



A current account surplus occurs when a nations total exports of goods, services, and transfers exceed its total imports of them. It is a crucial component of a countrys balance of payments and reflects economic health in various contexts. categories, key events, and much more. Historical Context Historical Context Historical Context History Post-World War II Era: Nations like Japan and Germany experienced significant current account surpluses, contributing to their rapid economic recovery and industrial growth. Oil Boom of the 1970s: Middle Eastern countries witnessed considerable surpluses due to rising oil prices. Chinas Economic Boom: In recent decades, Chinas export-driven growth has led to substantial current account surpluses. Types/CategoriesGoods Trade Surplus: More goods are exported than imported. Services are exported than imported. Net Income Surplus: Transfers such as foreign aid received exceed those given. Detailed Explanations The current account is one of the three major components of a countrys balance of payments, alongside the capital account and the financial account. It is calculated using the formula: \$\$ \text{Exports of Goods and Services} - \text{Imports of Goods and Services} + \text{Net Income from Abroad} + \text{Net Current Transfers} \$\$ A surplus indicates that a country is a net lender to the rest of the world, which can have various implications for its currency value, foreign reserves, and economic policies. Importance and ApplicabilityA current account surplus can be significant for several reasons: Economic Stability: It suggests a strong export sector and stable economic conditions. Foreign Reserves: Contributes to increasing a countrys foreign exchange reserves. Currency Valuation: Often leads to an appreciation of the national currency. Investment Capacity: Allows for more investments in foreign assets. While a surplus indicates positive economic factors, excessive surpluses can lead to:Trade Tensions: With trading partners due to perceived trade imbalances. Economic Imbalances: Reflects potential underconsumption or overreliance of Payments: A record of all financial transactions made between consumers, businesses, and the government in one country with others. Capital Account: A national account that shows the net change in asset ownership for a nation. Comparisons Term Definition Current Account by which the cost ownership for a national account that shows the net change in asset ownership for a nation. of a countrys imports exceeds the value of its exports. Interesting FactsGermany has consistently had one of the worlds largest current account surpluses since the early 2000s. Norways surplus is primarily driven by oil and gas exports. Famous QuotesThe ability to deal with external balances is crucial for economic prosperity. - Martin Wolf, EconomistFAQs A current account surplus indicates that a country is exporting more than it is importing, suggesting strong economic imbalances and trade tensions with other countries. ReferencesKrugman, P., Obstfeld, M., & Melitz, M. (2014). International Economics: Theory and Policy. Pearson.IMF Publications. (Various Years). Understanding a current account surplus is essential for comprehending global economic dynamics. It signifies more receipts than expenditures in a countrys balance of payments, often indicating a robust economy. However, its important to maintain balanced economic policies to prevent potential negative repercussions. For further exploration, readers can delve into specific country cases, the implications for international relations, and economic theories related to trade and investment. Pie title Current Account Components "Goods Exports": 30 "Net Income": 20 "Current Transfers": 10DefinitionA current account surplus indicates that a given nation exports more than it imports, resulting in positive current account balance, indicating that a nation is a net lender to the rest of the world. A current account surplus can be contrasted with a current account surpluses are positive current account surpluses face upward pressure on their currency. Current account surpluses can indicate low domestic demand. When a country's credits exceed debits, it enjoys a current account surplus, meaning that the rest of the world is effectively borrowing from it. A current account surplus increases a nation's net assets by the surplus. the current account balance, countries with large and consistent current account surpluses tend to be exporters of manufactured products or energy. The current account measures a country's imports and exports, earnings from investments abroad, and incoming transfer payments are recorded as credits; imports, foreign investors' earnings on investments in the country, and outgoing transfer payments are recorded as debits. According to the World Bank, the 12 countries with the largest current account surpluses in 2023 were Germany, China, Japan, the Netherlands, Singapore, Norway, Switzerland, Iraq, Ireland, Kuwait, Russia, and Denmark. Global surpluses may face upward pressure on its currency. Such nations may stem the appreciation of their currencies to maintain their export competitiveness. Japan, for instance, has frequently intervened in the foreign exchange market when the yen rises by buying large amounts of dollars in exchange for the yen. As of 2023, the U.S. had the largest deficit, followed by the United Kingdom, Turkiye, India, and Brazil. Current account surpluses are generally considered a positive sign in an economy. However, in some cases, they are also negative indicators. Japan's current account surplus is as much due to low domestic demand as it is to its export competitiveness. The low domestic demand has translated to stagflation in its economy and low wage growth. dips and imports are curbed if a currency is depreciated. A current account surplus means a country is reserves. Exports, earnings on investments abroad, and incoming aid and remittances increase a country's current account surplus. As of 2023, Germany had the largest current account surplus at \$262.72 billion, according to the World Bank. A current account surplus is generally a positive indicator for a country, though it can put upward pressure on its currency. It may also mean higher domestic demand for imports, which can help employment. However, it may also mean lower consumer spending and reduced domestic demand for imports, which can help employment. surplus indicates that a given nation exports more than it imports, resulting in positive current account balances and positioning it as a net lender to the rest of the world. A current account surplus is a positive current account balance, indicating that a nation is a net lender to the rest of the world. A current account surplus is a positive current account balance, indicating that a nation is a net lender to the rest of the world. current account deficit. A country's current account surpluses are positive current account surpluses face upward pressure on their current account surpluses face upward pressure on the surpluses can indicate low domestic demand. When a country's credits exceed debits, it enjoys a current account surplus, meaning that the rest of the world is effectively borrowing from it. 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Japan, for instance, has frequently intervened in the foreign exchange market when the yen rises by buying large amounts of dollars in exchange for the yen. As of 2023, the U.S. had the largest deficit, followed by the United Kingdom, Turkiye, India, and Brazil. Current account surpluses are generally considered a positive sign in an economy. However, in some cases, they are also negative indicators Japan's current account surplus is as much due to low domestic demand as it is to its export competitiveness. The low domestic demand has translated to stagflation in its economy and low wage growth. Current account surpluses can also be the effect of a recession when domestic demand dips and imports are curbed if a currency is depreciated. A current account surplus means a country has more exports and incoming payments than imports and outgoing payments to other country's reserves. Exports, earnings on investments abroad, and incoming aid and remittances increase a country's current account surplus. Imports, foreign investors' earnings on investments in the country, and outgoing transfer payments lower a country, though it \$262.72 billion, according to the World Bank. A current account surplus is generally a positive indicator for a country, though it can put upward pressure on its currency. It may mean higher domestic demand for imports, which can help employment. However, it may also mean lower consumer spending and reduced domestic demand for imports, which can help employment. total exports of goods, services, and transfers exceed its total imports. This indicates that a country is a net lender to the rest of the world, as more money is entering the country for the purchase of imports. This indicates that a country is a net lender to the rest of the world, as more money is entering the country for the purchase of imports. includes the capital account and financial account, and it provides a comprehensive view of a countrys international financial transactions. ExampleConsider a scenario where Country A exports automobiles, electronics, and services worth \$500 billion in a year, while it imports goods and services totaling \$400 billion in the same period. The difference of \$100 billion represents a current account surplus, meaning Country A has exported more than it has imported. As a result, Country A receives more money from foreign countries than it spends abroad, increasing its wealth. Why Current Account Surplus Matters a current account surplus can have several implications for a country seconomy. On one hand, it indicates a strong export sector, potentially leading to more jobs and higher economic growth. It also suggests that the country is an attractive destination for foreign investment, as it likely has a stable currency and financial system. However, its not always a clear-cut advantage. A prolonged surplus can lead to trade tensions with other countries, who may accuse the surplus country of maintaining an artificially weak currency to boost exports. Additionally, a very high surplus might indicate that the country is not investing enough in its own economy, particularly in importing capital goods which could enhance future productivity. Frequently Asked Questions (FAQ) What causes a current account surplus?Several factors can contribute to a current account surplus. These include a competitive export sector, which could be due to advantages. A weak domestic currency makes exports cheaper and more attractive to foreign buyers while making imports more expensive for domestic consumers. Furthermore, domestic consumption and investment levels can impact the surplus; low levels mean fewer imports. Is a current account surplus does indicate that a country is saving more than it is investing, it is not always a sign of economic health. For instance, it might indicate underinvestment in critical sectors of the economy or an over-reliance on exports, which could be risky if global demand falls. Additionally, excessive surpluses can lead to trade disputes with other countries. How can a country reduce its current account surplus? Reducing a current account surplus involves increasing imports, reducing exports, or both. This can be achieved through fiscal policies (like increasing government spending, which may lead to more imports) or monetary policies (such as raising interest rates to appreciate the domestic currency, making exports more expensive and imports cheaper). Encouraging domestic investment and consumption can also lead to a reduction in the surplus. What is the difference between a countrys exports and imports of goods. In contrast, the current account includes the trade balance? The trade balance?? The trade balanc dividends) and net current transfers (such as foreign aid). A trade surplus contributes to a current account surplus, but the current account surplus, but the current account surplus reflects the net flows. In summary, a current account surplus reflects the net flow of a current account surplus reflects the net flows. In summary, a current account surplus reflects the n countrys economic health and its position in the global economy, influencing policy decisions, and trade relationships. However, the goal for policymakers is often to find a balance, as both significant surpluses and deficits can lead to economic challenges. DefinitionA current account surplus indicates that a given nation exports more than it imports, resulting in positive current account balances and positioning it as a net lender to the rest of the world. A current account surplus is a positive current account surplus is a positive current account surplus is a net lender to the rest of the world. strong measure of a country's international competitiveness. Current account surpluses are positive current account surpluses face upward pressure on their current account surpluses can indicate low domestic demand. When a country's international competitiveness. credits exceed debits, it enjoys a current account surplus, meaning that the rest of the world is effectively borrowing from it. A current account surplus increases a nation's net assets by the surplus. Because the trade balance impacts the current account surplus increases and consistent current account surplus increases and to be exporters of manufactured products or energy. 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As of 2023, Germany had the largest current account surplus is generally a positive indicator for a country, though it can put upward pressure on its currency. It may mean higher domestic demand for domestic products, which can help employment. However, it may also mean lower consumer spending and reduced domestic demand for imports, which can harm employment. Before a count balances and positioning it as a net lender to the rest of the world. A current account surplus is a positive current account surplus can be contrasted with a current account deficit. A country's current account surplus is a strong measure of a country's international competitiveness. Current account surpluses are positive current account balances and indicate a country's credits exceed debits, it enjoys a current account surplus, meaning that the rest of the world is effectively borrowing from it. A current account surplus increases a nation's net assets by the surplus. 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A current account surpluses can also be the effect of a recession when domestic demand dips and imports are curbed if a currency is depreciated. payments to other countries. It is generally deemed a positive because the current account surplus adds to a country's reserves. Exports, earnings on investments in the country, and outgoing transfer payments lower a country's current account surplus. As of 2023, Germany had the largest current account surplus at \$262.72 billion, according to the World Bank. A current account surplus is generally a positive indicator for a country, though it can put upward pressure on its currency. It may mean higher domestic demand for domestic products, which can help employment. However, it may also mean lower consumer spending and reduced domestic demand for imports, which can harm employment. Boston Spa, West Yorkshire, LS23 6AD Tel: 01937 848885 A country's current account is the financial account that measures how much money flows in and out of the country as determined by trade, investment earnings, and financial transfers. Whether a country has a current account deficit of \$303.9 billion in Q4 2024, meaning it had more money going out than it had coming in. The current account makes up one part of a country's balance of payments, which includes its capital and financial account. The balance of payments is a record of the total transactions a country between individuals, businesses, and government entities. A country's balance of payments is a record of the total transactions a country between individuals, businesses, and government entities. trade and investments than it is sending out. A current account includes exports/imports, investment income, and transfers, such as remittances and foreign aid. A country's exchange rates, economic growth, inflation, and government policies all influence its current account balance and overall financial health. Generally, a current account surplus is better than a current account deficit; however, when considering whether a surplus or deficit is hurting a country's financial transactions with the rest of the world. It includes exports/imports, income from foreign investments, and money transfers. If a country exports more than it imports, it has a trade surplus. If it imports more, it will have a trade deficit. Income from foreign countries, for example. Remittances include items such as money sent back home by foreigners or international aid provided to other countries. When Americans import cars from Germany or Japan, wine and cheese from France, and electronics from South Korea, they must pay those foreign companies for these goods, which is a transfer of money out of the country. Similarly, when Americans export goods to foreign buyers, such as iPhones, those foreigners must pay for these goods, which is an inflow of money. This balance between imports and exports determines whether a country has a trade surplus or deficit. Similarly, services represent an exchange of money. When international visitors travel to another country has a trade surplus or deficit. financial sectors, like Switzerland, earn income by providing banking services to foreigners. As of January 2025, the U.S. had a trade deficit of \$131.4 billion in international goods and services. Investment income is a key part of a nation's current account and represents cross-border earnings. It includes earnings from U.S. investments abroad (money coming in) and payments to foreign investors (money going out) with assets in the U.S. Investment income includes direct investment earnings, portfolio returns, and other assets, and those investments generate returns. If a country's population earns more from foreign investments than foreign investments than foreign investors earn from its domestic market, it positively impacts the current account. The Bureau of Economic Analysis assesses this via "primary income totaled \$366.3 billion, while payments of primary income totaled \$366.3 billion, while payments of primary income." In Q4 2024, receipts of primary income totaled \$366.3 billion, while payments of primary income totaled \$366.3 billion, while payments of primary income totaled \$366.3 billion. Investors have to report foreign income, including that from investments, on their tax returns. Personal transfers include remittances sent by domestic workers abroad. For example, a worker in the U.S. sending money back to their family in Mexico counts as a flow of money out of the country. Remittances sent by domestic workers abroad. citizens who leave to seek employment elsewhere. For example, countries like the Philippines and Mexico receive billions in remittances each year, helping support those economies and increasing local spending and investment. For example, in 2024, the U.S. sent \$62.5 billion in remittances to Mexico, which accounted for 96.6% of Mexico's total remittances. On the other hand, wealthier countries, such as the U.S., don't receive as much in remittances. Conversely, they spend a significant amount on foreign aid. For example, the U.S. provides the most financial aid in the world, totaling \$65 billion in 2023 (latest information) for official development assistance (ODA). The current account is constantly static and shaped by many factors, including the following: Exchange rates: A country's currency value plays an important role in how companies make the same products, such as electronics, and the foreign country's currency value plays an important role in how companies make the same products become cheaper for American consumers, increasing the demand and exports of the foreign country's products. At the same time, American goods become more expensive in the foreign country, reducing the demand for U.S. electronics and decreasing U.S. exports. Economic growth: The state of the economy also shapes the current account. When the economy is strong, consumers and businesses generally spend more, including on imported goods and services. If a country's economy is slowing, their demand for foreign goods increases, boosting exports. Inflation: The movement of prices has a large impact on economies. If domestic prices are rising too fast (inflation is increasing), domestic goods are more expensive than foreign goods. This weakens exports and increase in exports. Fiscal policy: Government policies, such as taxes, spending, tariffs, and borrowing all play a major role in the state of the current account. If governments spend a lot on infrastructure without bringing in enough tax revenue, they will need to borrow money. This can attract foreign investors, increasing capital inflows in the short term, but also increase capital outflows when interest needs to be paid. If a country imposes tariffs on a foreign nation, domestic goods become cheaper, reducing the demand for foreign goods and decreasing imports. Current Account Balances Worldwide Whether a country runs a surplus or deficit in its current account indicates its financial health. current account deficits rely on foreign consumers, borrowed money, and foreign investments to facilitate their economic instability. It can also deter foreign investment, which can lead to an economic crisis if foreign investment slows down or ceases. Countries with a current account surplus are generally seen as economically strong; however, a surplus isn't always an indicator of smart economics. A high current account surplus may indicate that a country relies too much on exports and does not invest responsibly in domestic growth. The current account helps policymakers, businesses, and individuals make decisions. It plays an important role in shaping trade agreements, monetary and fiscal policy, spending decisions, and business strategies. A current account tracks a country's money flowing in and out of its borders, including trade, investment income, and financial transfers. money flowing out, such as through remittances or financial aid. Factors such as exchange rates, inflation, and government policy all impact the current account, which helps guide economic decisions by all stakeholders, which include individuals, businesses, and government bodies. Exam code: 0455 & 0987Written by: Steve VorsterReviewed by: Jenna QuinnUpdated on 23 June 2024If there is a current account deficit, the value of imports must be greater than the value of exports If there is a current account deficit, the value of the countrys currencyRelatively high rate of inflationLow productivity raises costsExporting firms with low productivity may find themselves at a price and cost disadvantage in overseas markets which will decrease competitiveness and the level of exportsCurrency appreciation makes a country's exports more expensive relative to other nationsForeign buyers look for substitute products which are priced lowerExports fall and the balance on the current account worsensSimilarly, currency appreciation makes a country's exports more expensive than other nationsForeign buyers look for substitute products which are priced lowerExports fall and the balance on the current account worsensSimilarly, high inflation may mean that goods/services are cheaper 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purchasing goods/services from abroad andthe balance on the current account worsensWhen a country develops a reputation for poor quality and design, its exports fall as foreign buyers look for better substitutes elsewhere and the level of imports riseCauses Of Current Account SurplusesRelatively high productivityRelatively low rate of inflationHigh productivityRelatively low rate of inflation decreases costsExporting firms with high productivity may find themselves at a price and cost advantage in overseas markets which will increase competitiveness and the level of exports risesSimilarly, currency depreciation makes imports, ore expensiveDomestic consumers may switch demand to locally produced products and the level of imports rises, improving the balance on the current accountAs global trade is a net sum game where the value of global exports = global imports, it follows that if one country is running a deficit consequences of current account deficits includeIncreasing unemployment: with falling demand for locally produced goods/services, fewer workers will be required and unemployment will riseSlow down in economic growth or a recession: exports are a key component of the real GDP of many countries and a fall in economic growth usually leads to a reduction in wages which leads to a decrease in the standards of livingIncreased levels of borrowing: if the deficit is caused by continually increasing levels of imports, then it is likely that these imports are being paid for through higher levels of borrowingDepreciating exchange rate: while this may ultimately help to increase exports again, it makes the cost of imported goods/raw materials more expensive and may cause cost push inflationConsequences of current account surpluses includeIncreasing demand for locally produced goods/services, more workers will be required and unemployment: with increasing demand for locally produced goods/services. exports may significantly increase the level of economic growth Higher standards of livingDemand pull inflation: economic growth usually leads to a rise in economic growth usually leads to a rise in economic growth usually leads to a rise in wages which leads to an increase in the standards of livingDemand pull inflation: economic growth usually leads to a rise in economic growth usually economic growth usually leads to a rise in economic growth usually leads to a rise in economic growth usually econom appreciate the exchange rate which leads to imports now being cheaper which causes the demand for imports to riseWhen answering questions on deficit. Students often confuse these two! A budget deficit refers to a budget and occurs when the government spending > government tax revenueA current account deficit occurs when the value of a nation's exports < value of a nation's exports < value of a nation's exports. How does a current account surplus affect domestic employment? A current account surplus than it is importing. A country with a current account surplus will have a deficit on the financial/capital account surplus. It depends on the size of the current account surplus. In theory, you could expect a current account surplus (X-M) to boost employment in the export sector. Lower import spending may mean people are spending more on domestic goods rather than buying foreign goods. Greater demand for domestic goods helps domestic employment. Some potential effects of a current account surplus is when a country has a relatively undervalued exchange rate. This may be a country in a fixed exchange rate. For example, Germany is in the Euro but due to better German competitiveness than its European neighbours, Germany has had more competitiveness than its European neighbours, Germany has had more competitiveness than its European neighbours, Germany has had more competitiveness than its European neighbours, Germany has had more competitiveness than its European neighbours, Germany has had more competitiveness than its European neighbours, Germany has had more competitiveness than its European neighbours, Germany has had more competitiveness than its European neighbours, Germany has had more competitiveness than its European neighbours, Germany has had more competitiveness than its European neighbours, Germany has had more competitiveness than its European neighbours, Germany has had more competitiveness than its European neighbours, Germany has had more competitiveness than its European neighbours, Germany has had more competitiveness than its European neighbours, Germany has had more competitiveness than its European neighbours, Germany has had more competitiveness than its European neighbours, Germany has had more competitiveness than its European neighbours, Germany has had more competitiveness than its European neighbours, Germany has had more competitiveness than its European neighbours, Germany has had more competitiveness than its European neighbours, Germany has had more competitiveness than had more competitiveness. competitive, Germany is selling a lot of exports and this is leading to higher domestic employment in the exporting sector. Without the strong export demand, the German economy would be liable to have higher unemployment. If you compare it to countries with a large current account deficit in the Euro, the German economy has done relatively better regarding economic growth and employment. For example, in the mid-2000s, Euro member countries like Greece, Spain and Portugal were uncompetitive in the Euro, this was one factor leading to lower economic growth and lower employment. deficits. Economists have often argued that Germany should boost consumer spending (and reduce their current account surplus) to help economic growth in other Euro countries. Current account surplus is partly due to high exports, but the other side of the equation is imports and domestic demand. country may have a large current account surplus because of relatively weak domestic demand. This weak demand leads to lower consumer spending on imports. Therefore, in this case, domestic demand. This weak demand leads to lower consumer spending and lower spending and lower spending on imports. deficit because consumer spending rises, leading to an increase in imports. During a boom, unemployment falls and inflation, and an improvement in the current account. The deficit may convert to a surplus, but this is due to the recession, and therefore leads to higher unemployment In the UKs example, periods of a current account surplus 1980-82, 1994 and around 2007-10 followed recessions of the 1980s, 1991/21 and the recession of 2008. Examples of current account surplus in the mid-2000s, this was mainly due to greater competitiveness, helped by an undervalued Yuan. This was a factor in Chinas record economic growth, and it led to higher employment. Japans current account surplus was a period of a current account surplus was a per low growth and weak employment growth. A current account surplus will tend to boost domestic employment if: It is due to an improvement in competitiveness, leading to higher demand for exports. If domestic demand is still relatively strong, but consumers are buying domestic goods, rather than importing. A current account surplus could lead to lower domestic employment if: The surplus is caused by a recession which has hit domestic demand and led to a fall in imports Impact of current account surplus is that the country will be accumulating foreign assets. With large current account surplus (and inflow of foreign currency), China has been purchasing assets around the world including US bonds and investment in Africa. In the first half of the Twentieth Century, US was the dominant manufacturing nation. It ran large current account surpluses; during this period it was a net exporter of capital. US firms and government investing abroad and accumulating foreign assets which can earn profit, dividends and rent. In the last quarter of the Twentieth Century, Japan ran a large current account surplus, enabling Japan to build its net wealth abroad. This could prove useful to help pay towards its ageing population when demographic changes cause an increased percentage of retired people. Political controversy of current account surplus is a result of an undervalued exchange rate. Some economists have argued the excess current account surplus of Germany and China have directly caused less output and jobs in deficit countries. On the other hand, a country running a current account deficit is able to have a higher level of consumption than otherwise with a current account surplus. Related The importance of a current account deficit UK balance of payments

Why is a current account surplus good. What does a surplus in the current account mean. Current account surplus meaning. Current account surplusses. Current account surplus.