Overview

Conceptual Issues
- Framework approach of internal and external imbalances
- Imbalances: “bad” or “good”?

Root Causes of Imbalances
- Structural and equilibrium factors
- Domestic policy distortions

Progress in Global Rebalancing and Policy Implication
- Global imbalances have narrowed markedly, but additional decisive action is needed to reduce them durably
- Country-specific policies aimed at addressing distortions needed to reduce global imbalances
Overarching Objective:
“Strong, Sustainable, and Balanced Growth”

Internal-External Balance Approach
(Linked through Saving-Investment Balance)

External Imbalances
- Current Account Balances
- Real Effective Exchange Rate
- International Reserves

Financial Imbalances
- Credit Growth

Internal Imbalances
- Public Debt
- Primary Balance
- Private Saving
Imbalances not prima facie “bad” or “good”

• Differences in S-I patterns and portfolio choices across countries due to fundamentals

• Domestic distortions:
  ✓ Lack of social insurance/poor firm governance
  ✓ Bubble-driven asset booms
  ✓ Excessive public borrowing

• Systemic distortions:
  ✓ Export-lead growth
  ✓ Self-insurance leading to excess asset accumulation
Causes of Imbalances

Structural and equilibrium factors have driven public saving

- Persistently low growth
- Structural imbalances between tax revenues and spending commitments
- Political economy considerations

Domestic policy distortions have also played an important role

- Distortions in financial systems have fueled low private saving
- High historical saving in key emerging surplus economies reflects significant distortions
Progress in Global Rebalancing

Current Account Balance 1/
(percent of world GDP)

G-20 Large Oil Exporters
ROW Deficit
G-20 Deficit Emg
G-20 Deficit Adv
G-20 Surplus Adv
ROW Surplus
G-20 Surplus Emg
G-20
WORLD SUM

Sources: G-20 authorities and IMF staff estimates.
1/ 2000-2010 reflects WEO data; 2011-2016 reflects MAP estimates and projections for G-20 countries and WEO projections for ROW.
Policy Implications

Policy Contributions to Current Account Adjustments 1/
(percent)

Sources: Eurostat; and IMF staff calculations.
1/ Classifications based on the IMF staff’s External Sector Assessment. Assessment countries include Australia, Belgium, Brazil, Canada, China, Euro Area, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Malaysia, Mexico, Netherlands, Poland, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, United Kingdom, and United States.