European Commission steps up the macroeconomic imbalance procedure for Germany

The European Commission has stepped up the macroeconomic imbalance procedure for Germany. On 26 February 2015, the Commission published an assessment[1] stating that there has been no tangible improvement in the trends of imbalances identified previously and that the policy response has been insufficient so far. Germany is now no longer in the second but in the third of the six macroeconomic imbalance procedure categories. The German economy is thus considered to have macroeconomic imbalances which require monitoring and decisive policy action.

In its 2015 in-depth review,[2] the Commission believes that the German economy's current account surplus, which it projects to increase to 8% of gross domestic product in 2015, is still the main indication that macroeconomic imbalances exist in Germany. In addition to the currently substantial terms-of-trade gains, this surplus is thought to be a result of the domestic export industry's strong competitiveness and of high revenues from investment abroad but also to reflect the fact that this has not been offset by increased domestic demand. While private consumption has increased, investment is still considered to be disappointingly low. This is the second point that the Commission identifies as being a key indicator of macroeconomic imbalances. It cites consistently weak investment in machinery and equipment, a loss of momentum in residential investment and insufficient public investment as specific factors dragging on growth.

The Commission believes that Germany's macroeconomic imbalances harbour systemic risks for the euro area. While euro-area partners benefit from Germany's success in trade, the weak domestic investment, falling potential growth and dependence on external conditions pose risks to both Germany and the euro area. At the same time, the Commission acknowledges that Germany's current account surplus in relation to its euro-area partners has fallen to less than a quarter of the total surplus, indicating an on-going rebalancing process in the euro area. The Commission believes that Germany can make a key contribution to reducing imbalances in the euro area by using its considerable total savings overhang for much-needed investment in modernising and developing its infrastructure.

A further reason for the Commission to step up the macroeconomic imbalance procedure is that it believes Germany, overall, has not sufficiently addressed the 2014 country-specific recommendations. Germany has made limited progress in pursuing growth-friendly fiscal policy whilst preserving a sound fiscal position, in reducing disincentives in the labour market (especially with regard to second earners) and in improving competition in the services sector. On the other hand, the Commission acknowledges that Germany has made some progress in keeping the overall costs of transforming the energy sector to a minimum.

1 See European Commission, 2015 European Semester: Assessment of growth challenges, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011.
2 See European Commission, Country Report Germany 2015 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances.