EXTERNAL IMBALANCES: CHALLENGES AND POLICY RESPONSES

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RECENT TRENDS IN GLOBAL IMBALANCES

Global current account Imbalances (% of world GDP)

Source: IMF WEO, October 2017
EVOLUTION OF NET INTERNATIONAL INVESTMENT POSITIONS

Net Foreign Assets (% of world GDP)

Source: IMF (ECB for Euro Area countries)

USA  Germany  France  China (since 2004)
FOCUS ON EURO AREA IMBALANCES

Euro Area current account Imbalances (% of Euro area GDP)

Source: IMF WEO, October 2017

Forecasts
EVOLUTION OF UNIT LABOR COSTS IN THE EURO AREA

Index = 100 in 2007

- EA19
- France
- Germany
- Spain
- Italy
YEARLY VARIATIONS OF THE CURRENT ACCOUNT ARE WEAKLY RELATED TO REER CHANGES

Current account adjustment
(Yearly variations, 2002-2016)

Growth CA/GDP = -0.03 Growth ln(REER)
STRONGER RELATION BETWEEN CURRENT ACCOUNTS AND REER DURING REBALANCING

1. build-up
(Cumulated variations 2002-2006)

2. rebalancing
(Cumulated variations 2006-2010)

Growth CA/GDP = -0.06 Growth ln(REER) [Non-significant]

Growth CA/GDP = -0.13* Growth ln(REER) [significant]

Source: Banque de France calculations based on IMF data. * Indicates statistical significance.
EXTERNAL POSITIONS HAVE WIDENED, BOTH NET AND GROSS

Evolution of **gross positions** (mean of IIP assets + liabilities), % of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>US</th>
<th>DE</th>
<th>FR</th>
<th>ES</th>
<th>EZ</th>
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<td>229.4</td>
<td>296.5</td>
<td>194.7</td>
<td>232.0</td>
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</table>

Evolution of **net positions** (NIIP), % of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>US</th>
<th>DE</th>
<th>FR</th>
<th>ES</th>
<th>EZ</th>
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Composition of global financial flows

Pre-crisis
- Portfolio Investment: 44%
- Direct Investment: 24%
- Other Investments: 32%

Post-crisis
- Portfolio Investment: 14%
- Direct Investment: 38%
- Other Investments: 48%

Advanced countries Capital Inflows

- Portfolio investment
- Direct investment
- Other investment
- Total Liabilities

USD Billions

Q1 2005 to Q1 2016
VALUATION EFFECTS AND INCOME FLOWS ARE INCREASINGLY DRIVING NET EXTERNAL POSITIONS

Contribution to changes in NIIP – US

Contribution to changes in NIIP – DE

Contribution to changes in NIIP – FR

Contribution to changes in NIIP – ES
A FINANCING UNION FOR INVESTMENT AND INNOVATION

Capital Markets Union

Incentives for cross-border investments (equity): accounting, taxes, insolvency laws

Long-term pan-European savings products; European venture capital

The microeconomic accelerator: A Financing Union for Investment and Innovation

Completion of Banking Union; Consolidation of European banks

Equity/GDP: 73% in the EA, 123% in the US (Q3 2017)

Innovation and digitalisation

Scaling-up of SMEs

Green finance and energy transition

Savings exceed investment by about €350bn, but fragmentation