The German economy's current account and goods trade surplus

Germany ran a current account surplus of €189 billion in 2013, which equates to 6¾% of gross domestic product (GDP). In recent decades, Germany has predominantly recorded positive current account balances, one exception being the period following the country's reunification. Substantial domestic demand and high capital requirements at that time drove Germany into the red for several years. Only in 2002 did the country return to positive territory, the current account surplus then climbing sharply until 2007 and, after contracting briefly on account of the crisis, reaching its current level.[1]

In regional terms, the growth in Germany's current account surplus was fuelled chiefly by relationships with euro-area countries and to a lesser extent by trade with emerging market economies. However, since the onset of the financial and sovereign debt crisis, the composition of Germany's surplus position has drifted more towards emerging market economies and advanced economies outside the euro area, whereas its positive balance vis-à-vis euro-area partner countries has steadily diminished as a result of the adjustment processes there.[2]

As in many other surplus countries, the balance of trade in goods is the key component of Germany's current account balance. However, the balance of primary income, which predominantly reflects investment income from net external assets (accumulated through current account surpluses), is becoming increasingly significant for Germany. By contrast, the country's current account surplus is being diminished by cross-border services (on account of the negative travel balance) and the persistent deficit in the secondary income item, which comprises *inter alia* government expenditure on contributions to the EU budget.

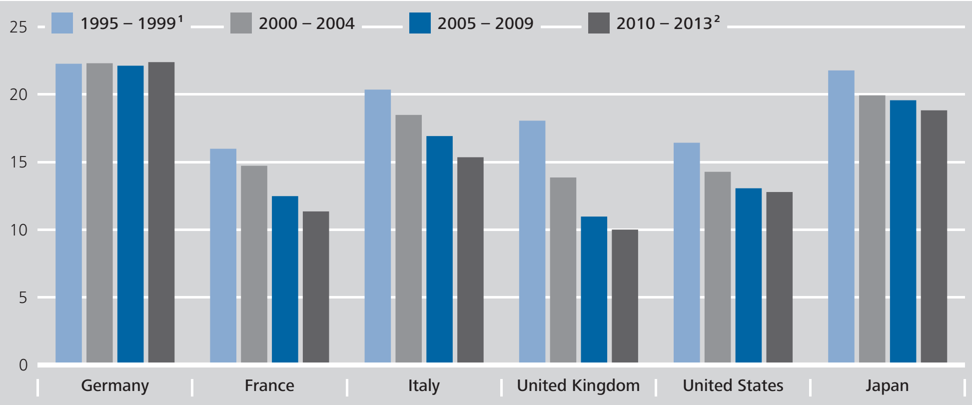
By international standards, Germany's manufacturing sector contributes a relatively high share of value added to GDP. While developments such as the fiercer competitive pressure from abroad or the increasing tendency among firms to shift their production facilities to other countries have eroded other advanced economies' industrial base, substantially so in some cases, over the past two decades, the German manufacturing sector's contribution to total economic output has remained more or less constant. At the end of the day, an economy's specialisation in specific sectors and products reflects its factor endowment and comparative advantages, both of which are influenced by factors including path-dependent investment decisions by the private sector, government framework conditions and the skill structure of the working population. Furthermore, Germany's economic structure should be viewed in the context of domestic demand and the focus of domestic enterprises on exports. For example, German enterprises responded to the weak domestic demand in the late 1990s by stepping up their efforts in the export markets. The output of capital goods and motor vehicles in particular has since significantly outstripped domestic demand. Correspondingly, the structure of the German economy is also reflected in its export portfolio, which is clearly distinct from that of other industrial countries in that these two categories account for a relatively large proportion of total exports.

One of the likely reasons for the strong performance of German exporters is that their range of products dovetailed with the fast-growing demand in emerging market economies in recent decades. Another is that German enterprises knew how to seize the emerging opportunities offered by globalisation in the early 1990s with the fall of the

1 See also Deutsche Bundesbank, The German economy's current account surplus, 2013 Annual Report, pp 39-60.
2 See also Deutsche Bundesbank, German balance of payments in 2013, Monthly Report, March 2014, notably pp 36ff.

Value added in the manufacturing sector

As a percentage of GDP, average for each period



Source: World Bank. **1** Data for the USA from 1997. **2** Data for the USA and Japan until 2012.
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Iron Curtain and how to harness cost advantages by creating international production networks.[3] The outcome was that German exporters succeeded in holding their own in the foreign sales markets, notably so in real terms, whilst other advanced economies were increasingly forced to surrender shares of the global market to emerging market economies.[4]

The German economy's supply-side structure in recent decades has, in principle, helped the country to run up external surpluses. But the positive current account balance also needs to be viewed in terms of the saving and investment behaviour in the domestic sectors. One noteworthy factor in this respect – leaving aside the corporate sector's reluctance to invest, insofar as this reticence was motivated in recent years by uncertainties surrounding the euro-area crisis – is Germany's comparatively unfavourable demographics. General government deficits were pre-emptively pared back to allow for demographic trends, while retirement provision considerations during a period of very restrained income growth have caused households to adjust their consumption and savings behaviour in recent years. Non-financial corporations seized the upside potential which the favourable development in international demand has opened up in order to consolidate their capital base.[5] Furthermore, the at times muted growth in domestic consumption, along with the prospect of the ageing population diminishing the labour force, is likely to have sharpened businesses' focus on the external sales markets and dampened their investment at home.

In all likelihood, Germany will continue to run a positive current account balance for the foreseeable future. Indeed, the ongoing decline in oil prices will even have the effect of driving the surplus higher still at the current juncture. Nevertheless, the surplus will probably shrink in size over the medium term as savings in Germany decline because an increasing proportion of the population reach stages of their life when they have a lower propensity to save. The surplus is also likely to diminish when the economic recovery gains pace, as expected, in key euro-area partner countries, which can be expected to be accompanied by lower uncertainty as well as a normalisation of domestic investment.

3 See also Deutsche Bundesbank, The German economy in the international division of labour: a look at value added flows, Monthly Report, October 2014, pp 27-42.
4 See also Deutsche Bundesbank, The German economy in the international division of labour: a look at value added flows, Monthly Report, October 2014, notably pp 29-30.
5 See Deutsche Bundesbank, Capital base of non-financial enterprises in Germany sustainably strengthened, Monthly Report, December 2013, pp 44-46.