



Asia, the US Dollar and Global Imbalances

Malcolm Knight

General Manager of the BIS

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Three issues at stake

- Are global external imbalances sustainable?
- If they are not, what has kept them in place?
- What should we do for a smooth adjustment?



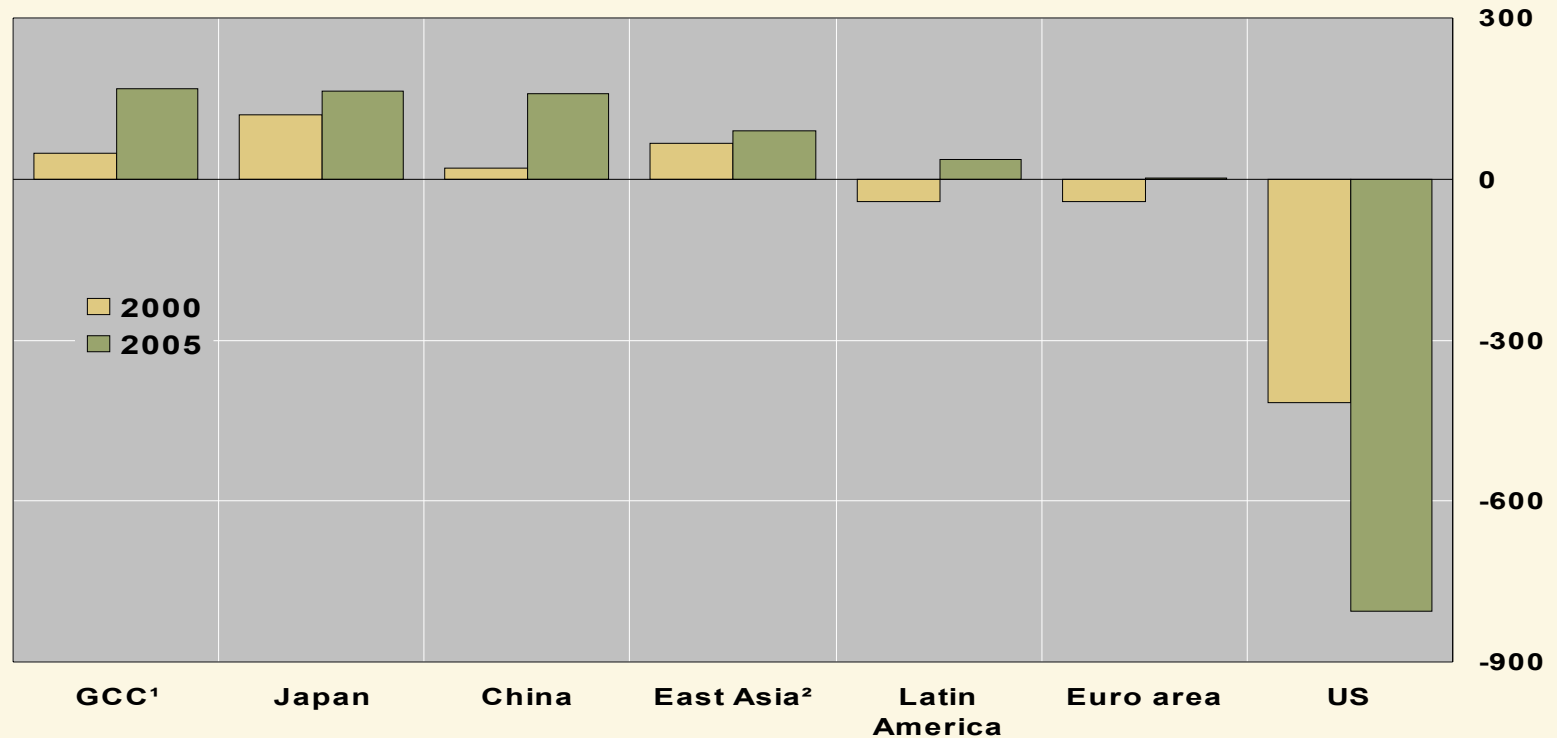
Global imbalances suggest a longer-term disequilibrium

- Global stocks of external assets and liabilities loom large over underlying economies
- Global patterns of capital flows highly unusual
 - Emerging markets are financing capital-rich economy
 - Reserve assets not helping to diversify risk
- In US, households are not saving and corporations are not investing



Net flows: US and emerging markets

Current account balances in 2000 and 2005 in billions of US dollars

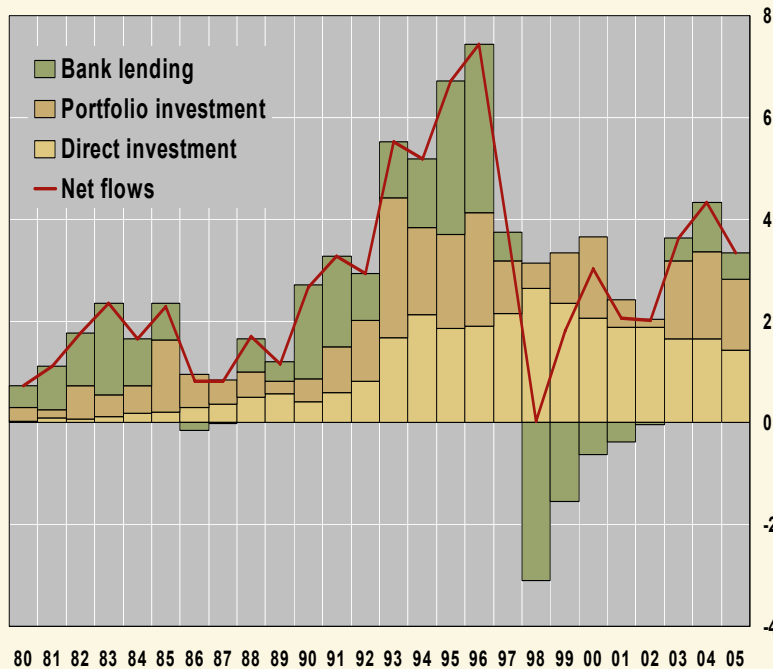


¹ GCC (Gulf Cooperation Council) countries include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE. ²East Asia includes Hong Kong SAR, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan (China) and Thailand.

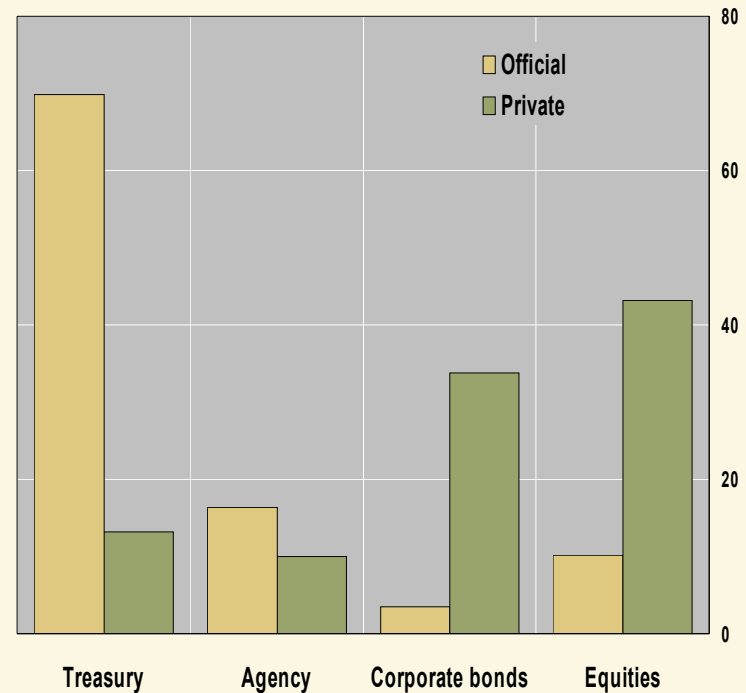


Gross flows: Asia and the rest of the world

Net private capital flows to Asia as % of regional GDP



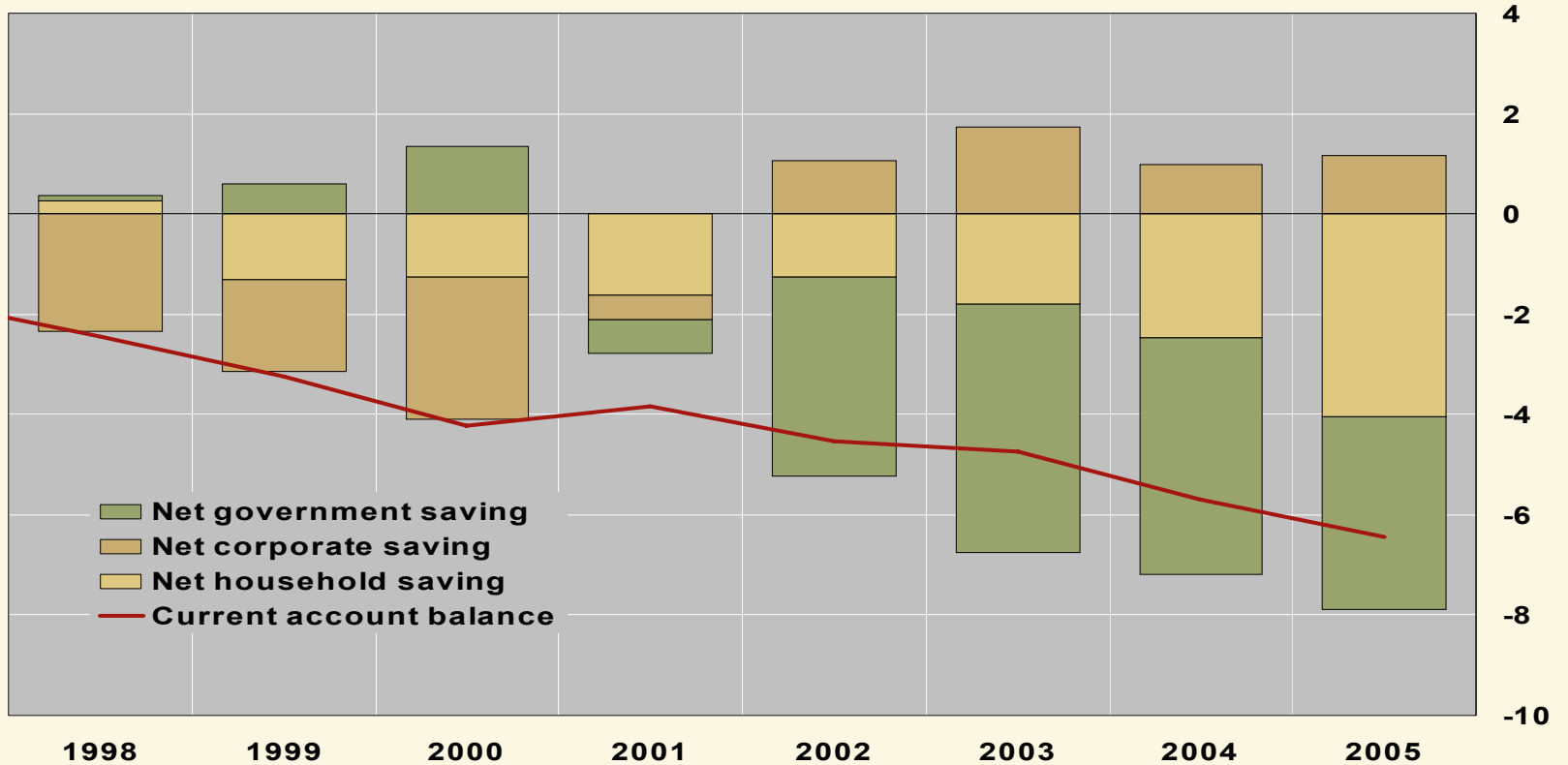
Foreign holdings of long-term US securities as % of total



Note: Asia comprises China, India, Indonesia, Korea, Malaysia, the Philippines and Thailand.
Sources: Institute of International Finance; US Treasury et al (2005).



US net saving by sector



As percentages of GDP.

Source: National data.



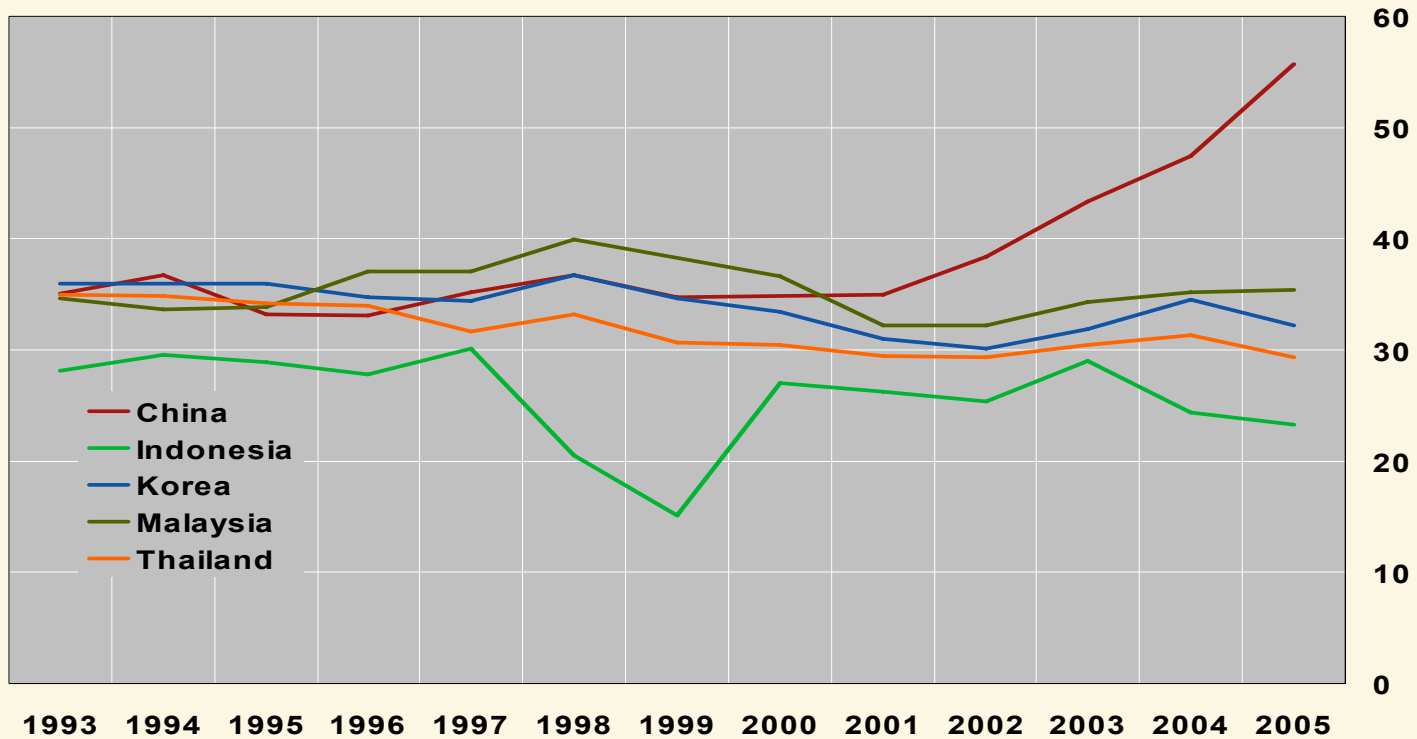
If it is a disequilibrium, why does it continue?

- China continues to save while other emerging Asian economies stay on investment strike
- Reluctance to let Asian currencies appreciate helps finance imbalances
- Low interest rates still support spending by American households



Asia still has high savings and China is saving more and more

Saving for selected countries as a percentage of GDP

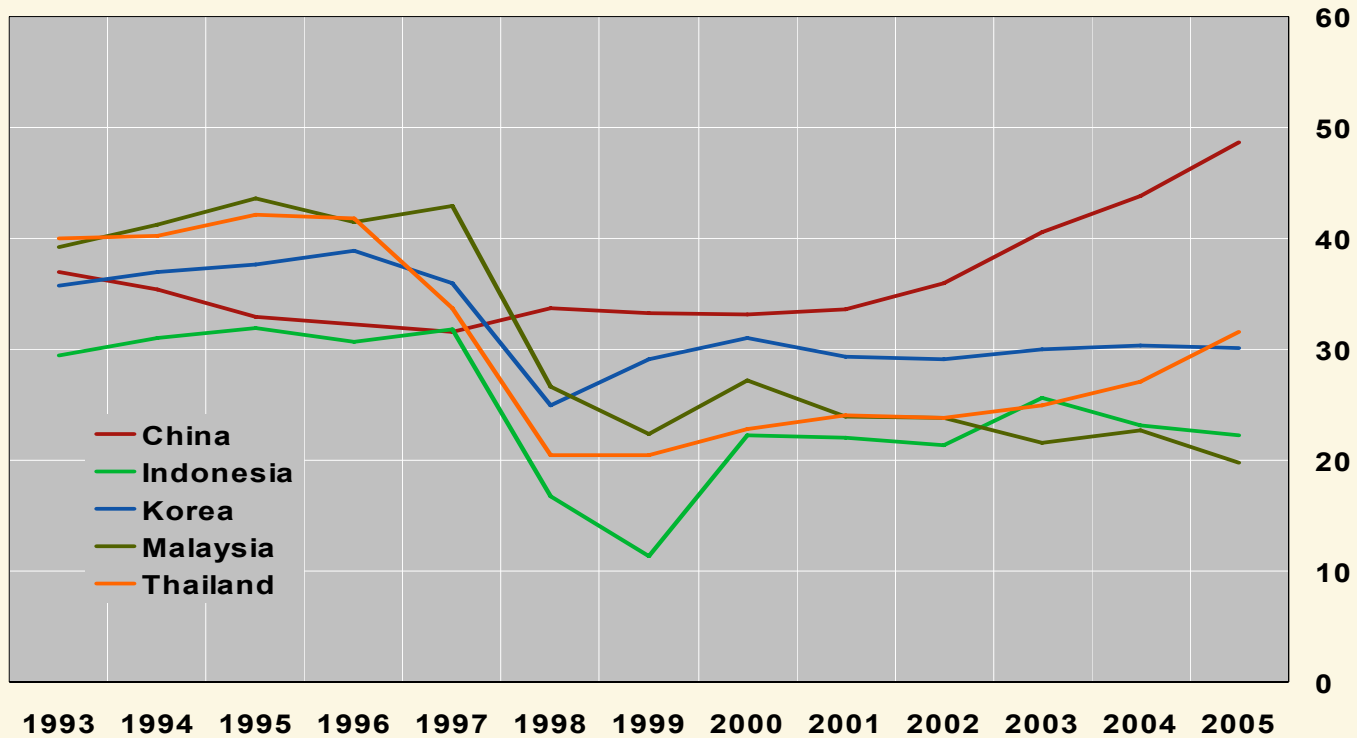


Note: Savings are calculated as the sum of current account balance and gross capital formation.
Sources: CEIC; national data.



Except in China, investment has not returned to pre-crisis levels

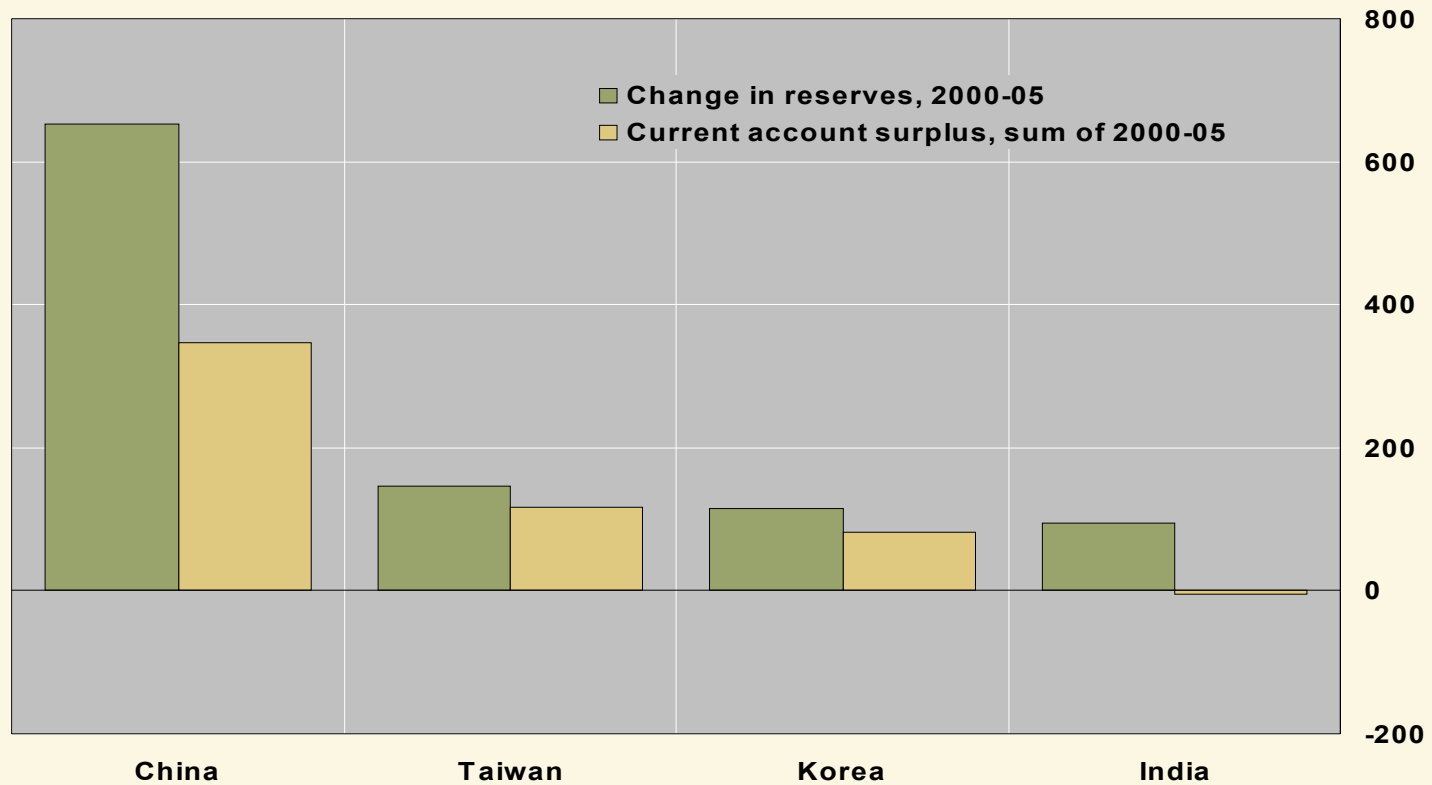
Gross capital formation as percentage of GDP





Asian reluctance to allow currency appreciation finances imbalances

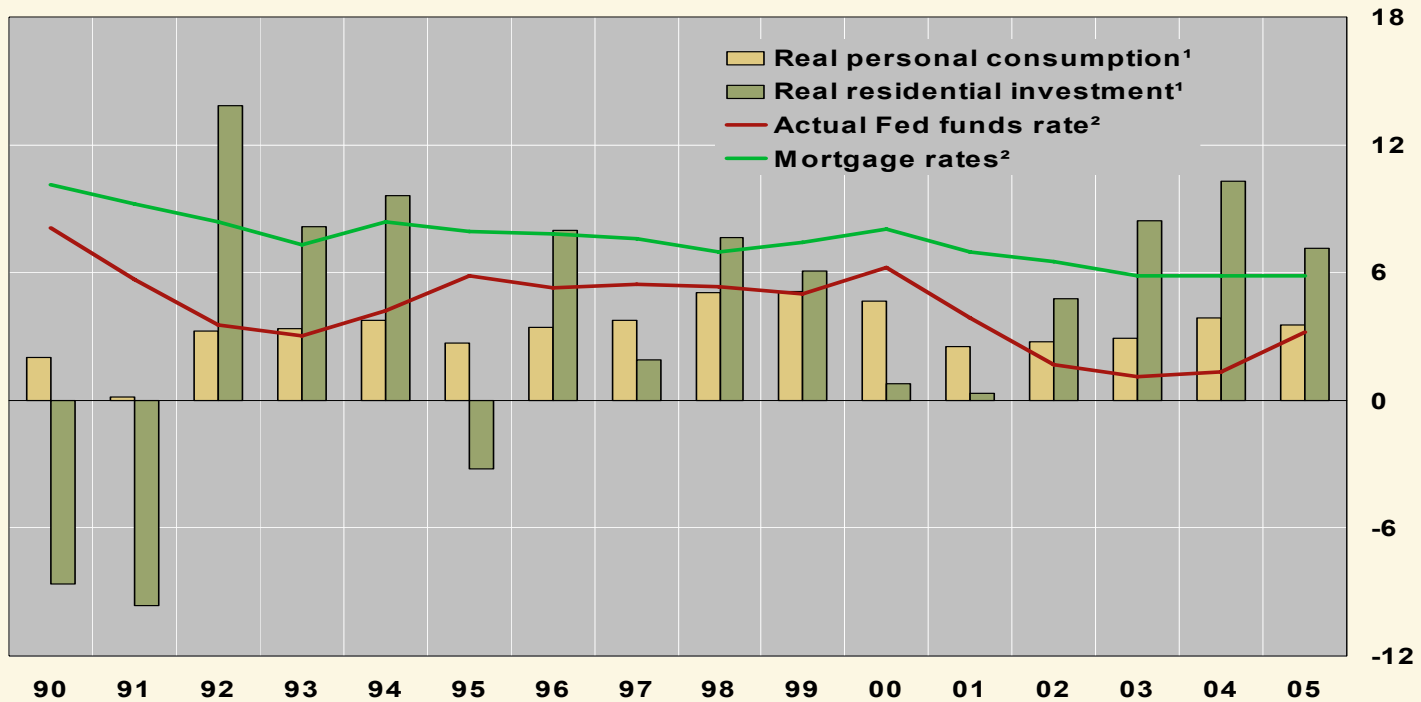
Reserve accumulation and current account balances



Source: IMF.



Low interest rates support US consumption and residential investment

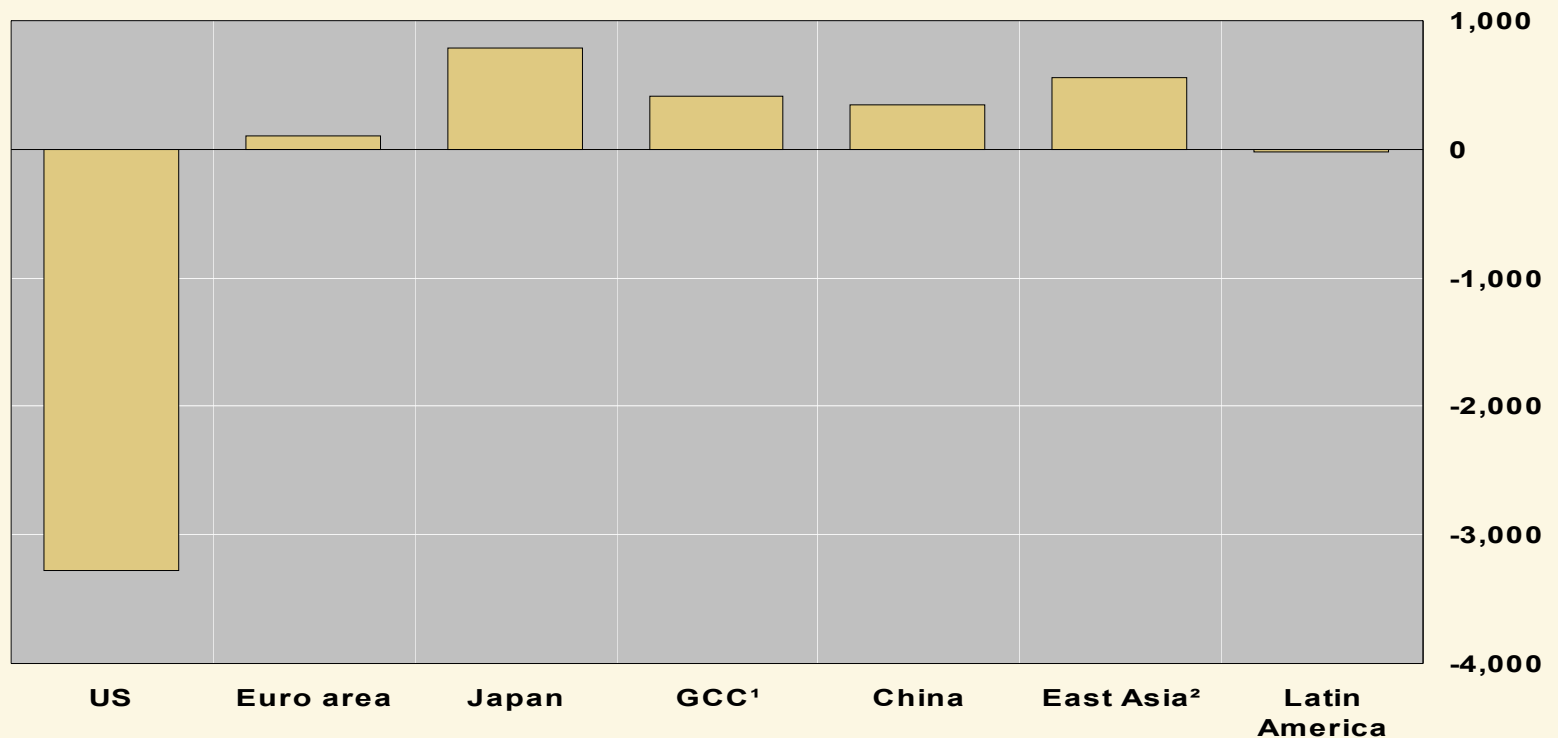


¹ Annual changes, in per cent. ² In per cent; quarterly average.

Source: National data.



Cumulative current-account imbalances 2000-05 in billions of US dollars

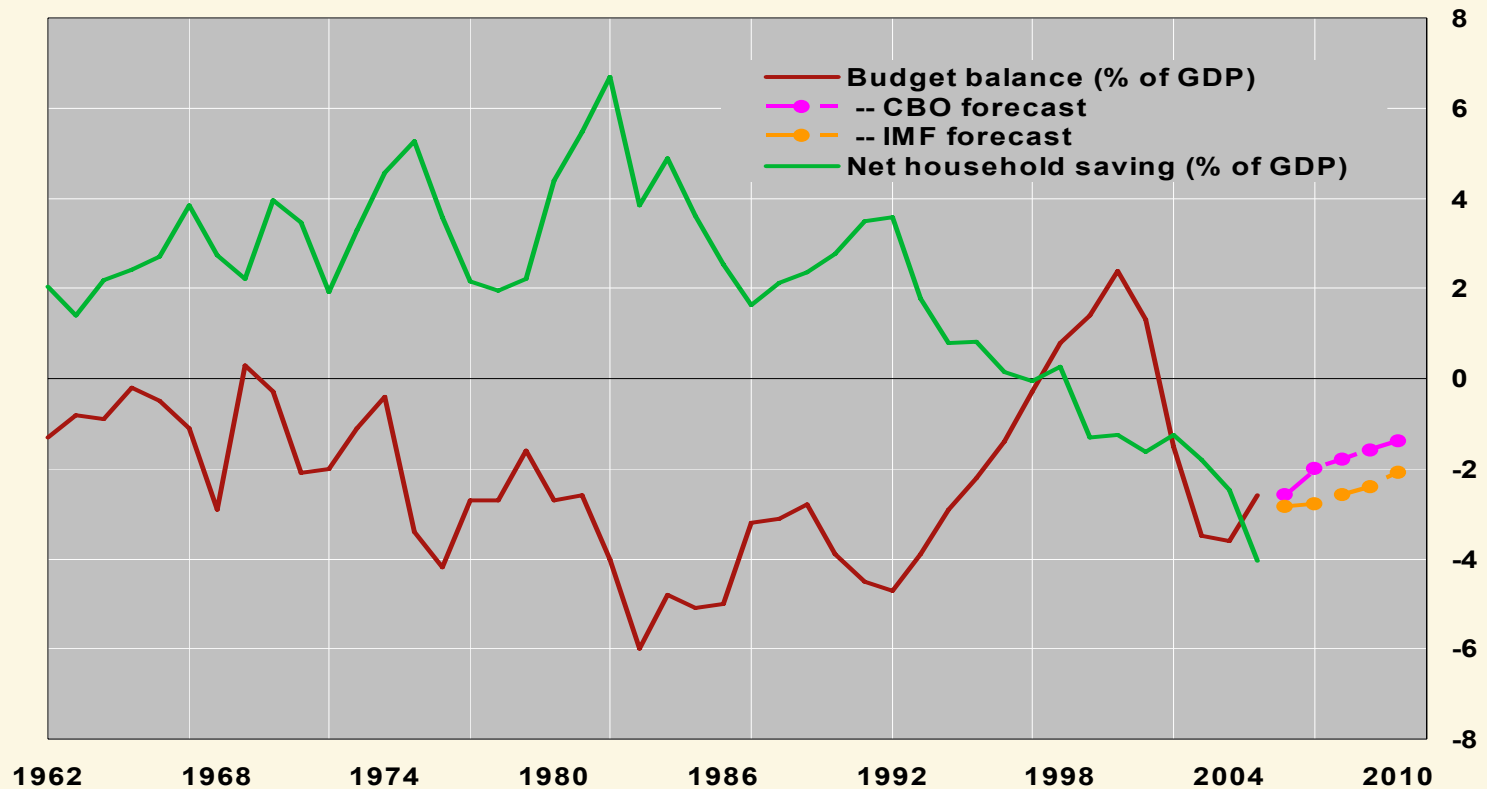


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Source: IMF, *World Economic Outlook*, 2006 April.



Homework 1: Improve US fiscal balance and household saving

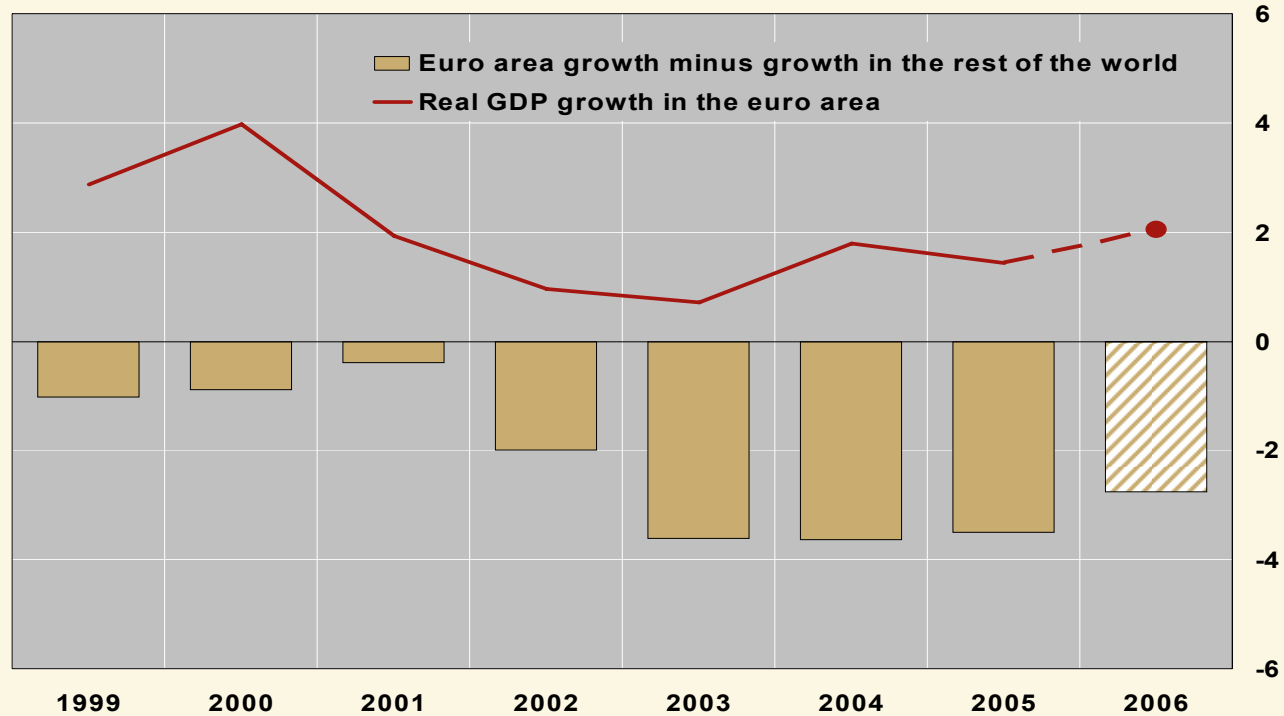


The multiple red lines represent the range of by the Congressional Budget Office (CBO). Net saving is defined as gross household saving minus gross residential investment.

Sources: CBO; national data.



Homework 2: Strengthen Euro area growth



Sources: Consensus Economics; national data.



Homework for everyone

- US to cut fiscal deficit and raise household savings
- Europe to strengthen growth through structural reforms
- China to liberalise domestic interest rates for more efficient investment
- The rest of Asia to foster private sector investment and international diversification
- Asian countries as a group to allow more flexible currencies and to open their capital accounts



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Thank you!