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Global imbalances: past persistence, prospects & policy options

Martin Brooke

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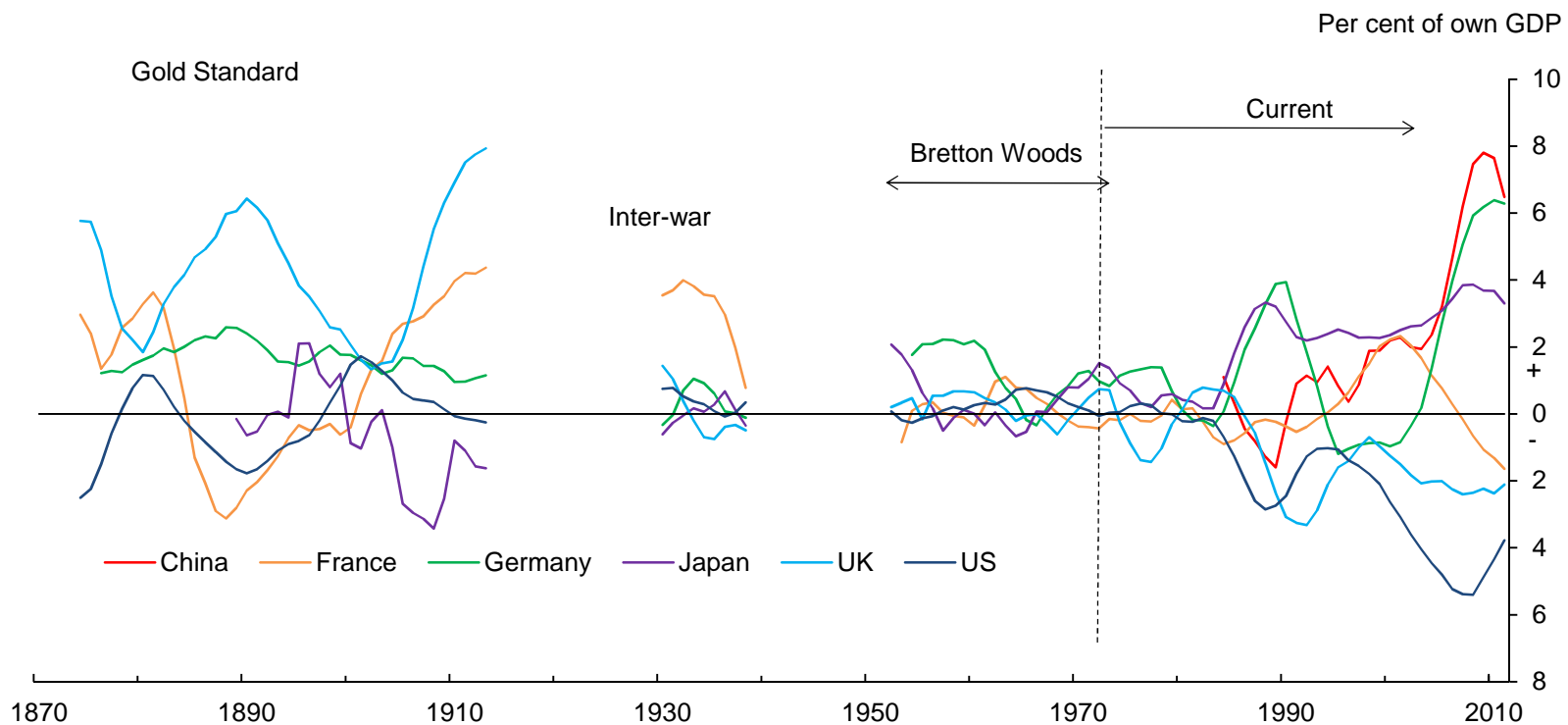
Outline

- Evolution of global imbalances
- Drivers of global imbalances
- Simple long-run projections
- Policy options



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Current account balances^(a)



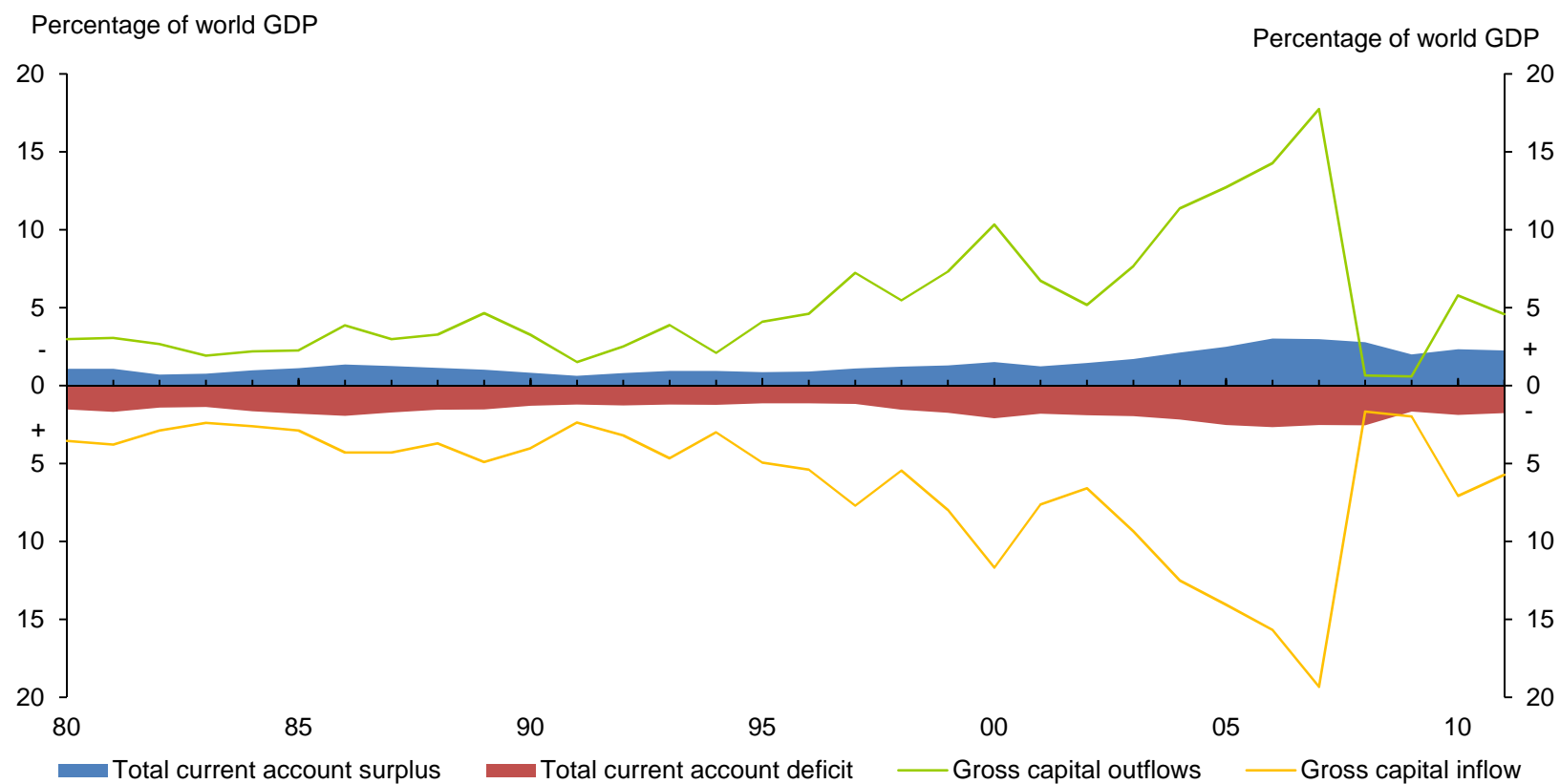
Sources: Global Financial Data, IMF World Economic Outlook (April 2012), Taylor (2002) and Bank calculations.

(a) 5-year moving averages



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Gross and net global capital flows

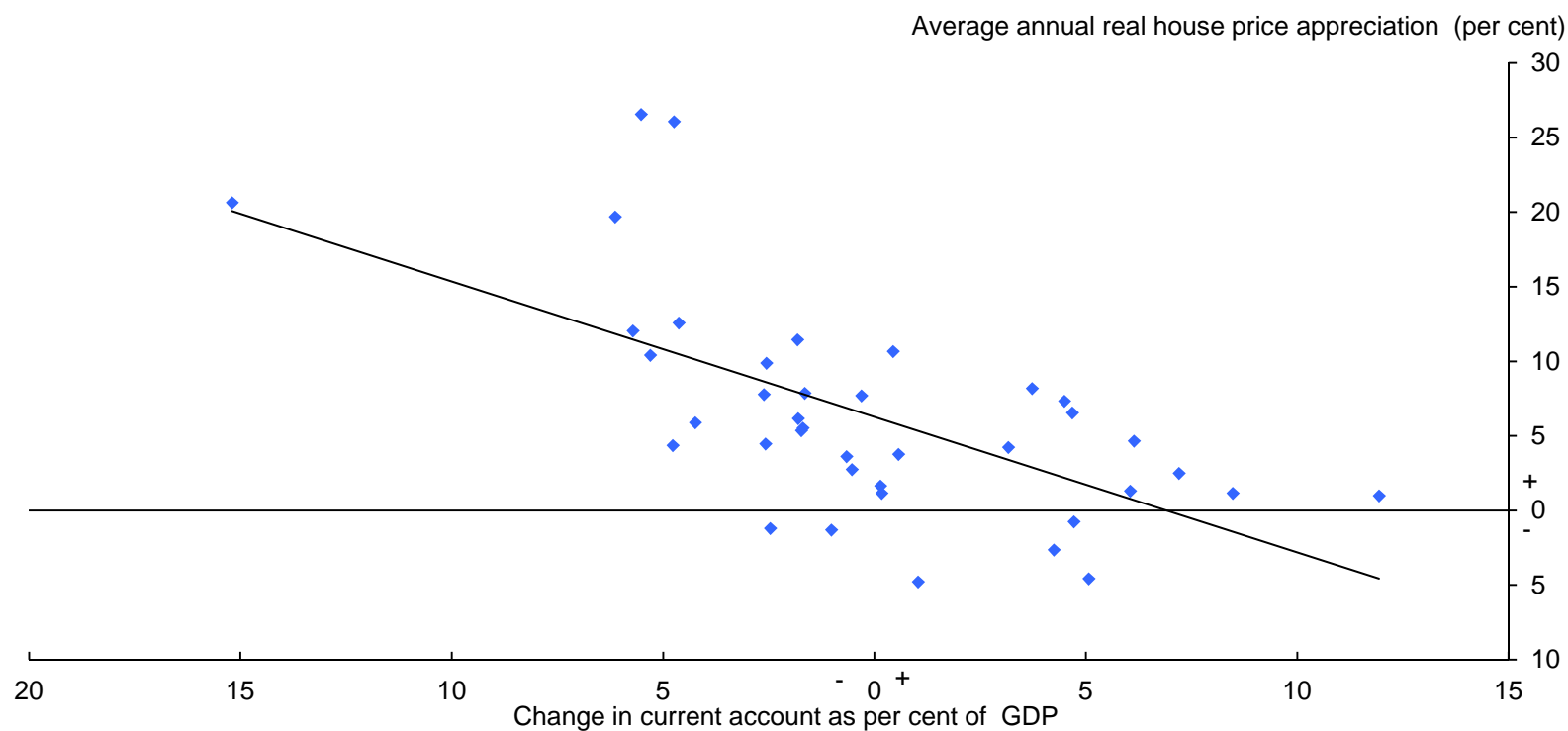


Sources: IMF World Economic Outlook (April 2011) and Bank calculations.



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Real house price appreciation and current account balances, 2000-2006

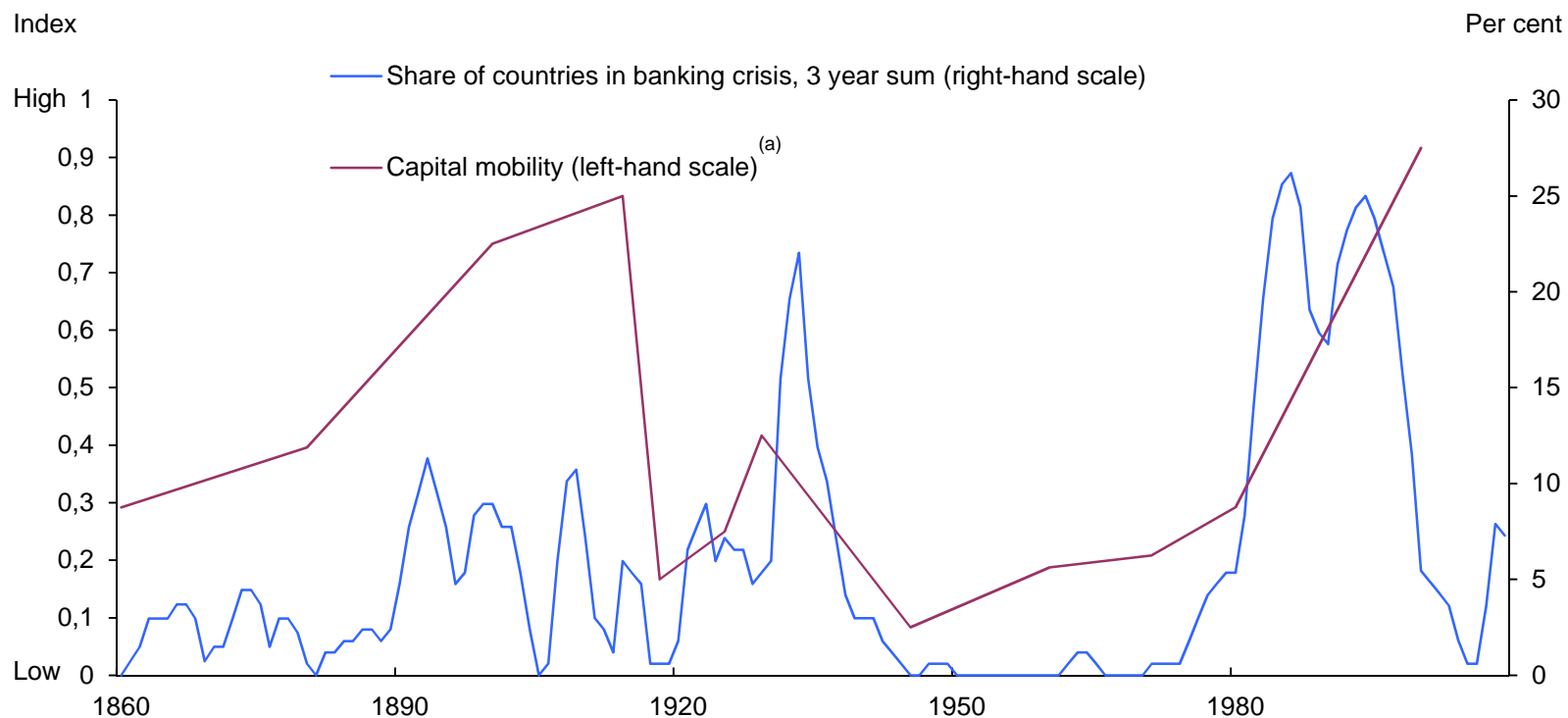


Source: IMF World Economic Outlook , Cesa-Bianchi (2011) and Bank calculations.



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Capital mobility and banking crises



Sources: Reinhart and Rogoff (2008) and Obstfeld and Taylor (2003).

(a) A judgemental index on the extent of capital mobility constructed by Obstfeld and Taylor (2003).



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Frictions in the IMFS

- Nominal rigidities
- Missing markets
- Institutional frictions
- Imperfect information



Frictions in the IMFS

- Nominal rigidities: fixed exchange rate regimes, downward rigidities in wages and prices
- Missing markets
- Institutional frictions
- Imperfect information



Frictions in the IMFS

- Nominal rigidities
- Missing markets: local currency bond markets, hedging and insurance instruments
- Institutional frictions
- Imperfect information



Frictions in the IMFS

- Nominal rigidities
- Missing markets
- Institutional frictions: [WTO rules and vested interests](#)
- Imperfect information



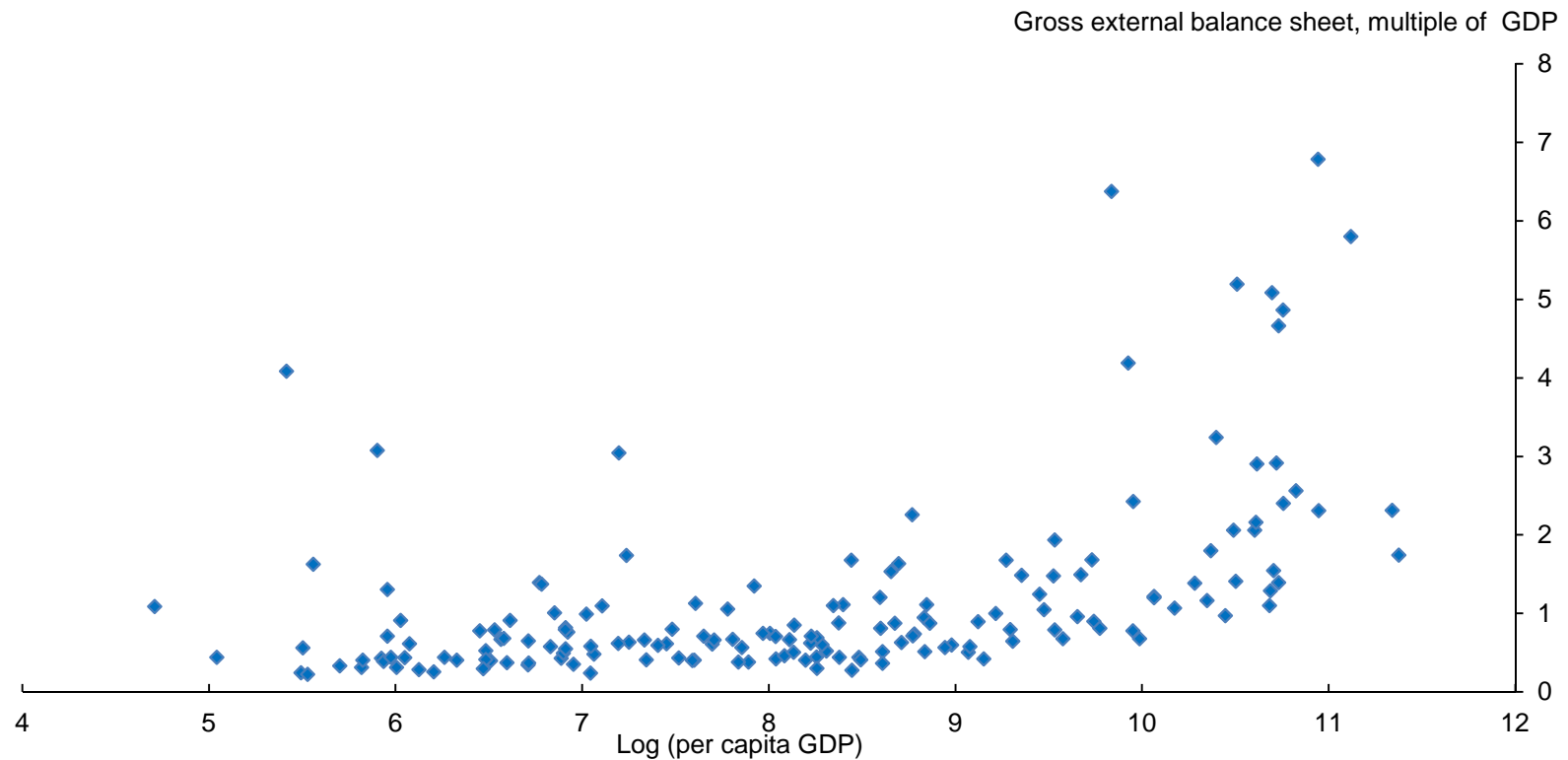
Frictions in the IMFS

- Nominal rigidities
- Missing markets
- Institutional frictions
- Imperfect information: asymmetric information, legal uncertainties



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Per capita GDP and gross external balance sheet, 2007^(a)



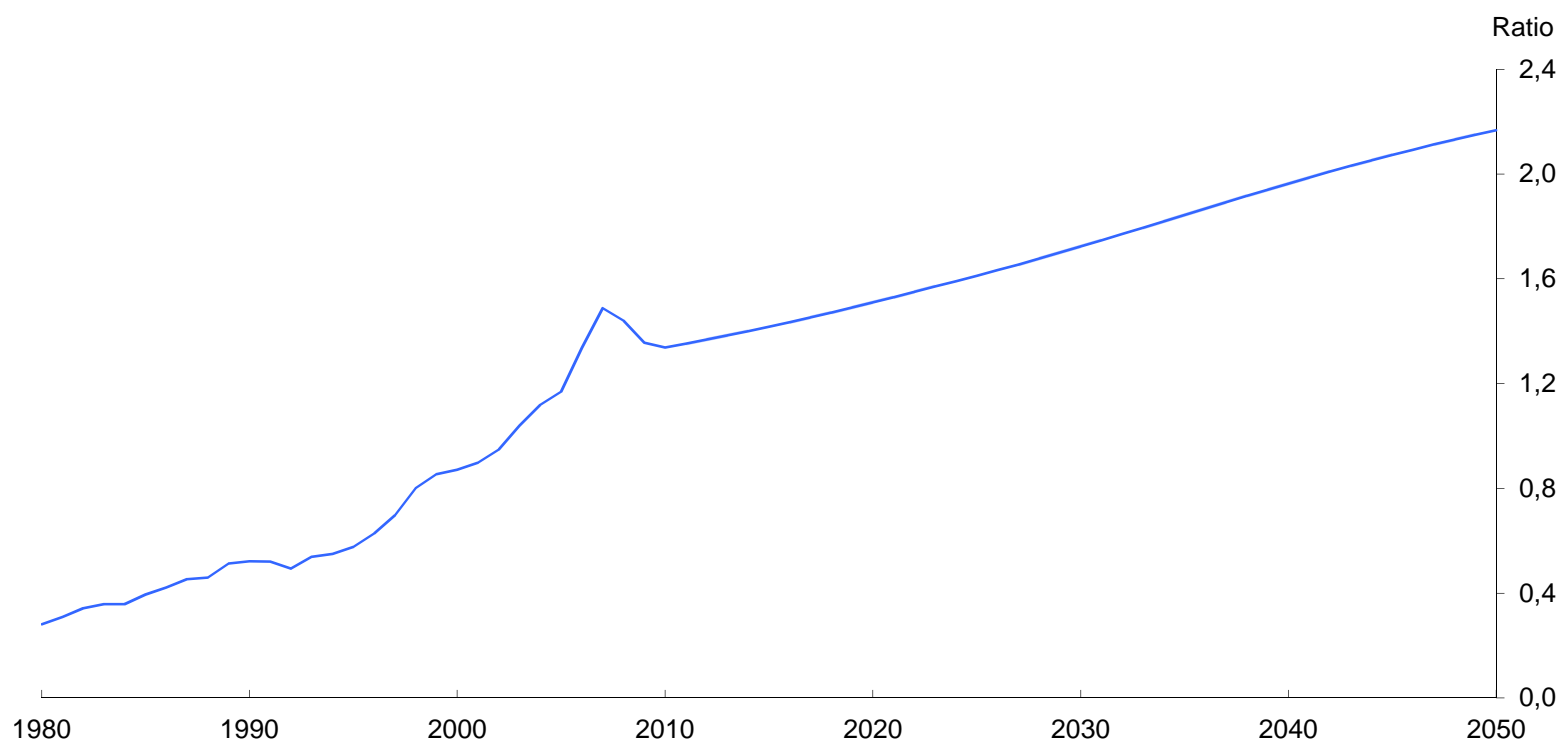
Sources: External Wealth of Nations Mark II database developed by Lane and Milesi-Ferretti (2007), US Census Bureau and Bank calculations.

(a) External balance sheet is defined as the average of external assets and liabilities.



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Ratio of external balance sheet to GDP, G20^(a)



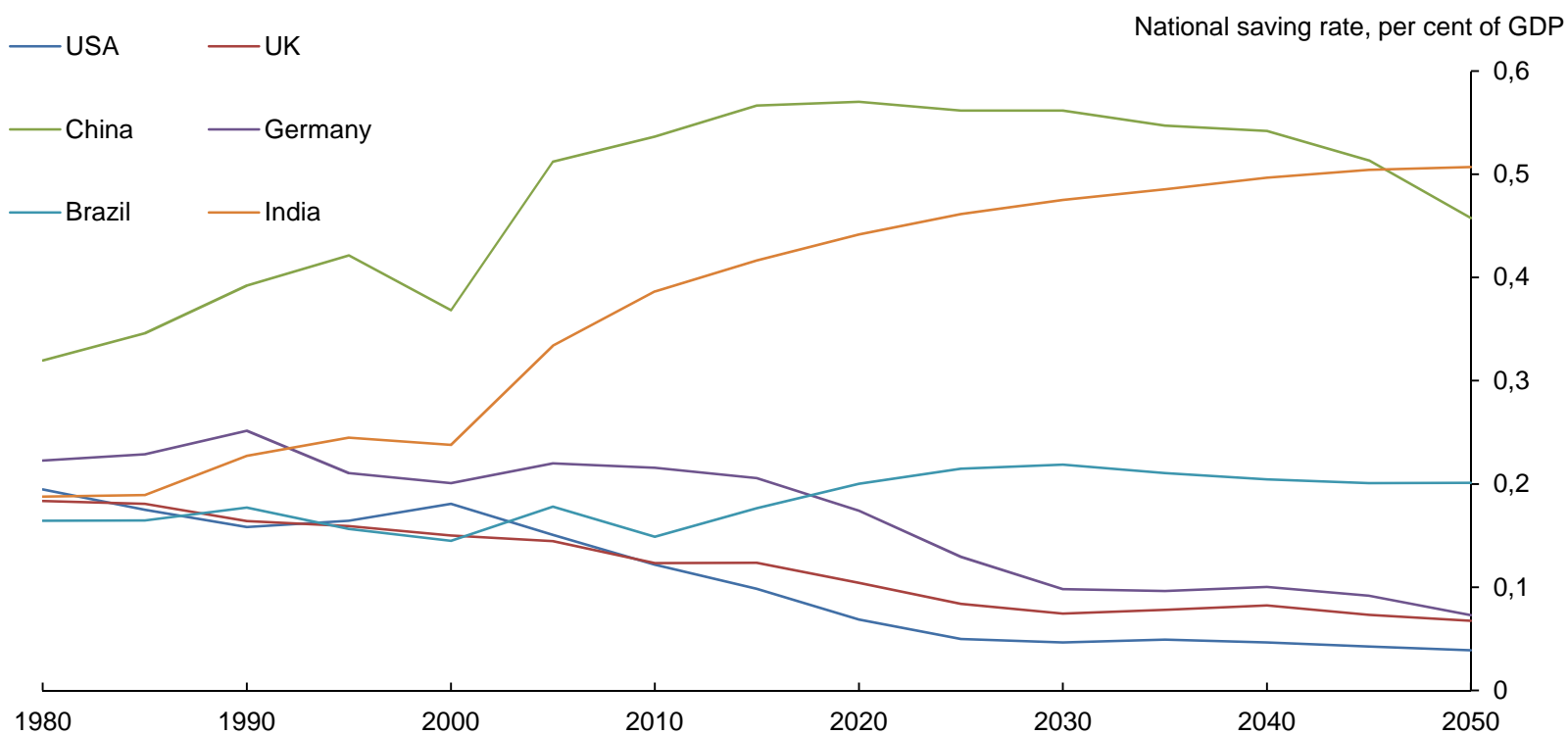
Sources: External Wealth of Nations Mark II database developed by Lane and Milesi-Ferretti (2007), IMF, US Census Bureau, Penn World Tables and Bank calculations.

(a) Measured as the average of external assets and external liabilities.



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Saving rates by country

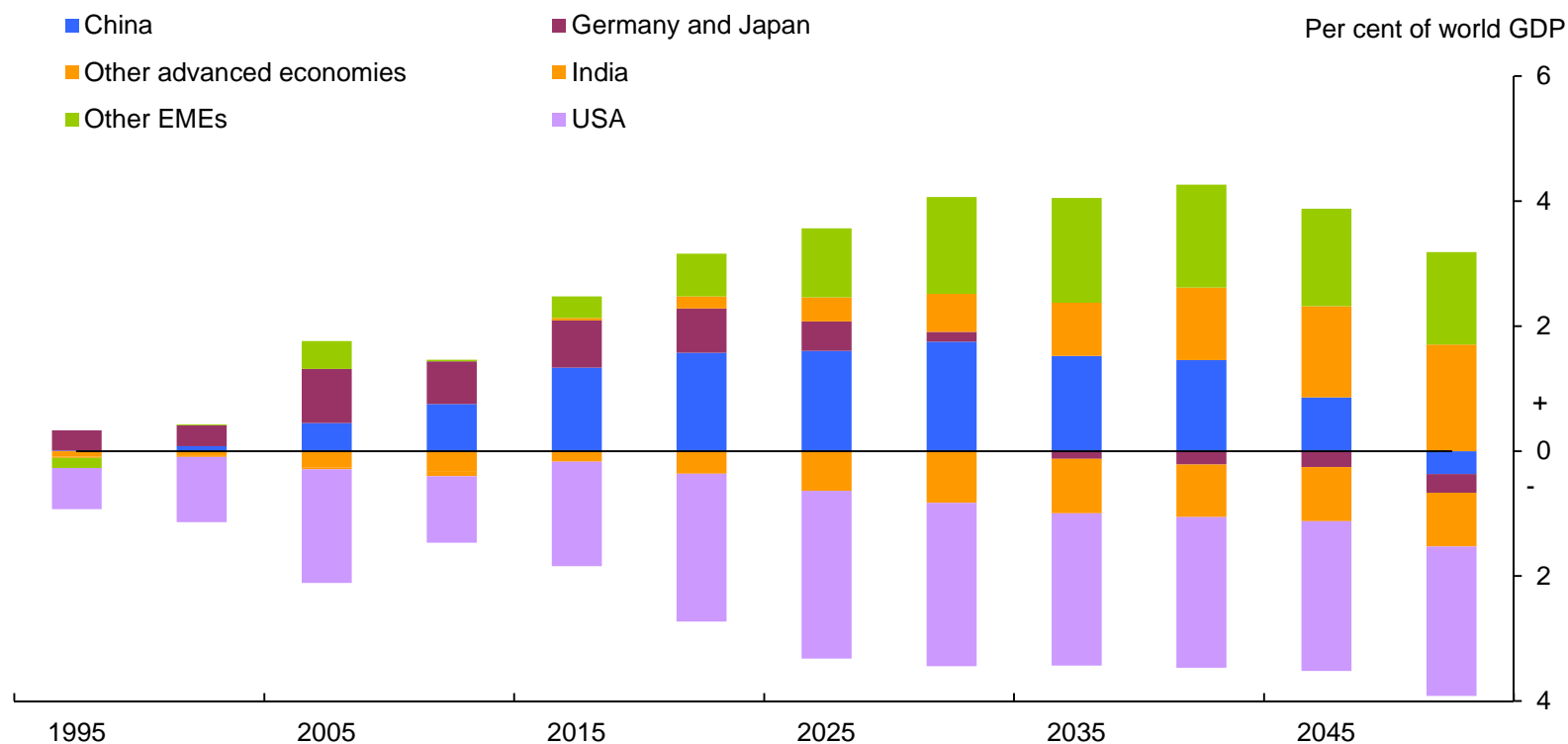


Sources: External Wealth of Nations Mark II database developed by Lane and Milesi-Ferretti (2007), IMF, US Census Bureau, Penn World Tables and Bank calculations.



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Simple projections for global imbalances



Sources: External Wealth of Nations Mark II database developed by Lane and Milesi-Ferretti (2007), IMF, US Census Bureau, Penn World Tables and Bank calculations.



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Policy options: reduce the frictions

- Nominal rigidities
- Missing markets
- Imperfect information
- Policy coordination mechanism: can the G20 Framework deliver?

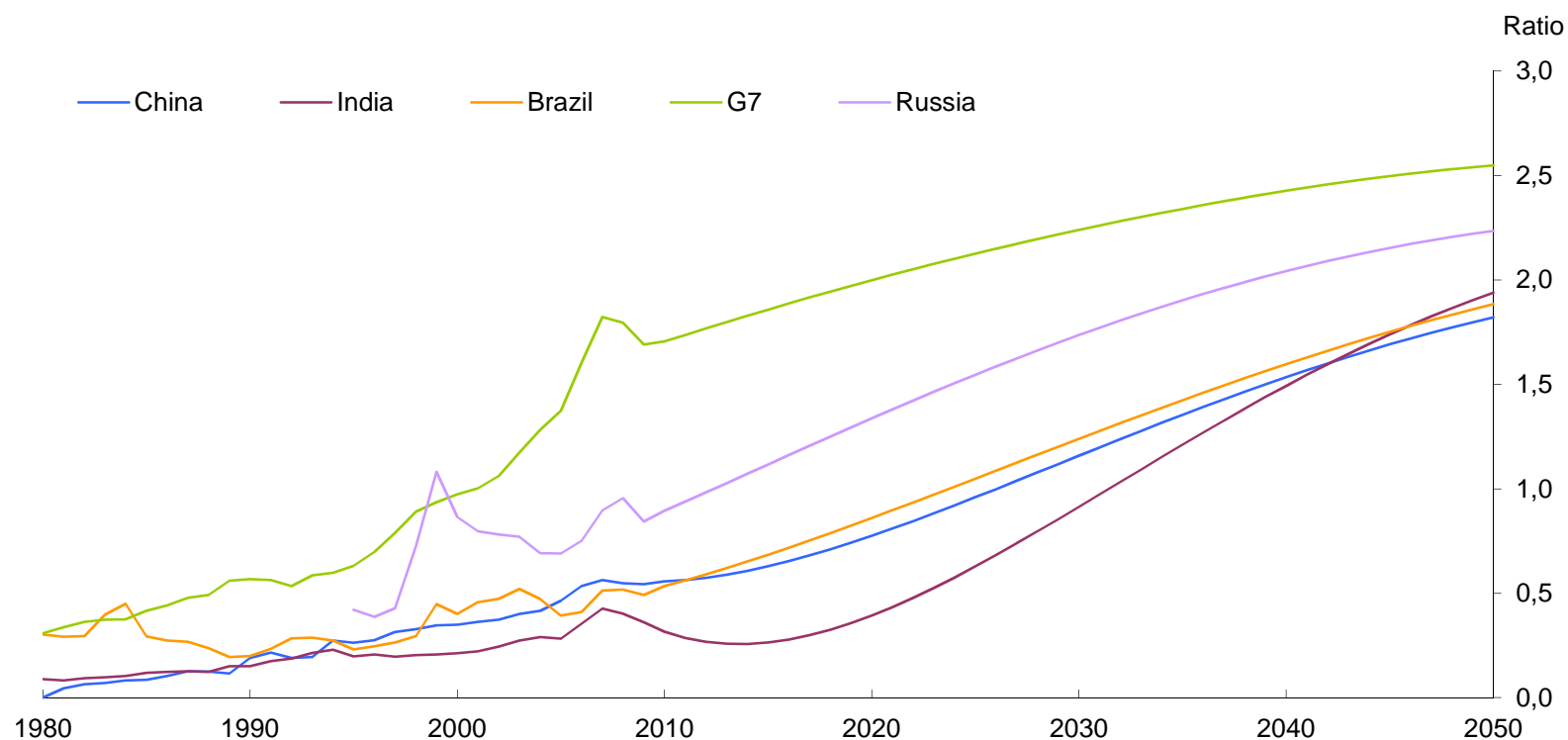




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End

Ratio of external balance sheet to GDP

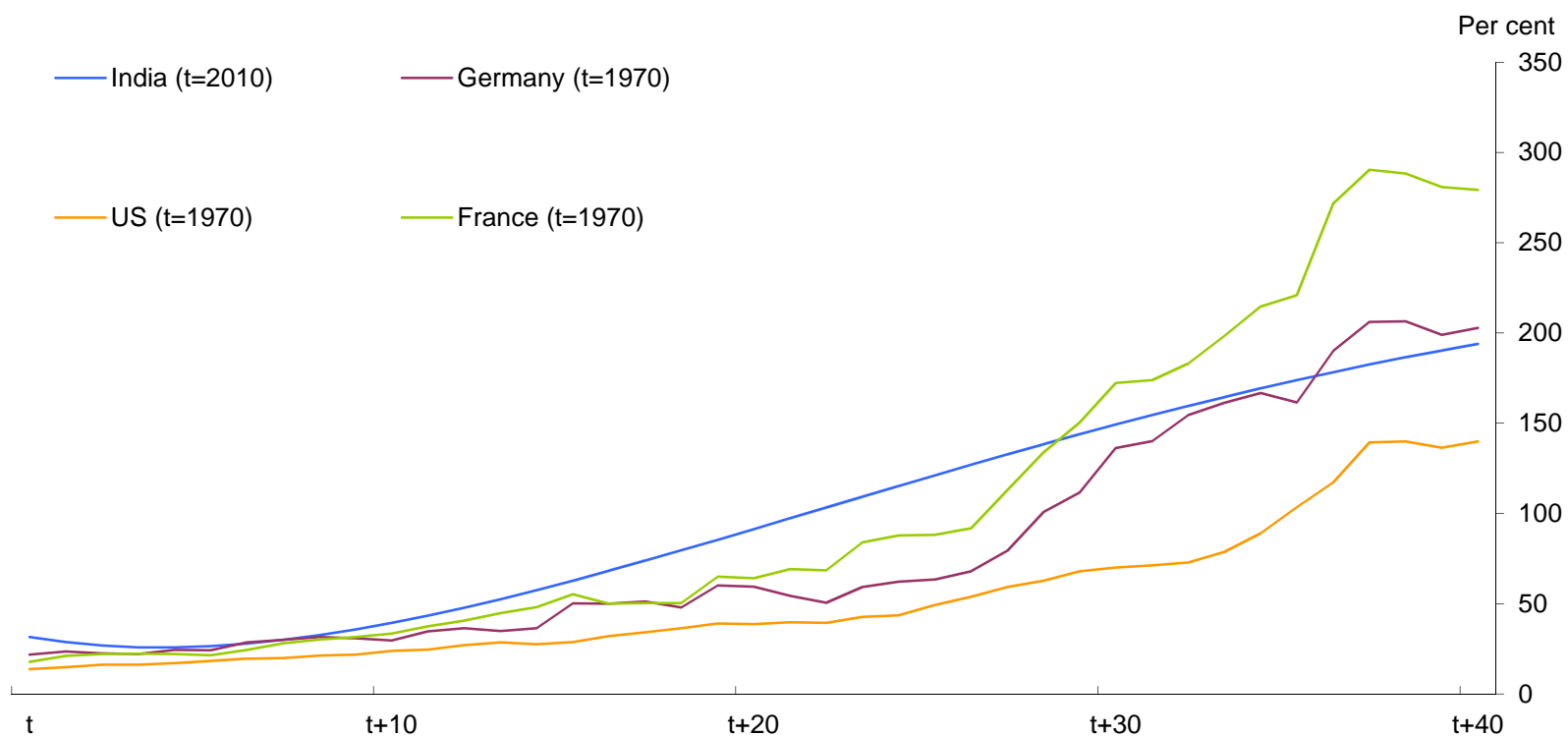


Sources: Updated and extended version of the External Wealth of Nations Mark II database developed by Lane and Milesi-Ferretti (2007), IMF, US Census Bureau, Penn World Tables and Bank calculations.



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Ratio of external balance sheet to GDP

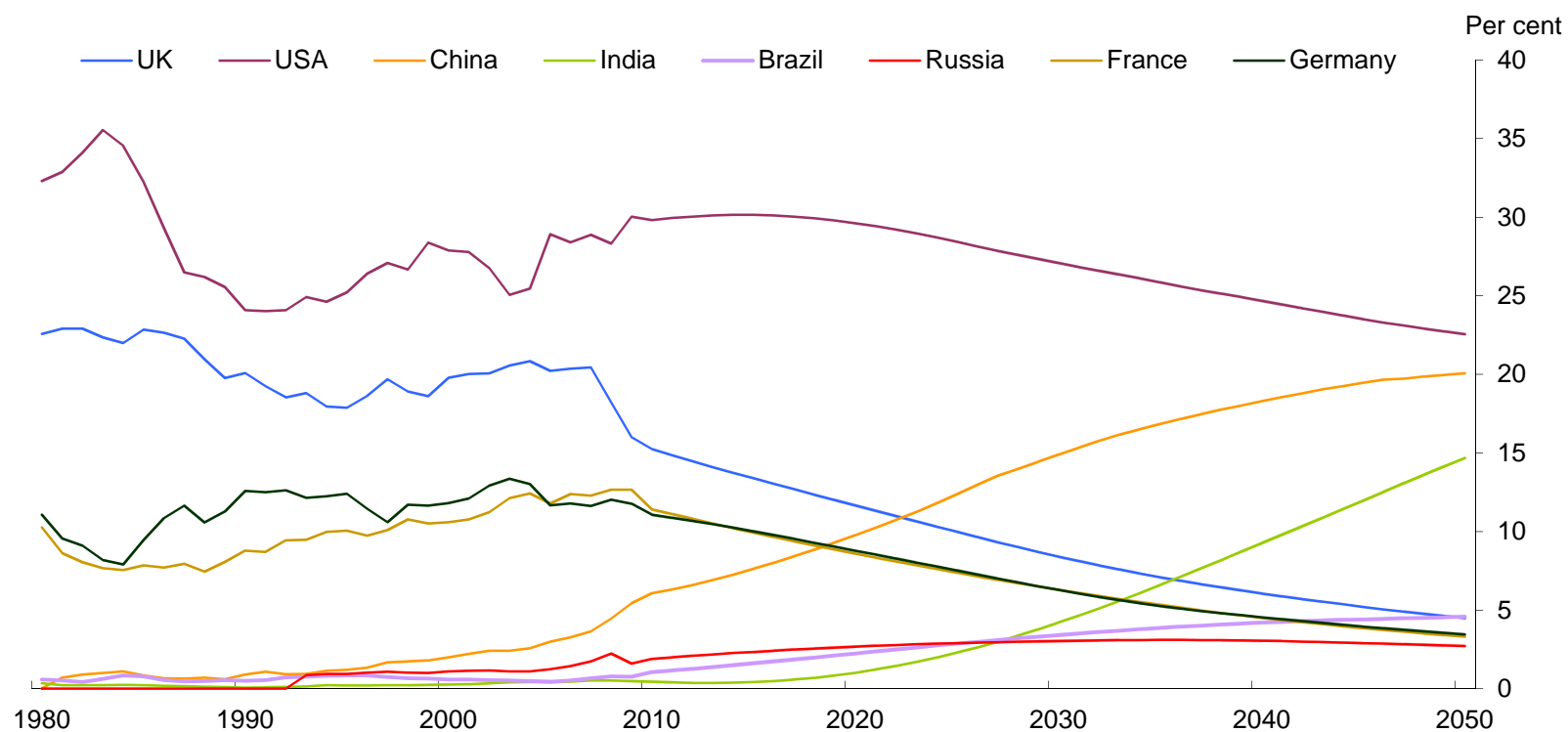


Sources: Updated and extended version of the External Wealth of Nations Mark II database developed by Lane and Milesi-Ferretti (2007), IMF, US Census Bureau, Penn World Tables and Bank calculations.



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Share of G20 total gross external assets, by country

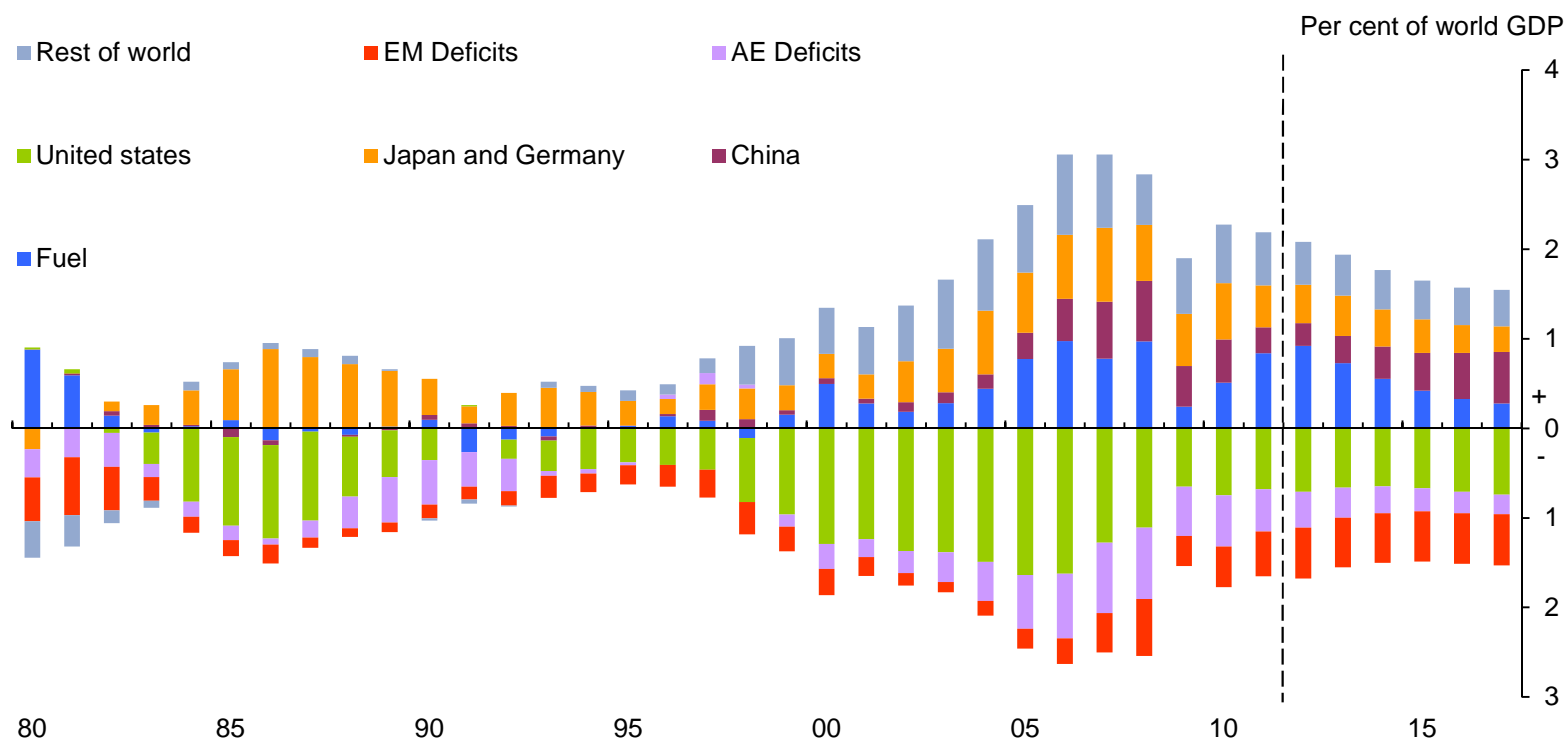


Sources: Updated and extended version of the External Wealth of Nations Mark II database developed by Lane and Milesi-Ferretti (2007), IMF, US Census Bureau, Penn World Tables and Bank calculations.



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Global current account imbalances

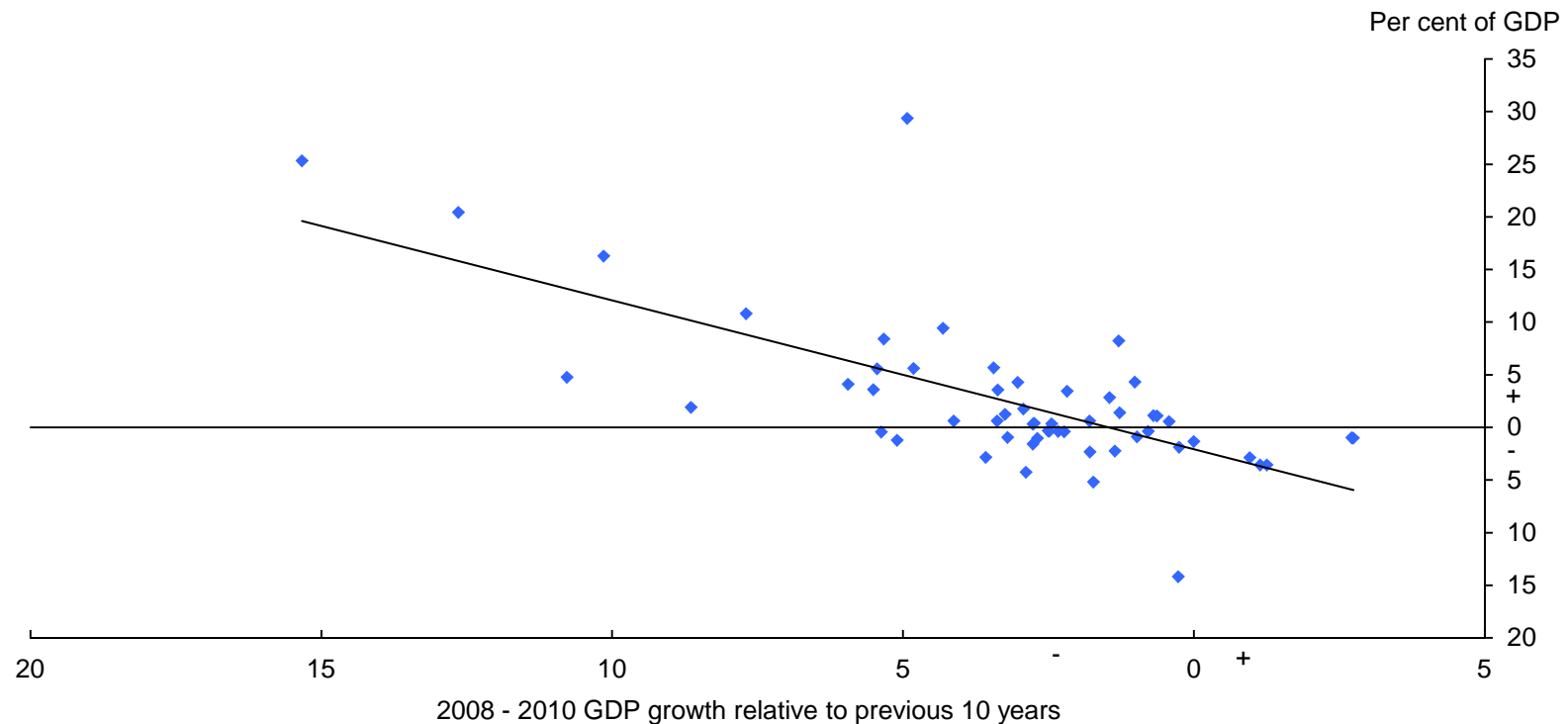


Sources: IMF World Economic Outlook (April 2012) and Bank calculations.



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Current account reversals and output growth, 2007-2010^(a)



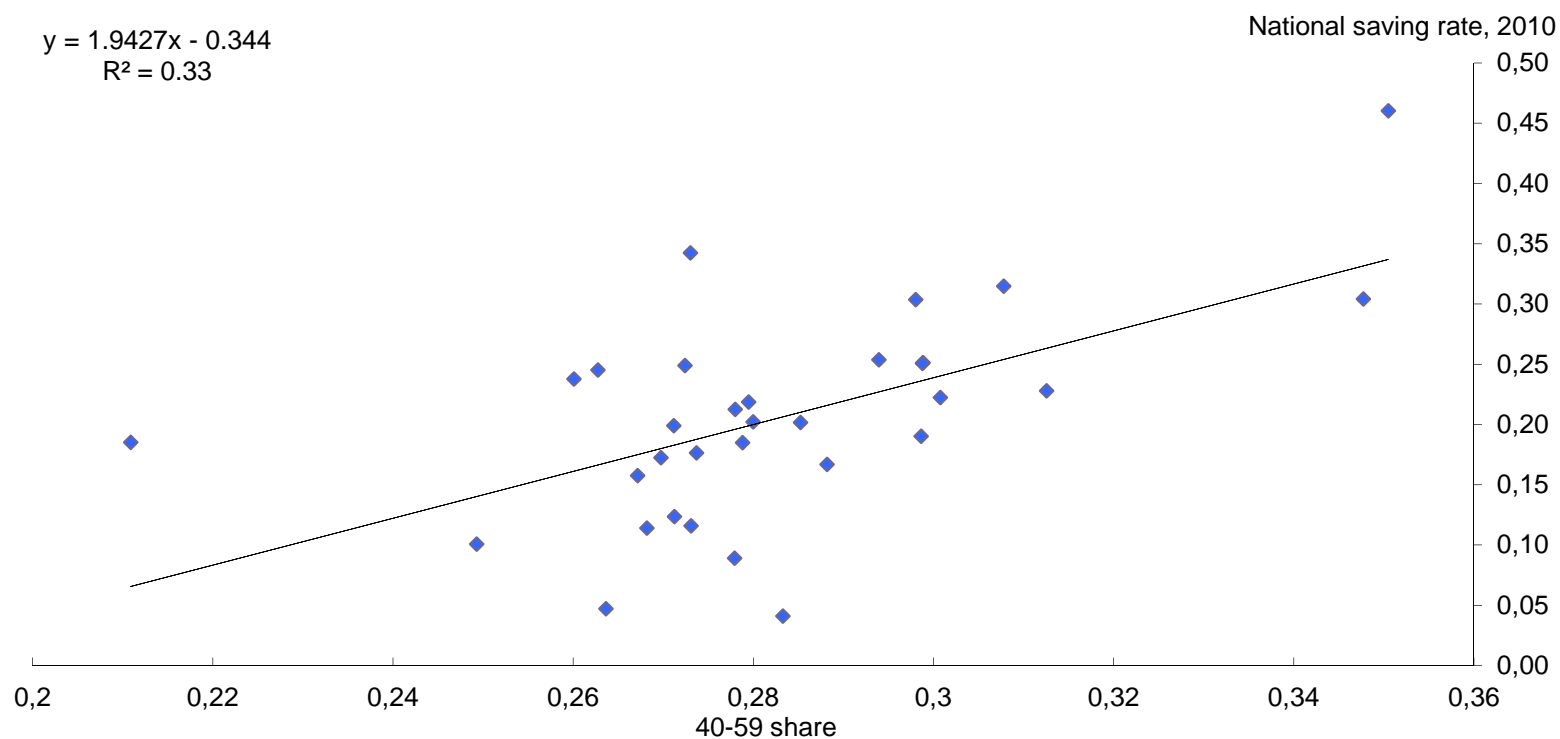
Sources: IMF World Economic Outlook and Bank calculations.

(a) Current account reversal is defined as the change in the current account balance from 2007 to 2010. Only advanced economies and EMEs are included.



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Saving rate and population



Sources: Updated and extended version of the External Wealth of Nations Mark II database developed by Lane and Milesi-Ferretti (2007), IMF, US Census Bureau, Penn World Tables and Bank calculations.

Sources: IMF, UN Census Bureau and Bank calculations.



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