

The current accounts occasional importance in an era of a global savings glut

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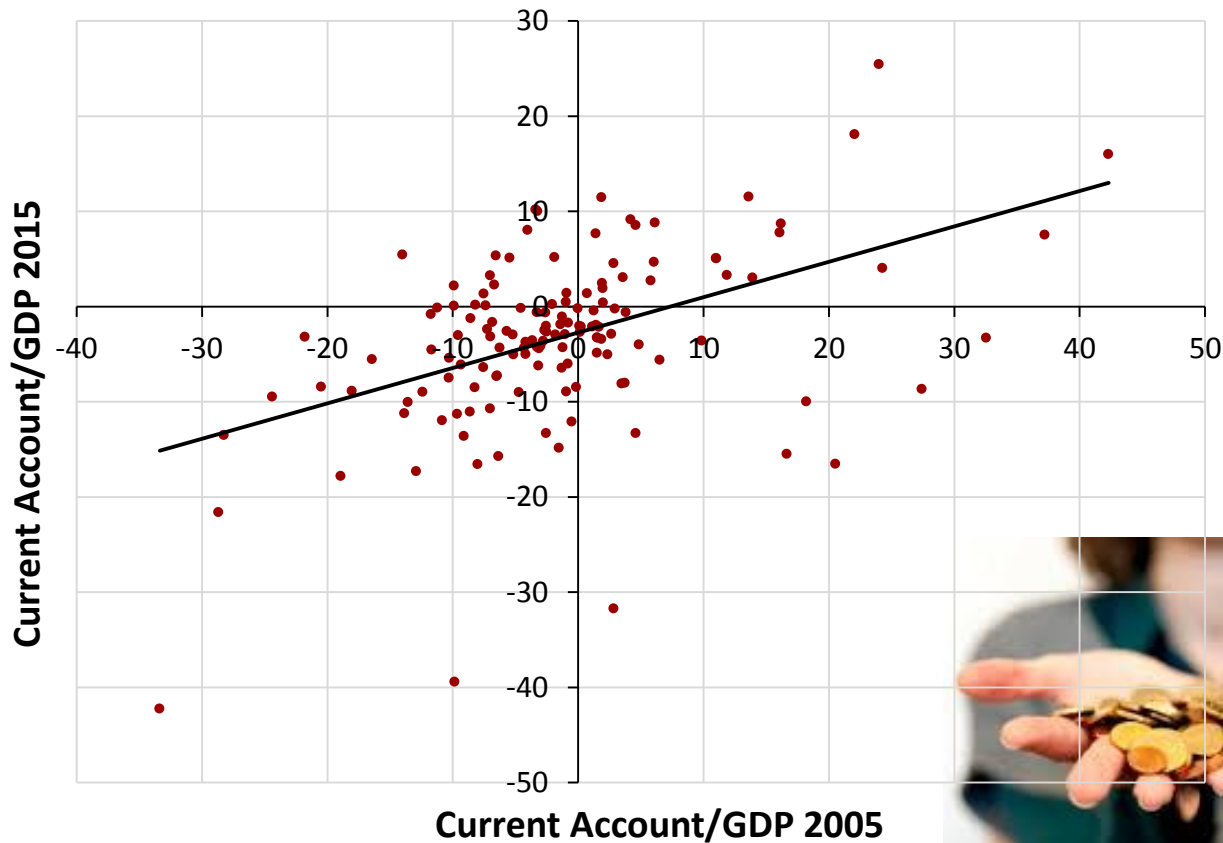
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Current account definitions and macroeconomic adjustments

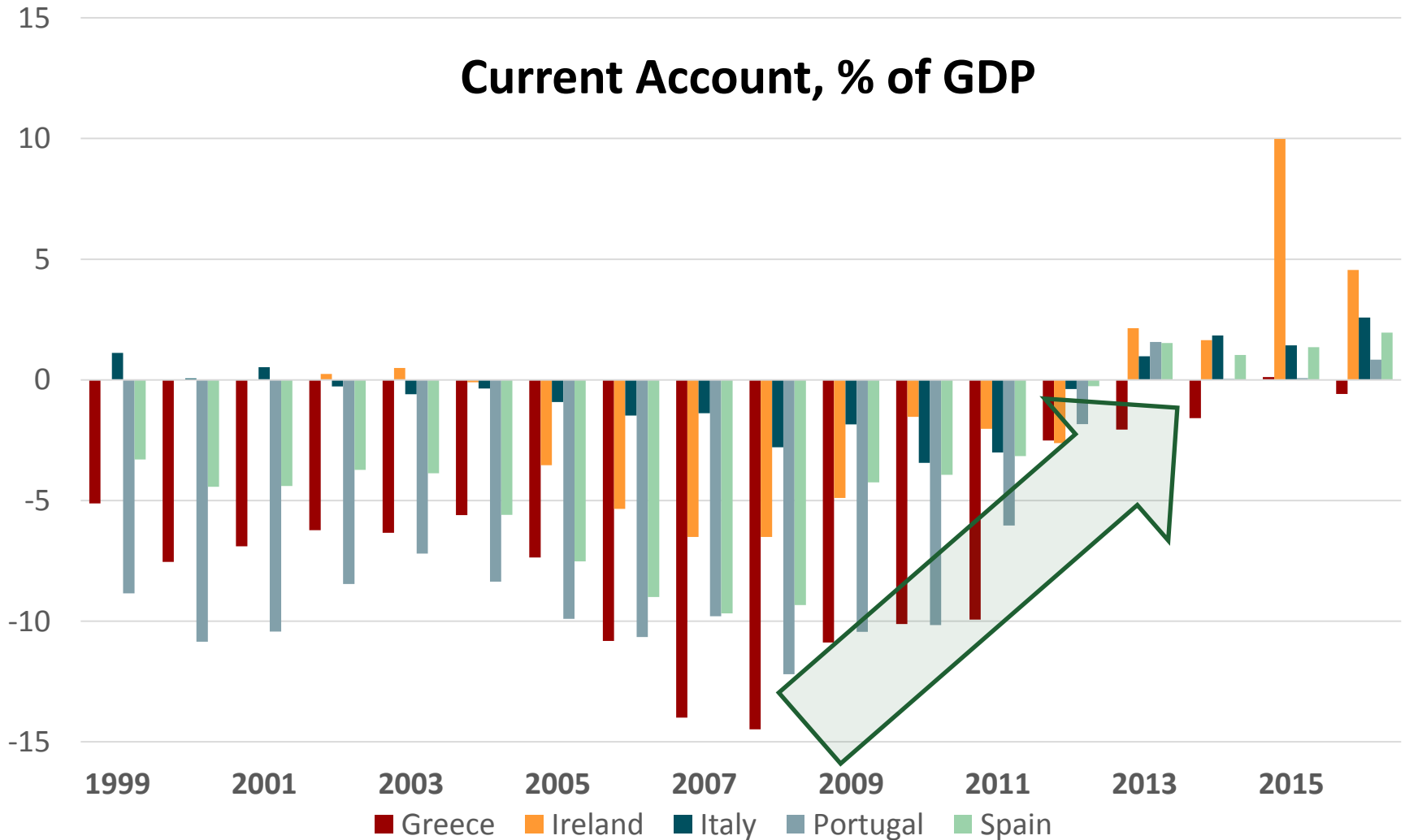
- Current account definitions
 - Current account = $X - M$ + Net income and transfers
 - Current account = Savings – Investment
 - Current account = Net Capital Outflow + Reserve Accumulation
 - Current account (country x) = - Current account (Rest of World)
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- Macroeconomic adjustments
 - Fixed or floating exchange rates
 - Wage and price flexibility
 - State of international capital markets and confidence in capital importing country

The deficit trap



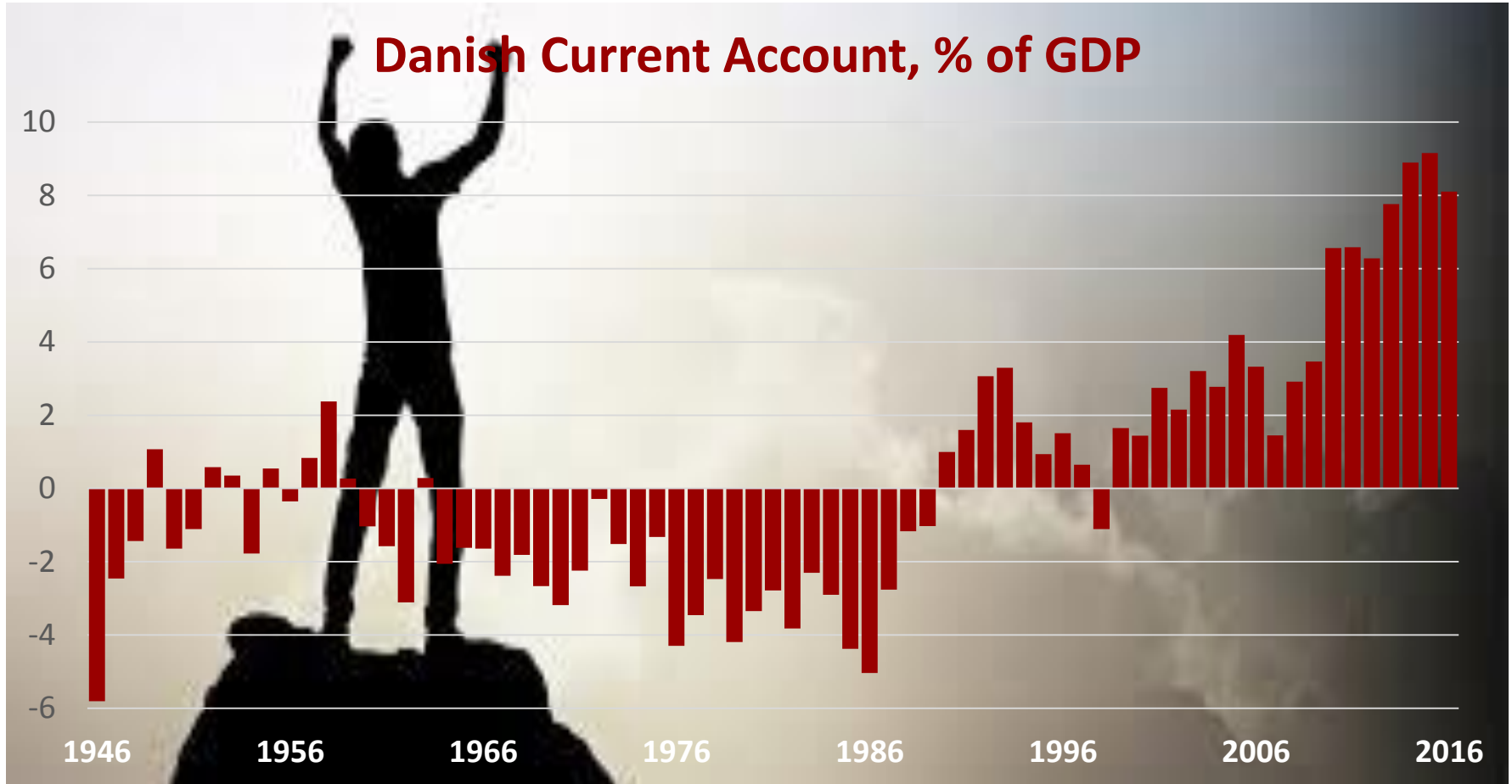
Current account deficits seems to be persistent

PIIGS were persistent deficit countries



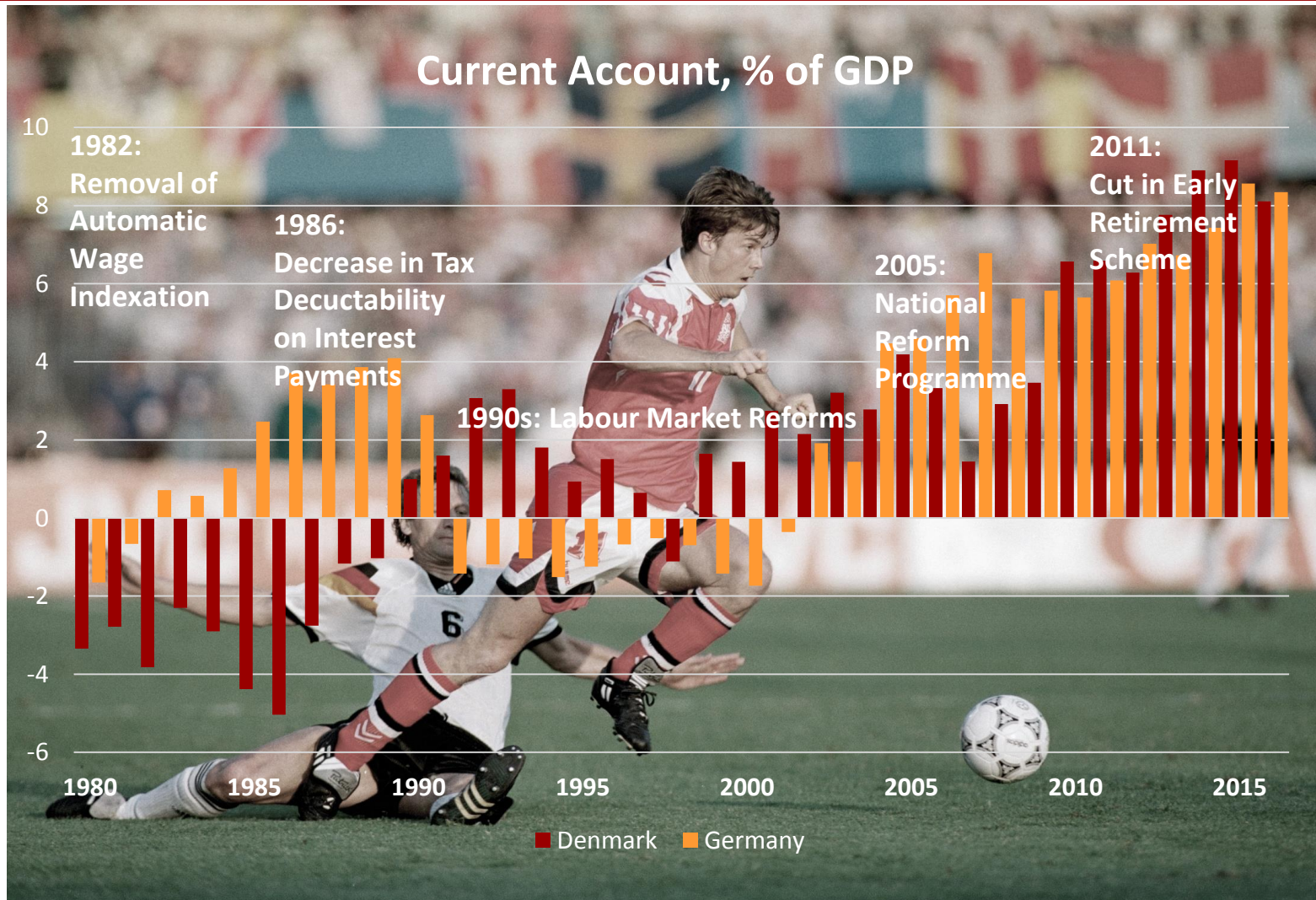
...but forced to save after crisis

From persistent deficit to persistent surplus



.....is possible

Becoming more German than the Germans



Structural reforms have increased Danish savings

Concluding remarks

- International capital flows matters
- In good times they channel savings to the most productive areas
- In crisis times they disrupt the most vulnerable economies
- High savings rates make countries less vulnerable
- Reforms can increase structural savings

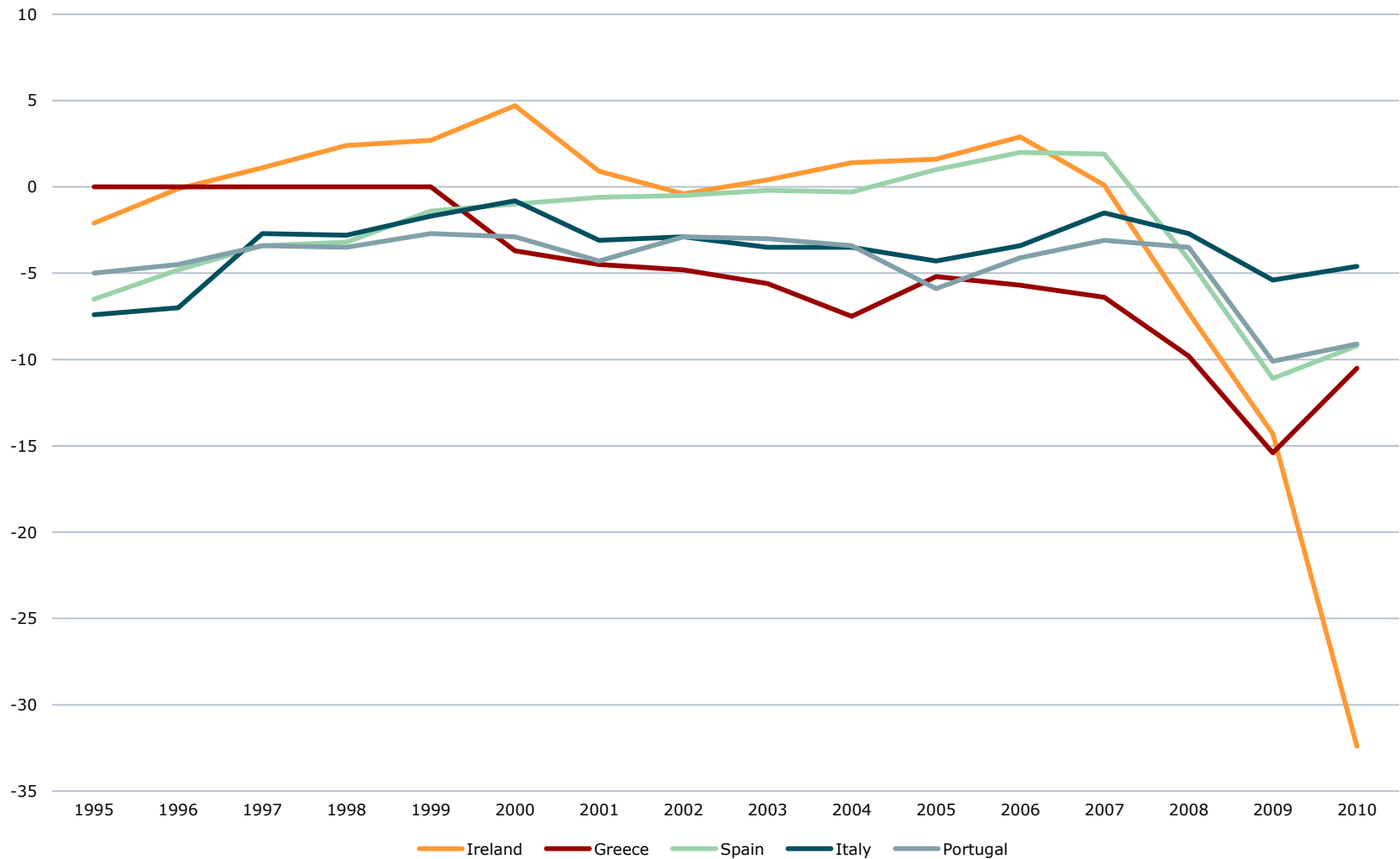


Will next time be different?



FINANSTILSYNET

PIIGS: Public finances, % of GDP



30 years with fixed exchange rate – first DM then Euro

