Foreign trade and payments

Foreign trade and current account

Exports of goods

Germany's external environment continued to be marked by a high degree of uncertainty towards the end of the fourth quarter of 2002: shifts in exchange rate patterns, the situation on the international financial markets and geopolitical tensions clouded world economic prospects. In the light of this, developments in German foreign trade proved to be fairly robust in the fourth quarter of 2002. Orders received from abroad were more or less at the same level as in the previous quarter. At the same time, export expectations brightened during the quarter although they became somewhat less optimistic again at the beginning of this year. It is true that Germany's exports of goods did not quite maintain the level they had reached after the exceptionally rapid growth of the third quarter (-½%). Even so, there was a discernible upturn in Germany's exports of goods during the year, with exports in the second half 2002 showing an increase of just over 3½% over the first six months of the year.

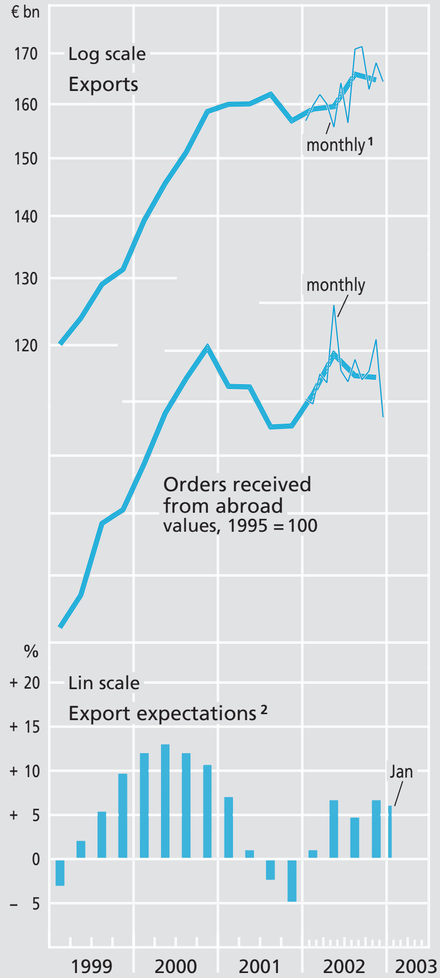
Breakdown of exports

The main stimulus for German exports in the final quarter of 2002 came from other euro-area countries. At least, that is indicated by the statistics for October and November (the breakdown of foreign trade is available only up to the end of November so far). According to these statistics, Germany's average monthly exports to the other euro-area countries in October and November rose by a seasonally adjusted 1% over the monthly average achieved in the third quarter. At the same time, there was a slight downturn (of just under 1%) in exports to non-euro-area countries. This was due mainly to a fall in exports to EU countries which are not participating in monetary union (-3½%). Fewer German goods (-2½%) were also exported to developing countries (excluding OPEC). By contrast, there was again a small increase (of +1%) in trade with the United States. German exporters also increased their sales to the central and east European countries in transition (+1½%). The OPEC countries and Japan, too, stimulated German exports on a monthly average of October and November (+5% and +3½% respectively compared with the third quarter). This means that the appreciation of the euro evidently had no detrimental effect on the regional breakdown of German exports in the fourth quarter of 2002. This may be due not only to uncertain lags but also to the fact that, although Germany's price competitiveness vis-à-vis non-euro-area countries deteriorated in the fourth quarter of 2002, its competitiveness vis-à-vis these countries was still favourable in historical terms (almost 8% above the long-term average).[1]

Experience has shown, however, that cyclically induced changes in demand in major export markets also affect German exports of goods. For example, the comparatively modest level of investment worldwide evidently had a dampening effect on German export sales. As this is the area in which German exporters are particularly strong, they immediately felt the effects of lower demand for capital goods. At all events, this is indicated by the breakdown of exported goods in October and November, which shows a 3% fall in the exports of capital goods compared with the monthly average in the third quarter. By contrast, sales of semi-finished goods stagnated while there was actually a significant increase (of 4%) in consumer goods turnover owing

Export trend

Seasonally adjusted, quarterly



1 Monthly values adjusted to match quarterly level. — 2 Results of the Ifo business survey; balances of positive and negative company reports.

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1 The euro continued to appreciate after the turn of the year. When this report went to press, the indicator of Germany's price competitiveness vis-à-vis 19 industrial countries was approximately 3% above the long-term average.

to the comparatively robust private consumption in major export markets.

Imports of goods

The seasonally adjusted value of German imports increased by just under 2% in the fourth quarter, which was more than twice as much as in the previous quarter. The increase was not much less in real terms either because import prices had remained more or less unchanged (+0.2%).

Breakdown of imports

While Germany imported appreciably fewer goods from other euro-area countries (-3%), imports from non-euro-area countries rose on a monthly average of October and November by 4% compared with the average of the third quarter. More goods were imported, for example, from the United States (+11%) and from the central and east European countries in transition (+5%). Imports from the EU countries which are not participating in European monetary union also rose fairly sharply, at just over 6½%. However, the 20% increase in imports from the OPEC countries, measured on a monthly average of October and November and compared with the average of the third quarter, was particularly pronounced. This was unlikely to have been due to price effects as the price of crude oil did not rise substantially again until December whereas in both October and November it had actually declined. Consequently, the sharp rise in imports from the OPEC countries suggests an increase in volume. The most important explanation might be considerations about ensuring adequate stocks in the light of the geopolitical tensions. According to previous seasonally adjusted fourth-quarter figures, the actual increase in energy imports was correspondingly steep, at 4%.[2] Imports of semi-finished goods and consumer goods also increased in the fourth quarter (3½% and 3% respectively). By contrast, demand for imported capital goods was also lower in Germany (-3½%). In particular, foreign car manufacturers (-3%) and the chemical industry (-2½%) recorded falling sales on the German market whereas manufacturers of mechanical engineering products enjoyed a 1½% increase in sales. The imports of foreign ICT products stagnated in the period under review.

Current account

Germany ran a seasonally adjusted fourth-quarter trade surplus of €31½ billion, which was somewhat less than in the third quarter. At the same time, the deficit on services fell slightly to €8 billion compared with just under €9 billion in the previous period. Furthermore, net factor income amounted to €1 billion whereas in the third quarter there had been net expenditure here of €1½ billion. At €5½ billion net, just under €1 billion more was paid to non-residents in current transfers than in the previous quarter. As a result, the surplus on current account between October and December declined to €16½ billion (seasonally adjusted) compared with a surplus of €18 billion in the third quarter.

2 The very different rates of growth between imports from the OPEC countries and imports of energy arise from the difference in their shares of imports as a whole. Whereas in the regional breakdown the OPEC countries have a 1½% share of total German imports, energy imports in the breakdown of goods account for almost 9% of total imports. If account is taken of these different ratios, import growth rates in the fourth quarter are entirely comparable.

Financial transactions

Trends in financial transactions

The modest economic prospects and the rising geopolitical tensions determined events on the international financial markets in the fourth quarter of last year. Underpinned by the decline in inflationary pressures – particularly in the euro area – and falling central bank rates on both sides of the Atlantic, bond yields in many countries decreased further. At the same time, there were substantial shifts in exchange rate patterns in favour of the euro. Whereas this scenario made the euro area as a whole a more attractive location for the portfolio investments of internationally operating investors and – according to the information so far available – substantial amounts of foreign capital continued to be drawn into the area, it appears that in the case of Germany it tended to be the negative factors which were predominant. At all events, Germany recorded net capital exports through portfolio investment and non-securitised credit transactions between September and December 2002.

Portfolio investment

There was a marked reversal in the flow of capital through portfolio investment in the fourth quarter of 2002. All in all, outflows of funds amounted to €14½ billion net whereas in the previous quarter there had been net capital imports of €31 billion.[3] This sizeable swing was essentially due to the actions of foreign investors, who withdrew €5 billion net from the German securities markets be-

3 These figures contain major revisions owing to late reports and additional estimates for statistically unclassified foreign portfolio acquisitions in Germany. As usual, the other corrections in the financial account will be undertaken during the annual revision in March.

Major items of the balance of payments

€ billion

Item	2001 Q4 r	2002 Q3	2002 Q4
I Current account			
1 Foreign trade 1			
Exports (fob)	160.3	161.8	168.2
Imports (cif)	135.0	128.6	137.0
Balance	+ 25.3	+ 33.2	+ 31.2
2 Services (balance)	– 9.2	– 11.2	– 5.4
3 Factor income (balance)	– 1.3	– 3.8	+ 2.0
4 Current transfers (balance)	– 7.2	– 5.7	– 6.7
Balance on current account 2	+ 7.1	+ 10.9	+ 19.2
Memo item Balances, seasonally adjusted			
1 Foreign trade	+ 25.5	+ 34.8	+ 31.3
2 Services	– 11.6	– 8.9	– 8.2
3 Factor income	– 1.5	– 1.6	+ 1.1
4 Current transfers	– 6.2	– 4.8	– 5.6
Current account 2	+ 5.6	+ 18.0	+ 16.7
II Balance of capital transfers 3	– 0.5	+ 0.1	– 0.4
III Balance of financial account 4	– 44.1	– 19.7	– 48.4
IV Change in the foreign reserves at transaction values (increase: –) 5	+ 2.1	+ 0.1	+ 0.9
V Balance of unclassifiable transactions	+ 35.4	+ 8.6	+ 28.6

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 43. — 5 Excluding allocation of SDRs and changes due to value adjustments.

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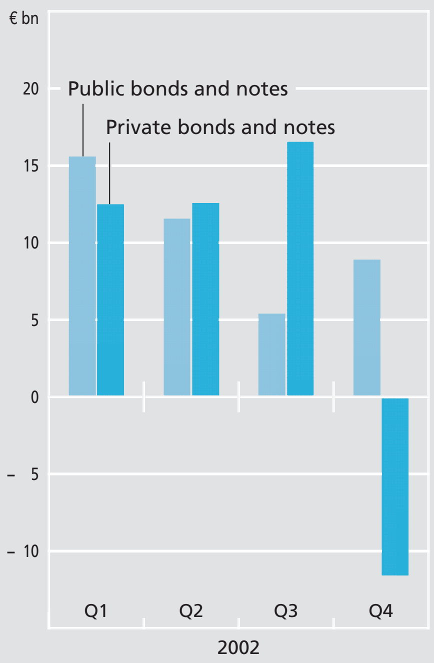
Foreign investment in
German bonds and notes



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Foreign investment in foreign securities

tween October and December 2002. In the previous three months substantial amounts of foreign funds (€39½ billion) had flowed into Germany by virtue of its reputation as a safe haven. It is possible that during the period under review uncertainty on the part of foreign investors in connection with the fiscal debate in Germany was reflected in a reorientation of their portfolio investments. At all events, there were net foreign sales of both private bonds (-€11½ billion) – mainly bank debt securities – and money market paper (-€3½ billion) as well as investment fund certificates (-€1½ billion). By contrast, foreign investors spent €9 billion on German public bonds, which "in difficult times" are always in particular demand as secure and liquid investment instruments. To a lesser extent they also invested in the German share market (€2½ billion) even though prices there were moving more slowly than on other markets.

German investment in foreign securities

While foreign investors withdrew from the German securities markets, German investors continued to act extremely cautiously in view of the great uncertainty surrounding investment abroad. They again invested somewhat more capital (€9½ billion) in foreign securities between October and December 2002 than in the previous three-month period (€8½ billion). However, this figure was far below the amounts that had been invested abroad at the start of monetary union, for example. In the period under review share market investment accounted for about half of the total amount invested abroad (€5½ billion) whereas in each of the previous two quarters German investors had sold foreign shares on balance. They invested a further €7 billion in foreign bonds and notes. Whereas in the recent past most of the demand had been for euro paper, German savers tended to show a preference for foreign-currency bonds in the final quarter of 2002. Yen-denominated paper as well as issues denominated in US dollars and pounds sterling played a dominant role here.

Direct investment

In contrast to portfolio transactions, direct investment saw inflows of capital amounting to €1½ billion. German enterprises increased their participating interests abroad by €5½ billion between October and December 2002. That was significantly less than in the previous quarter (€16 billion). In the period under review the sole target of German direct investment was other euro-area countries. At the same time, foreign proprietors provided their branches domiciled in Germany with funds amounting to €7 billion net. The bulk of these funds involved intra-group credits from foreign parent companies to their subsidiaries operating in Germany. Almost all of the incoming capital came from the euro area. Whereas foreign direct investment in Germany had long been defying the negative global economic conditions, foreign direct investment has now definitely been declining discernibly since the middle of 2002.

Credit transactions of non-banks

The non-securitised credit transactions of German non-banks with non-residents resulted in substantial net inflows of capital. As usual, enterprises and individuals reduced their bank balances abroad towards the end of the year (window dressing). All in all, the net capital imports of these economic sectors amounted to about €15 billion between October and December 2002. In the case of public authorities, by contrast, cross-border credit transactions during this period resulted in outflows of €½ billion net.

Credit transactions of the banking sector

The non-securitised foreign transactions of the monetary financial institutions were of much greater importance during the period under review. As in the previous two periods, there were net capital exports. In the period under review these amounted to €50 billion. Between October and December 2002 the credit institutions expanded their business, mainly lending operations, with foreign customers substantially. By contrast, the external transactions of the Bundesbank recorded under credit transactions (excluding foreign reserves) almost entirely cancelled out during the period under review.

Financial transactions

€ billion, net capital exports: –

	2001	2002	
Item	Q4 r	Q3	Q4
1 Direct investment	+ 1.1	– 12.3	+ 1.3
German investment abroad	– 7.1	– 15.8	– 5.6
Foreign investment in Germany	+ 8.2	+ 3.5	+ 6.8
2 Portfolio investment	– 4.9	+ 31.2	– 14.4
German investment abroad	– 31.1	– 8.3	– 9.4
Shares	– 2.8	+ 6.4	– 5.4
Investment fund certificates	– 5.0	– 1.3	+ 0.6
Bonds and notes	– 26.1	– 10.5	– 7.2
Money market paper	+ 2.9	– 2.9	+ 2.6
Foreign investment in Germany	+ 26.2	+ 39.5	– 5.0
Shares	+ 0.4	– 0.4	+ 2.5
Investment fund certificates	+ 4.2	+ 1.0	– 1.3
Bonds and notes	+ 24.2	+ 22.0	– 2.7
Money market paper	– 2.5	+ 16.9	– 3.6
3 Financial derivatives 1	– 1.0	– 3.8	+ 0.3
4 Credit transactions	– 39.0	– 34.5	– 35.2
Credit institutions	– 58.6	– 17.4	– 49.8
Long-term	– 27.7	+ 1.3	– 6.3
Short-term	– 30.9	– 18.7	– 43.6
Enterprises and individuals	– 9.3	– 3.2	+ 15.1
Long-term	+ 0.9	+ 1.6	+ 1.1
Short-term	– 10.3	– 4.8	+ 14.0
General government	– 5.7	+ 3.8	– 0.6
Long-term	+ 0.2	+ 0.5	– 0.1
Short-term	– 5.8	+ 3.3	– 0.5
Bundesbank	+ 34.6	– 17.7	+ 0.2
5 Other investment	– 0.3	– 0.3	– 0.3
6 Balance of all statistically recorded capital flows	– 44.1	– 19.7	– 48.4
Memo item Change in the foreign reserves at transaction values (increase: –) 2	+ 2.1	+ 0.1	+ 0.9

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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Foreign reserves of the Bundesbank

The foreign reserves of the Bundesbank declined – at transaction values – by just under €1 billion between October and December 2002. This means that they declined as a result of transactions by a total of slightly more than €2 billion in 2002. In the period under review, however, revaluations played a greater role. Holding gains in the case of gold could only partly offset the losses sustained as a result of the depreciation of the US dollar. At the end of 2002 Germany's foreign reserves amounted to the equivalent of €85 billion compared with €89 billion at the end of September 2002 and just over €93 billion at the beginning of last year.