Foreign trade and payments

Foreign trade and current accounts

Exports of goods

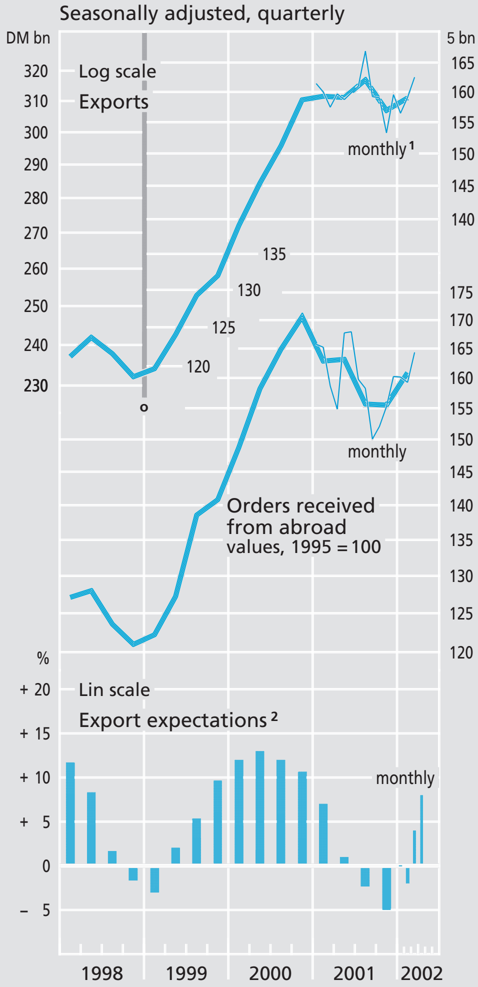
There have been growing signs of a recovery in Germany's foreign trade since the beginning of the year. For example, the assessment of the global economic environment has improved because the chances of a cyclical upturn have become more realistic in many of Germany's major trading partner countries. This first became discernible in the orders received from abroad. Having emerged from their low in the fourth quarter of 2001, export orders in the first quarter of this year were 3½% above their level in the previous quarter. Accordingly, the assessment of export expectations in Germany's manufacturing sector is now significantly brighter. Overall, the revival in demand for exports of goods in the first quarter of 2002 resulted in a seasonally adjusted rise of just under 1½% compared with the extremely poor out-turn in the fourth quarter of 2001 when the value of exports declined by over 3% compared with the previous period.

Breakdown of exports

According to the statistical information currently available (ie up to the end of February 2002), most of the increased foreign demand for German products came from markets outside the euro area. While seasonally adjusted exports to other euro-area countries virtually stagnated in a three-month comparison (December 2001-February 2002 compared with the previous period), sales to other countries increased, in some cases significantly so. For example, exports of goods to the United States – which again recorded a cyclical upturn in the period under review – rose by 4% in a three-month comparison whereas they

Export trend

Seasonally adjusted, quarterly



1 Monthly values adjusted to match quarterly level. — 2 Results of the Ifo business survey; balances of positive and negative company reports. — o From 1999 all data in euro.

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had declined by 9% in the period before. At the same time, adjustment pressure in the IT sector also appeared to ease worldwide, with the result that the economic environment for German exporters improved from this direction, too. Sales to the emerging economies in South-East Asia, which had been hit particularly hard by the setback in this sector and had been declining almost throughout 2001, increased in the three months between December 2001 and February 2002 by no less than 6½% compared with the previous period. In the information and communication sector as a whole, however, there was still no chance of repeating the high export level achieved at the end of 2000 and the beginning of 2001. Despite the recent rise, sales in the period under review were still 8½% below that level.[1] Exports to the OPEC countries also increased sharply (+6%). There was also a renewed rise, albeit a more moderate one than before, in German exports to central and eastern Europe. Demand from these countries, in contrast to that from other export markets, had a stimulating effect on German exports throughout 2001. As a result, the volume of goods exported to central and eastern Europe between December 2001 and February 2002 was almost 9½% greater than a year earlier whereas German exports of goods as a whole were 2½% lower than a year before.

Imports of goods

In contrast to exports, which gathered pace in the first quarter of 2002, imports again sustained a fall. In seasonally adjusted terms the value of imported goods was 4% below the level in the final quarter of 2001. The pronounced weakness in January had a particularly marked effect on the quarterly result. At the same time, however, there was also an-

1 The reporting month of January 2002 saw a change in the breakdown of goods in foreign trade. The recording of foreign trade is now in line with the standardised main categories laid down by the EU, and the list of goods has been converted to Version 2002 (GP2002) for the purposes of the production statistics. In addition, the categories of goods in the food industry and in trade and industry (EGW) have been thoroughly revised. Seasonally adjusted time series for the new data will be available after the necessary adjustments to the calculations have been made.

other fairly sharp rise (of almost 1%) in import prices in the first quarter, partly as a result of developments on the crude oil markets. This means that after the elimination of price effects real imports of goods were actually slightly further below (just over 4½%) their level in the previous quarter than when the calculation is made at current prices; they therefore remained much below demand in Germany, which at the turn of the year was generally subdued. Evidently domestic demand was being met to an unusually large extent from home production and from the depletion of inventories. At all events, the imports of intermediate inputs between December 2001 and February 2002 (more recent data are not yet available) declined particularly sharply compared with a year earlier.

Breakdown of imports

German imports of goods from the other euro-area countries declined at an above-average rate between December 2001 and February 2002; however, the decline in imports from the EU countries that are not participating in monetary union was even stronger. By contrast, suppliers in the emerging markets of South-East Asia were less affected recently by Germany's greater reluctance to import. The turnover of suppliers in central and eastern Europe also remained relatively good on the German market.

Current account

Despite the slight deterioration in the terms of trade, the countervailing developments on the export side and the import side again resulted in a larger seasonally adjusted German trade surplus in the first quarter of 2002. It rose by €7½ billion to €33 billion. At the same time, however, there was a rise in the

Regional trend in foreign trade

December 2001 – February 2002; seasonally adjusted

Group of countries/country	€ billion	Percentage change from Sep-Nov 2001
Exports		
All countries	158.5	+ 0.8
of which		
Euro-area countries	67.3	+ 0.2
Other EU countries	19.1	– 0.3
United States	16.7	+ 4.0
Japan	3.0	– 2.6
Central and east European countries in transition	18.7	+ 2.1
OPEC countries	3.7	+ 6.0
Emerging markets in South-East Asia	6.0	+ 6.4
Imports		
All countries	126.8	– 5.9
of which		
Euro-area countries	52.9	– 8.6
Other EU countries	12.5	– 12.9
United States	9.6	– 6.5
Japan	4.7	– 11.0
Central and east European countries in transition	16.8	– 2.8
OPEC countries	1.7	– 10.2
Emerging markets in South-East Asia	6.7	– 0.4

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Major items of the balance of payments

€ bn

Item	2001 Q1	2001 Q4	2002 Q1
I Current account			
1 Foreign trade 1			
Exports (fob)	159.6	160.5	156.4
Imports (cif)	137.5	135.2	123.8
Balance	+ 22.1	+ 25.3	+ 32.5
2 Services (balance)	– 12.6	– 9.2	– 10.7
3 Factor income (balance)	– 3.5	– 1.3	– 4.4
4 Current transfers (balance)	– 5.5	– 7.2	– 5.1
Balance on current account 2	– 1.0	+ 7.1	+ 11.0
Memo item Balances, seasonally adjusted			
1 Foreign trade	+ 21.5	+ 25.6	+ 32.9
2 Services	– 13.0	– 11.4	– 10.9
3 Factor income	– 2.7	– 0.1	– 2.8
4 Current transfers	– 6.5	– 6.2	– 6.1
Current account 2	– 2.4	+ 7.4	+ 11.4
II Balance of capital transfers 3	+ 0.6	– 0.5	+ 0.2
III Balance of financial account 4	– 3.1	– 32.3	– 29.0
IV Change in the foreign reserves at transaction values (increase: –) 5	+ 4.1	+ 2.1	– 1.4
V Balance of unclassifiable transactions	– 0.5	+ 23.6	+ 19.2

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 60. — **5** Excluding allocation of SDRs and changes due to value adjustments.

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deficit on invisibles. In particular, net seasonally adjusted expenditure on cross-border factor income had a detrimental effect on the deficit whereas in the fourth quarter of 2001 income and expenditure had virtually cancelled out. By contrast, the net current transfers made to non-residents were much the same as in the previous period while the deficit on services actually fell slightly. The outcome was a (seasonally adjusted) rise of €4 billion in Germany's current account surplus to €11½ billion in the first quarter of 2002.

Financial transactions

Trends in financial transactions

Damaging reports about balance sheet irregularities by US firms, hostilities in the Middle East and changing expectations with respect to future developments in the world economy determined the climate on the international financial markets in the first three months of this year. The general investor scepticism that prevailed at the beginning of the quarter gradually gave way to growing confidence on the publication of surprisingly positive US economic data. This led to a change in expectations about interest rates. The yields on government bonds and the prices of equities on both sides of the Atlantic increased discernibly. More recently, however, doubts about the strength and soundness of the economic driving forces began to increase again. The generally hazy picture of the economic outlook was reflected to some extent in Germany's statistically recorded financial transactions with non-residents, and the financial flows changed direction from one month to the next. Between January and

March of this year net amounts of capital were exported through portfolio investment and credit transactions while net imports arose through foreign direct investment.

Portfolio investment

The international influences can be particularly clearly seen in portfolio investment. As in the previous two quarters, the caution shown by financial market players in the first three months of 2002 was ultimately reflected in the comparatively modest cross-border investment in securities. Even so, total net capital exports amounted to €26 billion. In the first quarter of 2001, however, outflows of funds had amounted to €48½ billion (net).

German investment in foreign bonds and notes ...

In the first three months of 2002 German investors acquired foreign securities worth €34 billion. Although this was more than in the previous two three-month periods (€4½ billion and €32 billion respectively), which were significantly affected by the events of September 2001 it was considerably less than usual at the beginning of a new year. At €15 billion, German residents invested about half their investable funds in the bonds and notes of non-resident issuers. Euro-denominated bonds predominated, as has frequently been the case since the start of monetary union. Especially at the beginning of the year, it is particularly institutional investors that regularly invest fairly substantial sums in these instruments, which offer somewhat higher interest rates than German bonds and notes but are not subject, additionally, to exchange rate risks.

... shares

German investors continued to act rather hesitantly on foreign share markets and ac-

Financial transactions

€ bn, net capital exports: –

Item	2001 Q1	2001 Q4	2002 Q1
1 Direct investment	– 9.8	+ 4.2	+ 10.4
German investment abroad	– 9.5	– 6.2	– 2.6
Foreign investment in Germany	– 0.3	+ 10.4	+ 13.0
2 Portfolio investment	– 48.5	– 14.9	– 26.0
German investment abroad	– 43.3	– 31.8	– 34.0
Shares	– 5.3	– 2.8	– 7.2
Investment fund certificates	– 6.0	– 4.5	– 7.4
Bonds and notes	– 31.9	– 27.5	– 15.2
Money market paper	– 0.1	+ 3.0	– 4.2
Foreign investment in Germany	– 5.2	+ 16.9	+ 8.0
Shares	+ 1.9	+ 0.4	+ 6.0
Investment fund certificates	– 1.9	+ 4.2	+ 1.1
Bonds and notes	+ 8.5	+ 17.7	+ 22.7
Money market paper	– 13.7	– 5.4	– 21.8
3 Financial derivatives 1	+ 3.1	– 0.8	+ 1.4
4 Credit transactions	+ 52.2	– 20.4	– 14.4
Credit institutions	+ 61.1	– 58.6	+ 13.5
Long-term	– 10.2	– 27.6	– 5.4
Short-term	+ 71.3	– 30.9	+ 19.0
Enterprises and individuals	– 11.1	+ 9.2	– 10.6
Long-term	+ 4.5	– 0.7	+ 1.0
Short-term	– 15.7	+ 9.9	– 11.6
General government	+ 18.1	– 5.7	– 0.2
Long-term	– 0.3	+ 0.2	– 0.2
Short-term	+ 18.4	– 5.8	– 0.0
Bundesbank	– 15.8	+ 34.6	– 17.1
5 Other investment	– 0.2	– 0.3	– 0.4
6 Balance of all statistically recorded capital flows	– 3.1	– 32.3	– 29.0
Memo item Change in the foreign reserves at transaction values (increase: –) 2	+ 4.1	+ 2.1	– 1.4

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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quired foreign shares worth €7 billion compared with €3 billion in the final quarter of 2001. Uncertainty about future economic developments abroad was not the only factor influencing German savers. Their investment decisions were probably also affected by reports on the problematical balance sheet practices of some US enterprises.

... and investment fund certificates

The demand from German investors for share certificates of foreign investment companies, by contrast, proved to be fairly robust, at €7½ billion, during the first three months of the year. One reason why the margin of fluctuation of the funds invested in investment funds certificates is fairly narrow when measured in terms of the volatility of cross-border share acquisitions might be that it is mainly investors with longer-term investment horizons who invest in this segment.

Foreign investment in German ...

With regard to cross-border financial transactions in the opposite direction, non-resident investors showed no more than scant interest in German securities during the period under review and added paper worth a total of €8 billion to their portfolios (compared with €17 billion in the three-month period earlier). However, the comparatively small total balance masks the fairly large shifts that foreign investors made between the various instruments in response to changing interest rate and economic prospects. For example, they substantially reduced their holdings of money market paper, ie debt certificates with a maturity of one year or less, in the first quarter of the year (€22 billion) whereas they invested at the same time in longer-dated debt securities (€22½ billion). Paper issued by general government also found favour again for the first time since the safe-haven inflows last autumn. Given the difficulty of estimating future interest rate developments, this paper was presumably in demand not least because of its greater liquidity. At the same time, foreign investors acquired bank debt securities worth €10 billion. The interest rate premium of these securities over Federal Government bonds declined by 25 basis points on a quarterly average and was therefore only about half as much as the average level last year.

... bonds and notes, and money market paper

... in shares and investment funds

Foreign funds flowing on to the German share market and into German investment funds between January and March amounted to €6 billion and €1 billion respectively; in aggregate that was somewhat more than in the previous quarter (€½ billion and €4 billion). For some time now global equity flows appear to be shifting in favour of the euro area, and German shares have apparently also been benefiting from the reorganisation of international portfolios. More recently, a certain "reserve" with respect to US equities may also have had a stimulating effect.

Direct investment

Sluggish international economic developments and the rather modest corporate profitability prospects likewise left their mark on corporate direct investment. As in the previous quarter, enterprises continued to be hesitant to acquire cross-border participating interests between January and March. Particularly large corporate acquisitions, which had characterised events on the financial markets on several occasions over the previous few years, were no longer evident in the more recent past. In the first three months of the year direct investment resulted in net capital imports (of €10½ billion); there had already been net inflows (of €4 billion) in the three months earlier.

German direct investment abroad

German enterprises invested €2½ billion abroad during the period under review – primarily through German companies building up equity interests in their foreign branches. Particularly German enterprises operating in the communications field used this financing instrument to strengthen their positions in the United States and the euro area.

Foreign direct investment in Germany

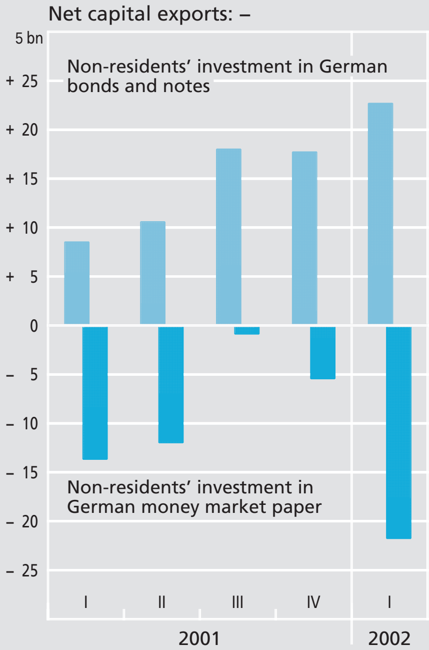
Conversely, however, foreign firms also increased their presence in Germany. During the period under review their total volume of investment amounted to €13 billion and was therefore somewhat greater than in the previous quarter (€10½ billion). Here, too, foreign investment was largely in the form of injections of investment capital into subsidiaries even if part of these inflows of funds was due to capital restructuring within one enterprise which left the net result of foreign direct investment in Germany unaffected.

Credit transactions ...

... of the non-banks

As in the other segments of the financial account, the balance of non-securitised credit transactions was also comparatively low during the period under review because the credit flows in the various sub-segments partly cancelled out. For example, enterprises and individuals transferred €10½ billion net abroad at the beginning of the year whereas in the previous quarter they had reduced their balances with banks abroad for balance sheet purposes. The fact that enterprises were temporarily parking funds accruing

Non-residents' investment in German bonds and notes and in money market paper



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from a spate of issues on the international capital market in foreign banks played a role in this connection. General government, by contrast, left its balances with credit institutions domiciled abroad virtually unchanged.

... and the banks

The value of the non-securitised external transactions of the entire banking system, which may ultimately be interpreted as the counterpart of the other external payments recorded in the balance of payments, was not significant either (-€3½ billion net) between January and March. Only the German credit institutions recorded an influx of funds from abroad (€13½ billion), and that occurred exclusively at the short end of the market (€19 billion). By contrast, the external credit transactions recorded by the Bundesbank resulted in a balance on the assets side of €17 billion, due primarily to the settlement of TARGET balances within the ESCB.

Foreign reserves of the Bundesbank

The foreign reserves of the Bundesbank, changes in which are not shown in the data on cross-border credit transactions, increased by just under €1½ billion at transaction values between the beginning of the year and the end of March. They rose even more sharply (by €5 billion to €98 billion) when valued at current balance sheet rates, ie valued at the rates obtaining at the end of the first quarter of 2002. The main reason for this was the increase in the price of gold.