

Financial markets

Financial market setting

Financial markets marked by monetary policy and mixed economic indicators

Changes in economic indicators and in expectations regarding the future US monetary policy stance – the latter shifts being closely related to the former – had a major impact on the international financial markets from late March 2013 onwards. In addition, some major central banks continued to loosen their already expansionary monetary policy stance. The Bank of Japan outlined its new monetary easing policy framework,¹ and the ECB lowered its key interest rates. The expansionary measures initially drove down yields on long-dated bonds around the world. In May, however, yields began to climb again worldwide in view of positively received economic data. Subsequently, expectations that US monetary policy might be tightened more rapidly than previously anticipated also took a firmer hold. Towards the end of the period under review, however, the Federal Reserve stressed that it would maintain an accommodative stance for the foreseeable future, which curtailed and partly reversed the rise in interest rates. The situation in Germany was affected not only by the interest rate linkage between Germany and the United States but also by a slight improvement in leading economic indicators. The higher yields on government bonds put pressure on the stock markets for a time. Yet the low price uncertainty, largely positive quarterly financial results from US enterprises and budding hopes of an end to the euro-area recession gave the stock markets enough of a boost for distinct price rises overall. On the foreign exchange markets, the euro appreciated against the other major currencies, making particularly strong gains against the yen.

Exchange rates

These shifting influences were reflected in the euro's exchange rate against the US dollar. On

balance, the single currency appreciated against the US dollar by 4% on its value at the end of March, but it fluctuated noticeably during the period under review.

Euro exchange rate development against the US dollar, ...

At the beginning of April, weaker-than-expected US economic data and labour market figures initially bolstered the euro, but the reduction in the ECB's key interest rates in early May put the single currency under pressure and by the middle of the month, it had relinquished a large part of its gains. The euro then embarked on an upbeat trend on the back of favourable economic indicators for the euro area, a movement that was temporarily interrupted when remarks by US Fed Chairman Ben Bernanke on 19 June 2013 were interpreted as suggesting that the US Fed was considering the possibility of scaling back its quantitative easing measures more quickly. The euro also came under pressure when US labour market data released at the beginning of July held some positive surprises in store, sparking market speculation that the Fed might potentially pare back its bond-buying programme sooner than originally expected. The publication of the minutes to the Federal Reserve's meeting and Mr Bernanke's clarifying statements that what the US economy needed was highly accommodative monetary policy for the foreseeable future put the euro back on a steady upward trajectory in mid-July. Improved economic indicators for Germany and the euro area gave the single currency further impetus against the US dollar. As this report went to press, the euro was trading at US\$1.33.

The euro gained greater ground against the yen from the end of March onwards and even touched a new three-year high. Even though the single currency had already exhibited a marked upward tendency ahead of the Bank of

... the yen ...

¹ More information on Japanese monetary and economic policy can be found on p 16ff.

Japan's monetary policy decision at the beginning of April, the announcement of measures that exceeded expectations drove the euro significantly higher, with the single currency appreciating by more than 8% in under a week. The euro-yen exchange rate subsequently moved sideways, trading in a range between ¥125 and ¥133. As this report went to press, the euro was trading at ¥130, which was up by around 8% on its level at the end of March.

... and against the pound sterling

The period under review also saw the euro appreciate against the pound sterling, but at around 1%, the single currency's gains paled beside its performance against the US dollar and the yen. One factor at play was conjecture among some market participants that the changing of the guard at the Bank of England might usher in an even more expansionary monetary policy stance. This drove the euro higher against the pound sterling. Yet this boost was offset by an unexpectedly sharp rise in the UK purchasing managers' index. The Bank of England left its official Bank Rate unchanged at the beginning of July but in its comments following its decision, the Bank suggested that the markets were expecting an interest rate hike too soon. These remarks strengthened the single currency which was trading at £0.85 against the pound sterling when this report went to press.

Effective euro exchange rate

Croatia's accession to the European Union on 1 July 2013 broadened the group of countries against which the effective euro exchange rate is measured from 20 to 21 countries (see the box on pages 50 to 52 for details on this and one other adjustment made to the method used for calculating certain real effective exchange rates). The euro likewise appreciated in value against the currencies of these 21 major trading partners during the period under review. Most recently, the single currency was around 2½% firmer than it had been at the end of March and 1% down on its value at the launch of monetary union. In real terms, too, ie taking account of the inflation differentials between the euro area and its major trading part-

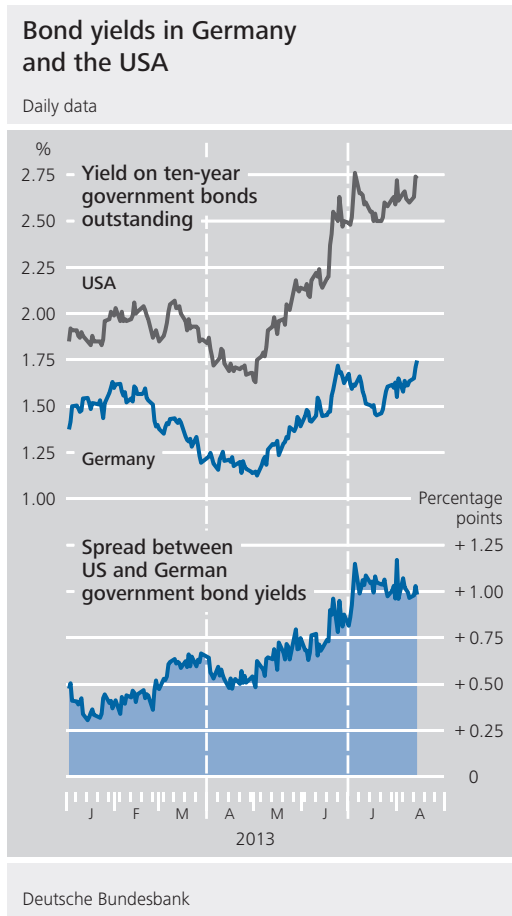


ners, the effective euro exchange rate rose in the period under review. This diminished the price competitiveness of euro-area exporters accordingly, which was assessed as being somewhat worse than the long-term average when this report went to press.

Securities markets and portfolio transactions

Yields on the international bond markets declined initially before accelerating sharply in the second quarter of the year. The United States saw a particularly robust rise in yields, with the

International bond markets marked by rising interest rates in the USA, ...



remuneration on ten-year Treasuries climbing from 1.6% in May and June to a peak of just under 2.8%. This was mostly likely fuelled by the aforementioned speculation regarding the US monetary policy orientation, which also led some to reason that the future path of US policy rates might be steeper than previously anticipated. The rise in yields coincided with an increase in term premiums which had hitherto languished at historically low levels under the influence of the non-standard monetary policy measures. But when the US Fed stressed in July that it intended to maintain its accommodative monetary stance, stating that it would continue its agreed monthly bond purchases at the existing volume of US\$85 billion until further notice, US government bonds responded by initially recouping some of their earlier losses. Yields received a distinct boost recently from generally positively received US economic data, however, and had returned to 2.8% as this report went to press. Measured in terms of ten-year nominal consensus growth expectations

(4¾%), this yield level still appears to be relatively low, however.

The interest rate linkage with the United States meant that prices of ten-year Bunds (and core euro-area country bonds) followed those of US Treasuries with comparable maturities to some extent. German capital market interest rates immediately responded to the ECB's interest rate move by easing initially to just over 1.1% at the beginning of May before yields clawed back more than half a percentage point to close the half-year at more than 1.7%. Added to this, some improved economic indicators tended to bolster yields *per se* in Germany and the euro area. Overall, the USA's yield spread over Germany widened by 35 basis points to just under 105 basis points.

Longer-term interest rates in the larger peripheral countries likewise receded when the ECB cut its key interest rates and even hit their lowest levels since 2010 initially. But the impetus provided by US Treasuries also influenced the prices of peripheral sovereign bonds, whose yields surged by more than 100 basis points within a short space of time before giving up ground since mid-year. As this report went to press, yields on euro-area periphery debt, apart from Portuguese government bonds, were short of their levels at the end of March 2013. This situation owed something to the Eurosystem's operational, but not yet activated Outright Monetary Transactions (OMT) programme, but was also attributable to the slightly brighter economic outlook in the euro area as a whole, which saw market participants perceiving a decline in the risk of default. At least this is what the simultaneous narrowing of CDS spreads for the programme and reform countries (with the exception of Portugal) would appear to suggest. Persistent doubts surrounding the implementation of necessary political reforms, notably in the peripheral countries, took something of a back seat. Against this backdrop, the rating downgrades suffered by Italy and France barely had any impact on the markets.

... in Germany and the core euro-area countries and ...

... declining yields in euro-area peripheral countries

Yield spreads in the euro area narrower still overall

At the end of the reporting period, the GDP-weighted yield spread between government bonds of the other euro-area countries and Bunds with comparable maturities stood at 170 basis points, that is, around 70 basis points down on the end of the first quarter and thus even slightly below its five-year average. The interest rate dispersion between long-term government bonds within the euro area has likewise narrowed overall.

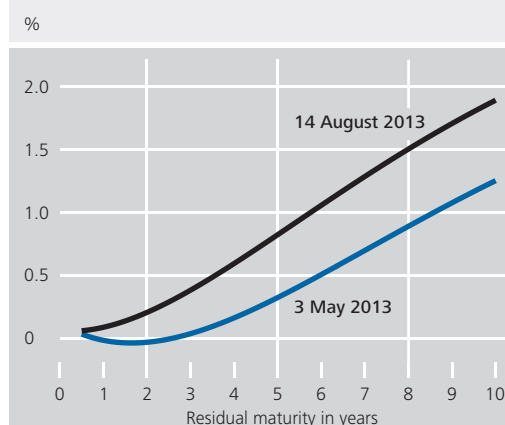
Yields on the rise in Japan, too

International interest rate linkages are traditionally less pronounced with Japan, where domestic economic factors tend to take the upper hand. But the adoption of a bundle of fiscal and monetary measures aimed at combating deflation and fostering sustained growth also drove up long-term interest rates in Japan. Ten-year Japanese government bonds were yielding just under 0.8% of late, which is around 20 basis points more than at the end of March. This is largely consistent with Japan's long-term growth expectations calculated between April and July on the basis of survey data (Consensus Forecasts).

German yield curve steeper

The German term structure estimated using Federal securities steepened as the quarter progressed. The spread of just under 170 basis points between ten-year and two-year bonds is roughly 30 basis points up on the end of March and almost 45 basis points higher than the average since the launch of monetary union. This was chiefly driven by the upward pressure on interest rates that had been emanating from the United States since early May, which notably affected the long end of the maturity spectrum where it triggered an increase of just under 60 basis points. Among maturities of between one and three years, yields remained negative into May but are now clearly back in positive territory, reflecting the fact that many tension indicators are persistently rather low overall and some of them are well below their five-year averages.

Yield curve on the German bond market*



* Interest rates for (hypothetical) zero-coupon bonds (Svensson method), based on listed Federal securities.
 Deutsche Bundesbank

strongly than nominal yields since the end of March. This difference in gradient is particularly evident in the five-year term segment which, against the backdrop of lower spot break-even inflation rates (BEIR), led to higher forward inflation expectations for the European Harmonised Index of Consumer Prices excluding tobacco. The forward BEIR calculated from German and French indexed bonds increased from 1.9% at the end of March to 2.0% of late for the five to ten-year segment. Inflation swaps traded between banks, which are less affected by safe haven flows into nominal bonds, do not indicate any noteworthy changes in the forward inflation rate.

Forward inflation expectations up

Enterprises' financing conditions in the capital market remained favourable. The increase in Bund yields had a knock-on effect on corporate bonds with residual maturities of between seven and ten years and a BBB rating, sending their yields slightly higher to 3.7% (+20 basis points), but despite this modest increase, yields remain very low in comparison with preceding years and are also well below their pre-crisis levels. Bonds issued by financial corporations continued to offer a higher remuneration (4.9%) than those of non-financial enterprises

Favourable financing conditions for enterprises

Real interest rates measured in terms of inflation-indexed bonds have climbed more

Adjustments in the calculation of effective exchange rates and indicators of price competitiveness in August 2013

Commencing with this edition, the effective euro exchange rates and indicators of the German economy's price competitiveness shown in the *Monthly Report* will be based on a calculation method which has been revised in two respects. First, Croatia – which joined the European Union (EU) on 1 July 2013 – has been added to the medium-sized group of countries. This adjustment affects a whole raft of effective euro exchange rates and indicators of price competitiveness. However, its general impact is negligible owing to the minor weight of Croatia. Second, it is now possible to approximate the deflator of total sales for China which had thus far been lacking. While this adjustment affects only a few (albeit key) indicators of price competitiveness, it has resulted in some substantial changes to the relevant indicators, including those for Germany.

Table XII.13 of the Statistical Section of the *Monthly Report* (up to July 2013, Table XI.13) presents effective euro exchange rates and indicators of the German economy's price competitiveness. The nominal effective euro exchange rate depicts the weighted average of the bilateral euro exchange rates against the currencies of major trading partners. Real effective euro exchange rates and indicators of Germany's price competitiveness are likewise calculated against the weighted average of major trading partners; however, they take account not just of nominal exchange rates but also of price developments in Germany and abroad. A nominal effective depreciation of the euro works in favour of Germany's international price competitiveness, as do lower domestic price increases relative to the weighted average of Germany's major trading partners.

Croatia joins the European Union

Croatia's accession to the EU on 1 July 2013 made it necessary to adjust a number of indicators. By default, the existing group of 20 trading partners, against which several effective euro exchange rates used to be calculated (EER-20), also includes all those EU countries that do not belong to the euro area. In incorporating Croatia, this group has now grown to a total of 21 trading partners (EER-21), a development which affects not just the nominal effective euro exchange rate but all three real effective euro exchange rates reported in the *Monthly Report* table.

Adjustments have been made to those indicators of Germany's price competitiveness which previously were calculated vis-à-vis a group of 36 countries. Up to now, this group of countries comprised not just all the other member states of European monetary union (EMU) but also those belonging to the EER-20. Mirroring this group's enlargement, Croatia will henceforth be included when the corresponding competitiveness indicator is measured against 37 trading partners. Owing to Croatia's minor weight in terms of the euro area's foreign trade (at last count, 0.63% in the EER-21) or Germany's (most recently, 0.23% within the mentioned group of 37 countries), this change only affects the relevant effective euro exchange rates and Germany's competitiveness indicators to a very limited extent.

Deflator of total sales for China

The situation is different with regard to the second adjustment. Of the time series listed in Table XII.13 of the *Monthly Report*, this

adjustment solely affects the indicator of Germany's price competitiveness that is based on the deflators of total sales vis-à-vis 37 (previously 36) countries. China counts among those trading partners included in this group of countries. With regard to this particularly informative indicator, China was not included in the past owing to a lack of data. While China published data on its nominal imports it did not disclose data on its real imports, and the latter information is vital for calculating the deflator of total sales. This deficit is now to be countered by using real import data reported in the "World Economic Outlook" (WEO), which is published by the International Monetary Fund. To this end, China's official nominal imports are adjusted using an import deflator.¹

The chart at the top shows the development of the relevant indicator of the German economy's price competitiveness. The grey curve depicts the previously used indicator which disregarded China, while the blue curve represents the new one which takes China into account.² The difference between the two time series was comparatively small until 2007 on account of China's relatively limited weight up to that point in time. From 2007 onwards, however, China – with a weight of 9.7%, and surpassed only by France (9.9%) – has been included in the group of countries under review owing to its greatly increased trading volume.³ According to the new indicator, Germany's price competitiveness has since improved even more favourably than the old indicator showed. At the current end, the difference is 3 percentage points.

The blue curve in the bottom chart reflects the development of the indicator of the Chinese economy's price competitiveness against 37 other countries based on the deflators of total sales. This indicator points to

Price competitiveness of the German economy vis-à-vis 36 other countries

1999 Q1 = 100, quarterly, log scale¹

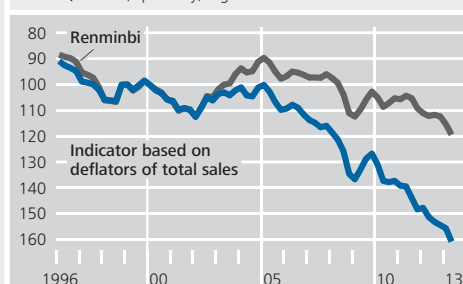


1 Inverted scale: rising curve (decline in values) denotes an increase in competitiveness. **2** In the past, the indicator did not include China, with the effect that it only denoted the German economy's price competitiveness vis-à-vis 35 other countries.

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Price competitiveness of the Chinese economy and nominal effective exchange rate of the renminbi vis-à-vis 37 other countries

1999 Q1 = 100, quarterly, log scale¹



1 Inverted scale: rising curve (decline in values) denotes an increase in economic competitiveness/depreciation of the renminbi.

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1 Up to 2004, this is done by applying the WEO import deflator, taking the form of a weighted average of the export prices of China's main trading partners and of world market prices for China's imports of raw materials. From 2005 onwards, use is made of the official import deflator for goods imports as set out by the Chinese customs authorities. The task of calculating the deflator of total sales can, however, only be accomplished on an annual basis owing to a lack of data. The necessary quarterly series are then interpolated from this. Missing quarterly values at the current end are extrapolated using the Chinese deflator of GDP which developed along broadly similar lines in the past.

2 Croatia is not taken into account in either of the curves.

3 The weights used are regularly adjusted in line with trade patterns. See Deutsche Bundesbank, Recalculated weights for indicators of the German economy's price competitiveness, Monthly Report, February 2012, pp 34-35.

a rapid deterioration of around 60% from the first quarter of 2005 to the second quarter of 2013. The grey curve, meanwhile, (see the bottom chart on page 51) depicts movements in the nominal effective exchange rate of the renminbi. It reveals that no more than roughly half of the shift in the indicator of China's price competitiveness since the first quarter of 2005 has been attributable to a nominal effective appreciation of the renminbi. To a similar extent, the change is therefore also due to steeper inflation within China compared with abroad.

Conclusion

Indicators of price competitiveness should be interpreted with caution, however. In the case at hand, it is particularly important to bear in mind that the most recently observed group of countries also includes

emerging market economies and former transition countries such as China which are still in the process of catching up with the industrial countries. When interpreting the relevant indicators it is therefore wise to also consider the productivity growth of the countries involved. In this regard, it should be noted that productivity in China in recent years has also increased at a stronger rate than the weighted average of its partner countries. For this reason, the indicator is inclined to overstate both the depicted improvement in Germany's competitiveness (see top chart on page 51, blue curve) and the decline in China's price competitiveness (see bottom chart on page 51, blue curve). In the case of Germany, however, the distorting effect remains rather limited.

(3.3%).² Yield spreads over Bunds with comparable maturities narrowed to 330 basis points for bonds issued by financial corporations and to 165 basis points for non-financial corporate debt. The narrowing spreads, which are both below their five-year average, are consistent with the development of credit default swap premiums (iTraxx) and liquidity premiums, which have likewise diminished. They indicate that the search for yield is still relevant for investors, even though risk-free interest rates have increased.

Net bond market issuance

Gross issuance in the German bond market stood at €396 billion in the second quarter of 2013, and was therefore up on the previous-quarter level (€379½ billion). After deducting the higher redemptions and taking account of changes in issuers' holdings of their own bonds, net redemptions amounted to €19½ billion. In addition, foreign borrowers placed debt securities worth €28½ billion in the German market. Thus, funds totalling a net €9½

billion were raised in the German bond market in the period under review.

The public sector raised €8 billion in the bond market in the second quarter, compared with €7 billion one quarter earlier. The figures also include issues from resolution agencies of German banks which are ascribed to the public sector for statistical purposes. Central government primarily issued ten-year bonds (€18½ billion). This contrasted with net redemptions of Federal notes (Bobl) in the amount of €12 billion while the state governments redeemed a net €4 billion of their own bonds in the quarter under review.

Public sector borrowing

Domestic enterprises redeemed debt securities with a net value of €2½ billion in the second quarter. On balance, these were chiefly debt instruments running for terms of more than one

Net redemptions of corporate bonds

² Based on corporate bond yields included in the various iBoxx bond indices for different rating grades.

year. Developments at non-financial corporations contrasted with those at other financial institutions and insurers.

Net issuance by non-financial corporations ...

Non-financial corporations issued bonds worth €4 billion in the second quarter of this year and have thus already placed €12½ billion in securitised debt so far this year, which is almost twice as much as in the corresponding prior-year period (€6½ billion). Many enterprises appear to be taking advantage of the historically favourable financing conditions.

... contrasts with net redemptions by credit institutions

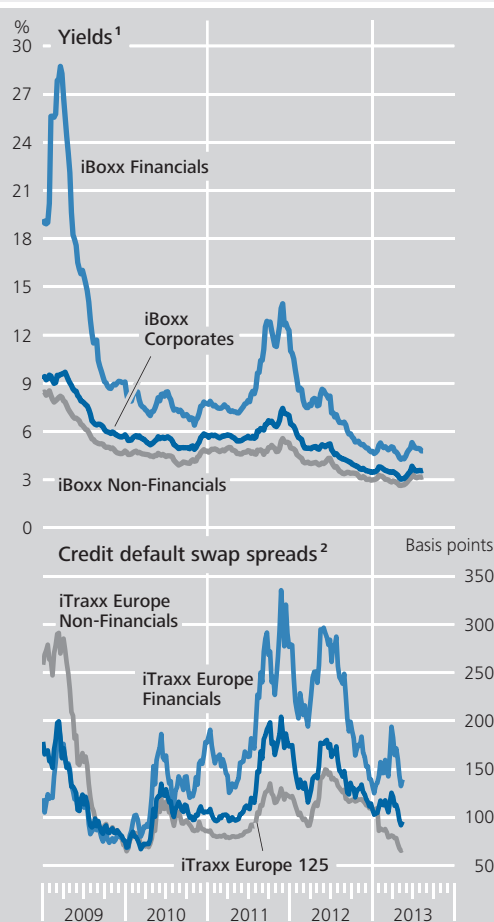
By contrast, domestic credit institutions, which had recorded strong growth in deposits as well as inflows of funds from abroad during the financial crisis, further pared back their capital market debt during the quarter under review (€25 billion, compared with €27 billion in the first quarter), following on from reductions seen in earlier quarters. Redemptions centred around debt securities issued by specialised credit institutions (€11 billion), but also other bank debt securities (€8½ billion), which allow flexible structuring, as well as public Pfandbriefe (€4½ billion) and mortgage Pfandbriefe (€1 billion).

Purchases of debt securities

German non-banks were the sole buyers on the domestic bond market in the second quarter. They added paper worth €28 billion to their portfolios, focusing primarily on foreign debt instruments (€23 billion) but also showing some interest in public sector bonds (€10 billion). Domestic credit institutions, meanwhile, offloaded €2½ billion in interest-bearing paper. The Bundesbank reduced its bond holdings mainly by redeeming debt securities that had been acquired as part of the purchase programmes in the euro area. Unlike domestic non-banks, foreign investors scaled back their net holdings of German bonds, shedding paper issued by the private sector (€13½ billion) and also holding back on purchasing Bunds, which are considered to be very safe, on account of the calmer financial market setting overall. The €1 billion net of German government bonds they added to their portfolios was in any case

Financing conditions for euro-area enterprises

Weekly averages



1 Euro-denominated BBB-rated bonds with a residual maturity of seven to ten years, included in the bond market indices (iBoxx) of the International Index Company. Source: Thomson Reuters. **2** Spreads on five-year credit default swap (CDS) contracts, replicated in the indices (iTraxx) of the International Index Company. Source: Bloomberg.

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well down on the quarterly average witnessed since the outbreak of the financial and sovereign debt crisis in mid-2007 (€16½ billion). This is also consistent with the upturn shown by German yields overall.

The international equity markets put in an upbeat performance overall in the second quarter of 2013, with neither bullish nor bearish factors gaining the upper hand until the end of June. As the quarter got under way, a global low-interest rate environment that encouraged portfolio shifts into equities combined with improved economic data, especially in the United States, drove up equity prices around the

Equity markets uneven until the end of June

Investment activity in the German securities markets

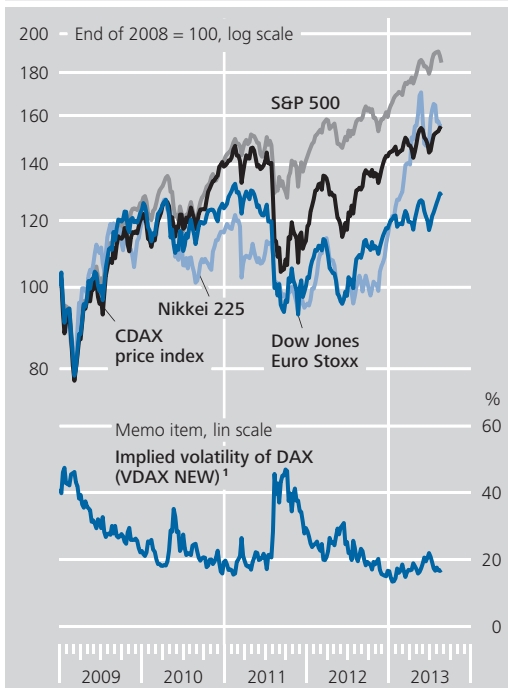
€ billion

Item	2012		2013	
	Q2	Q1	Q1	Q2
Debt securities				
Residents	- 16.0	2.6	21.8	
Credit institutions	- 21.6	- 14.9	- 2.5	
of which				
Foreign debt securities	- 14.8	- 2.7	8.9	
Deutsche Bundesbank	- 1.2	- 4.1	- 3.7	
Other sectors	6.8	21.6	28.1	
of which				
Domestic debt securities	- 12.2	- 8.7	5.3	
Non-residents	16.6	10.8	- 12.6	
Shares				
Residents	- 15.0	14.4	11.3	
Credit institutions	- 11.4	8.3	- 1.1	
of which				
Domestic shares	- 11.9	4.4	- 1.3	
Non-banks	- 3.7	6.0	12.4	
of which				
Domestic shares	3.7	2.1	6.8	
Non-residents	9.7	- 5.4	1.8	
Mutual fund shares				
Investment in specialised funds	15.8	24.5	13.0	
Investment in retail funds	- 0.4	5.0	1.5	
of which				
Equity funds	- 1.4	0.0	- 1.0	

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Prices on major equity markets*

Weekly averages



Sources: Deutsche Börse AG, Thomson Reuters and Bundesbank calculations. * Price indices (without inclusion or reinvestment of dividends). 1 Expected volatility in the next 30 days, calculated from prices of options on the DAX.

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world. Japanese stocks were also shored up by the massive increase in the Bank of Japan's monetary easing programme and the rosier prospects for Japanese exporters. The price gains posted in this environment were reversed initially when the US Fed made the comments referred to earlier in this article about tapering its bond purchases. The resulting rise in government bond yields, which increased the discount factor and thus diminished the present value of future corporate earnings, making investments in government bonds more attractive, put equity prices worldwide under pressure. Another factor weighing down on the international equity markets was the tension in the Chinese money market, which fuelled fears of restrictions in the credit supply in China.

However, as the quarter drew to a close, signals by the US Fed that it intended to maintain its expansionary monetary stance for some time to come, relatively upbeat US labour market figures and positive quarterly financial results from US enterprises reignited investor optimism. In the euro area, equity prices were bolstered by budding hopes of an end to the recession, improved economic indicators for Germany and entrenched expectations of low policy rates in the future. On balance, the CDAX rose by 5.0%, with the Euro Stoxx and the S&P500 up by 8.0% and 5.9% respectively since the end of March. Meanwhile, Japanese shares included in the Nikkei index appreciated by as much as 10.9%. European bank stocks gained 19.8%, distinctly outperforming the total market, chiefly on account of Irish and Italian credit institutions which also participated in price gains recorded by government bonds of euro-area peripheral countries.

Price uncertainty among equity market participants was largely unchanged overall in the second quarter. Measured in terms of the implied volatility of equity options, price uncertainty thus remained below the five-year average on both sides of the Atlantic. While the price/earnings ratio of European stocks (Euro Stoxx) climbed to 12.0, the equity risk premium

Price gains towards the end of the reporting period

Implied volatilities almost unchanged

demanded by investors and based on a dividend discount model was virtually unchanged at 9.0%. This reflects the fact that analysts have taken stock of rising equity prices and hopes of improvements in economic activity and upped their medium and long-term corporate earnings estimates (IBES) slightly.

Stock market funding and stock purchases

Issuing activity in the German equity market picked up marginally in the second quarter. Domestic enterprises issued new shares totalling €7 billion, the bulk of which were listed equities. The lion's share came from an initial public offering and capital increases at larger financial corporations. All in all, however, a slight trend has been emerging of late which suggests that equity issues are lagging behind those of debt securities. The volume of foreign equities outstanding on the German market rose by €6 billion. Equities were purchased chiefly by domestic non-banks (€12½ billion), which tended to invest primarily in domestic securities on balance (€7 billion). Foreign investors, meanwhile, purchased equities for €2 billion. By contrast, domestic credit institutions offloaded shares in the amount of €1 billion.

Sales and purchases of mutual fund shares

During the reporting period, domestic investment companies recorded inflows of €14½ billion, after raising funds totalling €29½ billion in the previous three-month period. The fresh funds mainly accrued to specialised funds reserved for institutional investors (€13 billion). Among the asset classes, mixed securities-based funds were the main issuers of new shares (€7 billion), but open-end real estate funds and mixed funds (€2½ billion each) were also active in the market. Foreign funds traded in the German market attracted inflows totalling €4 billion net in the first quarter of 2013. Domestic non-banks were the main buyers, adding €19½ billion worth of mutual fund shares to their portfolios. This was domestic paper for the most part. By contrast, foreign investors offloaded mutual fund shares worth a net €1 billion. Domestic credit institutions played only a marginal role in the mutual fund market overall.

Major items of the balance of payments

€ billion

Item	2012	2013	
	Q2	Q1	Q2
I Current account^{1, 2}	+ 41.4	+ 45.1	+ 45.3
Foreign trade ^{1, 3}	+ 48.0	+ 49.3	+ 48.5
Services ¹	+ 1.4	- 0.2	+ 0.0
Income ¹	+ 7.3	+ 18.7	+ 8.0
Current transfers ¹	- 6.4	- 15.8	- 7.5
II Capital transfers^{1, 4}	+ 0.4	+ 0.3	+ 0.3
III Financial account¹ (Net capital exports: -)	- 49.2	- 40.7	- 61.5
1 Direct investment	- 6.0	- 12.0	- 12.5
German investment abroad	- 11.4	- 19.7	- 5.5
Foreign investment in Germany	+ 5.4	+ 7.7	- 7.0
2 Portfolio investment	+ 23.5	- 41.1	- 46.6
German investment abroad	- 0.4	- 46.7	- 36.0
Shares	- 1.4	- 9.8	- 3.3
Mutual fund shares	+ 3.7	- 10.7	- 4.1
Debt securities	- 2.8	- 26.1	- 28.7
Bonds and notes ⁵	- 3.8	- 21.1	- 29.8
of which Euro-denominated bonds and notes	- 4.6	- 20.9	- 22.8
Money market instruments	+ 1.0	- 5.0	+ 1.1
Foreign investment in Germany	+ 23.9	+ 5.5	- 10.6
Shares	+ 9.7	- 5.4	+ 2.8
Mutual fund shares	- 2.4	+ 0.1	- 0.8
Debt securities	+ 16.6	+ 10.8	- 12.6
Bonds and notes ⁵	+ 10.5	- 1.5	- 18.3
of which Public bonds and notes	+ 22.9	+ 6.8	+ 2.7
Money market instruments	+ 6.1	+ 12.3	+ 5.7
3 Financial derivatives⁶	- 7.5	- 3.9	- 6.1
4 Other investment⁷	- 58.5	+ 16.4	+ 3.8
Monetary financial institutions ⁸	- 12.7	- 8.8	- 13.7
of which short-term	- 16.7	- 10.2	- 24.5
Enterprises and households	+ 10.8	- 19.7	+ 5.9
of which short-term	+ 9.6	- 15.8	+ 8.2
General government	- 10.9	+ 4.1	+ 9.4
of which short-term	- 11.9	+ 3.9	+ 8.3
Bundesbank	- 45.7	+ 40.8	+ 2.1
5 Change in reserve assets at transaction values (increase: -)⁹	- 0.8	- 0.1	- 0.1
IV Errors and omissions	+ 7.4	- 4.8	+ 15.9

1 Balance. **2** Including supplementary trade items. **3** Special trade according to the official foreign trade statistics (source: Federal Statistical Office). **4** Including the acquisition/disposal of non-produced non-financial assets. **5** Original maturity of more than one year. **6** Securitised and non-securitised options as well as financial futures contracts. **7** Includes financial and trade credits, bank deposits and other assets. **8** Excluding the Bundesbank. **9** Excluding allocation of SDRs and excluding changes due to value adjustments.

■ Direct investment

*Capital exports
in direct invest-
ment*

As with cross-border portfolio investment, which recorded net outflows of €46½ billion, the direct investment account likewise saw net capital exports in the second quarter of 2013. At €12½ billion, these were roughly unchanged overall on the quarter, largely on account of German enterprises increasing their investment at foreign subsidiaries (€5½ billion) and foreign firms withdrawing capital from their German affiliates (€7 billion) during the quarter under review.

*German direct
investment
abroad*

During the second quarter of the year, German parent companies provided their foreign affiliates with equity capital and re-invested earnings (€6 billion each), and also saw capital inflows of €6½ billion in the form of intra-group credit transactions. The decisive factor at play here was the €22½ billion of predominantly

long-term loans extended by non-resident branches to affiliated enterprises in Germany. By far the most significant source of these kinds of “reverse loans” during the reporting period was the Netherlands (€17½ billion), which is traditionally home to the financial subsidiaries of German multinationals. Conversely, North American subsidiaries were the main recipients of German enterprises’ credit facilities (€6 billion), while Luxembourg was a major destination for equity top-ups (€3½ billion).

Foreign investors withdrew capital mostly by way of intra-group credit transactions (€5 billion) and to a lesser extent in the form of profit distributions and equity capital reductions. Owners from Italy (€2 billion), Spain and the United States (€1½ billion each) and the Arabian Gulf states (€1 billion) played a significant role here.

*Foreign direct
investment
in Germany*