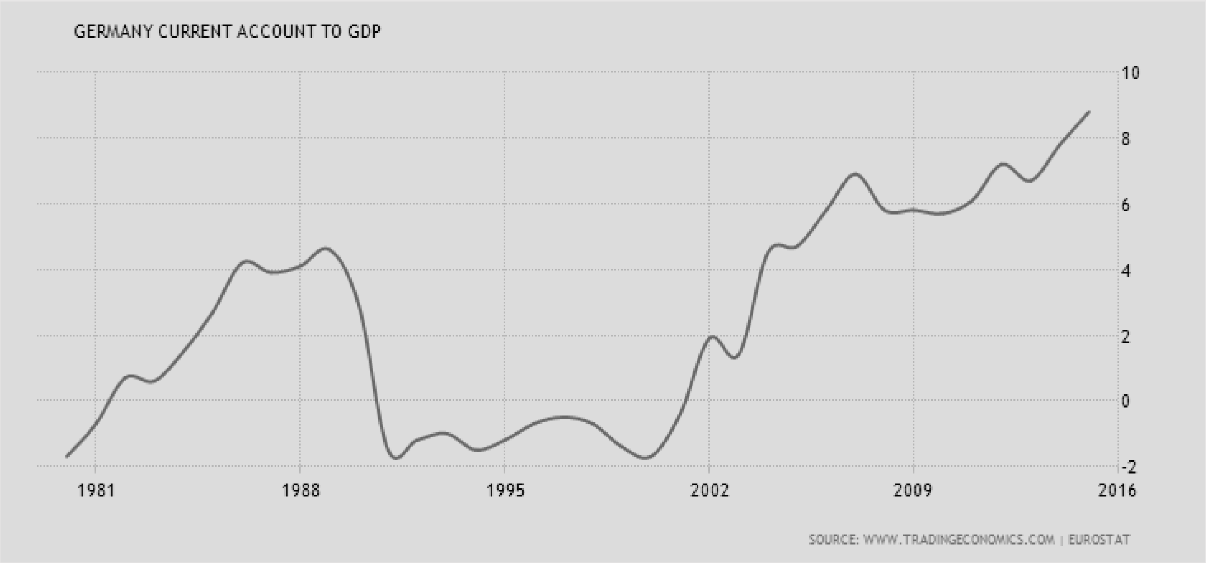
Gráfico da Semana

Trade surplus: is bigger really better?

Germany: Current Account to Gross Domestic Product (%), 1980-2016



In 2016, Germany is expected to record a current account surplus equivalent to 8.8 percent of its gross domestic product (gdp). The current account surplus comes largely from the trade balance. Germany is currently the country with the largest trade surplus. Its annual exports amount to EUR 1.2 trillion. The graph shows that the current account surplus that was attained in the late 1980s at around four percent of gdp turned into a deficit due to German unification after the fall of the Berlin Wall in 1989. Since 2000, however, a new upsurge has been in place.

For some, this is a cause of jubilation and a sign of the strength of the German economy. A deeper look at Germany's macroeconomic account, however, reveals a more sober picture. A country's trade balance is equal to the difference between a country's national savings and its gross investment (NX=S-I) with savings reflecting the difference between income and consumption (S=Y-C). Thus, a country with a current account surplus consumes or invests too little (or both) given its income. That is the case with Germany. Germany's current account surplus results from both too little investment and too little consumption.

Over the past ten years, Germany's gross savings rate has been 24 percent of its gross domestic product, while its gross investment rate has stood at 18 percent and the share of domestic consumption has been 75 percent.

A current account surplus implies capital exports, which in turn signifies the transfer of savings abroad. Too little investment means that the capital stock does not rise as much as it could. This, in turn, will lead to lower future income as otherwise would be the case. This means that while Germany consumes less now than it could, it may have to consume less in the future because of weaker production. The other option is that Germany may use its accumulated foreign assets that are approaching two trillion US dollars to finance future consumption. However, the realization of this option is contingent to the ability of Germany's debtors to deliver the goods that Germany would want or need in the future. In case the debtor countries should default in the future, Germany's foreign assets would vanish with it. The present analysis indicates that an excessive current or trade surplus is as critical an issue as excessive deficits.

: Postado por Antony P. Mueller em 05/03/2017