

## The influence of the newly established resolution agencies on Germany's balance of payments for 2010

The transactions undertaken by resident resolution agencies had a large impact on cross-border portfolio and other investment in 2010. Two severely distressed German financial institutions, WestLB and the HRE group, set up resolution agencies based on the Financial Market Stabilisation Development Act (*Gesetz zur Fortentwicklung der Finanzmarktstabilisierung*), to which they transferred primarily cross-border risk positions and non-strategic business units on a considerable scale.

The resolution agencies are commercially independent public-law entities with partial legal capacity operating under the umbrella of the Financial Market Stabilisation Agency (FMSA),<sup>1</sup> which, following a decision by the Statistical Office of the European Communities (Eurostat),<sup>2</sup> are assignable to the general government sector. The government sector, via the resolution agencies, therefore features for the first time as a large buyer of foreign securities and lender to non-residents in the balance of payments.

In December 2009, WestLB transferred a first portfolio, consisting of structured securities, with a nominal value of roughly €6 billion to its resolution agency Erste Abwicklungsanstalt (EAA); a second, much larger portfolio with a nominal value of approximately €71 billion followed in April 2010.

The HRE group's winding-up institution, FMS Wertmanagement (FMS-WM), became operational in October 2010. The portfolio (excluding derivatives) that was transferred to it had a nominal value of around €173 billion at the time and included positions of HRE Holding AG and its direct and indirect domestic and foreign subsidiaries.

Large transactions affecting the balance of payments mainly took the form of the transfer of securities, risk positions and the non-strategic business units of foreign

group units. However, even after the transfer itself, a considerable volume of transactions were recorded between the resolution agencies and non-resident units.<sup>3</sup>

In portfolio investment, a transfer of securitised assets affects the balance of payments if the portfolio is transferred by non-resident group units of the banks in question to resident resolution agencies. Depending on whether the securities in question were issued by residents or non-residents, German investment abroad (foreign securities) increases or foreign investment in Germany (domestic securities) declines. Both cases are reflected in net capital exports in the financial account.

Last year, the principal cross-border item transferred to the resolution agencies were foreign debt securities. The book value of such securities represented more than half of foreign securities purchases, which totalled €171½ billion.

Unsecuritised financial flows in the general government and banking sectors are – where relevant to the balance of payments – derived from changes in stocks and entered as other investment by maturity. They include

- Transfers of the balance sheet positions of resident group units of the banks in question to resident resolution agencies, provided these items represent external assets or liabilities. For statistical purposes, the banks' original credit relationships are dissolved and new financial relationships established in the general government sector. Overall, this does not affect the balance of the financial account.
- Direct transfers of the claims and liabilities of foreign affiliates to resolution agencies, provided they relate to non-residents. This gives rise to capital exports or imports.

<sup>1</sup> Resolution agencies are subject to legal supervision by the FMSA. To a limited extent they are also supervised by the Federal Financial Supervisory Authority (BaFin). — <sup>2</sup> See <http://epp.eurostat>.

[ec.europa.eu/portal/page/portal/government\\_finance\\_statistics/documents/471529\\_let%20WR-BMF\\_EAA.pdf](http://ec.europa.eu/portal/page/portal/government_finance_statistics/documents/471529_let%20WR-BMF_EAA.pdf). The concrete decision only relates to EAA. FMS-WM was classified accordingly. — <sup>3</sup> The funding

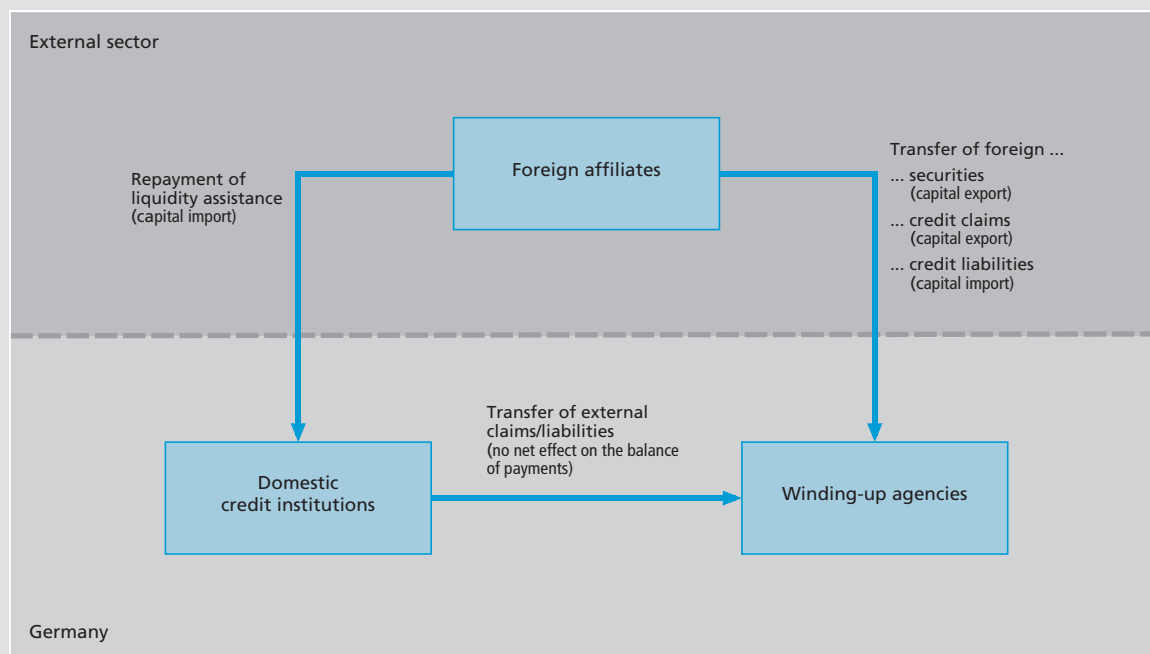
In terms of other investment, this had the following concrete impact in 2010.

- In the item long-term credit transactions by general government, the transfer of credit portfolios to resolution agencies caused net capital exports in a double-digit billion euro figure in statistical terms.
- General government's short-term credit transactions, by contrast, saw even greater inflows of funds from the external sector. This can largely be explained by the fact that liabilities to non-residents were also transferred to the resolution agencies. In addition, the

agencies borrowed further funds from non-resident counterparties after they were set up.

- The above-mentioned banks have – as stated – also transferred their own claims on non-resident clients to the resolution agencies. This has significantly reduced their net external position. In statistical terms, all other things being equal, this equates to a net capital import which is mainly reflected in banks' short-term credit transactions. Moreover, as outlined on page 36, the banking system experienced further net capital imports as a result of deleveraging and increased net inflows from abroad.

#### Important transactions undertaken by the winding-up agencies and their reflection in the balance of payments



of the resolution agencies in particular, which is, in some cases, short term and involves non-resident counterparties, continually gives rise to cross-border transactions. Looking ahead, the realisation or liquida-

tion of assets will trigger further capital flows that are relevant to the balance of payments.