

Global Imbalances

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Analyzing (External) Imbalances

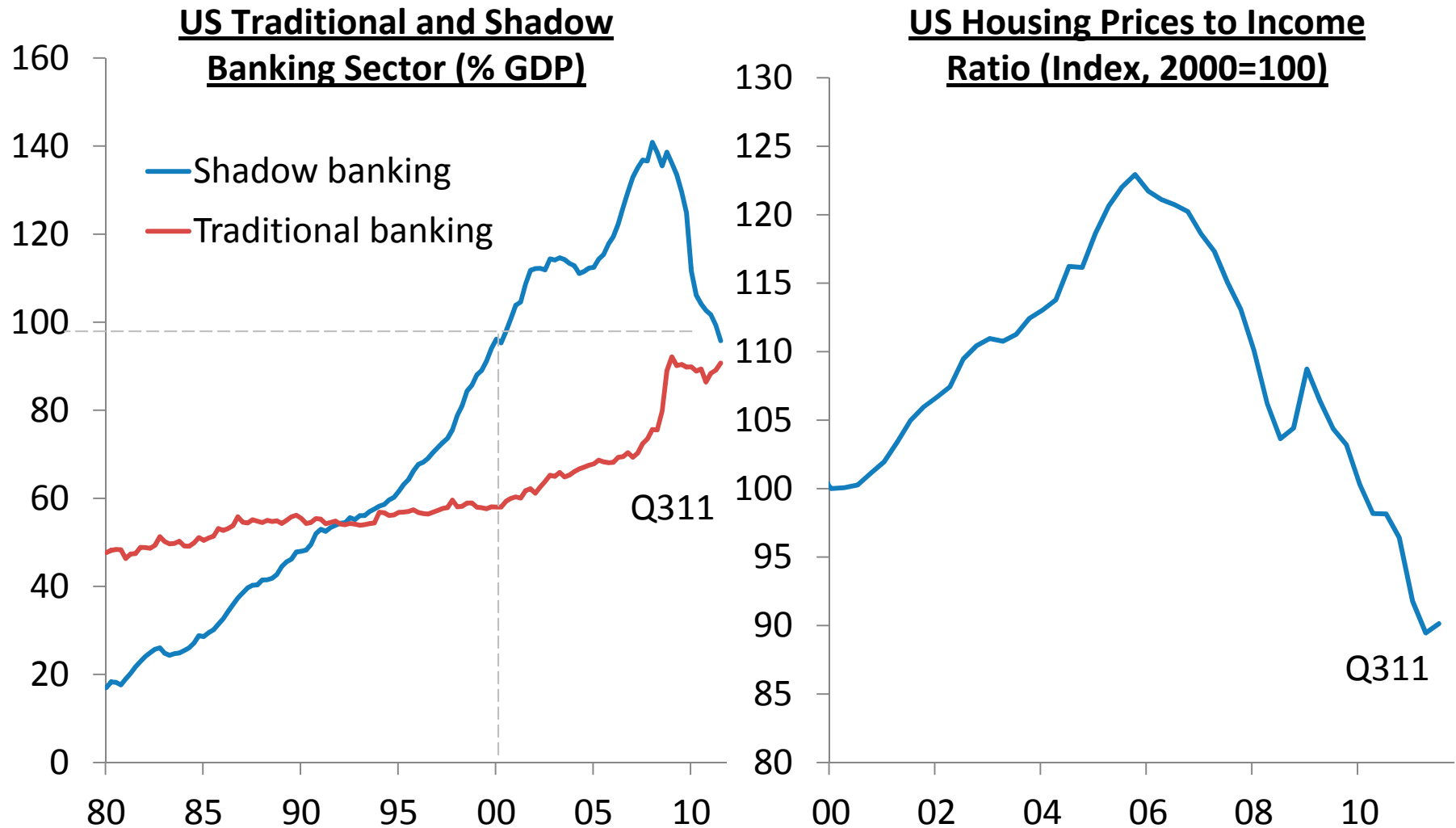
IMF, Washington, D.C.

February 2, 2012

What is the data telling us?

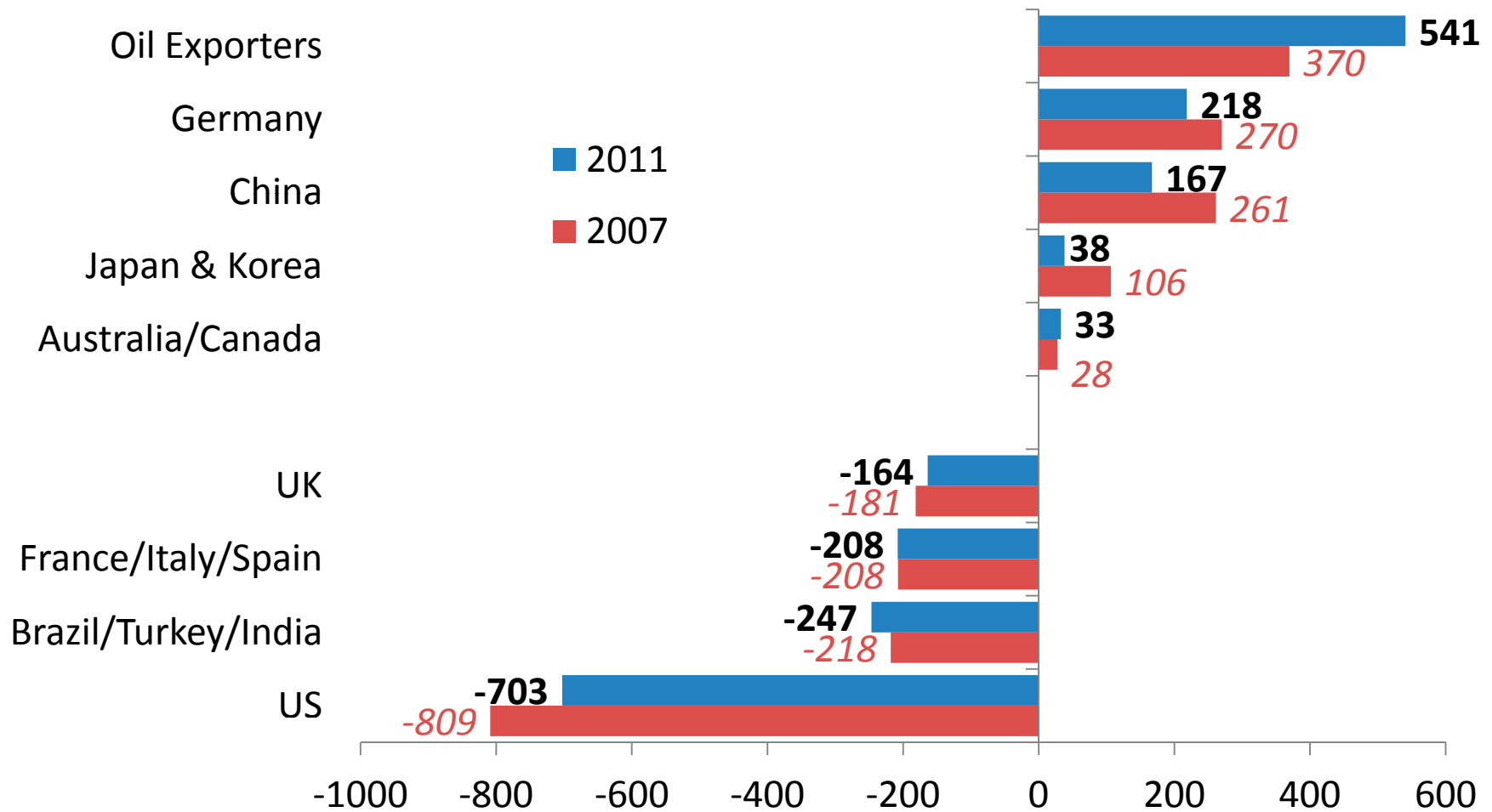
1. The global housing bubble burst, external imbalances remain high, and real interest rates have fallen
2. Huge difference in TOT relative to 2000

Bubble Burst

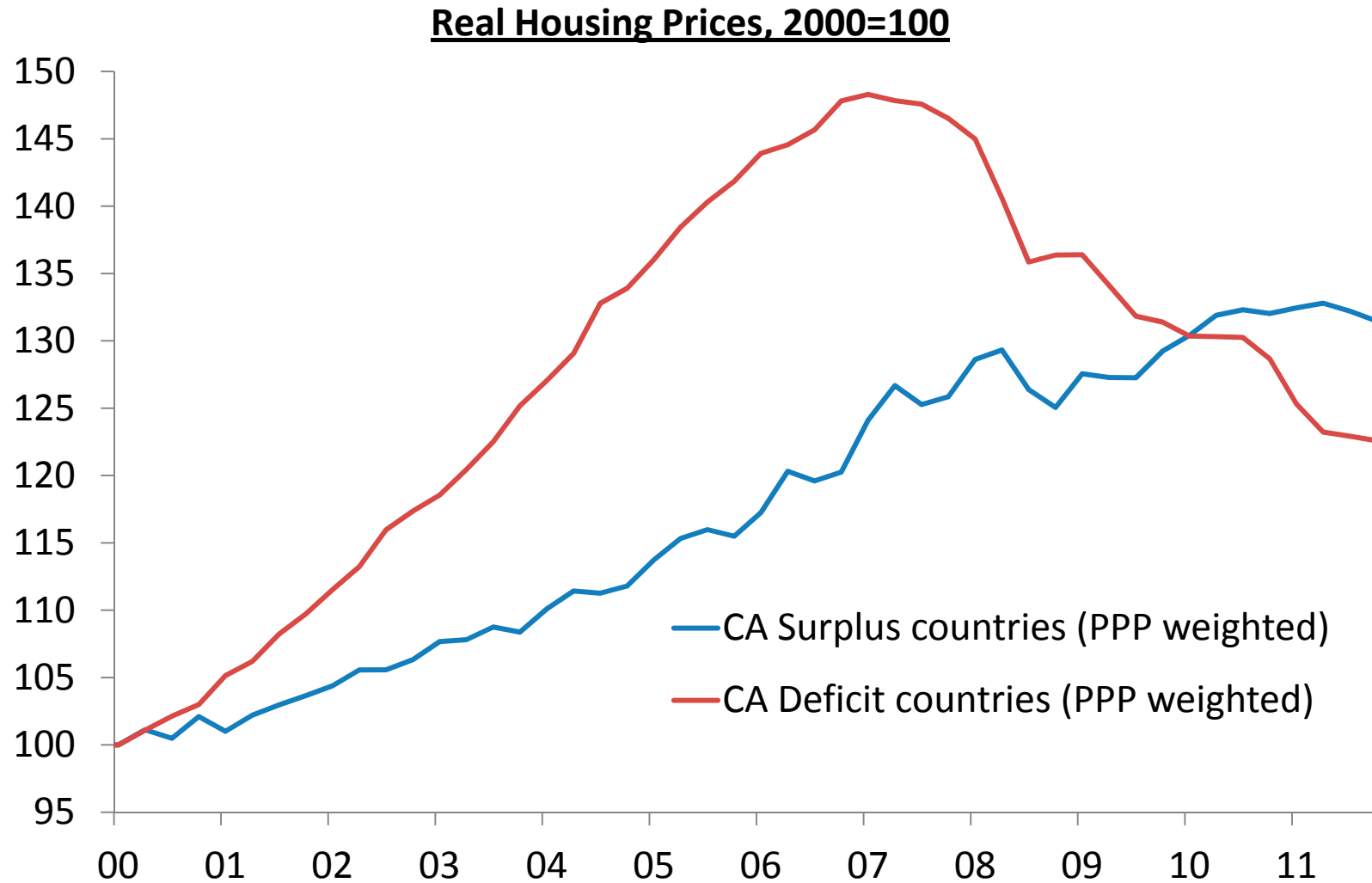


Large trade imbalances persist

Largest trade deficits and surpluses in 2011 and 2007 (\$bn)

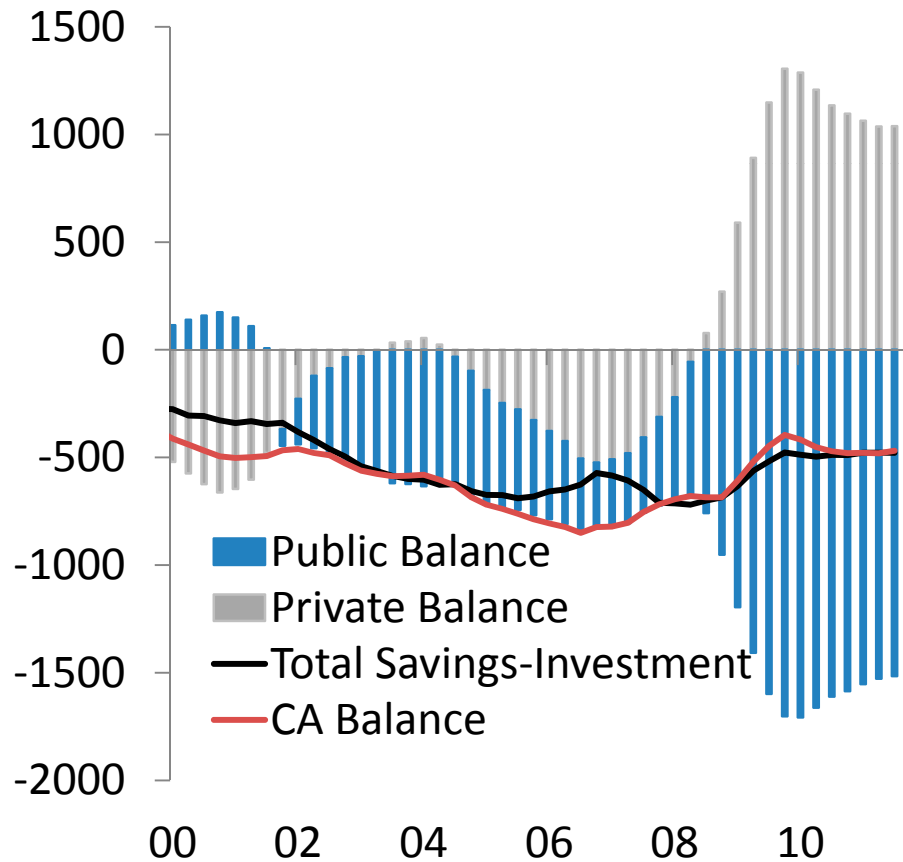


One adjustment has happened without the other

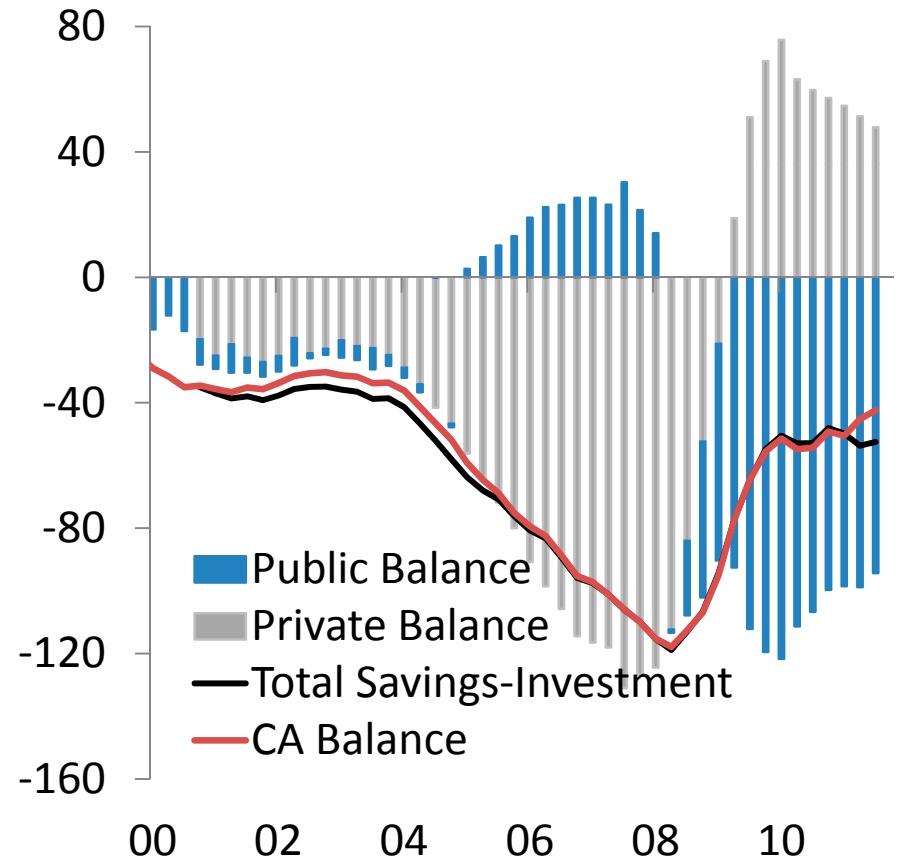


Similar pictures very different real rates

US: Savings and Investment in \$2011bn (4qma, annualized)

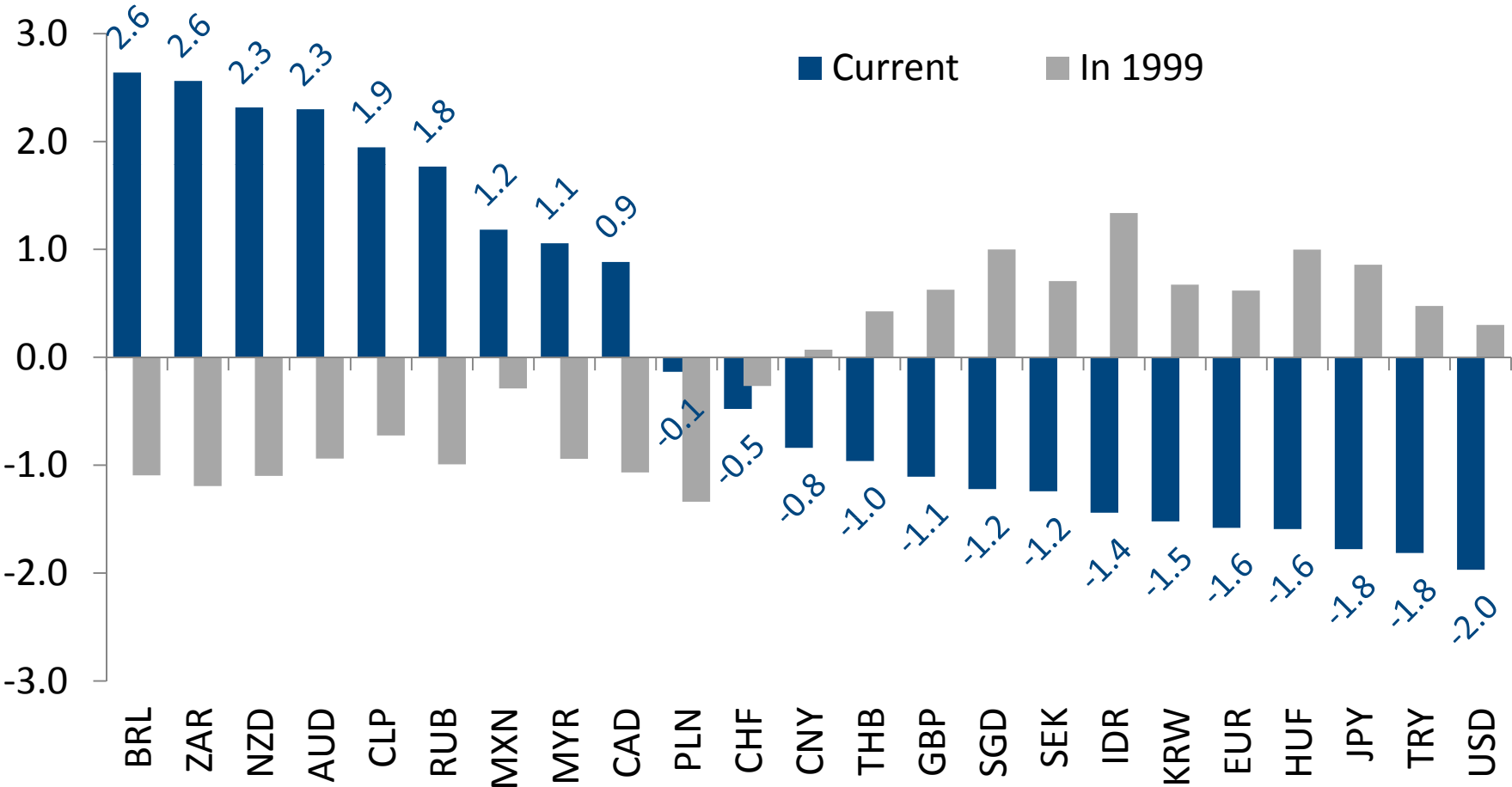


Spain: Savings and Investment in EUR2011bn (4qma, annualized)



Commodity prices easy to measure but how about demand for high-skilled goods

Terms of Trade By Country (Standard Deviations away from Long Term Average)

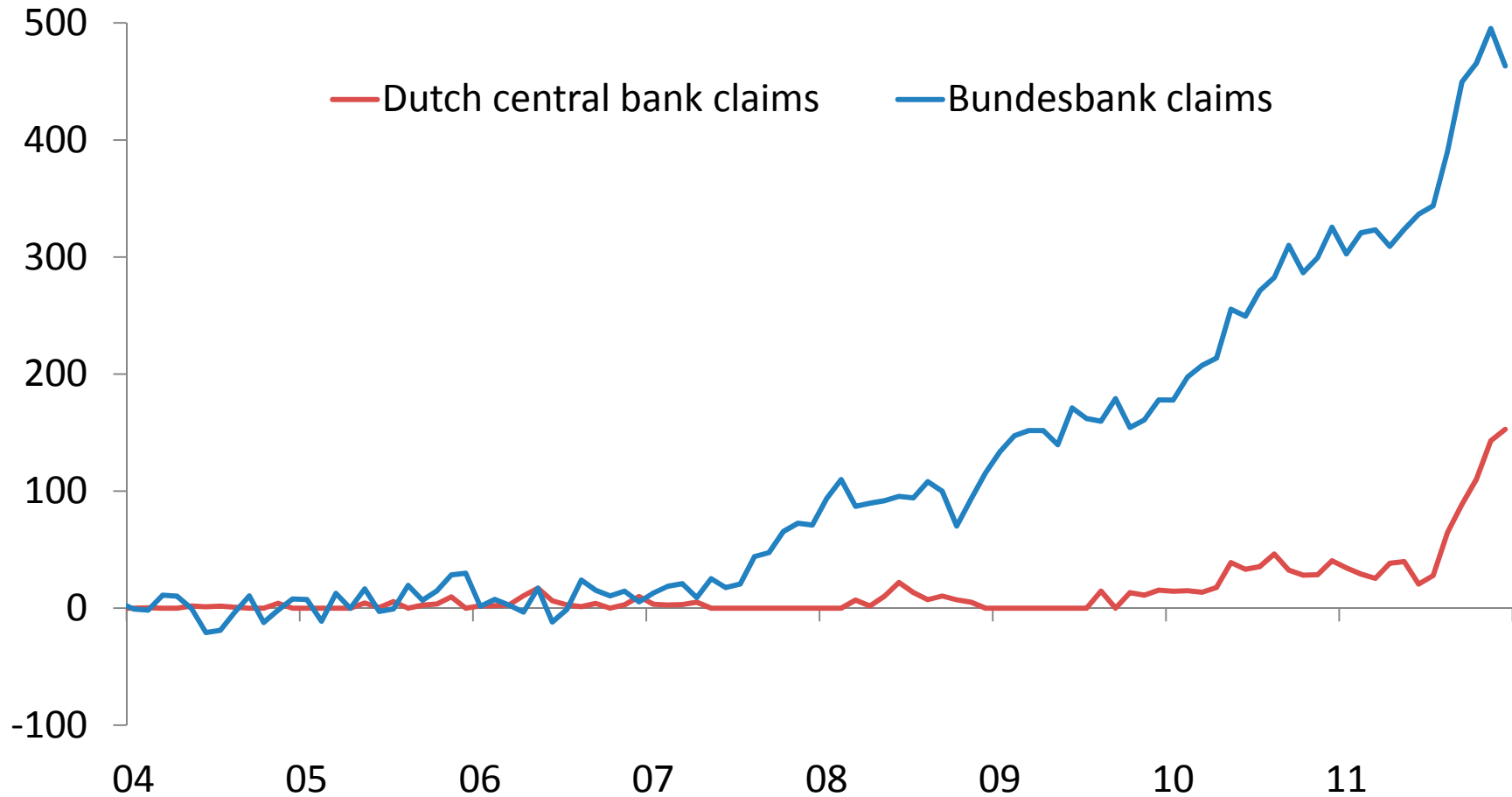


What has changed?

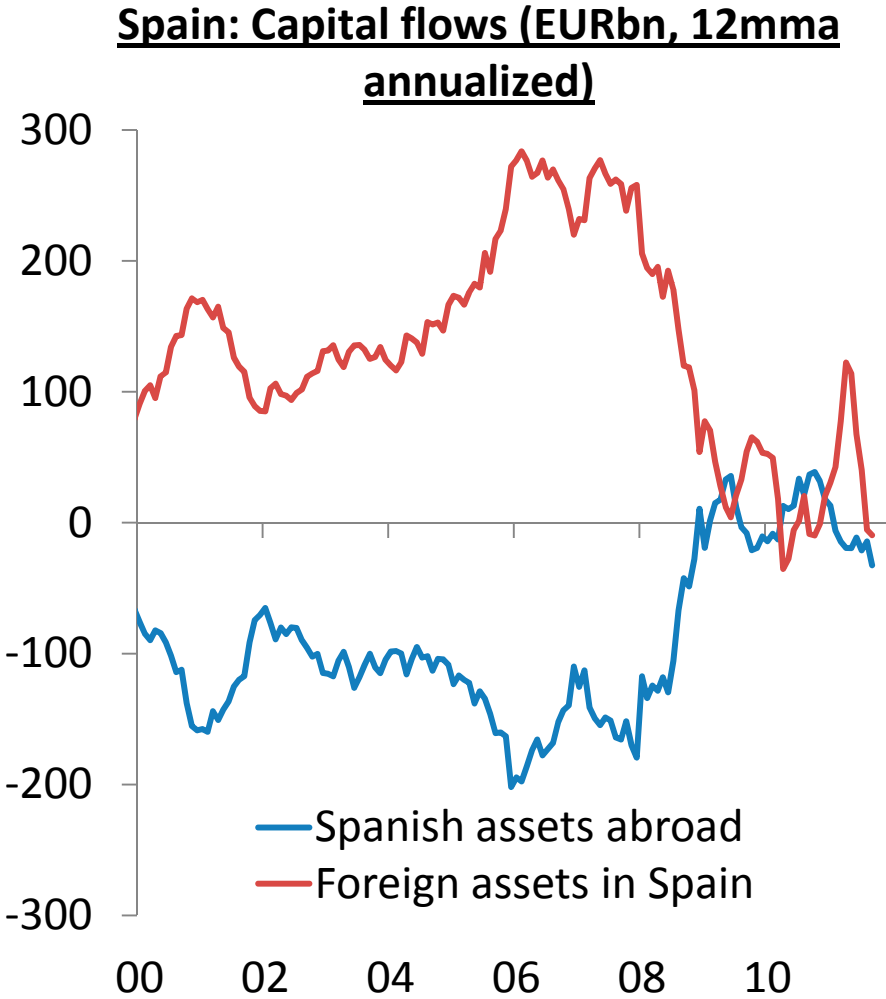
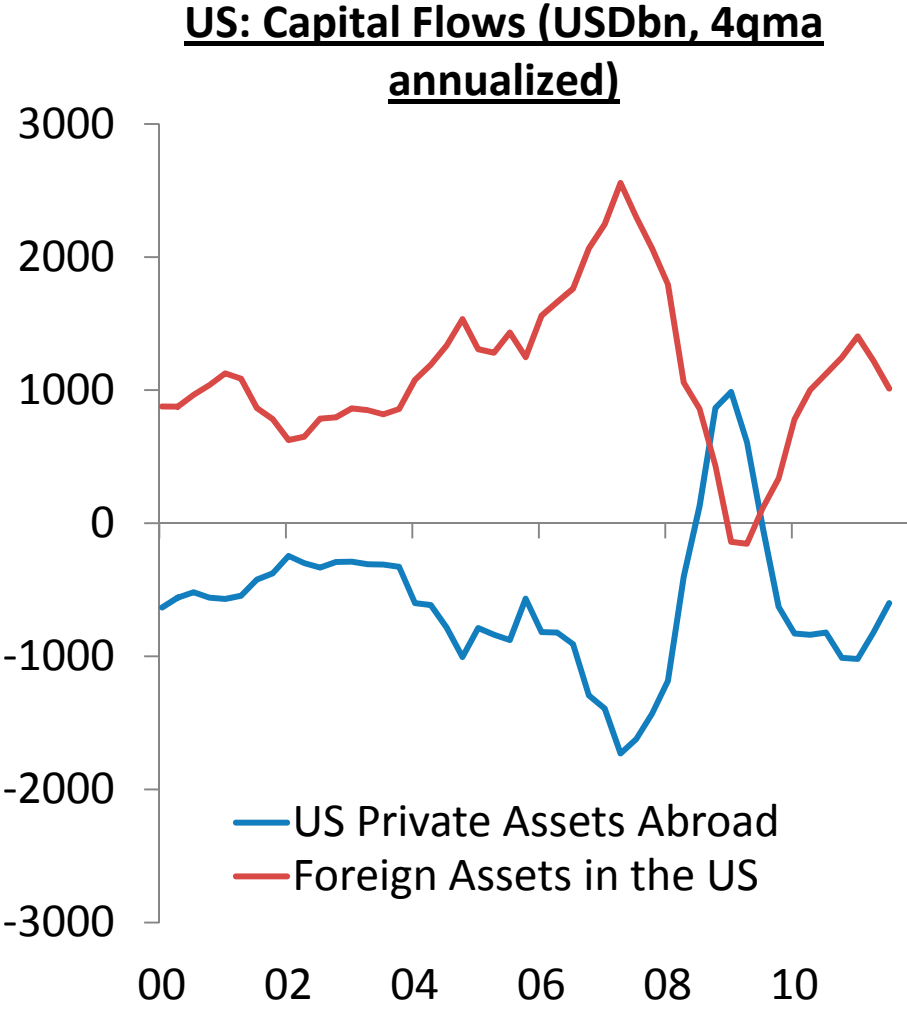
1. Target2 imbalances in Europe
2. Role of USD as the global currency in the banking world
3. EM much more expensive

Target 2 has hidden PIIGS BoP crises

Germany and Netherlands: Net Target 2 claims on the Euro-system EURbn



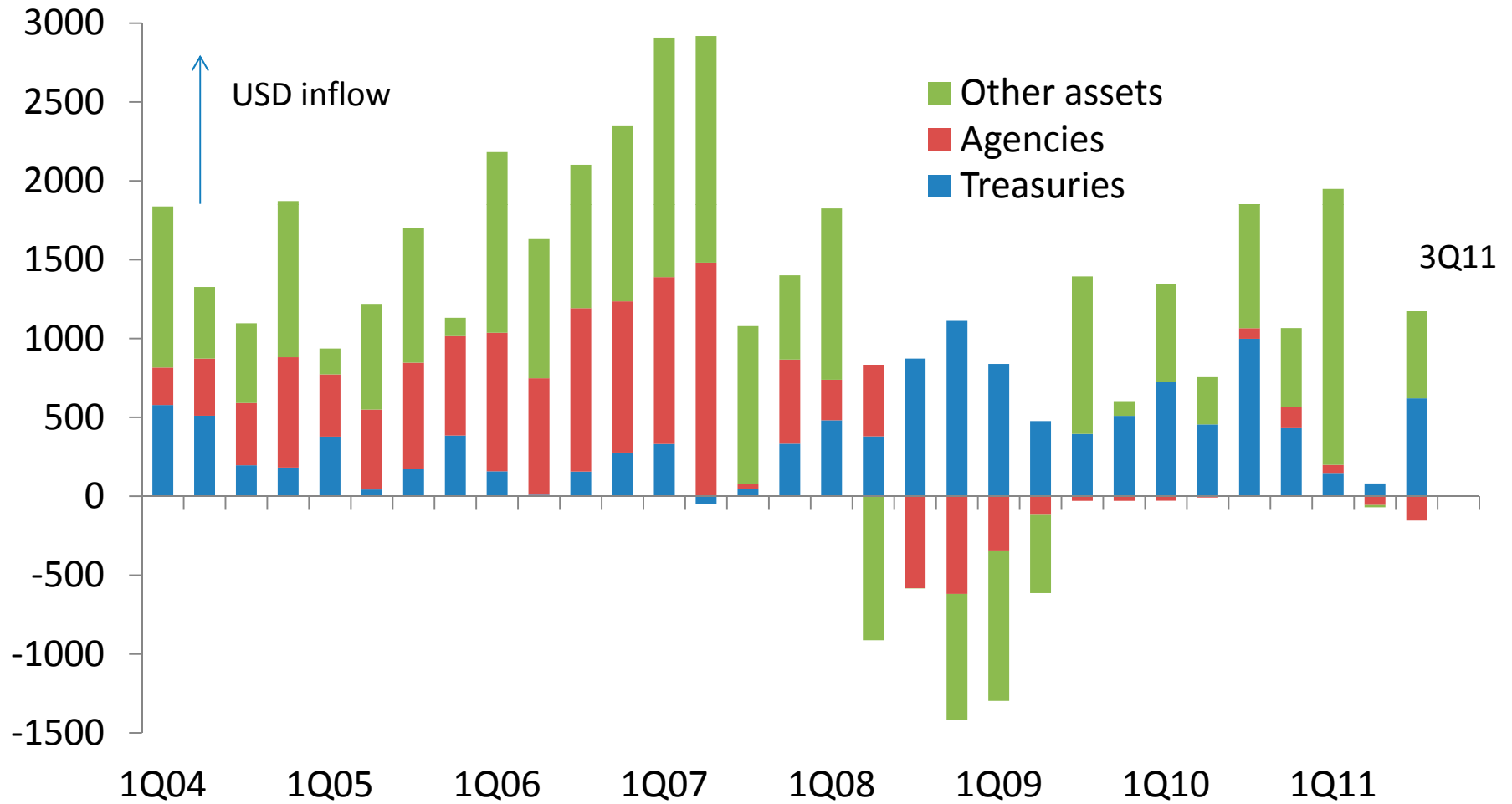
Sudden stop of Private inflows in Spain not in the US



Source: BEA & BDE

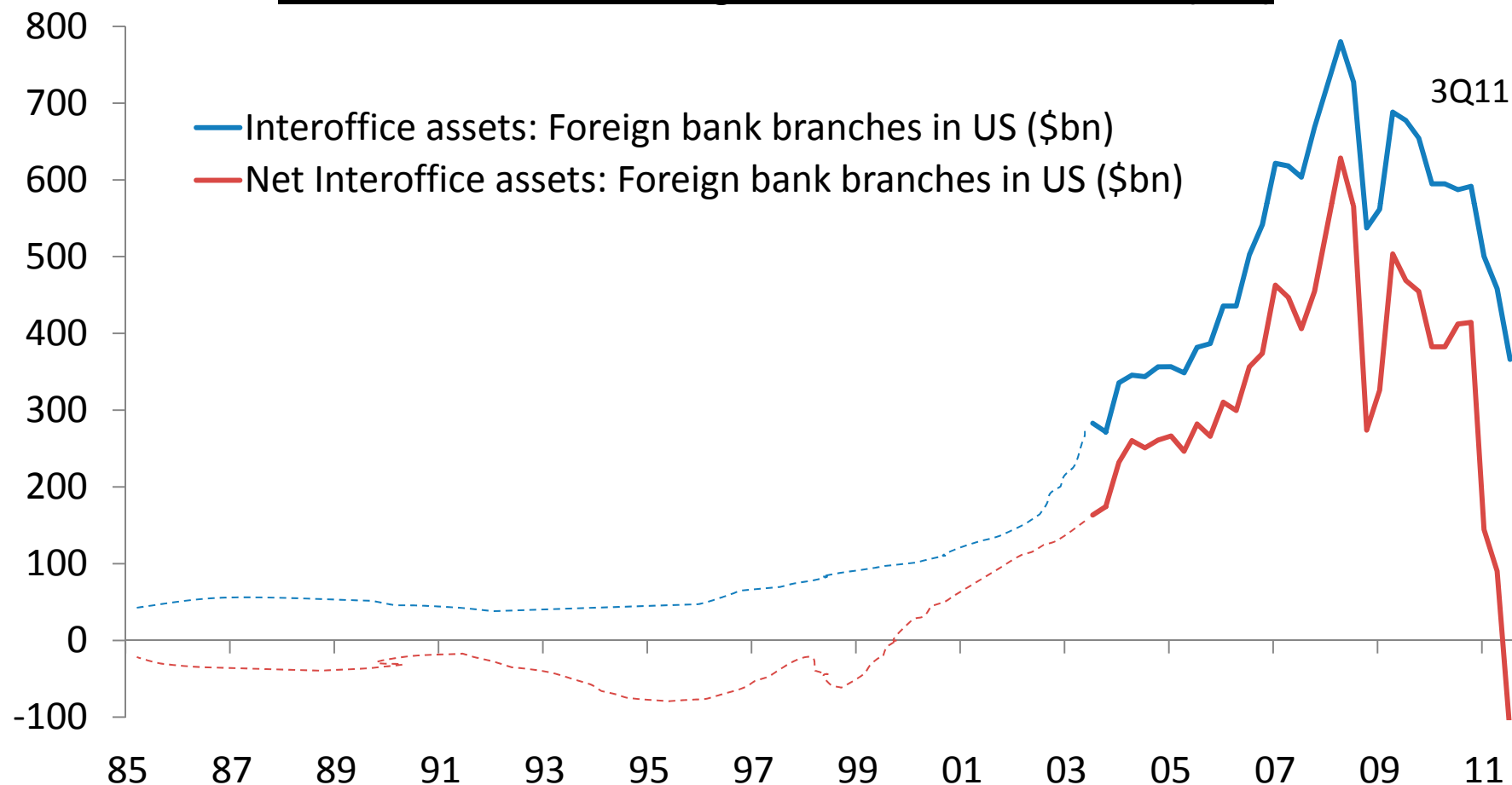
Foreign purchases of Agencies stopped

Foreign Purchases of US assets (\$bn, annualized)



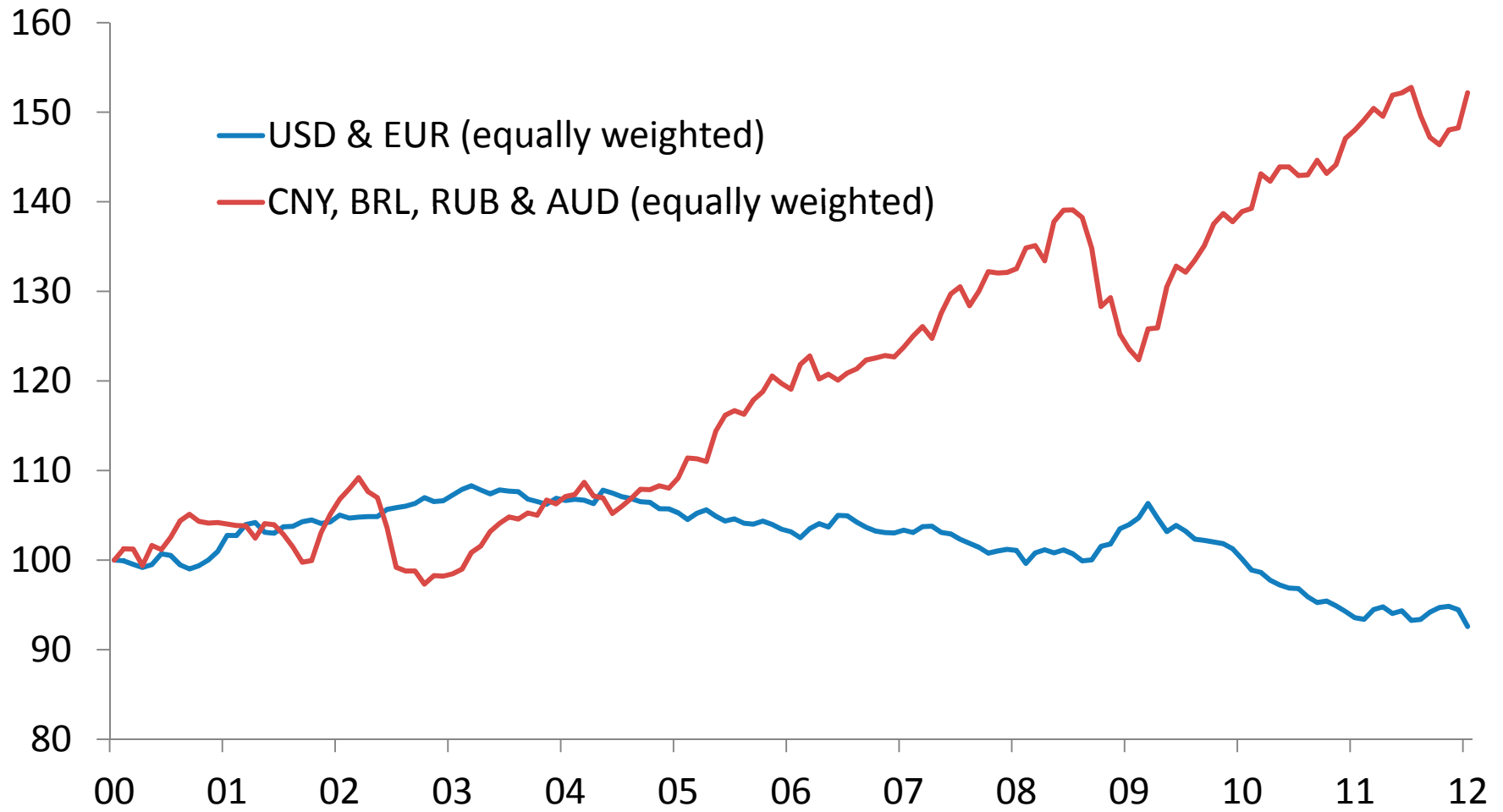
Role of USD as the global funding currency in the banking world

Interoffice Assets of Foreign Bank Branches in the US (\$bn)



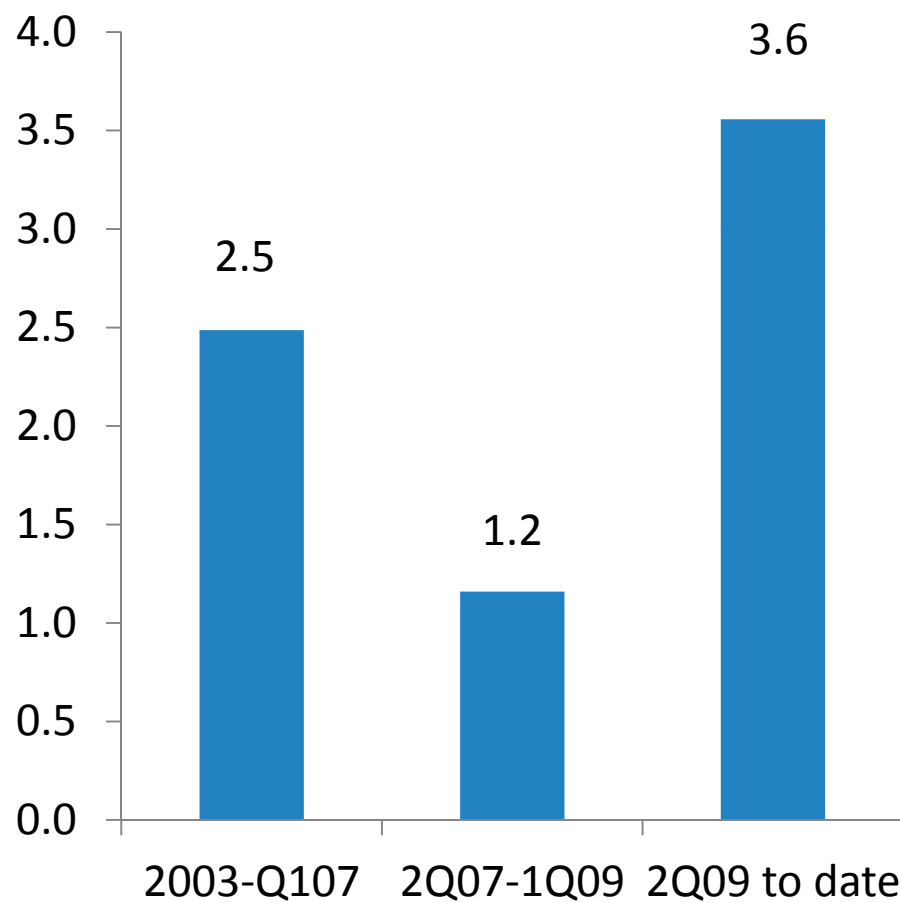
Real exchange rates: EM is expensive

Real Effective Exchange Rates, 2000=100

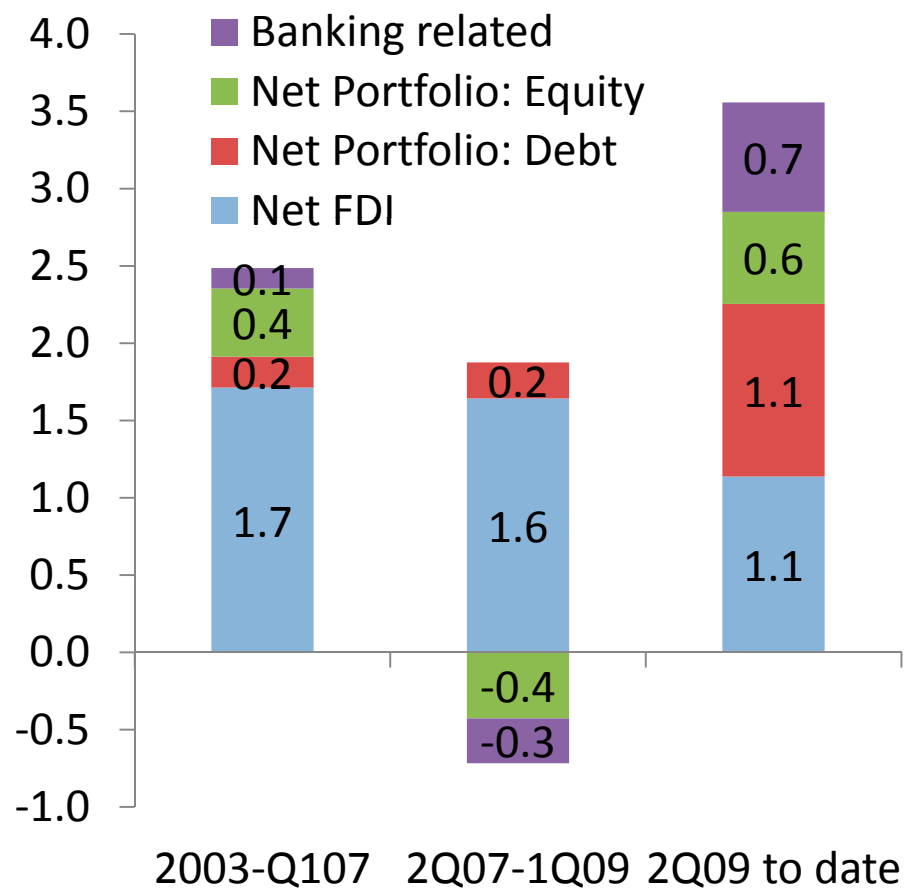


More debt flows, less FDI flows?

Net Capital Flows to EM (% GDP)



Net Capital Flows to EM by asset (% GDP)



What does this mean for future research?

1. We need to think more like Ventura and Kraay (2005).
New bubbles: Government debt, EM debt?
Is Target2 and Fed buying debt optimal?
2. CA sustainability now closely intertwined with fiscal sustainability. We need to add “investment” side to Blanchard (1986).
Why was Spain/Italy different than US? (“Scarcity of an alternative” decreasing returns)
The role of ER volatility (Aguilar, MIT thesis)
3. Impact of TOT and K/L revolution in the debate