

International imbalances again? Still? Forever?

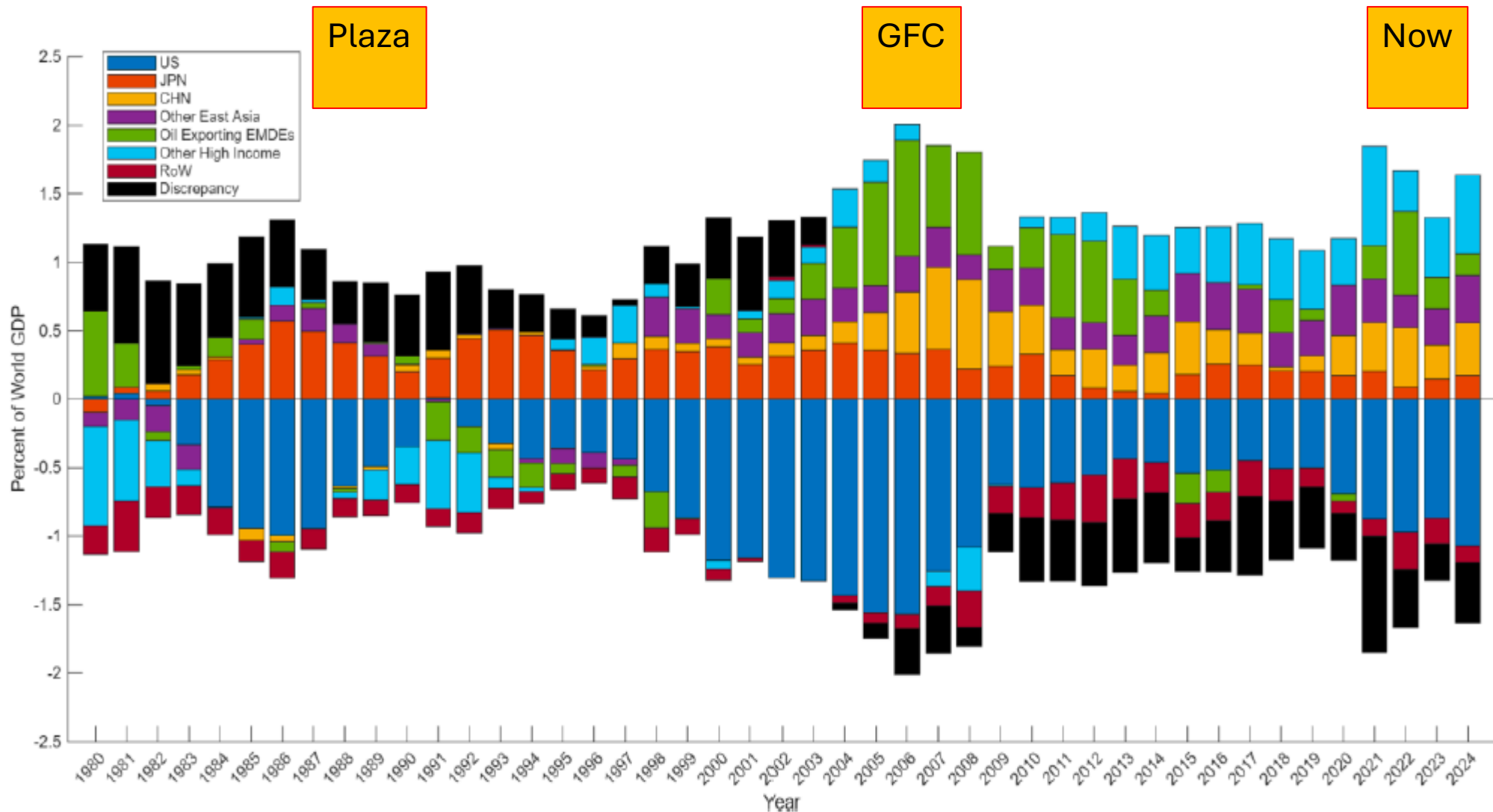
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Based on
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Global imbalances threaten balanced growth and reciprocal trade



According to IMF, excess current account balances account for two-thirds of widening in 2024.

Causes of Global Imbalances

- Global imbalances are **macroeconomic** in nature.
- They are a consequence of **unbalanced growth models**.
- They reflect the **savings and investment** balance, shaped by macroeconomic policies.

Global and Sectoral Imbalances are conceptually distinct

- **Global imbalances** have been associated with risks of **financial instability** (2007) and of **protectionism** (1985).
- **Sectoral imbalances** sometimes associated with an absence of level-playing field –**Non Market Practices**- and **choke points**. May also lead to **protectionism, financial and security risks**.

Common misconceptions:

- **Exchange rates** do not have a causal role (they « clear the market »):
 - 1985 Plaza Accord. Dollar appreciation before.
 - 2007 Great Financial Crisis. Dollar depreciation before.
- **Tariffs**, unless extreme, do not close imbalances.
- **International currency** issuance does not necessarily imply external deficits.

Global Imbalances: A common direction of travel

- **Individual and collective interest of countries to correct excessive imbalances.**
- **China: Invest in people (15th 5-year plan)**
 - Expand health insurance coverage to families
 - Incentivize (fiscal tools, KPI) local governments to deemphasize IP.
 - Strengthen balance sheets after real estate crisis
 - Rebalance toward non-traded goods and services.
- **Europe: Increase growth potential (Draghi/Letta reports):**
 - Single market: support demand at scale for innovating firms
 - Savings & Investment Union. Channel patient capital into high return investment
 - Targeted investment in common assets financed by common debt (Euro safe assets)
 - Improve FDI governance: technological transfers
- **US: Reduce public deficit and reinforce financial stability**
 - Fiscal consolidation to ensure growth resiliency
 - Reinforce financial stability (risk concentration)
 - Strengthen oversight of Non-Bank Financial Intermediaries
 - Ensure well-functioning U.S. Treasury markets
- **Simultaneous policy actions** reduce adjustment costs for all.

Sectoral and Global Imbalances: Proposed Policy Changes

