# Foreign trade and payments

## Foreign trade and current account

*External environment*

In the second quarter of 2005, German exporters continued to benefit from the persistently favourable global economic climate owing to further robust growth in important partner countries. However, the risks to the development of the global economy – which up to now has shown remarkable resilience – have increased owing to further rises in oil prices. The strains on German enterprises as a result of rising import prices have hitherto remained comparatively modest despite high energy prices, however. Continuing optimistic export expectations as well as the further depreciation of the euro in the period under review – together with a corresponding improvement in the German economy's competitiveness – are suggestive of a favourable environment for German exporters in the future, too. The persistently high volume of new orders reinforces this impression even though it fell somewhat short of the strong performance level in the preceding quarter. In the second quarter, the new EU member countries provided particularly dynamic impulses for German foreign trade. Germany's already considerable international economic links with central and eastern European countries were therefore further intensified.

*Exports*

As a result, in the second quarter of 2005, the German export industry managed to increase nominal exports of goods by a seasonally adjusted 2% compared with the first quarter. The rise was also at this level in real terms, as German exporters barely increased their export prices expressed in euro in this period.

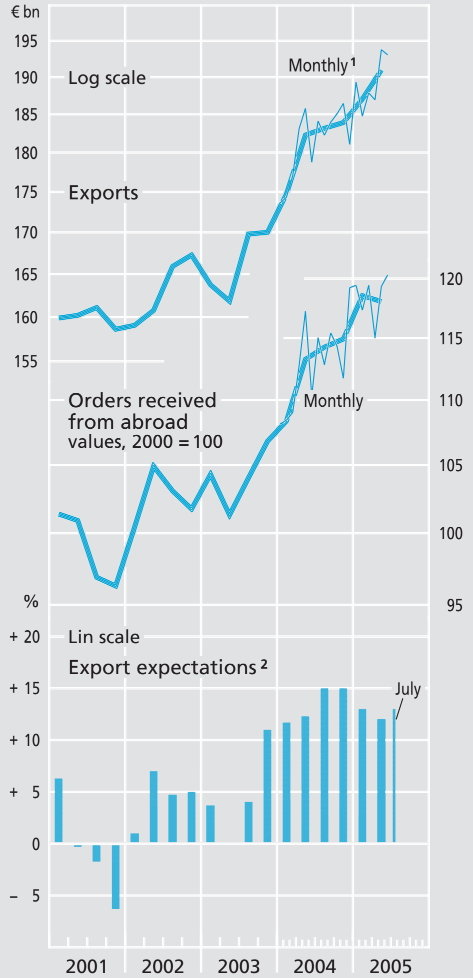
*Breakdown of exports*

On an average of April and May compared with the first quarter of the year – regional and sectoral breakdowns of statistical information on foreign trade for June are not yet available – German exporters were able to increase the value of their exports to the euro area by 2%, somewhat more than the value of exports to third countries (+1½%). In real terms, exports to non-euro-area countries – unlike exports to the euro area – were somewhat lower in the two months under review as export prices rose slightly here.

At first glance, there are only minor differences between developments in exports to the euro area and to non-euro-area countries in the period under review. However, a more in-depth regional analysis reveals noticeable discrepancies. The somewhat more dynamic developments within the euro area – in which the comparatively favourable price and cost developments on the part of German producers are likely to have played no small role – were quite broadly based. By contrast, exports to non-euro-area countries and regions developed in a markedly heterogeneous manner. The rise in exports to the new EU member states was particularly buoyant (8½%). Exports to the EU countries outside the euro area were also at an above-average level (+2½%). By contrast, exports of goods to non-European countries and regions declined on the whole. This can no doubt be partly explained by the fact that the very strong performance of the first quarter – which was

## 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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also influenced by special statistical factors – was used as a basis of comparison. Furthermore, the improvement in price competitiveness evident since the beginning of the year, which has practically offset the appreciation of the single currency in the second half of 2004, is apparently not yet reflected in the regional and sectoral breakdowns available to date. Experience has shown that a certain delayed reaction is to be expected. While ex-

## Trend in foreign trade by region and by category of goods

Average of April and May 2005 compared with the average of January to March 2005; %; seasonally adjusted

| Item | Exports | Imports |
|---|---|---|
| Total | + 1.6 | + 4.6 |
| **Selected country/group of countries** | | |
| Euro-area countries | + 2.0 | + 2.4 |
| Other EU countries | + 4.9 | + 12.1 |
| United States of America | − 0.9 | + 5.1 |
| Japan | − 6.5 | + 0.7 |
| China | − 4.8 | + 4.3 |
| Russian Federation | + 0.1 | + 4.1 |
| OPEC countries | − 2.0 | + 13.1 |
| Emerging markets in South-East Asia | − 7.8 | + 6.1 |
| **Categories of goods** | | |
| Selected main categories | | |
| Intermediate goods | + 1.0 | + 3.2 |
| Capital goods | + 0.1 | + 3.9 |
| Consumer goods | + 2.5 | + 5.1 |
| Energy | . | + 12.9 |
| Selected categories | | |
| Chemicals | − 1.2 | + 2.0 |
| Machinery | − 1.2 | + 3.0 |
| Motor vehicles and motor vehicle parts | + 3.5 | + 3.3 |
| Information technology | − 3.3 | + 4.2 |
| Metals and metal products | + 3.5 | + 5.6 |

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ports to the Russian Federation stagnated and those to the United States fell only slightly (-1%), exports to South-East Asia declined by a seasonally adjusted 8%. The demand for German goods in Japan and China also dropped perceptibly (-6½% and -5% respectively).

In the period under review, the overall rise in export turnover was supported mainly by the consumer goods segment, which grew at an above-average rate of 2½%. By contrast, intermediate goods recorded only moderate growth of 1%, while exports of capital goods stagnated. This is consistent with the somewhat surprising evidence of declining exports to several particularly fast growing regions. Thus, exports of machinery were just over 1% lower in seasonally adjusted terms than at the beginning of the year. Exports of chemicals and chemical products were also slightly down in the period under review (-1%). Exports of information and communication technology (ICT) products fell markedly (-3½%), although price reductions also played a role in this area. By contrast, the area of motor vehicles and motor vehicle parts recorded strong growth of 3½%. The increase in exports to China and the USA is noteworthy following weak developments at the beginning of the year.

*Imports of goods*

Following a subdued first quarter, German imports of goods increased sharply by a seasonally adjusted 3½% in the April to June period. The growth in imported goods was also remarkably high in real terms. The rise in import prices of just under 1½% can be attributed principally to increases in the prices of goods from non-euro-area countries. This was partly as a result of higher energy prices (+11%), although the further weakening of the euro in the second quarter is also likely to have had an impact.

*Breakdown of imports*

In contrast to exports, in the first two months of the second quarter – regional and sectoral breakdowns of statistical information are again not yet available for June – imports showed positive rates of growth not only in all of the key categories of goods but also with regard to Germany's most important trading partners.

Imports of goods from the euro area increased by just under 2½%, which was less than the average growth rate of Germany's total imports in the period under review. By contrast, imports from third countries rose much more steeply, namely by 6%, which is still noteworthy even if price developments (+1%) are taken into account. Germany's demand for goods from the new EU member countries rose most strongly. With an increase of 13½%, imports from these EU states even exceeded the very high, price-related rise in imports from the OPEC countries (13%), which supply Germany mainly with oil. The further increase in the value of imports from the Russian Federation (4%) must also be seen in connection with the price rises in the area of energy and raw materials. In April and May, imports from China were up by just under 4½% on the first quarter in seasonally adjusted terms. ICT products were of particular importance here. There was a somewhat greater demand for goods from the United States (+5%), while imports from Japan were up only slightly on the previous quarter's level (just over ½%).

The sectoral breakdown of imports reveals considerable growth in virtually all categories. Besides the extremely sharp rise in energy imports (+13%) owing to price increases, foreign consumer goods were in particular demand (+5%). Imports of capital goods and intermediate goods also increased strongly at +4% and +3% respectively. In April and May, German enterprises increased their purchases of foreign metal products in particular (+5½%). By contrast, imports of chemicals grew by only 2%.

*Current account*

Owing to the somewhat greater increase in imports than in exports, the seasonally adjusted trade balance in the second quarter of

## Major items of the balance of payments

€ billion

| Item | 2004 Q2 | 2005 Q1 | 2005 Q2 |
|---|---|---|---|
| I Current account | | | |
| 1 Foreign trade [1] | | | |
| Exports (fob) | 184.6 | 185.5 | 196.8 |
| Imports (cif) | 141.8 | 142.3 | 155.2 |
| Balance | + 42.8 | + 43.2 | + 41.6 |
| 2 Services (balance) | – 5.9 | – 6.3 | – 6.3 |
| 3 Income (balance) | – 2.4 | + 1.8 | – 2.4 |
| 4 Current transfers (balance) | – 7.6 | – 7.3 | – 6.5 |
| Balance on current account [2] | + 24.1 | + 27.9 | + 23.1 |
| *Memo item* Balances, seasonally adjusted | | | |
| 1 Foreign trade | + 41.9 | + 41.0 | + 39.6 |
| 2 Services | – 6.0 | – 6.7 | – 6.2 |
| 3 Income | + 0.6 | + 0.3 | + 0.9 |
| 4 Current transfers | – 7.1 | – 8.8 | – 6.0 |
| Current account [2] | + 26.8 | + 22.0 | + 25.1 |
| II Balance of capital transfers [3] | + 0.2 | – 1.5 | + 0.1 |
| III Balance of financial account [4] | – 58.0 | – 24.0 | – 18.1 |
| IV Change in the reserve assets at transaction values (increase: –) [5] | – 0.3 | – 0.2 | + 1.2 |
| V Balance of unclassifiable transactions | + 34.0 | – 2.2 | – 6.3 |

**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 57. — **5** Excluding allocation of SDRs and changes due to value adjustments.

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2005 went down by €1½ billion quarter on quarter to €39½ billion. At the same time, however, the deficit on invisible current transactions fell by €4 billion. This was due primarily to lower deficits on services and current transfers, and somewhat higher net factor income. As a result, in the second quarter, the German current account closed with a surplus of €25 billion compared with one of around €22 billion in the preceding quarter.

## Financial transactions

*Trends in financial transactions*

Cross-border financial transactions were affected by countervailing factors in the second quarter of 2005. Although the interest rate advantage of US financial market investments increased further – against the backdrop of persistent growth differentials and the ongoing gradual tightening of monetary policy by the Federal Reserve – in the period under review, the euro simultaneously weakened further against the US dollar in the second quarter of 2005 following a sharp appreciation at the end of 2004. However, on balance, high levels of capital imports by foreign investors were recorded in both German bond investments and on the German share market. At the same time, domestic investors also increased their exposures on foreign securities markets. In net terms, cross-border portfolio investment in the second quarter led to inflows of €33½ billion following capital outflows of €12 billion in the preceding quarter.

*Foreign investment in German securities*

The inflows with respect to cross-border portfolio transactions were crucially influenced by foreign investors' activities in Germany. All in all, they invested €86½ billion in German interest and dividend-bearing paper in the period under review, a level last reached in the second quarter of 2001. Bonds and notes headed the list of investment items at €58½ billion (following €42 billion in the first quarter). This was the highest level hitherto observed in a quarter. Furthermore, the German stock markets also strongly attracted foreign investors, who added €26½ billion worth of paper to their German equity portfolios. Firstly, German equities – with a price-earnings ratio for the German blue chips contained in the DAX of below 12 points on the basis of expected year-on-year earnings – were valued relatively favourably. Secondly, the profit expectations, particularly of strongly export-oriented enterprises, were no doubt boosted by the depreciation of the euro.

*German investment in foreign securities*

German investors also stepped up their cross-border investment in securities, albeit to a lesser extent than in the first quarter of 2005 (€53 billion net following €67 billion in the period from January to March 2005). German globally active portfolio investors thereby focused their activities – as in the previous three-month period – on purchasing bonds (€44½ billion following €56 billion in the first quarter). The overwhelming majority of these were not foreign currency issues, however, but rather euro-denominated bonds (€40 billion), whose yield advantage over the corresponding Federal bonds increased from 7 basis points at the end of March to 13 basis points at the end of June 2005. German savers acquired €8 billion worth of foreign mutual fund shares and €1½ billion worth of money market paper in the second quarter of 2005. By contrast, German residents sold foreign equities on balance (€1 billion).

*Direct investment*

In contrast to portfolio investment, direct investment in the second quarter of 2005 – as in the first quarter already – was characterised by net capital exports (€9 billion following €10½ billion in the previous quarter). This was due primarily to the activities of German firms (net capital outflow of €12½ billion).

*German direct investment abroad*

This figure was based mainly on loans, which German parent companies granted or repaid to their subsidiaries abroad (€9 billion). In addition, German firms increased their investment capital abroad (€5 billion); Austria, in particular, was one of the favourite investment locations during the period under review.

*Foreign direct investment in Germany*

Foreign firms added €3½ billion net to their direct investment capital in Germany from April to June 2005, after having made virtually no changes to it in the preceding three-month period. Interests in Germany resulting from mergers and acquisitions were the main reason for this increase.

*Credit transactions of non-banks*

In the second quarter, there were higher net capital imports (€9 billion) as a result of the statistically recorded non-securitised credit transactions of non-banks than in the preceding quarter. This development was attributable mainly to the financial operations of enterprises and individuals (capital imports of

## Financial transactions

€ billion, net capital exports: –

| Item | 2004 Q2 | 2005 Q1 | 2005 Q2 |
|---|---|---|---|
| 1 Direct investment | – 7.0 | – 10.6 | – 9.0 |
| German investment abroad | – 2.7 | – 10.5 | – 12.6 |
| Foreign investment in Germany | – 4.3 | – 0.2 | + 3.6 |
| 2 Portfolio investment | – 25.2 | – 11.8 | + 33.3 |
| German investment abroad | – 35.0 | – 66.9 | – 53.2 |
| Shares | + 0.9 | + 0.8 | + 1.0 |
| Mutual fund shares | – 2.6 | – 14.5 | – 8.0 |
| Bonds and notes | – 29.0 | – 56.0 | – 44.7 |
| Money market paper | – 4.4 | + 2.8 | – 1.5 |
| Foreign investment in Germany | + 9.8 | + 55.1 | + 86.5 |
| Shares | – 11.5 | + 3.5 | + 26.4 |
| Mutual fund shares | – 1.0 | + 0.1 | + 0.8 |
| Bonds and notes | + 24.6 | + 41.9 | + 58.6 |
| Money market paper | – 2.3 | + 9.5 | + 0.7 |
| 3 Financial derivatives 1 | + 0.8 | – 3.4 | – 0.5 |
| 4 Credit transactions | – 25.8 | + 3.1 | – 40.8 |
| Monetary financial institutions 2 | – 67.2 | + 6.9 | – 64.7 |
| Long-term | + 4.1 | – 13.3 | – 16.5 |
| Short-term | – 71.3 | + 20.2 | – 48.3 |
| Enterprises and individuals | + 7.3 | – 11.0 | + 9.7 |
| Long-term | + 0.0 | + 2.2 | – 2.5 |
| Short-term | + 7.3 | – 13.3 | + 12.2 |
| General government | + 2.7 | + 13.8 | – 0.5 |
| Long-term | + 1.5 | + 5.2 | + 0.7 |
| Short-term | + 1.2 | + 8.6 | – 1.3 |
| Bundesbank | + 31.4 | – 6.6 | + 14.8 |
| 5 Other investment | – 0.8 | – 1.3 | – 1.0 |
| 6 Balance of all statistically recorded capital flows | – 58.0 | – 24.0 | – 18.1 |
| *Memo item* Change in the reserve assets at transaction values (increase: –) 3 | – 0.3 | – 0.2 | + 1.2 |

**1** Securitised and non-securitised options and financial futures contracts. — **2** Excluding the Bundesbank. — **3** Excluding allocation of SDRs and changes due to value adjustments.

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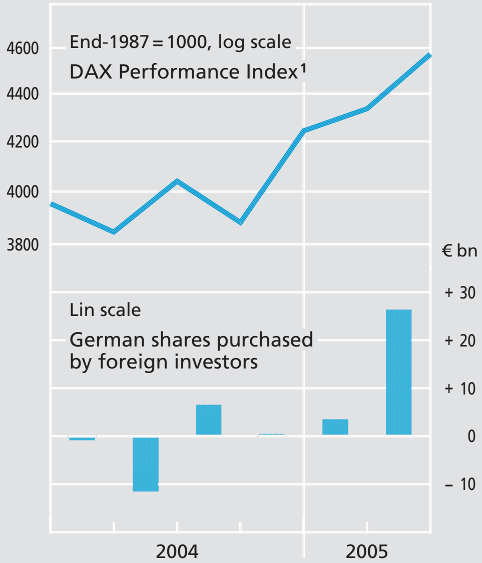
German share market and share purchases by foreign investors

Quarterly




1 End-of-quarter data. Source: Deutsche Börse AG.

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€9½ billion), while general government exported small volumes of funds.

*Credit transactions of the banking system*

By contrast, outflows of funds were recorded in the non-securitised credit transactions of the banking system in the second quarter of 2005 (€50 billion). As a result, credit institutions' net foreign claims increased by €64½ billion, while the Bundesbank recorded a reduction in claims – primarily in the large-value payment system TARGET – in the amount of €15 billion.

*The Bundesbank's reserve assets*

The Bundesbank's reserve assets, which are shown separately from financial transactions in the balance of payments, declined by €1 billion – at transaction values – from the end of March to the end of June. However, when valued at market prices, they rose by €6 billion up to the end of the quarter under review. They therefore amounted to €78½ billion at the end of June 2005. The appreciation of the US dollar and the rise in the price of gold both played a part in this development.