Will Trade Imbalances Derail the Global Recovery?

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Outline

A. Global Outlook
B. Trade Imbalances: Some Views
C. Resolving Trade Imbalances
A. Global Outlook
Prospects for World GDP Growth (Percent)

Central forecast
10 percent Confidence intervals

Source: IMF staff estimates.
World Real GDP Growth
(Annual percent change)

Trend, 1970–2005

Projections

Source: IMF staff estimates.
Global Outlook: World

(Real GDP; percent change from four quarters earlier)

Sources: Haver Analytics; and IMF staff estimates.
Global Outlook: Emerging Asia
(Real GDP; percent change from four quarters earlier)

Sources: Haver Analytics; and IMF staff estimates.
Consumer Prices
(Annual percent change)

Source: IMF staff estimates.
Inflation in Industrial Countries
(Distribution of five-year averages of year-on-year CPI inflation across countries)

Source: IMF staff calculations.
B. Global Imbalances: Some Views
United States

Oil exporters¹

Japan

Euro Area

Emerging Asia²

Current Account Balance
(Percent of world GDP)

Sources: Lane and Milesi-Ferretti (2006); and IMF staff estimates.
¹ Algeria, Angola, Azerbaijan, Bahrain, Republic of Congo, Ecuador, Equatorial Guinea, Gabon, I.R. of Iran, Kuwait, Libya, Nigeria, Norway, Oman, Qatar, Russia, Saudi Arabia, Syrian Arab Republic, Turkmenistan, United Arab Emirates, Venezuela, and the Republic of Yemen.
² China, Hong Kong SAR, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan Province of China, and Thailand.
Current Account Balance
(Percent of world GDP)

- Fuel exports
- United States
- China
- Other advanced economies
- Other developing economies

Source: IMF staff calculations.
United States: Current Account and Oil Trade Balances

(Percent of GDP)

Source: IMF staff calculations.
China: Current Account and Oil Trade Balances
(Percent of GDP)

Source: IMF staff calculations.
Back to school: An important identity

\[ NX = Y - (C + I + G) \]

implies

\[ NX = (Y - C - G) - I \]

\[ = S - I \]

trade balance = net capital outflows
“At some point, global investors will decide that U.S. assets account for a big enough share of their portfolios and so will stop acquiring more of them. At that point, asset prices, including interest rates and the exchange value of the dollar, will adjust, reflecting the change of sentiment in the markets. A change in the value of the dollar alone would narrow the trade gap for a while, but the deficit would soon begin to widen again.”

“To put the U.S. current account and trade deficits back on a sustainable path will require structural reforms in the United States and its trading partners that encourage faster global growth, boost U.S. household saving rates, better prepare U.S. workers for technological changes in the global economy, and open up markets for U.S. exports, particularly of services.”
“Much of the excess saving in the rest of the world comes to the United States; it exceeds investment abroad by Americans and accounts for the large current account deficit of the United States.”

“The United States has investment opportunities that produce higher yields than Japan and Europe and that are less volatile and more secure than investments in many emerging markets.”

“Moreover, the US economy is large (accounting for a quarter to a third of the world economy) and has especially well-developed financial markets, accounting for half of the world’s marketable securities.”

“It is not surprising, then, that funds from all around the world are invested in the United States, as well as in Australia, Britain, and Canada, which while much smaller than the United States share some of its other desirable characteristics and are also destinations for much foreign capital.”
Former Treasury Secretary Lawrence H. Summers said last week at a Boston Federal Reserve Bank conference on global imbalances on Cape Cod, Massachusetts, that the $800 billion U.S. current account deficit represents a risk to the global economy and that if its decline isn't carefully managed, it could lead to a world recession.

In contrast, several of the other conference speakers, including Harvard economist Richard N. Cooper and economist Peter Garber of Deutsche Bank, portrayed the deficits as relatively benign.

And a large majority of the roughly 75 economists and academics present indicated by a show of hands that they expect the current account deficit eventually to shrink smoothly to a sustainable level.

The next day, the bank's research director, Jeffrey C. Fuhrer asked how many thought there was at least a 10 percent to 20 percent probability that a financial crisis would force the adjustment to occur. A similarly large majority held up their hands to that as well.
C. Resolving Trade Imbalances
World Saving and Investment
(Percent of GDP)

Sources: OECD Analytical Database; World Bank, *World Development Indicators*; and IMF staff estimates.
Saving, Investment, and Current Accounts
(Percent of world GDP)

Sources: OECD Analytic Database; World Bank, World Development Indicators; and IMF staff estimates.
Saving and Investment in Industrial Countries
(Percent of each subregion’s GDP)

United States

Japan

Euro Area

Other Industrial

Sources: OECD Analytical Database; World Bank, World Development Indicators; and IMF staff calculations.
Saving and Investment in Emerging Market and Oil-Producing Economies (Percent of each subregion’s GDP)

Sources: OECD Analytical Database; World Bank, World Development Indicators; and IMF staff calculations.
How Would the Current Account React to an Increase in the U.S. Saving Ratio? (Percent of GDP)

United States

Japan

Large Euro

East Asia 2

Source: IMF staff estimates.
How Would Current Account Imbalances React to Changes in the Investment Rate in Asia? (Percent of GDP)

Source: IMF staff estimates.
How Would the Current Account React to Changes in Japan’s GDP Growth?

(Percent of GDP)

- United States
- Japan
- Large Euro
- East Asia 1

Source: IMF staff estimates.
Thank You