

# Global Imbalances: The Next Crisis?

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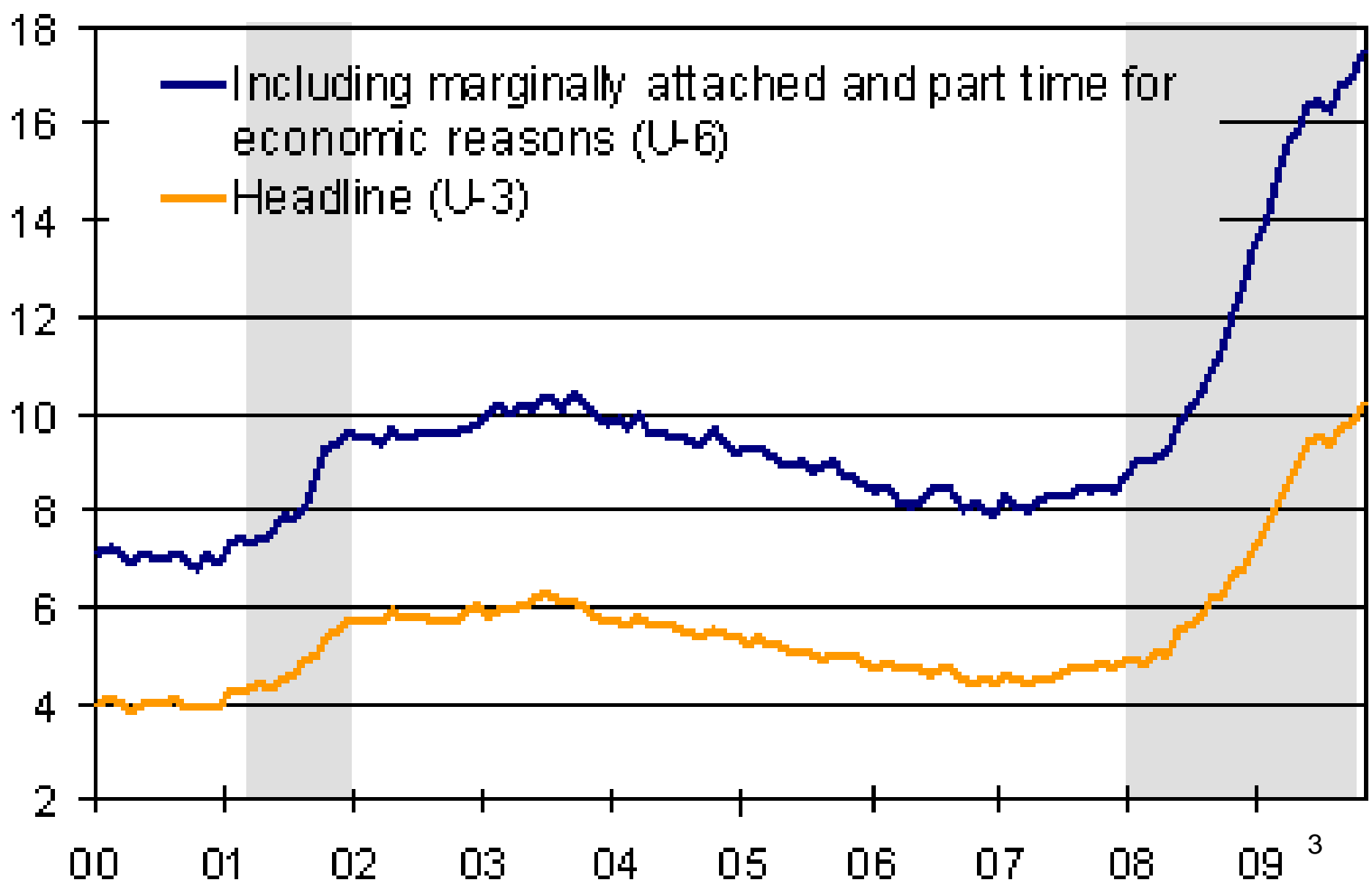
December 1, 2009

# The economic crisis is not over

- Unemployment is extraordinarily high
- Banks are yet to recognize losses
- US Commercial Property market is imploding
- US Foreclosures are still rising

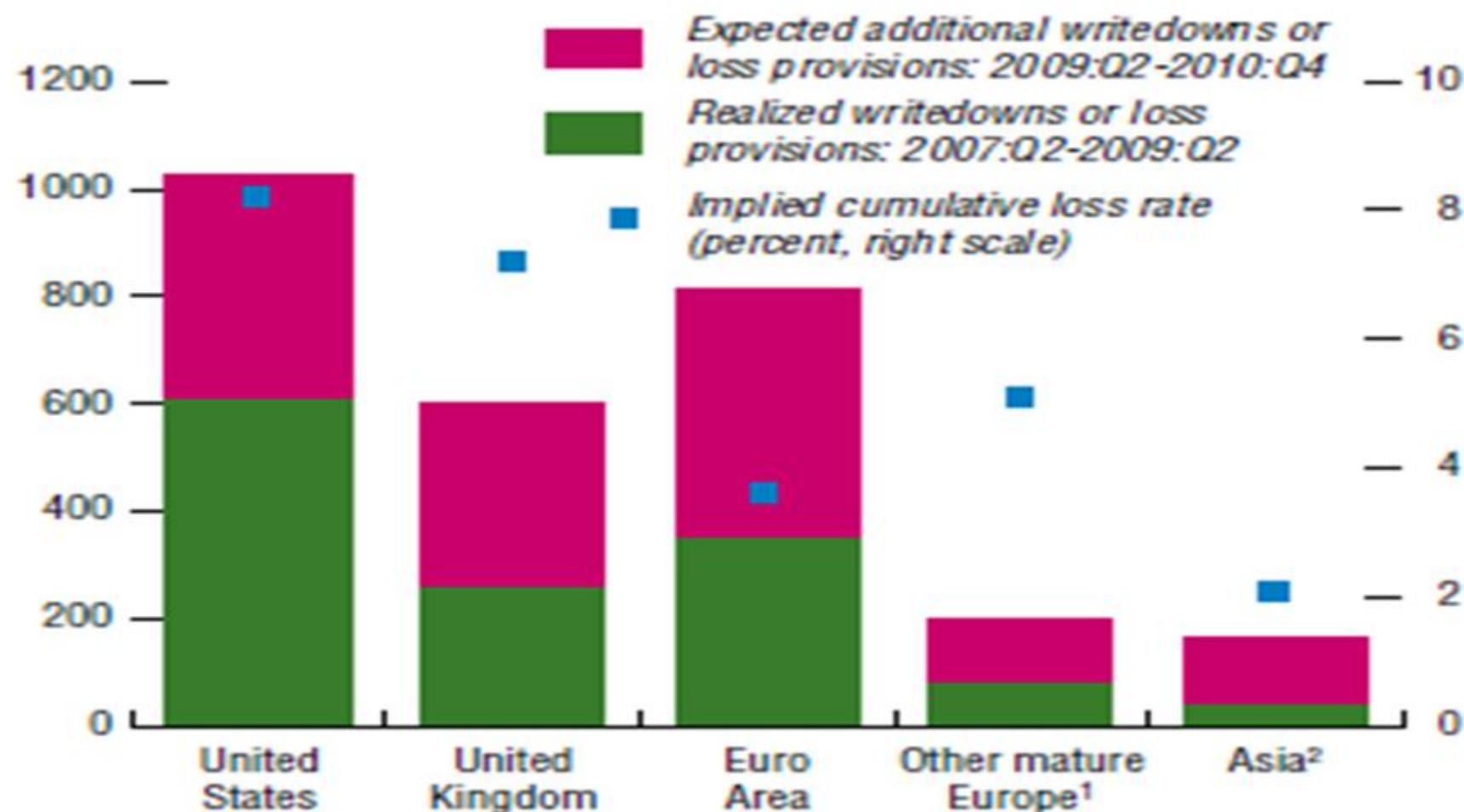
# Discouraging jump in joblessness

*Unemployment rate, %*



## Realized and Expected Writedowns or Loss Provisions for Banks by Region

(In billions of U.S. dollars unless otherwise shown)



Source: IMF staff estimates.

<sup>1</sup>Includes Denmark, Iceland, Norway, Sweden, and Switzerland.

<sup>2</sup>Includes Australia, Hong Kong SAR, Japan, New Zealand, and Singapore.

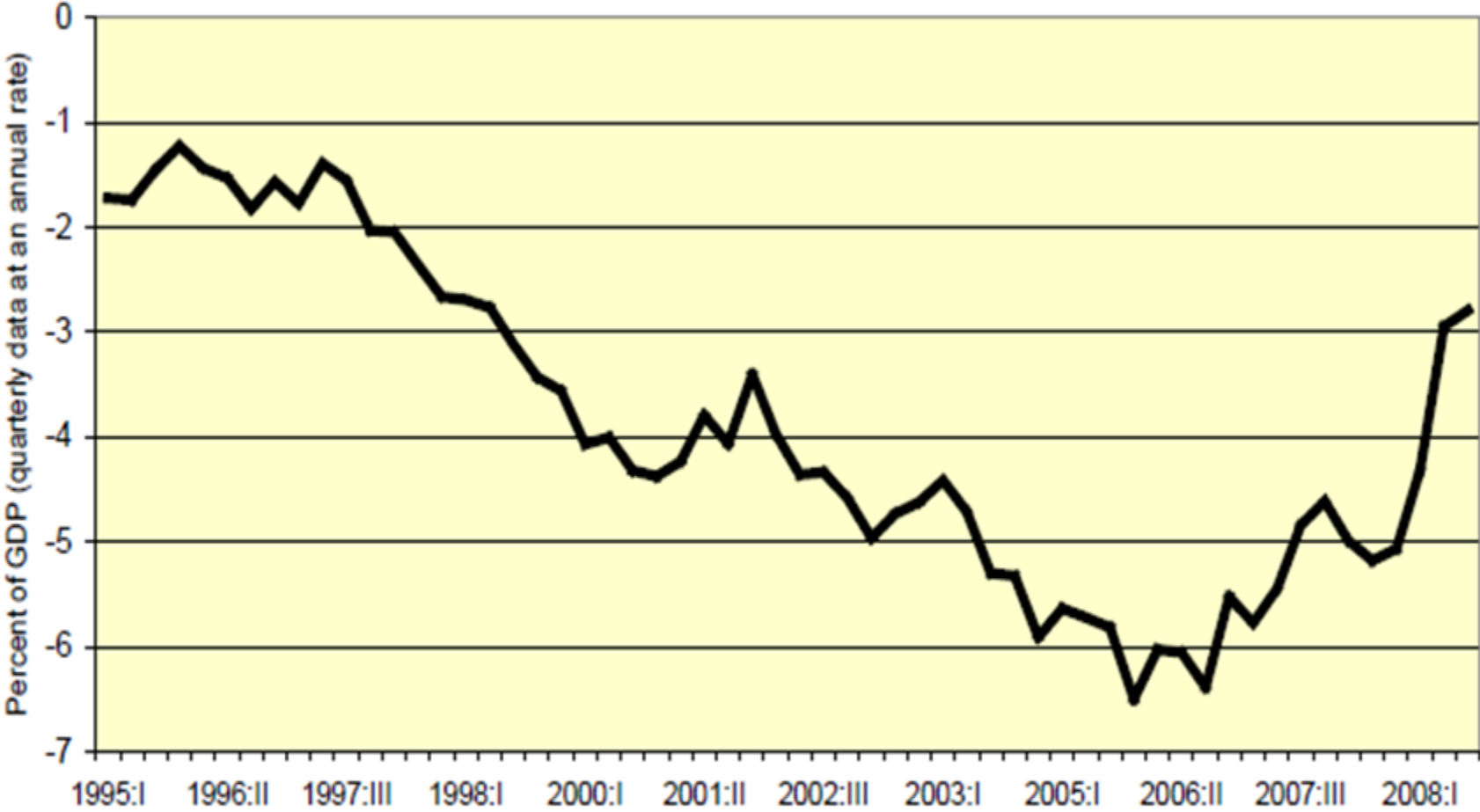
# Canaries in the dollar coal mine

- China is grumbling about the US deficit
- India is buying gold
- Gold prices are close to US\$1200
- Moody's is warning of eventual US downgrade
- Pace of dollar depreciation picks up

# Global Imbalance Problem

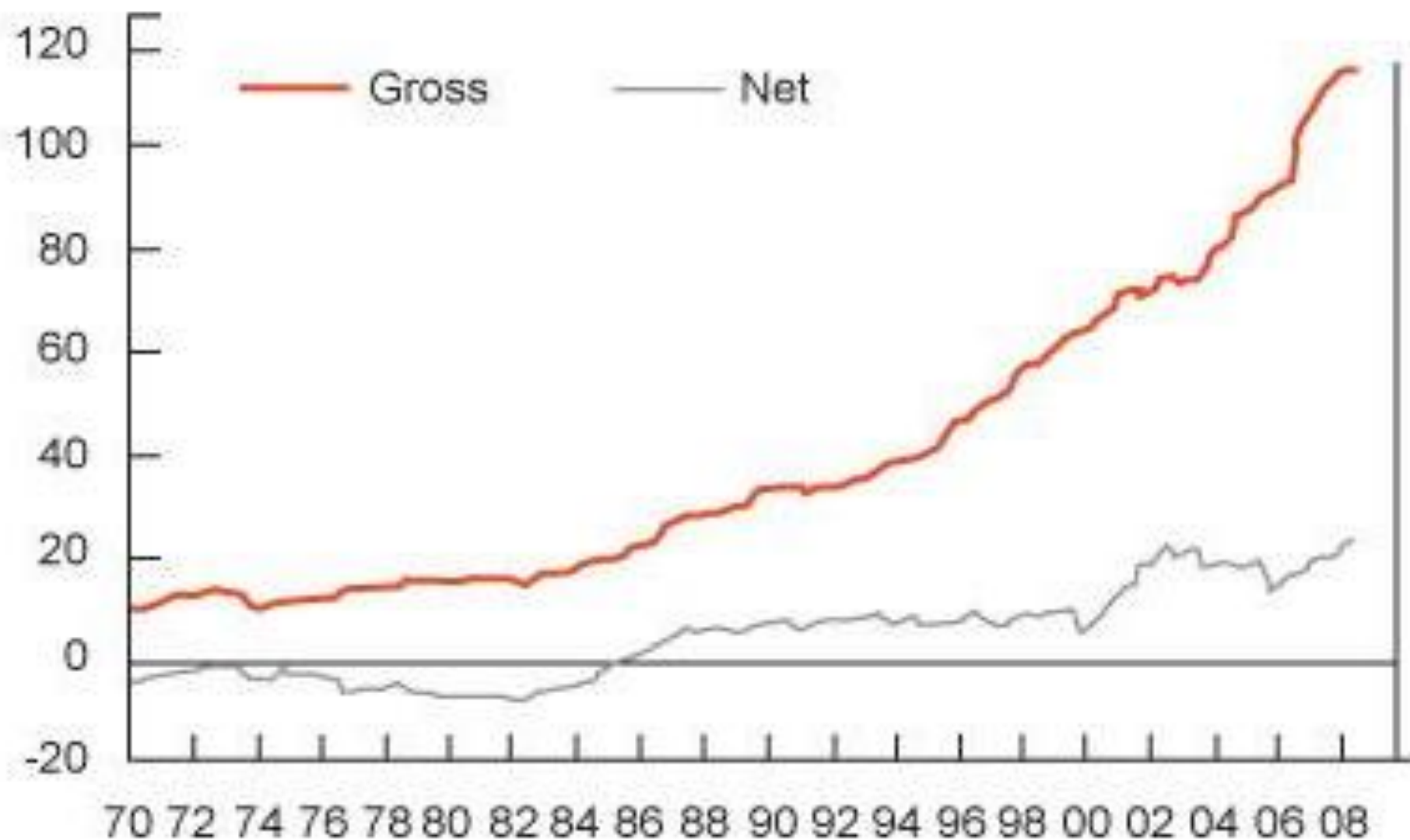
- US current account deficit is still large
- Spain, Greece, Ireland, and Portugal have even larger deficit to GDP ratios
- China is registering too large a surplus
- Germany also runs massive surpluses

# U.S. Current Account



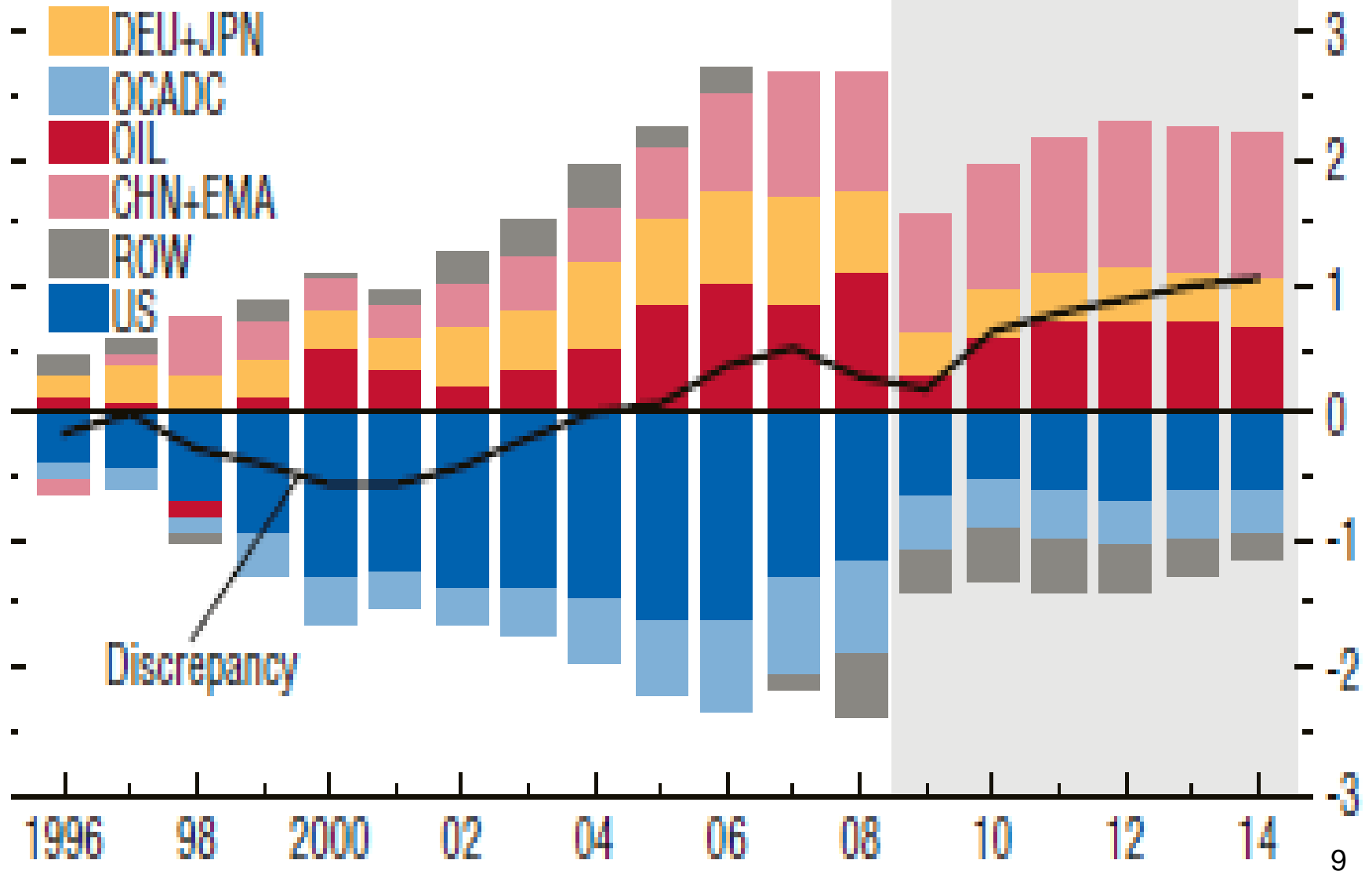
Source: U.S. Department of Commerce

# United States: External debt (as % of GDP)

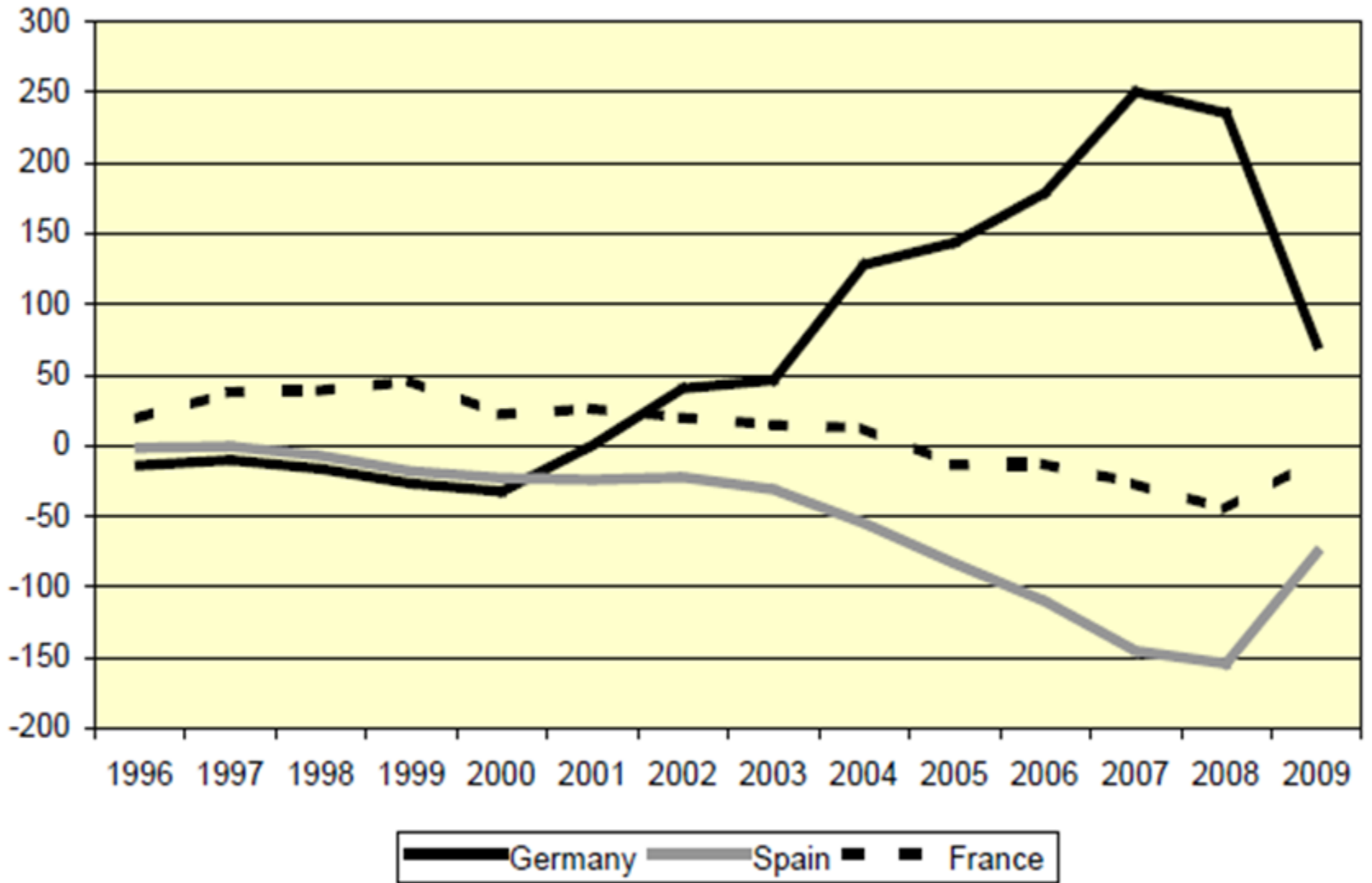


Sources: FoF, Natixis

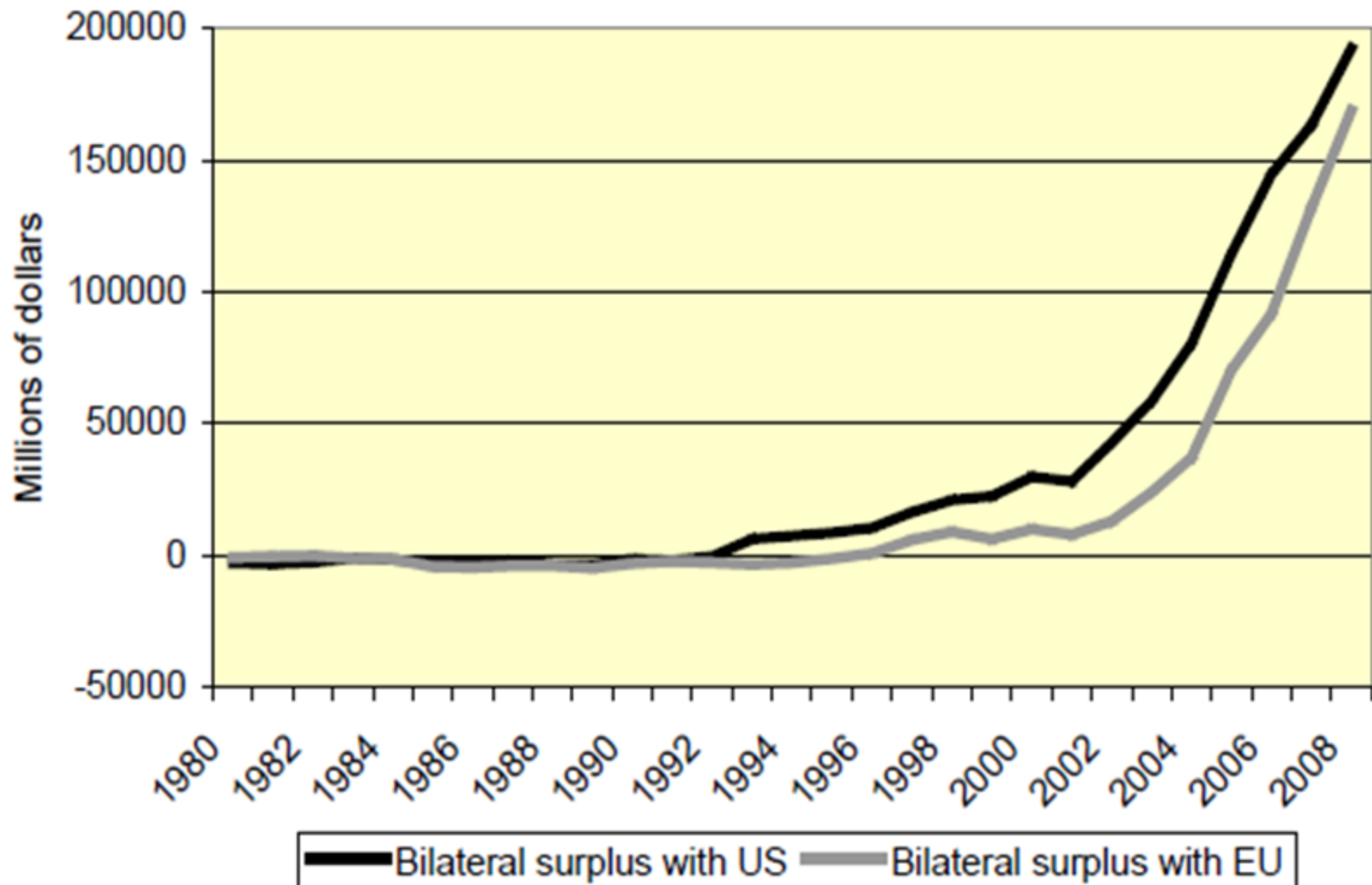
# Global Imbalances<sup>4</sup> (percent of world GDP)



Selected Euro Zone Current Accounts



## China's Trade Surpluses with United States and European Union



Source: IMF, *Direction of Trade*

# A Coordinated Solution

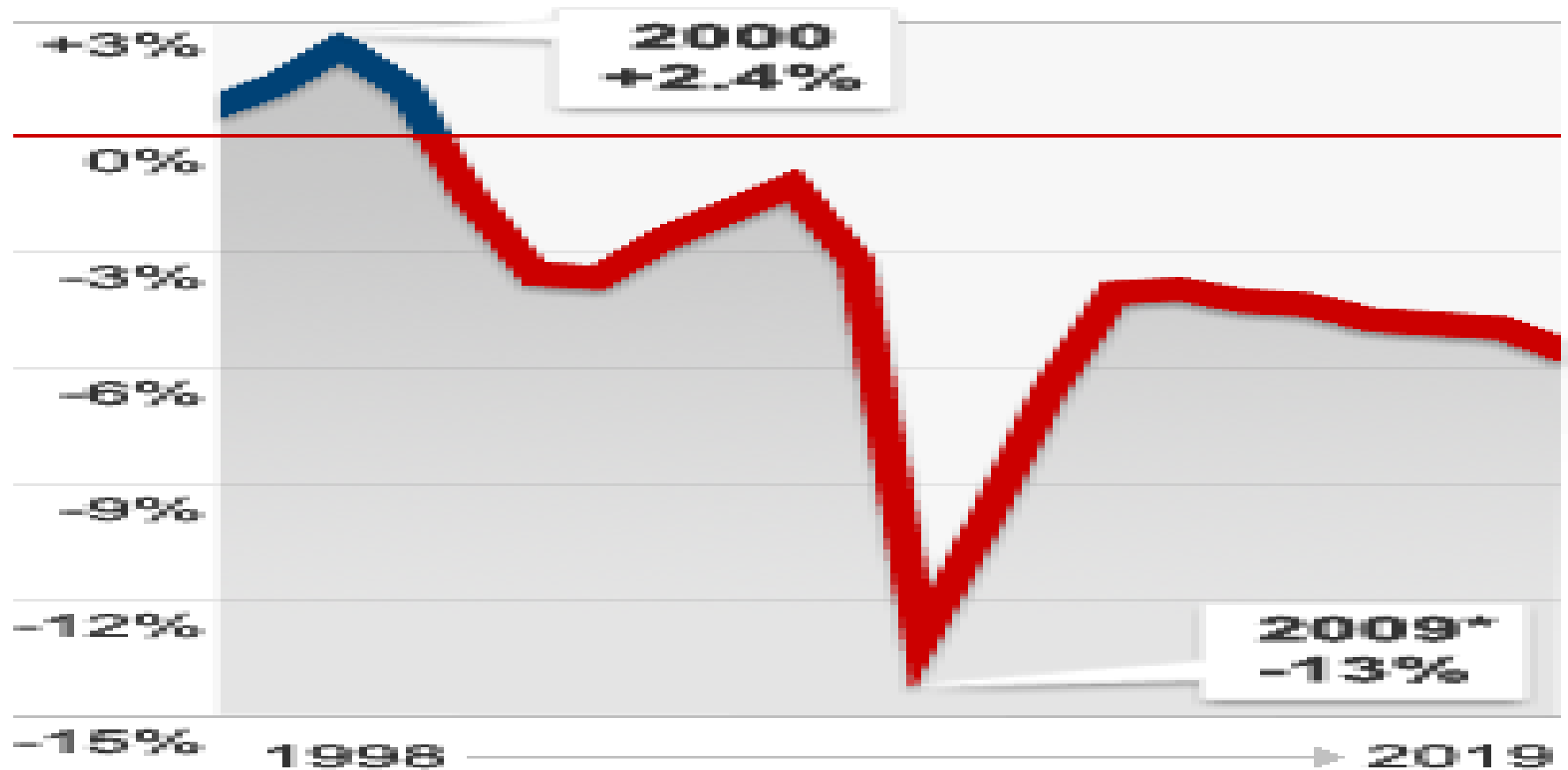
- An optimal solution requires both expenditure “switching” and “reduction”
- Dollar should depreciate against renmimbi
- US should increase savings
- China should promote consumption

# Adjustment is far from complete

- US makes no effort to restore fiscal sustainability
- China pegs to the US dollar
- China's massive policy stimulus adds to its export capacity

# Uncle Sam's red ink

Annual federal surplus or deficit as a percentage of GDP.



\* FIGURES FROM 2009 FORWARD ARE CBO ESTIMATES OF OBAMA ADMINISTRATION POLICIES. SOURCE: GOVERNMENT DATA, AUTHORS' ANALYSIS

# US gross federal debt

As a % of GDP

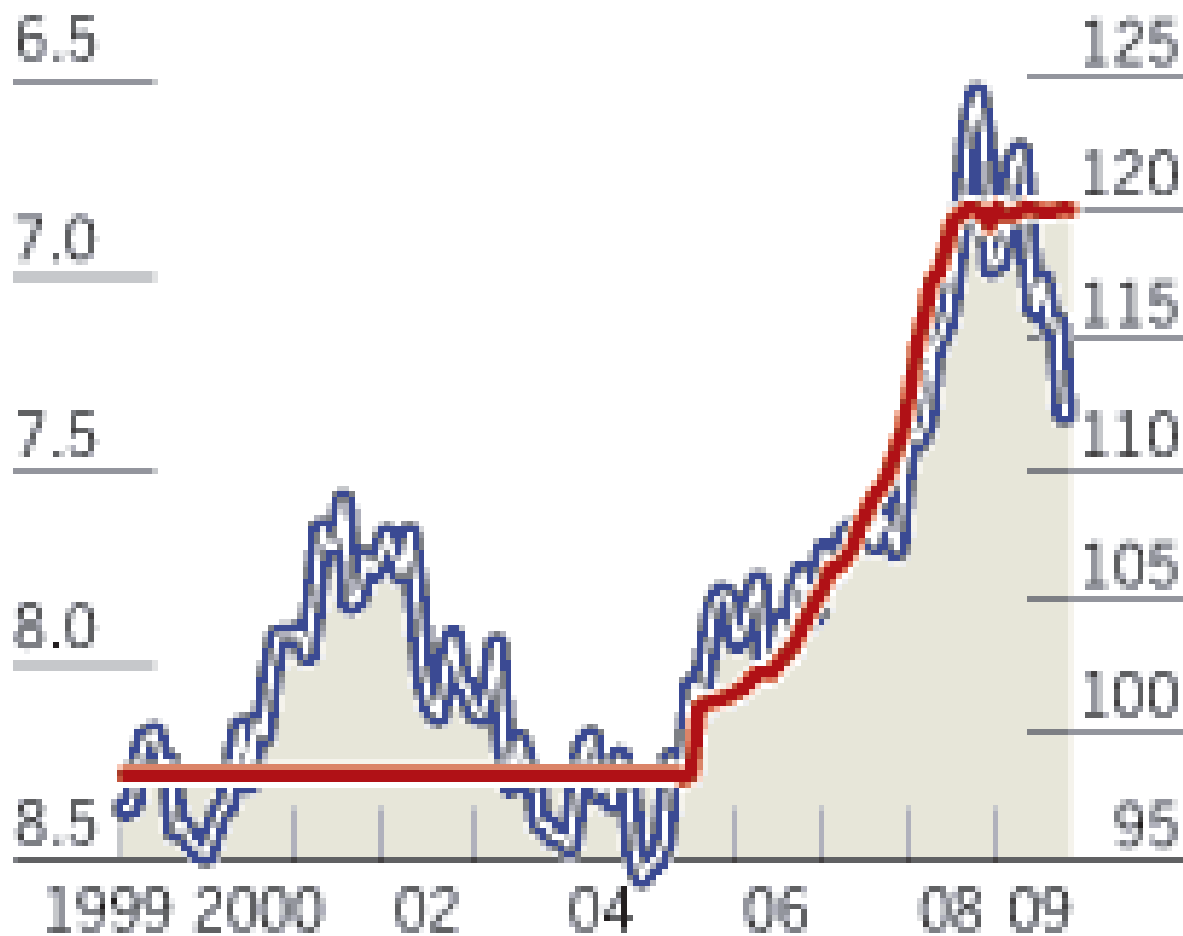


Sources: [usgovernmentpending.com](http://usgovernmentpending.com); OMB from 1980 with forecasts to 2014

# Chinese renminbi

Renminbi per  
dollar

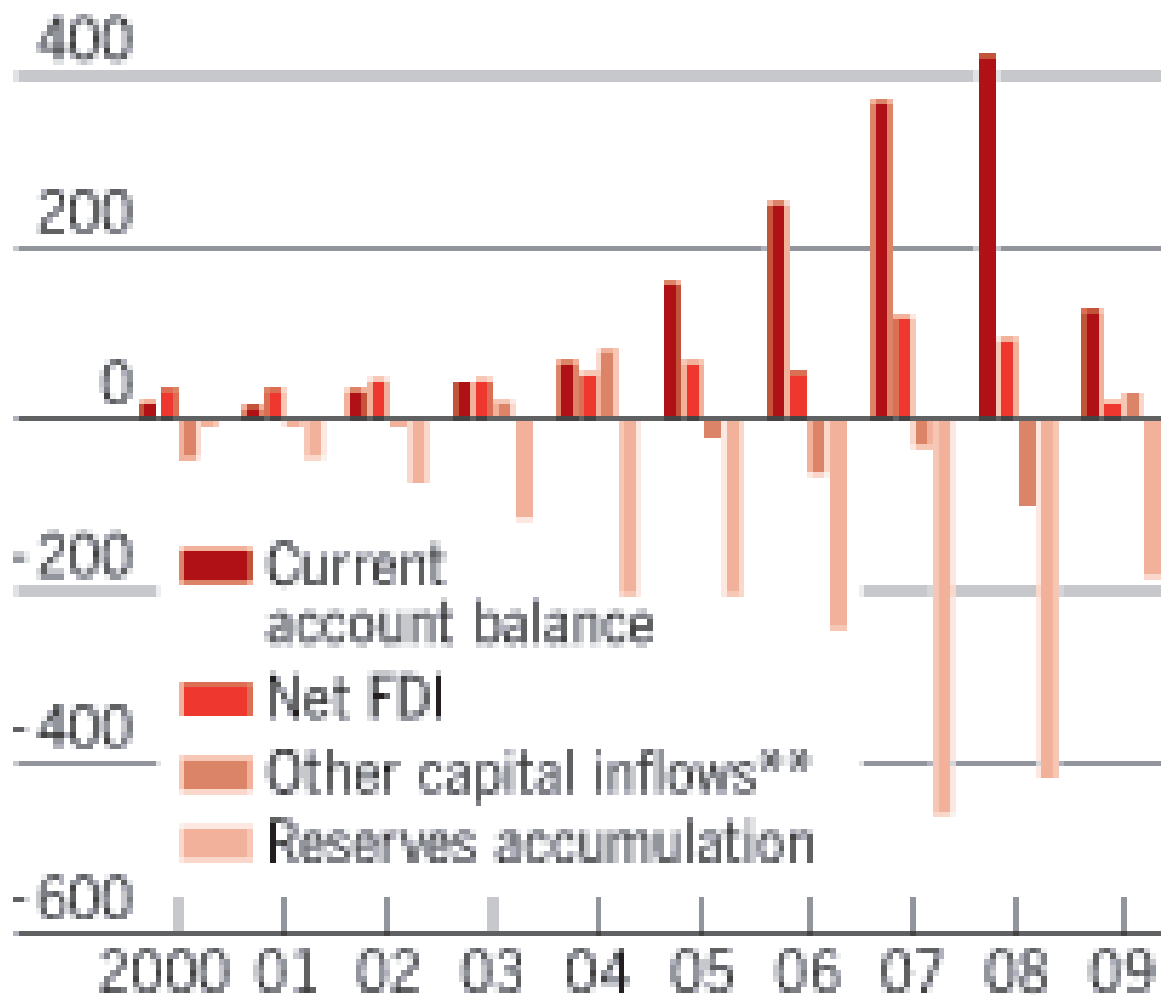
JP Morgan real trade  
weighted index



Sources: Thomson Reuters Datastream; IMF; Baldwin and Taglioni

# China balance of payments

\$bn

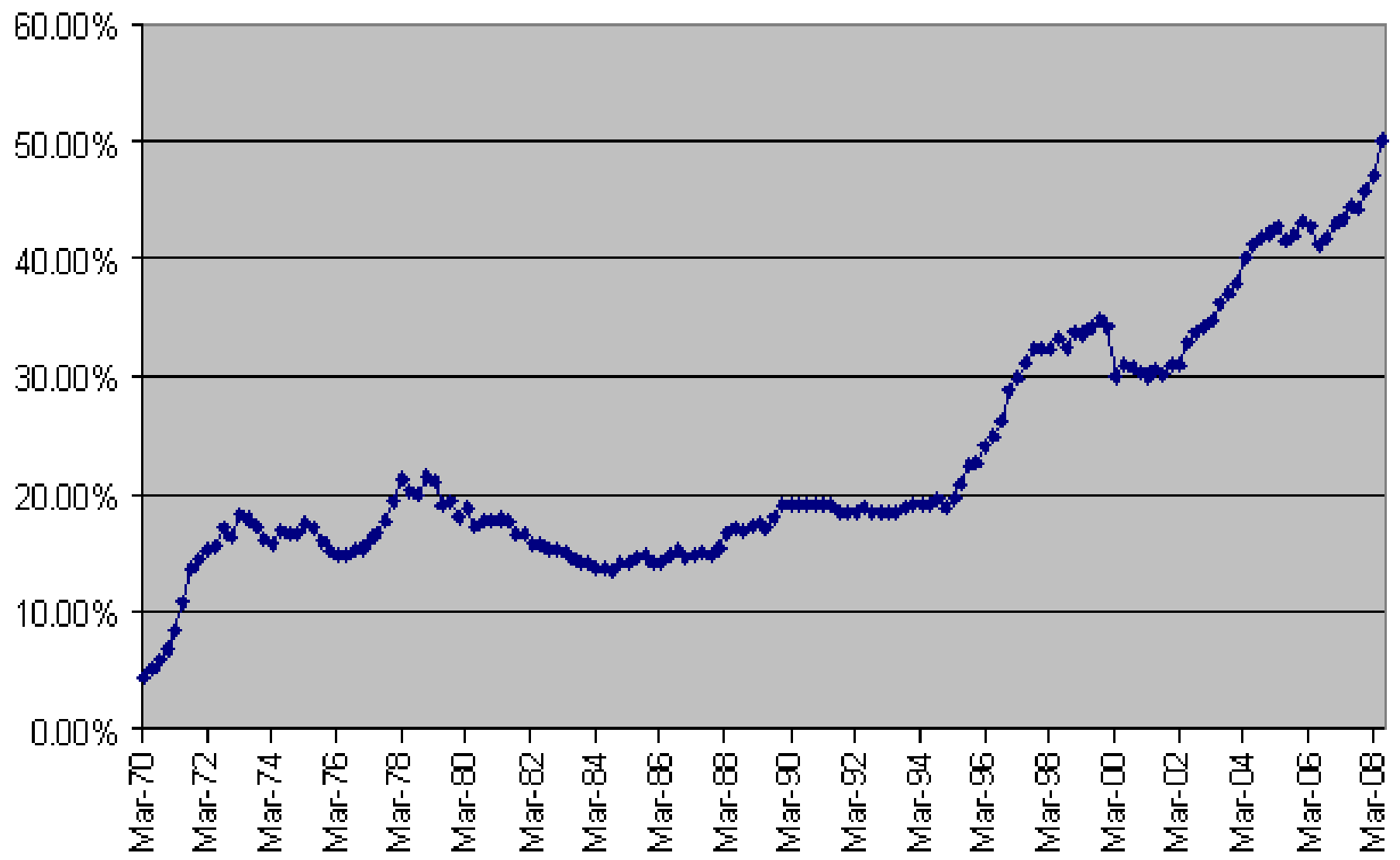


\*\* Includes errors and omissions

# A dollar crisis would be no picnic

- Financial markets would become unhinged
- Inflation would pick up
- A shock to Europe and Japan's economies
- Protectionist forces would be fanned

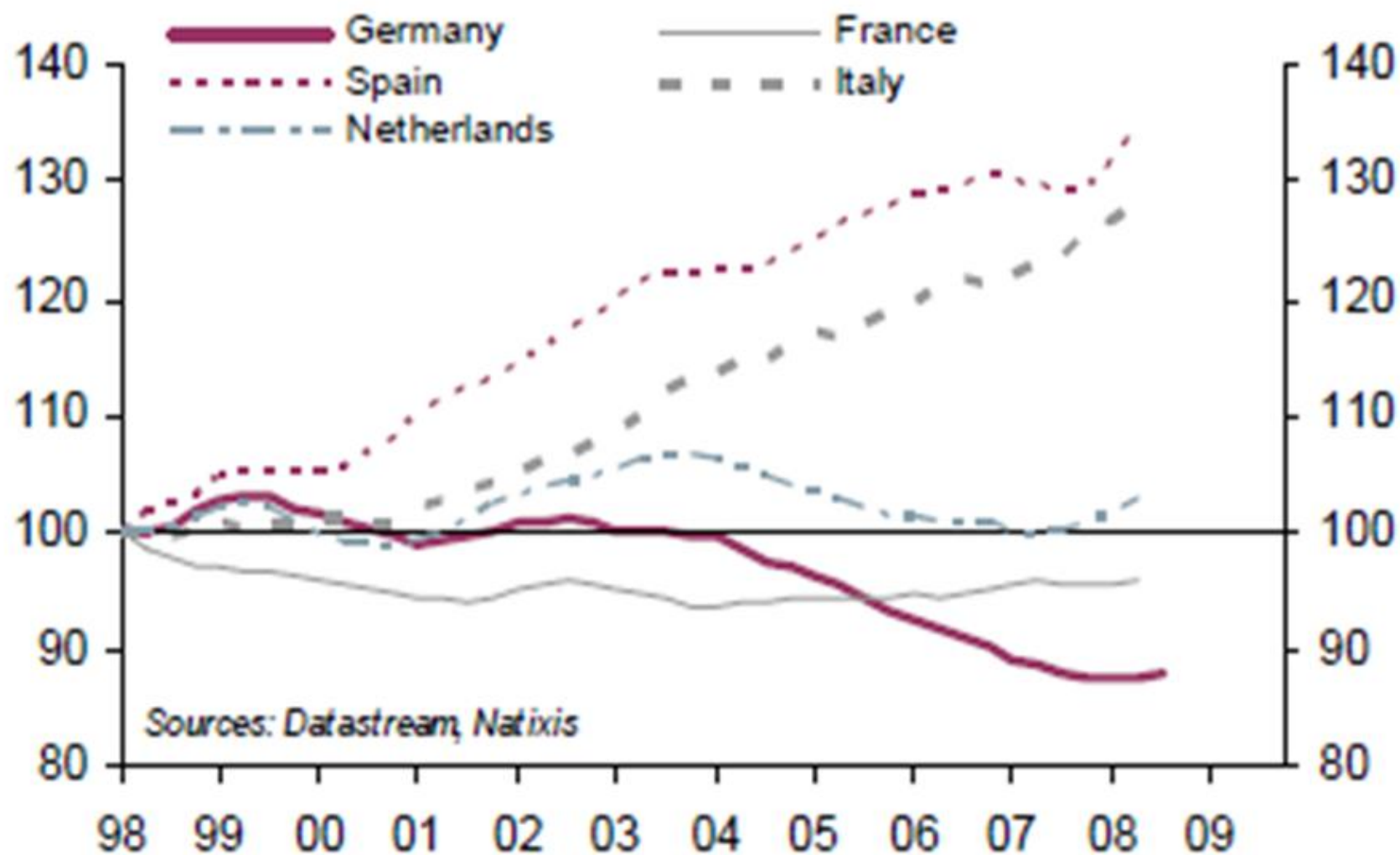
# % US Public Debt Held By Foreign Countries



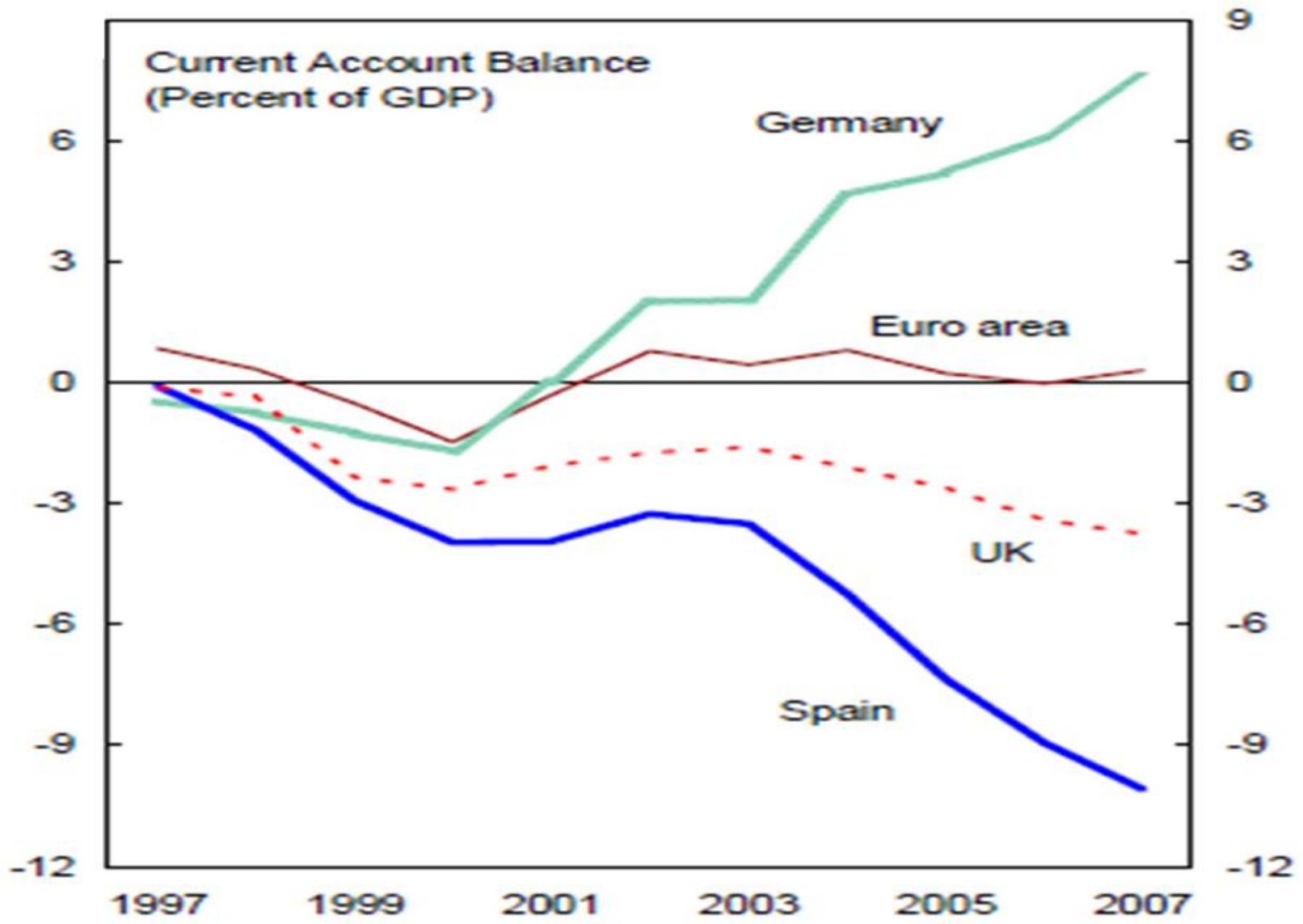
# Strains on the Euro

- Europe is not an optimum currency area
- Club-Med countries need 30 percent real depreciation
- Budget deficits are out of control
- Euro straightjacket is a recipe for deflation

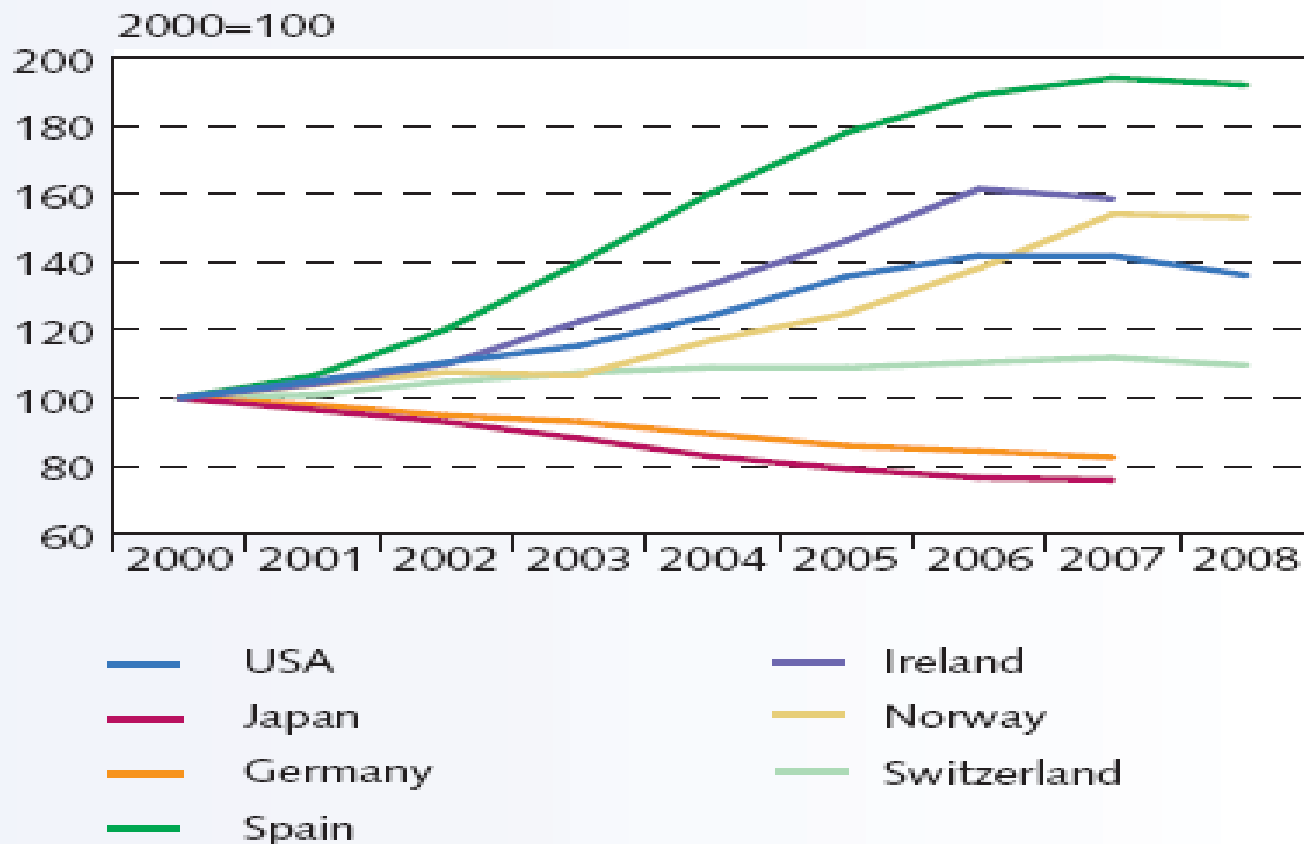
## Unit wage costs in manufacturing sector (1998:Q1 = 100)



Selected European Current Account Balances



# Real house price index<sup>1</sup>



1. Data for the year 2007 are averages for available quarters, as data were not available for the year 2007 and figures for 2008 are based on the first quarter.

Source: OECD.

# Spain - General government accounts

