

## Intensification of direct investment flows through acquisitions and restructuring of multinationals

In the final quarter of last year, there was a marked revival in cross-border financial transactions arising from direct investment. This was shaped by fairly large acquisitions and restructuring of multinationals. In some cases, however, the associated quite considerable gross flows in the individual months cancelled each other out over the quarter. There were net capital imports of €20½ billion through direct investment in the period under review, compared with net capital exports of €3 billion in the preceding period.

The inflows of funds can be put down primarily to foreign direct investment in Germany, which amounted to €14 billion. An acquisition in the banking industry accounted for a considerable proportion of this. Moreover, the acquisition, which was financed by an exchange of shares, triggered an equal amount of capital flows in opposite directions through cross-border portfolio investment. While some of the buyer's shares were acquired by German residents, which led to a large net acquisition of foreign shares by residents, free-float holdings of the acquired enterprise's shares were transferred abroad.<sup>1</sup> Foreign parent companies provided their German affiliates with additional funds worth €10½ billion through internal group credit transactions, predominantly in the form of long-term financial loans.

German firms also engaged in buoyant direct investment at the end of the year. Various acquisitions in the insurance and transport sectors as well as in tourism and the metal-working industry played a crucial role in this regard. By contrast, several foreign participating interests were sold in connection with the restructuring of a German enterprise, which, in turn, is itself foreign-owned. This reorganisation led to the proceeds of the sale being transferred from the United States to the French parent company. Furthermore, German proprietors took out loans – predominantly short-term – from their foreign subsidiaries. In total, German enterprises withdrew €6½ billion from their affiliates abroad.

<sup>1</sup> Total net capital exports through portfolio investment amounted to €47½ billion between October to December. Share transactions accounted for just under half of this.