

Bank of England

Panel on global imbalances

Peterson Institute for International Economics

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with thanks to Ambrogio Cesa-Bianchi, Will Dison, and Matt Trott

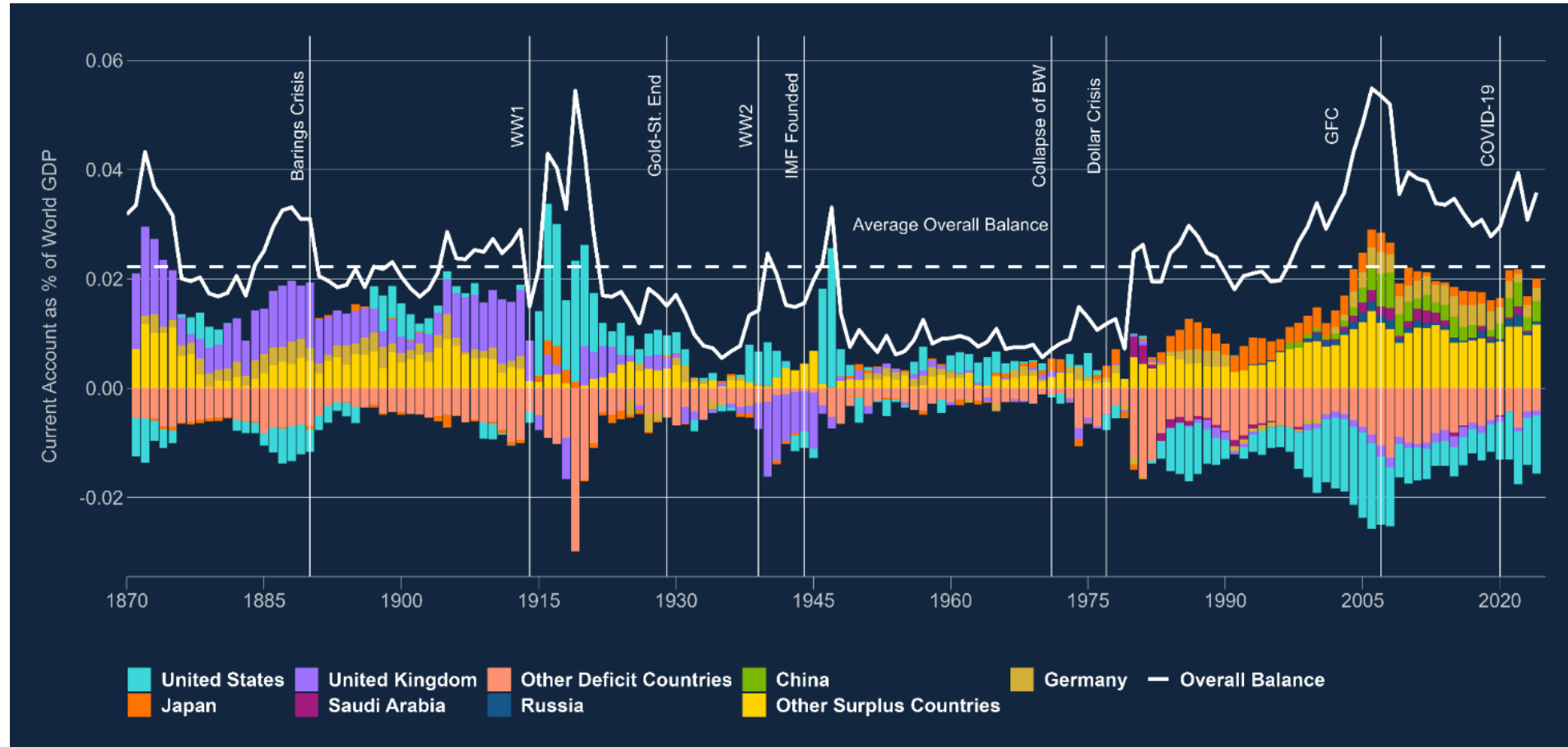


Global imbalances are back (with new characteristics?)

- **Imbalances now near historic highs**, but now supported by *policy architecture*, not classic macro fundamentals
- **Micro-level industrial policies** reshape domestic demand, suppress consumption, and push resources toward export-oriented sectors
- **Three reinforcing policy features entrench surpluses:**
 - Managed exchange rates prevent appreciation and build reserves
 - Capital controls trap domestic savings and limit outward investment
 - Consumption-suppressing policies reduce household income share and boost corporate savings
- **Result:** economies are systematically steered toward **persistent external surpluses**
- **Traditional adjustment mechanisms fail** because exchange rates, wages, and capital flows are all policy-managed
- **Imbalances become more entrenched, more deliberate, and more resistant** to market-driven correction

Imbalances are now near their highest levels in 150 years

Chart 1. Global current account imbalances today are well above the historical average



Sources: Jordà-Schularick-Taylor (2017), IMF World Economic Outlook and author calculations. Notes: Prior to 1980, the figure is based on a sample of 18 advanced economies from Jordà-Schularick-Taylor (2017). The overall balance is defined as the sum of the absolute value of current account surpluses and deficits.

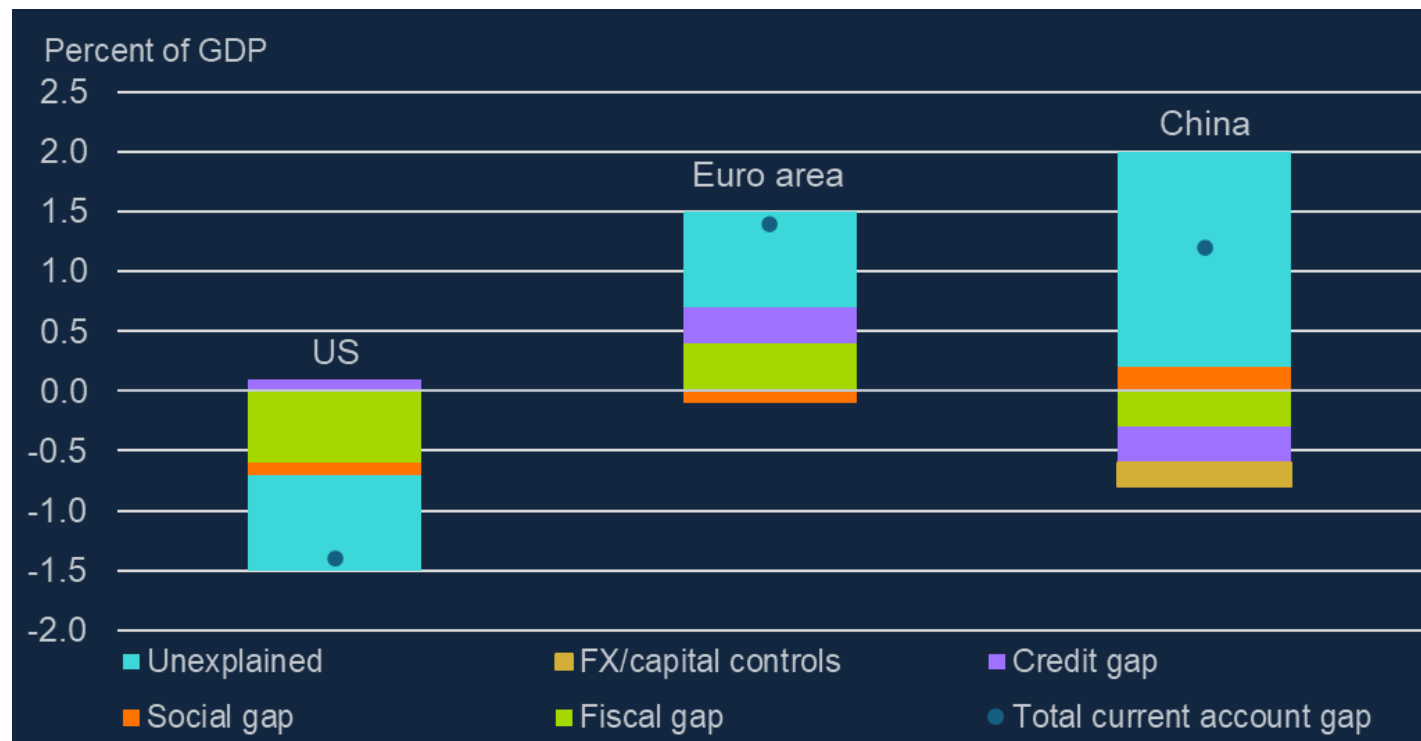
What's Driving Today's Imbalances: Micro-Macro

- **New: micro-level industrial policy mechanisms:** reshape domestic demand and production
- **Modern industrial policy toolkit includes:**
 - Targeted credit allocation
 - Subsidised capital for export-oriented firms
 - Administrative guidance on investment priorities
 - Restrictions on household borrowing
 - Suppressed wage growth in tradable sectors
- **Interventions raise production faster than domestic absorption**, pushing toward surplus, but then macro distortions can amplify (Choi and Taylor, JIE: 'Precaution versus mercantilism')
- **Exchange-rate management locks in**, extends the surplus further forwards
- **Capital controls trap savings domestically**, lower interest rates, and channel investment back into export sectors
- **Result: a micro-macro policy architecture:** shapes external balances and domestic production

Mind the gap: not explained by (macro) fundamentals alone

Chart 5. Identified policy gaps explain only a small share of excess imbalances

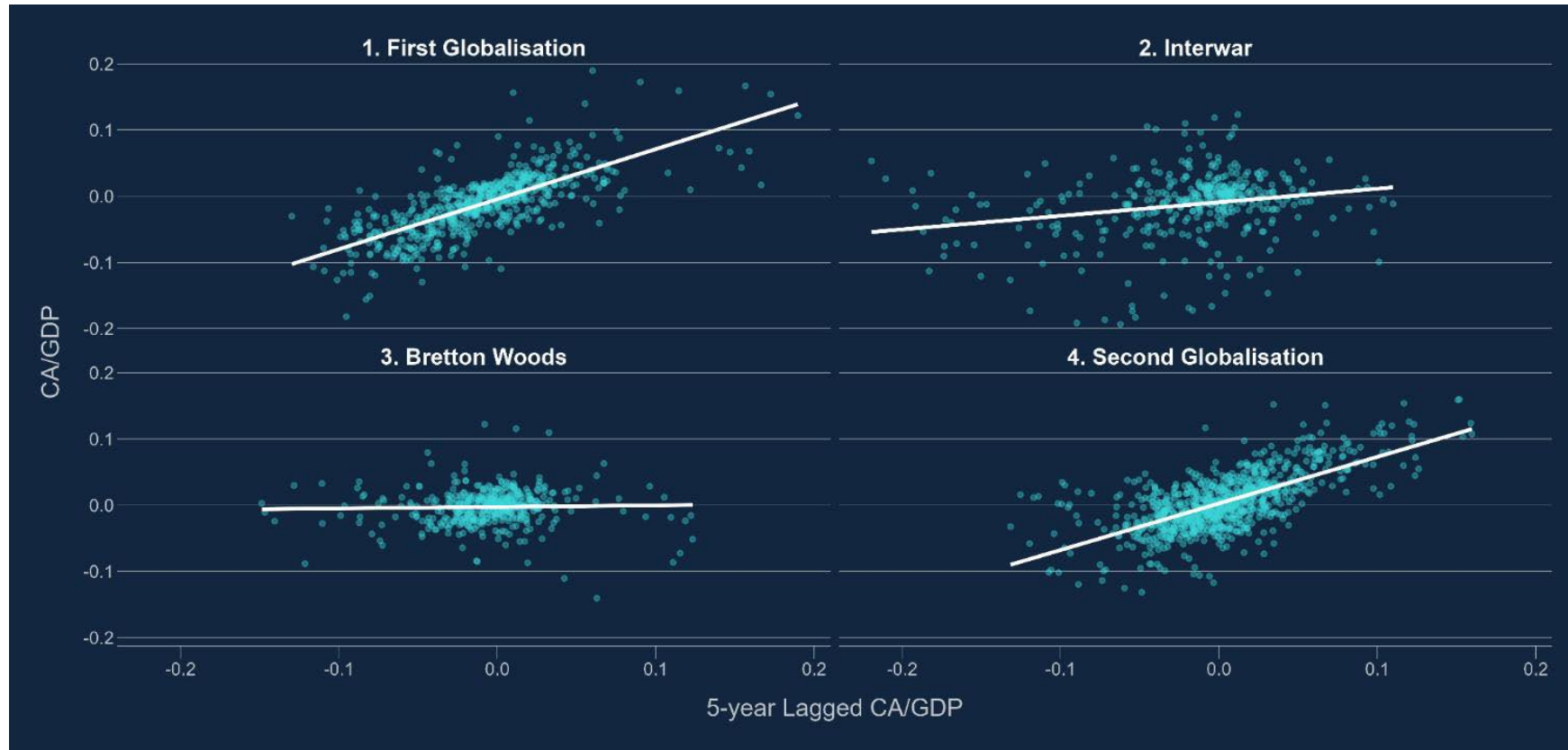
IMF EBA estimates of excess current account balances, 2024



Source: IMF 2025 External Balance Assessment and author calculations.

Imbalances highly persistent relative to past eras

Chart 2. Imbalances have become more persistent since the end of Bretton Woods
Scatterplot of current account balances as a percentage of GDP against their five-year lag



Source: Jordà-Schularick-Taylor (2017) and author calculations. Notes: Plot of five-year lagged current account balance as a percentage of GDP against the current account balance as a percentage of GDP during four eras of the international monetary system: the First Globalisation (1870-1913), the Interwar period (1914-1944), Bretton Woods (1945-1972), and the Second Globalisation (1973-2020).

Risks and possibilities

Risks

- **Political:** Rising protectionism; industrial policy competition
- **Adjustment:** Deficit countries face pressure; surplus countries do not
- **Financial Stability:** External balance sheets interact with non-bank vulnerabilities
- **Productivity:** Surplus-driven oversupply can crowd out tradable sectors

Possibilities

- Surplus countries: increase domestic consumption and investment
- Deficit countries: pursue gradual fiscal consolidation
- Strengthen IMF–WTO coordination on industrial policy spillovers
- Improve frameworks for analysing external balance sheets and financial risks
- Coordinated adjustment could raise global GDP and reduce vulnerabilities

