

Development of Balance of Payments Concept and Theoretical Approach to Its Equilibrium (with the Emphasis on the Current Account)

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Abstract

The paper tries to find an answer to how to perceive the term *balance of payments (dis)equilibrium*. The text follows the individual editions of the IMF Balance of Payments Manual and concurrent opinions on balance of payments (dis)equilibrium from the point of view of both the IMF and economists outside the IMF. Despite the difficulty and complexity of balance of payments analysis, there was a considerable demand among the economic and lay communities for a "single figure" covering balance of payments (dis)equilibrium. Eventually, the current account balance was selected as the "single figure." The simplest way to perceive the current account balance equilibrium is as a tendency to return to its zero value. However, some more complex approaches allow considering a long-term non-zero balance of the current account as a state of equilibrium.²

Keywords

International Monetary Fund, balance of payments, balance of payments equilibrium

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INTRODUCTION

Although balance of payments issues and theory have been evolving for several centuries,³ most publications regard the development since the establishment of the International Monetary Fund (IMF) as crucial. The IMF has been pivotal in international standardization of balance of payments reporting and has reflected the state of the art of the issues.

Almost since its beginnings, the IMF has published the Balance of Payments Manuals.⁴ The IMF has published six editions of the Balance of Payments Manual to date. The Manuals defined the contents of individual balances, both component and cumulative, and the overall structure of the balance of payments.

The objective of the paper is to make a brief introduction to the development of the balance of payments concept (with an emphasis on the current account) and structure as presented in the Balance of Payments Manuals published by the International Monetary Fund and, most importantly, to convey the evolution of opinions regarding the issues and perceptions of balance of payments (dis)equilibrium.

The paper contents is as follows. Section 1 presents the development of and fundamental changes in the structure of balance of payments since the IMF was established. Section 2 introduces the reader to the evolution of the concept of balance of payments equilibrium from the point of view of both the IMF and (theoretically focused) economists. For the sake of clarity, economists' opinions are divided into those primarily focused on a statistical view of balance of payments, and those offering a more theoretical concept for the analysis of (dis)equilibrium of the balance of payments. Section 2 also describes the gradual shift towards the current account as the "main" part of the balance of payments, which experts and the general public have used to date. A summary of the paper follows.

1 DEVELOPMENT OF STRUCTURE OF AND FUNDAMENTAL CHANGES IN PERCEPTION OF BALANCE OF PAYMENTS SINCE IMF ESTABLISHMENT

There have been numerous significant as well as small changes in balance of payments structure and opinions on it and its analysis. These processes are explained in the Balance of Payments Manuals (IMF, 1948, 1950, 1961, 1977, 1993, 2009).⁵ The first four editions of the Manual (IMF, 1948, 1950, 1961, 1977) gradually specified the coverage of individual transactions (first edition), the terminology and concept of balance of payments (second edition), balance of payments methodology (third edition), and specification of coverage of financial transactions in the context of the 1970s changes (fourth edition). The fifth and sixth editions of the Manual (IMF, 1993 and 2009) discussed three other broad spheres. The first was aspects relating to the stock statistics of net foreign assets and their interconnection with the flow statistics of balance of payments. The other topic of the Manuals was the discussion of financing current account deficit and issues related to current account surplus. The third sphere concerned the connections between balance of payments and net international investment position of countries with national accounts.

This paper will present only fundamental changes in the structure and perception of (not only) balance of payments issues from the IMF perspective.

The first edition of the Manual (IMF, 1948) brought a template for tables intended to complete data on international transactions. Balance of payments consisted of two basic parts: *Current Transactions*

³ Those interested in the history and theoretical development of balance of payments before World War II are recommended to read Chipman (1984) and Gomes (1990).

⁴ The title is only a general one, not the actual title of each of the Manual editions.

⁵ Also see Table A1 for development of balance of payments basic structure according to the individual Manual editions. See preparations for the seventh edition of the Manual: Update of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) (imf.org). A new edition of the Manual should be published in March 2025.

and *Movement of Capital and Monetary Gold*, broken down into *Private, Excluding Banking Institutions, and Official and Banking Institutions*.⁶

The second issue (IMF, 1950) presented the balance of payments concept in more detail. Structurally, the *Current Transactions* section was split into two: *Total Goods and Services* and *Donations*, while the next section, *Movement of Capital and Monetary Gold*, remained virtually without major changes.

The third edition (IMF, 1961) further specified reporting of balance of payments data to the IMF and defined principles for balance of payments compilations for countries own use. The balance of payments now had three main components: (a) *Goods and Services*, (b) *Transfer Payments*, and (c) *Movements of Capital and Monetary Gold*.

The fourth edition (IMF, 1977) reflected the events of the 1970s (end of the Bretton Woods monetary system) and abandoned the clear preference for presenting the *overall balance* as the most suitable presentation of balance of payments. At the same time, the IMF noted that the presentation of the individual cumulative balances was normative rather than positive. Therefore, the user ought to be informed about the contents of the cumulative balances. The balance of payments consisted of three main parts: *Current Account* with two sub-components: *Goods, Services, and Income* and *Unrequited Transfers*, *Capital Account* with two main components: *Capital, Excluding Reserves*, and *Reserves*.⁷

The fifth edition of the Manual (IMF, 1993) emphasized connections between balance of payments and national accounts and between the balance and macroeconomic analysis (particularly the savings-investment relation).⁸ At the same time, it views the economy not as a whole but as individual sectors and units. The fifth edition included a section on the stock statistics of *net foreign assets* (synonym: *net international investment position*). Besides the current account deficit, financing, and correction, it also discussed the current account surplus. There were fundamental changes in terms of balance of payments structure. Within the *Current Account*, the *Income* item was removed from the *Services*.⁹ A new balance of payments account, known as the Capital Account, was introduced. The formerly used term Capital Account (IMF, 1977) was now replaced with *Financial Account*. Thus, the balance of payments structure consisted of two main parts: *Current Account* and *Capital and Financial Account*. The Current Account was subdivided into three parts: *Goods and Services*, *Income*, and *Current Transfers*.

The full name of the sixth edition of the Manual, *Balance of Payments and International Investment Position Manual*, indicates the emphasis that the IMF (2009) put on both the flow and stock statistics. There was also a tighter connection between national accounts and balance of payments, reflected, *inter alia*, in the terminology of current account items: the income (balance) was renamed *Primary Income*, and the current transfer (balance) became *Secondary Income*. Besides, *Capital Account* was excluded from the Capital and Financial Account section (see IMF, 1993) and classified "after" the current account in the vertical presentation of balance of payments (see below). Balance of payments *Financial Account* items no longer had a credit and debit side; instead, they use the terms *Net acquisition of financial assets* and *Net incurrence of liabilities*. These changes brought about a different logic of accounting and the "sign convention" for transactions recorded in the balance of payments. The stock statistics of net foreign assets duplicates the basic structure and logic of the financial account of the balance of payments. The balance of payments thus consists of three main parts: *Current Account* (which is divided into three segments: goods and services, primary income, secondary income), *Capital Account*, and *Financial Account*.

⁶ The item Errors and Omissions is an integral component of balance of payments, but is omitted in this paper for the sake of clarity.

⁷ This refers to change in foreign-currency reserves as part of the balance of payments, which is a flow statistics.

⁸ This is also reflected in the balance of payments analysis in IMF (1993), where the Fund emphasized the savings-investment relation. The balance of payments analysis in terms of savings and investment also dominated the journal papers.

⁹ IMF (1961) justified previous inclusion of the investment revenue balance in *Services* by their *de facto* being use of production factors in the production of goods analogously to goods or services being inputs for a production process.

Summing up this evolution, it doesn't appear easy to determine what different authors in the history of the theory and practical analysis of balance of payments have included under the terms *net exports* (of goods and services), *current account*, etc., and whether they even followed a balance of payments concept according to a specific manual. Besides purely "statistical problems" when comparing countries, there arises the question of defining balance of payments equilibrium. The following section deals with this issue from the perspective of both theory and the IMF.

2 BALANCE OF PAYMENTS EQUILIBRIUM CONCEPT

The IMF and significant 20th and 21st century economists have discussed the concept of balance of payments equilibrium. The views of the IMF and (theoretically focused) economists have overlapped. It is therefore difficult to distinguish the "causality of thought." The distinction is more for better structuring of the text than for a precise differentiation of the origin of thoughts.

Economists' opinions on the balance of payments are further distinguished in this part of the text into more statistical concepts of balance of payments and its (dis)equilibriums and in the last sub-chapter into a looser (not so strict) concept of the (dis)equilibrium of the balance of payments within the framework of various theoretical concepts. The division of this chapter into opinions on balance of payments equilibrium held by the IMF and by economists "outside" the IMF, therefore, has to be taken with a grain of salt.

2.1 Balance of payments equilibrium definition by the IMF

Suppose all the balance of payments items are placed vertically, each with a credit and a debit side. In that case, the balance of each item is calculated as the difference between the credit and the debit side, resulting in a so-called component ("single") balance. A cumulative balance is obtained by summing selected component balances. Due to the double-entry recording of items entering the balance of payments, the credit side of all the component balances has to be equal to the debit side.¹⁰ Therefore, it is terminologically incorrect to speak of "balance of payments surplus/deficit" where the debit side is less/more than the credit side. Therefore, a horizontal line divides the balance of payments items "above the line" from those "below the line" in the vertical form of balance of payments. In terms of an initial encounter with the problem, balance of payments equilibrium can be described as a situation where the sum of the selected component balance above the horizontal line equals zero. Failing that, when the sum of items above the line differs from zero, we speak of disequilibrium.

Items above the line are autonomous, and those below the lines are accommodating (induced, compensatory). Autonomous items occur independently of a situation in balance of payments development. Induced items are ones that compensate for any disequilibrium in autonomous items.

Two questions arise: (1) What (cumulative) balance can be considered the best to show (dis)equilibrium of balance of payments? (2) What induced items in the balance of payments establish equilibrium?

The first three editions of the Balance of Payments Manual (IMF, 1948, 1950, and 1961) considered the *overall balance* to be the appropriate cumulative balance encompassing the items above the line. Generally speaking, the overall balance captured current transaction items (goods, services, etc., i.e., the current account under modern terminology in very simplified terms) and movements of private long-term and short-term capital. In the first edition of the Manual (IMF, 1948), the items below the line comprised long-term and short-term capital of governmental and banking institutions and monetary gold. The first edition already recognized the problem of which items to consider suitable for inclusion below the line as compensatory ones. In the second edition (IMF, 1950), the main items below the line remained the same. Still, the suitability of including certain transactions among compensatory items

¹⁰ This does not apply to the current sixth edition of the Manual (IMF, 2009), see further in the text.

became even more acute (e.g., governmental securities and loans, gold movements, etc.). The third edition of the Manual (IMF, 1961) did not, in author's opinion, bring a clearer insight into the issue.¹¹

The fourth edition of the Manual (IMF, 1977) abandoned the preference for the overall balance as the indicator of balance of payments (dis)equilibrium and invited to use various cumulative balances when analysing balance of payments.¹² Given the disintegration of the Bretton Woods monetary system in 1971, the Smithsonian Agreement in the same year, and the gradual expansion of a more flexible exchange rate regime, the overall balance partly lost its information value.

IMF (1977) suggested using the three following cumulative balances when analysing balance of payments:

- a. *Current account* (current balance) comprises balances of goods, services, income, and unrequited transfers. Analyses frequently excluded governmental unrequited transfers from the current account and put them under governmental capital movements. According to IMF (1977), current account items have little volatility and do not change much in the short term (unlike some items under capital movements).
- b. *Overall balance* – the balance comprises all the items except reserve assets and near substitutes for reserve assets, if any. This again gives rise to the problem of which items to consider near substitutes for reserve assets that might "finance" the disequilibrium. Due to the changes in international monetary relations associated with the end of the Bretton Woods monetary system, the overall balance was no longer of much information value for countries with flexible exchange rates. However, it is a fact that the (pure) floating exchange rate regime was not very widespread in the 1970s, so the overall balance still had information value, particularly in countries using more rigid exchange rate regimes. Due to the disunity and unclarity as to which items to include below and above the line, IMF (1977) recommends against using the overall balance.
- c. *Basic balance* – the balance comprises current account items and long-term capital movements.¹³ It is a compromise between the current account and the overall balance. Thus, items below the line include volatile international capital items. However, IMF (1977) does not make it absolutely clear which items to label as volatile and which not.

More than the basic and overall balance, the fifth edition of the Manual (IMF, 1993) highlights an analysis of current account (savings-investment relation), financial and capital accounts. However, it mentions total balance (IMF, 1993, p. 161). It can be deduced that IMF (1993) includes transactions with reserve assets below the line as part of the overall balance concept.

The sixth, and so far last, edition of the Manual (IMF, 2009) is again grounded in the national account concept and its connection to the balance of payments items. The text highlights the savings-investment relation as a balance of payments analysis framework. Due to the strong relationship with national accounting, the departure from the use of the term "credit" and "debit" side in the financial account

¹¹ In the early days of the Manual publication, there were discussions between the IMF and, e.g., Machlup (1950) concerning which items to put below and which above the line. Short-term capital was the most debatable item. For example, IMF (1961) split the governmental sector into central and local ones. Local government (Art. 338) may behave similarly to the private sector, which should be reflected in analyses. Monetary institutions were divided into central and others. Central monetary institutions included, e.g., the central bank; the others included private commercial banks (Art. 342) with potentially different behaviours and motives for transactions. Unclearities for analysis arose from other parts of the third edition (such as Art. 343).

¹² At the same time, it notes that cumulation of selected component balances is normative rather than positive.

¹³ This leads to the question how to categorize international capital movements and what "types" of capital to put above and below the line. Can foreign direct investment be put above the line, and portfolio and other investments below the line? Or should the property form of capital (foreign direct investment and the part of portfolio investments covering property securities) be put above the line, and the debt form of capital (the part of portfolio investments covering debt securities and other investments) below the line? Alternatively, should long-term capital be written above and short-term capital below the line? Change in foreign-currency reserves always comes below the line.

(see the previous chapter of the text) and the inclusion of reserve assets in the financial account, it is no longer possible to deduce from this Manual which items are below the line and which they are above the line. So, it is no longer the case that items above the line finance items below the line and vice versa. Such an analysis is, therefore, purely in the hands of the user of balance of payments and does not follow directly from the sixth edition of the Manual.

2.2 Theoretical approaches to determining balance of payments equilibrium – a statistical view

To define balance of payments equilibrium, it was necessary first to clarify the actual balance of payments concept. There have been several concepts of, or views on, balance of payments. They can generally be divided into ex-ante and ex-post approaches (Kindleberger, 1969; Stern, 1973). Both approaches see balance of payments equilibrium in the form of a zero balance of the items below the line (generally short-term capital, gold, and reserves). In addition, the ex-ante approach requires compliance with the requirement to maintain equilibrium under certain conditions (Stern, 1973). The ex-ante approaches include the balance of payments concepts of Nurkse (1945), and the two approaches of Machlup (1950) and Meade (1951). The ex-post approaches include one defined in Machlup (1950) and Kindleberger (1969, 1978).

Nurkse (1945) defined an equilibrium exchange rate (a fixed regime, i.e., its changes are exogenous) as one that is also consistent with the notion of balance of payments equilibrium and the state of the economy at full employment. However, he asked three questions, the first of which was also discussed by the IMF. (1) Balance of payments is always in equilibrium from the accounting point of view; i.e., certain items have to be "removed" from balance of payments to assess balance of payments (dis)equilibrium. This leads to the question of which items to remove, i.e., which ones will be below the line. (2) What period is consistent with the term "balance of payments is in equilibrium"? (3) What policies (e.g., additional restrictions in international trade or payments) must not be applied to attain balance of payments equilibrium?

Nurkse (1945) answers the first question by saying that short-term capital items and gold should be removed from the balance of payments and put below the line.¹⁴ The second question follows a temporal view. Balance of payments equilibrium should be viewed not from the perspective of a single period but from one of several years to encompass the entire economic cycle, e.g., five or ten years. In answering the third question, pre-existing policies (barriers in international trade and payments) are considered, and there must not be additional restrictions on international trade and payments.

Machlup (1950) presents three balance of payments concepts (market balance, programme balance, and accounting balance), and his notion of equilibrium develops from there. Market and programme balance can be regarded as an ex-ante approach. *Market balance* covers the expected demand for and supply of foreign currency. The demand side does not consider any newly established restrictions (tariffs, quotas, etc.), and the supply side only considers "market motives," i.e., excludes operations with foreign-currency reserves and other items of a compensatory nature. Balance of payments equilibrium occurs when supply intersects demand. *Programme balance* is an overview of resources and use of foreign currency (expected or planned) in the coming years based on the country's requirements, e.g., to a certain degree of consumption and investment activity. Generally speaking, therefore, these foreign means are to be used to achieve specific (even politically defined) goals. If the resources and use of foreign currency are equal, the balance of payments is in equilibrium.

Besides achieving an internal equilibrium, Meade (1951) considered separating autonomous and compensatory balance items crucial for analysing balance of payments equilibrium. The amount

¹⁴ This notation, with the items below the line being short-term capital and gold and those above the line current transactions and long-term capital movements, became known as basic balance in the 1950s (Kindleberger, 1969).

of compensatory items can be understood as the degree of balance of payments disequilibrium. However, Meade (1951) had difficulty distinguishing between the autonomous and compensatory balance of payments items. The approach of Meade (1951) is suitable for theoretical reflections but not very good for analyses and comparisons.¹⁵

Ex-post approaches to balance of payments are the aforementioned Machlup (1950) and Kindleberger (1969). Machlup (1950) introduced the so-called *accounting balance*. It covers transactions that occurred in the past period(s) between residents and non-residents and is recorded in the balance by double-entry record (one on the credit side, another on the debit side). Thus, this accounting balance is always in equilibrium. The equilibrium occurs if the sum of balances of selected (autonomous) items above the line equals zero. Machlup (1950) describes the IMF's efforts to define items that should be below the line (compensatory items). Machlup's notion of balance of payments from this "accounting" perspective is the closest to the concept in use today.

Kindleberger (1969) discourages using a single method of determining and presenting balance of payments (dis)equilibrium¹⁶ and requires a detailed analysis of balance components, but is also aware of the fact that the public demands a "single figure" on (dis)equilibrium. Kindleberger (1969, 1978) focuses on the definition of selected (usually) cumulative balances and thus divides balance of payments into items above and below the line. Again, an equilibrium is a state where the sum of balances of items above the line equals zero.

He regards net export as the least interesting; it was of some information value in the mercantilist period but not in the second half of the 20th century. Items above the line are net exports, and below the line are changes in reserves (gold, foreign currency reserves, etc.).

In the case of current account balance, items above the line refer to the sum of trade balance, balance of services, and balance of transfers, and items below the line are (movements in) long-term capital, short-term capital, and change in reserves. According to Kindleberger (1969), this equilibrium concept is the most common among entities and is indeed the "single figure."

Basic balance, used by Nurkse (1945), includes among items above the line trade balance, balance of services, and movements in long-term capital. Short-term capital movements and change in reserves are below the line. However, it is not necessary that the sum of balances of items above the line equal zero in every instant (Kindleberger, 1978). Kindleberger (1969) does not see the reason for putting short-term capital movements among compensatory items in its volatility. Still, the original intention for that placement consisted of transfer issues, a debated topic in the interwar period. At present, the interconnection and advancement of financial markets often mean that even long-term capital movements are not "supported" by real flows; thus, their movements simply shift liquidity, and basic balance loses its information value.

Kindleberger (1969, 1978) offers various other forms of splitting balance of payments items above and below the line. They generally differ in how they break the short-term capital movement item into two parts, placing one among autonomous items (above the line) and the other among compensating items (below the line). His papers subsequently discuss (un)suitability of such division, including the concept used in the Manual's first edition (IMF, 1948).

It follows from the text of Subsection 2.2 that, as a matter of fact, any balance of payments item could be either autonomous or compensatory. Thus, compensatory items could even include goods if their international movement resulted from an effort to restore balance of payments equilibrium (Bakule, 1976). On the unclarity as to which items to regard as autonomous and induced, see Machlup (1950),

¹⁵ Machlup (1958) points out occasional inconsistency in the definition of equilibrium by Meade (1951). Meade also defined balance of payments equilibrium without having the achieved internal equilibrium (full employment) or judgements.

¹⁶ That is, which items should be below and above the line.

Meade (1951), and Bakule (1976). When forming the balance of payments vertically (ordering items below one another),¹⁷ it cannot be even used the logic that autonomous items (whatever they include) are placed above the line, and compensatory items are written below the line. The Keynesian concept of the balance of payments considers autonomous items to be those above the line (for example, export and import of goods and services). On the contrary, the monetary concept of the balance of payments understands as autonomous items those that are below the line (for example, international capital flows), see Frenkel (1976) and Johnson (1976).¹⁸

2.3 Approaches to the analysis of the balance of payments and its equilibrium from the point of view of economic theory

The previous part of the text mostly dealt with the purely statistical concept of balance of payments (dis)equilibrium and did not take into account the wider spectrum of factors that influence the balance of payments and are influenced by the balance of payments. Various approaches to the analysis of the balance of payments and its dis(equilibrium) from the point of view of economic theory are devoted to these factors.

Hume (1752) already dealt with the analysis of the balance of payments and based his approach on the quantitative theory of money. This approach came from a price equalization mechanism based on the international movement of gold (not, therefore, a change in exchange rates), which established a balance of payment (more precisely trade balance) equilibrium.

The gradual abandonment of the fixed exchange rate system within the framework of the gold standard forced economists to include in their considerations the effect of exchange rate changes. Therefore, the theory of import and export elasticity associated with the Marshall-Lerner condition (Lerner, 1944; Marshall, 1923) comes to the fore. At the turn of the 1940s and 1950s, the theory of absorption arose (Alexander, 1952). Absorption theory deals with the effects of devaluation (depreciation) of the domestic currency on domestic income and domestic demand (i.e., absorption). It responds to the limitations of the previous theory, which does not discuss these effects. The negatives of the absorption theory include, above all, the narrow concept of the relationship between the domestic economy and the foreign economy only through the net export, i.e. it ignores the movements of the international movement of capital.

These deficiencies are responded to by the monetarist concept of the balance of payments theory, which perceives the disequilibrium of the balance of payments as a reflection of the imbalance in the domestic money market. Equilibrium must then be established with the help of the international movement of capital, see Frenkel (1976) and Johnson (1976). The approaches mentioned so far perceive the balance of payments as flow statistics and neglect the stock view of external (dis)equilibrium.

An intertemporal approach to the current account has been evolving since the 1980s. This approach has pointed out the importance of connecting the flow statistics of balance of payments with the stock statistics of net foreign assets via primary income balance (Obstfeld and Rogoff, 1994). Due to the growing movement of international capital, net foreign assets have become the subject of deeper analyses thanks to, e.g., the concept of sustainability of net foreign assets (Lee et al., 2008; Brûna, 2013) and the effect of revaluation of net foreign asset items (Gourinchas and Rey, 2005; Clarida and Magyari, 2016).

The most important activity in the (theoretical) analysis of current account equilibrium is currently pursued by the IMF (not only within its Manual), which has published the External Balance Assessment

¹⁷ This notation was customary until the fifth edition of the manual (IMF, 1993).

¹⁸ The issue is still relevant today due to, among other things, the existence of the so-called sudden stop or capital flight (suspension of capital import or capital outflow), which for many developing economies is rather exogenous in nature (Eichengreen and Gupta, 2016; Forbes and Warnock, 2011). If a sudden stop or capital flight occurs, then above-the-line items (e.g., international trade) usually have to be adjusted. See, for example, international capital movements at the Fed's (hind) ending of quantitative easing in 2013 (Chari, Stedman and Lundblad, 2017).

Report (EBA) annually since 2012, based on the methodology of Phillips et al. (2013). Based on selected fundamental factors, these IMF reports calculate a (normatively determined) equilibrium current account balance for significant economies of the world; the basic theoretical framework comprises (a) national accounting identity, understanding the current account as the difference between the rates of savings and investments (and considering their determinants as independent variables), as well as (b) the relationship within balance of payments, where the sum of the current account and the financial account equals the change in reserve assets (based on IMF, 1993). IMF (2012) defines current account disequilibrium more generally and says that excessive current account balance surplus or deficit does not comply with the fundamentals and appropriate policies of the economy. In the context of the methodology of IMF (2012), it would therefore be a mistake to apply an a priori strict view of an external equilibrium connected with a zero current account balance (whether in each period or as an average over several periods), since a non-zero current account balance need not always mean an external disequilibrium¹⁹ (Blanchard and Milesi-Ferretti, 2009).

CONCLUSION

Simultaneously with the establishment of a balance of payments structure described in the successive editions of the IMF Manual, the development in this area has been concerned primarily with the notion of balance of payments (dis)equilibrium from the point of view of the IMF and of (theoretically focused) economists. The discussion has led to a gradual shift in attention to the current account balance as an indicator of balance of payments (dis)equilibrium. The balance of payments (dis)equilibrium assessment has gradually abandoned additional requirements, typically associated with an equilibrium exchange rate or full employment (Machlup, 1958). In determining the period for which the balance is to be in equilibrium (zero balance), the opinion has been that it need not be in equilibrium in every instant but that it should be in equilibrium within a specific time frame (e.g., one economic cycle). More recent approaches, influenced by the intertemporal approach to the current account, no longer regard the zero state of this cumulative balance as equilibrium, even over more extended time frames.

Monitoring balance of payments equilibrium on a "narrower basis," e.g., through net exports, would mean focusing only on international flows of goods and services, which is nowadays insufficient due to the increasing importance of primary and secondary income. On the other hand, by including certain items describing movements of international capital, the paper would fall in with the notion of equilibrium at the level of basic balance. That would, however, give rise to the question of which "types" of capital to include above the line and below the line.

Currently, the dominant part of the professional public tends towards the current account balance as a suitable indicator of balance of payments (dis)equilibrium. The value of this balance should be "near" zero in the long term. Moreover, abstracting from the capital account and the effect of revaluation of net foreign asset items, the zero value of the current account balance does not worsen the stock statistics of net foreign assets.

¹⁹ The European Union applies a so-called *Macroeconomic Imbalance Procedure – MIP*. The 14 criteria for assessing the macroeconomic imbalance of an EU member state include its current account and net international investment position. The three-year moving average of an EU member state's current account balance has to be between -4% and +6% of the GDP. The net foreign assets must not be below -35% of the GDP. These rules are discussed, e.g., by Coutinho, Turrini and Zeugner (2018).

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ANNEX

Table A1 Development of the balance of payments basic structure according to individual editions of the IMF Manual

| IMF (1948): BPM 1 | IMF (1950): BPM 2 | IMF (1961): BPM 3 |
|--|--|--|
| Current transactions | Current transactions | Goods and services, and transfer payments |
| Merchandise | Goods and services | Goods and services |
| Non-monetary gold movement (net) | Merchandise | Merchandise |
| Foreign travel | Non-monetary gold movement (net) | Nonmonetary gold |
| Transportation | Foreign travel | Freight and insurance on international shipments |
| Insurance | Transportation | Other transportation |
| Investment income | Insurance | Travel |
| Government, not included elsewhere | Investment income | Investment income |
| Miscellaneous | Government, not included elsewhere | Government, not included elsewhere |
| Donations | Miscellaneous | Other services |
| Errors and omissions | Donations | Transfer payments |
| Movement of capital and monetary gold | Errors and omissions | Private |
| Private (excluding banking institutions) | Movement of capital and monetary gold | Central government |
| Long-term capital | Private (excluding banking institutions) | Movements of capital and monetary gold |
| Short-term capital | Long-term capital | Private long-term capital (excluding monetary institutions) |
| Official and banking institutions | Short-term capital | Private short-term capital (excluding monetary institutions) |
| Long-term capital | Official and banking institutions | Local governments (excluding monetary institutions) |
| Short-term capital | Long-term capital | Central government (excluding monetary institutions) |
| Monetary gold | Short-term capital | Central monetary institutions |
| | Monetary gold | Other monetary institutions |

| Table A1 | | (continuation) |
|-------------------------------------|---|---|
| IMF (1977): BPM 4 | IMF (1993): BPM 5 | IMF (2009): BPM 6 |
| Current account | Current account | Current account |
| Goods, services, and income | Goods and services | Goods and services |
| Merchandise | Goods | Goods |
| Shipment | Services | Services |
| Other transportation | Income | Primary income |
| Travel | Compensation of employees | Compensation of employees |
| Investment income | Investment income | Investment income |
| Other goods, services, and income | Current transfers | Other primary income |
| Unrequited transfers | General government | Secondary income |
| Capital account, excluding reserves | Other sectors | General government |
| Direct investment | Capital and Financial account | Financial corporations, nonfinancial corporations, households, NPISHs |
| Portfolio investment | Capital account | Adjustment for changes in pension entitlements |
| Other capital | Capital transfers | Capital account |
| Reserves | Acquisition/disposal of nonproduced, nonfinancial assets | Gross acquisitions/disposals of nonproduced, nonfinancial assets |
| Monetary gold | Financial account | Capital transfer |
| Special drawing rights | Direct investment | Financial account |
| Reserve position in the Fund | Portfolio investment | Direct investment |
| Foreign exchange assets | Other investment | Portfolio investment |
| Other claims | Reserve assets | Financial derivatives (other than reserves) and employee stock options |
| Use of Fund credit | | Other investment |
| | | Reserve assets |

Note: BPM = Balance of Payments Manual.

Source: IMF (1948, 1950, 1961, 1977, 1993, 2009)