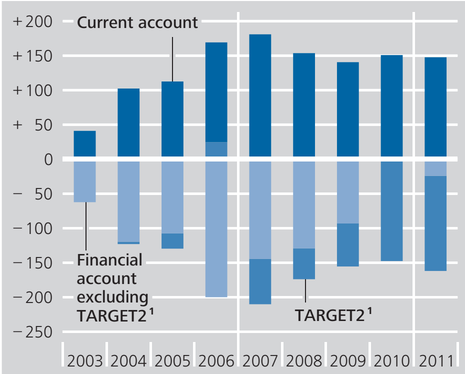
Current account, financial account and TARGET2

Following a post-reunification phase during which Germany recorded current account deficits for a while, the country has continuously posted current account surpluses since 2002. These surpluses rose sharply until the beginning of the financial crisis, reaching a record level of €181 billion in 2007. After the crisis-related fall in 2008, they have since stabilised at around €150 billion. At first the current account surpluses were offset by growth in net capital exports of mostly private sector financial market participants. Since the beginning of the financial crisis, the German private sector's net capital exports[1] have fallen from year to year. One reason for this was German banks' efforts to reduce their balance sheet totals and thus their cross-border assets. Domestic enterprises and individuals have likewise been investing fewer funds abroad. In addition, large safe-haven inflows in portfolio investment were recorded. Overall, in 2011, non-residents' portfolio investment in Germany exceeded that of German residents abroad.

In the peripheral countries, a lack of financial flows from the private sector was made up, for the most part, by wholesale funding from national central banks. Central bank money generated in this way flowed out of these countries via the TARGET2 payment system to others, including Germany. As a result, the Bundesbank's TARGET2 claims on the European Central Bank have risen considerably and, at the end of 2011, amounted to approximately €463 billion. An increase in the Bundesbank's TARGET2 claims is recorded as a capital export in the German balance of payments. During the crisis, this form of capital export via TARGET2 has been increasingly "replacing" private sector net capital exports (see chart above).

German current account and financial account

in € billion



1 Net capital exports: –.
Deutsche Bundesbank

However, the underlying cause of the change in financial flows is not rooted in the payment system itself but rather in the enlarged provision of liquidity during the crisis, including against lower-quality collateral. In this way, the Eurosystem has been facilitating an orderly reduction of internal and external imbalances in the countries affected by the crisis and has thus helped to stabilise the financial system. To the extent to which market adjustment processes have been dampened or delayed by crisis resolution measures, the countries concerned now urgently need to resolutely implement and pursue the necessary consolidation measures and structural reforms.

1 Net capital exports excluding transactions executed via the TARGET2 payment system.