

## Foreign trade and payments

### Foreign trade and current account

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The external environment for German exporters improved noticeably in the summer months. Economic activity gained increasing momentum in non-euro-area countries in particular, although positive trends were also in evidence within the euro area itself. Moreover, the price competitiveness of German suppliers did not deteriorate further. Against this background, German exports of goods in the third quarter were up by 4½% on the previous three-month period in seasonally adjusted terms.

*External  
environment*

At the same time, there were also improvements in the outlook for German foreign trade. For example, industry's export expectations as recorded by the Ifo Institute improved perceptibly over the summer following a neutral outlook in the spring; they were clearly optimistic again in the months from August to October 2003. There was likewise an upturn in the flow of orders from abroad, which gives cause to expect that exports will tend to increase further over the next few months.

The data available for the third quarter up to now – statistical information on foreign trade by region and sector is not yet available for September – show that the external stimuli came from both euro-area and non-euro-area countries. On an average of the months July and August, German exporters were able to increase their deliveries to euro-area countries – which account for around 43% of all German exports and are thus of considerable importance for German exporters – by a sea-

*Breakdown of  
exports*



sonally adjusted 2½% in comparison with the second quarter. In this respect, they are likely to have profited from the slight upturn in economic activity in the other euro-area countries and from their own increasing price competitiveness in comparison with other euro-area suppliers. Outside the euro area, exports *inter alia* to the other EU member states also rose sharply (4%). The turnover from exports to the central and east Euro-

pean countries in transition – the second most important selling area for German goods – was also markedly higher than in the spring (+3½%). By contrast, a decline in the exports of goods to the United States was recorded (-2½%) whilst exports to the emerging markets in South-East Asia stagnated. In these regions with comparatively strong growth, the dampening influences of the preceding appreciation of the euro obviously outweighed the stimulatory cyclical effects.

Not all of the products supplied by German exporters were able to profit equally from the heightened demand for exports. Exports of consumer goods showed particularly buoyant growth (7%). The fact that more capital goods were sold in July and August than in the previous period (3%) also suggests an upturn in investment worldwide. The increase in exports was especially obvious in the German information and communication sector. There was a sharp rise in deliveries of data processing equipment and exports from the communication technology area in particular. However, car manufacturers also managed to increase their sales of motor vehicles on foreign markets in the summer. By contrast, the rise in exports of intermediate goods was only minimal in the July-August period despite a substantial increase in exports from the chemical industry.

In the third quarter, German imports of goods fell by a seasonally adjusted 1% on the relevant reference period (April-June). The decrease was actually somewhat greater in real terms as import prices rose by ½% in the review period. There was above all a substantial

*Imports of goods*

decline in imports from non-euro-area countries in the summer months (as already mentioned, data by region and sector is not yet available for September), for example those from the OPEC countries (-26%), Japan and the emerging markets in South-East Asia (-3½% in each case), which of course make up only a small share of German imports. The fact that domestic demand for intermediate goods (-6½%) and consumer goods (-4%) from abroad was decidedly weak in the third quarter may have contributed to this development. The level of German imports of goods from euro-area countries – which at 41% account for the largest share of all German imports – remained virtually unchanged. Contrary to the overall trend, German imports from the United States increased by almost 3%; products from the dollar area have evidently become more attractive owing to the sharp depreciation of the US currency. Maybe suppliers in the euro area and the USA also benefited from the fact that domestic imports of capital goods increased somewhat (1½%).

Current  
account

After adjustment for seasonal variations, the divergent development in the exports and imports of goods in the third quarter of 2003 resulted in an increase of €9 billion in Germany's trade surplus, which stood at nearly €40 billion. At the same time, the deficit in invisible current account transactions with non-residents was smaller in the third quarter than in the preceding three-month period. This was due mainly to cross-border net payments of factor income, which were €3 billion down on the quarter. By contrast, the deficit on Germany's services account remained unchanged and, on balance, slightly larger cur-

### Trend in foreign trade by region and by categories of goods

Seasonally adjusted average of July to August period 2003 vis-à-vis average of April to June period 2003 in %

Item	Ex-ports	Im-ports
<b>Total</b>	+ 2.6	- 1.8
<b>Selected country/group of countries</b>		
Euro-area countries	+ 2.4	+ 0.0
Other EU countries	+ 4.1	- 2.3
United States	- 2.4	+ 2.9
Japan	+ 4.6	- 3.6
Central and east European countries in transition	+ 3.4	- 2.0
OPEC countries	+ 12.4	- 26.1
Emerging markets in South-East Asia	+ 0.4	- 3.7
<b>Categories of goods</b>		
<b>Selected main categories</b>		
Intermediate goods	+ 0.5	- 6.6
Capital goods	+ 3.0	+ 1.6
Consumer goods	+ 6.9	- 4.2
Energy sources	.	- 4.9
<b>Selected categories</b>		
Chemicals	+ 7.7	- 9.4
Machinery	+ 1.1	- 4.3
Motor vehicles and motor vehicle parts	+ 3.3	+ 4.7
Information technology	+ 9.5	+ 0.5

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rent transfers to non-residents were recorded. In the third quarter, the German current account therefore closed with a seasonally adjusted surplus of €20 billion compared with €8 billion in the preceding three-month period.

### Financial transactions

In the third quarter, events on the international financial markets were marked by gradually prevailing economic optimism, which was fuelled primarily by positive economic signals from the USA and Japan. Concerns about deflation, which had pushed down bond yields to almost record lows in the spring, were thus also dispelled. As a result, interest rates rose again worldwide and the share indices in the

*Trends in  
financial  
transactions*

## Major items of the balance of payments

€ billion

Item	2002		2003	
	Q3	Q2	Q2	Q3
<b>I Current account</b>				
<b>1 Foreign trade <sup>1</sup></b>				
Exports (fob)	r 162.8	162.0	165.7	
Imports (cif)	r 127.2	132.1	126.8	
Balance	+ 35.5	+ 29.8	+ 38.9	
<b>2 Services (balance)</b>	- 12.8	- 8.9	- 12.7	
<b>3 Factor income (balance)</b>	- 1.8	- 2.5	- 3.8	
<b>4 Current transfers (balance)</b>	- 5.5	- 7.9	- 8.2	
<b>Balance on current account <sup>2</sup></b>	+ 13.9	+ 8.6	+ 12.8	
<i>Memo item</i>				
Balances, seasonally adjusted				
<b>1 Foreign trade</b>	+ 36.2	+ 30.6	+ 39.4	
<b>2 Services</b>	- 9.2	- 9.2	- 9.2	
<b>3 Factor income</b>	+ 0.2	- 4.4	- 1.4	
<b>4 Current transfers</b>	- 4.8	- 7.4	- 7.7	
<b>Current account <sup>2</sup></b>	+ 20.9	+ 8.0	+ 20.0	
<b>II Balance of capital transfers <sup>3</sup></b>	+ 0.1	+ 0.2	+ 0.2	
<b>III Balance of financial account <sup>4</sup></b>	- 19.5	- 28.5	- 2.5	
<b>IV Change in the foreign reserves at transaction values (increase: -) <sup>5</sup></b>	+ 0.1	+ 1.5	- 0.8	
<b>V Balance of unclassifiable transactions</b>	+ 5.5	+ 18.2	- 9.7	

<sup>1</sup> Special trade according to the official foreign trade statistics (source: Federal Statistical Office). — <sup>2</sup> Includes supplementary trade items. — <sup>3</sup> Including the acquisition/disposal of non-produced non-financial assets. — <sup>4</sup> For details see the table "Financial transactions" on page 49. — <sup>5</sup> Excluding allocation of SDRs and changes due to value adjustments.

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major financial centres recovered. The euro initially weakened on the foreign exchange markets and only traded more firmly again as of early September. As far as can be discerned from German financial transactions, investors operating globally were, on the whole, comparatively cautious in their investment activities in view of these international influences. At all events, the capital flows recorded remained within fairly narrow bounds. All in all, from July to September, net outflows of funds predominated in portfolio investment and direct investment in Germany as well as in the euro area as a whole (according to the euro-area statistical data available up to now).

In the area of portfolio investment, which reacts particularly sensitively to changes in the economic outlook and earnings prospects, a turnaround was recorded during the period under review, although at €15 billion it remained within normal proportions. In the second quarter of 2003, net inflows into Germany from portfolio transactions totalled €6 billion; in the July-September period, net capital exports amounted to €9 billion.

*Portfolio investment*

The altered preferences of non-resident investors with regard to their portfolio management were felt particularly strongly. In the second quarter, they still invested funds in Germany amounting to €26 billion, but in the period under review they withdrew €3½ billion (net) of capital from Germany. The withdrawal almost exclusively affected money market paper held by foreign investors in Germany, ie bonds with a maturity of up to one year, which foreign owners reduced by

*Foreign investment in German ...*

... money  
market paper

€12 billion. However, this portfolio adjustment may possibly have been a counter-movement to the strong inflows into short-dated paper in the first quarter of the year when the harsh world economic climate and high degree of uncertainty on the international financial markets drove investors to opt for the security of liquid money market paper, which is largely shielded from price losses.

... bonds and  
notes

Other securitised domestic assets were only in part able to profit from the dissolution of this money market position. Thus, foreign investors acquired only €5½ billion worth of German bonds and notes (in comparison with €24 billion in the preceding three-month period), possibly in response to the very volatile price environment for longer-term paper with a trend towards rising interest rates in the period under review. However, non-residents also continued to hold back in purchasing shares despite the quite positive price developments on the German equity market in the summer (€3½ billion after €2½ billion in the second quarter).

... shares

German  
investment in  
foreign ...

German investors also continued to find foreign dividend-bearing paper only moderately attractive despite improvements in the world economy. At all events, their cross-border equity investments remained at just under €1 billion in the third quarter, too. However, at the beginning of the year, they had – affected by the global bear market – sold foreign equities worth €14½ billion. It was likewise in keeping with the general caution exercised by German investors that – for the first time since the beginning of monetary union – they

... shares

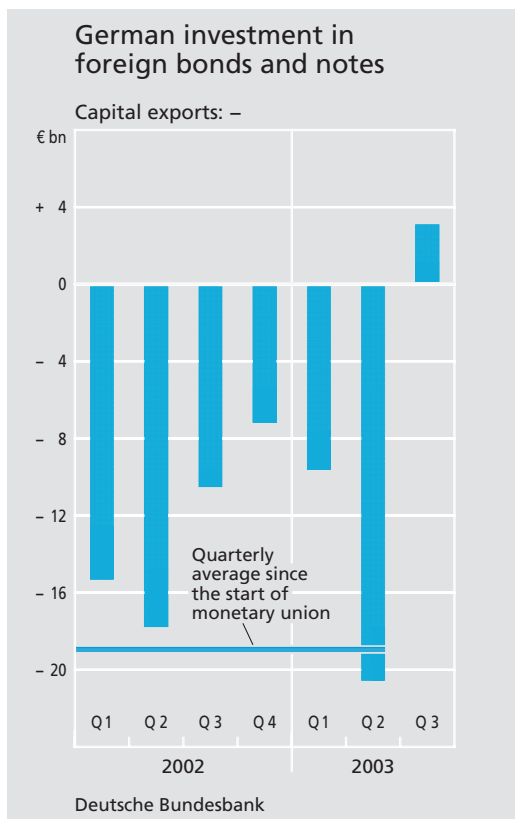
## Financial transactions

€ billion, net capital exports: –

Item	2002		2003	
	Q3	Q2	Q2	Q3
<b>1 Direct investment</b>	– 14.1	+ 23.6	– 1.6	
German investment abroad	– 16.4	+ 14.2	– 7.6	
Foreign investment in Germany	+ 2.3	+ 9.5	+ 6.0	
<b>2 Portfolio investment</b>	+ 33.3	+ 5.9	– 9.1	
German investment abroad	– 8.3	– 20.0	– 5.4	
Shares	+ 6.4	– 0.8	– 0.7	
Investment fund certificates	– 1.3	– 0.1	– 0.3	
Bonds and notes	– 10.5	– 20.6	+ 0.4	
Money market paper	– 2.9	+ 1.5	– 4.8	
Foreign investment in Germany	+ 41.6	+ 26.0	– 3.6	
Shares	– 0.4	+ 2.3	+ 3.4	
Investment fund certificates	+ 1.0	– 0.1	– 0.8	
Bonds and notes	+ 24.1	+ 24.0	+ 5.6	
Money market paper	+ 16.9	– 0.3	– 11.8	
<b>3 Financial derivatives <sup>1</sup></b>	– 3.8	– 2.1	+ 1.2	
<b>4 Credit transactions</b>	– 34.5	– 55.4	+ 7.5	
Credit institutions	– 17.4	– 67.0	+ 20.0	
Long-term	+ 1.3	– 8.2	– 15.6	
Short-term	– 18.7	– 58.9	+ 35.6	
Enterprises and individuals	– 3.2	– 10.1	+ 0.6	
Long-term	+ 1.6	+ 0.5	+ 0.5	
Short-term	– 4.8	– 10.7	+ 0.1	
General government	+ 3.8	+ 1.1	+ 2.1	
Long-term	+ 0.5	– 0.1	+ 0.1	
Short-term	+ 3.3	+ 1.3	+ 2.0	
Bundesbank	– 17.7	+ 20.6	– 15.2	
<b>5 Other investment</b>	– 0.3	– 0.6	– 0.6	
<b>6 Balance of all statistically recorded capital flows</b>	– 19.5	– 28.5	– 2.5	
<i>Memo item</i>				
Change in the foreign reserves at transaction values (increase: –) <sup>2</sup>	+ 0.1	+ 1.5	– 0.8	

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

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... bonds and notes

sold foreign bonds and notes on balance in a quarter (€½ billion) after hitherto having added such paper to their portfolios in the amount of €19 billion on a quarterly average. The reduction ultimately affected only foreign currency bonds, which apparently were negatively affected by the altered interest and exchange rate pattern. By contrast, foreign money market paper aroused keen interest in the period under review (€5 billion) while little attention was paid to investment fund certificates in portfolio decisions. All in all, therefore, from July to September, German investors acquired €5½ billion worth of securities issued by non-residents as opposed to €20 billion worth in the preceding three months.

... money market paper

Direct investment

As in the case of portfolio investment, net capital exports were also recorded on balance

for direct investment from July to September (€1½ billion). However, this amount was quite small in comparison with the inflow of funds in the previous quarter (€23½ billion). The main reason for this reversal was the change in the investment behaviour of German enterprises. Whereas, in the spring, German firms had still repatriated investable funds on a large scale – predominantly through loans taken up by their foreign subsidiaries (“reverse flows”) –, in the period under review, they again provided their foreign branches and subsidiaries with capital totalling €7½ billion.

German direct investment abroad

With regard to financial flows in the opposite direction, foreign firms extended their sphere of activity in Germany and invested around €6 billion in the July-September period. Around two-thirds of these funds were allocated to increasing the equity capital of non-resident companies in their German branches and subsidiaries. Evidently, investors from the USA – through holding companies domiciled in Luxembourg and Ireland – were particularly interested in Germany as an investment location.

Foreign direct investment in Germany

In the period under review, net capital imports of €2½ billion were recorded for the non-securitised credit transactions of non-banks following net capital exports in the preceding quarter (€9 billion). General government thereby drew on funds which it had held at credit institutions abroad (€2 billion). In addition, enterprises and individuals transferred funds totalling €½ billion net to Germany, for instance, in slightly reducing their balances with non-resident banks.

Credit transactions of non-banks

*Credit  
transactions of  
the banking  
system*

In the field of non-securitised credit transactions of German commercial banks, a reduction in external assets gave rise to funds amounting to €20 billion in Germany. This was offset by net claim increases on the part of the Deutsche Bundesbank in the period under review (€15 billion), mainly as a result of the large-value payment system TARGET. All in all, therefore, the operations of the entire banking system resulted in a slight reduction in its net external position (€5 billion).

The foreign reserves of the Bundesbank, changes in which are not contained in the data on cross-border credit transactions, increased by €1 billion at transaction values in the July-September period. The increase was somewhat sharper (€2 billion) if valued at current balance sheet rates, ie at the prevailing market prices and exchange rates at the end of the third quarter. The main reason for this was the higher price of gold. On 30 September 2003, the German foreign reserves amounted to €81 billion.

*Bundesbank  
foreign reserves*