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**Article**

## Development of Current Accounts

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## DEVELOPMENT OF CURRENT ACCOUNTS

The current account, as part of the balance of payment, records the flow of goods and assets between natives and foreigners. It consists of the balance of trade, or a country's exports less its imports of goods and services, net income from abroad and net current transfers. If a country imports more than it exports, it will face a current account deficit or vice versa.

Furthermore, the balance of the current account implies the capital account. The share of imports exceeding exports has to be financed by borrowing from a foreign country. If these current account deficits persist, a country will run into a net foreign deficit. This was the case in most of the southern European countries like, for example Greece, Spain and Portugal. These deficits often lasted due to weak private savings and can be seen as a sign of a lack of competitive ability. In recent years, the deficits of these countries decreased due to lower imports and stagnating exports.

The current account imbalances in the Eurozone (Figure 1) were widely discussed before and after the financial crisis. Germany in particular – together with some other Northern European countries – was often criticised for its weak domestic demand and high surpluses, which increased again in 2013. Thanks to even faster growth in imports, the German current account surplus is expected to decrease this year. With the Southern European countries disclosing lower deficits, or even small surpluses (as indicated by predictions for Spain or Portugal for 2013), European current account imbalances are expected to continue to narrow.

The same phenomenon can be seen at a global level. The imbalances declined from around five percent of global GDP in 2008 to around half of that figure in 2012. Most of the adjustment took place shortly after the financial crisis, with negative global growth and lower demand in external deficit economies. In most of these economies investment and government savings declined, while private saving sometimes increased. The imbalances are projected to stay at their current level until 2015, rising only in Japan and the US, but narrowing, for example, in China.

China is now far from surpluses of almost ten percent of GDP (Figure 2). Despite export market share gains, the relative strength of domestic demand is forecast to result in surpluses of up to four percent by 2018, which was the level of 2010.

Figure 1

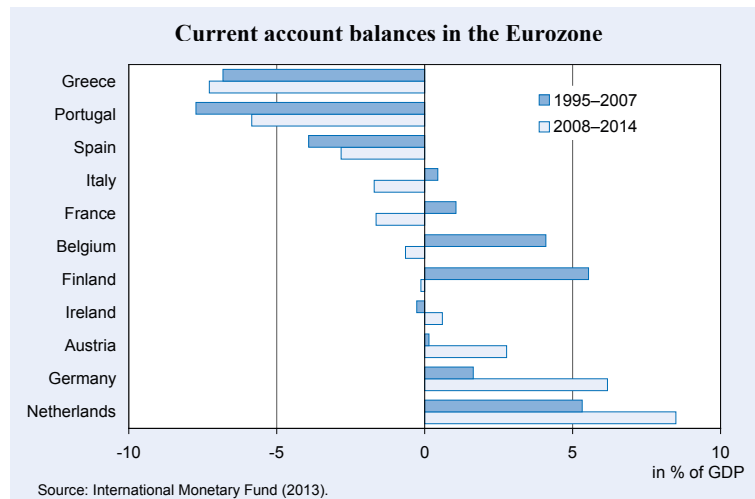
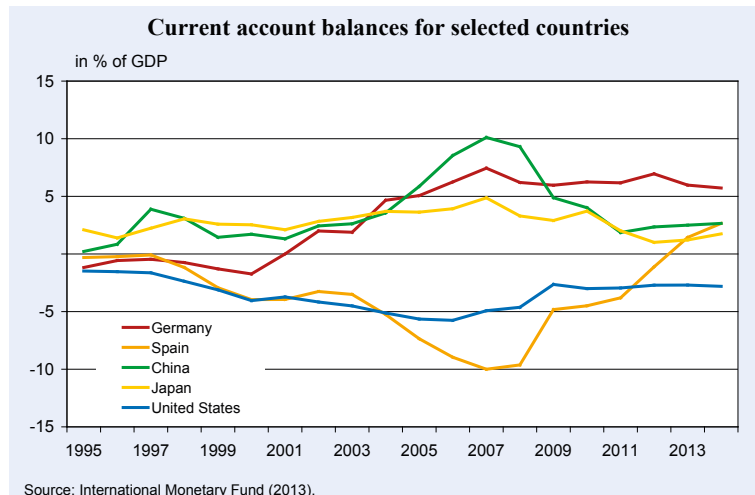


Figure 2



The US current account deficits are projected to stay close to three percent. The deficit looks set to decrease this year to around 2.7 percent, but to increase again in the years ahead due to strong growth in domestic demand in 2014 and 2015.

Japan's current account surplus is expected to stabilise this year, after falling due to rising energy imports after the earthquake of 2011. The depreciation of the yen worsened the terms of trade. The effect on the current account is now offset by strong net export volume growth and a rising net investment income balance. Fiscal consolidation is likely to dampen demand. This, in turn, means that the current account surplus is expected to rise to 1.9 percent by 2015.

Fabian U. Fuchs

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