Financial markets

Financial market setting

Financial markets influenced by monetary policy accommodation and declining capital market rates

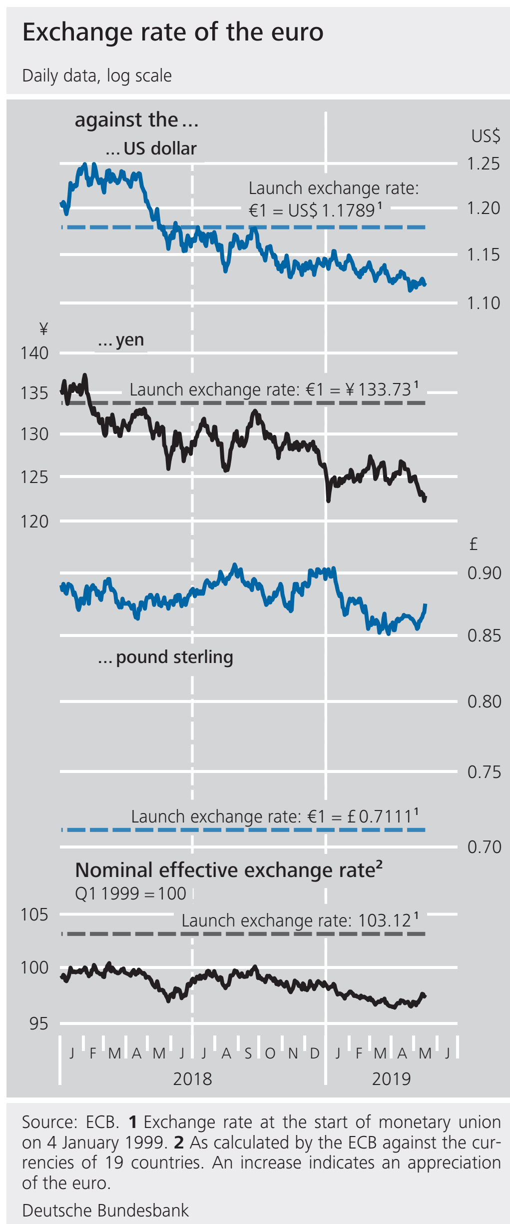
Since the beginning of the year, global financial markets have been influenced by mixed economic signals set against a monetary policy that is still predominantly accommodative. Following the monetary policy decisions taken in March 2019 by the Eurosystem and the Federal Reserve, market participants for the most part no longer expected key interest rates to be lifted in the euro area or the United States before the end of this year. Downward revisions to growth forecasts for this year are also likely to have played a part in this. As a result, the yield curves for both US Treasuries and Federal bonds dipped at the long end, leaving them perceptibly flatter than they were at the end of 2018. In equity markets, reduced capital market rates, which are associated with a lower discount factor, sent prices sharply higher, despite the economic uncertainty. Growing risk appetite among investors and a brief upturn in confidence in at least a partial resolution of the global trade disputes gave an added boost to equity prices. Moreover, market financing terms for European corporate bonds improved. Towards the end of the reporting period, a renewed escalation of the trade dispute between the United States and China had a dampening effect on asset prices worldwide, especially those of shares; however, compared with the previous sharp price gains, the impact was limited. Volatility in foreign exchange markets was low for the most part. The only currencies to record stronger movements were the Argentine peso and Turkish lira, which had already experienced heavy price swings last year. Overall, on a weighted average against the currencies of 19 major trading partners, the euro slipped slightly on balance compared with the end of December 2018.

Exchange rates

Euro down against the US dollar, …

Daily fluctuations in the EUR/USD exchange rate mostly remained relatively low during the first part of the year. On balance, however, the euro's value against the US dollar has drifted downwards over the period from the beginning of the year to the middle of May. The euro entered a period of weakness in early March when market participants, seeing a deterioration in the economic outlook, also took an increasingly dim view of the monetary policy prospects in the euro area. It gave up additional ground in direct response to the March meeting of the ECB Governing Council, falling to a rate of US$1.12. One of the main reasons for this was the Eurosystem announcement that, in view of a weaker economic and inflation outlook, policy rates would be left unchanged at least until the end of 2019. In the subsequent weeks, however, the US dollar temporarily surrendered a large part of its gains against the euro as subdued inflation figures in the United States bolstered the growing expectation among market participants of a postponement of further monetary tightening there or even an easing of monetary policy. The euro appreciated once more in direct response to the March meeting of the Federal Open Market Committee, propelled by the unexpectedly strong downward revision of the Federal Reserve's growth outlook and by surprise among market participants at the Fed's announcement that it intended to end its balance sheet normalisation in September rather than in December.

In the days that followed, sentiment in foreign exchange markets turned back against the euro, as a series of disappointing economic figures weighed on the single currency, particularly the unexpectedly weak flash estimate of the Eurozone Composite PMI at the end of March. Over the course of April, the euro was also buffeted by surprisingly poor figures on



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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consumer confidence in the euro area and on the business climate in Germany. On the other side of the Atlantic, by contrast, newly published data signalled that the US economy was becoming increasingly robust, buoying the US dollar. Amid these developments, the euro depreciated until the end of April to stand at US$1.11, its lowest level since May 2017. At the end of the period under review it was trading at US$1.12, which means that the euro has racked up losses of 2.2% since the end of December 2018.

… against the pound sterling …

The euro's movements against the pound sterling during the reporting period were driven by market participants' shifting assessments of what form the United Kingdom's planned withdrawal from the EU would take. In the second half of February, the pound initially gained in value against the euro. Although it was still not clear in February whether Prime Minister Theresa May would get a parliamentary majority for the withdrawal agreement negotiated with the EU, the impression among market participants strengthened that Brexit might be postponed, if necessary, to prevent the UK leaving without a deal. There then followed a series of temporary swings in both directions which lasted into April. This increased volatility was generally related to news on the planned withdrawal. The agreement in mid-April to postpone the exit date to October 2019 finally brought calm to the exchange rate. At the end of the reporting period, the euro was trading at £0.87, which was around 2.2% lower than at the beginning of the year.

… and against the yen

The EUR/JPY exchange rate followed a similar pattern to the EUR/USD exchange rate from mid-February to the end of March. Thus, starting from a year-to-date high of ¥127 at the beginning of March, the euro depreciated against the yen in two waves just as it did against the US dollar. From the beginning of April, economic figures from Japan and China sent the euro higher against the yen. First of all, the business climate in Japanese industry deteriorated unexpectedly sharply. This was followed, a few days later, by reports of surprisingly strong growth in Chinese exports. These figures, which are associated with positive signals for the global economy, led to a higher risk appetite in the foreign exchange market, which tends to favour capital outflows from Japan and puts pressure on the yen. Under the additional strain of the aforementioned economic figures from the euro area at the end of the reporting period, the euro was trading at ¥123 as this report went to press, down 2.4% on its level at the end of December 2018.

On a weighted average against the currencies of 19 major trading partners, the euro depreci-

Effective euro exchange rate weaker

ated by 1.0% on balance in this period. This performance also included, for example, losses against the renminbi (-2.1%) in connection with the relatively robust economic data in China and, for a while, growing hopes of a successful conclusion of the trade talks with the United States. Outside the group of 19 partner currencies, by contrast, the euro recorded marked gains against the Argentine peso (+17.0%) and the Turkish lira (+11.4%). Against the backdrop of a tense economic situation in Turkey, the euro began to gradually appreciate against the lira from mid-February. This was temporarily interrupted by sharp swings in the run-up to the Turkish local elections at the end of March. Although monetary policy support measures by the Turkish central bank, among other factors, led to a temporary countermovement, ongoing uncertainty about both the future monetary policy stance and shifts in Turkish foreign currency reserves saw the euro extend its gains against the lira over the course of April. The pace of appreciation accelerated at the beginning of May when some of the local election results were annulled.[1] By contrast, the exchange rates of other emerging market economies against the euro remained broadly unaffected by these developments.

Securities markets and portfolio investment

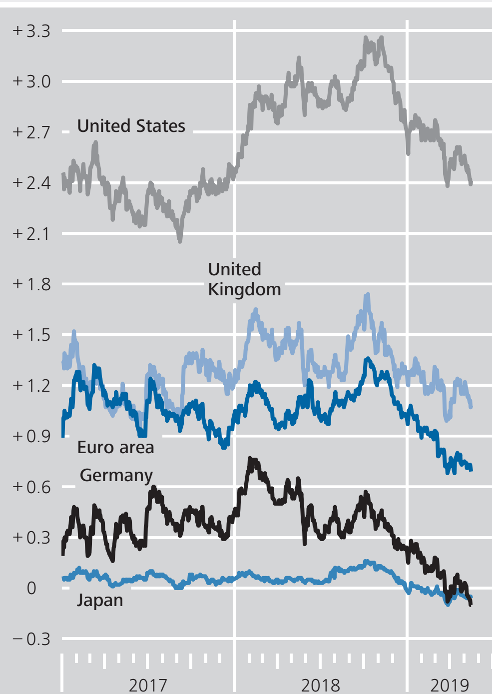
Bond market

Monetary policy and economic outlook push down yields on both sides of the Atlantic

Government bond yields on both sides of the Atlantic continued on their downward trajectories that had set in during the second half of 2018. In the United States, yields on ten-year US Treasuries have fallen 29 basis points since the start of the year to stand at 2.4%, and the interest rate differential in the maturity category of between three months and ten years has narrowed by 26 basis points overall. At its meetings this year, the US Federal Reserve kept the target range for the fed funds rate between 2.25% and 2.5%. Perceiving this to be accommodative language, market participants all but

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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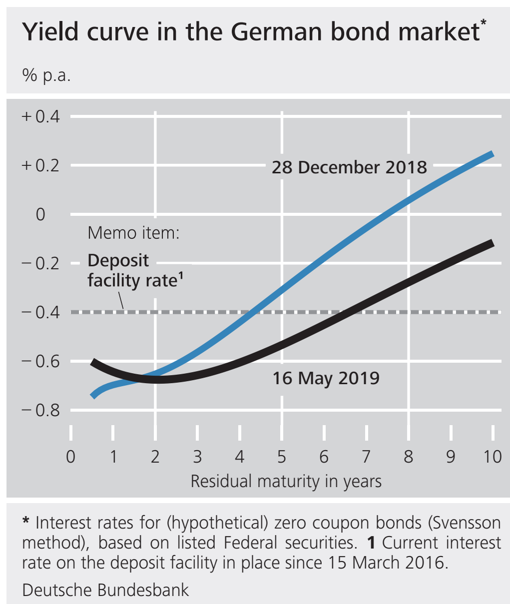
abandoned any lingering assumptions that there would be a further interest rate rise in the United States in 2019. Along with a yield curve which has even become more inverse at the short end, surveys reveal that analysts have revised downwards their growth forecasts for US gross domestic product (GDP) in 2019 from 2.6% in December to 2.4% in April (Consensus Forecast). At the same time, the yield on two-year Treasuries declined to 2.2%, leaving it at the lower end of the target range. This reflects expectations that the Fed's interest rate path will be very flat.

Yield on ten-year Bunds also down

The yield on ten-year Federal bonds has decreased by 34 basis points since the end of 2018 to -0.1%, its lowest level since September 2016. More so than in the United States, gloomy GDP expectations contributed to this

1 See the box on pp. 48 f.

Yield curve in the German bond market*



* 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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development.[2] Alongside the economic downside risks flagged by market players, the looser monetary policy stance adopted by the Eurosystem was another reason for the fall in the interest rate level. For example, the point in time at which the first interest rate hike is expected was pushed back to 2020 following the March meeting of the ECB Governing Council. In addition, the Governing Council's announcement that it would offer banks a new series of targeted long-term refinancing operations is likely to have dampened yields. On balance, the yield spread between ten-year US and German government bonds remained virtually unchanged at just over 250 basis points.

German yield curve flatter

The yield curve derived from yields on Federal securities became flatter as of the end of 2018 under the impact of the looser monetary policy stance and real economic influences. As this report went to press, the yield curve was in negative territory up to maturities of ten years. Bonds with residual maturities of up to five years yielded less than the deposit facility rate. At the same time, the scarcity and liquidity premia of Bunds, measured by the spread between yields on ten-year Bunds and comparably safe bonds from the Kreditanstalt für Wiederaufbau (KfW), stood just slightly below their highs attained in January.

Yield spreads have widened, particularly of Italian bonds over Bunds

The yield spread between ten-year Bunds and ten-year government bonds of other euro area countries (GDP-weighted average) widened slightly overall compared to the beginning of the year (+3 basis points to 112 basis points). Italian government bond spreads, in particular, were relatively volatile and rose on balance. The fact that credit rating agencies accepted by the Eurosystem decided not to downgrade Italy's credit rating in the period under review restored a degree of calm among market participants for a time. However, after the Italian government was forced in April to sharply revise downwards its growth forecast for 2019 and increased the budget deficit for the current year by more than originally agreed with the European Commission, investors' concerns about the sustainability of Italian public finances and the fiscal stance of the government grew once more. As this report went to press, the yield spread of Italian government bonds stood at 280 basis points, 114 basis points above its five-year mean. That of Greek government bonds declined sharply, meanwhile. In addition to the economic recovery in Greece and a rating upgrade by one credit rating agency, the Eurogroup's assessment that the Greek government had implemented some major economic policy reforms is certainly likely to have contributed to this. Yield spreads of Portuguese, Irish and Spanish government bonds also narrowed.

Yields down in the United Kingdom and Japan

By the end of March, yields on ten-year UK gilts had fallen 28 basis points to 1.0%. Yields did pick up again after the United Kingdom and the EU agreed in April to postpone Brexit, but they were still 20 basis points down on their year-end level as this report went to press. Ten-year Japanese sovereign bonds were yielding 6 basis points lower than at the close of 2018, at -0.06%. Japan's long-term interest rate thus remained within the band of -0.2% to 0.2%

2 According to analyst surveys (Consensus), growth expectations in the euro area for 2019 fell from 1.6% in December to 1.1%. For Germany, analysts downgraded their growth forecasts for the current year even more sharply, reducing them from 1.5% to 0.8%.

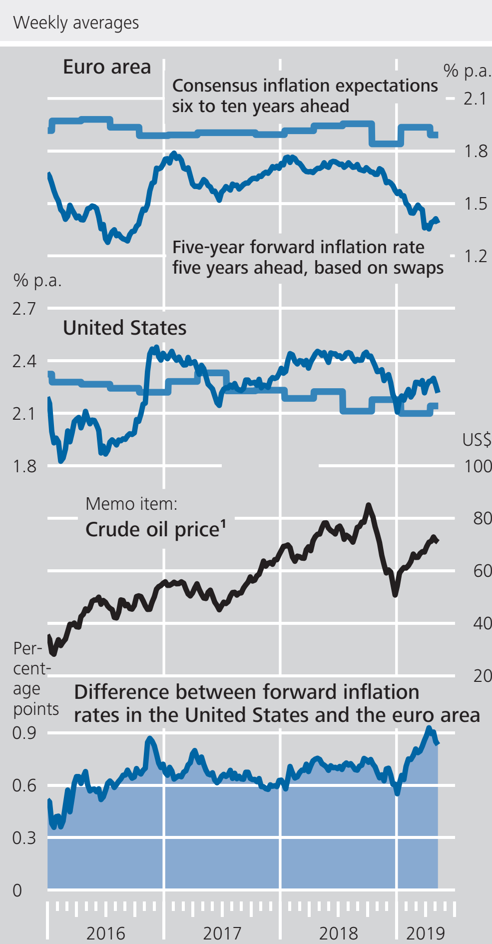
within which market participants believe that the Bank of Japan does not intervene.

Forward inflation rate and survey-based inflation expectations down

Despite higher crude oil prices, euro area forward inflation rates derived from inflation swaps for a period of five years starting in five years' time decreased by 24 basis points to 1.3%. Inflation expectations computed from Consensus Forecasts were also revised downwards, with the analysts lowering their inflation expectations for 2019 from 1.6% to 1.3% for the euro area and from 1.9% to 1.4% for Germany. Longer-term inflation expectations derived from surveys saw a comparatively marginal reduction, however. At the same time, both market-based and survey-based deflation probabilities for the coming years remained low, though. Moreover, estimates suggest that inflation expectations are still anchored: the aforementioned medium-term forward inflation rates did not show any systematic response to inflation shocks in the winter and spring months. Bundesbank estimates simultaneously indicate that declining term premia[3] are mainly driving the fall in Bund yields. It can therefore be argued that the lower forward inflation rates are another major factor reflecting the dwindling risk premia.

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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Corporate bond yields down significantly

Yields on European corporate bonds have fallen steeply since the start of the year, after having risen considerably over the course of 2018 as pessimism spread among market participants. Bonds issued by BBB-rated financial corporations with a residual maturity of between seven and ten years were yielding 2.1% as this report went to press, down 94 basis points on the end of December. Yields on non-financial corporate bonds of equivalent maturity fell by 78 basis points to 1.4%. The significant decline in corporate bond yields was driven not only by the lower risk-free interest rates but also by distinctly compressed yield spreads over Bunds. Overall, the yield spreads of financial and non-financial corporations narrowed by 61 basis points and 45 basis points respectively, leaving them below or close to their respective five-year averages. Receding spreads, which are consistent with tighter CDS spreads (iTraxx Europe) and reduced uncertainty in equity markets, suggest that risk aversion among market participants has eased, a sentiment reinforced by the use of what markets perceived to be accommodative central bank language. Financing conditions for European corporations can be described as favourable.

3 Market participants receive this premium in exchange for holding securities with longer rather than shorter maturities in their portfolios.

Investment activity in the German securities markets

€ billion

Item	2018 Q1	2018 Q4	2019 Q1
Debt securities			
Residents	34.6	8.9	16.0
Credit institutions	− 1.9	− 11.9	7.0
of which:			
Foreign debt securities	4.4	− 2.8	7.4
Deutsche Bundesbank	19.1	10.9	− 8.1
Other sectors	17.4	9.9	17.1
of which:			
Domestic debt securities	− 0.4	16.6	− 2.6
Non-residents	5.1	− 26.2	61.0
Shares			
Residents	22.2	− 7.3	6.7
Credit institutions	− 6.5	− 3.4	− 0.9
of which:			
Domestic shares	− 9.5	− 2.7	− 0.6
Non-banks	28.7	− 3.9	7.6
of which:			
Domestic shares	7.3	2.7	5.7
Non-residents	4.5	2.0	− 3.4
Mutual fund shares			
Investment in specialised funds	25.4	34.1	20.0
Investment in retail funds	6.9	0.6	3.1
of which:			
Equity funds	0.2	− 3.0	− 0.4

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High net sales in bond market

Gross issuance in the German bond market stood at €377½ billion in the first quarter of 2019, well up on the figure for the previous quarter (€264½ billion). After deducting redemptions and taking account of changes in issuers' holdings of their own bonds, net issuance of debt securities came to €52½ billion. In addition, foreign borrowers placed debt securities worth €24½ billion in the German market. Together, funds totalling €77 billion net were thus raised in the German bond market in the reporting period.

Significant rise in credit institutions' capital market debt

Domestic credit institutions issued new bonds totalling €29½ billion net in the first quarter of 2019. Debt securities of specialised credit institutions (€21 billion) constituted the lion's share of issues, followed on a smaller scale by mortgage Pfandbriefe (€6½ billion) and public Pfandbriefe (€1½ billion).

Net public sector issuance comparatively high

In the first quarter of 2019, the public sector increased its capital market debt by €16½ billion in net terms. This figure includes issues by resolution agencies set up for German banks, which are ascribed to the public sector for statistical purposes. The quarter under review saw state and local governments in particular step up bond issuance, to the tune of €12½ billion. Central government, which as of this year is also taking on a portion of the borrowing for FMS Wertmanagement,[4] issued mainly Treasury discount paper (Bubills; €5½ billion), 30-year Bunds (€5 billion) and two-year Federal Treasury notes (Schätze; €4 billion). Meanwhile, there were net redemptions of five-year Federal notes (Bobls) and ten-year Bunds totalling €3½ billion in each case.

Net issuance of corporate bonds

In the quarter under review, domestic enterprises issued debt securities worth €6 billion net. On balance, the vast majority of these were bonds with maturities of more than one year. For the most part, these issues were attributable to non-financial corporations.

Non-residents chief buyers of debt securities

In the first three months of 2019, non-resident investors ranked as the main buyers in the domestic bond market; they added paper worth a net €61 billion to their portfolios, chiefly investing in debt securities issued by the private sector. Domestic non-banks and domestic credit institutions acquired debt securities worth €17 billion and €7 billion in net terms, respectively. In both cases, demand centred around foreign paper. Following the termination of net purchases under the Eurosystem's asset purchase programmes at the end of 2018, the Bundesbank's securities portfolio shrank by €8 billion for operational reasons.

4 For the first time, central government's issuance plan for 2019 also includes the proportional refinancing of the euro-denominated debt of the Federal Government's winding-up institution, FMS Wertmanagement, amounting to €20 billion. See Deutsche Finanzagentur GmbH press release of 18 December 2018.

Equity market

Equity markets influenced by accommodative monetary policy, falling interest rates and a growing appetite for risk

From the beginning of the year, global equity markets were heavily influenced by the predominantly accommodative monetary policy and the decline in risk-free interest rates. Another factor up until the start of May was the mounting optimism in investor circles that the United States and China would resolve their trade dispute. Unlike at the end of 2018, when pessimism hung heavy over equity markets, share prices proved relatively robust to bouts of economic concern and repeated flare-ups of uncertainty surrounding Brexit. Meanwhile, a handful of upbeat global economic signals, such as strong US labour market figures and economic indicators pointing to solid growth in China, served to strengthen investor optimism, which had also firmed up since March on the back of recovering earnings prospects for US enterprises. Towards the end of the reporting period, an escalation of the trade conflict between the United States and China had a dampening effect on equity prices worldwide. However, relative to the significant gains recorded prior to this, the declines were modest and had little net impact overall on performance in the period in question.

Significant equity market gains in both the US …

On balance, the US S&P 500 has risen 14.7% since the start of the year. Tech stocks, which are more reliant than most on global trade, registered particularly strong gains. The mostly positive start to the quarterly reporting season probably helped to bolster prices here. With many firms having lowered their earnings forecasts ahead of reporting season, the majority of quarterly figures reported so far now exceeded analysts' expectations.

… and European and Japanese equity markets

Measured in terms of the broad EURO STOXX index, European equities have posted gains of 14.0% in the year to date. German equities (CDAX) saw a similarly strong increase of 13.8%. The fall in interest rates in the bond market lowered the discount factor for expected corporate profits, providing strong tailwinds for equity prices in Europe. A search for

Equity market

Daily data

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

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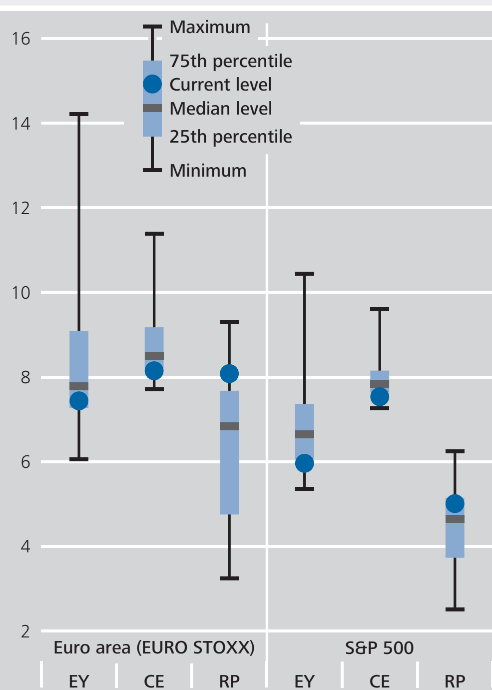
Equity market valuations

% p.a., data since January 2004



Sources: Thomson Reuters I/B/E/S on a weekly basis, Bundesbank calculations. Earnings yields (EY) plotted as an inverted price/earnings ratio; implied cost of equity (CE) and equity risk premium (RP) derived from the dividend discount model.

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Major items of the balance of payments

€ billion

Item	2018 Q1	2018 Q4	2019 Q1p
I. Current account	+ 70.0	+ 67.4	+ 66.6
1. Goods[1]	+ 61.2	+ 52.7	+ 59.9
2. Services[2]	− 2.2	− 1.6	− 2.5
3. Primary income	+ 25.3	+ 32.6	+ 25.8
4. Secondary income	− 14.3	− 16.3	− 16.6
II. Capital account	+ 4.0	+ 1.5	+ 1.5
III. Financial account (increase: +)	+ 67.3	+ 61.6	+ 50.9
1. Direct investment	+ 24.8	− 23.6	+ 34.0
Domestic investment abroad	+ 47.6	+ 2.2	+ 42.5
Foreign investment in the reporting country	+ 22.8	+ 25.9	+ 8.5
2. Portfolio investment	+ 30.8	+ 18.9	− 17.4
Domestic investment in foreign securities	+ 43.4	− 8.9	+ 35.9
Shares[3]	+ 8.2	− 0.5	+ 0.5
Investment fund shares[4]	+ 10.6	− 0.4	+ 10.7
of which: Money market fund shares	+ 0.5	+ 4.9	− 2.3
Long-term debt securities[5]	+ 22.4	− 2.4	+ 17.4
of which: Denominated in euro[6]	+ 21.0	+ 2.7	+ 15.8
Short-term debt securities[7]	+ 2.2	− 5.6	+ 7.3
Foreign investment in domestic securities	+ 12.7	− 27.9	+ 53.3
Shares[3]	+ 4.5	+ 0.0	− 4.0
Investment fund shares	− 1.8	− 0.7	− 3.8
Long-term debt securities[5]	+ 15.1	− 22.5	+ 41.1
of which: Issued by the public sector[8]	− 2.2	− 18.8	+ 16.2
Short-term debt securities[7]	− 5.2	− 4.7	+ 20.0
3. Financial derivatives[9]	+ 1.9	+ 0.5	+ 6.2
4. Other investment[10]	+ 9.2	+ 65.2	+ 28.1
Monetary financial institutions[11]	− 4.0	+ 110.4	− 51.6
Enterprises and households[12]	+ 12.5	+ 21.7	− 15.3
General government	− 4.4	+ 5.2	− 4.4
Bundesbank	+ 5.1	− 72.1	+ 99.4
5. Reserve assets	+ 0.7	+ 0.6	− 0.1
IV. Errors and omissions[13]	− 6.6	− 7.2	− 17.3

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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yield, of the kind commonly seen in a low interest rate setting, and an increasing appetite for risk on the part of investors are also likely to have been instrumental in driving stock prices higher. In the United Kingdom, Brexit-related uncertainty and the postponement of the date for the country's planned exit from the EU proved relatively modest burdens for the equity market (FTSE-All Share: +9.6%). The value of Japanese shares (Nikkei 225) rose by 5.2%.

Stock valuations higher on both sides of the Atlantic

In the opening weeks of the reporting period, analysts' earnings expectations fell on both sides of the Atlantic, before going on, after March, to stabilise for European firms and largely recover for US corporates. All in all, the strong price gains in both European and US equity markets made for rising price/earnings ratios (lower earnings yields), which are an indication that shares are more highly valued than at the start of the year. Another measure which can be used to gauge 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. It can therefore be interpreted as a premium that investors demand for making a risky investment rather than a safe one. The equity risk premium decreased for both the EURO STOXX and the S&P 500, which is likewise suggestive of a higher equity market valuation and an increased appetite for risk. The current risk premium for the S&P 500 is hovering close to its five-year mean, while in the case of the EURO STOXX it is still lying above it.

Stock market funding and stock purchases moderate

Issuing activity in the German equity market was moderate in the first quarter of 2019. Domestic enterprises issued €1½ billion worth of new shares in net terms. The outstanding volume of foreign shares in the German market also rose by €1½ billion over the same period. On balance, equities were acquired exclusively by domestic non-banks (€7½ billion). By contrast, foreign investors and German credit insti-

tutions pared back their equity holdings by €3½ billion and €1 billion, respectively.[5]

Mutual funds

Sales and purchases of mutual fund shares

During the reporting period, domestic investment companies recorded inflows of €23 billion, after raising funds totalling €34½ billion in the previous three months. The fresh cash mainly accrued to specialised funds reserved for institutional investors (€20 billion). Among the various asset classes, mixed securities funds were the chief sellers of new fund shares (€11 billion), but open-end real estate funds (€5 billion), bond funds (€3 billion), and funds of funds (2½ billion) also placed fund units, albeit to a lesser extent. Foreign funds marketed in the German market attracted fresh funds totalling €10½ billion net in the first quarter of 2019. Domestic non-banks were the main buyers, adding mutual fund shares worth €37½ billion to their portfolios. On balance, their focus was predominantly on German paper. Domestic credit institutions added just small volumes of mutual fund shares to their existing holdings during the quarter under review, while foreign investors scaled back their German fund portfolio by €4 billion net.

Direct investment

Direct investment sees capital exports

In contrast to cross-border portfolio investment, which saw net inflows of €17½ billion in the first quarter of 2019, direct investment transactions resulted in net capital exports of €34 billion.

Capital outflows as a result of transactions by domestic enterprises

Firms domiciled in Germany substantially stepped up their foreign direct investment in the first three months of 2019, providing an additional €42½ billion in FDI (compared with €2 billion in the previous quarter and €47½ billion in the same quarter last year). They increased their equity capital (€23½ billion), more than half of which by reinvesting earnings, and granted a total of €19 billion in loans to affiliated enterprises abroad, primarily in the form of financial credits, on balance. The main destinations for German FDI were the United States (€8 billion), China (€6 billion) and the United Kingdom (€5 billion).

Lower FDI in Germany

Foreign companies invested a net €8½ billion in Germany between January to March 2019, compared with €26 billion in the final quarter of 2018 and €23 billion in the first quarter of 2018. They expanded their equity capital in Germany by €6 billion. The remaining €2½ billion of additional FDI took the form of intragroup loans, with financial credits from sister companies domiciled abroad accounting for the bulk of flows. “Sister companies” are affiliates with a common parent company which, in this case, established or expanded their own independent credit relationships. With regard to trade credits, meanwhile, there were outflows. The main countries of origin for incoming FDI were the United Kingdom (€4½ billion), Luxembourg (€4 billion) and Ireland (€3 billion). By contrast, direct investors from the Netherlands withdrew funds from Germany.

5 For further details, see Direct investment below.