In an accounting or ex-post sense the SI gap and the FE gap are always equal. For, the actual gap is the excess of the amounts of resources used, over the amount of resources used, over the amount of resources produced by the country. The equality of SI and FE gaps is restored ex-post, by a reduction in the international value of domestic savings. The accounting equality obviously emerges from the usual macro-economic identities.

Goods and services which are put to use come from two sources, home production (Y) and imports of goods and services (M). They are used for three purposes: consumption (C), investment (I), and exports (X). Hence,

\[ Y + M = C + I + X \] ........................ (i)

Or \[ Y = C + I + X - M \] ........................ (ii)

Home production (Y) gives rise to incomes which are equal to the total value of this production. These incomes are regarded as being either spent on consumption goods (C) or else, saved (S), so that

\[ Y = C + S \] ............................ (iii)
Since the right-hand sides of equation (ii) and (iii) are equal to \( Y \)

\[
C + S = C + I + X - M \quad \text{............................ (iv)}
\]

Equation (iv) is re-arranged so that

\[
S = I + X - M \quad \text{............................. (v)}
\]

Equation (v) is also re-arranged to obtain the following

\[
I = S + M - X \quad \text{............................. (vi)}
\]

Equation (vi) indicates that \( M - X \) is the excess of goods and services or the deficit on the current account of balance of payments. This has to be covered by net capital inflow defined to include any net change in the external reserves of the country. The equation (vi) also means that investment during a given year equals domestic savings plus net capital inflow in that year.

Re-arranging the equation (vi)

\[
I - S = M - X
\]

Thus, the SI gap is necessarily equal to FE gap. As stated earlier SI and FE gaps are equal in ex-post sense only.