

Foreign trade and payments

Foreign trade and current account

In the final quarter of last year German foreign trade was influenced by the weakness in global economic growth. Consequently, turnover in both exports and imports declined discernibly. The seasonally adjusted 3% fall in the value of German exports in the fourth quarter compared with the previous period was unusually sharp. However, it might be that exports have now bottomed out. At all events, the export expectations of German industry over the past few months have been providing the first signs of a future recovery in export business. Assessments of the situation in October had never been so predominantly pessimistic since the summer of 1993. Since then, however, there has been a steady improvement in sentiment. It is also consistent with this development that the orders received by German industry from abroad have recently been increasing again. Owing to the usual lag between the receipt of an order and its eventual delivery, however, this was scarcely reflected in the export volume in the fourth quarter of last year.

Exports

German exporters recorded a declining turnover with most trading partners during the last three months for which a statistical breakdown is available (September-November 2001). Exports to the central and east European countries in transition, which, contrary to the general trend, increased relatively sharply (4½%) during the period under review, were the only exception. Compared with the previous period (June-August 2001), there was a fall – in some cases a significant one – in export turnover with almost all other

Breakdown of exports

major customer countries. For example, exports to other euro-area countries declined by 4%, a development which represented a serious setback for German exporters, given the great importance of trade with the euro-area countries. Although the value of exports to customers in the emerging markets of South-East Asia, at 9½%, and to Japan, at just under 8½%, was far below the respective values in the summer of 2001, these losses are less significant when viewed in absolute terms. The change in exports to the United States, which, despite the pronounced economic downturn there, had proved very robust until that point last year, had a much more serious impact, by contrast. They failed to maintain their previous level during the period under review and declined extremely sharply, at 9%, compared with the reference period. The normally longer delivery times in the motor industry, which accounts for approximately 30% of German exports to the United States, are certainly a major reason for the considerable delay in German exports responding to the changed situation with respect to new business in this export market. Against the background of the terrorist attacks in September and the associated uncertainty on the part of consumers and investors as well as the subsequent breakdowns and disruptions to operational and dispatch procedures, other reasons, too, probably played a major role.

Exports of goods produced by the information and communication technologies sector (ICT) were particularly badly affected by sentiment that was generally influenced by major planning uncertainty and decidedly negative expectations. The decline in German exports in



this sector was particularly serious – especially in the field of accounting and computing machinery at just over 9% and in communications at more than 9½% – whereas the loss of turnover in other sectors such as the chemical industry (1%) and mechanical engineering (1%) was much more limited.

Turnover on the import side also declined. In seasonally adjust terms imports in the fourth

Imports

Regional trend in foreign trade

September-November 2001; seasonally adjusted

Group of countries/country	€ bn	Percentage change from June-August
Exports		
All countries	157.6	- 3.1
<i>of which</i>		
Euro-area countries	67.2	- 4.1
Other EU countries	19.2	- 2.0
United States	16.1	- 9.0
Japan	3.1	- 8.3
Central and east European countries in transition	18.3	+ 4.6
OPEC countries	3.5	- 2.0
Emerging markets in South-East Asia	5.7	- 9.6
Imports		
All countries	137.2	- 1.1
<i>of which</i>		
Euro-area countries	57.8	- 0.7
Other EU countries	14.3	+ 2.7
United States	10.3	- 14.6
Japan	5.3	- 6.2
Central and east European countries in transition	17.3	- 2.2
OPEC countries	1.9	- 18.9
Emerging markets in South-East Asia	6.7	+ 2.1

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quarter of last year were likewise 3% below their level in the previous quarter. However, the decline was due mainly to the sharp fall in import prices, especially in the case of imported sources of energy. Both chemical products and ICT products were also cheaper. In real terms Germany's imports of goods in the final quarter of 2001 fell by just under ½% compared with the quarter before, which means that they declined more or less in step with the change in overall economic output.

The distinct downturn, especially in German manufacturing, is also reflected in the breakdown of imports by category of goods. However, these statistics are available only up to the end of November 2001. For example, imports of inputs and capital goods in the three-month period of September to November were below those in the previous three-month period. The fact that there was also a downturn (of 2½%) in the imports of foreign mechanical engineering products is therefore consistent with this scenario. The value of imports of ICT sector products actually fell by 3½% although this was probably due in part to the lower prices in this sector. Imports of motor vehicles fell particularly sharply (-6%), reflecting the downturn in demand for cars following the high growth rates on both the export side and the import side in this sector during the summer. By contrast, a strikingly sharp rise in the imports of chemical industry products was a special development. During the period under review (September to November 2001) 7½% more goods in terms of value were imported in this sector than in the previous three months. If the price reductions in this sector during the same period are

Breakdown of imports

taken into account, real growth was even more pronounced.

Most of Germany's major trading partners were affected by the weaker overall demand in Germany. The decline in imports from the other euro-area countries was relatively moderate (at -1/2%). By contrast, the decline in imports from the United States, Japan and OPEC was unusually sharp at 14 1/2%, 6% and 19% respectively. While the decline in imports from OPEC was due to the substantial fall in oil prices, the aforementioned operational disturbances and delivery disruptions following the attacks on New York and Washington might also have played a role, especially in the case of the decidedly sharp fall in deliveries from the United States. Increased imports were recorded only in the case of trade with the EU countries that are not participating in monetary union (2 1/2%) and with the emerging economies in South-East Asia (2%).

Current account

Despite the substantial improvement in Germany's terms of trade, the German trade balance showed a slight decline in the fourth quarter, falling in seasonally adjusted terms by just under €1 billion to €25 1/2 billion. At the same time, however, the deficit on invisible current transactions with non-residents was also smaller. The aggregate deficit on cross-border services, factor income and current transfers declined by €2 1/2 billion to €15 1/2 billion compared with the third quarter. The main contributory factor here was net capital income generated abroad and amounting to €2 1/2 billion in seasonally adjusted terms; in the third quarter there had

Major items of the balance of payments

€ billion

Item	2000		2001	
	Q4	Q3	Q3	Q4
I. Current account				
1. Foreign trade ¹				
Exports (fob)	163.7	156.6	160.3	160.3
Imports (cif)	150.5	131.3	135.3	135.3
Balance	+ 13.2	+ 25.2	+ 25.0	+ 25.0
2. Services (balance)	- 10.5	- 13.8	- 9.0	- 9.0
3. Factor income (balance)	- 1.4	- 1.5	+ 0.9	+ 0.9
4. Current transfers (balance)	- 8.0	- 6.5	- 7.3	- 7.3
Balance on current account ²	- 9.0	+ 1.6	+ 8.6	+ 8.6
<i>Memo item</i>				
Balances, seasonally adjusted				
1. Foreign trade	+ 13.5	+ 26.3	+ 25.5	+ 25.5
2. Services	- 13.0	- 11.0	- 11.6	- 11.6
3. Factor income	- 0.3	- 1.0	+ 2.5	+ 2.5
4. Current transfers	- 7.1	- 5.7	- 6.3	- 6.3
Current account ²	- 9.1	+ 7.1	+ 9.1	+ 9.1
II. Balance of capital transfers ³	- 0.4	- 0.4	- 0.4	- 0.4
III. Balance on financial account ⁴	- 23.2	- 15.9	- 38.6	- 38.6
IV. Change in the foreign reserves at transaction values (increase: -) ⁵	+ 2.1	- 2.2	+ 2.1	+ 2.1
V. Balance of unclassifiable transactions	+ 30.6	+ 16.9	+ 28.3	+ 28.3

¹ Special trade according to the official foreign trade statistics (source: Federal Statistical Office). — ² Includes supplementary trade items. — ³ Including the acquisition/disposal of non-produced non-financial assets. — ⁴ For details see the table "Financial transactions" on page 46. — ⁵ Excluding allocation of SDRs and changes due to value adjustments.

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been net payments to non-residents amounting to approximately €1 billion. By contrast, the deficit on services and the net current transfers to non-residents were both at roughly the same respective levels as in the third quarter. There was a seasonally adjusted surplus of €9 billion on current account in the fourth quarter, which is €2 billion more than in the previous three months.

Financial transactions

Trends in financial trans- actions

Events on the international financial markets continued to be influenced in the final quarter of 2001 by the gradually receding nervousness following the terrorist attacks in the United States and the resultant uncertainty about global economic developments. While major central banks reacted to diminishing inflation risks with further interest rate cuts, the equity and bond markets were subjected to repeated fluctuations in prices and yields. International capital flows likewise displayed a fairly high degree of volatility in the fourth quarter. Yet, initially, the most important motive of many investors was still to retreat into safe havens. It was not until the end of the year that investors again appeared to be adjusting their portfolios more in line with the economic outlook and earnings prospects, which differed from one country to another. The German financial account reflects not only these general trends but also one or two special transactions. Even so, a large balancing item in the German balance of payments has made it more difficult to analyse cross-border capital movements in the fourth quarter of 2001.

In portfolio investment, where the changing international influences usually show up with particular speed and clarity, there were net capital exports of €16½ billion between October and December 2001 whereas in the previous three-month period there had been net capital imports of €24½ billion. This reversal in portfolio flows is essentially due to the December figures, in which large outflows of funds predominated. Foreign investors, in particular, withdrew fairly large amounts of capital from the German securities markets in December whereas they had previously been investing heavily in Germany as one of the safe havens. All in all, they acquired German paper worth no more than €14½ billion in the fourth quarter compared with €29½ billion in the quarter earlier.

*Portfolio
investment*

*Foreign
investment
in ...*

In the period under review non-resident investors continued to show a preference for German bonds and notes (€18 billion), especially bonds issued by private borrowers (€21 billion). However, the securitisation of a book credit which a German credit institution had obtained from one of its own foreign branches played an important role here. Owing to their high degree of liquidity and security, public bonds benefited for a time from safe-haven inflows; even so, foreign investors did not always reinvest all of the funds acquired from redemptions and sales in domestic public bonds throughout the quarter (-€3 billion). It is possible that they preferred the issues of other euro-area countries to (German) Federal bonds. It is not only the euro-area balance of payments figures, covering the period up to the end of November, that indicate heavy demand for debt certifi-

*... German
bonds and
notes*

cates issued by partner countries. There is also the fact that the interest rate spreads of public bonds within the euro area had been narrowing markedly up to the end of the year.¹

... German
money market
paper

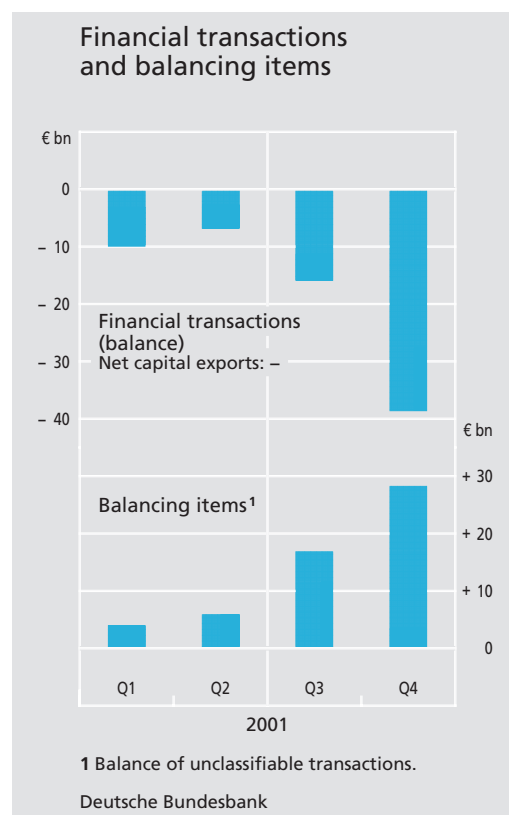
Non-residents were discernibly restrained in investing in the other portfolio segments. They sold German money market paper worth €8 billion net whereas from the start of monetary union up to about the middle of 2000 non-residents had shown considerable interest in this paper. Foreign investors have possibly shifted positions from money market paper (investments with a maturity of one year or less) to debt certificates with somewhat longer maturities; this would be in line with the strong demand for bank bonds described above.²

... and German
shares

German shares derived little benefit from the shifts that non-residents made in their bond and money market investments. Non-residents invested no more than €½ billion in German equities although the German share market had recovered fairly quickly from the slump in prices it had sustained in September. It may well be that this restraint is also a reflection of the scepticism about the economic outlook in Germany which prevailed last autumn and which did not give way to a somewhat more confident mood until recently.

German
investment in ...

German savers, who had been extremely cautious in their foreign investments in the third quarter of last year – and in September, in particular – again invested somewhat more heavily in the securities of foreign issuers during the period under review. At €31 billion,



however, their acquisitions were below those in the first and second quarters (which had amounted to more than €40 billion in each case). A distinct recovery set in between October and December, especially in the demand for foreign bonds and notes (€27 billion), which, at only €6½ billion, had been decidedly weak during the previous three months. For the first time since the beginning

... foreign
bonds and
notes

¹ Investors from non-euro-area countries purchased bonds issued by euro-area borrowers and worth a total of €41 billion in October and November. For the purposes of comparison, it may be noted that the corresponding purchases by non-euro-area investors in the third quarter had amounted to €30½ billion. However, a sectoral breakdown of foreign purchases by issuer is not available, with the result that there is no means of knowing which securities investors favoured most.

² This hypothesis is consistent with the fact that the volume of bank bonds outstanding with a maturity of more than one year but less than two years increased by €43½ billion last year whereas the volume of shorter-dated paper (money market paper) in circulation declined in line with the fall in foreign demand.

Financial transactions

€ bn, net capital exports: –

Item	2000		2001	
	Q4	Q3	Q3	Q4
1. Direct investment	- 24.2	+ 18.1		+ 3.4
German investment abroad	+ 12.4	+ 3.2		- 5.3
Foreign investment in Germany	- 36.6	+ 14.9		+ 8.7
2. Portfolio investment	- 11.1	+ 24.7		- 16.5
German investment abroad	- 30.3	- 4.8		- 30.8
Shares	- 13.1	+ 6.3		- 2.7
Investment fund certificates	- 4.0	- 3.8		- 4.2
Bonds and notes	- 10.2	- 6.6		- 27.0
Money market paper	- 3.1	- 0.7		+ 3.1
Foreign investment in Germany	+ 19.3	+ 29.5		+ 14.3
Shares	+ 9.3	+ 15.3		+ 0.4
Investment fund certificates	+ 2.1	- 0.5		+ 4.2
Bonds and notes	+ 14.4	+ 17.8		+ 17.8
Money market paper	- 6.5	- 3.0		- 8.1
3. Financial derivatives ¹	- 2.4	- 4.2		- 2.9
4. Credit transactions	+ 14.4	- 53.9		- 22.2
Credit institutions	- 12.4	- 43.6		- 58.6
Long-term	- 11.6	- 4.9		- 27.7
Short-term	- 0.9	- 38.6		- 30.9
Enterprises and individuals	+ 11.7	+ 0.2		+ 7.7
Long-term	+ 1.8	+ 0.7		- 1.3
Short-term	+ 9.9	- 0.5		+ 9.0
General government	+ 0.0	+ 0.6		- 5.9
Long-term	+ 0.2	- 0.2		+ 0.1
Short-term	- 0.2	+ 0.8		- 6.1
Bundesbank	+ 15.1	- 11.2		+ 34.6
5. Other investment	+ 0.0	- 0.6		- 0.4
6. Balance of all statistically recorded capital flows	- 23.2	- 15.9		- 38.6
<i>Memo item</i>				
Change in the foreign reserves at transaction values (increase: -) ²	+ 2.1	- 2.2		+ 2.1

¹ Securitised and non-securitised options and financial futures contracts. — ² Excluding allocation of SDRs and changes due to value adjustments.

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of monetary union German investors were again showing greater interest in foreign currency bonds. At approximately €13½ billion, they channelled about half of their investable funds into this type of paper whereas in the quarter before they had sold foreign currency bonds worth €6½ billion. Demand was primarily for US-dollar-denominated paper. US Treasuries possibly benefited most from the gradually receding uncertainty among German investors and their reluctance to invest in the share market.

Following their withdrawal of funds in the third quarter, German investors were fairly slow in returning as purchasers to the international share markets at the end of 2001. Although they invested €2½ billion in foreign equities between October and December, this sum is comparatively small in relation to the amounts they had been accustomed to investing hitherto (an average of just under €20 billion per quarter in the first 2½ years following the start of monetary union). Despite the rapid recovery in share prices after the slump in September, many investors were evidently waiting for a time owing to the uncertain economic outlook.

In contrast to the outflows in portfolio investment, there were inflows of funds -€3½ billion net – through direct investment in the last three months of 2001. In the process, foreign proprietors provided their branches in Germany with capital amounting to approximately €8½ billion. About half of the funds were provided in the form of additional equity capital and the rest through the granting of credits. At the same time, German

... and foreign shares

Direct investment

enterprises extended their presence abroad. It was not the spectacular mega-mergers that determined the end result but, instead, small and medium-sized investments in various industrial sectors. All in all, €5½ billion was exported in this way.

Credit transactions of non-banks

There were likewise net capital imports in the statistically recorded credit transactions of non-banks between October and December 2001. In line with seasonal practice, enterprises and individuals repatriated €7½ billion, thus reducing their foreign bank deposits in particular at the end of the year. The financial operations of public authorities resulted in net outflows (of €6 billion) in the period under review. The Federal Government, which at the end of December 2001 temporarily invested liquid funds with banks abroad, played a particularly important role in this.

Credit transactions of the banking system

Various developments emerged in the credit transactions of the banking system as a whole in the final quarter of last year. The non-securitised external transactions of the German credit institutions resulted in net outflows of funds amounting to €58½ billion. In the process the German banks slightly increased their claims on non-resident borrowers. At the same time, they made a fairly substantial reduction in their (unsecuritised) external borrowing, which had risen significantly in the previous few years. The aforementioned replacement of a book credit by a securitised credit was the main reason for this. By contrast, the external transactions of the Bundesbank that are booked under credit transactions, ie all changes in the Bundesbank's claims and liabilities vis-à-vis non-

residents with the exception of its foreign reserves, resulted in net capital imports of €34½ billion. The most important item here was the deficit incurred in the large-value payment system TARGET, which was reflected in the Bundesbank's substantial liabilities to the ECB at the end of 2001.

At transaction values, the foreign reserves of the Bundesbank declined by slightly more than €2 billion during the last three months of 2001 whereas they had risen by almost the same amount between the end of June and the end of September. This means that at market prices, reserves amounted to the equivalent of €93 billion; hence they were about €1½ billion below the level at the end of September 2001 and also somewhat less than at the end of 2000.

Foreign reserves of the Bundesbank

A fairly significant discrepancy (€28½ billion) arose between the incoming and outgoing transactions recorded in the balance of payments in the fourth quarter of 2001. The natural assumption that this might have been due primarily to difficulties in allocating transactions to the period in which they actually occurred (for example, as a result of the customary valuation periods in portfolio transactions) appears to be scarcely plausible as positive balancing items had also been recorded in previous quarters and yet no equalisation had evidently been reached over time – or, at least, not so far. It remains to be seen whether the late reports and corrections which will be incorporated into the balance of payments up to the publication of the 2001 annual figures in March will result in a significant reduction in the balancing item.

Balancing item