THE ROLE OF NOMINAL WAGES IN TRADE AND CURRENT ACCOUNT SURPLUSES

An econometric analysis for Germany¹

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Presentation at INET conference 2018

Edinburgh, October 22
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External Balance

Current account balance and nominal net exports

- Nominal net exports
- Current account balance

Current Account Balance

Structure of Germany’s current account balance as a % of GDP

Sources: Deutsche Bundesbank; Destatis; IMK calculations.
Germanys Current Account Surplus within EMU
Billions EUR
Wages and Net Exports

Productivity → Nominal Wages

Unit Labour Cost → Domestic Demand

Export Prices → Domestic Prices

Foreign Demand → Export Prices

Exports → Net Exports

Imports → Net Exports
Wages and Net Exports

- Productivity
- Nominal Wages
  - Unit Labour Cost
  - Domestic Demand
  - Foreign Demand
- Export Prices
- Domestic Prices
- Exports
- Net Exports
- Imports
- Fiscal Policy
Trade Balance and Current Account

- Export Prices
- Real Exports
  - Nominal Exports
- Real Imports
  - Nominal Imports
- Import Prices
  - Trade Balance
- Net Income
  - Current Account
  - Net Current Transfers
Higher Wages

Real net exports¹
Absolute change vs. baseline, bn EUR, seasonally adjusted

Nominal net exports¹
Absolute change vs. baseline, bn EUR, seasonally adjusted
Wage Shock and Fiscal Policy Shock

Real net exports
Absolute change vs. baseline, bn EUR, seasonally adjusted

Nominal net exports
Absolute change vs. baseline, bn EUR, seasonally adjusted

Budget neutral
Not budget neutral
Conclusions

1. Wage Adjustment is not sufficient to balance the Current Account
2. Fiscal Policy must step in.
3. Combination of Fiscal Policy and Wage Policy is best.
4. It is still a lengthy process
5. As long as there is no federal fiscal level, national fiscal policy must take into account current account balance.
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