



The Multilateral Approach to Global Imbalances

The Late 1990s Imbalances Weren't So Surprising

Unexpected Developments

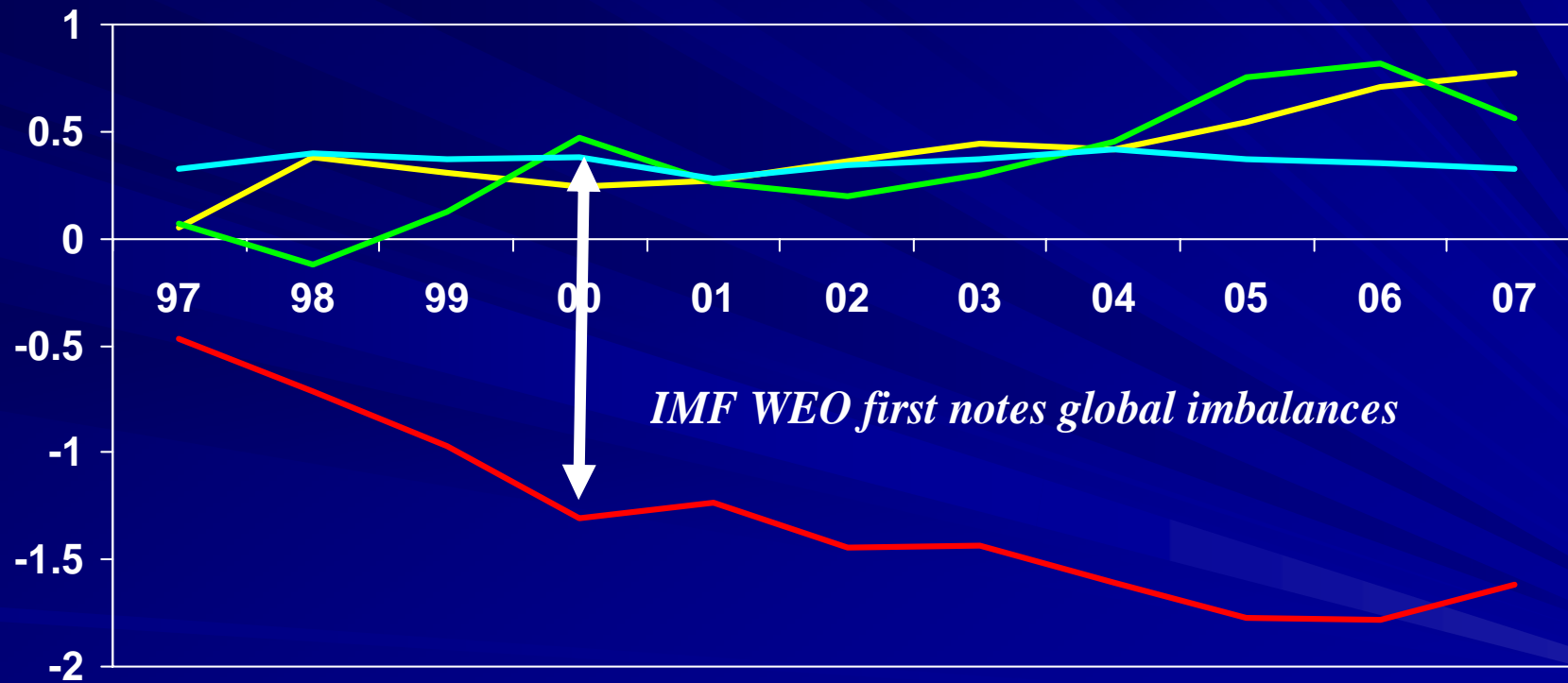
- US Growth Surge in 1995
- Asian Crisis 1997-98
- Russian Crisis 1998
- Brazilian devaluation 1999
- Etc.

Consensus expectations

- Restored expansion would reduce imbalances

Post-2002 Developments Were Harder to Explain

Current Account Balances in Percent of World GDP



— United States — Emerging Asia — Fuel Exporters — Japan

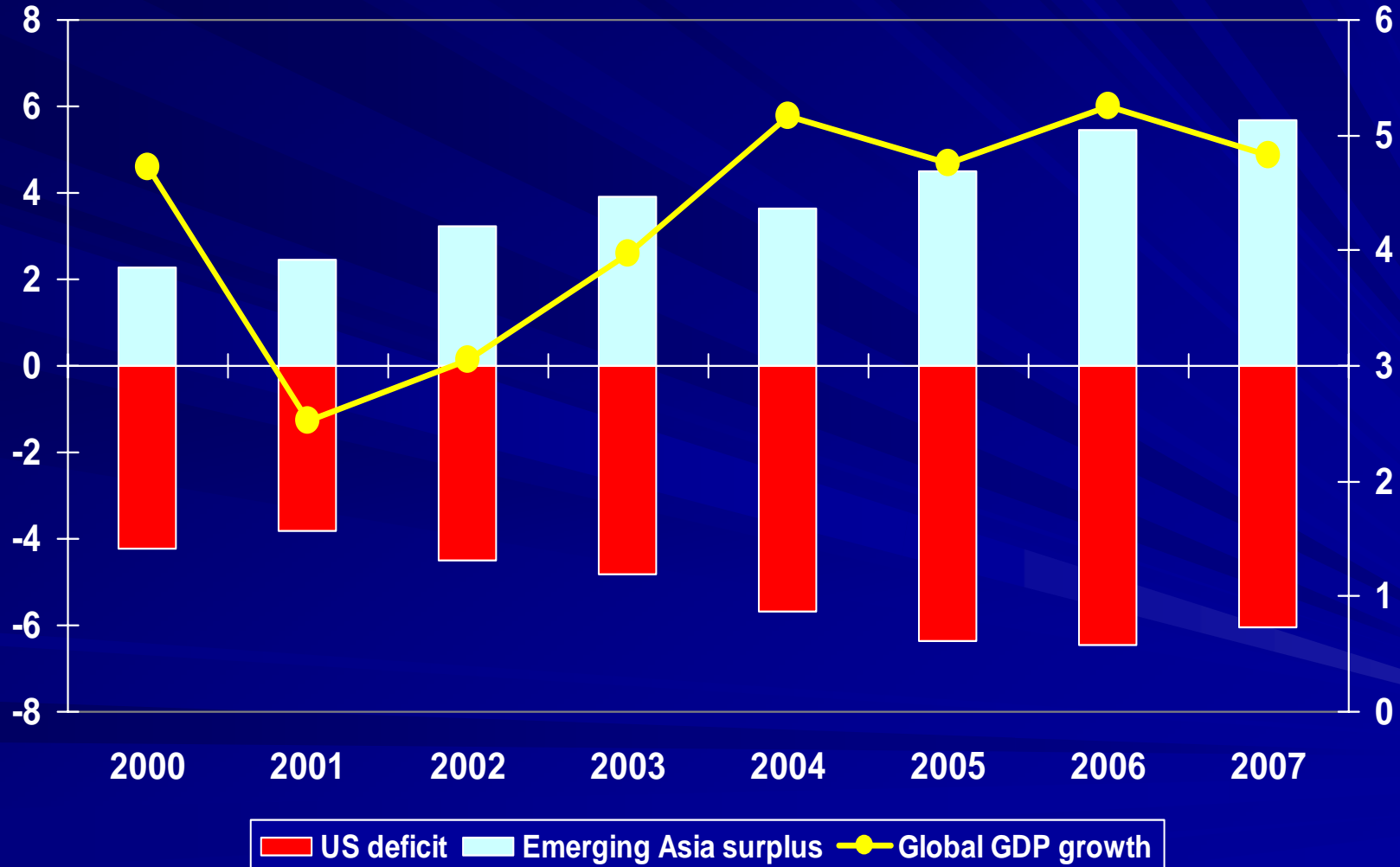
Two Key Considerations

- An Evolving View:
 - Global imbalances are a medium-term challenge, not an emergency
- A Novel Approach:
 - The IMF's Multilateral Consultation on Global Imbalances

Globalization's Impact on Economic and Financial Markets

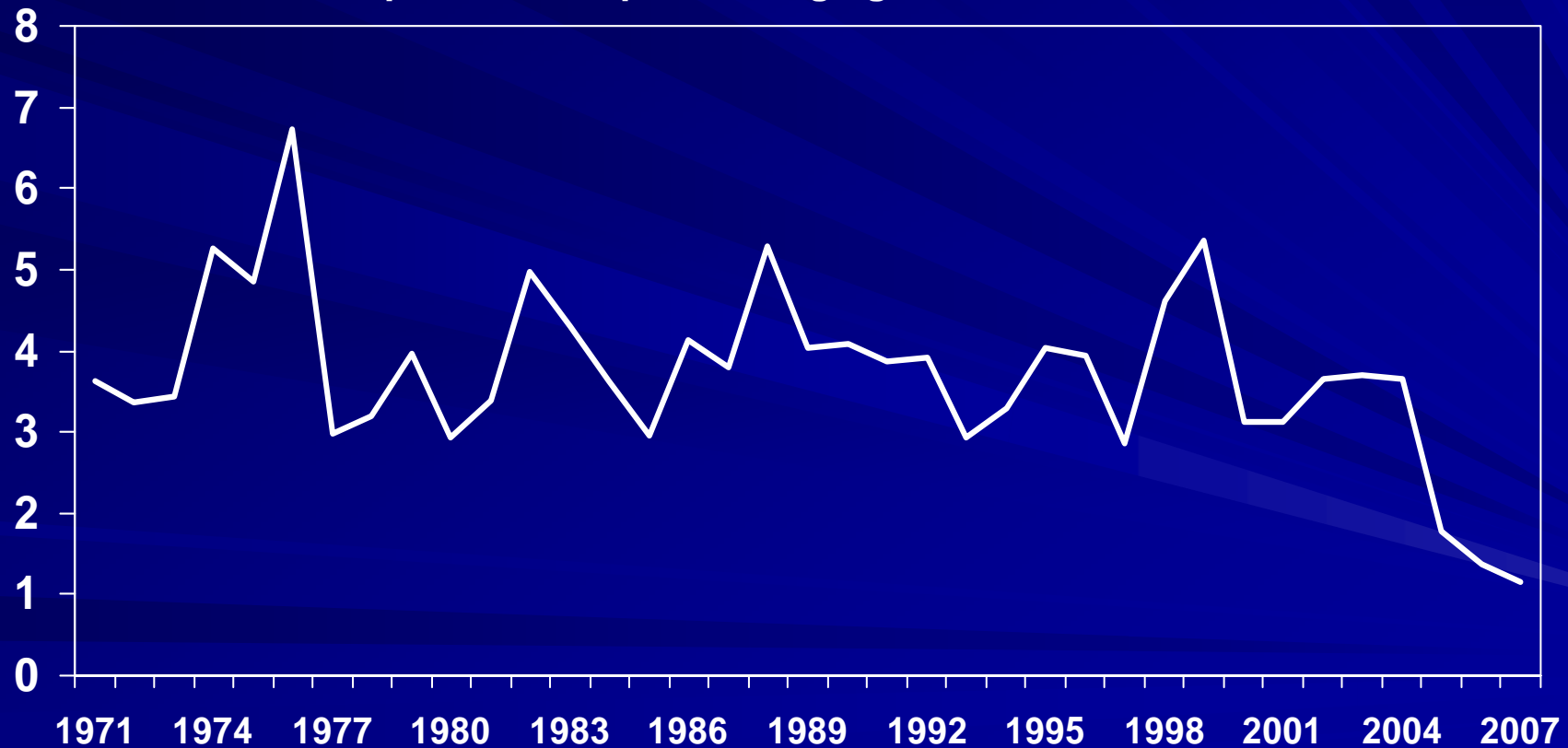
Unexpected Growth Gains

current account balance in percent of own gdp (left); gdp growth in percent (right)



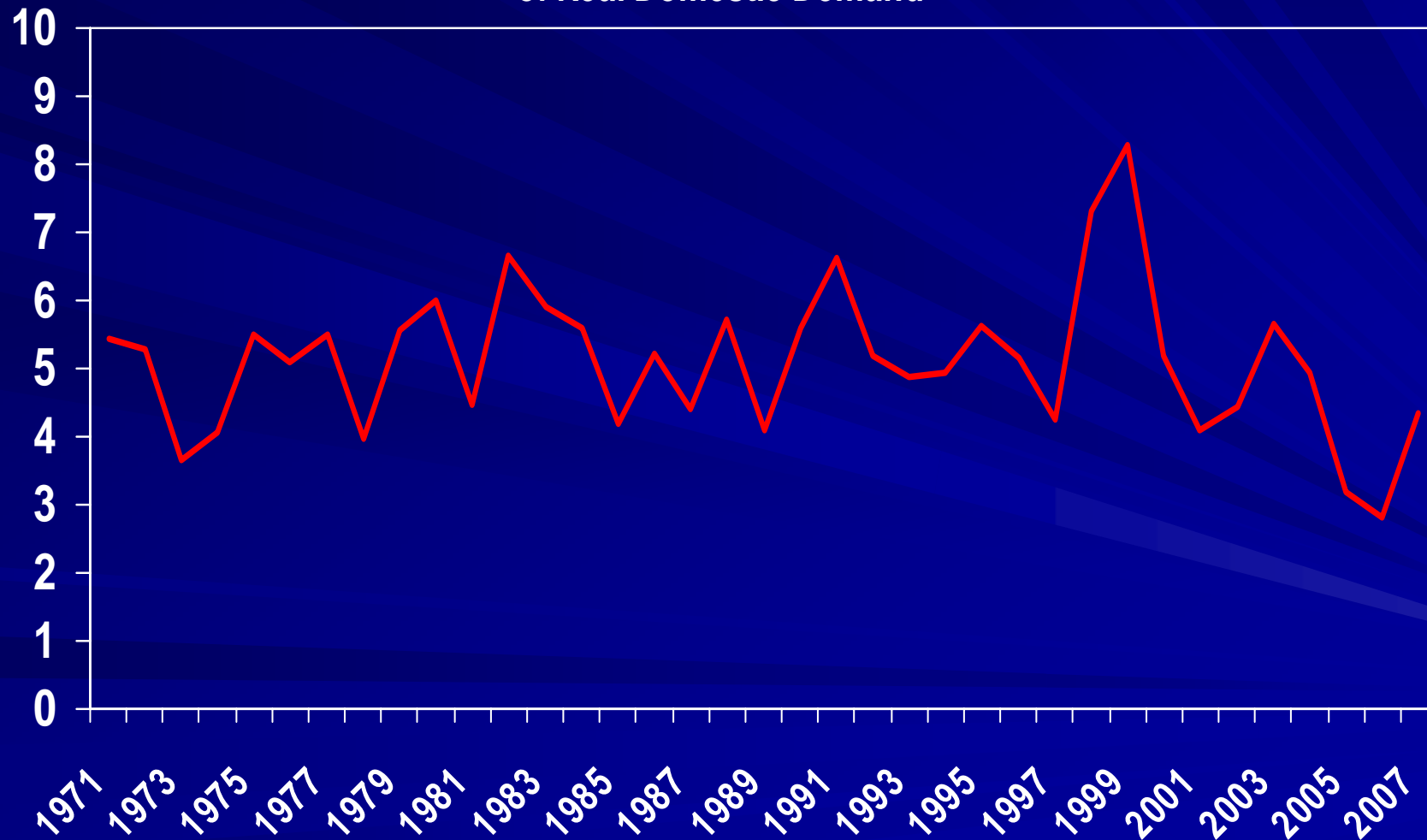
Cyclical Simultaneity...

Standard Deviation of Changes in Annual Growth Rates in a Sample of OECD plus Emerging Market Economies



But Not Everything Is Simultaneous

Standard Deviations of the Annual Changes of the Growth Rates
of Real Domestic Demand

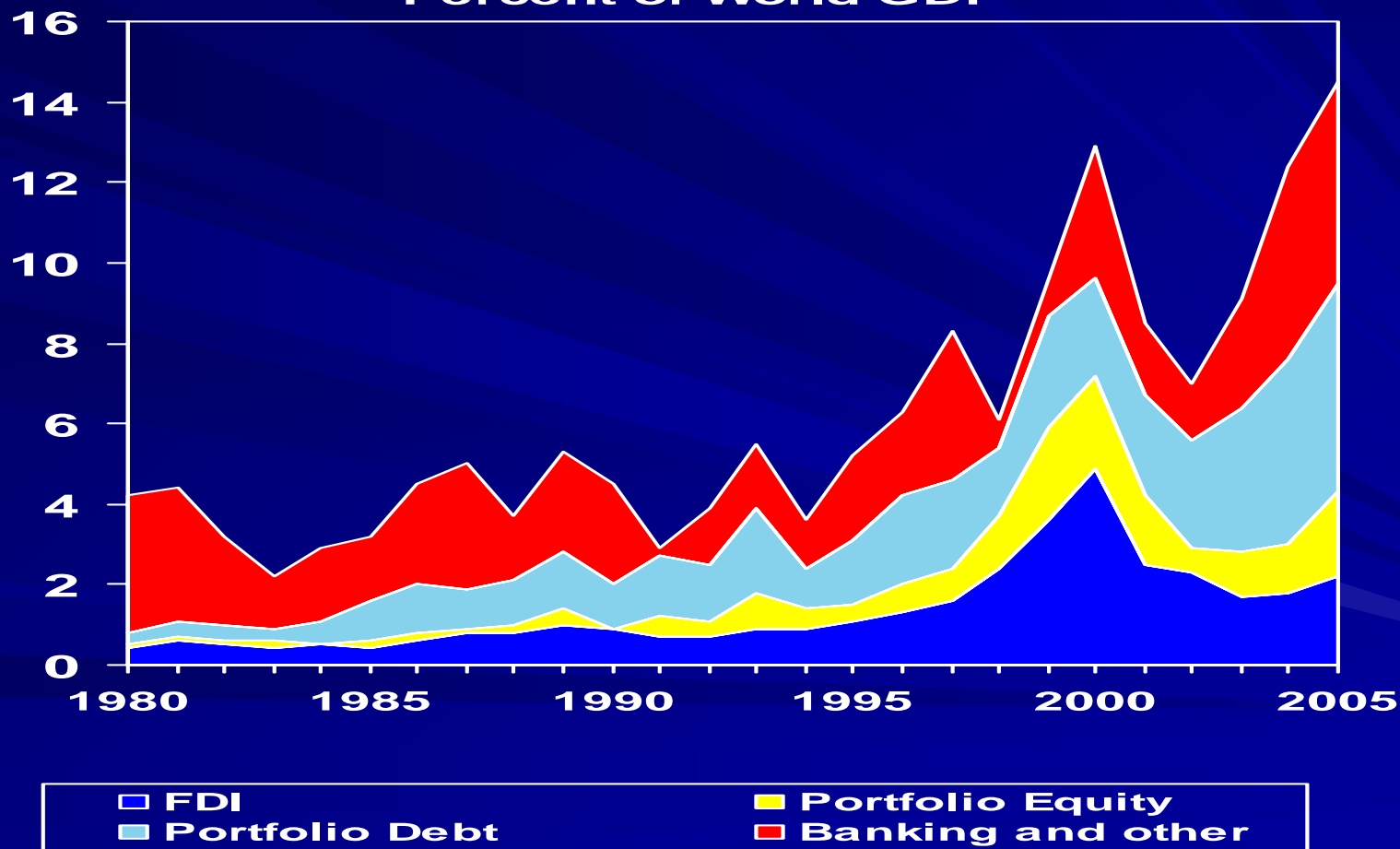


Complementary Asset Demand Patterns...

- Rest of the world:
Increased demand for liquid relatively risk free assets
- United States:
Increased demand for assets with higher returns

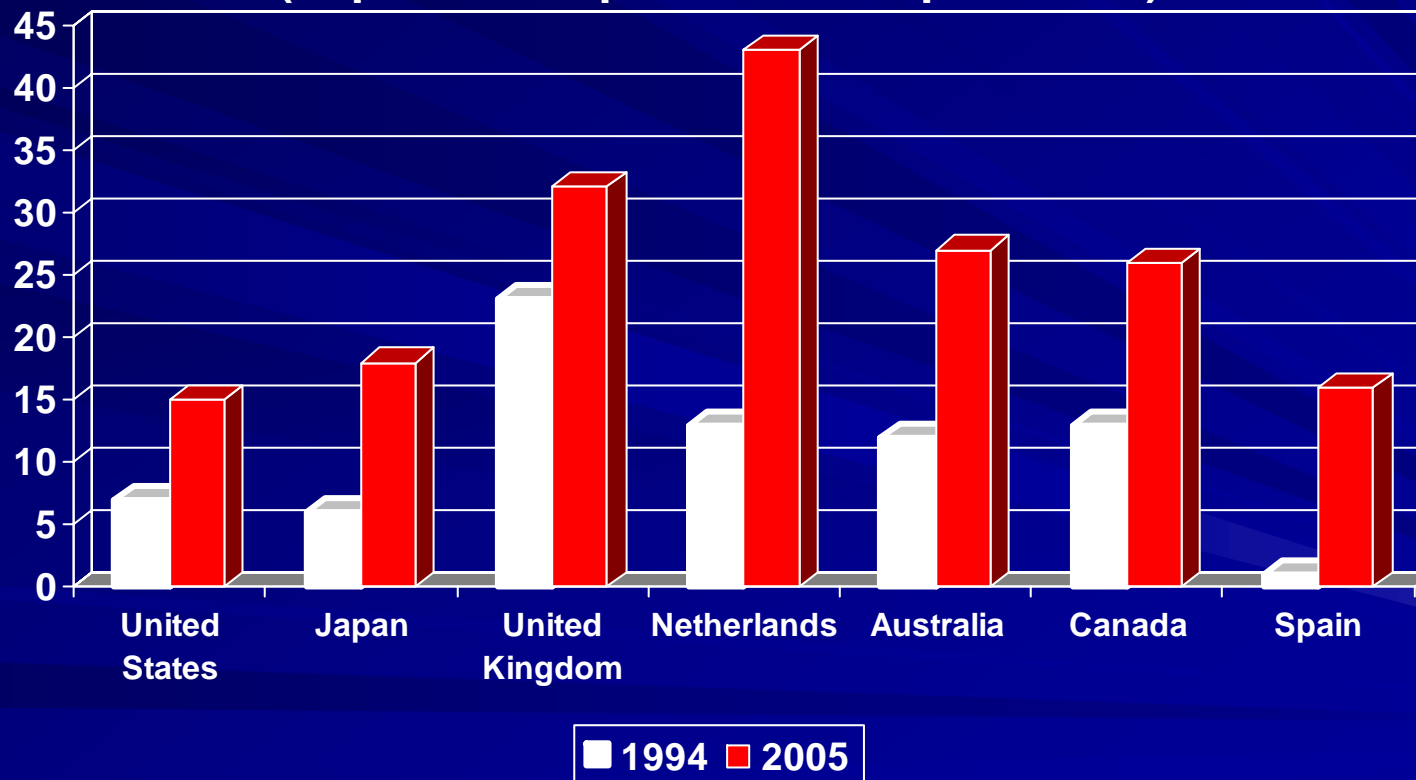
Record Cross-Border Capital Flows

Global Cross-Border Flows By Type in Percent of World GDP

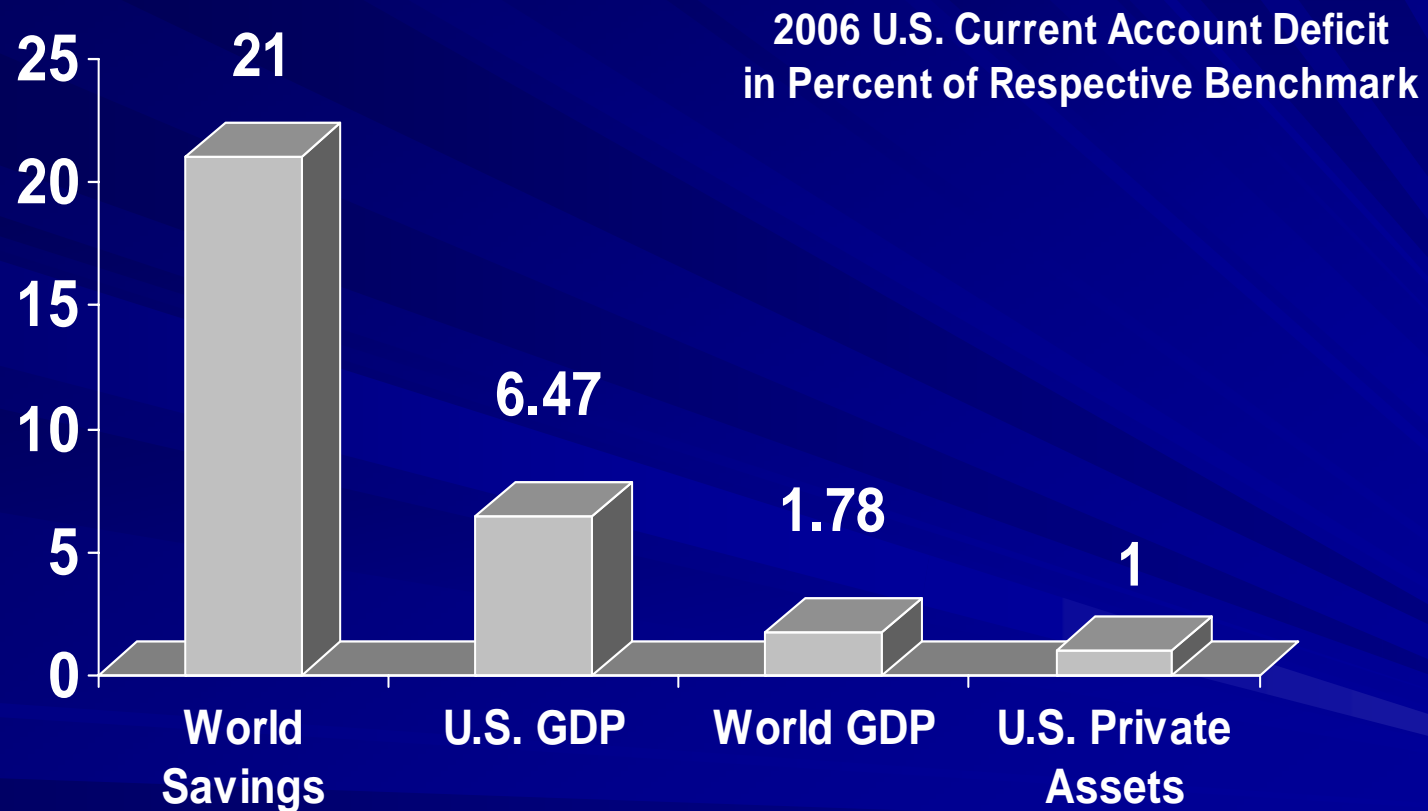


Asset Allocation Trend: Reduced “Home-Bias”

Pension Fund International Asset Allocation: Equities
(In percent of pension fund portfolios)

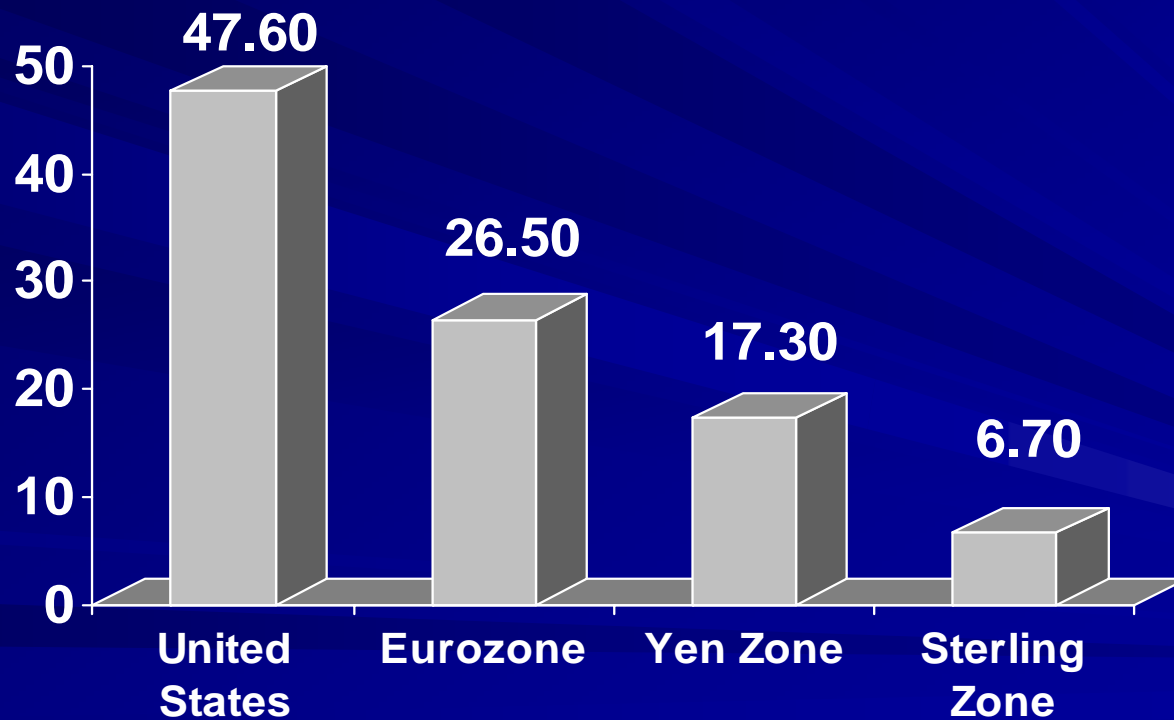


U.S. Current Account Deficit in Perspective



US Securities Markets Still Largest

Aggregate Value of Financial Markets
in Trillions of US dollars



Multilateral Consultations on Global Imbalances

Euro Area

- Deregulate product markets
- Make labor markets more flexible and competitive
- Integrate and develop financial markets

China

- Rebalance Growth
- Deepen financial sector reform
- Increase RMB flexibility

Saudi Arabia

- Increase social outlays
- Increase domestic investment in hydrocarbon sector
- Diversify the non-hydrocarbon sector

Japan

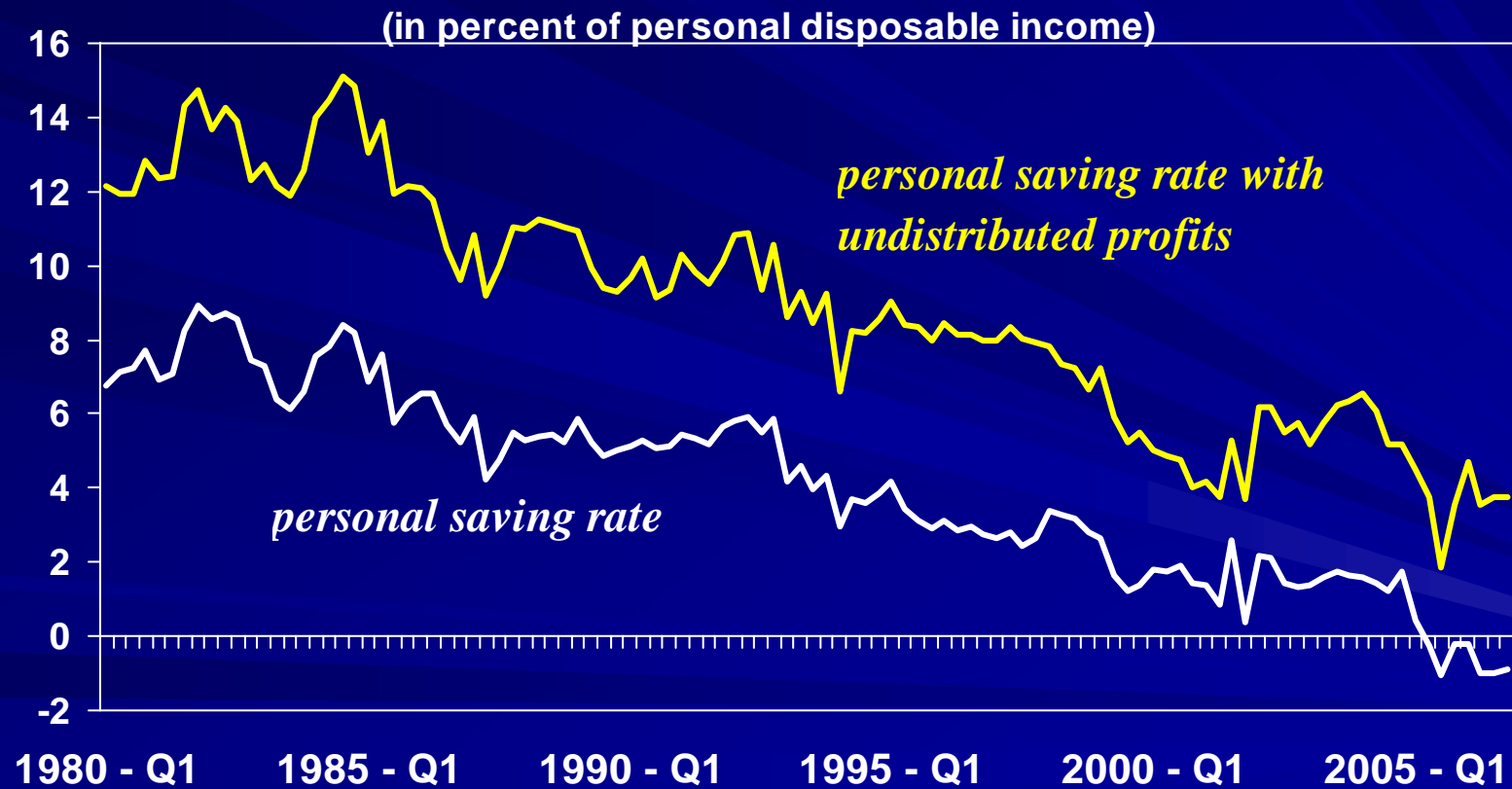
- Structural reforms to boost investment
- Boost product market competitiveness
- Increase labor market flexibility

United States

- Tight control on discretionary and entitlement spending growth
- Revenue enhancing measures
- Greater policy support for private sector saving

Decline in US Saving Rate May Have Ended

Personal Saving Rate With and Without Undistributed Profits



What Has the Multilateral Consultation Accomplished?

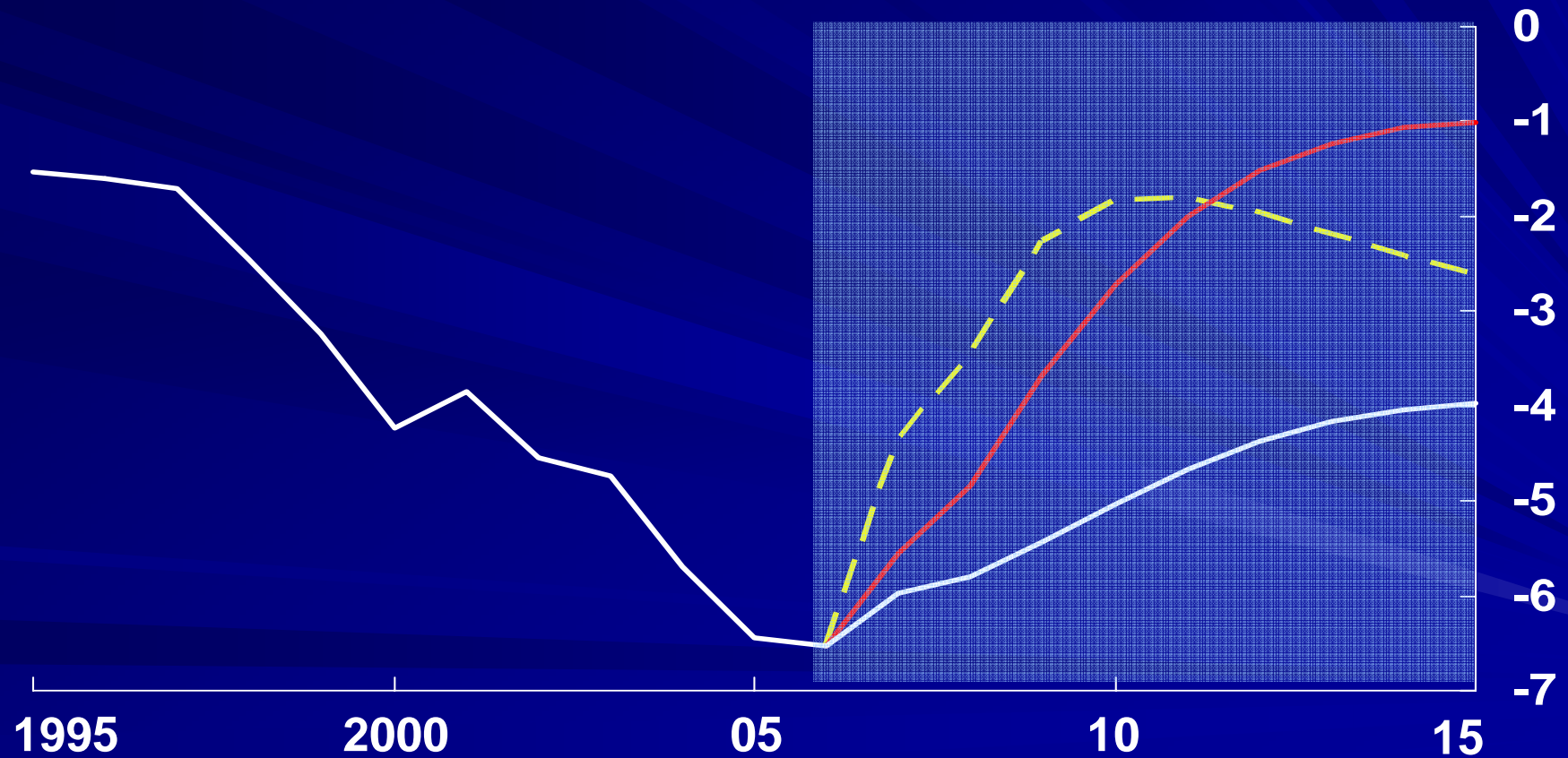
- Addressing imbalances is a *shared* responsibility
- Respective policy commitments are in participants' own interests
- Agreed follow-up on implementation

United States: Three Current Account Scenarios (percent of GDP)

— Baseline scenario

..... Disruptive adjustment

— Strengthened policies



Source: IMF staff estimates.

Will the MC Policy Plans Achieve the Dual Goals?

Effects on world economic growth of policy measures (deviations from baseline)		
	years 1-3	Years 4-6
Exchange rate flexibility in emerging Asia	-0.3	0.1
Fiscal adjustment in the United States	0.0	0.3
Structural reform in Euro Area and Japan	0.1	0.1
Additional Spending by Oil Exporters	0.1	0.1
Total	-0.1	0.6

Conclusions

- Imbalances are a medium-term challenge.
- The Multilateral Consultations are a potentially useful tool
- Policy implementation is key.