

Andrew Bailey: The future of the multilateral economic system, and some news on the UK payments infrastructure

Speech by Mr Andrew Bailey, Governor of the Bank of England, at the Financial and Professional Services Dinner, London, 15 July 2025.

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Lord Mayor, thank you for inviting us back for a second time in your mayoralty.

I am going to use my time to tackle two subjects. I'm probably breaking a rule of good speech making because the connection between the two is slender – I'm not going to overdo the connection. They are both topical and highly relevant, that's my justification. The first is big picture – the world economic situation and the need to refocus and restore multilateral institutions. The second concerns payments here in the UK.

To say that the state of the global economy and the impact of tariff announcements is in the news and significant is an understatement. The shifts we have witnessed – and continue to witness – mark a generational change in the system of trade amongst nations. They are by no means the first such shifts, even if they are the most sudden and fundamental in the post-war era. Recent events have exposed fault lines in the multilateral system of relations between nations, including in the global trading system, and a perceived failure to deal with what are seen as persistent global imbalances.

What do I mean by the multilateral system? It's the economic assessment and governance that comes from two areas. First are the multilateral institutions – the IMF, World Bank, OECD and WTO, and – to recognise a personal interest as I Chair it – the Financial Stability Board. The second area is the multi-country decision-making bodies that reinforce these institutions – with the G20 and G7 being important here, as the source of co-ordination and consensus building in a number of key areas including trade.

It has become fashionable to look at the multilateral sphere and to ask why does it matter? Quite simply, it is about the pursuit of economic growth and stability through co-operation. These objectives matter a lot – they facilitate the benefits of openness through trade and capital flows. If the multilateral system works as intended, it need not be a winner takes all process, instead helping us to expand the pie rather than simply divide it up. But nor can the multilateral system produce discernibly unfair outcomes. These would not be sustainable.

As I mentioned, the current charge against the system is that it has allowed the build-up of persistent imbalances between countries. Moreover, these imbalances are considered, by those who make the charge, to be unsustainable. There is as you will appreciate a lot of judgement around what is persistent and what is unsustainable, and views will differ quite markedly on these points. The answer is not that any old imbalance is problematic.

Imbalances are an inherent part of the system. In the short term they reflect differences in national productivity and income. In the longer term, they reflect the fact that

countries are at different stages of economic development, with some catching up and others relatively slowing compared to the later developers. However, persistent imbalances are associated with misallocated resources and can motivate responses which can weigh on global growth. Over time, imbalances can also lead to financial stress.

If the global economic system is working efficiently, over time we should expect these imbalances to self-correct back to levels that are warranted by the longer-term fundamentals of the countries involved. You may ask, what are these fundamentals? An important one is that part of the world has populations that are on average ageing, and will continue to do so, and part does not. This will influence imbalances. Ageing tends to change the pattern of savings behaviour, and external current accounts are equal to saving minus investment in an economy.

When we talk about persistent excessive imbalances, we are looking for evidence that self-correction is not happening in a timely, orderly and symmetric manner. If so why, and what conclusions do we draw from that? A key part of my argument is that this part of the analysis and conclusion drawing must be done at the multilateral level. If it is only done at the national level, we will get less good policymaking.

Let me illustrate this with two contemporary, and I think obvious, cases: China and the USA. Between them, they account for almost 40% of the world's current account imbalances, so it's an obvious place to look. I will start with China.

China's current account surplus is at present 2.3% of national GDP and 0.4% of global GDP according to IMF data. It appears that the surplus primarily reflects the weakness of domestic consumption in China, which in turn reflects an investment and export-led growth strategy and weaker social safety nets domestically. Normally, as households' accumulated precautionary savings rise and productive investment opportunities decline, the national savings rate would fall. However, as Chinese incomes have increased, the self-correction mechanism has been weaker because the domestic incentives to save have remained strong.

Let me turn to the US. The US current account deficit is at present 3.9% of national GDP and 1% of global GDP. At the macroeconomic level it appears to reflect strong private consumption and a large fiscal deficit. Why has the self-correction mechanism not operated in the US? I think there are two reasons, which are both important. The first is what on the face of it looks like a success story, namely that the US has had stronger productivity and economic growth in recent times, reflecting particularly the success of its technology sector, and has thus maintained its industrial leadership in key growth sectors. The consequence of this is that domestic wealth has risen and foreign capital has flowed into the US allowing it to run a larger external deficit, thus reducing the downward pressure on domestic demand.

The second reason is that people outside the US have been willing to take on its obligations – i.e. buy its assets. The auto-correction element points to limits to the willingness to take on these obligations consistent with prospects for national income. But these limits tend to be higher – i.e. less constraining – in the case of the world's leading reserve currency, and this is what we see happening. I am not going to talk about reserve currency status this evening, beyond underlining that this illustrates the

benefits in economic terms. It's what Valéry Giscard d'Estaing famously described as the "exorbitant privilege".

There may therefore be good reasons why the self-correction mechanisms on external imbalances are not working particularly powerfully. Indeed, I would note that today's imbalances are not especially large by historical standards.

Before suggesting some changes to multilateral processes, I want to draw out a number of key points from what I have just said.

First, the underlying drivers of imbalances are domestic macroeconomic policies. Trade policies and industrial policies can, and have, reinforced or at times frustrated the macroeconomic picture, so they are highly relevant. But I think they must be seen within the context of this macroeconomic picture, and this is exactly how I interpret the Articles of the IMF, as agreed at Bretton Woods.

Second, it follows from this that – and I say this in the spirit of constructive challenge and engagement, the best sense of multilateralism – the US does need to explain how it can regard its internal imbalance as sustainable and its external imbalance as not so, and how it envisages the internal balance responding to an adjustment of the external balance flowing from tariffs taking effect. And China needs to explain how it will tackle its persistently weak domestic consumption.

Third, the adjustment process is challenging. There are times when it has had to happen, but those have not been easy. Why is this the case? Deficit countries have historically faced far more pressure to correct excess current account balances than surplus countries. This typically takes the form of financial market pressure. This financial market pressure point is relevant notwithstanding the reserve currency argument that I made, simply because it is very hard to judge the limits of sustainability. We have seen market disturbance this year. We have to be highly alert to financial stability risks – something that I can assure you we are following closely.

Surplus countries do not face the same financing pressure. The pressure to adjust, as we are seeing, can come more through threats of tariffs and trade barriers. But increasing tariffs creates the risk of fragmenting the world economy, and thereby reducing activity. We can go back to Adam Smith and his contemporaries for the insight that trade expands activity by enabling specialisation, knowledge and technology sharing and productivity growth. There is therefore a common interest globally in tackling excess imbalances before dangerous levels of trade restrictions come into play, and before we face the prospect of difficult adjustment with macroeconomic volatility and financial instability.

This is where the multilateral system comes into play. While the IMF is not in possession of policy levers directly to address global imbalances, it has a crucial role in facilitating globally beneficial adjustment through its surveillance. The IMF plays a central role in casting a rigorous and independent eye over the economic and financial systems of individual countries, and the world as a whole, providing timely warnings of where problems are being stored up for the future and giving its members sound advice on how to mitigate risks. IMF assessments can forcefully highlight the dangers of unaddressed excess imbalances for both surplus and deficit countries, and provide

scenarios that illustrate the benefits of globally desirable paths for gradual and symmetric adjustment. With the support of its membership, the WTO can help to reduce tensions around imbalances by rebuilding confidence in a rules-based trading system, including around the issue of non-market policies, and particularly where these may be exacerbating excess imbalances. In other words, the WTO can help to achieve agreement amongst its members on the global rules of the road and how they are adhered to.

I am going to set out four proposals, which are deliberately modest and therefore a starting point for reform. There could be more ambitious reforms, but in my judgement we have to start by getting the foundations repaired. My four proposals are:

1. The IMF should strengthen its assessment of the implications of excess imbalances, including greater focus on spillovers, and greater depth of trade analysis.
2. The IMF advice that comes out of this assessment should have greater prominence and more "bite", for instance by increasing the emphasis on imbalances in Article IV reports.
3. The IMF should collaborate with the WTO, combining its macroeconomic expertise with the WTO's insights into the most challenging aspects of trade discussions to provide more nuanced assessments of the global trading system, and to enhance the traction of its messaging on industrial policies.
4. The IMF should be creative in deploying its convening power to help coordinate members around a set of mutually-agreed policies which mitigate risks associated with excess imbalances. There is merit here in reflecting on the lessons from the 2006 Multilateral Consultation exercise, and what could work better in future.

I don't underestimate the challenges here. I agree with Secretary Bessent that getting the basics right matters, and this is where the focus needs to be. Bringing industrial policies and subsidies into a macroeconomic framework is not straightforward. But it is fair to ask the question, and I think the IMF can answer it, and in doing so build on good work being done, for instance, by the OECD in this field.

Similarly, capturing the nature and extent of international spillovers and externalities from domestic policies is not easy, but it lies at the heart of what we must seek to do here.

Another important element of this approach must be to assess the potential for, and consequences of, imbalances unwinding sharply with implications for global financial stability. At the FSB, I look forward to working with the IMF on financial surveillance and particularly on developing system-wide approaches to testing and monitoring such as we did at the Bank last year with the System Wide Exploratory Scenario.

To do this, multilateral institutions and processes must have traction. Ruthless truth telling doesn't win popularity contests, and there is a risk of organ rejection. We must allow and encourage the international institutions to be assertive and consistent in calling out unsustainable situations and practices. This is critical for the reputation and legitimacy of the institutions.

I think history points to the fact that Westphalian States do not naturally embrace strong multilateral institutions and advice that will not always be welcome, unless they are in crisis. How to reconcile an open world economy with national interests is a very old issue. The rules of the process have to be accepted and the imposition of rules by one player, however dominant, isn't a recipe for sustained stability. I think it helps to remember that the key challenge we all face is to increase growth in the world economy: to grow the pie to support living standards for the people we serve, all of the time. It is as simple as that.

Lord Mayor, the second part of my remarks tonight is brief. It's about payments here in the UK. There are real opportunities to harness the potential of digital technology for retail payments both domestic and cross-border. It offers an opportunity to lower transaction costs, to reduce fraud, and to improve the functionality of payments – on this, it could make a real difference in reducing the scourge of late payments. I am sure there will be more ideas on benefits. In the last few months at the Bank we have successfully introduced the new Real Time Gross Settlement (RTGS) platform, which underpins settlement of wholesale and retail payments in this country. This change offers great opportunities for innovation across the landscape of payments. A big congratulations to my colleague Victoria Cleland and everyone involved in doing this.

There is more to do. So, we will take forward work in collaboration with the authorities and industry to design and deliver the next generation of UK retail payments infrastructure. This must be a priority, both to replace ageing infrastructure and as part of promoting growth in the UK.

This means a system of retail digital payments that keys off each of our bank accounts. There is a lot of debate globally at the moment on the future of payments – both domestic and cross-border. Today, most payments are made from bank accounts in what we call commercial bank money. This arrangement ties payments directly to the creation of credit in the economy.

There is an urgent need for innovation now in the area of payments, and the opportunity is there, no doubt about that. There may well be a role for stablecoins going forward, but I don't see them as a substitute for commercial bank money. Moreover, our job will be to ensure that those stablecoins that purport to be money are safe. Perhaps there may also be a role for retail central bank digital currency, but I remain to be convinced why the natural next step is to create a new form of money rather than put digital technology into retail payments and bank accounts.

This is an important step forward and one that I am excited about. We have an opportunity to show real leadership here, building on our world leading new RTGS.

Lord Mayor, we have some big challenges on the world stage, and some optimism and excitement here on payments.

Thank you.

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