

Foreign trade and payments

Foreign trade and current account

Foreign trade provided a remarkably strong stimulus for German economic growth during the third quarter of the year. If working-day and seasonal factors are eliminated, German exports of goods during that period were 4% greater than in the previous quarter. However, this development, which is surprisingly favourable at first sight, is not so much the reflection of any correspondingly favourable business situation for German exporters. Instead, it has to be seen primarily in connection with the large backlog of orders from previous months which is now being reflected with the usual time lags in the increased exports of goods. The number of new orders received during this period declined significantly, and surveys undertaken by the Ifo Institute indicate that the export expectations of German industry were clearly deteriorating up to September; a somewhat more optimistic mood did not re-emerge until October.

Exports of goods

The sluggish flow of incoming orders was largely due to the general downturn in demand from Germany's export markets. Moreover, the appreciation of the euro during the early summer may have had a somewhat detrimental effect on German competitiveness in some cases. However, the firming of the euro against the currencies of Germany's partner countries was hardly the reason for the sharp downturn in foreign demand. From Germany's point of view the real exchange rate has risen by no more than about 1½% on a trade-weighted average since the end of last year. This compares with a previous increase in competitiveness of almost 10% since the

introduction of the euro. German exporters had been using this development in previous years to achieve an appreciable expansion in their position on the world market again. As a result, Germany's share of global exports rose from 9% in the mid-1990s to 10% in 2001 and thereby regained the position held in the early 1990s. If measured in terms of the exports of industrial countries alone, the increase in German exporters' market share was actually even greater. These findings appear to contradict the results of other calculations by international organisations and academic institutions, some of which indicate appreciable reductions in German industry's market shares. However, most of these analyses are based on world market shares which are calculated from the values of export sales expressed in dollars and which therefore show only exchange-rate-related "losses" in market shares in the past few years. At all events, the changes in real world market shares, on which the assertions made in this article are based, paint a different picture.

*Breakdown
of exports of
goods*

Trade with partner countries within the euro area as well as with the other EU states was evidently the main driving force behind German export growth during the third quarter of this year. On an average of July and August taken together (the complete data for the third quarter are not yet available) German exports to these countries, which account for more than half of Germany's total exports of goods, rose substantially compared with the monthly average in the previous quarter. Exports to the United States, which have long been a major driving force behind Germany's export business, continued to run at a high



level but in the end they increased less sharply. Much the same can be said about the markets in the central and east European countries in transition, which, following the rapid growth in their imports from Germany, have become important consumers of German products in the past few years. Yet sales to these countries actually declined slightly in the two months concerned (July and August). According to the data so far available, exports

Germany's world market shares

World market shares play an important role in public debate when locations for investment are being evaluated and economic competitiveness assessed. Recently, for example, there have been repeated references to a sharp decline in German world market shares, and this has been regarded as proof of the inadequate level of German competitiveness. However, the calculation of world market shares in US dollars on which this assertion is based (world market shares = national exports in US dollars / world exports in US dollars) gives a false impression whenever there are significant exchange rate movements against the dollar. Thus, a depreciation of the euro against the US dollar, if considered in isolation, will result in a fall in Germany's world market shares when calculated in this way even if its real market shares actually remain intact.

To avoid the distortions caused by exchange-rate movements it seems reasonable to calculate real world market shares adjusted for exchange-rate movements. To do this the nominal national export sales calculated in US dollars were divided by the national dollar-based export prices.¹ This results in real exports at prices in the base year and at the US dollar exchange rate in the base year.² In the case of many groups of developing countries, however, the export prices are not available for each of these countries but only for the respective country groups. Consequently, only total real exports were established for each of these regions.

The real exchange-rate-adjusted world market shares of Germany are calculated as follows:

$$RWMA = \frac{EX_D^{\$}}{PEX_D^{\$,99}} \div \left(\sum_j \frac{EX_j^{\$}}{PEX_j^{\$,99}} + \sum_k \frac{EX_k^{\$}}{PEX_k^{\$,99}} \right)$$

where RWMA = Germany's real world market share

$EX^{\$}$ = nominal exports in US dollars

$PEX^{\$,99}$ = export prices in US dollars (1999=100)

$j = 1 \dots n$ = industrial countries and selected development countries

$k = 1 \dots m$ = development country regions

D = Germany

¹ Unit values were used for this purpose. Substitute indices were used for some countries for which no unit values were available. — ² It must be remembered when inter-

preting real world market shares that their levels but not their movements depend on the choice of the base year.

The results, together with the nominal world market shares on a dollar basis that are normally used, are shown in the chart on page 41. It is striking that the marked fall in Germany's nominal world market shares from 1980 to 1985 and the decline since 1995 are not reflected in the real market shares. Quite the opposite, the real world market shares actually increase from 1980 to 1982 and again from 1995. The difference between the two series is largely explained by exchange-rate movements.

The pronounced decline in Germany's real world market shares in the first half of the 1990s is to be seen primarily in connection with reunification. It must also be said that the cyclical movements in Germany's world market share in real terms are in line with changes in Germany's price competitiveness – a circumstance which is not apparent in the changes in nominal world market shares. This is particularly obvious in 1986 when price competitiveness declined considerably as a result of the appreciation of the Deutsche Mark. Real world market shares fell from 1986 in line with this whereas there was initially a dramatic rise in nominal shares (as a result of exchange-rate movements). A similar development can be observed from 1995 but with a plus sign because in this case competitiveness improved. During this latter period the rise in real world market shares has been particularly pronounced.

Germany's retrieval of its former position on the world market since the mid-1990s becomes even clearer if the country's exports are considered only as a percentage of the exports of the other industrial countries and therefore account is taken of the fact that the industrial countries as a whole have been losing market shares as a result of the penetration of emerging market economies in South-East Asia and the advancing integration of central and eastern Europe into the world economy. If viewed in this narrower context, the German share of the real exports of the industrial countries has increased by 2½ percentage points since 1995. At just under 16%, Germany's share was recently at its old record levels again.

to South-East Asia were very weak in the third quarter. German industry also recorded declining export turnover in the oil exporting countries (OPEC).

It is a reflection of German industry's product range that demand for investment goods contributed most to turnover growth in the third quarter. Products related to vehicle manufacture were mainly concerned here. On an average of the last two months for which the relevant data are available, for example, the German motor industry alone recorded a 13½% increase in sales to foreign markets compared with the monthly average in the previous quarter. Exports of inputs also increased in the third quarter whereas the German consumer goods sector recorded declining turnover abroad.

Imports of goods

In contrast to exports, German imports increased by no more than 1% after seasonal adjustment in the third quarter. At the same time, however, import prices declined by approximately ½%, with the result that real import growth was somewhat greater than nominal growth.

Breakdown of imports of goods

The other euro-area countries were the main beneficiaries of the increased demand from Germany. On an average of July and August (regional and sectoral breakdowns of the import data for September are not yet available either) imports from the other euro-area countries rose sharply in seasonally adjusted terms compared with the second-quarter average. Imports of goods from the other regions were more sluggish for the most part, by contrast. Imports from the United States



actually fell significantly. Much the same is true of deliveries emanating from South-East Asia and of imports from OPEC, which likewise declined sharply in July and August compared with the second quarter. Fewer goods were also imported from the transition countries in central and eastern Europe, but in this case the drop was not quite so pronounced.

In line with the breakdown in exports, imports of motor vehicles and vehicle parts grew particularly strongly during the period under review. Imports of machinery and equipment also increased. By contrast, imports of goods in the information and communications technology sector and the chemical industry moderated compared with the previous period. While imports of inputs and raw materials fell substantially during the

Major items of the balance of payments

€ bn

Item	2001		2002	
	Q3	Q2 r	Q3	Q3
I Current account				
1 Foreign trade ¹				
Exports (fob)	156.6	162.3	161.8	
Imports (cif)	131.3	132.4	128.6	
Balance	+ 25.2	+ 29.9	+ 33.2	
2 Services (balance)	- 13.4	- 7.8	- 10.8	
3 Factor income (balance)	- 3.5	- 1.1	- 3.9	
4 Current transfers (balance)	- 6.0	- 8.2	- 5.8	
Balance on current account ²	+ 0.9	+ 11.9	+ 11.3	
<i>Memo item</i>				
Balances, seasonally adjusted				
1 Foreign trade	+ 26.8	+ 29.4	+ 34.7	
2 Services	- 11.1	- 7.7	- 8.6	
3 Factor income	- 2.1	- 2.6	- 2.0	
4 Current transfers	- 5.2	- 8.9	- 4.9	
Current account ²	+ 7.3	+ 9.5	+ 18.0	
II Balance of capital transfers ³	- 0.4	- 0.1	+ 0.1	
III Balance of financial account ⁴	- 5.8	- 30.1	- 25.6	
IV Change in the foreign reserves at transaction values (increase: -) ⁵	- 2.2	+ 2.4	+ 0.1	
V Balance of unclassifiable transactions	+ 7.5	+ 15.9	+ 14.2	

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 44. — ⁵ Excluding allocation of SDRs and changes due to value adjustments.

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period under review, an increase was recorded in the case of capital goods.

The outcome of the strong growth in exports and the rather moderate demand for imports in the third quarter of 2002 was a seasonally adjusted increase of more than €5 billion in Germany's trade balance, which stood at just over €34½ billion. At the same time, Germany's traditional deficit on invisible current transactions with non-residents decreased by €3½ billion to €15½ billion. Current transfers to non-residents fell particularly sharply on balance (by €4 billion to just under €5 billion). The cross-border factor income which Germany has to pay to non-residents also showed a decline whereas the net payments in service transactions with non-residents rose slightly (by about €1 billion to €8½ billion). The overall seasonally adjusted surplus on Germany's current account thereby increased by €8½ billion to €18 billion.

*Current
account*

Financial transactions

Uncertainty about future developments in the world economy grew on the international financial markets during the third quarter. As internationally operating investors had little desire to run risks in any case, this resulted, on the one hand, in further shifts from equities into bonds with corresponding price movements and, on the other hand, in a pronounced preference for liquidity and, consequently, in considerable reluctance to engage in cross-border investment. To some extent, this also had an effect on the foreign exchange markets where the upward move-

*Trends in
financial
transactions*

ment of the euro which had emerged in the early summer came to a halt later in the quarter. These trends on the international financial markets can also be seen in the German financial transactions with non-residents. In the process net capital imports arising from portfolio transactions rose in the third quarter of 2002 while in the case of direct investment – where special developments also played a part – and in credit transactions outflows of funds were recorded.

Portfolio investment

€24½ billion net was imported between July and September 2002 as a result of portfolio investment, which, as usual, directly reflected the international developments described. This figure is more than twice as high as in the previous three-month period (€9½ billion). While foreign investors continued to favour Germany as a safe haven, German investors were discernibly restrained in purchasing foreign securities. All in all, these amounted to just €11 billion in the period under review (compared with €20 billion in the second quarter of 2002). They had not been as low as this since the start of monetary union except in the third quarter of 2001 as a result of the September terrorist attacks. As at that time, German investors now also liquidated part of their foreign equity investments (€6½ billion) although it is likely that the majority of sellers were institutional investors. They were responding to the less favourable global economic outlook, which was being reflected in pessimistic expectations about the profitability of many enterprises and in falling share prices.

German investment in foreign securities



Foreign bond markets benefited only to a very limited extent from the aforementioned liquidation of equity investments abroad. German residents invested €11 billion in longer-term foreign debt securities in the third quarter, which was less than in the previous three-month period (€17½ billion). In view of the frequently higher transaction costs and presumably also the greater risks involved in cross-border investment, they evidently found

Financial transactions

€ bn, net capital exports: –

Item	2001	2002	
	Q3	Q2 r	Q3
1 Direct investment	+ 18.2	+ 14.8	– 11.6
German investment abroad	+ 3.1	– 1.2	– 13.4
Foreign investment in Germany	+ 15.1	+ 16.0	+ 1.8
2 Portfolio investment	+ 30.9	+ 9.6	+ 24.7
German investment abroad	– 4.5	– 20.2	– 10.9
Shares	+ 6.7	+ 1.3	+ 6.5
Investment fund certificates	– 3.9	– 3.0	– 3.1
Bonds and notes	– 6.6	– 17.6	– 10.9
Money market paper	– 0.7	– 1.0	– 3.3
Foreign investment in Germany	+ 35.4	+ 29.8	+ 35.7
Shares	+ 15.6	+ 10.3	– 1.5
Investment fund certificates	– 0.5	– 1.0	+ 1.0
Bonds and notes	+ 18.0	+ 18.6	+ 18.6
Money market paper	+ 2.3	+ 2.0	+ 17.5
3 Financial derivatives ¹	– 4.1	+ 1.3	– 3.7
4 Credit transactions	– 50.3	– 55.4	– 34.7
Credit institutions	– 43.6	– 48.6	– 17.4
Long-term	– 4.9	– 3.2	+ 1.3
Short-term	– 38.6	– 45.4	– 18.7
Enterprises and individuals	+ 3.8	– 8.4	– 3.4
Long-term	+ 1.9	– 0.9	+ 0.5
Short-term	+ 2.0	– 7.5	– 3.9
General government	+ 0.6	+ 2.3	+ 3.8
Long-term	– 0.2	+ 0.0	+ 0.5
Short-term	+ 0.8	+ 2.3	+ 3.3
Bundesbank	– 11.2	– 0.7	– 17.7
5 Other investment	– 0.6	– 0.4	– 0.3
6 Balance of all statistically recorded capital flows	– 5.8	– 30.1	– 25.6
<i>Memo item</i>			
Change in the foreign reserves at transaction values (increase: –) ²	– 2.2	+ 2.4	+ 0.1

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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the yields, which in some cases had fallen dramatically, not very attractive and preferred financial assets in Germany. As they have always done since the start of monetary union, German investors again avoided exchange rate risks to a large extent in their portfolio investment. They mostly acquired euro paper (€8½ billion). They also invested to a somewhat lesser extent in foreign money market paper (€3½ billion) and investment fund certificates (€3 billion).

Non-residents invested €35½ billion on the German securities markets between July and September and therefore, in terms of value, somewhat more than in the previous quarter. They also undertook significant changes in the structure of their portfolio investments. For example, they, too, retreated from the share market and sold German equities worth €1½ billion net, which sustained fairly substantial losses in value during the period under review. By contrast, non-residents purchased German money market paper worth €17½ billion and German bonds and notes worth €18½ billion. Evidently the security and liquidity which German paper offers played an important role in foreign investors' decision-making. Another factor was that throughout the period under review euro-denominated debt securities issued by German borrowers offered a higher yield than, say, comparable dollar paper.

Foreign investment in German securities

For the first time in more than a year there were again net capital exports through direct investment in the third quarter. These outflows amounted to €11½ billion compared with net inflows of €15 billion in this segment

Direct investment

during the previous three-month period. The deficit was due primarily to the vigorous purchase of foreign participating interests by German enterprises. Corporate acquisitions in the United Kingdom, Luxembourg and the Slovak Republic were among the factors playing a determining role here. If intra-group credit flows are included, German enterprises invested €13½ billion abroad between July and September. By contrast, foreign enterprises, which have recently been gradually expanding their presence in Germany, largely refrained from further investment during the period under review. They provided their branches domiciled in Germany with no more than €2 billion in investable funds compared with €16 billion in the quarter earlier.

Credit transactions...

As in the case of direct investment, capital exports predominated through non-securitised credit transactions between July and September. However, this was not the result of the transactions of the non-banks, which virtually cancelled out. It is true that the financial operations of enterprises and individuals led to net outflows of €3½ billion, primarily through the building-up of deposits with foreign credit institutions; however, this was almost entirely offset by capital inflows (of almost €4 billion) in the public sector as the Federal Government drew on its bank balances abroad.

... of the non-banks

The main reason for the export of capital through credit transactions was once again the non-securitised foreign operations of the banking system, which, for the most part, may be seen as the counterpart to the other cross-border payments. A total of €34½ billion net flowed abroad in this way. The net external position of the Bundesbank – excluding the foreign reserves – improved by €17½ billion, largely as a result of positive balances arising through the payment system TARGET. The non-securitised credit flows of the banks, which in the period under review sharply expanded their lending to foreign customers, in particular, accounted for further net outflows of funds in almost the same proportions.

... and the banking system

The transaction-related changes to the Bundesbank's foreign reserves shown in the balance of payments largely cancelled out in the period between July and September whereas in the second quarter there had been a substantial decline in the foreign reserves (of €2½ billion). When valued at market prices, the reserves amounted to €89 billion at the end of September compared with €86½ billion at the end of June. This increase is therefore a reflection of holding gains in the case of the gold reserves and the portfolio position, in particular.

Foreign reserves of the Bundesbank