Foreign trade and payments

Foreign trade and current account

Exports

Owing to the growing gloom of the global economic climate, German exporters have been trading in a sharply deteriorated environment so far this year. The terrorist attacks in New York and Washington on 11 September have greatly increased the uncertainty surrounding future world economic developments. It is true that foreign orders were still at a relatively high level until the summer despite the adverse effects of the downturn in the international economy, but new business has weakened markedly since then. The rapid deterioration in business sentiment in foreign markets is even more clearly reflected in the export expectations of German industry outlined in the ifo business survey. In September these fell below their last lowest point at the beginning of 1999. Despite that, exports remained surprisingly robust although that may be largely due to the usual time lag between the receipt of an order and its actual delivery. Even so, exports in the third quarter rose by 2½ % at constant prices and after the elimination of seasonal factors; in terms of value, they were 2 % above the corresponding level in the previous period. After increasing in July and even more so in August, however, exports were considerably more sluggish in September.

Breakdown of exports

Data on the breakdown of foreign trade by country and category of goods are available up to the end of August; exports of goods rose by a total of just over 2½ % in the period from June to August compared with the previous three-month period. Deliveries to the euro-area countries accounted for a sizeable

part of this increase. Despite the cyclical downturn in the euro area, this significant market for almost all sections of German business represented an important mainstay during the period under review with an increase in exports of 2 ½ %. The increase in exports to some non-euro-area countries was even greater, however. One probable reason for this was that German exporters are highly competitive and in trade with customers outside the euro area were benefiting from the decline in the external value of the new single currency.[1] For example, exports to the United States increased very steeply, at just over 7 %, despite the cyclical downturn there. Orders for motor vehicles from the United States played a particularly strong part in this development. This, incidentally, is consistent with the fact that this industrial sector – in contrast to other sectors such as mechanical engineering and information and communications technology (ICT) – recorded a particularly favourable result with a 7 ½ % increase in exports.

Sales of goods to the central and east European countries in transition, whose share of German exports is as large as that of the United States, also grew at an above-average rate (3 %) during the past few months. By contrast, exports of goods to South-East Asia declined sharply (– 5 %). Demand for German products from this region weakened appreciably after a particularly sharp fall in income in these countries that was associated with the collapse in the ICT sector and the weak growth in the US economy.

Imports

Growth in imports also declined as a result of the cyclical downturn in Germany. The seasonally adjusted value of imported goods in the third quarter was as much as almost 1½ % below the corresponding figure in the second quarter. In the same period import

1 The Bundesbank has adjusted its calculation of the indicators of the price competitiveness of the German economy to take account of the procedure used by the European Central Bank for determining the real external value of the euro. In terms of approach this method of calculation is virtually the same as that previously used for calculating the external value of the Deutsche Mark. Details appear in the appendix to this article on page 50 ff.

prices fell somewhat more sharply (– 2 %). The weaker demand from Germany equally affected both imports from the other euro-area countries, which supply almost one-half of German imports, and purchases of goods from non-euro-area countries. The close cross-border interdependence of modern industrial production is a major reason for the high degree of synchronisation between overall economic demand and developments in foreign trade.

This is why the success of the German motor industry in foreign markets also indirectly boosts economic developments in the European partner countries. For example, imports of motor vehicles and vehicle parts during the last three months for which data are available (June – August) rose extremely sharply, at almost 16½ %, compared with the previous three-month period. By contrast, purchases of goods in the ICT sector declined by more than 3 % compared with the previous period. Imports from the emerging markets in South-East Asia were particularly affected by this. Overall, these were 8½ % down on the previous period. Fewer goods were imported from Japan, too; at 5½ %, however, the downturn was not quite so pronounced in this case.

Current account

The improvement in the terms of trade for Germany, a development which is associated with the more relaxed situation on the crude oil markets during the year, and the growth in exports, which was more robust than that of imports, resulted in a substantial increase in the surplus on trade in goods in the third quarter; seasonally adjusted and at current prices, the overall export surplus amounted to € 24 billion

Regional trend in foreign trade

June-August 2001; seasonally adjusted

Group of countries/country	€ billion	Percentage change from March-May
Exports		
All countries	162.6	+ 2.7
of which		
Euro-area countries	70.0	+ 2.5
Other EU countries	19.6	+ 3.1
United States	17.7	+ 7.2
Japan	3.4	+ 4.9
Central and east European countries in transition	17.7	+ 3.2
OPEC countries	3.6	+ 6.3
Emerging markets in South-East Asia	6.2	– 5.0
Imports		
All countries	139.1	+ 0.9
of which		
Euro-area countries	58.2	+ 0.8
Other EU countries	14.0	– 2.7
United States	12.1	+ 4.5
Japan	5.6	– 5.5
Central and east European countries in transition	17.7	+ 6.9
OPEC countries	2.3	+ 14.6
Emerging markets in South-East Asia	6.5	– 8.4

Deutsche Bundesbank

Major items of the balance of payments

€ billion

Position	2000 3rd qtr	2001 2nd qtr	2001 3rd qtr
I. Current account			
1. Foreign trade 1			
Exports (fob)	r 146.0	160.7	156.6
Imports (cif)	r 132.9	141.0	133.6
Balance	+ 13.1	+ 19.7	+ 23.0
2. Services (balance)	– 12.6	– 11.2	– 14.0
3. Factor income (balance)	– 1.8	– 1.9	– 1.2
4. Current transfers (balance)	– 7.1	– 7.6	– 6.3
Balance on current account 2	– 10.0	– 2.4	– 0.3
Memo item Balances, seasonally adjusted			
1. Foreign trade	+ 14.0	+ 19.0	+ 24.1
2. Services	– 9.4	– 11.2	– 11.0
3. Factor income	– 2.1	– 4.3	– 0.6
4. Current transfers	– 6.3	– 8.6	– 5.6
Current account 2	– 5.1	– 6.3	+ 5.4
II. Balance of capital transfers 3	+ 15.9	– 0.6	– 0.4
III. Balance on financial account 4	– 25.1	– 7.0	– 14.4
IV. Change in the foreign reserves at transaction values (increase: –) 5	+ 2.2	+ 2.0	– 2.2
V. Balance of unclassifiable transactions	+ 17.1	+ 8.0	+ 17.4

1 Special trade according to the official foreign trade statistics (source: Federal Statistical Office). — **2** Includes supplementary trade items. — **3** Including the acquisition/disposal of non-produced non-financial assets. — **4** For details see the table "Financial transactions" on page 47. — **5** Excluding allocation of SDRs and changes due to value adjustments.

Deutsche Bundesbank

compared with € 19 billion in the second quarter. Developments in the field of invisible current transactions with non-residents also had a favourable impact on the external balance sheet of German business in the third quarter. An important part was played here by the fact that factor income in seasonally adjusted terms was almost in balance in the third quarter whereas in the previous quarter it had run a deficit of just under € 4½ billion. Other factors were that, at € 5½ billion net, € 3 billion less in current transfers was paid on balance to non-residents in the third quarter compared with the second while the deficit on services, at € 11 billion, was virtually unchanged. All in all, there was a surplus on current account of € 5½ billion after the elimination of seasonal factors whereas in the quarter earlier there had been a deficit of € 6½ billion. This means that in the current year the cumulated current account deficit amounted to € 2½ billion. Compared with the deficit of more than € 11 billion incurred in the period from January to September 2000, there has so far been an appreciable improvement in the current account in 2001.

Financial transactions

Trends in financial transactions

The terrorist attacks of 11 September in the United States also shook the financial world and increased the uncertainty in the markets even further. Internationally operating investors reacted to the shock with a "flight to quality" and, additionally, with a reduction in the cross-border components of their portfolios in some cases. The result was a sharp fall in the yields of bonds issued by first-class borrowers and a temporary slump in the share markets. Central banks on both sides of the Atlantic provided large amounts of liquidity and cut interest rates, not least in an effort to nip potential systemic risks in the bud and to counter the general feeling of uncertainty.

Portfolio investment

German financial transactions clearly exemplified the changed conditions on the international financial markets: securities transactions led to net capital imports of € 17 billion in September alone. In the third quarter as a whole aggregate imports of funds amounted to € 26 ½ billion (compared with € 22 billion in the quarter before). Substantial inflows of funds from foreign investors were a particularly important factor here while German residents were discernibly restrained in their investment abroad in view of the events mentioned. Although in the third quarter as a whole their net acquisitions of foreign paper amounted to € 4 ½ billion, that was the smallest amount they had invested abroad in a single quarter since the start of monetary union (second quarter: € 44 ½ billion). Moreover, they made their purchases exclusively in July and August; in September it was sales that predominated (€ 5 ½ billion).

German investment abroad

Shares

In the case of transactions in foreign shares selling actually predominated throughout the quarter. Between July and September German investors withdrew a net sum of € 6 ½ billion from foreign share markets; already in the first six months of 2001 they had been increasingly cautious about investing in foreign shares owing to the growing cyclical risks worldwide and negative corporate reports. Even so, it is remarkable that in the period

Financial transactions

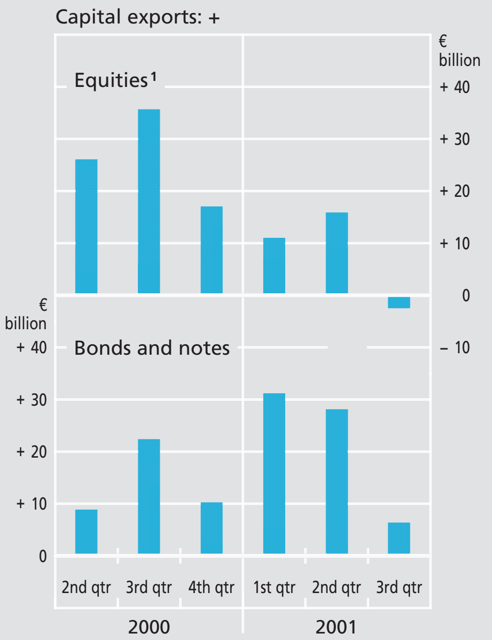
€ billion, net capital exports: –

Item	2000	2001	
	3rd qtr	2nd qtr	3rd qtr
1. Direct investment	+ 25.8	– 27.1	+ 17.3
German investment abroad	+ 7.6	– 33.1	+ 2.8
Foreign investment in Germany	+ 18.2	+ 6.0	+ 14.6
2. Portfolio investment	– 29.8	+ 22.1	+ 26.7
German investment abroad	– 56.4	– 44.7	– 4.3
Shares	– 29.8	– 11.1	+ 6.3
Investment fund certificates	– 5.9	– 4.7	– 3.8
Bonds and notes	– 22.4	– 28.1	– 6.4
Money market paper	+ 1.6	– 0.8	– 0.5
Foreign investment in Germany	+ 26.6	+ 66.8	+ 31.0
Shares	+ 6.9	+ 70.8	+ 15.0
Investment fund certificates	+ 1.5	– 0.6	– 0.5
Bonds and notes	+ 19.0	+ 11.0	+ 18.7
Money market paper	– 0.8	– 14.4	– 2.1
3. Financial derivatives 1	– 0.8	+ 2.6	– 4.3
4. Credit transactions	– 19.5	– 4.2	– 53.5
Credit institutions	– 26.8	– 35.0	– 43.6
Long-term	– 11.2	– 0.2	– 4.9
Short-term	– 15.6	– 34.8	– 38.6
Enterprises and individuals	+ 1.8	+ 8.2	+ 0.6
Long-term	– 0.5	+ 1.5	+ 1.1
Short-term	+ 2.4	+ 6.7	– 0.5
General government	– 15.0	+ 3.5	+ 0.6
Long-term	– 1.1	+ 0.1	– 0.2
Short-term	– 13.9	+ 3.4	+ 0.8
Bundesbank	+ 20.4	+ 19.1	– 11.2
5. Other investment	– 0.8	– 0.3	– 0.6
6. Balance of all statistically recorded capital flows	– 25.1	– 7.0	– 14.4
Memo item Change in the foreign reserves at transaction values (increase: –) 2	+ 2.2	+ 2.0	– 2.2

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

Deutsche Bundesbank

German portfolio investment abroad



1 Including investment fund certificates.

Deutsche Bundesbank

under review it was not, say, US stocks that they were selling but, instead, mainly European ones.

Bonds and notes

The funds that thus became available did not result in German investors increasing their purchases of foreign bonds and notes. On the contrary, between July and September German residents spent no more than € 6½ billion in acquiring debt certificates issued by non-resident borrowers whereas in the previous three-month period they had invested € 28 billion in this segment. In the period under review – in contrast to the second quarter – there was a shift from foreign currency paper into euro paper. This may be partly due to the fact that the interest rate advantage of long-term dollar assets over comparable (German) Federal Government bonds with a ten-year maturity, which at the end of June had still been over 40 basis points, declined sharply during the summer and following the terrorist attacks in the United States actually turned into a temporary interest rate disadvantage for the US dollar amounting for a time to just under 20 basis points.

Foreign investment in German ...

While German residents, in other words, had been extremely cautious in their investment in foreign paper, Germany, on the other hand, was again proving to be a safe haven for international financial investors. However, this is not immediately apparent from the aggregate figures. Overall, non-resident investors acquired German securities worth € 31 billion between July and September; in terms of the amount that was only about one-half of the sum they had invested in the three months earlier. At that time, however, the figures had been considerably distorted as a result of one large equity swap in connection with a corporate takeover and the settlement of option and futures contracts that had previously been concluded. The changed situation therefore does not become clear until a comparison is made with the first quarter when foreign investors had sold German paper for € 4½ billion net.

... bonds and notes

There were also shifts with respect to the instruments preferred by buyers, presumably as a result of risk reassessments. For example, Federal bonds, which in view of their high degree of liquidity and security are regarded as first-class quality paper, clearly gained ground during the quarter under review. In each of the three previous quarters, by contrast, foreign investors had been reducing the amounts of Federal bonds in their portfolios. Overall, that is to say, including the acquisition of bank bonds, foreign capital amounting to € 18½ billion flowed into the German bond market between July and September compared with € 11 billion in the previous three-month period.

... shares

Foreign investors also purchased German corporate shares worth € 15 billion. They were evidently taking advantage of the lower prices to "make a start", thereby defying the fairly unfriendly stock exchange climate in Germany during the period under review.

Direct investment

In the field of direct investment international investors operate in accordance with a strategy that only indirectly takes account of the motive of caution related to the given situation. Thus, the recent events in international politics have had a very much smaller impact on this segment of the financial account than was the case in cross-border portfolio investment. With gross turnover of entirely normal proportions there were net capital imports of just over € 17½ billion in the three months of July, August and September whereas in the previous quarter there had been net capital outflows (of € 27 billion), largely as a result of one single transaction. The outcome of the period under review was principally determined by foreign firms which – primarily through short-term intra-group credit operations – provided their subsidiaries domiciled in Germany with funds amounting to a total of € 14½ billion. US proprietors were not the least active in strengthening their position in Germany in this way. In the period under review, however, there were also net capital imports (of € 3 billion) through German firms doing exactly the opposite, that is to say, through transactions with their subsidiaries operating abroad in which it was credits granted or repaid by subsidiaries domiciled in other euro-area countries to their German parent companies that played a major role. As has happened fairly frequently in the recent past, developments in the field of direct investment were again dominated by enterprises in the telecommunications sector.

Credit transactions ...

... of non-banks

Even if only to a very limited extent, there were also net imports of funds through the statistically recorded non-securitised credit transactions of the non-banks between July and September. For example, there was an influx of € ½ billion net through the activities of German enterprises and individuals. These were mainly financial transactions with foreign enterprises that are not classified under direct investment. The cross-border financial operations of general government were of the same order of magnitude.

... of the banking system

Among the elements forming the counterpart to the aforementioned capital imports through foreign payments were the fairly substantial net capital exports of the banking system (credit institutions and the Bundesbank) amounting to just under € 55 billion. Non-securitised credit transactions of credit institutions with business partners abroad accounted for € 43½ billion of this. A further € 11 billion was exported through the accounts of the Bundesbank; as usual, this was mainly due to the balances arising within the large-value payment system TARGET.

Foreign reserves of the Bundesbank

The foreign reserves of the Bundesbank, the change in which is not included in the figures mentioned, rose – at transaction values – by just over € 2 billion in the three months of July, August and September whereas between April and June they had declined by virtually the same amount. The increase in the German reserve position in the IMF, which came about as a result of the drawings of other IMF member countries, was recently of importance.[2] However, the reserve holdings, which are valued at current market prices and exchange rates, were, at € 94½ billion, somewhat lower at the end of September than at the end of the second quarter (just under € 96 billion). The exchange rate losses of the US dollar in the period under review had a particularly negative effect on the level of these holdings.

2 Furthermore, the Bundesbank has changed the organisation and method of recording certain investment operations (reciprocal repos). Consequently, those transactions, which used to cancel out, are now shown gross; they therefore show up both in the foreign reserves and in the external liabilities of the Bundesbank. At the end of September the external liabilities arising from this amounted to € 1.8 billion. The relevant data are regularly published on the Bundesbank's website in accordance with the Data Dissemination Standard of the IMF.

Appendix

New calculation of the indicators of the price competitiveness of the German economy

As a supplement to the effective exchange rates of the euro published by the ECB, the Bundesbank has been publishing indicators of the German economy's price competitiveness vis-à-vis other countries since the beginning of 1999. The purpose of these indicators is to measure price trends in Germany in relation to the prices of foreign competitors taking due consideration of exchange rate movements. To that extent the indicators have the same objective as the indices of the real external value of the Deutsche Mark that were produced up to the end of 1998 and until now were calculated in the same way.[3] This method is now being adjusted to take account of the approach used by the ECB for the real effective exchange rates of the euro. To enable a consistent interpretation to be made of the results the external competitiveness of the German economy will be measured in future using the same procedure and the same database as for the competitiveness of the entire euro area.

The calculation methods used by the ECB[4] and the Bundesbank were already very similar. They differed only in the measurement of the domestic supply of goods on the markets of competitor countries. While up until now the domestic supply, which together with the imports from other countries constitutes the competition facing German exporters of goods on a given export market, was represented by the gross value added by the manufacturing sector (excluding mineral oil refining) of that country, the gross value added which is now used for the purpose is extended to include the net imports of manufactured goods. As in the previous method, however, this is only a makeshift

3 See Deutsche Bundesbank, Updating the calculation of the external value of the Deutsche Mark and adjusting it to the conditions of European monetary union, Monthly Report, November 1998, page 53 ff.
4 See ECB, Effective exchange rates for the euro, Monthly Bulletin, October 1999, page 29 ff.

Weighting pattern of the original and the recalculated indicators of the price competitiveness of the German economy

Weight in the total index in thousandths

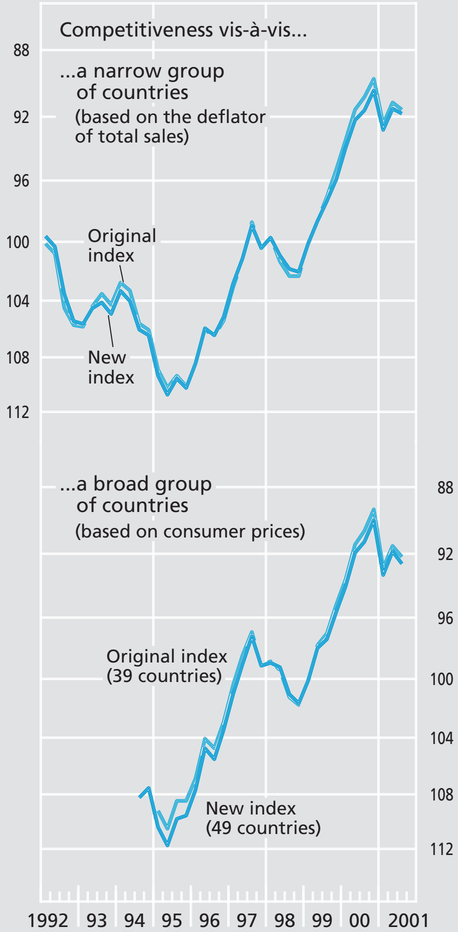
Group of countries/country	German economy's competitiveness vis-à-vis ...			
	... a narrow group of countries		... a broad group of countries	
	Originally [1] 19 industrial countries	Now [2] 19 industrial countries	Originally [1] 39 countries	Now [2] 49 countries
Narrow group of countries	1,000.0	1,000.0	793.3	772.8
EU countries	654.3	702.5	553.8	559.0
Euro-area countries	512.3	553.0	436.1	441.2
Austria	53.8	56.3	46.9	44.1
Belgium	[3] 66.5	65.5	[3] 56.7	53.3
Luxembourg	[3] .	4.8	[3] .	4.1
Finland	14.1	15.0	11.6	10.7
France	140.2	143.4	119.4	116.0
Greece	5.1	5.7	4.4	4.6
Ireland	10.3	12.4	8.9	10.1
Italy	108.5	113.7	91.4	86.1
Netherlands	64.1	80.1	54.1	65.8
Portugal	11.7	12.4	10.4	10.8
Spain	38.1	43.7	32.4	35.6
Other EU countries	142.0	149.5	117.7	117.8
Denmark	17.2	19.0	14.7	15.6
Sweden	28.7	27.6	24.1	21.3
United Kingdom	96.2	102.8	78.8	80.9
Other countries belonging to the narrow group	345.7	297.5	239.6	213.8
Norway	7.9	8.8	6.7	7.3
Switzerland	55.9	50.1	47.8	41.3
Canada	10.8	10.8	8.2	8.3
United States	148.3	133.5	101.5	94.9
Japan	122.8	94.4	75.2	61.9
Countries additionally included in the broad group	.	.	206.7	227.2
Countries originally included	.	.	206.7	206.0
Poland	.	.	15.5	18.0
Russian Federation	.	.	16.0	12.5
Slovenia	.	.	5.1	5.0
Czech Republic	.	.	14.2	16.5
Hungary		.	8.5	11.4
China	.	.	29.3	25.7
Hong Kong, Special administrative region	.	.	9.1	10.2
India	.	.	6.8	7.8
Indonesia	.	.	5.1	5.3
Israel	.	.	4.4	4.4
Korea, Republic of	.	.	16.3	15.9
Malaysia	.	.	7.1	7.7
Singapore	.	.	10.7	9.7
Taiwan	.	.	16.2	13.2
Thailand	.	.	8.8	6.6
Turkey	.	.	11.4	13.4
Brazil	.	.	8.4	8.1
Mexiko	.	.	4.3	4.7
Australia	.	.	3.9	4.4
South Africa	.	.	5.4	5.5
Countries recently added	.	.	.	21.2
Estonia	.	.	.	0.5
Croatia	.	.	.	2.6
Romania	.	.	.	3.8
Slovakia	.	.	.	6.4
Cyprus	.	.	.	0.3
Philippines	.	.	.	2.6
Argentina	.	.	.	1.9
New Zealand	.	.	.	0.9
Algeria	.	.	.	0.4
Morocco	.	.	.	1.6
Total	1,000.0	1,000.0	1,000.0	1,000.0

1 Based on the years 1993 to 1995. — **2** Based on the years 1995 to 1997. — **3** The figures for Belgium include those for Luxembourg, with which Belgium had a currency association.

Deutsche Bundesbank

Indicators of the price competitiveness of the German economy

1st qtr of 1999 = 100, log. scale 1



1 Inverted scale: rise in the curve (decline in values) represents an increase in competitiveness.

Deutsche Bundesbank

means of adequately quantifying the relative importance of the domestic supply of goods and the supply of goods provided by foreign competitors on the market of the country concerned. There is no single approach that satisfies all aspects of the problem. Basically, imports are given as gross variables which could be compared with the domestic supply correspondingly defined as the sum of domestic turnover. Owing to intermediate industrial turnover, however, this aggregate, when compared with imports, would be excessively inflated by the double counting of inputs within the manufacturing sector. In comparison with imports, on the other hand, the gross value added by the manufacturing sector appears to be too low because it does not include the inputs of other domestic economic sectors or inputs from abroad, which likewise contribute to the value of competing home-produced industrial products. Owing to a lack of the necessary statistics, an attempt is made to arrive at a gross variable for output that is more comparable with the level of imports by extending the gross value added by at least the industrial inputs which are purchased abroad and which are estimated on the basis of the imported manufactured products. To make a rough estimate of the domestically produced supply of goods on the home market the exports are then deducted from total domestic output which is approximated as the sum of gross value added and imports. 5

The Bundesbank is taking over from the ECB not only the calculation method but also the period for deriving the weighting pattern (1995 to 1997) and the database for quantifying the weights. The data on exchange rates and consumer prices for establishing historical and current values also come from this source. Besides using the consumer price indices, the Bundesbank will also continue to draw on the deflators of total sales in the national accounts as price indicators. The ECB has not taken these into account so far. However, these calculations by the Bundesbank are necessarily restricted to the industrial countries which are already included and for which data are available. The narrow group of countries was therefore retained as it was whereas the broad group of countries – in-

5 See P. Turner and J. Van't dack, Measuring International Price and Cost Competitiveness, BIS Economic Papers No. 39, 1993, page 22 f.

cluding the euro-area countries – now comprises all of the countries selected by the ECB.

As can be seen from the overview, no major changes have arisen as a result of the updating of the weighting base and the methodological modifications. Despite the inclusion of additional countries, this also applies to the indices of the broader group of countries because these new countries have only a small overall weight. The trend of the newly calculated indicators therefore corresponds to a very large degree with the earlier results (see the chart on page 52).