International Monetary Fund

Global Imbalances—
2017 External Sector Report

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Bruegel
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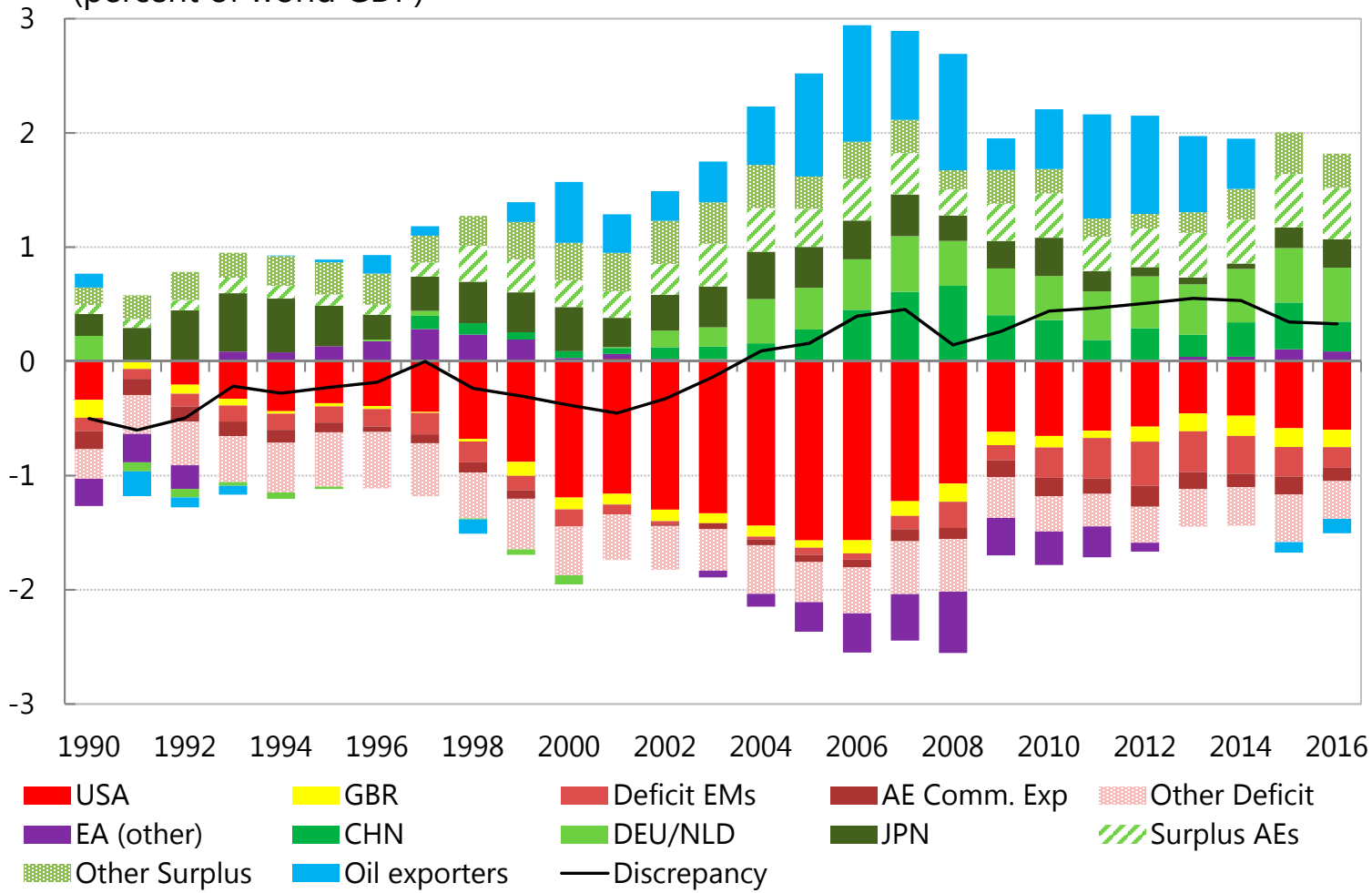
Roadmap

I. Recent developments
II. Assessing external positions
III. External assessments for 2016
IV. Outlook, Risks and Policies
V. Analytical themes

I. Recent developments

Global current account imbalances have remained unchanged since the post-GFC narrowing…

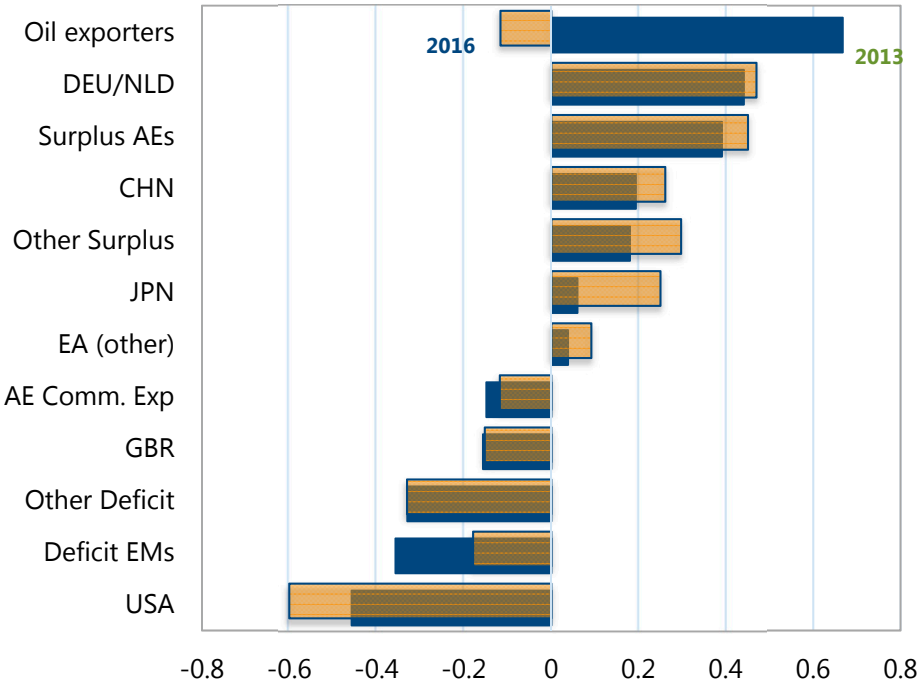
Current Account Imbalances, 1990-2016 1/
(percent of world GDP)



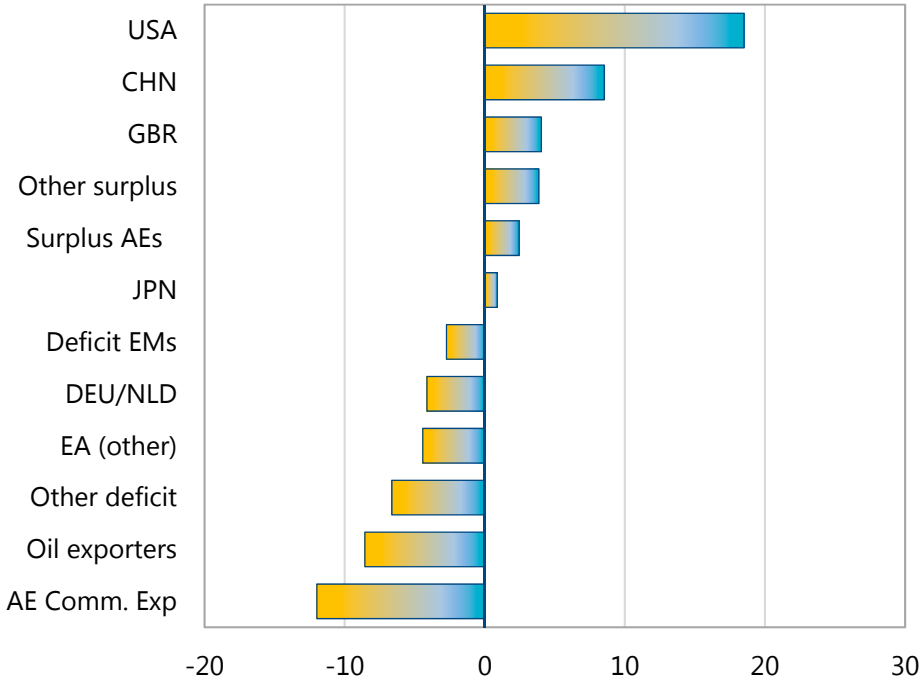
Sources: World Economic Outlook and IMF staff calculations.
1/Surplus AEs: Korea, Hong Kong SAR, Singapore, Sweden, Switzerland, Taiwan POC; AE Commodity Exporters: Australia, Canada, New Zealand; Deficit EMs: Brazil, India, Indonesia, Mexico, South Africa, Turkey; Oil Exporters: WEO definition plus Norway.

…with a rotation of imbalances towards advanced economies…

Current Account Balance Reconfiguration, 2013-16 1/
(percent of World GDP)

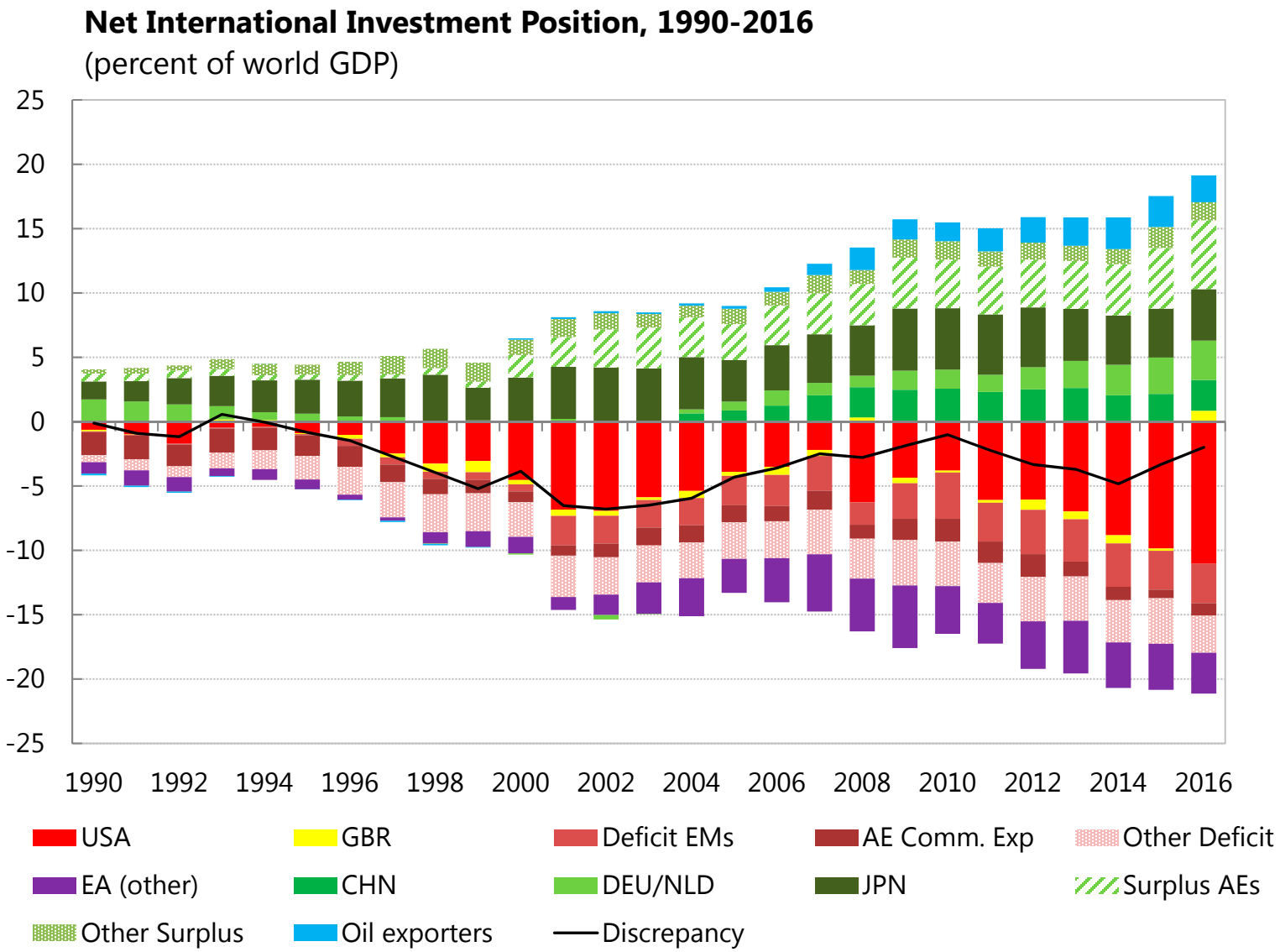


Real Effective Exchange Rate, 2013-16 2/
(percent change)



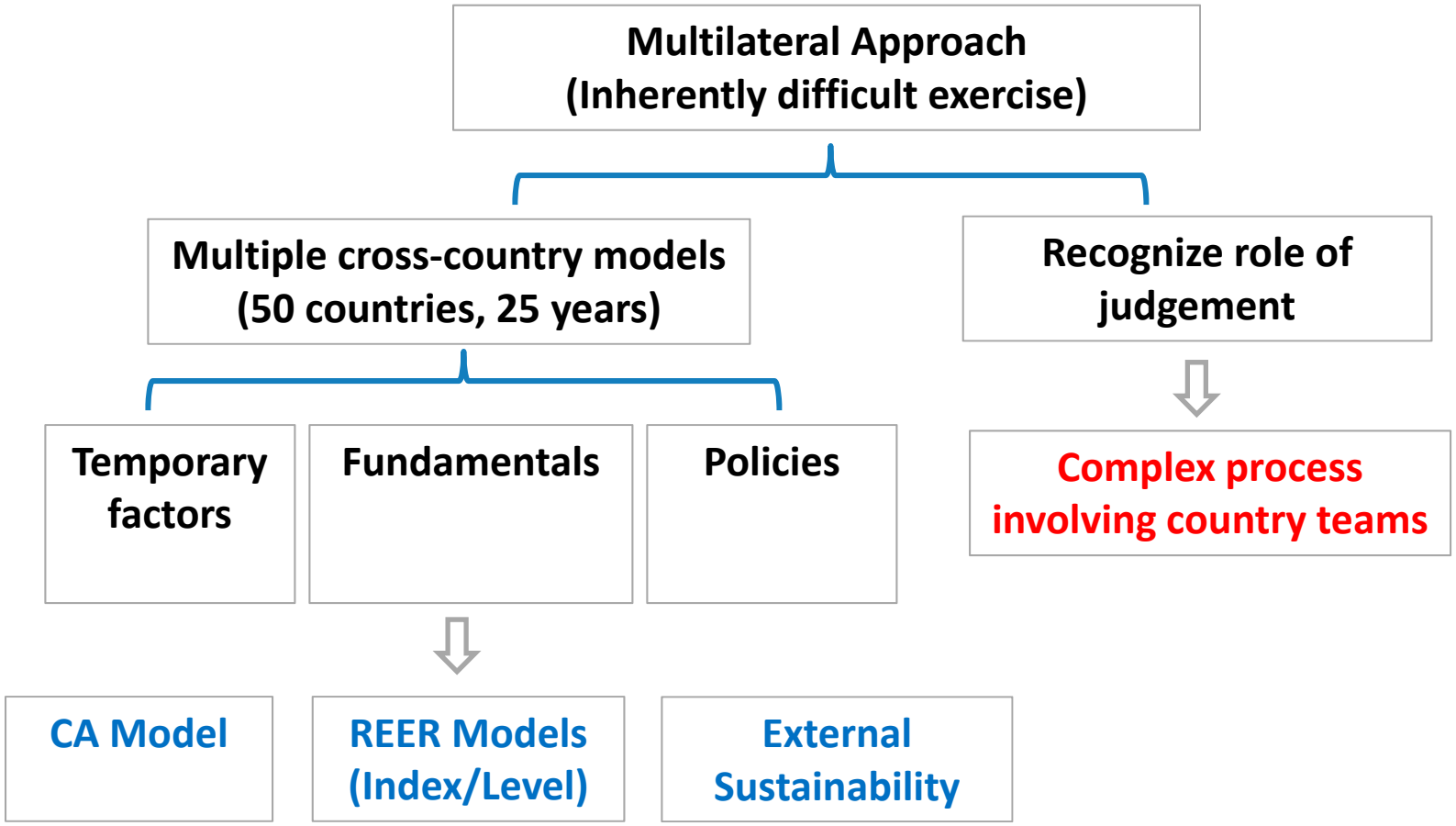
Sources: World Economic Outlook, *International Financial Statistics,* Global Statistics Database and IMF staff calculations.
1/Surplus AEs: Korea, Hong Kong SAR, Singapore, Sweden, Switzerland, Taiwan POC; AE Commodity Exporters: Australia, Canada, New Zealand; Deficit EMs: Brazil, India, Indonesia, Mexico, South Africa, Turkey; Oil Exporters: WEO definition plus Norway.
2/ 2016 average relative to 2013 average. For groups, weighted averages using US$ GDP as weights are reported.

…leading to a widening of stock imbalances



II. Assessing external positions

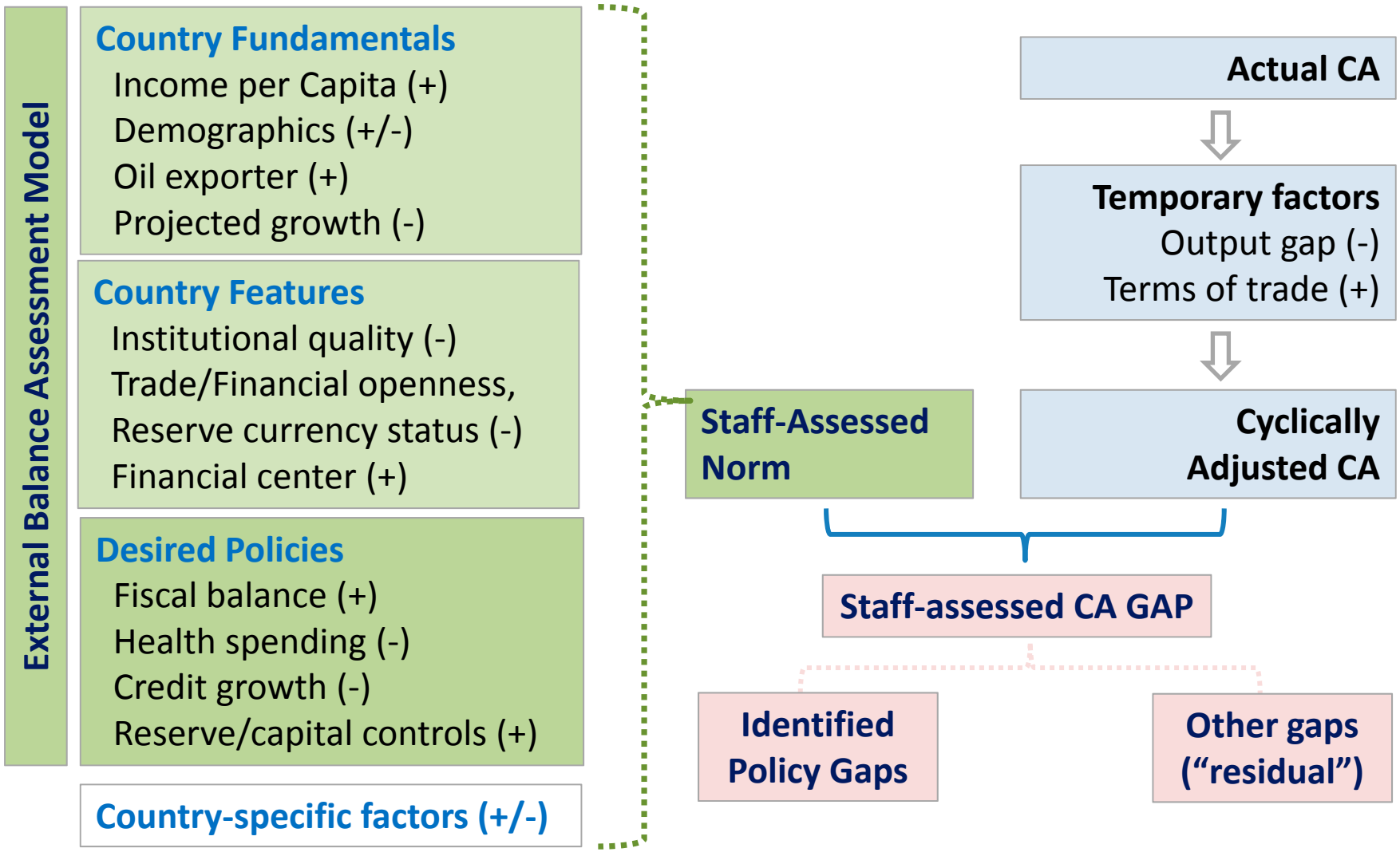
But how "excessive" are global imbalances?
Fund has been conducting external assessments since 2012



EBA methodology: http://www.imf.org/external/pubs/ft/wp/2013/wp13272.pdf

ESR: http://www.imf.org/en/Publications/SPROLLs/External-Sector-Reports

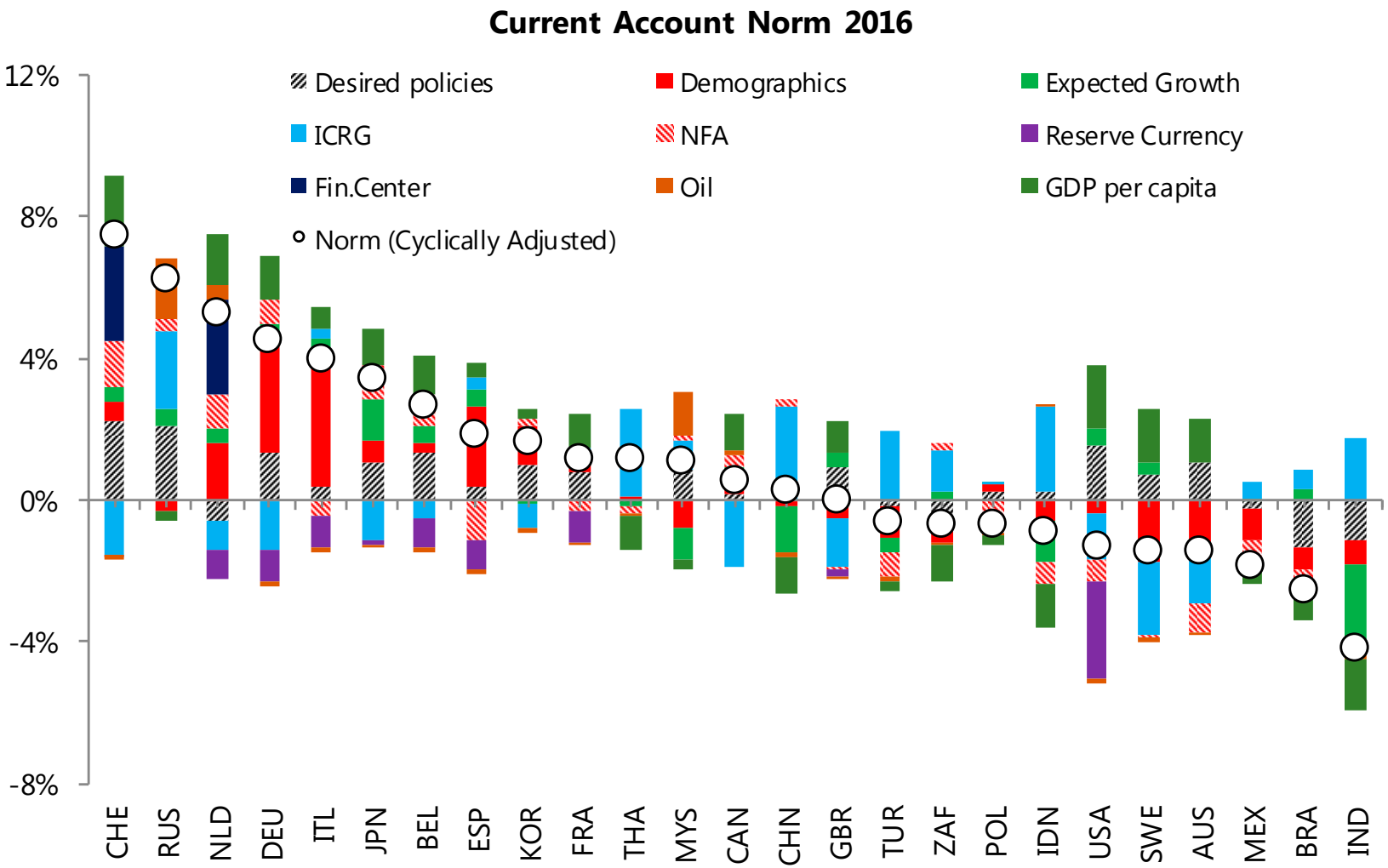
The ESR framework (focused on CA model)



EBA methodology: http://www.imf.org/external/pubs/ft/wp/2013/wp13272.pdf

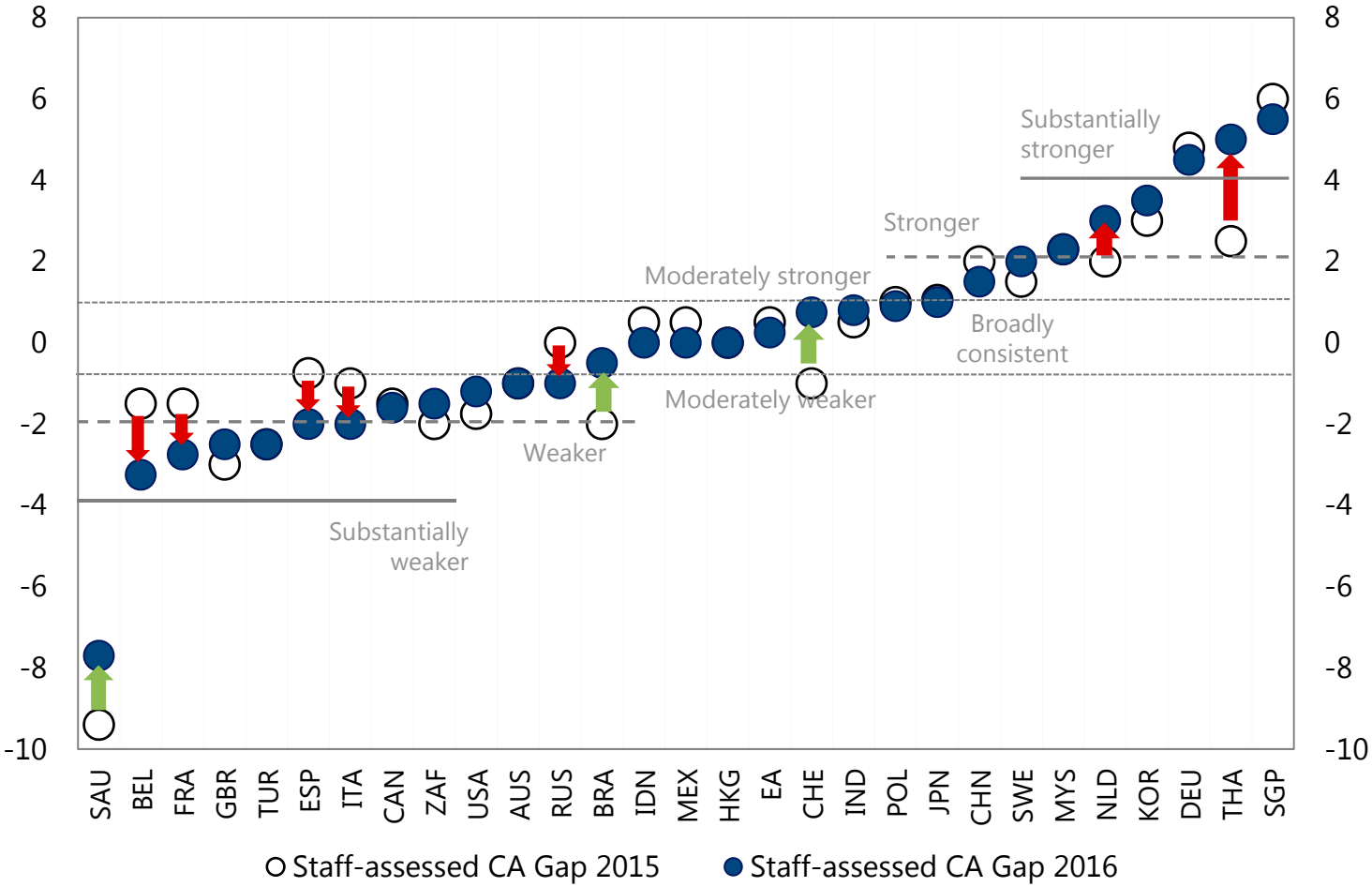
III. External Assessments for 2016

A wide range of EBA norms—reflecting fundamentals and desired policies



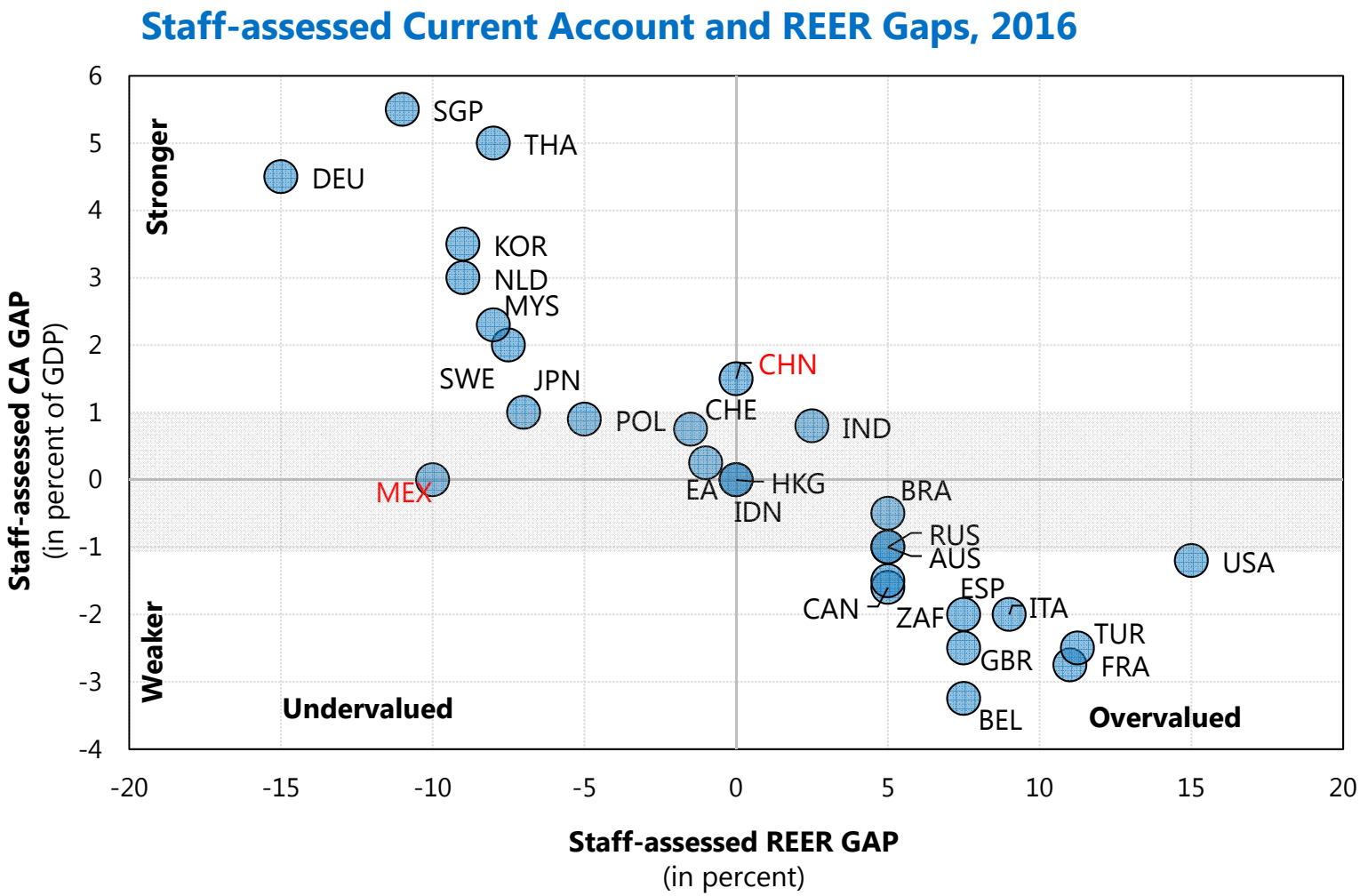
Excess imbalances were broadly unchanged in 2016 …

Staff-assessed current account gaps
(mid-point, in percent of GDP)



Source: IMF Staff assessments.
1/ Sorted by the mid-point of the staff-assessed gap.

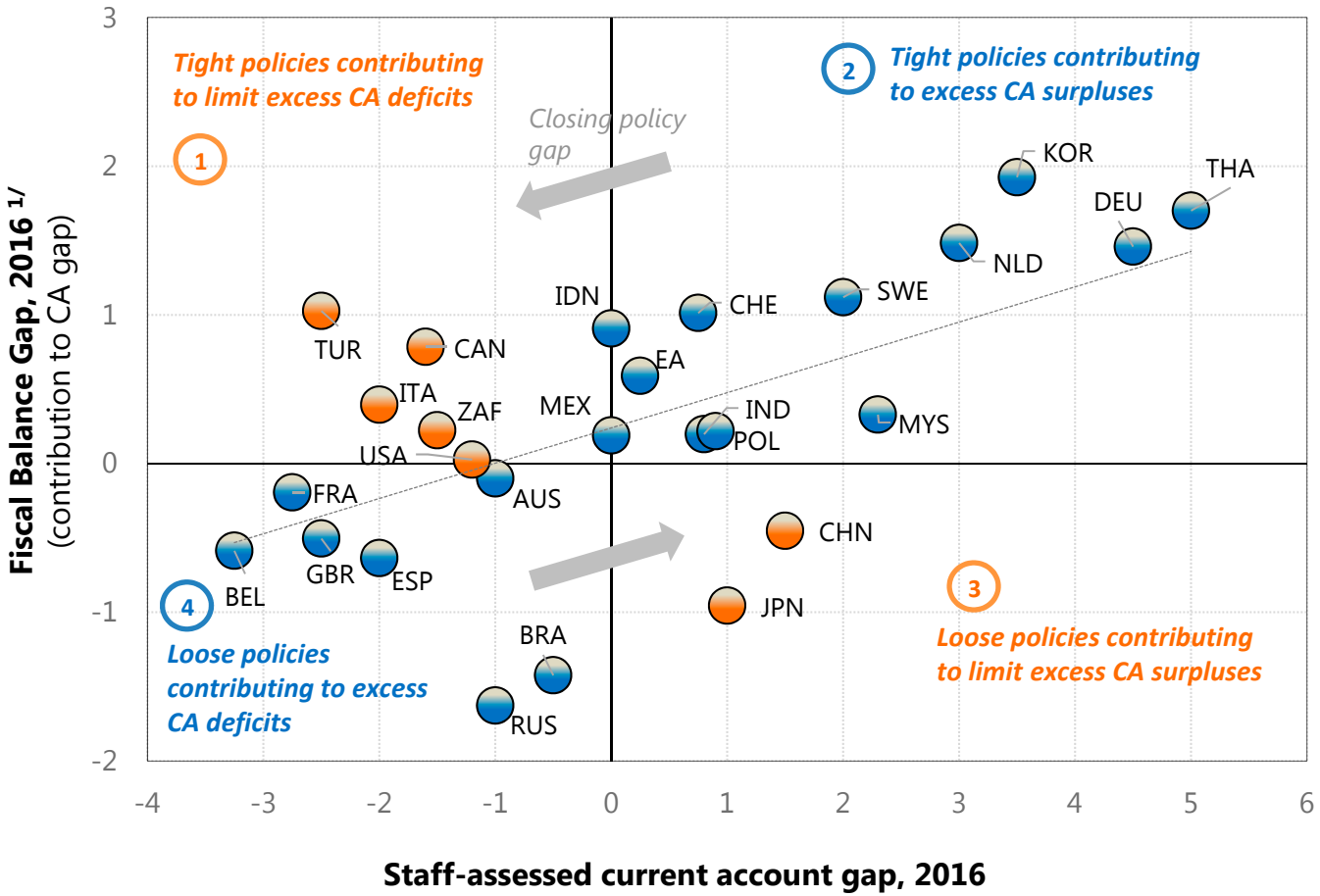
Staff-assessed REER gaps in line with CA gaps for most cases.



Source: IMF Staff assessments.
1/ Midpoints of REER and CA Gaps. Shaded area represents general range for "broadly in line" assessment.

Identified policies gaps have played a role in driving excess imbalances in many cases …

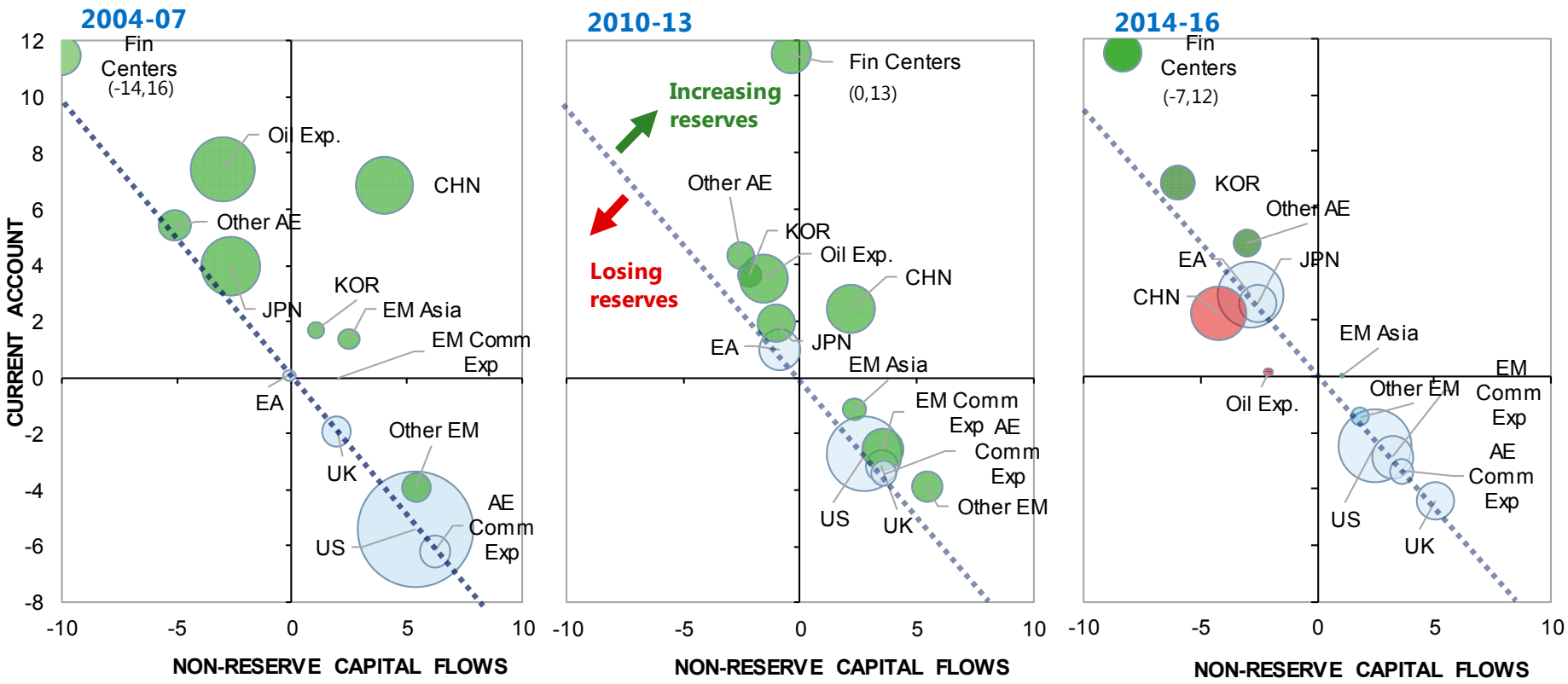
ESR CA Gap and Contribution from Fiscal Policy Gap, 2016 1/
(in percent of GDP)



Sources: IMF staff estimates and assessments.
1/ Policy gaps after multilateral consistency adjustment.

… while FXI has played a very limited role, in contrast to the past.

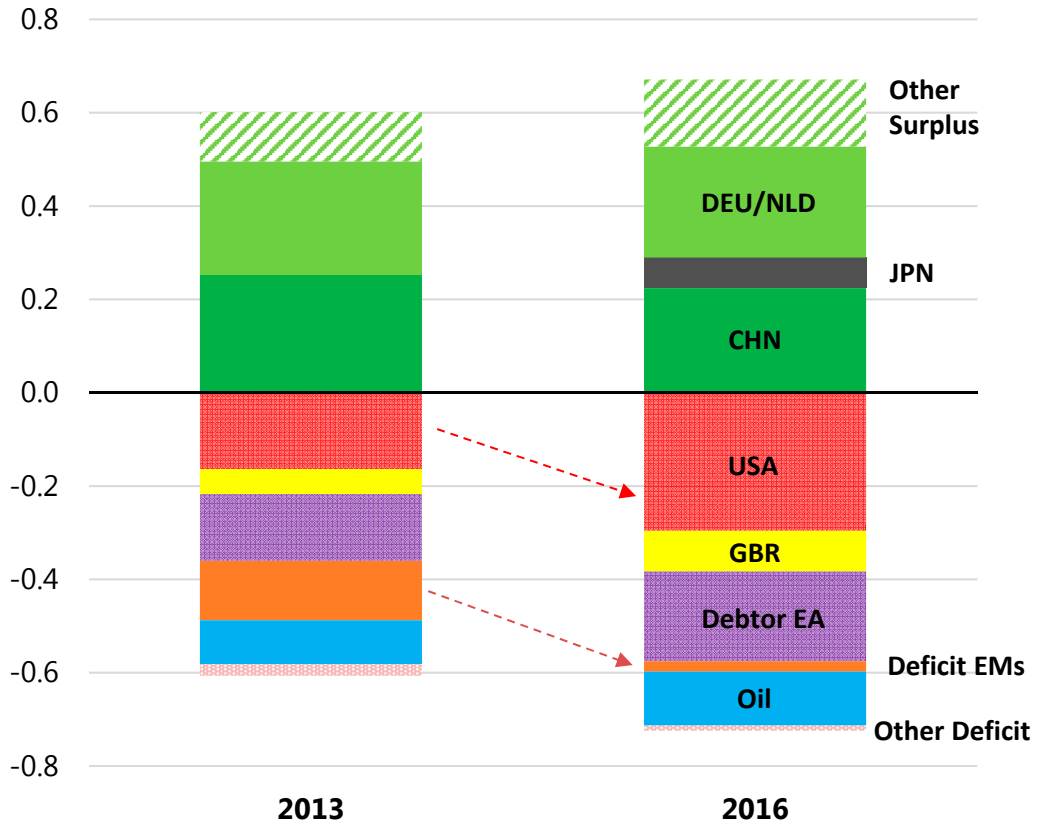
Non-reserve capital flows, current accounts and reserve changes, 2004-16 1/
(percent of GDP)



Sources: WEO and IMF staff calculations.
1/ Includes EBA countries plus Hong Kong SAR, Saudi Arabia and Singapore. Green (red) circles correspond to economies with significant accumulation (decumulation) of reserves. Others are marked in light blue. Capital flows calculated as current account balance minus change in reserves. Circles are proportional to the absolute value of CA balance, as share of world GDP (i.e., contribution to global imbalances). Values for financial centers are denoted in the label, as they fall outside of the graph's scales.

Since 2013, excess imbalances have been persistent, rotating towards advanced economies

ESR Countries: Overall Excess Imbalances
(in percent of World GDP)



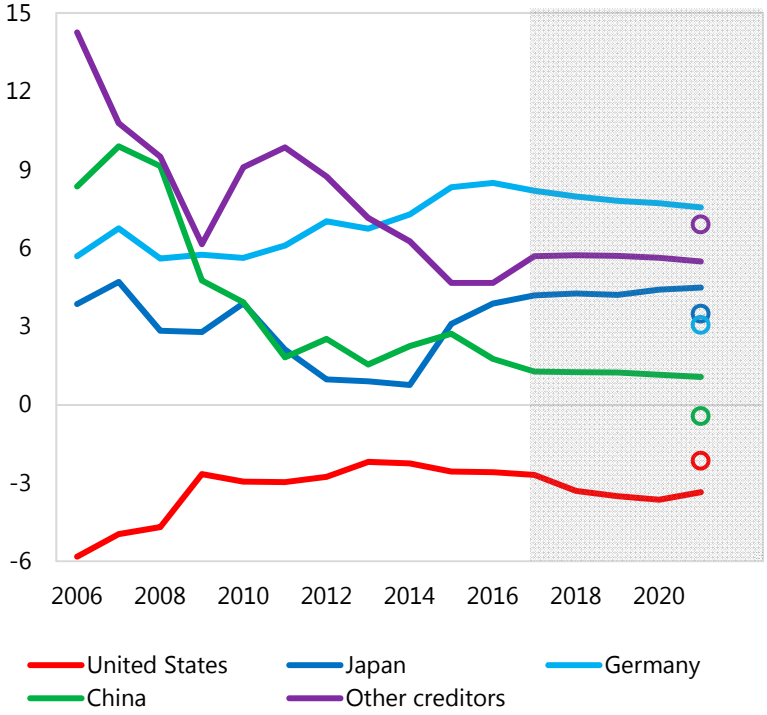
Sources: IMF staff estimates and assessments.
1/ Other surplus: Hong Kong SAR, Korea, Malaysia, Singapore, Sweden, Switzerland, and Thailand; Debtor EA: Belgium, Italy, France, Spain; Deficit EMs: Brazil, India, Indonesia, Mexico, South Africa, Turkey; Oil Exporters: Canada, Russia, Saudi Arabia; Others: Australia, and Poland.

IV. Outlook, Risks and Policies

Going forward, the projected persistence of flow imbalances will further widen stock positions …

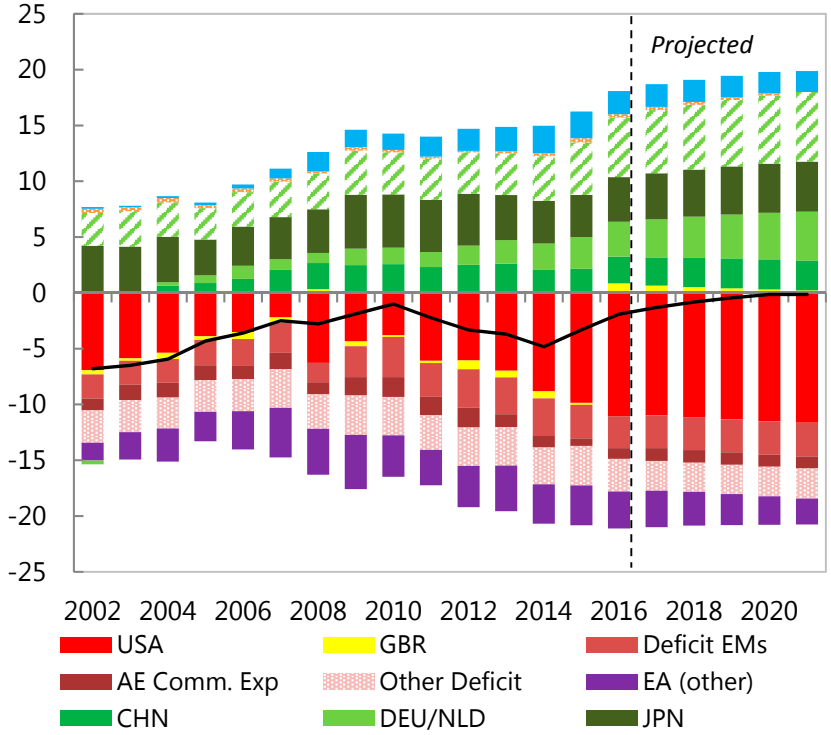
Selected ESR Economies. Current Account and NIIP, 2002-21

Current Account Balance, 2006-21
(percent of GDP)



Sources: World Economic Outlook and IMF staff calculations.
1/ Dots correspond to the CA balance if gaps are closed.
2/ Other creditors: weighted average of key oil exporters and financial centers (Russia, Saudi Arabia, Hong Kong SAR, Singapore and Switzerland).

Net International Investment Position, 2002-21 1/
(percent of world GDP)



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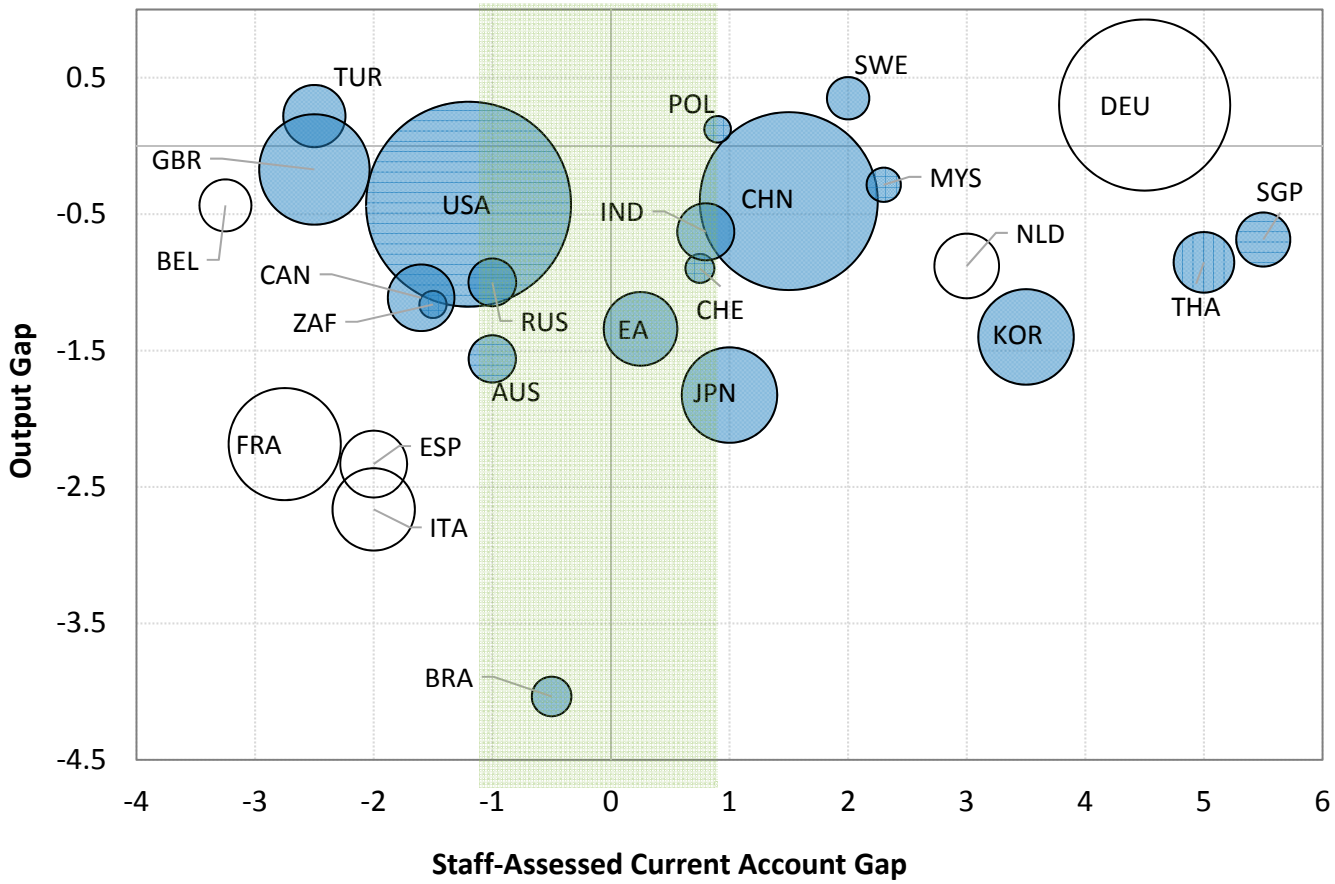
1/Surplus AEs: Korea, Hong Kong SAR, Singapore, Sweden, Switzerland, Taiwan POC; AE Commodity Exporters: Australia, Canada, New Zealand; Deficit EMs: Brazil, India, Indonesia, Mexico, South Africa, Turkey; Oil Exporters: WEO definition plus Norway.

The current configuration of imbalances entails new risks

Persistent excess imbalances	▪ Weak automatic adjustment mechanisms ▪ Continuation of imbalances
Concentration of excess deficits in a few advanced economies	▪ Lower deficit-financing risks ▪ Greater risk of trade policy actions
Diverging stock positions & reliance on demand from debtor countries	▪ Risk to global recovery ▪ Risk of future disruptive adjustment

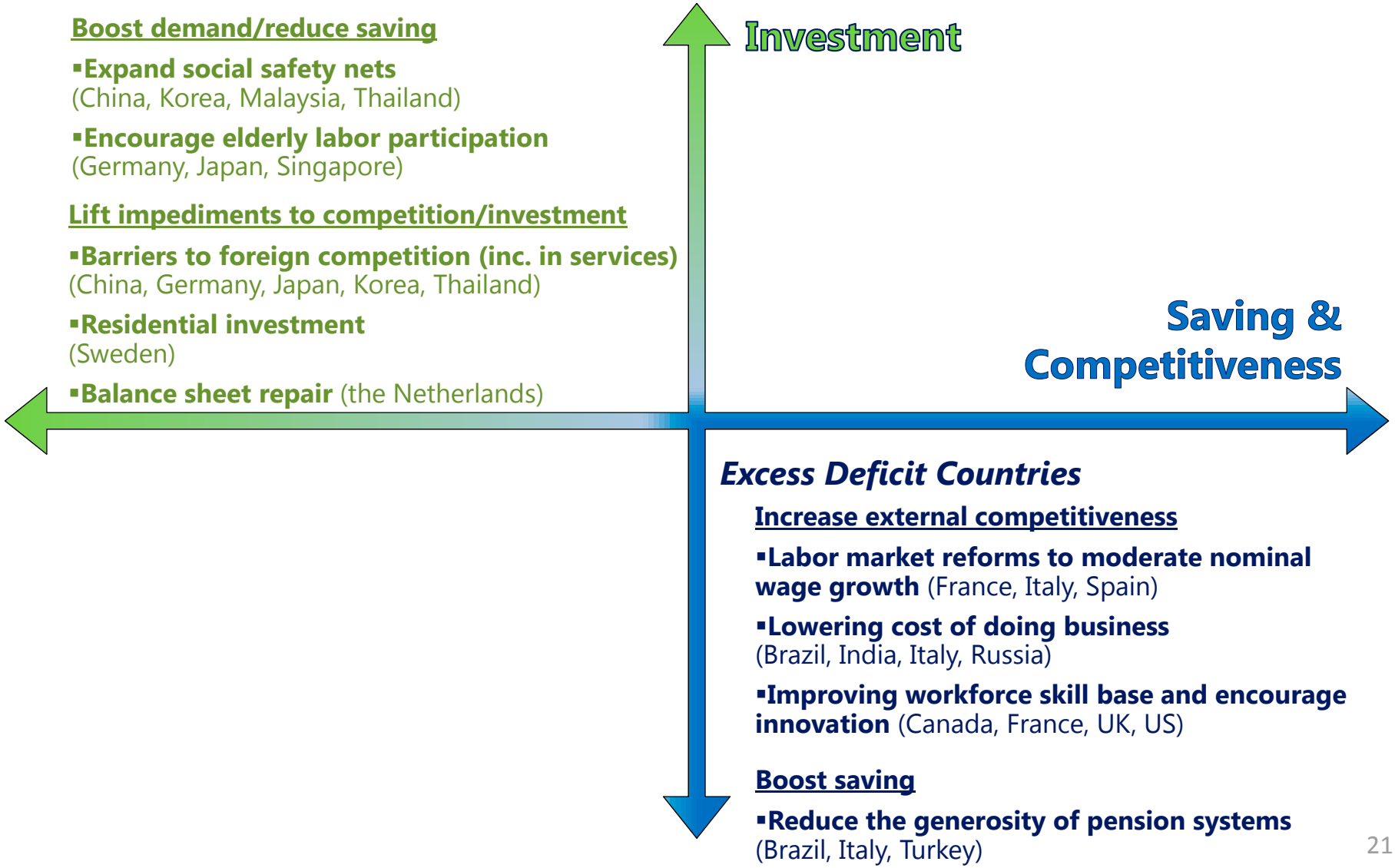
With nearly-closed output gaps, a recalibration of policies is needed in some cases…

ESR Economies: Output and Staff-assessed Current Account Gaps, 2016
(percent of GDP)



Sources: World Economic Outlook, and IMF staff calculations.
1/ Bubble sizes are proportional to the absolute value of the assessed excess external imbalance, in percent of world GDP (i.e., contribution to global excess imbalances).

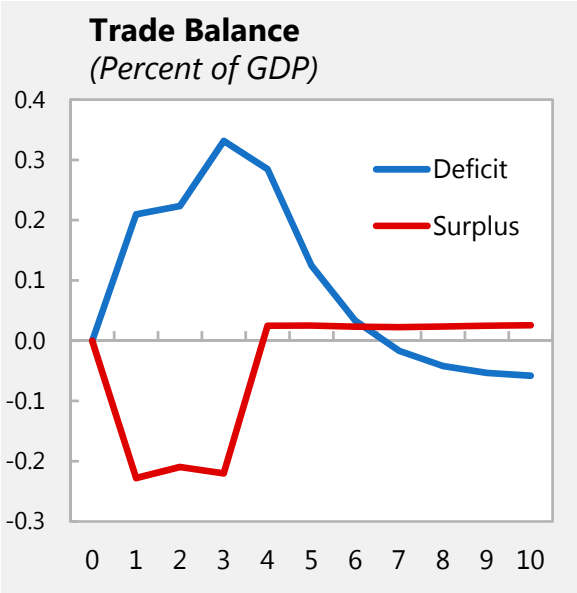
…although persistent imbalances also point to the importance of addressing structural distortions.

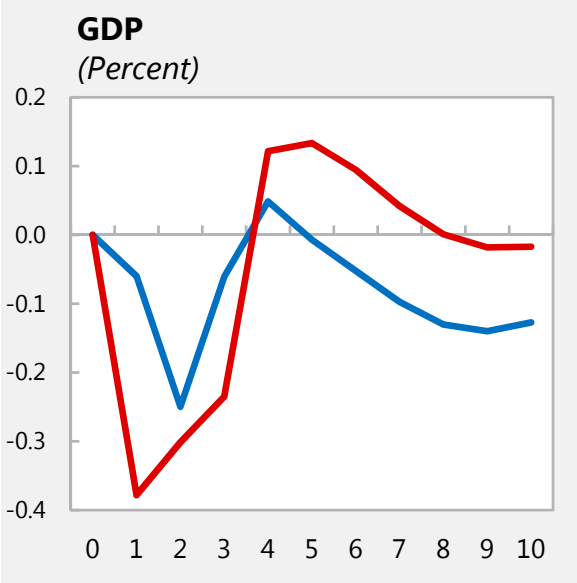


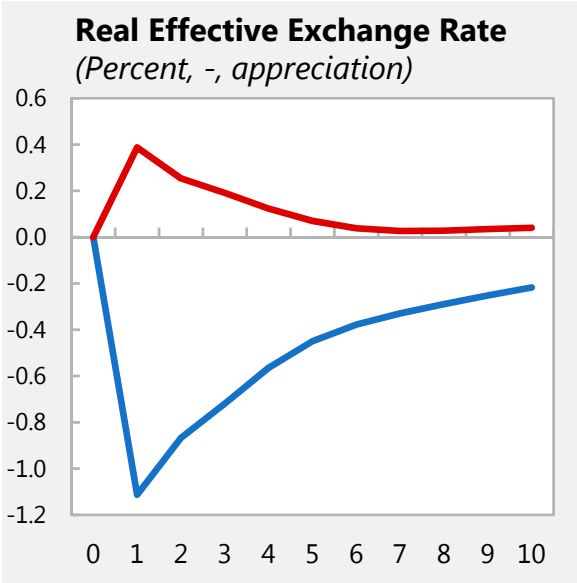
V. Analytical themes

Trade policy actions and external imbalances

GIMF Simulation: Trade Protection, Global Imbalances, and Growth

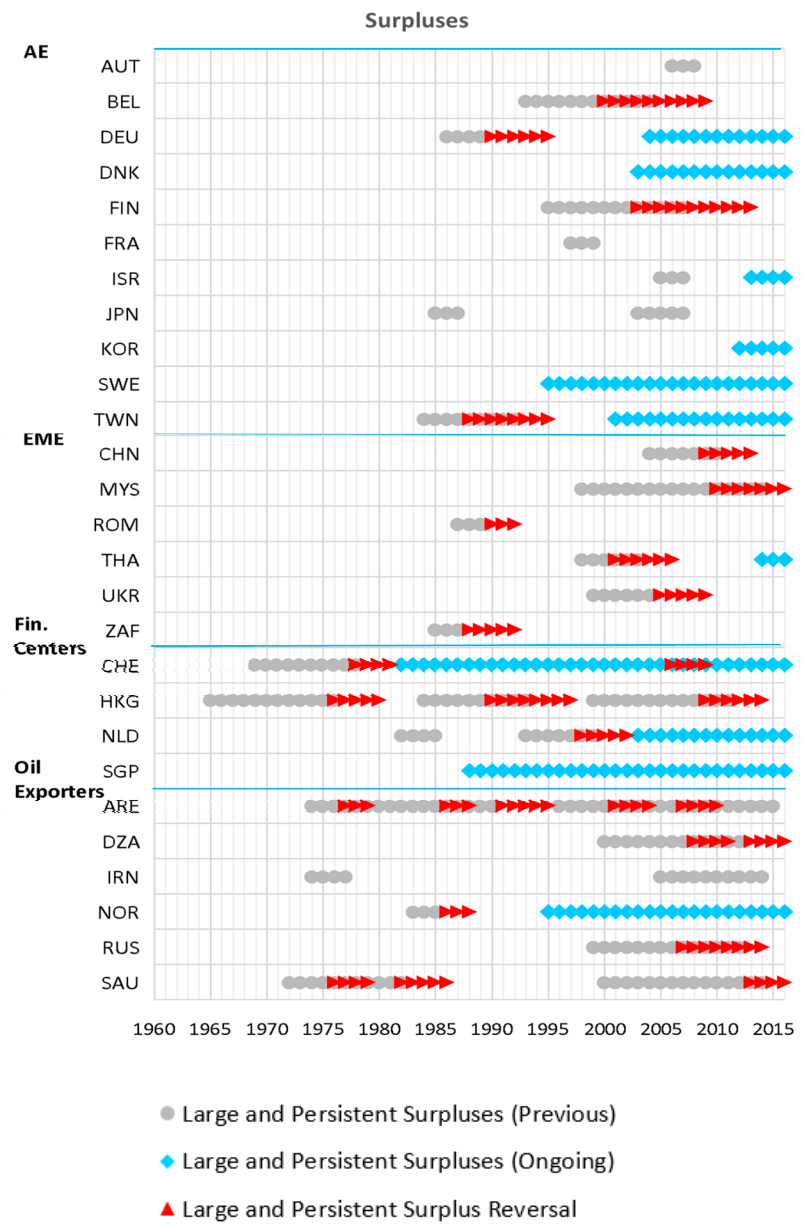


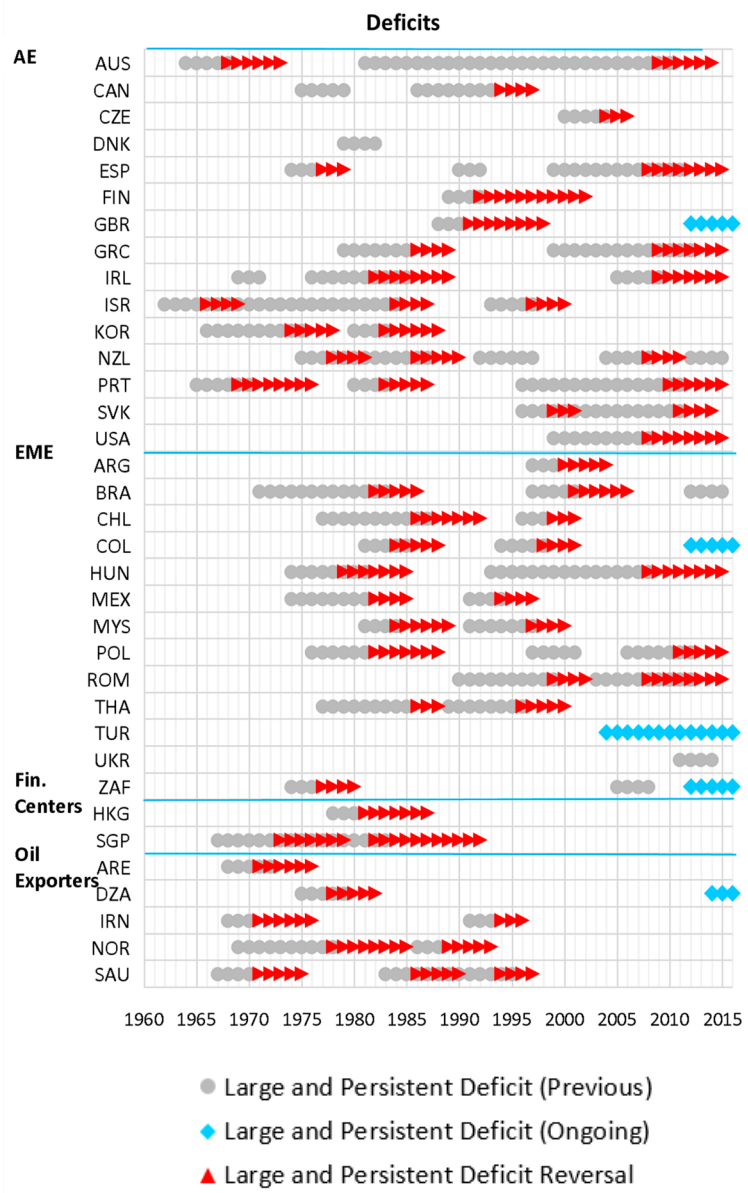




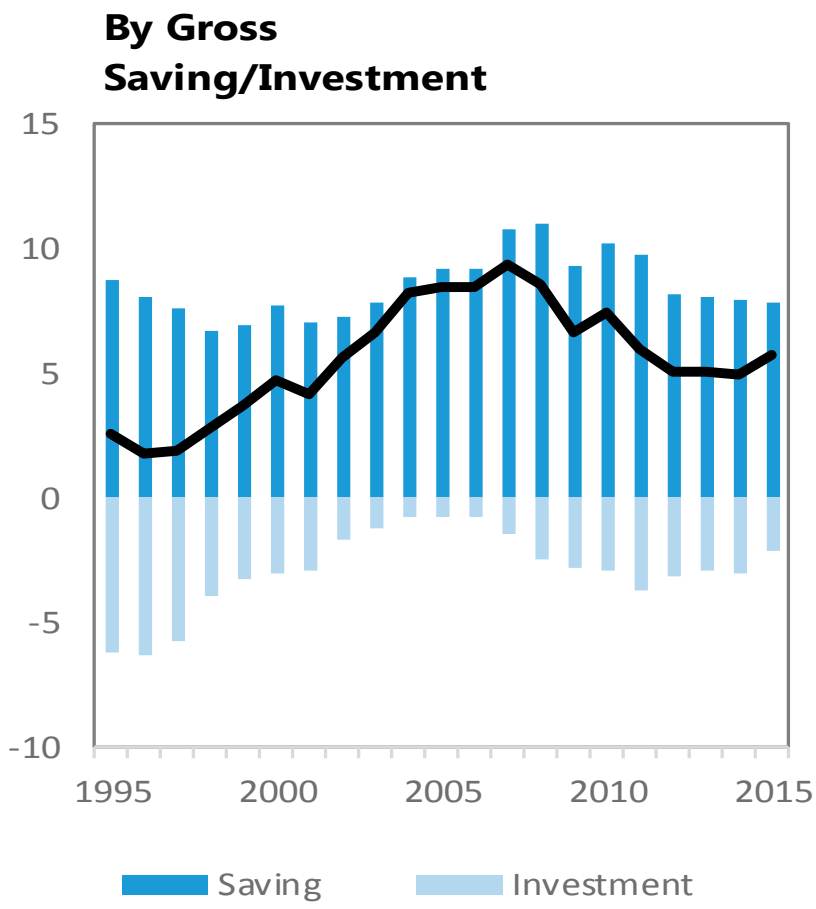
Source: GIMF simulation. 2017 ESR Box 6.
*/ Deficit country initially imposes a non-tariff barrier for 2 years on imports from a surplus region (equivalent to 10 percent tariff). Surplus country retaliates after one year. All barriers are lifted after 4 years.

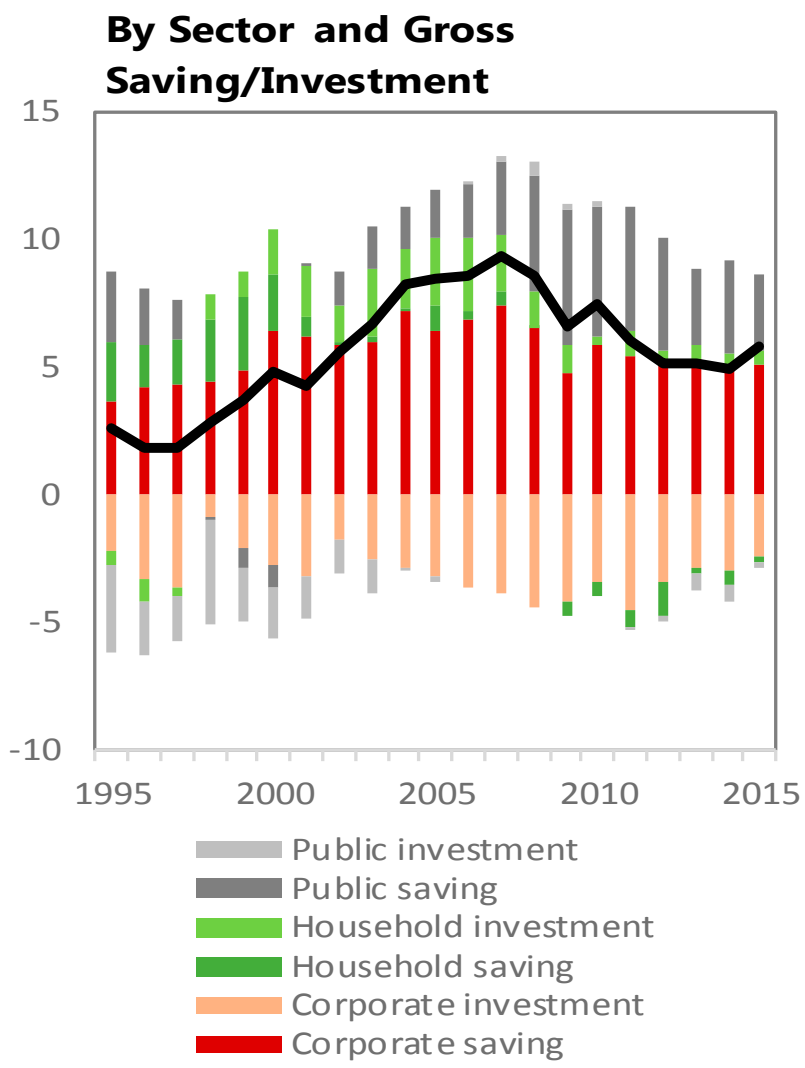
Persistence and concentration of surpluses in AEs





Corporate saving





Source: IMF WEO and Fund staff calculations.
1/ Surplus (deficit) countries are those that ran surpluses (deficits) in 2008.

Key Takeaways

Excess imbalances broadly unchanged in 2016	○ Despite narrowing after the GFC, progress in reducing excess global imbalances has stalled in recent years ○ Largest excess surpluses driven in part by 'too tight' policies ○ Limited FXI, in contrast to the past
Since 2013, a rotation of *excess* imbalances towards advanced economies	○ Since 2013, narrowing of excess deficits in key EMs ○ Larger excess surpluses and deficits in key advanced economies

Persistent imbalances	○ Persistent excess imbalances (excess surpluses in particular) point to weak automatic adjustment mechanisms
	  ○ Sustained excess imbalances in countries with rigid currency arrangements (EA, oil exporters)
	  ○ Structural distortions to saving/investment

Recent developments and outlook	○ No significant changes since 2016, but elevated policy uncertainty ○ Continuation of flow imbalances will further widen stock imbalances ○ Reliance on demand from debtor countries
Need to recalibrate policies and tackle structural distortions	○ With nearly-closed output gaps, tackling external imbalances requires a recalibration of the policy mix in key economies ○ Reforms to tackle structural distortions leading to excess external positions ○ Supporting free trade is key to sustaining the global recovery

Some useful links

2017 External Sector Report

http://www.imf.org/en/Publications/Policy-Papers/Issues/2017/07/27/2017-external-sector-report

"Global Imbalances: Avoiding a Tragedy of the Commons" (blog)

https://blogs.imf.org/2017/07/28/global-imbalances-avoiding-a-tragedy-of-the-commons/

"Assessing Global Imbalances: The Nuts and Bolts" (blog)

https://blogs.imf.org/2017/06/26/assessing-global-imbalances-the-nuts-and-bolts/

EBA Methodology (working paper)

http://www.imf.org/external/pubs/ft/wp/2013/wp13272.pdf

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