Financial markets

Financial market setting

Financial markets reflecting more favourable economic outlook

Since the beginning of 2021, international financial markets have reflected strengthening prospects of economic recovery over the course of the year. While new waves of infections and tighter containment measures in many places temporarily held back this recovery somewhat, these were outweighed on the whole by progress in vaccinations and positive business cycle signals. Moreover, an accommodative monetary policy stance boosted the confidence of market participants. Given simultaneous fiscal policy stimulus – particularly in the United States – yields on benchmark government bonds rose worldwide, at times distinctly, via the interest rate linkage with the United States. This rise in yields occurred in a setting of calm markets and high liquidity. A key factor behind the increase in risk-free interest rates was rising inflation expectations, which continued to pick up from their lows in March 2020 on both sides of the Atlantic. Real interest rates therefore rose less strongly, on the whole, than nominal government bond yields. In January 2021, yields on euro area corporate bonds initially hit all-time lows before rebounding as well. They nonetheless continued to reflect very favourable financing conditions as this report went to press. The upbeat setting led to strong price gains in the equity markets. Alongside the aforementioned factors, this also reflected enterprises' higher earnings expectations and investors' high risk appetite, which dampened demand in the foreign exchange markets for some currencies regarded as relatively safe. Consequently, the yen and Swiss franc lost value in effective terms. The euro also depreciated on a weighted average, though its losses were small by comparison. Given rising yields on US Treasuries, the effective exchange rate of the US dollar, which often depreciates when risk appetites rise, remained virtually unchanged. By contrast, the pound sterling benefited from the trade and cooperation agreement reached with the EU at the end of 2020 and the United Kingdom's successes in its vaccination campaign.

Exchange rates

Euro virtually unchanged against the US dollar, …

Since the beginning of 2021, the price of the euro against the US dollar has been influenced by various restrictions implemented to contain the coronavirus, the respective availability of vaccines in the two currency areas and the accompanying economic policy measures to stimulate economic activity. On balance, the euro has remained virtually unchanged against the US dollar since the start of the current year (-0.4%). However, this development has been dichotomous this year so far. A strong depreciation of the euro vis-à-vis the US dollar in the first quarter later gave way to a marked countermovement.

Rapid progress in administering vaccinations, surprisingly upbeat US economic data and the comprehensive fiscal measures passed by the new US administration boosted the US dollar over the first quarter. This raised confidence among market participants in the United States' economic outlook and provided tailwinds for inflation expectations, which, in turn, was accompanied by rising yields on US Treasury bonds and net inflows of capital into the United States. These developments were mirrored by a broad-based appreciation of the US dollar. By contrast, euro area countries initially faced an uptick in infection numbers, sluggish inoculation of their populations and the associated containment measures that slowed the economic recovery and therefore weighed on the euro. By the end of the first quarter, the exchange rate of the euro against the US dollar stood at US$1.17, down 5.0% since the start of the year.

Source: ECB. **1** As calculated by the ECB against the currencies of 19 countries. A rise in values indicates an appreciation of the euro.
Deutsche Bundesbank

Since the beginning of April, the euro has recouped a large portion of its earlier losses against the US dollar. One reason for this is a surge in vaccinations on this side of the Atlantic and an unexpectedly strong improvement in euro area sentiment. Another is the distinct slowdown in the pace of vaccinations in the United States owing to reservations about vaccines and the trend increase in US Treasury yields weakening markedly. This caused the yield spread between the United States and the euro area to narrow somewhat since the start of April. The euro closed the reporting period at US$1.22, up 4.2% since the beginning of April.

… but saw gains against the yen …

The euro has appreciated distinctly vis-à-vis the yen since the start of the year. At last count, the exchange rate reached its highest level since the first quarter of 2018, at ¥133.1, up 5.2% since the turn of the year. On the one hand, this is attributable to the rising infection numbers, which were originally low, and the late and sluggish rollout of vaccinations in Japan. The country also extended its coronavirus state of emergency recently. On the other hand, the yen came under pressure after the Bank of Japan signalled its willingness to loosen its monetary policy should the high level of uncertainty driven by the pandemic weigh markedly on the economic recovery. At the same time, the prospects of an upturn in the global economy also dampened demand for currencies perceived to be relatively safe, such as the yen, in the foreign exchange markets. Past experience has shown that investors withdraw some of their assets from Japan when their appetite for risk increases.

… and losses against the pound sterling

The euro has depreciated by 4.3% against the pound sterling since the start of the year, initially losing value against the UK currency in the first three months of the year before rebounding slightly. This left the single currency at £0.85 at the end of the first quarter, 5.3% weaker than at the end of 2020. Up to that point, the British pound had been on the increase primarily owing to the trade and cooperation agreement that had been reached with the European Union just before the end of 2020. The rapid rollout of vaccinations and the announcement that coronavirus restrictions would phase out by the end of June also provided tailwinds for the UK currency. It did experience a bout of distinct downward pressure at the start of April, however, when UK vaccination numbers declined markedly after an age restriction was recommended for the administration of one of the available vaccines due to potential risks. Concerns about an outcome of the parliamentary elections in Scotland that might herald an independence referendum also briefly cast a shadow over the pound sterling. Furthermore, the Bank of England's latest deci-

sion to slow the weekly pace of its asset purchases to contain the economic fallout from the coronavirus pandemic was unable to buoy up the pound sterling. As a result, the euro was able to recoup some of its losses from the first quarter, appreciating by 0.9% since the beginning of April.

Euro somewhat weaker in effective terms

On a weighted average against the currencies of 19 major trading partners, the euro was down by 1.1% on balance compared to the end of last year, losing value not just against the pound sterling but also declining against the renminbi. Its losses were also notable against the Norwegian krone and Canadian dollar, which – being currencies of oil-exporting countries – were given a broad-based boost by the rise in oil prices. Furthermore, the Canadian dollar responded with marked gains to the surprising announcement by the Bank of Canada to reduce its asset purchases and thus slow the pace of its quantitative easing. By comparison, the euro has gained ground against the Swiss franc since the start of 2021, thanks to a growing appetite for risk in the foreign exchange markets. On balance, the price competitiveness of euro area suppliers improved somewhat over the period under review; looking at the long-term average, their competitive position can currently still be classified as neutral.

Securities markets and portfolio investment

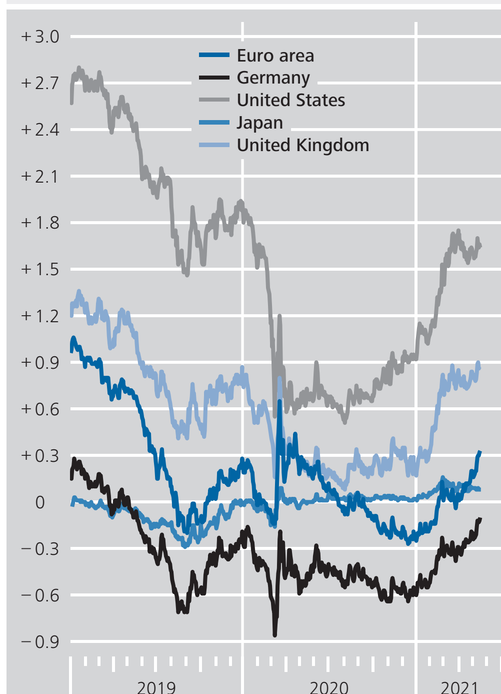
Bond market

Ten-year US Treasury yields up significantly

Yields on government bonds in the major currency areas rose significantly in most cases from the beginning of the year. This is especially true for the United States, where yields on ten-year US Treasuries climbed 72 basis points to 1.6% on balance. The pronounced increase in US yields reflects the confidence of market participants regarding future economic activity. This confidence was mainly based on the progress made in the vaccination campaign and the fiscal policy measures taken. The latter

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

are likely to give the US economy a huge boost in the short term and could lead to an overutilisation of capacity, at least for a time.[1] The associated higher inflation expectations coincided with an uptick in market participants' uncertainty about future interest rate movements, which was reflected in a much higher nominal term premium. Market participants' risk-neutral expectations regarding the path of monetary policy short-term interest rates, when viewed in isolation, fell slightly by contrast. This was in line with the US Federal Reserve Bank's announcement under its new strategy that it would wait to lower the degree of monetary policy accommodation. These factors also drove real yields on US Treasuries somewhat higher (+18 basis points to -92 basis points).

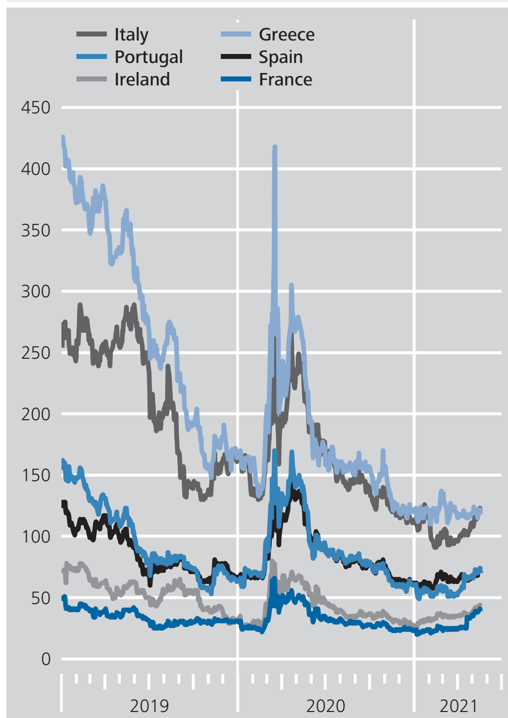
Yield on ten-year Bunds also up

Yields on ten-year Bunds have climbed by 47 basis points on balance to -0.1% since the beginning of 2021, putting them at around the

1 See the box on pp. 16 ff.

Spreads of ten-year government bonds over Federal bonds

Basis points, daily data



Sources: Bloomberg and Bundesbank calculations.
Deutsche Bundesbank

level at the start of 2020 as this report went to press. Hopes of the economic recovery continuing also played a role in the Federal bonds market, though yields there only partly mirrored the rise in US yields via international interest rate linkages during the reporting period. This was mainly due to expectations of economic recovery in the euro area being pushed back after the pandemic flared up again in the second quarter and various euro area governments introduced stricter and more prolonged containment measures. Real yields on ten-year inflation-linked Federal bonds hovered close to their record low from the end of 2020. The spread between ten-year nominal US Treasuries and ten-year Bunds widened on balance by 25 basis points to 174 basis points, though it remained below the five-year average of 198 basis points. The real interest rate gap between the two currency areas widened slightly, too.

Steeper yield curve for Federal securities

The change in the economic outlook for the euro area was reflected in the yield curve derived from Federal securities yields, which was much steeper at the end of the period under review than at the start of 2021. The spread between ten-year and two-year maturities rose by 38 basis points to 56 basis points, taking it to a level similar to the one last seen in mid-2019. At the end of the reporting period, yields on Federal securities were no longer negative as of around the 13-year mark. A model breakdown indicates that distinctly higher term premia are the main reason for the steeper yield curve. This would suggest that market participants are noticeably less worried about unexpectedly low interest rates. Implied expectations for short-term interest rates remained virtually unchanged.

Yield spreads on euro area government bonds up slightly

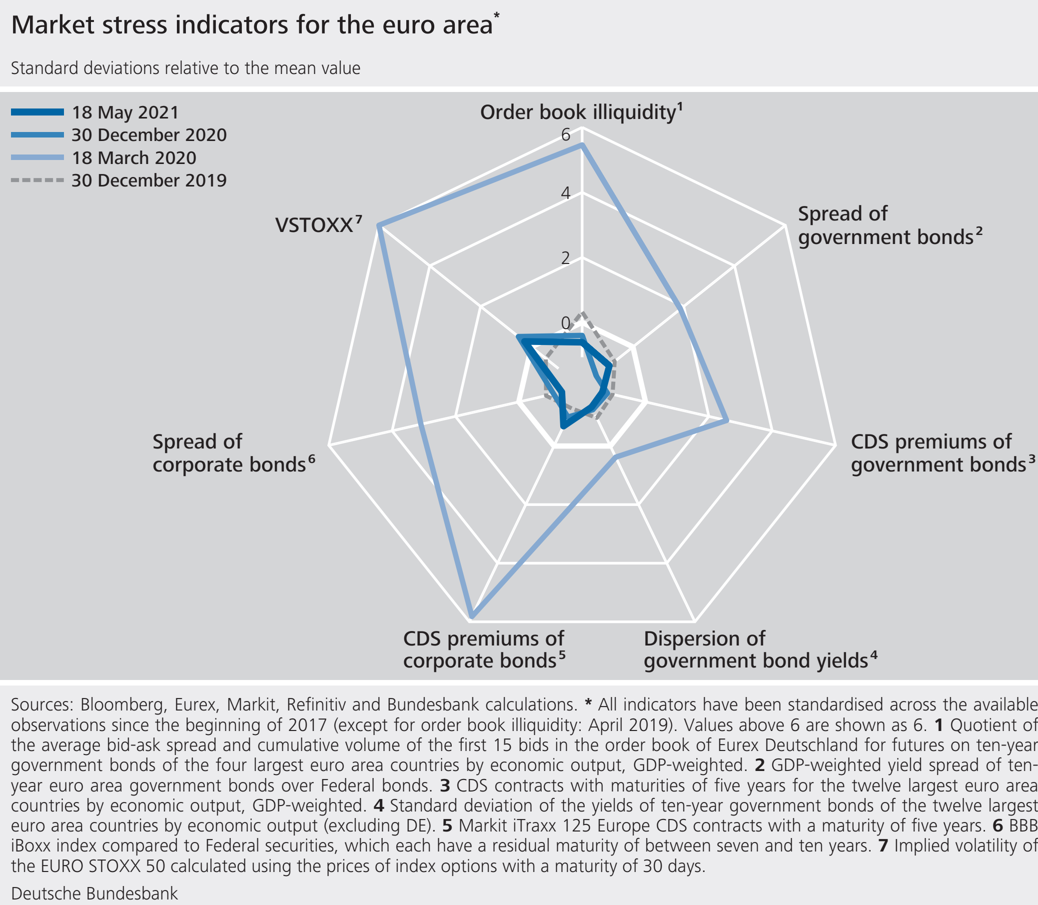
The spread between ten-year Bunds and matched-maturity government bonds issued by other euro area countries (GDP-weighted average excluding Germany) has been moving within a fairly narrow range around the 50 basis point mark since the beginning of 2021, a level last observed in mid-2008. Spreads widened slightly towards the end of the reporting period, increasing by 11 basis points to 61 basis points. Like other country-specific risks, rising infection numbers impacted only marginally on yield spreads. Various indicators of market stress and market liquidity show that euro area government bond markets are calm by historical standards, especially so compared to the episode of significantly heightened market stress in March 2020 (see the chart on p. 45). One reason for the weak market responses to stress factors is likely to have been the ECB Governing Council decisions in January, which emphasised that the pace of purchases could be temporarily adjusted upwards in order to preserve favourable financing conditions even if the envelope of the pandemic emergency purchase programme remains unchanged. Furthermore, the risk appetite of market players is currently quite high, which will probably keep spreads in check as well.

Yields up in UK and Japan

Compared to the beginning of the year, yields on ten-year UK bonds (gilts) were up by 67

Market stress indicators for the euro area*

Standard deviations relative to the mean value



Sources: Bloomberg, Eurex, Markit, Refinitiv and Bundesbank calculations. * All indicators have been standardised across the available observations since the beginning of 2017 (except for order book illiquidity: April 2019). Values above 6 are shown as 6. **1** Quotient of the average bid-ask spread and cumulative volume of the first 15 bids in the order book of Eurex Deutschland for futures on ten-year government bonds of the four largest euro area countries by economic output, GDP-weighted. **2** GDP-weighted yield spread of ten-year euro area government bonds over Federal bonds. **3** CDS contracts with maturities of five years for the twelve largest euro area countries by economic output, GDP-weighted. **4** Standard deviation of the yields of ten-year government bonds of the twelve largest euro area countries by economic output (excluding DE). **5** Markit iTraxx 125 Europe CDS contracts with a maturity of five years. **6** BBB iBoxx index compared to Federal securities, which each have a residual maturity of between seven and ten years. **7** Implied volatility of the EURO STOXX 50 calculated using the prices of index options with a maturity of 30 days.

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basis points at 0.9% owing to international interest rate linkages. First and foremost, this development reflects a rapid vaccination rollout campaign by international standards and the associated prospects of a strong cyclical rebound this year. While it is true that the Bank of England slowed the weekly pace of its asset purchases, as outlined above, it left the base rate unchanged at the all-time low of 0.1%. In Japan, meanwhile, yields on ten-year government bonds stood at 0.1% at the end of the reporting period, and were thus likewise somewhat higher than at the start of the year (+6 basis points). Yields thus remained within the range in which market participants assume that the Bank of Japan wishes to keep interest rates. The relatively slow vaccination campaign, like other macroeconomic shocks, did not have any noticeable impact on Japanese yields, as hitherto.

Forward inflation rate in the euro area has risen

Euro area forward inflation rates derived from inflation swaps for a period of five years starting in five years' time most recently stood at 1.6% and were thus 38 basis points higher than at the beginning of the year. Forward inflation rates were consequently clearly above their pre-pandemic level (beginning of 2020: 1.3%) and at a two-year high. At the beginning of the pandemic in March 2020, this indicator had recorded a low of 0.7%. The risk-neutral probability of inflation rates lower than 1% on average over the next five years declined from 55% to 20% during the reporting period. Meanwhile, market participants do not see a high risk of inflation rapidly rising to above 2% in the euro area; the risk-neutral probability of inflation rates above this level was 17% at last count. Inflation expectations for the euro area six to ten years ahead, as calculated by Consensus Economics on the basis of surveys, were most recently 1.8%, as at the beginning of the year; they consequently exceeded market-based measures. The gap between market and survey-based expectations can be attributed mainly to inflation risk and liquidity premia. In the United States, market-based five-year forward inflation

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

rates in five years also registered a perceptible increase, advancing by 22 basis points to 2.5%. This put them at the same level as the survey-based data.

Corporate bond yields higher

Yields on European corporate bonds have risen from a very low level in the year to date. Bonds issued by BBB-rated financial corporations with a residual maturity of between seven and ten years were yielding 1.2% as this report went to press, 34 basis points higher than at the end of last year. Yields on non-financial corporate bonds rose by a similar amount, adding 31 basis points to reach 0.8%. The main reason why corporate bond yields picked up after falling to historical lows in January, in some cases, was the increase in risk-free interest rates. As Bund yields went up more strongly, however, yield spreads over Bunds with the same maturity narrowed, by 7 basis points and 10 basis points respectively for financial and non-financial corporations. Most recently, yield spreads on BBB-rated bonds were lower than before the onset of the coronavirus pandemic. They were consequently well below their five-year average and only slightly higher than before the financial crisis hit in July 2007. In the high-yield segment, both bond yields and yield spreads over Bunds dropped significantly. Narrower corporate bond spreads are a reflection of comparatively low compensation for default risk. Contributory factors are likely to have been falling stock market uncertainty (see p. 48) and investors' high appetite for risk. Taken together, this suggests that valuations in the corporate bond market are high.

High net issuance of German debt securities

Gross issuance in the German bond market in the first quarter of 2021 was significantly higher than in the preceding three-month period. Overall, German borrowers issued paper to the tune of €472½ billion, after €333 billion in the final quarter of 2020. Net of redemptions and changes in issuers' own holdings, domestic issuers ramped up their capital market borrowing by €87 billion. The outstanding volume of foreign debt securities in the German market rose by €61½ billion in the first quarter. On balance, the total outstanding volume of bonds in Germany thus climbed by €148½ billion in the quarter under review.

Higher public sector capital market borrowing

In the first quarter of 2021, the public sector issued bonds to the tune of €56 billion net, following €9½ billion in the previous quarter. Central government (including the resolution agency that is classified as part of it) issued mainly Treasury discount paper (Bubills: €23½ billion), but also five-year Federal notes (Bobls: €12 billion) and Federal bonds, predominantly with a maturity of 30 years (€7 billion). State and local governments issued bonds worth €13 billion net.

Net issuance by credit institutions

In the quarter under review, domestic credit institutions upped their capital market debt by €29½ billion, following net redemptions of €29 billion in the previous quarter. There was net issuance, in particular, of debt securities by specialised credit institutions (€19½ billion). In addition, the outstanding volume of other bank debt securities that can be structured flexibly (€5½ billion), mortgage Pfandbriefe (€4 billion) and public Pfandbriefe (€1 billion) also rose.

Slight rise in enterprises' capital market debt

The quarter under review saw domestic enterprises issue a net €1½ billion worth of bonds, following unusually high net redemptions amounting to €30 billion in the previous quarter, which were largely attributable to one-off factors.[2] Overall, non-financial corporations were the only issuers of bonds (€2½ billion), while other financial intermediaries made redemptions (€1 billion).

Purchase of debt securities

In the first quarter of 2021, debt securities were, on balance, acquired predominantly by domestic non-banks (€60½ billion), which were interested primarily in foreign paper. The Bundesbank increased its bond holdings by €54½ billion net, mainly under the Eurosystem's monetary policy asset purchase programmes. Foreign investors, meanwhile, acquired €22½ billion worth net of German bonds. Foreign purchases also reflected primary market activity by central government, which uses tender procedures to issue bonds to credit institutions and investment firms, some of which are domiciled outside Germany. Domestic credit institutions purchased debt securities for €11 billion in net terms; on balance, they exclusively purchased domestic instruments.

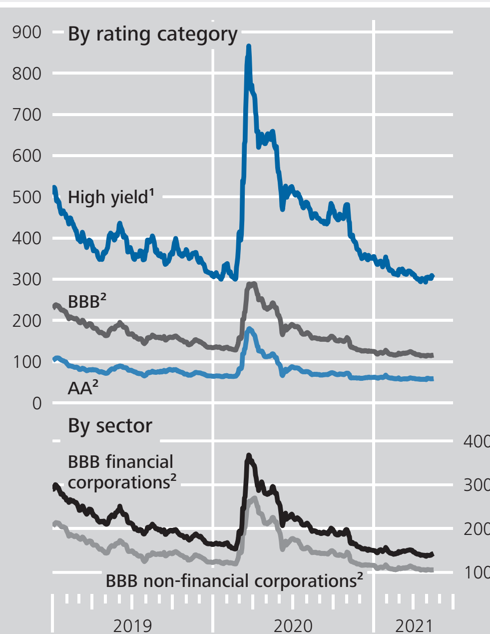
Equity market

The international stock markets, too, were shaped mainly by brighter growth prospects, a

2 See Deutsche Bundesbank (2021).

Yield spreads of corporate bonds in the euro area*

Basis points, daily data



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

Investment activity in the German securities markets

€ billion

Item	2020 Q1	2020 Q4	2021 Q1
Debt securities			
Residents	26.0	70.6	126.2
Credit institutions	30.3	– 14.4	10.9
of which:			
Foreign debt securities	19.3	2.0	– 4.2
Deutsche Bundesbank	11.9	70.5	54.6
Other sectors	– 16.2	14.5	60.7
of which:			
Domestic debt securities	– 11.8	2.1	– 5.8
Non-residents	61.4	– 105.7	22.3
Shares			
Residents	14.1	30.2	18.6
Credit institutions	– 8.7	5.2	3.6
of which:			
Domestic shares	– 4.5	1.8	2.6
Non-banks	22.8	25.0	14.9
of which:			
Domestic shares	12.5	3.0	6.6
Non-residents	– 6.2	– 0.6	4.0
Mutual fund shares			
Investment in specialised funds	33.4	43.3	23.9
Investment in retail funds	– 1.2	8.0	9.4
of which:			
Equity funds	– 5.8	4.3	4.3

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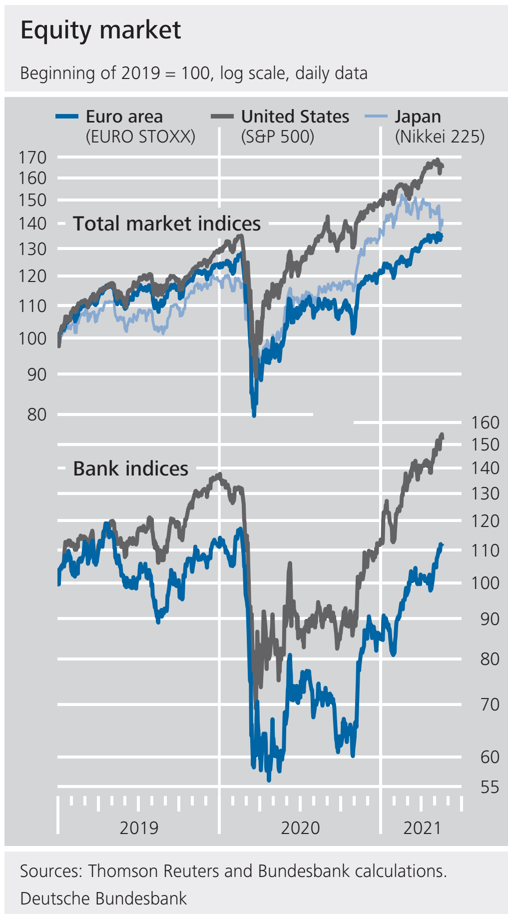

International equity markets with clear gains

stimulative fiscal policy, particularly in the United States, and a predominantly expansionary monetary policy worldwide. Overall, share prices continued the previous quarter's upward trajectory and booked significant gains. On both sides of the Atlantic, a positive corporate reporting season further bolstered optimism. This was reflected in noticeably higher earnings expectations. Price developments were dampened somewhat by higher risk-free interest rates, which raise the discount factor used to value future profits, and thus lower enterprises' present value. On the whole, however, this dampening effect on prices was limited. This was undoubtedly attributable, in part, to market participants' hopes that monetary policy will remain expansionary on both sides of the Atlantic. Moreover, market players displayed a pronounced appetite for risk. Both factors were evident, amongst others, in the fact that prices proved very robust to several negative factors – the persistent uncertainty surrounding future infection rates and geopolitical tensions, to name just two. Overall, European stocks, as measured by the EURO STOXX, have recorded significant gains in the year to date (+11.8%). US and German shares, as measured by the S&P 500 and CDAX, temporarily hit historical highs, climbing by 9.9% and 8.9% respectively. The UK's FTSE All-Share index and Japan's Nikkei 225 rose by 9.1% and 3.5% respectively overall.

Bank shares outperform overall market

As in the preceding quarter, bank shares on both sides of the Atlantic outperformed their respective overall markets in the reporting period. US and European bank stocks climbed by 34.0% and 32.4% respectively. Their above-average performance was driven, in particular, by improved earnings expectations as a result, amongst other things, of steeper yield curves and a good climate for corporate bond issues. In addition, some unexpectedly good quarterly results fuelled stock prices in the banking sector. Given the positive economic indicators, market participants appear to take a more favourable view of the risk of credit defaults.

Stock market volatility down

Price uncertainty in the equity market – as measured by the implied volatility of equity indices calculated from options – has decreased in the year to date. Relatively pronounced fluctuations in the prices of individual stocks at the end of January, rising risk-free interest rates and unexpectedly high US inflation in April only caused temporary spikes in volatility in the end. Equity market uncertainty for both US and European stock markets was recently slightly above its respective five-year averages.

Valuation down somewhat but still high in a long-term comparison

Equity valuation levels on either side of the Atlantic moved in different directions during the reporting period. Despite the reduced uncertainty, the equity risk premium market participants demand for the EURO STOXX, which can be calculated as a residual using a dividend discount model, rose. Given the higher risk-free interest rates, the implied cost of capital consequently also climbed and is now roughly in line with its five-year average. Nonetheless, the earnings yield remains below its long-term

average, suggesting a relatively high valuation. For the S&P 500, meanwhile, the equity risk premium fell, while the cost of capital was virtually unchanged. Given that the cost of capital and earnings yields are low in a long-term comparison, US enterprises' valuations also appear high.

Equity market funding

On balance, funding in the German stock market totalled €13 billion in the reporting quarter, compared with €4 billion in the preceding quarter. The large issuance volume can be attributed primarily to capital increases by existing companies. The volume of foreign shares in the German market rose by €9½ billion over the same period. On balance, domestic non-banks were the main buyers of equities (€15 billion). Foreign investors and domestic credit institutions expanded their equity portfolios by €4 billion and €3½ billion net respectively.

Sales and purchases of mutual fund shares

In the first quarter of 2021, domestic investment companies posted inflows of €33½ billion, after relatively high inflows of €51½ billion in the previous quarter. On balance, the vast majority of the fresh funds were channelled to specialised funds reserved for institutional investors (€24 billion). Of the various asset classes, mixed securities funds, in particular, registered significant net inflows of capital (€15 billion), followed by equity funds (€7½ billion), open-end real estate funds (€6 billion) and funds of funds (€2½ billion). The outstanding volume of foreign mutual fund shares in Germany rose by €17 billion in the period under review. Mutual fund shares were bought on balance almost exclusively by domestic non-banks, which added €47½ billion worth of fund shares to their portfolios. Most of this paper was issued by domestic mutual funds. Domestic credit institutions expanded their fund portfolios by €2½ billion net, while non-resident investors had only a marginal involvement in the German mutual fund market overall.

Major items of the balance of payments

€ billion

Item	2020 Q1	2020 Q4	2021 Q1p
I. Current account	+ 62.3	+ 70.5	+ 66.4
1. Goods	+ 52.5	+ 53.9	+ 55.9
2. Services	− 2.7	+ 4.1	+ 3.6
3. Primary income	+ 26.9	+ 30.4	+ 27.5
4. Secondary income	− 14.4	− 17.9	− 20.6
II. Capital account	− 0.3	− 3.4	− 0.1
III. Financial account (increase: +)	+ 37.8	+ 93.0	+ 131.7
1. Direct investment	+ 20.2	+ 3.2	+ 29.7
Domestic investment abroad	+ 47.8	+ 43.8	+ 42.9
Foreign investment in the reporting country	+ 27.6	+ 40.7	+ 13.2
2. Portfolio investment	− 40.9	+ 172.5	+ 60.9
Domestic investment in foreign securities	+ 13.6	+ 67.7	+ 87.2
Shares[1]	+ 5.2	+ 22.9	+ 8.9
Investment fund shares[2]	− 8.5	+ 30.2	+ 16.8
of which: Money market fund shares	− 3.1	+ 8.4	− 8.7
Short-term debt securities[3]	+ 1.5	− 1.9	+ 3.1
Long-term debt securities[4]	+ 15.4	+ 16.5	+ 58.4
of which: Denominated in euro[5]	+ 12.0	+ 7.7	+ 40.2
Foreign investment in domestic securities	+ 54.4	− 104.8	+ 26.3
Shares[1]	− 6.2	− 1.0	+ 3.9
Investment fund shares	− 0.7	+ 1.8	+ 0.1
Short-term debt securities[3]	+ 29.3	− 33.5	+ 19.9
Long-term debt securities[4]	+ 32.0	− 72.2	+ 2.4
of which: Issued by the public sector[6]	+ 1.7	− 39.0	− 4.1
3. Financial derivatives[7]	+ 33.5	+ 9.1	+ 21.9
4. Other investment[8]	+ 24.9	− 92.7	+ 18.8
Monetary financial institutions[9]	− 77.6	+ 23.7	− 105.8
Enterprises and households[10]	+ 4.9	− 4.8	+ 45.9
General government	+ 1.1	− 0.0	− 1.1
Bundesbank	+ 96.5	− 110.8	+ 79.8
5. Reserve assets	+ 0.1	+ 0.8	+ 0.4
IV. Errors and omissions[11]	− 24.1	+ 25.8	+ 65.4

1 Including participation certificates. **2** Including reinvested earnings. **3** Short-term: original maturity of up to one year. **4** Long-term: original maturity of more than one year or unlimited. **5** Including outstanding foreign D-Mark bonds. **6** Including bonds issued by the former Federal Railways, the former Federal Post Office and the former Treuhand agency. **7** Balance of transactions arising from options and financial futures contracts as well as employee stock options. **8** Includes in particular financial 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. **11** 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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Direct investment

Direct investment sees net capital exports

Transactions in cross-border portfolio investment resulted in net capital exports of €61 billion in the first quarter of 2021. Direct investment, too, led to capital outflows, totalling €29½ billion.

German direct investment abroad results in capital exports

Enterprises domiciled in Germany expanded their direct investment abroad by €43 billion in the first three months of 2021 (previous quarter: €44 billion). Specifically, they provided foreign subsidiaries with €11 billion in additional equity capital. This was done almost exclusively in the form of reinvested earnings. Furthermore, German firms supplied €32 billion in additional funds via intra-group loans, the majority of which were financial loans. Loans from domestic subsidiaries to their foreign parent companies (reverse investments) were an important factor here; German firms also provided fellow enterprises abroad with additional funds. In the first quarter, German foreign direct investment flowed mainly to Spain (€28½ billion), the UK (€16½ billion) and China (€4½ billion). By contrast, German enterprises made net withdrawals of direct investment funds from the United States (€21½ billion) and the Netherlands (€7½ billion).

Foreign direct investment in Germany yields capital inflows

Foreign firms upped their direct investment in Germany by €13 billion between January and March; in the fourth quarter of 2020, the volume of such investment had amounted to €40½ billion. Foreign investors provided German subsidiaries with additional equity capital of €4½ billion and injected €8½ billion into affiliates in Germany in the form of loans. All in all, most of them granted financial loans, particularly to German subsidiaries. In the main, direct investment funds originated from Spain (€19½ billion), the United Kingdom (€19 billion) and Switzerland (€3½ billion). As in the opposite direction, direct investment transactions from the United States (€23 billion) and the Netherlands (€10½ billion) resulted in a negative balance.

List of references

Deutsche Bundesbank (2021), Financial markets, Monthly Report, February 2021, pp. 40 ff.