B.8. Current account and financial account balances

■ Following the double-entry accounting rules for establishing the balance of payments, the sum of the current account and the capital and financial account is theoretically equal to zero. As a result, the current balance and the balance of the financial account are theoretically symmetrical. Nevertheless, because data are in many cases compiled independently from different sources, this may not be the case.

■ Eleven OECD countries run surpluses on their current accounts, mainly Germany, Japan, Switzerland, Norway, the Netherlands and Sweden. For all except Switzerland, the main source of the surplus is the trade balance for goods. Savings are significantly larger than investments in these countries.

■ In 2008, the current account deficit of the United States exceeded USD 570 billion. Since 2003, the current deficit of Spain has deteriorated and is now second to that of the United States, and the amount is greater than that recorded by most countries.

■ However, if current account deficits are expressed relative to GDP, the countries with the largest deficits are Iceland, Greece and Portugal.

Sources

- International Monetary Fund, *Balance of Payments Statistics*.
- OECD, *National Accounts of OECD Countries Database*, December 2009.

For further reading

- International Monetary Fund (1995), *Balance of Payments Manual,* 5th edition (BPM5).

The current account and the financial account

Current account

A country's current account balance (CAB) equals: CAB = X – M + NY + NCT = S – I, where:

X = exports of goods and services

M = imports of goods and services

NY = net income from abroad

NCT = net current transfers

S = gross domestic saving

I = gross domestic investment

It can be shown (see Chapter III of the International Monetary Fund's *Balance of Payments Manual*, BPM5) that the balance of trade in goods and services plus net investment income from abroad and net current transfers is equal to gross domestic saving and to gross domestic investment. Consequently, an increase in domestic investment relative to domestic saving will have the same short-term effect on the current balance as a decline in saving relative to investment. In the longer term, a rise in the surplus or reduction of the deficit must necessarily be counterbalanced by a rise in saving relative to domestic investment.

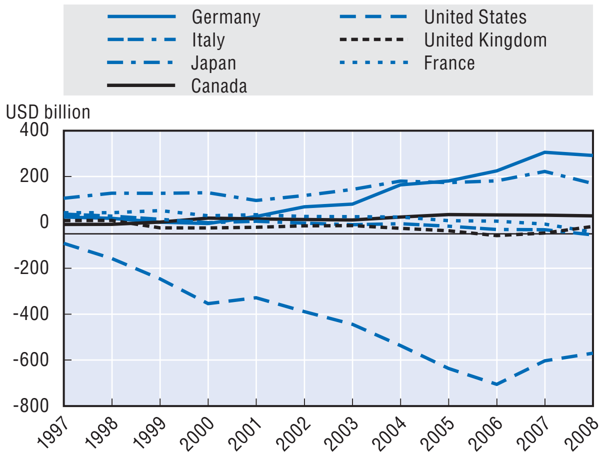
Financial account

The financial account can be broken down into two major categories: *a)* financial operations *per se,* consisting of direct investment, portfolio investment and other investment, which in turn comprise commercial credit, loans and deposits; and *b)* transactions involving reserve assets. There are direct linkages between the components of international transactions. For example, because goods imports are in many cases financed by non-residents, a rise in imports is counterbalanced by a financial inflow.

The basic principle of double-entry accounting for the balance of payments assumes that the sum of transactions in the current account and the capital and financial account, including transactions involving reserve assets, is theoretically equal to zero.

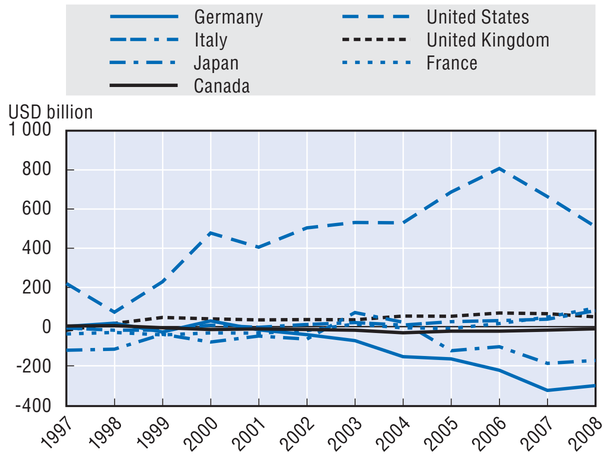
B.8. Current account and financial account balances

Figure B.8.1. **G7 countries' current account balance, 1997-2008**



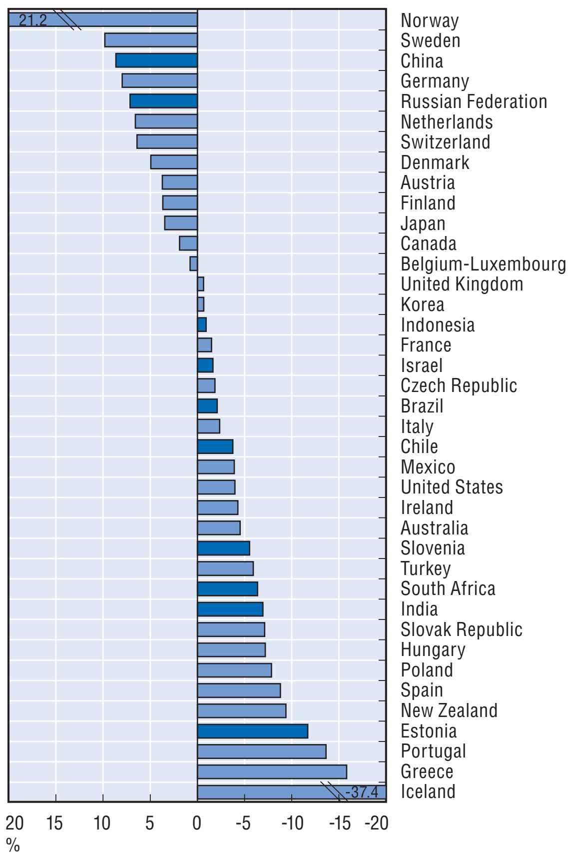
StatLink http://dx.doi.org/10.1787/840275036832

Figure B.8.2. **G7 countries' financial account balance, 1997-2008**



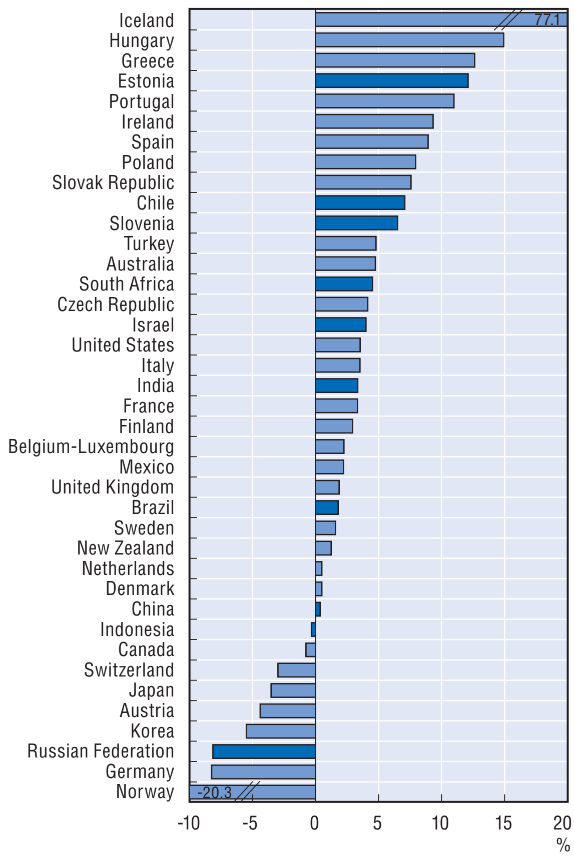
StatLink http://dx.doi.org/10.1787/840332861730

Figure B.8.3. **Current account balance as a percentage of GDP, 2008**



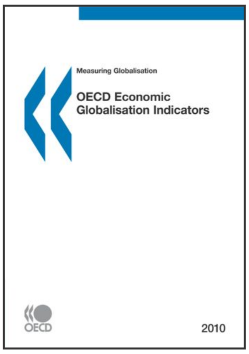
StatLink http://dx.doi.org/10.1787/840350688224

Figure B.8.4. **Financial account balance as a percentage of GDP, 2008**



StatLink http://dx.doi.org/10.1787/840380437162

Information on data for Israel: *http://dx.doi.org/10.1787/888932315602*.



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