Germany

Savings surplus harms growth potential

■ High savings by households and the non-financial business sector pushed the current account surplus to 8.6% of GDP in 2015, a new historical high.

■ This is partly related to population ageing and the reluctance of enterprises to step up investment.

■ Without change in policy, Germany's saving surplus is expected to remain high in the coming years. The lack of investment is harmful for the country's growth potential.

In 2015, the German current account surplus rose to 8.6% of GDP from 7.4% in 2014 (see Chart). This is a new historical high. The recently published Flow of Funds shows that the main contributors to the surplus are the household sector and non-financial corporations. The accounts for the government sector and the financial sector were close to balance.

Germany's high current account surplus is a rather controversial issue. Many consider it to be an important factor behind the euro zone's sluggish growth performance. Last February, in a study on macroeconomic imbalances, the European Commission attributed the high and persistent German current account surplus partly to weak investment and concluded that this poses risks for the future growth potential of the German economy. It called for further action to facilitate conditions for private investment.

Households: Saving for retirement

Despite the decline in interest rates in 2015, household increased their savings to 9.7% of net disposable income compared to 9.5% in 2014. The relatively high savings rate – the average savings rate in the EU is around 4% – is partly related to population ageing.

German households have traditionally been rather risk adverse. They have held almost 40% of their assets in currency and deposits. Moreover, almost 40% of household financial assets are in guaranteed benefit schemes. The guaranteed minimum rate of return for life insurance contracts – currently set at 1.25% – makes this form of saving very attractive. As interest rates have been declining – the yield on the 10-year Bund amounted to only 0.17 in May 2016 – it is virtually certain that the Finance Minister will reduce the minimum guaranteed rate once again.

Looking for higher yields, household have reduced their debt securities and saved less in deposits. This has benefited riskier asset classes such as equity that saw its share in the household portfolio rising to 19.6% in 2015, almost 1 percentage point higher than in 2014.

Non-financial corporations: A bumper year

In 2015, the financial surplus of the non-financial sector increased to 3.9% of GDP, 0.9 percentage point higher than in the preceding year. The surplus was boosted by increased sales and improved profit margins as companies benefited from a fall in capital costs and lower prices for primary commodities and intermediate goods. On the other hand, labour costs increased strongly, partly because of the introduction of the national minimum wage. In addition, profits were dented by one-off factors such as the substantial provisions set aside in the car industry following the diesel emission scandal.

■ Households and corporations are major savers

Financial surpluses (as % of GDP) of

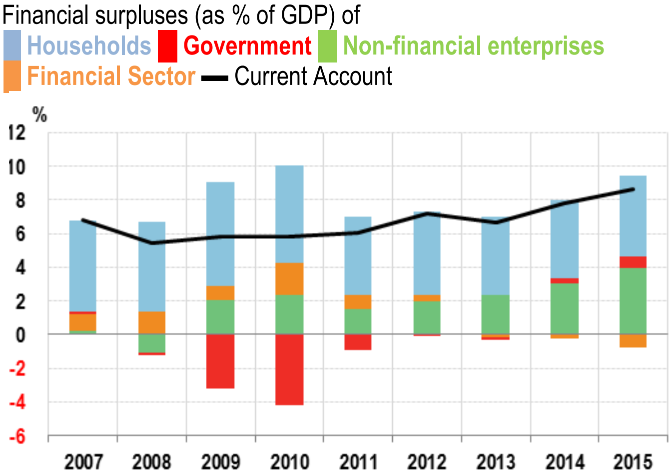

Chart Sources: Deutsche Bundesbank, Destatis

Despite the good earnings performance and the low interest rates, German enterprises hardly increased their capital spending. Instead they have used a substantial part of their financial resources to strengthen their presence in global value chains by offshoring production to Eastern Europe and other emerging economies.

New policies are needed to reduce saving surplus

In 2016 and 2017, the surplus on the current account may ease only slightly although remaining close to 8% of GDP. The main question that needs addressing is why the German economy is not stepping up investment even though interest rates are so low – negative in some cases – whereas the need for new investment, in particular in public infrastructure, is so high. This calls into question the wisdom of the balanced budget policy. Fiscal pump priming in combination with structural reforms might enhance Germany's growth potential and stimulate private investment.