

Germany's international investment position at the end of 2010

Germany's financial ties with the rest of the world intensified sharply in 2010. External assets rose by 25.8% to €6,342 billion, while external liabilities expanded by 28.1% to €5,391 billion. This can be attributed, first, to the global economic recovery, which led to increased cross-border investment, especially in the corporate sector. Second, the first-time inclusion of financial derivatives represented a one-off effect. On balance, Germany's **net international investment position** grew by €117 billion to €951 billion. The increase was due to the current account surplus as well as exchange rate and gold price effects.

The cross-border position of **monetary financial institutions** (excluding the Bundesbank) fell by 59% to €195 billion over the year. External assets and liabilities rose sharply from €2,211 billion to €2,826 billion and from €1,735 billion to €2,631 billion, respectively. However, this was due mainly to the first-time inclusion of financial derivatives in the international investment position. This swelled external assets by €784 billion, while German banks' external liabilities grew by €786 billion. Excluding financial derivatives, domestic banks' external assets would have declined by €170 billion in 2010. Besides further deleveraging, the transfer to resolution agencies, which count towards the public sector, of securities issued abroad and of credit claims with foreign debtors was an important factor in lowering domestic banks' external assets. Moreover, the institutions reduced by a large amount the liquidity assistance that they had previously provided to group enterprises abroad. The decline in credit claims would have been even more pronounced, had it not been for positive exchange rate effects as a result of the depreciation of the euro. Overall, securities holdings fell by €78 billion to €590 billion and those of credit

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claims sank by €102 billion to €1,355 billion. By contrast, excluding financial derivatives, the liabilities side expanded by €109 billion. The main reason was that institutions received more deposits from non-residents again and took up additional financial loans abroad. Moreover, the drop of the euro lifted the balance sheet value of foreign currency liabilities.

German **enterprises and individuals**, which include investment funds (excluding money market funds), expanded their external position perceptibly again in 2010 (€180 billion). Their claims on non-residents rose sharply by €295 billion to €2,762 billion (+12%). The global economic recovery drove up direct investment. Buoyed by positive exchange rate effects as well as higher market prices, it swelled by €107 billion. In addition, enterprises and individuals added €112 billion to their securities portfolios, bringing them to €1,166 billion. They mainly increased their holdings of foreign bonds (+€51 billion). Moreover, their holdings of shares and mutual fund shares rose by €61 billion, with the increase in equities, in particular, largely the result of positive price developments. External liabilities also rose, though the gain, of €115 billion or 7.5% to €1,653 billion, fell short of growth in assets, both in absolute and relative terms. Of the total, €69 billion was explained by larger holdings of German equities and debt securities by non-residents. Foreign enterprises also raised direct investment in Germany by €19 billion. A fairly large part of these investments were foreign parent companies' loans to German subsidiaries. All this lifted the net external assets of German enterprises and individuals by 19% to €1,109 billion; they thus still represent the largest German net creditor sector vis-à-vis non-residents.

The above-mentioned transfer of cross-border positions to resolution agencies was clearly reflected in the external position of **general government**. In particular, external assets – previously a fairly insignificant item – jumped by

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€188 billion to reach €230 billion. Securities holdings swelled by €121 billion to €132 billion, largely as a result of the transfer of bonds issued by non-residents. This is also the main cause of the €68 billion increase in credit claims to €95 billion. In addition, the transfers were the principal reason for the increase in – predominantly short-term – liabilities from financial loans by €95 billion to €118 billion. Independently of that, general government liabilities rose in 2010 as a result of lively demand from non-resident investors for German public debt securities and as a consequence of price increases. Overall, the value of public debt securities held by non-residents rose by €71 billion to €972 billion. General government external liabilities therefore totalled €1,093 billion (+€167 billion) at the end of 2010.

The net external position of the **Bundesbank** increased by €196 billion to €510 billion in 2010. Reserve assets rose by €37 billion to €162 billion. Of this growth, €35 billion was the result of the customary marking-to-market of reserve assets, with gold alone accounting for valuation gains of €31 billion. Transactions boosted reserve assets by €2 billion, which was mainly due to an increase in Germany's reserve position in the International Monetary Fund. The marked growth in other external assets from €198 billion to €363 billion was attributable chiefly to the ongoing rise in claims associated with the TARGET2 payment system. Moreover, the Bundesbank has taken foreign government debt onto its books as part of the Eurosystem's Securities Markets Programme (SMP). The expansion of the Bundesbank's external liabilities (€6 billion) was due, in particular, to additional deposits from non-resident business partners.

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€ bn; end of period under review

	Assets			Liabilities		
	Dec.2008	Dec.2009	Dec.2010	Dec.2008	Dec.2009	Dec.2010
I Monetary financial institutions ¹	2 423.1	2 211.1	2 825.6	1 903.9	1 735.4	2 630.5
1 Direct investment	73.5	82.9	93.5	27.3	30.3	36.9
Equity capital (excl. real estate)	72.6	81.9	92.4	27.3	30.3	36.9
Real estate	0.9	1.0	1.1	-	-	-
2 Portfolio investment	685.4	668.0	590.1	879.3	826.7	829.3
Shares	3.5	7.0	- 0.1	13.0	21.9	26.3
Mutual fund shares	17.9	13.3	22.7	3.3	1.1	0.9
Bonds and notes	634.6	630.7	555.8	787.8	721.8	704.6
Money market instruments	29.6	16.9	11.8	75.1	82.0	97.5
3 Financial derivatives	-	-	784.2	-	-	786.4
4 Loans, currency and deposits ²⁾	1 661.2	1 457.1	1 354.7	993.2	873.5	972.8
Short term	919.4	761.8	720.9	770.6	675.7	772.2
Long term	741.8	695.3	633.8	222.6	197.8	200.6
5 Other assets/other liabilities	3.0	3.1	3.1	4.0	4.9	5.0
II Enterprises and individuals	2 232.7	2 466.3	2 761.6	1 492.8	1 537.9	1 652.9
1 Direct investment	824.5	851.5	958.6	639.0	625.5	644.4
Equity capital (excl. real estate)	637.2	660.5	755.3	359.6	353.1	360.3
Other capital	50.2	52.0	56.0	255.6	249.0	260.8
Claims on affiliated enterprises abroad	172.0	176.3	190.9	-	-	-
Liabilities to affiliated enterprises abroad ³⁾	- 121.8	- 124.3	- 134.9	-	-	-
Liabilities to direct investors abroad	-	-	-	284.6	277.4	294.7
Claims on direct investors abroad ³⁾	-	-	-	- 29.0	- 28.5	- 33.9
Real estate	137.1	139.0	147.4	23.8	23.4	23.3
2 Portfolio investment	852.1	1 053.7	1 165.5	415.0	441.1	510.0
Shares	144.4	183.4	216.6	294.9	342.4	378.9
Mutual fund shares	257.0	286.1	313.6	29.7	37.3	41.9
Bonds and notes	444.7	577.9	629.2	37.5	21.8	43.8
Money market instruments	6.0	6.2	6.2	53.0	39.6	45.4
3 Loans, currency and deposits	399.4	411.2	478.1	337.3	367.2	390.5
Short term	246.7	242.1	264.5	145.9	145.2	152.3
Long term	152.7	169.1	213.7	191.4	222.0	238.1
4 Trade credits	111.8	102.4	109.2	97.4	99.9	103.9
5 Other assets/other liabilities	45.0	47.5	50.2	4.1	4.2	4.1
III General government	25.3	41.4	229.8	867.6	925.6	1 092.6
1 Participating interests in international organisations	2.2	2.2	2.1	-	-	-
2 Portfolio investment	4.2	11.7	132.4	838.8	901.2	971.7
Shares	0.3	0.5	0.6	-	-	-
Mutual fund shares	0.6	0.5	0.3	-	-	-
Bonds and notes	3.3	10.8	131.5	804.4	809.9	901.9
Money market instruments	0.0	0.0	0.0	34.4	91.3	69.8
3 Loans, currency and deposits ⁴⁾	18.2	26.8	94.6	27.4	23.0	118.0
Short term	10.2	7.9	16.8	12.9	9.7	103.7
Long term	8.0	18.9	77.8	14.5	13.3	14.3
4 Other assets/other liabilities	0.7	0.7	0.7	1.4	1.5	2.9
IV Bundesbank	230.8	323.3	524.7	30.2	9.1	14.6
1 Reserve assets	99.2	125.5	162.1	-	-	-
2 Other assets/other liabilities	131.6	197.7	362.6	30.2	9.1	14.6
Total (I to IV)	4 911.9	5 042.0	6 341.8	4 294.5	4 208.0	5 390.6

* Detailed data on the international investment position can be found in Statistical Supplement 3 "Balance of payments statistics", Table II.9.-

1 Excluding the Bundesbank.- 2 Loans, loans against borrower's notes, bank deposits, assets acquired through assignment etc.-

3 Reverse investment.- 4 Liabilities: loans against borrower's notes.-Differences in the totals are due to rounding.