

The Crisis and Global Imbalances

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Have economists missed it? Not quite

- **Certain predictions about imbalances proved wrong, like...**
 - ... adjustment would come from the macro side (not financial stability)
 - ... collapse of the US dollar
 - ... flight from dollar assets would lead to higher US interest rates
 - (Some even argued that imbalances were not a problem)
- **However:**
 - Global imbalances clearly paved the way to the crisis, in many ways.
The crisis would not have happened without them
- **Hence the warning was correct!**

Global imbalances and the crisis

- **Macroeconomic dimensions of global imbalances**
 - Excess demand in the US and savings in Asia
 - Exchange rate misalignments
 - Accumulation of dollar reserves by EMEs
 - Oil prices
- **Micro-financial dimensions of the crisis**
 - Excess liquidity leading to credit boom
 - Underestimation of risk, asset price bubbles
 - Financial innovation, risk transfer
 - Lax regulation

Links between global imbalances and the crisis

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Links between global imbalances and the crisis

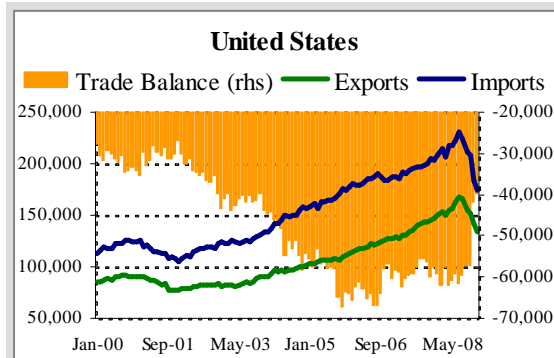
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How the crisis is affecting global imbalances

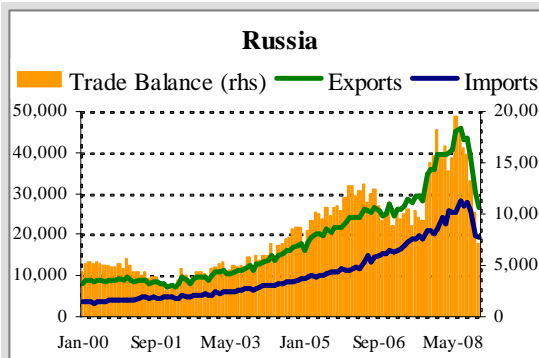
- **Sharp decline of trade flows, with lower net trade imbalances**
- **Large exchange rate movements (not always in the right direction)**
- **Lower oil prices (so far...) helping adjustment, except for China**
- **Question: is the US external position really adjusting?
Role of valuation effects on stocks**

Effects of the crisis on the trade balance

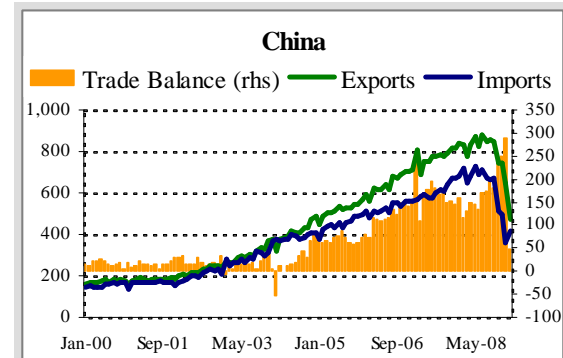
Trade Balances, exports and imports in systemically important economies.



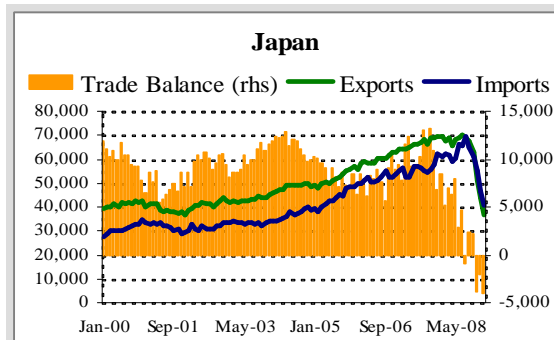
Notes: Goods and Services, SA, Mil. \$.
Source: Haver and Census Bureau



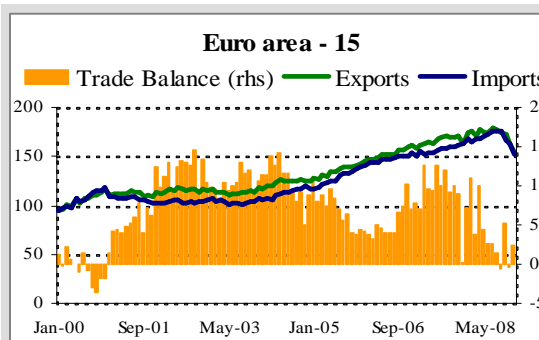
Notes: Goods, SA, Mil. US\$.
Source: Haver and Central Bank of the Russian Federation.



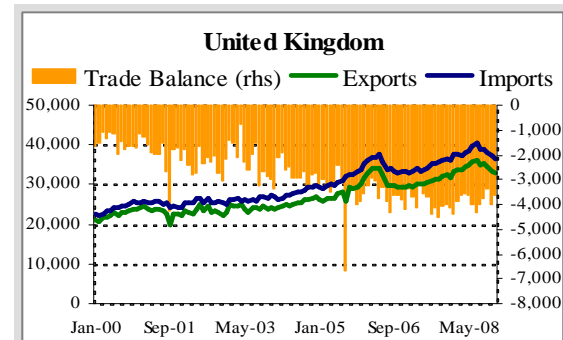
Note: Merchandise, SA, Bil. Yuan.
Source: Haver and China Customs.



Note: Goods, SA, 100 Mil. Yen.
Source: Haver and Bank of Japan / Ministry of Finance.

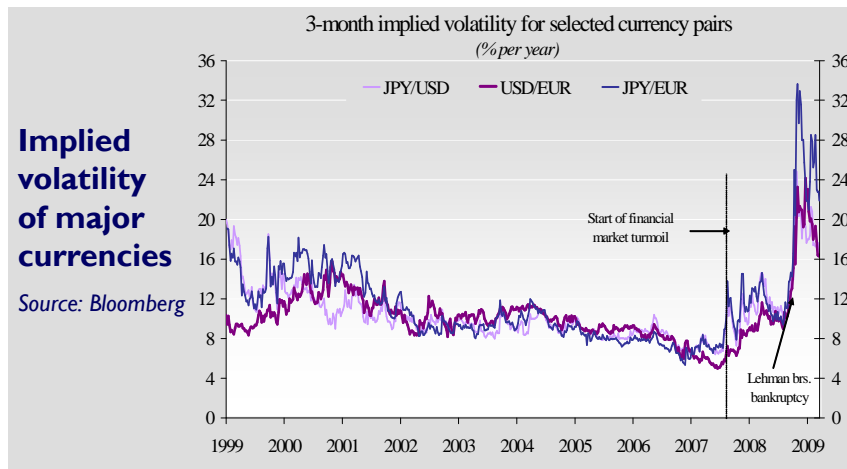
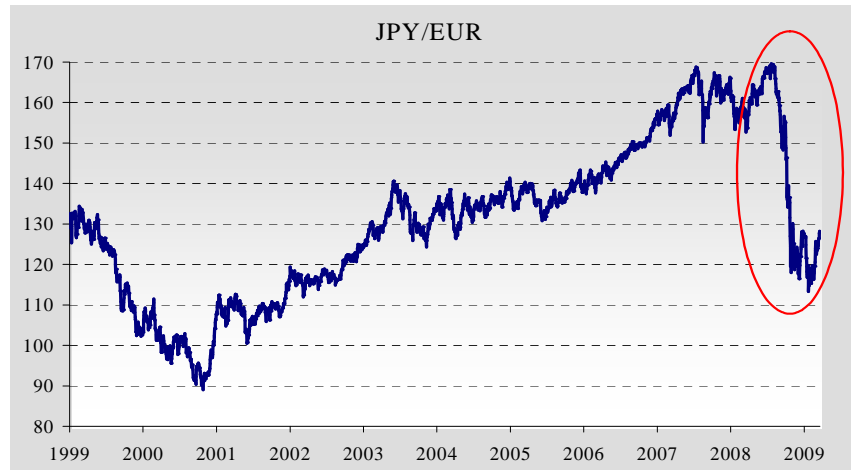
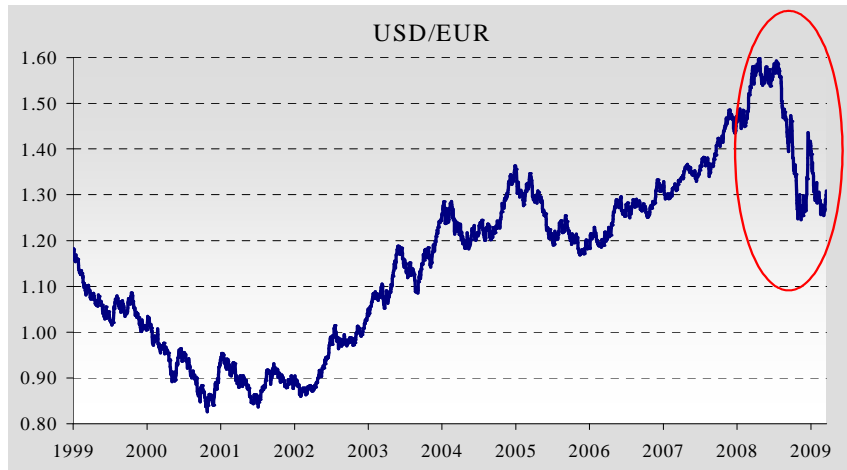


Note: Goods and Services, BOP Basis (SWDA, Bil. EUR).
Source: Haver and European Central Bank.



Note: Goods and Services, BOP Basis (SA, Mil. Pounds).
Source: Haver and Office for National Statistics.

Volatility and developments in FX markets



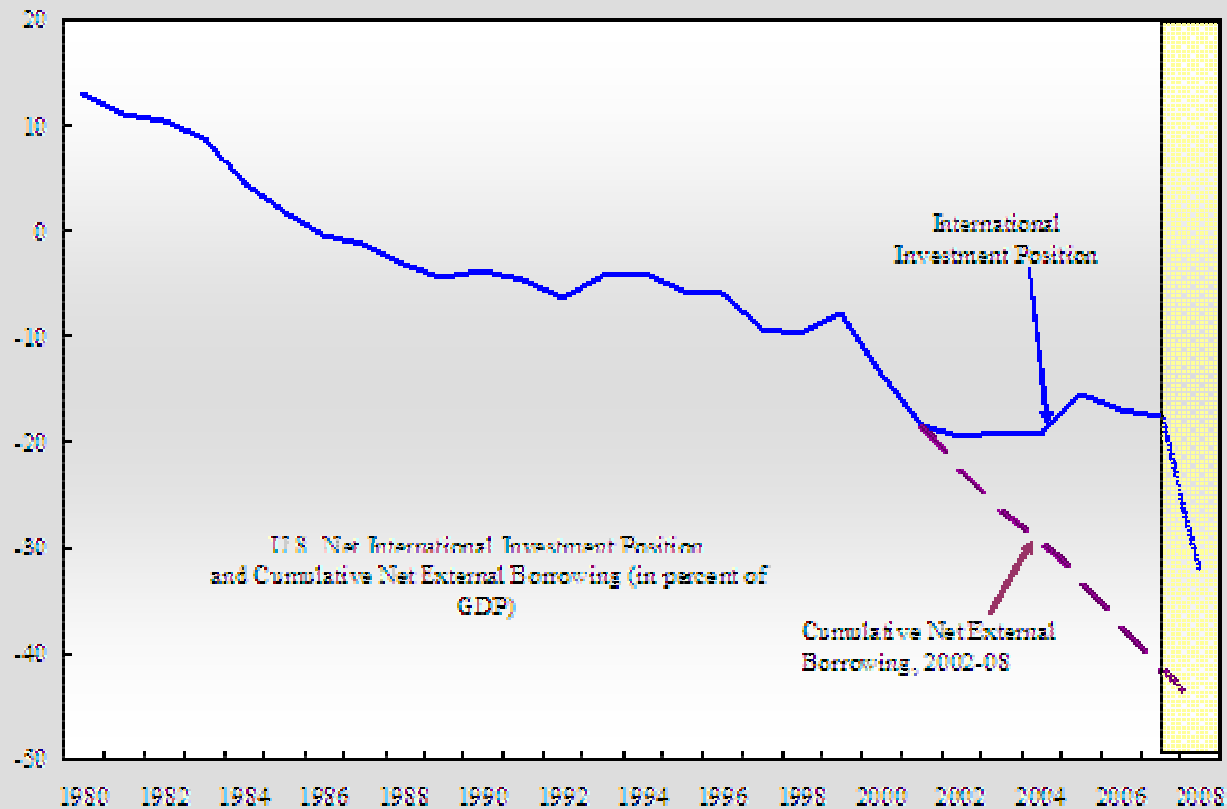
Oil prices and oil imports

- **Oil prices affecting external positions of main oil importers roughly equally**

	Oil imports in 2008 USD 103 per barrel		Oil imports in 2009 USD 50 per barrel	
	in USD bn	in % of GDP	in USD bn	in % of GDP
United States	398	2.8%	208	1.5%
Euro area	337	2.4%	167	1.2%
China	135	3.2%	69	1.6%
Others	587	-	301	-
Total	1458	-	746	-

Source: ECB calculations

US net external position (stock)



Source: Gian Maria Milesi-Ferretti, "A \$2 trillion question" (VOX column)

Main challenges ahead

EUROPE

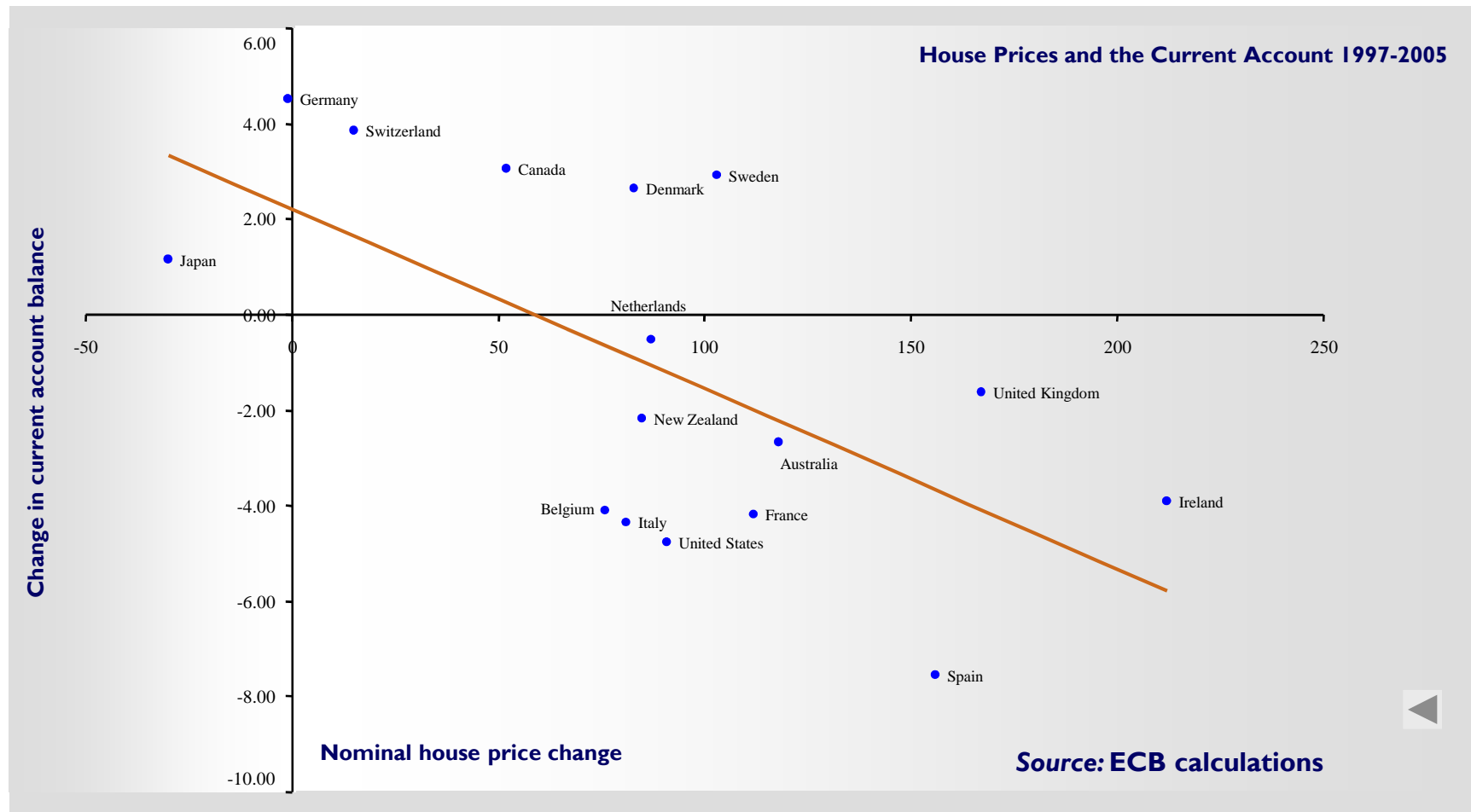
- **Enhance transparency in bank balance sheets.
Strengthen and complete the process of bad assets write-off**
- **Preserve and enhance European financial integration**
- **Build a new bank supervisory framework**

GLOBAL

- **New financial architecture: more integrity and transparency in the financial markets (G20, FSB, IMF)**
- **Reinforce international policy cooperation**

House prices and the current account 1997-2005

Negative correlation, globally and in Europe. But causation is unclear



Accumulation of US dollar reserves by EMEs

Official reserves accumulation contributed to finance and prolong the imbalances

