CEPS COMMENTARY
CEPS
Thinking ahead for Europe

Are Germans wasting their savings abroad?

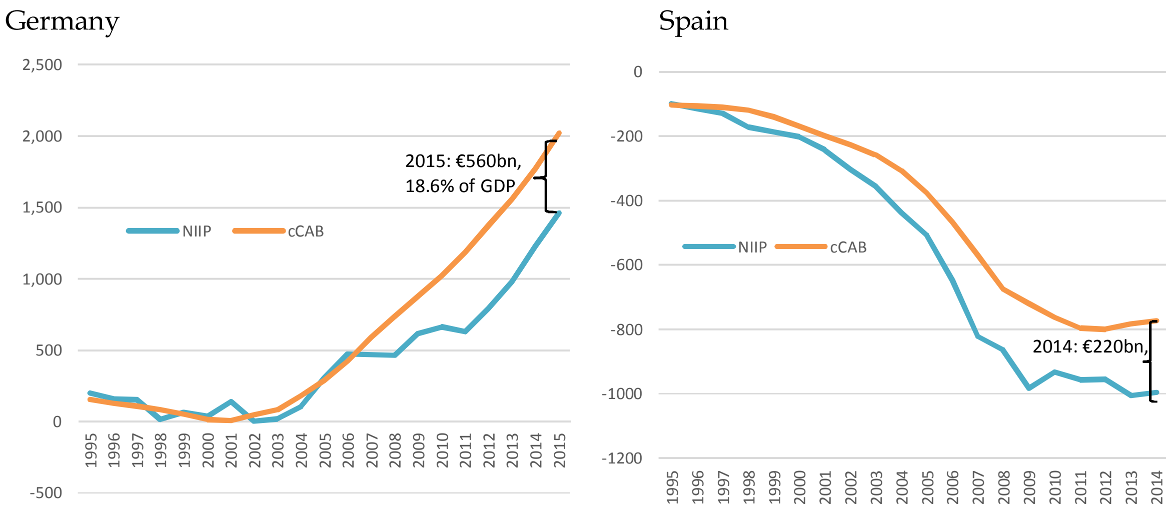
Matthias Busse and Daniel Gros

7 April 2016

Germany is running a current account of about 8% of GDP, which means that about one-third of all German savings (equal to 24% of GDP) has to be invested abroad every year. It has become by now almost a cliché that these huge excess savings are being wasted abroad. But this is a popular misconception based on the divergence between the available data on the (cumulated) current account balance (cCAB) of Germany and its net international investment position (NIIP). A closer look at the data actually suggests that the NIIP is probably not measured correctly and that the observed returns on German investment abroad have remained above most domestic returns.

Indeed, in comparing the cCAB to the NIIP, one finds a substantial 'gap': by now (end 2015), the cumulated current account surpluses of Germany are nearly €600 billion higher than the NIIP. Germany is one of the few countries for which 2015 data are already available and one can clearly see the gap (Figure 1).

Figure 1. Rising gap between cumulated cCAB and NIIP in Germany vs Spain, 1995-2015 (€ billion)



Note: Cumulated from 1995 until 2015 for Germany and until 2014 for Spain. In the data for Germany, both measures are based on BPM6, while the NIIP for Spain also includes BPM5 data (the measures for Spain for the years with both observations do not differ greatly).

Source: Own calculations based on 2015 data from the Bundesbank and Eurostat.

Matthias Busse is Researcher at CEPS and Daniel Gros is Director of CEPS. A longer version of this paper was previously published by VoxEU, 4 April 2016 (www.voxeu.org/article/returns-german-savings-invested-abroad).

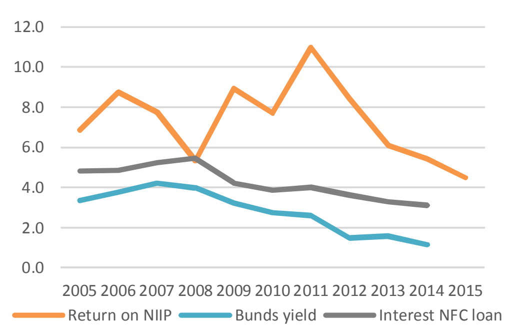
A first point to note is that a similar gap can be observed for most EU countries. For example, the Spanish data show a NIIP that is over €200 billion worse than the cCAB figure. The gap is smaller in absolute terms than that for Germany, but larger as a percent of GDP. No one is arguing, however, that Spanish savers are wasting their money by investing abroad (or that foreign investors are making extraordinary returns in the country).

Busse & Gros (2016) show that many other countries record similar gaps between the cCAB and the NIIP of similar relative magnitudes. There is thus no convincing reason why Germany should be singled out. The narrative of the wasteful German investor thus hinges on the precision of the current account and NIIP data. Current account data are usually assumed to be rather reliable, but the NIIP is subject to very large measurement errors since the net position is calculated as the difference between two very large stocks (total foreign assets and liabilities), both of which are imperfectly measured.

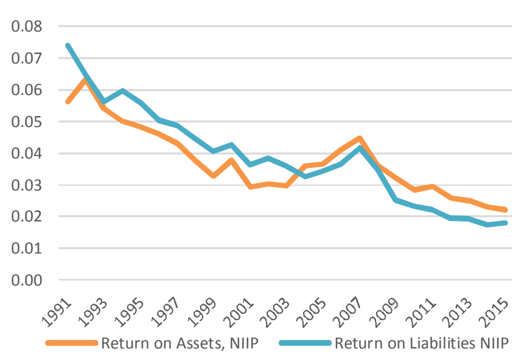
Given these problems with the reported NIIP, we propose to look at an alternative measure of the investment performance: the investment income balance, i.e. overall income balance after deducting remittances and other non-investment income. This can be thought of as the return on the NIIP. Since 2003, Germany's investment income balance has moved from a persistently balanced position to a large surplus of around 2% of GDP, not far behind Japan. In Europe only Denmark, Sweden and the Netherlands show higher values.

The main evidence against the thesis that Germany is wasting its savings abroad is thus that the (measured) returns on German investment abroad have held up rather well. Even today this yield is over 4%, while German government bonds have a negative yield up to 7 years of maturity and even bank loans to non-financial companies carry a lower interest rate. The conclusion by Bach et al. (2013) in a DIW study and others that Germany is losing its shirt abroad and would gain from more investment at home is thus not supported by the data.

Figure 2a.Yields in comparison



2b. Return on asset and liability position



Data source: Eurostat, 2015.

The relatively high return on the net assets position is not only due to a superior performance of German investment abroad, but also to the very low return on foreign investment in Germany. The detailed data confirm that German investors managed to earn a relatively high positive return on their foreign assets, which exceeds that paid to foreign investors in Germany (Figure 2b). One could thus conclude that German savers are actually doing better than their foreign peers. If the returns on assets and liabilities were the same, Germany's investment income surplus would be cut by one-half.

The obvious objection to the data on returns is that they could also be affected by measurement errors. But the data on returns on assets and liabilities separately look much more reasonable and would not be affected by a +/- 10 measurement error, which would change a return from 3.3 to 3.0%, but would not affect the sign.

The data thus contradict the widely held notion that Germany lost out by the euro-area rescue mechanisms that provided the periphery with hundreds of billions of euro in debt at very low rates and that German savings would have been better used at home. On the contrary, it seems that Germany's returns on its net asset position has held up well and remains much higher than domestic returns.

The key reason for this is that Germany's part in the euro rescue operations was much smaller (at less than 30%) than its claims towards the periphery. Germany has basically been able to rope in the rest of the euro area to provide about 70% of the cheap financing that had to be provided for the euro periphery, although these other countries (Italy, France, etc.) held only a fraction of the claims against the periphery. Consequently German savers have fared quite well over the last decade in their foreign investments. This is what one would expect after all: with the euro crisis, risk premia rose throughout the periphery, but there were no large losses except in Greece, which accounts only for a fraction of German foreign investment. Moreover, rates fell in Germany. It was thus to be expected that foreign investment would become more attractive than domestic investment once the initial panic had abated.

The data on returns thus suggest that German savers are putting such a large fraction of their savings abroad because the returns there are simply higher.

References

Busse, M. and D. Gros (2016), "Returns to German savings invested abroad"', 4 April (www.voxeu.org/article/returns-german-savings-invested-abroad).

Bach, S., G. Baldi, K. Bernoth et al. (2013), "Deutschland muss mehr in seine Zukunft investieren", DIW Wochenbericht Nr 26, German Institute for Economic Research, Berlin.