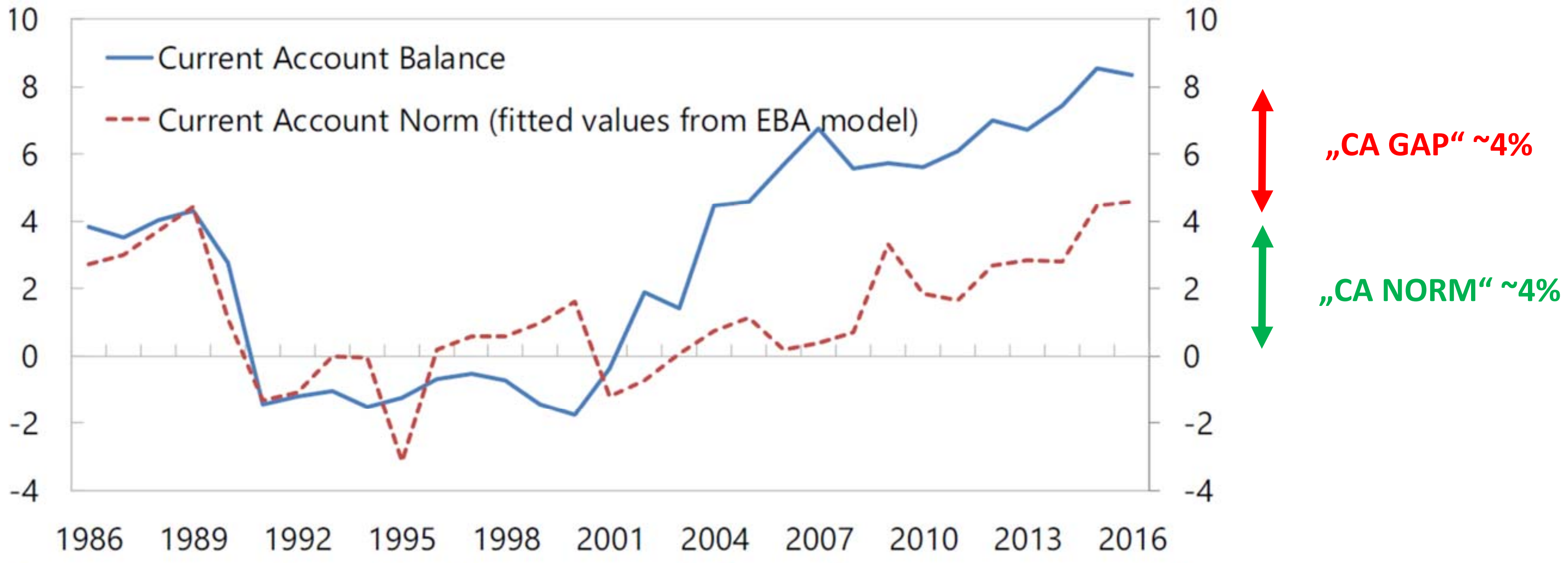
Germany's current account surplus: A problem to be fixed?

Jens Suedekum
Düsseldorf Institute for Competition Economics (DICE) & CEPR
Email: suedekum@dice.hhu.de
Twitter: @jsuedekum

Bundesbank & IMF conference – Frankfurt, January 2018

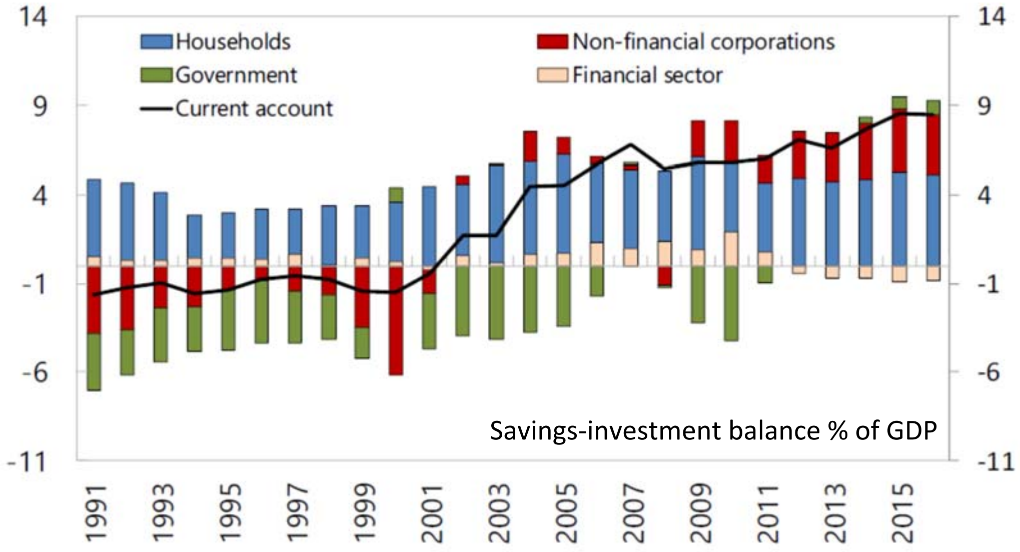
The normal and the abnormal surplus



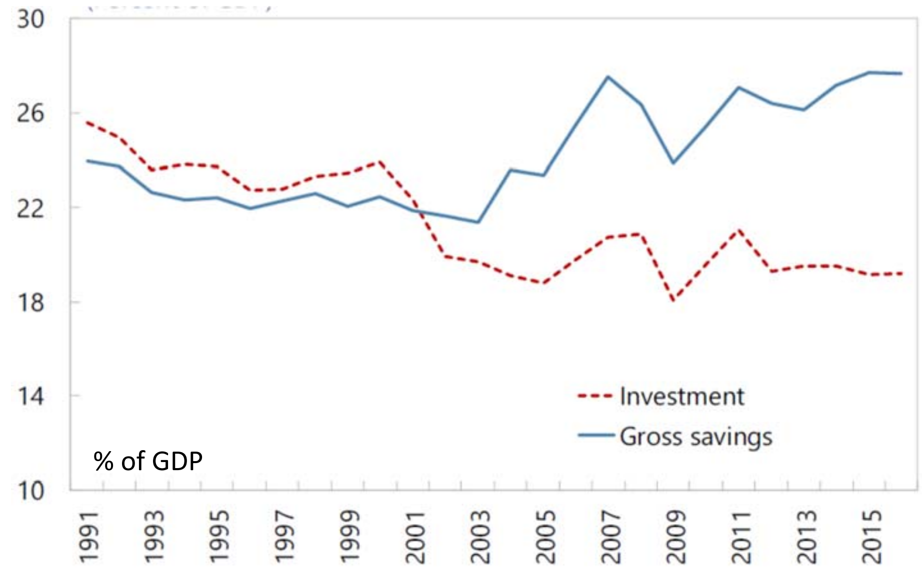
Sources: Bundesbank and IMF staff calculations (2017 External Balance Assessment (EBA)) .

- Some CA surplus reasonable: Downhill capital flows + demography
- But surplus is excessive: IMF suggest ~4% of GDP, not 8%
- Trade surplus (= capital export) “too high” by ~150b € p.a.

Facts and accounting



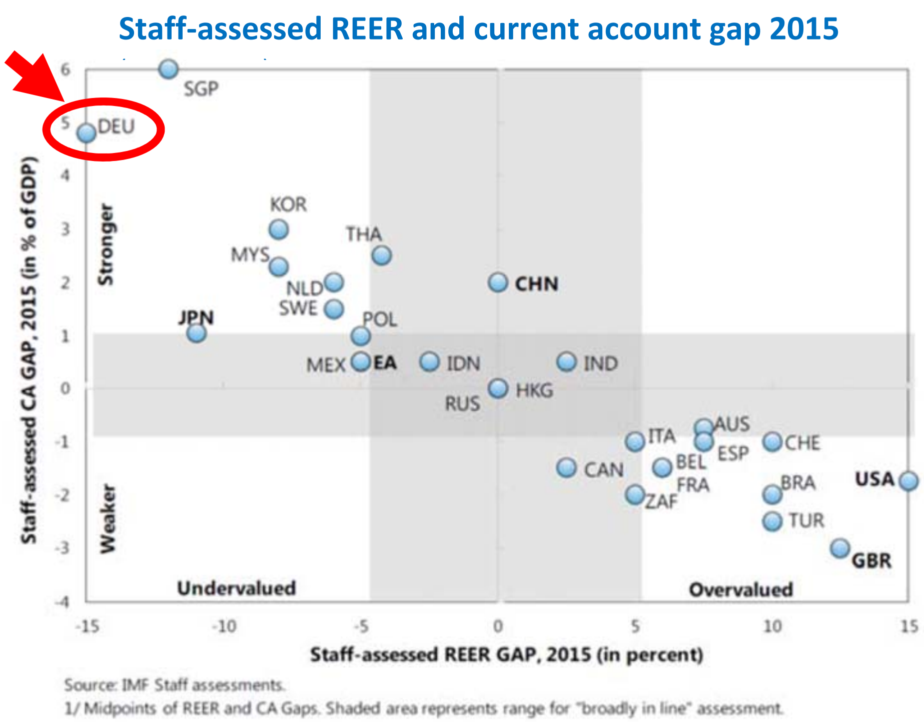
Sources: Federal Statistics Office, Haver Analytics and IMF staff calculations.

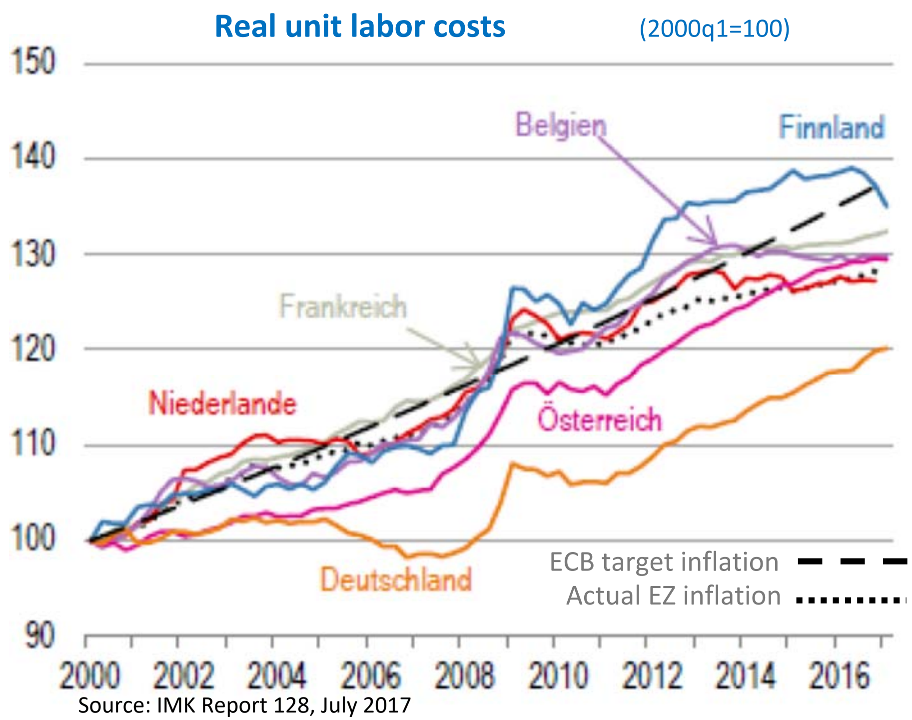


Sources: Federal Satistics Office, Haver Analytics and IMF staff calculations.

- Trade surplus rising since 1999 – before and after the crisis
- Rising corporate + government, constant household savings rate
- Domestic investment sharply drops in 1999, stagnates since 2001

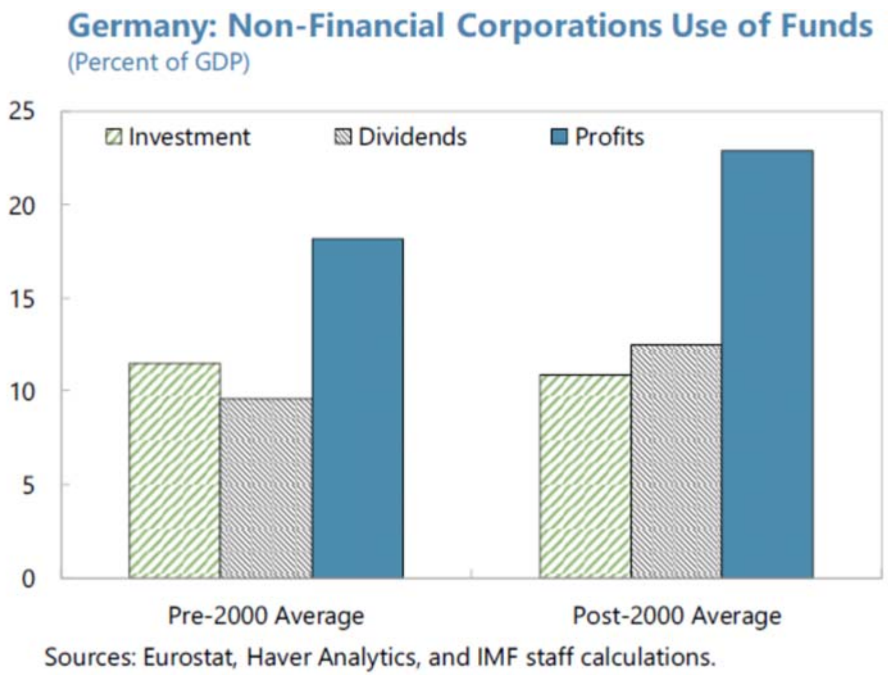
Why the excessive goods exports?

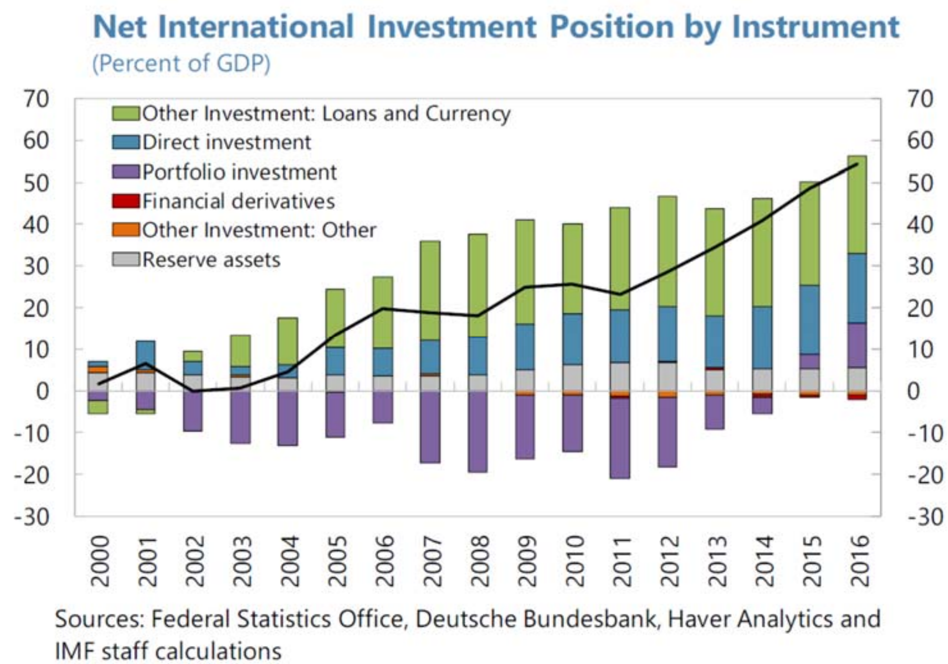




- Undervalued real exchange rate within Eurozone
- <u>Before crisis</u>: Wage restraints → decreasing unit labor costs → imbalances within EZ
- <u>Post-crisis</u>: Stronger wage growth, but not enough to make up

Why the weak imports? Corporate savings = "exporting on tick"





- Extra earnings not shared enough with workers → low import demand
- Also not invested domestically, but retained as cash & net foreign assets
- Large share of short-term assets (loans) → "**exporting on tick**"

Key problems

1. Wage growth still too low

2. Too little domestic investment

➔ **Current account surplus is a *reflection* of these problems, not the problem per se!**

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1. Boost wage growth

2. Foster domestic investment

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- Which instruments?

- Apparent conflict between closed vs. open economy view:

  Expansion in an economy running ~ at full capacity?

Some final remarks on policy

1. **Increase public investment**
    - Long-run productivity, not Keynesian stimulus
    - Public sector jobs and wages (e.g., planning capacities)
    - Use budget surplus, otherwise no effect on (G-T) or w

2. **Foster private investment**
    - Private and public investments complementary
    - Deregulation, reduced bureaucracy, tax incentives, …

3. **Overheating and capacity constraints?**
    - Wage increases in GER are part of the solution
    - Triggers further intra-EU migration
    - Service imports (construction) from other countries

Thank you!

Email: suedekum@dice.hhu.de

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