

»» The current external imbalances from a global and from a German perspective



No. 120, 12 December 2016

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External imbalances can be harbingers of an economic crisis. This makes it necessary to thoroughly analyse the widening imbalances in important advanced and emerging market economies, which has been observed since 2013. The spotlight is also on Germany, where the surplus has increased significantly again.

Potential threats and recent trends in global imbalances

The discussion addresses the current account balance, which captures the movement of goods, services etc. across national borders. A current account imbalance creates receivables from (payables to) other countries in the surplus country (deficit country). When deficits are high and prolonged, the deficit country can face a solvency and debt sustainability problem that may also affect surplus countries, possibly forcing them to write off receivables. In the Asian crisis of 1997/1998, the global financial crisis of 2008/2009 and the euro area debt crisis from 2010, the increasing imbalances were also associated with problematic developments such as a real estate bubble, budget deficits and manipulated exchange rates.

In its analysis the IMF demonstrated that the current account imbalances in the 30 advanced and emerging market economies with the highest balances (15 deficit and 15 surplus countries) dropped at first since 2008 but have tended to increase again since 2013 (see figure). The countries with the highest surpluses are currently Germany, China, Japan and South Korea, those with the highest deficits are the USA, the UK, Canada and Australia.

The current situation is different to that before the global financial crisis

First, it is important to note that there is no single origin or cause applicable to all countries or the entire period since 2013. Key determinants of the current account trend since 2013 are exchange rates and commodity prices. The **currencies** of important countries (USA, UK, China) have effectively appreciated in real terms (that is, on an inflation-adjusted and trade-weighted basis), while those of Japan, Australia, Brazil, Russia and the euro have depreciated. This is largely due to differences in cyclical momentum. For example, the comparatively healthy economy in the USA provided a boost to import demand, while the appreciation of the dollar dampened US exports. Moreover, the exchange rate development in a number of emerging market economies reflects the international capital markets' uncertainty over the future monetary policy of the USA, the impacts of China's rebalancing, etc. **The drastic decline in commodity prices** (not just for crude oil) has made imports considerably cheaper for countries such as Germany, China and Japan while burdening exporting countries. That has turned Saudi Arabia, for example, from a current-account surplus country to a deficit country since 2013.

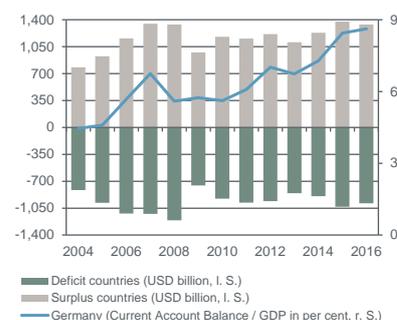
The above economic aberrations of the pre-crisis period leading up to 2008 (real estate bubble, exchange-rate manipulations, etc.) no longer play a big role in explaining the widening imbalances from 2013 (which by no means indicates that all these problems have been solved). Nevertheless, the renewed increase in imbalances constitutes a risk and reducing them must remain on the agenda. Surplus countries must work to encourage demand for imports by stimulating profitable investments and

harnessing consumption potentials. Deficit countries should focus on increasing productivity and competitiveness. They must assess local investments for their profitability and contain consumption financed by borrowing. The issue is very urgent, not least because deficit countries might seek salvation in protectionism, which would be lethal for all.

Germany is set for a record surplus

According to the IMF's forecast, Germany's current account surplus in 2016 will climb to a historic high of more than USD 300 billion, or 8.6% of GDP (see figure). This is caused primarily by the two external and persistent factors previously mentioned: the decline in commodity prices and the depreciation of the euro. Criticisms raised before the global financial crisis such as weak private consumption because of wage restraint are hardly being put forward anymore, and for good reason. Germany's surplus could be reduced through investments. Companies are investing too little, but so is the state. A trend reversal in investments would primarily increase the country's economic growth potential, but bolster demand for imports as well. ■

Figure: Current account balances in today's most important surplus and deficit countries



Source: IMF