

CURRENT ACCOUNT DEFICIT AS PERCENTAGE OF GDP		
Global Economic Partnership	External financing	Core indicator

1. INDICATOR

- (a) **Name:** Current account deficit as share of Gross domestic product (GDP)
- (b) **Brief Definition:** The balance of the current account (deficit or surplus) in a country divided by Gross Domestic Product.
- (c) **Unit of Measurement:** Percentage
- (d) **Placement in the CSD Indicator Set:** Global Economic Partnership/ External financing

2. POLICY RELEVANCE

- (a) **Purpose:** Current account balance is a part of the measure of an economy's savings. Along with net capital transfers and acquisition/disposal of non-produced, non-financial assets, the current account balance represents the net foreign investment or net lending/borrowing position of a country vis-à-vis the rest of the world.
- (b) **Relevance to Sustainable/Unsustainable Development (theme/sub-theme):** Persistent current account deficits or surpluses indicate a macroeconomic instability that is not conducive to sustained economic growth and, therefore, to sustained means of implementation of sustainable development goals. Persistent deficits require a reversal in the future, typically through a combination of increased savings (private and/or public), a depreciation of the real effective exchange rate and, possibly, a revaluation of external liabilities. In countries with incomplete financial markets, high current account deficits may, depending on the financing of the deficit, macroeconomic conditions and possible international capital market sentiments, also indicate a risk of future sudden reversal of international financial flows and, thereby, abrupt decrease in the means of implementation of sustainable development goals.
- (c) **International Conventions and Agreements:** None.
- (d) **International Targets/Recommended Standards:** None
- (e) **Linkages to Other Indicators:** This indicator is closely linked to changes in international reserves, capacity to import, and capacity to service debt along with other measures of economic development and macro stability.

3. METHODOLOGICAL DESCRIPTION

- (a) **Underlying Definitions and Concepts:** The current account covers all transactions (other than those in financial items) that involve economic values and occur between

residents and non-resident entities. As per the current 5th edition of the Balance of Payment Manual, the main categories of the current account are goods, services, income (compensation of employees and investment income) and current transfers.

The counterparts of the current account are the capital and financial accounts. The major components of the capital account are capital transfers and acquisition/disposal of non-produces/non-financial assets. Standard components of the financial account are direct investment, portfolio investment, other investment and reserve assets.

In principle (ignoring measurement problems), the current account equals the inverse of the financial and capital account. Consequently, a current account deficit has to be financed through an increase in financial and non-financial liabilities or a decrease in reserve assets. However due to the difficulties in compiling the data, the balance is often achieved by inserting an errors and omissions row. In some cases the errors and omissions may be larger than other components, especially when the data compiling practices are poor.

Gross domestic product (GDP) at purchaser's prices is the sum of value added by all resident producers in the economy plus any taxes (less subsidies) not included in the valuation of output. No allowances are made for the depreciation of capital assets or the depletion and degradation of natural resources.

(b) Measurement Methods: The indicator is derived by dividing the current account by GDP.

(c) Limitations of the Indicator: The indicator does not provide information on the financing of a current account deficit, which may contain important information on the sustainability of the deficit. The indicator also does not indicate whether and at which point of time policy measures are appropriate to address current account imbalances.

(d) Status of Methodology: The methodology is generally well developed.

(e) Alternative Definitions/Indicators: Gross national income (GNI) may be chosen as denominator instead of GDP. The different component of the current account, especially the trade balance, may provide important information on its own.

4. ASSESSMENT OF DATA

(a) Data Needed to Compile the Indicator: Balance of payment data for the current account and national accounts data for GDP.

(b) National and International Data Availability and Sources: In most countries national statistical offices, central banks, or ministries collect balance of payment statistics and report them to the International Monetary Fund (IMF). The IMF publishes current account data in its Year book of Balance of Payments Statistics, and monthly International Financial Statistic (IFS). The World Bank publishes current account data in its *World Development Indicators* series (WDI) and *World Development Report* (WDR).

(c) **Data References:** Information on current account is included in the World Development Indicators of the World Bank, see about the data table 4.15.

5. AGENCIES INVOLVED IN THE DEVELOPMENT OF THE INDICATOR

(a) **Lead Agency:** The lead agency is the World Bank. The contact point is K. M. Vijayalakshmi ((202-473-3827), Kvijayalakshmi@worldbank.org).

(b) **Other Contributing Organization** The IMF, which is the source of international data on the current account.

6. REFERENCES

(a) **Readings:**

International Monetary Fund, Balance of Payment Manual, 5th edition, 1993.

International Monetary Fund, Year book of Balance of Payments, various years.

World Bank, World Development Indicators, various years.

(b) **Internet sites:**

IMF: <http://www.imf.org/external/np/sta/bop/>

World Bank: www.worldbank.org/data.