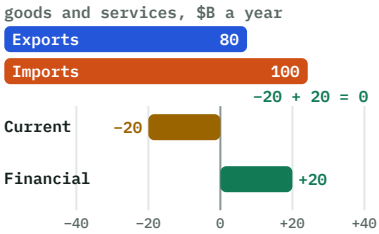
# Is a trade deficit bad?

The current account, the financial account that mirrors it, income and gifts, the pile of claims and what it costs, what the borrowing buys, a sudden stop, one partner against the whole world, and the real numbers of the US, Germany and Japan: Coralia sells $80B and buys $100B.

## 1 Current account

earn abroad – spend abroad

- **Exports** = goods and services sold to the world · **imports** = bought from the world · **B** = billion
- **Trade balance** `= exports − imports` (goods and services only)
- **Current account** `= exports − imports + income + gifts` · **income** = interest, dividends (a share of a firm's profit), wages across borders · **gifts** = money sent home, aid
- Coralia · sells **$80B** · buys **$100B** → 80 − 100 = **−$20B** → DEFICIT (below 0) · above 0 → SURPLUS
- Practice · Marenia 60 − 75 = −15 → + income 10 = −5 → − gifts 5 = **−10** · sign: money in +, money out −




## 2 Financial account

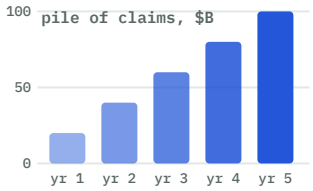
the mirror

- **Financial account** = buying and selling **assets** (things owned that keep value or earn) across borders: bonds (loans), shares (pieces of a firm), houses, firms · foreigners buy here → +
- The world earned $100B, spent $80B → other **$20B** comes back → buys Coralian assets → **+$20B**
- **Balance of payments** `current + financial = 0` · −20 + 20 = 0 · always
- **Deficit** = borrowing or selling assets · **surplus** = lending · Palmera (practice) 90 − 70 = +20 → financial −20 → lends to the world
- Which account? **Current**: hotel night for a tourist, phones imported, tuition abroad, dividend, interest paid, money sent home, aid · **Financial**: a bond, shares, an office tower, a factory, a vacation home

## 3 Stock and flow

years add up

- **Flow** = amount per year (deficit −$20B) · **stock** = the pile it builds · **claims** = bonds, shares, buildings foreigners own here
- Coralia · 5 years × $20B = **$100B** of claims · like a tap filling a bath
- The pile costs: foreigners earn on it → **income paid abroad** → current account ↓ every year
- Practice · 4 × $15B = **$60B** · 5% → **$3B** a year · year 5, trade 90 = 90 → current account **−$3B**




## 4 What it buys

good or bad deficit

- Same −$20B, two islands · **A** → machines, factories → earn → repay ✓ · **B** → one giant party → nothing left, still owes ×
- ⇒ the gap alone says nothing · what matters = **what the borrowing buys**
- **Sudden stop** = lenders abruptly stop · financial account → 0 ⇒ current account → 0 ⇒ imports cut fast · practice: sells 80, buys 110 → imports **110 → 80** (more than ¼) · the currency (the country's money) usually falls too (Lessons 5–6)

| It can worry | It can be fine |
|---|---|
| borrowing must be renewed · lenders may stop · currency can fall · future income goes abroad | lenders expect to be repaid · factories, roads, skills pay for it · fast-growing countries borrow |

## 5 The whole world

not one partner

- Headline "−$50B with Palmera!" · +$30B with Marenia → overall −50 + 30 = **−$20B** · only the balance with the **whole world** matters
- Why one partner misleads: the phone of Lesson 1 → chips, design, assembly from many countries → whole price counted from the **last** one (where it was put together)

## 6 Real numbers

% of GDP

- **GDP** = everything a country produces in a year · % of GDP = the gap against the size of the economy
- United States **2025** · **−3.6%** (≈ $1.12 trillion = $1,120B · BEA, US statistics office) → foreigners buy US assets
- Germany **2024** · **+5.8%** (Bundesbank, Germany's central bank) · Japan **2024** · **+4.8%** (Ministry of Finance) → they buy foreign assets = lend

**Watch out:** a deficit is not a score or a loss · current + financial = **0** always · a dividend or interest is **current** (income), buying the share or bond is **financial** · a surplus = **lending**, not winning · judge the gap with the whole world, not one partner