

Germany's international investment position at the end of 2006

Germany's financial links with the rest of the world again increased markedly in 2006. Overall, Germany's external assets rose by 10% to €4,519 billion and its external liabilities by 7½% to €3,883 billion. As a result, **net foreign assets** at the end of 2006 amounted to €636 billion, or 27½% of GDP.

The rise in Germany's assets and liabilities vis-à-vis non-residents was due largely to cross-border portfolio transactions and to increased lending. By contrast, valuation changes had a dampening effect. On the one hand, equities and mutual fund shares recorded notable holding gains, triggered by price developments in the capital markets – the CDAX and the broad DJ EuroStoxx both rose by one-fifth during the period under review while the MSCI World Index increased by around one-eighth. On the other hand, bonds lost value and positions denominated in foreign currency suffered depreciation losses as in 2006 the euro appreciated noticeably against other major currencies, especially the US dollar.

The increasing internationalisation of the portfolios held by German **monetary financial institutions (excluding the Bundesbank)** was particularly evident. They expanded their external assets by 16%. The growth in their assets by €299 billion to €2,163 billion was due to increased lending and a rise in portfolio stocks. Given much smaller changes in liabilities, the German banking system was able to extend its net creditor position by €236 billion to €353 billion.

The external assets of German **enterprises and individuals**, which also include investment funds (excluding money market funds), increased by €143

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billion (+7 %) to €2,203 billion. This development was due primarily to the increased holdings of foreign securities, mainly in the form of equities and mutual fund shares. Most of the increase, however, was due to valuation gains. In the case of bonds, price and exchange rate losses exceeded new investment, with the result that a decline in the value of holdings was recorded during the period under review. Foreign direct investment increased in 2006 by around 6½% to €685 billion. The rise by 16½% in the external liabilities of enterprises and individuals was primarily attributable to the increase of €93 billion (+29 %) to €413 billion in the stock of German equities held by non-residents; one-third of this increase was due to purchases and two-thirds to price rises. Overall, this sector was once again the largest German net creditor at the end of 2006 despite a decline in net claims of €48 billion to €841 billion.

In 2006, the external liabilities of **general government** rose by €13 billion (+2%) to €706 billion. This was mainly driven by foreign investors' greater investment in Federal bonds. By contrast, the external assets of general government have a much smaller weight. They decreased by €2 billion to €48 billion. The net external liabilities of public authorities consequently amounted to €658 billion at the end of last year.

The **net external position of the Bundesbank** fell from €124 billion to €100 billion in the course of last year. While holdings of foreign reserve assets remained almost unchanged at around €85 billion, as valuation gains on the gold holdings and especially exchange rate losses on foreign currency positions largely cancelled each other out, the value of other external assets decreased markedly (by just over €24 billion). The latter was almost solely the result of a fall in claims within the large-value payment system TARGET, which are generally of a very transitory nature.

Germany's international investment position*)

€ bn; end of period under review

	Assets			Liabilities		
	Dec.2004	Dec.2005	Dec.2006	Dec.2004	Dec.2005	Dec.2006
I Monetary financial institutions ¹	1614.3	1864.1	2163.0	1575.3	1746.6	1809.6
1 Direct investment	58.2	72.6	93.5	11.3	28.4	36.0
Equity capital (excl. real estate)	57.4	71.6	92.7	11.3	28.4	36.0
Real estate	0.8	0.9	0.7	-	-	-
2 Portfolio investment	430.1	540.9	643.0	646.8	747.3	767.9
Shares	12.3	22.0	26.7	25.4	35.5	40.3
Mutual fund shares	14.2	22.2	27.3	4.3	3.4	3.7
Bonds and notes	387.1	478.3	564.8	568.3	662.9	680.4
Money market instruments	16.5	18.4	24.2	48.8	45.4	43.5
3 Loans, currency and deposits ²⁾	1123.9	1248.5	1424.1	916.3	970.1	1004.6
Short term	744.4	782.0	900.7	652.5	706.8	761.2
Long term	379.5	466.5	523.5	263.8	263.3	243.4
4 Other assets/other liabilities	2.1	2.2	2.4	0.9	0.9	1.1
II Enterprises and individuals	1749.2	2060.7	2203.3	1064.0	1171.0	1361.9
1 Direct investment	540.0	642.8	684.9	516.7	506.7	533.6
Equity capital (excl. real estate)	427.2	498.7	546.5	294.8	301.1	319.4
Other capital	3.6	16.7	4.9	217.1	199.7	202.3
Claims on affiliated enterprises	105.9	118.2	126.1	238.1	220.7	226.5
Liabilities to affiliated enterprises (reverse investments)	102.2	101.4	121.3	21.0	21.0	24.1
Real estate	109.2	127.4	133.5	4.8	5.6	11.9
2 Portfolio investment	799.6	999.8	1062.9	295.5	375.5	479.8
Shares	314.0	407.0	450.7	242.0	319.8	413.1
Mutual fund shares	150.1	200.3	227.8	19.1	21.0	30.1
Bonds and notes	329.8	387.6	380.8	27.0	29.7	29.2
Money market instruments	5.7	4.9	3.6	7.5	4.9	7.4
3 Loans, currency and deposits	290.1	286.0	311.4	184.2	212.7	261.8
Short term	240.0	243.0	244.5	90.1	102.4	126.9
Long term	50.0	43.1	66.9	94.1	110.3	134.9
4 Trade credits	89.7	99.0	107.1	64.7	72.7	83.0
5 Other assets/other liabilities	29.8	33.0	37.1	2.8	3.5	3.7
III General government	44.4	50.4	48.3	603.6	693.2	706.4
1 Participating interests in international organisations	15.5	16.7	16.6	-	-	-
2 Portfolio investment	-	-	-	584.2	670.5	683.3
Bonds and notes	-	-	-	559.6	643.1	657.7
Money market instruments	-	-	-	24.6	27.4	25.6
3 Loans, currency and deposits ³⁾	28.3	33.1	31.1	18.7	22.1	22.1
Short term	2.1	15.3	21.8	3.9	6.9	5.9
Long term	26.2	17.7	9.2	14.9	15.3	16.2
4 Other assets/other liabilities	0.7	0.7	0.7	0.6	0.6	1.0
IV. Bundesbank	93.1	130.3	104.4	7.9	6.3	4.8
1 Reserve assets	71.3	86.2	84.8	-	-	-
2 Other assets/other liabilities	21.8	44.1	19.6	7.9	6.3	4.8
Total (I to IV)	3501.0	4105.5	4518.9	3250.8	3617.2	3882.6

* Detailed data on the international investment position can be found in Statistical Supplement 3 "Balance of payments statistics", Table II.9.-

1 Excluding the Bundesbank.- **2** Loans against borrower's notes, bank deposits, assets acquired through assignment etc.- **3** Liabilities: loans against borrower's notes.- Differences in the totals are due to rounding.