

Public Affairs 854  
**Macroeconomic Policy and  
International Financial Regulation**

Lecture 4  
2/3/2021

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Spring 2021

# Outline


- Balance of Payments Accounting
- FX Reserves

# Balance of Payments Accounting

# Definitions

$$(11.8) \quad CA + FA + ORT \equiv 0$$

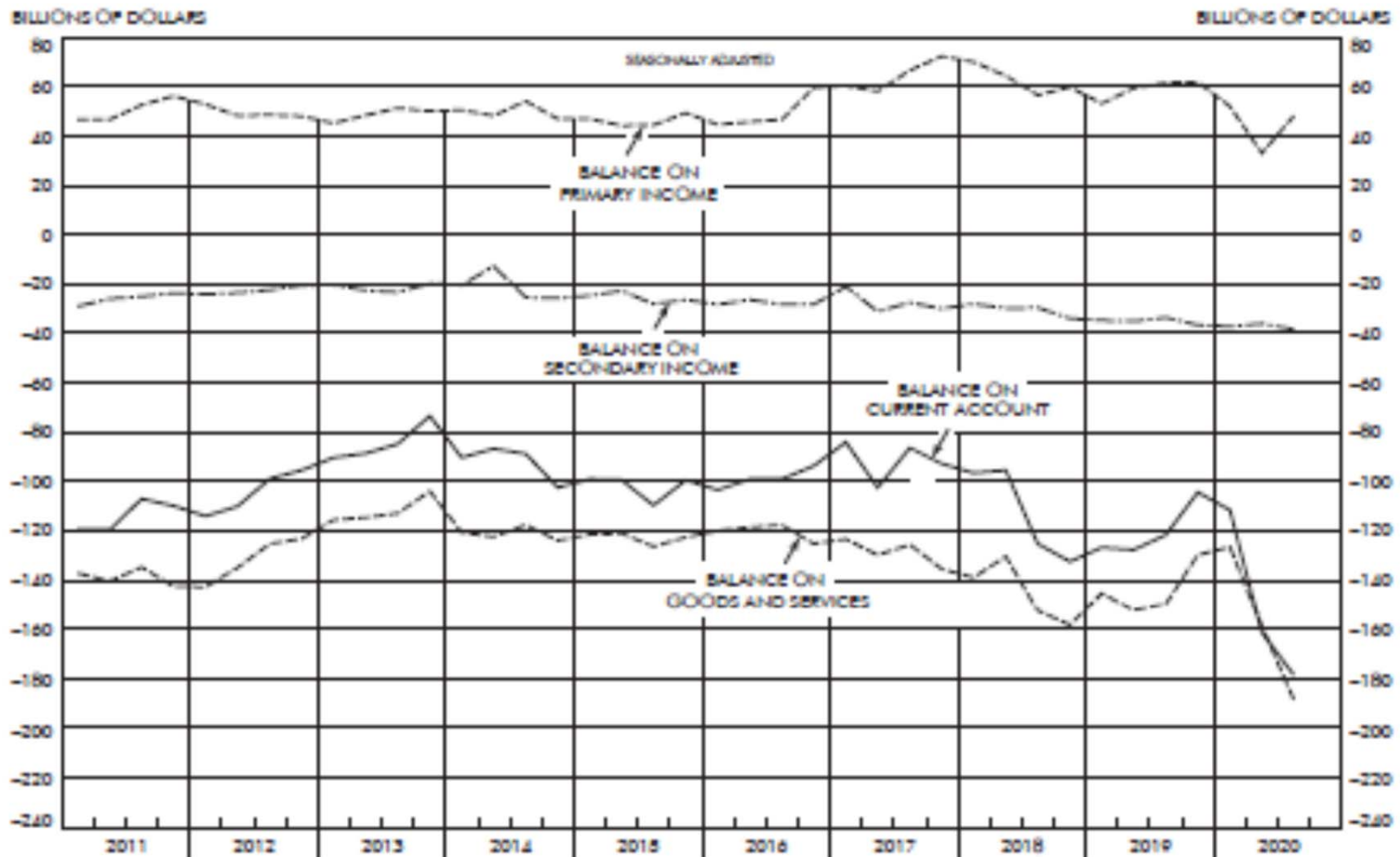
Current Account	Private Financial Account	Official Reserves Transactions
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Financial  
Account

$$(11.9) \quad CA \equiv (X - IM) + F + V$$

Trade Balance “Balance on Goods & Services	“Balance On Primary Income”	“Balance on Secondary Income”
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# Current Account



SOURCE: DEPARTMENT OF COMMERCE

COUNCIL OF ECONOMIC ADVISERS

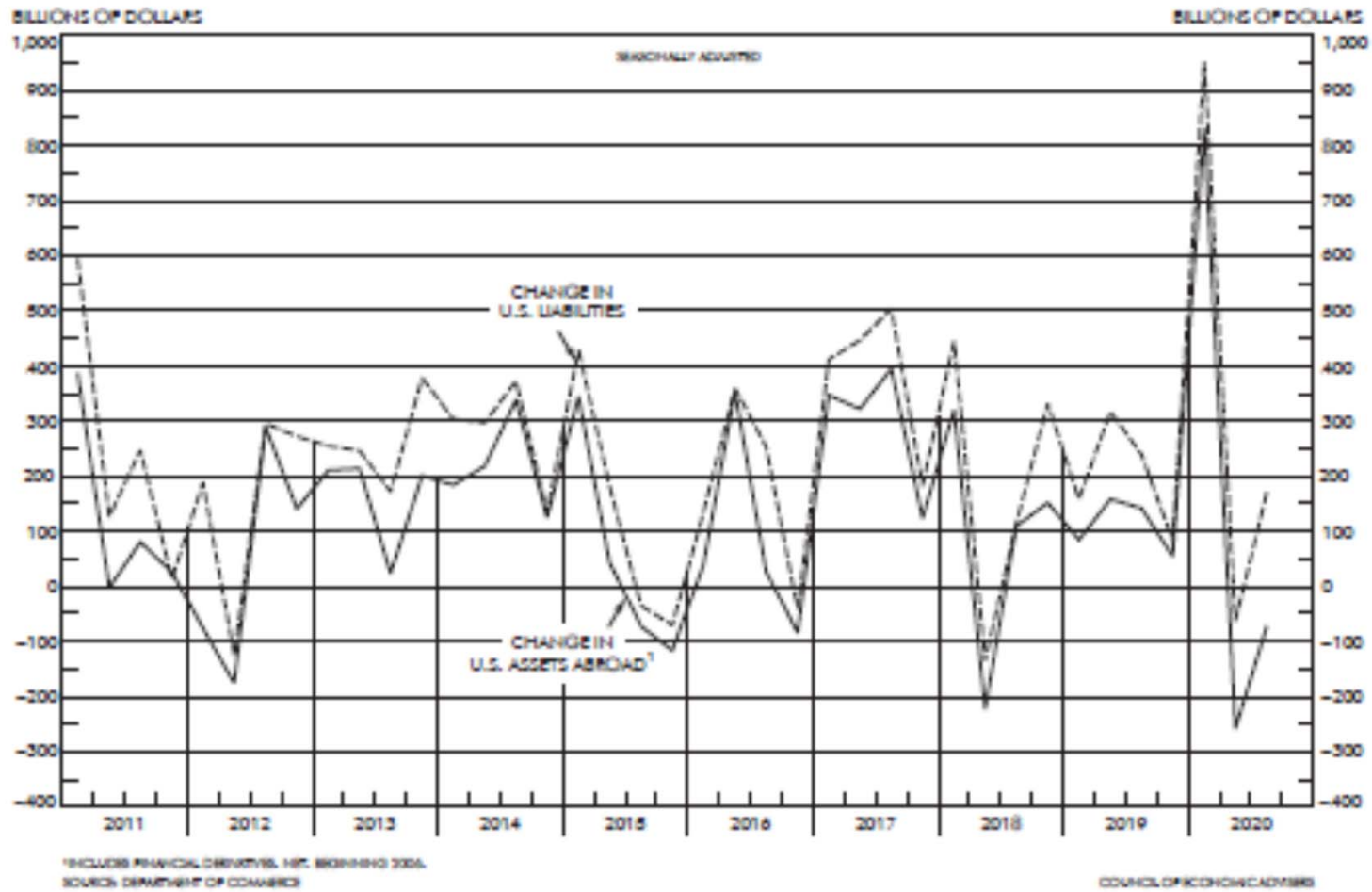
# Current Account

(Millions of dollars; quarterly data seasonally adjusted)

Period	Current Account <sup>1</sup>											Current account balance as a percentage of GDP <sup>2</sup>	
	Goods <sup>2</sup>			Services			Balance on goods and services	Primary income receipts and payments			Balance on secondary income <sup>3</sup>		Balance on current account
	Exports	Imports	Balance on goods	Exports	Imports	Balance on services		Receipts	Payments	Balance on primary income			
2010	1,290,279	1,938,950	-648,671	582,041	436,456	145,584	-503,087	723,223	553,311	169,911	-88,834	-432,009	-2.9
2011	1,498,887	2,239,886	-740,999	644,685	458,188	186,477	-554,522	791,469	589,038	202,431	-103,211	-455,302	-2.9
2012	1,562,630	2,303,749	-741,119	684,823	469,610	215,213	-525,906	791,679	593,754	197,925	-90,134	-418,115	-2.6
2013	1,583,708	2,294,247	-700,539	719,529	465,819	253,710	-446,829	811,561	616,041	195,520	-85,545	-336,854	-2.0
2014	1,635,563	2,385,480	-749,917	756,705	490,932	265,773	-484,144	845,926	645,623	200,303	-83,978	-367,819	-2.1
2015	1,511,381	2,273,249	-761,868	768,362	497,755	270,607	-491,261	825,100	639,724	185,376	-101,470	-407,355	-2.2
2016	1,457,393	2,207,195	-749,801	780,530	511,898	268,632	-481,169	857,819	660,799	197,021	-110,716	-394,865	-2.1
2017	1,567,003	2,356,345	-799,343	830,388	544,836	285,552	-513,791	997,524	739,731	257,793	-109,272	-365,269	-1.9
2018	1,676,950	2,557,251	-880,301	862,433	562,069	300,364	-579,937	1,108,472	857,299	251,174	-120,931	-449,693	-2.2
2019	1,852,437	2,516,767	-664,331	875,825	588,359	287,466	-576,865	1,135,691	899,347	236,344	-139,705	-480,226	-2.2
2018: I	412,989	630,894	-217,905	217,360	138,310	79,050	-138,855	270,402	200,215	70,187	-27,918	-96,587	-1.9
2018: II	426,060	630,865	-204,805	213,617	139,042	74,575	-130,230	279,752	215,258	64,494	-29,678	-95,414	-1.9
2018: III	419,341	646,224	-226,883	215,287	140,810	74,477	-152,406	273,725	217,087	56,638	-29,473	-125,241	-2.4
2018: IV	418,561	649,269	-230,708	216,170	143,907	72,263	-158,445	284,593	224,738	59,855	-33,861	-132,452	-2.5
2019: I	419,048	635,180	-216,133	215,162	144,267	70,895	-145,237	278,452	225,153	53,298	-34,677	-126,616	-2.4
2019: II	411,069	635,641	-224,572	220,326	147,964	72,362	-152,210	287,535	228,069	59,467	-34,949	-127,691	-2.4
2019: III	410,930	632,059	-221,129	219,259	147,788	71,471	-149,658	286,761	225,140	61,621	-33,556	-121,594	-2.3
2019: IV	411,390	613,887	-202,497	221,079	148,341	72,738	-129,759	282,943	220,985	61,958	-36,524	-104,324	-1.9
2020: I	403,533	595,281	-191,748	202,019	136,747	65,272	-126,476	256,527	204,491	52,036	-37,075	-111,516	-2.1
2020: II <sup>4</sup>	288,726	508,271	-219,545	162,004	101,146	60,858	-158,687	211,944	178,710	33,234	-35,909	-161,362	-3.3
2020: III <sup>4</sup>	357,135	602,701	-245,565	164,846	107,688	57,158	-188,408	238,696	190,588	48,108	-38,213	-178,513	-3.4

# Financial Account & Capital Account

# Financial Account





# Definitions

$$(11.8) \quad CA + FA + ORT \equiv 0$$

Current	Private	Official
Account	Financial	Reserves
	Account	Transactions



Financial  
Account

$$FA = A - C - B$$

(Millions of dollars; quarterly data seasonally adjusted)

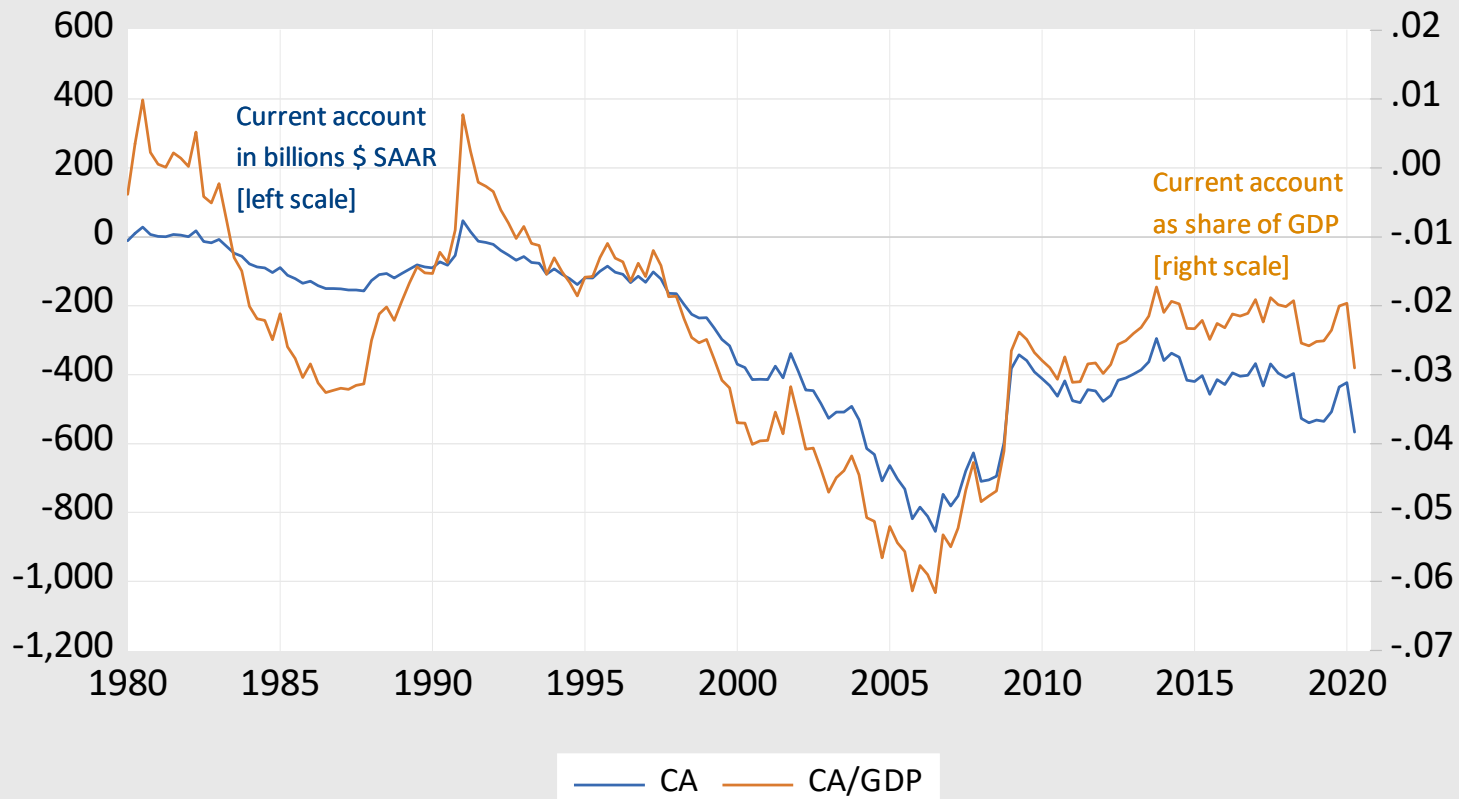
Period	Balance on capital account	Financial account											Statistical discrepancy	U.S. official reserve assets, net (unadjusted, end of period) <sup>4</sup>
		A Net U.S. acquisition of financial assets excluding financial derivatives (net increase in assets / financial outflow -)				B Net U.S. incurrence of liabilities excluding financial derivatives (net increase in liabilities / financial inflow +)				Financial derivatives other than reserves, net transactions	Net lending (+) or net borrowing (-) from financial account transactions <sup>5</sup>			
		Total	Direct investment assets	Portfolio investment assets	Other investment assets	Reserve assets <sup>4</sup>	Total	Direct investment liabilities	Portfolio investment liabilities			Other investment liabilities		
2010	-6,891	958,737	349,829	199,620	407,45	1,835	1,391,042	264,039	820,434	306,569	-14,076	-446,381	-7,481	132,433
2011	-9,020	492,556	436,615	65,365	-45,30	15,877	983,522	263,499	311,626	408,397	-35,006	-525,972	-61,650	147,953
2012	931	176,937	377,239	248,760	-453,52	4,460	632,034	250,343	747,017	-365,327	7,064	-448,032	-30,849	150,175
2013	-6,559	649,753	292,796	481,298	-221,24	-3,099	1,052,068	288,131	511,987	251,949	2,222	-400,093	-56,681	144,575
2014	-6,536	866,702	387,528	582,676	-99,92	-3,583	1,109,443	251,857	687,607	159,979	-54,335	-297,076	77,278	130,090
2015	-7,940	197,359	302,072	160,410	-258,83	-6,292	503,468	511,434	213,910	-221,876	-27,035	-333,144	82,151	117,581
2016	-6,606	335,233	299,814	36,283	-2,99	2,090	706,693	474,388	231,265	1,040	7,827	-363,633	37,838	117,332
2017	12,354	1,188,188	405,375	589,375	215,12	-1,690	1,546,281	366,996	790,796	388,489	23,998	-334,095	18,779	123,313
2018	-4,196	358,971	-151,298	335,263	170,01	4,989	758,291	261,480	303,075	193,736	-20,404	-419,724	34,165	125,798
2019	-6,244	440,751	188,469	46,570	201,05	4,659	797,960	351,629	179,980	266,350	-38,340	-395,549	90,921	129,479
2018: I	-1,406	320,758	-58,184	289,989	88,96	-7	446,162	65,445	301,122	79,595	29,139	-96,265	1,727	126,510
2018: II	-2,912	-223,399	-105,044	-17,704	-103,71	3,068	-135,152	9,475	-18,368	-126,259	-15,723	-103,970	-5,644	125,099
2018: III	-458	109,691	74,289	83,451	-47,87	-177	114,982	137,899	12,157	-35,075	-11,505	-16,796	108,900	123,729
2018: IV	576	151,921	-62,359	-20,473	232,64	2,105	332,299	48,662	8,164	275,474	-22,315	-202,693	-70,817	125,798
2019: I	-2,542	84,497	-11,846	-40,720	136,85	208	158,290	117,543	-18,569	59,315	-21,383	-95,175	33,983	125,175
2019: II	-848	158,966	115,561	45,025	-3,98	2,359	317,227	99,461	146,049	71,717	-9,642	-167,903	-39,364	128,338
2019: III	-826	142,221	25,574	20,460	94,30	1,882	238,964	78,119	105,660	55,185	-6,382	-103,125	19,303	127,595
2019: IV	-2,019	55,067	58,180	21,806	-26,12	210	83,479	56,506	-53,160	80,133	-933	-29,345	76,998	129,479
2020: I	-2,971	830,858	-9,065	115,814	724,35	-245	952,306	52,201	-20,547	920,653	-21,611	-143,059	-28,572	127,910
2020: II*	-1,054	-257,865	42,253	-947	-304,13	4,960	-63,989	-651	342,340	-405,578	-12,744	-206,620	-44,204	133,890
2020: III†	-676	-73,048	71,063	142,166	-288,09	1,820	172,022	70,530	147,526	-46,034	23,999	-221,071	-41,880	138,961

<sup>4</sup> Consists of monetary gold, special drawing rights (SDRs), the U.S. reserve position in the International Monetary Fund (IMF), and other reserve assets, including foreign currencies.

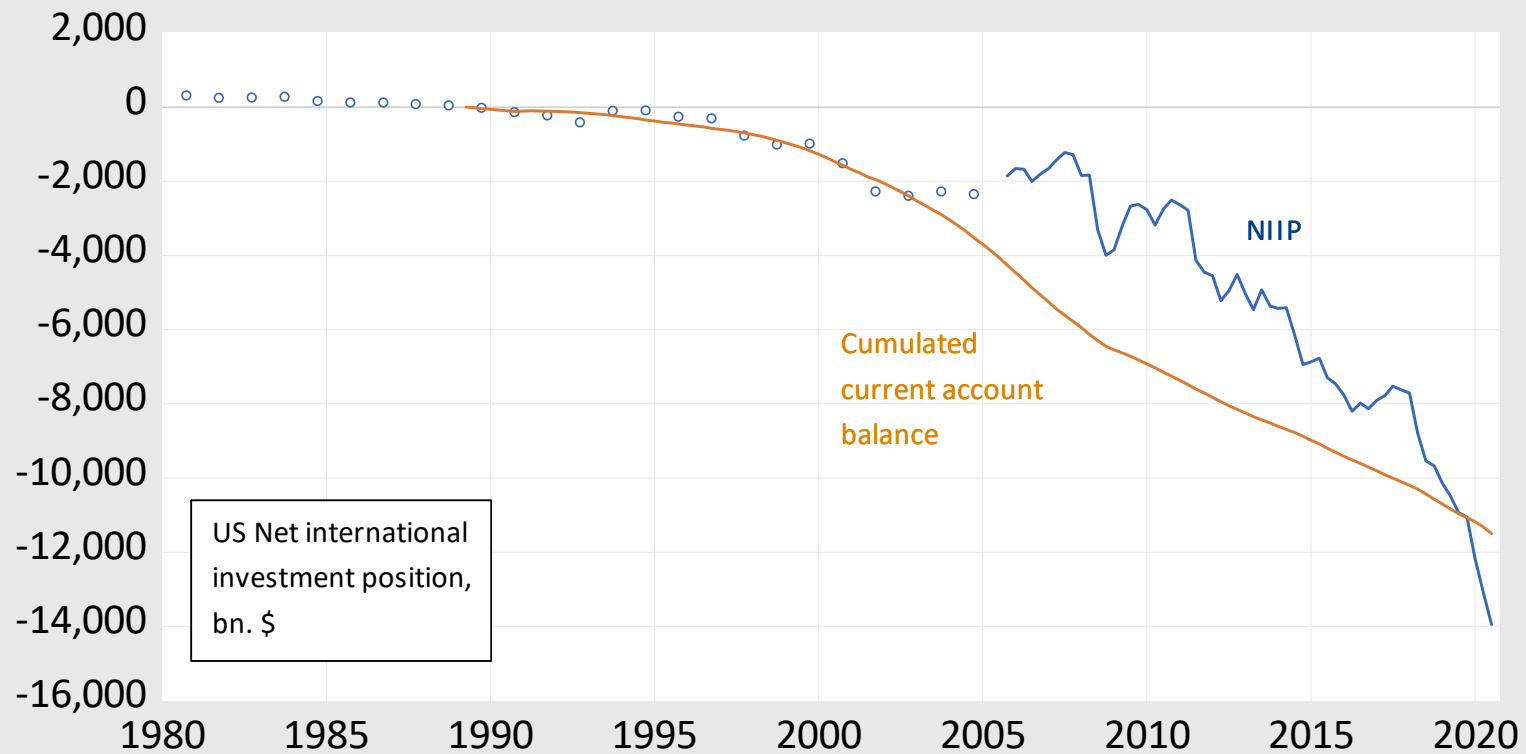
<sup>5</sup> Net lending means that U.S. residents are net suppliers of funds to foreign residents, and net borrowing means the opposite.

Sources: Department of Commerce (Bureau of Economic Analysis), Department of the Treasury, and the Board of Governors of the Federal Reserve System.

# Consequences of Chronic Current Account Deficits



# Consequences of Chronic Current Account Deficits



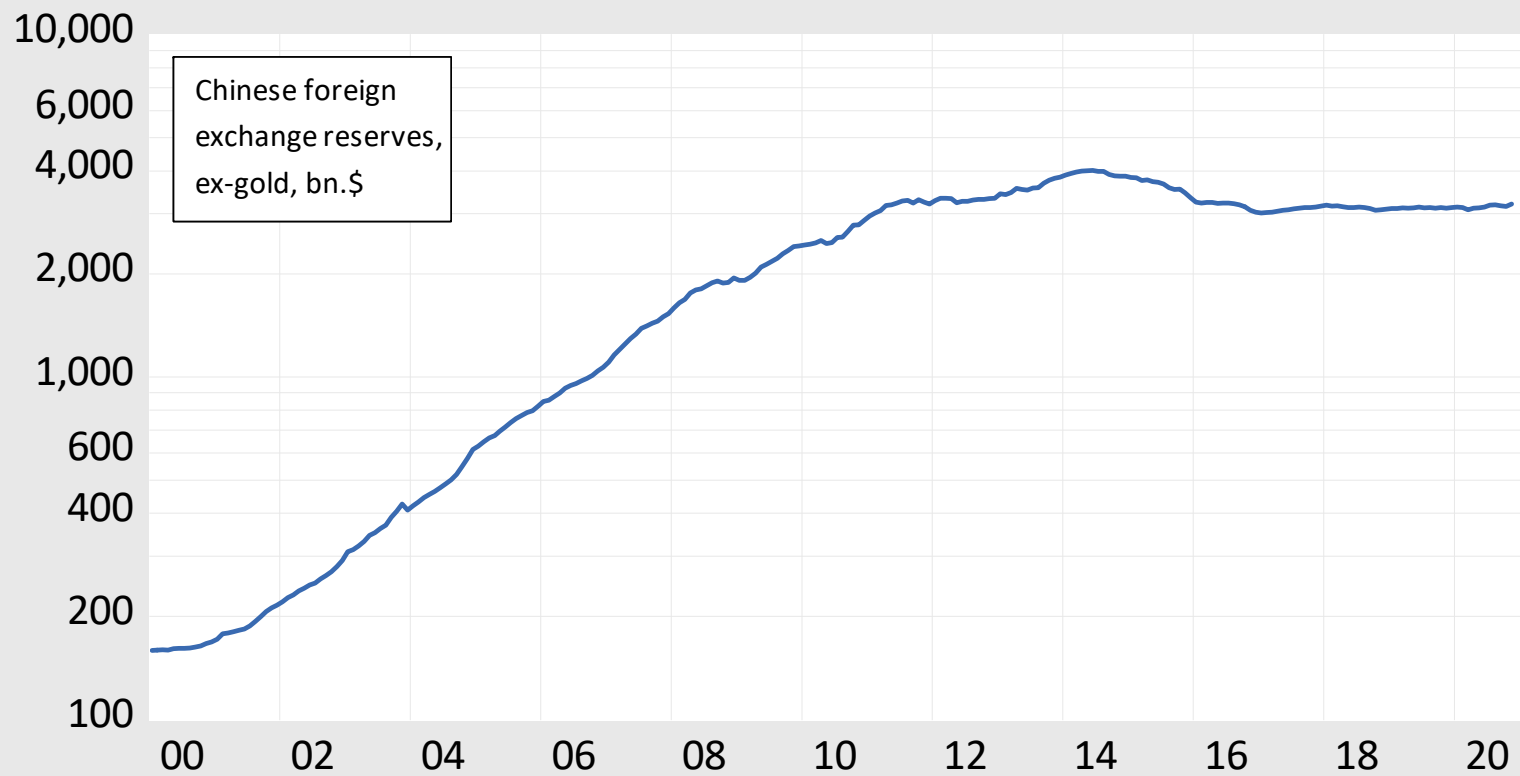
# BoP Identity

$$CA + FA + ORT \equiv 0$$

$$CA + FA \equiv -ORT$$

accumulation of foreign  
exchange (aka “FX”)

# Application to China



# Next Lecture

- Exchange Rates
- Foreign Exchange Market