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Current account imbalances and monetary union (conceptual issues)

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1. Introduction

In the world of mostly unrestricted capital flows and increasing integration of financial markets owners of capital are seeking the highest expected rate of return disregarding national boundaries. As individual economies offer various rates of return (what may be determined by a numbers of factors like the labor costs, tax burden, regulatory environment, effective protection of property rights and various economic and political risks) and, at the same time, represent various rates of national saving, some countries become saving importers while others – saving exporters. Assuming that the above mentioned differences persist over longer period of time the saving-investment imbalances may have a sustainable character.

This becomes even more obvious in the case of Economic and Monetary Union where cross-country capital flows can be characterized as capital movement between two regions of one country rather than traditional balance of payments flows between separate countries. However, such an interpretation of a nature of capital flows and (automatically) resulting current account imbalances contradicts a traditional analytical framework basing on the explicit or implicit assumption that today's current account deficit must be compensated by the future current account surpluses (i.e. that a current account must be balanced at least over long term). As a consequence, the traditional analytical framework assumes that net capital inflow leads to accumulation of country's external liabilities, which (i) cannot grow indefinitely, (ii) must be repaid at some point, (iii) higher they are, more vulnerable country's external position is.

The attitude to the EU new member states (NMS) is the best example of this misconception. For many reasons, NMS offer a higher rate of return and, therefore, they attract a substantial amount of foreign investments. Most of them are about to join the EMU in the next few years, so the exchange rate risk is considered to be negligible by financial markets[1], additionally stimulating capital inflow. The highest-growing Baltic countries, which represent the most prudent monetary and fiscal fundamentals and most flexible and business-friendly microeconomic environment attract the biggest net capital inflows and run the highest current account deficits for many subsequent years (see Table 1). Paradoxically, they are considered as externally fragile and vulnerable in the policy analyzes, which use the

[1] Some of the NMS and EU candidate countries - Estonia from 1992, Bulgaria from 1997 and Lithuania from 2001 – run a euro-denominated currency boards, so they de facto (in economic sense) belong already to the Eurozone. The same may be assumed in respect to the ERM-2 members (Slovenia, Latvia, Cyprus, Malta and Slovakia) where the risk of changing a central parity seems to be minimal.

traditional balance-of-payments analytical framework (see e.g. Deutsche Bundesbank, 2006; Lane and Milesi-Ferretti, 2006).

Table 1: Current account deficit in NMS, EU candidates and potential future EU candidates, 1998-2005

	1998	1999	2000	2001	2002	2003	2004	2005
Central and eastern Europe	**–3.1**	**–4.4**	**–5.3**	**–2.7**	**–3.5**	**–4.3**	**–5.7**	**–5.2**
Albania	–3.6	2.3	–3.6	–2.8	–7.1	–5.5	–3.8	–5.6
Bosnia and Herzegovina	–8.4	–9.1	–17.5	–20.0	–26.5	–22.4	–24.4	–26.4
Bulgaria	–0.5	–5.0	–5.6	–7.3	–5.6	–9.2	–5.8	–11.8
Croatia	–6.7	–7.0	–2.6	–3.7	–8.4	–6.3	–5.6	–6.0
Czech Republic	–2.0	–2.5	–4.9	–5.4	–5.6	–6.3	–6.0	–2.1
Estonia	–8.7	–4.4	–5.5	–5.6	–10.2	–12.1	–12.7	–10.5
Hungary	–7.2	–7.9	–8.5	–6.2	–7.1	–8.7	–8.8	–7.9
Latvia	–9.0	–9.0	–4.8	–7.6	–6.6	–8.1	–12.9	–12.5
Lithuania	–11.7	–11.0	–5.9	–4.7	–5.2	–6.9	–7.7	–7.5
Macedonia, FYR	–7.5	–0.9	–2.0	–5.7	–8.4	–3.4	–7.6	–0.8
Malta	–6.2	–3.4	–12.6	–4.4	0.3	–5.8	–10.4	–6.7
Poland	–4.0	–7.4	–5.8	–2.8	–2.5	–2.1	–4.1	–1.6
Romania	–7.1	–4.1	–3.7	–5.5	–3.3	–5.8	–8.4	–8.7
Serbia and Montenegro	–4.8	–7.5	–3.9	–4.6	–8.9	–9.7	–12.5	–8.8
Slovak Republic	–9.6	–4.8	–3.5	–8.4	–8.0	–0.9	–3.5	–7.2
Slovenia	–0.5	–3.2	–2.8	0.2	1.4	–0.4	–2.1	–0.9
Turkey	1.0	–0.7	–5.0	2.4	–0.8	–3.3	–5.2	–6.3

Source: WEO, 2006, Table 31, p. 225

The purpose of this brief policy essay is to challenge this traditional analytical framework and offer the alternative one. My analysis will concentrate on three main topics: (1) increasing irrelevance of a traditional balance-of-payment analytical framework in the era of globalization and, especially, under the Economic and Monetary Union; (2) offering an alternative set of assumptions and resulting alternative analytical framework; (3) policy implications of this new analytical framework. At this (still very initial) stage of my analysis I will concentrate on conceptual issues with only selective resorting to empirical evidence. The analysis will be presented in a descriptive and non-formalized way[2].

2. Increasing irrelevance of a traditional balance-of-payment analytical framework

The economic history of most of the 20th century (after the WWI and until at least beginning of 1980s) was characterized by a far going trade protectionism and capital movement restrictions, collapse of the gold standard and increasing number of national, fiat currencies (at least partly inconvertible), and rapidly increasing role of government in economic life, including determination of the saving and investment decisions. Under these circumstances the analytical framework concentrating on a single national economy, being closed or only partly open, seemed to be a highly accurate approach.

The assumption that a particular national economy functions in at least partial isolation from the rest of the world and the national government is fully sovereign in many important economic policy areas affected a large number of theoretical models and practical policy recommendations related, for example, to monetary and fiscal policies, demand management, counter-cyclical fine tuning, domestic income redistribution, external balances, etc. This assumption was not always explicitly articulated or even realized fully by individual authors

[2] I would like to thank Wojciech Paczynski, Artur Radziwill, Jacek Rostowski and Christoph B. Rosenberg for opportunity to discuss several issues analyzed in this paper. While this exchange of views helped me to conceptualize my analysis and inspired some ideas and arguments presented in this paper its content and quality as well as concrete opinions and conclusions presented here are the subject of my sole responsibility.

but just implicitly accepted or taken as given. One of the best examples relates to the usually implicit assumption that a national monetary authority has a full and effective monopoly in issuing money and is able to prevent economic agents from currency substitution, an assumption, which has become increasingly irrelevant in the era of globalization (see Dabrowski, 2001; 2004).

Another similar example relates to a traditional balance-of-payment analytical approach, which bases on an implicit assumption that individual country gross national investment must be ultimately financed out of this country gross national saving. Even if one accepts an investment-saving imbalance (what is hard to avoid against the vast empirical evidence of such imbalances) it will be considered as a temporary deviation from the long-term equilibrium with a necessity to close this gap over a medium-to-long term perspective[3].

The argument in favor of "home country bias" in investing gross national savings was convincingly demonstrated in a well-known paper of Feldstein & Horioka (1980). The authors presented a strong correlation between incremental investment and incremental saving in OECD member countries in the 1960s and first half of 1970s. The Feldstein-Horioka puzzle needs a correct interpretation, however. The quoted authors analyzed the investment and saving trends in the world of partly inconvertible currencies[4] and far going restrictions on capital movement, so they had to obtain this kind of empirical results at that time[5]. So the Feldstein-Horioka puzzle cannot be interpreted in the way that the "home country bias" is unavoidable and determined forever[6].

The world economy changed radically and globalization process rapidly progressed from the time when Feldstein & Horioka (1980) paper was published. We live in the world of much bigger trans-border capital mobility than it was the case in the decade of 1960s or 1970s. There are several factors, which contributed to this increased mobility:

- advancing capital account liberalisation, which affected not only the developed countries but also several developing ones[7];
- liberalisation of financial markets and the banking system;

[3] More precisely, country's international investment position is expected to come back to balance over a medium-to long term.

[4] In 1960s and 1970s most of currencies were not fully convertible in respect to capital account transactions and many countries also continued some forms of current account restrictions.

[5] Feldstein & Horioka (1980, p. 317) were aware that *„with perfect world capital mobility, there should be no relation between domestic saving and domestic investment: saving in each country responds to the worldwide opportunities of investment while investment in that country in financed by the worldwide pool of capital. Conversely, if incremental saving tends to be invested in the country of origin, differences among countries in investment rates should correspond closely to differences in saving rates*". They also realized that capital mobility was "*...limited by institutional barriers and portfolio preferences*" (p. 328).

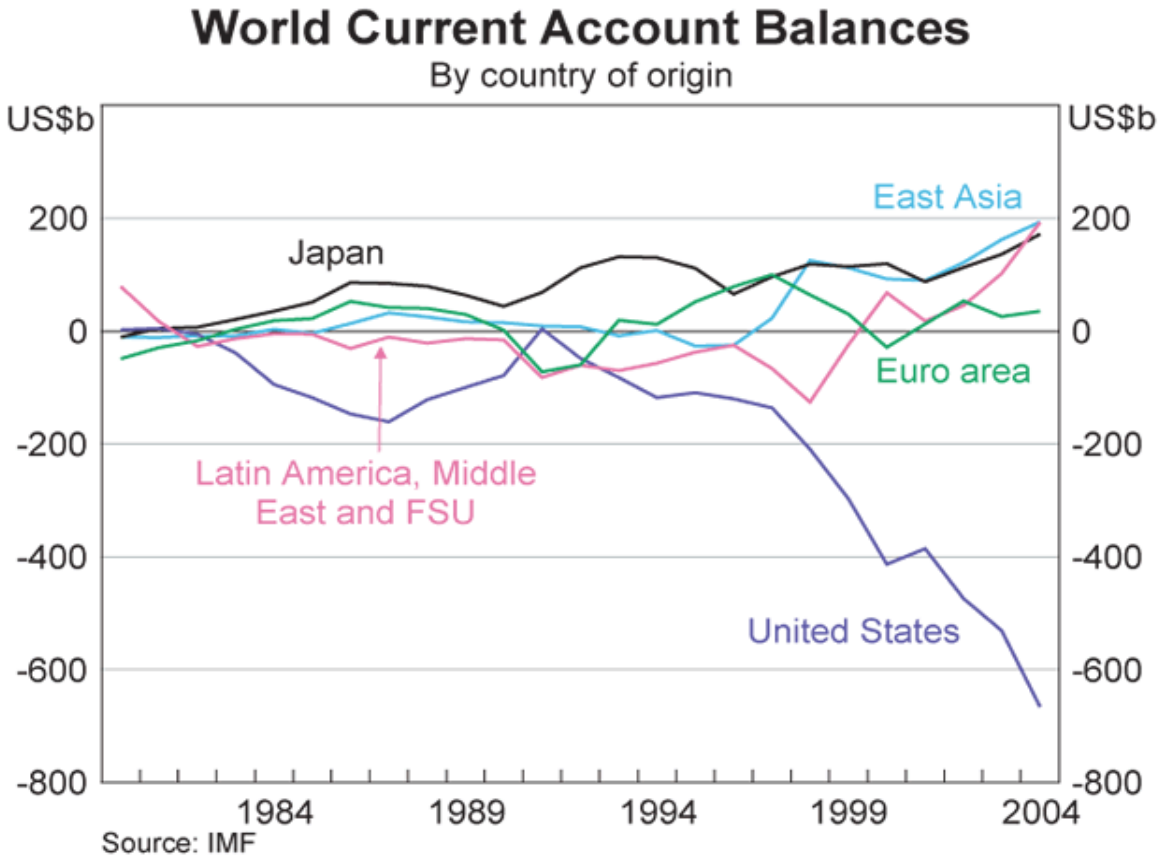
[6] Feldstein &Horioka (1980) findings were challenged in the subsequent debate on various grounds – see e.g. Roubini (1988) and Taylor (1994). On the other hand, other authors like Eichengreen (1992) and Jones & Obstfeld (1997) tried to confirm Feldstein & Horioka (1980) results in relation to the pre-WWII gold standard era. More recent studies based on 1990s data do not confirm the strong evidence of Feldstein-Horioka puzzle at least in relation to EU countries - see e.g. Blanchard & Giavazzi (2002); Hericourt & Maurel, 2005. However, Feldstein (2005) himself tries to defend contemporary relevance of his previous findings at least in relation to large OECD countries.

[7] Among big developing countries, China and India continue capital account restrictions although on a smaller scale than before.

- trans-national expansion of large banks and other financial corporations;
- privatisation of banks and other financial institutions previously often publicly owned
- rapid progress in ICT, which helped to integrate technically individual financial markets in the single global market, decreased transaction costs in financial industry and contributed to several financial sector innovations.

Although the question whether the world economy has returned to the pre-WWI relative scale of international capital flows remains open[8] the current level of international capital market integration is definitely closer the pre-WWI era than to the first three decades following the WWII. Without any doubts, we also live in the world of substantial and increasing saving-investment imbalances in respect to individual countries and their regional groups (see Figure 1)[9].

Figure 1



[8] See e.g. Ferguson (2004, pp. 186-193) who claims that the scale of globalization was bigger before the WWI than it is now and associates this historical phenomenon with the existence of liberal British Empire ("Anglobalization" in author's terminology).

[9] The similar was also true in the past. Obstfeld & Rogoff (1995) bring the example of Canada running the high (up to 10% of GDP or more) and persistent current account deficit financed mostly by the sustained inflow of British capital for at least three decades: from 1880s until the beginning of WWI.

The phenomenon of large current account imbalances could not become unnoticed by the economic theory. Last two decades brought several theoretical models of balance of payments, which analyze both causes and consequences of current account imbalances, particularly for country being capital importers. One must recognize a big progress and big flexibility demonstrated both by the theory and policy-oriented analytical methodology in response to these new circumstances.

Regarding the causes of current account imbalances the emphasis has been gradually moved from an analysis of the demand factors (excessive spending due to lax monetary, fiscal or income policies leading to a current account deficit, which must be financed by external borrowing) towards the "push" or "supply side" factors (excessive saving in some countries or regions, which must be invested elsewhere). Most recently, a great policy debate on the nature of the so-called "global imbalances" (for an analytical overview see WEO, 2005, Chapter 2) led to an interesting concept of the "global saving glut" (Bernanke, 2005) describing a phenomenon of persistent current account surpluses in some countries and regions like East Asia or Middle East. These surpluses must be accommodated by other economies like the US, other Anglo-Saxon developed countries or the EU NMS, offering a high rate of return for potential investors (see Macfarlane, 2005).

The traditional analytical framework has considered a persistent current account deficit as unsustainable phenomenon and a serious risk factor, which may provoke a speculative attack against debtor's currency and cause a currency crisis. There is a large body of analytical literature on the so-called early warning indicators, trying to figure out what level of current account deficit and how long run may indicate the forthcoming danger of currency crisis (see e.g. Kaminsky, Lizondo and Reinhard, 1998; Milesi-Ferettti and Razin, 1998). This direction of analytical studies became particularly popular and appealing in the second half of 1990s after the Mexican and Asian crises. In its extreme version it led Summers (1996) to warn that *any* current account deficit in excess of 5% of GDP should be subject of attention. This gave birth to the "5% Doctrine", which was adopted in the practice of both the IMF and private investors in the late 1990s (some other analysts used the threshold of 4%).

The widely used statistical/analytical methodology, under which private external debt is added to the public (or publicly guaranteed) external debt (see e.g. WEO, 2006, tables 37-41; pp. 238-245) works in the same direction. Each loan obtained by a domestic agent from a foreign creditor is considered as country's liability even if it does not involve explicit or implicit government guarantees.

However, an obvious empirical evidence - not every country running a persistent current account deficit becomes a victim of currency crisis and there are crises in countries running current account surpluses or having current account in balance - called for more flexible analytical approach and the latter went in at least two directions.

First, various kinds of inter-temporal balance-of-payments models accept the possibility to run current account deficits as far as the imported savings generate higher rate of investment and high rate of return from these investments allowing to repay the borrowed money in future (see e.g. Obstfeld & Rogoff, 1996, Chapter 2). Second, FDI and other kinds of long-term investments are distinguished from pure borrowing or short-term portfolio flows. The former is considered as a more sustainable and less risky source of financing current account deficit than the latter.

While the above analytical modifications give a greater room of flexibility in assessing current account imbalances (particularly the deficits) they do not depart completely from the "home country bias". Most of them assume, in one way or another, that saving invested abroad will have eventually return to the home country at some point in the future. Or at least the negative net investment position will generate the outflow of factor income, i.e. interest payments or dividends paid in favor of foreign residents whom the imported capital belong to. In the next section I will try to challenge the key assumption on "home bias".

3. Alternative analytical framework

Let us think about alternative analytical framework basing on the following assumptions, which seem to reflect more accurately the contemporary world economy:

1. There is an unrestricted international capital movement. This means the absence of serious administrative, tax or quasi-tax restriction for moving saving from one country to other. This does not mean necessarily the same tax and regulatory regime in each country under consideration and the absence of any cross-border transaction costs. The differences in national tax and regulatory regimes as well as in national macroeconomic policies, political regimes and their stability, etc. contribute to the expected country risk premium and, consequently, they influence the expected rate of return (see Assumptions 3 and 4 below). The cross-border transaction costs may also be related to differences in legal and regulatory regimes (in respect to investment decisions, mergers, acquisitions, etc.), transportation and communication costs, usage of different languages and different currencies (including the exchange rate risk – see below). Generally, we do not consider transaction costs other than those associated with an exchange rate risk as the substantial item and, for the sake of simplicity, we will omit them in further analysis.

2. Major sources of capital do not have country of origin. This is connected with transnational character of major corporations, financial institutions and investment funds, even if they invest on behalf of residents of concrete countries. In addition, with free movement of people the physical persons (especially the wealthy ones) may change easily a country of their residence (domicile) moving together with their accumulated saving[10].

3. Investors represent a private sector and seek the highest rate of return in their investment/ reinvestment decisions regardless which concrete country their decisions do concern. Each individual rate of return consists of two major components: (i) country-related component reflecting country's tax and regulatory environment, provision of public goods, macroeconomic and political risk premium, etc., i.e. all factors which are popularly called as country's business or investment climate (see Assumption 1 above); (ii) project-related component.

[10] If fact, this is nothing uncommon in the world economic history. In 19th and early 20th century emigration from Europe, to North America, Australia and some other colonies and dependent territories also involved capital export to these countries.

4. There is no diminishing rate of return in relation to a country-related component. This means that country B[11] may offer a higher rate of return than country A for similar projects for a long period of time due to factors mentioned in Assumption 3[12].

The consequent adoption of these four assumptions leads us to definite questioning of a "home country bias" in investment decisions. The higher expected rate of return in home country (comparing to others) can serve as the only rational explanation of any "home country bias" under the above assumptions.

The practical implications go as follow: the initial investment in country B done by resident of country A does not need to return (be repaid) to country A as long as country B offers higher rate of return, the form of investment financing (credit or equity) notwithstanding. The same concerns factor income from this investment (interest or dividend), which will be reinvested in country B instead of being transferred to country A.

However, if the expected rate of return in country B becomes lower than that of country A for any reason (because of investment climate improvement in country A or its deterioration in country B) the direction of capital movement will change. Not only capital originated from country A will go back to this country but also residents of country B will move their capital and factor income from this country to country A.

The new set of assumptions proposed in this section does not mean that country B is immunized from the danger of capital outflow with all the associated negative economic and social consequences. However, the danger of such outflow comes from the change of a country-related component of the expected rate of return (comparing to other countries) rather than from non-resident origin if the invested capital.

Does the current account and country's net international investment position still matter under the above assumptions? The answer is positive as far as countries A and B from our simplified model have separate currencies and run uncoordinated monetary and fiscal policies. If current account deficit of country B is considered by investors as too high and country's liabilities in foreign currency as unsustainable it can lead to increase in exchange rate risk premium of country B (the expected depreciation of B currency against that of A) and decline of the expected rate of return. In case of substantial changes in market perception of exchange rate risk premium it may trigger a sudden capital outflow (both "domestic" and "foreign") and currency crisis.

The above means that some elements of the traditional current account analytical approach still hold although other assumptions specified above weaken somewhat the relevance of this approach. In order to eliminate the exchange rate risk and balance-of-

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[11] For purpose of this analysis we assume a very simplified model of global economy consisting of two countries: A and B.

[12] This particular assumption seems to distinguish my proposal from the Blanchard & Giavazzi (2002) model, which generally is going in a similar direction as my thinking. However, Blanchard and Giavazzi (2002) argue that current account position depends on the level of country's development. Less developed countries (authors concentrate on examples of Portugal and Greece as the less-developed members of the Eurozone) run current account deficits because they offer higher rate of return in the process of catching-up growth. Richer countries become capital exporters. This implies an assumption on a diminishing rate of return in relation to a country-related component.

payments constraints completely, country B must have the same currency as country A or peg its currency to currency A in a durable and credible way.

Thus, inside the monetary union the balance-of-payments constraints between their members disappear definitely and intra-union capital flows remind capital movement between two regions of one country rather than traditional balance of payments flows between separate countries. This is particularly true for the EMU which involves countries belonging to the Single European Market characterized by four major freedoms (free movement of goods, services, capital and people). Whether the analytical concept of balance of payment, current account and international investment position of each member country of the EMU continues to make any analytical sense this is an open question for further debate[13].

4. Policy implications of the alternative analytical framework

The alternative analytical framework offered in the previous section has a far going policy implications. Discussing these implications we will distinguish two categories of countries: (1) running their own sovereign currencies; (2) belonging to monetary unions with a particular emphasis put on the EMU case.

At the very beginning, we must underline, however, that both categories involve countries, which are opened to capital movement and have an effective access to international capital markets. We realize that there is still a substantial number of countries (especially less developed ones), which continue effective restrictions on capital movement or even if they are formally open they do not have, for various reasons (mostly the reputational ones) access to international capital markets, i.e. they are able neither to borrow (it relates to both public authorities and private entities), nor attract FDI and portfolio investment.

Turning back to the countries, which are open to capital movement and belong to the first category, balance-of-payment constraints still hold in their case but their actual meaning differ from the "traditional" approach described in Section 2. If international capital markets consider current account imbalance (especially deficit) of any country or group of countries as sustainable it may be run for very long period of time, almost indefinitely. Other countries may become, for various reasons the sustainable capital exporters[14]. The hypothesis on persistency of cross-country saving-investment imbalances in the well integrated global economy finds a support in a vast empirical evidence – both contemporary (see Orsmond, 2005) and historical (of the second half of 19th century and beginning of 20th century).

The market perception of sustainability bases on a very individual country-specific assessment involving several economic and political variables, which may be summarized as the expected rate of return in the long run. The exchange rate risk premium is one of the factors influencing the expected rate of return and under some circumstances it may increase rapidly triggering a sudden capital outflow. However it is worth to remember that (i) the increase in exchange rate risk premium and resulting capital outflow may not be necessarily determined by any particular size of a current account deficit or country's international investment position, or their change but by other factors (ii) if it happens it will affect behavior of all capital owners, disregarding their country of residence.

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[13] Continuing analogy with the inter-regional capital flows inside a national economy one must notice that most of countries do not compute inter-regional current account/financial flows statistics.

[14] The analysis of the reasons why some countries or group of countries run permanently the excessive saving (comparing to their investment rates) is out of the agenda of this paper.

Whether a national economic policy can control current account balance in an economy fully open to capital flows is the additional and very controversial issue. The room of maneuver for a national monetary policy in a small open economy is very limited (see Dabrowski, 2004). Attempts to target current account or conduct any kind of current-account motivated exchange rate engineering stay in conflict with an anti-inflation mission of a central bank (see Dabrowski, 2002). They contradict a direct inflation targeting framework adopted by an increasing number of countries running sovereign monetary policies (this strategy requires free floating exchange rate).

The potential of fiscal policy to correct current account imbalances is also questionable. The concept of twin deficits (i.e. the current account deficit resulting from fiscal deficit) can hardly find empirical support in the world of high capital mobility. Fiscal contraction widely considered as one of the measures to diminish current account imbalance may not necessarily bring the expected results due to 'crowding-in' effect (see Rostowski, 2001). The successful fiscal adjustment is usually perceived by investors as the factor decreasing country risk (i.e. increasing the expected rate of return) and triggers bigger capital inflow leading to higher account deficit[15].

Regarding the second analyzed category, a common currency eliminates exchange rate risk in respect to capital flows inside a monetary union but there is still exchange rate risk in respect to other currencies. In the case of Eurozone it concerns, for example, capital flows denominated in USD, GBP, CHF or JPY. This means that the current account constraints hold in respect to the entire common currency area (for example, the Eurozone) but do not matter in respect to its individual member countries. For the latter the entire analytical concept of balance of payment and resulting policy recommendation seem to lose their importance[16]. So blaming the Baltic countries, which are already the part of the Eurozone (although not the EMU yet), for their supposedly excessive and unsustainable current account deficits (Deutsche Bundesbank, 2006) misses the point.

The above quite radical conclusion does not mean that entering a monetary union immunizes country from any macroeconomic or financial risk. Hypothetically, the entire common currency area (like the Eurozone) may become a victim of a balance of payment/ currency crisis. The individual member country can suffer a public debt crisis as result of irresponsible fiscal policy. It can also experience unsustainable investment, credit or asset bubble (and following bust) but this is a matter of prudent lending/ investment/ financial intermediation rather than a traditional balance of payment problem. In fact, this kind of crisis can also happen inside the national economy area without a participation of foreign investors. True, the impact of such a "regional" crisis may affect the entire common currency area depending on the scale of the shock and other circumstances (similarly to the impact of "local" crisis inside any individual country).

In addition, if the expected rate of return deteriorates for any reason (comparing to other countries forming a common market) the net direction of capital movement will be reversed and economy will have to adjust. However, it will affect both "foreign" and "domestic" capital, which will seek other investment destinations. Geographic origin of capital and the previous balance-of-payment record will be irrelevant here. Again, this can

[15] Obviously, fiscal consolidation is highly recommended for other policy reasons even if it cannot help to improve current account position.

[16] The similar conclusion has been drawn by Blanchard & Giavazzi (2002).

also happen inside the individual country (among its regions) and must be addressed by means other than exchange rate adjustment.

5. Final remarks and conclusions

We live in the era of rapid globalization, which particularly affects the international capital flows and financial markets. The sovereignty of national economic policies and their ability to control individual economic processes and macroeconomic variables is gradually decreasing. This is particularly true in the case of deeper regional integration like the EU and EMU.

Several theoretical and analytical concepts elaborated in respect to national, closed or partly closed, economies lost entirely or partly their practical relevance. Attempts to continue to use them as the analytical tools and the base of policy prescriptions may bring more harm than good. The traditional balance of payments concept and current account imbalance as the indicator of country's macroeconomic health may serve as the key examples.

In the world of free capital movement geographic origin of capital has lost its importance (because of easiness to change its domicile) and capital invested abroad does not need to return to country of "residence". There is no "home country bias" in investment decisions anymore; the expected rate of return is the key parameter determining these decisions. Some countries may offer higher rate of return for a long period of time becoming persistent capital importers while other may offer a surplus saving on a sustainable basis.

As far as a country has separate currency and runs its own monetary policy the exchange rate risk remains and balance-of-payments constraints continue to hold some relevance (as one of the factors determining exchange rate risk). However, one must recognize that the national economic policy has very limited possibilities to influence current account balance. Entering the monetary union eliminates entirely these constraints although other kinds of macroeconomic remain in force.

There are several issues, which require further analysis and discussion. One of them concerns rationale of my assumption on the absence of a diminishing rate of return on a country level and the role of the so-called systemic competition between countries in determining the expected rate of return.

Another question relates to sources and policy determinants of excessive savings in capital exporting countries and sustainability of the saving-investment surpluses. This issue is closely linked with the ongoing debate on the role of demand vs. supply ("push") factors in shaping the saving-investment imbalances.

One can also ask what are the possibilities (if any) to influence current account position in a national economy fully open to international capital movement. If the answer is negative then the following question concerns the way in which small open economy may insure itself against the danger of balance-of-payments crisis.

Inside the monetary union one may continue discussion whether cross-country saving-investment imbalances have exactly the same nature as cross-regional imbalances inside the national economy and whether the way of financing these imbalances is similar or not.

The above list is far from being complete and it indicates that we are only at the beginning of serious reconsideration of the traditional balance of payment analytical framework.

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