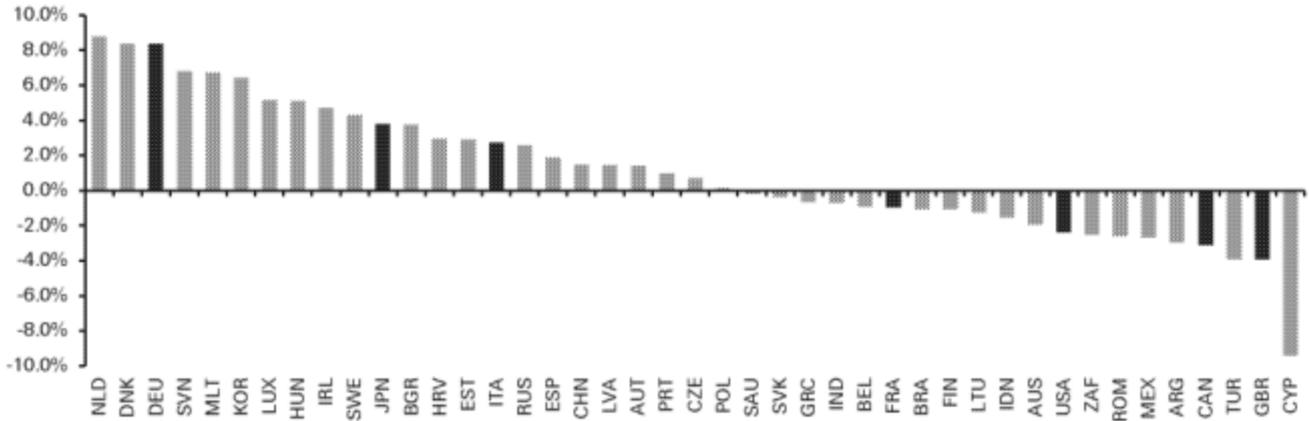Figure 55: Current account balances (most recent figures, % of GDP) – ordered from largest surplus (left) to largest deficit (right) with G7 countries shaded

Source: Deutsche Bank, Haver
Notes: G7 Countries shaded darker

Of the largest global economies, Germany's current account surplus stands out. In volume it is close to $290bn and significantly ahead of China - the second largest at around $170bn - in spite of having an economy only a third the size of China's. This obviously is a consequence of a huge excess of savings over domestic investment. There is some debate as to whether this has resulted from a long standing grand bargain between unions and workers to ensure Germany is competitive on the global arena or whether it merely reflects a high level of savings required to offset the upcoming sober demographic that Germany faces. Indeed consumer spending in Germany is 53% of GDP versus 65% in the UK and 69% in the US.

So a huge 8% plus surplus with the rest of the world for such a large economy means that others are forced to borrow and consume. The Euro Sovereign crisis was arguably partly caused by this phenomenon as the peripheral countries were generally the ones to over borrow as a result of Germany's lack of desire to do so. These deficits have now largely turned to surpluses mostly through austerity and painful adjustments.

So the problem now is not so much an internal European issue as the EU has moved to a current account surplus. So while countries like Germany are unwilling to encourage domestic consumption and continue to have an excess of savings over internal investments, other countries must borrow and consume to redress the global balance. This leaves the global economy exposed and continues to encourage borrowings outside of Germany.

Overall the period of current account imbalances has coincided with a period of more regular financial crises. As such we should be vigilant when these imbalances remain close to their pre-GFC highs albeit with changes in the composition.