



Chart in focus

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Germany's current account

The end of criticism

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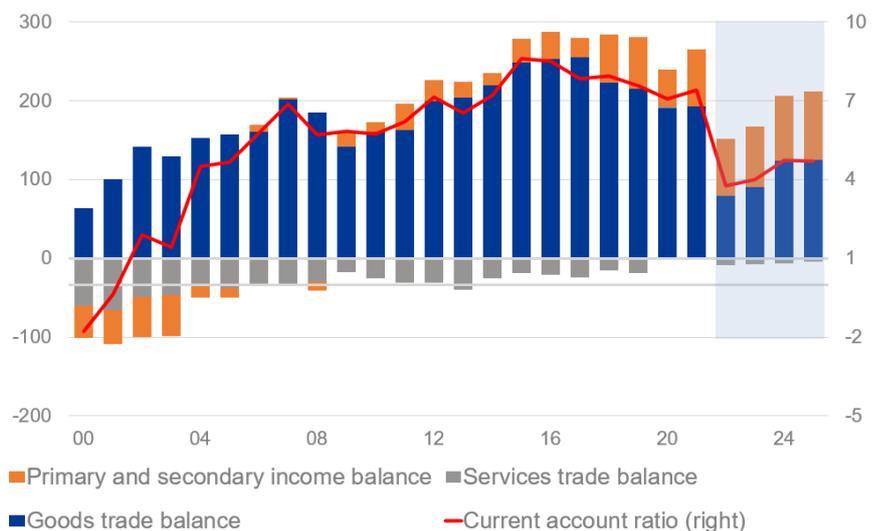
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Germany's current account is in flux. Currently, the "terms of trade" shock is reducing the surplus in the goods balance. But structural factors such as the reduced importance of industry and demographics also point to lower surpluses. In addition, we expect a further narrowing of the deficits in the services balance. The surpluses from the primary and secondary balance, on the other hand, are likely to increase further. In total, the current account ratio will fall sharply in 2022, especially measured in terms of GDP, and will also tend to be significantly lower than in the past thereafter. Accordingly, criticism of Germany's surpluses is likely to become increasingly muted.

Germany: Current account

left y-axis: EUR bn
right y-axis: in % of GDP



Sources: Bundesbank, Deutsche Bank Research

Germany's current account surpluses have been structurally high for about 20 years, and criticism of this wealth accumulation vis-à-vis foreign countries has lasted just as long. The largest annual surplus, at 8.6% relative to GDP, was achieved in 2015. Since then, surpluses have declined slightly (7.4% in 2021). Typically, the goods trade balance accounted for the lion's share of the surplus. However, due to the pandemic and high commodity prices, there have now been major shifts. The surplus on the goods trade balance fell to around EUR 190 bn in both 2020 and 2021. This is particularly notable in



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2021, as Germany's vaccine became an export hit, boosting consumer goods exports by around EUR 30 bn compared to 2020. The surplus of the goods trade balance in the two pandemic years is the lowest value since 2011. It collapsed further in 2022 due to a massive deterioration in the terms of trade. In May, import prices rose by more than 30% compared to the previous year, while export prices "only" increased by around 16%. As a result, nominal imports of goods increased much more strongly than exports of goods and the surplus shrank to only EUR 24 bn from January to May. For 2022, we therefore expect the goods trade surplus to be only EUR 80 bn. Given that commodity prices are likely to remain rather high, the surpluses in 2023 are likely to be similarly low. However, due to our expectation of declining energy prices in 2024 and 2025, it should then rise again to around EUR 120 bn.

But there has also been a lot of movement in the other components of the current account balance in recent years. From 1971 until the pandemic, Germany always had a deficit in the services balance. In 2000, a record deficit of EUR 60 bn was reported. Since then, the deficit has been trending downwards, reaching only EUR 18 bn in 2019. Due to very low travel volumes during the pandemic and high licensing income from vaccines, a small surplus was even achieved in the services balance in 2020 and 2021. In 2022 and subsequent years, the service balance is expected to be in deficit again due to the increase in travel and the expected decrease in vaccine licensing revenue. However, the annual deficits should only be in the single-digit billion range.

Primary incomes, in particular investment income from direct investments, have increased strongly with the accumulation of assets abroad. Most of the surplus in primary income is accounted for by European direct investment, but direct investment in the USA and China has also increased significantly in recent years. This has resulted in a surplus that is probably structural and tends to increase further. In contrast, deficits in secondary income – government and private transfer payments – are tending to increase further. Aggregated, the two sub-balances together will have achieved a surplus of EUR 72 bn in 2021, whereas 15 years ago this was almost balanced. If this trend continues over the next few years, the surplus would increase to EUR 87 bn in 2025.

Contraction of current account surplus in 2022 only comparable with reunification

In total, the current account surplus will shrink to only EUR 140 bn in 2022. Compared with EUR 265 bn in 2021, this is almost half the figure and by far the largest difference over the entire time series. The decline of around EUR 125 bn is historically at best comparable with the change in the current account balance after reunification. At that time, the surplus of almost EUR 40 bn in 1990 turned into a deficit of a similar size in 1991. In 2023, too, many of the current problems are likely to weigh on the economy, which is why we again forecast a relatively low surplus of EUR 160 bn. Based on our expectation of declining energy prices in 2024 and 2025, the current account should then rise again to over EUR 200 bn.

This means that over this forecast period the current account ratios as a share of GDP will decline significantly from over 7% in 2021 to below 4% in 2022 and below 5% in the following years. In 2022, the ratio would fall to its lowest level since 2004 and, for the first time since 2010, below the 6% threshold, which according to the EU's macroeconomic guidelines is an indicator of



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macroeconomic imbalance. The demographic development implies further declines in the following years as well. Similarly, Germany's industrial production is now around 10% below its peak in 2017, and many policy approaches in climate and environmental policy imply a further structural loss of competitiveness. This is another reason why the current account surpluses are likely to tend to shrink further. Criticism of Germany's current account surpluses is thus likely to become increasingly muted over the decade.

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