

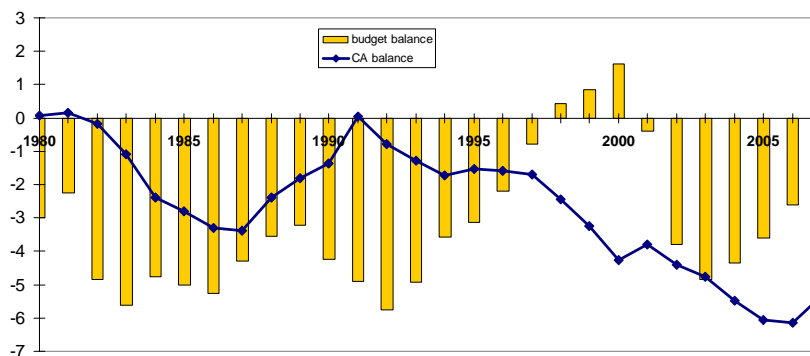
Chapter 12

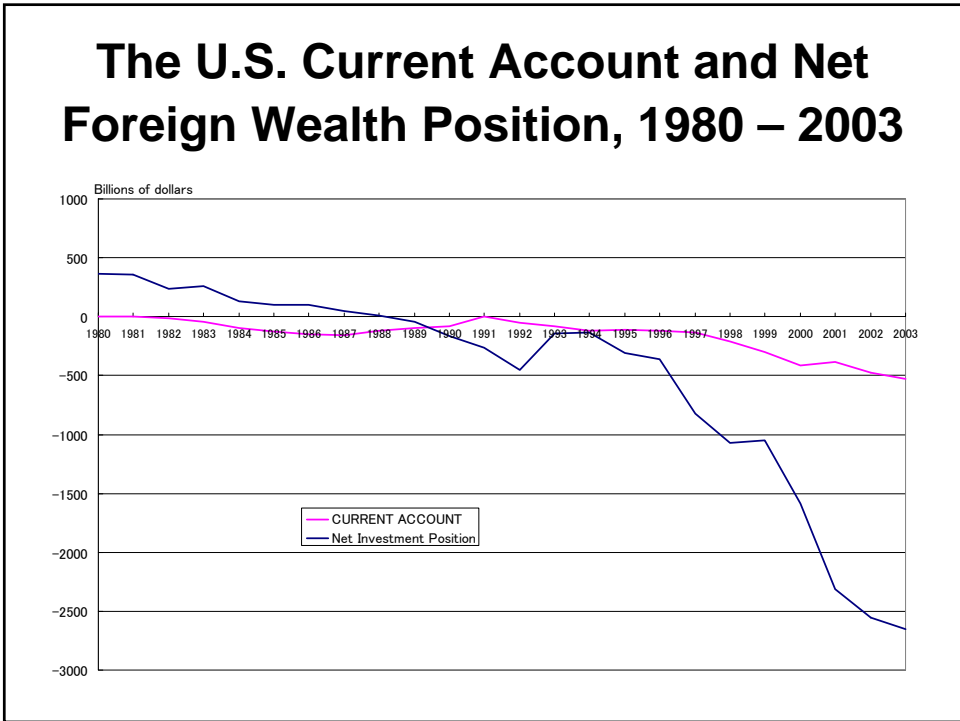
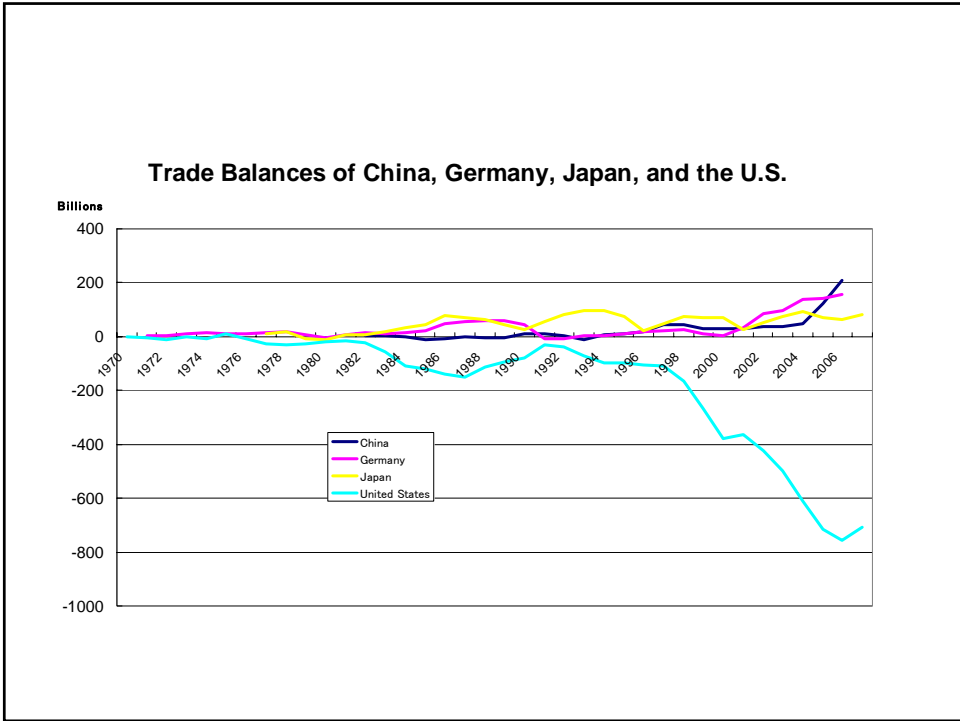
National Income Accounting and the Balance of Payments

Lecture 2

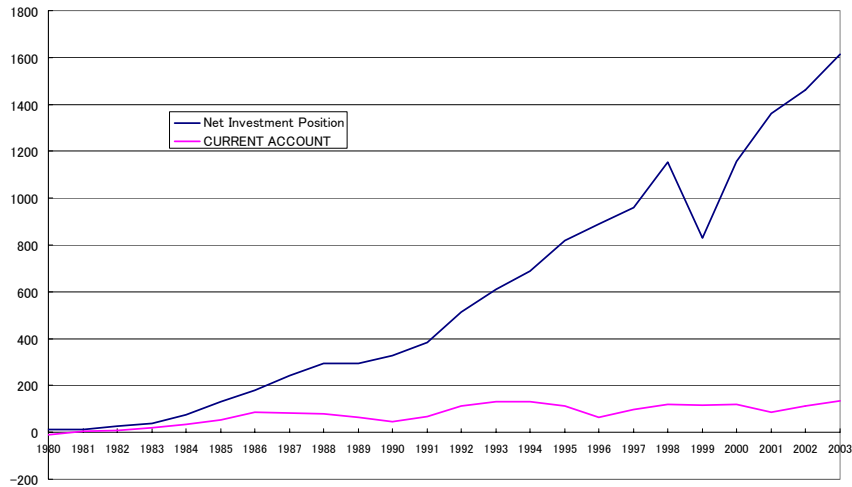
“Twin Deficit”?

US Budget Balances and Current Account
Balances as a ratio to GDP, 1970 - 2007

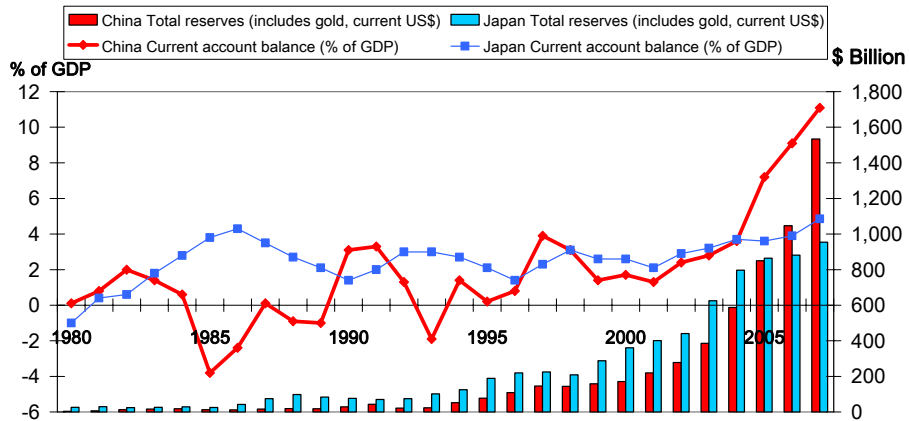




Japan's Current Account and Net Foreign Wealth Position, 1980 – 2003



CAB and IR Holdings of China and Japan, 1980 - 2007



The Balance of Payments Accounts

- A country's balance of payments accounts keep track of both its payments to and its receipts from foreigners.
- **Every international transaction automatically enters the balance of payments twice: once as a credit (+) and once as a debit (-).**

The Balance of Payments Accounts

- Three types of international transactions are recorded in the balance of payments:
 - **Current Account:** Exports or imports of goods or services
 - **Financial Account (Capital Account):** Purchases or sales of **financial assets**
 - **Capital Account:** Transfers of wealth between countries

Examples of Paired Transactions

Case 1: A U.S. citizen buys a \$1,000 fax machine from an Italian company, and pays for it with a \$1,000 check (which the Italian company eventually deposits in its account at Citibank in NY).

- That is, the U.S. trades assets for goods.
- This transaction creates the following two offsetting entries in the U.S. balance of payments:
 - It enters the U.S. CA with a **negative** sign (-\$1,000).
 - It shows up as a \$1,000 **credit** in the U.S. financial account.

Case 2: A U.S. citizen pays \$200 for dinner at a French restaurant in France by charging his Visa credit card.

- That is, the U.S. trades assets for services.
- This transaction creates the following two offsetting entries in the U.S. BoP:
 - It enters the U.S. CA with a negative sign (-\$200).
 - It shows up as a \$200 credit in the U.S. financial account.

Case 3: A U.S. citizen buys a \$95 newly issued share of stock in the United Kingdom oil giant British Petroleum (BP) by using a check drawn on his stockbroker money market account. BP deposits the \$95 in its own U.S. bank account at Second Bank of Chicago.

- That is, the U.S. trades assets for assets.
- This transaction creates the following two offsetting entries in the U.S. balance of payments:
 - It enters the U.S. financial account with a negative sign (–\$95).
 - It shows up as a \$95 credit in the U.S. financial account.

Case 4: A U.S. bank forgives \$5,000 in debt owed to it by the government of Bygonia.

- This transaction creates the following two offsetting entries in the U.S. balance of payments:
 - It enters the U.S. capital account with a negative sign (–\$5000).
 - It shows up as a \$5000 credit in the U.S. financial account.

The Fundamental Balance of Payments Identity

- Any international transaction automatically gives rise to two offsetting entries in the balance of payments resulting in a fundamental identity:

$$\text{Current account} + \text{financial account} + \text{capital account} = 0$$

Table 12-2:
U.S. Balance of Payments
Accounts for 2006
(billions of dollars)

TABLE 12-2 U.S. Balance of Payments Accounts for 2006 (billions of dollars)		
	Credits	Debits
Current Account		
(1) Exports	+2,096.2	
Of which:		
Goods	+1,023.1	
Services	+422.6	
Income receipts	+650.5	
(2) Imports		-2,818.0
Of which:		
Goods		-1,861.4
Services		-342.8
Income payments		-613.8
(3) Net unilateral current transfers		-89.6
Balance on current account		-811.5
[(1) + (2) + (3)]		
Capital Account		
(4)		-3.9
Financial Account		
(5) U.S. assets held abroad, excluding financial derivatives		-1,055.2
(increase -)		
Of which:		
Official reserve assets	+2.4	
Other assets		-1,057.6
(6) Foreign assets held in U.S., excluding financial derivatives	+1,859.6	
(increase +)		
Of which:		
Official reserve assets	+440.3	
Other assets	+1,419.3	
(7) Financial derivatives, net	+28.8	
Balance on financial account	+833.2	
[(5) + (6) + (7)]		
Statistical discrepancy		-17.8
[sum of (1) through (7) with sign reversed]		
Source: U.S. Department of Commerce, Bureau of Economic Analysis, June 15, 2007, release. Totals may differ from sums because of rounding.		