STRIKING THE PROPER BALANCE

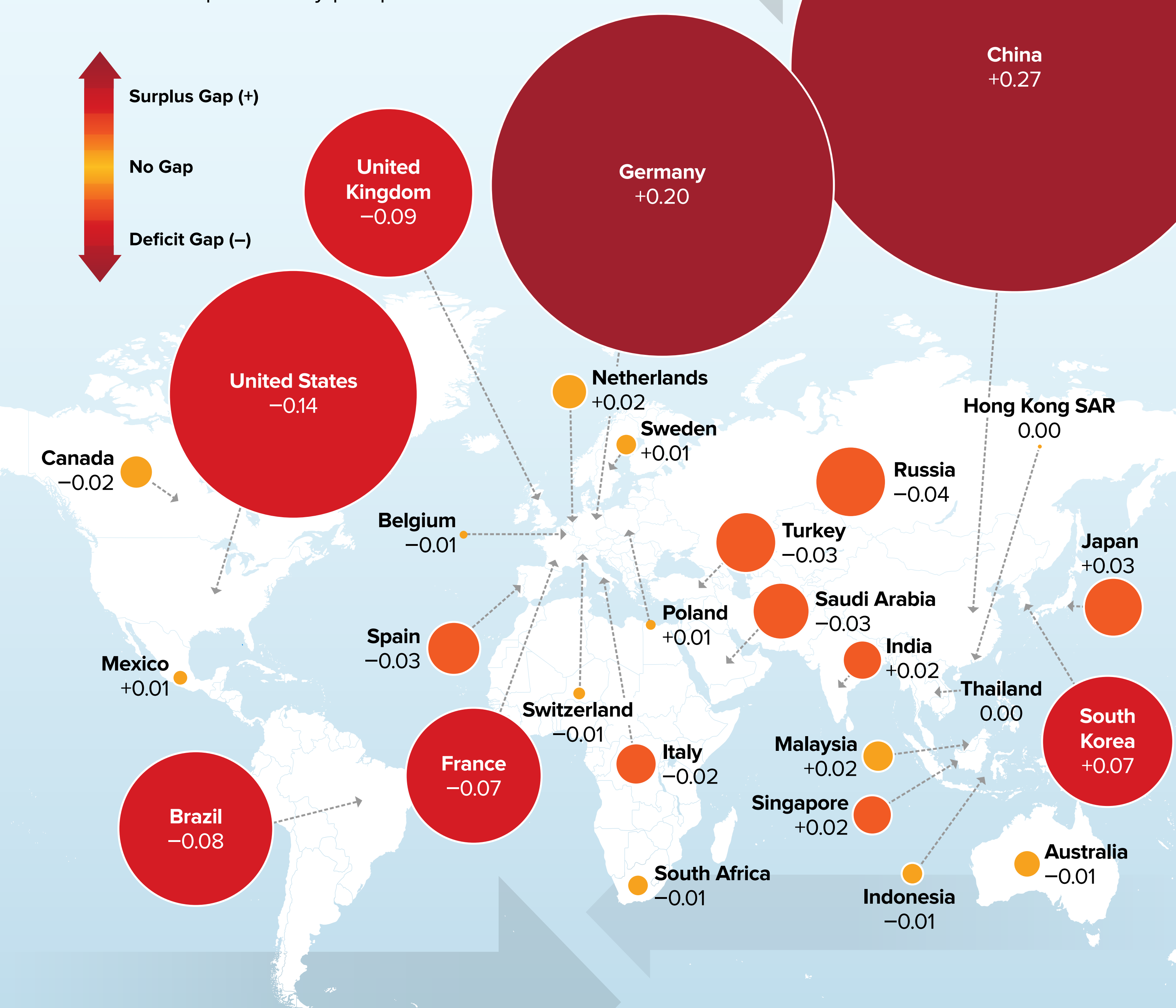
Identifying When an Economy's Current Account Surplus or Deficit is Too Large

A country's **current account** is the difference in the value of those goods and services it exports and those it imports: countries with a current account *surplus* export more than they import, and those with a current account *deficit* import more than they export. At the same time, the current account also represents the difference between an economy's saving and its investment.

It often makes sense for a country to have a current account surplus or deficit, but striking the best balance can be tricky, and if a country tilts excessively away from its "norm"—the surplus or deficit the IMF staff considers most appropriate given that country's circumstances—then there is a measurable "gap." Such gaps often take the form of too large of a surplus or deficit. Identifying these gaps and their sources can help policymakers know where to adjust course. Addressing these gaps would lead to better outcomes for growth and stability, in their own countries and potentially globally.

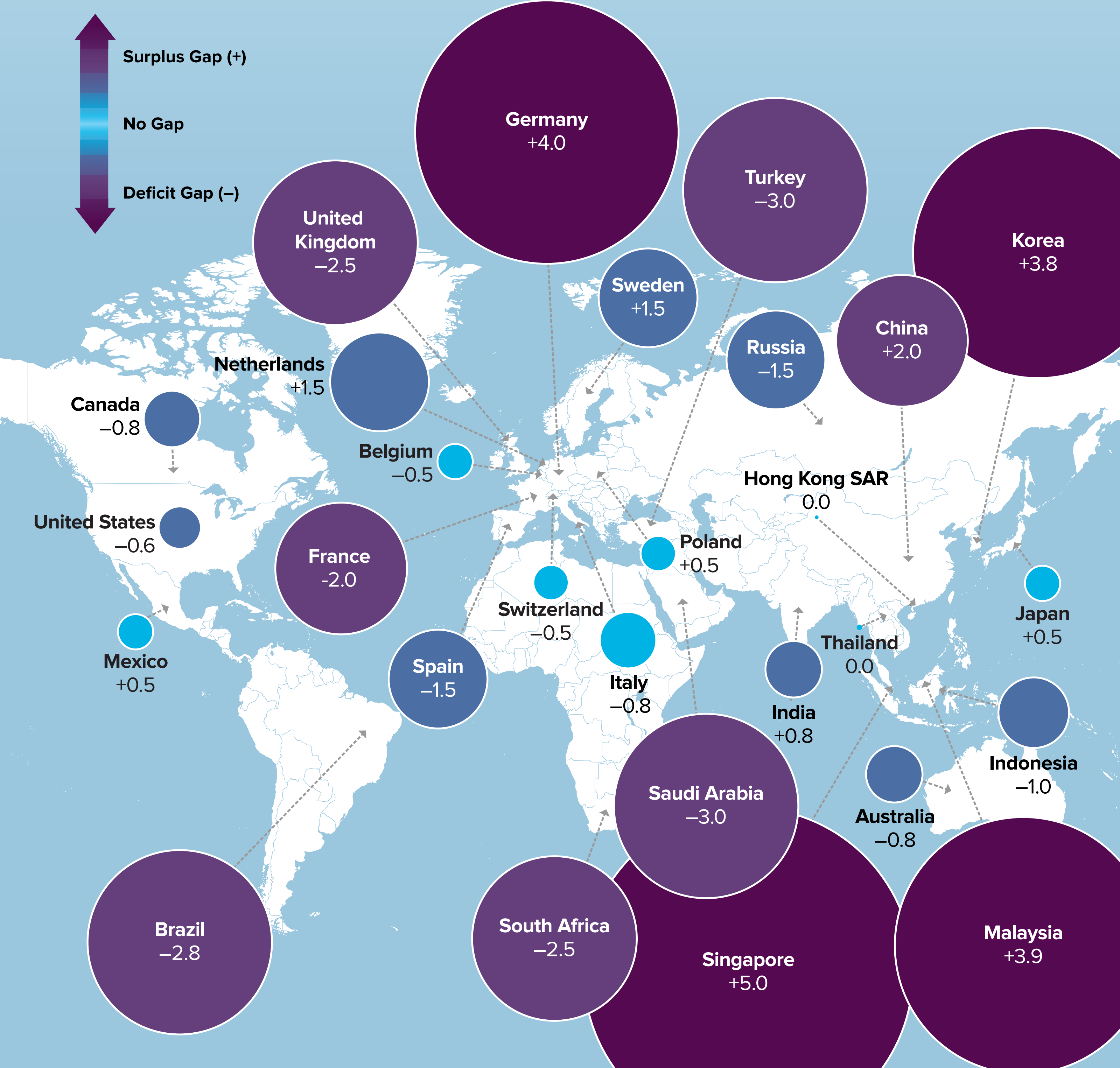
CURRENT ACCOUNT GAPS 2014

This infographic shows the relative size of estimated current account gaps for a cross section of countries, from two complementary perspectives



The map above shows each country's current account gap in a global context by measuring all gaps on the same scale (as a share of global GDP). Countries' current accounts and gaps are after all interrelated, and this perspective makes clear the relative contributions of each in the global picture. In this view, large economies tend to matter more. For example, the large contributions of China and the United States reflect the sheer size of their economies.

Another useful way of assessing the severity of a current account gap is to measure each country's gap against the size of its own economy. The map below shows the current account gaps for the same countries as above but through the lens of their own GDP. The gaps in this view suggest the extent of policy action that each country may need to undertake to reach a current account more appropriate to its situation.



For a broader discussion of current account issues, see the IMF's *External Sector Report—Individual Economy Assessments* released July 28, 2015.