



Chart of the week

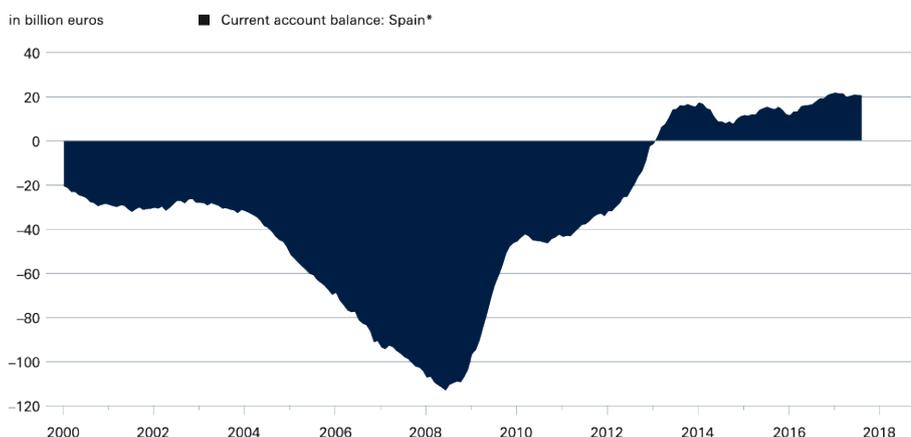
Eurozone countries have fixed their external balances

We haven't seen many headlines talking about Eurozone stability recently. Are we facing the calm before the storm here, or has the common currency area really become more stable?

Many refer to the severe storm which has rattled the continent's economies as well as financial markets earlier this decade, as the sovereign debt crisis. It was a crisis for sure, but we doubt that sovereign debt was really the cause. Looking at the IMF's database, Ireland had a public debt-to-GDP ratio of 24% before the crisis, in the case of Spain it was 39%, and 69% for Portugal, while Belgium stood at 91%. Based on that information, one would have expected the latter to be most at risk. But Ireland turned out to be the second country, after Greece, in need of a bailout. So a ranking according to public-debt levels was not a useful indicator to identify the vulnerable countries.

Current account balances did a much better job. Ireland's current account was negative (at more than 5% of GDP), as was Spain's (close to minus 10%), Portugal's (minus 11%), and Greece's (minus 15%). Belgium, however, recorded a surplus (slightly below 2% of GDP). Hence, there is clear evidence that the Eurocrisis was much more about balance-of-payments issues than about sovereign-debt levels. How are European periphery countries doing in this respect today?

Our "Chart of the Week" reveals a quite spectacular improvement here: Spain, which ran a current account deficit of more than €110bn per year before the crisis, now records a surplus of about €20bn. Portugal managed to get its current account balance in order, too. Italy even achieves a surplus of more than €45bn. Hence, we would argue that the Eurozone has indeed stabilized. Will it last? Let's better keep watching current account balances.



Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH, as of 11/16/17

* 12-month rolling total

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Glossary

Current account

The **current account** includes trade in goods and services, a net-factor-income balance (e.g. earnings on foreign investments and cash transfers from individuals working abroad) and transfers (e.g. foreign aid). It is a part of the balance of payments.

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