

## Summary: G-20/IMF Seminar on Global Imbalances<sup>1</sup> Spring Meetings, April 10, 2019, Washington D.C.

### Executive Summary

*The joint G-20/IMF Seminar on Global Imbalances brought together academics and G-20 delegates to discuss the evolution of global imbalances, the associated risks, and policy options. The panel highlighted that while flow imbalances have narrowed, they remain persistent and contribute to diverging stock positions. There was agreement that careful analysis was required to determine which imbalances were beneficial—for example, because they reflect demographic developments—and which could pose risks to economic and financial stability. Participants emphasized the complexity of the issue and the need for further research on the drivers of imbalances, with a particular focus on the role of the exchange rate, corporate saving, and the measurement of external positions. Well calibrated and tailored fiscal and structural policy tools have roles to play in addressing imbalances.*

### Seminar

The joint G-20/IMF Seminar took place on the occasion of the April 2019 Spring Meetings as part of the Japanese presidency's agenda to further deepen the understanding of global imbalances, the associated risks, and the key policy priorities for reducing them. The seminar brought together G-20 delegates and a panel of academic and policy experts, comprising *Takatoshi Ito* (Columbia University), *Hyun-Song Shin* (BIS), and *Beatrice Weder di Mauro* (CEPR). Japanese Vice Finance Minister *Masatsugu Asakawa* provided opening remarks, and the IMF Economic Counsellor, *Gita Gopinath*, made a presentation to introduce the topic and moderated the discussion. The seminar discussion was open to G-20 delegates and was livestreamed for the public and media. In addition, the Japanese Deputy Prime Minister and Finance Minister, the Honorable Taro Aso, drew attention of the wider public on the seminar in his op-ed published in the Financial Times on March 31.

### Japanese Vice Finance Minister's opening remarks

**Masatsugu Asakawa** underscored the importance of examining the drivers of external balances (i.e., the saving and investment balance of each economy) to discern those cases that are prone to crises from those that are beneficial from economic point of view. For example, it would not be surprising if **aging countries** ran current surpluses as they save in anticipation of the retirement *en masse*. However, imbalances could also be a warning sign of serious distortions in the domestic economy. In this regard, he pointed to **growing**

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<sup>1</sup> The recorded seminar is available at <https://meetings.imf.org/en/2019/Spring/Videos?videoid=6025281430001>.

**corporate saving**, as highlighted in the latest WEO, and the impact on household saving from an insufficient coverage of social safety net. Also noted were the growing prominence of income balance, reflecting increasing foreign asset positions, together with a call for more analysis on **the linkage between exchange rates and current account balances**, which appears to have weakened in some countries.

### **IMF Presentation**

**Gita Gopinath** (IMF) introduced the topic and provided some historical context. She noted that even though flow imbalances have somewhat narrowed since the crisis, their persistence leads to accumulating and diverging stock positions. Reflecting, in particular, differences in fiscal policy, flow imbalances are now **increasingly concentrated in advanced economies**, with notably the euro area (especially Germany) on the one side and the U.S. and the U.K. on the other. While this rotation has reduced near-term financing risks, vulnerable EMDEs remain exposed to sudden stops. She noted that in the absence of **corrective macro-structural policies** to adjust saving and investment incentives in creditor and debtor countries, risks would continue to build over the medium-term as stock positions would diverge further. Eventually, this could trigger disruptive adjustments with negative spillovers on global growth. Foreshadowing the IMF's 2019 External Sector Report, expected in July, and ongoing analytical work, she noted that the role of the exchange rate in supporting external adjustments can vary depending on a number of factors, including the currency of invoicing and the extent of integration into global value chains.

### **Panelists' Remarks**

**Takatoshi Ito** (Columbia University) stressed the importance of considering **the type of deficit financing** in emerging markets and argued that, on average, emerging markets have become more resilient on the back of stronger reserve buffers (accumulated during the 2000s) and increased reliance on external borrowing in local currency in some countries. He highlighted that, compared to **the peaks in global imbalances** ahead of the 1985 Plaza Accord and the 2008 global financial crisis, the current level of imbalances appears less concerning. In both historical cases, imbalances were driven by macro factors in advanced economies. Meanwhile, he noted that growing cumulative current account surpluses and deficits could be worrisome although balanced current account should not be a policy goal.

**Beatrice Weder di Mauro** (CEPR) also noted the **changing circumstances**, highlighting the reduced role of currency intervention in driving imbalances—not only in the euro area, where monetary policy is now conducted jointly—and the fact that China is no longer a major net supplier of credit to the world. Nevertheless, imbalances and the importance of pull and push factors **continue to be used to place blame** between creditor and debtor economies. She noted that higher public investment in Germany could be helpful for diminishing the current account surplus, it would unlikely be enough to fully address global imbalances. She added that closing gaps in the **euro area institutional setup**, including with

a euro-area-wide fiscal capacity and a common safe asset, could help reduce flights to safety and resulting intra-area asymmetries.

**Hyun-Song Shin** (BIS) emphasized that the accounting basis of the global imbalances needs a fresh look with the growing role of global firms or global value chains. The **contribution of multinational corporates' saving to imbalances** has grown, as global profits are registered as investment income in the headquarter country, which enhance its current account balance. However, those investment income flows do not necessarily benefit the headquarter countries in terms of direct employment activities. Nor do they necessarily add to the external wealth of resident households when shareholders are non-resident. Moreover, in certain situations the blurred boundaries between resident and non-resident ownership of multinationals can **complicate the measurement** and assessment of merchandise trade and external positions. In addition, he noted that the **financial channel of exchange rates**, which can work in the opposite direction to the textbook trade channel, may have become more important with financial integration, especially in emerging markets. Accordingly, a stronger U.S. dollar reduces U.S. dollar-denominated cross-border bank flows, tightens financial conditions, and potentially slows global manufacturing activity.

### Discussion

- Responding to questions whether different components of the current account balance should be examined separately, *Takatashi Ito* made a point that, in the context of advanced economies, discussion on global imbalances should focus on domestic economic distortions or adverse effects of exchange rate misalignments, which tends to manifest itself in the trade balance rather than the income balance. *Gita Gopinath* stressed that the distinction between goods and services trade matters also in terms of exchange rate pass-through, which is likely higher for services such as tourism.
- Regarding a remark from the floor that both surplus and deficit countries have a role in addressing global imbalances and that some imbalances are beneficial in light of achieving an optimal cross-country allocation of saving, *Gita Gopinath* stressed that global imbalances are indeed beneficial in some cases and that they should be examined from the perspective of whether they pose risks or not. Addressing excess imbalances requires actions across surplus and deficit countries by way of macroeconomic and structural policies, rather than bilateral trade tariffs. *Beatrice Weder di Mauro* emphasized that in the current context fiscal policy could play an important role, while noting that the largest and most persistent deficit country has just increased its budget deficit, which will worsen the external imbalance.
- *Hyun-Song Shin* clarified that the reasons why the measurement of external positions has become more challenging is not per se related to the digital economy, but rather due to increased complexity of operations by multinationals and

associated choices regarding headquarter location and where they base their intellectual property, which are in turn affected by differences in taxation across countries. He further stressed that while increased borrowing in local currency reduces certain risks, it also shifts currency risks onto the balance sheets of institutional investors, rather than eliminate them. Given the limited possibility to hedge currency risks for many emerging markets, such positions are volatile and have implications for the stability of domestic interest rates and thus monetary policy efficiency. In this context, he added that aging, along with the associated growth of domestic pension funds, could help develop domestic markets.

- *Takatoshi Ito* argued that the need for self-insurance had declined, as many Asian emerging economies had made various reforms to strengthen macroeconomic fundamentals after crises and accumulated enough external buffers to deal with shocks and comfortably run current account deficits—assuming they are appropriately financed. *Gita Gopinath* noted that some emerging markets are increasingly relying more on risky foreign currency and short-term financing. *Gita Gopinath* and *Beatrice Weder di Mauro* reiterated that the distinction between push and pull factors is often difficult to be identified and highlighted the importance of focusing on the role of domestic policies.
- More generally, the panel agreed that, while some imbalances are necessary, they can also pose risks, acknowledging the IMF's continuing contributions to this issue. Panelists generally supported the need to distinguish between these two situations, while recognizing the inherent difficulties of the exercise. Panelists also agreed that global imbalances remain a complex topic and that more research will be needed, in particular on the role of the exchange rate, corporate saving, and the measurement of external positions. Deficit and surplus economies both have a role to play in reducing imbalances in a manner supportive of global growth.