

Press release

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Germany's international investment position at the end of 2011

Germany's financial ties with the rest of the world intensified further in 2011, partly due to the crisis. However, growth in cross-border positions was significantly weaker than one year previously. External assets rose by 4% to €6,555 billion, while external liabilities expanded by 5% to €5,710 billion. The growth in assets was primarily attributable to the Bundesbank's higher external position, while large safe-haven flows into Bunds played a major role in the rise in liabilities. As external liabilities expanded at a somewhat stronger pace than assets, Germany's **net international investment position** decreased by €26 billion to €845 billion. Overall, the negative effects of the revaluation of all assets and liabilities and of other adjustments were thus greater than the current account surplus.

The cross-border net asset position of **monetary financial institutions** (excluding the Bundesbank) fell by 12% to €177 billion over the year. External assets rose by €40 billion to €2,863 billion and external liabilities by €63 billion to €2,686 billion. On balance, these rises were solely attributable to financial derivatives, which boosted external assets by €132 billion and external liabilities by €143 billion. Excluding financial derivatives, domestic banks' external assets and liabilities would have fallen by €92 billion and €80 billion, respectively, during the reporting year. The trend seen in previous years thus continued. On the assets side, this was mainly due to a decline in portfolio investment (by €68 billion), which was primarily driven by bond sales and holding losses, while on the liabilities side, this reflected above all a decline in domestic banks' foreign credit liabilities (by €88 billion), particularly those with short-term maturities.

German **enterprises and individuals**, which include insurance companies and mutual funds (excluding money market funds), expanded their net external position again in 2011 (by €12 billion to €1,035 billion). Their claims on non-residents rose by €5 billion to €2,738 billion. At the same time, their external liabilities declined by €7 billion to €1,704 billion. These data reflect opposing developments in direct investment and portfolio investment. The favourable economic climate in Germany in 2011 led to a further increase in cross-border corporate links via direct investment. The rise in German foreign investment (by €23 billion) was predominantly due to the expansion of equity capital, while intra-group loans led to a considerable inflow of funds from non-resident subsidiaries to Germany. Financial intermediaries, usually domiciled abroad, thereby pass on the proceeds from securities issued on the international capital market to their parent companies. Foreign proprietors also increased their investment in their affiliates in Germany (by €9 billion). By contrast, cross-border portfolio investment dropped significantly. Thus German enterprises and individuals' holdings of foreign securities fell by €33 billion. There was an even sharper decline (€52 billion) in non-residents' holdings of German paper. In both cases, this was primarily due to valuation effects. While foreign investors chiefly felt the impact of the marked fall in German stock market prices (-€61 billion), resident investors' market losses were spread broadly across foreign equities, mutual fund shares and bonds. However, this was counterbalanced by substantial purchases of foreign bonds by German investors (€37 billion), predominantly through insurance companies and outside the euro area.

General government external liabilities totalled €1,036 billion net at the end of 2011. The deterioration in the public sector's external position (by 20%) reflects, *inter alia*, the inflow of funds to the safe haven of Germany. External liabilities consequently increased by €184 billion, primarily due to the increase in foreign-owned holdings of public debt securities (€164 billion). The growth was attributable in roughly equal parts to transactions relevant for the balance of payments and to increases in the price of German government bonds. Although these push up the market value of foreign holdings of government bonds, they do not place any additional repayment obligations on the German government. The sharp rise in public sector external assets in 2010 in connection with the resolution agencies, which are assigned to the government

sector, was followed by only slight growth during the reporting period (€12 billion). Thereby, loans expanded by €13 billion (primarily due to transactions), while securities holdings sank slightly.

The net external position of the **Bundesbank** increased by €158 billion to €668 billion in 2011. Reserve assets rose by €23 billion to €185 billion. Of this growth, €20 billion was the result of the customary marking-to-market of the reserve assets, with gold alone accounting for valuation gains of €17 billion. Transactions boosted reserve assets by €3 billion, which was mainly caused by an increase in Germany's reserve position in the International Monetary Fund. The marked growth in other external assets from €167 billion to €530 billion was attributable chiefly to the ongoing rise in claims associated with TARGET2. Moreover, in 2011 the Bundesbank once again took a significant volume of foreign securities onto its books as part of the Eurosystem's purchasing programmes. The growth in the Bundesbank's external liabilities (€32 billion) at the end of 2011 is above all due to higher deposits by central banks and international organisations outside the euro area.

Germany`s international investment position*)

€ bn; end of period under review

	Assets			Liabilities		
	Dec.2009	Dec.2010	Dec.2011	Dec.2009	Dec.2010	Dec.2011
I Monetary financial institutions ¹	2 210.8	2 823.5	2 863.1	1 738.9	2 622.6	2 685.8
1 Direct investment	82.6	91.4	94.5	33.7	37.0	38.1
Equity capital (excl. real estate)	81.6	90.3	93.4	33.7	37.0	38.1
Real estate	1.0	1.1	1.1	-	-	-
2 Portfolio investment	668.0	590.1	522.2	826.8	821.2	828.2
Shares	7.0	- 0.1	3.6	21.9	26.3	18.6
Mutual fund shares	13.3	22.7	20.3	1.6	1.8	0.9
Bonds and notes	630.7	555.8	484.6	721.9	706.0	723.1
Money market instruments	16.9	11.8	13.8	81.4	87.1	85.7
3 Financial derivatives	-	784.2	916.0	-	786.4	929.1
4 Loans, currency and deposits ²⁾	1 457.1	1 354.7	1 327.3	873.5	972.9	885.1
Short term	761.8	720.9	668.8	675.7	772.2	693.7
Long term	695.3	633.8	658.5	197.8	200.7	191.4
5 Other assets/other liabilities	3.1	3.1	3.1	4.9	5.0	5.2
II Enterprises and individuals	2 471.0	2 733.2	2 738.4	1 579.4	1 710.5	1 703.6
1 Direct investment	860.8	930.7	953.6	639.2	669.4	678.8
Equity capital (excl. real estate)	676.0	733.5	778.0	357.8	372.9	379.7
Other capital	45.8	49.8	28.9	258.0	272.9	275.2
Claims on affiliated enterprises abroad	186.3	203.6	210.6	-	-	-
Liabilities to affiliated enterprises abroad ³⁾	- 140.4	- 153.8	- 181.7	-	-	-
Liabilities to direct investors abroad	-	-	-	289.4	304.8	320.9
Claims on direct investors abroad ³⁾	-	-	-	- 31.3	- 31.9	- 45.8
Real estate	139.0	147.4	146.7	23.4	23.6	23.9
2 Portfolio investment	1 053.7	1 165.5	1 132.9	489.1	559.4	507.3
Shares	183.4	216.6	187.4	342.1	378.0	311.1
Mutual fund shares	286.1	313.6	287.9	85.2	89.8	110.3
Bonds and notes	577.9	629.2	648.0	22.6	46.5	44.7
Money market instruments	6.2	6.2	9.5	39.2	45.1	41.2
3 Loans, currency and deposits	406.7	474.5	477.6	347.9	375.4	392.9
Short term	238.0	261.8	285.1	141.0	147.7	181.0
Long term	168.7	212.7	192.5	206.9	227.7	211.8
4 Trade credits	102.0	111.7	120.0	99.0	102.3	120.5
5 Other assets/other liabilities	47.8	50.9	54.4	4.1	4.0	4.2
III General government	41.4	226.9	238.4	916.5	1 089.8	1 273.9
1 Participating interests in international organisations	2.2	2.1	2.2	-	-	-
2 Portfolio investment	11.7	132.4	130.5	892.1	968.9	1 133.3
Shares	0.5	0.6	0.7	-	-	-
Mutual fund shares	0.5	0.3	0.3	-	-	-
Bonds and notes	10.8	131.5	129.5	800.8	898.8	1 049.1
Money market instruments	0.0	0.0	0.0	91.3	70.1	84.2
3 Loans, currency and deposits ⁴⁾	26.8	91.7	105.0	23.0	118.0	136.7
Short term	7.9	18.7	38.6	9.7	103.7	118.5
Long term	18.9	73.0	66.4	13.3	14.3	18.2
4 Other assets/other liabilities	0.7	0.7	0.7	1.5	2.9	3.9
IV Bundesbank	323.3	524.7	714.7	9.1	14.6	46.6
1 Reserve assets	125.5	162.1	184.6	-	-	-
2 Other assets/other liabilities	197.7	362.6	530.1	9.1	14.6	46.6
Total (I to IV)	5 046.5	6 308.4	6 554.6	4 244.0	5 437.5	5 709.9

* 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.