Financial markets

Financial market setting

Rising government bond yields and share price losses in the spotlight

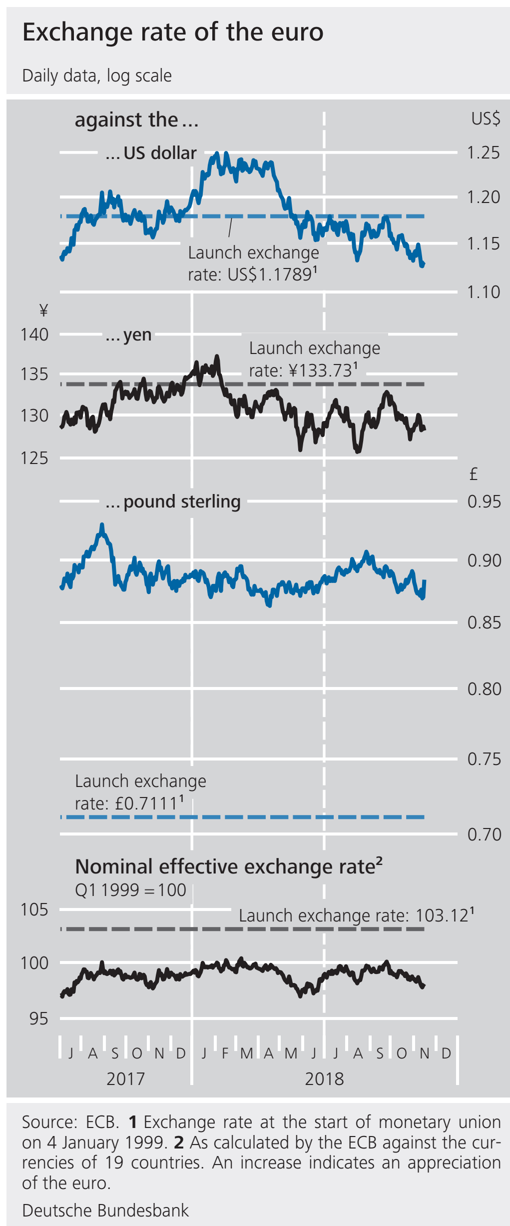
From the end of June 2018, international financial markets were shaped by a somewhat less dynamic global economy. In addition, negative political influences again became slightly more pronounced. These include, for instance, the trade disputes between the United States and China, and the Italian government's failure to comply with European fiscal rules. With economic growth remaining solid, interest rates on government bonds picked up, especially in the US, which is experiencing rapid growth and where the Federal Reserve continued implementing its policy of gradually increasing key interest rates as announced. In the euro area, higher risk premia for individual countries played an important role. This was particularly the case in Italy, where the debate surrounding the government's budget plans prompted market participants to avoid Italian sovereign bonds, which pushed yields considerably higher. Meanwhile, since safe haven debt securities such as German Federal securities were in demand in this market environment, yields on Federal bonds (Bunds) remained practically unchanged. Equity markets initially moved sideways amid fluctuations. However, towards the end of the third quarter, the above-mentioned headwinds exerted considerable pressure on prices. European stocks – notably bank equities – suffered particularly steep price losses. In addition, amid higher risk aversion among market participants, implied volatility, which had so far been at relatively low levels in equity markets, picked up markedly worldwide. Despite some distinct price drops in equity and bond markets, the euro saw only moderate changes overall against the US dollar, the yen and pound sterling from the end of June. Signs of a slight easing came from a few emerging market economies as their currencies, which had depreciated substantially into August, recently stabilised against the euro and their bond yields fell – in some cases considerably.

Exchange rates

Euro down against the US dollar, …

From the end of June, the euro exchange rate fluctuated but ultimately recorded only minor net changes against the currencies of important trading partners. This period did see it depreciate against the US dollar, however. In mid-August, as expectations of an interest rate hike in the United States firmed up and with anxiety surrounding the exposures of some European banks in Turkey temporarily heightened, the euro hit its lowest point so far this year, at US$1.13. However, declining risk aversion and surprisingly upbeat economic data coming out of Germany led the single currency to a recovery over the remainder of the month. The euro's upward tendency was subsequently interrupted only briefly by unexpectedly strong economic data concerning GDP growth and labour market performance on the other side of the Atlantic. It culminated in the euro reaching a rate of US$1.18 at the start of the last week in September – the highest it had been in over two months.

In the weeks that followed, however, the euro surrendered its gains against the US dollar. The discussion around the Italian government's draft budget, which – as mentioned above – was reflected in higher risk premia for Italian sovereign bonds, placed broad pressure on the euro. Since the formation of Italy's new government, the euro-US dollar exchange rate remained more moderate in its direct response to a widening of the yield spread between Italian bonds and German Bunds with comparable maturities than in the preceding year and a half; the spread widened by a considerable margin, however. In October, September's surprisingly weak figures for inflation in the euro area, which weighed on interest rate expectations, and predominantly upbeat US economic indicators placed distinct pressure on the euro, such that in November it reached a new low



Exchange rate of the euro

Daily data, log scale

Source: ECB. **1** Exchange rate at the start of monetary union on 4 January 1999. **2** As calculated by the ECB against the currencies of 19 countries. An increase indicates an appreciation of the euro.

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for the year; it ended the reporting period at US$1.13, 3.0% below its end-June 2018 level.

... but practically unchanged against the yen ...

From mid-August, the euro-yen exchange rate followed a similar path to the euro-US dollar rate, indicating that news from the euro area was the principal driver behind exchange rate movements. As against the US dollar, in mid-August the euro thus also reached a low for the year against the Japanese currency, at ¥126. As turbulence in the foreign exchange markets of a number of emerging market economies subsided, market participants' risk aversion decreased, which tends to stimulate capital outflows from Japan. Against this backdrop, the euro had already recovered markedly by the end of August. Even though higher than anticipated Japanese inflation figures put the brakes on this movement for a time, the euro continued to profit from the more relaxed state of affairs in the financial markets of some emerging market economies in September. It consequently stood at close to ¥133 as the month drew to a close, which was the highest it had been in five months. Temporary increases in yields on long-term Japanese government bonds subsequently provoked a turnaround. In October, news from Italy led the euro to further losses against the yen – as was the case with the US dollar. At last count, the euro was trading at ¥128, which was 0.7% lower than at the beginning of the third quarter.

... and against pound sterling

Along with the tensions in the euro area referred to above, reports on the status of negotiations on the United Kingdom's withdrawal from the EU have proved to be important determinants for the euro-pound sterling exchange rate of late. In August, the pound was weighed down by mounting concerns that the United Kingdom could end up leaving without a deal having been negotiated. The euro thus ended the month at the highest it had been all year, trading at £0.91. However, it subsequently lost value again through to mid-October. This came amid news that the EU and the United Kingdom were apparently moving closer to agreement with each other again and as London reported unexpectedly upbeat economic data, including on GDP and retail sales. After the second half of October was marked by stalling Brexit negotiations and a corresponding appreciation of the euro, the growing political uncertainty of late in the United Kingdom surrounding a negotiated draft withdrawal agreement led to stronger fluctuations in the exchange rate. At the end of the reporting period, the euro stood at £0.88 and thus 0.3% below its value at the end of June 2018.

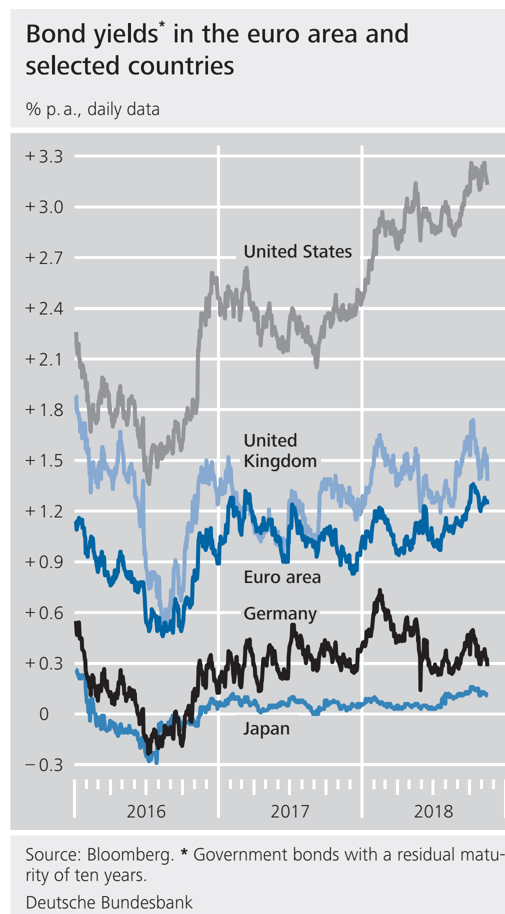
Euro more or less unchanged in effective terms

On a weighted average against the currencies of 19 major trading partners, the euro remained virtually unchanged on balance (-0.8%)

against the start of the third quarter. That said, it did record some gains, for instance against the renminbi (+1.7%). Amongst other headwinds, China's currency faced pressure stemming from the country's trade dispute with the United States. Outside the group of 19 partner currencies, the euro experienced pronounced fluctuations against the currencies of certain emerging market economies. At last count, it was trading 14.4% stronger against the Turkish lira than it had been at the end of the second quarter, and had been higher still for a time. In addition to monetary policy measures, the easing of a political conflict between Turkey and the United States helped the lira to recover from mid-September onwards. The euro appreciated by 20.2% against the Argentine peso. Here, too, the situation eased somewhat from the end of August after the International Monetary Fund had expanded its credit lines and Argentina's central bank and government had moved to further tighten up monetary policy and fiscal policy, respectively.

Bond yields* in the euro area and selected countries

% p. a., daily data



Source: Bloomberg. * Government bonds with a residual maturity of ten years.
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Securities markets and portfolio investment

On balance, yield on ten-year US Treasuries up and …

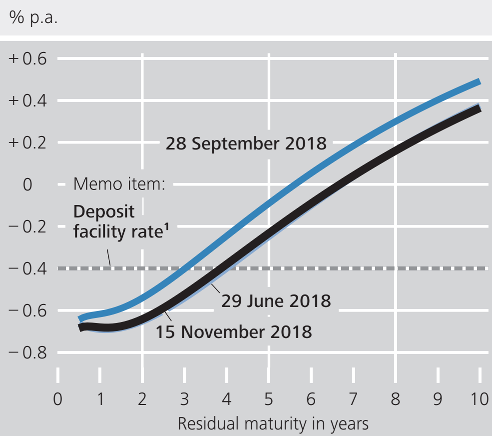
From the end of June 2018, yields on ten-year government bonds rose overall in the various currency areas – in some cases markedly. Most notably, interest rates in the United Sates saw a rather strong surge in net terms, climbing 25 basis points to 3.1%. For the most part, these rising interest rates were attributable to higher term premia, that is to say premia that investors receive in exchange for holding securities with longer maturities in their portfolios. It is likely that interest rate risk in connection with real rates of return was a key motivation for market participants here. One reason behind the rising premia could have been the growing uncertainty among market participants over how the contentious state of international trade policy and mounting US sovereign debt would impact growth in the long run. In addition, safe haven flows by investors anxious about economic developments in some emerging market economies were reversed as conditions in certain markets – some of which had been critical – stabilised. From the end of August, in particular, effects stemming from these reversed flows could have been another contributor to the calculated increase in term premia. By contrast, monetary policy's part in the rising ten-year yields was rather marginal. At its September meeting, the Federal Reserve confirmed its plans to continue tightening up monetary policy, progressing with a further interest rate hike. The markets had been expecting this.

… ten-year Bunds virtually unchanged

On balance, the yield on ten-year Bunds has barely changed in comparison with the end of June, up by 1 basis point to 0.3%. Unlike in the United States, both the yield component of the average expected short-term interest rates for ten years ahead and the term premium component remained largely static. As a consequence, the spread between the United States and Germany broadened again to the widest it

Yield curve on the German bond market*

% p.a.



* Interest rates for (hypothetical) zero coupon bonds (Svensson method), based on listed Federal securities. **1** Current interest rate on the deposit facility in place since 15 March 2016.
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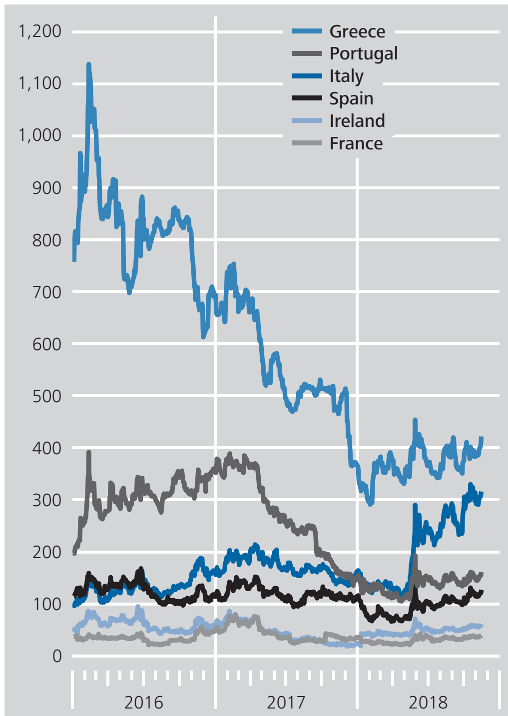
Spreads of ten-year government bonds over German Bunds

Basis points, daily data



Sources: Bloomberg and Bundesbank calculations.
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has been since the end of the 1980s, at 277 basis points.

Barely any shift in the yield curve on balance

The yield curve derived from yields on Federal securities barely moved compared with the end of June. By the end of September, there had been a moderate increase in yields across all maturities. The decisions of the ECB's Governing Council to scale back the monthly pace of the net asset purchases under the expanded asset purchase programme (APP) to €15 billion as of October did not appear to elicit any direct response from yields, though. In October, however, the impact of Italian fiscal policy and elevated volatility in global equity markets then generated a flight to quality. Towards the end of the reporting period, these safe haven flows went up a gear owing to the uncertainty surrounding whether the draft deal for the United Kingdom's withdrawal from the EU would achieve a majority in the UK parliament. This caused another parallel downward shift in the yield curve. At last count, bonds with maturities of up to six years were again in negative territory.

Yield spreads over Bunds in certain euro area countries widened

The yield spread between ten-year Bunds and ten-year government bonds of other euro area countries (GDP-weighted average) widened by 24 basis points. The wider yield spread between Italian bonds and Bunds features particularly large in this difference, having increased by 76 basis points to 316 basis points. The risk premia being demanded by buyers of Italian government bonds thus reached a level not seen since 2013. Rating agencies also took a critical view of Italy's fiscal policy. In mid-October, the ratings agency Moody's downgraded the creditworthiness of Italian government bonds a notch to Baa3 and, at the end of that month, Standard and Poor's issued a negative outlook for Italy's current rating. In European government bond markets, the yield movements in Italy have so far been regarded as a predominantly country-specific factor. This was also reflected in a broader dispersion of yield spreads over German Bunds. The measure of dispersion is sensitive to country-specific outliers in the yield spread. The widening of yield spreads for Greek government bonds can likewise largely be traced back to domestic developments. Speculation regarding state aid for Greek banks, which still have a very large proportion of non-performing loans on their books, prompted concerns in bond markets

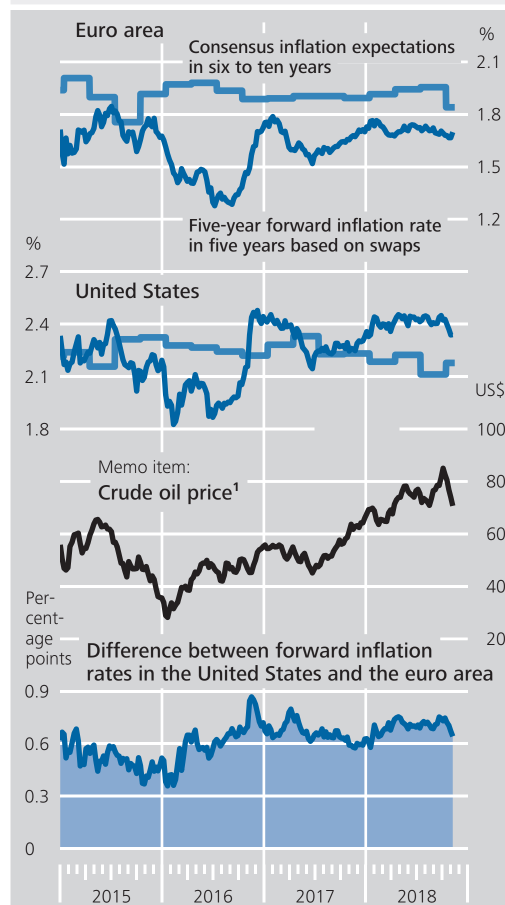
about additional fiscal burdens. Measuring 422 basis points, the yield spread of Greek bonds was, at last count, 56 basis points wider than it had been at the end of June. Following the end of the last assistance programme, Greece is continuing to hold off on re-entering the bond issuance market for now.

Increased yields in the United Kingdom and Japan

At last count, yields on ten-year UK gilts stood around 10 basis points higher than at the end of June, at 1.4%. Yields on UK bonds initially moved in line with the broader international trend, and when the Bank of England raised its policy rates to 75 basis points on 2 August, long-term yields barely moved in response. They have fallen markedly of late, however, amid the above-mentioned political uncertainty in the United Kingdom. The yield on ten-year Japanese government bonds climbed to 0.1%, leaving it 8 basis points higher than at the end of June when this report went to press. Yields thus remained within the now broader corridor specified by the Bank of Japan as part of its yield curve control programme.

Forward inflation rates* and expectations in the euro area and the United States

Weekly averages



Sources: Bloomberg, Thomson Reuters, Consensus Economics and Bundesbank calculations. * Derived from the fixed cash flow arising from inflation swaps which is swapped for the actual annual inflation rates (HICP excluding tobacco for the euro area and CPI Urban Consumers for the United States) realised over the next five or ten years. **1** Brent blend (for delivery in one month).

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Forward and survey-based inflation expectations steady

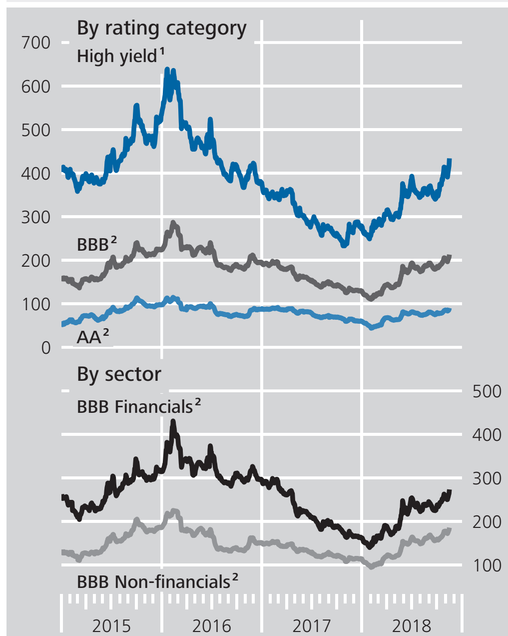
Five-year forward inflation rates five years ahead derived from inflation swaps have remained virtually unchanged at 1.7% (-4 basis points) since the end of June. The long-term survey-based inflation expectations collected by Consensus Economics are still higher than that, at 1.8%. The difference between these two values is possibly attributable to scarcity, liquidity and inflation risk premia, which can affect market-based measures and dilute their informative value as economic indicators. Both market-based and survey-based deflation probabilities are negligible for the coming years.

Corporate bond yields somewhat higher

Yields on European corporate bonds have increased somewhat since the end of the second quarter. Bonds issued by BBB-rated financial corporations with a residual maturity of between seven and ten years were yielding 2.9% as this report went to press, up 26 basis points. Yields on non-financial corporate bonds with the same maturity climbed by 29 basis points to 2.1%. The significant increase in yields on Italian government bonds spilled over only partially to the corporate sector there. That said, yields on Italian corporate bonds did register an above-average increase. Yield spreads of European financial and non-financial corporate bonds over Bunds widened by 23 basis points and 25 basis points, respectively, with Bund yields remaining more or less unchanged on balance. Wider spreads are consistent with increased uncertainty in equity markets and point to a decreasing risk appetite among market participants. This is somewhat more pronounced still for high-yield bonds than for investment grade corporate bonds, with yield spreads of the former having widened at an

Yield spreads of corporate bonds in the euro area*

Basis points, daily data



Sources: Thomson Reuters and Bundesbank calculations. * Compared with Federal securities with a residual maturity of seven to ten years. 1 Merrill Lynch index across all maturities. 2 In each case, iBOXX indices with a residual maturity of seven to ten years.

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Investment activity in the German securities markets

€ billion

Item	2017 Q3	2018 Q2	2018 Q3
Debt securities			
Residents	18.3	16.0	39.2
Credit institutions	− 23.6	− 11.1	0.5
of which:			
Foreign debt securities	− 5.5	− 1.2	8.0
Deutsche Bundesbank	34.3	19.2	18.0
Other sectors	7.5	8.0	20.6
of which:			
Domestic debt securities	− 15.0	3.2	9.3
Non-residents	− 26.5	− 18.0	− 6.9
Shares			
Residents	13.2	24.4	7.5
Credit institutions	− 3.0	0.9	− 2.1
of which:			
Domestic shares	− 0.8	1.3	0.4
Non-banks	16.2	23.5	9.7
of which:			
Domestic shares	5.3	6.2	0.2
Non-residents	− 2.3	3.6	0.3
Mutual fund shares			
Investment in specialised funds	10.5	12.9	16.1
Investment in retail funds	8.9	4.1	3.6
of which:			
Equity funds	3.6	− 1.6	0.6

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above-average pace. At the end of the period under review, spreads were above the very low levels observed prior to the onset of the financial crisis in July 2007, but still close to their five-year averages. Overall, then, financing conditions for European enterprises can still be considered relatively favourable.

Net issuance in the bond market

Gross issuance in the German bond market stood at €310 billion in the third quarter of 2018 and was therefore below its previous-quarter level (€326 billion). After deducting redemptions and taking account of changes in issuers' holdings of their own bonds, net issuance of bonds came to €12 billion. In addition, foreign borrowers placed debt securities worth €20½ billion in the German market. The outstanding volume of debt instruments in the German market therefore rose by €32½ billion in the period under review.

Rise in public sector capital market debt

The public sector issued bonds totalling €8 billion net in the third quarter. This figure also includes issues by resolution agencies set up for German banks, which are ascribed to the public sector for statistical purposes. The Federal Government itself mainly issued five-year Federal notes (Bobls; €9½ billion), 30-year Bunds (€5 billion) and Treasury discount paper (Bubills; €3½ billion). At the same time, there were net redemptions of ten-year Bunds (€9 billion) and also of two-year Federal Treasury notes (Schätze; €2 billion). In the quarter under review, state governments issued bonds of their own to the value of €3 billion in net terms.

Net issuance by credit institutions

Domestic credit institutions increased their capital market debt in the quarter under review by €4½ billion, following net redemptions in the same amount in the second quarter. They primarily issued mortgage Pfandbriefe and other bank debt securities which can be structured flexibly (€5 billion and €4 billion, respectively). Specialised credit institutions, meanwhile, redeemed debt securities totalling €3½ billion net.

Low redemptions by enterprises

Domestic enterprises redeemed debt securities worth €½ billion net in the third quarter. On balance, this was mainly attributable to other financial institutions, whereas non-financial corporations were net issuers of bonds.

Domestic non-banks and Bundesbank main buyers of debt securities

In the third quarter, German non-banks were the main buyers in the domestic bond market, adding paper worth a net €20½ billion to their portfolios. The focus of buyer interest here was on foreign paper. The Bundesbank acquired debt securities in the amount of €18 billion, for the most part under the Eurosystem's asset purchase programmes. Domestic credit institutions increased their bond portfolio by €½ billion, mainly through the acquisition of foreign bonds. By contrast, non-resident investors parted with German debt securities to the tune of €7 billion net. On balance, these bonds were almost entirely issued by the public sector.

Equity market

Equity markets still influenced by robust economic activity initially, …

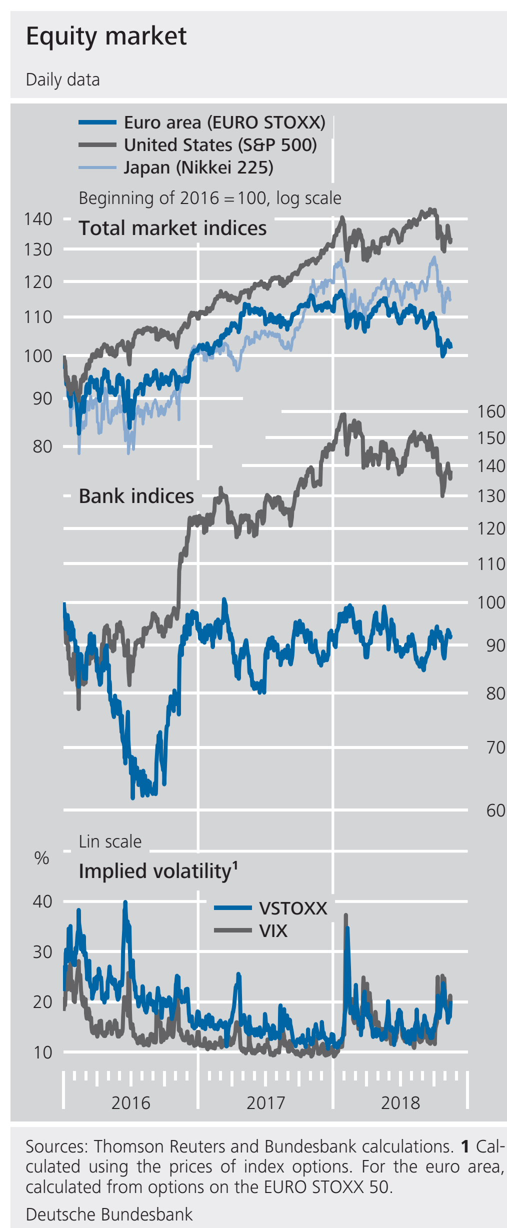
International equity markets were still being driven primarily by robust economic activity and positive earnings prospects as the third quarter got under way. In the United States, in particular, the adopted tax cuts, a government spending programme and favourable labour market data continued to buoy investor confidence. Against this backdrop, headwinds for equity markets, such as persistent uncertainty about international trade relations and the consequences of Brexit, as well as concerns surrounding the indebtedness of some emerging market economies, did not dampen share prices for long.

… equity prices under pressure since end-September, …

From the end of September, however, the slightly less optimistic prospects for the global economy, mounting fears of an escalating trade conflict between the United States and China, and intermittent geopolitical uncertainties were the main factors which put international equity markets under significant pressure. This correction particularly affected technology shares, which up until then had racked

Equity market

Daily data



Sources: Thomson Reuters and Bundesbank calculations. **1** Calculated using the prices of index options. For the euro area, calculated from options on the EURO STOXX 50.

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up above-average price gains, but other sectors that are heavily dependent on international trade, such as the European automotive sector, also took a hit. The falls in stock prices might also have been exacerbated by the rise in government bond yields, which increases the discount factor used to discount future company profits. In the euro area, the aforementioned political debate surrounding the Italian government's draft budget ultimately weighed on the prices of Italian shares and European financials stocks in particular. At the same time, market participants revised downwards their medium-term profit expectations for European companies. Alongside higher risk aversion, implicit

Major items of the balance of payments

€ billion

Item	2017 Q3	2018 Q2	2018 Q3p
I. Current account	+ 64.0	+ 64.3	+ 51.6
1. Goods[1]	+ 68.9	+ 69.6	+ 56.1
2. Services[2]	− 11.8	− 3.6	− 11.6
3. Primary income	+ 17.9	+ 3.8	+ 19.1
4. Secondary income	− 11.0	− 5.4	− 12.0
II. Capital account	+ 0.9	+ 0.1	− 1.0
III. Financial account (increase: +)	+ 55.0	+ 70.5	+ 30.7
1. Direct investment	− 0.8	+ 32.1	+ 1.4
Domestic investment abroad	+ 20.6	+ 55.6	+ 22.0
Foreign investment in the reporting country	+ 21.4	+ 23.5	+ 20.6
2. Portfolio investment	+ 58.5	+ 23.7	+ 37.1
Domestic investment in foreign securities	+ 30.4	+ 6.1	+ 28.4
Shares[3]	+ 5.1	− 1.4	+ 3.9
Investment fund shares[4]	+ 10.7	+ 4.4	+ 4.2
of which: Money market fund shares	+ 0.1	− 0.0	− 1.4
Long-term debt securities[5]	+ 15.2	+ 4.4	+ 21.0
of which: Denominated in euro[6]	+ 6.4	+ 5.9	+ 18.5
Short-term debt securities[7]	− 0.7	− 1.3	− 0.7
Foreign investment in domestic securities	− 28.1	− 17.5	− 8.8
Shares[3]	− 2.3	+ 3.5	− 1.6
Investment fund shares	+ 0.7	− 3.0	− 0.4
Long-term debt securities[5]	− 21.1	− 18.7	− 8.6
of which: Issued by the public sector[8]	− 19.0	− 21.7	− 8.0
Short-term debt securities[7]	− 5.3	+ 0.7	+ 1.7
3. Financial derivatives[9]	+ 2.1	+ 9.6	+ 10.1
4. Other investment[10]	− 5.0	+ 5.4	− 17.4
Monetary financial institutions[11]	− 12.5	− 13.2	− 7.3
Enterprises and households[12]	− 3.8	− 11.3	+ 5.9
General government	− 8.7	− 4.3	− 8.8
Bundesbank	+ 20.0	+ 34.3	− 7.1
5. Reserve assets	+ 0.2	− 0.4	− 0.5
IV. Errors and omissions[13]	− 9.9	+ 6.0	− 19.8

1 Excluding freight and insurance costs of foreign trade. 2 Including freight and insurance costs of foreign trade. 3 Including participation certificates. 4 Including reinvested earnings. 5 Long-term: original maturity of more than one year or unlimited. 6 Including outstanding foreign D-Mark bonds. 7 Short-term: original maturity up to one year. 8 Including bonds issued by the former Federal Railways, the former Federal Post Office and the former Treuhand agency. 9 Balance of transactions arising from options and financial futures contracts as well as employee stock options. 10 Includes in particular financial and trade credits as well as currency and deposits. 11 Excluding the Bundesbank. 12 Includes the following sectors: financial corporations (excluding monetary financial institutions) as well as non-financial corporations, households and non-profit institutions serving households. 13 Statistical errors and omissions, resulting from the difference between the balance on the financial account and the balances on the current account and the capital account.

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volatility increased appreciably and remained above its respective five-year average right up to the present.

... but no permanent flight to safe haven investments

However, in spite of this deterioration in the equity market backdrop, there has been no evidence overall of a permanent flight from equities to safe haven investments on either side of the Atlantic. Measured in terms of the broad EURO STOXX index, European equities have lost 6.8% of their value since the end of June, a little less than German stocks (CDAX: -7.5%). In contrast to European shares, the US S&P 500 index edged higher (up 0.4% overall), which is probably attributable in part to the fact that the quarterly reporting season for US companies got off to a mostly positive start. Indices for the United Kingdom (FTSE All Share) and for Japan (Nikkei 225) fell by 8.2% and 2.2%, respectively.

Bank shares underperform total market

Bank shares underperformed the total market indices on both sides of the Atlantic. While shares of US banks nudged downwards (-0.2%), those of European credit institutions slid by 11.6%. In the euro area, shares of Greek and Italian banks suffered particularly heavy losses (-46.9% and -20.7%, respectively). One of the reasons for the fall in share prices of Greek banks were fresh concerns among investors about the recoverability of non-performing loans, which are impeding banks' efforts to strengthen their capital base. Shares in Italian banks were heavily impacted by the falling prices of Italian government bonds, which credit institutions there hold in large amounts (sovereign-bank nexus).

Valuations down in euro area, almost constant in United States

With little change in expected company profits for the year, the losses in the EURO STOXX index sent the price/earnings ratio lower (and the earnings yield higher), indicating a lower valuation of shares than at the end of the second quarter.[1] For the S&P 500 index, the price/earnings ratio remained virtually un-

1 The earnings yield is the inverse of the price/earnings ratio.

changed. A further indicator that can be used to assess stock market valuation is the implied equity risk premium, which is derived from a dividend discount model. Unlike the price/earnings ratio, this risk premium is a relative measure that takes account of alternative investments in government bonds and can therefore be interpreted as a premium that investors demand for a risky investment over a safe one. The equity risk premium for the EURO STOXX increased marginally in the reporting period, while it fell for the United States. As such, it is currently slightly higher than the average of the last five years for the EURO STOXX, indicating a moderate valuation level in the European stock market. For the S&P 500, by contrast, it remains below the average of the last five years.

Equity issuance and acquisition

Domestic enterprises issued €1 billion worth of new shares in the third quarter of 2018, the bulk of which were non-listed securities. The volume of foreign equities outstanding in the German market rose by €7 billion. German non-banks were, on balance, by far the main purchasers of equity instruments (€9½ billion). Foreign investors purchased equities for €½ billion in net terms, while domestic credit institutions scaled back their equity portfolio by €2 billion.

Sales and purchases of mutual fund shares

During the quarter under review, domestic investment companies recorded inflows of €19½ billion, after raising funds totalling €17 billion in the previous three-month period. The fresh cash mainly accrued to specialised funds reserved for institutional investors (€16 billion). Among the asset classes, mixed securities-based funds, in particular, attracted large inflows (€10½ billion). Open-end real estate funds and funds of funds also placed new shares in the market (€4½ billion and €4 billion, respectively). Foreign funds distributed in the German market attracted inflows of €4 billion net in the third quarter of 2018. Domestic non-banks were the main buyers, adding mutual fund shares worth €23 billion to their portfolios. Their focus was predominantly on German paper. German credit institutions purchased mutual fund shares for €1½ billion net, while non-resident investors sold domestic fund shares worth €½ billion net.

Direct investment

Direct investment sees capital exports

As with cross-border portfolio investment, which saw net outflows totalling €37 billion in the third quarter of 2018, there were also net capital exports in the field of direct investment, though these were significantly lower, at €1½ billion.

German direct investment abroad

German companies invested €22 billion abroad in net terms in the third quarter, compared with €55½ billion in the previous quarter. They increased their equity capital by €21 billion, of which €8 billion was reinvested earnings, and transferred only small amounts abroad via intra-group credit transactions (€½ billion). Major destinations for German direct investment were Luxembourg (€6 billion) and the Netherlands (€3½ billion).

Direct investment in Germany by foreign enterprises

Foreign direct investment in Germany came to a net €20½ billion between July and September 2018 (compared with €23½ billion in the prior three-month period). Foreign enterprises increased both their equity capital (€7½ billion) and their intra-group loans (€13 billion), the latter being mainly financial credits. From a geographical point of view, as in the previous quarter, there was again a significant flow of capital from the Netherlands to Germany (€12 billion), primarily in the form of reverse flows. In these transactions, foreign subsidiaries make funds available to their parent companies resident in Germany. Enterprises located in Switzerland also invested in Germany (€5½ billion).