

19 September 2015

Seminar on „What Drives the German Current Account“ Winter Semester 2016/2017

Content

Germany's surplus on the current account of its balance of payments surged to a record level last year, reaching \$285bn, or 8.5 per cent of gross domestic product. It is now overtaking the Chinese surplus as the largest trade imbalance in the world. Although the term "crisis" is normally confined to trade deficits, not surpluses, this imbalance is clearly causing major headaches, both inside the Eurozone and globally.

Germany's balance of payments was in small deficit when East Germany was being absorbed during the 1990s, but since then the surplus has been persistent. During the 2000s it increased sharply with the rest of the Eurozone, largely because of improvements in German competitiveness following the Hartz labour reforms, and because of the unsustainable booms in peripheral Eurozone economies.

However, we can also view the surplus through a definitionally identical prism, which is the gap between domestic investment and domestic savings. Here, it has been driven by very high private savings (caused by the ageing of the population), and very low corporate investment (caused by weak growth prospects in Germany compared to those overseas). The unusually large financial surplus of the corporate sector is the counterpart of half of the current account surplus. This looks persistent.

Moreover, in recent years, Germany's budget balance flipped from red to black. The connection between budgets and current accounts might not be immediately obvious. Recent studies found evidence that cutting budget deficits is associated with reduced investment, greater saving and a shift in the current account from deficit toward surplus.

In this seminar the student will explore the underlying sources of German excessive current account.

Preparatory Seminar for Bachelor-thesis

This seminar is the first step in the preparation of your Bachelor-thesis. You will be required to present a detailed outline (Exposé) and defend your ideas during this seminar. The actual thesis will be written until the end of the winter semester 2016/2017.

Preliminary session

*The preliminary session will take place on Monday, **07 November 2016, 10-12 a.m , RW 6.***

Attendance is required. Also, you should be informed about the topics listed below and choose two priorities for your thesis. If the topics cannot be allocated according to the student's priorities, the remaining topics will be drawn.

Mentoring

Contact person for discussion and questions is Iryna Stewen. Please make an appointment and present the outline of your exposé. (iryna.stewen@uni-mainz.de)

Exposé of thesis project

Two copies and a pdf-file must be handed in at the secretariat. The exposé is expected to be written in English but could be also prepared in German language. Note that it should not exceed 5 pages (excl. cover sheet, graphs, figures and references). The exposé will be graded and is part of the final grade.

The exposé is a detailed outline of the Bachelor-thesis in written form. It should contain a brief review of the relevant literature. Note that the literature indicated below should only serve as a starting point for your review of the literature, and you are required to search for further literature. The exposé should contain a motivation and exposition of the main arguments and conclusions.

*Deadline for the exposé is **07th December 2016 12 pm.***

Presentation

You are required to present and defend your thesis project. Presentations are in English and should last no more than 20 minutes. Afterwards, a discussion will take place. Both the presentation and the participation in the discussion will be part of the final grade.

Every student must prepare a presentation to present his/her topic during the seminar. To present the topic and the questions it is recommended to use graphs to illustrate examples or to present data etc.

*The seminar will take place on:
Monday, **12th December 2016, 2-4 p.m HS IV (00 311) in ReWi II***

Please note that you are requested to start your Bachelor Thesis around the 9th January 2017. The time budget stands at exactly 8 weeks (not two months) and will therefore be approx. the 6th March 2017.

Topics and literature

Students are expected to read the introductory papers in advance prior to their decision to subscribe for this seminar. As an introduction, they sketch a timeline of German current account balance, an assessment of its prospects, as well as the interpretation of its driving factors.

The topics [1] to [5] can be covered only once.

1. **Blanchard Olivier and Gian Maria Milesi-Ferretti (2011)**: (Why) Should Current Account Balances Be Reduced?, IMF Staff Discussion Note, SDN/11/03.
2. **Deutsche Bundesbank (2013)**: "The German economy's current account surplus", Annual Report, 2013.
3. **German Council of Economic Experts (2014)**: "The German Current Account – Actionism is Inappropriate", Annual Economic Report 2014/2015.
4. **Kollmann R., Ratto M., Roeger W., in'tVeld J. and Lukas Vogel (2014)**: "What Drives the German Current Account ? And How Does It Affect Other EU Member States ?", Working Papers ECARES ECARES 2014-20, ULB -- Universite Libre de Bruxelles.
5. **Ji Xianbai Jason (2015)**: "The Drivers of Current Account Surplus in Germany and the Politics of Rebalancing in the Eurozone", EU Centre, Singapore Working Paper No. 24, April 2015.
6. **Daniel Gros and Matthias Busse (2013)**: „The Macroeconomic Imbalance Procedure and Germany: When is a Current Account Surplus an 'Imbalance'?", CEPS Policy Brief.
7. **OECD (2011)**: "The Impact of Structural Reforms on Current Account Imbalances", OECD Economics Department Policy Notes, No. 3.

Non-Academic References (optional)

Financial Times (2013, Nov 5th). Germany is a weight on the world.
Financial Times (2016, May 10th). Germany is the eurozone's biggest problem.
Financial Times (2016, Jul 10th). The German balance of payments quandary.
Economist, T. (2011, Oct 20th). Why not blame Germany? The Economist.
Economist, T. (2013a, Jun 15th). Dissecting the miracle. The Economist.
Economist, T. (2013b, Nov 23rd). Under the mattress. The Economist.
Economist, T. (2014a, Jun 7th). The limits to Infiti. The Economist.
Economist, T. (2014b, Nov 8th). Worse than nothing. The Economist.
Economist, T. (2015, Feb 14th). No new deal. The Economist.
Economist, T. (2016, Sep. 3rd). More spend, less thrift. The Economist.

Topic 1: Current Account and Fiscal Policy

Bluedorn J. And D. Leigh (2011): „Revisiting the Twin Deficit Hypothesis: The Effect of Fiscal Consolidation on the Current Account“, *IMF Economic Review*, Vol.59, No. 4, pp.582-602.

Ali Abbas, S., Bouhga-Hagbe, J., Fatás, A., Mauro P., and R. Velloso (2011): „Fiscal Policy and the Current Account“, *IMF Economic Review* 59: 603. doi:10.1057/imfer.2011.22

Topic 2: Current Account and Labour Market Reforms

Dustmann, C., B. Fitzenberger, U.Schönberg and A. Spitz-Oener (2014): "From Sick Man of Europe to Economic Superstar: Germany's Resurgent Economy." *Journal of Economic Perspectives*, 28(1): 167-88.

Bettendorf T. And M. Leon-Ledesma (2016): „Are lower German wages creating current account imbalances in the euro area?“ *Deutsche Bundesbank Research Brief*, 2nd edition – March 2016.

Bertola G. And A. Lo Prete (2015): "Reforms, Finance, and Current Accounts," *Review of International Economics*, Wiley Blackwell, vol. 23(3), pages 469-488, 08.

Topic 3: Current Account as a Buffer between Savings and Investment

Higgins, M. (1998): „Demography, national savings, and international capital flows“, *International Economic Review* 39, 343-69.

Gruber, J., and S. Kamin (2015). The Corporate Saving Glut in the Aftermath of the Global Financial Crisis *International Finance Discussion Papers* 1150.

Topic 4: Foreign Trade, Demand for German Goods and Current Account

Breuer, S. and J. Klose (2014), „Who gains from nominal devaluation? An empirical assessment of Euro Area exports and imports“, *The World Economy*, forthcoming.

Chen, R., G.-M. Milesi-Ferretti, T. Tressel (2012): "External imbalances in the euro area," *IMF Working Paper* 12/236.

Stephan, S. (2005): „Modellierung von Mengen und Preisen im deutschen Außenhandel“, *Dissertation am Fachbereich Wirtschaftswissenschaft der Freien Universität Berlin*.

Topic 5: Degree of Financial Intermediation, Saving Behaviour and Current Account

Liu, Liang-Yn & Woo, Wing Thye, (1994): "Saving Behaviour under Imperfect Financial Markets and the Current Account Consequences," *Economic Journal*, Royal Economic Society, vol. 104(424), pages 512-27, May.

Bertola G. And A. Lo Prete (2015): "Reforms, Finance, and Current Accounts," *Review of International Economics*, Wiley Blackwell, vol. 23(3), pages 469-488, 08.

Song Z., Storesletten K. and F. Zilibotti (2011): Growing Like China, *American Economic Review*, Vol. 101, pp.202-241.