Press Office
Threadneedle Street
London EC2R 8AH
T 020 7601 4411
F 020 7601 5460
press@bankofengland.co.uk
www.bankofengland.co.uk

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The UK Current Account - speech by Ben Broadbent

In a speech on Tuesday, Deputy Governor Ben Broadbent sets out why the current account deficit cannot be said to pose "some independent, existential threat to UK growth."

Ben recognises that "if the global economy remains sluggish, it will inevitably be harder for an open economy like the UK to achieve both strong and balanced growth". But he explains that the composition of the UK's overseas balance sheet, the presence of a balanced net asset position and a floating currency "reduce the threat from a large current account deficit". Most importantly, his analysis suggests that the UK's "hard-won policy framework" means that the UK has to pay less on its liabilities than it otherwise would.

Speaking at Chatham House, Ben observes that the current account deficit is now "significantly larger than at the time of any of the UK's many post-war currency crises in the 1950's, 60's and 70's". He states that this "is not, in fact, the result of a worsening trade performance" but instead is the result of "a sharp drop in the net income received on the UK's overseas balance sheet". At the same time, however, there has been a significant capital gain on those assets, sufficient to mean that the value of the net stock has improved. That matters because, in cross-country data, the net asset position is a better indicator of crisis risk, and of the likelihood of the need for a sudden correction in the deficit, than the current account alone.

In part these recent trends reflect compositional differences between the two sides of the balance sheet: it is slightly underweight sterling and slightly overweight risky assets. So the balance sheet gained first from the depreciation and then from the recovery in global equity markets. But the credibility of the UK's economic policy also matters. The 1976 crisis was followed by a protracted period in which UK interest rates rose above those elsewhere and the net income balance was in deficit. The fact that interest-rate spreads failed to widen after the 2008/09 depreciation reflects the comparative degree of trust in UK policymaking, following the reforms of the 1990s. This is not something to be taken for granted.