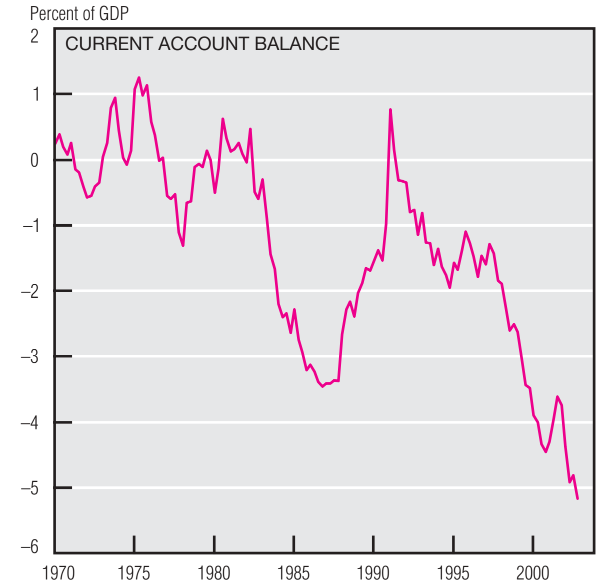
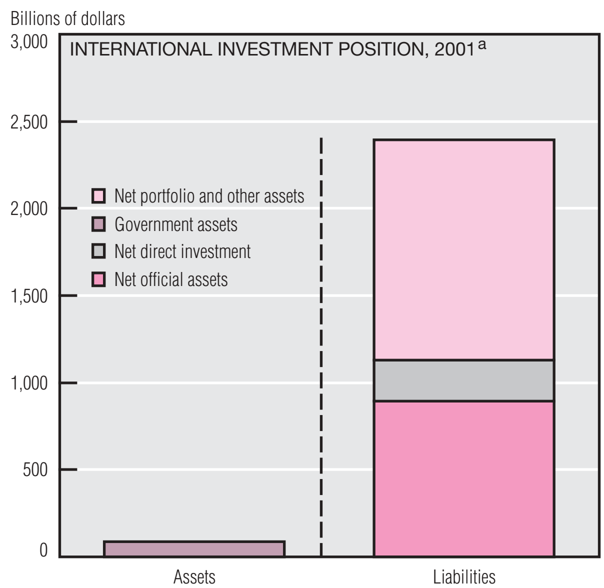
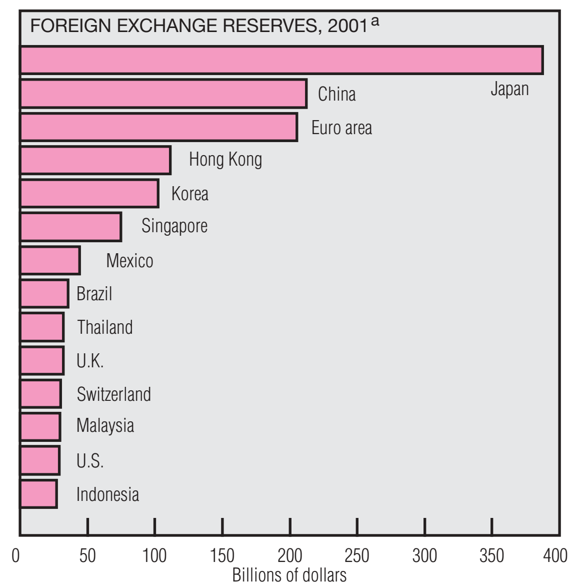
Dollar Depreciation and the Current Account



Savings, Investment, and Capital Flows
(percent of GDP)

	1998	2001	Change
Gross domestic investment	27.1	28.6	1.6
Gross domestic savings	24.6	24.8	0.3
Private	20.5	20.9	0.4
Government	4.1	3.9	–0.1
Foreign capital inflow	3.0	5.6	2.6
Statistical discrepancy	–0.5	–1.7	–1.3





a. Last available official data.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and International Monetary Fund.

The U.S. current account deficit—a broad measure of our trade position—has expanded sharply since 1996 and is likely to reach $590 billion (5.5% of GDP) this year. Our current account shortfall indicates that, through consumption investment and government spending, the U.S. is absorbing more goods and services than it produces. We finance this excess consumption by issuing various kinds of financial instruments, which give the rest of the world a claim on our future output and create a net foreign financial inflow. This inflow of foreign savings allows total investment in the U.S. to exceed our savings—private plus any government surplus.

Because we have experienced an almost unbroken string of current account deficits since the early 1980s, U.S. liabilities to the rest of the world exceeded our foreign assets by $2.3 trillion (23% of GDP) in 2001. Our negative net international investment position is likely to rise to 30% of GDP by this year. About 39% of net claims against the nation are held as “official assets.”

A number of observers have recently remarked that some Asian countries are holding unusually large portfolios of foreign exchange reserves. A substantial portion of these reserves are highly liquid assets denominated in U.S. dollars. Governments often buy up dollar assets to prevent their own currencies from appreciating; in this case, they are not likely to sell them off quickly.