

■ German balance of payments in 2019

In 2019, the German economy's current account surplus decreased by ¼ percentage point to 7¼% of nominal gross domestic product (GDP). As in previous years, this was caused by a drop in the goods trade surplus. Very sluggish global trade growth and composition effects left a visible dent in Germany's exports, whereas imports of goods saw relatively steep growth in spite of the industrial downturn. Meanwhile, cheaper import prices, particularly for crude oil, made a positive contribution to the foreign trade balance. Moreover, the increase in the primary income surplus – attributable to Germany's higher net external assets – boosted the surplus. Aggregate net lending/net borrowing relative to GDP fell marginally in the reporting year. Both net investment and savings of non-financial corporations declined amidst the ongoing bout of weakness in exports and industry. Housing and government investment expanded substantially, however.

Germany's capital flows reflected longer-term structural influences, such as growing asset diversification and ongoing globalisation in the corporate sector, as well as changing political risks and monetary policy measures. At €204½ billion, net capital exports were below the previous year's level. Portfolio investment as well as direct investment and other investment recorded outflows, on balance.

The composition of the capital flows changed distinctly in some cases. For example, for the first time since 2014, foreign investors again made net purchases of German securities. In the intervening years, during which the Eurosystem had made large-scale net purchases of bonds, sales and redemptions had always predominated. In the other investment category, Germany's TARGET2 claims on the European Central Bank (ECB) declined perceptibly over the course of the year. This, too, constituted a reversal in the trend of the preceding years. Germany's outward direct investment flows were below the previous year's level, as were inward foreign direct investment flows. Even so, German foreign direct investment was still marginally higher than the average of the past ten years and proved relatively robust in the face of turbulent conditions in the global economy.

Current account

Underlying trends in the current account

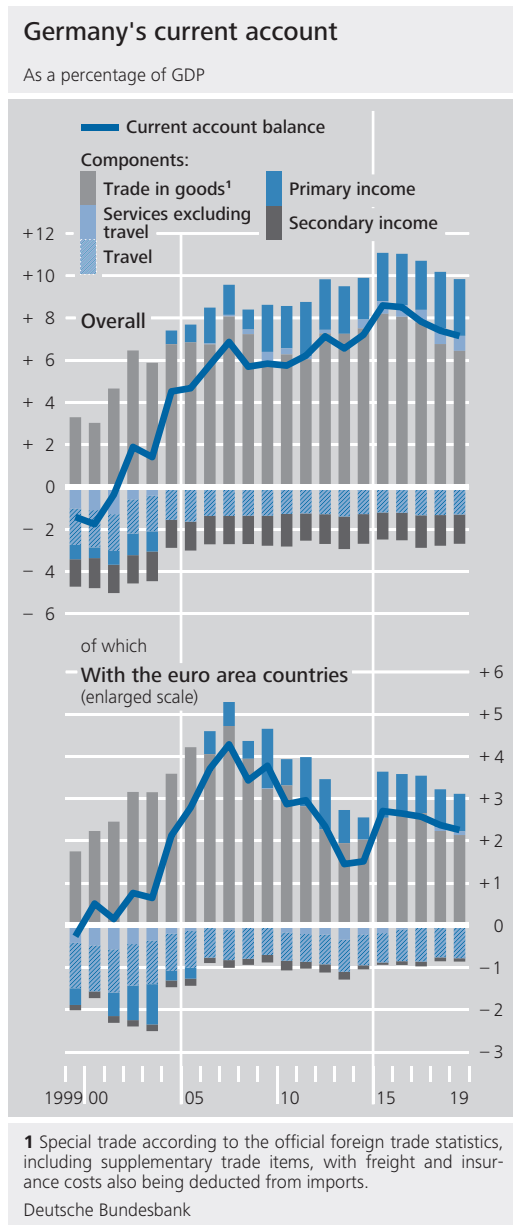
Current account surplus marginally smaller

Germany's current account surplus went down by €2 billion to €245½ billion in 2019. Relative to nominal GDP, the balance declined by ¼ percentage point to 7¼%. As a result, the ratio is now significantly lower than its peak of 8½% of GDP in 2015, after having already decreased in the three preceding years.¹ As things stand, it seems improbable that the German current account balance will rise again in the coming years.² Even so, it is likely that the threshold of

a three-year moving average of 6% of GDP set by the European Commission as part of the procedure for preventing and correcting macroeconomic imbalances will continue to be surpassed for the time being.³

The slight decline in the current account balance was due to partially countervailing movements in the sub-accounts. The surplus in the goods account decreased significantly in the reporting year. This reflects both a smaller foreign trade surplus and a greater deficit in supplementary trade items. Volume effects resulting from weak export growth and comparatively robust domestic demand reduced the surplus in the year under review. This was counteracted by price effects owing to the marked improvement in the terms of trade brought about by the lower crude oil price. In addition, the deficit in the services account rose marginally. As in previous years, the increase in the primary income surplus had a surplus-boosting effect. Here, the increase in Germany's net external assets more than compensated for the dampening effects of the less favourable yield differential and the further drop in the yield level. The traditional deficit in the secondary income account declined slightly.

Decline in goods trade surplus a key factor; surplus boosted by increase in primary income surplus



Owing to the slowdown in the global economy, German enterprises faced less favourable global economic conditions on the demand side in 2019. The pace of world trade stemming from both advanced and emerging market economies was very muted. By contrast, the slight depreciation of the euro is likely to have boosted German export revenue. Its nominal effective exchange rate against the currencies of the euro area's 38 most important trading partners, on average across 2019, was roughly 1% lower than the previous year's

Global economic conditions less favourable

1 For a longer-term analysis of German net exports from the perspective of the federal states, see the box on pp. 19-21ff.
2 See Deutsche Bundesbank (2019a).
3 In the in-depth review as part of the 2020 European Semester, the European Commission classified Germany as once again having macroeconomic imbalances. See European Commission (2020).

German net exports from the perspective of the federal states

Current account surpluses have been a distinguishing feature of Germany's economy since the 1950s. What is striking is the current account deficit which persisted for some time in the 1990s following German reunification. It was followed by current account surpluses which were very large and persistent, even by historical standards.¹ Below, we analyse how the individual federal states contributed to the dynamics of German net exports. This can provide insights into the extent to which their trend increase in the period from 1995 to 2016 can be linked to reunification and the extent to which this increase therefore represents an exception in historical terms.

Regional accounts data at federal state level can be used to analyse regional contributions to German net exports. In conceptual terms, a distinction is drawn between net exports and the current account balance.² Nevertheless, net exports are likely to provide meaningful information on the development of Germany's current account given that they were responsible, in arithmetical terms, for the majority of the current account balance's dynamics following

¹ Aside from that, there were only isolated current account deficits during the economic downturns of the late 1960s and early 1980s.

² The current account balance equals the sum of net exports and the primary and secondary income balance.

³ In addition, in the national accounts equation for net exports, changes in inventories, acquisitions less disposals of valuables and statistical discrepancies are factored out, though no data broken down according to federal states are available for this. The net exports of a federal state calculated in this way are, however, not necessarily identical to their cross-border foreign trade balance, since they also include intra-German purchases and sales of goods and services. Even so, the sum of the net exports of all federal states corresponds to the German net exports since the intra-German balances add up to zero.

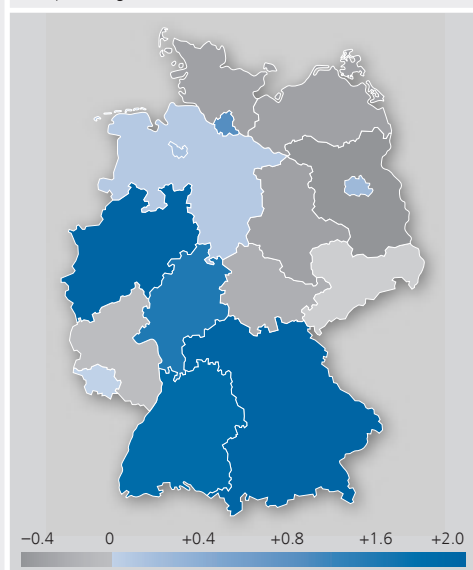
⁴ See Deutsche Bundesbank (1999) and Federal Statistical Office (2000).

reunification. Net exports broken down according to federal states can be determined approximately as the difference between gross domestic product (GDP) and private and public consumption as well as gross fixed capital formation.³

While the net exports of the German Democratic Republic were largely low,⁴ the eastern federal states experienced negative net exports following reunification, reaching their highest level in 1994 at 6.1% of total German GDP. The slump in German net exports following reunification was therefore mainly attributable to developments in the eastern federal states, while the positive net exports in the western federal states remained largely unchanged during this period. Following the reunification boom, the negative net exports in the eastern fed-

Contributions of the federal states to Germany's net exports in 2016*

As a percentage of German GDP



Source: Bundesbank calculations based on the regional accounts at federal state level. * Net exports (including intra-German trade) determined approximately as the difference between gross domestic product and private and public consumption as well as gross fixed capital formation.

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Net exports



Source: Bundesbank calculations based on the regional accounts at federal state level and the results of the 2005 round of revisions to the national and regional accounts. Accounts data for the former German Democratic Republic are taken from the Federal Statistical Office (2000). Net exports determined approximately as the difference between gross domestic product and private and public consumption as well as gross fixed capital formation. ¹ Figures are not available for 1990.
 Deutsche Bundesbank

eral states receded, at first significantly, and later with reduced speed. Although the net exports in the western federal states also tended to rise in the period following reunification until 2016, depending on the reference year, between roughly one-half and two-thirds of the growth in Germany's net exports was accounted for by the eastern federal states from the 1990s on.⁵ Viewed from this perspective, the sharp increase in Germany's current account balance since the late 1990s frequently discussed in the literature is likely to be attributable in large part to adjustment processes in the eastern federal states.

In 2016 – the most recent regional accounts data at federal state level in the degree of detail required for the analysis – Germany generated a net export surplus of 7.4% of GDP. In purely arithmetical terms, this was distributed very unevenly across the German federal states. Overall, there were con-

siderable differences particularly in the contributions to German net exports made by the eastern and western federal states. The western federal states tended to exhibit a surplus position, while the eastern federal states (excluding Berlin) still generated a marginal deficit despite the steep decline in large deficits following the reunification boom described above.⁶ Overall, the western federal states generated a surplus of 8.8% of total German GDP in 2016. By contrast, the eastern federal states exhibited a deficit of 1.4% of GDP.⁷

In addition to the descriptive evaluations, decomposition analyses can provide indications of which factors have contributed to the changes in the net exports of the western and eastern federal states.⁸ In purely arithmetical terms, a decline in investments relative to GDP in the eastern federal states as well as a fall in private consumption relative to GDP in the western federal states were the key factors behind the increase in

⁵ A role is likely to have been played initially by adjustment processes following the reunification boom, but, at the same time, also by causes similar to those in the western federal states. The persistent differences in net exports between the western and eastern federal states could, for example, be related to location decisions taken by enterprises based on economic and historical factors.

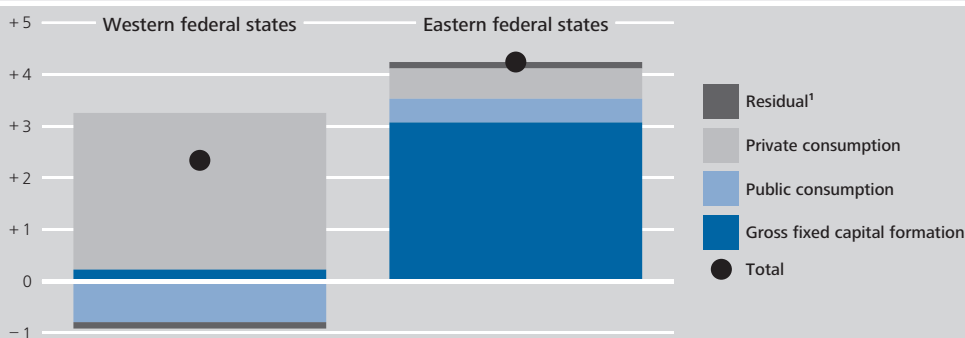
⁶ In purely arithmetical terms, the largest contributions to Germany's surplus (in each case in percentage points) came from North Rhine-Westphalia (2.0), Bavaria (2.0), Baden-Württemberg (1.8) and Hesse (1.5). Conversely, the contributions of Brandenburg (-0.4), Saxony (-0.3), Schleswig-Holstein (-0.3) and Mecklenburg-Vorpommern (-0.3) were the most dampening, in arithmetical terms.

⁷ The current account deficit (current account surplus) of the eastern (western) federal states is, however, likely to have been significantly larger than is suggested by the analysis of the net exports on account of transfer payments to the eastern federal states. See also Blum et al. (2009).

⁸ In this analysis, changes in the net exports were decomposed into contributions from private consumption, public consumption and gross fixed capital formation. Furthermore, gross fixed capital formation was subdivided into investments in new buildings, new machinery and equipment, and existing plants, and private consumption was subdivided into disposable income, changes in pension entitlements and household saving.

Contributions to the changes in German net exports between 1995 and 2016

As percentage points of GDP



Source: Bundesbank calculations based on the regional accounts at federal state level. Positive contributions from private consumption, public consumption and gross fixed capital formation to the changes in German net exports correspond to decreases in the respective accounts components. ¹ Change in the shares of the western and eastern federal states in total German GDP. By definition, the contributions of the western and eastern federal states add up to zero.

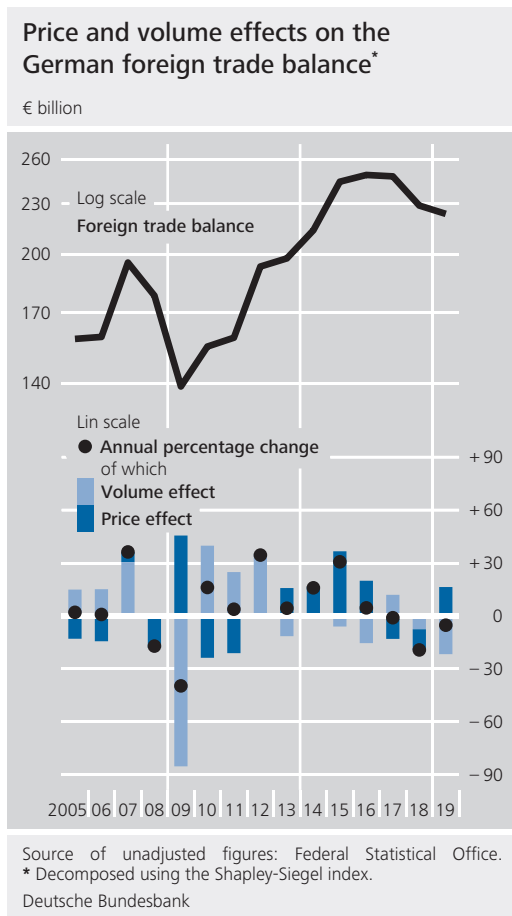
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German net exports in the period from 1995 onwards.⁹ The main reason for the weak contribution of investments to the increase in German net exports was the reduced new construction activity following the high level in the early 1990s.¹⁰ Meanwhile, the contribution made by declining private consumption in the western federal states (as a percentage of GDP) played a key role in the increase in German net exports roughly from the upturn of 2006-07 onwards. The weak increase in private consumption in this period in comparison to GDP growth is largely attributable to the fall in disposable income relative to GDP.

To sum up, more than half of the increase in German net exports since 1995 is attributable to the reduction in the negative net exports of the eastern federal states which arose following reunification. All the same, Germany's high net exports in 2016, too, were still primarily attributable to the strong net exports of the western federal states. The results of the analysis suggest that the dynamics of Germany's current account since the late 1990s cannot be viewed in isolation from the economic adjustment processes in the wake of reunification.

⁹ 1995 serves as the reference year for this analysis since, at that point in time, the economic turmoil resulting directly from reunification had largely subsided.

¹⁰ The contribution from investment in machinery and equipment varies considerably depending on the reference year.



marginally. Imports benefited from domestic demand, which remained upbeat, even though growth in the volume of imports lagged behind that of previous years, partly because of the downturn in Germany's industrial sector. The lower import prices – and slightly more expensive goods exports – meant that import growth outstripped export growth to a lesser degree in nominal terms than in real terms. On balance, the foreign trade surplus fell by €5 billion to €223½ billion in 2019, with volume effects (-0.6% of GDP) more than compensating for the price effects (0.5% of GDP) resulting from the more favourable terms of trade.

In regional terms, the current account surplus vis-à-vis both euro area countries and non-euro area countries saw a marginal decline to 2¼% and just under 5% of GDP, respectively. In both cases, developments in goods trade were of crucial importance.

Surplus against both euro area and non-euro area countries marginally reduced

Aggregate net lending/net borrowing relative to GDP fell marginally in the reporting year. This occurred against a background of decreases in domestic investment as well as in national savings. The growth rate of business investment contracted markedly amidst the ongoing weakness in exports and the industrial sector. In contrast to this, there was a relatively large increase in housing investment, in particular, but also in government investment. Saving by non-financial corporations, which had risen steeply up until 2015, dipped further in the reporting year, partly because enterprises' payout ratio increased again.⁴ Enterprises now have a comparatively sound equity base, but also a less favourable profit situation amidst robust wage growth, and both factors may have played a role here.⁵ Saving by general government was also on the decline given the loosened fiscal policy. On balance, net lending by non-financial corporations rose significantly, while general government net lending declined considerably. Meanwhile, net lending by house-

Drop in investment and aggregate savings

level. The euro depreciated against the Japanese yen and US dollar in particular, but also against the Swiss franc. Germany's price competitiveness improved slightly as a result of this. Cheaper import prices, especially for crude oil, also provided tailwinds for economic activity in Germany. A barrel of Brent crude oil cost an average of US\$64 in 2019 – roughly one-tenth less than in the previous year.

Weak global demand dampened German foreign trade surplus; countervailing price effects

Aside from generally weak global demand, composition effects also put a strain on Germany's export revenue. On the one hand, domestic enterprises were particularly affected by the global slowdown in industrial output and investment given that capital goods (excluding motor vehicles and motor vehicle parts) and intermediate goods make up a large share of Germany's exports. On the other hand, the decline in global car sales left a dent in the automotive sector's exports, which are an important component of Germany's exports. In net terms, exports of goods expanded only

⁴ See Deutsche Bundesbank (2019b, 2018a).

⁵ See Deutsche Bundesbank (2019c).

holds and financial corporations remained broadly unchanged.

Goods flows and balance of trade

Exports very subdued, import growth slowed further

The increase in Germany's foreign trade activities experienced another slowdown in 2019. On an annual average, exports of goods rose by just ¼% in price-adjusted terms.⁶ On average in 2019, imports of goods expanded much more strongly than exports, at 2¼%, but also lost momentum. Foreign manufacturers felt the result of Germany's industrial downturn in the shape of very muted growth in demand for machinery and equipment, which has a relatively high import content, as well as for intermediate goods. This was only partially offset by brisker consumer spending and stronger demand for motor vehicles and motor vehicle parts.

Very muted growth in exports to euro area countries ...

In regional terms, export business with the most important sales regions predominantly developed less favourably than in the previous year. Price-adjusted exports to euro area countries grew only a little overall. In terms of value, they merely reached the previous year's level. While revenue from deliveries to Belgium, Portugal and Greece rose strongly, exports to most partner countries, including to France (excluding other transport equipment⁷), lost momentum or weakened. Declining deliveries to Ireland and Italy had a significant dampening effect.

... and to non-euro area sales region

Exports to countries outside the euro area likewise saw only a marginal increase in price-adjusted terms. In nominal terms, however, there was distinct growth in export revenue, as higher export prices were charged overall. For example, a robust increase was recorded in exports to the United States – probably also given an additional boost by the depreciation of the euro – as well as to Switzerland and to Russia. Although exports to China expanded at an above average rate, they lost a significant

Savings and investment in the German economy

As a percentage of GDP



1 Including consumption of fixed capital. **2** One-off effect caused mainly by assumption of Treuhand debt by general government.

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amount of momentum as growth in China gradually slowed and the realignment of its economy continued.⁸ Sales to Japan likewise rose at a slower pace than in the previous year. German manufacturers also suffered setbacks in exports to other south and east Asian coun-

⁶ Viewed over the period, too, by the end of 2019, goods exports topped the level of the final quarter of the previous year a little overall (+½%) in price-adjusted terms.

⁷ Of significance here are mainly aircraft and spacecraft, which, on account of the joint European manufacturing arrangement, have a particular influence on the bilateral trade flows of the countries involved, as well as ships and boats and railway locomotives and rolling stock.

⁸ For more on the realignment of the Chinese economy and its global implications, see Deutsche Bundesbank (2018b).

Foreign trade by region

%

Country/ group of countries	Per- cent- age share	Annual percentage change		
		2019	2017	2018
Exports				
Euro area	37.1	6.8	4.5	0.0
Other countries	62.9	5.9	2.1	1.3
of which:				
United Kingdom	5.9	- 0.6	- 3.8	- 4.2
Central and eastern European EU countries ¹	12.2	9.1	6.7	2.8
Switzerland	4.2	7.5	0.2	4.3
Russia	2.0	19.7	0.5	2.6
United States	8.9	4.7	1.4	4.7
Japan	1.6	6.8	4.6	1.1
Newly industrial- ised economies in Asia ²	2.9	1.8	0.7	- 2.5
China	7.2	13.3	8.0	3.2
South and east Asian emerging market economies ³	2.4	9.9	13.0	- 0.7
OPEC	1.7	- 12.0	- 15.8	- 2.9
All countries	100.0	6.2	3.0	0.8
Imports				
Euro area	37.1	5.5	7.2	0.8
Other countries	62.9	9.4	4.7	1.8
of which:				
United Kingdom	3.5	3.3	0.6	3.5
Central and eastern European EU countries ¹	14.2	9.4	6.3	2.9
Switzerland	4.2	4.1	0.5	0.9
Russia	2.8	18.5	14.7	- 13.2
United States	6.5	6.8	4.2	10.7
Japan	2.2	4.7	3.3	1.0
Newly industrial- ised economies in Asia ²	2.7	23.3	6.0	- 2.3
China	9.9	8.1	4.2	3.4
South and east Asian emerging market economies ³	3.7	11.5	2.3	0.2
OPEC	1.0	43.4	20.2	- 5.5
All countries	100.0	8.0	5.6	1.4

¹ Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania.

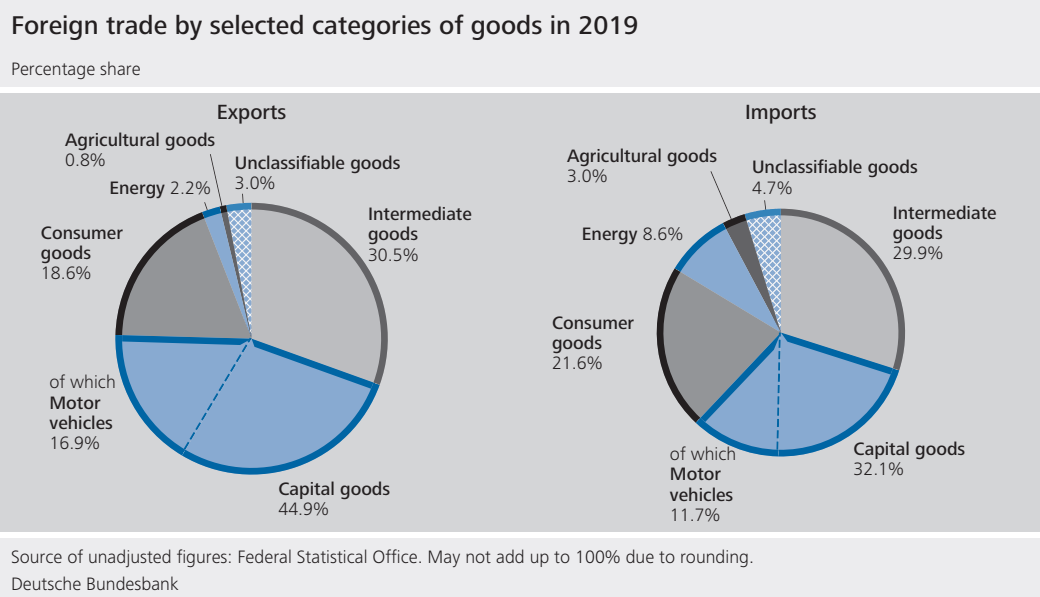
² Hong Kong, Singapore, South Korea, Taiwan. ³ India, Indonesia, Malaysia, Philippines, Thailand, Vietnam.

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tries, particularly to the newly industrialised economies. The value of exports to the United Kingdom declined sharply on an annual average, with a role played by the UK's drop in industrial production and sluggish demand for machinery and equipment in view of Brexit as well as composition effects. Additionally, there was a significant drop in exports to OPEC countries. Revenue growth for exports to central and eastern European countries belonging to the EU but not the euro area was also distinctly down on the previous year.

Sluggish global industrial activity and the very subdued growth in world trade were felt mainly by German exporters of capital and intermediate goods. In price-adjusted terms, there was an especially steep reduction in exports of motor vehicles and motor vehicle parts, which suffered from the globally overall weaker demand for motor vehicles. As a result, exports of motor vehicles and motor vehicle parts to important sales markets such as the euro area, the other central and eastern European EU countries, the United Kingdom and the United States declined markedly in terms of value. After very strong growth previously, sales to China provided a much smaller positive stimulus. Subdued deliveries of other categories of goods were also a distinct dampener. Price-adjusted exports of classic capital goods such as machinery remained slightly below the previous year's level. Deliveries of metals and fabricated metal products, taken together, rose only marginally. Exports of electrical equipment, which had hitherto been expanding, experienced weakened momentum in the reporting year. By contrast, exports of chemical products distinctly picked up pace after very muted developments. Deliveries of computers, electronic and optical products continued to increase relatively strongly. The upward trend in consumer goods exports remained relatively robust

Exports of capital and intermediate goods especially subdued, but consumer goods relatively strong



and even strengthened when disregarding pharmaceutical exports.⁹

adjusted terms than producers from other countries. Among the more significant suppliers from the euro area, the value of imports from Italy and Belgium fell sharply, whilst imports from Spain and Austria saw relatively substantial growth. Among the non-euro area countries, deliveries from the United States grew very strongly. Imports from the United Kingdom likewise increased relatively steeply. Growth in deliveries from China and from the central and eastern European EU Member States outside of the euro area was above average, although more restrained than in the previous year. Imports from Japan and, above all, from other industrial and emerging market economies in South and East Asia showed relatively muted developments. Furthermore, the income of major energy suppliers such as Russia and the OPEC countries from sales to Germany was in sharp decline, likely also due to the drop in prices for energy products.

Robust import demand slightly more beneficial in price-adjusted terms to suppliers from euro area than those from outside of euro area

The surplus in goods trade – which comprises supplementary trade items, merchanting and non-monetary gold trade alongside foreign

Strong demand for motor vehicles and consumer goods produced abroad; more muted need for imports of intermediate and other capital goods

The growth in demand from Germany did not cover the entire range of foreign products. Demand from German consumers remained robust, benefiting foreign manufacturers of consumer goods, which increased their deliveries more strongly than in 2018 in price-adjusted terms. In addition, imports of motor vehicles and motor vehicle parts picked up speed. This might also have been because stricter CO₂ emissions standards for newly registered motor vehicles apply in the EU from 2020. In particular, purchases of computers, electronic and optical products abroad increased relatively strongly. In contrast to this, Germany's industrial downturn mainly affected foreign manufacturers of intermediate goods and classic capital goods. The price-adjusted German sales of foreign manufacturers of machinery remained slightly below the previous year's level. Imports of metals and fabricated metal products also decreased. Imports of chemical products as well as electrical equipment were relatively good, but distinctly more subdued than in 2018.

Throughout the region in 2019, the robust rise in import demand benefited producers in the euro area to a slightly greater extent in price-

⁹ These only slightly exceeded their strongly elevated prior-year level. This is due to a strong increase in pharmaceutical exports to non-euro area countries, which more than compensated for the significant fall in deliveries to the euro area, which themselves had expanded considerably in 2018.

Rise in net income for merchanting and exports of non-monetary gold; declining activity in domestic processing

trade¹⁰ – fell by just under €5 billion to €22½ billion in 2019. Although the decline was thus similar to the one recorded in the balance of foreign trade, it was based on partially opposing movements in the three other items. In particular, net receipts from merchanting rose by €4 billion. In this context, a major role was played by the increased (net) earnings in the automotive industry, which account for a considerable proportion of such transactions. In addition, net exports of non-monetary gold grew by €3½ billion due to greater exports. This was attributable primarily to exports to the United Kingdom, Switzerland and Canada, which generally account for a large share of these exports. However, the increases in these two sub-items were more or less cancelled out by a higher deficit in the balance of supplementary trade items. A particular contribution was made to this by a fairly sharp fall in imports for processing in Germany.

Invisible current transactions

Moderate momentum in services sales ...

From Germany's perspective, the balance in the cross-border exchange of services is traditionally negative and recorded a deficit of €20½ billion in 2019. Both services income and services expenditure grew at a rate of 4½%, which is rather moderate in comparison to previous years. Due to the higher level of expenditure, the deficit rose slightly on the year by just under €1 billion. In the reporting period, at a total of €23½ billion, more services were purchased by Germany from non-resident providers in the euro area than were purchased by persons in the euro area from Germany; as a result, the deficit vis-à-vis the rest of the euro area widened by €1½ billion compared to 2018. By contrast, there was a rise in the slight surplus in the services account vis-à-vis non-euro area countries.

... especially in travel

The largest net position within services was the deficit in the balance of cross-border travel, which, at around €45 billion, widened marginally on the year. Growth in income as well as

travel expenditure was highly subdued in comparison to previous years, which could also be related to weaker global economic developments. In particular, expenditure for business travel remained more or less unchanged after falling sharply last year. Within travel expenditure, which rose slightly, travel destinations shifted away from the United Kingdom and Croatia and towards euro area countries.

In line with the weak economic activity, the services sub-accounts related to goods trade saw below-average growth. This held especially true for transport expenditure, which followed the subdued export trend. As the income from transport services for non-residents grew to a considerably greater extent, this traditionally negative sub-account achieved a surplus of €½ billion in 2019 after posting a deficit of €2 billion in the previous year. A similar situation was observed in manufacturing services, which saw declines in both income and expenditure. By contrast, there was notably strong momentum in cross-border maintenance and repair services, which nevertheless continued to post a balanced account.

Some knowledge-based services, such as the use of intellectual property and communications and IT services, have already been exhibiting strong growth for some time now in terms of both income and expenditure. In the year under review, growth on the income side slowed while spending continued to increase dynamically; as a result, the common surplus of both sub-accounts fell slightly. There was also comparatively weak growth in income related to other business services, which include research and development, professional, technical and commercial services, as well as management consultancy services. As expenditure

Below-average growth in sub-accounts related to goods trade

Knowledge-based and business services record stronger growth in expenditure, but income sees little expansion

¹⁰ In accordance with the current edition of the Balance of Payments and International Investment Position Manual (BPM6), trade with non-monetary gold must be shown separately in the current account. If corresponding payments have already been captured in foreign trade, these are recorded as deductions in the supplementary trade items in order to avoid duplication. See International Monetary Fund (2009).

rose to a greater extent than income here, too, the deficit in this sub-account widened. The surplus in cross-border fees for financial and insurance services grew slightly, which was primarily attributable to increased earnings from financial services.

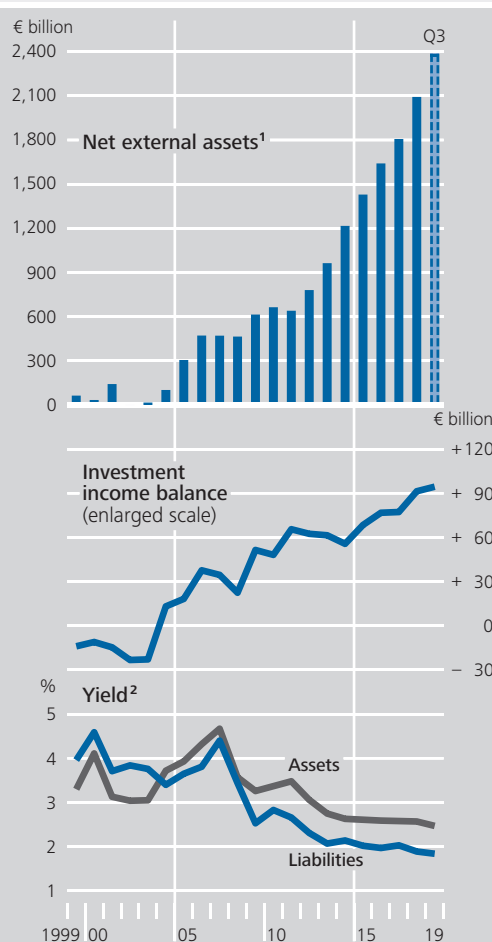
Moderate rise in investment income surplus

Germany's primary income from abroad in 2019 exceeded its corresponding payments to the rest of the world by €92½ billion. As in the preceding years, cross-border investment income was the major factor in primary income growth, while the flows of employee compensation and other primary income each largely continued to lead to marginal deficits in the respective sub-accounts. In the reporting year, the surplus in cross-border investment income saw comparatively moderate growth of €3 billion and, according to provisional calculations, totalled €94½ billion after having risen very substantially in some cases in the preceding years.¹¹ In this context, residents' income from investments abroad rose only a little; expenditure for investors and capital donors from abroad was just marginally higher than the figures from the previous year. In arithmetical terms, the increase in Germany's net external assets was the main contributor to the higher surplus. By contrast, a dampening effect stemmed from the fact that the yield level continued to sink in 2019 and that the yield differential developed to the detriment of Germany.¹²

Deficit in secondary income balance narrows slightly

In 2019, the deficit in cross-border secondary income amounted to €47½ billion – €1 billion less than in 2018. Unilateral payments from abroad rose by €3½ billion, with government and non-government income rising in roughly equal measure. This also included a marked increase in Germany's tax revenue from non-residents' income and assets. On the expenditure side, spending rose by €2½ billion over 2018, primarily due to government benefits. Only a small portion of this rise was attributable to the private sector. Amongst other things, there was a slight increase in remittances.

Key indicators of the cross-border investment income balance



1 Direct, portfolio and other investment and reserve assets. Excluding financial derivatives. **2** Yields shown in terms of investment income/expenditure as a percentage of the annual average levels of foreign assets and liabilities. IIP as at the end of Q3 2019.

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Capital movements

In 2019, Germany's current account surplus was mirrored by net capital exports of €204½ billion. In portfolio investment, especially, purchases of foreign assets by residents outweighed purchases of German securities by

Germany's net capital exports lower than in previous year

¹¹ Final figures for direct investment income are not available until two years after they have been received and the reports they are based on have been examined – currently, this comprises the years up to and including 2017.

¹² For methodological details on the breakdown of the changes in the balance of cross-border investment income, see Deutsche Bundesbank (2015); Knetsch and Nagengast (2017).

Major items of the balance of payments

€ billion

Item	2017 ^r	2018 ^r	2019 ^r
I. Current account	+ 253.9	+ 247.4	+ 245.5
1. Goods ¹	+ 252.8	+ 226.2	+ 221.3
Exports (f.o.b.)	1,256.5	1,292.9	1,307.8
Imports (f.o.b.)	1,003.7	1,066.8	1,086.5
Memo item:			
Foreign trade ²	+ 247.9	+ 228.7	+ 223.5
Exports (f.o.b.)	1,279.0	1,317.4	1,327.8
Imports (c.i.f.)	1,031.0	1,088.7	1,104.3
2. Services ³	- 24.4	- 19.7	- 20.5
of which:			
Travel	- 43.6	- 44.5	- 44.9
3. Primary income	+ 75.4	+ 89.5	+ 92.3
of which:			
Investment income	+ 77.3	+ 91.4	+ 94.5
4. Secondary income	- 50.0	- 48.6	- 47.6
II. Capital account	- 3.0	+ 0.4	- 0.3
III. Financial account balance ⁴	+ 283.2	+ 236.9	+ 204.6
1. Direct investment	+ 38.7	+ 4.4	+ 55.7
2. Portfolio investment	+ 205.3	+ 157.2	+ 95.2
3. Financial derivatives ⁵	+ 11.0	+ 23.1	+ 22.4
4. Other investment ⁶	+ 29.5	+ 51.8	+ 31.9
5. Reserve assets	- 1.3	+ 0.4	- 0.5
IV. Errors and omissions ⁷	+ 32.3	- 10.9	- 40.6

1 Excluding freight and insurance costs of foreign trade. 2 Special trade according to the official foreign trade statistics (source: Federal Statistical Office). 3 Including freight and insurance costs of foreign trade. 4 Increase in net external position: + / decrease in net external position: -. 5 Balance of transactions arising from options and financial futures contracts as well as employee stock options. 6 Includes, in particular, loans and trade credits as well as currency and deposits. 7 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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non-residents; however, outflows of funds dominated in direct investment and other investment, too. Alongside the fundamental economic factors that helped determined the current account balance, diminishing political risks over the course of the year as well as the European monetary policy stance had an impact on German capital movements last year.

After the date for the United Kingdom's withdrawal from the European Union had been postponed multiple times at the start of the year, in the second half of the year there were signs of a solution that would avoid a hard political and economic split for the time being.¹³ Furthermore, in December, the United States and China reached a partial agreement in their trade dispute, which had been mounting for years. Both of these developments contributed to the lower risk evaluation on the international financial markets over the course of the year.

After four years, the Eurosystem temporarily suspended its net purchases under the expanded asset purchase programme (APP) at the end of 2018. Up until October last year, only maturing bonds were replaced. It was not until November 2019 that the national central banks and the ECB again began purchasing additional securities (€20 billion net per month). In the German financial account, this had an impact not only on portfolio investment, but also on other investment. In the years prior, German TARGET2 claims had risen continuously in connection with the net asset purchases.¹⁴ When this driver was lost at the start of 2019, the balance initially stabilised and even recorded a decline over the entire year. This development impacted other investment as Bundesbank capital imports.¹⁵

Uncertainty on international financial markets improves slightly over the course of the year

Eurosystem temporarily suspends net asset purchases

¹³ The United Kingdom exited the EU on 31 January 2020. The withdrawal agreement stipulates that the United Kingdom will remain in the single European market until at least the end of 2020. By that time, it is intended that a comprehensive free trade agreement will be negotiated.

¹⁴ See Deutsche Bundesbank (2017a).

¹⁵ For more information on the driving forces of German TARGET balances, see pp. 30-33 ff.

Portfolio investment

Non-resident investors add debt securities to their portfolios in net terms

Portfolio investment generated net capital exports of €95 billion in 2019, following €157 billion one year earlier. The lower balance is due to a massive shift in demand for German securities among non-resident investors. In net terms, non-resident investors added German securities totalling €28½ billion to their portfolios in 2019. In 2018, they had offloaded German securities to the amount of €74 billion. Although non-resident investors continued to sell off public sector bonds, the volume sold was – at €7 billion – considerably below the figure recorded last year. The temporary suspension of the APP might have been a reason for this. As a result, the Bundesbank purchased no additional securities from January to October. Another highly significant factor in this shift was the increased demand for private bonds – non-resident investors acquired both corporate bonds as well as bank bonds. Ultimately, they also added more money market paper (€7 billion) to their portfolios in 2019 than they had in 2018.

Shares and mutual fund shares sold off

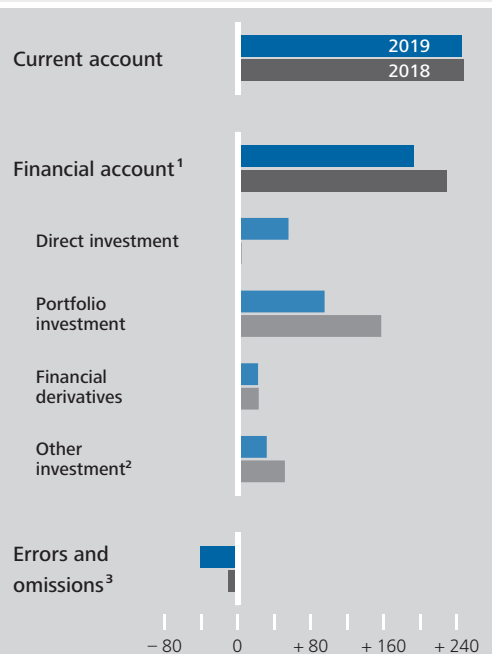
In contrast to debt securities, and despite very favourable overall stock price performance on the German equity market over the year, shares in German-domiciled enterprises were sold off by non-resident investors in net terms (€6½ billion). With regard to mutual fund shares, sales by non-resident investors resulted in outflows of €5 billion in 2019.

German investors chiefly interested in euro-denominated bonds

Last year, domestic investors acquired a net €123½ billion worth of foreign securities. This meant that net purchases were considerably higher on the year. As in 2018, German investors focused their attention on bonds (€54½ billion). Amongst other factors, this could be attributable to the yields on long-term Federal bonds, which were overwhelmingly negative and fell further over the course of the year. Foreign bonds probably became more attractive to investors because, although their yields were also falling and they posed additional risks in some cases, they promised higher returns.

Major items of the German balance of payments

Balances in € billion

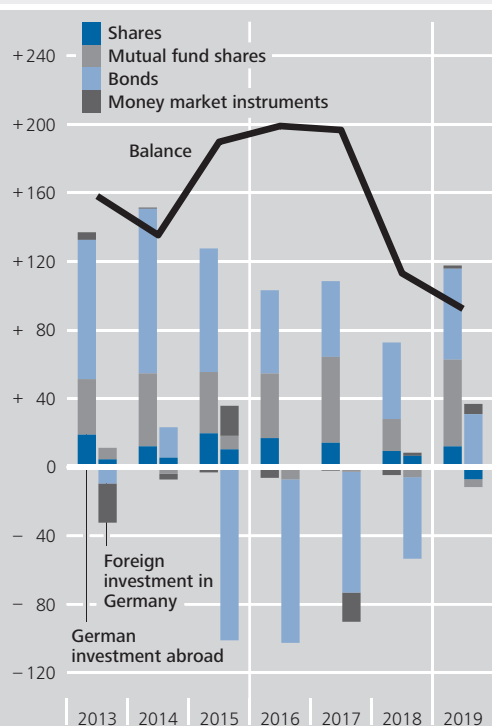


¹ Excluding transaction-related changes in reserve assets; net capital exports: +. ² Includes, in particular, loans and trade credits as well as currency and deposits. ³ Statistical errors and omissions.

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Portfolio investment in the German balance of payments

€ billion



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What drives Germany's TARGET balances?*

A BVAR analysis for distinguishing global and European causes

The present analysis aims to identify possible drivers of Germany's TARGET balances with the aid of a comparatively simple Bayesian vector autoregression (BVAR) model and place them in a historical context. The balances have shown considerable fluctuations over the past years. In this respect, four phases are typically identified.¹

During the first phase, the national TARGET balances moved at a low level following the start of the third stage of economic and monetary union and frequently changed their signs. The cross-border redistribution of liquidity in the euro area took place overwhelmingly through the private interbank market.

The second phase was characterised by a strong expansion of the national TARGET balances. It began with the outbreak of the global financial crisis, which had its origin in the sub-prime mortgage crisis in the United States. As private commercial banks were becoming increasingly mistrustful of each other, the interbank market largely collapsed. The Governing Council of the ECB then adopted a series of non-standard monetary policy measures in order to continue supplying commercial banks with central bank money. Above and beyond that, the ECB and other central banks arranged an international network of swap agreements in order to safeguard access to foreign exchange as well.² A further expansion of the national TARGET balances ensued in spring 2010 and became stronger in the following year. This occurred against the backdrop of the European sovereign debt crisis, which was again accompanied by a generous provision of central bank money.

The funds on offer were utilised asymmetrically by the commercial banks of the Member States and were deployed across borders in some cases.

In summer 2012, this development resulted in a period of easing with falling TARGET balances (third phase). The commitment made by Mario Draghi, who was President of the ECB at the time, "to do whatever it takes to preserve the euro" boosted the financial markets' confidence in the continued existence of monetary union. Furthermore, the Eurosystem adopted a programme of outright monetary transactions (OMT), which so far has not been utilised, however.

The fourth phase began in mid-2014 and brought with it a renewed rise in the national TARGET balances. In mid-2018, German claims reached an interim peak of almost €1,000 billion. However, this increase was not linked to a European or global financial crisis. Instead, it reflected the Eurosystem's expanded asset purchase programme (APP) in conjunction with Germany as a financial centre in its role as a "gateway to the world".

* TARGET, the real-time gross settlement (RTGS) system for the Eurosystem, commenced operations on 4 January 1999, a few days after the launch of the euro. Migration to the more advanced TARGET2 took place gradually from 2007 to 2008. The term "TARGET" is used here to refer to both the first and second generations of the system.

¹ See Deutsche Bundesbank (2019a, 2019b, 2017a, 2016).

² The participants in the agreement – which is still in force – are the ECB, the Fed, the Bank of Canada, the Bank of England, the Bank of Japan, and the Swiss National Bank. The provision of foreign currency to European commercial banks via the Eurosystem led to the ECB having a positive TARGET balance for a time in 2008 and 2009.

The following econometric analysis of Germany's TARGET balance relates to the period from the beginning of 1999 to the end of 2019. A BVAR model is used to identify the outlined driving forces and assign them to the various episodes.

The model incorporates monthly data of $n=5$ variables: change in Germany's TARGET balances compared with the same month of the previous year (variable: *target_t*; in euro), difference in yield between bonds of other euro area countries and Bunds (variable: *EAspread_t*; in percentage points), difference in yield between ten-year US Treasuries and Bunds (variable: *USspread_t*; in percentage points), implied volatility on the stock market as an indicator of (global) uncertainty (variable: *vix_t*; in index points), and change in the sum of all assets on the Eurosystem's consolidated balance sheet concerning monetary policy operations compared with the same month in the previous year (variable: *balance_t*; in euro).³

The data used accordingly cover the period from January 1999 to December 2019. However, owing to the use of year-on-year changes, only data from January 2000 onward are available for the estimation. The effective estimation period is further shortened by the inclusion of lags.

The BVAR model is estimated with a Minnesota prior.⁴ In total, 12 lags and thus a whole year of back data are included. The estimated reduced form BVAR model is represented as

$$y_t = c + \sum_{i=1}^{12} A_i y_{t-i} + \epsilon_t$$

where $y_t = (y_{1,t}, y_{2,t}, \dots, y_{n,t})$ denotes an $n \times 1$ vector of the variables described above, c a constant, A_i the $n \times n$ coefficient

matrices of the observations y_{t-i} lagged by i units, and ϵ_t an $n \times 1$ vector of residuals that follows a multivariate normal distribution (i.e. $\epsilon_t \sim N(0, \Sigma)$). $E(\epsilon_t, \epsilon_t') = \Sigma$ represents the positively defined variance-covariance matrix of the residuals.

By means of sign restrictions on the impulse-response functions, the model is converted into a structural form so that the shocks can be interpreted in economic terms. These restrictions have to be fulfilled only in the period in which the shock occurs. All the shocks are defined such that they lead to an increase in the variable *target_t*. The other restrictions are selected as shown in the table on p. 32.

In line with the assumption, a global risk shock results in capital flows to the United States and also to Germany. Both countries are seen as safe havens. Because of the United States' outstanding role as a safe haven, the decline in yields in the United States should more than offset the decline in Germany, however, leading to a compression of the positive yield spread between US Treasuries and Bunds during the observation period. Based on the same line of reasoning, an increase in the yield spread between Bunds and bonds of other euro

³ The balance sheet items include items 5 (Lending to euro area credit institutions related to monetary policy operations denominated in euro) and 7.1 (Securities held for monetary policy purposes).

⁴ Using a Minnesota prior, an existing a priori estimation regarding the model parameters is specified for the model. In this case, the following a priori values are used: autoregressive coefficient: 0.8; overall tightness: 0.1; cross-variable weighting: 0.5; lag decay: 2; exogenous variable tightness: 100; total number of iterations: 2,000; burn-in iterations: 1,000. The ECB's BEAR toolbox version 4.2 is used for the estimation.

Restrictions assumed to identify various shocks

Variable	Risk (global)	Risk (euro area)	ECB monetary policy	Res 1	Res 2
$target_t$	+	+	+	+	+
$EAspread_t$	+	+	-	-	+
$USspread_t$	-	+	*	*	*
vix_t	+	+	*	*	-
$balance_t$	*	*	+	-	*

Restrictions: + (-) = the given variable increases (decreases). * = no restriction imposed. Res 1 and Res 2 are shocks that are identified solely for technical reasons. No economic interpretation is assigned to them.

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area countries is to be expected. The higher risk should be reflected in a rise in *vix*.⁵

The identification of a shock confined to the euro area rests on the assumption that an increase in risk in the euro area leads to capital flows from other euro area countries to Germany. The reason for this is that Germany is seen as a safe haven within the euro area. This should lead to higher yields in other euro area countries. In Germany, by contrast, declining yields are to be expected, which should be reflected in a widening of the yield spread between Germany and the other euro area countries. As a result of the lower yields in Germany, the yield spread between US Treasuries and Bunds should also increase. Even though the euro area represents only a (small) part of the global economy, it is to be expected that there will be a tendency for *vix* to rise.

The expansionary monetary policy shock is understood as an expansion of the sum of all the Eurosystem balance sheet items related to monetary policy operations. It is assumed in this context that these reduce the yield spreads between government bonds of other euro area countries and Bunds.

These shocks are defined such that, overall, no combination of impulse-response functions is excluded and each shock nevertheless possesses an individual pattern, i.e. the

shocks are orthogonal to each other. The residual shocks are identified for purely economic reasons and cannot therefore be interpreted in economic terms. These shocks thus model additional factors that do not fall into the above-mentioned categories.

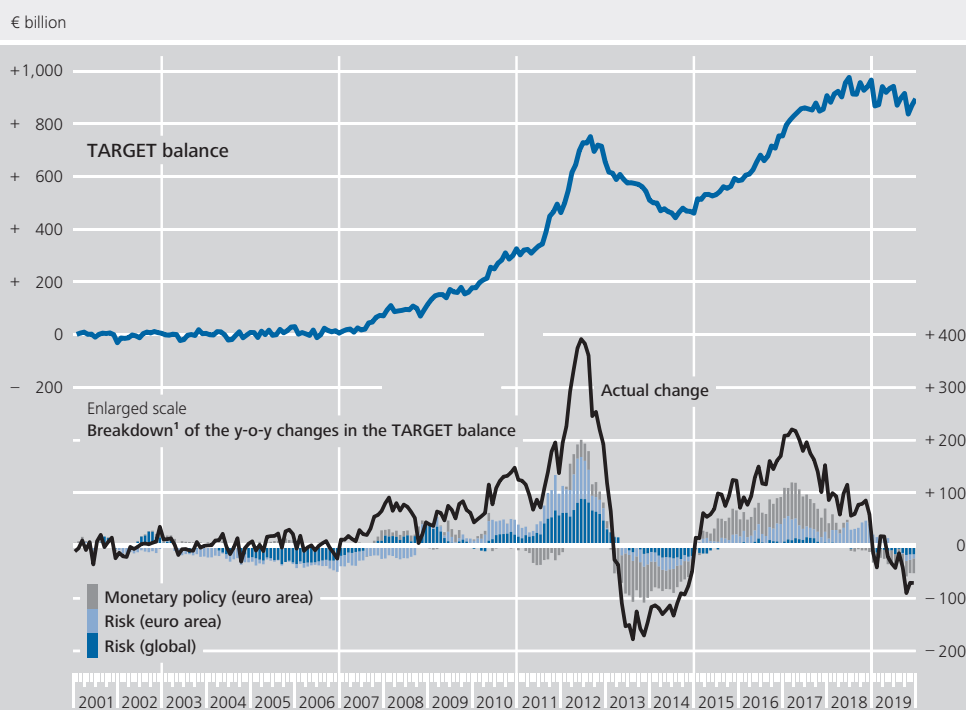
The BVAR estimation permits the time series of all the variables involved to be broken down into components, which are to be assigned to the shocks defined above.

The rise in German TARGET balances during the global financial crisis, which remained moderate at first, is not explained entirely by the economically interpretable shocks. Although it is indeed possible to recognise that the global increase in risk played a part, this is offset by a decline in risk in the euro area (i.e. by a convergence of long-term interest rates among the Member States).

Subsequently, at the peak of the European debt crisis between 2010 and mid-2012, the dominant factor affecting German

⁵ This shock of rising global risk differs from a possible monetary policy impulse from the United States in that it has the opposite effect on *vix*. An accommodative monetary policy by the Fed should, taken in isolation, lower the risk assessment on the financial markets. It is not explicitly identified as it is unlikely to have any clear-cut and systematic impact on Germany's TARGET balances. Possible effects are captured in the model by the two residual shocks.

TARGET balance of the Bundesbank and the historical breakdown of the changes



¹ Columns represent contributions of individual shocks (historical breakdown) based on a BVAR model with sign restrictions. The estimation period begins in January 2000 and ends in December 2019.
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TARGET flows was the then growing uncertainty in the euro area, although global factors, too, still played a key role according to the model.

The estimation results confirm the suspicion that the renewed positive TARGET flows between 2015 and 2017 were chiefly attributable to European monetary policy (i.e. the APP) and only to a lesser extent to the risk assessment within the euro area.

Finally, the results suggest that a large part of the recent decline in German TARGET claims recorded in 2018 and 2019 can be ascribed to European monetary policy. The Eurosystem initially made a gradual reduction in the volume of net asset purchases up to the end of 2018 and then discontinued them entirely. It is only since November 2019 that the purchases have again exceeded the volume of expired and redeemed securities in the portfolio.

All in all, the estimation results of the model – which was intentionally kept relatively simple – confirm the conjecture that Germany’s TARGET balances have been influenced by various drivers over time.

While demand focused primarily on euro-denominated paper, German residents also invested in foreign currency bonds in 2019. In addition, they added foreign money market instruments worth €2 billion to their portfolios.

Foreign shares and other equity in demand

Furthermore, German investors increasingly purchased foreign investment fund certificates (€53 billion) and shares (€14 billion). International stock markets recorded considerable gains last year. Despite the higher price risk compared to debt securities, this encouraged increased exposure to shares and other equity. Net acquisition of investment fund certificates almost doubled compared to the previous year. These originated mainly from Luxembourg and Ireland, where many of the companies that sell funds in Germany are based. From these locations, they invest funds on a worldwide basis, for which reason no regional classification of the actual target countries is possible. Among direct share purchases, demand focused on shares and other equity in US enterprises.

Financial derivatives activity leads to outflows

Financial derivatives, which are aggregated to form a single item in the balance of payments, recorded net capital exports of €22½ billion in 2019. The balance therefore remained largely unchanged compared to 2018.¹⁶ Around three-fifths of the recorded capital outflows were accounted for by futures transactions, with options generating the remaining two-fifths. Cross-border forward and futures contracts relating to electricity and gas, which are also recorded under financial derivatives, resulted in net capital imports totalling €1 billion. Monetary financial institutions constituted the majority of the domestic counterparties engaging in internationally traded financial derivatives.

Direct investment

Global direct investment virtually stagnant in 2019

As things currently stand, global direct investment flows in 2019 were down slightly on the previous year, following significantly steeper declines in the two preceding years. Last year, too, the global economic environment was in

some instances not always conducive to investment abroad. The dampening factors included subdued macroeconomic developments, but also political uncertainties. These diminished markedly in the second half of the year after the United States and China reached a partial agreement in their bilateral trade dispute and signs of convergence emerged in the UK's difficult exit negotiations on leaving the European Union. The 2017 tax reform in the United States, which led to significantly lower gross foreign direct investment flows from the United States and worldwide in 2018, continued to have a detrimental effect. However, according to estimates by the United Nations Conference on Trade and Development (UNCTAD), these effects weakened in 2019. In addition, according to UNCTAD's still provisional data, in 2019 there were significantly fewer cross-border corporate mergers and acquisitions than in 2018.

Overall, UNCTAD estimates that global direct investment flows in 2019 fell by 1% on the year.¹⁷ This decline masks divergent developments in individual countries and regions. For example, direct investment flows to the EU fell by roughly 15%, while those to North America and the group of developing countries remained at the previous year's level.

Direct investment flows to and from Germany also weakened in 2019 compared to 2018. However, in 2018 they had been exceptionally high, bucking the global trend. Overall, German net capital exports from direct investment in 2019 came to €55½ billion, exceeding the figure for 2018 by €51 billion.

Germany: Falling direct investment in both directions and rising net capital exports

German enterprises invested €101 billion abroad in 2019, which was €47 billion lower than the all-time high recorded in 2018. In a longer-term comparison, German direct invest-

Domestic enterprises primarily boosted their equity capital abroad ...

¹⁶ There have been net outflows of funds for financial derivatives in most years since 2012. Some of these outflows are attributable to settlement payments in connection with interest rate swaps concluded by domestic credit institutions to hedge fixed-income securities against interest rate risk.

¹⁷ See UNCTAD (2020).

ment abroad in 2019 was still marginally higher than the average of the ten preceding years. German enterprises primarily boosted their equity capital abroad, which went up by a total of €87 billion. This increase was achieved in more or less equal measure via equity capital in the narrower sense and reinvested earnings. German enterprises that ramped up their equity capital abroad came from various branches of industry. Last year, three quarters of equity capital, and thus the largest share, came from enterprises providing financial and insurance services.¹⁸ Cross-border corporate takeovers played a smaller role last year than in 2018, when the value of such takeovers was particularly high.¹⁹

... and to a lesser extent also intra-group lending

German enterprises provided their affiliates abroad with a further €14 billion via intra-group lending, which took place exclusively in the form of financial loans. For trade credits, by contrast, repayments outweighed new lending.

Distribution remains the key motivating factor, cost savings gain in importance

Direct investment relationships are usually geared to the long term. German enterprises use these relationships to pursue various objectives. This is demonstrated by the annual survey by the Association of German Chambers of Commerce and Industry (DIHK) of its member enterprises operating in the manufacturing sector.²⁰ According to this survey, strengthening distribution structures and customer service remained an important reason for outward investment for a large proportion of enterprises (just under 45%). Roughly one-third of enterprises hoped to gain better market access by

¹⁸ Reinvested earnings are not assigned to individual economic sectors and are therefore excluded from this calculation. By the same token, the shares only relate to decipherable net transfers used to augment equity capital.

¹⁹ According to the Thomson Reuters database, in 2019 roughly €32½ billion was used to finance takeovers of companies domiciled abroad and previously under foreign ownership where the German stake after the transaction is at least 10%. That was just under half the amount in 2018. The time at which mergers and acquisitions are captured in the balance of payments can, however, differ from that recorded by Thomson Reuters, meaning that the reported figures are not directly comparable.

²⁰ See Association of German Chambers of Commerce and Industry (DIHK) (2019)

Financial account

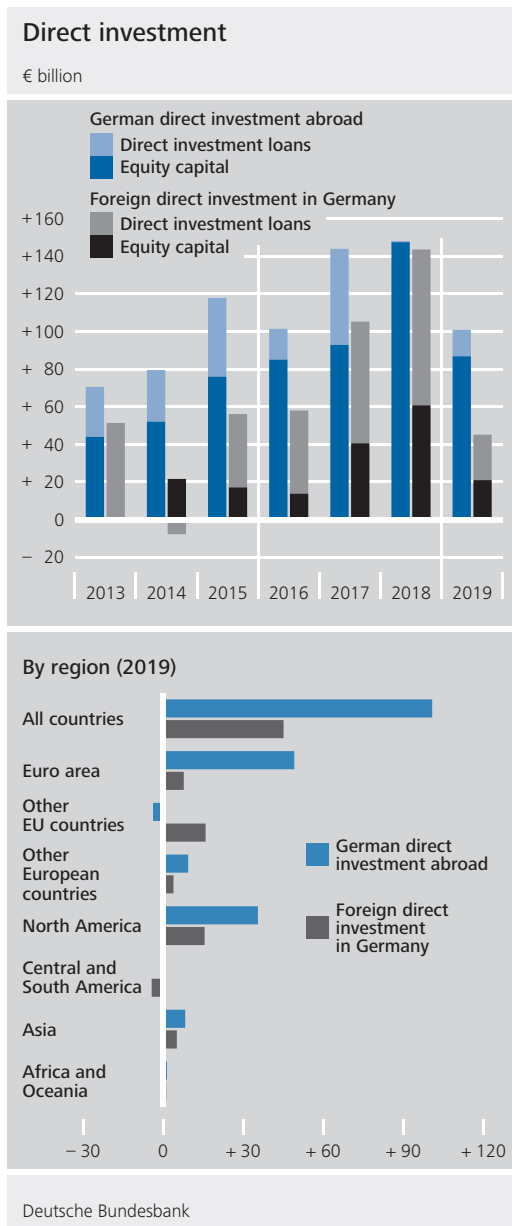
€ billion

Item	2017 ^r	2018 ^r	2019 ^r
Financial account balance ¹	+ 283.2	+ 236.9	+ 204.6
1 Direct investment	+ 38.7	+ 4.4	+ 55.7
Domestic investment abroad ²	+ 143.9	+ 148.0	+ 100.8
Foreign investment in the reporting country ²	+ 105.2	+ 143.6	+ 45.1
2 Portfolio investment	+ 205.3	+ 157.2	+ 95.2
Domestic investment in foreign securities ²	+ 115.5	+ 83.2	+ 123.7
Shares ³	+ 14.7	+ 9.6	+ 14.2
Investment fund shares ⁴	+ 58.6	+ 28.3	+ 52.9
Long-term debt securities ⁵	+ 42.7	+ 41.6	+ 54.5
Short-term debt securities ⁶	- 0.5	+ 3.8	+ 2.0
Foreign investment in domestic securities ²	- 89.8	- 74.0	+ 28.5
Shares ³	- 0.7	- 30.7	- 6.4
Investment fund shares	- 2.5	- 6.3	- 5.0
Long-term debt securities ⁵	- 72.3	- 41.4	+ 32.9
Short-term debt securities ⁶	- 14.3	+ 4.3	+ 6.9
3 Financial derivatives ⁷	+ 11.0	+ 23.1	+ 22.4
4 Other investment ⁸	+ 29.5	+ 51.8	+ 31.9
Monetary financial institutions ⁹	- 38.5	+ 85.8	+ 19.3
Long-term	+ 12.1	+ 12.9	+ 7.2
Short-term	- 50.6	+ 72.9	+ 12.1
Enterprises and households ¹⁰	- 16.2	+ 22.5	- 9.3
Long-term	- 9.2	+ 9.4	- 1.8
Short-term	- 7.1	+ 13.1	- 7.4
General government	+ 4.7	- 11.6	- 4.5
Long-term	- 0.7	- 1.7	- 3.2
Short-term	+ 5.4	- 9.9	- 1.3
Bundesbank	+ 79.5	- 44.9	+ 26.4
5 Reserve assets	- 1.3	+ 0.4	- 0.5

¹ Increase in net external position: + / decrease in net external position: - ² Increase: + ³ Including participation certificates.

⁴ Including reinvestment of earnings. ⁵ Long-term: original maturity of more than one year or unlimited. ⁶ Short-term: original maturity of up to one year. ⁷ Balance of transactions arising from options and financial futures contracts as well as employee stock options. ⁸ Includes in particular loans and trade credits as well as currency and deposits. ⁹ Excluding the Bundesbank.

¹⁰ Includes the following sectors: financial corporations (excluding monetary financial institutions) as well as non-financial corporations, households and non-profit institutions serving households.



paratively high. However, the highest amount of direct investment to a single country in 2019 was made in the United States, amounting to €34½ billion.

Domestic enterprises received €45 billion from abroad in the form of direct investment in 2019. That was only about one-third of the all-time high of €143½ billion recorded in 2018. Foreign enterprises provided domestic enterprises with €24 billion in intra-group lending, which occurred exclusively through the issuance of financial loans. A large proportion of this was made up of reverse flows, whereby subsidiaries domiciled abroad provide financial loans to their German parent companies. These reverse flows are often the result of capital market transactions involving German enterprises' financing subsidiaries in which securities are issued abroad and the proceeds are passed on to their parent companies in Germany.

Inflows of funds from abroad primarily via financial loans

In 2019, investors in Europe again accounted for the largest share of foreign direct investment in Germany, at €27 billion. Roughly €7½ billion of this amount came from other euro area countries, with particularly large inflows coming from Luxembourg and Ireland. This contrasted with considerable return flows of funds to Belgium and the Netherlands, which were primarily accounted for by repayments of intra-group loans. Among European countries outside of the euro area, a particularly large volume of direct investment came from the United Kingdom (€10½ billion). Outside of Europe, investors from the United States invested particularly heavily in Germany (€12½ billion).

Enterprises from Europe and the United States invest particularly heavily

producing abroad, and just over one-quarter of surveyed enterprises cited cost savings as a motivating factor in direct investment. The significance of cost savings relative to other objectives therefore continued to increase somewhat last year, according to the survey.

Europe and the United States important target regions

German enterprises invest in many countries and regions throughout the world. Traditionally, Europe is an important target region. Last year, €54½ billion of German direct investment abroad flowed to other European countries, of which €49 billion flowed to euro area countries. Within Europe, investments in Luxembourg, Italy and the Netherlands were com-

Other investment

Other investment, comprising financial and trade credits (where these do not constitute a part of direct investment) as well as bank deposits and other assets, resulted in net capital exports of €32 billion in 2019, down from €52 billion in 2018.

Net capital exports in other investment

Capital outflows from commercial banks

Capital outflows in the banking sector were the main driver here. Transactions of monetary financial institutions excluding the Bundesbank led to capital exports of €19½ billion on balance. There was a contraction in their cross-border liabilities, in particular, because foreign institutions, and above all group-affiliated institutions, scaled back their deposits at domestic banks. Year-end effects are not unusual for these cross-border investments; however, the outflows of funds recorded at the end of 2019 were particularly high.

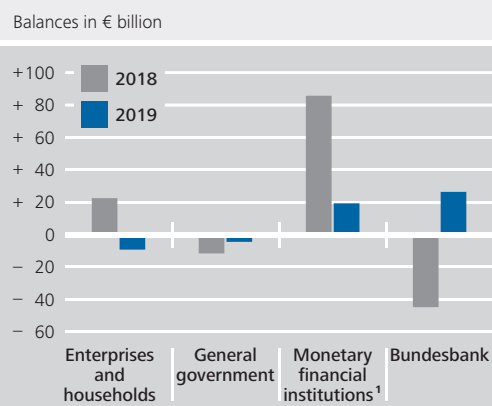
It is possible that the ECB Governing Council's decision in September 2019 to introduce a two-tier system for reserve remuneration also played a role here. This arrangement came into force at the end of October last year. Since then, part of credit institutions' excess liquidity holdings has been exempt from negative remuneration at the rate applicable on the deposit facility. The new regime led individual commercial banks to reallocate their central bank deposits in order to make better use of the available allowances. To some extent, they are likely to have redistributed some of the liquidity across borders.

In lending business, domestic credit institutions increased their issuance of financial loans to enterprises and households abroad, but scaled back, albeit to a lesser extent, their deposits at group-affiliated institutions abroad. Overall, this contributed to the aforementioned capital exports.

Bundesbank accounts also see outflows of funds

Bundesbank accounts also recorded net capital outflows in 2019, which amounted to €26½ billion. Movements in foreign liabilities played a decisive role here. The Bundesbank's liabilities vis-à-vis non-residents fell by €97½ billion. Monetary authorities and commercial banks domiciled outside the euro area significantly reduced their deposits at the Bundesbank on the year, after increasing them by €101½ billion in 2018. The operations of these foreign counterparties explain the turnaround in the Bundesbank's liabilities recorded in the balance

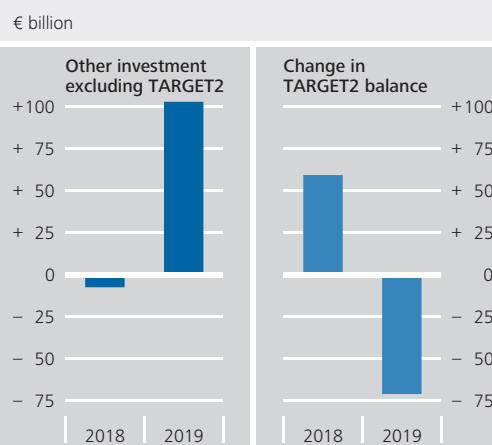
Other investment* broken down by sector



* Includes in particular loans and trade credits as well as currency and deposits; net capital exports: +. ¹ Excluding the Bundesbank.

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TARGET2 and other investment excluding TARGET2*



* Net capital exports: +.
 Deutsche Bundesbank

of payments. At the end of a given year, the deposits of non-euro area residents at the Bundesbank often temporarily record a significant increase. In 2018, this was especially pronounced. There was also an end-of-year effect in 2019, but this was much weaker than in the preceding year.

In previous years, the APP had additionally led to a rise in deposits of foreign commercial banks at the Bundesbank.²¹ The Eurosystem stopped making net purchases under the APP from January to October 2019 and only re-

²¹ See Deutsche Bundesbank (2019d), p. 40.

sumed them in November, at a monthly pace of €20 billion.

Significant fall in Bundesbank's claims on the ECB

The temporary suspension of net asset purchases and the aforementioned outflows of funds from the banking system also had an impact on the Bundesbank's TARGET2 claims on the ECB. They fell in 2019 by a total of €71 billion on the year, which was the sharpest fall since the beginning of 2013.²² By contrast, the Bundesbank's liabilities vis-à-vis the ECB arising from the allocation of euro banknotes within the Eurosystem went up by €34½ billion last year. The Bundesbank's net claims vis-à-vis the ECB arising from the two balance sheet items therefore fell by €105½ billion overall.

Non-banks attract net capital imports

In other investment, non-banks received net inflows of funds from abroad in 2019 (€14 billion). This was primarily attributable to net capital imports by enterprises and individuals (€9½ billion). The funds they raised abroad in 2019 stemmed in particular from financial loans. Non-securitised foreign transactions by general government led to an inflow of funds amounting to €4½ billion net. General government claims decreased, while its external liabilities

remained at the same level as in the previous year.

Reserve assets

Driven by transactions, the Bundesbank's reserve assets fell by €½ billion in 2019. An increase in the reserve position in the International Monetary Fund and in special drawing rights contrasted with a decline in other reserve assets.

Slight decline in reserve assets

The international reserve holdings are also influenced by balance sheet adjustments which, in compliance with internationally agreed accounting standards, are not recognised in the balance of payments. The end-of-year revaluation of the reserve assets resulted in an increase of €26½ billion in 2019. This was due chiefly to rising gold prices. All in all, the balance sheet value of Germany's reserve assets rose by €26 billion in 2019, standing at €199½ billion as at 31 December 2019.

²² See Deutsche Bundesbank (2019e, 2017a, 2017b, 2016).

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