Germany's balance of payments in 2011

Germany's current account surplus in 2011 fell slightly compared with 2010 to €148 billion, or 5¾% of GDP. Although exports once again grew faster than imports in real terms, there was barely any change in the trade surplus owing to a pronounced deterioration in the terms of trade. A sharp rise in import prices, in conjunction with a continued moderate increase in export prices, led to a considerable outflow of income to the rest of the world. In addition, global trade did not grow as dynamically in 2011 as it had done in 2010. This impacted especially on German firms' business with Asia. However, German exports to Asia again expanded faster than exports to the euro area, whereas imports from south and east Asia did not show any noticeable rise after recording strong growth in 2010. Over the year as a whole, the German economy's imports from European countries continued to expand robustly. Germany's current account surplus vis-à-vis the other euro-area countries consequently continued to contract perceptibly. It has fallen by nearly half from its peak in 2007.

The current account surplus was mirrored in the balance of payments by net capital exports in the amount of €162 billion. The large inflow of central bank money from non-residents again considerably swelled the Bundesbank's claims within the TARGET2 payment system. This reflects both the continued tension in the EMU financial markets and the balance of payments disequilibria within the euro area. Net capital exports were additionally boosted by foreign direct investment – which is generally dependent on longer-term, strategic planning – and financial derivatives transactions. By contrast, portfolio investment saw net inflows of funds – unlike in 2009 and 2010. This mainly reflects the "flight to quality" observed in the wake of the intensifying sovereign debt crisis, which has particularly benefited German securities.

Current account

Underlying trends

Current account surplus in 2011 slightly down on 2010

In 2011, the current account surplus was down somewhat on the year by €3 billion. The German economy recorded net inflows of just under €148 billion, equivalent to 5¾% of GDP, in the year under review from cross-border trade in goods and services as well as from factor income and transfers. This was slightly below the 2010 figure (6%). Germany's current account surplus thus continued its gradual contractionary trend from its most recent peak immediately prior to the onset of the financial and economic crisis.

Trade surplus affected by divergent price and volume effects

In spite of the robust economic recovery, there was no substantial improvement in the trade balance. During 2011, exports once again grew more vigorously than imports in real terms. At the same time, however, there was a pronounced deterioration in the terms of trade. With regard to trade in goods, this dented income by almost €32 billion. The enormous magnitude of this price-related effect is illustrated by the fact that it matches the recently observed annual deficit from cross-border travel. There was also little movement in the balances of the sub-accounts for services, factor income and current transfers compared with 2010.

Further fall in surplus vis-à-vis euro area

As in the previous two years, Germany's current account surplus vis-à-vis the rest of the euro area declined substantially in 2011. At almost €57 billion, it was barely more than half of the peak value recorded in 2007. This was mainly due to the fact that euro-area partner countries continued to benefit from the German economy's strong import demand. By contrast, domestic enterprises were at a comparative disadvantage in seeking to expand their exports to many parts of the euro area owing to the sluggish economic recovery in these countries (for details of the longer-term development of the German current account vis-à-vis the euro-area partner countries, see the box on pages 18 to 20).

Goods flows and balance of trade

Smaller rise in goods surplus

In 2011, the German economy failed to match the surge in foreign trade recorded in 2010, when exports and imports each expanded by almost one-fifth. Even so, the value of Germany's goods exports rose significantly by 11½% compared with 2010, while the concurrent nominal increase in imports marginally outpaced this figure to reach 13½%. That said, more than half of the increase in the latter was probably price-related, whereas just one-third of the increase in the value of exports was attributable to price effects. In spite of the faster pace of growth in the value of imports, the trade surplus went up by just over €3 billion to €158 billion during the reporting period since, in terms of amount, revenue from the export of goods greatly exceeded overall expenditure on imported products. However, that still left the traded surplus well below the average figure recorded between 2006 and 2008 (+€177½ billion).

Global economic slowdown to blame

The growth pattern of cross-border trade in goods, for both exports and imports, was largely determined by global economic developments, which lost a great deal of momentum during the second half of 2011. The volume of global trade was perceptibly throttled by the weaker macroeconomic dynamics resulting from the sharp tightening of monetary policy in emerging market economies (EMEs) and the squeeze on the real economy caused by heightened uncertainty arising from the sovereign debt crisis in the euro area. In the second half of 2011, growth in the value of goods exports slowed to 2½% in seasonally adjusted terms, compared with the first half of the year when it was more than twice that figure (5¾%). The slowdown in imported goods between the first and second half of the year was even more pronounced, falling from 8¼%

to 1½%. In real terms, imports are in fact likely to have shrunk slightly of late.

Intermediate and capital goods hit by downturn

The slowdown in global economic growth affected exporters of intermediate and capital goods in equal measure. While both product ranges continued to report good results in 2011, with sales up by around one-eighth, this fell well short of the exceptional surge by one-fifth seen in each case in 2010. By contrast, the aggregate value of exported consumer goods rose by around one-tenth, which was slightly up on 2010. On the import side, the growth of intermediate goods dipped much more than that of capital goods. Following a very sharp jump of around one-third in 2010, the increase in the total value of imported raw materials as well as inputs and intermediate goods fell by half in 2011. But this was still higher than the increase posted by capital goods imports, the value of which rose by just over one-tenth as against one-sixth one year earlier. In real terms, the reverse is likely to have been the case, given the considerable increases in the prices of intermediate goods. The gradual expansion of private consumption in Germany was mirrored by the fact that foreign manufacturers of consumer goods improved their prior-year performance by raising their sales to the German market by one-eighth.

Big drop in exports to Asia

The regional breakdown of foreign trade starkly reflects the fact that the economic slowdown in Asia, which had hitherto been the principal global growth driver, was a key factor in the sharp deceleration of German firms' foreign business during 2011. Thus goods exports to China, the newly industrialised Asian economies and south and east Asian emerging market economies expanded at less than half the

German foreign trade within the international economic and price setting

Quarterly, seasonally adjusted

1 Source: CPB Netherlands Bureau for Economic Policy Analysis. **2** Based on the deflators of total sales. Deviation from long-term average (positive = better).

Deutsche Bundesbank

The pronounced rise and fall in Germany's current account surplus vis-à-vis its euro-area partner countries between 1999 and 2011

The current account balance is one of the indicators in the EU's macroeconomic surveillance procedure that was introduced last year in order to identify the build-up of imbalances within and between the European economies at an early stage.[1] A high surplus or deficit position vis-à-vis the euro-area partner countries has major economic policy implications, as the exchange rate is no longer available as an adjustment instrument. It is worth mentioning in this context that the German economy's current account surplus vis-à-vis the rest of the euro area has decreased considerably from a peak of almost €108 billion in 2007 to just under €57 billion in 2011.[2] Thus after growing for some years from an almost balanced position in 1999, the current account surplus has fallen by almost half since the beginning of the financial and economic crisis.

During the build-up of the surplus from 1999 to 2007, Germany's current account balance vis-à-vis the rest of the euro area increased on average by €12½ billion per year. Three-quarters of this came from growth in net income from cross-border merchandise trade. The only other quantitatively significant item was the improvement in German investment income from euro-area countries relative to the expenditure on euro-area countries' investments in Germany. It is notable that the average annual reduction in the current account surplus since 2008 has not only been of the same magnitude but has also entailed virtually no shift in the relative contributions of the trade and investment income sub-accounts.[3]

As regards merchandise trade, the accumulation of the German current account surplus between 1999 and 2007 can be explained by the fact that economic growth varied across the euro-area countries in terms of pace and profile. Given the dull momentum of Germany's domestic economic activity at the time, domestic enterprises focused on international markets. The rest of the euro area, like many other regions, often promised better sales opportunities. Conversely, the German market was rather unattractive for foreign companies. The annual increase in the surplus generated from cross-border merchandise trade would even have been around a fifth higher if import prices had not risen twice as fast as export prices on average.

Furthermore, the period under review coincided with a drive by German companies to raise their profitability to the level demanded by international investors. They achieved this *inter alia* by shifting production to other European countries through direct investment and the acquisition of equity stakes. Up until 2003, however, the German economy's investments in the euro area did not yield, on average, as much profit as foreign investment in Germany. One significant factor in the build-up of the current account surplus was that the deficit on the investment income sub-account was narrowed continuously from 2004 – amid

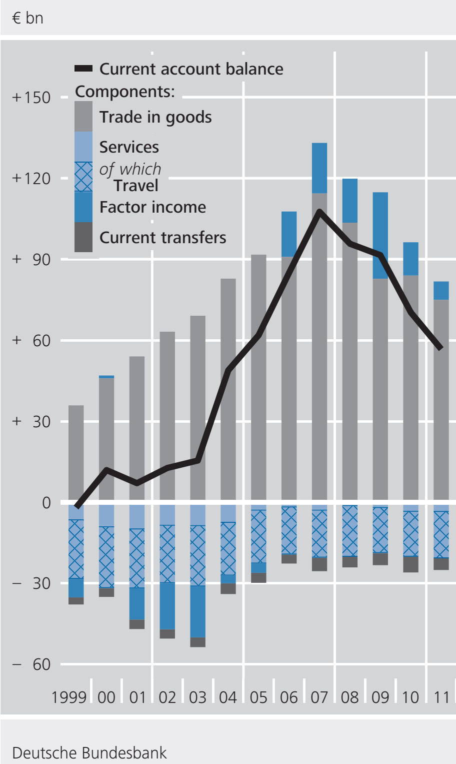
1 See also Deutsche Bundesbank, Germany's external position against the background of increasing economic policy surveillance, Monthly Report, October 2011, pp 41-59.
2 This analysis is based uniformly on figures for the euro area as currently defined, ie the euro area (17).
3 The multi-year average reveals the underlying trends in the sub-accounts and their structural impact on the evolution of the overall current account balance. However, this average conceals the fact that the contribution of net investment income not only fluctuated considerably from one year to the next, but also changed signs. To a lesser degree, this was also true of the other components of invisibles, whereas the balance on trade in goods was fairly steady.

only small changes in Germany's net external asset position – and turned into a surplus in 2006-7.

The fall in the surplus since 2008 not only extends over a very pronounced business cycle, but also includes the point in time at which the German economy became the growth locomotive for the entire euro area. The end of the last upturn in the first quarter of 2008 triggered a marked correction in the trade balance. Up until mid-2009, the German economy's trade surplus vis-à-vis the rest of the euro area declined by around one-third. In addition to the slump in world trade following the Lehman shock, which hit Germany harder than the other euro-area countries, this owed something to the stimulus measures implemented in order to stabilise the level of economic activity, which also provided a knock-on boost to partner countries through German domestic demand.[4] The temporary substantial improvement in the terms of trade during the recession lessened the contraction in the trade surplus that would have resulted *per se* from the changes in trade volumes by three-tenths in 2009.

When global trade rebounded sharply from mid-2009 onwards, German firms' merchandise trade with customers from euro-area countries likewise picked up. Part of the recession-induced fall in the trade account surplus with partner countries was quickly recouped. Thereafter, a dampening effect on the trade balance resulted from the fact that the German economy recovered significantly faster than the rest of the euro area. The imports of intermediate goods from other European countries were boosted because many suppliers located there participated in German exporters' strong sales performance, in particular in the rapidly expanding Asian markets. Another factor was that German demand for

Current account balance vis-à-vis other euro-area countries



capital goods, including cars (which likewise have a high import content), shot up. By contrast, imported consumer goods and services made a rather small contribution. In total, Germany's growth lead, which averaged an annualised 2¼ percentage points, is likely to have brought the other euro-area countries an estimated additional export volume of some €12 billion per year since the beginning of the recovery in mid-2009.[5] Conversely, the German economy

4 The car scrappage premium, for example, had a perceptible impact, stimulating the import of small and medium sized vehicles in the first half of 2009.
5 The basis of the calculations is a hypothetical alternative scenario in which since mid-2009 the German economy would grow at the same pace as the euro area excluding Germany. Here it is taken into consideration that a flatter GDP path would have changed the demand for intermediate goods as well as the growth profile of domestic GDP use components. With regard to the trade effects, this is quantitatively significant due to the differences in the import content of the demand components. See also Deutsche Bundesbank, The transmission and regional distribution of the German economy's cyclical impulses within Europe, Monthly Report, March 2011, pp 22-23.

failed to match the strong export performance it had achieved in the last upturn in many parts of the euro area owing to the sluggish economic momentum there.

The German economy's external assets invested in the euro area have increased by more than a quarter since 2008, whilst its corresponding liabilities showed only a small increase. In spite of the significant change in investment volume, the substantial decline in the yield on foreign assets again led to a sharp contraction of the investment income surplus.[6] By contrast, the expenditures on liabilities to other euro-area residents remained fairly stable, with the exception of 2009.

Overall, the sharp fluctuations in Germany's current account balance in relation to its euro-area partners can be attributed to the complex interaction of diverse economic processes and mechanisms; these relate not only to cyclical developments and foreign trade but also, via cross-border investment decisions and their associated income streams, to the financial sphere. Although the current account balance is influenced by the structural economic conditions in the medium to long term, it is largely immune to any direct steering through short-run political macro-management.

6 The decline in the yield affected all forms of investment. For example, interest payments on loans fell by almost half in 2007 and 2011. In addition, equity capital invested abroad, which had produced excellent yields between 2006 and 2007, was much less profitable in the past two years.

rate recorded in 2010.[1] In terms of business growth, China lost its leading position for the first time in years. Instead, sales to the Russian market recorded the largest increase in 2011. While exports to Japan and India demonstrated above-average expansion as in 2010, the rise in deliveries to the other south and east Asian industrial countries and EMEs matched the level of growth recorded for exports to euro-area partner countries. Despite weakening slightly, Germany's exports both to central and east European EU countries, which had been gaining in importance as sales markets over many years, and to its traditional EU trading partners in northern and western Europe as well as Switzerland, maintained their high pace of growth. There was also an above-average hike in exports to the United States. This owed something to resurgent economic activity in these countries and to the fillip provided by the euro's depreciation.

German import demand tilted more towards Europe

Imports from Germany's European trading partners gained somewhat in significance. While imports from EU member states outside the euro area grew faster than the average of all countries during the reporting period, imports from the euro-area partner countries as a whole were on a par with the mean rate. This was also true of Switzerland, whose exporters evidently accepted a sizeable cut in their profit margins in order to preserve their established trading links. By contrast, deliveries of goods from overseas countries recorded much smaller rates of expansion. Thus the year-on-year rise in imports from the United States was less than half the 2010 rate. The volume of goods im-

1 With respect to Germany's trade ties to south and east Asia, we consider two groups of countries in addition to China and Japan. The first of these groups comprises the newly industrialised economies in Asia (Hong Kong, Singapore, South Korea, Taiwan) while the other consists of the south and east Asian EMEs. This is very close to the IMF classification of countries in this region. The only difference is that in the IMF definition India, along with the ASEAN5 countries (Indonesia, Malaysia, Philippines, Thailand and Vietnam) form a separate group.

ported from Asia in 2011 was only moderately higher than in 2010. The dynamic trend in the influx of goods from China and the newly industrialised economies in Asia, which had far exceeded the natural rebound from the crisis-induced declines, came to an abrupt halt in 2011. Import dynamics for the south and east Asian EMEs also weakened, though not as dramatically. Japan's exports to Germany in 2011 likewise rose by a much narrower margin than in 2010, presumably in part on account of the considerable output losses sustained by local enterprises in the wake of the natural disasters which occurred there in March last year.

Breakdown of invisibles

Services deficit barely reduced

The expansionary trend in cross-border services lost some momentum in 2011. Revenue expanded by 3½% in 2011 – which was less than half the rate seen in 2010 – while growth in expenditure stood at 4¾% and was thus only marginally below the previous year's figure. As was the case with trade in goods, this was largely attributable to the downturn in global economic activity, which had a dampening effect on the exchange of business-related services. By contrast, the already high level of activity in cross-border financial and insurance services was surpassed once again last year, while the travel sub-account is gradually recovering from the drop it incurred because of the financial and economic crisis. In all, services showed a net deficit of €6½ billion in 2011 compared with €4¼ billion one year earlier. This brought to a close a ten-year period during which there was a progressive narrowing of this deficit, which in 2001 had been as high as €50 billion.

Minor shifts in industry-related services

During 2011, revenue from and expenditure on the international transportation of goods remained at the previous year's levels after recovering rapidly from the crisis-induced slump in 2010. This reflects the fact that industrial activity, which sets the pace for a multitude of business-related services, failed to maintain the

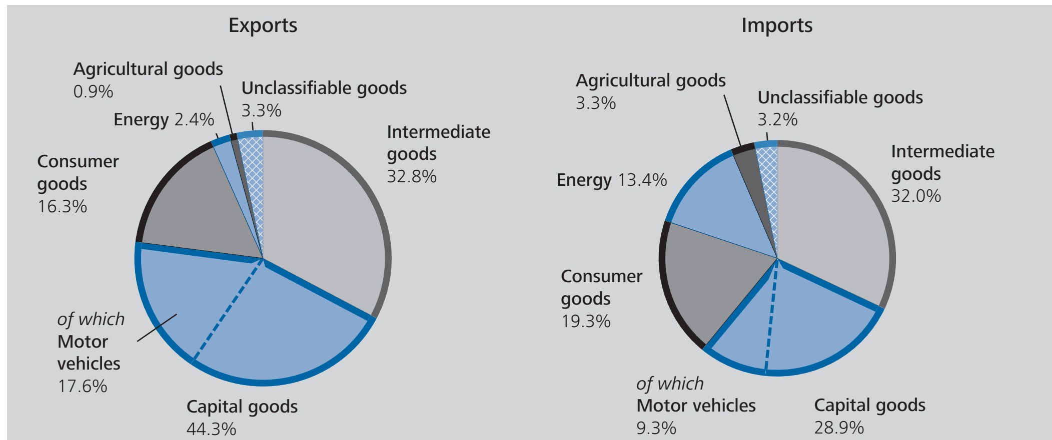
Foreign trade by region

%

Country/ group of countries	Percentage share	Annual percentage change		
	2011	2009	2010	2011
Exports				
Euro area (17)	39.7	– 18.4	12.9	8.4
Other EU countries	19.5	– 22.1	16.5	13.0
of which				
United Kingdom	6.2	– 17.0	10.2	11.4
Central and east European EU countries (7)[1]	9.9	– 25.6	20.3	15.2
Switzerland	4.5	– 9.0	17.3	14.5
Russia	3.2	– 36.2	27.8	30.5
USA	7.0	– 23.9	20.6	12.4
Japan	1.4	– 14.6	20.9	15.0
Newly industrialised economies in Asia[2]	2.9	– 10.7	33.4	8.6
China	6.1	9.4	44.3	20.4
South and east Asian emerging market economies[3]	2.2	– 7.8	24.0	12.5
OPEC	2.4	– 12.6	13.7	– 2.2
All countries	100.0	– 18.4	18.5	11.4
Imports				
Euro area (17)	37.7	– 18.0	16.0	13.4
Other EU countries	18.6	– 16.4	18.6	16.3
of which				
United Kingdom	5.0	– 22.1	16.9	18.4
Central and east European EU countries (7)[1]	10.7	– 12.6	21.2	16.4
Switzerland	4.1	– 10.2	15.7	13.4
Russia	4.5	– 32.1	26.4	27.4
USA	5.4	– 15.5	15.2	6.7
Japan	2.6	– 18.1	18.6	4.8
Newly industrialised economies in Asia[2]	2.5	– 16.4	41.3	– 5.9
China	8.8	– 6.8	36.3	2.5
South and east Asian emerging market economies[3]	3.1	– 8.6	31.9	12.8
OPEC	1.4	– 42.0	19.4	33.2
All countries	100.0	– 17.5	19.9	13.2

1 Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania. 2 Hong Kong, Singapore, South Korea, Taiwan. 3 India, Indonesia, Malaysia, Philippines, Thailand, Vietnam.
Deutsche Bundesbank

Foreign trade by selected categories of goods in 2011



Deviations from 100% due to rounding.
Deutsche Bundesbank

same degree of momentum in 2011 as it had provided in 2010. The net impact of cross-border freight and forwarding activities on the services account was insignificant owing to largely equal inward and outward payment flows. However, this did not apply to the balance of transit revenue, which expanded by €2½ billion in the course of 2011, following an increase of €3¼ billion one year previously. Transit revenue is the net revenue from the trading activities of German enterprises whose goods were not transferred across the boundaries of German customs territory.

New trends in foreign activities of German construction firms …

The sizeable increase in domestic construction demand prompted German building firms to concentrate their production capacity more on Germany. Over the last three years, German construction companies' revenues from building, assembly, repairs and drilling activities abroad consequently fell to €8¾ billion after climbing to €10¾ billion in the period up to 2008. This was concurrently mirrored by the evolution of expenditure on related services provided by foreign firms, although, at €1 billion, the amount concerned was negligible, confirming that the presence of foreign construction firms in Germany remains very small. Such companies evidently lack a network of resident suppliers and subcontractors, which are a key factor when implementing building projects.[2]

… as well as in cross-border banking

The most conspicuous aspect of the year-on-year change in cross-border financial services was the leap in revenues (+10¼%) but more especially in expenditure (+27%). Another striking factor was the €3¾ billion surplus in international financial operations in 2011, which came close to matching the high level recorded in each of the previous three years. Since the onset of the financial crisis, bank commission income has, on balance, been responsible for contributing an average of €4 billion each year to the current account surplus, as opposed to just €1½ billion on average between 1999 and 2007.

Travel expenditure still well below its pre-crisis level ….

German residents' propensity to travel abroad, which in 2010 had been very subdued overall as a result of the financial and economic crisis, increased discernibly in the year under review

2 In the services sub-account, revenues of German firms from construction work abroad are also matched against expenditure on goods and services provided by local subcontractors as a separate category. Between 2008 and 2011, this declined by a similar margin from €7 billion to €4¾ billion, so that the net receipts of German construction firms remained largely unchanged. Conversely, expenditure on services provided by foreign construction firms in Germany is netted with the revenues of German suppliers and subcontractors, but the amounts involved are very small.

(+2¾%). However, the increase in expenditure on business travel, at 1¾%, was below average, after going up by over one-tenth in 2010. Expenditure on leisure travel went up by around 3% in 2011. Given that 2010 saw no improvement on the 5% decline recorded in 2009, this result should be seen as a clear sign of a swing in favour of travel to foreign destinations.[3]

…. but with regional divergences

Most travel destinations benefited from the higher sums being spent by German tourists, although in individual cases political events and sharp exchange rate movements led to marked swings. The level of expenditure by German holidaymakers vacationing in north Africa, for example, decreased by more than one-quarter, with Egypt being the hardest hit destination in this geographical area. In the EU Mediterranean countries (excluding France but including Portugal), German tourists parted with 6% more money than in 2010. Nevertheless, spending was well below its pre-crisis level. Greece led this group of countries, posting a year-on-year revenue rise of more than one-fifth. However, it should be borne in mind that spending by German tourists in Greece has dropped considerably ever since that country joined EMU. Expenditure on trips to south-eastern European holiday destinations such as Croatia, Bulgaria and Turkey has already returned to a very high level. The 9% decline in German residents' travel expenditure in Switzerland in 2011 was probably largely due to the strong appreciation of the Swiss franc, which caused the number of foreign visitors to wane. Austrian travel destinations are likely to have benefited from this (+4¾%). Long-distance holidays to America and Asia likewise proved more popular in 2011 than one year before.

Marked rise in travel receipts

Turnover of domestic hotels and restaurants generated with non-residents, which, owing to the larger share of business travellers, is generally more elastic to cyclical effects than is the level of travel expenditure by Germans abroad, grew by 6¾% during the reporting period and thereby slightly surpassed the increase recorded in 2010. This result exceeded the previous peak observed in 2008. Overall, the deficit in foreign travel remained unchanged in 2011, standing at just under €33 billion.

Sharp rise in investment income flows

Cross-border factor income flows rose sharply on the back of sizeable increases in both inward and outward transfers of investment income. In the course of 2011, income from German residents' external assets increased noticeably for the first time in three years (+8¾%). This growth was due to a surge in revenues from direct investment and cross-border lending. More information on the income from and valuation effects of foreign direct investment can be found in the box on pages 24 to 26. By contrast, there was no increase in the level of income from portfolio investment. The corresponding payments by domestic agents to foreign investors went up by 13½% and thus even more sharply than incoming payment flows and was broadly based across all categories of investment. As a result of Germany's high level of net external assets, the balance of investment income has recorded a surplus for many years now, though – at not quite €47 billion during the period under review – the total was around €1¾ billion smaller than in 2010. By contrast, there was little change in cross-border labour income, which plays a minor role compared with investment income transfers.

Smaller deficit from current transfers

In 2011, current transfers to the rest of the world stood at around €53½ billion and were thus slightly down on their level in 2010, when they had climbed by one-tenth. The value of corresponding transfers from the rest of the world to resident recipients rose by one-sixth to €20 billion, having remained virtually unchanged one year earlier. This growth was predominantly attributable to higher income from net tax transfers, which exceeded the pre-crisis level. As a result, the overall deficit from current transfers declined in 2011 by €4¾ billion to

3 At the same time, Germany, too, has benefited from the trend toward holidaying "at home" that has prevailed since the middle of the last decade, as is attested by the accommodation statistics. Following a 2% rise in 2010, the number of overnight stays went up by 3¼% in 2011.

Income from and valuation effects of direct investment

National statistics on external transactions and positions are assuming growing importance within the EU. The current account balance and the net external position are included as scoreboard indicators in the recently adopted macroeconomic surveillance procedures.[1] The more exacting demands that this places on the analysis of the determinants and the quality of the statistics are illustrated below by examining the rates of return on direct investment. Direct investment has been playing an increasingly important role in the wake of globalisation, and the task of measuring it is highly complex.

Measurement concept and statistical basis

To calculate the rates of return on direct investment, the return generated is compared with the corresponding stocks in the preceding period. Following the methodological breakdown of the international investment position and the balance of payments, the overall return can be split up into a cash flow yield on capital invested (investment income) and a price-related yield (valuation effect). The price-related return contains a market price component that incorporates the effect of changes in equity and bond prices. In addition, an exchange rate effect applies to assets and liabilities denominated in foreign currency. The rates of return calculated in this way provide indicators for explaining current account balances and the dynamics of net external positions. At the same time, they enable conclusions to be drawn regarding the consistency of external statistics.

Cash flow returns on direct investment[2] are broken down further into earnings from equity capital and interest on direct investment loans. Whereas the income from equity capital is made up of distributed and reinvested earnings, interest income can be subdivided into interest on normal loans and interest on reverse loans. Normal direct investment loans comprise the provision of financial resources to the direct investment enterprise by the investor. In the case of reverse direct investment loans, lending occurs in the opposite direction – usually by the parent company borrowing from financial subsidiaries set up specially for this purpose. The rates of return on direct investment – broken down into their various components – are calculated separately for outward and inward investment (gross method). This facilitates comparisons of the respective rates of return (cash flow return and price-related return) on German direct investment abroad and foreign direct investment in Germany.

Empirical results for the rates of return on direct investment

During the observation period from 2000 to 2010,[3] German direct investors generated an average cash flow return of 5½% on their foreign shareholdings. The dividend yield fluctuated within a narrow band and – given a relatively constant distribution

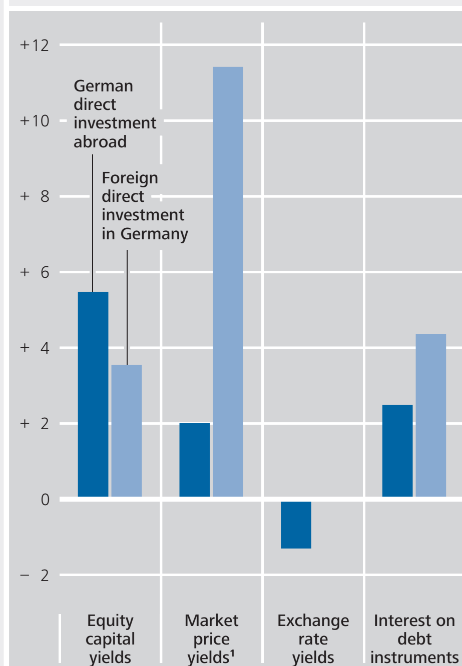
1 See Deutsche Bundesbank, Germany's external position against the background of increasing economic policy surveillance, Monthly Report, October 2011, pp 41-49.
2 For definitions of the statistical concepts of direct investment, including the associated returns, see OECD (2008), Benchmark Definition of Foreign Direct Investment, 4th edition; and the footnote methodological notes in Deutsche Bundesbank, Direct investment according to the balance of payment statistics, April 2011
3 The data correspond to the figures in Deutsche Bundesbank, Balance of payment statistics, Statistical Supplement 3 to the Monthly Report, February 2012.

volume – corresponded to a mean distribution ratio of around 80%. Consequently, the reinvestment yield showed much greater fluctuation, with the consistently high dividend payouts even temporarily impairing the equity positions when profitability deteriorated.

Foreign direct investment in Germany has generated an average cash flow return on equity of 3½% since the year 2000. At times, the dividend payouts actually exceeded earnings, which – amid a generally volatile pattern – resulted in a slightly negative mean reinvestment yield. Particularly in the recession years of 2001-02 and 2008, uncovered losses were incurred in the aggregate, which represents a means of equity capital disinvestment. A sectoral analysis shows that particularly monetary financial institutions made use of this kind of dividend policy in 2008 owing to their high liquidity requirements and growing risk aversion.

Income from and valuation effects of foreign direct investment

Average yield from 2000 to 2010 in %



1 Since 2006.
Deutsche Bundesbank

The market price effect on the equity holdings of foreign direct investors in German listed companies had a value-enhancing impact since the first survey year 2006, with the exception of 2008. This essentially reflects the performance of the DAX in the period concerned. By contrast, German shareholdings abroad recorded a poorer valuation effect on the whole. The more favourable development of the DAX by international comparison therefore had *per se* a dampening effect on the value of the German net external position.

The exchange rate component of the price-related return on German direct investment equity capital was largely influenced by the change in parity of the euro against the US dollar and the pound sterling, as German direct investment equity holdings outside the euro area are concentrated on the United States and the United Kingdom. Accordingly, an overall negative exchange rate effect was observed during phases when the euro appreciated against the US dollar and the pound sterling (2002 to 2004, 2006 to 2008), whereas a positive exchange rate effect was recorded during periods when the euro depreciated against those currencies (2005, 2010; to a lesser extent also 2001 and 2009). Exchange rate movements had some very marked valuation effects from year to year, ranging from -7% of German direct investment equity capital in 2002 to +9¼% in 2005. In line with the comparatively high degree of globalisation of German banks through their foreign subsidiaries in the major financial centres of New York and London, this generally affected monetary financial institutions somewhat more than non-bank corporations.

For the interest accruing on German debt instrument claims on affiliated enterprises abroad, the analysis of the annual data since 2000 shows an average unweighted rate of 2½%. The implied interest rate varied at a low level between 1% and 4½%. Over the past ten years, German enterprises paid an average interest rate of 4¼% on foreign loans granted to them as part of the direct investment relationship. The interest rate fluctuated within a band of 3½% and 5¾%. It is striking that German debtors continuously paid a significantly higher interest rate on intra-group loans than foreign debtors did to German intra-group creditors.[4]

The interest rate on normal loans in the direct investment relationship stood at an average of around 2½% in the observation period and indicated no significant differences between German and foreign direct investment. A clearer spread of interest rates was observed with regard to reverse direct investment loans. Since 2002, an average interest rate of less than 2% has been received by German subsidiaries for loans granted to their foreign owners. By contrast, German direct investors paid an average interest rate of 6½% on reverse debt instrument liabilities to their foreign investment enterprises. In recent years, this interest rate on reverse loans for German direct investors has continuously been above 5% and up to 8¼%. The main reason for this was the relationship between German group headquarters and their foreign financial subsidiaries, the majority of which are resident in euro-area countries with special taxation rules[5]. Between 2000 and 2010, three-quarters of all German interest payments on reverse direct investment loans was paid to such special-purpose entities. For example, the implied interest rate on German direct investors' reverse debt instrument liabilities to their (mostly dedicated financing) subsidiaries in the Netherlands stood at 9¾% in 2010.

The preceding analysis highlights the heterogeneous development in the profitability of the different direct investment components. In conceptual terms, valuation effects and the associated risk of capital losses, which stem from the German economy's high degree of international financial interconnectedness, play an important role. The influence of phenomena which also reflect direct investors' financing behaviour is particularly significant. It can thus be observed that German direct investment equity holdings abroad generate a higher cash flow return than foreign direct investment in Germany, while foreign direct investors prefer significantly higher distribution ratios. By contrast, lower interest rates are paid on German debt instrument claims in direct investment relationships than is the case for their equivalent liabilities. This interest rate spread – which is potentially relevant for intensified economic and fiscal policy coordination – is particularly striking with regard to German direct investors' indebtedness to their special financial subsidiaries in individual countries of the euro area.

4 For this calculation, the normal and reverse stocks of cross-border claims (liabilities) of domestic affiliated enterprises were taken together (asset-liability principle). The interest rates discussed are the unweighted averages calculated from interest rates on normal and reverse loans.
5 On the tax reasons for group financing through financial subsidiaries in individual countries of the euro area, see: Deutsche Bundesbank, German enterprises' profitability and financing in 2007, Monthly Report, January 2009, pp 31-41. Regarding the concept of intra-group loans as a means of minimising global tax payments (transfer pricing) in multinational enterprises, see: OECD (2007), Tax Effects on Foreign Direct Investment; and OECD (2010), Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

€33½ billion, having risen by roughly the same amount in 2010. General government accounted for about three-fifths of this deficit, mainly on account of net transfers to the EU budget, which fell marginally in the year under review.

Financial transactions

Financial transactions

The current account surplus was mirrored by net capital exports in the amount of €162 billion. This was primarily due to a large inflow of central bank money from abroad which swelled the Bundesbank's claims (capital export) within the TARGET2 payment system. This reflects both the continued tension in the financial markets and the balance of payments disequilibria within the euro area. Direct investment (€10 billion) and financial derivatives transactions (€28½ billion) also contributed to the outflows of funds. By contrast, portfolio investment saw net capital imports (€37 billion) – unlike in 2009 and 2010.

Determinants of financial transactions

The sovereign debt crisis in some euro-area countries and market players' expectations regarding the economic outlook of various economies were major determinants of the financial flows. From mid-year onwards, in particular, there was growing apprehension that the dynamics of the global upturn might slacken considerably. Hence, market participants' attention turned to the budgetary situation of a number of highly indebted EMU countries whose economic outlook looked especially gloomy and whose fiscal soundness was perceived as fragile. Against this backdrop, rating agencies downgraded a large number of public and private debtors. This exerted pressure on bond prices, even those issued by borrowers in euro-area core countries, which pushed down stock market prices significantly, especially those of financial enterprises. This was accompanied by a flight to high-quality assets, which caused Bund yields to plunge to a record low. Not until the end of 2011 did the situation begin to stabilise to a degree, partly thanks to the summit

Major items of the balance of payments

€ billion

Item	2009 r	2010 r	2011 r
I Current account			
1 Foreign trade 1			
Exports (fob)	803.3	952.0	1,060.0
Imports (cif)	664.6	797.1	901.9
Balance	+ 138.7	+ 154.9	+ 158.1
Supplementary trade items 2	– 15.1	– 11.6	– 18.9
2 Services (balance)	– 8.0	– 4.3	– 6.5
of which Travel (balance)	– 33.3	– 32.8	– 32.7
3 Income (balance)	+ 58.1	+ 49.9	+ 48.4
of which Investment income (balance)	+ 57.4	+ 48.5	+ 46.8
4 Current transfers (balance)	– 33.2	– 38.2	– 33.5
Balance on current account	+ 140.6	+ 150.7	+ 147.7
II Balance of capital transfers 3	+ 0.0	– 0.6	+ 0.6
III Financial account 4			
1 Direct investment	– 36.9	– 47.2	– 10.0
2 Portfolio investment	– 81.1	– 127.7	+ 37.0
3 Financial derivatives	+ 11.3	– 17.9	– 28.7
4 Other investment 5	– 52.0	+ 47.0	– 157.4
5 Change in the reserve assets at transaction values (increase: –) 6	+ 3.2	– 1.6	– 2.8
Balance on financial account	– 155.4	– 147.4	– 161.9
IV Errors and omissions	+ 14.9	– 2.6	+ 13.6

1 Special trade according to the official foreign trade statistics (source: Federal Statistical Office). **2** Including warehouse transactions for the account of residents and the deduction of goods returned. **3** Including the acquisition/disposal of nonproduced non-financial assets. **4** Net capital exports: –. For details see the table "Financial transactions" on p 29. **5** Includes financial and trade credits, bank deposits and other assets. **6** Excluding allocation of SDRs and excluding changes due to value adjustments.

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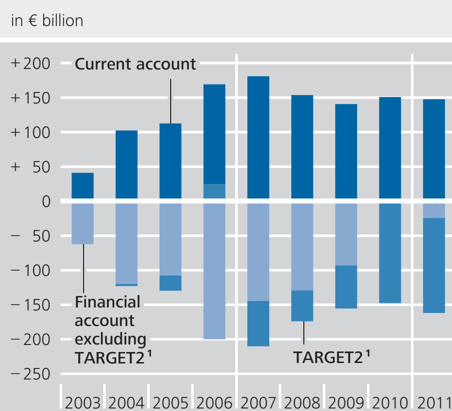
Current account, financial account and TARGET2

Following a post-reunification phase during which Germany recorded current account deficits for a while, the country has continuously posted current account surpluses since 2002. These surpluses rose sharply until the beginning of the financial crisis, reaching a record level of €181 billion in 2007. After the crisis-related fall in 2008, they have since stabilised at around €150 billion. At first the current account surpluses were offset by growth in net capital exports of mostly private sector financial market participants. Since the beginning of the financial crisis, the German private sector's net capital exports[1] have fallen from year to year. One reason for this was German banks' efforts to reduce their balance sheet totals and thus their cross-border assets. Domestic enterprises and individuals have likewise been investing fewer funds abroad. In addition, large safe-haven inflows in portfolio investment were recorded. Overall, in 2011, non-residents' portfolio investment in Germany exceeded that of German residents abroad.

In the peripheral countries, a lack of financial flows from the private sector was made up, for the most part, by wholesale funding from national central banks. Central bank money generated in this way flowed out of these countries via the TARGET2 payment system to others, including Germany. As a result, the Bundesbank's TARGET2 claims on the European Central Bank have risen considerably and, at the end of 2011, amounted to approximately €463 billion. An increase in the Bundesbank's TARGET2 claims is recorded as a capital export in the German balance of payments. During the crisis, this form of capital export via TARGET2 has been increasingly "replacing" private sector net capital exports (see chart above).

German current account and financial account

in € billion



1 Net capital exports: –.
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However, the underlying cause of the change in financial flows is not rooted in the payment system itself but rather in the enlarged provision of liquidity during the crisis, including against lower-quality collateral. In this way, the Eurosystem has been facilitating an orderly reduction of internal and external imbalances in the countries affected by the crisis and has thus helped to stabilise the financial system. To the extent to which market adjustment processes have been dampened or delayed by crisis resolution measures, the countries concerned now urgently need to resolutely implement and pursue the necessary consolidation measures and structural reforms.

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1 Net capital exports excluding transactions executed via the TARGET2 payment system.

resolutions taken by the EU heads of state or government and the consolidation measures announced by the Italian and Spanish governments as well as to the package of monetary policy measures drawn up by the central banks of the major currency areas.

Portfolio investment

Portfolio shifts

The impact of the crisis on portfolio investment was evident, first, in the still relatively low turnover level. Thus in the course of 2011, over 20% fewer cross-border fund flows were newly invested or liquidated than in the pre-crisis year 2007. But it also showed up in a massive turnaround in portfolio flows in the magnitude of €164½ billion. The upshot of this was that Germany recorded net capital imports amounting to €37 billion in 2011. This change of direction remains considerable even after allowing for the fact that in 2010 capital exports had been greatly inflated by resident public resolution agencies, which took over securities previously held abroad by German financial institutions that had run into difficulties.[4]

Foreign investment in domestic public debt securities, …

During 2011, foreign investors showed a greater interest in German securities than at any time since 2007, acquiring domestic paper worth €62½ billion. However, this consisted almost exclusively of purchases of government bonds by foreign investors. In 2011, they acquired bonds issued by Germany's Federal Government worth €68½ billion net (compared with €77½ billion and €27½ billion in 2010 and 2009 respectively). Given that the net issuance volume amounted to just €34½ billion, the bulk of these cross-border purchases took the form of sales from domestic investors' holdings. The strong demand from the rest of the world for German bonds underscores their safe-haven attractiveness in times of crisis, which was further magnified by the rating downgrades imposed on many foreign public issuers. The "surplus" demand from abroad was mirrored in the performance of Bund yields, which in the case of the ten-year benchmark Bunds fell for a time to a record low of less than 1.7% in 2011.

Financial transactions

€ billion, net capital exports: –

Item	2009 r	2010 r	2011 r
1 Direct investment	– 36.9	– 47.2	– 10.0
German investment abroad	– 54.3	– 82.5	– 39.1
Foreign investment in Germany	+ 17.4	+ 35.4	+ 29.1
2 Portfolio investment	– 81.1	– 127.7	+ 37.0
German investment abroad	– 76.8	– 173.8	– 25.2
Equities	– 2.4	– 1.2	+ 2.2
Mutual fund shares	– 4.3	– 22.4	– 0.1
Bonds and notes [1]	– 83.4	– 156.2	– 22.3
Money market instruments	+ 13.3	+ 6.1	– 4.9
Foreign investment in Germany	– 4.2	+ 46.1	+ 62.3
Equities	+ 3.6	– 4.7	– 2.8
Mutual fund shares	+ 11.7	+ 2.6	+ 7.7
Bonds and notes [1]	– 70.1	+ 57.8	+ 48.7
Money market instruments	+ 50.5	– 9.5	+ 8.7
3 Financial derivatives [2]	+ 11.3	– 17.9	– 28.7
4 Other investment [3]	– 52.0	+ 47.0	– 157.4
Monetary financial institutions [4]	+ 61.5	+ 214.9	– 51.5
Long-term	+ 1.8	+ 72.0	– 30.2
Short-term	+ 59.8	+ 142.9	– 21.3
Enterprises and households	– 25.2	– 56.3	– 1.0
Long-term	– 21.2	– 46.8	– 6.7
Short-term	– 4.0	– 9.5	+ 5.7
General government	– 5.3	+ 30.5	+ 1.2
Long-term	– 4.7	– 52.7	+ 6.6
Short-term	– 0.6	+ 83.2	– 5.4
Bundesbank	– 83.0	– 142.1	– 106.1
5 Change in the reserve assets at transaction values (increase: –) [5]	+ 3.2	– 1.6	– 2.8
Balance on financial account	– 155.4	– 147.4	– 161.9

1 Original maturity of more than one year. 2 Securitised and non-securitised options and financial futures contracts. 3 Includes financial and trade credits, bank deposits and other assets. 4 Excluding Bundesbank. 5 Excluding allocation of SDRs and excluding changes due to value adjustments.
Deutsche Bundesbank

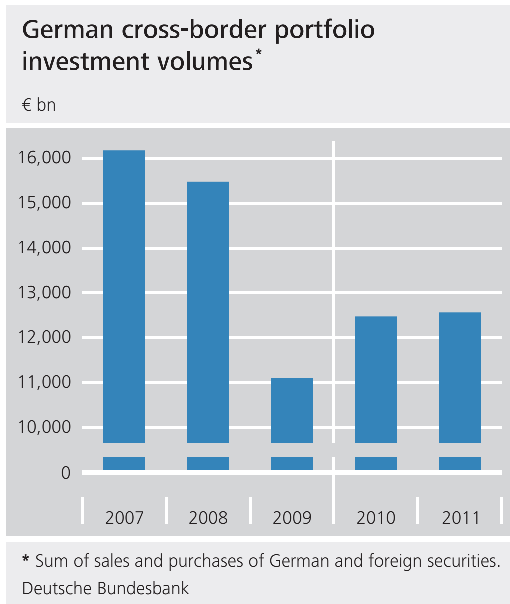
… in German private debt securities, …

By contrast, as in previous years, foreign investors made net disposals of domestic private debt securities with an initial maturity of more than one year (€20 billion). While it is true that credit institutions in Germany – as elsewhere – are undergoing a phase of reorientation, the return flows were primarily attributable to structural factors and should not be interpreted as a sign of non-residents' mistrust of German

4 See Deutsche Bundesbank, The German balance of payments in 2010, Monthly Report, March 2011, pp 28-29.

German cross-border portfolio investment volumes*

€ bn



* Sum of sales and purchases of German and foreign securities.
Deutsche Bundesbank

financial institutions. For example, during the period under review the outstanding volume of bonds issued by credit institutions in Germany declined – in line with the trend seen in recent years – by €47 billion. In particular, the amount of public Pfandbriefe outstanding has been contracting for years on account of high redemption rates.

Inflows of funds to Germany were additionally reduced by the low foreign demand for structured products as well as for certificates and warrants. In the case of this investment form, too, redemptions predominated in 2011.[5] For one thing, complex financial products were broadly shunned in the difficult financial market setting. For another, the situation on the sellers' side may have been influenced by the fact that most banks in Germany found themselves in a comfortable liquidity position, not least as a result of growing deposits in domestic business, and for this reason curbed their issuance of structured securities somewhat.

… in domestic money market paper and …

Conversely, domestic money market paper found favour with international investors (€8½ billion) although, as in the case of bonds, they differentiated sharply between public and private issuers. Thus at times there was very heavy demand for money market paper issued by central government given the tense market environment. By contrast, foreign investors offloaded privately issued instruments on balance.

… in domestic shares and mutual fund units

Political and economic uncertainty also left its mark on the international equity markets. The broad CDAX index, for example, fell by 17% in the course of last year. Possibly put off by these losses, foreign investors proved unwilling to add German shares to their portfolios and withdrew funds from the German share market on balance over the year as a whole (€3 billion). By contrast, there was a rebound in indirect investment in securities through share units issued by German mutual funds. With sales of just over €7½ billion, the German mutual fund industry sold more paper to foreign buyers than at any point since 2009.

Domestic investment in foreign public debt securities, …

Outbound portfolio investment, in other words German investment abroad, was likewise marked by investor cautiousness, especially in the markets for interest-bearing instruments. All in all, German investors' demand for foreign securities fell sharply. It amounted to just over €25 billion in 2011, after reaching €174 billion in the previous year. However, in 2010, private transactions were dominated by the abovementioned transfers of securities to German resolution agencies, although public-sector purchases also played a significant role in 2011. For instance, cross-border acquisitions of euro-denominated debt securities derived solely from purchases made by the Bundesbank in the context of the Securities Market Programmes initiated by the Eurosystem. The unfavourable reports emanating from some euro-area countries prompted most private agents in Germany to dispose of debt securities. On the whole, they sold bonds issued by the programme countries Greece, Ireland and Portugal totalling €19½ billion. The German private sec-

5 As a rule, such complex financial market products are "produced" in Germany and targeted at German retail investors outside the financial sector. Therefore, they ought not to be relevant to the balance of payments. However, since intermediaries are often domiciled abroad, capital flows arise that are subject to reporting requirements. See Deutsche Bundesbank, Monthly Report, March 2008, pp 26-27.

tor also parted with Spanish and Italian debt securities on balance.

… in foreign currency bonds and …

By contrast, domestic investors purchased foreign currency bonds in the amount of €3 billion. For the most part, these issues were denominated in US dollars (€1½ billion), Australian dollars (€1 billion) and Canadian dollars (€½ billion). In net terms, the funds flowed exclusively to debtors domiciled outside the euro area.

… and in foreign shares and mutual fund units

Given tumbling prices on many stock exchanges, domestic investors reduced their cross-border equity exposures to the tune of just over €2 billion in 2011. In the main, they parted with shares originating from euro-area countries. A moderate countermovement was generated by capital flows to those equity markets where stock prices had developed more positively than in the euro area. For example, in 2011 domestic investors acquired dividend-bearing paper from the USA, where the US S&P 500 index saw out the year almost unchanged. German savers maintained their holdings of foreign mutual fund units at an almost constant level in net terms. Here, too, the high degree of investor uncertainty may have been a contributory factor.

Financial derivatives showing net capital export

A net capital export was also recorded for financial derivatives transactions in 2011 (€28½ billion). As in preceding years, this outcome was partly determined by offsetting transactions relating to debt securities carrying derivative certificates. Additionally, payments arising from swap and futures trades accounted for the outflows.

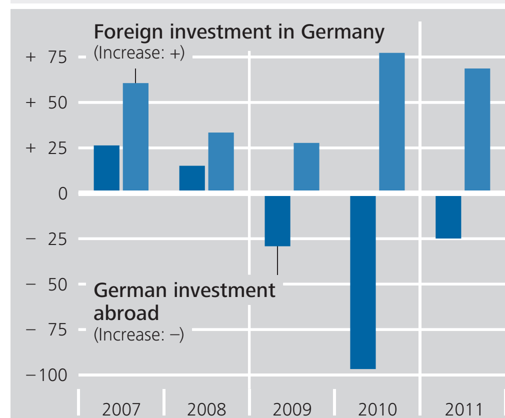
Direct investment

Direct investment worldwide …

Foreign direct investment (FDI) which, as mentioned above, is mainly guided by longer-term strategic decisions, felt the force of financial market tensions much less than portfolio investment. This applied particularly to global direct investment inflows in 2011, which, according to estimates by UNCTAD, amounted to around US$1½ trillion and were thus up on the year by about one-sixth.[6] These inflows were broadly distributed across all groups of countries. As in 2010, EMEs and developing countries were the recipients of about one half of the direct investment, which mainly took the form of so-called "greenfield" investments, in other words the establishment of new locations on greenfield sites. By contrast, most of the FDI flows to the industrial countries occurred as a part of mergers and acquisitions. According to UNCTAD's analyses, these also reflected restructuring measures undertaken by multinationals in Europe.

Portfolio investment in public sector bonds

in € billion



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… and in Germany

The cross-border activities of German enterprises abroad and those of non-resident enterprises in Germany also expanded, though less sharply than in 2010.[7] Overall, inbound and outbound foreign direct investment into and out of Germany resulted in a net capital export in the amount of €10 billion during 2011.

6 See United Nations Conference on Trade and Development, 2012, Global Investment Monitor No 8, 24 January 2012.
7 See also Deutsche Bundesbank (2011), Direct investment and financing constraints before and during the financial crisis, Monthly Report, December 2011, p 61.

German direct investment abroad

This was largely driven last year by outbound FDI of German enterprises, which provided their foreign affiliates with a total of €39 billion in funds. The figure was substantially less than in 2010 (€82½ billion). A significant volume of these funds were injected either in the form of equity capital (€20 billion) or reinvested earnings (€30 billion). Conversely, German parent companies withdrew funds from abroad via intercompany credit transactions (€11 billion). On balance, this was achieved solely by means of short-term financial loans from foreign subsidiaries.[8]

Regional and sectoral breakdown

At €24½ billion, most of German outbound direct investment went to EMEs and developing countries. However, German firms also invested a sizeable €14½ billion in industrial countries. Noticeably high levels of German FDI were channelled last year to China (€10½ billion), the United States (€7½ billion) and Austria (€6 billion). While Austria's result was influenced by a large individual transaction in the automobile sector, the outcome for China was driven by high reinvested earnings on the part of German firms performing well there. The figure for the United States was likewise boosted by high reinvested earnings plus a sharp increase in equity interests, which owed much to the fact that German banks provided their US affiliates with capital injections. A breakdown by economic sector would not be very informative at present as reinvested earnings, which constitute the lion's share of German FDI outflows, are partly based on estimates and cannot yet be assigned to individual sectors.

Foreign direct investment in Germany

In 2011, non-resident enterprises expanded their investment in Germany by €29 billion. This was almost as much as in 2010 (€35½ billion). They primarily favoured intragroup short-term financial loans (€14½ billion). In addition, they furnished their domestic affiliates with equity capital (€5 billion) and reinvested their earnings generated in Germany (€6 billion).

Regional and sectoral breakdown

Most of the FDI inflows originated from European countries, including Switzerland (€6 billion), Belgium (€5 billion) and Austria (€4 billion). Foreign investors targeted *inter alia* manufacturing enterprises, with a strong emphasis on the chemical industry (€6½ billion). However, at €15 billion, the bulk of the total amount was invested in holding companies in Germany, which many foreign investors use as a bridgehead. In this case it is not possible to draw conclusions regarding the ultimate investment objective or the particular economic sector.

Other investment

Other investment showing net capital export

Other investment, comprising financial and trade credits (inasmuch as these do not constitute a part of direct investment) as well as bank deposits and other assets, resulted in a net capital export of €157½ billion in 2011.

Non-banks

The cross-border transactions of non-banks were close to balance in the year under review. While government entities recorded inflows of funds of just over €1 billion, the activities of enterprises and households resulted in outflows totalling €1 billion.

Credit institutions

The banking system was the key player behind the net capital export resulting from other investment. This was partly due to the ongoing cross-border deleveraging of German banks, which cut German banks' unsecuritised liabilities to foreign creditors by a total amount of €93½ billion. This focused on the redemption of short-term financial loans.[9] On the other hand, German banks also sharply reduced their volumes of (unsecuritised) external claims (by €45½ billion). Again, the main emphasis was on scaling back short-term loans to foreign counterparties. Credit institutions therefore recorded overall outflows of €51½ billion. The available data do not point to a large-scale

8 Such financial loans are frequently based on securities issued on the international capital markets by German enterprises' financing subsidiaries.
9 Cross-border securities trades were already mentioned in the section on portfolio investment.

flight of capital from the euro-area peripheral countries to Germany, which would have been evidenced by substantially increased deposits by private non-banks in these countries with German banks.[10]

Bundesbank

The Bundesbank posted net capital exports totalling €106 billion. These were primarily generated by transactions executed via the TARGET2 payment system, which saw a sharp increase in the claims on the European Central Bank in the second half of the year, primarily on account of the worsening of the sovereign debt crisis in the euro area. Across the year as a whole, the Bundesbank's TARGET2 claims increased by €137½ billion (2010: €148 billion) to stand at €463 billion at year-end. A countervailing development was observed in the case of non-residents' deposits with the Bundesbank, which went up by €32 billion in 2011. This was due mainly to the temporary "parking" of deposits by central banks and international organisations located outside the euro area.

The rising TARGET2 balances reflect both the continued tension in the financial system and the balance of payments disequilibria within the euro area. Had it not been for the massive amount of liquidity provided by the Eurosystem, especially in the peripheral countries of the euro area, some of the cross-border transactions, which were mainly initiated by private sector counterparties, would doubtless have been unrealisable or could only have been effected under less favourable conditions. This would have triggered abrupt adjustment processes and entailed corresponding macroeconomic costs. In the long term, however, this situation is not sustainable. For this reason, it is crucial to restore the confidence that has been lost in banks facing liquidity problems. In addition, countries that have forfeited access to the capital markets need to remedy their structural shortcomings and boost their competitiveness, with the ultimate aim of improving their public finances and their current account situation and hence of being able to attract private capital once again.[11]

Reserve assets

Transactions …

Transaction-related changes in the reserve assets are shown as a separate item in the balance of payments. In 2011, they rose by just under €3 billion. On balance, this was exclusively attributable to a change in Germany's reserve position vis-à-vis the International Monetary Fund (IMF).

… and balance sheet adjustments

Balance sheet adjustments, which are not specified in the balance of payments in line with internationally agreed conventions, had a much greater impact. Just as in 2010, a significant upward adjustment was made owing to the customary end-of-year revaluation of the reserve assets at market prices (€19½ billion). At €17½ billion, most of this amount can be accounted for by valuation gains in gold. However, both the foreign currency reserves (€1½ billion) and the reserve position in the IMF (€½ billion) recorded gains. All in all, during 2011 Germany's reserve assets rose by €22½ billion in balance sheet terms to reach €184½ billion as at the balance sheet date of 31 December 2011.

10 In 2011, the level of deposits with banks in Germany by private non-banks from other euro-area countries increased by €1 billion. In the cases of Greece, Ireland, Italy, Portugal and Spain, they went down by a total of €1½ billion, which was largely the result of a reduction in Irish deposits with German banks (€3½ billion).
11 For more information on the TARGET2 balances in the Eurosystem, see Deutsche Bundesbank Annual Report 2011, pp 48-50.