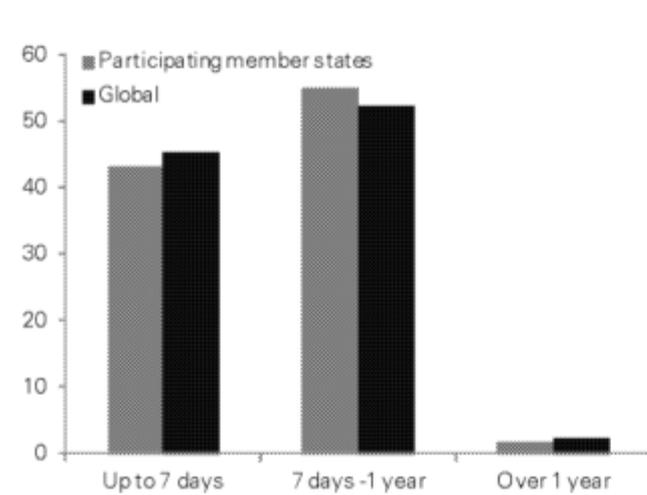


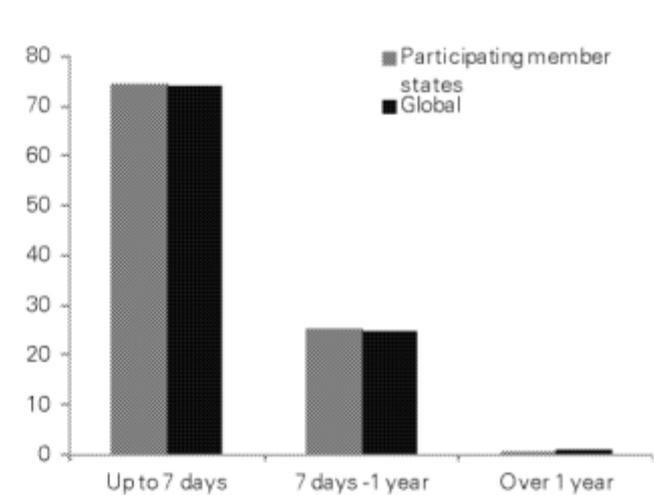


Figure 3: FX Forwards Percentage Global Turnover



Source: Deutsche Bank, BIS Triennial Survey, September 2010

Figure 4: FX Swaps Percentage Global Turnover



Source: Deutsche Bank, BIS Triennial Survey, September 2010

## A Tax on the Real Economy

Many have noted that the proposed FTT would have wide-ranging negative implications for financial markets, reducing trading volumes, disrupting short term funding markets and curtailing the profits of financial firms.<sup>10</sup>

The FTT would also have a significant impact on the real economy. The fact that the proposal does not exempt transactions involving non-financial corporations would result in costs being passed down to end users of derivatives. This would make hedging financial risks more expensive and less attractive, potentially increasing the volatility of firms' cash flow and share prices.

Non-financial corporations use FX derivatives to hedge cash flow and balance sheet risks arising from currency fluctuations. As the largest economy among the participating member states and one of the foremost proponents of the FTT, a useful case study is the impact the tax would have on German importers and exporters.

Surveys suggest that an overwhelming majority of German corporates use derivatives to hedge FX risks.<sup>11</sup> Using a simple approach based on German trade and BIS data, assumptions about hedging ratios, hedge rollovers and basis point cost per transaction, we calculate that the FTT would impose an annual cost of anywhere between EUR 1 to 2.4bn on German importers and exporters. Using export elasticities from the IMF we calculate that German exports could be reduced by as much as EUR 3.3bn per year.

In recent years, German exports to outside the Eurozone have grown as the economy has responded to weak demand in the single currency area. Germany's relatively strong growth compared the rest of the Eurozone is in no small part due to this flexibility, with exports to East Asia in particular playing an important role. The FTT would hamper Germany's export flexibility by

<sup>10</sup> See, for example, International Capital Market Association report, 'The Impact of the Financial Transaction Tax on the European Repo Market, April 8<sup>th</sup> 2013

<sup>11</sup> Gordon Bodnar and Gunther Gebhardt, *Derivatives Usage in Risk Management by US and German Non-Financial Firms, A Comparative Study*, 1999