

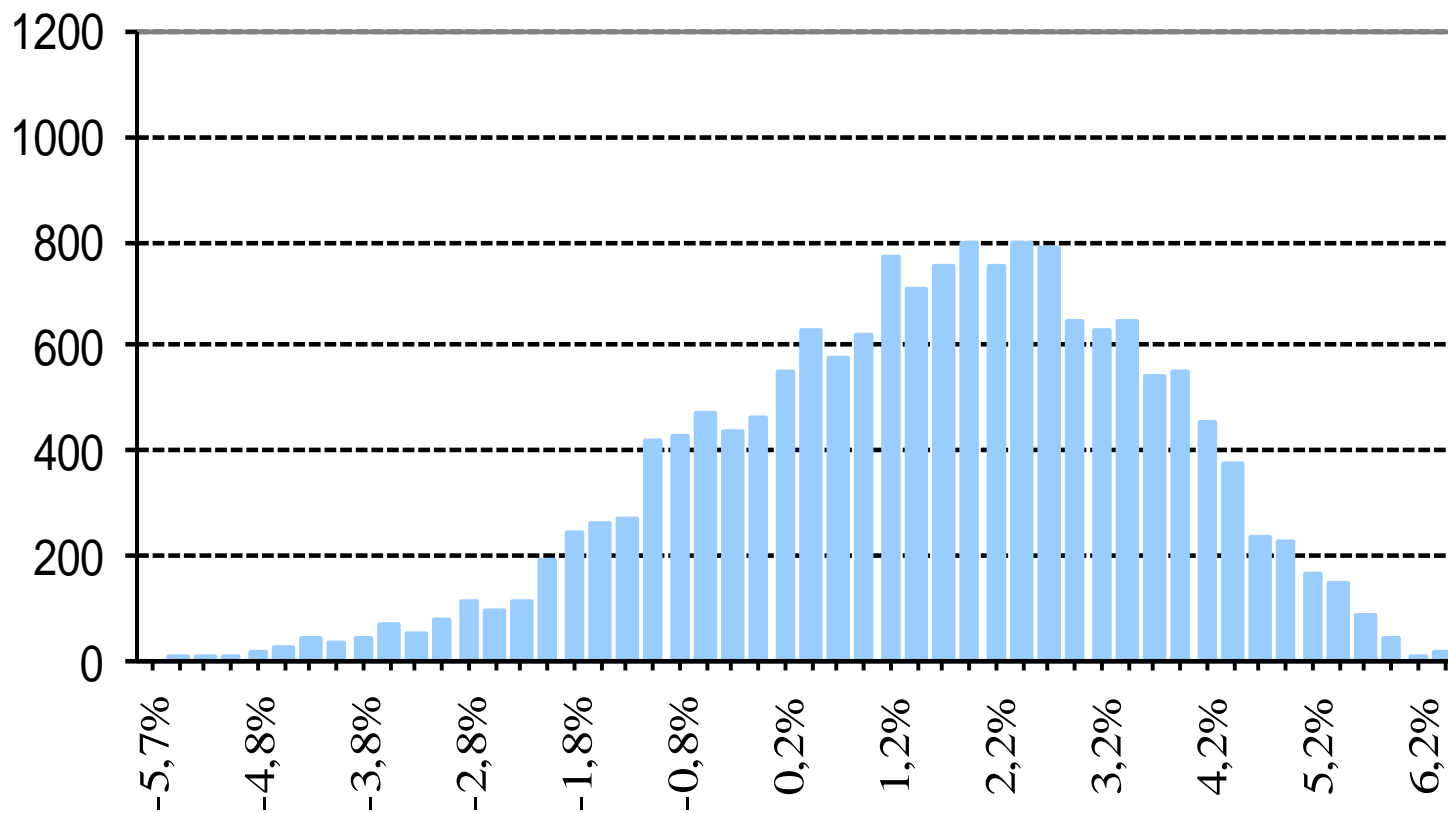
AIECE Spring Meeting 2014

Weak Investment Activity and the Current Account - The Case of Germany

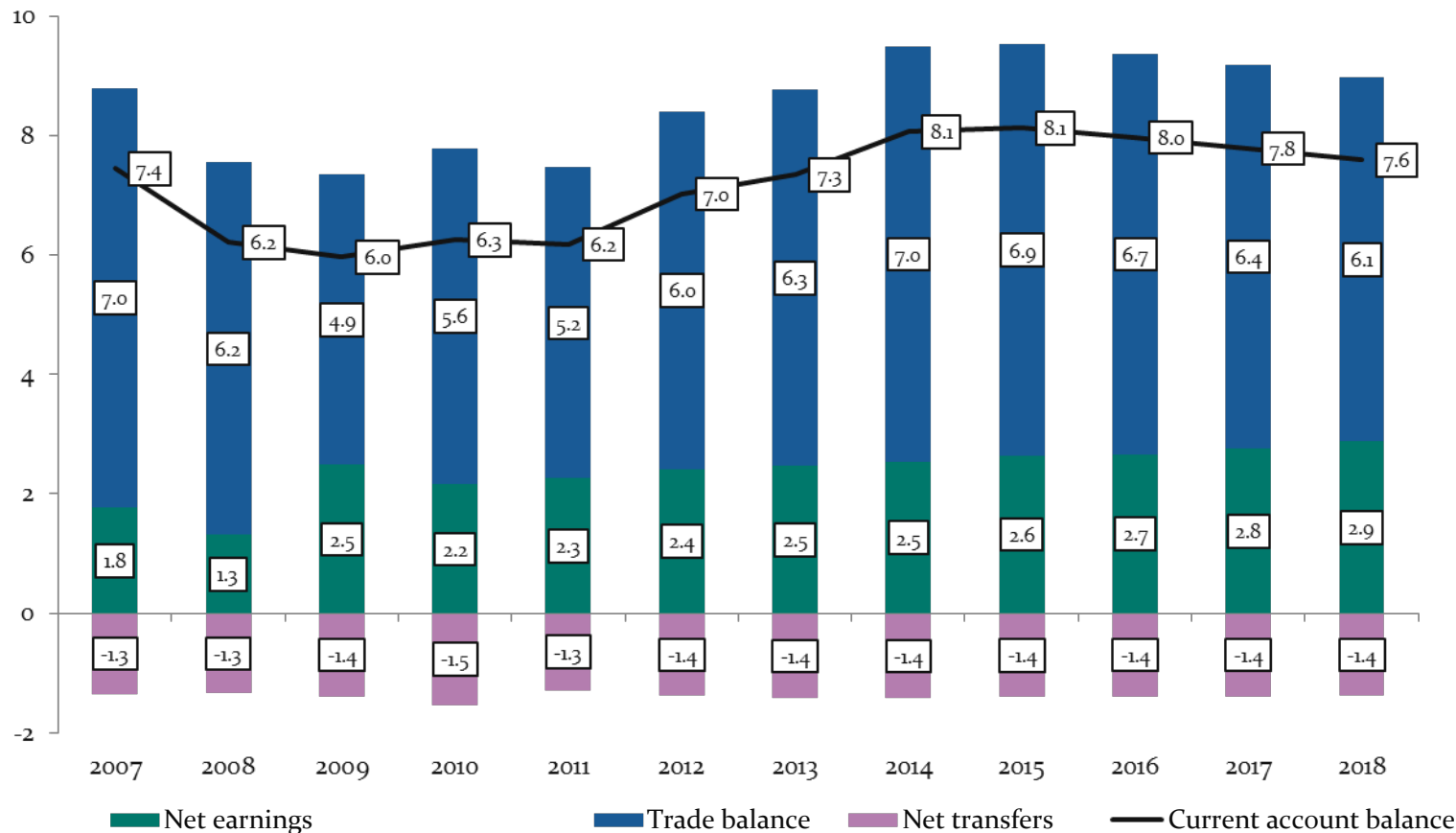
Dublin
8 May 2014

Ferdinand Fichtner, DIW Berlin

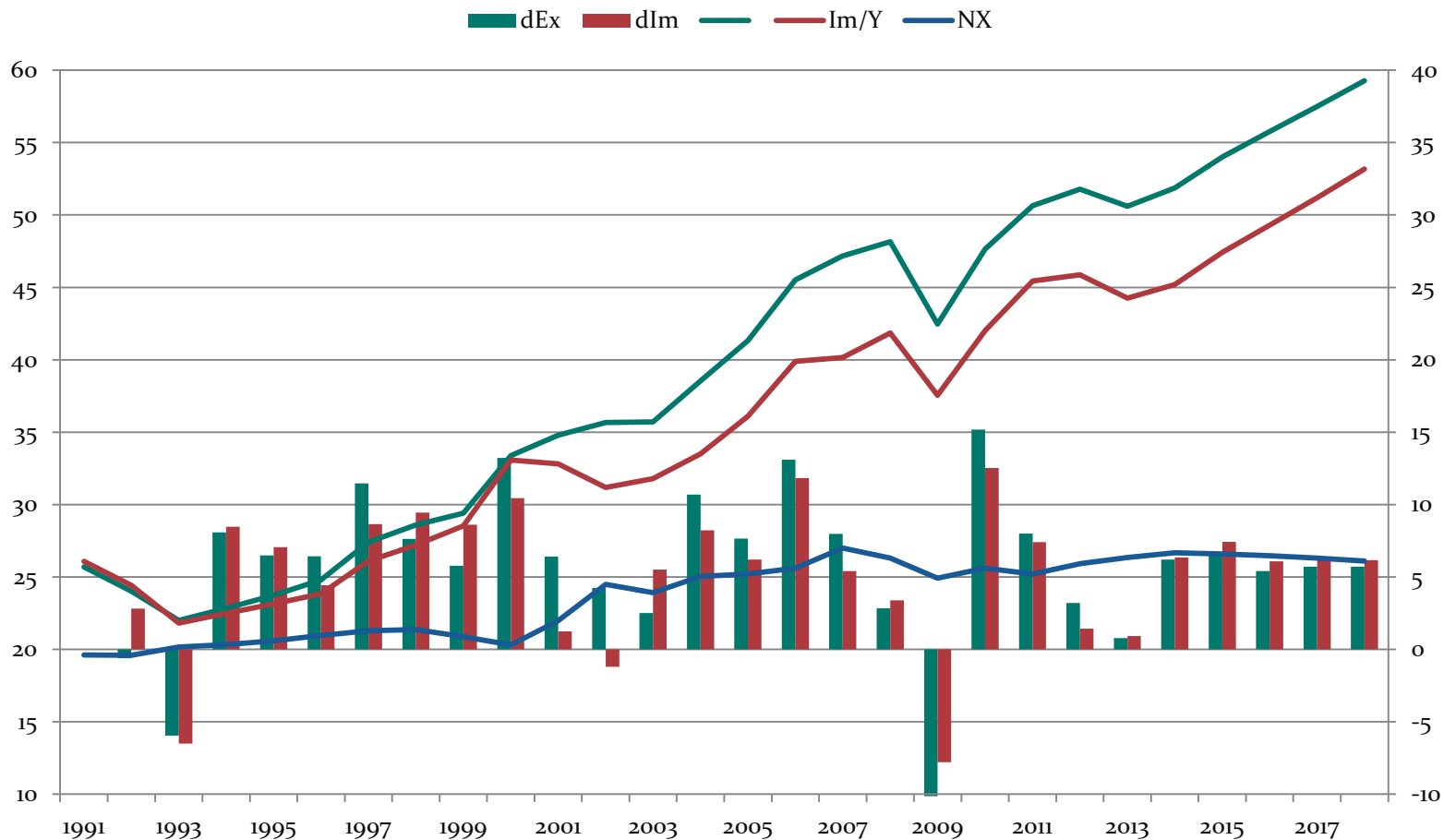
A data perspective on the German current account



A time perspective: Huge and highly persistent surplus...

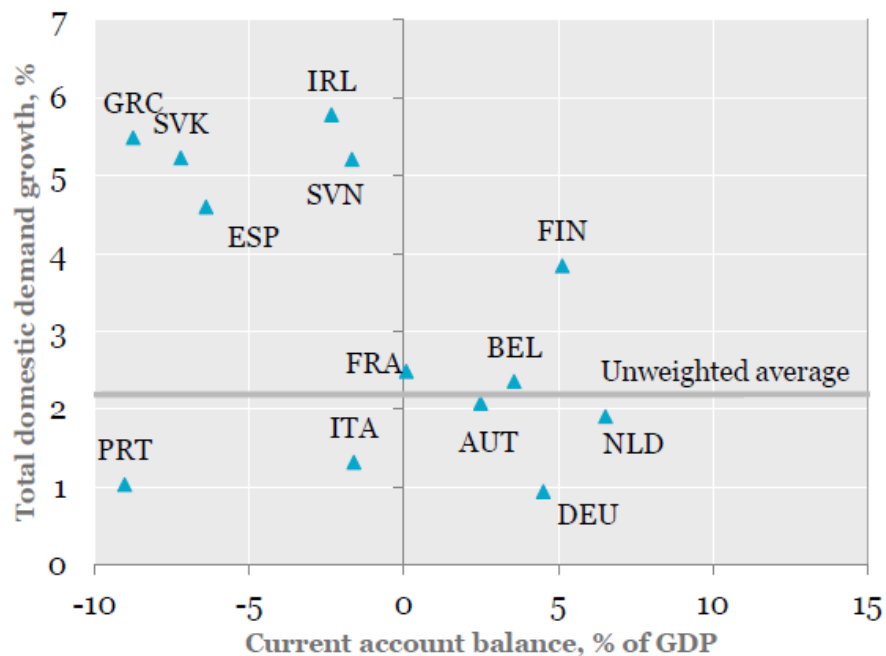


... despite noticeable rebalancing

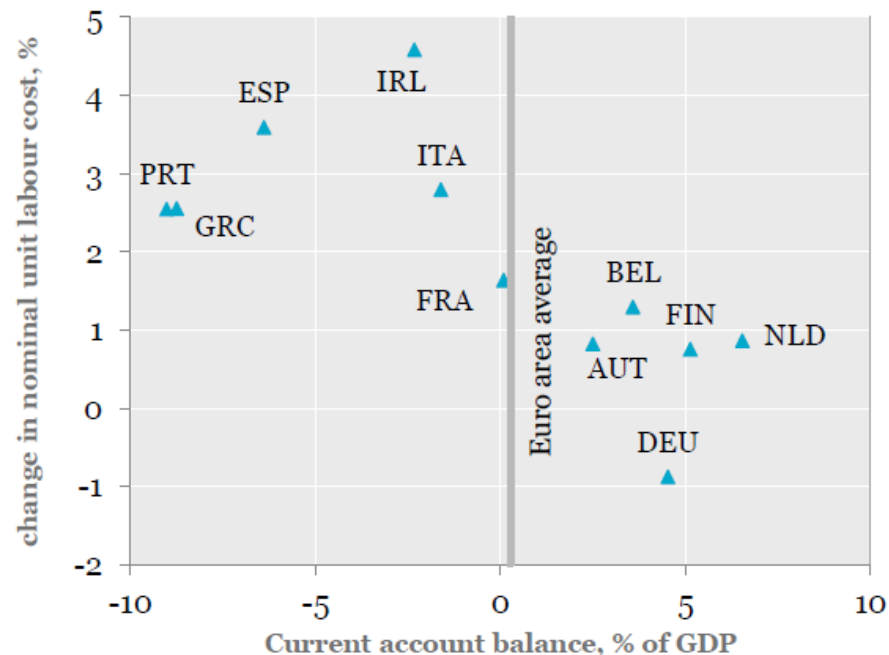


Strong exports, weak imports

Domestic Demand and the CA



Unit Labour Cost and the CA

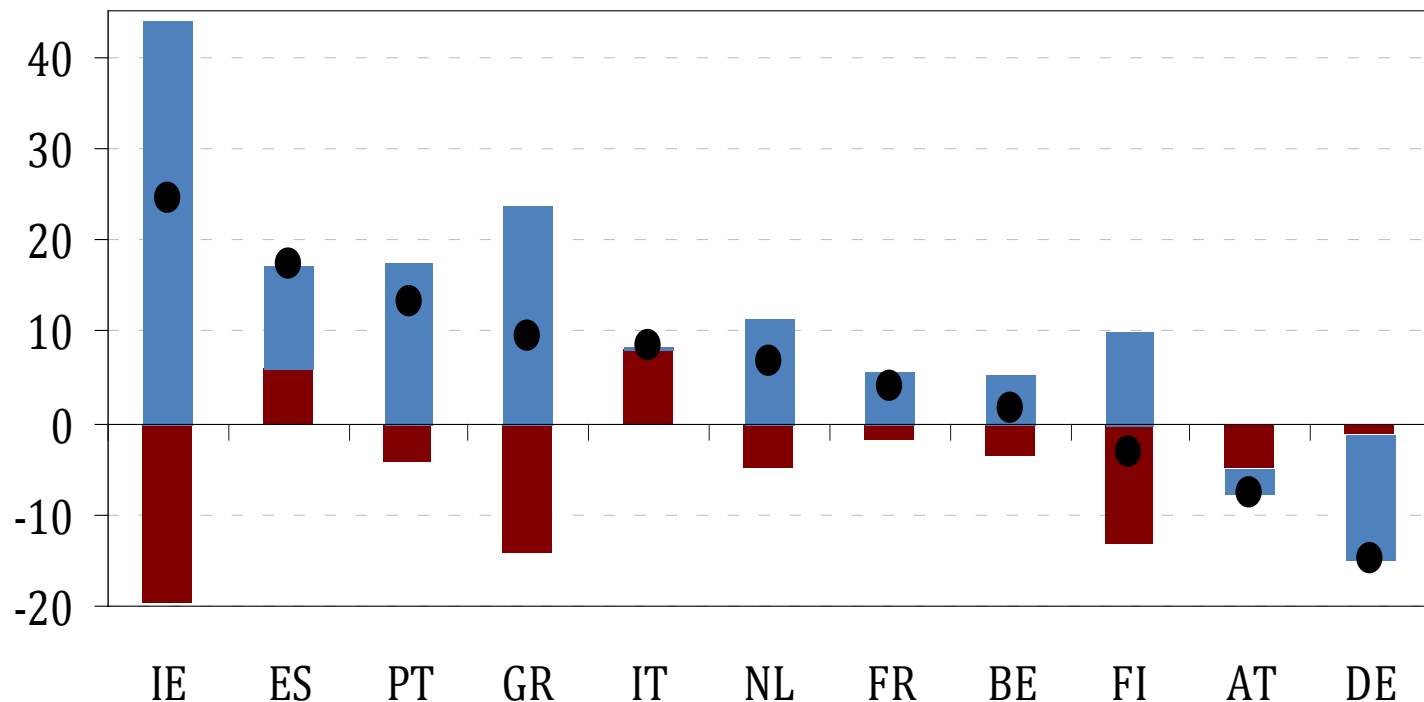


ULC decline – not because of increasing productivity...

Change of ULC

(1999-2007, deviation from EMU average, cumulated in %)

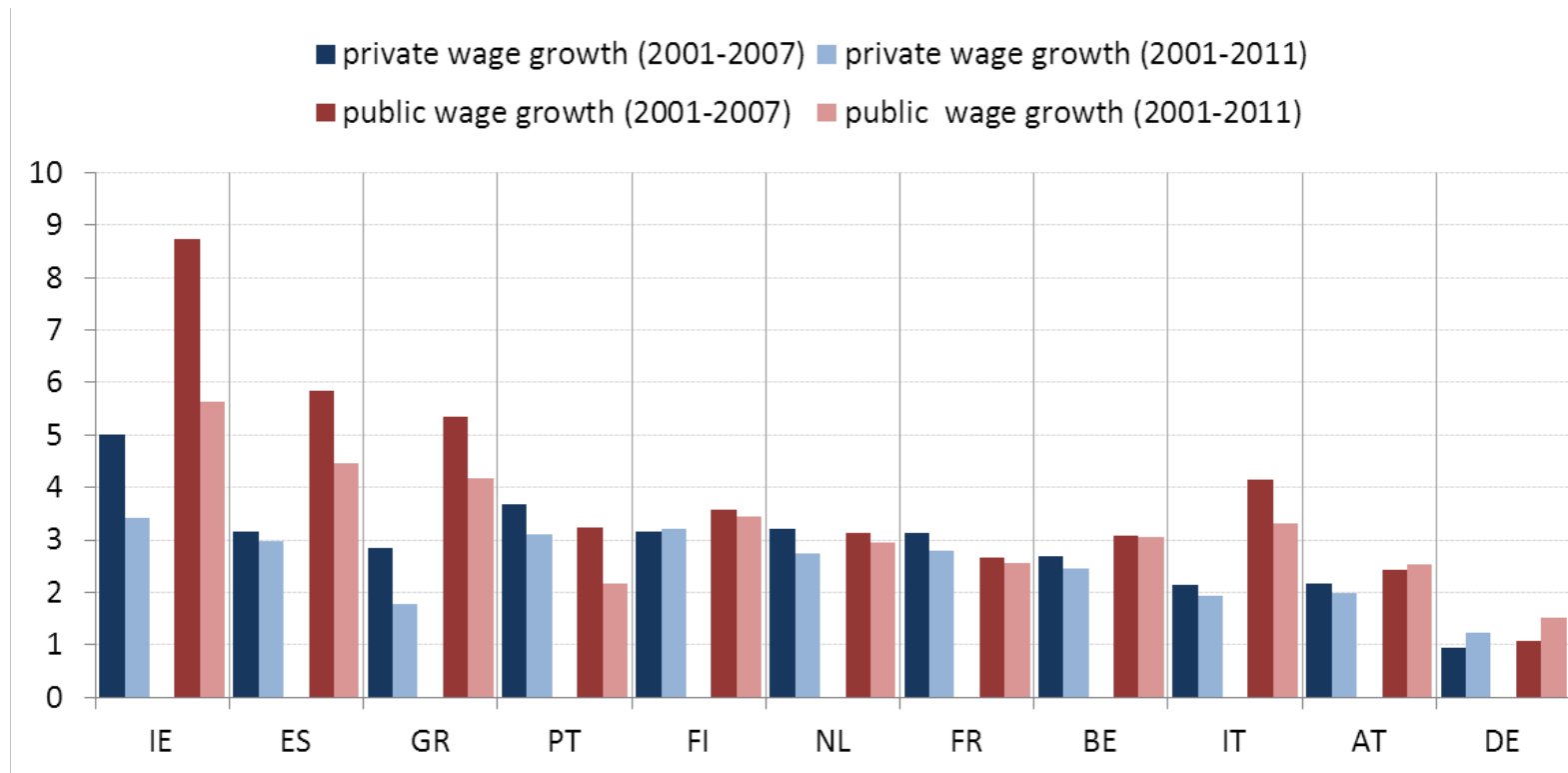
■ Productivity (inverted sign) ■ Compensation ● ULC



Source: Eurostat, EU Comm.

... but due to weak wage developments

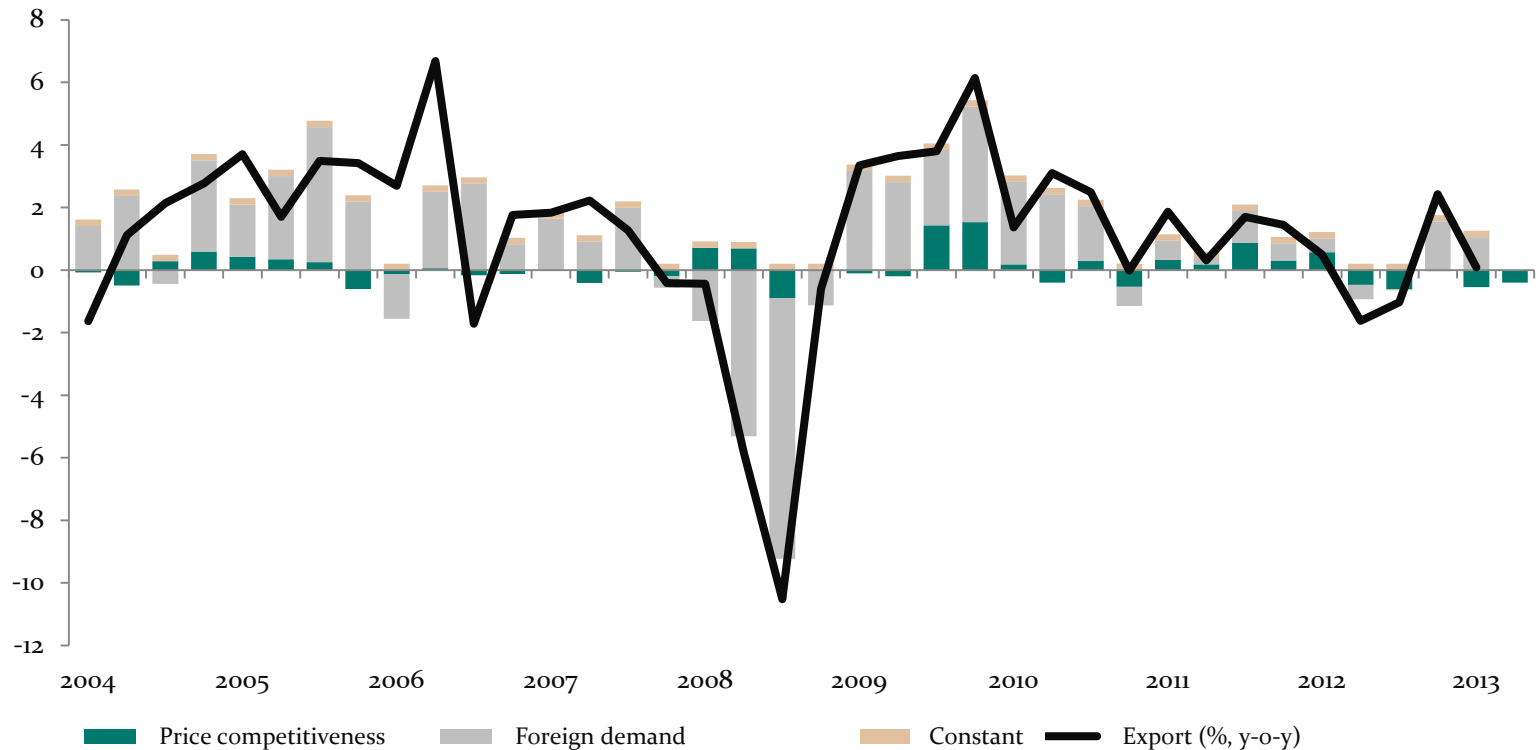
Real compensation per employee (y-o-y change in %)



Source: EU Comm. and ECB.

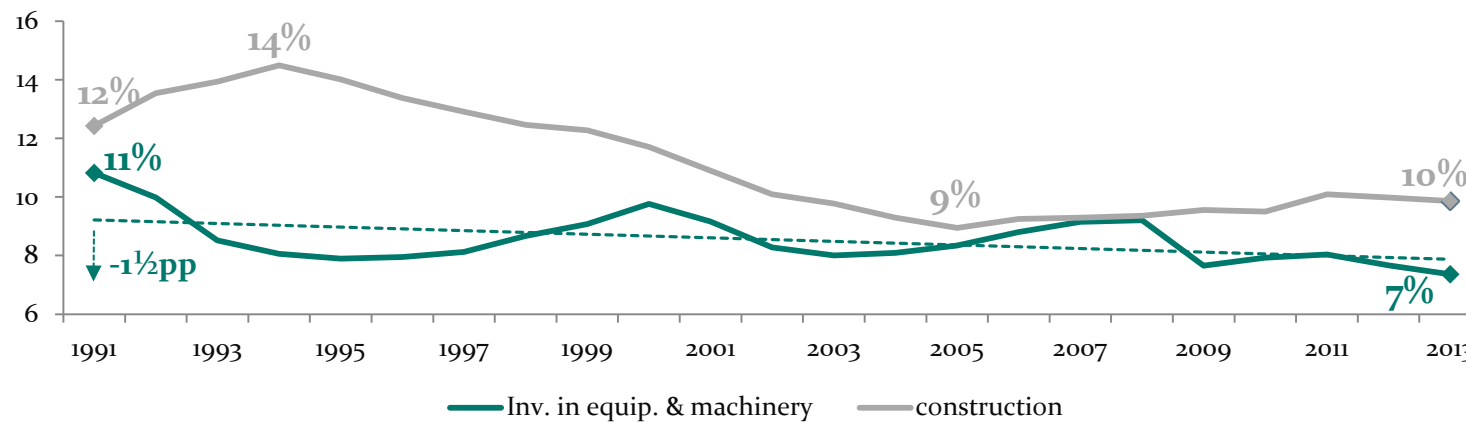
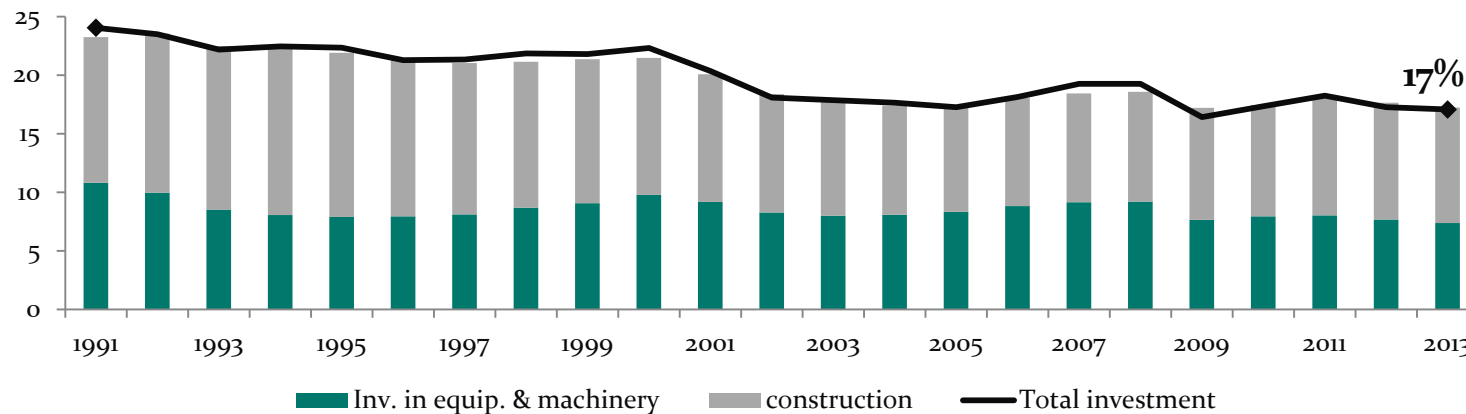
Exports further pushed by favourable global environment

Drivers of export growth (y-o-y change in %)



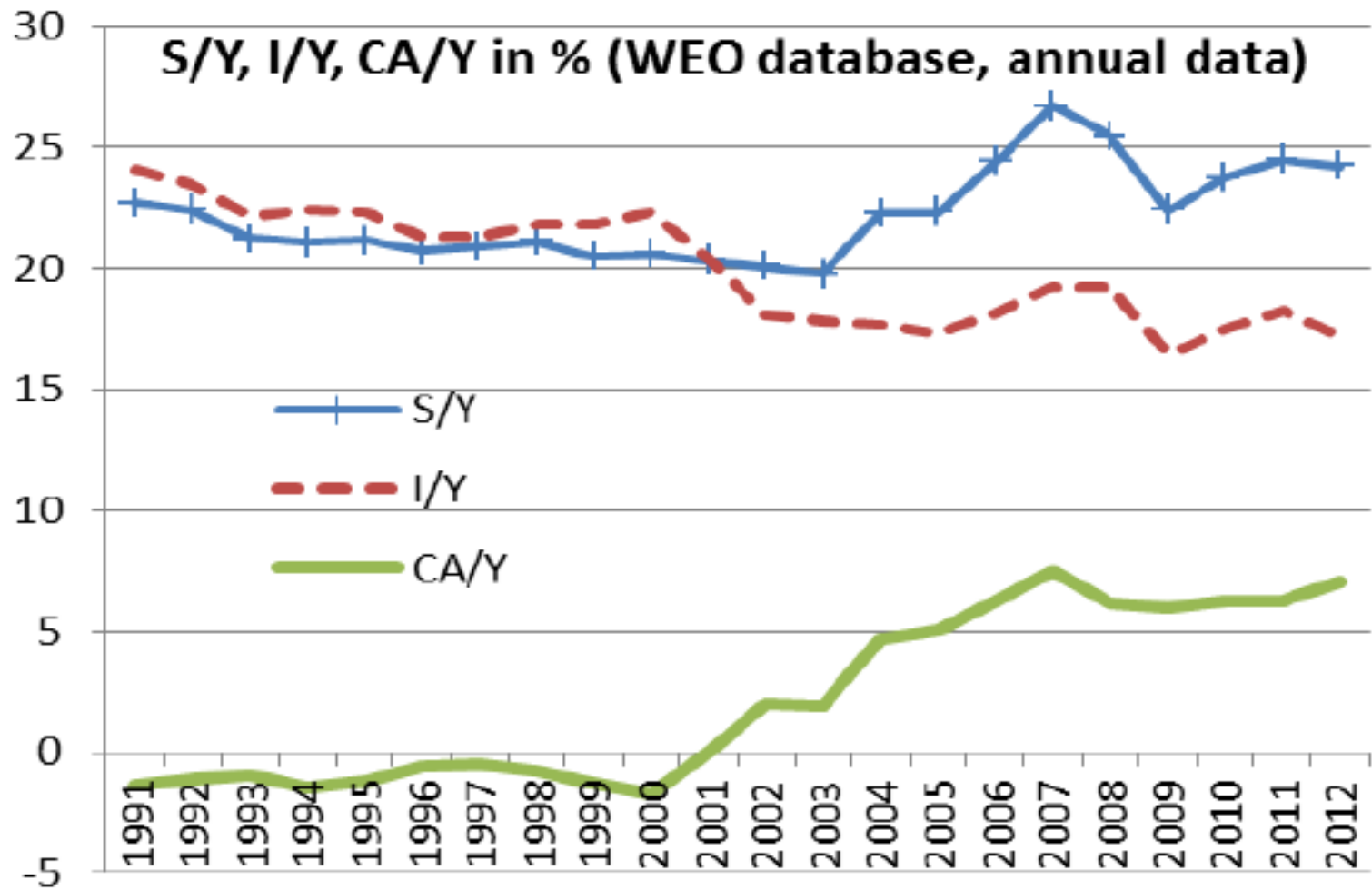
Source: EU Comm. and ECB.

Investment is weaker and weaker...



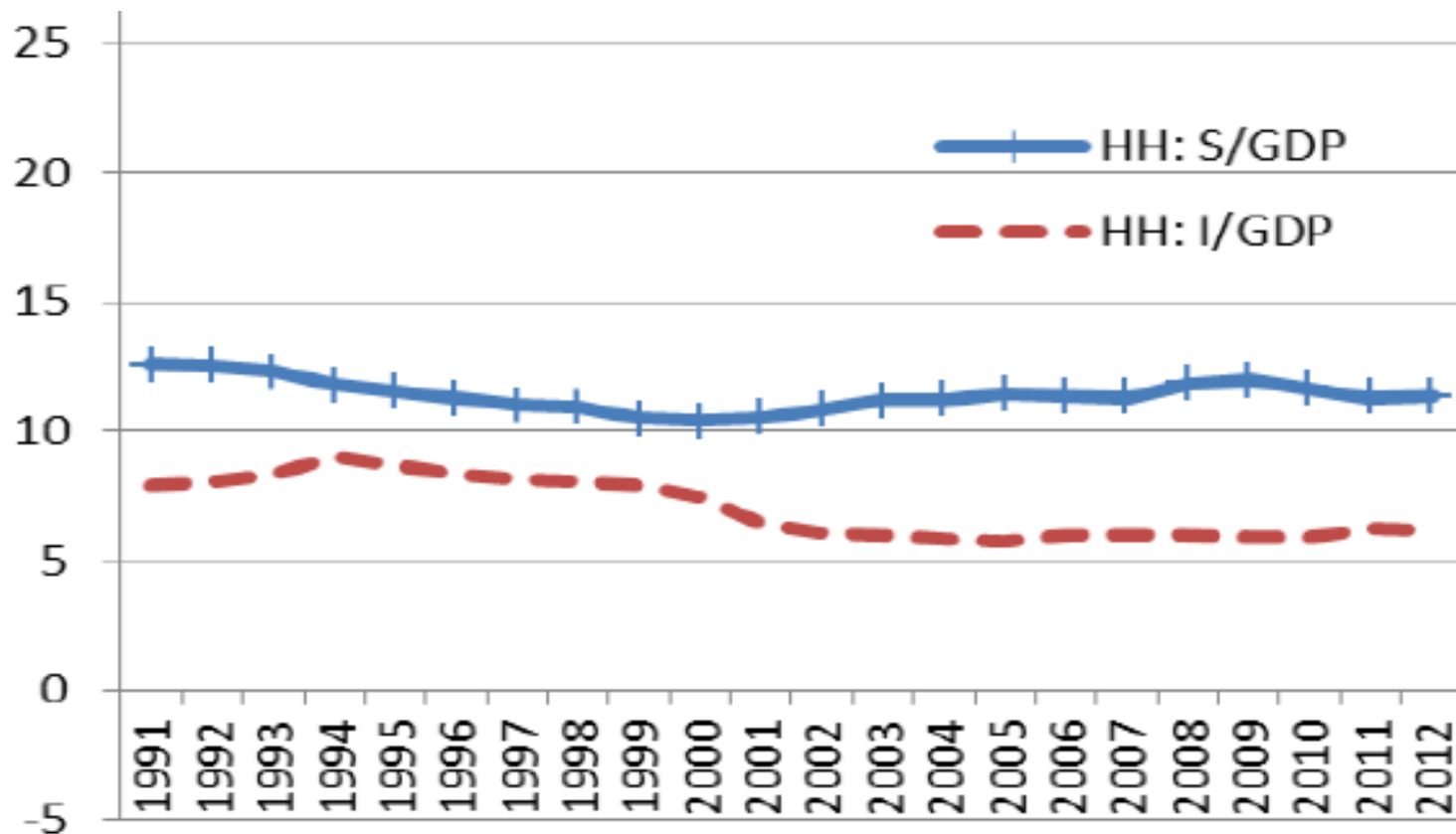
Investment in percent of GDP, dotted line: linear trend

... despite high savings



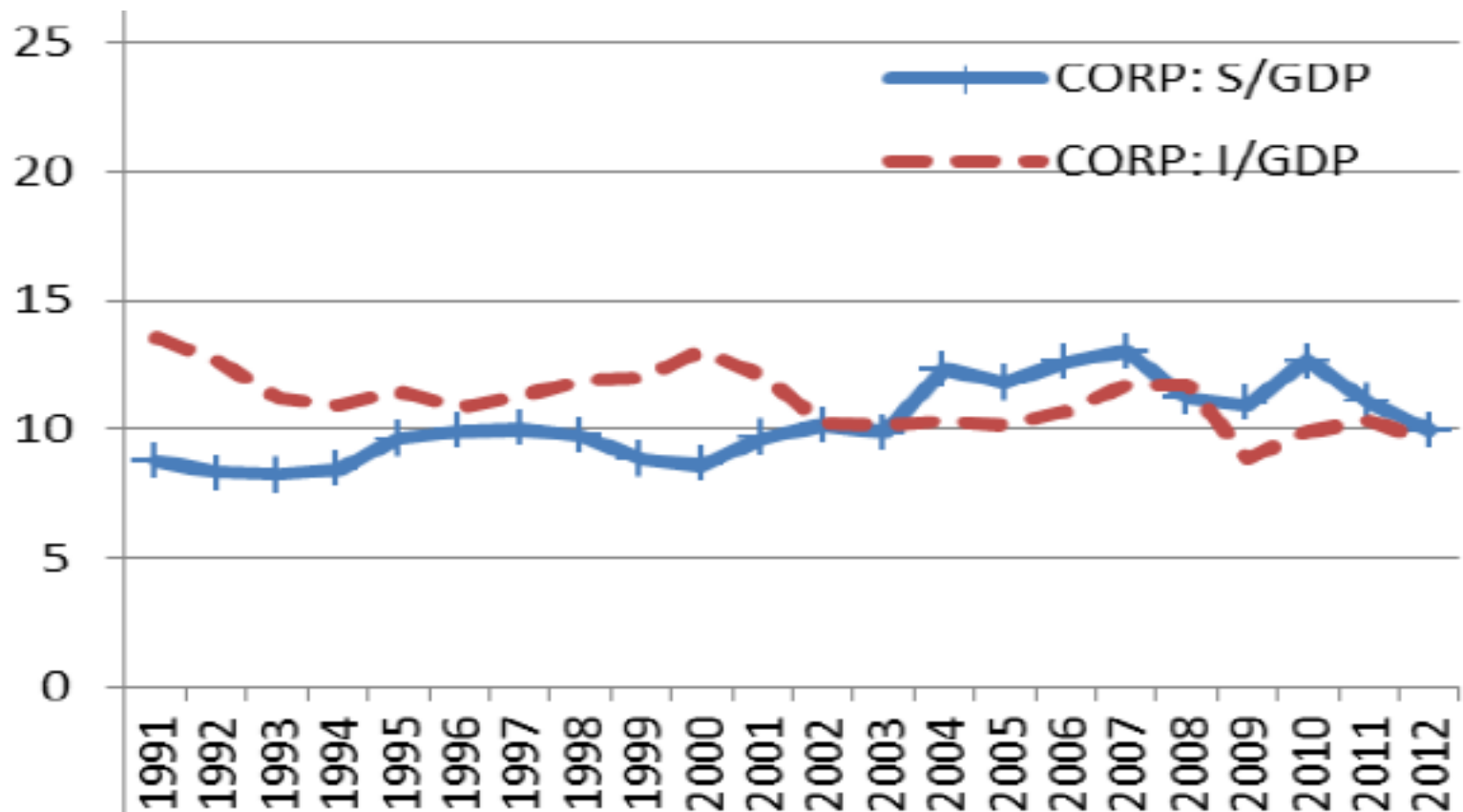
Source: Kollmann et al., 2013.

Excess savings both in household ...



Source: Kollmann et al., 2013.

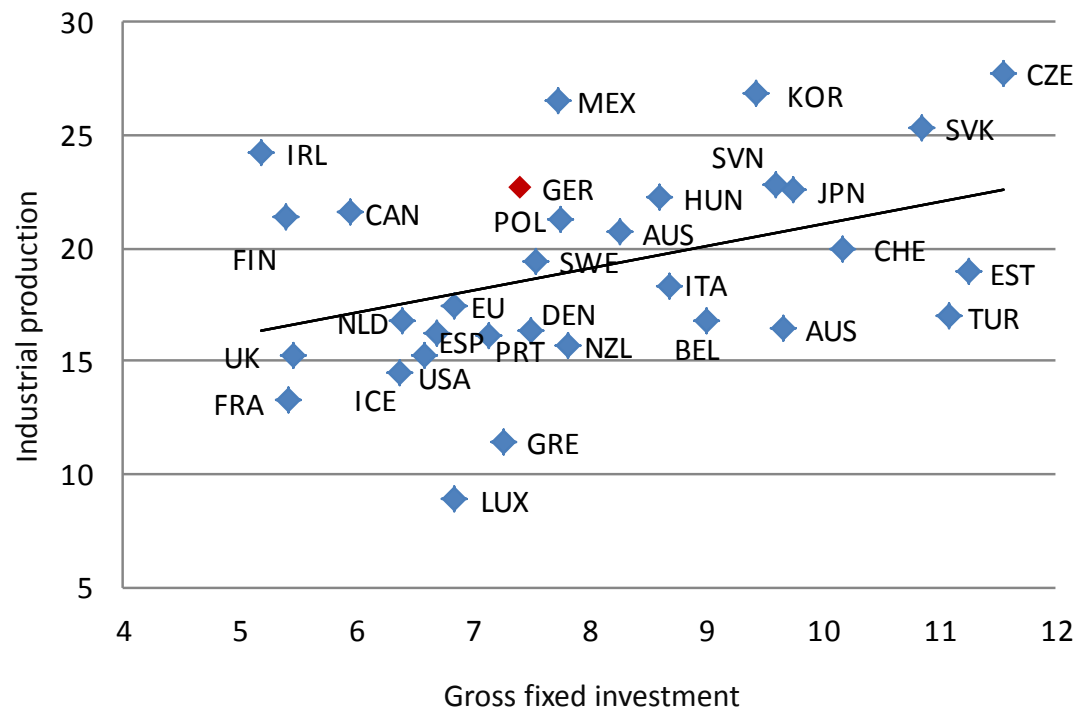
... but even more pronounced in firm sector



Source: Kollmann et al., 2013.

Fixed investment is weak despite strong industry

Average industrial production and gross fixed investment, 1999-2012
(% of GDP)

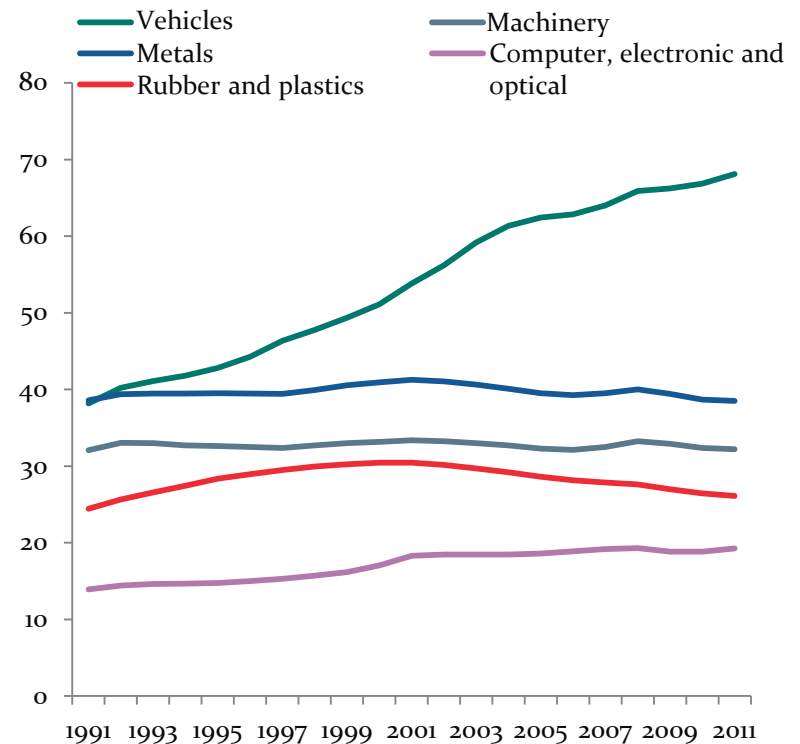
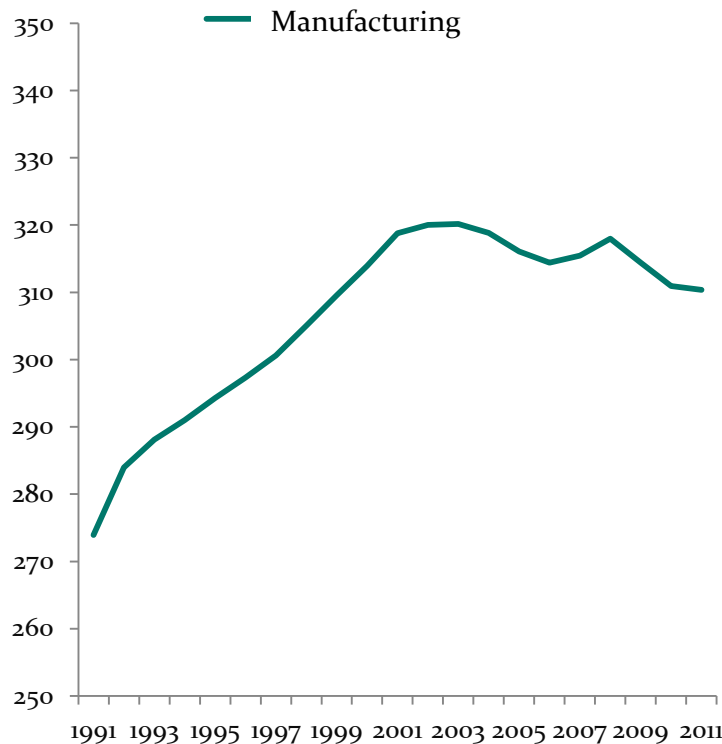


Source: EU Commission

Last Observation: 2012

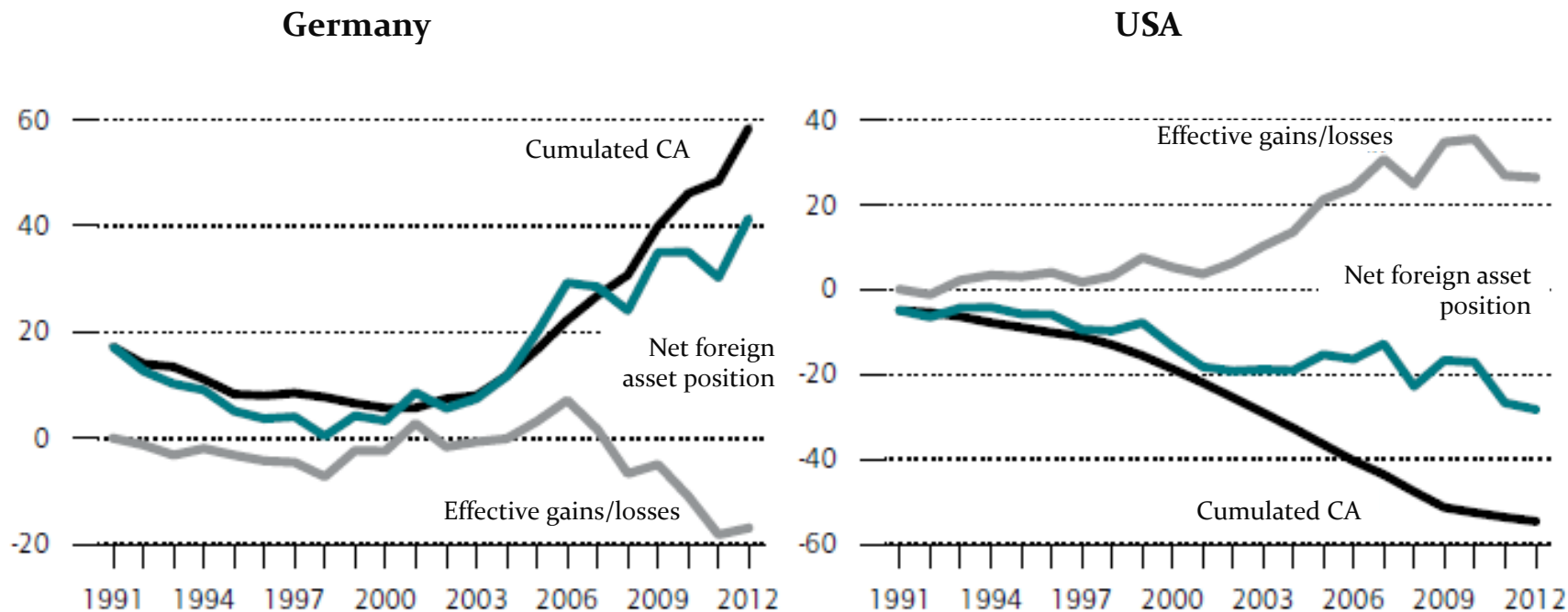
Capital stock is stagnating, except in car production

Real capital stock (bn. 2005 euro)



Current account surplus: Huge losses abroad

Cumulated current account and net foreign asset position (% of GDP)



Source: IMF, DIW Berlin.
Calculations: Baldi & Bremer 2013

Appendix

1. IWF CGER MB Approach: CA Benchmark

- **Estimation based on panel of countries:**

$$ca_{it} = \alpha_i + \sum_{l=1}^{p_i} b_{il} ca_{i,t-l} + \sum_{l=0}^{q_i} \mathbf{x}'_{i,t-l} \boldsymbol{\delta}_{il} + \epsilon_{it}$$

- IMF estimates model, which consists of 7 determinants:
 - Fiscal balance
 - 2 Demographic variables
 - Initial NFA
 - Oil balance
 - Relative income
 - Growth (for EMEs only)
 - And dummy variables