Spezielle Kurzanalysen

Current account imbalances in the euro area – recent trends[18]

Der schwelende Handelskonflikt mit den USA hat die Aufmerksamkeit erneut auf globale Ungleichgewichte gelenkt. In dieser Kurzstudie wird ein Blick auf den Zusammenhang zwischen der Anpassung der Leistungsbilanzungleichgewichte zwischen den Euroraumländern nach der Krise („Rebalancing") und der globalen Außenhandelsposition des Euroraumes geworfen. Im Ergebnis zeigt sich, dass seit der Krise innerhalb des Euroraumes ein deutliches Rebalancing stattgefunden hat. Allerdings muss festgehalten werden, dass dieses Rebalancing vor allem durch einen Rückgang der Leistungsbilanzdefizite der vormaligen Defizitländer erfolgte und auch dort zu starken Teilen durch einen allgemeinen Nachfragerückgang getrieben war. Dies wirft die Frage auf, ob es sich um eine nachhaltige Reduktion der Defizitpositionen handelt, oder ob die betroffenen Länder nicht möglicherweise Gefahr laufen, bei zunehmendem Wachstum wieder in Leistungsbilanzdefizitpositionen zurückzufallen. Darüber hinaus zeigt sich, dass die asymmetrische Natur der Anpassung, die darin bestand, dass jene Länder mit Leistungsbilanzüberschüssen diese nicht abgebaut haben, während das im Falle der Defizitländer sehr wohl der Fall war, den Euroraum in eine starke Überschussposition manövriert hat. Faktisch verzeichnet die Leistungsbilanz des Euroraums in absoluten Niveaus mittlerweile den weltweit höchsten Überschuss.

Imbalances, the current account and the euro area

The most obvious manifestation of economic imbalances between countries are diverging current account positions. Countries with surpluses accumulate foreign assets while countries with deficits build up external debt. Eventually this tends to lead to an adjustment via exchange rates, with structural deficit countries tending to devalue their currencies at some point and vice versa. This, however, is a rebalancing mechanism that is not available within a monetary union, which makes substantial imbalances even more problematic. Consequently, current account imbalances figure prominently in the so-called macroeconomic imbalance procedure scoreboard.

Graph 1 below depicts the imbalances within the euro area in the run-up to the crisis and the rebalancing that has taken place since then. Before the crisis there were structural debtor countries running persistent current account deficits, such as Italy, Spain, Greece or Portugal (henceforth "vulnerable" countries). On the other hand, there were structural creditor countries running persistent current account surpluses, such as Germany, the Netherlands, Austria or Finland. The rebalancing after the crisis has been mainly driven by the compression of current account deficits in the vulnerable countries while – with the exception of Finland – the surplus countries have maintained and partly even expanded their surplus positions.

What were the driving forces behind this development? There are two competing explanations about the potential drivers of current account imbalances. On the one hand, there is the capital flow view that maintains that excessive savings in surplus economies financed debt-driven booms. The excess demand generated in the vulnerable economies then ultimately resulted in current account deficits. This view echoes prominently on a global scale in the so-called savings glut hypothesis (Bernanke, 2005). On the other hand, there is the labor cost view, which argues that

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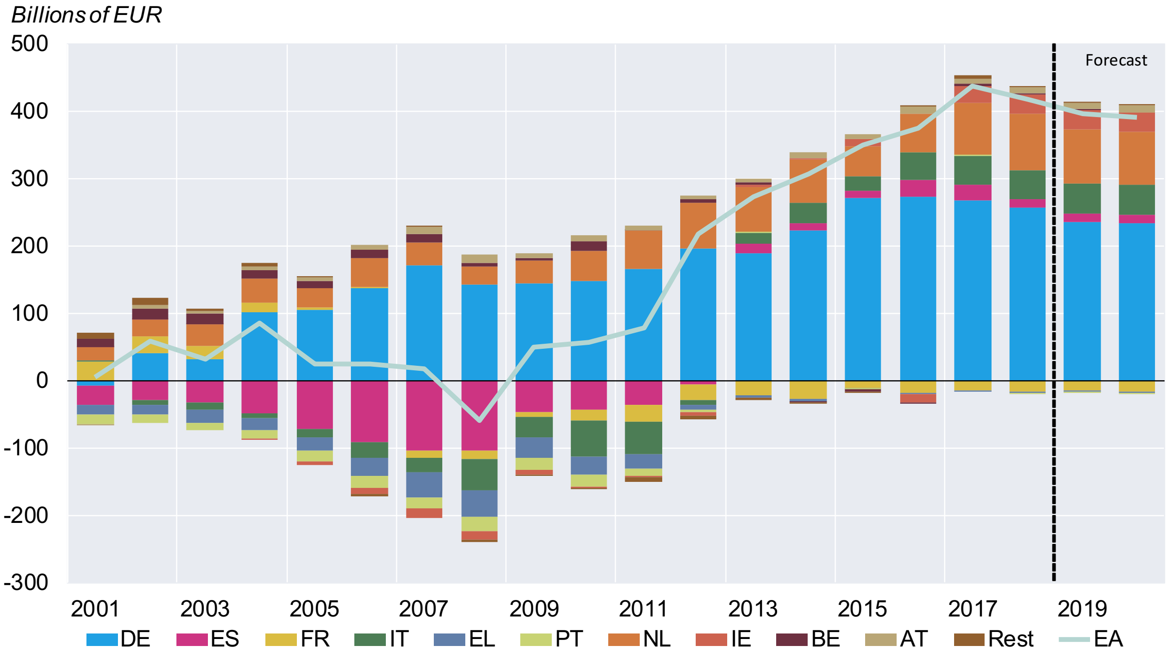
excessive wage and thus unit labor cost growth resulted in losses in relative

Graph 1

Imbalances in the Euro Area: Current Account Balances



Source: European Commission, Spring Forecast 2019.

competitiveness of vulnerable economies and stimulated unsustainably high levels of debt-financed demand. As will be argued below, the capital flow view appears to be somewhat more convincing.

Zooming in on "vulnerable" countries

In this context it is interesting to note that most empirical studies find only a limited effect of unit labor costs on export demand across the euro area members (Gaullier and Vicard, 2012; ECB, 2012) for the period before the crisis. Thus – despite deteriorating relative unit labor costs – export shares of southern European economies on the world market remained mostly constant or experienced only small reductions in the period preceding the crisis (Chen et al., 2013; Kang and Shambaugh, 2013).

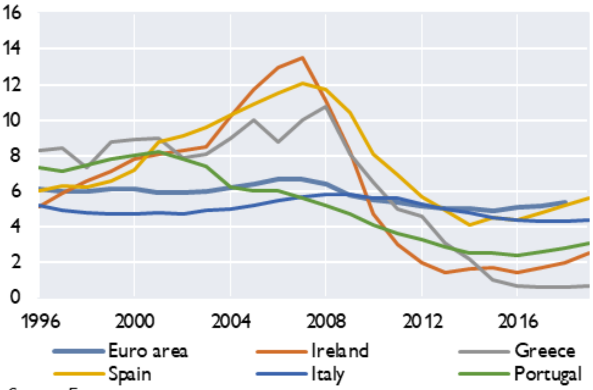
At the same time, domestic demand in southern Europe was bolstered up by increasing leverage, primarily in the private sector. This was facilitated by the fact that the financial liberalization that preceded the introduction of the euro had been strongest in the vulnerable economies in relative terms. Access to credit was thus relaxed, and competition among banks increased. There is evidence that this financial sector liberalization has contributed to declining savings rates in the region (Jaumotte and Sodsriwibon, 2010). The decline in savings rates (and its effect on demand and thus imports) as a result became the most important counterpart of current account deficits in the southern countries of the euro area (Holinski et al., 2012). Mirror-imaging this development, capital flows from economies with lower per capita income to those with higher per capita income within the euro area substantially increased after the introduction of the euro (Schmitz and von Hagen, 2011). These capital inflows – primarily from Germany and France – substantially contributed to private sector dissaving in debtor economies (Chen et al., 2013).

This implies that from a trade balance perspective, the problem was not so much the export side but rather the import side. This is important because it suggests that the adjustment achieved may not be sustainable in the long run as the structural saving and investment incentives in the vulnerable countries have not disappeared; they are mainly masked by a drop in private sector activity following internal devaluation. This is reflected by the fact that in the period after the crisis, the euro area surplus was driven by a lower financial balance of the public sector, as well as increased NFC financial balances, in particular in the vulnerable countries. Once these economies grow again, there is no reason to expect that the same pattern might not emerge again. Indeed, the current account balance have started to decline in Spain and Portugal (albeit very moderately), again driven by lower private sector financial balances.

Graph 2

Household residential investment

in % of GDP



Source: Eurostat.

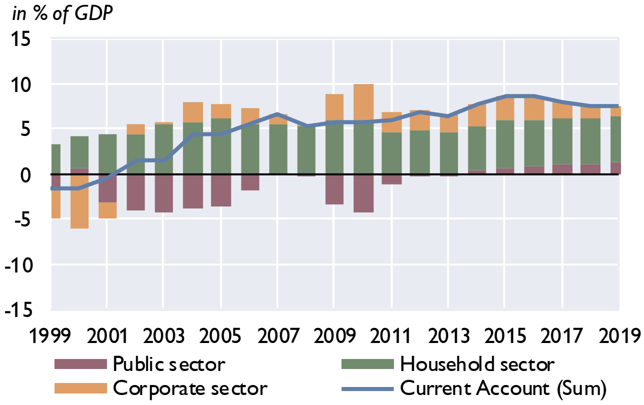
Surplus countries

If we investigate imbalances from another perspective, we find that there are persistent surpluses in countries such as Germany or the Netherlands, although the net lending positions of households differ substantially. In these countries, most notably Germany, as can be seen in graph 3, private sector savings are high and/or investment is low. Financial balances of German households hovered at a level of around 5% of GDP every year since the introduction of the euro. Studies have pointed to various factors determining the size of these financial surpluses, such as precautionary savings by the household sector. For instance, economies with highly firm-specific skills, weak female labor force participation and a large gender pay gap, such as Germany, may record higher precautionary savings by households and lower aggregate demand (Carlin and Soskice, 2009).

Graph 3

GER: sectoral net lending (+) or net borrowing (-)

in % of GDP



Source: AMECO database.

If we look at the financial balances of the corporate sector, we see that the following countries experienced increases: Germany, the Netherlands, Belgium and Finland. It follows that private investment is still subdued despite the business cycle expansion evident in the euro area until mid-2018. This is particularly true for Germany, where the public sector (and the private sector) accumulated a large (public) investment gap. This is likely to have an adverse impact on productivity and hence on potential growth. At the same time, it cannot be taken for granted that the large international investment position that has been building up will turn out to be profitable. We need to bear in mind that the euro area experienced the most substantial blow to its net international investment position in relation with asset price setbacks during the crisis next to the U.S. (Gourinchas et al., 2011)

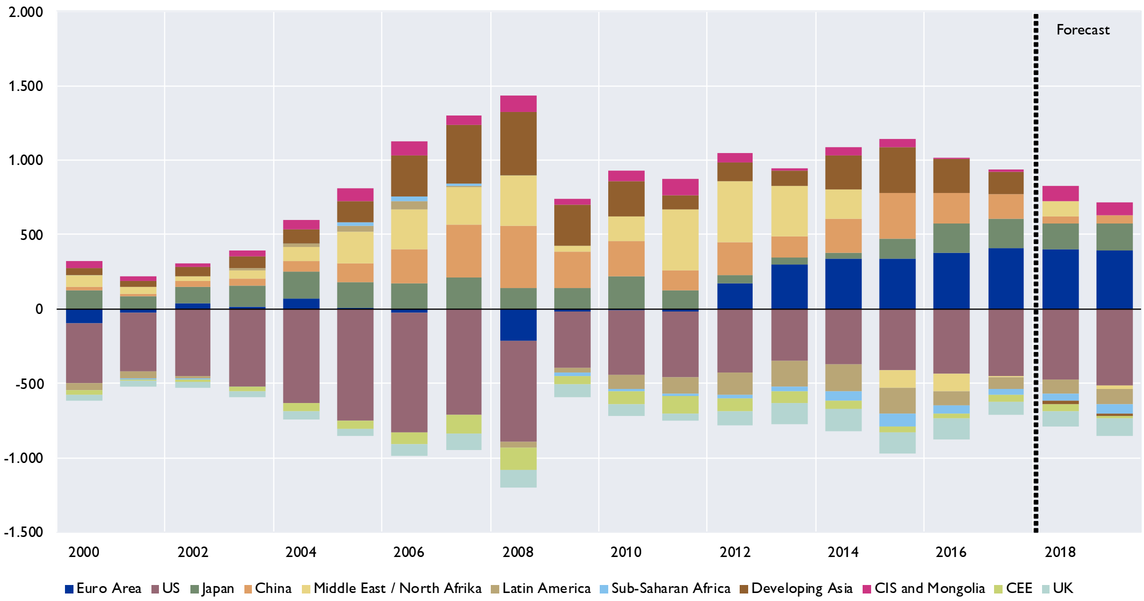
Global imbalances

As a result, the current account of the euro area was primarily adjusted by compressing the deficit positions of vulnerable economies while at the same time maintaining or even expanding the surplus positions of the surplus economies. As a result, the current account of the euro area strongly entered positive territory. The question thus arises whether the euro area's current account balance contributes to global imbalances. As can be seen in graph 4, China's current account balance decreased from 10% of GDP in 2007 to 0.4% in 2018; the euro area at same time grew from a roughly balanced level to 3.0% in 2018. The current account balance in the euro area amounted to USD 403.6 billion in 2018, whereas China's current account balance was at USD 49.2 billion in 2018. Hence, in absolute numbers, the euro area now contributes more to global imbalances than China did before the crisis.

Graph 4

Global Imbalances: Current Account Balances

Billions of USD



Source: IMF, WEO October 2018.

Conclusion

The rebalancing that has occurred in the euro area since the crisis to a large extent has been asymmetrical, with deficit countries reducing their positions, while surplus countries largely maintained or even expanded their surpluses. A considerable portion of this adjustment appears to have been driven by the suppression of internal demand. As a result, there remains a risk that faster growth might lead to a quick deterioration of current account balances in the vulnerable economies again. For these economies, it will be crucial to avoid a "credit bites back" scenario (see Jorda et al., 2013), e.g. with the help of policies that reduce the need to invest in leveraged private residential property. In the case of surplus economies, policies that promote investment, particularly in R&D and infrastructure, will be important.

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