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Introduction

The current account balance is divided into two elements are balanced: the current account and capital account. A current account deficit means automatically inflows for finance. In other words, the current account is always financed (Golub, 2011). The current account measures the difference between resources and expenditure of a country, or still need (or ability) to finance a country. Thus, a current account deficit means that expenditures exceed revenues. A significant deficit is often interpreted as a sign of trouble financial. The equivalence between the current account and the capital account is through an adjustment interest rates and the currency (Jacques et al., 2010). The current account is an accounting document from the national accounts of a State which is part of the balance of payments showing all flows (not stocks) traded between a country and the rest of the world. The balance of the current account is obtained from three intermediate aggregates which are added those of the balance of goods and services, those of the balance of income and those of the balance of current transfers.

Discussion

The balance of goods and services covers all exports and imports of goods (trade balance) and services and the balance is an important indicator of a country's competitiveness. Balance of income includes transactions between residents and non-residents and is the compensation called "factors of production" (capital and labor) (Egwaikhide, 2007). The balance of current transfers traces the public and private transfers without consideration (subsidies), excluding capital transfers.

An economy can accumulate current account deficits over several periods (shortages of current account) on condition that it is funded (Golub, 2011). In the medium term, the reduction or even stabilization of the current account deficit requires a rebalancing the balance of trade (due to the weight of debt interest). Arithmetically, the stabilization of trade deficit requires a growth rate of exports at least equal to the growth imports multiplied by the weight of imports relative to exports. The ratio Import / Export is currently 1.5, this means that exports must grow once and half faster than imports and the trade deficit continues to widen, which seems somewhat probable.

An adjustment of the current account cannot be done by a slowdown in imports, slowing domestic demand, the extreme case being a recession, as in 1991, which would strongly deceleration in investment and consumption. By tightening monetary policy as is currently the case, and domestic demand should gradually slow down (Jacques et al., 2010). The adjustment of the current account will also be through a sharp decline in the real effective exchange rate. In addition, the slowdown in U.S. growth will cause a decline in capital flows that have supported the dollar in recent years. Investors remap their cash to other areas economic attractiveness.

As each period too pronounced weakening of the dollar, central banks will buy Treasuries to limit the decline in the dollar, which continues to benefit from its status as an international currency. It is mainly foreign central banks that helped finance the current account in order to limit a strong appreciation of their own currencies (Kumhof and Laxton, 2009). Also, the interventions by central banks persist even if the dollar is no longer a monopoly, with the emergence of the euro as a new reserve currency. The balance of payments is a statistical tracing

for a given period, all economic transactions of a country and outside. It consists of two main parts: the current account and the capital account.

The current account records all final transactions of a country is operations that do not give rise to further flows in the opposite direction. The current account balance shows whether or not economy live beyond its means (Jacques et al., 2010). A current account deficit is a surplus at capital movements. This means that the country must borrow outside, accept foreign investment on its soil or reduce its external assets. A country with a credit balance emerges capacity surplus savings it produces more than consumes. This balance is the result of two scales: the trade balance and the invisibles balance.

Compares the trade balance of exports and imports, it measures competitiveness of a country against its competitors. It also provides the "coverage" trade, the ratio of exports to imports. A deficit of trade balance needed to find currency to settle foreign exporters (Golub, 2011). Balance of invisible trade is that do not give rise to movements of goods (freight and insurance, tourism, investment dividends made abroad) and movements against free part (unilateral transfers: the repatriation of income of migrant workers is an important item in the transfers). This balance has no particular economic significance because it brings together disparate elements.

The capital account includes capital for long-term and short-term private sector non-banks. Is a surplus to a deficit of the balance of payments common (Jacques et al., 2010). This imbalance is financed with foreign resources that will pay later. A country borrowing much thereby improves its balance capital. A negative balance this may indicate that the country has invested heavily in

abroad, the export of capital carries future income (Young Song, 2008). The balance of payments is always balanced because a current account deficit corresponds to an excess level of capital movements and vice versa. What is important is the analysis of this balance.

The current account, which records transactions in goods and services, factor income flows and transfers, is in principle established when there is a change of ownership or when service is rendered (Kumhof and Laxton, 2009). This criterion account provider / customer account is consistent with other components of the national accounts, which are generally based on an accrual rather than cash. The offsetting entries are not necessarily shared between the current and capital accounts. Many transactions give rise to entries which are both either current account or capital account. In the case of foreign purchases of government bonds in Canada, when capital inflows resulting serve to replenish international reserves, two entries are capital in nature.

The current account includes trade, tourism, transport services, business services, government operations, investment income and transfers (Jacques et al., 2010). The capital account is the distinction between direct investments, portfolio investments, receivables from the Government of Canada, including the official international reserves, other foreign investments, commitments in the form of money market instruments the borrowing or lending abroad of Canadian banks and currency allocation of Special Drawing Rights.

The balance of goods, services, investment income and transfers, known as the current account balance is fairly used and shows the operations that result in an increase or decrease in the wealth of a country compared to non-residents, with the exception of changes in value, etc (Golub, 2011). A surplus or deficit in the current account does not in itself desirable or undesirable

situation for a country at a given time. The balance must be seen in the context of other factors before we can make an assessment. Often added to the current account balance that is usually called the balance "basic". It is to examine the balance resulting from operations are unlikely to be reversed in the near future (Jacques et al., 2010). When establishing the basic balance, combining the inputs and outputs of long-term capital in the current account balance to get a better idea of the underlying trends of international economics. The problem with this kind of balance is that it gives an incentive for capital flows that statistics alone cannot tell.

The balance of payments is an important element of national accounts identifying the flow of goods, services, income, transfers of capital, and financial flows that residents of a country as a whole - individuals, companies or state, - have with the rest of the world (Kent and Cashin, 2003). In other words, the balance of payments records all commercial, financial and monetary occurred during a given period between residents of a country and the rest of the world. Maintaining a balanced balance of payments is an objective of economic policy in all countries. Failure pending this goal means that the country must subject themselves to corrective actions that can compromise the achievement of other economic and social objectives.

In fact, since by construction, the balance of payments is always balanced, errors and omissions closely because transactions are recorded according to the principle of double-entry bookkeeping. Indeed, no exchange can take place without being funded. For cons, the intermediate balances or sub-scales may be surplus or deficit (Young Song, 2008). Thus, it is commonly said that the balance of payments deficit (or surplus) when actually means that the current account balance (sometimes the trade balance) is in deficit (imports are greater than exports) or excess (in this case, exports are more important).

Intra-firms that do not result in a payment beyond recognition. However, these exchanges represent one third of world trade and they tend to grow (Jacques et al., 2010). We place the different operations and transactions in different parts of the balance of payments. For example, the import of oil is classified as a transaction in goods oil, buying a TV or a computer program is a transaction paid, dividends paid by a French company to a pension fund U.S. is the operation of income buying a Japanese patent by a foreign company is a capital operation.

The term direct investment abroad means the operation performed by an investor resident in one economy in order to acquire or increase a lasting interest in an entity resident in another economy and influence in his own management. (The construction of a plant abroad, the acquisition of 20% or more of the share capital of a company, real estate investment, etc.).

There are also portfolio investment 9achat of shares of a foreign company), loans, reserve assets (for example, the transfer of $ U.S. to another country for an investment fund). The balance of payments records twice each operation (principle of double-entry bookkeeping) transaction as a first time and a second time, with the sign reversed as regulation.

An example: an export (writing first in the trade balance is a credit: sign) will have caused an increase in foreign exchange reserves (currency) Central Bank (second writing speed: - sign). We cannot talk about balance of the balance of payments as do journalists this balance is zero by construction. Only the intermediate balances can be positive or negative (Filho et al., 2009). The exchange rate is a very important factor to explain the volume of exports and imports.

Flows of investment income and current transfers between residents and non-residents are not included in the measurement of expenditure on domestic production, but they are included with

the goods and services on behalf of non-residents which traces all common operations in this sector (Jacques et al., 2010).

The income and expenditure of non-resident derives its data from the current account of the balance of payments, with which it coincides except with respect to the transfer of estates or of migrants' funds, which are classified in the current account balance of payments and the capital account in the accounts of income and expenditure (Clark, 2008; Golub, 2011). Once this difference taken into account, the surplus or deficit of the current account is equal to the gross savings recorded in the statement of income and expenditure of non-residents, which, however, is preceded by the opposite sign.

The real exchange rate is a key relative price in the economy. It provides economic agents signals on what goods and services t produce and indicates how the structure of the economy should adjust t the external environment in the medium term. However, the real exchange rate is not directly observable, so extensive research has been undertaken to estimate it (Golub, 2011; Jacques et al., 2010). Methodologies to estimate equilibrium real exchange rates can be broadly classified as bivariate and multivariate. Existing multivariate methodologies to determine equilibrium real exchange rates can be broadly classified into three basic approaches. Quantity based approaches such as the macro balance approach estimate medium term characteristics of the economy or fundamentals price based approaches such as the fundamental approach provide econometric estimate of the reduced from equation for equilibrium real exchange rate as a function of fundamental variables like the differential in sectoral productivity.

The basic methodology for estimating current account norms is to estimate a relationship between the current account balance and its fundamental determents based on historical data and

then to use the coefficient estimates from this relationship with medium term projections of the fundamental variables to provide and equilibrium current account balance that would prevail when countries are in steady state (Filho et al., 2009; Kumhof and Laxton, 2009). Implicitly, this methodology assumes that the projections of the fundamental variables themselves are in steady state. The compare for each country the current account norm with the country's medium term current account balance projection.

Conclusion

As for the current account, it only records transactions affecting capital loans between residents and non-residents. Moreover, that these claims are considered valid for accounts, they must have a legal existence, and the appropriations and contingencies are not taken into account. The national accounting conventions also require that certain entries of non-financial are included in the capital account. For example, in the case of the acquisition of tangible assets by a non-resident property must always be considered as belonging to a resident and non-resident property is always by definition a financial interest, which is included as such, capital account.

In addition to operations unambiguous, the current account contains a number of borderline cases, further defined on pragmatic rather than from principles. This is particularly the refinancing of debt, which is tracked as new flows, allocations of special drawing rights, included as capital flows, and as we have already said, the retained earnings are not taken included in direct investment. Unlike the current account, most capital flows are recorded on a gross rather than net basis. Increases and decreases that occur during the reference period for an individual asset are consolidated into a single net figure. In the case, for example, deposits abroad, a unique number will track the value of the change in the balance between the opening

and closing of the period, rather than the total deposits and total withdrawals during this period. The recording of net flows is partly due to the availability of data, but also due to the fact that gross changes may have limited analytical interest.

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