

Hamburg Institute of International Economics (HWWA) (Ed.)

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## West Germany: Surplus on current account

Intereconomics

*Suggested Citation:* Hamburg Institute of International Economics (HWWA) (Ed.) (1983) : West Germany: Surplus on current account, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 18, Iss. 2, pp. 97-98,  
<https://doi.org/10.1007/BF02928492>

This Version is available at:

<https://hdl.handle.net/10419/139855>

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## West Germany: Surplus on Current Account

Last year's record balance of trade surplus of DM 51.2 billion was achieved despite unfavourable developments in the field of exports. During 1982 external demand and exports dropped substantially and thus contributed towards the recessionary development of the West German economy. The intensification of world-wide economic problems was the most important factor in this respect. Economic activity in Western industrialised countries continued to slow down and the financial problems facing many developing countries, including various OPEC states, as well as a number of Eastern bloc countries came to a head, forcing these countries to reduce their imports substantially. In addition, the stimuli from the preceding devaluation of the D-Mark in real terms, which had played an important part in enabling a strong export increase at the start of 1982, also appear to have tapered off; in the meantime, the external value of the D-Mark in real terms has again recovered. Adjusted for price and seasonal variation, merchandise exports fell between the first and the fourth quarter of 1982 by about 7 %; it was only due to the large overhang from the previous year that the annual average was still 2 % up on 1981. Nevertheless, there was a strong increase in the balance of trade surplus. One determinant factor for this development was the fact that the growth rate for real merchandise imports was even lower (+ 1 %) than that for exports. The main reason, however, was the marked improvement in the terms of trade. Altogether, the balance of trade surplus almost doubled compared to 1981 (DM 27.7 billion). As the deficits on the balances of invisible transactions and unilateral transfers remained virtually unchanged, the balance on current account moved into surplus (DM 7.5 billion), for the first time since 1978.

The changeable development of the balance on current account over the past five years – from DM 18 billion surplus in 1978 through to DM 30 billion deficit in 1980 and back to DM 7.5 billion surplus in 1982 – was strongly influenced by the development of the balance of trade. Trade with the OPEC countries was particularly important in this respect. Whereas there was a deterioration in the trade balance with these countries to the effect of about DM 20 billion between 1978 and 1980, primarily due to the drastic increases in the price of oil, the demand boom in the oil-producing countries together with a simultaneous reduction in oil imports has since improved the balance by the same amount. There was a similar albeit not quite so pronounced development in the external trade balance with the USA over the same period. Trade with EC countries, on the other hand, revealed itself to be a stabilising factor. Between 1978 and 1981 there was an unchanged annual export surplus of DM 11.5 billion. Last year this figure doubled to just under DM 25 billion. The largest part of this increase was in trade with France and Britain, DM 5.5 billion respectively. In Britain's case, this was primarily a result of the drop in competitiveness, in France's partly due to the effects of expansionary economic policies. Following the change of course in economic policies in France a continuing increase in the surplus in Franco-German trade is not to be expected; however, 1983 is also unlikely to witness any substantial decrease.

Over the past few months there have been signs of a gradual stabilisation in external demand. The drop in total orders from abroad and in real merchandise exports has hardly continued. A recovery in external demand primarily depends on the further course of

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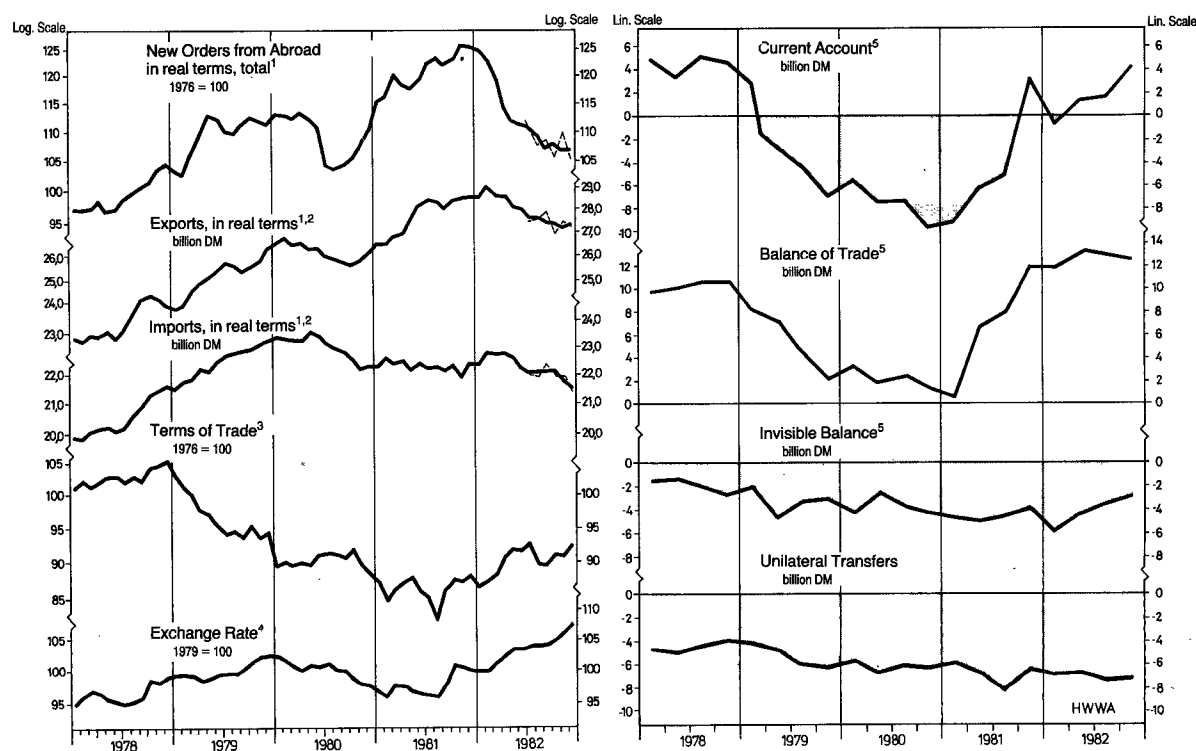
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economic activity in the Western industrialised countries. Prospects have improved that starting in the USA there will be a gradual recovery during the course of this year. Such expectations are favoured by the reduction in the price of oil. With an international economic recovery, the uncertainties for world trade resulting from the growing debt problems and increasing protectionism are likely to lessen. Admittedly, the stimuli for exports by the Federal Republic of Germany would not be sufficient to trigger off an overall economic upswing. However, they would represent effective support for an upward movement induced by domestic economic activities. Even if expectations of an increase in merchandise exports during the year in real terms are confirmed, the very low initial level of these exports will mean that the 1983 average will still be slightly down on last year's result. Although the improvement in West Germany's economic trend will stimulate also merchandise imports in real terms, this increase will not be as pronounced as for exports. With a further improvement in the terms of trade expected, this time with the added impetus of lower oil prices, the balance of trade is likely to record an even higher surplus than last year.

The balance on current account can be expected to undergo a similar development. The deficits in the balances of invisible transactions and transfers will only register slight increases, if any, during 1983. Expenditures on trips abroad are likely to decrease this year due to the continuing drop in real income levels. Although this also applies to revenue from tourist travel on account of the unfavourable development of incomes abroad, such revenue only amounts to one third of the corresponding expenditures. In regard to the transfers abroad by the state the scope for increases is already restricted by the strained budgetary situation. Finally, with unemployment still increasing, the remittances of foreign workers will probably fall again. Under such circumstances the deficits in the balances of invisible transactions and transfers can be assumed to increase, if at all, markedly less than the balance of trade surplus during 1983. This year's balance on current account will probably see the year out with an increased surplus figure to the tune of about DM 15 billion.

*Compiled by the Department of short-term Economic Analysis and Forecasting, Monetary Policy and Public Finance.*

### Indicators of the Development of External Trade and Current Account



<sup>1</sup> Sliding three-months-averages of seasonally adjusted figures (ASA II), from July 1982 onwards also unprocessed monthly results.

<sup>2</sup> Quantities valued at average values of 1976<sup>3</sup>. Ratio of average export values to average import values. <sup>4</sup> Against the currencies quoted in Frankfurt, weight: trade volume 1979. <sup>5</sup> Seasonally adjusted figures of Deutsche Bundesbank.

Sources: Federal Statistical Office; Deutsche Bundesbank; own calculations.