

Rebalancing global demand

P. Butzen
W. Melyn
W. Vandevyvere

Introduction

At the end of 2008, the escalating financial crisis drove most of the advanced countries into a severe recession. The emerging economies also suffered as capital flows dried up and international trade collapsed. These developments caused global GDP to contract for the first time in decades, in contrast to the often very strong economic expansion seen in previous years.

With the support of massive fiscal recovery plans and extremely accommodating monetary policies, the global economy has gradually recovered. However, there is great uncertainty over how long it will take to regain a growth rate comparable to that seen before the crisis, or even whether that is possible, especially as that dynamic growth was based largely on macroeconomic distortions in a good many countries. Some western economies saw rapidly expanding credit, asset price bubbles and exceptionally low savings ratios, while a number of emerging countries featured relative price distortions, underdeveloped financial markets and excessive levels of savings. The most obvious manifestation of these imbalances was found in the growing current account surpluses and deficits on the balance of payments. Many observers had for years been stressing that this situation was unsustainable. Moreover, there is a general consensus that these imbalances contributed to the outbreak of the financial crisis.

Recently there have been signs of shifts in global demand: some countries were harder hit than others by the financial crisis, while some governments had greater fiscal scope for adopting a recovery strategy. These shifts have led to a partial correction of the external imbalance.

However, a vigorous and sustainable global economic recovery requires fundamentally more balanced growth of global demand, implying the permanent elimination of the inherent distortions in national growth profiles. That is no easy task and will require a globally coordinated approach involving all regions of the world. The resolute commitment of the G20 leaders at the Pittsburgh summit at the end of September 2009 is grounds for optimism. In the Framework for Strong, Sustainable and Balanced Growth, they agreed that countries with a current account deficit would endeavour to promote savings and embark on a path towards fiscal consolidation. Consequently, those countries – and especially the United States – will cease to be world spenders of last resort for many years to come. It is therefore up to the countries with a surplus, primarily the Asian countries, to propel global demand. To that end, they need to strengthen “domestic sources of growth”, e.g. by a policy which curbs private savings and encourages a shift from the export industry in favour of the service sectors. Although a number of countries have already taken a series of measures representing a move in the right direction, the rebalancing of global demand will still require fundamental structural reforms in many areas and regions. Finding a new global balance is likely to be a lengthy process which could temporarily weaken economic growth. It will remain a central theme of international debate in the coming years.

This article is structured as follows. The first section discusses the development of distortions in some key regions and countries since the mid 1990s. The external imbalances were in fact symptoms of underlying internal distortions. The current account balances are therefore analysed taking account of the savings and investment decisions of individuals, businesses and governments. The

commitments given at the G20 summit in Pittsburgh are set out in the second section. Section 3 deals with the practical policy implications for countries with a deficit or surplus. Finally, section 4 examines to what extent the global economic recovery is already “strong, sustainable and balanced”, in accordance with the G20’s aims.

1. Development of global imbalances

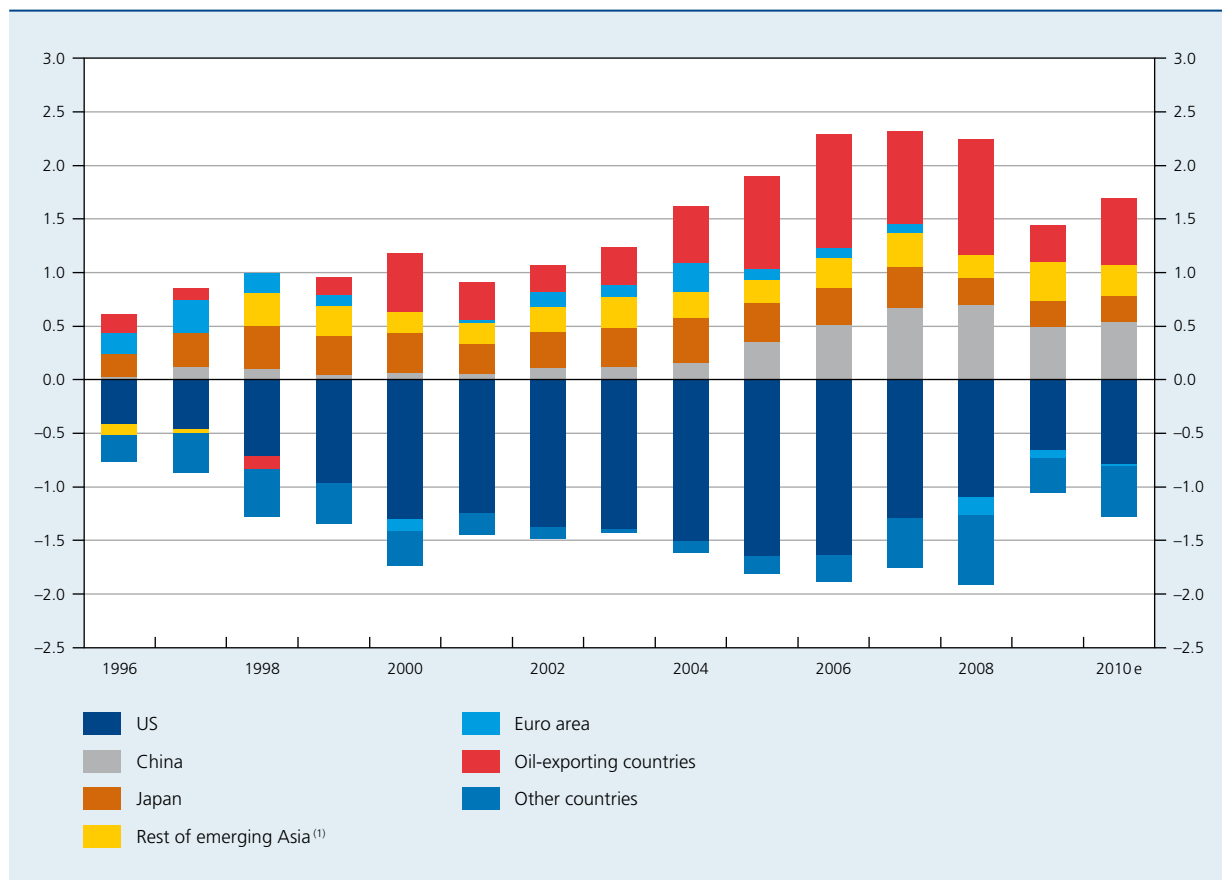
The global imbalances on the balance of payments current account grew almost continuously from the second half of the 1990s until 2008. Among the deficit countries, the United States was the principal contributor to this phenomenon, acting as consumer of last resort. The countries in surplus include the fast-growing emerging Asian countries, especially China, but also Japan and the oil-exporting countries. The pattern of current account balances during this period is attributable to a multitude of factors, such as the low and declining savings ratio

in the United States, the high and rising savings ratio in China, and the increase in oil prices.

Current account imbalances are not a source of concern in themselves. For instance, a country with lucrative investment opportunities can make good use of foreign savings as a source of funding. However, imbalances may prove to be a problem if they reflect underlying internal distortions, such as the asset price bubbles in the United States – causing American households to overestimate their wealth and inappropriately increase their consumption – or inadequate social security in China, encouraging Chinese households to step up their precautionary savings.

It is generally acknowledged that the internal and external imbalances also helped to trigger the financial crisis. The dollar’s status as an international reserve currency certainly made it easy for the United States to attract foreign investors to finance its current account deficit.

CHART 1 CURRENT ACCOUNT BALANCES OF SOME KEY COUNTRIES AND ECONOMIC REGIONS
(percentages of global GDP)



Source : IMF.

(1) Hong Kong, Indonesia, South Korea, Malaysia, Philippines, Singapore, Thailand, Taiwan.

It was principally the Asian countries that showed a marked preference for investing their surpluses in risk-free assets in the form of US government bonds. In the United States, these massive capital flows combined with an extremely accommodating monetary policy stance were reflected in abundant liquidity and very low interest rates which led to a further decline in the already relatively low savings ratio of American households. Together with inadequate prudential supervision of the financial sector, these developments fostered the formation of speculative bubbles on asset markets, the emergence of new, risky financial products designed to achieve higher returns, and ultimately the financial crisis.

The situation in the United States, China and the euro area is described below. The oil-exporting countries are disregarded since the current account surplus of those countries is due almost exclusively to oil price fluctuations on international markets, rather than domestic factors. The movement in the current account balance is studied from the savings and investment angle, that being the best approach for exploring the link between external and internal imbalances⁽¹⁾.

1.1 United States

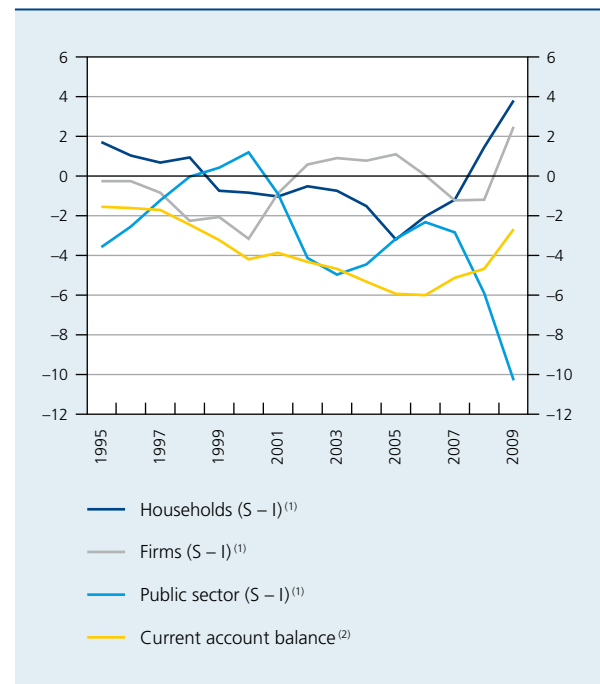
CURRENT ACCOUNT BALANCE AND BALANCE OF SAVINGS AND INVESTMENT

In the past fifteen years, the US balance of payments current account presented a constant deficit which increased from under 2 p.c. of GDP in the mid 1990s to 6 p.c. of GDP in 2006. In the ensuing three years, the deficit more than halved. However, it is clear from the quarterly figures that it has grown again slightly since the second half of 2009.

A sharp deterioration in the net savings of the private sector occurred in the second half of the 1990s; this was attributable both to households, which cut their savings and invested more in housing, and to firms which expanded their investment on the basis of their belief in the New Economy⁽²⁾. Though it helped to avoid the "twin deficit", whereby an external deficit is accompanied by a budget deficit, from 1998 onwards, the consolidation of public finances during that same period did not prevent an increase in the borrowing requirement of the American economy as a whole.

In the initial years of the new millennium, there was a temporary change in the macroeconomic context underlying the increase in the external financing requirement of the United States. The private sector borrowing requirement

CHART 2 CURRENT ACCOUNT AND NET SAVINGS IN THE UNITED STATES
(percentages of GDP)



Source : Bureau of Economic Analysis (BEA).

(1) S-I expresses the difference between the savings and investment of a sector, i.e. net savings.

(2) For statistical reasons, there is some disparity between the current account balance and the overall financing balance.

diminished, mainly as a result of the sharp dip in business investment after the bursting of the dotcom bubble. On the other hand, the general government financing capacity was converted to a borrowing requirement on account of tax cuts and the increase in public spending. The twin deficit therefore reappeared.

During the period 2004-2006, there was again a modest decline in private net savings as a result of a revival in investment in housing and business investment, and the renewed fall in the household savings ratio. Conversely, the public sector borrowing requirement diminished, partly as a result of the increased revenues generated by the favourable economic climate.

From 2007 onwards, the current account deficit on the balance of payments began to decline, dropping to 2.4 p.c. of GDP by mid 2009. That decline reflected a

(1) From an accounting angle, the current account balance in fact corresponds to the balance of savings and investment. Cf. box in Eugène, B. and W. Melyn (2003). Other approaches concentrate on trade and capital flows.

(2) At the end of the 1990s, many economists and other observers considered that the use of new information and communication technologies (ICT) had accelerated American economic growth. This led to a rush to buy shares in dotcom companies, an increase in business investment and higher income expectations among households.

marked improvement in private net savings. Owing to the crisis, households and firms cut down on their investment, and households stepped up their savings in order to rebuild their wealth. The improvement in the private sector balance offset the marked expansion of the general government borrowing requirement resulting from the economic and financial crisis.

From the second half of 2009, the current account deficit increased again: the improvement in public finances was not enough to compensate for the deterioration in the balance of private savings and investment caused mainly by the fall in household savings.

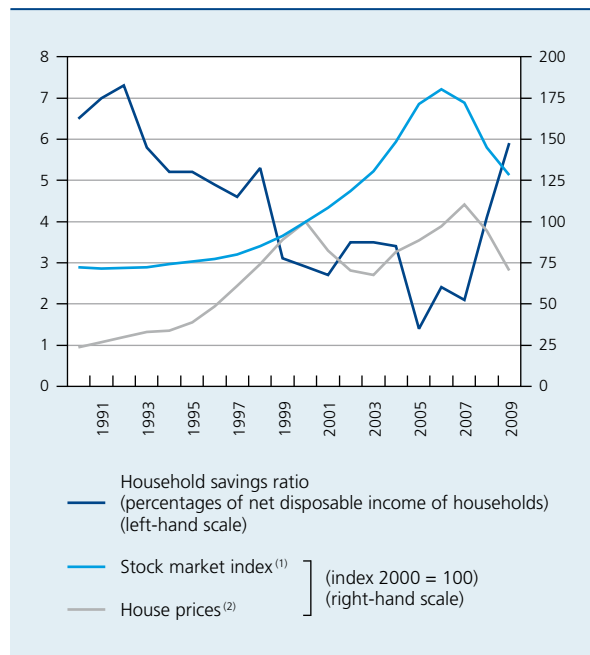
HOUSEHOLD SAVINGS

The deterioration in net savings and especially the decline in the household savings ratio was a major factor in the worsening US external balance examined above. The household savings ratio dropped from just over 7 p.c. of net disposable income in the early 1990s to 1.4 p.c. in 2005. The literature proposes a number of explanatory factors, such as the increase in net wealth of households, easier access to credit, the low real interest rates and higher income expectations.

The net wealth of households grew strongly, from around 490 p.c. of their net disposable income in the mid 1990s to 631 p.c. in 2006. That growth was due to the steep rise in the value of their assets, which subsequently proved to be overblown. Share prices rose strongly at first, and property prices then strengthened substantially. In view of the strong growth of their wealth, American households felt less need to save. During the financial crisis, between late 2007 and early 2009, those net assets contracted by 25 p.c. following the sharp downward correction of property prices and share prices. From the second quarter of 2009, wealth began rising again, mainly as a result of a partial stock market recovery. However, at the beginning of 2010, it was still worth about 17 p.c. less than before the crisis.

The various financial market innovations giving households easier access to credit are a second factor which depressed the savings ratio. Those innovations include the liberalisation of the mortgage loan market and the growing use of credit cards, which led to excessive easing of lending conditions (e.g. subprime mortgages). The ratio between households' debts and their net disposable income increased from around 90 p.c. in the mid 1990s to 135 p.c. in 2007, essentially as a result of the growing volume of mortgage loans. The crisis led to a slight fall in that ratio, though it remains high: at the beginning of 2010 it stood at around 126 p.c., so that most observers

CHART 3 ASSET PRICES AND SAVINGS RATIO OF AMERICAN HOUSEHOLDS



Sources : BEA, Standard & Poor's, Thomson Reuters Datastream.

(1) Wilshire 5000 index.

(2) Case-Shiller national price index.

consider it desirable for American households to continue reducing their debt ratio.

Higher income expectations owing to the stronger growth of productivity in the US between the mid 1990s and the mid 2000s (New Economy) may also have influenced household savings. According to the permanent income hypothesis, household consumption is in fact determined not only by current income but also by expected future income.

A final factor often mentioned to explain the downward trend in the savings ratio is the decline in real interest rates to historically low levels. A number of developments played a role here. On the one hand, interest rates were depressed by the substantial surplus savings built up in emerging Asian economies since the 1997-1998 crisis, and in oil-exporting countries since the surge in oil prices. This "savings glut", as it was called by the Federal Reserve Chairman, Ben Bernanke, was invested mainly in US government bonds. Also, following the bursting of the stock market bubble in 2000-2001, the Federal Reserve maintained an accommodating interest rate policy for a long time, since the credibility of that policy and cheap imports from Asia exerted a moderating effect on consumer prices. Discouraged by the low interest rates, households rejected savings in favour of investment and consumption.

PRIVATE CONSUMER SPENDING AS THE ENGINE OF GROWTH

The decline in the household savings ratio is reflected in the dynamism of household consumption. In the past two decades, private consumer spending has made a greater contribution to GDP growth than in the past; that contribution is estimated at over 80 p.c. on average in the 2000s. The contribution of the other components was much more modest. An international comparison of the share of private consumption expenditure in GDP also reveals the relative importance of this expenditure category in the US, compared to most other advanced economies. Moreover, the gap in relation to other countries widened steadily in the past twenty years as a result of the increase in the relative share of this expenditure category in the United States and its stabilisation, or even decline, in most other countries.

1.2 China

CURRENT ACCOUNT BALANCE AND NET SAVINGS

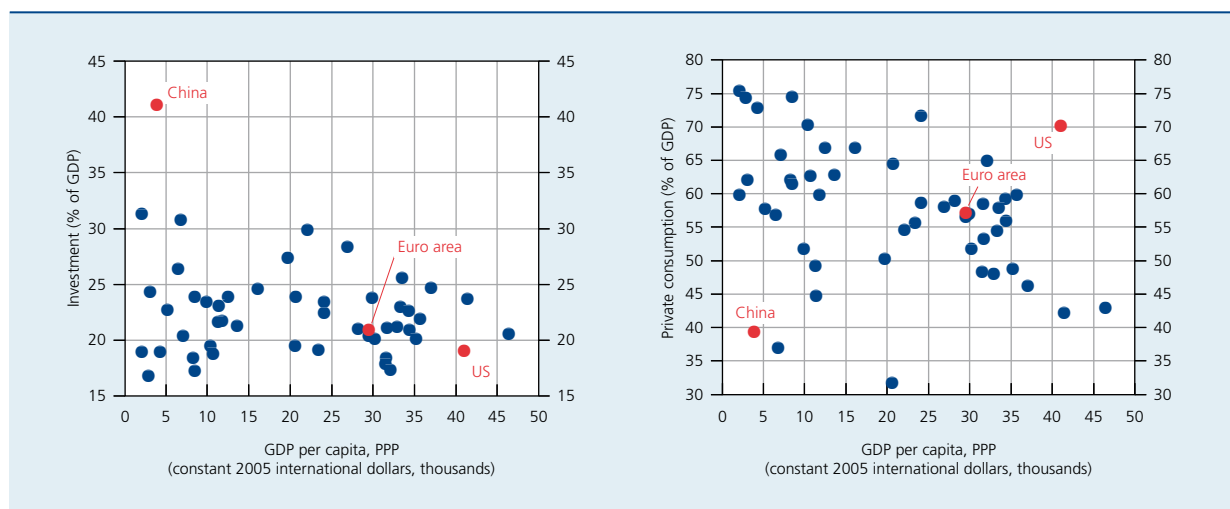
The current account balance of China's balance of payments increased from 1.7 p.c. of GDP in 2000 to a peak of 11 p.c. in 2007, before subsiding somewhat in 2008. The substantial current account surplus since the mid 2000s reflects excess savings in relation to investment, though that certainly does not imply a low level of investment: quite the contrary. In international terms, China is investing exceptionally heavily. The extremely rapid accumulation of

capital began in the late 1990s. Since then, gross fixed capital formation has increased faster, on average, than economic growth, so that its share of GDP rose from 33 p.c. in 1995 to 42 p.c. in 2008, double the average level in other countries. Moreover, domestic savings are amply sufficient to finance investment, unlike in India, for example, a country which also has a relatively high investment ratio but is obliged to rely on foreign capital. As a result, China has a sizeable current account surplus while India records a deficit. Furthermore, the national savings ratio has risen faster than the investment ratio, increasing from 36.7 p.c. of GDP in 1995 to almost 50 p.c. of GDP in 2007. Firms, the public sector and households have all contributed to the rise in the savings ratio.

CORPORATE AND HOUSEHOLD SAVINGS

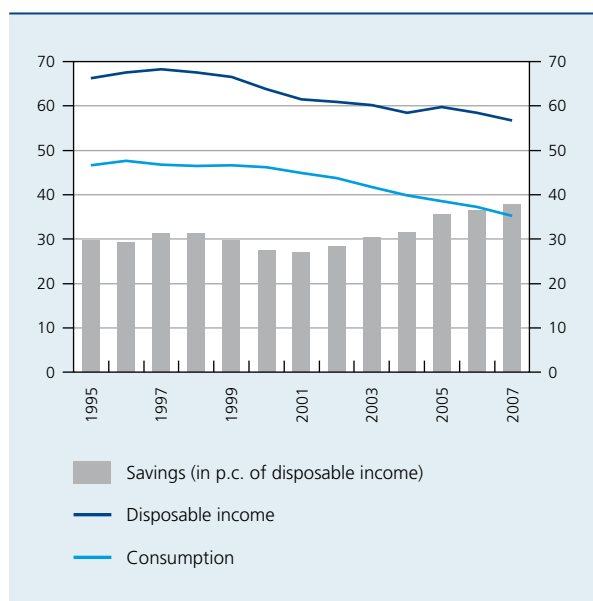
Between 1995 and 2007, corporate savings increased by 2.6 percentage points of GDP. With a combination of particularly low production costs and limited competition, China greatly increased its market share. Chinese businesses, including a large number in the public sector, were consequently able to make huge profits. At the same time, they pursued a policy of paying low dividends, and thus contributed to the increase in the national savings ratio. Owing to the rapid pace of economic growth and the expansion of the export market, particularly after China joined the WTO in 2001, it is hardly surprising that most State enterprises opted to invest their profits in expanding capacity. Corporate investment growth actually outpaced the rise in corporate savings.

CHART 4 CONSUMPTION AND INVESTMENT IN THE ADVANCED AND EMERGING ECONOMIES (2000-2008)



Source : World Bank (World Development Indicators).

CHART 5 DISPOSABLE INCOME, SAVINGS AND CONSUMPTION OF HOUSEHOLDS IN CHINA
(annual data, percentages of GDP, unless otherwise stated)



Sources : CEIC, IMF.

The share of households in the national savings ratio increased by only 0.9 percentage point of GDP over the same period 1995-2007. This increase was the outcome of two opposing movements, namely a rise in the household savings ratio in relation to disposable income, and a decline in household income as a percentage of national income: having remained stable between 1995 and 2001, the Chinese household savings ratio in terms of disposable income increased steadily to reach 38 p.c. in 2007, while the share of household disposable income in GDP declined from 66.6 p.c. in 2001 to 57 p.c. in 2007.

The relatively recent rise in the propensity of Chinese households to save – in proportion to their disposable income – is probably due to demographic factors, according to the life cycle hypothesis: while consumption is spread throughout a person's entire life, income is concentrated during working life. This means that individuals tend to dissave when young, then accumulate capital by saving more during their working life, and can draw on that capital once they retire. The increase in the population at working age in relation to the total population in China during recent decades could therefore explain the high household savings ratio. Moreover, according to this same theory, the savings ratio rises more steeply when income increases particularly fast. That applies to countries with a modest standard of living which, like China, are in the initial stages of a catching-up process, because

that income growth could principally benefit people in the age group of working people who are building up savings. The pattern of Chinese household savings may also be due to the erosion of the social security safety net, especially the disappearance of the "iron rice bowl", namely the cradle-to-grave provision by the State. That triggered a rise in precautionary savings intended to cover the risks and costs relating to health, retirement and education. Finally, financial under-development is also a factor, given that it is difficult for households to obtain loans.

INVESTMENT AND EXPORTS AS THE ENGINE OF GROWTH

Apart from households' increased propensity to save, the decline in disposable income of households as a percentage of national income also depressed the share of private consumption in GDP. This change in the national distribution of income is the direct consequence of the promotion of a growth model centred on investment and exports favourable to large, State-privileged, capital-intensive enterprises in manufacturing industry, but unfavourable to firms active in sectors using abundant labour, such as SMEs in services. In contrast to the latter firms, which had only limited access to external finance and were thus forced to build up substantial reserves in order to carry out their investment projects, large public enterprises in the industrial sector geared to exports had easy access to cheap loans from State banks. Moreover, with a subsidised energy supply, those enterprises were able to cut their production costs even further. The loss of millions of jobs in the labour-intensive agricultural sector also created a surplus supply of labour. It weakened the workers' collective bargaining position which had already been impaired by State control of the unions. This probably prevented wages from keeping pace with productivity gains, especially at the lower end of the income scale. However, the fall in household income as a percentage of national income is not due solely to the movement in labour incomes but also to the low level of savings incomes, a reason being the low deposit interest rate.

Although China's growth was export led, the direct contribution of net exports to economic growth averaged only 1.1 percentage points per annum between 2000 and 2008. However, the contribution of exports to growth is much larger than suggested by the net export figures in the national accounts. Here, net exports are a misleading indicator in that they are equal to exports minus total imports, whereas the balance of exports minus export-related imports would give a more accurate picture of export dependence. Furthermore, China's real dependence on exports is actually even greater, given that a large proportion of investment occurred in export-oriented

sectors. If this last factor is taken into account, China's dependence on exports increases from 27 to 42 p.c. of GDP in 2008. That phenomenon is evident throughout Asia: export dependence increases by an average of 10 percentage points if export-related investment is taken into account.

To sum up, it can be said that the capital-intensive enterprise sector centred on exports dominated national income, savings and investment, and that helped to create a vicious circle of capacity expansion followed by government export promotion measures aiming to absorb the increase in capacity. The decision to go for capital-intensive rather than labour-intensive growth means that enterprises account for an ever-increasing share of national income. Chinese households were also forced to "subsidise" investment in infrastructure and in industry via a low deposit interest rate. However, that does not mean that Chinese households have become poorer. On the contrary, they have become richer, but at a much slower rate than the country as a whole, so that their share in national income has declined.

In other words, there has been a massive transfer of wealth from consumers to producers, preventing Chinese private consumption from growing in proportion to GDP. Thus, the share of private consumption in GDP declined sharply, from 46 p.c. in 2000 to just 36 p.c. in 2007, compared to 70 to 80 p.c. in many advanced economies and 50 to 60 p.c. in most Asian countries; in 1985 it still stood at 52 p.c. A rebalancing of the Chinese economy entails increasing the share of private consumption in GDP, rather than aiming at consumption growth. Private consumption therefore needs to grow considerably faster than GDP in order to initiate that rebalancing: if private consumption is to equal 40 p.c. of GDP over the next five years (and even that is an exceptionally low percentage), consumption would have to increase by 11 p.c. per annum given annual economic growth averaging 8 p.c. Such an outcome entails a major adjustment to the Chinese growth model, and that will take time.

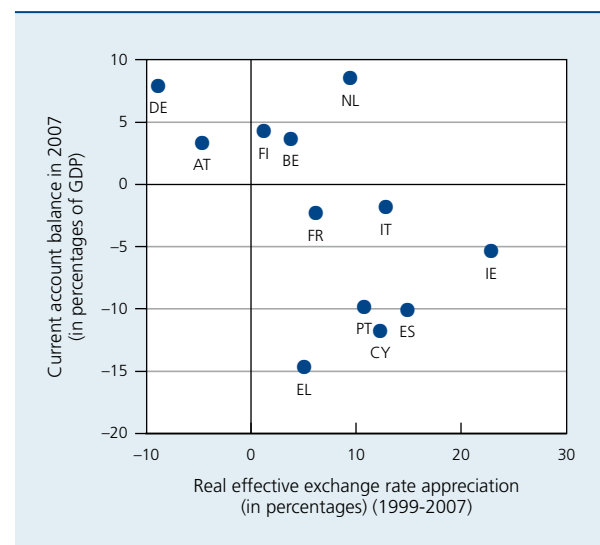
1.3 Euro area

The euro area's current account is more or less in balance, yet that masks significant disparities between Member States. In the past decade, Germany, Luxembourg, the Netherlands, Austria and Finland have built up surpluses while Greece, Spain, Portugal and Cyprus have accumulated heavy deficits. The differences are due mainly to varying trends in these countries' competitiveness and in domestic demand.

First, opposing movements in the form of gains or losses of competitiveness were reflected in a corresponding improvement or deterioration in the trade balance and hence in the current account. Thanks to wage moderation and productivity gains, countries such as Germany and Austria became more competitive while other countries became less so. In Spain and Italy, for example, a failure to adjust wages in line with lower productivity gains impaired their ability to compete on price; in Greece, other factors also played a role, such as a less favourable export mix or geographical focus of exports.

Next, opposing domestic growth forces contributed to contrasting movements in the current account balances. While domestic demand was relatively sluggish in the surplus countries, strong domestic demand in the deficit countries, particularly Ireland, Greece and Spain, fostered vigorous growth, outpacing the euro area average. In fact, some deficit countries benefited greatly from the convergence of interest rates in the run-up to monetary unification. However, the relatively low level of interest rates (compared to the past) led to excessive expansion of credit, especially mortgage loans, which in turn fuelled a property market boom, principally in Ireland and Spain. Despite the resulting high level of private debt (in Spain, Greece and Ireland, lending to households increased by annual average of 19, 26 and 24 p.c. respectively between 2003 and 2007), wealth effects combined with substantial wage increases triggered strong domestic demand, and hence substantial demand for imported goods, which in a number of Member States led to sizeable current account deficits.

CHART 6 COMPETITIVENESS AND THE CURRENT ACCOUNT BALANCE



Source : EC.

Finally, lax fiscal policy accelerated the formation of deficits in some euro area countries. In Portugal and Greece, in particular, an extremely expansionary fiscal policy led to the emergence of a twin deficit problem. Since 1999, public finances of Spain and Ireland have been sound overall but that situation was suddenly reversed in the aftermath of the crisis.

Germany holds a special position among the surplus countries: not only is it the biggest economy in the euro area, it has actually accumulated substantial surpluses by global standards. The positive current account balance recorded in the past decade is due to strong competitiveness and structurally low private consumption over many years.

In the early 1990s, German unification gave a strong boost to economic activity, but it culminated in overheating of the economy and a loss of competitiveness. Unification also placed a heavy burden on Germany's public finances, and that was reflected in heavier taxation and a rise in social security contributions. Similarly, the construction sector – which had built up excess capacity in the 1990s – experienced a recession which persisted for over ten years. The impact of these shocks was long-lasting, the labour market was hard hit and employment stagnated for many years, which accounts to a large extent for the low level of consumption. Unlike other euro area countries, Germany also recorded a rise in the household savings ratio from the year 2000; this was partly precautionary, in response to a pension system reform.

Since the turn of the millennium, however, wage moderation has restored competitiveness so that Germany has increased its market share, particularly in the emerging economies, the oil-exporting countries and Eastern Europe, where demand for German investment goods has soared.

2. Need for international coordination to deal with global imbalances

Against the backdrop of a virtually continuous increase in global imbalances since the second half of the 1990s, a consensus emerged around 2005 on the need for coordinated policy adjustments in the leading economies in order to achieve an orderly reduction in these imbalances. One of the main concerns was that the external debt position of the United States would lead to a loss of confidence in the dollar, causing the collapse of the currency. In 2006 the IMF therefore initiated multilateral consultations (Multilateral Consultation on Global Imbalances) between Saudi Arabia, China, the United States, Japan

and the euro area. In April 2007, an agreement was concluded on a number of essential policy adjustments⁽¹⁾. These included an increase in savings in the United States, measures to promote growth in Europe, reforms designed to stimulate domestic demand in the emerging Asian countries and greater exchange rate flexibility in a number of countries with a current account surplus on the balance of payments. However, the major part of the agreement was never implemented.

The financial crisis once again demonstrated the importance of international policy coordination. More particularly, the G20⁽²⁾ (which succeeded the G7) played a role in coordinating the measures to combat the crisis. In view of the success of that approach, the G20 also presided over the preparations for the international policy response to the challenges of the 21st century in a number of specific areas, such as energy, climate change, financial regulation and economic growth. In this last area, collaboration was put on a formal footing at the Pittsburgh summit in September 2009 in the Framework for Strong, Sustainable and Balanced Growth⁽³⁾. Its aim is to define the general outline of a coherent medium-term strategy for achieving such growth and avoiding future crises. "Sustainable" means that growth must be compatible with sound public finances, financial stability and price stability, and a range of social and environmental objectives. "Balanced" means that global economic growth is supported by all G20 countries and all the regions of the world.

The Framework's initial recommendations were largely in line with those of the Multilateral Consultation on Global Imbalances. It was first agreed that the G20 members with structural current account deficits would take steps to increase savings in the private sector, strengthen their export sectors and make a start on fiscal consolidation. Also, the G20 members with a structural surplus would adopt measures to stimulate internal sources of growth. Depending on the national context, that could mean an increase in investment, a gradual reduction in the distortions apparent on financial markets, productivity growth in the service sector, an improvement in the social security system and, more generally, elimination of the factors depressing expenditure.

It was also agreed that the G20 members would share their policy plans and projections and their growth forecasts in a Mutual Assessment Process and would

(1) IMF (2007).

(2) The G20 was formed in Berlin in December 1999 following the Asia crisis, in order to bring together systemically important advanced and emerging countries to discuss global economic issues. The group comprises the EU and 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom and the United States.

(3) G20 (2009a).

examine whether these conform to the overall objective of strong, sustainable and balanced growth. At the end of January 2010, each G20 member presented a national policy plan and medium-term growth forecasts (3 to 5 years) on which basis the IMF calculated a growth scenario for the global economy. That scenario was considered over-optimistic, and it was also thought that too little had been done to address various structural problems. At the G20 summit held in Toronto in June, with respect to fiscal consolidation the advanced G20 economies then undertook to at least halve their deficits by 2013. By 2016, they will also begin to stabilise or reduce their debt ratio. Several emerging countries were once again requested to conduct reforms to strengthen social security, develop their financial markets and augment their exchange rate flexibility.

The move to establish a Framework together with a Mutual Assessment is already more ambitious than the Multilateral Consultation. Nevertheless, the countries concerned have yet to implement the suggested policy adjustments. In view of the inevitable national political pressure associated with domestic rebalancing, there is a risk that some countries may want to shift the burden of those adjustments onto others. Thus, countries with a deficit could be tempted to impose measures to restrict imports, such as import levies, or to carry out competitive devaluations. Countries with a substantial public debt may be inclined to use inflation to facilitate the debt reduction process. Others will continue to promote their exports at all costs. The international debate on the exchange rate policy of some countries seems far from over.

3. Global economic rebalancing and policy implications

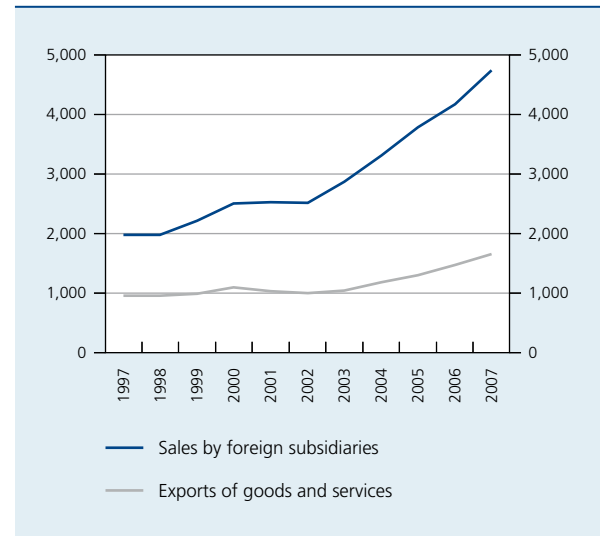
3.1 United States

In accordance with the recommendations made at the G20 summit in Pittsburgh, the US authorities had already outlined last year their strategy for rebalancing the American economy. The Economic Report of the President published early this year confirmed that outline and filled in the details⁽¹⁾. In practice, policy-makers want future growth to be based more on exports and investment in equipment and software rather than on private consumption and investment in housing. The report contains a set of proposals for achieving that aim.

(1) Council of Economic Advisors (2010).

CHART 7 SALES BY FOREIGN SUBSIDIARIES OF AMERICAN COMPANIES AND US EXPORTS OF GOODS AND SERVICES

(billions of US dollars)



Source : BEA.

Thus, in February 2010, President Obama announced measures designed to double exports of goods and services in nominal terms over the next five years. In that regard, the launch of a National Export Initiative (NEI) is crucial. First, more financial resources will be made available for promoting exports. Second, an Export Promotion Cabinet will be set up, comprising representatives of various public bodies, with the task of devising a detailed plan to stimulate exports. Finally, greater attention will focus on eliminating trade barriers in order to open up foreign markets to American businesses. The reinstatement of the President's Export Council is another initiative designed to support exports. It brings together business leaders and union representatives, and its job is to advise the government on export promotion.

Most observers think that these measures will be insufficient. It is evident from historical data covering the period 1970-1995 that doubling the value of exports in the space of five years was only occasionally achieved during periods of strong inflation in the 1970s. Studies have shown that sustained growth of the main trading partners is essential, and that a sharp dollar depreciation may also help to attain the objective.

Moreover, it must be remembered that American firms were the first to offshore their production. One reason could be the relatively high rate of corporation tax in the United States, which stood at 39 p.c. in 2009, compared

to an average of 25.9 p.c. in the euro area, for example. Many products are designed in the United States and manufactured abroad. Offshoring therefore led to erosion of industrial production facilities and impaired export capability. Although the same phenomenon is seen in other advanced countries, it seems to have a greater impact in the United States. Figures compiled by the BEA show that sales by foreign subsidiaries of American companies have soared since the early 1990s, so that, by 2007, they were three times the value of US exports of goods and services. That ratio is higher than in most other advanced countries.

The Economic Report of the President also stresses the importance of innovation in sustaining economic activity and employment. Among other measures taken for that purpose, the resources of a number of public institutions promoting research and development will be increased, and a tax credit designed to encourage innovation will be made permanent.

The report likewise considers that the establishment of new, stricter regulations for the financial sector is a crucial factor in the domestic rebalancing of economic growth. The aim is to avoid the excesses of the past – such as the very easy credit terms – and to prevent a new financial crisis. In July, President Obama signed a financial reform plan (Wall Street Reform and Consumer Protection Act) comprising a whole range of measures which now need to be specified in detail by the regulatory authorities. The main provisions concern creating an agency in charge of consumer protection in the financial sector, giving the regulatory authorities the power to dismantle financial institutions which fail to fulfil their obligations and to pass on a larger percentage of the costs to the surviving competitors, introducing stricter regulations on the market in derivatives, strengthening the capital requirements and restricting the own account activity permissible for financial institutions (the “Volcker Rule”).

Regarding another G20 recommendation – the consolidation of public finances – there is an article on exit strategies in this Economic Review. So far, Congress has only approved a few specific measures, but the President has already made a number of proposals which indicate the intended route. At the beginning of February 2010, the Obama administration unveiled its strategy on public finances up to the year 2020, together with the federal budget for the year 2011. Those forecasts were updated at the end of July on the occasion of the mid-session budget review. The federal public deficit is set to fall from 10 p.c. of GDP in 2010 to 9.2 p.c. of GDP in 2011. The budget path for the next ten years reflects the government’s aim of cutting the deficit to 3.4 p.c. of GDP in

2018. The deficit is then expected to begin rising again to 3.8 p.c. in 2020 owing to the increased costs associated with population ageing. According to the budget proposals, the federal public debt will increase from 53 p.c. of GDP during 2009 to 77.4 p.c. in 2020. According to the OECD’s spring 2010 forecasts, total public debt is likely to grow from 83 p.c. of GDP in 2009 to 94.8 p.c. in 2011.

In addition, for the purpose of shaping fiscal policy a bipartite commission has been created (National Commission on Fiscal Responsibility and Reform), with the task of formulating concrete proposals by the beginning of December with a view to more radical consolidation. The Commission’s principal tasks are to restore the primary balance to equilibrium by 2015 and to propose additional measures to ensure the long-term sustainability of public finances.

Furthermore, the PAYGO rule was reintroduced. This rule stipulates that new spending programmes or new tax cuts must be offset by savings or tax increases on other items. The rule will help to support the necessary budgetary effort.

3.2 China

In the mid 2000s, the Chinese authorities also began to recognise the risks inherent in maintaining their existing growth model. In 2006, the eleventh five-year programme already explicitly called for a change of direction. That awareness was also apparent in the speech by the Chinese Prime Minister Wen Jiabao in March 2007: he expressed the fear that the Chinese economy could suffer structural problems making its development “unstable, unbalanced, uncoordinated and unsustainable”. The global consequences of the financial crisis and its impact on Chinese export markets reinforced the arguments in favour of directing growth towards domestic demand rather than exports. In addition, the Chinese leaders realise that social and political stability can no longer be ensured by the strategy which has prevailed hitherto. It is time to find a solution to the increasing income inequality between urban and rural regions, the coastal areas and the hinterland, and the low skilled and highly skilled. Apart from an increase in the relative weight of domestic demand in growth, more balanced growth therefore also implies greater geographical dispersion of economic activity and a fairer distribution of incomes. The new economic objective – production for the Chinese people themselves – implies above all that the Chinese must have sufficient purchasing power in order to be able to consume. Structural reforms designed to increase the share of households in national income, to bolster

domestic (service) sectors and develop social security in order to rein in the precautionary savings of households are therefore essential. Finally, exchange rate policy may also provide support. Although significant reforms are being introduced – and some are already in progress – it could be that the desired effect on the share of consumption in the economy will be modest. In the meantime, the government has the option of speedier solutions, such as an immediate increase in pensions: on 1 January 2010, China increased the basic pensions of all workers by around 10 p.c., for the fifth consecutive year. Also the series of pay increases that the government granted in the spring of 2010 confirms that China is adopting a change of course. The pay increases are entirely in line with a transition to growth centred on consumption, driven by an expanding middle class.

A POLICY AIMED AT SUPPORT FOR HOUSEHOLD INCOMES AND DEVELOPMENT OF THE SERVICE SECTOR

It is vital to develop China's financial sector, which still suffers from a number of defects. First, the cap on bank deposit interest rates means that savings incomes are very low, or even negative in real terms. Also, most of the capital channelled through the financial sector goes to State-owned industrial enterprises. Easier access to credit for SMEs and households, accompanied by prudential regulation and supervision, could encourage the necessary investment in the service sector and reduce the need for precautionary savings.

It may also be desirable to reorientate fiscal policy. The government's recent efforts⁽¹⁾ in that regard aimed at boosting household income and reducing income inequality, thereby stimulating consumption, have already proved effective. The government could maintain that momentum by further reducing the tax burden on labour and consumption and by increasing transfers to low incomes.

Finally, the transition to more balanced growth, less dependent on industry – which is highly capital intensive – and centred more on highly labour-intensive sectors is vital in order to increase the share of wages in national income and to stimulate private consumption. In its eleventh five-year plan, the government adopted the aim of increasing the share of the service sector in the economy. Although the economic crisis diverted the government's attention towards supporting the export-centred sectors, it stands by its intention of moving towards an economy based on services, as is evident from the initiatives in support of SMEs.

(1) In response to the crisis, the Chinese government decided to increase social security expenditure and grant tax cuts in order to support private consumption, devoting 2 to 3 p.c. of GDP to those measures.

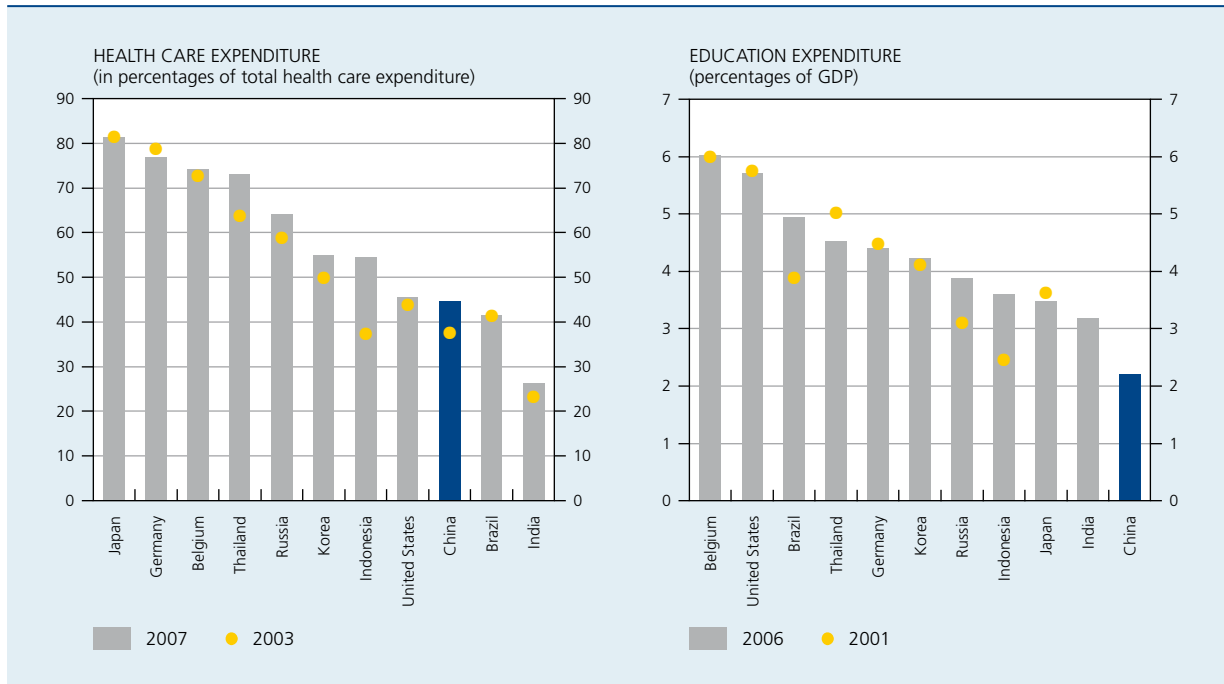
A BETTER SOCIAL SECURITY SAFETY NET WHICH CURBS PRECAUTIONARY SAVINGS

In recent years, owing to an inadequate social security system covering pensions, unemployment benefits and health care combined with the absence of appropriate forms of private insurance, households have tried to make provision for themselves by setting aside a large part of their disposable income. The liberalisation of the economy in fact heralded the end of the "iron rice bowl" policy. In the past, State enterprises were responsible for paying out lifelong social benefits to their workers, but when the reforms were introduced in the mid 1990s, the State relieved those enterprises of that obligation in order to make them more competitive, and transferred the responsibility to the local authorities, who frequently ignored it as the corresponding funding was not transferred to them. In other words, the provinces were given a new responsibility but no additional resources. The provision of services therefore varies greatly from one region to another. Also, this system causes problems in a country where migration is constantly increasing: under the hukou system, migrants cannot transfer their social entitlements because they are tied to official registration in their province of origin; the host provinces or towns do not want to take responsibility for their social security. Workers who move a long way away from their place of origin are therefore abandoned to their fate. The government would like to reform the hukou system, but that is a hotly debated issue between the various levels of power in China. New regulations came into force on 1 January 2010, but only concern the maintenance of pension entitlements for people moving to a different province. In June 2010, the Chinese government also brought in new regulations on the transfer of dividends on State shares to the National Social Security Fund. That decision will foster the continued development of the social security system, and therefore reduce the propensity of households to accumulate precautionary savings.

Total expenditure on health care in China has risen steeply in recent years, though in international terms it is still relatively low (4.8 p.c. of GDP in 2008, whereas the OECD average stood at 8.6 p.c.). During the 1990s, this rise was accompanied by an increase in the proportion paid for by the consumer, which rose from 35 p.c. in 1990 to over 60 p.c. in 2001. In order to alleviate to some extent this financial burden on citizens, the Chinese government had already launched a series of reforms in 2003, which brought down the share of private expenditure in total health care spending even further to 54 p.c. in 2007. That figure is not particularly high in comparison with other Asian countries, but it is high in relation to western Europe where the average is no more than 25 p.c.

CHART 8 PUBLIC EXPENDITURE ON HEALTH CARE AND EDUCATION

(in p.c. bbp)



Source : World Bank.

Conversely, the proportion of the population covered by social security increased from barely 10 p.c. in 2003 to over 80 p.c. in 2008. The aim of the health care reform plan announced in June 2009, for which the government is ready to release 820 billion renminbi, is to achieve a proportion of 90 p.c. in 2011; that plan is also linked to other reforms intended to improve the medical infrastructure and services by 2020, as a shift in the financial burden from households to the government needs to be accompanied by an improvement in health care quality, failing which households will continue to save in order to be able to afford better services elsewhere.

Households spend five times as much on education as they do on health care. The government only provides free education at primary and secondary level; on average, the cost of one year at university represents half the annual disposable income of an average Chinese household. The fact that the government does not fund that education is therefore a key reason for saving, especially as the Chinese are reluctant to incur debts in order to finance their studies. China has developed two types of student loan, but the take-up is low. Overall, the current system of funding education is hampering the development of a workforce with higher education qualifications.

EXCHANGE RATE POLICY

Finally, an appreciation of the renminbi could increase the purchasing power of Chinese households, both directly and via a shift away from the export industry towards the service sector, which is labour intensive. The reallocation of production resources will take a while anyway, and there could be some repercussions on growth and employment in the meantime.

However, it is mainly other countries that criticise China's exchange rate policy. The dramatic export growth, the persistent surplus on the trade balance and the exponential growth of the foreign exchange reserves are commonly regarded as signs that the renminbi is undervalued. Some people, especially in America, view a stronger renminbi as the solution to the US trade deficit. However, it is uncertain whether a revaluation would have the desired effect on the American economy. The fact that the United States also has deficits with many countries other than China tends to suggest that American industry is in a weak competitive position. Moreover, the United States and China are relatively different producers. Thanks to low wages, China plays a significant role as an assembler in the regional production chain in Asia. In contrast, the

United States is more in competition with Japan and the EU. All the same, on 19 June 2010, the Chinese central bank announced that it would “increase the flexibility of the renminbi exchange rate”. Following that relaxation of monetary policy, the exchange rate can now fluctuate daily within a range of 0.5 p.c. on either side of the central rate, which will be adjusted periodically. However, in the first two months, the renminbi appreciated by only 0.6 p.c. against the dollar.

3.3 Euro area

Although the crisis reduced the current account deficits and surpluses of the various euro area countries, that correction was due partly to cyclical factors, such as the collapse of world trade. The correction could therefore be merely temporary, and could be wiped out altogether when the economic recovery gathers strength. As demonstrated by the events of recent months, persistent distortions threaten the economic and financial stability of individual Member States, undermine confidence in the euro and impair the euro area’s cohesion, because commercial and financial channels transmit shocks between Member States.

Deficit countries need to become more competitive, e.g. via wage moderation and by shifting the means of production towards the export sectors. Conversely, countries in surplus need to boost the growth potential of the sectors of their economy which are not geared to exports. That is the way to achieve a more balanced growth dynamic and become less dependent on exports while also supporting the rebalancing of deficit countries both in the euro area and elsewhere.

Responsibility for these vital measures rests mainly with the Member States, in view of their national powers, e.g. in regard to employment policy. Moreover, these measures must be adapted to each country in view of the varying situations which they face. Nevertheless, policy coordination could alleviate the economic cost of those adjustments. The present situation is an unprecedented opportunity for improving the EU’s *economic governance*. The first move should be to improve fiscal policy supervision under the existing Stability Pact. Next, there should be better monitoring of macroeconomic imbalances, in order to avoid them or at least take appropriate action to address them if they do occur. That monitoring should accompany fiscal supervision. Finally, it is necessary to develop crisis management procedures. The Van Rompuy working group will submit proposals on that subject in the autumn of 2010 (see the box in Article 3 in this Review).

Gradual macroeconomic rebalancing is crucial to economic recovery. Many governments have already started a fiscal consolidation strategy (cf. Article 3 in this Economic Review) and are aware of the need for structural reforms boosting growth potential in order to support fiscal discipline.

4. Towards a smooth rebalancing ?

PARTIAL CORRECTION OF EXTERNAL IMBALANCES BETWEEN COUNTRIES

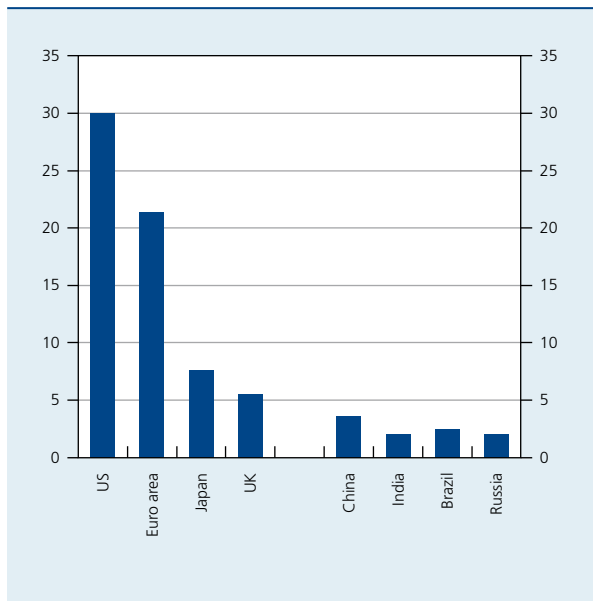
The financial crisis led to a partial correction of external imbalances between countries. Surplus countries focusing on exports, such as Germany, China and Japan, were hard hit by the collapse of international trade: in 2009, their current account surplus contracted by 4, 2.5 and 0.7 percentage points of GDP respectively. Germany and Japan suffered in particular from the considerable impact which the crisis had on demand for investment goods and consumer durables. In view of the decline in demand for oil and the price of Brent, the surplus of the oil-exporting countries expressed in dollars also slumped by around 80 p.c. in 2009. Conversely, the oil bill of the oil-importing countries was down. In the United States, the weakness of domestic demand and its impact on imports – outweighing the impact on exports of the decline in foreign demand – led to a marked fall in the current account deficit, reducing it from a peak of 6 p.c. of GDP in 2006 to 2.7 p.c. of GDP in 2009.

The contraction of global demand therefore led to a correction of external imbalances. Part of that correction was only temporary. The cyclical upswing in mid 2009 triggered a revival in commodity prices and international trade. American households benefited from the asset market rebound. In China and India, growth soon returned to its high pre-crisis rate. In contrast, in mid 2010, the recovery remained modest and uncertain in the United States, the euro area and Japan. Will this hitherto patchy recovery ultimately lead to strong, balanced and sustainable growth of the global economy in line with the aim of the G20 Framework ?

SUSTAINABLE GROWTH ?

In many countries, growth has hitherto been supported by monetary policy and massive fiscal recovery measures. Eventually, the latter measures will be phased out in view of the risk to the sustainability of public finances. Consequently, the centre of gravity will have to shift from public to private demand. Countries will have to start by spelling out their medium-term consolidation

CHART 9 PRIVATE CONSUMPTION IN 2007
(percentages of the world total at market exchange rates)



Source : World Bank (World Development Indicators).

programmes. A credible consolidation plan is the only thing that will restore the confidence of businesses, consumers and investors. Events in Greece and some other euro area countries have shown the potential repercussions of diminished confidence in the financial markets on the sustainability of public finances. Moreover, that financial sustainability will come under even greater pressure in the future in the context of population ageing in most of the western economies. It is also vital that consolidation should not impair growth. Cuts in public consumption generally have a less adverse effect on growth than tax increases or cuts in public investment. Although the consolidation measures which the governments of many advanced economies will have to adopt in the coming years could put the brakes on growth for a time, there is no alternative (cf. Article 3 in this Economic Review).

BALANCED GROWTH?

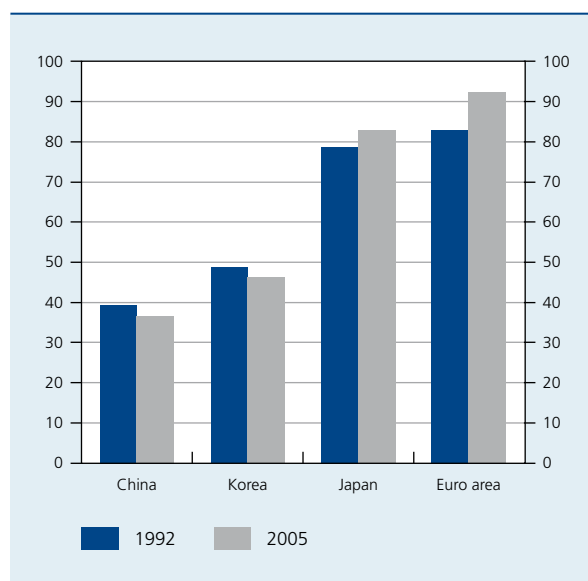
Balanced global growth also requires a more general rebalancing of demand. The centre of gravity of that demand will therefore have to be transferred from the deficit countries to the surplus countries. In order to rebuild their wealth, which were seriously impaired by the crisis, and to reduce their debts, American households increased their savings ratio to 7.2 p.c. of net disposable income in mid 2009, after an absolute low of 1.2 p.c. in 2005 Q3. The ratio has since subsided again, falling to around 6.2 p.c. by the beginning of 2010. Be that as it may, recent forecasts

by American and international bodies predict that, in the years ahead, the savings ratio will be structurally higher than it was before the financial crisis, as American households realise that sharp asset price corrections could occur, even if they are infrequent. Expectations of high returns on the stock market and the idea that property prices rarely if ever fall have proved to be too optimistic. Moreover, a return to the extremely easy credit terms prevailing before the crisis is highly unlikely, and even undesirable. In the coming years, these factors mean that American households are likely to consume at a more modest pace than in the period 1992-2007 and will therefore cease to perform the role of world consumer of last resort.

That is why many people put their hopes in the Asian economies as drivers of global demand. In any case, they were the first to recover from the international economic and financial crisis. The rapid GDP growth in the region already seems to be firmly anchored. The World Bank predicts growth of 8.7 p.c. this year in the emerging Far East economies. The shift in the centre of gravity of global demand towards those regions therefore seems to have accelerated. China, the largest emerging economy, was at the centre of the region's economic recovery, making the biggest contribution to global economic growth in 2009.

However, one question remains: to what extent will a reorientation of the Chinese growth model be sufficient to ensure a sustainable global economic recovery?

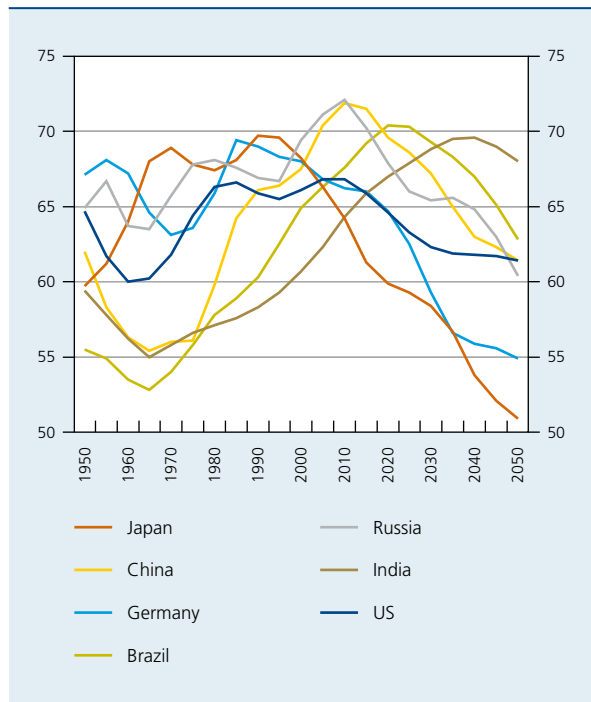
CHART 10 PERCENTAGE OF IMPORTS WHICH OVERLAP WITH THE US-CONSUMPTION GOODS
(100 indicates that imports overlap perfectly)



Source : IMF (Regional Economic Outlook, October 2009).

CHART 11 THE CHINESE POPULATION OF WORKING AGE PEAKS IN ABOUT 2010

(share of the population aged from 15 to 64 years in the total population, percentages)



Source : UN (World Population Prospects, 2008 Revision).

Although China's share in global GDP has increased considerably, that growth has been accompanied by a steep increase in the household savings ratio, while Chinese growth has remained largely dependent on sales to the advanced economies, whose growth prospects for the coming years are less favourable. The scale of private consumption in China currently appears insufficient to compensate for the slackening pace of growth of American consumption. In view of their relative size, China would have to speed up consumption growth by seven times as much as the slowdown in US consumption.

Moreover, despite strong growth of its imports of consumption goods (up 15 p.c. on average over the past fifteen years, against a world average of 10 p.c.), China remains a marginal player in that respect owing to the small share of Chinese private consumption in the world total and a much smaller imported component in private consumption. Consequently, China's contribution to the growth of world imports of consumption goods has been relatively small (around 4 p.c. in recent years).

Furthermore, there are significant differences between the consumption goods imported into China and imports into the US; only 35 p.c. of China's basket of consumption

goods is comparable to that of the United States. The composition of global demand will ultimately change as demand shifts towards the emerging economies. The changing consumption patterns at world level will therefore require modifications to production structures; if that sectoral reorganisation is to go smoothly, capital and labour markets need to be flexible.

Since structural measures take effect in the medium term at best, the restoration of the global balance will probably encounter a transitional phase in which the declining role of American consumption cannot be entirely offset by demand from other countries. Progress towards a new, sustainable balance is therefore liable to take a long time and entail a slowdown in global growth.

Leaving aside the medium-term outcome of structural reforms, there are several promising developments emerging in the longer term. Thus, according to the life cycle theory, the expected increase in the dependency ratio in the emerging economies (except India, Brazil and Indonesia) could depress savings ratios in the coming decades. Also, a higher level of prosperity could create a new middle class with considerable consumption potential. That effect is likely to be felt mainly in the most heavily populated countries, such as India and China, and will ultimately have a significant effect on consumption patterns at the global level. At the same time, there could be significant shifts in consumption patterns away from food and clothing and towards energy and consumer durables. That is why this development could well be accompanied by increasing competition for scarce energy resources and a larger impact on the environment.

Conclusion

Sustainable, balanced growth of the global economy requires a radical change of policy on the part of countries with substantial external and internal imbalances.

Deficit countries will have to cut the sizeable current account deficits which they have accumulated as a result of producing less than they spend and saving less than they invest. They will need to adjust their spending and concentrate on the export sector. The sectoral shifts and redistributive effects which will accompany internal rebalancing will create tensions between winners and losers. It will not be easy to restore the macroeconomic balance while achieving a social and political consensus and creating the conditions for future growth, especially in the case of countries where the crisis has caused a substantial increase in the public debt. Even the gradual reduction of heavy public deficits could usher in a period

of low growth. Countries with significant competitiveness problems will also face a major challenge. In view of the rigidity of the product and labour markets, regaining competitiveness will inevitably be a lengthy and painful process for those countries.

To compensate for the decline in demand from deficit countries, surplus countries are called upon to act: if domestic demand does not increase in those countries, the world economy could face a shortage of aggregate demand and an excess of production capacity. The surplus countries will have to reduce their dependence on exports, which implies refocusing their growth model on the domestic market. Here, too, the process will generate political tensions. In China, the industrial sector has been central to the economic, social and political order for many years. Eliminating the privileges granted to that sector will entail shifts of power in all those spheres.

However, there are some encouraging signs. Thus, China is becoming increasingly aware of the need to promote domestic consumption rather than exports and export-related investment. Vigorous growth and relatively sound public finances give China precisely the preconditions required for that shift of focus. The political will exists.

Moreover, China is a centrally managed economy which, in the past, has already demonstrated that it can implement drastic reforms in a relatively short space of time. Conversely, the United States recognises the need to consolidate public finances and stimulate exports; it could return to consumption-led growth, but the benefits would probably be transient and the latent distortions which caused the crisis, would persist, probably until the eruption of a new crisis. If these promising policy intentions become reality, the global economy could benefit. The efforts needed to consolidate the fragile recovery which followed the crisis will be considerable, and must begin right away.

Nonetheless, the rebalancing of the global economy remains a major challenge with potential for tensions between countries over the allocation of the negative wealth effects. Hence the importance of an international platform capable of offering a global and powerful policy response, with a role for all deficit and surplus economies. In that regard, the commitment by the leaders of the G20 countries to implement the Framework is grounds for optimism. Yet, it is vital to set up an effective system of monitoring progress in surplus and deficit countries, to impose discipline and to exert peer pressure. The G20 will play a crucial role here too.

Bibliography

- Abbas S.M.A., J. Bouhga-Hagbe, A.J. Fatás, P. Mauro and R.C. Velloso (2010), *Fiscal Policy and the Current Account*, IMF Working Paper, May.
- Asian Development Bank (2009), "Rebalancing Asia's growth. A question of balance", in *Asian Development Outlook*.
- Aziz J. and L. Cui (2007), *Explaining China's low consumption: the neglected role of household income*, IMF Working Paper, July.
- Bank of England (2009), "Global imbalances and the financial crisis", *Quarterly Bulletin of the Bank of England*, Q3.
- BIS (2010), 80th Annual Report.
- Blanchard O. (2009), "Sustaining a Global Recovery", *Finance & Development*, 46 (3), September.
- Blanchard O. (2010), *Saving scenarios for Emerging Asia and the United States*.
- Blanchard O. and F. Giavazzi (2005), *Rebalancing Growth in China: A Three-Handed Approach*, CEPR Discussion Paper 5403.
- Blanchard O. and G. M. Milesi-Ferretti (2009), *Global Imbalances: In Midstream?*, IMF Staff Position Note 09/29, December.
- Bosworth B. and S. Collins (2009), *The US external deficit: a soft landing, doomed or delayed?*
- Bosworth B. and S. Collins (2010), *Rebalancing the US economy in a post-crisis world*, The Brookings Institution, April.
- Bracke T., M. Bussière, M. Fidora and R. Straub (2008), *A Framework for Assessing Global Imbalances*, ECB Occasional Paper 78, January.
- Butzen P., E. De Prest, S. Ide and H. Zimmer (2005), "The US current account deficit: how did it come about and what are the policy implication?", *Economic Review of the National Bank of Belgium*, II, 51-67.
- Council of Economic Advisors (CEA) (2010), *Economic Report of the President*.
- EC (2010a), "Global imbalances still casting a shadow", *European Economic Forecast*, spring.
- EC (2010b), "Surveillance of Intra-Euro-Area Competitiveness and Imbalances", *European Economy* 1.
- ECB (2007), "Putting China's economic expansion in perspective", *ECB Monthly Bulletin*, January.
- ECB (2010), "Prospects for real and financial imbalances and a global rebalancing", *ECB Monthly Bulletin*, April.
- Eugène, B. and W. Melyn (2003), "A persistently positive financing balance: a structural feature of the Belgian economy", *Economic Review of the National Bank of Belgium*, IV 2003.
- Feldstein M. (2008), *Resolving the global imbalance*.
- Guo K. and P. N'Diaye (2010), *Determinants of China's Private Consumption: An International Perspective*, IMF Working Paper, April.
- G20 (2009a), *Leaders' statement*, The Pittsburgh Summit, 24-25 September.

- G20 (2009b), *Communiqué*, Meeting of Finance Ministers and Central Bank Governors, 7 November.
- Hüfner F. and I. Koske (2010), *Explaining Household Saving Rates in G7 Countries: Implications for Germany*, OECD Economics Department Working Papers 754.
- IMF (2007), *The multilateral consultation on global imbalances*, IMF Issues Brief, April.
- IMF (2009a), "Beyond 2010: How will the Global Economy Rebalance?", *IMF World Economic Outlook*, October.
- IMF (2009b), *The G-20 Mutual Assessment Process and the role of the Fund*, 2 December.
- IMF (2010a), *Global Economic Prospects and Policy Challenges*, Meetings of G-20 Deputies, 27 February, Seoul, Korea.
- IMF (2010b), "Leading the Global Recovery. Rebalancing for the Medium Term", *IMF Regional Economic Outlook – Asia and Pacific*, April.
- IMF (2010c), "Rebalancing Growth", *IMF World Economic Outlook*, April.
- IMF (2010d), "Rebalancing global demand: what will take up the baton from the US consumer?", in *IMF Regional Economic Outlook – Western Hemisphere*, May.
- IMF (2010e), *G-20 Mutual assessment process – Alternative policy scenarios*, G-20 Toronto Summit, 26-27 June.
- Kohn D.L. (2010), *Global imbalances*, Speech by the Vice Chairman of the Board of Governors of the Federal Reserve System, 11 May.
- Mody A. and F. Ohnsorge (2010), *After the crisis: lower consumption growth but narrower global imbalances?*, IMF Working Paper, January.
- NBB (2006), "Onevenwichtigheden in de lopende rekeningen van de betalingsbalansen", Kader 1 in Verslag 2005.
- NBB (2010), "Naar een nieuw evenwicht in de mondiale vraag", Kader 1 in Verslag 2009.
- OECD (2010a), *2009 Economic Review – China*, OECD Economic and Development Committee, January.
- OECD (2010b), *China in the 2010s: Rebalancing Growth and Strengthening Social Safety Nets*, OECD Contribution to the China Development Forum, 20-22 March, Beijing.
- Prasad E. (2009), *Rebalancing growth in Asia*, NBER Working Paper 15169, July.
- Reserve Bank of Australia (2009), "Patterns and trends in global saving and investment ratios", *Bulletin of the Reserve Bank of Australia*, September.
- Visco I. (2009), *Global imbalances in the financial crisis and the international monetary system*, distinguished lecture at the XVIII International Conference on "Money, Banking and Finance", Rome, 4 December