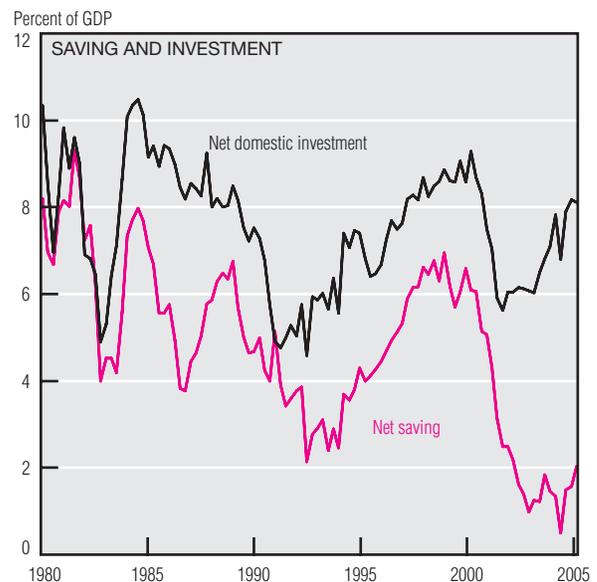
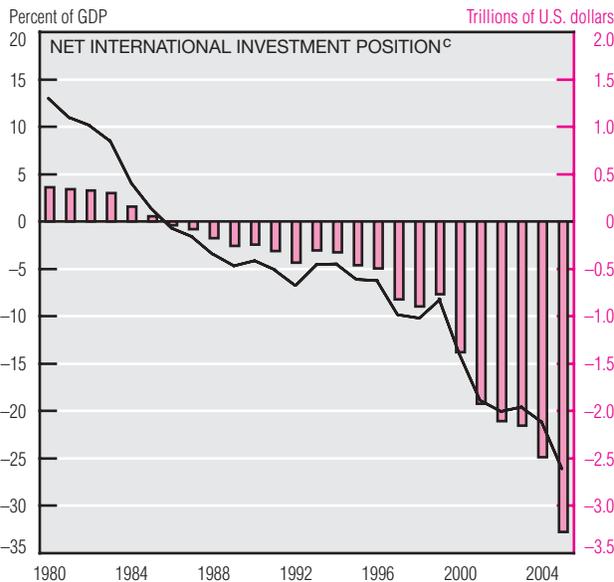
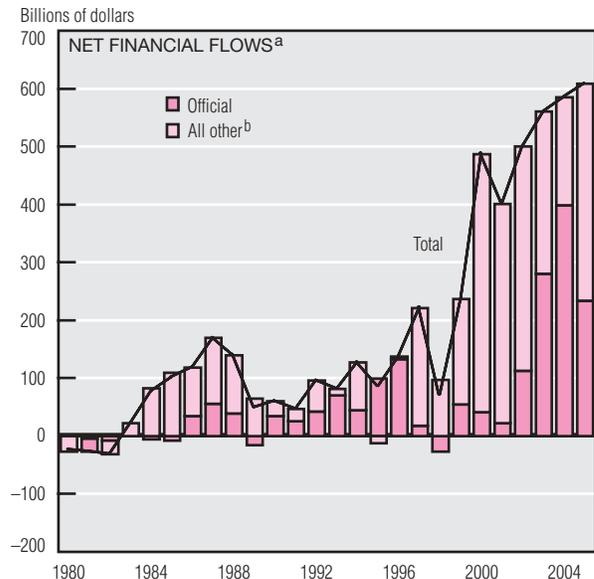
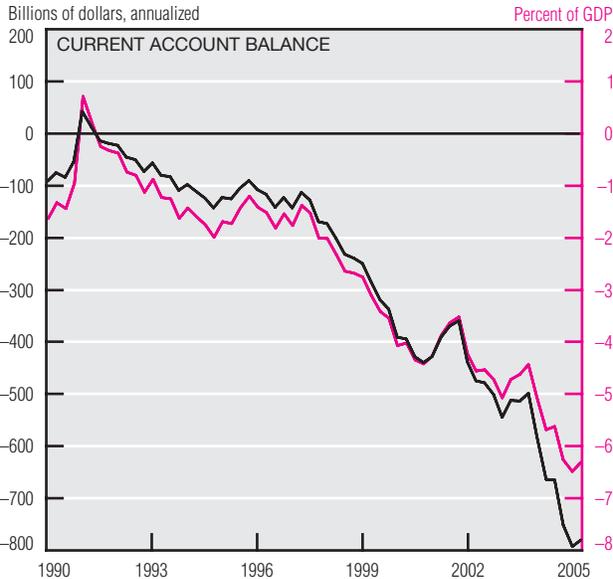


The Current Account



a. Includes capital account transactions.

b. Includes direct investment, portfolio investment, other miscellaneous financial flows, and capital account transactions.

c. The net international investment position for 2005 is estimated by adding the annualized current account deficit for the first half of 2005 to the investment position for 2004. GDP for 2005 is estimated by averaging GDP for the first two quarters with Blue Chip forecasts for the last two quarters.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; International Monetary Fund, *International Financial Statistics*; and *Blue Chip Economic Indicators*, September 2005.

During the first half of 2005, the U.S. registered a current account deficit of \$789 billion, an amount equal to 6.4% of GDP, as we continued importing more goods and services from the rest of the world than we exported to them. A country that runs a current account deficit finances its surfeit of imports by issuing net financial claims to foreigners, including official claims to foreign governments. Net official claims accounted for approximately 38% of

the total in the first half of this year, down from 68% in 2004.

Because they have financed our current account deficits for the past 22 years, foreigners now hold substantially more claims on the U.S. than we hold on the rest of the world. This is shown by our negative net international investment position, which could top \$3.3 trillion—or 26% of GDP—in 2005.

When foreigners acquire financial claims on the U.S., they channel their

savings into this country. Since late 2001, this inflow of foreign savings has financed an increase in net domestic investment and, as revealed by our flat savings rate, an increase in overall consumption. The increase in net domestic investment bodes well for the sustainability of our current account deficit. By fostering growth, investment eases the difficulty of servicing these claims, but a higher rate of net domestic saving would also help.