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Could Germany Gain from a Smaller External Surplus?

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IMF-Deutsche Bundesbank Conference on Germany: Current Economic Policy Debates

Outline

- IMF's External Balance Assessment analysis

  EBA stresses domestic, not global, welfare, as I will also today—but multilateral perspective is vital for smooth functioning of global trade and monetary system

- Key consumption-investment tradeoffs

- How <u>not</u> to think about the tradeoffs

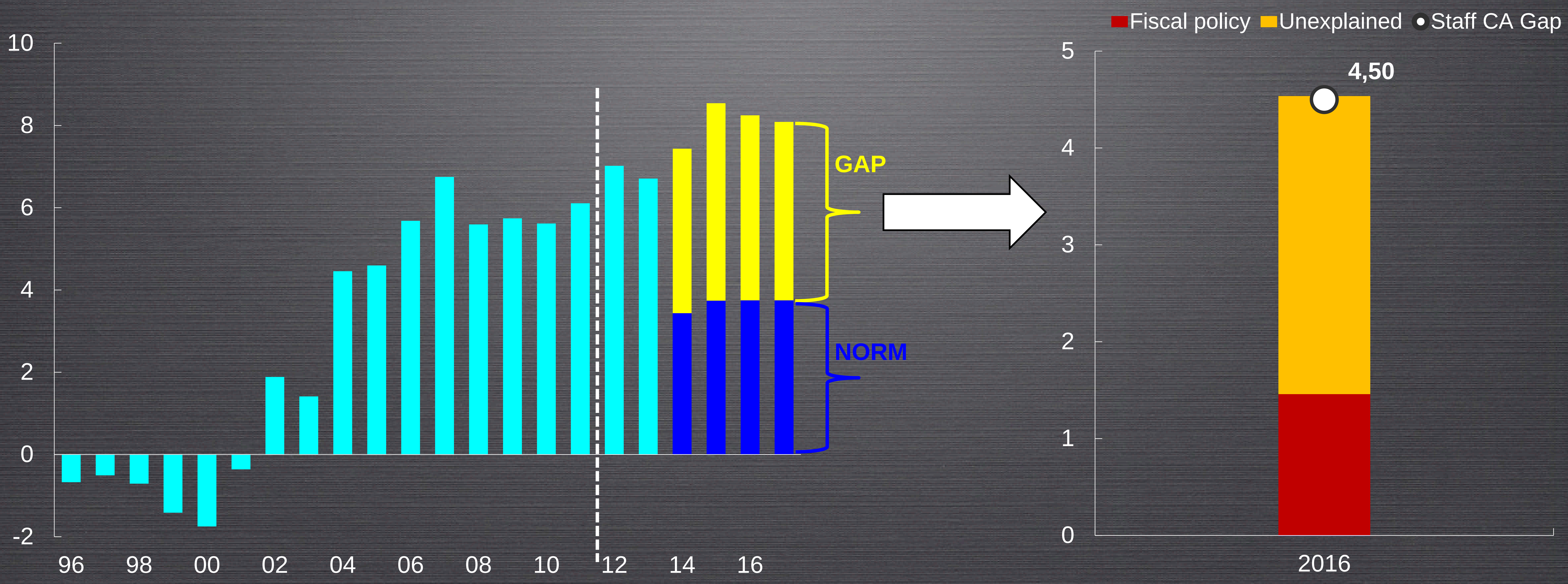
- Optimizing the current account for domestic welfare

- Implications of wealth inequality

German current account surplus far exceeds its estimated norm

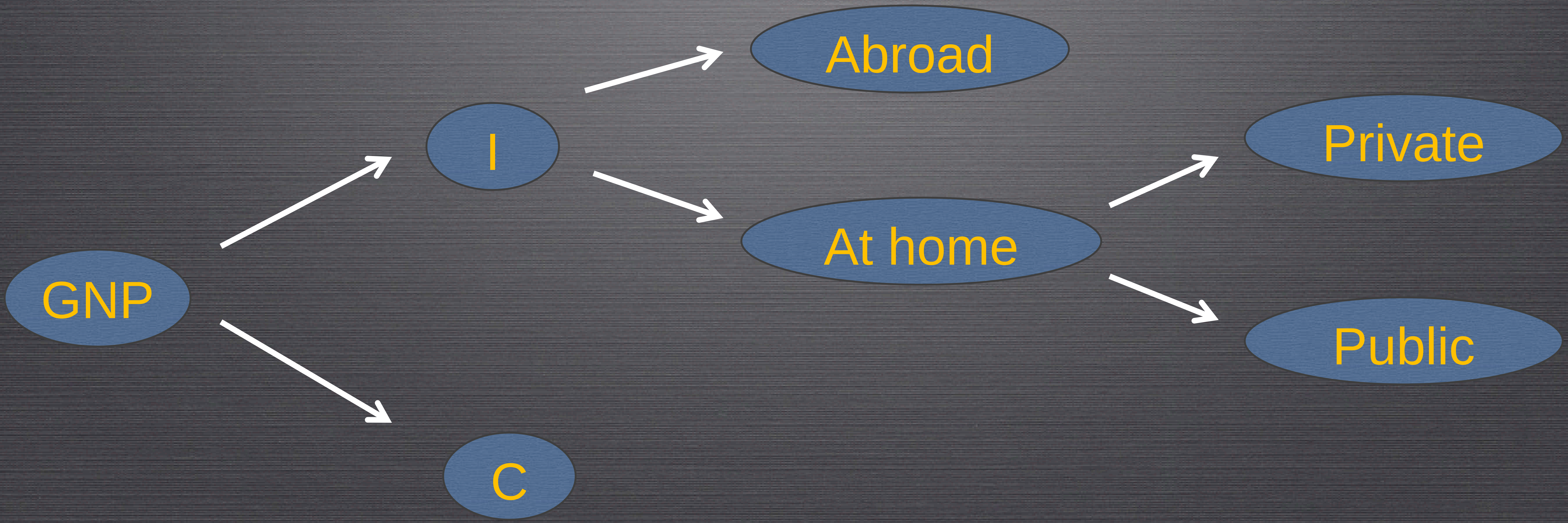
Current account balance 1/
(percent of GDP)

Gap decomposition 2/
(percent of GDP)



Sources: IMF, *External Sector Reports*; and IMF *World Economic Outlook.*
1/ Staff-assessed current account norms and gaps refer to midpoints (+/- 1.5 percent of GDP margin). Data and estimates for 2017 are preliminary.
2/ Staff-assessed gap refers to midpoint. Fiscal policy is tighter than MT desired policies. Other identified policies have minor contributions.

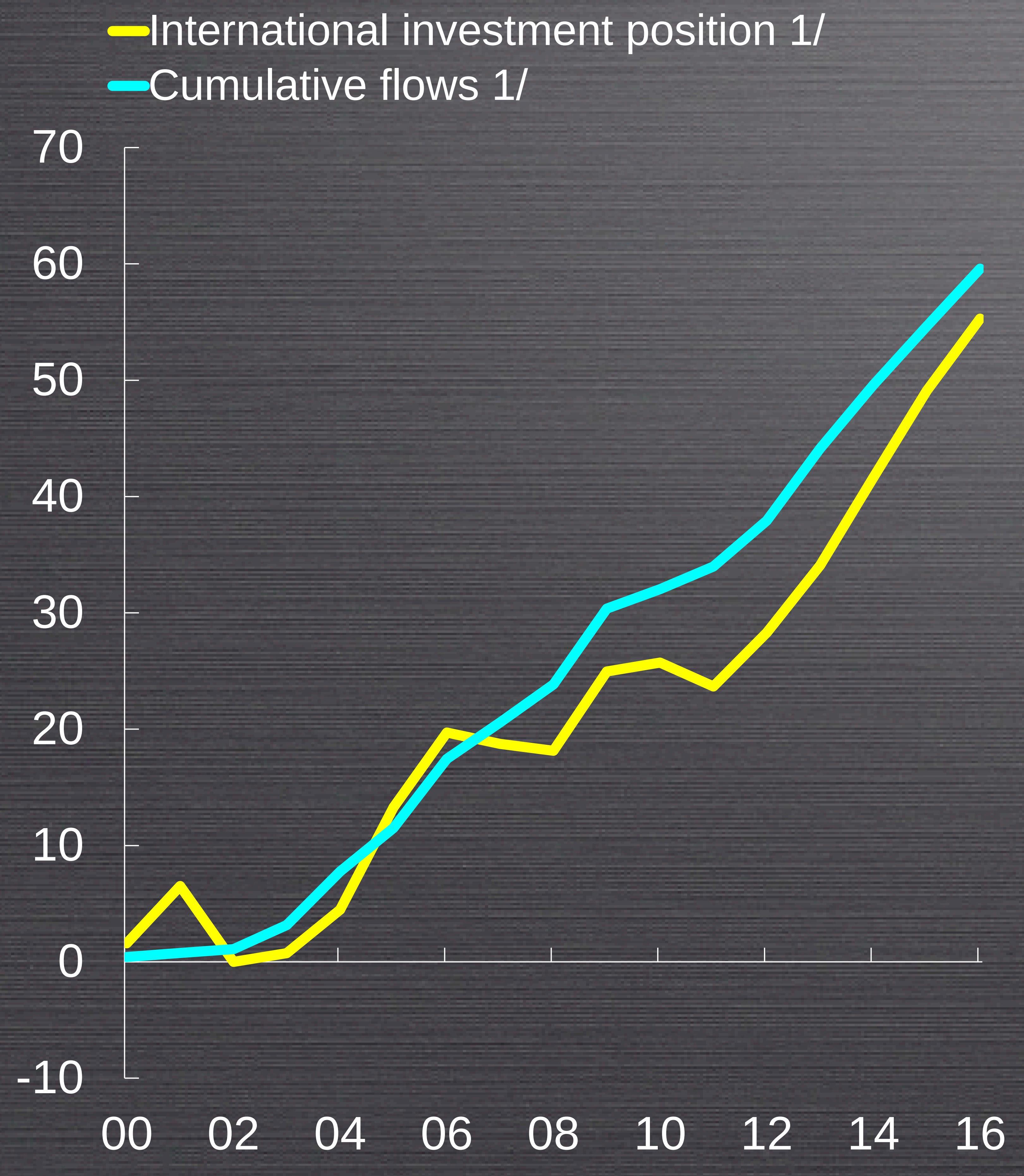
Key tradeoffs with differing current account implications



Note: Above, I denotes the layperson's concept of investment, not NIPA domestic investment; C = consumption

Data do *not* imply foreign investments lose money

NIIP vs. cumulated CA flows
(percent of GDP)



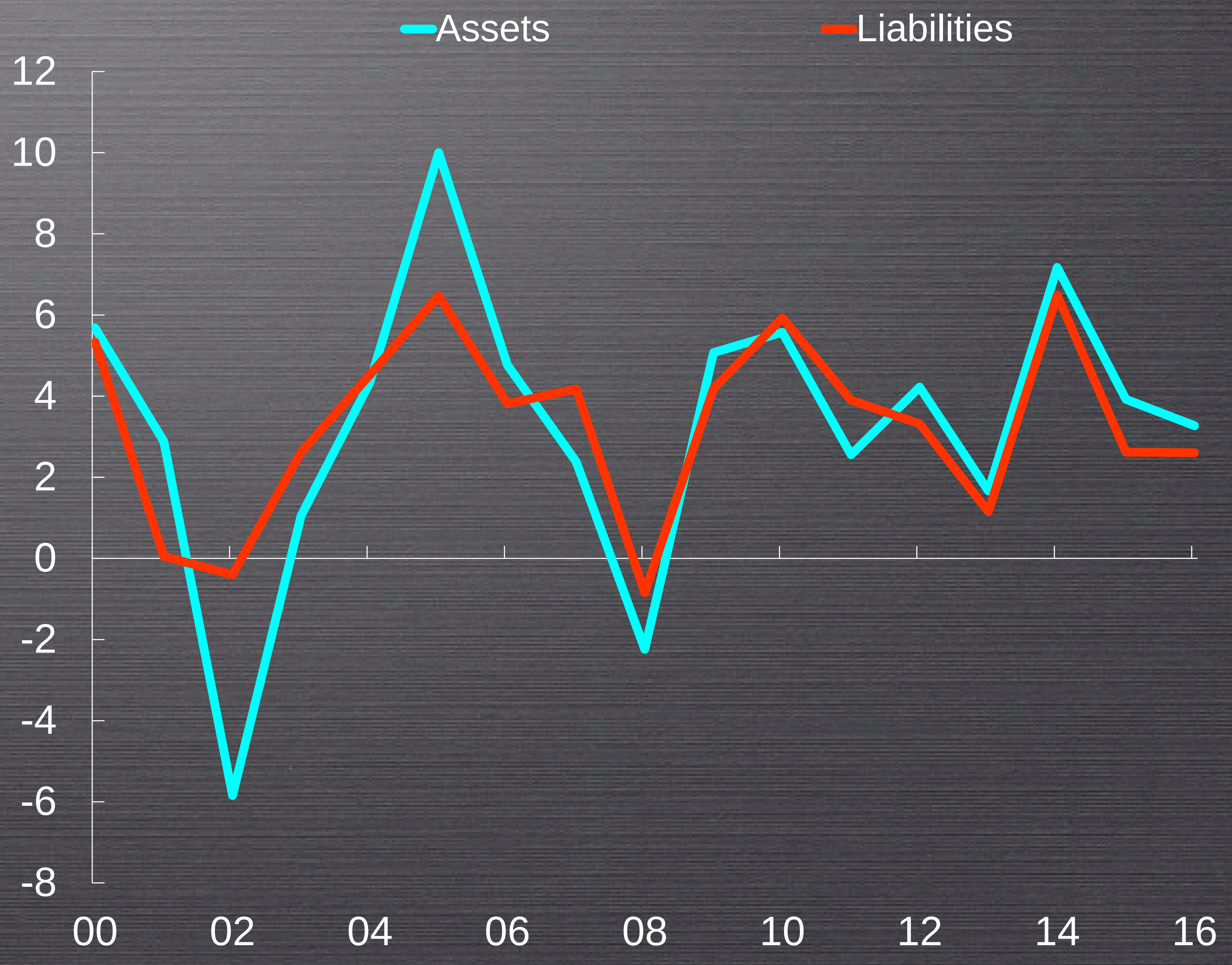
Sources: IMF BOP statistics and IMF staff estimates.
1/ Net of derivatives.

- **Germany has roughly 250% GDP in foreign assets and 200% in liabilities**
- **Evolution of NIIP reflects also capital gains/losses on *gross* assets, liabilities**
- $\Delta NIIP = NX + (R^A + K^A)A - (R^L + K^L)L$
- **Total returns not determined by *K* terms alone**
- **Would reducing CA surplus lead to better wealth outcomes? Depends on how it's done**

Average private returns for *A* and *L* are roughly equal. What about *marginal* private returns? *Social* returns?

Return on assets exceeds cost of liabilities
(investment income; percent)

Total average return differentials are close to zero
(total returns; percent)

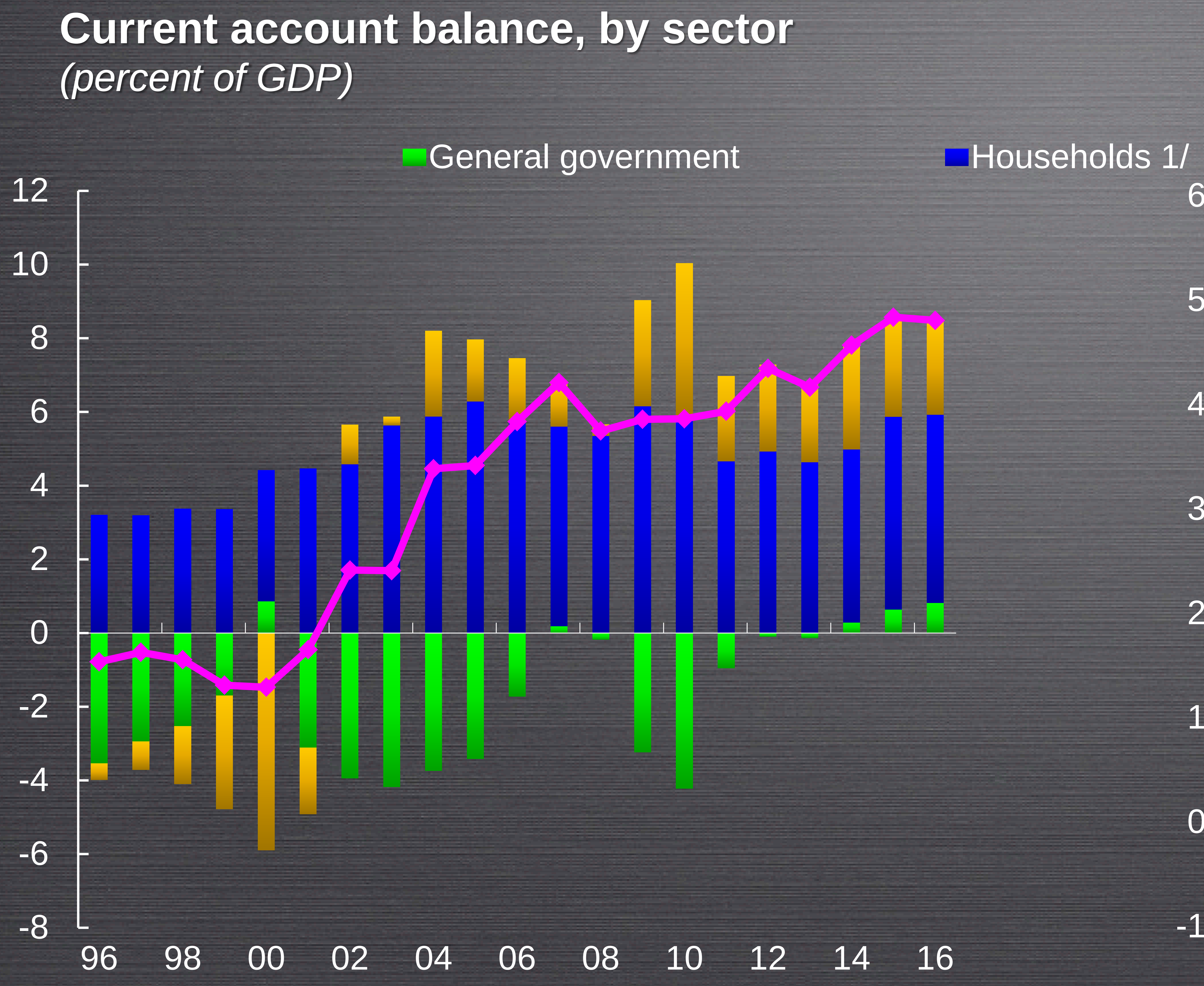


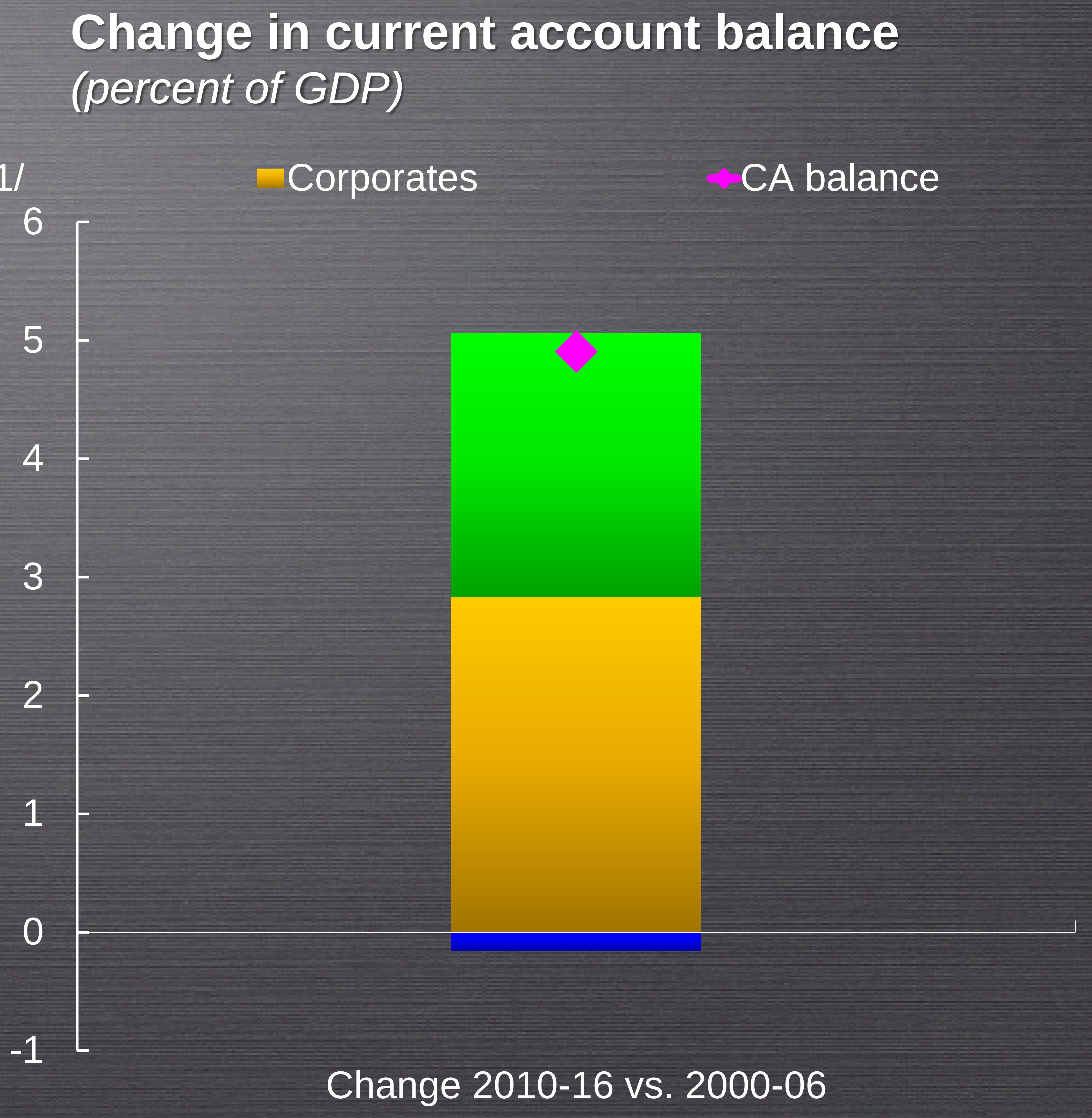
Source: IMF BOP statistics and IMF staff estimates.

Arguments for a relatively high marginal social return to home, especially public, investment

- Public investment has fallen (as in many other advanced countries), leaving opportunities in, e.g., broadband, transport
- Domestic investment obstacles (e.g., service sector, capital markets)
- Early childhood investments, facilitating female participation, would build human capital while raising the return to home private investment
- Monopoly power over *r** – how big is Germany in world capital markets?
- Keynes's argument – foreign investments, if lost, are a loss for the country

Corporate saving has risen – implications for inequality

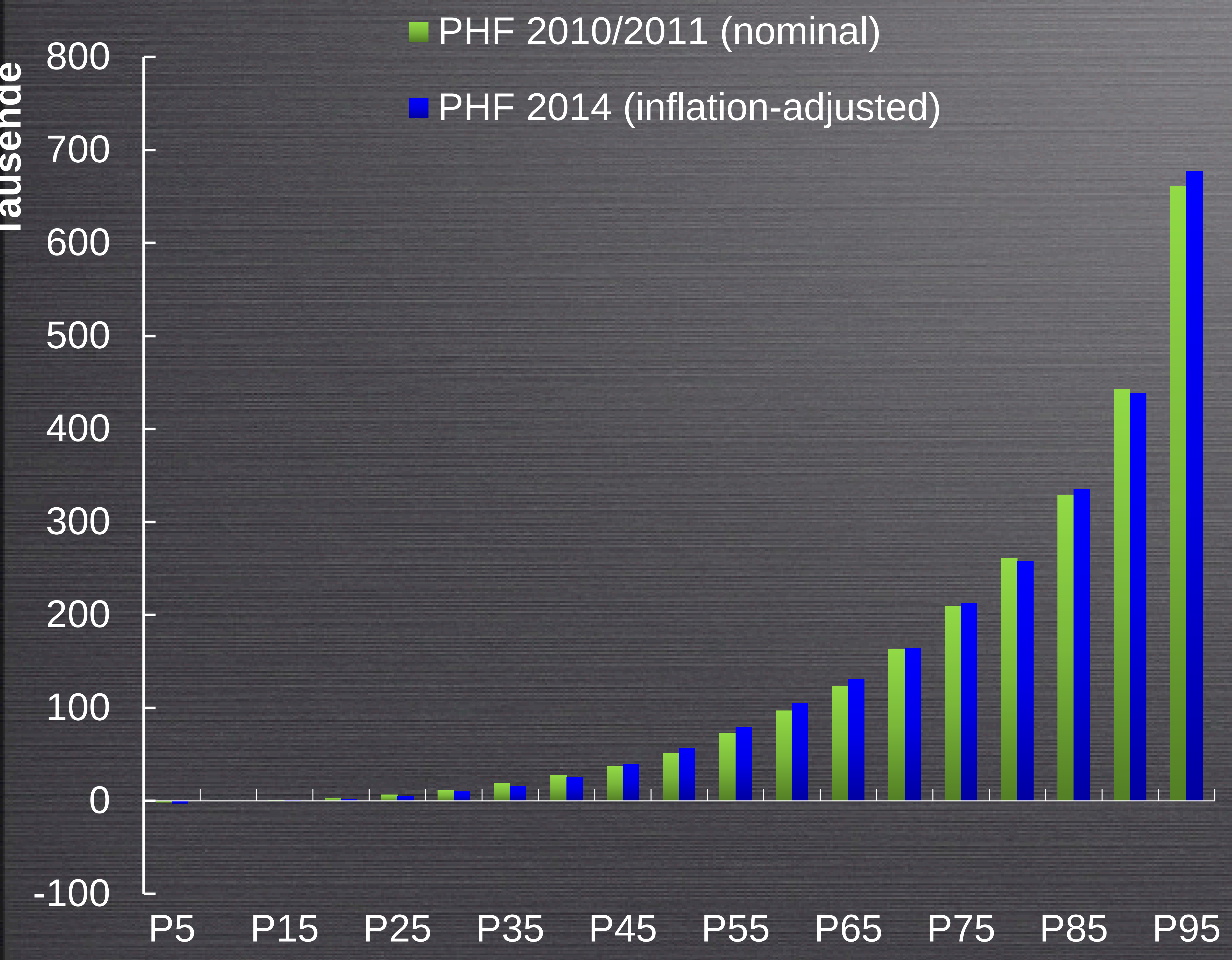




Sources: Eurostat; OECD; National Sources; and IMF staff calculations.
1/ Households include nonprofits.

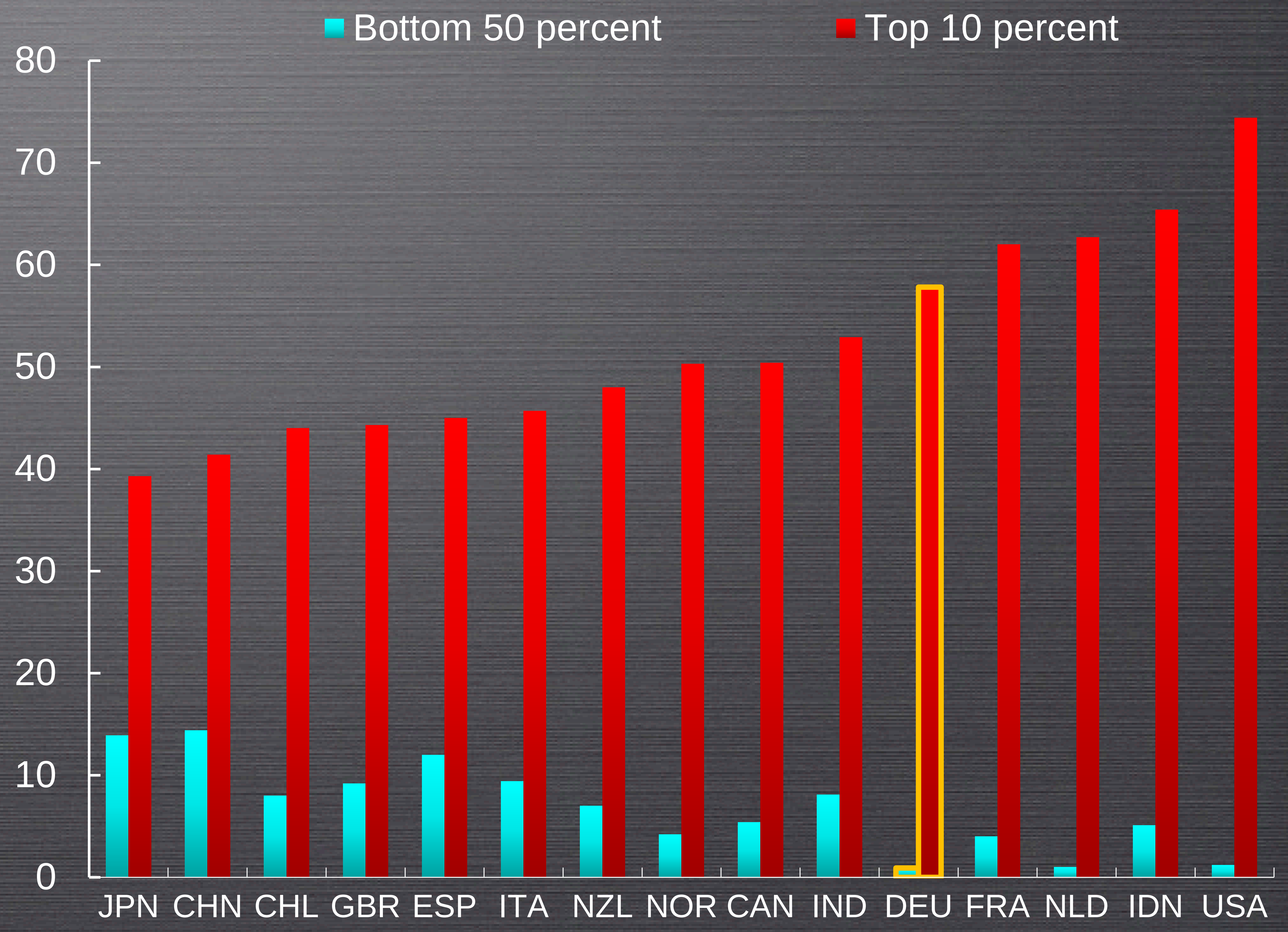
It is likely that most saving is done by the relatively wealthy

Distribution of German households' net wealth
(thousands of euros)



Sources: Deutsche Bundesbank.

Shares of net wealth across countries, ca. 2011
(percent)



Sources: October 2013 IMF Fiscal Monitor based on Credit Suisse, Statistics Norway, Luxembourg Wealth Study database, and IMF staff estimates.

Does CA surplus reflect average Germans saving for retirement? Or the wealthy getting wealthier?

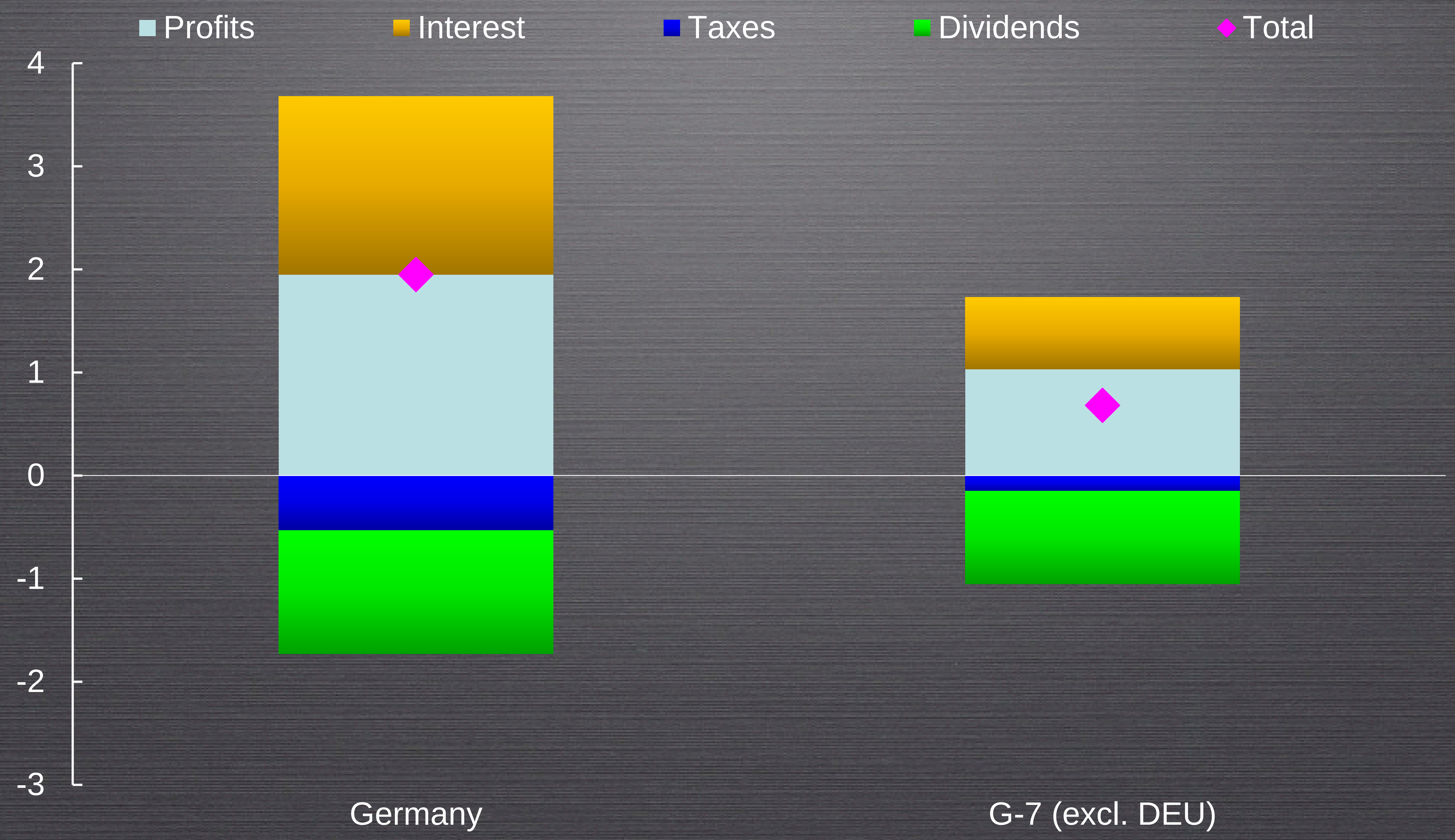
- If the latter, the case for high saving is weakened
- Increasing inequality of wealth could damage social cohesion
- Investments in infrastructure/education would therefore be valuable in themselves—while reducing global imbalances
- The social planner case is clear, there is some fiscal space, but eventually debt financing is an issue
- Corporate governance? Scope for more wealth redistribution through the tax system?

Vielen Dank!

Additional slide

Changes in gross corporate saving: Germany vs. G7

G-7: Change in gross corporate saving, 2000-13
(percent of GDP)



Sources: Eurostat; OECD; National Sources; and IMF staff calculations.