Financial markets

Financial market setting

Financial markets shaped by receding political risks …

The key factor affecting the financial markets in the final quarter of 2019 and at the start of this year was, at first, an easing of political uncertainty. Market participants took a positive view of the fact that the UK general election in December produced a clear majority in the House of Commons and of the United States and China reaching an initial trade agreement. Furthermore, from the standpoint of investors, a number of indicators pointed to the possibility of a pick-up in global economic activity. In this environment, investors switched from risk-free assets to riskier investments. In line with this, there was a rise in yields on high-quality government bonds, in particular, and share prices picked up significantly. By contrast, the yield spreads of ten-year sovereign bonds issued by other euro area countries as well as European corporate bonds narrowed against ten-year Bunds. In January, the positive overall picture was increasingly overshadowed not only briefly by the Iran conflict flaring up but also by concerns about the possible economic consequences of the coronavirus outbreak. Investors worldwide displayed a preference for safe investments, resulting in the yields on high-quality government bonds falling to levels close to their all-time lows in some countries (safe haven effect). The deterioration in stock market sentiment was only temporary, however, with positive corporate and economic data quickly triggering a countermovement, leading in some instances to new all-time highs. For the most part, shifts in exchange rates on the foreign exchange markets in the final quarter of 2019 and the first quarter of 2020 largely stayed within relatively narrow bounds on balance. The implied volatilities against the US dollar and the Japanese yen remained decidedly low. Measured as a weighted average against the currencies of 19 major trading partners, the euro depreciated slightly on balance (-1.9%) compared with the end of the third quarter of 2019.

… but uncertainty increasing again at the end of the period under review

Exchange rates

Euro practically unchanged against US dollar …

Since the end of the third quarter of 2019, there has, on balance, been no more than marginal change in the euro against the US dollar. As long ago as the second half of November, the euro-US dollar exchange rate was characterised by only temporary fluctuations. In early December, a period of euro appreciation began, however. At the beginning of the month, investors were positively surprised by the publication of European purchasing managers' indices from the manufacturing sector, while the corresponding data in the United States turned out to be comparatively disappointing. In mid-December, monetary policy decisions were then pending. Although the Federal Reserve left interest rates unchanged, the Chairman of the Federal Open Market Committee, Jerome Powell, said that there would be a prospect of a future rate increase only given a persistent and significant rise in inflation. As the market had evidently been expecting a less cautious signal, this weakened the US dollar. The meeting of the ECB's Governing Council, which took place on the following day and was chaired by the new ECB President Christine Lagarde, made no more than a slight impression on the foreign exchange markets, however. Shortly after that, the euro gained ground against the US dollar after the UK general election produced a clear-cut majority in the House of Commons. From an investor perspective, this led to reduced uncertainty about the United Kingdom's withdrawal from the EU, thus bringing greater clarity concerning Europe's political future; not only the pound sterling benefited from this, but also – to a lesser extent – the euro. In line with this, the euro appreciated against major third currencies such as the US dollar. The euro con-

tinued to appreciate in the period of thin trading between Christmas and New Year. At the end of the year, the euro was thus trading at US$1.12, its highest level since mid-July 2019.

Given impetus by the escalation of the conflict between the United States and Iran, a countermovement began in January. The resulting rise in global risk aversion favoured the US dollar. From the end of January onwards, this tendency was reinforced by growing concerns about a perceptible deterioration of the Chinese economy owing to the spreading coronavirus outbreak there. At the end of the period under review, the US dollar was also bolstered by surprisingly positive labour market data and by the publication of manufacturing sector purchasing managers' indices from the other side of the Atlantic. At the end of the period under review, the euro stood at US$1.09, its lowest level since May 2017 and 0.2% down on its level at the end of September 2019.

... with gains against the yen

Marked exchange rate movements of the Japanese yen against the euro were latterly being triggered chiefly by events outside Japan. Fundamentally, global factors are of major importance for the yen's exchange rate, since heightened risk aversion on the part of investors tends to strengthen the yen through net capital inflows. Following a calmer phase, the outcome of the general election in the UK in mid-December led to an appreciation of the euro owing to the resulting reduction in political uncertainty. Although the US-Iran conflict flared up in early January, leading to a countermovement, the de-escalation of the conflict in the following days then led to the euro rising to its highest level against the yen in half a year. Nonetheless, a marked increase in risk aversion on the part of market participants in connection with the outbreak of coronavirus in China then saw a resumption of net capital inflows to Japan at the end of January. Although this meant that the euro depreciated again, at the end of the reporting period it was nevertheless trading at ¥119, up 1.4% on its level at the end of the third quarter.

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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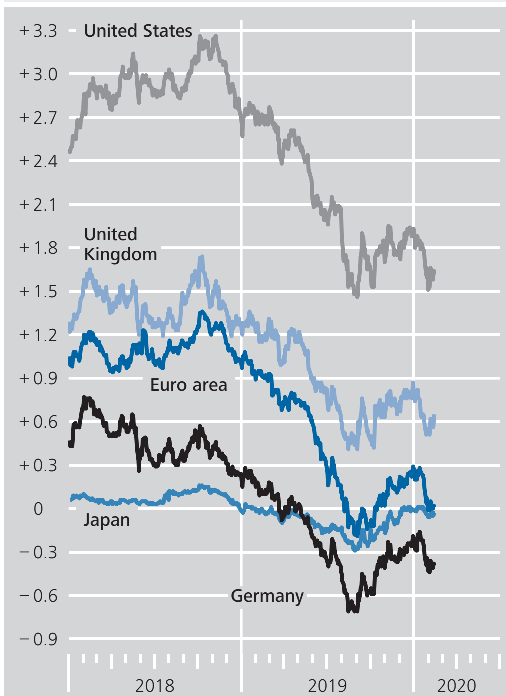
... but with exchange rate losses against the pound sterling

As in the quarters before, the exchange rate movements of the euro against the pound sterling were shaped by news about the United Kingdom finally leaving the EU at the end of January 2020. This meant that reports on the early parliamentary general election therefore also played a significant role up to mid-December. The pound sterling was strengthened by the fact that a majority for Prime Minister Boris Johnson was looking increasingly likely, because this lessened uncertainty about the economic and political outlook for the United Kingdom. Following a further perceptible appreciation of the pound sterling after the election, the euro was trading at £0.83 in

Bond yields* in the euro area and selected countries

% p. a., daily data



Source: Bloomberg. * Government bonds with a residual maturity of ten years.
Deutsche Bundesbank

mid-December, its lowest level since the referendum on EU membership in 2016. Immediately afterwards, there was a pronounced countermovement, however, when the re-elected Prime Minister announced that ruling out an extension of the period for negotiating a comprehensive trade agreement with the EU beyond 2020 would be enshrined in law, thus placing a tight time limit on the transition period. This heightened the risk of the transition period ending without a trade agreement with the EU, thus clouding the economic outlook once more – chiefly for the UK. In the following weeks, expectations of interest rate cuts were on the increase, not least owing to statements made by the Bank of England. From mid-January onwards, however, surprisingly positive data from the British labour market and on sentiment in industry strengthened the pound sterling against the euro. Ultimately, this trend was supported by the decision at the meeting of the Bank of England's Monetary Policy Committee at the end of January to put interest rates on hold and by the UK Cabinet reshuffle. The euro was thus trading most recently at £0.83, which was 5.9% below its value at the end of September.

Euro depreciation in effective terms

Measured as a weighted average against the currencies of 19 major trading partners, the euro declined slightly on balance (-1.9%) compared with the end of the third quarter of 2019. Although it made gains against the Japanese yen as well as a number of currencies with a lower trade weighting, it depreciated not only against the pound sterling but also against the Czech koruna (-3.8%), the Swiss franc (-2.0%), the Polish zloty (-2.9%), and the Chinese renminbi (-2.4%) as well as other currencies. The renminbi benefited from the easing of the trade conflict between China and the United States, especially as the United States retracted the charge of currency manipulation against the Chinese government. The coronavirus epidemic in China has not led so far to a significant depreciation of the renminbi. In a setting of increasing risk aversion, the euro – following its above-mentioned depreciation against the Swiss franc – was latterly trading at its lowest level since August 2015. Outside the group of 19 partner currencies, the euro made gains against the Turkish lira (+7.1%). Factors weighing negatively on the Turkish lira included interest rate cuts by the Turkish central bank, accelerating inflation rates in Turkey again, and foreign policy tensions.

Securities markets and portfolio investment

Bond market

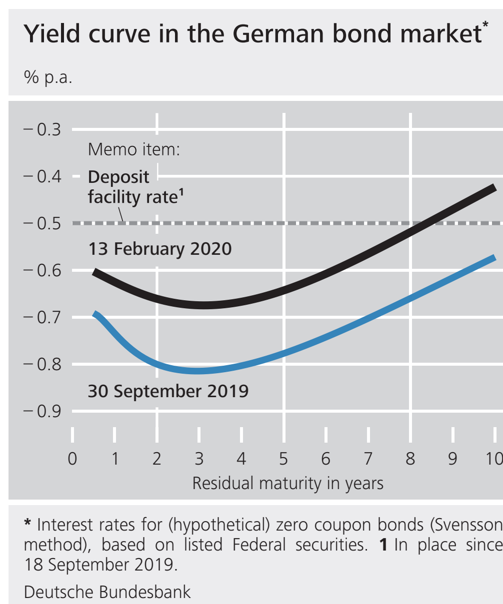
Mixed yields on both sides of the Atlantic

Yields on government bonds in the major currency areas all showed marked fluctuations in the reporting period, but presented a mixed picture overall. In the United States, yields on ten-year US Treasuries fell by 5 basis points to 1.6%, which was close to their all-time low. After the end of September, however, they initially showed a marked rise to more than 1.9%.

Investors were evidently assuming that the economic outlook would become somewhat brighter. This was also helped by the initial trade agreement signed by the United States and China in mid-January. Furthermore, the US Fed stressed in mid-December that its monetary policy stance was appropriate. Accordingly, the Fed Funds futures market saw little likelihood of a further cut in interest rates at the beginning of the new year. Many investors responded optimistically to this, preferring riskier assets over safe bonds. The upshot was an increase in the term premium of US paper.[1] The political tensions between the United States and Iran in early January had no more than a temporary impact on US yields. Since mid-January, US yields have fallen again significantly, however, by 21 basis points. Out of concern about the possible consequences of the coronavirus epidemic, investors became increasingly interested in safe government bonds again. It was mainly term premiums that declined again as a result of this. The expected short-term interest rates were also down slightly, however, after the Fed had stressed that it would be keeping a close watch on the consequences of the coronavirus epidemic.

Ten-year Bund yield higher on balance

The yield on ten-year Bunds rose on balance by 18 basis points to -0.4% after the end of the third quarter. This meant that it was again somewhat up on its all-time low in the third quarter. Following a decision by the ECB Governing Council in September, net purchases under the asset purchase programme (APP) were restarted at a monthly pace of €20 billion as from 1 November 2019. The resumption of purchases itself had no immediate impact on prices, as it had largely already been factored in by investors beforehand. Yields on German Federal securities in the reporting period were linked rather loosely to interest rate movements in the United States. Under the impact of the cited factors, yields on ten-year Federal bonds (Bunds) up to the end of 2019 initially rose somewhat more strongly than Treasuries with the same maturity. The safe haven effect due to increasing concern about the coronavirus



* Interest rates for (hypothetical) zero coupon bonds (Svensson method), based on listed Federal securities. **1** In place since 18 September 2019.
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epidemic was then, however, somewhat less pronounced for Bunds, meaning that yields in Germany fell less sharply. The yield spread between ten-year US Treasuries and German ten-year government bonds narrowed overall by 21 basis points to 201 basis points.

Towards the end of the period under review, the term structure derived from yields on Federal securities was slightly steeper than at the end of the third quarter of 2019. Measured by the differential between ten-year and two-year yields, the increase stood at 24 basis points. The yield curve remains very flat by historical standards. Across all maturities, yields on Federal securities were somewhat above their all-time lows. At the end of the reporting period, bonds with a residual maturity of 25 years or more were again showing a positive yield. The rise in yields can be broken down into "implied short-term interest rate expectations" and "term premiums". Both components rose in the period under review.

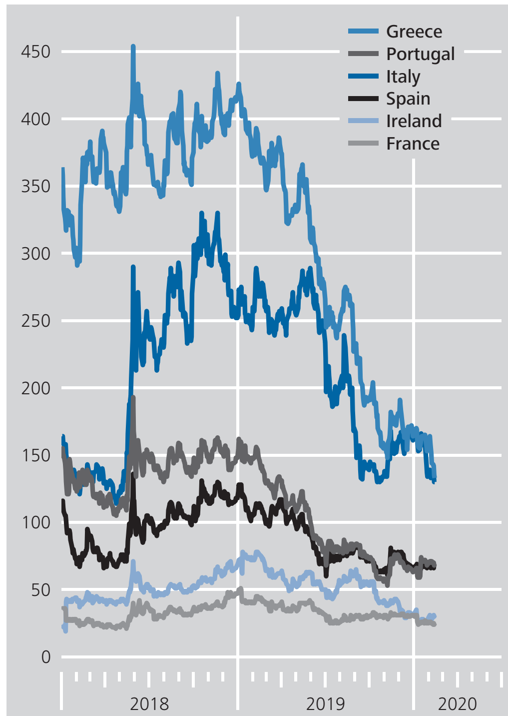
Lower yield spreads over Bunds

The yield spread between ten-year Bunds and ten-year government bonds of other euro area countries (GDP-weighted average) narrowed

1 This rise reflects the fact that investors were demanding lower compensation for future unexpectedly low short-term interest rates.

Spreads of ten-year government bonds over German Bunds

Basis points, daily data



Sources: Bloomberg and Bundesbank calculations.
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compared with the end of the third quarter of 2019 (down 8 basis points to 57 basis points). The narrowing of the spread of Greek and Irish bonds against ten-year Bunds was especially pronounced. One US rating agency upgraded Greece's credit rating by one notch, which had a positive impact on prices. Ireland's rating outlook has shown an improvement, too. There was intermittently a very marked widening of the spread of Italian sovereign bonds, which reflected market players' concern that the Italian government might fall after a regional election. Overall, however, the interest rate spread has fallen in line with general developments in spreads in the euro area.

Rise in yields in UK and Japan

Compared with the end of the third quarter of 2019, yields on ten-year UK bonds (gilts) were up by 16 basis points at 0.7%. In its first meeting of the new year at the end of January, the Bank of England's Monetary Policy Committee (MPC) voted to maintain the bank rate at 0.75%. In doing so, the Bank of England was assuming that the UK inflation rate would stay below 2% for a while before rising again to its target figure. Some leading indicators were pointing to the pace of economic growth picking up again after the UK's withdrawal from the EU. At just under 0%, yields on Japanese ten-year government bonds were 19 basis points higher than at the end of September. Yields thus remained within the range in which market participants assume that the Bank of Japan wishes to keep interest rates as part of its policy to control the yield curve. In its January meeting, the Bank of Japan left its monetary policy stance unchanged. At the end of the period under review, yields were declining somewhat overall owing to the aforementioned uncertainties about the consequences of the coronavirus epidemic.

Slight rise in euro area forward inflation rate, survey-based inflation expectations also slightly higher

Euro area forward inflation rates derived from inflation swaps for a period of five years starting in five years' time latterly stood at 1.2%. This means that they were somewhat higher on balance in the reporting period. Besides long-term inflation expectations, this indicator also contains liquidity premiums and inflation risk premiums, which are currently negative. These premiums are the reason for the differential between market-based indicators and the higher inflation expectations computed from surveys and are likely to have played a major part in the reporting period as well. Long-term euro area inflation expectations surveyed and collated by Consensus Economics likewise rose slightly throughout the reporting period.

Corporate bond yields down

Yields on BBB-rated European corporate bonds continued to fall during the reporting period. Bonds issued by financial corporations with a residual maturity of between seven and ten years were yielding 1.1% as this report went to press, which was 22 basis points lower than at the end of September. Yields on non-financial corporate bonds of equivalent maturity fell by 4 basis points to 0.7%. The key factors behind this are likely to have been the somewhat more favourable economic outlook and stock market

gains, which lowered the default risk. The fact that declining spreads were accompanied by lower CDS premiums certainly suggests that this was the case. Given that risk-free interest rates were higher overall, corporate bond spreads over Bunds narrowed more strongly in line with this. Yield spreads are thus well below their respective five-year averages.

Net redemptions of German debt securities

Gross issuance in the German bond market in the fourth quarter of 2019 was well down on the preceding three-month period. Overall, German borrowers sold paper worth €293½ billion, compared with €356 billion in the third quarter. Net of redemptions and changes in issuers' own holdings, domestic issuers cut back their capital market borrowing by €24 billion. The outstanding volume of foreign debt securities in the German market rose by €2½ billion in the fourth quarter. On balance, the total outstanding volume of bonds in Germany thus shrank by €22 billion in the quarter under review.

Lower public sector capital market borrowing

The public sector capitalised on its favourable fiscal situation to redeem debt instruments totalling €22 billion net in the final quarter of 2019. In particular, central government (including the resolution agency which is classified as belonging to it) made a marked reduction in its capital market debt, redeeming mainly five-year Federal notes (€11 billion), but also Treasury discount paper notes (Bubills; €4½ billion) and two-year Federal Treasury notes (€1½ billion). This contrasted with net issuance of 10 and 30-year Bunds (€6½ billion and €2½ billion respectively). State and local governments redeemed debt securities worth €6½ billion on balance.

Net issuance of corporate bonds

German enterprises took advantage of the favourable financing conditions and issued bonds for €6 billion net in the period under review. On balance, this was exclusively long-term paper. There were slightly more issues by non-financial corporations (€3½ billion) than by other financial institutions (€3 billion).

Investment activity in the German securities markets

€ billion

Item	2018 Q4	2019 Q3	2019 Q4
Debt securities			
Residents	8.9	29.6	15.5
Credit institutions	− 11.9	10.6	− 15.4
of which:			
Foreign debt securities	− 2.8	11.2	− 8.0
Deutsche Bundesbank	10.9	− 3.1	10.0
Other sectors	9.9	22.1	20.8
of which:			
Domestic debt securities	16.6	20.7	11.1
Non-residents	− 27.2	− 0.5	− 37.3
Shares			
Residents	− 7.3	6.5	22.7
Credit institutions	− 3.4	− 3.4	3.1
of which:			
Domestic shares	− 2.7	− 0.4	3.0
Non-banks	− 3.9	9.8	19.7
of which:			
Domestic shares	2.7	− 0.6	4.2
Non-residents	2.0	1.2	− 1.9
Mutual fund shares			
Investment in specialised funds	34.1	20.7	52.1
Investment in retail funds	0.6	4.3	4.9
of which:			
Equity funds	− 3.0	− 0.8	0.7

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Fall in credit institutions' capital market debt

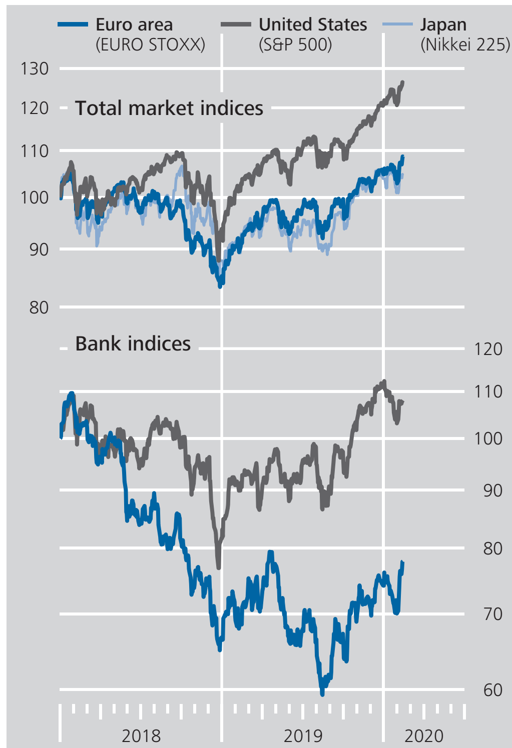
In the period from October to December 2019, domestic credit institutions reduced their capital market debt by €8 billion. Net redemptions were focused on debt securities issued by specialised credit institutions and other bank debt securities which can be structured flexibly (€6½ billion and €2½ billion respectively). The volume of outstanding public Pfandbriefe continues to be on the decline (€2 billion). These redemptions were partly offset by net issuance of mortgage Pfandbriefe amounting to €3 billion.

Acquisition of debt securities

On the demand side of the German bond market, a marked divergence became apparent in the fourth quarter of 2019. On balance, equities were acquired predominantly by domestic non-banks (€21 billion). Furthermore, the Bundesbank added €10 billion net worth of bonds to its portfolio. One key factor in this context was, not least, that the Eurosystem's monetary policy asset purchase programme was restarted in November. By contrast, foreign investors and

Equity market

Daily data, beginning of 2018 = 100, log scale



Sources: Thomson Reuters and Bundesbank calculations.
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Implicit volatilities in the financial markets

%, daily data

Sources: Bloomberg and Thomson Reuters. **1** Calculated from prices of index options with a maturity of 30 days. **2** Implied volatility of forex options with a maturity of three months. **3** Implied volatility of options on Bund future (Germany) and T-Note future (US) for a three-month horizon.
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domestic credit institutions disposed of fixed-income securities with a net worth of €37½ billion and €15½ billion respectively.

Equity market

Marked rise in equity prices worldwide

There was a significant increase in equity prices worldwide in the period under review. On balance, the US S&P 500 saw a 13.3% rise on its end-September level, thus hitting an all-time high. The Japanese Nikkei 225 index recorded gains of 9.5% and the continental European stock markets also registered an increase. The European EURO STOXX index, was up by 9.0%; Germany's CDAX recorded an even stronger rise (10.8%). Measured by the broad FTSE All-Share Index, share prices of British enterprises were up by an average of 2.2%.

Stock markets benefited from reduction in political uncertainty

Prices on the international equity markets were driven up by the fact that, at the end of the year, market participants perceived a marked reduction in the above-mentioned longstanding latent downside political risks. The resulting lower level of political uncertainty led to an increasing risk appetite on the part of investors. This can be verified empirically, for example, by using a dividend discount model, which identified a further fall in the equity risk premium for the S&P 500 and the EURO STOXX as the main driver of the observed price gains in the reporting period. There was hardly any change in earnings growth expectations for enterprises, resulting in a comparatively high stock market valuation on both sides of the Atlantic.

Coronavirus outbreak led to increased uncertainty

In the second half of January, however, worries about the possible economic consequences of the coronavirus epidemic led to heightened uncertainty among investors. From mid-January onwards, share prices on all markets dipped temporarily. Nevertheless, a strong counter-movement set in towards the end of the period under review, which was sustained by positive industrial and economic data from the US and China's announcement that it would be halving tariffs on some US goods. Price uncertainty on

the equity markets measured by the implied volatility likewise showed a marked increase for a time, but it latterly went back in the United States and Europe to values below the respective five-year averages.

Sharp rise in euro area and US bank stocks

Bank stocks made marked gains in the euro area at 15.8% and in the United States at 11.0%. Prices are likely to have been supported by the reporting season for the fourth quarter of 2019, which turned out to be better than expected on both sides of the Atlantic. In the European banking sector, German and Italian banks stood out in particular. In these cases, institution-specific reports led to strong gains of the overall sector indices. British banks, meanwhile, increased only slightly in value (+0.5%). One likely key reason for this is the still highly unpredictable negative fallout for the British financial sector arising from the United Kingdom's potential failure to conclude a trade agreement with the EU by the end of 2020.

Equity market funding

Funding on the German stock market totalled €5½ billion on balance in the reporting quarter and was thus well up on the previous quarter's figure (€½). The volume of foreign shares in the German market rose by €15½ billion over the same period. On balance, equities were purchased mainly by resident non-banks (€19½ billion). These also include investment funds, for example, which were attracting large inflows at the end of the period under review. Domestic credit institutions added €3 billion net to their share portfolios, while foreign investors reduced their equity exposure in Germany by €2 billion on balance.

Sales and purchases of mutual fund shares

In the final quarter of 2019, domestic investment companies recorded a significant net inflow of €57 billion, compared with €25 billion in the previous quarter. On balance, most of these funds were channelled to specialised funds reserved for institutional investors (€52 billion). Among the asset classes, mixed securities funds, in particular, saw significant inflows of capital (€20½ billion), with bond funds (€14 billion), funds of funds (€11½ billion) and open-

Major items of the balance of payments

€ billion

Item	2018 Q4	2019 Q3	2019 Q4p
I. Current account	+ 66.2	+ 63.1	+ 76.4
1. Goods[1]	+ 52.5	+ 62.2	+ 57.0
2. Services[2]	− 2.5	− 13.7	− 2.0
3. Primary income	+ 32.6	+ 27.1	+ 33.6
4. Secondary income	− 16.3	− 12.4	− 12.2
II. Capital account	+ 1.5	+ 0.5	− 0.6
III. Financial account (increase: +)	+ 64.9	+ 15.9	+ 86.9
1. Direct investment	− 23.6	− 5.9	+ 25.4
Domestic investment abroad	+ 2.2	+ 24.2	+ 4.6
Foreign investment in the reporting country	+ 25.9	+ 30.2	− 20.8
2. Portfolio investment	+ 18.9	+ 21.2	+ 71.4
Domestic investment in foreign securities	− 8.9	+ 20.6	+ 32.7
Shares[3]	− 0.5	− 0.7	+ 9.5
Investment fund shares[4]	− 0.4	+ 10.7	+ 20.9
of which: Money market fund shares	+ 4.9	− 0.4	+ 4.7
Long-term debt securities[5]	− 2.4	+ 13.7	+ 4.3
of which: Denominated in euro[6]	+ 2.7	+ 7.8	+ 3.8
Short-term debt securities[7]	− 5.6	− 3.0	− 2.0
Foreign investment in domestic securities	− 27.9	− 0.6	− 38.7
Shares[3]	0.0	+ 1.2	− 2.8
Investment fund shares	− 0.7	− 1.2	+ 1.4
Long-term debt securities[5]	− 22.5	− 8.1	− 20.3
of which: Issued by the public sector[8]	− 18.8	− 7.5	− 18.0
Short-term debt securities[7]	− 4.7	+ 7.5	− 17.0
3. Financial derivatives[9]	+ 0.5	+ 3.2	+ 1.8
4. Other investment[10]	+ 68.5	− 2.3	− 11.2
Monetary financial institutions[11]	+ 110.4	+ 9.3	+ 61.9
Enterprises and households[12]	+ 24.9	+ 8.4	+ 0.7
General government	+ 5.2	+ 1.3	+ 0.1
Bundesbank	− 72.1	− 21.3	− 73.9
5. Reserve assets	+ 0.6	− 0.3	− 0.6
IV. Errors and omissions[13]	− 2.8	− 47.7	+ 11.1

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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end real estate funds (€8½ billion) also recording fairly large inflows. The outstanding volume of foreign mutual fund shares in Germany rose by €21 billion in the period under review. Investment fund shares were bought on balance almost exclusively by domestic non-banks, which added fund shares worth €74½ billion net to their portfolios. Most of this paper was issued by domestic mutual funds. German credit institutions boosted their fund portfolio by €2 billion net, while non-resident investors sold domestic mutual fund shares worth €1½ billion net.

Direct investment

Direct investment records net capital exports

Transactions in cross-border portfolio investment resulted in net capital exports of €71½ in the fourth quarter of 2019. Direct investment likewise generated net outflows of funds amounting to €25½ billion.

Capital outflows due to transactions by domestic enterprises

Firms domiciled in Germany increased their direct investment abroad by €4½ billion between October and December 2019 (compared with €24 billion in the previous quarter). They boosted their equity capital abroad (€10½ billion), the vast majority of which was through investment in equity capital in the narrower sense, with reinvested earnings playing only a minor role. By contrast, they reduced the amount of funding – mainly financial credit – provided through intra-group lending (€5½ billion). German enterprises invest in a large number of countries and regions throughout the world. In the fourth quarter of 2019, a very high level of net investment was made in the United States (€8½ billion) and in Luxembourg (€5 billion). This contrasted with comparatively large return flows of funds from the United Kingdom (€11 billion) and the Netherlands (€3 billion).

Foreign direct investment in Germany: predominantly capital outflows

Foreign enterprises withdrew a net €21 billion of foreign direct investment from Germany in the fourth quarter of 2019 after having provided affiliated enterprises in Germany with €30 billion in the previous quarter. The bulk of this, at €20 billion, was for the repayment of intra-group loans, most of which consisted of financial credit. The fourth quarter saw a slight fall of €1 billion in foreign enterprises' equity investment in Germany. There were comparatively large return flows of funds to Luxembourg (€10½ billion), Belgium and the United Kingdom (€5 billion each) as well as the Netherlands (€4 billion).