

The image features a central globe showing the continents of Africa and Europe, rendered in a dark red color. This globe is surrounded by several concentric, semi-transparent red rings that create a sense of depth and motion. The background is black, with several thin, curved lines in a lighter red shade that intersect across the frame. At the bottom center, the text "BBC NEWS" is displayed in a bold, white, sans-serif font. The letters "B", "B", and "C" are each contained within a white square, while "NEWS" is written in a single continuous block.

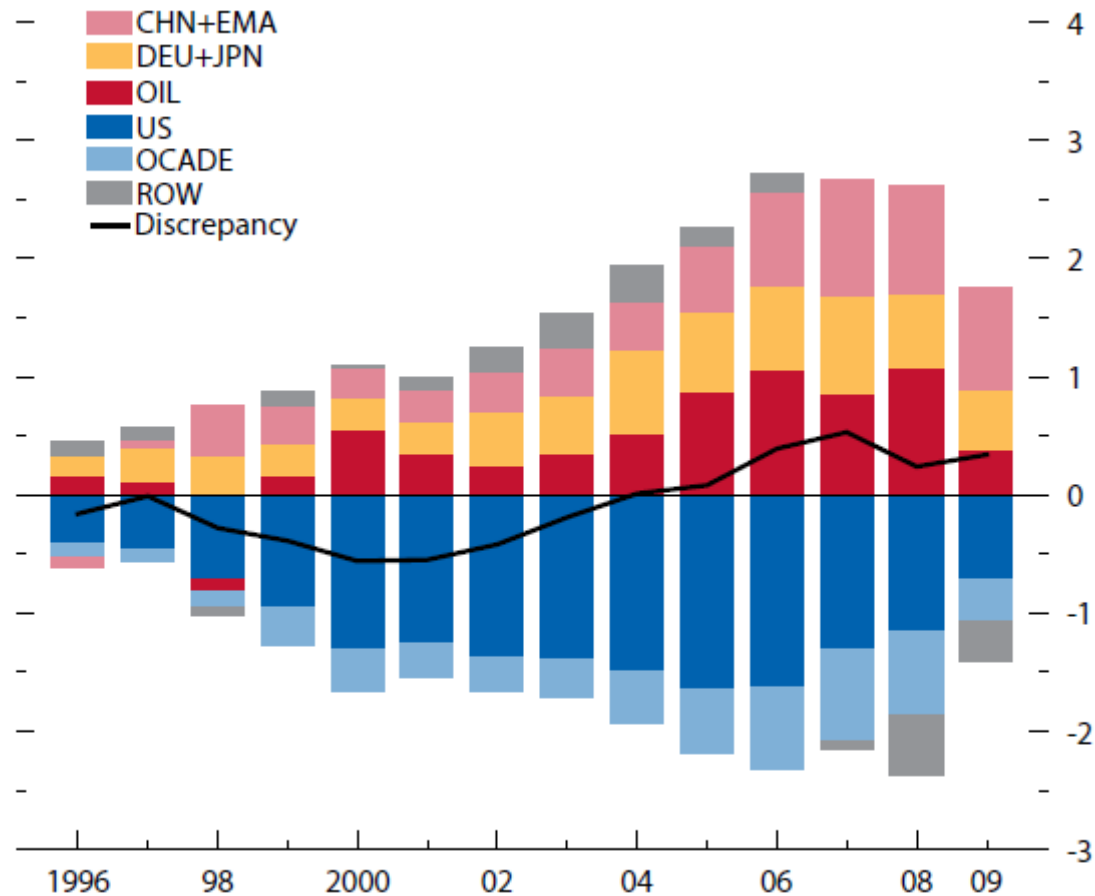
B B C NEWS

The Challenge of Re-balancing the Global Economy

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- The Problem of Global Imbalances
 - Where We Are Now
 - Imbalances and the Eurozone
 - Future Thoughts

I. The Problem of Global Imbalances



Source: IMF staff calculations.

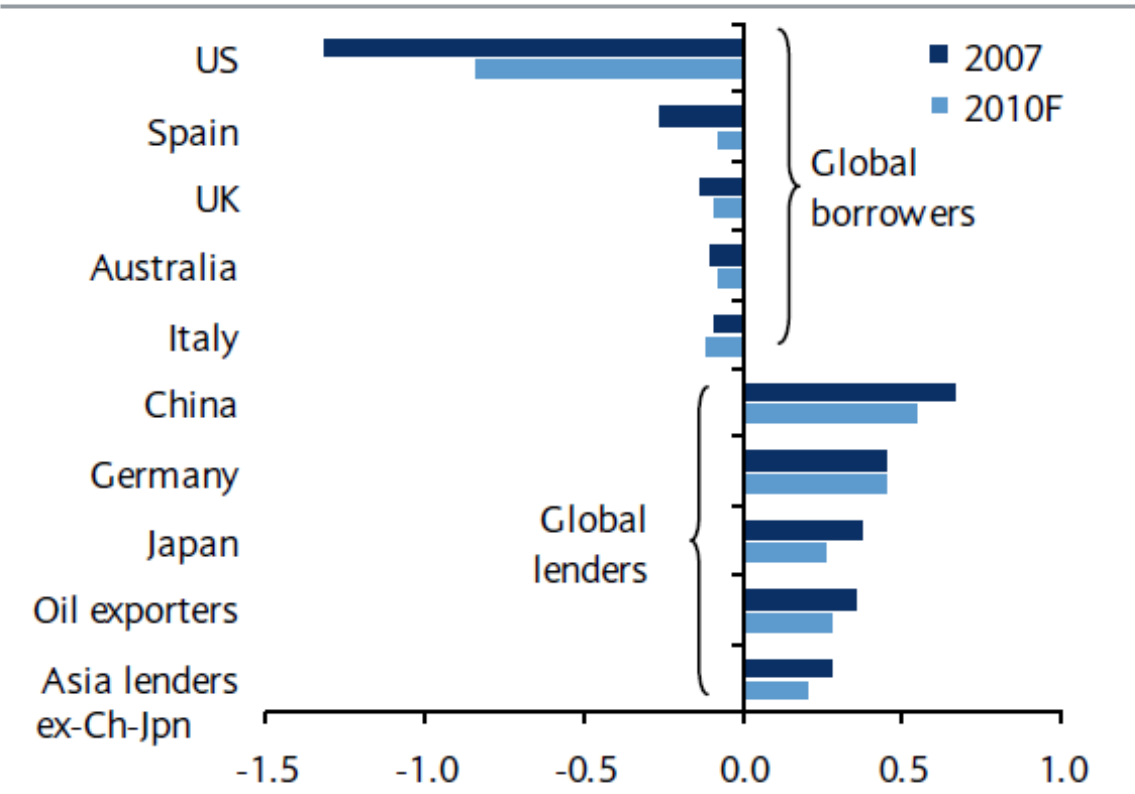
I. The Problem of Global Imbalances

PRE-CRISIS:

- Massive and rising capital flows from East to West, as reflected in Eastern current account surpluses and Western (Anglo-American) surpluses.
- “Savings glut” versus “greedy Americans” explanation.
- Both have some truth. (Even Americans prefer to be the villain than the innocent victim.)

Savers and gluttons

Figure 7: Largest global imbalances (% of global GDP)



Source: IMF, Barclays Capital

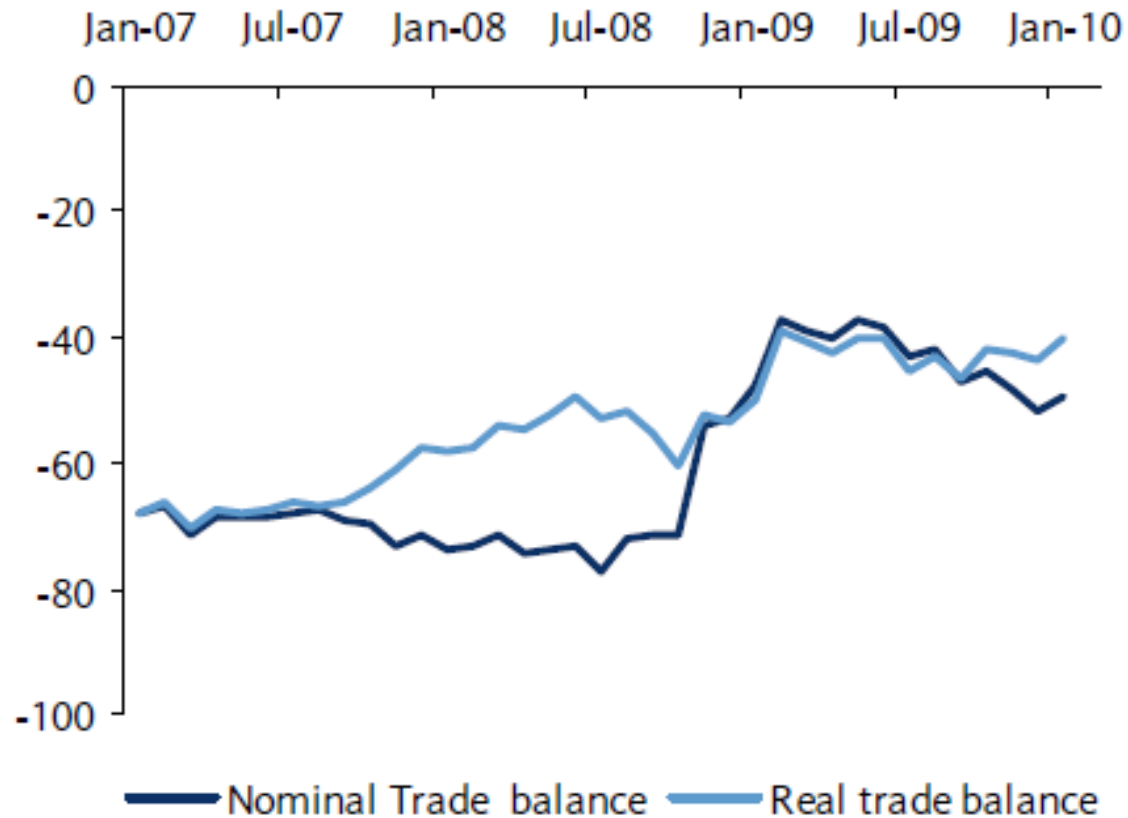
Three Ways to Re-Balance

1. Exchange rate adjustment: depreciation by deficit countries encourages domestic demand switching, also improvement of national balance sheet. Raises profitability of tradable sector.
2. Recession adjustment: collapse in global trade flows narrows trade imbalances.
3. “True” rebalancing: deficit countries expand export sector on the back of more domestic-demand oriented growth in surplus countries.

We have had limited (1) and (3) but a lot of (2).

America rebalancing?

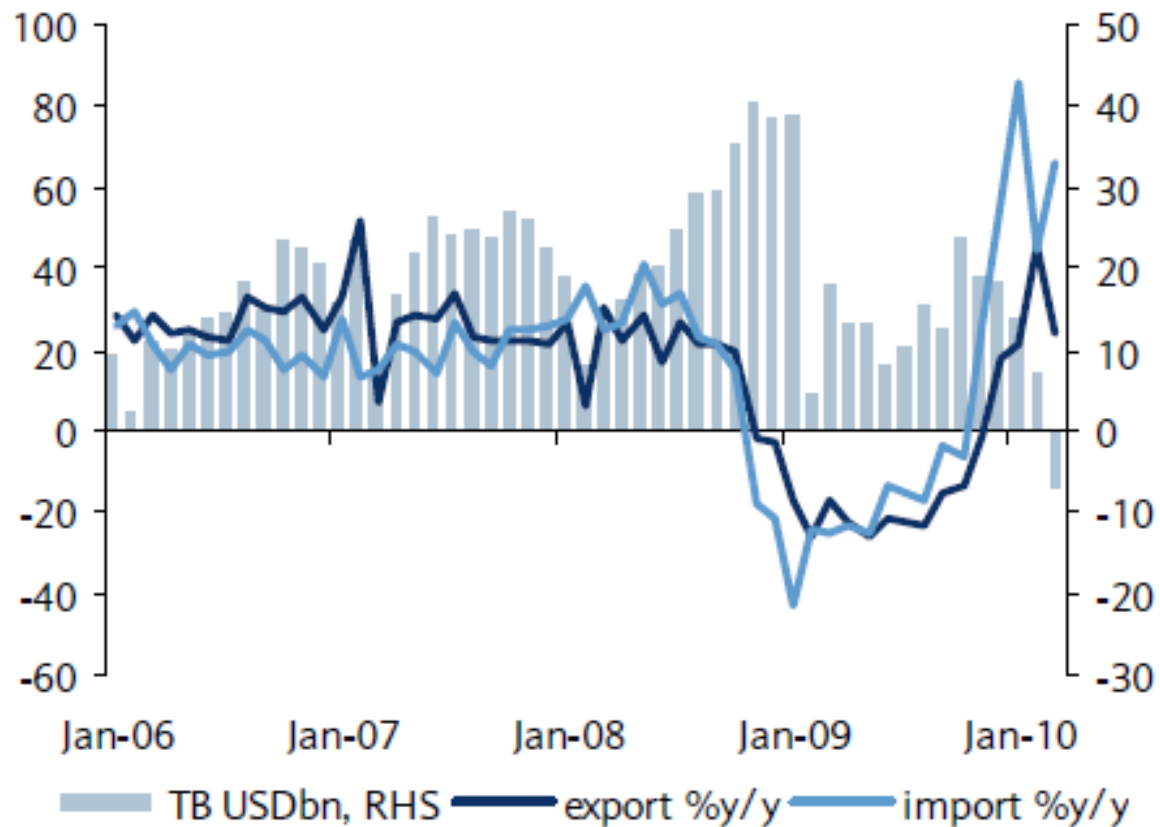
Figure 10: US real and nominal trade balance (USDbn)



Source: Haver Analytics, Barclays Capital

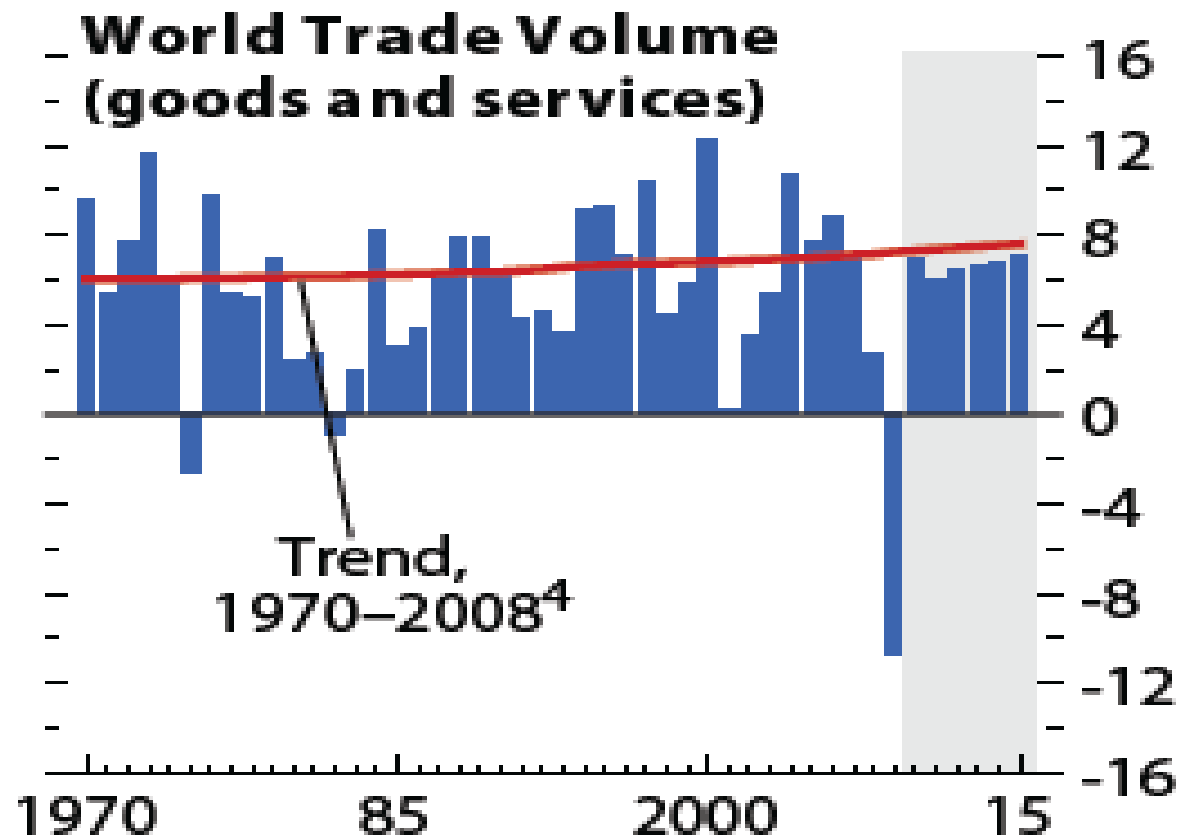
Also China.....

Figure 8: China's first trade deficit since May 2004



Source: Haver Analytics, Barclays Capital

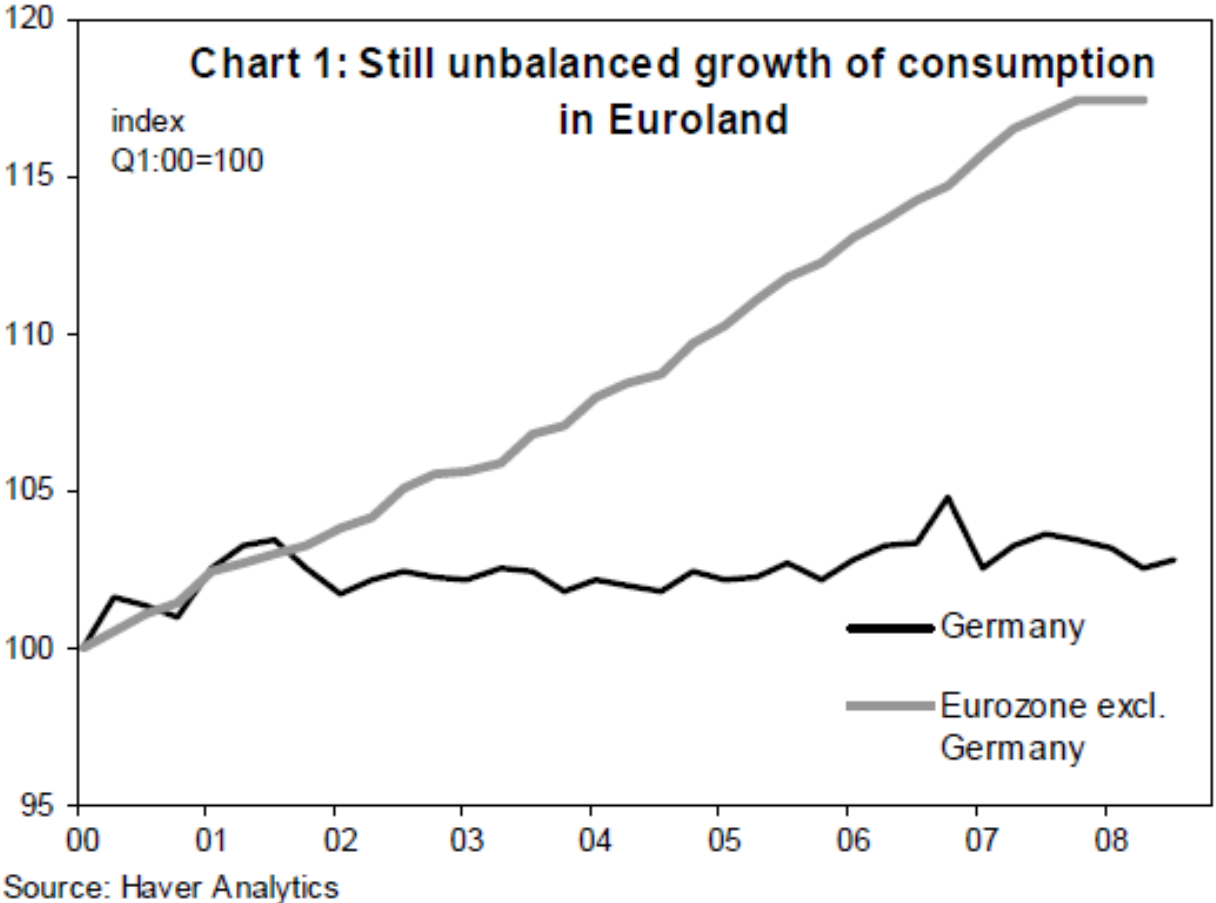
Partly, but not entirely due to trade collapse



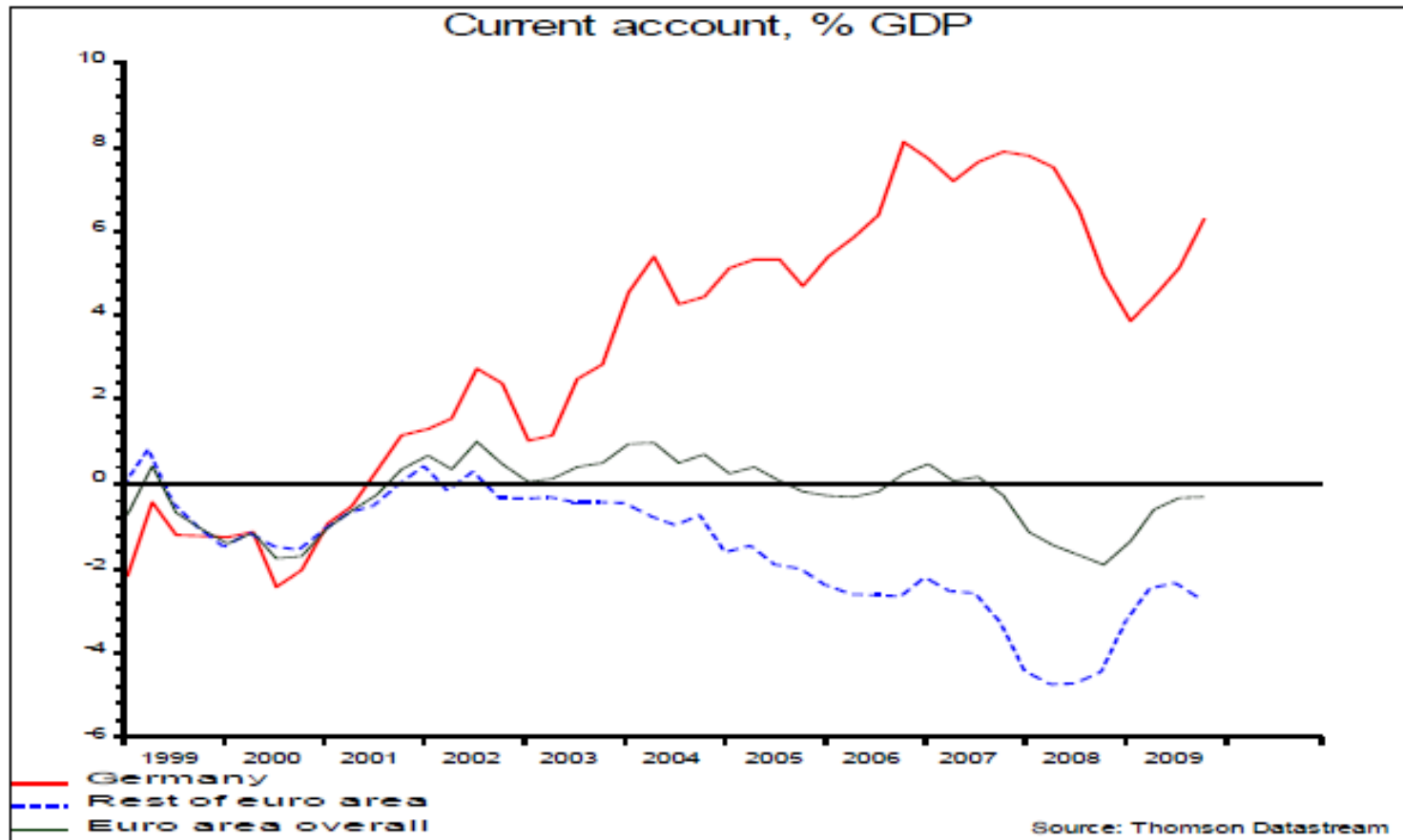
Will Improvement Last?

- China recognises the issue but structural surpluses will continue for some time.
- US very worried that global growth plans don't add up – and about Chinese desire to see current account surplus go back up.
- Eurozone a serious question mark – was making modest *net* contribution to global imbalances but that may now change.

Germany: the China of Europe

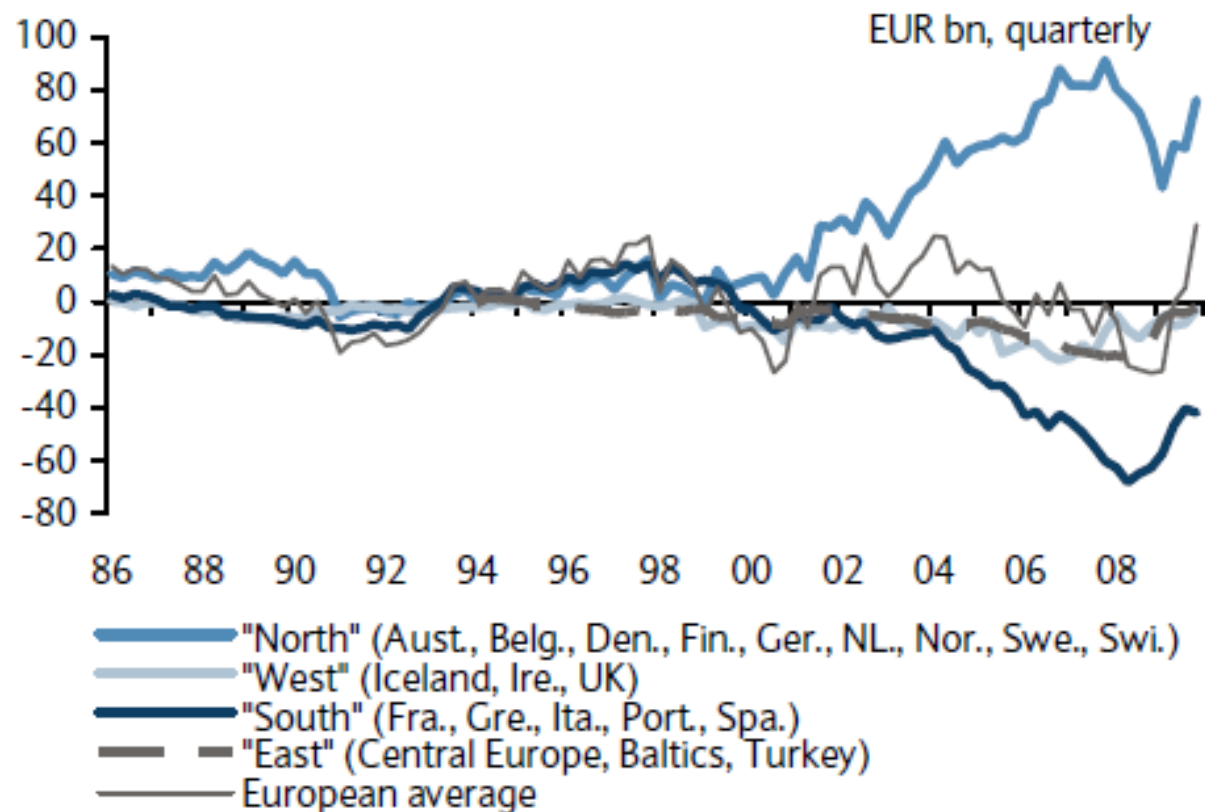


Eurozone Imbalances



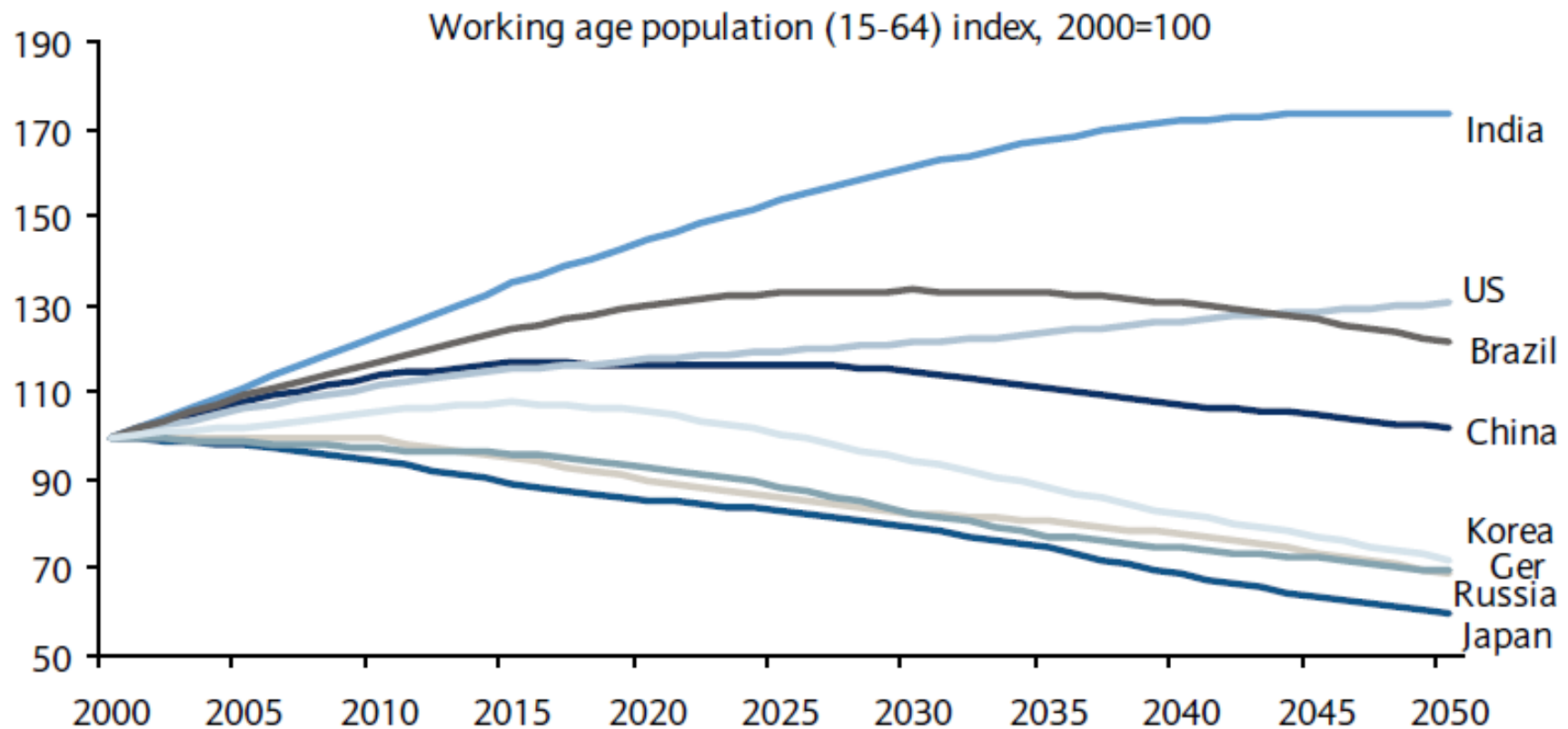
Solution...through recession

Figure 12: Intra-European rebalancing



Source: Datastream, Barclays Capital

Return to Global Picture: A Demographic Perspective



Source: Haver Analytics, Barclays Capital

Future Thoughts and Fears

- Chinese – and other emerging market – development provides long-term hope of adjustment.
- But it will take time. Maybe quite a lot of time.
- To sustain growth, danger that Fed will stay too loose for too long.
- Apparently not a risk for the ECB.

Future Thoughts and Fears

- G20 process trying to address.
- Eurozone not an encouraging example.
- Hope long run not too long.