiciled in Germany with this new company (liquidation of inward investment in Germany). At the same time, German group-affiliated companies sold participating interests abroad (liquidation of German outward investment) and paid back loans that they had previously raised within the group (some of which were shown in FDI statistics as "reverse flows").

Both sides of the direct investment balance sheet were thereby affected by the restructuring although in each case it was the amount involved in the liquidation of the direct invest-

Direct investment influenced by corporate restructuring



ment relationship that ultimately counted. As the total financial volumes involved far exceeded the balance of all other intra-group transactions recorded in the financial account, the direct investment flows had the “wrong” sign in each case. This means that between October and December 2000 foreign enterprises reduced their participating interests in Germany by approximately € 34 ½ billion; at the same time, the German business sector reduced its (financial) presence abroad by € 12 ½ billion. However, the net figure on direct investment provides a more accurate reflection of the underlying trend in direct investment flows in the period under review. With net capital exports of € 22 billion it indicates that German enterprises have maintained a comparatively high level of investment abroad.

Capital flows resulting from the non-securitised credit transactions of the non-banks were fairly limited in the fourth quarter of 2000. Whereas the external transactions of the public sector were more or less in balance, those of enterprises and individuals resulted in a net inflow of € 11 ½ billion. As usual, the end-of-year operations of enterprises led to a return of bank balances held abroad to the German banking system. In view of the fall in the total amount of deposits held abroad, however, balance sheet operations of this nature are by no means as extensive as they had been before the introduction of the euro.

Credit transactions of non-banks

The external payments of the banking system, which usually represent the counterpart to the other transactions recorded in the balance of payments, had a somewhat greater impact. Between October and December German credit institutions recorded outflows of funds amounting to € 13 ½ billion net. These, however, were offset by credits of € 15 billion to the accounts held by the Bundesbank in connection with balances arising from the payment system TARGET.

Credit transactions of the banking system

The foreign reserves which are shown separately from the other items forming the external balance of the Bundesbank in the balance of payments declined – at transaction values – by € 2 billion in the final quarter of 2000. Moreover, the regular end-of-year revaluation resulted in a further decline of just under € 4 billion in the balance sheet value compared with the level at the end of September. The appreciation of the euro on the international foreign exchange markets was

Foreign reserves of the Bundesbank

the main reason for this. At the end of December 2000 the foreign reserves of the Bundesbank therefore amounted to approximately € 94 billion compared with € 93 billion at the end of 1999.

Balancing item

An unusually large discrepancy arose between the statistically recorded inpayments and the corresponding outpayments during the quarter under review. The balancing item, which reflects the unrecorded transactions, amounted to € 41 billion. Possible causes of

gaps of this kind in the balance of payments are problems in allocating transactions to the periods in which they actually occurred, reporting errors or inadequate recording of cross-border business. However, it has not yet been possible to establish the main reasons applying in the period under review. It remains to be seen whether a reduction in the balancing item will subsequently arise as a result of the booking of late reports during the usual annual revision of the balance of payments figures in March.