# Germany's Current Account Surplus

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# Motivation

- German current account highly unusual phenomenon
- 193 countries listed in the World Economic Outlook of the IMF between 1999 and 2017, i.e. 3570 available observations of current accounts,
- only 238 episodes of three consecutive surpluses with more than 7.8% of GDP.
- Among those 238, the vast majority of countries are either raw material and/or oil producers. Only a handful (~5) of cases remain.
- Current account norm estimates suggest a surplus of around ~4% as equilibirum, estimate is controversial.

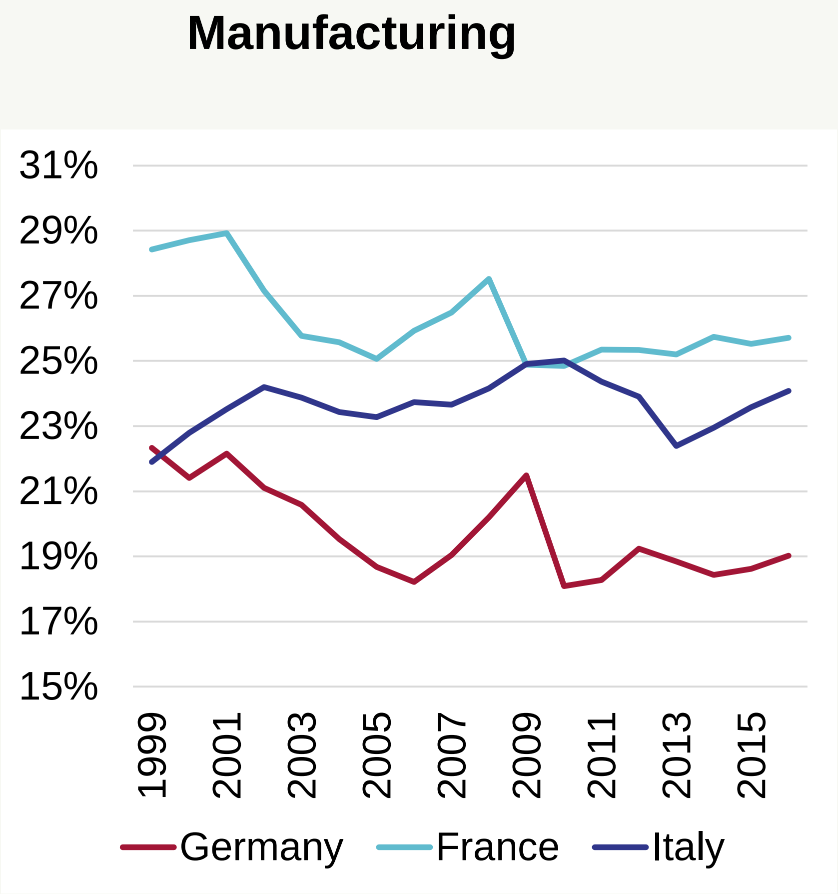
# Net lending or borrowing by sector, % GDP

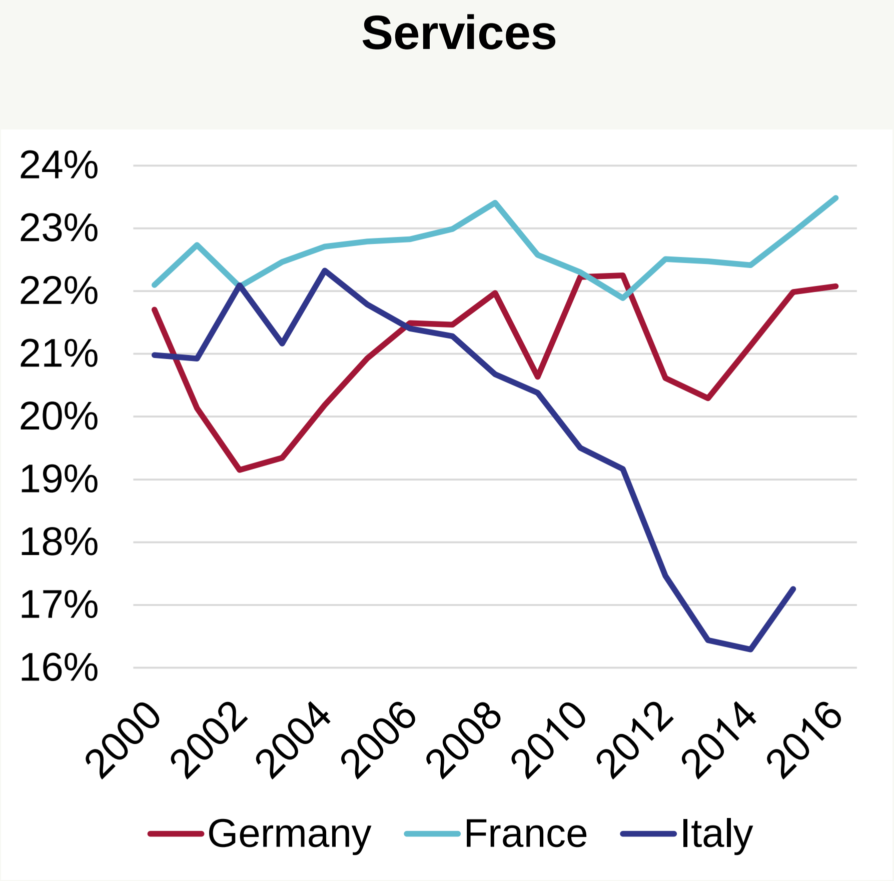
| | *Total economy* | *Non-financial corporations* | *Financial corporations* | *General government* | *Households* |
|---|---|---|---|---|---|
| *1998* | *-0.7%* | *-1.6%* | *0.1%* | *-2.5%* | *3.4%* |
| *2016* | *8.5%* | *3.4%* | *-0.8%* | *0.8%* | *5.1%* |
| *Delta (2016-1998)* | *9.2%* | *5.0%* | *-0.9%* | *3.3%* | *1.7%* |

It's a corporate sector story. Both, savings up and investment down. Increase in corporate savings a mix of reduced wage share and changes in net property income. What about investment?

Source: Eurostat sectoral accounts

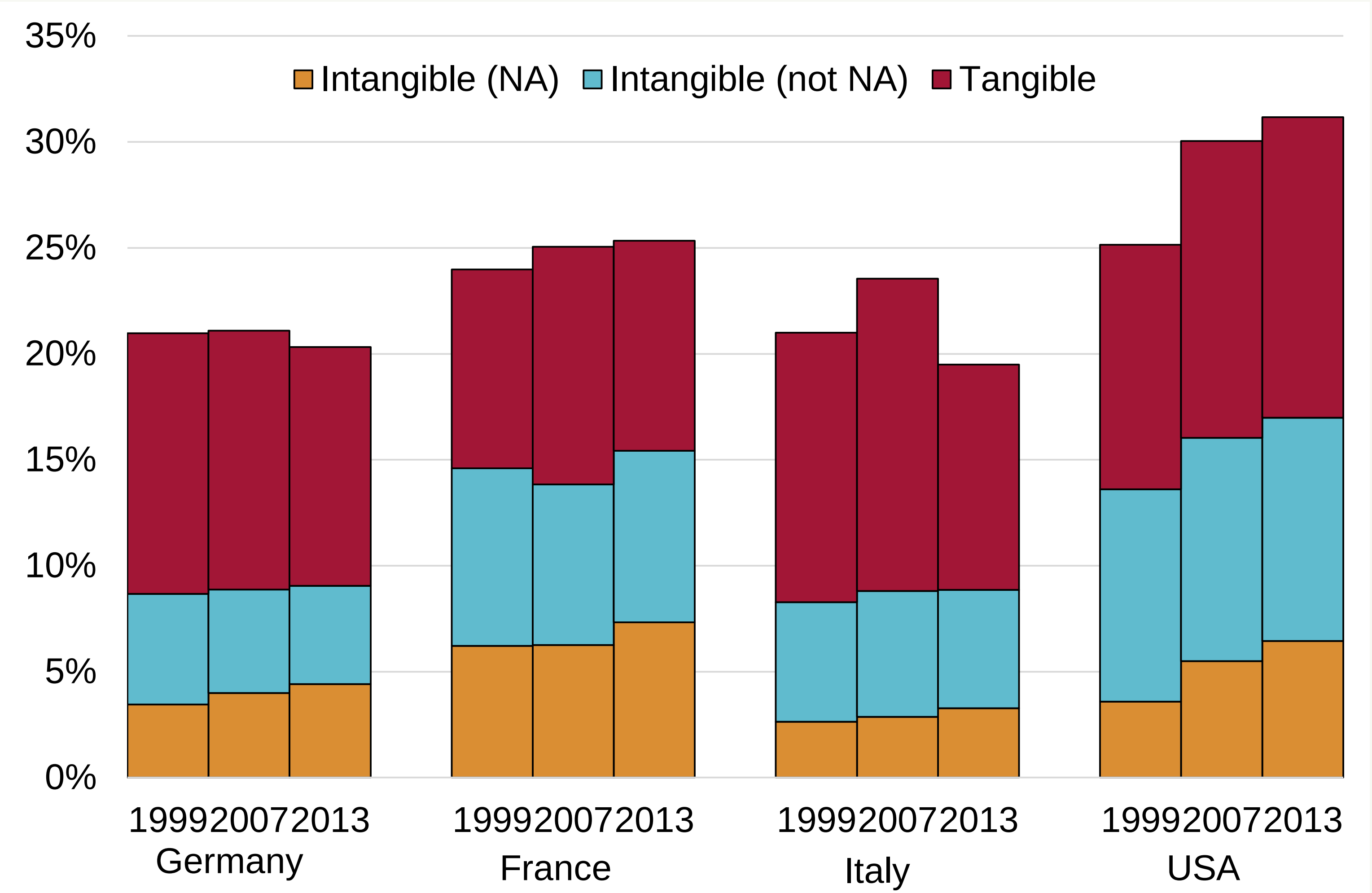
# Gross fixed capital formation, % of gross value added




Note: Services comprises NACE sectors J-K and M-N
Source: Eurostat, national accounts

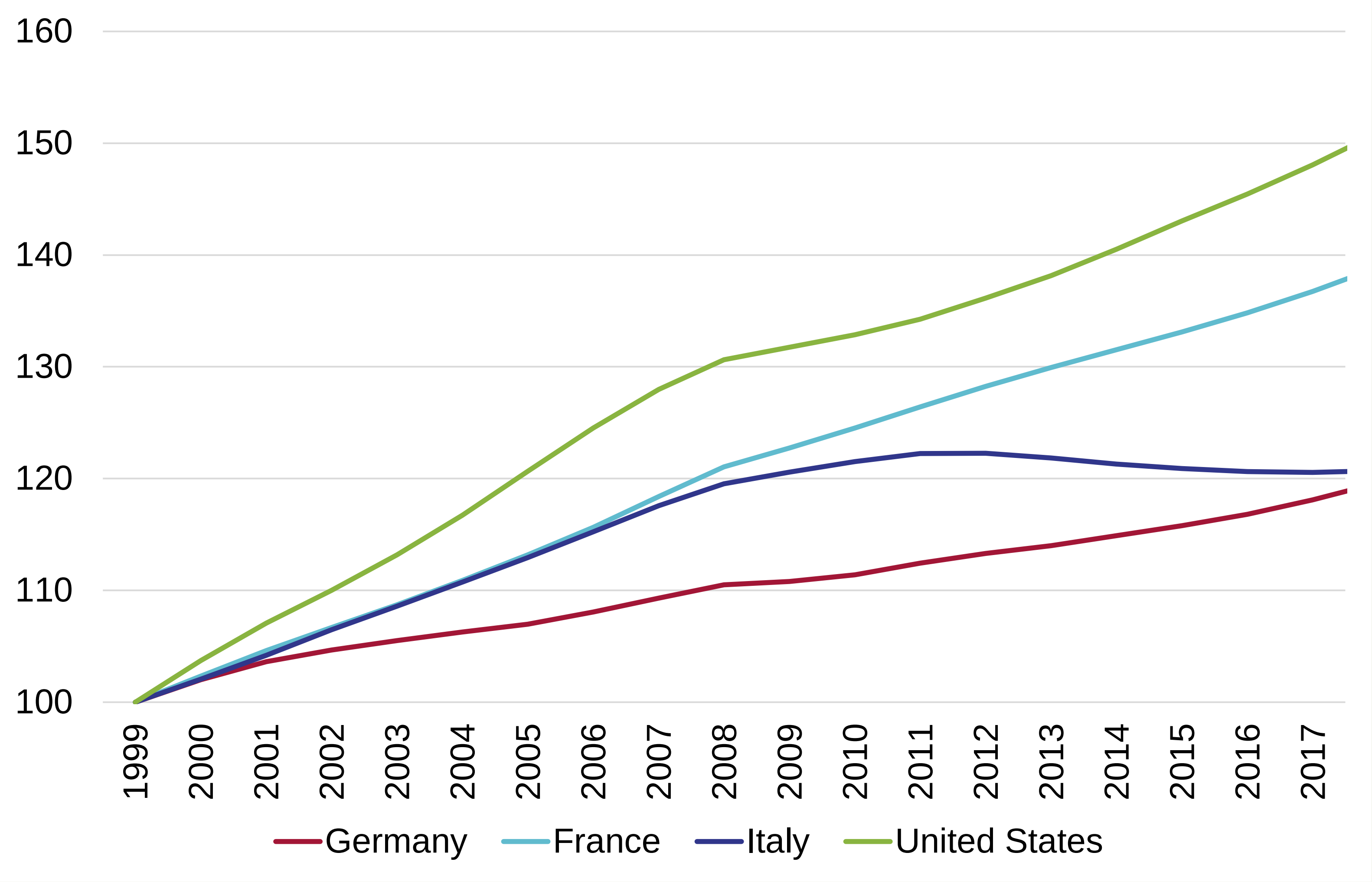
# Business sector real gross capital formation, % of business sector gross value added




Source: Bruegel calculation based on INTAN-Invest, Eurostat, BEA national accounts

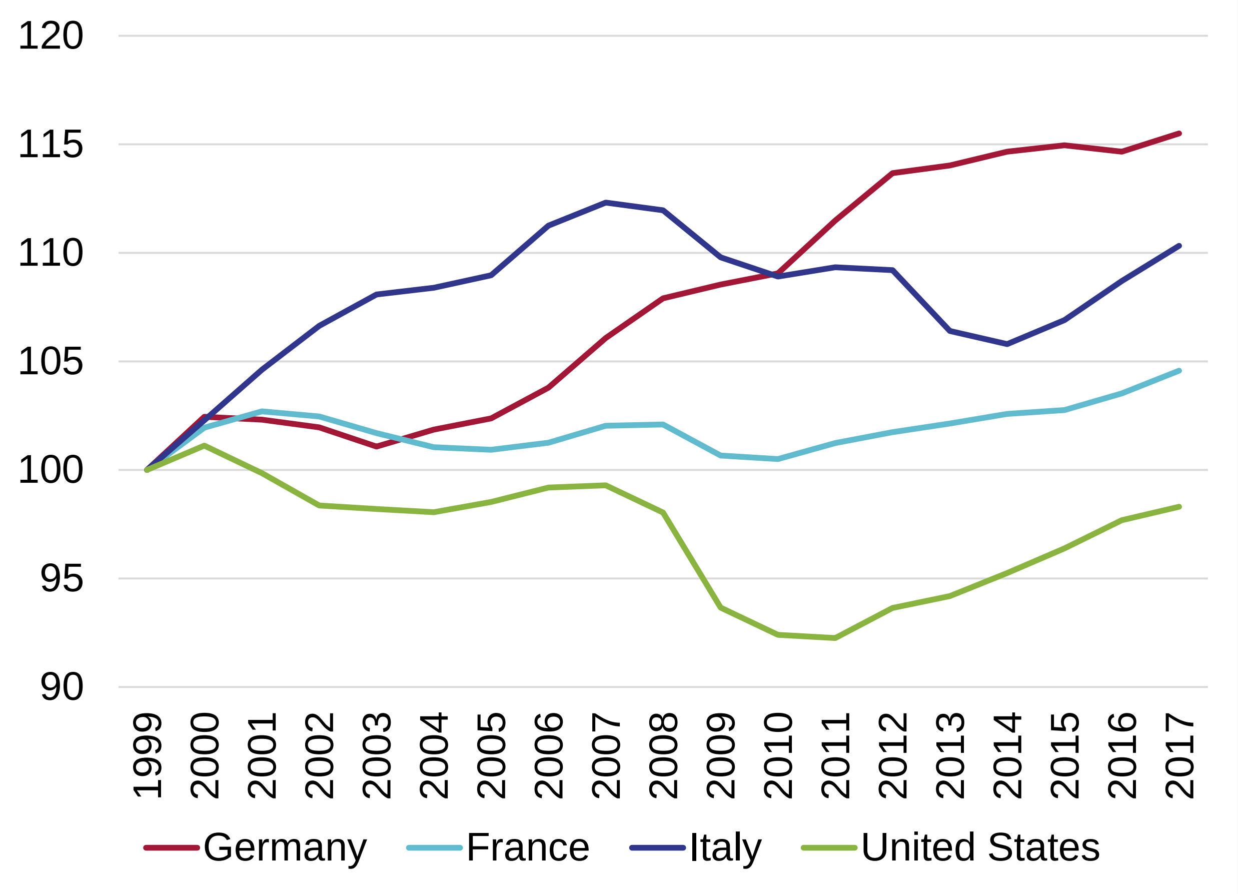
Note: Business sector includes NACE codes A-N (excl L) plus R and S; Intangible (NA) GFCF is intangible investment included in the national accounts (Eurostat and BEA definition = Intellectual property products); Intangible (not NA) comprises intangible GFCF not included in the national accounts and is based on INTAN-Invest estimations

# Real net capital stock, index 1999 = 100



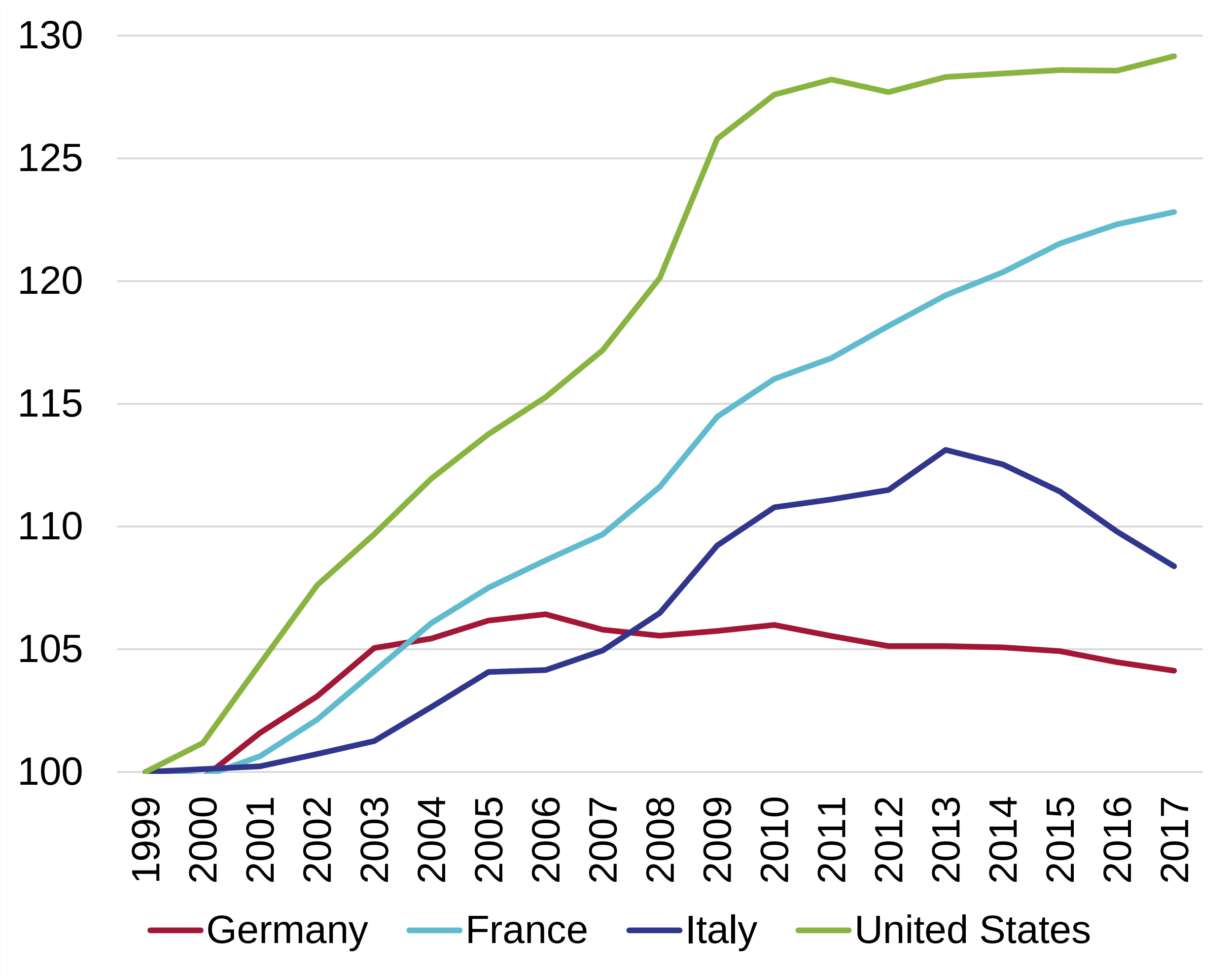

Source: AMECO

# Employment over population, index 1999=100



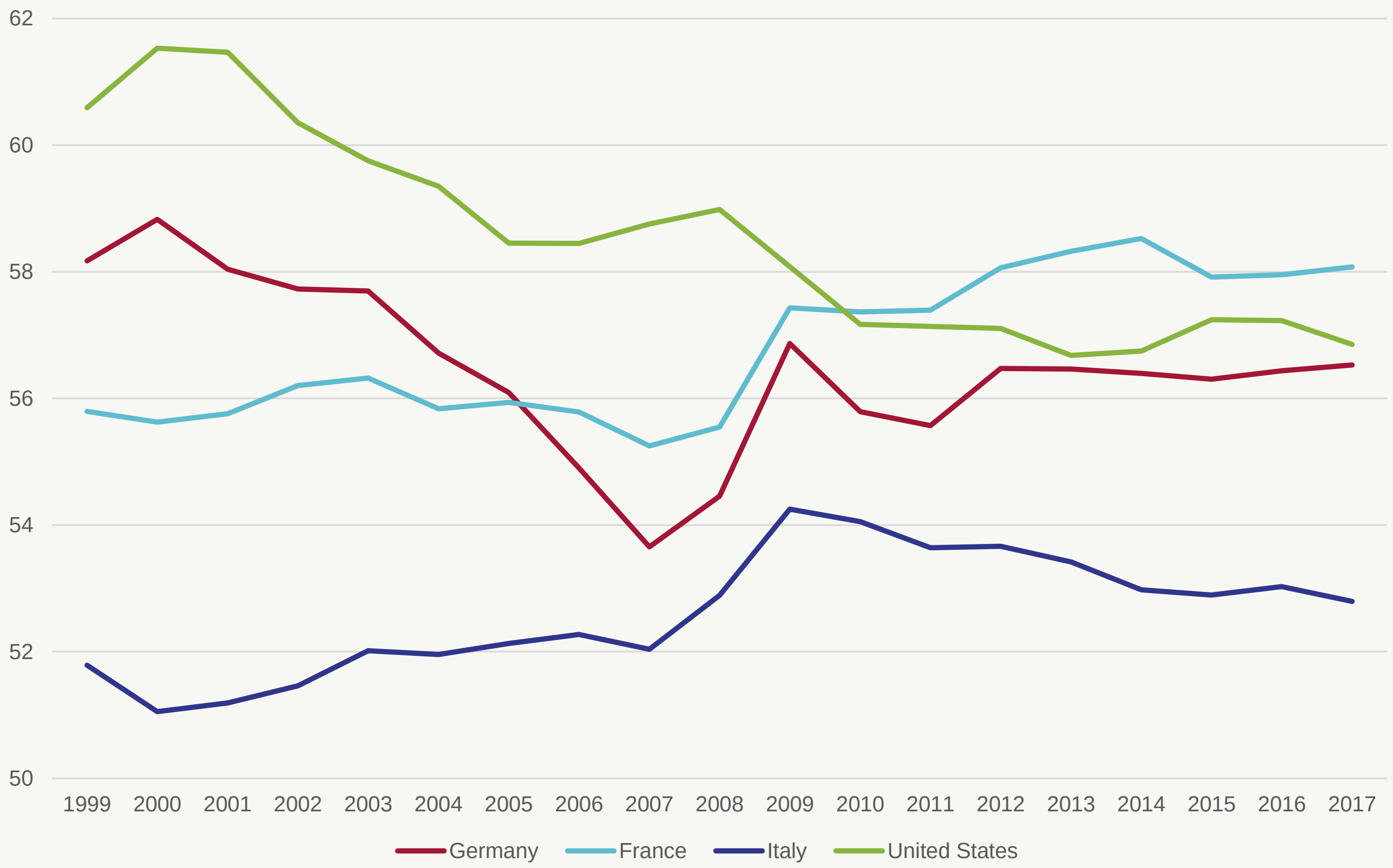

Source: AMECO

# Capital-labour ratio, index 1999=100




Note: Net capital stock (in bn) divided by employment (1000 persons)
Source: AMECO

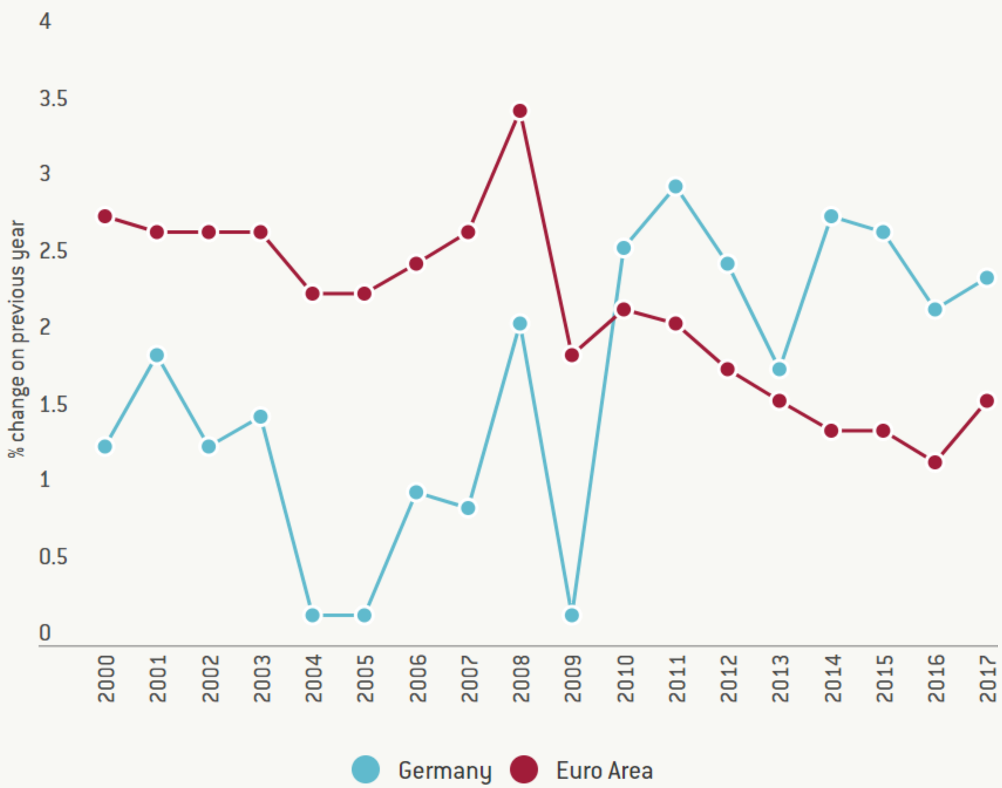
# Adjusted wage share




Note: (Compensation of employees/Employees)/(GDP/Employment)
Source: AMECO

# Wage developments

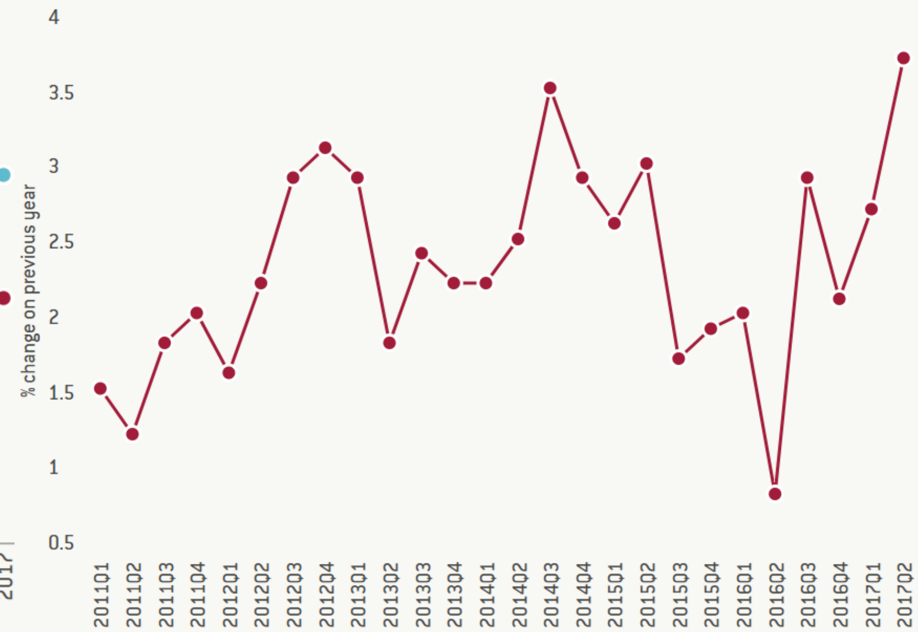
## Wage growth




Source: Bruegel based on AMECO, last updated 9 November 2017.

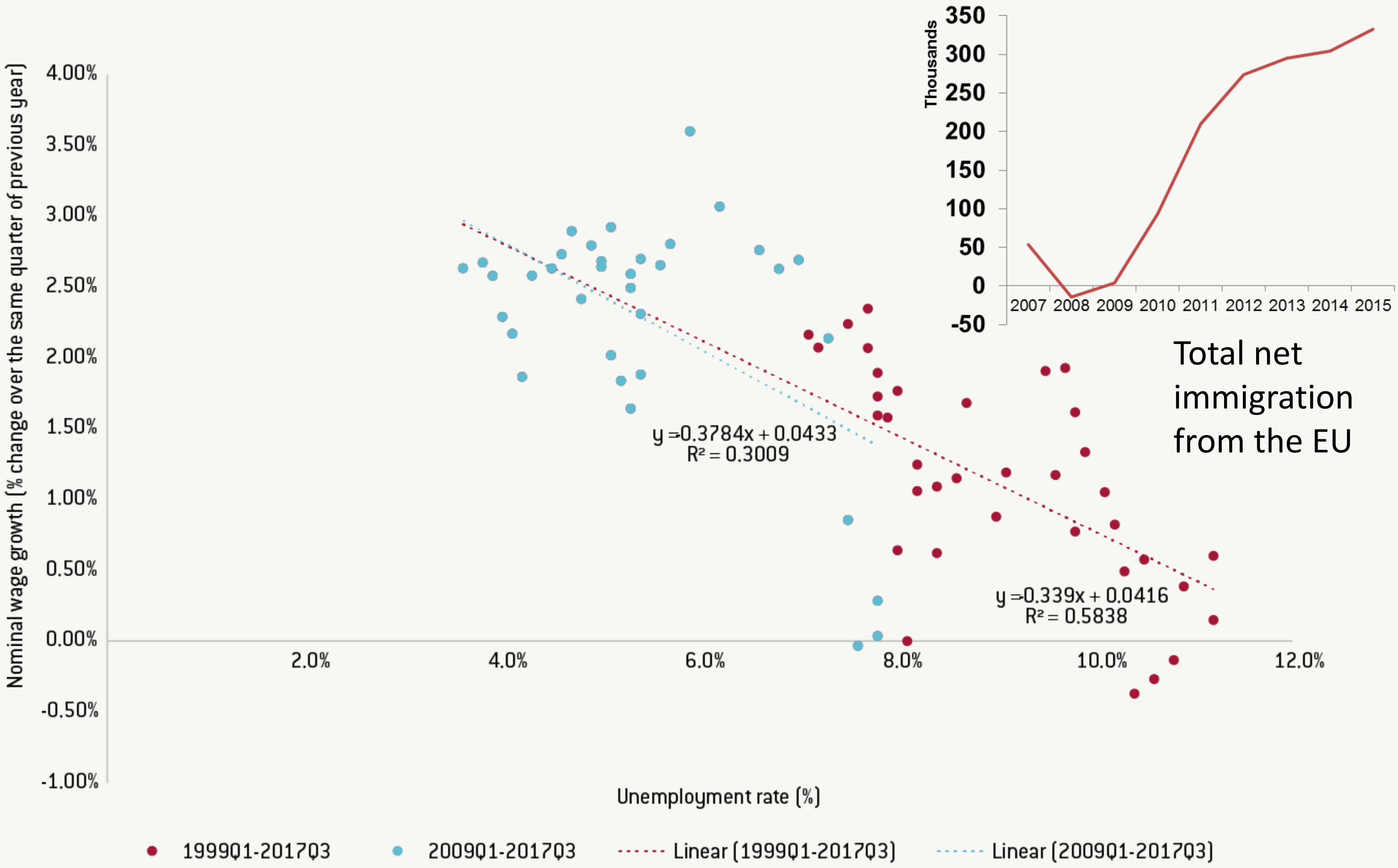
Note: The figure shows nominal compensation per employee for the total economy.

## Collectively agreed monthly earnings




ource: Statistisches Bundesamt.

# Phillips curve and total net immigration




Total net immigration from the EU

# Conclusions

- Germany’s and Europe’s policy makers should pay full attention to Germany’s current account. Not “irrelevant” nor “outside the control of policy makers”
- Important to dismiss outright wrong explanations of the current account.
  - Ageing cannot explain the *increase* in the current account as it does not result from the household sector nor has the demographic profile changed a lot.
  - German FDI cannot easily explain the decrease in domestic investment. In fact, FDI in the newly acceded EU countries has been without any clear trend as has FDI in the EU28 or FDI to RoW.
  - Within monetary union, a reference to the common monetary policy and the weak exchange rate is not helpful. While it is true that Germany would have seen its Deutsche Mark appreciate in the current situation, the euro area’s monetary policy cannot target Germany’s current account.

# Conclusions 2

- The majority of empirical studies suggest that capital and labour are complements. A lack of investment would then translate into a falling labour income share (Lawrence 2015).
- Labour income share in France and Italy has been increasing during the period of monetary union while it has been falling in Germany.
- The increase in German employment, the weakness of investment and the fall in the labour share are therefore probably connected (Berger and Wolff 2017).
- Reversal ongoing as wage growth in Germany now firmly above euro area, German Phillips curve alive, attenuated by immigration. But overall slow.

# Conclusions 3

- Beyond the need to drive up public investment, the German government should put a strong focus on increasing corporate investment.
  - low intangible capital stock
  - but also low regular manufacturing capital stock.
- Regulatory toolbox – the lack of any significant supply side reform of the at least last 8 years is notable.
- Corporate tax reform, depreciation allowances for investment → Note major US corporate tax reform
- A higher capital to labour ratio should also increase the wage share.

→ Germany's current account surplus is set to fall with such policy measures.

Thank you

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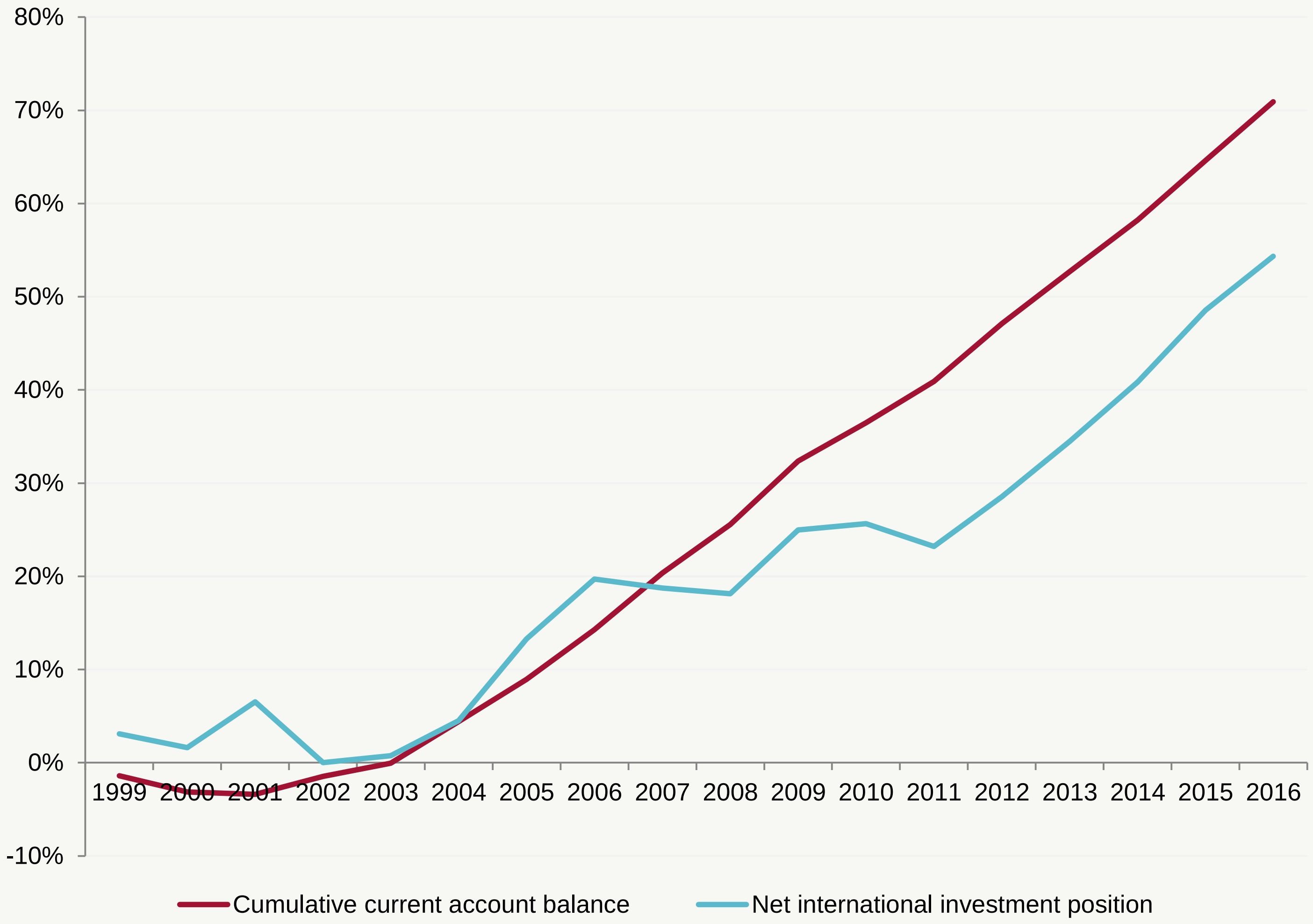
# Cumulative current account balance and net international investment position, % GDP




Source. Eurostat sectoral accounts