



Current Account Surpluses in the EU

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Dublin, 12 March 2013



- Macroeconomic Imbalance Procedure (MIP):
Emphasis on deficits, but surpluses not forgotten
- Commission commitment to analytical work on surpluses (not a formal part of the MIP)
- Covers BE, DE, LU, NL, AT, FI and DK, SE

The key questions

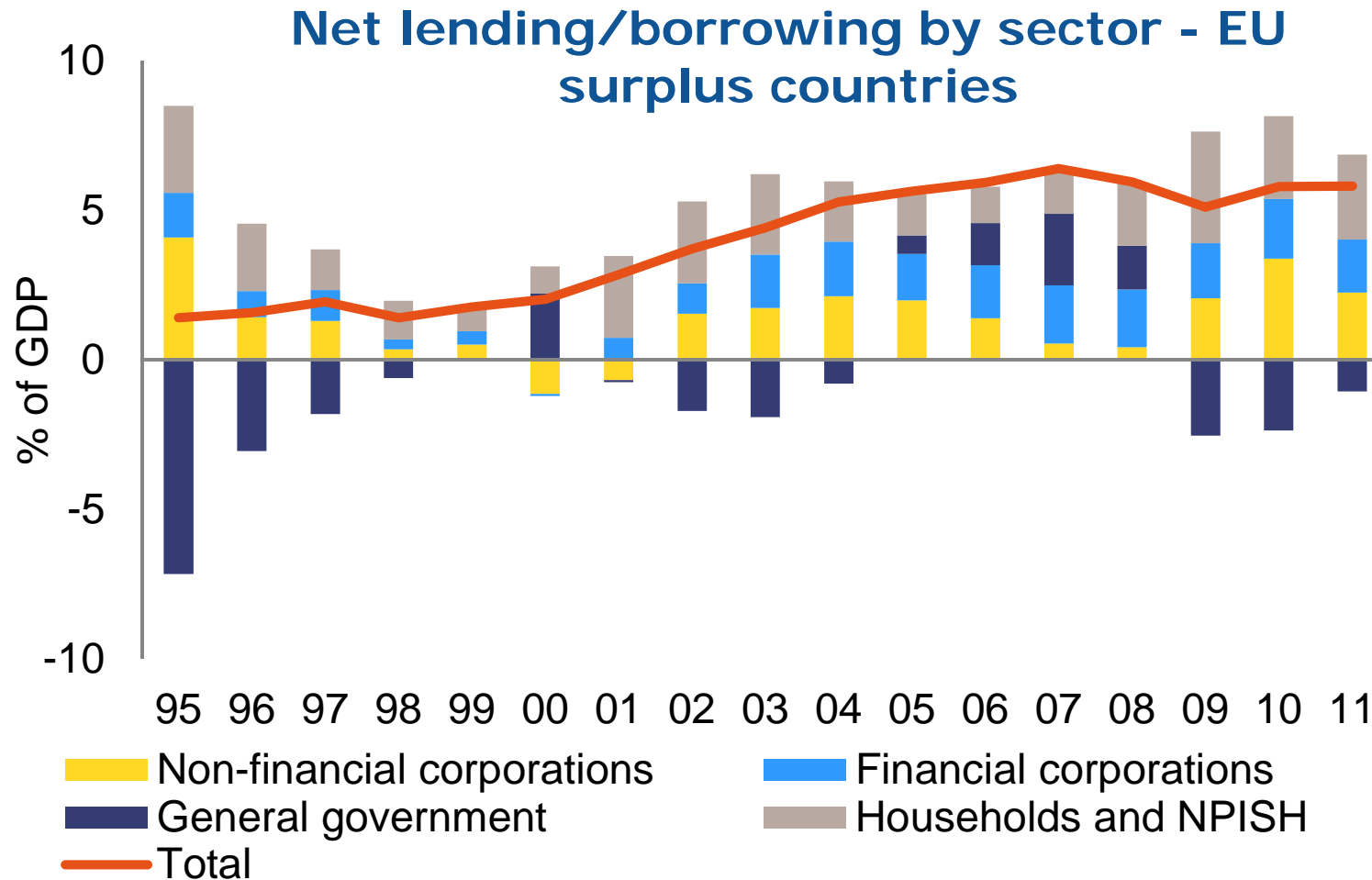


- **What have been the drivers of surpluses?**
- **Is it in the self-interest of surplus countries to reduce surpluses?**
- **Is there causality/nexus between surpluses and deficits in the euro area?**
- **Is there sustainable rebalancing on-going? What role for surpluses? Impact on the euro area current account?**

Saving-investment gaps by sector: Surplus countries



Chapter 1



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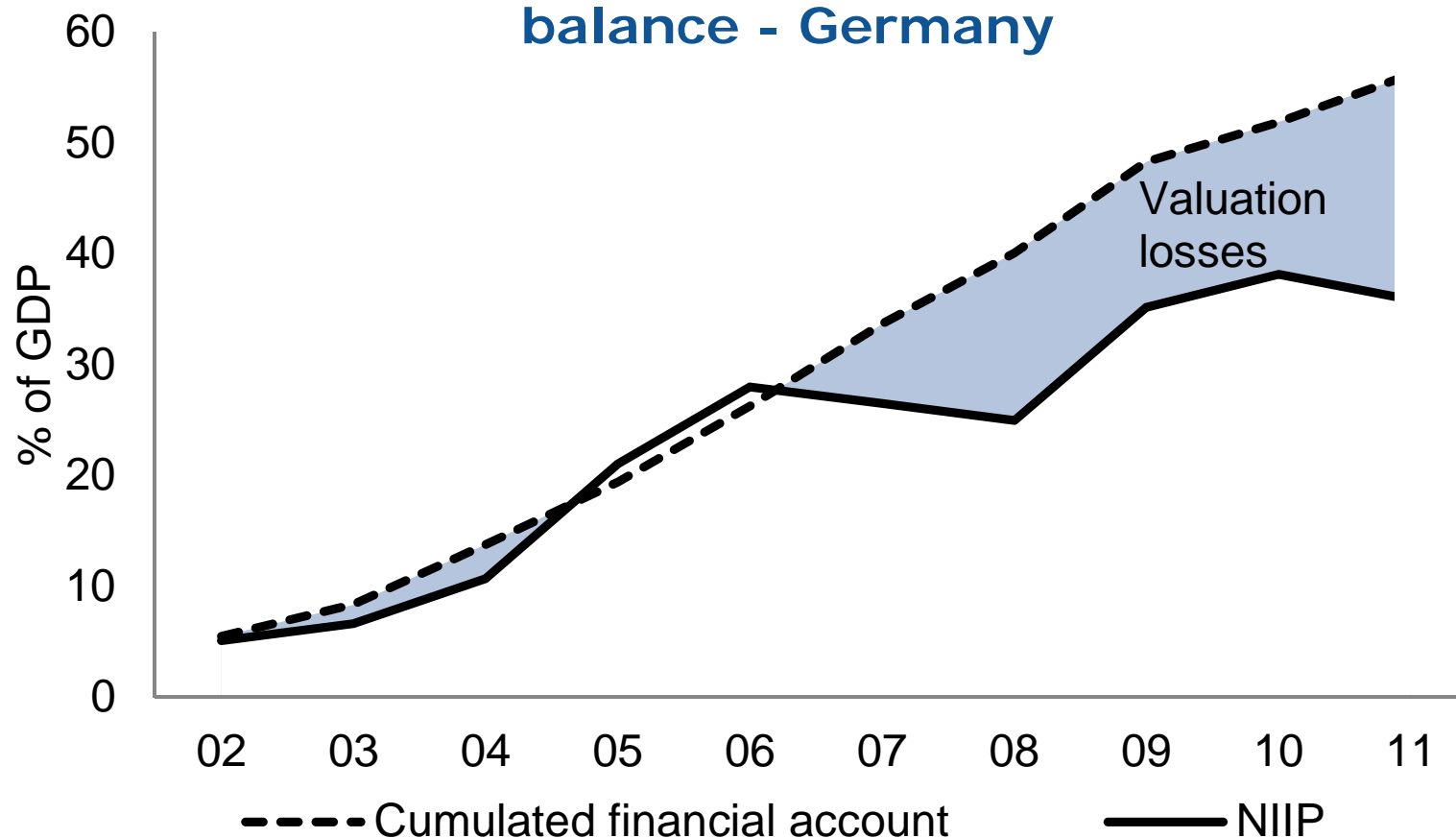
Surpluses were largely due to high savings of the private sector, i.e. households (DE) and corporations (in "kingdoms").

Valuation effects on net foreign assets



Chapter 2

NIIP vs cumulated financial account balance - Germany



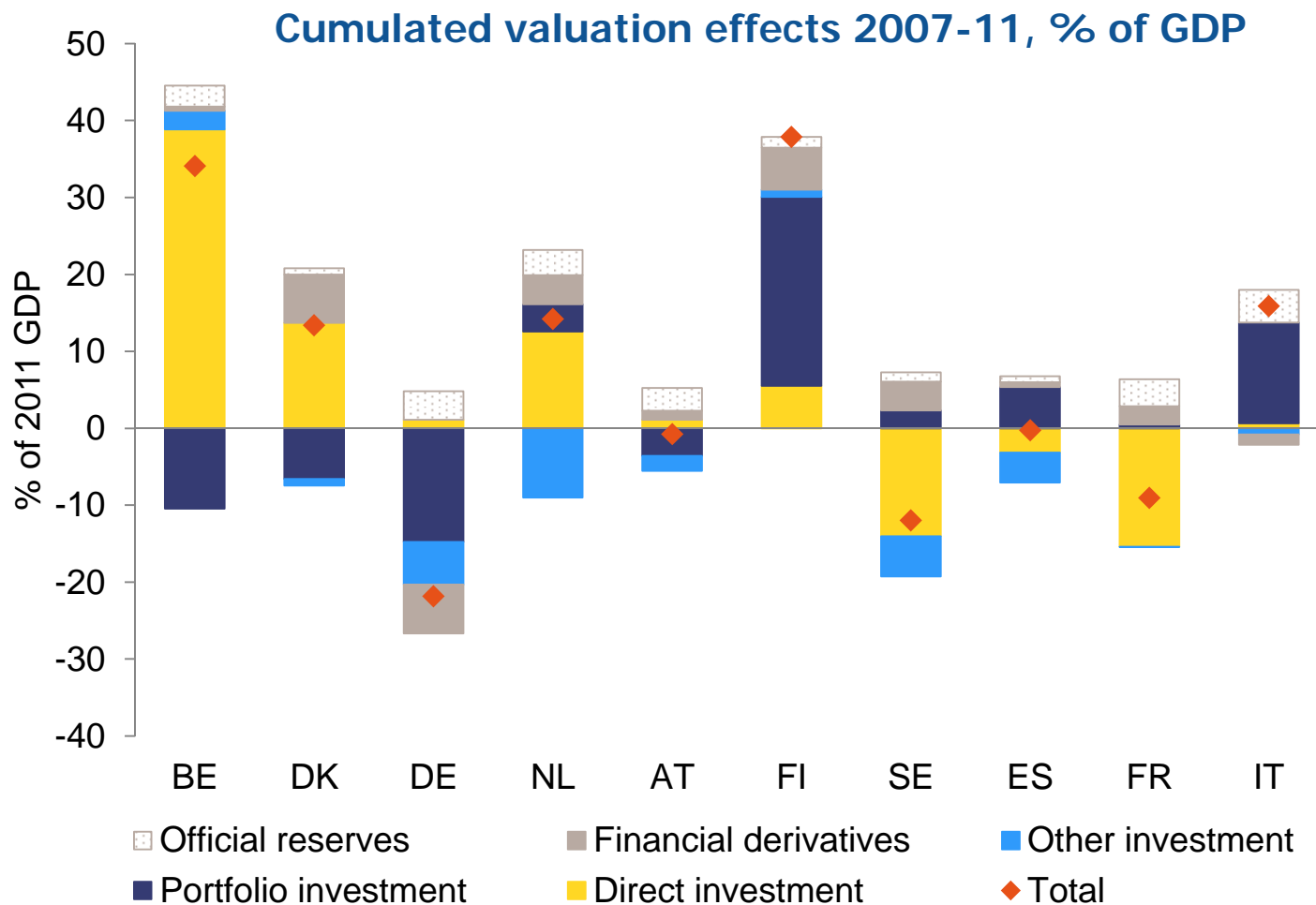
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In Germany, the valuation losses amount to over EUR 550 billion. A large part arose outside of the EU, particularly the US.

Valuation effects on net foreign assets



Chapter 2



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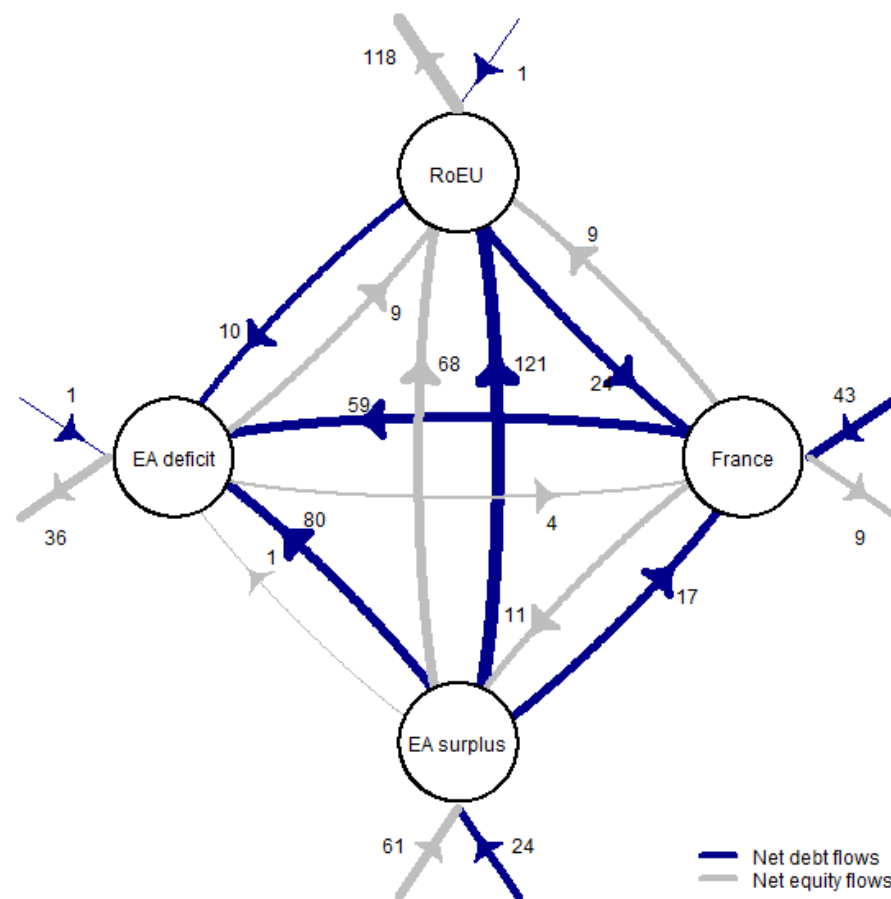
Some surplus countries suffered large valuation losses on their foreign investments.

Nexus between surpluses and deficits: Debt and equity flows



Chapter 3

Net Debt (portfolio debt + other investment) and Net equity (portfolio equity + direct investment) flows
Average 2004-06
EUR bn



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Deficits were largely financed from surplus countries in the form of debt.

Drivers of divergence in current accounts



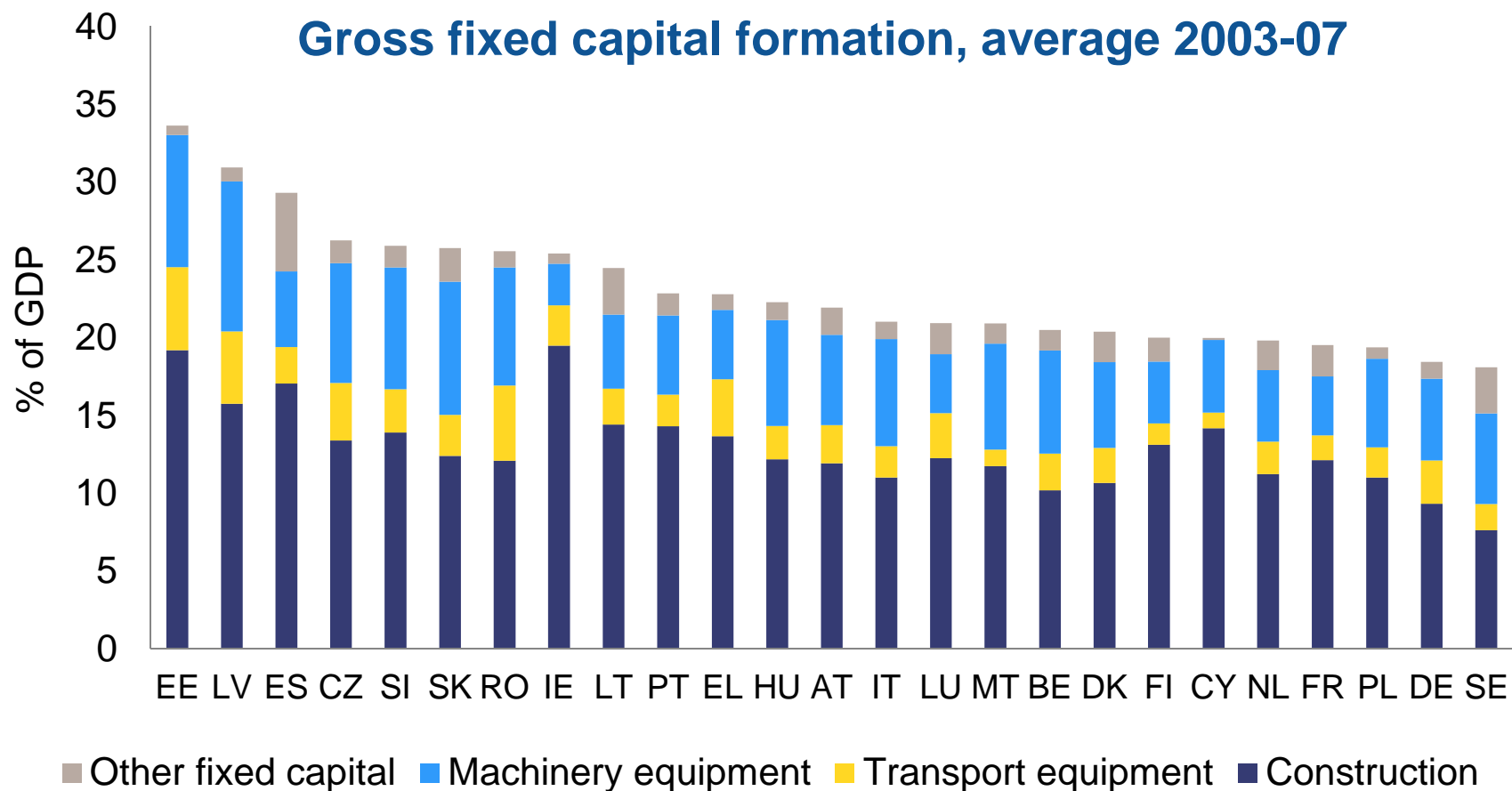
Chapter 4

- Weak demand and imports in surplus countries
- Monetary and financial shock after euro introduction
- Financial market favoured external to domestic investment
- Surplus countries coped better with external shocks
- Wage developments and ToT played a moderate role
- Non-price competitiveness also important
- Sectorial factors: share of tradeables and composition of investment (construction)

The structure of investment matters



Chapter 4

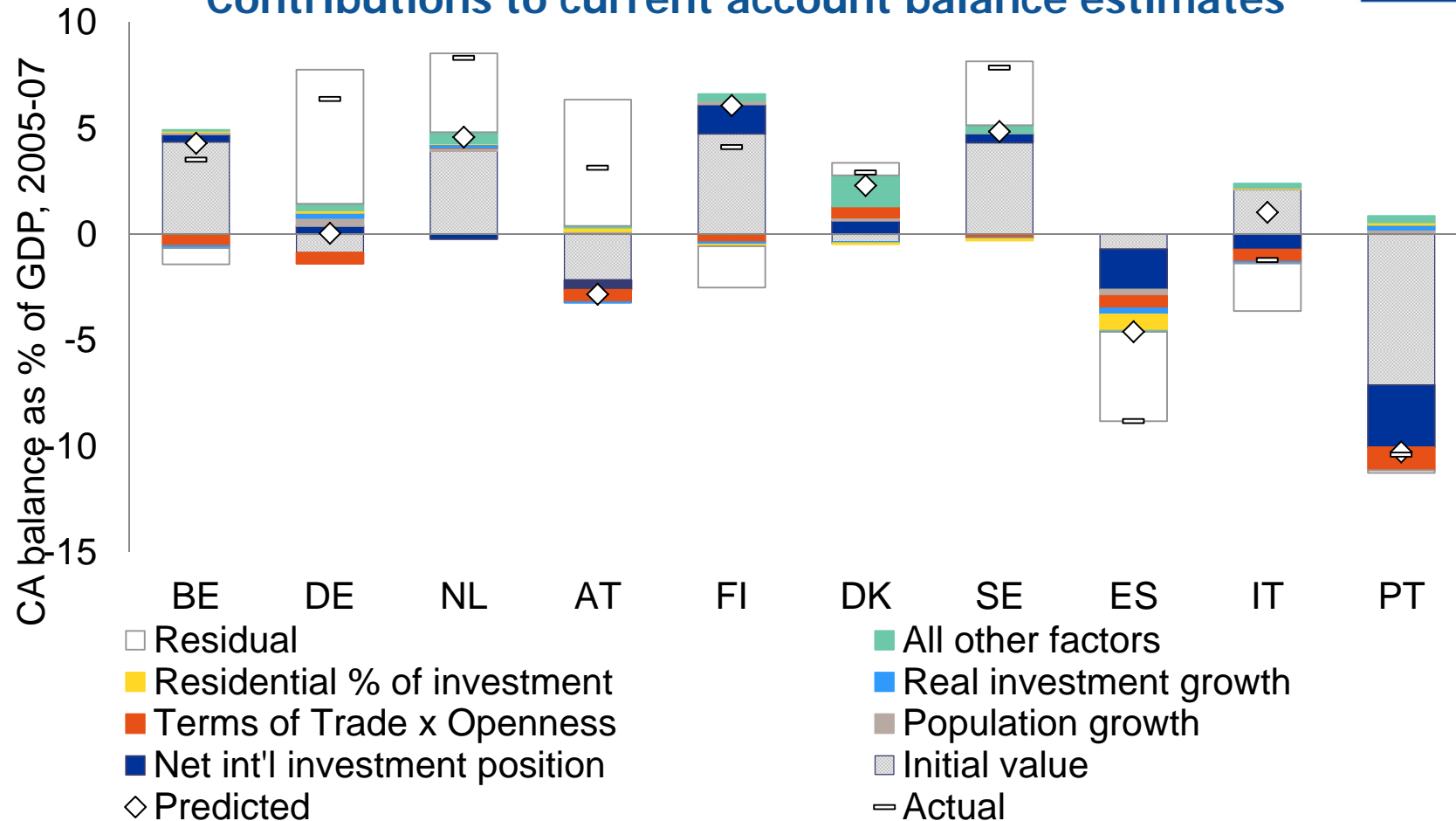


Drivers of trade surpluses: econometric analysis



Chapter 4

Contributions to current account balance estimates

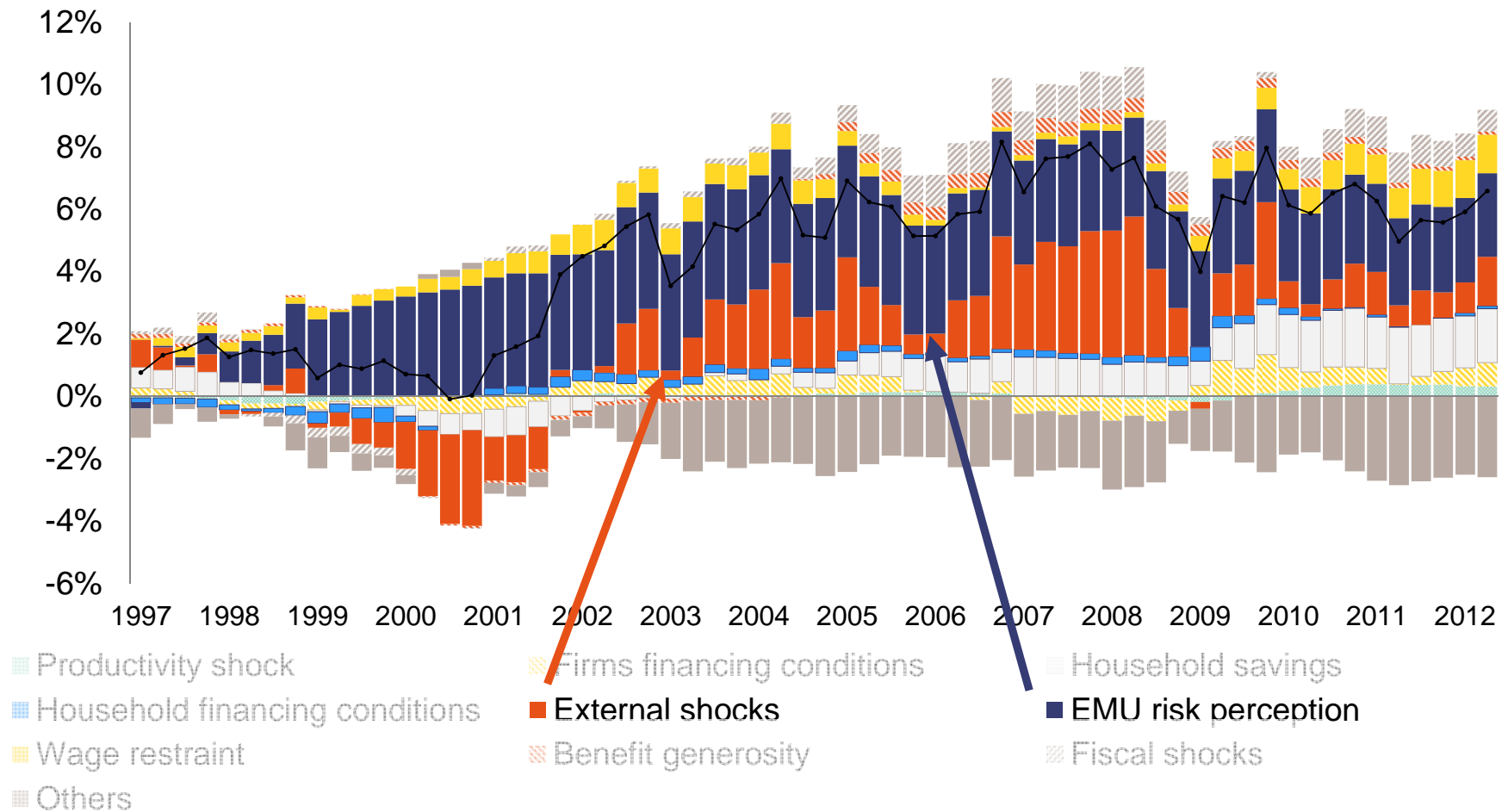


There are large and increasing residuals in regressions: country-specific factors; they work better for deficit countries.

Drivers of the German trade surplus: DSGE analysis



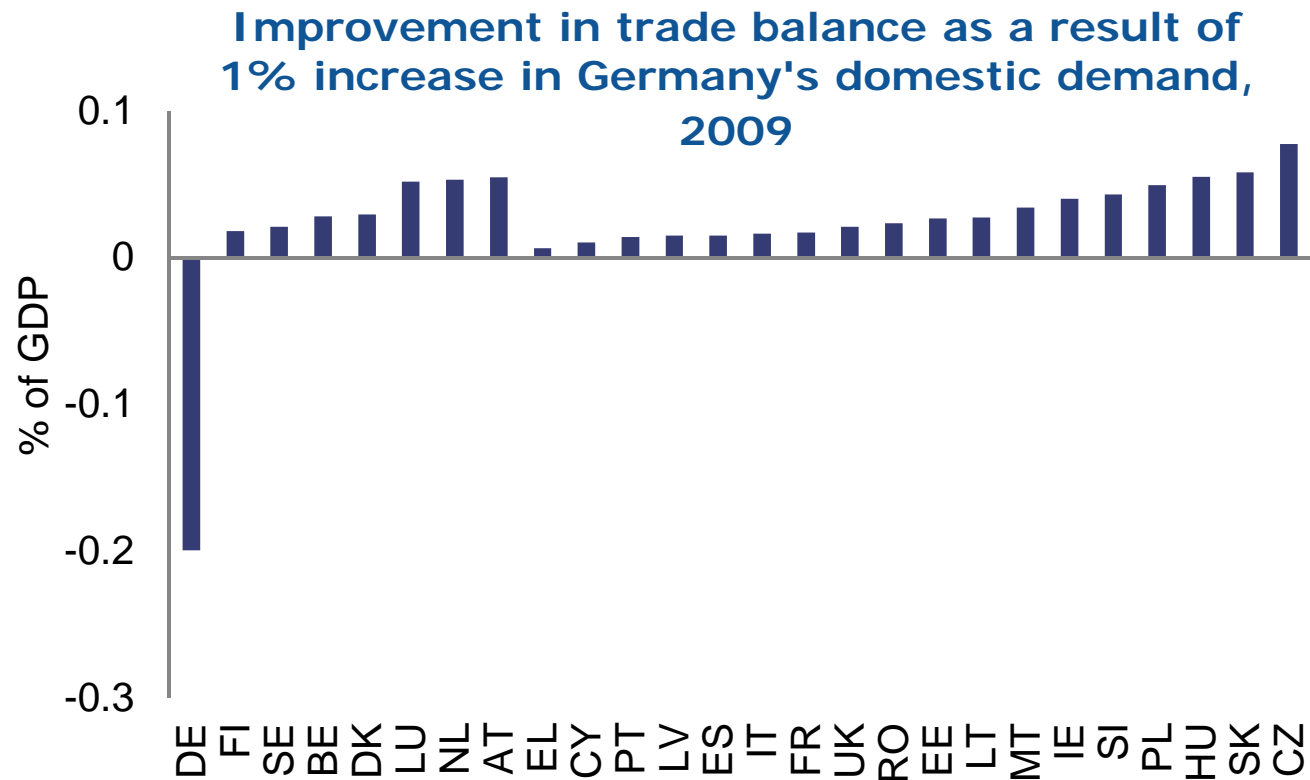
Chapter 4



Trade spillovers of German demand: 1% increase in German demand



Chapter 5



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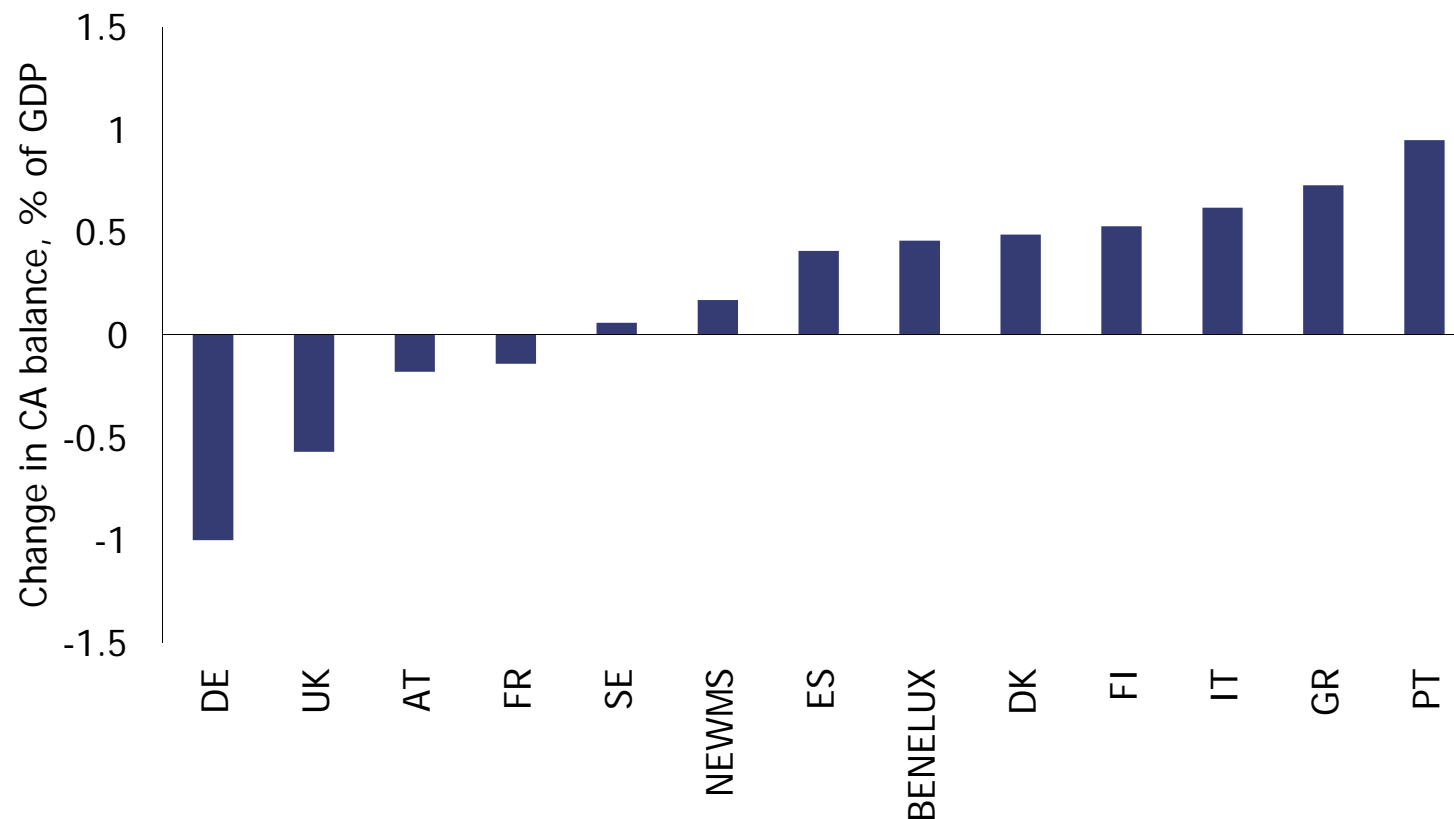
Increased demand in DE would improve trade balances in the main trading partners; impact on the vulnerable countries is modest.

Financial spillovers from Germany: Reducing German S-I gap



Chapter 5

Current account changes due to narrowing German S-I gap by 1% of GDP



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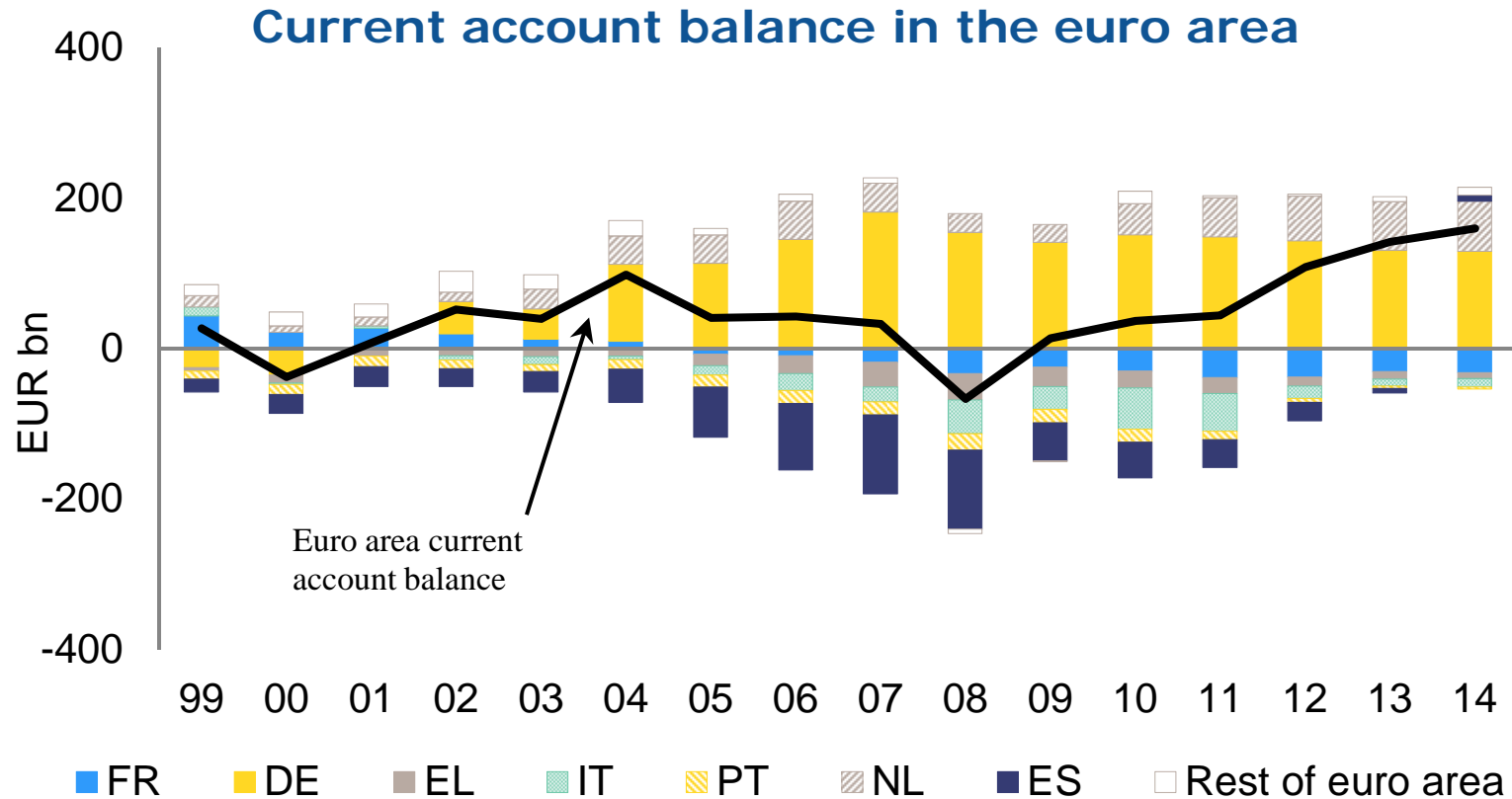
**Net financial flows have more effect on current account deficits,
but impact on growth uncertain.**

Based on 2009-10 data

Is rebalancing on-going?



Chapter 5



Deficits have adjusted more so far. Surpluses are forecast to decline somewhat. The EA balance will turn moderately positive, which is in line with its overall fundamentals.

The key answers I



Q What have been the drivers of surpluses?

A Complex: Several demand determinants, financial factors, and external shocks. Role of price competitiveness is limited. Etc...

Q Is it in the self-interest of surplus countries to reduce surpluses?

A Surpluses may reflect structural weaknesses (e.g. services, construction, etc.) - amplified by risk-mispricing and weak financial supervision. Valuation losses illustrate risks.

The key answers II



Q Is there causality/nexus between surpluses and deficits in the euro area?

A Causality difficult to show – but interlinkages are strong. Impact from surplus demand on deficits: not negligible. Spatial results: Surpluses trade with surpluses, but finance with deficits.

Q Is there sustainable rebalancing on-going? What role for surpluses? Impact on the EA?

A Rebalancing is ongoing, mostly in deficit countries. Favourable demand conditions in surplus countries. EA could move to a small surplus in line with its fundamentals. Etc...

Some policy implications ...



- Fin. regulation and macro-prudential supervision are key
- Restore 'downhill' capital flows (FDI!) to help integrate the deficit countries in EA supply chains
- Ensure efficient functioning of surplus financial retailing
- Address structural weaknesses that impede demand: foster competition, services and construction
- Policies with direct bearing on labour costs should be discussed in a coordinated manner



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UE: les excédents courants ne sont pas responsables des problèmes économiques

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