



# Global Imbalances

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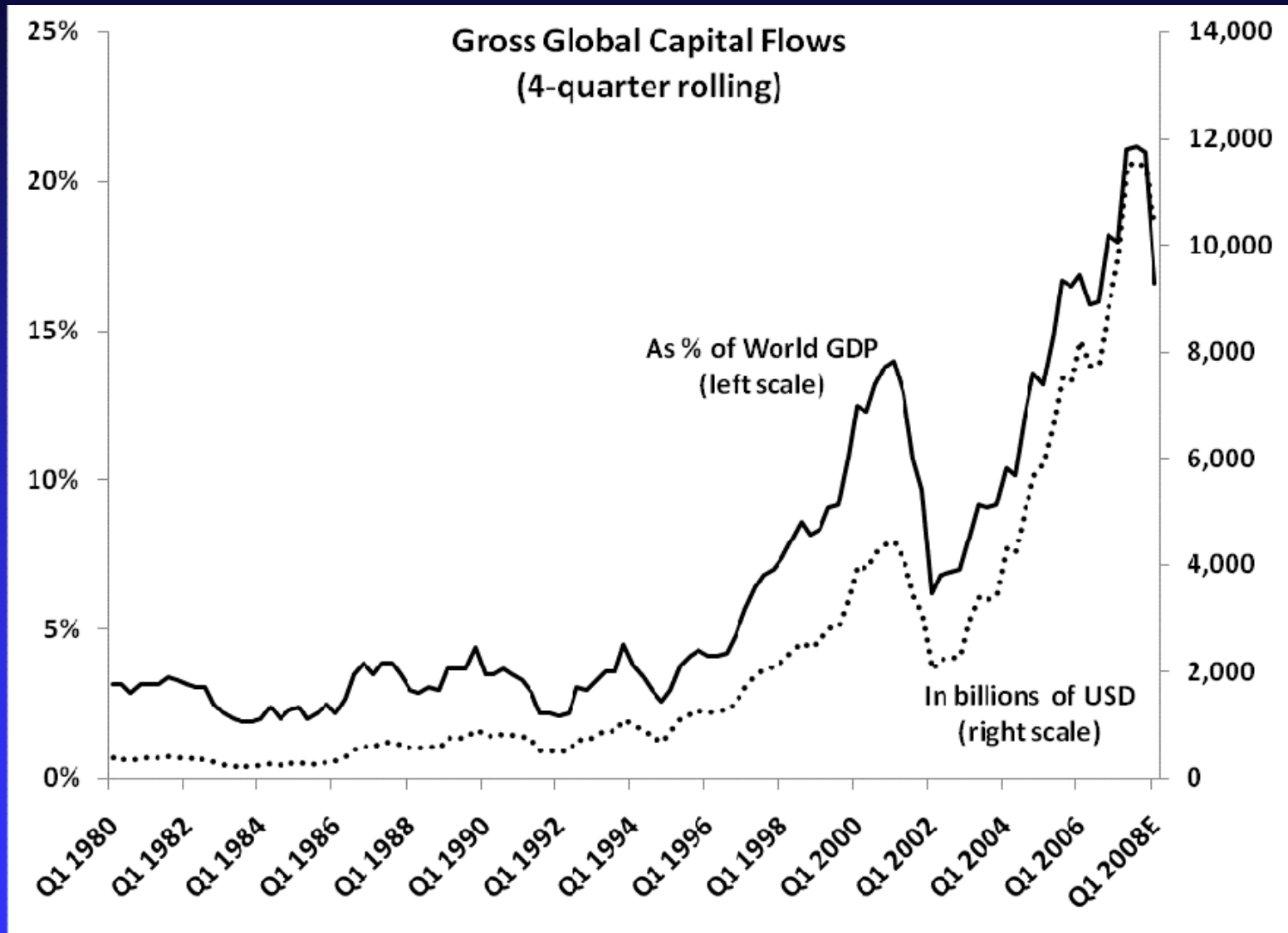
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# Characterizing Global Imbalances



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# Surge in gross global capital flows since the mid-1990s...



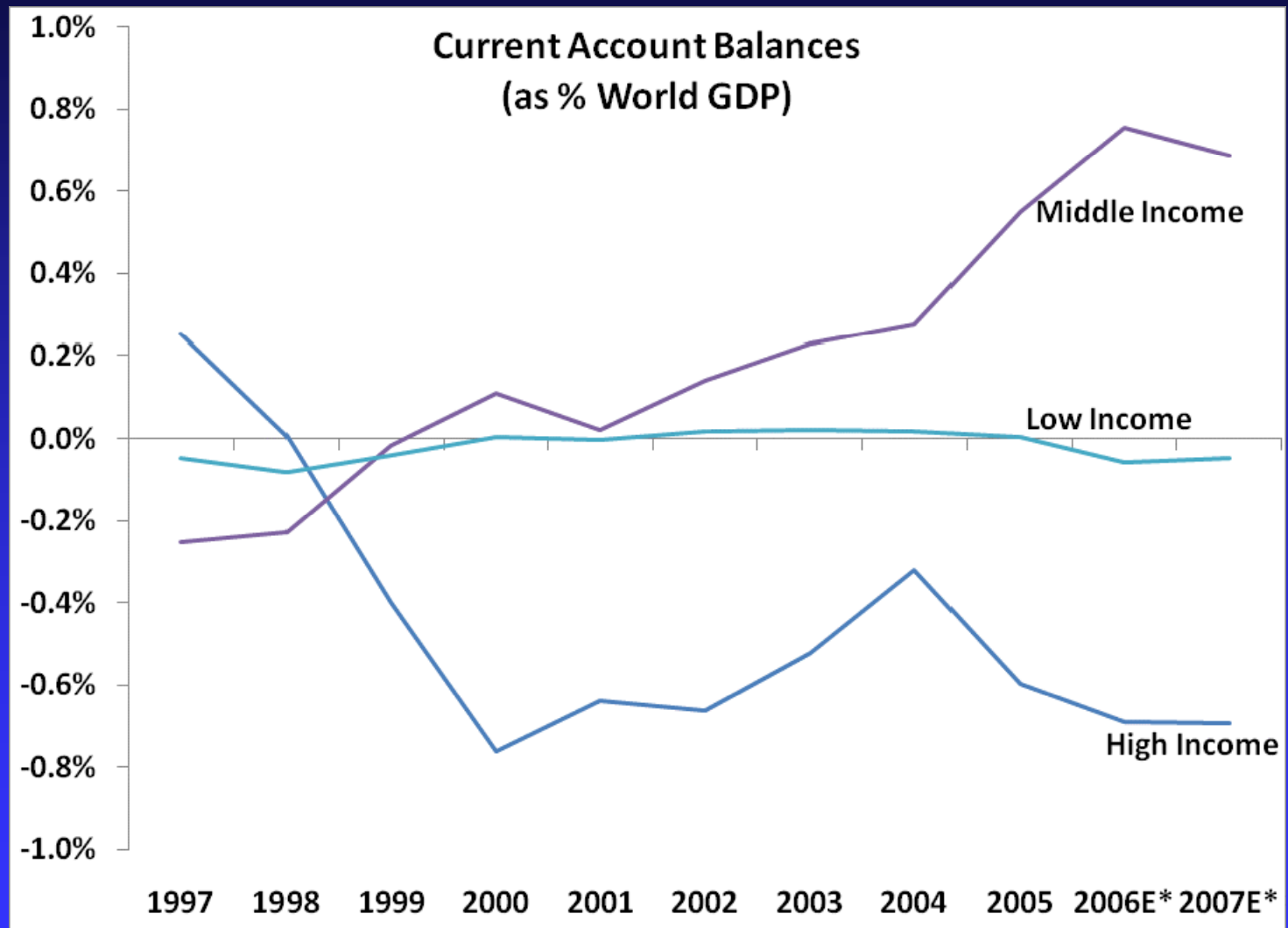
Source: Own aggregation based on IMF IFS.

Note: Capital flows are defined as the sum of FDI, debt and equity assets and other investments.



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## ...with Savings Flowing from South to North



Source: Own aggregation based on IMF IFS.. Income classification follows World Bank



## Main Contributors to Savings Flows, 1997-2007 (in constant USD billions)

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	1997-2007	1997-2001	2001-2007
<b>High Income</b>	<b>-292.4</b>	<b>-277.0</b>	<b>-15.5</b>
<b>Contributors</b>			
<b>Importers of Capital</b>			
UNITED STATES	-456.3	-223.2	-233.2
SPAIN	-119.8	-22.5	-97.3
UNITED KINGDOM	-63.9	-27.9	-36.0
ITALY	-77.1	-35.4	-41.7
FRANCE	-66.5	-15.1	-51.4
<b>Exporters of Capital</b>			
GERMANY	220.1	12.9	207.1
JAPAN	71.0	-18.5	89.4
NORWAY	39.4	16.0	23.4
SWITZERLAND	9.3	-5.5	14.9
KUWAIT	30.9	-0.4	31.3
CHINA, P.R.: HONG KONG	21.4	9.5	11.9
Other (27)	99.1	33.1	66.1
<b>Middle Income</b>	<b>446.6</b>	<b>87.4</b>	<b>329.8</b>
<b>Contributors</b>			
<b>Importers of Capital</b>			
TURKEY	-28.5	6.5	-35.0
ROMANIA	-16.9	0.1	-17.0
<b>Exporters of Capital</b>			
CHINA, P.R.: MAINLAND	269.2	-22.7	291.9
RUSSIA	63.4	33.1	30.3
BRAZIL	34.0	10.1	23.9
MALAYSIA	30.4	13.5	16.9
ARGENTINA	18.9	9.3	9.6
THAILAND	16.3	8.2	8.1
Other (77)	59.7	29.4	1.0
<b>Low Income</b>	<b>-11.5</b>	<b>11.6</b>	<b>-29.1</b>

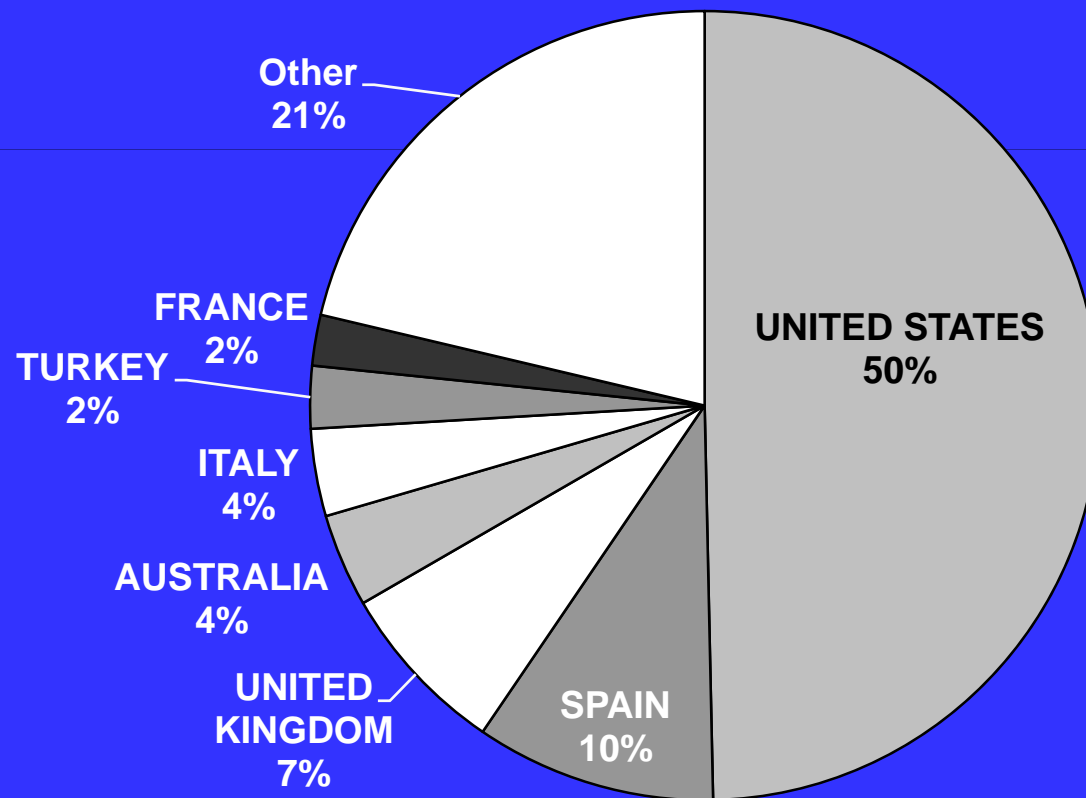
Source: Own aggregation based on IMF IFS. The analysis for low income countries is incomplete due to missing data in 2006 and 2007 for major contributors like Nigeria and India.



It is estimated that the US imported half the world's savings surplus in 2007...

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Countries that Import Capital, 2007

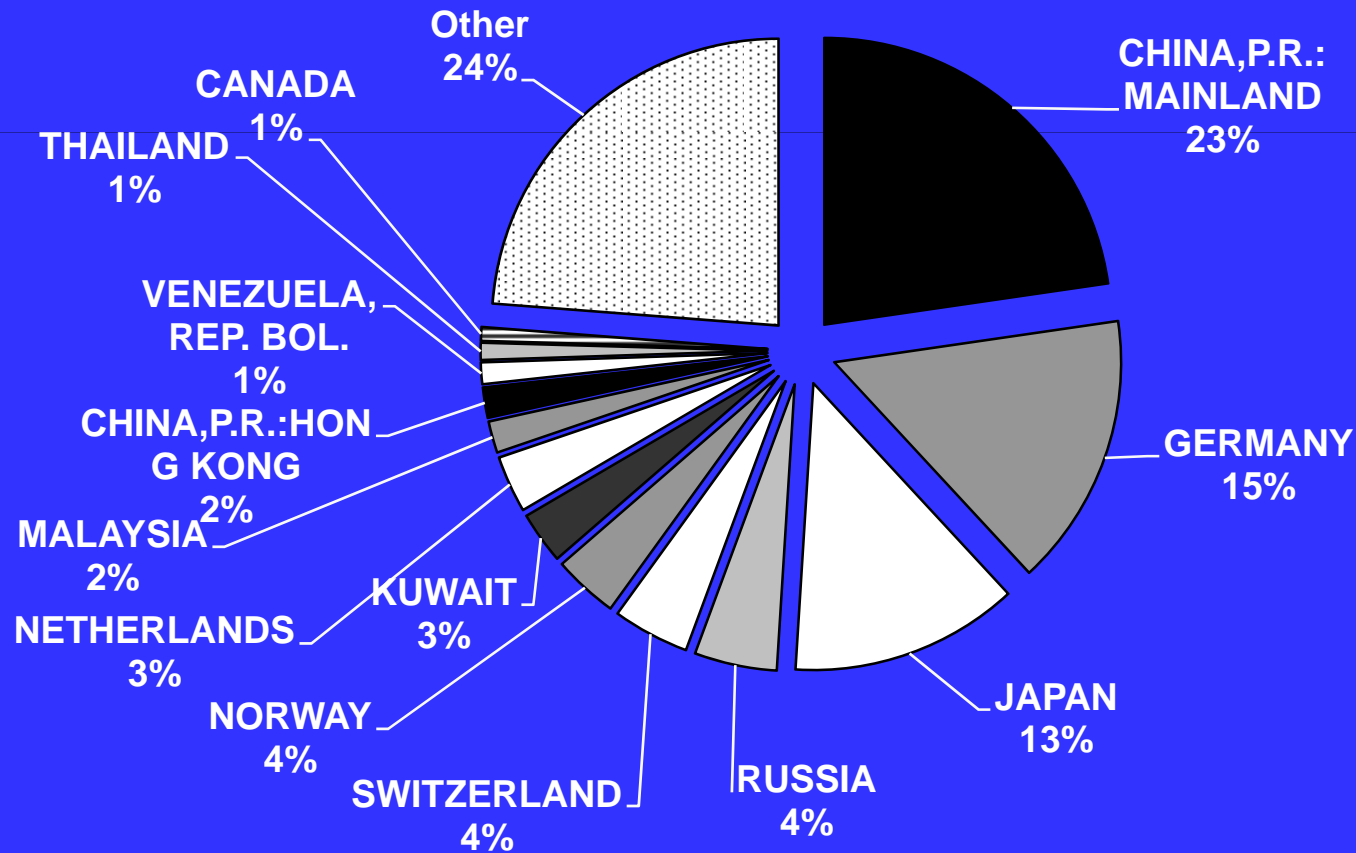




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..and China was the largest counterparty, exporting close to 1/4 of global savings surplus

Countries that Export Capital, 2007





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## Why did the US current account deficit grow so large?

### ■ Two perspectives

$$S-I = CA = -CA^{\text{row}} = I^{\text{row}} - S^{\text{row}}$$

#### ◆ Trade perspective

- ◆ Trade deficit
- ◆ Thus payments from US residents to foreigners greatly exceed the payments that the US receives from abroad = CA deficit

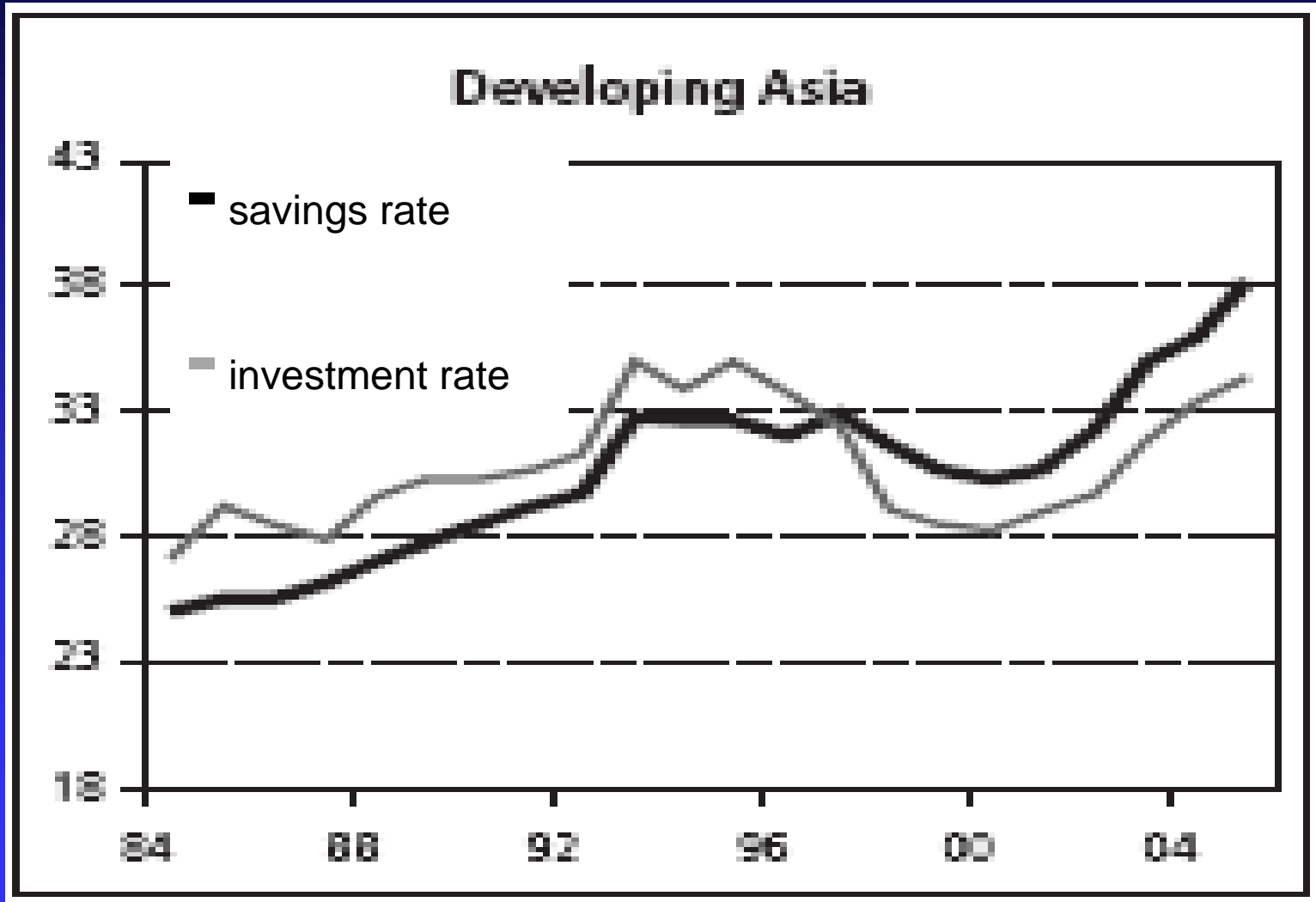
#### ◆ Investment and national savings perspective

- ◆ Why has the US saved so little and why have developing countries saved so much?



# Investments grew, but not as fast as savings in the saving surplus regions

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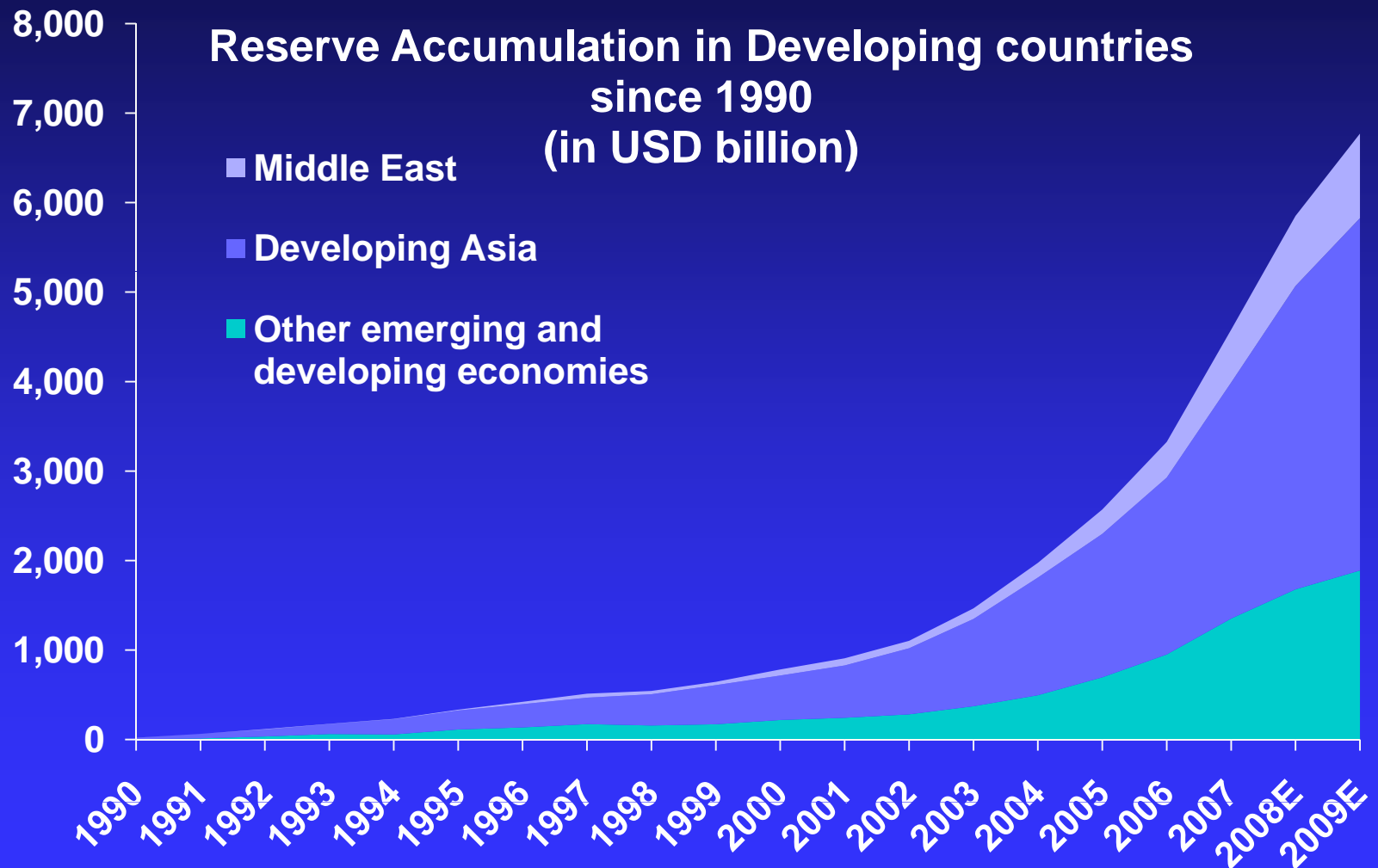
## The Global Savings Glut

- ◆ Low savings rate in the US
  - ◆ The Government deficit and the CA deficit (Twin-Deficit)  
$$S_{\text{private}} + S_{\text{public}} = I + CA$$
- ◆ Strong savings in some rich and aging countries (e.g. Germany, Japan)
- ◆ The role of developing countries (Asia and Latam)
  - ◆ Asian (and other) financial crisis spurs precautionary savings (e.g. building up of reserves)
  - ◆ Search for risk-free assets (US Treasuries)
  - ◆ Fiscal consolidation and debt restructuring (retire US dollar denominated debt)
  - ◆ High commodity prices (especially oil)
  - ◆ Export-led growth (China)
  - ◆ Limit investment opportunities in the south



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## Building reserves...in search for low-risk and high liquidity

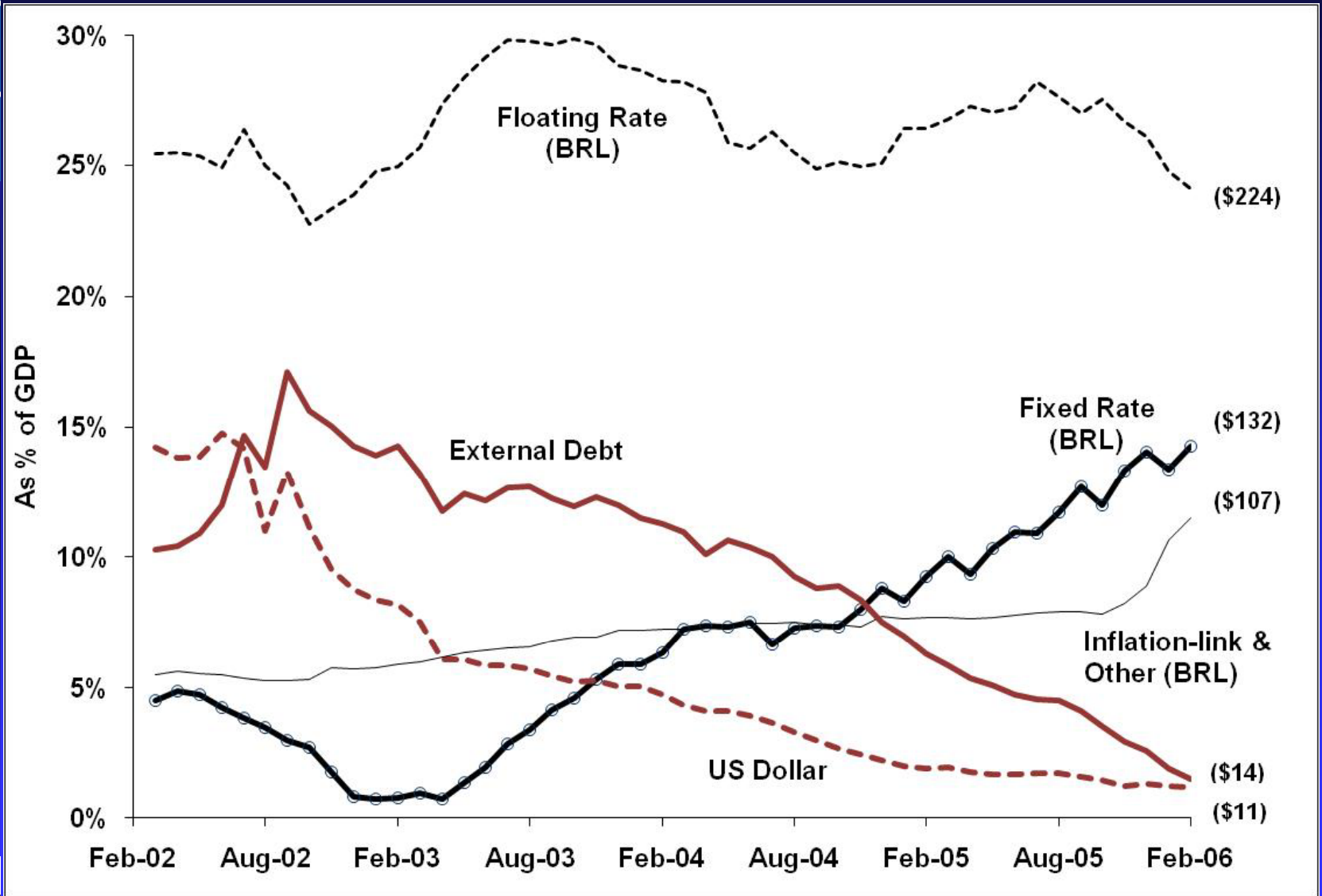


Source: Own aggregation based on data from IMF WEO



# In the Brazilian case inflows were used to restructure debt

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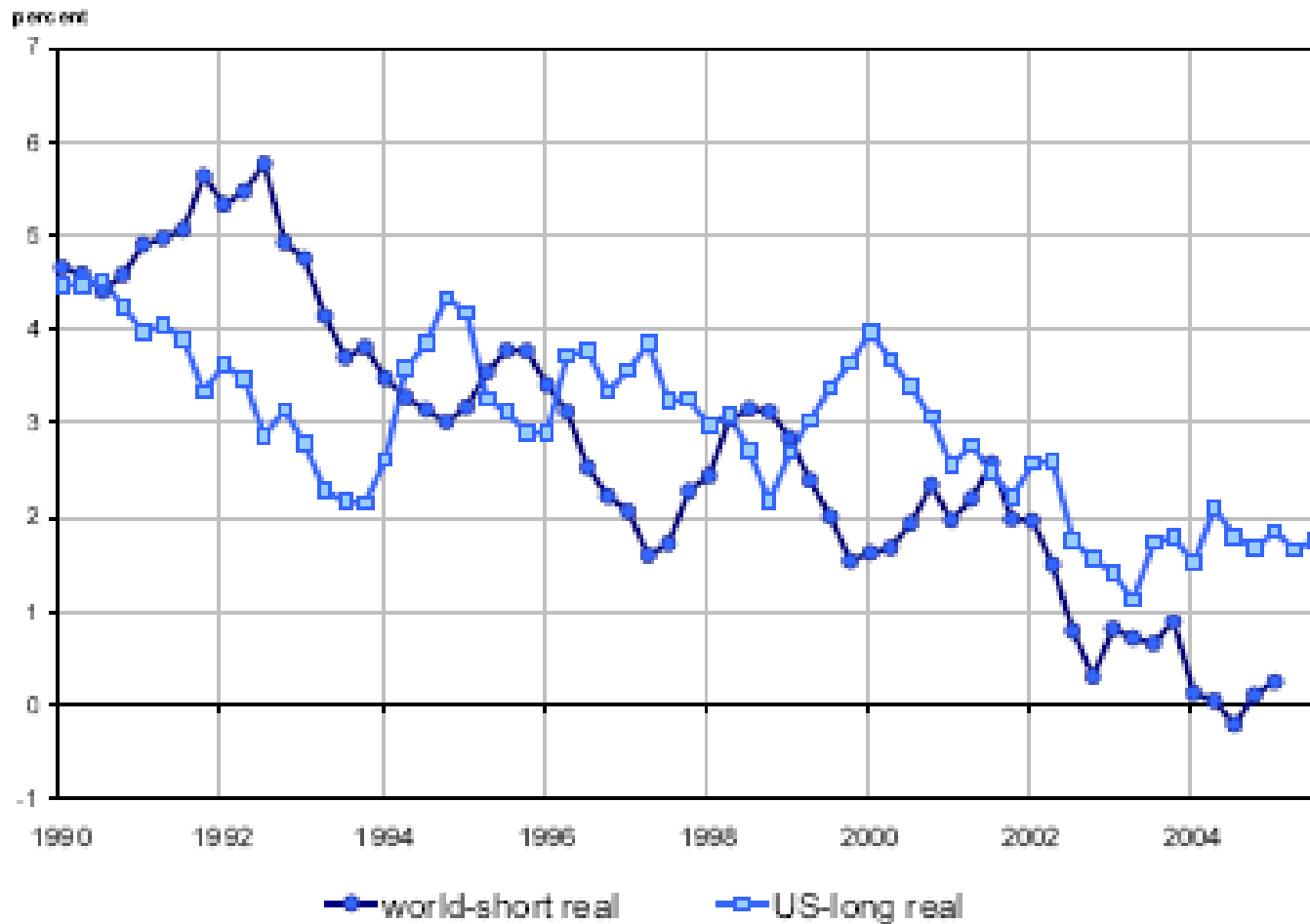


Source: Morgan Stanley Latam Economics



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# Global savings > investment led to a drop in world real-interest rates

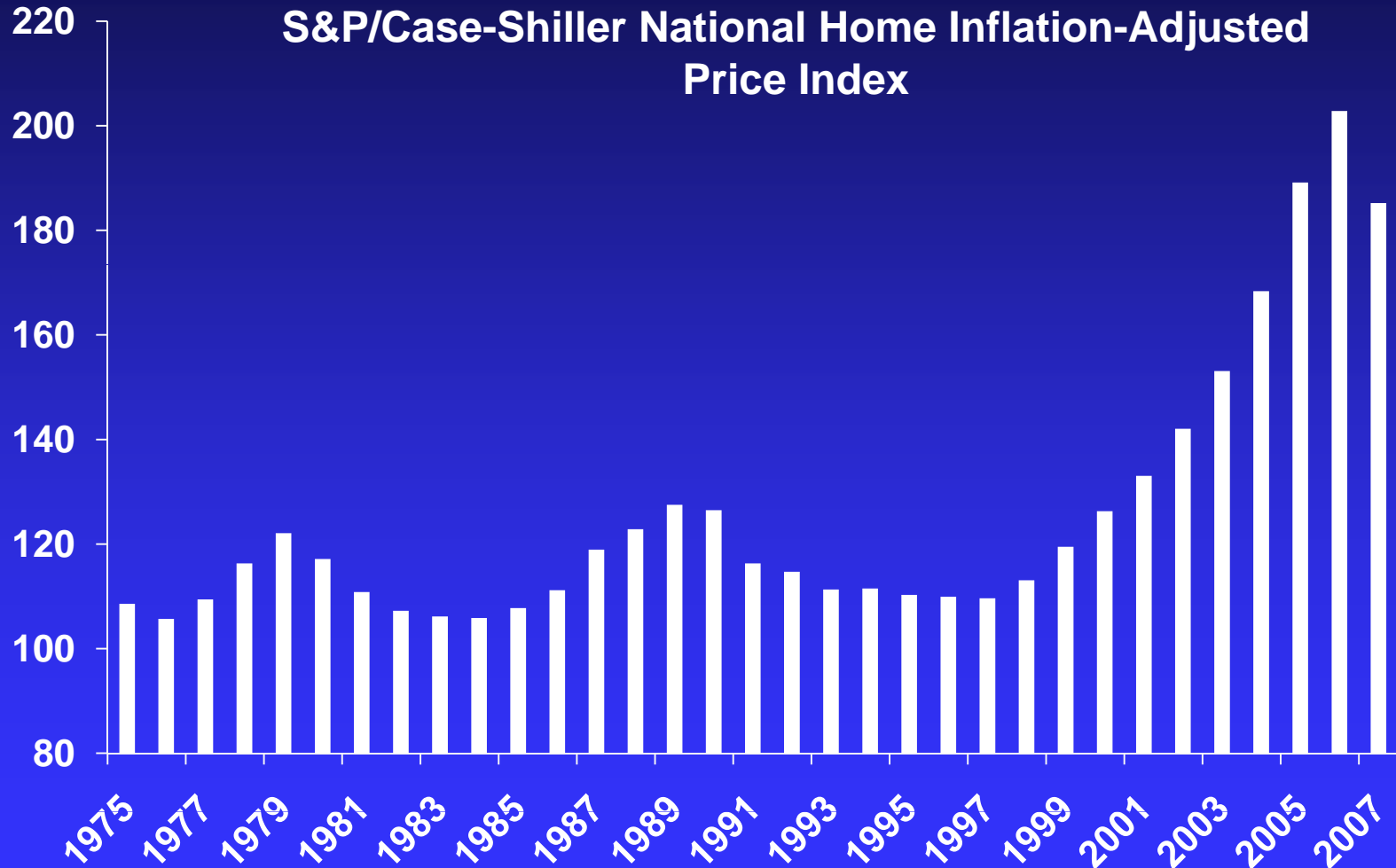


(b) World and US Real Interest Rates



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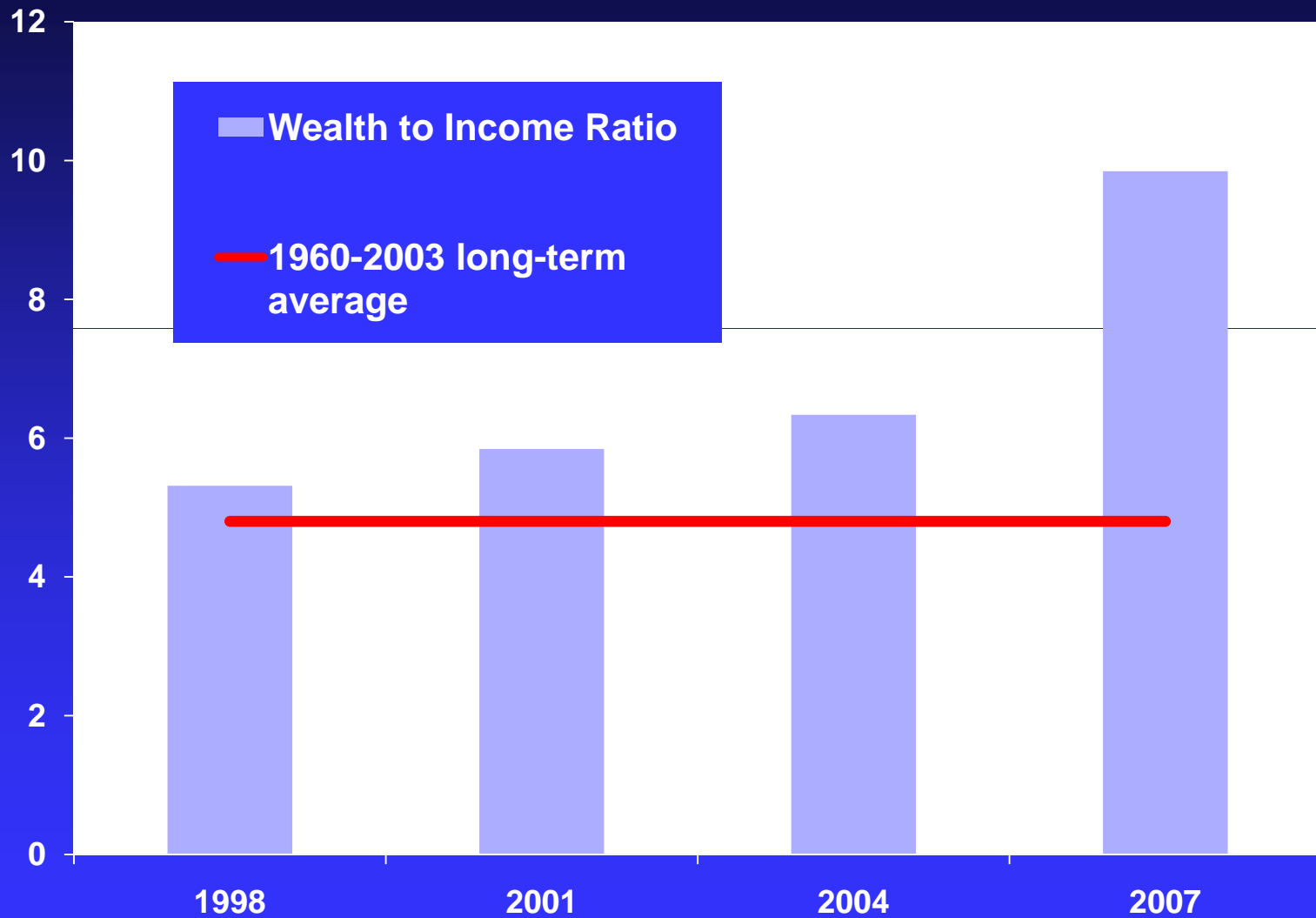
This led to a boom in real state investment and prices in the US...





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## and an increase in wealth



Source: Own computation based on data from the Survey of Consumer Finances



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## Summary

- US (UK, Spain..) side:
  - ◆ Increase in asset prices (stocks and housing)
  - ◆ Increase in wealth
  - ◆ Government budget deficit
- Developing world:
  - ◆ Savings greater than investment
  - ◆ Reserve build up
  - ◆ High growth rates depending on trade surpluses
- World:
  - ◆ Savings greater than investment – decline in real interest rates



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## Going forward

- Recent data point to a sudden unwinding of imbalances:
  - ◆ Collapse in housing and stock prices in the US and the consequent drop in wealth and consumption. US is 40% of global demand.
  - ◆ Collapse in export growth in Asia
  - ◆ Collapse in emerging currencies and commodity prices
  - ◆ Current accounts shrinking around the globe



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## How will the unwinding process proceed? It will depend on the policy response

- US consumption
  - ◆ private savings up
  - ◆ public savings down
  
- Development of an alternative to the US “consumer of last resort”:
  - ◆ Stimulate domestic markets in the developing world
  - ◆ Improve conditions for investment
  - ◆ Increase investment in social safety nets in countries like China



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