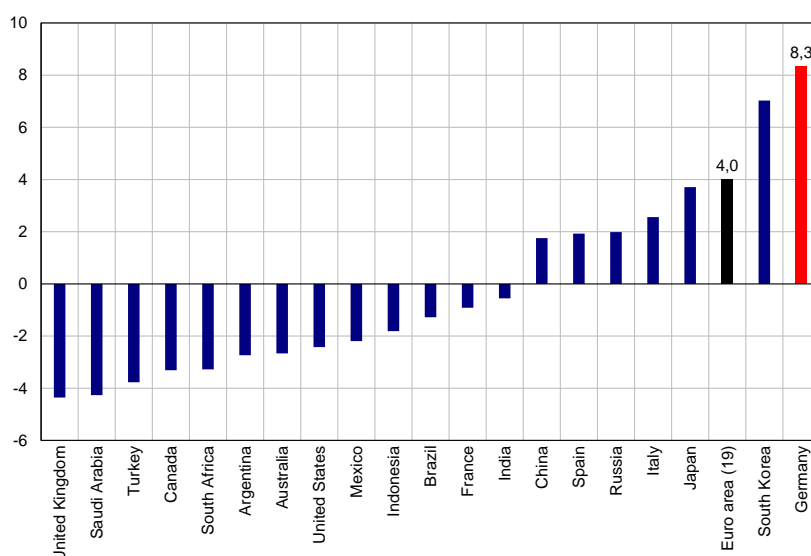


How to explain Germany's strong current account surplus?

- Germany's current account – the difference between domestic saving and investment – was slightly in deficit in 2000. By 2016, it totalled an unprecedented €261bn, or more than 8% of the country's GDP.
- Wage moderation during the 2000s accounts for up to a third of this surplus. Slower increases in German wages relative to those in the euro area improved Germany's competitiveness within the single currency zone and led to higher exports, whereas low wages dampened both consumption and imports.
- Germany's ageing population – the country's birth rate has been declining since the end of the Second World War – could account for another third of the current account surplus. German baby boomers are now nearing retirement and are saving in anticipation. At the same time, sluggish population growth weighs on investment due to the expected slowdown in growth over the long term.
- The remaining third of the country's surplus reflects other factors, first among them being a tighter fiscal policy than its neighbours'.
- A number of observers have found Germany's current account surplus to be excessive in light of the country's economic fundamentals. This partly reflects a price misalignment between Germany and the rest of the euro area, which should be reduced inasmuch as it goes hand-in-hand with an uneven distribution of activity between euro area countries: excess activity in Germany to the detriment of activity elsewhere.
- To help rebalance current accounts across the euro area, Germany could boost wages and stimulate domestic demand, which would lower its surplus and increase euro-area inflation, at a time of constrained monetary policy. At the same time, other euro area countries should continue their fiscal consolidation efforts and keep wage increases in check.

Current account balances in 2016 (in % of GDP growth)



Source: OECD; Scope: G20 economies and major European economies.

1. Germany's high current account surplus stems from strong private-sector saving

Germany's current account – the difference between domestic saving and investment – has risen sharply since 2000. This surplus is a reflection of the financing capacity of Germany, which is a net lender abroad. Whereas in 2000 the country's current account stood at -1.7% of GDP, by 2016 it had reached 8.3% of GDP, or €261bn, in contrast with other euro area countries (see Box 1). Adjusted for cyclical effects, such as sluggish demand in some European economies, the IMF estimates that Germany's structural current account surplus is even higher: 8.5% of GDP. The current account balance is also defined as the sum of the trade balance (international trade in goods and services) and the balance of income and current transfers.¹

The increase in Germany's current account is primarily a reflection of its buoyant trade balance, whose surplus grew by more than 7 percentage points of GDP in 15 years (see Chart 1). Trade surpluses since the early 2000s have allowed Germany to accumulate assets around the world, mainly in the form of FDI and portfolio investments. Germany's net external position² is thus strongly positive (55.1% of GDP in 2016 compared to 1.6% in 2000, see Chart 3), and the income from these assets also contributes to an increase in the current account surplus.

Strong saving by the private-sector accounts for Germany's significant financing capacity. An accounting breakdown indicates that households and businesses are the main contributors to the German current account balance (see Chart 2).

- Since 2000, the gap between corporate saving and investment has increased by 10 percentage points of GDP. This gap primarily reflects an upswing in export earnings combined with sluggish wage growth,³ a decline in the rate of business investment,⁴ a fall-off in distributed income⁵ and a drop in interest charges following the slow rise in corporate indebtedness (this stands in contrast with other euro area countries: the gap with the debt ratio of euro area businesses increased by almost 40 points of value added).
- As regards households, the saving rate increased moderately in the early 2000s, due to deleveraging after a strong period of real estate investment after reunification, and the need to build up funded retirement savings accounts following the reduction in pension benefits. Since 2008, the gap between household saving and investment has remained at a high, relatively stable level of some 5 percentage points of GDP.
- Finally, general government has also contributed to the current account surplus since 2014, following the fiscal consolidation efforts introduced in 2004 (excluding the management of the 2008-2010 financial crisis).

¹Income refers to wages, dividends and interests, whereas current transfers include transfers of funds, donations and international aid.

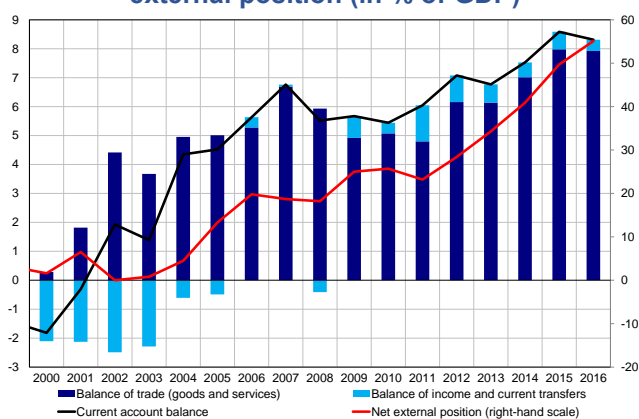
²The net external position is the net worth or net indebtedness of Germans (residents) with respect to the rest of the world. When this position is positive, it means that Germans have invested more abroad than they have received in foreign capital.

³D. de Waziers (2017), "Rationale for the new wage momentum in Germany", *Trésor-Economics* no. 202.

⁴20% in 2016 against an annual average of 23% in the 1990s. Cf. L. Baquero (2016), "Is there too little private investment in Germany?" *Trésor-Economics* no. 172.

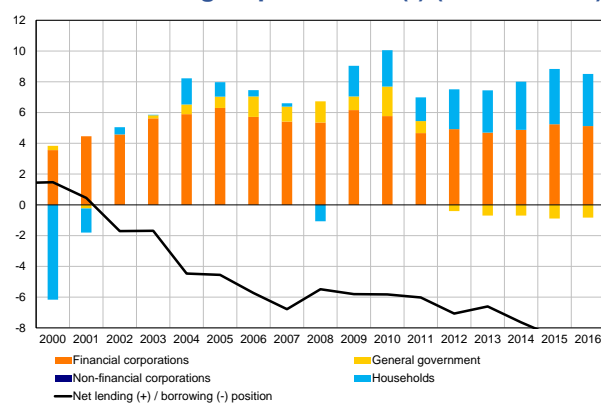
⁵This profit retention could be the result of several factors: tax reforms that highlight the appeal of foreign investments and company capitalisation, heightened equity capital in SMEs following the financial crisis and increased risk provisions, as well as low interest rates that force companies to increase their pension fund provisions. See Council of Economic Experts, annual report, 2014-2015 and Natixis, "Special report: une hausse du surplus courant allemand jusqu'en 2022?" July 2017.

Chart 1: German current account balance and net external position (in % of GDP)



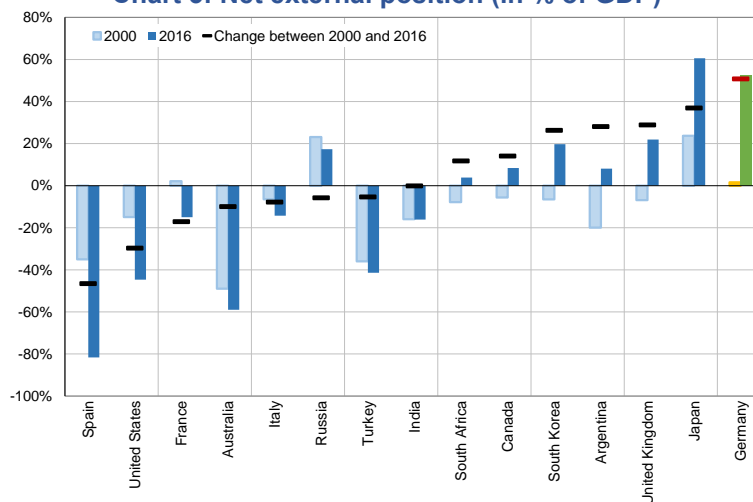
Sources: Destatis, Bundesbank, Eurostat;
DG Trésor calculations.

Chart 2: Institutional sector lending capacities (+) and borrowing requirements (-) (in % of GDP)



Source: Destatis; DG Trésor calculations.

Chart 3: Net external position (in % of GDP)



Source: IMF.

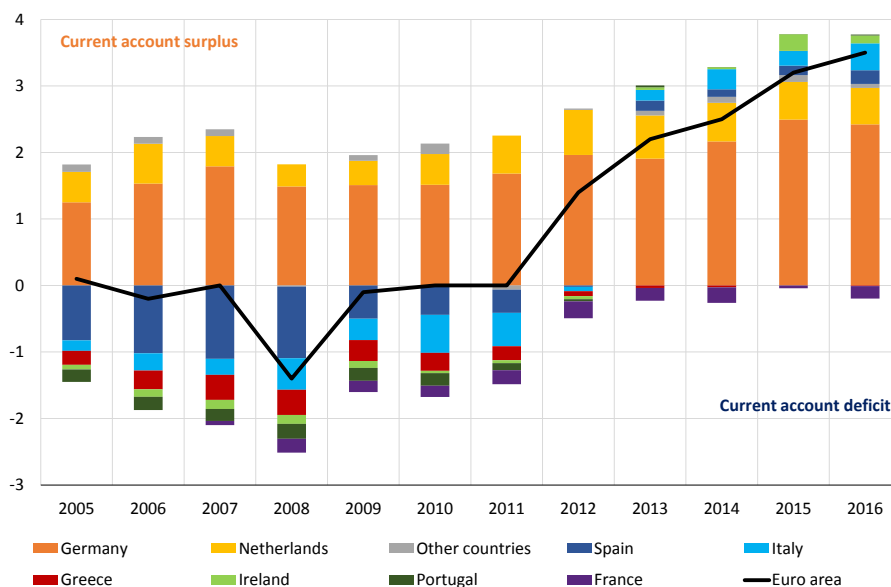
Box 1: Current account imbalances in the euro area

Since its creation, the euro area has witnessed the build-up of large current account deficits in southern countries and surpluses in certain core countries. This has been fuelled by various factors, including differences in unit labour costs⁶ between countries starting in the early 2000s, as well as spreads in real interest rates, which have given rise to different credit and investment scenarios. Up until the 2008 crisis, southern countries experienced a lending boom driven by low real interest rates and excess saving in surplus countries, leading to an influx of capital invested in non-tradable sectors. At the same time, real wage growth outpaced productivity growth in these countries, whereas Germany pursued a policy of strong wage moderation. Combined with the impossibility of exchange rate adjustments, this divergence in wage inflation contributed to a divergence in competitiveness and deepened current account deficits. In 2007, current account deficits reached 9.6% of GDP in Spain, 9.7% in Portugal, 15.2% in Greece and 6.5% in Ireland. Concurrently, the current account balance of the euro area reached equilibrium and the German surplus reached 6.7% of GDP.

Since the crisis, the rebalancing of current accounts has been mostly asymmetric. The constraints introduced by the sudden stop of capital inflows into southern countries which marked the start of the euro area crisis and the ensuing adjustment programmes – notably in Spain, Portugal and Greece – concerned only deficit countries. The narrowing of current account gaps was achieved more by reducing imports in southern countries than by increasing domestic demand in the core countries.

The current account balance of the euro area is currently in surplus (3.5% of GDP in 2016) and only a few countries are in deficit. Since 2013, Spain, Portugal and Italy have had current account surpluses: 2.0%, 0.8% and 2.6% of GDP, respectively, in 2016. France has a small current account deficit (0.9% of GDP in 2016).

Chart 4: Current account imbalances in the euro area (in % of euro area GDP)



Source: Eurostat; DG Trésor calculations.

How to read this chart: The compilation of national current account balances in relation to euro area GDP (at 19) is compared with the euro area current account balance. A difference may appear due to data restatements made when calculating the euro area current account.

⁶ Unit labour cost is an indicator of the wage cost per unit of value added produced, representing the ratio between the nominal wage and labour productivity.

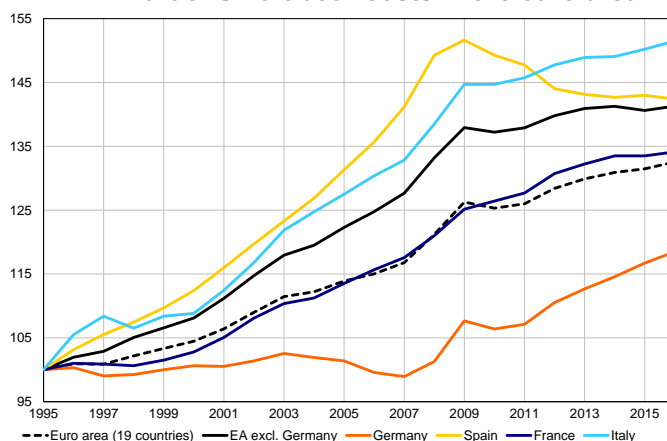
2. Wage moderation in Germany could account for up to one-third of the increase in the German current account balance

German wage moderation is regularly pointed out as one of the factors behind Germany's current account surplus. This strategy, which is aimed at limiting wage increases to combat unemployment and boost German competitiveness with respect to its euro area partners, was adopted by the social partners starting in 1995.⁷ It was then supported by the German government as part of a dialogue with the social partners, and continued until around 2007.⁸ However, the resulting wage differentials with regard to the European partners have not narrowed since then. The Hartz reforms introduced between 2003 and 2005 may have bolstered this tendency. Indeed, while the main objective of these reforms was to reduce unemployment by increasing labour market participation, the transition to more precarious jobs and a reduction in employees' bargaining power may also have contributed to lower wages.⁹

The effects of relative wage moderation on the balance of trade, and thus on the current account, come through two channels:

- **Increased export earnings due to improved competitiveness:** a country's export performance depends in particular on its unit labour costs relative to those of its partners. In Germany, these costs were nearly stable between 2000 and 2008, while those in the euro area rose by an average of 16% over the same period (see Chart 5). These cost-competitiveness gains were largely passed on to price competitiveness, via the fall in German export prices relative to foreign export prices, which bolstered German exports. They have also been partly passed on to firms in the form of increased margins, enabling them to continue investing in non-price competitiveness factors, such as R&D. This strategy has helped German exports to move upmarket from 2000 onwards, consolidating Germany's export performance.¹⁰
- **Lower consumption and imports:** keeping wage increases down puts pressure on households' purchasing power, affecting negatively consumption and demand for imported goods.

Chart 5: Unit labour costs in the euro area



Source: Eurostat; DG Trésor calculations; Scope: whole economy; base 100 = 1995.

⁷ The social partners sought to regain the competitiveness lost partly as a result of the alignment of wages in the east with those in the west following reunification. Decentralised negotiations, i.e. agreements reached at company level different from those at sector level, made it easier to prioritise employment over wages. Cf. M. Cheuvreux and L. Rambert (2017), "Dialogue social sectoriel et décentralisation des négociations: Étude comparée France/Allemagne", *Les Cahiers de la DG Trésor*, no. 01.

⁸ D. de Waziers (2017), *op. cit.*

⁹ F. Bouvard, L. Rambert, L. Romanello and N. Studer (2013), "How have the Hartz reforms shaped the German labour market?" *Trésor-Economics* no. 110.

¹⁰ See for example M. Le Moigne and X. Ragot (2015), "France et Allemagne: une histoire du désajustement européen", *Revue de l'OFCE*, (6), pp. 177-231 and M. Bas, L. Fontagné, P. Martin and T. Mayer (2015), "À la recherche des parts de marché perdues", *Notes du conseil d'analyse économique*, vol. 23, no. 4, pp. 1-12.

Wage moderation could account for up to a third of Germany's current account surplus. An estimate of the effect of wage moderation using the NiGEM international macro-econometric model suggests that it is responsible for an increase in the current account balance of 1.5 to 2 points of GDP (see Box 2). By way of comparison, we also estimated the effect of similar wage moderation using the Mésange model, developed jointly by INSEE and DG Trésor, which offers more accurate economic modelling than NiGEM but whose parameters are estimated for France. If we extrapolate these results to Germany (on the assumption that the country's economic structure is not widely different from that of France, with the exception of greater trade openness), the estimated effect on the current account could be as much as 3 percentage points of GDP. Therefore, a range of 1.5 to 3 points of GDP appears to be a good order of magnitude of the effects. These figures are consistent with several estimates from the literature.¹¹

Box 2: Estimating the effects of German wage moderation using the NiGEM and Mésange models

The National Institute's Global Econometric Model (NiGEM), developed by the UK's National Institute for Economic and Social Research (NIESR), is a multi-national, neo-Keynesian-inspired model that encompasses more than forty countries or geographical areas. To recreate the divergent wage trends between France and Germany,¹² a negative shock was applied to German nominal wages, which were gradually reduced from 2000 onwards relative to the base scenario, finally reaching a 15% decrease in 2007. The deviation from the baseline scenario was then maintained at approximately constant levels.

In 2017, compared to a no-wage reduction scenario, wage moderation would have led to a cumulative 5.6% fall in German export prices in 2017, due to lower production costs. This price competitiveness gain would have accounted for a 4.1% increase in German exports. Moreover, the fall in wages, partly offset by lower unemployment, would have reduced the purchasing power of households and thus reined in consumption (-2.0%). The overall effect on import volumes would be negative (-2.3%). Activity would be higher than in the base scenario (+3.4%) and **the current account surplus would grow by 1.5 percentage points of GDP.**

This estimate depends on the model's underlying assumptions, particularly the price elasticities of exports and long-term imports.¹³ For example, by adopting the elasticities used in a similar study by the Banque de France,¹⁴ the effect on the current account is magnified and could reach **more than 2 percentage points of GDP.** Moreover, failure to factor in non-price competitiveness gains, made possible by higher corporate margins, could lead to the model underestimating the impact of wage moderation on the current account balance.

For comparative purposes, an identical wage moderation scenario was simulated for France using the Mésange model, which put the current account increase at 2.1 points of GDP. To extrapolate this figure to Germany, it had to be corrected for Germany's greater trade openness, given that an assigned variation in imports and exports affects (in accounting terms) the trade balance more (as a percentage of GDP) in a more open country.¹⁵ Adjusting for this difference, the effect on the current account using the Mésange model would be **slightly more than 3 percentage points of GDP.** This correction does not claim to take into account all the differences between the French and German economies in terms of structure and functioning, and as such following results should be interpreted with caution.

¹¹ See for example M. Le Moigne and X. Ragot (2015), *op. cit.* and Council of Economic Experts, annual report, 2014-2015, Chapter 6.

¹² This choice was guided by France's median position in the euro area's unit labour cost trend, since real wage growth was relatively in line with productivity growth.

¹³ I.e. measuring the sensitivity of import (or export) volumes to the relative price of imports (or exports) in relation to domestic prices (or foreign competitors' prices).

¹⁴ A. Berthou and G. Gaulier (2013), "Wage dynamics and current account rebalancing in the euro area", Banque de France, *Quarterly Selection of Articles*, No. 30, Summer 2013, pp. 71-94.

¹⁵ Example: for a country with 20 % trade openness (exports and imports account for 20% of GDP), a 1% volume increase in exports would then improve the current account balance by about 0.2 points of GDP. For the same increase in exports in a country with a trade openness of 50%, the increase in the current account would be 0.5 points of GDP.

Table 1: Impact of wage moderation in Germany on the country's main macroeconomic aggregates (deviation from the central no-shock scenario in %, 17 years after the start of the shock)

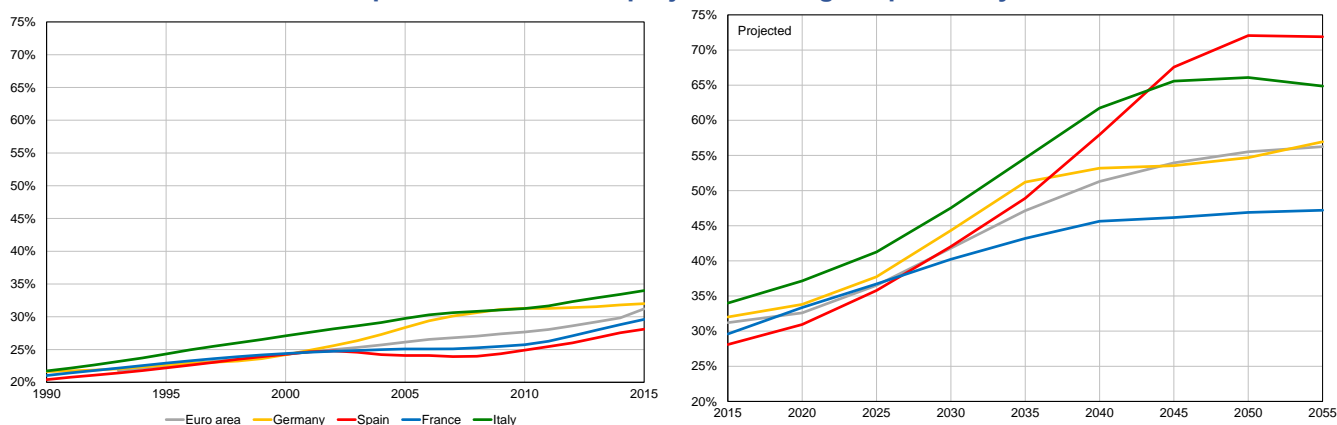
% in deviation from central scenario	NiGEM	Mésange (French model extrapolated to Germany)
GDP	3.4	3.2
Investment	4.7	5.6
Consumption	-2.0	0.4
Exports	4.1	7.6
Imports	-2.3	0.1
Trade balance (gap in points of GDP)	1.5	2.1
Trade balance adjusted for the trade openness gap between France and Germany		3.1
Consumption deflator	-7.1	-10.2
Price of exports	-5.6	-8.6
Price of imports	-1.2	-8.1
Nominal wages	-14.3	-15.6
Real wages	-7.7	-5.4
Unit labour costs	-11.2	-14.1

How to read this chart: A wage shock of -15% applied gradually over 7 years would have buoyed German GDP by 3.4% after 17 years, i.e. 10 years after the end of the shock.

3. The relatively rapid ageing of the German population accounts for about a third of the current account surplus

Another factor contributing to the large current account surplus is the ageing of the German population, which is occurring at a faster rate than the European average. This trend, which was strong between 2000 and 2010, is expected to continue for several more decades (see Chart 6), and may explain the high relative saving and low investment contributing to Germany's current account surplus.

Graph 6: Historical and projected old-age dependency ratio



Sources: AMECO, United Nations, DG Trésor calculations.

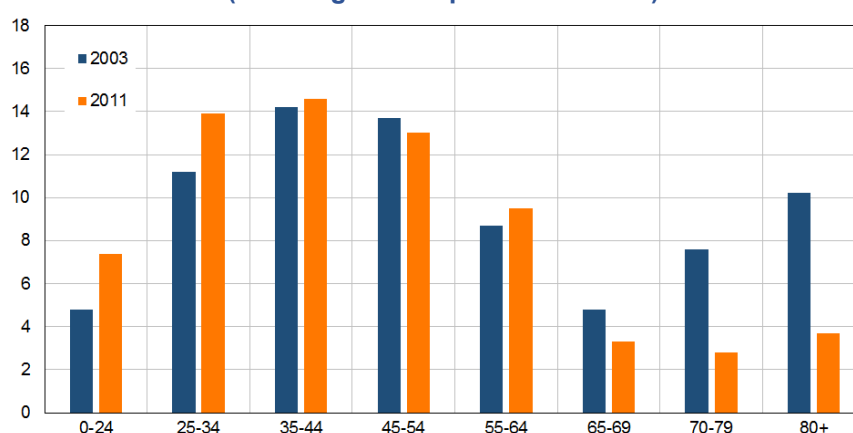
How to read this chart: The old-age dependency ratio is measured as the ratio of the number of people aged 65 or over to the population aged 15-64.

According to life cycle theory, population ageing has two successive and opposite effects on household saving. Currently, Germany's baby boomers – a generation that had a different profile in Germany than in the rest of Europe – are approaching retirement and therefore increasing their savings. This precautionary saving behaviour may also have been amplified by the reduction in pension and unemployment benefits (e.g. during

labour market reforms in the 2000s) and the introduction of financial incentives for funded retirement savings.¹⁶ After their actual retirement, these households may dip into their savings to compensate for the loss of income from work and to finance high end-of-life health and dependency costs. However, this second facet of the life cycle theory remains more hypothetical: although saving by Germany's working population increases noticeably with age (see Chart 7), disbursement following retirement is only partially observable. In particular, while the saving rate is lower after age 65, it remains positive and German pensioners continue to accumulate assets, perhaps reflecting the uncertainty of senior citizens as to how long they will live, which leads them to maintain a minimum precautionary savings requirement, or their goal of passing assets on to their heirs. **All in all, the literature tends to favour the hypothesis of an increase in aggregate saving due to the effect of ageing** (cf. Kollman *et al.*,¹⁷ IMF¹⁸ and *Trésor-Economics* no. 149¹⁹).

In addition to these saving behaviours, households and businesses may invest less. The ageing and anticipated decline of the German population may lead economic agents to anticipate weak economic growth and therefore low expected returns on capital, which would partly explain the low level of investment in Germany.

**Chart 7: Saving rate of German households by age group
(in % of gross disposable income)**



Source: Destatis.

How to read this chart: Saving rate data correspond to occasional household surveys (2003 and 2011).

Overall, ageing contributes between 2 and 3 percentage points of GDP to the German current account surplus. Using a methodology²⁰ that assesses current account balances with respect to the fundamentals of each economy, IMF staff estimate that Germany's demographic deviations from its partners contributed about 3 percentage points of GDP to Germany's current account surplus in 2016. **This estimate remains subject to measure uncertainties** due to the slow pace of demographic effects, which makes it difficult to accurately take them into account. Using a similar approach, the European Commission estimates, for example, a nil contribution of demography to the German current account balance. However, in view of the particularly unfavourable demographic situation in Germany, this estimate seems both conservative and an outlier. The

¹⁶ For example, the supplementary pension scheme known as the *Riester Rente*. However, the impact of this scheme would remain limited: it covers around 30% of workers and the maximum tax-deductible amount per year is approximately €2,000.

¹⁷ R. Kollmann, M. Ratto, W. Roeger, J. in't Veld and L. Vogel (2015), "What drives the German current account? And how does it affect other EU member states?", *Economic Policy*, January.

¹⁸ S. Phillips *et al.* (2013), "The External Balance Assessment (EBA) Methodology", IMF Working Paper, no. 272.

¹⁹ L. Baquero, F. Gomez, L. Rambert and N. Studer (2015), "Will demography disrupt the German economic model?" *Trésor-Economics* no. 149.

²⁰ Using the IMF's External Balance Assessment methodology, which provides an estimate of the fundamental current account balance of an economy according to its medium-term structural characteristics, it is possible, among other things, to extract the contribution of demographics to this fundamental level.

German Ministry of Finance²¹ and the German Council of Economic Experts²² estimate the contribution of demography to Germany's current account surplus at between 2 and 3 GDP points.

This significant contribution is not expected to fall until the German baby boomers, whose relative share of the population is higher than the European average, reach retirement age in at least ten years' time, assuming that pensioners will effectively dip into their savings. Finally, while high levels of immigration to Germany in recent years may have slowed the ageing of the German population, they are not thought to be sufficient to halt the demographic decline.²³

4. Other factors, including fiscal policy, have contributed to Germany's current account surplus

The gap between Germany's fiscal policy and those of its partners has contributed 1.5 percentage points of GDP to the German current account surplus.²⁴ Germany has implemented a broadly restrictive fiscal policy over the last decade, which has put its public debt on a rapidly declining path, over and beyond the strict application of European budgetary rules. Starting from a cyclically-adjusted²⁵ average general government deficit of 2.5% of GDP between 2000 and 2006, Germany recorded a cyclically-adjusted surplus of 0.8% in 2016. This fiscal consolidation partly reflects a desire to pre-finance future pension spending for the ageing population. In the rest of the world, fiscal policy has been less restrictive on average. These fiscal policy gaps help strengthen Germany's current account surplus.

Other factors, which are difficult to quantify but likely of a second order magnitude, may also have contributed to the rise in the current account balance. First of all, outsourcing less productive segments of production to Eastern European countries reduced the cost of intermediate consumption and buoyed Germany's price competitiveness gains, boosting its exports.²⁶ By reducing the energy deficit, the fall in oil prices over the recent period has also helped lift Germany's trade balance by more than one point since 2014. However, given the high volatility of oil prices, they do not contribute significantly to explaining the increase in the German trade surplus since 2000. Finally, the shortage of skilled workers and the ageing of German SME managers could also help explain the low level of investment by German companies.

5. This excessive surplus contributes to imbalances in the euro area

Many observers (including the European Commission, the IMF and the OECD²⁷) believe that Germany's current account balance is excessive with respect to the fundamentals of the economy (including demographics). For example, the IMF estimates that Germany's current account surplus should be 4.5 percentage points of GDP below its current level, this gap being partly due to an undervaluation of the German real effective exchange rate by 10–20% of GDP in 2016, according to the IMF.

Maintaining a very high current account surplus in Germany and the lack of symmetrical adjustment of current account balances is a liability, particularly for the euro area.

- In the run-up to the crisis, the absence of exchange rate adjustment in the euro area prevented automatic correction of internal imbalances (rising unit labour costs and diverging current account balances). The

²¹ Monthly report by the Finance Ministry, Chapter 3, March 2017.

²² Council of Economic Experts, *op. cit.*

²³ According to the Bundesbank's projections (monthly report, April 2017), the increase in net migration would only compensate for the drop in the labour force caused by the ageing population until 2025 (almost 2 million people, taking into account the increase in labour market participation). Eurostat projections for February 2017 predict higher net migration and thus anticipate a decline in the German population from 2030 onwards.

²⁴ This estimate uses the same breakdown method as the IMF (External Balance Assessment) only for estimating the contribution of population ageing.

²⁵ Calculations by the European Commission.

²⁶ L. Fontagné and G. Gaulier (2008), "Performances à l'exportation de la France et de l'Allemagne", Rapport du Conseil d'Analyse Economique no. 81, La Documentation Française.

²⁷ European Commission (2017), Country report Germany; IMF (2017), External Sector Report; OECD (2016), Economic review - Germany.

crisis has stepped up internal adjustments in deficit countries, which took place abruptly via downward pressure on wages and employment with high economic and social costs, causing domestic demand in these countries to fall. This explains the rapid correction of deficits, via the contraction of imports,²⁸ in a particularly slow recovery. A more symmetrical adjustment, e.g. with stronger wage growth in Germany, would have helped to minimise the cost of adjustment in peripheral countries by sharing its impact throughout the euro area, and support the recovery of the euro area by strengthening aggregate domestic demand against the backdrop of a widening post-crisis output gap.

- Today, the current account deficits of southern countries have been corrected, but net international investment positions due to the accumulation of past deficits remain strongly deteriorated in some economies, including Spain (-82% of GDP in 2016), Portugal (-100%), Greece (-130%) and Ireland (-171%), reflecting continued strong dependence on foreign capital. Moreover, the differences in unit labour costs that have built up since 1995 have only partially disappeared and remain high because of the asymmetrical adjustment.

Internal imbalances in the euro area are the reflection of significant real exchange rate misalignments, which supported activity in Germany (where the real effective exchange rate is still significantly undervalued), but dampened activity elsewhere in the euro area, particularly in southern countries.

At the aggregate level in the euro area, this drags on inflation and constrains monetary policy. The difficulties faced by southern countries combined with moderate wage trends in Germany are fuelling low inflation, at a time when the ECB's monetary policy is constrained (negative rates and unconventional measures).

At national level, Germany's high current account surplus reflects low domestic investment, which is likely to dampen growth in the medium term. It is difficult to quantify the "right" level of investment for an economy. In the case of Germany, worsening demographic prospects reduce the socio-economic return on some investments and may justify lower investment than in countries with more favourable demographics. Nevertheless, investment needs have been identified in a number of sectors in Germany, either for new equipment or for the maintenance of existing equipment, particularly with regard to roadway, social and educational infrastructures.²⁹

6. Several measures could help gradually reduce Germany's current account surplus

At a time when the aftermath of the crisis (high public debt, youth unemployment, the weight of non-performing loans) continues to hamper short-term activity but also the longer-term potential growth of southern countries, and in an environment of still low inflation rates, **a more symmetrical rebalancing of current accounts within the euro area seems desirable.** This could involve measures to support domestic demand in economies with large surpluses, concurrent with ongoing efforts by southern countries to control wage dynamics and carry out fiscal consolidation.

While Germany has already taken a number of measures to support domestic demand (minimum wage, spending on migrants, a slight increase in public investment), its current account surplus is not expected to fall significantly in the coming years. According to IMF forecasts, Germany's current account balance is projected to remain above 7 percentage points of GDP between now and 2022. **The country could introduce several measures to help bring down its current account surplus.**

First of all, many observers (notably the European Commission, the IMF and the OECD³⁰) recommend **stronger wage increases. By targeting low wages in particular,** this would have the triple advantage of: (i) boosting consumption, (ii) responding to the current debate on inequalities in Germany, which persist despite

²⁸ IMF (2014), "Adjustment in Euro Area Deficit Countries: Progress, Challenges and Policies", IMF staff discussion note.

²⁹ Report of the Fratzscher Commission, April 2015.

³⁰ European Commission (2017), Country report Germany; IMF (2017), Germany-staff report for the Article IV consultation; OECD (2016), Economic review - Germany.

the introduction of a minimum wage (wealth³¹ and income³² inequalities), and (iii) helping correct competitiveness gaps in the euro area. Although the German authorities have limited room for manoeuvre in wage negotiations, there **are regulatory and fiscal measures that would support wage increases**: higher minimum wages, higher salaries for civil servants, higher taxes on labour (e.g. social security contributions) in return for purchasing power support measures (e.g. lower income tax or VAT).

Germany could also make use of existing budgetary margins to boost public investment and stimulate private investment and consumption.³³ In particular, there are needs in terms of infrastructure, fight against poverty and exclusion, support for the working poor and precarious workers,³⁴ strengthening childcare systems and managing demographic ageing.

Maylis BECHETOILLE, Titouan BLAIZE, Benoît CAMPAGNE, Diane de WAZIERS

³¹ Germany has one of the most unequal distributions of wealth in Europe (after the Netherlands and Austria). The poorest 20% of households have a net worth of -€5,000 in Germany compared to an average of €3,000 (weighted by population) in the euro area. Source: European Central Bank, (2013), "Statistical Reference Tables for the Household Finance and Consumption Survey", table A4.

³² According to the OECD, although primary income inequalities are comparable between France and Germany, secondary incomes are relatively more unequal in Germany.

³³ See European Commission (2017), *op. cit.*; IMF (2017), *op. cit.*; OECD (2016), *op. cit.*

³⁴ Respectively, the report by the Fratzscher Commission, April 2015; the report on income inequality and social mobility, March 2017; the 5th report on poverty, April 2017.

Publisher:

Ministère de l'Économie
et des Finances

Direction Générale du Trésor
139, rue de Bercy
75575 Paris CEDEX 12

Publication manager:

Michel Houdebine

Editor in chief:

Jean-Luc Schneider
+33 (0)1 44 87 18 51
tresor-eco@dgtresor.gouv.fr

English translation:

Centre de traduction des
ministères économique
et financier

Layout:

Maryse Dos Santos
ISSN 1962-400X
eISSN 2417-9698

Recent Issues in English**October 2017****No. 208. Why is global inflation still so low?**

Yves-Emmanuel Bara, Jean-Baptiste Bernard, Titouan Blaize, Benoît Campagne, Laetitia François, Yasmine Osman

No. 207. French trade in value added

Fabrice Berthaud

September 2017**No. 206. Potential growth in France**

Antoine Herlin, Alexis Gatiér

No. 205. The global economic outlook in September 2017: signals remain upbeat

Jean-Baptiste Bernard, Laetitia François, Thomas Gillet, Julien Lecumberry, Yasmine Osman, Morgane Salomé

No. 204. The Argentinian economy – achievements and challenges

Christian Gianella, Leonardo Pupperto, Sophie Wieviorka

<https://www.tresor.economie.gouv.fr/Articles/tags/Tresor-Economics>

This study was prepared under the authority of the Directorate General of the Treasury (DG Trésor) and does not necessarily reflect the position of the Ministry of Economy and Finance.