## Rising current account surpluses – a difficult performance indicator

The surplus in the German current account amounted to €92¼ billion in 2005, which was around 4% of nominal GDP or 4¾% of the domestic sectors' disposable income.[1] By historical standards, this was a new high. In the previous year, it had been €82 billion.

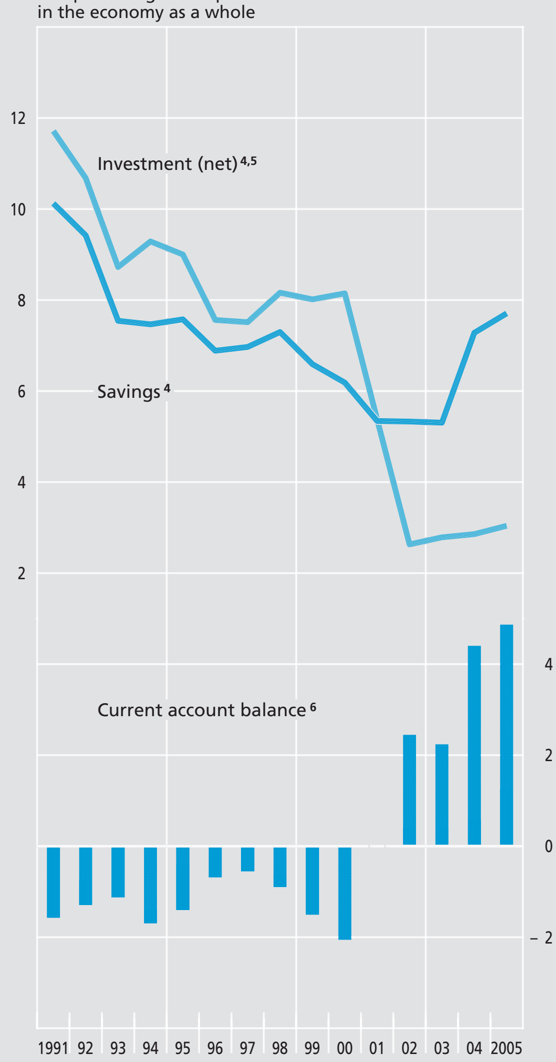
Since the beginning of the current decade, the picture in the cross-border exchange of goods and services including transfer payments between Germany and the rest of the world has changed significantly. Following a deficit in the current account throughout the 1990s, a balanced result was achieved in 2001 for the first time since reunification.[2] After that, there tended to be marked rises in the surpluses. The sharp rise in the trade surplus, from €59¼ billion in 2000 to €160½ billion in 2005, was a major factor in this marked turnaround. One reason for this was a palpable improvement in the price competitiveness of the German economy and the sharp growth in the export markets. Another reason is the prevailing weakness in the German economy, which put a considerable dampener on the demand for imported goods.

As the adjacent chart shows, the steep rise in the current account from 2002 was associated with a sharp fall in the net investment ratio (gross capital formation minus depreciations as a percentage of disposable income), which was noticeably greater than the reduction in the aggregate saving ratio at the beginning of this decade.[3] Thus, in contrast to what happened in the 1990s, German savings were no longer fully absorbed by aggregate fixed capital formation in Germany. A considerable and rising proportion was made available to non-residents.

At between 2¾% and 3% of disposable income, the net investment ratio was at a historical low between 2002 and 2005. In the first half of the 1990s, it still stood at between 9% and 12%, and in the second half at approximately 8%. The fall in net investment can be put down to two factors. Firstly, despite heavy new

Savings, investment and current account

as a percentage of disposable income in the economy as a whole




public sector borrowing, government gross investment could not even offset the depreciation-related capital consumption. Secondly, households' and enterprises' net investment between 2002 and 2005 was barely half as

1 National disposable income is calculated from nominal GDP after deducting primary income balances and current transfer payments by non-residents as well as depreciations. National disposable income defines the volume of funds that is available to the residents in an economy for consumption and saving and/or for net investment at home and abroad. This concept of income is therefore more appropriate here than GDP. — 2 For more information on the fall in current account balances in the 1990s, see Deutsche Bundesbank, Structural current account balances: longer-term trends and determinants, Monthly Report, January 2001, pp 51-61. — 3 For more information on the relationships between the current account, aggregate savings and aggregate investment, see Deutsche Bundesbank, Monthly Report,

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extensive as in the second half of the 1990s. All the same, it has again been rising since 2003.

Domestic saving, which had already stabilised at the previous year's level in 2002, likewise increased considerably in 2004 and 2005. At just under 8% of disposable income, saving was at as high a level last year as in the mid-1990s. The improved profitability of non-financial corporations, which was also reflected in a greater retention of profits, was one factor which contributed to this increase. Another was the increased volume of private households' saving. Given the growing uncertainty over jobs and the looming demographic strains on the social security system, this reflected the greater significance of caution as a motive and of the individual provisional considerations as well as changes in the distribution of income. By contrast, the state again dissaved to a large extent in both years, ie net public sector assets went further into the red. All in all, the saving ratio was – despite the considerable rise over the past few years – still lower in 2005 than at the beginning of the 1990s, whereas the investment ratio has so far barely been able to pull clear of the very low level at which it stood. This suggests underinvestment rather than excessive saving in Germany.

The German current account balance, which has again been positive since 2001, indicates that a proportion of aggregate savings is made available to non-residents; in 2005, it was actually more than 60%. This is reflected in net capital exports in the balance of payments. This means that Germany's claims on non-residents grew by the extent of the export surplus (minus the net transfers paid). The accompanying improvement in the foreign assets position – after taking valuation adjustments into account – is one possible way of absorbing future strains arising from an ageing society.[7] In this way, the economy receives subsequently increased investment income from abroad. In addition, there is the option of reducing the foreign assets previously accumulated and using it to extend the supply of imported goods in Germany.

At the same time, extensive net capital exports are an indication that capital investments abroad promise a higher rate of return and that investment conditions in other countries are more favourable than in Germany. The rise in net foreign assets is offset by only a weak increase in the domestic capital stock. This picture is consistent with the fact that the capital stock has grown by only 1½% per year in Germany over the past few years, compared with an average accumulation rate of 2½% in the 1990s.

There are two main reasons why Germany has become a less attractive location by international standards. After the collapse of the centrally planned economies and the beginning of the transformation process in central and eastern Europe, these countries, particularly those which joined the EU in 2004, became considerably more attractive for foreign direct investment. In addition, the investment conditions in many emerging market economies outside Europe, especially China, have improved significantly over the past few years.

Against this backdrop, Germany's claim to be the world's top exporter, which it won in 2005 for the third time in a row, must not be overestimated. It refers only to trade in goods. If services are also taken into consideration, the United States still performed best. The sharp growth in exports in recent years is certainly proof that the performance of German exports remains strong. Furthermore, it made an important contribution to the economic recovery which started in 2003. Given the weak growth of productive capital in Germany and its low employment rate, however, Germany's success in foreign markets can be interpreted as a mark of its quality as a location for investment only to a limited extent.

May 1996, p 51. — **4** Based on data from the national accounts. — **5** Calculated from gross investment less write-offs. — **6** Based on data from the balance of payments statistics. — **7** It should be remembered here that German net foreign assets were almost fully depleted during the 1990s owing, not least, to the considerable current account deficits. However, the foreign asset position has improved again considerably over the past few years. Besides valuation adjustments, the turnaround in the current account was a major contributory factor to this. The value of German net foreign assets reached an all-time high in 2005 when it amounted to an estimated 15% of GDP.