Foreign trade and payments

Foreign trade and current account

Exports

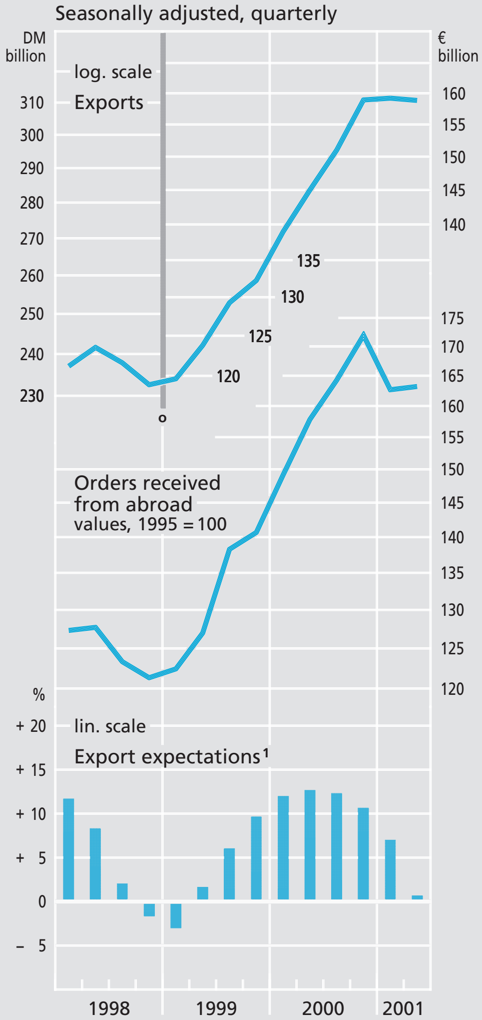
The cyclical downturn in the world economy clearly left its mark on German foreign trade in the spring. Export orders received by German industry had been declining since the beginning of the year, and although the latest figures are somewhat more favourable, they are distorted as a result of large individual orders and therefore can hardly be taken as a sign of another turn in the trend. The export expectations of German industry, which were recorded as part of the ifo business survey and which had been falling continuously up to the end of the period under review, support this view. It was not long before the slower pace of exports was reflected in export deliveries, which declined slightly in the second quarter of 2001 compared with the first quarter. When seasonally adjusted and calculated at constant prices, exports fell by ½ % compared with the previous quarter; the decline was somewhat smaller at current prices.

Breakdown of exports

Trade with customers in the other euro-area countries, which account for more than 40 % of German export turnover, was the main factor in shaping this trend. Although a regional breakdown of the trade figures is available only up to the end of May, these figures show a slightly declining trend in German exports to the other euro-area countries (see the chart on page 49). However, exports to the United States, which had provided a particularly strong stimulus to German exports until the beginning of this year, declined even more strongly. This might have been partly due to the deterioration in the US motor mar-

Export trend

Seasonally adjusted, quarterly



1 Results of the ifo business survey; balances of positive and negative company reports. — o From 1999 all data in euro.

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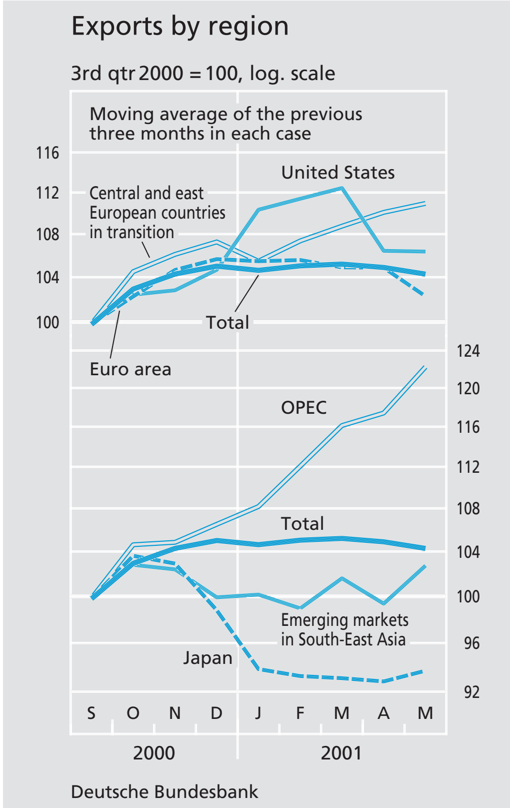
ket. Although large German manufacturers have recently been reporting a relatively favourable business trend in the US market, exports of German vehicles to the United States, which have accounted for almost one-third of total German exports of goods to the United States so far this year, were in decline at the end of the period under review. Germany's exports to Japan showed a marked tendency to weaken in the months under review. Exports to the emerging markets of South-East Asia, which have been more severely affected than other regions by the significant downturn in the US economy, also lost momentum. By contrast, exports to the central and east European countries in transition continued to be a mainstay of German foreign trade. The only exports which grew even more strongly in the spring were those to the OPEC countries. Owing to their fairly small volume overall, however, these exports play only a minor role in Germany's total export business.

Imports

The unmistakable downturn in exports led to a marked slowdown in German imports. After seasonal adjustment real imports likewise declined slightly (by ¼ %) in the second quarter compared with the first. However, nominal imports (at current prices) were slightly above their level in the first quarter of 2001 (1 %) as import prices had risen by 1¼ % at the same time. This was largely due to higher oil prices and the depreciation of the euro up to the end of June.

Breakdown of imports

Almost all major supplier countries were affected by the weaker demand. The imports from other euro-area countries, which – as in the case of exports – account for about 40 % of Germany's total imports of goods slowed down after a period of strong growth. German imports of goods from the central and east European countries in transition also ran more or less in line with total German imports in the second quarter whereas those from the emerging markets in South-East Asia and from Japan decelerated somewhat more sharply. Imports from the United States had also been declining considerably since the beginning of the year. The US economy is not only being affected by the downturn in demand from major partner countries but, following the strong appreciation of the dollar, is probably also suffering from a loss of price competitiveness. By contrast, the imports from the OPEC countries, which had already begun to decrease in the autumn of last year, are a different matter. The trend here is largely determined by oil imports, whose value had been declining sharply until this spring following the fall in prices on the international oil markets. Later, however, the volume of oil imports also declined in line with the slower rate of economic growth with the result that Germany's oil bill declined further in the last few months before this Report went to press despite the fact that oil prices had again been rising in the early summer.



Trade balance

Owing to the relatively minor significance of oil imports, however, this development did not affect the trade balance. The rise in import figures resulting from the overall increase in import prices together with the slight reduction in exports led to a deterioration in the German trade balance. After seasonal adjustment and calculated at current prices, the export surplus in the second quarter declined by slightly more than € 1½ billion to just under € 19 billion.

Current account

The balance of other current transactions, which for structural reasons have continually been in deficit during the past few years, likewise deteriorated in the quarter under review – worsening by more than € 4 billion to produce a seasonally adjusted deficit of more than € 24 billion. This was primarily the result of larger (net) investment income payments to non-residents. Larger (net) payments to non-residents were also recorded in current transfers during the period under review whereas in the first quarter there had been relatively large refunds from the EU budget. Only the deficit on service transactions with non-residents was smaller in the second quarter. The outcome was that the German current account ran a seasonally adjusted second-quarter deficit of almost € 7 billion compared with one of just over € 1 billion in the previous quarter.

Current account

€ billion; seasonally adjusted

Item	2000 4th qtr	2001 1st qtr	2001 2nd qtr
1. Foreign trade			
Exports (fob)	159.4	159.7	159.3
Imports (cif)	147.4	139.2	140.6
Balance	+ 12.1	+ 20.5	+ 18.8
2. Services (balance)	– 13.1	– 13.5	– 11.3
of which Foreign travel (balance)	– 8.2	– 8.1	– 8.4
3. Factor income (balance)	– 0.1	– 0.5	– 4.3
of which Investment income (balance)	+ 0.1	– 0.3	– 4.1
4. Current transfers (balance)	– 7.1	– 6.0	– 8.6
Balance on current account [1]	– 10.5	– 1.1	– 6.8

1 Includes supplementary trade items.

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Financial transactions

Trends in financial transactions

A large corporate takeover in the telecommunications sector largely determined the outcome of Germany's financial transactions with non-residents in the second quarter of 2001. This involved the acquisition of a US service provider by a German enterprise to enable the latter to strengthen its position in the US market. Owing to the method of financing the takeover, which consisted predominantly of an exchange of shares but included a cash payment to existing shareholders, the acquisition had a discernible impact on various segments of the German financial account. When measured in terms of this single transaction, recent developments on the international financial markets such as the reduction in interest rates on both sides of the Atlantic, the rise and fall of prices on the share and bond markets, the shifts in exchange rates or the consequences of the financial crises in Turkey and Argentina had only a comparatively small effect on the capital flows to and from Germany. The outcome was that between April and June there were net capital exports through direct investment and credit transactions and net capital imports through portfolio investment.

Direct investment

Direct investment during the period under review was largely determined by the corporate acquisition which was mentioned above and which accounted for the lion's share of German enterprises' total outward investment of € 33½ billion between April and June (January to March: € 11½ billion). If this single transaction is excluded, however, direct investment flows – as has been the case for some time – reflect the retarding influence of the cyclical downturn and of the weakness in the international share markets on enterprises' cross-border acquisitions of participating interests. This also becomes fairly clear in the case of the direct investment of foreign firms in Germany, which amounted to only € 5½ billion in the second quarter. In the first quarter direct investment had been extremely low (at € ½ billion). Consequently, € 28 billion net flowed out of Germany in the period under review as a result of growing international corporate ties.

Portfolio investment

Portfolio investment, by contrast, resulted in net capital imports of € 23 billion between April and June (compared with net capital exports of € 47 billion in the previous three-month period). However, this turnaround must be seen in connection with the above-mentioned exchange of German shares for foreign participating interests. Even without this special event, though, foreign interest in German shares was remarkably great. On balance, non-resident investors acquired € 71 billion worth of such paper without the increased foreign demand having any effect on prices in the German share market. This might also have been due to the fact that some of the transactions resulted from option and futures contracts and therefore did not have an immediate effect on prices.

Foreign investment in ...

... German shares

... German debt certificates

By contrast, foreign investors were generally very restrained in their acquisition of interest-bearing paper on the German market and confined themselves mainly to making shifts in the various maturity categories. Non-residents have been reducing their holdings of money market paper, i.e. debt certificates with a maturity of up to one year, since the middle of last year. They reduced these again in the second quarter, this time by € 14 billion net, while investing in (somewhat) longer-term bank bonds (€ 13½ billion). In view of the temporary interest rate rise in the spring, however, they probably lengthened the maturity of their portfolios only slightly. This is suggested by the fact that German credit institutions have been issuing more paper with maturities of between one and two years since the beginning of the year and that foreign investors have evidently been acquiring some of this paper.

As in the previous two quarters, however, sales by non-residents and redemptions predominated in the case of public bonds. All in

Major items of the balance of payments

€ billion

Item	2000 2nd qtr	2001 1st qtr	2001 2nd qtr
I. Current account			
1. Foreign trade			
Exports (fob)	146.9	159.6	160.8
Imports (cif)	130.8	139.8	141.0
Balance	+ 16.2	+ 19.8	+ 19.8
2. Services (balance)	– 11.7	– 12.7	– 11.3
3. Factor income (balance)	+ 1.5	– 1.0	– 1.8
4. Current transfers (balance)	– 6.5	– 5.3	– 7.6
Balance on current account 1	– 1.6	– 0.8	– 2.3
II. Balance of capital transfers 2	– 0.3	+ 0.6	– 0.6
III. Financial account 3			
Direct investment	+ 2.5	– 11.2	– 28.0
Portfolio investment	+ 52.2	– 47.2	+ 22.9
German investment abroad	– 33.4	– 42.5	– 44.7
Foreign investment in Germany	+ 85.6	– 4.7	+ 67.6
Financial derivatives	+ 1.6	+ 1.1	+ 2.6
Credit transactions 4	– 32.2	+ 48.8	– 4.6
Overall balance on financial account	+ 24.1	– 8.4	– 7.1
IV. Change in the foreign reserves at transaction values (increase: –) 5	+ 2.4	+ 4.1	+ 2.0
V. Balance of unclassifiable transactions	– 24.5	+ 4.6	+ 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 2nd qtr	2001 1st qtr	2001 2nd qtr
1. Direct investment	+ 2.5	– 11.2	– 28.0
German investment abroad	– 38.2	– 11.6	– 33.5
Foreign investment in Germany	+ 40.7	+ 0.4	+ 5.5
2. Portfolio investment	+ 52.2	– 47.2	+ 22.9
German investment abroad	– 33.4	– 42.5	– 44.7
Shares	– 18.8	– 5.1	– 11.1
Investment fund certificates	– 7.1	– 5.8	– 4.7
Bonds and notes	– 8.8	– 31.2	– 28.0
Money market paper	+ 1.4	– 0.4	– 0.8
Foreign investment in Germany	+ 85.6	– 4.7	+ 67.6
Shares	+ 42.8	+ 4.6	+ 70.8
Investment fund certificates	+ 2.1	– 1.9	– 0.6
Bonds and notes	+ 26.8	+ 8.4	+ 11.1
Money market paper	+ 13.9	– 15.8	– 13.8
3. Financial derivatives 1	+ 1.6	+ 1.1	+ 2.6
4. Credit transactions	– 31.6	+ 49.0	– 4.3
Credit institutions	– 0.6	+ 61.1	– 35.0
Long-term	– 5.1	– 10.2	– 0.2
Short-term	+ 4.4	+ 71.3	– 34.8
Enterprises and individuals	– 0.8	– 14.3	+ 8.1
Long-term	– 1.3	+ 4.1	+ 1.4
Short-term	+ 0.5	– 18.4	+ 6.7
General government	– 4.4	+ 18.0	+ 3.5
Long-term	– 0.4	– 0.4	+ 0.1
Short-term	– 4.0	+ 18.4	+ 3.4
Bundesbank	– 25.8	– 15.8	+ 19.1
5. Other investment	– 0.6	– 0.2	– 0.3
6. Balance of all statistically recorded capital flows	+ 24.1	– 8.4	– 7.1
Memo item Change in the foreign reserves at transaction values (increase: –) 2	+ 2.4	+ 4.1	+ 2.0

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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all, these amounted to € 2½ billion between April and June compared with € 11 billion in the three-month period before. Another reason for non-residents' comparatively small purchases of German government bonds since the beginning of monetary union might be that general government has greatly reduced the issue of such paper.

German investment in ...

Investment by German residents in the foreign share and bond markets also increased significantly in the spring of 2001. Between April and June they purchased securities issued by foreign borrowers worth € 44½ billion net compared with € 42½ billion in the previous quarter. Most of the investors were German credit institutions and investment companies although in the case of the latter the inflows of funds fell dramatically in the period under review (on a quarterly comparison from € 24½ billion to € 8½ billion). The bulk of the total sum invested by German residents again flowed into foreign bonds and notes (€ 28 billion compared with € 31 billion). Although German investors continued to favour euro-denominated debt certificates, they also acquired a small amount of foreign currency bonds for the first time in a while (€ 2 billion).

... foreign bonds and notes

... foreign shares

Domestic demand for foreign shares likewise showed a slight recovery in the period under review. Despite falling corporate profits and increasing signs of a downturn in the world economy, German residents – essentially institutional investors – invested € 11 billion in foreign shares between April and June and therefore about twice as much as in the previous three months. At the same time, German

... foreign investment fund certificates

savers purchased certificates of foreign investment funds worth € 4½ billion (January to March: € 6 billion); presumably these funds likewise mostly invest abroad.

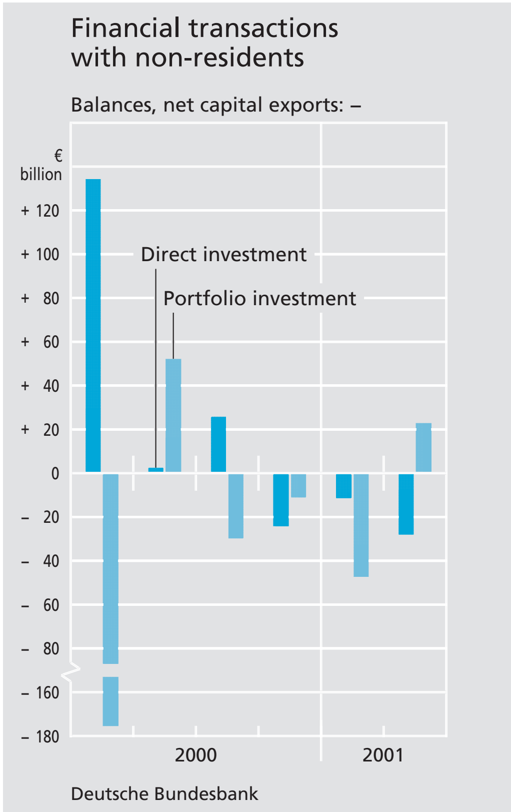
Credit transactions ...

... of non-banks

The operations of non-banks resulted in a net inflow of funds in statistically recorded non-securitised credit transactions during the period under review. For example, German enterprises and individuals imported € 8 billion net because, firstly, they further reduced their balances with foreign banks and, secondly, they took up loans abroad; it is likely that the financing of the aforementioned cash payment to existing foreign shareholders in connection with the corporate takeover in the telecommunications sector played a major role here. General government likewise drew to a limited extent on foreign funds (€ 3½ billion).

... of banks

However, the non-securitised external transactions of the banking system, which for the most part has ultimately to be seen as the counterpart of the other foreign payments recorded in the balance of payments, were of greater significance in terms of value. In the course of these external transactions, € 35 billion net was exported by Germany's credit institutions, a development which is reflected in a corresponding reduction in their short-term external liabilities, which had previously been rising sharply. By contrast, the Bundesbank recorded inflows of foreign funds (amounting to € 19 billion), mainly as a result of the settlement of TARGET balances within the ESCB.



Foreign reserves of the Bundesbank

The foreign reserves of the Bundesbank, the change in which is not included in the figures mentioned, declined – at transaction values – by a further € 2 billion in the three months from April to June; these reserves had already fallen by € 4 billion in the first quarter of 2001. However, this transaction-related decline is not reflected in the reserve holdings, which are valued at current market prices and exchange rates. At just under € 96 billion, the market value of the foreign reserves at the end of June 2001 was actually about € 2 billion above the level at the end of December 2000. This was due mainly to the appreciation of the dollar in the period under review and therefore – in euro terms – the higher price of gold.