FAZ
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The strength of the euro
by Michael Heise

The euro is gradually becoming something of a riddle. Neither the crisis in Ukraine, which could harm the economy in Europe in particular, nor the spread of US Treasuries over German benchmark bonds, which at 1.1 percentage points has climbed to an eight-year high, has managed to dent the rise in the euro. And the single currency, in the eyes of many doomed one and a half years ago, is rising strongly on other markets as well. Against the Japanese yen, but also against emerging markets such as Brazil, Turkey, South Africa and Russia.

What lies behind this surprising strength? For one thing investors around the globe are seeing that the eurozone is back on track for growth. In the former crisis countries substantial improvements in competitiveness, progress on consolidation and the elimination of previous current account deficits are evident. The eurozone now has an external current account surplus amounting to 2.3% of GDP. Both, the recovery of the eurozone economy and the surplus, have bolstered the euro. On the other side we have a large deficit in the US and shrinking surpluses in Asia.

As a result, Germany's current account surplus will increasingly come under fire. Germany is already being monitored by the EU Commission within the framework of the "Macroeconomic Imbalances Procedure". The question is what needs to be done. Three aspects are significant: firstly, the strong euro will itself counter the surpluses in the medium term by making it more difficult for companies to maintain their shares in the global marketplace and notch up strong export growth. Secondly, empirical studies show that the improvement in the current account in the former deficit countries is largely attributable to the slide in demand and imports during the recession. With the nascent pickup in demand, imports will rise again. And thirdly, unlike these cyclical surpluses in a number of eurozone countries, in Germany we are evidently dealing with a structural surplus. For years investment activity has been substantially and systematically below the volume of savings in the German economy. Capital is exported abroad and productivity growth here at home leaves much to be desired. This can only be addressed with a resolute pro-growth policy, geared to more investment. This requires a change in public sector spending priorities and, above all, a better framework for business investment. The modernization and creation of production capacities, which we also need to generate more jobs, depend on a wide assortment of factors: on the level and structure of business taxation, on the promotion of technological progress, on the amount of red tape, on the cost, for instance, of labor and energy, to name just the most important. Should the EU come up with recommendations in these areas, we would be well advised to follow them up.