



GLOBAL IMBALANCES – WHAT’S NEW?

CEPR Symposium

8 December 2023

AGNÈS BÉNASSY-QUÉRÉ



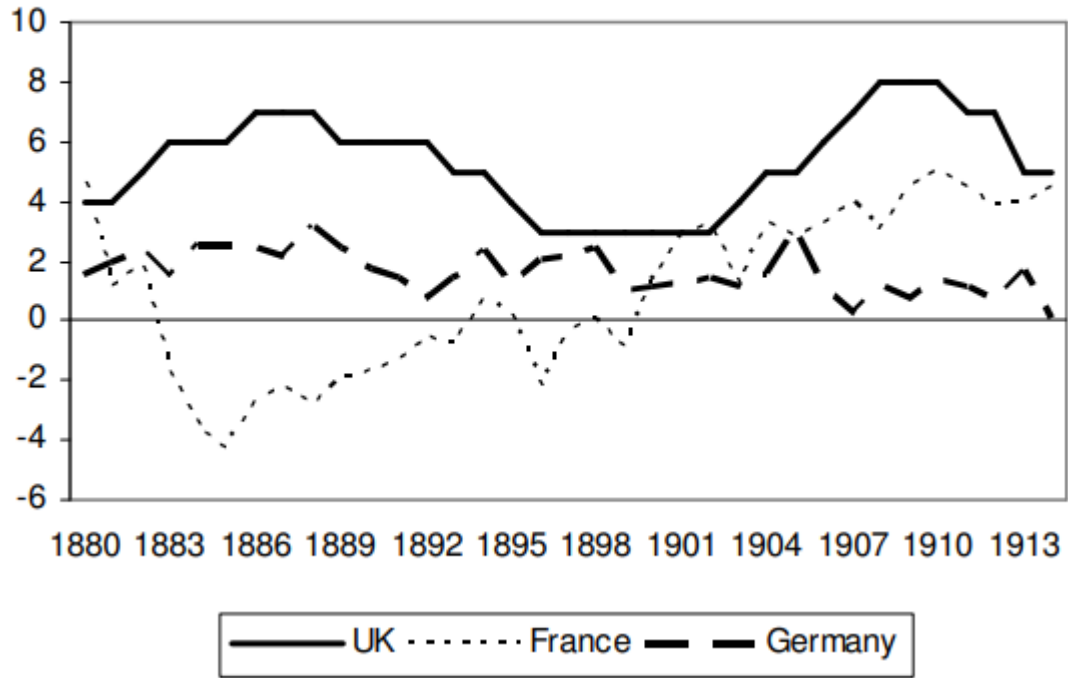
1. GLOBAL IMBALANCES: WHERE DO WE STAND?



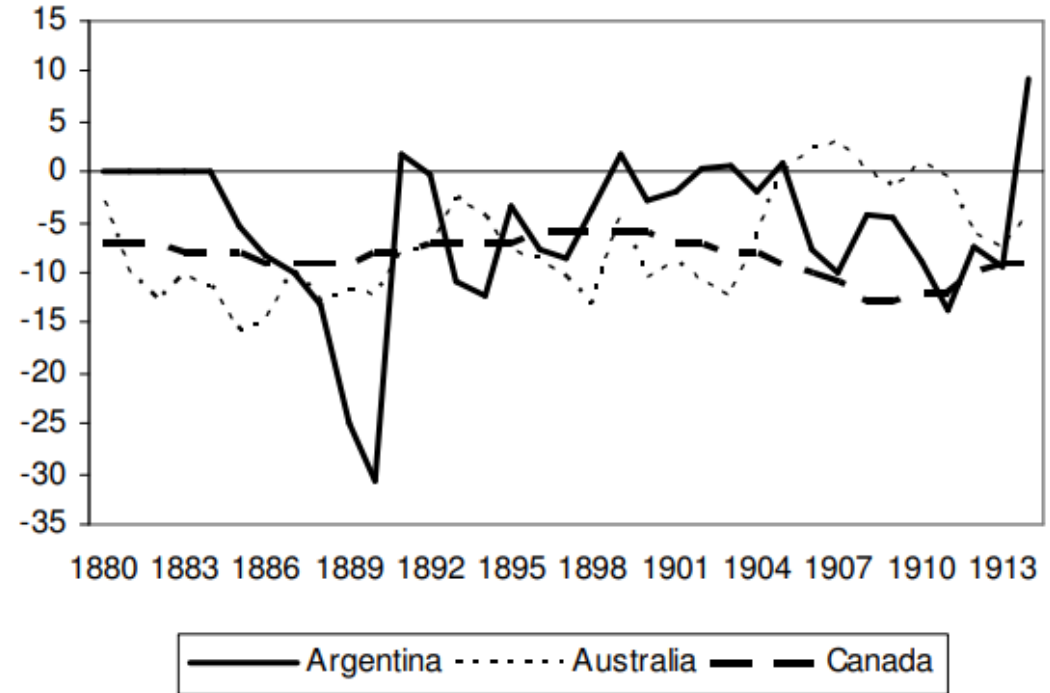
GLOBAL IMBALANCES HAVE A LONG HISTORY

Current account in percent of GDP

Surplus Countries (during gold standard)



Deficit Countries (during gold standard)



Source: Obstfeld and Taylor (2003).



DECLINE AND RE-EMERGENCE OF GLOBAL IMBALANCES IN THE XXIST CENTURY

Traditional explanations:

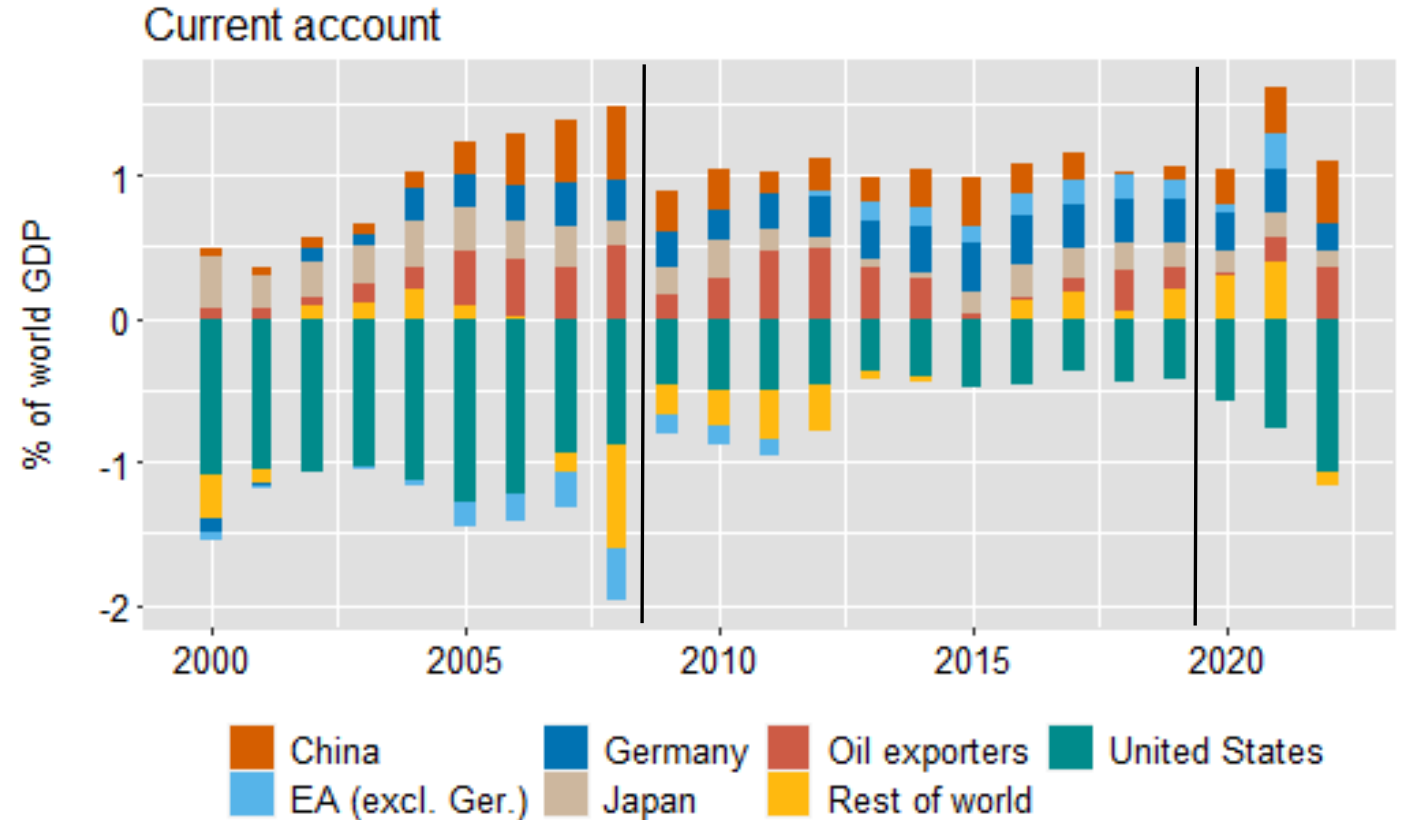
- International capital mobility,
- Consumption smoothing (dotcom bubble in the US); but should not be persistent
- Savings glut + exorbitant privilege

Why should we worry?

- Allocation puzzle
- Distortions (China)
- NFA accumulation, risk of sudden stops

Recent re-emergence of global imbalances:

- Is this time different?

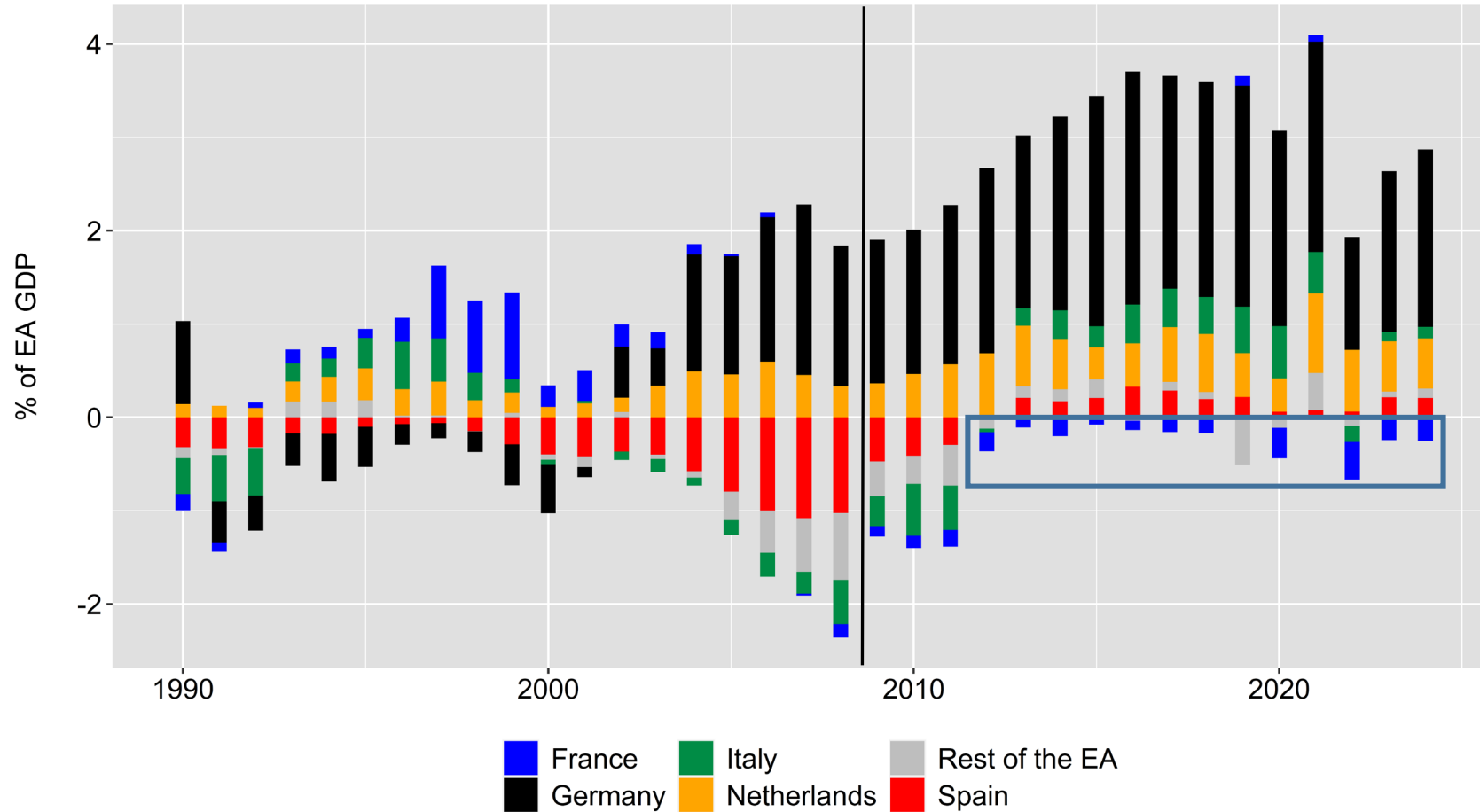


Source: IMF BoPS and IFS. Latest point: 2022.



ZOOM ON THE EURO AREA

Current account imbalances in the euro area

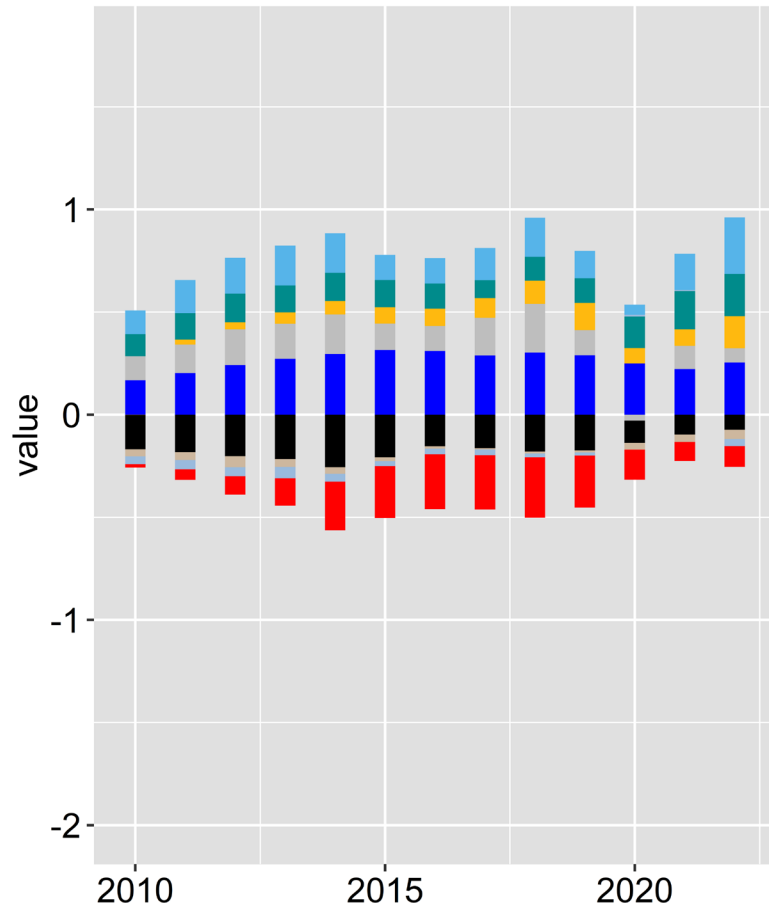


Source: Banque de France computations, data from the WEO (October 2023). Values for 2023 and 2024 are forecasts.

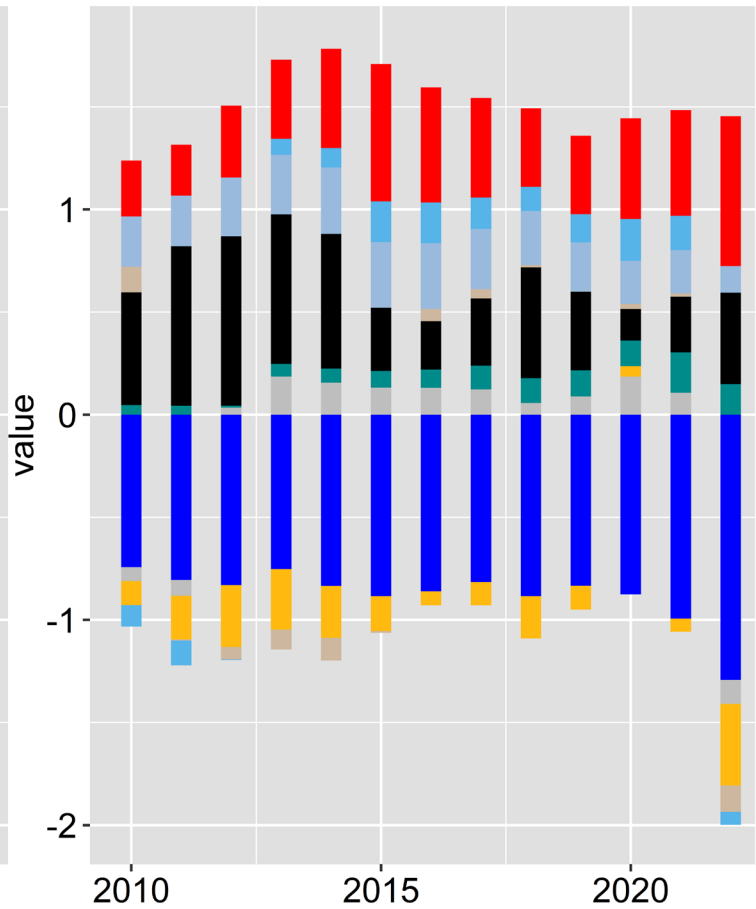


TRADE IMBALANCES: GOODS AND SERVICES MOVING IN OPPOSITE DIRECTIONS

Trade balance, services



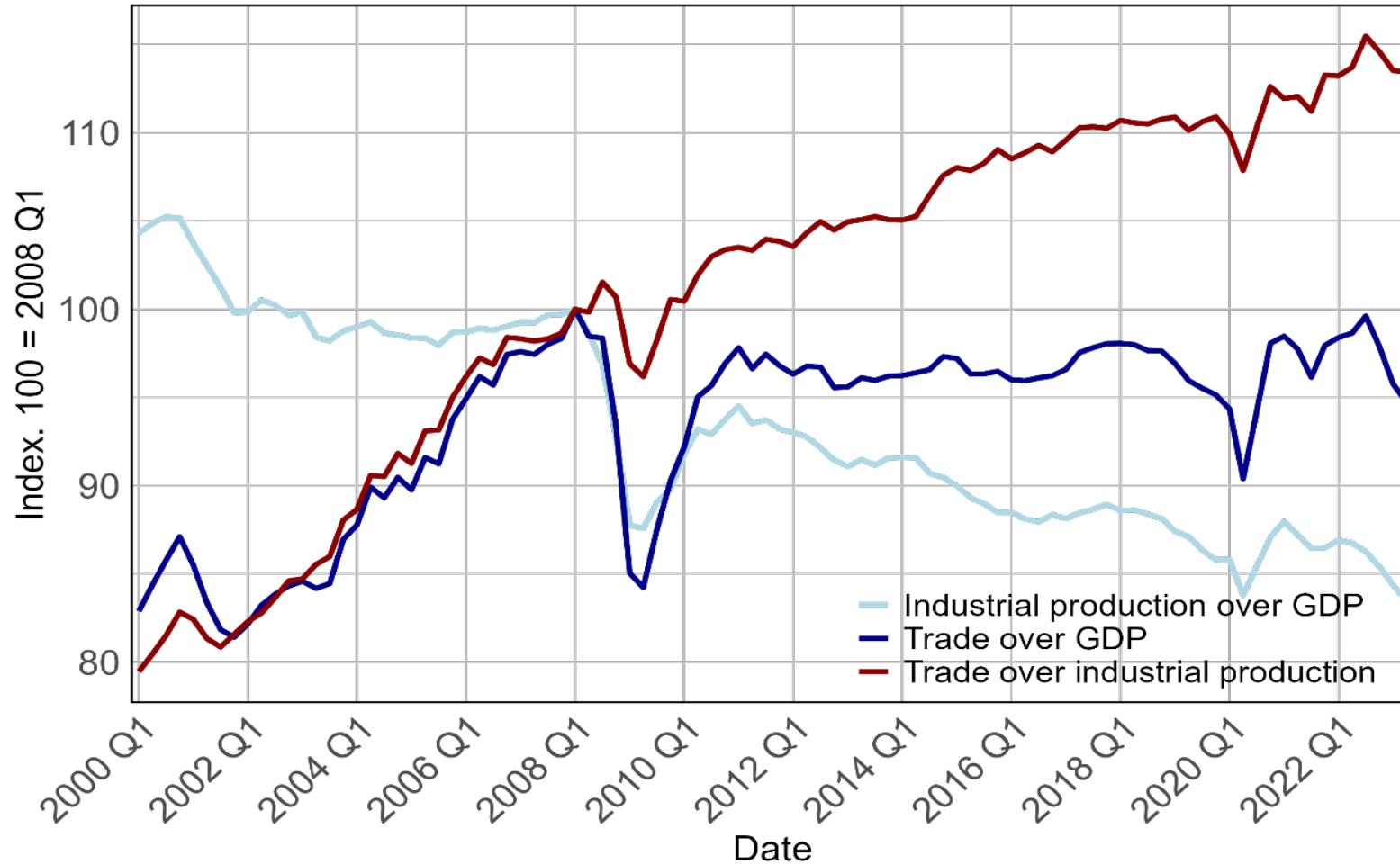
Trade balance, goods



- China
- EA (excl. Ger.)
- Germany
- Japan
- Oil exporters
- Other AEs
- Other EEs
- Rest of the world
- United States



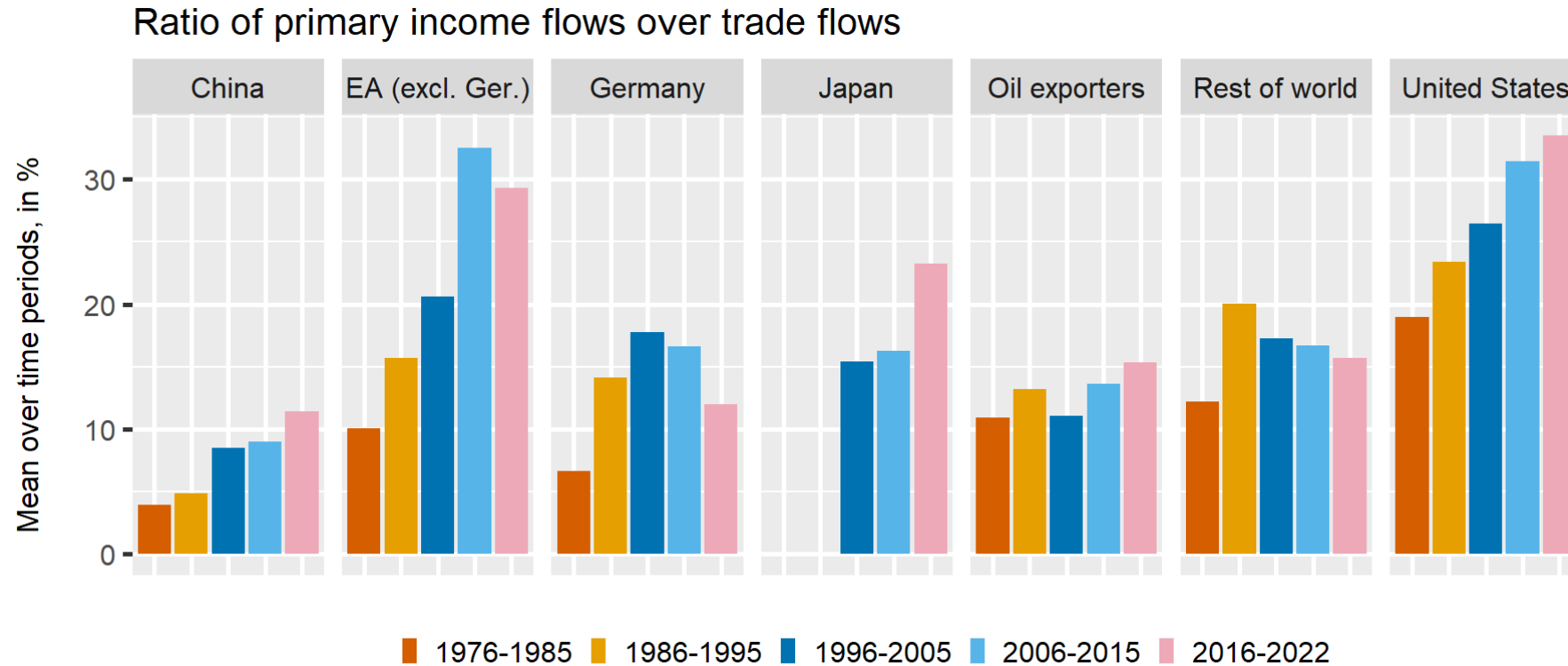
“SLOWBALISATION”: STABILIZATION OF TRADE/GDP DUE TO RISING SHARE OF SERVICES IN ADVANCED ECONOMIES



Indices for trade over GDP, trade over industrial production and industrial production over GDP in advanced economies.
Sources: CPB for trade and industrial production, OECD (Advanced Economies only) for GDP.



CAPITAL GROSS INCOME FLOWS ON THE RISE, COULD INVOLVE PERSISTENCE

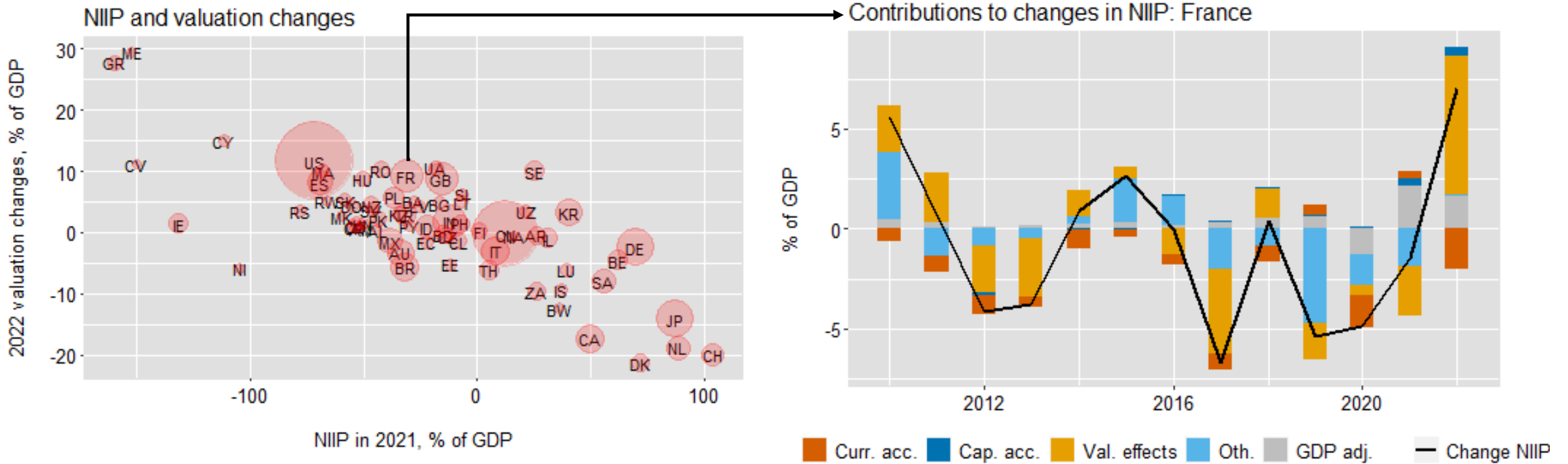


Source: IMF BoPS. BdF calculations. Sum of primary income on external assets and primary income on external liabilities over sum of exports and imports. Means by country group and time period.

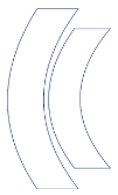


SINCE 2022: RISING INTEREST RATES

- **Short run:** valuation effects, inflation-indexed debt.
- **Medium run:** rolling debts at higher rates.

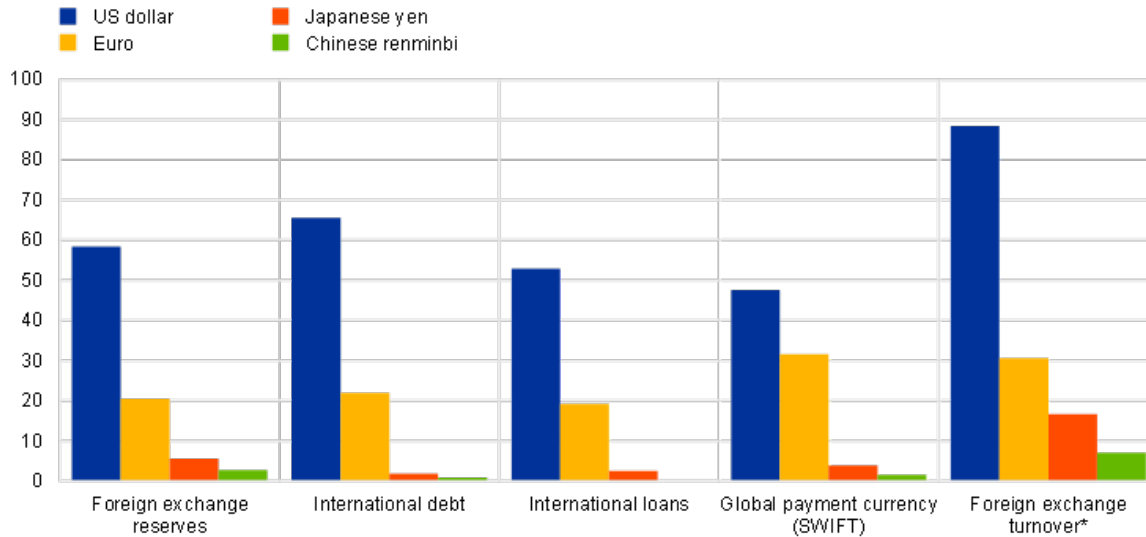


Source: Cabrillac, Chauvin and Schmidt (2023): Interest rate hikes: short-term gain, long-term pain for debtor countries, *forthcoming* Blog BdF EcoNotepad.



DOMINANT CURRENCIES

International currency use

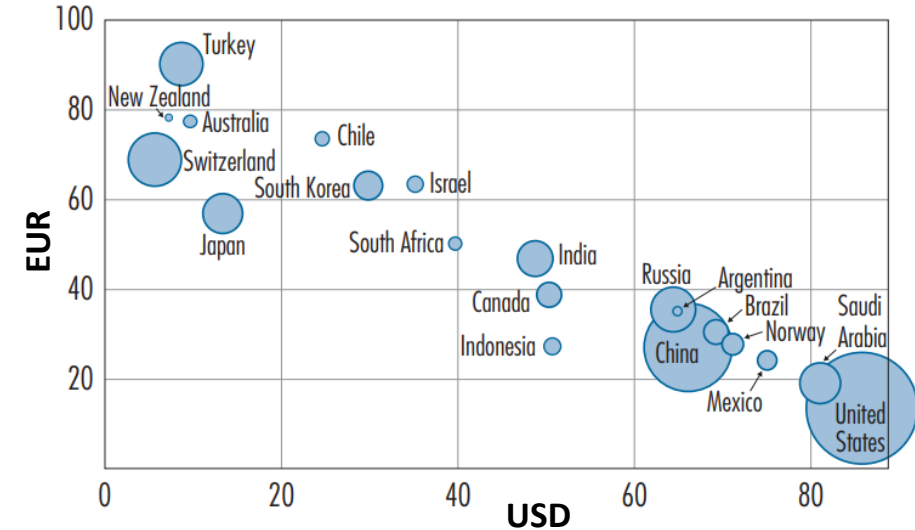


Source: ECB (2023): The international role of the euro.

Implications:

- Currency mismatch
- Disconnect between bilateral exch. rates and bilateral terms of trade, limited impact of bilateral ER on bilateral trade
- Multipolar monetary system may be stabilizing, but still not there.

USD and EUR invoicing share in France's non-EU imports in 2019



Source: Berthou and Schmidt (2022): Exchange rate pass-through to import prices in France: the role of invoicing currencies, Bulletin Banque de France 242/6.



WRAPING UP: WEAKER REBALANCING THROUGH EXCHANGE-RATE ADJUSTMENT

1. Rising services trade

- Trade in services is less elastic than trade in goods (less competition, more differentiation, c.f. Egger et al., 2018).

2. Rising stock positions: Income flows are an increasingly important determinant of CA balances.

- Legacy of the past can lengthen external adjustment.
- High sensitivity of the current account and net foreign asset positions to interest rate movements (Cabrillac, Chauvin and Schmidt, 2023).

3. Dominant currency paradigm: expenditure switching channel is muted, thus impeding external adjustment.

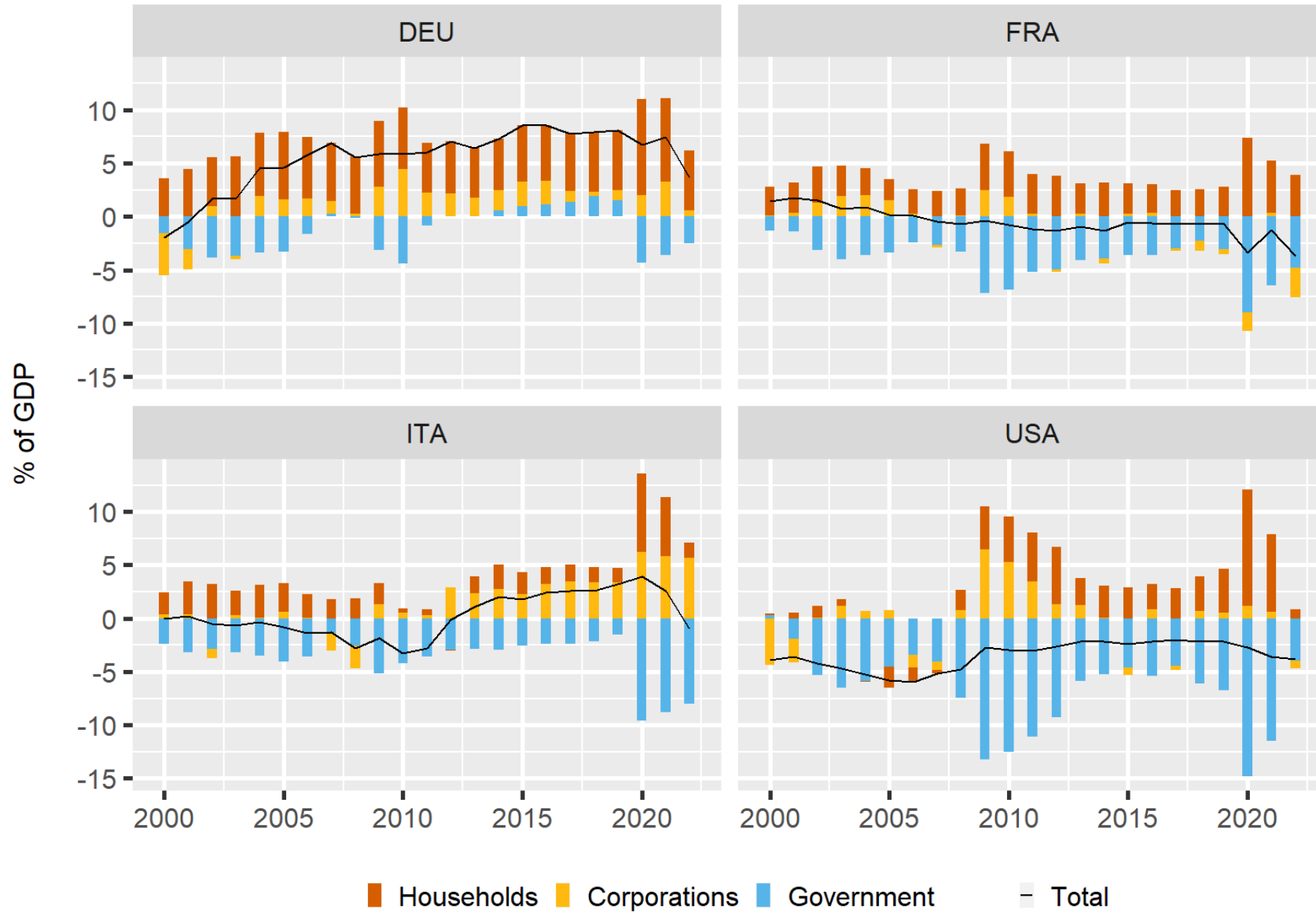
- Currency mismatch: depreciation may actually worsen net international position (or appreciation worsen it, e.g. Tille and Donato, 2023)
- Expenditure switching channel muted by dominant currency pricing (see Gopinath and Itskhoki, 2022 for a review)

2. RECENT SHOCKS TO CURRENT ACCOUNTS



COVID

Net lending/borrowing, by sector

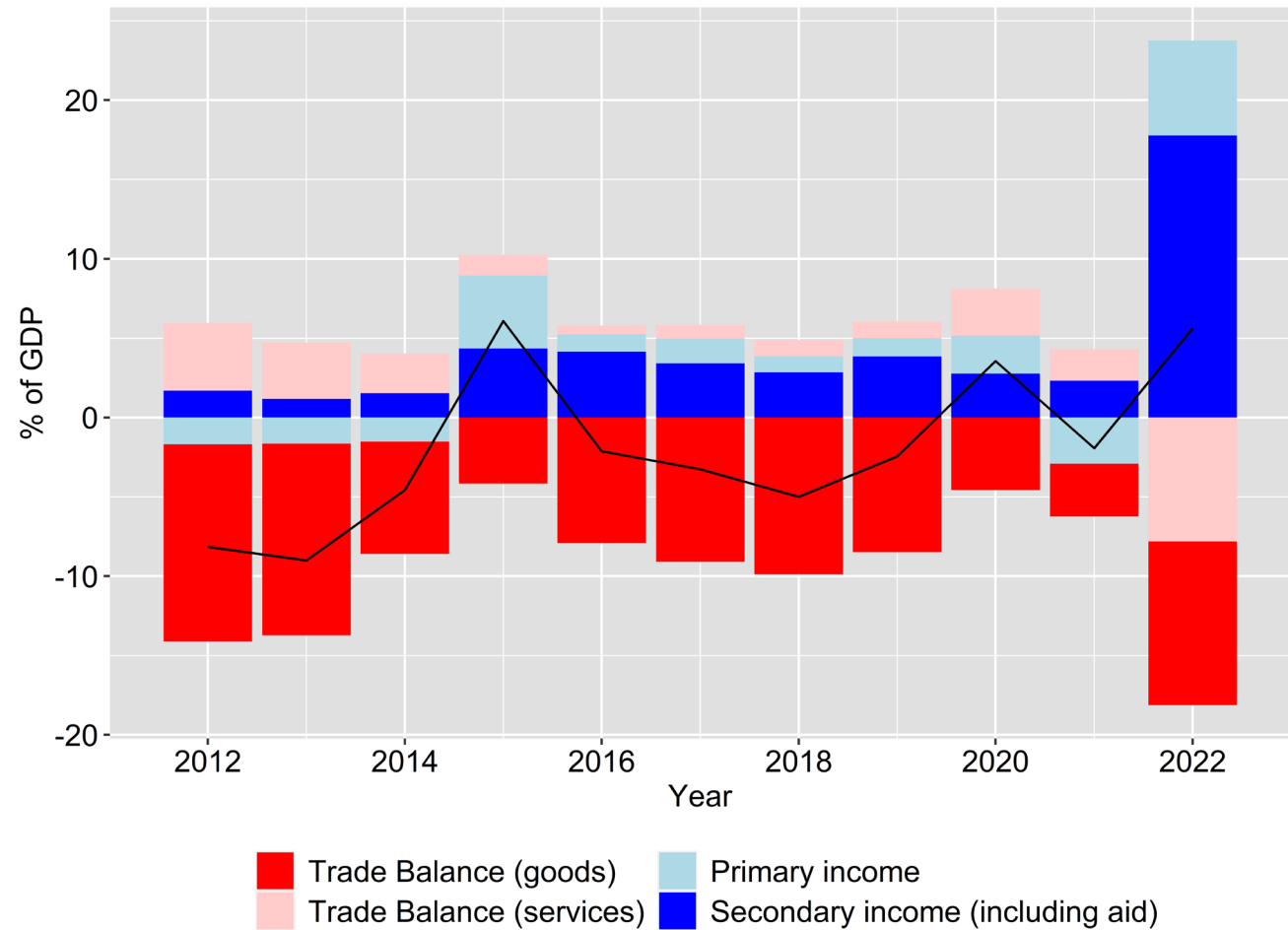




WAR: UKRAINE IN 2022

A trade deficit financed by aid (secondary income). Trade deficit was 17% of GDP in 2022.

Current account of Ukraine



Source: IMF IFS.



WAR: RUSSIA IN 2022

$$CA_t = a + b TOT_t + u_t$$

CA_t : current account in % of GDP.

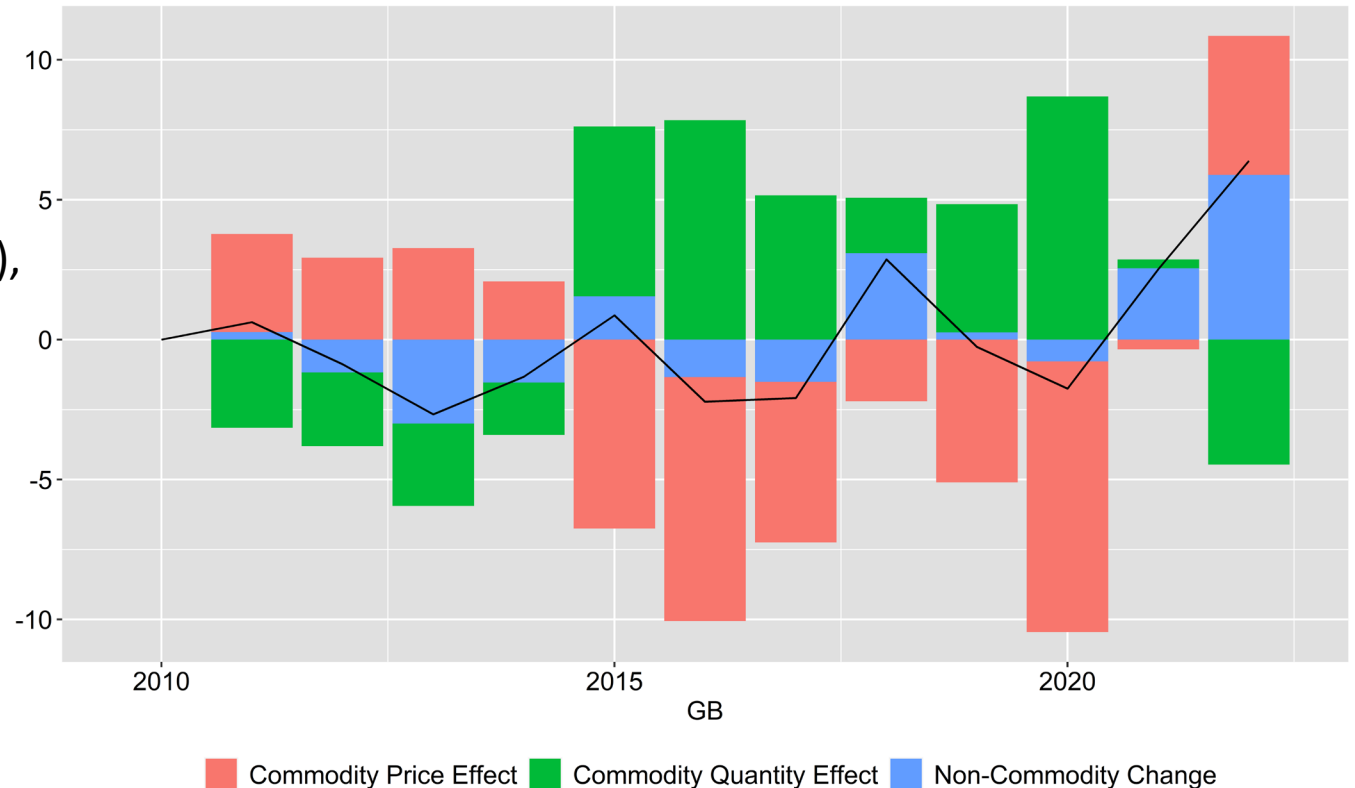
TOT_t : terms of trade of commodity prices (energy, agricultural raw materials, food, beverages and metals), are weighted for exports and imports to GDP, with slow-moving weights.

TOT_t represents the commodity price effect

$(\hat{b} - 1) TOT_t$ is the commodity quantity effect

\hat{u}_t is the non-commodity (unexplained) contribution.

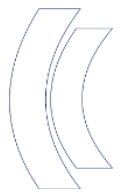
Current account of Russia: annual changes since 2010 in % of GDP, and contributions



Commodity price effect estimated based on changes in terms of trade; quantity (or substitution effect) through an OLS estimation.

Source: data from IMF.

3. WHAT'S NEXT? THE GREENING OF GLOBAL IMBALANCES



ROADMAP

Reallocation of trade flows across industries:

- Less fossil fuels and (possibly) services (tourism, services needing face-to-face)
- More minerals and “green” investment goods

Reallocation of aggregate demand:

- More investment, less consumption?
- More public, less private?

Reallocation of saving-investment imbalances:

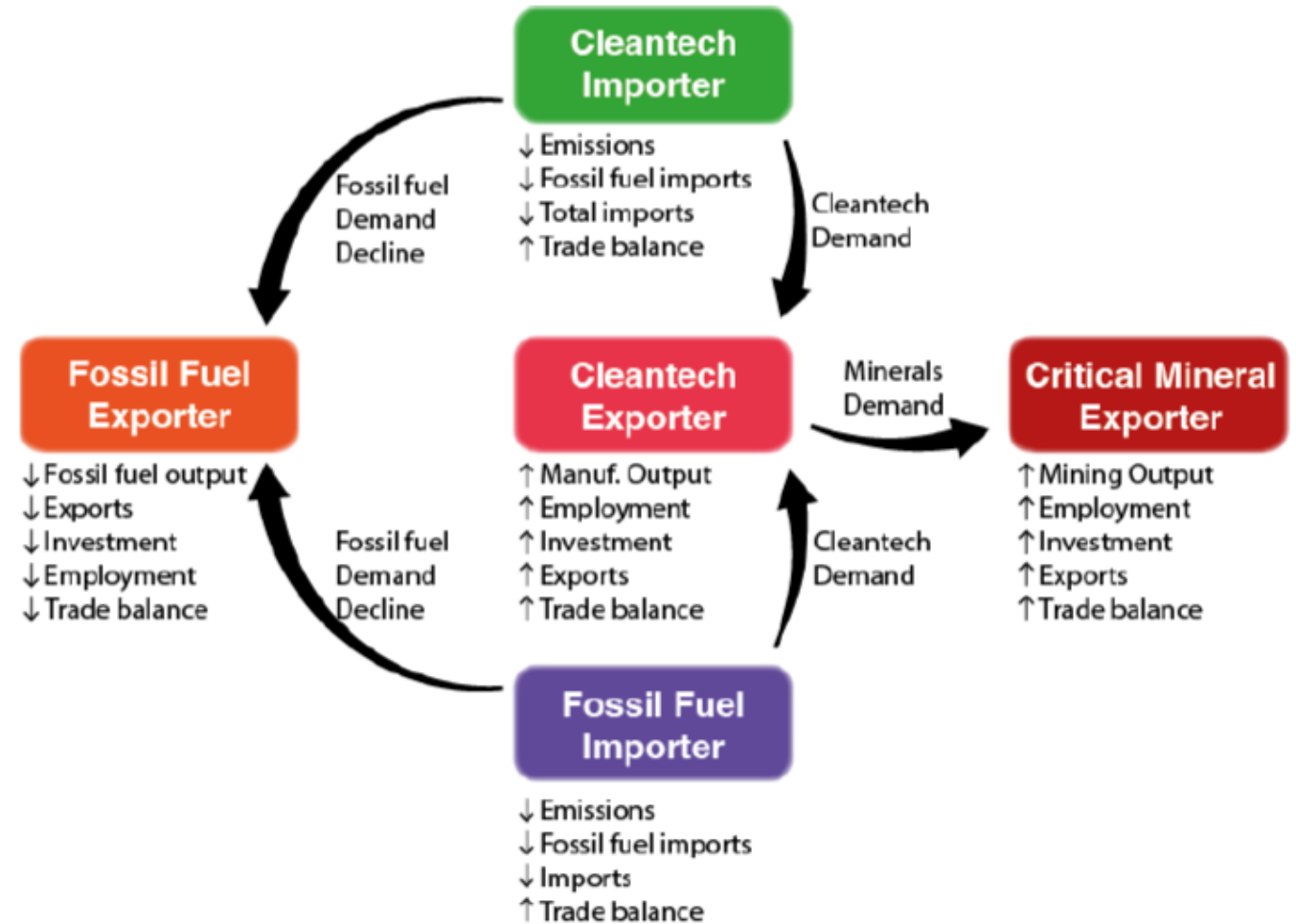
- Infra-nationally: higher private savings, higher public deficits?
- Internationally: depending on transition strategies (taxes vs subsidies and public investment); impact on R^* ?
- Impact of climate change on international capital flows: pull factors (return on investment, climate disasters) and push factors (mineraldollars and greentechdollars substituting for petrodollars).

CHANGES IN TRADE FLOWS MAY BE COMPLEX

➤ Countries will be affected differently depending on:

- Their own endowment of fossil fuels, their fossil fuel production and consumption patterns
- Their capabilities to develop and produce low-carbon technologies
- Their endowment of critical minerals and other commodities needed to manufacture goods in the low-carbon economy
- Their ability to produce renewable energy

Archetypes of Countries in the Transition



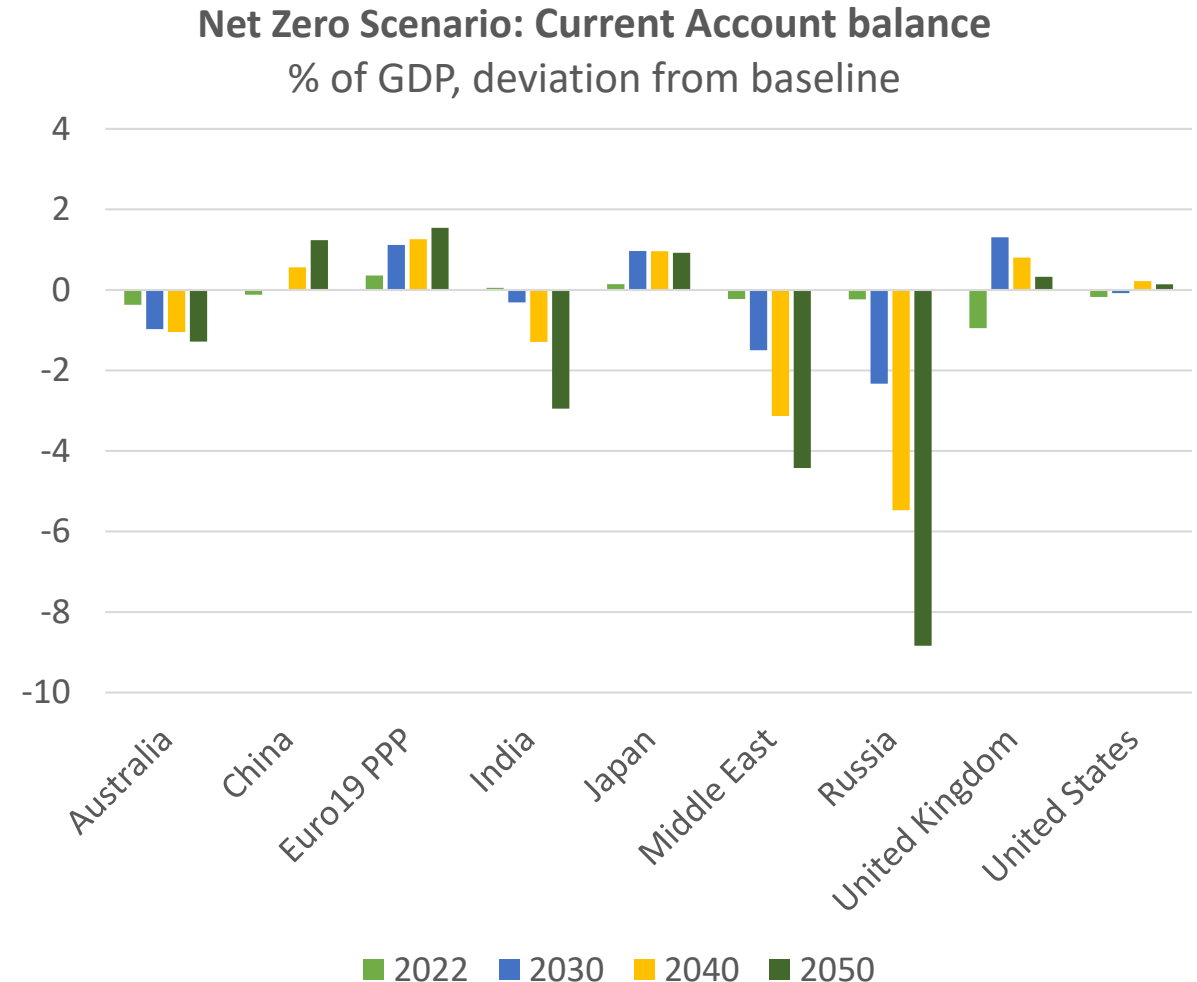
Note: Archetypes of country roles in the transition from a cross-border perspective. Thick arrows indicate the direction of specific cross-border impacts on financial flows. Up and down arrows in the captions indicate whether a quantity increases/improves or decreases/worsens. For simplicity purposes, we consider cleantech exporters as implicitly being also critical mineral exporters.

Source: Espagne et al (IMF WP, 2023)



IMPACT OF GREEN TRANSITION ON GLOBAL IMBALANCES: NGFS SCENARIOS

- **NGFS scenarios, using the international macro-economic model Nigem, point to:**
 - A deterioration of the current account (CA) balance of fossil fuel exporting economies.
 - A rise in trade balances for advanced economies.
 - Overall: **rise in CA imbalances**
- **But results are *very sensitive* to model assumptions.**



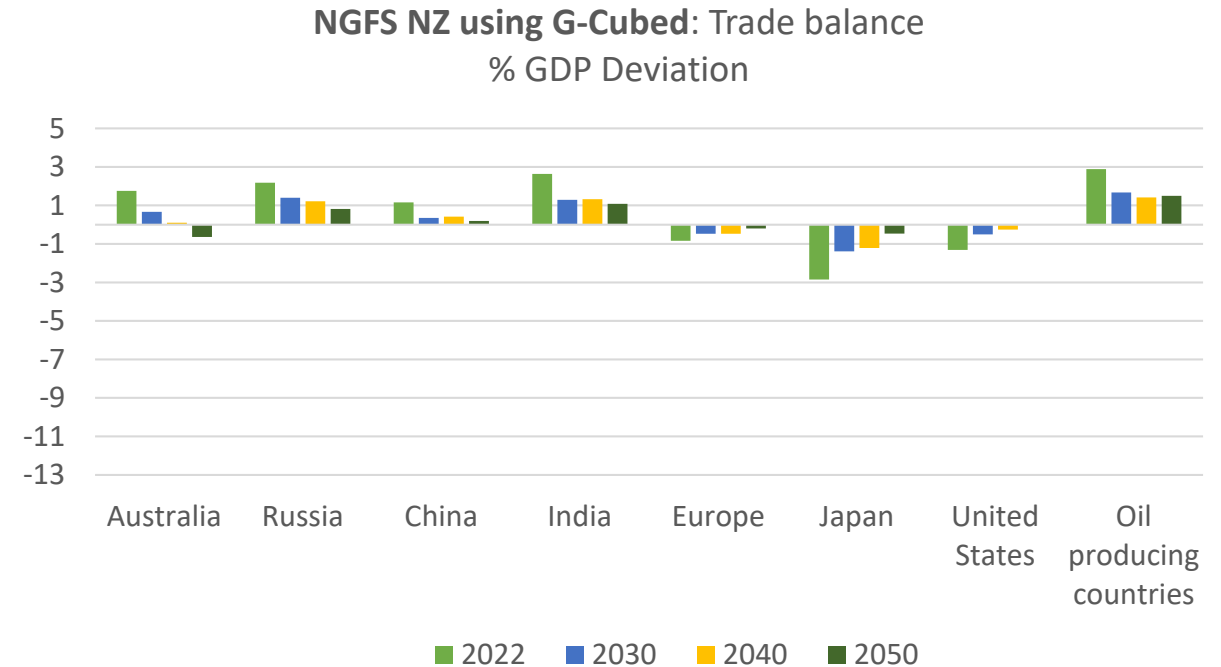
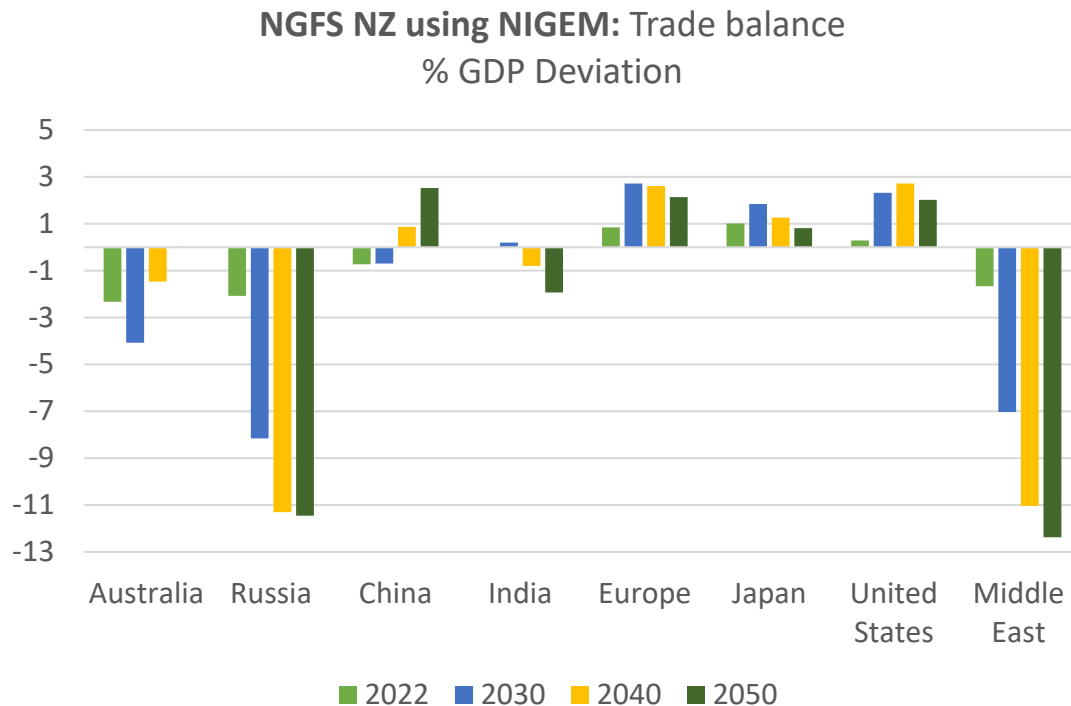
Source: NGFS-NIESR, BdF simulations. Proceeds of the carbon tax are supposed to be redistributed by half through public investment and the rest to reduce public debt. Baseline is a “technical” scenario without any transition policy nor modelling of physical risks

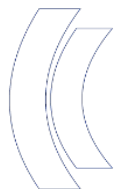


CLIMATE TRANSITION IMPACT ON TRADE BALANCES: A TALE OF TWO MODELS

➤ Using the G-Cubed model, NGFS scenarios point instead to:

- Higher CA for fossil fuel exporting economies; lower CA for advanced economies.
- G-Cubed is more forward-looking than Nigem: future revenues rapidly impact investment decisions (*leading to a drop in investment/consumption, hence reduced imports for fossil fuel exporters*). IMF (2022) using G-Cubed shows similar results
- But model assumptions are debatable, e.g. *oil exporting economies could rather draw on their savings to maintain consumption and investment.*





POLICY CONCLUSIONS

➤ **Modelling capacity in the area of climate change has improved dramatically over the last 5 years**

- NGFS: NGFS Climate Scenarios for central banks and supervisors (2022), Conceptual note on short-term climate scenarios (2023)

➤ **However key questions are still open:**

- Impact of the transition on private savings and aggregate investment
- What mix of instruments

➤ **Need to combine (i) macro modelling in open economies, and (ii) econometric evidence.**



THANK YOU FOR YOUR ATTENTION!

