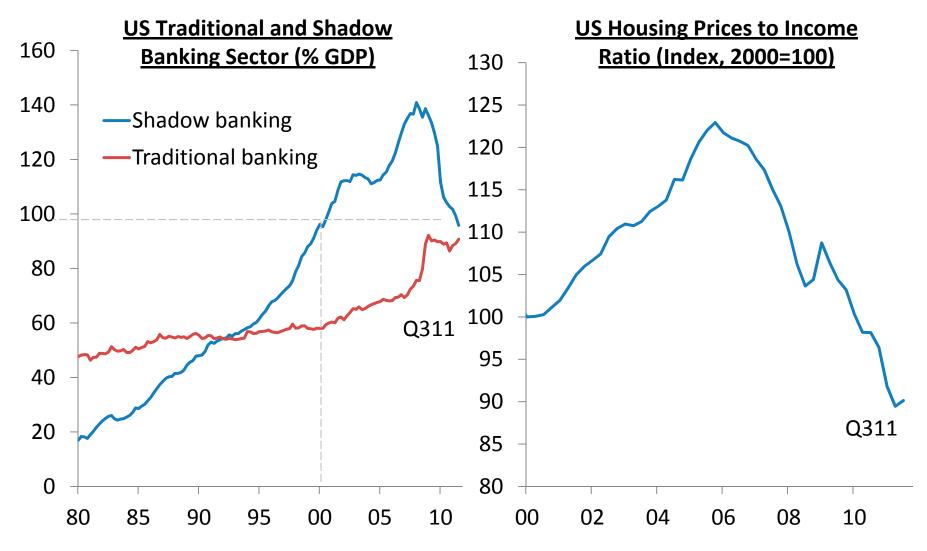
Global Imbalances Christian Broda Duquesne, Managing Director

Analyzing (External) Imbalances IMF, Washington, D.C. February 2, 2012 What is the data telling us?

1. The global housing bubble burst, external imbalances remain high, and real interest rates have fallen

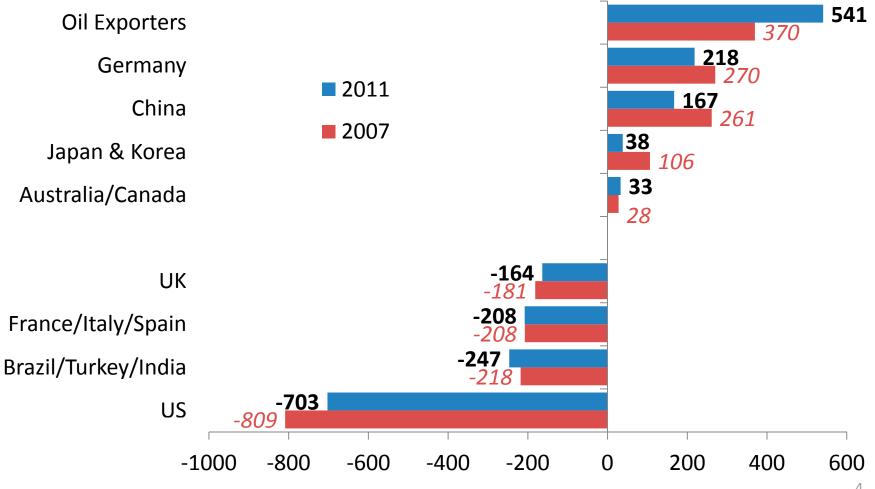
2. Huge difference in TOT relative to 2000

Bubble Burst

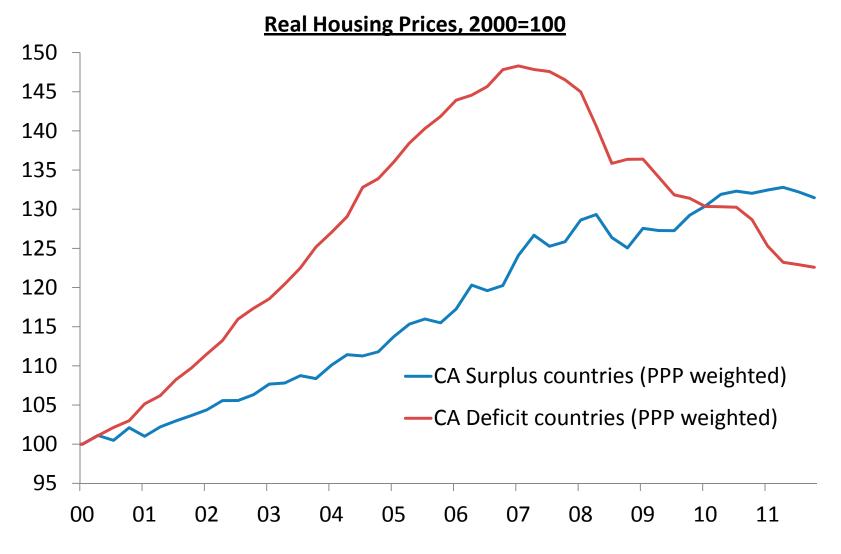


Large trade imbalances persist

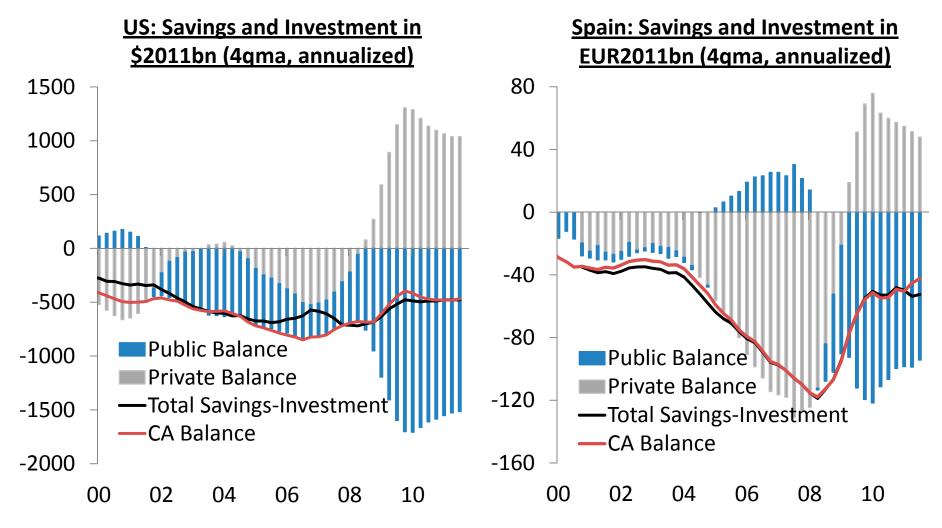
Largest trade deficits and surpluses in 2011 and 2007 (\$bn)



One adjustment has happened without the other

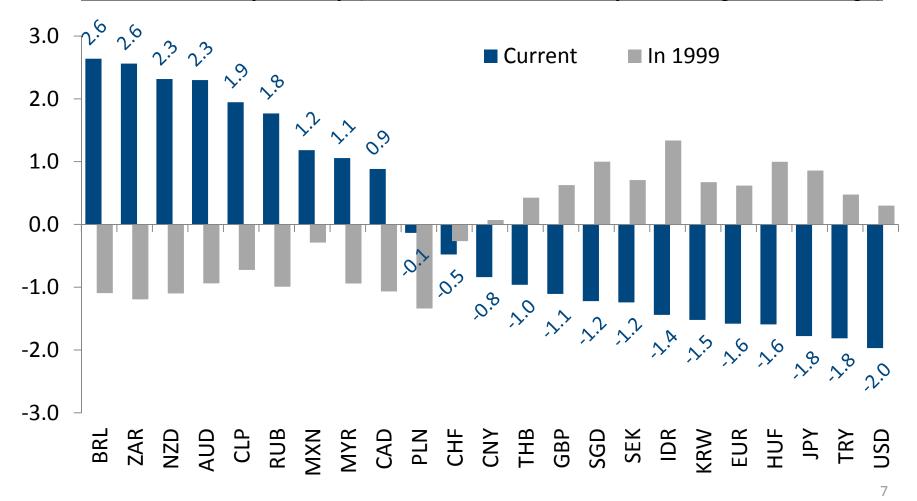


Similar pictures very different real rates



Commodity prices easy to measure but how about demand for high-skilled goods

Terms of Trade By Country (Standard Deviations away from Long Term Average)



What has changed?

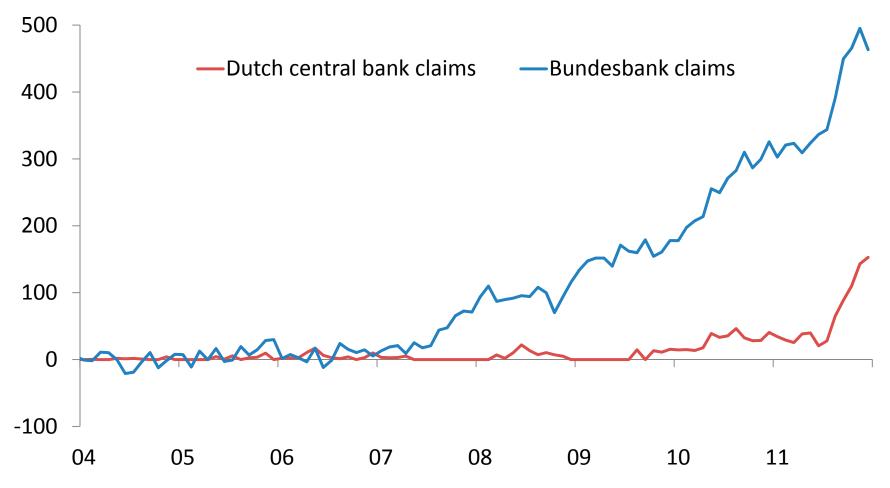
1. Target2 imbalances in Europe

2. Role of USD as the global currency in the banking world

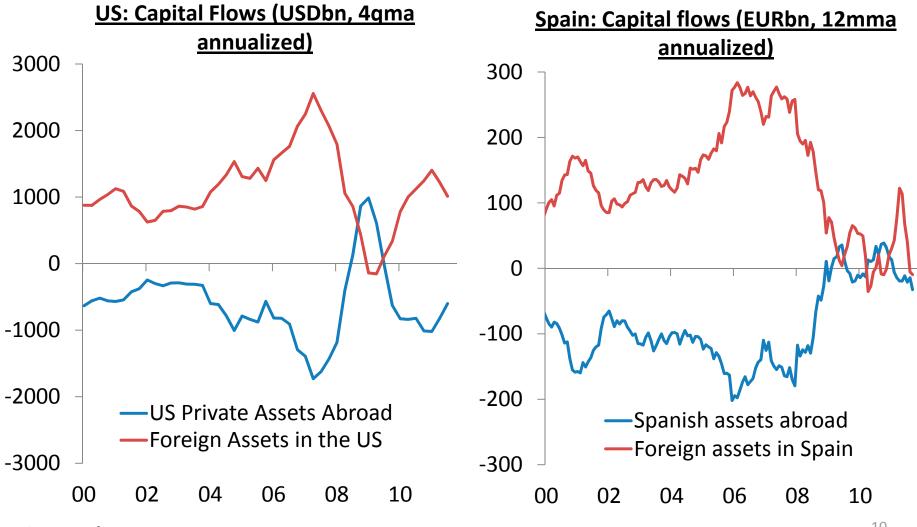
3. EM much more expensive

Target 2 has hidden PIIGS BoP crises

Germany and Netherlands: Net Target 2 claims on the Euro-system EURbn

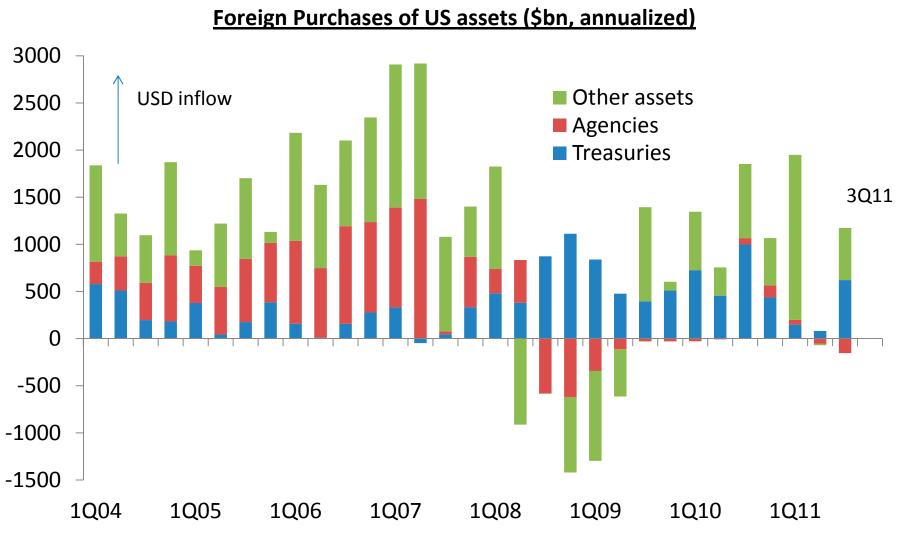


Sudden stop of Private inflows in Spain not in the US

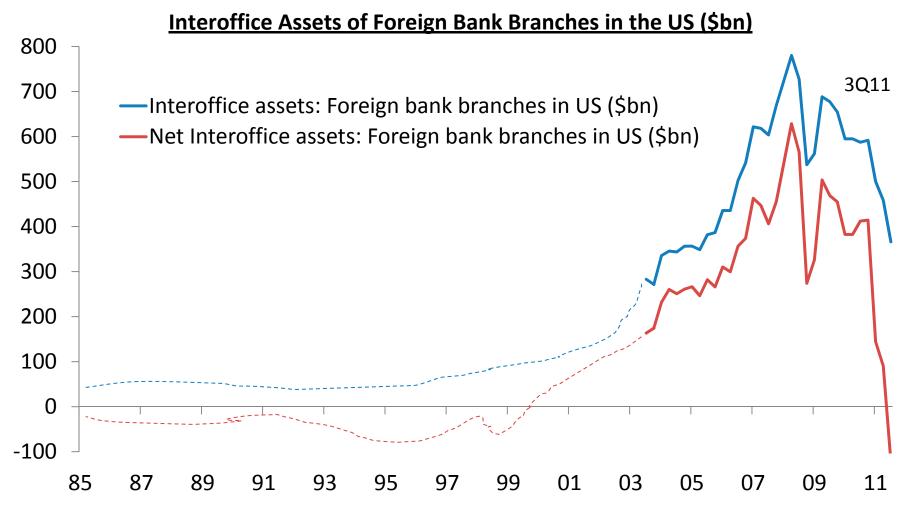


Source: BEA & BDE

Foreign purchases of Agencies stopped

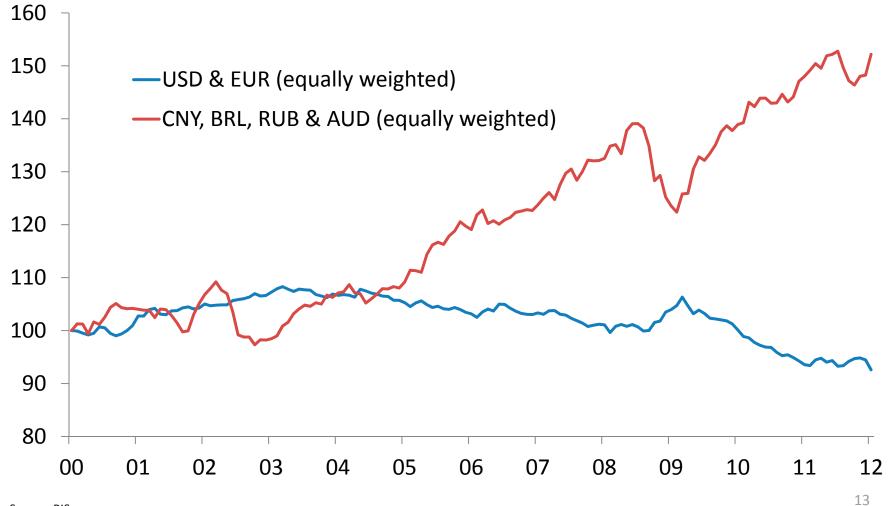


Role of USD as the global funding currency in the banking world

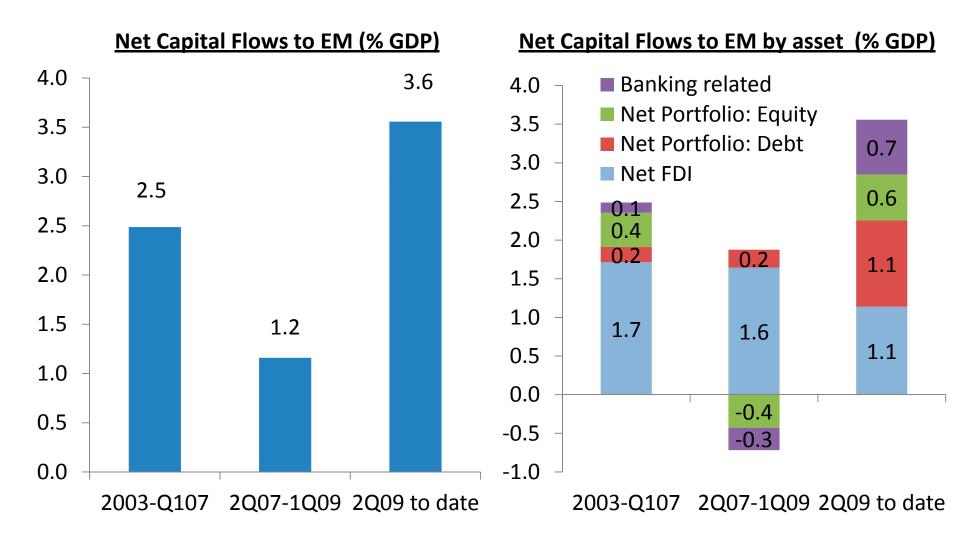


Real exchange rates: EM is expensive

Real Effective Exchange Rates, 2000=100



More debt flows, less FDI flows?



What does this mean for future research?

 We need to think more like Ventura and Kraay (2005). New bubbles: Government debt, EM debt? Is Target2 and Fed buying debt optimal?

2. CA sustainability now closely intertwined with fiscal sustainability. We need to add "investment" side to Blanchard (1986).

Why was Spain/Italy different than US? ("Scarcity of an alternative" decreasing returns) The role of ER volatility (Aguiar, MIT thesis)

3. Impact of TOT and K/L revolution in the debate