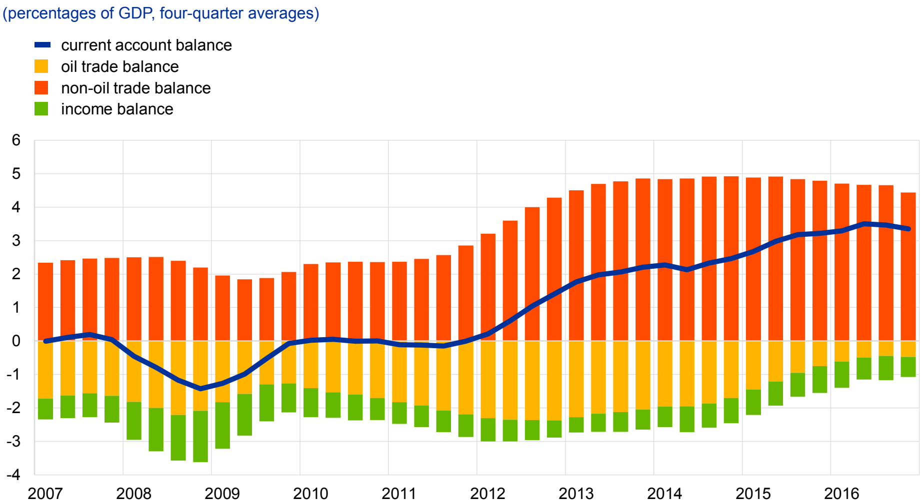
4 Recent developments in the euro area current account balance

Since the start of the decade the euro area current account balance has risen steadily from a broadly balanced position to a surplus. In 2016 the surplus stabilised at just above 3% of GDP. This box looks into the main factors behind this development.

In 2016 the euro area registered a current account surplus of 3.3% of GDP, slightly above the 3.2% recorded in 2015. The deficits in the oil trade balance and combined income balance contracted modestly, while the surplus in the non-oil trade balance continued to shrink (see Chart A). The small overall increase in the current account surplus in 2016 masks the fact that the surplus started to decrease on a four-quarter average basis in the second half of the year, when oil prices recovered somewhat. This development contrasts with the period between mid-2014 and mid-2016 when the shrinking of the oil trade deficit due to the decline in oil prices almost entirely explained the widening of the euro area's current account surplus.[14]

Chart A

Main items of the euro area current account balance



Sources: ECB and Eurostat.
Note: The income balance includes the primary and secondary income balances. The decomposition of the trade balance into its oil and non-oil components is based on Eurostat's external trade statistics. The non-oil trade balance includes services. The latest observation is for the fourth quarter of 2016.

Euro area imports and exports declined relative to GDP in 2016 as a result of price developments which more than offset an increase in trade volumes (see Chart B). The decline in nominal trade relative to GDP was driven by falling import and export prices, while the overall GDP deflator increased in 2016.[15] However, in

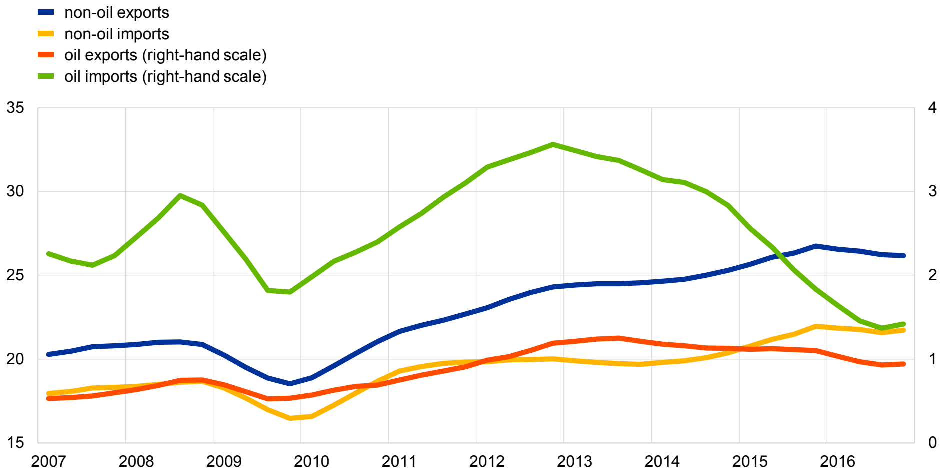
[14] See also the box entitled "The impact of the oil price decline on the current account surplus of the euro area", *Economic Bulletin*, Issue 2, ECB, 2016.

[15] According to national accounts data euro area import and export prices declined by 2.4% and 1.3% in 2016 respectively, whereas the GDP deflator increased by 0.9%.

volume terms, euro area trade expanded at a faster pace than GDP, with real imports rising by 4.0% and real exports by 2.9%, while real GDP grew by 1.7%. The robust growth in trade volumes is consistent with the ongoing recovery in the euro area and the global economy. Since the drop in nominal trade flows relative to GDP was more pronounced for exports than for imports, the euro area trade surplus decreased slightly.

Chart B
Breakdown of euro area exports and imports

(percentages of GDP, four-quarter averages)



Sources: ECB and Eurostat.
Note: The decomposition of exports and imports into oil and non-oil components is based on Eurostat's external trade statistics. Non-oil trade includes services. The latest observation is for the fourth quarter of 2016.

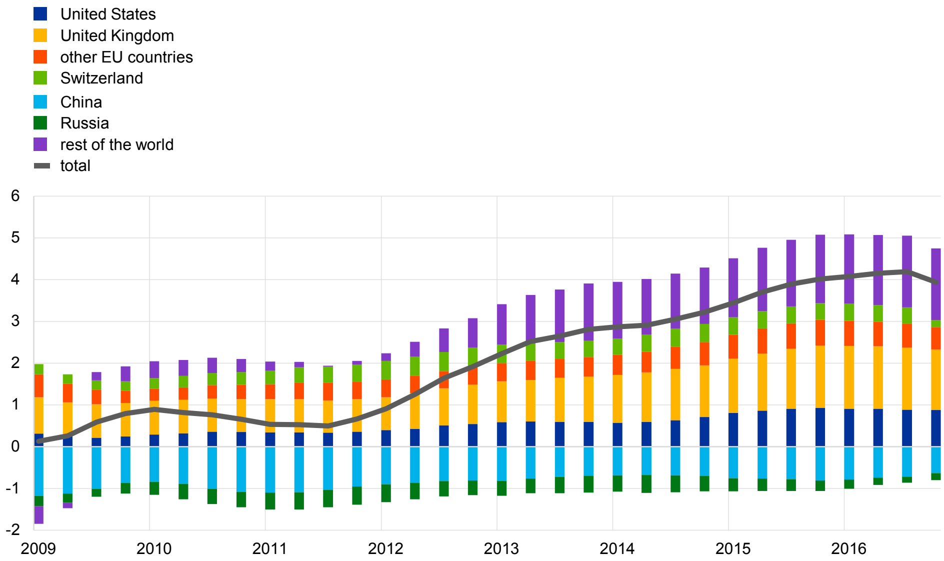
The euro area's trade surpluses vis-à-vis the non-euro area EU countries and the United States declined by around 0.1% of GDP in 2016 compared with 2015, while its deficits with China and Russia shrank by 0.2% and 0.1% of GDP respectively (see Chart C).[16] In 2016 the euro area's bilateral trade surplus vis-à-vis the non-euro area EU countries stood at around 2% of GDP, while the surplus accrued with the United States was around 0.9% of GDP. The United Kingdom accounted for around three-quarters of the trade surplus vis-à-vis the non-euro area EU countries in 2016. At the same time, the euro area recorded trade deficits vis-à-vis China and Russia, of -0.6% and -0.2% of GDP respectively.

[16] The analysis focuses on the trade balance, since a geographical decomposition is not available for the total current account balance.

Chart C

Geographical breakdown of the euro area trade balance

(percentages of GDP, four-quarter averages)



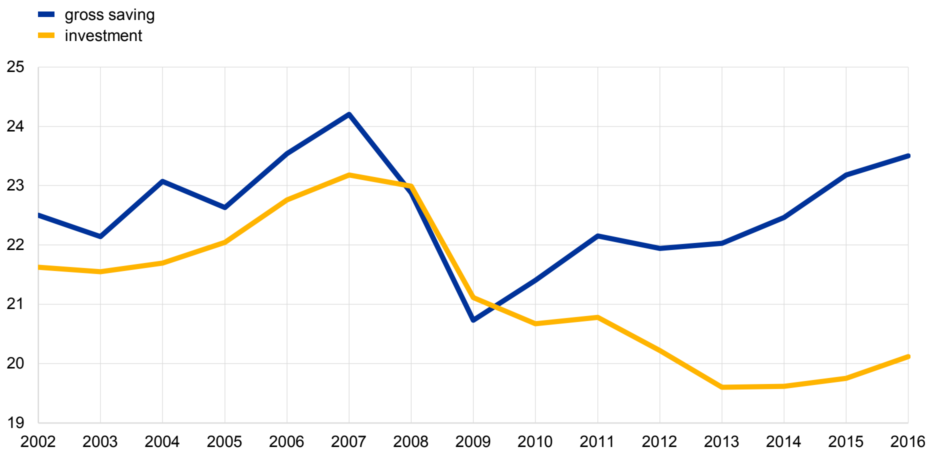
Sources: ECB and Eurostat.
Note: "Other EU countries" comprises EU Member States outside the euro area excluding the United Kingdom. The latest observation is for the fourth quarter of 2016.

From a saving-investment perspective, the stabilisation in the current account balance in 2016 reflects a pick-up in investment which broadly offset the continuing increase in gross saving (see Chart D). According to a simple accounting identity, the current account balance broadly corresponds to the gap between domestic saving and investment, i.e. net lending or net borrowing. The widening of the euro area's net lending position in previous years reflected a steady increase in gross saving and subdued investment (relative to GDP). Since economic activity started to recover in 2013, however, both the saving and the investment to GDP ratios have edged up. The private sector currently registers a net lending position, while the public sector continues to record a net borrowing position, which, however, has shrunk significantly in recent years.

Chart D

Euro area gross saving and investment

(percentages of GDP)



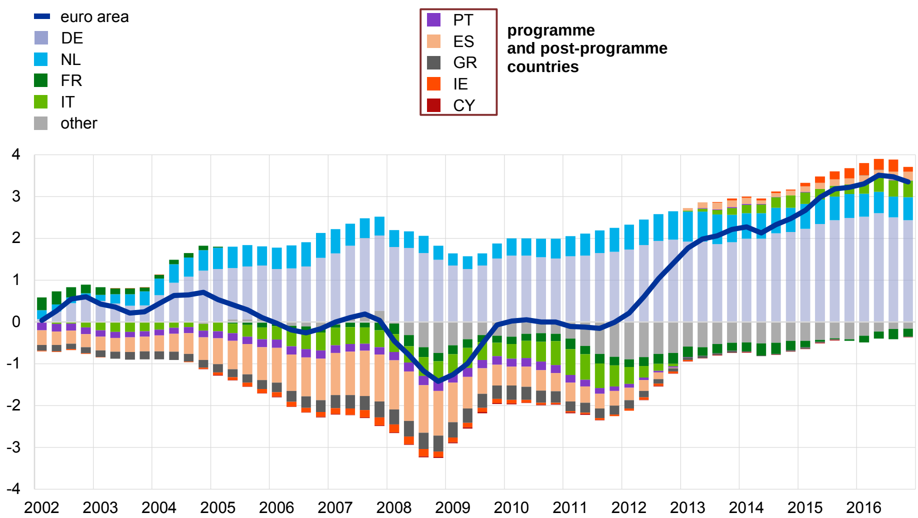
Source: European Commission.
Note: The latest observation is for 2016.

Germany contributed most to the euro area current account surplus in 2016, although other countries also made significant contributions (see Chart E). In 2016 Germany's current account surplus stood at 2.4% of euro area GDP, followed by the Netherlands (0.6%), while positive contributions of between 0.1% and 0.4% of euro area GDP were made by Italy, Spain and Ireland. By contrast, France recorded a current account deficit of 0.2% of euro area GDP.

Chart E

Current account balance of the euro area and selected euro area countries

(percentages of euro area GDP, four-quarter averages)

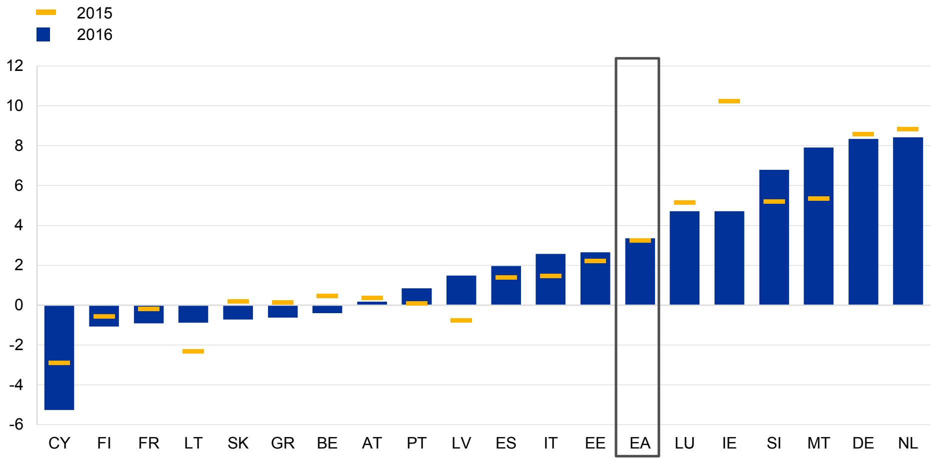


Sources: ECB and Eurostat.
Note: The second legend column shows countries which are or have been subject to a financial assistance programme. "Other" includes the euro area countries not shown in the chart and a statistical discrepancy to account for the fact that country-level data do not always add up to the euro area aggregate. The latest observation is for the fourth quarter of 2016.

At the euro area country level, the current account developments in 2016 were relatively heterogeneous (see Chart F). During the external adjustment process over recent years, euro area countries that had large current account deficits before the global financial crisis have seen a significant correction and, in many cases, have turned these deficits into surpluses. In 2016, the most notable current account improvements compared with 2015 were observed in Malta and Latvia, while the current account surpluses of Slovenia, Italy, Portugal, Spain and Estonia also increased further. The most pronounced current account deterioration, albeit starting from an elevated surplus, was recorded in Ireland, followed by Cyprus which recorded an increasing deficit. The sizeable and persistent current account surpluses of Germany, the Netherlands and Luxembourg narrowed slightly in 2016.

Chart F
Current account balances of the euro area and the euro area countries

(percentages of GDP)



Sources: ECB and Eurostat.