Current Account Imbalances in the Euro Area
Discussion by

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International financial integration

Note: The capital mobility index is defined as the average of the absolute values of current accounts relative to GDP for major capital-importing and capital exporting countries. The countries include Argentina, Australia, Canada, Denmark, France, Germany, Italy, Japan, Norway, Sweden, the United Kingdom, and the United States.

Sources: Taylor (1996), FERI.
Eurozone vs G7
International financial integration

Source: IMF, CEPII.
Eurozone vs G7, weighted

International financial integration

Source: IMF, CEPII.
Current account imbalances: two views

- **Trade** view: competitiveness, demand → *extra* Euro area
- **Capital** view: growth in an open economy → *intra* Euro area
Intra: trade view insufficient

Source: Eurostat
Bilateral trade imbalances as a measure of financial integration

Is capital flowing from Germany to Spain?
Capital flows consistent with bilateral trade imbalances

Germany 50 Spain

RoW 100

100

100

100
And also

Bottom line:

- \((TB_{Spain} - TB_{Germany})\) rather than \(TB_{Spain/Germany}\)
- Or direct measure of bilateral flows (FDI?)
### The Data

- **Service exports?**

<table>
<thead>
<tr>
<th></th>
<th>Exportations</th>
<th>Importations</th>
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<tbody>
<tr>
<td>France</td>
<td>28</td>
<td>22</td>
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<td>Allemagne</td>
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<td>Royaume-Uni</td>
<td>24</td>
<td>32</td>
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<td>Etats-Unis</td>
<td>18</td>
<td>33</td>
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</tbody>
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Source: CEPII, CHELEM-BAL-CIN.

\[ \sum TB_{int \, ra} = 0 ? \]
Intra-EU trade balances

\[ TB_{\text{int}} = f(\text{DummyEMU}, \text{GDPcap}, \text{GDPcap} \times \text{EMU}, \text{FiscalBal}, \text{Oil}, \text{REER}) \]

Questions

- **Theory**
  - Intertemporal approach? not bilateral. Why not TB-TB*?
  - Productivity?

- **Econometric methodology**
  - Fixed effects?
  - Reverse causality (RER)?

- **Interpretation**
  - EMU dummy?
The Feldstein-Horioka Puzzle

- Pooled estimation?
- Correlation should be even lower for *private* saving and investment
  - SGP constraints public saving to more or less equalize public investment
Extra-EU trade balances

\[ \frac{TB_{\text{extra}}}{GDP_{US}} = f(TB(-1), \Delta \ln(GDP / GDP^*), \ln \text{REER}) \]

Questions

- Theory
  - Why not the same approach as for intra-eurozone trade?
- Econometric methodology
  - Dependent variable in % of US GDP: not comparable from one country to another.
  - Seasonal adjustment? Year-on-year?
  - Reverse causality (REER)? e.g. France
- Interpretation
  - Germany=only country where TB reacts to exchange rate?
Should we look at intra-euro imbalances?

YES. Example: 2005

Productivity shock? DSGE modelling
The lack of fiscal policy at the euro area level

Politique budgétaire pro-cyclique en zone euro, contra-cyclique aux Etats-Unis

Source: OCDE, Perspectives Economiques n°80, 2006. *