AT A GLANCE

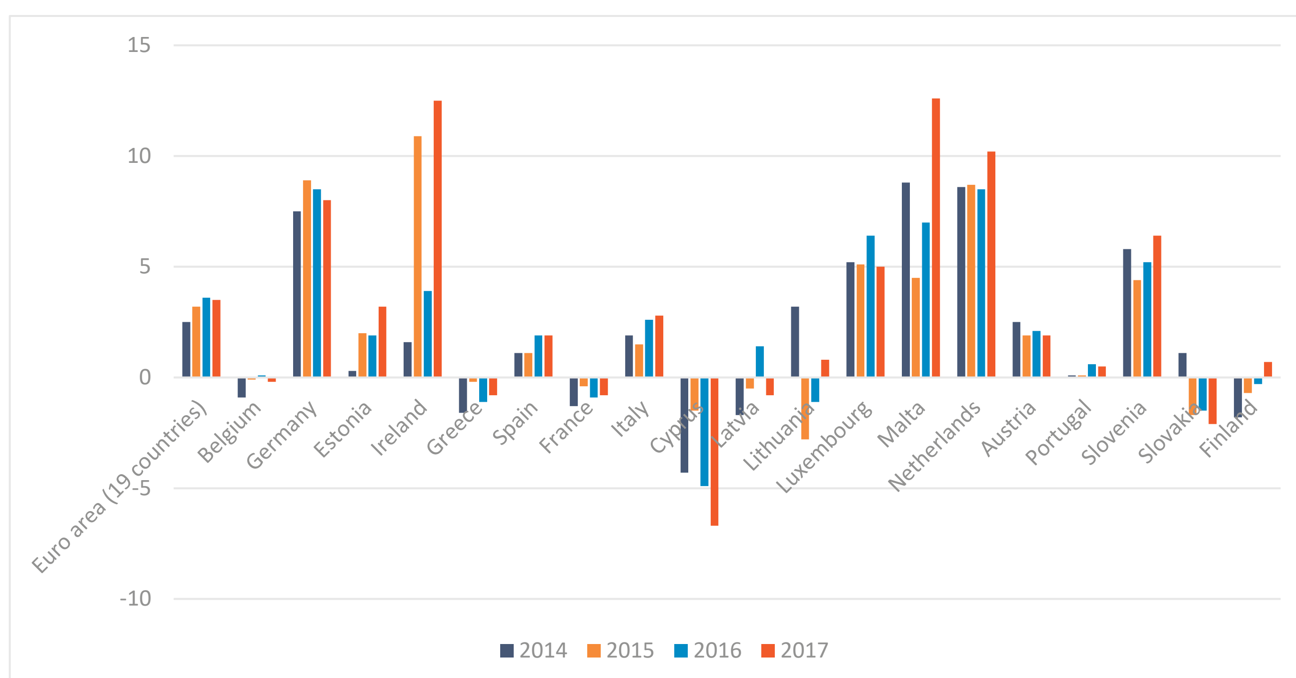
European Parliament

External Imbalances in the Euro Area

The **current account balance** is one of the indicators used in the Macroeconomic Imbalances Procedure (MIP) to signal a possible external imbalance: it provides information on the economic flows of a Member State with the rest of the world. It is the sum of the balances of trade (in goods and services), primary income (dividends and interests on foreign investments, plus salaries paid to/received by non-residents) and secondary income (remittances to/by foreign workers and contributions to EU institutions). The current accounts balance equals the **difference between national savings and investment:** catching-up countries often run current account deficits, in view of future growth, while countries with ageing population may decide to save today, i.e. run current account surpluses, to avoid drop of consumption in the future.

Sustainability of current accounts deficits and surplus depends on various factors, including the amount of public and private external debt and the size and nature of the tradable sector of the economy. In the context of the MIP, the current account indicator is defined as the average of the latest 3 years, with the indicative **threshold of -4% and +6%** of GDP. An EGOV paper focusing on MIP implementation presents institutional positions on current account imbalances in the euro area.

Chart: Current Accounts in Euro Area Member States, 2014-2017 (annual data, % of GDP)



Source: Eurostat, data retrieved on 23 May 2018

The Chart above shows that **between 2014 and 2017**:

- Germany, Estonia, Ireland, Spain, Italy, Luxembourg, Malta, the Netherland, Austria, Portugal and Slovenia **always ran surpluses** over this period, with Germany - after it peaked in 2015 - slightly reducing its surplus;
- Greece, France and Cyprus were **always in deficit -** Greece, France, and Cyprus always run deficits, on a trend continuing since 2007;
- Belgium, Latvia, Lithuania, Slovakia and Finland show variations, with Finland recording a **positive** trend, while Slovakia a negative trend;
- The Euro Area as a whole is experiencing an **aggregate surplus** of 3.5% of its GDP in 2017, projected to decline to 3.4% of GDP in 2019.

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Euro area countries with high current account deficits before the crisis have now achieved balanced positions, even if often by reducing imports. However, the adjustment is asymmetric, as countries with major surplus are further increasing or maintaining their surplus. This makes rebalancing, both internally and externally, of the Euro Area more difficult.

The 2018 Council Euro Area recommedation states the following: "*Member States with current account deficits or high external debt should additionally aim at containing growth in unit labour costs and seek to improve their competitiveness. Member States with large current account surpluses should additionally create the conditions to promote wage growth respecting the role of social partners and implement as a priority measures that foster investment, support domestic demand and growth potential, thereby also facilitating rebalancing.*"

The divergent current account developments across Euro Area Member States reflect the differences in the structure of their economies.

Table below presents the **components** of the current account, as well as the **capital account**. Ireland registered in 2017 a value of the capital account unusually negative, due to the acquisition of mainly intellectual property, which might be one consequesnce of relocalisation following the Brexit referendum.

Table: Current accounts components, Capital Account and NIIP in 2017 (% of GDP)

	Current account balance	Trade		Primary income (Interests and dividends, salaries to/from non-residents...)	Secondary income (Remittances , transfers to the EU)	Capital account (investment grants, capital taxes, transactions associated with land assets, patents, trademarks and copyrights...)	Net International Investment Position
		Goods	Services (Tourism, financial services...)				
BE	-0,2	0,1	0,5	0,8	-1,5	0,1	55,6
DE	8,0**	8,1	-0,5	2,1	-1,7	0,0	59,1
EE	3,2	-3,8	8,3	-2,0	0,6	0,8	-30,2
IE	12,5**	36,2	-4,1	-18,2	-1,4	-9.1	**-155,8**
EL	-0,8	-10,3	9,8	0,1	-0,3	0,5	**-140,9**
ES	1,9	-1,9	4,8	0,0	-1,0	0,2	**-80,8**
FR	-0,8	-2,0	0,8	2,4	-1,9	0,0	-20,2
IT	2,8	3,2	-0,2	0,6	-0,9	-0,1	-6,7
CY	-6,7**	-23,5	21,6	-2,5	-2,2	0,5	**-120,4**
LV	-0,8	-9,7	8,4	-0,7	1,2	0,8	**-56,5**
LT	0,8	-5,2	7,4	-3,3	1,8	1,2	**-35,5**
LU	5,0	-7,5	41,9	-29,9	0,5	-0,5	42,3
MT*	7,0**	-18,7	30,5	-6,9	2,3	0,4	45,2
NL	10,2**	12,3	-0,7	-0,3	-1,0	0,5	69,6
AU	1,9	-0,3	2,8	0,2	-0,8	-0,1	6,0
PT	0,5	-6,3	8,1	-2,5	1,2	0,9	**-105,7**
SI	6,4	3,6	5,9	-2,6	-0,6	-0,5	-31,3
SK	-2,1	0,8	1,0	-2,3	-1,5	0,9	**-63,9**
FI	0,7	1,0	-0,5	1,2	-0,9	0,1	5,7

Source: Eurostat, data retrieved on 23 May 2018. * 2016 ** CA values over MIP threshold according to the 2017 MIP indicator (3 years average). **Bold:** NIIP values over threshold

Accumulations over time of current account balances plus the capital accounts determine the **Net International Investment Position (NIIP)** of a country, which is another indicator used in the MIP -scoreboard to measure possible external imbalances. NIIP records the net financial position (the stock of external assets minus the stock of external liabilities) and the indicative **MIP threshold is -35%** of GDP.

Ireland, Greece, Spain, Cyprus, Latvia, Lithuania, Portugal, and Slovakia presented in 2017 external positions below the thresholds: they are characterized by being either catching up economies or countries that were (or are, in the case of Greece) under financial assistance programmes.

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