

DOI: 10.20542/0131-2227-2022-66-9-19-28

GLOBAL IMBALANCES: EVOLUTION OF APPROACHES

Anatoly V. KHOLOPOV,
ORCID 0000-0002-7588-9057, a.kholopov@my.mgimo.ru
Moscow State Institute of International Relations (MGIMO University), 76, Vernadskogo Prosp., Moscow,
119454, Russian Federation.

Received 18.05.2022. Revised 07.06.2022. Accepted 27.06.2022.

Abstract. The article examines the current state and causes of global imbalances' sustainability – the phenomenon whereby some major systemic countries run large and persistent current account deficits, which are mirrored by large surpluses in a number of other countries. The widening of global imbalances during COVID-19 pandemic contrasts with their dynamics during previous global downturns, when the scale of imbalances narrowed. The article analyzes various explanations of global imbalances: intertemporal choice with a difference in the rates of return, demographic changes, global savings glut, dynamics of oil prices, exchange rate manipulations, twin deficits, demand for safe assets. The significance of each of the causes of global imbalances changes over time, and currently fiscal policy has been playing an increasing role to determine the movements of current account deficits. The global fiscal response to the pandemic, especially in advanced economies, has been unprecedented, which led to significant reduction in government savings. The scale and dynamics of global imbalances are largely determined by the state of the US balance of payments: it is a reflection of the ability to generate safe assets and to finance trade and budget deficits cheaply by using the dollar's status as the dominant world currency. There are differences in theoretical approaches regarding the macroeconomic effects of global imbalances. But persistent current account deficits and surpluses lead to accumulation of stock imbalances – the difference between countries' foreign assets and liabilities. The ongoing negative changes in the net international investment positions of many leading advanced economies indicate an increase in external indebtedness. This creates risks to both debtor and creditor countries and threatens the stability of the global financial system.

Keywords: global imbalances, balance of payments, current account, external debt.

About author:

Anatoly V. KHOLOPOV, Dr. Sci. (Econ.), Professor.

ГЛОБАЛЬНЫЕ ДИСБАЛАНСЫ: ЭВОЛЮЦИЯ ПОДХОДОВ

© 2022 г. А.В. Холопов

ХОЛОПОВ Анатолий Васильевич, доктор экономических наук, профессор,
ORCID 0000-0002-7588-9057, a.kholopov@my.mgimo.ru
МГИМО МИД России, РФ, Москва 119454, пр-т Вернадского, 76.

Статья поступила 18.05.2022. После доработки 07.06.2022. Принята к печати 27.06.2022.

Аннотация. Кризис COVID-19 в отличие от предыдущих глобальных рецессий привел к увеличению размеров глобальных дисбалансов, что обусловлено значительным сокращением государственных сбережений, особенно в развитых странах, вследствие беспрецедентных бюджетных расходов, потребовавшихся для преодоления последствий кризиса. Величина и динамика дисбалансов также в значительной мере определяются состоянием платежного баланса США. Сохранение глобальных дисбалансов приводит к росту объемов внешней задолженности в масштабах мирового хозяйства, что создает угрозу стабильности международной финансовой системы.

Ключевые слова: глобальные дисбалансы, платежный баланс, счет текущих операций, внешний долг.

Global imbalances, as defined by the IMF, are a phenomenon in which several leading nations have large and persistent current account deficits, reflected in large surpluses in other countries [source 1]. Two major issues related to the existence of global imbalances have been and continue to be hotly debated. First: How sustainable are the developed imbalances, will they increase or decrease in the

foreseeable future? The answer depends on how to determine their underlying cause. The second question is: Are global imbalances a cause for serious concern, and is it necessary to take any decisive public policy measures to reduce them?

THE DYNAMICS OF GLOBAL IMBALANCES IN THE COVID-19 PANDEMIC

The problem of global imbalances worsened in the early 2000s, when the absolute size of current account deficits and surpluses began to grow rapidly throughout the world economy. They reached their peak before the global financial and economic crisis of 2008–2009, called in the economic literature “The Great Recession”. Then the sum of the absolute values of current account deficits or surpluses of all countries in the world reached 5.6% of world GDP (the U.S. current account to GDP ratio was -5.8% , and that of China $+8.3\%$).

As expected, the Great Recession, by sharply reducing global trade and cross-country financial flows, contributed to a marked reduction in imbalances. Their absolute size in 2013 amounted to only 3.6% of world GDP [source 2, pp. 117–118], which gave grounds for cautious optimism on the prospects for their further reduction. After 2019, however, the absolute sizes of current account deficits and surpluses began to increase markedly again. According to forecasts, in 2022 they can reach the record level of 2008 (Figure 1).

The COVID-19 pandemic and the deep economic crisis associated with it have significantly affected

international trade, exchange rates, and capital flows, and thus affected the dynamics of global imbalances. However, it was not what one would expect. The Coronacrisis, like the Great Recession, had a sharply negative but generally only short-lived impact on international trade. The volume of global merchandise trade in 2020 declined by 4.9%, and in 2021 it grew in nominal terms by 10.9%. However, this was largely due to an increase in world prices, the average level of which rose by 14% [source 3]. Trade in services, now about 1/5 of all world trade, has fallen much more (by 17.7%). Trade in travel-related services (passenger transportation, tourism, hotel business, etc.) was particularly affected.

Overall, however, the size of total amount of current account deficits and surpluses in the pandemic increased despite the decline in global trade. The main “contribution” was made by developed countries, which, according to IMF estimates, accounted for 72% of the surplus growth of the current account deficit or surplus in 2020 [source 4, p. ix]. Moreover, the leaders were those states that for a long period of time mainly formed the global imbalances. The largest deficit in 2020 was in the United States (\$616.1 billion), and the largest surpluses were in Germany (\$272.5 billion) and China (\$248.8 billion) [source 3]. In 2021, despite the gradual recovery of the economy and international trade, imbalances continued to grow absolutely, in relation to GDP in these countries and the world as a whole.

The increase in global imbalances in 2020–2021 contrasts with the world economy processes during the preceding global recessions, when the scale of imbalances, on the contrary, was shrinking. After the

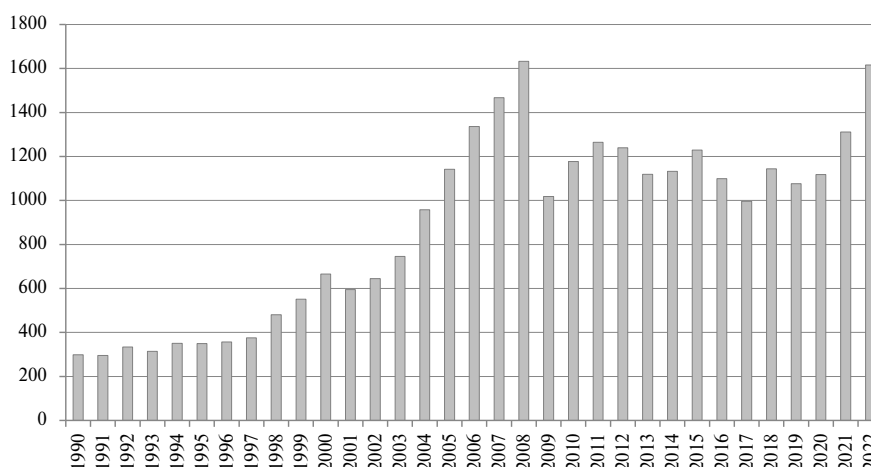


Figure 1. Global current account deficit, 1990–2022, USD billion (2022 forecast)

Calculated by: [source 3].

Great Recession of 2008–2009 and the oil shock of 1974–1975, they declined by about 1.5% of world GDP. Moreover, this relationship between the state of the balance of payments and the dynamics of GDP as a whole is quite stable in the long run.

An analysis of the recession effects from 1960 to 2019 in different countries, conducted by IMF experts, shows that a crisis state of the economy usually leads to an improvement in the current account balance of payments by an average of 1.5% of GDP for one year due to the reduction of imports and investment [source 4, p. 27]. National savings also decline during such periods, but to a lesser extent, since the decline in government savings due to stimulative fiscal policies is largely offset by higher private savings. This effect of the crisis on the current account lasts for up to 5 years, gradually weakening as the economy recovers, and is most evident in developed countries.

What factors contributed to the changing dynamics of global imbalances observed during the current crisis? They are related to the peculiarities of both the crisis itself and the stabilization policy pursued.

On the one hand, the COVID-19 crisis was one of the most globally synchronized recessions in the history of global economic observation, almost simultaneously affecting the vast majority of countries. As a result, the improvement in the current account balance due to the decline in aggregate income was less pronounced [1].

On the other hand, the current account balance reflects the ratio between national savings and domestic investment, and the pandemic had a significant impact on this ratio. In almost all countries, there has been a decrease in government savings, as a significant increase in government spending has become an essential element of stabilization policy during the current crisis.

The budgetary responses to the coronacrisis proved to be unprecedented in scale: their total volume in 2020–2021, according to IMF estimates, was \$16.9 trillion, or almost 20% of world GDP [source 5, p. 1]. Most of the expansion of budget expenditures came from direct transfers to firms and households, as well as increased government spending on health care.

The record decline in government savings was accompanied by a significant increase in private savings. The full lockdown or partial restriction regimes imposed in most countries have led to a reduction in current consumption. In addition, they prevented households and firms from spending the

necessary amount of stimulus payments received from the state. Therefore, a significant part of state transfers went into savings [2]. As a result, the decline in government savings and the increase in household savings during the Coronary Crisis were far greater than during the Great Recession.

CAUSES OF GLOBAL IMBALANCES

Against the backdrop of significant global imbalances formed in recent decades, there has long been a vigorous debate in the economic literature about the causes of persistent current account deficits and surpluses. In the course of it, several competing (but not mutually exclusive) hypotheses are put forward.

One of them considers current account imbalances as a result of the optimizing behavior of participants in foreign economic relations. This approach is based on the neoclassical concept of intertemporal choice under budgetary constraints.

The current account balance is the difference between the state's total income and total domestic expenditures. A country with a current account surplus acts as a creditor in the global economy and reduces the capacity of its own current consumption. However, in the future, it will be able to consume more at the expense of income from investing its savings in foreign countries that have a comparative advantage in terms of investment. Consequently, a state with a high current or projected rate of economic growth, and therefore with a higher expected rate of return on capital, will attract financial resources from other countries and may increase its current consumption, having a current account deficit.

Based on this logic, the sustainability of the U.S. trade deficit is proposed as a consequence of the relatively higher growth rate of the American economy and the increase in its share of the total GDP of developed countries [3]. However, this logic would be more convincing if U.S. GDP growth were supported primarily by increased private investment rather than consumption (private and public), and if foreign capital were invested in U.S. company stocks. Instead, much of the financial resources flowing into the U.S. from abroad are invested in government securities, believed to have the highest reliability but very low rates of return.

The active participation of foreign central banks in the purchase of U.S. Treasuries also suggests that the profit motive in this case is not decisive. Therefore,

critics of the optimal intertemporal choice hypothesis believe that “there is no evidence of a sustained differential in real growth rates that would explain the widening trade deficit” [4, p. 9].

Another hypothesis looks at the causes of the sustainability of global imbalances through the prism of long-term demographic changes that affect the dynamics of savings and investment. On average, the percentage of the world’s population over 50 has increased from 16% in 1950 to 24% in 2020. It is expected that by the end of the 21st century, it will increase to 40% [source 6].

Population aging is most rapid in developed countries due to low fertility rates and increasing life expectancy. Thus, life expectancy over the past 60 years has increased in the United States from 69.8 to 78.8 years, and in Japan from 67.7 to 84.4 years [source 7]. On the one hand, an increase in life expectancy while maintaining the length of the working period obviously stimulates an increase in the propensity to save to ensure the necessary level of consumption after retirement. It also contributes to precautionary savings, as residents of many countries now have serious concerns about the future financial viability of public pension programs. On the other hand, low birth rates can lead to some reduction in investment as demand for schools and housing decreases.

Thus, the process of population aging is probably an important driving force behind the change in the ratio of national savings to domestic investment, the difference between which constitutes the balance of payments current account balance. At the same time, as proponents of the second hypothesis emphasize, “each country’s net exports is influenced by both domestic and foreign demographics” [5, p. 5]. The dynamics of savings can vary from country to country, depending on the proportion of the working age population.

The working population that saves for retirement puts upward pressure on the overall savings rate. However, after retirement, people no longer mostly save, but rather spend their previously accumulated wealth. Therefore, an increase in the share of the elderly in the total population leads to a decrease in the overall savings rate. “As this mechanism is heterogeneous across countries, it can further explain the rise of global imbalances” [6, p. 2]. However, the question remains open as to why, among developed countries that are experiencing roughly the same demographic changes, some have chronic current

account deficits (USA, UK) and others have equally chronic surpluses (Germany, Japan).

The hypothesis of the so-called *global savings glut*, put forward by former Fed chief Ben Bernanke, is widely known [7]. In his view, the growth of the U.S. current account deficit is primarily due to external factors.

In the early 2000s, there was a kind of metamorphosis, in which a number of developing countries became large net lenders rather than net borrowers in the international financial markets. Obviously, on a global economic scale, current account deficits and surpluses, and hence aggregate savings and investment, should balance each other out (given the statistical discrepancy). Therefore, one can speak of the global nature of the savings glut only in the sense that in a certain group of states, there is a significant increase in the scale of savings. Bernanke referred to the export-oriented countries of East Asia (especially China) in the first place. With large trade surpluses but underdeveloped and open financial systems, these countries directed their excess savings to major financial centers (mostly the United States) to invest in high-quality assets. The increase in the supply of savings helped keep interest rates on global financial markets low.

From this point of view, the problem of global imbalances can only be solved in the long term by the formation of more developed financial systems in developing countries. However, the mere fact that savings in a number of large emerging economies are increasing is not enough to explain the problem of global imbalances as a whole. After all, some of the world’s leading countries with developed financial markets (primarily Germany and Japan) have substantial and chronic current account surpluses, that is, they also supply the world financial markets with their excess savings.

A variation of the “global savings glut” concept is the hypothesis linking the growth and sustainability of global imbalances to the dynamics of oil prices. The presence of such a correlation has its own logic. In importing countries, an increase in its price leads to an increase in the cost of its purchase, reducing the trade balance and the formation of a deficit in current transactions. For oil-exporting countries, an increase in the world price means, on the contrary, an increase in revenues.

It is true that an increase in export revenues, as a rule, does not immediately lead to a corresponding increase in domestic expenditures. Therefore, in the exporting countries, following the rise in oil prices,

savings increase, which are then invested in money market instruments. As a result, part of the additional income of exporting countries from the increase in oil prices (the so-called petrodollars) somehow returns to world financial markets (recycled) [8]. Here one must again emphasize the special role that the U.S. economy plays in shaping global imbalances. Since the world trade in oil is traditionally conducted in dollars, it is in the dollar assets that the bulk of foreign exchange reserves and funds of sovereign investment funds of most oil-exporting countries are invested.

Such an explanation of the causes of global imbalances for some time had obvious statistical confirmation. From 1998 to 2009, there was indeed an exceptionally strong correlation between the change in the world's aggregate current account deficit and the behavior of oil prices: the correlation ratio was 0.974. After the Great Recession, however, the period of a steady increase in oil prices ended, and the oil market became characterized by increased volatility. As a result, the connection between global imbalances and the dynamics of oil prices has weakened markedly: the correlation ratio, while remaining positive, has sharply decreased. Between 2010 and 2021, it was only 0.377¹. Moreover, in 2016 and 2020, the aggregate current account surplus of oil-exporting countries shrank to almost zero, while the aggregate global deficit remained stable or even increased. There has been a kind of redistribution of surpluses from the oil-exporting countries towards Germany and the Nordic countries.

Closely related to the "savings glut" hypothesis and the role of rising oil prices is the view that persistent global imbalances are largely due to the exchange rate policies of a number of countries. These include, above all, China, but also South Korea, Japan, and some others, which maintain an undervalued national currency to strengthen the competitiveness of their export products. "Such 'competitive' outcomes are pursued primarily through direct intervention in the foreign exchange markets, which is often labeled 'manipulation'" [9, p. 2].

Excessive currency interventions (i.e., not justified by fundamental economic factors and the real state of the economy) are seen as manipulation, leading to the accumulation of excessive currency reserves (exceeding the three-month value of imports of goods and services, as well as the volume of short-term private and public external debt of the country) and the maintenance of excessive surplus on current transactions (more than 3% of GDP). As noted by

¹ Calculated by: [source 3].

proponents of this approach, since 2014, currency manipulation has largely stopped, but with the onset of the pandemic, some countries (South Korea, Singapore, Hong Kong, Switzerland, and several others) have resumed it [10].

The analysis of approaches to determining the causes of global imbalances would, of course, be incomplete without considering another important aspect of this problem, characterizing the relationship between processes within the economy and the state of the balance of payments. As noted, the current account balance is the difference between national savings and gross domestic investment. National savings, in turn, consist of private savings and government savings, which are calculated as net government income (revenues to the budget less public transfers to the private sector) minus government consumption. It follows that there is a direct link between the balance of payments and the government budget.

Thus, according to IMF estimates, fiscal consolidation (reduction of the budget deficit) of 1% of GDP contributes to an increase in the current account balance by an average of about 0.6% of GDP over five years [source 4, p. 44]. Such a balance of payments adjustment is mainly due to a decline in economic activity due to a reduction in government spending or an increase in taxes, which leads to a decrease in investment and imports. A growing budget deficit, on the contrary, can lead to a deterioration of the current account balance, as it contributes to an increase in aggregate demand and, consequently, an increase in the volume of imports.

For many states prone to global imbalances, this is precisely the situation where a chronic current account deficit is accompanied by an equally chronic state budget deficit. The "twin deficit" hypothesis was a subject of active discussion in the 1980s, when the U.S. after the tax reform of Reagan, which provided for significant tax cuts, created unprecedented peacetime budget deficits. Reagan's tax reform, which provided for significant tax cuts, resulted in an unprecedented peacetime state budget deficit. As a result, national savings declined and the current account, which had previously been characterized by a constant surplus, ran a deficit. Since then, the twin deficit situation has become a chronic U.S. problem. They have gone from being the world's biggest creditor to, in fact, the world's biggest debtor.

Despite the obvious connection between the state budget and the current account balance, the hypothesis does not provide a universal explanation of the nature of global imbalances. In today's context,

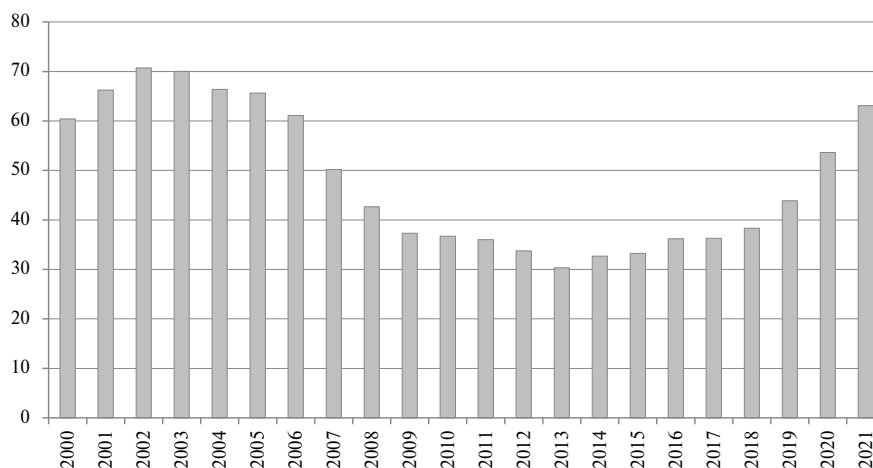


Figure 2. U.S. share of total world current account deficit, 2000–2021, %

Calculated by: [source 3].

there are examples of the opposite. The most striking is Japan, which has a chronic budget deficit but an equally chronic current account surplus.

In general, the presence and persistence of global imbalances are obviously due to a set of reasons, although the significance of each of them changes over time. On the one hand, the factors that may have played a leading role in the mid-2000s (high oil prices, rising savings in fast-growing Southeast Asian countries) seem to matter less these days. On the other hand, today there are more and more supporters of the view that “fiscal policy can (and has) had a noticeable influence on current account imbalances” [11, p. 20].

In analyzing the causes of global imbalances, it is important to pay attention to the list of countries that are major contributors to their formation. There is no obvious leader among the states with the largest current account surpluses, but China, Germany, and Japan are regularly on the list, although their shares in the aggregate surplus vary. The situation is different in the list of countries with the largest deficits: the United States is still in the first place by a wide margin. The U.S. current account deficit consistently accounts for a large or even predominant portion of the total world deficit (Figure 2). Moreover, there is a close correlation between their dynamics: over the 30-year period from 1992 to 2021, the correlation ratio was 0.834. The conclusion is that both the scale and the dynamics of global imbalances are largely determined by the state of the U.S. balance of payments.

In this regard, another important argument that helps to understand the sustainability of global

imbalances is the so-called *exorbitant privilege* that the U.S. has, using the dominant role of the dollar in the global monetary system² [12]. Countries with current account surpluses and excess savings have a demand for safe assets, that is, assets that retain their value even during the most adverse financial events. Therefore, about 60% of the world’s foreign exchange reserves are held in dollars, primarily in U.S. treasuries, a figure that has remained almost unchanged over the past 25 years [source 8].

The consistently high demand for dollars creates an “exorbitant privilege” for the United States, that is, the ability to finance its enormous trade deficits and state budget deficits with national currency without taking serious measures to reduce them. “The safe assets view has come to dominate the perspective of why the United States continues to run current account deficits; it retains a quasi-monopoly on the production of safe assets, in the form of sovereign debt” [11 p. 10].

GLOBAL IMBALANCES AS A MACROECONOMIC PROBLEM

Is a current account imbalance, or simply put, a discrepancy between exports and imports, a sufficient basis for concern and government intervention? This question is as old as economic theory itself. The development of economic science began with this question: the first school of economic analysis – mercantilism – put it at the center of its attention and introduced the term “trade balance” into the

² The thesis of “exorbitant privilege” was first expressed in the mid-1960s by Giscard d’Estaing, then French Minister of Finance.

scientific lexicon. Since then, the debate about the country's desirable ratio of exports to imports has continued unabated.

The classical school, based on the quantitative theory of money, substantiated a mechanism for automatically balancing the balance of trade as a result of price changes and the spillover of gold from country to country (the so-called gold points mechanism). This concept implied that with the existence of a monetary system based on the gold standard, the state is not required to pay special attention to the state of the balance of payments.

The early years of the Bretton Woods system, based on fixed parity system, were characterized by a low degree of international capital mobility due to the underdevelopment of international financial markets and limited convertibility of the currencies of most leading nations for capital transactions. The private sector had few opportunities to borrow abroad, and governments were mostly only able to obtain short-term financing through IMF loans. Under such conditions, current account deficits could be allowed only for a limited period of time, determined by the size of the country's foreign exchange reserves, necessary to prevent excessive currency fluctuations. Therefore, in the 1950s and 1960s, the regulation of the balance of payments began to be regarded as one of the priority tasks of state policy.

After the collapse of the Bretton Woods system in the mid-1970s, almost all developed countries switched to floating exchange rates. Under these new conditions, the attitude of both scientists and politicians toward the problem of the balance of payments began to change.

Most states today do not depend on their foreign exchange reserves to finance their current account deficits since private capital mobility has increased significantly. Governments can also borrow directly in the international capital markets by placing their debt obligations on them. Therefore, the traditional view of the current account is now fully applicable only to some developing countries with limited opportunities for external borrowing.

A so-called new view of the current account was formulated [13]. According to it, the state of the current account alone does not provide sufficient information for macroeconomic policy decisions, since an increase in the current account deficit can be associated both with an increase in investment (both private and public) and with a decrease in savings (private or public). A generally optimal investment-savings ratio may conceal, for example, a budget

deficit that is too high or private investment that is too low. Consequently, the existence of a current account deficit may require the application of different economic policies, depending on the deficit causes.

Against the background of the growing popularity of neoconservative concepts, in particular, the theory of rational expectations, a more radical point of view has also spread, according to which the problem of the export-import ratio itself loses its relevance and significance as a goal of macroeconomic policy in the context of increasing international capital mobility. The term "*Pitchford Thesis*" is often used to describe this approach.

Australian economist J. Pitchford argued that current account deficits do not matter if they result from the participation of private sector agents in mutually beneficial trade. The current account deficit creates liabilities for the counter flow of foreign capital, and this flow of capital consists of many separate transactions. Decisions about the amount of investment and savings are made by economic actors, and there is no reason to assume in advance that these decisions are suboptimal and must be adjusted by macroeconomic policy. Since each of such operations separately, from the point of view of their participants, is considered financially sound, their combined effect (i.e., the current account deficit) is also economically sound [14].

The exclusion of the balance of payments from the priority goals of state macroeconomic policy was also largely due to hopes for the effectiveness of internal self-regulating forces of the market. Free-floating exchange rates, by changing the relative prices of goods and assets in different countries, were supposed to automatically stabilize the balance of payments. However, the actual practice quickly dashed those hopes. The largest current account deficits and surpluses are mainly characteristic of developed countries, which have been using exactly the regime of free-floating exchange rates for several decades.

Therefore, in the early 21st century, there was a growing perception that rising current account deficits and surpluses were cause for concern and required corrective action. In 2007, the IMF launched a multilateral consultative process aimed at helping to address major global imbalances in an orderly manner [source 9]. In 2009, at the G20 summit in Pittsburgh, the problem of global imbalances was specifically reflected in the final statement of the heads of state [source 10]. In 2010, the European Commission has proposed an expanded surveillance system for

EU members based on a wide range of indicators of potential macroeconomic imbalances, including the current account [source 11].

Concerns of politicians and international economic organizations are based on the fact that the largest economies, which play a systemic role in the world economy, especially the U.S., are exposed to current account imbalances (Figure 3). The enormous absolute and relative size of the leading states' imbalances and their chronic nature inevitably cause problems for other countries that are their trade and economic partners as well. Imbalances are becoming a constant for many countries, and the world is beginning to divide into chronic debtors and chronic creditors.

As IMF experts acknowledge, “if current account balances widen excessively, they can fuel trade tensions among countries, become targets for protectionist measures, and increase the likelihood of disruptive currency and asset price adjustments” [source 4, p. 44]. It is important to note that the possibility of abrupt exchange rate adjustments in the presence of large imbalances, which are dangerous in themselves, among other things, provokes the growth of uncertainty and volatility in the foreign exchange markets, contributing to an increased speculative component in their functioning.

However, perhaps the main problem is that chronic current account imbalance, the so-called *flow imbalance*, leads to an accumulation of *stock imbalance* – the difference between the country's foreign assets and liabilities. In other words, the imbalance of current transactions leads to an increase

in the volume of external debt on a global economy scale.

The COVID-19 pandemic has caused the combined debt of governments, non-financial corporations, households, and the financial sector worldwide to skyrocket. In Q1 of 2022, it reached \$305 trillion, exceeding the world GDP by more than 3 times [source 12]. Both the increase in debt and its level were unprecedented. The persistence of global imbalances means that external debt accounts for a large part of total debt.

The IMF Board of Governors notes that “stocks of foreign assets and liabilities are still near historic highs, with attendant risks to both debtor and creditor countries.” [source 4, p. xi]. The leading creditors are Japan, Germany, and China. The largest debtor remains the U.S., whose net international investment position fell from -39% in 2017 to -78.7% of GDP in 2021 (see Table). Persistent U.S. budget deficits contribute not only to the current account deficit but also to the public foreign debt (that is, the debt owed to nonresident creditors). Its ratio to GDP increased from 10.2% in 2000 to 35.4% in 2021 [source 13].

Table. Net international investment position of the world's largest economies, ratio to GDP, 2017–2021,%

	2017	2018	2019	2020	2021
USA	-39.0	-46.9	-51.6	-67.3	-78.7
UK	-13.9	-15.1	-28.7	-30.3	-31.2
France	-21.1	-18.1	-18.6	-26.4	-33.0
Germany	59.0	60.8	71.4	76.3	65.4
Japan	59.1	60.2	63.5	66.3	73.7
China	16.8	15.2	16.0	14.5	10.7

Calculated by: [source 14].

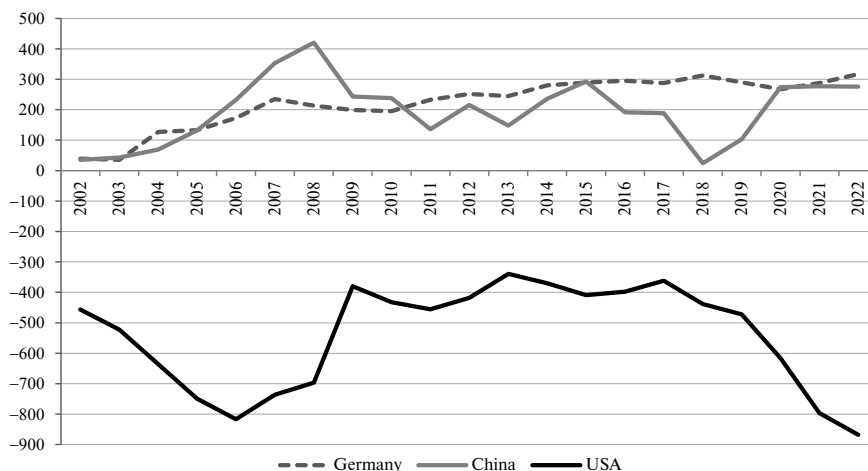


Figure 3. Current account balances of the United States, Germany, and China, 2002–2022, USD billion (2022 estimate)

Calculated by: [source 3].

There is not just a close relationship between the current account balance and the size of the external debt. They still kind of feed off each other. In particular, debtor states with significant external debt require large interest payments, which are recorded in the current account of the balance of payments, further increasing the flow imbalance. As a result, “these imbalances are pushing the net debt of deficit countries gradually toward unsustainable levels” [15, p. 2]. Significant chronic current account deficits and large net external debt obligations increase the likelihood of a debt crisis.

RESULTS AND CONCLUSIONS

Since global imbalances are a problem for the entire world economy, the ways and tools to address them must be coordinated internationally. On the one hand, there is a general understanding of the seriousness of the problem. As the IMF’s Governing Council emphasizes, “collective action by both excess surplus and excess deficit economies is needed to reduce excess global imbalances in a growth-

enhancing manner” [source 4, p. xi]. However, on the other hand, a quick solution to the problem of imbalances can hardly be expected, given how closely their existence is linked to U.S. economic interests and the role of the dollar in the global monetary and financial system.

The United States has to reduce domestic spending (including by eliminating the enormous budget deficit), which would reduce demand for imports to reduce the enormous trade deficit. However, the contraction of aggregate demand will adversely affect the rate of economic growth and lead to a sharp increase in unemployment. In addition, no attractive alternative to U.S. Treasuries is yet on the horizon to meet the global demand for safe assets. It is hard to expect that the U.S. government itself would go out of its way to relinquish possession of “exorbitant privilege”. As the renowned American economist B. Eichengreen has aptly observed, “the United States has little incentive to precipitate the consequent adjustment. To the contrary, it is happy living beyond its means” [16, p. 50].

REFERENCES

1. Kolerus C. What Shapes Current Account Adjustment during Recessions? *International Monetary Fund, Working Paper WP/21/198*, July 2021. 38 p.
2. Coibion O., Gorodnichenko Y., Weber M. How Did U.S. Consumers Use Their Stimulus Payments. *NBER Working Paper 27693*, 2020. 37 p. DOI: 10.3386/w27693
3. Engel C., Rogers J. The U.S. Current Account Deficit and the Expected Share of World Output. *Journal of Monetary Economics*, 2006, vol. 53, no. 5, pp. 1063-1093.
4. Meredith G. Debt Dynamics and Global Imbalances: Some Conventional Views Reconsidered. *IMF Working Paper WP/07/4*, 2007. 54 p.
5. Sposi M. Demographics and the Evolution of Global Imbalances. *Federal Reserve Bank of Dallas. Globalization and Monetary Policy Institute, Working Paper No. 332*, December 2017. 59 p. DOI: 10.24149/gwp332
6. Auclert A., Malmberg H., Martenet F., Rognlie M. Demographics, Wealth, and Global Imbalances in the Twenty-First Century. *NBER Working Paper 29161*, 2021. 47 p. DOI: 10.3386/w29161
7. Bernanke B. *The Global Saving Glut and the U.S. Current Account Deficit*. Available at: <https://www.federalreserve.gov/boarddocs/speeches/2005/200503102/default.htm> (accessed 12.02.2022).
8. McCown T., Plantier L., Weeks J. Petrodollars and Global Imbalances. *U.S. Department of the Treasury, Office of International Affairs, Occasional Paper No. 1*, February 2006. 7 p.
9. Bergsten C.F., Gagnon J. *Currency Conflict and Trade Policy: A New Strategy for the United States*. Washington, Peterson Institute for International Economics, 2017. 230 p.
10. Gagnon J., Sarsenbayev M. *Currency Manipulation Rebounded in 2020 as Pandemic Concerns Rose*. Washington, Peterson Institute for International Economics, April 16, 2021. Available at: <https://www.piie.com/blogs/realtime-economic-issues-watch/currency-manipulation-rebounded2020-pandemic-concerns-rose> (accessed 03.04.2022).
11. Chinn M.D., Ito H. A Requiem for “Blame It on Beijing”: Interpreting Rotating Global Current Account Surpluses. *NBER Working Paper 26226*, 2019. 28 p. DOI: 10.3386/w26226
12. Eichengreen B. *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System*. New York, Oxford University Press, 2011. 226 p.
13. Corden W.M. Does the Current Account Matter? The Old View and the New. *International Financial Policy. Essays in Honor of J. Polak*. Frenkel J., Goldstein M., eds. Washington, IMF, 1991, pp. 455-478.
14. Pitchford J. A Sceptical View of Australia’s Current Account and Debt Problem. *Australian Economic Review*, June 1989, pp. 5-14. DOI: 10.1111/J.1467-8462.1989.TB00319.X

15. Gagnon J., Sarsenbayev M. *Fiscal and Exchange Rate Policies Drive Trade Imbalances: New Estimates*. Washington, Peterson Institute for International Economics, March 2021. 36 p. Available at: <https://www.piie.com/publications/working-papers/fiscal-and-exchange-rate-policies-drive-trade-imbances-new-estimates> (accessed 15.03.2022).
16. Эйхенгрин Б. *Глобальные дисбалансы и уроки Бреттон-Вудса*. Москва, Институт Гайдара, 2017. 200 с.
Eichengreen B. *Global Imbalances and the Lessons of Bretton Woods*. Moscow, Gaidar Institute, 2017. 200 p. (In Russ.)

SOURCES

1. *Glossary*. Washington, International Monetary Fund. Available at: www.imf.org/en/About/Glossary (accessed 12.04.2022).
2. *World Economic Outlook: Legacies, Clouds, Uncertainties*. Washington, International Monetary Fund, October 2014. 222 p.
3. *World Economic Outlook Database*. Washington, International Monetary Fund, April 2022. Available at: <https://www.imf.org/en/Publications/WEO/weo-database/2022/April/> (accessed 03.05.2022).
4. *External Sector Report: Divergent Recoveries and Global Imbalances*. Washington, International Monetary Fund, August 2021. 93 p.
5. *Fiscal Monitor: Strengthening the Credibility of Public Finances*. Washington, International Monetary Fund, October, 2021. 96 p.
6. *World Population Prospects*. New York, UN, 2019. Available at: <https://population.un.org/wpp> (accessed 20.12.2021).
7. *World Development Indicators*. Washington, The World Bank. Available at: <https://databank.worldbank.org/source/world-development-indicators> (accessed 27.03.2022).
8. *World Currency Composition of Official Foreign Exchange Reserves*. Washington, International Monetary Fund. Available at: <https://data.imf.org/regular.aspx?key=41175> (accessed 10.04.2022).
9. The Multilateral Consultation on Global Imbalances. *IMF Issues Brief 07/03*, April, 2007. Available at: <https://www.imf.org/external/np/exr/ib/2007/041807.htm> (accessed 10.04.2022).
10. *G20 Leaders Statement: The Pittsburgh Summit*. Pittsburgh, 24–25.09.2009. Available at: <http://www.g20.utoronto.ca/2009/2009communique0925.html> (accessed 12.04.2022).
11. Economic Governance: the EU Gets Tough. *European Economy News*, October 2010. Available at: http://ec.europa.eu/economy_finance/een/019/article_88106_en.htm (accessed 10.04.2022).
12. *Global Debt Monitor: Debt in the Time of Geopolitics*. Institute of International Finance, May 2022. Available at: <https://www.iif.com/Research/Capital-Flows-and-Debt/Global-Debt-Monitor> (accessed 18.05.2022).
13. Quarterly Public Sector Debt. *The World Bank. DataBank*. Available at: <https://databank.worldbank.org/reports.aspx?source=quarterly-public-sector-debt> (accessed 15.05.2022).
14. Balance of Payments and International Investment Position Statistics. *IMF eLibrary Data*. Available at: <https://data.imf.org/?sk=7A51304B6426-40C0-83DD-CA473CA1FD52> (accessed 20.04.2022).