BRIEFING

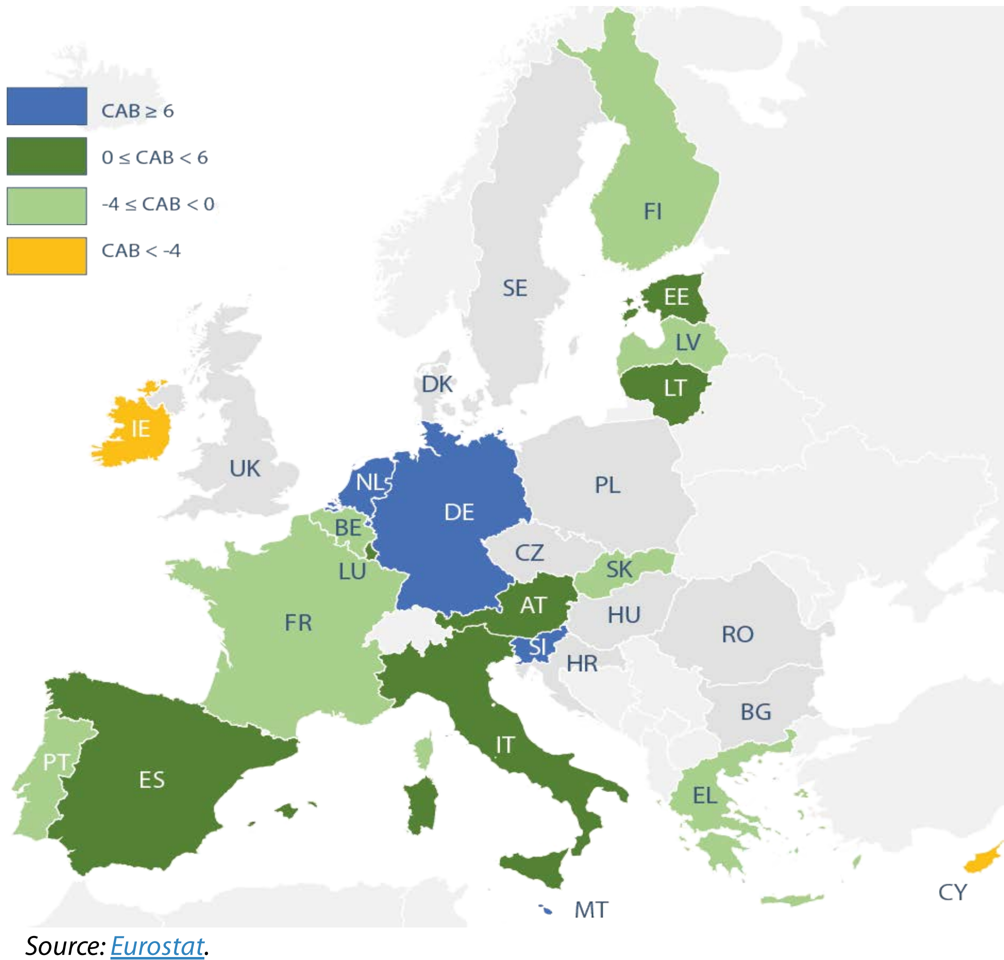
External Imbalances in the Euro Area - July 2020

This note provides a short overview of the latest data related to external imbalances in euro area Member States, with specific reference to some indicators included in the scoreboard of the Macroeconomic Imbalances Procedure.

In the first decade of the common currency, external imbalances developed in several euro area Member States and accentuated the effects of the global financial crisis started in 2008. The EU set up the Macroeconomic Imbalances Procedure (MIP), aimed at preventing and correcting macroeconomic imbalances, with focus, *inter alia*, on external imbalances of EU Member States. This note deals with the current accounts (including its components) and the Net International Investment Position, that are two of the indicators used to signal external imbalances.

The current account balance provides information on the economic flows of an economy with all its external partners.

Graph 1: Current accounts balance in euro area Member States, 2019 **(% GDP)**



Source: Eurostat.

Author: Saverio Lenzi, Alice Zoppè
Directorate-General for Internal Policies

PE 528.753 – July 2020

EN

The **current account balance** is the sum of the balances of trade (in goods and services), of primary income (dividends and interests on foreign investments, salaries paid to non-residents) and secondary income (remittances sent abroad by foreign workers or received by nationals; foreign aid 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, i.e. run current account surpluses.

Table 1 presents the **components** of the current accounts for euro area Member States in 2019, as well as the Capital Account and the Net International Investment Position. One can see the different structures of the economies: e.g. high net exports of goods in the Netherlands and in Germany; high net exports of services in Luxembourg (due to financial services) and in Greece and Portugal (due to tourism). Ireland registers values of current accounts and of the capital account quite volatile[1].

Accumulations over time of current account balances plus the capital and the financial accounts determine the **Net International Investment Position (NIIP)** of a country.

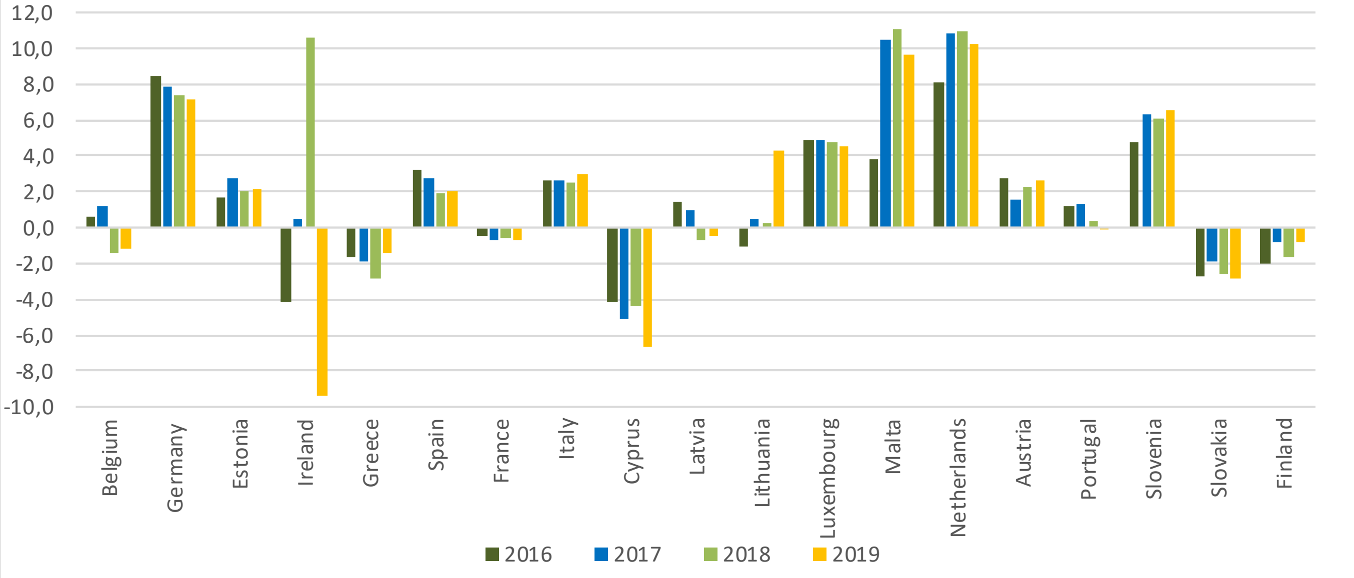
Table 1: Current accounts components, Capital Account and NIIP in 2019 (% of GDP)

Member State	Current account balance	Trade		Primary income (Interests and dividends, salaries to/from non-residents...)	Secondary income (Remittances, foreign aid, transfers to the EU)	Capital account (investment grants, capital taxes, trans-actions associated with land assets, patents, trademarks and copyrights...)	Net International Investment Position
		Goods	Services				
BE	-1.2	-0.1	0.1	0.1	-1.4	0.1	47.2
DE	7.1	6.4	-0.6	2.7	-1.4	0.0	71.2
EE	2.2	-3.1	7.2	-2.1	0.2	1.0	-19.7
IE	-9.4	35.4	-21.0	-22.9	-0.95	-9.9	**-172.0**
EL	-1.4	-12.2	11.3	-0.8	0.3	0.4	**-150.6**
ES	2.0	-2.3	5.1	0.2	-1.0	0.3	**-74.0**
FR	-0.7	-1.9	0.9	2.3	-1.9	0.1	-23.3
IT	3.0	3.2	-0.1	0.8	-1.0	-0.1	-1.7
CY	-6.7	-21.5	21.3	-5.3	-1.2	0.2	**-116.0**
LV	-0.5	-8.1	8.2	-1.4	0.8	1.9	**-44.1**
LT	4.3	-4.5	10.1	-2.9	1.6	1.7	-23.7
LU	4.5	-1.7	37.3	-30.4	-0.7	-0.2	50.9
MT	9.7	-12.0	32.4	-9.5	-1.2	0.9	62.7
NL	10.2	8.5	2.2	0.3	-0.9	0.0	89.2
AU	2.6	0.9	2.6	0.0	-0.9	0.0	9.6
PT	-0.1	-7.9	8.2	-2.5	2.0	1.0	**-100.8**
SI	6.6	2.8	6.3	-1.5	-1.1	-0.4	-19.3
SK	-2.9	-0.8	1.1	-2.1	-1.1	1.0	**-65.5**
FI	-0.8	1.1	-0.6	-0.2	-1.0	0.1	1.7

*Source: Current account components and Capital Account: Eurostat; NIIP: Eurostat. In **bold**: values exceeding the indicative MIP threshold for NIIP (-35%)*

[1] It should be noted that data for Ireland are affected by its specific "statistical characteristic": due to the elevated presence of multinational activities in the country, it is difficult to correctly estimate the Current Account. See this note from the Irish Central Statistical Office for details.

Graph 2: Current accounts in Euro Area Member States, 2016-2019 (annual data, % of GDP)



Source: Eurostat, data retrieved on 2 July 2020

As for development over time, Graph 2 shows that **between 2016 and 2019**:

- Germany, Estonia, Spain, Italy, Luxembourg, Malta, the Netherlands, Austria and Slovenia **always had surpluses;** Germany - after a peak in 2016 - slightly reduced its surplus, while Malta and the Netherlands reached their peak in 2018;
- Greece, France, Cyprus, Slovakia and Finland were **always in deficit**;
- Belgium, Ireland, Latvia and Lithuania and Portugal show **variations**, with Ireland presenting high volatility.

In the context of the MIP, the current account indicator is defined as the average of the latest 3 years, with an **indicative threshold** signaling possible imbalances of -4% and +6% of GDP. The indicative **threshold for the NIIP** is -35% of GDP. In 2019, Ireland, Greece, Spain, Cyprus, Latvia, Portugal and Slovakia presented external positions below the thresholds: these countries are characterized by being either countries that were under financial assistance and/or catching up economies.

Table 2 shows the developments of the euro area Member States since 2009, with reference to the **indicator of the MIP scoreboard**: green cells indicate values within the MIP thresholds, yellow cells indicate values lower than -4% and blue cells indicate values greater than +6%. Overall, the countries in the euro area exhibit more balanced values of the indicator in 2018 compared to 2009, even if partly as a result of a reduction in imports. More specifically, the ten countries presenting values below -4% in 2009 have reached a more balanced position in 2018, except for Cyprus, which still exhibits values below the lower threshold in 2018[2]. The Netherlands and Germany present values of the indicator above the upper threshold of +6% since 2011 and 2012, respectively. Malta represents an exceptional case, as it has shifted from values of the indicator below the lower threshold in 2009 to an excessive imbalance in the opposite direction in 2018. An EGOV paper focusing on MIP implementation presents, *inter alia*, some institutional positions on current account imbalances in the euro area.

In the context of the 2020 European Semester, the Council Recommendation on the economic policies of the euro area requires: *"In euro area Member States with current account deficits or high external debt, pursue reforms to boost competitiveness and reduce external debt. In euro area Member States with large current account surpluses, strengthen the conditions that support wage growth, while respecting the role of social partners, and implement measures that foster public and private investment."*

2 According to the specific Country Report of the European Commission, the current account in Cyprus is significantly affected by the activities of the Special Purpose Entities (SPE), which are widely used to register ships by non-residents: shipping-related transactions introduce bias in the country's imports and exports statistics.

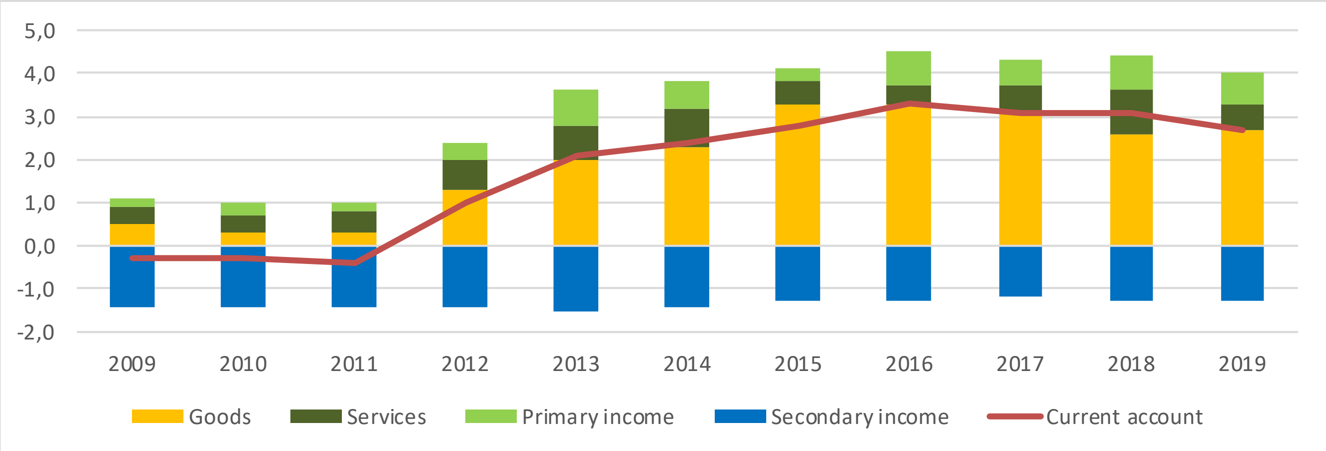
Table 2: MIP scoreboard indicator for Current account imbalances (3-year moving average)

Country	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
BE	0.9	0.8	0.4	-0.1	-0.4	0.5	1.0	0.9	1.1	0.3
DE	6.1	5.8	5.9	6.4	6.6	7.0	7.4	8.1	8.4	8.0
EE	-7.0	-1.4	1.9	0.4	-0.1	-0.3	0.9	1.4	2.0	2.1
IE	-5.8	-4.0	-2.5	-2.1	-1.2	-0.3	2.3	0.4	0.2	2.3
EL	-14.2	-12.5	-10.3	-7.4	-4.5	-1.9	-1.0	-1.1	-1.5	-2.2
ES	-7.5	-5.5	-3.5	-2.1	-0.2	1.3	1.9	2.3	2.6	2.6
FR	-0.4	-0.6	-0.7	-0.8	-0.8	-0.8	-0.6	-0.6	-0.5	-0.6
IT	-2.0	-2.7	-2.7	-2.1	-0.6	0.9	1.5	2.0	2.2	2.6
CY	-11.0	-10.7	-6.6	-5.9	-2.8	-3.4	-2.1	-3.0	-3.3	-4.6
LV	-8.4	-0.9	2.1	-1.7	-3.2	-2.9	-2.0	-0.6	0.5	0.6
LT	-8.8	-3.6	-0.5	-1.7	-1.2	1.2	0.9	0.0	-1.0	-0.1
LU	8.2	7.1	6.6	6.1	5.7	5.4	5.2	5.1	5.0	4.9
MT	-4.6	-5.7	-5.6	-2.9	-0.8	1.8	2.9	4.1	6.0	8.9
NL	5.8	5.8	7.0	8.6	9.5	9.5	8.2	7.6	8.4	9.9
AT	3.6	3.3	2.4	2.0	1.7	2.0	2.0	2.3	2.0	2.2
PT	-10.6	-10.8	-8.8	-5.9	-2.0	0.1	0.7	0.5	0.8	0.9
SI	-3.5	-2.4	-0.9	-0.1	1.3	3.2	4.1	4.6	4.9	5.5
SK	-5.3	-4.9	-4.3	-2.9	-0.7	1.3	0.3	-1.2	-2.2	-2.4
FI	2.9	2.0	0.7	-0.7	-1.8	-1.7	-1.4	-1.4	-1.2	-1.4

Source: Eurostat - Macroeconomic imbalance procedure (CAB, 3 year average) - AMR Statistical annex (2020) indicators. Green cells denote values within the MIP scoreboard; yellow cells indicate values lower than -4%; blue cells indicate values greater than +6%.

Graph 3 presents the evolution of Current Account (CA) and its components in the euro area as a whole, from 2009 to 2019: the only negative component is constituted by secondary income (remittances and external aid), while the share of goods and services is changing. The euro area has the world's largest current account surplus.

Graph 3: Evolution of Current Accounts for the euro area and its components, 2009-2019 (%GDP)



Source: Eurostat

In its recent Spring Economic Forecasts 2020, the Commission estimates the CA surplus for the euro area to be 2.7% of GDP in 2020, and to increase to 3.0% in 2021. Interestingly, the CA does not appear to deteriorate in the upcoming years, despite the pandemic. In this respect, the Commission notes: *"Due to the synchronous global economic downturn expected in 2020 and the subsequent rebound in 2021, euro area exports and imports are set to move almost in parallel [...]".*