

PhD topic: Current account imbalances – determining the driving forces of intra- and extra-EMU trade of the euro area's big four

Estimating the determinants of German intra- and extra-EMU trade

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Since the early 2000s Germany has generated huge current account surpluses. These surpluses have added to immense current account imbalances within and outside the European Monetary Union (EMU). Since the German current account surplus is mainly attributable to the country's positive external balance, the present paper investigates econometrically the impact of the real effective exchange rate and of foreign or domestic demand on the long-term performance of German exports and imports, respectively. The analysis seeks to identify Germany's "competitiveness indicators" and to contribute to the economic policy debate of whether it is 'world-beating' price competitiveness or demand and non-price competitiveness, as being reflected in the income elasticities of demand for exports and imports, driving Germany's trade. Following Engle and Granger (1986) the present paper uses co-integration techniques and estimates German trade equations in a single equation error correction framework. There has been a variety of empirical work on German trade elasticities, but only a few early studies by Stahn (2006) and Stephan (2005) have estimated German exports and imports by distinguishing trade with EMU and non-EMU countries. The current paper follows this approach in order to account for structural differences between the two regions and covers a more recent time period. Our observation period is from 1992, the year of the agreement on the Maastricht Treaty and in which Germany was characterised by almost balanced foreign trade, to 2017. The estimated parameters and the actual growth rates of the relevant variables are used to calculate the contributions of the real exchange rate and the demand component to the development of Germany's exports and imports.

References

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