

THE WINCOTT LECTURE

THE GLOBAL IMBALANCES: WHAT IS THE PROBLEM?

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The Global Imbalances and Intertemporal Trade

This lecture is concerned with the significance of the global current account imbalances. How did the imbalances come about, and do they indicate problems? Indeed, are the imbalances “bad”? Should policies be designed to reduce them?

Table 1 shows the current account surpluses and deficits of the major “imbalance” countries or groups of countries in 2006. It is clear that the US deficit dominates the whole story. Incidentally, for the world as a whole total surpluses must be equal to total deficits, but, owing to measurement problems, it has seemed from the figures that “the world” was always somewhat in deficit.

Table 2 gives the figures for the nine years 2002 to 2007 for the United States, the major deficit country, and for the five countries or groups of countries that together account for most of the surpluses. In addition, for the United States and China it gives the imbalances (deficit for the US and surplus for China) as a percentage of GDP in every year and, in addition for the United States it gives for every year the “general government” fiscal deficit as a percentage of GDP. The figures for 2007 were IMF estimates in the October 2007 *World Economic Outlook*.

It can be seen that there have been significant changes over the 2002-2007 period. In every year the biggest current account deficit has been that of the United States, but the surpluses of the oil exporting countries began to be really important only in 2005, while the Chinese surplus only played a major role in 2006 and 2007.

This lecture was given in memory of Harold Wincott, and the main theme of my argument relates to an observation that was made about his views. Harold Wincott was a highly regarded financial journalist who was editor of the *Investors Chronicle* and wrote regularly for the *Financial Times*. He died in 1969, when the Wincott Foundation was set up. The chairman of the Foundation, Lord Harris of High Cross, wrote about Wincott that he came “to trumpet, in and out of season, unfashionably ahead of his time, *the moral and material benefits of dispersed initiatives in competitive markets*” (*Harris, 1996*).

I am not concerned with “moral” benefits here. But it is my main theme that the global imbalances can be regarded as resulting from “dispersed initiatives world-wide in competitive markets,” or more specifically, in *one world-wide* competitive market. The market is the world capital market, the mechanism that equilibrates the market is “the world real interest rate”(a somewhat oversimplified but useful concept), and the dispersed initiatives are those that affect savings and investment, both private and public in all the different countries of the world that make use of this market..

When the United States buys goods and services from China while, in payment, the United States sells financial assets to China there is “intertemporal trade”. Of course the United States also sell goods and services to China, and China also sells financial assets to the United States, so that there is familiar trade of goods-for goods (and services), and also trade within the capital market. Here I am concerned with the net trade in goods in exchange for financial assets, the latter representing future obligations. This is trade in goods (and services) today for goods tomorrow. A current account deficit of the United States indicates that the US is (on a net basis) buying goods and selling assets. China, with its current account surplus, is a net seller of goods and the United States is a net seller of assets.

When the global current account imbalances increase this means that intertemporal trade is increasing. One might then ask why this should be a matter of concern. One would expect that there would be gains from this form of trade as from ordinary trade in goods and services. There

is a familiar case for free trade resting on the theory of “the gains from trade” and this must surely also apply to this particular kind of trade. Why should an increase in the amount of a particular kind of trade, when this results from the free choices of private households, corporations and also governments, be undesirable? (This argument is more fully developed in Corden, 2007.)

In fact there are qualifications to this argument. For example, governments may make unwise or undesirable choices from the point of view of their own countries. But these qualifications must then be specified. I don't think that one is justified in assuming that an increase in trade per se is bad, or even that any trade of this kind (i.e. any current account imbalance) is bad. I shall discuss these matters in more detail shortly with respect first to the United States and then to China.

How the world system equilibrates?

Each country has its own story and what we observe in the figures of current account imbalances is the net outcome of an international general equilibrium system where the world capital market plays a major role. In fact, it is variations in the world real interest rate that bring about the equilibrium that we observe in the figures. As I have just noted, a country's current account imbalance is a measure of its net “intertemporal trade”, and here it is sufficient to observe that, just as supply and demand in any free market are equilibrated by flexible prices, so a flexible real interest rate brings about equilibrium in this market. The real interest rate is not the same in every country, and, in addition, long-term

interest rates must be distinguished from short-term interest rates (the latter determined or influenced by different countries' monetary policies and by expectations), but countries' long-term real interest rates tend to move together under the influence of, what I call here the "world real interest rate". Needless to say, that is a simplified concept.

For each surplus country the current account surplus is determined by the excess of private savings over private investment, plus the fiscal surplus or minus the fiscal deficit. The same idea applies to deficit countries. There are many factors determining savings and investment, private and public, including the exchange rate regime, monetary policy and, of course, fiscal policy. One factor is the world real interest rate, that being, as I have observed, the channel through which the international equilibrium is achieved. It is an automatic, decentralised process. Contrary to what is sometimes suggested, the IMF plays no significant role in this process, nor do international meetings of politicians or central bank governors. This is a market in which governments and central banks are indeed participants or actors, but in a decentralised way.

It is well known that for some years (roughly since 2002) the world real interest rate has been exceptionally low and has stayed low ever since (possibly rising in 2007). At the same time the United States shifted from rough fiscal balance into substantial fiscal deficit. If one looked at the United States in isolation (as many Americans have tended to do for long periods) one would expect the real interest rate to rise when there is such a radical fiscal

expansion. Thus there was some surprise that US interest rates actually fell. The basic explanation is that a group of countries which I shall call the “savings glut countries” (listed in Table 1) went into substantial savings surplus at about the same time or somewhat later. Either their savings (relative to GDP) rose or their investment fell (also relative to GDP), and in the case of China, both savings and investment rose, but savings rose more. For the world as a whole this “savings glut” effect outweighed the effect of the United States going into fiscal deficit. Hence the world real interest rate fell. All this is now well known, though it took some time for US economists to think in “world” terms (Bernanke, 2005).

Let me now distinguish *endogenous* from *exogenous* effects. One might regard shifts in fiscal policies, as well as other factors in both the United States and the savings glut countries determining savings and investment, *other than those depending on the real interest rate*, as being “exogenous” But the change in the real interest rate and the effects that it brought about are endogenous to the system. It is, as I have observed, what equilibrates the world system. Thus, in all or most countries there are *endogenous* effects on savings and investment resulting from the decline in the real interest rate.

The private spending booms in many countries – especially those connected with housing booms – can be regarded as essentially endogenous. There has been much talk about the problems created by excess liquidity, about the private equity boom, with its repercussions on stock markets, about construction booms in various

countries, and so on, All these are part of the “endogenous” story. Perhaps monetary policy was somewhat loose in some countries, notably the United States, but, in my view, the fundamental factor explaining low real interest rates was the “savings glut” in the various surplus countries.

These savings gluts were caused by a number of factors that are exogenous to this story. East Asian developing countries (other than China) reduced investment owing to earlier overinvestment, which had led to the 1997 Asian crisis. This was also true of Japan. The rise in oil prices naturally increased savings of Saudi Arabia, the Gulf States, Russia and other oil-exporting countries. Germany and Japan are high savers and have now relatively low investment essentially for demographic reasons (Cooper, 2007).

In detail it is a complex story, which varied between countries. One has to analyse what happened to savings and to investment, both private and public, in each country, whether surplus or deficit country, or at least in every larger economy or group of economies. But the analytical principle to understand the “world” story is simple.

I come now to looking in more detail first at the United States and then China. With regard to the US deficit and the Chinese surplus, are there problems, and have government policies been unwise? I shall focus on the interests of the countries themselves, not on the world system..

The United States. Can the huge Deficit go on?

The US deficit has dominated the international story, as shown by the figures in Table 1. As a proportion of US GDP the deficit started rising in 2002, and reached a peak of 6.2% of GDP in 2006. (Table 2). Seen purely from a US perspective this signals trouble ahead. The US current account deficit has never before been anywhere near as high as a proportion of GDP (Edwards,2006). Many US authors have pointed out that a deficit of such size cannot go on, and that once the inevitable adjustment takes place – or is expected to take place – the dollar must fall sharply. Many estimates have been made of the extent of the dollar’s necessary or likely fall. In fact, in 2006 and 2007 it has already fallen, and the total trade-weighted fall in real terms since 2002 has been about 20%.

There has been much talk about the threat of “disorderly” dollar depreciation. But real depreciation of the dollar should surely be viewed favourably in the US since it would improve US competitiveness, and thus be expansionary, to compensate for recessionary effects of a rise in US interest rates that would be brought about by increased reluctance of creditors to lend to the United States.

Furthermore, the question has been asked: how can a country that is so heavily dependent on borrowing from foreigners preserve its international hegemony, and indeed its political independence? (Frankel, 2006). Could creditor countries blackmail or pressure it to change its

policies in the same way that the US, acting sometimes through the IMF, has affected the policies of smaller debtor countries?

The US Fiscal Deficit and the Current Account Deficit

Initially, from 2002, the rising US current account deficit was dominated by the US fiscal deficit, which was one of the fruits of the new tax-cutting Bush Administration. In fact, Table 2 shows that in 2003 the private sector was in financial balance (private savings were roughly equal to private investment), and both the current account deficit and the general government fiscal deficit were 4.8% of GDP. In later years the fiscal deficit relative to GDP has declined while a private sector deficit has re-emerged, so that by 2006 the private sector deficit was 3.6% of GDP while the fiscal deficit was 2.6% (Table 2).

In terms of my earlier model, the fiscal deficit is *exogenous* – the result of politically motivated policy changes – while the private sector deficit – reflecting above all low household measured savings – is *endogenous* – the result (mainly) of low world interest rates caused by the “savings glut” emanating from Japan, China, the oil exporting countries and some others. The US discussion initially focused on the fiscal problem, taking into account prospective demographic changes and expected problems for the financing of Medicare and the social security system. This concern with the US fiscal problem reflected in many writings, for example Cline (2005) and Frankel (2006), seems to me completely justified.

At this point I would like to reflect on how the fiscal problem – which is surely a genuine and major problem for the US - relates to a possible current account problem. For simplicity I will assume that the fiscal deficit was caused by tax cuts that led to increased private consumption. Suppose there had been no possibility of foreign borrowing. Perhaps controls had prevented the inflow of foreign capital. Yet the fiscal deficit had been the same as it actually has been. It would then have led to a big increase in the US interest rate, and US private investment would have been crowded out. The reduced investment would have led to a transfer of real income (reflected in private and public consumption) from the future towards the present. Now let us compare this with what actually happened with an open capital market. In this case a similar transfer from future to present was brought about not by reducing US private investment but by foreign borrowing.

In both cases there is an intertemporal transfer of consumption from future to present. But in the open-capital-market case there is intertemporal trade of goods and services: the US obtains goods today from foreigners which will be used for consumption and investment today, at the cost of having to supply goods “tomorrow,” i.e. in the future, which will require a reduction in US consumption in the future. Such intertemporal trade has opened up choices for the US, and should thus involve “gains from trade”.

With a given fiscal deficit the choice is thus between foregoing domestic investment and incurring foreign

debt (and hence running a current account deficit). Both would impose a cost on the future (less investment in one case, and more foreign debt in the other). But the choice of incurring foreign debt while maintaining domestic investment is not necessarily an undesirable choice. In other words, incurring a current account deficit is not necessarily bad; it all depends on expected rates of return on domestic investment relative to expected long term real interest rates payable on foreign debt. In the recent US case the latter seems to have been very low. The US has been able to borrow very cheaply (a matter I refer to further below) so it may well have been advantageous for it to finance its fiscal deficit by borrowing from foreigners rather than crowding out domestic investment. It must thus be emphasized that the principal problem is the fiscal deficit and not the current account per se.

This leaves for discussion the implications of the apparently low rate of private savings which has been an additional factor in the current account deficit since 2005, and which might be explained (at least, in part) by the low world real rate of interest, and has thus been *endogenous* in terms of my simple model.

A Relaxed View of the US Current Account Deficit. Insights from Richard Cooper

My views on this subject have been greatly influenced by the writings of Richard Cooper (Cooper, 2007).

His basic argument is that it is perfectly natural for the US to have a large current account deficit when a number of high-savings countries – notably Japan, Germany, the

four newly-industrialized Asian economies, China, and the oil exporting countries - have large surpluses. The US is about 30% of the world economy; hence in the absence of “home bias” about 30% of world savings (excluding US savings) would be invested in the US. That would yield a figure far in excess of the actual net capital inflow into the United States (equals current account deficit). In 2006 net foreign investment in the US was about \$812 billion. Cooper calculates that in the complete absence of home bias this figure would have been \$ 1.2 trillion. Thus there is still substantial “home bias”, though it might well be reduced in time by increased globalisation.

The US has a highly developed capital market, and is an attractive country to invest in because of security of property and other factors. And it has a growing population, implying growing demand for complementary capital and hence for private investment. The main issue is: if there were a loss of confidence by foreign investors in United States prospects (and especially the dollar) where else could the world’s surplus savings be invested on a large scale? Most other developed countries, notably Japan and Germany, are surplus savers for demographic reasons (with high savings to provide for old age, and low investment owing to the decline in the working age population). This situation will not go on for ever since net savings of the oil exporters are likely to decline and also, eventually the net savings of the countries where demographic factors are dominant, notably Japan and Germany.

As I pointed out earlier, each country has its own story and the world system that I outlined at the beginning, is

flexible enough to accommodate changing tendencies in many countries. It also means that detailed exchange rate changes, even medium-term ones, cannot be predicted but must be allowed to work themselves out in this world market system. This does not rule out short or medium term interventions by particular countries.

To come back to Cooper, he points out that the net international investment position (net debtor position) of the US at the end of 2006 was 16% of GDP, which is surprisingly low considering that there have been current account deficits for many years, and particularly high ones since 2003 (Table 2). What are the reasons for this low net debt ratio?

First, the returns on US investment abroad have been much higher than those on other country's investments in the US. This is explained primarily by the fact that a high proportion of foreign investment in the US has been in the form of fixed-interest debt invested both by foreign central banks and private investors for liquidity. By contrast, US investment abroad has been in the form of equity (foreign direct investment and portfolio investment). The US has benefited from being banker to the world.

Second, there have apparently been changes in the market value of equities, including foreign direct investment, that have been favourable to US owned equities abroad relative to foreign equities in the US.

Third, devaluations of the dollar have reduced the net dollar debt, since US investments abroad (US assets) are

generally denominated in foreign currency while foreign-owned assets in the US (US liabilities) are valued in dollars. Foreigners have thus been losers from the downward trend of the dollar, while it has kept down the net debtor position of the US. This “valuation effect” of dollar depreciation is very favourable to the United States.

An interesting question is whether these relatively low returns that foreigners appear to have earned in the US will lead them to invest elsewhere in the future. In my view it has been unwise for the Chinese and some other central banks to put so much of their foreign reserves into low-yielding (but secure) US Treasuries. One can now see programs of portfolio diversification, though this does not necessarily mean that much less will be put into the US. To an extent there may simply be a switch at the margin out of US debt instruments into US equities, and also from short-term debt to longer-term debt obligations.

The broader central question is: which other countries could substitute to a significant extent for the United States as an absorber of foreign savings should there be a loss of confidence in US investments? This question will become redundant if the “savings glut” of the current surplus countries is substantially reduced, as is likely in time. Market forces will also then ensure that the US current account deficit declines. This will work in the following simple way. The world real interest rate (and hence the US interest rate) would rise, and this would reduce US investment and possibly also consumption.

Hence US spending would decline and thus the US current account would improve.

Cooper's conclusion about the current situation is that "the large US current account deficit is both comprehensible and welfare-enhancing from a global point of view, reflecting intertemporal trade, *so long as Americans invest the funds productively.*" In my view, the qualification (italicized by me) is particularly important. Also, Cooper would not dispute the need for long-term US fiscal policy improvement. Furthermore, in his 2007 paper he also argues that national savings and investment in the United States are much higher than the usual statistics indicate; one must include investment in the knowledge economy (notably education) and purchases of consumer durables. Mainly for that reason he expects the US to continue to be a very productive economy and hence to be able to meet its growing debt obligations. It is also helpful that the current net debt to GDP ratio is quite low (as I noted earlier). Therefore the United States will continue to be attractive to foreign equity investors. But I cannot briefly reproduce all his figures and insightful arguments.

China' Amazing Current Account Surplus

In 2007 China's estimated current account surplus was nearly 12% of GDP and was even larger than the total surpluses of all the oil exporters. It was about half the size of the estimated US deficit. As Table 2 shows its large surplus is quite recent. Hence there is not necessarily anything fundamental or structural about it.

In 2004 it was 3.6% of China's GDP. But it leapt to over 7% of GDP in 2005 and 9.4% in 2006. Thus, as a major factor in the world economy, so far it is only a three-year phenomenon. For reasons I shall discuss I would not be surprised if it turned out to be a very temporary phenomenon.

It is my impression that this huge surplus is completely unplanned or unintended. It is the combined effect of the saving and investment behaviour of state and non-state corporations and of households, and of the government's exchange rate policy. The latter policy has not been motivated by a desire to build up foreign exchange reserves (though it was in earlier years), but rather by a desire to protect – or avoid adverse effects on – the export industries.

China's export industries have boomed. There has been steady productivity improvement, there has been heavy investment in the export industries, a substantial part being foreign capital, international markets have been built up, and there has been a learning process which has certainly born fruit. Insofar as the industries have been indirectly subsidised through an exchange rate policy which has avoided significant real appreciation, one might say that there has been "exchange rate protection", and the possible justification would be based on the infant industry argument for protection.

It is too early to know precisely why there was apparently such a big increase in exports and hence the current account surplus in 2007. Perhaps earlier learning

and investment have borne fruit in outstanding labour productivity improvement.

One might also ask how an increase in exports leads to an increase in savings relative to investment, so that the current account surplus increases. Perhaps the export firms simply saved more of their profits and did not use higher savings for extra investment. Also, government monetary policy acting through credit controls on banks and aimed to avoid an increase in inflation (i.e. “internal balance” monetary policy), may have limited the possible increase in investment.

But the Chinese authorities also have other motives for fixing the currency (the Reminbi or RMB) to the US dollar. (It has not been fixed completely; since June 2005 there has been a little flexibility leading to a nominal appreciation of about 10%). In particular, they want to maintain stability of employment in export industries, and also avoid problems for banks, that exchange rate instability might give rise to. Indeed economic policies in China in many respects have been governed by a concern to avoid various instabilities.

The by-product of the exchange rate policy and the other factors I have mentioned has been the large current account surplus and massive accumulation of foreign exchange reserves, mostly in the form of dollars.

The potential domestic monetary expansion effects of the exchange intervention have been avoided by the sale of sterilisation bonds to the Chinese banks. The central bank (People’s Bank of China or PBC) has actually made

a profit on these because it controls domestic interest rates at well below market levels. The modest interest income that the PBC has earned on its foreign reserves has still been higher than the interest it had to pay to the domestic banks which held the bonds. In effect the households and corporations which were the depositors of the banks, and which received low interest on their deposits were taxed for the benefit of the export industries.

The question of the choice of exchange rate regime is a large one on which much is written. Eventually China's interest rates will no doubt be market determined (though influenced by the PBC), and the exchange rate will have to be flexible if the country is to have monetary independence. But at the moment – with a repressed and rather inefficient financial system involving low interest rates and credit controls, and also partially effective controls on capital outflow – it has been possible to maintain monetary control combined with a (more or less) fixed exchange rate regime.

I believe that the current policy can probably be explained in terms of “exchange rate protection” But if one wants to assess the net effect from the point of view of China one might take a different approach. One might bring in considerations which, perhaps, the Chinese authorities also have in mind. The question is whether the massive accumulation of foreign reserves can be justified directly, and not just as a by-product of protecting export industries.

I have proposed the “parking theory”(Corden 2007). Temporarily funds are “parked” abroad, until the efficiency both of the public administration system, especially in the provincial administrations, and of the capital market has improved so that large funds can be allocated for necessary domestic expenditures to improve infrastructure, and to provide for health, education and social security. The domestic needs in a country with still so much poverty are obvious and in the long run it seems inappropriate to lend so much, and with such low returns, to foreigners (mainly the United States government) rather than allowing increased consumption and public investment at home.

“In December 2004 China’s top political leadership agreed to fundamentally alter the country’s growth strategy. In place of investment and export-led development, they endorsed transitioning to a growth path that relied more on expanding domestic consumption.” (Lardy 2006). This reorientation has not yet taken place, but surely it will come, and a by-product will be the reduction of the Chinese current account surplus, and conceivably its conversion into a deficit.

Eventually there are also bound to be more domestic private investment opportunities outside the export industries and urban construction. The foreign exchange reserves may also be used eventually, at least partially, for funding an inevitable pensions gap, for taking over non-performing loans held by the state-owned banks, and indeed also to avoid exchange rate crises (excessive depreciation of the RMB) resulting from eventual

liberalisation of capital outflows and a possible loss of confidence in domestic banks.

I would therefore be surprised if the massive accumulation of reserves continued, and indeed if in due course very useful or necessary uses for some of these accumulated funds were not found within China. When this turnaround takes place it may be that China's exports will not decline but that there will be a big rise in imports – and this may not even require much real appreciation of the exchange rate. In any case, the current account surplus will melt away.

I have only touched on some important issues bearing on China's high current account surpluses and accumulation of reserves. There are still extensive controls of various kinds, not only of the exchange rate, interest rates and the credit policies of banks, but also on capital outflows. If all these controls were removed much would change. For example, if capital outflow controls were removed, allowing the exchange rate to float freely might lead to depreciation rather than appreciation. Foreigners (mainly Americans) who advocate both the freeing of the exchange rate and liberalising international capital movements may get a surprise: the much-feared competitiveness of Chinese exporters might even improve further.

Conclusion

I remarked at the beginning that “Each country has its own story and what we observe in the figures is the net outcome of an international general equilibrium system where the world capital market plays a major role”. I have discussed at length the stories of two of the major country actors, namely the United States and China. One could do similar detailed analyses for other countries, notably Japan, Germany, the oil exporters and the four “newly industrialized Asian economies” (NIAE), as well as significant deficit countries – Spain, Australia, the United Kingdom, and the group of central and eastern European countries.

I also want to reiterate a central proposition, namely that current account imbalances indicate intertemporal trade, and that there should be a presumption that there are gains from this kind of trade as from “ordinary” trade.

There remains another very important issue that needs to be analysed rigorously. How do the macroeconomic policies of one country affect other countries and the world system? It follows from my discussion here that one important channel must be through the effects that various policies have on the world real interest rate. This issue is particularly relevant currently because of the criticisms that are heaped by Americans (and also, lately Europeans) on Chinese exchange rate policy, essentially because the Chinese current account surplus is regarded as harmful to other countries. I do not agree with these criticisms, or at least have qualifications, but do not have time to pursue this issue here.

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Table 1
CURRENT ACCOUNT IMBALANCES 2006¹
Billions of US Dollars

Source: IMF, *World Economic Outlook, April and October 2007*

Current Account Deficit Countries		
United States		-812
Three Developed Deficit Countries		-217
Spain	-108	
UK	- 68	
Australia	-41	
Central and Eastern Europe*		- 88
Current Account Surplus Countries		
Fuel Exporters*		423
Middle East*	234	
Russia	96	
Norway	56	
Japan		170
China		250
Germany		146

¹ All countries with a deficit or surplus of \$40b or more are listed, except for groups (marked *) which also contain smaller imbalance countries.

Switzerland	70
Netherlands	47
NIAEs ² *	87

Table 2
CURRENT ACCOUNT IMBALANCES 1999-2007³

<i>\$US billion</i>	1999	2000	2001	2002	2003	2004	2005	2006	2007
USA (<i>deficit</i>)	300	417	385	460	522	640	755	812	784
Fuel Exporters (<i>surplus</i>)	40	151	85	65	109	184	348	423	367
Japan (<i>surplus</i>)	115	120	88	113	136	172	166	170	196
China (<i>surplus</i>)	16	21	17	35	46	69	161	250	379
Germany (<i>surplus</i>) ⁴	-27	-33	0.4	41	47	118	128	146	162
NIAEs ⁵	57	39	48	56	80	84	80	87	91
<i>Per cent of GDP</i>									
China (<i>surplus</i>)	1.4	1.7	1.3	2.4	2.8	3.6	7.2	9.4	11.7
USA: Current Account Deficit	3.2	4.3	3.8	4.4	4.8	5.5	6.1	6.2	5.7
USA: Fiscal Deficit ⁶	0.9	1.6	0.4	3.8	4.8	4.4	3.6	2.6	2.6

² *Newly Industrialised Asian Economies: Singapore, Hong Kong SAR, Korea, and Taiwan PoC.*

³ Source: IMF, *World Economic Outlook*, April and October 2007.

⁴ Except deficits for 1999 and 2000.

⁵ Newly Industrialised Asian Economies: Singapore, Hong Kong SAR, Korea, Taiwan P.of.C.

⁶ General Government Fiscal Deficit. Note that the excess of the Current Account Deficit over this figure gives the Private Sector Deficit (percentage of GDP).